Maldives

	2014
Population(1)	341,256
GDP (USD mn)	3,032
GDP per capita (USD PPP)	14,774
GDP per capita (USD)	8,625

Sources: World Bank, WDI
Notes: (1) Excluding expatriate workers (58,683)
Sources: Ministry of Finance and Treasury, National Bureau of Statistics, Maldives Monetary Authority, WDI, staff calculations

Economic growth continued its recovery from the 2012 dip, while inflation has slowed down, although recent political developments present a downside risk. The dominant tourism industry is operating on an enclave model of development, while the fisheries sector, with the largest share of employment, is only weakly linked to this sector. The challenges are fiscal and external imbalances driven by large and rising public spending leading to high debt, limited fiscal space and depleted reserves, and an undiversified economy, which primarily depends on tourism and fisheries.

Public Disclosure Authorized

Recent developments

Growth in 2014 (estimated by Bank staff at 5.0 percent), continued its recovery from the dip of 1.3 percent in 2012. This was driven by tourism and related sectors, which maintained an upward trend in 2014, albeit at a slower pace, while the public sector and social sectors showed improvement over last year as well. The expansion of the industrial sector was caused by the significant increase in construction activity—which grew at 20.6 percent in 2014, while manufacturing contributed marginally. The agriculture and fisheries sector is the only sector to have contracted in 2014 owing to a decline in activity of fisheries output. This is significant as the fisheries sector has traditionally played a large role in employment generation, especially among poorest Maldivians. Tourism and related activities accounts for two thirds of GDP, but provide employment to only 22 percent of the labor force.

Following the global decline in commodity prices, annual average CPI inflation slowed down sharply to 2.4 percent in 2014 and reached 1.6 percent in July 2015.

Fiscal policy in Maldives focuses on redistribution of tourism-related revenue through food and electricity subsidies, health insurance and public sector jobs. Despite high revenue of 32.4 percent of GDP, spending reached 44 percent of GDP, leading to a fiscal deficit estimated at 11.6 percent of GDP in 2014. Tourism-related earnings have driven the increase in total revenue, but not enough to prevent a widening of the deficit.

Persistent primary fiscal deficits have led to a high and increasing level of public debt. Although the country's risk of external debt distress is moderate, overall public debt is high at 74.6 percent of GDP in 2014, and subject to vulnerabilities.

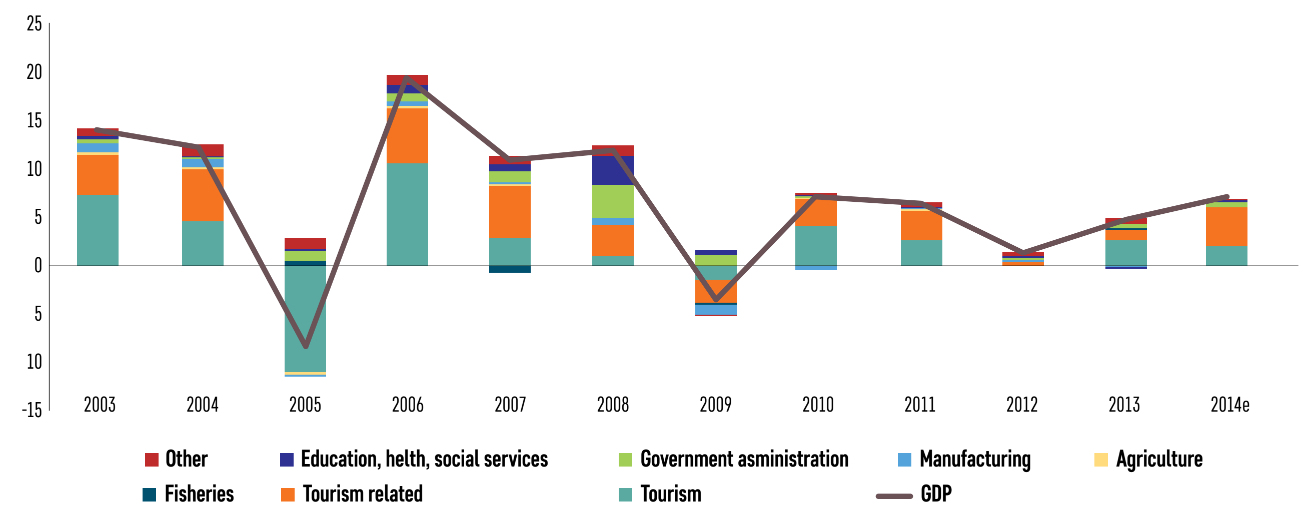

TABLE: Maldives

(annual percent change unless indicated otherwise)

