

MACROECONOMIC OUTLOOK

JUNE 2024



The Macroeconomic Update offers an overview of the latest macroeconomic projections for the Maldives economy. These projections are updated twice a year, in April/May for the fiscal strategy and in September for the national budget. This publication provides 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 March 31st, 2024.

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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

Building on the growth of the tourism sector in 2022, strong growth in tourist arrivals was observed in 2023. Tourist arrivals surpassed pre-pandemic (2019) levels, reaching 1.88 million at the end of last year with a growth of 12.1 percent compared to 2022. The tourist arrivals in 2023 was in line with forecasts for last year, with the actual numbers surpassing the forecast by 0.5 percent.

During the first three months of 2024, 604,004 tourists visited the Maldives, which is 15.3 percent higher compared to the corresponding period of 2023. This increase in tourist arrivals during January through March, was largely driven by the remarkable increase in arrivals from China, compared to the corresponding period of last year. While Chinese tourists accounted for 3.4 percent of total tourist arrivals during the first three months of 2023, this share increased to 11.2 percent for the corresponding period of 2024. This increment is mainly attributed to additional direct flights between China and Maldives this year compared to the same period of 2023 with Sichuan Airlines resuming operations in the third quarter of 2023, and the commencement of flights by Xiamen Airlines this February. Furthermore, arrivals increased during this period as it coincided with the occasion of the Chinese New Year, which was not observed in 2023 as direct flights to the Maldives resumed on 18th January 2023, a few days before the start of the holiday.

Nevertheless, a decline in arrivals from South Asia compared to 2023 was observed during this period, mainly driven by lower than anticipated arrivals from India, one of the main source markets for the tourism sector since 2020. With the removal of travel restrictions leading to opening up of other similar tourist destinations last year, arrivals from India has been on a downwards trajectory. In addition, the limited flight connectivity with different cities in the South Asia region and geo-political tensions within the region are expected to have contributed to this decline.

Figure 1: Monthly Tourist Arrivals and Bed Nights

Chart 1a: Monthly tourist arrivals

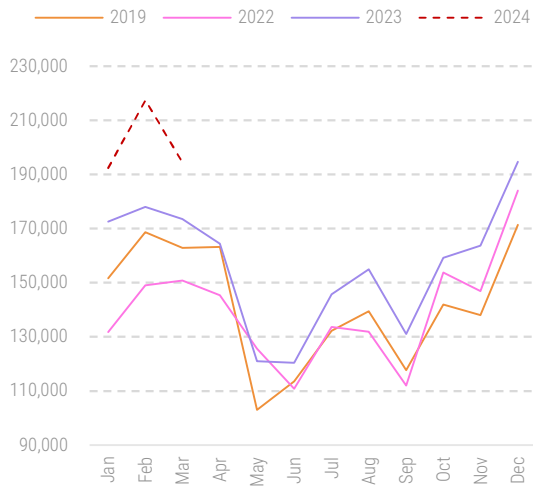
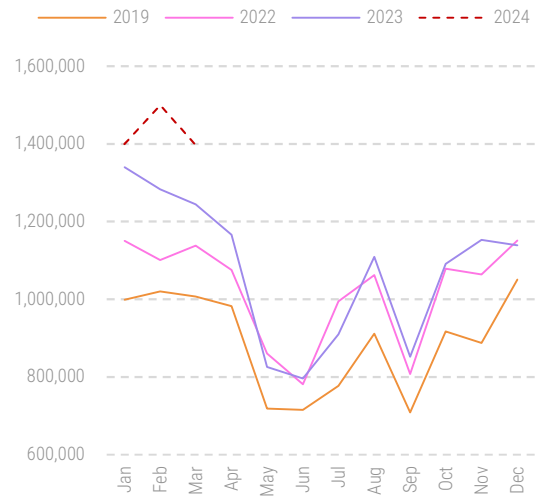


Chart 1b: Monthly bed nights



Source: Ministry of Tourism

By the end of 2023, 12.9 million bed nights were recorded with a growth of 5.2 percent compared to 2022. The actual estimate for tourist bed night is 3.5 percent lower than the forecasted bed nights for 2023. One of the reasons for the lower bed nights can be attributed to discrepancies between the bed nights data published by the Ministry of Tourism, which is currently the official source of tourism statistics, and that reported to the Maldives Inland Revenue Authority (MIRA) for tax purposes. It is most likely that the variances in bed nights stem from the significant difference in compliance rates as observed in Figure 2. The difference in bed nights for resorts and guest houses has a larger impact on GDP forecasts and revenue forecasts. Hence, work is underway to ensure improved accuracy of reported bed nights through reconciliation of numbers reported to both Ministry of Tourism and MIRA.

