April 2005
IMF Country Report No.05/145

Maldives: Use of Fund Resources—Request for Emergency Assistance—Staff Report, Press Release on the Executive Board Discussion; and Statement by the Executive Director for Maldives

In the context of the Request for Emergency Assistance by Maldives, the following documents have been released and are included in this package:

- the staff report for the Use of Fund Resources—Request for Emergency Assistance, prepared by a staff team of the IMF, following discussions that ended on January 24, 2005, with the officials of Maldives on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 22, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during its March 4, 2005 discussion of the staff report that completed the review.

- a statement by the Executive Director for Maldives.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

MALDIVES

Use of Fund Resources—Request for Emergency Assistance

Prepared by the Asia and Pacific Department
(In consultation with other departments)

Approved by Daniel Citrin and Matthew Fisher

February 22, 2005

- **The end-2004 tsunami disaster had a severe impact on the Maldives**. Although loss of life was limited, there was extensive damage to housing and infrastructure, with virtually complete destruction on 14 islands.

- **The authorities have made a request for a purchase under the Fund's policy on emergency assistance for natural disasters on concessional terms** (see attached letter dated February 21, 2005). A staff team, comprising Messrs. Jarvis (Head), Chensavasdijai, and Zebregs (all APD), and Ms. Koliadina (PDR) held discussions in Male during January 16–24, 2005. The mission met with President Gayoom, Mr. Jaleel, Minister of Finance and Treasury and Governor of the Maldives Monetary Authority (MMA), and with other senior officials and private sector representatives. The First Deputy Managing Director and Mr. Burton visited Male on January 20.

- **The last Article IV consultation was concluded by the Executive Board on May 24, 2004**. At that time, Directors welcomed the strong rebound in growth and improved balance of payments position, and noted that inflation remained subdued. Directors also welcomed the buildup of foreign exchange reserves and the improvement in revenue which had made it possible for the government to avoid domestic financing of the deficit in 2003. However, Directors stressed that the Maldives remained vulnerable to external shocks due to its heavy reliance on tourism and fisheries.

- The Maldives no longer maintains restrictions under Article XIV, but continues to avail itself of that Article's transitional arrangements.

- This report is the product of a team effort led by Christopher Jarvis.

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EXECUTIVE SUMMARY

- **The tsunami of December 26, 2004 had a devastating effect on the Maldives.** Although loss of life was limited, there was extensive damage to housing and infrastructure, and about 5 percent of the population have lost their homes. Preliminary assessments place the costs of replacing damaged infrastructure at about $400 million (almost 50 percent of GDP).

- **Before the tsunami hit, prospects for 2005 were bright.** Growth was expected to be around 6½ percent, the fiscal deficit was modest, reserves were increasing, and progress was being made in structural reforms.

- **The tsunami will adversely affect GDP and the external and fiscal positions.** GDP growth is projected to fall to about 1 percent, mostly because of damage to the tourism sector. Net losses to the balance of payments are estimated at about $160 million. Reconstruction costs to the budget are estimated at about 13 percent of GDP in 2005, with additional revenue losses to the budget—mostly from lower tourism taxes—of about 5 percent of GDP.

- **The Maldives needs balance of payments and budget support from donors.** Support from donors amounting to about $67 million is expected to be disbursed in 2005. However, another $91 million would be needed to fully cover the 2005 balance of payments costs of the tsunami.

- **The government is prepared to take a number of measures to protect the fiscal and reserves positions.** These include refraining from granting waivers of import duties for reconstruction of tourist resorts, reallocation of previously planned capital expenditure to reconstruction needs, and reductions in nonwage current expenditure from budgeted levels.

- **The authorities have requested a purchase of an amount equivalent to SDR 4.1 million (50 percent of quota) under the Fund's policy on emergency assistance related to natural disasters.** In line with Fund policy on emergency natural disaster assistance for PRGF-eligible countries, the authorities have requested the provision of subsidies to reduce the rate of charge on these resources. Staff supports these requests given the exceptional severity of the tsunami's economic impact and the magnitude of the external financing requirement, the authorities' record of sound macroeconomic management and good cooperation with the Fund, and the strong measures the authorities are taking.

I. Background

1. **The tsunami of December 26, 2004 had a devastating effect on the Maldives.** Although loss of life was limited, there was extensive damage to housing and infrastructure, with virtually complete destruction on 14 out of about 200 inhabited islands, leading to the abandonment of some of them. Some 5 percent of the population have lost their homes, one-quarter of tourist resorts are closed, and 8 percent of fishing boats were damaged. Tourism and fisheries account for 40 percent of GDP, one-third of employment, and generate most of Maldives' foreign exchange earnings.

2. **The economy will be profoundly affected by the loss of income from tourism and fisheries, and large reconstruction costs will fall on the budget.** Staff estimates that GDP growth in 2005 will be 5 percentage points lower (Table 1), although this estimate is subject to considerable uncertainty. Net losses to the balance of payments are estimated at about \$160 million (19 percent of GDP) (Table 2). The authorities and a World Bank, Asian Development Bank (AsDB) and United Nations joint team estimate the cost of replacing damaged infrastructure at about \$400 million (almost 50 percent of GDP). Most of the cost of repairing damaged tourism facilities (\$100 million) will be covered by insurance, but the burden of reconstruction of housing and essential infrastructure will fall largely on the budget. The cost to the budget is estimated at about \$110 million (13 percent of GDP) in 2005. Revenue losses to the budget—mostly from lower tourism taxes—will amount to about 5 percent of GDP (Table 3).

Costs of Reconstruction 1/
(In millions of U.S. dollars)

Sector	Needs for Next Six Months	Medium-term Needs	Total Costs
Education	8.4	12.7	21.1
Health	4.9	7.3	12.2
Housing	22.2	51.8	74.0
Water and sanitation	18.4	27.2	45.6
Other costs for new host islands	5.0	10.0	15.0
Fisheries	5.8	8.3	14.1
Agriculture	4.8	6.3	11.1
Transport	2.0	22.9	24.9
Power	1.9	2.8	4.6
Livelihoods	17.4	0.0	17.4
Environment	3.7	6.1	9.8
Disaster Risk Management	0.7	3.7	4.4
Administration etc.	15.0	35.0	50.0
Total	110.1	194.0	304.2

Source: World Bank-Asian Development Bank-UN System Joint Needs Assessment, February 8, 2005.
1/ Costs of reconstruction of tourist resorts (estimated at around \$100 million) and some transport costs are excluded, as most of them will be covered by insurance payments.

3. **In the attached letter to the Managing Director dated February 21, 2005, the authorities request a purchase of an amount equivalent to SDR 4.1 million (50 percent of quota) under the Fund's policy for emergency assistance related to natural disasters.** This purchase would lessen the fall in reserves that would otherwise ensue as a result of lower revenue from tourism in the wake of the disaster and of higher imports for reconstruction. The letter sets out the authorities' policy responses to the tsunami, and their macroeconomic priorities for the period ahead. In line with Fund policy on emergency natural disaster assistance for PRGF-eligible countries, the authorities have requested the provision of subsidies to reduce the rate of charge down to 0.5 percent per annum on these resources, subject to the availability of subsidy resources.[1]

II. Recent Economic Developments

4. **Economic performance in the Maldives has been strong in recent years.** Real GDP growth has averaged 8 percent annually over the past three years, driven mainly by tourism and fisheries (Figure 1). Inflation, which had been flat and falling for some years, picked up sharply in 2004, mostly due to higher prices of fish and other locally produced food products. Credit to the private sector grew by almost 60 percent, in part reflecting new lending for investment by tourist resorts. As a result, broad money increased by 33 percent in 2004, notwithstanding the government's avoidance of domestic financing of the deficit (Table 4). Just a few days before the tsunami, the United Nations decided to graduate the Maldives from least developed countries (LDC) status.

5. **Current expenditure has continued to rise as a share of GDP, but the fiscal deficit has fallen for two consecutive years and domestic financing has been avoided.** Current spending increased significantly in 2004, mainly reflecting a nearly 40 percent increase in civil servants' salaries beginning in September 2004, the first such hike in five years. However, this was offset by lower capital expenditure and higher revenue, as rapid expansion in the tourism sector boosted import duties and tourism taxes. In addition, the authorities took an important revenue measure in November 2004, increasing the "bed tax" (a per capita tax on tourists), which was last raised in 1988. The overall deficit fell to 2.8 percent of GDP in 2004, and was entirely financed by external borrowing, mostly on concessional terms.

