Report No: REV-2024-102(E) **22nd July 2024**

Auditor General's Report on the Review of Medium-Term Debt Strategy (2024-2026)

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AUDITOR GENERAL'S OFFICE

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Executive Summary

This report is prepared in accordance with the provisions of Act No. 7/2013 (Fiscal Responsibility Act), which mandates the Auditor General to audit the reports prepared and presented by the Minister under this Act.

The Medium-Term Debt Strategy (MTDS) 2024-2026 was submitted to the People's Majilis by the Ministry of Finance on 31st July 2023, as required under Chapter 6 of Act No. 7/2013. The targets set for the current year MTDS are centered around fulfilling the government's financing needs at the lowest possible cost, while maintaining a prudent level of risk. Additionally, the strategy aims to develop the domestic finance market and minimize refinance risk. The specific targets shared by the Ministry of Finance (MoF) include: -

i) Maintaining foreign currency debt at or below 40% of the total debt,
ii) Reducing the weighted interest rate to 4.0%,
iii) Increasing the average time to maturity of the debt portfolio to 7 years, and
iv) Ensuring that debt maturing within 1 year does not exceed 40% of the total debt.

Within this report, we have included a review of the key policies outlined in the strategy, focusing on strategic targets and public debt analysis.

Upon analyzing the targets and measures set forth to achieve them, it was observed that over the past three years, the percentage of foreign currency debt has fluctuated from a peak of 50% in 2021 to 49% in 2022. This 1% reduction can be attributed to the redemption of the Sunny Side Bond and the issuance of long-term domestic bonds. Although the ratio is below the overall target of 60% set in the MTDS 2023-2025, the annual projections detailed in section 7 of MTDS 2023-2025 were not achieved. The maturity profile also predicts an increase in total outstanding balances denominated in foreign currencies in the upcoming years, underscoring the difficulty in controlling and minimizing foreign exchange exposure at the moment and the importance of managing refinancing risks carefully.

Furthermore, it is important to highlight that the Ministry's efforts to optimize concessional financing as a measure in both 2023-2025 and 2024-2026 MTDS presents uncertainty. Considering the financial terms of the borrowings made in recent years (specifically those taken for budget support) it is evident Government has faced challenges to secure loans at concessional terms. Similarly, the strategic shift towards increasing the average maturity time is dependent on converting short-term Treasury bills into long-term bonds, necessitating meticulous planning. The current proportion of debt maturing within one year necessitates a shift in the MTDS, but challenges arise due to the majority of these debts being in the form of treasury bills and short-term Islamic instruments.

In 2022 and 2023, the total Budget (budget with supplements) estimated to meet the budget deficit and cash flow need exceeded the limits set for financing need under the government's most recently published Medium Term Fiscal Strategies (MTFS). This mismatch significantly increased reliance on debt financing, elevating the risks to government debt portfolio and overall debt sustainability.

The analysis of external debt composition indicates a notable concentration, with one particular creditor holding a significant share in 2022. However, projected date suggests potential shifts in creditor dynamics by 2027.

It is recommended that

a) In the stage of formulation of government medium-term strategies, ensure that the government budgets are properly planned at the levels that are fiscally sustainable considering the latest global economic outlook and ensure the proposed budget submitted by the Ministry to the parliament aligns with the medium-term strategies.
b) Implement immediate and credible fiscal consolidation reforms to reduce fiscal deficit and reliance on debt financing.
c) Implement prudent fiscal management practices, promoting economic growth, focusing on reducing overall debt levels relative to GDP
d) Undertake a comprehensive early-stage liability management exercise, which will enhance optimize the debt profile and address significant foreign currency debt maturities in upcoming years.
e) Ensure financing sources identified at the budgetary stage relates to the targets set in the MTDS and engage in early negotiations with lenders to optimize concessional financing.
f) Diversify funding sources and foster relationships with multiple lenders to mitigate risks associated with the debt portfolio and increase market access and alternative sources of funding.
g) Take necessary steps to build sufficient foreign currency reserves within the Sovereign Development Fund (SDF) and government foreign reserves to ensure that the government can meet debt obligations during challenging economic conditions.
h) Strengthen the fiscal sustainability via a strong legal framework by expediting enactment of the proposed bills on Public Debt, Fiscal Sustainability and Sovereign Development Fund (SDF).

Introduction

This report is prepared under Section 30 (d) of the Act No. 7/2013 (Fiscal Responsibility Act), which states that the Auditor General (AG) should audit and prepare a report on the statements and reports prepared and submitted by the Minister pursuant to it.

The Debt Management Strategy statement is submitted by the Minister of Finance as per the requirements stated in Chapter 6 of Act No. 7/2013 (Fiscal Responsibility Act). The purpose of this Statement as per Chapter 6 of this Act is to provide information on steps being taken by the government to repay and maintain Public Debt in an efficient level. The primary objective of the MTDS is to effectively meet the government's financing requirements while minimizing costs and maintaining a prudent level of risk.

This review of the MTDS is focused on the analysis of the key policies outlined in the strategy, focusing on strategic targets and public debt analysis.

Auditor General's Responsibility

Sections 3 and 4 of the Act No. 4/2007 (Audit Act) requires the Auditor General (AG) to;

(1) audit all the government institutions, accounts and government trading bodies; and
(2) promote public accountability and good governance and sound financial management in the administration of government institutions, state owned enterprises and joint venture companies in which state holds shares.

AG is also entrusted with improving the financial affairs and accountability of the aforesaid institutions and conduct performance audit of the same.

Section 30 (d) of Act No. 7/2013 (Fiscal Responsibility Act) states that the AG should audit and prepare a report on the statements and reports prepared and submitted by the Minister pursuant to it.

Responsibility of the Minister

It is the responsibility of the Minister to prepare the MTDS as per the requirements stipulated in Chapter 6, Article 22 of the Act No. 7/2013 (Fiscal Responsibility Act)

As per Article 20 (a) of Act No. 7/2013 (Fiscal Responsibility Act) it is the responsibility of the Minister to submit annually the MTDS to the People's Majlis. Section 20 (b) of the Act states that it has to be addressed to the Public Accounts Committee (PAC) of the People's Majlis and that it has to be submitted before the end of July every year.

1 Review of Debt Management Strategy (MTDS)

1.1 Introduction

The Debt Management Strategy was prepared and submitted to the Majilis by the Ministry of Finance in accordance with the requirements of chapter 6 of the Act No. 7/2013 (Fiscal Responsibility Act). The main purpose of the Debt Management Strategy as per the Act is to provide information on steps being taken by the government to repay and maintain Public Debt at an efficient level.

Public debt Analysis includes the public and publicly guaranteed debt statistics and risks to debt portfolio.

This analysis covers the total debt of the central government as defined in the Act No. 7/2013 (Fiscal Responsibility Act). As per the Act, total central government debt includes all the direct borrowings of the government, sourced externally and domestically.