Figure 2: Bed Nights Data Published by Ministry of Tourism and Reported to MIRA

Table 2a: Bednights and Compliance Rate by Type of Tourist Establishment

	MIRA			Ministry of Tourism		
	2022	2023	Compliance	2022	2023	Compliance
Resorts	9,930,566	10,213,155	95%	10,350,102	10,124,539	80%
Guest houses	759,322*	1,081,779	86%	1,448,855	2,291,260	11%
Hotels	164,487	185,196	94%	202,504	224,952	72%
Safari vessels	226,397	256,682	96%	258,549	262,683	57%
Total	11,080,773	11,736,812		12,260,009	12,903,434	

Table 2b: Growth Rate in Bed Nights by Type of Tourist Establishment

	2022		2023	
	Growth - MIRA	Growth - MoT	Shares - MIRA	Shares - MoT
Resorts	2.8%	-2.2%	90%	84%
Guest houses	42.5%	58.1%	7%	12%
Hotels	12.6%	11.1%	1%	2%
Safari vessels	13.4%	1.6%	2%	2%
Total	5.9%	5.2%	100%	100%

Source: Maldives Inland Revenue Authority, Ministry of Tourism

* The values for 2022 maybe underestimated due to the halt in the collection of Green Tax from 03rd July 2022 till 20th September 2022 with the 11th amendment to the Maldives Tourism Act [Act no. 2/99], a period during which taxpayers were not required to submit returns to MIRA.

As at 31st March 2024, 4.3 million bed nights have been recorded for this year, indicating a growth of 11.1 percent compared to the corresponding period of last year. However, the growth in bed nights is lower compared to growth in arrivals, given the slightly lower average stay of 7.1 days relative to 7.4 days observed during the same period of 2023.

1.2. Tourism Sector Outlook

The tourism sector growth is expected to continue on an upward trajectory this year. It is anticipated that tourists arrivals will reach the 2.0 million tourists mark for the first time this year, with is an estimated 8.1 percent increase compared to 2023. Forecasted arrivals for 2024 has been slightly revised upwards compared to forecasts formulated for Budget 2024, to account for the increase in tourists from China, which is expected to more than compensate for the decline in arrivals from other regional markets.

Tourist bed nights are forecasted to reach 13.8 million at the end of this year, indicating a 6.8 percent growth compared to 2023. Despite the upward revision of arrivals for the year, projected bed nights has been revised downwards to reflect the declining trend of average stay observed post pandemic and the changes in key source markets as depicted by the official tourism statistics published by Ministry of Tourism¹. As such, average duration of stay is expected to be 6.8 days, which is lower than the Budget 2024 forecast of 7.1 days. This change is mainly driven by the increase in tourists from China, who on average have been observed to opt for a shorter duration of stay.

Figure 3: Monthly Tourist Arrivals and Bed Nights

Millions

Chart 3a: Tourist Arrivals

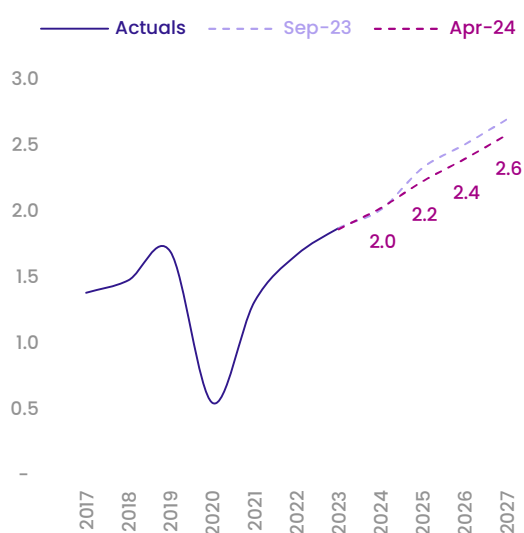
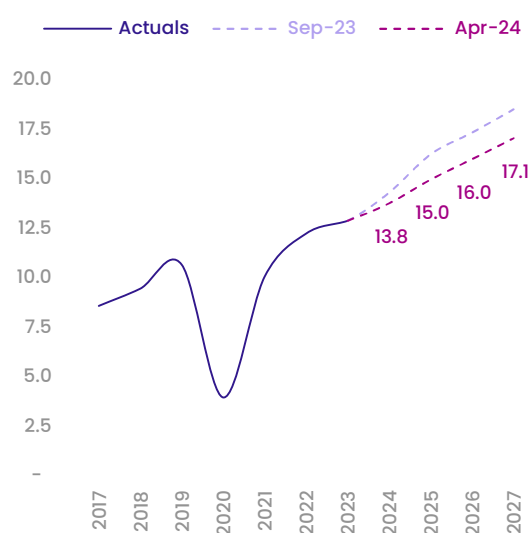


