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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 first quarter of 2024. 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 May 2024. 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
LPR	Loan Prime Rate
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
NPL	non-performing loan
NWP	net written premium
ODF	overnight deposit facility
OPEC+	Organization of the Petroleum Exporting Countries plus other oil-producing countries
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 growth is expected to remain stable in 2024, supported by the growth in advanced economies underpinned by the resilient performance of the United States and euro area as well as growth in several large emerging market and developing economies, amid regional differences. As per the International Monetary Fund (IMF) *World Economic Outlook* (WEO) April 2024 report, global growth is projected to remain at 3.2% in 2024—0.1 percentage point higher than the January 2024 WEO Update, and 0.3 percentage point higher than that in the October 2023 WEO. However, the short-term effects of continuously high borrowing costs and the potential withdrawal of fiscal support across countries as high debt levels linger, as well as the longer-term impact from the COVID-19 pandemic, the Russia-Ukraine war, weak productivity growth and worsening geoeconomic fragmentation are expected to weigh on growth during the year.

Following an estimated 4.0% growth in 2023, real GDP growth of the Maldivian economy is projected to reach 5.5% in 2024, as per the October 2023¹ growth forecasts—although growth for 2024 is now expected to be lower-than-projected at 4.9% as per May 2024 forecasts, owing to the lower-than-estimated growth in 2023, mirroring moderations in construction, transportation and communication sectors. Growth is expected to be supported by the tourism sector—reflecting the anticipated improvement in tourist bednights—together with the transportation and communication sector. Further, with the stronger-than-expected performance of tourist arrivals over the first quarter of 2024, owing to the significant boost in arrivals from key source markets such as China and the European region, total tourist arrivals are expected to surpass 2.0 million in 2024. Total tourist arrivals exceeded pre-pandemic (2019) levels in 2023, reaching over 1.9 million during the year.

With regard to the balance of payments, as per the October 2023 projections, the current account deficit is projected to narrow to 18.8% of GDP in 2024 from 20.3% in 2023. The narrowing of the current account deficit is expected to stem mainly from the growth in the services surplus, driven by the anticipated boost in travel receipts during 2024 in line with the robust performance of the tourism sector expected for the year. The growth in the services surplus is expected to completely offset the growth in the merchandise trade deficit, which is anticipated to stem from an increase in imports. The gross international reserves (GIR) is anticipated to be at US\$605.7 million at the end of 2024, up from US\$590.5 million at the end of 2023.

After registering 2.3% in Q4-2023, domestic inflation decelerated further to 0.6% in Q1-2024 with the provision of discounts on electricity and water bills, and dissipation of the impact of the G-GST rate hike implemented in January 2023. As per the forecasts of May 2024, inflation is expected to accelerate modestly to 0.8% over the second quarter, and accelerate significantly in the last quarter of the year, reaching to around 7.3%, with the implementation of the planned subsidy reform (the removal of subsidies provided for staple food items and electricity, and planned to be replaced by a targeting system) from Q4-2024 onwards. Accordingly, domestic inflation is projected to accelerate and average at 2.6% in 2024, with the implementation of the proposed subsidy reform. However, if the reform is not implemented, inflation is expected to be below 2.0% in 2024. Risks to domestic inflation remain tilted to the upside, with major risks emanating from the potential implementation of domestic subsidy reform as well as an escalation of geopolitical tensions, especially in the Middle East, which could lead to

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

a spike in global crude oil prices. Nonetheless, a potential downside risk stems from the unwinding of supply cuts by Organization of the Petroleum Exporting Countries plus other oil-producing countries (OPEC+), which could decrease global crude oil prices during the year.

The risks to global growth outlook remain broadly balanced since the January 2024 *WEO* Update. On the upside, a faster-than-expected fall in inflation amid higher labour market participation, which could allow central banks to push forward easing plans, as well as slower-than-projected withdrawal of fiscal support in key economies. As for the downside, commodity price spikes amid the ongoing geopolitical tensions—the Russia-Ukraine war and the Gaza-Israel conflict—together with persistent core inflation in countries with tight labour markets could lead to an elevation of interest rate expectations and reductions asset prices. Further, geoeconomic fragmentation could intensify, resulting in a supply-side slackening due to greater barriers to the movement of goods, capital, and labour. Higher interest rates may result in financial stress as households tackle higher debt levels amid the reset of fixed-rate mortgages. China’s growth momentum could falter due to

the ongoing property sector woes, with negative spillover effects on trading partners. Amid high risk of debt distress, countries could reign in fiscal support to reduce the high debt ratios, weakening economic activity and reducing confidence.

As for the domestic economy, the balance of risks to growth remains tilted to the downside. On the downside, the potential fall in tourism-related receipts emanating from the economic slowdown in key tourism source markets such as China and the European region. Commodity price spikes stemming from geopolitical tensions and adverse weather events, could worsen the current account deficit as well as the government budget deficit through higher expenditure on imports. Meanwhile, tighter-than-anticipated monetary policies in response to the persistence of high core inflation in the advanced economies, could lead to more stringent global financial conditions, resulting in higher interest costs and a reduction in access to market financing for the Maldivian government. On the upside, higher-than-expected tourist arrivals into the country amid faster recovery of economic activity in China and slower withdrawal of fiscal support in key economies, could result in stronger domestic growth.

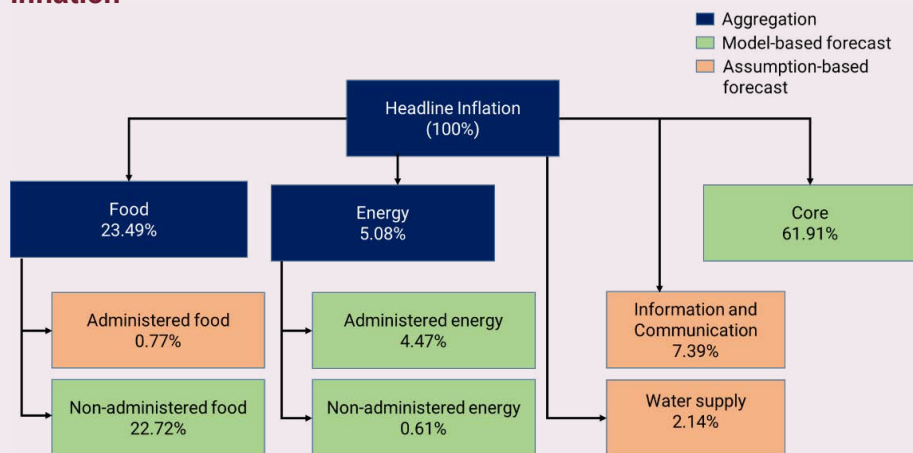
Near-term Inflation Outlook

These forecasts are generated using the latest available data of the Republic Consumer Price Index (CPI), 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 realisation of explanatory variables 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 and domestic policies. 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 three quarters, spanning from Q2-2024 to Q4-2024. The forecast was prepared in May, using the Q1 CPI. However, at the time the forecasts were generated, the latest available data point for the Republic CPI was April 2024. Given that 1 month of actual data for Q2-2024 was available, this data point was used to estimate the effect of the utility discounts provided by the government.

The overall methodology remains largely consistent with the near-term inflation forecast published in the *Quarterly Economic Bulletin for the Third Quarter of 2023, Volume 29, Issue 3*. 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. Figure 1 summarises the CPI disaggregation's and the methodology used to forecast the respective indices. The seven disaggregated indices of the CPI were then forecasted using a combination of model-based, or assumption-based forecasts.

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



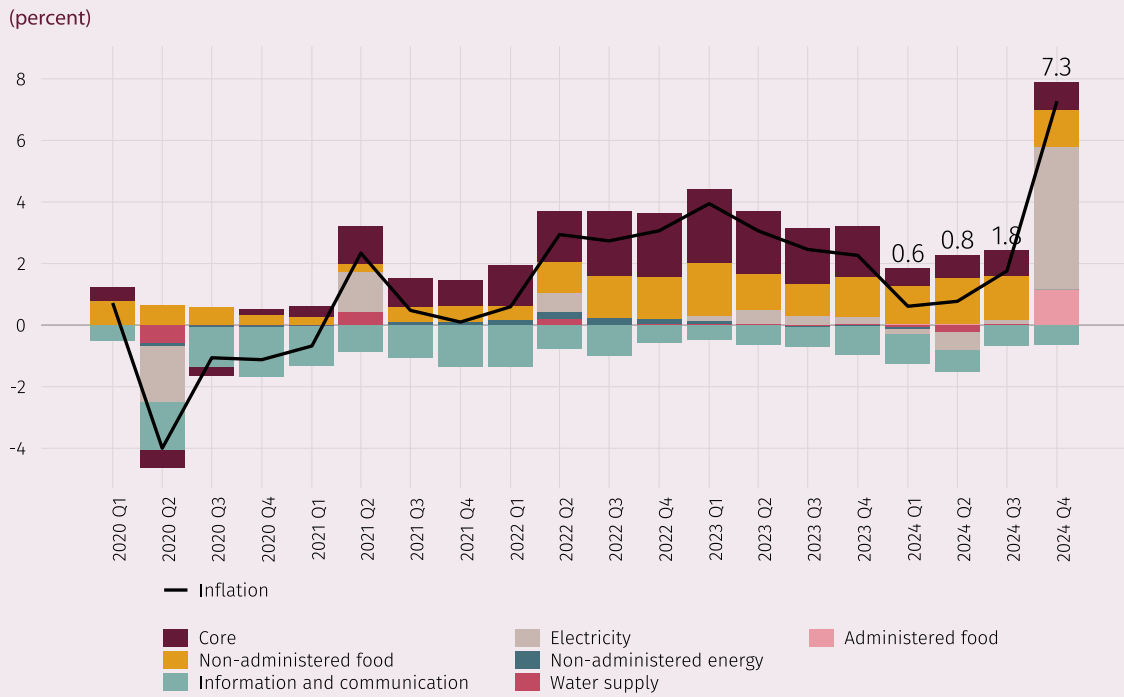
The model-based projections employ time-series modeling techniques to extract useful information about the trends and seasonality of inflation patterns from the historical data. This backward-looking information is then combined with the forecasts of several explanatory exogenous variables over the forecast 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. Once the forecast for these indices is produced, it is then aggregated to generate a forecast for headline inflation.

The models also consider the inflationary impact of known and expected domestic policies on consumer prices over the forecast horizon. Firstly, the forecasts also consider the government's plans to substantially reform its current policy on subsidising electricity and staple prices, whereby the government intends to replace the existing blanket subsidies with a targeted direct cash transfer program for low-income households. 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. In the current forecast, it is assumed that the subsidies will be implemented from Q4-2024.

Inflation is expected to remain relatively stable for the first three quarters of 2024, as the inflationary effects of G-GST rate increase subsided at the end of 2023. However, inflation is expected to accelerate markedly in the last quarter of the year due to the subsidy reforms, which are expected to result in higher prices for electricity and staple food items. On average, inflation is forecasted at 2.6% for 2024. However, this is contingent on the successful and full rollout of subsidy reforms.

