

Macroeconomic Developments



International Economic Developments

Global Output

The global economy witnessed further slowdown in 2023, amid ongoing inflationary pressures and stringent financial conditions. Nevertheless, the global economy performed better than expected, buoyed by robust contributions from both government and private spending. Meanwhile, headline inflation tapered off during 2023, owing to declining oil prices.

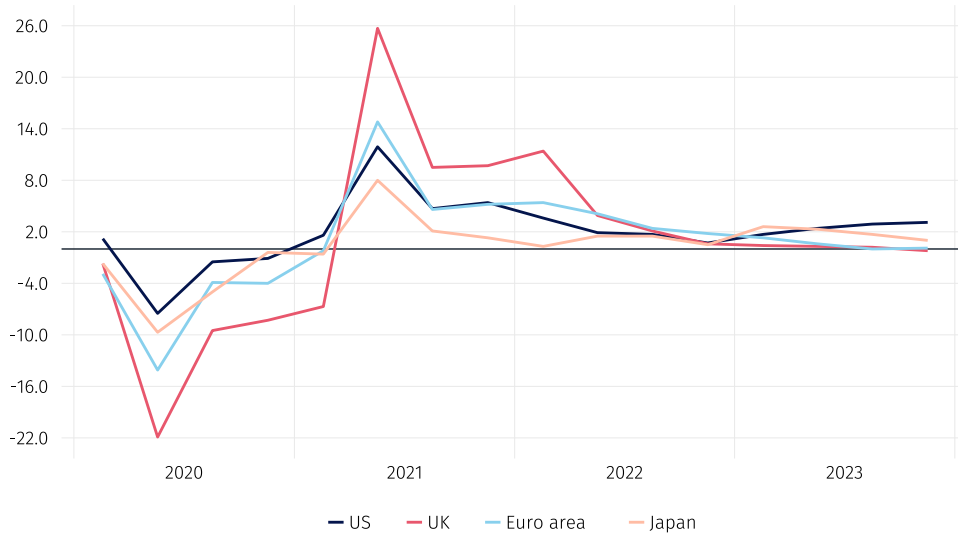
According to the International Monetary Fund (IMF) World Economic Outlook (WEO) April 2024 report, global growth is estimated at 3.2% for 2023 (0.3 percentage points higher than in the October 2023 WEO), from an estimated growth of 3.5% in 2022. Despite the slowdown, global economy remained stronger-than-anticipated, continuing the recovery path following the COVID-19 pandemic, Russia-Ukraine war, and the cost-of-living crisis. In several instances, private consumption boosted economic activity with household consumption supported by increases in real disposable income amid tight labour markets, despite a recent easing. Additionally, households tapped into savings accumulated during the pandemic. As such, similar growth paths were observed across majority of the advanced and emerging market and developing economies.

Looking at the advanced economies, activity in the United States (US) accelerated and recorded a growth of 2.5% in 2023, following a growth of 1.9% in 2022 (Figure 1). The economic growth during the year was primarily driven by increases in consumer spending, non-residential fixed investment, and government spending. The rise in consumer spending reflected higher expenditures on

both services—particularly healthcare—and goods, led by recreational goods and vehicles. Additionally, the improvement in net exports (the fall in imports coupled with higher exports) also boosted economic activity in the country. However, the positive contributions to economic activity were partly offset by the declines in residential fixed investment as well as inventory investment.

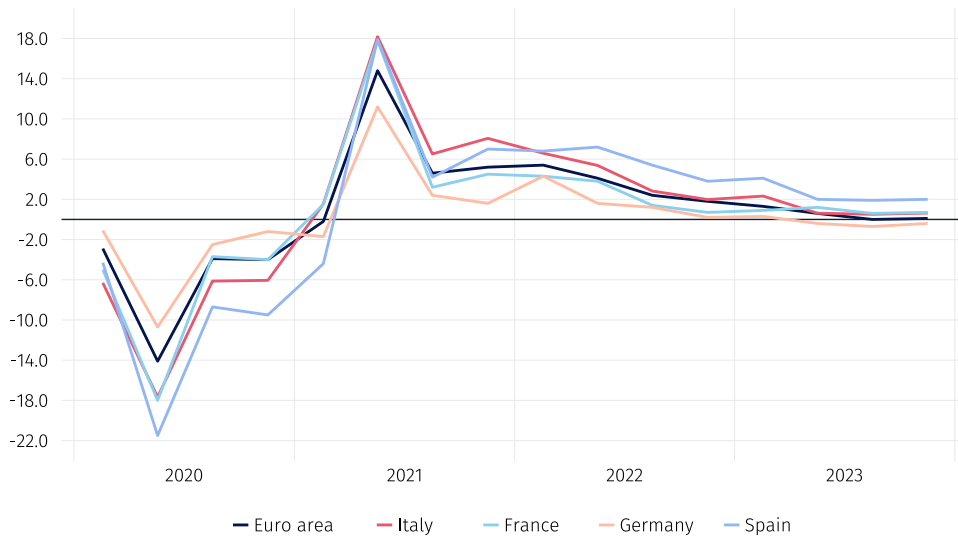
The economic performance in the euro area significantly moderated in 2023, owing to the relatively substantial exposure to the war in Ukraine. As such, the region recorded a growth of 0.5% in 2023, after registering a growth of 3.4% in 2022 (Figure 2). Following muted growth in the first half of the year, the euro area economy further weakened during the latter half of the year due to reduced confidence among businesses and consumers, ongoing geopolitical tensions and constricted financial conditions. Looking at the growth estimates of the main economies in the region, the German economy contracted in 2023, reflecting persistently high inflation throughout the year and rising interest rates alongside low domestic and external demand. Despite recording a slight expansion, the French economy slowed down when compared with 2022, amid weak

Figure 1: Real GDP Growth in the Advanced Economies, 2020 - 2023
(annual percentage change)



Source: Bloomberg Database

Figure 2: Real GDP Growth in the Euro Area, 2020 - 2023
(annual percentage change)



Source: Bloomberg Database

production and household consumption. Nevertheless, the economy was boosted by the significant rise in economic activity during the second quarter of the year, while activity remained steady for the remainder of the year. Further, economic activity in Italy was driven by domestic demand, although the rate of growth remained muted during the year, relative to 2022. As per initial estimations, the Spanish economy is expected to exhibit the strongest growth among the main economies in the region, with positive contributions from private consumption and investment.

The Japanese economy—the third largest in the world—registered a growth of 1.9% in 2023, a slight acceleration compared to the growth of 1.0% in 2022. Growth was driven by the increase in domestic demand as evidenced by the positive contributions from private consumption, which accounted for more than half of the GDP. Additionally, the positive contributions from net exports also boosted economic activity in the country. However, this was partially offset by negative contributions from private inventories. Meanwhile, the employment levels in Japan remained robust during the year, with the drop in the number of unemployed people and higher level of employed people. These trends suggest a tightening labour market, characterised by labour shortages amid the continued economic recovery from the COVID-19 pandemic.

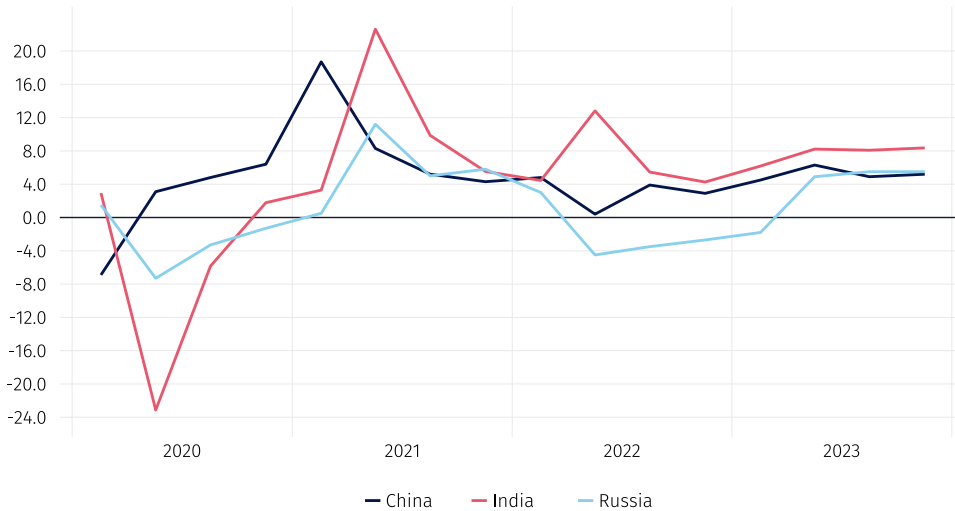
In the United Kingdom (UK), GDP growth decelerated to 0.1% in 2023—the weakest growth recorded since the financial crisis in 2009, excluding 2020 (when the COVID-19 pandemic hit)—from a growth of 4.3% in 2022. The growth momentum of the UK economy reflected broad-based weakness across the economy, with the real GDP growth recording contractions in the final two quarters of the year. Despite easing during the year, elevated

inflation and the consequently high interest rates continued to weigh on economic activity in the country, while the trade balance remained in deficit as imports exceeded exports. Meanwhile, growth in household consumption and government spending contributed positively to economic growth, although it remained subdued relative to the previous year.

In the emerging market and developing economies, economic activity picked up during the year, owing to the rebound in domestic demand amid easing of inflationary pressures in most of the economies (Figure 3). In China, growth accelerated to 5.2% in 2023, from 3.0% in 2022. Economic growth in China was bolstered by the robust performances in the final three quarters of the year, as consumption levels saw a rebound in the Q2-2023. Major sectors of the economy such as industrial production, manufacturing and services sector exhibited strong recovery after COVID-19 restrictions were lifted earlier in the year. Additionally, weaker sectors of the economy such as foreign trade and private sector investment also picked up towards the latter half of the year. Despite these positive developments, challenges persisted due to the prolonged downturn in the property market, low consumer, and business confidence, and increasing local government debt.

As for India, economic growth is estimated to have picked up to 7.3% in 2023, following a growth of 7.2% in 2022. Despite challenges such as unfavourable monsoon conditions impacting agriculture, subdued external demand, potential risks to the global supply chain conditions due to geopolitical tensions and high policy interest rates, the economy was supported by robust investment activity. Additionally, both the manufacturing and services sectors saw improvement, amid rising

Figure 3: Real GDP Growth in Emerging Markets and Developing Economies, 2020 - 2023
(annual percentage change)



Source: Bloomberg Database

business confidence and optimistic consumer sentiments. The Russian economy is estimated to grow by 3.5% in 2023, following a contraction of 1.2% in 2022. The stronger-than-anticipated rebound of the Russian economy was primarily driven by fiscal stimulus measures reflecting higher military spending. Additionally, economic growth in Russia was further supported by the continued growth in domestic demand driven by heightened consumer activity, propelled by both the rise in real wages and robust credit growth amid a tight labour market in the country.

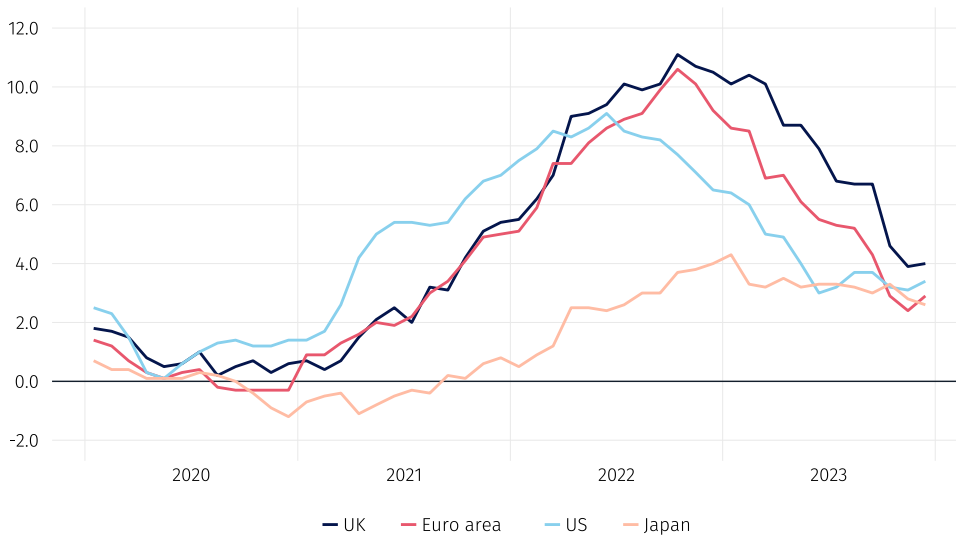
Global Inflation

Against the backdrop of declining global oil prices, headline inflation moderated in majority of the advanced and emerging market and developing economies during 2023. Nevertheless, inflation levels continued to remain elevated in majority of the economies, remaining above the central banks' target in most countries in both the country groups.

With respect to the inflation trends observed in the advanced economies, the rate of inflation in the US, as measured by the Consumer Price Index (CPI), decelerated to 4.1% during 2023—remaining above the Federal Reserve's inflation target—from 8.0% recorded in 2022 (Figure 4). The deceleration of the inflation rate in the country was mostly driven by the easing of energy prices. Meanwhile, upward inflationary pressure during the year stemmed primarily from the rise in prices of services. In the euro area, the rate of inflation, as measured by the Harmonised Index of Consumer Prices (HICP), slowed down to 5.4% in 2023, from 8.7% in 2022, remaining beyond the 2.0% target rate of the European Central Bank (ECB). The major downward contributions stemmed from the decline in prices in the energy sector. Meanwhile, the upward contributors were prices in the food including alcohol and tobacco category, services, and non-energy industrial goods, as well as restaurants and hotels sectors.

Figure 4: Inflation in the Advanced Economies, 2020 - 2023

(annual percentage change)



Source: Bloomberg Database

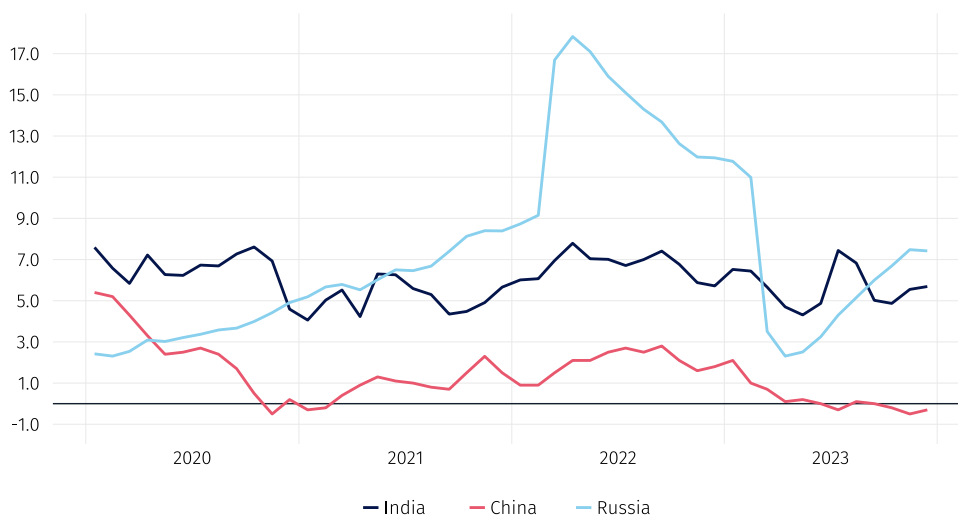
After recording 2.5% in 2022, the rate of inflation in Japan rose to 3.2% in 2023, remaining above the Bank of Japan’s target rate of 2.0%. The increase was largely contributed by rising food prices in the country, and the resultant increase in related items during the year. Additionally, upward inflationary pressures persisted from the passthrough of cost increases to consumer prices—led by the prior surge in import prices—coupled with the slight increase in price of services. Meanwhile, downward pressure on inflation primarily stemmed from the decline in prices in the energy sector, induced by government measures. In the UK, the rate of inflation moderated to 7.3% in 2023, from 9.1% in 2022, remaining significantly higher than the Bank of England’s target rate of 2.0%. Despite broad-based increases across all categories, inflation rate decelerated mainly due to downward pressure from the decline in fuel prices.

Turning to price developments in emerging market and developing economies, the rate of inflation in China decelerated to 0.2% in 2023, from 2.0% in 2022, remaining well

below the target rate of 3.0% set by the Bank of China (Figure 5). The inflation dynamics reflected subdued domestic demand owing to prolonged COVID-19 restrictions as well as the property market slump in the country. Meanwhile, downward inflationary pressures stemmed from falling food prices, particularly the price of pork—a staple meat in China. The rate of inflation in India slowed down slightly to 5.6% in 2023, from 5.9% in the previous year, falling within the upper margin of the target band of 4.0% to 6.0% set by the Reserve Bank of India (RBI). While upward inflationary pressures were from elevated food prices during the year—given the concerns surrounding the yield of the kharif crop, which heavily relies on adequate rainfall and the El Niño phenomenon—downward pressures were contributed by declining fuel prices.

In Russia, the rate of inflation is estimated to have significantly moderated to 5.9% in 2023—although it remained well above the Bank of Russia’s target inflation rate of 4.0%—from 13.8% in the previous year. During the first half of the year, inflation remained moderate

Figure 5: Inflation in Emerging Markets and Developing Economies, 2020 - 2023
(annual percentage change)



Source: Bloomberg Database

reflecting cautious consumer behaviour in the face of widespread uncertainty and slow adaptation to a new supply structure in consumer market amid external restrictions to production, supply chains and payments. However, inflation levels increased in the latter half of the year due to rising inflationary pressures across an increasingly broader group of goods and services. This was driven by the depreciation of the ruble and labour shortages in the country, while businesses passed through elevated costs directly to consumers to keep up with the surging domestic demand.

Commodity Prices

Following a year of elevated prices, global commodity markets witnessed a turnaround during 2023, with the IMF price index for all commodities registering a significant decline of 23% in annual terms. This was led by energy prices, mainly reflecting apprehensions regarding the oil demand and supply dynamics. Additionally, the decline in global food and metal prices during the year also

contributed to the fall in the all commodities index, mainly reflecting the decrease in prices of vegetable oils, dairy, cereals, and meat amid the persistent property market crisis in China (Figure 6).

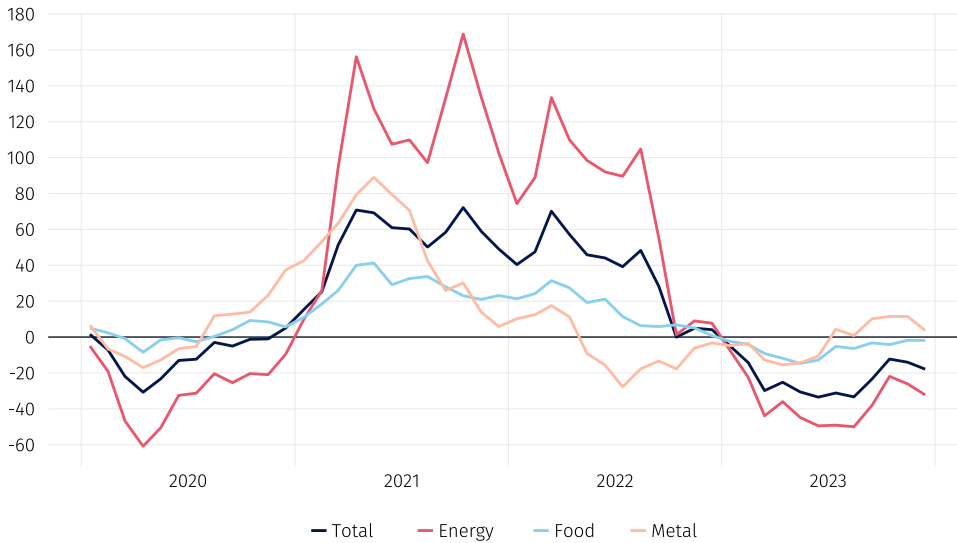
Energy Prices

The IMF energy price index decreased by 37% in 2023 as average global crude oil prices declined to US\$80.8 per barrel, from the US\$97.1 per barrel recorded in 2022. The decline in oil prices during the year was primarily attributed to concerns regarding the balance of supply and demand. Despite efforts by Organization of the Petroleum Exporting Countries plus other oil-producing countries (OPEC+) to reduce supply, global crude oil demand did not reach anticipated levels, offsetting the effects of the supply cuts.

During the year, concerns over crude oil demand weighed on crude oil prices. While there was initial optimism that the reopening of the Chinese economy would significantly

Figure 6: Global Commodity Price Indices, 2020 - 2023

(annual percentage change)



Source: Bloomberg Database

boost crude oil demand in 2023, this expectation was dampened by a pessimistic macroeconomic outlook and higher global interest rates. Despite this, China remained the largest contributor to global oil demand, driven by increased usage in transportation and petrochemical industries. Meanwhile, demand from Organisation for Economic Co-operation and Development (OECD) countries remained subdued due to ongoing declines in manufacturing and slow economic growth. Similarly, European demand was weak amid a broad industrial slowdown in the continent. Nevertheless, global oil demand was buoyed to some extent by the uptick in demand for jet fuel and kerosene globally, driven by a resurgence in air travel across both advanced and developing economies.

On the supply front, global oil supply dynamics shifted during the year, transitioning away from key producers in the Middle East to the US and other Atlantic Basin countries. Despite concerns regarding a potential slowdown due to cost increases and capacity constraints in

oil field services, US oil production significantly increased, driven by advancements in drilling technologies and increased productivity in shale oil fields. On the other hand, OPEC+ maintained hefty supply cuts during the year and recorded the lowest level of market share since their establishment in 2016. While significant production cuts were implemented, particularly by Saudi Arabia, the impact was offset to some extent by the Iranian production reaching a five-year high.

Metal Prices

Despite the decline in base metal prices during the first half of 2023 due to the slow growth momentum of the Chinese economy and its manufacturing industry, prices registered an increase in the second half of the year, driven by the significant demand for green products. The initial optimism regarding demand for base metals at the beginning of the year subsided amid looming global recessionary fears and the persistent difficulties in the property sector of China, which accounts for

a substantial fraction of global demand for metals. Nevertheless, green demand—green technologies such as electric vehicles, solar panels, and wind turbines as well as other energy-efficient appliances that require base metals—served as a significant counterbalance for the decline in traditional metal demand drivers such as construction and electronic goods. Meanwhile, precious metal prices grew during the year, driven by the increase in gold prices amid geopolitical tensions and recessionary concerns.

Food Prices

The IMF food price index recorded a decline of 7% in 2023, following a growth of 15% in 2022. In this regard, declines were observed for prices of staples such as oils, dairy, cereals, and meat, mirroring robust harvests as global supply conditions continued to improve. Conversely, sugar prices recorded considerable increases during the year, attributed to the El

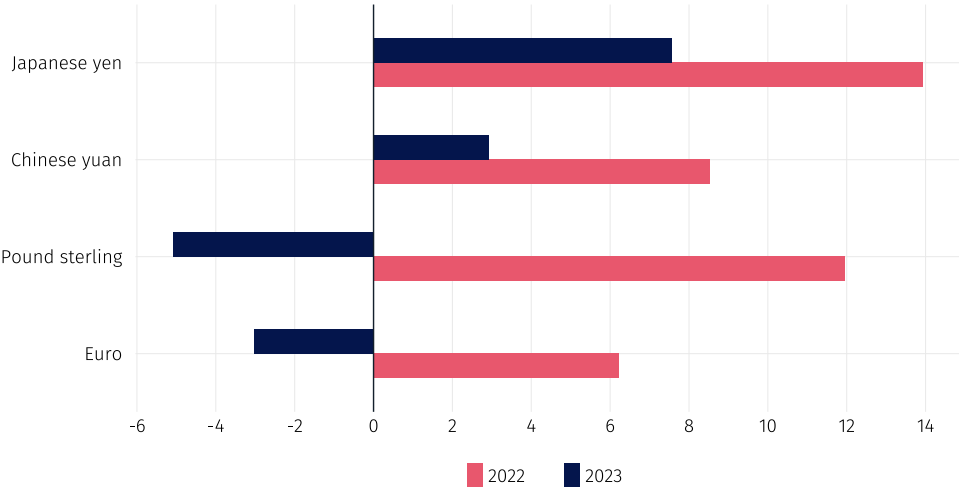
Niño phenomenon-related reduction in output among key producers. Meanwhile, prices of beverages grew, owing to the increase in prices of Robusta coffee, which reflected steep demand amid drought-related supply shortages and transportation difficulties linked with the Red Sea crisis.

Exchange Rates

Following the appreciation trend witnessed in 2022, the US dollar exhibited varied performance against the currencies of some of the major advanced economies and emerging market and developing economies in 2023 (Figure 7). As such, during the year, the US dollar appreciated against the Chinese yuan and the Japanese yen, while the US dollar depreciated against the pound sterling and the euro.

At the end of 2023, the US dollar appreciated 8%, year-on-year, against the Japanese yen,

Figure 7: Changes in the Exchange Rates of Major Currencies against the US Dollar, 2022 - 2023
(annual percentage change)



Source: Bloomberg Database
Note: Percentage changes have been calculated using year-end rates.

reflecting the weakening of the Japanese yen, influenced by higher US yield alongside the ultra-easy policy stance of the Bank of Japan. Likewise, the US dollar appreciated 3% against the Chinese yuan, driven by a combination of factors—consistent property market crisis, subdued consumer spending and declining credit growth in China coupled with tightened monetary policy stance in the US. It is noteworthy that the depreciation of the Chinese yuan was lower in relative terms during the second half of the year.

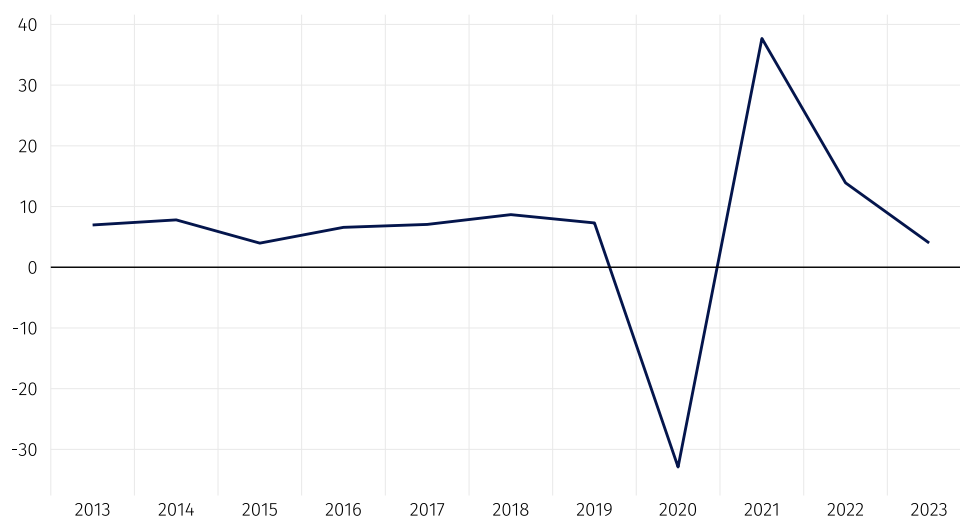
Conversely, the US dollar depreciated 5% against the pound sterling, amid persistent inflationary pressures in the UK—Bank of England is expected to maintain high interest rates, boosting the bond yields and consequently the pound sterling. Similarly, the US dollar depreciated 3% against the euro, mirroring tightened monetary policy stance in the euro area.