Wherever debt outstanding is mentioned in this analysis, it refers to the disbursed outstanding debt of the central government. Any reference to guaranteed debt indicates debt for which a sovereign guarantee has been issued by the government.

1.2 Comparison of Strategic Targets

Table 1 Shows changes made to the strategic targets set by Ministry over the past years.

Table 1: Strategic Targets set in the MTDS over the years

2022-2024 Targets	2023-2025 Targets	2024-2026 Targets
To maintain foreign currency debt not more than 70% of total debt	To maintain foreign currency debt not more than 60% of total debt	To maintain foreign currency debt not more than 40% of total debt
To reduce weighted average interest rate by 3%	To reduce weighted average interest rate to 3.5%	To reduce weighted interest rate to 4.0%
Increase average time to maturity to 8 years	Increase average time to maturity to 7 years	Increase portfolio average time to maturity to 7 years
To maintain debt maturing in 1 year within 30% of total debt	To maintain debt maturing in 1 year within 40% of total debt	To maintain debt maturing in 1 year within 40% of total debt

Note: 2024-2026 targets were not included in MTDS, however the information shared by MOF shows these targets were set for the current MTDS period.

1.3 Measures to achieve medium term debt targets in the MTDS 2024-26

In order to implement the strategic targets, the MTDS has the following financing assumptions;

i. To minimize the risks in foreign currency, the strategy aims to maintain a balanced ratio between domestic and external net financing throughout the strategy period, with a target ratio of 50:50
ii. Optimize utilization of external concessional financing.
iii. To issue securities with a maturity of 5 to 7 years based on the conduciveness of the international debt capital market.
iv. To gradually shift 4.0 percent of Treasury Bills to MVR bonds with a maturity of 5 to 10 years.

1.4 Analysis of Strategic Targets

Strategic Target 1: Maintain Foreign Currency denominated debt as a percentage of total debt at a range not exceeding 40% of total debt.

Measure (1): To Maintain a balanced ratio between domestic and external net financing throughout the strategy period, with a target ratio of 50:50

Over the past three years, foreign currency debt consistently increased, reaching 50% of the total debt in the year 2021. However, it has decreased to 49% in 2022. The primary reasons for the 1% decrease in 2022 are the redemption of Sunny Side Bond upon maturity, totaling USD 58 million (decrease in foreign currency denominated debt) and issuance of long-term bond to MMA to securitize the Public Bank Account overdraft, amounting MVR 4.3 billion (increase in MVR denominated debt). Despite the 1% decrease in foreign currency dominated debt in 2022, the expected outcome set in the MTDS 2023-2025 of 43.8% for the year 2022 has not been achieved.

The maturity profile, as per the current external debt *(referring 2.3 of Public Debt Analysis)*, indicates a notably high level of USD-denominated debt reaching maturity in 2025 and 2026. This includes a USD 500 million Sukuk maturing in 2026 and a USD 100 million bond from the Abu Dhabi Fund for Development. The substantial debt repayments during this strategic period have the potential to disrupt the maintenance of the balanced ratio (50:50) between domestic and external financing. Addressing this challenge necessitates strategic planning by the government.

Strategic Target 2: To reduce Weighted Average Interest rate to 4.0%

Measure (2): Optimize utilization of external concessional financing

The Ministry has included a measure in MTDS to optimize utilization of concessional financing for achieving the targets outlined in the strategy. Since concessional financing usually comes with a lower interest rate, this strategy would help lower weighted average interest rate. However, aside from mentioning this target in the MTDS, we were not able to ascertain whether the Ministry has a detailed plan to achieve this target.

Without proper planning, oversight, and accountability it will be challenging to optimize the utilization of concessional financing, as loans or grants under concessional financing are typically competitive to obtain and are mostly targeted to specific projects or countries with specific development goals.

Strategic Target 3: Increase portfolio Average Time to Maturity to 7 years.

Measure (3): To issue securities with a maturity of 5 to 7 years based on the conduciveness of the international debt capital market

Measure (4): To gradually shift 4 percent of Treasury Bills to MVR bonds with a maturity of 5 to 10 years

The Ministry, as outlined in the MTDS, projects an increase in the average maturity time from 6.3 years in 2022 to 7 years by 2026. This strategic shift is contingent on the conversion of some short-term Treasury bills into long-term bonds over the next three years.

A short maturity period heightens the risk associated with refinancing. In situations where refinancing is not possible, government would face elevated cash outflows in the short to medium term for principal repayments. Additionally, given that long-term bonds typically come with higher interest rates compared to short term securities (such as treasury bills), any upward adjustment in interest rates would result in increased costs for servicing the debt.

A shorter maturity period for external debt poses a greater risk, as foreign currency is required for payments. The maturity profile (Table 4) illustrates substantial USD-denominated debt maturity payments in 2025 and 2026. Moreover, domestic repayment is expected to witness a significant increase in 2025, primarily due to the maturation of domestic bonds to Maldives Pension Administration Office (MPAO), totalling MVR 1,165 million.

Target 4: To maintain debt maturing in 1 year within 40% of total debt.

Measure (4): To gradually shift 4 percent of Treasury Bills to MVR bonds with a maturity of 5 to 10 years

The proportion of debt maturing within one-year relative to total debt has reached 46% in 2022. This increase is attributed to a rise in short-term borrowings and higher debt maturity payments, particularly related to the redemption of sunny side bond.

A measure to shift from T-bills to long term bonds is included in the MTDS to help lower this ratio However, it is important to note that the majority of debt maturing within a year are in the form of Treasury-bills and Islamic Instruments issued to domestic financial institutions. The increase in the issuance of Treasury bills and Islamic Instruments over recent years, combined with a substantial volume of debt maturing 2025 and 2026, will be a challenge to maintain debt maturing within one year within 40% of total debt.

1.5 Budget financing and debt sustainability

The total financing need to meet the budget deficit and other cash flow needs were estimated to be MVR 13,489 million for the year 2022 and MVR 11,614 million for 2023 as per the initially approved budgets. Additional, MVR 5,848 million were expected to be required, when supplementary budget was passed in the year 2022 and MVR 6,110 million in the year 2023. The total Budget (budget with supplements) estimated to meet the budget deficit and cash flow need exceeded the limits set for financing need under the government's most recently published Medium Term Fiscal Strategies (MTFS) (Table 2). This discrepancy presents challenges in managing fiscal risks. Details of these risks are outlined in *Auditor General's Report on Review of Budget position Report 2023 and mid-term Budget Review (Report Number: REV-2024-69(E).*

Moreover, it is important to highlight that this mismatch significantly increased reliance on debt financing, thereby elevating the risks to the government's debt portfolio and overall debt sustainability. The temporary suspension of Article 32 (a), (d) and (e) of Act No. 7/2013 (Fiscal Responsibility Act), eased the restrictions to obtain budget support loans and other forms of debt finance. Furthermore, it permitted the government to utilize an overdraft facility to address cash flow needs and fulfill a portion of its financing requirement. The increased borrowing has resulted in higher debt servicing costs thereby undermining long-term debt sustainability. Moreover, these practices create significant challenges in achieving the overall targets outlined in the MTDS.

