

MALDIVES

Key conditions and challenges

Population, million	0.5
GDP, current US\$ billion	4.9
GDP per capita, current US\$	8977.8
Upper middle-income poverty rate (\$5.5) ^a	1.7
Gini index ^a	29.3
School enrollment, primary (% gross) ^b	98.0
Life expectancy at birth, years ^b	78.9
Total GHG Emissions (mtCO2e)	2.6

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2019), 2011 PPPs.
 b/ Most recent WDI value (2019).

Following the recovery in 2021, Maldives is projected to grow at 7.6 percent in 2022, and fully recover to pre-pandemic output levels by 2023. This will be supported by a sustained recovery in tourism, assuming increasing arrivals from traditional markets, such as China and Western Europe, which will partially offset any fall in Russian and Ukrainian tourists. Despite a narrowing of the fiscal deficit, public debt will remain unsustainable.

Tourism is the main driver of economic growth, fiscal revenues, and foreign exchange earnings in Maldives. After the COVID-19 outbreak in March 2020, Maldives closed its borders for three months, which severely hit the sector. Only 555,494 tourists visited in 2020, a third of the 2019 level. Following a nationwide vaccination campaign that commenced in February 2021, over two-thirds of the population have now been fully vaccinated. This supported a stronger recovery in tourism in the second half of 2021, with total arrivals reaching 1.3 million by the end of the year. However, a high dependence on tourism and limited sectoral diversification remains a key structural challenge as the country is highly vulnerable to external and macroeconomic shocks. Disruptions stemming from the pandemic and shocks due to the Russia-Ukraine war highlight the risks associated with reliance on a single economic sector. Additional long-standing structural weaknesses also remain. To promote faster growth, the government has rightly scaled up infrastructure investments since 2016. This has helped boost construction activity, productivity growth, and medium-term growth prospects. Investments in physical and social infrastructure have also led to a reduction in poverty, with only 1.7 percent of the population estimated to be living below the poverty line (5.5 PPP USD/person/day) in 2019. However, financing of these

large investments through external non-concessional sources and sovereign guarantees has contributed to growing fiscal and debt vulnerabilities, which are unlikely to diminish given significant public investments are expected to continue due to government's commitment to completing these projects before the 2023 presidential elections.

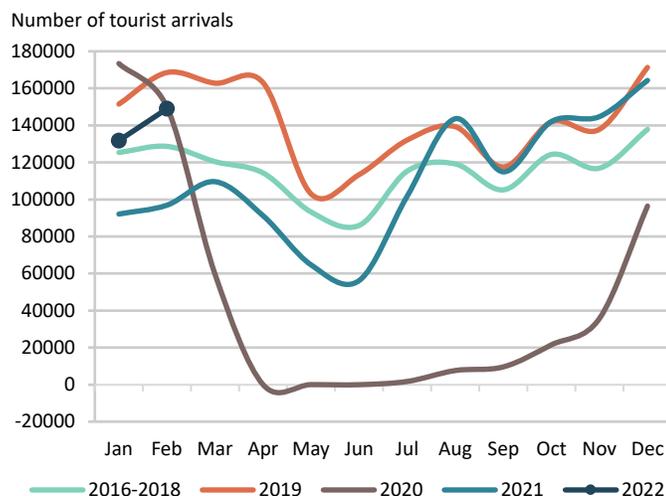
Recent developments

A recovery in tourism has led to a strong economic rebound since Q2 2021. Real GDP grew from a low base by over 70 percent (y-o-y) in Q2 and Q3 2021. Notably, Maldives received over 1.3 million tourists in 2021, which was about 80 percent of 2019 levels. Despite a new wave of COVID-19 infections due to the Omicron variant, the growth momentum has continued into 2022. Tourist arrivals were 43 and 54 percent above 2021 levels in January and February 2022, respectively.

Along with the economic recovery and higher global commodity prices, headline inflation rose slightly to 0.5 percent in 2021, from deflation of 1.4 percent in 2020. This was driven by increases in transport, food, housing, water, electricity, gas, and other fuel prices.

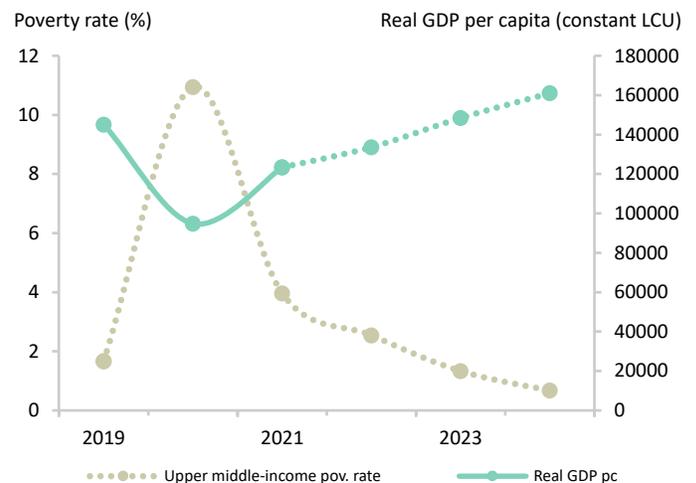
The current account deficit narrowed to an estimated US\$1.1 billion (21.7 percent of GDP) in 2021 from US\$1.3 billion (35.5 percent of GDP) in 2020, as exports surged by about 97 percent and exceeded the 59 percent growth in imports. The official gross reserves remained stable at above US\$800 million (2.5 months of imports) for most of 2021.