Domestic Economic Developments

Real Economy

According to the preliminary estimates based on the Quarterly National Accounts (QNA) released in early April 2024, the Maldivian economy is estimated to have expanded by 4.0% in 2023, year-on-year, after recording a growth of 13.9% in 2022 (Figure 8). However, this is 4.7 percentage points lower than the real GDP growth projected jointly by the MMA and the Ministry of Finance in October 2023 made for the Government Budget 2024. The lower-than-projected economic growth was mainly on account of the slower-than-expected outturn in the construction sector, together with the contraction of the tourism sector. In 2023, real GDP growth was led primarily by the expansion of the transportation and communication sector, which offset the decline in the tourism sector, and the wholesale and retail trade sector—a sector closely linked to the tourism sector. The decline in the tourism sector was stemmed from the drop in resort bednights, which drives the gross value added (GVA) of the sector instead of total tourist bednights. Further, real GDP growth was also supported by the public administration, financial services, real estate, as well as electricity, water, and waste management sectors during the year. However, both construction and fisheries sector observed modest growths in 2023.

Figure 8: Real GDP Growth, 2013 - 2023
(annual percentage change)



Source: Maldives Bureau of Statistics

Tourism

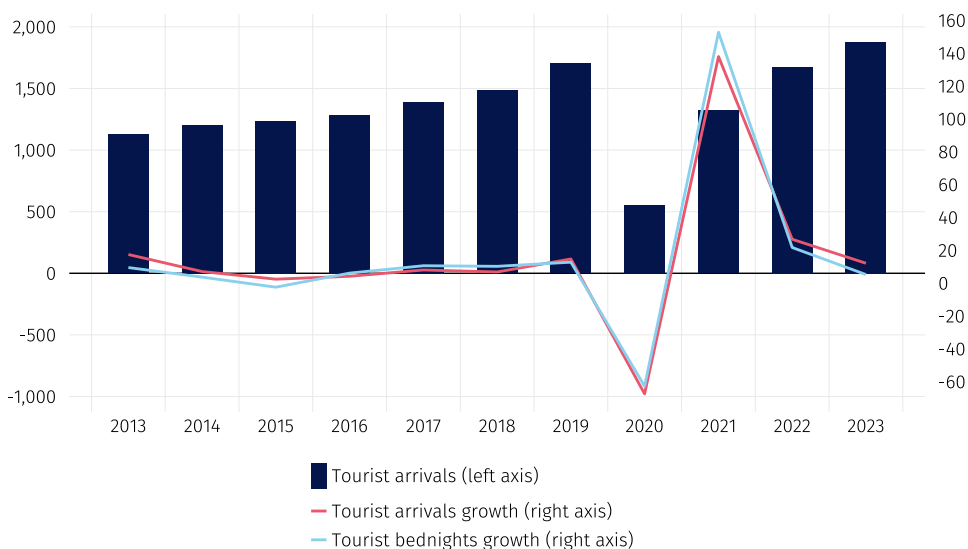
Following a year of robust recovery in 2022, the tourism sector experienced a contraction during 2023, reflecting a decline in resort bednights. Based on the preliminary QNA estimates, the GVA of the tourism sector is estimated to have observed an annual decline of -1.0% during 2023, following a growth of 20.4% recorded in 2022.

The year commenced favourably for the tourism sector with significant milestones achieved within the first quarter. Following a three-year hiatus, the reopening of China's borders in early January and subsequent resumption of Chinese arrivals to the Maldives during the month, compensated for the annual drop in arrivals from leading source markets to the Maldives such as India, which has observed annual declines in arrivals for the second consecutive year. Consequently, China reestablished its position as one of the top ten source markets during the first quarter. Notably, despite the ongoing Russia-Ukraine war, tourist arrivals from Russia remained robust and the country positioned itself as the second largest source market during the

review year. Supported by the arrivals from Europe and Asian source markets, total tourist arrivals surpassed half a million in the first quarter—the highest tourist arrivals recorded for a quarter.

Underpinned by the robust arrivals from major source markets, tourist arrivals totalled 1,878,543 by the end of 2023 and exceeded the government's annual target of 1.8 million tourists (Figure 9). This reflected a 12% increase in total tourist arrivals when compared with 2022, and a 10% increase relative to the pre-pandemic levels of 2019. The upward trajectory observed in arrivals during the year primarily reflected the surge in arrivals from China, although India has remained the dominant single source market since 2020. Despite the strong growth in arrivals, total tourist bednights registered a modest annual growth of 5%, driven mainly by the growth in guesthouse bednights, which more than offset the decline in resort bednights. As such, a significant increase in guesthouse bednights was observed in 2023, posting a growth of 58% compared to 2022, while resort bednights

Figure 9: Tourism Indicators, 2013 - 2023
(thousands, annual percentage change)



Source: Ministry of Tourism

declined by 2%—a first-time negative growth observed for resort bednights since the COVID-19 pandemic. Mirroring the drop in resort bednights, the average stay declined to 7.6 days from 8.0 days in 2022. Despite improvements in total bednights and the arrivals, the GVA¹ of the sector is expected to have contracted in 2023 due to the decline in resort bednights. Reflecting these developments, total travel receipts is estimated to have declined by 6% to US\$4.2 billion in 2023, a reduction from US\$4.5 billion in 2022². However, when compared with 2019, travel receipts observed an increase of 32%, indicative of the strong recovery 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 to 88% of the pre-pandemic levels in 2023, supported by robust pent-up demand. The estimated number of tourists who travelled internationally stood at around 1.3 billion for the year 2023—an increase of 34% compared with 2022. The continued strong recovery of the global tourism was mainly due to the sustained strong performance of the Middle East region with arrivals exceeding pre-pandemic levels by 22%, and Europe reaching 94% of pre-pandemic levels. Additionally, Africa and the Americas recovered 96% and 90% of pre-pandemic levels, respectively, while the Asia and the Pacific region achieved 65% of the pre-pandemic levels.

Reflecting these developments, international flight movements in the Velana International Airport (VIA) observed a modest increase of 4% (594 flights) when compared with the previous year and a 15% growth when compared

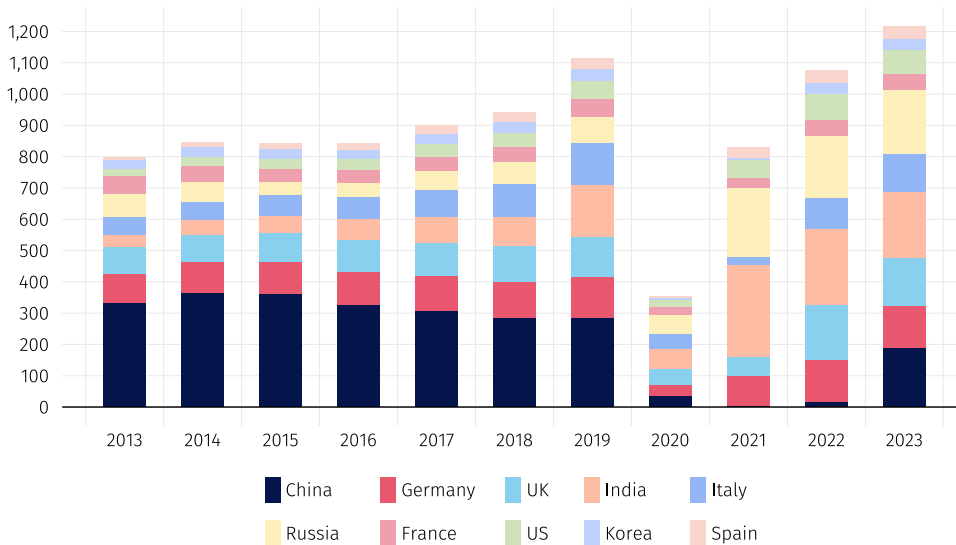
with the pre-pandemic levels. This mainly reflected the rise in flight movements from major carriers such as Fly Dubai, Air Asia, Wizz Air, Air Vistara, China Eastern, Etihad Airways, and Batik Air. Reflecting the reopening of the China's borders during the year, China Eastern, Beijing Capital Airlines and Sichuan Airlines resumed their operations to the Maldives. Meanwhile, the commencement of operations from Flynas (Saudi Arabian low-cost carrier), Batik Air, Virgin Atlantic, Beond (world's first premium leisure airline with its first base in the Maldives), and HiSky Europe increased direct air connectivity to the Maldives during the year. Conversely, notable declines were observed in the frequency of movements from GoAir, business jets movements in the VIA, Saudia, and Turkish Airlines. The significant decline in movements of GoAir was due to the halt in its operations in March 2023.

In 2023, the European market remained as the dominant regional market—accounting for 56% of total arrivals—followed by the Asia and the Pacific market (Figure 10). The market share of the European market declined by 5 percentage points when compared with 2022, although an increase of 7 percentage points was registered when compared with pre-pandemic levels (2019). Among the European source markets, Russia remained the leading source market, accounting for 11% of total arrivals—although this was a marginal decline of 1 percentage point compared to 2022. In 2023, the UK was the second major European source market (8%), followed by Germany (7%) and Italy (6%). Notably, the market shares reported for the key European source markets (UK and Germany) declined when compared with 2022, while Italy's market share observed no change.

¹ The gross value added (GVA) of the tourism sector is driven by resort bednights, instead of total bednights. Hence, a negative impact on resort bednights imposes a prominent impact on the growth of the sector.

² The tourism receipts figures are based on the estimates made by the MMA.

Figure 10: Tourist Arrivals from Major Inbound Markets, 2013 - 2023
(thousands)



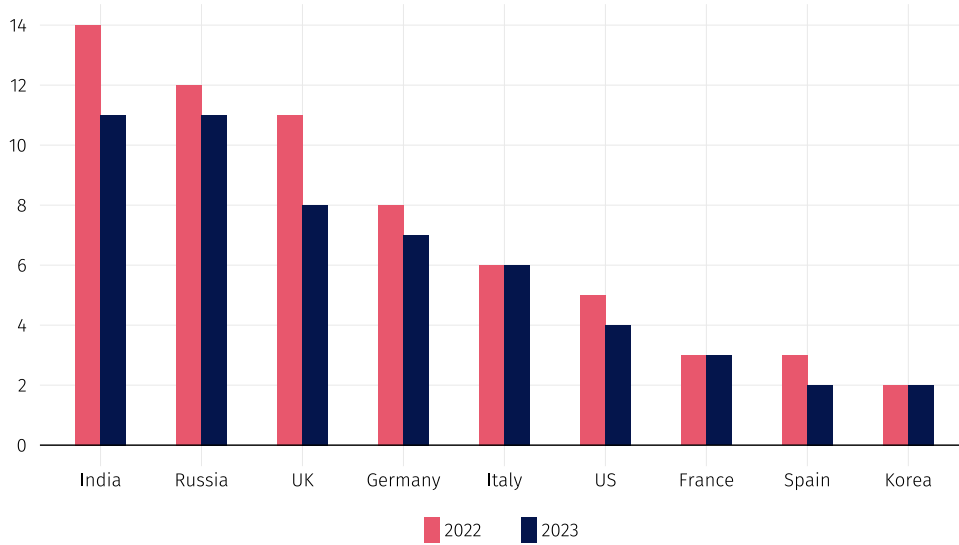
Source: Ministry of Tourism

Meanwhile, tourist arrivals from the Asia and the Pacific region constituted 32% of the total arrivals in 2023. This was a notable increase from the 25% recorded in 2022, although 9 percentage points lower than in 2019. The reduction in market shares relative to 2019 reflected the fall in arrivals from China due to the pandemic-led closure of its borders as China was the largest source market to the Maldives prior to the pandemic. Since 2020, India has been the leading single largest source market from Asia, and accounted for 11% of total arrivals during the year—although a 3 percentage point drop was observed compared to 2022 (Figure 11). This was followed by China, which accounted for a market share of 10%, with the resumption of arrivals from the country in January 2023—positioning itself as the third leading source market. It is noteworthy that South Korea, which became one of the top ten markets in 2022, remained among the top markets in 2023 as well.

On the supply front, the total number of resorts in operation increased to 176 resorts at the end of 2023, from 168 resorts at the end of 2022. This was a 5% increase when compared with 2022, and a growth of 16% when compared with 2019. As for guesthouses, the number of guesthouses in operation declined³ to 809 at the end of 2023, from 872 guesthouses at the end of 2022. However, guesthouses observed an increase of 33% relative to 2019. Reflecting these developments, the average operational bed capacity of the industry increased by 8% (4,308 beds) compared with the previous year and exceeded the pre-pandemic levels by 30%. While the average operation bed capacity of resorts increased by 5% (2,148 beds), that of guesthouses increased by 14% (1,786 beds). Additionally, the overall occupancy rate of the industry dropped marginally to 58% in 2023 from 59% in 2022 and remained 5 percentage points below the pre-pandemic levels (Figure 12).

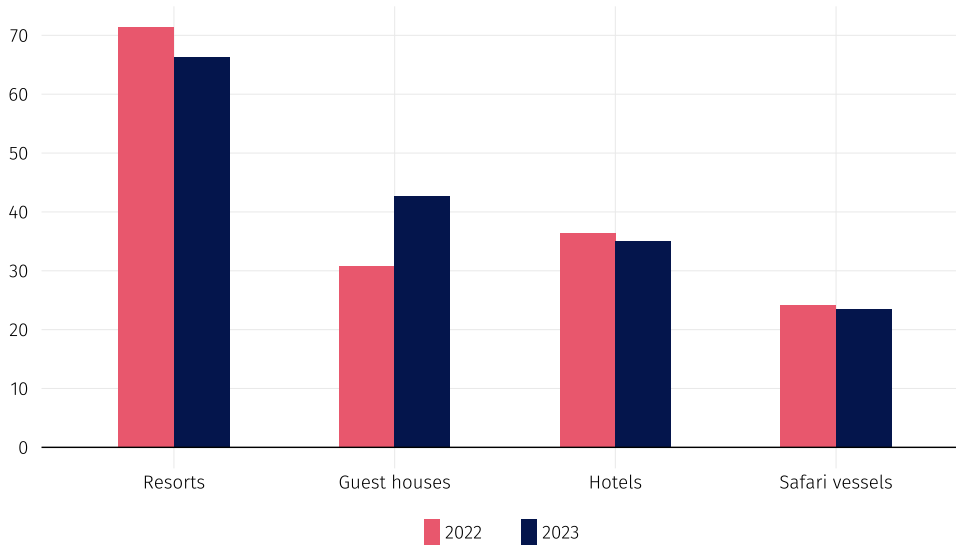
³ The decline in guesthouses mainly reflected the review of the list of operational guesthouses by the Ministry of Tourism by the end of 2023, during which guesthouses operating with expired licenses or had other issues were removed.

Figure 11: Shares of Key Inbound Markets, 2022 - 2023
(percent)



Source: Ministry of Tourism

Figure 12: Occupancy Rates for the Tourism Industry, 2022 - 2023
(percent)



Source: Ministry of Tourism

Fisheries

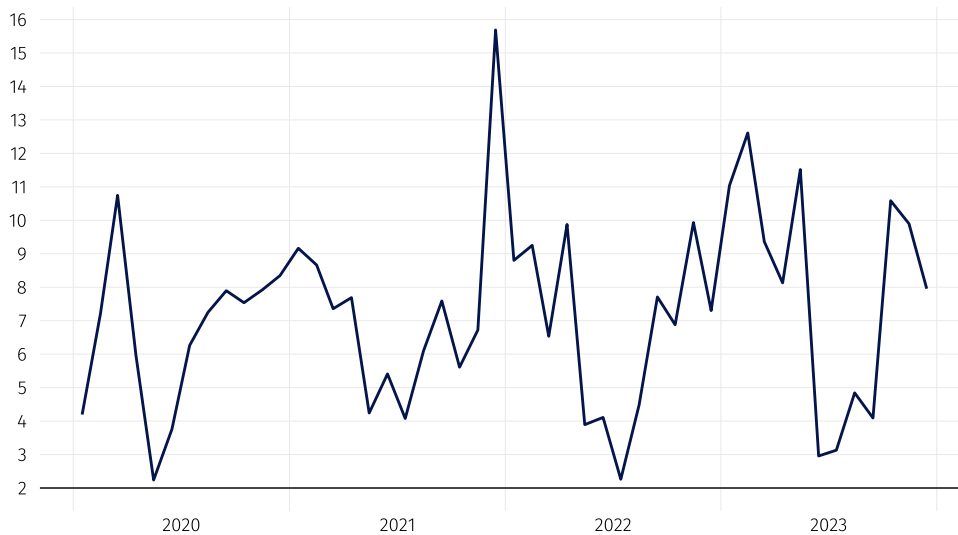
According to the preliminary QNA estimates, following a growth of 3.1% in 2022, the GVA of the fisheries sector is estimated to have observed a modest growth (0.5%) in 2023. This primarily reflected the growth in fish purchases by fish processing companies.

The total fish purchases by the domestic fish processing companies increased significantly by 19% in 2023 and totalled 96.1 thousand metric tonnes—the largest volume of purchases recorded in the past 10 years—following an annual decline of 8% in 2022 (Figure 13). Notably, fish purchases have approximately doubled since 2013. The increase stemmed primarily from an increase in both skipjack tuna and yellowfin tuna purchases in 2023. Both skipjack tuna (83% of total fish purchases) and yellowfin tuna (17% of total fish purchases) purchases continued

to collectively account for approximately over 99% of the total fish purchases.

As for the local purchase prices of tuna⁴, the average purchase prices of both iced skipjack tuna and skipjack tuna rose to MVR25.0 and MVR23.0 per kilogram, from an average of MVR17.0 and MVR15.0 per kilogram in 2022, respectively. This significant rise in prices was due to MIFCO raising its purchase prices in September 2023. Meanwhile, the average purchase price of yellowfin tuna fell significantly during the year and averaged MVR65.5 per kilogram, from an average of MVR80.1 per kilogram in 2022 (Figure 14). As for tuna prices in the international market, the price of skipjack tuna in the Bangkok market averaged MVR28.0 per kilogram in 2023—an increase from the MVR25.5 per kilogram recorded in 2022. During the year, Thailand

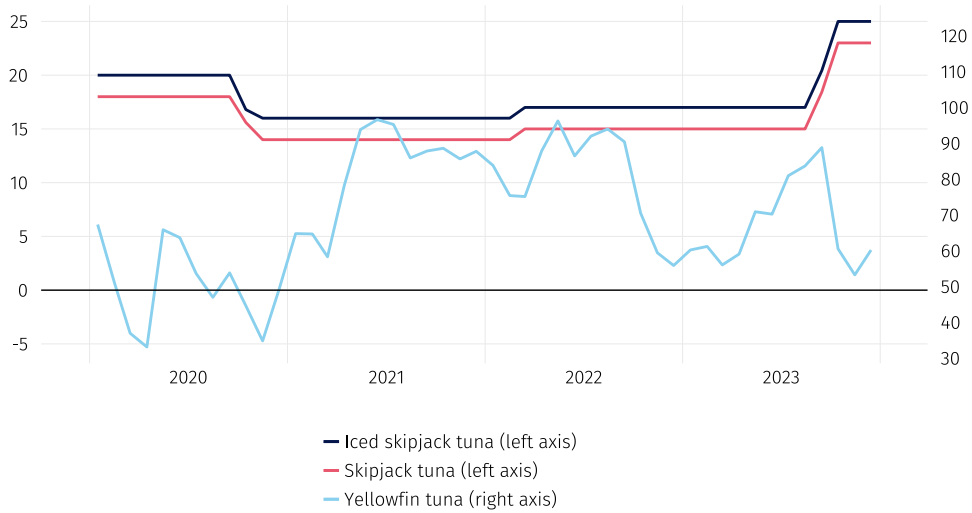
Figure 13: Fish Purchases, 2020 - 2023
(thousand metric tonnes)



Source: Ministry of Fisheries and Ocean Resources

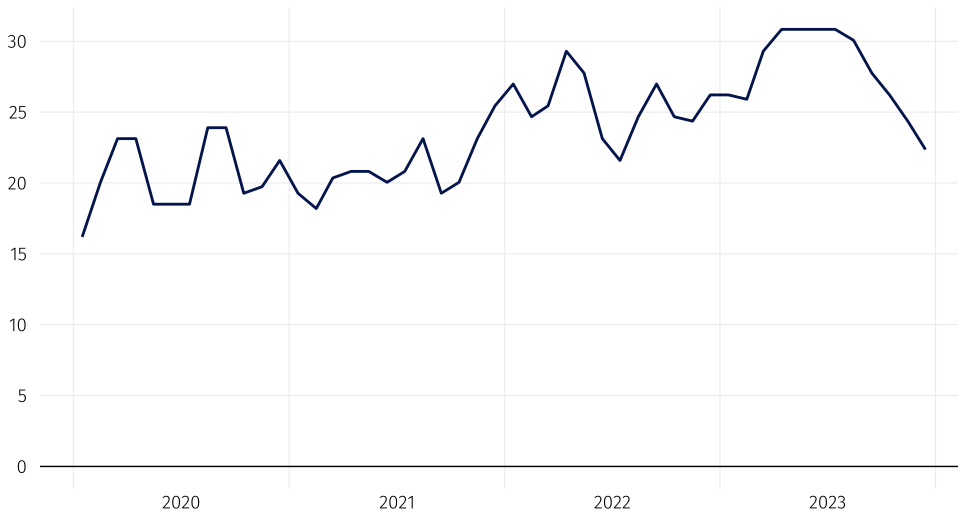
⁴ Based on prices collected by the Ministry of Fisheries and Ocean Resources.

Figure 14: Prices Paid for Fish by Local Processing Companies, 2020 - 2023
(rufiyaa per kilogram)



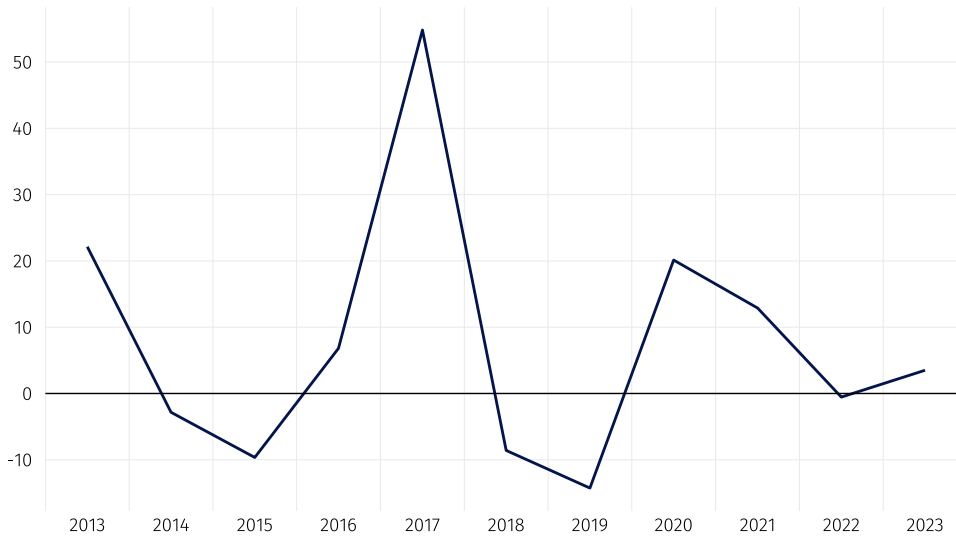
Source: Ministry of Fisheries and Ocean Resources

Figure 15: Skipjack Tuna Prices, 2020 - 2023
(rufiyaa per kilogram)



Source: Ministry of Fisheries and Ocean Resources
Note: Prices are based on Bangkok frozen market prices.

Figure 16: Volume of Fish Exports, 2013 - 2023
(annual percentage change)



Source: Maldives Customs Service

continued to be the main export destination for Maldivian skipjack tuna (Figure 15).

Looking at the developments in the fish processing sector, the volume of fish exports posted a modest growth of 4% (2,666.6 metric tonnes) and totalled 78.8 thousand metric tonnes, mainly owing to the increase in canned or pouched exports, which grew by 47% (3,978.1 metric tonnes), followed by frozen yellowfin tuna (increased by 10% or 559.9 metric tonnes). These were largely offset by the significant declines in fresh or chilled yellowfin tuna and frozen skipjack tuna, which decreased by 22% (817.1 metric tonnes) and 1% (811.0 metric tonnes), respectively (Figure 16).

Construction

As per the preliminary QNA estimates, although it continued to remain significantly below pre-pandemic levels, the GVA of the construction sector is estimated to have increased by 3.6% during the year, following a sizable growth of 34.1% in 2022. During 2023, construction activity continued to expand as indicated by the significant growth in construction-related imports⁵, which registered an annual growth of 7%, after recording a growth of 47% during the preceding year (Figure 17).

Meanwhile, commercial bank credit to the construction sector⁶, a key indicator used to assess the performance of the sector, posted

⁵ Construction sector-related imports include import of wood, metal, cement and aggregates and construction related items not elsewhere specified.

⁶ 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.

Figure 17: Construction-related Imports, 2013 - 2023
(millions of US dollars, annual percentage change)



Source: Maldives Customs Service

an increase of 5% compared to the previous year. This increase in credit to the sector was mainly owing to the increase in loans extended for construction of new resort developments, real estate of residential or housing projects, construction of residential or housing projects⁷, construction of commercial buildings, real estate of commercial buildings, credit lent for renovation of resorts, and guesthouses. Conversely, declines were observed in loans extended for the other real estate projects, other construction projects, and construction of property development projects. It should be noted that a significant share of financing for resort development projects is sourced from abroad, while funding for public infrastructure projects is obtained from the government budget and through external borrowings.

Wholesale and Retail Trade

In line with the contraction of the tourism sector, activity in the wholesale and retail trade sector registered a modest decline in 2023. As per the preliminary QNA estimates, the GVA of the wholesale and retail trade sector is estimated to have contracted moderately (0.3%) in 2023, following a significant growth of 20.2% in 2022. As for the main indicators for the sector, total imports observed a marginal decline of 1%, year-on-year, following a growth of 37% in 2022, while commercial bank credit to the sector recorded a significant growth of 15% at the end of 2023, after registering a growth of 10% during the previous year.

⁷ 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.

