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MALDIVES

Table 1	2022
Population, million	0.5
GDP, current US$ billion	5.7
GDP per capita, current US$	10929.5
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	79.9
Total GHG emissions (mtCO2e)	3.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy has recovered to pre-pandemic levels and, with rising tourist arrivals, is expected to maintain a strong growth and poverty reduction trajectory. Commodity price volatility is driving inflation and exerting pressure on fiscal and external balances, through costlier imports and higher subsidies. Despite recent improvements, public debt is expected to remain high, warranting continued efforts to reduce fiscal deficits, including comprehensive subsidy reforms while mitigating impacts on the vulnerable.

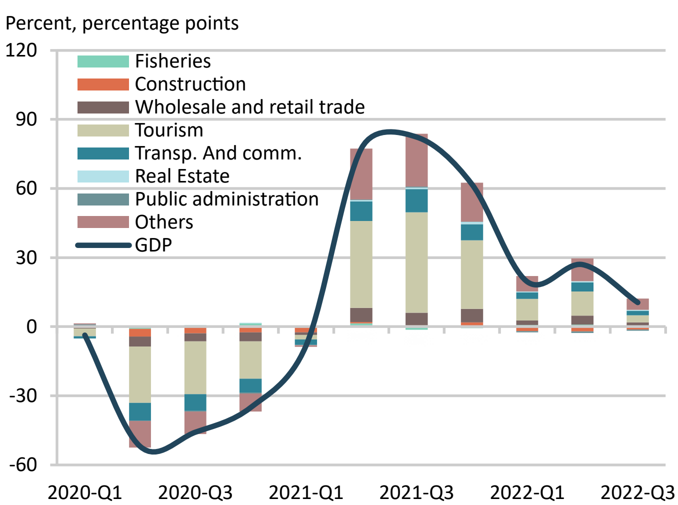
Key conditions and challenges

Tourism, which accounts for almost one-third of the economy, has seen a rapid recovery following the pandemic. Despite the war in Ukraine, arrivals from Russia remain strong and growing arrivals from India and Gulf countries have compensated for lower arrivals from Europe and China.
However, heavy reliance on tourism and limited sectoral diversification remain a key structural challenge as Maldives is highly vulnerable to macroeconomic shocks. As an economy that is heavily import-dependent, Maldives is facing significant external and inflationary pressures due to the sharp rise in global commodity prices. This is putting pressure on public finances given the government's blanket provision of food and fuel subsidies to help contain domestic price increases, continued high levels of capital expenditure, and an inefficient public health insurance scheme. Untargeted austerity measures pose risks to poverty, particularly in the atolls where 90 percent of the poor live, as past welfare gains have been driven by a strong redistributive model. The latter includes universal access to basic health and education services, public sector employment and pensions, health insurance, price controls and subsidies, and income support programs. Additional challenges to welfare include differential access to economic opportunities in Male relative to the atolls, and overcrowding affecting poorer urban households in Male.
To promote development, Maldives has scaled up infrastructure investments since 2016. This has boosted construction activity, tourism capacity, and medium-term growth prospects. Although these investments have contributed towards poverty reduction and better living standards, financing of these large investments through non-concessional sources and sovereign guarantees has led to growing fiscal vulnerabilities.
Recently, the increased cost of external borrowing has also compelled the government to turn towards domestic financing sources, which is crowding out the private credits and leading to a concerning rise in the exposure of the financial sector to the sovereign. Public and publicly guaranteed debt stock and debt servicing risks are expected to remain elevated in the medium term.

Recent developments

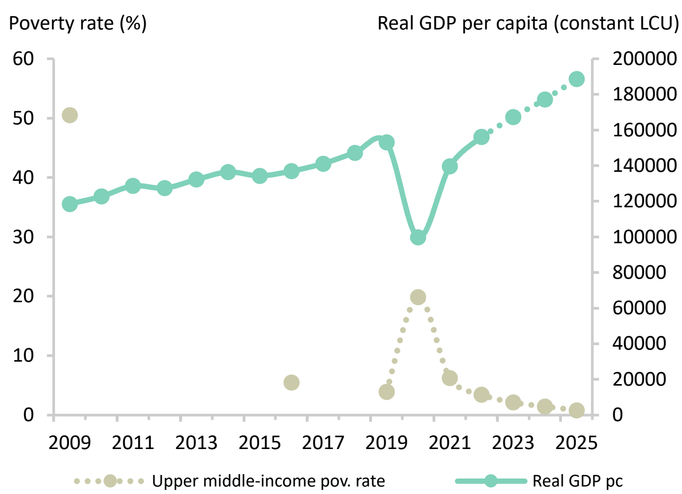
Tourist arrivals reached 1.68 million in 2022 – only 1.6 percent lower than the pre-pandemic high – which supported growth in the real estate, transport, and trade sectors, as well as driving the overall real economic growth of an estimated 12.3 percent (y-o-y).
Higher global commodity prices led to rising domestic inflation, which reached an average of 2.3 percent (y-o-y) in 2022, higher than the historical average of 0.5 percent. Price increases were particularly

FIGURE 1 Maldives / Real GDP growth and contributions to real GDP growth



Sources: Maldives Monetary Authority and World Bank staff calculations.

