

Audit of Medium-Term Debt & Fiscal Strategy

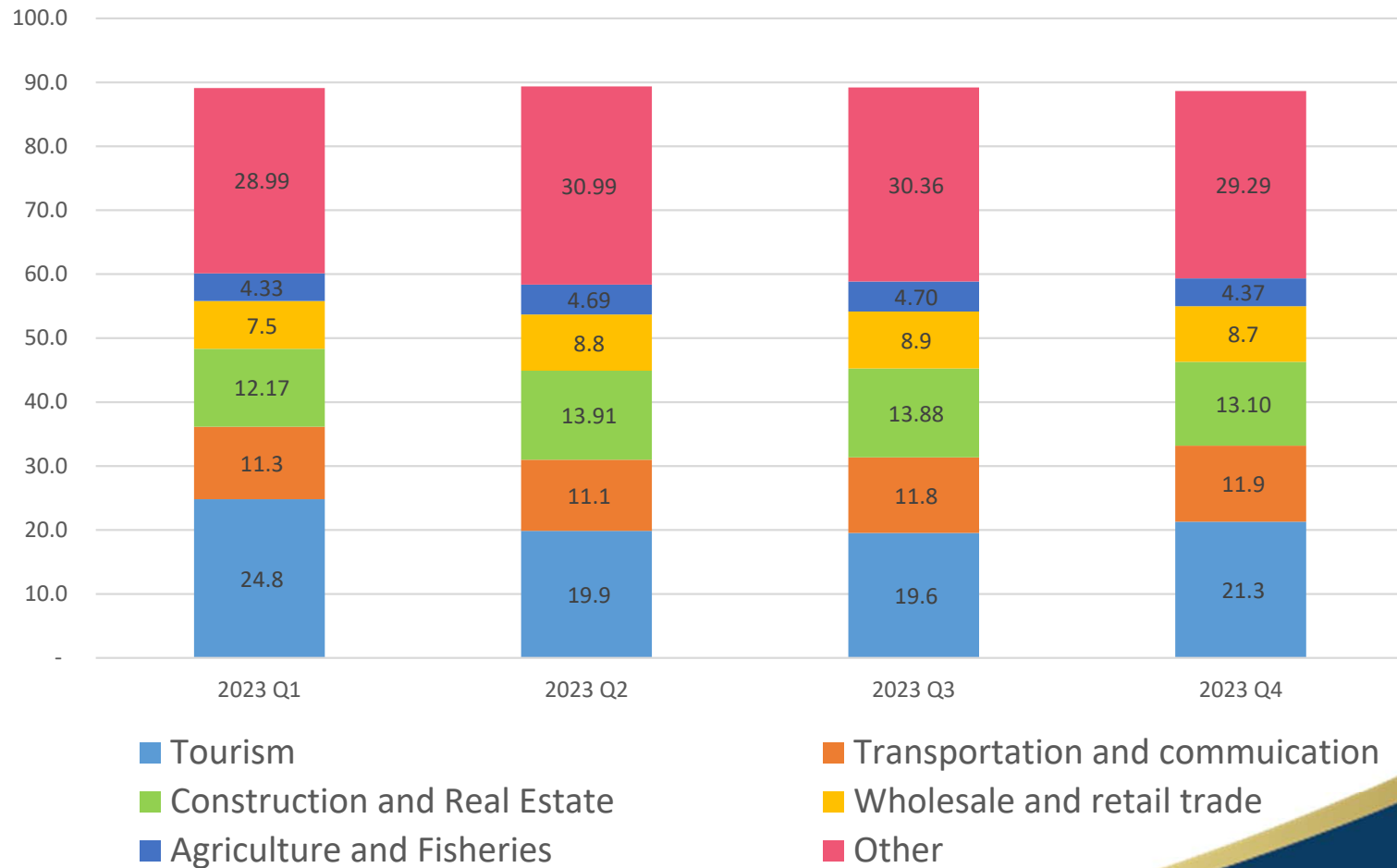


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Maldivian Economy

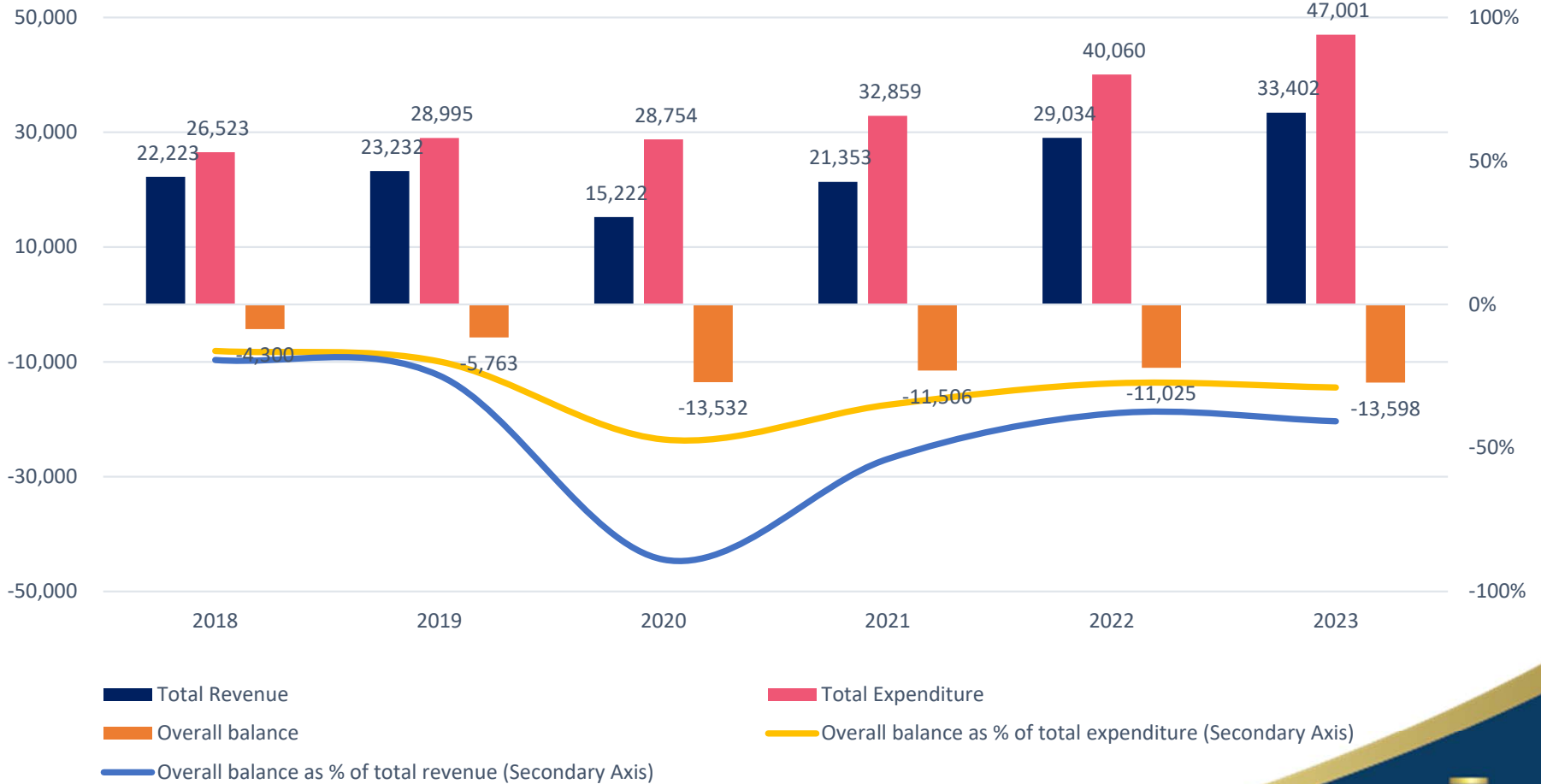
