# ANNUAL REPORT 2016

MALDIVES MONETARY AUTHORITY

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MALDIVES
MONETARY
AUTHORITY

# PREFACE

In accordance with Article 35 (b) (2) of the Maldives Monetary Act 1981, this Annual Report covers polices adopted by the MMA during the year 2016 to achieve its main objectives, and the activities and developments of the MMA for the year 2016. It also covers developments in the domestic economy during 2016 and presents an overview of events in the global economy during the year. An outlook for 2017 is also included in the report. All analyses are based on information relating to the year 2016, received from relevant government authorities, financial sector agencies, public enterprises and other private sector sources. All data is as of April 2017. The views expressed in this report, however, are those of the MMA and do not necessarily represent those of the source of data. This report also includes a copy of the Financial Statements for the year ended 31 December 2016 that have been examined and certified by the external auditors. We thank all those who have contributed to the publication of this report including the provision of the information contained herein.

# GOVERNOR'S STATEMENT

*The year 2016 was a remarkable and a historic year for the MMA. The year began on a high note, with the issuance of the Ran Dhihafaheh banknote series into circulation on 26 January. By the end of the year, Ran Dhihafaheh notes have replaced 94% of the old paper banknotes, in value terms. The extraordinary success in the transition was achieved because of the massive awareness campaign that the MMA carried out throughout the country. The staff of the MMA visited every inhabited island, every tourist resort, and every industrial island in the country, to engage with the public and introduce the new features of the Ran Dhihafaheh notes.*

*The performance of the financial sector was strong during 2016, especially in the banking sector. The banks' balance sheet strengthened due to the recovery of few large non-performing loans, and combined with increased lending activities, further improved their profitability. A significant development of the financial sector in 2016 was the establishment of a new commercial bank and two new insurance companies. This will bring more competitiveness and development to the financial sector.*

*Maintaining a stable financial system in the country is a key goal of the MMA. To achieve that goal, the MMA formulated and issued regulations that would protect the integrity and security of the financial sector of the country.*

*Promoting financial inclusion is a key priority of the MMA as it can increase prosperity and wealth in the country and reduce income inequality among different regions. For the MMA, financial inclusion means enabling an easy and affordable access to finance in every corner of the Maldives; every island in the country; and every individual in the nation. In August 2016, the MMA launched the Credit Guarantee Scheme to facilitate collateral-free financing for small and medium enterprises (SMEs). This was an important initiative because SMEs in the Maldives do not normally have adequate collateral required in securing loans from commercial banks. Another significant development was the introduction of mobile payment services, which will increase access to financial services at an affordable rate. In addition, 2016 witnessed a rapid increase in the number of branches and financial services by the commercial banks, especially by the Bank of Maldives, in the more remote islands in the country.*

*MMA has been striving to create an environment where more Maldivians occupy jobs in the financial sector. In 2016 the MMA Training Institute provided a number of specialised training and skills development programmes and professional certificate courses required for the financial sector. In addition, the MMA has been encouraging financial institutions to employ more skilled Maldivians especially at higher levels, and mandated that either the CEO or the deputy CEO of the financial institutions should be Maldivians.*

*The development and stability of the financial sector can be achieved only with an efficient and secure payment system. An important initiative to develop the payments infrastructure in the Maldives was the introduction of cheque clearing through the Automated Clearing House (ACH) system towards the end of 2016. With the automation of the system, the time taken to clear a cheque is now significantly reduced.*

*In pursuit of the MMA's mandate to promote the stability of the Maldivian rufiyaa, regular intervention was carried out in the foreign exchange market to stabilise the market. In this regard, the MMA increased the foreign currency sales to the government, state owned enterprises and commercial banks, in order to relieve the foreign exchange market pressures. Also, in order to address the long queues that formed in front of the commercial banks to buy US dollars during the school holidays toward the end of the year, a special, temporary arrangement was made to sell US dollars directly by the MMA to Maldivians travelling abroad. Following this historic effort in which the staff of the MMA played a vital and praiseworthy role, arrangements were made with the Bank of Maldives to sell US dollars to travellers through their special counter at the Velana International Airport in early 2017.*

*The weak start to the macroeconomic activities improved significantly as the year progressed, and the country was able to achieve a stable growth for the year. Resilience was the central theme of the year, with most sectors bouncing back after experiencing less than ideal conditions a year ago. Tourism growth was mostly on account of improving conditions in the global economy, and the construction sector expanded on the back of marked increase in bank lending to the sector. The scaling-up of public sector infrastructure investment also contributed to the increase in construction activities.*

*The MMA's decision to reduce the minimum reserve requirement of commercial banks in the latter half of 2015 lowered the cost of finance for the banks. The accommodative monetary policy and improved economic growth prospects underpinned the strong recovery in the credit growth to the private sector. This development is particularly noteworthy as the turnaround in bank lending came about after years of stagnant growth in lending to the private sector. Given the need for credit expansion and the absence of inflationary pressures in the economy, MMA continued with the accommodative monetary policy in 2016.*

*The average rate of inflation declined marginally in 2016, mostly influenced by subdued growth of global commodity prices. The first half of the year saw inflation rates creeping into the negatives, but the change in the staple food subsidy policy by the government created some inflationary pressures towards the end of the year.*

*The main risks for the Maldivian economy during 2016 arose from the worsening of the balance of payments. The surge in imports and the increase in outward remittances contributed to the significant increase in the current account deficit. This resulted in a drawdown in gross international reserves. However, the MMA's short term liquidity management efforts in response to these temporary shocks prevented a large, prolonged drawdown of the reserves, and have been successful in ensuring the continuity of foreign exchange market intervention efforts without major disruption.*

*The growth prospect for the Maldivian economy is promising for 2017, with GDP growth estimated to be higher than 2016. The tourism and construction sectors are expected to continue their streak of good performance during the year. Although domestic prices are likely to increase modestly due to rising global commodity prices, inflation can be contained at low and stable levels. Expected inflows of foreign direct investments and the strong tourism sector performance will help reduce the current account deficit, and provide more room for the MMA's efforts to stabilise the foreign exchange market.*

*In many ways, 2016 was a challenging, yet successful, year. There is every reason to expect that 2017 will bring more successes to MMA's efforts, with the continuous support and dedicated service of the MMA team. I convey my sincere gratitude to the Board of Directors, the senior management, and the staff for their cooperation and valuable contribution in meeting the objectives of MMA.*

*I am confident that in 2017, the economy of the Maldives will experience an accelerated and inclusive growth. This will also be a year the financial sector will further strengthen, achieve greater financial inclusion in the country, and experience heightened competitiveness. My hope is that the growth and the further development of the economy will help to create wealth and bring prosperity to the country for the benefit of every Maldivian.*

*Azeema Adam*
*Governor*

# FUNCTIONS OF THE MALDIVES MONETARY AUTHORITY

The Maldives Monetary Authority is the central bank of the Maldives. It was established on 1st July 1981, under the MMA Act, with the following key objectives:

- To issue currency and regulate the availability, and international value of the Maldivian Rufiyaa;
- To provide advisory services to the Government on banking and monetary matters;
- To supervise and regulate banking so as to promote a sound financial structure; and
- To promote in the country and outside the country the stability of Maldivian currency and foster financial conditions conducive to the orderly and balanced economic development of Maldives.

# BOARD OF DIRECTORS

Dr. Azeema Adam
Chairperson (Governor)

Mohamed Saeed
Minister of Economic Development

Hussain Hilmy
Private Sector

Aishath Zahira
Deputy Governor

Abdulla Ghiyas Riyaz
Private Sector

Neeza Imad
Assistant Governor

Abdul Haleem Abdul Ghafoor
Deputy Minister of Finance and Treasury

*Mr. Abdul Haleem Abdul Ghafoor was appointed as a member of the Board on 23 October 2016

# EXECUTIVE COMMITTEE

**Governor**

*Dr. Azeema Adam*

**Deputy Governor**

*Ms. Aishath Zahira*

**Assistant Governors**

*Ms. Idham Hussain - Monetary Policy, Research and Statistics*

*Ms. Neeza Imad - Financial Stability*

*Ms. Mariyam Hussain Didi - Banking Operations*

# SENIOR OFFICIALS

**Counsel General**

*Uza. Sheeza Ahmed*

**Chief Examiner of Financial Sector**

*Ms. Mariyam Shifa*

**Heads of Divisions**

*Ms. Mariyam Najeela –Banking Supervision Division*

*Mr. Abdul Hameed Mohamed – General Services Division*

*Ms. Aishath Nadhiya – Reserve Management and Market Operations Division*

*Ms. Fathimath Jawza - Financial Controls Division*

*Ms. Lubna Abdul Gadir – Human Resource Division*

*Ms. Muna Ibrahim –Banking and Payments Division*

*Uz. Hassan Fiyaz –Insurance Division*

*Ms. Hamida Shakeela –Other Financial Institutions Division*

*Mr. Moosa Ahmed Manik –Technology Service Division*

*Mr. Mansoor Zubair– Statistics Division*

*Mr. Ahmed Imad – Monetary Policy and Research Division*

# Abbreviations and Acronyms

| | |
|---|---|
| ACH | Automated Clearing House |
| ATMs | automated teller machines |
| BOP | balance of payments |
| bps | basis points |
| BPT | business profit tax |
| cif | cost, insurance, freight |
| CGS | Credit Guarantee Scheme |
| CIB | Credit Information Bureau |
| CPI | consumer price index |
| ECB | European Central Bank |
| EU | European Union |
| FDI | foreign direct investment |
| fob | free on board |
| FSAP | Financial Sector Assessment Program |
| G-GST | general goods and services tax |
| GDP | gross domestic product |
| GIR | gross international reserve |
| GWP | gross written premium |
| IMF | International Monetary Fund |
| MMA | Maldives Monetary Authority |
| MPAO | Maldives Pension Administration Office |
| MRR | minimum reserve requirement |
| MRTGS | Maldives Real Time Gross Settlement |
| NDA | net domestic assets |
| NFA | net foreign asset |
| NPLs | non-performing loans |
| ODF | overnight deposit facility |
| OFC | other financial corporations |
| OFI | other financial institutions |
| OLF | overnight lombard facility |

| | |
|---|---|
| OMO | open market operations |
| OPEC | Organisation of Petroleum Exporting Countries |
| PSIP | Public Sector Investment Programme |
| PNFC | public non-financial corporation |
| SAARC | South Asian Association for Regional Cooperation |
| SEZ | Special Economic Zone |
| SMEs | small- and medium-sized enterprises |
| SOEs | state-owned enterprises |
| T-GST | tourism goods and services tax |
| UK | United Kingdom |
| US | United States |
| WAIR | weighted average interest rate |

# Contents

# ECONOMY IN 2016

# Economic Highlights 2016

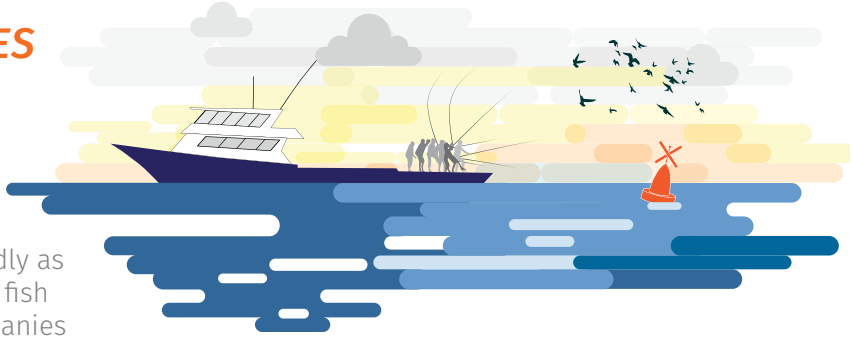
## TOURISM

4%

Tourist arrivals growth

Tourist arrivals growth picked up during the year driven by growth in arrivals from the European market and increased international flight movements.

## FISHERIES



19%

Fish purchases

Fisheries sector rebounded markedly as indicated by the positive growth in fish purchases by fish processing companies and increased growth in fish export volume

## CONSTRUCTION

22%

Growth in construction related imports

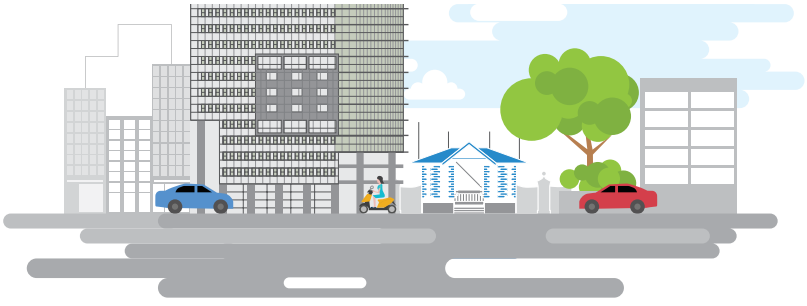
Construction sector growth remained buoyant, boosted by key infrastructure and developmental projects.

## INFLATION

### 0.5%
inflation rate

Inflation remained subdued and decelerated further in 2016, contributed primarily by lower global oil prices and domestic fish prices.

## PUBLIC FINANCE



### 7.4%
Fiscal deficit as a percentage of GDP

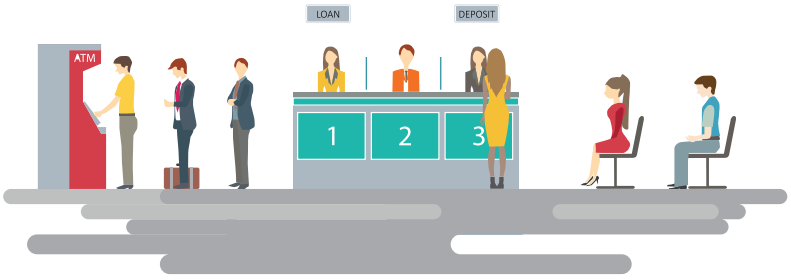
A modest growth in total revenue, coupled with a slower growth in total expenditure, helped to contain the fiscal deficit.

## MONETARY POLICY

### 10%
Private sector credit growth

As monetary policy remained accommodative in 2016 to facilitate private sector lending and foster economic growth, domestic credit remained strong.

## FINANCIAL SECTOR




### 14%

**Decline in NPLs**

Despite only a modest increase in the deposit base of the banking sector, strong profits contributed to an expansion in the asset base of the sector. Asset quality also improved drastically, with a drop in NPLs.

## EXTERNAL SECTOR

### 22%

**Current account deficit as a percentage of GDP**

The current account deficit worsened reflecting a marked growth in payments made abroad in 2016 and higher imports. This exceeded the net inflows into the financial account, which widened the balance of payments deficit, leading to a drawdown of US$95.8 million in the gross international reserves.

# MACROECONOMIC DEVELOPMENTS

# International Economic Developments

## Output

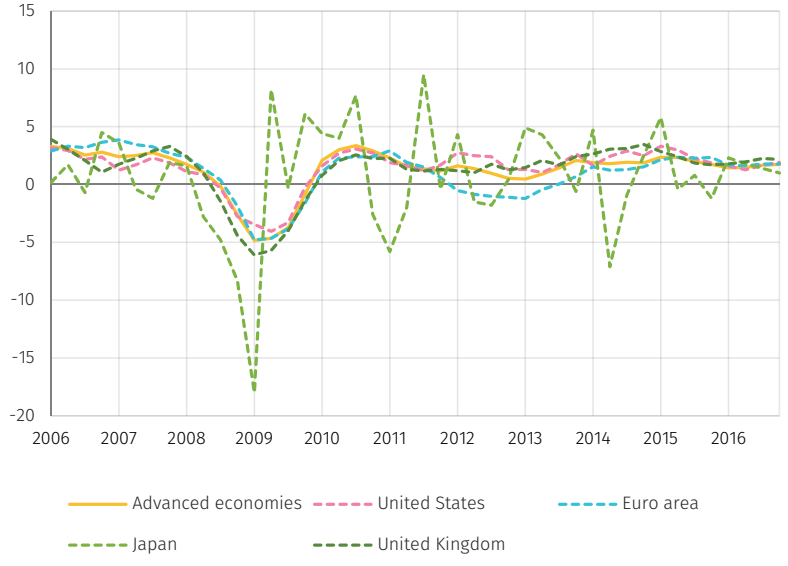
*The global economy remained subdued in 2016 mainly on the back of weaker output from advanced economies, while the recovery in emerging markets and developing economies was lower than expected and growth remained broadly unchanged. Global inflation eased further during the year despite a recovery in commodity prices.*

The global economy remained subdued in 2016, with advanced economies; and emerging market and developing economies recording mixed performances. During the year, global growth[1] was estimated at 3.1%, a slight moderation from the previous year. This was mainly due to the sluggish growth of the advanced economies, while growth in the emerging market and developing economies remained unchanged.

Looking at the advanced economies, economic activity in the United States (US) slowed to 1.6% in 2016 (Figure 1). In the early part of the year, economic performance was weak due to lower exports following the appreciation of the US dollar, weaker consumer demand and negative contribution from business investments. However, the growth momentum picked up pace during the second half of the year mainly on the back of

### Figure 1: Real GDP Growth in the Advanced Economies, 2006–2016

(annual percentage change)




**1.6%**

Economic activity in the US recorded a slow growth of 1.6% in 2016

Sources: IMF World Economic Outlook Database, Cabinet Office Japan and Office for National Statistics UK

[1] International Monetary Fund, 'World Economic Outlook Update—January 2017.'

a turnaround in the contribution of private business investments. Nevertheless, the main driver of the economy—consumption expenditure—remained moderate despite improvements in the labour market.

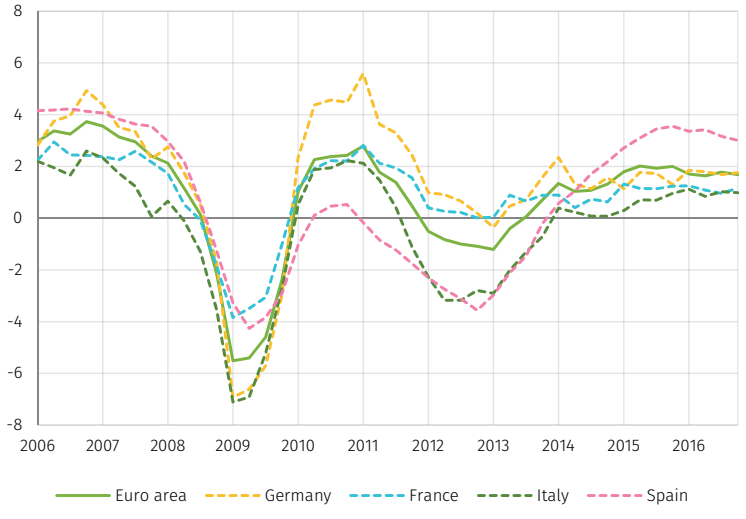
In the euro area, the recovery in economic activity remained resilient to uncertainties following the Brexit vote and geopolitical tension in the region during the year (Figure 2). Output slightly decelerated to 1.7% as a decline in exports continued to weigh on the area's economic growth. Nonetheless, the buoyant consumer demand that resulted from low oil prices and improved labour market conditions compensated for weak exports during the year. Further, the continued quantitative easing measures by the European Central Bank (ECB) and some fiscal easing also contributed to the growth. Looking at the main economies in the region, the German economy grew moderately, supported by strong consumer spending resulting from rising employment. Italy posted a solid growth during the year, while Spain maintained the same pace of growth as the previous year. However, in France, deadly terrorist attacks and a wave of protests related to labour reforms dampened the growth of an already sluggish economy.

The Japanese economy slightly decelerated to 1.0% in 2016 as both domestic demand and net trade remained weak during the year. Household consumption—one of the key drivers of the economy—continued to decelerate since the tax hike in 2014 as the real wage growth remained flat. Meanwhile, subdued growth in exports due to recent strengthening of the yen exacerbated the growth momentum amid uncertainties during the year in the global economic climate, particularly in the US and China.

In the United Kingdom (UK), economic activity remained solid despite the uncertainties following the Brexit vote, with strong growth in consumer-focused industries (such as retail sales and travel

## Figure 2: Real GDP Growth in the Euro Area, 2006–2016

(annual percentage change)




**1.7%**

Euro area growth slightly decelerated to 1.7% in 2016

Source: OECD Database

agency services) and a slight recovery in the production industry. However, considerable slowdown in the construction sector output dampened growth, with the growth rate decelerating from 2.2% in 2015 to 1.8% in 2016.

Turning to the emerging markets and developing economies, growth was lower than expected and remained broadly unchanged from the previous year (Figure 3). Two main factors contributed to the weaker than expected growth outturns: tighter financial conditions and persistent productivity declines. Productivity declines were due to a range of issues, such as domestic strife, political discord and geopolitical tensions.

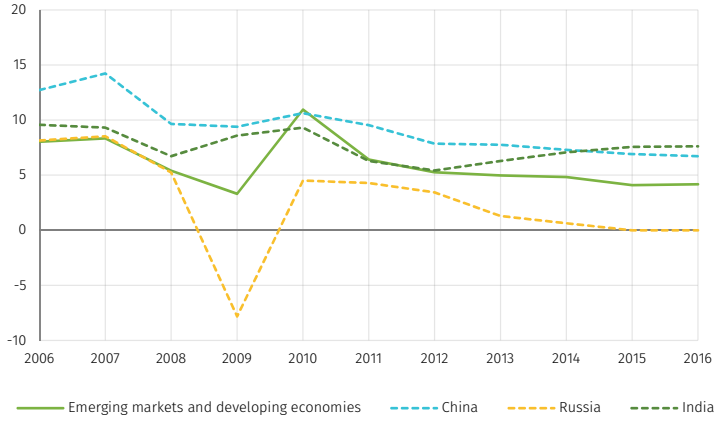
In China, economic activity further decelerated to 6.7%, the lowest growth recorded in 26 years. The gradual slowdown of the Chinese economy reflected a rebalancing away from the manufacturing sector towards the service sector. The growth is however, stronger than expected, supported by robust consumption and increase in investments, most notably in the real estate sector. There was also strong credit growth reinforced by the continued policy stimulus.

Russia's economy showed signs of recovery in 2016, despite continued economic sanctions against the country. Based on preliminary data, growth was estimated at -0.6% in 2016, after a contraction of -3.7% during the previous year. This remarkable growth was propelled by firmer oil prices combined with improved financial conditions following the central bank's decision to reduce interest rates.

The Indian economy recorded a growth rate of 7.6% in 2016, maintaining the same pace of growth as in the previous year. The growth was mainly driven by the service sector and the manufacturing sector. The key economic sectors, however, experienced a downturn in business activity during the last quarter. This was widely due

## Figure 3: GDP Growth in Emerging Markets and Developing Economies, 2006–2016

(annual percentage change)




**6.7%**

Growth in the largest emerging market economy, China, decelerated to 6.7%

Sources: IMF World Economic Outlook Database, OECD Database

to the withdrawal of high-value Indian rupee notes, which resulted in cash shortages and payment disruptions in the economy. As a result, the growth rate moderated towards the end of the year.

## Inflation

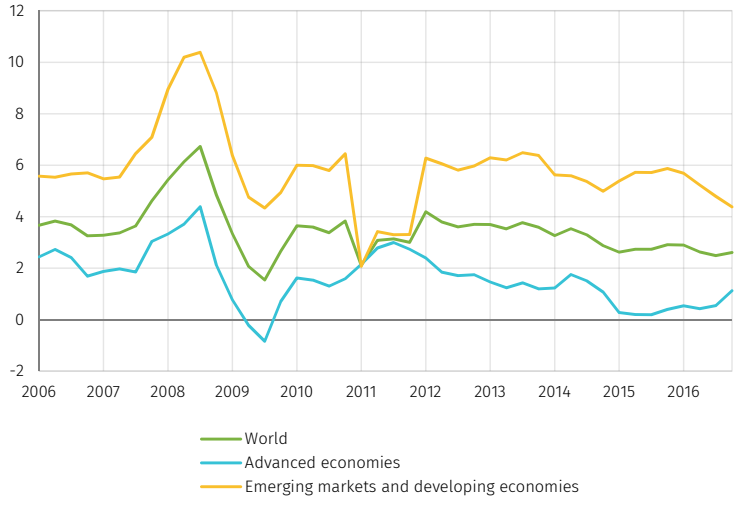
Despite the firming of commodity prices, global inflation[2] remained low and stood at 2.7% in 2016, a marginal deceleration from the previous year (Figure 4). The overall inflation, however, masks divergent developments in different country groups. During the year, inflation rates in the advanced economies gained some momentum and increased, while inflation rates in the emerging markets and developing economies decelerated.

Looking at the inflation trends in the advanced economies, inflation in the US picked up in 2016 after recording extremely low inflation during 2015. Annual US consumer price inflation accelerated to 1.3% in 2016—slightly lower than the Federal Reserve's inflation target of 2.0%. The acceleration in inflation reflected higher prices for housing and medical care. In addition, the rate of annual decline in transport prices decelerated towards the end of the year, owing to a significant recovery in energy prices during the last quarter.

In the euro area, the rate of inflation as measured by the Harmonised Index of Consumer Prices edged up to 0.2% in 2016, after recording zero percent during 2015. The gradual increase reflected the base effect of past declines in energy prices.

### Figure 4: Inflation, 2006–2016

(annual percentage change)




Source: IMF International Financial Statistics Database

**2.7%**

Global inflation remained low and stood at 2.7% in 2016

[2]International Monetary Fund International Financial Statistics Database.

In Japan, inflation remained low and entered into negative territory during 2016—the first negative reading in four years—despite the highly accommodative monetary policy through asset purchase and negative deposit rates. The annual rate of inflation declined to -0.1% in 2016, driven by falling prices in utilities, transport and housing, while prices of food and beverages eased during the year. Sluggish consumer demand (primarily owing to weaker wage growth and a shrinking population), coupled with lower energy prices, continued to put downward pressure on prices in the country.

In the UK, the rate of inflation continued to increase throughout 2016 and stood at 0.7%, after being held at a record low of zero percent in the preceding year. The pick-up in inflation largely reflected the higher costs of imports due to the depreciation of the pound sterling during the year, and increases in energy prices towards the end of the year.

Delving into price developments in emerging markets and developing economies, the rate of inflation in China picked up to 2.0% in 2016. This was primarily attributed to a continued increase in food prices during the year.

In Russia, inflation decelerated to 7.1% after a record high of 15.5% in 2015. The significant easing of inflation reflected the base effect of high inflation in Russia during 2014 and 2015 due to economic turmoil and western sanctions. During 2016, inflation pressure was held down on the back of weaker consumer demand and improved performance of the Russian ruble.

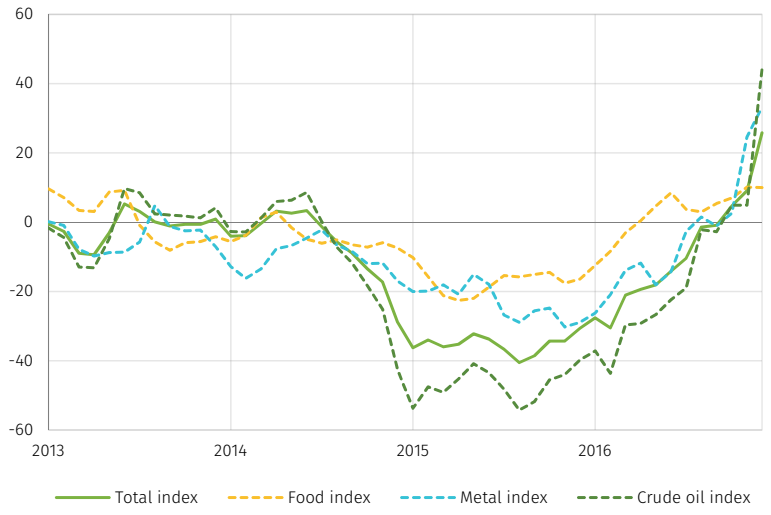
In India, the inflation rate decelerated to 4.9%, which mainly reflected a fall in food prices and temporary decline in consumption due to the aforementioned sudden withdrawal of high-value Indian rupee notes.

## Commodity Prices

Global commodity prices fell for the fifth consecutive year in 2016, although the decline was less severe compared to 2015. The International Monetary Fund (IMF) commodity price index showed an average annual decline of 10% during 2016 against a 35% decline in the previous year. This reflected the partial recovery of global crude oil and metal prices combined with a considerable recovery in global food prices (Figure 5). Looking at the developments during the year, commodity prices registered a decline in the first three quarters, albeit at decelerating rate, mirroring the movement of both crude oil and metal prices. During the last quarter, a significant increase in commodity prices also contributed to the deceleration of the price decline.

The crude oil market continues to be plagued by excess supply and high inventory levels. Nonetheless, towards the end of 2016, the decision to cut oil production by the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers such as Russia helped to abate the strong downward pressure on crude oil prices. Further, oil consumption in Organisation for Economic Co-operation and Development countries, Europe and the Asia Pacific outpaced expectations, which also put upward pressure on oil prices during the year. These developments were reflected in the IMF crude oil price index, which showed a 16% decline in 2016, in sharp contrast to the 47% decline in the previous year.

Figure 5: Global Commodity Prices, 2013–2016
(annual percentage change)




**-10%**

Global commodity prices recorded a decline of 10% on average in 2016

Source: International Monetary Fund

Looking at oil price movements during the year, crude oil prices averaged[3] US$42.8 per barrel in 2016 compared with US$50.8 per barrel in 2015. The price was at its lowest in January 2016, trending upwards gradually towards the end of the year. Reflecting the disruption in global supply, the growth in crude oil prices gained momentum and grew significantly in the second half of the year.

With regard to global food prices, the IMF food price index increased by 2% in 2016, achieving its first positive growth since 2013. According to the Food and Agriculture Organization of the United Nations, price increases were observed for vegetable oil and sugar. However, steep declines in price of cereals and meat due to abundance of supplies and harvests dampened the upward pressure of food prices.

The IMF metal price index declined by 5% during the year, although the pace of decline decelerated markedly. The stabilisation of prices was attributable to growth in global demand, especially from the Chinese economy. Expansion of the construction sector in China supported by continued fiscal stimulus, coupled with projected infrastructure spending by the US government, also rallied the price of metals.

## Exchange Rates

In regards to exchange rates, the US dollar strengthened against some of the major currencies of the world, such as the euro and the pound sterling, in 2016. The US dollar closed higher against the euro, reflecting the continued accommodative monetary policy in the euro area. The ECB remained committed to monetary policy loosening through the asset purchase programme to combat persistent low inflation and further stimulate demand

[3] Average of Brent, Dubai Fateh and West Texas Intermediate.

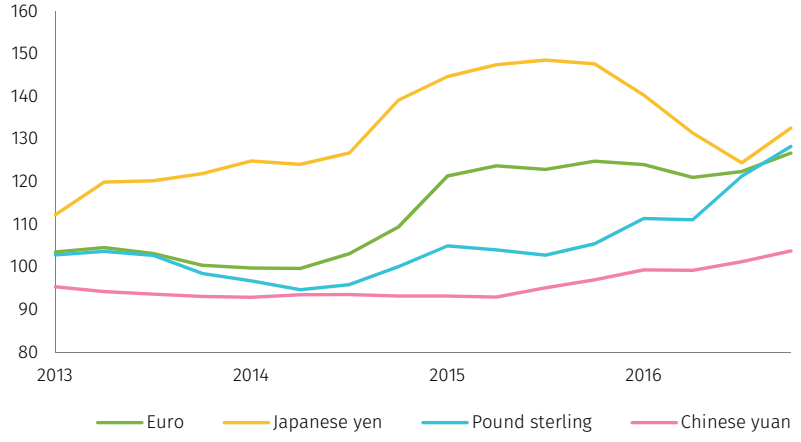
in the region. As a result, yields of euro-denominated assets were compressed over 2016. Further, the US dollar gained strength due to increased speculation that the Federal Reserve would raise interest rates more frequently during the year, although only one rate hike materialised and that was only in December.

The US dollar appreciated markedly against the pound sterling during 2016. The weaker pound sterling was mainly due to heightened uncertainty following the Brexit vote. The improved performance of the US economy, coupled with the Bank of England's decision to cut the policy rate and increase quantitative easing, also led the US dollar to appreciate against the pound sterling during the year.

The US dollar also appreciated against the Chinese yuan, largely due to increased capital outflows despite tightening measures by the Chinese authorities. Conversely, the US dollar depreciated against the Japanese yen, reflecting the divergences in the monetary policy stance in Japan and the US. The divergence stemmed from the Bank of Japan's new policy to control its yield curve by targeting short and long-term interest rates (Figure 6).

## Figure 6: Change in the US Dollar Exchange Rate against Major Currencies, 2013–2016

(2011 Q1= 100)




**↑USD**

USD appreciated against major currencies in 2016

Source: IMF International Financial Statistics Database
Note: The upward (downward) movement of the data series represent the depreciation (appreciation) of the respective currency against the US dollar.

# Domestic Economic Developments

## Overview

The real gross domestic product (GDP)[4] growth for 2016 is estimated to have improved to 3.9%, up from 2.8% registered in 2015. The strong performance of the tourism and construction sectors fuelled the growth of the Maldivian economy in 2016. The buoyant performance of the tourism sector was mainly due to a pick-up in tourist arrivals during the latter part of the year, which ensured that overall growth of the sector remained resilient. The increase in tourist arrivals was rallied by the recovery of European economies, as well as an increase in international flight movements, which was reinforced by the commencement of flights from new destinations. However, total tourist arrivals for the year fell below expectations. This was due to a protracted decline in Chinese tourists as their economy slowed, coupled with the continued appreciation of the US dollar against major currencies. As regards the construction sector, its robust growth continues to be propelled by large infrastructure projects undertaken by the government, construction and renovation of resorts, and a rapid increase in residential and commercial buildings in Male' and Hulhumale'. In addition, the fisheries sector recovered markedly during 2016, with improved primary fishing activity (as indicated by positive growth in fish purchases by fish processing companies) and positive growth of volume of fish exports.

The rate of inflation, as measured by the annual change in the consumer price index (CPI) at the national level, remained subdued and decelerated further to 0.5% in 2016, from 1.0% in 2015. The easing of inflation was mainly due to the passive growth of global commodity prices, particularly global crude oil prices. The decline in domestic fish prices (the most volatile component of the CPI) also contributed to the dampening of inflationary pressure in the economy in 2016. This was evidenced by the higher rate of inflation excluding fish prices (0.7%). The price declines in oil-related categories, such as electricity and transport, further contributed to the downward pressure on inflation. In contrast, the removal of government subsidies from staple food items during the last quarter put upward pressure on inflation during the latter part of the year.

The primary focus of the fiscal policy in 2016 was streamlining the government recurrent expenditure while developing much-needed public infrastructure in the country. The scaling up of infrastructure investment is expected to boost economic growth in the short and medium term, and also enable a more sustainable fiscal consolidation through future fiscal savings. The overall fiscal situation of the country improved during the year as the government's budget deficit narrowed marginally in annual terms, helped by both the slower pace of total expenditure growth and the moderate annual growth in total revenue. The growth in revenue was driven by higher tax revenue as non-tax revenue registered a decline. However, revenue fell below the budget target because a large portion of new revenue measures proposed for the year did not materialise. Meanwhile, total expenditure rose during the year, albeit at a slower pace, entirely due to the surge in capital expenditure during the

[4] GDP growth rates are based on market prices

year. The growth in capital expenditure reflected the commencement of various large infrastructure projects. Nevertheless, total expenditure during the year was less than the budgeted amount because the government took various policy measures to curtail the widening of the budget deficit due to revenue shortfall. The most notable policy changes were the removal of the blanket subsidy on staple food items and the abolition of the electricity subsidy. Similar to 2015, the budget deficit was almost entirely financed from domestic sources—mainly through the issuance of treasury bills to the domestic market.

Monetary policy remained accommodative in 2016, providing support to the financing needs of the economy and the overall economic growth of the country. Notwithstanding, adequate levels of reserves were maintained, while inflation remained low. As for monetary aggregates, both reserve money and broad money were contained during the year. Reserve money contracted at the end of the year, largely due to an annual decline in the MMA net foreign assets (NFA). Meanwhile, growth in broad money decelerated markedly at the end of the year, primarily due to a sizable decline in the NFA of the banking system. However, the decline in NFA was offset by annual growth in the net domestic assets of the banking system.

As regards the financial sector, the key performance indicators of both the banking and non-banking sectors showed improvements. Significant loan recoveries in the banking sector caused a decrease in non-performing loans (NPLs), and fuelled a marked increase in profitability and capital. The loan portfolio continued to grow, while liquidity remained adequate at the same level as the previous year. The composition of liquid assets showed a shift, with an increased investment in government treasury bills. The banking sector's credit risk was mitigated by a high level of loan loss provisions that fully covered the NPLs.

As for developments in the balance of payments (BOP), the current account deficit was estimated to have deteriorated significantly to 22% of the GDP in 2016, from 9% of the GDP in 2015. This primarily reflected the marked growth in payments made abroad during the year. In particular, the deterioration of the merchandise trade deficit due to a surge in imports and increased payments for construction services fuelled the widening of the current account deficit. Conversely, net inflows from the financial account recorded a significant growth, particularly due to the increase in foreign direct investments, and external borrowings by the government and the private sector. However, the current account deficit was larger than the net inflows from the financial account, which resulted in an overall BOP deficit during the year. This led to a drawdown in gross international reserves by US$96.9 million, recording US$467.1 million at the end of 2016. Of this, usable reserves of the country amounted to US$200.0 million, which is slightly higher than the previous year.

# Real Economy

*Activity in the domestic economy remained buoyant during 2016 and recorded a strong real GDP growth of 3.9%, up from 2.8% in 2015. The growth was largely driven by the continued robust performance of the construction sector throughout the year. Further, the tourism sector gained traction during the latter part of 2016 on the back of higher arrivals from the European market. In addition, activity in the fisheries sector rebounded after performing weakly over the past few years.*

## Tourism

The Maldives marked 2016 as 'Visit Maldives Year' in an effort to reach a target of 1.5 million tourists entering the country during the year. Several tourism-promoting activities were carried out in Asia and Europe, and many competitions and events were also held within the Maldives to boost tourist arrivals. While the campaign was successful in attracting 1.3 million tourists into the country, 4% more than the previous year (Figure 7), it fell short of reaching the 1.5 million target. The protracted decline of Chinese tourists as their economy slowed, together with the headwinds from the continued appreciation of the US dollar against other major currencies,[5] contributed to the weaker than expected performance in the tourism industry.

### Figure 7: Tourism Indicators, 2006–2016

(thousands, annual percentage change)


Source: Ministry of Tourism

**4%**

Tourist arrivals increased by 4% in 2016

[5]Room rates are priced in US dollars in the Maldives.

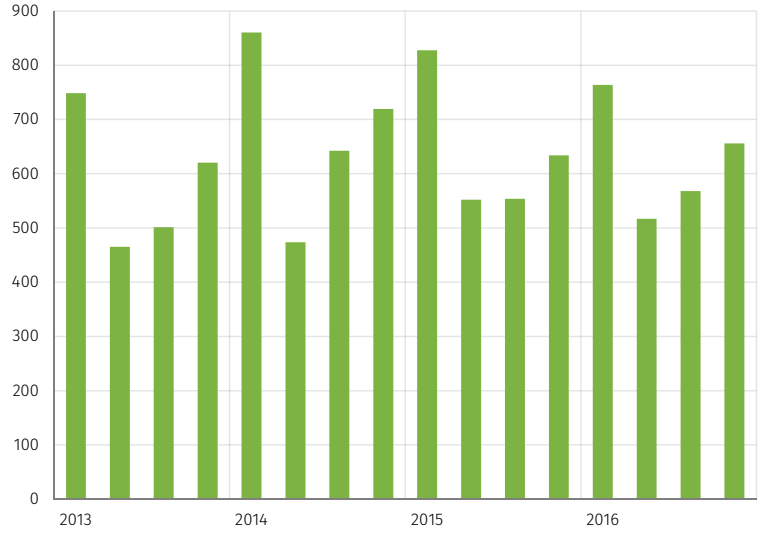
The growth in tourist arrivals to the Maldives was in line with international tourism trends. According to United Nations World Tourism Organization statistics, international tourist arrivals registered an annual growth of 4% and totalled 1.2 billion in 2016. Growth was mainly led by tourist arrivals to the Asia and Pacific region, which registered a growth of 8% during the year.

The trend in tourist arrivals to the Maldives during 2016 showed that arrivals picked up strongly in the second half of the year. This increase was underpinned by improving economic conditions in European countries, coupled with a rise in flight movements by international carriers over the period. This strong growth in arrivals from the European markets more than offset the decline in arrivals from the Chinese market. Other key indicators such as bednights growth also followed a similar trend, gaining momentum towards the latter part of the year and recording an overall growth of 3% for the year. Reflecting this, the average duration of stay, which has been on a downward trend, fell only slightly to 5.6 days in 2016 from 5.7 days in 2015. With these developments, the estimated tourism receipts[6] registered a 6% growth and amounted to US$2.7 billion for the year (Figure 8).

The tourism sector witnessed a major expansion in terms of the number of resorts and bed capacity in 2016. With the opening of 11 new resorts, the total number of resorts in the country increased to 126 at the end of the year. The number of registered guesthouses, hotels and safari vessels reached 382, 16 and 144, respectively. With regard to bed capacity, the average operational bed capacity of the industry[7] stood at 29,457 beds

## Figure 8: Tourism Receipts, 2013 - 2016

(millions of US dollars)




Source: Maldives Monetary Authority

**6%**

Tourism receipts for 2016 increased by 6%, to US$2.7 billion

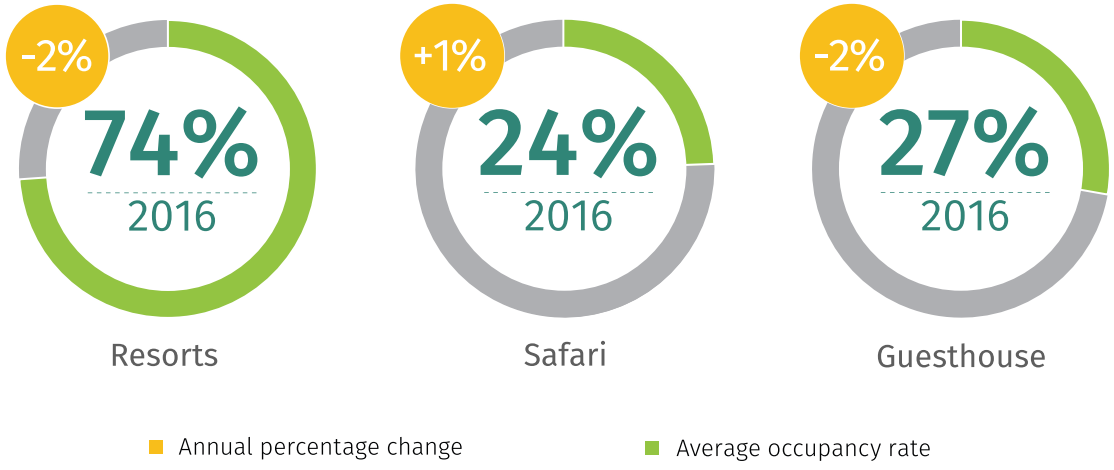
[6]Refer to the footnote number 15.
[7]Average operational bed capacity refers to the number of beds in operation, not the registered number of beds.

during the year, up by 6% from 2015. The increased bed capacity of 1709 beds largely comprised the additional beds from the new resorts. Partly reflecting the increase in bed capacity, the average occupancy rate of the industry fell slightly to 66%, down from 69% in 2015 (Figure 9). This largely resulted from lower occupancy rates for the resort segment. Meanwhile, the average occupancy rate for guesthouses picked up, while the occupancy rate for safari vessels recorded a slight decline.

As for the market share of tourists, Europe accounted for 45% of total tourist arrivals, while Asia accounted for 46%. Reflecting the improving economic conditions in the European markets, market share for Europe increased; this was a reversal of the downward trend of previous years. However, the market share of Asia—the market leader since 2014—dipped from the 49% in 2015 to 46% in 2016.

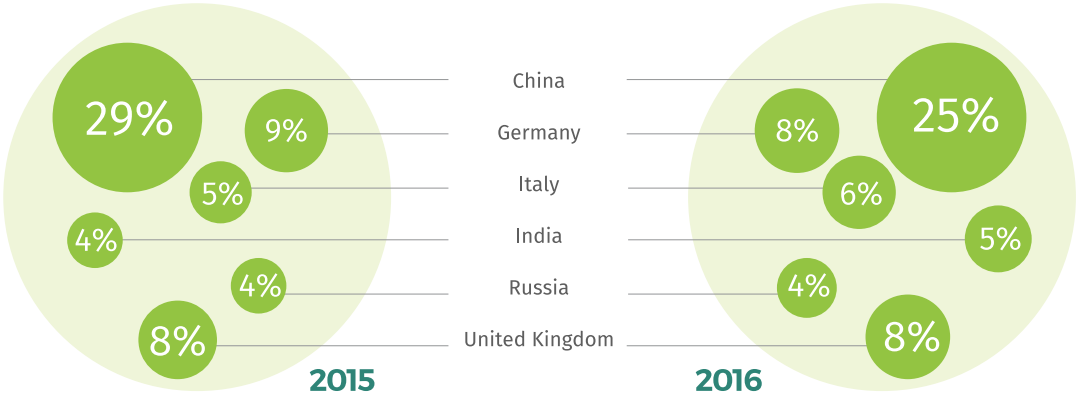
Arrivals from the European market grew significantly at 7% during 2016 after recording a marginal growth rate of 1% in 2015. This was mainly supported by growth in arrivals from the UK, despite a marked depreciation in the pound sterling. On the other hand, Germany, the second largest market from the region (Figure 10), registered a marginal growth owing to political tensions in their country. Other key markets such as Italy registered a remarkable positive growth, whereas growth in tourists from France dropped significantly during the year. It is noteworthy that arrivals from Russia—the fourth largest European market—showed a strong positive growth after recording two consecutive years of negative growth. This reflected the easing of the recent economic recession that was prevalent in the country. Arrivals from Spain also registered a sizable growth compared with previous years. In addition, arrivals from smaller source markets in Eastern, Central and East

Figure 9: Occupancy Rates for Tourism Industry




Source: Ministry of Tourism

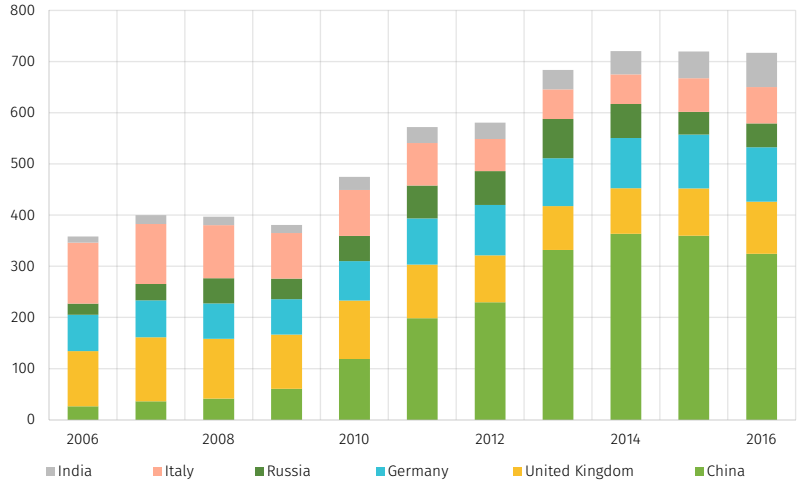
## Figure 10: Change in Share of Key Inbound Markets,




Source: Ministry of Tourism

## Figure 11: Arrivals from Major Inbound Markets, 2006–2016

(thousands)




Source: Ministry of Tourism

**7%**

Arrivals from Europe, the biggest market, rose by 7% in 2016

Mediterranean Europe also improved. This can be attributed to an increase in flight movements to these regions during the year.

Total arrivals from the Asia and Pacific region registered a marginal decline in 2016 after posting a positive growth during the previous year. Growth was largely hampered by the 10% decline in Chinese arrivals (Figure 11). However, other key markets from the Asian region—such as India, Sri Lanka and Malaysia—showed pronounced growth on the back of increased flight movements. Some operators introduced flights to new destinations in 2016, including new flights to Delhi and Colombo, contributing to more arrivals from both India and Sri Lanka. The increase in arrivals from Malaysia can be attributed to the growth in flight movements of a regional low-cost carrier from South East Asia during the year. Further, arrivals from the Middle East also posted a strong growth rate, owing to an increase in arrivals from Saudi Arabia. This may be due to a new the commencement of the Saudi Arabian Airlines between Riyadh and the Maldives. Arrivals from the Americas, which have doubled in the past five years, increased due to considerable growth in arrivals from the US.

## Fisheries

Following two consecutive years of negative growth, the primary fishing activity showed improvements in 2016 as indicated by the positive growth of fish purchases by fish processing companies and the increase in volume of fish exports.

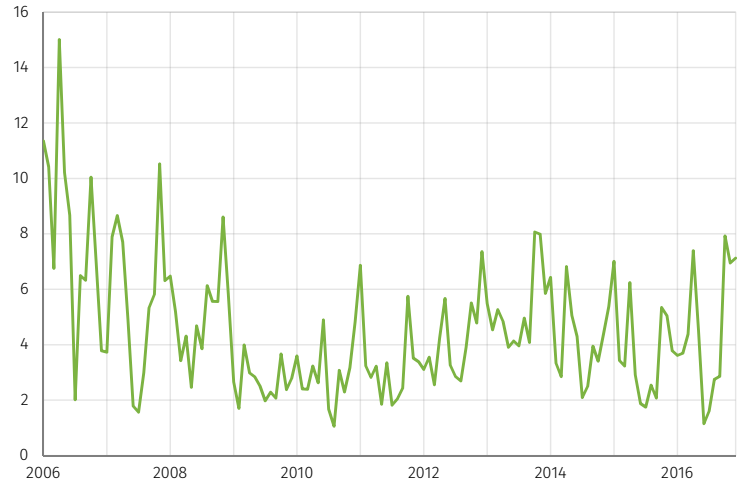
Fish purchases registered an increase of 19% in annual terms and amounted to 54.0 thousand metric tons in 2016 (Figure 12). The increase was propelled by a remarkable growth in skipjack tuna purchases, while purchases of yellowfin tuna fell slightly during the year. Both skipjack and yellowfin tuna collectively accounted for the bulk of purchases (96% of total purchases) made by fish processing companies. Similar to previous years, fish purchases were lower mid-year, which was attributed to a decline in fishing activity because the wet monsoon usually falls during this period.

Looking at the price developments in the domestic tuna market, the local fish processing companies maintained their purchasing price for skipjack tuna during the year, despite an annual increase in international skipjack tuna prices (Box 1). The price of yellowfin tuna was low in the first five months of the year before surging mid-year and once again dropping in the fourth quarter. In the first five months of the year, yellowfin tuna prices averaged MVR66.5 per kilogram, although the price peaked at MVR125.0 per kilogram in June 2016 (Figure 13). This was due to a decline in supply as a result of adverse weather conditions during this period. Prices fell significantly on average during the last half of the year in annual terms, and closed at MVR66.5 per kilogram in December 2016.

The improvement in the fish processing sector was also evidenced by an increase in volume of fish exports. During 2016, the volume of fish exports grew by 7% in annual terms (Figure 14) and amounted to 46.5 thousand metric tons. Export volumes of frozen skipjack and yellowfin tuna recorded a growth during the period. However, the growth in volume of fish export moderated due to the decline in export volumes of fresh or chilled yellowfin tuna, frozen bigeye tuna and dried skipjack tuna.

## Figure 12: Fish Purchases, 2006–2016

(thousand metric tonnes)



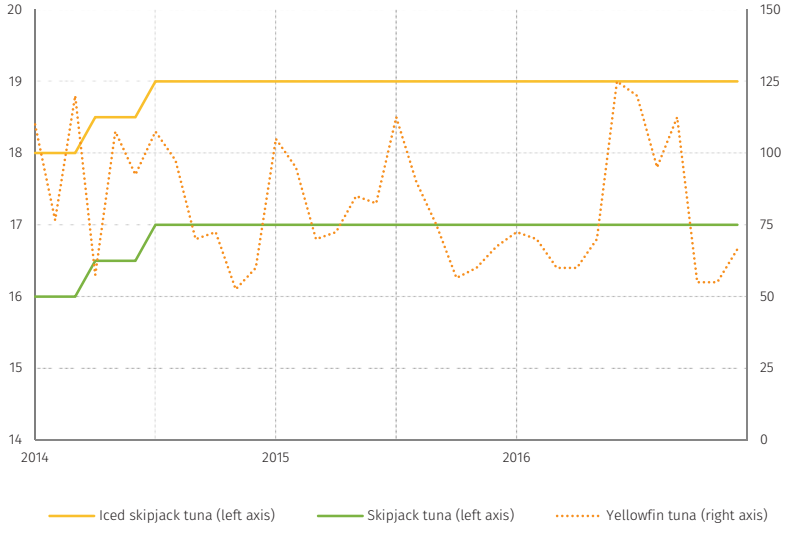

Source: Ministry of Fisheries and Agriculture

**19%**

Fish purchases increased by 19% during 2016

## Figure 13: Prices Paid for Fish by Local Processing Companies, 2015–2016

(rufiyaa per kilogram)



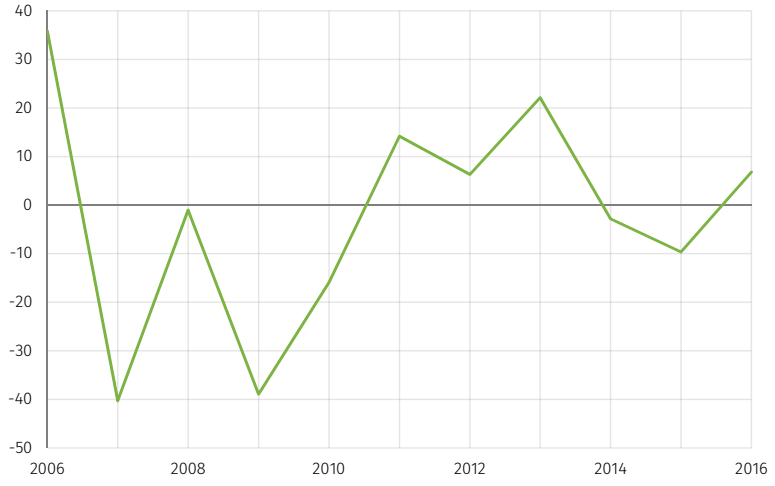

Source: Ministry of Fisheries and Agriculture

**-1%**

Average price of yellowfin tuna declined by 1% in 2016

## Figure 14: Volume of Fish Exports, 2006–2016

(annual percentage change)




**7%**

Volume of fish exports increased by 7% in 2016

Source: Maldives Customs Service

## Box 1: Trends in the International Tuna Market

The international tuna market[1] showed mixed developments during the year 2016. Although the market was favourable during the first quarter of the year— with fish catch improving in the main fishing grounds— supply declined during the latter part of the year. The decline in supply was due to the closure of fish aggregating devices in the Western and Central Pacific region from July to October, as well as the 'veda' closure[2] in the Eastern Pacific in late July. However, prices of non-canned products were largely stable for most of the year because heavy inventories of frozen fish stocks held in Thai canneries compensated for the lower fish catch from the Pacific. Meanwhile, prices of canned products declined in the international market during the first half of the year, as a result of lower demand in the US and Europe.

For Thailand, the largest exporter of canned and processed tuna, the export of such items declined moderately during the first half of 2016. This was largely due to lower demand from European countries. However, an increase in Thai exports

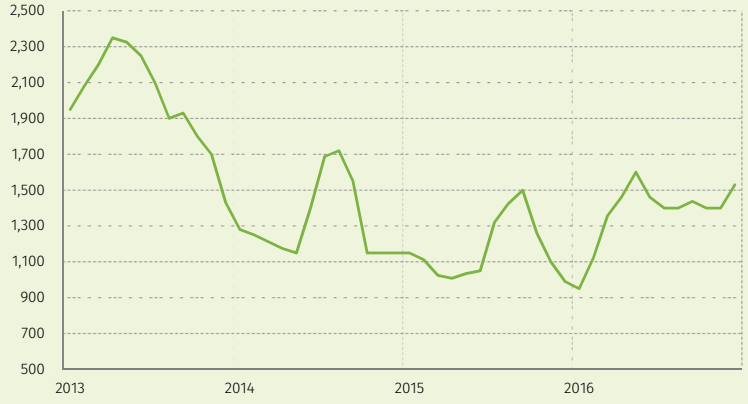
[1]Data relating to international trends in the tuna markets were taken from Globefish, a body of the Food and Agriculture Organisation of the United Nations.
[2]'Veda closure' is a seasonal fishing ban in the Eastern Pacific, imposed periodically by the Inter-American Tropical Tuna Commission.

to other markets, such as the US and the Middle East, partly offset this decline. Prices were higher on average during 2016 in the Thai market compared with the previous year. For instance, frozen skipjack tuna prices rose significantly during 2016, reaching an average of US$1,530.0 per metric ton in December 2016 (Figure 1). This can be attributed to the lower supply arising from fishing bans in the Pacific.

In the US, the demand for canned or pouched tuna declined markedly during the first half of the year; the US was holding enough inventories from the previous year, which resulted in lower import volumes. As for imports of canned or pouched tuna to the European Union (EU), demand fell significantly. Looking at other individual markets, imports to the UK rose annually during the first half of the year, particularly due to an increase in demand for Maldivian tuna caught by pole and line fishing method, reflecting growing consumer awareness about the importance of sustainably and equitably caught and produced tuna. Imports to Germany suffered an annual decline, while imports to the Netherlands registered an annual increase during this period. Belgian imports declined in annual terms due to high local inventories during the period.

Figure 1: Skipjack Tuna Prices, 2013–2016

(US dollars per metric ton)



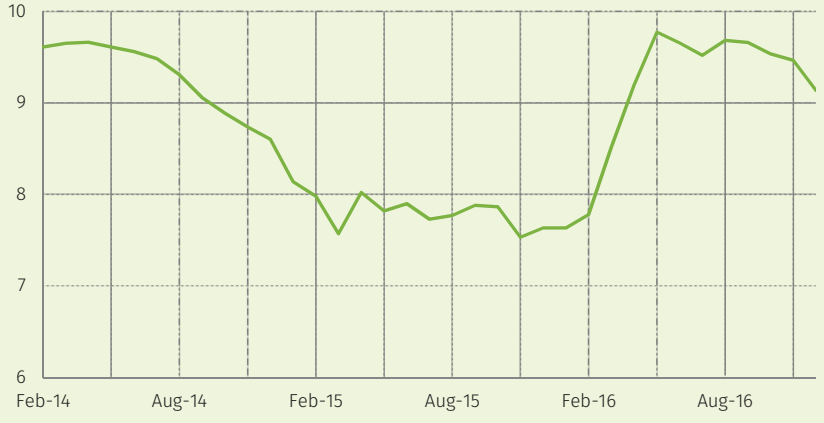

Source: Ministry of Fisheries and Agriculture
Note: Prices are based on Bangkok frozen market prices.

As for tuna prices in the EU, yellowfin tuna prices rose from an average of US$7.6 per kilogram in January 2016 to US$9.2 per kilogram in April 2016. The prices remained largely stable from there onwards and closed at an average of US$9.1 per kilogram in December 2016 (Figure 2).