Table 2: Comparison of Financing requirement set under MTFS against Approved Budget (with supplement) for the year (MVR millions)

Details	2022	2023
MTFS	**15,429**	**11,722**
Approved Budget	13,489	11,614
Supplementary Budget	5,848	6,110
Budget + Supplement	**19,337**	**17,724**
Deviation from MTFS	3,908	6,003

Source:
MTFS
Approved Budget and Supplementary Budgets Published by Ministry.

2 Public Debt Analysis

2.1 Foreign currency denominated debt and Currency Exposure

2.1.1 Foreign Currency denominated debt to total debt

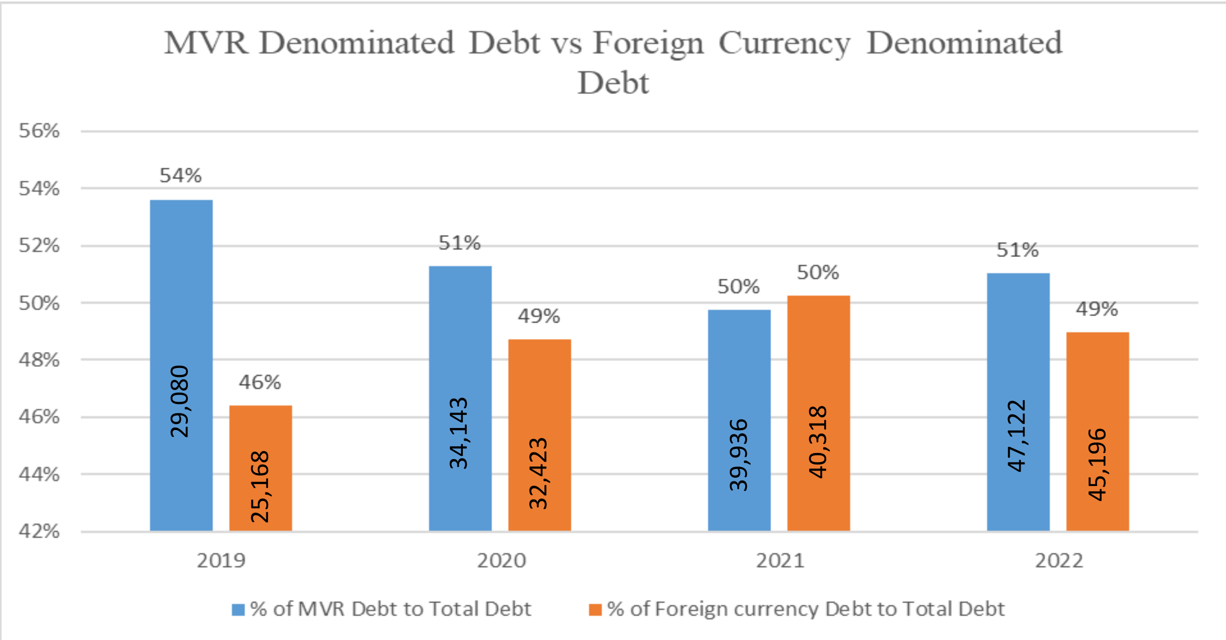
Foreign currency debt comprises both total external debt and domestic debt denominated in foreign currency (which represents the total debt held in foreign currency). Increase in foreign currency debt increases the strain on the government's foreign currency reserves, as it leads to an increase in debt service payments in foreign currency. The Ministry has set targets to maintain foreign currency debt at or below 40% of the total debt.

As shown in Figure 1, foreign currency debt has consistently risen over the past three years, reaching 50% of the total debt in 2021. However, it decreased to 49% in 2022. The primary factors contributing to the 1% reduction in 2022 include the redemption of the Sunny Side Bond upon maturity, totaling USD 58 million (resulting in a decrease in foreign currency denominated debt), and the issuance of a long-term bond to the MMA to securitize the Public Bank Account overdraft, amounting to MVR 4.3 billion (resulting in an increase in MVR denominated debt)

Although this ratio is below the overall target of 60% set in the MTDS, the yearly estimates presented in section 7 of MTDS 2023-2025 was not achieved Furthermore, as indicated in MTDS 2024-2026, despite the reduction in the foreign currency denominated debt in 2022, there was an 11% increase in short-term foreign currency debt as a percentage of the government's foreign currency reserves. This poses a significant risk to the exchange rate in the short term.

As shown in table 3, maturity profile of the current external debt portfolio indicates an anticipates rise in total outstanding balances denominated in foreign currency in the upcoming years.

Figure 1: Total MVR denominated debt vs Foreign Currency denominated debt (2019 to 2022) (MVR millions)



Source: Audited Statements of Public Debt

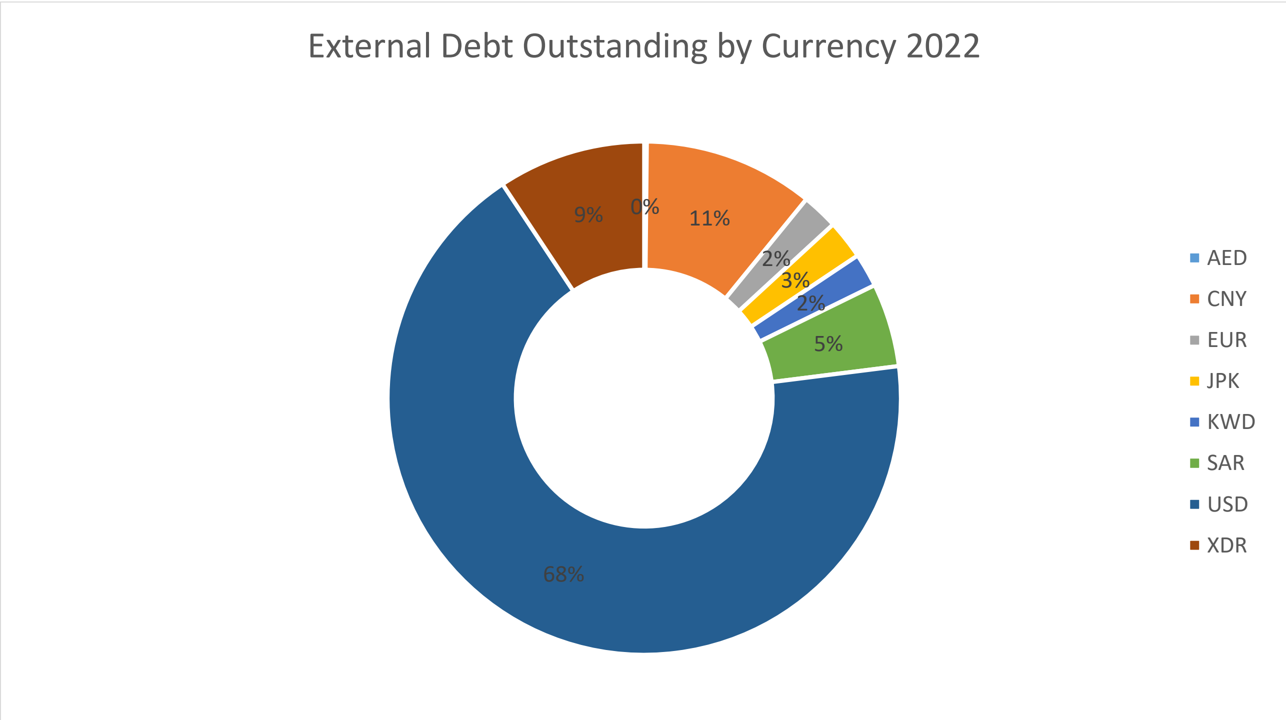
2.1.2 Currency composition (External Debt)

