MALDIVES

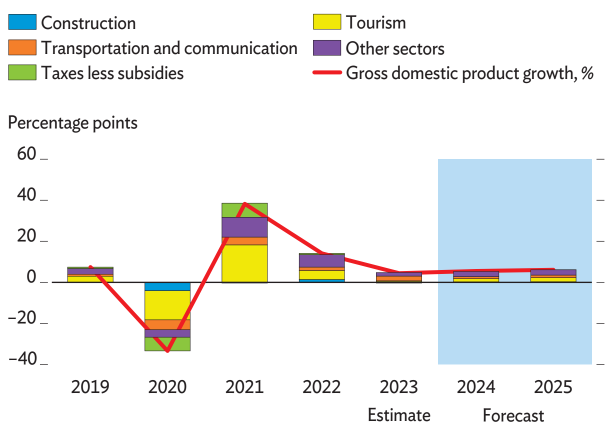
Economic growth softened in 2023 along with tourism earnings despite increased tourist arrivals. Inflation rose with a hike in the goods and services tax rate, and the current account deficit widened as the service surplus shrank. With construction growth and tourism expansion, the outlook is for an economic upturn in 2024 and 2025, with inflation rising in 2024 but remaining low. Scant agricultural production and extreme import dependence threaten food security, especially as risks intensify from climate change and require steps to increase crop yields, including through the adoption of new agricultural techniques.

Economic Performance

Preliminary estimates show that the economy grew by 2.7% year on year in the first 3 quarters of 2023 (Figure 2.18.1). Fisheries, transportation and communication, construction, and real estate performed strongly in the period despite a dip in construction in the third quarter (Q3). However, tourism grew by just 0.01%, and its value added contracted in Q2 and Q3. All sectors, especially tourism, are estimated to have grown solidly in Q4, resulting in 4.4% GDP growth in 2023.

Figure 2.18.1 Supply-Side Contributions to Growth

Growth came from tourism and associated sectors, such as transportation and communication, and construction.



Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

Tourist arrivals in Maldives grew by 12.1% in 2023 but without translating into higher tourism receipts. The increase in arrivals surpassed the pre-pandemic level by 10.3%, boosted by resumed flights from the People's Republic of China (PRC) in January 2023. The PRC accounted for 84.9% of the increase in tourist arrivals. Its share of the tourism market in 2023 was 10.00%, placing it behind India at 11.14% and Russia at 11.13%. Initial estimates indicate that travel receipts contracted by 6.0% year on year as advance travel sales for 2023 were booked in Q4 2022 to avoid a planned hike in 2023 of the goods and services tax (GST) rate. The average stay shortened to 7.6 days from 8.0 days in 2022 (Figure 2.18.2).

On the demand side, indications are that government investment expanded and fish exports recovered. Public infrastructure spending, largely on transport and road infrastructure and land reclamation, grew by 36.2% in 2023, exceeding the approved 2023 budget by 17.7%. Fisheries grew with the volume of fish exports rising by 3.5% in 2023 following a decline of 1.0% in 2022, though export value moderated on lower prices. Lack of data precludes further analysis.

Average inflation edged up to 2.9% in 2023 from 2.3% in 2022. The increase in the GST rate by 40.0% for the general sector and 33.3% for the tourism

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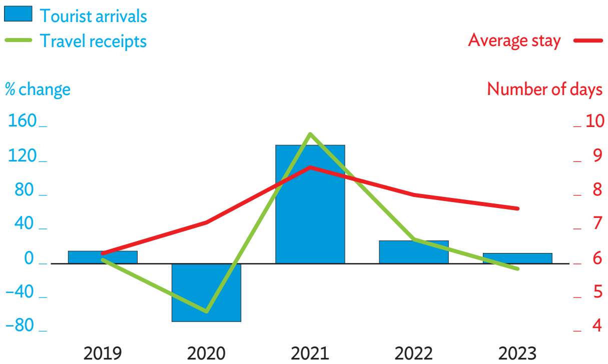
Figure 2.18.2 Tourism Indicators