Looking at other regions, the largest markets for canned tuna in volume terms following the EU and US are Egypt, Japan, Australia and Canada. Imports to Australia fell due to the weaker Australian currency in the first half of the year, while imports to Egypt and Canada also declined during this period. However, Japan recorded a growth for such imports. Meanwhile, consumer demand for canned tuna increased in some East Asian and South Asian countries due to a general decline in canned tuna prices during this period.

Figure 2: Yellowfin Tuna Prices, February 2014 - December 2016

(US dollars per kilogram)



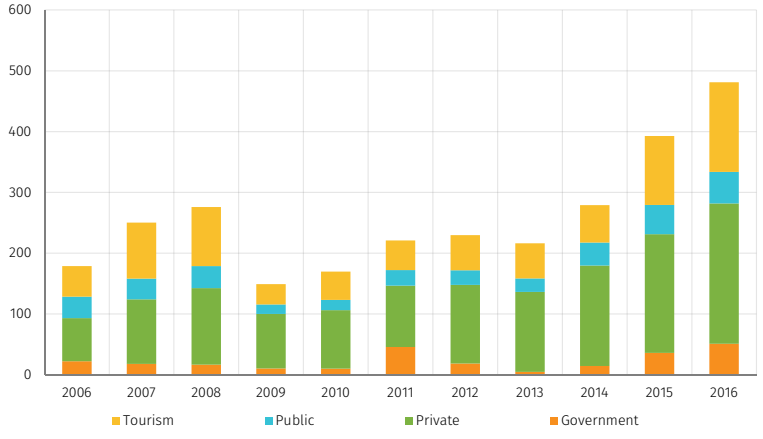

Source: Ministry of Fisheries and Agriculture
Note: Prices are based on Spain Mercamadrid fresh market prices.

## Construction

The construction sector remained buoyant against a background of low commodity prices and robust credit growth during the year. The continued positive growth of the sector was largely supported by various government infrastructure projects. Key infrastructure projects during the year included the China-Maldives Friendship Bridge, expansion of the Velana International Airport, the Male' Industrial Village, the Male' re-development project and the National Diagnostic Centre. Other developmental projects carried out by the government—such as harbour and jetty construction, land reclamation, and implementing water and sewerage projects—also contributed to the growth of the construction sector. In addition, growth was positively affected by increased private sector investments in real estate and tourism (Figure 15).

Looking at the key indicators used to gauge the performance of the sector, both bank credit to the construction sector and construction sector-related imports showed robust growth throughout the year. Mirroring the increased real estate demand, and coupled with an ease in access to finance, commercial bank credit to the construction sector observed an annual growth of 24% in 2016. The growth was primarily due to a rise in loans for residential housing, followed by credit lent for the development of new resorts and the renovation of resorts. However, it should be noted that the major portion of financing for resort development projects comes from abroad, either as foreign direct investment (FDI) inflows or private borrowings. In line with the developments in the guesthouse sector, credit lent for the construction of guesthouses recorded a remarkable growth during the year.

Figure 15: Construction-related Imports by Sector, 2006-2016
(millions of US dollars)




Source: Maldives Customs Service

**22%**

Construction-related imports recorded a significant growth of 22% in 2016

The robust activity in the sector was also evidenced by construction sector-related imports (wood, metal, cement and aggregates), which recorded a significant growth of 22% during 2016. This was largely due to an increase in such imports made by the tourism sector, which reflected the construction of new resorts, renovation of resorts and construction of guesthouses during the review year. Meanwhile, construction sector-related imports by the private sector increased markedly due to growth in residential construction. Imports made by the government for construction activities related to Public Sector Investment Programme (PSIP) projects also contributed to growth.

In addition, the increased number of dwelling and non-dwelling permits issued in 2016 also pointed to a robust growth in the construction sector. The number of construction permits issued for Male' City area[8] amounted to 627 during the year, while 547 building usage permits were issued. Reflecting this increase in construction permits, 176 dewatering permits[9] were issued during the year (Figure 16). The increased financing opportunities for real estate may have contributed to the higher number of permits and the expansion of such construction activities.

Figure 16: Housing Permits to Male' City Area, 2015-2016


Source: Ministry of Housing and Infrastructure, Environment Protection Agency, Housing Development Corporation

[8]Issued by the Ministry of Housing and Infrastructure, and the Housing Development Corporation.

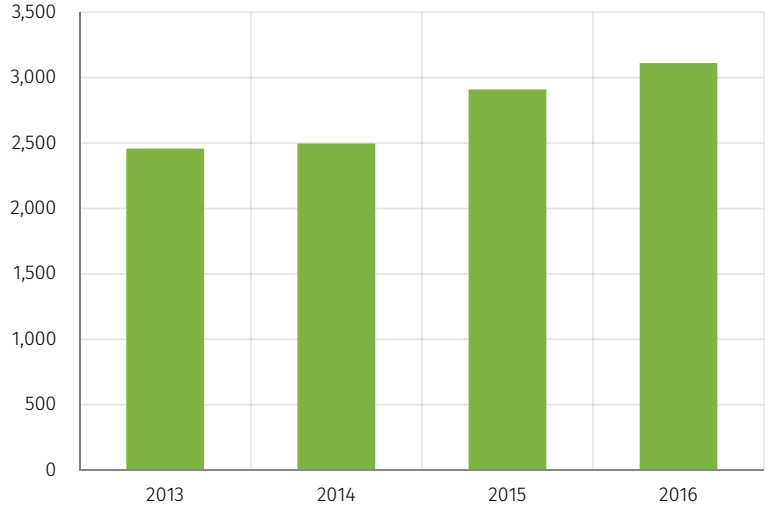
[9]Issued by the Environment Protection Agency (for Male' only). Dewatering involves pumping from wells or sumps to temporarily lower groundwater levels, allowing excavations to be made in dry and stable conditions below natural groundwater level.

## Wholesale and Retail Trade

Wholesale and retail trade activities were robust during the year, as evidenced by the main indicators of the sector, such as private sector imports and bank credit to commerce. Private sector imports (excluding tourism) registered an annual growth of 10% during 2016. Meanwhile, commercial bank credit to the sector grew by 7% during the year (Figure 17). The strong growth of the sector was also validated by the results of the MMA's Quarterly Business Survey. A significant majority of respondents from the wholesale and retail sector indicated an increase in both volume of sales and orders placed with suppliers, and a positive outlook for the sector.

Figure 17: Loans and Advances to the Wholesale and Retail Trade Sector, 2013-2016

(millions of rufiyaa)




Source: Maldives Monetary Authority

**7%**

Credit to the wholesale and retail trade sector increased by 7%

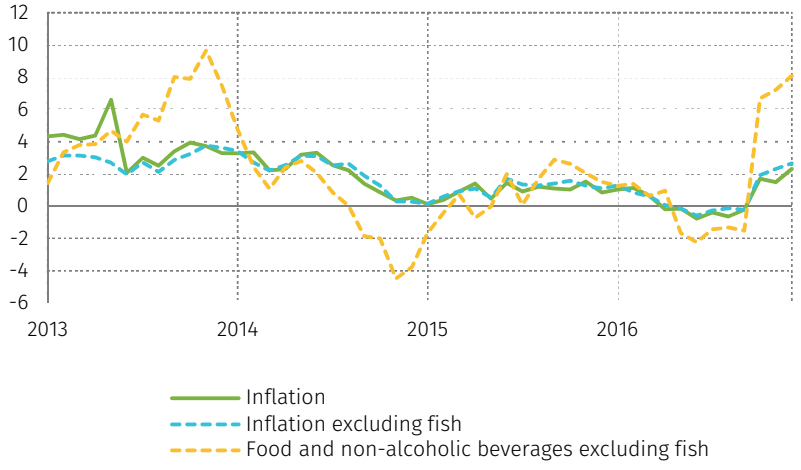
# Inflation

*The inflation rate remained subdued and decelerated further during 2016. The main driving force behind subdued inflation was lower global oil prices a continued decline in domestic fish prices. However, the dampening effect of these declines was offset by a hike in food prices owing to the removal of the blanket subsidy on staple food items, coupled with an increase in house rent.*

Following three consecutive years of low and stable inflation, the rate of inflation remained subdued and eased further in 2016. The rate of inflation (as measured by the annual change in consumer price index (CPI) at the national level) decelerated gradually and turned negative during the second and third quarters of the year. However, inflation picked up significantly during the last quarter (Figure 18), mainly reflecting a rise in prices of staple food items following the removal of the blanket subsidies on staples, as the government moved from a universal food subsidy to a targeted subsidy to the poor. On average, the rate of inflation stood at 0.5% in 2016, down from 1.0% in 2015. Total inflation excluding the volatile fish prices stood marginally higher at 0.7%, as fish prices declined during the year. The growth of inflationary pressure during the year stemmed primarily from increases in food and housing rental prices. However, this was offset by declines in oil-related categories of the CPI, such as electricity and transport.

Figure 18: Inflation (National), 2013- 2016

(annual percentage change)




**0.5%**

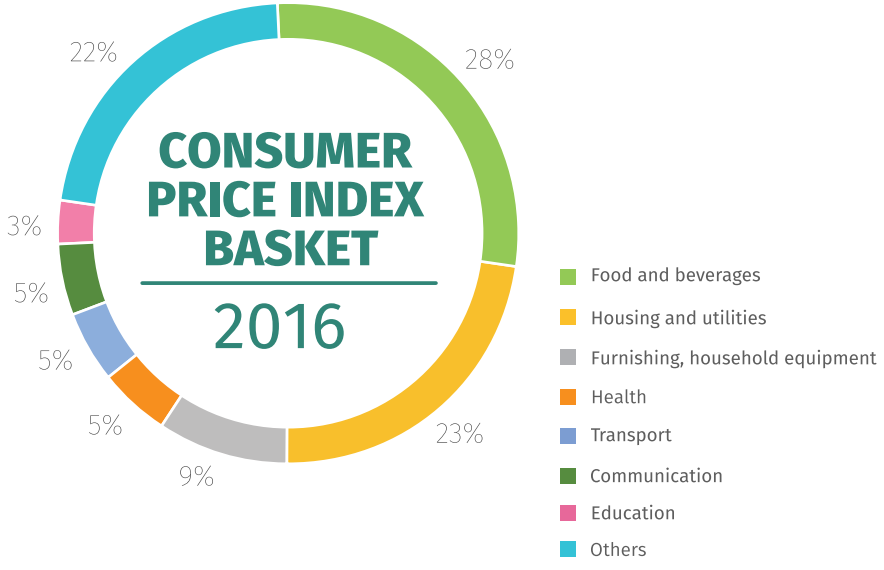
Average CPI inflation eased further to 0.5% in 2016

Source: National Bureau of Statistics

Both external and domestic factors influence inflation in the Maldives, given the high level of import content and the significance of local fish in the consumption basket. The main external factors that influence domestic inflation are global oil prices and food prices. As for the domestic factors, the declining fish prices in the domestic market (33% of the food category) remained the main drag on price growth, while the removal of food subsidies on staples (Box 2) put upward pressure on inflation towards the end of the year. Fish prices on average fell by 1.6% in 2016, primarily due to the fall in prices of other preserved or processed fish and seafood, while the price of fresh, chilled or frozen fish eased slightly. The fall in the other preserved and processed fish category stemmed from a decrease in the price of dried and smoked fish, as well as fish paste (rihaakuru). Easing of fresh, chilled or frozen fish prices came mainly from the fall in price of reef fish and yellowfin tuna.

The recovery in global food prices had a minimal impact on domestic food prices as prices of vegetables in India—the main importer of this product to the Maldives—eased significantly during the year. Prices of food and non-alcoholic beverages (which accounted for 28% of the CPI basket; Figure 19) increased marginally to 0.6% during the year (Figure 20). The growth in such prices mainly stemmed from the surge in prices of staple food items—rice, sugar and wheat flour. This was primarily due to the cut down of the government subsidy on these essential food items from October 2016 onwards (the subsidy was targeted at the more indigent). A significant growth in prices of fruits—mainly dried fruits, citrus fruits and other fresh, chilled or frozen fruits—further contributed to the overall growth in the food index during the year. In contrast, the overall growth in food prices was partly offset by a fall in the price of

Figure 19: Consumer Price Index Basket




Source: National Bureau of Statistics

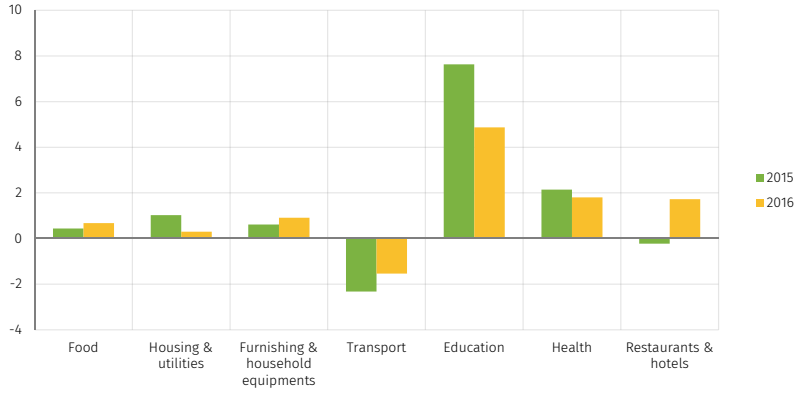
vegetables, especially the most common vegetable imports to the country, such as carrots, onions, ginger and potatoes.

As for the developments in other components of the CPI, rental prices of housing (which account for 12% of the CPI basket) showed a marked increase during the year (Figure 21). However, a decline in electricity, gas and other fuels prices negated the impact on overall inflation. The decline in electricity prices was mainly a result of the removal of fuel surcharges, reflecting the lower global oil prices. This helped to more than offset the impact of the removal of government electricity subsidies and the upward revision of tariff rates in February 2016. The reduction in cooking gas prices also dampened the inflationary pressures during the year.

A decline in prices in the transport category also had a downward effect on inflation. The largest contributor was a drop in fuel prices (petrol and diesel),[10] followed by a decline in prices of motorcycles and international airfares. During the year, a fall in prices of television sets and mobile phones also pushed down overall inflation.

The cost of health services eased to 1.8% during the year. A rapid growth in prices of pharmaceuticals was partially offset by a decline in the fees charged for laboratory and X-ray services. In contrast, a rise in fees for secondary education placed upward pressure on inflation. An increase in cigarette prices, which reflected the sizable base effect of the upward revision of import duty[11] on cigarettes, also contributed positively to overall inflation.

## Figure 20: Inflation Rates of Selected Categories of the CPI (National), 2015 - 2016 (annual percentage change)




**0.6%**

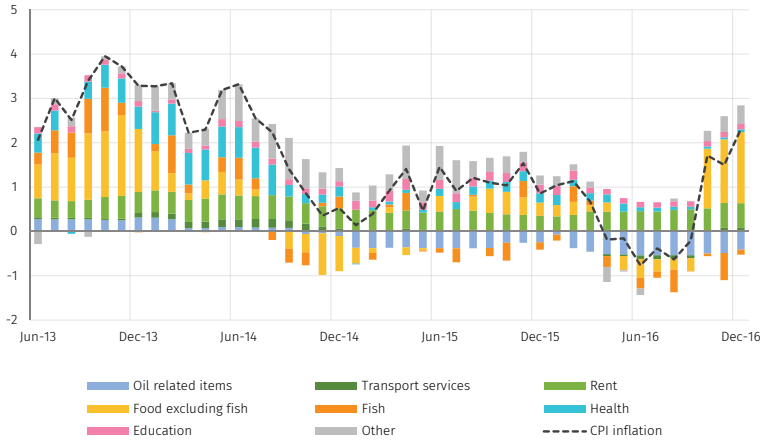
Annual inflation of food and non-alcoholic beverages increased to 0.6% in 2016

Source: National Bureau of Statistics

[10]Reflecting a fall in global oil prices, domestic fuel prices (petrol and diesel) were reduced from January 2016 onwards and remained unchanged during 2016.
[11]Effective from April 2015 onwards.

## Figure 21: Contribution of Sub-Categories to CPI Inflation (National), June 2013- December 2016

(annual percentage change, percentage point contributions)




**-1.6%**

The 1.6% decline in fish prices contributed significantly to the lower inflation

Source: National Bureau of Statistics

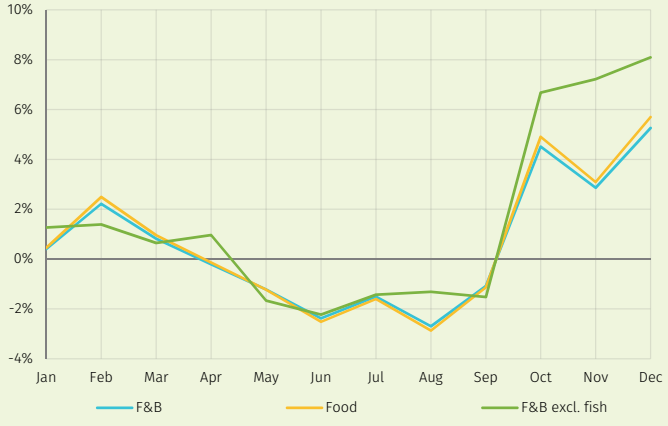
# Box 2: Impact of the Change to the Staple Food Subsidy Policy on Inflation

In October 2016, the government of the Republic of Maldives changed its subsidy policy on the staple food items of plain rice, sugar and plain wheat flour, moving from a blanket subsidy to a needs-based, more targeted system. This led to an increase in year-on-year inflation. The subsidy policy change had direct and indirect effects on inflation.

## Direct effects

After six consecutive months of deflation, inflation turned positive, averaging 1.8% from October to December 2016. The main contribution to inflation stemmed from the sharp rise in the consumer price index (CPI) sub-group—food and non-alcoholic beverage prices (Figure 1). More specifically, the prices of plain rice, sugar and wheat flour increased significantly, reflecting the impact of the removal of the blanket subsidy on staples. The direct impact of the policy change on rice prices was a change from MVR4.0 per kilogram to MVR8.0 per kilogram immediately following the policy change, while the same for sugar was much larger, with

Figure 1: Inflation of Food and Beverages (National), 2016
(annual percentage change)




Source: National Bureau of Statistics

sugar prices changing from around MVR4.0 per kilogram to MVR8.0 per kilogram. However, the sugar prices also reflected the increasing international sugar prices during the same period, which would have passed through to domestic prices since sugar is an imported good.

The month-on-month inflation numbers for food and beverages, excluding fish, provide evidence that the rise in inflation from October 2016 was mainly due to the change in subsidy policy. In particular, inflation for this category showed a dramatic spike in October 2016, after which the numbers returned to pre–policy change levels of marginal deflation in November and December 2016. This implies that once the base effect of the policy change wears off from October 2017, year-on-year inflation should return to pre–policy change levels, holding all else constant.

## Indirect effects

Indirect effects of the policy change appear to be limited to the category of restaurants and cafés. As the demand for staple food items in restaurants and café's remains high, the cut down in food subsidy led to an increase in prices charged in this category. However, a larger share of the increase in inflation was contributed by the café's (0.08 percentage points) as opposed to the restaurants (0.03 percentage points). This may be because of a higher usage of plain rice in cafés compared with restaurants. However, these changes are temporary and, as mentioned, would return to pre-policy change levels once the base effect wears off.

## Inflation forecast for 2017

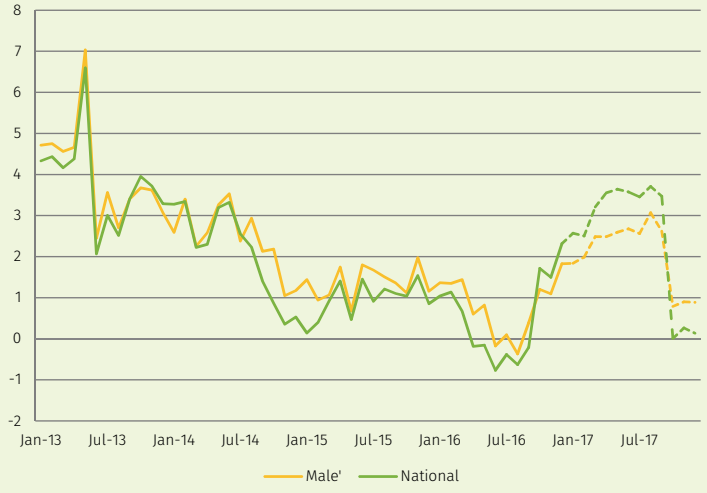
Inflation in the Male' region is expected to increase to an average of 2.1% in 2017 from an average of 0.8% in 2016, while inflation at the national level is expected to increase to 2.5% in 2017 from an average of 0.5% in 2016. The year-end forecasts for inflation stand at 0.9% and 0.1% for Male' and nationally, respectively.

Although average inflation is expected to be lower in Male' compared with the national level, the year-end level is expected to be higher. This is because the base effect of the policy change is estimated to be smaller in Male' than in other regions of the country. Thus, the dissipation of the base effect from October 2017 shifts the inflation rate downwards by a larger amount at the national level than for Male'. This is solely due to the fact that expenditure on food items constitute a

larger share of total expenditure in areas outside Male', and therefore are assigned a larger weight in the CPI basket compared to the weight assigned to the same category in the basket for Male'.

Figure 2 illustrates past developments and the expected evolution of inflation in 2017. The rise in inflation observed in October 2016 is mostly due to the effect of the change to the policy on subsidies on staple food. The base effect is projected to dissipate from October 2017, at which point the year-on-year inflation will return to the pre-policy change level, and inflation will drop accordingly.

Figure 2: Inflation (National and Male'), 2013 - 2017
(annual percentage change)




Source: Maldives Monetary Authority, National Bureau of Statistics

# Public Finance

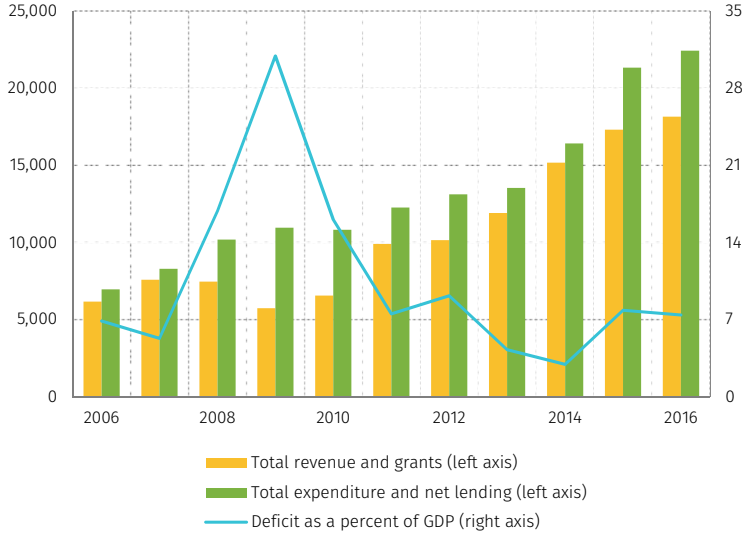
*The public finances during 2016 focused on streamlining government recurrent expenditure and addressing infrastructure bottlenecks in the country. Investment in infrastructure development and other capital investments were high during the year. This is expected to lead to significant fiscal savings in the future and to enable a more sustainable fiscal consolidation.*

The overall fiscal deficit[12] for 2016 remained high at 7.4% of the GDP, although this is slightly lower than the previous year (Figure 22). However, the primary deficit[13] decreased to 4.6% of the GDP in 2016 from 5.3% in 2015. A modest growth in total revenue, coupled with a slower growth in total expenditure, helped to contain the fiscal deficit. The increase in revenue was supported by higher tax inflows owing to buoyant growth in the economy. However, non-tax revenue fell during the year. On the expenditure side, current expenditure declined mainly due to changes in government policies in relation to the rationalisation of subsidies. In contrast, capital expenditure increased with the commencement of several large capital and infrastructure projects.

The 2016 budget proposed a large number of new revenue measures to support a significant increase in expenditure envisaged for the year. However, several

Figure 22: Government Revenue and Expenditure, 2006–2016

(millions of rufiyaa, percent)




Source: Ministry of Finance and Treasury

**7.4%**

Fiscal deficit is estimated to be 7.4% of GDP in 2016

[12]Latest data available from the Ministry of Finance and Treasury as of December 2016.
[13]It is the total budget balance excluding interest expenditure.

of these did not materialise, leading to a significant shortfall in expected revenue. To avoid a large hike in fiscal deficit due to revenue shortfall, the government made drastic cuts to current expenditure and curtailed several capital expenditure projects.

The high budget deficits in recent years have led to a rapid accumulation of debt, with total public debt amounting to 64% of the GDP in 2016. The domestic debt comprises 72% of this debt because of an increasing reliance on domestic financing of the deficit in recent years, mainly through the issuance of treasury bills.

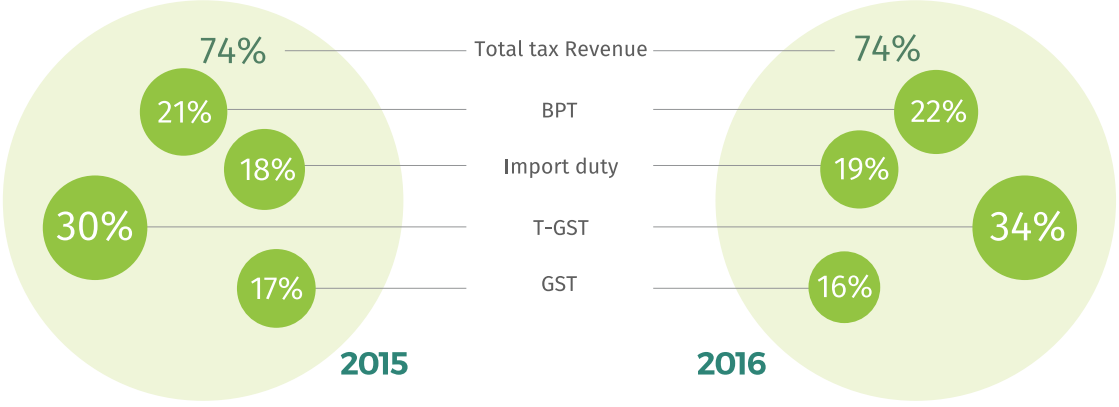
## Revenue

Total government revenue (excluding grants) increased by MVR1.0 billion and amounted to MVR17.7 billion in 2016. The increase in revenue was largely due to an increase in tax revenue as the non-tax revenue declined during the year. Capital receipts from asset sales (land ownership) also contributed to the growth in revenue during the year. Nevertheless, total revenue was MVR3.9 billion short of the budgeted revenue target for 2016.

Tax revenue (Figure 23), the largest component of total revenue, increased by MVR868.8 million and totalled MVR13.1 billion during the year. The growth in revenue receipts was largely due to the full year effect of the green tax, which was introduced in November 2015. A total of MVR640.0 million was collected from the green tax during the year. Further, an increase in the general goods and services tax (G-GST) also contributed to the growth in tax revenue.

Looking at the composition of tax revenue, the tourism goods and services tax (T-GST) continued to be the main source of revenue for the government (Figure 23) and totalled MVR4.0 billion in 2016. This revenue fell during the year and was lower than the budget target. This was owing to weaker than expected performance of the tourism sector, which was more pronounced during the earlier part of the year. Meanwhile, revenue from the business profit tax (BPT)—

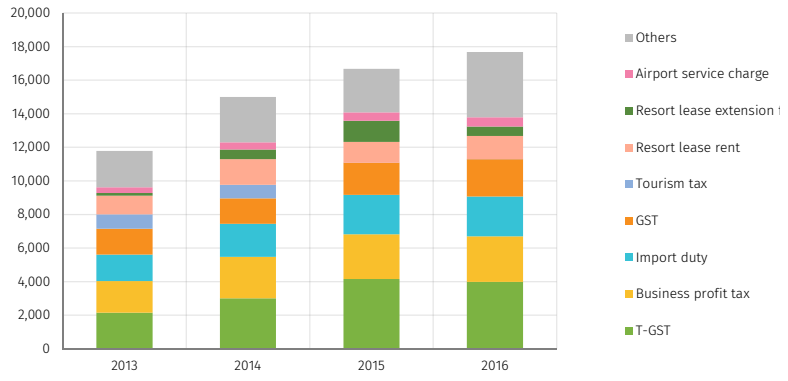
Figure 23: Composition of Tax Revenue




Source: Ministry of Finance and Treasury

## Figure 24: Breakdown of Revenue (Excluding Grants), 2013-2016

(millions of rufiyaa)




Source: Ministry of Finance and Treasury

**MVR17.7 BILLION**

Total government revenue increased to MVR17.7 billion in 2016

the second largest revenue source—turned out lower than expected, reflecting the slower growth of the domestic economy during 2015.[14] Import duties posted a slight increase, despite a significant increase in import expenditure for the year. This largely reflected lower global commodity prices, coupled with the exemption of import duty for several import items related to the construction sector that were linked to major public infrastructure projects. Meanwhile, revenue from G-GST recorded a remarkable growth and was higher than anticipated, mainly on the back of buoyancy in domestic demand during the year (Figure 24). Among the new revenue measures proposed for the year, only the remittance tax was implemented. The remittance tax, which charges 3% on any amount remitted abroad by expatriate workers, was introduced during October 2016, which was much later than planned.

Non-tax revenue declined by MVR530.1 million and totalled MVR3.7 billion during the year. This decline was primarily due to a reduction in revenue from the resort lease period extension fee. The lease period extension fee was collected mainly during the first and last quarter of the year whereas such revenue was collected throughout the year in 2015. Revenue from resort lease rent increased during the year but was lower than expected because some payments were not made according to the agreed schedule. Profit transfers from state-owned enterprises (SOEs) also registered an increase, albeit only slightly. Although the budget proposed for 2016 envisaged a revenue inflow of MVR1.5 billion from acquisition costs of Special Economic Zone (SEZ) investments, this did not materialise during the year.

[14] BPT revenues for 2015 were collected during 2016.

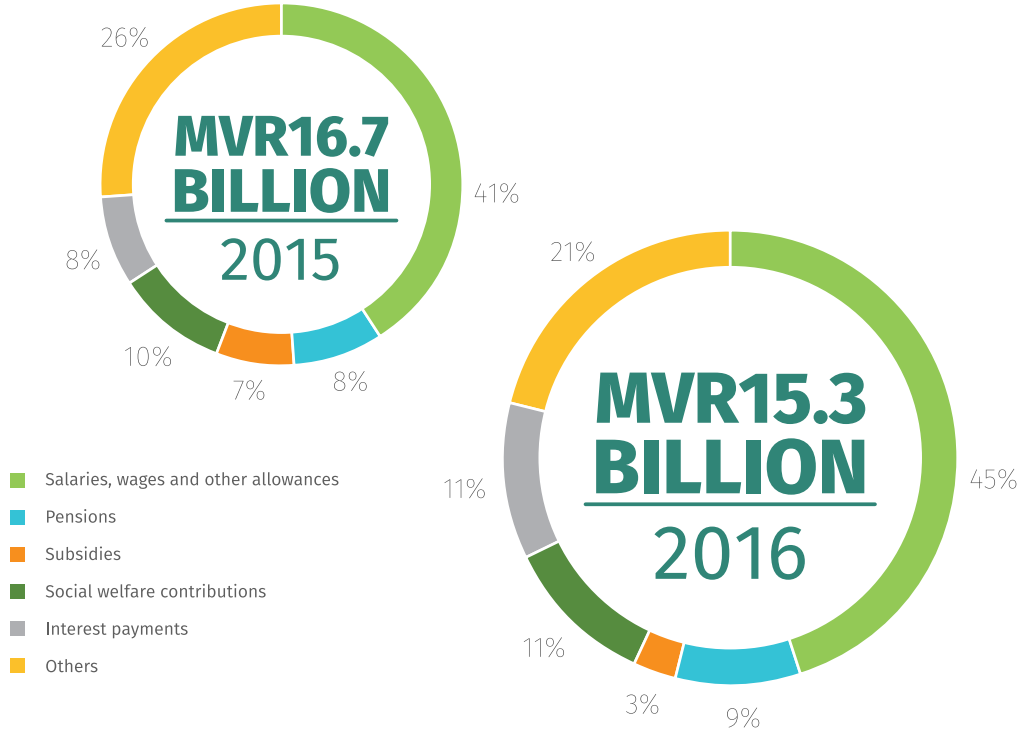
## Expenditure

Total government expenditure (excluding net lending) increased by MVR1.0 billion and amounted to MVR22.5 billion in 2016. The increase in total expenditure stemmed entirely from higher capital expenditure, as current expenditure declined during the year.

Current expenditure (which accounted for 68% of the total expenditure; Figure 25) fell by MVR1.4 billion to MVR15.3 billion. The decline in current expenditure largely reflected the fall in spending following the removal of electricity subsidies in March 2016, and the move from a universal food subsidy on staples towards a more targeted subsidy in October 2016 (Figure 26). A concerted effort to reduce the operational costs of the government towards the latter months of the year—with drastic cuts in recurrent expenses such as training, supplies and requisites—also contributed to the decline in current expenditure during the year. Spending on utilities, especially electricity, also came down due to a reduction in the official working hours of the government (effective from October 2015) and stricter rules on working after hours. Reflecting the restrictions on overtime pay and a freeze on new recruits to the civil service, spending on salaries, wages and allowances grew by only 2%. This was a significant slowdown from the 17% growth during the previous year. However, the increase in interest payments was substantial during 2016, with a rise in outstanding government debt, especially due to an increased issuance of government securities.

In contrast, capital expenditure increased by MVR2.5 billion and totalled MVR7.1 billion in 2016, stemming entirely from an increase in expenditure for various developmental projects under the PSIP. The most notable of such spending was in the health sector, with the inception of the construction of the National Diagnostic Center at the Indira Gandhi Memorial Hospital. The completion of this project in 2018 will facilitate the provision of advanced medical services in the Maldives and bring considerable savings to public finances; at present, such services are sought abroad and often paid for by the Maldivian government through the universal national health insurance scheme ('Aasandha'). Other major infrastructure projects initiated in 2016 include the China-Maldives Friendship Bridge, the expansion of the Velana International Airport, the development of the Male' Industrial Village, and the Male' re-development project. Construction of harbours and residential and other buildings, road development, and water supply, sanitation and waste management projects were also carried out in several islands during the year. As the progress of some projects was slower than anticipated due to supply chain constraints, and some projects were not started due to a shortfall in revenue, the growth in capital expenditure was moderate.

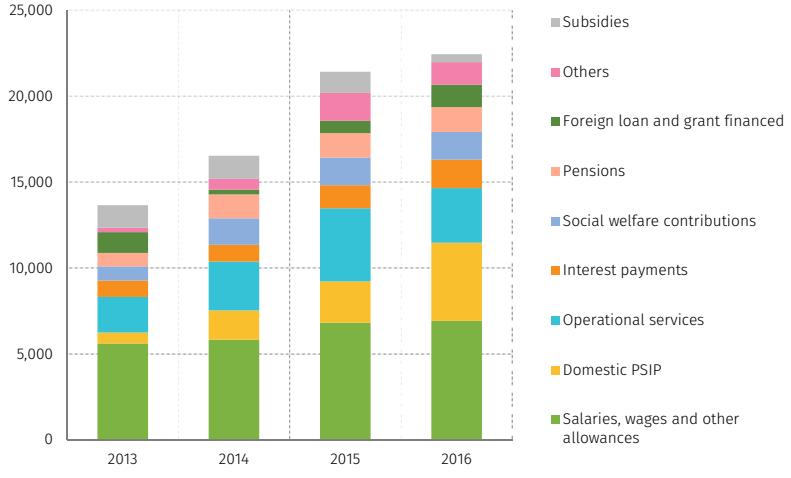
## Figure 25: Government Current Expenditure, 2015-2016




Source: Ministry of Finance and Treasury

## Figure 26: Expenditure Breakdown, 2013-2016

(annual percentage change, percentage point contributions)




**MVR22.5 BILLION**

Total expenditure increased to MVR22.5 billion in 2016

Source: Ministry of Finance and Treasury
Note: Pensions include expenditure on two budget codes: pensions and "other benefits and gratuities".

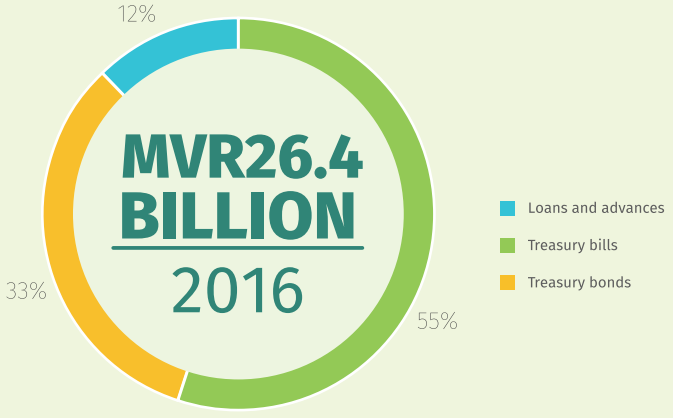
## Financing

The fiscal deficit, which reached MVR4.3 billion in 2016, was 4% higher than the previous year. It was mainly financed through domestic borrowings (Box 3), despite an initial estimate that 74% of the budget deficit would be financed from foreign sources and 26% from domestic sources. In addition, net foreign financing for the year was negative, indicating that foreign debt was paid off during the year.

### Box 3: Domestic Financing

Domestic borrowing by the government—which includes treasury bills, treasury bonds and loans and advances to the government—increased to MVR26.4 billion at the end of 2016 from MVR23.1 billion at the end of 2015. This reflected a net borrowing of MVR3.3 billion during the period, which was a 35% (MVR872.4 million) increase when compared with 2015. The primary source of domestic borrowing has been the issuance of government securities[1] (treasury bills and treasury bonds) (Figure 1). The total outstanding stock of government securities increased to MVR23.2 billion at the end of 2016 from MVR20.0 billion at the end of 2015, reflecting a net issuance of MVR3.2 billion during the period. The net issuance of government securities in the preceding year was lower, at MVR2.4 billion.

Figure 1: Composition of Domestic Claims on Government, 2016



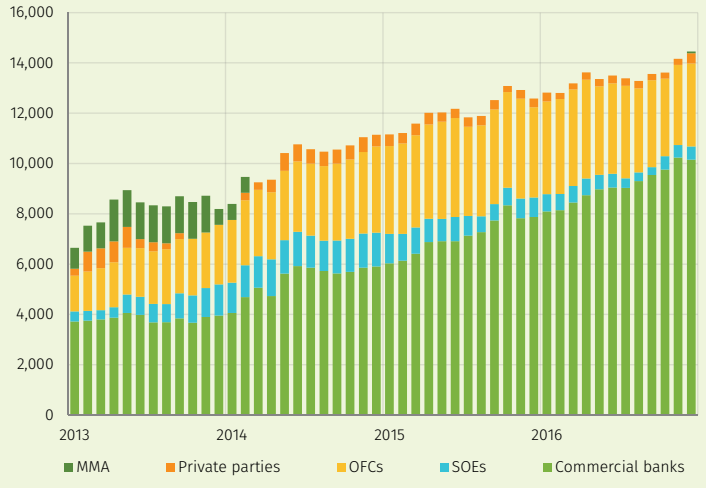

Source: Ministry of Finance and Treasury

[1]Government securities comprised 88% of total domestic borrowing of the government at the end of 2016.

Looking at the composition of government securities in 2016, treasury bills accounted for the largest share (62%), and recorded an outstanding stock of MVR14.5 billion at the end the year when compared with MVR12.6 billion at the end of the previous year. The net issuance of treasury bills shows an increase from MVR1.4 billion at the end of 2015 to MVR1.9 billion in 2016. Around 70% of the treasury bills were held by the commercial banks, and the net issuance of treasury bills in 2016 was almost entirely subscribed by the banks (Figure 2). In contrast, the state-owned enterprises and other financial corporations reduced their investments during the period.

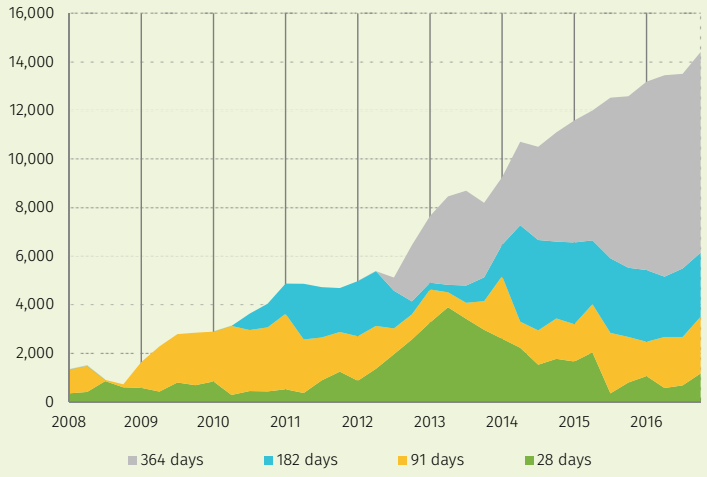
As for the net issuance of treasury bonds, an increase of MVR1.4 billion was recorded at the end of 2016, up from a net issuance of MVR979.2 million in 2015. The significant increase in the net issuance was almost entirely due to the conversion of part of the treasury bills held by the pension fund into treasury bonds during the year as part of restructuring of the government securities portfolio. Such restructuring will minimise the refinancing and rollover risk arising from a high level of outstanding treasury bills (Figure 3). Meanwhile, loans and advances to the government remained largely unchanged during the review year.

Figure 2: Outstanding Treasury Bills by Holder, 2013-2016
(millions of rufiyaa)




Source: Maldives Monetary Authority

## Figure 3: Treasury Bills Holdings by Maturity, 2008-2016
(millions of rufiyaa)




Source: Maldives Monetary Authority

# Monetary Developments

*Monetary policy continued to be accommodative in 2016 supporting the financing needs of the economy and fostering economic growth of the country. Notwithstanding, inflation remained low, and reserve levels were adequate. This was because excess rufiyaa liquidity in the banking system was absorbed as commercial banks continued to place their excess funds in the MMA's overnight deposit facility. In addition, the MMA continued to intervene in the foreign exchange market to ensure the stability of the exchange rate.*

As for developments in monetary aggregates, reserve money contracted at the end of 2016, primarily due to an annual decline in the MMA's net foreign assets (NFA). Annual growth in broad money also showed a marked deceleration at the end of 2016, mainly due to a significant decline in the NFA of the banking system. However, the decline in NFA was offset by annual growth in the net domestic assets (NDA) of the banking system. This came from the MMA's investment in domestic assets, increased commercial bank investments in government securities and growth in credit to the private sector.

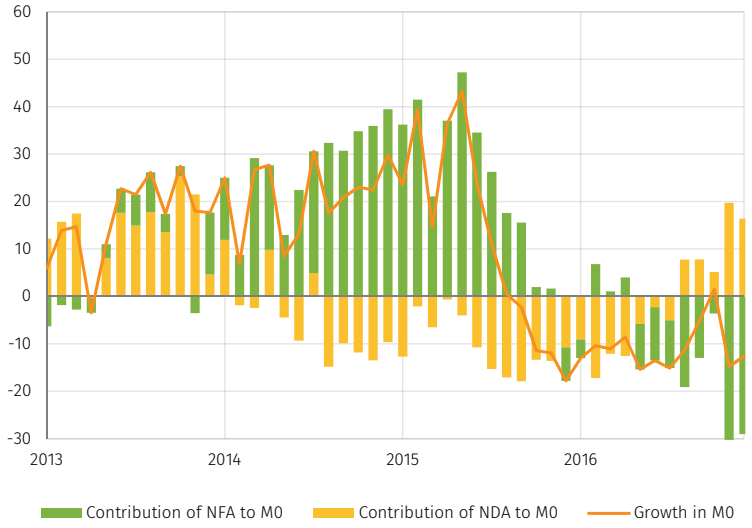
## Reserve Money

Reserve money stood at MVR9.0 billion at the end of 2016, declining by 13% in annual terms. The contraction in reserve money initially came from a significant decline in the NDA of the MMA. This was because of increased investments in the overnight deposit facility (ODF) following the minimum reserve requirement (MRR) reduction in August 2015 that continued into the first quarter of 2016. However, from May 2016 onwards, the decline in reserve money was mostly contributed by the decline in the NFA of the MMA (Figure 27). The decline was gradual in the subsequent months until November 2016, when it dropped sharply by 42%. Although the reserve money recovered in December by 8%, the end of the year annual decline still remained significantly high at 36%.

The decline in the NFA of the MMA at the end of the year was largely due to a switch of a foreign asset of MMA to a domestic asset. This reflected the MMA's investment in a foreign currency bond issued by the Maldives Airports Company Ltd. in November 2016. Meanwhile, foreign liabilities of the MMA grew significantly towards the end of the year due to the foreign currency swap agreement made between the MMA and the Reserve Bank of India during November 2016.

Looking at the components of reserve money, commercial banks' deposit balances at the MMA, which accounted for 64% of reserve money at the end of 2016, declined by 19% in annual terms. This was mainly due to commercial banks' increased investments in the MMA's overnight deposit facility. Meanwhile, currency in circulation, which constituted 36% of reserve money during the year, registered a marginal growth of less than 1% at the end of the year.

Figure 27: Sources of Reserve Money (M0), 2013-2016
(annual percentage change)




**-13%**

Reserve money growth declined by 13% in 2016 and stood at MVR9.0 billion

Source: Maldives Monetary Authority

## Monetary Operations

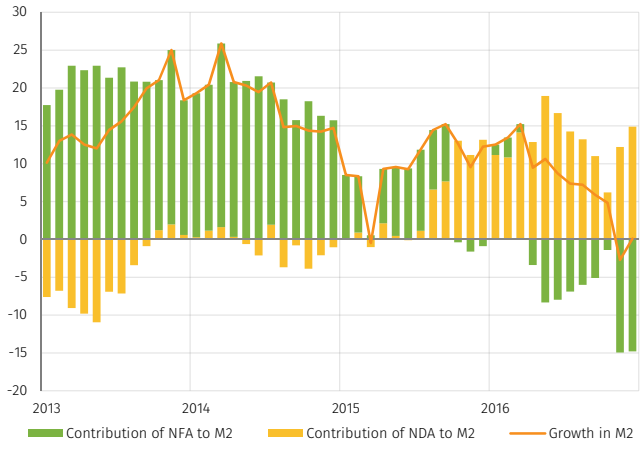
The MMA absorbs excess liquidity in the banking system using two policy instruments: open market operations (OMO) and the overnight deposit facility. However, the MMA did not conduct OMO during the year because the excess liquidity in the system was absorbed by the commercial banks' continuous and persistent placement of these funds in the overnight deposit facility. These placements averaged MVR3.2 billion during the review year, showing a 29% increase in annual terms. The placements followed an upward trend during the first quarter, then slowed until a sharp pick-up in December 2016. This was mainly due to an increase in the rufiyaa liquidity of commercial banks, resulting from a currency swap agreement between the MMA and a commercial bank.

## Broad Money

Broad money grew only marginally in 2016 and amounted to MVR30.5 billion at the end of the year. This was a significant deceleration compared with the 12% growth registered at the end of 2015 (Figure 28). Looking at the components of broad money, the deceleration in broad money growth was mainly contributed by the annual decline in quasi money, while the sharp deceleration in the growth of narrow money also contributed (Figure 29). Accordingly, quasi money—accounting for 56% of broad money—declined at the end of 2016 after recording a 7% growth at the end of 2015. This mainly reflected a decline in foreign currency demand deposits, which fell by 9% in annual terms. Meanwhile, the deceleration in the annual growth of narrow money—which accounted for 44% of broad money—was mainly due to a smaller growth in local currency demand deposits.

Figure 28: Sources of Broad Money (M2), 2013-2016

(annual percentage change)




Source: Maldives Monetary Authority
Note: NFA= Net Foreign Asset, NDA= Net Domestic Assets

**0.1%**

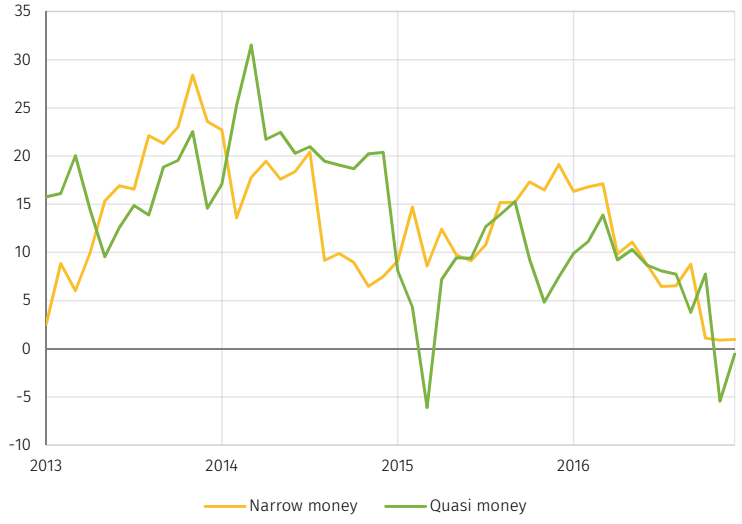
Broad money growth slowed significantly to 0.1%

With regard to the counterparts of broad money, the decelerated growth of broad money during 2016 was contributed primarily by the decline in the NFA of the MMA. The annual decline in the NFA of commercial banks also contributed to the low growth in broad money, mainly due to the decreased foreign currency asset accumulation and increased borrowings from head offices. However, the dip in the NFA of the banking system was offset by the annual growth in NDA, which recorded a 25% increase. The acceleration in the NDA growth of the banking system mainly came from the expansion of the NDA of the MMA. The growth in commercial banks' net claims on central government and credit to the private sector (which showed annual growths of 38% and 10%, respectively) also contributed to the growth in NDA during the year.

## Net Claims on Central Government

The net claims on central government increased to MVR13.4 billion in 2016. This is a growth of 18%—a considerable deceleration from the 23% growth in the previous year. The deceleration was due to a lower growth in commercial banks' investments in government securities. The outstanding stock of treasury bills held by commercial banks stood at MVR10.2 billion at the end of 2016, up by 29%, but was a deceleration from the 33% increase recorded in 2015. The high growth in commercial banks' investments in government securities during 2015 was largely due to increased investment in treasury bills following the October 2015 announcement of a downward revision of Treasury bill interest rates. Further, the lowering of the MRR in August 2015 resulted in an increase in excess rufiyaa liquidity available to commercial banks for investment in government securities.

Figure 29: Growth in Narrow Money and Quasi Money 2013-2016
(annual percentage change)




**-1%**

Quasi money declined by 1% in 2016

Source: Maldives Monetary Authority
Note: NFA= Net Foreign Asset, NDA= Net Domestic Assets

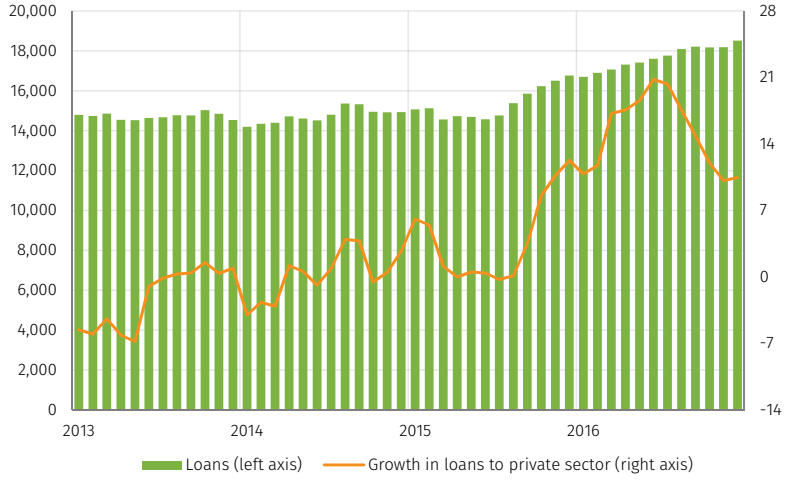
## Credit to the Private Sector

Private sector credit remained strong during 2016, but the pace of growth decelerated slightly to 10% at the end of the year (Figure 30). After a prolonged period of sluggish private sector credit growth in recent years, the lowering of the MRR from 20% to 10% in August 2015 led to a sharp increase in credit in the subsequent months. Initially, private sector credit growth was driven by increased foreign currency denominated lending to the tourism sector. This trend continued into the first half of 2016, after which the contribution of foreign currency denominated lending to credit growth diminished. Local currency denominated lending however, had been growing steadily since the turn of the year, driven by increased lending to the construction and trade sectors of the economy.

With regard to credit by economic sectors, credit to the tourism sector, which accounted for 39% of private sector credit (Figure 31), recorded an annual growth of 9% at the end of 2016. This reflected increased foreign currency lending for the development and renovation of new resorts, which offset the decline in working capital loans to the sector. Loans to the construction sector registered an annual growth of 37%, driven by credit extension for the development and construction of private residences and households. The increased lending to this sector is notable, with the share of loans to the sector increasing from less than 10% of total loans prior to 2014 to 18% in 2016. Meanwhile, credit to the commerce sector recorded an annual growth of 7%, led by increased lending to the wholesale and retail sector.

## Figure 30: Loans and Advances to the Private Sector, 2013-2016

(millions of rufiyaa, annual percentage change)



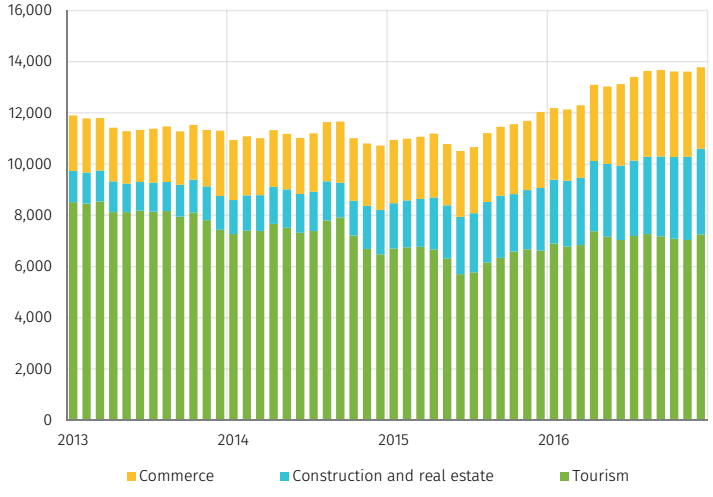

**10%**

Credit to the private sector rose by 10% in 2016

Source: Maldives Monetary Authority

## Figure 31: Loans and Advances to Private Sector by Major Sectors, 2013-2016

(millions of rufiyaa)




**9%**

Credit to the tourism sector registered a 9% growth in 2016

Source: Maldives Monetary Authority

## Interest Rates

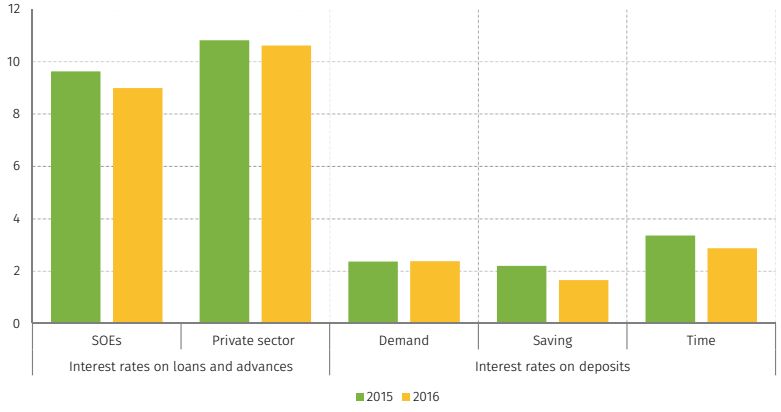
During 2016, no revisions were made to the indicative policy rate of the MMA, which remained at 4.00% since its last revision in September 2014.

The interest rates of treasury bills for all four tenors remained unchanged since the last revision, which came into effect on 28 October 2015. Accordingly, the interest rates on 28-, 91-, 182- and 364-day treasury bills remained unchanged at 3.50%, 3.87%, 4.23% and 4.60% per annum, respectively, during the year.

Looking at the weighted average interest rates (WAIR) on loans and advances, the rates on local currency loans to the private sector declined by 20 basis points (bps) in annual terms, while the rates on local currency loans to SOEs declined by 64 bps. As for foreign currency loans, rates on loans to the private sector increased by 24 bps, while that of loans to SOEs declined by 186 bps.

With respect to the interest rates on deposits, the WAIR on local currency demand deposits increased marginally by 2 bps, whereas the rate on foreign currency demand deposits declined by 9 bps. As for saving deposits, the rate on local currency savings deposits declined by 55 bps, while the rate on foreign currency savings deposits declined by 31 bps. Meanwhile, the rate on local currency time deposits declined by 49 bps, while that of foreign currency time deposits declined by 37 bps (Figure 32 and Figure 33).

Figure 32: Interest Rates for Loans and Deposits (Local Currency), 2015-2016
(weighted average interest rates per annum)



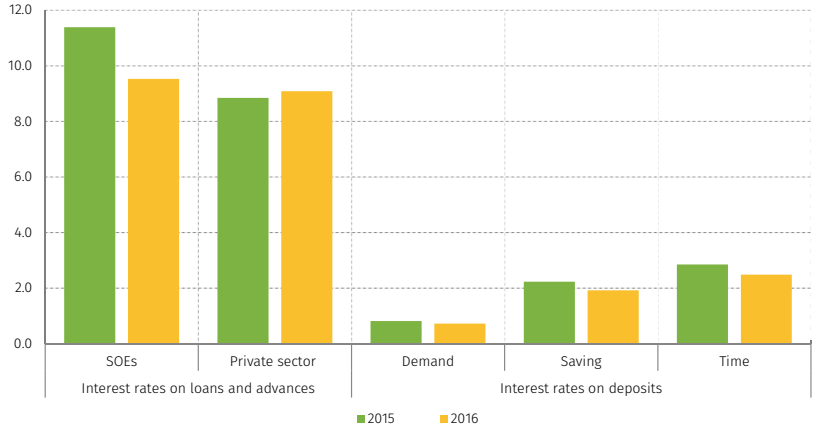

**-20 bps**

WAIR of local-currency denominated loans to private sector decreased by 20 bps

Source: Maldives Monetary Authority

## Figure 33: Interest Rates for Loans and Deposits (Foreign Currency), 2015-2016

(weighted average interest rates per annum)




Source: Maldives Monetary Authority

**+24 bps**

WAIR of foreign-currency denominated loans to private sector increased by 24 bps

# Financial Sector

*The overall performance of the financial sector remained strong in 2016. Capital adequacy, asset quality and profitability of the banking sector showed improvements compared to the previous year, with increased lending and adequate liquidity. Finance companies showed significant profit growth and improved asset quality, while the insurance sector recorded growth in gross written premiums and total assets.*

MMA strives to create an enabling financial environment to foster private sector growth, and increase economic growth in the country. The financial sector of the Maldives remains relatively small, but has seen remarkable growth in recent years, both in terms of financial services, and the number of institutions and service providers. The sector comprises of commercial banks and non-bank financial institutions. The non-bank financial institutions include insurance companies, finance companies, the pension fund, money remittance and payment service providers; and companies operating in the capital market. In 2016, four new financial institutions were opened, and several new financial services and products were launched. The new financial institutions include one new commercial bank, two new insurance companies, and one international money remittance company.

