MALDIVES

Table 1	2023
Population, million	0.5
GDP, current US$ billion	6.6
GDP per capita, current US$	12678.3
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	97.8
Life expectancy at birth, years[b]	80.8
Total GHG emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2022).

Economic growth is projected to remain robust over the medium term, driven by strong performance in the tourism sector. However, long-standing fiscal and external imbalances, including a recent sharp decline in official reserves, raise substantial liquidity and solvency concerns.
A major fiscal adjustment is urgently required to address these vulnerabilities and ensure macroeconomic stability, which could increase vulnerability to falling into poverty. Cushioning the impact on the poor and vulnerable from income and welfare losses will be critical.

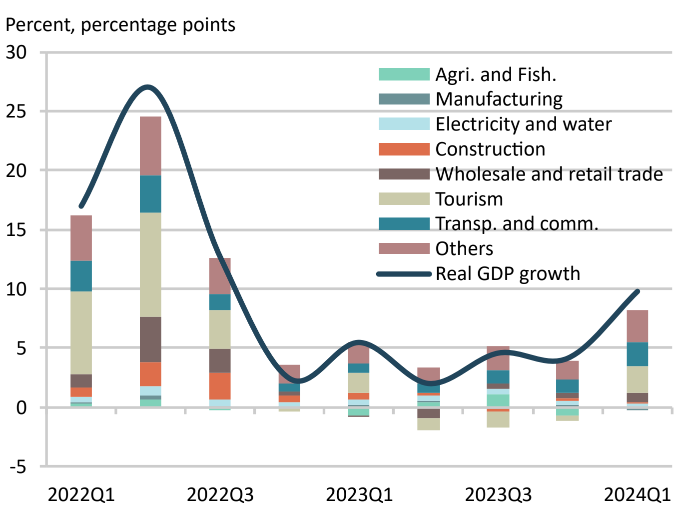
Key conditions and challenges

Tourism, the key driver of economic growth, continues to support economic activity and fiscal revenues with increased arrivals from China, Russia, and the UK. However, a decline in spending per tourist has moderated the impact of the sector's strong performance on overall growth.
Large increases in government spending and reliance on external non-concessional financing for infrastructure projects in recent years have worsened external and fiscal vulnerabilities and significantly increased public debt. Persistent large current account and fiscal deficits have led to a major depletion in already limited official reserves. Pressure on fiscal accounts this year has been aggravated by the government's continued provision of blanket subsidies, capital injections to underperforming state-owned enterprises (SOEs), and high levels of public health spending. The unavailability of finance has led to a notable reduction in capital spending, an accumulation of expenditure arrears, and concerns about the financial health of the construction industry.
To tackle the economic difficulties, the government announced a homegrown fiscal reform agenda in February 2024, including reforms that phase out existing subsidies and replace them with a targeted cash transfer scheme, improving health spending efficiency and rationalizing capital expenditure. Overnight subsidy removal, if uncompensated, could cause poverty ($6.85 per person per day, 2017 PPP) to almost double nationally and in the atolls. However, the implementation of these reforms has yet to commence, and it will also require candid and timely communication to the public.

Recent developments

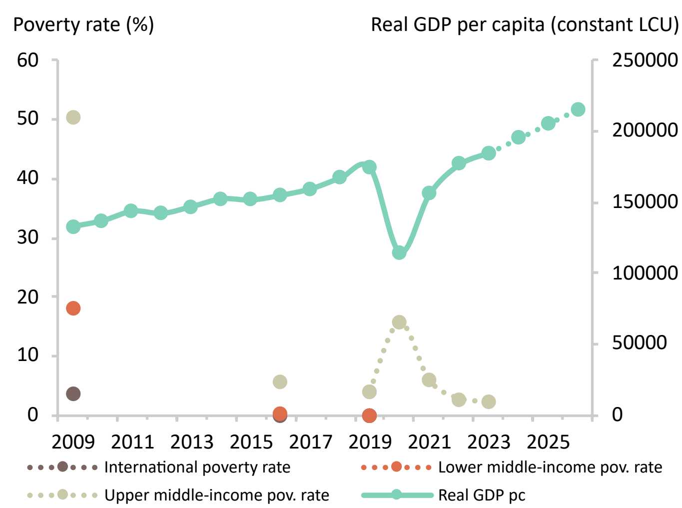
The economy grew by 4.1 percent (y-o-y) in 2023 and 9.8 percent (y-o-y) in Q12024. Tourist arrivals reached 1.3 million in August and are projected to reach a historical high of 2 million in 2024 (8.6 percent above 2023). However, due to a continued decrease in spending per tourist, these higher arrivals are not expected to significantly increase growth, with real GDP growth projected at 4.7 percent in 2024.
Domestic inflation remained low at an average of 0.5 percent (y-o-y) in H12024. However, food inflation experienced a sharp increase, reaching an average of 6.7 percent (y-o-y) in the same period, increasing costs of living for all, especially for less well-off households (who spend 35.2 percent of their budget on food).
A decline in fish exports of 45.5 percent (y-o-y) and growth in goods imports of 6.4 percent (y-o-y) in H12024, widened the trade deficit to US$1.5 billion in H12024, from US$1.4 billion in H12023. Higher import costs and external debt repayments also put significant pressure on official reserves, which fell from US$590.5 million

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

in December 2023 to US$395.4 million in July 2024 (from 1.4 to 0.9 months of imports). Similarly, usable reserves declined from US$179 million to an all-time low of US$43.7 million in the same period.

