

MACROECONOMIC UPDATE

May 2023



The Macroeconomic Update offers an overview of the latest macroeconomic projections for the Maldives economy. These projections are updated twice a year, in April for fiscal strategy and in September for the national budget. This publication provides the most recent macroeconomic projections, which are based on data from various sources, including the Ministry of Finance, Maldives Monetary Authority, Maldives Customs Service, Ministry of Tourism, Maldives Bureau of Statistics, and the International Monetary Fund. All figures presented in this report are based on data as of April 30th, 2023.

For queries regarding the report, please contact eapp@finance.gov.mv.

Contents

Abbreviations	4
1. Developments in the Tourism Sector	5
1.1 Tourism Sector Developments	5
1.2 Tourism Sector Outlook	6
2. GDP	8
2.1 Real GDP	8
2.2 GDP Deflator	9
2.3 Nominal GDP	9
2.4 GDP by Sectors	9
2.4.1 Tourism	9
2.4.2 Construction	10
2.4.3 Other Sectors	11
3. Inflation	12
Statistical Appendix	13

Abbreviations

GDP	Gross Domestic Product
GIR	Gross International Reserves
IMF	International Monetary Fund
MMA	Maldives Monetary Authority
MVR	Maldivian Rufiyaa

1. Developments in Tourism Sector

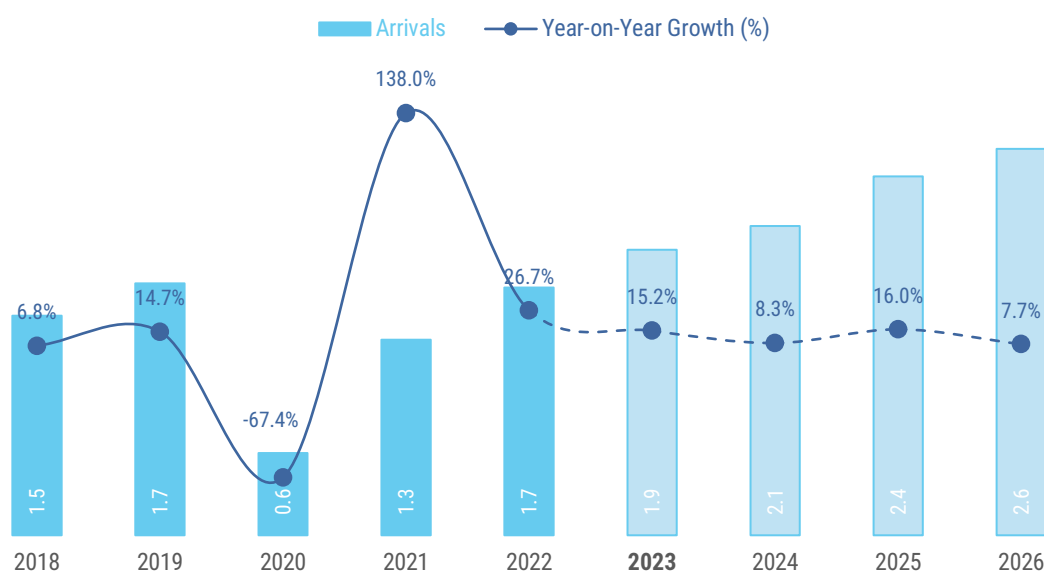
1.1 Tourism Sector Developments

Tourist arrivals and bednights exceeded the initial forecasts of 1.63 million and 10.4 million, respectively, for 2022 with 1.67 million arrivals and 12.3 million bednights. The successful rollout of vaccines in 2021, along with the gradual easing of travel restrictions and the reopening of borders in several countries, resulted in a significant surge in tourist traffic. This led to a rapid recovery of the tourism sector, which continued during 2022. The easing of international travel restrictions,

recommencement of most air traffic routes, pent-up demand, and opening up of the new runway of the Velana International Airport in October 2022, were key contributors to the increase in tourist arrivals and the large inflow of tourists from almost all the markets. Despite various challenges due to the Russia-Ukraine war, geopolitical tension, high global oil prices and inflation, and the travel restrictions implemented by China, arrivals in 2022 grew by 26.7 percent compared to 2021 (Figure 1), and reached 98.4