Chart 3b: Bed Nights



Note: Date indicates the month of revision of estimates

Source: Ministry of Tourism, Maldives Monetary Authority

In the medium term, tourist arrivals and bed nights are expected to grow at an average of 8.4 percent and 7.4 percent respectively. Although growth in arrivals and bed nights are expected to follow an upward trajectory, forecasts have been revised downwards to better reflect the impact from the recent changes in market composition, as well as economic and geopolitical circumstances. Furthermore, forecasts account for the impact from increased

¹ The forecasts for tourism sector indicators are based on official statistics published by Ministry of Tourism. Hence any data gaps that are observed in the official statistics will be reflected in the forecasts.

capacity with the expected operationalization of the Velana International Airport passenger terminal in the last quarter of this year.

2. GDP

2.1. Real GDP

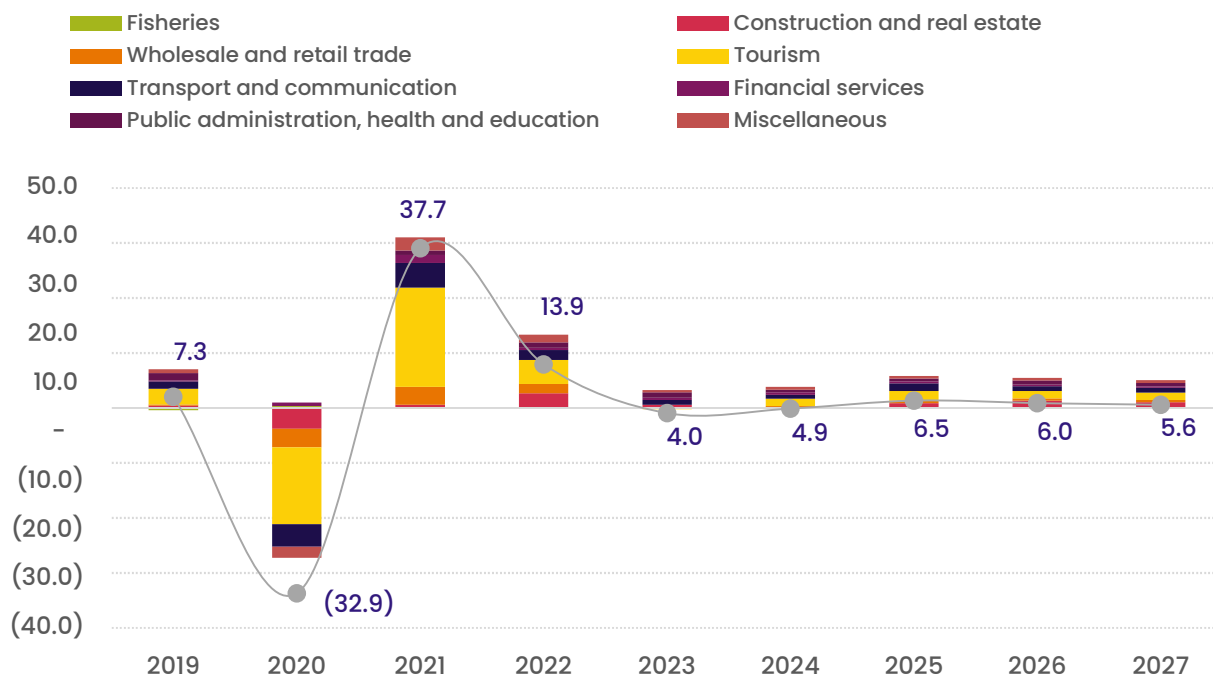
In 2022, the real GDP (RGDP) growth rate stood at 13.9 percent, as the strong recovery after the pandemic's economic disruptions continued. Consequently, RGDP surpassed pre-pandemic levels by the end of the year, marking the end of one of the fastest economic recoveries from the pandemic induced recessions globally.