Inflation

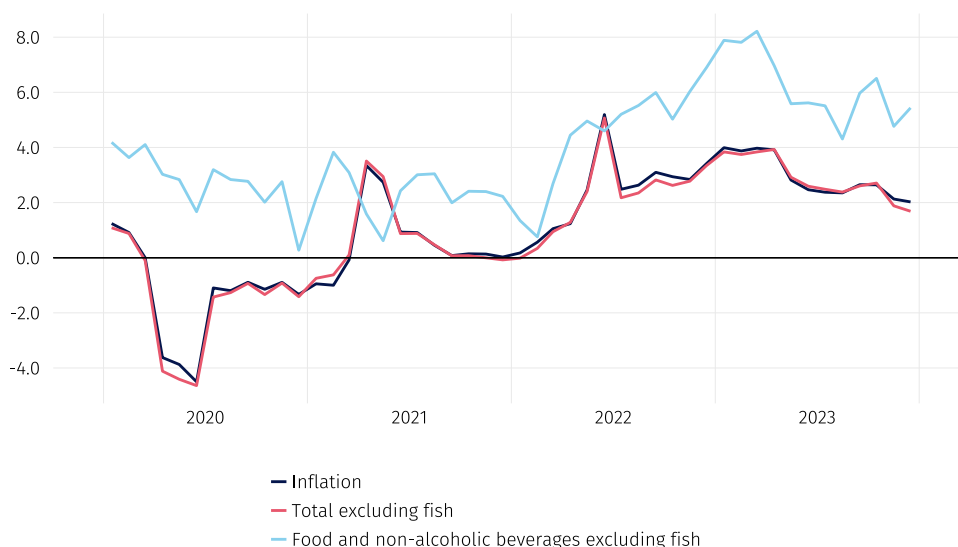
According to CPI data released by the Maldives Bureau of Statistics in January 2024, the average rate of inflation accelerated to 2.9% in 2023, from 2.3% in 2022, driven primarily by the domestic policy change on general goods and services tax (G-GST) rate. During the year, prices of food items, together with cost of certain services such as services of restaurants and cafés, passenger transport services and health services, as well as price of energy-related items contributed most to upward inflationary pressures. This was offset to some extent by declines in the prices of information and communication services.

The rate of inflation, based on the annual percentage change in the 12-month moving average of the national CPI, accelerated to 2.9% in 2023, after registering 2.3% in 2022 (Figure 18). The acceleration in the domestic inflation rate mainly reflected the domestic policy change on the G-GST rate.

The rate of inflation picked up to 3.9% during the first quarter of the year, largely reflecting the impact of the increase in the G-GST rate from 6% to 8% effective from 1 January 2023, together with lagged effects of the

pass-through of elevated global commodity prices from previous year. The inflation rate decelerated to 3.1% in the second quarter of the year as food inflation moderated due to ease in supply shortages of certain food products, despite the continued impact of the increase in the G-GST rate. This was followed by further decelerations in the rate of inflation to 2.5% and 2.3%, during the third and fourth quarter, respectively, partly mirroring the lagged pass-through effects of the moderation in global commodity prices. For the year as a whole, upward inflationary pressures were

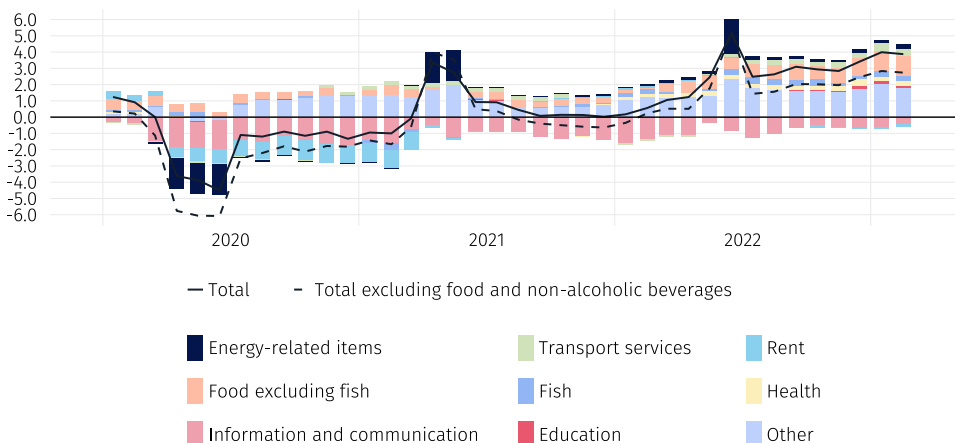
Figure 18: Inflation (National), 2020 - 2023
(annual percentage change, August 2019=100)



Source: Maldives Bureau of Statistics

Figure 19: Contribution of Major Categories to CPI Inflation (National), 2020 - 2023

(annual percentage change, percentage point contribution, November 2022=100)



Source: Maldives Bureau of Statistics

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

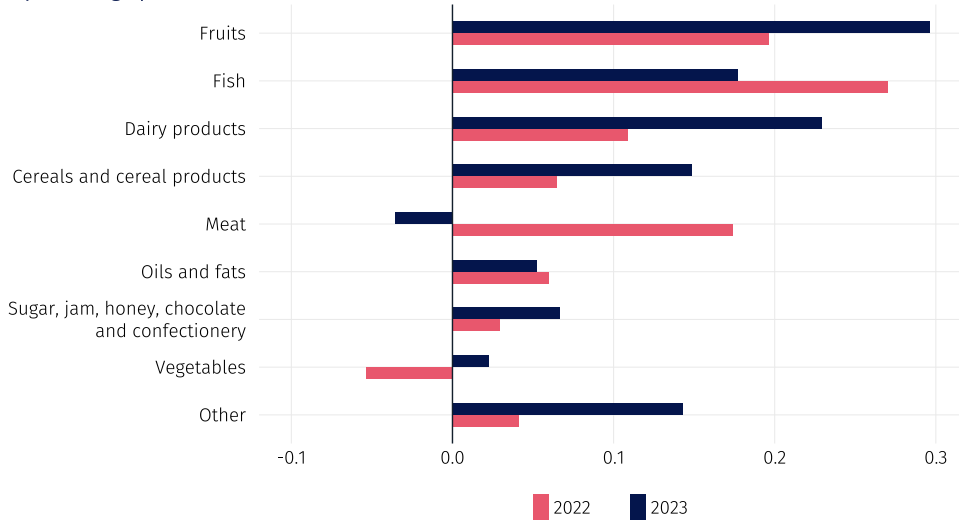
exerted by the growth in prices of most of the food items together with higher cost of certain services, such as services of restaurants and cafés, passenger transport services, and health services, as well as price of energy-related items. Meanwhile, the decline in prices of information and communication services contributed to the most downward pressure on inflation (Figure 19).

With regard to developments in the major categories of the CPI, the food and non-alcoholic beverages category—which carries the second largest weight in the CPI basket—accounted for the largest upward contribution to inflation during 2023. Food inflation grew by 5.8% in 2023, up from 4.8% in 2022, due to the combined effects of the impact of the G-GST rate increase, lagged pass-through effects of elevated global food prices from previous year and supply shortages—particularly towards the end of year (Figure 20). During the year, food inflation was mainly contributed by the

increase in prices of fruits, dairy products, fish, cereals and cereal products, and other food products. In contrast, this was dampened to some extent by the decrease in the prices of meat.

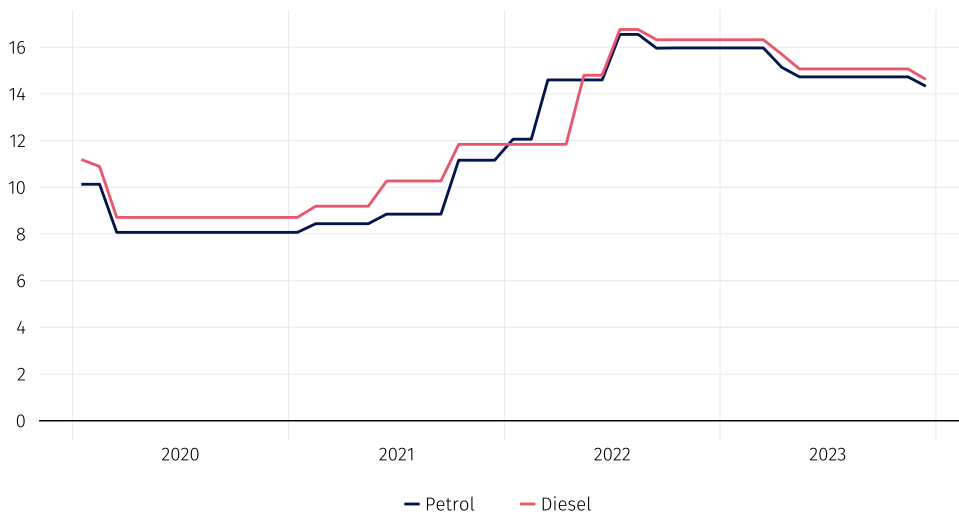
This was followed by the growth in cost of certain services such as cost of restaurant and accommodation services, which grew by 7.2% in 2023. Within this category, upward price pressures mainly stemmed from the cost of restaurants and cafés partly mirroring the rise in tax rate, observing a growth of 7.3% during the year. This was an acceleration from 3.3% in 2022. Further, the cost of passenger transport services rose by 9.6% in 2023, further up from the 3.4% registered in 2022. This was owing to the rise in the cost of domestic passenger air transport and passenger transport by sea, by 17.3% and 7.2%, respectively, while the cost of passenger transport by road observed a deceleration from 11.6% in 2022 to 9.3% in 2023. It is noteworthy that, Maldivian, the

Figure 20: Contribution of Food Categories to CPI Inflation (National), 2022 - 2023
(percentage point contribution)



Source: Maldives Bureau of Statistics

Figure 21: Domestic Fuel Prices, 2020 - 2023
(rufiyaa per litre)



Source: State Trading Organization
Note: Prices are based on retail price of Fuel Supply Maldives.

national airline of the Maldives, increased its ticket prices in March 2023. Meanwhile, the deceleration in passenger transport by road mirrored the dissipation of the upward adjustment of taxi fares in the Greater Male' Region in July 2022, towards the second half of 2023.

The energy sub-category⁸ was another major contributor to the annual inflation, reflecting the increase in the cost of electricity stemming from higher consumption in comparison to the preceding year as the tariff rates remained unchanged. As such, cost of electricity accelerated to 5.2% in 2023, after recording a growth of 2.9% in 2022. In contrast, the price of petrol rose by 0.3% in 2023, a significant slowdown from the 53.1% increase in 2022, owing to the adjustments made to the administered price of petrol by the State Trading Organization (STO), in line with the trends in global oil prices (Figure 22). In 2023, global crude oil prices stood at US\$80.8 per barrel in 2023, down from US\$97.1 per barrel in 2022, largely mirroring the imbalances in demand and supply. Accordingly, domestic price of petrol averaged MVR15.04 per litre⁹ in 2023, down from an average of MVR15.07 per litre recorded in 2022.

Similarly, health inflation rose to 4.5% in 2023, although this was a slight deceleration from

the 4.6% recorded in 2022. The growth in health inflation primarily stemmed from the increase in the cost of outpatient care services, which reflected higher doctor's consultation fees in private hospitals, although cost of medicines observed a slowdown during the year. Further, the cost of education services also increased mainly owing to the rise in the cost of early childhood and primary education.

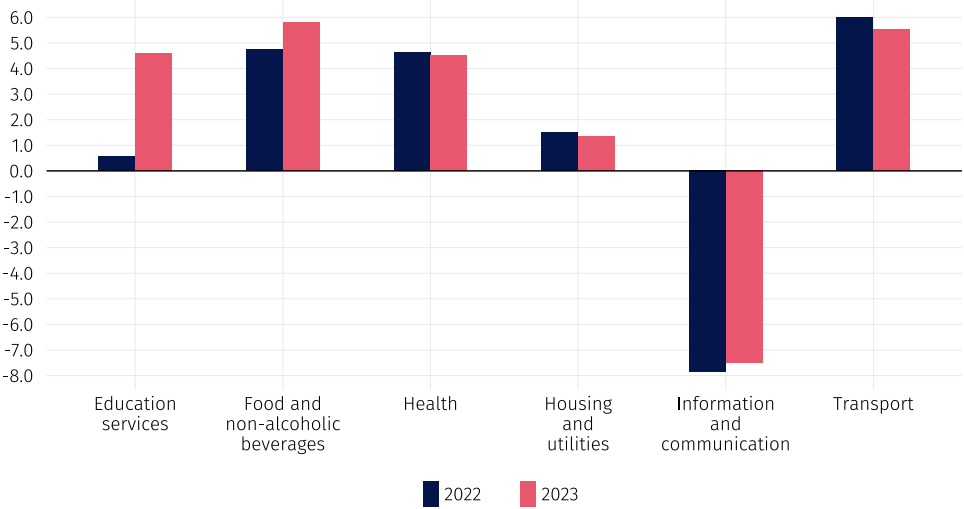
Meanwhile, the information and communication category, which fell by 7.5% exerted the most downward pressure on inflation during 2023, albeit at a slightly slower pace compared to the fall of 7.9% recorded in 2022 (Figure 21). This was largely driven by the decline in the cost of information and communication services, primarily owing to the fall in mobile communication services (-15.6%) together with the fall in prices of mobile telephone equipment (-4.9%). The reduction in cost of mobile communication services mainly reflected the lower unit prices in mobile broadband provided by telecommunication companies. This can be associated with the introduction of new and cost-effective mobile packages by telecommunication service providers. Further, housing rent—which carries a weight of 16.8% in the CPI basket—observed a decline of 0.4% in 2023, after remaining broadly unchanged in the preceding year.

⁸ Energy-related items include the price charged on electricity, gas and other fuels, and price of fuels and lubricants for personal transport equipment.

⁹ 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.

Figure 22: Inflation Rates of Selected Categories of CPI (National), 2022 - 2023

(annual percentage change)



Source: Maldives Bureau of Statistics

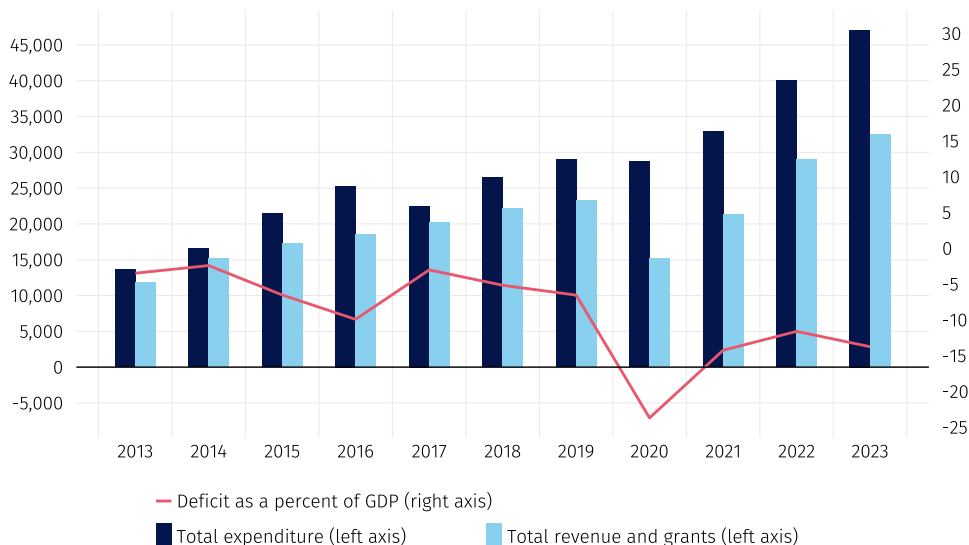
Public Finance

The fiscal deficit worsened to 12.7% of GDP in 2023, owing to a higher-than-expected outturn for expenditure resulting from delays in the implementation of the expenditure reduction policies set for the 2023 government budget, despite total revenue surpassing the budgeted target for the year. Total revenue rose due to the increase in tax collection, which reflected the hikes in both the G-GST and T-GST rates, as well as the execution of new revenue measures. Meanwhile, total expenditure outpaced the budgeted target due to a significant growth in both recurrent and capital expenditure.

According to the government budget 2023, fiscal policy was primarily geared towards the reduction of the elevated risks that surfaced due to the global pandemic, the Russia-Ukraine war, and the rise in global inflation. Further, the budget was aimed towards maintaining debt at a manageable level and the fiscal situation at a sustainable level, while allowing fiscal space to fulfil the key pledges of the government, as well as deploy the national resilience recovery plan and complete ongoing projects.

Total expenditure exceeded the approved budgeted amount, owing to increased spending on the national health insurance scheme (Aasandha), subsidies, and PSIP. As such, increased expenditure on Aasandha was driven by the delayed implementation of bulk procurement of drugs which was targeted for 2023. Additionally, the delay in implementation of the revised fuel and electricity subsidy regimes, and the commencement of developmental projects in 2023 that were

Figure 23: Government Revenue and Expenditure, 2013 - 2023
(millions of rufiyaa, annual percentage change)



Source: Ministry of Finance

delayed due to the pandemic, consequently increased the cost burden, and exceeded the expenditure estimates set for 2023. Reflecting this, the fiscal deficit worsened to MVR13.6 billion in 2023 from MVR11.4 billion in 2022. This was MVR5.0 billion higher than the fiscal deficit target (8.3% of GDP) set for the year, driven by a surge in total expenditure. In terms of GDP, the overall fiscal deficit¹⁰ is estimated to have widened to 12.7% of GDP in 2023, from 12.0% of GDP in 2022 (Figure 23). Similarly, the primary deficit¹¹ worsened to 9.0% of the GDP in 2023 from 8.3% in 2022. In 2023, total revenue increased, primarily driven by the growth in tax revenue, reflecting the upward revision of tax rates at the beginning of the year, combined with the implementation of new revenue policy measures. With the increase of the G-GST rate from 6% to 8% and the T-GST rate from 8% to 12%, effective from 1 January 2023, total revenue collection observed favourable results during 2023. Meanwhile, total expenditure posted a sizeable increase driven by a significant increase in both recurrent and capital expenditure.

Revenue

Total government revenue (excluding grants) rose to MVR32.9 billion in 2023, which was a significant growth of 17% when compared with 2022. Further, total revenue (excluding grants) also surpassed the budgeted amount for 2023 by MVR3.2 billion. This growth in revenue was primarily owing to the increase in tax revenue, underpinned by the increase in the tax rates for both G-GST and T-GST¹². In addition, total revenue (excluding grants) was boosted by the implementation of some of the new revenue

measures proposed in past Budgets, such as the expatriate quota fee, and the plastic bag fees. Meanwhile, non-tax revenue posted an annual decline of MVR262.5 million.

Tax revenue, the largest component of total revenue—73% of total revenue (excluding grants)—observed a growth of MVR4.6 billion, and totalled MVR24.1 billion during the year (Figure 24). This largely stemmed from the increase in the collection from goods and services tax category, mainly from T-GST followed by G-GST, which rose by MVR2.1 billion (to reach MVR8.7 billion), and MVR1.3 billion (to reach MVR4.5 billion), respectively, owing to the tax hike (Figure 25). This was followed by receipts from the business and property tax¹³, which observed the second-largest increase during the year. This primarily stemmed from the growth in business profit tax (BPT), followed by withholding tax revenue. Additionally, compared to 2022, revenue receipts from both the airport service charge and green tax increased, indicative of the robust tourist arrivals recorded for the year. Notably, revenue from T-GST did not reach the budgeted revenue target by MVR353.9 million, likely due to the annual reduction in resort bednights observed over the last three quarters of 2023.

In 2023, non-tax revenue—26% of total revenue (excluding grants)—plunged by MVR262.5 million and totalled MVR8.5 billion due to the decline in all the non-tax revenue categories, except for the other non-tax revenue category. The increase in the other non-tax revenue was largely driven by the increase in cross-subsidy earnings¹⁴. The largest decline stemmed from the fees and charges category, which decreased

¹⁰ Latest data available from the Ministry of Finance, as of 19 February 2024.

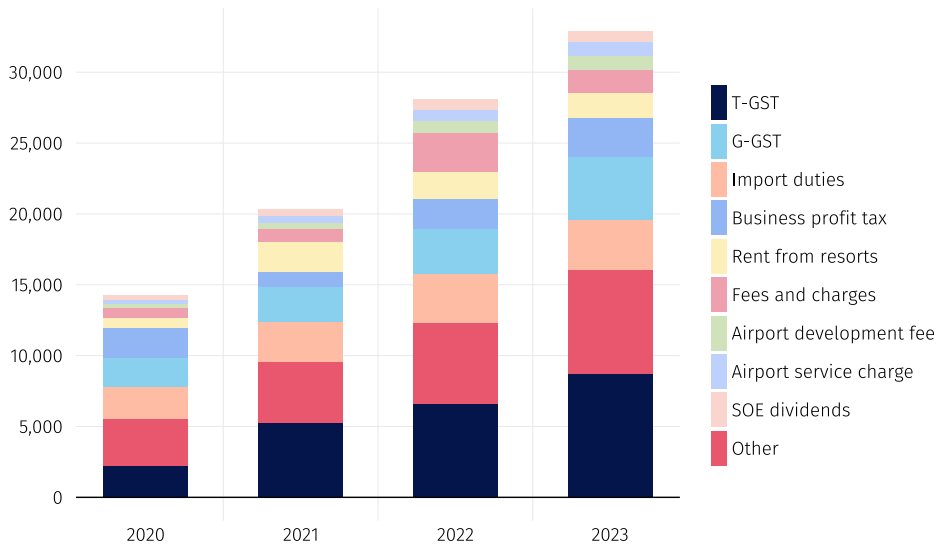
¹¹ This is the total budget balance excluding interest expenditure.

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

¹³ Business and Property Tax revenues for 2022 were collected during 2023.

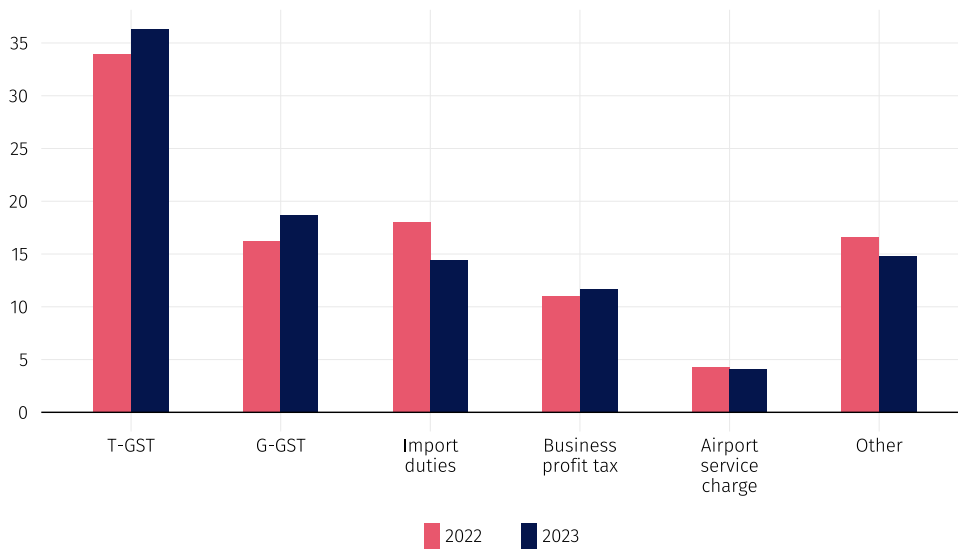
¹⁴ Cross-subsidy regulation (2022/R-125) outlines that the state could allocate islands, land plots, or lagoons for tourism purposes to private financiers or contractors to carry out projects with socioeconomic benefits.

Figure 24: Breakdown of Revenue (Excluding Grants), 2020 - 2023
(millions of rufiyaa)



Source: Ministry of Finance

Figure 25: Composition of Tax Revenue, 2022 - 2023
(percent)



Source: Ministry of Finance

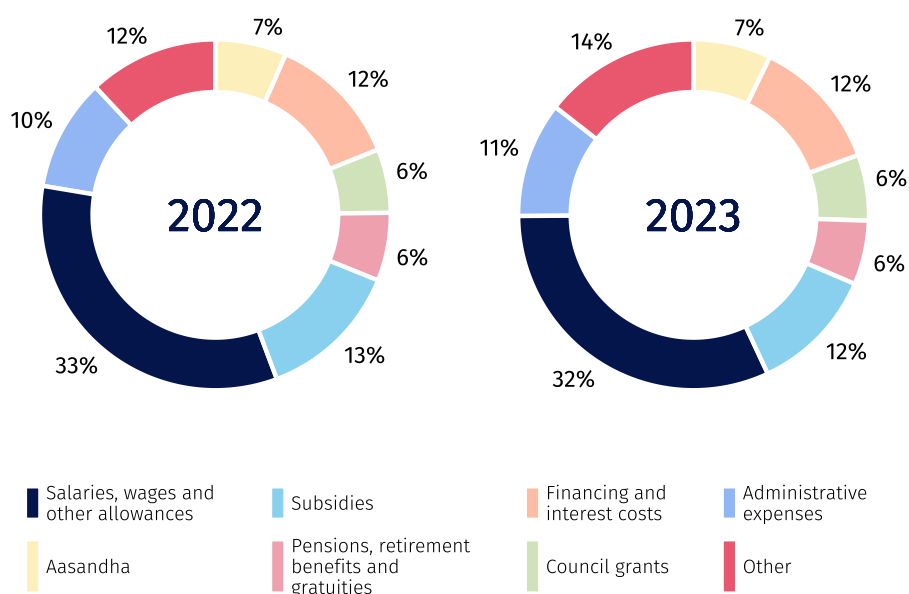
by MVR1.0 billion, primarily reflecting the drop in earnings from other fees and charges. The significant decline in other fees and charges can be attributed to the reduced earnings from lease period extension fees. Further, additional declines in non-tax revenue were observed from interests, profit, and dividends; property income, as well as fines and penalties, which decreased by MVR243.6 million, MVR233.1 million, and MVR87.3 million, respectively. The annual decline in property income mainly stemmed from the fall in collection of rent from resorts.

Expenditure

Total government expenditure (excluding net lending) amounted to MVR47.0 billion in 2023, registering a growth of MVR7.1 billion in annual terms. The annual increase in total expenditure was driven by a significant growth in both recurrent and capital expenditure, surpassing the budgeted amount for 2023.

Recurrent expenditure—which accounted for 68% of total expenditure—increased by MVR3.9 billion, and totalled MVR31.9 billion (Figure 26). This was 11% higher than the amount budgeted for recurrent expenditure in 2023. The largest increase in recurrent expenditure stemmed from administrative and operational expenses, which grew by MVR2.5 billion in annual terms and totalled MVR19.4 billion, followed by salaries and wages, which rose by MVR935.2 million and totalled MVR12.0 billion in 2023. Delving into the major contributors to administrative and operational expenses, a marked growth of MVR1.2 billion was observed in the grants, contributions, and subsidies category—which also accounted for the highest share of the total recurrent expenditure. This primarily mirrored a significant growth in expenses on other grants and contributions and the national health insurance scheme (Aasandha), which observed an annual growth of MVR495.0 million and MVR441.7 million, respectively. The expenditure on Aasandha

Figure 26: Government Recurrent Expenditure



Source: Ministry of Finance

totalled MVR2.3 billion—MVR1.2 billion higher than the amount budgeted for 2023, mainly owing to the delay in implementation of the bulk procurement of drugs planned for 2023 (Figure 27).