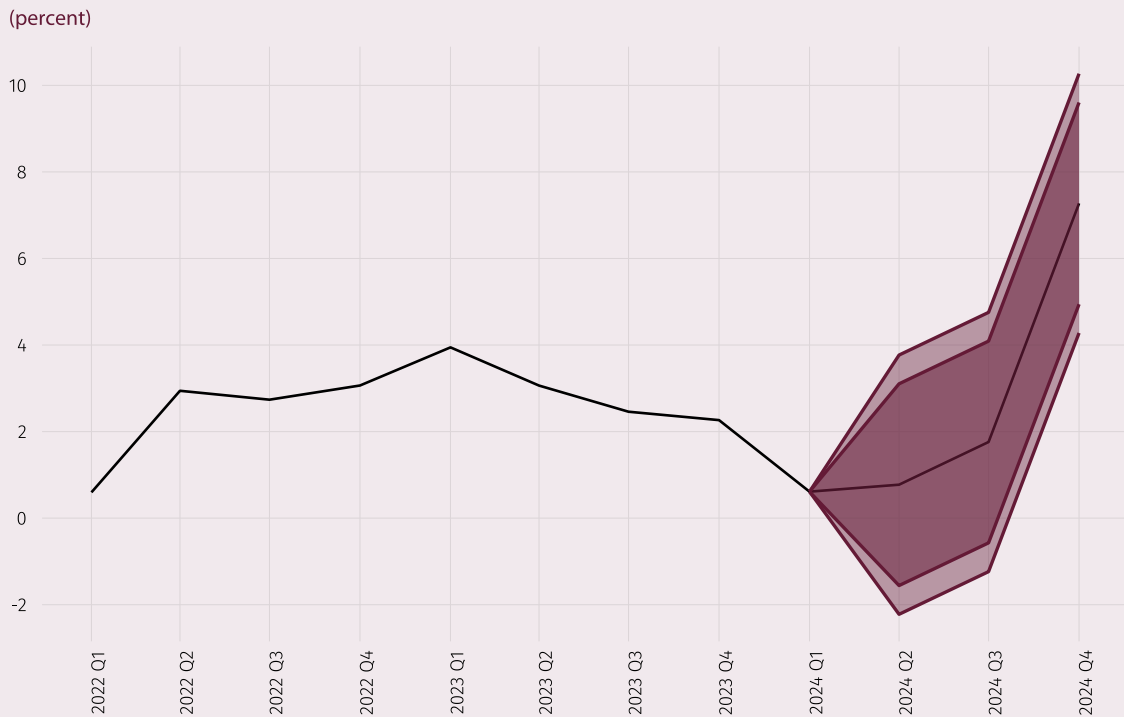
Figure 2 illustrates the forecasted trajectory of the mean inflation forecasts over the forecast horizon. The stacked bars represent the forecasted contributions to headline inflation from the disaggregated indices. In the absence of these reforms, inflation is expected to remain lower than 2.0% in 2024. 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



Source: Maldives Monetary Authority, Maldives Bureau of Statistics

Figure 3: Inflation Forecasts, with 80% and 90% Prediction Intervals, 2022 - 2024



Source: Maldives Monetary Authority, Maldives Bureau of Statistics

Overview

Incoming high frequency indicators suggests that economic activity expanded in Q1-2024 except for the fisheries sector, after the 4.0 percent annual growth observed for GDP in Q4-2023. This can be primarily attributed to the growth in tourism sector and related sectors such as the transportation and communication sector, and the wholesale and retail trade sector. The growth of the tourism sector is estimated to have observed a turnaround from previous quarter due to the uptick in resort bednights. However, available high-frequency indicators showed a contraction in the fisheries sector during the quarter, while mixed developments were observed in the construction sector.

Meanwhile, the rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated further to 0.6% in Q1-2024 from 2.3% in Q4-2023. The deceleration in domestic inflation in Q1-2024 can be primarily attributed to the decrease in prices of energy-related items, together with the moderation in the pace of increase in costs of restaurant and accommodation services. During the quarter, major positive contributions stemmed from the continued elevation in food inflation as well as costs of certain services. In contrast, major negative contributions were driven by the continued decline in costs of information and communication services, and the decrease in prices of energy-related items.

Turning to fiscal developments, according to latest available quarterly government finance statistics, total government revenue (excluding grants) recorded an annual increase during Q4-2023², owing to a growth in tax revenue, despite a decline in non-tax revenue during the quarter. Total expenditure (excluding debt amortisation) also observed a significant increase during the review quarter, stemming from the increase in recurrent

expenditure, which offset the decline in capital expenditure. The growth in recurrent expenditure stemmed from the rise in administrative and operational expenses, while the decline in capital expenditure reflected decreases in all major categories, except for capital equipments.

As for monetary developments, reserve money observed an annual decline of 5% at the end of March 2024, while annual broad money growth observed a deceleration during the quarter and recorded a growth of 3% at the end of March 2024, primarily mirroring a slowdown in growth in net domestic assets (NDA), although a decline was observed in net foreign assets (NFA) the banking system. The annual decline in NFA mirrored a decrease in foreign asset accumulation as well as a drop in commercial banks' foreign currency deposits held, despite a decrease in foreign liabilities. Meanwhile, the annual 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, the merchandise trade deficit widened to US\$768.5 million in Q1-2024 from US\$669.3 in Q1-2023. In this regard, total merchandise exports registered an annual decline during the review quarter due to the fall in domestic exports, which entirely offset the increase in merchandise re-exports. The decline in domestic exports mirrored a significant reduction in export earnings from frozen skipjack tuna, while the increase in merchandise re-exports stemmed from a rise in re-export of jet fuel. On the contrary, merchandise imports observed an annual increase owing to growth in most of the major import categories, despite a decline in imports of construction-related items.

² Data for Q1-2024 was not available at the time of compilation of this report.

International Economic Developments

Global Output

According to the IMF WEO April 2024 report, global growth was estimated at 3.2% in 2023, down from 3.5% in 2022. Despite the slowdown when compared with 2022, the global economy remained stronger-than-anticipated during the year, supported by steady growth in employment and incomes—fuelled by strong demand from government spending and household consumption—alongside an unexpected expansion in labour force participation. Additionally, households tapped into savings accumulated during the pandemic. In Q1-2024, mixed developments were observed in the global economy, across both the advanced economies and emerging market and developing economies. As such, while growth remained subdued in many advanced economies, economic activity strengthened in major emerging market and developing economies during the quarter.

Looking at the advanced economies, the US economy registered a growth of 1.6% in Q1-2024, after recording a growth of 3.1% in Q4-2023 (Figure 1). Economic growth in the US during the quarter was mainly driven by increases in consumer spending, residential and non-residential fixed investment, and government expenditure. However, this was partially offset by the decline in private inventory investment alongside the increase in imports. As per the Eurostat flash estimates, the euro area recorded a growth of 0.4% during Q1-2024, after a growth of 0.1% in the previous quarter. Among the major eurozone economies, the German economy further contracted during Q1-2024, reflecting the

Figure 1: Real GDP Growth in the Advanced Economies, 2020 - 2024

(annual percentage change)



Source: Bloomberg Database

decline in household expenditure. Meanwhile, economic activity in Italy and France continued to record muted growth during the quarter. As for Spain, economic growth accelerated during the quarter, with positive contributions from both domestic and external demand.

Following an expansion of 1.2% in Q4-2023, the growth momentum of the Japanese economy moderated in Q1-2024 as pointed by leading indicators. The average Purchasing Manager's Index (PMI) recorded an expansion during the review quarter, signaling a softening of manufacturing activity growth and strong services sector growth. Manufacturing expanded at a modest pace due to weakened export demand reflecting the sluggish recovery of overseas economies. Meanwhile, the United Kingdom (UK)

economy picked up slightly during Q1-2024 as suggested by the PMI, following a contraction of 0.2% in Q4-2023. The average PMI figure for Q1-2024 was slightly higher compared to PMI of Q4-2023. Despite the decline in manufacturing output, economic growth during the quarter was supported by services as well as construction sectors.

Looking at the emerging market and developing economies, China's economic growth slightly picked up to 5.3% in Q1-2024, from 5.2% in the previous quarter (Figure 2). The economic growth in China was supported by broad-based expansion across all major sectors such as the agricultural, industrial and services sectors. However, the Chinese economy continued to be weighed down by the persistent property market crisis and subdued consumer confidence. Following a GDP growth of 8.4% in Q4-2023, the growth momentum of the Indian economy continued to remain robust, as pointed by PMI, which registered a further expansion during the review quarter. As suggested by high frequency indicators, the Russian economy grew faster than anticipated in Q1-2024, following a GDP growth of 4.9% during the fourth quarter of last year. This mirrored sustained robust consumer activity, driven by notable rises in household incomes and positive consumer sentiment.

Global Inflation

Global inflation continued to remain moderate during the first quarter of 2024, following the trend seen throughout the previous year, amid favourable base effects related to food and energy prices. As such, headline inflation in majority of the advanced and emerging market and developing economies moderated during Q1-2023.

Looking at the price developments in the advanced economies, the rate of inflation in the US, as measured by the Consumer Price Index

Figure 2: Real GDP growth in the Emerging Economies, 2020 - 2024
(annual percentage change)



Source: Bloomberg Database

(CPI), remained broadly unchanged at 3.2% in Q1-2024 from Q1-2023 (Figure 3). During the review quarter, inflation was mainly driven by increases in the cost of services such as housing rent, transportation, and medical services alongside rising food prices. In the euro area, the rate of inflation, as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) slightly decelerated to 2.6% in Q1-2024, from 2.7% in the previous quarter, reflecting the decline in energy prices as well as prices of passenger transport, although services inflation remained at a high level.

As for Japan, the rate of inflation slightly moderated to 2.6% in Q1-2024, from 2.9% in the preceding quarter. The slowdown in the inflation rate during the review quarter was primarily due to the decline in prices in the energy sector. Nevertheless, upward inflationary pressures persisted from higher food prices. Meanwhile, the rate of inflation in the UK decelerated to 3.9% in Q1-2024, after registering 4.4% in the previous quarter, reflecting the contribution from almost all components, except for alcoholic beverages and tobacco. Despite an easing, prices remained elevated in the restaurants and hotels as well as

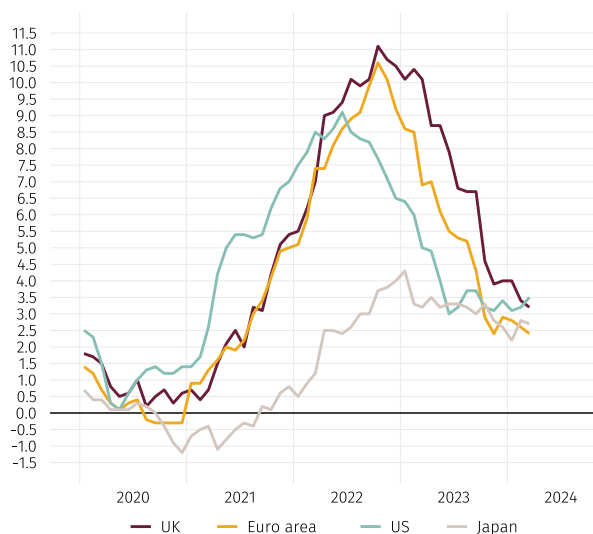
recreation and culture categories, while prices in the housing, water, electricity, gas, and other fuels category continued to decline.

Turning to the emerging market and developing economies, the rate of inflation in China slightly accelerated to 0.0% during the review quarter, after recording -0.3% in Q4-2023 (Figure 4). The inflation dynamics in the country was driven by increases in essential food items like pork—a staple meat in China—and vegetables, along with heightened travel during the Lunar New Year season. Conversely, the rate of inflation in India decelerated to 5.0% in Q1-2024, from 5.4% in the preceding quarter, driven by the decline in fuel prices. As for Russia, although inflationary pressures were gradually easing, albeit remaining high, the rate of inflation picked up slightly to 7.6% in Q1-2024, from 7.2% in Q4-2023, as domestic demand outpaced the capacity to effectively increase the production of goods and services.

Commodity Prices

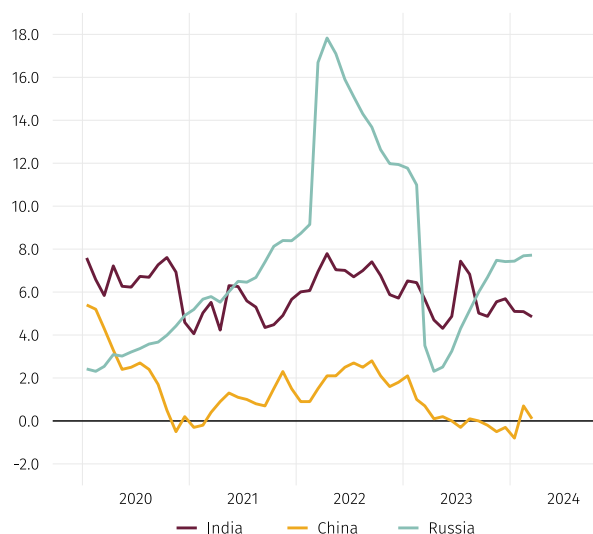
During Q1-2024, the IMF price index for all commodities declined by 8% and 2%, in annual and quarterly terms, respectively (Figure 5). The annual decline in the IMF price index for all commodities was primarily due to the declines in global food prices, which mainly reflected the decrease in prices of cereals, dairy, vegetable oils, and meat, while the decline in global metal prices due to the persistent property market crisis in China also contributed to the fall in the overall index. However, energy prices recorded a growth, driven by escalating geopolitical tensions together with the prospect of a more balanced supply-demand dynamics.

Figure 3: Inflation Rate in the Advanced Economies, 2020 - 2024 (percent)



Source: Bloomberg Database

Figure 4: Inflation Rate in the Emerging Economies, 2020 - 2024 (percent)



Source: Bloomberg Database

Energy Prices

The price of crude oil³ averaged US\$80.6 per barrel during Q1-2024, representing an increase of 2% in annual terms and a decline of 2% in quarterly terms. The annual growth reflected heightened geopolitical tensions and the prospect of further tightened supply-demand balance—as a result of exacerbated supply disruptions. World oil demand further slowed down during the review quarter, largely due to sluggish deliveries in OECD countries as the post COVID-19 rebound lost momentum. On the supply side, OPEC+ production cuts, reductions in global biofuel supply, and weather-related disruptions in North America, led to a decline in global oil supply—the largest quarterly decline since the pandemic.

