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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 second 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 3 August 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

Global economic activity remained weak during 2022 and is expected to moderate further over 2023 and 2024, amid widening geopolitical fragmentation and further tightening of financial conditions, reflecting the continued efforts by central banks to reign in persistent inflationary pressures. As per the International Monetary Fund (IMF) World Economic Outlook (WEO) July 2023 update, following an estimated growth of 3.5% in 2022, global growth is projected to decelerate to 3.0% in 2023—0.2 percentage point higher than the projections of April 2023. Additionally, growth is anticipated to hover at 3.0% in 2024 as well. The uptick in the global growth projection for 2023 from that of April 2023, mainly reflect easing of inflationary pressure and resilience of global economic activity, while the containment of the financial turbulence in the US and Swiss banking sector—experienced during the first half of 2023—also contributed to the improvement in the projection.

The pace of growth of the Maldivian economy reached pre-pandemic levels by the end of 2022 and is expected to continue the upward growth trajectory during 2023, driven by the robust projected performances for all major sectors of the economy. Following the 13.9% rebound in growth in 2022, real GDP growth is estimated to reach 9.4% in 2023 as per the forecasts made in April 2023¹—1.8 percentage points higher than the moderate scenario for real GDP growth estimated in October 2022. Reflecting the anticipated robust performance of the tourism sector, the total tourist arrivals are expected to surpass pre-pandemic levels during 2023, with over 1.9 million tourists. Despite the challenges posed by the decline of tourist arrivals from major European markets and

India during the second quarter (coinciding with the off-peak season), this was offset by the buoyant tourist arrivals from China and Russia.

As for the balance of payment projections of October 2022, the current account deficit is expected to narrow to 15% of GDP in 2023, from 17% in 2022. This narrowing reflects the projected moderation of global oil prices during 2023, coupled with the projected growth of tourism-related receipts and pick-up in domestic economic activity. The current account deficit for 2023 is expected to be financed predominantly by foreign direct investment (FDI) inflows, followed by government and private sector external borrowings. As the inflows on the financial account are expected to be outpaced by the deficit on the current account, the overall balance of payments is projected to record a deficit of US\$32.1 million in 2023. The Gross International Reserves (GIR) is expected to decline to US\$606.3 million in 2023, from US\$832.1 million in 2022.

The inflation rate slowed down to 3.1% during Q2-2023, after recording an acceleration of 3.9% during Q1-2023 with the hike in general goods and services tax (G-GST) rate implemented from January 2023 onwards. While inflation is anticipated to decelerate further over Q3-2023, it is expected to stabilise during Q4-2023. According to the revised forecasts of April 2023, the domestic inflation rate is projected to average at 3.4% for the year 2023—2 percentage points lower than that of October 2022 forecasts. Major upside risks to inflation include those emanating from supply chain disruptions due to potential re-escalation of the war in Ukraine, contributing to further geopolitical fragmentation and the resultant potential trade restrictions (on strategic goods

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

such as vital minerals), restriction of cross-border movements of capital, technology, workers, and international payment modalities, adding to the existing volatility of global commodity prices. Nonetheless, potential downward contributors could emanate from a larger-than-projected decline in global crude oil prices during the year.

The balance of risks to growth outlook for both the domestic and global economy remain tilted to the downside since the growth projections of April 2023. However, such risks to global outlook were moderated due to strong action by authorities to contain the financial sector turbulence in both the US and Switzerland—reducing the risks of exacerbated financial turmoil, while risks to domestic economic outlook were moderated by the resumption of air travel between China and the Maldives, which successfully provided a boost to the tourism sector performance, particularly during Q2-2023.

With regard to the downside risks to growth outlook, as global inflation persist and remain elevated, this may lead to further policy tightening by central banks to combat further supply-side

shocks caused by the intensification of the war in Ukraine, extreme weather events (El Niño), and resumption and further spread of financial turbulence. Further tightening of global financial conditions could hinder access to global financial markets, and potentially lead to worsening and more wide-spread sovereign debt distress. Additionally, with the weakening of growth of major European economies such as Germany, and the slowdown in the recovery of China’s economy—owing partly to ongoing unresolved real estate issues and the resultant negative cross-border spillover effects—could result in dampened travel demand, and potentially lower the anticipated outbound travelers from these regions. However, growth could be supported by a higher-than-anticipated fall in inflationary pressure, easing financial conditions, while domestic demand could improve owing to better-than-anticipated performance of the tourism sector amid higher demand from key source markets.

Overview

Domestic economic activity is estimated to have expanded in Q2-2023, albeit at a slower pace when compared with the growth in Q1-2023, according to the available high frequency indicators and results of the MMA's *Quarterly Business Survey (QBS)*. The moderation in growth during the quarter was on the back of the commencement of the off-peak season of the tourism sector in the Maldives, which resulted in a slowdown in the tourism sector and related sectors such as the transport and communication sector. This largely reflected a contraction in arrivals from India and major source markets of Europe which was offset by the continued influx of tourist arrivals from China. Meanwhile, available high-frequency indicators showed growths in construction, fisheries, and wholesale and retail trade sector during the review quarter.

Meanwhile, the rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated to 3.1% in Q2-2023 from 3.9% in Q1-2023. The deceleration in domestic inflation during the quarter was mainly attributable to moderation in food inflation, largely due to slower growth in price of fish and fruits, together with the decline in price of information and communication services. In contrast, the major upward inflationary pressures during the quarter stemmed from the growth in energy-related prices owing to higher electricity prices.

Turning to fiscal developments, total government revenue (excluding grants) recorded an annual increase during Q1-2023², owing to an increase 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, whereas the growth in capital expenditure mainly reflected higher spending on infrastructure assets.

As for monetary developments, annual broad money growth turned negative and recorded a decline of 1% at the end of June 2023, mirroring the marked decline in net foreign assets (NFA), despite the sizeable growth of net domestic assets (NDA) of the banking system. The decline in NFA largely reflected a decrease in the commercial banks' foreign currency deposits held abroad as well as increase in overseas borrowings. Further, a drawdown in foreign currency other deposits held abroad by the MMA together with an 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 commercial banks and the MMA, as well as the expansion in bank credit to the private sector, public non-financial corporations, and other financial corporations.

With regard to the external sector, total merchandise exports registered an annual increase during the review quarter, driven by a sizeable growth in domestic exports, which entirely offset the slight decline in merchandise re-exports during the quarter. The rise in domestic exports mirrored a notable growth in export earnings from frozen skipjack tuna exports, while the fall in merchandise re-exports stemmed from a fall in jet fuel re-exports. Meanwhile, merchandise imports recorded a decrease, reflecting declines in import expenditure on most of the major categories.

² Data for Q2-2023 was not available at the time of compilation of this report.

International Economic Developments

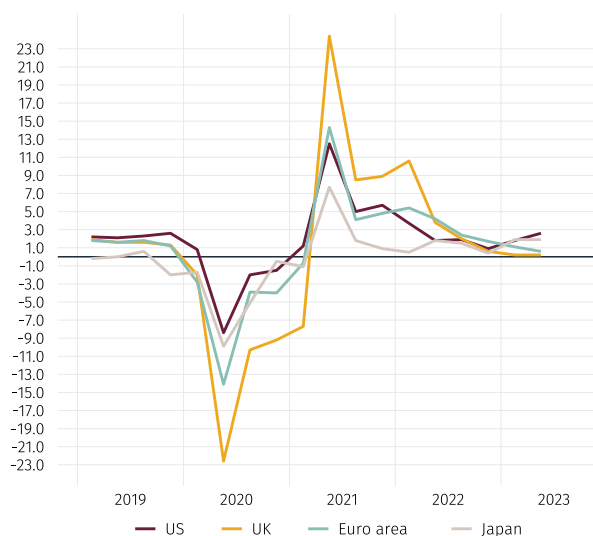
Global Output

According to the IMF WEO July 2023 update, following a growth of 3.5% in 2022, global growth is forecasted to moderate to 3.0%³ in 2023—an upward revision of 0.2 percentage points from the estimates made in April 2023. The anticipated slowdown in global economic growth during the year is expected to be brought on by heightened uncertainty and unforeseen manifestations of the cumulative effects of the negative shocks of the previous three years, most notably the COVID-19 outbreak and the war in Ukraine. The global economy experienced positive growth outcomes in Q2-2023 across most advanced economies and emerging market and developing economies. As such, growth in majority of the advanced economies remained robust, while most emerging markets and developing economies outperformed expectations during the quarter.

Looking at the advanced economies, the US economy registered a growth of 2.4% in Q2-2023, after recording a growth of 2.0% in Q1-2023 (Figure 1). The acceleration in economic growth during the quarter was primarily owed to the increase in private inventory investment and non-residential fixed investment, coupled with the decline in imports. However, this was somewhat countered by the decline in exports as well as the slow growth in consumer, federal, state, and local government expenditure.

As per the Eurostat flash estimates, the euro area recorded a growth of 0.6% during Q2-2023, after remaining stable in the previous quarter. The

Figure 1: Real GDP Growth in the Advanced Economies, 2019 - 2023 (annual percentage change)



Source: Bloomberg Database

upturn was primarily driven by rising consumer and business confidence, supported by a stronger labour market. Moreover, both the services sector and manufacturing sector expanded—with the former outperforming the latter—while the terms of trade improved amid declining energy prices. Among major eurozone countries, economic growth in Germany continued to remain stagnant during the second quarter of the year. Meanwhile, economic activity in France observed a growth due to positive contributions from foreign trade and domestic demand during the quarter, following stationary growth in the previous quarter. Similarly, both the Italian and Spanish economies continued to observe growth during the quarter.

³ International Monetary Fund, 'World Economic Outlook (WEO) July 2023'

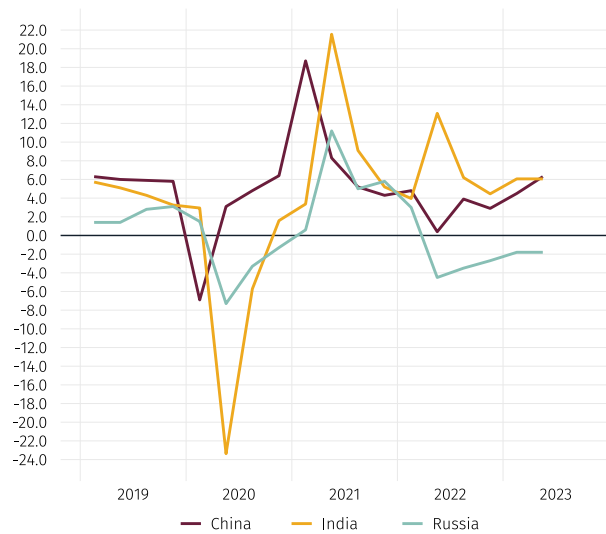
Following an expansion of 1.9% in Q1-2023, the growth momentum of the Japanese economy is expected to remain robust in Q2-2023. In this regard, the average Purchasing Manager's Index (PMI) recorded further expansion during the review quarter, after increasing slightly during the preceding quarter. The robustness of the Japanese economy is reinforced by government economic measures as well as other factors such as the resurgence of pent-up demand and improved financial conditions in the country. Nevertheless, subdued economic recovery in other countries is anticipated to exert downward pressure on the Japanese economy.