Meanwhile, salaries and wages—a major component of recurrent expenditure—recorded a growth of 8% in annual terms, driven by increases in salaries and wages, and allowances to employees. These increases can be attributed to the rise in costs on new employees with the formulation of new agencies during the year, as well as the pay harmonisation of health sector in May 2023.

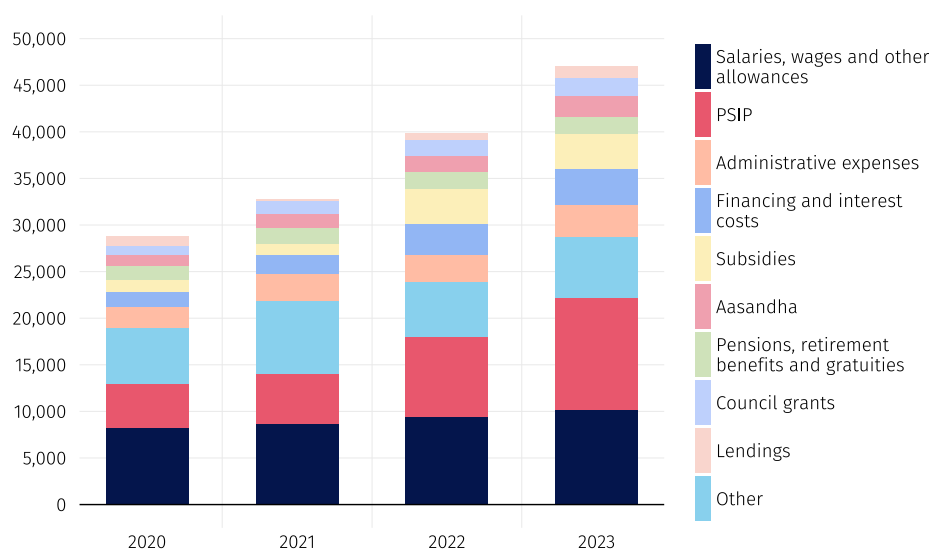
Capital expenditure (32% of total expenditure) recorded a growth of MVR3.3 billion, and totalled MVR15.1 billion in 2023—exceeding the approved budget amount for 2023 by MVR928.0 million. The annual growth in capital expenditure was largely driven by spending on infrastructure assets, due to the increase in the PSIP expenditure and posted an increase of MVR3.4 billion when compared with 2022.

This was primarily due to the faster-than-anticipated implementation and progress of projects, following the slowdown caused by the COVID-19 pandemic. In this regard, the most notable growths were observed in expenditure on land and buildings, and on roads, bridges, and airports, which posted an annual increase of MVR2.2 billion and MVR707.3 million, respectively, mirroring the spending on mega infrastructure projects of the government such as the ThilaMale’ Bridge Project, Gulhifalhu land reclamation and port development project, the development of Velana International Airport, and the Addu city road construction project. Conversely, expenditure on both development projects and investment outlays posted declines during the year, while both lendings as well as expenditure on capital equipment increased marginally in 2023.

Financing

The estimated fiscal deficit for 2023 was MVR2.2 billion higher compared with 2022, and MVR5.0 billion higher than the approved

Figure 27: Breakdown of Expenditure, 2020 - 2023
(millions of rufiyaa)



Source: Ministry of Finance

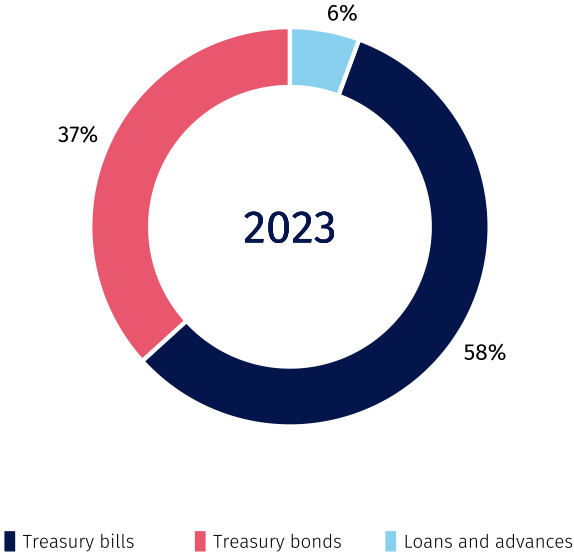
budget for 2023. This was owing to the growth in total expenditure, resulting in increased net borrowing in annual terms for 2023. In 2023, the fiscal deficit was mainly financed through domestic sources. As such, net borrowing through domestic sources significantly outpaced the budget target, while net borrowing through external sources was less than the amount budgeted for the year.

Domestic borrowing by the government—consisting of both short-term and long-term loans and debt securities—represented a net borrowing of MVR14.4 billion in 2023, a significant increase when compared with the net borrowing of MVR9.7 billion recorded in the previous year. This was primarily driven by the increase in the issuance of government securities. Further, the issuance of government securities—treasury bills and treasury bonds¹⁵—was the primary source of domestic

borrowing in 2023 (Figure 28). This mostly stemmed from the net issuance of treasury bonds, which recorded a net borrowing of MVR8.5 billion, while a net borrowing of MVR5.2 billion was recorded for treasury bills. The increase in treasury bonds largely reflects the conversion of MVR6.3 billion out of the public bank account deficit to an amortising bond during the year.

External financing includes borrowing as loans—contracted as buyer’s credit, bilateral, multilateral, private, and other sources as well as bonds issued in the international market. During 2023, external financing recorded a net borrowing of MVR4.3 billion. This largely stemmed from the growth in external borrowing obtained as buyer’s credit, followed by borrowings from multilateral sources and bilateral sources.

Figure 28: Composition of Domestic Claims on Government



Source: Maldives Monetary Authority

¹⁵ The pension recognition bond is not classified as a treasury bond as it is non-tradable.

Public Debt

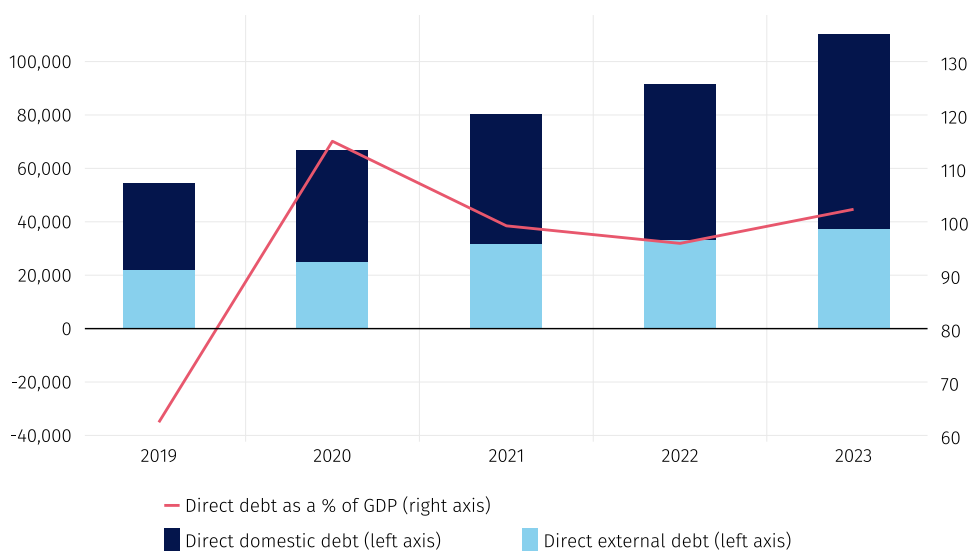
The total outstanding stock of public debt increased to MVR110.2 billion at the end of 2023, from MVR91.5 billion at the end of 2022, largely owing to the increase in domestic debt together with external debt. Similarly, public debt as a percentage of GDP increased to 102.7% in 2023 from 96.4% recorded in 2022 (Figure 29). Delving into the composition of public debt, domestic debt remained as the largest component with a share of 66%, while the share of external debt stood at 34% at the end of 2023. Meanwhile, total public and publicly guaranteed (PPG) debt stood at MVR124.2 billion in 2023 and PPG debt as a percentage of GDP rose to 115.9% in 2023 from 114.3% in 2022. Guaranteed debt, which primarily consist of external debt, observed a drop at the end of the year. This largely mirrored the repayment of US\$100 million foreign currency swap facility availed from the RBI in December 2023 (Figure 30).

Domestic debt totalled MVR72.8 billion at the end of 2023, up from MVR58.4 billion

in 2022, largely reflecting the increase in investments in treasury bonds by the MMA. Delving into the share of securities, the share of treasury bills in total domestic debt remained broadly unchanged at 58% in 2023, while the share of treasury bonds increased to 37% in 2023, from 29% recorded at the end of the previous year. Meanwhile, external debt, which consists of external borrowings in the form of loans and sovereign bonds issued in the international market, totalled MVR37.4 billion at the end of 2023, up from MVR33.1 billion at the end of 2022. During this period, external financing acquired as buyer's credit, other and multilateral sources dominated the composition of external debt.

Turning to the outstanding stock of treasury bills by holder, commercial banks remained the main investor in terms of holdings, with a share of 53%—a five percentage drop in share compared to 2022—of the total outstanding treasury bills, followed by the other financial corporations (44%) (Figure 31). With regard to

Figure 29: Total Outstanding Stock of Public Debt, 2019 - 2023
(millions of rufiyaa, percent)

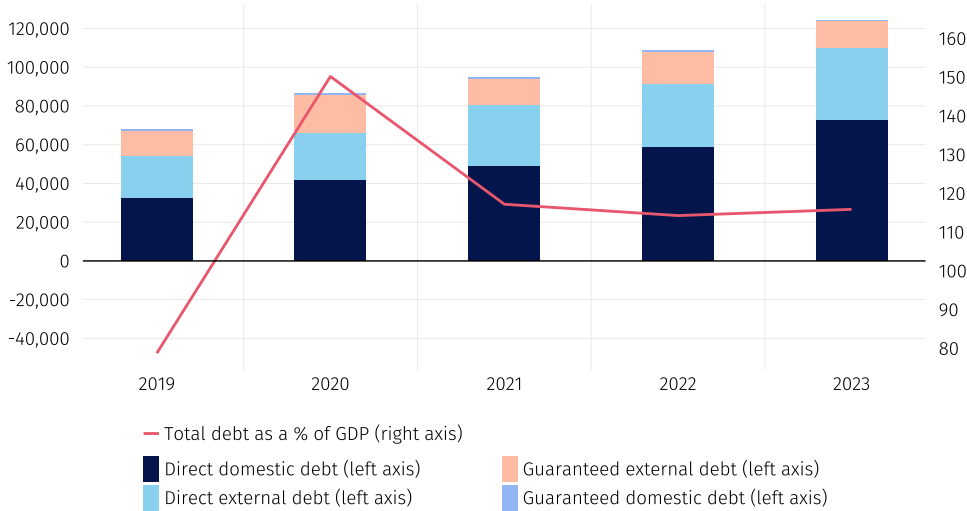


Source: Ministry of Finance

maturity, investor preference remains towards longer-term maturities as treasury bill issuance reverted to a tap system in 2014 (Figure 32). Accordingly, the majority of treasury bills (63%)

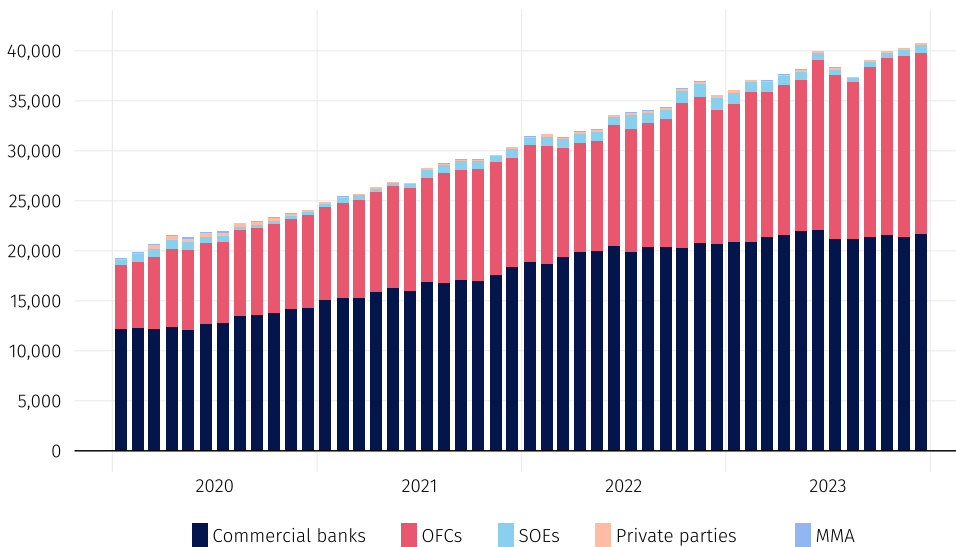
were invested in 1-year treasury bills at the end of the year. The stock of 1-month, 3-months and 6-months treasury bills outstanding at the end of 2023 was 19%, 5%, and 13%, respectively.

Figure 30: Total Outstanding Stock of Public and Publicly Guaranteed Debt, 2019 - 2023
(millions of rufiyaa, percent)



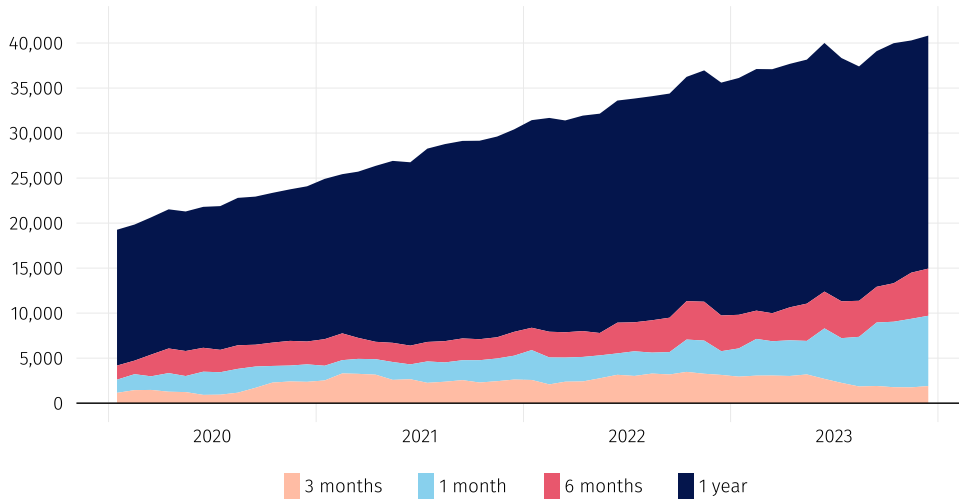
Source: Ministry of Finance

Figure 31: Outstanding Treasury Bills by Holder, 2020 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 32: Treasury Bills Holdings by Maturity, 2020 - 2023
 (millions of rufiyaa)



Source: Maldives Monetary Authority

Note: The outstanding amount of 1 month treasury bills for December 2021 includes treasury bills less than one month.

Monetary Developments

In 2023, the MMA continued to maintain an accommodative monetary policy stance, while the minimum reserve requirement (MRR) for both local and foreign currency stood at 10%. Further, from January 2023 onwards, the MMA commenced remuneration of local currency Islamic MRR at 1% per annum. During the year, broad money increased solely due to the annual growth in net domestic assets (NDA) of the banking system. This reflected an increase in domestic assets, mainly on the account of a rise in NCG, together with an increase in commercial banks' credit to the private sector and public non-financial corporations (PNFCs).

With regard to monetary developments, reserve money registered a marginal annual decline in 2023, as a significant increase in NDA of the MMA was largely offset by a decline in net foreign assets (NFA) of the MMA. As for broad money, an annual increase was recorded, owing to a sizeable increase in NDA, despite a decline in NFA of the banking system.

Reserve Money

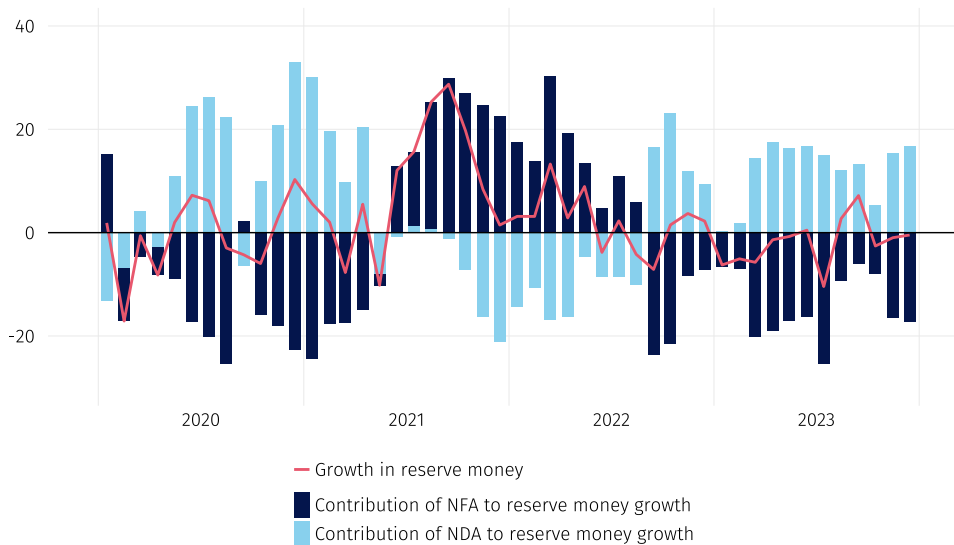
Reserve money stood at MVR12.6 billion at the end of 2023—registering a marginal annual decline of 0.5% (Figure 33). The marginal

decline in reserve money stemmed mainly from the decline in NFA of the MMA, which offset the increase in NDA of the MMA. The fall in NFA was driven by a decline in foreign asset accumulation, despite a decrease in foreign liabilities. The decrease in foreign liabilities largely reflected the repayment of US\$100 million foreign currency swap¹⁶ in December 2023, which was availed from the RBI in December 2022.

Meanwhile, the growth in NDA was solely due to a sizeable increase in NCG, stemming from a rise in claims on central government

Figure 33: Sources of Reserve Money, 2020 - 2023

(annual percentage change, contribution percent)



Source: Maldives Monetary Authority

¹⁶ The repayment of foreign currency swap decreases both foreign currency assets and liabilities.

coupled with a decline in liabilities to central government. As such, the increase in claims on central government mirrored the impact of the conversion of the overdrawn amount of the public bank account (PBA) to an amortising bond and continued monetary financing, despite the increase in overnight deposit facility (ODF) placements. In this regard, the overdrawn amount of the PBA was converted to an amortising bond on two occasions—MVR4.4 billion in March 2023 and MVR1.9 billion in December 2023—which further increased the holdings of government securities by the MMA (Box 1).

With regard to the components of reserve money, commercial bank deposits at the MMA—which constituted 66% of reserve money at the end of 2023—decreased by 7% in annual terms. Meanwhile, currency in circulation, which accounted for 32% of reserve money, recorded a growth of 9% at the end of 2023. Further, securities issued by the MMA to public

non-financial corporations (PNFCs) accounted for 2% at the end of the year.

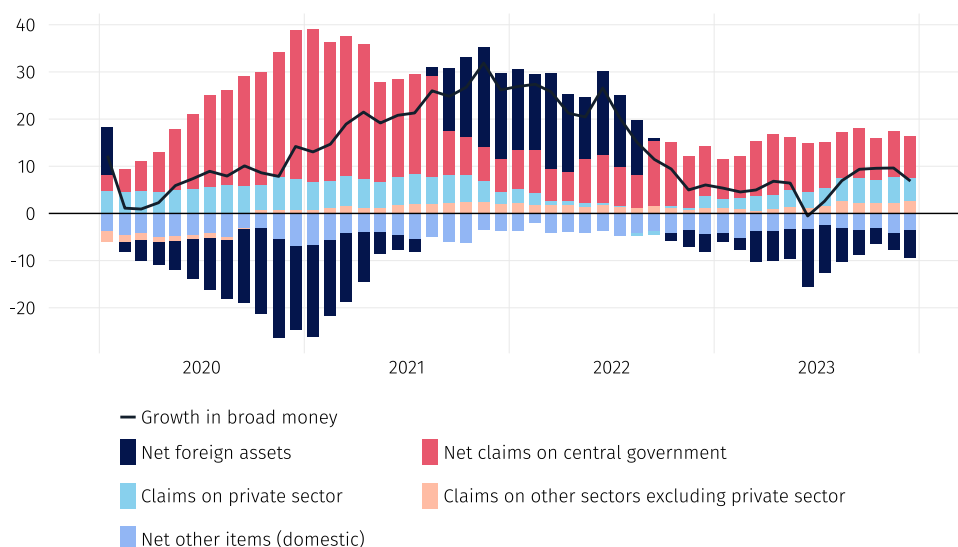
Monetary Operations

During 2023, commercial bank investments in the ODF facilitated the absorption of excess rufiyaa liquidity in the banking system. While daily investments in the ODF by commercial banks averaged MVR7.1 billion during the year, this represented a growth of 19% when compared with the average investments in the ODF during 2022, largely reflecting the increase in local currency liquidity (Box 3).

Broad Money

Broad money observed an annual growth of 7% and increased to MVR59.2 billion at the end of 2023, a slight acceleration compared to the growth of 6% recorded at the end of 2022 (Figure 34). The acceleration in broad money growth stemmed from a sizeable growth in

Figure 34: Contribution to Broad Money Growth, 2020 - 2023
(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

NDA of the banking system, while NFA of the banking system posted a significant decline.

The NDA of the banking system recorded an annual increase of 16% at the end of December 2023, owing to the rise in NDA of the commercial banks and the MMA. The rise in NDA of commercial banks was mainly on the account of the increase in commercial banks' credit to the private sector, which grew by MVR2.7 billion. This was followed by the rise in NCG, which posted a growth of MVR1.8 billion, primarily reflecting the annual expansion of investments in government securities. Further, commercial banks' credit to the PNFCs also contributed to this increase, recording a growth of MVR1.6 billion. Meanwhile, the growth in NDA of the MMA stemmed from a notable increase in NCG, which outpaced the increase in ODF placements by commercial banks.

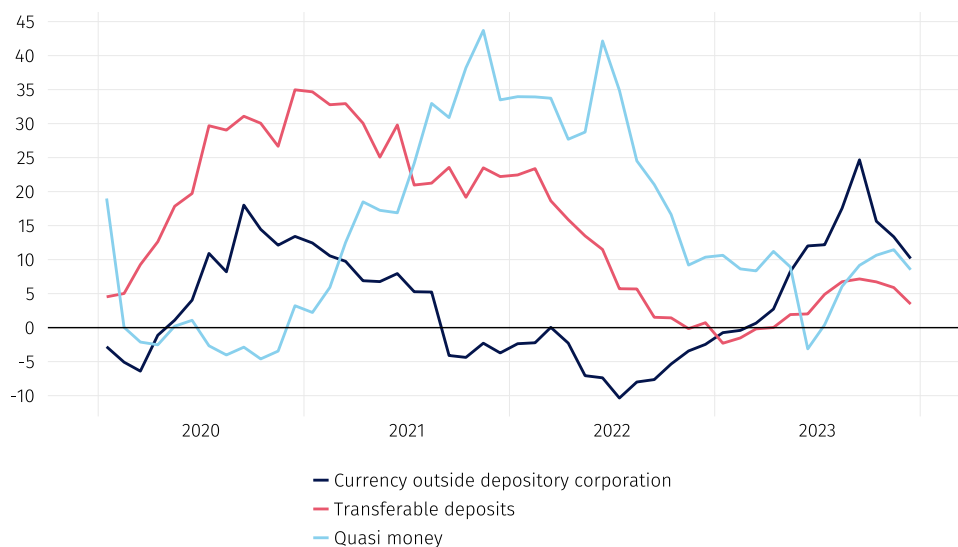
The NFA of the banking system recorded an annual decline of 27% at the end of December 2023, driven by the fall in NFA of both the MMA and the commercial banks. The fall in NFA of

the MMA mainly reflected the significant fall in foreign asset accumulation, despite the decline in foreign liabilities. Similarly, the fall in NFA of commercial banks stemmed from a fall in foreign assets owing to the decline in foreign currency demand deposits held abroad.

With regard to the components of broad money, its annual growth rate was mostly driven by the annual growth of quasi money (Figure 35). However, quasi money, which accounted for 60% of broad money, observed a slight deceleration in growth to 9% at the end of 2023, after recording a growth of 10% in 2022, largely reflecting an annual decline in demand deposits denominated in foreign currency. In contrast, notable growths were observed in time deposits denominated in both foreign and local currency, and savings deposits denominated in local currency. Meanwhile, narrow money, accounting for 40% of broad money, accelerated to 4% at the end of 2023, after remaining broadly unchanged at the end of 2022, primarily reflecting a growth in local currency demand deposits.

Figure 35: Components of Broad Money, 2020 - 2023

(annual percentage change)



Source: Maldives Monetary Authority

Net Claims on Central Government

At the end of 2023, NCG totalled MVR38.0 billion and registered an annual growth of 15%, although this was a deceleration compared with the 20% growth recorded in 2022. In this regard, NCG by the MMA rose by 32%, largely owing to the increase in claims on central government, stemming from the conversion of the overdrawn amount of the PBA to an amortising bond in March and December 2023. Meanwhile, NCG of commercial banks grew by 8% at the end of 2023, driven by commercial banks' investments in government securities. The outstanding stock of government

securities held by commercial banks, which consisted mostly of treasury bills, amounted to MVR28.4 billion at the end of the review year. This represented an annual growth of 9%, primarily reflecting commercial banks' net investments in treasury bills.

In 2023, the MMA's NCG stood at MVR12.6 billion and accounted for 99% of the domestic assets of the MMA. Meanwhile, commercial banks' NCG amounted to MVR25.4 billion and accounted for 32% of the domestic assets of the commercial banks.