GDP Contribution 2023

Sectoral Contribution of Real GDP



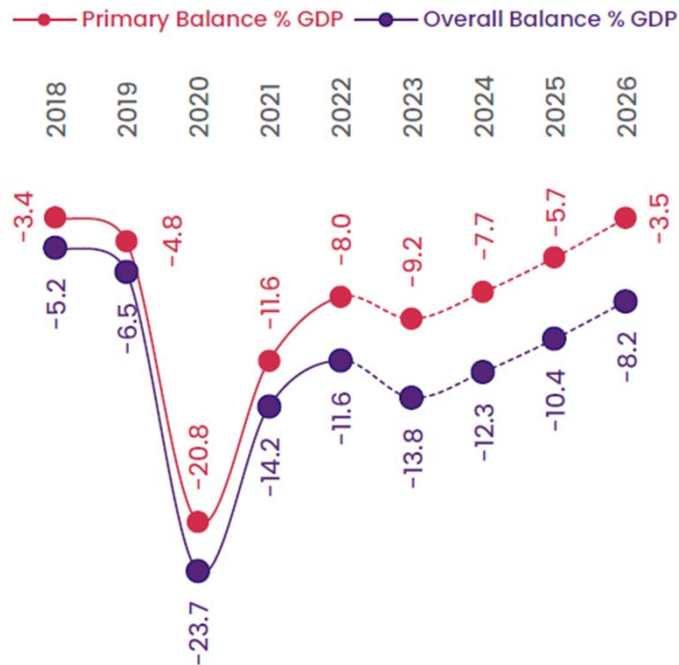
Impact of COVID

Summary of budget balance (2018 - 2023¹)
(millions of MVR, percent)



