

Explanatory Notes on External Sector

1. Reserve Data Template

I. General Information

Conceptual Framework

The underlying framework of the Reserve Data Template (RDT) is built on two related concepts, i.e. (1) International Reserve and (2) Foreign Currency Liquidity concept. The concepts for the compilation of RDT are covered in International Monetary Fund's International Reserve and Foreign Currency Liquidity: Guideline for a Data Template (IMF 2013).

The Foreign Currency Liquidity concept is broader than the International Reserves¹ concept set forth in IMF's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) in three aspects:

- (1) Reserve assets refers to external assets of the monetary authorities, while foreign currency liquidity covers foreign currency resources and drains on such resources of the monetary authorities and the central government;
- (2) Reserve assets represents monetary authorities claims on non-residents, while foreign currency liquidity relates to the monetary authorities and central government's foreign currency claims on and obligations to residents and nonresidents; and

- (3) Reserve assets are based on balance sheet framework, while the concept of liquidity encompasses inflows and outflows of foreign currency that results from both on and off-balance sheet activities of the monetary authority and central government.

With respect to institutional coverage, the RDT ideally covers the **monetary authorities**, which manage and hold international reserves and the **central government** (excluding social security funds), which, together with the monetary authorities, accounts for most of foreign currency obligations.

To enhance the transparency of data on countries' international reserve and foreign currency liquidity, the RDT set by the IMF calls for comprehensive disclosure of the monetary authorities and central government's

- (1) official reserve assets,
- (2) other foreign currency assets,
- (3) predetermined short-term net drains of foreign currency assets,
- (4) contingent short-term net drains on foreign currency assets and
- (5) other related supplementary information.

However, in the case of Maldives, currently the foreign currency liquidity concept covers **three parts** and is based on **on-balance sheet** activities of the Maldives Monetary Authority (MMA) only. The foreign currency resources includes

- (1) official reserve assets and
- (2) other foreign currency assets at the disposal of MMA, that are readily available to meet the demand for foreign exchange and
- (3) predetermined short term net drains on foreign currency assets, i.e. known or scheduled short term inflows and outflows of foreign

¹ The term International Reserve, Gross International Reserves (GIR), Reserve Assets and Official Reserve Assets can be used interchangeably and has the same definition and concept as the one set forth in BPM6 para. 6.64.

currency resources resulting from the short-term foreign currency liabilities of the MMA.

II. Key elements

Official Reserve Assets

Gross International Reserves or Official Reserve Assets are those external assets that are readily available to and controlled by the MMA for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). The official reserve assets include:

1. Foreign Currency reserves

- i. **Securities** These are highly liquid and marketable foreign currency equity and debt securities issued by nonresident entities.
- ii. **Total Currency and Deposits** Includes the demand deposits available on demand, and term deposits that are redeemable upon demand or very short notice without unduly affecting the value of the deposits. These deposits are held in foreign central banks and other non-resident banks such as commercial banks. In addition, currency holdings are also included under total currency and deposits. This consists of foreign currency notes and coins in circulation and commonly used to make payments.

2. **IMF Reserve Position and SDRs:** IMF reserve position includes the reserve tranche, i.e. the foreign currency amount that a member country may draw from the IMF at short notice and SDRs are international reserve assets that IMF created to supplement the

reserve of IMF member countries, which are allocated in proportion to the country's respective quota.

3. **Other Reserve Assets:** Includes assets that are liquid and readily available to the MMA, but not included in other categories of reserve assets. These assets include:

- i. The net market-to-market value of financial derivatives positions (including forwards, swaps, futures and options) with nonresidents which are highly liquid and denominated and settled in foreign currency.
- ii. Other financial assets not included elsewhere but that are foreign currency assets that are available for immediate use.

Other Foreign Currency Assets

Refer to liquid foreign currency assets of the MMA that are not included in official reserve assets. These assets are available on demand to meet foreign currency needs of MMA. Unlike official reserve assets, these assets are not only external assets, but also includes claims on residents.

