

# MALDIVES DEVELOPMENT UPDATE

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## Preface

The Maldives Development Update (MDU) has two main goals. First, it takes the pulse of the Maldivian economy by outlining key developments over the past 12 months. Placing these in a global context, and based on these recent developments, the MDU then analyzes the outlook over the medium term. Second, every other edition of the MDU provides a more in-depth investigation of selected economic and policy issues. It has a wide audience including policymakers, policy analysts from think tanks or non-governmental organizations, and business and financial sector professionals interested in the economic development of Maldives.

The MDU was prepared by Ruijie Cheng, Erdem Atas, Richard Walker, and Arvind Nair (*Economic Policy, South Asia Region*). The team is grateful to Nandini Krishnan, Marta Schoch (*Poverty and Equity*), Karina Baba (*Finance, Competitiveness, and Innovation*), and Tasneem Dudhia (*International Finance Corporation*) for their inputs to the publication. The team thanks Mathew Verghis (*Director, Prosperity, South Asia Region*), David Sislen (*Country Director for Maldives, Nepal, and Sri Lanka*), Gevorg Sargsyan (*Country Manager, Maldives and Sri Lanka*), and Shabih Ali Mohib (*Practice Manager, Economic Policy, South Asia Region*) for their guidance. Yasindu Amarasinghe and Tracey Ann Plunkett provided valuable administrative support and helped with the format and layout of the report, while Ali Naafiz led the dissemination efforts.

The report was prepared based on published data available on or before March 1, 2025. Data sources include the World Bank, International Monetary Fund, Ministry of Finance, Maldives Monetary Authority, Maldives Bureau of Statistics, Ministry of Tourism, and press reports.

Previous report editions:

- [October 2024: Maldives Development Update: Seeking Stability in Turbulent Times](https://openknowledge.worldbank.org/entities/publication/44b2ff24-f864-4065-acc7-fc03b21b9fe8)
- [May 2024: Maldives Development Update: Scaling Back and Rebuilding Buffers](https://openknowledge.worldbank.org/entities/publication/acbc24eb-8fc1-4b94-8492-a41e4e41dd2f)
- [October 2023: Maldives Development Update: Batten Down the Hatches](https://openknowledge.worldbank.org/server/api/core/bitstreams/4fdca0d7-c521-4bf0-900b-88fad30ad00e/content)
- [April 2023: Maldives Development Update: Navigating A Tight Line](https://openknowledge.worldbank.org/handle/10986/39627)

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## Abbreviations

ADF	Airport Development Fee
BML	Bank of Maldives
CAD	Current Account Deficit
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
DPT	Departure Tax
EMDEs	Emerging Markets and Developing Economies
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoM	Government of Maldives
GST	Goods and Services Tax
HIES	Household Income and Expenditure Survey
MDU	Maldives Development Update
MIFCO	Maldives Industries Fisheries Company Ltd
MMA	Maldives Monetary Authority
MNACI	Maldives National Association of Construction Industry
MoFP	Ministry of Finance and Planning
MoTE	Ministry of Tourism and Environment
MPI	Multidimensional Poverty Index
MRR	Minimum Reserve Requirement
MTRS	Mid-Term Revenue Strategy
MVR	Maldivian Rufiyaa
NBS	National Bureau of Statistics
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPL	Non-performing Loan
ODF	Overnight Deposit Facility
OLF	Overnight Lombard Facility
OMO	Open Market Operations
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PSIP	Public Sector Investment Program
PSPH	Public Sector Pay Harmonization
RBI	Reserve Bank of India
SDF	Sovereign Development Fund
SOE	State-Owned Enterprise
STO	State Trading Organization
TGST	Tourism Goods and Services Tax
US\$	United States Dollar
y-o-y	year on year

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# Executive Summary

## A. Economic Update, Outlook, and Risks

**Economic growth remained robust in 2024, driven by tourist arrivals.** Real Gross Domestic Product (GDP) growth is estimated at 5.5 percent (y-o-y) in 2024 supported by robust tourism performance (7.1 percent growth in 2024Q1-Q3) that translated into strong growth in transportation, communication, and wholesale and retail trade. Tourist arrivals increased by 8.9 percent in 2024 compared to 2023 and reached an all-time high of 2.05 million, while the average duration of stay remained steady.

**Headline inflation surged in 2024Q4, and food inflation remained elevated throughout the year.** Headline inflation was subdued, at an average of 0.8 percent (y-o-y) in the first ten months of 2024. However, it picked up to 4.1 and 4.8 percent (y-o-y) in November and December, respectively driven by a rapid increase in tobacco, restaurant and accommodation prices. Although overall headline inflation remained moderate at 1.4 percent (y-o-y) in 2024 compared to 2.9 percent in 2023, food inflation picked up to 6.6 percent (y-o-y) in 2024 from 5.9 percent (y-o-y) in 2023. The continued provision of blanket subsidies helped contain pressures on housing, utility, and transportation prices.

**The fiscal deficit continued to widen in 2024, and expenditure arrears accumulated.** The overall reported fiscal deficit for the first eleven months of 2024 grew to MVR 12.7 billion (US\$822.4 million or 11.7 percent of GDP), compared to MVR 11.9 billion (US\$770.7 million or 11.7 percent of GDP) in the same period of 2023. This was driven by rising expenditure, which increased in this period by 4.6 percent (y-o-y) to 41.3 percent of GDP due to delays in reforms and rising spending on healthcare and salaries. Expenditure arrears, including for public investments, continued to accumulate during 2024 due to constrained financing. Revenue collection increased by 3.7 percent (y-o-y) to 29.6 percent of GDP.

**The current account deficit (CAD) remained elevated in 2024 as trade deficits widened further.** The trade deficit widened to US\$3.3 billion in 2024 from US\$3.1 billion in 2023 driven by a sharp 50 percent (y-o-y) decline in fish exports and 4.0 percent (y-o-y) growth in goods imports. Travel sector receipts, which account for 95 percent of services exports, experienced a solid growth of 10.4 percent from January to November 2024 (y-o-y) compared to the same period in 2023. Overall, the CAD is expected to remain elevated but narrow slightly to 20.5 percent of GDP in 2024 from 21.2 percent of GDP in 2023.

**Foreign exchange reserves have declined to critically low levels driven by an elevated CAD and increasing external debt repayments.** High import costs and external debt repayments have put significant pressure on official reserves, which fell to historic lows of US\$371.2 million in September 2024 (0.8 months of imports of goods and services). They recovered to US\$832.1 million (1.7 months of imports) in February 2025 supported by a US\$400 million currency swap agreement signed with the Reserve Bank of India in October 2024. New FX regulations for the tourism sector and businesses with FX income, which require a proportion of their FX to be converted into local currency, are expected to boost reserves as well. Despite the recovery in official reserves, the coverage of usable reserves – compared to short-term essential imports and external debt service needs – remains at historic lows. With rising liquidity risks and downgrades from ratings agencies in 2024, Sukuk yields rose to 32 percent in February 2025 from 17 percent at end-2023.

**Commercial banks' exposure to the sovereign continued to increase.** Exposure of the domestic financial sector to sovereign and state-owned enterprises (SOEs) debt increased by 7.5 percent (y-o-y) in January 2025, reaching approximately US\$4.3 billion (56 percent of GDP). Banks, other financial corporations, and the MMA remain heavily exposed to the sovereign overall, with exposures accounting for 36, 67 and 49 percent of their total assets respectively as of January 2025. Credit growth to the private sector moderated to 7 percent (y-o-y) in January 2025, driven by loans to the tourism and construction sectors. Deposit growth decelerated

to 1.5 percent (y-o-y) in January 2025, mainly driven by a decline in foreign currency deposits by 4.8 percent (y-o-y), which contributed to increasingly tight foreign exchange liquidity.

