

MACROECONOMIC UPDATE

October 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 August 31st, 2023.

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

NOTE: In order to take into account, the uncertainty in global and domestic economies following the pandemic, three scenarios were presented for tourism sector and GDP forecasts from 2020 onwards. With conditions now expected to be more stable, only the baseline scenario will be presented going forward. Nevertheless, alternative scenarios may be presented again in the future in periods of heightened uncertainty.

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Abbreviations

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

1. Developments in the Tourism Sector

1.1. Tourism Sector Developments

Following a strong rebound in the tourism sector in 2022, tourist arrivals and tourist bed nights have been performing well in 2023. As at August 2023, 1.2 million tourists have visited the Maldives which is 14.2 percent higher than 2022 and 8.6 percent higher than 2019. After a strong growth in arrivals compared to the previous year in the months January to April 2023, tourist arrivals was lower in May 2023 compared to May 2022. Even though tourist arrivals was lower in the month of May, tourist arrivals out-performed pandemic levels. The reason for lower tourist

arrivals compared to May 2022 can be attributed to exceptionally high tourists from the UK and India in May 2022. Nevertheless, June and August 2023 recorded an increase in tourist arrivals compared to the previous year.

The main contributor to the growth in arrivals during the year 2023 is the Chinese market. When the first scheduled flights from China commenced in January 2023, the arrivals from China accounted for 3.4 percent of the tourist arrivals. By August 2023, this share has risen significantly to 17.7 percent, making China the third-largest source market for tourists visiting the Maldives in 2023.

In terms of bed nights, as of July 2023, the Maldives recorded a total of 7.7 million, indicating

Figure 1: Monthly arrivals and bed nights performance in 2023 have been better than pre-pandemic levels and compared to 2022, except for the month of May for tourist arrivals and months of May and July for bed nights

Chart 1a: Monthly tourist arrivals

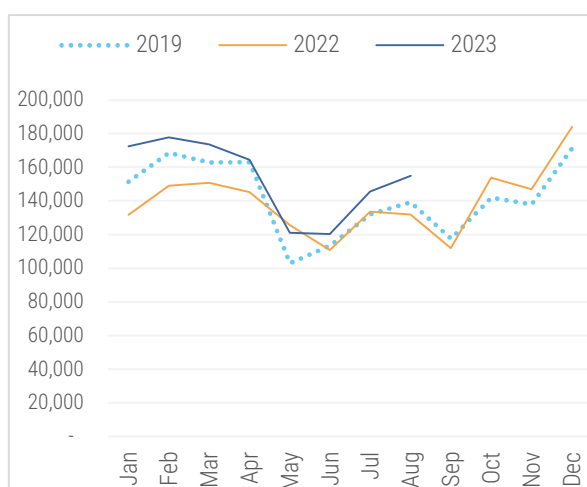
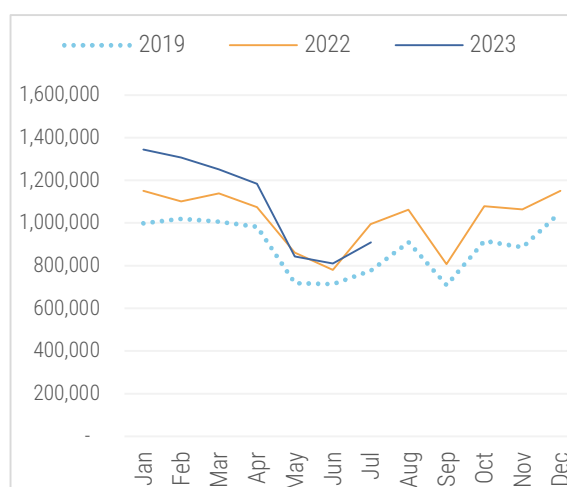


Chart 1b: Monthly tourist bed nights



Source: Ministry of Tourism

a 7.7 percent increase compared to the same period in the previous year and an impressive 23.0 percent growth compared to 2019. However, the growth in bed nights has been slower compared to the growth in tourist arrivals in 2023. This decline is primarily due to the declining average duration of stay, which has been on a downward trend since January 2023, coinciding with the increase in Chinese tourists¹. In July 2023, the average duration of stay was 7.7 nights, down from 8.1 nights in January 2023, while the average duration of stay was 8.0 nights in 2022.