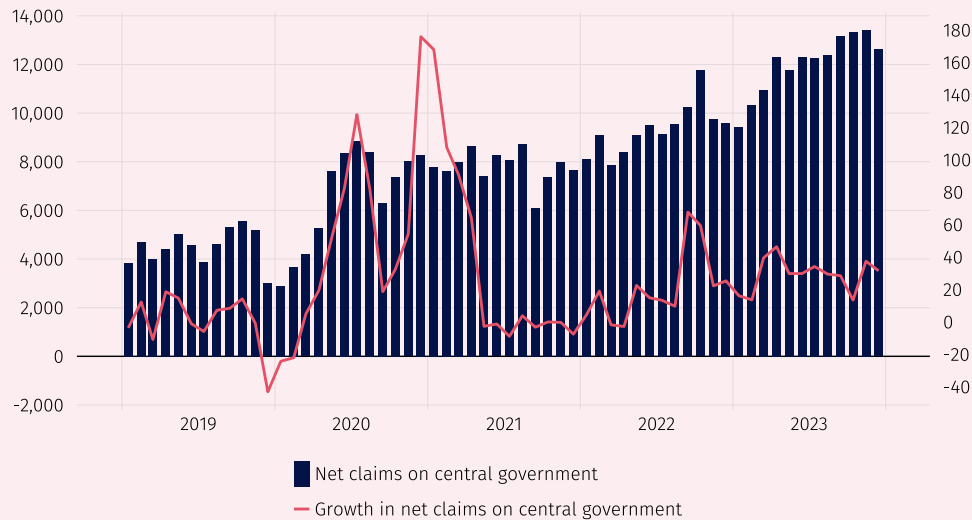
Box 1: Trends in MMA's Net Claims on Central Government, 2019 – 2023

Net claims on central government (NCG) by the MMA stood at MVR12.6 billion at the end of 2023, registering a substantial increase of MVR9.7 billion when compared with the beginning of 2020 (Figure 1). At the onset of COVID-19 pandemic, upon the request of the government, the People's Majlis temporarily suspended Chapter 32, Articles (a), (d) and (e) of the Fiscal Responsibility Act (FRA), temporarily increasing the overdrawn limit of the public bank account (PBA) for a period of one year until April 2021. This allowed the government to overdraw the PBA up to MVR4.4 billion without any interest charges.

As per the FRA, which came into effect in 2014, the government was limited to short-term borrowings (up to 91 days) from the MMA to amounts equal to 1% of the average government revenue in the past three years. Further, the government was only allowed to obtain 14-day maturity loans for cash flow and debt management purposes. However, the FRA includes an escape clause, that allows exemption to the adherence to fiscal rules in the event of a natural disaster or a severe economic downturn, with the approval of the People's Majlis upon the request of the government, for a period of one year. A natural disaster is an instance where 15% of the population suffer damages due to natural causes. The definition of an economic downturn in the FRA is vague; however, it mainly covers instances where national output registers stagnant growth in consecutive periods, inflation and unemployment increases and when there is a systemic banking or financial sector crisis or a balance of payments crisis.

Figure 1: MMA's Net Claims on Central Government, 2019 - 2023

(millions of rufiyaa, annual percentage change)



Source: Maldives Monetary Authority

With the suspended articles of FRA, which allows the government to overdraw the PBA up to MVR4.4 billion, NCG showed a significant growth in the subsequent months of 2020, despite remaining relatively stable pre-pandemic (2019) and peaked in December 2020 with an annual growth rate of 176% before the growth rate started to slowdown in the following months. Meanwhile, an extension to the suspended articles was granted for an additional one-year period until April 2022, upon the expiry of the initial suspension in 2021. Further, the People’s Majlis approved the government’s request for the extension of the overdraft facility in November 2021 until December 2023.

While no changes were brought to the overdrawing limit, the MMA began charging an interest rate of 1.5% per annum on the daily overdraft amount of the PBA on each day the PBA is overdrawn, starting from February 2022. This was followed by the conversion of MVR2.5 billion out of the PBA deficit amount to a 40-year bond by the government in the same month. A year later, the overdrawn balance of MVR4.4 billion was converted to a 40-year amortising bond in March 2023, which further increased the holdings of government securities by the MMA, while the overdrawing limit was lowered to MVR2.0 billion on the same date. This was also evidenced from the data as NCG growth peaked for the year in April 2023, mirroring both the impact of securitisation and continued monetary financing. In December 2023, the government submitted a request to the People’s Majlis to terminate the suspension of Chapter 32, Articles (a), (d) and (e) of the FRA, discontinuing the overdrawing of the PBA, and converted the overdrawn balance of MVR1.9 billion to a 30-year amortising bond.

Credit to the Private Sector

The annual growth in the outstanding stock of commercial banks' credit to the private sector stood at 9% at the end of 2023, an acceleration from the 5% recorded at the end of 2022 (Figure 36). The annual growth in private sector credit stemmed from both local and foreign currency lending, which grew by 10% and 8%, respectively. In 2023, local currency lending accounted for 56% of total private sector credit, while the share of foreign currency lending stood at 44%.

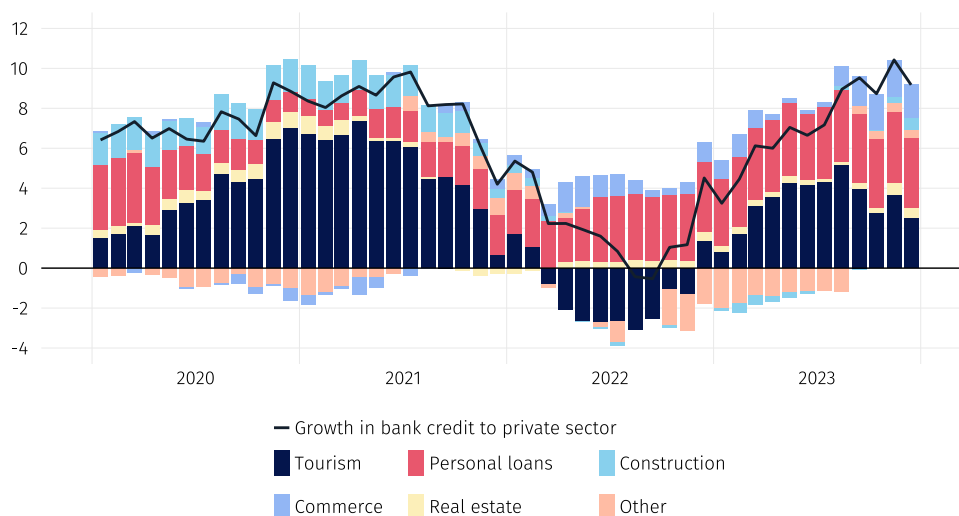
With regard to the breakdown of private sector credit by economic sectors, credit extended to the tourism sector, which accounted for 38% of total private sector credit, recorded an annual growth of 6% at the end of 2023, an acceleration from the 3% recorded at the end of 2022. This reflected the substantial growth in working capital loans to the sector in both foreign and local currency, as well as credit extended for new resort development in both foreign and local currency. Further, foreign currency lending for renovation of resorts, yacht safari building, and guesthouses observed increases and offset the declines in these categories in local currency lending. Loans to the construction

sector, which accounted for 19% of total private sector credit, registered a growth of 3% in 2023, after remaining broadly unchanged in 2022. This primarily stemmed from the growth in credit extended for residential housing loans in local currency, which offset the decline in credit extended for other housing category in foreign currency. During the year, credit extended as personal loans (18% of total private sector credit) observed the largest increase, recording a growth of 23%, primarily due to the rise in local currency lending in the form of credit cards and loans extended for consumer durables.

Meanwhile, credit extended to the commerce sector (12% of total private sector credit) observed a growth of 14%, while real estate financing (7% of total private sector credit) posted a growth of 7%. The growth in commerce sector credit stemmed from an annual increase in lending for wholesale and retail trade in both foreign as well as local currency, whereas the growth in credit for real estate mainly stemmed from the increase in credit for residential housing category in local currency (Box 2).

Figure 36: Contribution to Bank Credit to Private Sector by Economic Sectors, 2020 - 2023

(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

Box 2: Bank Lending Conditions in 2023

Introduction

Lending by commercial banks play a critical role in fostering investment and growth within the Maldivian economy, with its developments having broader monetary and financial implications. To enhance the MMA's understanding of credit conditions and supplement monetary policy decision making, the MMA conducts the Bank Credit Survey (BCS) on a quarterly basis. The survey aims to capture the commercial banks' perceptions of current and expected changes in the demand for and supply of bank credit, covering both the business and household lending markets. In 2023, commercial banks generally reported a tightened stance towards bank lending, despite the elevated demand for credit, on average. The results of the surveys conducted in 2023 are summarized below.

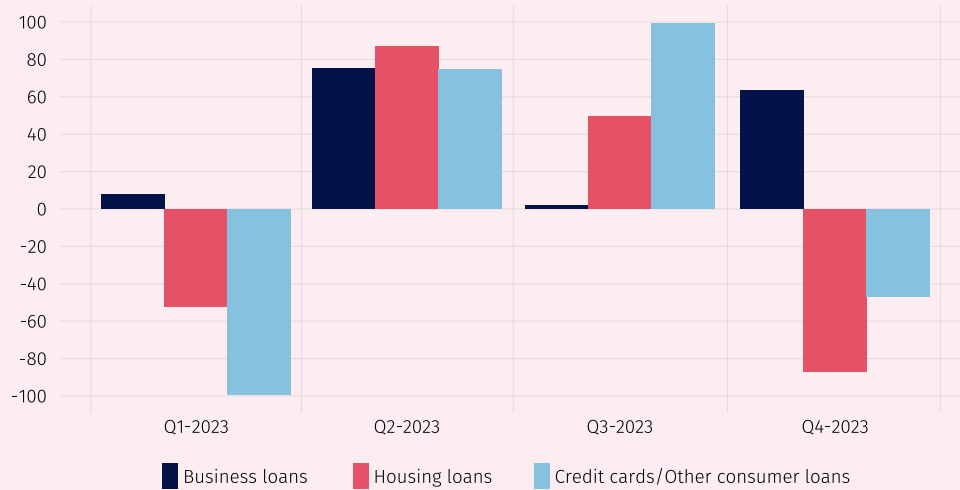
Demand for Credit

The demand for business loans was reported to have increased throughout 2023, with significant increases reported during the second and fourth quarter, largely stemming from the demand for longer-tenure business loans. During the year, the increase in demand was predominantly driven by the wholesale and retail sector, followed by the tourism sector. Overall, banks cited funding requirements for inventories and working capital, capital investments, and refinancing needs to be the key forces behind the increase in demand for business loans during 2023.

After a notable decline in Q1-2023, the demand for housing loans was reported to have picked up significantly in the second and third quarters, although a decline in demand was reported in Q4-2023. The main factors attributable to the upswing in demand were positive housing market prospects due to the increase in social housing projects, together with refinancing requirements. Meanwhile, the decline, especially during the last quarter, was denoted to have been driven by the completion of and revisions to the terms and conditions of social housing projects.

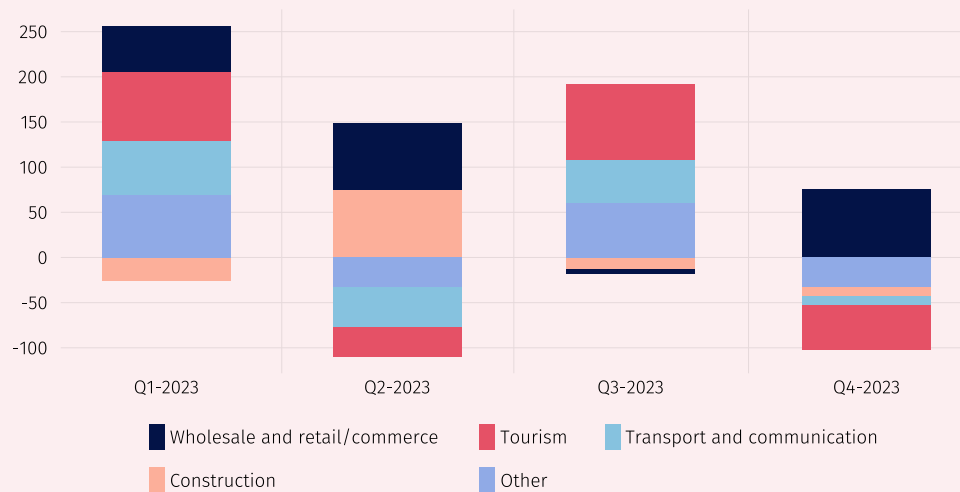
Similar to housing loans, banks indicated a decline in the demand for credit cards and other consumer loans during the first and fourth quarters, with significant hikes in demand reported during mid-year. Spending on durable goods and general consumption, supplemented with promotional campaigns conducted by banks, were highlighted to have been the prime contributors to the increase in demand during the year. Meanwhile, banks reported to have seen a decline in demand following the end of promotional campaigns (Figure 1 and 2).

Figure 1: Demand for Credit, 2023
(diffusion index)



Source: Maldives Monetary Authority

Figure 2: Demand for Business Loans by Economic Sector, 2023
(diffusion index)



Source: Maldives Monetary Authority

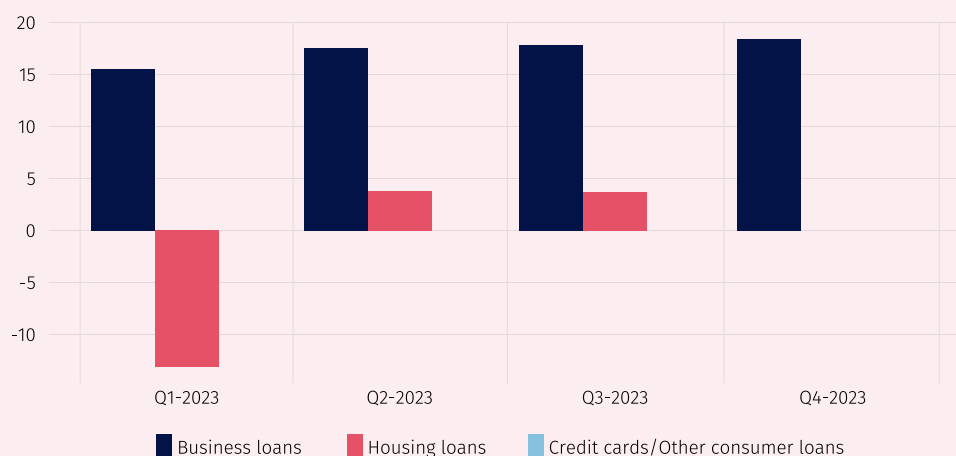
Supply of Credit

Following the past trend, commercial banks reported that the supply of business loans was consistently tightened throughout the year, reflecting the tightening of both short-term and long-term loans. As such, the terms and conditions of business loans were tightened by increasing the interest charged on foreign currency loans, decreasing the maturity and size of loans, and raising loan requirements such as equity contributions and collateral.

Considering the supply of housing loans, banks reported a moderate increase during Q1-2023, through the ease of terms and conditions, which increased the loan eligibility for a significant number of applicants. This was followed by a marginal tightening in the following two quarters, with the supply of housing loans reported to have remained unchanged in Q4-2023. By comparison, banks reported the supply of credit cards and other consumer loans to have remained broadly unchanged throughout the year, similar to the terms and conditions of such loans.

Moreover, when asked about the general factors affecting the supply of all loan categories, banks reported cost of funds, balance sheet constraints and risk perspectives to have had a major impact on lending for all three types of loans in 2023. In particular, banks indicated exposure limits to specific sectors, risk on collateral demanded, NPLs, uncertain general economic conditions and cost of funds for foreign currency loans to have had a tightening impact on lending during the year (Figure 3).

Figure 3: Supply of Credit, 2023
(diffusion index)



Source: Maldives Monetary Authority

Note: Positive diffusion index (DI) indicates a tightening of credit supply, while negative DI indicates an ease in credit supply.

Further Insights

Apart from the general questions assessing the demand and supply of credit during each quarter, the BCS also includes contemporary questions to further understand the developments in the credit market. In light of the continued foreign currency liquidity challenges within the economy post Covid-19, starting from Q3-2021, the BCS included a question on the impact of tourism sector seasonality on foreign currency liquidity, and its subsequent impact on the banks' foreign currency lending. Overall, banks expressed that foreign currency liquidity continued to have a tightening impact on foreign currency lending to businesses and households in 2023, regardless of the fluctuations in liquidity in line with tourism sector seasonality.

Since Q2-2022, the survey also asked banks regarding the impact of global interest rate hikes on banks' foreign borrowings (including borrowings from banks' headquarters). Generally, banks indicated the foreign borrowings declined or to have remained unchanged in the face of the interest rate hikes in 2023.

Further, an open-ended question was included in the Q1-2023 survey, to gauge banks' perceptions regarding the main determinants of interest rates. Most of the banks cited characteristics of individual borrowers and businesses such as credit rating, proposed collateral and debt serviceability to be one of the main determinants of interest rates charged by the banks. Alongside this, financing purpose and loan characteristics such as tenure and size were also reported as strong contributing factors in determining the level of interest rates set by the banks. Banks also listed the cost of funding, and banks' strategy and profitability to be key determinants of interest rates.

Interest Rates

The indicative policy rate of the MMA remained at 4.00%, unchanged since its last revision in September 2014. The interest rates on treasury bills also remained unchanged since their last revision in November 2014. Accordingly, the interest rates on 1-month, 3-months, 6-months and 1-year treasury bills stood at 3.50%, 3.87%, 4.23% and 4.60% per annum, respectively, throughout the year.

With regard to the weighted average interest rates (WAIR) levied on loans and advances, the rate on local currency-denominated

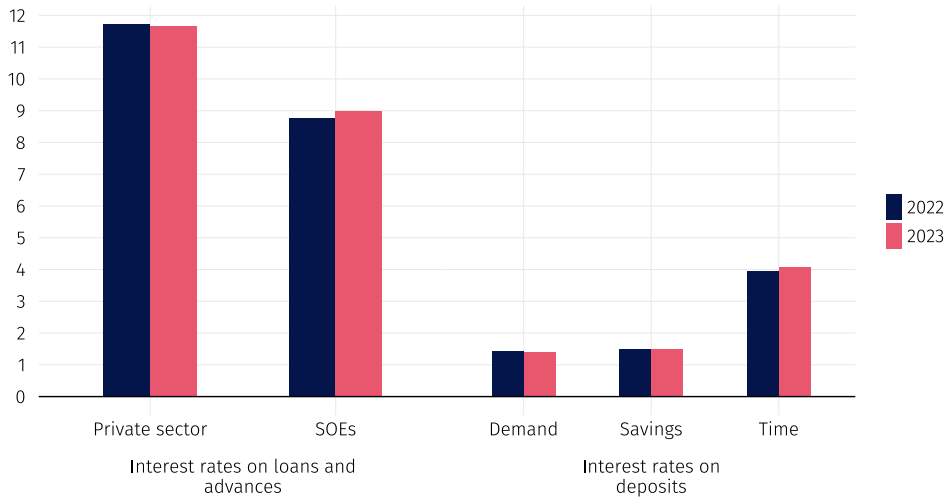
loans to the private sector decreased by 8 basis points (bps), while the rate on foreign currency-denominated loans to the private sector increased by 18 bps, in annual terms, at the end of 2023. Moreover, the WAIR on local currency loans extended to PNFCs increased in annual terms by 21 bps, although the rate on foreign currency loans extended to PNFCs decreased by 3 bps (Figures 37 and 38).

With regard to the interest rates on deposits at the end of the year, the WAIR on local currency demand deposits decreased by 3 bps, while

such deposits denominated in foreign currency increased by 9 bps. Meanwhile, the WAIR on local currency savings deposits remained broadly unchanged, although the rate on foreign currency savings deposits fell by 2 bps.

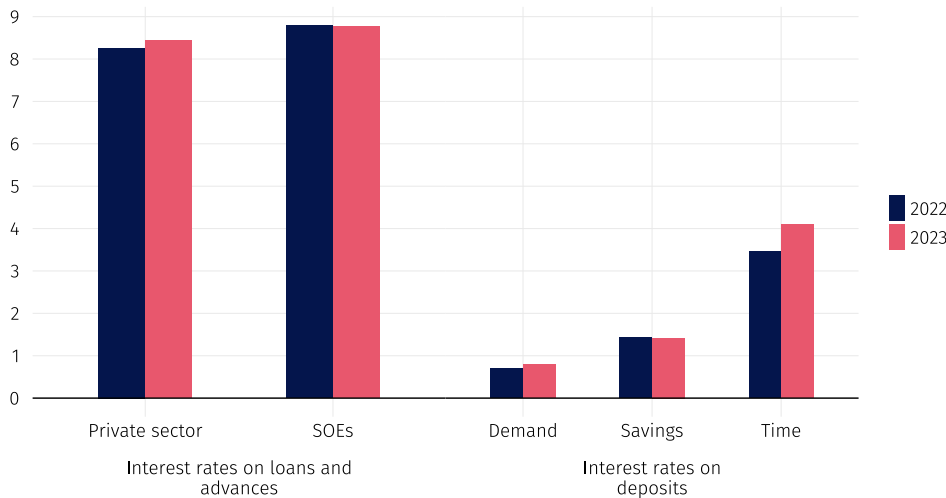
For time deposits (maturity of six months to one year), the WAIR on both local and foreign currency time deposits rose by 12 bps and 64 bps, respectively.

Figure 37: Interest Rates for Loans and Deposits (Local Currency), 2022 - 2023
(weighted average interest rates per annum)



Source: Maldives Monetary Authority

Figure 38: Interest Rates for Loans and Deposits (Foreign Currency), 2022 - 2023
(weighted average interest rates per annum)



Source: Maldives Monetary Authority

Box 3: Commodity Murabahah Facility

Islamic finance in the Maldives has come a long way from its humble beginnings two decades ago. What began as a simple agency operation of a Sri Lankan takaful operator has matured into a vibrant and comprehensive industry. The lack of a well-established money market that facilitates the participation of Islamic financial institutions (IFI) has hindered the growth of Islamic finance in the country. Additionally, this absence has hindered the inclusion of IFIs in the monetary policy operations of the MMA. To address this challenge the MMA developed the Commodity Murabahah Facility (CMF). The CMF are monetary policy instruments and a liquidity management mechanism based on the Islamic principle of Tawarruq, using a Shari'ah compliant commodity as the underlying asset. It provides certainty of returns as it is undertaken based on a pre-agreed 'mark-up' from the sale and purchase of the underlying commodity.

Tawarruq is a popular Shari'ah compliant financing structure used in various jurisdictions to manage short-term liquidity. It consists of two separate sale and purchase transactions. The first transaction involves the sale of an asset or commodity by a seller to a buyer on a deferred payment basis. Subsequently, in the second transaction, the buyer will sell the same asset or commodity to a third party for cash on spot basis. Most Southeast Asian jurisdictions such as Malaysia hold the view that Tawarruq is an over-arching arrangement where multiple contracts work together; Wakalah (Agency), Murabahah (Cost-plus profit sale) and Musawamah (simple sale) to complete the arrangement. These jurisdictions also prefer the term Commodity Murabahah to define the same arrangement.

What is Commodity Murabahah Facility?



- Commodity Murabahah Facility is an arrangement between the MMA and an IFI for the purpose of generating liquidity through a sale mechanism involving commodities.
- The underlying contracts in the arrangement are:

- Wakalah (Agency) - The IFI appoints the MMA as its agent to buy or sell commodities on its behalf.
 - Murabahah (Cost-plus profit sale) - The sale of commodities between the MMA and IFI at cost-plus profit to be settled at a future date.
 - Musawamah (Simple sale) - The sale of the commodities between the contacting parties and the Exchange for same day settlement.
- The buying and selling of commodities under the Murabahah contract results in a financial obligation by one party, and the sale of the same commodities under the Musawamah generates liquidity that can be utilized by the debtor.

The CMF is designed to utilise Shari'ah compliant commodities traded in the Bursa Suq Al Sila' (BSAS) commodity exchange as an underlying commodity. BSAS is a commodity trading platform, owned and operated by Bursa Malaysia, specifically dedicated to facilitating liquidity management of IFIs. It is a fully electronic web-based trading platform that enables participants to undertake multi-commodity and multicurrency trades.

IFIs that want to participate in the CMF must sign a Master Agency Agreement and a Master Murabahah Agreement. The Master Agency Agreement designates the MMA either as a purchasing agent (for deposit products) to procure commodities or as a selling agent (for financing products) to sell commodities on behalf of the IFI. The Master Murabahah Agreement governs the buying and selling of commodities between the MMA and the IFI.

The CMF is comprised of two broad product categories. Namely deposit products and financing products. The deposit product termed as CMF Deposit is used for the following purposes:

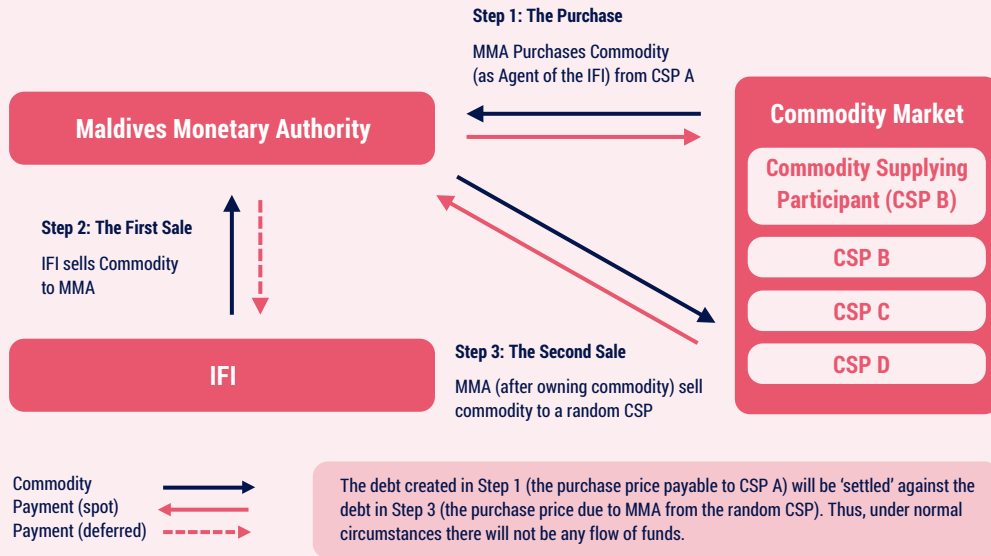
- Offer standing overnight deposit facilities to interested institutions.
- Remunerate the reserves maintained by Islamic banks and Islamic banking windows to fulfil the MRR.
- Absorb excess liquidity from the system through open market operations (OMO).

On the other hand, the financing product termed as CMF Financing will be used for the following purposes:

- Offer standing overnight financing facilities to interested institutions.
- Inject liquidity into the system through OMO.

CMF Deposit Product Structure

The CMF Deposit Structure consists of three steps; the purchase, the first sale and the second sale.