Figure 1 - Tourist Arrivals 2018-2026: **1.9 million tourists are expected in 2023 now, which is an upward revision from October 2022 estimates**

In Millions



Source: Ministry of Tourism, Maldives Monetary Authority

percent of the pre-pandemic level (2019). This outturn is 2.5 percent higher than the arrivals forecast for the Budget 2023 back in September 2022.

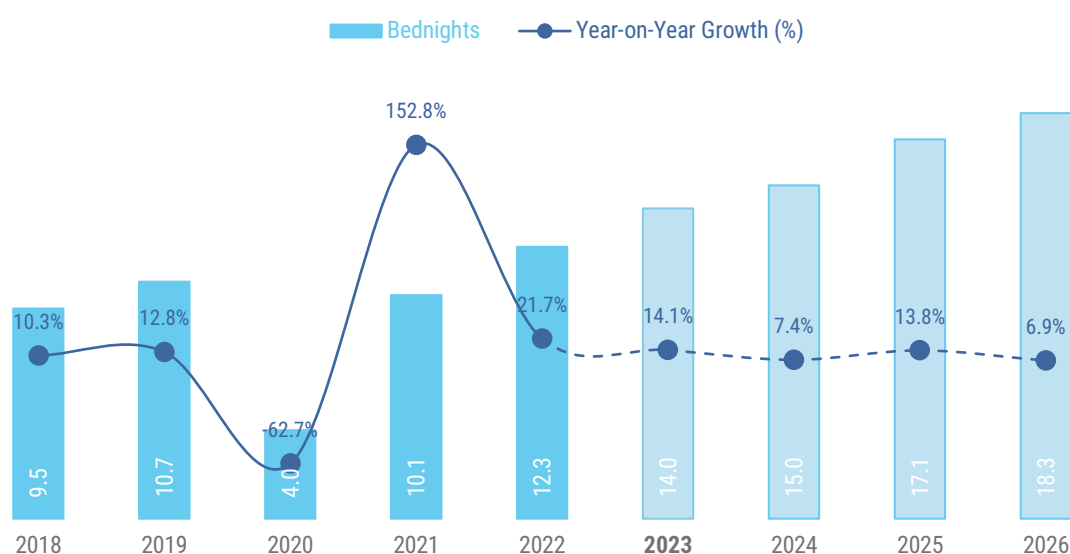
In addition, tourist bednights increased by 14.7 percent compared to 2019 (Figure 2), surpassing pre-pandemic levels, which was fueled by the faster-than-anticipated recovery of the global economy and the high average duration of stay of 7.3 days observed during 2022. This is also 3.3 percent higher than the revised bednights forecasted in Budget 2023.

1.2 Tourism Sector Outlook

Growth of the tourism sector is expected to continue on an upward trajectory in 2023, surpassing pre-pandemic levels of arrivals, and

double-digit growth in bednights. Total arrivals for the first quarter of 2023 amounted to 523,928, representing an increase of 8.5 percent compared to the same period in 2019 and a significant growth of 21.4 percent compared to 2022. accordingly, the daily average arrivals for the same period in 2023 were higher, standing at 5,821.4 and surpassing pre-pandemic levels by 8.5 percent. In addition, bednights stood at 3.9 million during the same period, which is an increase of 14.9 percent compared to the corresponding period in 2022 and 28.8 percent compared to pre-pandemic levels. Although the average stay is expected to decline slightly to 7.2 days with increased competition from similar tourism destinations and increase in tourists from China¹, it is expected to remain higher than the average stay of 6.3 days before the pandemic.

