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This bulletin is compiled by the Research Division (RD) of the Maldives Monetary Authority (MMA). It covers developments in the domestic and international economy during the third quarter of 2023. The analyses are based on information provided by relevant government authorities, commercial banks operating in the country, public enterprises and other private sector sources, as at 2 November 2023. Where actual data is not readily available, estimates have been made by RD based on available information. The timely receipt of data is therefore crucial to the compilation of this publication and the analyses contained herein.

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Abbreviations

BPT	business profit tax
CPI	consumer price index
FAO	Food and Agriculture Organization
GDP	gross domestic product
GST	goods and services tax
G-GST	general goods and services tax
GIR	gross international reserves
GWP	Gross Written Premium
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MBS	Maldives Bureau of Statistics
MIFCO	Maldives Industrial Fisheries Company
MMA	Maldives Monetary Authority
NCG	net claims on central government
NDA	net domestic assets
NFA	net foreign assets
NII	net interest income
NPL	non-performing loan
NWP	net written premium
ODF	overnight deposit facility
PMI	purchasing managers' index
ROA	return on assets
ROE	return on equity
QBS	quarterly business survey
QNA	quarterly national accounts
RBI	Reserve Bank of India
SOE	state-owned enterprise
STO	State Trading Organization
T-GST	tourism goods and services tax

UNWTO	United Nations World Tourism Organization
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WEO	World Economic Outlook



RECENT ECONOMIC DEVELOPMENTS

Macroeconomic Outlook

Activity in the global economy is anticipated to have moderated over 2023 and is expected to moderate further in 2024, owing mainly to the effects of policy tightening to reign in inflationary pressures and worsening geoeconomic fragmentation. As per the International Monetary Fund (IMF) World Economic Outlook (WEO) October 2023 report, global growth is set to be at 3.0% in 2023, and moderate to 2.9% in 2024. The global growth for 2024 is 0.1% lower than the growth projections made in April and July 2023. For 2023, the decline in the pace of growth from 2022 (3.5%) primarily reflects the anticipated slowdown in advanced economies largely due to the impact of policy tightening, while the decline for emerging markets was modest. The slowdown of the recovery path primarily reflects the lingering effects of the pandemic, the Russia-Ukraine war, as well as widening geoeconomic fragmentation and its resultant implications on global trade and economic cooperation. Further, reduction of fiscal support amid high debt levels have also contributed to the moderation of growth prospects.

With the pace of growth of the Maldivian economy having reached pre-pandemic levels by the end of 2022, real GDP growth is set to reach 8.7% in 2023 as per the October 2023¹ forecasts—0.7% lower than the forecasts made in April 2023. Economic activity is expected to be supported primarily by the strong rebound of the construction and real estate sector, which had remained stagnant over 2021 and 2022. As for the real GDP projection for 2024, it is set to be at 5.5%—lower than the long run average growth trend (6.5%). Although the growth impetus for 2024 is expected to be provided by the tourism and related sectors (transportation and communication sector), the deceleration of the pace of growth for

the year reflects the anticipated impact from the economic slowdown expected in the Europe which is expected to result in lower tourist arrivals from the region. However, the decline in tourist arrivals from Europe is expected to be offset to an extent by stronger arrivals from China.

The current account deficit is expected to widen to 22% of GDP in 2023, from 16% of GDP in 2022, as per the balance of payment projections of October 2023. The higher deficit reflects lower tourism receipts, which may be due to the price competitiveness of room rates. Further, the lower tourism receipts also mirror to a certain extent the T-GST rate increase in January 2023, which had resulted in higher tourism revenue receipts being recorded in December 2022. Additionally, import expenditure is anticipated to be much higher for 2023. However, the current account deficit is set to narrow to 19% of GDP in 2024, on the back of stronger revenue receipts from tourism. This would be offset to some extent by higher imports, as imports are expected to increase in volume terms, although commodity prices are projected to be lower in 2024. As the deficit on the current account is expected to outpace the inflows on the financial account, the overall balance of payment is projected to record a deficit of US\$213.7 million in 2023. The gross international reserves (GIR) is expected to be US\$618.4 million at the end of 2023, from US\$832.1 million at the end of 2022. By the end of 2024, the GIR is estimated to be at US\$605.7 million.

The rate of inflation decelerated further to 2.5% during Q3-2023, from 3.1% during Q2-2023, owing to moderation in prices of energy-related items, food inflation, as well as the decline in cost of information and communication services. Inflation is expected to remain stable at 2.5% in Q4-

¹ According to growth forecast scenarios estimated in October 2023 jointly by the MMA and the Ministry of Finance.

2023 as per the September 2023 forecasts (made for Budget 2024). The forecast for Q4-2023 is a downward revision from the April 2023 forecasts (made for Fiscal Strategy 2024-2026), reflecting the revisions in global crude oil and food price forecasts. According to the revised forecasts of September 2023, domestic inflation is expected to rise to 3.9% in 2024, following the proposed reforms to subsidy policies. However, if the reforms are not implemented during the year, inflation is expected to be at 1.0%. The subsidy reforms that have been factored in from Q3-2024 onwards include: the removal of subsidies provided for staples, electricity, fuel, and sanitation and replaced with a cash transfer system for eligible households.

Although the risks to growth outlook have moderated since the WEO July 2023 Update, and are more balanced overall, the balance of risks

remain tilted to the downside. The upside risks to global growth include a faster-than-anticipated reduction in inflationary pressures amid the anticipated lowering of commodity prices, as well as faster-than-expected recovery in domestic demand for many economies. As for the downside risks to growth outlook, inflationary pressures may persist, amid potential increase in the volatility of commodity prices which could stem from extreme weather events (El Niño) or geopolitical shocks. Further, risks persist from intensifying geoeconomic fragmentation, slowdown of the Chinese economy owing to real estate issues and the resultant negative cross-border spillover effects, while the tightening of financial markets may further hinder access to global financial markets, worsening the debt distress faced by economies.

Near-term Inflation Outlook

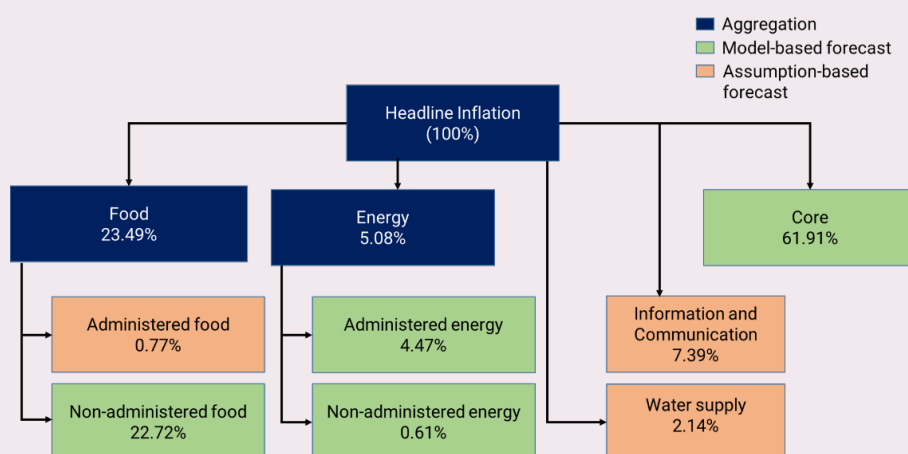
These forecasts are generated using the latest available data of the Republic the Consumer Price Index, as published by the Maldives Bureau of Statistics. The forecasts also make use of explanatory data from other domestic and international sources. Assumptions regarding future policy developments that are likely to impact inflation are also incorporated into the forecast. As with any forecast, there is a degree of risk that actual developments may not precisely align with forecasted outcomes. Actual outcomes may deviate from the forecasts for a variety of reasons including but not limited to, variations in the actual realization of explanatory compared to their forecasts and/or underpinning assumptions about policy changes not holding true. This risk is particularly pertinent in the Maldives, given the high exposure to external developments. These forecasts reflect the MMA's outlook on the probable trajectory of near-term inflation, based on the information available at the time of forecasting.

The current near-term inflation forecast is a projection for the next five quarters, spanning from 2023 Q4 through to 2024 Q4. The forecast was finalized in mid-September, in preparation for the Government Budget for 2024. At the time the forecasts were generated, the latest available data point for the Republic Consumer Price Index was July 2023. Given that 1 month of actual data for 2023 Q3 was already available, this data point was used as the assumed actual data for 2023 Q3 and used as the latest observation in the estimation sample. Forecasts were then generated for the following five quarters.

The overall methodology remains largely consistent with the last near-term inflation forecast published in the Quarterly Economic Bulletin for the First Quarter of 2023, Volume 29, Issue 1. In order to forecast headline inflation, the Consumer Price Index has been disaggregated into separate indices for food, energy, information and communication, and water supply, with the remaining items grouped together to form a core index. The food and energy indices were further broken down into administered and non-administered price indices. The seven disaggregated indices of the CPI were then forecasted using a combination of model-based, or assumption-based forecasts. The forecasts of the disaggregated indices were then aggregated to generate a forecast for headline inflation.

There have been some notable refinements to the methodology when compared to the last published forecasts. Firstly, the level 3 category of Passenger Transport Services in the CPI, with a total weight of 3.92%, which had previously been categorized under the non-administered energy index has been shifted into the core index. As a result, the weight associated with the Energy index has gone down from 9.00% to 5.08%. Secondly, the Water supply index which had previously included the level 4 category for Water supply, has been broadened to include all items under the level 3 parent category of Water Supply and Miscellaneous Services Related to the Dwelling. As a result, the weight associated with this index has increased from 1.79% to 2.14%. Due to these changes, the weight associated with the core index has also increased from 58.33% in the previously published forecasts, to 61.91% in the current forecasts. Figure 1 summarises the CPI disaggregations and the methodology used to forecast the respective indices.

Figure 1: Summary of the disaggregated CPI and methodology used for forecasting inflation



The model-based projections employ time-series modeling techniques to extract useful information about the trends and seasonality of inflation patterns from the historical data. This backward-looking information is then combined with the forecasts of several

explanatory exogenous variables over the forecast horizon, such as the price of crude oil and other commodities in international markets, as well as the MMA's estimates for output gap, to generate forecasts for the disaggregated indices of the CPI.

The models also consider the inflationary impact of known and expected domestic policies on consumer prices over the forecast horizon. Firstly, the inflationary impact of the increase in the General Goods and Services Tax (G-GST) rate from 6% to 8%, implemented from 1st January 2023 has been factored into the forecasts of the non-administered food, information and communication, and core indices. This increase in the G-GST is expected to exert inflationary pressures until the end of 2023. Secondly, the forecasts also consider the Government's plans to substantially reform its current policy on subsidizing electricity and staple prices. Starting in July 2024, the Government intends to replace the existing blanket subsidies with a targeted direct cash transfer program for low-income households. These plans for subsidy reforms and related cash transfer programme has been budgeted for in the proposed Government Budget for 2024. While the direct cash transfer program is intended to insulate low-income households from bearing the burden of these price increases, the removal of blanket subsidies will result in an increase in the prices of electricity and staple foods.

Figure 2 illustrates the forecasted trajectory of the mean inflation forecasts over the forecast horizon. The stacked bars represent the forecasted contributions to headline inflation from the disaggregated indices. Considering the above factors, inflation for 2023 is forecasted at 2.9%. This represents a downward revision of 0.5% points, from the previous forecast of 3.4% in the last published near-term inflation outlook. The downward revision in the forecast for 2023, largely reflects our expectation that lower commodity prices in international markets, especially in regional trade partners, compared to corresponding periods in 2022 will have a higher passthrough to domestic prices during the second half of 2023 than initially expected.

Inflation is expected to decelerate significantly during the first two quarters of 2024, as the inflationary effects of the G-GST rate increase subside at the end of 2023. However, inflation is expected to accelerate markedly in the second half of the year due to the planned subsidy reforms, which are expected to result in higher prices for electricity and staple food items. On average, inflation is forecasted at 3.9% for 2024. It should be noted however that this is contingent on the successful and full rollout of subsidy reforms from July 2024. In the absence of these reforms, inflation is expected to remain low and average around 1% in 2024.

Figure 3 depicts the upper and lower 80% and 90% prediction intervals around the baseline forecasts, to account for uncertainty and risks. The primary risks around the projections largely center around the uncertainty surrounding the implementation of subsidy reforms, the volatility of global commodity prices in the international markets, and their passthrough to domestic inflation.

Figure 2: Mean Inflation Forecasts and Contributions to Inflation from the Disaggregated Groups of the CPI, 2020 - 2024

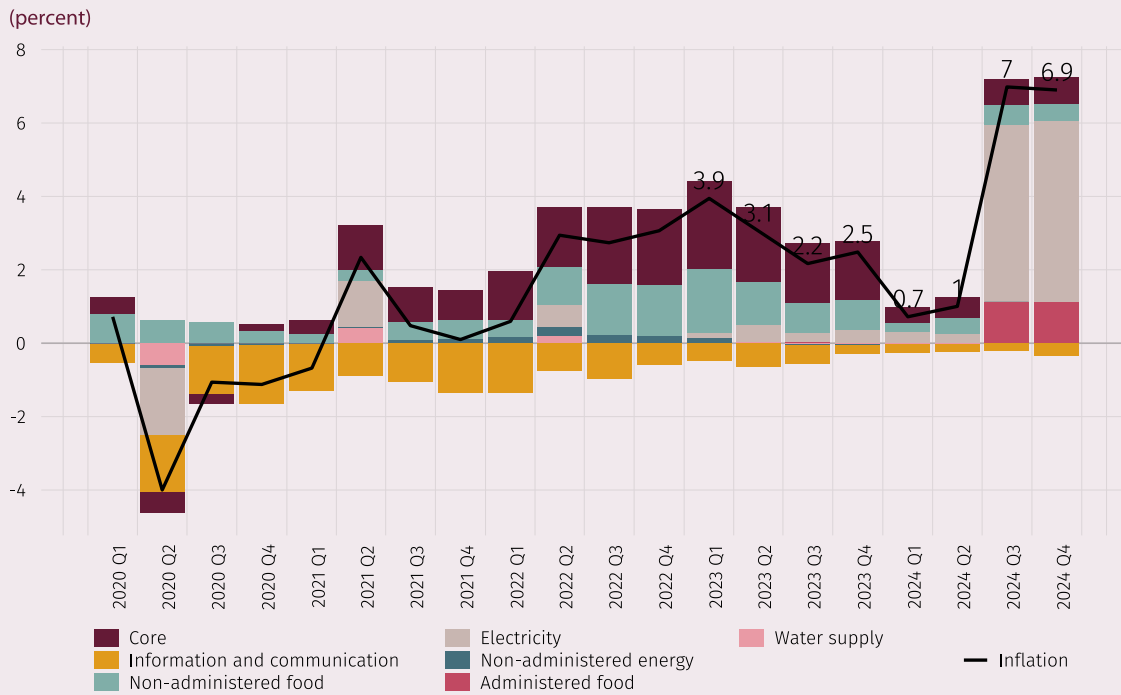
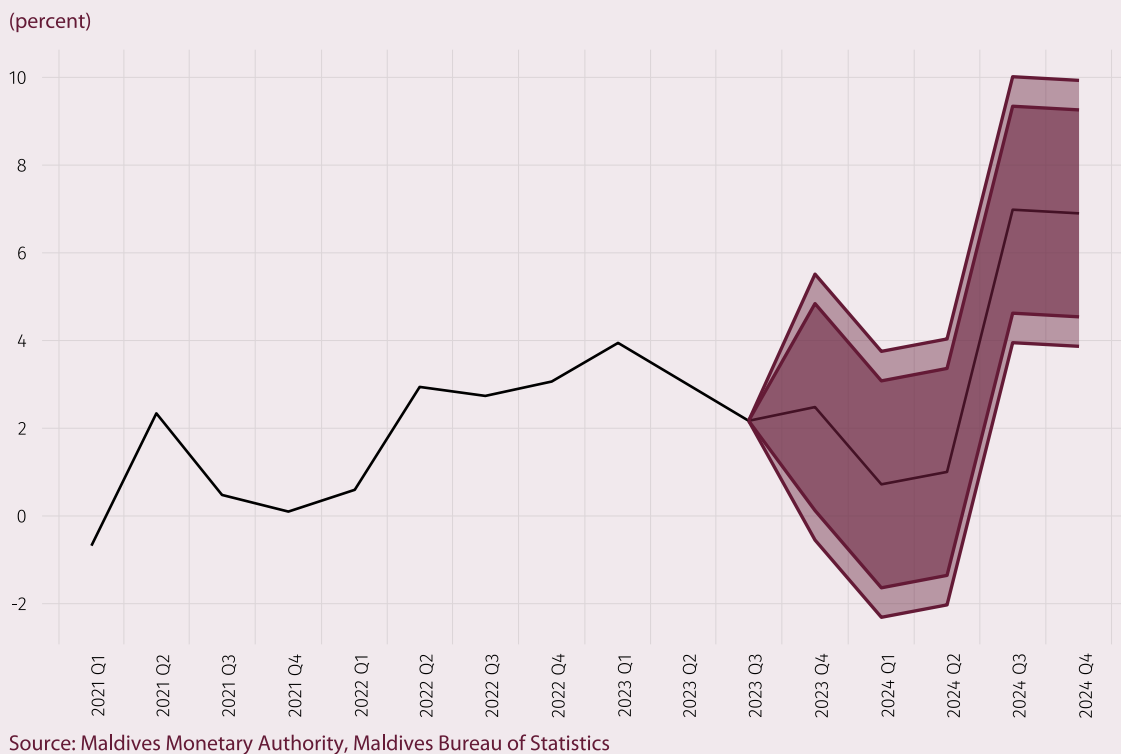


Figure 3: Inflation Forecasts, with 80% and 90% Prediction Intervals, 2021 - 2024



Overview

Domestic economic activity is estimated to have expanded in Q3-2023, according to the available high frequency indicators and results of the MMA's Quarterly Business Survey (QBS). This largely reflected the estimated growth in the wholesale and retail trade sector, mirroring strong import demand. Meanwhile, despite being in the off-peak season, the tourism sector remained buoyant fuelled by the robust growth in arrivals from China which has curbed the decline in arrivals from European market. As such, Chinese arrivals has continued to show remarkable growth, replacing Russia as the single largest source market as well as overtaking India from the Asia and the Pacific region for the review quarter. Further, available high-frequency indicators showed moderation in the construction sector, while the fisheries sector observed a contraction during the quarter.

Meanwhile, the rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated further to 2.5% in Q3-2023 from 3.1% in Q2-2023. The deceleration in domestic inflation during the quarter was mainly attributable to moderation in the growth in prices of energy-related items as well as slowdown in food inflation, partly reflecting the lagged pass-through effects of the moderation in global commodity prices. In addition, the cost of passenger transport services contributed to this deceleration, while the prices of information and communication services continued to contribute negatively to the inflation.

Turning to fiscal developments, total government revenue (excluding grants) recorded an annual increase during Q2-2023², owing to a growth in tax revenue, together with a growth in non-tax revenue during the quarter. Meanwhile, total expenditure (excluding debt amortisation) also

observed a significant increase during the review quarter, driven primarily by the rise in recurrent expenditure, while capital expenditure also posted an increase. The growth in recurrent expenditure stemmed from the growth in administrative and operational expenses, while the growth in capital expenditure mainly reflected higher spending on infrastructure assets.

As for monetary developments, annual broad money growth observed a turnaround during the quarter and recorded a growth of 9% at the end of September 2023, mirroring a significant slowdown in the decline of net foreign assets (NFA), together with a growth in net domestic assets (NDA) of the banking system. Nevertheless, NFA declined in annual terms largely reflecting a decrease in the commercial banks' foreign currency deposits held abroad as well as an increase in overseas borrowings. Further, the increase in foreign liabilities of the MMA also contributed to the decline in NFA of the banking system. Conversely, the growth in NDA stemmed from the rise in net credit to the government (NCG) by both the MMA and the commercial banks, as well as the expansion in bank credit to the private sector and public non-financial corporations.

With regard to the external sector, total merchandise exports registered an annual increase during the review quarter, driven by a rise in merchandise re-exports, which entirely offset the notable decline in domestic exports during the quarter. The rise in re-exports reflected a one-off increase in re-export of a dredger, while the decline in domestic exports mirrored a fall in export earnings from frozen skipjack tuna exports. Meanwhile, merchandise imports recorded a moderate rise reflecting increases in most of the major import categories.

² Data for Q3-2023 was not available at the time of compilation of this report.

International Economic Developments

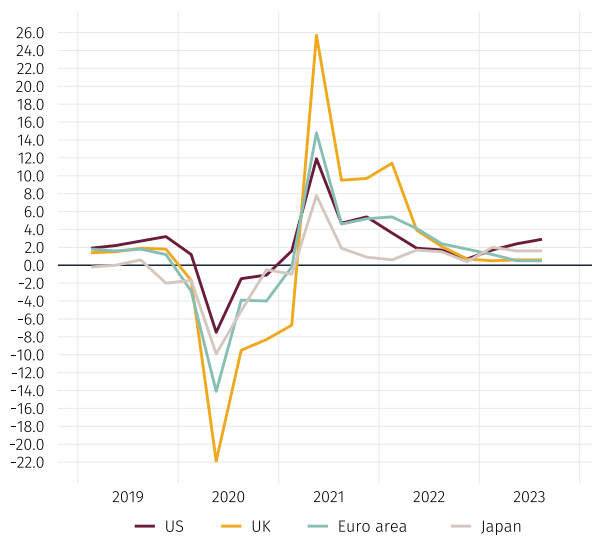
Global Output

According to the IMF WEO October 2023 update, following a growth of 3.5% in 2022, global growth is forecasted to moderate to 3.0% in 2023—an upward revision of 0.2 percentage points from the estimates made in April 2023 and unchanged from the estimates made in July 2023. The anticipated slowdown in global economic growth during the year is expected to result from increased unpredictability and unexpected repercussions stemming from the combined impact of adverse events in the preceding three years, particularly the COVID-19 pandemic and the conflict in Ukraine. In Q3-2023, positive developments were observed in the global economy, across both the advanced economies and emerging market and developing economies. As such, many advanced economies sustained growth, and majority of the emerging market and developing economies surpassed expectations for the quarter.