6. **The current account deficit widened significantly in 2004, but reserves increased.** The current account recorded a deficit of 12 percent of GDP, reflecting a sharp acceleration of imports for consumption and investment, especially by tourist resorts, and higher oil prices, which more than offset the strong growth in export earnings from tourism and fisheries. Increased private capital inflows allowed the authorities to accumulate reserves to the equivalent of 3½ months of imports. External debt has been increasing in dollar terms,

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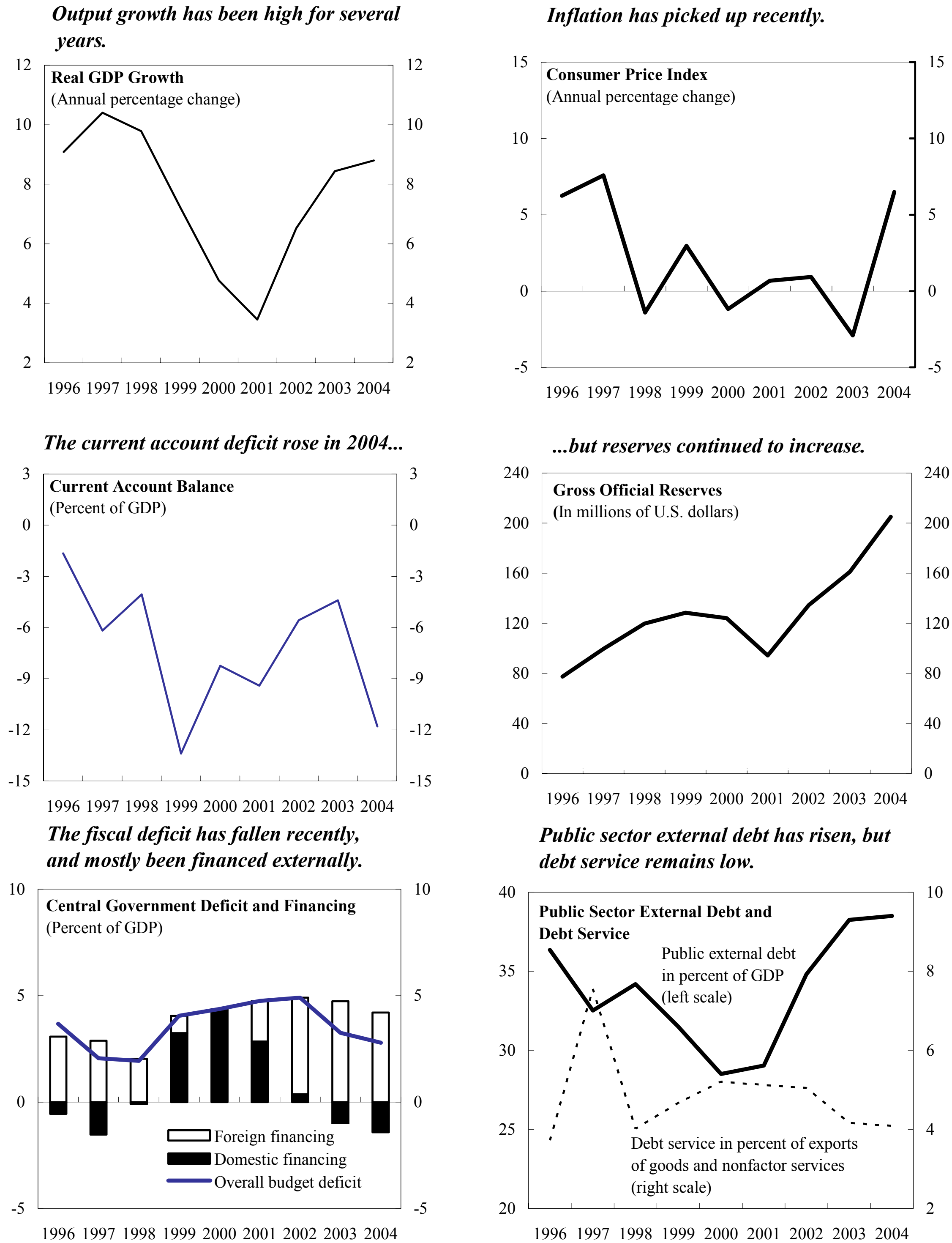
[1] The Maldives is an IDA- and PRGF-eligible country notwithstanding its relatively high per capita income ($2,423), because it is a small island economy and is vulnerable to shocks.

Figure 1. Maldives : Economic Indicators, 1996-2004



Sources: Data provided by the Maldivian authorities; and Fund staff estimates.

but remains at 42 percent of GDP. The bulk of this is owed by the public sector. Some 70 percent of debt is on concessional terms, though commercial debt has risen in recent years.

7. **The authorities have been making progress in structural reforms.** In March 2004, parliament amended the Land Act, removing uncertainties regarding the use of land as collateral.[2] In September, regulations on the insurance industry were put into force. In October, the authorities decided to amend the Maldives Monetary Authority (MMA) Act, along the lines proposed by the Fund, to separate the functions of Minister of Finance and Governor of the MMA, and, in a second stage of reform, to set legal limits on borrowing by the government from the MMA. The authorities have established a financial intelligence unit within the central bank and plan to develop a legislative and supervisory AML/CFT framework with Fund assistance. Other key financial sector legislation, including the Banking Act and the Securities Act and bills related to public finance, is under preparation.

III. Effects of the Tsunami

8. **Before the tsunami hit, prospects for 2005 were bright.** Growth was expected to be around 6½ percent, reflecting continued increases in tourist arrivals and in the fish catch following the partial privatization of the fisheries industry. Higher revenue arising from the buoyant economy and several revenue measures would have permitted the government to finance its expenditure plans with only minimal recourse to domestic financing.[3] The government was targeting an increase in reserves over the medium term, mindful of the vulnerabilities implied by the Maldives' heavy dependence on tourism.

9. **The tsunami will sharply reduce GDP growth, mostly because of damage to tourism.** The tourist sector has been hard hit with 20 out of 87 resorts temporarily closed and occupancy rates of 30–40 percent in the remaining resorts in January, a month in which resorts operated at full capacity in 2004. The authorities project that most affected resorts will be back in operation by mid-2005 and that occupancy rates will return to normal by the end of the year, but this would still leave tourism revenues 26 percent lower than in 2004. The expansion of the fisheries sector, which accounts for the bulk of merchandise exports, is

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[2] The original Land Act, passed in mid-2003, limited the rights of creditors to sell foreclosed land, and caused a virtual halt in new lending for a period. The amendment produced a brisk turnaround in bank lending, and partly accounts for the significant increase in private sector credit in 2004.

[3] In addition to the public sector wage increase, the 2005 budget included plans for the creation of a civilian police force separate from the National Security Service, new teachers for schools in the atolls, and increased development expenditure. The 2005 budget also included plans for collection of arrears in resort lease payments and increased fees for education and health services to the atolls.

expected to be temporarily halted by damage to fishing vessels and fish processing facilities. Sectors that supply goods and services to the tourism industry will also be adversely affected. However, the construction and transportation sectors will benefit from reconstruction activity. Taking these factors together, the staff projects that growth will be about 1 percent in 2005. Reflecting the weakening activity and the large weight of imports in the consumption basket, the staff projects only a modest increase in the CPI (3 percent during 2005). However, a temporary increase in prices is likely in certain sectors (e.g., construction goods and transportation services) reflecting supply constraints.

10. **Additional spending needs and revenue shortfalls will cause a sharp increase in the fiscal deficit**. As noted above, it is estimated that $110 million in disaster relief and reconstruction costs (13 percent of GDP) will need to be borne by the government in 2005. Lower tourist arrivals will reduce tax revenue, and there will also be some losses in nontax revenue.[4] New grants from donors will cover part of the deficit, but it will still increase significantly.

11. **The adverse impact on the balance of payments will also be substantial.** The current account deficit is expected to widen to 25 percent of GDP in 2005, mainly reflecting the steep drop in tourism receipts, as well as higher imports of intermediate and capital goods associated with reconstruction efforts. While this will be partly offset by lower tourist-related imports, a substantial financing gap will ensue.

Impact of the Tsunami on the 2005 Budget 1/
(Changes from 2005 Budget,
in percent of 2005 post-tsunami GDP)

Total revenue and grants	2.3
Total revenue	-4.7
Current revenue	-4.7
Tax revenue	-2.7
Nontax revenue	-2.0
Capital revenue	0.0
Grants	7.0
Expenditure and net lending	13.8
Current expenditure	2.6
Capital expenditure	11.2
Overall balance	-11.5
Overall balance, excluding grants	-18.5

1/ Changes in percent of GDP are not the same as the differences between the pre-tsunami and post-tsunami figures in Table 3 because post-tsunami GDP in 2005 is lower than pre-tsunami GDP.

[4] It is no longer feasible to increase fees for education and health services in 2005, given the damage to the atolls, and while the authorities will still seek payments of arrears on leases, their ability to collect them will depend on recovery in tourist arrivals in the resorts concerned.

Effects of Tsunami on the Balance of Payments in 2005
(In millions of U.S. dollars)

Negative effects	347
Reduction in nonfactor services (mostly tourism receipts)	170
Reduction in exports	25
Additional post-tsunami imports for the reconstruction of resorts	80
Imports related to post-tsunami public sector reconstruction	72
Offsetting positive effects	190
Insurance payments to resorts	80
Decline in consumer goods imports due to decline in tourism	55
Reduction in outward profit transfers by resorts	10
Reduction in outward workers' remittances	10
Reduction in imports due to lower GDP growth	35
Overall balance	-157
Identified reconstruction-related financing	67
Grants	57
Loans	10
Remaining balance of payments need	91

IV. The Authorities' Response and the Need for Assistance

12. **The authorities have reacted quickly and competently to the disaster.** The government immediately established a structure for information sharing and decision making between concerned agencies, centered around a Disaster Management Center. The National Security Service was deployed to provide essential supplies, especially water and food, to the worst-affected islands. Within days, communications had been re-established and electricity made available to almost all islands. Tents were provided to thousands of displaced persons and by mid-January most had been placed in temporary shelters or with host families. Cash payments for basic needs were made to those who had lost their livelihood or homes. The government has worked closely with the World Bank, AsDB and United Nations to assess recovery needs and has begun to address them. The establishment of the Tsunami Relief and Reconstruction Fund, whose board includes private and government sector members and a UN representative, will improve transparency and accountability in the use of donor funds. For its longer-term development strategy, the government has reinforced its policy of voluntary population movements to less vulnerable islands, and has proposed a new plan for the creation of "safe islands," in order to increase economies of scale in the provision of public services and to provide better protection against rising sea levels (Box 1).