Impact of COVID

Fiscal Balance as a % of GDP

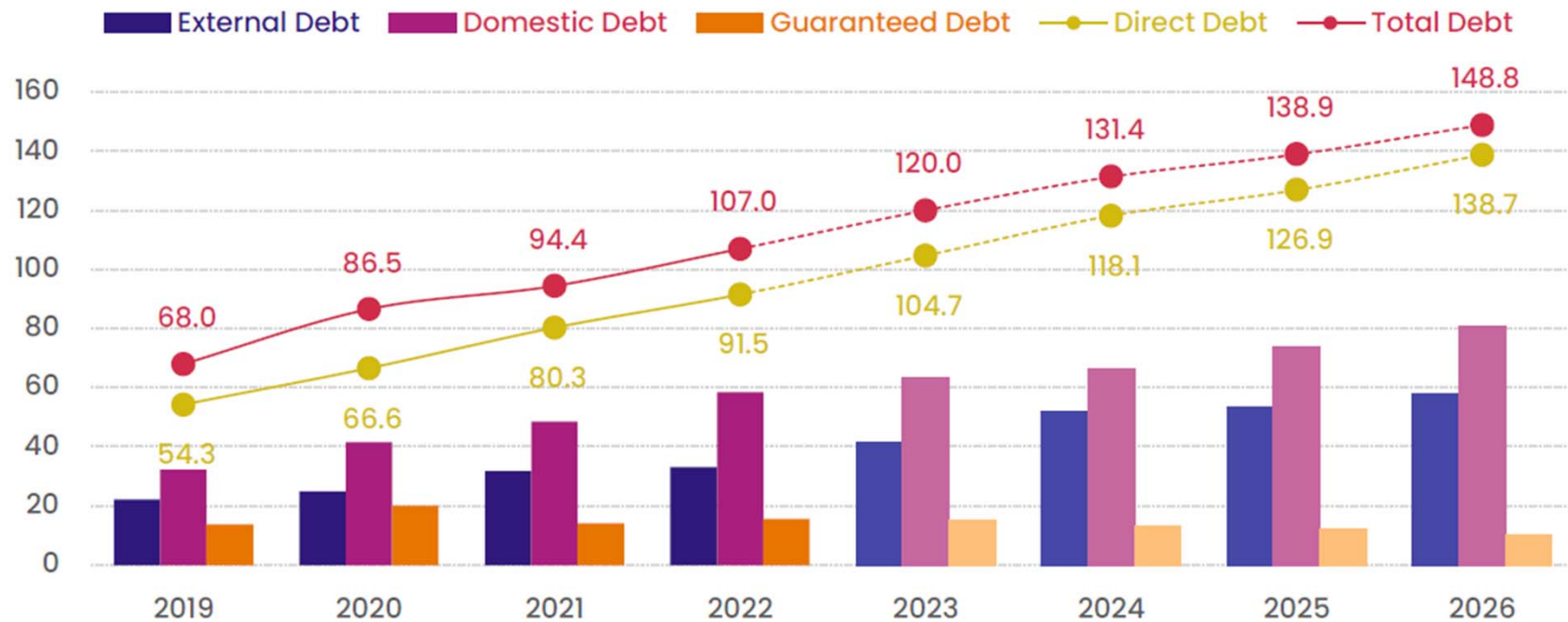


Source: Ministry of Finance

- Budget Deficits were on an increasing trend Even before COVID.
- With the COVID impact tourism sector and other related sectors dropped leading to low Revenues
- Government expenditure on welfare and social protection increased.
- Even with the economy fully recovering in 2022 the government expenditure remains high



Breakdown of Public Debt (MVR in Billions)