The MMA and the Capital Market Development Authority are the regulating authorities of the financial sector. Capital Market Development Authority is responsible for regulating and developing the capital market, and the pension fund, and the MMA regulates and supervises all other financial institutions and financial service providers. The regulators establish rules and regulations to mitigate the risks to the financial system, and assess its capacity to cope with threats, and implement policies to safeguard the health of the financial system.

## Banking Sector

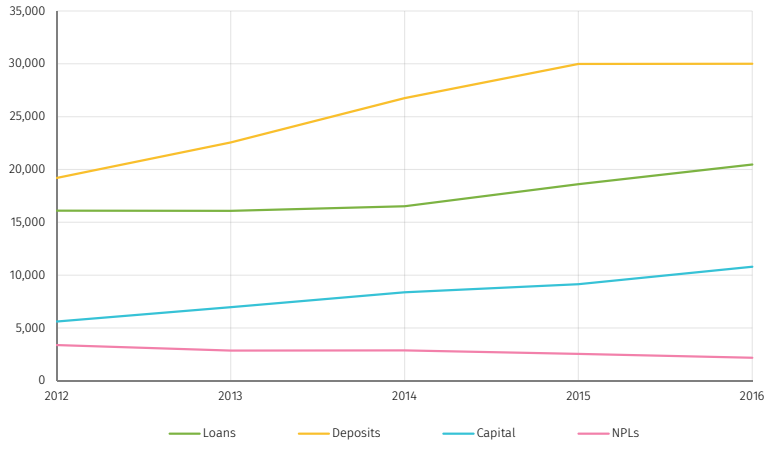
The financial sector of the Maldives continued to be dominated by the banking sector, which accounted for 94% of the consolidated assets of the finance companies, insurance companies and banks. The banking sector remained strong throughout the year, with key performance indicators on capital adequacy, asset quality and earnings showing improvements compared to the previous year. At the end of 2016, eight commercial banks were operating in the country.

The total capital of commercial banks stood at MVR10.8 billion, a growth of 18% during the year. Capital adequacy indicators remained high, with the total capital to risk-weighted assets at 45% against the minimum requirement of 12%, signifying the large share of low-risk assets in the banks' portfolio. Leverage capital measured by equity to gross assets stood at 19% against the minimum requirement of 5% (Figure 34).

Total deposits of the banks amounted to MVR30.0 billion at the end of 2016, which was almost the same level recorded at the end of 2015. While the banking sector's deposits, which is the main avenue to increase assets for commercial banks, increased by 6% over the first three quarters of the year, the increase was partially offset due to a decline during the last quarter. Despite the dampening effect of stagnant

## Figure 34: Key Indicators of the Banking Industry, 2012-2016

(millions of rufiyaa)

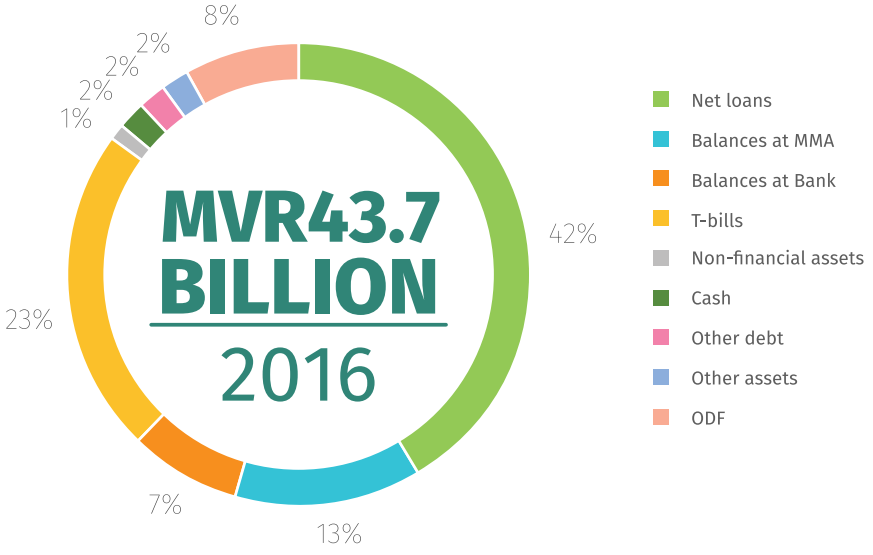



**18%**

Total capital of commercial banks grew by 18% and stood at MVR10.8 billion

Source: Maldives Monetary Authority

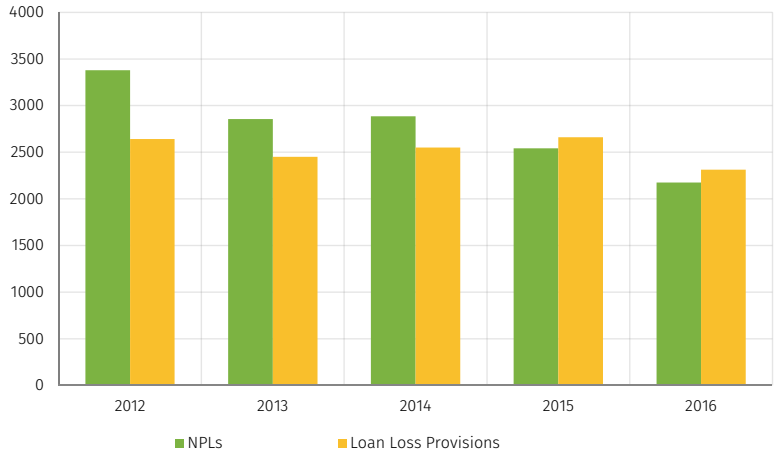
## Figure 35: Net Asset Composition of Banking Industry-31 December 2016




Source: Maldives Monetary Authority

## Figure 36: Non Performing Loans and Loan Loss Provisions, 2012-2016

(millions of rufiyaa)




Source: Maldives Monetary Authority

**-14%**

Absolute value of non-performing loans declined by 14%

deposits on asset growth, strong profits enabled the asset base to increase by 6% to reach MVR43.7 billion. The increased profits also allowed for overall liquidity to be maintained at the same level as the previous year despite the increased lending. Liquid assets made up 49% of total assets, with the highest contribution from investments in treasury bills (Figure 35).

In terms of composition of assets, loans, and advances accounted for 42%. Investments in treasury bills made up 23%, and balances in the MMA's reserve account, and with other banks accounted for 21%. The loan portfolio continued to increase, recording a 10% (MVR1.9 billion) growth in gross loans during the year against a 13% growth in 2015.

The loan quality of the banking system improved during the year, owing to the significant loan recoveries made by a few banks. The absolute value of non-performing loans (NPLs) decreased by 14% or MVR365.7 million in annual terms (Figure 36). This decline of NPLs, along with the increased loan portfolio, resulted in a ratio of NPLs to total loans of 11%—the lowest year-end NPL ratio recorded during the past seven years. Moreover, the banks' credit risk was further mitigated due to the high levels of loan loss provisions made. Specific loan loss provisions covered 96% of the NPL portfolio, while 106% of the portfolio was covered when general loan loss provisions were also taken into account.

Fuelled by the large recoveries and strong credit growth, total pre-tax profits grew by 40% compared to 2015 to reach MVR2.7 billion. Profit after tax amounted to MVR2.0 billion. This resulted in a return on average equity of 21%, against 17% the previous year, and a return on average assets of 5%. The net interest margin remained high at 7%, and with the significant increase in lending, the net interest income increased by 18% year-on-year, while net non-interest

income decreased by 15%. The most significant contributor to the increase in profits compared to 2015 was a net reversal of loan loss provisions amounting to MVR239.5 million, which was an addition to income as opposed to an expense of MVR238.7 million in loan loss provisions in 2015.

The banking sector continued to increase its outreach, with nine new branches opening during the year, one of which was in an atoll that did not previously have a bank branch. This was a milestone in terms of achieving a bank presence in every atoll of the Maldives. At the end of 2016, the total number of bank branches in the country stood at 45, of which 29 were in the outer islands. To increase access to accounts—especially for account holders in outer islands, where the use of cash is still high—eight new automated teller machines (ATMs) were installed in outer island locations during the year, in addition to four in the Male' region. With this, the ATMs in the country totalled 98, of which 40 are in the outer islands.

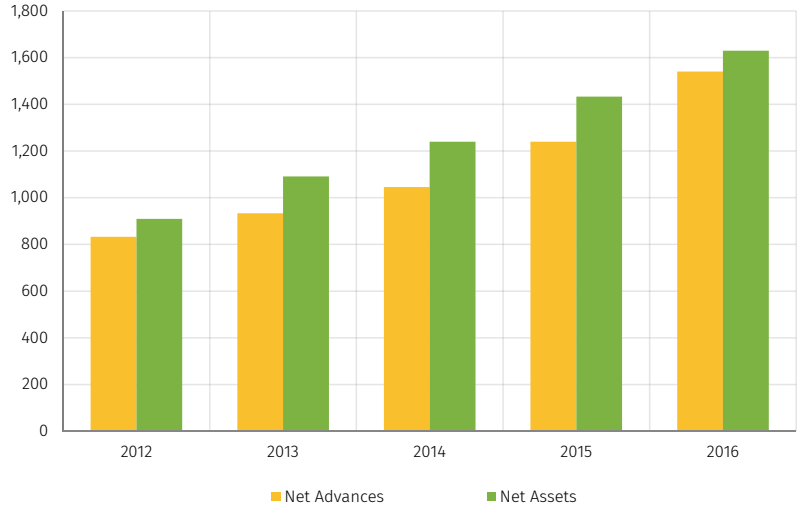
## Non-bank Financial Institutions

### Finance Companies

The Maldives has two finance companies: the Maldives Finance Leasing Company Pvt. Ltd., and the Housing Development Finance Corporation PLC. The sector showed an annual growth of 14%, with total net assets increasing to MVR1.6 billion at the end of 2016. Annual growth in loans and advances rose by 24% to reach MVR1.5 billion (Figure 37).

The overall performance of the sector showed a remarkable improvement, reporting pre-tax profits of MVR110.1 million; a growth of 39% compared to the previous year (Figure 38). This growth was due to

Figure 37- Loans and Advances, and Assets of Finance Companies, 2012-2016
(millions of rufiyaa)

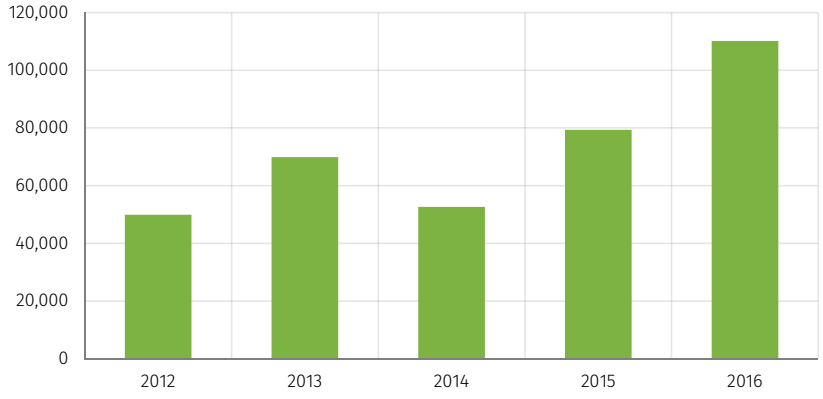



Source: Maldives Monetary Authority

**14%**

Total net assets of the finance companies rose by 14% in 2016

Figure 38: Pre-tax Profits of Finance Companies, 2012-2016
(millions of rufiyaa)




Source: Maldives Monetary Authority

**39%**

Pre-tax profit of finance companies rose by 39% in 2016

an increase in interest income as well as a significant reduction in provisions for loan losses due to improvement in loan recovery. Quality of assets also showed improvement, with the NPL ratio improving to 2% in 2016 from 4% in 2015. The NPL in absolute amount also dropped significantly by 34% in 2016.

## International Money Transfer Companies

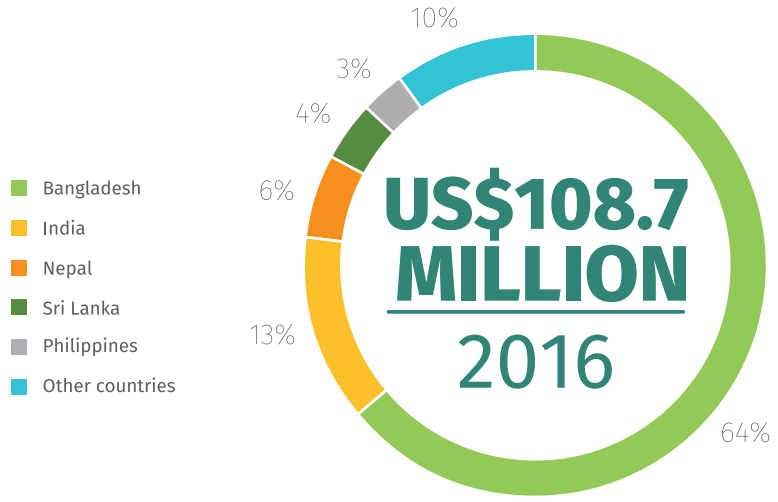
In 2016, a new company was granted the licence to provide international money remittance services through the Western Union network. However, the licence of another remittance company was revoked due to the company ceasing their operations. At the end of 2016, there were six companies providing international money transfer services.

The outward remittances made by money transfer companies amounted to US$108.7 million in 2016 (Figure 39), recording a 13% decline compared to 2015 (Figure 40). The majority of outwards remittances were made by foreign nationals (83%), reflecting workers' remittances from the large expatriate population in the country. The outward remittances by Maldivians constituted 17% of total outward remittances. While these remittances by Maldivians remained fairly stable throughout the year on a monthly basis, those by expatriates showed a declining trend (Figure 41).

From May 2016 onwards, the total outward remittances for each month of 2016 was lower than the corresponding month in 2015, with the gap widening in the last two months of the year. In this regard, there was a difference of 38% between the month of November of both years, and a difference of 43% for the month of December. This substantial drop in outward remittances towards the end of the year coincided with the expatriate remittance tax, which came into effect on 1 October 2016.

Bangladesh remained the top remittance destination, with 64% of total remittances during the year going to the country, although the value declined by 18% during the year. As regards the other

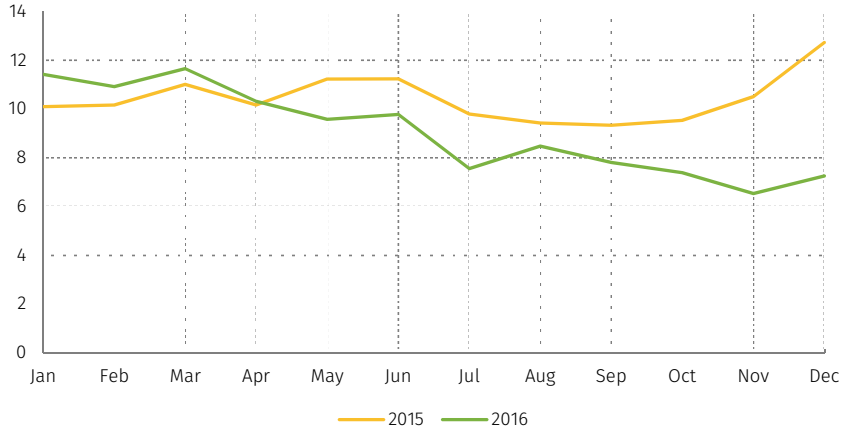
## Figure 39: Composition of Outward Remittances by Country




Source: Maldives Monetary Authority

## Figure 40: Outward Remittance, 2015-2016

(millions of US dollars)



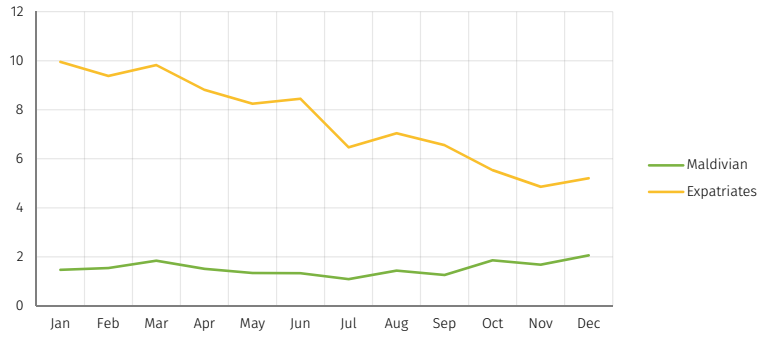

**-13%**

Outward remittance declined by 13% in 2016

Source: Maldives Monetary Authority

## Figure 41: Outward Remittance by Locals and Foreigners, 2016

(millions of US dollars)




Source: Maldives Monetary Authority

**83%**

Outward remittance by expatriate workers accounted for 83% of total remittances

countries, remittances to India accounted for 13%, Nepal 6%, Sri Lanka 4% and the Philippines 3%. Inward remittances also dropped by 13% and totalled US$4.6 million in 2016.

## Insurance Companies

The local insurance industry consists of five companies that offer general insurance, with the exception of one company that offers life insurance in addition to general insurance.

The insurance sector remained small, as measured by its contribution to GDP, and accounted for only 2% of the consolidated assets of the banks, finance companies and insurance companies. The sector recorded positive growth in 2016 according to two key indicators: insurance penetration and insurance density. Insurance penetration is measured as a ratio of the gross written premium (GWP) to GDP in a year. It indicates the development of the insurance sector and its contribution towards economic growth. The insurance penetration for general insurance increased to 1.2% in 2016 compared with 1.1% in the previous year (Figure 42). Insurance density measures the GWP per capita, and for the general insurance business it increased to US$93.7 in 2016 from US$80.0 in 2015.

The size of insurance undertakings has shown growth during 2016, in terms of total assets and GWP. The total assets recorded an increase of 6% to reach MVR996.2 million (Figure 43), while GWP increased by 17% to MVR673.9 million (Figure 44).

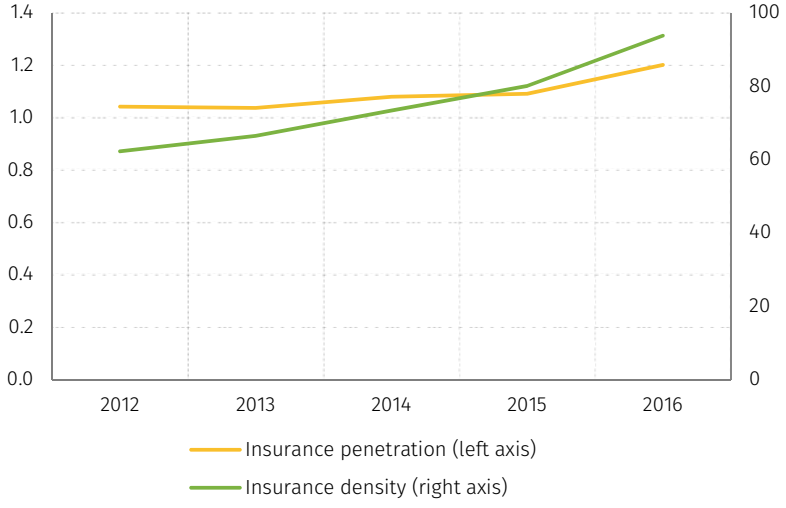
Both the insurance penetration and insurance density reflected the increased growth of GWP in 2016. The growth in premium underwritten during 2016 reflected the significant increase in fire, marine and

health insurances. Fire insurance continued to be the single largest class of the industry, accounting for 36% of the total premium, followed by health (24%) and marine insurance (18%). Fire insurance included property insurance, while marine insurance included both the marine hull (15%) and marine cargo (3%). Health insurance included government and corporate health policies and compulsory health insurance for expatriate workers (Figure 45).

The level of reinsurance in the industry is an important indicator of the financial solvency of the insurance company. Reinsurance is the process by which an insurance company shares the risks it insures with other insurers, known as reinsurers; the company transferring the risk being called the ceding company. Re-insurance aids in the risk management and solvency of the ceding companies. In the Maldives, a large share of the premiums is reinsured

Figure 42: Insurance Penetration and Density, 2012-2016

(percent, US dollars)



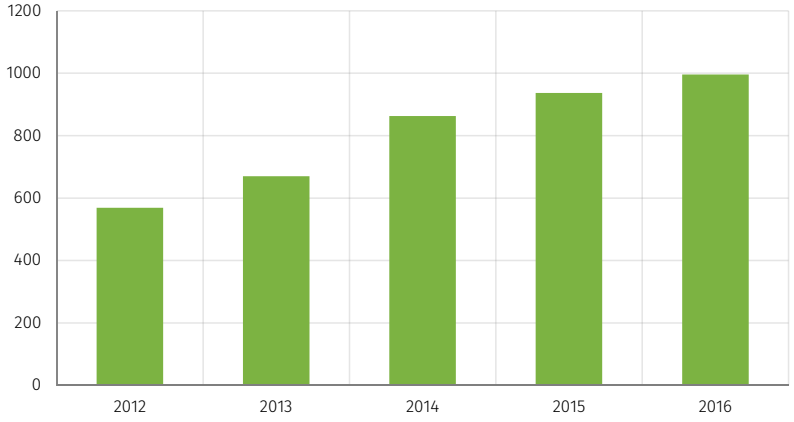

**1.2%**

Insurance penetration of general insurance increased to 1.2% in 2016

Source: Maldives Monetary Authority

## Figure 43: Total Assets, 2012-2016

(millions of rufiyaa)



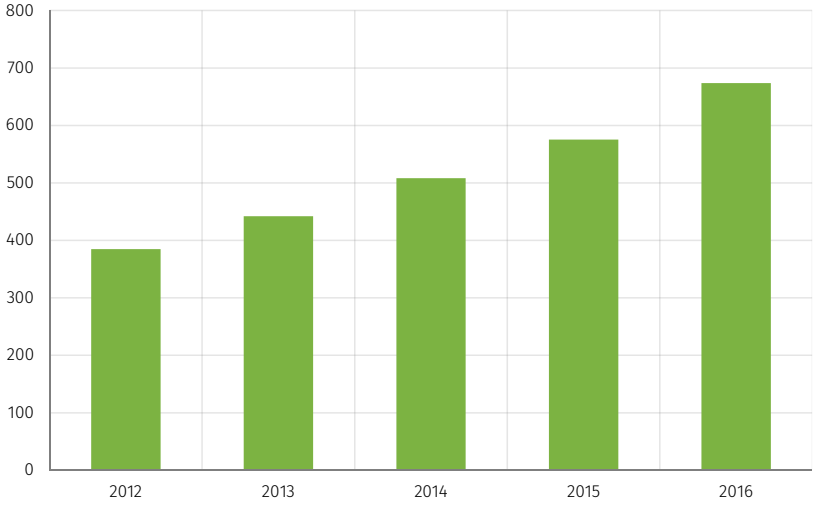

Source: Maldives Monetary Authority

**6%**

Total assets of insurance companies increased by 6% in 2016

## Figure 44: Gross Written Premium, 2012-2016

(millions of rufiyaa)



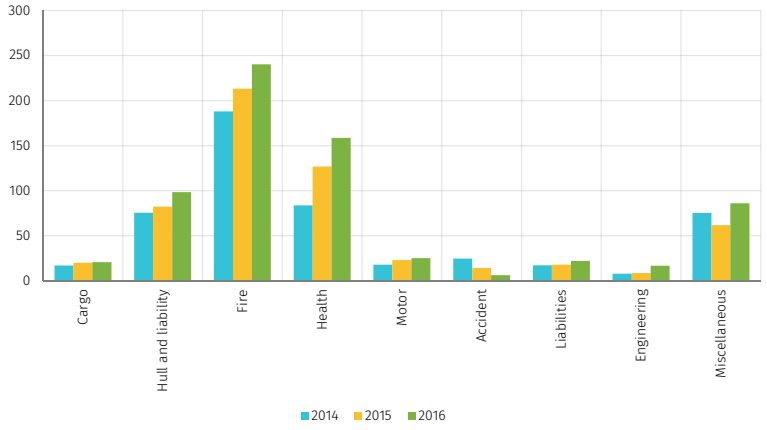

Source: Maldives Monetary Authority

**17%**

Gross written premium grew by 17% in 2016

## Figure 45: Gross Written Premium by Class of Insurance, 2014-2016

(millions of rufiyaa)




**36%**

Fire Insurance accounted for 36% of the total premium of the insurance industry

Source: Maldives Monetary Authority

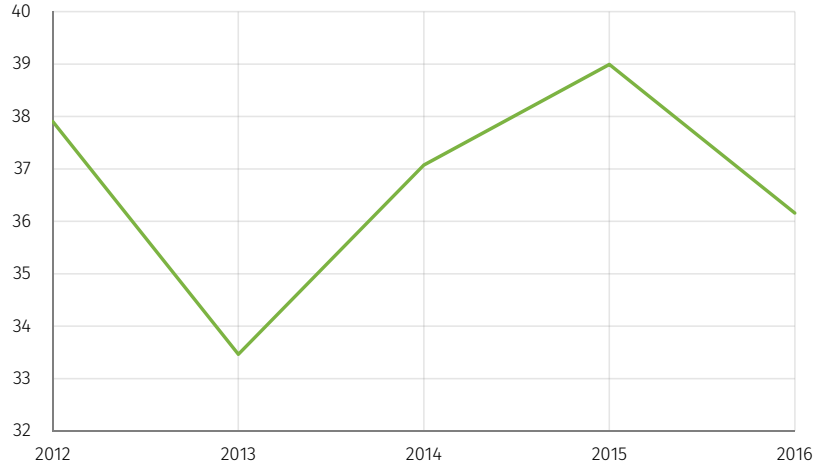
with foreign reinsurers. The retention ratio, which indicates the percentage of premiums retained by the insurance companies, stood at 36% in 2016 against 39% the previous year (Figure 46). This suggests that a lower level of market risk was being assumed by the local insurance companies during 2016 compared to 2015. The retention ratios of different classes of insurance varied considerably. Fire insurance (the largest class of insurance) showed a decline in retention from 11% in 2015 to 8% in 2016, while marine insurance showed an increase in retention to 24% from 18% the previous year. Health insurance and motor insurance, both of which have been increasing rapidly following the introduction of compulsory insurances, showed declines in the ratio from the previous year, while still retaining a high proportion of the risk, each over 90%.

Gross claims paid by insurance companies in 2016 amounted to MVR273.9 million (Figure 47), which is an increase of 10% compared to 2015. Approximately 34% (MVR91.9 million) of the gross claims paid in 2016 was for fire insurance policies, followed by 29% (MVR80.1 million) for health insurance policies.

Despite the increase in key growth indicators, the general insurance industry has been experiencing declining profits for the past few years. During 2016, the net profit after tax for the general insurance business decreased by 16% compared to the previous year, reaching MVR54.3 million (Figure 48). The decline was due to losses made by the two new insurance companies in their start-up year. However, when the new companies are excluded, profit is shown to have increased slightly, by 1%.

## Figure 46: Retention Ratio, 2012-2016

(percent)



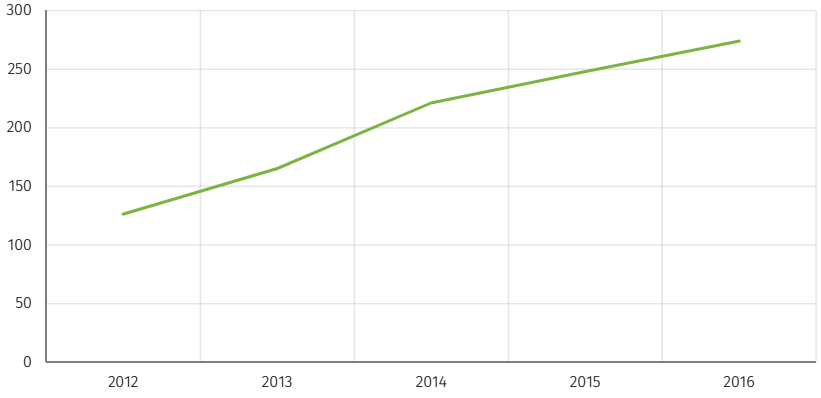

Source: Maldives Monetary Authority

**36%**

Retention ratio of the insurance industry stood at 36% in 2016

## Figure 47- Gross Claims, 2012-2016

(millions of rufiyaa)

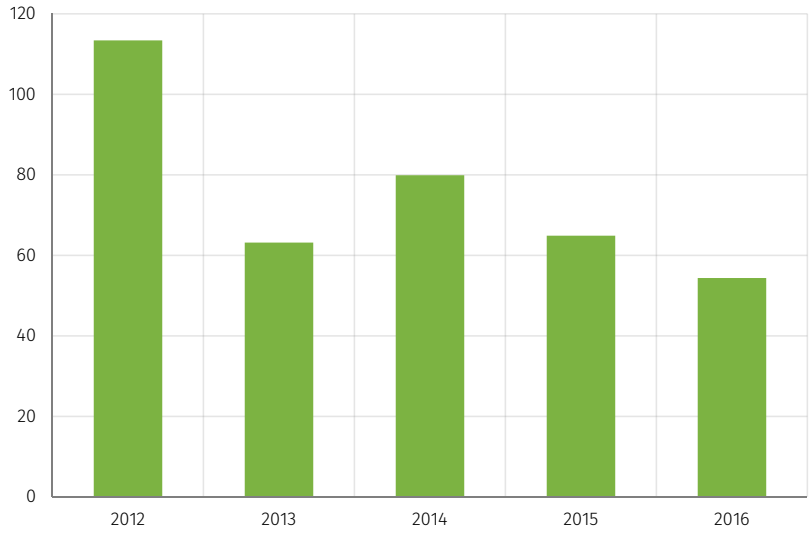



Source: Maldives Monetary Authority

**10%**

Gross claims paid by insurance companies increased by 10% in 2016

Figure 48: Net Profit after Tax of the General Insurance Industry, 2012-2016
(millions of rufiyaa)




Source: Maldives Monetary Authority

**-16%**

Profitability of insurance industry fell by 16% in 2016

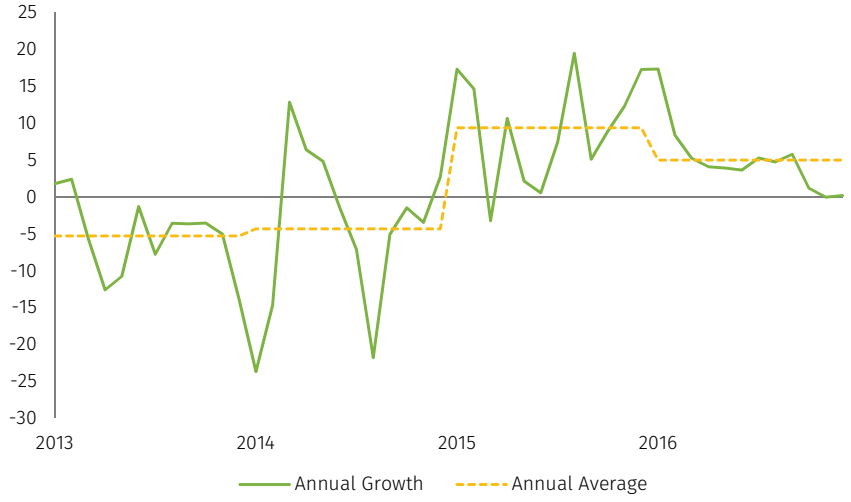
## Capital Market

The capital market of the Maldives is still in its early stages of development. Compared with the banking sector, the volume of transactions that take place on the capital market is significantly low. In order to develop this market further, the Capital Market Development Authority (CMDA) licensed a private investment fund during 2016. This will promote the diversification of financial transactions, which are currently limited to equity and debt security trading.

At the end of 2016, 10 companies were listed on the Maldives Stock Exchange including companies with active and proposed equity listings and debt securities listings. Among these, the equity of six companies was open for public subscription. With regard to debt securities, one company had a conventional debt listing while another had both conventional and Islamic debt security (sukuk) listings. At the end of the year, three companies were listed with proposed future issuances of securities.

The Maldives Stock Exchange Index (MASIX), which reflects stock price movements and the overall sentiment of the stock market of the Maldives, increased by an average of 5% in 2016 (Figure 49). The aggregate market capitalisation was MVR9.6 billion at the end of the year, an increase of 17% from the previous year (Figure 50).

## Figure 49: MASIX Index Growth, 2013-2016
(percent)

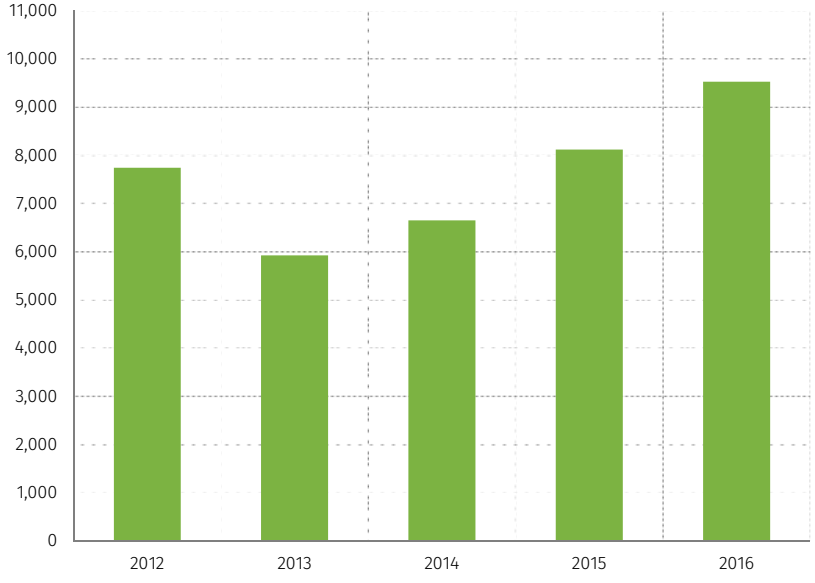



**5%**

Maldives Stock Exchange Index rose by an average of 5% in 2016

Sources: Maldives Stock Exchange

## Figure 50: Total Market Capitalisation, 2012-2016
(millions of rufiyaa)




**MVR9.6 BILLION**

The market capitalisation was MVR9.6 billion at the end of 2016

Sources: Maldives Stock Exchange

# External Sector

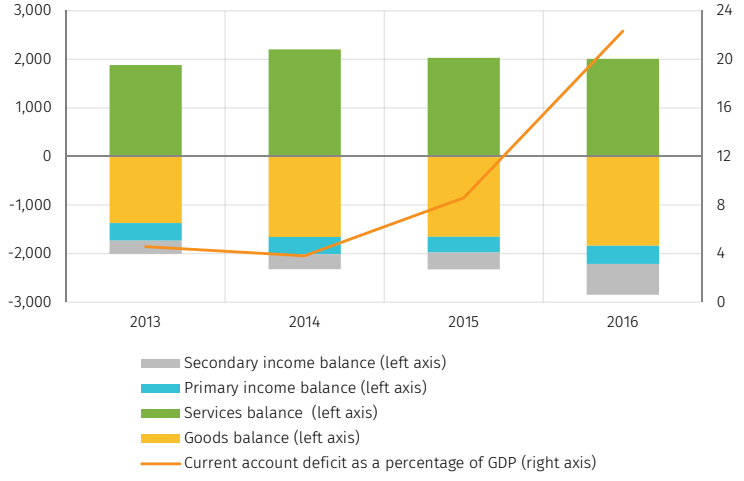
*Despite considerable growth in travel receipts during the year, the current account deficit was estimated to have worsened in 2016. This reflected the impact of a large one-off payment made abroad during the year, as well as a significant increase in imports. Meanwhile, the net surplus on the financial account rose significantly due to an increase in foreign direct investments, and external borrowings by the government and the private sector. However, as the current account deficit was higher than the net inflows from the capital and financial account, the overall balance of payments deficit also worsened during the year and gross international reserves declined by US$96.9 million in 2016.*

## Current Account

The current account is an important indicator of the country's external position, given the Maldives' high dependence on imports and the tourism sector. According to the revised estimates made by the MMA in April 2017, although travel receipts rose considerably during the year, the current account deficit widened substantially to a record high level of US$840.0 million in 2016 (equivalent to 22% of the GDP) from a deficit of US$294.1 million in 2015 (9% of the GDP). The sharp deterioration in the current account reflected the impact of a large one-off payment made abroad during the year. The worsening of the merchandise trade deficit owing to a surge in imported goods and higher payments for construction sector-related services also contributed to the widening of the current account deficit (Figure 51).

### Figure 51: Composition of Current Account, 2013-2016

(millions of US dollars, percent)




**22%**

Current account deficit increased to 22% of GDP in 2016

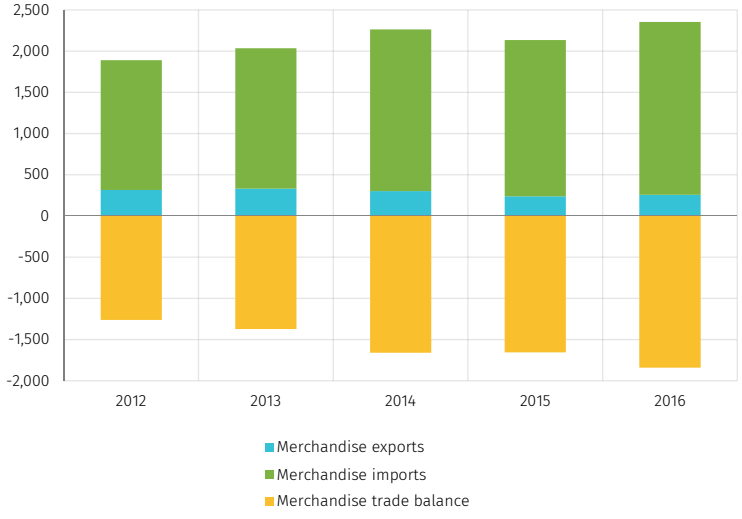
Source: Maldives Monetary Authority

## Goods

The merchandise trade deficit worsened to US$1.8 billion during 2016 (Figure 52), up from US$1.7 billion in 2015, mainly driven by a steep rise in imports that more than offset the growth in exports. The increase in imports largely came from machinery, mechanical appliances and construction sector–related items that were mainly imported for resort construction, residential/housing purposes and public infrastructure projects. Meanwhile, total exports increased almost entirely due to a rise in re-exports (Box 4).

### Figure 52: Merchandise Trade Balance, 2012-2016

(millions of US dollars)




**US$1.8 BILLION**

Merchandise trade deficit widened to US$1.8 billion in 2016

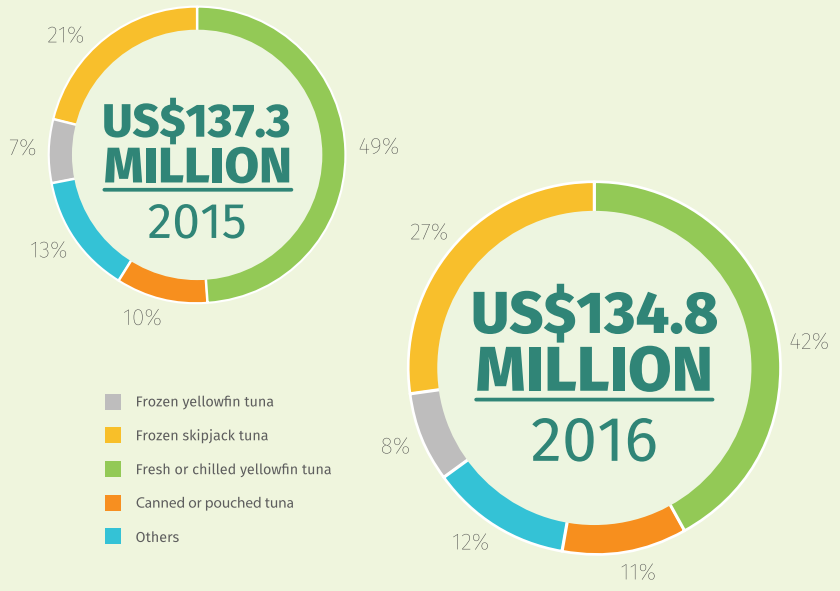
Source: Maldives Monetary Authority

## Box 4: Merchandise Trade[1]

### Merchandise exports

Despite subdued global oil prices and weak tuna exports, merchandise exports—comprising domestic exports and re-exports—increased by US$16.4 million and totalled US$256.2 million during the year. The major contributor to the increase in exports was the significant rise in re-exports. In contrast, domestic exports, which consist almost entirely of fish exports, declined slightly during the year.

Figure 1: Composition of Fish Exports Earnings



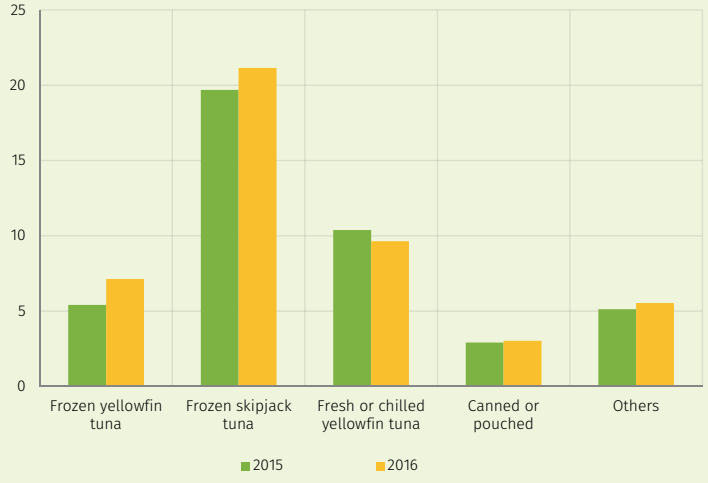

Source: Maldives Customs Service

[1]Based on the trade statistics compiled and disseminated by Maldives Customs Service and hence figures may be different in balance of payment statistics due to the adjustments taken in BOP.

Total re-exports registered a considerable growth of US$20.9 million during 2016. This was largely due to the rise in re-exports of transport equipment and parts (mainly consisted of equipment imported for the construction of China-Maldives Friendship Bridge and other infrastructure projects) during the year. Meanwhile, earnings from jet fuel sold to aircrafts at international airports fell short by US$14.5 million compared with the previous year. Such earnings fell mainly due to lower global oil prices. Similarly, earnings from fish exports posted a decline of US$2.5 million during the review year, largely due to lower earnings from fresh, chilled or frozen tuna exports. In contrast, the volume of total fish exports increased.

Delving into the major categories of fish exports, earnings from fresh, chilled or frozen tuna declined by US$2.1 million (Figure 1). This was mainly due to a reduction in earnings from fresh or chilled yellowfin tuna exports, which offset the notable growth in earnings from frozen skipjack tuna. With regard to other categories of fish exports, earnings from canned or pouched tuna rose owing to an increase in volume (Figure 2), reflecting the higher global demand for canned tuna during the year. Further, export earnings from processed fish declined, mainly due to a decline in earnings from dried skipjack tuna–the largest component of the category.

Figure 2: Composition of Fish Exports (Volume), 2015-2016
(thousands of metric tons)



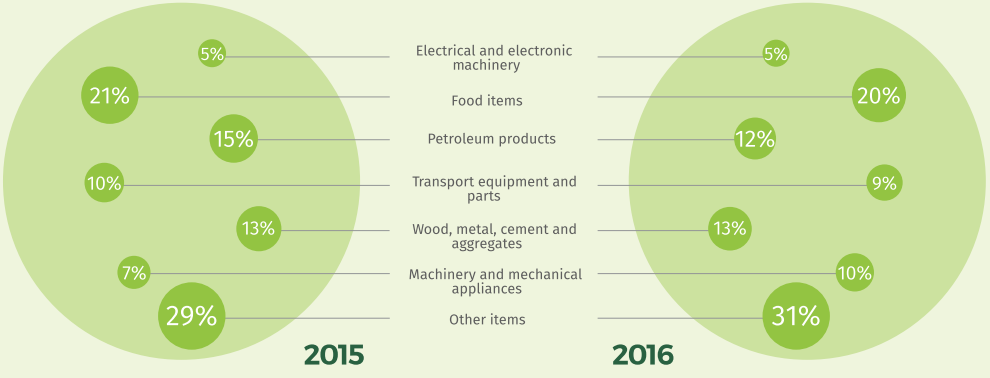

Source: Maldives Customs Service

## Merchandise imports

Concurrent to the buoyancy in economic activity and the recovery in global food prices, total merchandise imports (cif) increased by US$229.0 million and totalled US$2.1 billion during the year. Looking at the composition of imports (Figure 3), import expenditure on food items recorded a growth of US$23.7 million, with main food categories registering increases. Boosted by the strong growth of the construction sector, import expenditure on construction-related imports (wood, metal, cement and aggregates and other construction-related items) posted a substantial growth of US$66.8 million. Such imports were mainly made by both the tourism sector and private sector (excluding tourism). Meanwhile, reflecting lower global oil prices, the import of petroleum products declined markedly by US$37.9 million, with its major subcategories, diesel (marine gas oil) and aviation gas, falling significantly during the year.

With regard to other import components, import of machinery and mechanical appliances recorded a significant increase of US$81.7 million, almost entirely due to large infrastructure projects that are underway. Import of furniture, fixtures and fittings increased by US$33.0 million, owing to growth in dwelling and non-dwelling construction during the year.

Figure 3: Composition of Imports, 2015-2016
(annual percentage change)



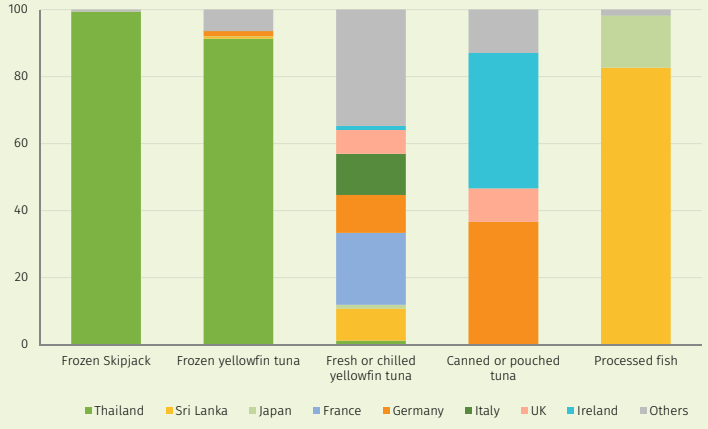

Source: Maldives Customs Service

## Direction of trade

The Asian market remained the main destination of Maldivian exports, representing a share of 52% of domestic exports, followed by Europe with a share of 39% (Figure 4). Thailand remained the single largest Asian market, with the bulk of exports to the country being frozen skipjack tuna and frozen yellowfin tuna. The share of exports to Thailand increased, mainly due to the increase in frozen skipjack tuna earnings owing to higher skipjack tuna prices in the Thai market. The value of exports to Sri Lanka registered a decline during the year; major exports to Sri Lanka were fresh or chilled yellowfin tuna and dried skipjack tuna, the value of which declined. The share of exports to Japan–the third largest market in Asia–declined over the period, reflecting a fall in volume of dried skipjack tuna and fresh or chilled bigeye tuna exports to Japan.

Exports to Europe dropped in 2016, with the bulk of exports being fresh or chilled yellowfin tuna and canned or pouched tuna. The main export markets for fresh or chilled yellowfin tuna within Europe were France, Italy, Germany, the UK and Switzerland. The value of such exports to all countries except for Germany declined during the year. Ireland, Germany, the UK and Switzerland remained the main markets for canned or pouched tuna. Export of canned or pouched tuna to Germany, Switzerland and Ireland increased, while such exports to the UK recorded a decline.

### Figure 4: Direction of Trade of Exports, 2016
(percent)

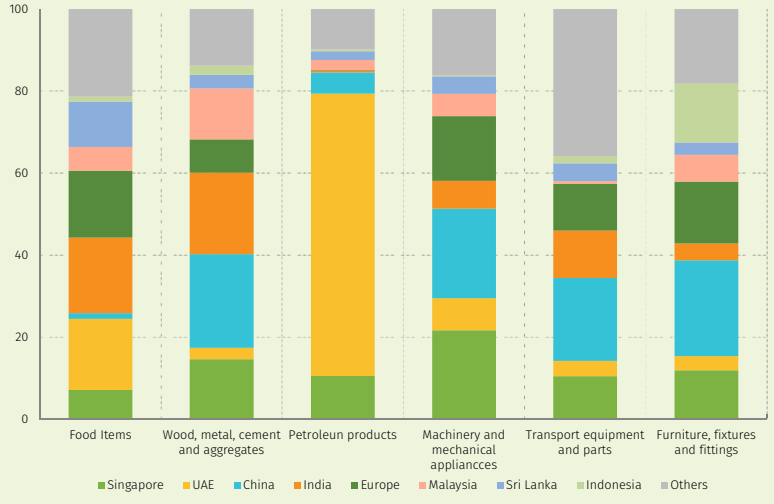



Source: Maldives Customs Service

As for the direction of imports (Figure 5), similar to previous years, the bulk of imports were from Asia, which contributed 82% of imports during the year. From this region, the United Arab Emirates and Singapore were the main sources of imports to the Maldives, followed by China and India. Imports from the United Arab Emirates mainly comprised petroleum products, particularly diesel (marine gas oil), petrol and aviation gas. The share of imports from the United Arab Emirates increased due to an increase in import of petroleum products, and machinery and mechanical appliances during the year. Imports from Singapore included mainly construction-related imports, machinery and mechanical appliances as well as food items. The market share of Singapore declined due to a fall in import of petroleum products during the year.

Main import items from China were construction-related items, machinery and mechanical appliances, transport equipment, and furniture, fixtures and fittings. Imports from China recorded a notable growth, mainly due to an increase in imports of these items. Imports from India also registered a growth, largely reflecting an increase in imports of transport equipment, construction-related items and food items. Meanwhile, imports from Europe comprised 11% of total imports, with the major category being food items (mostly beverages and confectionaries).

Figure 5: Direction of Trade of Imports, 2016
(percent)




Source: Maldives Customs Service

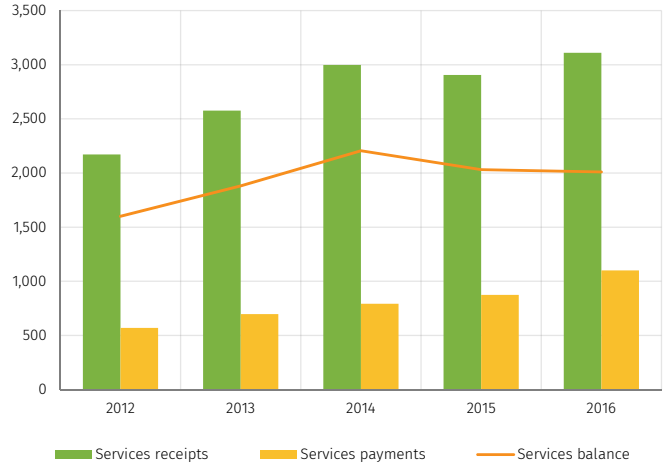
## Services

A key feature of the Maldives' current account is the inherent surplus on the services account, reflecting the substantial inflow of foreign exchange into the country from the tourism sector. The surplus on the services account remained largely unchanged from the previous year and stood at US$2.0 billion in 2016. Although travel receipts during the year increased, this was entirely offset by a rise in service payments abroad (Figure 53).

On the receipts side, travel receipts[15] accounted for 88% of all service receipts, and were estimated to have increased markedly by US$161.3 million during the year. This reflected improvements in the tourism sector, particularly during the latter part of the year. Further, receipts from transport services also edged upwards, owing to an increase in international flight movements to the country during 2016. Maldivian airlines commencing their operations to new destinations also contributed to the increase in transport services receipts.

The increased number of residents travelling abroad led to a surge in travel expenditure recording US$284.5 million during 2016. Moreover, with the expansion of the construction sector during the year, a significant increase of US$91.0 million was observed in construction sector-related services acquired from non-residents. Payments made for international transport services also increased, mostly due to a rise in freight payment on imports, reflecting the higher volume of imports to the country during the year.

Figure 53: Trade in Services, 2012 - 2016
(millions of US dollars)




Source: Maldives Monetary Authority

**US$2.0 BILLION**

Surplus on service account remained largely unchanged at US$2.0 billion in 2016

[15]This estimate is based on collection of TGST, green tax, duty free sales, and, inward transfers reported by the commercial banks related to travel and tourism services. Due to the adjustments taken, travel receipts are not comparable with tourism related tax revenue.

## Primary Income Account

The primary income account was mainly influenced by the outflows related to direct investments, largely reflecting income on equity. During 2016, the deficit on the primary income account widened further by US$50.0 million to reach US$374.6 million. With a surge in profits earned by foreign investors during the year, outflows related to primary income increased significantly to US$387.6 million. On the other hand, inflows of the primary income account increased moderately to reach US$13.0 million, mainly due to an increase in income generated from reserve management activities.

## Secondary Income Account

The secondary income account comprises workers' remittances, government transfers and other transfers. The deficit on this account widened substantially to US$635.2 million in 2016, largely reflecting the compensation payment of US$271.0 million by the Maldives Airports Company Ltd. to GMR Group. An increase in the number of expatriate workers in the country raised workers' remittances to US$378.6 million, contributing to the rise in the deficit.

# Financial Account

The financial account records transactions of financial assets and liabilities for the residents of an economy and the rest of the world. Transactions on financial assets and liabilities are represented under direct investments, portfolio investments and 'other investments'. In 2016, the financial account registered a net inflow of US$811.7 million, up from US$491.0 million in 2015. The net inflows of the financial account rose due to an increase in inflows from both direct investments as well as 'other investments' (Figure 54).

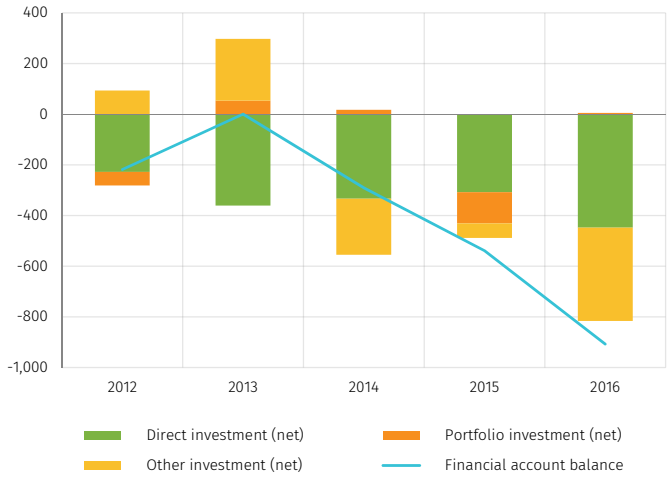
External financial inflows to the Maldives during the year were mainly in the form of FDI inflows[16] that are estimated to have increased to US$448.0 million in 2016 after recording US$307.7 million in 2015. The surge in FDI inflows reflected the increase in new equity investments by foreign investors, coupled with an increase in reinvested earnings during the year.

Portfolio investments consist of cross-border financial transactions involving equity and debt securities other than those included in direct investment. This category recorded a net outflow of US$5.1 million during 2016, after recording a net inflow of US$122.9 million in 2015. The net outflow represents an increase in commercial bank investments in securities held abroad.

The 'other investment' flows consist of financial transactions other than direct investments and portfolio investments. This category recorded a net inflow of US$368.8 million in 2016, up from US$60.4 million recorded in 2015. The surge in net borrowings by the government, private sector and commercial banks contributed to this net inflow. In addition, an increase in liabilities of the MMA due to the swap agreement between the MMA and the Reserve Bank of India increased the net inflow.

[16]Only the proceeds from inward foreign direct investments are included in the direct investment account

Figure 54: Financial Account, 2012-2016
(millions of US dollars)




**US$811.7 MILLION**

Financial Account registered a net inflow of US$811.7 million in 2016

Source: Maldives Monetary Authority
Note: In the financial account a positive sign indicates net lending and a negative sign indicates net borrowing.

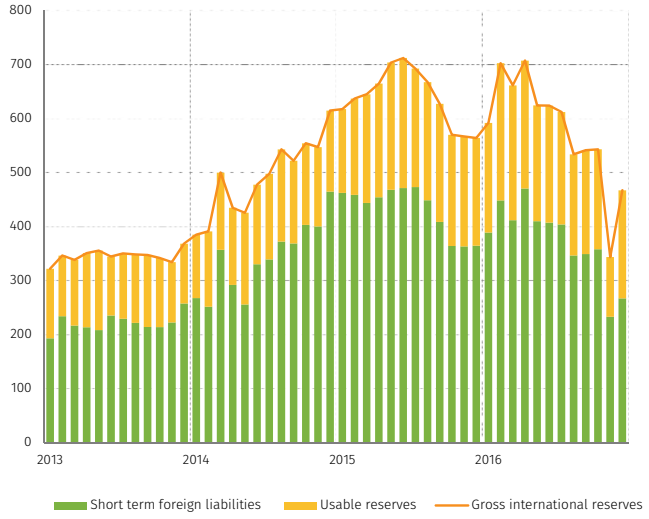
## Overall Balance and International Reserves

As the current account deficit was significantly higher than the net inflows from the capital and financial account, the overall balance of payments (BOP) recorded a deficit of US$95.8 million during the year, up from a deficit of US$47.7 million the previous year. This led to a drawdown in gross international reserves (GIR) from US$564.0 million at the end of 2015 to US$467.1 million at the end of 2016 (Figure 55). The usable reserves component of the GIR amounted to US$200.0 million at the end of 2016, which reflected a marginal growth of less than 1% compared with 2015.

GIR which was on a declining trend towards the end of 2015 showed a reversal at the beginning of 2016 and peaked at US$707.2 at the end of April, but started declining once again from May onwards. As the GIR largely includes commercial banks' foreign currency deposits held at the MMA (MRR and excess reserves), the increase in GIR at the beginning of the year reflected an increase in such deposits at the MMA. Similarly, usable reserves also rose because of an increase in foreign currency purchases by the MMA on the back of the higher foreign currency revenue of the government.

The decline in GIR since May 2016 reflected increased foreign currency sales to the market to ease foreign exchange pressure in the market. In addition, the investment of the MMA in a corporate bond issued by the Maldives Airports Company Ltd. reduced the GIR towards the end of the year. However, the US dollar currency swap facility between the MMA and the Reserve Bank of India (RBI) helped to offset the drawdown in the usable reserves and maintain the usable reserves at an adequate level.