Below chart illustrates the currency composition of the external debt portfolio. As it can be seen 68% of the total external debt is comprised of USD.

Forecast data based on disbursement profile of current external debt portfolio (figure 3) indicates that USD denominated debt is expected to remain at 66% for the year 2023 and 2024. This is primarily due to new loans being disbursed in USD during this period.

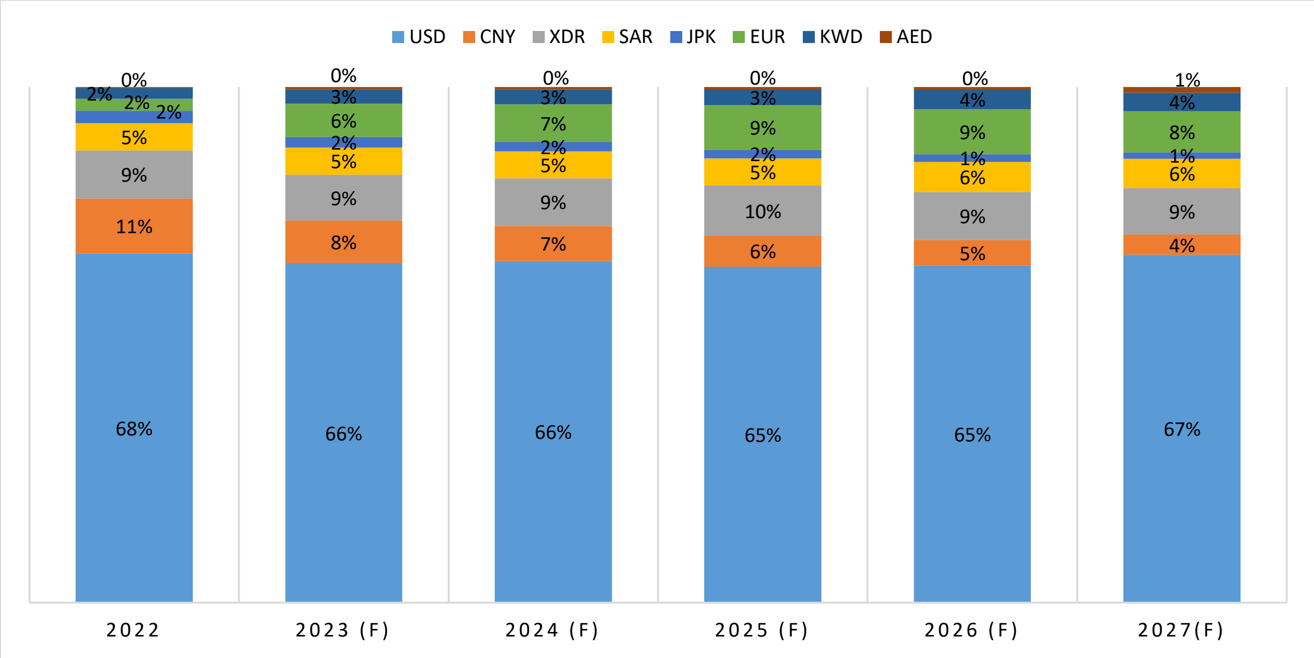
In contrast, the years 2025 and 2026 show a decrease in USD denominated external debt (figure 3). This reduction is attributed to the following the redemption of a USD 100 million budget support loan, a USD 500 Million Sukuk, and a USD 100 million ADFD bond.

Figure 2: External Debt Currency Composition 2022



Source: CSDRMS reports obtained from Ministry of Finance

Figure 3: External Debt Currency Composition 2022 to 2027



Source: CSDRMS reports obtained from Ministry of Finance

2.2 Cost of Debt Service to Revenue (2017 to 2022)

The cost of debt service includes interest, other charges and principal repayments. Cost of debt services to revenue ratio shows percentage of revenue incurred in servicing debt. A higher cost of debt services to revenue ratio indicates an increase in the proportion of total revenue in servicing debt, leaving less for other budgetary expenditures. Table 3 and Figure 4 shows total debt service cost to revenue (excluding grants).

As seen in table 3 debt service to revenue ratio had remained fairly consistent till 2019. Cost of debt service to revenue in the year 2020 had a significant increase to 26% due to the lower revenue in the year 2020 caused by Covid-19 pandemic.

Cost of debt service to revenue ratio had further deteriorated and reached 31% in the year 2021. While revenue has recovered immensely (increased by 40%) post Covid-19 during the year 2021, the debt service cost has increased at a much higher proportion (by 76%). This significant increase in debt service cost in the year 2021 is mainly due to partly redemption of USD 250 million Eurobond (Sunny Side Bond) matured in mid-2022.