Box 1. Issues in Reconstruction Following the Tsunami

Maldives is an island chain in the Indian Ocean with a population of about 300,000. The archipelago extends over 900 kilometers from north to south and is made up of 26 geographical atolls that are organized into 20 administrative atolls. Maldives counts 1,190 islands of which 197 are now inhabited. Because of the size of the islands—only 33 have a land area of more than one square kilometer—the populations of the inhabited islands are very small. One-third of the inhabited islands have a population of less than 500 and 70 percent has a population of less than 1,000. This exceptionally wide dispersion of its people makes Maldives unique, even among other archipelagos.

As with other small island states, the geography of Maldives severely limits the scope for generating economies of scale and increases the costs of reconstruction. Regardless of population size, all the inhabited islands need their own water and power supply, sanitation facilities, health service providers, and schools. But the remoteness of the islands and the wide dispersion of the population make it more expensive to supply basic infrastructure and, hence, raise the cost of development. The characteristics of the Maldivian economy also push up the needed funds for reconstruction in the aftermath of the tsunami, as unit costs are higher than in other affected countries.

The Maldivian authorities are considering options to increase the safety of the population and create more economies of scale. As part of the "safe islands" project, the authorities are developing plans to encourage inhabitants of smaller islands to relocate voluntarily in larger islands, which would provide better infrastructure, improve access to schools and health care facilities, and offer better protection against the sea.

Flexible labor arrangements will give Maldives some advantages in organizing reconstruction following the tsunami. Use of imported labor is common, especially in construction, and the absence of specialization in the smaller islands has led to a flexible labor force which can be deployed in, for example, both fishing and basic construction. Similarly, workers in tourist resorts often possess skills that could speed up rehabilitation of damaged resorts, and limit interruption of employment.

13. **Maldives urgently needs balance of payments and budget support from donors.** Support from the World Bank, AsDB, UN agencies, Japan, and other donors amounting to about $67 million is expected to be disbursed in 2005 (Box 2).[5] However, another $91 million could be needed to fully cover the balance of payments costs of the tsunami, and the authorities are requesting the international community to cover this gap through grants or highly concessional loans. To this end, the World Bank and AsDB are coordinating to seek donor support, especially during the first half of 2005, when pressure on reserves arising from the shortfall in tourist revenue will be most intense.

14. **For their part, the authorities are prepared to adapt their policies to protect the fiscal and reserves positions while maintaining the peg to the U.S. dollar.** The exchange rate peg continues to serve the Maldives well, and the level of the real effective exchange rate appears appropriate in view of the temporary nature of the shock. However, the authorities intend to monitor private sector credit developments to make sure that inflation remains under control and that competitiveness is protected. In addition, the authorities have already announced their intention to take a number of fiscal measures. These include refraining from granting waivers of import duties for reconstruction of tourist resorts, reallocating capital expenditure to reconstruction needs by deferring all capital projects in the domestic public sector investment program on which work has not already begun, limiting manpower increases, refraining from any further wage increase, and reducing budget allocations for nonwage current expenditure unrelated to disaster relief or reconstruction. In aggregate, the measures could produce savings for the budget amounting to about 5 percent of GDP, and would reduce import demand, thus protecting the reserves position. Nevertheless, given the scale of the problem and the undesirability of imposing a further burden on the people of the Maldives arising from fiscal adjustment, it would be desirable for the financing gap to be closed fully through additional foreign financing.

15. **With donor support, the authorities should be able to maintain macroeconomic stability despite the economic damage wrought by the tsunami**. Maldives could avoid domestic financing of the budget deficit and a loss of foreign exchange reserves. Inflation would remain under control, growth could resume after a substantial first quarter shock, and disaster relief and reconstruction could proceed without delay. If sufficient support were not forthcoming, the significant fiscal measures that the authorities have proposed would help to preserve macroeconomic stability; even so there would likely be substantial costs in terms of lower reserves, increased vulnerability, and delays in the spending needed to house the homeless and restore essential infrastructure.

16. **Maldives' medium-term prospects remain favorable.** By the end of 2005, all of the damaged tourist resorts are expected to be back in operation, and tourist arrivals to be back to normal, allowing a return of exports of goods and services to pre-tsunami levels by 2006.

[5] Based on commitments identified at February 7, 2005. Maldives will not be requesting a standstill on debt service to Paris Club creditors, as its eligible debt service is minimal.

Box 2. External Financing of Post-Tsunami Humanitarian Relief and Reconstruction Needs

Bilateral donors and multilateral institutions have so far pledged $88 million in the tsunami relief to the Maldives, of which almost $75 million is expected to be in grants. Most of the assistance will be extended by Japan, the Asian Development Bank (AsDB), and the World Bank, or mobilized by the United Nations. All tsunami-related lending is offered on concessional terms. This box provides a brief summary of commitments by major donors.

The **United Nations** agencies have mobilized some $25½ million in grants for financing urgent humanitarian and reconstruction needs, out of $66½ million they have been seeking for the Maldives. A significant part of this financing has to be used during the first six months after the tsunami, although it is expected that some donors would waive this requirement.

The **AsDB** would provide tsunami-related assistance in the amount of $23 million, of which $20 million is a grant, and the balance would be a concessional loan. About one-third of the grant is expected to be used for budget support. The tsunami assistance is expected to be delivered in 2005–06, with about $10 million to be disbursed in 2005.

The **World Bank** financing of the Post-Tsunami Recovery and Reconstruction project would amount to $14 million, of which $12 million would be reallocated from existing projects. It is expected that 40 percent of the project will be financed with a grant, and the balance will be a loan on normal IDA terms.

Japan has provided $24 million in grants for emergency tsunami relief.[1]

The staff estimates that an additional $91 million would be required to fully offset the balance of payments costs of the tsunami to the Maldives in 2005. Significant additional support will also be required to cover reconstruction costs in 2006 and 2007. The World Bank and AsDB are mobilizing additional financing for these purposes.

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[1] $4 million is a grant extended by the government of Japan to the UNDP for the restoration of critical infrastructure.

Reconstruction of housing and infrastructure will take longer, and will require continued external financing at least through 2007 (Table 5). However, so long as this is on appropriate terms—a mixture of grants and concessional loans—Maldives' external debt will remain sustainable and debt service low.

V. Access and Capacity to Repay

17. **The authorities have requested a purchase of an amount equivalent to SDR 4.1 million (50 percent of quota) in order to help cover the immediate financing need caused by the tsunami**. While this would be higher than the standard limit of 25 percent of quota under the Fund's policy on emergency assistance, staff supports the request, given the exceptional severity of the tsunami's economic impact and the magnitude of the external financing requirement, which in the absence of immediate assistance could result in a serious depletion of foreign exchange reserves. A drawing equivalent to 50 percent of quota is relatively small in proportion to the balance of payments impact of the tsunami, and the proposed access would allow the authorities to limit the anticipated temporary decline in reserves in the first half of 2005. The Maldives has no credit outstanding from the Fund and the authorities have a record of sound macroeconomic management and good cooperation with the Fund. Recommendations made by the Board during the recent Article IV consultation discussions—notably on reducing government borrowing from the MMA—have broadly been followed. The authorities' willingness to take fiscal measures if needed to protect their reserves position also gives confidence in their commitment to macroeconomic stability. Because the policy framework is strong and the balance of payments need temporary, a PRGF arrangement would not be appropriate in this case. The urgency of the need for assistance also argues in favor of support through the emergency assistance policy.

18. **It is expected that Maldives will be able to discharge its obligations to the Fund in a timely manner.** Most of the Maldives' external public sector debt is on concessional terms. It has an impeccable record in servicing its public debt. Prospects for the medium term are good. So long as donor support is sufficient to close the financing gap, gross international reserves are expected to decline only marginally to 3.2 months of imports by end-2005, compared with 3.6 months of imports at end-2004, and the proposed purchase would amount to only 3 percent of the current stock of reserves. Debt service is projected to be less than 5 percent of exports of goods and services, and debt service payments to the Fund are projected to be at or below 1 percent of gross official reserves throughout the repayment period (Table 6).

VI. Staff Appraisal

19. **Damage to the Maldives' economy was more extensive than in any other country affected by the tsunami.** Loss of life in the Maldives was thankfully limited, but almost the entire population of the country felt the effects of the disaster. Thousands of families were rendered homeless by the disaster, and since most were among the poorest people, whose houses are not covered by insurance, the burden of reconstruction of housing will fall largely on the government. The massive, country-wide damage to housing and infrastructure

combined with the Maldives' heavy dependence on tourism have left the country exposed to a major economic downturn and to large fiscal and balance of payments losses.