Figure 55: Gross International Reserves, 2013-2016
(millions of US dollars)




Source: Maldives Monetary Authority

**US$467.1 MILLION**

Gross reserves decreased to US$467.1 million in 2016

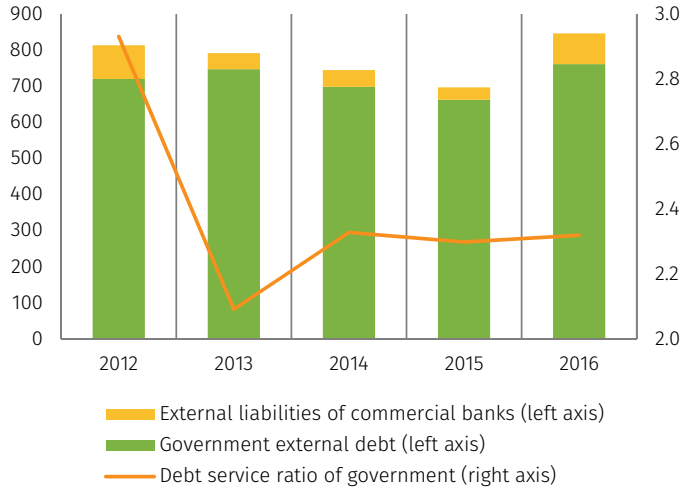
## External Debt

External debt statistics are limited to government external borrowings and foreign liabilities of commercial banks. As per the latest available statistics, the total external debt stock (government and commercial banks) increased by US$149.5 million recording US$846.1 million at the end of 2016 (Figure 56). The debt-to-GDP ratio also registered an increase from 20% of the GDP in the previous year to 22% of the GDP during the review year. The growth in external debt stock was mainly due to a rise in government debt, which reflected an increase in buyer's credit.[17]

As regards the composition of the external debt, government external borrowings—which accounted for 90% of the external debt—increased markedly by US$98.6 million to reach US$761.2 million at the end of 2016. Government external debt primarily comprised buyer's credit and loans obtained from bilateral and multilateral sources. Buyer's credit recorded a significant increase of US$148.4 million and amounted to US$348.1 million during the year. This mainly reflected a marked growth in credit extended to finance imports for various infrastructure and housing projects carried out during the year. However, multilateral loans declined by US$17.3 million and totalled US$251.8 million in 2016. Similarly, bilateral loans also recorded a decline of US$26.6 million and amounted to US$142.7 million in 2016. In contrast, the foreign liabilities of commercial banks increased by US$50.9 million during the year and totalled US$84.9 million.

[17]Buyer's credit is a loan facility extended to an importer by a bank or financial institution to finance the purchase of goods or services and other high-cost items.

Figure 56: External Debt, 2012 – 2016
(millions of US dollars, percent)




Sources: Ministry of Financy and Treasury and Maldives Monetary Authority

**22%**

External debt stock increased to 22% of GDP in 2016

With the rise in government external borrowings, the total cost of debt servicing[18] witnessed a growth of US$4.8 million and amounted to US$77.1 million in 2016. However, the debt service ratio[19] remained unchanged from the previous year and stood at 2.3% in 2016.

## Exchange rates

With effect from 11 April 2011, the Maldivian rufiyaa was allowed to fluctuate within a horizontal band of 20% on either side of a central parity of MVR12.85 per US dollar. However, immediately after the introduction of the exchange rate band, the exchange rate of the rufiyaa per US dollar moved towards the upper limit of the band. Since then, it has remained virtually fixed at MVR15.42 per US dollar.

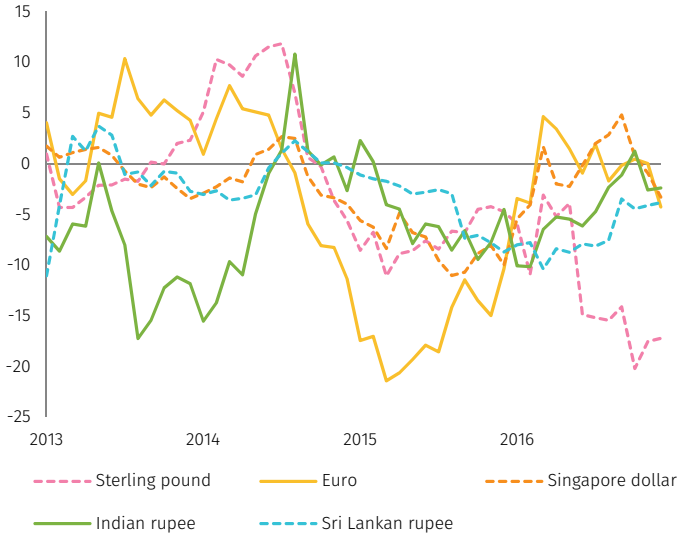
The trajectory of the US dollar against the major currencies in the international market was reflected in the cross rate of the rufiyaa. In terms of bilateral exchange rates, the rufiyaa appreciated against the currencies of major trading partners, reflecting the strengthening of the US dollar against these currencies during the year. The US dollar appreciated against its major trading partners, largely reflecting the market expectations of an increase in the federal funds rate by the US Federal Reserve. While the euro depreciated against the US dollar, the Japanese yen appreciated against the US dollar, mirroring the divergent monetary policy stances across these countries. Further, the pound sterling depreciated notably against the US dollar in an environment of heightened uncertainties following the Brexit vote, while the Chinese

[18]This includes both principle and interest payments.
[19]The debt service ratio is the ratio of debt service payments to export of goods and services. It measures the adequacy of a country's foreign exchange earnings to meet maturing debt obligations.

yuan weakened markedly against the US dollar on the back of higher capital outflows from China.

Mirroring the above movements of the US dollar against the major currencies of the world, the rufiyaa appreciated against the pound sterling, the Chinese yuan and the euro, respectively. Further, the rufiyaa strengthened against the Indian rupee, the Singapore dollar and the Sri Lankan rupee. In contrast, the rufiyaa depreciated against the Japanese yen (Figure 57).

Figure 57: Changes in Exchange Rate of US Dollar against Currencies of Major Trading Partners, 2013-2016
(annual percentage change)

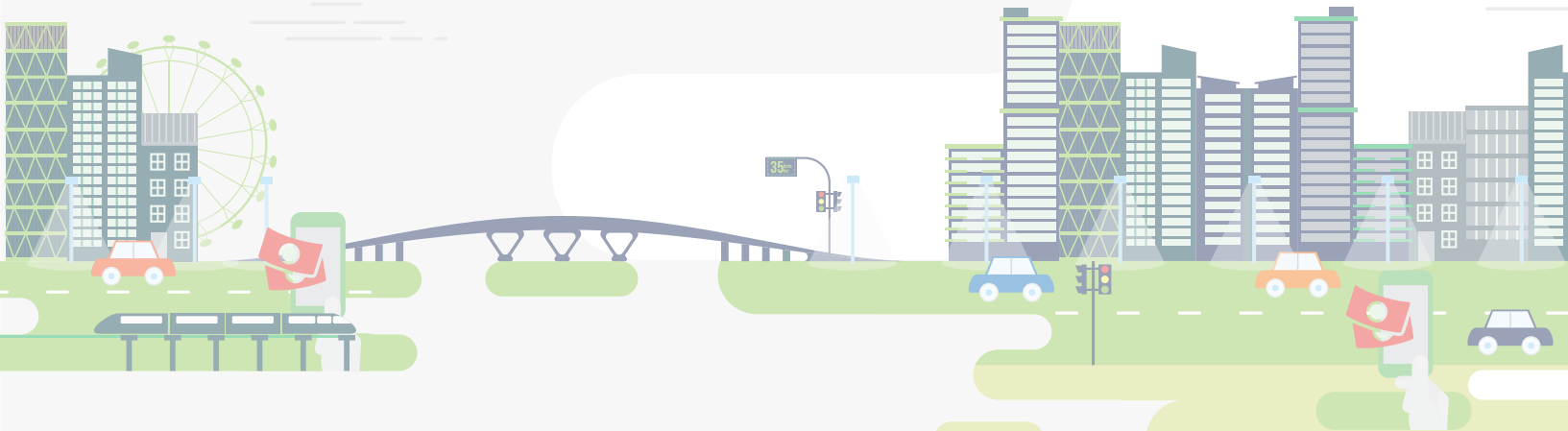



Source: Bank of Maldives PLC

**↑ MVR**

Maldivian rufiyaa appreciated against the currencies of major trading partners in 2016

# OUTLOOK FOR 2017



# Economic Outlook for 2017

## TOURISM

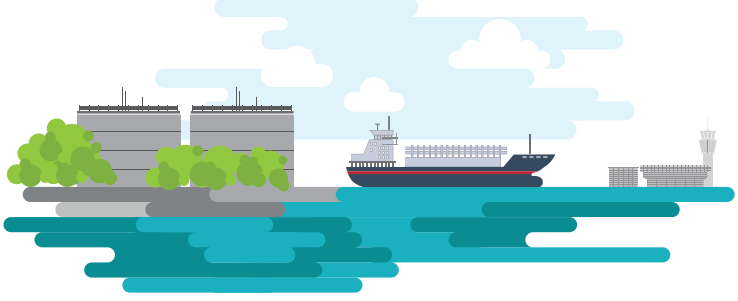
Reflecting the positive growth prospects for the European region, strong tourist arrivals growth is expected to continue in 2017. Mirroring the positive outlook for the sector, bednights growth is also projected to increase.

## CONSTRUCTION

Construction sector is anticipated to grow robustly in the year ahead, fuelled by large infrastructure projects.

## INFLATION

The removal of blanket subsidy on staples and recovery of food and oil prices in global commodity markets are expected to accelerate prices during 2017.



## PUBLIC FINANCE

Fiscal deficit as a percentage of GDP is forecasted to decline to 0.5% in 2017, driven by increased revenue from new revenue measures and a reduction in current expenditure due to proposed policy changes. However, capital expenditure is expected to increase due to higher spending on large scale PSIP projects.

## EXTERNAL SECTOR

The current account deficit is projected to be at 16% of GDP in 2017, owing to positive prospects in tourism sector and the downside base effect from sizable outwards transfers made in 2016.

Meanwhile, inflows on the financial account are estimated to increase in 2017. However, due to the higher net outflows, the gross international reserves is estimated to reach US$564.2 million.

# Outlook for 2017

The overall outlook for the Maldivian economy remains largely favourable. After a weaker than expected outturn in 2016, the real GDP growth is expected to gain momentum, with 4.7% forecasted for 2017. The strong domestic demand, largely stemming from the continued robust growth of the construction sector, is projected to provide the impetus for economic growth in 2017. Moreover, the strong growth observed in the tourism sector during the latter part of 2016 is expected to continue in 2017, underpinned by the increased number of tourists from the European market reflecting better growth prospects for the region. Mirroring the positive outlook for the sector, bednights growth is projected at 5% in 2017. These projections may be even higher if the remarkable performance seen in the tourism sector at the turn of the year continues.

Inflation is forecast to accelerate in 2017, with the average inflation rate estimated at 2.5%, largely reflecting the upward base effect of the removal of the blanket subsidy on staples. Further, the recovery of commodity prices—especially food and oil prices, which will eventually pass through essential goods and services prices—will put an upward pressure on inflation. Nevertheless, the rate of inflation is expected to slightly decelerate towards the end of 2017 as the base effect of the reduction of food subsidy wanes.

The fiscal deficit[20] for 2017 is projected at MVR303.7 million or 0.5% of the GDP, a significant reduction from 7.4% of the GDP in 2016. This is driven by an estimated increase in total revenue, coupled with a sizable reduction in current expenditure. A significant amount of revenues are expected from the following new revenue measures: changes to SOE's dividend policy, land acquisition fees, airport development charges, and SEZ fees. In the proposed 2017 budget, a reduction in expenditure is mainly expected to come from the planned revision to the national health insurance ('Aasandha'). In addition, expenditure on salaries and wages is projected to remain contained. However, risk remains in expenditure cut downs, stemming mainly from the delay in some proposed policy changes, especially revisions to Aasandha. Meanwhile, capital expenditure for the year is projected to increase significantly, reflecting continued spending on large-scale PSIP projects. Given the high levels of borrowings associated with these developmental projects, public debt is projected to escalate further, reaching 72% of the GDP at the end of 2017.

As for the BOP forecast,[21] the current account deficit is projected to contract to US$650.5 million in 2017 (16% of the GDP), helped by positive prospects for the tourism sector and the downside base effect of sizable outward transfers made in 2016. Meanwhile, the net inflows on the financial account are expected to increase further to US$747.6 million (18% of the GDP) in 2017. Inflows are foreseen to come from direct investments as well as external financing for the government and private sector. However, the inflows are expected to be partly offset by outflows from the maturity of the US dollar currency swap facility between MMA and the Reserve Bank of India, as well as from government debt repayment. Mirroring these developments, GIR are forecasted to stand at US$564.2 million by the end of 2017. Thus, measures are needed to ensure the foreign exchange market remains stable.

[20]According to the 2017 government budget approved by the parliament.
[21]Forecast made in March 2017.

# FINANCIAL INCLUSION

# Financial Inclusion

Financial inclusion refers to the availability of quality and affordable financial services to all segments of society, particularly low-income individuals, those without property or other collateralizable assets, and those in remote areas. The level of financial inclusion in the Maldives has been steadily increasing, with growth of inclusion especially rapid over the past 10 years. Bank branches are present in every atoll, more and more islands now have ATMs, and cash agents are present in every island. The nation-wide telecommunications network has made internet banking accessible throughout the country, and has enabled the wide usage of mobile phones; as a result of which mobile banking and mobile payment products are becoming more prevalent.

Access to financial services allows individuals to smooth consumption, build household wealth, and manage risk. Availability of credit allows sole proprietorships and small businesses to invest and grow, which creates jobs and boosts the local economy, as well as empowers individuals and reduces inequality.

*Providing quality and affordable financial services to all segments of society*

# Challenges to Promoting Financial Inclusion in the Maldives

## Geographically Dispersed Population

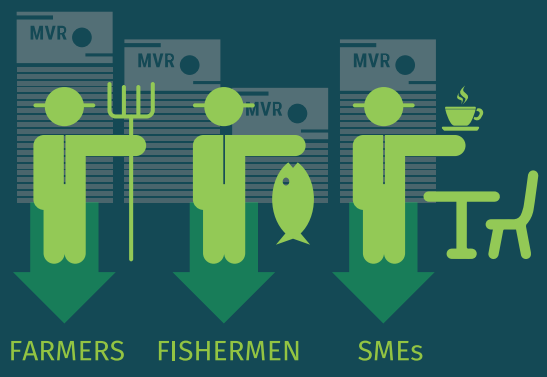
The population of the Maldives is scattered across 188 islands which are geographically dispersed across 20 atolls. Many of these islands have very small resident populations, with about 25% of all islands having less than 500 people residing on a permanent basis. This makes it physically challenging and expensive to provide financial services to everyone. For example, the high cost of installing and maintaining ATMs means that this would not be a feasible service to provide on scarcely populated islands.

**188** ISLANDS
**20** ATOLLS

## Low Participation in the Financial Sector

The level of participation in the financial sector is low in the outer atolls, particularly among those working in the primary sector industries of fisheries and agriculture and those operating sole proprietorships or small and medium-sized enterprises (SMEs).

*Participation in the financial system is low in these industries*



While most adults in the Maldives have bank accounts, cash remains the dominant means of carrying out transactions and usage of bank accounts remain low. For example, while social welfare payouts require bank accounts, these accounts are often used as a delivery mechanism: with the equivalent cash amounts soon withdrawn and used in transactions. This means that a lot of services provided by the financial sector and their associated benefits, from consumption smoothing and wealth building through savings products to the convenience of credit cards, are foregone by much of the population.


There are several factors discouraging this participation. The lack of geographical access to banking services means that cash transactions are more convenient and less time-consuming, while the high cost of services, such as the expense of procuring point-of-sale terminals and the fees charged for their use, means that cash usage is often preferred. Since many locals are excluded from access to borrowing due to high requirements for minimum income and collateral, the incentives of participating in the formal financial system in order to be able to access lines of credit is also removed.

*Much of the population carry out transactions entirely in cash*


In addition to this, a high reliance on cash can have its own problems. In addition to holding cash being less secure than a bank account and transactions being more inconvenient, cash regularly leaves smaller islands as their inhabitants often spend in larger islands. This net outflow requires regular physical transportation of cash to smaller islands, which is inefficient and expensive.

## Access to Credit is Expensive

Access to most lines of credit is limited to those with an above-average income, and often requires collateral and equity contribution by the borrower. This, along with high costs of borrowing, denies access to credit for much of the population, disproportionately so in the atolls. As credit is a source of capital to invest in and grow small businesses and other means of livelihood, which then drives local economic development, this can exacerbate the already high degree of inequality between the Greater Male' area and the rest of the country.

*Access to credit is limited and expensive in the atolls*

*Improved credit history is a key factor in broader access to credit*


The Credit Information Bureau established by the MMA compiles and provides information on the credit history of borrowers with financial institutions. Being able to measure the repayment history of borrowers allows lenders to price risk, and to be able to provide easier or less expensive loans to lower-risk individuals.

## Inadequate Level of Financial Literacy

Financial literacy and familiarity with financial services and products is low in the Maldives, especially in rural areas and among older individuals. This results in low uptake and usage of financial services.

# Financial Inclusion in the Maldives

Financial inclusion is usually measured with respect to three key dimensions. These are access to financial services and products, their usage, and penetration among the population.

## Access

This refers to the ability of people to access banking services without much time, effort, or inconvenience. The access dimension uses indicators such as the number of bank branches and ATMs to gauge the ease of access to financial services. Bank branches offer the full range of financial services offered by commercial banks, while ATMs offer a more limited range of services such as withdrawals, deposits, and bill payments. In the Maldives, cash agents, who are now present on all inhabited islands without a bank presence, allow consumers to make small withdrawals of under MVR2000 from their account. These agents allow financial services, however limited, to be accessible by all members of society.

TOTAL NUMBER OF BANK BRANCHES

45

TOTAL NUMBER OF ATMs


96

TOTAL NUMBER OF AGENT BANKS

200

INTERNET BANKING
MOBILE BANKING

*Cash agents are present in all inhabited islands without a bank branch or ATM*

The main barrier to accessing financial services in the Maldives, unlike in most other countries, is not physical distance but the difficulty of travel between small, dispersed islands. As such, the population living on islands with a bank branch, ATM, or cash provides a better indicator to measure access to financial services for the case of the Maldives.

Recent technological developments, such as mobile and internet banking, allow people to access a range of financial services without needing to go to bank branches or ATMs. This reduces barriers to accessing financial services, especially on remotely located islands with no physical banking establishments.

*Total number of mobile banking app downloads*

75,000+

Universal coverage of internet access/3G data in all Maldivian islands through which to access mobile banking or mobile money apps

*The nation-wide telecommunications network has made internet banking and mobile payments applications accessible throughout the country*

**63%** Bank Branch

**67%** ATM

% of population with access
Total population

**37%** Bank Branch

**43%** ATM

% of population with access
Outside greater Male'

## Penetration

Penetration measures the extent to which the population is captured within the formal financial system. Having a bank account is necessary to access even the most basic of financial services. This is the first step to securely save, deposit and withdraw money on demand, and in turn utilize the broader range of financial services that are on offer.

The number of bank accounts (across all commercial banks) per adult population is over 100%. While this reflects a high rate of penetration, it does not give a complete picture of the proportion of adults within the banking system, as this value includes multiple accounts within a bank, accounts with multiple banks, and corporate accounts.

As a proxy, we can look at the number of Maldivian individuals with a deposit account at the Bank of Maldives (BML), the country's largest bank with the most widespread presence. While this won't capture adults who only maintain accounts outside BML, it excludes depositors with multiple accounts within BML and avoids double-counting those with accounts in other banks in addition to BML. By this measure, the percentage of adults with deposit accounts with BML alone is about 82%.


2016


2015

- *Number of bank accounts per 100,000 adults in 2016: 226,137*
- *There was a 16% growth in bank accounts per 100,000 adults from 2015 to 2016.*

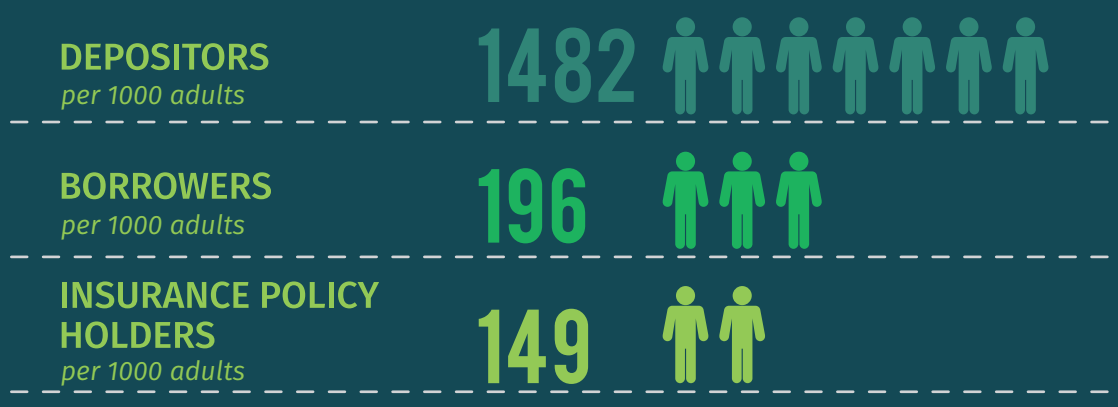
**82%**
**Accounts in BML**

## Usage

Full financial access means people being able to use and making use of financial services available to them. Compared to the usage of deposit facilities, the usage of credit facilities is low, due to availability of credit being limited by factors such as income, assets owned, and formal documentation.

There was a steady growth of approximately 4% in depositors per 1000 adults from 2015 to 2016 and a 1% growth in insurance policy holders per 1000 adults. Borrowers per 1000 adults grew by 16% from 2015 to 2016, following changes in certain loan products as well as the introduction of new products over late 2015 and 2016, offering less restrictive requirements for borrowers.

As with penetration, these indicators face the problem of counting multiple accounts by individuals as well as corporate accounts, particularly when considering the number of borrowers.



## Current Initiatives to Improve Financial Inclusion

Financial inclusion has been steadily increasing in the Maldives. The number of bank branches and ATMs has grown over the years, with at least one bank branch in each atoll. Cash agents able to provide rudimentary banking services are present in every inhabited island without a bank presence, and internet and mobile banking apps are available.


Banks have introduced new loan products as well as made changes to certain existing products, offering terms that are less restrictive, thereby enabling increased accessibility of credit by previously under-served segments. There has also been a growth in Islamic financial services, which can service segments of the population who prefer to use Shari'ah-compliant modes of finance. Outside of the commercial banking sector, mobile money services have begun operating in the Maldives, with the m-Faisaa mobile money wallet application launched by Ooredoo Maldives in 2016.

Ooredoo m-Faisaa

Faseyha Madhadhu

The government has also launched various initiatives to foster financial inclusion. These include the Get-Set loan programme, which provides collateral-free loans to start up SMEs, as well as other conventional and Islamic financing loan schemes for SMEs. The MMA has also now operationalized the Credit Guarantee Scheme for SMEs, which was initiated by the government to increase financial inclusion. This is aimed at providing easier access to credit facilities for SMEs doing a viable business, who cannot offer collateral or equity funding for borrowing. Such concessional terms are enabled due to low risk to the lenders because the Credit Guarantee Scheme guarantees 90% of each credit line approved by the participating banks.

getset
youth entrepreneurship program
ﷺ ﷺ ﷺ

BANK LOAN 90% GUARANTEE

Credit Guarantee Scheme

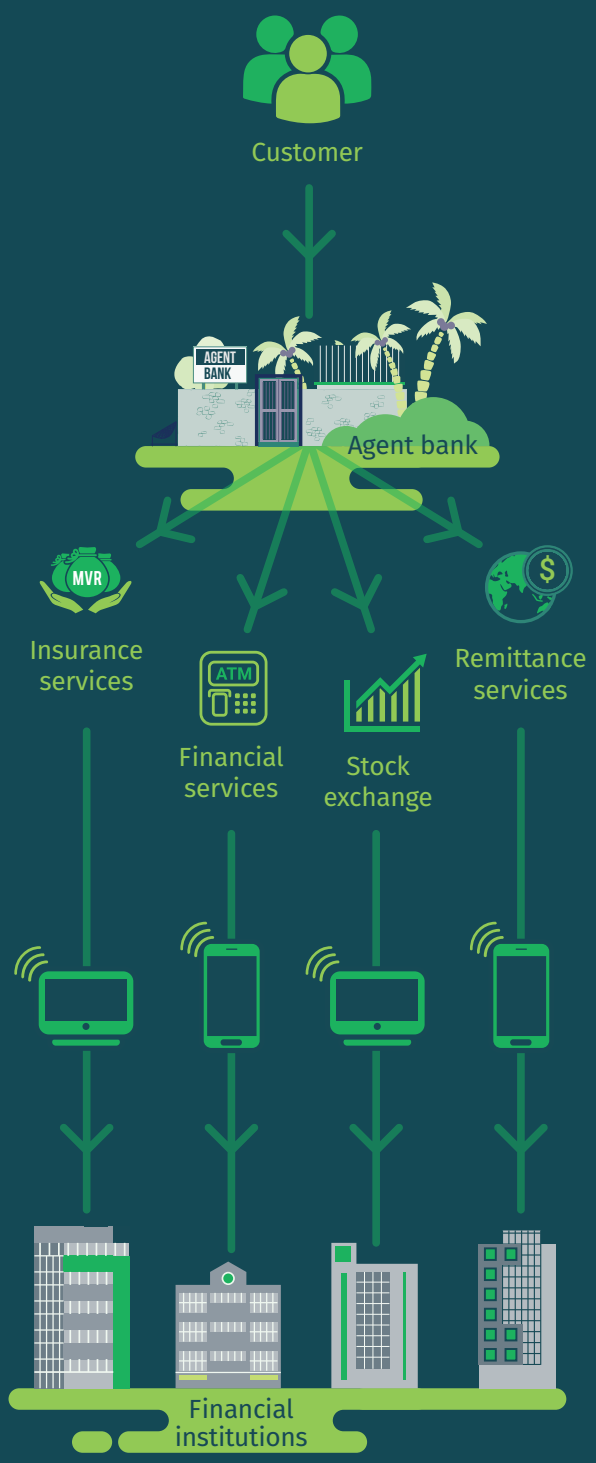
In order to further reduce the barriers to accessing credit, the MMA has established a Credit Information Bureau. The bureau compiles a comprehensive registry of credit information that can be used by lenders to assess risk, thereby enabling those with a good credit history easier access to credit. In order to increase the comprehensiveness of the information, future plans include the incorporation of utility bill payment histories into the registry. This seeks to address the hurdles that low-income or low-asset individuals, who are unable to build up a formal credit history due to being excluded from borrowing, can face in access to credit.

## The Way Forward

The financially excluded population of the Maldives is mostly scattered across a large number of islands with populations too low for bank branches or ATMs to be economically feasible. However, the Maldives is uniquely suited for widespread financial inclusion through agent banking services and innovative technology-based products.

Banking agents are currently present in every inhabited island and offer basic withdrawal services. These can be expanded to the full range of financial services, from helping locals fill out card, loan, or insurance applications and sending them through to branches, to facilitating telecom loan interviews with bank officials. Bank agents can also familiarize locals with internet and mobile banking facilities, enabling a permanent shift from cash-based to digital transactions.

The Maldives has universal internet access, and large share of the population has a bank account under their name. Promoting the move away from cash towards mobile and internet banking would allow easy access to payments, transfers, and remittances anywhere in the country, and encourage the usage of accounts that may otherwise mostly lie unused. This will increase financial inclusion, increasing the growth of SMEs, strengthen the economy, and reduce inequality.



# INTERNAL MANAGEMENT, POLICIES AND ORGANISATIONAL DEVELOPMENTS

# Monetary Policy

## Monetary Policy Framework

The primary objective of the Maldives Monetary Authority's (MMA) monetary policy is to maintain price stability in the country. To achieve price stability, the MMA aims to keep a low and stable inflation rate by maintaining an orderly foreign exchange market and an adequate level of foreign exchange reserves. As the MMA uses the fixed exchange rate as an intermediate target to achieve its monetary policy objective, interventions in the foreign exchange market are used to maintain the exchange rate peg with the US dollar within the stipulated band. In addition, the MMA manages excess liquidity in the banking system, keeping it in line with the economic conditions and inflation.

The main monetary policy instruments of the MMA are the minimum reserve requirement (MRR), open market operations (OMO), foreign currency swaps, and the standing facilities: the overnight deposit facility (ODF) and the overnight lombard facility (OLF).

To maintain the strong private sector credit growth and facilitate economic growth, the MMA continued to adopt an accommodative monetary policy stance in 2016.

***Minimum Reserve Requirements:*** Commercial banks are required to maintain a percentage of their foreign currency and local currency deposits with the MMA as a minimum reserve requirement. No revisions were made to the MRR during 2016 since it was revised down to 10% in August 2015.

***Standing Facilities:*** The two standing facilities utilised by the MMA are the ODF and the OLF. After meeting the MRR, commercial banks can invest any excess local currency liquidity in the ODF on an overnight basis. The OLF allows commercial banks to borrow funds in local currency for overnight, from the MMA, to meet any short-term liquidity shortages. The last revisions to the interest rates of the ODF and the OLF were made in 2014, when the rates were changed to 1.5% per annum for the ODF and 10% per annum for the OLF.

***Open Market Operations:*** OMO comprise repurchase and reverse repurchase agreements, which are used by the MMA to inject excess liquidity into, or absorb excess liquidity from the banking system. Operations are conducted with commercial banks on an auction basis. Since May 2014, the MMA has not conducted OMO, given the absence of inflationary pressures in the economy and the need for boosting the credit growth of the banking sector.

***Foreign Currency Swap Facilities:*** A foreign currency swap is an agreement between two parties to exchange two currencies. It involves the exchange of one currency, which includes principal and interest, for its equal value in another currency for an agreed term. In 2016, the MMA used the foreign currency swap facility to address short-term foreign currency liquidity constraints of commercial banks and for reserve management purposes.

All monetary policy decisions, including any changes to the monetary policy framework, are made by the Board of Directors of the MMA, after careful review of macroeconomic conditions and recommendations made by the Monetary Policy Committee.

## Implementation of Monetary Policy

To maintain the strong private sector credit growth and facilitate economic growth, the MMA continued to adopt an accommodative monetary policy stance during 2016. Although excessive private sector credit growth can create excess liquidity in the banking system, which in turn may induce inflationary pressures, the growth in credit extension to the private sector did not contribute to higher inflation in the Maldives during 2016.

The primary factors influencing domestic inflation in the Maldives are movements in commodity prices in global markets and movements in the exchange rate. The sharp decline in oil prices in 2016 contributed significantly to the easing of inflationary pressures in the Maldives during the year. Further, to curtail any inflationary pressure that may have arisen from instability in the foreign exchange market, the MMA continued to intervene in that market. The purpose of these interventions was to ease any pressure in the market and maintain the public confidence in the foreign exchange system.

The link between excess liquidity and inflation in the Maldives is marginal. In addition, since excess liquidity continued to be absorbed through commercial banks' investments in the ODF, no inflationary pressure was created during 2016. As a result, there was no need to tighten monetary policy to manage excess liquidity in the banking system.

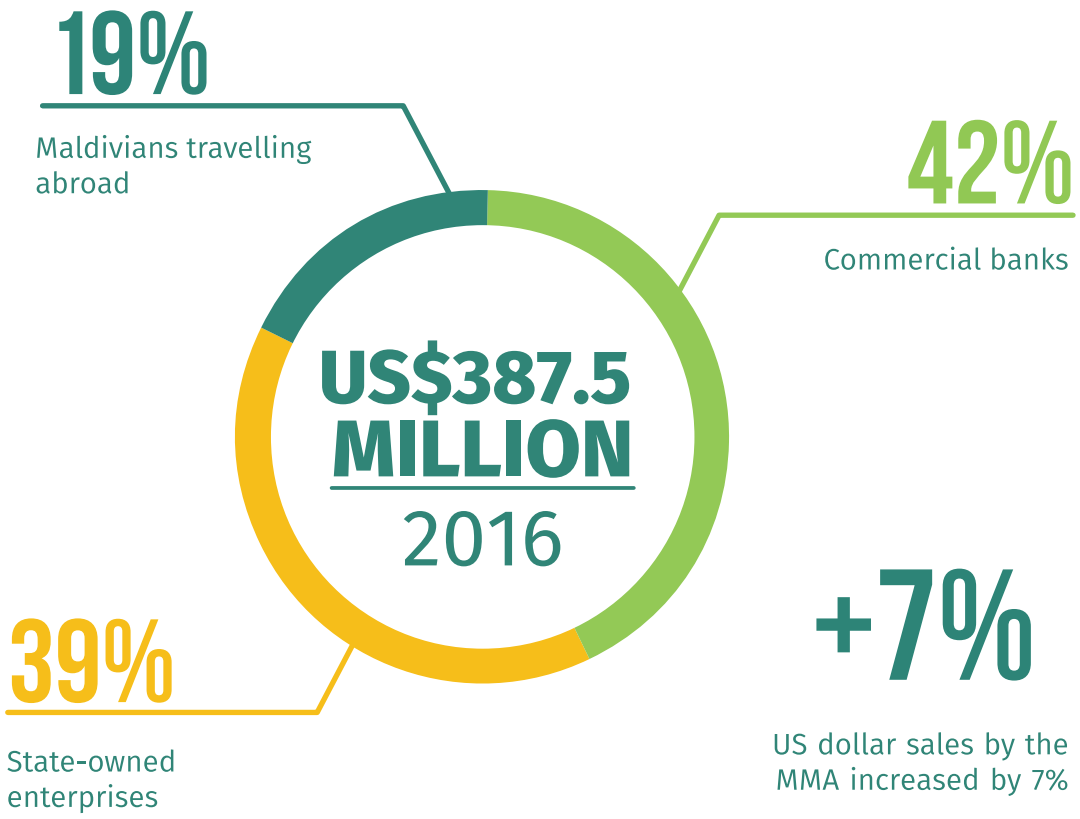
## Exchange Rate Stability

To ensure exchange rate stability of the rufiyaa, the MMA regularly monitors developments in the foreign exchange market, and continues to intervene in the market by injecting required amounts of foreign exchange through the banking sector. The MMA also caters to the foreign exchange requirements of the government, state-owned enterprises (SOEs) and Maldivians travelling abroad, in order to further stabilise the foreign exchange market. In 2016, total US dollar sales by the MMA amounted to US$387.5 million, an increase of 7% compared with 2015. Of that amount, US$164.1 million was sold to commercial banks, US$151.7 million to SOEs, and US$71.7 million to Maldivians travelling abroad.

MMA's US dollar sales to commercial banks comprised the largest portion of total foreign exchange intervention. This included

A meeting of the Monetary Policy Committee

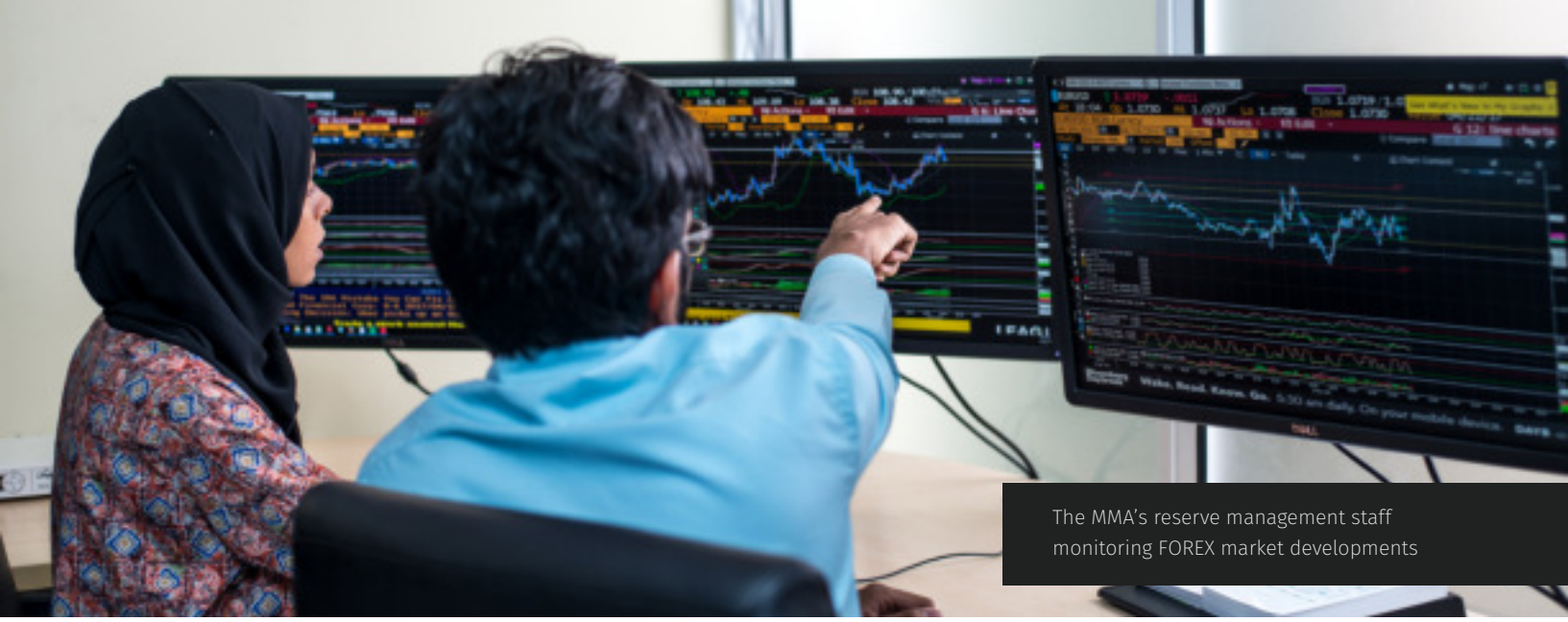
US Dollar Injected to the Domestic Market




weekly US dollar sales to commercial banks, which totalled US$154.8 million in 2016. In addition, US$0.5 million was sold to commercial banks, specifically to cater to the foreign exchange requirements of small- and medium-sized enterprises (SMEs), while US$6.7 million was sold through the banks to provide foreign currency, in particular for Maldivians travelling abroad for medical and educational purposes.

The MMA sold a total of US$14.3 million directly to 30,502 Maldivian travellers during the school holidays.

Due to large demand for foreign currency cash from Maldivians travelling abroad, the MMA (through the banks) sells up to a limit of US$500 to each traveller. Such cash sales amounted to US$50.4 million in 2016. The demand for US dollars for travel purposes significantly increases during school holidays, which fall in the months of November and December. As a result, long queues form in front of commercial banks during this season every year. In the annual school holidays of 2016, banks found it difficult to facilitate efficient arrangements to sell foreign currency and so, temporary arrangements were made to sell US dollars directly from the MMA to travellers, from



The MMA's reserve management staff monitoring FOREX market developments

20 November 2016 to 9 January 2017. In this period, the MMA sold a total of US$14.3 million directly to 30,502 travellers. Since then, as a permanent solution, the MMA sells US dollars in cash to travellers through the Bank of Maldives Plc. at Velana International Airport.

In 2016, 39% of the MMA's foreign currency sales were to SOEs. This was to provide foreign currency for essential imports, and other imports required by such enterprises to carry out their services and development projects. The amount sold to SOEs during the year was 2% higher than in 2015.

**30,502** Travellers

**US$14.3** Million

## Reserve Management

The MMA is mandated to manage the foreign exchange reserves of the Maldives in order to maintain them at an adequate level. The purpose is to support and maintain confidence in the market, and to facilitate the country in meeting its debt obligations, particularly during times of economic distress. The MMA undertakes the foreign reserve management function to generate sufficient returns on the funds invested while minimising the risks. In managing the foreign currency exchange reserves, the MMA mainly focuses on preserving capital, ensuring sufficient foreign currency liquidity and generating returns without compromising the safety of reserves.

The reserve management policies are set out by the Board of Directors of the MMA. The investment guidelines are formulated by the Investment Committee, which comprises the Governor, Deputy Governor, Assistant Governor in charge of Reserve Management, and other senior officials from relevant divisions. The committee also provides guidance and advice on reserve management activities.

The MMA continued to actively manage foreign exchange reserves in 2016, and continued efforts to diversify asset classes to ensure safety of the reserves. From August 2016 onwards, the MMA initiated investment in US dollar securities issued by foreign governments and international financial institutions. At the end of 2016, reserves were mainly invested in fixed deposits, securities sold by foreign governments and international financial institutions. Investments were also held as overnight deposits with other central banks.

The MMA initiated investment in US dollar securities issued by foreign governments and international financial institutions as part of its continued efforts to diversify asset classes.

The MMA continued to expand reserve management activities in 2016. Efforts to manage foreign currency reserves were stepped up during the year, with the objective of managing foreign exchange risk within the reserve portfolio, with some tactical positioning to exploit market opportunities. In addition, the MMA restructured reserve management work to match the trading hours of foreign exchange markets, and initiated the use of derivatives to hedge against adverse foreign exchange rate movements. The MMA also continued to establish relationships with counterparties with the aim of expanding reserve management activities. By the end of 2016, the MMA had established counterparty relationships with 11 financial institutions.

## Reserve Investments by Main Asset Classes, 2016


- Fixed deposits
- Overnight deposits with other central banks
- Securities issued by foreign governments and international financial institutions

# Financial Stability

Maintaining a healthy and stable financial system in the Maldives is an important objective of the MMA, and it is essential for maintaining the public's confidence in the financial system. To achieve this objective, the MMA licenses and regulates financial institutions, and supervises them in order to identify risks to the financial system and to assess the system's capacity to cope with threats. In addition, the MMA undertakes several measures to further strengthen and develop the financial sector.

Commercial banks and non-bank financial institutions form the Maldivian financial system. Financial sector institutions and financial service providers currently licensed and regulated by the MMA include commercial banks, insurance companies, finance leasing companies, housing finance institutions, money remittance companies, insurance brokers and agents, and mobile payment service providers.

## Developments to the Regulatory Framework in 2016

In 2016, measures were undertaken to develop the regulatory framework with the aim of strengthening the supervisory and regulatory activities of the financial sector and to prevent financial crimes.

## Legislation Issued during 2016

- Pursuant to Law no. 24/2014 (*Special Economic Zones Act*), the MMA issued the 'Regulation for Non-Bank Financial Businesses Operating in the Special Economic Zone', which came into effect on 4 February 2016. Its purpose is to license, regulate and supervise non-bank financial businesses conducting offshore non-bank financial business in the Special Economic Zone (SEZ). The regulation covers the licence application procedure, licensing requirements, prudential requirements, and requirements related to regulating and supervising such businesses.

- Pursuant to Law no. 10/2014 (*Prevention of Money Laundering and Financing of Terrorism Act*), the MMA issued the 'Regulation for Securities Institutions on Prevention of Money Laundering and Financing of Terrorism', which came into effect on 5 April 2016. The regulation sets out customer due diligence measures that institutions licensed to conduct securities business must comply with for the prevention of money laundering and terrorism financing activities. The regulation also covers the procedures to

Measures were undertaken to strengthen the regulatory framework with the aim of developing the financial sector

be followed by the licensees pursuant to the *Prevention of Money Laundering and Financing of Terrorism Act*.

- The MMA issued the 'Regulation for the Provision of Annuity by Insurance Companies', which came into effect on 23 June 2016. The regulation covers procedures and requirements that insurance companies must follow in providing annuity services to the members of the Maldives Retirement Pension Scheme.

- Pursuant to Law no. 6/81 (*Maldives Monetary Authority Act*), the MMA issued the 'Regulation on Mobile Payment Services', which came into effect on 17 July 2016. The regulation's purpose is to regulate and supervise mobile service providers. It covers all licensing and related matters, including application, licensing criteria, and conditions of licensing. In addition, the regulation covers prudent measures that service providers must comply with, and sets out requirements to ensure consumer protection.

- Pursuant to Law no. 6/81 (*Maldives Monetary Authority Act*), the MMA issued the 'Regulation on Fees and Charges Payable by Financial Institutions', which came into effect on 21 August 2016. The regulation imposes the fees and charges payable by financial institutions regulated by the MMA. In addition, it sets out application fees for those applying for a banking licence under Law no. 24/2010 (*Maldives Banking Act*), and for a non-bank financial service licence under Law No. 6/81 (*Maldives Monetary Authority Act*).

## Circulars Issued in 2016 to Strengthen the Financial Sector

- To increase localisation of the financial sector, the MMA instructed all financial institutions to prioritise local staff when recruiting, to obtain the MMA's permission prior to hiring a foreign staff, and to ensure that the CEO or Deputy CEO is a Maldivian.

- The MMA instructed banks the information that needs to be submitted when applying for licences to open a branch, subsidiary or representative office of an existing bank.

- The MMA informed banks of the penalties that would be levied on banks for delays or inaccuracies in submitting reports to the MMA.

- The MMA advised that the deadline for submitting each year's audited financial statements of insurance companies is the end of April of the following year.

- The MMA instructed finance companies that their working days should be in accordance with that of the MMA and the banking sector.

## Supervision, Licensing and Other Regulatory Activities

In line with the MMA's mandate to ensure financial stability, it is necessary to ascertain that all banks and non-bank financial institutions are functioning in accordance with the laws and regulations governing these institutions. As required by law, the MMA conducts an on-site

examination of each bank at least once every two years, increasing the frequency based on risk, and also carries regular off-site monitoring of all banks. Further, the MMA conducts on-site examinations and off-site monitoring of non-bank financial institutions. The MMA also carries out work related to the issuing and cancelling of financial institutions' licences, and conducts trainings for relevant staff of financial institutions to make them more familiar with the regulatory requirements.

## On-site examinations

On-site examinations[22] of financial institutions are carried out by visiting these institutions. The examinations check for compliance with relevant regulatory requirements, and identify areas of risk in their operations. The following on-site examinations were conducted in 2016:

- Limited-scope on-site examinations of the Bank of Maldives Plc., Maldives Islamic Bank, Bank of Ceylon, and Hong Kong and Shanghai Banking Corporation Ltd. were carried out. The purpose of the examination of the Bank of Maldives Plc. was to evaluate its operational risk and adequacy of internal controls. The examination of the Maldives Islamic Bank was conducted mainly to assess its compliance with the *Prevention of Money Laundering and Financing of Terrorism Act*. The examination of the Bank of Ceylon and the Hong Kong and Shanghai Banking Corporation Ltd. evaluated their overall compliance with banking laws and regulations.

- An on-site examination of Ceylinco Insurance Company Pvt. Ltd. ('Ceylinco') was conducted to assess the overall situation of the company, and to ensure that the company operated in accordance with the relevant regulations and guidelines. In addition, on-site examinations of branches of Ceylinco Insurance Company Pvt. Ltd. and Allied Insurance Company of the Maldives Pvt. Ltd. in Addu City were also conducted during the year.

- On-site examinations of six insurance brokers and an insurance agent were carried out.

- A limited-scope examination of the Maldives Finance Leasing Company Pvt. Ltd. was conducted to assess the financial condition, capital adequacy, credit risks and internal controls of the company. In addition, the company's compliance with the requirements for preparing financial reports and adequacy of the company's policies were assessed in the examination.

- On-site examinations of four licensed money remittance companies—namely, NBL Money Transfer Maldives Pvt. Ltd., Villa Travel and Tours Pvt. Ltd., Sirius Financial Services Pvt. Ltd. and Maldives Post Ltd.—were conducted during the year. The MMA instructed the companies of the measures necessary to improve their operations.

[22]Limited-scope examinations look into specific areas of operation, as opposed to full-scope examinations that cover all key areas.

## Off-site monitoring and other activities

Off-site monitoring of financial institutions involves reviewing and analysing the financial reports and other information submitted to the MMA by these institutions to evaluate their condition and areas of risk. The following off-site monitoring activities were conducted in 2016:

- Regular reviews of financial statements and information submitted by banks were conducted, and quarterly off-site reports were prepared. These reports covered key performance indicators, compliance with regulatory requirements and areas for supervisory focus.

- Quarterly off-site reports of insurance companies were prepared after reviewing their financial statements to assess their financial soundness and solvency position.

- Reviews of financial statements submitted by finance companies were conducted, and quarterly off-site reports assessing their financial performance and risk management were prepared.

- Reviews of reports submitted by money remittance companies on a monthly basis were conducted.

- Reviews of monthly reports submitted by Ooredoo Maldives Plc. were conducted in order to monitor the activities of their newly introduced mobile payment service.

The MMA also carried out the following other regulatory activities in 2016:

- A pre-opening examination of the Commercial Bank of Maldives Pvt. Ltd. was carried out before commencement of its operations in September 2016. The examination assessed whether the bank had formulated the necessary policies and procedures to commence its operations in a safe and prudent manner.

- Pre-opening examinations of Solarelle Insurance Pvt. Ltd. and Dhivehi Insurance Company Pvt. Ltd. were carried out during the year, to assess whether the companies were properly prepared to commence their operations.

- The MMA held discussion meetings with several financial institutions during the year. An Insurance Industry Meeting for all insurance companies was held on 30 August 2016. Senior officials from all five

The MMA regularly reviews the reports submitted by financial institutions


Opening ceremony of the Commercial Bank of Maldives

*Source: President Office*

insurance companies operating in the Maldives attended this meeting.

- The MMA held a meeting with commercial banks to discuss matters related to the opening of bank accounts by foreigners in light of the introduction of the remittance tax in the Maldives.

## Licences issued and cancelled during the year

- A licence for agent banking[23] was granted to the Commercial Bank of Maldives Pvt. Ltd. in November 2016.

- Licences were granted to the following pre-existing banks to open new branches or offices during the year:

  - Bank of Maldives Plc. in August, to operate an Islamic branch.

  - Bank of Maldives Plc. in February, to operate two branches in K. Maafushi and V. Felidhoo; in October, to operate five additional branches, in H.A. Ihavandhoo, H.A. Hoarafushi, N. Holhudhoo, Th. Guraidhoo, and L. Gan.

  - State Bank of India in December, to operate a branch in Hulhumale'.

  - Bank of Ceylon in September, to operate an extension office in Hulhumale'.

Of these licences issued, the Bank of Maldives Plc. opened all the branches except at H.A. Ihavandhoo, H.A. Hoarafushi, and L. Gan. The State Bank of India's branch and Bank of Ceylon's extension office are expected to be opened in 2017.

The MMA issued license to a commercial bank and two insurance companies in 2016. These institutions also commenced operations in the same year.

- Licences for providing general insurance services were issued to Solarelle Insurance Pvt. Ltd. and the Dhivehi Insurance Company Pvt. Ltd. in March and June 2016, respectively.

[23]Agent banking involves the provision of services such as bank account opening, deposit and withdrawal of money through an appointed agent from the bank.

The introduction of mobile payment services will enable easier access to financial services

- A mobile payment service licence was granted to Ooredoo Maldives Plc. in June 2016. The newly introduced service in the Maldives was launched by the company in July 2016 as 'm-Faisaa'.

A mobile payment service licence was granted to Ooredoo in 2016. The newly introduced service in the Maldives was launched by the company as 'm-Faisaa'

- A licence was granted to the Bank of Maldives Plc. in June 2016 to provide mobile payment service. The bank launched this service as 'BML Mobile Pay' in July 2016.

- Licences were issued to 62 new money changers. There were 38 money changer licences cancelled either at the licensee's request or as a result of their failure to submit the required reports to the MMA.

- A money remittance licence was issued to Maldives Inc. Pvt. Ltd. in February 2016, and the company provides the service through the Western Union. The licence of Sirius Financial Services, who also had provided a money remittance service was cancelled during the year due to cessation of their money remittance operations.

## Development of the Financial Sector

Ensuring an efficient, safe and sound infrastructure of the financial system and ease of access to banking services is crucial to promoting the economic growth of developing countries. During 2016, the MMA took major steps to identify challenges to the financial system and to foster financial sector development. This included taking part in the Financial Sector Assessment Program (FSAP) conducted by the World Bank to identify areas of development for the financial sector. In addition, the MMA took initiatives to ease access to finance and provide low-cost finance.

### Financial Sector Assessment Programme

In 2016, the World Bank conducted the FSAP to identify and address the major challenges to the development of the financial sector in the Maldives. The major areas of assessment involved the competitiveness and efficiency of the financial sector, enhancing financial inclusion to include the development of SMEs, strengthening financial infrastructure and the payments and settlements system, developing the domestic capital market as well as pension, and Islamic financing in the

Maldives. The team from the World Bank discussed these areas with officials of the MMA, related government and supervisory agencies, the judiciary, financial institutions and financial service providers, businesses, and consumers.

Based on the programme's report, the MMA initiated the formulation of a strategic plan for the development of the financial sector and the maintenance of financial sector stability.

## Access to Finance for SMEs

SMEs play a vital role in the Maldivian economy and contribute significantly to economic development and achieving inclusive growth. The MMA continuously works on providing easier access to finance to support the development of SMEs. Such efforts include the introduction of the Credit Guarantee Scheme (CGS) and measures taken to develop the Credit Information Bureau (Box 5).

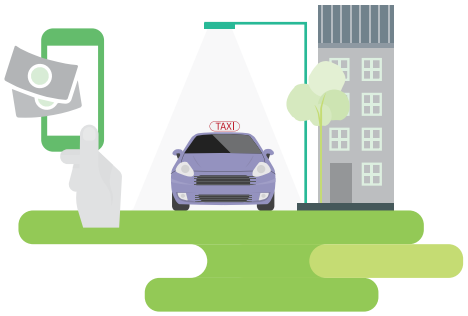
## Access to Banking Services

A large part of the population living in the atolls has limited access to banking services and faces major challenges in conducting daily financial transactions. Consumers unable to access banking services have to rely heavily on cash for financial transactions, which exposes them to risks. Therefore, to increase easy and secure access to banking services throughout the country, the MMA regulates and licenses mobile payment services and licenses agent banking services.

To provide easy access to finance and encourage banks to provide credit facilities for SMEs, the CGS was launched in 2016 by the MMA.

### *Mobile payment service*

The MMA granted a licence to Ooredoo Maldives Plc. to introduce and provide a mobile payment service that enables customers to conduct financial transactions in a fast and secure manner. The main purpose of this service is to enable customers anywhere in the country to access financial services—





SME credit guarantee scheme-MOU signing ceremony with BML and MIB

such as the deposit, withdrawal and transfer of funds—through a mobile payment account using their mobile phone. As the Maldives is a geographically dispersed nation with high mobile phone penetration, this was a major step towards achieving financial inclusion across the country.

### *Agent Banking*

Agent banking involves providing banking services—including opening bank accounts, and the deposit and withdrawal of money—through agents of banks, such as retail shops. The MMA issues licences to commercial banks to provide banking services through agents. At the end of 2016, only the Bank of Maldives Plc. provided an agent banking service in the country. The licence granted for this service during the year to the newly established Commercial Bank of Maldives Pvt. Ltd. is expected to increase ease of access to financial services in the country once it becomes operational in 2017.


The MMA received 10 written consumer complaints regarding financial institutions and services in 2016 and all the cases had been attended to by the end of the year.

## Financial Consumer Protection

To protect the rights of the customers of financial institutions in the country, the MMA works to mediate and resolve issues between consumers and financial institutions. For ease of reporting consumer complaints regarding financial institutions and services, the MMA launched a hotline ('1444') in 2015. The MMA also implemented measures to speed up the process of collecting information needed from financial institutions to process and resolve consumer complaints. Such efforts included the instruction by the MMA to assign focal points in each of these financial institutions, to achieve greater coordination and faster processing of consumer complaints.

During the year, the MMA received 10 written complaints. While nine were related to banking services, the remaining complaint was associated with an insurance company. By the end of the year, all reported cases had been attended to by the MMA.

As a step towards protecting the rights of the customers of financial institutions, the MMA created a charter for banks, the 'Customer Charter of Licensed Banks in the Maldives', in 2012. This set key standards of fair banking practices and provided guidance on adopting procedures for consumer protection. During 2016, the MMA conducted a survey of banks to assess compliance with the charter. The findings of the survey were discussed with the banks, and they were instructed to take necessary actions for compliance.

## Measures Taken to Prevent Financial Crimes

The MMA takes various measures to protect the integrity and stability of the financial system, and to ensure public confidence in the financial system. In this regard, work is continuously undertaken to ensure that the financial system is not used for financial crimes, especially those related to money laundering and the financing of terrorism.

As part of these efforts, several regulations have been issued; under the Prevention of Money Laundering and Financing of Terrorism Act (Law no. 10/2014) which came into effect in 2014. These include regulations setting out requirements for banks; money transfer, and money changing businesses; as well as for the life insurance, and family takaful insurance businesses. During 2016, the regulation detailing such requirements for securities related businesses was issued.

These regulations require financial institutions to undertake 'customer due diligence' measures prior to establishing a business relationship, and carrying out single transactions. The due diligence measures required includes those relating to identifying the customers and beneficial owners; verifying their identity from reliable sources; and verifying the source of funds or wealth.

As part of the on-going efforts to monitor compliance to the requirements under the regulatory framework, on-site supervision of money remittance companies was undertaken, and areas for improvement were advised. As a result, the operations were strengthened, especially with respect to the policies and procedures related to customer due diligence.

In order to prevent financial crimes through the banking system, the MMA supervises the banks to assess the adequacy of their systems and internal controls. During the on-site examinations carried out in 2016, it was found that adequate policies were generally in place to prevent financial crimes. However, weaknesses in internal controls were notified, which the banks were instructed to strengthen.

In addition, the Financial Intelligence Unit (FIU); an operationally independent unit mandated and established within the MMA by the Prevention of Money Laundering and Financing of Terrorism Act (Law no. 10/2014), also monitors the adequacy of the measures undertaken by financial institutions to prevent money laundering and the financing of terrorism. In addition, the FIU provides training to these institutions on identifying such activities, and on conducting customer due diligence.

## Box 5: Facilitating Access to Credit

As part of the efforts to increase financial inclusion, the MMA has been taking measures to increase access to credit, including addressing difficulties faced by credit-worthy borrowers who cannot offer adequate collateral. In this regard, the establishment of the Credit Information Bureau and the Credit Guarantee Scheme for small- and medium-sized enterprise financing are some of the key measures undertaken by the MMA.

### Credit Guarantee Scheme

To provide easy access to finance and encourage banks to provide credit facilities for small- and medium-sized enterprises, the Credit Guarantee Scheme, initiated by the Ministry of Economic Development, was launched on 7 August 2016 by the MMA.

The scheme is an initiative to encourage additional lending to commercially viable small- and medium-sized enterprises that, under normal lending criteria, are unable to obtain new or additional facilities from the banks. The scheme will guarantee 90% of the loan granted by the participating banks to commercially viable small- and medium-sized enterprises.

By the end of 2016, the participating banks in the scheme were the Bank of Maldives PLC, Maldives Islamic Bank, State Bank of India, Habib Bank Limited, Mauritius Commercial Bank and Bank of Ceylon. The total value allocated for the CGS at its inception was MVR50.0 million.



Total value allocated for the Credit Guarantee Scheme, by the end of 2016

## Eligibility Criteria

- The borrowing enterprise must be registered under the Ministry of Economic Development as a small- and medium-sized enterprise
- All shareholders/owners should be Maldivian
- The enterprise should be registered at the Maldives Inland Revenue Authority
- No overdue loans at any bank or any financial institutions
- The business must be financially viable

**LOAN AMOUNT**

100,000 RUFIYAA
1,000,000 RUFIYAA

**INTEREST RATE**

9%

**REPAYMENT PERIOD**

5 YEARS

**GRACE PERIOD**

6-12 MONTHS

**COLLATERAL**

0 COLLATERAL

**EQUITY CONTRIBUTION**

20%

A total of 68 applications with a total value of MVR44,628,896 were received by the end of December 2016. From these, loans totalling MVR3,106,600 were guaranteed by the MMA. In addition, at the end of the year, 47 applications with a total value of MVR30,073,924 and 17 applications with a total value of MVR11,448,372 were being processed at the banks and the MMA, respectively.