Meanwhile, the growth momentum in the United Kingdom (UK) is estimated to further moderate in Q2-2023, following a muted growth of 0.2% in Q1-2022. During the quarter, output in the services sector, construction as well as production fell, contributing to the slowdown in the economic growth of the country. Despite this, business investments and productivity picked up, boosting economic growth in the UK.

Looking at the emerging markets and developing economies, China's economic growth accelerated to 6.3% in Q2-2023 from 4.5% in the previous quarter (Figure 2). This rebound in economic growth was primarily due to low base effects from the previous year. Nevertheless, despite the pick-up in industrial output during the quarter, economic growth in China is constrained by subdued domestic demand, weakened investor confidence, declining exports and high unemployment.

The growth momentum in India is expected to improve in Q2-2023, following a growth of 6.1% in Q1-2023. Accordingly, the average PMI figure for the quarter expanded during the review quarter, following a slight improvement during the preceding quarter. The growth momentum in India was supported broadly by growth in the construction, agriculture and manufacturing sectors. Additionally, exports improved despite

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



Source: Bloomberg Database

adverse global economic conditions, and the country's import prices decreased as a result of falling crude oil prices. Private spending, however, remained muted and was the weakest link in economic expansion.

The Russian economy is expected to be on the recovery path in Q2-2023, following a contraction of 1.8% during the first quarter of the year. This mirrored the continued growth in domestic demand and consumer activity, contributed by an increase in real incomes, high lending rates, and households' adaptation to the changing supply structure in commodities markets. Moreover, the composite PMI also recorded an expansion during the quarter. Nevertheless, growth momentum in Russia remains restricted by the labour market situation—unemployment declined to record levels while a labour shortage was observed in several regions—amid the depreciation of the ruble.

Global Inflation

Following a year of multi-decade high inflation worldwide, global inflation further moderated during the second quarter of 2023, as global food and energy prices eased with

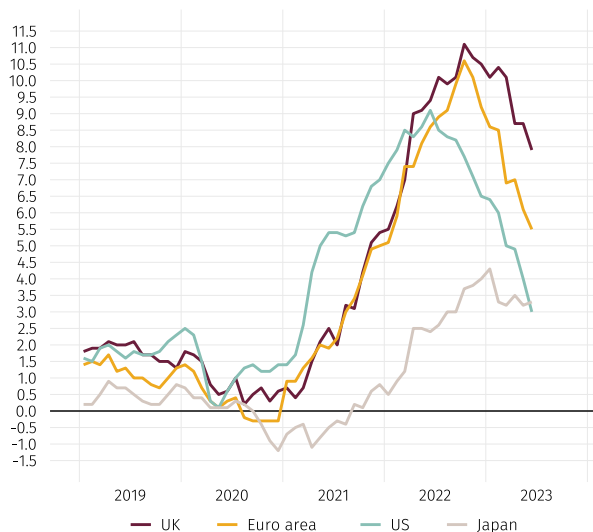
favourable base effects. As such, headline inflation in the selected advanced economies as well as emerging and developing economies moderated during the quarter.

Looking at the price developments in the advanced economies, the rate of inflation in the US further decelerated to 4.0% in Q2-2023, from 5.8% in Q1-2023 (Figure 3). The moderation of inflation in the US was mainly due to the decline in energy prices, as well as prices in the transportation category, while upward inflationary pressure during the quarter stemmed primarily from the rise in prices of services excluding energy services. In the euro area, the rate of inflation, as measured by the annual percentage change in the Harmonised Index of Consumer Prices (HICP) also moderated to 6.2% in Q2-2023, from 8.0% in the previous quarter, reflecting the decline in prices of energy sector components.

As for Japan, the rate of inflation moderated slightly to 3.3% in Q2-2023, from 3.6% in the preceding quarter. The slowdown in the inflation rate during the quarter was primarily due to the impact of government economic policies on energy prices. Nevertheless, the inflation rate in the country remained elevated as the increase in import prices passed through to consumer prices. Meanwhile, the rate of inflation in the UK slowed to 8.4% in Q2-2023, after registering 10.2% in the previous quarter. Despite upward contributions from elevated food prices, the inflation rate moderated due to downward contributions from falling motor fuel prices.

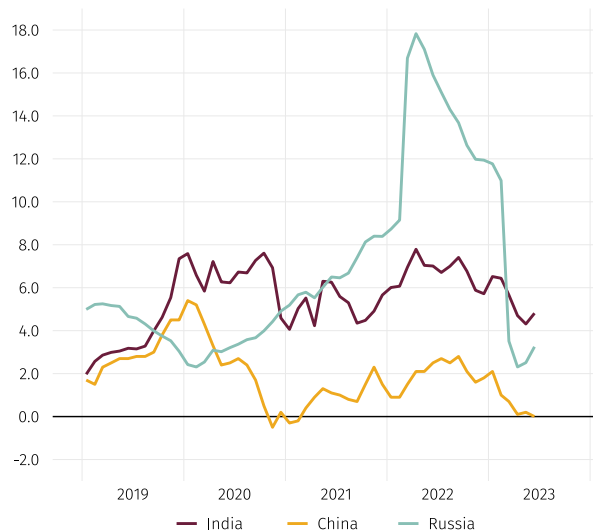
Turning to the emerging markets and developing economies, the rate of inflation in China decelerated to 0.1% during the review quarter, from 1.3% recorded in Q1-2022 (Figure 4). The moderation of inflation level in the country can be attributed to the complex global environment and slower growth of the global economy, coupled with subdued domestic demand. Similarly, the rate of inflation in India slowed down to 4.6% in Q2-2023, from 6.2% in the preceding quarter, reflecting

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

declines in prices of food products, textiles, basic metals, and mineral oils. As for Russia, despite prospects of broad-based inflationary pressure and elevated inflation expectations, the rate of inflation declined significantly to 2.7% in Q2-2023, from 8.8% in Q2-2022. This may be attributable to households' tendency to save amid widespread public unease and slow adaptation to a new supply structure in consumer market amid external restrictions to production, supply chains and payments.

Commodity Prices

During Q2-2023, the IMF price index for all commodities declined by 30% and 8% in annual and quarterly terms, respectively (Figure 5). This was primarily due to the persistent decline in energy prices, largely reflecting tightened global financial conditions as well as the stabilization of global export markets for coal and natural gas. 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 sluggish growth of Chinese economy.

Energy Prices

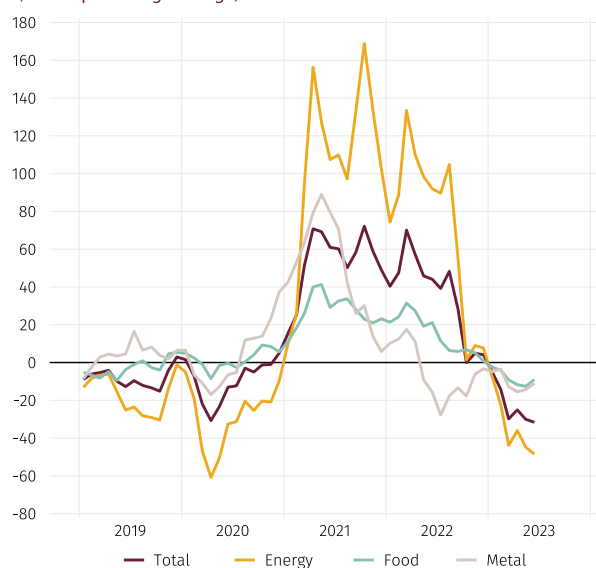
The price of crude oil⁴ averaged US\$76.6 per barrel during the quarter, representing a decline of 30% in annual terms, and a decrease of 3% relative to the previous quarter. The fall in oil prices during the quarter can be primarily attributed to the tightened financial conditions in major advanced economies and a slower-than-anticipated rebound in China's manufacturing and consumption.

World oil demand is expected to grow during the year and reach record levels, reflecting the recovery of the Chinese economy and oil demand in the country. Non-OECD countries were the main driver of global demand during the quarter as demand from OECD countries remained sluggish due to prolonged industrial downturn and generally slow economic growth. Additionally, in both developing and advanced economies, the position of jet fuel and kerosene strengthened with the resurgence in travel demand. On the supply side, non-OPEC+ producers—led by the US—dominated world supply growth despite OPEC+ output cutbacks. Nevertheless, world oil supply remained low despite high inflows from Nigeria, as output remained low from Kurdish area in Iraq and Canadian oil sands.

⁴ Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

Figure 5: Commodity Prices, 2019 - 2023

(annual percentage change)



Source: IMF

Metal Prices

Turning to major commodities in the non-energy index, the base metal index declined by 14% and 10% in annual terms and quarterly terms, respectively. The decrease in base metal prices during the quarter was mainly due to the slow growth momentum of Chinese economy and the manufacturing industry of the country. The initial optimism regarding demand for base metals at the beginning of the year has subsided amid looming global recessionary fears and the persistent difficulties in the property sector of China—accounting for a substantial fraction of global demand for metals. Nevertheless, the significant demand for green products—green technologies such as electric vehicles, solar panels and wind turbines as well as other energy-efficient appliances that require base metals—and lingering supply constraints in the market buoyed metal prices during the quarter.

Food Prices

As for global food prices, the IMF food price index recorded an annual decline of 13%, while

a decline of 2% was observed when compared with the preceding quarter. Meanwhile, the Food and Agriculture Organization (FAO) food price index declined by 21% and 3% in annual terms and quarterly terms, respectively. This was led by declines 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 due to lower-than-expected beet harvest across the European Union, as well as decreased output in China, India, and Thailand.

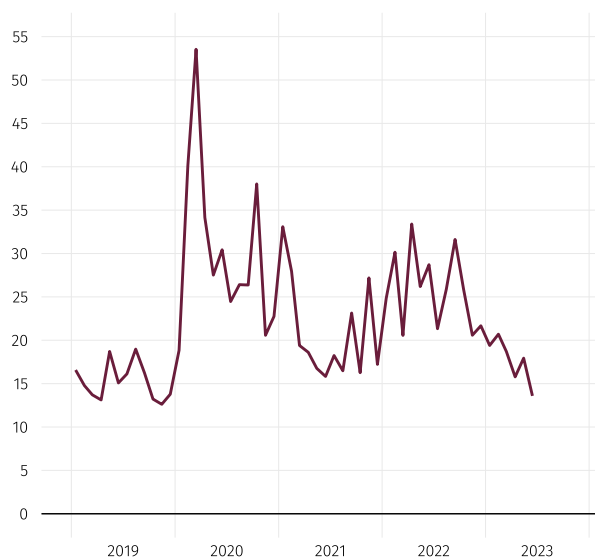
Global Financial Markets

Global financial conditions continued to be restricted in both advanced economies and emerging market and developing economies in Q2-2023, amid persistent inflationary pressures. The tightening of monetary policy measures was mainly to curb inflationary pressures amid geopolitical and economic uncertainties—the lasting impact of the Ukraine war and the consequent dramatic increase in commodity prices and prolonged supply chain disruptions. Nevertheless, global financial conditions are anticipated to progressively relax over the year as several economies recoup, with reduced inflation rates.

In Q2-2023, share prices on average observed increases in both the advanced economies, and emerging market and developing economies, when compared with the corresponding quarter of the previous year. Accordingly, the implied volatility of the US stock market or VIX registered a decline during the review quarter (Figure 6)⁵. However, the yield-to-maturity on longer-term sovereign bonds increased in most economies of both country groups, when compared with the previous quarter, mirroring the impact of monetary policy announcements on the bond market.