20. **The tsunami came at a time when the Maldives was doing well.** Years of growth in tourism and fisheries, supported by sound macroeconomic policies, had raised living standards to the point where days before the tsunami the United Nations decided to graduate Maldives from LDC status. The budget was sufficiently strong to allow the government to award a substantial salary increase to civil servants (albeit the first in five years) and to plan increased spending on a civilian police force, education, and housing development while keeping the budget deficit in check. Official reserves—correctly regarded by the authorities as an essential buffer against the vulnerabilities implied by their economic specialization—were slowly increasing. Progress was being made in structural reforms.

21. **The government has taken timely actions to mitigate the immediate impact of the tsunami on its people and on the economy.** The authorities' swift and well-organized reaction to the tsunami has won widespread praise. They have collaborated with the international community in a needs assessment which is thorough and comprehensive, and have set up mechanisms for spending which are transparent and accountable. In view of the need to preserve external reserves, they are prepared to consider fiscal adjustment measures and to play their part in recovering from the disaster.

22. **However, it is clear that further support from donors is needed to help the Maldives get through its crisis.** The reconstruction needs are immense, and the authorities also need balance of payments and budget support to deal with the costs arising from the temporary decline in tourism following the tsunami. The efforts of the World Bank and the AsDB to mobilize financial assistance thus deserve support. With strong support from donors, preferably through grants or concessional loans, the Maldives government can preserve economic stability and move quickly to house the homeless and restore infrastructure.

23. **The staff supports the Maldives' request for a purchase under the Fund's policy on emergency assistance for natural disasters.** The purchase will facilitate essential imports and will help limit the depletion of reserves during the first difficult months of the crisis. Access in an amount equivalent to SDR 4.1 million (50 percent of quota), while larger than the standard limit of 25 percent of quota, is justified in this case given the exceptionally large impacts of the tsunami on the balance of payments and the strong efforts the authorities are making to mitigate the impact of the disaster on their economy. The staff also supports the authorities' request for emergency assistance and the provision of subsidies to reduce the rate of charge on these resources to concessional terms, subject to the availability of subsidy resources. It welcomes the authorities' commitment to cooperate closely with the Fund in dealing with the macroeconomic effects of the crisis, a commitment which has been evidenced by the productive dialogue between the Fund and the authorities in the recent Article IV consultation and over the last two months.

Table 1. Maldives: Selected Economic Indicators, 2000–2005

Population (2003):	285,066
Nominal GDP (in millions of U.S. dollars, 2003):	690.8
GDP per capita (in U.S. dollars, 2003):	2,423
Quota (in millions of SDRs):	8.2

	2000	2001	2002	2003	2004	2005	
						Pre-tsunami	Post-tsunami 1/
					Est.	Proj.	
			(Annual percentage change)				
Growth and prices							
Real GDP	4.8	3.5	6.5	8.4	8.8	6.5	1.0
Consumer prices (period average)	-1.2	0.7	0.9	-2.9	6.4	7.8	6.8
Consumer prices (end period)	...	...	-5.0	-1.5	10.6	5.0	3.0
			(Percent of GDP)				
Central government							
Revenue and grants	32.3	33.0	33.1	34.9	35.2	38.0	42.5
Of which: Grants	2.3	2.8	1.6	1.4	0.8	0.9	7.9
Expenditure and net lending	36.7	37.7	38.0	38.2	38.0	42.0	57.6
Of which: Capital spending	11.8	12.3	12.5	13.6	11.4	11.5	23.2
Overall balance	-4.4	-4.7	-4.9	-3.3	-2.8	-4.0	-15.1
Overall balance, excluding grants	-6.6	-7.5	-6.5	-4.6	-3.6	-4.9	-23.0
Financing							
Domestic	4.3	2.8	0.4	-1.5	-1.4	1.3	0.0
Foreign	0.0	1.9	4.5	4.7	4.2	2.8	4.1
Additional external financing requirement	--	--	--	--	--	--	11.0
			(Annual percentage change)				
Money and credit							
Domestic credit	14.5	19.4	11.7	-5.8	31.7	16.4	5.7
Public sector	23.3	7.0	6.5	-25.5	-26.0	22.1	3.2
Central government (net)	30.9	8.4	5.1	-19.6	-45.2	27.9	-0.2
Private sector	8.0	29.9	15.3	6.8	57.3	15.3	6.2
Broad money	4.1	9.0	19.3	14.6	32.6	11.8	4.0
			(In millions of U.S. dollars)				
Balance of payments							
Exports, including reexports	108.7	110.1	132.3	151.9	172.7	156.1	131.4
Imports	-342.0	-346.3	-344.7	-414.3	-541.5	-568.4	-630.1
Nonfactor services (net)	238.8	244.2	251.7	311.1	375.5	405.2	234.8
Current account balance	-51.5	-58.8	-35.7	-31.9	-89.2	-105.3	-207.4
(In percent of GDP)	-8.2	-9.4	-5.6	-4.6	-11.8	-12.2	-25.1
Official capital (net)	-1.9	7.8	26.8	33.8	27.2	21.0	31.1
Private capital (net)	25.6	24.3	33.9	56.8	71.6	85.0	85.0
Errors and omissions (net)	19.9	5.2	14.9	15.5	50.3	0.0	0.0
Overall balance	-7.9	-21.4	39.8	74.3	59.9	0.7	-91.3
Financing							
Change in MMA reserves	4.4	29.7	-40.2	-26.5	-44.1	-0.7	0.0
Change in commercial banks' NFA	3.5	-8.3	0.4	-47.8	-15.8	0.0	0.0
Additional external financing requirement	--	--	--	--	--	--	91.3
Gross official reserves (year-end)	124.1	94.3	134.6	161.0	205.1	205.8	205.1
(In months of imports of GNFS) 2/	3.3	2.5	3.5	3.6	3.6	3.5	3.2
(In percent of short-term external debt)	252.2	209.3	252.5	435.0	430.3	379.9	392.0
External debt 3/							
(In millions of U.S. dollars)	211.6	209.8	259.0	289.5	316.6	341.6	395.5
(In percent of GDP)	33.9	33.6	40.4	41.9	42.0	39.5	47.8
Of which: Public	28.5	29.0	34.8	39.5	38.5	36.0	44.3
Debt service	22.1	22.0	22.9	22.7	26.1	27.6	28.0
(In percent of domestic exports of GNFS) 4/	5.2	5.1	5.0	4.2	4.1	4.2	5.9
Exchange rate							
Rufiyaa per U.S. dollar (period average)	11.8	12.2	12.8	12.8	12.8	12.8	12.8
NEER (percent change)	6.7	0.8	-6.4	-9.4	-5.4	...	...
REER (percent change)	3.4	-0.6	-6.6	-14.5	-1.5	...	...
Memorandum item:							
Nominal GDP (in millions of rufiyaa)	7,348.4	7,650.8	8,201.0	8,842.0	9,639.2	11,066.5	10,592.3

Sources: Data provided by the Maldivian authorities; and Fund staff estimates and projections.

1/ Excludes effects of fiscal measures proposed by the authorities.
2/ GNFS = Goods and nonfactor services.
3/ Includes additional external financing, assuming equal proportions of grants and loans.
4/ Domestic exports are defined as merchandise exports net of reexports.