The Purchase: The IFI places a purchase instruction as per the Master Agency Agreement to purchase specific commodities from BSAS. Based on the instruction, the MMA will purchase the commodities. This purchase is on debt basis between the MMA (in its capacity as the agent) and the supplier (with BSAS acting as the settlement agent of the supplier) to be settled or set-off by the closing of the market for the day. The MMA is obligated to acquire the commodities from the supplier only when the IFI has supplied funds equivalent to the purchase price. On the completion of the purchase, the legal ownership of the commodities will be transferred to the IFI, denoted by an electronic certificate issued by the BSAS. Likewise, the MMA will take constructive possession of the commodities on behalf of the IFI.

The First Sale: Once the IFI has the ownership of the commodities, the MMA (in its own capacity and not in its capacity as an Agent) will offer to purchase the commodities and upon the IFI accepting such an offer, a Murabahah sale (the First Sale) will be affected between the IFI and the MMA on deferred payment basis. This transaction will also be conducted via the BSAS. Legal title will move from the IFI to the MMA denoting the transfer of ownership of the commodities. This transfer will be represented by a second electronic certificate issued by the BSAS. The quantum of the deferred payment for the first sale will be the sum of (1) the purchase price paid under the purchase; and (2) a profit amount agreed between the MMA and the IFI beforehand.

The Second Sale: After finalizing the initial sale and acquiring ownership of the commodities, which are now in its constructive possession, the MMA will proceed with the sale of these commodities via BSAS to a random commodity supplier, on debt basis to be settled before the closing of the Market for the day by BSAS. Upon conclusion of the second sale, the legal title and thus the ownership of the commodities will be transferred from the MMA to the random commodity supplier. This transfer of ownership will be denoted by a third electronic certificate issued by the BSAS.

After the conclusion of the second sale, the debt created under the purchase (the purchase price payable to the initial supplier of the commodities) will be 'settled' against the debt created under the second sale (the purchase price due to the MMA from the random commodity supplier). This set-off process is carried out in line with the 'debt settlement through agents' process adopted and followed by the BSAS.

The MMA has adopted a phased approach to the implementation of the CMF, with Overnight Deposit Facility on 1 December 2022 and MRR remuneration on 2 January 2023. During the year 2023, a daily average of MVR437 million was placed as CMF overnight deposits earning a profit of almost MVR20,000 a day. At the same time, an average MRR of almost MVR596 million was remunerated¹, earning the IFIs an average profit of MVR226,000.

With the successful implementation of the CMF ODF and MRR remuneration, the MMA is currently working towards expanding the CMF to include overnight financing and OMO instruments.

¹ MRR placements are calculated and remunerated every two weeks. In 2023 IFIs were remunerated 25 times for their MRR placements.

Financial Sector

The financial sector remained well capitalized and resilient. Banks, which make up more than 90% of the financial institutions' assets, remained strong with growth in assets, robust capital and profitability indicators, and continued maintenance of prudent levels of the NPLs and liquidity buffers. Gross written premiums (GWP) of the general insurance industry increased but the profitability declined due to increased claims. The profitability of the non-bank financial institutions also declined; the reason being the increase in non-performing loans during the year

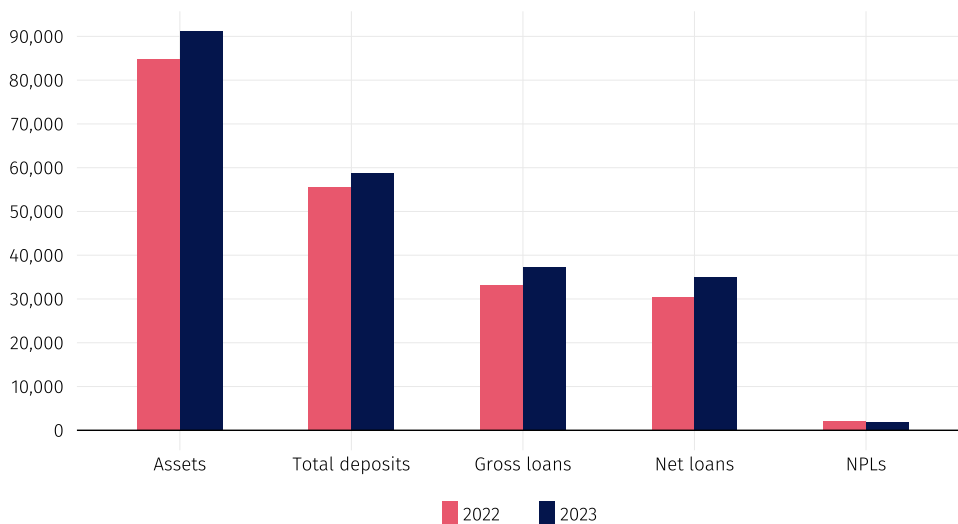
The financial sector of the Maldives regulated by the MMA consists of banks, non-bank financial institutions, and payment service providers. The banking sector consists of eight commercial banks, of which one is fully locally owned; two more are partly locally owned; one is a subsidiary of a foreign bank; and four are foreign bank branches. The non-bank financial institutions include five insurance companies, three finance companies, two money remittance providers, and four payment service providers. The Pension Fund as well as

the activities related to the capital market are regulated by the Capital Market Development Authority.

Banking Sector

The banking sector remained strong with growth in the assets, and robust capital and profitability indicators. The deposits and loan portfolio of the banks increased, while the NPLs decreased, with sufficient loan loss provisions coverage being maintained (Figure 39).

Figure 39: Key Indicators of Banking Industry, 2022 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

The capital adequacy ratios remained strong and well above the regulatory requirements. Total capital as a percentage of risk-weighted assets stood at 51%, while leverage capital, measured by tier 1 capital to total assets, was 19%; both the ratios being significantly higher than the minimum regulatory requirements of 12% and 5%, respectively. The high risk-based capital ratio is on account of the large portion of assets being low-risk. At the end of the year, aggregate capital stood at MVR22.5 billion, which is an annual growth of 12% (Figure 40).

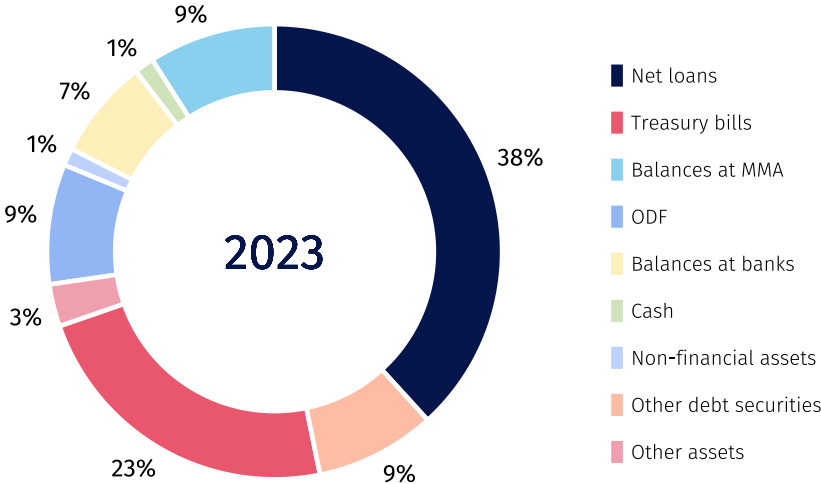
Total assets recorded an annual growth of 7% (MVR6.3 billion) and stood at MVR91.2 billion, driven by the growth in deposits and capital during the year. An annual growth of MVR3.2 billion was recorded in deposits and capital improved by MVR2.4 billion. In terms of asset composition, net loans (gross loans less loan-loss provisions) accounted for 38% (MVR34.9 billion), followed by investments in treasury bills with 23% (MVR20.9 billion), while other debt securities including treasury bonds

amounting to MVR7.8 billion accounted for 9% (Figure 41). The combined investments in treasury bills and other debt securities grew by 9% (MVR2.4 billion). Lending increased significantly compared to the previous year, with gross loans showing a growth of 13% against 6% in 2022, while net loans increased by 15% (MVR4.4 billion) annually.

The NPLs decreased by 7% (MVR138.5 million) mainly owing to the movement of large loan to performing category, with the percentage of NPLs to total loans decreasing from 6% to 5%. Loan-loss provisions also showed an annual decline of 6% and stood at MVR2.5 billion, mainly owing to reversal of provisions made on risky loans and loans that were written off. Specific loan-loss provisions coverage was at 118% of NPLs, as a result of provisions being made on performing loans with higher credit risk (Figure 42).

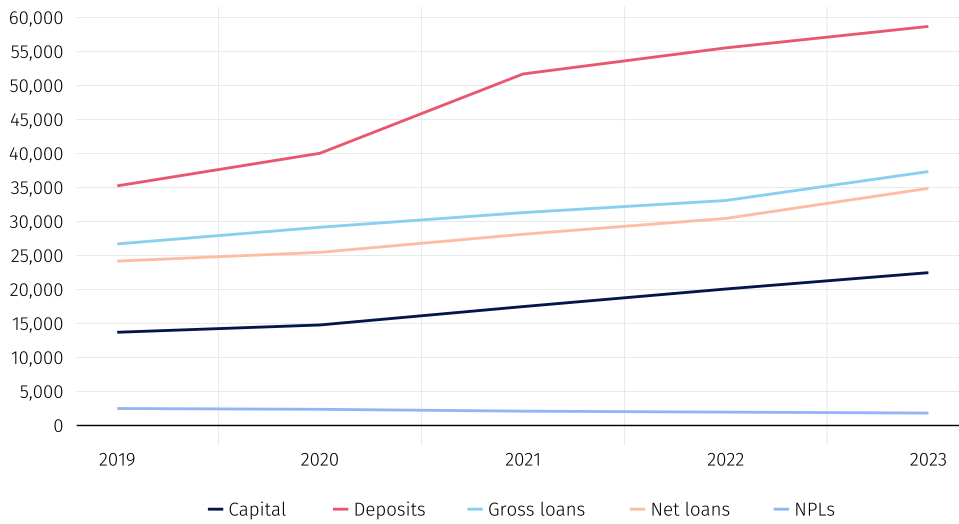
The profitability improved with a 16% annual increase in pre-tax profits, reaching MVR4.5

Figure 40: Net Asset Composition of the Banking Industry, 31 December 2023



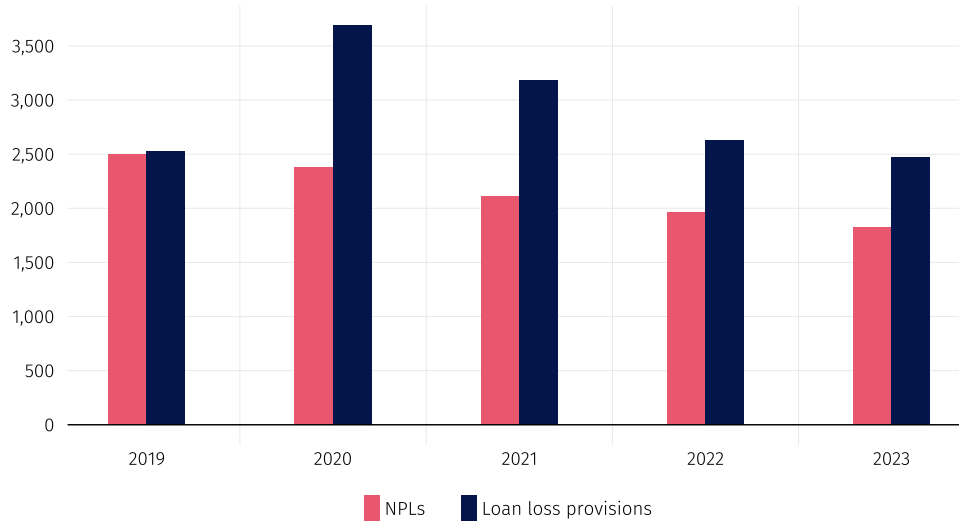
Source: Maldives Monetary Authority
 Note: Data for 2023 is from unaudited financial statements.

Figure 41: Key Indicators of the Banking Industry, 2019 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

Figure 42: NPLs and Loan Loss Provisions, 2019 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

billion, with profit after tax of MVR3.3 billion. The main driver of profitability was the increase in net interest income, which increased by 18%, reflecting the increase in lending during the year. The profitability ratios, return on average assets (ROA) and return on average equity (ROE), remained strong; with ROA increasing from 3.6% to 3.8%, while the ROE decreased slightly from 15.9% to 15.6%, compared to the previous year.

At the end of the year, liquidity remained adequate, with the credit-to-deposit ratio at 63%, and 43% of assets held in liquid form as cash, placements at banks and the MMA, and investments in treasury bills. The ratio of liquid assets to total deposits and borrowings declined from 63% to 59% due to the increased lending and investments in long-term debt securities by the banks during the year. Similarly, the foreign currency liquid assets to total foreign currency deposits and borrowings also declined from 42% to 35%. Total deposits registered a growth of 6% (MVR3.2 billion) to reach MVR58.7 billion; 86% of the growth being local currency. In terms of annual growth, local currency deposits increased by 10%, mainly due to the effects of monetization, while the foreign currency deposits also recorded an increase of 2%, with the increase in tourism inflows towards the end of the year. Local currency deposits accounted for 52% of total deposits.

At the end of the year 2023, there were a total of 62 bank branches along with various service providing centers and 188 ATMs in the country. Out of the total, 40 bank branches or centers and 111 ATMs were located outside the Greater Male' region.

Finance Companies

Finance companies include a specialised housing finance corporation, a company providing leasing and financing services, and a government-owned SME finance company.

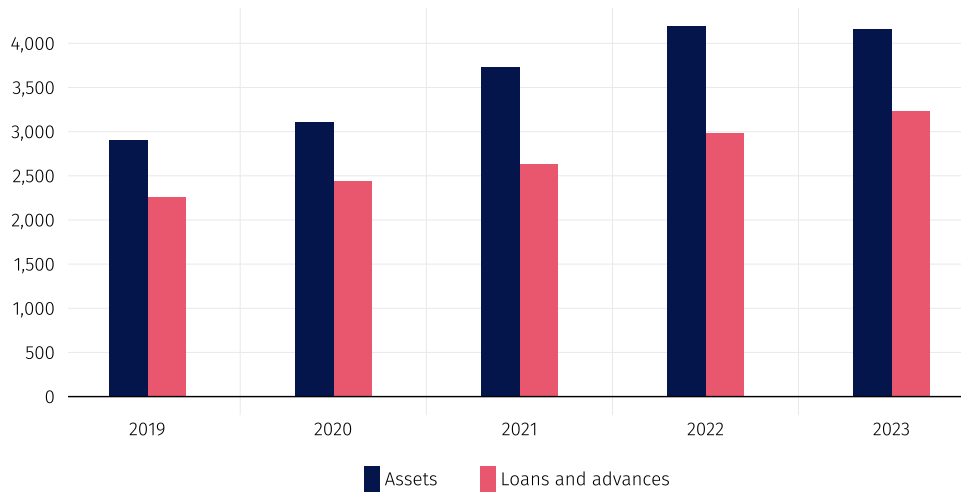
During the year 2023, the non-bank financial institutions sector recorded growth in net loans, while net assets remained the same with no significant growth. Net loans exhibited an annual growth of 8%, reaching MVR3.2 billion at the end of the year, while net assets stood at MVR4.2 billion (Figure 43).

Capital strength of the industry remained robust, with the ratio of total capital to risk weighted assets at 54%, indicating high capacity to absorb losses.

Absolute NPLs decreased by 5% (MVR18.2 million), mainly owing to bad loans being written off from the SME sector, driving the percentage of NPLs to total loans slightly down from 11% to 10%. In contrast, loan-loss provisions increased by 35% over the year to reach MVR270.5 million, resulting in higher coverage to NPLs. At the end of the year, specific loan-loss provisions coverage was at 55% of NPLs, compared to 37% a year ago.

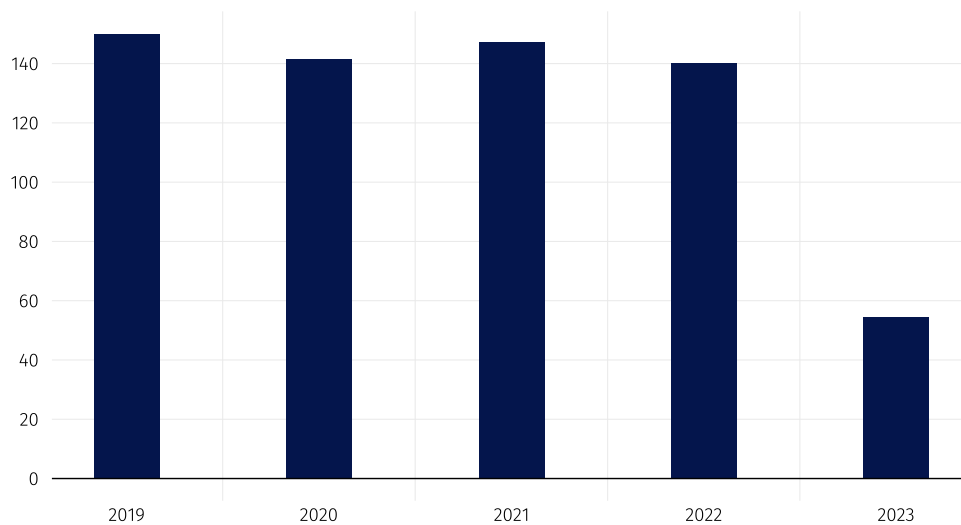
Led by the increased loan-loss provisions, the profitability of the non-bank financial sector declined annually, recording pre-tax profits of MVR54.5 million (unaudited) at the end of 2023, which is a 61% decline compared to a year ago, while net profit after tax amounted to MVR30.8 million, a decline of 74% (Figure 44). The profitability ratios: ROA and ROE also declined significantly from 3.0% and 6.4%, to 0.7% and 1.5% respectively, when compared with the ratios for 2022.

Figure 43: Loans and Advances, and Assets of Finance Companies, 2019 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

Figure 44: Pre-tax Profits of Finance Companies, 2019 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

Insurance Companies

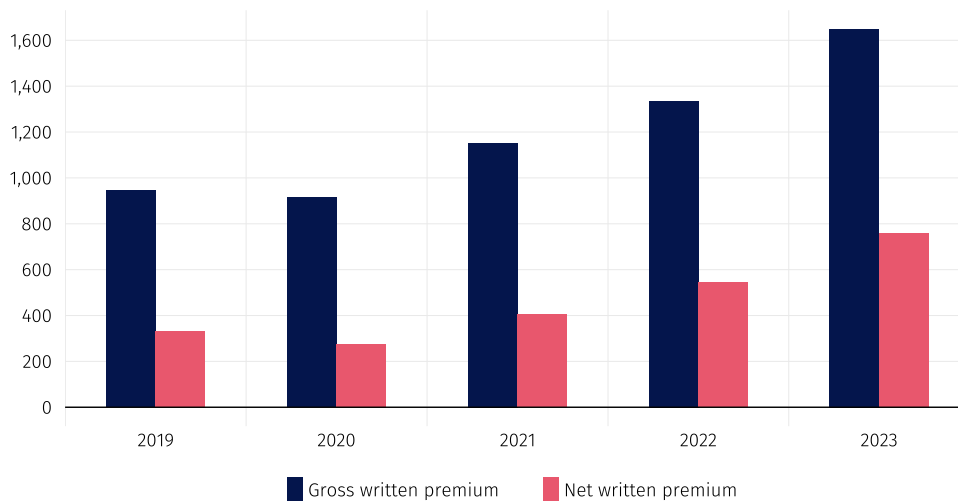
During the year 2023, the general insurance sector exhibited robust performance and maintained sound prudential indicators. The volume of insurance policies sold saw an annual increase of 11%, as a result of which the GWP saw a notable increase (Figure 45). GWP excluding inward reinsurance increased by 21% from the previous year, reaching MVR1.5 billion. Including inward reinsurance, the GWP increased by 23%, totalling MVR1.6 billion by year-end. With an NWP to annualised equity ratio of 99% and an equity to assets ratio of 30%, the insurance companies have maintained a robust level of capitalisation relative to the business they underwrite and retain.

The upsurge in GWP has led to a simultaneous increase in insurance penetration and density, recognized as pivotal benchmarks indicating the maturity of the insurance sector (Figure 46). Insurance penetration, represented as the

ratio of GWP to GDP, and insurance density, a measure of GWP per capita, both experienced notable improvements. In 2023, the insurance penetration for general insurance business stood at 1.5%, while the insurance density rose from US\$149.6 to US\$181.1 per capita.

The significant increase in GWP in 2023 was primarily led by the health insurance class, which contributed to over 45% of the GWP growth, and increased by MVR140.2 million (40%), continuing the upward trend observed in the past two years. This growth was mainly driven by insurers' adjustments in pricing to reflect the rising costs of healthcare services. Additionally, fire insurance, contractors' all risk, and public liability classes also saw moderate year-on-year increases in GWP, totalling MVR53.3 million, MVR14.6 million, and MVR13.2 million, respectively (Figure 47). In 2023, the health insurance class accounted for

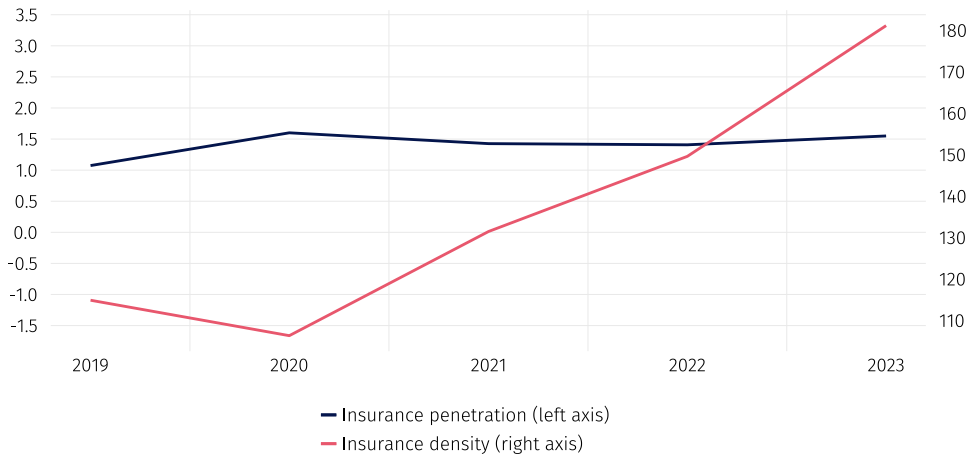
Figure 45: Premiums, 2019 - 2023
(millions of rufiyaa)



Source: Maldives Monetary Authority

Note: Data for 2023 is from unaudited financial statements. Data for gross written premium includes reinsurance inwards.

Figure 46: Insurance Penetration and Density, 2019 - 2023
(percent, US dollars)



Source: Maldives Monetary Authority

Note: Data for 2023 is from unaudited financial statements.

Insurance penetration is GWP as a percentage of nominal GDP for the year.

Insurance density is ratio of total GWP to mid-year population estimate for the year.

the largest share of the total GWP distribution at 30%, followed by fire insurance at 28%, and marine insurance at 10%.

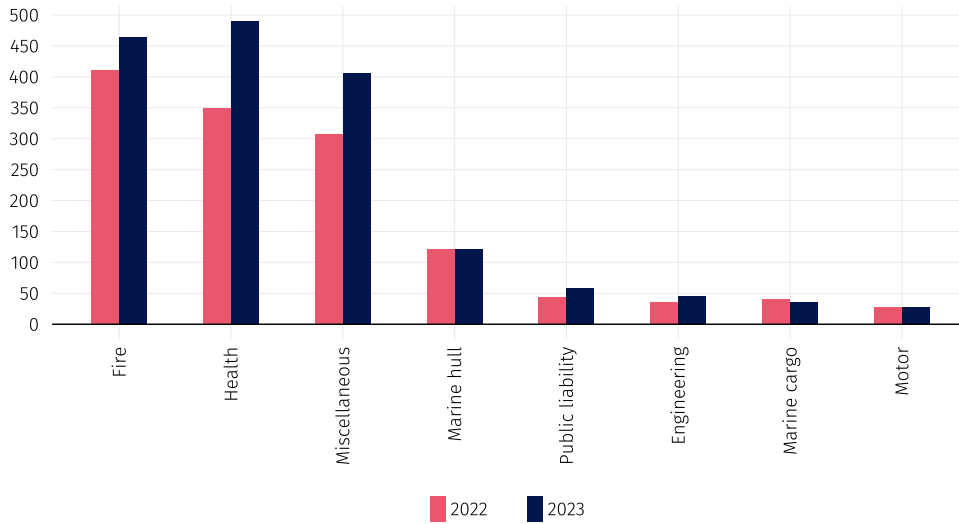
The retention ratio, measured by the NWP relative to GWP, serves as a key indicator of the extent of reinsurance utilised. This ratio varies based on the lines of business, reflecting diverse risk levels and insurers' corresponding risk appetites. Typically, insurers opt to retain a smaller fraction of premium for classes of insurance with a higher claim's volatility, while retaining a larger percentage for those with lower volatility. Throughout the year, the retention ratio for the general insurance industry experienced growth from 41% to 46% (Figure 48). The significant increased premiums in the health insurance class, which typically has a high retention ratio, amounting to 98% in 2023, was the primary contributor towards this increase.

In 2023, there was a notable decrease of MVR153.9 million (20%) in the aggregate gross

claims compared to the previous year. However, the net incurred claims, which represent the claims burden borne by local insurance companies after reinsurance adjustments, saw a substantial increase of MVR171.1 million (63%) compared to 2022 (Figure 49). This increase in net incurred claims in contrast to the trend of gross claims is primarily due to the increase in claims from the health class, which is almost entirely borne by the local insurers. The increase in health claims is largely attributed to medical inflation.