Most of the advanced economies continued to tighten monetary policy measures to combat rising inflationary pressures during the review quarter. 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 Federal Reserve raised their key interest rates by 25 basis points from 5.00% to 5.25% in May 2023 while the Bank of England also raised their bank rate to 4.50% and 5.00% in Q2-2023, with the aim of reigning in inflationary pressures. Meanwhile, in the emerging market and developing economies, the RBI kept policy rates unchanged during the quarter, following an upward revision to 6.50% in February 2023 to meet the central bank's inflation target. Likewise, the Central Bank of Russian Federation kept the key rate at 7.50% per annum, in order to keep inflation within the target rate of 4.0%, amid rising domestic demand and elevated inflation expectations. Conversely, policy rate in China was adjusted for the first time in ten months during June 2023 and was set to 2.65% from 2.75%, as policymakers endeavoured to boost domestic demand.

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

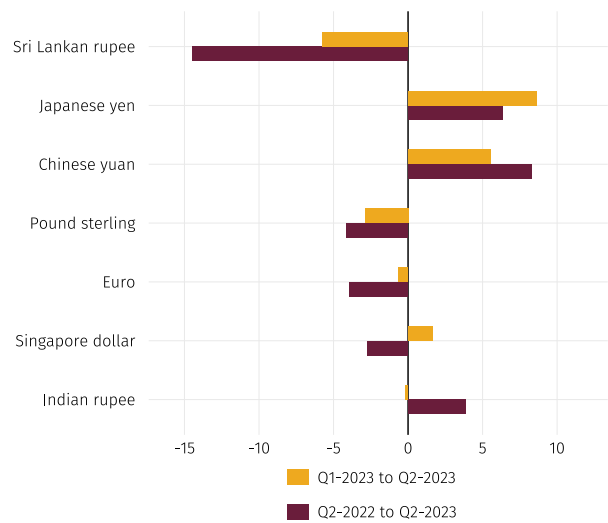


Source: Bloomberg Database

⁵ 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.

In the foreign exchange market, the overall performance of the US dollar against the currencies of the Maldives' major trading partners weakened during the review quarter, relative to both quarterly as well as annual terms (Figure 7). In this regard, the US dollar weakened against the euro, the pound sterling, Singapore dollar and Sri Lankan rupee whereas the US dollar strengthened against the Indian rupee, Japanese yen and Chinese yuan, at the end of Q2-2023 when compared with Q2-2022. Similarly, the US dollar weakened against all the currencies except for the Singapore dollar, Japanese yen and Chinese yuan at the end of the review quarter, relative to Q1-2023.

Figure 7: Exchange Rates, Q2-2023
(percentage change)



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

Economic Developments in the Maldives

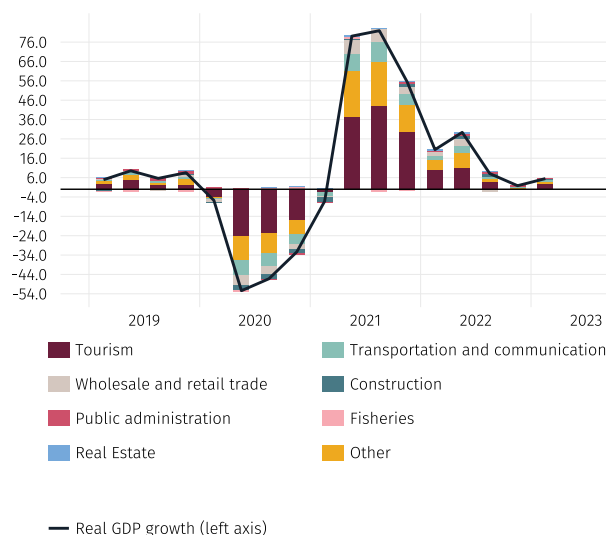
Real Economy

Gross Domestic Product

According to the available high frequency indicators and business survey results, all major sectors of the domestic economy are estimated to have expanded, albeit at a slower pace during the second quarter of 2023. Based on the MMA's nowcasts⁶ of April 2023, real GDP is estimated to have improved by 2.9% in annual terms during Q2-2023, contributed by the strong performance of the construction and real estate sector, and fisheries sector. Additionally, real GDP growth was also supported by public administration, health and education, while a moderated growth was observed for tourism and related sectors such as transport and communication sector. The moderation of growth in tourism sector is indicative of the commencement of the off-peak season of tourism sector, primarily owing to the contraction of arrivals from single source market of India, as well as major source markets of Europe. Nevertheless, the plunge in arrivals in these markets during the off-peak season was offset by the continued influx of tourist arrivals from China, since the resumption of arrivals from China in Q1-2023.

According to the latest Quarterly National Accounts (QNA)⁷ estimates released by the Maldives Bureau of Statistics (MBS) on 26 June 2023, real GDP registered an annual growth of 5.5%

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



Source: Maldives Bureau of Statistics

in Q1-2023⁸, after registering a growth of 1.8% in Q4-2022 (Figure 8). Similarly, when compared to the pre-pandemic levels of Q1-2019, real GDP registered a growth of 12.3% during the quarter.

During Q1-2023, real GDP growth was mainly contributed by the tourism sector (2.9 percentage points), and transportation and communication sector (0.8 percentage points). Other notable positive contributions to growth were made by construction sector (0.6 percentage points), public

⁶ 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.

⁷ Latest QNA data available at the time of compilation of this report was for Q1-2023. Advance estimates data are released with a four-month lag.

⁸ As QNA data for Q1-2023 used in this analysis is based on advance estimates, the data is subject to change in the upcoming revisions.

administration (0.3 percentage points), fisheries sector (0.3 percentage points), and electricity and water (0.3 percentage points). Further, sectors such as education, financial services, manufacturing, and professional, scientific, and technical activities registered marginal growths during the quarter.

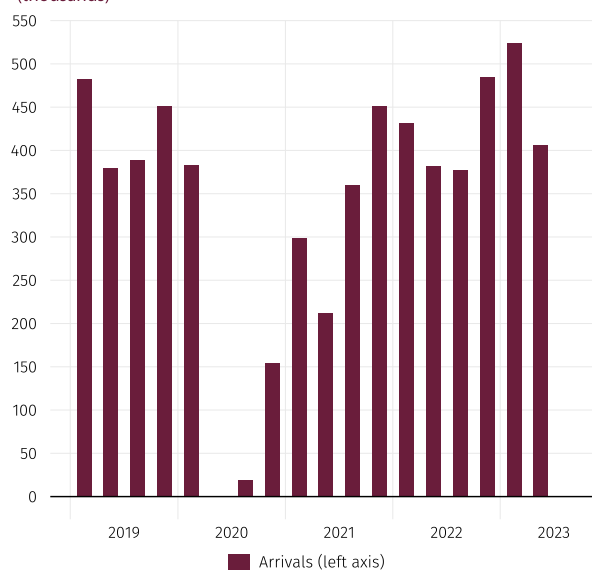
On the contrary, negative contributions to real GDP growth were made by the wholesale and retail trade sector, and real estate as indicated by the negative contributions in gross value added of the sectors, which fell by 3.9% (-0.3 percentage points), 1.2% (-0.1 percentage points), respectively.

Tourism

Since the resumption of arrivals from China in Q1-2023, tourists from China have continued to soar despite the commencement of the off-peak season of the tourism sector in Q2-2023, increasing from 17,691 in the preceding quarter to 45,736 in the review quarter. This further reflected an annual increase of 42,987 in Chinese tourists. Additionally, the growth was further supported by the annual increase in arrivals from Russia in the review quarter, with Russian arrivals increasing from 29,596 in Q2-2022 to 43,761 in the Q2-2023—a 48% growth. Hence, despite the major drop in arrivals from India—reflecting a higher base effect—and European market, the increase in visitors from China and Russia contributed to posting a higher number of total arrivals in Q2-2023 compared with the corresponding quarter of 2022.

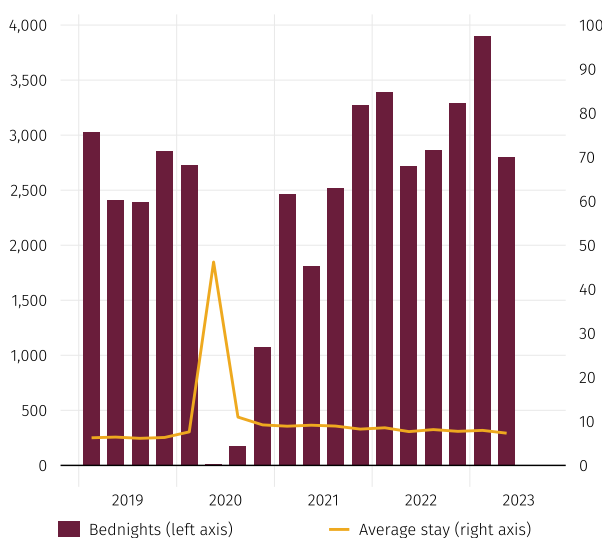
The total tourist arrivals for Q2-2023 reached 405,679 and rose by 6% compared with Q2-2022 as well as by 7% when compared with pre-pandemic levels of Q2-2019, although a decline of 23% was observed when compared with Q1-2023 (Figure 9). Similarly, tourist bednights increased by 3%, despite a marginal drop in average stay from 7.7 days to 7.3 days during the quarter in annual terms (Figure 10). Reflecting the improvements in bednights, the estimated travel receipts for the quarter also posted an increase of 6% when compared with the same period in 2022 and totalled US\$835.6 million

Figure 9: Inbound Tourist Arrivals, 2019 - 2023 (thousands)



Source: Ministry of Tourism

Figure 10: Bednights and Average Stay, 2019 - 2023 (thousands, days)



Source: Ministry of Tourism

and an increase of US\$47.8 million.

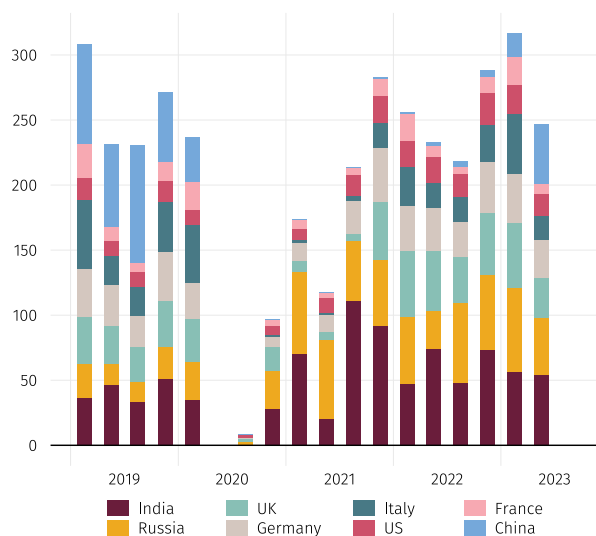
Delving into the market compositions for this quarter, Europe remains the dominant source region, accounting for 49% of the arrivals—a decrease from 54% recorded in the corresponding quarter of 2022. In contrast, Asia and the Pacific region continued to increase from 31% in Q2-2022 to 38% in this quarter. This increase also represents a 14 percentage points increase relative to Q1-2023. The upward trend from Asia and the

Pacific region was primarily driven by the increase of arrivals from China, Japan, and Thailand (Figure 11). Even though India posted an annual decline in arrivals, the country registered as the single largest source market during this quarter, accounting for 13% of arrivals, followed by China (11%), Russia (11%), the United Kingdom (8%), and Germany (7%). Notably, the market share of United Kingdom dropped by 4 percentage points from 12% to 8% in the review quarter relative to Q2-2022, which was also the main contributor to the decline in the European market in the review quarter. On the upside, market share of Russia has continued to increase in annual terms from 8% in Q2-2022 to 11% in Q2-2023.