Figure 2 - Tourist Bednights 2018-2026: **Tourism rebounded strongly and growth remains high**
In Millions



Source: Ministry of Tourism, Maldives Monetary Authority

¹ Chinese travelers stay in the Maldives for a shorter duration compared to European travelers. As per the Maldives Visitor Survey 2019, average duration of stay for Chinese tourists is 4.6 days.

Revised forecasts for arrivals and bednights for the year 2023 are higher in all three scenarios: optimistic, pessimistic, and moderate case, which is the baseline scenario. As the tourism industry is extremely vulnerable to external shocks and given the volatility of the global economy, both upside and downside risks were considered in preparing this outlook and the respective forecasts. The optimistic scenario assumes that tourist arrivals from China will reach pre-pandemic levels during the year with more airlines operating flights to the Maldives and successful efforts in tapping into new markets. However, the pessimistic scenario considers the possibility of a slowdown in the number of tourists arriving from China, failure to secure more direct flights between Maldives and China, escalation of the Russia-Ukraine war, and slowdown experienced by the advanced economies as predicted by the International Monetary Fund, and increased risks from global financial instability. The forecasts for arrivals and bednights for these scenarios have been included in Table 1 of the Statistical Appendix.

Although direct flights from China to the Maldives commenced on 18th January 2023, arrivals from the market were lower than anticipated during the first quarter of the year. Arrivals from the Chinese market during the first quarter of 2023 were 23.1 percent of the arrivals in the corresponding period in 2019. Additionally, international flights from China are still less frequent than at pre-pandemic levels, and countries have removed travel restrictions implemented to control Covid-19, which has increased competition within the

tourism industry compared to the past two years. Despite these factors, tourist arrivals are forecasted to grow by 15.2 percent, reaching 1.9 million, and bednights by 14.1 percent, reaching 14.0 million by the end of the year, under the moderate case which assumes business as usual.

A pick-up in the growth of tourist arrivals and bednights is expected in 2025 due to the completion of the new Velana International Airport passenger terminal which will add capacity to cater for 7.5 million passengers. Furthermore, the development of the Hanimaadhoo and Gan International airports in the extreme north and south of the Maldives and the opening of new tourist establishments that are currently under development are also expected to contribute to this increase.

2. GDP

2.1 Real GDP

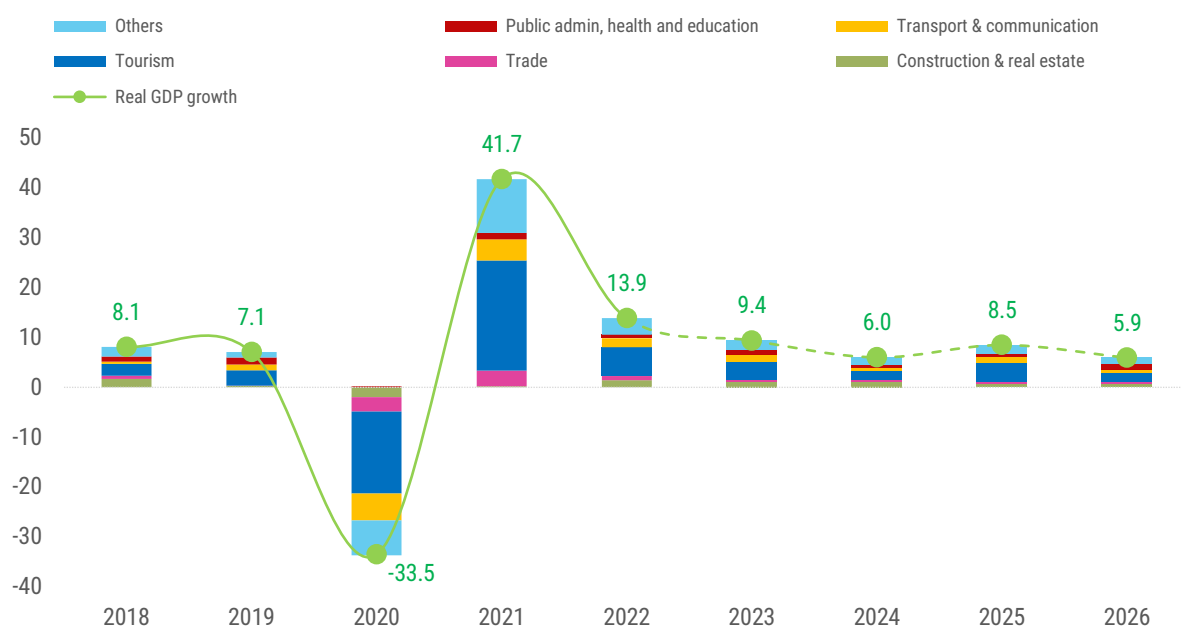
The Maldives has experienced robust real GDP growth, surpassing initial projections in 2022. The moderate case scenario of the forecasts in Budget 2023 anticipated a growth rate of 12.3 percent for 2022, but the annualised figure from the Quarterly National Accounts stood at 13.9 percent.