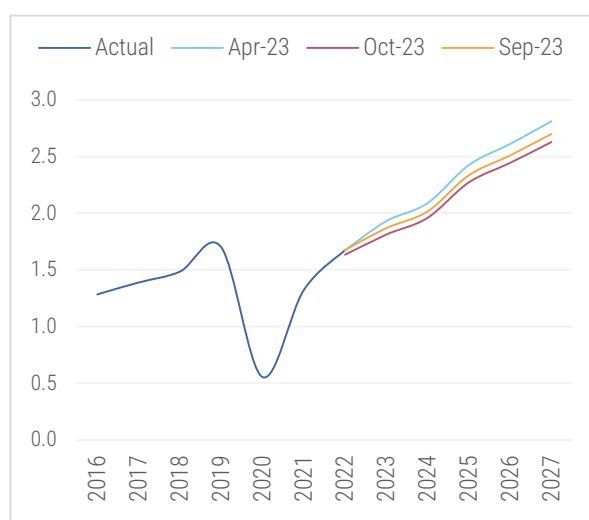
1.2. Tourism Sector Outlook

Growth of the tourism sector is expected to continue an upward trajectory in 2023, surpassing pre-pandemic levels of arrivals and reach 1.87 million by the end of the year. Tourist arrivals are expected to be 9.8 percent higher than 2019 and 11.6 percent higher than 2022. Forecasted tourist arrivals for 2023 have been revised downwards compared to macroeconomic outlook published in April 2023. The reason for this downward revision is the slowdown in the year-on-year growth of tourist arrival in the second quarter of the year. The

Figure 2: Tourism sector estimates have been slightly revised downwards compared to the estimates produced in April 2023 to reflect the slower than expected growth in the second quarter of 2023

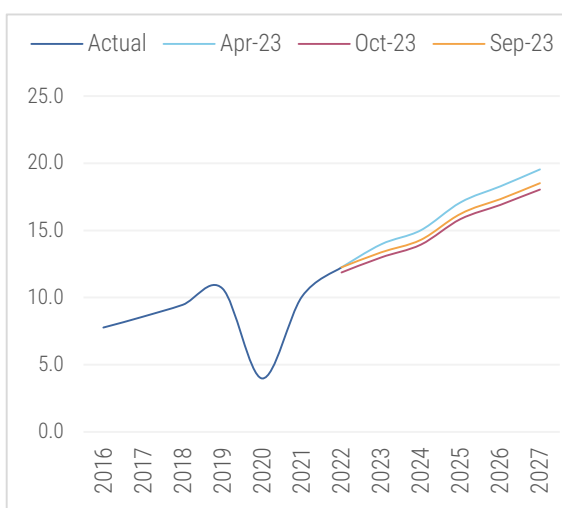
in millions

Chart 2a: Tourist arrivals



Note: Date indicates the month of revision of estimates

Chart 2b: Tourist bed nights



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.

forecasted tourist arrivals for 2023 estimated in April 2023 was based on assumption that the robust growth experienced in the first quarter of the year will be continued throughout the year. Given that realization tourist arrivals for the months May to August 2023 was lower than the forecasted estimates in April 2023, the forecasts for this outlook have been revised downwards. The main reason for lower-than-expected level of tourist arrivals is lower tourist arrivals from Europe during the second quarter of the year resulting from higher competition from similar destinations and less flight connectivity during the off-peak season. Nevertheless, tourism sector is expected to perform well compared to pre-pandemic level and the previous year and despite the downward revision, the forecasted estimates are higher than tourist arrivals forecasted for 2023 in Budget 2023.