Looking at the advanced economies, the US economy registered a growth of 2.9% in Q3-2023, after recording a growth of 2.4% in Q2-2023 (Figure 1). The acceleration in economic growth was primarily owed to the increase in consumer spending, private inventory investment, exports, residential fixed investment and state, local and federal government spending. However, this was somewhat countered by the decline in non-residential fixed investment as well as the increase in imports. As per the Eurostat flash estimates, the euro area recorded a growth of 0.1% during Q3-2023, after recording 0.5% in the previous quarter. Among the major eurozone countries, economic growth in Germany decelerated into recessionary territory

Figure 1: Real GDP Growth in the Advanced Economies, 2019 - 2023

(annual percentage change)



Source: Bloomberg Database

during the third quarter of the year, following muted growth in the previous quarter. Similarly, following a slight expansion in the previous quarter, economic activity in France slightly moderated during the quarter, due to the decline in positive contributions from foreign trade and domestic demand. Meanwhile, the Spanish economy further slowed down during the quarter, while the Italian economy remained stable, following a deceleration in the previous quarter.

Following an expansion of 1.6% in Q2-2023, the growth momentum of the Japanese economy is expected to moderate in Q3-2023. In this regard, the average Purchasing Manager's Index (PMI) recorded a slight decline during the review quarter, following an expansion during the preceding quarter. The growth momentum of Japanese

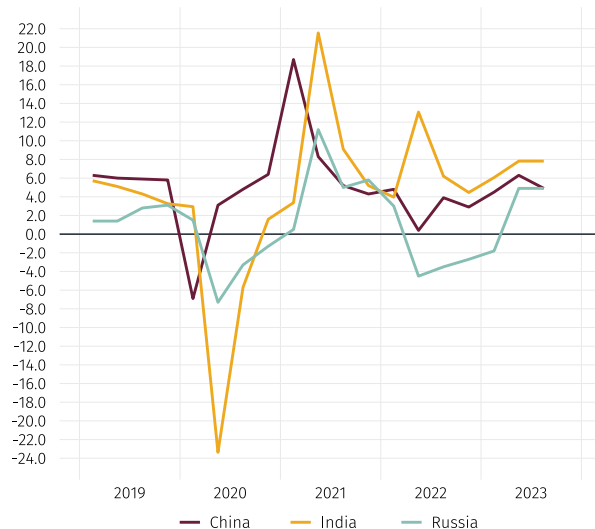
economy is expected to slow down due to impeded activity in the services as well as the manufacturing sector. Nevertheless, domestic demand is expected to be on the recovery, despite subdued improvement in private consumption levels in the country. Meanwhile, the growth momentum in the United Kingdom (UK) economy remained broadly unchanged at 0.6% in Q3-2023, from the previous quarter. During the quarter, output in the services sector declined, offsetting the increase in construction output. Additionally, output in the production sector remained broadly flat, while the increase in volume of net trade was countered by the decline in business investment, household spending and government consumption.

Looking at the emerging market and developing economies, China's economic growth slowed to 4.9% in Q3-2023, from 6.3% in the previous quarter (Figure 2). Despite moderating during the quarter, the Chinese economy performed better-than-expected, driven by consumer spending and growth in the manufacturing sector. Nevertheless, the persistent property market crisis—accounting for 30% of the economy—continued to drag down economic growth in the country, with property investments remaining on the decline.

The growth momentum in the Indian economy is expected to remain robust in Q3-2023, following a growth of 7.8% in Q2-2023. Accordingly, the average PMI figure for the quarter depicted a slight improvement during the review quarter, following an expansion during the preceding quarter. The growth momentum of the Indian economy is expected to be supported by power consumption, automobile sales as well as credit growth, as suggested by buoyant high frequency indicators for the recent months.

The Russian economy is expected to grow faster than anticipated in Q3-2023, following an expansion of 4.9% during the second quarter of the year. This mirrored the continued growth in domestic demand led by consumer activity, contributed by the increase in real wages and high credit growth.

Figure 2: Real GDP growth in the Emerging Economies, 2019 - 2023 (annual percentage change)



Source: Bloomberg Database

However, the composite PMI recorded a slight moderation during the quarter. Growth momentum in the Russian economy remains restricted by the weakening of the ruble as well as the labour market situation—unemployment remains at record low levels with increasing labour shortages.

Global Inflation

Global inflation remained moderate during the third quarter of 2023, after a year of multi-decade high inflation, due to favourable base effects in the food and energy prices. As such, headline inflation in the selected advanced economies moderated during the quarter. However, inflation in majority of the emerging market and developing economies increased during Q3-2023.

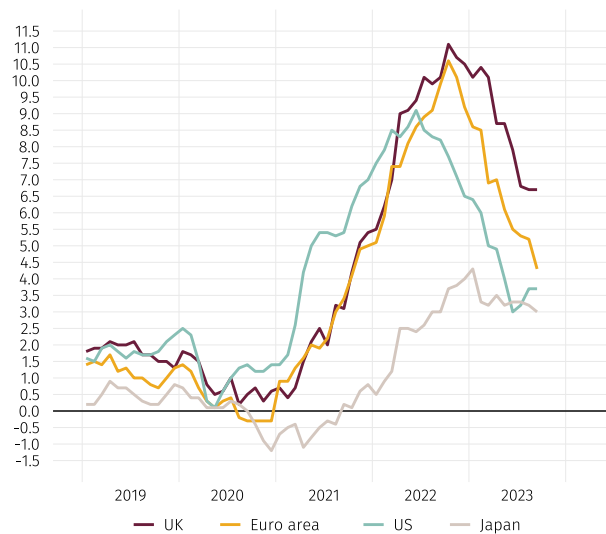
Looking at the price developments in the advanced economies, the rate of inflation in the US slightly decelerated to 3.5% in Q3-2023, from 4.0% in Q2-2023 (Figure 3). The moderation of inflation in the US was mainly due to the decline in energy prices, as well as prices in the medical services category, while upward inflationary pressure during the quarter stemmed primarily from the rise in prices of housing, food and beverages. In

the euro area, the rate of inflation, as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) also moderated to 5.0% in Q2-2023, from 6.2% in the previous quarter, reflecting the decline in prices of energy sector components.

As for Japan, the rate of inflation slightly moderated to 3.2% in Q3-2023, from 3.3% in the preceding quarter. The slowdown in the inflation rate during the quarter was primarily due to the decline in prices in the energy sector as well as fuel, light and water charges, while prices of food and daily necessities increased, albeit at a slower pace. Meanwhile, the rate of inflation in the UK slowed to 6.3% in Q3-2023, after registering 7.7% in the previous quarter. Despite upward contributions from elevated food and non-alcoholic beverages, as well as restaurant and hotel prices, the inflation rate moderated due to downward contributions from falling prices in the transportation category.

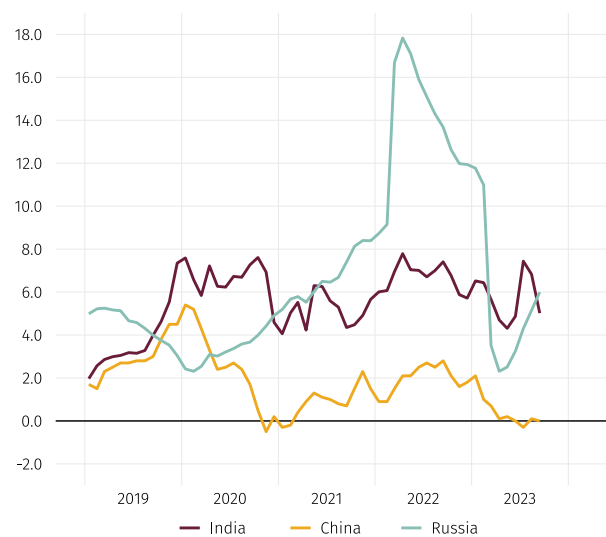
Turning to the emerging market and developing economies, the rate of inflation in China turned negative, recording -0.1% during the review quarter, from 0.1% recorded in Q2-2023 (Figure 4). The inflation dynamics in the country reflected energy price movements amid subdued domestic and external demand. Conversely, the rate of inflation in India increased to 6.4% in Q3-2023, from 5.0% in the preceding quarter, reflecting the increases in prices of vegetables, cereals, pulses, spices, and milk during the quarter. As for Russia, with upward inflationary pressures across an increasingly broader group of goods and services, the rate of inflation rose significantly to 5.2% in Q3-2023, from 2.7% in Q2-2023. This was attributable to the depreciation of the ruble and labour shortages in the country, while businesses passed through elevated costs directly to consumers in order to keep up with the surging domestic demand.

Figure 3: Inflation Rate in the Advanced Economies, 2019 - 2023 (percent)



Source: Bloomberg Database

Figure 4: Inflation Rate in the Emerging Economies, 2019 - 2023 (percent)



Source: Bloomberg Database

Commodity Prices

During Q3-2023, the IMF price index for all commodities declined by 29% in annual terms and increased slightly by 1% in quarterly terms (Figure 5). The annual decline in the IMF price index for all commodities was primarily due to the persistent decline in energy prices, largely reflecting the more stringent global financial conditions. Additionally, the decline in global food and metal prices also contributed to the fall in the all commodities index, mainly reflecting the decrease in prices of vegetable oils, dairy, cereals, and meat amid slow growth of Chinese economy.

Energy Prices

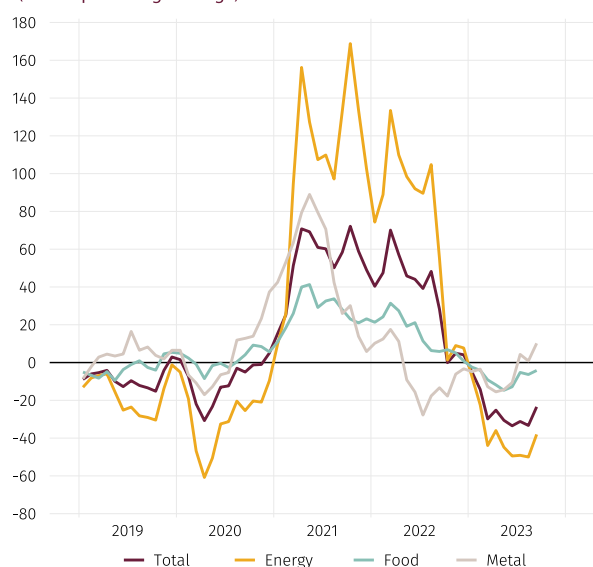
The price of crude oil³ averaged US\$85.3 per barrel during Q3-2023, representing a decline of 12% in annual terms, and an increase of 11% relative to the previous quarter. The decrease in oil prices over the review quarter can be largely attributed to the tighter financial conditions in major advanced economies and a slower-than-expected recovery in Chinese manufacturing and consumption.

World oil demand is expected to grow during the year, driven by increased demand for jet fuel and petrochemical fuel stocks. However, despite robust oil demand from OECD countries and China, lower-income countries such as Nigeria, Pakistan, and Egypt, and some OECD countries such as the US depicted signs of subdued oil demand during the quarter. On the supply side, non-OPEC+ supply recorded an increase, whereas OPEC+ production continued to decline, although this decline has been partially offset by a substantial increase in Iranian oil production.

Metal Prices

Turning to major commodities in the non-energy index, the base metal index increased by 5% in annual terms and declined by 3% in

Figure 5: Commodity Prices, 2019 - 2023
(annual percentage change)



Source: IMF

quarterly terms. The annual increase in the base metal index is likely due to the re-opening of the Chinese economy as well as the gradual easing of monetary policy conditions in the United States. Nevertheless, metal prices continue to be weighed down by downward pressure from stricter monetary policies from major economies as well as the slowdown in global economic growth.

Food Prices

As for global food prices, the IMF food price index recorded an annual decline of 4%, while a decline of 5% was observed when compared with the preceding quarter. Meanwhile, the Food and Agriculture Organization (FAO) food price index declined by 11% and 2% in annual terms and quarterly terms, respectively. The annual decline in food price index was led by the decrease in prices of most staples such as vegetable oils, dairy, cereals, and meat, underpinned by improving global supply conditions. However, sugar prices recorded an increase, attributed to the El Niño phenomenon-related reduction of output in key producers, namely Thailand and India.

³ Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

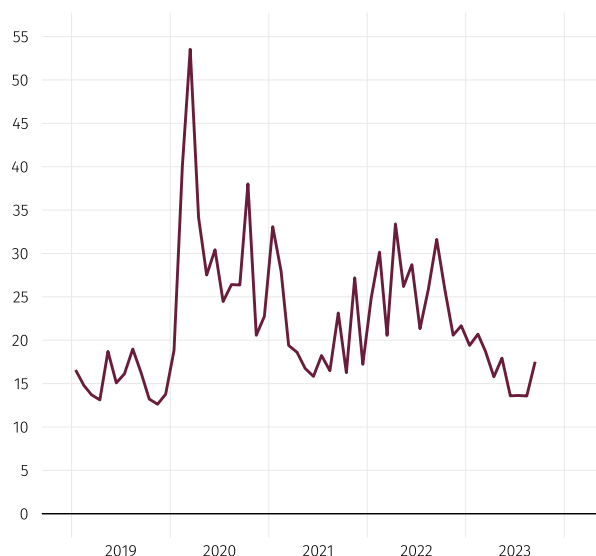
Global Financial Markets

During Q3-2023, global financial conditions continued to be restricted in both the advanced and emerging market and developing economies, due to high and persistent inflationary pressures. However, it is expected that the global financial conditions would gradually improve over the year as several economies recover and observe lower inflation rates.

In Q3-2023, share prices on average observed increases in both the advanced, and emerging markets and developing economies, when compared with the corresponding quarter of the previous year. Accordingly, the implied volatility of the US stock market registered a decline in annual terms during the review quarter (Figure 6)⁴. However, the yield-to-maturity on longer-term sovereign bonds increased in majority of the advanced economies, but declined in most emerging market economies, when compared with Q3-2022, mirroring the impact of monetary policy announcements on the bond market.

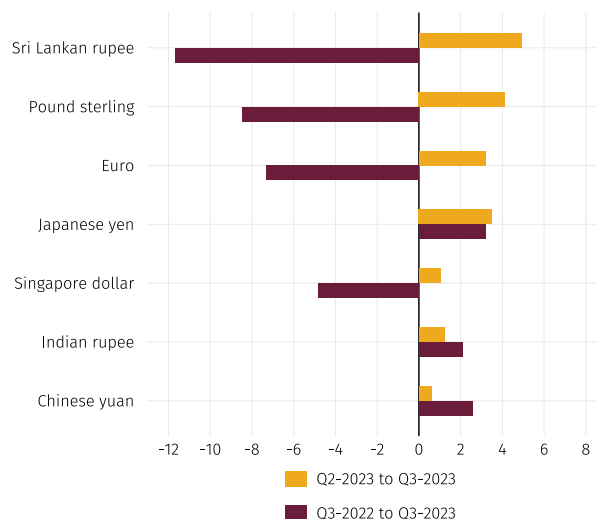
Monetary policy remained tight in majority of the economies during the review quarter, due to persistent inflationary pressures. In this regard, the European Central Bank further raised the three key interest rates by a total of 25 basis points during the quarter. Similarly, the Bank of England raised their bank rate by 0.25 percentage points to 5.25% in Q3-2023, with the aim of reigning in inflationary pressures, while the Federal Reserve kept their key interest rates at 5.25-5.50%—a 22-year high. Meanwhile, in the emerging markets and developing economies, the RBI kept policy rates unchanged during the quarter as well, following an upward revision to 6.50% in February 2023 to meet the central bank’s inflation target. Likewise, People’s Bank of China kept benchmark lending

Figure 6: Volatility Index, 2019 - 2023 (percent)



Source: Bloomberg Database

Figure 7: Exchange Rates, Q3-2023 (percentage change)



Source: Bloomberg Database

Note: Percentage changes have been calculated using spot rates at the end of each quarter.

⁴ Chicago Board of Exchange’s Volatility Index (VIX Index) is used as an overall benchmark for volatility in the stock market. A VIX level above 20 is typically considered high (volatility is high), while a VIX below 12 (volatility is low) is considered low and anything in between 12 and 20 is considered normal.

rates unchanged in September 2023, following a second cut in three months to the one-year benchmark lending rate during August 2023. Conversely, the Central Bank of the Russian Federation increased the key rate from 7.50% per annum to 8.50%, 12.00%, and finally 13.00% during the quarter, amid high inflationary pressures in the country.

In the foreign exchange market, the overall performance of the US dollar against the currencies of the Maldives' major trading partners weakened in annual terms at the end of Q3-2023, but strengthened relative to the previous quarter (Figure 7). In this regard, the US dollar weakened against all the currencies except for the Indian rupee, the Japanese yen and the Chinese yuan at the end of Q3-2023 when compared with Q3-2022. Meanwhile, the US dollar strengthened against all the currencies of the Maldives' major trading partners, relative to Q2-2023.

Economic Developments in the Maldives

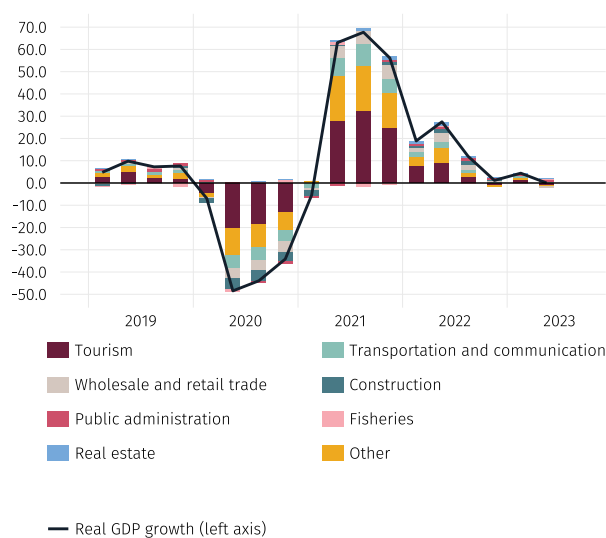
Real Economy

Gross Domestic Product

According to the available high frequency indicators and business survey results, most major sectors of the domestic economy are estimated to have expanded during the third quarter of 2023. Meanwhile, based on the MMA's nowcasts⁵ of November 2023 (non-rebased estimates), real GDP is estimated to have improved in annual terms during Q3-2023. The growth in Q3-2023 was mainly due to the strong performance of the wholesale and retail trade sector, reflecting an increase in import demand. Further, real GDP growth was also supported by transportation and communication, as well as public administration, health, and education, while growth in both tourism sector, and construction and real estate sector is estimated to have expanded in annual terms. The uptick of growth in tourism sector mirrored the robust arrivals from China, that has continued to grow since the resumption of arrivals from the country in January 2023. As such, Chinese arrivals has continued to show remarkable growth, replacing Russia as the single largest source market as well as overtaking India from the Asia and the Pacific region.

According to the latest rebased⁶ Quarterly National Accounts (QNA)⁷ estimates released by

Figure 8: Contribution to Real GDP Growth by Economic Sectors, 2019 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

the Maldives Bureau of Statistics (MBS) on 14 November 2023, annual real GDP growth remained broadly unchanged in Q2-2023⁸, after registering a growth of 4.4% in Q1-2023 (Figure 8). However, when compared to the pre-pandemic levels of Q2-2019, real GDP registered a growth of 7.1% during the quarter. During Q2-2023, real GDP growth remained broadly unchanged in annual terms (0.0%) as positive contributions from sectors

⁵ Calculated based on monthly nowcast estimates for sectoral real GDP growth, which are aggregated to obtain quarterly estimates. For further details on the nowcasting methodology, refer to the research paper titled 'Nowcasting Monthly Sectoral Economic Growth Indices', available on the MMA website.

⁶ Quarterly real GDP was rebased from the year 2014 to the year 2019. Additionally, some methodological improvements were brought while data sources utilised in the compilation of quarterly real GDP was also expanded.

⁷ Latest QNA data available at the time of compilation of this report was for Q2-2023. Real QGDP is released with a three-month lag.

⁸ As QNA data for Q2-2023 used in this analysis is based on advance estimates, the data is subject to change in the upcoming revisions.

such as transportation and communication (0.7 percentage points), public administration (0.7 percentage points), fisheries (0.5 percentage points), and electricity and water (0.4 percentage points) were offset by negative contributions from key economic sectors. As such, notable declines were observed in wholesale and retail trade sector (-1.1 percentage points), and tourism sector (-0.9 percentage points). Meanwhile, sectors such as real estate, human health and social work activities, education, and financial services registered marginal growth during the quarter.

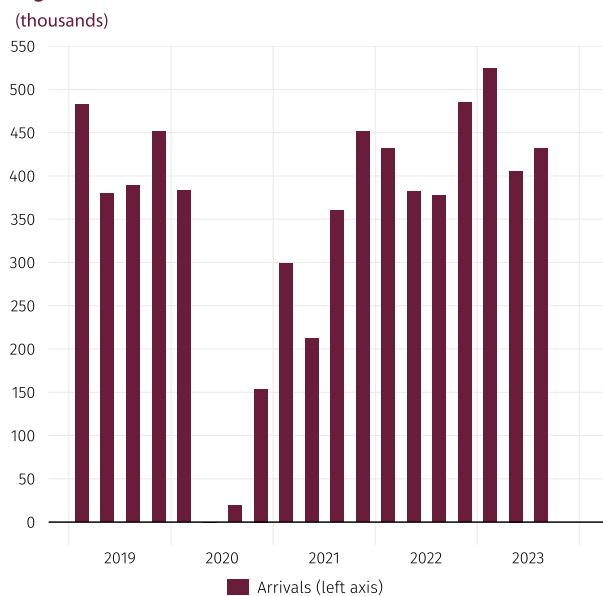
Additionally, negative contributions to real GDP growth were made by the professional, scientific, and technical activities sector, and entertainment, recreation and other services sector as indicated by the negative contributions from the gross value added of the sectors, which fell by 12.2% (-0.1 percentage points), and 5.2% (-0.1 percentage points), respectively.

Tourism

Activity in the tourism sector remained buoyant in Q3-2023 as indicated by the key indicators used to gauge the performance of the sector. This largely reflected the robust arrivals from China, that has continued to increase since the resumption of arrivals from China in Q1-2023. Accordingly, arrivals from China stood at 82,559 at the end of review quarter, registering an increase of 36,823 from the previous quarter. Further, this reflected an annual increase of 77,672 in Chinese tourists. In this regard, the increase in visitors from China has contributed to posting a higher number of total arrivals in Q3-2023 compared with the corresponding quarter of 2022, despite the drop in arrivals from the European market.