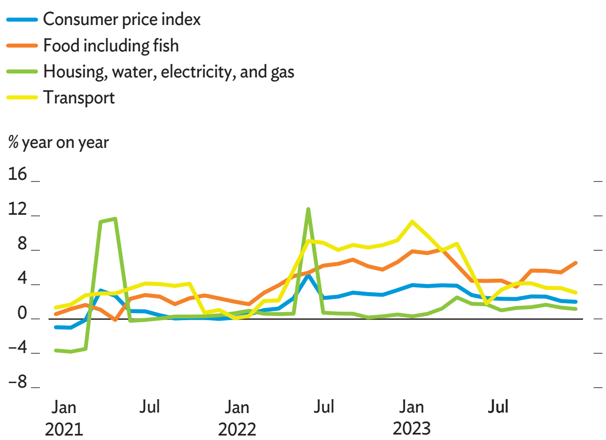
Travel receipts contracted as the average stay shortened, but tourist arrival growth remained strong in 2023.



Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

Figure 2.18.3 Inflation

Inflationary pressure markedly rose during the first quarter of 2023 due to an increased GST rate.



GST = goods and services tax.

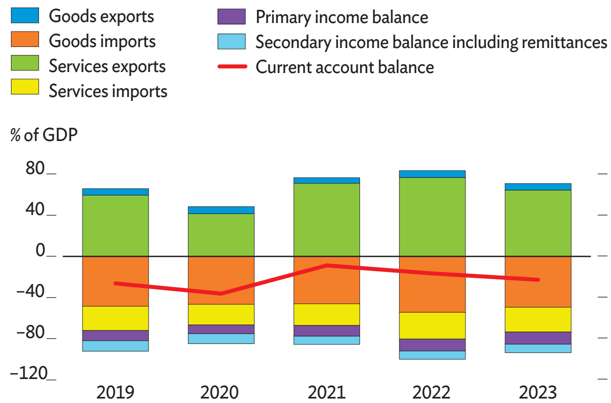
Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

sector from 1 January 2023 pushed up prices for most commodities (Figure 2.18.3). The increase was tempered by fiscal subsidies.

The current account deficit widened to equal 22.4% of GDP in 2023, from 16.3% in 2022. The larger deficit was mainly due to the service surplus contracting by an estimated 10.6% with lower travel receipts (Figure 2.18.4). With lower foreign exchange earnings from tourism, gross reserves declined by 29.3% to $588.6 million. This provided only 1.4 months of cover for imports of goods and services (Figure 2.18.5).

Figure 2.18.4 Balance of Payments

The current account deficit-to-GDP ratio deteriorated in 2023 due to a smaller service surplus as travel receipts declined.

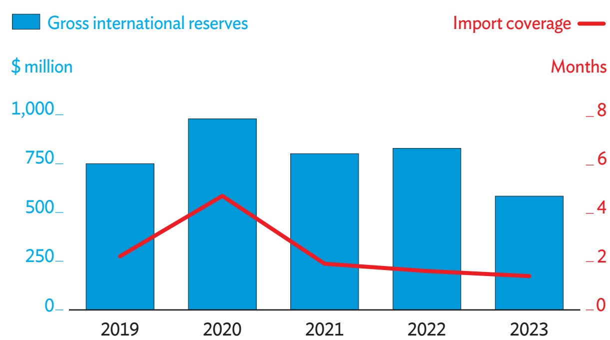


GDP = gross domestic product.

Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

Figure 2.18.5 Gross International Reserves

Foreign reserves substantially dropped in 2023 to just over a month of import cover by the end of 2023.

