

MINISTRY OF FINANCE, REPUBLIC OF MALDIVES

# PUBLIC DEBT BULLETIN

ISSUE 2, December 2018

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

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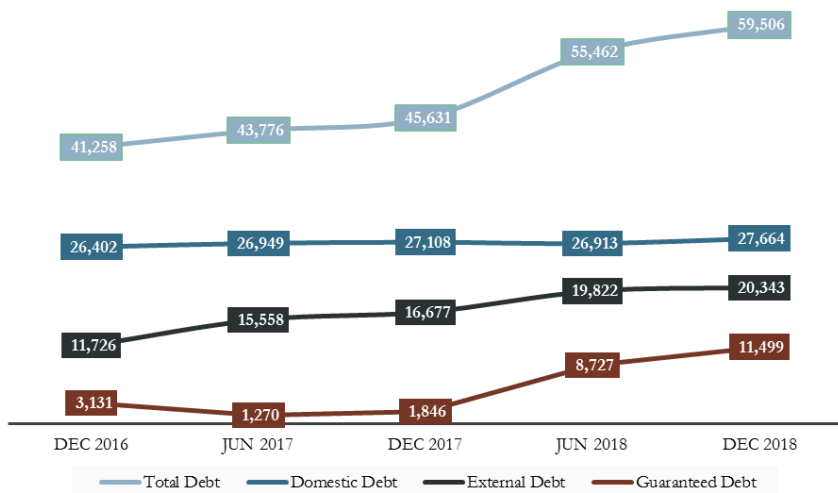
## Abbreviations

ADB	Asian Development Bank	LT	Long-Term
AED	United Arab Emirates Dirham	MACL	Maldives Airports Company Limited
BOC	Bank of Ceylon	MMA	Maldives Monetary Authority
CNY	Chinese Yuan	MOU	Memorandum of Understanding
CSDRMS	Commonwealth Secretariat Debt Recording and Management System	MPAO	Maldives Pension Administration Office
DeMPA	Debt Management Performance Assessment	MPL	Maldives Ports Limited
DOD	Disbursed Outstanding Debt	MTDS	Medium Term Debt Management Strategy
EUR	Euro	OFID	OPEC Fund for International Development
EXIM	Export-Import Bank of	PFM	Public Financial Management
GBP	Great British Pound	SAR	Saudi Riyal
GDP	Gross Domestic Product	SDF	SAARC Development Fund
HDC	Housing Development Corporation Limited	SDR	Special Drawing Rights
IDA	International Development Association	SFD	Saudi Fund for Development
IsDB	Islamic Development Bank	SLA	Subsidiary Loan Agreement
IMF	International Monetary Fund	ST	Short-Term
JBIC	Japan Bank for International Cooperation	STELCO	State Electric Company Limited
JICS	Japan International Cooperation Systems	STO	State Trading Organization
JPY	Japanese Yen	USD	United States Dollar
KWD	Kuwaiti Dinar	VIA	Velana International Airport
		WAIR	Weighted Average Interest Rate
		WB	World Bank

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

Disbursed Outstanding Debt (DOD), including government guaranteed debt, at the end of December 2018 stood at MVR 59,506 million, an increase of 30% compared to December 2017. Figure 1 shows the DOD trend from December 2016 to December 2018.

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

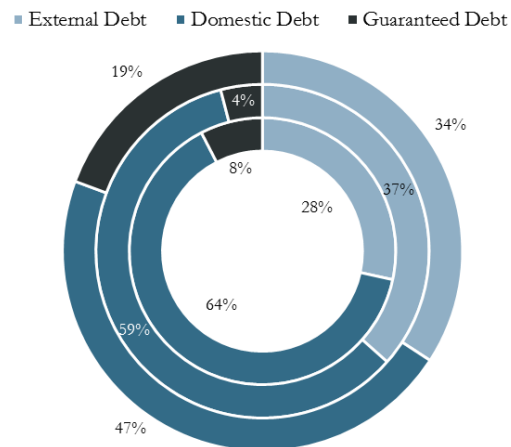


From December 2016 to December 2018, total debt increased by MVR 18,248 million, with the increase largely coming from the increase in guaranteed debt. External debt increased by 73% during the period, due to high disbursements made for strategically important infrastructure development projects. During this period, domestic debt increased by

<sup>1</sup> Includes direct borrowing of the central government and explicitly guaranteed indirect borrowing.