In 2023, RGDP growth is estimated to normalize after a period of high recovery growth. Based on quarterly RGDP estimates, RGDP growth in 2023 is projected at 4.0 percent. Key sectors contributing to the lower growth include tourism and construction. This deceleration can be attributed to several factors, including the stabilization of the tourism sector after its rapid rebound. Additionally, discrepancies in bed night data between MIRA and MoT is also expected to have contributed to the lower growth projections in the tourism sector.

Looking ahead to 2024, the RGDP growth rate is projected grow by 4.9 percent. This projection is lower than the Budget 2024 estimate of 5.5 percent. The lower growth in 2023 and the slower projected growth in tourism and construction in 2024 suggest that the expansion anticipated earlier may be more restrained than initially envisioned. The medium-term average annual growth is projected to be 5.8 percent in the period 2025-2027. Notably, there's a significant increase in the projected RGDP for 2025 at 6.5 percent, largely attributable to the commencement of operations of the new Velana International Airport passenger terminal. Compared to the previous forecasts presented with the Budget 2024, the revised projections highlight a more tempered economic outlook. The major differences can be attributed to slower than anticipated recovery in key sectors, ongoing fiscal reforms, including changes in subsidy policies and the public sector investment program. These factors collectively contribute to a more cautious growth projection over the medium term, with the economy expected to gradually return to its long-term growth path.

Figure 3 – Real GDP Growth and sectoral contributions 2019–2027

In percent



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

2.1.1. Tourism

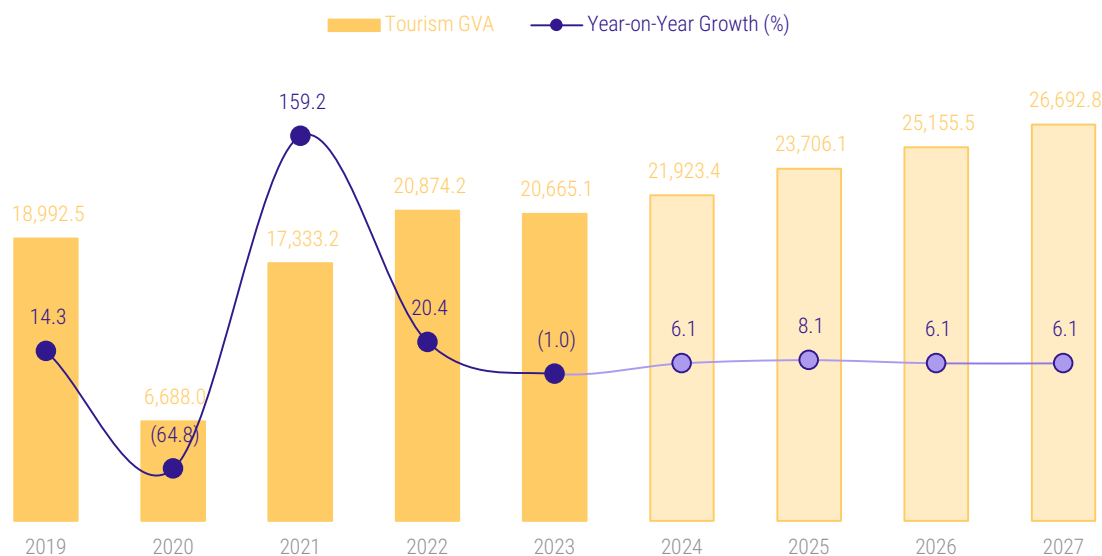
Regardless of the increase in total tourist arrivals and bed nights in 2023, the real gross value addition (GVA) of the tourism sector declined to MVR 20,665.1 million which corresponds to a decrease of 1.0 percent compared to 2022 (Figure 4). This is also 8.9 percent lower than the forecast published in Budget 2024. The decline is mainly driven by the lower share of resort bed nights than anticipated. As resorts dominantly contribute to the tourism sector GVA, the reduced share of resort bed nights implied by the MoT data despite the increase in total bed nights in 2023 resulted in lower GVA compared to 2022 and the forecasts for the year. It is noted that growth rates are expected to be significantly different if the bed nights data from MIRA is used, given the large variance between the bed nights published by MoT and MIRA.