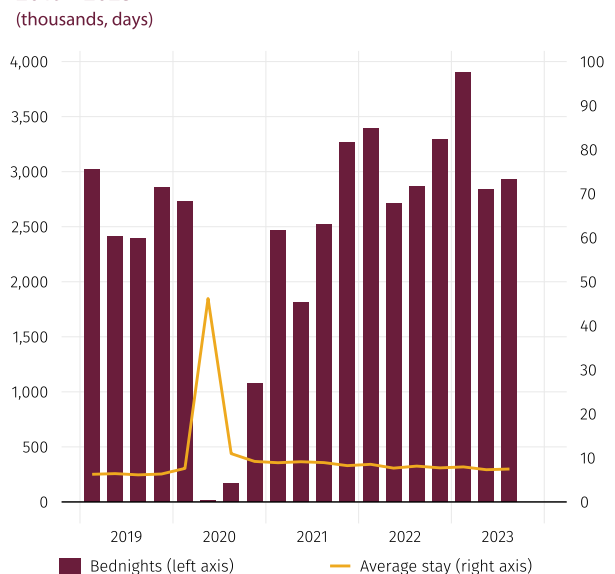
The total tourist arrivals for Q3-2023 reached 431,441 and surged by 14% compared with Q3-2022 as well as by 11% when compared with pre-pandemic levels of Q3-2019, indicating that the tourism sector has surpassed pre-pandemic levels

Figure 9: Inbound Tourist Arrivals, 2019 - 2023



Source: Ministry of Tourism

Figure 10: Bednights and Average Stay, 2019 - 2023



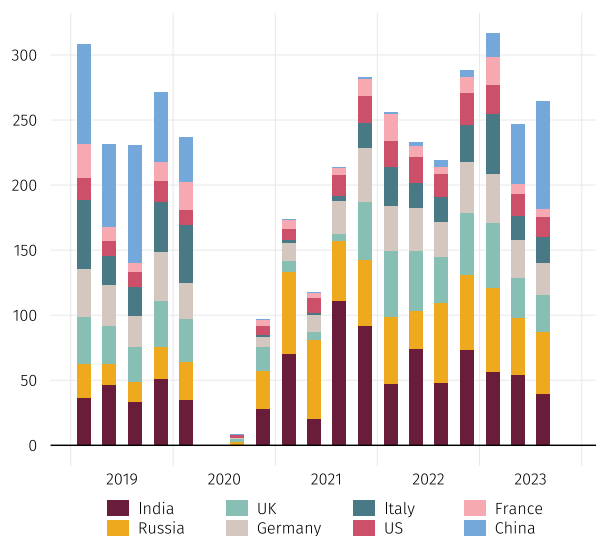
Source: Ministry of Tourism

significantly and continues to grow steadily (Figure 9). However, the growth in tourist bednights was lower, at 2%, owing to the drop in average stay from 8.1 days to 7.5 days during the quarter compared to Q3-2022 (Figure 10). Meanwhile, the estimated travel receipts for the quarter posted an increase of 8% (US\$59.7 million) when compared with the same period in 2022 and totalled US\$831.6 million.

Delving into the market composition for the review quarter, Europe remained as the dominant source region, accounting for 48% of the arrivals—albeit a decrease from 59% recorded in the corresponding quarter of 2022. In contrast, the Asia and the Pacific region continued to increase from 27% in Q3-2022 to 40% in the review quarter resulting in an annual increase of 13 percentage points for this region. The upward trend from the Asia and the Pacific region was primarily driven by the increase of arrivals from China together with Japan and Bangladesh (Figure 11). Further, with the continued increase in Chinese arrivals, China (19%) replaced Russia (11%) as the single largest source market during the review, and overtook India (9%) as well. This was followed by the UK (7%), and Germany (6%). Notably, the market share of Russia dropped by 5 percentage points from 16% to 11% in annual terms, followed by a 3-percentage point fall in the market share of the UK mirroring the decline in the European market in the review quarter.

According to international flight movements data⁹, the number of flight movements registered a growth of 5% relative to Q3-2022, and an increase of 15% relative to Q3-2019. The growth in annual terms reflected an increase in movements by carriers such as FlyDubai, Wizz Air and China Eastern, whereas a notable decline was observed for the frequency of movements from Qatar Airways, and Saudi Arabian Airlines. Moreover, after a hiatus of over seven years, Sichuan Airlines

Figure 11: Arrivals from Major Inbound Markets, 2019 - 2023 (thousands)



Source: Ministry of Tourism

resumed their flights between Male' and Chengdu, China in August 2023. This contributed to the significant annual growth observed in the Q3-2023, as well as the surge in arrivals from China observed in the review quarter.

On the supply side, the average number of operational resorts increased to 173 in Q3-2023 relative to 164 in the corresponding quarter of 2022 and 170 in Q2-2023. The operational bed capacity of the industry posted a growth of 7% in Q3-2023 compared with the corresponding quarter in 2022. Of the total operational bed capacity, resorts accounted for 68% of beds, followed by guesthouses (24%). Looking into the occupancy rate of tourism establishments, the total occupancy rate dropped to 51% this quarter from 53% in Q3-2022. This decline was mainly owing to the drop in average occupancy rate of resorts from 65% in Q3-2022 to 58% in the review quarter. However, the average occupancy rate of guesthouses increased markedly from 28% in Q3-2022, to 42% in the review quarter, which cushioned the decline of total occupancy rate of the industry in Q3-2023.

⁹International flight movements data include all international scheduled and non-scheduled charters.

As for the developments in global tourism, according to the United Nations World Tourism Organization's (UNWTO) World Tourism Barometer, international tourist arrivals recovered 84% of pre-pandemic levels in the period January to July 2023. The estimated number of tourists who travelled internationally stood at 700 million between January and July—about 43% higher than the same period in 2022. The continued strong recovery of the global tourism was mainly due to the performance of Middle East with arrivals exceeding by 20% compared to pre-pandemic levels, and Europe, reaching 91% of pre-pandemic levels, which is supported by the robust intra-regional demand. Looking ahead, the prospects for the period from September to December signal towards continued recovery as per the latest UNWTO Confidence Index, albeit at a moderated pace following the peak travel season of June to August.

Construction

Activity in the construction sector is estimated to have moderated in Q3-2023, as indicated by the available high frequency indicators and the MMA's QBS results. However, the construction and real estate sector is estimated to have expanded during the review quarter according to the MMA's recent nowcasts. This was followed by a marginal annual growth of 0.8% in the gross value added of the construction sector in Q2-2023.

The import of construction-related items registered an annual decline of 6%, although commercial bank credit¹⁰ to the construction sector¹¹ remained broadly unchanged during Q3-2023 relative to Q3-2022. This decline was mainly owing to the declines observed in credit lent to

other real estate projects, other construction projects, property development projects, as well as to construction of residential or housing projects¹². These declines offset the increase in credit lent for construction of commercial buildings, real estate commercial projects, real estate residential or housing projects, new resort development, and renovation of resorts.

According to the MMA's QBS for Q3-2023, the volume of construction activity index continued to expand albeit at a slower pace, with the index falling by 14 points during Q2-2023 to 46 during the review quarter. Further, the volume of orders received index edged upwards, with the index increasing by 3 points to 47 during the quarter, as reported by the businesses in the construction sector.

Fisheries

According to the available high frequency indicators and the MMA's recent nowcasts, the fisheries sector is estimated to have contracted during Q3-2023, as indicated by the annual decline in fish purchases made by fish processing companies, as well as the decrease in the volume of fish exports during the review quarter. This was following a 16.0% annual expansion in the gross value added of the fisheries sector in Q2-2023.

During Q3-2023, fish purchases totalled 10,523.8 metric tonnes—a significant decrease of 27% when compared with Q3-2022. This was largely due to the 35% decrease in purchases of skipjack tuna. As for local purchase prices¹³ during the review quarter, the average purchase price of skipjack tuna and iced skipjack tuna rose significantly to MVR23.0 per kilogram and MVR25.0

¹⁰ Although a substantial portion of the financing for public infrastructure projects, resort development and social housing development is sourced externally, commercial bank credit to the construction sector remains an important indicator to gauge the performance of the sector.

¹¹ Construction sector-related loans include loans for new resort development, resort renovation and construction of guesthouses (classified as tourism sector loans), as well as loans to the real estate sector. Hence, this figure will be different from the loans to the construction sector reported under Monetary Developments.

¹² Credit lent for construction of residential or housing projects refers to credit provided for construction or refurbishment of residential or housing properties and which is or will be used by the owner (borrower) or rented for housing purposes. In contrast, credit lent for real estate residential, or housing projects includes loans secured whereby the proceeds are used for purchase of the property and construction or refurbishment improvements which are used for residential purposes.

¹³ Based on prices collected by the Ministry of Fisheries and Ocean Resources.

per kilogram, respectively, from MVR15.0 per kilogram and MVR17.0 per kilogram, respectively, in Q3-2022. This price increase was due to MIFCO raising its purchase prices in September 2023. However, average purchase prices of yellowfin tuna by the local companies rose marginally to MVR71.6 per kilogram in Q3-2023, from MVR70.9 per kilogram in Q3-2022.

The volume of fish exports decreased by 25% (2,406.0 metric tonnes) during the review quarter compared with Q3-2022 and totalled 7,121.2 metric tonnes. The decline in the volume of fish exports primarily reflected the decrease in frozen skipjack tuna exports which plunged by 42% (2,623.4 metric tonnes), during the quarter. In contrast, frozen yellowfin tuna exports registered a growth of 79% (360.9 metric tonnes), and a marginal growth of 1% (25.6 metric tonnes) was observed for exports of canned or pouched tuna in the review quarter.

Wholesale and Retail Trade

Activity in the wholesale and retail trade sector is estimated to have significantly expanded during Q3-2023, as indicated by MMA's QBS results for the wholesale and retail trade sector and available high frequency indicators. Accordingly, the MMA's nowcasts for wholesale and retail trade sector indicate a significant growth after registering an annual decline of 11.6% in the gross value added of the sector in Q2-2023.

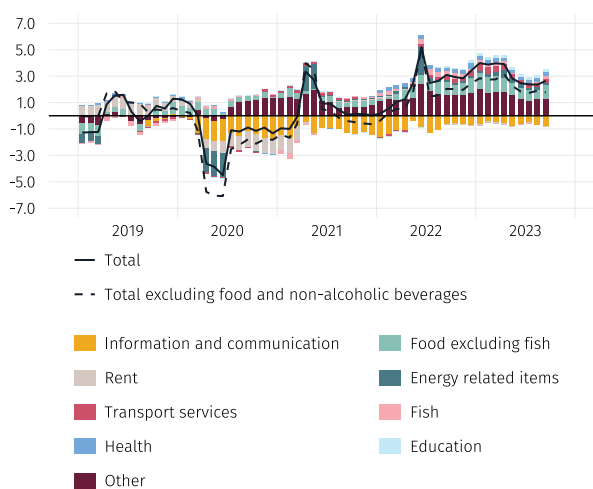
In this regard, private sector imports (excluding imports by the tourism sector) rose by 10% in annual terms, while the commercial bank credit to the sector increased by 14% during the review quarter. Similarly, according to the MMA's QBS for Q3-2023, activity in the wholesale and retail trade sector continued to expand, with the volume of sales index, gaining 14 points to reach 73 during Q3-2023, while the volume of orders placed with suppliers index observed a moderation registering a decrease of 24 points to 68 for the review quarter.

Inflation

The rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated further to 2.5% in Q3-2023, from 3.1% in Q2-2023. The deceleration in domestic inflation during the quarter was mainly attributable to the moderation in the growth in prices of energy-related items as well as slowdown in food inflation. In addition, the cost of passenger transport services contributed to this deceleration, while the cost of information and communication services continued to contribute negatively to inflation. The weakening of price pressures in Q3-2023 partly reflected lagged pass-through effects of the moderation in global commodity prices.

Looking at the major contributors to developments in the CPI, energy-related items in the CPI¹⁴ observed a growth of 3.9% (0.2 percentage points) down from 7.6% recorded in Q2-2023 and accounted for the main downward contribution to inflation during the quarter. The moderated growth in prices of energy-related items mainly stemmed from a slowdown in the cost of electricity to 6.2% in Q3-2023, after rising to 9.9% in Q2-2023, reflecting

Figure 12: Contribution of Sub-Categories to CPI Inflation (National), 2019 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

Note: Main categories in other are furnishing, personal care, restaurant and accommodation services, tobacco and narcotics, and water supply.

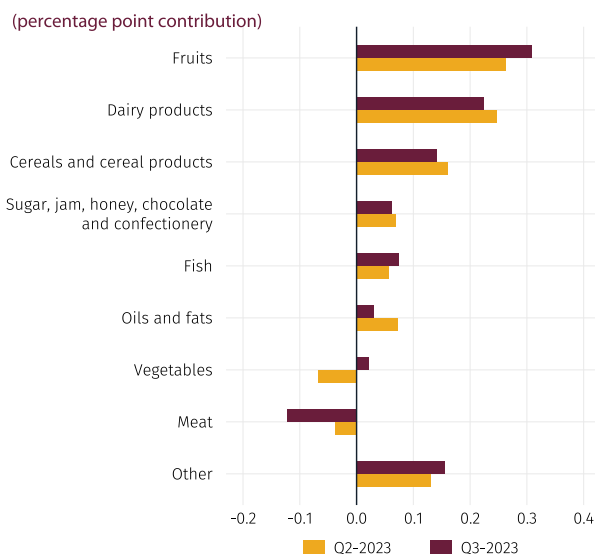
¹⁴ Energy-related items include the price charged on electricity, gas and other fuels, and price of fuels and lubricants for personal transport equipment.

lower consumption in comparison to the preceding quarter as the tariff rates remained unchanged. It is worth noting that the price of energy-related items soared in Q2-2023, owing to higher electricity consumption, partly mirroring the effects of hot weather coinciding with the holy month of Ramadan. Further, the price of petrol observed a decline of 9.1% during the quarter, further down from the 1.3% decline recorded in Q2-2023. In this regard, domestic price of petrol averaged at MVR14.73 per litre¹⁵ during the quarter, reflecting the impact of the downward adjustment of the administered price of petrol by the State Trading Organization (STO)¹⁶ in June 2023, mirroring the changes in global oil prices. This was lower compared to an average of MVR14.87 per litre in Q2-2023 and MVR16.16 per litre recorded in Q3-2022.

Looking at the food and non-alcoholic beverages category—which carries the second highest weight in the CPI basket¹⁷ at 23.5%—a 1.1 percentage points contribution to inflation was noted, slightly down from the 1.2 percentage points contribution in Q2-2023 (Figure 12). In this regard, food inflation decelerated to 4.6% during the review quarter, from 5.2% in the preceding quarter. This largely reflected a decline in the prices of meat (-11.4%) together with slower growth in prices of oils and fats (8.0%), dairy products (8.1%), and cereal and cereal products (5.4%) (Figure 13). In contrast, prices of vegetables, fruits, other food products as well as fish accelerated from the previous quarter.

Meanwhile, the information and communication category continued as a downward contributor to inflation during Q3-2023 (-0.8 percentage points), with a higher pace of decline in the cost of information and communication. As

Figure 13: Contribution of Food Categories to CPI Inflation (National), Q3-2023



Source: Maldives Bureau of Statistics

such, a decline of 8.6% (-0.6 percentage points) was observed in the category primarily due to the fall in prices of mobile communication services, further down from a decrease of 8.1% in the previous quarter.

The cost of certain services also contributed to the weakening of inflationary pressures when compared with the previous quarter. In this regard, growth in the cost of passenger transport services decelerated to 8.4% in Q3-2023, from 9.9% in the preceding quarter. This reflected slower growth in both passenger transport by air and passenger transport by road, which offset the acceleration in passenger transport by sea. On the contrary, growth in costs of outpatient care services observed an increase mainly due to a rise in costs of other outpatient care services. As for the growth in costs of restaurant and accommodation services—a major contributor to the inflation rate for Q3-2023—it observed a slight deceleration from the preceding quarter, owing to a slight slowdown in the prices of restaurant and cafes.

¹⁵ This is based on the retail price of Fuel Supply Maldives (FSM), a subsidiary of STO—the largest importer of petroleum products in the Maldives.

¹⁶ Domestic petrol prices reflect markets prices with a lag even though they are administered by STO.

¹⁷ Due to the rebasing of the CPI, the share of food and non-alcoholic beverages category in the CPI basket rose to 23.5% in the new series from 22.0% in the old series

As for other major contributors, housing rent (accounting for 16.8% of the CPI) observed a lesser decline from the previous quarter, despite contributing to the dampening of overall inflation (-0.1 percentage points). Accordingly, it registered a decline of 0.4% in Q3-2023, after recording -0.5% in the preceding quarter.

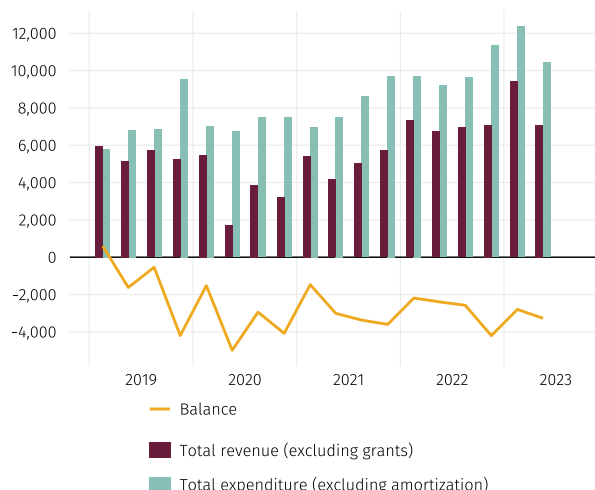
Public Finance

According to the latest available data¹⁸, total government revenue (excluding grants) increased by MVR329.8 million during Q2-2023¹⁹ when compared with Q2-2022 and totalled MVR7.1 billion at the end of the quarter (Figure 14). This was predominantly owing to an increment in tax revenue, together with a growth in non-tax revenue during the quarter.

In this regard, tax revenue, which accounted for 73% of the total revenue over the period, registered an increment of MVR303.3 million in annual terms and totalled MVR5.2 billion. The increase in tax revenue during the quarter was largely spread across all the major revenue sources, with revenue from the goods and services tax (GST) category recording the highest increase over the quarter. Within the category, general goods and services tax (G-GST)—the main single source of revenue for the government in this quarter—and tourism goods and services tax (T-GST), recorded a growth of MVR213.1 million and MVR205.6 million, respectively (Figure 15). The growth in T-GST and G-GST mainly reflected increment in tax rates²⁰, along with the increased number of tourist arrivals recorded during the period. This was followed by an increase in royalties and airport service charge. In contrast, import duties decreased by MVR79.2 million and dropped to MVR815.7 million during the quarter mirroring the effects of the decline registered for imports in Q2-2023. Similarly, a

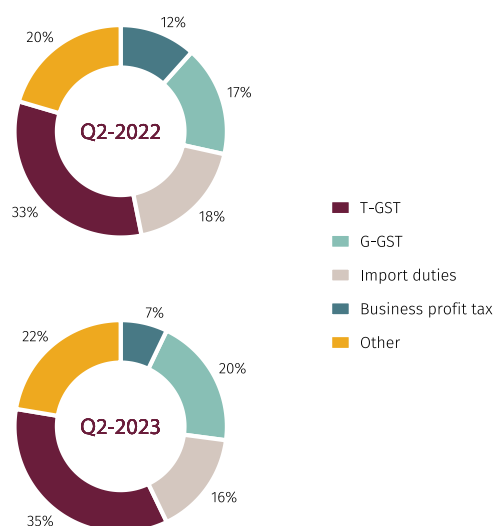
decline was observed in business and property tax category, owing to significant drop in business profit tax (BPT), which decreased by MVR197.8 million and fell to MVR369.0 million in the review quarter. However, although within the business and property tax category, increments were observed

Figure 14: Government Revenue and Expenditure, 2019 - 2023 (millions of rufiyaa)



Source: Ministry of Finance
Note: Figures do not accord with the methodology of IMF's GFS Manual 1986.

Figure 15: Composition of Tax Revenue, 2022 - 2023



Source: Ministry of Finance

¹⁸ Government revenue and expenditure data as of 2 November 2023. These figures might vary due to ongoing data reconciliation.

¹⁹ Data for Q3-2023 was not available at the time of compilation of this report.

²⁰ According to the Sixth Amendment of the Goods and Services Tax, effective from 1st January 2023, the G-GST rate increased from 6% to 8% and T-GST rate increased from 12% to 16%.

for other business and property tax, followed by withholding tax, which rose by MVR66.2 million and MVR64.6 million, respectively, these increments were insufficient to offset the significant drop in BPT, resulting in the overall decline of business and property tax in the review quarter. Additionally, individual income tax recorded a decline of MVR0.3 million and dropped to MVR 80.7 million in Q3-2023.

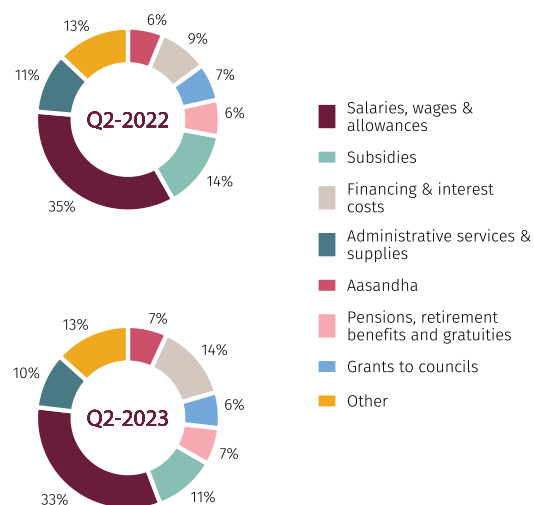
Non-tax revenue, which accounted for 27% of total revenue during the period, registered a marginal growth of MVR31.2 million and totalled around MVR1.9 billion at the end of Q2-2023, mainly owing to the increase in interest, profit, and dividends. Delving into this category, an increment of MVR340.7 million was observed in interest, profit, and dividends—largely owing to an increase in interest and profits followed by SOE dividends, which rose by MVR173.0 million and MVR167.7 million, respectively. Following this, a marginal growth of MVR26.2 million was recorded for registration and license fees category in Q2-2023. In contrast, a major decline was observed for the property income category—mainly due to the significant decline in collection of rent from resorts, which decreased by MVR148.7 million, followed by the decrease in land acquisition and conversion fee by MVR131.1 million in the review quarter. Similarly, a decline was observed for fees and charges category, primarily owing the plunge in other fees and charges that dropped by MVR122.9 million during the quarter. Due to the significant drop observed in other fees and charges, the increase of MVR23.9 million received as airport development fee was insufficient to offset the overall decline in the fees and charges category.