**Total public and publicly guaranteed (PPG) debt remained elevated and rose further in early 2024.** Total PPG debt reached US\$9.4 billion (estimated 134.2 percent of GDP) in 2024Q4, compared to US\$8.2 billion (124.2 percent of GDP) in 2023Q4. Domestic debt increased to 76.5 percent of GDP in 2024Q4, from 72.7 percent of GDP in 2023Q4. External and externally guaranteed debt accounted for the remainder of the stock (57.7 percent of GDP) in 2024Q4.

**Growth is expected to pick up slightly over the medium term, supported by increased tourist arrivals due to the completion of the new terminal at the Velana International Airport expected by mid-2025.** Real GDP growth is projected to be 5.7 percent in 2025, followed by 5.3 percent in 2026 and 4.7 percent in 2027. The baseline projections for medium-term growth are slightly higher than the forecasts in September 2024 due to better performance of the tourism sector. The baseline outlook assumes a limited fiscal consolidation and some adverse impacts due to global trade uncertainties and a potential global economic slowdown.

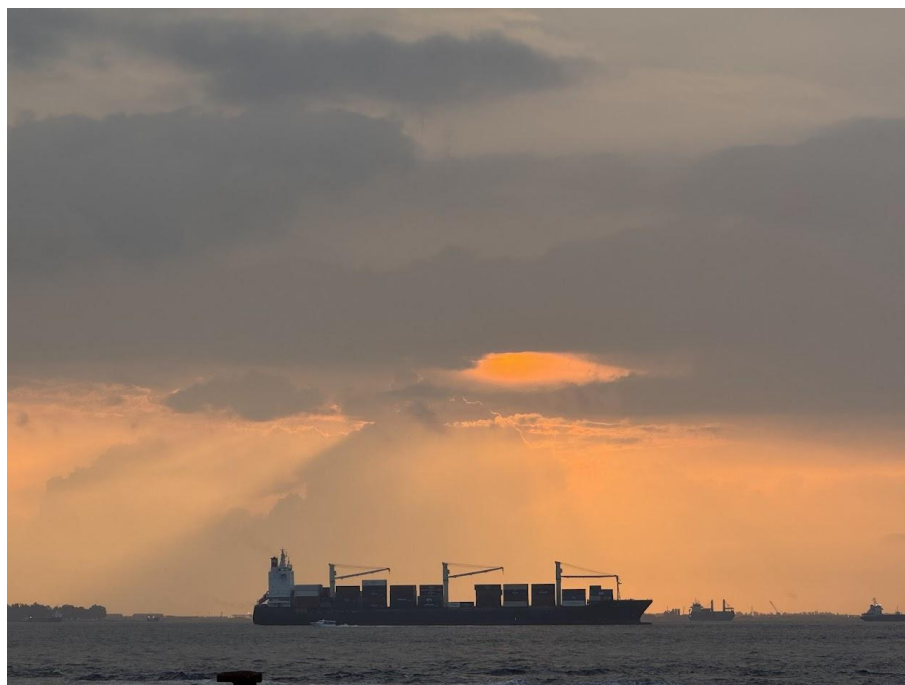
**Inflation is projected to rise over the medium term, which could increase poverty unless targeted cash transfers are introduced.** Inflation is projected to rise from 1.4 percent in 2024 to 4.3 percent in 2025 and 3.8 percent in 2026, before moderating to 2 percent in 2027, driven by partial implementation of the planned subsidy reforms. Poverty rates could increase if envisioned targeted cash transfers to mitigate the withdrawal of subsidies are not implemented.

**The fiscal deficit is likely to remain elevated over the medium term – increasing the public debt stock further – with debt service costs projected to increase significantly.** Assuming a limited fiscal consolidation, the fiscal deficit is expected to remain elevated and only narrow slowly from 12.3 percent of GDP in 2024 to 9.8 percent of GDP in 2027. With high fiscal deficits and gradual moderation in GDP growth over the medium term, public debt is projected to rise from 134.2 percent of GDP in 2024 to 135.7 percent of GDP in 2027. At the same time, external debt service costs are projected to rise significantly from US\$424.3 million in 2024 to about US\$1 billion in 2025 and then to US\$1.1 billion in 2026 (including the bullet repayment on the US\$500 million Sukuk and the US\$100 million private bond placement due in 2026).

**Risks to the outlook are significantly on the downside given heightened global trade uncertainties as well as elevated external and fiscal vulnerabilities and limited buffers.** Heightened global trade uncertainties and a potential global economic slowdown may negatively affect Maldives' tourism and harm the growth outlook. Elevated external and fiscal imbalances, together with high external debt service payments, continue to pose significant liquidity and solvency risks. Downgrades by ratings agencies in 2024, and elevated Sukuk yields, have constrained Maldives' access to markets and increased the cost of external financing. The small cash balance of the Sovereign Development Fund (SDF) – at US\$65 million in July 2024 – falls short of external debt servicing needs. Additional fiscal risks stem from guaranteed and on-lent loans, as well as trade payables, subsidies, and capital injections to SOEs.

**A deep fiscal consolidation – together with a clear financing strategy – is urgently required to reduce fiscal and debt vulnerabilities and ease liquidity pressures.** The government has implemented some reforms on revenue mobilization in 2024, including revisions to the Tourism Goods and Services Tax (TGST), departure tax (DPT) and airport development fee (ADF), and green tax. To complement this and deliver on the fiscal consolidation, it is critical to implement reforms to reduce expenditures, as identified in the government's homegrown fiscal agenda in 2024. This includes: (i) phasing out existing subsidies and replacing them with a targeted cash transfer scheme; (ii) improving efficiency in the health insurance scheme (Aasandha); (iii) reforms to SOEs including improvements in their corporate governance and financial viability; and (iv) a significant reduction in capital spending, accompanied by changes in the PSIP regulatory framework.

## A1. Economic Update



### 1. Growth remained robust while inflationary pressures picked up in recent months

#### Economic growth remained robust, supported by tourism...

After growing at 4.7 percent in 2023, real GDP growth is estimated to have reached 5.5 percent in 2024. This was primarily driven by a strong performance in the tourism sector, which is estimated to have grown by 7.1 percent (y-o-y) in the first three quarters of 2024. This translated into strong growth in transportation, communication, and wholesale and retail trade (Figure A.1). Fisheries, though a small sector of the economy, declined by a significant 37 percent (y-o-y) in the first three quarters of 2024 (y-o-y),<sup>1</sup> which may have caused income losses for households whose livelihoods depend on the sector.

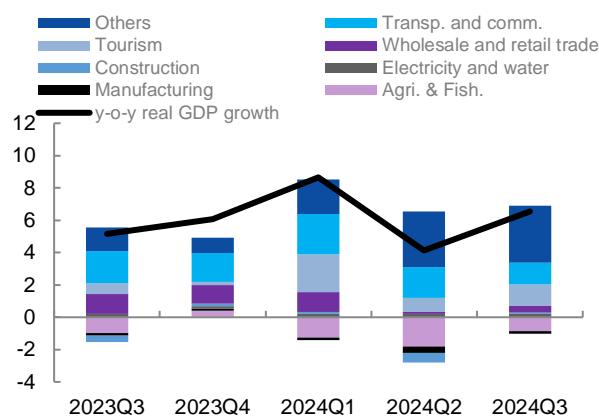
#### ...that was driven by increased arrivals from leading markets including China, Russia, and Western Europe

Tourist arrivals increased by 8.9 percent (y-o-y) in 2024 to reach a historic high of 2.05 million. The average duration of stay remained similar at 7.7 days in 2024 compared to 7.6 days in 2023, albeit lower than the 8.0 days recorded in 2022 (Figure A.2).<sup>2</sup> Chinese arrivals led the market, contributing 12.9 percent of total visitors in 2024, followed by Russia (11 percent) and Western European countries (United Kingdom at 8.8 percent, Germany at 7.7 percent, and Italy at 7.1 percent).