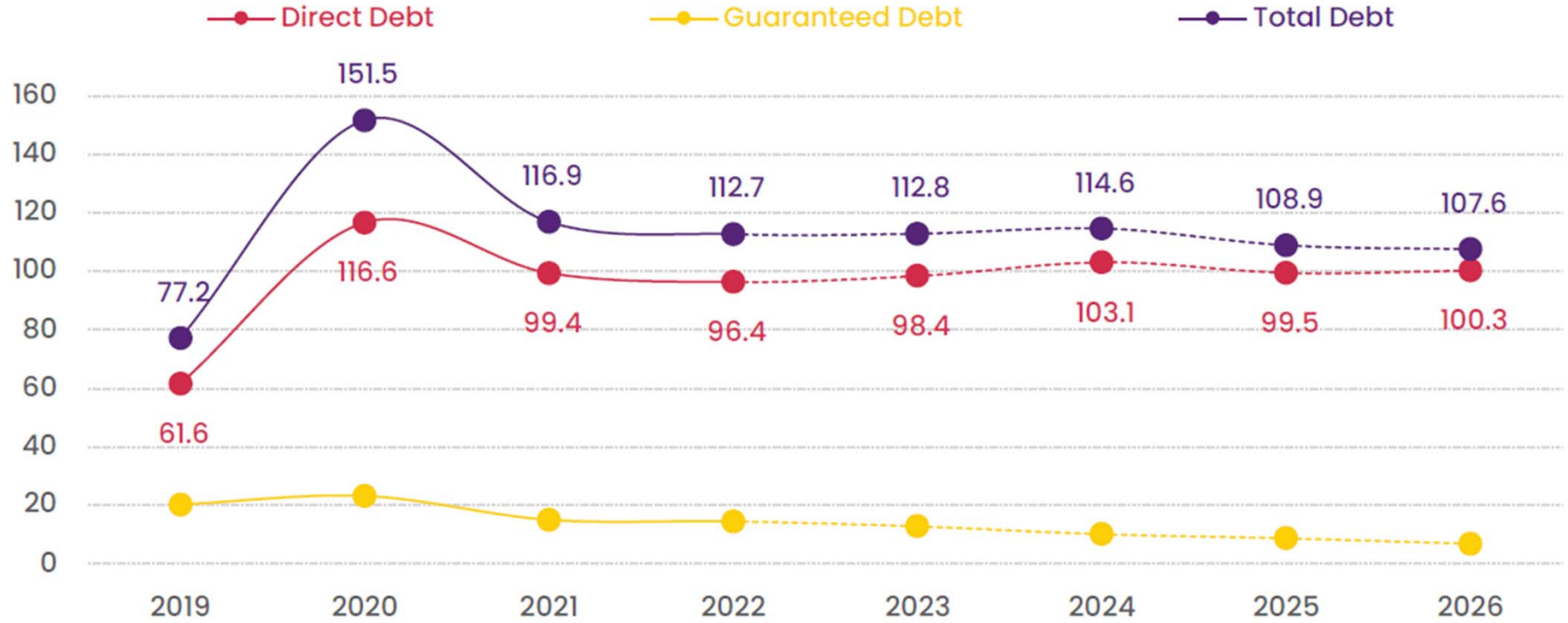


Source: Ministry of Finance

- 1- Sharp increase in public debt following COVID
- 2- With the increased fiscal balance the public debt kept piling up at a faster pace



Debt to GDP %



Source: Ministry of Finance



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Key Fiscal Risks

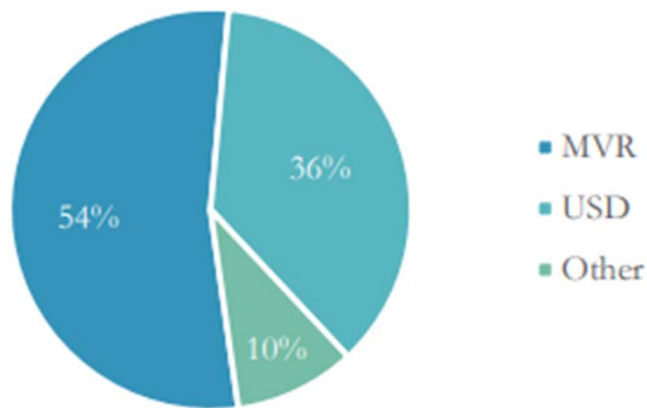
- 1- Implementation failures of Fiscal Consolidation Measures
- 2- Dependency of SOE's on the state budget
- 3- Lower realization of budgeted grants
- 4- Lower compliance with Tax Legislation and changes made to regulations
- 5- Increased payments as losses and contingencies
