

# MALDIVES DEVELOPMENT UPDATE

## BATTEN DOWN THE HATCHES



October 2023

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## Preface

The Maldives Development Update (MDU) has two main goals. First, it takes the pulse of the Maldivian economy by providing key developments over the past 12 months. Placing these in a global context, and based on these recent developments, it analyzes the outlook over the medium term. Second, every other edition of the MDU provides a more in-depth investigation of selected economic and policy issues. It has a wide audience including policymakers, policy analysts from think tanks or non-governmental organizations, and business and financial sector professionals interested in Maldives' economic development.

The MDU was prepared by Erdem Atas and Richard Walker (*Macroeconomics, Public Sector, Trade and Investment, South Asia Region*). The special focus topic (Part B) on infrastructure was written by Mark Alexander Giblett (*Infrastructure Finance, PPPs and Guarantees, South Asia Region*). The team is grateful to Nandini Krishnan and Marta Schoch (*Poverty*), Tatsiana Kliatskova (*Finance, Competitiveness, and Innovation*), Margaret Triyana (*Macroeconomics, Trade and Investment, South Asia Region*), Patrick Alexander Kirby (*Macroeconomics, Trade and Investment, Prospects Group*), Francesca Lamanna (*Social Protection and Jobs, South Asia Region*), Thisuri Jinadhi Wanniarachchi (*Social Protection and Jobs, South Asia Region*), Jyoti Maya Pandey (*Social Protection and Jobs, South Asia Region*), and Srinivas Varadan (*Social Protection and Jobs, South Asia Region*) for their inputs to the publication. The team thanks Mathew Verghis (*Director, Equitable Growth, Finance and Institutions – EFI, South Asia Region*), Faris Hadad-Zervos (*Country Director for Maldives, Nepal and Sri Lanka*), Chiyo Kanda (*Country Manager, Maldives and Sri Lanka*), Shabih Ali Mohib (*Practice Manager, Macroeconomics, Public Sector, Trade and Investment*), and Meriem Ait Ali Slimane (*Acting Program Leader, EFI*) for their guidance. Sashikala Jeyaraj provided valuable administrative support and helped format and layout the report, while Dilinika Peiris and Ali Naafiz led the dissemination efforts.

The report was prepared based on published data available on or before September 15, 2023. Data sources include the World Bank, International Monetary Fund, Ministry of Finance, Maldives Monetary Authority, Maldives Bureau of Statistics, Ministry of Tourism, and press reports.

Previous report editions:

- [April 2023: Maldives Development Update: Navigating A Tight Line](https://openknowledge.worldbank.org/handle/10986/39627)
- [October 2022: Maldives Development Update: Towards Resilient and Affordable Housing](https://thedocs.worldbank.org/en/doc/49141824db6f3a3b812bad33d5779541-0310062022/maldives-development-update-towards-resilient-and-affordable-housing)
- [April 2022: Maldives Development Update: Navigating Choppy Seas](https://openknowledge.worldbank.org/handle/10986/37662)

To receive the MDU and related publications by email, please email [infomaldives@worldbank.org](mailto:infomaldives@worldbank.org). For questions and comments, please email [etas@worldbank.org](mailto:etas@worldbank.org) and [rwalker3@worldbank.org](mailto:rwalker3@worldbank.org).

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## Abbreviations

BML	Bank of Maldives
CAD	Current Account Deficit
CAM	Communication Authority of Maldives
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
COVID-19	Coronavirus Disease 2019
DHS	Demographic and Health Survey
EMDEs	Emerging Markets and Developing Economies
FDI	Foreign Direct Investment
FRA	Fiscal Responsibility Act
G2G	Government-to-government
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GoM	Government of Maldives
GGST	General Goods and Services Tax
HIES	Household Income and Expenditure Survey
MDU	Maldives Development Update
MMA	Maldives Monetary Authority
MoF	Ministry of Finance
MPI	Multidimensional Poverty Index
MUDRP	Maldives Urban Development Resilient Program
MVR	Maldivian Rufiyaa
MPI	Multi-Dimensional Poverty Index
MRR	Minimum Reserve Requirement
NBS	National Bureau of Statistics
NDA	Net Domestic Assets
NPL	Non-performing Loan
NFA	Net Foreign Assets
ODF	Overnight Deposit Facility
OLF	Overnight Lombard Facility
OMO	Open Market Operations
PIM	Public Investment Management
PPG	Public and Publicly Guaranteed
PPP	Public Private Partnership
PSPH	Public Sector Pay Harmonization
PSIP	Public Sector Investment Program
RBI	Reserve Bank of India
SDF	Sovereign Development Fund
SDG	Sustainable Development Goals
SIDS	Small Island Developing State
SOE	State-Owned Enterprise
STO	State Trading Organization
TGST	Tourism Goods and Services Tax
US\$	United States Dollar
y-o-y	year on year

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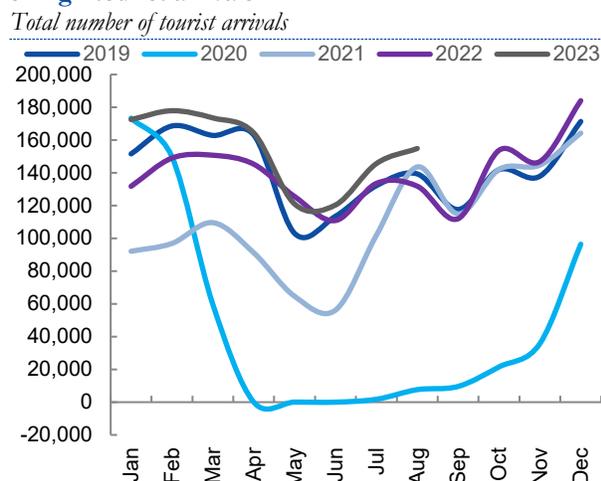
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# Executive Summary

## A. Economic Update, Outlook, and Risks

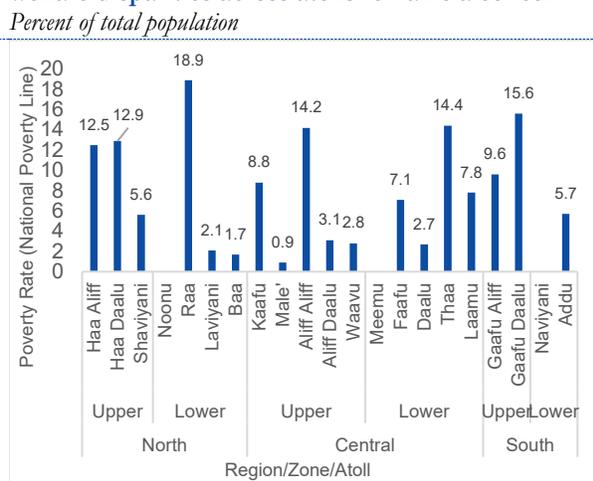
The economy has maintained its strong growth momentum, with the expansion in tourism, and poverty is expected to fall further in 2023. The number of tourist arrivals grew by 14 percent (y-o-y) to 1.25 million by early September 2023, reaching a historic high compared to similar periods in other years (Figure ES.1). Despite the Russian invasion of Ukraine, arrivals from Russia remained strong. An earlier-than-expected reopening of the Chinese market, on January 18, has compensated for lower arrivals from India and Gulf countries, while arrivals from Europe continued to increase. As a result, the Maldivian economy grew by 5.5 percent (y-o-y) in the first quarter of 2023. Poverty levels also fell with the strong economic rebound, to an estimated level of 1.5 percent of the population. High inequality in the country, especially in the outer atolls, remains a real concern (Figure ES. 2).