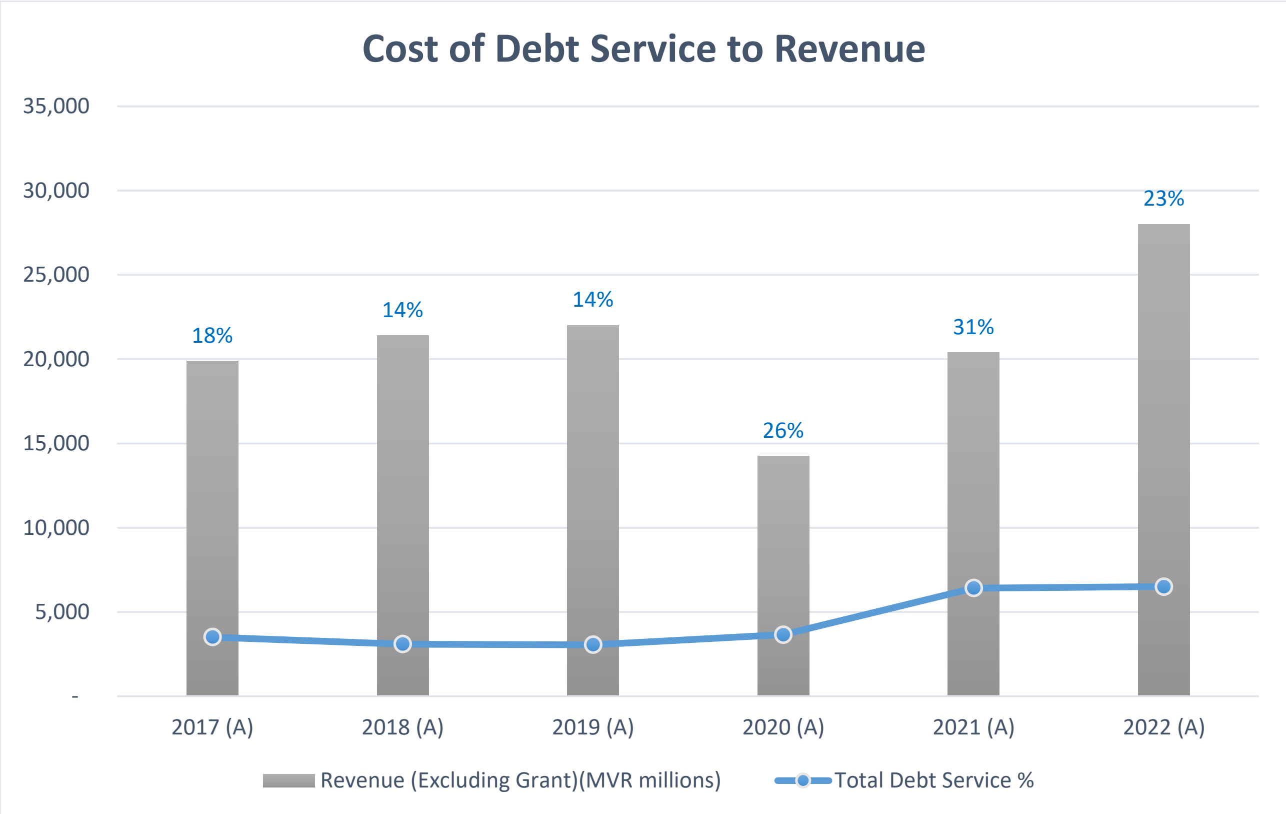
The ratio of debt service costs to revenue decreased by 8% in 2022, reaching 23% of total revenue for the year. This enhancement is due to higher proportion of increase in revenue (by 36%) compared to reduction in total debt service cost. However, it is important to note that the debt service cost of the government exhibited a higher rate of increase relative to its revenue growth.

Table 3: Cost of debt service to revenue over the past 6 years (MVR millions)

Year	Total Debt Service	Revenue (Excluding Grant)	Total Revenue	Debt Service to Revenue (Excluding Grant)
2017 (A)	3,504	19,893	20,259	18%
2018 (A)	3,085	21,389	22,223	14%
2019 (A)	3,052	22,009	23,232	14%
2020 (A)	3,653	14,249	15,222	26%
2021 (A)	6,420	20,394	21,353	31%
2022 (A)	6,501	28,546	29,034	23%

Source: Revenue figures are taken from budget Books, debt service cost was taken from debt bulletins and CSDRMS reports

Figure 4: Cost of debt service to revenue 2017 to 2022



Source: Revenue figures are taken from budget Books, debt service cost was taken from debt bulletins and CSDRMS reports

2.3 Debt Maturity

2.3.1 Debt maturing in 1 year to total debt (2019 to 2022)

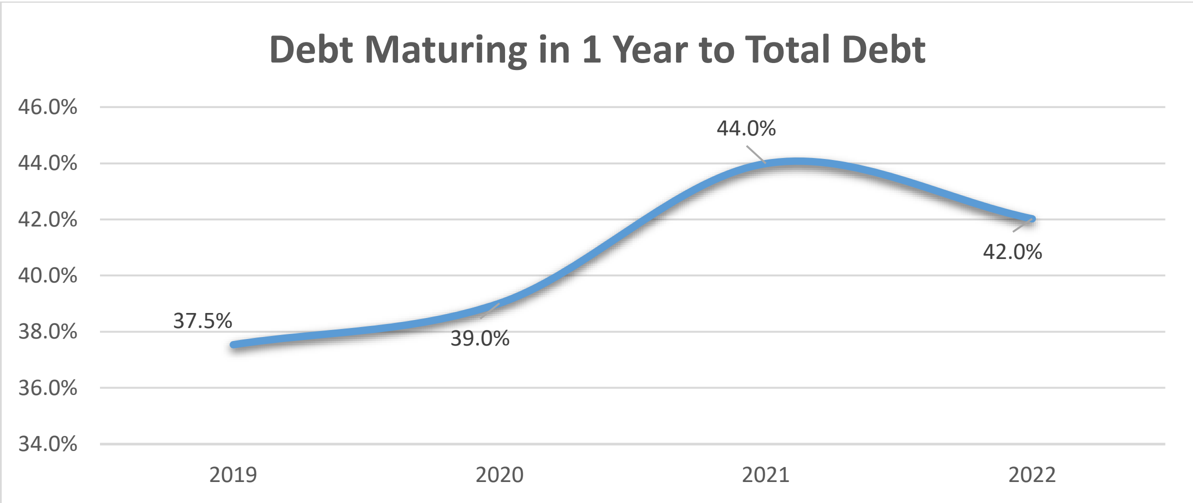
Debt maturing in 1 year includes short term debt (T-bills and short-term Islamic Instruments) and debt service cost. Maturing debt needs to be repaid or re-finance by the government; thus, the increase in debt maturing in 1 year increases refinancing risk. Ministry has set a target in MTDS 2024-2026 to maintain debt maturing in 1 year at or below 40% of total debt.

As observed in the chart (figure 5) the proportion of debt maturing in 1 year to total debt stands at 42% in 2022, which is higher than the MTDS target 0f 40%.

The MTDS includes a strategic target to shift 4% from T-bills to long-term, bonds, aiming to reduce the ratio of debt maturing in 1 year to total debt. However, it is crucial to highlight that, based on the maturity profile of existing medium to long-term borrowings in the year 2025 and 2026, principal repayments are expected to be significantly high and thus it would be challenging to keep debt maturing in 1 year to total debt at 40%.