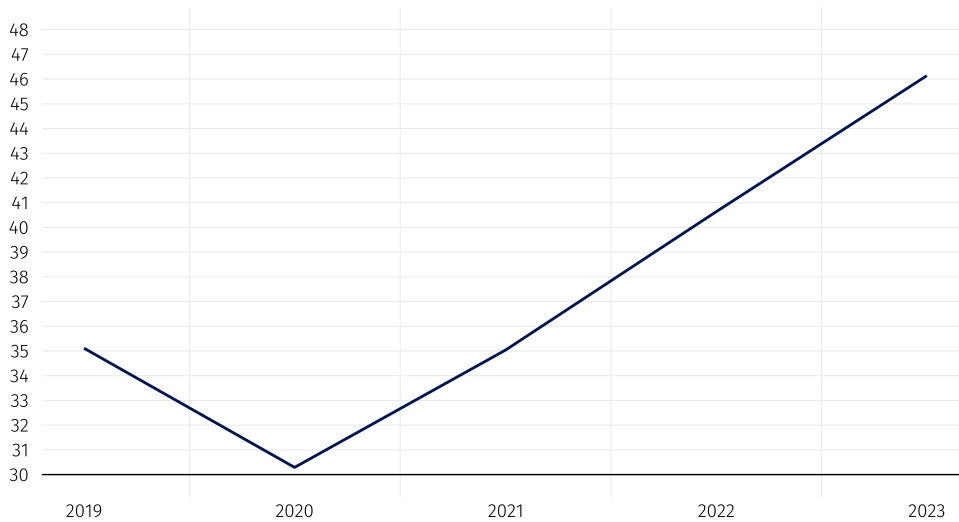
In terms of the asset composition of the general insurance industry, investments constituted 32% of total assets, with reinsurance recoverable and premium receivables comprising 19% and 13% of assets, respectively. At the end of 2023, the majority of insurance companies' investments were in local treasury bills, equity securities, and fixed deposits, accounting for 45%, 25%, and 21% of total investments, respectively. The absence of Shari'ah-compliant investment instruments

Figure 47: GWP by Class of Insurance, 2022 - 2023
(millions of rufiyaa)



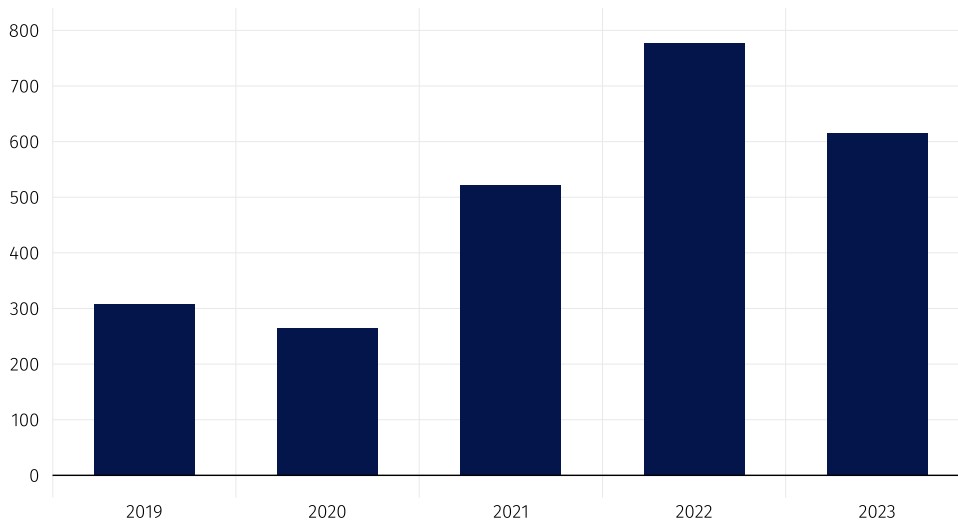
Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

Figure 48: Retention Ratio, 2019 - 2023
(percent)



Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

Figure 49: Gross Claims, 2019 - 2023
(millions of rufiyaa)



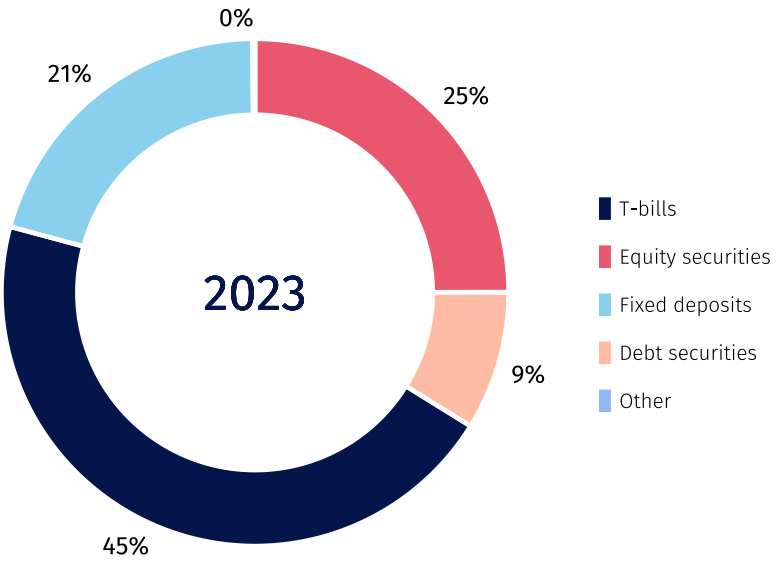
Source: Maldives Monetary Authority
Note: Data for 2023 is from unaudited financial statements.

has resulted in a significant portion of Takaful funds being invested in fixed deposits (Figure 50).

The net loss ratio, calculated by dividing net incurred claims by net earned premium, is a key indicator of underwriting profitability, and the ratio increased from 58% in 2022 to 66% in 2023 for the general insurance

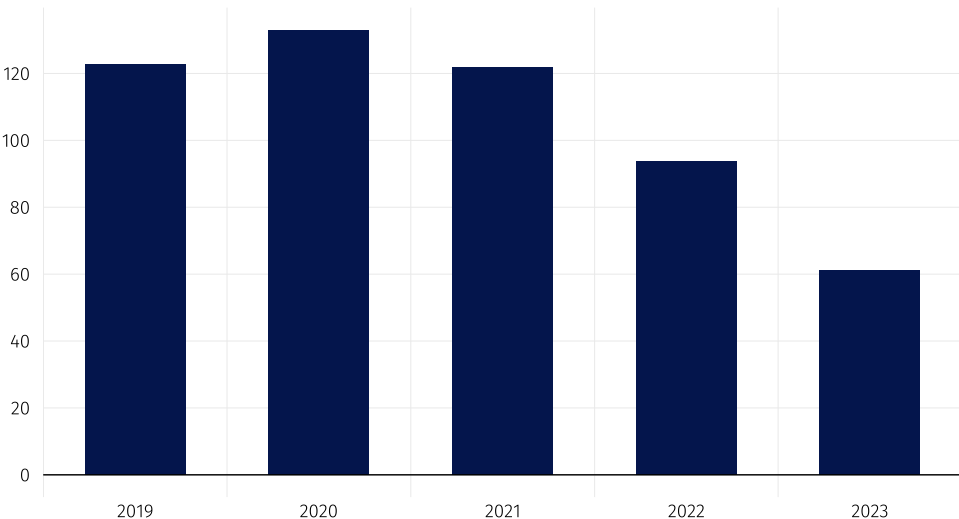
industry, indicating reduced profitability on account of increased net claims. In addition, underwriting expenses increased year-on-year as well, contributing further to the decline in profitability. As a result, pre-tax profits of the general insurance sector decreased by 35% to MVR 61.0 million (Figure 51). Key profitability ratios, ROA and ROE, stood at 1.9% and 6.5%, respectively.

Figure 50: Investment Composition of Insurance Companies



Source: Maldives Monetary Authority
 Note: Data for 2023 is from unaudited financial statements.

Figure 51: General Insurance Profitability (Before Tax), 2019 - 2023 (millions of rufiyaa)



Source: Maldives Monetary Authority
 Note: Data for 2023 is from unaudited financial statements.

External Sector

The current account deficit widened further in 2023, mainly owing to the decline in the surplus on the services account, together with the increase in estimated interest payments on external debt during the year. The decline in the services account surplus reflected the decrease in estimated travel receipts during the year, coupled with an increase in expenditure abroad by Maldivian travellers. However, this was offset to an extent by the narrowing of the merchandise trade deficit during the year, reflecting both the growth in export earnings and the decline in import expenditure. In terms of GDP, the current account deficit widened to 20.3% in 2023, from 16.3% in 2022. Similar to the previous year, the current account deficit was financed primarily by foreign direct investment (FDI) inflows, as well as borrowings by the government and private sector. In line with these developments, the overall BOP observed a deficit in 2023, with GIR recording a decline for the year.

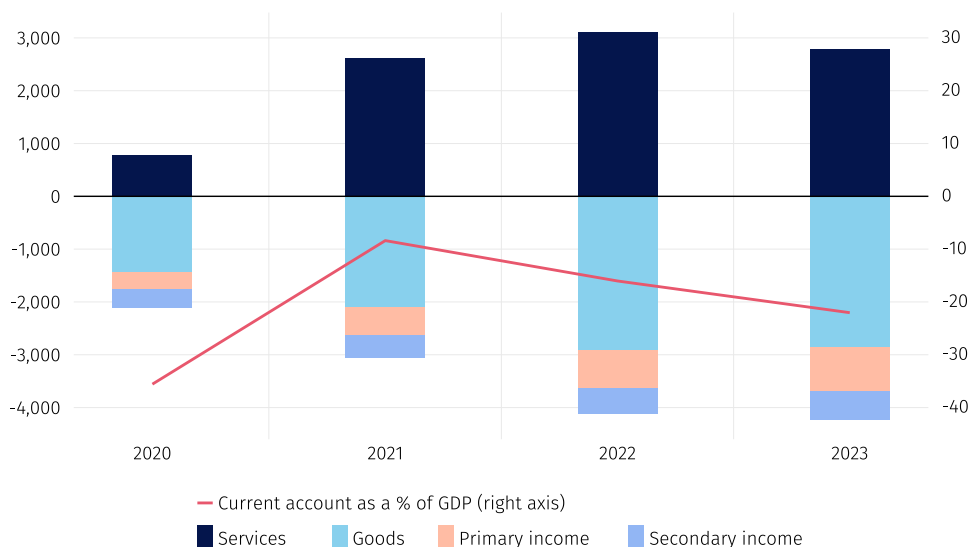
Current Account

The current account deficit is an important indicator in assessing the external position of the Maldivian economy, due to the high degree of openness to trade and excessive reliance on imports and tourism. According to the revised BOP estimates of March 2024, the current account deficit deteriorated to US\$1.4

billion in 2023, from US\$1.0 billion in 2022. In terms of GDP, this was an expansion to 20.3% of GDP, from 16.3% in the previous year (Figure 52). The worsening deficit primarily reflected the decline in inflows on the services account, as travel receipts decreased, owing to the lacklustre performance of resort bednights.

Figure 52: Composition of Current Account, 2020 - 2023

(millions of US dollars, percent)



Source: Maldives Monetary Authority

This was further contributed by the increase in outflows on the services account, reflecting the growth in expenditure by Maldivians traveling abroad. The worsening of the current account deficit also mirrored the growth in estimated interest payments on private sector debt. However, this was moderated to an extent by the narrowing of the merchandise trade deficit, which reflected increases in earnings from both re-exports and domestic exports, coupled with a decline in import expenditure during the year.

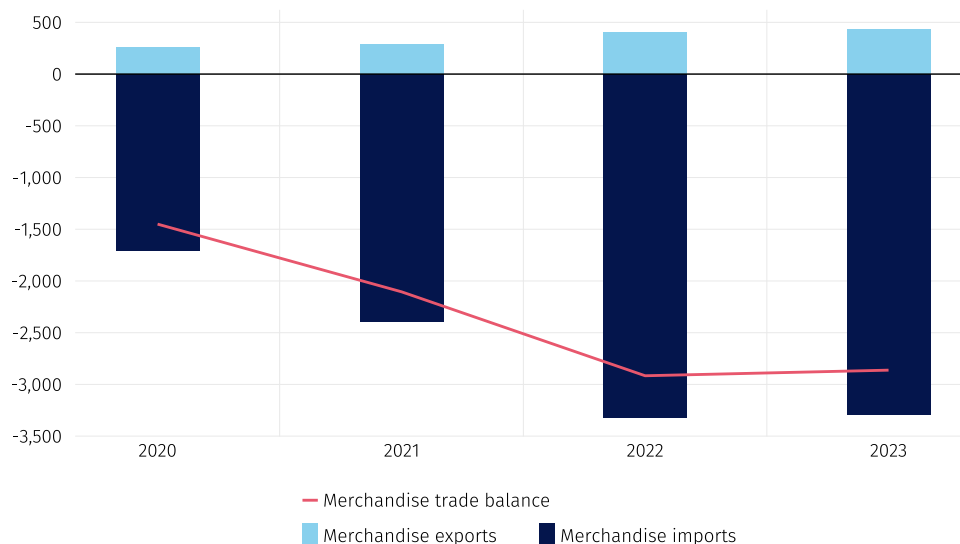
Goods

The merchandise trade deficit narrowed by US\$54.2 million when compared with 2022, to total US\$2.9 billion in 2023 (Figure 53)¹⁷. The narrowing of the trade deficit reflected

both the growth in receipts from re-exports and domestic exports, as well as the decline in import expenditure. The hike in exports earnings, which rose by US\$33.9 million, stemmed from the “other re-exports (non-fuel re-exports)” category, while domestic exports (which mainly comprises fish exports) also rose, owing to the increase in export earnings from canned or pouched tuna, and frozen skipjack tuna (Box 4). The improvement of the trade deficit was also contributed by the decline in import expenditure (US\$20.3 million), which predominantly reflected the decline in import expenditure across majority of petroleum products (except for petrol), particularly marine gas oil (diesel), despite the rise in import volumes of such products. This was in line with the decline in average global crude oil prices during the year.

Figure 53: Merchandise Trade Balance, 2020 - 2023

(millions of US dollars)



Source: Maldives Monetary Authority

¹⁷ The figures for merchandise trade are in freight on board (f.o.b) terms.

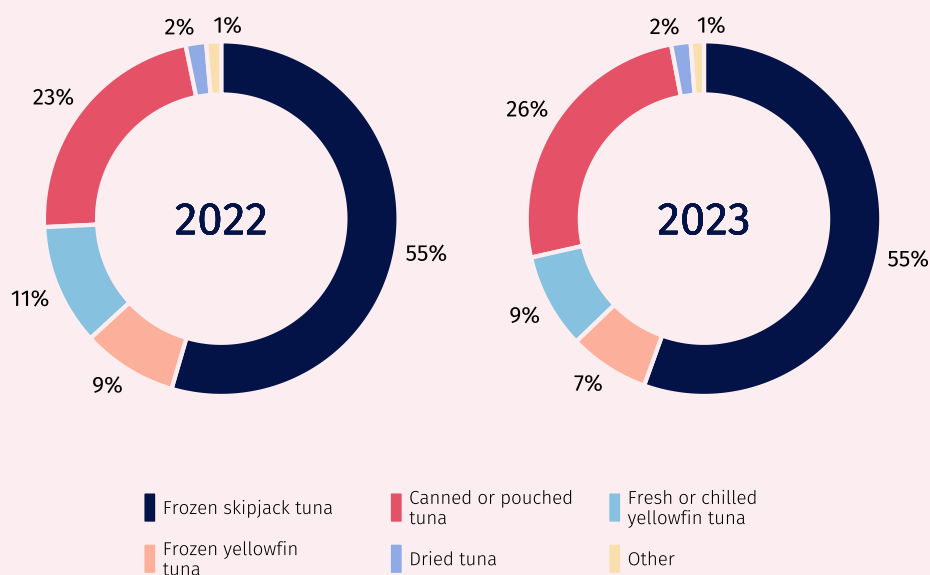
Box 4: Merchandise Trade¹

Merchandise Exports

Total merchandise exports, which constituted domestic exports (38%) and re-exports (62%), increased by 5% (US\$21.6 million) and totaled US\$421.4 million during 2023. The rise in merchandise exports was primarily driven by the notable gain in re-exports earnings.

Accordingly, re-export earnings surpassed the peak reached during 2022, observing an annual increase of 8% (US\$18.4 million) and totaled US\$259.2 million by the end of 2023. The gain in re-export earnings reflected both the significant increase in the other re-exports category and the moderate increment in jet fuel re-exports, which surged by 75% (US\$19.6 million) and 2% (US\$3.0 million), respectively during 2023. Despite the moderation in re-export earnings from jet fuel, the surge in total re-export earnings stemmed from growth in earnings from non-fuel re-exports.

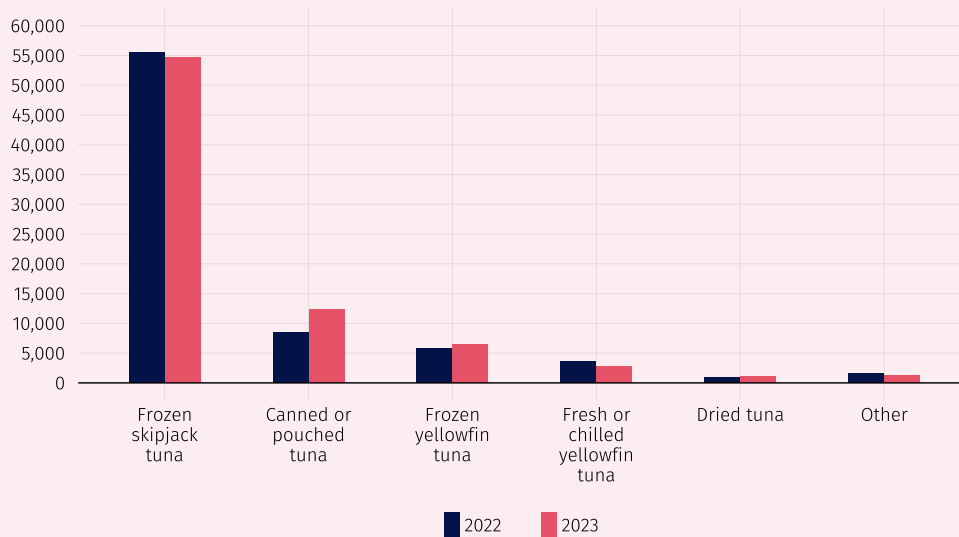
Figure 1: Composition of Fish Exports (Earnings)



Source: Maldives Customs Service

¹ Based on the trade statistics compiled and disseminated by the Maldives Customs Service, hence figures may be different in balance of payments statistics due to the adjustments made in BOP.

Figure 2: Composition of Fish Exports (Volume), 2022 - 2023
(thousands of metric tonnes)



Source: Maldives Customs Service

Domestic exports, which predominantly comprises fish exports (93%), rose by 2% (US\$3.2 million) and totaled US\$162.2 million at the end of the year. The overall growth in domestic exports mainly stemmed from the increase in export earnings from both canned or pouched tuna and frozen skipjack tuna, which increased by 17% (US\$5.6 million) and by 5% (US\$4.1 million), respectively during the year (Figure 1). While the growth in export earnings from canned or pouched tuna exports was in tandem with the doubling of export volume of such exports, the volume of frozen skipjack tuna exports registered a slight decline of 1% during 2023. However, the increase in export earnings from both canned or pouched tuna and frozen skipjack tuna was largely offset by the drop in export earnings from both fresh or chilled yellowfin tuna and frozen yellowfin tuna by 19% (US\$3.0 million) and 13% (US\$1.7 million), respectively. Concurrently, the volume of fresh or chilled yellowfin tuna exports fell by 22%, although a 10% increase was observed in the volume of frozen yellowfin tuna exports during the year (Figure 2).

Merchandise Imports

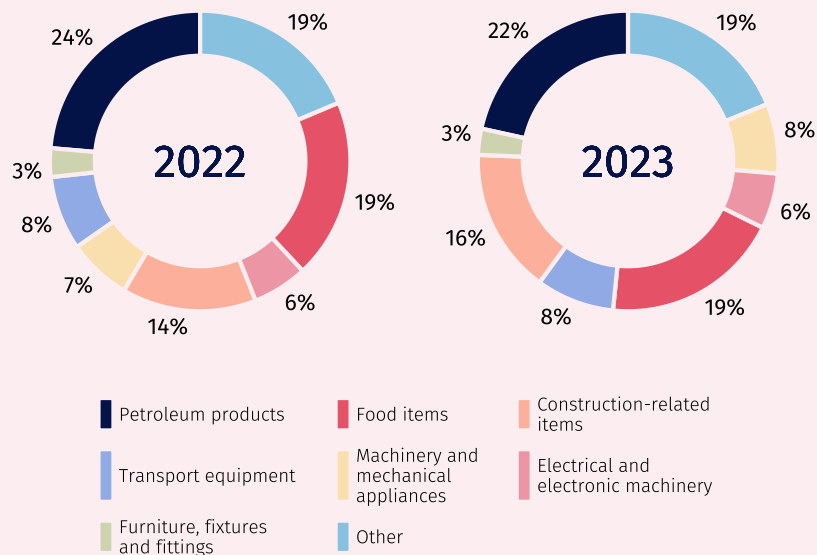
Total merchandise imports (c.i.f) decreased marginally by 1% (US\$18.5 million) relative to 2022 and totaled US\$3.5 billion at the end of 2023. The decline in merchandise imports was mainly driven by a notable 9% (US\$77.5 million) decrease in import expenditure across all petroleum products, particularly diesel (marine gas

oil), mirroring the decline in global crude oil prices during the year as a marginal increase was observed in the volume of such imports (Figure 3). In 2023, the average global crude oil prices² declined to US\$80.8 per barrel in 2023, from US\$97.1 per barrel in 2022.

With regard to other major categories of imports, considerable declines were observed in import expenditure on plastics and articles of plastic; and furniture, fixtures and fittings, which decreased by 17% (US\$12.5 million) and 9% (US\$10.0 million), respectively, during the year. Moreover, import expenditure on electronic and electrical appliances also registered a sizeable decline of 14% (US\$9.9 million) during 2023.

However, the significant declines in some of the major categories was offset to a certain extent by increases in import expenditure on construction-related items, other imports category, machinery and mechanical appliances, and transport equipment and parts. As such, import expenditure on construction-related items, machinery and mechanical appliances and parts imports rose by 7% (US\$38.0 million) and 9% (US\$22.8 million), respectively, during the year. In addition, import expenditure on

Figure 3: Composition of Imports



Source: Maldives Customs Service

² Annual average of Brent, West Texas Intermediate and Dubai Fateh.

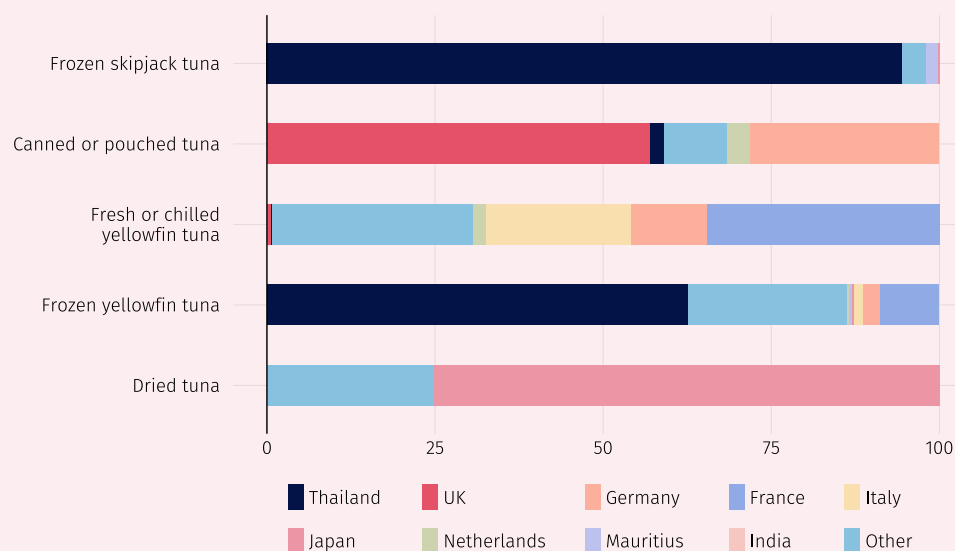
other items increased 21% (US\$21.1 million) largely owing to the marked rise of expenditure on other intermediate and capital goods during 2023. This was followed by import expenditure on transport equipment and parts, which rose by 5% (US\$12.7 million).

Direction of Trade

Exports

With a share of 66%, the Asian market remained the main export destination for Maldivian exports in 2023. This was followed by the European market, which held a market share of 31% during the year. In the Asian market, Thailand remained as the single largest export market, accounting for 54% of the total Maldivian exports during the year 2023, up from 49% in 2022 (Figure 4). Accordingly, export earnings from frozen skipjack tuna from the Thai market increased by 18% (US\$12.1 million) during the year, in line with the growth in both the volume and imputed price of such exports to the market. However, both earnings and volume of yellowfin tuna exports from the Thai market registered declines during 2023. Meanwhile, share of exports to India declined slightly and stood at 3%, as exports earnings from all categories of fish exports observed declines during the year. Accordingly, as reported by the Food and Agriculture Organization (FAO) in its Globefish Highlights, the decline in

Figure 4: Direction of Trade by Major Domestic Export Categories, 2023
(percent)



Source: Maldives Customs Service

the demand for frozen tuna, both whole and semi-processed, in Southeast Asia and Europe from January to September 2023 was attributed to the reduced interest in canned and other tuna-based products among end users, coupled with high raw material prices.

The European market continued to remain as the second largest export region, accounting for 31% of the total Maldivian exports in 2023, an increment from the 30% recorded in 2022. Moreover, the UK emerged as the largest European export market, accounting for 14% of total Maldivian exports during 2023—a notable increase from the 9% registered in 2022. The growth in export earnings from canned or pouched tuna heavily contributed to the overall rise of the total export earnings from the UK market during the year. Germany and France accounted for the second and third largest export markets from the region. Although, export earnings from Germany declined by 16% (US\$2.3 million) largely owing to a 17% (US\$2.2 million) decline in canned or pouched tuna exports during the year. Meanwhile, the French market share slightly declined and stood at 3% in 2023—a decrease from the 4% recorded during 2022. The decline in export earnings from France mainly reflected the drop in earnings from frozen skipjack tuna exports by 100% (US\$1.1 million), despite the increase in earnings from frozen yellowfin tuna during the year.

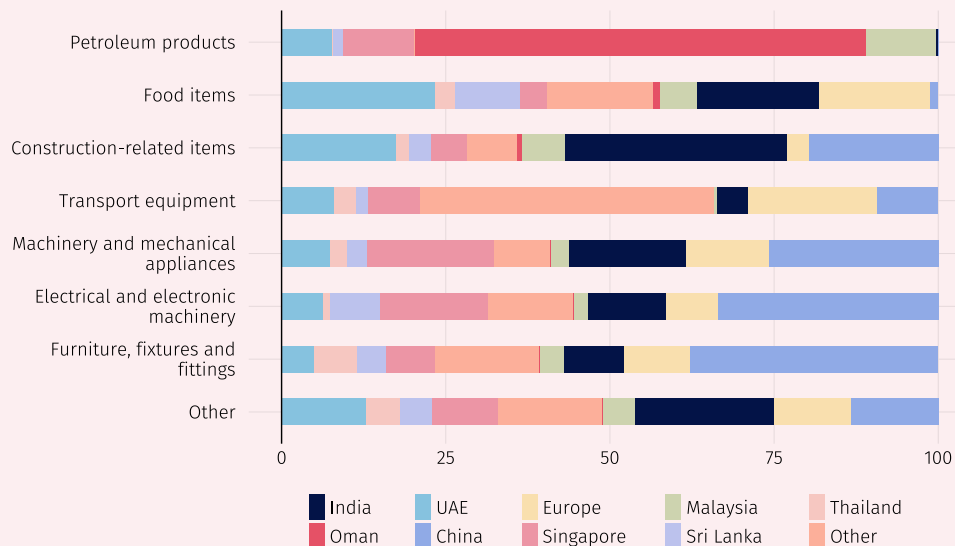
Looking at other regions, the share of the US, the main exporting country in North America stood at 1%, observing a minor drop from 2% share recorded in 2022. Meanwhile, the share of exports to Mauritius contracted by 5 percentage points, registering 1% and totaling US\$1.5 million during the year, reflecting the significant decline in earnings from frozen skipjack tuna by 82% (US\$6.6 million) despite remaining as the largest African export market. It is also noteworthy that, Mauritius accounted for the largest negative contribution to export growth in the year.