Pre-determined short-term net drains on foreign currency assets

The predetermined drains are the known or scheduled contractual obligations of MMA in foreign currencies with both residents and non-residents. These are on-balance sheet commitments including the predetermined payment of principle and interest associated with loan and securities. The "net drains" refer to outflow of foreign currency, net of inflows while the "short-term" obligations include those with an original maturity of 1 year or less and those with the remaining (residual) maturity of one year or less. Pre-determined short-term foreign currency flows consists of:

1. **Loans, Securities and Deposits:**

- i. **Foreign currency loans** includes short and long-term loan debts (interest and principle payments) falling due within one year.
- ii. **Foreign currency deposits** include deposits of foreign central banks and other foreign banking institutions with the MMA and foreign currency deposits of resident entities with MMA. Among the resident entities' deposits, majority are commercial bank's deposits held at MMA for prudential purposes (i.e. Minimum Reserve Requirement) and these deposits are redeemable by depositors on short notice.
- iii. **Foreign currency securities** include interest and principle repayment of negotiable debt instruments such as bonds and notes, which are settled in foreign currency.

Inflows of foreign currency to be reported in "Pre-determined short-term net drains on foreign currency assets" of the RDT are those relating to scheduled foreign currency obligations due to the MMA on outstanding loans, securities and deposits owed by the MMA, that are not covered in "Official Reserves and Other Foreign Currency Assets" of the RDT.

- 2. **Forwards, Future and Swaps:** These are foreign currency flows arising from a foreign exchange commitment that need to be met at settlement of all outstanding forward, future and swap contracts.
- 3. **Other Predetermined Foreign Currency Flows:** These includes pre-determined foreign currency outflows and inflows relating to repos & reverse repos and accounts payable & receivables that are materially significant.

2. Balance of Payments

The conceptual framework used in compiling Balance of payments statistics is based on International Monetary Fund's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6). This publication contains comprehensive estimates of MMA.

I. General Information

The Balance of Payments (BOP) is a statistical statement that systematically summarizes economic transactions (flows) of residents of the Maldives with the rest of the world for a specific period of time. These transactions are recorded in three main accounts: the current account, capital account and financial account.

From January 2017 onwards MMA started disseminating BOP statistics based on the Sixth Edition of the Balance of Payment and International Investment Position Manual (BPM6) methodologies of the International Monetary Fund (IMF).

II. Current Account

The balance of current account is derived by aggregating all relevant transactions (i.e trade in goods, trade in services, primary income and secondary income). A balance is said to be in surplus if credit entries exceeds debit entries or in deficit if debit entries exceeds credit entries.

Balance on Goods

Exports

This includes goods exported from the Maldives and consists of two parts; domestic exports and re-exports. Re-exports is mainly jet fuel sold to foreign carriers.

This information is collected from the Maldives Customs Service (MCS) and major international airports operating in the Maldives.

In compiling the actual exports value, data from MCS and international airports are used while projections are based on past trend. Meanwhile, re-exports are projected based on tourist arrival, and the estimated average prices of petroleum products imported to Maldives.

Imports

Imports consists of all merchandise imports into the country which are recorded by the MCS. However some adjustments (such as valuation and coverage) are made to the trade statistics data provided by the MCS when estimating the import value for BOP. Hence import value in BOP statistics (Table 13.1 and 13.2) is not comparable with the trade statistics (Tables 14.1 to 14.5).

To forecast the import of major items (such as food & beverage, and petroleum products) price and volume index is calculated. Prices are based on commodity prices forecasts by the IMF or World Bank and the implicit price of petroleum products imported to Maldives; while volume is based on estimated tourist arrival / bed night growth. Imports of other items are forecasted based on past trends.

Balance on Services

Export: Transportation Services

The major components in this section are:

- Earnings of resident airlines from sale of ticket to non-residents on international routes and
- Earnings of international airports in Maldives on handling, navigation, parking and other related charges from foreign airlines.

