Maldives Debt Levels Very High, But Country 'Not Yet' in Debt Distress, Finds New Think Tank Report

November 2, 2022, MALE: The Maldives' government's stock of public and publicly-guaranteed debt (PPG) is at an extremely high level and has increased significantly over the past few years, but the country is not yet in debt distress.

This is the finding of a comprehensive new report on the country's debt levels, published today by the Baani Centre for International Policy, a new Maldives-based think tank.

In the detailed study of Maldives' debt, the report states that:

> *"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 report goes onto warn that:

> *"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.*
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> *"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."*

Chinese vs Indian debt

The report, entitled 'An Overview of Public Debt in the Maldives', notes that a large proportion of Maldives' debt is owed to Chinese creditors. By 2021, debt to Chinese creditors stood at US$1,596 million, which was 26 percent of the total PPG debt.

Debts owed to India are 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 report notes a worrying increase in the Maldives' debt levels over time, and cautions the Government to *"enforce careful and stringent measures on monitoring the performance of its loan portfolio and guaranteed loans and the projects tied to those financing."*

The report also suggests that the Government release more information on its debts, especially regarding the terms and conditions of loans and the repayment schedule. This information would allow the general public to better understand the nation's debt liabilities to any particular country, and whether the Maldives is in danger of falling into a 'debt trap'.

The report says: *"It is important that this information be available to generate conversations and discussions scrutinizing the growing government debt portfolio."*

NOTES TO EDITORS:

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

The full report can be downloaded here.

The Baani Centre for International Policy is a think tank based in the Maldives that provides a perspective on international issues from the viewpoint of small island states. For more information on the Baani Centre for International Policy, please visit: www.baanicentre.org .

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