**Figure ES.1: Real GDP continues to grow on the back of high tourist arrivals**



Source: Ministry of Tourism, staff calculations.

**Figure ES.2: Despite the low overall poverty rate, welfare disparities across atolls remains a concern**



Source: Maldives Bureau of Statistics, WB staff calculations.  
Note: Upper middle-income poverty line – US\$6.85/person/day.

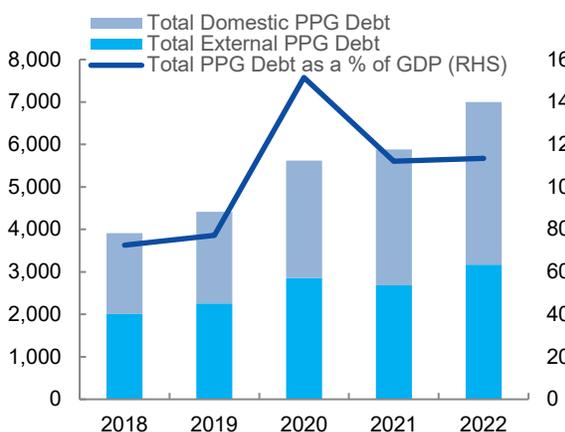
**High global commodity prices continue to put pressure on domestic inflation, government’s fiscal position and the balance of payments.** Average annual inflation was 3.3 percent in the first seven months of 2023, compared to 2.3 percent in 2022. The rise in prices was largely driven by food & non-alcoholic beverages and transport, while the government managed to curtail housing and utility prices through blanket subsidies. Due to not undertaking the planned subsidy reforms and maintaining a blanket subsidy policy for major consumption items, including fuel, electricity, and food, government is still facing significant spending pressures. The sharp growth in capital and construction material imports – to support completion of mega Public Sector Investment Program (PSIP) projects – is also adding further pressure to fiscal and current account balances. The annualized trade deficit increased by 7.4 percent (y-o-y) to US\$3.07 million, as of July 2023, particularly due to the sizeable fuel and capital goods import bill. As the overall import bill climbed to US\$3.5 billion, official reserves fell by 28.6 percent since end-2022, declining to US\$594.1 million in July 2023. This was only sufficient to cover 2 months of imports, a significant drop from 3 months of coverage at end-2022 (Figure ES. 6).

**Despite higher tax collection and revenues, overall fiscal performance is being constrained by the sharp rise in capital spending and subsidies.** Total revenue growth was 18 percent between January and April 2023 compared to the same period in 2022. Much of this came from the Tourism Goods and Services Tax (TGST) and business and property tax collections. However, total expenditure grew by 33.5 percent over

the same period. This sharp increase was driven by higher subsidies, elevated Aasandha (health) spending, an increase in the health sector wage bill (related to implementation of the *Public Sector Pay Harmonization* (PSPH) policy), higher interest costs, and sustained high levels of capital spending (under the PSIP). Interest payments were substantial between January and August 2023, totaling MVR2.5 billion (US\$162.3 million), compared to MVR2.18 billion (US\$141.6 million) during the same period in 2022 – far exceeding the annual average between 2014–2019 of MVR 1.3 billion (US\$85 million) or about 2 percent of GDP. This was driven by a large increase in interest payments for both domestic and external debt, due to increased outstanding Treasury securities and more reliance on external commercial debt. The previously planned and budgeted subsidy reforms (including fuel subsidies) – that aimed to reduce expenditures by 3 percent of GDP in 2023 – have not been implemented. Government’s spending on subsidies reached a historic high in August 2023 due to elevated global commodity prices, climbing to MVR2.63 billion (US\$170.9 million) for the year, and already exceeding the MVR2.28 billion (US\$148 million) that was budgeted for 2023.

Figure ES.3: Public debt remains high...

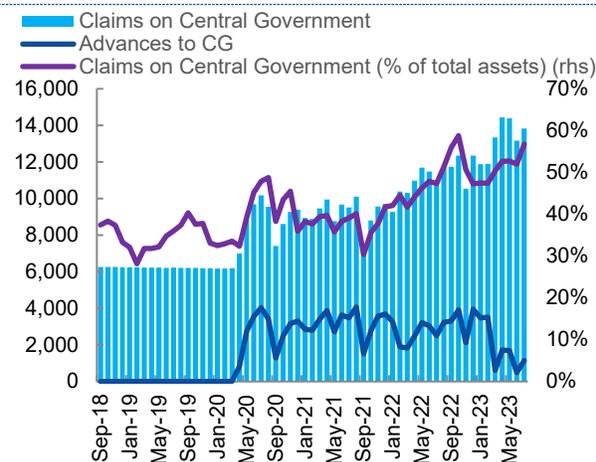
PPG in US\$ million and percent of GDP (rhs)



Source: Ministry of Finance, World Bank staff calculations.

Figure ES.4: ...while MMA’s claims on central government continue to increase...

MVR million, percent (rhs)



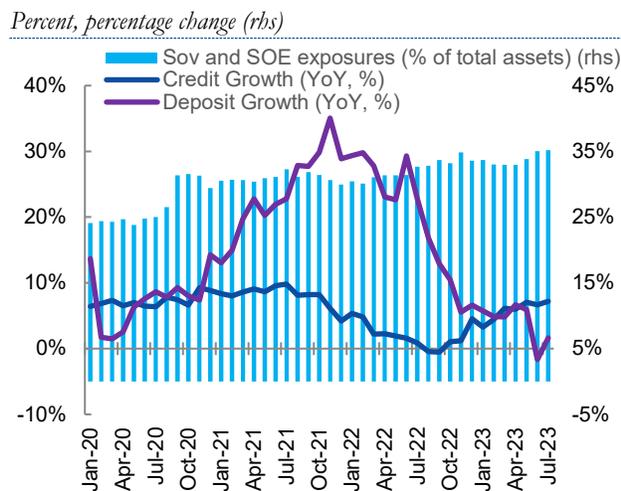
Source: MMA, World Bank staff calculations.