The GVA of the tourism sector is now projected to be MVR 21,923.4 million in 2024, depicting a growth of 6.1 percent compared to last year (Figure 4). In the medium term, tourism sector is projected to grow at an average of 6.8 percent, which is lower than the average growth of

8.6 percent forecasted for Budget 2024. The downward revision of the forecasts for the medium term reflects to some degree market and economic developments, but primarily the drastic change in the share of resort bed nights.

Figure 4 - Tourism Sector GVA and Growth

Unless otherwise stated, MVR millions



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

While the numbers published by the Ministry of Tourism which are used to compute and forecast GDP figures indicate a significant change in the market composition of the tourism sector, the decline in the share of resort bed nights depicted by the data reported to MIRA is much lower. As highlighted in section 1.1 of this report, the large variance in the share of resort bed nights increases the forecasting error, and creates uncertainties regarding the estimated macroeconomic indicators. These issues will be resolved with improved accuracy of bed nights data through an established reconciliation process.

2.1.2. Construction and Real Estate

The construction and real estate sector grew at 4.1 percent in 2023, which is significantly lower compared to the forecast for Budget 2024, of 22.2 percent computed using 2014 base year GDP estimates in April 2023.

The projections for 2024 indicate a decline in growth by 0.7 percent, a significant downward revision from the earlier estimate of 3.7 percent growth for this sector as prepared for the Budget 2024. The downward revision in the estimates for the construction sector projections for 2024 factored in a sharp slowdown in the public sector Public Sector Investment Programs (PSIP) inline with the fiscal reform agenda of the government and the decline in the construction material imports in the first quarter of 2024 compared with the last quarter of 2023, which is in line with global trends.

The medium-term outlook for the construction and real estate sectors in Maldives is positive. Though the estimates indicate a decline of 0.7 percent in 2024, the construction and real estate sector is expected to grow at an average of 5.8 percent over the period 2025 – 2027. This is expected to be driven by the private sector developments, with the PSIP also contributing, albeit at a level below compared to what was observed over the past few years.

2.1.3. Other Sectors

The transportation and communication sector experienced a notable growth of 16.8 percent in 2022, reflecting the sector's recovery and expansion post-pandemic. This was closely tied to the resurgence of the tourism sector, which saw increased tourist arrivals driving up demand for transportation and communication services. In 2023, the sector continued its positive trajectory, growing by 7.8 percent, demonstrating continued momentum and benefiting from the ongoing positive spillovers from the tourism sector. Looking ahead, the medium-term growth for this sector is projected to be high, with the average growth rate estimated at 1.0 percent from 2025 to 2027. According to estimates, the transportation and communication sector is projected to grow by 11.8 percent in 2025, driven by the opening of the new terminals at Velana International Airport.

The wholesale and retail trade sector saw a significant recovery in 2022, growing by 20.2 percent after the challenges posed by the pandemic. However, the growth rate for 2023 is projected to be a marginal decline of 0.3 percent, following the tourism sector growth trajectory. Over the medium term, this sector is expected to return to more consistent growth, with average growth of 4.7 percent from 2025–2027.

The public administration, health, and education sector maintained strong growth in 2023, expanding by 6.7 percent. In 2024, this sector is projected to have a growth rate of 3.0 percent. Medium-term projections for this sector indicate stable growth, with an average

growth of 4.0 percent from 2024 to 2027. The slower growth is largely due to the government's fiscal consolidation measures.

2.2. GDP Deflator

In 2022, the GDP deflator grew by 3.2 percent, reflecting the inflationary pressures as the economy continued to recover from the impacts of the COVID-19 pandemic, driven by increased demand and persistent supply chain disruptions. The GDP deflator is forecasted to grow by 2.4 percent in 2023 and expected to remain at 2.0 percent in 2024. The GDP deflator is projected to grow by 3.5 percent in 2025, given the plans to implement subsidy reforms in the last quarter of this year, and reverting to an average of 2.5 percent over the medium term.