Table 2. Maldives: Balance of Payments, 2000–2005

	2000	2001	2002	2003	2004	2005	
						Pre-tsunami	Post-tsunami 1/
					Est.	Proj.	
	(In millions of U.S. dollars)						
Current account balance	-51.5	-58.8	-35.7	-31.9	-89.2	-105.3	-207.4
Trade balance	-233.3	-236.1	-212.4	-262.4	-368.8	-412.3	-498.7
Exports, f.o.b (including reexports)	108.7	110.1	132.3	151.9	172.7	156.1	131.4
Imports, f.o.b	-342.0	-346.3	-344.7	-414.3	-541.5	-568.4	-630.1
Services (net)	208.8	207.0	216.3	272.7	332.7	360.7	200.3
Balance on nonfactor services	238.8	244.2	251.7	311.1	375.5	405.2	234.8
Receipts	348.5	354.1	362.9	432.1	514.5	551.1	380.7
Of which: Tourism receipts	320.7	327.1	337.1	401.6	478.5	512.6	354.1
Payments	-109.7	-109.8	-111.1	-121.0	-139.0	-146.0	-146.0
Balance on factor services	-30.0	-37.2	-35.4	-38.4	-42.8	-44.5	-34.5
Receipts	10.3	8.2	5.6	6.2	6.9	7.7	7.7
Payments	-40.3	-45.4	-41.1	-44.6	-49.7	-52.2	-42.2
Unrequited transfers (net)	-27.0	-29.7	-39.6	-42.3	-53.1	-53.6	91.0
Official	19.3	19.9	10.6	12.7	6.9	7.4	64.0
Private	-46.2	-49.6	-50.2	-54.9	-60.0	-61.0	27.0
Nonmonetary capital (net)	43.5	37.3	75.5	106.1	149.1	106.0	116.1
Official medium- and long-term	-1.9	7.8	26.8	33.8	27.2	21.0	31.1
Disbursements	12.4	23.4	43.5	51.1	47.6	42.0	52.1
Amortization	-14.3	-15.6	-16.7	-17.4	-20.4	-21.0	-21.0
Private capital	25.6	24.3	33.9	56.8	71.6	85.0	85.0
Net errors and omissions	19.9	5.2	14.9	15.5	50.3	0.0	0.0
Overall balance	-7.9	-21.4	39.8	74.3	59.9	0.7	-91.3
Monetary movements	7.9	21.4	-39.8	-74.3	-59.9	-0.7	91.3
Maldives Monetary Authority	4.4	29.7	-40.2	-26.5	-44.1	-0.7	0.0
Commercial banks	3.5	-8.3	0.4	-47.8	-15.8	0.0	0.0
Additional external financing requirement	--	--	--	--	--	--	91.3
Memorandum items:							
Domestic export growth (value, in percent) 2/	19.1	0.3	18.7	24.4	8.8	-18.3	-25.2
Import growth (value, in percent)	-3.4	1.3	-0.4	20.2	30.7	5.0	16.4
Tourism receipts growth (in percent)	2.3	2.0	3.0	19.1	19.2	7.1	-26.0
Current account balance (in percent of GDP)	-8.2	-9.4	-5.6	-4.6	-11.8	-12.2	-25.1
Gross official reserves (in millions of U.S. dollars)	124.1	94.3	134.6	161.0	205.1	205.8	205.1
(In months of imports of GNFS) 3/	3.3	2.5	3.5	3.6	3.6	3.5	3.2
(In percent of short-term external debt, residual maturity)	252.2	209.3	252.5	435.0	430.3	379.9	392.0
External debt (in millions of U.S. dollars) 4/	211.6	209.8	259.0	289.5	316.6	341.6	395.5
External debt (in percent of GDP) 4/	33.9	33.6	40.4	41.9	42.0	39.5	47.8
Debt service (in millions of U.S. dollars)	22.1	22.0	22.9	22.7	26.1	27.6	28.0
Debt service (in percent of domestic exports of GNFS) 2/	5.2	5.1	5.0	4.2	4.1	4.2	5.9
Exchange rate (rufiyaa per U.S. dollar, average)	11.8	12.2	12.8	12.8	12.8	12.8	12.8
GDP (in millions of U.S. dollars)	624.3	625.0	640.7	690.8	753.1	864.6	827.5

Sources: Data provided by the Maldivian authorities; and Fund staff estimates and projections.

1/ Excludes effects of fiscal measures proposed by the authorities.
2/ Domestic exports are defined as merchandise exports net of reexports.
3/ GNFS = Goods and nonfactor services.
4/ Includes additional external financing, assuming equal proportions of grants and loans.

Table 3. Maldives: Central Government Finance, 2000–2005

	2000	2001	2002	2003	2004	2005	
						Pre-tsunami	Post-tsunami 1/
					Est.	Proj.	
				(In millions of rufiyaa)			
Total revenue and grants	2,372.7	2,522.6	2,714.9	3,087.9	3,395.2	4,200.8	4,502.5
Total revenue	2,206.8	2,310.9	2,582.4	2,964.3	3,320.7	4,106.4	3,662.7
Current revenue	2,202.6	2,294.3	2,577.9	2,936.8	3,302.4	4,080.4	3,636.7
Tax revenue	1,013.8	1,046.6	1,091.7	1,268.7	1,638.1	1,882.3	1,649.6
Import duties	652.6	661.7	692.1	817.1	1,126.7	1,209.1	1,135.5
Tourism	276.6	292.7	305.2	359.8	412.2	551.7	392.5
Other	84.6	92.2	94.4	91.8	99.2	121.5	121.5
Nontax revenue	1,188.8	1,247.7	1,486.2	1,668.1	1,664.3	2,198.1	1,987.1
SOE profit transfers	357.4	383.7	422.6	570.6	545.1	631.8	631.8
Resort lease payments	426.5	433.1	601.0	575.7	553.6	759.4	600.4
Other	404.9	430.9	462.6	521.8	565.6	806.9	754.9
Capital revenue	4.2	16.6	4.5	27.5	18.3	26.0	26.0
Grants	165.9	211.7	132.5	123.6	74.5	94.4	839.9
Expenditure and net lending	2,694.2	2,885.9	3,117.3	3,375.3	3,663.9	4,644.8	6,104.1
Current expenditure	1,875.9	1,971.4	2,109.4	2,345.7	2,657.9	3,475.1	3,747.8
Capital expenditure	864.0	940.7	1,026.1	1,206.2	1,100.2	1,267.9	2,454.5
Net lending	-45.7	-26.2	-18.2	-176.6	-94.2	-98.2	-98.2
Overall balance	-321.5	-363.3	-402.4	-287.4	-268.7	-444.0	-1,601.6
Overall balance, excluding grants	-487.4	-575.0	-534.9	-411.0	-343.2	-538.4	-2,441.4
Current balance	326.7	322.9	468.5	591.1	644.5	605.3	-111.1
Domestic financing	317.9	217.5	30.0	-131.8	-136.7	139.3	-0.8
Foreign financing	3.6	145.8	372.4	419.2	405.4	304.6	433.9
Additional external financing requirement	--	--	--	--	--	--	1168.5
Government debt (end of period)	3,002.9	3,326.4	3,856.9	4,144.3	4,413.0	4,857.0	5,430.3
Of which: Foreign	1,685.5	1,831.3	2,203.7	2,622.9	3,028.3	3,332.9	4,046.5
				(In percent of GDP)			
Total revenue and grants	32.3	33.0	33.1	34.9	35.2	38.0	42.5
Current revenue	30.0	30.0	31.4	33.2	34.3	36.9	34.3
Tax revenue	13.8	13.7	13.3	14.3	17.0	17.0	15.6
Import duties	8.9	8.6	8.4	9.2	11.7	10.9	10.7
Tourism	3.8	3.8	3.7	4.1	4.3	5.0	3.7
Other	1.2	1.2	1.2	1.0	1.0	1.1	1.1
Nontax revenue	16.2	16.3	18.1	18.9	17.3	19.9	18.8
SOE profit transfers	4.9	5.0	5.2	6.5	5.7	5.7	6.0
Resort lease payments	5.8	5.7	7.3	6.5	5.7	6.9	5.7
Other	5.5	5.6	5.6	5.9	5.9	7.3	7.1
Capital revenue	0.1	0.2	0.1	0.3	0.2	0.2	0.2
Grants	2.3	2.8	1.6	1.4	0.8	0.9	7.9
Expenditure and net lending	36.7	37.7	38.0	38.2	38.0	42.0	57.6
Current expenditure	25.5	25.8	25.7	26.5	27.6	31.4	35.4
Capital expenditure	11.8	12.3	12.5	13.6	11.4	11.5	23.2
Net lending	-0.6	-0.3	-0.2	-2.0	-1.0	-0.9	-0.9
Overall balance	-4.4	-4.7	-4.9	-3.3	-2.8	-4.0	-15.1
Overall balance, excluding grants	-6.6	-7.5	-6.5	-4.6	-3.6	-4.9	-23.0
Current balance	4.4	4.2	5.7	6.7	6.7	5.5	-1.0
Domestic financing	4.3	2.8	0.4	-1.5	-1.4	1.3	0.0
Foreign financing	0.0	1.9	4.5	4.7	4.2	2.8	4.1
Additional external financing requirement	...	...	...	--	--	--	11.0
Government debt (end of period)	40.9	43.5	47.0	46.9	45.8	43.9	51.3
Of which: Foreign	22.9	23.9	26.9	29.7	31.4	30.1	38.2
Memorandum items:							
Public saving (in millions of rufiyaa)	542.5	577.4	623.7	918.8	831.5	823.9	852.9
Exchange rate (rufiyaa per U.S. dollar, average)	11.8	12.2	12.8	12.8	12.8	12.8	12.8
Growth in current expenditures (in percent)	21.4	5.1	7.0	11.2	13.3	30.7	41.0
Nominal GDP (in millions of rufiyaa)	7,348.4	7,650.8	8,201.0	8,842.0	9,639.2	11,066.5	10,592.3

Sources: Data provided by the Maldivian authorities; and Fund staff estimates and projections.

1/ Excludes effects of fiscal measures proposed by the authorities.