This information is based on data collected from resident airlines operating in Maldives, Maldives Ports Limited (MPL), international airports in Maldives, other administrative records and estimates made by MMA.

Import: Transportation Services

The major component in this category is freight charges on imports. This data is collected from MCS. It also includes payments made for use of foreign sea ports and purchase of air tickets from non-resident airlines. Payment made for air tickets is estimated by MMA based on information collected from Maldivian Travelling Abroad (MTA) Survey, conducted annually.

Export: Travel

Total travel receipt is estimated by MMA based on Tourism Goods and Services Tax (TGST), Green Tax and Airport Development Fee (ADF) collected by Maldives Inland Revenue Authority (MIRA). It also includes revenue received from duty-free shops at Velaana International Airport.

Import: Travel

This includes the amount spent by residents for travel. Data is sourced from the annual MTA survey conducted by the MMA and administrative records of government's foreign payments kept at the MMA.

Other services

Other components in the services account are receipts and payments made for the following services:

- Constructions services
- Insurances services
- Financial services
- Charges for the use of intellectual property
- Telecommunications, computer and information services
- Research and development services
- Professional and management consulting services
- Technical, trade-related and other business services

- Personal, cultural and recreational services
- Government goods and services

Estimates for the above are made by MMA based on administrative records of MIRA, surveys conducted by MMA and administrative records from various sources.

Balance on Primary Income

The primary income account represents the return that accrues to the institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units. The main components of this account are; i) compensation of employees, ii) investment income and iii) other primary income.

The credit entries in primary income account reflects primary income receivable while the debit entry reflects the primary income payable by the reporting country. The balance in this account shows net primary income less income payable. However in case of Maldives, the primary income payable is greater than the primary income receivable; showing a negative balance in primary income account. This account mainly consists of:

- Investment income associated with the ownership of financial assets such as dividends payable and withdrawals from income; and reinvested earnings of direct investments in Maldives.
- Other Investments such as interest income receivable to MMA, commercial banks and other sectors on their investments. Interest income payable by the government, commercial banks and other sectors on their external borrowings.

The data is based on the annual Foreign Direct Investment (FDI) survey conducted by the MMA, financial statements of foreign direct investment enterprises, various administrative records and information from Bank of International Settlements (BIS) database.

Balance on Secondary Income

The secondary income account shows current transfers between residents of Maldives with rest of the world. Various types of current transfers are recorded in this account and shows the process of income distribution. The main components of this account are i) personal transfers and ii) other transfers

Similar to primary income account, the balance on the secondary income account presents total credits (transfer receivable) less total debits (transfer payable). In case of Maldives debits are more than credits; showing a negative balance in secondary income account and this account mainly consists of:

- Personal transfers payable such as workers remittances
- Cash grants received to the government
- Other transfers

Data is obtained from the administrative records kept at MMA and Ministry of Finance (MoF).

III. Capital Account

This account includes capital grants received by the government of Maldives, including the transfer of capital assets. It also includes cash grants that are used for capital expenditure. This data is collected from the MOFT. However, from 2016 onwards capital transfers are included in secondary income account since total grants data cannot be segregated further.

IV. Financial Account

The financial account records transactions that involve financial assets and liabilities that take place between residents and nonresidents. In

accordance with the IMF standards, various classifications such as assets / liabilities, types of instruments, functional categories (direct investment, portfolio investment etc.), and investment by institutional units are used to present the financial account data of Maldives.

Assets and Liabilities

With the change in methodology from BPM5 to BPM6, the presentation of financial account is changed from directional principle to asset-liability principle. With this change, the categories of flows has been changed to “net acquisition of financial assets (NAFA)” and “net incurrence of liabilities (NIL)”. More specifically NAFA shows acquisition of assets less reduction in assets, while NIL shows increase in liabilities less decrease in liabilities.