While recurrent expenditure declined by 7.2 percent (y-o-y) in H12024, lower than expected due to delayed subsidy reforms, capital expenditure declined by 47.6 percent (y-o-y) in H12024 due to infrastructure project cuts. Overall, total expenditure is expected to moderate in 2024, yet this will be overshadowed by the buildup of expenditure arrears. With lower revenue collections, which declined by 5.7 percent (y-o-y) in H12024 due to lower non-tax revenues, the estimated fiscal deficit at end-June remained at 12.8 percent of GDP—similar to 2023. Given the authorities have not published monthly and weekly fiscal developments since end-June, this has led to further concerns over the country's fiscal situation.

With the persistence in domestic and external financing difficulties, the central bank's (MMA) exposure to government securities rose further to 61.0 percent of its total financial assets by mid-2024, from 58.2 percent in 2023.

Outlook

Supported by tourism, the economy is projected to grow by 4.7 percent on average over the medium term—lower than the pre-pandemic average of 7.4 percent. This outlook is predicated on a major fiscal adjustment—including the negative impacts on real household incomes and a reduction in government consumption and investment—and more moderate spending per tourist. Inflation is projected to rise significantly over the medium term, due to the planned subsidy reform.

Assuming a timely implementation of the government's fiscal reform package, including a meaningful spending reduction, the fiscal deficit is expected to narrow from 12.7 percent of GDP in 2023 to 6.1 percent of GDP in 2026. As a result, public debt is projected to gradually decline from 122.8 percent of GDP in 2023 to 111.4 percent of GDP in 2026.

The poverty outlook remains uncertain, depending on the timing and scope of reforms, the impact on labor markets, and the design of cash transfers. In the absence of mitigating transfers, subsidy removal could double poverty rates. Assuming a budget of MVR 1.2 billion, a universal cash transfer would only partly offset the welfare losses, but a more generous targeted cash transfer to the bottom 60 percent of the population could fully compensate.

The current account deficit is expected to narrow from 21.2 percent of GDP in 2023 to 12.1 percent of GDP in 2026, supported by robust growth in service exports and slower growth in imports. High external financing needs—including significant debt servicing—are expected to sustain pressure on official reserves and threaten overall macroeconomic stability.

Major downside risks exist. Any shock to the tourism sector could worsen the growth outlook. Limited domestic and external financing may exacerbate liquidity and solvency concerns, especially considering the approaching spike in external debt servicing payments. A major fiscal adjustment is urgently required to ensure macroeconomic stability. Any delay in fiscal reforms could lead to a further deterioration of current vulnerabilities and an unprecedented economic shock.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	37.7	13.9	4.1	4.7	4.7	4.6
Real GDP growth, at constant factor prices	33.8	15.0	3.5	4.7	4.7	4.6
Agriculture	-0.7	3.1	0.8	-7.5	3.4	2.9
Industry	-4.6	25.2	7.6	2.3	1.6	0.9
Services	43.4	14.7	3.1	5.8	5.2	5.1
Inflation (consumer price index)	0.5	2.3	2.9	2.3	7.8	4.5
Current account balance (% of GDP)	-8.6	-16.3	-21.2	-15.9	-13.7	-12.1
Net foreign direct investment inflow (% of GDP)	12.2	11.9	12.1	12.0	12.2	12.0
Fiscal balance (% of GDP)	-14.2	-11.6	-12.7	-9.4	-7.8	-6.1
Revenues (% of GDP)	26.4	30.6	33.5	31.9	34.1	33.6
Debt (% of GDP)	116.4	112.3	122.8	119.3	114.9	111.4
Primary balance (% of GDP)	-11.6	-8.0	-8.6	-4.1	-3.1	-1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	5.8	2.7	2.3	..	..	..
GHG emissions growth (mtCO2e)	4.9	13.4	9.0	8.6	8.3	8.0
Energy related GHG emissions (% of total)	75.5	77.7	78.8	79.9	80.8	81.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data 2019. Nowcast based on microsimulations using sectoral GDP growth rates, and food and non-food inflation separately: 2021-2023.
b/ Nowcast and projections are not available.