	2011	2012	2013	2014e	2015f	2016f	2017f
Real GDP growth, at constant market prices	6.5	1.3	4.7	5.0	5.0	3.9	4.2
Private Consumption	...	...	...	...	...	...	...
Government Consumption	...	...	...	...	...	...	...
Gross Fixed Capital Investment	...	...	...	...	...	...	...
Exports, Goods and Services	...	...	...	...	...	...	...
Imports, Goods and Services	...	...	...	...	...	...	...
Real GDP growth, at constant factor prices	6.5	1.3	4.7	5.0	5.0	3.9	4.2
Agriculture	1.1	0.0	5.1	...	...	...	...
Industry	3.0	0.5	2.4	...	...	...	...
Services	-1.1	-0.7	8.2	...	...	...	...
Prices							
Inflation (Consumer Price Index)	11.3	10.9	4.0	2.4	0.3	2.1	3.5
Current Account Balance (% of GDP)	-16.0	-7.4	-4.4	-6.3	-5.0	-6.2	-5.6
Fiscal Balance (% of GDP)	-6.6	-7.6	-7.8	-11.6	-8.1	-7.3	-7.9

Sources: Maldives Monetary Authority, Ministry of Finance and Treasury, staff forecasts
Note: due to the lack of complete GDP data there are no recent GDP projections. (1) Bank-Fund staff estimates
Notes: e = Government estimate, f = forecast

The recently revised balance of payments numbers show that goods imports and tourism services exports nearly balance each other out, but substantial outflows through interest payments, dividends and remittances kept the current account in a deficit at 6.3 percent of GDP. The current account is more than fully financed by Foreign Direct Investment (FDI), mainly into the tourism sector.

As a result of the reduced goods imports and a large improvement in net capital inflows, gross official reserves have increased from USD 368 million at the end of 2013 to USD 693 million at the end of July 2015, but usable reserves (net of short-term foreign liabilities) remained low at only USD 214 million, covering about 1.3 months of imports of imports of goods and services. However, the stable exchange rate of MVR 15.4 per USD and the parallel market premium do not signal any shortages, and in practice the tourism industry appears to supply sufficient quantities of foreign exchange at a stable premium over the official exchange rate.

Outlook

The Government estimates growth in 2015 to reach 6.3 percent, but this appears unrealistic with the growth in key tourism indicators, such as arrivals and bed nights, well below the rates seen in 2014.

The 2015 budget foresees an ambitious fiscal consolidation mostly by increasing one-off revenue and planning a fiscal consolidation. The full impact of the increase in the Tourism Goods and Service Tax rate will be felt in 2015, while recently abolished tourism bed tax of USD 8 per night will be replaced by a "Green tax" on the same base later in 2015.

Inflation is projected to remain subdued as long as global commodity prices are expected to remain low, which will also benefit the current and fiscal accounts.

Challenges

The immediate macroeconomic challenge is the fiscal and external imbalances driven by high and rising public spending. The projected fiscal consolidation is not enough to bring public debt-to-GDP on a declining path and fiscal consolidation by raising revenue and reducing expenditure will be needed. Limited reserves, a high level of public debt and the short maturity of domestic debt adds additional vulnerability.

Meanwhile, continued domestic political unrest and a slowdown in major tourism-providing countries (China and European countries) might lead to reductions in tourism visits, which could put pressure on growth, revenue and the balance of payments.

There are limited investment opportunities in the private sector outside tourism, and banks prefer to park their available assets at the central bank and abroad.