**The Maldives Monetary Authority (MMA) continues to finance the Budget deficit, with increasing exposure of the financial sector to sovereign bond holdings.** The Ministry of Finance (MoF) has securitized most of the advances received from the MMA over the 2020–2023 period under the exemption of certain clauses of the Fiscal Responsibility Act (FRA). According to the latest figures, around MVR 6 billion out of MVR 8 billion has been securitized and the MMA’s advance limit was reduced from MVR 4.4 billion to MVR 2 billion. Repeated debt exchange operations through securitizations have, however, created space for new advances, and therefore expanded MMA’s total exposure to central government, with exposures increasing to MVR 13.8 billion, or 56.8 percent of MMA assets (Figure ES.4). The build-up of the sovereign exposure, that intensified during the pandemic, reflects a combination of supply and demand factors, including lack of domestic investment opportunities and weaknesses in credit infrastructure that constrain private sector lending. Bank exposure to the central government increased to 30.6 percent of their assets, as of July 2023, compared to 28.8 percent a year earlier. At the same time, growth in credit to the private sector picked up, while deposit growth slowed further to 1.6 percent y-o-y in July 2023 (Figure ES.5).

**Public debt remains high, due to sustained borrowing to finance the budget deficit and infrastructure projects.** Total public and publicly guaranteed (PPG) debt rose to US\$7.0 billion (113.5 percent of GDP) at the end of 2022, compared to US\$5.9 billion (112.1 percent of GDP) the year before (Figure ES.3). Domestic debt accounted for 62.1 percent of GDP, while external and externally guaranteed debt accounted for the remainder (51.4 percent of GDP). These figures do not, however, include advances from MMA, which have been ongoing since the suspension of the FRA in early 2020. Moreover, additional fiscal risks – mostly

stemming from guaranteed and on-lent loans, as well as trade payables, subsidies, and capital injections to state-owned enterprises (SOEs) – were estimated at about US\$2.5 billion or 45 percent of GDP in 2019. Therefore, Maldives’ fiscal space is limited to absorb future shocks to public finances.

Figure ES.5: ...and deposit growth slowed...



Source: MMA, World Bank staff calculations.

Figure ES.6: ...reserves dropped with the rising import bill



Source: MMA, World Bank staff calculations.

**External debt and fiscal vulnerabilities remain a significant concern for Maldives in the medium term.**

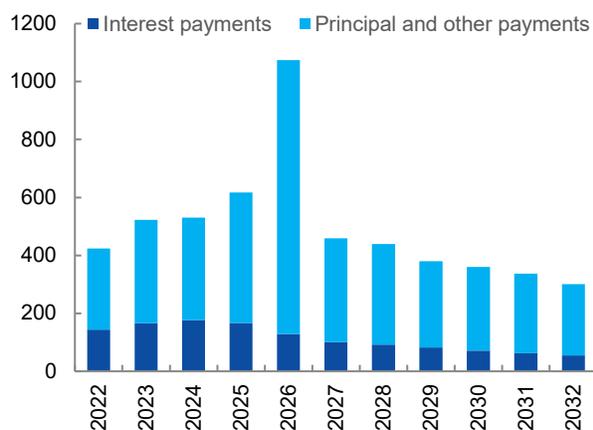
The country is projected to pay, on average, about US\$570 million annually as external debt servicing over the 2024–25 period (Figure ES.7). Public and publicly guaranteed external debt servicing is then expected to reach US\$1.07 billion in 2026, which includes bullet payments for the US\$500 million Sukuk and US\$100 million private placement – significantly testing the country’s ability to repay or roll over this debt. Such high levels of public debt, and associated refinancing risks, make the Maldivian economy extremely vulnerable to domestic and external shocks. Mobilization of additional debt at non-concessional terms would further exacerbate these vulnerabilities. Thus, despite robust growth prospects, prudent debt management remains a top priority for improving fiscal sustainability, lowering the cost of growth-enhancing investments – especially with large debt service obligations coming due – and ensuring a more resilient economy going forward.

**It’s time for Maldives to ‘batten down the hatches’: a strong fiscal adjustment is urgently required to replenish fiscal buffers against future shocks, given the high risk of debt distress.**

Although fiscal deficits are expected to gradually narrow over the medium term, total PPG debt to GDP is forecast to remain elevated at over 115 percent. The revised Medium-Term Fiscal Strategy (MTFS) could set a new benchmark for expenditure rationalization. Government’s decision to raise the GST rates is a positive start, but not sufficient for the adjustment that is required. A stronger commitment is urgently needed, as the planned subsidy reforms didn’t happen in 2023. A notable reduction in (and more effective) spending, and more effective revenue mobilization are crucial for Maldives’ debt and fiscal sustainability. Reforms to Aasandha, reducing and rationalizing subsidies to SOEs – especially for fuel and food subsidies – and a solid public investment management framework are amongst the key reform areas to bring down the high levels of public expenditure, replenish fiscal buffers against future shocks, and lower the cost of growth-enhancing investments. On the other hand, revenue mobilization can be improved by diversifying the tax base and mobilizing more domestic sources of revenue, reducing informality, and enhancing the tax morale and equity of the tax system.

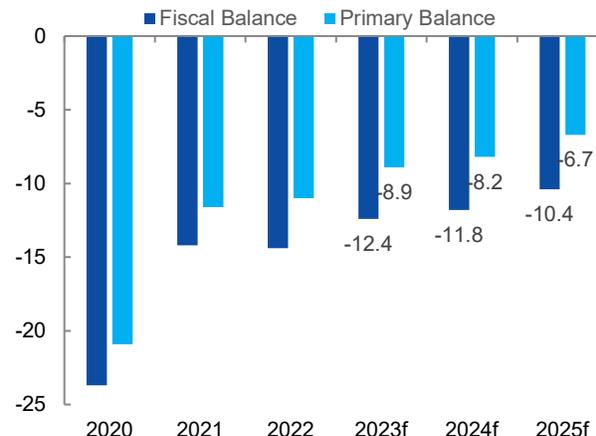
**Figure ES.7: External debt servicing projections show significant repayment needs in the medium term**

US\$ million



**Figure ES.8: Spending commitments and plans will likely impede the narrowing of the fiscal deficit**

Percent of GDP



Source: Ministry of Finance and World Bank staff calculations.

Note: Data as of August 2023. Does not include debt service costs of pipeline loans, neither non-concessional nor commercial. Thus, debt servicing costs of the outer years may be underestimated.

Source: Ministry of Finance and World Bank projections.