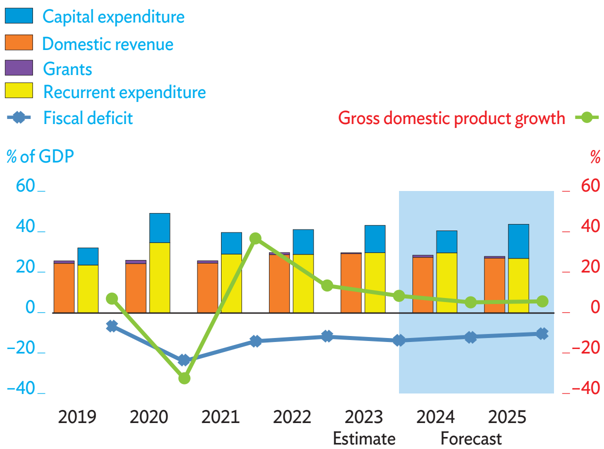


Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

The GST hike boosted fiscal revenue growth in 2023 but not enough to keep pace with higher fiscal expenditure, which widened the fiscal deficit to 14.1% of GDP. This was slightly higher than the government's initial forecast of 13.8% of GDP and 39.0% larger than the previous year. Total revenue including grants expanded by 9.8% to 29.9% of GDP. Government expenditure grew by 17.7% to equal 44.0% of GDP including a Rf6.5 billion supplementary budget that was approved in November 2023 to cover additional current and capital spending and capital contributions to state-owned companies (Figure 2.18.6). The budget deficit was 57.9% externally funded, including a €50 million non-concessional budget-support loan from the Hungarian Export–Import Bank Private Limited.

Figure 2.18.6 Fiscal Indicators

The fiscal deficit is projected to stay elevated in 2024 and 2025.



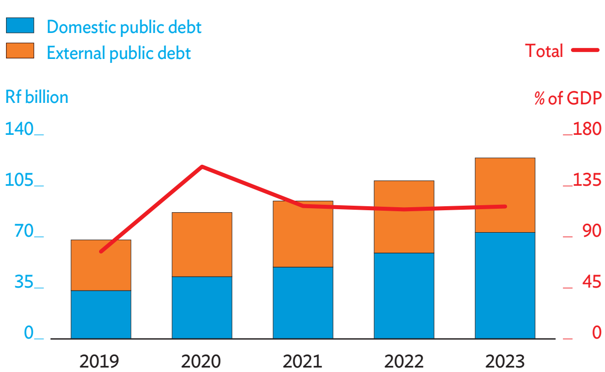
GDP = gross domestic product.

Sources: Maldives Monetary Authority. 2024. Monthly Statistics. February; Ministry of Finance. Maldives Budget 2024.

Total public and publicly guaranteed debt rose to 116.8% of GDP at the end of 2023, 14.5% higher than at the end of 2022 (Figure 2.18.7). External borrowing grew to 48.1% of GDP and was mainly used to finance the fiscal deficit. Domestic public debt climbed to 68.7% of GDP owing to higher central government borrowing, though guaranteed domestic debt dropped by 50.8%. Moody's Investors Service and Fitch Ratings kept Maldives' sovereign ratings at Caa1 stable and B– negative, respectively. However, both agencies underscored rising liquidity risks owing to the widening fiscal deficit and large debt repayment obligations. The International Monetary Fund's 2024 Article IV Mission press release noted that, without significant policy changes, public debt is projected to stay elevated, and Maldives will remain at high risk of external and overall debt distress.

Figure 2.18.7 Public Debt including Guarantees

Total public and publicly guaranteed debt grew in 2023.



GDP = gross domestic product.

Source: Maldives Monetary Authority. 2024. Monthly Statistics. February.

Economic Prospects

The economy will expand by 5.4% in 2024 and 6.0% in 2025 on continued tourism and construction growth (Table 2.18.1). Tourism and related transportation and communication services will account for half of the increase in GDP in both years, while construction will contribute around 5.0%. Receipts from tourism are forecast to rise by an average of 9.0% per year in 2024 and 2025. This is based on an expected average of around 2 million arrivals in 2024 and 2025, assuming a continuation of the trend in tourist arrivals, which rose by 16.9% in the first 2 months of 2024 compared to the same period last year. The government projects a 40.0% increase in tourist arrivals from the PRC as it embarks on massive promotional activites specifically targeting PRC visitors and negotiates additional direct flights from the PRC. It has set the promotion and expansion of tourism as a high priority and is aiming to open 20 new resorts this year and complete the Velana International Airport passenger terminal by Q4 2024 to accommodate higher tourist arrivals. With robust tourism, sectors directly related to travel and tourism, such as transportation and communication and wholesale and retail trade, are expected to expand, which will also strengthen private consumption.