Tourist bed nights in 2023 are forecasted to reach 13.4 million at the end of the year, corresponding to an increase of 9.1 percent compared to 2022 and increase of 25.1 percent compared to pre-pandemic level. Similar to tourist arrivals, forecasted estimated tourist bed nights for 2023 have also been revised downwards to reflect the lower-than-expected growth of tourist arrivals in the second quarter of the year. Nevertheless, forecasted bed nights for the year 2023 is slightly higher than the bed nights for 2023 estimated for Budget 2023. Average duration of stay is expected to be lower compared to post-pandemic level and estimated

to be 7.2 days in 2023. Lower average duration of stay is resulting from the decline in share of tourists from Europe who stay longer and increase in share of tourists from China who stay for a shorter period.

In the medium-term, tourist arrivals are estimated to grow at an average of 7.5 percent per year apart from higher growth of 15.7 percent in 2025. Estimates for the medium-term forecasts for tourist bed nights follow a similar growth level albeit a slightly lower growth level compared to tourist arrival. The higher than annual average growth in tourism estimates for the 2025 reflects a level shift in tourism sector because of the opening of 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 growth.

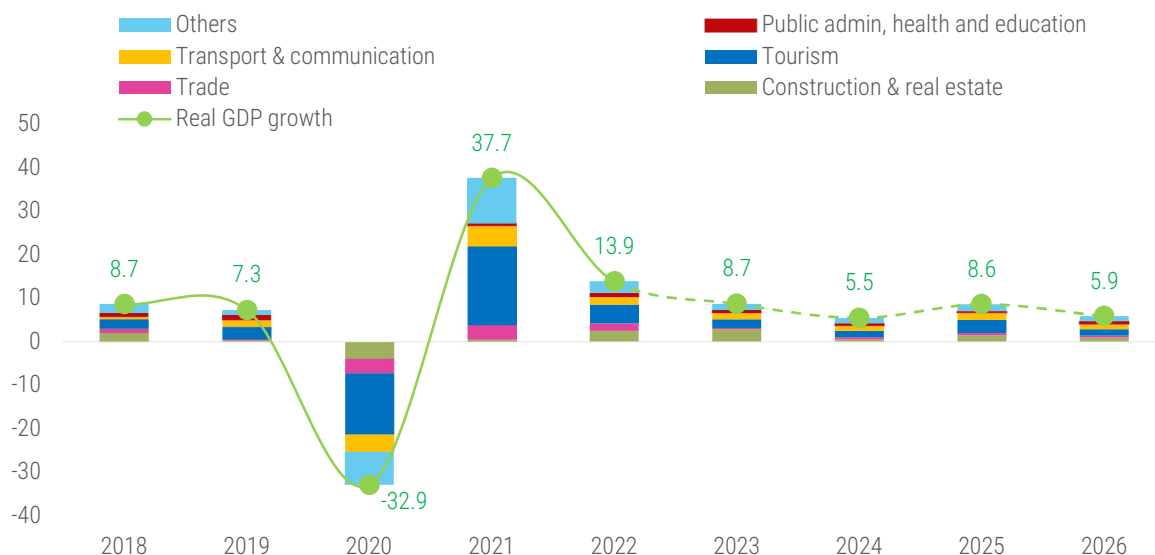
2. GDP

2.1. Real GDP

The Maldives Bureau of Statistics updated the base year used in GDP compilation from 2014 to 2019 in August 2023. One of the objectives of the exercise was to better reflect changes in the structure of the economy over time, which is especially relevant for a rapidly developing and evolving economy like the Maldives.

Figure 3 - Real GDP Growth and sectoral contributions 2018-2026: **Although growth in 2023 has been marginally adjusted downwards, medium term growth is expected to remain robust.**

In percent



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

The projections and historical GDP numbers presented here are the rebased indicators.

Reflecting downward revisions to tourist arrivals and bednights, real GDP growth has also been adjusted downwards to 8.7 percent in 2023, compared with the 9.4 percent growth projected in April. However, as tourism and other key sectors are still performing better than projected in the 2023 Budget, this is still higher than the 7.6 percent growth projected in September 2022. In level terms, real GDP is now expected to exceed MVR 100.0 billion for the first time this year.

