

29 AUG 2024

Fitch Downgrades Maldives to 'CC'

Fitch Ratings - Hong Kong - 29 Aug 2024: Fitch Ratings has downgraded the Maldives' Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CC' from 'CCC+'. Fitch typically does not assign Outlooks to sovereigns with a rating of 'CCC+' or below.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

Increased Risk of Default: The downgrade of the Maldives' IDRs to 'CC' reflects Fitch's assessment that intensified pressures from the country's recently deteriorating external financing and liquidity metrics have made a default event more likely within the rating horizon. This is underscored by a recent material decline in the foreign-reserve buffers alongside elevated external debt service and limited external financing inflows.

Falling Gross FX Reserves: The Maldives' gross foreign-exchange (FX) reserves plunged by roughly 20% to USD395 million in July 2024 from USD492 million in May 2024, marking the lowest level since December 2016. Gross reserves net of short-term foreign liabilities hit a record low of only USD44 million. The decline reflects persistently high current account deficits (CAD), high external debt service, and the Maldives Monetary Authority's continued interventions to support the currency peg of the rufiyaa to the US dollar.

Rising External Debt Service: The government has USD50 million in sovereign external debt-servicing obligations falling due in 4Q24 and USD64 million in publicly guaranteed external debt. The Sovereign Development Fund holds a cash balance denominated in US dollars of about USD65 million, up from USD54 million in mid-June. The government could use the liquid balance not included in the usable reserves for upcoming debt payments. However, total external debt servicing will increase to USD557 million in 2025 and exceed USD1.0 billion in 2026, including repayment of a USD500 million sukuk.

External Imbalances; Liquidity Constraints: We expect the Maldives' CAD to remain high over the short to medium term, due to the country's substantial public investment and heavy reliance on imports of food products, energy and capital goods. This has resulted in persistent US dollar shortages, exerting pressures on the parallel market and reserve buffers, since its import cover has traditionally been much lower than in 'B'/'C'/'D' peers. In addition, spillover effects on the banking system have become more prominent in recent weeks, with the banking system's US dollar liquidity tightening considerably.

Reliance on Support and Reforms: FX swap arrangements could be made with strategic bilateral partners to ease the external financing pressure, although it is uncertain whether these will

materialise. Fiscal consolidation measures, if fully implemented, could also help alleviate the pressures over the medium term. However, we believe large and rising public debt with a lack of meaningful fiscal consolidation will increasingly become a constraint to receiving financial assistance. Support from IMF or other multilateral donors would most likely be contingent on debt restructuring.

Uncertainties in Medium-Term Financing Plan: We see a rising degree of uncertainty surrounding the government's plan to access the market and partly refinance the USD500 million sukuk in 2025, in addition to near-term external liquidity strains. The government also aims to accumulate more foreign-currency tourism revenue in the Sovereign Development Fund through various policy initiatives. However, we believe challenges remain for the government to draw about USD200 million from the fund for partial repayment of the sukuk in 2026, as it intends.

Public Debt Vulnerabilities: We project the Maldives' elevated general government debt/GDP ratio (estimated at 109.4% at end-2023, excluding government-guaranteed debt) will further increase over the medium term, well above the projected 'B''C''D' median level. This is based on our assumption of slower fiscal consolidation than outlined in the official medium-term fiscal strategy. The public debt burden would continue to rise in the absence of tangible and sustained progress in revenue mobilisation and expenditure rationalisation over the medium term.

ESG - Governance: The Maldives has an ESG Relevance Score of '5[+]' and '5' for Political Stability and Rights, and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, respectively. These scores reflect the high weight that the World Bank Governance Indicators (WBG I) have in our proprietary Sovereign Rating Model. The Maldives has a medium WBG I ranking at the 46th percentile, reflecting recent peaceful political transitions, a moderate level of rights for participation in the political process, institutional capacity and corruption, and an established rule of law.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Public Finances: Failure to service bonded debt obligations within grace periods stipulated in relevant documentation, or unilateral declaration of a debt moratorium.
- Public Finances: Launch of a formal debt renegotiation process by the authorities or the start of a process that Fitch deems to constitute a default or default-like event.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- External Finances: Strengthening of external financing capability and external buffers, for example through sizeable and sustained accumulation of foreign-currency reserves.
- Public Finances: Significant progress in implementing a credible fiscal consolidation strategy, putting public debt on a declining medium-term trajectory.

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns the Maldives a score equivalent to a rating of 'CCC+' on the Long-Term Foreign-Currency IDR scale. However, in accordance with its rating criteria, Fitch's sovereign rating committee has not utilised the SRM and QO to explain the ratings in this instance. Ratings of 'CCC+' and below are instead guided by the rating definitions.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Country Ceiling

The Country Ceiling for the Maldives is 'B-'. For sovereigns rated 'CCC+' or below, Fitch assumes a starting point of 'CCC+' for determining the Country Ceiling. Fitch's Country Ceiling Model produced a starting point uplift of +1 notch. Fitch's rating committee did not apply a qualitative adjustment to the model result.

Fitch does not assign Country Ceilings below 'CCC+', and only assigns a Country Ceiling of 'CCC+' in the event that transfer and convertibility risk has materialised and is affecting the vast majority of economic sectors and asset classes.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The Maldives has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As the Maldives has a percentile rank above 50 for the respective governance indicator, this has a positive impact on the credit profile.

The Maldives has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As the Maldives has a percentile rank below 50 for the respective governance indicators, this has a negative impact on the credit profile.

The Maldives has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGs is relevant to the rating and a rating driver. As the Maldives has a percentile rank below 50 for the respective governance indicator, this has a negative impact on the credit profile.

The Maldives has an ESG Relevance Score of '4' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for the Maldives, as for all sovereigns. As the Maldives has a fairly recent restructuring of public debt in 2020, this has a negative impact on the

credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Maldives	LT IDR	CC	Downgrade	CCC+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	ST IDR	C	Affirmed	C
	LC LT IDR	CC	Downgrade	CCC+
	LC ST IDR	C	Affirmed	C
	Country Ceiling	B-	Affirmed	B-

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	⊙	◆
STABLE	○	

Applicable Criteria

[Country Ceiling Criteria \(pub.24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub.06 Apr 2023\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.2 [\(1\)](#)

Debt Dynamics Model, v1.3.2 [\(1\)](#)

Macro-Prudential Indicator Model, v1.5.0 [\(1\)](#)

Sovereign Rating Model, v3.14.1 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Maldives EU Endorsed, UK Endorsed

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