5%. The government provided guarantees that benefited several SOEs for projects in sectors of priority for the government during the period. As a result, guaranteed debt increased by 267% during the past 2 years. The share of external and domestic debt in total debt has also changed significantly during the period, with the share of domestic debt reducing from 69% to 58%. Figure 2 compares the share of external and domestic DOD at end of December 2016 and December 2018.

Figure 2: Share of Disbursed Outstanding Debt, Dec 2016, 2017 & 2018  
Inner Ring: Dec 2016; Middle Ring: Dec 2017; Outer Ring: Dec 2018



At the end of 2018, the total debt to GDP stood at 72%. This is an 11% increase when compared to end 2016 and 2017. At the end of 2016 and 2017, debt to GDP stood at 61%.

### Key Activities, Jul – Dec 2018

- ✓ Submitted the MTDS 2019-2021 to Peoples' Majlis
- ✓ Signed loan and grant agreements with WB for PFM Systems Strengthening Project additional financing
- ✓ Signed grant agreement with ADB for Greater Male' Environmental Improvement and Waste Management Project Phase I
- ✓ Signed grant agreement with JICS for Economic and Social Development Program
- ✓ MACL Mudharabah for oil trading
- ✓ STO Mudharabah for business development
- ✓ SLA signed with MACL for VIA project
- ✓ Four new sovereign guarantees issued supporting MACL, HDC, and STELCO for a total of USD 173 million
- ✓ Signed MOU with SFD for financing the Affordable Housing Scheme and Fisheries Sector Development Project
- ✓ WB/IMF Annual Meeting
- ✓ AIIB Annual Meeting
- ✓ 3<sup>rd</sup> Meeting of Counterpart Agencies of SDF
- ✓ Consultation with Senior Government Officials on ADB's Strategy 2030 - Aligned Corporate Results Framework
- ✓ AIIB Constituency I Meeting 2018
- ✓ SDF 30<sup>th</sup> Board Meeting and 4<sup>th</sup> Counterpart Agencies Meeting
- ✓ WB Projects Mid-Term Review
- ✓ ADB Tri-Partite Portfolio Review Meetings
- ✓ Preparation of the National Budget 2019
- ✓ Membership subscription paid to IsDB, SDF, and AIIB
- ✓ Started Recording Subsidiary Loan Agreements in CSDRMS
- ✓ Started validating the Domestic Debt Module in CSDRMS
- ✓ Completed records of guaranteed debt in CSDRMS
- ✓ DeMPA Self assessment

### Key Events Planned, Jan – Jun 2019

- ✓ Loan agreement signing with EXIM India for USD 800 million credit facility
- ✓ ADB National Single Window Project Loan Negotiation
- ✓ Loan negotiation with SFD for Affordable Housing Scheme and Fisheries Sector Development Project
- ✓ WB Enhancing Employability through Human Capital Development Project negotiation
- ✓ OFID Outer Island Harbors Water Supply and Sewerage Facilities Project Loan Appraisal
- ✓ MPL SLA for purchase of buses
- ✓ WB Vice President and Executive Director's Visit
- ✓ ADB Executive Director's Visit
- ✓ IFAD Annual Meeting
- ✓ IsDB Annual Meeting
- ✓ IMF/WB Spring Meetings
- ✓ ADB Annual Meeting
- ✓ SASEC Nodal Officials Meeting
- ✓ AIIB Board Meeting
- ✓ Maldives Partnership Forum 2019
- ✓ Maldives National Development Plan formulation
- ✓ WB Mission for Debt Management Performance Assessment and Reform Plan
- ✓ IsDB Member Country Partnership Strategy formulation mission
- ✓ IMF Article IV Mission
- ✓ ADB Country Programming Mission
- ✓ Updating Operations Manual
- ✓ Staff Performance Appraisal