According to international flight movements data⁹, the number of flight movements registered a marginal growth of 1% relative to Q2-2022 and a 10% increase relative to Q2-2019. The marginal growth in annual terms reflected increase in movements by carriers such as FlyDubai, Wizz Air and Air Vistara, which was largely offset by the declines in the frequency of movements from Air India, Indigo, Saudi Arabian Airlines, and Turkish Airlines. Meanwhile, two new carriers, namely Batik Air, and Flynas—a Saudi Arabian low-cost carrier—commenced operations during the review quarter, while Oman Air flights also resumed after halting their flights to the Maldives in March 2020.

On the supply front, the average number of operational resorts increased to 170 in Q2-2023 relative to 169 in Q1-2023 and 164 resorts in Q2-2022. The operational bed capacity in the industry posted an increase of 7% in this quarter 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 plummeted to 51% this quarter from 72% in Q1-2023, representing the commencement of the off-peak season. The drop to 51% is also a decrease of 2% percentage points

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



Source: Ministry of Tourism

from the 53% occupancy rate registered for the corresponding quarter in 2022. This decline was mainly driven by the drop-in average occupancy rate of resorts from 66% in Q2-2022 to 59% in the review quarter.

Looking at the developments in global tourism, according to the United Nations World Tourism Organization's (UNWTO) World Tourism Barometer, international tourist arrivals observed a growth of 86% in Q1-2023 when compared with the same period in 2022 and has reached 80% of the pre pandemic level. The strong recovery of the global tourism was mainly due to the performance of Europe and the Middle East, which posted an overall recovery level of 66% relative to 2022. Further, with the sustained recovery of air connectivity, robust pent-up demand, and the resumption of Chinese and other key Asian markets, the favourable results are anticipated to continue in the coming Northern Hemisphere summer season.

Construction

Activity in the construction sector is estimated to have expanded, albeit at a slower pace, as indicated by the available high frequency

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

indicators and the MMA's QBS results. As such, the construction and real estate sector is also estimated to have expanded during the review quarter according to the MMA's recent nowcasts. Meanwhile, the gross value added by the sector during Q1-2023 registered a significant growth of 15.9% relative to the corresponding quarter of 2022. However, the sector continued to remain 29.0% below the pandemic levels of Q1-2019.

The import of construction-related items registered an annual increment of 18%, although commercial bank credit¹⁰ to the construction sector¹¹ remained broadly unchanged during Q2-2023 relative to Q2-2022. This was mainly owing to the declines observed in credit lent for renovation of resorts, construction of residential or housing projects¹², other real estate projects, property development projects as well as credit extended for guest houses, which offset the increase in credit lent for new resort development, real estate residential or housing projects and construction of commercial buildings.

According to the MMA's QBS for Q2-2023, the volume of construction activity index continued to expand at a slower pace, with the index falling by 4 points to 60. Further, the volume of orders received index reported a moderated growth, with the index declining by 3 points to 44 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 expanded

significantly during Q2-2023, as indicated by the annual increase in fish purchases made by fish processing companies, as well as the increase in the volume of fish exports during the review quarter. As for the gross value added by the fisheries sector in Q1-2023, it rose by 7.3% annually and posted a growth of 25.1% compared to pre-pandemic levels of Q1-2019.

During Q2-2023, fish purchases totalled 19,518.6 metric tonnes and registered an increase of 9% when compared with Q2-2022. This was primarily owing to the 9% increase in purchases of skipjack tuna, followed by a 9% increase in purchases of yellowfin tuna. As for local purchase prices¹³ during the review quarter, the average purchase price of skipjack tuna¹⁴ and iced skipjack tuna remained unchanged at MVR15.0 per kilogram and MVR17.0 per kilogram, respectively. Contrastingly, local companies' average price of yellowfin tuna decreased to MVR65.8 per kilogram in Q2-2023, from MVR90.8 per kilogram in Q2-2022.

The volume of fish exports increased by 26% (5,107.5 metric tonnes) during the review quarter compared with Q2-2022 and totalled 24,924.3 metric tonnes. The growth in the volume of fish exports primarily reflected the increase in canned or pouched tuna and frozen skipjack tuna exports, which rose by 132% (3,297.7 metric tonnes) and 19% (2,677.1 metric tonnes), respectively, during the quarter. Moreover, growth was registered for exports of dried tuna at 68% (68.0 metric tonnes), whereas a decline was observed for exports of frozen yellowfin tuna (683.8 metric tonnes).

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, Marine Resources and Agriculture.

¹⁴ In September 2020, the state-owned enterprise MIFCO abandoned the fixed rate of fish purchases.

Wholesale and Retail Trade

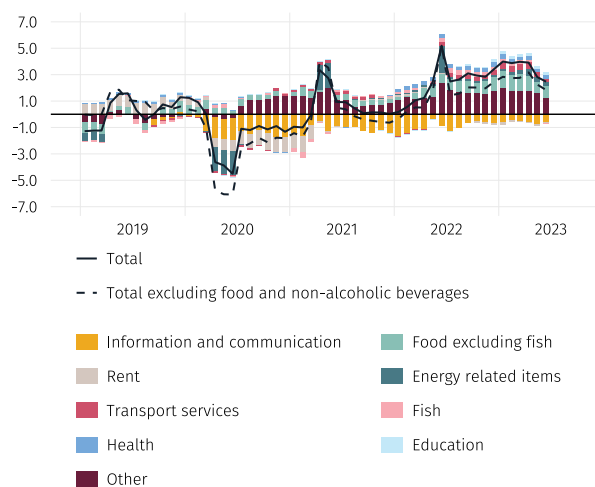
The activity in the wholesale and retail trade sector is estimated to have expanded during Q2-2023, as indicated by MMA’s QBS results for the wholesale and retail trade sector and available high frequency indicators. As for the gross value added by the sector in Q1-2023, activity in the wholesale and retail trade sector is estimated to have declined by 3.9% and remained 4.8% below the pre-pandemic levels of Q1-2019.

In this regard, private sector imports (excluding imports by the tourism sector) rose by 6% in annual terms, while the commercial bank credit to the sector increased marginally by 2% during the review quarter. Similarly, according to the MMA’s QBS for Q2-2023, activity in the wholesale and retail trade sector observed an expansion, with the sales index turning positive, gaining 74 points to reach 59 during the quarter, while the volume of orders placed with suppliers also surged by 103 points to 92 for the review quarter.

Inflation

The rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated to 3.1% in Q2-2023 from 3.9% in Q1-2023. The deceleration in domestic inflation during the quarter was mainly attributable to the moderation in food inflation largely due to slower growth in prices of fish and fruits, together with the decline in prices of information and communication services. On the other hand, the major upward inflationary pressures during the quarter stemmed from the growth in energy-related prices owing to higher electricity prices. Price pressures weakened in Q2-2023 mainly due to ease in supply disruptions of certain food products, despite the impact of the increase in GST rate effective from 1 January 2023.

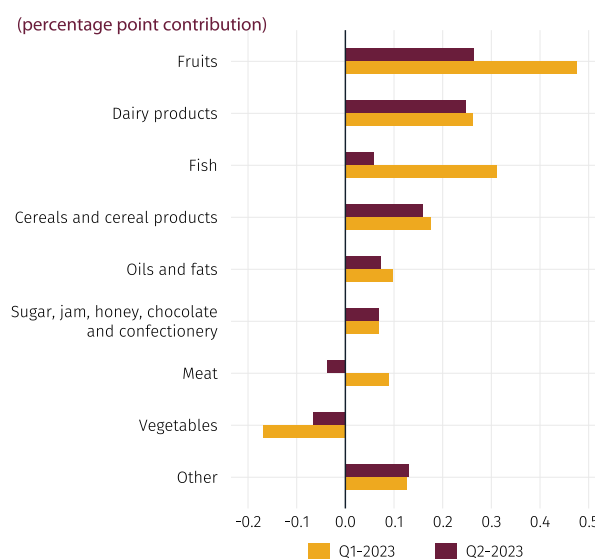
Figure 12: Contribution of Sub-Categories to CPI Inflation (National), 2019 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

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

Figure 13: Contribution of Food Categories to CPI Inflation (National), Q2-2023
(percentage point contribution)



Source: Maldives Bureau of Statistics

Looking at the major contributors to the developments in the CPI, the food and non-alcoholic beverages category—which carries the second highest weight in the CPI basket¹⁵ at 23.5%—contributed 1.2 percentage points to the inflation, down from 1.8 percentage points contribution in Q1-2023 (Figure 12). In this regard,

¹⁵ 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.

growth in food inflation decelerated to 5.2% during the review quarter from 7.8% in the preceding quarter. This largely reflected slower growth in the prices of fish (1.3%) and fruits (8.7%), as well as the decline in the price of meat (-3.8%) (Figure 13). This was on the back of huge gains in the prices of fish and certain fruits in Q1-2023, amid fluctuations in the domestic market due to supply constraints. In contrast, prices of vegetables observed a smaller decline and did not contribute to the quarterly deceleration in food inflation.

The information and communication category was the second largest downward contributor to inflation during Q2-2023 (-0.7 percentage points), with a higher pace of decline in the cost of information and communication primarily due to the fall in prices of mobile communication services. As such, a decline of 8.1% (-0.6 percentage points) was observed in the category, down from a decrease of 6.1% in the previous quarter.

As for other major contributors, housing rent (accounting for 16.8% of the CPI) also registered a marginal annual decline of 0.5% in Q1-2023, after recording -0.8% in the preceding quarter, and contributed to dampening of the overall inflation by 0.1 percentage points.

As for the energy-related items in the CPI¹⁶, a growth of 7.6% (0.5 percentage points) was observed, which was also the main upward contributor to inflation during the quarter. The growth in prices of energy-related items stemmed from a rise in the cost of electricity, which picked up to 9.9% in Q2-2023, from 2.9% in Q1-2023. This largely reflected increased electricity consumption

partly due to hot weather coinciding with the holy month of Ramadan in April, while the tariff rates remaining unchanged. However, the price of petrol observed a decline of 1.3% during the quarter and contributed to the slowdown in overall inflation, down from the 23.6% growth recorded in Q1-2023. This reflected the impact of the downward adjustment of the administered price of petrol by the State Trading Organization (STO) during the review quarter, mirroring the fall in global oil prices. In this regard, two downward revisions were brought to the domestic price of petrol and averaged at MVR14.87 per litre during the quarter. This was lower compared to the average of MVR15.97 per litre in Q1-2023 and MVR15.25 per litre recorded in Q2-2022.

Meanwhile, the cost of certain services also contributed to the dampening of inflation when compared with the previous quarter. Accordingly, growth in the cost of passenger transport services decelerated to 9.9% in Q2-2023, from 13.4% in the preceding quarter. This reflected the higher base effect of the growth in passenger transport by air in Q1-2023 stemming from the increase in the prices of domestic airfare. It is worth noting that, Maldivian, the national airline of the Maldives, increased ticket prices in March 2023, which was followed by an early bird discount scheme in May 2023. On the contrary, the cost of restaurant and accommodation services soared to 7.5% in Q2-2023, from 6.9% in Q1-2023, and contributed positively to inflation, driven by the increase in the cost of restaurants and cafes.