<sup>1</sup> Maldives fish exports have dropped to a record low. This was driven by discretionary and higher price adjustments since 2023 for fish purchases by the government, which had a negative impact on private sector exporters who were unable to compete at that price. In addition, fishermen didn't receive payments from the fishing company, Maldives Industries Fisheries Company Ltd (MIFCO), due to liquidity challenges in 2024, which caused a slowdown in fishing.

<sup>2</sup> This is based on data from January–August 2024, as duration of stay data for September–December 2024 is not yet available.

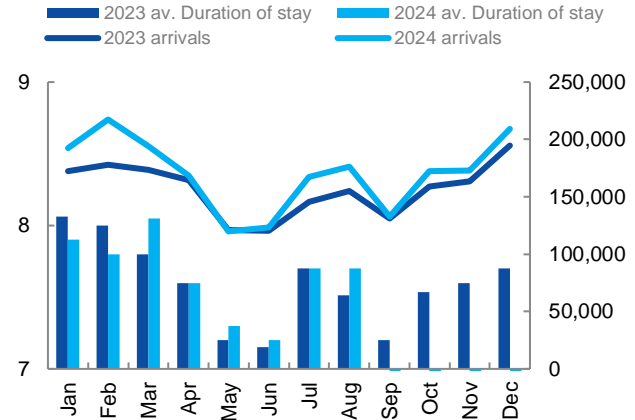
**Figure A.1: Real GDP growth remained robust...**  
*Contribution to growth, percentage points*



Source: National Bureau of Statistics Maldives (NBS), WB calculations.

Note: Others include financial services, real estate, professional, scientific, and technical activities, public administration, education, human health and social work activities, entertainment and recreation.

**Figure A.2: ... as tourist arrivals increased**  
*Number of tourist arrivals (rhs, lines), days of stay (lhs, columns)*



Source: Ministry of Tourism and Environment (MoTE), WB calculations.

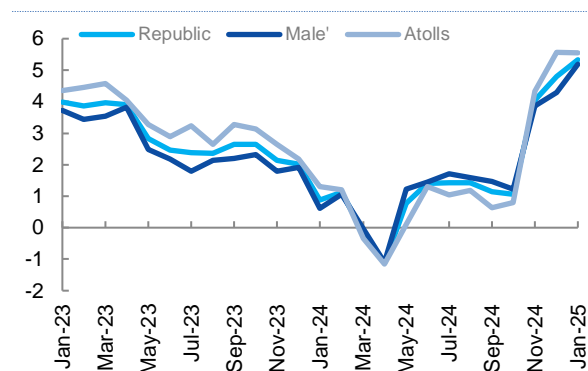
**Headline inflation picked up in recent months, whilst food inflation remained elevated throughout 2024**

Consumer price headline inflation remained subdued at an average of 0.8 percent (y-o-y) in the first ten months of 2024. It then picked up to 4.1 and 4.8 percent (y-o-y) in November and December, driven by a rapid increase in tobacco,<sup>3</sup> restaurant and accommodation prices.<sup>4</sup> Although overall headline inflation remained moderate at 1.4 percent (y-o-y) in 2024 – reflecting the continued provision of subsidies on a wide range of food and non-food items provided by SOEs – food price increases were still significant, reaching an average of 6.6 percent (y-o-y) in 2024 (Figures A.3 and A.4).

<sup>3</sup> Tobacco prices went up mainly because the import duty on tobacco products increased from MVR 3 to MVR 8 and the ad valorem tax on tobacco products increased from 50 percent to 100 percent.

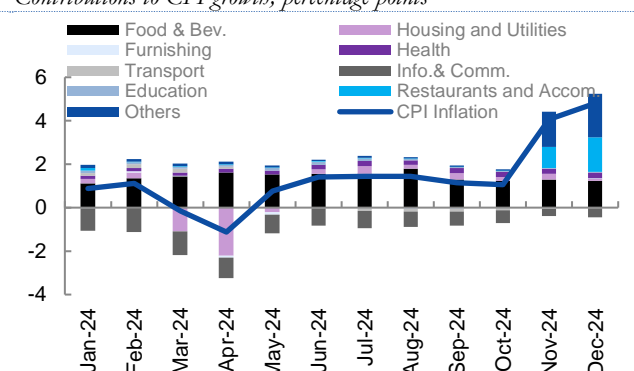
<sup>4</sup> In addition, a shortage of foreign currency for importers, coupled with rising parallel-market exchange rate pressures, drove up the cost of imported goods.

**Figure A.3: Headline inflation has picked up...**  
Year-on-year change in consumer price index (CPI), percent



Source: NBS, WB calculations.

**Figure A.4: ... with acute price increases in food and beverages**  
Contributions to CPI growth, percentage points



Source: NBS, WB calculations.

Note: Others include clothing and footwear, recreation, sports and culture, insurance and financial services, personal care and misc. services.

## 2. Fiscal deficits continued to increase and remain elevated

### The fiscal deficit grew in 2024

The overall reported fiscal deficit for the first eleven months in 2024 grew to MVR 12.7 billion (US\$822.4 million or 11.7 percent of GDP), compared to MVR 11.9 billion (US\$770.7 million or 11.7 percent of GDP) in the same period of 2023. Total expenditure increased in this period by 4.6 percent (y-o-y) to 41.3 percent of GDP, whilst revenue collection increased by 3.7 percent (y-o-y) to 29.6 percent of GDP. The fiscal deficit is estimated to widen further to MVR 13.3 billion (US\$862 million or 12.3 percent of GDP) in 2024 from MVR 10.7 billion (US\$698 million or 10.6 percent of GDP) in 2023.

### Revenue collection increased due to robust tourism-related tax collections

The revenue increase in 2024 came largely from TGST and business and property tax collections, linked to more robust business activity (Figure A.5). In addition, parliament approved revisions to the Goods and Services Tax (GST),<sup>5</sup> ADF, DPT,<sup>6</sup> and Green Tax.<sup>7</sup> These measures are expected to positively impact revenue collections in 2025.

### Expenditure growth slowed due to investment project cuts on a cash basis, but there was a

Recurrent expenditure grew by 6.1 percent for the first eleven months (y-o-y) in 2024, driven by salaries and wages, subsidies, and Aasandha (health) spending. Capital expenditure only grew marginally, however, by 1.3 percent (y-o-y) over the same period (Figure A.6) due to investment project cuts earlier in the year. These cuts were necessitated by cash-flow constraints linked to limited domestic and external financing. These were made on a cash basis, not on a commitment basis, creating a

<sup>5</sup> The seventh amendment to the Goods and Services Tax Act, approved by parliament on October 31, 2024, will increase the TGST from 16% to 17%, effective July 1, 2025.

<sup>6</sup> The second amendment to the Airport Taxes and Fees Act, approved by parliament on October 31, 2024, revises DPT and ADF for passengers departing from Maldives, effective December 1, 2024. The revised fees based on travel class are: for economy class, the fee remains unchanged for Maldivians at \$12 and increases from \$30 to \$50 for foreigners; for business class, the fee increases from \$60 to \$120 for both Maldivians and foreigners; for first class, the fee increases from \$90 to \$240 for both Maldivians and foreigners; for private jet passengers, the fee increases from \$120 to \$480 for both Maldivians and foreigners.

<sup>7</sup> The fourteenth amendment to the Maldives Tourism Act, approved by parliament on October 31, 2024, revises the green tax payable per night for various types of accommodation, effective January 1, 2025. For tourist resorts, integrated resorts, resort hotels, tourist vessels, and hotels and guesthouses located on uninhabited islands, as well as hotels and guesthouses with more than 50 rooms located on inhabited islands, the green tax will increase from US\$6 to \$12. For hotels and guesthouses with 50 rooms or fewer on inhabited islands, the green tax will increase from \$3 to \$6.