**MVR3.1 MILLION**

**LOANS GUARANTEED**

**68**

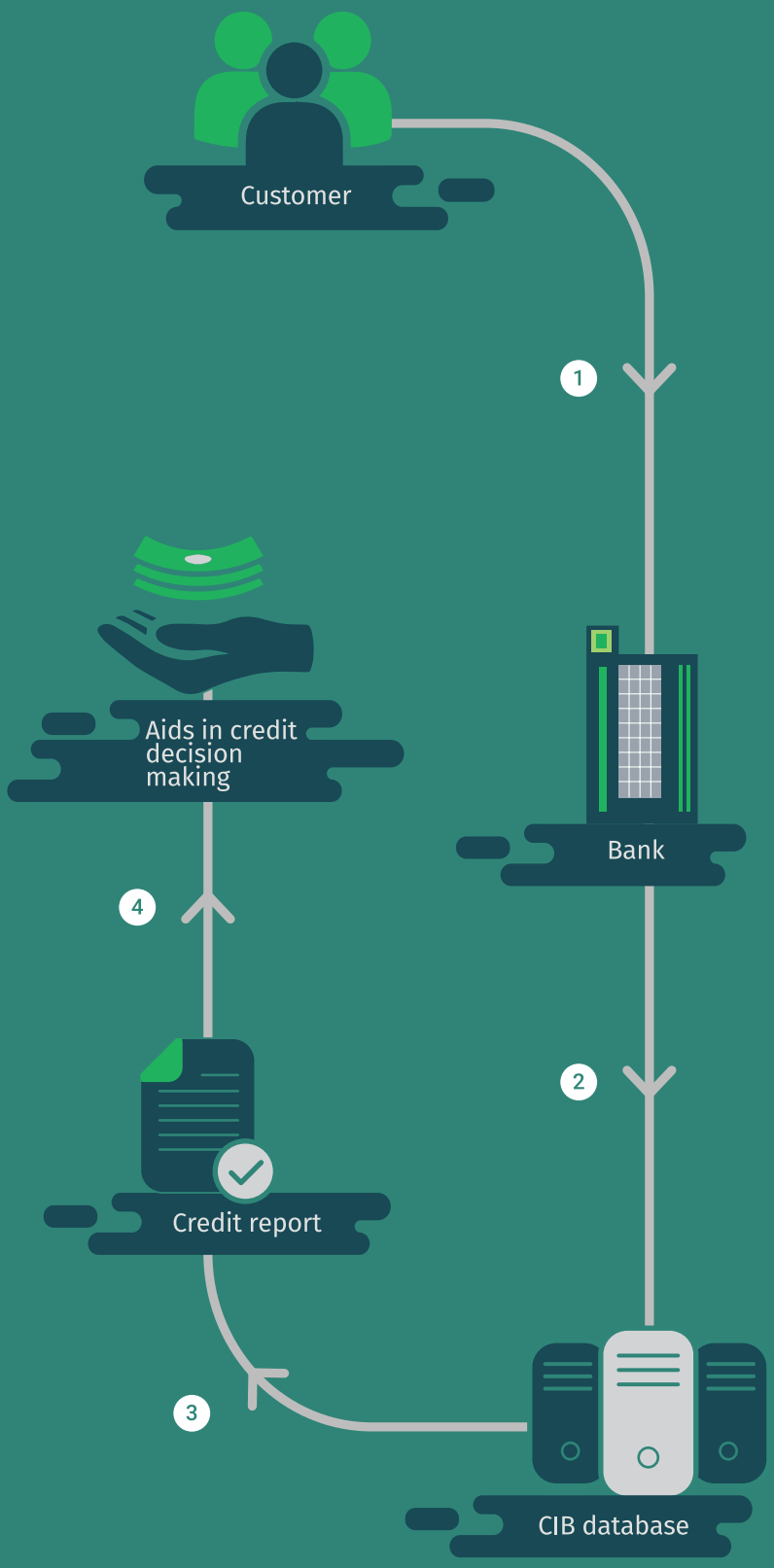
**LOANS APPLICATIONS**

## Credit Information Bureau

The Credit Information Bureau housed within the MMA provides a credit information database, which includes the credit history of individuals and businesses. Members of the bureau can assess the credit history of customers using this database prior to extending loans or goods and services on credit. At the end of 2016, the members of the bureau consisted of all the commercial banks in the Maldives, and the finance companies supervised by the MMA.


Making credit decisions based on the credit history report generated by the database speeds up the credit analysis process. This enables easier access to credit and obtaining goods and services on credit by the general public as well as businesses. In addition, it facilitates access to finance for individuals and businesses without adequate collateral by helping them to borrow using their credit history report as reputational collateral.

## How Credit Information Bureau Works




1. Customer applies for loans and other credit facilities offered by financial institutions.
2. The bank or credit offering institution analyses the credit history of the customer by generating customer's credit report from the CIB database.
3. The financial institutions refer to information on the customer credit report for decision making.
4. A good credit track record of the customer acts as a bridge for easier access to credit.

# Currency, Banking and Payments Systems

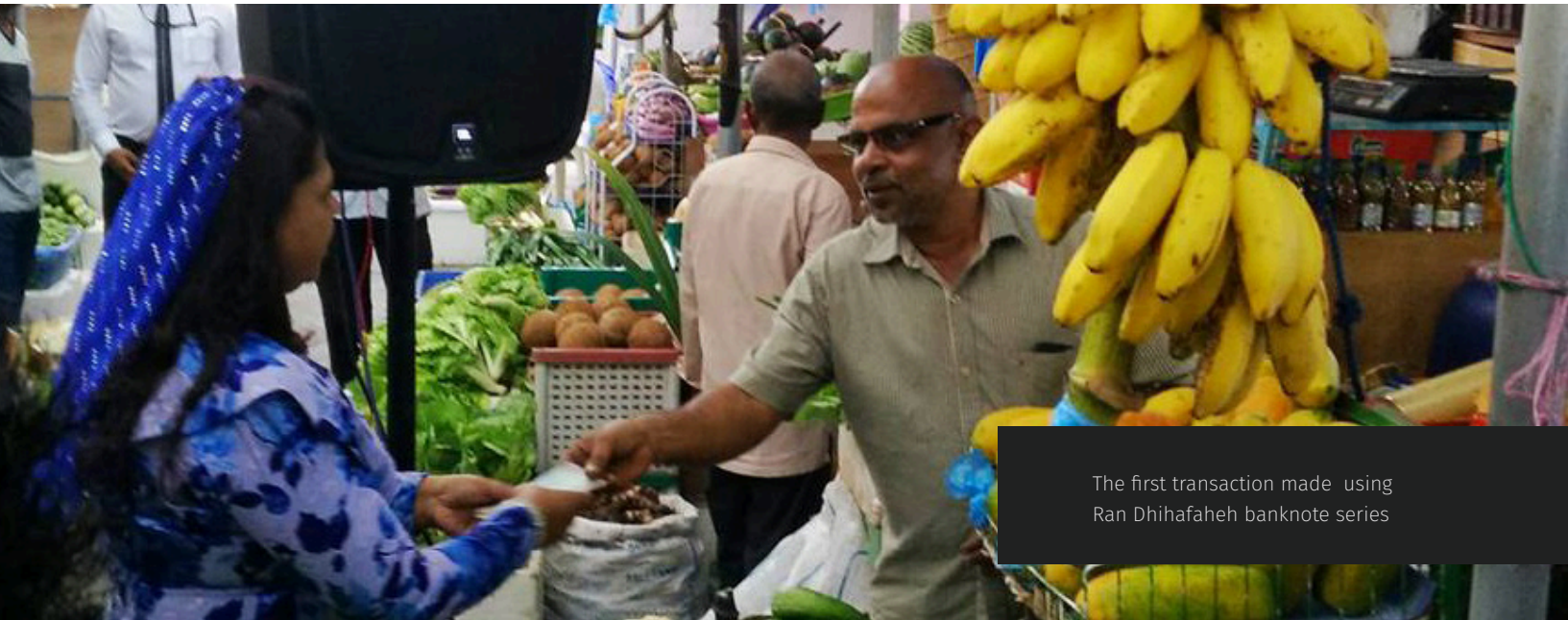
## Currency

The MMA is the sole issuer of the Maldivian currency and is responsible for ensuring that the demand for currency is met adequately. In addition, the MMA is responsible for safeguarding the integrity and quality of the Maldivian currency. Thus, the MMA oversees the complete lifecycle of banknotes and coins—adding new security features, printing and minting new banknotes and coins, issuing new banknotes and coins, and destroying and replacing banknotes and coins that are unfit for circulation.

## Ran Dhihafaheh Banknote Series

The Ran Dhihafaheh banknote series, introduced on 1 November 2015, was issued into circulation on 26 January 2016. The denominations of the series comprised 10, 20, 50, 100, 500 and 1000 rufiyaa banknotes. The new banknotes (printed on polymer substrate, which is more secure and durable than paper) will prove to be more economical as it will reduce the cost of printing for replacement. Moreover, the modern and cutting-edge security features of the polymer banknotes enable the public to easily identify counterfeits, thereby increasing confidence in the currency. The nationwide campaign held in 2015, which focused mainly on educating the public on all aspects of the new banknote series, particularly its security features, was a major success as indicated by the relatively problem-free transition to the new note series and the quick public acceptance of the banknotes.

The Ran Dhihafaheh banknote series circulated alongside the paper banknote series until 31 July 2016. Under Presidential Decree No. 6/2016, the President of the Republic revoked the legal tender status of banknotes of the Maldives issued prior to 5 October 2015, of denominations 2, 10, 20, 50, 100 and 500 rufiyaa, effective from 1 August 2016. During the last week of July, the MMA visited and provided exchange services for five atolls that were identified as having low replacement of paper banknotes in circulation due to unavailability of banking services. The public was also given the opportunity to exchange the paper banknotes to polymer banknotes in commercial banks until 31 December 2016. In addition, the MMA will continue to exchange banknotes until 31 July 2021. By December 2016, 94% of the value of paper banknotes in circulation as at 25 January 2016 was replaced by Ran Dhihafaheh banknotes.



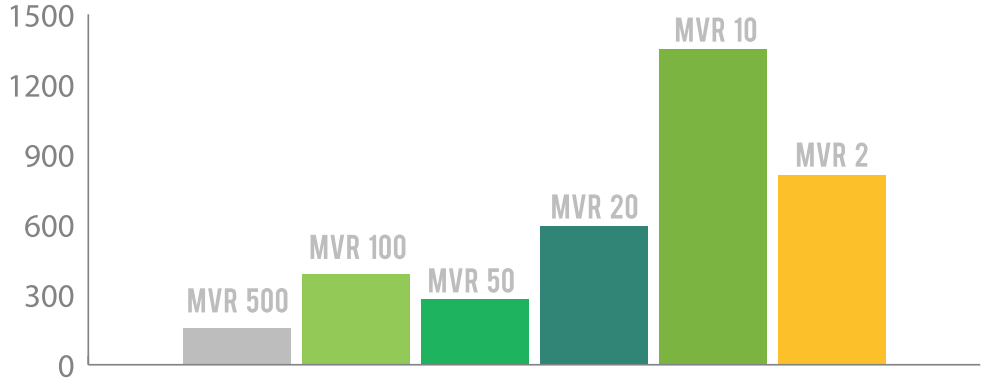
The first transaction made using Ran Dhihafaheh banknote series

## Paper Banknotes Exchanged to Ran Dhihafaheh Banknotes

**6%**
Share of bank notes not exchanged to Ran Dhihafaheh as at 31 December 2016

**94%**
Share of bank notes exchanged to Ran Dhihafaheh as at 31 December 2016


## Paper Banknotes not Withdrawn from Circulation by Quantity, 31 December 2016
(in thousands)



The paper banknotes issued prior to 5 October 2015 was decreed to cease being legal tender from 1 August 2016

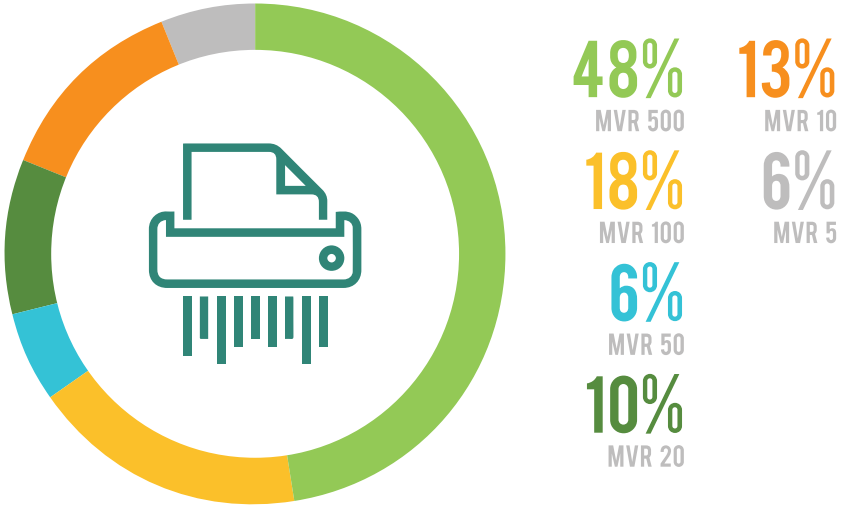
## Printing and Minting of Banknotes and Coins

Upon the issuance of the Ran Dhihafaheh banknote series, the calibration of automated teller machines (ATMs) to dispense smaller denomination banknotes led to a rapid increase in the demand for such denominations. As a result, the stock of 10, 20, 50 and 100 rufiyaa banknotes diminished and were reprinted during the year. In addition, 25 laari coins and 1 rufiyaa coins were minted to replenish stock, with no changes to the current design.

## Destruction of Banknotes

The MMA regularly destroys banknotes that are unfit for circulation. Following the nullification of paper banknotes, the destruction of withdrawn paper banknotes was carried out during 2016. The notes were destroyed as per the banknote destruction policy when the volume reaches the prescribed amount. In 2016, the MMA destroyed paper banknotes with a value of MVR3.3 billion. These were destroyed in the presence of officials from the MMA and an official from the Auditor General's office, who were assigned to observe the destruction process of the notes.

### Quantity of Paper Banknotes Destroyed, 2016



## Currency in Circulation

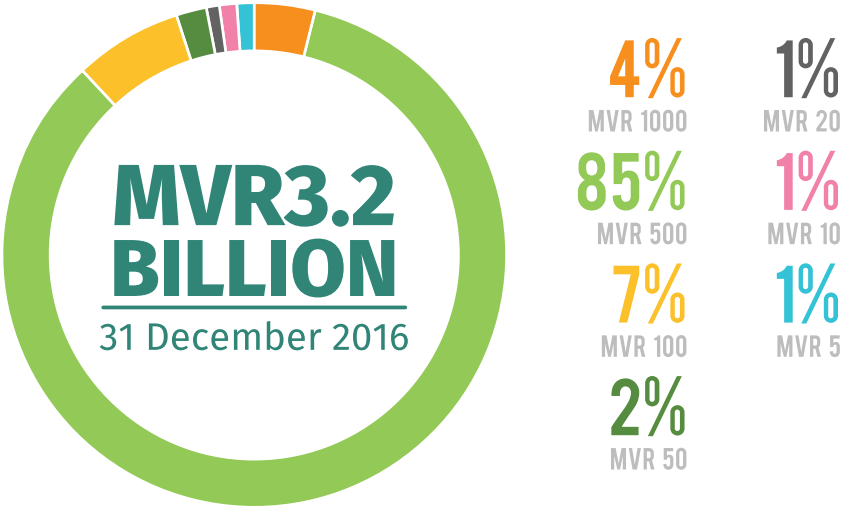
The total value of banknotes in circulation stood at MVR3.2 billion at the end of the year, an annual increase of 1%. The value of coins in circulation increased by 6% from the previous year and was recorded at MVR66.1 million at the end of 2016.

## New 5 Rufiyaa Banknote and 2 Rufiyaa Coin

As part of the Ran Dhihafaheh Banknote Series, polymer banknotes of a 5 rufiyaa denomination will be issued into circulation in 2017. In addition, a new 2 rufiyaa coin featuring a new design will be issued in 2017. The new coin will be lighter than the current 2 rufiyaa coin, and hence easier to use. The designing of the new 5 rufiyaa banknote and 2 rufiyaa coin were completed during the year.

As part of the Ran Dhihafaheh banknote series, polymer banknote of a 5 rufiyaa denomination will be issued into circulation in 2017. A new 2 rufiyaa coin with a new design will also be issued in 2017.

### Value of Banknotes in Circulation



## Nomination for International Bank Note Society's 'Banknote of the Year' Award

The 1000 rufiyaa note of the Ran Dhihafaheh Banknote Series was nominated for the International Bank Note Society's 'Banknote of the Year' Award. The note was nominated by society life member Christof Zellweger.



*The 1000 rufiyaa note of the Ran Dhihafaheh banknote series illustrates the beauty of tropical waters in the Maldives.*


A lighter and more convenient 2 rufiyaa coin will be issued in 2017

## Payment System

A well-functioning payment system plays an important role in promoting financial stability and contributes to the strengthening of financial infrastructure. Such a system enables swift and secure conduct of financial transactions between economic agents. Thus, developing and establishing an efficient payment system in the Maldives is one of the key goals of the MMA.

Currently, the MMA is the system operator for the Maldives Real Time Gross Settlement (MRTGS) system and the Automated Clearing House (ACH) system. The MRTGS system settles high-value and urgent interbank transactions in real time on a gross basis. The ACH system clears high volumes of low-value transactions in batches. The three main components of the ACH system are direct credit, cheque clearing/cheque imaging and truncation and direct debit services. While direct credit service through the system commenced in 2012, cheque clearing through ACH was introduced on 15 November 2016. The automation of the cheque clearing process significantly reduced the time taken to clear cheques, regardless of where the depositing branch is located within the country (Box 6). In addition, the direct debit component of the ACH system will be introduced in 2017.

### Value of Transactions Settled Through Payment Systems, 2016

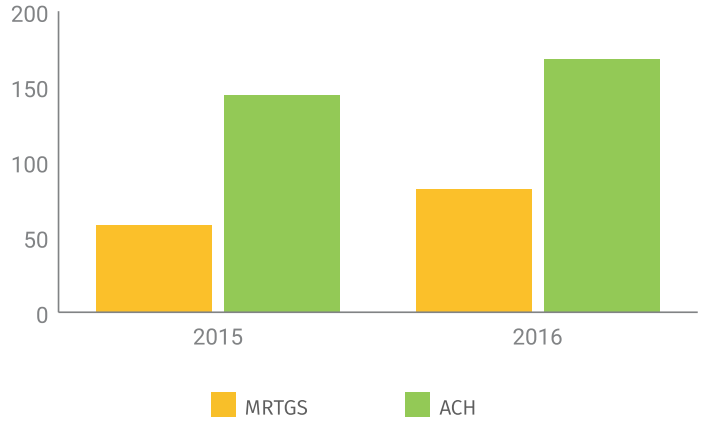
**MVR2.5 BILLION**

Transactions settled through ACH

**MVR1.8 TRILLION**

Transactions settled through MRTGS

Transactions Settled Through Payment Systems
(in thousands)



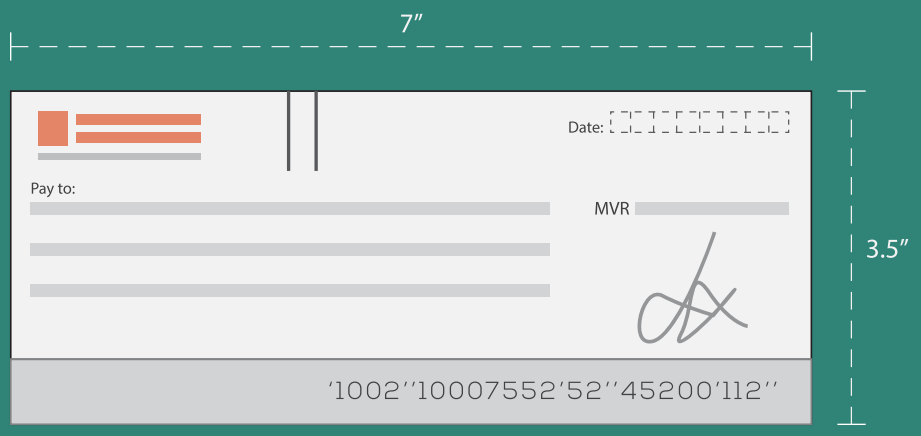

## Banking Services to the Government

The MMA, as the main banker to the government, operates the government's single account, called the Public Bank Account (PBA). In addition, the MMA is the fiscal agent for the government to issue and manage government securities efficiently. The MMA continued to offer advice to the government on all aspects related to the issuance of government securities in 2016. Further, restructuring the government securities portfolio which was initiated in 2015 was continued during the year. A portion of treasury bills held by the Maldives Pension Administration Office was converted to treasury bonds, and an Islamic instrument ('Wakalah Bi Al Istithmar') was issued in September 2016. The introduction of new Islamic instruments will contribute to the development of the government Islamic securities market in the Maldives.

## Box 6: Automation of Cheque Clearing Process

As an initiative towards developing the national payments infrastructure, the MMA introduced an automated cheque clearing process on 15 November 2016, replacing the long-established manual clearing process since 1984. The automated cheque clearing process through the Automated Clearing House has allowed cheques to be cleared faster than the manual process.

To conduct automated clearing, the MMA standardised all the cheques in circulation. The following characteristics of the cheques were standardised:




- The size of the cheque: 7 inches long and 3.45 inches wide.
- The area specified for date, payee signature and amount.
- The presence of a Magnetic Ink Character Recognition print band or a barcode.

The automated cheque clearing process has ceased the need for commercial banks to meet at the MMA in order to clear cheques as the cheques are scanned to capture its image and data, which are then presented to the respective paying banks through the ACH instead of presenting the physical cheques. The paying bank verifies the information and proceeds with the payment processing.

Automated cheque clearing has enabled fast processing of cheques, regardless of the branch in which cheques are deposited. In addition, all cheques that are deposited at banks before 1330hrs will be presented for clearing on the same day; once cleared, the funds will be credited to the customer's account on the following business day before 1030hrs. All cheques that are deposited at banks after 1330hrs will be cleared and credited to the customer's account before 1030hrs on the third working day.

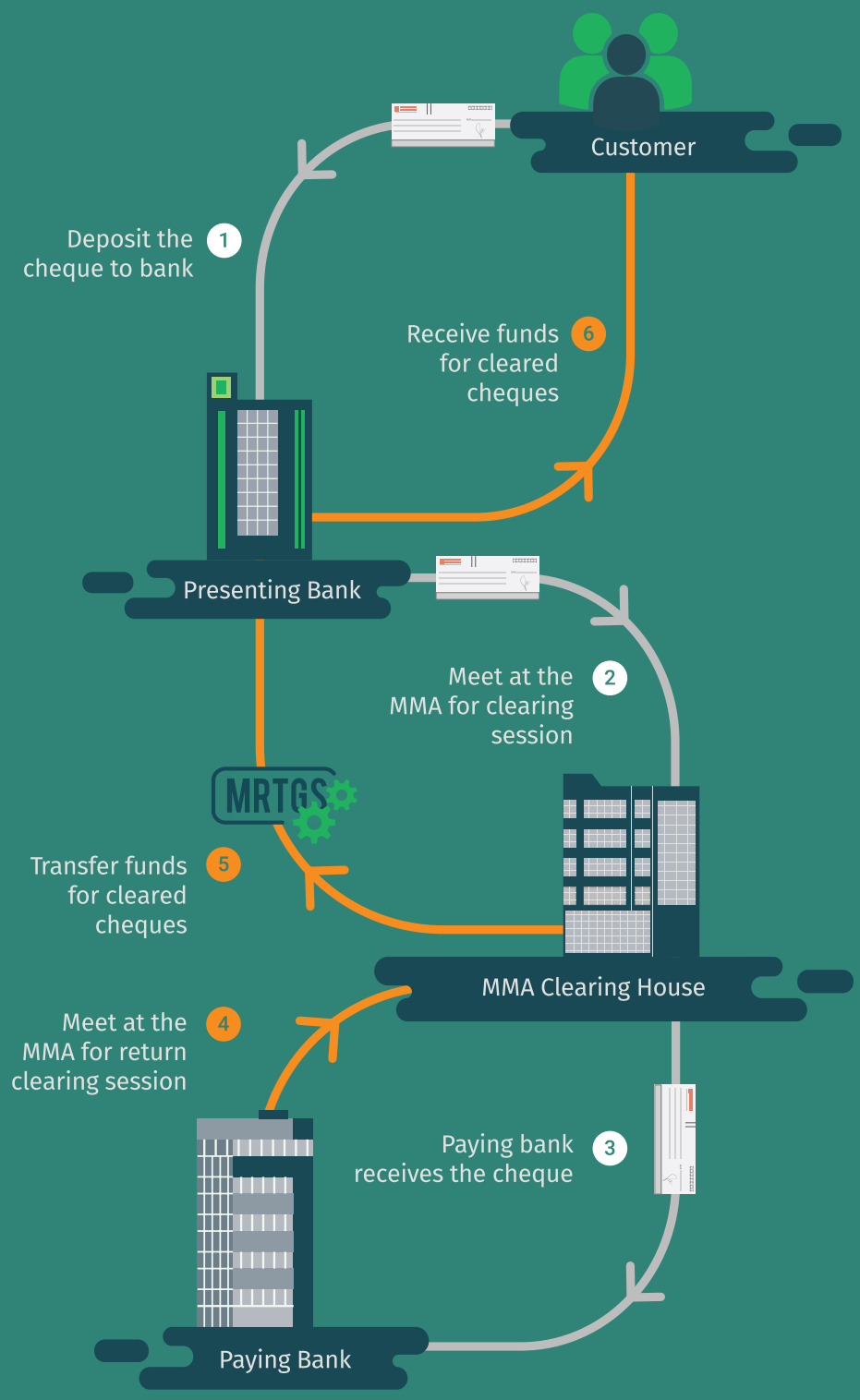
## Important Timings Under Automated Clearing

All the cheques that are deposited to the bank before 1330hrs will be presented for clearing on the same day and once cleared; the funds will be credited to the customer's account on the following business day before 1030hrs.

All the cheques that are deposited to the banks after 1330hrs will be cleared and credited to the customer's account before 1030hrs of the third working day.

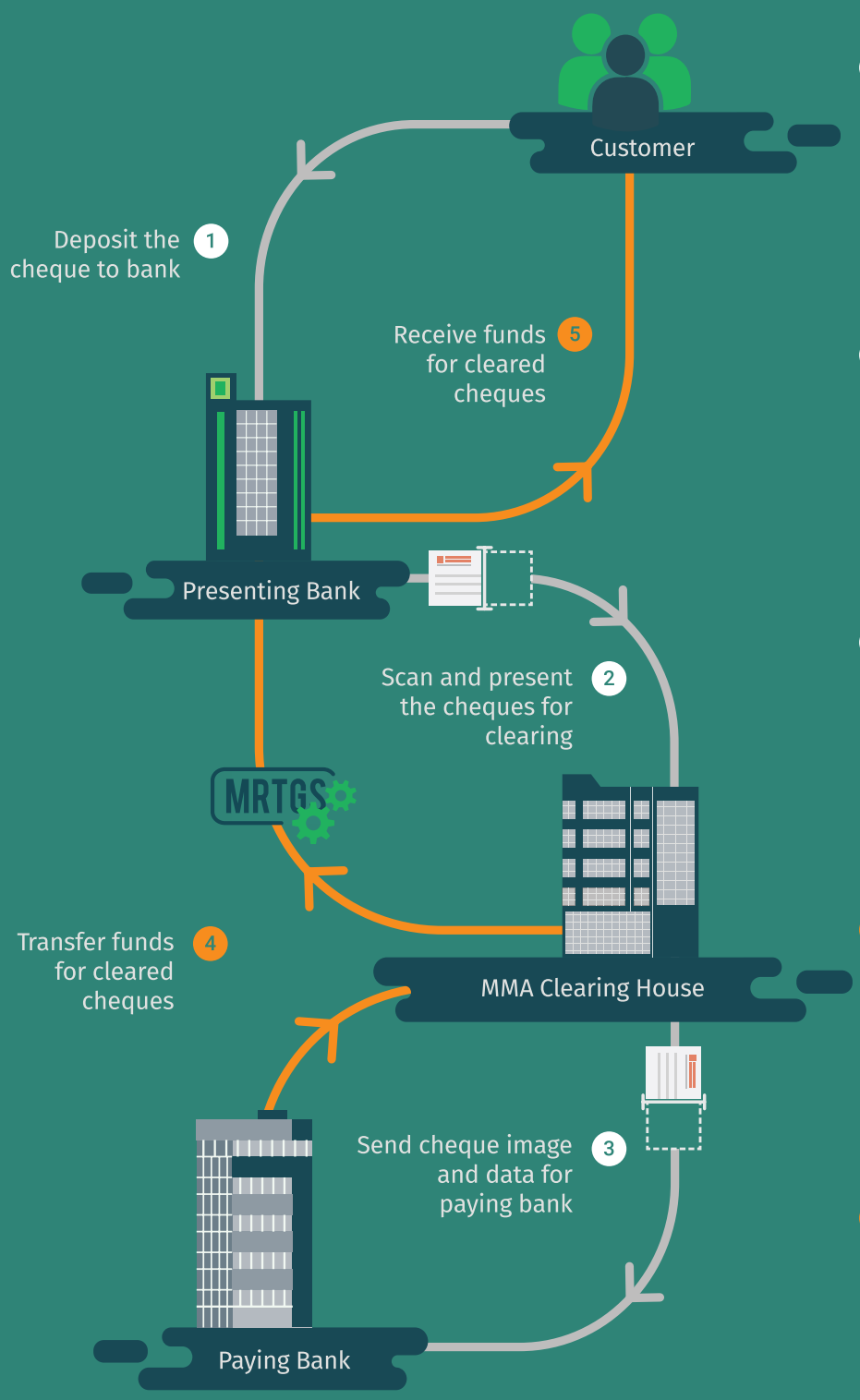
In this way, the automated process allows funds to be credited faster than the manual process, increasing efficiency of conducting business transactions across the country.

## Manual Cheque Clearing Process




1. Cheque clearing process begins when a customer deposits the cheque to the bank. These cheques include both cheques that are drawn on the presenting bank and other banks.
2. On the following business day, representatives from the banks meet at the MMA for a clearing session where they exchange cheques that are drawn on other banks.
3. The paying bank verifies the information on the cheque and checks the payees' account for sufficient funds.
4. During the same afternoon, bank representatives meet at the MMA for a return clearing session where they return any dishonoured cheques.
5. After both clearing and return clearing sessions, cleared cheques are settled in MRTGS.
6. The customer receives funds for cleared cheques on the following business day morning as cheques are settled past banking hours.

## Automation of Cheque Clearing Process




1. Cheque clearing process begins when a customer deposits the cheque to the bank. These cheques include both cheques that are drawn on the presenting bank and other banks.
2. The cheques drawn on other banks are scanned, and the image and data on the cheques are sent to the paying bank through ACH.
3. The paying bank verifies the information on the cheque and checks payees' accounts for sufficient funds.
4. Once verified, cleared cheques are settled in MRTGS.
5. Upon settlement of the clearing session, funds for cleared cheques will be credited to customer's account and dishonoured cheques will be returned to the customers.

# Economic Research and Statistics

The MMA conducts in-depth research and analysis on economic and financial developments in both the domestic and external economy, as a means to achieve its core objectives. The macroeconomic statistics required to carry out such research are compiled and disseminated on a regular basis.

## Economic Research

Conducting analyses and research on important developments in the domestic and global economy is imperative in formulating an effective monetary policy. The MMA continued to conduct analysis on topics related to monetary policy, real sector issues, fiscal issues and financial sector issues. These analyses were presented in various publications—including the *Monthly Economic Review*, the *Iqthisaadhee Review*, the *Quarterly Economic Bulletin* and the *Annual Report*—and are published on the MMA website.

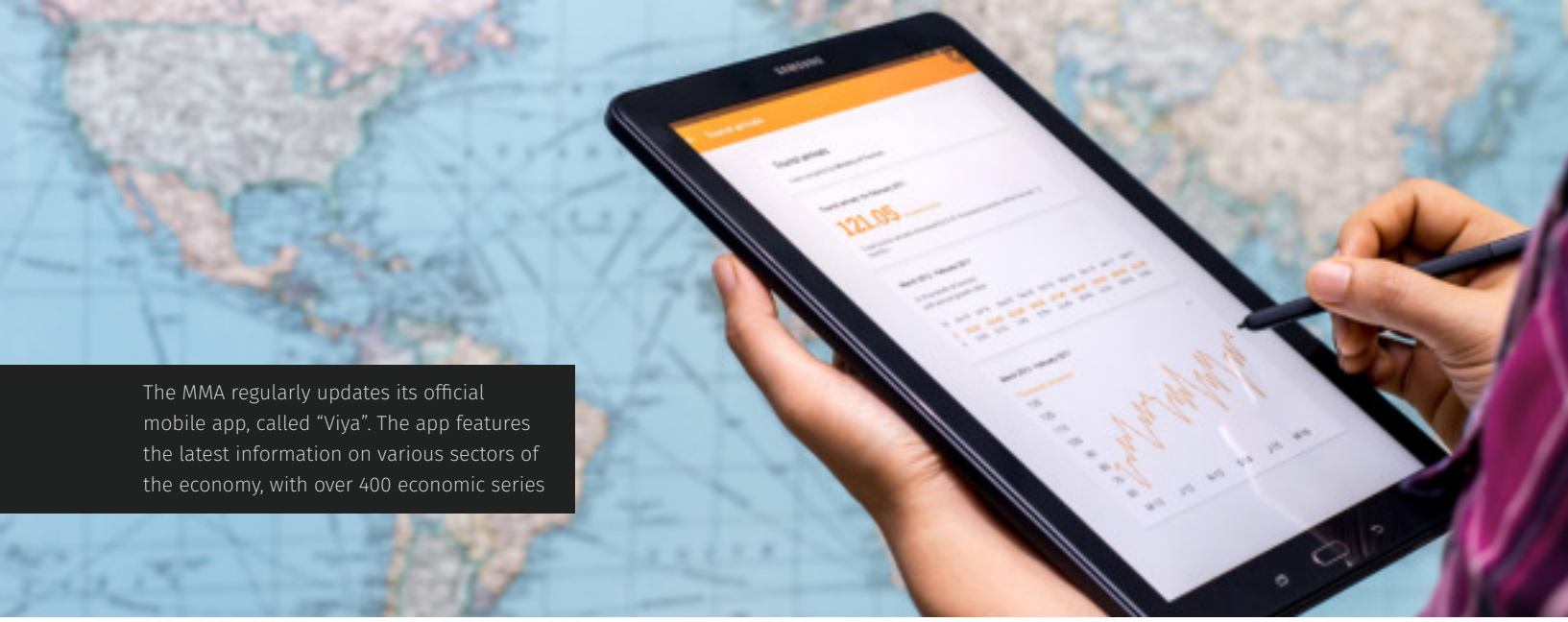
The MMA conducts in-depth research spanning a broad range of topics related to monetary policy and other key economic and financial issues. The MMA publishes 'Research and Policy Notes' on the MMA website and a journal named *MMA Research Papers*. The Research and Policy Notes assists in the formulation of monetary and macroeconomic policies. The *MMA Research Papers* includes articles with in-depth analysis, as well as more general articles targeted towards a broader readership. The MMA published the second issue of the *MMA Research Papers* in January 2016.

The MMA develops econometric models and forecasts key macroeconomic indicators that will provide analytical input for effective monetary policy decision making. Hence, forecasts of gross international reserves and inflation were made on a quarterly basis during 2016. Moreover, in light of the importance of monitoring and managing the rufiyaa liquidity of commercial banks to achieve its monetary policy objectives, the MMA continued to forecast the liquidity position of the banking system during the year.

Further, the MMA provided its professional opinion to the People's Majlis on the proposed government budget for 2017. Opinion was provided on the overall budget policy, forecasted government revenue, expenditure and budget financing.

The MMA published the second issue of the MMA Research Papers in January 2016 which includes articles with in-depth analysis and general articles targeted towards a broader readership.


The MMA conducts in-depth economic research which is published in the "MMA Research Paper Series"



The MMA regularly updates its official mobile app, called "Viya". The app features the latest information on various sectors of the economy, with over 400 economic series

## Economic Surveys

The MMA conducts sample surveys to complement existing data and on areas where statistics are not available. In 2016, the MMA continued to conduct the quarterly business survey, and the survey report was published as per the scheduled timeline. This survey aims to obtain a quick assessment of current business trends and expected future economic activity. In addition, the bank credit survey, conducted every six months, was carried out by the MMA in January and July 2016. The main purpose of the survey is to capture the banks' perception about the past and expected developments in the demand and supply conditions of bank credit lent to the domestic market.

The MMA continued to conduct the Maldivians travelling abroad survey in 2016. The purpose of the survey is to obtain accurate data for the compilation of travel expenditure for BOP statistics. Similarly, the MMA conducted the foreign investment survey and the foreign assets and liabilities survey for both foreign and local companies registered in the Maldives.

## Statistics

The MMA is primarily responsible for the compilation of balance of payments statistics and monetary and financial statistics in the Maldives. In addition, the MMA collects a wide range of macroeconomic statistics. Similar to previous years, these statistics were published regularly in the *Monthly Statistics* of the MMA during 2016. In addition, other macroeconomic statistics were collected for advisory, analytical and research purposes.

The MMA launched its first official mobile app, called Viya, in 2015 and continued to update it on a monthly basis during 2016. The app features the latest information on various sectors of the economy, with over 400 statistical series. It also includes an interactive guide to the Ran Dhihafaheh banknote series, describing both its general features and security features.

www.mma.gov.mv/viya

# Governance

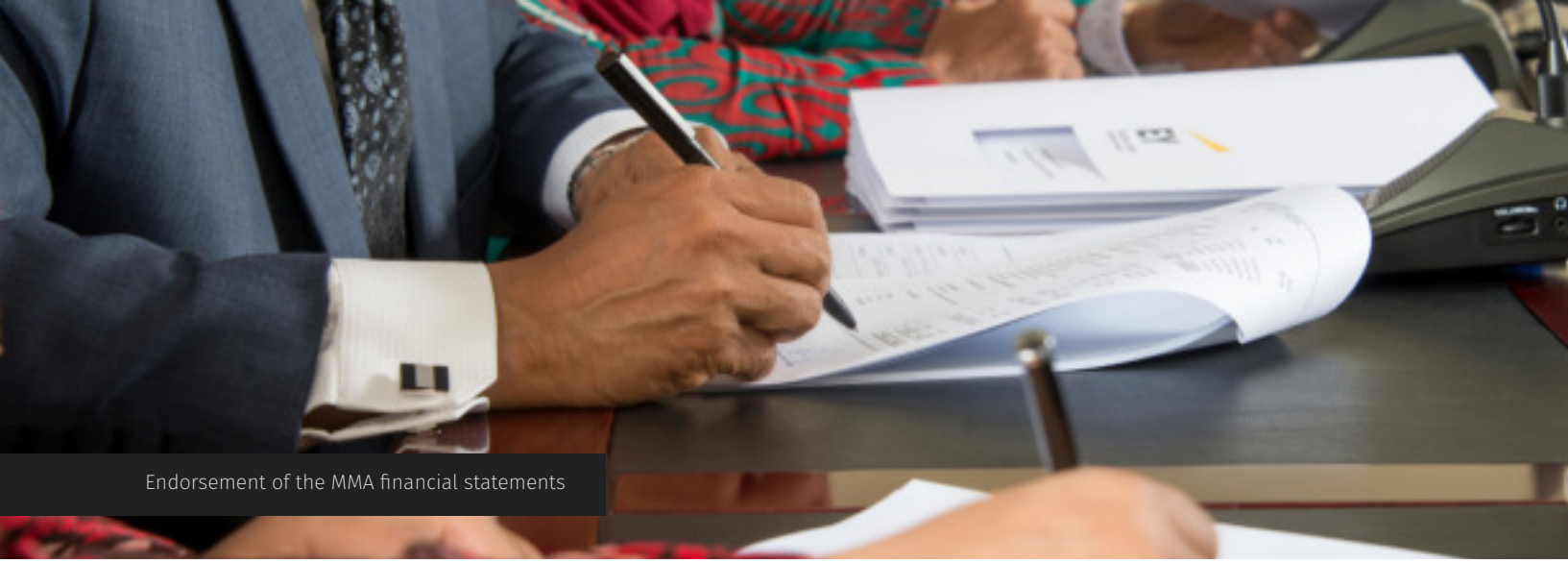
The Board of Directors is the highest policy making body of the MMA, and sets out the policies and give strategic direction to the management. The Governor is the chair of the Board of Directors. As the head of the MMA, the Governor is responsible for implementing the policies and carrying out the day-to-day management and operations of the MMA. The MMA maintains leading standards of corporate governance and management; and follow best practices used by similar institutions and central banks.

## Board of Directors

The MMA Board of Directors comprises seven members, including the Governor and the Deputy Governor. During 2016, 12 meetings of the Board of Directors were held. The main resolutions adopted by the board were as follows:

- Granting of licences to Solarelle Insurance Pvt. Ltd. and Dhivehi Insurance Company Pvt. Ltd. to conduct general insurance business in the Maldives.
- Granting of a licence to Maldives Inc. Pvt. Ltd. to provide money transfer services in the Maldives.
- Granting of a license to Ooredoo Maldives Plc. to provide mobile payment services.
- Issuing the following regulations in order to strengthen the supervisory and regulatory framework of the financial sector and to prevent financial crimes:
  - Regulation for Securities Institutions on Prevention of Money Laundering and Financing of Terrorism
  - Regulation for Non-Bank Financial Businesses Operating in the SEZ
  - Regulation on Mobile Payment Services
  - Regulation on Fees and Charges Payable by Financial Institutions
  - Regulation for the Provision of Annuity by Insurance Companies
- Resolution to enter a foreign currency swap arrangement with the Reserve Bank of India.

The MMA Board meets regularly to make key policy decisions



Endorsement of the MMA financial statements

- Resolution to invest in the US$140.0 million government guaranteed bond issued by the Maldives Airports Company Ltd.

- Resolution to issue a 5 rufiyaa polymer banknote with a new design, as part of the Ran Dhihafaheh banknote series.

- Resolution to issue a new 2 rufiyaa coin with a new design.

- Setting the procurement policies to be followed by the MMA in procuring goods and services that are required in carrying out its functions.

## Audit Committee

The Audit Committee is a subcommittee of the Board of Directors of the MMA and consists of three non-executive members: Mr Hussain Hilmy, Mr Abdulla Ghiyas Riyaz and Mr Abdul Haleem Abdul Ghafoor.

The Audit Committee reviews the financial statements of the MMA. The responsibilities of the committee includes assessing the effectiveness of the internal controls and financial reporting process, monitoring the performance of the MMA's Internal Audit function and external audits, and overseeing the compliance by the MMA with legal and regulatory requirements.

## Internal Audit

The objective of the MMA's Internal Audit is to provide independent assessment of the MMA's compliance with legal and regulatory requirements. In 2016, the Internal Audit conducted audits on the main areas of importance for governance and risk management. They include process audits of the Reserve Management Section, Technology Services Division, Financial Controls Division and Human Resources Division. Internal Audit also observed the process of destruction of paper banknotes that were removed from circulation during 2016. They also conducted the annual cash and stock audits.

## Shari'ah Council

The Shari'ah Council consist of 8 members. The members include, Governor, Deputy Governor, a senior official from the MMA, an official from the Ministry of Islamic Affairs, and 4 Islamic scholars from private sector.

The Shari'ah Council is responsible for establishing a framework that will harmonise Shari'ah interpretations in accordance with Islamic principles in the Maldives. Accordingly, the Shari'ah Council validates all Islamic banking and finance operations

and products to ensure their compliance with the Islamic principles. The Council also provides guidance to the MMA to strengthen the regulatory and supervisory function of the Islamic finance.

## Risk Management

The MMA seeks to identify all the risk it may face and ensures that strong and effective enterprise risk management is in place to mitigate such risks. The risks of the authority are defined as any risk from internal and external factors that influence the MMA's ability to achieve its objectives. During 2016, the MMA formulated a risk management policy and a risk management framework, and carried out the work of preparing risk registers for some sections of the MMA.

# Human Resource Management and Development

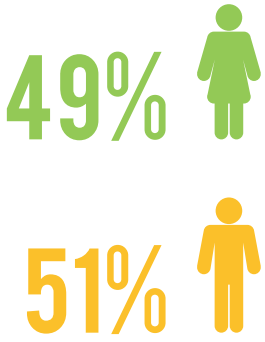
The MMA places significant emphasis on developing and strengthening its human resources in order to improve the quality of its services. Thus, the MMA has a continuing focus on recruiting competent candidates and works on staff retention, capacity building and aims to provide a comfortable workplace environment for the staff. In this regard, the internal policies are targeted at promoting staff unity, providing appropriate incentives for staff retention and training opportunities from the MMA's training institute as well as from other local and overseas institutions.

## Staff recruitment

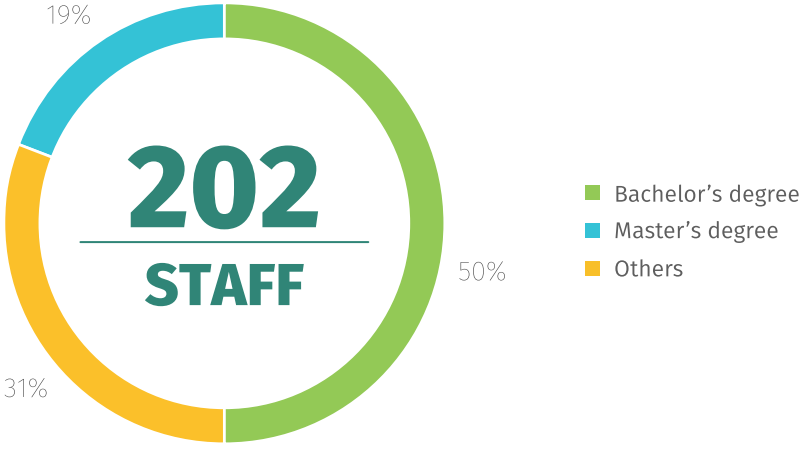
At the end of 2016, a total of 202 staff were employed at the MMA, of which 28 were new staff and six were welcomed back upon completion of a Master's degree. It is noteworthy that two staff resumed work after benefiting from six months paid maternity leave during the year. Further, 20 staff left the MMA for various reasons, such as to pursue further studies and retirement at the age of 65, among others.

## Service Recognition

To acknowledge the loyalty and contribution of its dedicated staff, the MMA continued to present long-service awards to employees who had worked at the MMA for 20 years or more. Four staff—Ms Aminath Leena, Ms Aishath Sadiq, Ms Mariyam Najeela and Ms Nazima Fahmee—received the award at the MMA anniversary ceremony in 2016. Similar to previous years, the MMA rewarded staff who put effort into fostering a staff-friendly environment, promoting collaboration and team spirit, and showing initiation and leadership.




## Composition of Staff by Qualification



## Changes to Staff Policies

The MMA's human resource policies are targeted at developing and retaining competent and dedicated staff. These policies are also in line with national and international standards. The MMA brought remarkable changes to the staff policies over the past two years aimed at benefiting staff welfare. As such, a significant revision was made to the staff policy in 2016 to increase the number of days for paternity leave from 5 to 10 days.

## Staff Training and Development

The MMA believes that its greatest assets are the people who work for it, and recognises that resources allocated for strengthening human capital are of paramount importance for developing the organisation as a whole. In this regard, 69 staff attended 57 training programmes held in the Maldives and abroad. During the year, 13 staff attended 22 meetings/forums to enhance their skills and experience. In addition, 17 staff participated in short-term courses held by other institutions in the Maldives. These trainings were in the fields of banking, finance, economics, statistics and information technology. In terms of skill development, staff of MMA participated in professional courses, including the International Financial Reporting Standards certificate.

Staff visits to other central banks, to gain further knowledge and experience, contributes to the efficiency of services provided by the MMA. In 2016, three teams comprising 11 staff from the MMA visited the Central Bank of Sri Lanka and gained insight and knowledge in the areas of: reserve management, security services, and development of mobile payment services.

The MMA received a large number of requests for internship opportunities from university students. The MMA was only able to provide this opportunity to six students due to lack of office space to accommodate all students. Priority was given to internships in the fields related to the work of MMA. In addition, three students who had previously completed internships over the past two years were recruited during the year.

A significant revision was made to the staff policy in 2016 to increase the number of days for paternity leave from 5 to 10 days.

The MMA encourages dialogue between staff on important issues


The MMA conducts various training programmes for the development of staff

## Social Activities for Staff

The MMA continued to organise and participate in several social activities and events to promote staff unity. During the year, over 100 staff from the MMA took part in a tree planting event in Hulhumale' organised by *Aaroa* (a joint social programme of government offices and independent institutions). The MMA staff also participated in an inter-office badminton competition, inter-office carom competition and inter-office netball competition led by the MMA Social Club.

## MMA Training Institute

The objective of the MMA Training Institute is to enhance the staff capacity and capability of the MMA, as well as other financial institutions and other relevant enforcement agencies. A total of 500 participants attended various programmes organised by the institute during the year. The following programmes were conducted by the MMA Training Institute in 2016.

- Basic Security Training Programme for the MMA security officers, held in collaboration with the Ministry of Defence and National Security.
- Applied Econometrics–Practical Approach Using E-Views Software Programme, organised in collaboration with the Central Bank of Sri Lanka.
- Training on the Enterprise Resource Program for relevant staff, SWIFT Training Programme and training for the newly introduced automated cheque clearing system.
- Customised Business Writing Skills Programme for the MMA staff.
- Employee Orientation Training Programme for new staff to familiarise them with all section work.
- Training on the Clearing System for the relevant staff from the MMA and commercial banks, held in collaboration with the Central Bank of Sri Lanka.

500
Staff trained

18
Training programmes

As the number of banks and insurance companies continues to increase, the MMA Training Institute has focussed on training Maldivians in the field of banking, insurance and finance, in order to address the local skill shortages in the industry. In this regard, the institute offered professional qualifications for employees of the MMA and financial institutions during the year. In 2016, 14 staff participated in the Professional Banker level of the Chartered Banker qualification, which commenced in 2015 in collaboration with the Asian Banking School, Malaysia. In addition, officials from the MMA and the insurance industry participated in the Certificate of MII Insurance programme of the Malaysian Insurance Institute.


An information session on the MMA's Credit Information Bureau

# Public Awareness

The MMA uses various communication tools to reach all spheres of audiences to enhance public awareness on the work of the MMA and information regarding the financial sector. The MMA promotes such information through the MMA website and social media, including Facebook, Instagram, YouTube and Twitter. The MMA conducted the following awareness campaigns for the general public and specific audiences during the year.

- ***ACH training programmes:*** Awareness sessions were held to educate the general public on the newly introduced automated cheque clearing process through the Automated Clearing House. Information sessions were also held for government agencies and other corporations to familiarise them with the new system and to educate them on important factors to consider when writing and handling cheques. Moreover, an information session on the security features of cheques was held for commercial banks.

- ***Workshop on Mobile Payment Service:*** In collaboration with the World Bank and Sri Lanka's Dialog Axiata Plc. Group, a workshop on mobile payment services targeting service providers and customers was held on 15 May 2016. Participants from both government agencies and SMEs attended the workshop.

- ***Macroeconomic Awareness Workshop:*** The MMA continued to host macroeconomic workshops for secondary students specialising in the business stream, to increase their awareness about the Maldivian economy and to encourage them to think critically about economic issues. In 2016, sessions were held for five schools with a total of 237 students participating. Several schools from other atolls also showed interest in conducting the workshop and such sessions were carried out during the year.

- ***Information session on financial crimes:*** An information session was conducted to raise awareness on the misuse of financial sector resources for committing various offences, including theft and fraud using bank cards. Information on economic and financial losses from pyramid schemes was also provided in this session.

- ***Instagram competition of Ran Dhihafaheh banknote series:*** With the aim of raising awareness of the Ran Dhihafaheh banknote series, the MMA hosted an Instagram competition from 26 to 31 January 2016, and presented a cash award for the best picture that was shared on Instagram.

- ***Financial Empowerment of Women Entrepreneurs Workshop:*** A workshop for members of the Women Entrepreneurs Association–Maldives was conducted with the aim of increasing financial empowerment of Maldivian women. During the workshop, the MMA provided information on services and products available for SMEs from the MMA and from commercial banks. In addition, the Maldives Finance Leasing Company, Maldives Inland Revenue Authority, Allied Insurance Company of the Maldives Pvt. Ltd. and Ministry of Economic Development provided valuable information for the participants of the workshop.

An awareness session on the Maldivian economy for secondary school students

- ***Information sessions for businesses:*** With the introduction of the CGS, the MMA held an information session for various businesses on 24 August 2016. The session also covered areas to increase awareness on financial and economic issues in the Maldives.

- ***Revamping MMA website:*** The MMA revamped its website during 2016 with the purpose of making it modern and more user-friendly by enabling easy access to information. The number of views increased significantly soon after its launch.

4,987 Followers
@MMA_Maldives

11,553 Followers
Maldives Monetary Authority

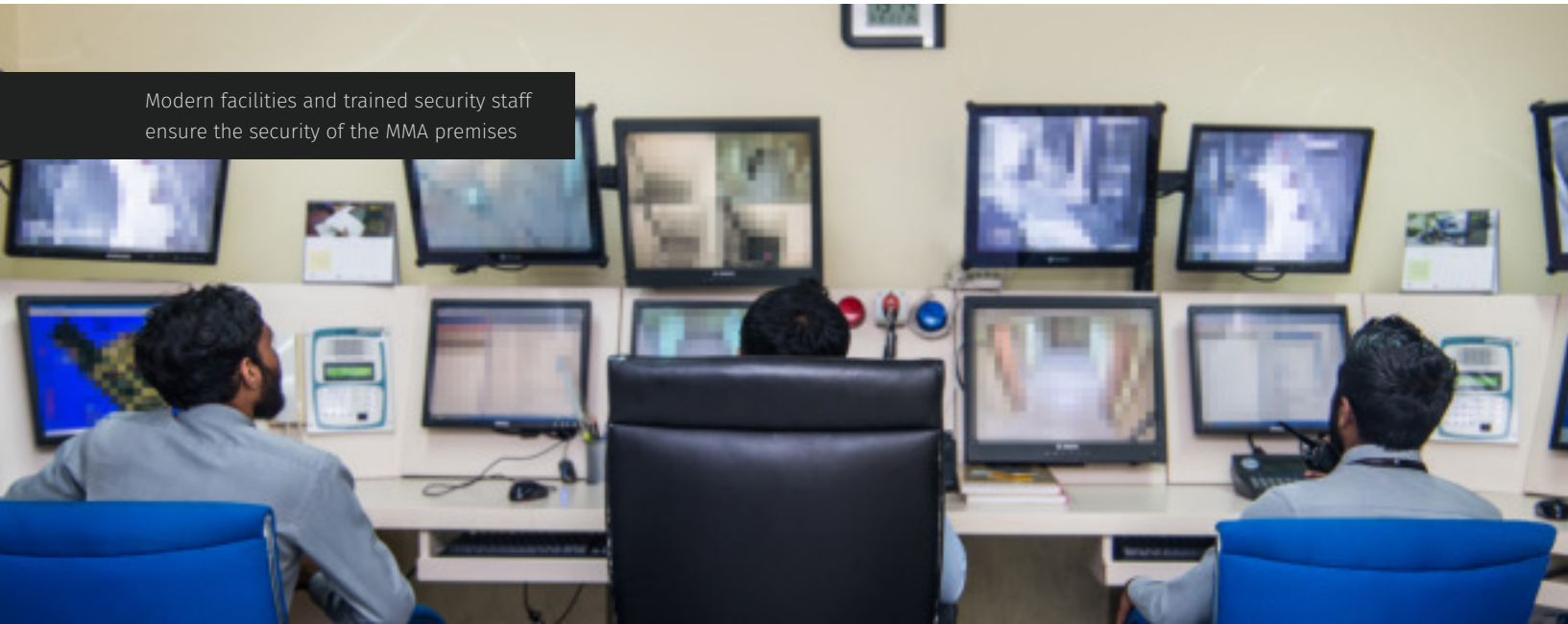
33,710 Views
maldivescentralbank

The MMA revamped its website during 2016 with the purpose of making it modern and more user-friendly by enabling easy access to information.

# Building and Property Management

The MMA continuously ensures that its property is secure and places importance on strengthening the security of its building. In this regard, an assessment was carried out in 2016 in collaboration with the Maldives Police Service. The purpose was to assess the security measures of the premises and its surrounding, and determine measures to further strengthen it. In addition, a system audit of the Electronic Security Management System was conducted and is planned to upgrade the system in 2017. Moreover, to strengthen the security of entry and exit into the premises, the process of purchasing an X-ray screening machine was completed in 2016 and the machine will be installed in 2017.

In 2016, changes were also made to the floor plan area to ensure efficient allocation of work spaces for all staff. Other projects—such as maintenance and refurbishments—were also carried out during the year.



Modern facilities and trained security staff ensure the security of the MMA premises

The MMA continues to work closely with other central banks and supervisory authorities to foster a safe and sound financial system in the Maldives through sharing expertise and best practices. Hence, the MMA maintains close collaborations with international financial institutions and development agencies such as the International Monetary Fund (IMF), the World Bank, the Asian Development Bank and the SAARCFINANCE network.

## International Monetary Fund

The Maldives has been a member of the IMF since 13 January 1978. Governor Dr Azeema Adam represents the Maldives on the Board of Governors as the Governor of the IMF for the Republic of Maldives. Assistant Governor Neeza Imad is the Alternate Governor. The Maldives represents its interests and takes part in IMF decision making in a constituency that includes 12 other countries. Mr Hazem Beblawi is the Executive Director of this constituency. Currently, the Maldives' quota in the IMF is 21.2 million special drawing rights,[24] representing 0.004% of the total IMF quota.

### IMF Article IV Consultation

The Maldives cooperates with the IMF on an annual basis in the framework of the IMF surveillance known as Article IV consultations. The main aim of the consultation is to assess economic and financial developments and discuss the policy requirements in addressing challenges in the economy. The IMF team visited the Maldives for Article IV consultations from 4 to 17 January and discussed economic and financial issues with officials from the government and the private sector. On 13 May 2016, the IMF executive board published a detailed report on the findings of the Article IV consultations. Similar to previous years, the Maldives continued to receive technical assistance and training from the IMF in 2016.

### International Monetary Fund Technical Assistance on Balance of Payment

As part of on-going efforts to improve the BOP and international investment position, a mission from the IMF (under the Japan Administered Account for Selected IMF Activities' project on the Improvement of External Sector Statistics in the Asia and Pacific Region) provided its final technical assistance to the MMA in 2016 under the three-year project. The purpose of the mission–conducted from 10 to 21 January–was to evaluate and recommend improvements for the compilation and dissemination of the external sector statistics of the Maldives, mainly the BOP and the international investment position.

### International Monetary Fund Technical Assistance on Corporate Accounting

A senior financial sector expert of the IMF visited the MMA from 17 to 30 August 2016 to provide technical expertise and guidance on recording various complex transactions. The MMA also received assistance in enhancing financial reporting and risk management practices through proper recording of financial transactions.

[24]The special drawing right is an international reserve asset, created by the IMF to supplement its member countries' official reserves. The value of the special drawing right is based on a basket of five major currencies–the US dollar, the euro, the Chinese renminbi, the Japanese yen and the pound sterling–as of 1 October 2016.

