An Overview of Public Debt in the Maldives

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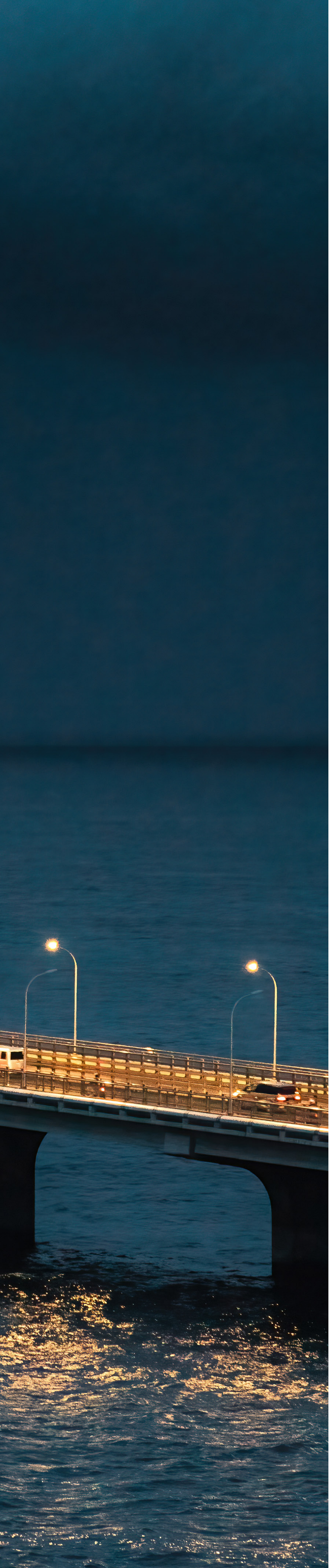
Contents



An Overview of Public Debt in the Maldives[1]

Introduction

There has been a rapid increase in the stock of public debt in the Maldives over the past few years. In particular, over the period 2016 to 2021, the total stock of public and publicly guaranteed (PPG) debt[2] increased at an average of 18 percent per annum (Ministry of Finance, 2020a; 2022a), contributed by an increase in both budgetary central government debt and guaranteed debt. The devastating effect of Covid-19 on the Maldivian economy has exacerbated the public finance situation, forcing the government to take on even more debt. With low fiscal buffers and foreign reserves, the situation implies increased risks of debt distress[3].

Against this backdrop, this paper provides an overview of the public debt situation in the Maldives, and explores the validity of the concerns regarding debt sustainability. Also, as the increase in PPG debt and the resulting debt sustainability concerns have often been attributed by the media and policymakers to the increase in debt from Chinese creditors, the paper also looks at whether this claim is justified while also looking into more recent debt accumulations from Indian creditors as well. It is noted that the analysis is constrained by the limited data publicly available on public debt and government finances. Therefore, a section on additional data and other issues that will need to be addressed to undertake a more thorough analysis is also included.

1 All information and data presented in this paper are from sources in the public domain and deemed accurate as at 8 May 2022.

2 PPG debt is the sum of the budgetary central government debt (also sometimes referred to as the government's direct debt) and guaranteed debt. PPG debt includes guaranteed debt taken on by state-owned enterprises, but does not include any non-guaranteed debt of state-owned enterprises.

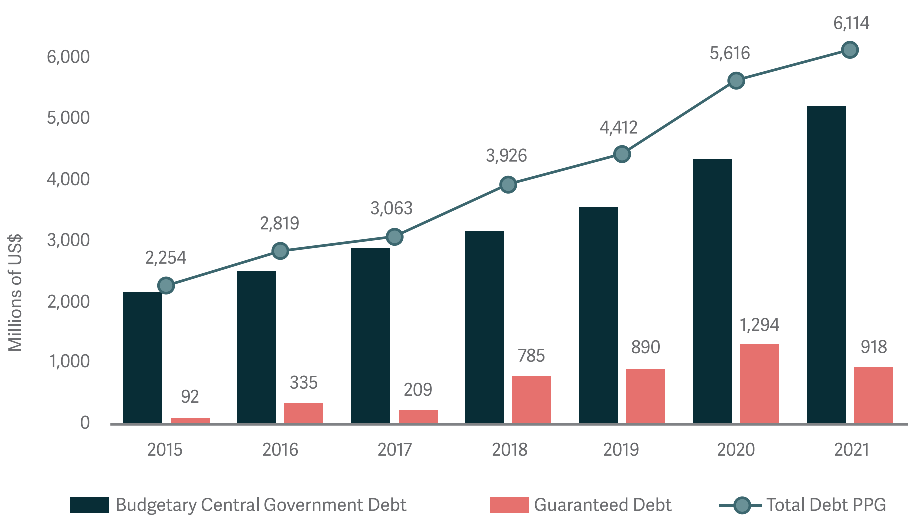
3 Debt distress is a term used by the World Bank and the International Monetary Fund in their Debt Sustainability Analyses (DSA), and is used to refer to situations where debt repayments cannot be honoured as required. More information on the DSA framework can be found on https://www.worldbank.org/en/programs/debt-toolkit/dsa.

The evolution of PPG debt

Period of rapid public debt growth between 2015 and 2021

At the end of 2015, total PPG debt of the Maldives stood at US$2,254.4 million, of which US$2,162.2 million was budgetary central government debt and US$92.3 million was guaranteed debt (Ministry of Finance, 2020a). As a proportion of GDP, the total PPG debt stock amounted to 66 percent, while budgetary central government debt and guaranteed debt stood at 63 percent and 3 percent of GDP respectively. At this point, 69 percent of PPG debt was domestically issued debt.

The growth of public debt started accelerating from 2016, with the ramp-up of spending on infrastructure projects by the government. High value projects that were ongoing at the time include the construction of the Dharumavantha Hospital building, the Sinamale' bridge project, Velana International Airport terminal and runway project and a number of social housing construction projects. From a stock of US$2,254.4 million at the end of 2015, total PPG debt grew at an average of 18 percent over the subsequent six years and reached US$6,114.2 million at the end of 2021 (see Figure 1). At the end of 2021, domestic debt accounted for 52 percent of total PPG debt, down from 69 percent at the end of 2015.



Source: Ministry of Finance (2020a; 2022a)

Reliably extending the analysis before this period is difficult as a reconciled, consistent series on public debt going back before 2015 is not publicly available. The more recent publication of data on total public and publicly guaranteed debt (Ministry of Finance, 2022a) is for an even shorter time-series that provides information starting from 2019 but on a quarterly basis. A list of all sovereign guarantees issued to date is published, but aggregated data on guaranteed debt in PPG debt [4] is only published for 2015 and onwards. The data from annual budget documents for this early period change slightly in different budget documents, but it does confirm that the level of budgetary central government debt was relatively low at the time. According to the data from the budget documents, the level of budgetary central government debt was at US$1,506.3 million at the end of 2011 (Ministry of Finance, 2012), in contrast to US$2,254.4 million at the end of 2015 (Ministry of Finance, 2020a). This data also shows that the average annual growth rate of budgetary central government debt between 2011 and 2015 was 7.5 percent, in contrast with an annual average of 16 percent over the period 2016 to 2021. However, as highlighted above, caution should be exercised in relying on this data from the budget documents for the years pre-2015. Also, no comparison of total PPG debt can be made across the periods as data on guaranteed debt for years prior to 2015 is not published.