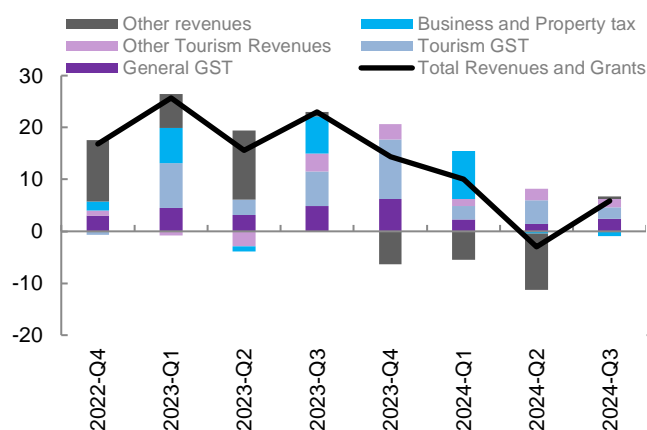
**reported build-up of expenditure arrears**

significant buildup of expenditure arrears. Interest payments continued to be substantial in 2024, totaling MVR 4.3 billion (US\$281.5 million) during the first eleven months, compared to MVR 4.0 billion (US\$256.8 million) during the same period in 2023.

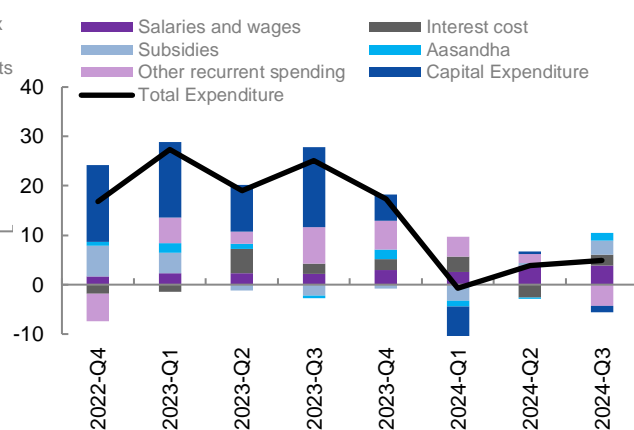
**Subsidy reforms have been delayed**

Previously planned and budgeted subsidy reforms (as part of government’s home-grown fiscal reform agenda announced in February 2024) for fuel, electricity, food, and sanitation – that aimed to reduce expenditures by 2 percent of GDP in 2024 – have not yet been implemented. Phasing out existing blanket subsidies and replacing them with a targeted cash transfer scheme remains critical to address the fiscal challenges and make the social protection framework more progressive.

**Figure A.5: Growth in revenues driven by tourism**  
y-o-y change, in percent



**Figure A.6: Expenditure growth slowed, largely due to capital investment cuts**  
y-o-y change, in percent



Source: MoFP, World Bank calculations.

Source: MoFP, World Bank calculations.

Note: Other Tourism Revenues consist of import duties, green tax, airport service charges/DPT, ADF, and resort rents.

**3. Public debt and external debt servicing increased in 2024**

**Public debt continued to grow and remains high**

Total public and publicly guaranteed (PPG) debt rose to US\$9.4 billion (or an estimated 134.2 percent of GDP) as of 2024Q4, compared to US\$8.2 billion (or 124.2 percent of GDP) in 2023Q4, due to elevated borrowing to finance the fiscal deficit and infrastructure projects (Figure A.7). Domestic debt (including guaranteed debt) increased to 76.5 percent of GDP in 2024Q4, from 72.7 percent of GDP in 2023Q4, as tighter global financial conditions forced the government to depend more on domestic finances. As a result, outstanding external and externally guaranteed debt accounted for the remainder of the stock (57.7 percent of GDP) in 2024Q4. (Figure A.8).<sup>8</sup>

**External debt servicing went up in 2024, while financing options became more restricted**

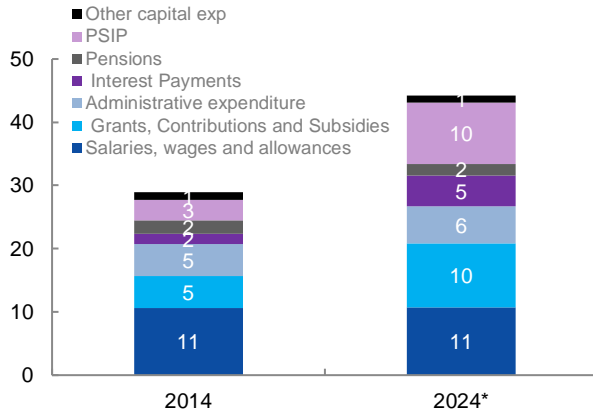
The PPG external debt service costs increased by 17.8 percent (y-o-y), reaching US\$424.3 million in 2024, up from US\$360.3 million in 2023. India agreed in 2024 to extend the maturities of one-year US dollar treasury bonds by an additional year, issued through the State Bank of India, Malé branch. In September 2024, China's Export-Import (EXIM) Bank signed a refinancing agreement for US\$75 million of the loan

<sup>8</sup> Based on the Quarterly Debt Bulletin published by the Ministry of Finance.

for Velana International Airport. The credit rating downgrades by Fitch and Moody’s in the second half of 2024 have further constrained the country’s ability to access markets for new financing. The yields on the US dollar Sukuk increased to 32 percent in February 2025 as compared to 17 percent at end-2023.

**Figure A.7: Public infrastructure projects and subsidies have driven up spending over the last decade...**

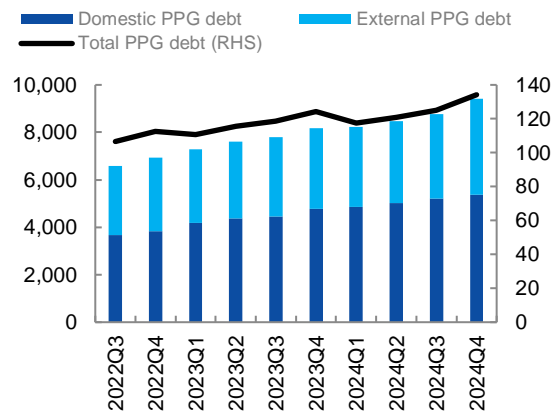
Public expenditure as a share of GDP



Source: MoFP, World Bank calculations.

**Figure A.8: ...which has led to a sharp increase in the debt stock**

PPG in US\$ millions and percent of GDP (rhs)



Source: MoFP, World Bank calculations.

#### 4. Potential austerity measures may impact household welfare if unmitigated

**Fiscal reforms to tackle economic challenges need to be accompanied by better -targeted mitigating measures to protect the poor**

Post-pandemic economic growth has translated into resumed poverty reduction, and the poverty rate is estimated to be at 2.2 percent (\$6.85 per person per day, 2017 PPP) in 2024, down from 3.9 in 2019. In 2023, poverty would have been more than double, and the Gini index would be 2.8 points higher in the absence of welfare spending (cash transfers and indirect subsidies) given poorer households rely heavily on government support.<sup>9</sup> However, a significant share of fiscal spending on blanket subsidies is also currently reaching non-vulnerable households (43 percent of subsidies spending). Replacing blanket subsidies with a better-targeted compensation mechanism can limit the impact of fiscal adjustment measures on poverty and inequality and reduce the share of subsidies going to the non-poor.