- 6- Spending on non-budgeted projects
- 7- Limitation of financing sources and deviation from financing plans
- 8- Increased finance and interest costs



Risks to Debt Portfolio

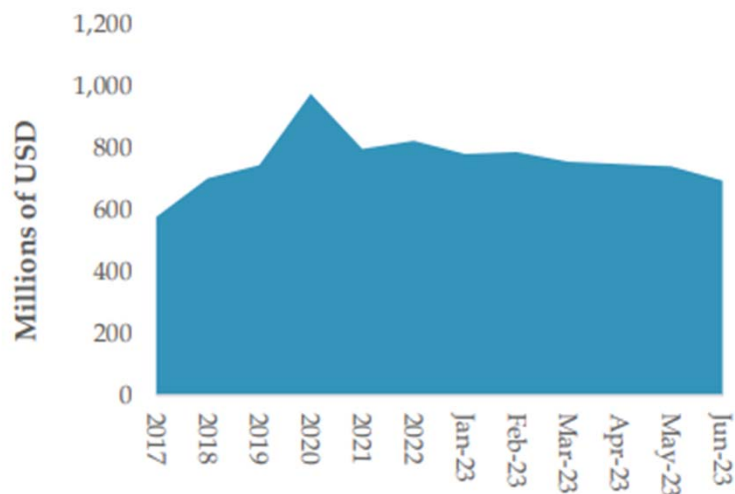
Exchange Rate Risk

Currency Composition (June 2023)



Source: Ministry of Finance

Foreign Currency Reserve (June 2023)



Source: Ministry of Finance

- A floating exchange rate band of 12.85 rufiyaa between ± 20 percent was fixed between the MVR and the USD in 2011.
- The exchange rate has consistently hovered at the upper boundary of the band, at MVR 15.42
- The risk of debt service costs from depreciation in foreign currency persists.