**The outlook for tourism and, thus, the economy is positive over the medium term, although external and fiscal risks continue to rise.** Real GDP growth is projected to be 6.5 percent in 2023, and 5.4 percent on average in the 2024–25 period. Inflation is projected to rise to 3.2 percent in 2023, largely due to the recent increase in GST rates. Heightened external and fiscal vulnerabilities, however, pose significant downside risks to the economic outlook – which include continued external borrowing at more expensive terms during a global tightening and weaker global economic outlook. As a result, reducing the dependency on tourism, limiting state involvement in economic activity, and diversifying the economy remains a major objective for the Maldives’ growth strategy. To enable this development and diversify the economy, Maldives could benefit from a more diversified tourism sector that also provides further benefits to those living in the outer atolls and inhabited islands, including offering new tourism products, such as environmentally friendly eco-tourism options, and developing the industry in the Northern and Southern Atolls through better infrastructure, connectivity, and favorable rents for resort developments. An upcoming new submarine cable is expected to enhance digital connectivity in Maldives, potentially leading to greater job opportunities. However, any infrastructure investments must be well sequenced and planned, and consider the country’s current debt vulnerabilities. Boosting the fisheries sector, by expanding fish processing and cold storage facilities, as well as opening new export markets, could help reduce the country’s high dependency on tourism. Additional avenues for diversification, trade and growth also need to be explored.

## B. Supporting Sustainable and Resilient Infrastructure

**Maldives has outperformed most of its peers in terms of infrastructure access.** Available data indicates that Maldives outperforms most of its regional and Small Island Developing States (SIDS) peers in the provision of basic infrastructure services (Table ES.1). Maldives has benefitted from universal access to electricity since 2008, and there is widespread use of mobile phone services. Hospital beds per 1,000 people are 4.1, which is higher than the upper middle-income average, and the pupil-teacher ratio is very low at 5.0.

Table ES.1: Benchmarking of key infrastructure indicators

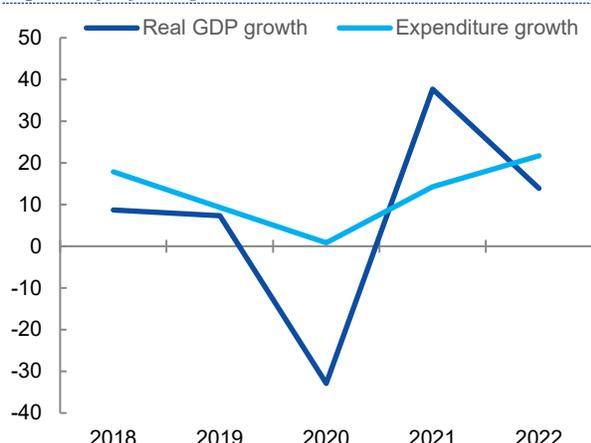
	Maldives	Average S. Asia	Upper MI	SIDS
Access to electricity, % of population	100	93.1	96.2	93.6
Internet users, % of population	63.2	17.0	61.3	56.0
Mobile cellular subscriptions, per 100 people	144	99.2	116.3	113.3
Hospital beds, per 1000 people	4.1	1.4	3.1	2.8
Pupil-teacher ratio, secondary level	5.0	24.7	14.0	12.4

Source: World Bank WDI and Maldives MoH 2021

**These high levels of infrastructure access have been funded mainly through a substantial growth in public expenditures.** This rapid growth in public expenditure has outpaced Maldives’ real GDP growth during most years (Figure ES.9), with much of the growth being driven by substantial increases in capital spending under the PSIP, subsidies and transfers to SOEs, and the wage bill (Figure ES.10). It is estimated that between 2014–2022, over 50 percent of the approved PSIP budget was spent on transport related infrastructure (including airports, ports, roads, and bridges), housing, and land reclamation.

Figure ES.9: Public Expenditure mostly outpaced GDP growth...

*In percent, y-o-y change*

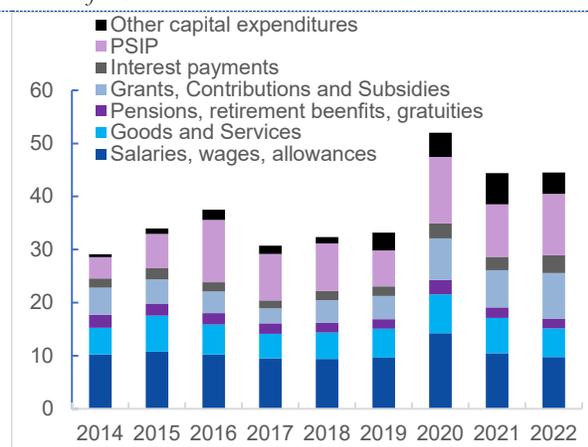


Source: IMF Fiscal Affairs Database, October 2021, MMA and WB staff calculations.

Note: 2023 figures take into account the budgeted amount and the GOM’s GDP growth estimates.

Figure ES.10: ...primarily driven by substantial increases in PSIP spending, subsidies, and the wage bill

*Percent of GDP*



Source: WB PER (2022), MOF, WB staff calculations.

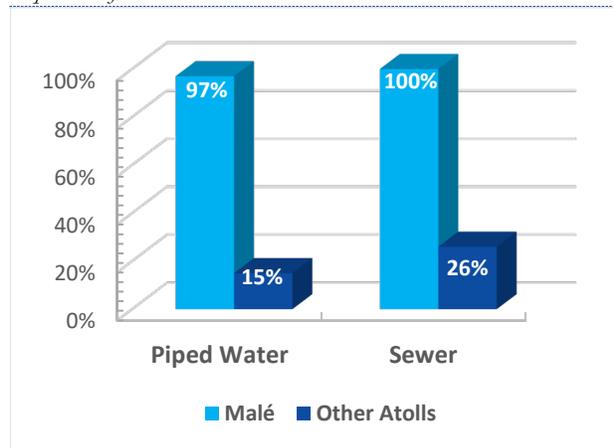
**Maldives has relied heavily on borrowing to fund these high levels of public expenditure.** Driven by the need to increase public expenditures to offset the adverse impacts of COVID-19, total public and publicly guaranteed (PPG) debt stood at around 150 percent of GDP in 2020. Despite this figure falling to 113.5 percent at the end of 2022, it is still significantly higher than the pre-COVID-19 levels, when the debt figure stood at 77.2 percent of GDP (Figure ES.3).

**Despite strong economic growth and high levels of infrastructure spending, significant disparities in terms of infrastructure access exist between Malé and the outer atolls.** Although the expansion of infrastructure spending under the PSIP, together with a policy of decentralizing services to the atolls, has led to improvements in terms of infrastructure provision in the atolls, significant spatial disparities remain. For example, only 15 and 26 percent of households residing in the atolls have access to piped water and sewage

connections respectively, versus nearly universal access in Malé (Figure ES.11). Similar disparities exist in broadband internet service speeds (Figure ES.12).