The GDP forecasts also follow the three scenarios, optimistic, moderate and, pessimistic, for the tourism sector. Looking ahead to 2023, the revised baseline scenario for the year is now a growth of 9.4 percent, 1.1 percentage points higher than the optimistic scenario projected for the Budget 2023 in September 2022. The real GDP growth in the moderate case scenario for

2024 is 6.0 percent, unchanged from the Budget 2023 projections. Real GDP growth over the medium term is projected to average 6.8 percent and is expected to be driven by key sectors such as tourism, transport, construction, and fisheries. These sectors have shown unprecedented progress, as a result of the increase in tourist arrivals, significantly high infrastructure development, and increased productivity in the fisheries industry. The upward revisions in projected real GDP growth for the Maldives reflect faster than anticipated recovery and robust growth which shows the country's resilience in the face of numerous risks and challenges.

Figure 3 - Real GDP Growth (by sectors) 2018-2026: The robust growth in 2023 is driven by the tourism sector, and has been revised upwards from October 2022 estimates

In MVR Millions



Source: Ministry of Tourism, Maldives Monetary Authority, Ministry of Finance

2.2 GDP Deflator

The growth in the GDP deflator stood at 1.6 percent in 2022, and is expected to increase to 2.0 percent in 2023. This projected change in the GDP deflator for 2023 accounts for the upward trend in prices, primarily due to high GST reforms implemented early this year and commodity price hikes. The change in GDP deflator over the medium term is projected to average 1.8 percent.

2.3 Nominal GDP

The nominal GDP of the Maldives showed notable growth, surpassing previous projections, primarily driven by the strong performance of the economy. In 2022, the nominal GDP is estimated to reach MVR 96,132 million, exceeding the earlier estimates for the year. Looking ahead to

2023, the moderate case scenario forecasts a nominal GDP of MVR 107,214.1 million. This is a significant milestone as it marks the first time the country's GDP will cross the MVR 100 billion mark. In the moderate case scenario for 2024, the nominal GDP is projected to further increase to MVR 115,698.8 million.