10 percent depreciation of Rufiyaa against the US Dollar:

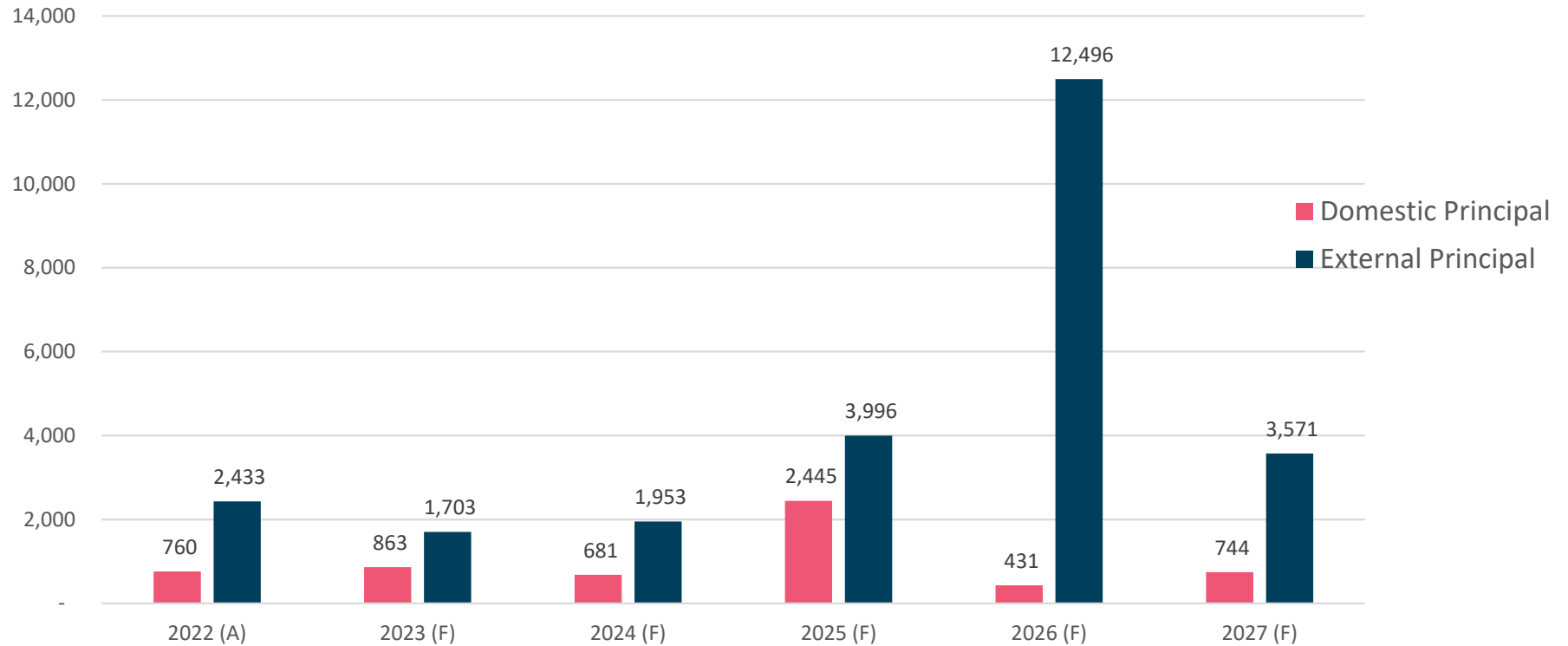
Debt Portfolio Increases by 5 billion. (4.7% of GDP 2023)