**Figure ES.11: Significant disparities in piped water and sewer connections between Malé and other atolls...**

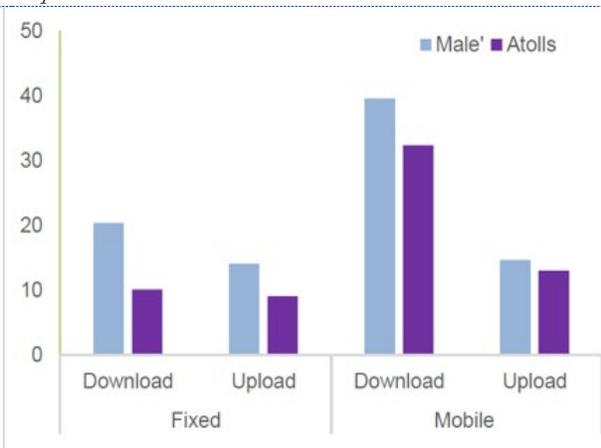
*In percent of total access*



Source: Statistics Maldives, 2020.

**Figure ES.12: ... as well as disparities in fixed and mobile up/download speeds**

*Mbps*



Source: WB Staff analysis based on Speedtest Intelligence data between Jan 2020–Jan 2021.

**Maldives is trying to actively address these infrastructure gaps but faces significant constraints.** As with other SIDs, Maldives faces general constraints that hinder its ability to deliver cost effective and efficient infrastructure services (Figure ES.13). In addition, Maldives faces several cross-cutting<sup>1</sup> and sector specific constraints that further hinder its ability to deliver infrastructure. Table ES.2 summarizes these and provides several actions and policy initiatives that Maldives can consider implementing to address these constraints and improve the efficiency and effectiveness of infrastructure delivery in the country.

**Figure ES. 13: Infrastructure Delivery Constraints Impacting Maldives**



<sup>1</sup> Cross cutting constraints are those not specific to one sector but impact or “cut across” a range of sectors.

**The implementation of the recommendations in Table ES.2 will require improved inter-agency coordination.** In developing sector policies and planning investments, it will be critical for Maldives to ensure that relevant ministries and agencies improve their coordination to better leverage potential cross sector synergies. For example, it will be important for the energy and transport sectors to coordinate their respective sector planning in the context of a transition to e-mobility.

**It will also require that sustainability and resilience are embedded in infrastructure planning.** Given its vulnerability to climate change, Maldives must continue to encourage a change in mindset across all ministries and agencies, such that all potential projects are looked at through a climate “lens” to ensure the prioritization of those projects that support sustainability and resilience.

**While Maldives has made remarkable economic progress over the last two decades, it now needs to be more selective and effective in its infrastructure investments in support of Jazeera Raajje.** To continue to support economic development in the face of severe fiscal constraints and climate change, Maldives needs to improve and strengthen the overall PIM framework. This will help ensure that key infrastructure services are planned, prioritized, and delivered in a way that enhances connectivity, while at the same time ensuring that such services are affordable, sustainable, and resilient.

**Table ES.2: Summary of constraints and recommendations**

Theme	Constraints	Key Recommendations/Actions
<b>Cross Cutting</b>	<ul style="list-style-type: none"> <li>Lack of capital costing in national strategies and plans, as well as a lack of transparent criteria to select and prioritize projects.</li> <li>Dominant role of the public sector in providing infrastructure services, risks crowding out the private sector.</li> <li>Weak SOE governance, poor performance, and limited financial reporting.</li> <li>Absence of a clear and consistent PPP policy and legal and regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the Public Investment Management Framework.</li> <li>Identify opportunities for private sector investment and implement policies to support private sector financing.</li> <li>Strengthen the legal framework for SOEs and improve governance and management.</li> <li>Strengthen the institutional, legal, and regulatory enabling environment for PPPs.</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>Heavy dependence on diesel imports for generation, leading to increased GHG emissions and an unsustainable system of fuel and end user subsidies.</li> <li>High end user tariffs.</li> <li>Outdated and inefficient T&amp;D systems.</li> <li>Poor performance and weak balance sheets of STELCO and FENAKA.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to scale up the solar renewable energy program to increase RE generation and explore other sources of RE.</li> <li>Develop a Green Hydrogen roadmap.</li> <li>Increase investment in transmission and distribution.</li> <li>Improve demand side efficiencies.</li> <li>Proactively tap climate funds and continue efforts to leverage private sector financing into RE.</li> </ul>
<b>Transport</b>	<ul style="list-style-type: none"> <li>Lack of integrated transport planning combined with limited availability of data for informed decision making.</li> <li>Heavy reliance on fossil fuels leading to increased GHG emissions and subsidies.</li> <li>Traffic congestion and high emissions in Malé.</li> <li>Limited private sector participation.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a comprehensive transport sector master plan to improve transport sector planning.</li> <li>Strengthen data collection to inform effective planning and investment.</li> <li>Continue to expand the inter-island ferry network to improve connectivity.</li> <li>Promote e-mobility to reduce GHG emission and transport sector related subsidies.</li> <li>Leverage private sector financing, particularly using PPPs.</li> </ul>
<b>Digital</b>	<ul style="list-style-type: none"> <li>Limited competition and gaps in the enabling regulatory environment.</li> <li>High prices in the wholesale international capacity segment.</li> <li>Lack of information on the performance of the telecom sector.</li> <li>No active infrastructure sharing for spectrum.</li> <li>Limited coverage of national submarine fiber backbone.</li> <li>No cybercrime law or any cybersecurity policy, strategy, or legislation.</li> </ul>	<ul style="list-style-type: none"> <li>Develop a national broadband strategy and action plan to improve broadband access and affordability.</li> <li>Support a more conducive and competitive environment in the mobile market to reduce prices.</li> <li>Assess the feasibility of extending fiber connections to unconnected atolls.</li> <li>Increase telecom sector transparency and prescribe standards for service quality and consumer protection.</li> <li>Introduce a comprehensive legal framework on cybercrime and cybersecurity.</li> <li>Leverage digital technologies to address climate change.</li> </ul>

## A1. Economic Update



### 1. Context

**The economy has maintained its strong growth momentum with rising tourist arrivals...**

The economy grew by 5.5 percent (y-o-y) in the first quarter of 2023, as tourism continued its strong performance in 2023. Despite the Russian invasion of Ukraine, arrivals from Russia remained solid. An earlier-than-expected reopening of the Chinese market, on January 18, compensated for fewer tourists from India and Gulf countries, while arrivals from Europe continued to increase. As a result, total arrivals for 2023 reached 1.25 million by early September – 14.0 percent higher compared to the same period in 2022.