Looking at the composition of PPG debt, budgetary central government debt stood at US$2,162.2 million (96 percent of PPG debt) at the end of 2015, while guaranteed debt stood at US$92.3 million. Between 2016 and 2021, budgetary central government debt increased at an average of 16 percent per annum, which in value terms corresponds to an average annual increase in budgetary central government debt of US$505.7 million. Compared to the past, this increase was very rapid, and by the end of 2021, budgetary central government debt had reached US$5,196.5 million. This translates into a 140 percent growth in budgetary central government debt between 2015 and 2021.

Before 2015, the issuance of sovereign guarantees was not very common, at least for loans tied to infrastructure projects. According to the Ministry of Finance, only seven active sovereign guarantees, all of which were issued for working capital loans of state-owned enterprises, issued before 2015 remain active as of December 2021 (Ministry of Finance, 2022c)[5]. However, the issuance of sovereign guarantees became more common from 2015, with the government issuing 21 guarantees between 2015 and 2021, of which 14 were issued between 2015 and 2018. Most of these were to state-owned enterprises, but the main distinction from the pre-2015 period is that the issuances from 2015 onwards were mainly for loans tied to large infrastructure development projects. Therefore, this unconventionally large increase in guaranteed debt also contributed significantly to the increase in total PPG debt over this period. In particular, the level of guaranteed debt rose from US$92.3 million at the end of 2015 to US$917.7 million at the end of 2021[6] . Consequently, the share of guaranteed debt rose from 4 percent of PPG debt in 2015 to 35 percent of PPG debt in 2020, and declined to 18 percent at the end of 2021. Figure 2 shows the changes in PPG debt and its components in absolute terms.

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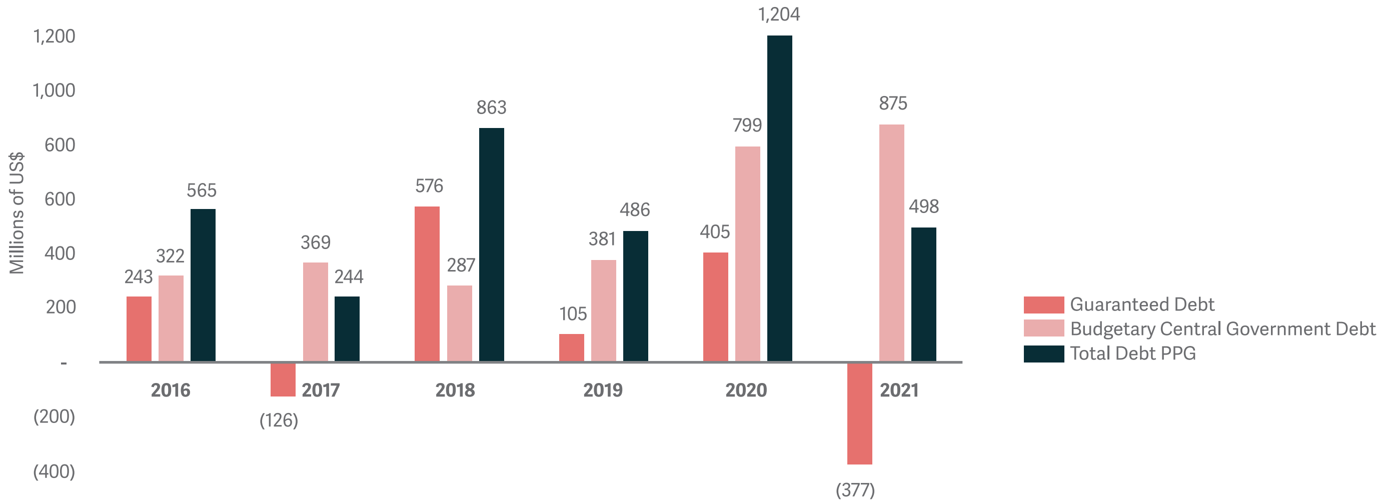
4 The stock of guaranteed debt will change with repayments, and therefore, the amount of guaranteed debt in total PPG debt cannot be determined from publicly available data for the years prior to 2015. This distinction is discussed in more detail in the following sections.

5 Ministry of Finance (2022c) reports the full list of active sovereign guarantees of the government.

6 It should be noted that the total value of sovereign guarantees may not fully enter into guaranteed debt (and thus PPG debt). A guarantee will only be reflected in guaranteed debt as disbursements are made. There will also be deductions from guaranteed debt as repayments are made. So, the total value of sovereign guarantees issued reported in Ministry of Finance (2022c) will not coincide with the guaranteed debt numbers (which takes into account disbursements and repayments) reported in Ministry of Finance (2020a; 2022a).



Source: Ministry of Finance (2020a; 2022a)

Figure 2: Changes in public and publicly guaranteed debt

The impact of Covid-19

The restrictions imposed on movement and economic activity, and especially the tourism sector, due to Covid-19 lead to a 33 percent decline in real GDP[7] in 2020 (Maldives Monetary Authority, 2022a). Government revenue (excluding grants) declined markedly, by US$503.2 million in 2020, which is 35 percent lower compared to the realized amount in 2019 (Ministry of Finance, 2022d). On the other hand, the health and economic response of the government during the pandemic led to significant and unanticipated expenses, which further increased the financing requirement. Therefore, PPG debt increased by 27 percent, from US$4,411.8 million at the end 2019 to US$5,615.7 million by the end of 2020. This was driven by a US$799.0 million increase in budgetary central government debt and a US$404.9 million increase in guaranteed debt (see Figure 2). This large increase in debt, coupled with the drastic reduction in nominal GDP[8] increased the PPG debt to GDP ratio from 79 percent in 2019 to 150 percent in 2020. At the end of 2021, PPG debt to GDP ratio stood at 122 percent.