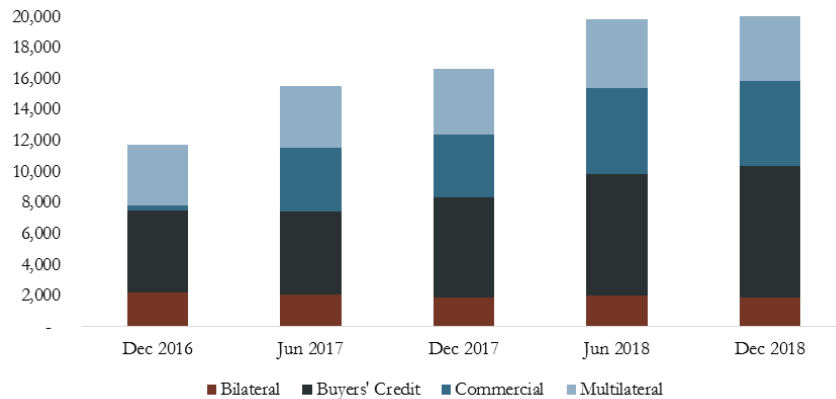
## 2. External Debt

External DOD increased by MVR 3,666 million at the end of December 2018 compared to December 2017, to reach MVR 20,343 million. This represents an increase of 22% during the year. Loans disbursed for financing the airport development, and the Dharumavantha Hospital Project (financed through the proceeds of bond issuance) accounted for 60% of the increase in total external debt during the period. 98% of the external debt outstanding as at the end of 2018 was at fixed interest rates.

### 2.1 Creditor Breakdown of External Debt

While the Maldives has historically borrowed from multilateral and bilateral lenders in the past, buyers' credit and commercial lenders had overtaken as the biggest lenders by the end of 2016. By December 2018, Buyers' Credit lenders held 42% of the external DOD while 27% was held by commercial lenders. Figure 3 shows the change in the holdings of external DOD by creditor category during the period.

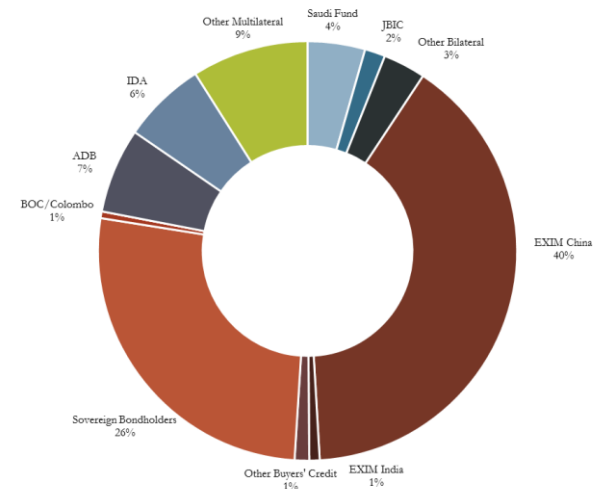
Figure 3: External DOD by Creditor Category (MVR millions)  
Dec 2016 - Dec 2018



Except for the 25% increase in the holdings of commercial lenders, holdings for all other categories of creditors decreased during the period, with the biggest change observed for the share of multilateral lenders, which decreased by 11%. While in December 2016 commercial creditors held MVR 286 million, by the end of 2018, this amount had increased to MVR 5,499 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 (through IDA funding) holds the largest share of outstanding external debt, with ADB exceeding WB's share by a narrow margin. By the end of December 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 December 2018.