¹⁶ Energy-related items include the price charged on electricity, gas and other fuels, and price of fuels and lubricants for personal transport equipment.

¹⁷ Domestic petrol prices reflect markets prices with a lag even though they are administered by STO.

¹⁸ 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.

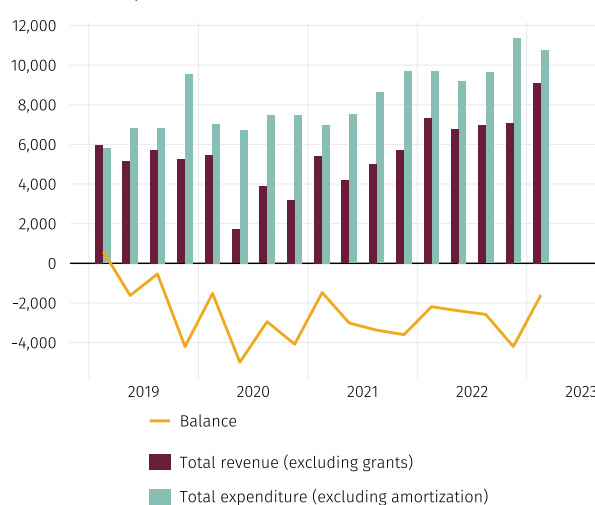
Public Finance¹⁹

Total government revenue (excluding grants) increased by MVR1.8 billion during Q1-2023²⁰ when compared with Q1-2022 and totalled MVR9.1 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 79% of the total revenue over the period, registered a significant increment of MVR1.6 billion in annual terms and totalled MVR7.2 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, tourism goods and services tax (T-GST)—the main single source of revenue for the government—and general goods and services tax (G-GST), recorded a growth of MVR652.3 million and MVR336.2 million, respectively (Figure 15). The growth in T-GST and G-GST mainly reflected increment in tax rates²¹, as well as the high number of tourist arrivals recorded during the period. This was followed by an increase in business and property tax category, owing to the increase in business profit tax (BPT), followed by other business and property tax and withholding tax, which rose by MVR353.6 million, MVR76.4 million and MVR64.8 million, respectively. The increase in BPT mainly reflected the increment in collection during the quarter, while the increase in withholding tax mainly reflected the increase in tax from the construction sector and other service activities. Meanwhile, individual income tax observed a marginal increase (MVR4.0 million) during the quarter. Similarly, growths were also registered for other major revenue sources including airport service charge and import duties

Figure 14: Government Revenue and Expenditure, 2019 - 2023

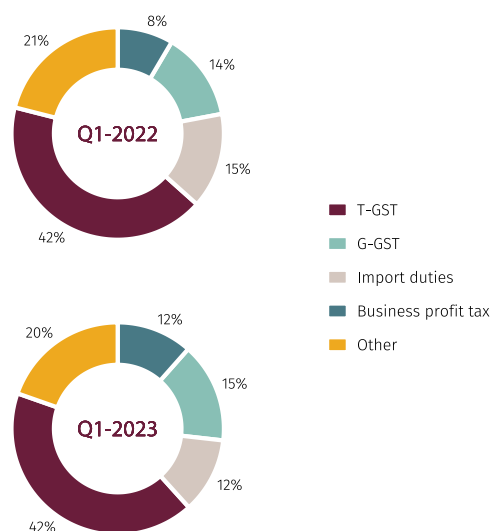
(millions of rufiyaa)



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

mirroring the increased travellers as well as increase in domestic economic activity coupled with higher imports.

Non-tax revenue, which accounted for 21% of total revenue during the period, registered a

¹⁹ Government revenue and expenditure data as of 3 August 2023. These figures might vary due to ongoing data reconciliation.

²⁰ Data for Q2-2023 was not available at the time of compilation of this report.

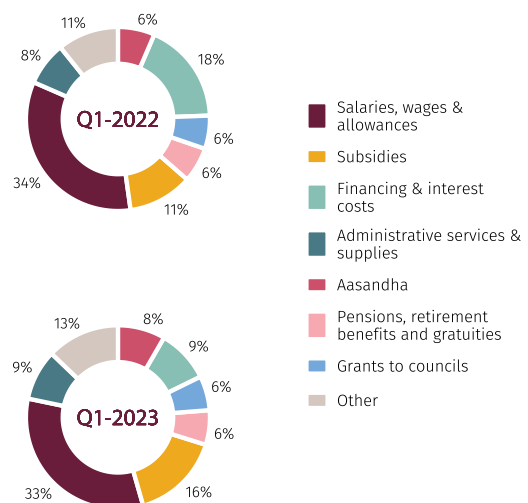
²¹ According to the Sixth Amendment of the Goods and Services Tax, effective from 1st January 2023, the G-GST rate increased from 6% to 8% and T-GST rate increased from 12% to 16%.

marginal growth of MVR74.2 million and totalled around MVR2.0 billion at the end of Q1-2023, mainly owing to the increase in collection of fees and charges. Delving into this category, an increment of MVR338.2 million was observed in other fees and charges—largely owing to an increase in the lease period extension fee. Similarly, airport development fee observed a growth of MVR82.5 million, predominantly owing to increased international departures as well as partly due to the amendment of the Airport Fees and Charges Act which came into effect from January 2022 onwards. This was followed by growth in the interest, profit and dividends category, primarily owing to the increase in dividends from state-owned enterprises (SOEs), which rose by MVR131.7 million. In contrast, declines were observed in rent from resorts, other non-tax revenues, and fines and penalties, which fell by MVR240.6 million, MVR113.8 million, and MVR69.9 million, respectively.

Total expenditure (excluding debt amortisation) recorded a significant increase of MVR1.0 billion in annual terms and totalled MVR10.7 billion during the first quarter of 2023. This stemmed mostly from the increase in recurrent expenditure, which posted an annual growth of MVR678.1 million, while capital expenditure observed an increase of MVR368.0 million. The increment in recurrent expenditure was driven mainly by the increase in administrative and operational expenses category. This primarily reflected increase in subsidies, which rose significantly by MVR410.7 million, partly attributable to elevated global oil and food prices amid delays in implementation of the policies envisioned to reduce such expenditure. This was followed by an increase in expenditure on the national health scheme, Aasandha, which posted a growth of MVR187.0 million (Figure 16). In addition, expenditure on administrative services, operational consumables and administrative supplies also increased and offset the sizeable decline in financing and interest costs during

the quarter. Delving into the salaries and wages category, both salaries and wages, and allowances to employees grew by MVR107.6 million and MVR41.1 million, respectively. Meanwhile, the growth in capital expenditure reflected the growth in spending on infrastructure assets, by MVR636.8 million. This mirrored the rise in spending on land and buildings, which grew by MVR393.3 million, followed by increased expenditure on roads, bridges and airports, which rose by MVR189.2 million. In addition, expenditure on wharves, ports and harbours also increased, by MVR162.4 million. Conversely, expenditure on development projects and investment outlays declined, by MVR440.3 million during the quarter.

Figure 16: Composition of Recurrent Expenditure, 2022 - 2023



Source: Ministry of Finance

Monetary Developments

Broad Money

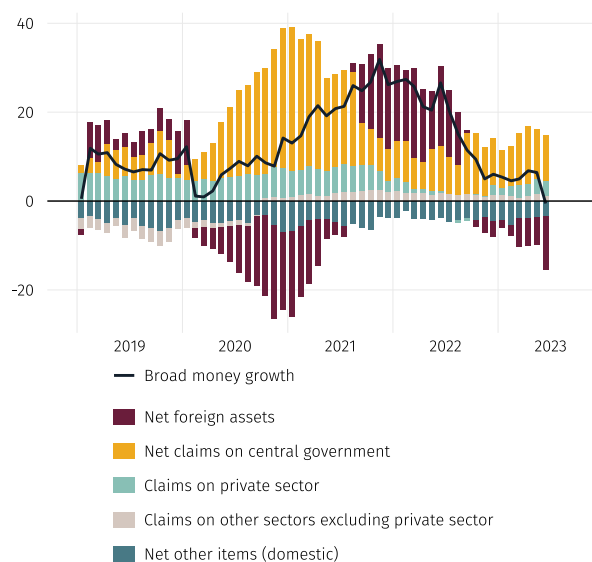
The annual growth rate of broad money (M2 or money supply) turned negative and recorded a decline of 1% at the end of June 2023, after registering a growth of 5% at the end of March 2023 (Figure 17). On the components side, this reflected a decline in transferable deposit base (demand deposits) of the banking system, which offset the growth in other deposits (savings and time deposits) of the banking system (Figure 18). Meanwhile, currency outside depository corporations posted a growth over the review period.

Demand deposits—which accounted for 72% of the money supply during the review period—fell by 6%; after recording a growth of 3% at the end of March 2023. This stemmed from a sizeable decline in such deposits denominated in foreign currency, despite a marginal growth in such deposits denominated in local currency.

Other deposits—which accounted for 22% of money supply—posted a growth of 14% at the end of June 2023, a further acceleration from the growth of 11% registered at the end of March 2023. This largely reflected an annual increase in time deposits denominated in both foreign and local currency. Further, savings deposits denominated in local currency as well as such deposits denominated in foreign currency also observed a growth in June 2023. Meanwhile, currency outside depository corporations—which accounted for 6% of money supply—observed a growth 12% at the end of June 2023, up from the 1% growth recorded at the end of March 2023.

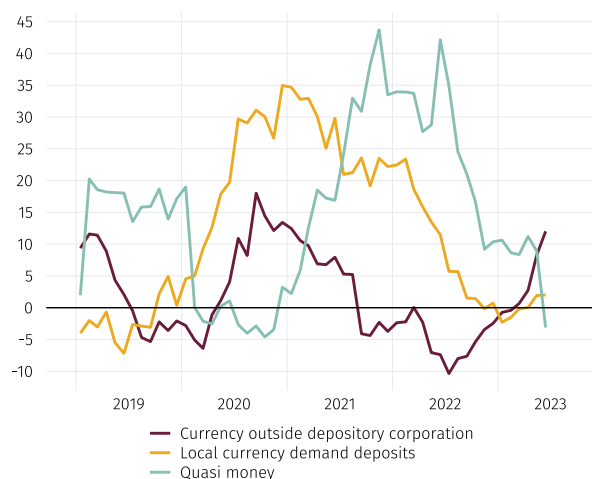
On the sources side, the decline in broad money was driven by a sizeable decrease in net foreign assets (NFA), despite a marked growth in net domestic assets (NDA) of the banking system. As such, NFA fell by 42% at the end of

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.