The unanticipated shock to public finances and the debt stock had constrained government finances during the pandemic. Firstly, the Ministry of Finance (2020d) forecasted that real GDP will not recover to pre-Covid-19 levels until 2022. The lower level of economic activity resulted in lower government revenues, and this increased government borrowing on account of high government expenditure, that was very difficult to control given the fluid situation of the pandemic response. Secondly and perhaps more importantly, the Covid-19 shock had led to the downgrade of the sovereign credit rating of the Maldives by Moody's Investors Service and Fitch Ratings[9]. The primary reasons quoted by the rating agencies for the downgrades were low levels of foreign currency reserves, the disruption to the tourism sector and the consequent restricted foreign currency inflows, all of which increased the risk of the government not being able to meet its debt obligations (see Fitch Ratings (2020a), Fitch Rating (2020b) and Moody's Investors Service (2020) for details). The downgrades led to a large jump in the secondary market yield to maturity[10] of the existing US$250.0 million sovereign bond issued in 2017, from around 8 percent at the beginning of 2020 to over 20 percent (Borse Stuttgart, 2020)[11]. The secondary market yield to maturity reflects the borrowing cost should the government decide to go to the

7 Real GDP is the value of final goods and services produced within the economy at constant prices (the prices of a fixed base year). In the Maldives, current real GDP estimates are produced using 2014 prices.

8 Nominal GDP, which is the measure of GDP used in calculating debt to GDP ratios, is the value of final goods and services produced within the economy at current prices. Nominal GDP is estimated at US$3,733.4 million for 2020, which is 33 percent lower compared to the level in 2019 (Maldives Monetary Authority, 2022a).

9 Moody's downgraded the Maldives from B2 to B3 in May 2020. Fitch Ratings has downgraded the Maldives twice in 2020, from B+ to B in March 2020 and from B to CCC in November 2020.

10 Increases in yield to maturity is always associated with decreases in the bond price on the market.

11 According to the Borse Stuttgart platform, the last recorded yield as at 20 December 2020 was 25.7 percent. More reliable estimates can be obtained from Bloomberg, which is however accessible via subscription only.

market for a new bond issuance at a particular point in time. The consequence being a huge increase in the interest rates the government will be offered for any potential new debt issuances to the market at that point in time. This increase in the cost of borrowing had materialized exactly when the financing requirement of the government is highest. The only way to avoid this higher cost of borrowing, which could have further knock-on effects on future debt sustainability, was to avoid debt issuances from the market and borrow from bilateral or multilateral partners on more favorable terms which are not linked to the market.

However, since the re-opening of Maldives' borders in mid-year 2020, the recovery of the tourism industry has been much quicker and more robust than previously anticipated. The Maldives' credit ratings were reevaluated by international ratings agencies. In August 2021, Moody's downgraded the Maldives credit rating from B3 to Caa1 (Moody's Investor Service, 2021). One of the main reasons for the downgrade by Moody's was because of the declining fiscal strength of the government due to the impacts of the pandemic-driven debt burden. In addition to this, the ratings agency also anticipates that the government will continue to spend heavily on capital projects, and it will be challenging for the government to secure funding from diverse sources. On a small positive note, Moody's has changed the outlook from negative to stable, citing the risks to the Caa1 ratings is balanced due to the positive developments and recovery of the tourism sector and the fiscal challenges that lies ahead (Moody's Investor Service, 2021).

Moreover, in October 2021, Fitch Ratings also revised the Maldives' credit rating from CCC to B- with a stable outlook (Fitch Ratings, 2021). The rationale behind this slight improvement was on top of the sharp and better-than-expected recovery of the tourism sectors, although the risks posed from the government debt portfolio remains. Large deficits and the increasing need for borrowed finances, low forex buffers and the dependence on a single industry (tourism) poses numerous risks to the Maldivian economy (Fitch Ratings, 2021).

The gist of the recent reviews and findings of the ratings agencies is very clear. Maldives is on a path of recovery, but the stance of the government spending and the subsequent borrowing needs is a major risk to the economy. Although the economic recovery may be quick, robust, and better than previously anticipated, the remaining debt burden will only go down gradually and that needs careful planning of fiscal policy and prudent management of government debt.

Chinese debt in the government's portfolio

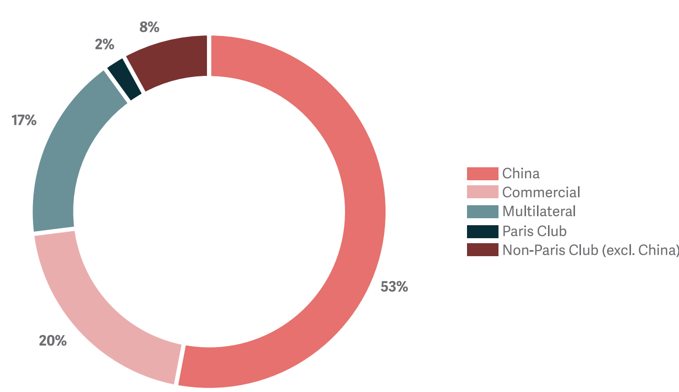
The following questions with regard to Chinese debt in the government's portfolio is of interest:

- What is the level of Chinese debt holdings of the government?
- What is the average cost and terms of Chinese debt?
- What do the answers to the previous questions imply for debt sustainability going forward?

Addressing these questions turned out to be challenging given the limited data publicly available on the breakdown of PPG debt. Regarding the first question, the level of Chinese debt included in PPG debt of the government is not published by the government. However, in the latest Debt Sustainability Analysis (DSA) report prepared by the International Monetary Fund and the World Bank (2020), 53.0 percent of external PPG debt consists of debt held by China. The total level of external PPG debt of the government in 2019 stood at US$2,256.9 million, so this implies that the total outstanding Chinese debt (including both budgetary central government debt and guaranteed debt) in 2019 was US$1,196.2 million. Therefore, considering both domestic and external debt, the share of Chinese debt in total PPG debt in 2019 was at 27 percent. Figure 3 presents a breakdown of external PPG debt by creditor in 2019.

Attempts to improve this estimate of Chinese debt, based on available information was not successful as an update is not available. Although a more recent Article IV consultation mission[12] with the Maldives was conducted by the International Monetary Fund in October 2021 (International Monetary Fund, 2021a) which usually includes a DSA, the report of the consultations has not yet been published.

Figure 3: External PPG debt in 2019, by creditor



12 Member countries of the International Monetary Fund are subject to surveillance by the Fund. The annual consultations which is usually referred to as Article IV consultations missions is a named as such because it is a requirement covered in the Article IV of the International Monetary Fund's Articles of Agreement. The consultations usually covers monitoring of economic activities and indicators and the provision of policy advice on identified or potential weaknesses in the economy that could trigger financial or economic instability. (International Monetary Fund, 2022).