Metal Prices

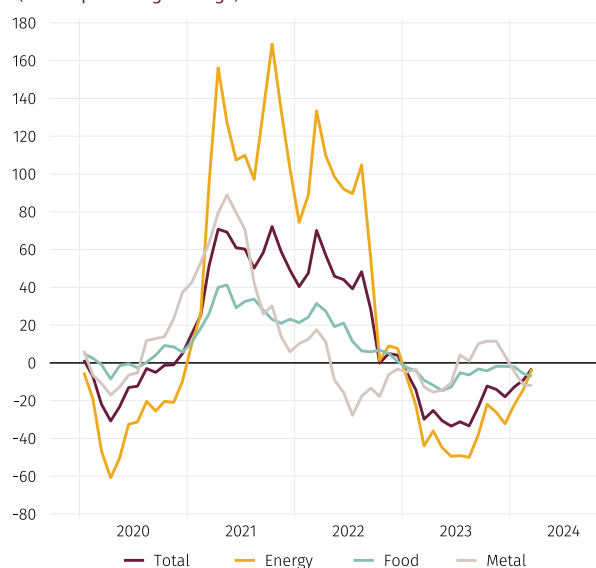
Turning to major commodities in the non-energy index, the base metal index declined by 9% and 1%, in annual and quarterly terms, respectively. The annual decline in base metal index was primarily driven by the persistent property market crisis in China amid subdued demand for base metals.

Food Prices

As for global food prices, the IMF food price index recorded an annual decline of 5% but increased by 1% when compared with the preceding quarter. Meanwhile, the Food and Agriculture Organization (FAO) food price index declined by 9% and 2% in annual terms and quarterly terms, respectively. The annual decline in the FAO food price index was led by the decrease in prices of most staples such as cereals, dairy, vegetable oils, and meat, underpinned by improved global supply conditions. However, sugar prices recorded an increase, due to concerns surrounding the anticipated weather-related production declines among major producers such as Brazil, Thailand, and India.

Figure 5: Commodity Prices, 2020 - 2024

(annual percentage change)



Source: IMF

Global Financial Markets

During Q1-2024, global financial conditions eased in both the advanced and emerging market and developing economies, driven by increasing confidence and positive economic indicators across different countries. Monetary policy conditions are expected to further ease, as the series of interest rate hikes implemented over the past couple of years have sufficiently tightened monetary conditions to steer inflation back towards central banks' target levels.

Monetary policy remained unchanged in most of the major advanced economies and emerging market and developing economies during the review quarter, despite receding inflationary pressures, as central banks viewed inflation as still high. Accordingly, most of the central banks in advanced economies and emerging market economies kept their policy rates unchanged during Q1-2024. In this regard, the European Central Bank kept their three key interest rates unchanged during the quarter, amid downward revisions to their inflation forecasts, especially for 2024. Similarly, the Bank of England maintained their bank rate at 5.25% in

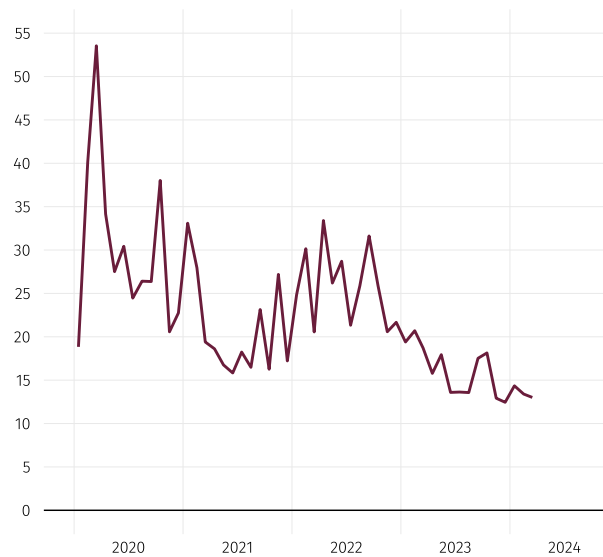
³ Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

Q1-2024 amid persistent inflationary pressures in the country, while the Federal Reserve continued to keep their key interest rates at 5.25-5.50%—a 22-year high. Conversely, the Bank of Japan ended its negative interest rates policy, which had been in place since 2016, and raised short-term interest rates to a range of 0-0.1%—marking the first rate increase since 2007. Meanwhile, in the emerging markets and developing economies, the Reserve Bank of India (RBI) kept policy rates unchanged during the quarter as well, after increasing the policy rate to 6.50% in February 2023 to meet the central bank’s inflation target. Likewise, Central Bank of the Russian Federation also kept their key rate unchanged at 16.00% during the quarter, as inflationary pressures remained high, although it has been gradually easing. However, People’s Bank of China adjusted its Loan Prime Rate (LPR) and reduced the over-five-year LPR to 3.95%, while the one-year LPR remained unchanged for the seventh consecutive month.

The yield-to-maturity on longer-term sovereign bonds increased in the main advanced economies when compared with Q1-2023. Additionally, after falling in Q4-2023, yields on longer-term sovereign bonds increased in Q1-2024 reflecting markets’ postponed expectations of rate hikes. However, share prices on average observed increases in most of the advanced economies in Q1-2024 when compared with Q1-2023 and Q4-2023, with the latter due to favourable developments in the US economy. Accordingly, the implied volatility of the US stock market registered a decline in annual terms and quarterly terms during the review quarter (Figure 6)⁴.

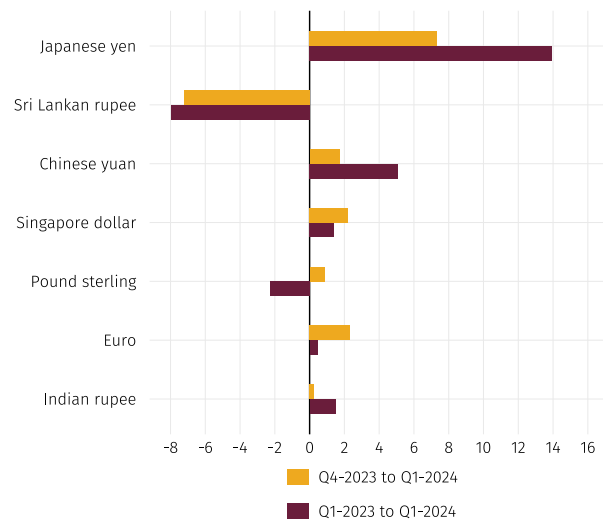
In the foreign exchange markets, the US dollar strengthened against most currencies of the Maldives’ major trading partners at the end of Q1-2024 in both annual and quarterly terms (Figure 7). In this regard, the US dollar strengthened against all the currencies except for the Sri Lankan rupee and

Figure 6: Volatility Index, 2020 - 2024 (percent)



Source: Bloomberg Database

Figure 7: Exchange Rates, Q1-2024 (percentage change)



Source: Bloomberg Database

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

the pound sterling at the end of the review quarter, when compared with Q1-2023. Meanwhile, the US dollar strengthened against all the currencies except for the Sri Lankan rupee at the end of Q1-2024, relative to Q4-2023.

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.

Economic Developments in the Maldives

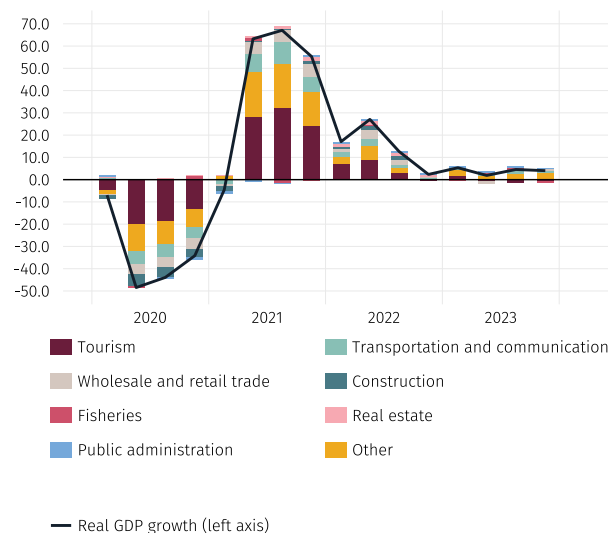
Real Economy

Gross Domestic Product

According to the available high frequency indicators, all major sectors of the economy are estimated to have expanded in Q1-2024, except for the fisheries sector, while construction sector exhibited mixed developments. Accordingly, based on the MMA's GDP nowcasts⁵ of March 2024 (rebased estimates), real GDP is estimated to have expanded in annual terms during Q1-2024. The estimated annual growth was mainly driven by the buoyant performance of the tourism sector and related sectors such as the transportation and communication as well as the wholesale and retail trade sector. The growth in tourism sector is attributed to the improvement in resort bednights in Q1-2024. On the flip side, fisheries sector is estimated to have contracted in the review quarter.

According to the latest rebased⁶ Quarterly National Accounts (QNA)⁷ estimates released by the Maldives Bureau of Statistics (MBS) on 28 March 2024, annual real GDP growth slightly decelerated to 4.0% in Q4-2023⁸, after registering a growth of 4.6% in Q3-2023 (Figure 8). Meanwhile, when compared to the pre-pandemic levels of Q4-2019, real GDP registered a growth of 8.8% during the quarter. During Q4-2023, notable growths were observed in sectors such as transportation and communication (1.0 percentage points), financial

Figure 8: Contribution to Real GDP Growth by Economic Sectors, 2020 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

services (0.6 percentage points), wholesale and retail trade (0.5 percentage points), real estate (0.4 percentage points), and human health and social work activities (0.4 percentage points). In contrast, negative contributions were observed mainly from fisheries (-0.7 percentage points), tourism (-0.5 percentage points), and arts, entertainment, recreation and other services (-0.1 percentage points). Meanwhile, sectors such as professional, scientific, and technical activities registered marginal growth during the quarter.

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. To align

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 Q4-2023. Real QGDP is released with a three-month lag.

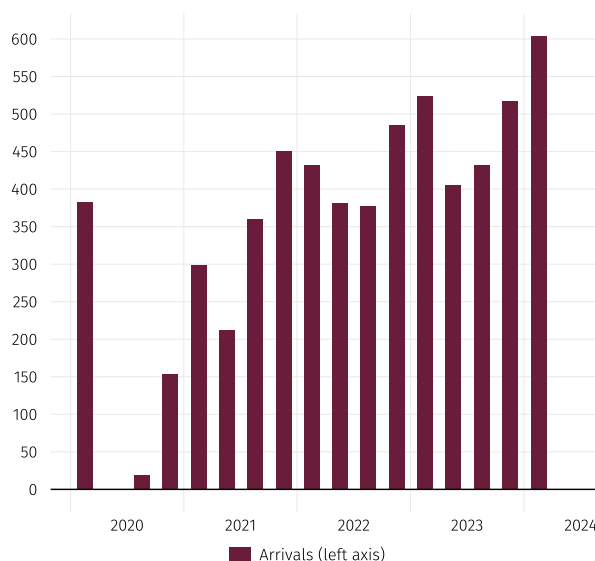
⁸ As QNA data for Q4-2023 was used in this analysis is based on advance estimates, the data is subject to change in the upcoming revisions

Tourism

Coinciding with the tourism peak-season, total tourist arrivals observed a notable upswing relative to previous quarter, exceeding the half a million arrivals milestone during the first quarter. This was primarily driven by the increase in arrivals from top source markets of Europe and Asia and the Pacific, which resulted in achieving the highest ever arrivals recorded in a quarter. Additionally, the Maldives welcomed 10,214 tourists on 10 February 2024—the highest ever daily arrivals recorded since 2019.