Table 4. Maldives: Summary of Monetary Accounts and MMA Balance Sheet, 2000–2004

	2000	2001	2002	2003	2004
	Dec.				
	(In millions of rufiyaa)				
Monetary survey					
Broad money	3,049.9	3,324.7	3,966.4	4,543.7	6026.9
Net foreign assets	1,315.1	1,178.8	1,684.2	2,655.6	3379.4
Monetary authorities (net)	1,450.4	1,197.1	1,712.5	2,050.3	2614.6
Foreign assets	1,460.5	1,207.2	1,722.7	2,060.5	2625.6
Foreign liabilities	-10.2	-10.2	-10.2	-10.2	-11.0
Commercial banks (net)	-135.3	-18.3	-28.3	605.3	764.8
Foreign assets	260.4	344.1	431.7	817.9	1,023.4
Foreign liabilities	-395.7	-362.4	-460.0	-212.6	-258.6
Net domestic assets	1,734.8	2,145.9	2,282.2	1,888.1	2647.5
Domestic credit	2,586.8	3,089.8	3,452.1	3,253.1	4,282.8
Public sector	1,179.7	1,262.6	1,344.9	1,002.2	741.5
Central government (net)	995.0	1,078.6	1,133.9	911.8	499.5
Gross claims on government	1,409.0	1,584.5	1,704.3	1,542.8	1,312.7
Government deposits	-414.0	-505.9	-570.4	-631.0	-813.2
Other	1,591.8	2,011.3	2,318.2	2,341.2	3,783.3
Public enterprises	184.7	184.0	211.0	90.4	242.0
Private sector	1,407.1	1,827.2	2,107.2	2,250.8	3,541.3
Other items (net)	-852.1	-943.9	-1,169.9	-1,364.9	-1,635.3
MMA balance sheet					
Reserve money	1,733.5	1,871.5	2,224.0	2,181.7	2,786.5
Net foreign assets	1,450.4	1,197.1	1,712.5	2,050.3	2,614.6
Net domestic assets	283.1	674.4	511.5	131.4	171.9
Net credit to government	1,177.2	1,300.7	1,393.7	1,178.5	903.1
Credit to government	1,409.0	1,584.5	1,704.3	1,517.2	1,291.4
Government deposits	-231.8	-283.8	-310.6	-338.7	-388.3
Claims on PNFE and commercial banks	1.6	1.5	1.5	1.5	1.5
MMA certificates of deposits	-666.9	-323.0	-554.4	-684.1	-376.4
Other items (net)	-228.7	-304.7	-329.3	-364.5	-356.3
	(Annual percentage change)				
Broad money	4.1	9.0	19.3	14.6	32.6
Net foreign assets	-6.4	-10.2	42.9	57.7	27.3
Domestic credit	14.5	19.4	11.7	-5.8	31.7
Public sector	23.3	7.0	6.5	-25.5	-26.0
Central government (net)	30.9	8.4	5.1	-19.6	-45.2
Other	6.2	26.4	15.3	1.0	61.6
Public enterprises	-5.9	-0.4	14.7	-57.2	167.8
Private sector	8.0	29.9	15.3	6.8	57.3
Reserve money	5.0	8.0	18.8	-1.9	27.7
Net foreign assets	-3.5	-8.3	0.6	9.7	22.0
Net domestic assets	89.9	21.9	28.4	-7.1	28.5
Net credit to government	27.8	10.5	7.2	-15.4	-23.4
MMA certificates of deposit	17.2	-51.6	71.6	23.4	-45.0
Memorandum items:					
GDP (in millions of rufiyaa)	7,348.4	7,650.8	8,201.0	8,842.0	9,639.2
Rufiyaa per U.S. dollar	11.8	12.8	12.8	12.8	12.8
Velocity	2.5	2.3	2.2	2.1	1.8
Money multiplier	1.8	1.8	1.8	2.1	2.2
Official reserves (US$ million)	124.1	94.3	134.6	161.0	205.1
Commercial banks' NFA (US$ million)	-11.5	-1.4	-2.2	47.3	59.8

Sources: Data provided by the Maldivian authorities; and Fund staff estimates.

Table 5. Maldives: Medium-Term Scenario, 2004–2010

	2004	2005	2006	2007	2008	2009	2010
	Est.			Proj.			
			(Annual percentage change)				
Output and prices							
Real GDP growth	8.8	1.0	9.0	6.0	6.5	7.0	7.0
Consumer prices (period average)	6.4	6.8	2.8	2.5	2.5	2.5	2.5
			(In percent of GDP)				
Central government							
Revenue and grants	35.2	42.5	37.9	37.4	37.6	38.4	39.0
Tax revenue	17.0	15.6	16.7	16.9	16.5	16.8	16.7
Nontax revenue	17.3	18.8	20.2	19.7	20.2	20.9	21.6
Grants	0.8	7.9	0.8	0.7	0.7	0.6	0.6
Expenditure and net lending	38.0	57.6	52.1	50.1	41.6	41.1	41.1
Current expenditure	27.6	35.4	32.0	31.0	30.0	29.0	28.0
Capital expenditure	11.4	23.2	21.0	20.0	12.5	13.0	14.0
Overall balance	-2.8	-15.1	-14.2	-12.7	-4.0	-2.7	-2.1
Overall balance, excluding grants	-3.6	-23.0	-15.0	-13.4	-4.7	-3.3	-2.7
Financing							
Domestic	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	4.2	4.1	3.7	3.0	4.0	2.7	2.1
Additional external financing requirement	--	11.0	10.5	9.6	--	--	--
Total public sector debt 1/	49.0	54.4	57.7	61.4	60.5	58.2	55.3
Of which: Foreign debt	38.5	44.3	48.5	52.5	52.1	50.2	47.9
			(Annual percentage change)				
Monetary survey							
Broad money	32.6	4.0	11.7	13.0	9.2	11.9	15.7
Domestic credit	31.7	5.7	15.2	10.8	11.5	10.9	10.9
Credit to government (net)	-45.2	-0.2	0.0	0.0	0.0	0.0	0.0
Credit to SOEs	167.8	10.0	5.0	5.0	5.0	5.0	5.0
Credit to the private sector	57.3	6.2	17.9	12.3	13.1	12.2	12.1
			(In millions of U.S. dollars, unless otherwise indicated)				
Balance of payments							
Domestic exports (in percent change) 2/	8.8	-25.2 3/	9.0	6.0	6.5	7.0	7.0
Merchandise imports (in percent change)	30.7	16.4	-1.7	5.5	1.0	8.9	9.5
Tourism receipts (in percent change)	19.1	-26.0	39.0	13.0	13.0	14.0	14.0
Trade balance	-368.8	-498.7	-467.9	-492.6	-487.1	-530.6	-581.7
Nonfactor services (net)	375.5	234.8	376.0	437.1	506.8	593.0	691.9
Current account balance	-89.2	-207.4	-197.9	-170.1	-104.3	-71.8	-35.1
(In percent of GDP)	-11.8	-25.1	-21.4	-16.9	-9.5	-6.0	-2.7
Overall balance	59.9	-91.3	-93.3	-69.7	4.7	25.4	57.8
Additional external financing requirement	--	91.3	97.0	97.0	--	--	--
Memorandum items:							
Gross official reserves (year-end)	205.1	205.1	208.8	236.1	240.7	266.1	323.9
(In months of imports of GNFS) 4/	3.6	3.2	3.2	3.5	3.5	3.6	4.0
External debt (year-end) 5/	316.6	395.5	482.0	563.8	610.9	646.8	678.7
(In percent of GDP)	42.0	47.8	52.0	56.0	55.6	53.6	51.3
Debt service	26.1	28.0	31.2	32.1	35.2	38.6	41.4
(In percent of exports of GNFS) 4/	4.1	5.9	5.0	4.6	4.5	4.3	4.1

Sources: Data provided by the Maldivian authorities; and Fund staff estimates and projections.

1/ Includes state enterprise debt.

2/ Domestic exports are defined as merchandise exports net of reexports.

3/ The decline in exports in 2005 reflects the expiration of garment export privileges. Garments account for about one-fourth of merchandise exports. However, effects on the real economy are negligible since textile production yields little value added.

4/ GNFS = Goods and nonfactor services.

5/ Includes additional external financing, assuming equal proportions of grants and loans.

Table 6. Maldives: Projected Payments to the Fund, 2004-2010
(In millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
Disbursements	0.0	4.1	0.0	0.0	0.0	0.0	0.0
Stock of outstanding Fund credit	0.0	4.1	4.1	4.1	2.6	0.5	0.0
Obligations to the Fund	0.0	0.0	0.0	0.0	1.6	2.1	0.5
Repurchase	0.0	0.0	0.0	0.0	1.5	2.1	0.5
Charge/interest (subsidized rate) 1/	0.00	0.02	0.02	0.02	0.02	0.01	0.00
Memorandum items:							
Debt service in percent of							
Exports of goods and nonfactor services 2/	0.0	0.0	0.0	0.0	0.3	0.3	0.1
Quota	0.0	0.2	0.3	0.3	19.0	25.1	6.2
GDP	0.0	0.0	0.0	0.0	0.2	0.3	0.1
Gross official reserves	0.0	0.0	0.0	0.0	1.0	1.2	0.2
Stock of Fund credit in percent of							
Exports of goods and nonfactor services 2/	0.0	1.2	0.9	0.8	0.5	0.1	0.0
Quota	0.0	50.0	50.0	50.0	31.2	6.2	0.0
GDP	0.0	0.8	0.7	0.6	0.4	0.1	0.0
Gross official reserves	0.0	3.1	3.0	2.7	1.6	0.3	0.0

Source: Fund staff estimates.

1/ Assuming a subsidized interest rate of 0.5 percent.
2/ Includes reexports.

MALDIVES: FUND RELATIONS

(As of December 31, 2004)

I. **Membership Status:** Joined 1/13/78; Article XIV

II. **General Resources Account:**	**SDR Million**	**% Quota**
Quota	8.20	100.00
Fund holdings of currency	6.65	81.05
Reserve position in Fund	1.55	18.95

III. **SDR Department:**	**SDR Million**	**% Allocation**
Net cumulative allocation	0.28	100.00
Holdings	0.32	114.90

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Projected Obligations to Fund:** None

VII. **Exchange Arrangements**

From March 1, 1982 to June 30, 1985, the Maldivian rufiyaa was pegged to the U.S. dollar. Beginning in July 1985, the exchange rate of the rufiyaa was linked to a trade-weighted basket of currencies, but the exchange rate vis-à-vis the U.S. dollar remained relatively stable until February 1987. On March 1, 1987, the rufiyaa was devalued by 29 percent vis-à-vis the U.S. dollar. From 1987 to 1994, the exchange rate of the rufiyaa was adjusted periodically. Since October 1994, the exchange rate of the rufiyaa remained unchanged at Rf 11.77 per U.S. dollar, until July 25, 2001, when the rufiyaa was devalued to Rf 12.80 per U.S. dollar.