Imports

Regarding the direction of imports, the highest proportion of imports during the year (84% of the total imports) were sourced from Asia. From this region, India accounted for the highest share of imports to the Maldives (16%), followed by Oman and the United Arab Emirates (UAE). Imports from India observed a substantial increase of 10% (US\$48.6 million) driven mostly by the imports of construction-related items and food items during the year (Figure 5).

As for imports from Oman, a decline of 16% (US\$97.7 million) was recorded largely owing to the significant drop observed in import expenditure on petroleum products during the year. Meanwhile, imports from the UAE grew by 10% (US\$41.4 million),

Figure 5: Direction of Trade by Import Categories, 2023
(percent)



Source: Maldives Customs Service

primarily due to the increase in construction-related items and constituted to 13% of the total Maldivian imports during the year—an increase from 12% in 2022. Similarly, imports from China increased notably by 6% (US\$23.0 million) reflecting the significant increase in import expenditure on machinery and mechanical appliances during the year.

Meanwhile, imports from the European region, which accounted for 9% of the total imports, observed a decline of 7% (US\$24.3 million) during the year. Within this region, Germany, the main supplier of imports to the Maldives from the region observed a significant increase which was largely offset by the decline in imports from France and Netherlands. The overall drop in European imports during the year was predominantly contributed by the notable declines in import expenditure on transport equipment and parts, and machinery and mechanical appliances and parts. This was offset to some extent by the increases in import expenditure on electrical and electronic machinery and equipment; and clothing, footwear, and fashion accessories during the year.

Services

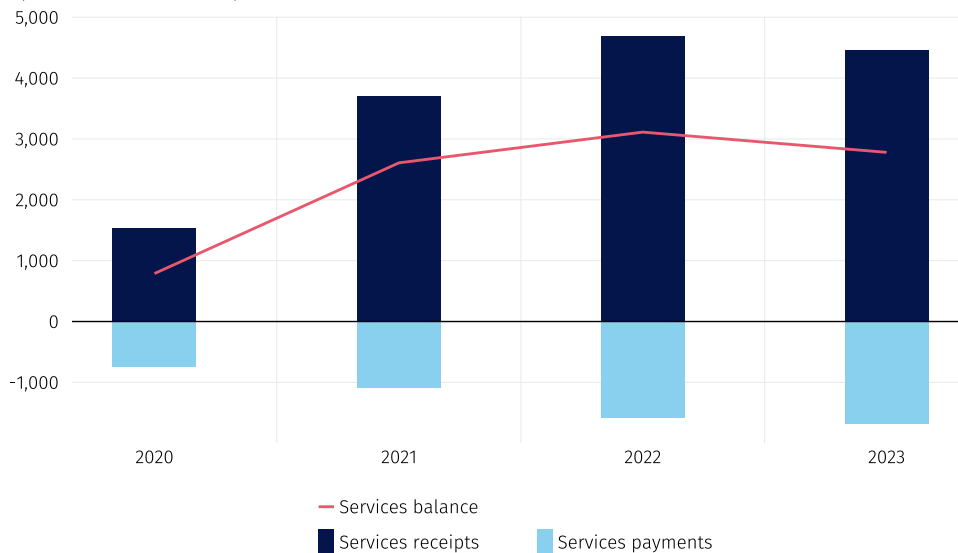
As a tourism-based economy, the surplus on the services account is an inherent key feature of the current account of the Maldives. During 2023, the surplus on the services account declined by US\$333.9 billion, and totalled US\$2.8 billion, from an estimated US\$3.1 billion over the previous year. The drop in the services surplus was mainly due to the fall in tourism-related receipts, in line with the decline in resort bednights during the year, despite the increase in total tourist arrivals and total bednights. Additionally, the services surplus also narrowed owing to the hike in travel expenditure which reflected the rise in demand for international travel by Maldivians (Figure 54).

On the receipts side, total services receipts are estimated to have declined to US\$4.5 billion in 2023, after recording US\$4.7 billion in the previous year—a sizeable decline of US\$237.7 million. This was primarily owing to the estimated decline in travel receipts—which accounted for 95% of all services receipts during the year—reflecting the decline in

resort bednights. Accordingly, travel receipts observed a decrease of US\$267.7 million (6%), and totalled US\$4.2 billion in 2023, after recording US\$4.5 billion in the previous year. However, travel receipts observed a growth of 34% when compared to pre-pandemic levels (US\$3.2 billion in 2019). The impact of the decline in travel receipts was moderated by the growth in receipts from transport services (by US\$17.6 million), reflecting the increase in airports' receipts of landing and handling charges.

With regard to the payments side, total expenditure on services rose by US\$96.3 million, and totalled US\$1.7 billion in 2023—from US\$1.6 billion in 2022. Similar to the previous year, the rise in services expenditure was led by the surge in travel expenditure, in line with the hike in demand for international travel by Maldivians. Accordingly, expenditure by Maldivians travelling abroad is estimated to have surged by US\$127.0 million during the year. This was followed by payments for construction-related services acquired from

Figure 54: Trade in Services, 2020 - 2023
(millions of US dollars)



Source: Maldives Monetary Authority

non-residents and international transport services, which rose by US\$21.8 million and US\$17.8 million, respectively. The payments for construction-related services represent estimated payments made by residents to non-resident construction service providers, which mainly reflects payments made for government PSIP projects. Meanwhile, payments for international transport services reflect the growth in airfare expenditure by Maldivians traveling abroad.

Primary Income Account

The deficit on the primary account is driven by FDI-related inflows—predominantly represented by estimates of dividends to shareholders and reinvested earnings—as well as interest payments on external debt. The deficit on the primary income account widened by US\$59.5 million, to reach US\$771.0 million in 2023. This was a growth of 8% when compared with a deficit of US\$711.5 million in the previous year. The worsening of the primary account outflow was contributed largely by the surge in interest payments on private external debt during the year, which grew by US\$39.2 million. Meanwhile, interest payments on government bonds and loans observed a decline of US\$4.1 million. During the year, profit repatriation and reinvestment of earnings by FDI companies observed only moderate increases, although they accounted for a large portion of the outflow on the primary income account. Accordingly, profit remittances rose by US\$13.2 million, while re-invested earnings grew by US\$8.7 million relative to the previous year. As for inflows, an increase of US\$15.7 million was observed, mainly owing to the growth in interest income received from investments by the MMA.

Secondary Income Account

The secondary income account is dominated by transactions related to worker’s remittances, and government grants. The deficit on the secondary income account is estimated to have worsened by US\$50.9 million. This largely reflected the decline in inflows to the account, which decreased by US\$38.6 million during the year, owing to the fall in foreign grant inflows (by US\$40.0 million). On the outflows side, workers remittances rose by US\$22.6 million, and totalled US\$587.2 million during the year.

Financial Account

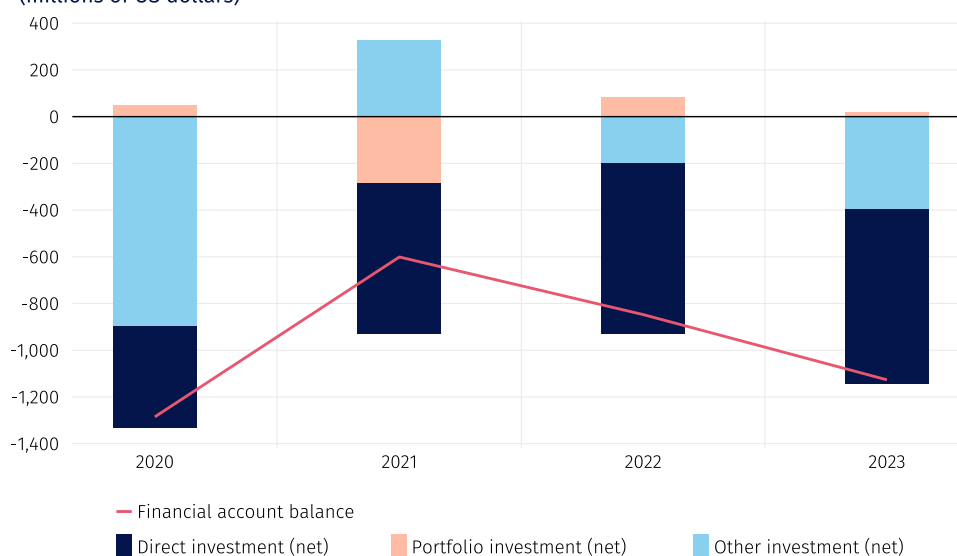
Financial account records transactions of financial assets and liabilities for the residents of an economy and the rest of the world—which are categorized into direct investments, portfolio investment and other investments. The financial account recorded a net inflow of US\$1.1 billion in 2023, up from US\$847.4 million in 2022. The net inflows on the financial account during the year consisted predominantly of inflows from FDIs and other investments (Figure 55).

As in previous years, a large proportion of all external financial inflows to the Maldives during the year consisted of net inflows from direct investments. Such inflows recorded US\$751.4 million in 2023, a moderate increment from US\$732.2 million in 2022. The increment in net inflows reflected the growth in FDI inflows¹⁸ (by US\$13.5 million)—primarily in line with the growth in new equity investments by foreign investors mainly within the tourism sector—and the reinvestment of earnings of foreign investors, which rose by US\$5.7 million during the year.

¹⁸ Only the proceeds from inward FDIs are included in the direct investment account.

Figure 55: Financial Account, 2020 - 2023

(millions of US dollars)



Source: Maldives Monetary Authority

With regard to portfolio investments—which comprise cross-border financial transactions involving equity and debt securities (other than those included in direct investments)—it observed a net outflow of US\$17.9 million in 2023, following a net outflow of US\$83.0 million in 2022. The net outflow during the year entirely reflected investments in non-resident securities by deposit-taking corporations.

As for other investments, which comprise financial transactions other than direct investments and portfolio investments, a net inflow of US\$393.2 million was registered during the year. This was an increase of US\$195.0 million in 2023, when compared with the net outflow of US\$198.1 million recorded in 2022. The main contributors to the net inflow of such investments during the year were net borrowings in the form of government and government-guaranteed loan disbursements, followed by private sector loans. This was

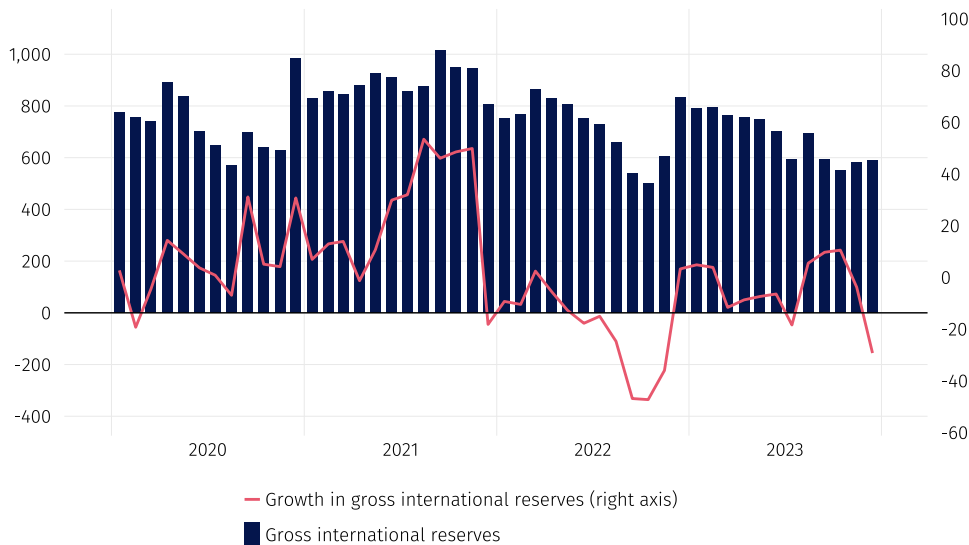
offset to an extent by the reduction in liabilities of the MMA, owing to the repayment of the US\$100 million swap agreement between the MMA and RBI in December 2023, which was accessed in December 2022. Meanwhile, net acquisition of financial assets observed an inflow, contributing to the increase in inflows on other investments. This represented drawings on deposits abroad by both the commercial banks and the private sector.

Overall Balance and Gross International Reserves

As the deficit on the current account outpaced the net inflows from the financial account during 2023, the overall BOP registered a deficit of US\$236.2 million, following a surplus of US\$26.8 million in 2022. Accordingly, GIR (official reserve assets)¹⁹ fell to US\$590.5 million in 2023, from US\$832.1 million in

¹⁹ Official reserve assets comprise foreign currency deposits of the MMA and the government, commercial banks' US dollar reserve accounts and Maldives' reserve position at the IMF.

Figure 56: Gross International Reserves, 2020 - 2023
(millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

2022—a decline of 29% when compared with the previous year (Figure 56). With regard to developments in GIR during 2023, it fluctuated throughout the year, reaching a peak in February 2023 (US\$795.8 million), before moving to a declining trend until the end of year, except for August 2023 and hitting lowest in October 2023.

The annual decline in the GIR was primarily due to the decrease in short-term foreign liabilities, which fell by 27% in 2023. The fall in short-term foreign liabilities predominantly reflected the repayment of the US\$100 million foreign currency swap in December 2023, availed from RBI in December 2022. In addition, a notable decline was observed in foreign currency reserve account balances of the commercial banks held at the MMA, despite an increase in government foreign currency deposits. The decrease in reserve account balances of the commercial banks held at MMA can be attributed to higher net foreign currency

transfers, together with changes to foreign currency asset portfolio.

During 2023, foreign currency payments observed a growth in annual terms, largely owing to the increase in repayment of government securities. In contrast, foreign currency intervention in the domestic market remained broadly unchanged in annual terms, while a decline was observed in loan repayments and loan servicing. As for foreign currency receipts, a considerable growth was observed as well relative to the previous year, contributed primarily by the marked increase in foreign currency inflows received for budget financing in the form of investments in government securities. This was followed by an increase in tourism-related revenue receipts²⁰, due to increased collection mirroring the T-GST rate hike, while disbursement of loans also contributed to the rise in foreign currency receipts.

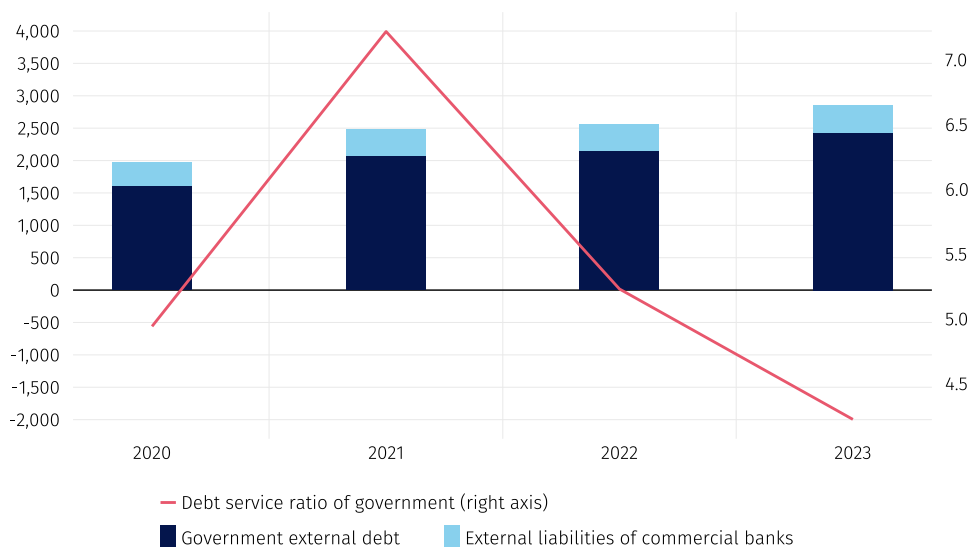
²⁰ These include receipts from T-GST, tourism land rent, green tax, airport service charge and airport development fee.

External Debt

As per the latest available statistics²¹, the total external debt stock (government and commercial banks) increased by US\$286.0 million and totalled US\$2,844.3 million at the end of 2023. However, the stock of external debt as a ratio to GDP slightly decreased to 41.2% in 2023, from 41.6% in 2022, reflecting a higher nominal GDP growth, relative to the growth in total external debt (Figure 57). During 2023, the growth in external debt primarily reflected the rise in loans by the government obtained in the form of buyer's credit²², while growths were also observed in government borrowings from multilateral and bilateral sources, together with commercial bank borrowings from foreign depository corporations.

Regarding the composition of the total outstanding stock of external debt, the government external borrowing—which consists of buyer's credit, debt securities and loans obtained from multilateral, bilateral, and private sources—rose by US\$277.3 million, and totalled US\$2,426.6 million at the end of 2023 (Figure 58). However, in terms of GDP, the outstanding stock of government external debt remained broadly unchanged at 35.2% in 2023, from the previous year. Debt obtained in the form of buyer's credit observed a growth of US\$227.0 million and totalled US\$1,030.6 million in 2023. Meanwhile, both borrowings from multilateral sources and bilateral sources observed growths of US\$36.1 million and

Figure 57: External Debt, 2020 - 2023
(millions of US dollars, percent)

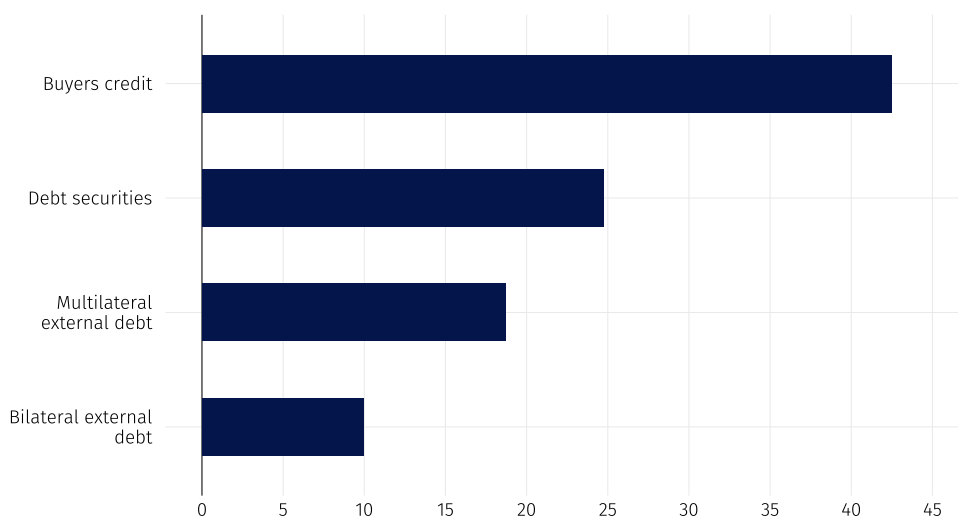


Source: Ministry of Finance and Maldives Monetary Authority

²¹ External debt statistics mentioned here refer to government external borrowings (which are different from external debt under public debt as it includes publicly guaranteed external debt) and foreign liabilities of commercial banks.

²² Buyer's credit is a loan facility extended to an importer by a bank or financial institution to finance the purchase of goods or services and other high-cost items.

Figure 58: Composition of Total Government External Debt Outstanding, 2023
(percent)



Source: Ministry of Finance

US\$14.1 million and totalled US\$454.4 million and US\$241.6 million, respectively, at the end of the year.

As for the foreign liabilities of commercial banks, an increase of US\$8.7 million was registered, owing to a growth in borrowings from foreign commercial banks, which offset the decrease in borrowings from head offices and branches, closing at US\$417.7 million at the end of 2023. In terms of GDP, the outstanding stock of commercial banks' borrowings fell to 6.1% in 2023, from 6.6% in 2022.

The total cost of debt servicing²³ declined by US\$61.3 million and amounted to US\$205.3 million (3.0% of GDP) in 2023, mainly reflecting the decline in principal payments on debt securities. Meanwhile, mirroring the decrease in debt service payments, the debt service ratio²⁴—which measures the adequacy of a country's foreign exchange earnings to meet maturing debt obligations—declined to 4.2% in 2023 from 5.2% in 2022, despite a decline in exports of goods and services during the year.

²³ Includes both principal and interest payments.

²⁴ Debt service ratio is the ratio of debt service payments to export of goods and services.

Outlook for 2024

Amid the resilient recovery during 2023 from the effects of the COVID-19 pandemic, geopolitical tensions and the cost-of-living crisis, activity in the global economy is expected to remain stable in 2024 as well. Global economic growth for 2024 is expected to be supported by the faster-than-expected fall in inflation, resilient performance of the United States economy as well as several large emerging market and developing economies. In addition, although the growth of China's economy is expected to slow down, further fiscal support is planned to be provided by the Chinese government to boost growth. 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. As per the IMF World Economic Outlook (WEO) April 2024, global growth is projected at 3.2% for both 2023 and 2024—remaining well below the historical average of 3.8% (over the decade from 2000 to 2019). The growth projection for 2024 is 0.1 percentage point higher than the January 2024 WEO Update, and 0.3 percentage point higher than that in the October 2023 WEO.

As per the October 2023²⁵ growth forecast, real GDP growth of the Maldivian economy is projected to reach 5.5% in 2024—lower than the long run average growth trend of 6.6% (over the decade from 2000 to 2019)—following the estimated 4.0% growth in 2023. For 2024,

growth impetus is anticipated to be provided by the tourism sector—driven by improved performance of resort bednights—together with the transport and communication sector. As for total tourist arrivals, following 1.9 million arrivals in 2023, the estimated number is expected to surpass 2.0 million by the end of 2024. Based on the strong performance of tourist arrivals over the first quarter of 2024, which mirrored the significant growth in arrivals from key markets such as China and the European region, total tourist arrivals for the year are anticipated to exceed the current projections.

As per the revised forecasts of September 2023, with the potential implementation of the proposed subsidy reform, domestic inflation is expected to rise to 3.9% in 2024 from 2.9% in 2023. The subsidy reform, which has been factored in from Q3-2024 onwards, includes the removal of subsidies provided for staple food items and electricity, and planned to be replaced by a targeting system. However, inflation is expected to be at 1.0% if the proposed reforms are not implemented during the year. As for the trajectory of inflation, the rate of inflation is projected to decelerate to 0.7% in Q1-2024 (from 2.3% in Q4-2023) with the dissipation of the impact of the G-GST rate hike in January 2023. While inflation is expected to hover around 1.0% over the second quarter of the year, it is projected to accelerate significantly with the planned implementation of the subsidy reform from Q3-2024 onwards, with inflation rates reaching around 7.0% to 6.9% over the last two quarters of the year.

²⁵ According to growth forecast scenarios estimated in October 2023 jointly by the MMA and the Ministry of Finance.

With regard to the 2024 Government Budget, the budget deficit is projected to narrow to 12.3% in 2024, following an expansion to 13.8% in 2023 (from 11.6% in 2022). However, the budget deficit continues to remain significantly above pre-pandemic levels (6.5% in 2019). The narrowing of the fiscal deficit is on the back of planned implementation of expenditure reduction measures²⁶ geared towards targeting social welfare expenditure—which is projected to result in only a modest increment in total expenditure—coupled with a rise in tax revenue. The primary contributor to the projected increase in government revenue and grants for the year 2024, relative to the previous year, is the anticipated increment in tax revenue reflecting the improvements in the tourism industry and overall economic growth. As per the 2024 Budget, the fiscal deficit is expected to be financed primarily from foreign sources (approximately 70.5%), followed by domestic sources. While the total public debt stock is expected to rise further in 2024, total public debt as a share of GDP is projected to reach 114.6% (from 112.8% in 2023). Risks to fiscal outcomes remain tilted heavily to the downside, with key risks on the expenditure and financing side including delays in the implementation of expenditure reduction measures as well as measures to finance the budget, rising global commodity prices, higher capital injections to SOEs, PSIPs exceeding budget with the acceleration of project implementation due to the easing of the bottlenecks that resulted from the pandemic. Risks to revenue include potential reduction in tourist arrivals caused by economic slowdown of the key source markets such as China and Europe, decline in tourism prices, and lower tax compliance.

²⁶ Transitioning from universal subsidies on staple foods, fuel, electricity, and sanitation to a targeted direct cash transfer mechanism, targeting coverage within the Aasandha scheme, staggered implementation of pay harmonization, enhancing the criteria in the provision of aid through the welfare system.

As for the external front, the current account deficit is projected to narrow to 18.8% of GDP in 2024 from 20.3% in 2023. This reflects the growth in the services surplus which stems from the expected surge in travel receipts during 2024, supported by the buoyant performance of the tourism sector forecasted 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. However, the projections for the current account deficit may vary in line with the risk to the secondary account inflows—impacted predominantly by the grant amounts received during the year. 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.

Risks to Outlook

The risks to global growth outlook have moderated since the projections were made for the October 2023 WEO and remain broadly balanced. On the upside, faster-than-anticipated reduction in inflationary pressures which could allow central banks to push forward easing plans, as well as slower-than-expected withdrawal of fiscal support in key economies are anticipated to boost growth over the year. Key downside risks include potential commodity price spikes emanating from geopolitical tensions such as the war in Ukraine and the conflict in Gaza and Israel, coupled with the persistence of core inflation may lead to an elevation of interest rate expectations and reductions asset prices. Additionally, the intensifying geoeconomic fragmentation could result in a supply-side

slackening due to greater barriers to the movement of goods, capital, and labour. The ongoing property sector woes in China which could impact the country's growth momentum as well as that of trading partners. Further, higher interest rates may result in financial stress as households tackle higher debt levels amid the reset of fixed-rate mortgages. As elevated risks of debt distress remain, countries could also reign in fiscal support to reduce the high debt ratios, which may lead to weakening economic activity and reduction in confidence.

For the domestic economy, the balance of risks to growth remains tilted to the downside. On the downside, such risks include the potential fall in tourism-related receipts stemming from the economic slowdown in key tourism source markets such as China and the European region, as well as commodity price spikes owing to the ongoing geopolitical tensions and adverse weather events which could

further exacerbate the current account deficit and the government budget deficit. Further, tightening policy rates to reign in core inflation could result in more stringent global financial conditions, leading to higher interest costs and a reduction in access to market financing for the Maldivian government. Key upside risks for the economy include 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.

With respect to domestic inflation, risks continue to remain tilted to the upside, with the potential implementation of domestic subsidy reforms, and the escalation of geopolitical turmoil which could exacerbate supply chain bottlenecks. However, with the unwinding of supply-side issues, a higher-than-anticipated moderation in global crude oil prices may lower inflationary pressure during the year.