June 2023, further down from the annual decline of 21% recorded at the end of March 2023. This decline stemmed primarily from a fall in NFA of the commercial banks, together with a decline in NFA of the MMA. The fall in NFA of the commercial

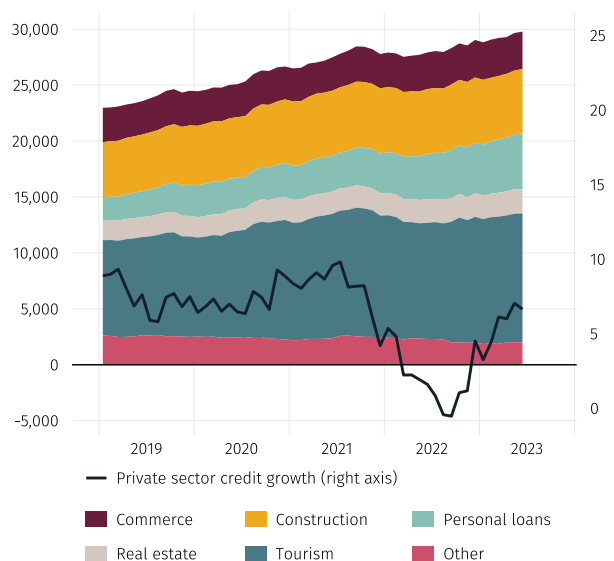
banks mirrored a substantial drop in foreign assets together with a growth in foreign liabilities during the period. The drop in foreign assets was mainly on account of the decline in foreign currency transferable deposits held abroad while the increase in foreign liabilities primarily reflected the increase in overseas borrowings. Meanwhile, the decline in NFA of the MMA was mainly due to the significant decrease in foreign assets accumulation owing to the drawdown in foreign currency other deposits held abroad. Further, the marked increase in foreign liabilities reflecting the foreign currency swap obtained from the RBI in December 2022, also contributed to the decline of the NFA of the MMA.

The growth rate of NDA slightly decelerated to 16% at the end of June 2023, from 17% recorded at the end of March 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 NCG, which grew by MVR3.3 billion, primarily reflecting the annual expansion in government securities. This was followed by the increase in commercial banks' credit to the private sector which recorded a growth of MVR1.9 billion. In addition, increases were observed in commercial banks' credit to the public non-financial corporations and other financial corporations, which recorded growths of MVR532.0 million and MVR113.5 million, respectively. Likewise, 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 7% (MVR1.9 billion) and stood at MVR29.8 billion at the end of Q2-2023 (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 39% of total private sector credit) recorded the largest sectoral increase during the review quarter, and registered an annual growth of 11%, a further expansion from the 8% annual growth recorded in March 2023. This stemmed from the growth in credit extended as working capital together with a growth in credit extended for new resort development as well as safari yacht building, which offset the declines in credit extended for renovation of resorts, and guest houses. Meanwhile, credit extended to the construction sector observed a marginal decrease, primarily due to the fall in credit lent for construction of residential or housing projects as well as property development despite a sizeable growth in credit given for commercial buildings

Figure 19: Private Sector Credit, 2019 - 2023
(millions of rufiyaa, annual percentage change)



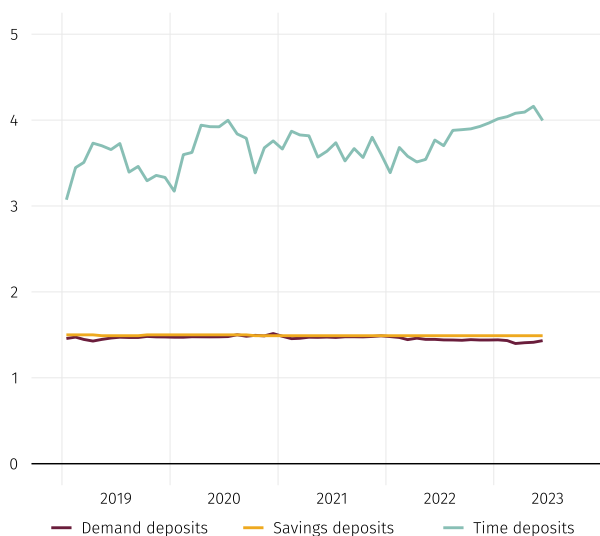
Source: Maldives Monetary Authority

and other construction projects. In contrast, credit extended as personal loans expanded significantly and recorded an 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 an 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 observed a decrease, while the rate on such deposits denominated in foreign currency recorded a significant increase at the end of June 2023. Meanwhile, the rate on local currency savings deposits remained broadly unchanged, although the rate on foreign currency savings deposits observed a decrease in the review period. Further, the interest rate on local currency denominated time deposits (maturity of six months to one year) posted a significant increase, although the rate on such deposits denominated in foreign currency declined over the period (Figure 20 and 21). With

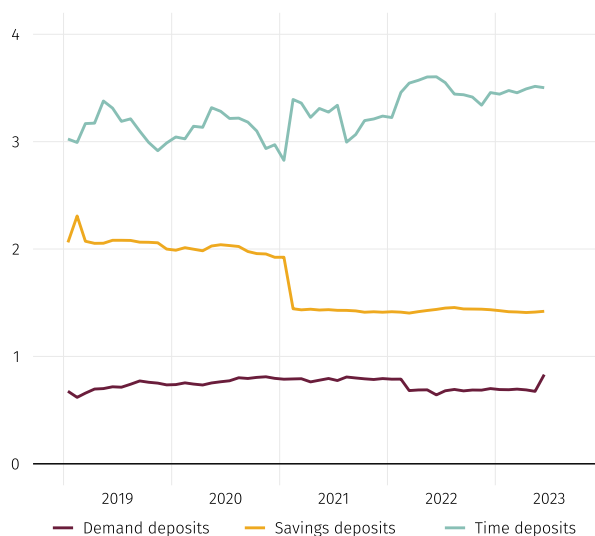
Figure 20: Interest Rate on National Currency Deposits, 2019 - 2023 (weighted average)



Source: Maldives Monetary Authority

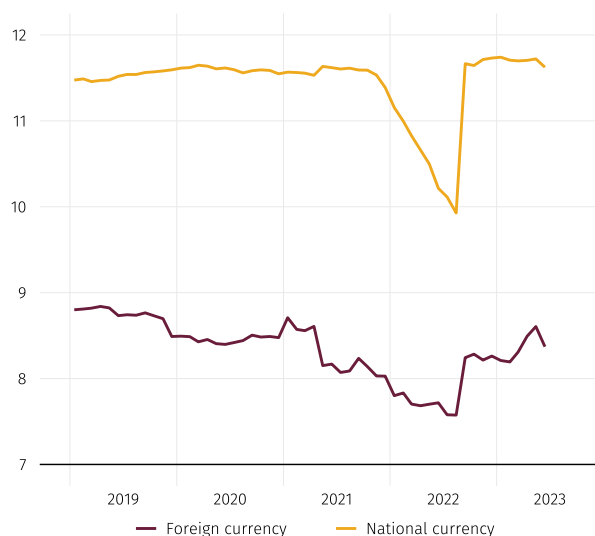
regard to the interest rates on loans to the private sector, the interest rate on both local and foreign currency denominated private sector loans observed an increase during the period (Figure 22).

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

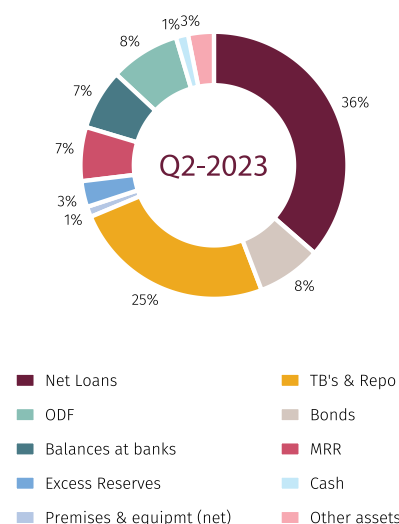
The banking sector remained resilient at the end of the second quarter of the year with strong capital, liquidity, and profitability indicators. Due to the majority of assets being low-risk, total capital to risk-weighted assets remained high at 50%, against the regulatory requirement of minimum 12%. Furthermore, the leverage ratio measured by the tier 1 capital to assets was 20%, well above the minimum required 5%.

Deposit base declined by 1% on annual basis and 3% on quarterly basis, mainly in foreign currency deposits. This is attributed mainly to the reduced tourism performance during the quarter, which falls into the low season. As a result, assets also declined by 2% in quarterly terms, to record MVR87.0 billion. Gross loans increased to MVR34.3 billion at the end of the second quarter of 2023, representing a 3% growth on quarterly terms. Absolute NPLs increased slightly; however, the ratio of NPL to total loans ratio remained at 6%. Specific loan loss provisions covered 106% of NPLs owing to additional provisions made for performing loans with higher credit risk.

The banking sector's liquidity remained adequate, with 45% of assets being liquid assets as at the end of Q2-2023; while loans net of loan-loss provisions accounted for 36% of assets. T-bills represented the majority of liquid assets, accounting for 25% of the total asset portfolio, followed by ODF, which accounted for 8% (Figure 23).

Pre-tax profits amounted to MVR2.2 billion, a reduction of 1% compared to the same period of 2022. Although the net interest income increased significantly during the first half of 2023 compared to the same period of 2022, the net non-interest income decreased, mainly since such income in the previous year was inflated by a significant loan

Figure 23: Net Asset Composition of Banking Industry, Q2-2023



Source: Maldives Monetary Authority

recovery. In addition, the year-on-year profit decline was also driven by a large increase in loan-loss provisions, compared against a significant reversal of provisions in the corresponding period of 2022. In line with the declined profits, the annualised return on average assets (ROA) and return on average equity (ROE) declined to 3.8% and 15.8% respectively, from 4.1% and 18.8% the previous year.

Finance Companies

Financing companies continued to perform well and recorded total assets of MVR4.1 billion at the end of Q2-2023, a quarterly decrease of 1% and an annual increase of 6%. The annual growth is mostly attributed to the capital injection made by a state-owned financial institution during the year, amounting to MVR80.0 million.

The total capital to risk-weighted assets ratio and leverage capital ratio remained strong at 53% and 49% respectively, demonstrating adequate capital strength for risk absorption.

Lending increased, with a 1% or MVR46.2 million growth in gross loans on a quarterly basis, and a 12% or MVR370.3 million on an annual basis, to reach MVR3.3 billion. Absolute NPLs increased by MVR17.7 million at the end of the quarter while the NPL ratio increased from 12.9 to 13.2%. Specific loan-loss provisions covered 47% of NPLs at the end of the quarter.

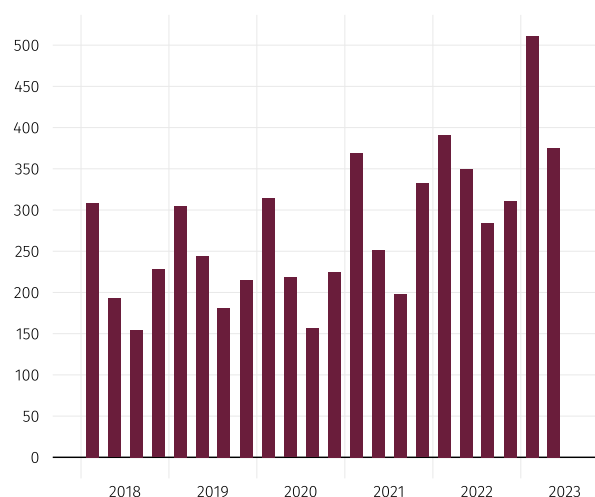
Financing companies reported annual net profits before taxes of MVR31.4 million, a decline of 40% compared to the same period in 2022. This decline was due to increase in provisions for loan losses and interest expenses during the quarter. Consequently, annualised ROA and ROE also declined from 2.2% and 4.4%, to 0.9% and 1.9% respectively, compared with the previous year.