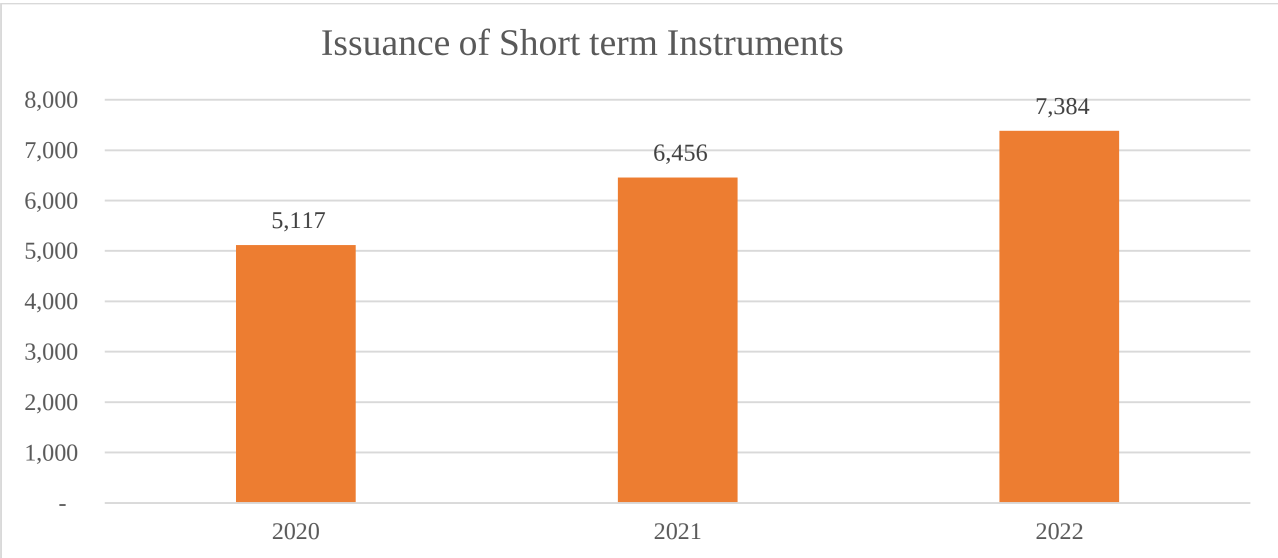
Furthermore, the increasing trend of issuance in short-term instruments, as shown in the figure 6 below, makes it challenging to keep debt maturing in 1 year within 40% of total debt. This challenge arises because a significant portion of debt maturing within a year is in the form of Treasury bills and short-term Islamic Instruments.

Figure 5: Debt maturing in 1 Year as a % of total debt



Source: CSDRMS reports and Audited Financial statements

Figure 6: New Issuance (Short term Instruments) (MVR millions)



Source: Audited Financial Statements

2.3.2 Forecast Maturity Profile (Medium to Long Term Debt) 2022 – 2027

Medium and Long-term debt of the government includes loans and bonds obtained from both domestic and external sources. The maturity profile provides a projection of the principle debt service cost, (Table 4).

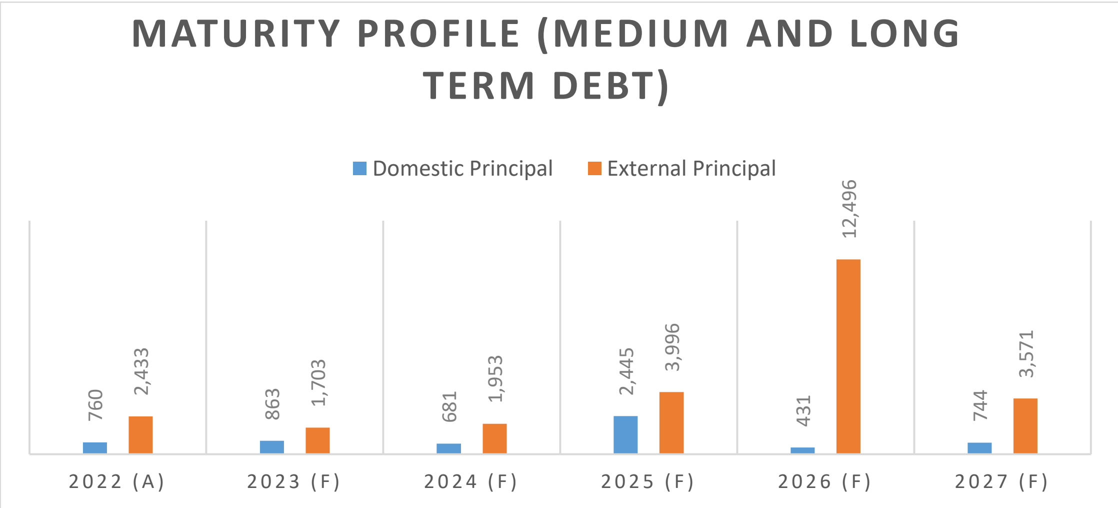
Note: Maturity profile analysis is based on the disbursement and repayment plan of the current loan and securities portfolio of medium and long-term debt.

Table 4: Cost of debt Service (Medium and Long-Term Debt) (MVR millions)

	2022 (A)	2023 (F)	2024 (F)	2025 (F)	2026 (F)	2027 (F)
Domestic Principal	760	863	681	2,445	431	744
External Principal	2,433	1,703	1,953	3,996	12,496	3,571
TOTAL	**3,193**	**2,566**	**2,634**	**6,441**	**12,928**	**4,315**

Source: CSDRMS reports provided by Ministry of Finance

Figure 7: Cost of debt Service (Medium and Long-Term Debt) (MVR millions)



Source: CSDRMS reports provided by Ministry of Finance

As can be seen from the above table 4, there are high external principal repayments in 2022, 2025 (F), 2026 (F) and 2027 (F). Additionally, a considerable domestic principal repayment is anticipated in the year 2025 (F). The reasons for these repayments are analyzed below.

2022 External Principal

The increase in External Principal in 2022 is mainly due to the full redemption of the Sunny Side Bond, totaling USD 58 million.

2025 External Principal

This is due to the repayment of MVR 1,540 million payable for the budget support loans obtained in early 2022. From the loan register, it is identified that 4 loans, each of USD 25 million, is taken in March of 2022 where the repayment of the entire Principal is due within 3 years (March 2025).

Other significant external principal repayments in the year 2025 include MVR 397.4 million payable for the USD Credit Line. The principal repayment for the USD credit line obtained in the year 2019 begins during the year 2025.

Note: It is also to be noted that several other principal repayments for previously obtained loans begin in the year 2025.

2025 Domestic Principal

Two bonds issued to the Maldives Pension Administration Office (MPAO) with a total face value of MVR 1,165 million mature in the year 2025. Additionally, a bond issued to BML of MVR 200 million is also due in the year 2025.