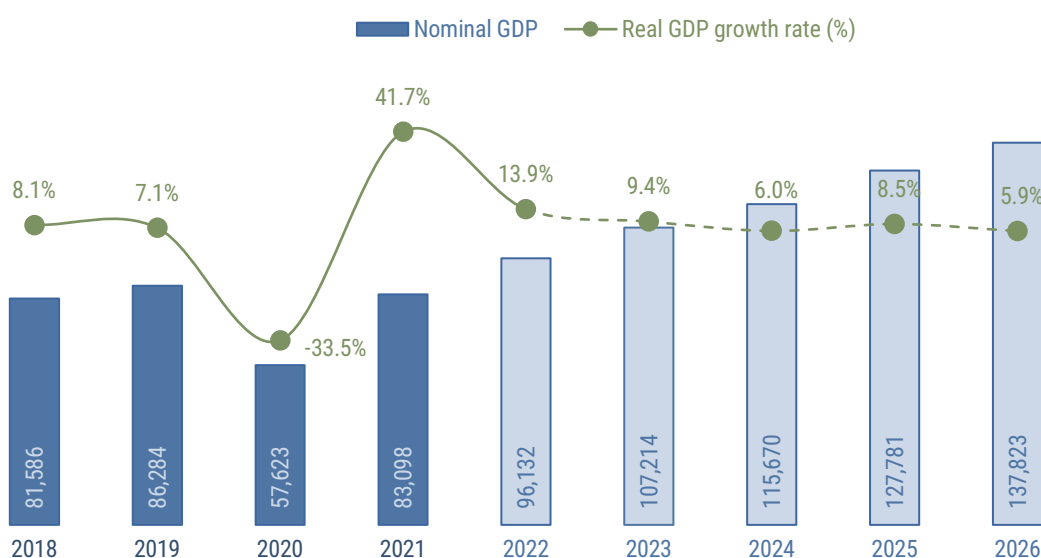
2.4 GDP by Sectors

2.4.1 Tourism

Real value added of the tourism sector increased by 22.4 percent compared to 2021, reaching MVR 22,991 million in 2022. This is 26.9 percent higher than the forecasted value of MVR 18,110.5, for the year. As such value added by the tourism sector for GDP surpassed the pre-pandemic level (2019) by 14.2 percent (figure 5). It is noteworthy

Figure 4 - Nominal GDP 2018-2026: **Nominal GDP is expected to surpass MVR 100 billion for the first time in 2023**

In MVR Millions



Source: Ministry of Tourism, Maldives Monetary Authority, Ministry of Finance

that this performance was without the contribution from the Chinese market, one of the single largest inbound market for the Maldivian tourism sector before the Covid-19 pandemic. Reflecting the changes in tourism indicators, value added by the tourism sector exceeded the forecast for 2022 in the Budget 2023 by 5.2 percentage points.

The strong positive growth in value added by the tourism sector is expected to continue in 2023, with a forecasted growth of 13.5 percent. Compared to the forecasts for Budget 2023, the figure has been revised upwards by 8.9 percent due to the stronger-than-expected performance of the sector during the first quarter of the year. These revised forecasts account for upside risks and the downside risks, including the opening up of more tourism establishments during the year and the anticipated economic slowdown of advanced economies.

Value added by the sector for GDP has been forecasted based on the same scenarios used for arrivals and bednights. Forecasts for these scenarios have been included in Table 2 under the Statistical Appendix.

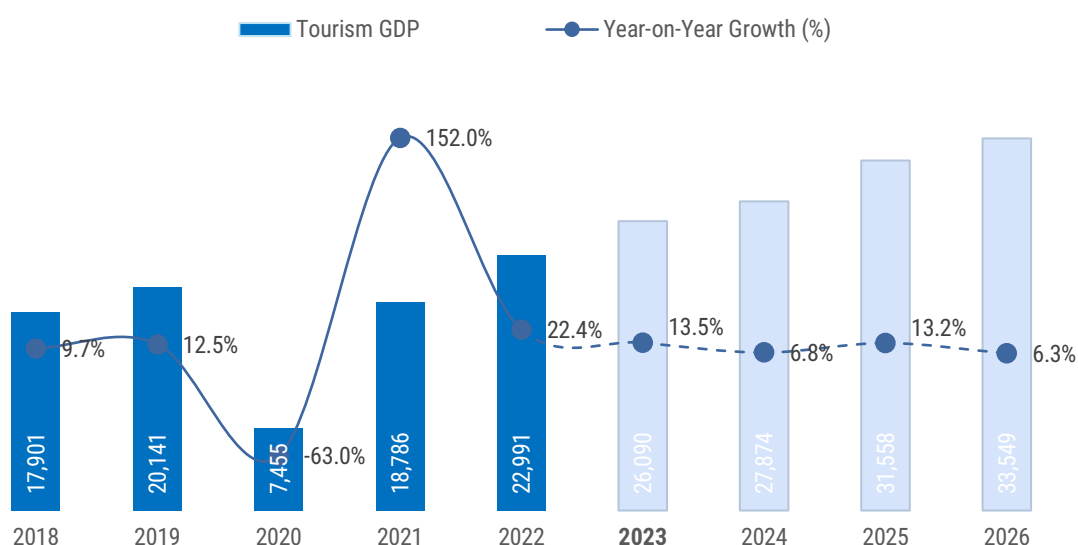
In the medium term, growth of the tourism sector is expected to remain at an average of 6.5 percent, with the growth rate expected to almost double to 13.2 percent, in the year 2025, considering the completion of the Velana International Airport passenger terminal.