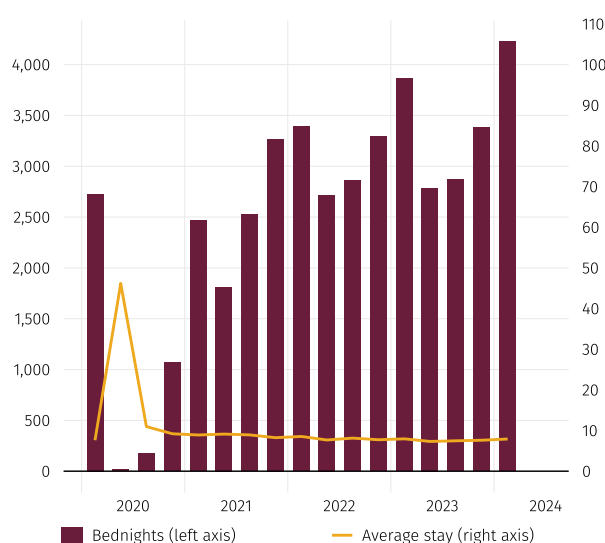
In line with these developments, tourist arrivals totalled 604,004 in Q1-2024, representing a significant increase of 15% when compared with the corresponding quarter of 2023, and a 25% increase compared to the pre-pandemic levels of Q1-2019 (Figure 9). This is a positive indication that the sector continues to sustain robust growth in arrivals over the post-pandemic period. As for the total tourist bednights, a 9% growth was observed during the quarter in annual terms, of which resorts accounted for approximately 7% of this development, and guesthouses contributed 2% during the review quarter. Concurrently, total guesthouse bednights posted a substantial growth of 23% during Q1-2024, while the total resort bednights registered a growth of 7% in annual terms, following a decline in Q4-2023. Additionally, the average stay recorded a marginal improvement from 7.6 to 7.9 days, compared to the previous quarter. However, average stay observed a marginal decline from 8.0 days in Q1-2023 to 7.9 days in Q1-2024 (Figure 10). Mirroring these developments, the overall performance of the sector is likely to have expanded in Q1-2024 with the MMA’s nowcasts suggesting that the tourism sector expanded in the review quarter.

Figure 9: Inbound Tourist Arrivals, 2020 - 2024 (thousands)



Source: Ministry of Tourism

Figure 10: Bednights and Average Stay, 2020 - 2024 (thousands, days)

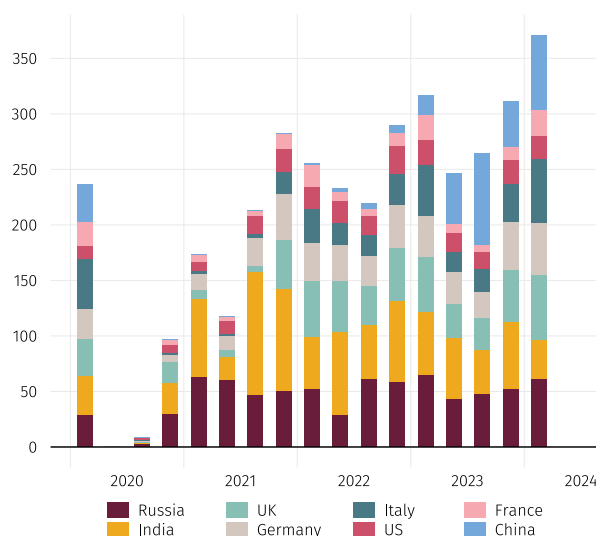


Source: Ministry of Tourism

With regard to arrivals by region, Europe was the leading market in Q1-2024, with its market share remaining broadly unchanged from Q1-2023, at 66% of total arrivals. This was followed by Asia and the Pacific, which saw an increase in its market share from 23% in Q1-2023 to 25% in the review quarter. As for top source markets, reflecting the resumption of Chinese arrivals in the first quarter of 2023, China has regained its position as the leading single source market at the end of Q1-2024, with a market share of 11%. This was followed by Russia (10%)—although this is a decline of two percentage points in market share when compared with Q1-2023—UK (10%), Italy (10%), and Germany (8%). Notably, India’s market share plunged by five percentage points to 6% in the review quarter.

Regarding arrival trends of main source markets, Chinese arrivals continued to gain strength, posting a more than three-fold increase in the review quarter in annual terms, largely stemming from the re-opening of Chinese borders in Q1-2023. Prior to the onset of the pandemic, China was the dominant single source market, however, it was replaced by India in 2020 and India maintained its position until the end of last year (Figure 11). The downward trend in arrivals from India which has been observed since Q2-2023 continued into the review quarter, recording its largest decline (38%) in Q1-2024. Arrivals from Russia, the top single European source market for the past five consecutive quarters, which has been falling since Q3-2023, registered a further decline of 22% in Q1-2024. However, arrivals from the United Kingdom (UK), the second largest market from Europe, registered a growth of 17% in Q1-2024, after recording declines in all four quarters of 2023. Similarly, arrivals from Germany and Italy, increased by 27% and 25%, respectively during the review quarter.

Figure 11: Arrivals from Major Inbound Markets, 2020 - 2024 (thousands)



Source: Ministry of Tourism

According to international flight movements⁹ in the Velana International Airport (VIA), the number of flight movements registered a modest growth of 2% in annual terms, and a significant growth of 40% when compared with Q1-2019. The growth of flight movements in annual terms reflected an increase in movements by carriers such as Etihad Airways, Air Vistara, and China Eastern. Conversely, notable declines were observed for the frequency of movements from Turkish Airlines, business jets movements in the VIA, Go Air—halted its operation to the Maldives in Q1-2023—and Qatar Airways in Q1-2024. Moreover, Enter Air (one of the biggest charter airlines in Europe) and Xiamen Air (a Chinese airline) commenced its operation to the Maldives in Q1-2024, while Hong Kong Airlines resumed their flights to the Maldives, resulting in further expansion of direct connectivity.

On the supply side, the average number of operational resorts increased to 175 in Q1-2024 from 170 in the corresponding quarter of 2023. Meanwhile, operational bed capacity of the industry exhibited a 2% annual growth in Q1-2024. Of the

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

total operational bed capacity, resorts accounted for 70% of beds, followed by guesthouses (23%). Additionally, the occupancy rate of tourism establishments rose to 75% in Q1-2024, from 71% in Q1-2023. This was mainly driven by the increase in average occupancy rate of guesthouses, while the occupancy rate of resorts also showed a marginal increase. It is noteworthy that, the occupancy rate of resorts in the review quarter is a notable recovery from 66% in the previous quarter—the lowest occupancy rate recorded in a fourth quarter since the pandemic.

As for the developments in global tourism, according to the United Nations World Tourism Organization's (UNWTO) World Tourism Barometer, international tourist arrivals recovered 97% of pre-pandemic levels in Q1-2024, indicating an almost complete recovery of pre-pandemic levels. The estimated number of tourists who travelled internationally stood at around 285 million in the review quarter—an increase of 20% compared with the same period in 2023. The continued strong recovery of the global tourism was mainly due to the sustained demand and opening of Asian markets along with increased air connectivity and visa facilitation. Looking ahead, global tourism is expected to fully recover to pre-pandemic levels in 2024 underpinned by robust demand, enhanced air connectivity, and the continued recovery of China and other major Asian markets.

Construction and Real Estate

Activity in the construction sector exhibited mixed developments in Q1-2024, as indicated by the available high frequency indicators, while the MMA's recent nowcasts pointed towards an expansion. It should also be noted that the MMA's

nowcasts comprise both the construction and real estate sector, while QNA reports construction and real estate sector separately. As such, the GVA of the construction sector and real estate sector posted a growth of 5.0% and 5.3%, respectively in Q4-2023 relative to the corresponding period of 2022.

The import of construction-related items registered an annual decline of 9%, while commercial bank credit¹⁰ to the construction sector¹¹, registered an annual increase of 6%, during the review quarter. The growth in commercial bank credit was mainly owing to the rise in credit provided for the construction of residential or housing projects¹², real estate of residential or housing projects, credit lent for renovation of resorts, construction of commercial buildings, other construction projects, as well as credit extended for real estate of commercial buildings, new resort development and construction of property development. In contrast, declines were observed for the credit extended to other real estate projects and guesthouses.

Fisheries

According to the available high frequency indicators and the MMA's recent nowcasts, activity in the fisheries sector is estimated to have contracted during Q1-2024. In this regard, significant declines were observed for both fish purchases made by fish processing companies and the volume of fish exports during the review quarter. In line with the drop in fish purchases, the MMA's nowcasts depict a potential contraction for the sector in the review quarter. This was following a 16.8% decline in the GVA of the fisheries sector in Q4-2023 relative to the same period in 2022.

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.

During Q1-2024, fish purchases totalled 21,941.3 metric tonnes—a significant decline of 34% (11,069.2 metric tonnes) when compared with Q1-2023. This was mainly due to the 33% (9088.9 metric tonnes) decrease in purchases of skipjack tuna together with a 36% (1935.2 metric tonnes) plunge in purchases of yellowfin tuna. As for local purchase prices¹³ during the review quarter, the average purchase price of skipjack tuna and iced skipjack tuna increased to MVR19.7 per kilogram and MVR21.7 per kilogram, respectively, in Q1-2024 from MVR15.0 per kilogram and MVR17.0 per kilogram, respectively, in Q1-2023. This price increase was due to Maldives Industrial Fisheries Company (MIFCO) initially raising its purchase prices in September 2023 and later revising the prices down in February 2024. However, the new revised prices are still higher in comparison to the purchase prices in Q1-2023. Further, average purchase prices of yellowfin tuna by the local companies rose to MVR63.4 per kilogram in Q1-2024, from MVR58.7 per kilogram in Q1-2023.

Wholesale and Retail Trade

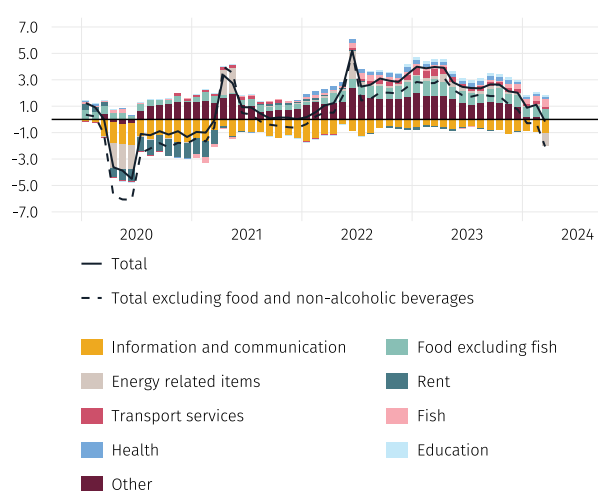
Activity in the wholesale and retail trade sector demonstrated favourable developments during Q1-2024, as indicated by the available high frequency indicators of the sector. Accordingly, the MMA’s nowcasts for wholesale and retail trade sector indicated an expansion after registering an annual growth of 5.4% in the GVA of the sector in Q4-2023. In this regard, commercial bank credit to the sector increased by 13%, while total imports increased by 12% in annual terms, during the review quarter.

Inflation

The rate of inflation (as measured by the annual percentage change in the national Consumer Price Index [CPI]) decelerated sharply to 0.6% in Q1-2024, from 2.3% in Q4-2023 (Figure 12). The quarterly deceleration in domestic inflation was primarily due to the decrease in prices of energy-related items, together with the moderation in the pace of costs of restaurant and accommodation services. During the quarter, major positive contributions to inflation came from the continued elevation in food inflation as well as costs of certain services. Meanwhile, major negative contributions to inflation came from the continued decline in costs of information and communication services, and the decrease in prices of energy-related items.

Looking at the major positive contributors to the developments in the CPI, the food and non-alcoholic beverages category—which carries the second highest weight in the CPI basket¹⁴ at 23.5%—continued to remain elevated and registered a contribution of 1.3 percentage points, albeit a marginal deceleration in the contribution from the previous quarter. As such, food inflation

Figure 12: Contribution of Sub-Categories to CPI Inflation (National), 2020 - 2024
(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.

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

¹⁴ 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.

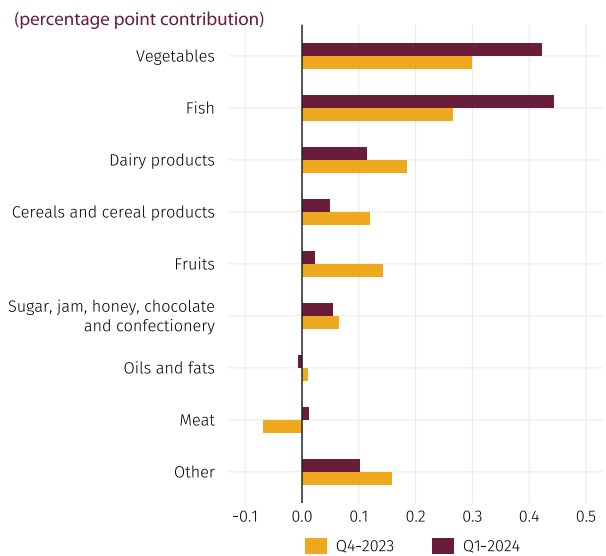
rose by 5.4% during the review quarter, after recording 5.6% in the preceding quarter. The annual growth in food inflation mainly reflected increases in the prices of fish products (9.9%) and vegetables (17.2%), together with the rise in prices of dairy products and other food products (Figure 13).

This was followed by the growth in costs of certain services such as passenger transport services and healthcare services. In this regard, cost of passenger transport services contributed 0.2 percentage points to inflation, primarily driven by the growth in passenger transport by sea. However, this was a slowdown from the previous quarter, mirroring slower growths in both passenger transport by air and passenger transport by road. Similarly, costs of healthcare services also contributed 0.2 percentage points, owing to the growth in costs of medicines and health products, as well as outpatient care services.