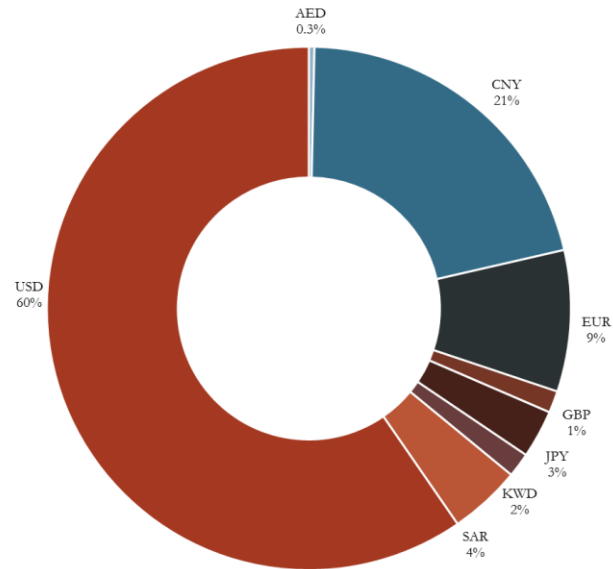
Figure 4: Share of External Disbursed Outstanding Debt by Creditor, Dec 2018



## 2.2 Currency Composition of External Debt

The currency composition of external debt shows that United States Dollar (USD), Special Drawing Rights (SDR)<sup>2</sup>, and Chinese Yuan (CNY) makes up 89% 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 December 2018, with the SDR portion decomposed to its basket currencies.

SDR Decomposed Currency Composition of External Disbursed Outstanding Debt, Dec 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 53% to 60%, CNY from 19% to 21%, EUR from 4% to 9%, and JPY from 2% to 3%, and introduces GBP into the composition, with a share of 1%.

Much of the exchange rate risk inherent in foreign currency denominated debt is mitigated by the fact that 60% 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, and requires close monitoring.

## 2.3 External Debt Disbursements

MVR 1,274 million of committed external debt was disbursed during the second half of 2018, bringing the total disbursement in 2018 to MVR 5,079 million. The largest portion of the year's disbursement, of 44%, was for the VIA runway and terminal development project, while 17% was spent on the health sector, where a large part of the sovereign bond issued in 2018 was spent for financing the Dharumavantha Hospital building and equipment. 15% of the disbursement during the year was for budget support. Figure 6 shows the disbursements made for the different economic sectors during 2018. As at the end of December 2018, MVR 9,626.7 million of committed external debt remained undisbursed.

<sup>2</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.

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

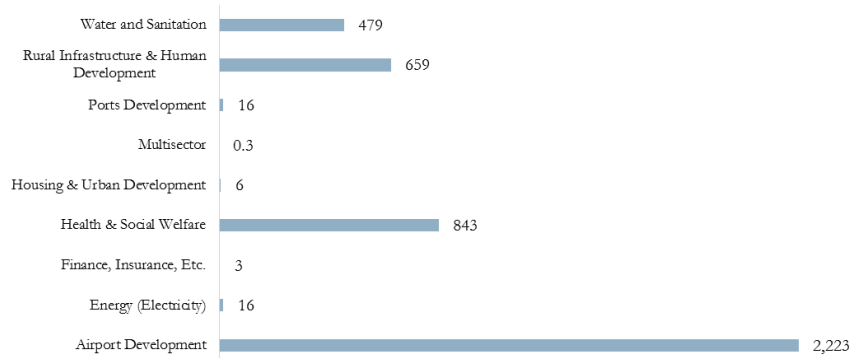
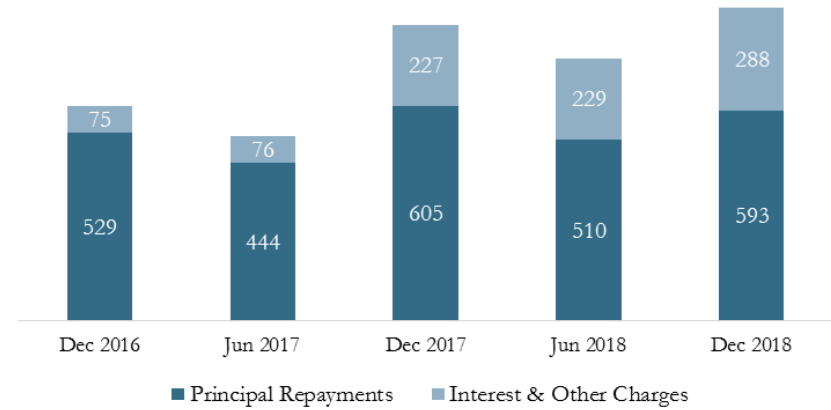