FIGURE 1 Maldives / Visitor arrivals



Sources: Ministry of Tourism and World Bank staff calculations.

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



Sources: HIES 2019/20 and World Bank POVMOD projections.

Tourism-linked revenues rose alongside the recovery in tourism, with total revenues and grants amounting to US\$631 million in Q2 and Q3 2021, which was only 15 percent below 2019 levels. Given that expenditures grew by 12 percent (y-o-y) in Q2 and Q3 2021, with capital expenditure only picking up in Q3 2021, the fiscal deficit is estimated to have narrowed to 17.7 percent of GDP in 2021. Combined with the fast recovery in GDP growth, this led to a fall in public debt from 146 percent of GDP in 2020 to a still unsustainable 129 percent in 2021.

After a sharp increase to 11 percent of the population in 2020, the poverty rate is estimated to have fallen to 4 percent in 2021 due to the economic recovery, and is expected to return to pre-pandemic levels by 2023.

Outlook

Due to a continued recovery in tourism and other sectors impacted by the pandemic,

real GDP is expected to grow at 7.6 percent in 2022, and at 9.9 percent in 2023 supported by: (i) greater tourism capacity due to the completion of the Velana airport expansion and new resorts; (ii) a return of Chinese tourists following the reopening of their border; and (iii) continued capital expenditures and election-related spending.

Inflation is projected to rise to 3.5 percent in 2022, but moderate in the medium term as global energy prices normalize. Although service exports will increase as tourism recovers, the return to pre-pandemic levels of consumption and capital goods imports will lead to an expansion in the current account deficit to a projected 24 percent of GDP in 2023, before narrowing in 2024 due to a fall in capital goods imports as large investment projects are expected to be completed by then.

The fiscal deficit is projected to decline to 16 percent of GDP in 2022 and steadily narrow in the medium term as revenues improve due to tourism growth and new

revenue mobilization measures (particularly the introduction of new departure taxes and an increased Airport Development Fee). Despite a narrowing of the fiscal deficit, public debt levels will remain high and unsustainable.

Downside risks persist. The baseline projection accounts for the estimated impacts of the Russia-Ukraine war on tourism and oil prices under the current trend, but further increases in global energy prices may cause an additional fiscal burden. Tourism could be adversely impacted by a persistent reduction in Russian and Ukrainian tourists and new waves of COVID-19 infections. However, there is some upside potential for increasing tourist arrivals from traditional markets such as China and Western Europe.

Despite improving fiscal prospects, prudent debt management remains critical to improving fiscal sustainability and lowering the cost of growth-enhancing investments, especially with large debt service obligations coming due in 2026.

TABLE 2 Maldives / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.9	-33.5	31.0	7.6	10.2	7.1
Private Consumption	4.4	-27.2	29.0	8.5	7.2	6.5
Government Consumption	-4.3	5.4	6.5	7.1	7.8	11.2
Gross Fixed Capital Investment	-2.6	-36.6	14.1	0.0	14.8	-2.6
Exports, Goods and Services	6.7	-51.4	69.6	12.1	10.2	8.5
Imports, Goods and Services	-0.3	-41.1	50.0	10.2	9.3	6.0
Real GDP growth, at constant factor prices	6.9	-31.3	27.3	7.6	10.2	7.1
Agriculture	-7.6	7.0	3.8	2.6	2.4	2.1
Industry	1.9	-25.4	-1.6	9.9	8.1	7.0
Services	8.6	-34.3	34.1	7.7	10.9	7.4
Inflation (Consumer Price Index)	0.2	-1.4	0.5	3.5	1.3	1.2
Current Account Balance (% of GDP)	-26.6	-35.5	-21.7	-23.2	-23.9	-21.3
Net Foreign Direct Investment (% of GDP)	17.1	-11.8	9.0	12.5	13.9	12.8
Fiscal Balance (% of GDP)	-6.7	-23.5	-17.7	-16.0	-13.9	-12.8
Debt (% of GDP)	78.8	146.1	128.8	130.9	129.6	129.2
Primary Balance (% of GDP)	-4.9	-20.8	-14.0	-10.9	-9.2	-8.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	1.7	10.9	4.0	2.5	1.3	0.7
GHG emissions growth (mtCO2e)	3.3	3.1	3.1	3.0	3.1	2.8
Energy related GHG emissions (% of total)	81.5	81.5	81.5	81.5	81.6	81.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.