Meanwhile, the information and communication category, which fell by 11.1% (-1.0 percentage points) exerted the most downward pressure on inflation during Q1-2024, further down from -10.5% recorded during the preceding quarter. This largely stemmed from the continued decline in the cost of information and communication services, primarily due to the fall in prices of mobile communication services. The reduction in cost of mobile communication services mainly reflected the lower unit prices in mobile broadband provided by telecommunication companies. Further, the fall in price of mobile telephone equipment also contributed to the decline in the cost of information and communication.

As for other major negative contributors, energy-related items in the CPI¹⁵ observed a decline of 3.8% in Q1-2024 (-0.2 percentage points), a significant turnaround from the growth of 3.3% recorded in Q4-2023. This was also the

Figure 13: Contribution of Food Categories to CPI Inflation (National), Q1-2024



Source: Maldives Bureau of Statistics

major contributor to the quarterly deceleration in inflation. The decline in prices of energy-related items mainly stemmed from the fall in the cost of electricity to -4.1%, after recording 5.1% in Q4-2023. This was owing to the Ramadan discount given by the government on the electricity bill in March 2023. In addition, the price of petrol observed an annual decline of 8.4% during the review quarter, further down from -7.3% recorded in Q4-2023. Accordingly, domestic price of petrol averaged at MVR14.33 per litre¹⁶ during the review quarter, reflecting the impact of the downward adjustment of the administered price of petrol by the State Trading Organization (STO)¹⁷ in December 2023, mirroring the drop in global oil prices. Price of crude oil¹⁸ averaged US\$80.6 per barrel during the review quarter, after registering an average of US\$82.1 per barrel in Q4-2023, although higher than US\$79.1 per barrel recorded in Q1-2023. Similarly, the domestic price of petrol was lower compared to an average of MVR14.60 per litre in Q4-2023 and MVR15.97 per litre in Q1-2023.

¹⁵ Energy-related items include the price charged on electricity, gas and other fuels, and price of fuels and lubricants for personal transport equipment.

¹⁶ 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.

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

¹⁸ Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

Further, a decline was observed in the cost of water supply, which went down to -2.5% in Q1-2023, from 0.5% in Q4-2023. This largely mirrored the Ramadan discount given by the government on the water supply bill, similar to the electricity bill. It is also worth noting that, a moderation in pace was observed in costs of restaurant and accommodation services from previous quarter, which contributed significantly to the quarterly deceleration in inflation. This was due to the fall in costs of restaurant and cafés, mirroring the dissipation of base effects of G-GST rate hike.

Public Finance

According to the latest available data¹⁹, total government revenue (excluding grants) increased by MVR370.7 million during Q4-2023²⁰ when compared with Q4-2022 and totalled MVR7.4 billion at the end of the quarter (Figure 14). This was predominantly owing to the significant increment in tax revenue, despite the decline observed for non-tax revenue during the quarter.

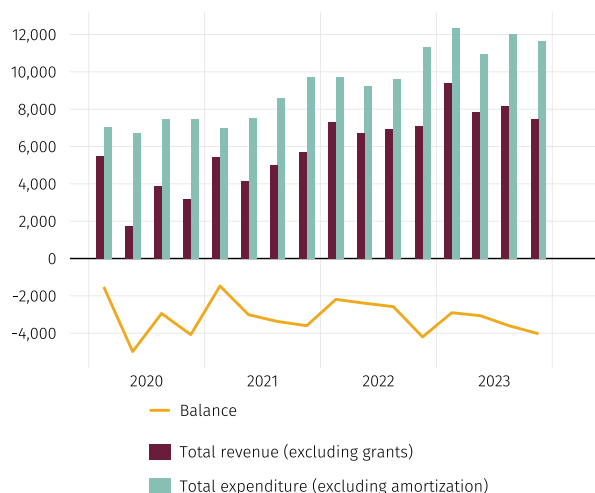
In this regard, tax revenue, which accounted for 74% of the total revenue over the period, registered an increment of MVR1.4 billion in annual terms and totalled MVR5.5 billion in Q4-2023. The increase in tax revenue during the quarter was primarily driven by revenue from goods and services tax (GST). Within the GST category, tourism goods and services tax (T-GST)—the main single source of revenue for the government in this quarter—and general goods and services tax (G-GST), recorded a growth of MVR817.6 million and MVR448.3 million, respectively (Figure 15). The growth in T-GST and G-GST mainly reflected increment in tax rates²¹, along with the increased number of tourist arrivals recorded during the period, which further added to the increase in T-GST. This was followed by an increase in green tax collection, airport service

charge as well as revenue collected as import duties.

Non-tax revenue, which accounted for 26% of total revenue during the period, registered a decline of MVR990.3 million and totalled MVR2.0 billion in Q4-2023, largely due to the declines observed

Figure 14: Government Revenue and Expenditure, 2020 - 2023

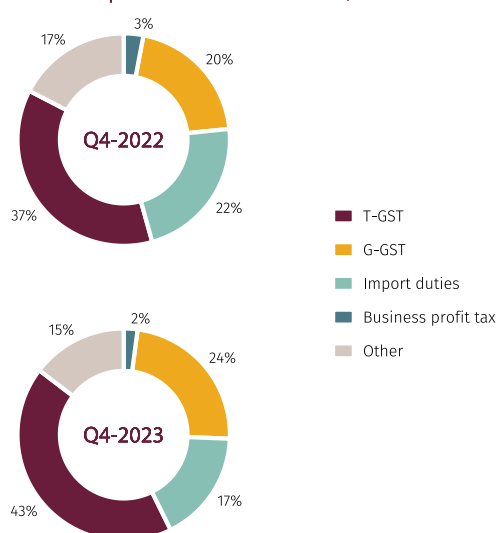
(millions of rufiyaa)



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

¹⁹ Government revenue and expenditure data as of 2 May 2024. These figures might vary due to ongoing data reconciliation.

²⁰ Data for Q1-2024 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%.

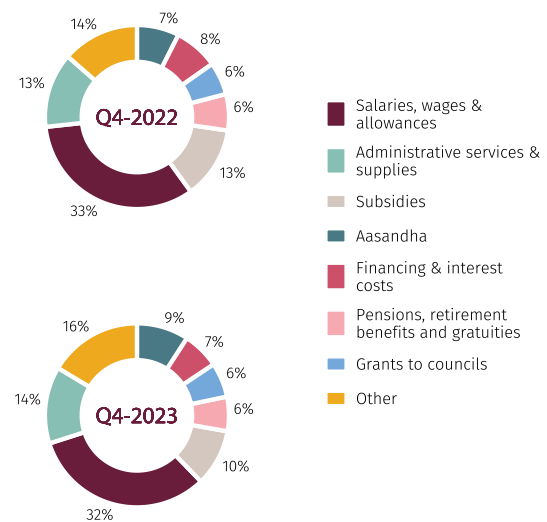
in most of the major non-tax revenue categories, especially from fees and charges. The decline in fees and charges was largely due to the MVR870.9 million reduction observed for other fees and charges, which can be attributed to the decrease in earnings collected as lease period extension fees. Following this, declines were observed for interest, profit, and dividends—driven by the decrease in interest and profits, which fell by MVR316.7 million. In contrast, the other non-tax revenue category observed an increment of MVR135.3 million in annual terms, and totalled MVR186.6 million, in the review quarter. The increase in the other non-tax revenue was attributed to the increase in cross subsidy earnings²².

Total expenditure (excluding debt amortisation) recorded an increase of MVR323.5 million in annual terms and totalled around MVR11.7 billion during Q4-2023. This stemmed primarily from the increase in recurrent expenditure, which posted an annual growth of MVR972.0 million in the review quarter. Recurrent expenditure, which accounted for 69% of total expenditure, totalled around MVR8.0 billion in the review quarter (Figure 16). The growth in recurrent expenditure reflected the significant growth in administrative and operational expenses, which rose by MVR601.9 million. This mirrored the rise in spending on grants, contribution, and subsidies, which grew by MVR361.0 million in annual terms, followed by increased spending on administrative services and administrative supplies, which rose by MVR101.6 million and MVR57.8 million, respectively. With regard to expenditure on grants, contributions, and subsidies, the growth was mainly driven by the increase in expenditure on the national health scheme, Aasandha. Meanwhile, expenditure on salaries and wages, which constitutes the major component of recurrent expenditure, rose by MVR282.4 million, primarily owing to the increase

of MVR147.2 million in allowances, followed by salaries and wages paid to employees.

Capital expenditure, which accounted for 31% of total expenditure, registered a significant decline of MVR648.5 million in annual terms and totalled MVR3.6 billion in Q4-2023 compared with MVR4.3 billion in Q4-2022. This primarily reflected significant declines in all major categories except for capital equipment. As such, the highest decline stemmed from reduced expenditure on development projects and investment outlays, which observed a decrease of MVR418.6 million during the quarter. This decline was largely attributed to the substantial decline of MVR422.7 million in investment outlays. Further, expenditure on infrastructure assets also plunged by MVR322.4 million, stemming from the reduced spending on roads, bridges, and airports during the review quarter.

Figure 16: Composition of Recurrent Expenditure, 2022 - 2023



Source: Ministry of Finance

²² Cross-subsidy regulation (2022/R-125) outlines that the state could allocate islands, land plots, or lagoons for tourism purposes to private financiers or contractors to carry out projects with socioeconomic benefits.

Monetary Developments

Monetary Policy

The main objective of the MMA’s monetary policy is to maintain price stability conducive to the sustainable growth of the economy. The MMA’s monetary policy framework remained unchanged in Q1-2024 and centred on maintaining the exchange rate peg with the US dollar within the horizontal band of MVR10.28 and MVR15.42, by conducting foreign exchange market intervention operations and absorbing the surplus liquidity of Maldivian rufiyaa in the banking system through the overnight deposit facility (ODF).

Broad Money

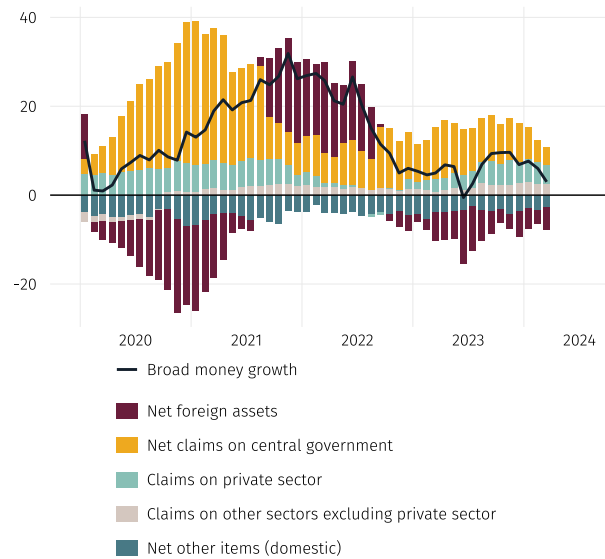
Broad money (M2 or money supply) totalled MVR60.4 billion, recording an annual growth of 3% at the end of March 2024. However, this is a deceleration compared to the growth of 7% recorded at the end of December 2023 (Figure 17). Meanwhile, reserve money stood at MVR12.3 billion, observing an annual decline of 5% at the end of March 2024, further down from the marginal decline recorded at the end of December 2023.

On the components side, the deceleration in broad money growth reflected a decline in the transferable deposit base (demand deposits), together with a slowdown in the growth of other deposits (savings and time deposits) of the banking system. In contrast, currency outside depository corporations recorded an acceleration over the review period (Figure 18).

Demand deposits—which accounted for 70% of the money supply during the review period—observed a decline of 2%; after increasing by 1% at the end of December 2023. This largely stemmed from a decline in such deposits denominated in foreign currency, together with a marginal decline in such deposits denominated in local currency.

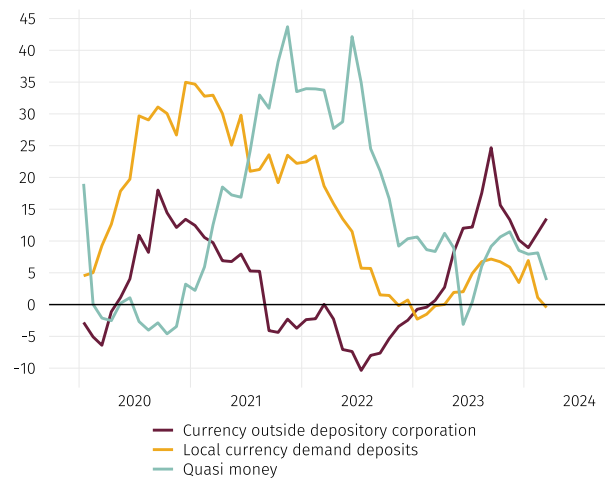
Other deposits—which accounted for 24% of money supply—posted a growth of 21% at the end of March 2024, albeit a slowdown from the 24% growth registered at the end of December 2023. This largely reflected a deceleration in time deposits denominated in local currency as well as such deposits denominated in foreign currency from the previous quarter. However, accelerations

Figure 17: Contribution to Broad Money, 2020 - 2024 (annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

Figure 18: Components of Broad Money, 2020 - 2024 (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.

were observed in savings deposits denominated in both foreign and local currency. Further, currency outside depository corporations—which accounted for 6% of money supply—observed a growth 14% at the end of March 2024, up from the 10% growth recorded at the end of December 2023.