Figure 7: External Debt Servicing Cost (MVR millions) Jun 2016 - Jun 2018



## 2.4 External Debt Service

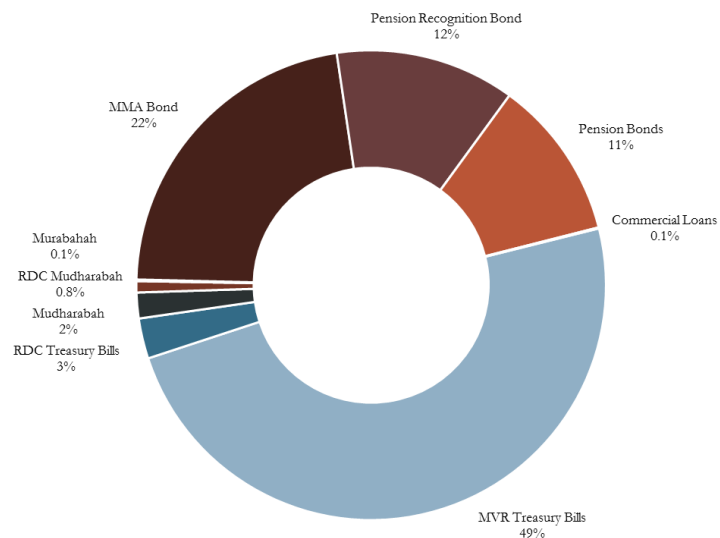
During 2018, MVR 1,619 million was spent for the servicing of external debt, representing an increase of 20% when compared to 2017. Of this, 68% went towards loan repayments, while the rest was for interest payments. The interest cost of external debt significantly increased, with the share of interest cost in total debt service increasing from 27% in 2017 to 33% in 2018. This is due to the high cost of interest being paid on the outstanding sovereign bonds. External debt servicing cost 8% of the country's total revenue in 2018. The trend in external debt servicing over the past 2 years is depicted in Figure 7.



### 3. Domestic Debt

Domestic DOD increased by MVR 1,263 million in the last 2 years, to reach a total of MVR 27,664 million at the end of 2018. Figure 8 shows total domestic debt outstanding by instrument category at the end of 2018.

Figure 8: Domestic Debt by Instrument Category, Dec 2018



#### 3.1 Short-Term Domestic Debt

Short-term domestic instruments comprises MVR and RDC<sup>3</sup> Treasury bills, MVR and RDC Mudharabah<sup>4</sup>, and Murabahah<sup>5</sup>. Over the last 2 years, short-

<sup>3</sup> RDC instruments are issued in USD and repaid upon maturity in USD. However, the coupon payments are made in MVR.

<sup>4</sup> Mudharabah is a form of partnership where one party provides the funds while the other party provides expertise.

<sup>5</sup> Murabahah is a sale where the seller discloses the cost of the commodity and amount of profit charged.

term domestic debt increased by 4%, to reach MVR 15,014 million at the end of 2018.

The largest share of domestic debt is held in Treasury bills, which makes up 95% of short term domestic debt, while the rest is held as Mudharabah (5%) and Murabahah (0.2%). The short term to total domestic DOD ratio decreased from 55% to 54% in the last 2 years, suggesting a slight reduction in refinancing risk.

#### 3.2 Long Term Domestic Debt

At the end of 2018, long term domestic DOD stood at MVR 12,650 million, representing an increase of 6% compared to end 2016. Long term domestic debt instruments include long term treasury bonds issued to the Maldives Monetary Authority (MMA)<sup>6</sup>, the Pension Recognition Bond held by Maldives Pension Administration Office (MPAO)<sup>7</sup>, 5 to 8 year maturity bonds issued to MPAO, and long term commercial loans. Since the outstanding long term commercial loans constitute only 0.1% of the long term domestic DOD, almost all the long term domestic debt is held in treasury bonds.