Insurance Industry

The general insurance industry remained robust with respect to its performance and prudential indicators. The companies reported MVR814.0 million in gross written premium (GWP) (excluding inward reinsurance-which is reinsurance taken from other local insurance companies) during the first half of the year (Figure 24). In terms of GWP without deducting the inward reinsurance component, it amounted to MVR886.4 million; a 20% increase compared to the first half of 2022. Total inward reinsurance amounted to MVR72.3 million, an increase of MVR47.5 million compared to the first half of 2022; the growth in the local reinsurance business mainly stemming from contractors' all risk, and fire insurance.

The upswing in the GWP is predominantly contributed by the health class of insurance, which grew year-on-year by MVR78.5 million, mainly on account of pricing adjustments made by the insurers to address the increasing cost of healthcare services. Health class accounted for 34% of the total GWP during the period, while fire and marine insurance made up 28% and 10%, respectively. The first half of 2023 also saw a substantial increase in

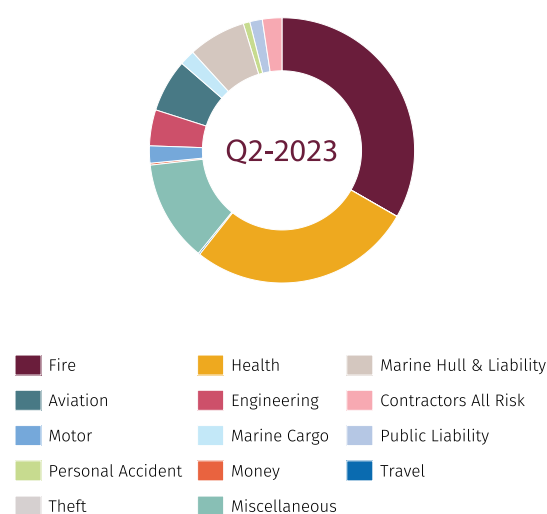
Figure 24: Gross Written Premium, 2018 - 2023 (millions of rufiyaa)



Source: Maldives Monetary Authority

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

Figure 25: Premium Contributions by the Classes of Insurance, Q2-2023



Source: Maldives Monetary Authority

Note: Classwise distribution of GWP excludes inward reinsurance.

premium in the public liability and aviation classes of insurance, with each class representing 4% of the total GWP. Public liability class of insurance increased by MVR8.0 million while the aviation class of insurance increased by MVR17.9 million compared to that of the first half of 2022, primarily due increase in the aviation fleet (Figure 25).

Additionally, insurance companies maintained a strong capital position, with an

annualised net written premium to equity ratio of 94%, indicating adequate capacity to absorb losses from claims; and an equity to assets ratio of 31%.

The total assets of the general insurance industry amounted to MVR2.5 billion at the end of Q2-2023, representing a 4% annual decrease. Total investments at the end of the quarter accounted for 27% of the asset portfolio, totalling MVR658.8 million (Figure 26). A significant portion of the investment portfolio consisted of debt securities, constituting 49% of the total investments, while fixed deposits accounted for 24%.

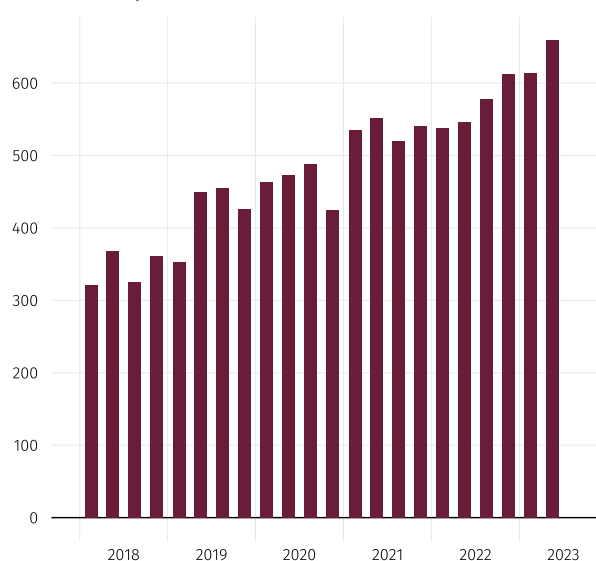
The gross claims of insurance companies in the first half of 2023 decreased to MVR256.4 million from MVR372.0 million in the same period in 2022. In contrast, the net incurred claims, which shows the claims burden borne by the local insurance companies after reinsurance adjustments, grew by 67% (Figure 27). This increase in net incurred claims was predominantly driven by claims within the health class of insurance, which is almost entirely retained by local insurers; the increase being attributed to the medical inflation and significant rise in the utilization of health insurance.

The retention ratio, which measures the amount of premium retained by local companies, increased substantially, rising to 48% compared to 38% at the end of June 2022 (Figure 28). The increase in this ratio is primarily attributed to the increase in GWP in the health class of insurance, which had a retention of 97% during this period. This, along with the significant increases in retention of insurance classes such as marine cargo, fire, and contractors' all risk, contributed to the increase in the retention ratio in the first half of 2023 versus that of 2022.

The net loss ratio, a key measure of underwriting profitability, increased from 53% in the first half of 2022 to 63% in 2023, due to the increase in the net claims in the health class. A similar trend of year-on-year increase in the net expense ratio has also been observed due to increased

Figure 26: Investments, 2018 - 2023

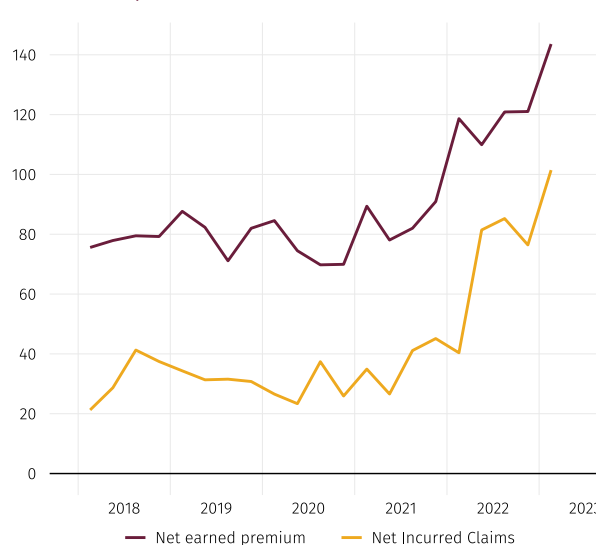
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 27: Net Earned Premium vs Net Incurred Claims, 2018 - 2023

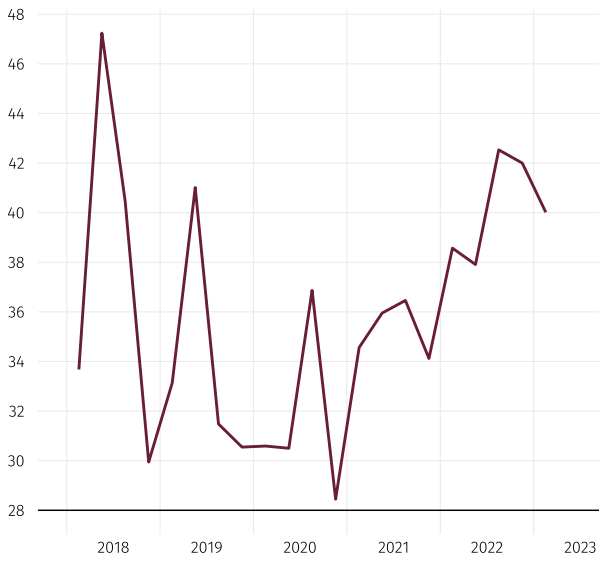
(millions of rufiyaa)



Source: Maldives Monetary Authority

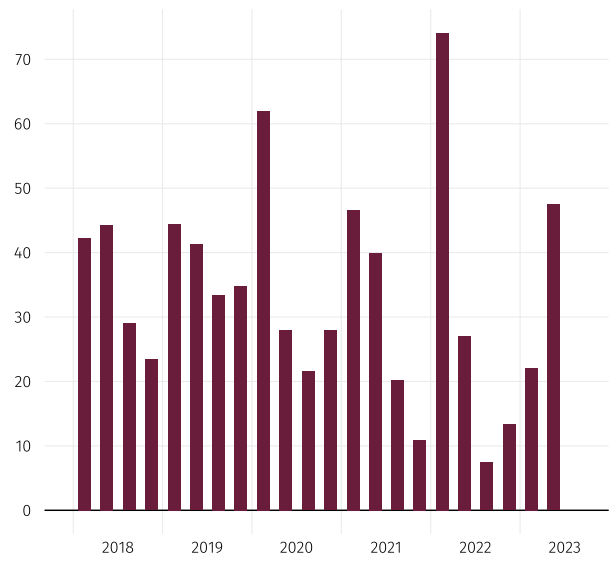
operating expenses in one company, resulting in the combined ratio increasing from 77% in the first half of last year, to 98%. Consequently, the year-to-date profit-after-tax decreased from MVR89.1 million in the first half of 2022 to MVR63.6 million in 2023, with the pre-tax profit amounting to MVR69.5 million (Figure 29). The key profitability ratios, ROA and ROE stood at 3% and 11% 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

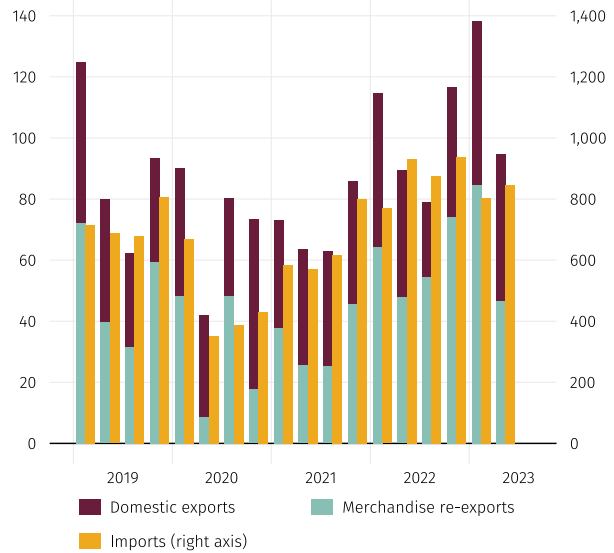
External Trade

Merchandise Exports

Total merchandise exports registered an annual increase of 6% (US\$5.1 million) in Q2-2023 and totalled US\$91.6 million. This was mainly driven by the significant increase in frozen skipjack tuna exports, despite merchandise re-exports observing a slight decline during the quarter (Figure 30). Accordingly, merchandise re-exports decreased by 2% (US\$1.1 million) to total US\$46.6 million during Q2-2023. The slight decline in re-exports during the review quarter mirrored a fall in price of aviation gas (jet fuel) re-exports, despite recording an increase in volume of such exports compared to the corresponding quarter of 2022.