On the sources side, the deceleration in broad money growth primary reflected the slowdown in growth in net domestic assets (NDA), while a decline was observed in net foreign assets (NFA) of the banking system. In terms of annual changes, NFA recorded a decline of 22% at the end of March 2024. The decline in NFA of the banking system was owing to a decrease in NFA of the MMA together with a fall in NFA of the commercial banks. In this regard, the decrease in NFA of the MMA stemmed from the decline in foreign asset accumulation, despite a decrease in foreign liabilities, which largely mirrored the repayment of foreign currency swap in December 2023, which was availed from the RBI in December 2022. Similarly, the fall in NFA of the commercial banks mirrored a reduction in foreign assets despite a marginal decline in foreign liabilities during the period. As such, the reduction in foreign assets was mainly on account of the decline in foreign currency other deposits held abroad.

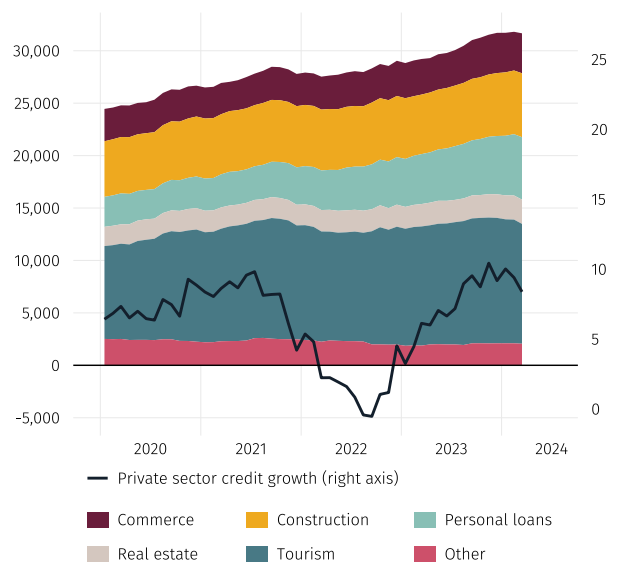
Meanwhile, the growth rate of NDA decelerated to 10% at the end of March 2024, from 16% recorded at the end of December 2023. Nevertheless, the annual growth in NDA was primarily driven by the increase in NDA of the commercial banks together with NDA of the MMA. The increase in NDA of the commercial banks was mainly driven by the increase in commercial banks’ credit to the private sector and public non-financial corporations, which grew by MVR2.5 billion and MVR1.6 billion, respectively. In addition, net claims on central government (NCG) recorded a growth of MVR848.5 million, primarily reflecting the annual expansion in government securities investments. Likewise, the increase in NDA of the MMA mainly stemmed from an increase in NCG

by the MMA, which also outpaced the increase in 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 and December 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 8% (MVR2.4 billion) and stood at MVR31.7 billion at the end of Q1-2024, a slight deceleration from the growth rate of 9% recorded in Q4-2023 (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 36% of total private sector credit) registered an annual growth of 1%, a significant deceleration from the 6% annual growth recorded in December 2023. This primarily mirrored the growth in credit extended for renovation of resorts which was largely offset by the decline in credit extended as working capital. Meanwhile, credit extended to the construction sector grew by 7% in the review quarter, an acceleration from 3% growth recorded in the previous quarter.

Figure 19: Private Sector Credit, 2020 - 2024
(millions of rufiyaa, annual percentage change)



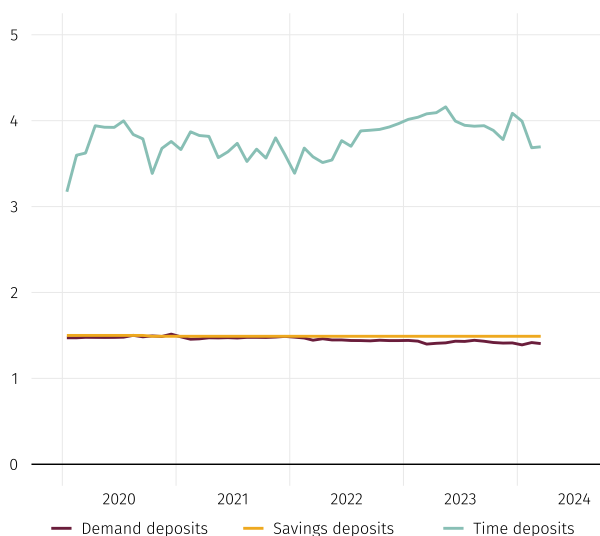
Source: Maldives Monetary Authority

This was mainly due to the growth in credit lent as residential or housing loans. Further, credit extended as personal loans expanded significantly and recorded an annual growth of 25%, which was the largest sectoral increase during the review quarter, reflecting the rise in credit extended through credit cards and for consumer durables. Moreover, credit extended to the commerce sector observed a significant growth, stemming from the rise in credit for wholesale and retail businesses.

Interest Rates

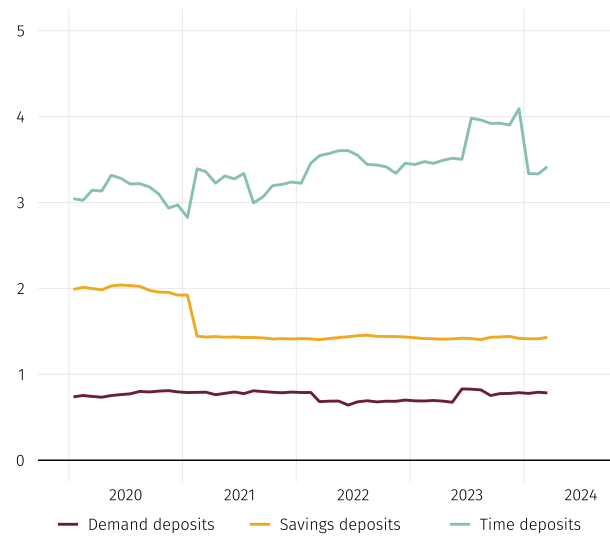
As for interest rates, the rate on both foreign and local currency denominated demand deposits observed increases at the end of March 2024. Meanwhile, the rate on local currency savings deposits remained broadly unchanged, although the rate on foreign currency savings deposits observed an increase in 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 decreases over the period (Figure 20 and 21). With regard to the interest rates on loans to the private sector, the interest rate on both foreign and local currency denominated private sector loans recorded increases during the period (Figure 22).

Figure 20: Interest Rate on National Currency Deposits, 2020 - 2024 (weighted average)



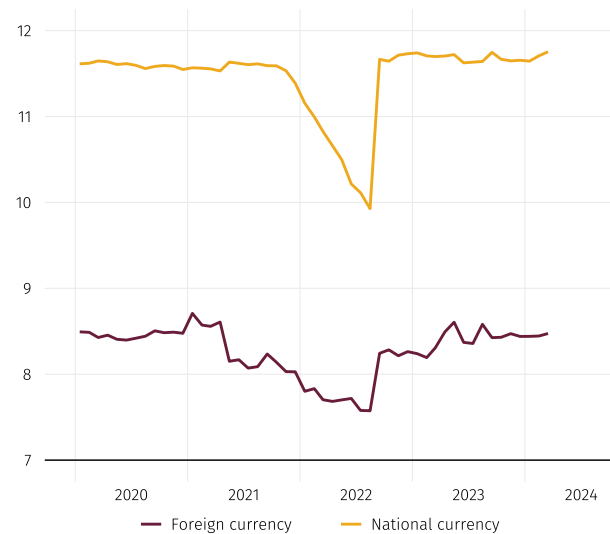
Source: Maldives Monetary Authority

Figure 21: Interest Rate on Foreign Currency Deposits, 2020 - 2024 (weighted average)



Source: Maldives Monetary Authority

Figure 22: Interest Rate on Private Sector Loans and Advances, 2020 - 2024 (weighted average)



Source: Maldives Monetary Authority

Financial Sector

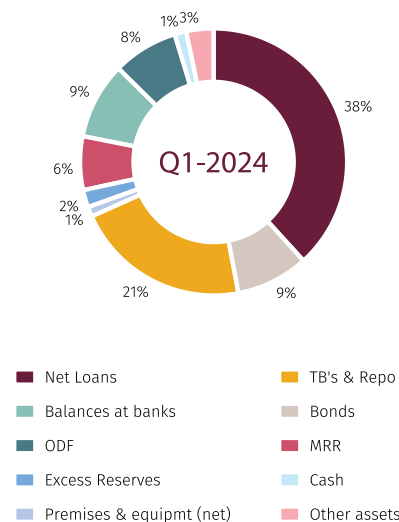
Banking Sector

The banking sector continued to perform well, with strong capital and adequate liquidity and profitability indicators at the end of the first quarter of the year. The total Risk Based Capital (RBC) ratio stood at 49.3%, well above the minimum regulatory requirement of 12.0%, due to a large portion of assets in low-risk categories such as investments in treasury bills. Furthermore, the leverage ratio, measured by tier 1 capital to assets, remained at 21.6%, significantly higher than the 5.0% minimum requirement.

The asset base reached MVR92.2 billion with an increase of 1% in quarterly terms, on account of the growth in deposits. With regard to deposits, foreign currency deposits registered a quarterly growth of 7% (or MVR2.0 billion), which is attributed to the improved tourism sector performance, while a drop of 2% was observed in local currency deposits. The gross loan portfolio remained at the same level as the previous quarter, at MVR37.3 billion, mainly due to two large, long overdue loans being written off by one bank totalling MVR0.4 billion, which largely offset the credit growth in the majority of the banks. Loans net of loan-loss provisions accounted for 38% of the asset portfolio (Figure 23). The absolute value of non-performing loans (NPLs) declined by 24% (or MVR0.4 billion) in quarterly terms mainly on account of the loan write-offs. As a result, the NPLs to total loans ratio decreased to 3.7% from 4.9% at the end of the previous quarter. Specific loan loss provisions covered 123.0% 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 quarter. Liquid assets included treasury bills, which accounted for 21% of the asset portfolio; followed by cash and bank balances at 11% of assets; ODF at 8%; and excess reserves at 2%.

Figure 23: Net Asset Composition of Banking Industry, Q1-2024



Source: Maldives Monetary Authority

During the first quarter of the year, banks earned a pre-tax profit of MVR1.1 billion with a slight increase of MVR4.0 million when compared to the first quarter of the previous year. Profits after tax registered a slight decline of 1% and amounted to MVR830.5 million. While the quarterly net interest income earned by the banks rose significantly, by 16% or MVR158.2 million year-on-year, it was largely offset by the increase in the non-interest expense and provision expense and decline in non-interest income earned during the quarter. With the decline in profit after tax, the profitability ratios, return on average assets (ROA) and return on average equity (ROE) decreased as compared to the same period of the previous year. ROA decreased from 3.9% to 3.6% and ROE decreased from 16.6% to 14.8%.

Finance Companies

Financing companies continued to perform well and recorded total assets of MVR4.1 billion at the end of Q1-2024, with no significant growth compared to the preceding quarter.

The capital adequacy ratios were strong and maintained above the minimum regulatory requirements, with total capital to risk-weighted assets ratio and leverage capital ratio at 56% and 52% respectively.

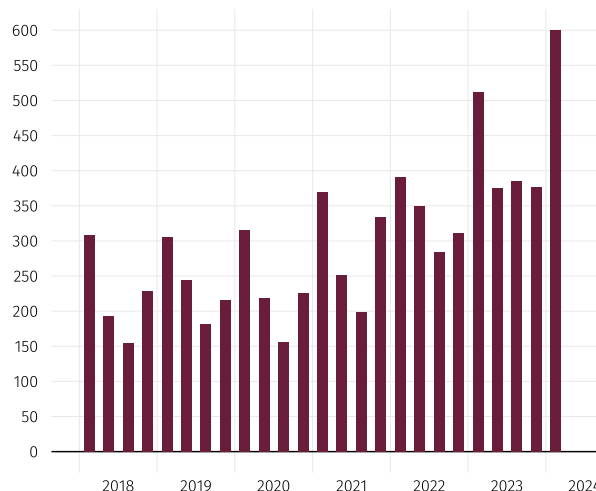
Lending increased by 1% from the previous quarter, with gross loans at MVR3.5 billion, while in annual terms, gross loans increased by 7% (or MVR241.2 million). Absolute NPLs increased by 27%, owing to the increase in non-performing loans of two out of the three institutions. As a result, the NPL ratio increased to 12.4% from 9.8% in the previous quarter. The specific loan-loss provisions covered 52.0% of the NPLs, which was much lower at 40.7% a year ago.