"Advancing Asia: Investing for the future" conference in New Dehli, India

## World Bank

The MMA continued to receive technical assistance from the World Bank in 2016. During the year, the World Bank conducted the FSAP to analyse the financial sector of the Maldives. It also provided technical assistance for introducing mobile payment services.

### Financial Sector Assessment Program

In 2016, the FSAP was conducted in the Maldives by the World Bank to analyse the situation and identify development aspects of the financial sector. The programme was aimed at identifying and addressing challenges to the development of the financial sector in the Maldives. A team from the World Bank visited the Maldives from 1 to 15 March to conduct the assessment. The draft report and technical notes were presented to the MMA in May 2016, and the final report on the findings was issued in December 2016.

### Enabling a Non-bank Mobile Money Solution

The MMA continued to receive the World Bank's technical assistance on its project of 'Enabling a Non-bank Mobile Money Solution'. The purpose of the project is to establish an enabling environment for a mobile network operator-led mobile money solution, with the aim of enhancing access to financial and payment services in the Maldives (especially in the outer islands and atolls), and to ground this in a well-designed legal and regulatory framework. This project is expected to be implemented within two years (September 2015–September 2017).

## SAARCFINANCE

The MMA is a member of the SAARCFINANCE, which is a regional network of the South Asian Association for Regional Cooperation (SAARC) central bank

governors and finance secretaries. The basic objective of the SAARCFINANCE is to promote cooperation among central banks and finance ministries in SAARC member countries and learn from shared experiences on macroeconomic policy challenges facing the region.

## SAARCFINANCE Governors' Symposium and SAARCFINANCE Group Meeting

In 2016, the MMA participated in the 12th SAARCFINANCE Governors' Symposium and 32nd SAARCFINANCE Group Meeting. Deputy Governor Aishath Zahira and Senior Research Analyst Aishath Sajny attended the meeting, which was held from 26 to 27 May in Mumbai, India. The theme of the Symposium was 'Impact of Chinese Slowdown on SAARC Region and Policy Options' and Ms Aishath Zahira attended the panel discussion for this theme. In addition, Ms Aishath Sajny presented a research paper analysing the impact of Chinese slowdown on the Maldives. Meanwhile, various issues—including initiating production of a roadmap for SAARCFINANCE, maintenance of the SAARCFINANCE Portal and other subjects—were discussed in the group meeting.

## SAARCFINANCE Coordinator's Meeting

The MMA participated in the 23rd SAARCFINANCE Coordinator's Meeting, which was held from 28 to 29 April in Colombo, Sri Lanka. Assistant Governor Idham Hussain attended the meeting. The purpose of this meeting was to pass the agenda for the 12th SAARCFINANCE Governance Symposium, which was held from 26 to 27 May. Assistant Governor Idham Hussain also attended the 24th SAARCFINANCE Coordinator's Meeting, which was held from 1 to 2 September in Colombo, Sri Lanka. The purpose of the meeting was to pass the agenda for the 33rd SAARFINANCE Group Meeting held in October 2016 in Washington, D.C., US.

## Meeting of Researchers for SAARCFINANCE Collaborative Research Studies

The MMA participated in the 2nd Meeting of Researchers for SAARCFINANCE Collaborative Research Studies held in Dhaka, Bangladesh. Economist Ahmed Imad from the MMA attended the meeting. The purpose was to identify obstacles in providing financial services among SAARC member countries and to research approaches to increase financial inclusion among these countries.

## SAARCFINANCE Database and Working Group on SAARCFINANCE

The MMA participated in the seminar on the SAARCFINANCE database held from 17 to 18 November in Pune, India. Senior Manager Mansoor Zubair and Deputy Manager Mariyam Ibrahim Manik from the MMA attended the meeting. The purpose of the meeting was to look into the modalities to bring the SAARCFINANCE database up to international standards by studying the definitions, coverage and comparability of the data and to discuss difficulties faced by central banks in providing both data and metadata.

## SAARCFINANCE Group Meeting

The MMA participated in the 33rd SAARCFINANCE Group Meeting held in Washington, D.C., US, on 7 October 2016. Governor Dr Azeema Adam and Assistant Governor Neeza Imad attended the meeting.

The meeting covered various areas, including the way forward for the SAARCFINANCE database, a proposal to make the SAARCFINANCE website more informative, and updates on proposals on collaborative research studies among central banks. In addition, a decision was made to formulate a roadmap of SAARCFINANCE.

## Other Institution's Membership

The MMA is a member of the Islamic Financial Services Board, the Asian Clearing Union, Steering Group of the Asia/Pacific Group on Money Laundering, International Association of Insurance Supervisors and SAARC Payment Council. The MMA continued to receive assistance on financial sector development from these institutions.

## Participation in International Meetings and Forums

- ***SEBI/OECD Seminar on Emerging Trends in Financial Consumer Protection across Asia:*** Deputy Governor Aishath Zahira attended the seminar on 'Emerging Trends in Financial Consumer Protection across Asia' as a panellist. It took place on 4 to 5 February 2016, in Mumbai, India.

- ***Advancing Asia; Investing for the Future Conference:*** Governor Dr Azeema Adam attended the 'Advancing Asia; Investing for the Future' conference jointly held by the IMF and Ministry of Finance of India as a panellist. It was held from 11 to 13 March in New Delhi, India. Assistant Governor Idham Hussain also participated in this conference.

- ***First High Level Follow up Dialogue on Financing for Development in the Asia/ Pacific Forum:*** Governor Dr Azeema Adam and Assistant Governor Neeza Imad attended the 'First High Level Follow-up Dialogue on Financing for Development in the Asia/Pacific Forum', which took place from 27 to 31 March, in Icheon, South Korea.

- ***United Nations Economic and Social Council Inaugural Financing for Development Forum:*** Governor Dr Azeema Adam attended the Inaugural Financing for Development Forum as a panellist, which took place on 18 April 2016, in New York, US.

- ***Advance Banknote Manager Course:*** Assistant Governor Mariyam Hussain Didi attended the advance banknote manager course conducted by De La Rue in Hampshire, UK, from 18–22 April and delivered a speech during a course session.

- ***The meeting of Asian Clearing Union:*** Deputy Governor Aishath Zahira and Assistant Governor Mariyam Hussain Didi attended the 45th Asian Clearing Union Board of Directors and Technical Standing Committee meeting, which took place from 26 to 27 June, in Naypyidaw, Myanmar. Ms Aishath Zahira presented a country paper at this meeting.

- ***Annual Meeting of Asia/Pacific Group:*** Governor Dr Azeema Adam and Head of Financial Intelligence Unit, Uz Abdulla Ashraf attended the Annual Asia/Pacific

Group Meeting and Technical Assistance Forum, held from 5 to 8 September, in San Diego, US. The Governor discussed the progress on preventing money laundering and terrorism financing in the Maldives and further measures that should be taken to prevent such offences.

- ***The IMF Annual Meeting:*** Governor Dr Azeema Adam and Assistant Governor Neeza Imad attended the IMF Annual Meeting, which was held from 7 to 9 October, in Washington D.C., US.

- ***Asian Development Bank Institute – Keio Executive Training in Economics:*** Senior Research Analyst Aishath Sajny participated in the Keio Executive Training in Economics conducted from 28 to 30 November, in Tokyo, Japan. Ms Aishath Sajny presented a research paper on 'Impediments to SME growth in Small Island Developing States—The Case of the Maldives'. Only a few participants with the best research papers were given the opportunity to attend and present at this seminar.

# ANNUAL FINANCIAL STATEMENTS

Building a better working world

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KR/VR

## Independent Auditor's Report
## To the Board of Directors of Maldives Monetary Authority

### Report on the audit of the financial statements

**Opinion**

We have audited the financial statements of Maldives Monetary Authority (the "Authority") which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Authority as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**(Continued)**

**Auditor's responsibilities for the audit of the financial statements (Continued)**
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

17 April 2017
Male'

Ernst & Young
EY
Chartered Accountants
Male', Maldives
Reg. No. 152/95

## Statement of Financial Position

### As at 31 December 2016

| Assets | Note | 2016 MVR | 2015 MVR |
|---|---|---|---|
| **Foreign currency financial assets** | | | |
| Cash and balances with banks | 4 | 6,850,331,279 | 8,502,614,579 |
| IMF related assets | 5 | 502,763,363 | 352,277,660 |
| Investments in securities | 6 | 2,280,422,171 | - |
| Subscriptions to international agencies | 7 | 830,435 | 833,681 |
| Receivable from Asian Clearing Union | 8 | 119,346 | - |
| Interest and other receivables | 9 | 22,866,909 | 226,699,135 |
| **Total foreign currency financial assets** | | **9,657,333,503** | **9,082,425,055** |
| **Local currency financial assets** | | | |
| Cash and balances with banks | 4 | 40,973,351 | 437,500 |
| Subscriptions to international agencies | 7 | 8,264,330 | 8,264,330 |
| Investment in Government treasury bills | 10 | 38,944,980 | - |
| Investment in Government treasury bonds | 11 | 6,304,271,706 | 6,372,975,607 |
| Derivative financial instruments | 12 | 935,263 | - |
| Interest and other receivables | 9 | 1,535,000,000 | - |
| **Total local currency financial assets** | | **7,928,389,630** | **6,381,677,437** |
| **Total financial assets** | | **17,585,723,133** | **15,464,102,492** |
| **Local currency non-financial assets** | | | |
| Gold and silver assets | 13 | 27,411,035 | 25,711,967 |
| Inventories | 14 | 112,605,701 | 219,676,217 |
| Property, plant and equipment | 15 | 38,921,938 | 41,476,069 |
| Intangible assets | 16 | 25,242,401 | 26,719,919 |
| Other assets | 17 | 68,547,910 | 2,724,168 |
| **Total local currency non-financial assets** | | **272,728,985** | **316,308,340** |
| **Total assets** | | **17,858,452,118** | **15,780,410,832** |

The accounting policies and notes on pages 150 to 200 form an integral part of the financial statements.

## Statement of Financial Position
### As at 31 December 2016

| Liabilities and equity | Note | 2016 MVR | 2015 MVR |
|---|---|---|---|
| **Foreign currency financial liabilities** | | | |
| Balances of commercial banks | 18 | 3,717,797,413 | 5,136,843,911 |
| Balances of the Government and Government institutions | 19 | 151,700,135 | 181,046,050 |
| Payable to Asian Clearing Union | 8 | 123,620,696 | 155,559,769 |
| IMF related liabilities | 20 | 522,778,449 | 373,102,984 |
| Interest bearing loans | 21 | 86,741,890 | 90,498,247 |
| Deposits of international financial institutions | 25 | 830,435 | 833,681 |
| Other liabilities | 27 | 1,714,690,889 | 327,042,866 |
| **Total foreign currency financial liabilities** | | **6,318,159,907** | **6,264,927,508** |
| **Local currency financial liabilities** | | | |
| Balances of commercial banks | 18 | 5,462,363,786 | 5,276,448,591 |
| Balances of the Government and Government institutions | 19 | 680,834,798 | 534,838,298 |
| Currency in circulation | 22 | 3,243,533,609 | 3,220,685,127 |
| Balances of other central banks | 23 | 1,535,000,000 | - |
| Balances of insurance companies | 24 | 13,348,619 | 9,395,934 |
| Deposits of international financial institutions | 25 | 10,462,503 | 10,284,674 |
| Derivative financial instruments | 12 | 1,137,371 | - |
| Deposit insurance fund | 26 | 41,052 | - |
| Other liabilities | 27 | 278,213,178 | 125,746,052 |
| **Total local currency financial liabilities** | | **11,224,934,916** | **9,177,398,676** |
| **Total financial liabilities** | | **17,543,094,823** | **15,442,326,184** |
| **Other liabilities** | | | |
| Deferred grants | 28 | 20,050,653 | 3,207,292 |
| Pension and other employment benefits payable | 29 | 5,579,496 | 5,809,968 |
| **Total liabilities** | | **17,568,724,972** | **15,451,343,444** |
| **Equity** | | | |
| Capital | 30 | 50,000,000 | 50,000,000 |
| Reserve | 30 | 239,727,146 | 279,067,388 |
| **Total equity** | | **289,727,146** | **329,067,388** |
| **Total liabilities and equity** | | **17,858,452,118** | **15,780,410,832** |

The Board of Directors of the Maldives Monetary Authority authorised these financial statements for issue on 17 April 2017

Signed for and on behalf of the Board by,

**Azeema Adam - Governor**

**Hussain Hilmy - Director**

The accounting policies and notes on pages 150 to 200 form an integral part of the financial statements.

## Statement of Comprehensive Income

### Year ended 31 December 2016

| Operating income | Note | 2016 MVR | 2015 MVR |
|---|---|---|---|
| **Foreign currency income and expenses** | 31 | | |
| Interest income on foreign currency financial assets | | 78,035,278 | 54,393,528 |
| Interest expense on foreign currency financial liabilities | | (812,535) | (382,032) |
| **Net foreign currency income** | | **77,222,743** | **54,011,496** |
| **Local currency income and expenses** | 32 | | |
| Interest income on local currency financial assets | | 153,594,549 | 153,840,853 |
| Interest expenses on local currency financial liabilities | | (61,510,947) | (53,843,836) |
| **Net local currency income** | | **92,083,602** | **99,997,017** |
| Other income | 33 | 22,815,085 | 30,952,056 |
| Income from foreign exchange management | | 46,902,795 | 22,806,021 |
| Net foreign exchange revaluation loss | | (31,965,843) | (138,431,651) |
| | | **37,752,037** | **(84,673,574)** |
| **Total net operating income** | | **207,058,382** | **69,334,939** |
| **Operating expenses** | | | |
| Personnel expenses | 34 | 52,734,935 | 46,595,885 |
| Administration expenses | 35 | 97,555,208 | 44,653,402 |
| Depreciation, amortisation and impairment | | 14,078,603 | 15,062,994 |
| **Total operating expenses** | | **164,368,746** | **106,312,281** |
| **Net profit/(loss) for the year** | | **42,689,636** | **(36,977,342)** |
| Other comprehensive income | | - | - |
| **Total comprehensive profit/(loss)** | | **42,689,636** | **(36,977,342)** |
| Adjustment as per MMA Act | 30 | 31,965,843 | 138,431,651 |
| **Profit for the year as per MMA Act** | | **74,655,479** | **101,454,309** |

The accounting policies and notes on pages 150 to 200 form an integral part of the financial statements.

## Statement of Changes in Equity

### Year ended 31 December 2016

| | Contributed capital MVR | General reserve MVR | Foreign asset revaluation reserve MVR | Retained earnings MVR | Total MVR |
|---|---|---|---|---|---|
| **As at 31 December 2013** | **50,000,000** | **100,000,000** | **192,175,276** | **266,408,122** | **608,583,398** |
| Profit re-appropriation to the Government (Note 36) | - | - | - | (266,408,122) | (266,408,122) |
| Profit for the year | - | - | - | (163,322,460) | (163,322,460) |
| Transfers to Foreign asset revaluation reserve (Note 30.3) | - | - | (187,639,505) | 187,639,505 | - |
| 1/5 of Foreign asset revaluation reserve payable to the Government | - | - | (907,154) | - | (907,154) |
| **As at 31 December 2014** | **50,000,000** | **100,000,000** | **3,628,617** | **24,317,045** | **177,945,662** |
| Profit re-appropriation to the Government (Note 36) | - | - | - | (24,317,045) | (24,317,045) |
| Loss for the year | - | - | - | (36,977,342) | (36,977,342) |
| Reversal of cumulative 1/5 of Foreign asset revaluation reserve payable to the Government (Note 30.3) | - | - | 212,416,113 | - | 212,416,113 |
| Transfers to Foreign asset revaluation reserve (Note 30.3) | - | - | (138,431,651) | 138,431,651 | - |
| **As at 31 December 2015** | **50,000,000** | **100,000,000** | **77,613,079** | **101,454,309** | **329,067,388** |
| Profit re-appropriation to the Government (Note 36) | - | 19,424,431 | - | (101,454,309) | (82,029,878) |
| Profit for the year | - | - | - | 42,689,636 | 42,689,636 |
| Transfers to Foreign asset revaluation reserve (Note 30.3) | - | - | (31,965,843) | 31,965,843 | - |
| **As at 31 December 2016** | **50,000,000** | **119,424,431** | **45,647,236** | **74,655,479** | **289,727,146** |

The accounting policies and notes on pages 150 to 200 form an integral part of the financial statements.

## Statement of Cash Flows

### Year ended 31 December 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | MVR | MVR |
| **Operating activities** | | | |
| **Receipts** | | | |
| Interest received - foreign currency | | 75,918,720 | 63,539,841 |
| Interest received - local currency | | 152,609,874 | 153,840,853 |
| Fees, commission and other miscellaneous income received | | 69,084,229 | 53,258,405 |
| | | **297,612,823** | **270,639,099** |
| **Disbursements** | | | |
| Interest paid - foreign currency | | (237,559) | (399,585) |
| Interest paid - local currency | | (60,083,356) | (53,707,068) |
| Payments to employees | | (53,425,080) | (45,454,293) |
| Payments to suppliers and fees/commission paid | | (64,356,251) | (104,143,331) |
| | | **(178,102,246)** | **(203,704,277)** |
| **Net cash flow from operating activities** | **37** | **119,510,577** | **66,934,822** |
| **Investing Activities** | | | |
| **Receipts** | | | |
| Net increase/ (decrease) in currency deposits | | 883,767,300 | (650,602,100) |
| Net increase/ (decrease) in deposits from financial institutions | | 358,365,740 | (675,259,437) |
| Net increase/ (decrease) in deposits from the Government and Government institutions | | 135,307,670 | (192,012,414) |
| Net increase/ (decrease) in other liabilities | | (8,199,225) | 677,541 |
| | | **1,369,241,485** | **(1,517,196,410)** |
| **Disbursements** | | | |
| Net (increase)/ decrease in assets held with the IMF | | 8,801,869 | 6,682,417 |
| Net (increase)/ decrease in investments in short term securities | | (154,520,337) | - |
| Net (increase)/ decrease in loans and advances to the Government and Government institutions | | (2,099,496,251) | 67,493,312 |
| Expenditure on development projects and intangible assets | | (6,002,460) | (691,718) |
| Purchase of property, plant and equipment | | (4,056,083) | (4,968,668) |
| Profit paid to the Government | | (82,029,878) | (24,317,045) |
| Net (increase)/ decrease in other assets | | 81,777,416 | 29,035,182 |
| | | **(2,255,525,724)** | **73,233,480** |
| **Net cash flow used in investing activities** | | **(886,284,239)** | **(1,443,962,930)** |
| **Financing activities** | | | |
| **Receipts** | | | |
| Net increase / (decrease) in currency in circulation | | 181,424,999 | 121,253,570 |
| Net increase / (decrease) in ACU payables | | (32,114,858) | 52,285,703 |
| Net increase / (decrease) in interest bearing loans | | (202,621) | - |
| Net increase / (decrease) in liabilities with IMF | | (8,797,626) | (17,592,939) |
| Net increase / (decrease) in grants received | | 17,447,527 | 438,918 |
| **Net cash flow from financing activities** | | **157,757,421** | **156,385,252** |
| **Net decrease in cash and cash equivalents** | | **(609,016,241)** | **(1,220,642,856)** |
| Exchange rate effect on cash and cash equivalents | | (47,744,208) | (12,736,700) |
| Cash and cash equivalents as at the beginning of the year | | 5,537,215,079 | 6,770,594,635 |
| **Closing cash and cash equivalents as at 31 December** | **38** | **4,880,454,630** | **5,537,215,079** |

The accounting policies and notes on pages 150 to 200 form an integral part of the financial statements.

# Notes to the Financial Statements

## Year ended 31 December 2016

### 1 REPORTING ENTITY AND STATUTORY BASE

These are the financial statements of the Maldives Monetary Authority (the Authority); the institution established under the Maldives Monetary Authority Act (MMA Act) of 1981 of the Republic of Maldives. The Authority is domiciled in the Republic of Maldives and is situated at Majeedhee Building, Male', Republic of Maldives.

The Authority was established in 1981 and is responsible:-

(a) To issue currency and regulate the availability, and international value of the Maldivian Rufiyaa;
(b) To provide advisory services to the Government on banking and monetary matters;
(c) To supervise and regulate banking so as to promote a sound financial structure; and
(d) To promote in the country and outside the country the stability of Maldivian currency and foster financial conditions conducive to the orderly and balanced economic development of Maldives.

These financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors of the Authority in accordance with the article 35 of MMA Act.

### 2 ACCOUNTING POLICIES

**Basis of preparation**

The financial statements are prepared on the historical cost basis, except for certain assets and liabilities that have been measured at fair value as identified in specific accounting policies below.

**Reporting format**

The Authority presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. In the statement of financial position, assets and liabilities are presented broadly in order of liquidity within such distinguished category. The Authority considers that this reporting approach provides appropriate reporting of the Authority's activities.

**Currency of presentation**

The financial statements are presented in Maldivian Rufiyaa, unless otherwise stated, and are rounded to the nearest Rufiyaa.

### a) Foreign currency translation

The Authority's functional and presentation currency is Maldivian Rufiyaa. Transactions in foreign currencies are initially recorded in the functional currency ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken under the Statement of Comprehensive Income. However, to comply with MMA Act section 28, gains or losses from foreign currency translation are excluded to derive the net profit for the year as per MMA Act. For the purposes of retranslation, the following Maldivian Rufiyaa exchange rates for major currencies were used:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | MVR | MVR |
| 1 Australian Dollar | 11.0487 | 11.2203 |
| 1 Euro | 16.0632 | 16.8360 |
| 1 Singapore Dollar | 10.5942 | 10.8912 |
| 1 Special Drawing Rights (SDR) | 20.5636 | 21.4053 |
| 1 Sterling Pound | 18.8552 | 22.8499 |
| 1 United States Dollar | 15.3500 | 15.4100 |

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. In accordance with the Chapter 3, section 13 of MMA Act, on 10 April 2011, The President of The Republic of Maldives in consultation with the Board of Directors of MMA has announced that the exchange rate of Maldivian Rufiyaa against USD is permitted to fluctuate within a ±20% band of MVR 12.85 per USD, effective from 11 April 2011.

### Statement of compliance

These financial statements of the Authority for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the MMA Act.

## 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those used in the previous financial year.

## 2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing is of standards and interpretation issued, which the Authority reasonably expects to be applicable at a future date. The Authority intends to adopt those standards when they become effective, and currently their impact is not reasonably known or estimated.

### 2.2.1 IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets and financial liabilities.

### 2.2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Authority is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

## 2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. In the process of applying the accounting policies, the Authority has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements.

### Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates.

### Impairment losses on loans and advances

The Authority reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

### Pensions and other post-employment benefit plans

The cost of defined benefit plans is determined using an internal valuation. This valuation involves making assumptions about discount rates, rate of compensation and future pension increases/decreases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed separately in the notes to the financial statements.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 FINANCIAL ASSETS

#### 3.1.1 Cash and balances with banks

Cash and balances with banks comprise foreign currency held at the Authority, cash at local and foreign banks, financial institutions and short-term deposits.

As a part of local currency activities, the Authority generates certain income and incurs expenses which do not involve movement of cash. Those activities result in certain assets and liabilities and mainly comprises of the transactions with the Government and transactions with domestic banks and financial institutions. Transactions with the Government include banking transactions to the Government and Government related institutions. The results of these transactions are reflected as mere book entries in the records of the Authority.

MMA is the sole statutory authority to issue currency to the public. The currency issuance is carried out in line with the MMA Act. Currency issued by the Authority represents a claim on the Authority in favour of the holder. This is a liability on the part of the Authority, while it is an item of cash in the hands of the holder. Movements in circulation currency are included as part of financing activities in line with prevailing industry practices among those central banks which present statement of cash flows.

The Authority, through the cash/pay order process, disburses cash in the form of notes and coins or cheques drawn on the Authority to various drawers including suppliers and employees for goods and services obtained, which is either added to the currency in circulation liability or deposits by banks and financial institutions. Such forms of utilisation of currency for the purposes of the Authority's payments form part of cash outflows of the Authority.

#### 3.1.2 International Monetary Fund (IMF) related balances

In accordnce with Article 22(j) of the MMA Act, the Authority may act as fiscal agent of the Government in its dealings with International Financial Institutions, transact with the International Financial Institutions and undertake financial agency work for the Government. In compliance with the MMA Act, the accounts with International Monetary Fund (IMF), which records all transactions with the IMF, have been included in these financial statements on that basis.

The cumulative allocation of SDR by the IMF is treated as a liability. Exchange gains and losses arising on revaluation of IMF assets and liabilities are recognised in the Statement of Comprehensive Income at the Maldivian Rufiyaa exchange rate per SDR applying as at the reporting date.

All other charges and interest pertaining to balances with the IMF are recorded immediately in the Statement of Comprehensive Income.

### 3.1.3 Financial Instruments

Financial Assets within the scope of IAS 39 are classified as available-for-sale financial assets, held-to-maturity investments, loans and receivables and fair value through profit or loss assets as appropriate. The Authority determines the classification of its Financial Assets at initial recognition.

**Date of Recognition**

All financial assets and liabilities are initially recognised on the value date, i.e., the date on which the Authority exchanges payments and ownership rights under the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Initial Classification and Measurement of Financial Instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

**a) Available-for-sale financial assets**

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. The Authority has not classified any assets under available-for-sale financial assets.

**b) Held-to-maturity financial assets**

Held to maturity financial assets are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Authority has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income.

If the Authority were to sell or reclassify more than an insignificant amount of held to maturity assets before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Authority would be prohibited from classifying such financial assets as held-to-maturity during the following two years under IAS 39.

**c) Loans and receivables**

'Loans and Receivables' include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the Effective Interest Rate, less allowance for impairment. Amortised cost is calculated by taking into account any fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income as 'Impairment Charge'.

**d) Fair value through profit or loss assets**

Financial assets at fair value through profit or loss include assets under two subcategories. The first subcategory is those financial assets that were initially designated as assets to be fair valued with fair value changes taken to profit or loss. The second subcategory is those assets that are held for trading. These include all derivatives except those held for hedging and financial assets held with the intention of selling in the short term or short term financial assets with a profit taking pattern.

**Derivative financial instruments**

The derivative financial instruments include currency swaps which are recorded as either assets or liabilities at fair value. Derivatives are financial instruments whose values are determined by the underlying asset. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

### 3.1.4 Currency repurchase transactions

Transactions carried out in relation to currency swap agreements whereby there is a purchase of one currency for the sale of another with the arrangement to swap the purchase and sale of currencies at a later date is treated as a currency repurchase transaction. A receivable and a payable are created on the date of the initial purchase and sale. The bought currency is treated as a payable that would be paid at agreed intervals in the future and the sold currency is treated as a receivable that would be recovered at agreed intervals in the future.

### 3.1.5 Impairment of financial assets

The Authority assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial re-organisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 3.2 NON-FINANCIAL ASSETS

### 3.2.1 Gold

Section 21 (2) of the MMA Act which specifies the composition of external reserve indicates that gold may be held by the Authority as part of this reserve. Hence, Authority holds gold as part of its external reserves.

As this gold is part of the external reserve and not used as a commodity which is traded during the normal course of business, (hence, not a financial instrument as per the definition in IAS) gold is fair valued and the gains or losses are transferred to the Statement of Comprehensive Income. Prior to appropriation of profits, the unrealised gains or losses from gold are transferred to the foreign asset revaluation reserve.

### 3.2.2 Inventories

Inventories of currency on hand are carried at lower of cost and net realisable value. Costs of currency on hand include the cost of bringing inventories to their present location and condition. The value of each category of inventory is determined on first in first out basis. When currency is issued, the value of inventory is reduced and an expense is recorded for currency issuance costs.

### 3.2.3 Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of day to day servicing excludes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Except for the freehold land, depreciation is calculated on a straight-line method over the following estimated useful life:

| Class of asset | Useful life |
|---|---|
| Buildings on freehold land | 30 years |
| Machinery and equipment | 5 years |
| Furniture and fittings | 5 years |
| Motor vehicles | 5 years |
| Computer equipment | 3 years |

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The asset's residual values, useful life and methods are reviewed, and adjusted if appropriate, regularly.

### 3.2.4 Intangible assets

The Authority's intangible assets include the Maldives Credit Information Bureau software and the Maldives Real Time Gross Settlement System (MRTGS) which became operational in 2011, the Automated Clearing House (ACH) which became operational during the year 2012, Oracle E-Business Suite which became operational during the year 2013 and other softwares. Costs of these intangible assets are recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Authority.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

In particular, these costs include costs of materials and services used or consumed in generating the intangible asset and finance charges as defined by IAS 23 Borrowing Costs. Selling, administrative and other general overhead expenditure are not components of the cost of an internally generated intangible asset and are charged to Statement of Comprehensive Income as and when they are incurred unless this expenditure can be directly attributed to preparing the asset for use. Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance are also treated the same as the above.

Amortisation of intangible assets is calculated on a straight-line method over the following estimated useful lives:

| Class of asset | Useful life |
|---|---|
| Oracle E-Business Suite (ERP) | 9 years |
| RTGS Software | 7 years |
| Automated Clearing House | 7 years |
| Credit Information Bureau Software | 5 years |
| Other Software | 3 years |

### 3.2.5 Impairment of non-financial assets

The Authority assesses at each reporting date whether there is an indication that non-financial asset may be impaired and if events or changes in circumstances indicate that the carrying value of a non-financial asset may be impaired, the Authority makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, and other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Authority estimates the asset's or cash generating unit's recoverable amount.

Previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income.

### 3.2.6 Deferred replacement cost

Issuing cost of Randhihafaheh (RDF) banknotes includes a component related to replacement of old notes that are already in circulation. The cost of banknotes that are replaced are deferred and charged to income statement over the period of its useful life. The unamortised cost of banknotes is recorded as deferred replacement cost in the statement of financial position.

Amortisation of replacement cost is calculated on a sum of year digit method over the following estimated useful lives:

| Denomination | Useful life |
|---|---|
| Rufiyaa 500 | 12 years |
| Rufiyaa 100 | 10 years |
| Rufiyaa 50 | 10 years |
| Rufiyaa 20 | 7 years |
| Rufiyaa 10 | 7 years |

## 3.3 FINANCIAL LIABILITIES

### 3.3.1 Currency in circulation

Currency issued by the Authority represents a claim on the Authority in favour of the holder. The liability for currency in circulation is recorded at face value in the statement of financial position. The fair value of currency in circulation is considered to be its face value as reported in the financial statements.

## 3.4 NON-FINANCIAL LIABILITIES

### 3.4.1 Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### 3.4.2 Defined contribution plans

Employees are eligible for Maldives Pension Administration Office contributions in line with the Maldives Pension Act of 8/2009. The Authority contributes 7% of employees' pensionable salary to the Maldives Pension Administration Office contributions which is a separately administered defined contribution plan. Accrued rights payable for the past service to those employees in employment with the Authority has been accounted separately in these financial statements as per the provisions of Maldives Pension Act of 8/2009.

### 3.4.3 Grants

Grants recognised at their fair value (where there is a reasonable assurance that the grant will be received and all attaching conditions, if any, will be complied with) are shown under other liabilities. When the grant relates to an expense item, it is recognised in the Statement of Comprehensive Income over the periods necessary to match them to the expenses it is intended to compensate on a systematic basis.

Where the grant relates to an asset, the fair value is credited to a deferred grant account and is released to the Statement of Comprehensive Income over the expected useful life of the relevant asset on a systematic basis consistent with the depreciation policy of the related asset. Where assets received under a grant are inventory or an operational expense in nature, the grant amount is taken to the Statement of Comprehensive Income when the inventory is issued or the expense is incurred.

### 3.5 CURRENT TAX

In accordance to the section 15 (a) (1) of the Business Profit Tax Act (Law number 5/2011) of Maldives Inland Revenue Authority (MIRA), provisions of the Business Profit Tax Act are not applicable to the Maldives Monetary Authority.

### 3.6 GOODS AND SERVICES TAX

As per the Goods and Services Tax Act (Law number 10/2011) chapter 10 section 51, if the total value of sale of taxable goods and services for the past twelve months exceeds one million Rufiyaa or if the total value of sale of taxable goods and services for the following twelve months is estimated to exceed one million Rufiyaa, the entity has to register for Goods and Services Tax (GST) with Maldives Inland Revenue Authority (MIRA). As per chapter 3, section 16 of the Act it states that the rate of GST payable is 6%. From 23 July 2015, the Authority has been registered for GST and has paid GST to MIRA on a monthly basis.

### 3.7 REVENUE AND EXPENSES

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Expenses are recognised in the Statement of Comprehensive Income on the basis of direct association between the cost incurred and the earning of specific items of income.

All expenditure incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to Statement of Comprehensive Income in arriving at the result for the year.

The following specific recognition criteria must also be met before revenue and expenses are recognised:

**a) Interest income and expenses**

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price unless collectability is in doubt. Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

Interest income is suspended when collection of loans become doubtful. Such income is excluded from interest income until received.

**b) Miscellaneous**

Miscellaneous income and expenses are recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant and equipment have been accounted for in the Statement of Comprehensive Income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Gains and losses arising from incidental activities to the main revenue generating activities and those that are not material are aggregated, reported and presented on a net basis.

### 3.8 CONTINGENT LIABILITIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

All guarantees of indebtedness, forward foreign exchange transactions, foreign currency swaps and other commitments which represents off balance sheet items are shown under respective headings. Where applicable, such amounts are measured at best estimates.

### 3.9 CASH FLOW STATEMENT

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with IAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise mainly cash balances, money at overnight placements and highly liquid investments that has original maturity of three months or less.

### 3.10 NATURE AND EXTENT OF ACTIVITIES

The Authority as the central bank of the Maldives carries out the following functions as per Article 22 of MMA Act.

i) Open accounts and accept deposits from the Government, its agencies and public entities, banks and other financial institutions in Maldives.
ii) Act as correspondent, banker, agent or depository for any monetary authority, central bank or international financial institution;
iii) Open and maintain accounts with such banks or other depositories and appoint them as correspondents or agents of the Authority in or outside Maldives as may be necessary;
iv) Buy, sell or deal in gold coins, bullion or foreign exchange;
v) Buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by foreign Governments or international financial institutions;
vi) Buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by the Government;

vii) Make loans, advances and rediscounts to banks and other financial institutions in Maldives for periods not exceeding ninety days on terms and conditions which the Board may prescribe;
viii) Make temporary advances to the Government as may be agreed;
ix) Make advances to the Government on terms and conditions to be agreed upon in respect of subscriptions and other payments relating to the membership of the Maldives in any international financial institution, the participation of the Maldives in any account thereof, and any transactions and operations undertaken in connection therewith;
x) Act as fiscal agency of the Government in its dealings with international financial institutions and undertake other financial agency work for the Government;
xi) Borrow money for the purpose of the business of the Authority, and may give securities for monies so borrowed as provided by law with the approval of the President of the Republic and,
xii) Guarantee the repayment of government loans and the service charge thereof.
xiii) In conjunction with the banks, organize and manage a Clearing House.
xiv) Collect, compile, analyse and publish statistics and information for the purpose achieving its objectives;
xv) Carry out development projects for the purposes of developing and strengthening the financial sector of the Maldives and increasing and strengthening financial inclusion within the Maldives, and levy fee or charges for services provided under such projects;
xvi) Acquire, purchase, sell, take, and hold movable or immovable property like land and building, and may assign, transfer, lease, dispose of or mortgage, any movable or immovable property or any interest vested in the Authority;
xvii) Organize and operate payment and securities settlement systems, and participate in such systems;
xviii) Carry out any responsibilities or duties assigned to the Authority by another law.

The activities carried out in order to achieve its objective of price and financial system stability of the country can be broadly segregated into foreign currency and local currency activities. Results of these activities are taken to mean operating activities in the context of the Statement of Comprehensive Income.

### a) Foreign currency activities

Foreign currency activities result mainly from the Authority's holdings of foreign currency assets under its foreign reserves management function. The foreign reserves portfolio comprises foreign currency assets held for investment and settlement purposes. The foreign currency assets are held in various currencies. The majority of foreign currency assets are denominated in United States Dollars, Euros, Sterling Pounds and Australian Dollars.

### b) Local currency activities

Local currency activities largely involve the Authority offsetting the daily net flows to or from Government or market by advancing funds to or withdrawing funds from the banking system. In addition to this, the Authority's budgetary expenses are also included in local currency activities.

| 4 | CASH AND BALANCES WITH BANKS | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | **Foreign currency balances** | | |
| | Foreign currency cash in hand | 90,019,685 | 32,990,514 |
| | Balances with other central banks | 303,687,758 | 335,466,187 |
| | Balances with other foreign banks | 2,815,167 | 39,419,869 |
| | Balances with local banks - Related parties | 51,269 | 22,009 |
| | Money at overnight placements with other central banks (Note 4.1) | 793,595,000 | 1,633,460,000 |
| | Investment in fixed deposits with foreign banks (Note 4.2) | 5,660,162,400 | 6,461,256,000 |
| | | **6,850,331,279** | **8,502,614,579** |
| | **Local currency balances** | | |
| | Balances with local banks - Related parties | 40,973,351 | 437,500 |
| | | **6,891,304,630** | **8,503,052,079** |

**4.1 Money at overnight placements with other central banks**

The Authority invested USD 51,700,000 (2015: USD 106,000,000) in an overnight repurchase agreement with the Federal Reserve Bank of New York at an interest rate of 0.46% per annum (2015: 0.36%).

| 4.2 | Investment in fixed deposits with foreign banks | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | Fixed deposits with maturity of 3 months or less | 3,649,312,400 | 3,495,419,000 |
| | Fixed deposits with maturity more than 3 months | 2,010,850,000 | 2,965,837,000 |
| | | **5,660,162,400** | **6,461,256,000** |

| 5 | IMF RELATED ASSETS | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | Holding of special drawing rights ( Note 5.1) | 66,751,440 | 138,198,610 |
| | IMF quota (Note 5.2) | 435,948,320 | 214,053,000 |
| | Interest receivables | 63,603 | 26,050 |
| | | **502,763,363** | **352,277,660** |

**5.1 Holding of special drawing rights (SDR)**

SDR is an international reserve asset, created by the IMF to supplement its member countries' official reserves. Its value is based on a basket of five key international currencies and SDRs can be exchanged for freely usable currencies.

## 5 IMF RELATED ASSETS (CONTINUED)

### 5.1 Holding of special drawing rights (SDR) (Continued)

Holding of SDRs is potentially a claim on freely usable currencies of IMF members, in that holders of SDRs can exchange their currencies for SDRs. The SDRs value as a reserve asset derives from the commitments of members to hold and accept SDRs and to honor various obligations connected with the operation of the SDR system. The IMF ensures that the SDRs claim on freely usable currencies is being honored in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. The amount shown above represents the total holdings of SDRs by the Authority as at the respective reporting dates.

### 5.2 IMF quota

The International Monetary Fund (IMF) is an international organization of 189 member countries. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. The IMF receives its resources from its member countries and quota subscriptions are a central source of IMF's financial resources. Each country's subscription, or quota, is determined broadly on the basis of the economic size of the country, and taking into account quotas of similar countries.

A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full. A country must pay 25 percent of its quota in widely accepted foreign currencies or SDRs, and the remaining 75 percent in its own currency.

The quota defines a member's voting power in IMF decisions. Each IMF member has IMF basic votes plus one additional vote for each SDR 0.1 millions of quota. IMF basic votes are fixed at 5.502 percent of the total votes. As at 31 December 2016, The Republic of Maldives has 1,676 votes representing 0.03 percent of total votes. The amount of financing a member can obtain from the IMF (Access limits) is also based on its quota. Under Stand-By and Extended Arrangements, for instance, a member can currently borrow up to 145 percent of its quota annually and 435 percent cumulatively. Access may be higher in exceptional circumstances and to meet specific problems.

The Republic of Maldives has been a member of the IMF since 1978. The Maldives Monetary Authority acts as both fiscal agent and the depository for the IMF. As fiscal agent the Monetary Authority is authorised to carry out all operations and transactions with IMF. As depository the Monetary Authority maintains IMF's currency holdings and ensures that the assets and liabilities of IMF membership are properly reflected in its accounts and presented in its financial statements. The Quota of the Maldives is its membership subscription which is granted mainly by the issue of promissory notes in favour of the IMF and partly by foreign currency payments by the Government of Maldives.

As at 31 December 2016, the IMF Quota of Maldives is SDR 21.2 million (2015: SDR 10 million). IMF Quota for Maldives was increased from SDR 10 million to SDR 21.2 million as per IMF resolution no: 66-2 under the 14th General Quota Review entered into force on 26 January 2016. This amount was fully paid by The Ministry of Finance and Treasury on 22 February 2016.

| 6 | INVESTMENT IN SECURITIES | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | **Balance as at 1 January** | | |
| | Short term investment securities (Note 6.1) | 182,546,073 | - |
| | Investment in corporate bond (Note 6.2) | 2,097,876,098 | - |
| | **Balance as at 31 December** | **2,280,422,171** | **-** |

**6.1 Short term investment securities**

| 6.1.1. | Investment in securities with foreign banks | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | Purchased during the year | 153,420,692 | - |
| | Discount receivable | 28,142 | - |
| | **Balance as at 31 December** | **153,448,834** | **-** |

On 20 December 2016 the Authority invested in a 4 week discounted FIXBIS of Bank for International Settlement with a face value of USD 10 million and purchase price of USD 9,994,833 maturing on 20 January 2017.

| 6.1.2 | Investment in Government treasury bills | 2016 MVR | 2015 MVR |
|---|---|---|---|
| | Purchased during the year | 29,097,239 | - |
| | **Balance as at 31 December** | **29,097,239** | **-** |

Under article 35 (b) of the Maldives Banking Act (Law no. 24/2010), the Authority shall hold the funds of the dormant accounts in a special account to be invested in Government securities.

On 22 December 2016 the Authority invested in a 28 day USD Government treasury bill with a face value of USD 1.9 million and purchase price of USD 1,895,586 maturing on 16 January 2017.

### 6 INVESTMENT IN SECURITIES (CONTINUED)

| 6.2 Investment in corporate bond | 2016 MVR | 2015 MVR |
|---|---|---|
| Purchased during the year | 2,156,000,000 | - |
| Settled during the year | (55,716,832) | - |
| Effects of exchange rates | (6,819,102) | - |
| | **2,093,464,066** | **-** |
| Interest receivable on corporate bond | 4,412,032 | - |
| **Balance as at 31 December** | **2,097,876,098** | **-** |

| Remaining term to maturity | 2016 MVR | 2015 MVR |
|---|---|---|
| Within one year | 684,386,954 | - |
| Two to three years | 1,409,077,112 | - |
| | **2,093,464,066** | **-** |

The Authority invested in a corporate bond of USD 140 million issued by a state owned enterprise on 15 November 2016 to be settled over a period of 3 years at an interest rate of 4.90% per annum on the outstanding balance.

| Interest receivable on corporate bond | 2016 MVR | 2015 MVR |
|---|---|---|
| Interest accrued during the year | 13,215,698 | - |
| Interest settlements made during the year | (8,803,666) | - |
| **Balance as at 31 December** | **4,412,032** | **-** |

### 7 SUBSCRIPTIONS TO INTERNATIONAL AGENCIES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **MOFT promissory notes issued** | | |
| **Foreign currency** | | |
| Multilateral Investment Guarantee Agency | 830,435 | 833,681 |
| **Local currency** | | |
| International Bank for Reconstruction and Development | 8,264,330 | 8,264,330 |
| | **9,094,765** | **9,098,011** |

7.1 The Authority is designated as the depository of the International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB) and Multilateral Investment Guarantee Agency (MIGA) for the Republic of Maldives. The above balances represent the promissory notes issued by The Ministry of Finance and Treasury (MOFT) to the said institutions for membership subscriptions and related purposes. These promissory notes are non-negotiable and non-interest bearing notes payable to the above institutions on demand.

## 8 ASIAN CLEARING UNION

### 8.1 Receivable from Asian Clearing Union

| | 2016 MVR | 2015 MVR |
|---|---|---|
| ACU Dollar balances | 119,346 | - |
| | **119,346** | **-** |

### 8.2 Payable to Asian Clearing Union

| | 2016 MVR | 2015 MVR |
|---|---|---|
| ACU Dollar balances | 123,567,500 | 151,326,200 |
| ACU Euro balances | - | 4,209,000 |
| Accrued interest | 53,196 | 24,569 |
| | **123,620,696** | **155,559,769** |

The Asian Clearing Union (ACU) was established in 1974 under the auspices of the Economic and Social Commission for Asia and the Pacific as a mechanism for settlement of payments among participating countries' Central Banks. Maldives became a member of ACU in June 2009. The other participants are Bangladesh, the Islamic Republic of Iran, Nepal, Pakistan, India, Bhutan, Myanmar and Sri Lanka. This is a clearing facility to settle, on a multilateral basis, payments for current international transactions among territories of participants. Net position as at end of each month is settled or received, after two-month credit period. Interest is paid by net debtors to net creditors under the arrangement at the end of each settlement period.

The rate of interest applicable for a settlement period will be the closing rate on the first working day of the last week of the previous calendar month offered by the Bank for International Settlements (BIS) for one month US Dollar and Euro deposits. Interest on ACU Dollar transactions were between 0.34% to 0.51% in 2016. Above balance represents the amounts due to and from ACU as at the reporting date.

## 9 INTEREST AND OTHER RECEIVABLES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **Foreign currency** | | |
| Interest receivable | 3,592,566 | 6,036,849 |
| Receivable from trading and investments (Note 9.1) | - | 135,907,286 |
| Currency repurchase receivable - related party (Note 9.2) | 19,187,500 | 84,755,000 |
| Other receivables | 86,843 | - |
| | **22,866,909** | **226,699,135** |
| **Local currency** | | |
| Other receivables | 4,053,012 | 4,053,012 |
| Less: Allowance for doubtful receivables | (4,053,012) | (4,053,012) |
| Receivables from swap transactions (Note 9.3) | 1,535,000,000 | - |
| | **1,535,000,000** | **-** |

## 9 INTEREST AND OTHER RECEIVABLES (CONTINUED)

**9.1** These are receivables recorded for foreign exchange management activities where the trade date was the last day of the year, while the value date occured in the next year.

**9.2** These are receivables recorded under currency swap agreement with Island Aviation Services Limited for USD 5.5 million disbursed on 15 October 2015 with the arrangement to repurchase it in agreed installments.

**9.3** This receivable is recorded under currency swap agreement entered between the Authority and a foreign central bank for USD 100 million dated 20 December 2016 for a period of three months. On 29 March 2017, this amount was rolled over for further three months.

## 10 INVESTMENT IN GOVERNMENT TREASURY BILLS

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Purchased during the year (Note 10.1) | 38,895,568 | - |
| Interest receivable on Government treasury bills | 49,412 | - |
| **Balance as at 31 December** | **38,944,980** | **-** |

### 10.1 Investment in Government treasury bills

Under article 35 (b) of the Maldives Banking Act (Law no. 24/2010), the Authority shall hold the funds of the dormant accounts in a special account to be invested in Government securities.

On 26 December 2016, the Authority invested in a 28 day treasury bill with a face value of MVR 39 million and purchase price of MVR 38,895,568 maturing on 23 January 2017.

## 11 INVESTMENT IN GOVERNMENT TREASURY BONDS

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| **Balance as at 1 January** | 6,372,975,607 | 6,440,468,919 |
| Settled during the year | (68,703,901) | (67,493,312) |
| **Balance as at 31 December (Note 11.1)** | **6,304,271,706** | **6,372,975,607** |

Under article 22 (h) of the MMA Act, the Authority has granted loans and advances to meet the budget deficit financing of the Government of Maldives. On 16 August 2009 and 30 September 2009, both the Authority and the Government of Maldives agreed to convert the outstanding principal amounts of the loans and advances provided by the Authority to the Government, which amounted to MVR 4,089,000,000 in total, into Government bonds.

## 11 INVESTMENT IN GOVERNMENT TREASURY BONDS (CONTINUED)

On 12 August 2013, remaining bonds as at that date of MVR 3,172,000,000 was restructured into a single bond with a maturity of 20 years and 1 month, at the interest rate of 7.73%. The coupon interest and principal repayment was agreed to be made on a monthly basis.

On 30 December 2014, the total debt of the Government, which includes the overdraft balance of the Public Bank Account amounting to MVR 3,328,248,614 together with the existing balance of Government bond amounting to MVR 3,112,391,740 was converted to a bond. Accordingly, an amount of MVR 6,440,640,354 was re-structured into a long term bond with a maturity of 50 years, at the interest rate of 2.4% per annum. The coupon interest and principal repayment is agreed to be made on a monthly basis.

### 11.1 Remaining term to maturity

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Within one year | 70,798,240 | 68,703,901 |
| Two to five years | 300,376,802 | 293,260,614 |
| Six to ten years | 418,460,587 | 408,546,891 |
| More than ten years | 5,514,636,077 | 5,602,464,201 |
| | **6,304,271,706** | **6,372,975,607** |

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Derivative assets | 935,263 | - |
| Derivative liabilities | (1,137,371) | - |

As at 31 December 2016, MVR 935,263 is recorded as a derivative asset and MVR 1,137,371 as derivative liabilities from the following agreements:

- Swap agreement entered between the Authority and a commercial bank for USD 55 million dated 10 November 2016 for a period of 90 days with maturity date of 8 February 2017. A new swap agreement for USD 25 million was entered on 8 February 2017 for a period of 90 days.

- Swap agreements entered between the Authority and a commercial bank for USD 75 million and USD 25 million dated 13 November 2016 and 28 November 2016 for a period of 90 days with maturity dates 12 February 2017 and 26 February 2017 respectively. USD 75 million was rolled over on 12 February 2017 for further 90 days.

The above derivatives consisting of currency swaps indicate a temporary sale and subsequent repurchase of US Dollar and Rufiyaa.

## 13 GOLD AND SILVER ASSETS

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Gold at fair value (Note 13.1) | 27,339,863 | 25,640,795 |
| Silver at cost | 71,172 | 71,172 |
| | **27,411,035** | **25,711,967** |

**13.1** The Authority holds gold as part of its reserves. Gold is fair valued and the gains or losses are recognised in the Statement of Comprehensive Income.

## 14 INVENTORIES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Notes for circulation | 51,738,587 | 167,140,396 |
| Coins for circulation | 15,520,151 | 11,920,658 |
| Coins held abroad in storage (Note 14.1) | 15,312,927 | 22,679,298 |
| Commemorative notes and coins | 6,122,312 | 6,169,407 |
| 1983 Series Banknote Sets | 9,229,656 | - |
| Circulating coin sets | 129,390 | 133,222 |
| Printing in Progress | 14,552,678 | 11,633,236 |
| **Total inventories at cost** | **112,605,701** | **219,676,217** |

**14.1** On 24 March 2016, 5 million pieces of 25 laari coins were brought to the Authority and on 18 September 2016, 6.93 million pieces of 1 Rufiyaa coins were brought (no coins were brought to the Authority's premises during 2015).

MVR 15,312,927 (2015: MVR 22,679,298) is the cost incurred to mint the coins held abroad at the warehouses of the minting company.

| 15 | PROPERTY, PLANT AND EQUIPMENT | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 15.1 | Gross carrying amounts at cost | Freehold land MVR | Buildings on freehold land MVR | Machinery and equipment MVR | Furniture and fittings MVR | Motor vehicles MVR | Computer equipment MVR | 2016 Total MVR | 2015 Total MVR |
| | **Balance as at 1 January** | 1,000,000 | 35,013,721 | 77,515,336 | 19,948,301 | 1,655,236 | 16,945,800 | 152,078,394 | 149,266,446 |
| | Additions during the year | - | - | 1,756,200 | 542,953 | - | 1,756,930 | 4,056,083 | 4,968,668 |
| | Disposals/ transfers during the year | - | - | (1,031,205) | (632,146) | - | (356,867) | (2,020,218) | (2,156,720) |
| | **Value of depreciable assets** | **1,000,000** | **35,013,721** | **78,240,331** | **19,859,108** | **1,655,236** | **18,345,863** | **154,114,259** | **152,078,394** |
| 15.2 | **Depreciation** | | | | | | | | |
| | **Balance as at 1 January** | - | 8,154,205 | 67,550,378 | 17,715,895 | 1,305,796 | 15,876,051 | 110,602,325 | 106,807,702 |
| | Charge for the year | - | 1,167,262 | 3,605,687 | 759,932 | 189,278 | 876,465 | 6,598,624 | 5,950,378 |
| | Disposals/ transfers during the year | - | - | (1,019,767) | (631,994) | - | (356,867) | (2,008,628) | (2,155,755) |
| | **Accumulated depreciation** | **-** | **9,321,467** | **70,136,298** | **17,843,833** | **1,495,074** | **16,395,649** | **115,192,321** | **110,602,325** |
| 15.3 | **Net book value** | **1,000,000** | **25,692,254** | **8,104,033** | **2,015,275** | **160,162** | **1,950,214** | **38,921,938** | **41,476,069** |

**15.4** As at 31 December 2016, property, plant and equipment includes fully depreciated assets having a gross carrying amounts of MVR 101,825,594 (2015: MVR 92,533,138).

**15.5** During the financial year, the Authority acquired property, plant and equipment to the aggregate value of MVR 4,056,083 (2015: MVR 4,968,668).

| 16 | INTANGIBLE ASSETS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 16.1 | Gross carrying amounts at cost | Maldives Credit Information Bureau MVR | Maldives Real Time Gross Settlement System MVR | Automated Clearing House MVR | Mobile Payment System & EFT Switch MVR | Oracle E-Business Suite MVR | Software - Others MVR | 2016 Total MVR | 2015 Total MVR |
| | **Balance as at 1 January** | 8,935,357 | 19,057,862 | 22,288,946 | 38,671,687 | 11,267,524 | 235,172 | 100,456,548 | 100,203,748 |
| | Cost incurred during the year | 2,437,618 | - | 1,069,250 | - | - | 48,066 | 3,554,934 | 252,800 |
| | **Balance as at 31 December** | **11,372,975** | **19,057,862** | **23,358,196** | **38,671,687** | **11,267,524** | **283,238** | **104,011,482** | **100,456,548** |
| 16.2 | **Accumulated amortisation/impairment** | | | | | | | | |
| | **Balance as at 1 January** | 8,749,808 | 12,494,040 | 12,292,287 | 38,671,687 | 3,234,197 | 89,986 | 75,532,005 | 66,419,389 |
| | Charge for the year | 226,176 | 2,722,552 | 3,196,864 | - | 1,251,947 | 82,440 | 7,479,979 | 9,112,616 |
| | **Balance as at 31 December** | **8,975,984** | **15,216,592** | **15,489,151** | **38,671,687** | **4,486,144** | **172,426** | **83,011,984** | **75,532,005** |
| 16.3 | **Net book value** | **2,396,991** | **3,841,270** | **7,869,045** | **-** | **6,781,380** | **110,812** | **20,999,498** | **24,924,543** |

**16 INTANGIBLE ASSETS (CONTINUED)**

**16.4** On 22 October 2009, the Authority has entered into an agreement with Dun & Bradstreet (Asia Pacific) Pte Ltd to develop Maldives Credit Information Bureau (MCIB) for a total cost of USD 977,800. The above balances represent the cost incurred on the project as at the respective reporting dates. Development of MCIB commenced on 19 November 2009 and the asset became operational on 7 February 2011.

**16.5** The Authority implemented Maldives Interoperable Payment System (MIPS) which includes Maldives Real Time Gross Settlement System (MRTGS), Automated Clearing House (ACH), Mobile Payment Systems (MPS) and EFT Switch at a total cost of MVR 79,845,695. Maldives Real Time Gross Settlement System (MRTGS) became operational on 10 April 2011 and Automated Clearing House (ACH) became operational on 2 February 2012. On 15 November 2016, the Authority operationalised the Cheque Imaging and Truncation component of ACH at a total cost of MVR 1,069,250. The above balances represent the cost incurred and the amortisation charges as at the respective reporting dates.

**16.6 Projects under work in progress**

**16.6.1 Oracle E-Business Suite**

The Enterprise Resource Planning System (ERP) of the Authority (The Oracle E-Business Suite) became operational with effect from 02 June 2013. The project is fully funded from the Authority's budget. The Authority completed the development of the ERP system in order to centralise and automate the accounting system, systemize the maintenance of HR records and procurement process.

The balance as at 31 December 2016 relates to expenses that were incurred for "Time & Labour" component of Oracle E-Business suite which was not implemented as at 31 December 2016.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| **Balance as at 1 January** | **157,287** | **157,287** |
| Cost incurred during the year | - | - |
| **Balance as at 31 December** | **157,287** | **157,287** |

**16.6.2 Secured Transaction Registry (STR) establishment and MCIB enhancement**

The Authority has been working on the development of a Secured Transaction Registry as the second phase under the Credit Information Bureau and also has been working on the upgrade of the current version of CIB software from "Credit Verdict" to "SilverBlade™ 2.0". The project is partially funded from a loan and a grant taken from ADB for the development of STR and enhancement of MCIB.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| **Balance as at 1 January** | 1,638,089 | 1,199,171 |
| Cost incurred during the year - STR | - | 438,918 |
| Cost incurred during the year - MCIB | 2,447,527 | - |
| **Balance as at 31 December** | **4,085,616** | **1,638,089** |

## 17 OTHER ASSETS

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Prepayments and receivables | 2,100,143 | 2,724,168 |
| Deferred replacement cost | 66,447,767 | - |
| | **68,547,910** | **2,724,168** |

## 18 BALANCES OF COMMERCIAL BANKS

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **Foreign currency balances** | | |
| Related parties | 736,171,020 | 620,022,326 |
| Others | 2,981,626,393 | 4,516,821,585 |
| | **3,717,797,413** | **5,136,843,911** |
| **Local currency balances** | | |
| Related parties | 968,681,964 | 1,052,417,218 |
| Others | 1,047,681,822 | 863,031,373 |
| | **2,016,363,786** | **1,915,448,591** |
| **Overnight placement deposits** | | |
| Related parties | 850,000,000 | 2,400,000,000 |
| Others | 2,596,000,000 | 961,000,000 |
| | **3,446,000,000** | **3,361,000,000** |
| **Total balances of commercial banks** | **9,180,161,199** | **10,413,292,502** |

**18.1** As per the section 4 (c) of the MMA Act, the Authority is acting as the regulator of the commercial banks operating in the Maldives. In carrying out this duty, the Authority opens accounts and accepts deposits to facilitate interbank transfers and monitors minimum reserve requirements imposed on the commercial banks.

**18.2** MMA introduced the Overnight Deposit Facility to the commercial banks on 23 March 2010, whereby banks can place their excess funds at MMA overnight. As at 31 December 2016 and 31 December 2015, the interest rate on overnight deposits of commercial banks at MMA was 1.5% per annum.