Risks to Debt Portfolio

Refinancing Risk

Maturity Profile (excluding short term debt)



Source: Audit Report Review of Medium-term Debt Management Strategy

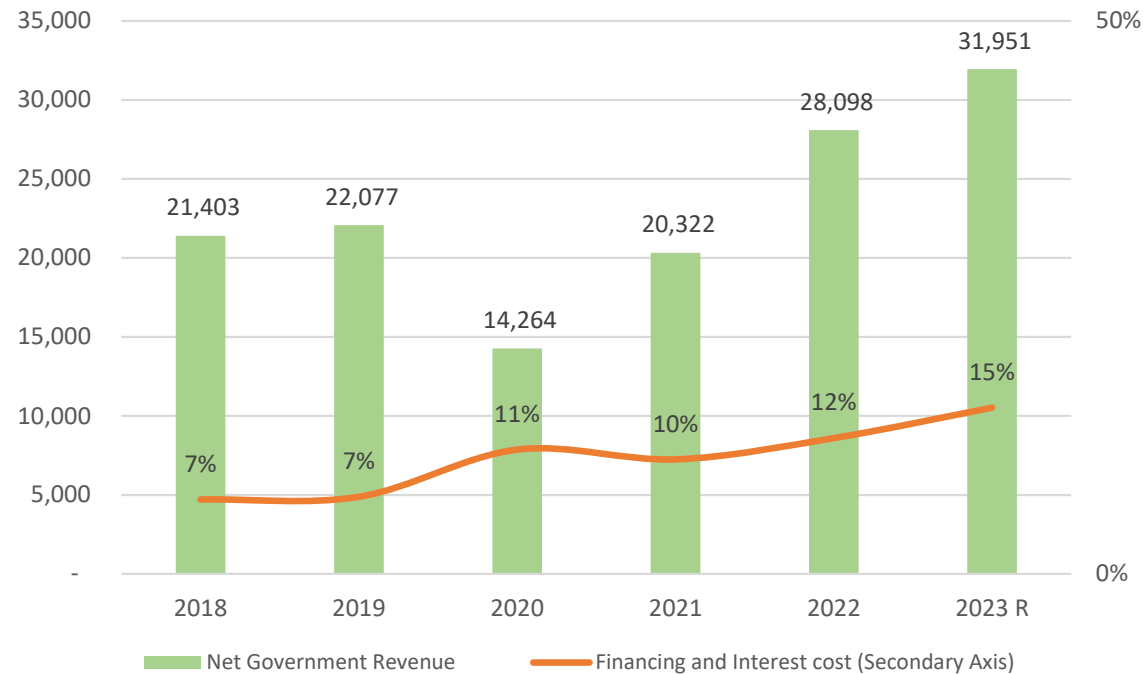
- The short-term debt portfolio as of 31 December 2023 is MVR 43,135 Million (38% of debt portfolio)
- Significant bullet payments due in 2025 and 2026 (Foreign Debt)