Quarterly pre-tax profits increased by 34%, with profits amounting to MVR19.3 million (profit after tax of MVR13.1 million), on account of the increase in interest income during the first quarter. Consequently, the industry profitability ratios, ROA and ROE, improved slightly from 0.8% and 1.6% to 1.3% and 2.5%, respectively, compared to profitability ratios recorded at the end of Q1-2023.

Insurance Industry

The insurance industry reported a strong performance in the first quarter of 2024, driven by growth in gross written premiums (GWP) coupled with a declined gross claims pay-out which led to higher overall profitability. The GWP increased by 17%, rising from MVR511.2 million in Q1-2023 to MVR600.0 million in Q1-2024 (Figure 24). This growth in GWP is primarily attributed to higher premiums registered in health insurance, as well as increases in aviation and public liability classes of insurance. Health, fire, and marine insurance contributed 35%, 29%, and 8% to the quarterly GWP, respectively (Figure 25). The net written premium (NWP) to annualised equity ratio was 103%, and the equity to assets ratio stood at 28%, indicating that insurance companies maintained adequate capital reserves relative to their underwriting and retention activities.

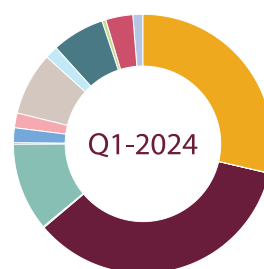
Figure 24: Gross Written Premium, 2018 - 2024 (millions of rufiyaa)



Source: Maldives Monetary Authority

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

Figure 25: Premium Contributions by the Classes of Insurance, Q1-2024



Source: Maldives Monetary Authority

Note: Classwise distribution of GWP excludes inward reinsurance.

Total assets of insurance companies amounted to MVR3.3 billion at the end of Q1-2024, reflecting a 30% increase compared to the corresponding quarter in 2023. Investments represented 31% of the asset portfolio, totalling MVR1.0 billion (Figure 26). A significant proportion of the investment portfolio comprised debt securities, constituting 52% of the total investments, while fixed deposits accounted for 21% of the total investments.

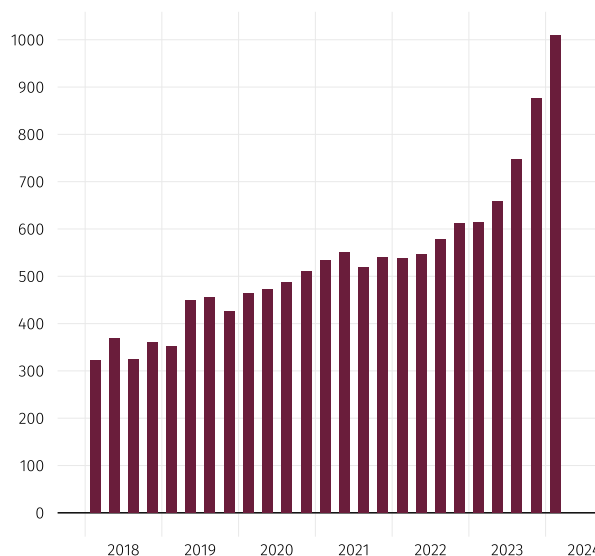
The retention ratio increased marginally from 40% in Q1-2023 to 47% in Q1-2024, primarily due to the rise in GWP in the health insurance class, which tends to have an exceptionally high retention level (Figure 27).

Gross claims paid decreased by 17% in Q1-2024 compared to Q1-2023. In contrast, a slight increase of 4% was experienced in net incurred claims, due to adjustments to insurance policy liabilities made in connection with previous quarters, which had higher claims. Net incurred claims represent the portion of claims retained by insurers after reinsurance adjustments.

The net loss ratio (net incurred claims to net earned premium), a key indicator of underwriting profitability, decreased to 50% in Q1-2024 from 68% in Q1-2023, due to the increase in premiums being higher than the increase in net claims (Figure 28). The net expense ratio, which includes management and distribution expenses, also declined to 23% from 33%. Consequently, the combined ratio, which measures overall underwriting profitability by summing the net expense ratio and net loss ratio, decreased to 72% in Q1-2024 from 100% in Q1-2023. These improvements in profitability are attributed to a significant increase in net earned premiums and a reduction in management and distribution expenses during Q1-2024 compared to the corresponding period in 2023. In addition, measures undertaken by companies in preceding quarters to counter the effects of medical inflation, contributed to a 54% decline in combined ratio in the health class during the quarter.

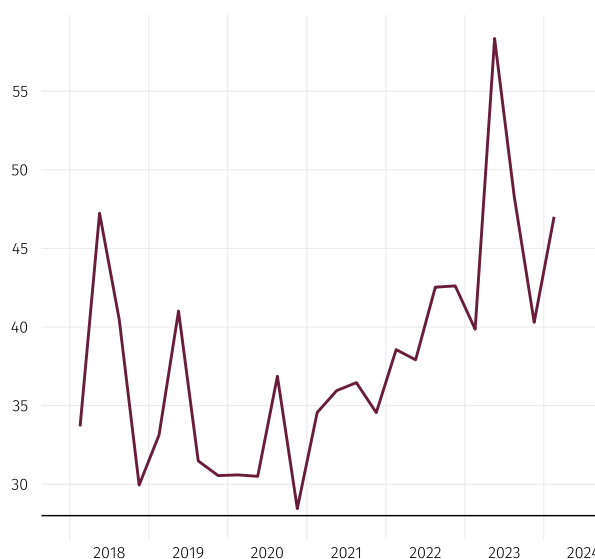
The profit after tax for Q1-2024 showed a significant increase of 341% from the corresponding period of the previous year and amounted to MVR61.4 million, while pre-tax profits were MVR72.0 million (Figure 29). Key profitability ratios of the past four quarters, ROA and ROE, were 3.7% and 12.4%, respectively, indicating strong profitability over the period.

Figure 26: Investments, 2018 - 2024
(millions of rufiyaa)



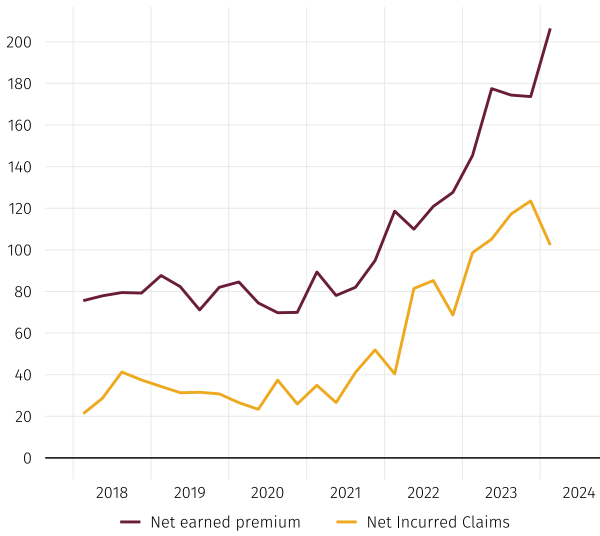
Source: Maldives Monetary Authority

Figure 27: Retention Ratio, 2018 - 2024
(percent)



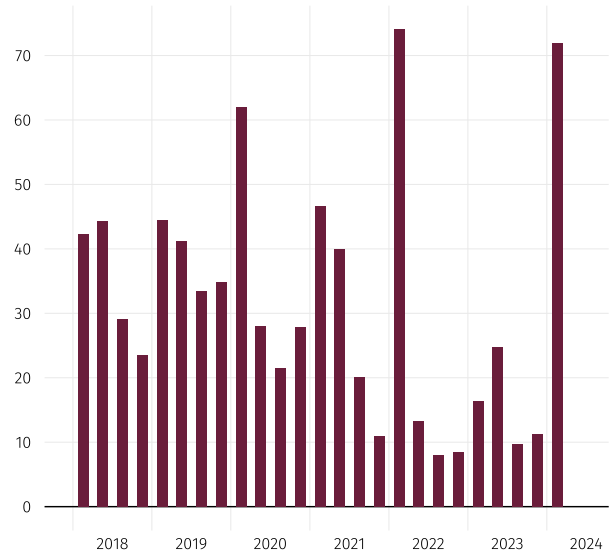
Source: Maldives Monetary Authority

Figure 28: Net Earned Premium vs Net Incurred Claims, 2018 - 2024 (millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 29: Pre-tax Profit, 2018 - 2024 (millions of rufiyaa)



Source: Maldives Monetary Authority

External Trade

Merchandise Trade Balance

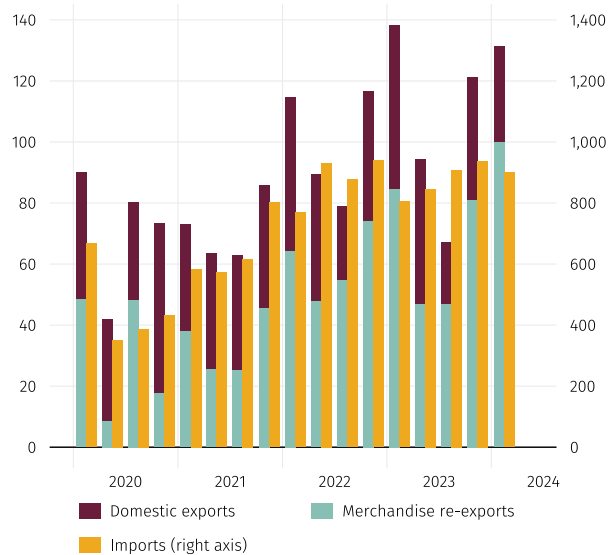
The merchandise trade deficit widened from US\$669.3 million in Q1-2023 to US\$768.5 million in Q1-2024 reflecting stronger import growth and the decline in exports. However, compared to Q4-2023, the merchandise trade deficit registered a decline of 6%.

Merchandise Exports

Total merchandise exports (f.o.b.) which comprises domestic exports and re-exports, registered an annual decline of 5% (US\$7.1 million) in Q1-2024 and totalled US\$131.3 million. The fall in total merchandise exports (f.o.b.) was caused by the steep decline in domestic exports, which has been observing decreases over the last two consecutive quarters. However, the fall in domestic exports was partially offset by the significant rise in merchandise re-exports during the review quarter (Figure 30). In Q1-2024, merchandise re-exports rose by 18% (US\$15.1 million) to total US\$99.8 million mainly reflecting the significant growth in jet fuel re-export, which registered an increase of 17% (US\$11.3 million) during the review quarter. This hike in jet fuel re-exports can be attributed to the annual increase in tourist arrivals, amid the growth in flight movements in Q1-2024.