**...while high global commodity prices have continued to put pressure on inflation, and fiscal and external balances...**

Average annual inflation was 3.3 percent in the first seven months of 2023, compared to 2.3 percent in 2022. Due to not undertaking the planned subsidy reforms and maintaining a blanket subsidy policy for major consumption items, including fuel, electricity and food, government is still facing significant spending pressures. The sharp growth in capital and construction material imports – to support completion of mega Public Sector Investment Program (PSIP) projects – is also adding further pressure to fiscal and current account balances.

**...and external debt distress and fiscal vulnerabilities remain a real concern, as high levels of spending and external borrowing are sustained.**

Elevated public spending, particularly on ambitious PSIP projects that are financed by external loans (including commercial and non-concessional loans during a global tightening period), and elevated spending on subsidies are keeping public debt high. Total public and publicly guaranteed (PPG) debt was 113.5 percent of GDP in 2022, with the share of external debt increasing to 51.4 percent of GDP.<sup>2</sup> This has been driven by government contracting new loans to finance general expenditure, fund PSIP projects, and cover budget deficits. Despite higher revenue collection, following the increase in Goods and Services Tax (GST) rates in early 2023, significant fiscal pressures remain due to elevated levels of spending. Therefore, urgent expenditure rationalization and debt reforms are required to support an effective and comprehensive fiscal adjustment.

<sup>2</sup> Official debt figures for 2023 were not available as of September 13, 2023.

**Box 1: Global economic developments**

Continued high inflation and the effects of monetary policy tightening are weighing on global activity. Growth has slowed substantially this year, with global trade and industrial activity essentially stagnant (Figure A.1). Services activity has been more robust but is also slowing.

The slowdown in activity is particularly apparent in China, where the rebound following its economic reopening appears to have faded. Continued fragilities in the property market are having widespread spillovers for the rest of the economy. Investment and export growth have also been particularly weak. China is the third largest source of visitors to Maldives, and its recent economic difficulties pose risks to the number of Chinese tourists going forward. Incoming data for the Euro Area have generally been downbeat, with elevated levels of inflation and confidence remaining depressed. In the United States, the labor market has experienced an extended period of robust expansion, but this is now slowing as excess savings accumulated during the pandemic have largely been spent and demand is decelerating.

Although global inflation (Figure A.2) and the pace of policy rate increases by central banks is decelerating – with the hiking cycle in many major economies appearing to be close to peaking – financial conditions remain difficult, as reflected by elevated borrowing costs and tight credit standards. Most EMDEs are weathering this period of financial tightness without severe strain, but several countries in South Asia are exceptions and have struggled with balance of payments difficulties. High interest rates will continue to put pressure on Maldives’ fiscal position, as debt taken at low rates is rolled over.

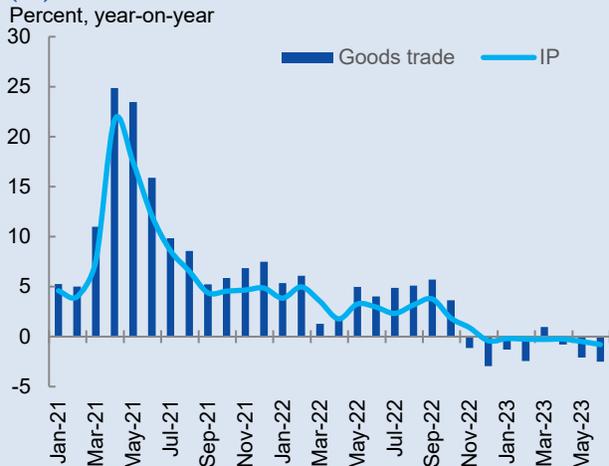
Despite slowing global growth, commodity prices have started rising again. Extended production cuts by OPEC+ and high demand from the transportation sector are pushing energy prices up. This will add to fiscal pressures in Maldives, as the country’s electricity production is dependent on subsidized diesel imports.

On the upside, stock market volatility and risk spreads remain low in most markets, and major stock indexes have risen markedly since the beginning of the year. Net capital inflows have been low but positive, and bond issuance has rebounded after a severe contraction last year. Most EMDE currencies have also been stable in 2023.

Risks to the outlook are predominantly to the downside, with the most pressing concerns related to financial and fiscal stress. Many countries in South Asia have drawn on international assistance to weather the global shock of higher commodity prices and borrowing costs, and to stem substantial capital outflows and currency depreciation. The region’s persistent trade deficits – which have averaged 4 percent of GDP since 2015 – require financing by capital inflows that make the region vulnerable to adverse shifts in market sentiment. This vulnerability is particularly high in countries, such as Maldives, with low foreign currency reserves.

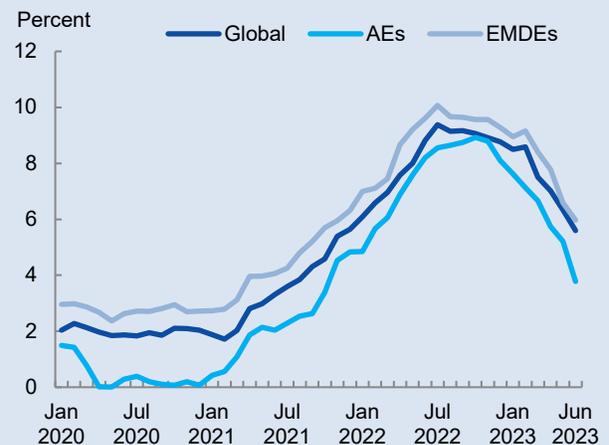
Source: World Bank SARCE team.

**Figure A.1: Global trade and industrial production (IP) slows down...**



Source: Netherlands CPB, World Bank.  
Note: Monthly data. The last observation is May 2023.

**Figure A.2: ...while global inflation is decelerating**



Source: Haver Analytics, World Bank.  
Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Median CPI is used. Sample includes 35 AEs and 101 EMDEs. Last observation is June 2023.

## 2. Robust economic activity is sustained, but inflationary pressures remain high

**Economic growth has been strong on robust tourist arrivals...**

Real Gross Domestic Product (GDP) grew by 13.9 percent (y-o-y) in 2022, followed by 5.5 percent (y-o-y) growth in 2023Q1 – primarily driven by strong activity in the tourism sector, which accounts for almost one-third of the economy and constituted half of the economic growth in these periods. According to official statistics, the tourism sector expanded by 22.4 percent in 2022, and 9.8 percent in 2023Q1, translating into stronger growth in transportation, communication, and domestic trade (Figure A.5).