Construction is projected to slow in 2024, given the tight fiscal position, before gradually picking up in 2025. The government has cut down Public Sector Investment Program financing by almost 24.0% this

Table 2.18.1 Selected Economic Indicators, %

Modest economic growth is projected in the next 2 years, with inflation edging up in 2024 before easing in 2025.

	2022	2023	2024	2025
GDP growth	13.9	4.4	5.4	6.0
Inflation	2.3	2.9	3.2	2.5

GDP = gross domestic product.

Note: 2023 inflation is a government estimate.

Sources: Maldives Monetary Authority. 2024. Monthly Statistics. February; Asian Development Bank estimates.

year as compared to 2023, but the program allocation is once again expected to increase by 30.7% in 2025 to support several mega projects. Private infrastructure investments, particularly in tourism and real estate, are also seen to prop up construction activity.

Growth in fisheries will likely be sustained as the new government embarks on the diversification and promotion of the sector. Maldives Fisheries and Ocean Resources Marketing and Promotion Limited is planning to introduce fish products and related services in foreign markets to boost revenues. The government is negotiating with European markets the reduction of taxes levied on its fish exports.

Inflation is expected to rise to 3.2% in 2024 with the removal of blanket subsidies, before gradually easing to 2.5% in 2025. A shift from blanket to targeted subsidies for fuel, electricity, staple food, and sewerage services, aiming to benefit just half of Maldivian households from July 2024, will drive overall inflation up this year, though it will be tempered by easing global commodity prices. Inflation is expected to decline in 2025 on continued moderation of food and energy prices and a high base effect.

Planned subsidy reforms and lower capital expenditure in 2024 will narrow the budget deficit. However, the deficit will remain large at 12.3% of GDP as total revenue is expected to grow by a mere 3.4%. The deficit is projected to decline further in 2025 as higher revenue growth offsets a rise in total expenditure but to stay above 10.0% of GDP. Maldives also faces heightened fiscal pressures, notably from huge debt service obligations combined with large and pesistent primary fiscal deficits, and high refinancing risk. At present, Maldives' external debt service payment is around $300 million per year. The refinancing requirement will climb from 2025 as repayment to Cargill Financial Service International Inc. of a $100 million private placement will fall due, and repayment of a line of credit facility with Exim Bank of India will commence. By 2026, Maldives also needs to settle a $500 million Islamic bond and another $100 million private placement with the Abu Dhabi Fund.

The current account deficit will stay elevated but narrow on higher tourism receipts and easing import prices. The surplus in services is expected to recover on higher travel receipts and improved collection of tax on tourism goods and services. Projected moderation of global commodity prices, particularly oil, will also contribute to tapering the merchandise trade gap. On balance, the current account deficit-to-GDP ratio in 2024 will decline to 16.0% before rising to 17.0% in 2025 on construction-related imports for the government's massive infrastructure investments.

The risks to the outlook are tilted to the downside. Extreme weather conditions from El Niño and geopolitical events may result in higher commodity prices that will worsen both the current account and the fiscal deficits as they could trigger higher subsidies. If realized, these risks could further imperil fiscal and debt sustainability, given Maldives' very high public debt and meager foreign exchange buffers. There is also a risk that tourism earnings will be lower than expected and that the implementation of government projects is delayed, hurting economic growth.