## 19 BALANCES OF GOVERNMENT AND GOVERNMENT INSTITUTIONS

| **Related parties** | 2016 MVR | 2015 MVR |
|---|---|---|
| **Foreign currency deposits** | | |
| MOFT and Government institutions | 151,700,135 | 181,046,050 |
| | **151,700,135** | **181,046,050** |
| **Local currency deposits** | | |
| MOFT and Government institutions | 680,834,798 | 533,747,141 |
| Public enterprises | - | 1,091,157 |
| | **680,834,798** | **534,838,298** |
| **Total balances of Government and Government institutions** | **832,534,933** | **715,884,348** |

## 20 IMF RELATED LIABILITIES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| IMF Securities Account (Note 20.1) | 332,302,779 | 166,099,927 |
| IMF No. 1 Account (Note 20.2) | 4,855,025 | 5,053,749 |
| IMF No. 2 Account (Note 20.3) | 6,066 | 6,315 |
| Allocation of SDR (Note 20.4) | 158,156,868 | 164,630,474 |
| Charges payable on SDR allocation (Note 20.5) | 56,714 | 13,784 |
| Exogenous shock facility (Note 20.6) | 27,400,997 | 37,298,735 |
| | **522,778,449** | **373,102,984** |

### 20.1 IMF Securities Account

The Authority maintains the IMF securities account on the statement of financial position and includes non-negotiable, non-interest bearing securities issued by the MOFT in favour of the IMF, which are payable on demand. These securities are issued for 75% of the quota liability payable in Maldivian Rufiyaa, for use of IMF credit facilities such as Emergency Assistance Facility and Stand-By Agreement etc., and for the revaluations of the accounts. Even though the revaluation is made on a monthly basis, the balances in MMA books are revalued as at the last working day of each week. The IMF accounts were last revalued on 31 December 2016 by IMF.

During March 2013, MMA started the repayments for the total disbursement of SDR 8.2 million received under the IMF standby arrangement. Repayments under IMF standby arrangement were completed on 31 March 2015.

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **Balance as at 1 January** | 166,099,927 | 184,554,054 |
| Promissory notes redeemed during the year | - | (11,125,197) |
| Promissory notes issued under 14th General Quota Review | 178,015,131 | - |
| Exchange rate effect on IMF Securities account | (11,812,279) | (7,328,930) |
| **Balance as at 31 December** | **332,302,779** | **166,099,927** |

### 20.2 IMF No.1 Account

The No. 1 Account is used for IMF transactions and operations, including subscription payments, purchases, repurchases, repayment of borrowing, and sales in Maldivian Rufiyaa.

### 20.3 IMF No.2 Account

The No. 2 Account is used for the IMF's administrative expenditures and receipts (for example, receipts from sales of IMF publications) in the member's currency and within its territory. Small out-of-pocket expenses, such as telecommunication charges may be debited to this account on a quarterly basis.

## 20 IMF RELATED LIABILITIES (CONTINUED)

### 20.4 Allocation of SDR

The SDR is an international reserve asset, created by the IMF to supplement its member countries' official reserves. Its value is based on a basket of five key international currencies, and SDRs can be exchanged for freely usable currencies of IMF members. The amount shown above represents the total allocation of SDRs to the Authority as at the respective reporting dates.

### 20.5 Charges payable on SDR allocation

SDR allocations are subject to interest charges on each participant's net cumulative allocation. SDR interest rate is determined on each Friday, based on the weighted average interest rate on 3 month debt in the money markets of the five currencies in the SDR basket (i.e. US dollar, Sterling Pound, Euro, Japanese Yen and Chinese Yuan ). Charges on SDR allocations are paid quarterly.

### 20.6 Exogenous Shock Facility

The IMF provides Exogenous Shock Facility (ESF) to its member countries which are affected by an event that has a significant negative impact on the economy and that is beyond the control of the Government.

First disbursement amounting to SDR 1.025 million under the ESF was received on 4 December 2009 and on 25 March 2010. The Authority received the second disbursement amounting to SDR 1.025 million upon completion of IMF review. No interest was charged on ESF loan during the year 2016.

The following table shows the details of Exogenous Shock Facility Loan:

| Non-current | Interest rate | Maturity date | 2016 MVR | 2015 MVR |
|---|---|---|---|---|
| Exogenous Shock Facility | 0.25% | 1 April 2020 | 27,400,997 | 37,298,735 |

## 21 INTEREST BEARING LOANS - THE MOFT

| | MCIB MVR | MIPS MVR | Total 2016 MVR | Total 2015 MVR |
|---|---|---|---|---|
| **Balance as at 1 January** | **9,882,099** | **80,616,148** | **90,498,247** | **94,325,210** |
| Repayment during the year | (202,357) | - | (202,357) | - |
| Effects of exchange rates | (384,009) | (3,169,991) | (3,554,000) | (3,826,963) |
| **Balance as at 31 December** | **9,295,733** | **77,446,157** | **86,741,890** | **90,498,247** |

**21.1** On 23 July 2009, the MOFT and the Authority have entered into a subsidiary loan agreement to fund the Maldives Credit Information Bureau (MCIB) project for total loan amounting to SDR 439,000.

The loan has to be repaid in 48 equal semi annual instalments. The first instalment has been paid on 15 November 2016 and the last instalment fall due on 15 May 2040. The Authority has to pay interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter on the amount withdrawn. As at the reporting date the Authority has repaid SDR 9,618 and has a balance of SDR 452,048 on this loan.

### 21 INTEREST BEARING LOANS (CONTINUED)

**21.2** The MOFT provided a loan to the Authority for an amount equal to SDR 4,900,000 to undertake the Maldives Interoperable Payment System (MIPS) project on 3 August 2008. During November 2013 an amount of SDR 980,155 (USD 1,500,000) was refunded and during April 2014, the remaining unutilised amount of SDR 153,668 (USD 238,138) was refunded. As at the reporting date, the loan amount outstanding is SDR 3,766,177.

| | | |
|---|---|---|
| Total loan amount | SDR 3,766,177 | |
| Interest rate | 0.75% | |
| Repayment Dates | 15 March and 15 September each year | |
| Annual Repayment | From 15/09/2018 to 15/03/2028 | SDR 75,324/- |
| | From 15/09/2028 to 15/03/2048 | SDR 150,647/- |

### 22 CURRENCY IN CIRCULATION

**22.1** The Authority, as the sole currency issuing Authority in the Republic of Maldives continue to perform the function of issuing legal tender currency. The amount of currency issued by the Authority and in circulation as at respective reporting dates are as follows;

| Net currency in circulation | | 2016 MVR | 2015 MVR |
|---|---|---|---|
| **Coins** | | | |
| 1 | Laari | 88,041 | 60,229 |
| 2 | Laari | 49,656 | 49,656 |
| 5 | Laari | 435,608 | 408,050 |
| 10 | Laari | 637,199 | 600,982 |
| 25 | Laari | 3,125,775 | 2,948,732 |
| 50 | Laari | 6,948,563 | 6,560,263 |
| 1 | Rufiyaa | 29,947,008 | 28,362,527 |
| 2 | Rufiyaa | 24,857,024 | 24,507,858 |
| | | **66,088,874** | **63,498,297** |
| **Notes** | | | |
| 2 | Rufiyaa | - | 1,628,340 |
| 5 | Rufiyaa | 23,016,675 | 23,029,720 |
| 10 | Rufiyaa | 19,700,150 | 28,643,860 |
| 20 | Rufiyaa | 30,373,260 | 36,474,460 |
| 50 | Rufiyaa | 49,774,650 | 47,063,750 |
| 100 | Rufiyaa | 237,235,500 | 238,503,700 |
| 500 | Rufiyaa | 2,699,571,500 | 2,781,843,000 |
| 1000 | Rufiyaa | 117,773,000 | - |
| | | **3,177,444,735** | **3,157,186,830** |
| | | **3,243,533,609** | **3,220,685,127** |

**22.2** Currency in circulation is increased by the Authority's holding of Rufiyaa notes and coins amounting to MVR 402,600,703 and MVR 226,686,251 as at 31 December 2016 and 2015, respectively. These amounts are deducted from the total currency in circulation to derive the above amounts.

## 23 BALANCES OF OTHER CENTRAL BANKS

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Other central bank | 1,535,000,000 | - |
| | **1,535,000,000** | **-** |

On 20 December 2016, the Authority entered into a currency swap agreement with a foreign central bank to withdraw USD 100 million at an interest rate of 2.99817% per annum, in accordance with Revised Framework on currency swap arrangement for SAARC Countries. Under the currency swap agreement an account was opened to deposit the amount payable to the central bank.

## 24 BALANCES OF INSURANCE COMPANIES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Related parties | 4,000,000 | 4,000,000 |
| Others | 9,348,619 | 5,395,934 |
| | **13,348,619** | **9,395,934** |

The above balances represent the statutory deposits of the insurance companies operating in the Maldives. These deposits carry interest at the rate of 1% per annum.

## 25 DEPOSITS OF INTERNATIONAL FINANCIAL INSTITUTIONS

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **Foreign currency deposits** | | |
| Multilateral Investment Guarantee Agency | 830,435 | 833,681 |
| | **830,435** | **833,681** |
| **Local currency deposits** | | |
| International Development Association | 348,008 | 338,179 |
| International Bank for Reconstruction and Development | 8,507,689 | 8,339,689 |
| Asian Development Bank | 1,434,362 | 1,434,362 |
| Multilateral Investment Guarantee Agency | 172,444 | 172,444 |
| | **10,462,503** | **10,284,674** |

**25.1** The Authority is designated as the depository of the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development Bank and Multilateral Investment Guarantee Agency (MIGA) for the Republic of Maldives. The above balances represent the amounts collected on behalf of these supranational institutions for various purposes as at the respective reporting dates.

## 26 DEPOSIT INSURANCE FUND

| | 2016 MVR | 2015 MVR |
|---|---|---|
| **Local currency deposits** | | |
| Deposit Insurance Fund | 41,052 | - |
| | **41,052** | **-** |

**26.1** In order to maintain a stable financial system and to protect the rights of depositors a Deposit Insurance Scheme regulation came into effect on 24 August 2015. Under this regulation the Authority established a "Deposit Insurance Fund" and all the banks in Maldives are members. Member banks are required to pay an initial contribution that is payable over five years and an annual premium to the fund. The fund covers deposits up to MVR 30,000 or its equivalent in foreign currency deposits per depositor per member bank.

As at 31 December 2016, MVR 5,969,108 was received as contributions from banks and MVR 5,928,056 was invested in a 364 day Government treasury bill from this fund.

## 27 OTHER LIABILITIES

### 27.1 Foreign currency other liabilities

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Accrued charges and other payables | 84,977,715 | 71,691,040 |
| Payable for banknotes | 78,075,733 | 103,287,732 |
| Payables from trading and investments | - | 135,867,942 |
| Payables for swap transactions (Note 27.3) | 1,535,504,350 | - |
| Bank of Credit and Commerce International (BCCI) | 15,038,887 | 15,097,671 |
| Commercial banks human resource development deposits | 795,822 | 798,933 |
| Other deposits | 298,382 | 299,548 |
| | **1,714,690,889** | **327,042,866** |

### 27.2 Local currency other liabilities

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Accrued charges and other payables | 2,873,388 | 2,360,006 |
| Government contribution to IMF Quota (Note 27.4) | 92,720,021 | 33,381,644 |
| Commercial banks human resource development deposits | 2,239,912 | 2,666,061 |
| Bank of Credit and Commerce International (BCCI) | 2,528,341 | 2,528,341 |
| Currency repurchase payable - related party | 19,275,000 | 84,810,000 |
| Paper Note 1983 Series Payable (Note 27.5) | 158,576,516 | - |
| | **278,213,178** | **125,746,052** |

### 27.3 Payables for swap transactions

These are payables recorded under swap agreement entered between the Authority and a foreign central bank for USD 100 million dated 20 December 2016 for a period of three months. USD 100 million was rolled over on 29 March 2017 for further three months.

## 27 OTHER LIABILITIES (CONTINUED)

### 27.4 Government's contribution to IMF quota

As at 31 December 2016, The MOFT has made four payments towards the IMF Quota. This balance represents the foreign currency portion of quota payments made by the MOFT for the 1992, 1999, 2011 and 2016 quota increments.

### 27.5 Paper Note 1983 Series Payable

These are the banknotes of 1983 series yet to be received as at 31 December 2016. These notes were declared as non-legal tender with effect from 1 August 2016. However, these notes can still be presented to the Authority for replacement to RDF series until 31 July 2021.

## 28 DEFERRED GRANTS

**28.1** The Authority has undertaken the Maldives Interoperable Payment System project. Consultative Group to Assist the Poor (CGAP) has granted USD 698,708 for the project and the Authority recognised the assets acquired for the project with the corresponding credit recognised as deferred revenue. During the year 2011 unutilised grant amount of USD 33,944 was returned to CGAP. The remaining balance has been converted to Rufiyaa and is apportioned to the cost of the 4 components of MIPS. As SWITCH and MPS are impaired fully, the grant value apportioned to these two components are fully charged to the Statement of Comprehensive Income. Grant value apportioned to ACH and RTGS are deferred over the useful life of each component and charged to the Statement of Comprehensive Income on a monthly basis.

**28.2** The Authority has received a grant for the development of the Secured Transaction Registry (STR) of MCIB from the MOFT. An amount equivalent to USD 770,000 is expected to be disbursed under the grant. As at 31 December 2016, USD 423,690 has been disbursed to the Authority in the form of payments to the legal and operational consultants and for the purchase of software for the MCIB Enhancement Project. The grant disbursed for the operational consultant of the MCIB and for the software support and license amounting to USD 192,828 is considered as an income grant and has been recognised in the Statement of Comprehensive Income.

**28.3** As at 31 December 2016, the Authority has received special number notes of Randhihafaheh notes free of charge from De La Rue amounting MVR 638,570 (MVR 391,040 received in 2016 and MVR 247,530 received in 2015). The special number notes received under this grant has been recognised as inventory in the books and the corresponding deferred revenue grant will be transferred to the Statement of Comprehensive Income when the notes are issued.

**28.4** The Authority has received a note counting machine as a gift from De La Rue during the year valuing MVR 403,074. The machine has been recognised as an asset in the books and the corresponding credit is recognised as deferred revenue and amortised over the period that matches with the depreciation policy of machinery and equipment.

### 28 DEFERRED GRANTS (CONTINUED)

**28.5** The Authority received a grant from the Ministry of Finance and Treasury amounting to MVR 15 million as capital to cover against guaranteed loan defaults and operating expenses of the Credit Guarantee Scheme (CGS). The Authority launched CGS on 7 August 2016, with the aim of facilitating access to finance for the Small and Medium Enterprises (SME) sector. Six banks in Maldives are currently participating in the scheme.

The scheme will guarantee 90% of the loan amount of commercially viable loans by Maldivian owned SMEs between MVR 100,000 and MVR 1 million with no collateral. The Authority has negotiated with the participating banks for these loans to be at favourable interest rates, with up to 5 years for repayment.

| 28.6 The movement of deferred grants | 2016 MVR | 2015 MVR |
|---|---|---|
| **Balance as at 1 January** | **3,207,292** | **3,206,657** |
| Grants received during the year | 20,544,439 | 906,050 |
| Recognised in the statement of comprehensive income | (3,701,078) | (905,415) |
| **Balance as at 31 December** | **20,050,653** | **3,207,292** |

| 29 PENSION AND OTHER EMPLOYMENT BENEFITS PAYABLE | 2016 MVR | 2015 MVR |
|---|---|---|
| **Pre- Maldives Pension Act 8/2009 Pensions (Note 29.1)** | | |
| Opening balances | 5,402,842 | 4,257,815 |
| Less: Payments during the year | (531,550) | (531,550) |
| Add: Winding of interest | 248,532 | 1,676,577 |
| **Present value of pension obligation** | **5,119,824** | **5,402,842** |
| Employee and employer pension contribution payable | 459,672 | 407,126 |
| **Balance as at 31 December** | **5,579,496** | **5,809,968** |

### 29.1 Pre- Maldives Pension Act 8/2009 Pensions

The Authority provides defined benefit plans ("Pre- Maldives Pension Act 8/2009 Pensions") for those employees who have completed 20 years service and opted to continue to receive such benefits. This is a frozen calculation, where the pension payment amount was determined based on the salary received by the employee at the date of completing 20 years service. Pre- Maldives Pension Act 8/2009 Pension was worked out as follows:

**a)** An employee who became eligible (by working in public sector for 20 years) to pension arrangement between 5 April 2007 and 10 October 2007 receive a "Pre-New Pension Act Pension" calculated at 1/2 month's salary at the eligibility point until they reach age of 65.

**b)** All employees who became eligible after 10 October 2007 up until 31 July 2010 will receive a pension calculated at 1/3 of monthly salary at the eligibility point until they reach age of 65.

## 29 PENSION AND OTHER EMPLOYMENT BENEFITS PAYABLE (CONTINUED)

### 29.1 Pre- Maldives Pension Act 8/2009 Pensions (Continued)

**c)** The principal assumptions used in determining employee benefit obligations for Pre- Maldives Pension Act 8/2009 Pensions plan are shown below:

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Nominal value of the benefit obligation | 7,039,704 | 7,571,253 |
| Present value of the benefit obligation | 5,119,824 | 5,402,842 |
| Unrecognised interest component | 1,919,880 | 2,168,411 |
| Discount rate: 364 day Treasury bill rates | 4.60% | 4.60% |
| Number of employees in the scheme | 11 | 11 |
| Average remaining years of service | 12.55 | 13.55 |
| Retirement age | 65 | 65 |

## 30 EQUITY AND RESERVES

### 30.1 Capital

The Capital account represents the capital of the Authority in accordance with Chapter V, section 25 of the MMA Act.

On 19 January 2010, The President authorised the increase in Authority's authorised capital by MVR 49 million. Subsequently, the Authority's authorised and contributed capital has been increased to MVR 50 million by transferring MVR 49 million from retained earnings.

**In addition to the retained earnings, reserves comprise the following;**

### 30.2 General Reserve

The General Reserve is established in accordance with Chapter V, section 27 of the MMA Act. As per the provisions of the Act, the Authority shall allocate 50% of the net profit of the Authority, to General Reserve account until the General Reserve is equal to the authorised capital of the Authority, after which the Authority shall allocate 25% of its net profit to the General Reserve account until the General Reserve is equal to twice of the authorised capital.

After the third amendment to the MMA Act which became effective from 17 August 2015, the Act now states that once the General Reserve is equal to twice the amount of the authorised capital, the Authority shall credit to the General Reserve such amount determined by the Board of Directors of MMA. During the year MVR 19,424,431 was transferred to General Reserve from the Authority's net profit for the year 2015.

## 30 EQUITY AND RESERVES (CONTINUED)

### 30.3 Foreign Asset Revaluation Reserve

The Authority established Foreign Asset Revaluation Reserve (FARR) in accordance with Chapter V, section 28 of the MMA Act. According to the Act, gains and losses arising from any change in the valuation of the Authority's assets or liabilities in gold, foreign currencies or other units of account, as a result of alterations of the external value of the Rufiyaa, or of any change in the values, parities, or exchange rates in respect of such assets in relation to the Rufiyaa shall be credited to FARR. As per the provisions of the MMA Act neither the gains nor the losses from change in valuation of foreign currency assets and liabilities of the Authority should be included in the computation of profit or loss.

Prior to the third amendment to MMA Act which became effective from 17 August 2015, an amount of MVR 212,416,113 was accumulated as a payable to the Government which consists of 1/5th of FARR balance for the years 2008 to 2014. With the third amendment to MMA Act, the 1/5th of FARR which was previously accrued as a payable to the Government was reversed into FARR during September 2015.

## 31 FOREIGN CURRENCY INCOME AND EXPENSES

### 31.1 Interest income on foreign currency financial assets

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Interest on overnight placements | 6,426,068 | 3,733,765 |
| Receipts on SDR holdings | 132,699 | 90,501 |
| Interest on fixed deposit | 58,084,564 | 50,569,262 |
| Discount received on treasury bills | 176,249 | - |
| Interest on corporate bond | 13,215,698 | - |
| | **78,035,278** | **54,393,528** |

### 31.2 Interest expense on foreign currency financial liabilities

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Charges on Stand-By Agreement | - | 40,067 |
| Interest on reserve deposits | 166,039 | 256,144 |
| Charges on SDR allocations | 142,146 | 85,821 |
| Currency swap charges | 504,350 | - |
| | **812,535** | **382,032** |

## 32 LOCAL CURRENCY INCOME AND EXPENSES

### 32.1 Interest income on local currency financial assets

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Interest on Government treasury bonds | 152,609,807 | 153,820,395 |
| Interest on reserve deposits | 67 | 20,458 |
| Discounts on Government treasury bills | 49,412 | - |
| Currency swap income | 935,263 | - |
| | **153,594,549** | **153,840,853** |

## 32 LOCAL CURRENCY INCOME AND EXPENSES (CONTINUED)

### 32.2 Interest expenses on local currency financial liabilities

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Interest on reserve deposits | 11,683,789 | 16,285,574 |
| Interest on overnight deposit facility | 48,573,329 | 37,461,000 |
| Interest on security deposits of insurance companies | 116,458 | 97,262 |
| Currency swap charges | 1,137,371 | - |
| | **61,510,947** | **53,843,836** |

## 33 OTHER INCOME

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Commissions received | 13,786,429 | 12,715,903 |
| Bank charges received | 726,076 | 906,891 |
| Annual license fees from financial institutions | 818,200 | 896,500 |
| Profit on sale of commemorative note | 509,188 | 3,834,951 |
| Profit on sale of currency notes and coins | 1,782,359 | - |
| Miscellaneous earnings | 5,192,833 | 12,597,811 |
| | **22,815,085** | **30,952,056** |

## 34 PERSONNEL EXPENSES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Salaries and wages | 49,734,181 | 43,741,892 |
| Defined contribution costs | 2,584,822 | 2,409,993 |
| Remuneration to the board members | 415,932 | 444,000 |
| | **52,734,935** | **46,595,885** |

## 35 ADMINISTRATION EXPENSES

| | 2016 MVR | 2015 MVR |
|---|---|---|
| Staff expenses | 1,670,493 | 2,734,998 |
| Staff development expenses | 4,522,917 | 2,169,758 |
| Meetings and hospitality expenses | 316,533 | 363,855 |
| Expert expenses | 19,945 | 68,141 |
| Audit fees | 716,285 | 690,765 |
| Memberships, subscriptions and reference materials | 1,386,768 | 572,852 |
| Software license renewal and maintenance | 7,775,986 | 7,897,676 |
| Development activities and project expenses | 3,059,607 | 969,548 |
| Other administrative expenses | 2,841,107 | 5,390,348 |
| Supervisory expenses | 323,417 | - |
| Transportation | 45,271 | 32,795 |
| Utility charges | 4,705,286 | 4,370,268 |
| Communication | 1,697,640 | 1,634,864 |
| Insurance | 861,142 | 403,295 |
| Maintenance expenses | 1,929,637 | 1,826,353 |
| Payment charges | 1,545,372 | 770,550 |
| Charges on import of banknotes | 1,963,440 | 1,399,624 |
| Rebate expenses on USD withdrawals | 38,150 | 881,000 |
| Notes and coins related expenses | 62,136,212 | 12,476,712 |
| | **97,555,208** | **44,653,402** |

### 36 PROFIT RE-APPROPRIATION TO THE GOVERNMENT

Under section 27(2) of the MMA Act, as amended, the Authority's net profit, as determined in accordance with the Act, is paid to the Government after making necessary appropriations to provision and reserves under sections 26 and 27(1) respectively. During the year, the Authority transferred MVR 82,029,878 to the Government in respect of profit for the year ended 31 December 2015.

### 37 RECONCILIATION OF NET PROFIT WITH OPERATING CASH FLOWS

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| **Total comprehensive profit/(loss)** | **42,689,636** | **(36,977,342)** |
| **Add / (subtract) non-cash items** | | |
| Depreciation, amortisation and impairment | 14,078,603 | 15,062,994 |
| Revaluation (Gain)/loss on gold | (1,699,068) | 3,043,676 |
| Revaluation loss on foreign exchange | 33,664,911 | 135,387,975 |
| **Add / (subtract) movements in other working capital items** | | |
| (Increase) / decrease in interest receivable | (3,101,232) | 9,146,312 |
| (Increase) / decrease in other receivables | (633,654) | (499,673) |
| Increase / (decrease) in interest payable | 2,002,566 | 119,214 |
| Increase / (decrease) in other payables | 32,508,815 | (58,348,334) |
| **Net Cash Flow from Operating Activities** | **119,510,577** | **66,934,822** |

### 38 CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Foreign currency cash in hand | 90,019,685 | 32,990,514 |
| Balances with foreign banks | 306,502,926 | 374,886,056 |
| Balances with local banks | 41,024,619 | 459,509 |
| Money at overnight placements | 793,595,000 | 1,633,460,000 |
| Investment in fixed deposits - 3 months or less | 3,649,312,400 | 3,495,419,000 |
| | **4,880,454,630** | **5,537,215,079** |

## 39 CONCENTRATIONS OF FUNDING

The Authority's end-of-year significant concentrations of funding were as follows.

| As at 31 December 2016 | 2016 Total MVR | Government of Maldives MVR | Commercial banks MVR | Supranational financial institutions MVR | Others MVR |
|---|---|---|---|---|---|
| **Foreign currency financial liabilities** | | | | | |
| Balances of commercial banks | 3,717,797,413 | - | 3,717,797,413 | - | - |
| Balances of Government and Government institutions | 151,700,135 | 151,700,135 | - | - | - |
| Payable to Asian Clearing Union | 123,620,696 | - | - | 123,620,696 | - |
| IMF related liabilities | 522,778,449 | - | - | 522,778,449 | - |
| Interest bearing loans | 86,741,890 | 86,741,890 | - | - | - |
| Deposits of international financial institutions | 830,435 | - | - | 830,435 | - |
| Other liabilities | 1,714,690,889 | 85,264,892 | 795,822 | - | 1,628,630,175 |
| **Total foreign currency financial liabilities** | **6,318,159,907** | **323,706,917** | **3,718,593,235** | **647,229,580** | **1,628,630,175** |
| **Local currency financial liabilities** | | | | | |
| Balances of commercial banks | 5,462,363,786 | - | 5,462,363,786 | - | - |
| Balances of Government and Government institutions | 680,834,798 | 680,834,798 | - | - | - |
| Currency in circulation | 3,243,533,609 | - | - | - | 3,243,533,609 |
| Balances of other central banks | 1,535,000,000 | - | - | - | 1,535,000,000 |
| Balances of insurance companies | 13,348,619 | - | - | - | 13,348,619 |
| Deposits of international financial institutions | 10,462,503 | - | - | 10,462,503 | - |
| Derivative financial instruments | 1,137,371 | - | 1,137,371 | - | - |
| Deposit insurance fund | 41,052 | - | 41,052 | - | - |
| Other liabilities | 278,213,178 | 93,205,860 | 2,863,241 | - | 182,144,077 |
| **Total local currency financial liabilities** | **11,224,934,916** | **774,040,658** | **5,466,405,450** | **10,462,503** | **4,974,026,305** |
| **Total financial liabilities** | **17,543,094,823** | **1,097,747,575** | **9,184,998,685** | **657,692,083** | **6,602,656,480** |
| **Other liabilities** | | | | | |
| Deferred grants | 20,050,653 | - | - | - | 20,050,653 |
| Pension and other employment benefit payable | 5,579,496 | - | - | - | 5,579,496 |
| | **25,630,149** | **-** | **-** | **-** | **25,630,149** |
| **Total Liabilities** | **17,568,724,972** | **1,097,747,575** | **9,184,998,685** | **657,692,083** | **6,628,286,629** |

## 39 CONCENTRATIONS OF FUNDING (CONTINUED)

Comparative figures as at 31 December 2015 are as follows;

| As at 31 December 2015 | 2015 Total MVR | Government of Maldives MVR | Commercial banks MVR | Supranational financial institutions MVR | Others MVR |
|---|---|---|---|---|---|
| **Foreign currency financial liabilities** | | | | | |
| Balances of commercial banks | 5,136,843,911 | - | 5,136,843,911 | - | - |
| Balances of Government and Government institutions | 181,046,050 | 181,046,050 | - | - | - |
| Payable to Asian Clearing Union | 155,559,769 | - | - | 155,559,769 | - |
| IMF related liabilities | 373,102,984 | - | - | 373,102,984 | - |
| Interest bearing loans | 90,498,247 | 90,498,247 | - | - | - |
| Deposits of international financial institutions | 833,681 | - | - | 833,681 | - |
| Other liabilities | 327,042,866 | 70,464,502 | 136,668,271 | - | 119,910,093 |
| **Total foreign currency financial liabilities** | **6,264,927,508** | **342,008,799** | **5,273,512,182** | **529,496,434** | **119,910,093** |
| **Local currency financial liabilities** | | | | | |
| Balances of commercial banks | 5,276,448,591 | - | 5,276,448,591 | - | - |
| Balances of Government and Government institutions | 534,838,298 | 534,838,298 | - | - | - |
| Currency in circulation | 3,220,685,127 | - | - | - | 3,220,685,127 |
| Balances of insurance companies | 9,395,934 | - | - | - | 9,395,934 |
| Deposits of international financial institutions | 10,284,674 | - | - | 10,284,674 | - |
| Other liabilities | 125,746,052 | 33,558,814 | 2,944,467 | - | 89,242,771 |
| **Total local currency financial liabilities** | **9,177,398,676** | **568,397,112** | **5,279,393,058** | **10,284,674** | **3,319,323,832** |
| **Total financial liabilities** | **15,442,326,184** | **910,405,911** | **10,552,905,240** | **539,781,108** | **3,439,233,925** |
| **Other liabilities** | | | | | |
| Deferred grants | 3,207,292 | - | - | - | 3,207,292 |
| Pension and other employment benefit payable | 5,809,968 | - | - | - | 5,809,968 |
| | **9,017,260** | **-** | **-** | **-** | **9,017,260** |
| **Total Liabilities** | **15,451,343,444** | **910,405,911** | **10,552,905,240** | **539,781,108** | **3,448,251,185** |

## 40 RISK MANAGEMENT

Maldives Monetary Authority as the Banker of the Government ensures that its reserves are safeguarded. To this effect, the Authority issues currency, regulates the availability of the Maldivian Rufiyaa and promotes its stability, licenses, supervises and regulates institutions in the financial sector, formulates and implements monetary policy, and advises the Government on issues relating to the economy and financial system in order to foster an environment conducive to the orderly and balanced economic development of the Maldives.

The Authority's principal financial liabilities comprise of amounts payable to commercial banks, Government, public entities and international financial institutions while foreign currency cash and cash equivalents, investment in securities and IMF related assets are its main financial assets.

The Authority is exposed to a variety of financial and non-financial risks when performing its functions such as;

- Country risk
- Market risk
- Liquidity risk
- Operational risk
- Interest rate risk
- Foreign currency risk
- Credit risk

Financial risk is normally any risk associated with any form of financing. Risk is probability of unfavourable condition if actual returns are less than expected return.

### 40.1 Country risk

The foreign reserve invested overseas is exposed to the country credit risk due to political, economic and financial events in the country of investment. Country risk includes the possibility of nationalization or expropriation of assets, Government repudiation of external indebtedness, changes in exchange control policies and currency depreciation or devaluation. Majority of the Authority's foreign reserve investments are in economically advanced and politically stable countries to limit the exposure to country risk.

The Authority's year end significant concentrations of credit exposure by geographical area (based on the entity's country of ownership) are as follows.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Maldives | 10,066,337,406 | 6,458,190,116 |
| United Arab Emirates | 1,474,986,937 | 2,633,913,619 |
| United States of America | 798,601,896 | 1,637,487,890 |
| Qatar | 2,641,277,227 | 1,634,630,749 |
| Germany | 163,336,693 | 1,248,958,355 |
| Japan | 307,069,075 | 633,246,273 |
| France | 226,266,491 | 491,862,882 |
| Supranational financial institutions | 511,977,474 | 361,375,671 |
| Australia | 133,000,597 | 328,834,733 |
| Great Britain | 2,476,603 | 1,414,574 |
| Singapore | 156,300,081 | 1,197,116 |
| Hong Kong | 1,014,072,968 | - |
| **Total financial assets (except foreign cash in hand)** | **17,495,703,448** | **15,431,111,978** |

## 40 RISK MANAGEMENT (CONTINUED)

### 40.2 Operational risk

Operational risk is the result of inadequate controls or failed processes such as human fraud and system errors as a result of external events. The Authority has in place a number of operational controls to minimise the financial and reputational damage against such risks. These include:

1. Segregation of duties and proper authorisation and approval procedures, which assist in better control by avoiding potential outright fraud or collusion among staff.
2. Preparation of monthly reconciliations of accounts.
3. Maintaining processes relating to data integrity and backup systems.
4. Protecting the physical assets against theft and fire by the surveillance of security and fire alarm systems.

### 40.3 Liquidity risk

Liquidity risk is the risk arising from the inability to sell a financial asset at close to its fair value at short notice due to inadequate market depth or market disruptions. To manage liquidity risk the majority of foreign reserves are invested in short term money market instruments in highly accredited financial institutions. Refer to interest rate risk (Note 40.5) for the undiscounted maturity period for financial assets and financial liabilities.

### 40.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes currency and interest rate risks.

1. Currency risk is the risk of loss on foreign assets and liabilities arising from changes in foreign exchange rates.
2. Interest rate risk is the risk of loss arising from changes in market interest rates.

Market risks are mitigated through investing the majority of foreign reserves in US Dollar denominated assets, in highly accredited financial institutions.

### 40.5 Interest rate risk

Interest rate risk is the risk of loss arising from the changes in market interest rates.

#### a) Interest rate sensitivity

The interest rate sensitivity analysis measures the potential loss due to a drop in interest rate by 10 basis points for interest bearing assets and increase in interest by 10 basis points for interest bearing liabilities. Impact to the income statement is given below.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Potential loss of interest income | 1,465,737 | 2,455,362 |

**40.5 Interest rate risk (Continued)**

**b) Assets and liabilities will mature or re-price within the following periods.**

| Foreign currency interest rate sensitivity gap | Weighted Ave. Int. Rate % | 2016 Total MVR | Less than 6 Months MVR | Less than 12 Months MVR | Less than 2 Years MVR | Less than 5 Years MVR | More than 5 Years MVR | No fixed maturity MVR |
|---|---|---|---|---|---|---|---|---|
| **Interest sensitive foreign currency financial assets** | | | | | | | | |
| Cash and balances with banks | 0.36% | 1,089,860,162 | 1,089,860,162 | - | - | - | - | - |
| IMF related assets | 0.24% | 66,751,440 | 66,751,440 | - | - | - | - | - |
| **Total interest sensitive foreign currency financial assets** | | **1,156,611,602** | **1,156,611,602** | **-** | **-** | **-** | **-** | **-** |
| **Non-interest sensitive foreign currency financial assets** | | | | | | | | |
| Cash and balances with banks | 1.19% | 5,760,471,117 | 5,760,471,117 | - | - | - | - | - |
| IMF related assets | | 436,011,923 | 63,603 | - | - | - | - | 435,948,320 |
| Investments in securities | | 2,280,422,171 | 524,968,455 | 346,376,603 | 718,685,400 | 690,391,713 | - | - |
| Subscriptions to international agencies | | 830,435 | - | - | - | - | - | 830,435 |
| Receivable from Asian Clearing Union | | 119,346 | 119,346 | - | - | - | - | - |
| Interest and other receivables | | 22,866,909 | 22,866,909 | - | - | - | - | - |
| **Total non-interest sensitive foreign currency financial assets** | | **8,500,721,901** | **6,308,489,430** | **346,376,603** | **718,685,400** | **690,391,713** | **-** | **436,778,755** |
| **Total foreign currency financial assets** | | **9,657,333,503** | **7,465,101,032** | **346,376,603** | **718,685,400** | **690,391,713** | **-** | **436,778,755** |
| **Interest sensitive foreign currency financial liabilities** | | | | | | | | |
| IMF related liabilities | 0.24% | 185,557,865 | 4,215,538 | 4,215,538 | 8,431,076 | 10,538,845 | - | 158,156,868 |
| Payables to Asian Clearing Union | 0.51% | 123,567,500 | 123,567,500 | - | - | - | - | - |
| **Total interest sensitive foreign currency financial liabilities** | | **309,125,365** | **127,783,038** | **4,215,538** | **8,431,076** | **10,538,845** | **-** | **158,156,868** |
| **Non-interest sensitive foreign currency financial liabilities** | | | | | | | | |
| Balances of commercial banks | 0.01% | 3,717,797,413 | 3,717,797,413 | - | - | - | - | - |
| Balances of Government and Government institutions | | 151,700,135 | 151,700,135 | - | - | - | - | - |
| Payable to Asian Clearing Union | | 53,196 | 53,196 | - | - | - | - | - |
| IMF related liabilities | | 337,220,584 | 4,917,805 | - | - | - | - | 332,302,779 |
| Interest bearing loans | 0.83% | 86,741,890 | 197,782 | 197,782 | 1,170,025 | 5,833,458 | 79,342,843 | - |
| Deposits by international financial institutions | | 830,435 | - | - | - | - | - | 830,435 |
| Other liabilities | 2.68% | 1,714,690,889 | 1,621,576,269 | 22,570,005 | 22,570,005 | 32,935,723 | - | 15,038,887 |
| **Total non-interest sensitive foreign currency financial liabilities** | | **6,009,034,542** | **5,496,242,600** | **22,767,787** | **23,740,030** | **38,769,181** | **79,342,843** | **348,172,101** |
| **Total foreign currency financial liabilities** | | **6,318,159,907** | **5,624,025,638** | **26,983,325** | **32,171,106** | **49,308,026** | **79,342,843** | **506,328,969** |
| **Foreign currency interest rate sensitivity gap** | | **847,486,237** | **1,028,828,564** | **(4,215,538)** | **(8,431,076)** | **(10,538,845)** | **-** | **(158,156,868)** |

**40.5 Interest rate risk (Continued)**

| Local currency interest rate sensitivity gap | Weighted Ave. Int. Rate % | 2016 Total MVR | Less than 6 Months MVR | Less than 12 Months MVR | Less than 2 Years MVR | Less than 5 Years MVR | More than 5 Years MVR | No fixed maturity MVR |
|---|---|---|---|---|---|---|---|---|
| **Non-interest sensitive local currency financial assets** | | | | | | | | |
| Cash and balances with banks | | 40,973,351 | 40,973,351 | - | - | - | - | - |
| Subscriptions to international agencies | | 8,264,330 | - | - | - | - | - | 8,264,330 |
| Investment in Government treasury bills | | 38,944,980 | 38,944,980 | - | - | - | - | - |
| Investment in Government treasury bonds | 2.4% | 6,304,271,706 | 35,806,444 | 34,991,796 | 72,516,212 | 227,860,590 | 5,933,096,664 | - |
| Derivative financial instruments | | 935,263 | 935,263 | - | - | - | - | - |
| Interest and other receivables | | 1,535,000,000 | 1,535,000,000 | - | - | - | - | - |
| **Total non-interest sensitive local currency financial assets** | | **7,928,389,630** | **1,651,660,038** | **34,991,796** | **72,516,212** | **227,860,590** | **5,933,096,664** | **8,264,330** |
| **Total local currency financial assets** | | **7,928,389,630** | **1,651,660,038** | **34,991,796** | **72,516,212** | **227,860,590** | **5,933,096,664** | **8,264,330** |
| **Non-interest sensitive local currency financial liabilities** | | | | | | | | |
| Balances of commercial banks | 1.32% | 5,462,363,786 | 5,462,363,786 | - | - | - | - | - |
| Balances of Government and Government institutions | | 680,834,798 | 680,834,798 | - | - | - | - | - |
| Currency in circulation | | 3,243,533,609 | - | - | - | - | - | 3,243,533,609 |
| Balances of other central banks | | 1,535,000,000 | 1,535,000,000 | - | - | - | - | - |
| Balances of insurance companies | 1.00% | 13,348,619 | - | - | - | - | - | 13,348,619 |
| Deposits by international financial institutions | | 10,462,503 | - | - | - | - | - | 10,462,503 |
| Derivative financial instruments | | 1,137,371 | 1,137,371 | - | - | - | - | - |
| Deposit insurance fund | | 41,052 | 41,052 | - | - | - | - | - |
| Other liabilities | | 278,213,178 | 180,248,283 | - | - | - | - | 97,964,895 |
| **Total non-interest sensitive local currency financial liabilities** | | **11,224,934,916** | **7,859,625,290** | **-** | **-** | **-** | **-** | **3,365,309,626** |
| **Total local currency financial liabilities** | | **11,224,934,916** | **7,859,625,290** | **-** | **-** | **-** | **-** | **3,365,309,626** |
| **Local currency interest rate sensitivity gap** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

**40.5 Interest rate risk (Continued)**

**Comparative figures as at 31 December 2015 were as follows.**

| Foreign currency interest rate sensitivity gap | Weighted Ave. Int. Rate % | 2015 Total MVR | Less than 6 Months MVR | Less than 12 Months MVR | Less than 2 Years MVR | Less than 5 Years MVR | More than 5 Years MVR | No fixed maturity MVR |
|---|---|---|---|---|---|---|---|---|
| **Interest sensitive foreign currency financial assets** | | | | | | | | |
| Cash and balances with banks | 0.51% | 1,963,907,668 | 1,963,907,668 | - | - | - | - | - |
| IMF related assets | 0.05% | 138,198,610 | 138,198,610 | - | - | - | - | - |
| **Total interest sensitive foreign currency financial assets** | | **2,102,106,278** | **2,102,106,278** | **-** | **-** | **-** | **-** | **-** |
| **Non-interest sensitive foreign currency financial assets** | | | | | | | | |
| Cash and balances with banks | 0.86% | 6,538,706,911 | 6,538,706,911 | - | - | - | - | - |
| IMF related assets | | 214,079,050 | 26,050 | - | - | - | - | 214,053,000 |
| Subscriptions to international agencies | | 833,681 | - | - | - | - | - | 833,681 |
| Interest and other receivables | | 226,699,135 | 226,699,135 | - | - | - | - | - |
| **Total non-interest sensitive foreign currency financial assets** | | **6,980,318,777** | **6,765,432,096** | **-** | **-** | **-** | **-** | **214,886,681** |
| **Total foreign currency financial assets** | | **9,082,425,055** | **8,867,538,374** | **-** | **-** | **-** | **-** | **214,886,681** |
| **Interest sensitive foreign currency financial liabilities** | | | | | | | | |
| IMF related liabilities | 0.09% | 201,929,209 | 4,388,087 | 4,388,087 | 8,776,173 | 19,746,388 | - | 164,630,474 |
| Payables to Asian Clearing Union | 0.23% | 151,326,200 | 151,326,200 | - | - | - | - | - |
| **Total interest sensitive foreign currency financial liabilities** | | **353,255,409** | **155,714,287** | **4,388,087** | **8,776,173** | **19,746,388** | **-** | **164,630,474** |
| **Non-interest sensitive foreign currency financial liabilities** | | | | | | | | |
| Balances of commercial banks | 0.01% | 5,136,843,911 | 5,136,843,911 | - | - | - | - | - |
| Balances of Government and Government institutions | | 181,046,050 | 181,046,050 | - | - | - | - | - |
| Payable to Asian Clearing Union | | 4,233,569 | 4,233,569 | - | - | - | - | - |
| IMF related liabilities | | 171,173,775 | 5,073,848 | - | - | - | - | 166,099,927 |
| Interest bearing loans | 0.83% | 90,498,247 | - | 205,877 | 411,754 | 5,266,069 | 84,614,547 | - |
| Deposits by international financial institutions | | 833,681 | - | - | - | - | - | 833,681 |
| Other liabilities | | 327,042,866 | 208,657,463 | 27,351,731 | 27,351,731 | 48,584,270 | - | 15,097,671 |
| **Total non-interest sensitive foreign currency financial liabilities** | | **5,911,672,099** | **5,535,854,841** | **27,557,608** | **27,763,485** | **53,850,339** | **84,614,547** | **182,031,279** |
| **Total foreign currency financial liabilities** | | **6,264,927,508** | **5,691,569,128** | **31,945,695** | **36,539,658** | **73,596,727** | **84,614,547** | **346,661,753** |
| **Foreign currency interest rate sensitivity gap** | | **1,748,850,869** | **1,946,391,991** | **(4,388,087)** | **(8,776,173)** | **(19,746,388)** | **-** | **(164,630,474)** |

**40.5 Interest rate risk (Continued)**

| Local currency interest rate sensitivity gap | Weighted Ave. Int. Rate % | 2015 Total MVR | Less than 6 Months MVR | Less than 12 Months MVR | Less than 2 Years MVR | Less than 5 Years MVR | More than 5 Years MVR | No fixed maturity MVR |
|---|---|---|---|---|---|---|---|---|
| **Non-interest sensitive local currency financial assets** | | | | | | | | |
| Cash and balances with banks | | 437,500 | 437,500 | - | - | - | - | - |
| Subscriptions to international agencies | | 8,264,330 | - | - | - | - | - | 8,264,330 |
| Investment in Government treasury bonds | 2.40% | 6,372,975,607 | 40,085,519 | 28,618,382 | 70,798,240 | 222,462,374 | 6,011,011,092 | - |
| **Total non-interest sensitive local currency financial assets** | | **6,381,677,437** | **40,523,019** | **28,618,382** | **70,798,240** | **222,462,374** | **6,011,011,092** | **8,264,330** |
| **Total local currency financial assets** | | **6,381,677,437** | **40,523,019** | **28,618,382** | **70,798,240** | **222,462,374** | **6,011,011,092** | **8,264,330** |
| **Non-interest sensitive local currency financial liabilities** | | | | | | | | |
| Balances of commercial banks | 1.32% | 5,276,448,591 | 5,276,448,591 | - | - | - | - | - |
| Balances of Government and Government institutions | | 534,838,298 | 534,838,298 | - | - | - | - | - |
| Currency in circulation | | 3,220,685,127 | - | - | - | - | - | 3,220,685,127 |
| Balances of insurance companies | 1.00% | 9,395,934 | - | - | - | - | - | 9,395,934 |
| Deposits by international financial institutions | | 10,284,674 | - | - | - | - | - | 10,284,674 |
| Other liabilities | | 125,746,052 | 44,288,385 | 42,405,000 | - | - | - | 39,052,667 |
| **Total non-interest sensitive local currency financial liabilities** | | **9,177,398,676** | **5,855,575,274** | **42,405,000** | **-** | **-** | **-** | **3,279,418,402** |
| **Total local currency financial liabilities** | | **9,177,398,676** | **5,855,575,274** | **42,405,000** | **-** | **-** | **-** | **3,279,418,402** |
| **Local currency interest rate sensitivity gap** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

### 40.6 Foreign currency risk

Effective management of foreign exchange risk is vital to maintain the Authority's credibility. If foreign reserve risk is managed properly and effectively it will strengthen public confidence in the monetary policy. Foreign exchange reserves risk management concerns balancing many objectives and issues, from broad macro-economic policy objectives, such as monetary policy and foreign exchange management. Foreign currency activities result mainly from the Authority's holding of foreign currency assets which are managed by the Reserve Management and Market Operations Division of the Authority. Volatility of the foreign exchange markets may expose the Authority to exchange rate risk.

**Net exposure to foreign currencies**

As at 31 December 2016, the Authority's net exposure to major currencies was as follows.

| | Currency of denomination | | | | | | |
|---|---|---|---|---|---|---|---|
| As at 31 December 2016 | US Dollar MVR | Euro MVR | Singapore Dollar MVR | Sterling Pound MVR | SDR MVR | Australian Dollar MVR | Total MVR |
| **Foreign currency financial assets** | | | | | | | |
| Cash and balances with banks | 6,324,498,309 | 163,336,693 | 828,805 | 228,739,003 | - | 132,928,469 | 6,850,331,279 |
| IMF related assets | - | - | - | - | 502,763,363 | - | 502,763,363 |
| Investments in Securities | 2,280,422,171 | - | - | - | - | - | 2,280,422,171 |
| Subscriptions to international agencies | 830,435 | - | - | - | - | - | 830,435 |
| Receivable from Asian Clearing Union | 119,346 | - | - | - | - | - | 119,346 |
| Other receivables | 22,790,690 | - | - | 4,091 | - | 72,128 | 22,866,909 |
| **Total foreign currency financial assets** | **8,628,660,951** | **163,336,693** | **828,805** | **228,743,094** | **502,763,363** | **133,000,597** | **9,657,333,503** |
| **Proportion** | **89.35%** | **1.69%** | **0.01%** | **2.37%** | **5.21%** | **1.38%** | **100%** |
| **Foreign currency financial liabilities** | | | | | | | |
| Balances of commercial banks | 3,717,797,413 | - | - | - | - | - | 3,717,797,413 |
| Balances of Government and Government institutions | 151,700,135 | - | - | - | - | - | 151,700,135 |
| Payable to Asian Clearing Union | 123,620,696 | - | - | - | - | - | 123,620,696 |
| IMF related liabilities | - | - | - | - | 522,778,449 | - | 522,778,449 |
| Interest bearing loans | - | - | - | - | 86,741,890 | - | 86,741,890 |
| Deposits of international financial institutions | 830,435 | - | - | - | - | - | 830,435 |
| Other liabilities | 1,631,050,847 | 5,533,210 | - | 78,104,169 | - | 2,663 | 1,714,690,889 |
| **Total foreign currency financial liabilities** | **5,624,999,526** | **5,533,210** | **-** | **78,104,169** | **609,520,339** | **2,663** | **6,318,159,907** |
| **Proportion** | **89.03%** | **0.09%** | **0.00%** | **1.24%** | **9.65%** | **0.00%** | **100%** |
| **Net foreign currency exposure** | **3,003,661,425** | **157,803,483** | **828,805** | **150,638,925** | **(106,756,976)** | **132,997,934** | **3,339,173,596** |

### 40.6 Foreign currency risk (Continued)

As at 31 December 2015, the Authority's net exposure to major currencies was as follows.

| | Currency of Denomination | | | | | | |
|---|---|---|---|---|---|---|---|
| As at 31 December 2015 | US Dollars MVR | Euro MVR | Singapore Dollars MVR | Sterling Pound MVR | SDR MVR | Australian Dollars MVR | Total MVR |
| **Foreign currency financial assets** | | | | | | | |
| Cash and balances with banks | 6,886,419,433 | 39,774,171 | 5,761 | 686,565,481 | - | 889,849,733 | 8,502,614,579 |
| IMF related assets | - | - | - | - | 352,277,660 | - | 352,277,660 |
| Subscriptions to international agencies | 833,681 | - | - | - | - | - | 833,681 |
| Other receivables | 168,581,971 | 33,672,000 | - | 24,011,802 | - | 433,362 | 226,699,135 |
| **Total foreign currency financial assets** | **7,055,835,085** | **73,446,171** | **5,761** | **710,577,283** | **352,277,660** | **890,283,095** | **9,082,425,055** |
| **Proportion** | **77.69%** | **0.81%** | **0.00%** | **7.82%** | **3.88%** | **9.80%** | **100%** |
| **Foreign currency financial liabilities** | | | | | | | |
| Balances of commercial banks | 5,136,843,911 | - | - | - | - | - | 5,136,843,911 |
| Balances of Government and Government institutions | 181,046,050 | - | - | - | - | - | 181,046,050 |
| Payable to Asian Clearing Union | 151,350,769 | 4,209,000 | - | - | - | - | 155,559,769 |
| IMF related liabilities | - | - | - | - | 373,102,984 | - | 373,102,984 |
| Interest bearing loans | - | - | - | - | 90,498,247 | - | 90,498,247 |
| Deposits of international financial institutions | 833,681 | - | - | - | - | - | 833,681 |
| Other liabilities | 144,343,283 | 33,675,224 | - | 149,021,992 | - | 2,367 | 327,042,866 |
| **Total foreign currency financial liabilities** | **5,614,417,694** | **37,884,224** | **-** | **149,021,992** | **463,601,231** | **2,367** | **6,264,927,508** |
| **Proportion** | **89.62%** | **0.60%** | **0.00%** | **2.38%** | **7.40%** | **0.00%** | **100%** |
| **Net foreign currency exposure** | **1,441,417,391** | **35,561,947** | **5,761** | **561,555,291** | **(111,323,571)** | **890,280,728** | **2,817,497,547** |

### 40.7 Credit risk

Credit risk is the possibility that the counter party will not fulfil its contractual obligation, resulting in a financial loss. To manage the credit risk, the Authority determines and evaluates the credit limits to banks and to the Government. Furthermore, advances provided to commercial banks are backed by Government securities.

**40.7 Credit risk (Continued)**

**a) Credit exposure by credit rating**

The following table presents the credit ratings of respective financial assets or issuers (except foreign cash in hand), based on the ratings of Standard & Poor's, Fitch and Moody's ratings.

| | Credit rating | 2016 MVR | % | 2015 MVR | % |
|---|---|---|---|---|---|
| **Foreign currency financial assets** | | | | | |
| **Cash and balances with banks** | | | | | |
| Foreign Central Banks* | A-1+ | 1,097,282,758 | 11.47% | 1,968,926,187 | 21.76% |
| Foreign banks and financial institutions | A-1+ | 2,259,214,404 | 23.61% | 953,966,116 | 10.54% |
| | A-1 | 3,403,712,400 | 35.58% | 4,300,343,000 | 47.52% |
| | A-2 | - | - | 1,246,305,236 | 13.77% |
| | F2 | 50,763 | 0.00% | 61,517 | 0.00% |
| Local banks | NR | 51,269 | 0.00% | 22,009 | 0.00% |
| **Other foreign currency financial assets** | | | | | |
| Foreign Central Banks* | A-1+ | 82,268 | 0.00% | 362,428 | 0.00% |
| Foreign Banks and financial institutions | A-1+ | 169,030 | 0.00% | 85,777,214 | 0.95% |
| | A-1 | 3,428,111 | 0.04% | 54,764,309 | 0.61% |
| | A-2 | - | - | 1,040,184 | 0.01% |
| | NR | 153,448,834 | 1.60% | - | - |
| Supranational financial institutions | NR | 502,882,709 | 5.26% | 352,277,660 | 3.89% |
| State owned entities | NR | 19,187,500 | 0.20% | 84,755,000 | 0.94% |
| Government of Maldives and Government institutions | B2 | 2,127,803,772 | 22.24% | 833,681 | 0.01% |
| **Total foreign currency financial assets** | | **9,567,313,818** | **100%** | **9,049,434,541** | **100%** |
| **Local currency financial assets** | | | | | |
| Local banks | NR | 41,908,614 | 0.53% | 437,500 | 0.01% |
| Foreign Central Banks* | F3 | 1,535,000,000 | 19.36% | - | - |
| Government of Maldives and Government institutions | B2 | 6,351,481,016 | 80.11% | 6,381,239,937 | 99.99% |
| **Total local currency financial assets** | | **7,928,389,630** | **100%** | **6,381,677,437** | **100%** |
| **Total financial assets (except foreign cash in hand)** | | **17,495,703,448** | | **15,431,111,978** | |

* As the central banks do not have credit ratings, the sovereign credit ratings were applied for the respective countries.

* NR - No Rating.

**40.7 Credit risk (Continued)**

**a) Credit exposure by credit rating (Continued)**

Under Standard & Poor's ratings short term issue credit ratings A-1 is the highest quality rating possible and indicates the lowest expectations of credit risk. It is assigned only in the case of exceptionally strong capacity for timely payment of financial commitment. A-2 is an upper medium grade indicating a low expectation of credit risk; A-3 is the lower medium investment grade rating indicating that there is currently a low expectation of credit risk and exhibits adequate protection parameters. Ratings can be modified by + or – signs to indicate relative standing within the major categories.

Under Fitch short term credit ratings F1+ is the highest credit rating showing exceptionally strong ability to meet financial commitments followed by F1 indicating strong capacity to meet commitments, F2 indicating good capacity to meet financial commitments and F3 indicating adequate capacity to meet financial commitments.

Moody's has assigned a first time B2 issuer rating to the Government of Maldives and noted that the outlook is stable.

**b) Concentrations of credit exposure**

The Authority's end-of-year significant concentrations of credit exposure (except foreign cash in hand) by institution type are as follows.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Government of Maldives and Government institutions | 8,479,284,788 | 6,382,073,618 |
| Foreign Central Banks | 2,632,365,026 | 1,969,288,615 |
| Supranational financial institutions | 502,882,709 | 352,277,660 |
| Foreign banks and financial institutions | 5,820,023,542 | 6,642,257,576 |
| State owned entities | 19,187,500 | 84,755,000 |
| Local banks | 41,959,883 | 459,509 |
| **Total financial assets** | **17,495,703,448** | **15,431,111,978** |

**41 RELATED PARTIES TRANSACTION DISCLOSURES**

**41.1 Transactions with the Government and Government related entities**

**a)** In the normal course of its operations, the Authority enters into transactions with related parties. Related parties include the Government of Maldives, various Government departments and Government related entities. Particulars of transactions, and arrangements entered into by the Authority with the Government and Government related entities are as follows:

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Profit re-appropriation to the Government (Note 36) | 82,029,878 | 24,317,045 |
| Gross foreign exchange transactions during the year | | |
| - Sales | 8,856,931,656 | 6,762,914,672 |
| - Purchases | 9,442,744,545 | 9,965,009,336 |

**41 RELATED PARTIES TRANSACTION DISCLOSURES (CONTINUED)**

**b)** Through the operations the Authority earns interest, charges and commission from the services provided to the Government and other Government related entities, which are included as part of the Authority's income and thus paid out as dividend to the Government.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Interest income earned from related parties (Note c) | 166,347,340 | 153,820,395 |
| Goods and Services Tax paid (Note d) | 74,253 | 232,899 |
| Finance charges paid | 724,074 | 768,722 |
| Charges and commissions earned from related parties | 14,172,410 | 13,377,729 |
| Gross value of goods and services obtained | 7,265,516 | 6,349,118 |

**c)** The aggregate balances due from and due to the Government and Government related entities, as at 31 December are given below.

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Investment in Government treasury bonds (Note 11) | 6,304,271,706 | 6,372,975,607 |
| Currency repurchase receivable (Note 9.2 ) | 86,843 | - |
| Investment in Government treasury bills (Note 6.1.2 & 10 ) | 68,042,219 | - |
| Investment in corporate bond (Note 6.2) | 2,097,876,098 | - |
| | **8,470,276,866** | **6,372,975,607** |
| | | |
| Government deposits with the Authority (Note 19) | 832,534,933 | 714,793,191 |
| State Owned Enterprises deposits with the Authority (Note 19) | - | 1,091,157 |
| Security deposits held by insurance companies (Note 24) | 4,000,000 | 4,000,000 |
| Currency repurchase payable (Note 27.2) | 19,275,000 | 84,810,000 |
| Interest bearing loans (Note 21) | 86,741,890 | 90,498,247 |
| | **942,551,823** | **895,192,595** |

**d)** The Authority registered to pay Goods and Services Tax (GST) to MIRA on 23 July 2015 and the Authority paid 6% Goods and Services Tax to MIRA on the revenue earned from GST payable activities.

**e)** The Authority performs the functions of implementing its monetary policy mainly through the monetary tools which are minimum reserve requirement, open market operations, foreign currency swap facility and standing facilities which are overnight deposit facility and overnight lombard facility. Further, the Authority act as the banker to both commercial banks and Government institutions. The Government of Maldives as a related party has a significant shareholding in Bank of Maldives Plc. Please refer to Notes 4 and 18 for the gross outstanding balances as at 31 December 2016.

**f)** Empowered by the article 4 (c) of the MMA Act, the Authority carries out the regulatory and supervisory functions of the banks licensed by the Authority. The Bank of Maldives Plc in which the Government has a significant influence, falls under the supervision of the Authority.