Tables 1 and 2 present details of all the active sovereign guarantees on debt from Chinese creditors and the active external loans from Chinese creditors. It should be noted that the sum of the value of all these loans and guarantees will not correspond to the level of Chinese debt in PPG debt. This is because active loans and sovereign guarantees reflect the total value of the loan facility, regardless of the amount disbursed to date or the repayments made by the government for that facility. In other words, the list of active loans and guarantees report the total value of the loan facility the creditor has agreed to extend to the government. However, the PPG debt numbers only include disbursed and outstanding debt. This means that only the amount which has been disbursed by the creditor, less any repayments that have been made to date will be included in PPG debt numbers. Disbursements are usually made as per a set schedule over time (except in a few cases like budget support loans or bond issuances where the full amount is disbursed upfront) and could even deviate from the schedule if a project tied to the loan faces implementation delays.

Consider an example, and suppose the government signs a loan facility of US$100.0 million with a Chinese creditor in 2018. Also, suppose that at the end of 2020, the funds disbursed to the government amounts to US$40.0 million. Assuming that no repayments have been made at this point, the amount reflected in PPG debt at the end of 2020 would be the disbursed outstanding amount, which is US$40.0 million. If any repayments were made, this would be deducted from PPG debt

Table 1: Active Sovereign Guarantees on Debt from Chinese Institutions (as at end of 2021)

Date	Creditor	Beneficiary	Purpose	Guaranteed Amount (millions of US$)
2016/12/27	Export Import Bank of China	State Electric Company	5th Power Development	75.4
2017/08/14	Industrial and Commercial Bank of China	Housing Development Corporation	7000 Housing Units Development Project	368.9
2017/11/21	China Development Bank	Housing Development Corporation	Development of 1530 Housing Units in Hulhumale'	159.0
2017/12/14	Export Import Bank of China	Ahmed Siyam Holdings Pvt Ltd[132]	Irufen Island Resort	127.5
2018/01/08	Industrial and Commercial Bank of China	Housing Development Corporation	Link Road Connecting Hulhule and Hulhumale'	31.0
2018/07/05	China Development Bank	Maldives Airports Company Limited	Seaplane Facilities at Velana International Airport	47.2
2018/07/16	Browns - China Machinery Engineering Corporation	Housing Development Corporation	Electricity System and Open Access Network of Hulhumale Phase II	67.3
2018/07/17	Dongfang Electric Corporation	State Electric Company	Greater Male' Grid Connection Phase I	38.9
2018/08/08	Bank of China, London Branch	Housing Development Corporation	2500 Housing Units	20.0
			Total (Chinese creditors)	**935.1**

Source: Ministry of Finance (2022c).

132 The sovereign guarantee on the US$127.5 million loan by Ahmed Siyam Holdings Pvt Ltd is the only guarantee issued on private sector debt to date.

Table 2: Active External Loans from Chinese Creditors (as at end of 2021)

Loan Date	Creditor	Project	Amount (Millions of US$)*
2010/08/30	The Export Import Bank of China	Development of 1000 Housing Units in Hulhumalé	72.2
2012/09/02	The Export Import Bank of China	Development of 1500 housing units in Maldives	147.4
2015/12/28	The Export Import Bank of China	Expansion and upgrading of Ibrahim Nasir International Airport in Hulhule'	373.8
2016/07/14	The Export Import Bank of China	China Maldives Friendship Bridge project	68.3
		Total (Chinese Creditors)	**661.7**

In debt statistics, the classification of external and domestic debt (and also the categorization of Chinese debt here) is based on the concept of residency of the creditor. The International Monetary Fund defines residency as follows. "An institutional unit is resident in an economic territory when there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale" (International Monetary Fund, 2009, pp. 70). This concept is not based on nationality or legal criteria, but on the notion of a center of economic interest. So when an institutional unit, in this case a creditor institution has a center of economic interest in the economic territory of a country for a long period of time (the threshold used is at least one year), then it is considered a resident of that country.

The second question of interest, namely the cost and terms of Chinese debt in the government's portfolio, is not addressed here because no information exists in the public domain on the interest rates, repayment terms or other general terms of Chinese debt. It is noted that this is not unique for the case for Chinese debt, but the same for almost all debt holdings of the government. One reason why these are not publicly disclosed could be due to non-disclosure clauses in some of the loan agreements. This also has implications for answering the third question on identifying potential risks to debt sustainability arising due to the Chinese debt stock. Without at least knowing the repayment schedule of existing Chinese debt, a factually grounded answer to this question cannot be given.

Indian debt in the government debt portfolio

Table 4 and Table 5 shows the details of all active sovereign guarantees and external loans from Indian creditors, respectively. Its should be noted that the bulk of the guarantees and loans were realized during the current government. This is an indication that bilateral assistance (in the form of loans or guaranteed debt) is very much dependent upon the bilateral relationship that the country's administration forge with other countries.

It is noteworthy that Fahi Dhiriulhun Corporation, which is a company created in March 2019 under a presidential decree (Fahi Dhiriulhun Corporation, 2022), with the aim of executing and fulfilling to fulfill the current administration's social housing schemes has already raked up US$227 million in government guaranteed external debt from Indian creditors by the end of year 2021.

As for external loans, the bulk of the credit from Indian creditors represent the dollar credit line facility and the loan for the Greater Male' Connectivity Project i.e. the Male'-Gulhi Falhu-Thilafushi bridge project.

Table 3: Active Sovereign Guarantees on Debt from Indian Institutions

Loan Date	Creditor	Beneficiary	Project	Amount (millions of US$)
1993/12/20	State Bank of India, Male'	Maldives Industrial Fisheries Company Limited	Working Capital	0.6
1993/12/20	State Bank of India, Male'	Maldives Industrial Fisheries Company Limited	Working Capital	0.4
2003/01/27	State Bank of India, Male'	State Trading Organization PLC	Working Capital/ Merchandise Imports	8.1
2016/11/13	The Export Import Bank of India	Housing Development Corporation Limited	Road Development Phase II	34.3
2019/07/22	Reserve Bank of India	Maldives Monetary Authority	USD Swap Facility**	400.0
2020/10/20	The Export Import Bank of India	Housing Development Corporation Limited	Development of Hulhumale' Phase I Remaining Roads and Phase II Stage 2 Roads	19.3
2021/09/23	The Export Import Bank of India	Fahi Dhiriulhun Corporation Ltd	Design and Construction of 2,000 Social Housing Units in Hulhumale'	116.5
2021/09/23	The Export Import Bank of India	Fahi Dhiriulhun Corporation Ltd	Design and Construction of 2000 Social Housing Units in Hulhumale phase 2	110.5
	Total external loans as at end of 2021 (Millions of US$)			**689.6**

Source: Ministry of Finance (2022c)

** Technically, the swap facility is not an "active guarantee", although the Ministry of Finance (2022c) still reports it as such. The USD Swap Facility from the Reserve Bank of India to the Maldives Monetary Authority was drawn in the third quarter of 2020, in two tranches. The first being US$150 million which was drawn in April 2020 and second being a further US$250 million drawn in December 2020 bringing the total amount to US$400 (Maldives Monetary Authority, 2021). The swap facility is a short-term measure targeted to boost reserves and as such the facility expired and the full outstanding amount US$400 million was repaid in 2021 (Maldives Monetary Authority, 2022b). If this amount is removed from the active guarantees, total PPG from Indian creditors account for US$1,619.6 million. The issue of careful recording and publishing of public debt and sovereign guarantee information is covered in another section of this report.