Total expenditure (excluding debt amortisation) recorded a significant increase of MVR1.2 billion in annual terms and totalled MVR10.4 billion during Q2-2023. This stemmed mostly from the increase in recurrent expenditure, which posted an annual growth of MVR815.2 million, while capital expenditure observed an

increase of MVR406.5 million. The increment in recurrent expenditure was driven mainly by the increase in administrative and operational expenses category. This primarily reflected an increase in financing and interest costs, which rose significantly by MVR437.7 million. This was followed by an increase in expenditure on the national health insurance scheme, Aasandha, which posted a growth of MVR101.7 million (Figure 16). Additionally, expenditure on grants to councils, and other grants and contributions further added to the overall hike in administrative and operational expenses in the review quarter. Subsequently, salaries and wages category posted an increase of MVR190.0 million—primarily owing to the increase of MVR79.0 million in salaries and wages, followed by an increase of MVR54.3 million in the allowances to employees category in Q2-2023.

Meanwhile, the growth in capital expenditure reflected the significant growth in spending on infrastructure assets, which rose by MVR425.8 million. This mirrored the rise in spending on land and buildings, which grew by MVR336.0 million, followed by increased expenditure on roads, bridges, and airports, which rose by MVR198.0 million in the review quarter compared to the corresponding

Figure 16: Composition of Recurrent Expenditure, 2022 - 2023



Source: Ministry of Finance

quarter of 2022. Conversely, expenditure on other infrastructure assets registered a decline of MVR89.2 million, followed by a marginal decline of MVR19.9 million in the expenditure on wharves, ports, and harbours during the review quarter.

Monetary Developments

Broad Money

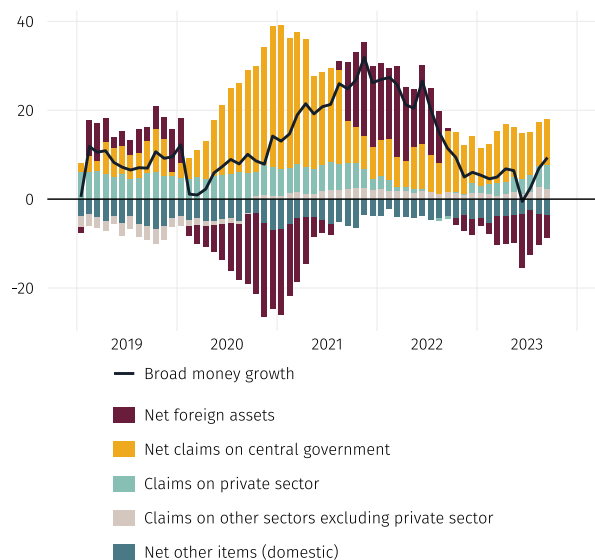
The annual growth rate of broad money (M2 or money supply) observed a turnaround during the quarter and recorded a growth of 9% at the end of September 2023, after registering a decline of 1% at the end of June 2023 (Figure 17). On the components side, this reflected a sizeable expansion in the transferable deposit base (demand deposits) and other deposits (savings and time deposits) of the banking system (Figure 18). Similarly, currency outside depository corporations also increased over the review period.

Demand deposits—which accounted for 69% of the money supply during the review period—rose by 5%; after recording a decline of 6% at the end of June 2023. This stemmed from a marked acceleration in such deposits denominated in foreign currency, together with a growth in such deposits denominated in local currency.

Other deposits—which accounted for 24% of money supply—posted a growth of 17% at the end of September 2023, a further acceleration from the 14% growth registered at the end of June 2023. This largely reflected an annual increase in time deposits denominated in both local and foreign currency. Further, savings deposits denominated in local currency together with such deposits denominated in foreign currency observed a growth in September 2023. Meanwhile, currency outside depository corporations—which accounted for 7% of money supply—observed a growth 25% at the end of September 2023, up from the 12% growth recorded at the end of June 2023.

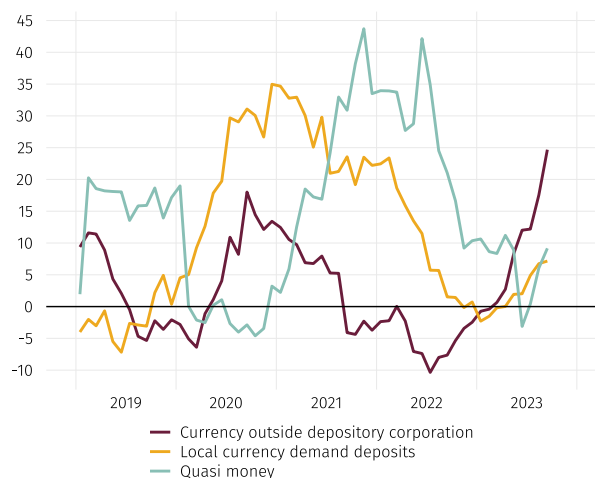
On the sources side, the acceleration in broad money growth reflected a significant slowdown in the decline of net foreign assets (NFA), together with an accelerated growth in net domestic assets (NDA) of the banking system. Accordingly, following an annual decline of 42% at the end of June 2023, NFA fell by 27% at the end of September 2023, owing to a significant slowdown in the pace of the

Figure 17: Contribution to Broad Money, 2019 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

Figure 18: Components of Broad Money, 2019 - 2023
(annual percentage change)



Source: Maldives Monetary Authority

Note: Quasi money includes time and savings deposits in both local and foreign currency plus foreign currency demand deposits and securities issued by the MMA which are held by public nonfinancial corporations.

fall of both NFA of the commercial banks as well as the MMA. Delving into the main contributors of the annual decline in NFA, the fall in NFA of the commercial banks mirrored a drop in foreign assets together with a growth in foreign liabilities during the period. The reduction in foreign assets was mainly on account of the decline in foreign currency transferable deposits held abroad, while the increase in foreign liabilities primarily reflected the increase in overseas borrowings. Further, the decline in NFA of the MMA was due to the increase in foreign liabilities, reflecting the foreign currency swap obtained from the RBI in December 2022, which offset the increase in foreign assets accumulation.

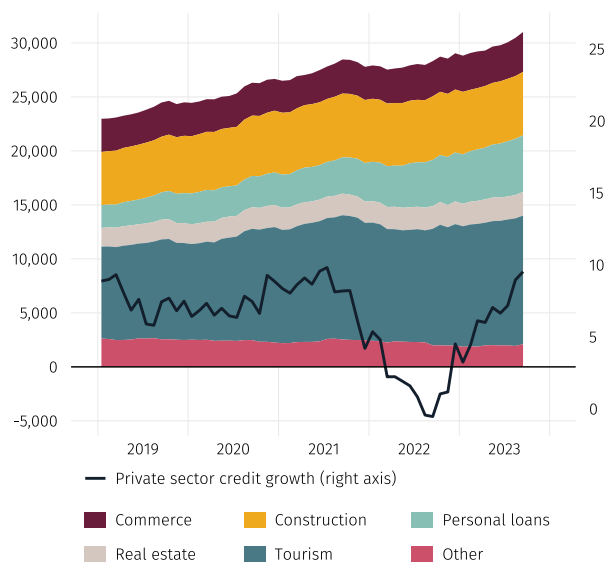
Meanwhile, the growth rate of NDA accelerated to 18% at the end of September 2023, from 16% recorded at the end of June 2023. The annual growth in NDA was primarily driven by the increase in NDA of the commercial banks together with NDA of the MMA. The increase in NDA of the commercial banks was mainly driven by the increase in commercial banks' credit to the private sector, which grew by MVR2.7 billion. This was followed by the increase in NCG which recorded a growth of MVR2.5 billion, primarily reflecting the annual expansion in government securities investments. In addition, a significant increase was observed in commercial banks' credit to the public non-financial corporations, registering a growth of MVR1.2 billion at the end of September 2023. Meanwhile, the increase in NDA of the MMA mainly stemmed from an increase in net claims on central government (NCG) by the MMA, which also outpaced the increase in overnight deposit facility (ODF) placements by commercial banks. It is also noteworthy that the overdrawn amount of the public bank account was converted to an amortising bond in March 2023, which further increased the holdings of government securities by the MMA.

Credit to Private Sector

Credit to the private sector recorded an annual growth of 10% (MVR2.7 billion) and stood at MVR31.0 billion at the end of Q3-2023 (Figure 19). During this period, credit extended to tourism, construction, personal loans, and commerce accounted for the highest shares of credit over the period. Credit extended to the tourism sector (which accounted for 38% of total private sector credit) recorded the largest sectoral increase during the review quarter, and registered an annual growth of 10%, albeit a slight deceleration from the 11% annual growth recorded in June 2023. This largely stemmed from the growth in credit extended as working capital together with a growth in credit extended for new resort development as well as renovation of resorts and safari yacht building. Meanwhile, credit extended to the construction sector observed a marginal decrease, primarily due to the fall in credit lent for other construction projects and property development despite a sizeable growth in credit given for commercial buildings. In contrast, credit extended as personal loans expanded significantly and recorded an

Figure 19: Private Sector Credit, 2019 - 2023

(millions of rufiyaa, annual percentage change)



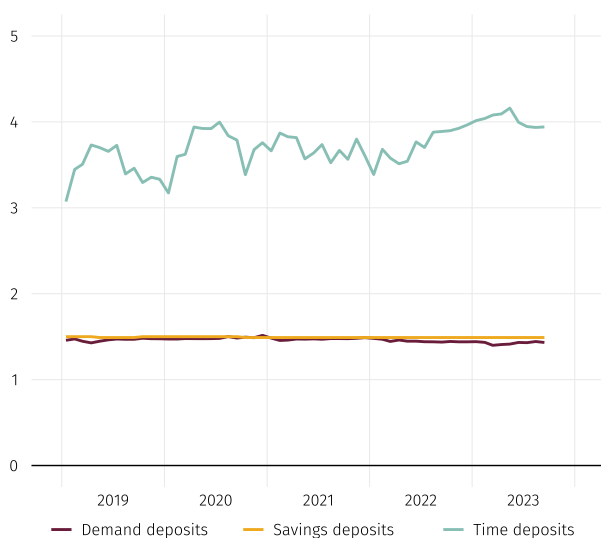
Source: Maldives Monetary Authority

annual growth of 23%, reflecting the rise in credit extended through credit cards and for consumer durables. Likewise, credit extended to the commerce sector observed a significant increase, stemming from the rise in credit for wholesale and retail businesses.

Interest Rates

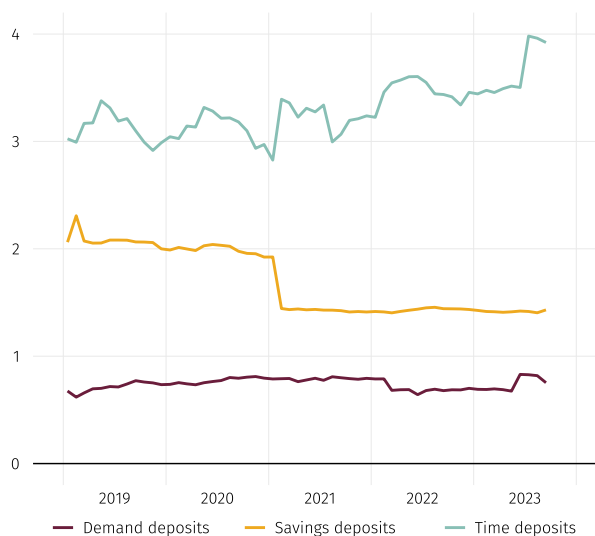
As for interest rates, the rate on local currency denominated demand deposits remained broadly unchanged, while the rate on such deposits denominated in foreign currency recorded a marginal increase at the end of September 2023. Meanwhile, the rate on local currency savings deposits remained broadly unchanged, although the rate on foreign currency savings deposits observed a slight decrease in the review period. In contrast, the interest rate on both local and foreign currency denominated time deposits (maturity of six months to one year) posted increases over the period (Figure 20 and 21). With regard to the interest rates on loans to the private sector, the interest rate on both local and foreign currency denominated private sector loans observed increases during the period (Figure 22).

Figure 20: Interest Rate on National Currency Deposits, 2019 - 2023 (weighted average)



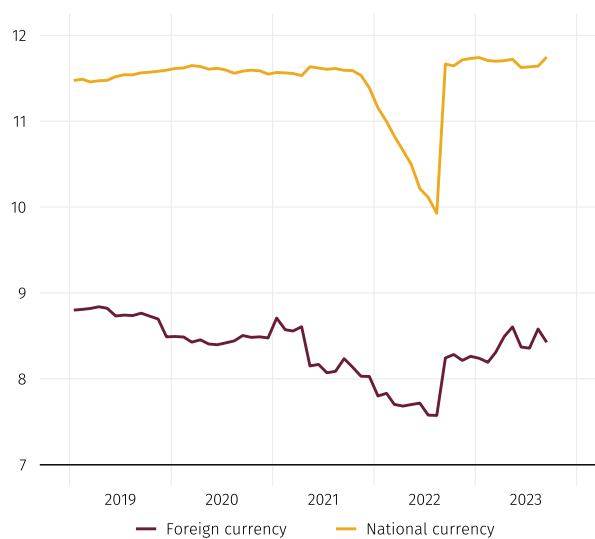
Source: Maldives Monetary Authority

Figure 21: Interest Rate on Foreign Currency Deposits, 2019 - 2023 (weighted average)



Source: Maldives Monetary Authority

Figure 22: Interest Rate on Private Sector Loans and Advances, 2019 - 2023 (weighted average)



Source: Maldives Monetary Authority

Financial Sector

Banking Sector

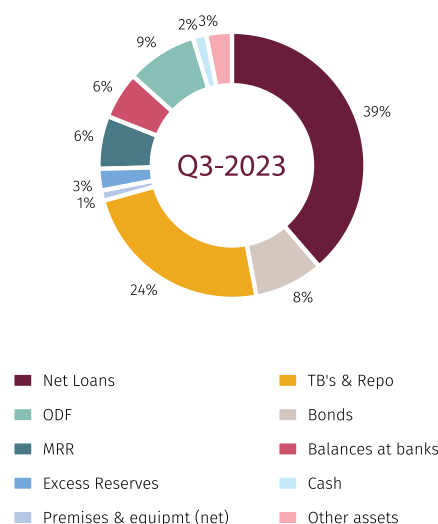
The banking sector remained resilient at the end of the third quarter, with growth in assets, and strong capital, liquidity, and profitability indicators. The total risk-based capital ratio stood 51%, well above the minimum regulatory requirement of 12%, due to a large portion of assets being invested in low-risk categories such as treasury bills. Furthermore, the leverage ratio, measured by tier 1 capital to assets, remained at 20%, significantly higher than the 5% minimum requirement.

Asset base increased by 1% on a quarterly basis to record MVR87.5 billion, while the deposit base declined by 1% mainly due to a foreign currency deposit fluctuation. Lending increased during the quarter, with gross loans recording a 6% growth, reaching MVR36.2 billion. Absolute non-performing loans (NPL) declined by 9% on a quarterly basis due to an upgrade of a large facility at one bank, with the NPL to total loans ratio at 5%, compared with 6% at the end of the previous quarter. Specific loan loss provisions covered 109% of NPLs owing to additional provisions made for performing loans with higher credit risk.

The liquidity position remained adequate, with 42% of assets held as liquid assets at the end of Q3-2023. Liquid assets included treasury bills (24% of the asset portfolio), followed by 9% as ODF, cash and bank deposits of 8%, and surplus reserves of 3%. Net loans, and investment in treasury bonds accounted for 39% and 8%, respectively, while MRR represented 6% and other assets represented 4% of the asset portfolio (Figure 23).

Profit before tax amounted to MVR3.4 billion; while profit after tax is estimated to be slightly lower compared to the same period of 2022, at MVR2.5 billion. While net interest income (NII) increased significantly by 19% as at the end of Q3-2023 compared to the same period of 2022, the

Figure 23: Net Asset Composition of Banking Industry, Q3-2023



Source: Maldives Monetary Authority

net non-interest income declined due to significant increase in non-interest expenses. In line with the lower profits after tax, while the assets and equity base increased, both the annualised profitability ratios; return on average assets (ROA) and return on average equity (ROE) declined compared to that of the same period a year ago, to 3.9% from 4.2%, and 15.9% from 18.2%, respectively.

Finance Companies

Financing companies continued to perform well and recorded total assets of MVR4.1 billion at the end of Q3-2023, a quarterly decrease of 1% and an annual increase of 2%. The annual growth is mostly attributed to the capital injection made by a state-owned financial institution during the year in the amount of MVR100.0 million.

The total capital to risk-weighted assets ratio and leverage capital ratio remained strong at 55% and 51%, respectively, demonstrating adequate capital strength for risk absorption.

At the end of the quarter, gross loans amounted to MVR3.3 billion, showing a marginal quarterly decline of 0.4%, while increasing annually by 8% (MVR252.4 million) owing to an increase in SME lending. Absolute NPLs reduced by 20% or MVR89.0 million at the end of the quarter, due to the write-off of NPLs at one institution, resulting in the NPL ratio declining to 10.6% from 13.2%. Specific loan-loss provisions covered 44.4% of the NPLs.

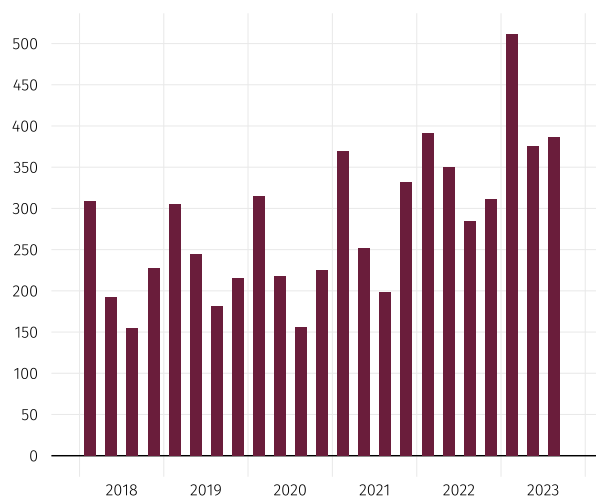
The aggregate annual pre-tax profits of financing companies up to the end of September 2023 amounted to MVR33.1 million, a significant decline of 63% compared to the same period in 2022; while the profit after tax was MVR14.1 million. The decline in profitability was on account of increased loan-loss provisions during this year. Consequently, the profitability ratios, ROA and ROE, also decreased from 2.4% and 5.0%, to 0.5% and 0.9%, respectively, compared with the same period in the previous year.

Insurance Industry

The outlook for the general insurance sector is positive based on the performance indicators. Between the first and third quarters of 2023, the general insurance companies reported MVR1,184.9 million in gross written premium (GWP), excluding inward reinsurance (Figure 24). Inward reinsurance refers to reinsurance obtained from other local insurance companies. Including inward reinsurance, the year-to-date GWP for 2023 was MVR1,272.2 million, a 24% increase from the same period in 2022. The increase in the local reinsurance business was mainly driven by the growth in contractors' all risk class of business. The total year-to-date inward reinsurance amounted to MVR87.3 million, marking an increase of MVR37.8 million over 2022's figures over the same period.

The primary contributors to the increase in GWP were health insurance and miscellaneous classes, the latter comprising bond insurance and

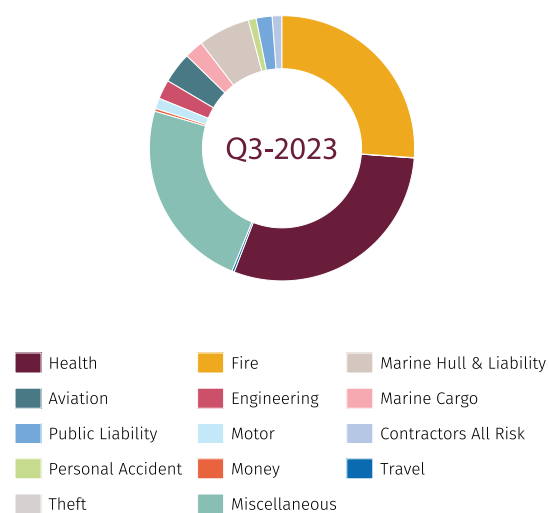
Figure 24: Gross Written Premium, 2018 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority

Note: Gross Written Premium from March 2022 onwards excludes inward reinsurance.

Figure 25: Premium Contributions by the Classes of Insurance, Q3-2023



Source: Maldives Monetary Authority

Note: Classwise distribution of GWP excludes inward reinsurance.

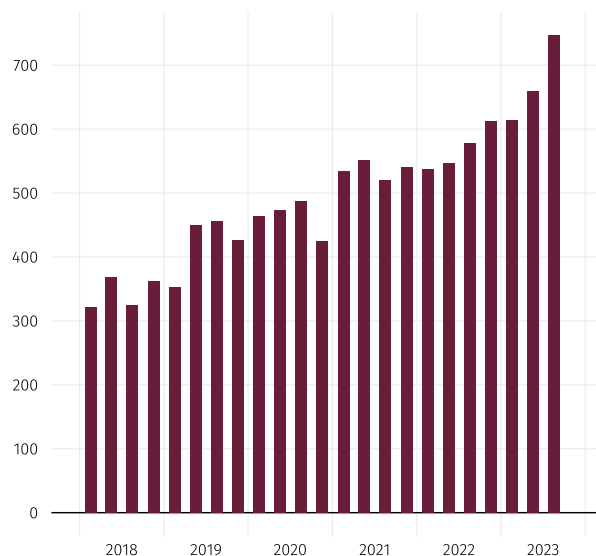
advance payment guarantees. The GWP in the health insurance class saw a year-on-year increase of MVR119.3 million to reach MVR388.2 million as of the end of Q3-2023, driven by price adjustments by insurers to reflect the rising cost of healthcare services. The contractors' all risk and aviation insurance classes also showed moderate year-on-year premium increases of 62% and 194%. The total GWP for the quarter was distributed primarily among the health class (30%), fire insurance (26%), and marine insurance (8%) (Figure 25).