**Structural inequalities between Malé and the atolls could deepen in the event of an economic shock**

Households living in the atolls (15.2 percent), and poor households (7.6 percent), are more likely to be employed in the primary sector (agriculture and fisheries). Self-employed workers in fisheries – largely concentrated in atolls – had the highest income shock rate during the COVID pandemic (72 percent against 68 percent in manufacturing and 39 percent in services) posing concerns over their resilience to additional shocks in the medium term. Better targeted cash transfer compensation mechanisms could be a useful instrument to help lessen the structural inequalities between Malé and the atolls, as the population living outside the capital is more reliant on public services.

<sup>9</sup> For instance, subsidies make up 11 percent of income for the bottom decile, compared to just 2 percent for the wealthiest decile, meaning subsidy removal would disproportionately affect the poor. The mechanism is that these reforms will increase costs of public services and staple goods.

### 5. External pressures have severely reduced FX reserves

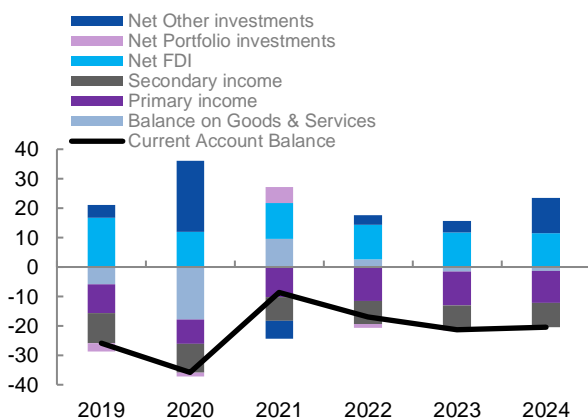
**The CAD remained at elevated levels and the trade deficit widened further in 2024**

The CAD remained elevated at US\$1.4 billion (or 20.5 percent of GDP) in 2024 compared to US\$1.4 billion (or 21.2 percent of GDP) in 2023. This was largely financed by foreign direct investment (FDI). Net FDI grew by an estimated 5.5 percent (y-o-y) to US\$808.9 million (or 11.5 percent of GDP) covering 56.1 percent of the current account deficit in 2024 (Figure A.9). The merchandise trade deficit widened to US\$3.3 billion in 2024 from US\$3.1 billion in 2023 driven by growth in goods imports of 4.0 percent (y-o-y) (Figure A.10). Merchandise imports remained elevated at US\$3.6 billion in 2024, up marginally from US\$3.5 billion in 2023, with their growth showing signs of slowing down due to the reduction of construction-related imports in 2024Q2 but picking up again in 2024Q4 (Figure A.11). Travel sector receipts, which account for 95 percent of services exports, experienced a solid growth of 10.4 percent from January to November 2024 (y-o-y) compared to the same period in 2023. There was a sharp decline in fish exports by 50 percent (y-o-y), which contributed to export weakness.

**Official reserves have reached critically low levels, heightening vulnerabilities**

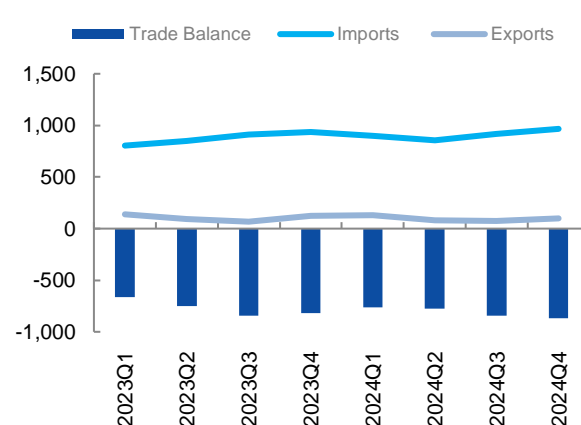
Elevated current account deficits and rising external debt repayment obligations led to a sharp decline in official reserves from US\$590.5 million at end-2023 to US\$ 371.2 million in September 2024, sufficient to cover only 0.8 month of imports of goods and services. In October 2024, the Maldives Monetary Authority (MMA) signed a currency swap agreement of US\$400 million with the Reserve Bank of India (RBI), which provided a boost to official reserves to US\$673.2 million (or 1.5 months of imports) by end-2024. With the support from the swap line and the newly introduced FX regulations,<sup>10</sup> official reserves further increased to US\$832.1 million as of February 2025. Despite the recovery in official reserves, the coverage of usable reserves<sup>11</sup> remained at historic lows (Figure A.12).

**Figure A.9: CAD somewhat financed by FDI...**  
Percent of GDP



Source: MMA, World Bank calculations.  
Note: 2024 figures are based on World Bank GDP estimations

**Figure A.10: ...while the trade deficit increased...**  
US\$ million



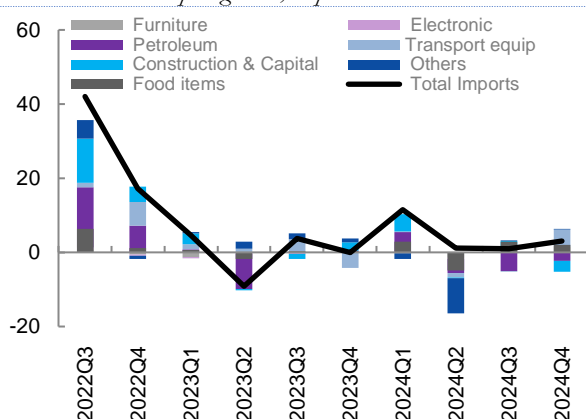
Source: MMA, World Bank calculations.

<sup>10</sup> In December 2024, the Parliament of Maldives passed the Foreign Currency Bill and introduced a new FX regulation necessitating that the tourism sector and FX-earning businesses convert a proportion of their FX into local currency and deposit it in the domestic banking system, effective January 1, 2025.

<sup>11</sup> Official reserves net predetermined short-term liabilities (i.e., coming due within the next 12 months).

**Figure A.11: ...as import growth picked up...**

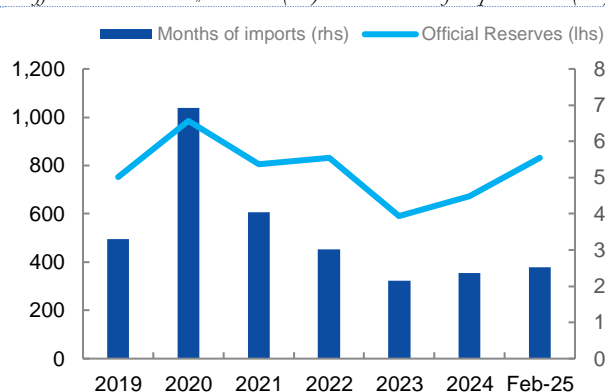
*Contribution to import growth, in percent*



Source: MMA, World Bank calculations.

**Figure A.12: ... and reserves declined to low levels**

*Official reserves US\$ million (lhs) and months of import cover (rhs)*



Source: MMA, World Bank calculations.

### MMA and banking sector exposure to the sovereign remains high

**Monetary policy has been unchanged since October 2022**

The MMA kept policy rates and minimum reserve requirements unchanged.<sup>12</sup> Broad money (M2) remained stable with a modest increase of 2 percent (y-o-y) in January 2025 (Figure A.13). This growth was mostly driven by an increase in net domestic assets, while net foreign assets declined. The dollarization of the economy declined marginally to 45.5 percent in January 2025 compared to 48.6 percent in January 2024 but remained elevated.

**Foreign exchange pressures continue to pose challenges to the financial sector**

The official exchange rate is currently pegged at MVR 15.42 per USD.<sup>13</sup> However, on account of FX withdrawal limitations to households and businesses, a parallel FX market persists. Despite the parallel market, the severity of foreign exchange liquidity remains a challenge for the financial sector. In December 2024, Parliament passed a new Foreign Currency Act (32/2024), which came into force in January 2025, and introduces a new regulatory framework for foreign currency transactions. As a result, the FX liquidity improved with FX reserves further rising to US\$832.1 million (1.7 months of imports) in February 2025.