2026 External Principal

The main principal repayment due in the year 2026 includes the redemption of the USD 500 million Sukuk issued to bondholders and the redemption of USD 100 million bond issued to Abu Dhabi Fund for Development (ADFD). A total of MVR 7,700 million is payable for the redemption of Sukuk and MVR 1,540 for redemption of ADFD bond.

Note: It is also to be noted that several other principal repayments for previously obtained loans begin in the year 2026.

2.4 Debt to GDP

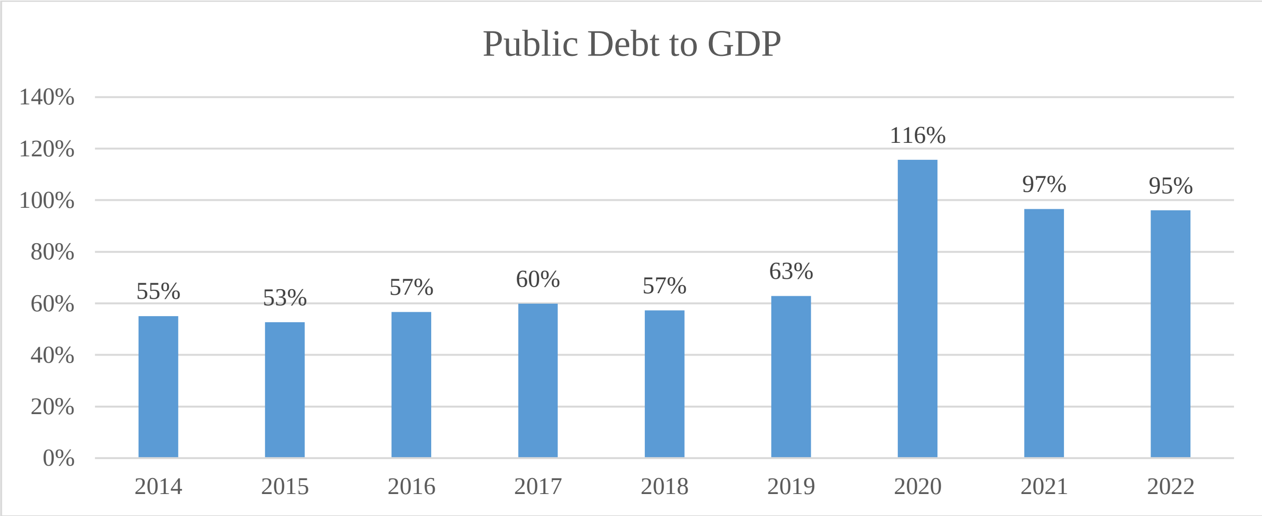
2.4.1 Public Debt as a Percentage of GDP

In the MTDS 2024-2026, under the expected outcome of the Strategy Implementation, the Ministry has stated that debt as a percentage of GDP will be 86.4% by the end of 2026.

Historical analysis shows debt as a percentage of GDP has increased over the years and in the year 2020 it has reached a peak of 116%. This increase is mainly due to the reduction of GDP over 35% and increase in borrowing caused by the adverse impact of Covid-19 on the economy and government revenue. However, in 2021, due to economic recovery post Covid-19, Debt to GDP ratio improved and decreased to 97%, reflecting a notable improvement of 19%.

Total debt as a percentage of GDP has further decreased in the year 2022 to 95%, marking a 2% decrease compared to 2021. This decline is due to 16% increase in GDP in the year 2022, while debt increased by 15%. By the end of 2022 debt had reached to MVR 91,540 million.

Figure 8: Debt as a percentage of GDP



Source: GDP figures were taken from Fiscal Strategy and public debt figures were taken from Audited Financial Statements

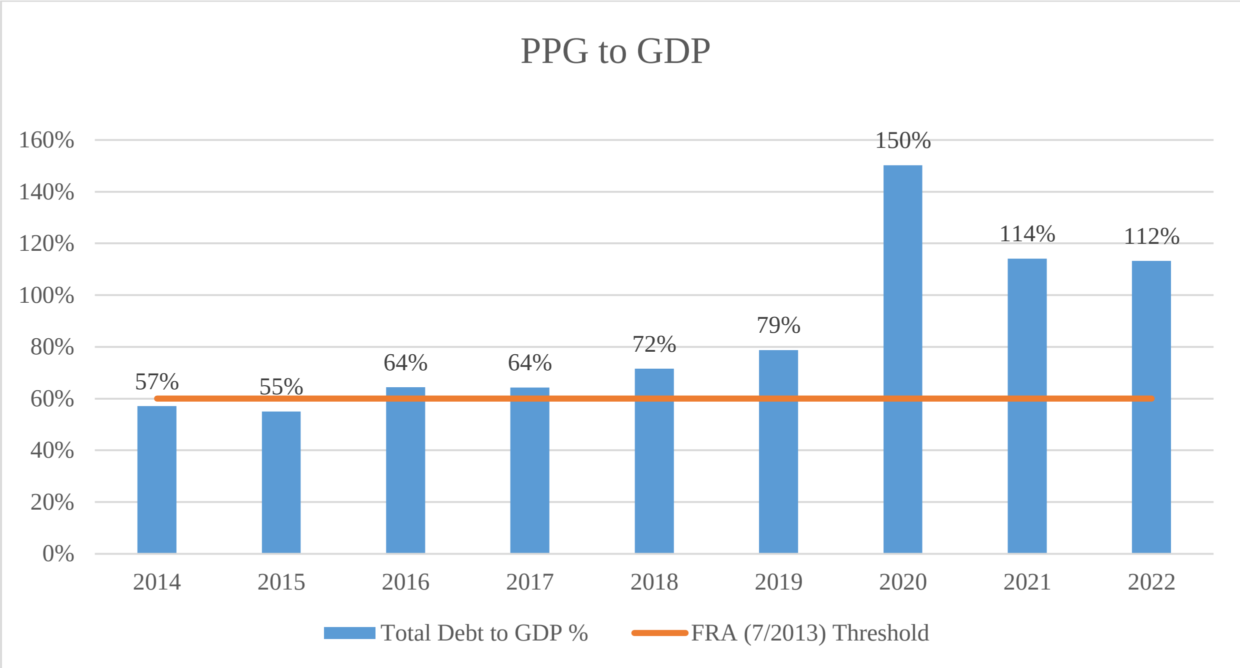
2.4.2 Public and Publicly Guaranteed (PPG) Debt as a Percentage of GDP

Section 32(b) of the Act No. 7/2013 (Fiscal Responsibility Act) states that effort must be made to maintain the total debt including government guarantees at a level that does not exceed 60% of the GDP within 3 years starting from 1st January 2014. Once this threshold is achieved, the Minister is required to announce a new target for the total Debt to GDP ratio for the next-five-year period.