Insurance companies also maintained a satisfactory capital position, with an equity to assets ratio of 29% and a net written premium to equity ratio of 100% averaged over the past four quarters, which shows the ability of the companies to absorb losses from claims.

As of the end of Q3-2023, the total assets of the general insurance sector stood at MVR2.6 billion, with an annual growth of 6%; with the value of investments at MVR746.4 million, which constitutes 28% of the total asset portfolio (Figure 26). Within this investment portfolio, a significant portion, 49%, was invested in debt securities. Additionally, fixed deposits represented 22% of the total investments.

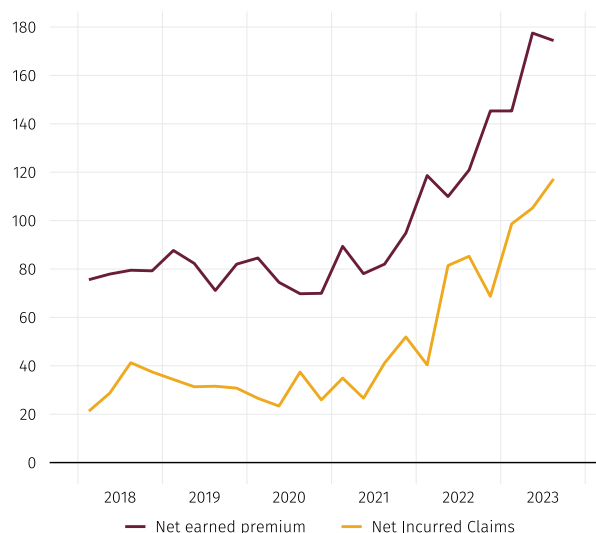
The year-to-date gross claims of the insurance companies decreased to MVR411.1 million in 2023, down from MVR492.8 million in 2022. However, the net incurred claims, which reflect the claims burden that the local insurance companies bear after reinsurance adjustments, increased by 55% to MVR321.1 million (Figure 27). This increase in net incurred claims for the period from Q1 to Q3 of 2023, compared to the same period in 2022, was primarily due to higher claims in the health insurance class, which constituted the majority of these claims. The increase in health insurance claims can be attributed to medical inflation and a growth in the usage of health services.

Figure 26: Investments, 2018 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 27: Net Earned Premium vs Net Incurred Claims, 2018 - 2023
(millions of rufiyaa)

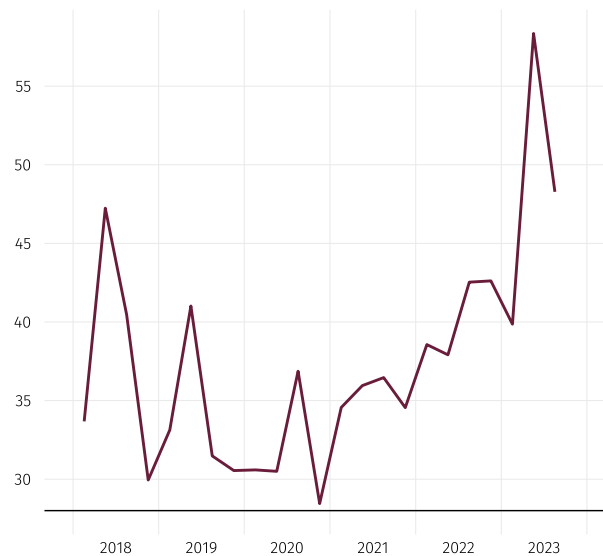


Source: Maldives Monetary Authority

The retention ratio, an indicator of the proportion of premiums retained by local companies, saw a significant increase to 48% in the first three quarters of 2023, up from 39% in the corresponding period of 2022 (Figure 28). This rise is mainly due to the growth in GWP in the health insurance class, a class that constantly had a high average retention ratio; which stood at 97% during the review period. Additionally, increased retention in other insurance classes like engineering, contractors' all risk, and fire, also contributed to this higher retention ratio in 2023 compared to 2022.

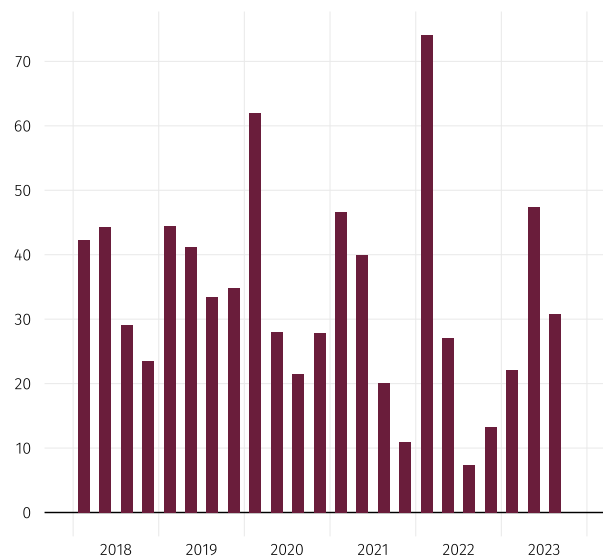
The combined ratio, which evaluates the underwriting profitability of insurers by adding the net expense ratio and net loss ratio, increased from 87% in the first three quarters of 2022 to 100% in the same period of 2023, indicating a break-even in the underwriting business. The increased net loss ratio was mainly due to the surge in net incurred claims in the health insurance class, causing the ratio to rise from 59% in 2022 to 65% in 2023. The year-to-date net expense ratio, which includes management and distribution expenses, also went up, moving from 28% to 35%. As a result, the profit before taxes for general insurers in the first three quarters of 2023 was led by investment income and other income, since the underwriting activities were not profitable. Such profits amounted to MVR100.3 million, representing an 8% decline from MVR108.5 million during the corresponding period in 2022 (Figure 29). Similarly, the profit after taxes also experienced a decrease, dropping from MVR95.5 million in 2022 to MVR93.0 million in 2023. The return on equity (ROE) and return on assets (ROA), key indicators of profitability, stood at 14.3% and 4.1%, respectively, on an annualised basis.

Figure 28: Retention Ratio, 2018 - 2023 (percent)



Source: Maldives Monetary Authority

Figure 29: Pre-tax Profit, 2018 - 2023 (millions of rufiyaa)



Source: Maldives Monetary Authority

External Trade

Merchandise Exports

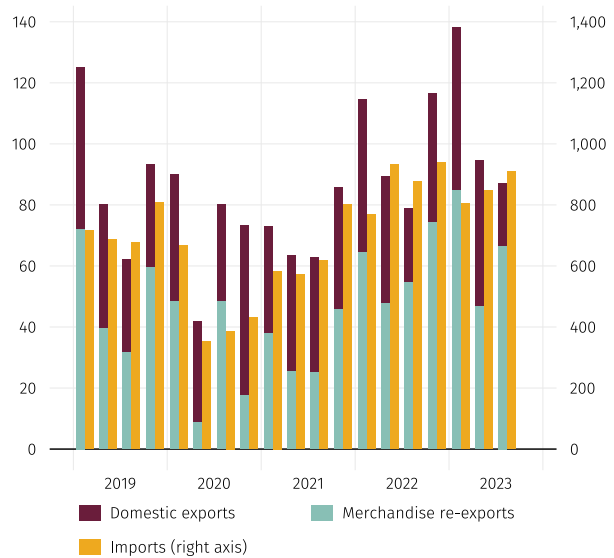
Total merchandise exports registered an annual increase of 10% (US\$7.9 million) in Q3-2023 and totalled US\$87.0 million. This was mainly driven by the increase in merchandise re-exports, despite domestic exports observing a notable decline during the quarter (Figure 30). It is worth noting that the merchandise re-exports included the re-export of a dredger which led to a one-off increase in other re-exports during the quarter. On the other hand, re-exports of jet fuel, the main component of the merchandise re-exports observed a decline of 24% (US\$11.5 million) despite the increase in both flight movements and tourist arrivals during the quarter.

Domestic exports—which mainly comprise fish and fish products—decreased by 17% (US\$4.1 million) during Q3-2023 and totalled US\$20.4 million. This was primarily due to the significant reduction of export earnings from frozen skipjack tuna, which fell by 41% (US\$4.2 million), in line with the decline in the volume of such exports which fell by 2.6 thousand metric tonnes (Figure 31). However, skipjack tuna prices rose in the Bangkok frozen market during the review quarter, which averaged US\$1.9 per kilogram. Moreover, a decline was also observed in export earnings from fresh or chilled yellowfin tuna by 7% (US\$0.2 million). In contrast, export earnings from both frozen yellowfin tuna and canned or pouched tuna rose by 47% (US\$0.3 million) and 2% (US\$ 0.1 million), respectively during the review quarter, while the volume of such exports also observed increases.

As for the direction of trade, Asia was the major continental export destination during the quarter, accounting for 49% of domestic exports during Q3-2023—a rise from the 40% recorded in the corresponding quarter of 2022. Thailand cemented their foothold as the dominant Asian export market, accounting for 30% of total domestic

Figure 30: Total Trade Summary, 2019 - 2023

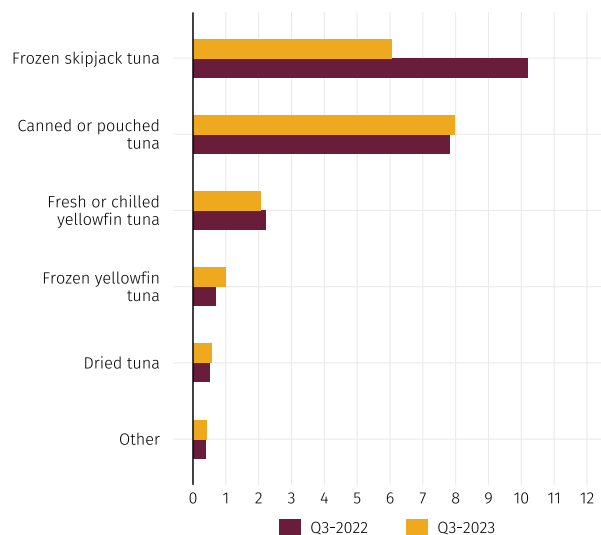
(millions of US dollars)



Source: Maldives Custom Service

Figure 31: Composition of Fish Export Earnings, 2022 - 2023

(millions of US dollars)



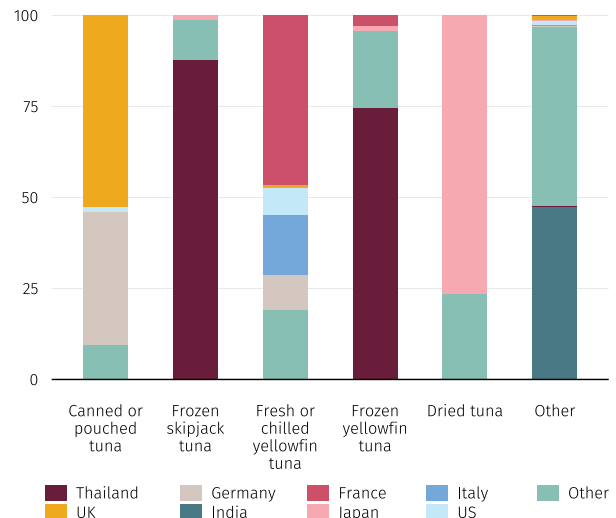
Source: Maldives Customs Service

exports during the review quarter—an increase from the 24% observed in Q3-2022. Additionally, India emerged as the second largest export market within the region, accounting for 6%—a rise from the 4% recorded in Q3-2022. Europe remained as the second largest continental export destination with a market share of 48% in Q3-2023, a growth from the 44% observed in Q3-2022 (Figure 32). The UK continued to hold its position as the top export market within the region, accounting for 21% of total domestic exports, which was a notable rise from the 13% in Q3-2022. Concurrently, Germany—the second largest export destination—accounted for 15% during the review quarter, a decline from the 18% recorded in Q3-2022. Other notable export destinations include France (5%), Netherlands (2%), and Italy (2%).

Merchandise Imports

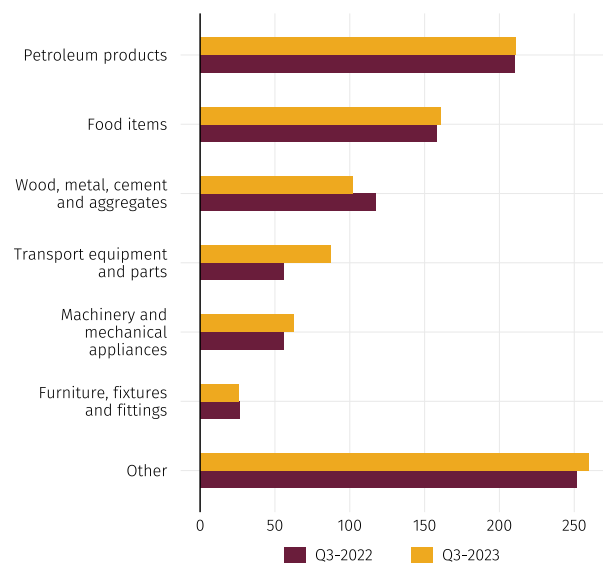
Total merchandise imports (c.i.f) recorded an annual growth of 4% (US\$32.5 million) during Q3-2023, and totalled US\$908.6 million, as import demand increased compared to Q3-2022. Accordingly, a rise in import expenditure was observed for most of the major import categories (Figure 33). The main contributor to the annual increase was transport equipment, which surged by 55% (US\$31.0 million), primarily owing to increased imports of aeroplanes and other aircrafts. This was followed by machinery and mechanical appliances, and other intermediate and capital goods, which observed growths of 12% (US\$6.8 million) and 43% (US\$6.8 million), respectively. In contrast, a notable decline was observed in imports of construction-related items which fell by 6% (US\$8.7 million). Looking at other major import categories, both expenditure on food items and petroleum products showed muted growth when compared with the corresponding quarter of 2022.

Figure 32: Direction of Trade by Domestic Export Categories, Q3-2023 (percent)



Source: Maldives Customs Service

Figure 33: Composition of Imports, 2022 - 2023 (millions of US dollars)



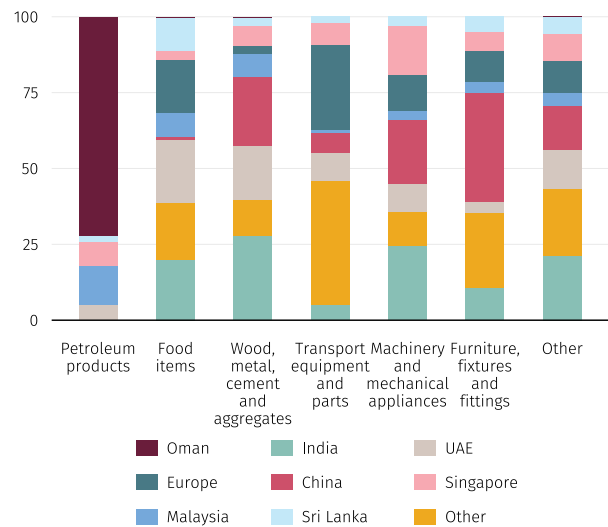
Source: Maldives Customs Service

With regard to the direction of trade, Asia remained as the largest continental source of imports, accounting for 83% of total merchandise imports during Q3-2023—a decrease from the 86% recorded in Q3-2022 (Figure 34). During Q3-2023, Oman accounted for the largest share of imports, accounting for 17% of total merchandise imports—although a decline was observed from the 20% share in Q3-2022. Meanwhile, India held its position as the second largest source of imports and accounted for 15%—no change from Q3-2022. This was followed by UAE (United Arab Emirates) accounting for 12% during the review quarter—a rise from the 11% in the corresponding quarter of 2022. Additionally, China accounted for 10% of total merchandise imports during the review quarter, a marginal decrease from the 11% recorded in Q3-2022.

Gross International Reserves

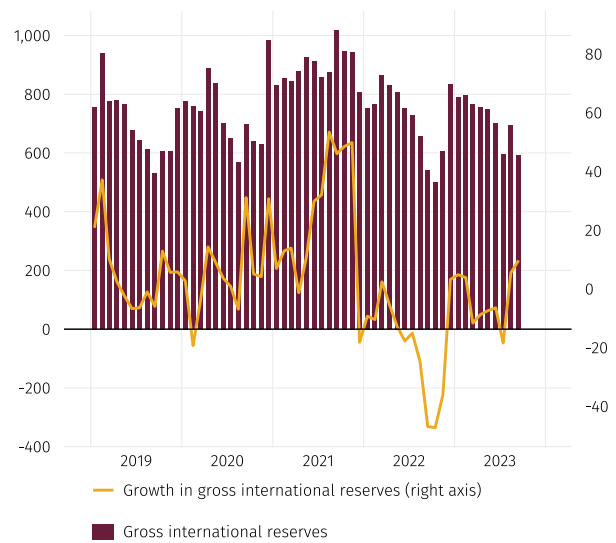
Gross international reserves (GIR)²¹ increased to US\$592.7 million at the end of Q3-2023, registering an annual increase of 10% (US\$52.5 million) when compared with the corresponding quarter of 2022. Conversely, when compared with the preceding quarter, GIR registered a decline of 16% (US\$109.4 million) (Figure 35). The annual increase in GIR was attributed to the rise in short-term liabilities by US\$117.8 million, reflecting the receipt of US\$100 million swap from RBI in December 2022.

Figure 34: Direction of Trade by Import Categories, Q3-2023 (percent)



Source: Maldives Customs Service

Figure 35: Gross International Reserves, 2019 - 2023 (millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

²¹ Also called official reserve assets, comprise of foreign currency deposits of the MMA and government, commercial banks' US dollar reserve and the Maldives' reserve position at the IMF.

Articles

Recent Trends in Private Sector Credit in the Maldives

*Hussain Anees Ali and Aishath Hudhuna**

Abstract

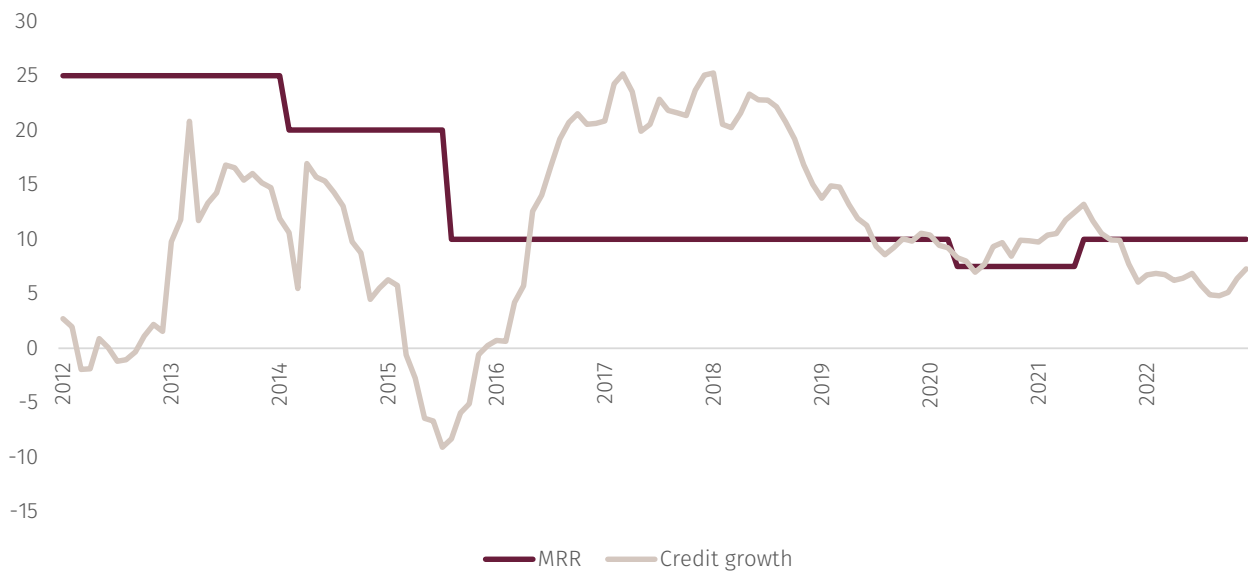
This article examines the recent trends in private sector credit in the domestic banking sector, and the factors impacting the fluctuations between 2015 and 2022, with a focus on the pre-pandemic (January 2015 to March 2020), during (April 2020 to December 2021) and post-pandemic period (January to December 2022). The trends are discussed based on the data on outstanding loans to private sector by the commercial banks. In this period, the personal loans category witnessed the most significant growing trend, while mixed developments were observed in the other three key sectors explored (tourism, construction, and wholesale and retail trade), with a variety of factors affecting the trends. In exploring the factors affecting credit to the private sector, this article includes the analyses from the MMA's *Bank Credit Survey* results. For credit to private businesses, the key demand-side drivers highlighted during the pandemic and post-pandemic periods include the need for refinancing and difficulties in obtaining loans from other banks and other financial institutions (OFIs). For personal loans, spending on general consumption and durable goods remained as the key demand-side driver. On the supply side, the limiting factors constantly identified during and post-pandemic, include the issue of non-performing loans (NPLs), together with the exposure limits set by the commercial banks to sectors and the high risk on the collateral demanded.

*The authors are from the Research Division and Monetary Policy and Exchange Rate Division of the MMA, respectively. The authors would like to thank Aminath Seema Ismail (Senior Research Analyst at MMA) for the comments on the article.

1. Introduction

Bank credit to the private sector is an important component of the financial system of the Maldives, accounting for over 50% of the total money supply. With the lowering of the minimum reserve requirement (MRR) ratio on both local and foreign currency in 2015 coupled with the suspension of open market operations (OMO) in May 2014, bank credit to the private sector observed a rapid growth over the following years until 2018 (Figure 1 and 2). However, it began to slowdown and followed a declining trend during 2019, prior to the onset of the COVID-19 pandemic and decelerated further during the pandemic and post-pandemic period. This article focuses on the recent trends in commercial bank credit to the major sectors between 2015 and 2022, covering both pre- and post-pandemic trends such as changes in currency composition and drivers of growth. In this regard, developments in credit extended to the tourism, construction, wholesale and retail trade sector and credit extended as personal loans are discussed, which together account for around 80% of the total outstanding loans (Figure 3). It also discusses factors affecting private sector credit in major sectors with results from the Maldives Monetary Authority's (MMA) *Bank Credit Survey*. This article is divided into two parts. The first part focuses on the developments in private sector credit to the four main economic sectors, while the second part focuses on the factors affecting credit extended to the private sector.