Real GDP growth over the medium term is projected to average 6.7 percent, which is also marginally lower than the 6.8 percent forecasted in April 2023. Medium term growth is expected to be driven by key sectors such as tourism, transport, real estate, construction and fisheries,

and reflects a gradual return to the long term growth path after the disruption of the pandemic.

2.2. GDP Deflator

The growth in the GDP deflator stood at 3.2 percent in 2022, and is expected to remain around this level at 3.1 percent in 2023. The revised forecast for this year is an upward adjustment from the 2.0 percent growth previously forecasted in April 2023. The change in the forecast for this year is primarily driven by the GST reforms implemented at the beginning of this year and global commodity price hikes. The GDP deflator is expected to grow at an average of 2.3 percent over the medium term, up from the previous estimate of 1.8 percent.

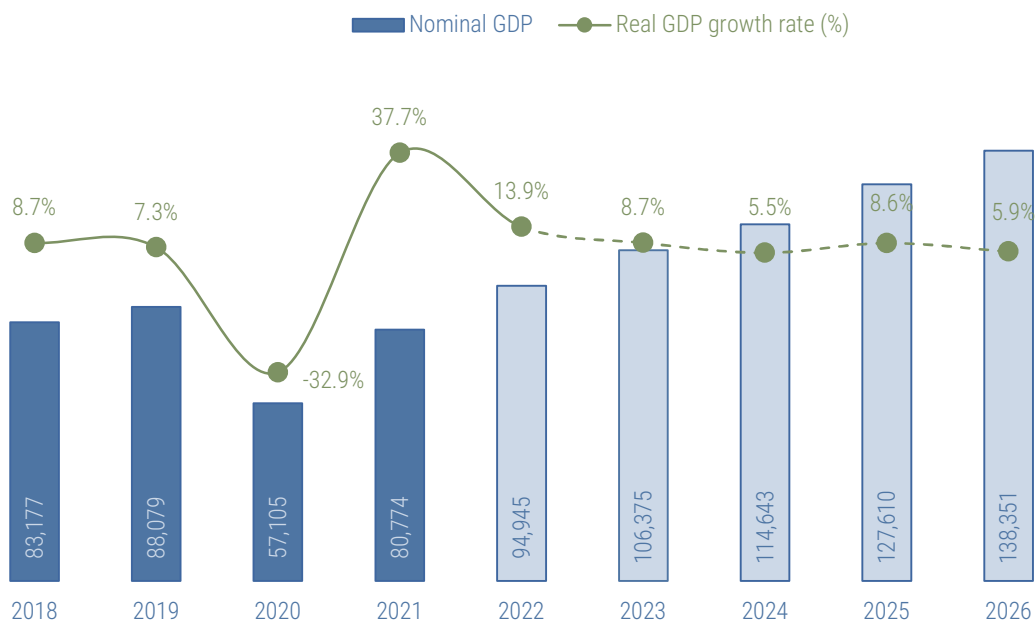
2.3. Nominal GDP

Despite the downward adjustment of real GDP growth estimates for this year, nominal GDP growth has been revised upwards from the 11.5 percent projection in April 2023 to 12.0 percent. The upward adjustment is due to the increase in the growth of the GDP deflator more than offsetting the marginal decline expected in real GDP growth.

Nominal GDP for 2023 is forecasted at MVR 106.4 billion, up from MVR 94.9 billion in 2022. With robust real growth of the economy and a moderate growth of the GDP deflator, nominal GDP is expected to reach MVR 138.4 billion in 2026.