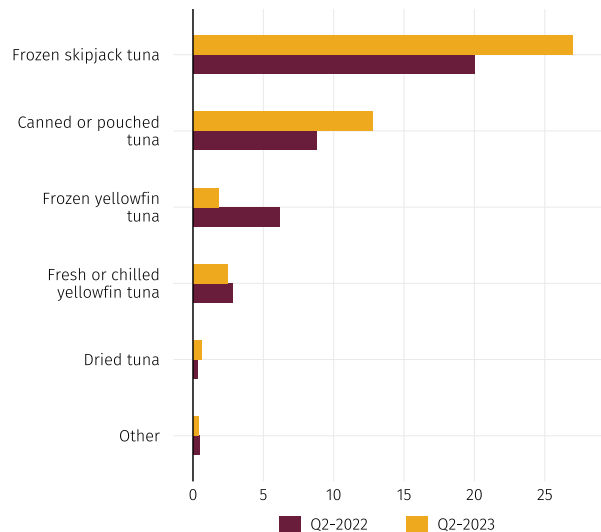
Domestic exports—which mainly comprise fish and fish products—increased by 15% (US\$6.3 million) during Q2-2023 and totalled US\$48.0 million. This was mainly due to the notable rise in export earnings from frozen skipjack tuna, which increased by 35% (US\$6.9 million), in line with the increase in the volume of such exports (Figure 31). The growth in export earnings mainly reflected the increase in the skipjack tuna prices in the Bangkok frozen market during the review quarter, which averaged MVR30.84 per kilogram. Moreover, growths were observed in export earnings from canned or pouched tuna, and dried tuna exports, Asia was the major continental export destination during the quarter, accounting for 66% of domestic exports during Q2-2023—a decline from the 69% recorded in the corresponding quarter of 2022. Thailand remained as the dominant Asian export market, accounting for 56% of total domestic exports during the review quarter—a decrease from the 60% in Q2-2022. Meanwhile, Europe remained as the second largest continental export destination with a market share of 31% in Q2-2023, an increase from the 29% observed in Q2-2022 (Figure 32). The UK established its position as the top export market within the region, accounting for

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

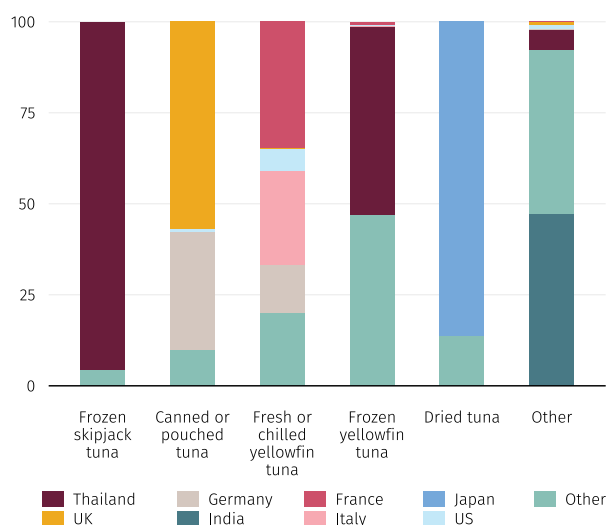
15% of total domestic exports, which was a notable increase from the 7% in Q2-2022. Meanwhile, Germany—the second largest export destination—accounted for 9% during the review quarter, an increase from 8% recorded in Q2-2022. Other notable export destinations include France (2%) and Italy (1%).

Merchandise Imports

Total merchandise imports (c.i.f) recorded an annual decrease of 10% (US\$91.6 million) during Q2-2023 and totalled US\$840.1 million. In line with these developments, notable decreases in import expenditure was observed for most of the major import categories (Figure 33). The main contributors to the annual decrease were petroleum products, which fell by 33% (US\$87.6 million) predominantly reflecting the decline in global oil prices, followed by food items, and electrical and electronic machinery and equipment, which observed declines of 10% (US\$17.6 million) and 17% (US\$9.7 million), respectively. In contrast, expenditure on construction-related items increased by 18% (US\$21.6 million) during the quarter. Further, notable increases in import expenditure were observed for transport equipment and parts, other intermediate and capital goods and stationeries, office supplies and printed materials.

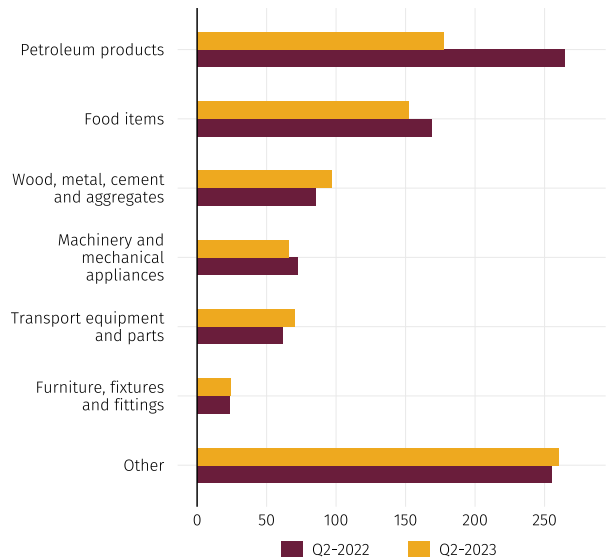
With regard to the direction of imports, Asia remained as the largest continental source of imports, accounting for 85% of total merchandise imports during Q2-2023—an increase from the 83% recorded in Q2-2022 (Figure 34). During Q2-2023, India accounted for the largest share of imports, accounting for 16% of total merchandise imports—a rise from the 13% share in Q2-2022. This was followed by Oman, which accounted for 15%, a fall from the 22% recorded in the corresponding quarter of 2022. Meanwhile, China accounted for 13%, an increase from the 9% registered in Q2-2022, followed by UAE (United Arab Emirates) accounting for 13% during the review quarter, an uptick from the 11% in the corresponding quarter of

Figure 32: Direction of Trade by Domestic Export Categories, Q2-2023 (percent)



Source: Maldives Customs Service

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



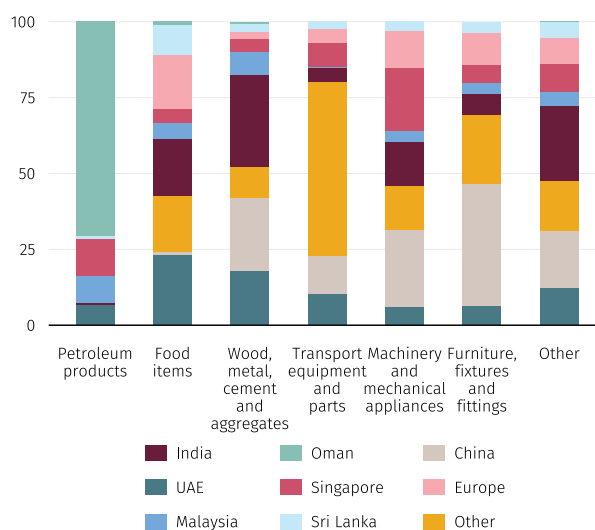
Source: Maldives Customs Service

2022. Similarly, Singapore accounted for 9% of total merchandise imports during the review quarter, an increase from the 7% recorded in Q2-2022.

Gross International Reserves

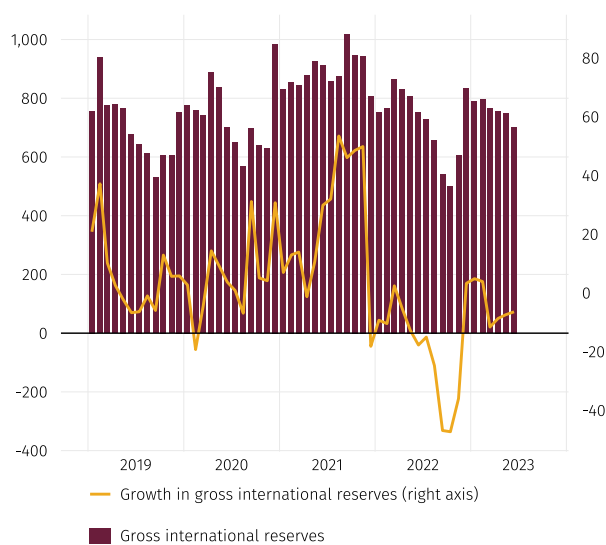
Gross international reserves (GIR)²² decreased to US\$702.2 million at the end of Q2-2023, registering an annual decline of 6% (US\$48.3 million) when compared with the corresponding quarter of 2022. Similarly, when compared with the preceding quarter, GIR registered a decline of 8% (US\$62.5 million) (Figure 35). The annual decline in GIR predominantly reflected the increase in foreign currency payments, mainly in the form of foreign currency intervention activities in the domestic market, which offset the rise in short-term foreign liabilities. Whereas, the annual increase in short-term foreign liabilities primarily mirrored the receipt of US\$100 million swap facility from the RBI in December 2022.

Figure 34: Direction of Trade by Import Categories, Q2-2023 (percent)



Source: Maldives Customs Service

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



Source: Maldives Monetary Authority

²² 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.

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
Real Sector									
Tourist arrivals	-67	138	27	45	80	5	7	21	6
Bednights of resorts	-63	156	20	33	51	15	-3	6	-7
Operational capacity of resorts	-36	69	10	13	8	9	8	6	5
Occupancy rate of resorts (%)	29	65	71	82	66	65	72	83	59
Average stay (days)	18.5	8.8	8.0	8.5	7.7	8.1	7.7	8.0	7.3
Fish purchases	-2	11	-8	-2	3	-19	-14	6	9
Prices ¹									
Total (Republic)	-1.4	0.6	2.3	0.6	3.0	2.7	3.1	3.9	3.1
Total excluding fish	-1.6	0.6	2.2	0.4	2.9	2.4	2.9	3.8	3.1
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
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
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
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
MMA	91.3	97.4	87.9	78.0	71.2	87.9	87.9	87.9	82.5
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
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

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
Money and banking									
Broad money	14	26	6	26	27	11	6	5	-1
Net foreign assets	-49	114	-16	113	98	4	-16	-21	-42
Net domestic assets	50	9	14	7	11	13	14	17	16
Net claims on central government	86	12	19	12	17	25	19	23	19
Claims on other sectors	10	6	6	4	3	1	6	6	8
o/w Private sector	10	4	4	2	1	-1	4	6	7
Reserve money	10	1	2	13	-4	-7	2	-6	0
Monetary operations ¹									
Open market operations ²	0	0	0	0	0	0	0	0	0
Overnight Deposit Facility	34	44	34	41	37	37	22	17	15
External trade									
Merchandise exports (f.o.b.)	-21	0	40	57	41	25	36	88	6
Domestic exports	3	-7	5	43	10	-35	6	7	15
o/w Fish exports	3	-10	5	46	8	-38	6	9	17
Re-exports	-39	9	80	70	87	117	62	151	-2
Merchandise imports (c.i.f.)	-36	40	37	32	63	42	17	5	-10
o/w Food	-30	50	19	16	27	33	5	3	-10
o/w Petroleum	-43	72	83	56	160	90	42	4	-33
o/w Construction-related imports	-41	6	47	55	57	71	17	19	18

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
Direction of Trade of Imports of Goods (as a percentage of total)									
o/w Singapore	11	10	9	9	7	8	12	10	9
o/w India	13	12	14	13	13	15	15	17	16
o/w Oman	8	13	18	16	22	20	14	15	15
o/w UAE	12	13	12	15	11	11	11	14	13
o/w Europe	10	11	10	9	9	8	13	11	8
Direction of Trade of Exports of Goods (as a percentage of domestic)									
o/w Thailand	44	46	49	52	60	24	51	59	56
o/w India	2	4	4	5	4	4	3	3	3
o/w UK	7	7	9	9	7	13	7	11	15
o/w France	8	4	4	3	3	5	4	4	2
o/w Germany	10	11	9	6	8	18	9	4	9
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

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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