Policy Challenge—Enhancing Food Security

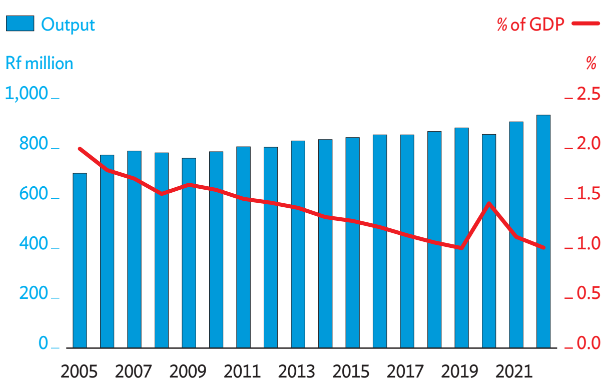
Maldives imports almost 100% of its food staples, leaving it vulnerable to exogenous shocks and food insecurity. Global events such as El Niño, the COVID-19 pandemic, and the Russian invasion of Ukraine raised the cost of food and oil imports and prices for consumer goods. Economic or agricultural output volatility in Maldives' main trade partners also affects domestic price movements and food supply sufficiency. Reflecting its dependence on imports, Maldives suffered a large gap in imported food staples during the Sri Lankan economic crisis, and, when onion supplies from India significantly dropped in 2023, the cost of onions skyrocketed. Estimates in 2021 found 13.4% of the population experiencing moderate or severe food insecurity. Therefore, food security needs to be improved urgently.

Dependence on imports is mainly due to geographical factors affecting the country. Lack of cultivable land, poor soil quality, limited water resources, and frequent extreme weather events like storm surges and flooding make agricultural production difficult in the country. Agriculture is mainly subsistence, while commercial farming remains confined to high-value crops that mostly go to tourist resorts. Livestock production is also limited, restricted to small pockets of poultry and egg production.

Despite inherent geographical constraints, agriculture still has potential to contribute to food security. Maldives has approximately 5,900 hectares of agricultural land but produces only 10% of the country's overall food requirement. Agriculture's average share of GDP was a paltry 1.5% from 2005 to 2022 (Figure 2.18.8). This suggests that there may be scope to expand agricultural production, but a number of challenges confronting the sector must be addressed. These include containing a drop in the number of farmers—which has fallen by 23.7% since 2013, necessitating reliance on foreign workers—and increasing crop yields. To this end, a lack of access to finance, and the high cost of basic farm inputs such as imported fertilizers and seeds, should be mitigated as they inhibit farmers' ability to increase their crop yields. As per Maldives Monetary Authority data, agriculture accounts for less than 1.0%

Figure 2.18.8 Agriculture Contribution to GDP

Agriculture's share in GDP has declined, averaging 1.5% during 2005–2022.



GDP = gross domestic product.

Source: Maldives Bureau of Statistics. 2023. *GDP Production*. Malé.

of total loans to small and medium-sized enterprises. Basic postharvest infrastructure for storage and transportation needs strengthening to enable farmers to bring their goods to market. This is particularly crucial, especially if farmers are to tap and supply the big tourist markets. Similarly, the sector needs better infrastructure to protect farmlands from natural hazards and climate risks.

It is also essential to enhance agriculture-related technical know-how and introduce modern techniques. As highlighted by the National Fisheries and Agricultural Policy, 2019–2029, Maldives' agriculture-related technical know-how is low. Beyond traditional agriculture, Maldives should invest more in alternative farming technologies to make local agriculture more resilient. Sustainable techniques such as vertical farming, aeroponics, and hydroponics allow large-scale production while minimizing land and water usage. Unfortunately, given the technical knowledge required and high initial financial investments, only a few producers employ these modern methods in Maldives—mostly on agricultural land leased to private businesses—and open field cultivation remains the chief farming technique in the country. The new government has pledged to introduce modern agricultural techniques as part of its efforts to improve food security. Tapping the private sector, the Ministry of Agriculture and Animal Welfare signed an agreement with VC Group Private Limited in January 2024 for a pilot project on vertical farming at the Hanimaadhoo Agriculture Center to identify the most feasible model for wider application across the country. This is in parallel with the planned and ongoing projects with development partners to increase agricultural produce through sustainable and innovative practices and contribute to food security. These measures will help move the country toward food security, but their implementation and further deepening will require political will and commitment.