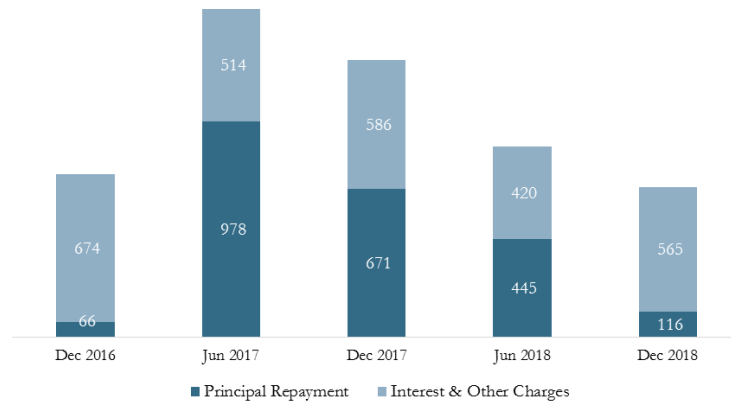
#### 3.3 Domestic Debt Servicing

Domestic debt servicing cost during 2018 decreased by 44% when compared to 2017 due to the full repayment of a short term domestic loan from Bank of Maldives during the year. Short term domestic debt servicing cost decreased by 55% during the period while long term debt servicing cost decreased by 2%. Figure 9 shows the domestic debt servicing cost from December 2016 to December 2018.

<sup>6</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.

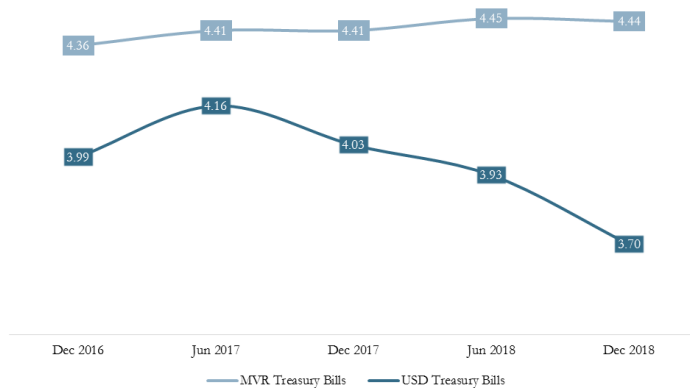
<sup>7</sup> This is a bond issued by the Government to pensioners, administered via the MPAO, which is paid over time, upon their retirement. The interest on the bond is paid into the pensioners' retirement savings account.

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



During the period December 2016 to December 2018, the weighted average interest rate (WAIR) for MVR Treasury bills increased by 2% while the WAIR for USD Treasury bills reduced by 7%. Figure 10 shows the trend in the WAIR for Treasury bills during the period.

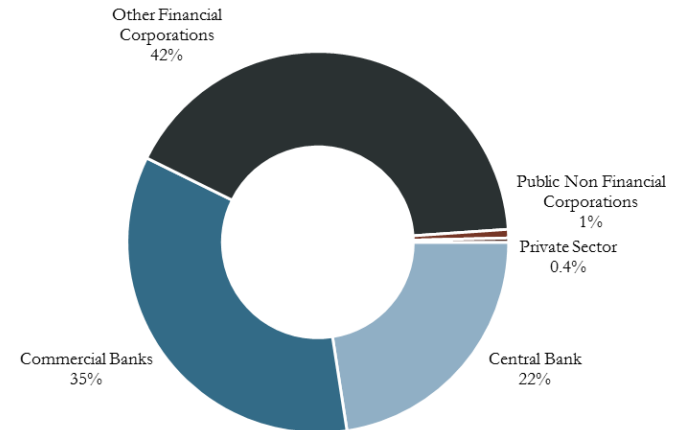
Figure 10: Weighted Average Interest Rate for Treasury Bills (%) Jun 2016 - Jun 2018



### 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 (42%) at the end of December 2018, while commercial banks and MMA also held a significant share (35% and 23% respectively). Public Non-Financial Corporations held 1% and the private sector held 0.4%. Figure 11 shows the share of domestic debt by ownership as at the end of December 2018.