Thus, the financial account items are recorded on a net basis for financial assets and liabilities separately and reflects changes to all credit and debit entries during the accounting period; where a positive sign for both financial assets and liabilities denotes a net increase while a negative sign reflect a net decrease.

Type of instruments

In Maldives there are two broad categories of financial assets and liabilities: i) equity and investment fund shares and ii) debt instruments.

- **Equity and investment fund shares** have the distinguishing feature that the holders own a residual claim on institutional unit (that issued the instrument), after the claims of the creditors have been met. In the case of Maldives, this category consists mainly of equity securities (both listed and unlisted), rather than the investment shares, which are treated as liability of the issuing institutional unit and represents the owner's funds in the institutional unit
- **Debt instruments** are those instruments that generally require the payments of principal and / or interest at some point in the

future. In the case of Maldives the major debt instrument consists of Special drawing Rights (SDR), currency and deposit, debt securities (such as bonds and bills) loans, etc.

- **Reserves and Related Items** reflects the change in gross international reserves. Information is sourced from the Monetary and Financial Statistics (MFS) database of MMA.

Functional classification

There are four major functional categories used in the Maldives' BOP statistics. They are:

- **Direct investment** is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Generally, a non-resident investor is deemed to have control and significant influence when they hold 10 percent or more of equity or voting rights in a company.
Direct Investment in the Maldives is based on information collected from the annual Foreign Direct Investment (FDI) survey conducted by MMA and the information collected from annual financial statements of such companies and administrative records.
- **Portfolio investment** cross-border transactions and positions involving debt or equity securities, other than those included in direct investment. Information for portfolio investment liabilities is collected from the Coordinated Portfolio Investment Survey (CPIS) database of the International Monetary Fund (IMF).
- **Other Investment** covers information on other investment assets and liabilities of monetary authorities, banks and other sectors. These estimates are based on data obtained from the Monetary and Financial Statistics (MFS) database of MMA, administrative records and information of such flows available at the Bank of International Settlements (BIS) database.

3. External Debt Statistics

I. General Information

External debt statistics (EDS) provides information on the total outstanding external debt of the central government, publicly guaranteed external debt and the loan liabilities of the resident commercial banks to the nonresidents. The central government and publicly guaranteed external debt data is provided by the Ministry of Finance.

II. Total External Debt

External debt is defined as the gross outstanding amount of actual current (not contingent) liabilities owed to nonresident creditors (that requires principal and/or interest for future periods) by the residents of the country.

III. Central Government and Publicly Guaranteed External Debt

Central government

This refers to the external debt liabilities of the central government, defined as all debt liabilities financial claims that requires payment, principal and or interest from the central government to foreign creditors for a given fiscal year. The central government external debt includes long term debt securities and loans from nonresident creditors.

- The debt securities include the sovereign bonds and sukuk issued to international market,
- Loans refer to central government debt liabilities owed to nonresident multilateral creditors, official bilateral creditors, commercial bank and trade credit advances such as buyers-credit.

Publicly guaranteed external debt

Publicly guaranteed external debt is the amount of gross debt liabilities owed by residents, of which the servicing is contractually guaranteed by the central government. This includes the outstanding debt of the public and private nonfinancial corporations owed to nonresident financial and nonfinancial institutions, where the servicing of the debt (principal and/or interest for future periods) are guaranteed by the central government.

In table 15, this represents the debt liabilities of the State-Owned Enterprises (SOE) and private sector guaranteed by the central government.

IV. Other Depository Corporations' External Debt

Data in table 15 represents the resident deposit-taking corporations' borrowings from nonresidents such as head-offices and branches and nonresident other depository corporations (commercial banks).

This table excludes the outstanding debt owed to nonresidents by the resident other financial corporations, public nonfinancial corporations (the non-guaranteed debt liabilities of the SOE's), private nonfinancial corporations, households and nonprofit institutions serving households (NPISH) and direct investment enterprises of the Maldives, as these data are unavailable.