Maldives continues to avail itself of the transitional arrangements under the provisions of Article XIV, but no longer maintains restrictions under Article XIV. There are currently no exchange restrictions subject to approval under Article VIII.

VIII. **Last Article IV Consultation**

The 2004 Article IV consultation was concluded by the Executive Board on May 24, 2004.

IX. Technical Assistance

FAD: In April 1994, Mr. Potter and Ms. Bédague visited Male to advice on budget management. This was followed by periodic assistance from Mr. Webber (consultant) over the period November 1994 to December 1995. In July 1994, Mr. Faria and Mr. Kambil (consultant) assisted in formulating a strategy for revenue reform. This was followed by a visit by Mr. Kambil in August/September 1995 to draft tax legislation. In October 1996, a tax administration mission visited Male to develop a strategy to establish an Inland Revenue Department and a follow-up mission by a consultant took place in June 1997.

LEG: In October 2003, Mr. Head provided assistance on the revision of the Maldives Monetary Authority Act (MMA Act). In November 2004, a mission led by Ms. Rawlings provided assistance on the drafting of AML/CFT legislation and establishment of a financial intelligence unit (FIU).

MFD: In March 1993, a consultant provided assistance on the introduction of treasury bills. In November 1994, a mission headed by Mr. Taniguchi provided assistance on monetary management, foreign exchange operations, and bank supervision. In February/June 1995, a consultant provided assistance for the development of a treasury bill and MMA certificate market. In February/March 1996, a mission headed by Mr. Swinburne provided advice on the reform of monetary operations and exchange system. This was followed by a visit of a foreign exchange advisor in May 1997. In early 2001, two consultants provided assistance on foreign exchange and monetary management, of two missions each. In July 2001, a consultant provided assistance on monetary management following the lifting of credit ceilings and further impending changes in the monetary framework. In October 2002, a multi-purpose mission took stock of developments and provided recommendations in the areas of banking, foreign exchange operations, and foreign exchange reserves management. In October 2003, in cooperation with the legal consultant, Mr. Dornseif (Deutsche Bundesbank) provided assistance on the drafting of the amended MMA Act. In August 2004, Mr. van de Walle provided assistance in the areas of monetary policy and monetary operations.

STA: In June 1993 and February 1994, assistance was provided on monetary and balance of payments statistics, respectively. In May 1995, a STA consultant provided assistance on the compilation of a new consumer price index, which was followed by further assistance in August 1996.

February 21, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Mr. de Rato,

The tsunami of December 26, 2004 caused devastating damage to the Maldives. The death toll is 82, and 26 people are missing and feared dead. Over 1,300 suffered injuries. Housing and infrastructure on about 20 of the Maldives' 200 inhabited islands have been completely destroyed. About 13,000 people—5 percent of the population—were rendered homeless. Thousands more lost most of their material possessions. Reconstruction of infrastructure and housing is both more difficult and more urgent given the geographical dispersion of the islands and the inherently self-contained nature of each island community. In addition, the low population density of the islands greatly increases service delivery and reconstruction costs. The flooding of fragile agricultural land with salt water and damage to the capital of small businesses, especially fishing boats, has deprived many people of their livelihoods. A joint World Bank-Asian Development Bank-UN System assessment of the impact of the tsunami puts recovery costs at about $400 million, equivalent to almost one-half of GDP. This estimate does not include the indirect economic costs of the tsunami in the form of lost revenue from tourism and fisheries, or the costs of protection measures against another disaster.

The adverse effects of the tsunami on the economy are profound. The economy is dominated by tourism and fisheries, which together account for 40 percent of GDP and one-third of total employment. About one-fourth of tourist resorts are closed due to damage to facilities and there have been widespread cancellations of tourist bookings. About 8 percent of the fishing fleet has been damaged or lost. Some of the damage to tourist resorts will be covered by insurance payments, but the net losses to the balance of payments from lower tourist receipts and fisheries exports will be around $160 million, with losses greatest in the first quarter of the year, usually a peak period for tourism. The tsunami will reduce GDP growth by around 5–6 percent in 2005. The budget will also be badly affected. We estimate that the revenue losses, mostly from lower tourism taxes, will be equivalent to about 5 percent of GDP. The joint assessment puts the costs of disaster relief and recovery in the first six months of 2005 alone at $110 million—about 13 percent of GDP.

The government has taken a number of important steps to provide disaster relief and start reconstruction. Within 24 hours of the disaster the government began to assess the damage and provide essential supplies, especially water and food, to the worst-affected islands. By January 5, communications had been re-established with 188 islands and electricity had been made available in 194 islands. By January 20, over half of the people who had lost their homes had been placed in temporary housing, including with host families, and the government had begun disbursements of modest cash payments to help with the living expenses of the worst affected people. On January 9, President Gayoom established a Board to oversee the management of the Tsunami Relief and Reconstruction Fund. The Board includes private and government sector members and the UN Acting Resident Coordinator in the Maldives, and will ensure that management of donor funds is transparent, accountable and in conformity with international standards.

In our efforts, we have received generous technical and financial support from multilateral organizations and donors, but our financial needs still exceed what has been pledged so far by a wide margin. The government has so far received pledges of support for tsunami relief from donors amounting to almost $108 million, with the majority of this in the form of grants and the remainder in concessional loans. About $67 million of this is expected to be available during 2005. However, even these generous pledges will cover less than half of the net lost earnings to the balance of payments in 2005 and the most urgent relief and reconstruction spending. We are therefore urgently seeking additional support from donors to cover the remaining financing gap of about $91 million.

We have built a strong record in macroeconomic management. The Maldives has enjoyed a number of years of rapid growth and macroeconomic stability, buttressed by the peg of the rufiyaa to the U.S. dollar. Just a few days before the tsunami the United Nations approved the graduation of the Maldives from LDC status. External debt is moderate, and is mostly on concessional terms, and the Maldives track record in servicing external debt is impeccable. External reserves stood at about 3½ months of imports at end-2004. In December, parliament approved a 2005 budget which provided for a significant increase in government spending. This was in part because of a civil service salary increase of 39 percent granted in September 2004, the first public sector wage increase in five years, which will reduce the disparity between private and public sector wages. The budget also provided for additional costs arising from the creation of a civilian police force separate from the National Security Service as part of political and government reform, for plans to hire new teachers for the atolls, and for development spending. This higher expenditure was to be financed by higher revenue, including from an increase of 33 percent in the bed tax, a per capita tourist tax, the first increase since 1988.

The government recognizes the need to modify the budget to help finance expenditure on disaster relief and to redress the imbalances created by shortfalls in revenue from tourism. Therefore, the government intends to take a number of measures. We will:

- Reallocate capital expenditure to reconstruction needs by deferring all capital projects in the domestic public sector investment program on which work has not already begun, and reduce planned expenditures on machinery and equipment and vehicles.

- Reduce planned increases in civil service manpower, to contain the increase in expenditure on wages and allowances. The government will also not approve any further wage increase in 2005.

- Reduce budget allocations for nonwage current expenditure unrelated to disaster relief or reconstruction. Specifically, the government will discontinue or delay some new spending on transportation and utilities, cut back foreign travel, and reduce spending on IT and office supplies.

- Refrain from granting waivers of import duties for reconstruction of tourist resorts.

The government also intends to improve monitoring of state enterprises, with the aim of increasing efficiency and reducing operational expenses. We estimate that collectively these measures will produce savings of some 500 million rufiyaa, equivalent to about 5 percent of GDP, in 2005.

Looking beyond 2005, the government remains committed to macroeconomic stability and policies which will ensure fiscal and external debt sustainability. Economic prospects remain good, and we expect a recovery in tourism and fisheries by 2006. The government remains committed to the exchange rate peg to the U.S. dollar, which has long provided a simple and transparent nominal anchor for the Maldives. To support the exchange rate peg while maintaining an adequate level of reserves, from 2006, we intend to return to a stance of limited borrowing or modest repayments to the MMA, financing remaining reconstruction spending from foreign grants and loans, or if these are not sufficient from savings elsewhere in the budget. We also intend to broaden the tax base by introducing a Business Profits tax, and to increase the autonomy of the MMA in the conduct of monetary policy.

We will also exercise restraint in contracting new external debt. Following the disaster, there will be a need for new borrowing, but the government will aim to secure commitments for external support in the form of grants and highly concessional loans to the extent possible.

We will have to balance the need to undertake reconstruction as rapidly as possible—to house the homeless and bring labor and productive assets back into use—with the need to avoid bottlenecks in the production process that could lead to domestic inflation or waste scarce resources. We will avoid potential bottlenecks in construction and transportation by adjusting the pace of reconstruction spending in line with capacity constraints and by encouraging imports of labor and community participation in the reconstruction effort.