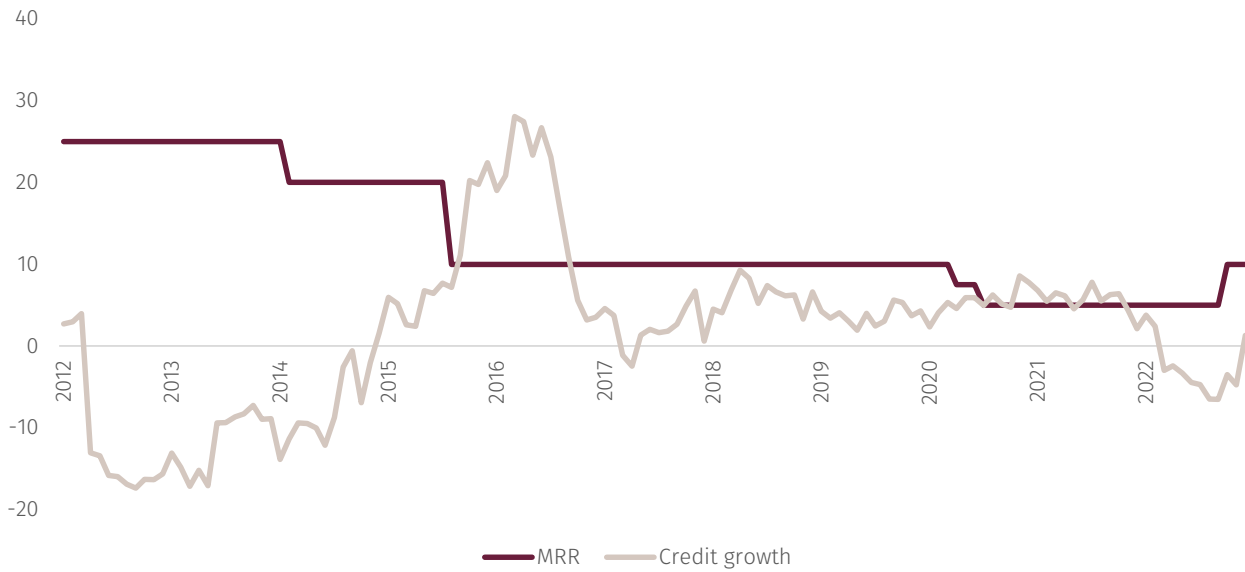
Figure 1: Minimum Reserve Requirement on Local Currency and Credit Growth, 2012 - 2022 (percent)



Source: Maldives Monetary Authority

Figure 2: Minimum Reserve Requirement on Foreign Currency and Growth, 2012 – 2022

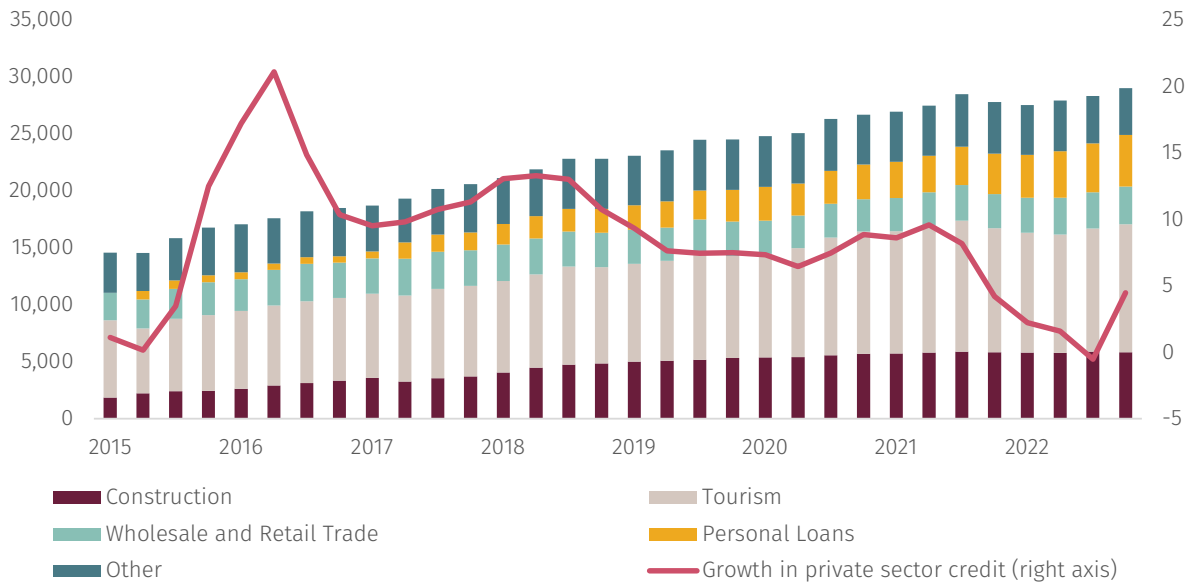
(percent)



Source: Maldives Monetary Authority

Figure 3: Total Outstanding Bank Credit to Private Sector by Major Economic Sectors, 2015 - 2022

(millions of rufiyaa, percent)



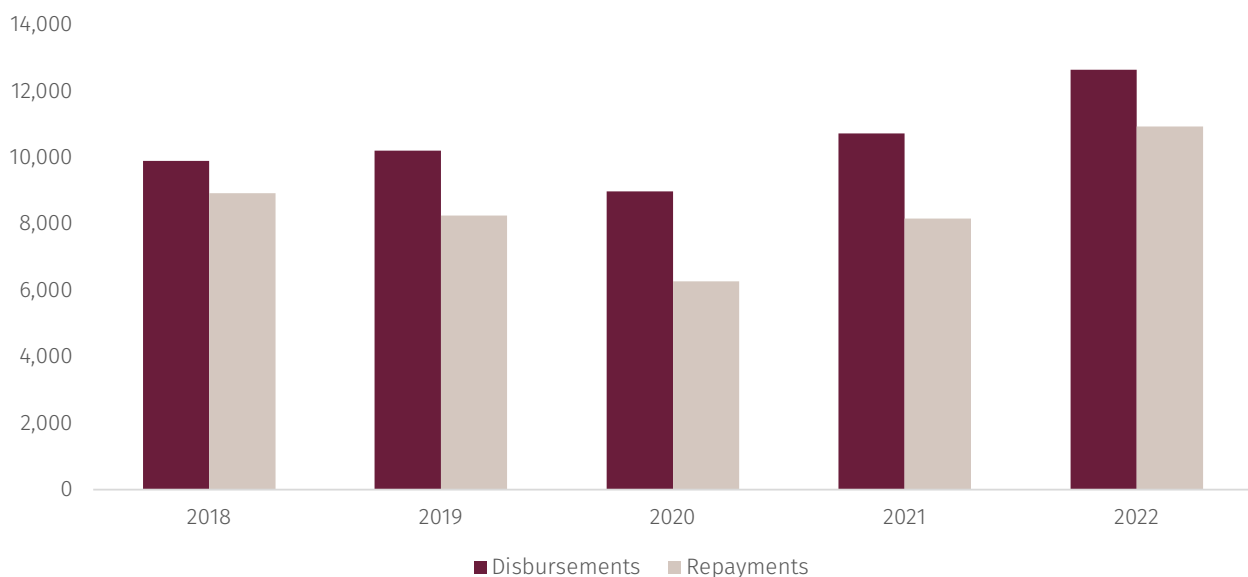
Source: Maldives Monetary Authority

2. Trends in Private Sector Credit – Are There Any Changes Pre- and Post-COVID?

The total loans outstanding stood at a healthy level prior to the pandemic primarily due to strong growth in credit extended to tourism sector and as personal loans, while growth in credit extended to both the construction sector, and wholesale and retail trade sector followed a declining trend. It is important to note that the overall growth of the economy was strong during this period, especially in the tourism sector, while promotional schemes were introduced in the personal loans category. In this regard, new disbursements¹ were well above repayments in this period.

The total outstanding loans² to the private sector observed the highest growth in 2020 (excluding 2018), despite a slowdown in new disbursements, on the back of the pandemic (Figure 4). As debt moratoriums³ were allowed as part of the policy measures to tackle the pandemic, repayments fell drastically and recorded the biggest difference between disbursements and repayments over the review period. It is also noteworthy that the MRR on both local and foreign currency was lowered in the aftermath of the pandemic. In addition, government also granted loans to businesses affected by the pandemic through banking system, from the funds received from foreign institutions. While this difference was equally high at the end of 2021 reflecting the extensions in the debt moratoriums, it has fallen since then and reached pre-pandemic level at the end of 2022. Further, the difference between disbursements and repayments was more significant in foreign currency loans during the pandemic (Figure 5).

Figure 4: Total New Disbursements and Repayments, 2018 - 2022
(thousands of rufiyaa)



Source: Maldives Monetary Authority

¹ New disbursements and repayments include credit extended to private sector and public non-financial corporations. Credit to private sector accounts for 90% of the total loans outstanding. Hence, it is assumed that new disbursements and repayments will be proportionated in this ratio.

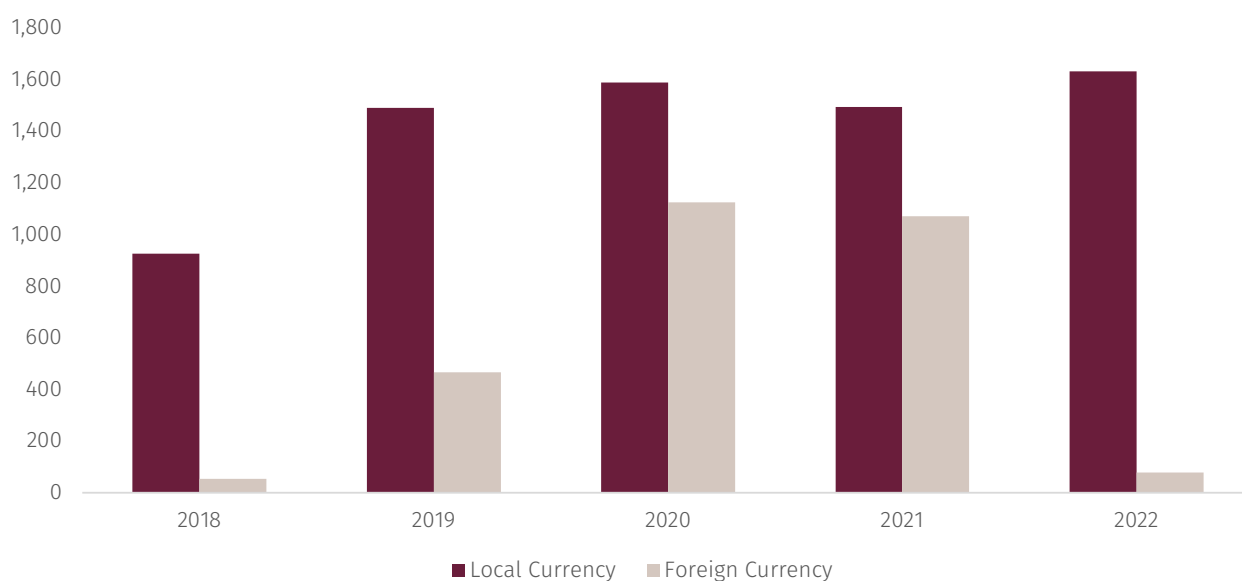
² Total loan outstanding is the difference between total disbursements and repayments.

³ Effective from 1 March 2020, a 6-month debt moratorium was facilitated allowing customers to defer monthly principal and interest repayments, bearing that customers have cleared existing overdue loan repayments. This was extended further by an additional 6 months.

At the outset, fluctuations in the total outstanding private sector credit extended to main sectors of the economy was plotted against the interest rate to analyse the correlation between the two variables. However, as mentioned in previous literature (Rashfa, 2016; Ali and Musthafa, 2019) and through observation of data across the review period, interest rate was not seen as a key factor that influences credit lending in the Maldives. There are more significant demand and supply side factors that determine the changes in bank lending. This includes the change in macroeconomic situation in the domestic as well as international economy and policies of individual banks with respect to changes in regulatory requirements.

Figure 5: Difference in New Disbursements and Repayments, 2018 - 2022

(thousands of rufiyaa)



Source: Maldives Monetary Authority

2.1 Tourism Sector

Prior to the pandemic, a strong annual growth was observed in credit extended to the tourism sector. A large portion of the credit extended was provided for new resort development⁴ as seen by the notable growth in this category between 2015 and 2018 (Figure 6). Further, credit extended to guesthouses also showed a similar growth trend. This can be evidenced by the huge increases in operational numbers of resorts and guesthouses prior to the pandemic. In this regard, a huge influx was observed in the supply front of the industry in line with the increase in credit. In terms of currency composition over 60% of total foreign currency lending accounts for the tourism sector, this ratio remained relatively unchanged pre-, during and post-COVID (Figure 7).

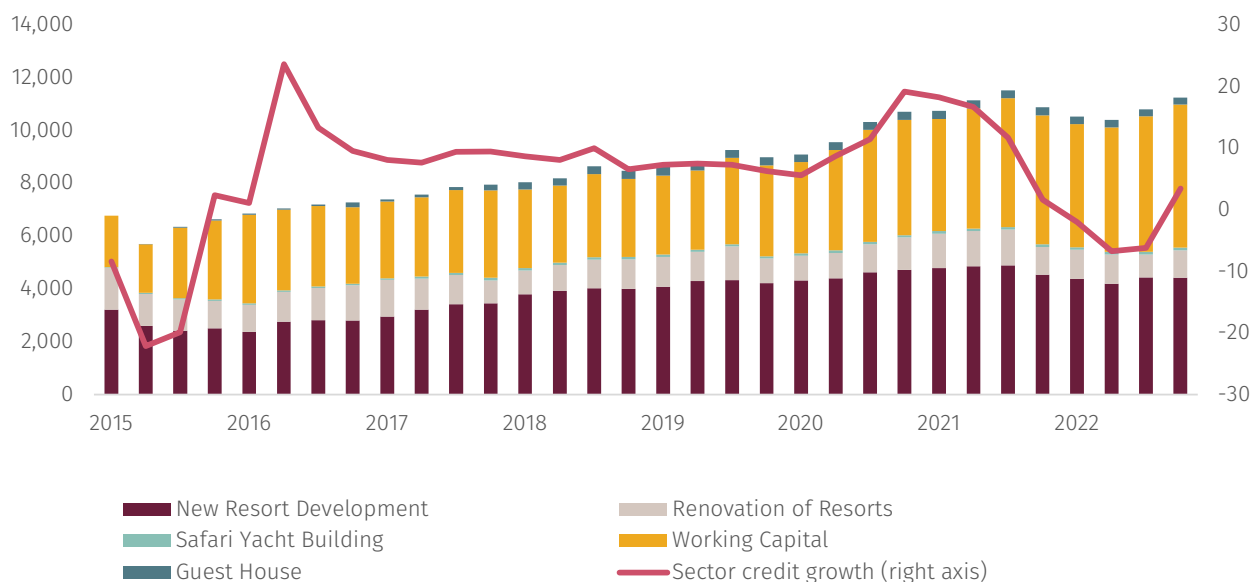
Turning to developments during and post pandemic, total credit outstanding remained particularly high between 2020 and 2021. One of the key reasons for this increase was the pandemic debt moratoriums which were in place until November 2021. This can be seen by the increase in difference between disbursements over repayments during this period. In addition to this, new disbursements to the sector increased, which is

⁴ Although tourism sector accounts for the largest share of the private sector credit by banks, a significant portion of the funding for new resort development projects are sourced externally in the form of foreign direct investment inflows.

shown by the growth in disbursements in both local and foreign currency. In this regard, the major observation in credit to the tourism sector was that while the pre-pandemic period was dominated by development-related loans to the sector, the period during and post pandemic was dominated by loans as working capital provided to sustain operations.

Figure 6: Total Loans Outstanding to the Tourism Sector by Type, 2015 - 2022

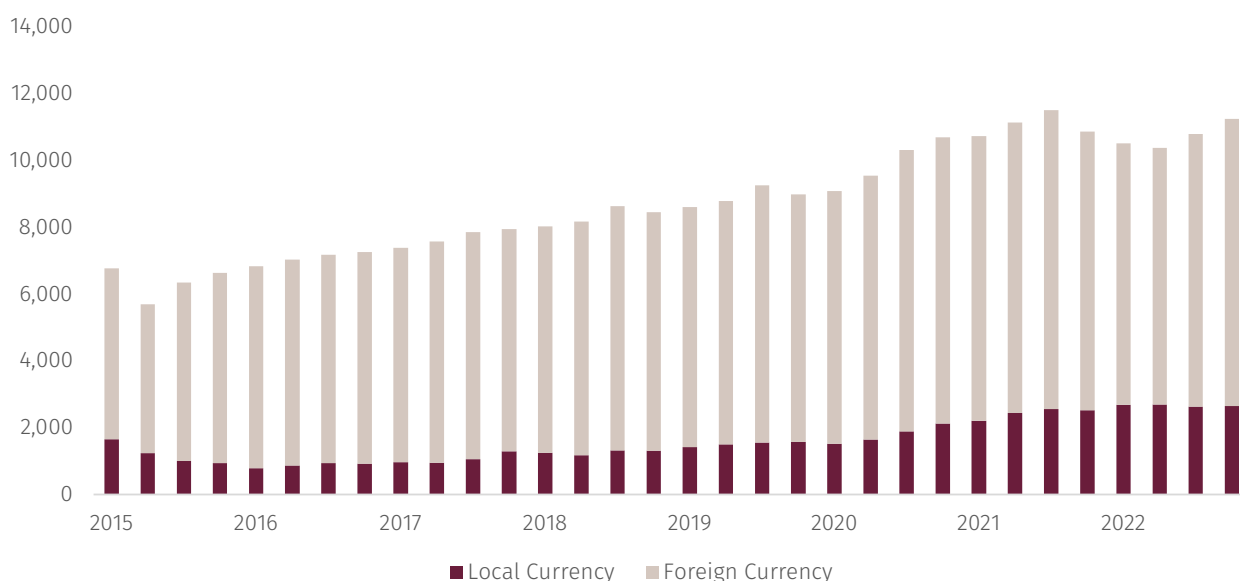
(millions of rufiyaa, percent)



Source: Maldives Monetary Authority

Figure 7: Total Loans Outstanding to the Tourism Sector by Currency, 2015 - 2022

(millions of rufiyaa)



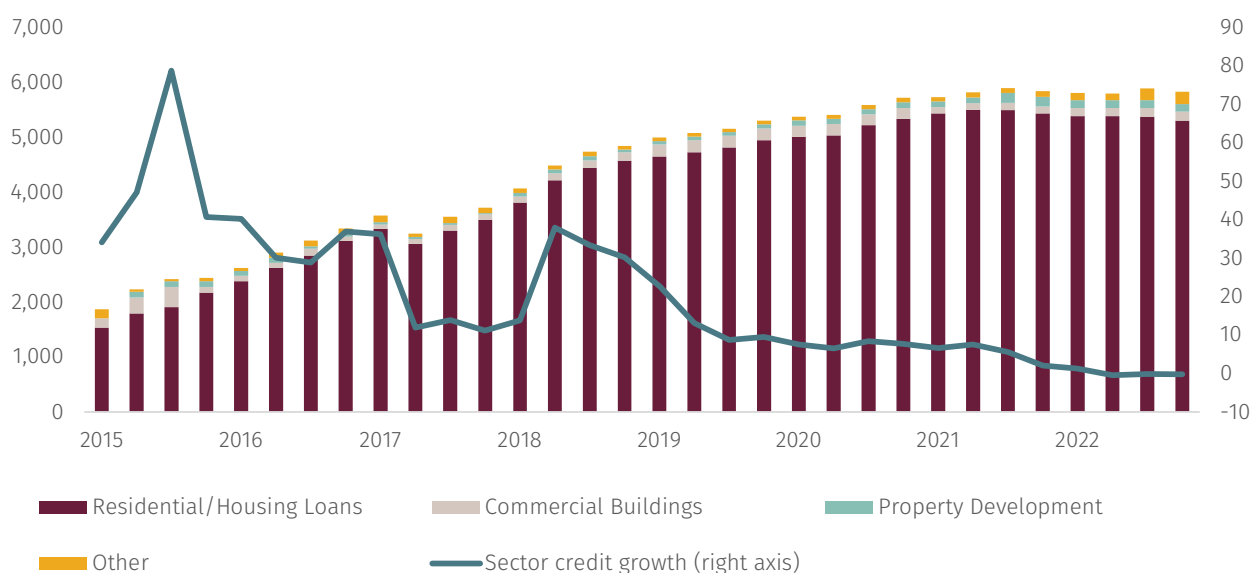
Source: Maldives Monetary Authority

2.2 Construction Sector

A declining trend was observed for credit extended to the construction sector over the pre-pandemic period, with a drastic dip in growth rate between 2017 and 2018 (Figure 8). It should be noted that a change in data reporting was brought during this period, under which construction loans are reported as real estate loans when all proceeds under the loan have been advanced. While there was a rebound in growth following the dip, credit growth continued to slowdown largely due to the deceleration in credit extended for residential or housing purposes. However, total loans outstanding stood at a healthy level in absolute terms despite the deceleration in growth. This primarily reflected local currency lending in all major categories. Looking at the underlying factors, the construction sector in the Maldives was booming with huge public infrastructure projects led by the government, which had positive spill-over effects on the overall sector.