**g)** The Authority carries out its regulatory and supervisory functions in respect of Insurance Companies in Maldives. Accordingly, Allied Insurance Company of the Maldives is a related entity under the supervision of the Authority (Refer Note 24).

## 41 RELATED PARTIES TRANSACTION DISCLOSURES (CONTINUED)

**h)** As per article 22 (f) of MMA Act, the Authority may buy, sell, invest, or deal in treasury bills and other securities issued or guaranteed by the Government. In this regard, the Authority has invested in Government treasury bills.

**i)** The Authority, in carrying out the normal operations, enters into transactions to obtain various goods and services with Government entities or entities in which the Government has significant influence or control (Refer Note 41.1 (b)).

**j)** The Authority did not provide any guarantee over any of the borrowings of a related party during the year ending 31 December 2016.

### 41.2 Transactions with key managerial personnel (present and former)

Key Managerial Personnel of the Authority are the members of the Executive Committee and Board of Directors that includes Governor, Deputy Governor and other members of the Board. Particulars of transactions with key managerial personnel were as follows:

| | 2016<br>MVR | 2015<br>MVR |
|---|---|---|
| Compensation to the key management personnel | 3,491,130 | 3,726,427 |

## 42 CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND OFF BALANCE SHEET ITEMS

### 42.1 Guarantees

As per section 22 ( l ) of MMA Act, the Authority could guarantee the repayment of government loans and service charges. As at 31 December 2016, there were no such outstanding guarantees.

Other than the above, under the Credit Guarantee Scheme introduced by MMA on 7 August 2016, guarantee of 90% loan coverage has been provided to banks for approved loans valuing MVR 3,106,600.

### 42.2 Fiduciary activities

The Authority carries out fiduciary activities under the provisions of the MMA Act. Acting in such capacity results in holding or placing of funds on behalf of various parties. However, the Authority does not expect any liability to arise on account of such activities.

### 42.3 Legal claims

There are no ongoing legal proceedings against the Authority as of 31 December 2016.

### 42.4 Commitments

On the request made by the MOFT, with reference to the loan agreements signed between the Government and the Islamic Development Bank, the Authority undertakes to provide the foreign exchange required to repay the loans inclusive of service fees when repayment instalments and service fees fall due. In consideration, the MOFT on behalf of the Government has counter guaranteed to repay the Authority, the equivalent Rufiyaa for the aforesaid payments.

## 42 CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND OFF BALANCE SHEET ITEMS (CONTINUED)

### 42.5 Off balance sheet items

The table below shows off balance sheet items which include amounts payable and receivable to and from commercial banks under the currency swap agreements entered during the year. These amounts recorded at gross are the amounts of underlying asset and the fair value changes in these underlying assets are recorded as derivatives (Refer to note 12).

| Date of agreement | Swap amount | Payables by Authority | Receivables from commercial banks |
|---|---|---|---|
| 10-Nov-16 | USD 55 million | MVR 843,700,000 | USD 55,054,326 |
| 13-Nov-16 | USD 75 million | USD 75,358,354 | MVR 1,153,500,000 |
| 28-Nov-16 | USD 25 million | USD 25,120,944 | MVR 383,750,000 |

## 43 EVENTS OCCURRING SUBSEQUENT TO REPORTING DATE

There have been no material events, other than that discussed in note 9, 12 and 27 occurring after the reporting date that require adjustments to or disclosure in the financial statements.

# STATISTICAL APPENDIX

## Table 1: Gross Domestic Product, 2012–2016 [1/]

**(millions of rufiyaa at constant prices)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Gross domestic product (at market prices)** | **23,361.4** | **24,458.9** | **25,925.8** | **26,663.8** | **27,691.5** |
| **Gross domestic product (at basic prices)** | **20,622.3** | **21,490.2** | **22,676.4** | **23,534.4** | **na** |
| o/w Agriculture and mining | 363.2 | 372.0 | 376.2 | 376.2 | na |
| Fisheries | 318.8 | 345.0 | 341.9 | 338.3 | na |
| Manufacturing | 802.5 | 750.2 | 757.1 | 796.1 | na |
| Electricity and water supply | 657.2 | 691.1 | 745.8 | 815.7 | na |
| Construction | 1,673.6 | 1,454.8 | 1,765.7 | 2,255.5 | na |
| Wholesale and retail trade | 909.7 | 1,013.4 | 1,094.6 | 1,084.5 | na |
| Tourism | 5,820.6 | 6,346.1 | 6,601.0 | 6,383.3 | na |
| Transport | 1,902.6 | 1,981.9 | 2,124.5 | 2,254.4 | na |
| Communication | 2,045.3 | 2,254.4 | 2,447.3 | 2,625.8 | na |
| Real estate | 1,617.3 | 1,678.6 | 1,749.5 | 1,828.6 | na |
| Government administration | 2,345.1 | 2,441.5 | 2,488.0 | 2,552.3 | na |
| | | Annual percentage change | | | |
| **Gross domestic product (at market prices)** | **2.5** | **4.7** | **6.0** | **2.8** | **3.9** |
| o/w Agriculture and mining | 0.5 | 2.4 | 1.2 | (0.0) | na |
| Fisheries | (0.7) | 8.2 | (0.9) | (1.0) | na |
| Manufacturing | 2.9 | (6.5) | 0.9 | 5.1 | na |
| Electricity and water supply | 3.7 | 5.2 | 7.9 | 9.4 | na |
| Construction | (1.2) | (13.1) | 21.4 | 27.7 | na |
| Wholesale and retail trade | 7.0 | 11.4 | 8.0 | (0.9) | na |
| Tourism | (0.1) | 9.0 | 4.0 | (3.3) | na |
| Transport | (1.3) | 4.2 | 7.2 | 6.1 | na |
| Communication | 4.7 | 10.2 | 8.6 | 7.3 | na |
| Real estate | 1.3 | 3.8 | 4.2 | 4.5 | na |
| Government administration | 2.9 | 4.1 | 1.9 | 2.6 | na |
| **Memorandum items:** | | | | | |
| Real GDP (in millions of US dollars) | 1,825.1 | 1,910.9 | 2,025.5 | 2,083.1 | 2,163.4 |
| Nominal GDP (market prices, in millions of rufiyaa) | 38,693.0 | 42,952.2 | 47,589.6 | 52,787.5 | 58,065.7 |
| Nominal GDP (market prices, in millions of US dollars) | 2,509.3 | 2,785.5 | 3,086.2 | 3,423.3 | 3,765.6 |
| Real GDP per capita (in rufiyaa) | 55,622.7 | 56,291.4 | 57,618.4 | 57,160.6 | na |
| Real GDP per capita (in US dollars) | 4,345.5 | 4,397.8 | 4,501.4 | 4,465.7 | na |
| Total mid-year population [2/] | 419,998.4 | 434,505.0 | 449,957.1 | 466,472.1 | na |

Source: National Bureau of Statistics, Ministry of Finance and Treasury

[1/] Figures for 2015 are preliminary. Annual figures for 2016 are projections available as at November 2016 forecasted by Ministry of Finance & Treasury.

[2/] Mid-year population figures includes local and expatriate population. Expatriate population is projected using the past 5-year growth rate of foreign population.

## Table 2: Tourism Indicators, 2012 - 2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Tourist arrivals** | **958,027** | **1,125,202** | **1,204,857** | **1,234,248** | **1,286,135** |
| o/w Europe | 517,809 | 527,274 | 529,291 | 535,962 | 575,176 |
| o/w Germany | 98,351 | 93,598 | 98,328 | 105,132 | 106,381 |
| United Kingdom | 91,776 | 85,869 | 88,704 | 92,775 | 101,843 |
| Russia | 66,378 | 76,479 | 66,308 | 44,323 | 46,522 |
| Asia | 367,680 | 505,753 | 568,031 | 578,322 | 572,336 |
| o/w China | 229,551 | 331,719 | 363,626 | 359,514 | 324,326 |
| India | 31,721 | 38,014 | 45,587 | 52,368 | 66,955 |
| Japan | 36,438 | 39,463 | 38,817 | 39,244 | 39,894 |
| South Korea | 23,933 | 30,306 | 34,896 | 33,001 | 29,580 |
| | | | | | |
| Tourist bednights ('000) | 6,451 | 7,058 | 7,290 | 6,977 | 7,158 |
| Average stay (days) | 6.7 | 6.3 | 6.0 | 5.7 | 5.6 |
| Operational capacity (beds in operation) | 25,062 | 26,161 | 26,984 | 27,748 | 29,457 |
| Bednight capacity ('000) | 9,173 | 9,550 | 9,848 | 10,127 | 10,777 |
| Occupancy rate (percentage) | 70.4 | 74.0 | 74.1 | 69.0 | 66.4 |
| Travel receipts [1/] (millions of US dollars) | 1,958.0 | 2,335.2 | 2,695.7 | 2,569.2 | 2,730.5 |
| | | | | | |
| **Number of resorts by lease holders (year-end)** | **105** | **110** | **111** | **115** | **na** |
| Local | 73 | 77 | 75 | 77 | na |
| Foreign | 13 | 15 | 17 | 18 | na |
| Joint Venture | 19 | 18 | 19 | 20 | na |
| | | | | | |
| **Number of resorts by operators (year-end)** | **105** | **110** | **111** | **115** | **na** |
| Local | 50 | 50 | 48 | 49 | na |
| Foreign | 35 | 41 | 43 | 45 | na |
| Joint Venture | 20 | 19 | 20 | 21 | na |

Source: Ministry of Tourism, Maldives Monetary Authority

[1/] Estimates made by Maldives Monetary Authority for the travel component of the balance of payments statistics.

## Table 3: Fish Production and Volume of Fish Exports, 2012 - 2016

**(quantity in '000 of metric tonnes)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Fish catch** | **120.0** | **129.8** | **128.7** | **127.4** | **na** |
| **Fish purchases** | **49.5** | **63.1** | **50.5** | **45.2** | **54.0** |
| **Volume of fish exports** | **40.6** | **49.6** | **48.2** | **43.5** | **46.5** |
| Fresh, chilled or frozen tuna | 35.4 | 44.7 | 42.7 | 36.5 | 39.3 |
| o/w Skipjack tuna | 17.9 | 23.3 | 21.8 | 19.7 | 21.8 |
| Yellowfin tuna | 17.4 | 21.1 | 19.5 | 15.8 | 16.8 |
| Fresh, chilled or frozen fish (excluding tuna) | 0.9 | 0.7 | 1.0 | 1.4 | 1.5 |
| Canned or pouched | 2.1 | 2.4 | 2.6 | 2.9 | 3.0 |
| Other processed fish | 2.2 | 1.9 | 1.8 | 2.7 | 2.7 |

Source: Ministry of Fisheries and Agriculture, Maldives Customs Service

## Table 4: Consumer Price Index - Male', 2012 - 2016

**(June 2012 = 100)**

| | Weight | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| **Total index** | **100.0** | **99.4** | **103.2** | **105.4** | **106.4** | **106.9** |
| Food and non-alcoholic beverages | 28.4 | 98.1 | 105.2 | 105.9 | 106.4 | 107.0 |
| o/w Food [1/] | 26.1 | 100.8 | 105.4 | 106.1 | 106.5 | 107.2 |
| o/w Fish | 8.6 | 93.8 | 104.4 | 106.2 | 105.7 | 104.1 |
| Tobacco and arecanut | 2.3 | 101.2 | 98.0 | 100.2 | 117.5 | 122.2 |
| Clothing and footwear | 3.9 | 98.4 | 101.5 | 102.5 | 101.5 | 101.0 |
| Housing, water, electricity, gas and other fuel | 23.3 | 100.0 | 103.5 | 106.7 | 107.8 | 108.1 |
| Furnishing, household equipment and routine maintenance of the house | 8.7 | 98.7 | 97.0 | 96.0 | 96.6 | 97.5 |
| Health | 5.4 | 103.1 | 110.8 | 121.0 | 123.6 | 125.8 |
| Transport | 5.4 | 100.0 | 102.2 | 105.4 | 102.9 | 101.3 |
| Communication | 4.8 | 100.0 | 99.1 | 100.3 | 100.6 | 99.8 |
| Recreation and culture | 5.1 | 99.5 | 98.8 | 102.2 | 102.0 | 100.7 |
| Education | 2.5 | 100.3 | 105.8 | 110.6 | 119.0 | 124.8 |
| Restaurants and hotels | 3.0 | 103.6 | 115.9 | 121.3 | 121.1 | 123.1 |
| Miscellaneous goods and services | 7.2 | 100.6 | 99.0 | 98.9 | 98.7 | 98.5 |
| Total excluding fish | - | 100.1 | 103.1 | 105.3 | 106.4 | 107.2 |
| Total excluding Food and non-alcoholic beverages | - | 101.0 | 102.4 | 105.2 | 106.4 | 106.9 |
| | | Inflation (annual percentage change of the CPI) | | | | |
| **Total rate** | **100.0** | **10.9** | **3.8** | **2.1** | **1.0** | **0.5** |
| Food and non-alcoholic beverages | 28.4 | 17.6 | 7.2 | 0.7 | 0.5 | 0.6 |
| o/w Food [1/] | 26.1 | na | 4.5 | 0.6 | 0.4 | 0.7 |
| o/w Fish | 8.6 | 63.5 | 11.4 | 1.7 | (0.5) | (1.6) |
| Tobacco and arecanut | 2.3 | 57.5 | (3.2) | 2.2 | 17.2 | 4.0 |
| Clothing and footwear | 3.9 | 20.1 | 3.2 | 0.9 | (0.9) | (0.5) |
| Housing, water, electricity, gas and other fuel | 23.3 | 3.6 | 3.6 | 3.1 | 1.0 | 0.3 |
| Furnishing, household equipment and routine maintenance of the house | 8.7 | 17.8 | (1.6) | (1.0) | 0.6 | 0.9 |
| Health | 5.4 | (24.2) | 7.4 | 9.2 | 2.1 | 1.8 |
| Transport | 5.4 | 9.1 | 2.2 | 3.1 | (2.3) | (1.5) |
| Communication | 4.8 | (0.6) | (1.0) | 1.2 | 0.3 | (0.8) |
| Recreation and culture | 5.1 | 1.7 | (0.7) | 3.4 | (0.2) | (1.2) |
| Education | 2.5 | 16.9 | 5.5 | 4.6 | 7.6 | 4.9 |
| Restaurants and hotels | 3.0 | 27.7 | 11.9 | 4.7 | (0.2) | 1.7 |
| Miscellaneous goods and services | 7.2 | 16.0 | (1.6) | (0.1) | (0.2) | (0.3) |
| Total excluding fish | - | 9.2 | 2.9 | 2.2 | 1.1 | 0.7 |
| Total excluding Food and non-alcoholic beverages | - | na | 1.4 | 2.7 | 1.1 | 0.5 |

Source: National Bureau of Statistics

[1/] The Consumer Price Index for 'Food' is only available from June 2012 onwards. Hence, the annual percentage change of the Consumer Price Index for this category can only be calculated from 2013 onwards.

Note: Data refers to the twelve-month average.

## Table 5: Summary of Central Government Finance, 2012 - 2016 [1/]

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 [2/] | 2016 [2/] |
|---|---|---|---|---|---|
| **Total revenue and grants** | **10,138.1** | **11,900.7** | **15,164.2** | **17,306.2** | **18,152.6** |
| Total revenue | 9,771.4 | 11,783.1 | 14,999.0 | 16,669.3 | 17,673.7 |
| Current revenue | 9,723.4 | 11,515.0 | 14,874.8 | 16,549.0 | 16,887.7 |
| Capital revenue | 48.1 | 268.1 | 124.1 | 120.3 | 786.0 |
| Grants | 366.7 | 117.7 | 165.3 | 636.9 | 478.9 |
| **Total expenditure and net lending** | **13,110.0** | **13,530.8** | **16,417.2** | **21,336.9** | **22,435.0** |
| Total expenditure | 13,200.2 | 13,666.3 | 16,539.4 | 21,440.9 | 22,456.7 |
| Current expenditure | 10,316.5 | 11,573.2 | 13,960.0 | 16,733.7 | 15,312.4 |
| Capital expenditure | 2,883.7 | 2,093.0 | 2,579.4 | 4,707.2 | 7,144.3 |
| Net lending | (90.2) | (135.5) | (122.2) | (104.0) | (21.7) |
| **Primary balance** | **(1,864.8)** | **(808.8)** | **(396.8)** | **(2,787.0)** | **(2,645.9)** |
| **Overall balance [3/]** | **(2,971.9)** | **(1,765.5)** | **(1,375.1)** | **(4,134.7)** | **(4,304.1)** |
| Overall balance excluding grants | (3,338.6) | (1,883.2) | (1,540.4) | (4,771.6) | (4,783.0) |
| Current balance | (593.1) | (58.2) | 914.9 | (184.8) | 1,575.3 |
| **Financing** | **2,971.9** | **1,765.5** | **1,375.1** | **4,134.7** | **4,304.1** |
| Foreign financing | 772.2 | 472.6 | (370.6) | (297.8) | (106.9) |
| Domestic financing | 2,199.7 | 1,293.0 | 1,745.8 | 4,432.5 | 4,411.0 |
| | | | As a percentage of GDP | | |
| Total revenue | 25 | 27 | 32 | 32 | 30 |
| Current revenue | 25 | 27 | 31 | 31 | 29 |
| Capital revenue | 0 | 1 | 0 | 0 | 1 |
| Grants | 1 | 0 | 0 | 1 | 1 |
| Total expenditure | 34 | 32 | 35 | 41 | 39 |
| Current expenditure | 27 | 27 | 29 | 32 | 26 |
| Capital expenditure | 7 | 5 | 5 | 9 | 12 |
| Overall balance | (8) | (4) | (3) | (8) | (7) |
| **Memorandum items:** | | | | | |
| Nominal GDP [4/] | 38,693.0 | 42,952.2 | 47,589.6 | 52,787.5 | 58,065.7 |

Source: Ministry of Finance and Treasury, National Bureau of Statistics

[1/] Format is based on IMF Government Finance Statistics Manual 1986 (GFSM 1986).

[2/] Figures for 2015 are revised actuals and figures for 2016 are revised estimates.

[3/] Overall balance from 2013 to 2016 are calculated excluding net lending.

[4/] Figure for 2016 is based on GDP forecasted by Ministry of Finance and Treasury.

## Table 6: Central Government Revenue and Grants, 2012 - 2016[1/]

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 [2/] | 2016 [2/] |
|---|---|---|---|---|---|
| **Total revenue and grants** | **10,138.1** | **11,900.7** | **15,164.2** | **17,306.2** | **18,152.6** |
| Total revenue | 9,771.4 | 11,783.1 | 14,999.0 | 16,669.3 | 17,673.7 |
| Current revenue | 9,723.4 | 11,515.0 | 14,874.8 | 16,549.0 | 16,887.7 |
| Tax revenue | 6,880.1 | 8,872.8 | 10,837.9 | 12,270.6 | 13,139.5 |
| o/w Import duty | 1,369.0 | 1,575.9 | 1,975.2 | 2,346.4 | 2,372.1 |
| Tourism tax | 804.7 | 861.6 | 804.8 | 0.6 | 0.2 |
| Bank profit tax | 313.2 | 355.0 | 482.4 | 512.7 | 491.7 |
| General Goods and Services Tax | 1,005.7 | 1,538.4 | 1,512.9 | 1,904.2 | 2,233.2 |
| Tourism Goods and Services Tax | 1,553.6 | 2,154.7 | 3,001.8 | 4,150.3 | 3,984.6 |
| Business Profit Tax | 1,401.3 | 1,881.0 | 2,471.4 | 2,673.6 | 2,708.9 |
| Airport service charge | 299.9 | 350.3 | 432.0 | 496.7 | 552.8 |
| Green tax | - | - | - | 36.7 | 640.0 |
| Nontax revenue | 2,843.3 | 2,642.1 | 4,037.0 | 4,278.3 | 3,748.2 |
| o/w Entrepreneurial & property income | 1,814.9 | 1,712.2 | 2,432.7 | 1,859.7 | 2,026.4 |
| o/w Net sales to public enterprises | 633.3 | 475.9 | 781.9 | 488.7 | 514.4 |
| Land and resort rent | 1,110.0 | 1,185.4 | 1,617.6 | 1,336.9 | 1,479.5 |
| o/w Resort lease rent | 1,031.2 | 1,106.3 | 1,534.5 | 1,247.0 | 1,373.4 |
| Administrative fees and charges | 727.6 | 583.5 | 1,084.4 | 1,831.1 | 1,171.5 |
| o/w Permit fee | 420.2 | 278.1 | 716.3 | 1,419.4 | 742.5 |
| o/w Other government permit fees [3/] | 292.9 | 158.0 | 567.1 | 1,260.7 | 568.2 |
| Capital revenue (sale of assets) | 48.1 | 268.1 | 124.1 | 120.3 | 786.0 |
| Grants | 366.7 | 117.7 | 165.3 | 636.9 | 478.9 |
| | | | As a percentage of GDP | | |
| Tax revenue | 18 | 21 | 23 | 23 | 23 |
| o/w Import duty | 4 | 4 | 4 | 4 | 4 |
| General Goods and Services Tax | 3 | 4 | 3 | 4 | 4 |
| Tourism Goods and Services Tax | 4 | 5 | 6 | 8 | 7 |
| Business Profit Tax | 4 | 4 | 5 | 5 | 5 |
| Nontax revenue | 7 | 6 | 8 | 8 | 6 |
| o/w Net sales to public enterprises | 2 | 1 | 2 | 1 | 1 |
| Resort lease rent | 3 | 3 | 3 | 2 | 2 |

Source: Ministry of Finance and Treasury

[1/] Format is based on IMF Government Finance Statistics Manual 1986 (GFSM 1986).

[2/] Figures for 2015 are revised actuals and figures for 2016 are revised estimates.

[3/] Concession fee for resort lease extension included (for 50 years).

## Table 7: Government Expenditure and Net Lending, 2012 - 2016 [1/]

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 [2/] | 2016 [2/] |
|---|---|---|---|---|---|
| **Total expenditure and net lending** | **13,110.0** | **13,530.8** | **16,417.2** | **21,336.9** | **22,435.0** |
| Total expenditure | 13,200.2 | 13,666.3 | 16,539.4 | 21,440.9 | 22,456.7 |
| Current expenditure | 10,316.5 | 11,573.2 | 13,960.0 | 16,733.7 | 15,312.4 |
| Expenditure on goods and services | 8,519.2 | 8,842.3 | 10,437.0 | 13,631.3 | 12,682.4 |
| Salaries and wages | 2,722.7 | 3,283.7 | 3,392.9 | 3,929.2 | 4,048.7 |
| Other allowances | 1,836.5 | 2,322.0 | 2,435.7 | 2,891.5 | 2,881.6 |
| Transportation, communication and utilities | 1,035.3 | 1,038.3 | 1,366.0 | 2,050.3 | 1,452.2 |
| Social welfare contributions | 1,595.3 | 823.3 | 1,539.3 | 1,609.8 | 1,616.5 |
| Others | 1,329.4 | 1,375.0 | 1,703.2 | 3,150.6 | 2,683.4 |
| Interest payments | 1,107.1 | 956.7 | 978.3 | 1,347.6 | 1,658.2 |
| Subsidies and transfers | 690.2 | 1,774.2 | 2,544.6 | 1,754.8 | 971.8 |
| Food, medicine and other | 442.1 | 1,308.5 | 1,338.1 | 1,236.9 | 458.3 |
| Pensions | 248.1 | 465.7 | 1,206.5 | 517.9 | 513.6 |
| Capital expenditure and net lending | 2,793.5 | 1,957.6 | 2,457.2 | 4,603.1 | 7,122.6 |
| Development expenditure | 2,883.7 | 2,093.0 | 2,579.4 | 4,707.2 | 7,144.3 |
| Foreign loan-financed | 1,131.6 | 1,176.9 | 188.4 | 635.1 | 968.6 |
| Others [3/] | 1,752.1 | 916.1 | 2,391.0 | 4,072.1 | 6,175.7 |
| Net lending | (90.2) | (135.5) | (122.2) | (104.0) | (21.7) |
| | | As a percentage of GDP | | | |
| Current expenditure | 27 | 27 | 29 | 32 | 26 |
| o/w Salaries and wages | 7 | 8 | 7 | 7 | 7 |
| Social welfare contributions | 4 | 2 | 3 | 3 | 3 |
| Subsidies and transfers | 2 | 4 | 5 | 3 | 2 |
| Development expenditure | 7 | 5 | 5 | 9 | 12 |

Source: Ministry of Finance and Treasury

[1/] Format is based on IMF Government Finance Statistics Manual 1986 (GFSM 1986).

[2/] Figures for 2015 are revised actuals and figures for 2016 are revised estimates.

[3/] This includes development expenditure financed from domestic sources and foreign grants.

## Table 8: Claims on Central Government, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | | Outstanding stock | | |
| **Total domestic debt** | **14,452.2** | **16,907.6** | **20,644.3** | **23,109.3** | **26,446.6** |
| Government securities | 11,115.3 | 11,330.9 | 17,586.9 | 20,001.6 | 23,230.2 |
| Treasury bonds | 4,664.7 | 3,136.6 | 6,440.5 | 7,419.6 | 8,774.6 |
| MMA | 3,892.1 | 3,136.6 | 6,440.5 | 6,373.0 | 6,304.3 |
| Commercial banks | 772.7 | - | - | 115.7 | 57.8 |
| Other financial corporations | - | - | - | 931.0 | 2,412.5 |
| Treasury bills and Islamic instruments | 6,450.6 | 8,194.3 | 11,146.4 | 12,582.0 | 14,455.7 |
| MMA | 829.6 | 634.0 | - | - | 74.4 |
| Commercial banks | 3,539.2 | 3,952.1 | 5,908.5 | 7,875.9 | 10,154.9 |
| State owned enterprises | 362.7 | 1,239.7 | 1,343.3 | 771.3 | 521.9 |
| Other financial corporations | 1,438.5 | 2,368.5 | 3,426.5 | 3,590.8 | 3,295.7 |
| Others | 280.6 | - | 468.1 | 344.0 | 408.8 |
| Loans and advances | 3,336.9 | 5,576.7 | 3,057.5 | 3,107.7 | 3,216.4 |
| MMA | 334.2 | 2,499.7 | - | - | - |
| Commercial banks | 440.9 | 537.8 | 126.1 | 73.6 | 34.9 |
| Other financial corporations | 2,561.8 | 2,539.2 | 2,931.4 | 3,034.0 | 3,181.5 |
| | | | Change | | |
| **Total domestic claims on government** | **1,669.3** | **2,455.4** | **3,736.7** | **2,465.0** | **3,337.3** |
| Government securities [1/] | 992.2 | 215.5 | 6,256.0 | 2,414.8 | 3,228.6 |
| Treasury bonds | (773.9) | (1,528.2) | 3,303.9 | 979.2 | 1,354.9 |
| MMA | (2.2) | (755.5) | 3,303.9 | (67.5) | (68.7) |
| Commercial banks | (771.7) | (772.7) | - | 115.7 | (57.8) |
| Other financial corporations | - | - | - | 931.0 | 1,481.5 |
| Treasury bills and Islamic instruments | 1,766.1 | 1,743.7 | 2,952.1 | 1,435.6 | 1,873.7 |
| MMA | 829.6 | (195.6) | (634.0) | - | 74.4 |
| Commercial banks | 47.2 | 412.9 | 1,956.4 | 1,967.4 | 2,279.0 |
| State owned enterprises | (234.8) | 877.0 | 103.6 | (572.0) | (249.4) |
| Other financial corporations | 843.5 | 930.0 | 1,058.0 | 164.3 | (295.1) |
| Others | 280.6 | (280.6) | 468.1 | (124.1) | 64.8 |
| Loans and advances [2/] | 677.2 | 2,239.9 | (2,519.3) | 50.2 | 108.7 |
| MMA | 308.3 | 2,165.5 | (2,499.7) | - | - |
| Commercial banks | 260.3 | 96.9 | (411.7) | (52.4) | (38.7) |
| Other financial corporations | 108.5 | (22.6) | 392.2 | 102.7 | 147.4 |
| **Memorandum items:** | | | | | |
| Exchange rate | 15.37 | 15.41 | 15.40 | 15.41 | 15.35 |

Source: Maldives Monetary Authority

[1/] This refers to net issue (which is issued amount less maturity).

[2/] This refers to flow for the period.

## Table 9: Financial Corporations Survey, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Net foreign assets** | **5,085.7** | **8,687.3** | **12,435.1** | **12,197.0** | **7,716.7** |
| Central bank | 4,241.0 | 5,308.0 | 9,110.0 | 8,227.3 | 5,247.5 |
| Other depository corporations | 1,017.3 | 3,505.4 | 3,431.1 | 4,070.1 | 2,542.0 |
| Other financial corporations | (172.6) | (126.1) | (105.9) | (100.4) | (72.8) |
| **Net domestic assets** | **19,414.7** | **20,444.1** | **21,661.8** | **26,344.3** | **32,377.9** |
| Domestic claims | 28,639.8 | 30,708.2 | 33,300.9 | 38,679.1 | 46,283.1 |
| Net claims on central government | 11,429.3 | 13,268.0 | 15,346.7 | 18,640.9 | 22,072.1 |
| Claims on other sectors | 17,210.5 | 17,440.2 | 17,954.2 | 20,038.2 | 24,211.0 |
| Other items (net) | (9,225.1) | (10,264.1) | (11,639.1) | (12,334.8) | (13,905.1) |
| Currency outside financial corporations | 2,115.8 | 2,800.9 | 2,681.5 | 2,755.1 | 2,694.1 |
| Deposits | 18,004.2 | 21,015.9 | 24,598.6 | 27,622.8 | 27,855.6 |
| Insurance technical reserves | 4,380.4 | 5,314.7 | 6,816.7 | 8,163.3 | 9,544.9 |

Source: Maldives Monetary Authority

## Table 10: Depository Corporations Survey, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Net foreign assets** | **5,258.3** | **8,813.4** | **12,541.0** | **12,297.4** | **7,789.5** |
| Central bank | 4,241.0 | 5,308.0 | 9,110.0 | 8,227.3 | 5,247.5 |
| Other depository corporations | 1,017.3 | 3,505.4 | 3,431.1 | 4,070.1 | 2,542.0 |
| **Net domestic assets** | **14,743.4** | **14,863.3** | **14,620.2** | **18,194.5** | **22,736.2** |
| Domestic claims | 23,893.6 | 24,963.6 | 25,984.4 | 29,993.8 | 35,998.5 |
| Net claims on central government | 7,649.6 | 8,642.0 | 9,265.4 | 11,380.0 | 13,427.2 |
| Claims on other sectors | 16,244.0 | 16,321.6 | 16,719.1 | 18,613.9 | 22,571.3 |
| o/w Claims on private sector | 14,505.4 | 14,637.9 | 15,096.8 | 16,817.0 | 18,590.8 |
| Other items (net) | (9,150.2) | (10,100.3) | (11,364.2) | (11,799.3) | (13,262.3) |
| **Broad money** | **20,001.6** | **23,676.7** | **27,161.2** | **30,491.9** | **30,525.7** |
| Narrow money | 8,428.3 | 10,415.8 | 11,196.7 | 13,337.9 | 13,467.5 |
| Quasi money | 11,573.3 | 13,260.9 | 15,964.5 | 17,154.0 | 17,058.2 |
| | | | Annual percentage change | | |
| Net foreign assets | 83 | 68 | 42 | (2) | (37) |
| Central bank | (10) | 25 | 72 | (10) | (36) |
| Other depository corporations | 155 | 245 | (2) | 19 | (38) |
| Domestic claims | (3) | 4 | 4 | 15 | 20 |
| Net claims on central government | 12 | 13 | 7 | 23 | 18 |
| Claims on other sectors | (9) | 0 | 2 | 11 | 21 |
| Broad money | 5 | 18 | 15 | 12 | 0 |
| Narrow money | 3 | 24 | 7 | 19 | 1 |
| Quasi money | 6 | 15 | 20 | 7 | (1) |
| **Memorandum items:** | | | | | |
| Dollarisation ratio | 49.2 | 50.2 | 53.8 | 50.6 | 48.4 |

Source: Maldives Monetary Authority

## Table 11: Central Bank Survey, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Net foreign assets** | **4,241.0** | **5,308.0** | **9,110.0** | **8,227.3** | **5,247.5** |
| Claims on non-residents | 4,689.6 | 5,685.1 | 9,475.7 | 8,700.9 | 7,181.3 |
| Liabilities to non-residents | (448.6) | (377.1) | (365.8) | (473.6) | (1,933.9) |
| **Net domestic assets** | **3,940.9** | **4,321.1** | **3,392.4** | **2,046.8** | **3,730.2** |
| Domestic claims | 4,692.4 | 5,969.1 | 5,330.8 | 5,547.3 | 7,444.6 |
| Net claims on central government | 4,685.5 | 5,961.6 | 5,324.2 | 5,455.3 | 5,279.3 |
| o/w Claims on central government | 5,005.9 | 6,260.1 | 6,440.5 | 6,373.0 | 6,372.4 |
| Claims on other sectors | 6.9 | 7.5 | 6.5 | 92.0 | 2,165.3 |
| Other items (net) | (751.6) | (1,648.0) | (1,938.4) | (3,500.4) | (3,714.4) |
| **Monetary base** | **8,181.9** | **9,629.1** | **12,502.3** | **10,274.1** | **8,977.7** |
| Currency in circulation | 2,475.5 | 3,252.4 | 3,099.4 | 3,220.7 | 3,243.5 |
| Liabilities to other depository corporations | 5,705.7 | 6,375.1 | 9,401.8 | 7,052.3 | 5,734.2 |
| Liabilities to other sectors | 0.6 | 1.6 | 1.1 | 1.1 | - |
| | | Annual percentage change | | | |
| Net foreign assets | (10) | 25 | 72 | (10) | (36) |
| Claims on non-residents | (9) | 21 | 67 | (8) | (17) |
| Liabilities to non-residents | 1 | (16) | (3) | 29 | 308 |
| Net claims on central government | 33 | 27 | (11) | 2 | (3) |
| Monetary base | 8 | 18 | 30 | (18) | (13) |
| o/w Currency in circulation | 13 | 31 | (5) | 4 | 1 |
| Liabilities to other depository corporations | 8 | 12 | 47 | (25) | (19) |

Source: Maldives Monetary Authority

## Table 12: Other Depository Corporations Survey, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Net foreign assets** | **1,017.3** | **3,505.4** | **3,431.1** | **4,070.1** | **2,542.0** |
| Claims on non-residents | 2,684.8 | 4,727.8 | 4,608.0 | 5,112.8 | 4,440.1 |
| Liabilities to non-residents | (1,667.6) | (1,222.4) | (1,176.9) | (1,042.6) | (1,898.1) |
| **Net domestic assets** | **16,866.9** | **17,367.9** | **21,046.4** | **23,664.6** | **25,288.6** |
| Domestic claims | 25,452.6 | 26,805.1 | 32,687.6 | 35,257.1 | 38,277.3 |
| Claims on central bank | 6,251.4 | 7,810.5 | 12,033.9 | 10,810.1 | 9,681.4 |
| Net claims on central government | 2,964.0 | 2,680.5 | 3,941.2 | 5,924.7 | 8,147.9 |
| o/w Claims on central government | 4,735.5 | 4,475.0 | 5,965.2 | 7,858.1 | 10,109.1 |
| Claims on other sectors | 16,237.2 | 16,314.1 | 16,712.5 | 18,522.3 | 20,448.1 |
| Claims on other financial corporations | 161.0 | 109.2 | 288.3 | 303.9 | 429.7 |
| Claims on public non-financial corporations | 1,577.6 | 1,574.4 | 1,333.9 | 1,408.2 | 1,433.7 |
| Claims on private sector | 14,498.6 | 14,630.4 | 15,090.3 | 16,810.3 | 18,584.6 |
| Other items (net) | (8,585.6) | (9,437.2) | (11,641.2) | (11,592.5) | (12,988.7) |
| **Transferable, other deposits and securities other than shares included in broad money** | **17,884.2** | **20,873.3** | **24,477.5** | **27,734.7** | **27,830.7** |
| | | Annual percentage change | | | |
| Net foreign assets | (155) | 245 | (2) | 19 | (38) |
| Claims on non-residents | 53 | 76 | (3) | 11 | (13) |
| Liabilities to non-residents | (54) | (27) | (4) | (11) | 82 |
| Net claims on central government | (10) | (10) | 47 | 50 | 38 |
| Claims on other sectors | (9) | 0 | 2 | 11 | 10 |
| Claims on other financial corporations | 63 | (32) | 164 | 5 | 41 |
| Claims on public non-financial corporations | (5) | (0) | (15) | 6 | 2 |
| Claims on private sector | (10) | 1 | 3 | 11 | 11 |

Source: Maldives Monetary Authority

## Table 13: Assets and Liabilities of the Maldives Monetary Authority, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Assets** | **10,199.9** | **12,450.6** | **16,406.9** | **15,796.2** | **16,484.9** |
| Foreign assets | 4,689.6 | 5,685.1 | 9,475.7 | 8,700.9 | 7,181.3 |
| Claims on central government | 5,005.9 | 6,260.1 | 6,440.5 | 6,373.0 | 6,372.4 |
| Claims on other sectors | 6.9 | 7.5 | 6.5 | 92.0 | 2,165.3 |
| Other assets | 189.4 | 191.1 | 178.2 | 169.4 | 337.5 |
| Non-financial assets | 308.1 | 306.7 | 306.0 | 461.0 | 428.4 |
| **Liabilities** | **10,199.9** | **12,450.6** | **16,406.9** | **15,796.2** | **16,484.9** |
| Currency in circulation | 2,475.5 | 3,252.4 | 3,099.4 | 3,220.7 | 3,243.5 |
| Claims to central government | 320.4 | 298.5 | 1,116.2 | 917.7 | 1,093.0 |
| Claims to other depository corporations | 5,705.7 | 6,375.1 | 9,401.8 | 7,052.3 | 5,734.2 |
| Claims to other sectors | 10.6 | 11.6 | 11.1 | 10.5 | 13.3 |
| Other liabilities to other depository corporations | 197.4 | 997.9 | 1,701.4 | 3,364.7 | 3,450.9 |
| Foreign liabilities | 448.6 | 377.1 | 365.8 | 473.6 | 1,933.9 |
| Other liabilities | 413.1 | 529.4 | 533.2 | 437.3 | 734.6 |
| Shares and other equity | 628.6 | 608.6 | 177.9 | 319.4 | 281.3 |
| | | | Annual percentage change | | |
| Foreign assets | (9) | 21 | 67 | (8) | (17) |
| Claims on central government | 28 | 25 | 3 | (1) | (0) |
| Currency in circulation | 13 | 31 | (5) | 4 | 1 |
| Claims to central government | (18) | (7) | 274 | (18) | 19 |

Source: Maldives Monetary Authority

## Table 14: Assets and Liabilities of Other Depository Corporations, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Assets** | **30,947.4** | **34,985.0** | **41,193.5** | **44,142.4** | **46,363.0** |
| Foreign assets | 2,684.8 | 4,727.8 | 4,608.0 | 5,112.8 | 4,440.1 |
| Cash | 358.7 | 450.5 | 416.7 | 464.6 | 548.5 |
| Deposits with central bank | 5,892.6 | 6,457.8 | 11,617.2 | 10,345.5 | 9,132.9 |
| Securities other than shares | 4,294.6 | 3,937.2 | 5,839.1 | 8,324.1 | 10,612.0 |
| Loans and advances | 16,663.7 | 17,741.6 | 16,825.2 | 18,041.7 | 19,930.6 |
| Shares and other equity | 14.3 | 12.4 | 13.4 | 14.6 | 14.6 |
| Other assets | 534.3 | 566.0 | 661.3 | 1,104.8 | 885.1 |
| Non-financial assets | 504.3 | 1,091.5 | 1,212.7 | 734.3 | 799.2 |
| **Liabilities** | **30,947.4** | **34,985.0** | **41,193.5** | **44,142.4** | **46,363.0** |
| Foreign liabilities | 1,667.6 | 1,222.4 | 1,176.9 | 1,042.6 | 1,898.1 |
| Deposits | 17,884.2 | 20,873.3 | 24,477.5 | 27,734.7 | 27,830.7 |
| Central government liabilities | 1,771.5 | 1,794.5 | 2,024.0 | 1,933.4 | 1,961.2 |
| Other liabilities | 3,890.6 | 3,924.6 | 4,965.5 | 4,017.1 | 3,657.7 |
| Shares and other equity | 5,733.6 | 7,170.2 | 8,549.6 | 9,414.5 | 11,015.4 |

Source: Maldives Monetary Authority

## Table 15: Other Depository Corporations Private Sector Loans and Advances by Economic Group, 2012 - 2016

**(millions of rufiyaa)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Total loans and advances** | **14,403.2** | **14,533.5** | **14,927.8** | **16,759.4** | **18,513.3** |
| Agriculture | 15.9 | 10.3 | 7.9 | 4.2 | 1.9 |
| Fishing | 551.9 | 546.6 | 399.8 | 450.9 | 520.0 |
| Manufacturing | 324.1 | 316.5 | 199.2 | 170.8 | 171.9 |
| Construction | 1,205.8 | 1,320.7 | 1,735.5 | 2,441.7 | 3,345.2 |
| Real estate | 605.2 | 713.0 | 619.5 | 669.9 | 633.0 |
| Tourism | 8,326.8 | 7,430.1 | 6,476.0 | 6,628.0 | 7,257.0 |
| Commerce | 2,144.3 | 2,551.7 | 2,515.5 | 2,964.3 | 3,178.1 |
| Transport and communication | 480.0 | 520.0 | 613.1 | 894.3 | 1,069.8 |
| Electricity, gas, water and sanitary services | 0.7 | 11.4 | 54.0 | 22.0 | 13.9 |
| Other | 748.4 | 1,113.3 | 2,307.3 | 2,513.4 | 2,322.6 |
| | | As a percentage of total | | | |
| Fishing | 4 | 4 | 3 | 3 | 3 |
| Construction | 8 | 9 | 12 | 15 | 18 |
| Tourism | 58 | 51 | 43 | 40 | 39 |
| Commerce | 15 | 18 | 17 | 18 | 17 |
| Transport and communication | 3 | 4 | 4 | 5 | 6 |
| | | Annual percentage change | | | |
| Total loans and advances | (10) | 1 | 3 | 12 | 10 |
| o/w Fishing | (29) | (1) | (27) | 13 | 15 |
| Construction | 2 | 10 | 31 | 41 | 37 |
| Tourism | (9) | (11) | (13) | 2 | 9 |
| Commerce | 1 | 19 | (1) | 18 | 7 |
| Transport and communication | (22) | 8 | 18 | 46 | 20 |

Source: Maldives Monetary Authority

## Table 16: Interest Rates, 2012 - 2016

**(weighted average interest rates per annum; end of period)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Maldives Monetary Authority** | | | | | |
| **Open Market Operations** | | | | | |
| Reverse repurchase [1/] | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| Standing Facilities | | | | | |
| Overnight Deposit Facility | 0.25 | 3.00 | 1.50 | 1.50 | 1.50 |
| Overnight Lombard Facility | 16.00 | 12.00 | 10.00 | 10.00 | 10.00 |
| **Government** | | | | | |
| **Treasury bills** [2/] | | | | | |
| 28 days | 7.87 | 10.03 | 7.50 | 3.50 | 3.50 |
| 91 days | 7.90 | 10.21 | 8.00 | 3.87 | 3.87 |
| 182 days | 7.85 | 10.00 | 8.50 | 4.23 | 4.23 |
| 364 days | 7.86 | 10.50 | 9.00 | 4.60 | 4.60 |
| **Commercial banks** | | | | | |
| **Deposits** | | | | | |
| **Transferable deposits** | | | | | |
| Local currency | 2.24 | 2.23 | 2.24 | 2.37 | 2.38 |
| Foreign currency | 1.59 | 1.56 | 1.57 | 0.82 | 0.72 |
| **Savings deposits** | | | | | |
| Local currency | 2.25 | 2.25 | 2.23 | 2.20 | 1.65 |
| Foreign currency | 2.22 | 2.28 | 2.23 | 2.23 | 1.92 |
| **Time deposits (2 to 3 years)** | | | | | |
| Local currency | 3.80 | 4.00 | 4.01 | 3.94 | 2.50 |
| Foreign currency | 4.49 | 3.84 | 3.08 | 3.80 | 1.88 |
| **Loans and advances** | | | | | |
| **Public non-financial corporations** | | | | | |
| Local currency | 8.95 | 11.02 | 9.98 | 9.64 | 9.00 |
| Foreign currency | 9.33 | 9.24 | 9.25 | 11.39 | 9.52 |
| **Private sector** | | | | | |
| Local currency | 10.51 | 11.42 | 11.38 | 10.82 | 10.62 |
| Foreign currency | 8.68 | 8.58 | 8.46 | 8.85 | 9.08 |
| **Other financial institutions** | | | | | |
| **Share prices** | | | | | |
| MASIX index (period average) | 150.70 | 129.81 | 133.38 | 156.45 | 156.79 |
| MASIX index (end of period) | 149.74 | 114.60 | 134.13 | 156.48 | 155.05 |

Source: Maldives Monetary Authority, Maldives Stock Exchange

[1/] Open market operations has been temporarily suspended from May 2014 onwards.

[2/] Treasury bills reverted to a TAP system from an auction system in 2014. The rates were revised in 2015 due to a change in government policy.

## Table 17: Balance of Payments, 2012 - 2016 [1/]

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 [2/] | 2016 [2/] |
|---|---|---|---|---|---|
| **Current account balance** | **(184.5)** | **(127.4)** | **(117.8)** | **(294.1)** | **(840.0)** |
| Balance on goods | (1,261.4) | (1,372.0) | (1,660.0) | (1,655.0) | (1,839.5) |
| Export | 314.4 | 331.0 | 300.9 | 239.5 | 257.1 |
| Import | 1,575.8 | 1,703.0 | 1,960.9 | 1,894.5 | 2,096.6 |
| Balance on services | 1,600.9 | 1,880.4 | 2,205.0 | 2,030.6 | 2,009.3 |
| Export | 2,171.5 | 2,576.9 | 2,998.3 | 2,905.3 | 3,110.0 |
| o/w Travel | 1,958.0 | 2,335.2 | 2,695.7 | 2,569.2 | 2,730.5 |
| Import | 570.6 | 696.6 | 793.3 | 874.7 | 1,100.7 |
| Balance on primary income | (272.1) | (363.7) | (355.1) | (324.5) | (374.6) |
| Balance on secondary income | (251.8) | (272.0) | (307.8) | (345.2) | (635.2) |
| o/w Debit: Workers remittance | 259.3 | 265.0 | 300.8 | 347.8 | 378.6 |
| **Capital account balance [3/]** | **17.4** | **7.9** | **6.6** | **9.5** | **-** |
| **Financial Account [4/] (excludes reserves and related items)** | **(187.7)** | **(67.4)** | **(543.9)** | **(491.0)** | **(811.7)** |
| Direct investment | (228.0) | (360.8) | (333.4) | (307.7) | (448.0) |
| Portfolio investment | (53.1) | 53.3 | 17.2 | (122.9) | 5.1 |
| Other investment | 93.4 | 240.1 | (227.7) | (60.4) | (368.8) |
| **Net errors and omissions** | **(51.0)** | **119.8** | **(179.2)** | **(254.1)** | **(67.6)** |
| **Overall balance** | **30.4** | **(67.7)** | **(253.4)** | **47.7** | **95.8** |
| **Reserve and related items** | **(30.4)** | **67.7** | **253.4** | **(47.7)** | **(95.8)** |
| **Memorandum items:** | | | | | |
| Exports of goods and services | 2,485.9 | 2,907.9 | 3,299.2 | 3,144.8 | 3,367.1 |
| Current account as a percent of GDP [5/] | (7) | (5) | (4) | (9) | (22) |
| Gross International Reserves | 304.5 | 368.3 | 614.7 | 564.0 | 467.1 |

Source: Maldives Monetary Authority, Ministry of Finance and Treasury, National Bureau of Statistics

[1/] This table is compiled based on information available as at 16th April 2017 in accordance with IMF "Balance of Payments and International Investment Position Manual, 6th Edition" (BPM6) methodologies.

[2/] Figures for 2015 and 2016 are revised estimates.

[3/] Capital grants are included in secondary income account from 2016 onwards since it could not be segregated from total grants.

[4/] Positive sign indicates net lending and negative sign indicates net borrowing.

[5/] Current account as a percentage of GDP for 2016 is based on GDP forecasted by Ministry of Finance and Treasury.

## Table 18: Import and Export by Sector, 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Total imports (cif)** | **1,554.3** | **1,733.4** | **1,992.5** | **1,896.3** | **2,125.4** |
| Private imports | 1,113.2 | 1,210.6 | 1,366.6 | 1,384.2 | 1,570.3 |
| Tourism | 277.8 | 323.8 | 340.7 | 402.2 | 485.7 |
| Private (excluding tourism) | 835.4 | 886.8 | 1,026.0 | 982.0 | 1,084.6 |
| Public imports | 441.1 | 522.8 | 625.9 | 512.2 | 555.1 |
| Public enterprises | 403.0 | 495.9 | 587.0 | 441.1 | 408.9 |
| Government | 38.2 | 26.9 | 38.9 | 71.1 | 146.1 |
| **Total exports (fob)** | **314.4** | **331.0** | **300.9** | **239.7** | **256.2** |
| Domestic exports | 161.6 | 166.5 | 144.8 | 144.1 | 139.6 |
| Private exports | 98.0 | 101.9 | 96.6 | 107.2 | 96.4 |
| Public exports | 63.6 | 64.6 | 48.3 | 37.0 | 43.2 |
| Re-exports | 152.8 | 164.4 | 156.0 | 95.7 | 116.6 |
| Jet fuel | 130.6 | 145.4 | 133.0 | 73.0 | 58.5 |

Source: Maldives Customs Service

## Table 19: Composition of Imports (cif), 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Total imports** | **1,554.3** | **1,733.4** | **1,992.5** | **1,896.3** | **2,125.4** |
| Food items | 318.9 | 378.9 | 407.6 | 405.9 | 429.6 |
| Furniture, fixtures and fittings | 47.6 | 64.9 | 64.8 | 66.8 | 99.7 |
| Electronic and electrical appliances | 36.2 | 45.6 | 52.5 | 53.8 | 61.2 |
| Petroleum products | 488.3 | 503.2 | 571.6 | 285.2 | 247.3 |
| o/w Petrol | 39.0 | 44.8 | 56.6 | 26.0 | 26.3 |
| Diesel (marine gas oil) | 330.7 | 297.0 | 346.3 | 208.0 | 193.1 |
| Transport equipments and parts | 74.5 | 120.5 | 143.7 | 188.7 | 188.7 |
| Wood, metal, cement and aggregates | 140.1 | 136.4 | 169.2 | 241.0 | 286.4 |
| Machinery and mechanical appliances and parts | 80.3 | 89.8 | 120.9 | 121.9 | 203.7 |
| Electrical and electronic machinery and equipments and parts | 55.0 | 72.7 | 88.3 | 99.5 | 114.6 |
| Other items | 313.4 | 321.5 | 373.9 | 433.6 | 494.2 |

Source: Maldives Customs Service

## Table 20: Composition of Exports (fob), 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Merchandise exports** | **314.4** | **331.0** | **300.9** | **239.7** | **256.2** |
| Domestic exports | 161.6 | 166.5 | 144.8 | 144.1 | 139.6 |
| Fish exports | 156.1 | 161.3 | 139.1 | 137.3 | 134.8 |
| Fresh, chilled or frozen tuna | 128.3 | 133.3 | 112.0 | 108.7 | 106.6 |
| o/w Skipjack | 39.4 | 46.3 | 31.8 | 28.0 | 37.4 |
| Yellowfin tuna | 88.2 | 85.6 | 75.5 | 77.2 | 67.0 |
| Fresh, chilled or frozen fish (excluding tuna) | 4.4 | 3.2 | 4.4 | 4.9 | 4.4 |
| Canned or pouched | 13.8 | 16.5 | 15.8 | 13.8 | 15.4 |
| Other processed fish | 9.6 | 8.3 | 6.9 | 9.9 | 8.4 |
| Fish products, sea food, other marine products and live fish | 1.9 | 1.8 | 1.9 | 2.6 | 2.2 |
| Garments and other exports | 3.6 | 3.4 | 3.7 | 4.2 | 2.6 |
| Re-exports | 152.8 | 164.4 | 156.0 | 95.7 | 116.6 |

Source: Maldives Customs Service, Maldives Airports Company Limited, Gan International Airport

## Table 21: Direction of Trade - Import of Goods, 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Total imports** | **1,554.3** | **1,733.4** | **1,992.5** | **1,896.3** | **2,125.4** |
| Asia | 1,287.8 | 1,408.5 | 1,651.4 | 1,528.6 | 1,738.7 |
| o/w China | 68.5 | 81.5 | 105.1 | 147.3 | 285.6 |
| India | 147.7 | 154.0 | 170.6 | 226.5 | 275.5 |
| Malaysia | 85.4 | 85.2 | 145.1 | 141.9 | 120.9 |
| Singapore | 282.1 | 281.0 | 349.5 | 325.1 | 305.4 |
| Thailand | 74.4 | 86.0 | 87.6 | 91.0 | 99.3 |
| United Arab Emirates | 465.1 | 491.4 | 472.8 | 317.0 | 333.4 |
| Europe | 124.3 | 192.9 | 194.4 | 231.9 | 242.5 |
| o/w France | 15.9 | 34.2 | 17.6 | 18.1 | 17.5 |
| Germany | 28.6 | 30.0 | 34.8 | 35.7 | 51.7 |
| Italy | 15.6 | 24.4 | 29.6 | 23.5 | 33.8 |
| North America | 83.8 | 57.3 | 62.0 | 53.5 | 58.0 |
| o/w USA | 45.6 | 30.2 | 33.5 | 37.4 | 42.2 |
| Oceania | 39.0 | 45.2 | 56.9 | 53.9 | 48.1 |
| o/w Australia | 31.3 | 32.4 | 36.7 | 32.1 | 34.5 |
| South America | 12.0 | 20.3 | 17.4 | 16.2 | 18.0 |
| Africa | 7.4 | 9.2 | 10.5 | 12.2 | 20.0 |

Source: Maldives Customs Service

## Table 22: Direction of Trade - Export of Goods, 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Domestic exports** | **161.6** | **166.5** | **144.8** | **144.1** | **139.6** |
| Asia | 81.3 | 94.6 | 73.1 | 69.0 | 72.6 |
| o/w Japan | 3.3 | 5.1 | 7.7 | 4.7 | 3.0 |
| Sri Lanka | 11.7 | 9.5 | 8.7 | 17.3 | 14.2 |
| Thailand | 44.3 | 61.7 | 46.7 | 36.6 | 48.0 |
| Europe | 73.4 | 63.2 | 57.8 | 59.5 | 53.7 |
| o/w France | 26.7 | 22.5 | 20.9 | 15.1 | 12.3 |
| Germany | 5.5 | 10.0 | 9.7 | 10.0 | 12.2 |
| Italy | 12.4 | 8.2 | 5.1 | 8.1 | 6.9 |
| UK | 12.0 | 9.1 | 6.8 | 8.3 | 5.8 |
| North America | 6.1 | 8.1 | 13.6 | 15.2 | 12.6 |
| Oceania | 0.9 | 0.6 | 0.4 | 0.2 | 0.6 |
| South America | - | 0.0 | - | - | - |
| Africa | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |

Source: Maldives Customs Service

## Table 23: External Debt, 2012 - 2016

**(millions of US dollars)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | | Outstanding stock | | |
| **Total external debt outstanding [1/]** | **813.5** | **791.8** | **744.6** | **696.6** | **846.1** |
| Central government | 720.0 | 747.0 | 698.4 | 662.6 | 761.2 |
| Multilateral | 328.5 | 323.3 | 293.2 | 269.1 | 251.8 |
| Bilateral | 232.5 | 216.6 | 189.9 | 169.3 | 142.7 |
| Commercial banks | 13.0 | 7.5 | 31.9 | 24.5 | 18.6 |
| Buyers credit | 146.1 | 199.6 | 183.4 | 199.7 | 348.1 |
| Other depository corporations [2/] | 93.4 | 44.8 | 46.2 | 34.0 | 84.9 |
| Head offices or branches | 90.8 | 43.0 | 25.9 | 34.0 | 75.6 |
| Non resident ODC | 2.6 | 1.8 | 20.3 | - | 9.3 |
| | | | Flow | | |
| **Central government debt disbursed and debt service** | | | | | |
| Disbursements | 111.5 | 77.1 | 49.0 | 55.5 | 187.0 |
| Debt service | 72.9 | 60.8 | 76.8 | 72.3 | 77.1 |
| Principal repayment | 63.4 | 52.5 | 64.7 | 62.6 | 67.4 |
| Interest payments | 9.4 | 8.3 | 12.1 | 9.7 | 9.7 |
| **Debt service ratio (central government)** | **2.9** | **2.1** | **2.3** | **2.3** | **2.3** |
| **Total external debt outstanding as a percentage of GDP** | **32.4** | **28.4** | **24.1** | **20.3** | **22.5** |
| | | | Annual percentage change | | |
| Total external debt outstanding | (9) | (3) | (6) | (6) | 21 |
| Central government | 7 | 4 | (7) | (5) | 15 |
| Other depository corporations [2/] | (58) | (52) | 3 | (26) | 150 |
| **Memorandum items:** | | | | | |
| Nominal GDP (millions of US dollars) [3/] | 2,509.3 | 2,785.5 | 3,086.2 | 3,423.3 | 3,765.6 |
| Exchange rate [4/] | 15.37 | 15.41 | 15.40 | 15.41 | 15.35 |
| Exports of goods and services (millions of US dollars) | 2,485.9 | 2,907.9 | 3,299.2 | 3,144.8 | 3,367.1 |

Source: Ministry of Finance and Treasury, Maldives Monetary Authority, National Bureau of Statistics

[1/] This includes external debt of central government and other depository corporations only.

[2/] Resident other depository corporations foreign borrowings.

[3/] GDP for 2016 is a forecast made by the Ministry of Finance and Treasury.

[4/] External debt statistics is converted from rufiyaa to US dollars using rates provided by Ministry of Finance and Treasury.

## Table 24: Exchange Rates, 2012 - 2016

**(rufiyaa per foreign currency; end of period mid rate)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| US dollar [1/] | 15.3700 | 15.4100 | 15.4000 | 15.4100 | 15.3500 |
| Japanese yen | 0.1785 | 0.1462 | 0.1278 | 0.1288 | 0.1313 |
| Singapore dollar | 12.4758 | 12.0466 | 11.5661 | 10.8079 | 10.4518 |
| Indian rupee | 0.2825 | 0.2491 | 0.2425 | 0.2315 | 0.2260 |
| Sri Lankan rupee | 0.1209 | 0.1176 | 0.1172 | 0.1070 | 0.1029 |
| Pound sterling | 24.6595 | 25.2298 | 23.8169 | 22.6893 | 18.7847 |
| Euro | 20.1550 | 21.0160 | 18.6308 | 16.7015 | 15.9899 |

Source: Maldives Monetary Authority, Bank of Maldives plc

[1/] The US dollar rate refers to the reference rate of the Maldives Monetary Authority whereas all other currency rates refer to the mid-rate of the buying and selling rates of the Bank of Maldives.

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