We request assistance from the IMF. To assist the Maldives in meeting its immediate financing needs, without seriously depleting its external reserves, the Maldives requests a purchase from the Fund in an amount equivalent to SDR 4.1 million under the Policy on Emergency Assistance for Natural Disasters. As a PRGF-eligible member, the Maldives also requests the rate of charge payable by the Maldives on its outstanding purchases under the above-mentioned policy be subsidized down to 0.5 percent per annum through grants from resources contributed to the Post-Conflict and Natural Disaster Emergency Assistance subsidy account, pursuant to the decision adopted by the IMF's Executive Board on January 21, 2005 to that effect.

We will continue to collaborate with the Fund in finding solutions to the country's economic challenges. We have also requested technical assistance in the areas of expenditure control and tax policy, with the aim of improving budget management and broadening the revenue base.

The government of the Maldives does not intend to impose new, nor intensify existing restrictions on payments and transfers for current international transactions, introduce any multiple currency practices, or impose new, or intensify existing import restrictions for balance of payments purposes.

Yours sincerely,

/s/
Mohamed Jaleel
Minister of Finance and Treasury and
Governor of the Maldives Monetary Authority

Press Release No. 05/53
FOR IMMEDIATE RELEASE
March 4, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$ 6.3 million in Emergency Assistance for the Maldives

The Executive Board of the International Monetary Fund (IMF) has approved SDR 4.1 million (about US$ 6.3 million) in emergency assistance for natural disasters for the Maldives. The amount approved is available immediately to help the government deal with the devastating effect of the tsunami that struck the island on December 26, 2004.

Although the loss of life was limited, there was extensive damage to housing and infrastructure and about 5 percent of the population have lost their homes. Tourism and fisheries account for 40 percent of GDP, one-third of employment, and generate most of Maldives' foreign earnings. Net losses to the balance of payments are estimated at about US$160 million in 2005, and total reconstruction costs are estimated at almost 50 percent of GDP.

The IMF provides emergency assistance to member countries hit by natural disaster to help them meet immediate balance of payments financing needs, and maintain or restore macroeconomic stability. The emergency assistance will be repaid in eight equal quarterly installments over 3¼ to 5 years from the disbursement date. In line with the Executive Board's decision to subsidize emergency assistance for PRGF-eligible countries hit by natural disaster, the rate of charge on the assistance will be subsidized to 0.5 percent per annum (See Public Information Notice No. 05/8), subject to resource availability.

At the conclusion of the Executive Board's discussion on the Maldives, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair said:

"The IMF extends its deepest sympathy to the people of the Maldives following the devastation of the tsunami of December 26, 2004. The loss of life in the Maldives is unfortunate. Five percent of the population has been rendered homeless, and there was extensive damage to infrastructure. An assessment by the World Bank, the Asian Development Bank, and the United Nations places the cost of reconstruction as high as 50 percent of GDP.

"The government has reacted swiftly in the aftermath of the tsunami to mitigate the immediate impact on the people and on the economy. The authorities are redirecting budget allocations to pressing needs for rehabilitation and reconstruction. They have also collaborated with the international community in a thorough and comprehensive needs assessment, and have set up transparent and accountable mechanisms for the expenditure of donor funds.

“Before the tsunami hit, prospects for 2005 were bright. The economy was set to grow by around 6.5 percent, the fiscal deficit was modest, and international reserves were increasing. However, the disaster will reduce economic growth to 1.0 percent, and create substantial financing gaps in the budget and the balance of payments.

“The IMF strongly supports efforts by the World Bank and Asian Development Bank to mobilize financial assistance in the form of grants or highly concessional loans from donors to help the Maldives get through the crisis. The reconstruction needs are immense and the authorities need balance of payments and budget support to deal with the costs arising from the temporary decline in tourism. The IMF also welcomes the government’s preparedness to take fiscal adjustment measures as required to maintain macroeconomic stability,” Mr. Kato said.

Statement by A. Shakour Shaalan, Executive Director for Maldives
March 4, 2005

At the outset, I would like to convey the Maldives authorities' sincere gratitude for the Board's decision to extend post-conflict emergency assistance to those PRGF-eligible countries hit by natural disasters and their appreciation for staff's valuable and prompt follow up. This decision and the staff's recent mission assessing economic developments in the wake of the tsunami disaster have not only paved the way for a request for emergency assistance but provided necessary information for potential donors.

Regarding the staff report, the authorities are in broad agreement with the analysis and the thrust of the policy recommendations contained in the well-balanced and concise report.

As highlighted in the recent briefing note on the preliminary assessment of the macroeconomic impact of the tsunami disaster, circulated to Executive Directors on February 4th, the Maldives is one of three countries that was most seriously affected by the disaster. In this regard, it is important to note that although the absolute financial loss was smaller than other affected countries, relative to its GDP, the Maldives was by far the hardest hit. Moreover, the tidal waves have seriously affected the two top economic activities of the country, namely, tourism and fisheries.

Pre-Tsunami Economic Performance

For a number of years the Maldives made significant progress on many fronts while maintaining a stable macro environment. Growth rates were consistently high, averaging 8 percent over the last three years, contributing to a doubling in per capita income over a decade, while inflation was generally kept under control. Economic projections indicate that these favorable developments were expected to continue into 2005.

Despite this strong performance, the country remains vulnerable to external shocks on account of its high dependence on tourism and tuna exports. Significant private sector credit, including new lending for investment by tourist resorts, reflects the country's focus on expanding the main productive sectors, so as to lessen the need for concessional resources to make further social and economic strides. Supported by concurrent structural reforms such as the Land Act, the new investments, as well as increased consumption, led to a sharp acceleration in imports, widening the current account deficit to 12 percent of GDP despite the strong growth in exports. The stock of debt has edged up slightly on account of lower concessional financing and growing investment needs. International reserves, though in our view small, given the vulnerabilities the economy is subject to, increased to just over US$200 million (equivalent to 3½ months of 2004 imports).

Fiscal performance in 2004 was strong. Despite falling grants, the current revenue base increased by 1 percent of GDP. This pick up was on account of an expansion in tourism and revenue measures, thus resulting in halving the deficit of recent years in spite of growing current expenditures. The revenue increase was associated with rising current expenditures of equal magnitude, predominantly due to the first increase since 1999 in civil servant salaries, but was offset by lower spending on other items.

In the case of other structural reforms, and as recommended by staff, the proposed amendment of the Maldives Monetary Authority (MMA) Act is likely to increase central bank independence by separating the functions of the Minister of Finance and Governor of the MMA. In addition, a financial intelligence unit has been set up at the MMA and the proposed legal limits on lending to government are now in parliament. The latter will necessitate finding new sources of financing without burdening debt sustainability. Other financial sector reforms are underway.

Recent Developments since the Tsunami

The steady course of progress set last year was brought to, hopefully, a short halt by the tsunami disaster, which hit on December 26, wrecking havoc to vulnerable groups while damaging the infrastructure supporting the two main productive sectors. About a quarter of tourist resorts were affected and closed, resulting in a sharp fall from previously full occupancy rates. About one-tenth of the fishing fleet and some processing facilities were damaged or lost. Consequently GDP growth is likely to fall from the pre-tsunami projection of 6½ percent to only 1 percent this year, as these key productive sectors are not expected to recover to their pre-tsunami levels until the mid-year or toward year-end.

In addition to the virtual collapse in major economic activities, the international community has estimated reconstruction costs at about US$400 million (about 50 percent of GDP), of which US$110 million are needed immediately for budgetary needs. While the government is taking all measures possible to close the budget financing needs through revenue measures and already pledged donor grants, the balance of payments gap cannot be closed.

The balance of payments shortfall due to losses in export receipts and tourism earnings is estimated at about US$160 million and cannot be fully covered by identified inflows. Therefore, a request for a purchase of an amount equivalent to SDR 4.1 million (50 percent of quota) under the Fund's policy for emergency and natural disaster assistance is being made given that international reserves are low. This purchase is intended to leverage in the remainder of US$91 million shortfall in the balance of payments thus obviating a precipitous fall in reserves. Given the current debt level and fiscal tightness, the authorities have requested the provision of subsidies to reduce the rate of charge down to 0.5 percent per annum on this Fund purchase.

Although the authorities have acted promptly in managing the losses and associated relief efforts, and are very grateful for the international support received so far from the Asian Development Bank, the World Bank, the United Nations, and Japan, more is needed. For their part, in consultation with staff and as set out in their letter, they will refrain from granting import duty waivers for tourism, reorient capital and non-wage spending toward reconstruction needs, and refrain from awarding any new wage increases. In addition, the "bed tax" was increased late last year as planned, which should further contribute to an enhancement of revenues once tourism picks up.

The authorities are now awaiting the outcome of a meeting at the Asian Development Bank in Manila on March 18th before considering a call for a consultative group meeting to seek donor pledges to close the US$91 million balance of payments gap this year. In the meantime, the country is at risk of losing the already low level of international reserves given the increased vulnerability. I would, therefore, encourage colleagues to approve this small request of SDR 4.1 million, and convey the country's request for additional concessional support to facilitate a rebound this year and in years to come thus contributing measurably to debt sustainability. Finally, I would like to confirm that the Maldives will not be seeking any debt rescheduling from the Paris Club, as most debt is to multilaterals and non-Paris Club countries.