**...as the tourism sector continues to perform well...**

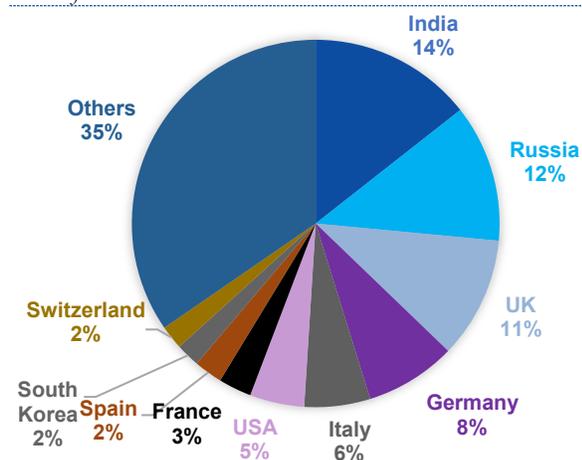
Following the 26.7 percent annual growth in arrivals in 2022 – to an almost pre-pandemic high of 1.7 million – tourist arrivals have again grown strongly in 2023. As of early September, 1.25 million tourists had visited the Maldives, which is a 14.0 percent increase compared to the same period of 2022. Although the average stay declined to 7.6 nights from 8.1 in the first half of 2022, hotel and resort occupancy was higher at 61.3 percent, compared to 61.1 percent in this period of 2022.

**... with increased interest from new markets and return of Chinese tourists...**

Arrivals are expected to reach 1.9 million by the end of 2023. Despite Russia’s invasion of Ukraine, Russia has been ranked as the leading tourism market in 2023, while it was the second biggest market after India in 2022. The return of Chinese tourists in early 2023, continued arrivals from India and Western Europe, and increasing interest from new markets, such as USA and Northern Europe, have also boosted tourism sector growth in 2023 (Figure A.3 and Figure A.4).

**Figure A.3: Arrivals from India and Russia remained strong in 2022...**

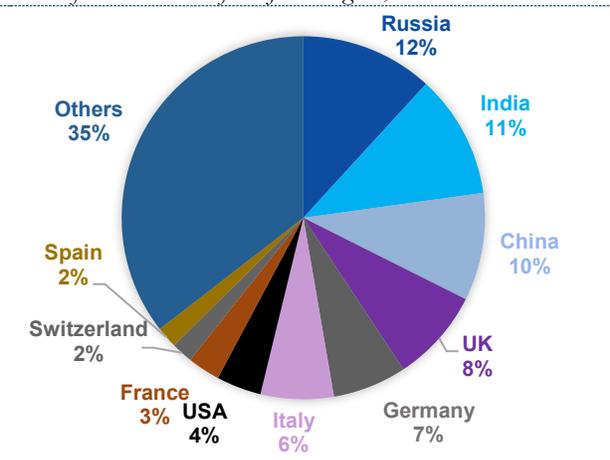
*Share of tourist arrivals in 2022*



Source: Ministry of Tourism, WB staff calculations.

**Figure A.4: ...while the return of Chinese tourists and arrivals from new markets boosted tourism in 2023**

*Share of tourist arrivals from Jan–Aug 21, 2023*



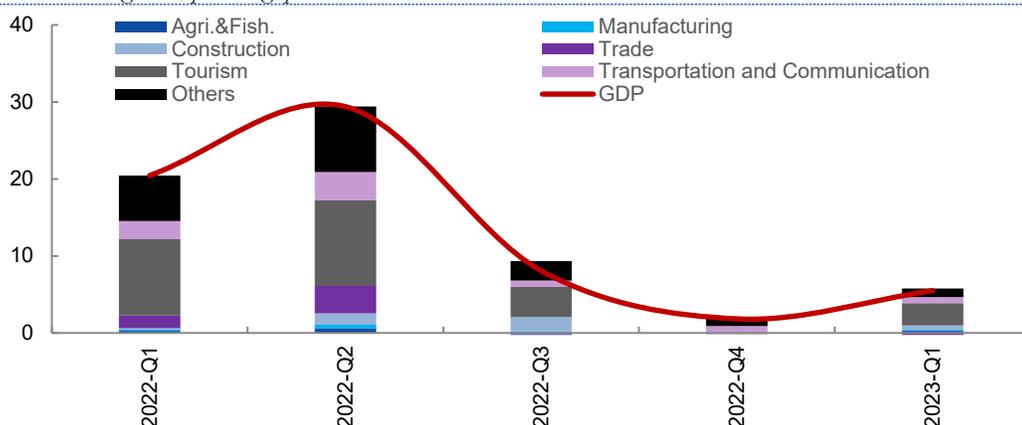
Source: Ministry of Tourism, WB staff calculations.

**...bolstering the performance in other sectors.**

With increasing visitors, growth has also picked up in the transport and communication sector, and there’s been an expansion in construction activity. In the first quarter of 2023, growth in the transport and communication and construction sectors were 7.5 percent and 15.9 percent (y-o-y). Despite increased tourism activity, domestic trade and real estate sectors activity declined by -3.9 percent and -1.2 percent (y-o-y), respectively. Overall, tourism, construction, and transportation sectors drove almost all economic growth in the first quarter of 2023. Although a small sector of the economy, fisheries grew by 7.3 percent over the same period, which was important for those people whose livelihoods depend on the sector.

Figure A.5: Real GDP expands again in early 2023

Contribution to growth, percentage points



Source: National Bureau of Statistics Maldives (NBS), staff calculations.

**Inflation remained higher than the historical average, driven by GST rate changes and high commodity prices...**

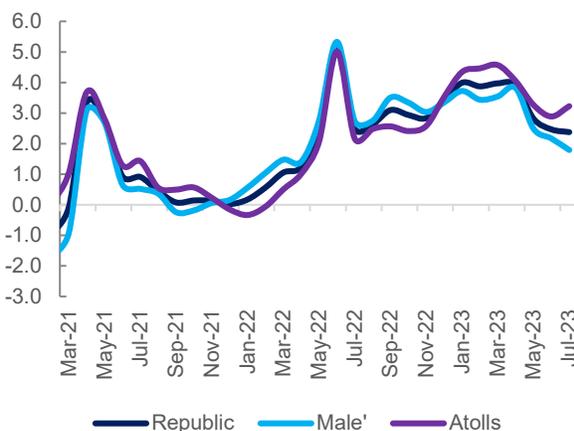
Inflation in Maldives continued to rise in early 2023, following the impact of the GST rate increases – that became effective in January 2023 – and the constant high global commodity prices. As a result, consumer prices increased by an average of 3.3 percent (y-o-y) in the first seven months of 2023, well above the historical average of 0.5 percent. This increase was slightly more pronounced in the atolls (3.8 percent) than in Malé (3.0 percent), although inflation in Malé had risen faster in 2022 due to growing housing and furnishing costs (Figure A.6).