Table 4: Active External Loans from Indian Creditors

Loan Date	Creditor	Project	Amount (millions of US$)
2011/08/12	The Export Import Bank of India	Construction of 485 Housing units in Maldives	40.0
2019/03/18	The Export Import Bank of India	Dollar Credit Line Agreement	800.0
2020/10/12	The Export Import Bank of India	Greater Male' Connectivity Project	400.0
2021/02/21	The Export Import Bank of India	Dollar Credit Line Agreement	50.0
2021/09/02	The Export Import Bank of India	Development of Sports Infrastructure Project	40.0
Total external loans as at end of 2021 (Million of US$)			**1,330.0**

Source: Ministry of Finance (2022b)

Table 5: A comparison of Chinese and Indian Debt*

		
Outstanding PPG	US$ 1,596.8 Million	US$ 1,619.6 Million**
Of which Guaranteed Debt	US$ 935.1 Million	US$ 689.6 Million
As a % of Total PPG Debt	26%	26%

*This comparison is based on information presented in Tables 1-4.
**Excludes US$400 Million swap facility

Source: Ministry of Finance (2022b; 2022c)

Box 1: A sovereign guarantee riddled with political favour

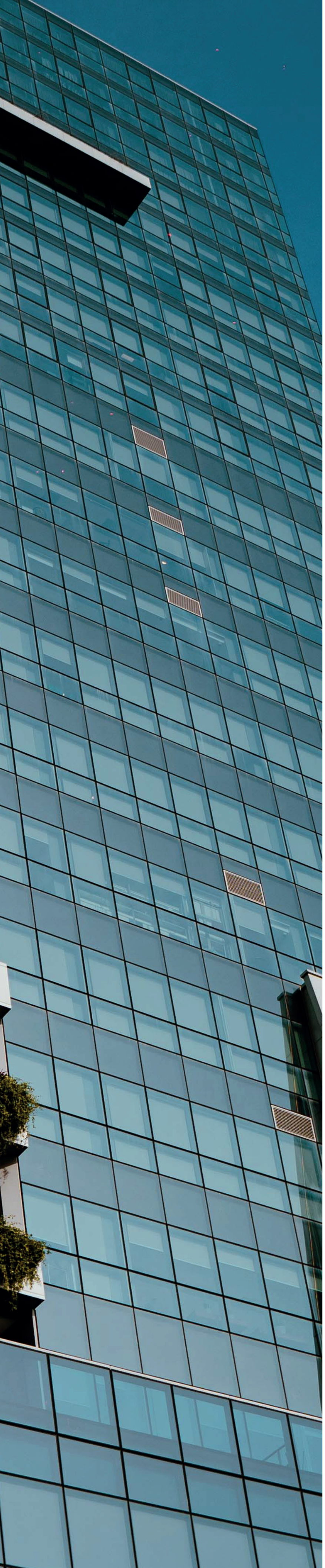
In December 2017, the then administration granted Ahmed Siyam Holdings Pvt Ltd, a sovereign guarantee to borrow US$127.5 million from the Export Import Bank of China. The private entity's loan was to finance the construction of a 5-star luxury resort in Noonu Atoll Dhigurah. The project was contracted out to China state-owned China Communications Construction Company or CCCC which is the same company that was responsible for the construction of the China-Maldives Friendship Bridge - a major campaign pledge of the former president Yameen Abdul Gayoom. The owner of Ahmed Siyam Holdings Pvt Ltd is Ahmed Siyam Mohamed – Member of Parliament for the Meedhoo constituency (18th and 19th Parliament) and leader of the Maldivian Development Alliance (MDA) a coalition partner of the Yameen administration.

Media reports from early 2017 indicate that the government announced a new version of the Guideline on the Issuance of Sovereign Guarantees. The version available on the web is from September 2017 (Ministry of Finance, 2017) which sets out the eligibility of parties and projects, the application procedure, required documentation, specific criteria for non-eligibility, limit of guarantees, guarantee fees, evaluation fees, administrative fees, reporting requirements of guarantee and monitoring obligations of the government.

According to the Fiscal Transparency Evaluation by the International Monetary Fund (2021b), the guideline lacks the details on the steps for evaluating guarantee proposals and carefully determining, the fiscal risks associated with such proposals. Therefore, one of the recommendations set forward in the report is to strengthen the enforcement of the policy to its fullest, as stipulated.

Although the policy was enacted ahead of the issuance of the said guarantee, it cannot be established from publicly available information if the guideline was followed as prescribed. Details of the agreement were not disclosed at the time and details of sovereign guarantees were only made available after the incumbent government took office in November 2018.

In July 2020, at the very height of the COVID-19 pandemic, what added further tribulation to an already debilitated government financial situation was a notice from the Export Import Bank of China to the government to pay an outstanding payment of US$10 million of principal and interest payment, which Ahmed Siyam Holdings Pvt Ltd had informed they are unable to honour. Although the pandemic may have been the primary reason for the financial hardships of both the government and private entities, it is important to remember that a Maldivian company nearly defaulted to an external creditor. This could have resulted in irreparable damage to the Maldives' reputation and credit worthiness. Unconfirmed reports suggest the repayment was financed by a loan from a local bank, but there is no publicly available information to back this claim.



Debt sustainability

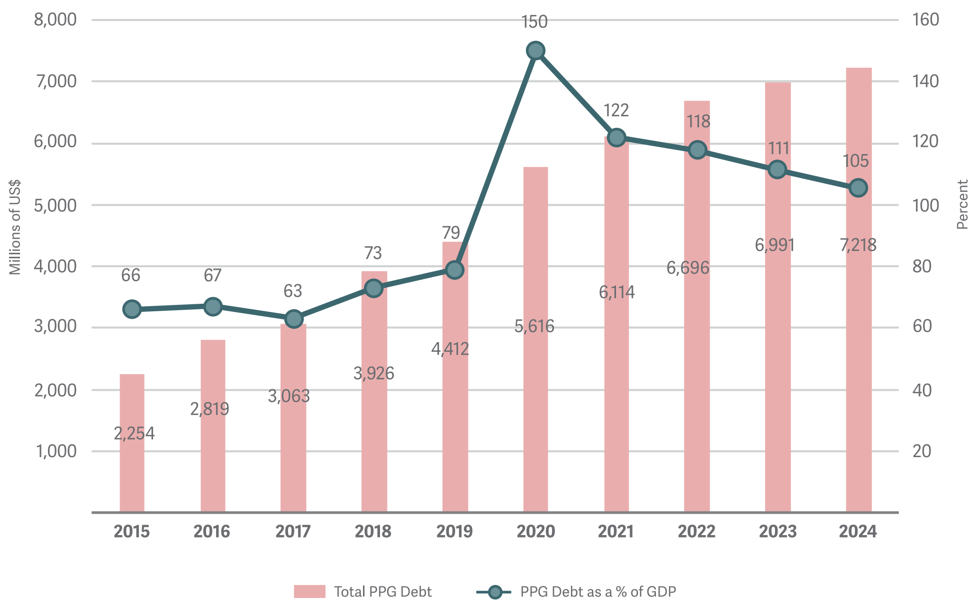
According to the International Monetary Fund (2020), a country's public debt is considered sustainable if the government is able to meet all of its current and future debt payment obligations, without exceptional financial assistance or going into default. After evaluation of the public debt situation in 2020, the DSA report by the International Monetary Fund and World Bank (2020) concluded that the overall risk of debt distress for the case of the Maldives is "High". This means that at least one of the indicators used to assess the risk of debt distress crosses the acceptable threshold, but the country does not face any debt repayment difficulties at the moment. This section looks at some indicators commonly used to assess the public debt situation, which include:

- PPG debt as a percent of GDP: shows the level of PPG debt as a proportion of the size of the nominal economy (value of final goods and services produced in the economy during the year)
- Debt service[14] as a percent of revenue: shows the proportion of government revenue that would go towards debt amortization and interest payments
- Debt service as a percent of foreign reserves: shows the proportion of foreign reserves that would go towards debt amortization and interest payments (this is relevant for the case of the Maldives given the low level of the country's reserves)

Figure 4 presents PPG debt estimates in levels and as a percent of GDP. The steady increase in PPG debt as a percent of GDP from 2015 to 2021 reflects the rapid increase in debt during this period, at a rate faster than the growth rate of nominal GDP. The trend broke in 2020, with PPG debt as a percent of GDP jumping from 79 percent in 2019 to 150 percent in 2020. This is because of the exceptional increase in debt the government took on during the year due to revenues drying up following the Covid-19 restriction, and the large contraction in GDP expected for the year. With the expected economic recovery and the gradual narrowing of the government's financing gap over the next few years, debt as a percent of GDP declined slightly to 122 percent at the end of 2021. However, it is concerning that that even after the GDP recovered in 2021, the debt to GDP level remained well above a 100 percent. The impact of the Covid-19 shock and the continuously increasing government appetite for financing to pursue its ambitious public investment projects has no doubt generated a long-term level-shift in the debt stock of the country, leading to rising debt servicing costs relative to the size of the economy.

14 The debt service data reflects the repayment and interest cost of the budgetary central government debt only. The repayment of guaranteed debt only becomes an obligation of the government if the original borrower does not or is unable to repay, and unless such a case arises, the repayment of guaranteed debt will not enter into these numbers.

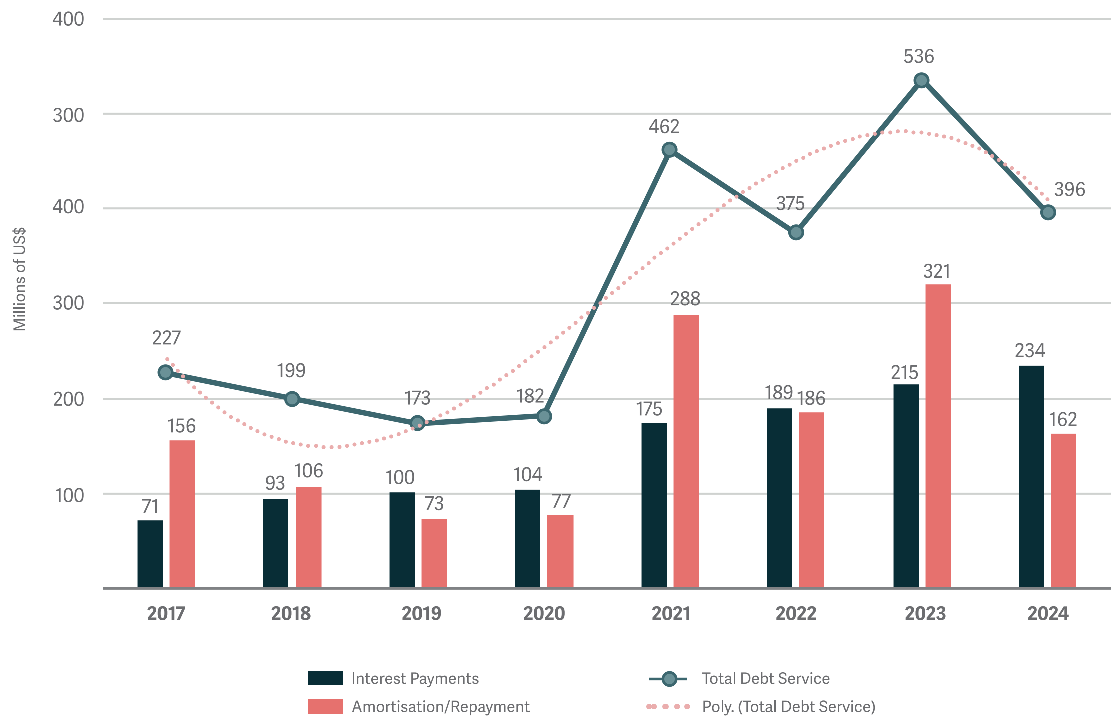
Figure 4: PPG debt in levels and as a percent of GDP



Source: Ministry of Finance (2020a; 2022a)

Another indicator relevant to assess debt sustainability is debt service cost (sum of debt repayment and interest cost) as a percent of revenue. Figure 5 presents the debt service cost of the government, including projections for the years 2022 to 2024. The trend of total debt servicing has been increasing from 2018 onwards. This is the effect of the government starting the servicing of debt taken on during the last few years. The large jump in debt repayment in 2021 reflects the repayment of part of the sovereign bond issued in 2017. The repayment was carried out with the proceeds of a Sukuk issued in 2021, as part of the Ministry of Finance's work on reducing the refinancing risks of government debt (Ministry of Finance, 2022d). However, the fact that debt service costs are expected to be a lot higher in 2023, a year without any large one-off repayments (at least none that are identified in publicly available data), relative to previous years indicate that debt service costs are on an upward trajectory. One of the reasons stated for a high outflow of debt repayments in the medium term according to the Ministry of Finance is that the debt they do no expect the continuation of the G-20 Debt Suspension Initiative going forward after 2022 (Ministry of Finance, 2022d). Furthermore, Figure 6 presents debt service costs as a percent of government revenue (excluding grants). Although this ratio was at an average of 16 percent over the period 2017 and 2020, it is expected to increase from 2021 onwards with the average debt service as a percent of revenue expected to be around 31 percent for the period of 2021 to 2024. This may be both owing to the Covid-19 related contraction in revenue in 2021 and also due to the one-off increase in debt service due to the bond repayment, that also fell on the year 2021. This high level of the ratio for 2022 and beyond reflects rising debt service costs over time at a rapid rate which offsets the positive effect of the anticipated growth in government revenue.