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



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

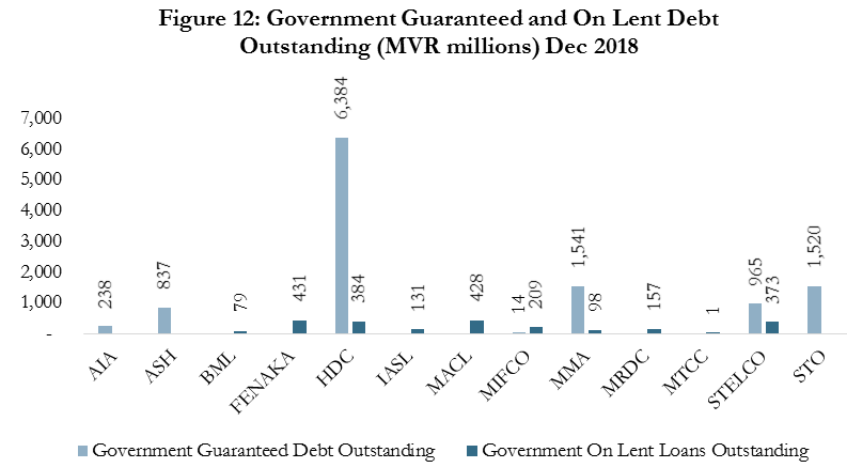
Government guaranteed debt outstanding saw a large increase in the past 2 years, to stand at MVR 11,499 at the end of December 2018. The Housing Development Corporation (HDC), the Maldives Monetary Authority (MMA) and the State Trading Organization (STO) are the biggest beneficiaries of government guaranteed debt.

Seven new guarantees were issued in 2018 to external creditors totaling USD 321 million, for housing, electricity, airport development, oil trade financing, and other infrastructure development projects. The beneficiaries for these loans are HDC, MACL, STELCO and STO.

Total loans on-lent to state owned enterprises outstanding at end of December 2018 amounted to MVR 2,291 million. Fenaka Corporation, MACL and HDC are the biggest beneficiaries of government on lent debt.

One new loan, contracted for the VIA development project of AED 184 was on-lent to MACL during the year.

Figure 12 shows the Government guaranteed and on lent loans outstanding by beneficiary as at the end of December 2018.



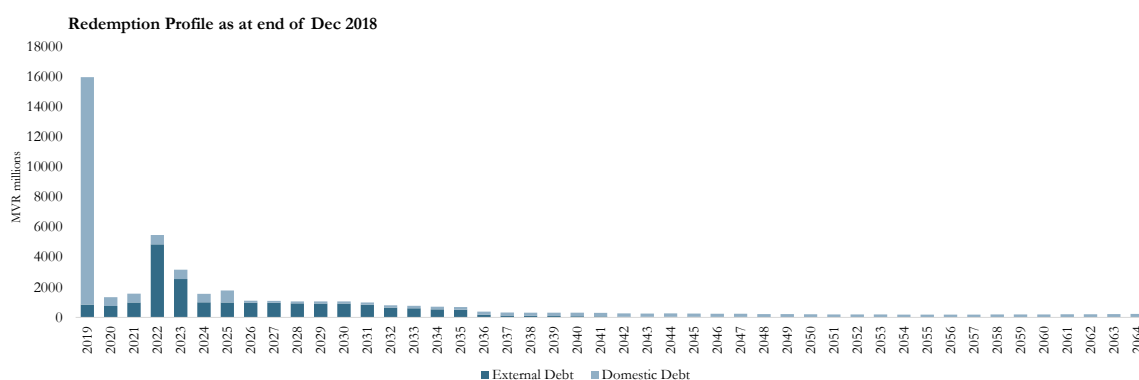
## Debt Burden and Risk Indicators as at end December 2018