**The financial sector's exposure to sovereign and SOE debt remains high**

The exposure – MVR 66.9 billion in sovereign securities and MVR 5.7 billion in SOE loans – continued to increase in 2024, although at a slower pace compared to the previous year. There was, however, an uptick in total exposures by 7.5 percent (y-o-y) in January 2025, mostly driven by a continuous increase in government securities (Figure A.14). On the other hand, growth in SOE exposures came down substantially in the second half of 2024 and remained broadly unchanged in January 2025. Overall, banks, other financial corporations, and the MMA remain heavily

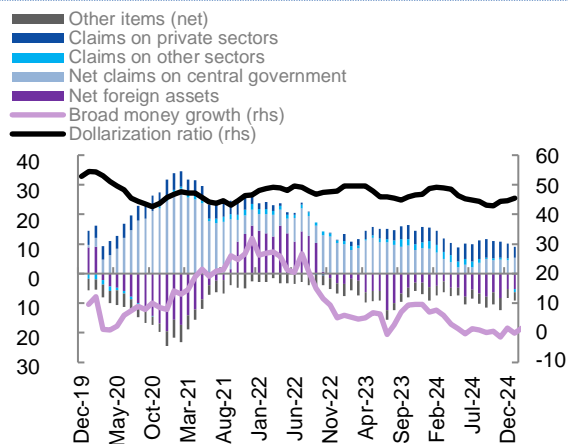
<sup>12</sup> The monetary policy framework is centered on maintaining the exchange rate peg with the US dollar within a horizontal band, with MMA primarily using minimum reserve requirements (MRRs) for banks and open-market operations as the main instruments. The MRR has been at 10 percent of average local currency deposits since June 2021, while the MRR for foreign currency deposits has been at 10 percent since October 2022. The interest rate corridor has also been maintained in the same band, with the overnight deposit facility and overnight Lombard facility unchanged at 1.5 and 10 percent, respectively.

<sup>13</sup> As of March 12, 2025.

exposed to the sovereign with exposures accounting for 36, 67 and 49 percent of their total assets respectively, as of January 2025.

**Figure A.13: Growth in net domestic assets contributed to broad money growth...**

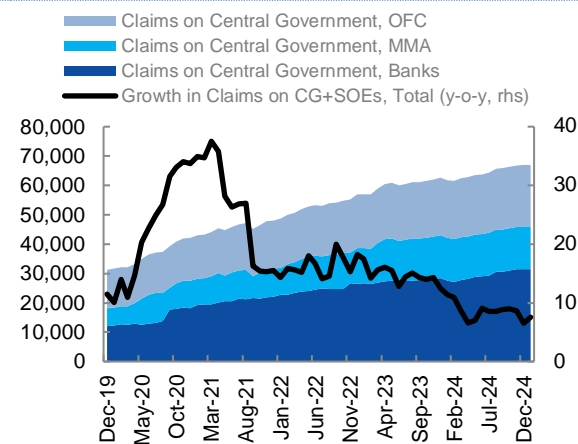
percentage point contribution (lhs), percent (rhs)



Source: MMA, World Bank calculations.

**Figure A.14: ...while the exposure of the financial sector to the sovereign and SOEs remains elevated**

MVR million (lhs), percent (rhs)



Source: MMA, World Bank calculations.

Note: Other financial corporations (OFC) include finance companies, insurance companies, and pension funds.

**Credit growth continues to moderate, while excess liquidity remains concentrated**

The annual growth rate of credit to the private sector by commercial banks has gradually moderated, reaching 7 percent in January 2025 compared to 10 percent in January 2024 (Figure A.15). The slowdown has been driven mostly by loans to the tourism and construction sectors (35 and 18 percent of total loans, respectively). Consumer lending (22 percent of total) continues to expand at robust rates, reaching 30 percent (y-o-y) in January 2025. The MMA is currently finalizing a new regulatory framework on financial consumer protection, which will be critical as financial services access and usage expand. In contrast, deposit growth has been muted, reaching 1.5 percent (y-o-y) in January 2025 (Figure A.16). Deposits in foreign currency continue to decline, contributing to tight foreign currency conditions (4.8 percent y-o-y decline in January 2025 compared to 5.5 percent growth in January 2024). After observing more modest growth rates for most of 2024, there has been a recent recovery in local currency deposits by 8.2 percent (y-o-y) in January 2025. Excess liquidity, however, remains concentrated given the limited market mechanisms that enable redistribution across banks.

**Although banks are well capitalized, foreign currency and credit risks remain elevated**

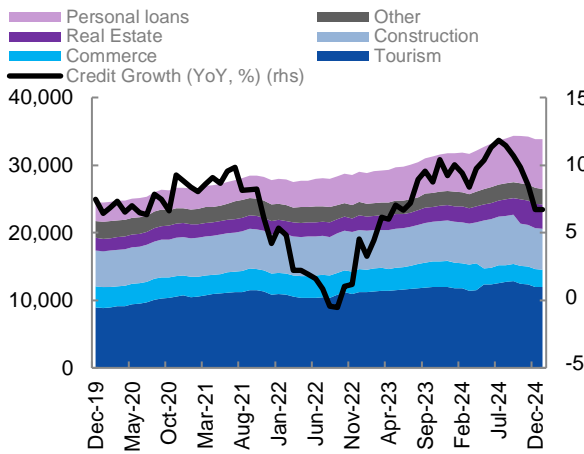
As of January 2025, the capital adequacy ratio stood at 53.1 percent compared to 48.9 percent the previous year – well above the minimum regulatory requirement of 12 percent, although the ratio does not capture sovereign risks.<sup>14</sup> Non-performing loans (NPLs) continue to gradually decrease, reaching 5.8 percent in January 2025 compared to 8.0 percent in January 2024. However, credit risks remain elevated due to significant loan concentration, with the three largest economic sectors accounting for 79.1 percent of private sector loans and large exposures representing 24.2 percent of capital. At the same time, provisioning coverage remains relatively low at 60.6 percent of NPLs in January 2025, compared to 56.8 percent in January 2024. Despite recent improvements, foreign exchange risks continue to pose threats to the

<sup>14</sup> The ratio is likely overstated due to the zero-credit risk weight applicable to all government exposures.

financial sector, with net open positions equivalent to -8.4 percent of capital in January 2025, compared to -10.1 percent observed the previous year. Overall, profitability ratios have decreased following the deceleration in financial intermediation and tighter interest rate spreads. In January 2025, banks reported return on assets of 4.5 percent and return on equity of 13.2 percent, compared to 5.9 and 17.8 percent, respectively, the previous year.

**Figure A.15: Private credit growth moderated...**

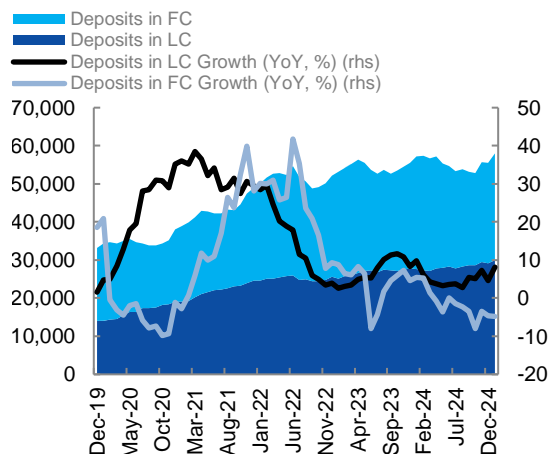
*MVR million (lhs), percent (rhs)*



Source: MMA, World Bank calculations.

**Figure A.16: ...while deposit growth has been muted**

*MVR million (lhs), percent (rhs)*



Source: MMA, World Bank calculations.