Risks to Debt Portfolio

Interest Rate risk

Finance Cost to Government Revenue



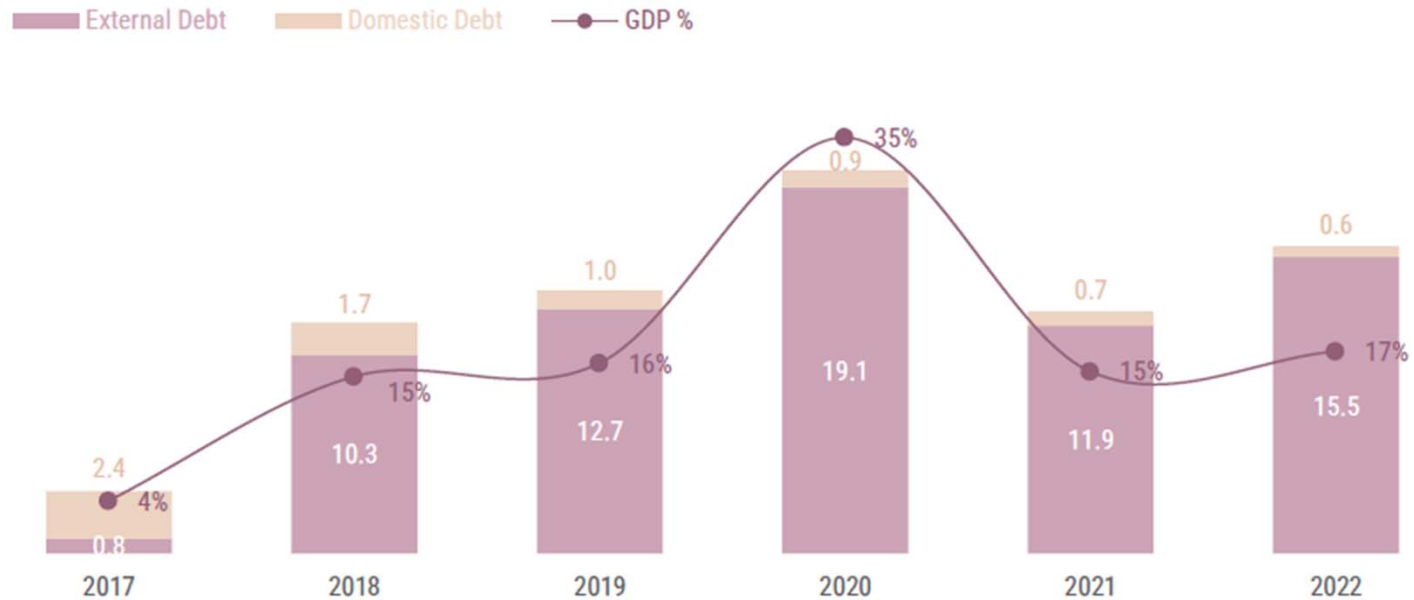
Source: Audit Report on Review of Budget Position Report 2023

- As of June 2023, the implied interest rate within the debt portfolio registers at 4.8 percent (signifying a rise from 4.1 percent in 2021)
- With the increased refining risk in the medium term, it is likely the interest rate will be higher in upcoming years.



Risks to Debt Portfolio

Guaranteed Debt Outstanding (2017-2022)



Source: Ministry of Finance

- Issuance of guaranteed debt to loss-making SOEs.



Debt and Fiscal Audits conducted by AGO

- 1. Financial And Compliance Audit of Statement of Public Debt.**
- 2. Financial and Compliance Audit of Statement of Government Guarantees**
 - a) Assurance of the disclosed debt and guarantee balances
 - b) Compliance with laws and regulations in borrowing
- 3. Review of Medium-Term Debt Management Strategy (MTDS)**
 - a) Analyzing the risks to debt portfolio.
 - b) Analysis of strategic targets (MTDS targets) and risks to the implementation of policy measures designed to achieve these targets.
- 4. Review of Medium-Term Fiscal Strategy (MTFS)**
 - a) Analyzing the Fiscal Consolidation Measures designed.
 - b) Analyzing the budget outcomes.
 - c) Analyzing the Fiscal Anchors and risks to its achievement.



Debt and Fiscal Audits conducted by AGO

5. Review of Budget Position Report and Budget Execution

- a) Analysis of the overall budget (Revenue and Expenditure)
- b) Analysis of the progress made in the implementation of the Planned Fiscal Consolidation Measures.
- c) Analyzing the key fiscal burdens to the government from
 - State-Owned Enterprises.
 - Policy Changes and Contingencies.
 - Subsidies etc...
- d) Analyzing the material fiscal risks.
- e) Assessment of fiscal alignment of the budget with medium-term strategies (MTDS / MTFS)
- f) Analysis of the lending by the government and receivables.



THANK YOU!



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