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

2.4. GDP by Sectors

2.4.1. Tourism

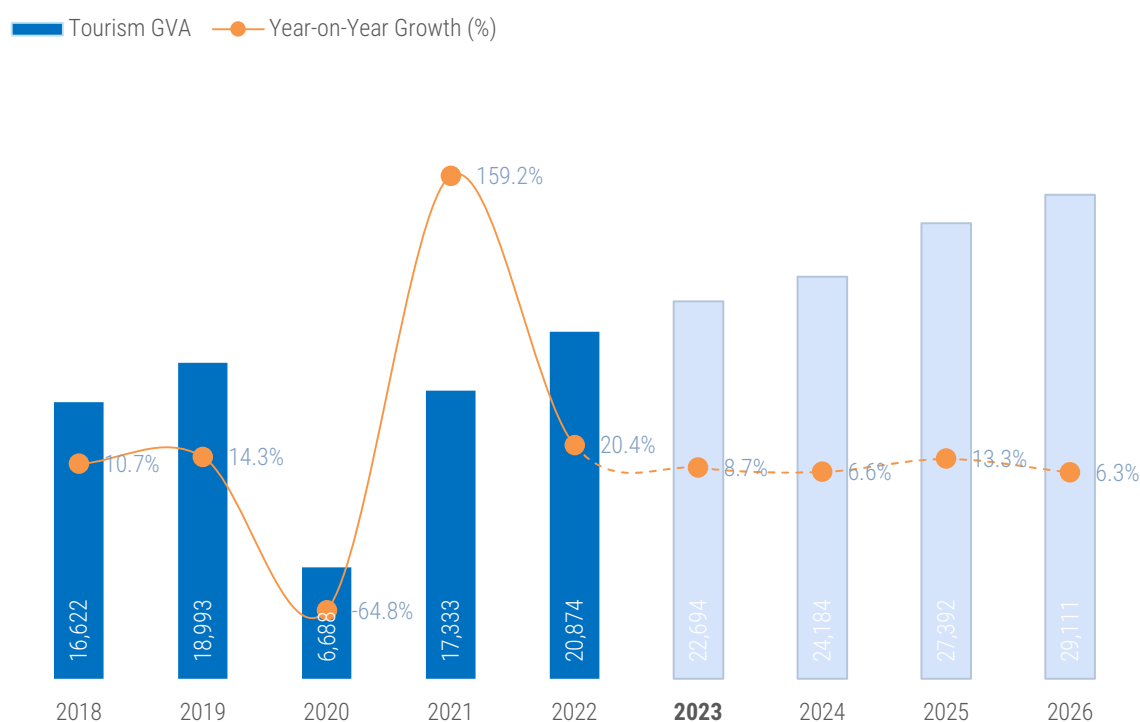
Real gross value addition (GVA) of the tourism sector increased by 20.4 percent last year compared to 2021, reaching MVR 20,874.2 million. This is 2.0 percentage points lower compared to previous forecasts computed using 2014 base year GDP estimates. As such, the value added by the tourism sector to GDP surpassed pre-pandemic levels (2019 levels) last year by 9.9 percent (Figure 5). It is noteworthy that this performance was without the contribution of the Chinese market, which was the single largest inbound market for the

Maldivian tourism sector before the Covid-19 pandemic.

The strong positive growth in value addition by the tourism sector is expected to continue in 2023, with a forecasted growth of 8.7 percent. However, this is a downward revision from the sectoral growth forecast of 13.5 percent computed in April 2023, and is the primary reason for the downward adjustment in headline real GDP growth for this year. The downward adjustment of sectoral growth primarily reflects an underperformance in tourist bednights compared to the levels anticipated in April 2023, despite a solid increase in tourist arrivals this year. This is attributed to lower than expected arrivals from major European markets, which are also generally associated with higher average

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

durations of stay of tourists. This effect is partly compensated for by a rebound in the arrival of tourists from China.

In the medium term, growth of the tourism sector is expected to average 8.7 percent, which is in line with the previously forecasted medium term average growth rate of 8.8 percent. The sectoral growth rate is expected to increase significantly in 2025 to 13.3 percent, reflecting the completion of the Velana International Airport passenger terminal and the Gan and Hanimaadhoo international airports. These developments will enable a significant number of additional flight slots to be made available by the airports, and address the long waiting list for flight slots that currently exists. This increase in connectivity is expected to translate into an increase in tourist arrival.