As it can be seen from Figure , Public and Publicly Guaranteed (PPG) to GDP surpassed the limit set in Act in the year 2016 and an increasing trend is seen in the subsequent years. PPG debt to GDP has reached a peak of 150% in the year 2020 with total debt of MVR 86,514 million. The significant increase in debt as a percentage of GDP in 2020 was mainly due to the reduction of GDP and an increased borrowing requirement, resulting from the adverse impact of Covid-19 on the economy, leading to a lack of revenue for the government.

However, in 2021, due to economic recovery post Covid-19, PPG Debt to GDP has improved significantly and decreased to 114%, marking a 36% decrease compared to 2020. Public and Publicly Guaranteed (PPG) to GDP has decreased in 2022 to 112%, representing 2% decrease compared to 2021. This decline is due to increase in GDP by 16 % in the year 2022, while public and publicly guaranteed debt increased by 15%. By the end of 2022, the total public and publicly guaranteed debt has reached MVR 108,090 million.

Figure 9: The total Public and Publicly Guaranteed (PPG) as a percentage of GDP



Source: GDP figures were taken from Fiscal Strategy and public debt figures were taken from Audited Financial Statements

2.5 Creditor Composition for External Debt

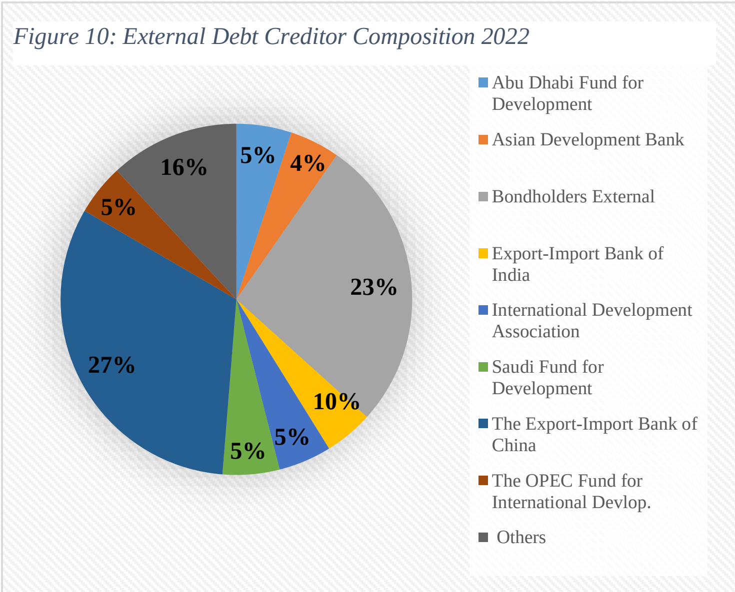
The creditor composition of external debt shows the composition of central government external debt to main creditors, indicating the percentage of total external debt each creditor holds.

Note: Creditor composition of external debt is calculated based on disbursed outstanding balances of external debt. For the year 2022 actual outstanding balances of external debt is used and for the year 2023 to 2027 forecast debt outstanding balances based on maturity profile is taken.

Analysis of 2022

Figure 10 shows creditor composition of the external debt portfolio for the year 2022. As it can be seen Export Import Bank of China holds largest share, with 27% of total external debt outstanding as of December 2022. This is followed by external bond holders, holding 23% of external debt.

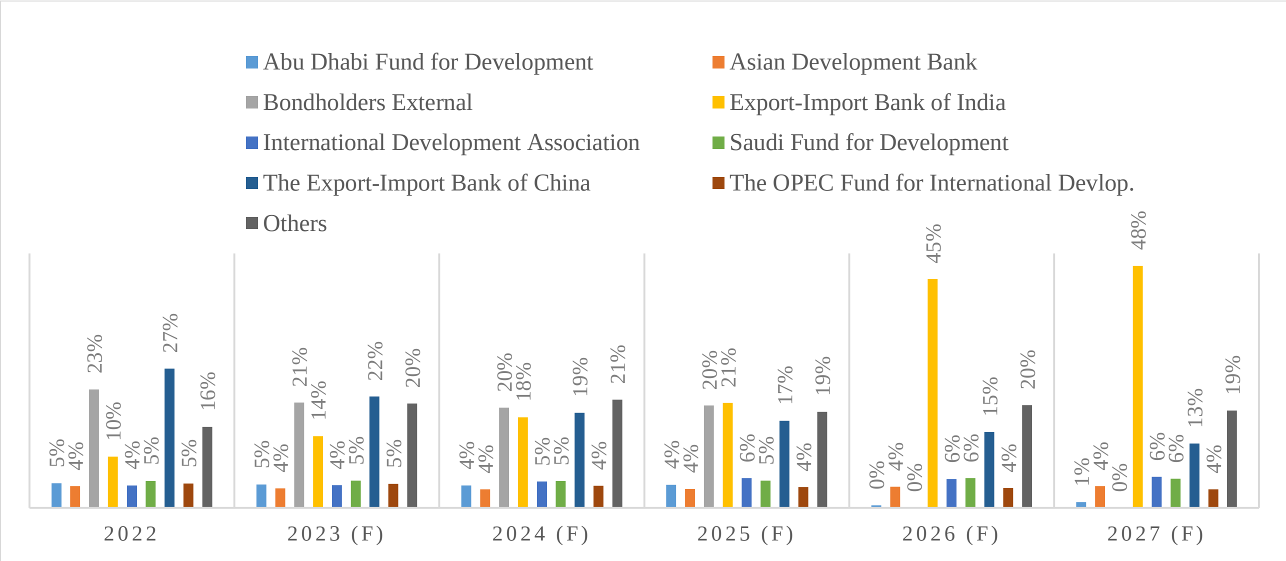
Figure 10: External Debt Creditor Composition 2022



Source: CSDRMS reports provided by Ministry of Finance

Forecast Analysis 2023 to 2027

Figure 11: External Debt Creditor Composition 2022 to 2027



Source: CSDRMS reports provided by Ministry of Finance

From forecasted disbursed outstanding debt of creditors in Figure 11 shows, share of Export Import Bank of China reduced to 13%, while Exim bank of India's share rise from 10% in 2022 to 48% in the year 2027. The main reason for this is due to additional disbursements for the existing loans taken from Exim Bank India

Based on the forecast in the year 2026 ADFD bond and Sukuk is maturing thus external bondholders holds no proportion of the debt by the end of 2026 and 2027.

The risk associated with a high concentration of a single creditor lies in the increased vulnerability of the debt portfolio based on the government's relationship with that specific creditor. Relying heavily on a single creditor makes the portfolio highly susceptible to changes in that creditor's policies, priorities, or decision-making processes.

The dynamic shift in creditors shares, as indicated in the forecast, introduces volatility and uncertainty in debt composition. This fluctuation in creditor shares may affect borrowing costs and terms. Additionally, single creditor dependency limits the government negotiating position, resulting in less favorable terms and conditions compared to a scenario with multiple lenders.

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