2.3. Nominal GDP

In 2022, the nominal GDP of the Maldives saw a substantial increase, reflecting a strong post-pandemic recovery. This growth was driven by significant rebounds in key sectors such as tourism, which experienced a surge in arrivals and construction, bolstered by ongoing infrastructure projects. The robust performance in these sectors contributed to a notable rise in the overall economic output.

For 2023, nominal GDP growth is projected to moderate compared to the previous year. This deceleration is linked to the stabilization phase following the rapid recovery. Despite this moderation, nominal GDP is expected to exceed previous estimates. The projections align with the revised real GDP growth rate of 4.0 percent for 2023, indicating a slowdown from the earlier anticipated pace but still maintaining robust positive growth.

Looking ahead to 2024, nominal GDP is projected to continue its upward trend, although at a slower rate, influenced by tempered growth in the tourism and construction sectors. The medium-term outlook for nominal GDP from 2025 to 2027 remains positive, with average annual growth expected to stabilize, benefiting from the expansion of Velana International Airport. By 2027, nominal GDP is anticipated to reach MVR 138,653.0 million, reflecting a return to a long-term growth path.



Statistical

Appendix



Table 1: Arrivals and Bednights

	Year	Fiscal Strategy 2024		Budget 2024		Fiscal Strategy 2025	
Arrivals In Thousands, unless otherwise stated	2024	2,091.2	11.3%	2,017.6	7.4%	2,030.0	8.1%
	2025	2,426.8	16.0%	2,335.3	15.7%	2,233.2	10.0%
	2026	2,613.0	7.7%	2,511.8	7.6%	2,402.5	7.6%
	2027	2,813.3	7.7%	2,701.6	7.6%	2,584.5	7.6%
Bednights In Millions, unless otherwise stated	2024	15.0	16.4%	14.3	11.0%	13.8	6.8%
	2025	17.1	13.8%	16.2	13.5%	15.0	8.7%
	2026	18.3	6.9%	17.3	6.8%	16.0	6.9%
	2027	19.5	6.9%	18.5	6.8%	17.1	6.6%

Source: Maldives Monetary Authority

Table 2: Tourism Sector GDP

Millions of Rufiyaa, unless otherwise stated

Year	Fiscal Strategy 2024		Budget 2024		Fiscal Strategy 2025	
2024	27,874.45	34.9%	24,183.9	17.0%	21,923.4	6.1%
2025	31,558.28	13.2%	27,392.3	13.3%	23,706.1	8.1%
2026	33,549.08	6.3%	29,111.4	6.3%	25,155.5	6.1%
2027	35,664.22	6.3%	30,937.9	6.3%	26,692.8	6.1%

Source: Maldives Monetary Authority

Note: GDP was rebased to 2019 base price for Budget 2024

Table 3: Summary of Forecast Revisions

Millions of Rufiyaa, unless otherwise stated

	September 2023 Projections						June 2024 Projections		
	2019	2020	2021	2022	2023	2024	2023	2024	2025
Real GDP	88,079.0	59,093.3	81,363.8	92,678.8	100,750.8	106,305.5	96,360.8	101,051.3	107,627.5
Real GDP Growth (%)	7.3	-32.9	37.7	5.6	6.0	5.1	4.0	4.9	6.5
o.w. Tourism	14.3	-64.8	159.2	20.4	8.7	6.6	-1.0	6.1	8.1
o.w. Construction & Real Estate	2.2	-25.3	3.1	20.1	22.2	3.7	4.1	-0.7	5.9
o.w. Wholesale & Retail Trade	2.5	-38.0	40.1	20.2	2.9	6.1	-0.3	4.0	5.3
o.w. Transport and Communication	12.8	-36.9	43.1	16.8	12.7	9.8	7.8	6.1	11.8
o.w. Public Administration, Health and Education	9.9	-0.5	3.9	6.0	5.0	4.4	6.7	3.0	3.5
Nominal GDP	88,079.0	57,104.6	80,773.8	94,945.3	106,375.4	114,643.1	101,057.8	108,112.9	119,122.3
CPI Inflation (%)	0.2	-1.4	0.5	2.3	2.9	1.0	N/A	N/A	N/A

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.