Figure 8: Total Loans Outstanding to the Construction Sector by Type, 2015 - 2022

(millions of rufiyaa, percent)



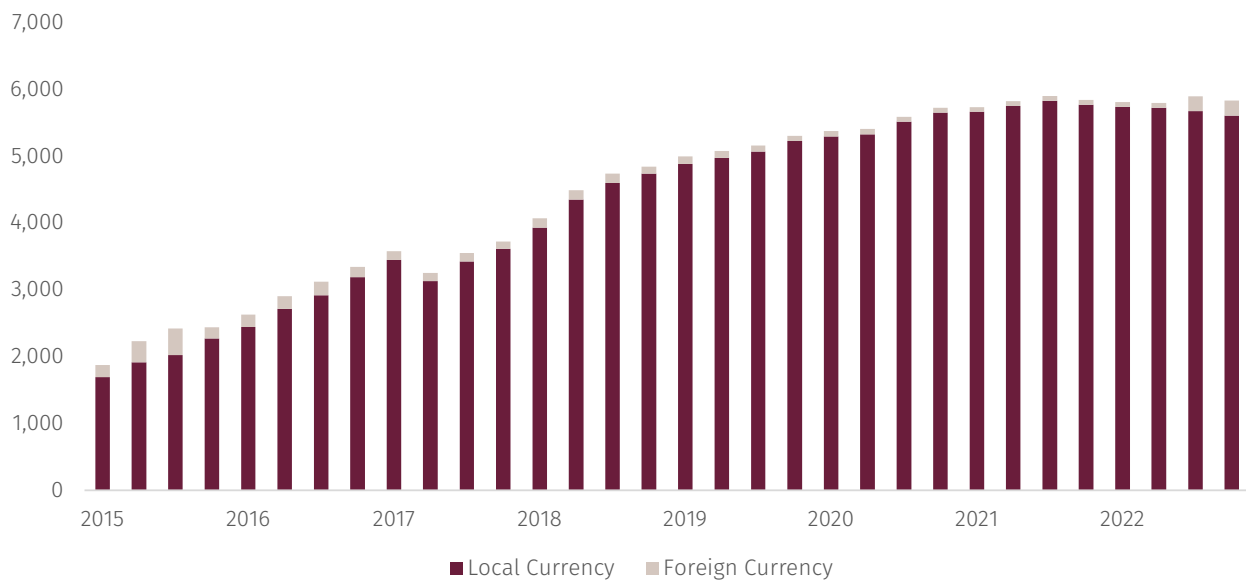
Source: Maldives Monetary Authority

Credit to the construction sector stagnated during the pandemic and remained muted over the post pandemic period as well, as evidenced by the slower growth in loans outstanding to the sector. As such, bank credit to the sector recorded a growth of 2% at the end of 2021, while it remained broadly unchanged at the end of 2022. This was also against the backdrop of a slowdown in gross value added (GVA) of the sector during these periods. However, it is worth noting that fluctuations in bank credit does not have a strong correlation with the gross value addition of the sector in the construction sector. This can be associated to the fact that a significant portion of the financing for public infrastructure projects such as Sinamale' Bridge, Dharumavantha Hospital, as well as resort development and social housing development is sourced from abroad⁵. Further, over 95% of the construction sector loans are dominated by local currency, implying that the foreign currency needs of the sector are met through foreign sources (Figure 9).

⁵ According to the MMA's Quarterly Economic Bulletin report.

Figure 9: Total Loans Outstanding to the Construction Sector by Currency, 2015 - 2022

(millions of rufiyaa)



Source: Maldives Monetary Authority

2.3 Wholesale and Retail Trade Sector

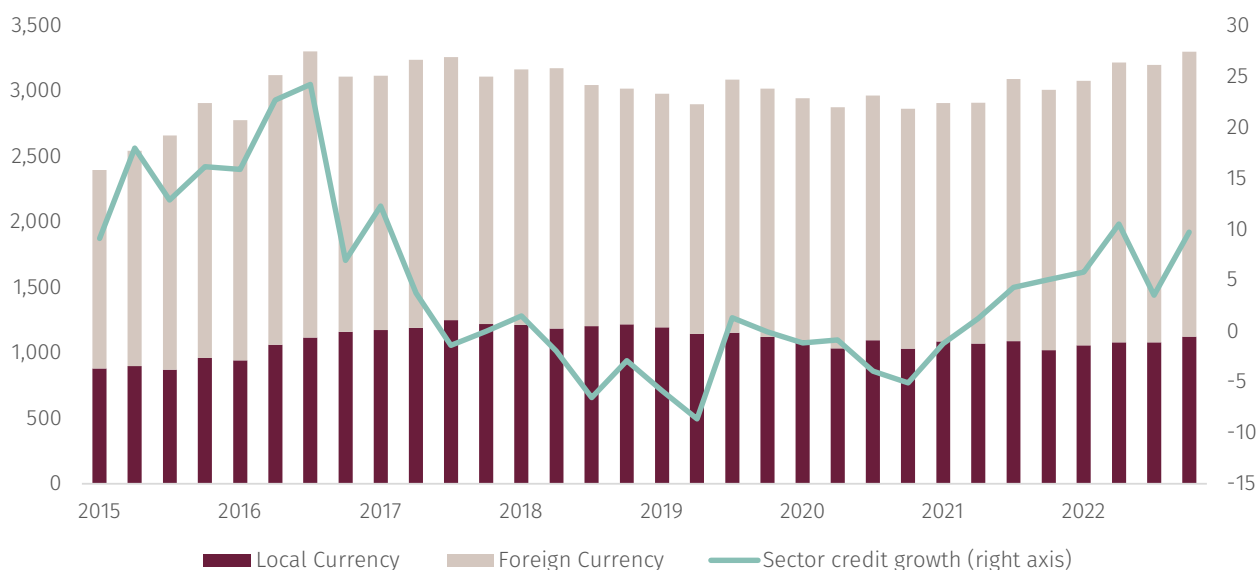
Contrary to the other sectors, credit to the wholesale and retail trade sector was on a declining trend prior to the pandemic, particularly from mid-2016 onwards, although a steady growth was seen between 2015 and 2016. The decline in credit can be associated with the fall in contribution of credit extended in foreign currency, as opposed to the trend in between 2015 and 2016. Further, sectoral credit growth hit the lowest and turned negative at the end of 2020, despite the extension of debt moratoriums. However, a turnaround was observed in 2021 and 2022, with year-end growth rates of 5% and 10%, respectively. Looking at the currency composition, foreign currency lending dominates the sector accounting for over 60% of the total lending to the sector (Figure 10), while no significant shifts were observed in currency composition between pre-, during and post-pandemic.

Delving into factors driving the fluctuations in credit growth, although it is not highly significant in terms of total loans outstanding, one reason for the declining trend⁶ can be associated with the inception of SME Development Finance Corporation⁷ (SDFC) in 2019, as majority of retail businesses are a part of small and medium enterprises (SMEs) in the Maldives. Nevertheless, it was also observed that similar to the construction sector, bank credit to the wholesale and retail trade sector does not have a strong correlation with the economic performance of the sector, implying that it is a less significant indicator of economic performance for wholesale and retail trade sector. As such, the GVA of the sector remained strong prior to the pandemic despite the declining trend in bank credit to the sector. In contrast, a poor performance was observed in the GVA of the sector during as well as over the post-COVID period, while credit to the sector began to show an increase.

⁶ Although bank credit to the sector remains as the primary source of financing, the growth in credit extended by other financial corporations has been observing a significant growth.

⁷ Lending to the wholesale and retail trade sector by SDFC accounted for around 25% between 2019 and 2022.

Figure 10: Total Loans Outstanding to the Wholesale and Retail Trade Sector, 2015 - 2022
(millions of rufiyaa, percent)



Source: Maldives Monetary Authority

2.4 Personal Loans

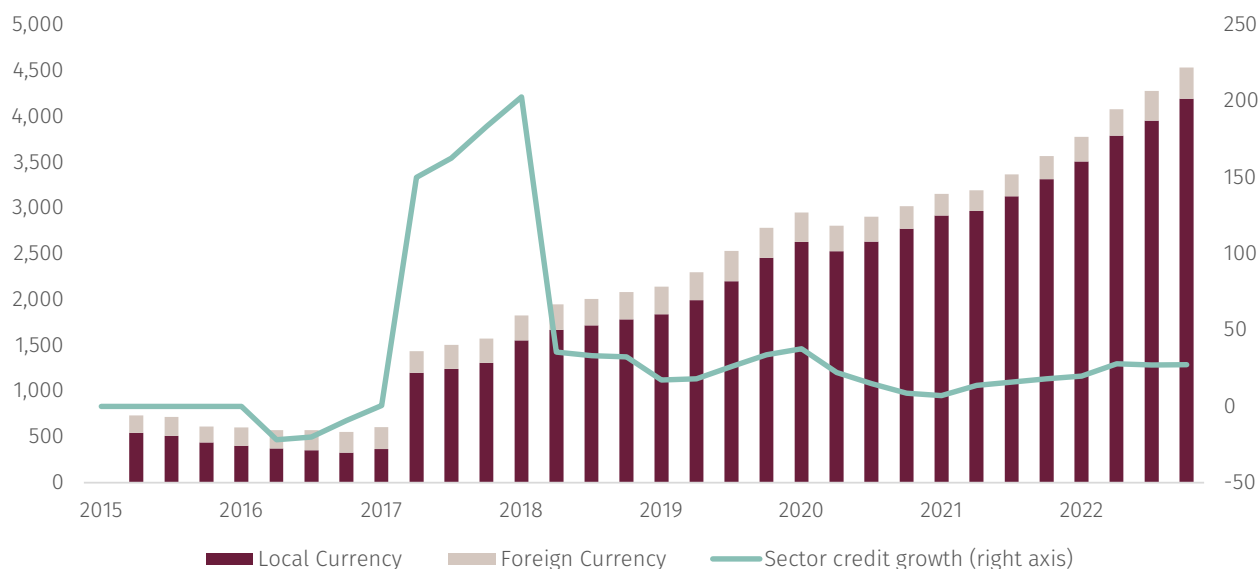
The category with the highest growth during the review period was credit extended as personal loans, with an average annual growth rate of over 40% (year-on-year monthly growth rate) (Figure 11). It should also be noted that personal loans were classified as a separate category in monetary statistics in June 2015. Looking at the early developments, personal loans observed a declining trend until Q2-2017. However, total loans outstanding to the sector picked up notably after this quarter and continued to grow steadily until Q1-2020. Since then, a slowdown was observed following the pandemic. This slowdown can be associated with the limits on credit card transactions imposed by the banks in the wake of COVID-19 outbreak in the Maldives, with lending in the form of credit cards and consumer durables being the main category under personal loans. This slowdown stretched until the Q1-2021 before picking up in the latter quarters of the year and during the post-pandemic period, although the limits were not reversed to pre-pandemic levels. It is also noteworthy that the growth in personal loans have had a relatively quick recovery during the post-pandemic period and surpassed pre-pandemic levels by MVR1.6 billion at the end of 2022. Moreover, growth increased to 18% and 27%, at the end of 2021 and 2022, respectively, after slowing down to 9% at the end of 2020.

The increase in personal loans primarily stemmed from local currency lending, which also accounts for the major portion of total personal loans outstanding in terms of currency with over 80% between 2015 and 2022. It was also observed that the currency composition further widened during the review period, with the share of local currency being recorded around 75% in pre-pandemic period, and over 90% during and post-pandemic. Looking into customer types, personal loans primarily depicted lending for individuals, as lending for companies as personal loans accounted for less than one percent over the review period. Further, personal loans largely consisted local currency loans extended in the form of credit cards and consumer durables. Delving into the drivers of growth, personal loans observed the highest growth prior to the pandemic, which can be attributed to different loan schemes introduced by the banks and relaxations to eligibility criteria. However, during the pandemic, personal loans observed a marked deceleration in 2020, despite the debt moratoriums. This can be related to these loans being heavily dependent on the economic situation, which

influences people’s ability and willingness to take loans as these loans are given with less stringent terms and conditions. Meanwhile, personal loans have been showing a marked growth in the post-pandemic period with an average growth of 6% (quarter-on-quarter) during 2022.

Figure 11: Total Loans Outstanding as Personal Loans, 2015 - 2022

(millions of rufiyaa, percent)



Source: Maldives Monetary Authority

3. Factors Affecting Private Sector Credit

Identifying and understanding the trends and developments of the private sector credit alone may not be sufficient to gauge the credit conditions of the economy. Therefore, credit conditions can be gleaned to an extent from a qualitative survey capturing the commercial banks’ perspective on overall credit conditions in the domestic economy. To this end, the results of the *Bank Credit Survey*⁸ (BCS) conducted by the MMA provides valuable insight to disentangle factors impacting credit supply and demand. Even though the survey mainly collects qualitative data, it enables policymakers to acquire a more in-depth understanding of the underlying drivers of the developments in the overall credit market.

This part provides an update to already existing literature published based on the BCS results. The paper by Ali and Musthafa (2019) investigates the demand for and supply of credit to the private sector and the information used for the analysis is based on BCS conducted on a semi-annual basis between 2015 and 2018. The MMA revamped⁹ the credit survey at the end of the 2019 and beginning from Q4-2019 the survey is conducted on a quarterly basis. Hence this paper covers the development in credit conditions between 2015 and 2022, complementing with existing quantitative statistics of the private sector credit. The objective of this section is to understand the developments in credit conditions by assessing the factors impacting domestic credit and demand.

⁸ This is a qualitative survey conducted by the MMA from 2014 onwards to capture the banks’ perception of the domestic credit conditions in the Maldives. All eight commercial banks operating in the Maldives participate in this survey.

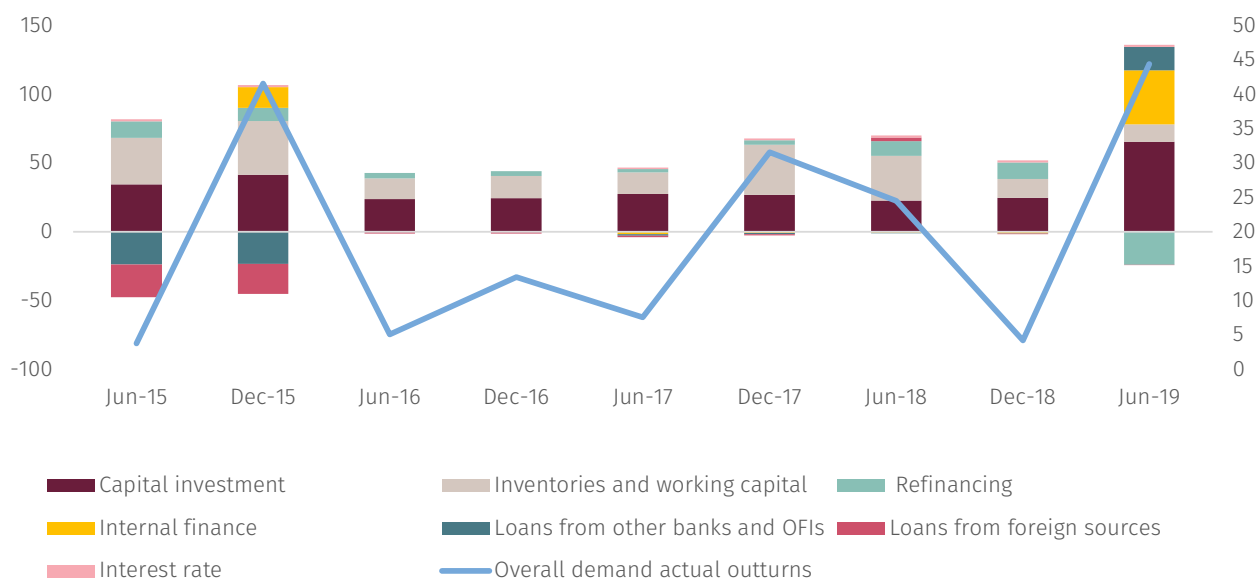
⁹ During the revamping of BCS, additional indicators were added to assess the demand and supply conditions. In addition, the factors impacting demand for credit cards and other consumer loans which were evaluated individually prior to the revamp of BCS in 2019, are now grouped together

3.1 Demand-side Factors

3.1.1 Credit demand from private businesses

The bank credit survey provides information regarding the factors which drive the demand from both private businesses and consumers. With regard to the credit demand from private businesses, the survey’s findings depict that between 2015 and 2019, 2015 onwards, the growth in demand for credit among these businesses was primarily driven by capital investment expenditure, and financing requirements for inventory and working capital (Figure 12). Additionally, refinancing was also noted as a contributing factor to the continuous rise in credit demand from 2015 to 2019, although the impact was significantly less in comparison.

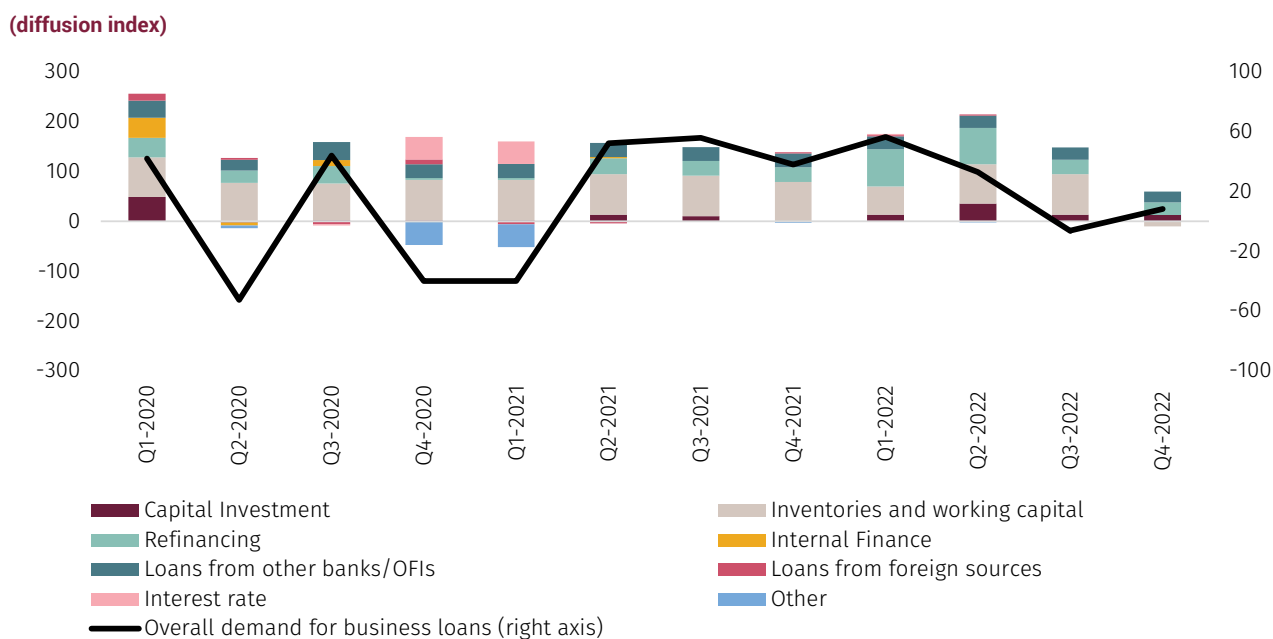
Figure 12: Factors Contributing to Changes in Demand of Private Businesses, 2015 - 2019
(diffusion index)



Source: Maldives Monetary Authority

Similar to pre-pandemic period, throughout the pandemic, banks noted that the necessity for funding inventories and working capital was the main driver of private enterprises’ demand for credit (Figure 13). This was evident during the pandemic, as businesses were experiencing difficulties with cashflow and the majority of banks were offering additional loan facilities to cover working capital requirements. This is in line with the credit development of the tourism sector, the largest sector in terms of credit deployment, as there was a shift in credit growth pattern within this sector, moving from development-related loans in pre-pandemic to being dominated by working capital loans during and post pandemic. Furthermore, at this time, government-initiated economic relief loans were provided to large businesses, which was carried out through the banking system. Although the need for capital financing was a major driver of the persistent increase in demand until the pandemic, it was not the case throughout the pandemic and the post-pandemic recovery in 2022. On the contrary, the need for refinancing and difficulties in obtaining loans from other banks and Other Financial Institutions (OFIs) became more relevant as factors impacting the demand for credit for private businesses during this period.

Figure 13: Factors Contributing to Changes in Demand of Private Businesses, 2020 - 2022



Source: Maldives Monetary Authority

3.1.2 Credit demand for personal loans¹⁰

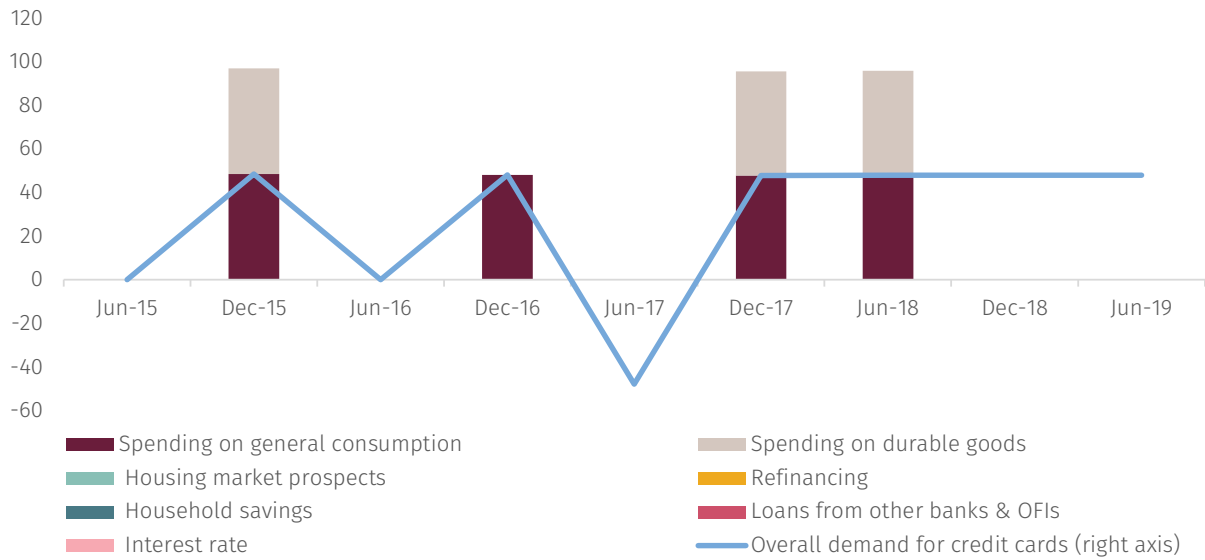
Looking at the overall demand for personal loans, banks noted the demand for personal loans remained high and noted an average increase over the survey period prior to the pandemic. However, during the pandemic, there were periods when banks noted a decline in the demand for personal loans. This was consistent with the slowdown observed in credit to personal loans following the pandemic. Nevertheless, the demand for personal loans started picking up towards the end of the pandemic period (Q3-2021) and post pandemic period.