2.4.2 Construction

The construction and real estate sector grew at 11.8 percent in 2022, which is lower than the 23.3 percent forecast for the sector in the projections computed for the Budget 2023. This deviation is almost entirely driven by an unanticipated slowdown in the construction sector in the last

Figure 5 - Tourism Sector GDP 2018-2026: The strong positive growth in the tourism sector is expected to continue in 2023

In MVR Millions



Source: Ministry of Tourism, Maldives Monetary Authority

quarter of 2022. It also tracks developments in construction sector imports, which is one of the key indicators driving sectoral activity. In particular, the forecasts for the Budget 2023 followed a period of exceptionally high construction materials import growth, with the import of metal, wood, cement and aggregates growing at an average of 20 percent during the first three quarters of 2023. While a gradual slowdown was anticipated in imports and the growth of the sector, a marked slowdown was experienced in the fourth quarter of 2022, thus pulling down the annual growth rate. This slowdown is in line with developments in global cross-border trade, which also slowed down markedly in the fourth quarter of last year.

The revised growth rate for the construction and real estate sectors for 2023 is 9.5 percent. The projections incorporate a gradual continuation of the ease in the supply chain difficulties in international trade that arose in 2020, with conditions anticipated to return to 2019 levels over the next year. However, based on developments over the past six months and current global and domestic conditions, tourism activity and material imports are expected to be lower than previously anticipated.

The medium-term outlook for the construction and real estate sectors in Maldives is positive, with an expected average growth rate of 7.5 percent between 2024 and 2026. The growth is expected to be driven by public sector infrastructure investment projects and private sector investments in residential projects and new developments of tourism establishments.

2.4.3 Other Sectors

The robustness of GDP has been bolstered not only by the tourism and construction industries, but also by several of other sectors, such as wholesale and retail trade, transport and communication, and public administration, health, and education sector. The wholesale and retail trade sector grew by 11.5 percent in 2022, whereas the transport and communication sector grew by 17.1 percent. The public administration, health, and education sector achieved a growth rate of 4.2 percent in the same year.

The wholesale and retail sector was initially projected to grow by 4.9 percent in 2023, as per the forecasts made for Budget 2023. However, the sector's growth has now been revised, anticipating a growth rate of 4.2 percent this year. The transport and communication sector growth was previously estimated at 13.8 for 2023, for which the revised figures anticipate a 13.4 percent growth. The Budget 2023 forecasts for the public administration, health, and education sector indicated a growth of 5.2 percent in 2023. However, this sector's growth was revised for the year to 5.9 percent—a 0.7 percentage point increase from the previous forecast.