## A2. Outlook and Risks



### 6. Growth is forecast to moderate, inflation to increase, and fiscal and external deficits to remain elevated

**The expansion of the airport is expected to sustain GDP growth by facilitating increased tourist arrivals**

Real GDP growth is projected to be 5.7 percent in 2025, followed by 5.3 percent in 2026, and 4.7 percent in 2027 (Table A.1). This will be supported by the expected completion of the new terminal at Velana International Airport by mid-2025, which is projected to lead to further increases in tourist arrivals. The baseline projections for medium-term growth are slightly higher than the forecasts in September 2024 (Figure A.17) due to a more positive tourism outlook and a projected uptick in fisheries and construction. Given the expected limited fiscal consolidation, this outlook assumes only a small reduction in government consumption and investment. It also considers adverse impacts due to global trade uncertainties and a potential global economic slowdown.

**Table A.1: Medium-term projections**

	2023	2024e	2025f	2026f	2027f
Real GDP Growth, at constant market prices	4.7	5.5	5.7	5.3	4.7
Agriculture	3.2	-19.3	3.7	3.3	3.1
Industry	3.3	0.1	3.2	3.5	4.3
Services	4.8	7.6	6.0	5.6	4.8
Inflation (CPI)	2.9	1.4	4.3	3.8	2.0
Current Account Balance (% of GDP)	-21.2	-20.5	-20.1	-18.9	-18.4
Fiscal Balance (% of GDP)	-10.6	-12.3	-11.8	-10.9	-9.8
Primary Balance (% of GDP)	-6.5	-7.5	-6.8	-6.1	-4.9
Debt (% of GDP)	124.2	134.2	131.0	132.9	135.7

Source: World Bank estimates and forecasts as of April 2025.

**Inflation is projected to rise in 2025**

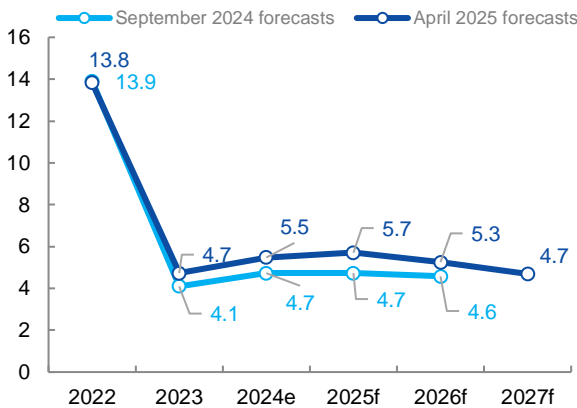
This will be driven by a partial implementation of the planned subsidy reforms towards the end of 2025. Inflation is expected to gradually decline thereafter but remain above the historical average over the medium term.

**The fiscal deficit is expected to narrow marginally and public debt to rise further**

Assuming a limited and delayed fiscal consolidation, the fiscal deficit is expected to remain elevated and only slowly narrow to 9.8 percent of GDP by 2027 (Figure A.18). With high fiscal deficits and moderation in GDP growth over the medium term, public debt is projected to rise to 135.7 percent of GDP in 2027 (Table A.1).

**Figure A.17: Real GDP growth will moderate over the medium term**

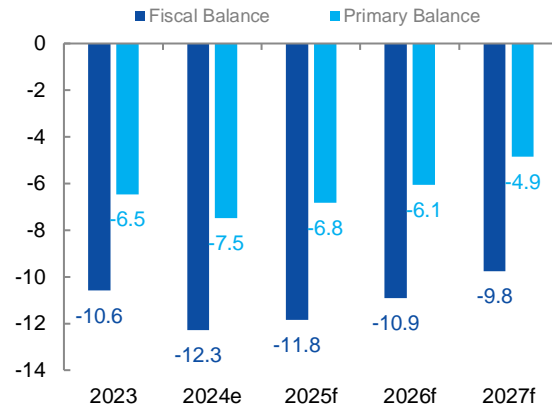
*Year-on-year growth, percent*



Source: MoFP and World Bank projections.

**Figure A.18: Fiscal deficit is only projected to narrow slowly due to delays in reform implementation**

*Percent of GDP*



Source: MoFP and World Bank projections.

**The CAD is expected to narrow slowly over the medium term**

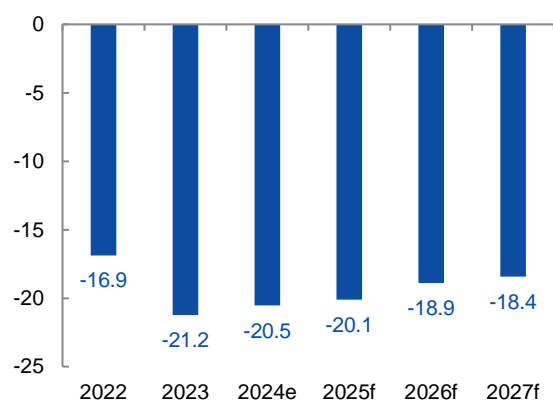
Given a limited capital expenditure adjustment and associated import reduction, the CAD is expected to remain elevated and slowly decline to 18.4 percent of GDP in 2027 (Figure A.19). High external financing needs – including significant debt servicing requirements in 2025 and 2026 – are expected to sustain pressure on the balance of payments and official reserves.

**External debt repayments are expected to rise significantly**

Annual average PPG external debt servicing needs are projected at US\$1 billion in 2025, including the repayment of the currency swap facility with RBI (Figure A.20). PPG external debt servicing is then expected to reach US\$1.1 billion in 2026, which includes bullet repayments for the US\$500 million Sukuk and US\$100 million private bond placement.

**Figure A.19: Current account deficit is expected to narrow slowly due to limited PSIP reforms...**

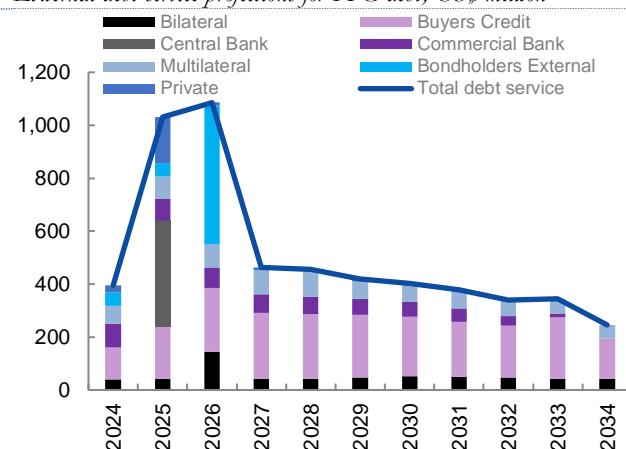
Percent of GDP



Source: MMA and World Bank estimates.

**Figure A.20: ...and increasing external debt servicing needs continue to exert pressure on reserves**

External debt service projections for PPG debt, US\$ million



Source: MoFP and World Bank calculations.

Note: Data as of November 2024. They do not include debt service costs of pipeline loans (non-concessional or commercial). Thus, debt servicing costs of the outer years may be underestimated.

## 7. Risks to the outlook are heavily tilted to the downside

### The risk of a fiscal or debt sustainability shock is rising

External and fiscal vulnerabilities, along with increased debt service needs, pose major downside risks to the economic outlook. Further delays in implementing planned fiscal reforms, while contracting new external loans at expensive terms given constrained access to markets, could lead to a fiscal or debt sustainability shock, as the country is already at high risk of debt distress.<sup>15</sup> Securing additional external funds to meet external financing needs is also critically important.