*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 19% 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. However, due to the high level of external debt, being 44% of the total, of which short term debt is equivalent to 20% 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 December 2018 falls due in 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 Dec 2018
Debt to GDP	58%
Debt to Exports	80%
Debt to Revenue	225%
Refinancing risk	
Debt maturing in 1yr (% of total)	33%
Debt maturing in 1yr (% of GDP)	19%
ATM External Portfolio (years)	7
ATM Domestic Portfolio (years)	9
ATM Domestic Portfolio (years) without MMA Bond & PRB	1
ATM Total Portfolio (years)	8
Interest rate risk	
ATR (years)	8
Debt refixing in 1yr (% of total)	34%
Fixed rate debt (% of total)	99%
Exchange Risk	
FX debt as % of total	44%
ST FX debt as % of usable reserves	20%

## 5. Summary Debt Statistics

	Dec 2016	Jun 2017	Dec 2017	Jun 2018	Dec 2018
<b>Total Outstanding Debt (MVR millions)</b>	<b>41,258</b>	<b>43,776</b>	<b>45,631</b>	<b>55,462</b>	<b>59,506</b>
External Debt	11,726	15,558	16,677	19,822	20,343
Domestic Debt	26,402	26,949	27,108	26,913	27,664
Guaranteed Debt	3,131	1,270	1,846	8,727	11,499
<b>External Debt by Creditor (MVR millions)</b>	<b>11,726</b>	<b>15,558</b>	<b>16,677</b>	<b>19,822</b>	<b>20,343</b>
Saudi Fund	473	455	487	758	902
JBIC	336	342	332	331	322
Other Bilateral	1,381	1,258	1,055	896	667
EXIM China	4,708	4,777	5,935	7,426	8,093
EXIM India	220	221	201	181	162
Other Buyers' Credit	415	387	349	282	229
Sovereign Bondholders	-	3,845	3,853	5,390	5,394
BOC/Colombo	286	241	196	151	106
ADB	1,413	1,438	1,449	1,387	1,333
IDA	1,336	1,373	1,381	1,343	1,308
Other Multilateral	1,159	1,221	1,439	1,675	1,829
<b>External Debt by Loan Currency (MVR Millions)</b>					
AED	79	69	73	79	70
CNY	3,020	3,086	3,605	3,968	3,914
EUR	1,052	1,033	980	845	727
JPY	336	342	332	331	322
KWD	253	250	269	267	306
SAR	473	455	487	758	902
USD	3,111	6,824	7,354	10,103	10,708
SDR	3,403	3,500	3,578	3,472	3,394
<b>Domestic Debt by Maturity (MVR million)</b>	<b>26,402</b>	<b>26,949</b>	<b>27,108</b>	<b>26,913</b>	<b>27,664</b>
<b>Short Term</b>	<b>14,456</b>	<b>14,317</b>	<b>14,493</b>	<b>14,287</b>	<b>15,014</b>
MVR Treasury Bills	12,796	12,305	12,889	12,971	13,512
RDC Treasury Bills	935	691	664	719	767
Mudharabah	320	320	540	540	490
RDC Mudharabah	-	-	-	-	216
Murabahah	127	63	-	57	29
Wakalah bi al-Istithmar	278	139	-	-	-
ST Commercial Loans	-	800	400	-	-
<b>Long Term</b>	<b>11,946</b>	<b>12,631</b>	<b>12,614</b>	<b>12,626</b>	<b>12,650</b>
MMA Bond	6,304	6,268	6,233	6,197	6,161
Pension Recognition Bond	3,175	3,236	3,312	3,361	3,423
Pension Bonds	2,383	3,048	3,048	3,048	3,048
Sukuk Murabaha	58	58	-	-	-
LT Commercial Loans	26	21	20	20	19
<b>Government On Lent Debt (MVR Millions)</b>	<b>1,405</b>	<b>1,475</b>	<b>1,495</b>	<b>1,535</b>	<b>2,291</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
<b>Gross Domestic Product (MVR Millions)</b>	<b>67,837</b>	<b>74,866</b>	<b>74,866</b>	<b>82,504</b>	<b>82,504</b>