The factors influencing the demand for credit cards and other consumer loans were evaluated individually prior to the revamp of the Bank Credit Survey in 2019, after which both categories are observed together. The main variables affecting the demand for credit cards in the pre-pandemic were higher expenditure on general consumption and increased spending on durable goods (Figure 14). For other consumer loans, a similar pattern was observed during the pre-pandemic period (Figure 15). It is noteworthy that these two factors related to the spending patterns of individuals are very much influenced by the household income and overall economic conditions of the domestic economy. In addition, according to some banks the demand for personal credit surges during certain periods such as Ramadan and Eid, during which spending on both general consumption and durable goods by households are higher.

¹⁰ The category of personal loans is referred to credit cards and other consumer durable loans.

Figure 14: Factors Contributing to Changes in Demand for Credit Cards, 2015 - 2019

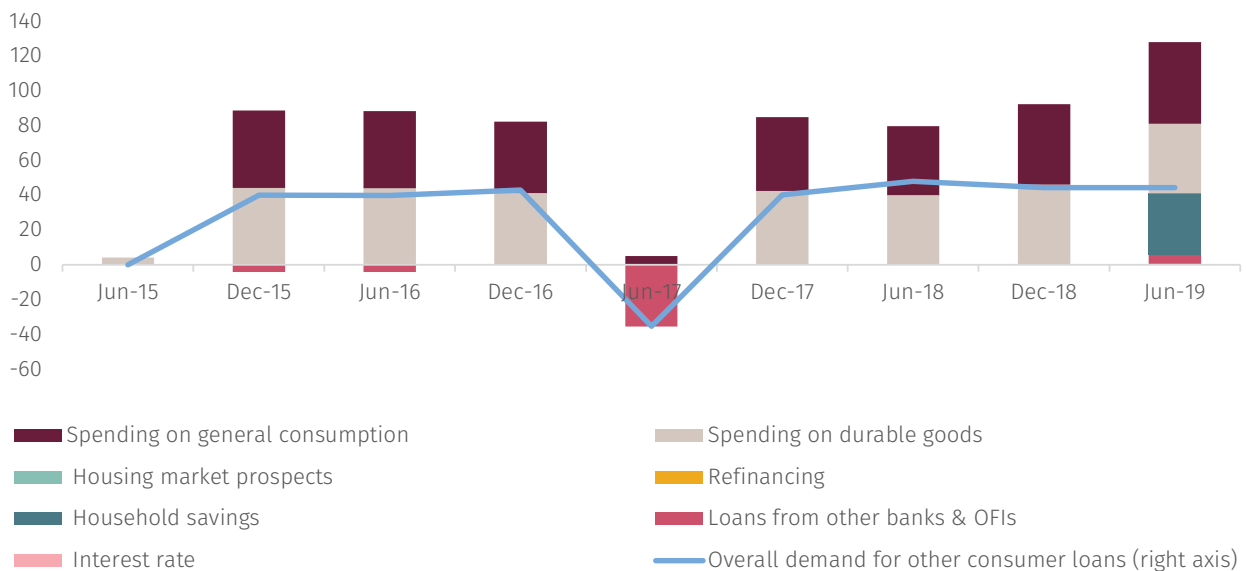
(diffusion index)



Source: Maldives Monetary Authority

Figure 15: Factors Contributing to Changes in Demand for Other Consumer Loans, 2015 - 2019

(diffusion index)



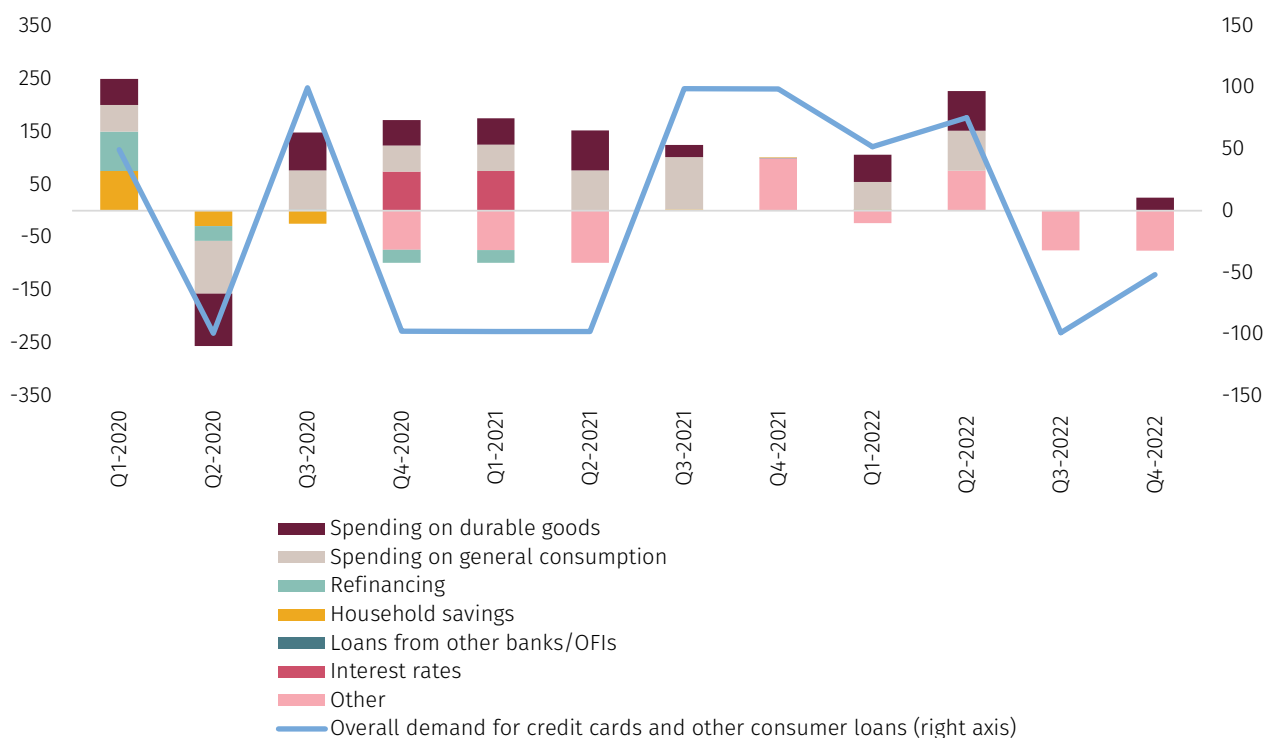
Source: Maldives Monetary Authority

Delving into the pandemic and post-pandemic developments in the demand-side factors for personal loans, as evident from Figure 16, spending on general consumption and durable goods remained as the key factors affecting the demand for personal loans within the domestic economy. However, there were specific survey periods (Q4-2020 and Q1-2021), where downward revisions to interest rates were one of the central reasons impacting the demand. Further, other bank-specific factors were also determined as one of the crucial factors affecting the direction of demand in five separate quarters¹¹ as seen in the chart.

At the onset of the pandemic in Q2-2020, banks reported an overall decline in demand for credit cards and other consumer loans, stemming from the substantial fall in household spending on durable goods and general consumption during the period. This largely reflected the shift in consumer spending behaviour amidst the uncertain economic conditions at the start of the pandemic.

Figure 16: Factors Contributing to Changes in Demand for Credit Cards and Other Consumer Loans, 2020 - 2022

(diffusion index)



Source: Maldives Monetary Authority

¹¹ In Q4-2020, Q1-2021, Q2-2021, Q4-2021 and Q3-2022, the direction of demand for credit cards and other consumer loans were driven by other bank-specific factors as seen from figure 5.

3.2 Supply-side Factors

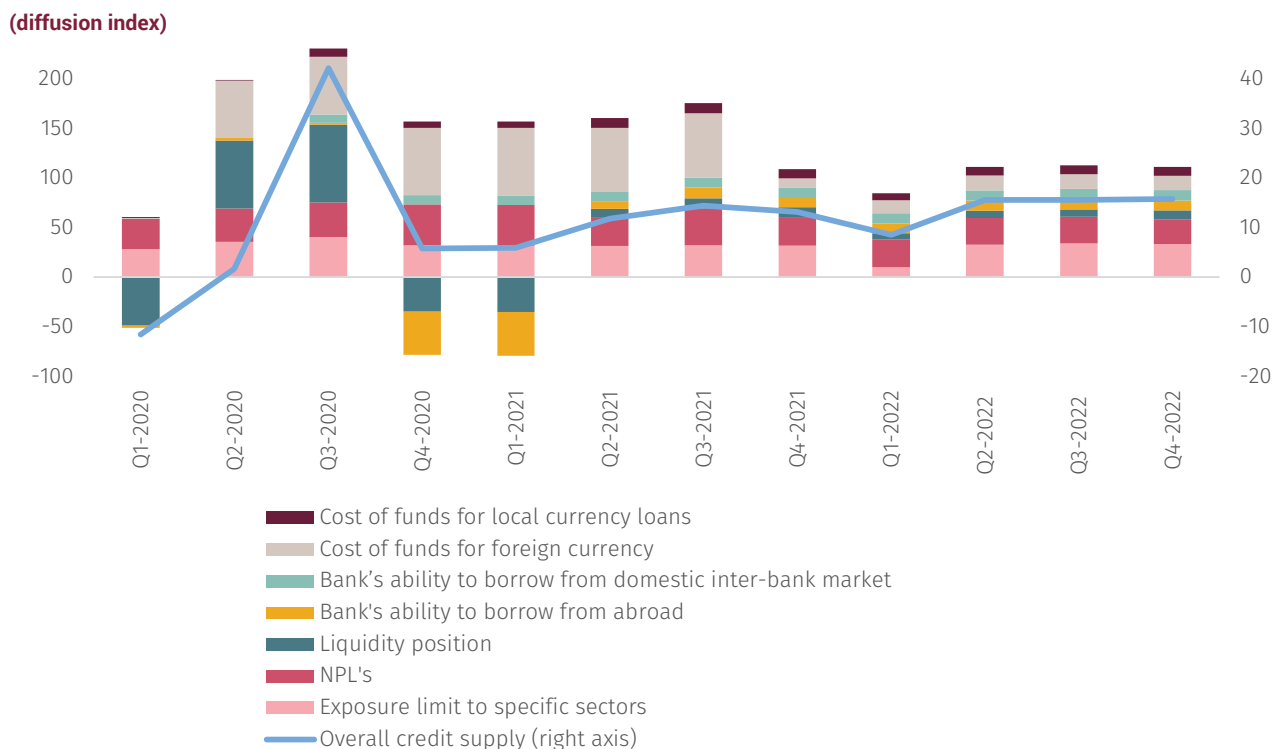
3.2.1 Credit supply for overall private sector

The overall supply of private sector credit has tightened over time (2019 -2022) reflecting various factors. Considering the factors influencing credit supply for the private sector, from 2019 to 2022 (both private businesses and individuals)¹², such factors are broadly classified into three major categories: the cost of funds and balance sheet constraints, pressures from competition and, risk perceptions.

Similar to pre-pandemic, the banks noted the cost of foreign currency funding (under the category of cost of funds and balance sheet constraints), as the primary factor in limiting credit provided to the private sector, at the onset of the pandemic. The influence of this factor on the availability of credit, however, has diminished significantly over the recent years. This is in line with the developments in foreign currency liquidity within the domestic banking system during the pandemic and post-pandemic recovery periods.

Looking into developments during and post-pandemic, the risk of non-performing loans (NPLs) and the exposure limits to particular sectors have been continuously identified by banks as factors contributing to a tightening of the credit supply, when taking into account the cost of funds and balance sheet constraint factors (Figure 17). The impact of NPL on credit supply has been consistent overall prior to pandemic as

Figure 17: Factors Affecting Credit Supply: Cost of Funds and Balance Sheet Constraints, 2020 - 2022



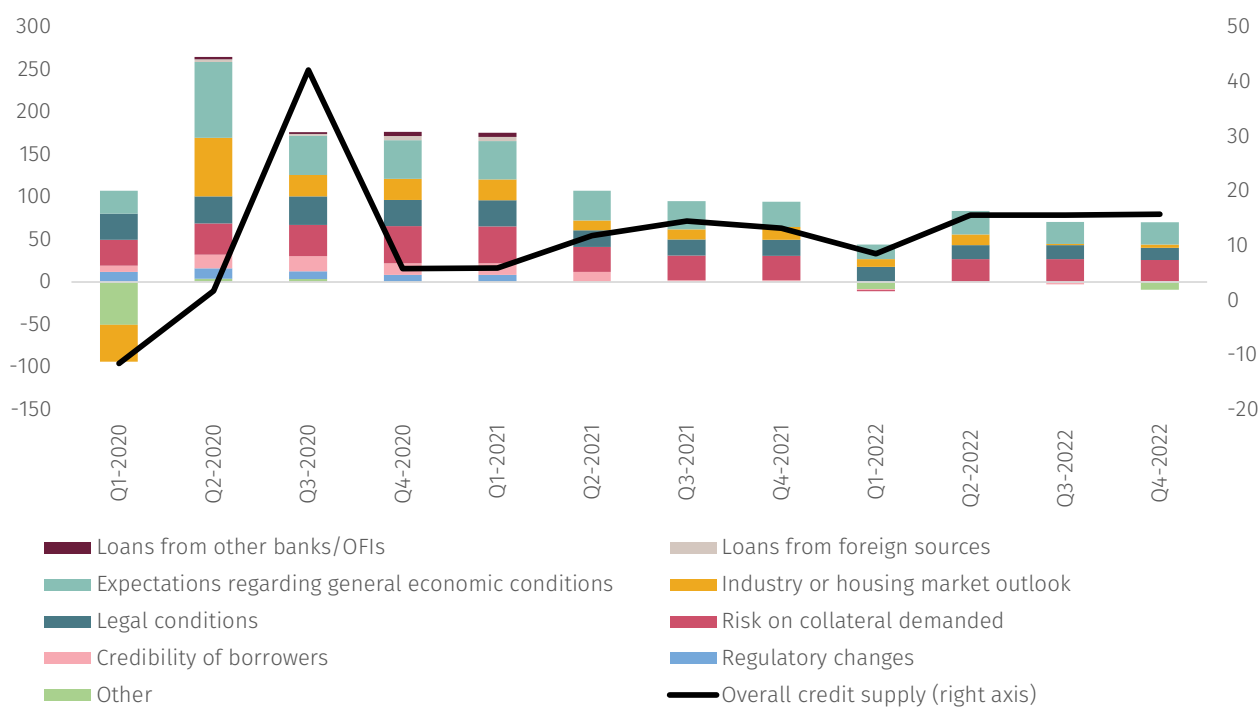
Source: Maldives Monetary Authority

¹² In the revamped BCS questionnaire, the factors influencing the supply of bank credit to the private sector are asked altogether and there is no distinction made between credit lent to various institutions, with the exception of a few factors.

well. With regard to the exposure limits, a large number of domestic corporate banks that primarily serve key industries such as the tourism sector, reported that the credit supply to the sectors are close to their exposure limits, which restricts the bank's ability to lend to those industries.

Regarding the factors relating risk perceptions, banks noted that bleak expectations of economic conditions as a significant factor affecting their overall supply of lending during the early period of the pandemic (Figure 18). However, over time, this factor's influence has become less significant, while variables such as collateral risk and legal conditions were more consistently taken into account by banks when supplying credit. Meanwhile, banks reported that factors relating to competition broadly had no impact on credit supply during the review period.

Figure 18: Factors Affecting Credit Supply: Pressure from Competition and Risk Perceptions, 2020 - 2022
(diffusion index)



Source: Maldives Monetary Authority

4. Conclusion

Over the recent years, there have been significant changes observed in the private sector credit by commercial banks in the Maldives. Given the shallow bank-dominated financial system in the Maldives, bank credit is vital in the financial intermediation in the economy to fuel investment and consumption. Against the backdrop of strong economic growth, the private sector credit recorded healthy overall growth prior to the pandemic. During the pandemic, the growth in the private sector credit further accelerated due to the debt moratoriums, which delayed the repayments of the loans, increasing the total outstanding credit. However, with the end of the moratoriums in late 2021, private sector credit growth started slowing down in this period, before picking up again in the last quarter of 2022.

Considering the demand and supply side factors affecting the bank credit gauged through the BCS¹³, banks reported the requirement for financing capital investment and the need for inventories and working capital as the major drivers of credit demand for businesses prior to the pandemic. However, banks noted that the necessity for funding inventories and working capital remained the main driver of credit demand for private enterprises, while the requirement for financing capital investment was not seen as a key driver of demand during and after the pandemic. As for personal loans, spending on general consumption and durable goods were consistently noted by banks as the main drivers of credit demand from pre-pandemic to post-pandemic. On the supply side, key factors contributing to overall average tightening in credit lending is consistently attributed to NPLs¹⁴, set exposure limit to sectors, and risk on collateral demanded by the banks. Nevertheless, some factors such as the cost of foreign currency funds and bleak economic conditions were more prominent during the pandemic period and the influence of these factors have become less significant over time.

¹³ It must be noted that there are limitations of the Bank Credit Survey. Accordingly, there are instances when there are inconsistencies between the qualitative results reported by the banks and actual quantitative statistics reported by the banks. Additionally, the results are biased toward the responses from major banks because the DIs are weighted depending on market share.

¹⁴ It is to be noted that, from the quantitative data, NPLs have been on a declining trend. Despite this, banks have stated that NPLS continues to be a significant contributing factor, causing tighter availability of credit for the reference period.

References

Ali, A. S., and Musthafa, A. S. (2019). Analysis of the Recent Credit Conditions in the Maldives. Maldives Monetary Authority Research and Policy Notes.

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STATISTICAL APPENDIX

Table of Selected Economic Indicators, 2020 - 2023

(annual percentage change over the corresponding period, unless stated otherwise)

	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3
Real Sector										
Tourist arrivals	-67	138	27	45	80	5	7	21	6	14
Bednights of resorts	-63	156	20	33	51	15	-3	6	-5	-7
Operational capacity of resorts	-36	69	10	13	8	9	8	6	5	5
Occupancy rate of resorts (%)	29	65	71	82	66	65	72	83	60	58
Average stay (days)	18.5	8.8	8.0	8.5	7.7	8.1	7.7	8.0	7.3	7.5
Fish purchases	-2	11	-8	-2	3	-19	-14	6	9	-27
Prices ¹										
Total (Republic)	-1.4	0.6	2.3	0.6	3.0	2.7	3.1	3.9	3.1	2.5
Total excluding fish	-1.6	0.6	2.2	0.4	2.9	2.4	2.9	3.8	3.1	2.5
Food and non-alcoholic beverages excluding fish	2.8	2.4	4.5	1.6	4.7	5.6	6.0	8.0	6.1	5.3
Government Securities (millions of rufiyaa)										
Government securities outstanding	37,566.1	44,000.8	53,138.5	47,430.8	49,609.0	50,318.6	53,138.5	58,945.5	61,817.0	62,397.9
Treasury bonds	13,478.6	13,589.9	17,535.2	16,029.1	15,996.4	15,929.9	17,535.2	21,851.2	21,809.4	23,297.6
Treasury bills	24,087.5	30,411.0	35,603.3	31,401.7	33,612.5	34,388.7	35,603.3	37,094.3	40,007.6	39,100.3
MMA	91.3	97.4	87.9	78.0	71.2	87.9	87.9	87.9	82.5	95.8
Commercial bank	14,350.1	18,381.7	20,668.7	19,460.5	20,477.8	20,412.2	20,668.7	21,398.5	22,132.3	21,370.7
Others	9,646.2	11,931.9	14,846.6	11,863.1	13,063.6	13,888.7	14,846.6	15,608.0	17,792.8	17,633.8

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; Maldives Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

¹ The inflation rate for the year refers to the period average values, whereas inflation for the quarter represents the annual percentage change in the three-month-average.

	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3
Money and banking										
Broad money	14	26	6	26	27	11	6	5	-1	9
Net foreign assets	-49	114	-16	113	98	4	-16	-21	-42	-27
Net domestic assets	50	9	14	7	11	13	14	17	16	18
Net claims on central government	86	12	19	12	17	25	19	23	19	17
Claims on other sectors	10	6	6	4	3	1	6	6	8	12
o/w Private sector	10	4	4	2	1	-1	4	6	7	10
Reserve money	10	1	2	13	-4	-7	2	-6	0	7
Monetary operations ¹										
Open market operations ²	0	0	0	0	0	0	0	0	0	0
Overnight Deposit Facility	34	44	34	41	37	37	22	17	15	22
External trade										
Merchandise exports (f.o.b.)	-21	0	40	57	41	25	36	21	6	10
Domestic exports	3	-7	5	43	10	-35	6	7	14	-17
o/w Fish exports	3	-10	5	46	8	-38	6	9	16	-17
Re-exports	-39	9	80	70	87	117	62	32	-2	22
Merchandise imports (c.i.f.)	-36	40	37	32	63	42	17	5	-9	4
o/w Food	-30	50	19	16	27	33	5	3	-10	1
o/w Petroleum	-43	72	83	56	160	90	42	4	-33	0
o/w Construction-related imports	-41	6	47	55	57	71	17	19	19	-6

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; Maldives Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

¹ Monetary operations figures represent the average investment.

² Open market operations were suspended May 2014 onwards.

	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	11	10	9	9	7	8	12	10	9	8
o/w India	13	12	14	13	13	15	15	17	16	15
o/w Oman	8	13	18	16	22	20	14	15	15	17
o/w UAE	12	13	12	15	11	11	11	14	13	12
o/w Europe	10	11	10	9	9	8	13	11	8	10
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	44	46	49	52	60	24	51	59	56	30
o/w India	2	4	4	5	4	4	3	3	3	6
o/w UK	7	7	9	9	7	13	7	11	15	21
o/w France	8	4	4	3	3	5	4	4	2	5
o/w Germany	10	11	9	6	8	18	9	4	9	15
External Reserves										
Official reserve assets (millions of US dollars)	984.9	805.8	832.1	865.2	750.4	540.3	832.1	764.6	702.2	592.7

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; Maldives Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

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