### Maldives maintains very limited external buffers to meet financing needs

The coverage of reserves remains limited and official reserves are likely to remain under significant pressure considering large debt repayment obligations in the medium term. Despite government efforts to transfer a portion of revenue to the Sovereign Development Fund (SDF) – which was established to pay off some of the maturing debt in 2026 – the resources in the SDF (reportedly at US\$65 million in July 2024)<sup>16</sup> fall short of external debt servicing needs.

### Downside risks to the global economic outlook pose further challenges

The current outlook is subject to considerable global uncertainties, including commodity price changes, inflationary pressures, ongoing geopolitical tensions, global trade uncertainties, and potential global economic slowdown. These may negatively affect the tourism sector and harm the growth outlook. Major economies such as China and in Europe are projected to experience a moderation in economic growth over the medium term, with risks tilted towards the downside. These global uncertainties, as well as any additional global shocks, pose further risks to Maldives' economic outlook, especially where there is a slowdown in countries that are key source markets for tourists. A decline in global commodity prices and a stronger tourism performance would provide some upside.

<sup>15</sup> <https://www.imf.org/en/Publications/CR/Issues/2024/05/10/Maldives-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-548770>

<sup>16</sup> <https://psmnews.mv/en/141092>

## 8. Implementing a sharp fiscal adjustment remains an urgent priority in the medium-term

**A multi-year fiscal reform program, with a strong fiscal adjustment path and a solid financing strategy, is urgently required**

Reducing fiscal and external imbalances is critical to restoring fiscal and debt sustainability and managing liquidity risks. This entails an immediate implementation of the homegrown fiscal reform agenda, announced in February 2024, including: (i) phasing out existing blanket subsidies and replacing them with a targeted cash transfer scheme; (ii) improving health spending efficiency by changing the coverage policy of health services and expanding bulk procurement of medicines to reduce drug costs; and (iii) prioritizing the PSIP envelope and rationalizing capital expenditure. Importantly, the reform plan needs to be accompanied by a mechanism to offset welfare losses among vulnerable groups and provide effective communication to the public. Given the size of external debt service needs, a credible financing strategy is needed to ensure debt service obligations are readjusted.

## Annex 1: Balance of Payments (percent of GDP)

	2021	2022	2023	2024e
<b>Current Account Balance</b>	<b>-8.6</b>	<b>-16.9</b>	<b>-21.2</b>	<b>-20.5</b>
<b>Balance on Goods and Services</b>	<b>9.6</b>	<b>2.5</b>	<b>-1.5</b>	<b>-1.2</b>
<b>Merchandise Trade Balance</b>	<b>-40.1</b>	<b>-47.3</b>	<b>-43.6</b>	<b>-43.3</b>
<b>Merchandise Exports</b>	<b>5.4</b>	<b>6.5</b>	<b>6.4</b>	<b>5.4</b>
<i>o/w fish exports</i>	2.7	2.4	2.3	1.2
<i>o/w re-exports</i>	2.6	3.9	3.9	4.1
<b>Merchandise Imports</b>	<b>45.6</b>	<b>48.7</b>	<b>45.6</b>	<b>53.7</b>
<i>o/w fuel</i>	8.6	13.5	11.4	10.7
<i>o/w capital and construction goods</i>	14.2	17.9	17.4	17.4
<b>Services Trade Balance</b>	<b>49.7</b>	<b>49.8</b>	<b>42.1</b>	<b>42.0</b>
<b>Service Exports</b>	<b>70.5</b>	<b>76.1</b>	<b>67.7</b>	<b>68.3</b>
<i>o/w travel services (tourism)</i>	66.9	72.9	64.2	62.4
<b>Service Imports</b>	<b>20.8</b>	<b>26.3</b>	<b>25.6</b>	<b>26.3</b>
<b>Primary Income, net</b>	<b>-10.2</b>	<b>-11.5</b>	<b>-11.5</b>	<b>-10.9</b>
<b>Secondary Income, net</b>	<b>-8.0</b>	<b>-7.9</b>	<b>-8.2</b>	<b>-8.4</b>
<i>o/w worker remittance outflows</i>	9.1	9.0	8.9	8.6
<b>Capital Account Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Borrowing (balance from current and capital a/c)</b>	<b>-8.6</b>	<b>-16.9</b>	<b>-21.2</b>	<b>-20.5</b>
<b>Financial Account Balance (excluding reserves and related items)</b>	<b>-11.5</b>	<b>-13.7</b>	<b>-15.3</b>	<b>-23.4</b>
<b>Direct Investment, net</b>	<b>-12.3</b>	<b>-11.9</b>	<b>-11.6</b>	<b>-11.5</b>
<b>Portfolio Investment, net</b>	<b>5.4</b>	<b>-1.3</b>	<b>-0.3</b>	<b>0.0</b>
<i>o/w general government debt issuance</i>	-5.9	0.9	0.0	0.0
<b>Other Investment, net</b>	<b>-6.2</b>	<b>3.2</b>	<b>3.9</b>	<b>11.9</b>
<b>Net Errors and Omissions</b>	<b>-6.2</b>	<b>3.6</b>	<b>2.4</b>	<b>-2.0</b>
<b>OVERALL BALANCE</b>	<b>-3.4</b>	<b>0.4</b>	<b>-3.6</b>	<b>0.9</b>
<b>FINANCING</b>				
<b>Official Reserves (- increase)</b>	<b>3.4</b>	<b>-0.4</b>	<b>3.6</b>	<b>-0.9</b>

## Annex 2: Key Fiscal Indicators (percent of GDP)

	2021	2022	2023	2024e
<b>Total Revenue and Grants</b>	<b>26.4</b>	<b>30.5</b>	<b>33.7</b>	<b>31.9</b>
<b>Total Revenue</b>	<b>25.2</b>	<b>29.5</b>	<b>32.7</b>	<b>30.6</b>
<b>Tax Revenue</b>	<b>18.2</b>	<b>20.5</b>	<b>23.7</b>	<b>23.8</b>
<i>o/w import duties</i>	3.5	3.7	3.4	3.3
<i>o/w business and property tax</i>	3.4	4.5	5.1	5.6
<i>o/w tourism goods and services tax</i>	6.5	6.9	8.6	8.4
<i>o/w general goods and services tax</i>	3.1	3.4	4.4	4.4
<i>o/w airport service charges</i>	0.6	0.9	1.0	1.0
<i>o/w green tax</i>	1.0	1.0	1.0	1.0
<b>Non-Tax Revenues</b>	<b>6.9</b>	<b>8.7</b>	<b>8.6</b>	<b>6.5</b>
<i>o/w airport development fees</i>	0.6	0.8	1.0	1.0
<i>o/w property income</i>	2.8	2.3	2.0	2.1
<b>Grants</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>1.4</b>
<b>Total Expenditure</b>	<b>40.7</b>	<b>42.1</b>	<b>44.3</b>	<b>44.2</b>
<b>Recurrent Expenditure</b>	<b>29.8</b>	<b>29.6</b>	<b>31.8</b>	<b>33.4</b>
<i>o/w personal emoluments</i>	10.8	9.9	10.1	10.7
<i>o/w pensions, retirement benefits, and gratuities</i>	2.0	1.9	1.9	1.9
<i>o/w goods and services</i>	6.9	5.3	6.2	5.9
<i>o/w grants, contributions, and subsidies</i>	7.5	14.5	9.6	10.1
<i>o/w interest payments</i>	2.6	3.6	4.1	4.8
<b>Capital Expenditure</b>	<b>10.9</b>	<b>9.9</b>	<b>12.4</b>	<b>10.8</b>
<i>o/w public sector investment program</i>	6.6	9.2	11.8	9.7
<b>Primary Fiscal Balance</b>	<b>-11.6</b>	<b>-8.0</b>	<b>-6.5</b>	<b>-7.5</b>
<b>Overall Fiscal Balance</b>	<b>-14.2</b>	<b>-11.6</b>	<b>-10.6</b>	<b>-12.3</b>