3. Inflation

Inflation rate is measured in the Maldives using Consumer Price Index computed by Maldives Bureau of Statistics. Inflation in the Maldives has been negative or close to zero between the period 2018-2021 (Figure 6), and is mainly driven by global conditions reflected through imported inflation and policy-driven price changes. Prices started to increase during the year 2022, reflecting the hike in global oil prices and commodity prices as a result of the Russia-Ukraine war and supply chain restrictions in the global market. Nevertheless, inflation remained restively low in the Maldives owing to the policy-based price controls for electricity prices and staple foods. Annual inflation rate for the year 2022 was 2.3 percent, close to the inflation

forecast of 2.2 percent forecasted by MMA in October 2022.

While MMA forecasted that the inflation rate for 2023 will be 5.4 percent in October 2022, the forecast has been revised downwards to 3.4 percent. The reason for the higher inflation forecast for 2023 in October 2022 was due to the assumption of fuel subsidy reform and higher global fuel prices in 2023. However, as the fuel subsidy reform is yet to be implemented, and revised global fuel price forecasts for 2023 by international organizations are lower, the inflation rate for the year has been revised downwards.

Figure 6 - Inflation: **The inflation forecast for 2023 is revised downwards from October 2022 estimates**

Percent



Source: 2015-2022: Maldives Bureau of Statistics, forecasts: Maldives Monetary Authority



Statistical Appendix

Table 1: Arrivals and Bednights

	Year	Optimistic		Moderate		Pessimistic	
Arrivals <i>In Thousands, unless otherwise stated</i>	2023	2,008.0	20%	1,930.8	15%	1,808.0	8%
	2024	2,185.8	9%	2,091.2	8%	1,943.2	7%
	2025	2,544.9	16%	2,426.8	16%	2,243.2	15%
	2026	2,743.8	8%	2,613.0	8%	2,410.0	7%
Bednights <i>In Millions, unless otherwise stated</i>	2023	14.5	19%	14.0	14%	13.1	7%
	2024	15.7	8%	15.0	7%	14.0	7%
	2025	17.9	14%	17.1	14%	15.8	13%
	2026	19.2	7%	18.3	7%	16.9	7%

Source: Maldives Monetary Authority

Table 2: Tourism Sector GDP

Millions of Rufiyaa, unless otherwise stated

Year	Optimistic		Moderate		Pessimistic	
2023	27,135.8	18.0%	26,090.3	13.5%	24,428.9	6.3%
2024	29,119.4	7.3%	27,874.4	6.8%	25,922.4	6.1%
2025	33,069.3	13.6%	31,558.3	13.2%	29,208.0	12.7%
2026	35,201.0	6.4%	33,549.1	6.3%	30,984.2	6.1%

Source: Maldives Monetary Authority

Table 3: Summary of Forecast Revisions

Millions of Rufiyaa, unless otherwise stated

	October 2022 Projections						April 2023 Projections		
	2019	2020	2021	2022	2023	2024	2022	2023	2024
Real GDP	77,238.0	51,368.8	72,812.8	81,768.4	87,945.4	93,249.6	82,907.0	90,688.2	96,128.0
Real GDP Growth (%)	7.1	-33.5	41.7	12.3	7.6	6.0	13.9	9.4	6.0
o.w. Tourism	12.5	-63.0	152.0	17.2	8.8	6.6	22.4	13.5	6.8
o.w. Construction	2.3	-14.8	1.3	23.3	8.1	9.1	11.8	9.5	9.3
o.w. Wholesale & Retail Trade	0.4	-36.9	41.7	4.2	4.9	4.4	11.5	4.2	4.9
o.w. Transport and Communication	9.1	-42.9	39.4	23.4	13.8	8.4	17.1	13.4	4.6
o.w. Public Administration, Health and Education	10.1	1.5	5.7	2.0	5.2	4.5	4.2	5.9	4.2
Nominal GDP	86,283.8	57,623.3	83,098.3	95,241.1	104,389.7	112,846.8	96,131.7	107,214.1	115,669.8
CPI Inflation (%)	2.2	-1.6	0.5	2.2	5.4	2.4	2.3	3.4	NA

Source: Ministry of Finance, Maldives Monetary Authority, Maldives Bureau of Statistics