FIGURE 2 Maldives / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

acute in the food, transport, health, and restaurant services sectors.

Despite growth in tourism earnings, the current account deficit widened considerably to an estimated 24.6 percent of GDP in 2022, due to far costlier imports of oil and capital goods. High import costs and external debt repayments put significant pressure on gross reserves, which fell to less than US$500 million (or 1.8 months of imports) in October 2022, before recovering to over US$800 million (3 months of import) by the end of the year due to a US$200 million currency swap deal with India.

Blanket subsidies for energy and food commodities, together with sustained levels of high capital spending, led to an increase in the fiscal deficit to 14.5 percent of GDP in 2022. This was despite several austerity measures to lower administrative costs and the public sector wage bill. Over 80 percent of the deficit was covered by domestic sources, with MMA's asset exposure to government rising to 48 percent of its total financial assets at end-2022, from 43 percent at end-2021.

With ongoing plans to complete key infrastructure projects, and continued inflationary pressures, the government may find it increasingly difficult to finance the subsidy program in its current form. Better targeting of tax and transfer instruments would help mitigate a negative impact of subsidy reforms on the poor.

Outlook

The economy is expected to grow by 6 percent on average in the medium term, supported by robust tourism performance. The return of Chinese tourists together with arrivals from India and Russia are expected to lead to 1.8 million arrivals in 2023 (7.1 percent y-o-y increase). Going forward, tourism will be further supported by the expansion of Velana International Airport (likely to be completed by 2025) and investments in new resorts.

The recent increase in GST rates is expected to help narrow the fiscal deficit. Yet, public debt levels remain high. Additional fiscal adjustment is required to address fiscal vulnerabilities, particularly through expenditure rationalizations on capital expenditure, subsidies, and pharmaceutical spending. Meanwhile, recovery in demand, elevated global commodity prices, and the GST rate hike are expected to increase inflation in 2023, warranting a tighter macroeconomic policy mix. Subsidy reform to target the poor and vulnerable is needed to reduce the fiscal burden.

The current account deficit is expected to remain elevated given high commodity prices and necessary capital imports, as the government aims to complete ongoing infrastructure projects and commence projects in outer Atolls. Despite a recent decline in oil prices, rising external financing needs – including debt servicing – are expected to sustain pressure on official reserves.

Downside risks persist. Tourism could be adversely impacted by further global shocks. Any further widening of the current account deficit could put additional pressure on official reserves. The government faces external debt servicing payments of about US$340 million on average over the next three years amidst tightening global financing conditions. Stronger-than-expected tourism with the return of Chinese tourists offers upside potential to the outlook. In the absence of any pandemic relief measures, the poverty rate would have risen to 19.9 percent in 2020. With the recovery in economic growth, poverty rates are expected to drop to 2.1 percent in 2023.

TABLE 2 Maldives / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-33.5	41.7	12.3	6.6	5.3	5.9
Private Consumption	-32.1	48.3	37.2	2.8	3.3	3.9
Government Consumption	-39.6	44.2	30.6	11.2	8.3	8.4
Gross Fixed Capital Investment	-2.8	-21.0	27.6	6.1	3.0	5.2
Exports, Goods and Services	-54.3	82.4	27.1	7.5	6.6	6.0
Imports, Goods and Services	-46.2	42.9	59.7	5.9	5.4	5.2
Real GDP growth, at constant factor prices	-31.3	38.0	12.3	6.6	5.3	5.9
Agriculture	7.1	-0.6	2.5	2.8	3.2	3.5
Industry	-24.8	4.5	-8.7	13.9	5.1	4.2
Services	-34.3	46.8	15.3	6.1	5.4	6.2
Inflation (Consumer Price Index)	-1.4	0.5	2.3	5.7	2.5	2.5
Current Account Balance (% of GDP)	-42.8	-7.8	-24.6	-20.1	-14.9	-15.0
Net Foreign Direct Investment Inflow (% of GDP)	11.8	11.4	11.7	8.8	8.1	7.8
Fiscal Balance (% of GDP)	-23.6	-13.9	-14.5	-9.6	-9.5	-9.0
Revenues (% of GDP)	26.8	25.7	28.7	30.8	30.2	29.3
Debt (% of GDP)	150.2	113.6	110.1	112.0	109.9	113.2
Primary Balance (% of GDP)	-20.8	-11.4	-10.9	-6.1	-5.9	-5.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.9	6.2	3.4	2.1	1.4	0.8
GHG emissions growth (mtCO2e)	-10.9	12.2	14.8	12.0	10.2	9.5
Energy related GHG emissions (% of total)	82.4	84.4	85.8	87.0	87.9	88.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Microsimulations for 2020-2022 based on 2019 actual data. Neutral-distribution projections with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU (2023-2025).