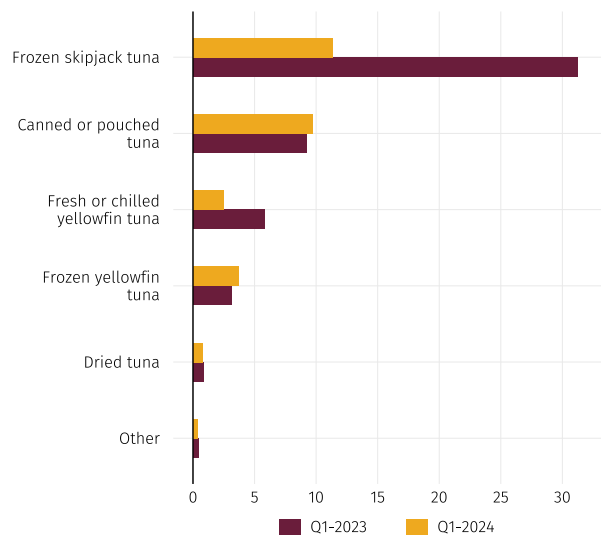
Domestic exports—which mainly comprise fish and fish products—plunged by 41% (US\$22.2 million) during Q1-2024 and totalled US\$31.5 million. This was primarily due to the significant reduction in export earnings from frozen skipjack tuna, which observed a decline of 64% (US\$19.9 million), following declines over the last two consecutive quarters. The decline in export earnings reflected both the 57% drop in the volume of such exports, as well as the 21% drop in skipjack tuna prices in the Bangkok frozen market during the review quarter which averaged US\$1.4 per kilogram in Q1-2024, a decline from

Figure 30: Total Trade Summary, 2020 - 2024
(millions of US dollars)



Source: Maldives Custom Service

Figure 31: Composition of Fish Export Earnings, 2023 - 2024
(millions of US dollars)

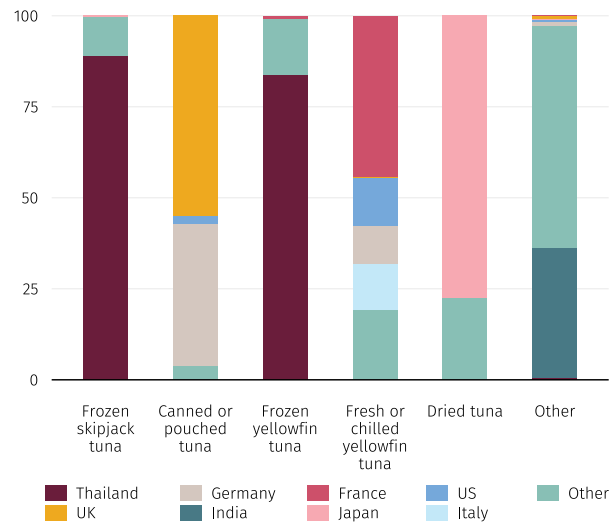


Source: Maldives Customs Service

US\$1.8 per kilogram recorded in Q1-2023 (Figure 31). Additionally, declines were also observed in export earnings from fresh or chilled yellowfin tuna for the third consecutive quarter. In Q1-2024, export earnings from fresh or chilled yellowfin tuna dropped by 57% (US\$3.3 million), with the volume of such exports declining by 55%, indicating a decline in unit prices. Meanwhile, earnings from canned or pouched tuna exports increased by 5% (US\$0.5 million) during the review quarter, despite a decline in the volume of such exports in Q1-2024. In tandem with these developments, the volume and earnings from frozen yellowfin tuna exports also increased, registering an 18% (US\$0.6 million) growth in earnings during the review quarter

As for the direction of trade, Asia was the major continental export destination during the quarter, which accounted for 58% of domestic exports during Q1-2024—a decline from the 70% recorded in the corresponding quarter of 2023. Thailand continued to remain as the dominant Asian export market, despite observing a significant decline in export earnings which plunged by 58% (US\$18.5 million) and subsequently accounted for 42% of total domestic exports during the review quarter. Additionally, Bangladesh emerged as the second largest export market within the region (4%) followed closely by India (4%). Meanwhile, Europe cemented its standing as the second largest continental export destination with a market share of 39% in Q1-2024 (Figure 32). The UK strengthened its position as the top export market within the region (17%). Concurrently, Germany—the second largest European export destination (13%), followed by France (4%).

Figure 32: Direction of Trade by Domestic Export Categories, Q1-2024 (percent)



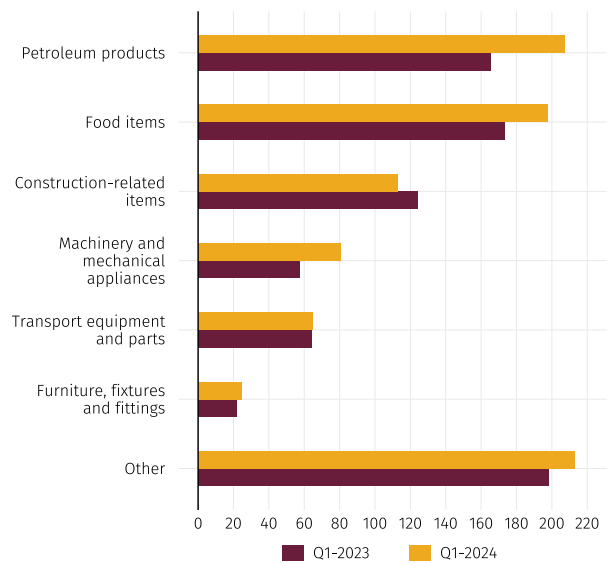
Source: Maldives Customs Service

Merchandise Imports

Total merchandise imports (c.i.f) observed an annual growth of 12% (US\$95.5 million) during Q1-2023, and totalled US\$899.8 million, reflecting modest growths in most major import categories which was partly offset by a considerable decline in import expenditure on construction-related items, which dropped 9% (US\$11.3 million) during the review quarter. Among the major import categories that recorded growths during the quarter, the largest increase was observed for import expenditure on petroleum products, which rose by 25% (US\$41.9 million), mainly mirroring the surge in diesel (marine gas oil) imports, which recorded a substantial rise of 27% (US\$34.8 million) during the review quarter. Additionally, food items and machinery and mechanical appliances and parts observed notable annual growths of 14% (US\$23.9 million), and 40% (US\$23.0 million), respectively (Figure 33). Furthermore, import expenditure on electrical and electronic machinery and equipment registered a notable growth of 43% (US\$19.0 million) during the review quarter.

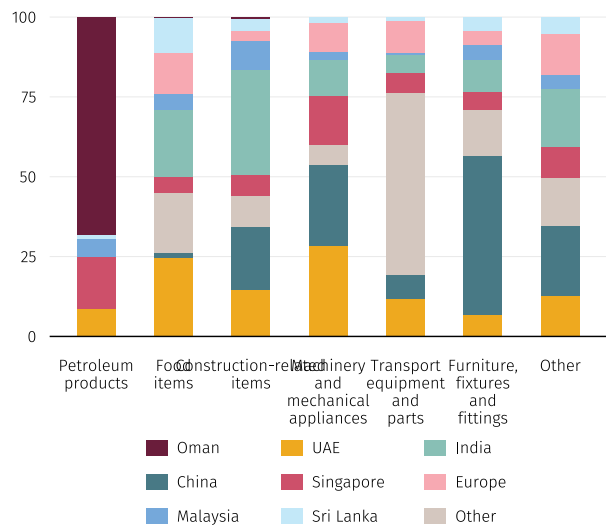
With regard to the direction of trade, Asia remained the largest continental source of imports, accounting for 85% of total merchandise imports during Q1-2024—a rise from the 83% recorded in Q1-2023 (Figure 34). Moreover, Europe maintained its position as the second-largest continental source of imports during the review quarter, accounting for 8%, a decline from the 11% observed in Q1-2023. This decline can be mainly attributed to the significant drop in imports from France, which decreased by 64% during the review quarter. During Q1-2024, Oman and the UAE accounted for the largest share of imports, with each country accounting for 16% during the review quarter. Additionally, India weakened its standing in terms of its share of imports and accounted for 15% of total merchandise imports during the review quarter, a decline from the 17% registered in Q1-2023. Meanwhile, China strengthened its

Figure 33: Composition of Imports, 2023 - 2024
(millions of US dollars)



Source: Maldives Customs Service

Figure 34: Direction of Trade by Import Categories, Q1-2024
(percent)



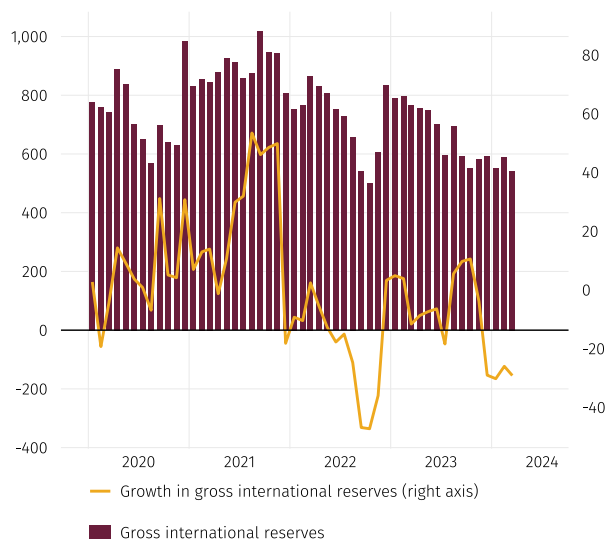
Source: Maldives Customs Service

standing within the Asian region, accounting for 12% of total merchandise imports, a rise from the 10% recorded in Q1-2023. Meanwhile other notable import destinations include, Singapore, Malaysia and Sri Lanka, with the former accounting for 10% and the latter two countries accounting for 5% each, of total merchandise imports in Q1-2024.

Gross International Reserves

Gross international reserves (GIR)²³ decreased to US\$541.8 million at the end of Q1-2024, registering an annual decline of 29% (US\$222.9 million), when compared with the corresponding quarter of 2023. Similarly, when compared with the preceding quarter, GIR registered a decline of 8% (US\$48.8 million) (Figure 35). The annual decrease in GIR was due to decrease in short-term foreign liabilities, together with repayments of government securities during the period. The decline in short-term foreign liabilities primarily reflects the repayment of the US\$100 million swap in December 2023, which was availed from the RBI in December 2022.

Figure 35: Gross International Reserves, 2020 - 2024
(millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

²³ 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, 2021 - 2024

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

	2021	2022	2023	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
Real Sector								
Tourist arrivals	138	27	12	21	6	14	7	15
Bednights of resorts	156	20	-2	6	-6	-7	-3	9
Operational capacity of resorts	69	10	5	6	5	5	6	5
Occupancy rate of resorts (%)	65	71	66	82	59	57	66	85
Average stay (days)	8.8	8.0	7.6	8.0	7.3	7.5	7.6	7.9
Fish purchases	11	-8	19	34	26	-17	18	-34
Prices ¹								
Total (Republic)	0.6	2.3	2.9	3.9	3.1	2.5	2.3	0.6
Total excluding fish	0.6	2.2	2.9	3.8	3.1	2.5	2.1	0.2
Food and non-alcoholic beverages excluding fish	2.4	4.5	6.2	8.0	6.1	5.3	5.6	4.3
Government Securities (millions of rufiyaa)								
Government securities outstanding	44,000.8	53,139.8	66,848.2	58,945.5	61,817.0	62,397.9	66,848.2	67,746.7
Treasury bonds	13,589.9	17,536.5	26,023.5	21,851.2	21,809.4	23,297.6	26,023.5	26,260.3
Treasury bills	30,411.0	35,603.3	40,824.6	37,094.3	40,007.6	39,100.3	40,824.6	41,486.4
MMA	97.4	87.9	95.7	87.9	82.5	95.8	95.7	95.7
Commercial bank	18,381.7	20,668.7	21,650.2	21,398.5	22,132.3	21,370.7	21,650.2	20,385.0
Others	11,931.9	14,846.6	19,078.7	15,608.0	17,792.8	17,633.8	19,078.7	21,005.6

Source:

Ministry of Tourism; Ministry of Fisheries and Ocean Resources; 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.

	2021	2022	2023	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
Money and banking								
Broad money	26	6	7	5	-1	9	7	3
Net foreign assets	114	-14	-27	-21	-42	-27	-27	-22
Net domestic assets	9	13	16	17	16	18	16	10
Net claims on central government	12	20	15	23	19	17	15	7
Claims on other sectors	6	6	12	6	8	12	12	12
o/w Private sector	4	5	9	6	7	10	9	8
Reserve money	1	2	0	-6	0	7	0	-5
Monetary operations ¹								
Open market operations ²	0	0	0	0	0	0	0	0
Overnight Deposit Facility	44	34	19	17	15	22	21	8
External trade								
Merchandise exports (f.o.b.)	0	40	5	21	6	-15	4	-5
Domestic exports	-7	5	2	7	14	-17	-5	-42
o/w Fish exports	-10	5	3	9	16	-17	-5	-45
Re-exports	9	80	8	32	-2	-14	9	18
Merchandise imports (c.i.f.)	40	37	-1	5	-9	4	0	12
o/w Food	50	19	-1	3	-10	1	1	14
o/w Petroleum	72	83	-9	4	-33	0	2	25
o/w Construction-related imports	6	47	7	19	19	-6	3	-9

Source:

Ministry of Tourism; Ministry of Fisheries and Ocean Resources; 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.

	2021	2022	2023	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1
Direction of Trade of Imports of Goods (as a percentage of total)								
o/w Singapore	10	9	9	10	9	8	10	10
o/w India	12	14	16	17	16	15	14	15
o/w Oman	13	18	15	15	15	17	14	16
o/w UAE	13	12	13	14	13	12	14	16
o/w Europe	11	10	9	11	8	10	9	8
Direction of Trade of Exports of Goods (as a percentage of domestic)								
o/w Thailand	46	49	54	59	56	30	57	42
o/w India	4	4	3	3	3	6	2	4
o/w UK	7	9	14	11	15	21	12	17
o/w France	4	4	3	4	2	5	4	4
o/w Germany	11	9	8	4	9	15	7	13
External Reserves								
Official reserve assets (millions of US dollars)	805.8	832.1	590.5	764.6	702.2	592.7	590.5	541.8

Source:

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

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