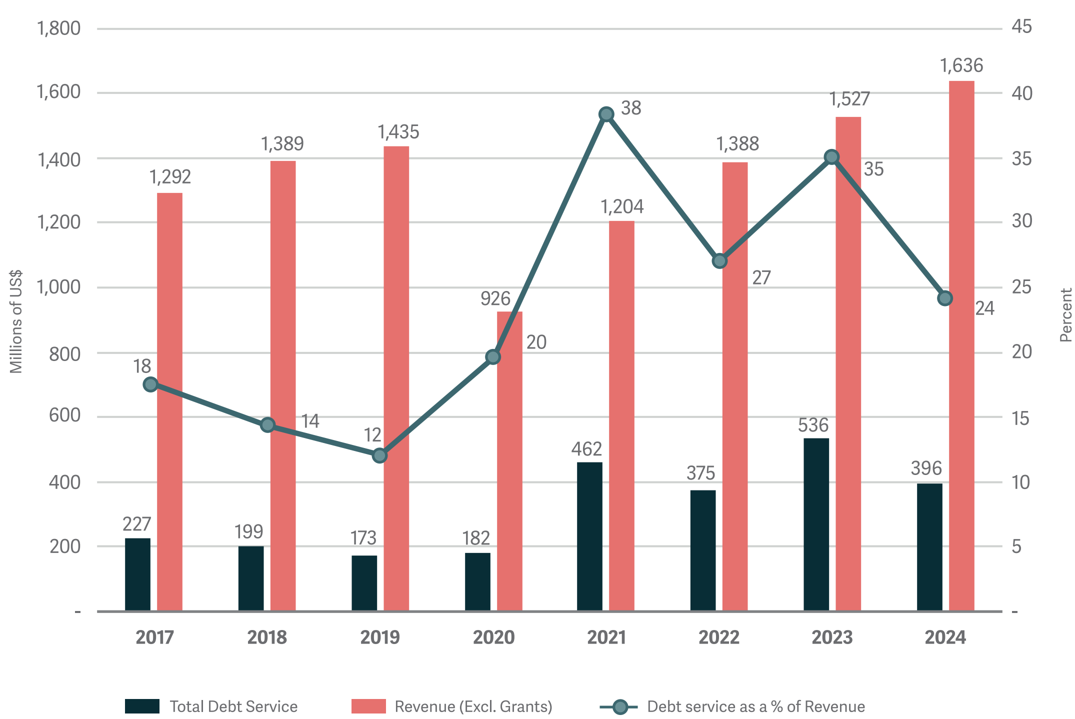
Figure 5: Debt service cost



*Estimates for 2021 and beyond. The trend line of total debt service is a 3rd order polynomial of best fit

Source: Ministry of Finance (2020a; 2022a)

Figure 6: Debt service as a percent of revenue



*Estimates for 2021 and beyond.

Source: Ministry of Finance (2022e)

The increase in debt service costs anticipated for 2023 is one reason why the risk of debt distress increases in the short run. The payment of US$535.7 million in one year will consume significant fiscal space and foreign currency reserves. On the fiscal front, US$27.0 out of every US$100.0 the government earns as revenue during 2022 will go towards debt servicing and this will increase to US$35.1 of every US$100 the government earns in 2023. According to the Ministry of Finance (2020d), the total expenditure on personal emoluments (salaries and allowances) during 2022 will amount to US$634.2 million, which is 46 percent of total revenue. Therefore, after debt servicing and paying salaries, only 27 percent of government revenue excluding grants will be remaining. In order to finance all the other spending of the government, a large financing requirement is anticipated. The estimates in the budget for 2022 includes sovereign bond issuances as one of the financing sources for the year. It is essential that these issuances go forward as planned, or expenditure reduced by the same amount, to avoid a scenario where the government is unable to meet its debt obligations. Furthermore, according to the Ministry of Finance (2020d), gross international reserves at the end of 2022 are expected to be at US$657.3 million[15]. As the foreign currency requirement of all foreign debt service payments of the government will be met out of reserves, making payments worth US$535.7 million during the following year will be challenging unless large inflows (such as the planned bond proceeds) are realized. Finally, should debt service costs keep increasing over time, especially as a percent of revenue, risks for debt sustainability over the medium term will increase as well even if the large debt obligations of 2022 are met.

Looking at the extent to which Chinese debt in the government's portfolio is expected to contribute to the increasing risks of debt distress, as mentioned before, a concrete, factually grounded answer cannot be given due to data limitations. The cost of Chinese debt relative to other debt holdings of the government is unknown, and neither is the repayment schedule of Chinese debt. However, what can be deduced is that with Chinese debt accounting for 53.0 percent of external PPG debt (end of 2019) and 26 percent of total PPG debt (end of 2021), the contribution of Chinese debt to the dynamics of how public debt is expected to evolve and the associated rising risks is unlikely to be insignificant.

The same goes for the rising reliance on Indian debt in the government debt portfolio. As it stands currently, by the end of 2021, total debt from Indian creditors including guaranteed debt amount to US$2,019.6 million (Ministry of Finance 2022b; 2022c), however this includes the US$400 million swap facility. Removing this and recalculating the figure bring the total Indian debt to 1,619.6 million, which is 26 percent of all public and publicly guaranteed debt (Ministry of Finance, 2022a). This represents the same proportion as Chinese debt.

Regardless of the creditor, it is very important to keep track of the performance of the projects that these funds are tied to as the future repayment obligations - be it that of the government or state-owned enterprises - is going to be significant.

It is often stated by the media and policymakers that the Maldives is in or could be heading towards a debt trap. A debt trap is a situation where a country takes on debt which it is unable to pay, and to avoid default, ends up taking on even more debt which exacerbates the problem. It is true that the risk of debt distress has been increasing for a number of years, and more so following the onset of the Covid-19 pandemic. It is also true that the government is expected to have to borrow more in the following few years, and particularly in 2022 because it has large debt repayments. However, the government is still able to meet its debt obligations without exceptional financing, debt restructuring or default. Also, while meeting debt repayment obligations is a factor in the rise in the government's financing requirement, a large part of this increase is driven by the large primary deficits[16] (overall deficit excluding interest payments) the government is running. Therefore, based on these, it cannot be concluded that the Maldives is in a debt trap, at least at present. Again, the degree to which debt from a specific creditor or creditors contributes to the risk of debt distress or the risk of going into a debt trap cannot be identified without access to more detailed breakdown on PPG debt, debt repayment schedules and the terms of the government's borrowings.

