



Trading in Local Currencies: Problems and Prospects for SAARC Countries The case of Maldives

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Maldives Monetary Authority
mma.gov.mv

Overview

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Introduction

- Most most cross-border settlements within South Asia are invoiced and settled in US dollars
- The growing consensus to depart from US dollar settlements stem from reducing the dependence on one single dominant currency, which would also potentially shelter countries against financial crisis spillovers
- Expected to deepen international trade and further promote financial integration in the region.

Current studies conducted

- Since 2020, the MMA has undertaken a study in relation to local currency settlement arrangement with India.
- Merchandise imports from India contribute toward a significant portion of overall imports to the country.
- Concurrently, considering inflows from services, the proportion of tourist arrivals from the Indian market have been rising over the recent years as well, which has further deepened the overall trade balance between the two countries.

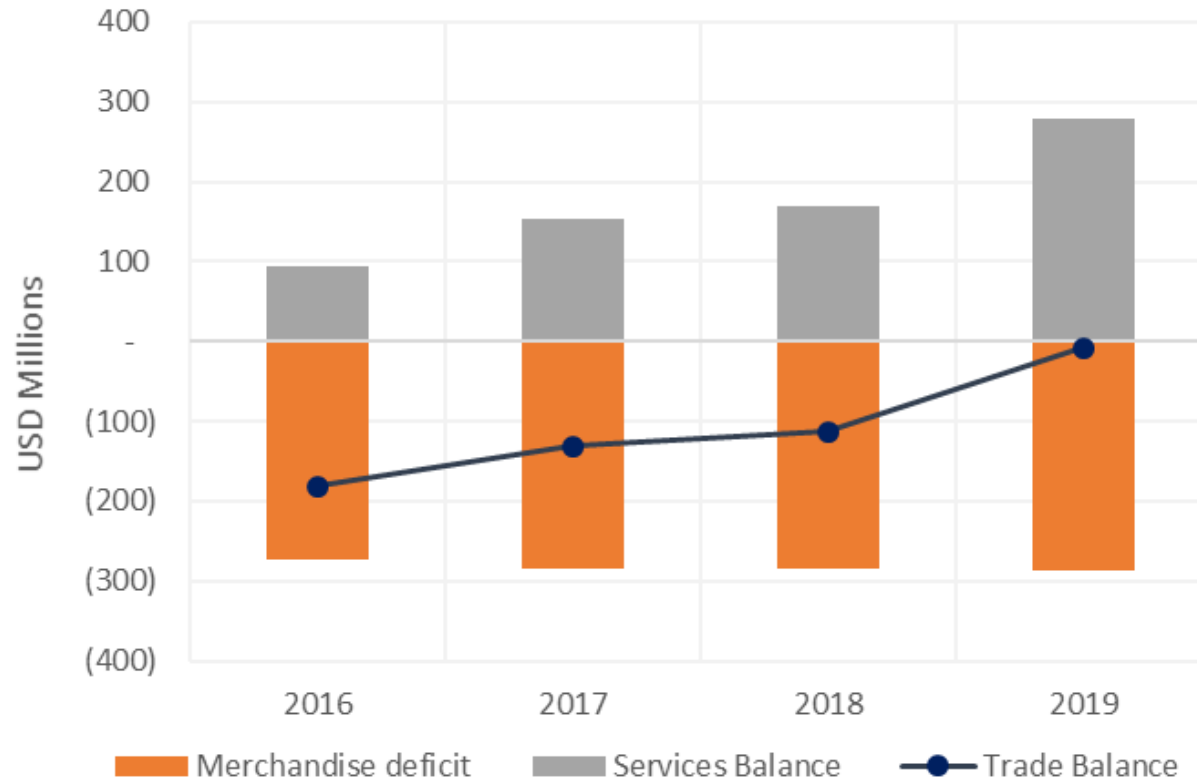
Merchandise balance with India

in millions of US\$

	2016	2017	2018	2019	2020	2021	2022	2023
Merchandise Deficit	(273.95)	(284.69)	(283.74)	(286.94)	(238.54)	(312.06)	(489.98)	(539.83)
Exports	1.56	2.86	2.82	3.41	3.34	5.96	6.44	5.15
Imports	275.51	287.55	286.55	290.35	241.88	318.02	496.42	544.98

- From the Asian region, India accounted for the highest share of imports to the Maldives by 16%. Among SAARC countries, it accounts for more than 70%.
- The merchandise trade balance between the two countries shows a deficit during 2016 - 2023. The magnitude of merchandise trade has increased over the years, especially due to the high import demand from the Maldives.
- Imports from India was driven mostly by the imports of construction-related items and food items during the 2023, while exports to India recorded a marginal decline owing to the dip in exports earnings from all categories of fish exports during the year.
- Considering service receipts, the largest component comprises of tourism receipts from Indian travelers. India has remained the dominant single source market since 2020.

Trade balance between the Maldives and India



- For overall trade balance, there are few data limitations on the services balances. As such, country-wise inflows and outflows for services are not readily available.
- Prior to 2020, estimates were calculated for tourist arrivals receipts. Following 2020, data regarding travellers were more comprehensively documented. However, the data collection project is yet to be completed.

Main issues and challenges

- While there are benefits to local currency settlement arrangements, there are various challenges that could arise depending on the type of local currency arrangement adopted
- It is expected that Maldives will be a net importer. Therefore, it is likely that INR balances of the MMA placed in Nostro accounts or ACU accounts will deplete rapidly in comparison and may need to be replenished often
- Essentially, to replenish or for bi-period net settlement in INR, MMA will require equivalent USD, which does not fully eliminate the use of USD in the settlement process; or the MMA can enter into a local currency swap
- Further, for the local currency settlement mechanism to be effective, the foreign currency earning sectors of the Maldives must be willing to earn in a currency other than the US dollar, which is expected to lessen the settlement gap in local currency. A local currency swap can be used to settle the trade gap

Actions undertaken and way forward

- 2020: Prepared a policy note on local currency settlement arrangement between the Maldives and India
- 2021: Policy note was shared with the High Commissioner of India to the Maldives
- 2021: Meetings held with HCI and RBI
- 2021 – 2022: Technical staff of MMA participated in workshops conducted by ACU and RBI. After the workshops, queries regarding the mechanism were discussed and submitted
- Going forward, the MMA plans to hold discussions with relevant stakeholders, especially commercial banks and industry representatives, to gauge their perception of local currency settlement arrangements.
- Further, the MMA is yet to decide the mechanism in which the settlements will take place i.e. options between settlements among central banks, solely through commercial banks and/or via the ACU mechanism.

THANK YOU!