2.4.2. Construction and Real Estate

The construction and real estate sector grew at 20.1 percent in 2022, which is significantly higher compared to the forecast of 11.8 percent computed using 2014 base year GDP estimates in April 2023, but slightly below the 23.3 percent growth forecasted for 2022 in the 2023 Budget. The downward revision in the April 2023 projections factored in a sharp slowdown in construction material imports from the last quarter of 2022 onwards in line with global trends. However, the slowdown was much milder than anticipated, and the overall import of metal,

wood, cement and aggregates grew strongly throughout 2022. This was the primary reason for the deviation in the outturn compared with previous projections.

The revised growth rate for the construction and real estate sectors for 2023 is 22.2 percent. This is a significant upward adjustment compared with the 9.5 percent growth forecasted in April 2023 and is primarily driven by the growth of the construction sector component. The revised projections reflect a normalization in supply chain conditions which reverted to pre-pandemic levels at the beginning of this year. The strong growth is also driven by high public sector activity through the Public Sector Investment Programme (PSIP). The highest implementation of the PSIP to date is now expected this year, which contributes significantly to construction sector activity. Tourism related construction activity and material imports are also expected to be higher 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 6.9 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 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 key sectors, such as transport and communication, and public administration,

health, and education sector. The transport and communication sectors grew by 16.8 percent in 2022, whereas the public administration, health, and education sector grew by 6.0 percent. The wholesale and retail sector achieved a growth rate of 20.2 percent in the same year.

The wholesale and retail sector was initially projected to grow by 4.2 percent in 2023, as per the forecasts made April 2023. However, the sector's growth has now been revised, anticipating a growth rate of 2.9 percent this year. Looking at the transport and communication sector, sectoral GVA growth was previously estimated at 13.4 for 2023. However, in light of the downward revision to the tourism sector, this has now been marginally revised downwards to 12.7 percent.

The April 2023 forecasts for the public administration, health, and education sector indicated a growth of 5.9 percent in 2023. This sector's growth has also been revised downward to 5.0 percent for the year. All remaining sectors together are expected to contribute 1.4 percent points to the headline growth forecasted for this year.

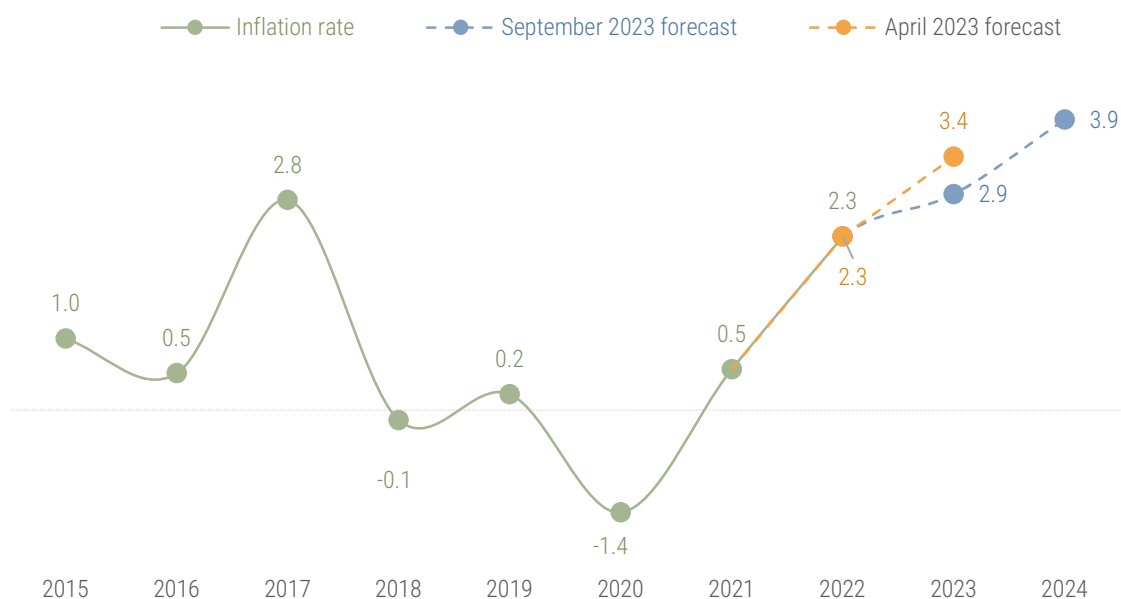
3. Inflation

Inflation rate is measured in the Maldives using the 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 commodity, and especially oil 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.