Data gaps and other issues

This section covers issues identified with the current publicly available datasets and also lists some of the information that may be useful to be brought into the public sphere that would be useful to conduct a more thorough analysis.

- PPG debt breakdown by creditor or residency of creditor.
- The detailed version of active loans of the government is currently only published in original currency. This adds ambiguity to the dataset as the applied exchange rate is not given and the public may need to rely on the various internet platforms to make their own calculations. This also makes the information less impactful to the laymen or the general public. The details of debt information may be more impactful

15 Estimates of gross international reserves for years beyond 2022 are not available publicly.

16 In the face of declining revenues, the government deficit has increased drastically due to high recurrent and capital expenses.

if it is published in a more relatable currency such as MVR or US dollars. It should be noted that the details of the active sovereign guarantees data is available in US dollars.

• Amortized value of all active loans and guarantees, by creditor country.

• Repaid amount of all active loans and guarantees, by creditor country.

• The terms of all active debt, with at least the interest rate, tenor and grace period (where applicable). This is very important to make analyses on specific creditors.

• It is noted that the government may not be in a position to share some of this information with the public due to confidentiality clauses in loan agreements.

• In the Maldives' Fiscal Transparency Debt service projections for at least a 10-year horizon or on a remaining maturity basis, with breakdowns for amortization and interest payments (aggregate and by creditor or creditor residency).

• Evaluation conducted by the International Monetary Fund (2021b) it is noted that the Maldivian authorities need to improve the analysis and disclosure of fiscal risks associated with the debt portfolio and specific risks associated with government guarantees. It is also recommended in the Fiscal Transparency Evaluation that the Maldivian authorities strengthen the management of guarantees by designing and enforcing more stringent risk mitigation measures. The International Monetary Fund also recommends improving the transparency of information available on financing of state-owned enterprises through more comprehensive reporting on risks and developing the analysis focused on individual companies. This is especially important because the government guarantees to state-owned enterprises exposes the government to significant levels of currency risks as most of the guaranteed debt is denominated in foreign currency (International Monetary Fund, 2021b) and the majority of the guarantees are issued to state-owned enterprises that do not necessarily have an inflow of foreign currency through their normal operations. Given that the Maldives' foreign reserves are very low, it is imperative to have a clear and accurate idea of the currency risks associated with government guarantees.

• Guaranteed debt of the SOEs and the private sector represents contingent liabilities of the government. Contingent liabilities are legal debt obligations that may fall on the government's shoulders under certain circumstances (International Monetary Fund, 1999) i.e. for example if an SOE with guaranteed debt is not able to comply with their repayment obligations Information on whether any guarantees by the government are being called upon (the government having to repay the loans due to the inability to pay by the original borrower) by SOEs or the private sector. This is of interest as unless the guarantees are called upon, they will only be contingent liabilities of the government which it does not have to bear the burden of repaying. However, if the original borrower does not or is unable to pay, the repayment burden will fall on the government. All debt service cost data presented in this paper are the amortization and interest cost of budgetary central government debt.

• Total public debt should include the debt of state-owned enterprises whether guaranteed (explicit contingent liabilities) or non-guaranteed (implicit contingent liabilities). Currently, the publicly available and easily comprehendible information is on guaranteed debt of state-owned enterprises only. Information on the non-guaranteed debt information is only available from financial statements of state-owned enterprises. Going through financial statements of individual companies (usually published in PDF format on the Auditor General's Offices' website) is tedious and time-consuming. Information of this nature, which is of public interest need to be compiled in a more easily accessible and presented in an easy-to-understand format to the general public.

• Information on whether any type of assistance from the government is currently required by SOEs or the private sector to facilitate payment of guaranteed debt, even if guarantees are not strictly called upon.

• Ensuring the accuracy of guaranteed debt information that is publicly available is crucial. For instance, it is noted that in the list of active guarantees as at end of 2021, the government still records the US$400 million swap facility given to the Maldives Monetary Authority from the Reserve Bank of India. However, it is also gathered from information available from the Maldives Monetary Authority that the duration of this short-term facility had expired, and the swap facility fully repaid by the end of 2021. This raises the question whether if this should be recorded as an "active" guarantee or not. If questions can be raised about the accuracy of data available for very recent occurrences such as this, then it also raises questions on the accuracy of historical data. Therefore, careful recording and publication of debt data is very important to maintain the trust in data given in the public domain.

• Given that the government external bond portfolio is growing, it may be useful and important to separate the securities data from that of the loans. The sovereign bond market is very different from that of the loans in terms of loan terms and condition, interest rate, and repayment schedules.

Conclusion

The stock of public debt in the Maldives began rapidly increasing from 2016 following a ramp up in the government's spending on infrastructure. The Covid-19 pandemic exacerbated the public finance and debt situation in 2020, as with revenues constrained and not much room to reduce expenditure, the government was forced to heavily borrow to meet its financing requirement. The rise in the debt stock in the face of a contracting economy, coupled with increasing debt service costs arising due to the rapid buildup of the debt stock over the past few years have led to an increase in the risk of debt distress for the Maldives. However, despite the high risk, the country is not yet in debt distress. The economy bounced back better-than-expected and revenue flow into the government started to improve in 2021 and is expected to reach pre-pandemic levels in 2022 and continue improve in the medium-term as tourism sector operations become normal.

A large proportion of this PPG debt was from Chinese creditors, and by 2021, total Chinese debt in PPG debt stood at US$1,596.8 million, which was 26 percent of total PPG debt. Regarding the degree to which Chinese debt in the government's portfolio has contributed to this increase in the risk of debt distress, it is not possible to arrive at a concrete answer based on the limited data and information in the public domain. However, with Chinese debt accounting for over a quarter of total PPG debt in 2021, it is unlikely that the contribution of Chinese debt in the government's portfolio is insignificant in the materialization of the current situation.

Indian debt is also on the rise, with debt from Indian creditors accounting for 26 percent of total PPG debt - the same proportion as the Chinese debt. The increase in Indian debt is a more recent development in the debt portfolio, with the current administration being able to mobilise or negotiate more financing from India, due to positive and close bilateral relationship with the Indian counterparts.

The debt portfolio of the government has increased significantly over time. The stock of active sovereign guarantees is also on the rise. Therefore, it is imperative that the government enforce careful and stringent measures on monitoring the performance of its loan portfolio and guaranteed loans and the projects tied to those financing. The terms and conditions of public debt is not available in the public domain, nor is the repayment schedules of loans or guarantees. Therefore, an educated or informed statement of debt burden posed from a specific creditor country cannot be made at the moment. It is important that this information be available to generate conversations and discussions scrutinizing the growing government debt portfolio.

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