The revised inflation forecast for 2023 is 2.9, down from 3.4 percent forecasted in April 2023. The downward revision primarily reflects the decline in inflation over the year, with inflation registering 2.4 percent in July compared with 4.0 percent in January 2023. Looking further ahead, the headline inflation rate for 2024 is forecasted at 3.9 percent. While core and non-administered food inflation are expected to come down next year, the anticipated inflationary impact of the indirect subsidy reform proposed by the government covering staple food, fuel, electricity and sanitation subsidies is expected to more than offset the downward pressure.

Figure 6 - Inflation: **The inflation rate in 2024 is forecasted at 3.9 percent**

Percent



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



Statistical Appendix

Table 1: Arrivals and Bednights

	Year	Budget 2023		Fiscal Strategy 2024		Budget 2024	
Arrivals <i>In Thousands, unless otherwise stated</i>	2023	1,812.2	10.9%	1,930.8	15.2%	1,870.0	11.6%
	2024	1,961.4	8.2%	2,091.2	8.3%	2,017.6	7.9%
	2025	2,273.6	15.9%	2,426.8	16.0%	2,335.3	15.7%
	2026	2,445.1	7.5%	2,613.0	7.7%	2,511.8	7.6%
Bednights <i>In Millions, unless otherwise stated</i>	2023	13.0	9.5%	14.0	14.1%	13.4	9.1%
	2024	13.9	7.3%	15.0	7.4%	14.3	7.0%
	2025	15.8	13.6%	17.1	13.8%	16.2	13.5%
	2026	16.9	6.7%	18.3	6.9%	17.3	6.8%

Source: Maldives Monetary Authority

Table 2: Tourism Sector GDP

Millions of Rufiyaa, unless otherwise stated

Year	Budget 2023		Fiscal Strategy 2024		Budget 2024	
2023	23,953.2	8.8%	26,090.3	13.5%	22,694.2	8.7%
2024	25,543.2	6.6%	27,874.4	6.8%	24,183.9	6.6%
2025	28,849.1	12.9%	31,558.3	13.2%	27,392.3	13.3%
2026	30,598.9	6.1%	33,549.1	6.3%	29,111.4	6.3%

Table 3: Summary of Forecast Revisions

Millions of Rufiyaa, unless otherwise stated

	April 2023 Projections						September 2023 Projections		
	2019	2020	2021	2022	2023	2024	2022	2023	2024
Real GDP	77,238.0	51,368.8	72,812.8	82,907.0	90,688.2	96,128.0	92,678.8	100,750.8	106,305.5
Real GDP Growth (%)	7.1	-33.5	41.7	13.9	9.4	6.0	5.6	6.0	5.1
o.w. Tourism	12.5	-63.0	152.0	22.4	13.5	6.8	20.4	8.7	6.6
o.w. Construction & Real Estate	2.3	-14.8	1.3	11.8	9.5	9.3	20.1	22.2	3.7
o.w. Wholesale & Retail Trade	0.4	-36.9	41.7	11.5	4.2	4.9	20.2	2.9	6.1
o.w. Transport and Communication	9.1	-42.9	39.4	17.1	13.4	4.6	16.8	12.7	9.8
o.w. Public Administration, Health and Education	10.1	1.5	5.7	4.2	5.9	4.2	6.0	5.0	4.4
Nominal GDP	86,283.8	57,623.3	83,098.3	96,131.7	107,214.1	115,669.8	94,945.3	106,375.4	114,643.1
CPI Inflation (%)	0.2	-1.4	0.5	2.3	3.4	NA	2.3	2.9	1.0

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

Note: The base year for April 2023 real GDP figures is 2014. September 2023 projections incorporate the rebased GDP numbers released in August 2023.