**...with a large contribution from food & non-alcoholic beverages and transport.**

The overall rise in prices was largely driven by food & non-alcoholic beverages and transport, while the government managed to ease pressures on housing and utility prices through blanket subsidies. As overall 2023 inflation peaked at 4.0 percent (y-o-y) in March, it reached 8.0 percent in the food & non-alcoholic beverages and transport sectors. Price pressures subsided in these sectors, with inflation falling to 4.5 and 3.4 percent in July, respectively, as government increased subsidy support to these sectors (Figure A.7).

Figure A.6: Price pressures remained high in the first half of 2023...

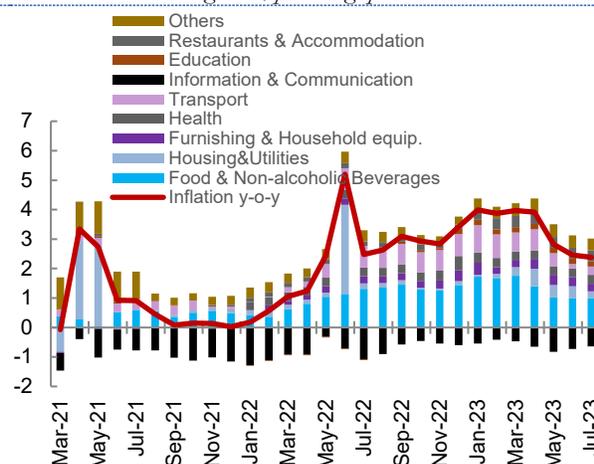
Year-on-year change in consumer price index (CPI), percent



Source: Maldives Bureau of Statistics, WB staff calculations.

Figure A.7: ...especially for food & non-alcoholic beverages and transport

Contributions to CPI growth, percentage points



Source: Maldives Bureau of Statistics, WB staff calculations.

### 3. Poverty has fallen, but inequality and specific welfare disparities remain

**Poverty is projected to decline further with the strong economic recovery since 2021...**

The poverty rate in 2019 was 3.9 percent and, following the strong post-COVID-19 recovery since 2021, it is projected to decrease to 1.5 percent in 2023.<sup>3</sup> The economy and jobs have been driven by high-end tourism, while a strong redistributive system – which includes universal access to health and education services, public sector employment and pensions, health insurance, price controls and subsidies, and income support programs – allowed economic gains to improve living standards in Malé and the atolls. At the national level, this translates into very low deprivations in non-monetary dimensions of welfare. This redistributive welfare model also limited welfare losses during the pandemic, although this came at a considerable fiscal cost, as discussed in section A.6.

**...but inequality remains a concern...**

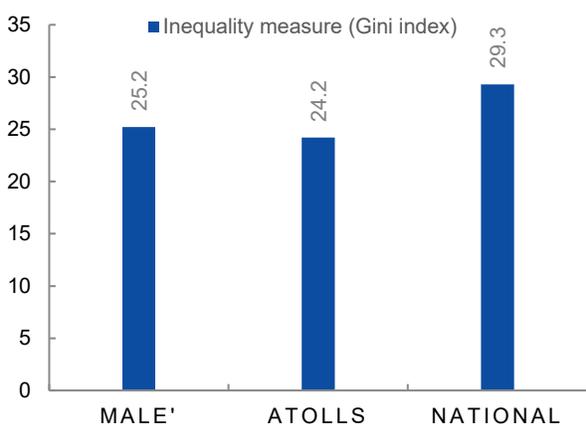
Although the Gini index<sup>4</sup> has consistently fallen and stood at 29.3 in 2019 – which is relatively low compared to other countries in the region – this does not capture spatial disparities between Malé and the atolls, where 92 percent of the poor live. This is better captured by looking at the Gini index within Malé and within atolls separately. The former stood at 25.2 percent while the latter at 24.2 – both lower than when populations from Malé and atolls are pooled together (29.3), implying substantial disparities between the capital region and atolls (Figure A.8).

**...with substantial disparity in welfare between the atolls and Malé.**

The “atolls versus Malé” story must be unpacked further since several atolls perform well on poverty measures. In fact, distance from Malé is not associated with higher poverty. Shaviyani in Upper North and Addu in Lower South have poverty rates that are comparable to the national rate (5.6 and 5.7 percent), while some atolls closer to Malé exhibit higher poverty rates, including Raa in Lower North and Aliff in Upper Central (18.9 and 14.2 percent). Each region and almost every zone has a combination of atolls with low and high poverty rates, except for Gaafu Aliff and Gaafu Daalu in Upper South (Figure A.9).

**Figure A.8: Inequality disparities between the capital and other atolls...**

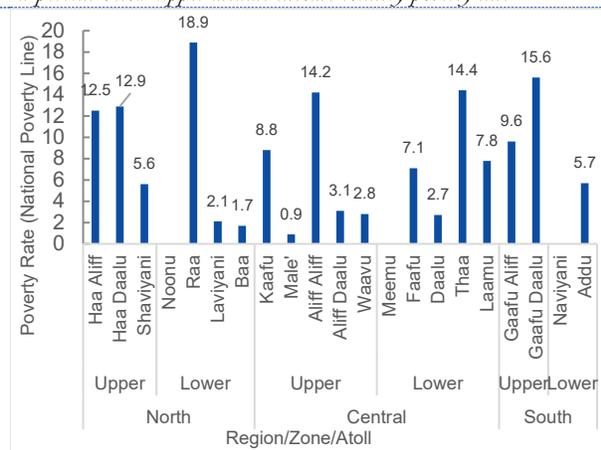
*Gini index, 2019*



Source: HIES 2019, WB Staff calculations.

**Figure A.9: ...as poverty rates differ across the country**

*In percent below upper middle-income country poverty line*



Source: HIES 2019, WB Staff calculations.

<sup>3</sup> According to the US\$6.85 poverty line for upper middle-income countries.

<sup>4</sup> The Gini index is a measure of the distribution of income across a population on a scale between 0-100. A higher Gini index indicates greater inequality, with high-income individuals receiving much larger percentages of the population’s total income.

**Welfare disparities also depend on the size of the household...**

Additional disparities in welfare levels can be observed for larger households and households with more than one child per adult. For example, looking at the profile of the poor, additional disparities can be observed between households with 10 or more household members and households with 9 or less. The former are three times more likely to be living in poverty than the latter (Table A.1): 12 percent of households with 10 or more members live in poverty against 4 percent for smaller households. This welfare penalty for large households is greater in Malé (15.9 and 5.7 percent for larger and smaller households respectively).<sup>5</sup> Overcrowding, where a large family is packed into a small space, is also a strong indicator of deprivation.<sup>6</sup>

**...while female and self-employed households are more likely to be impoverished.**

Female-headed households are associated with a slightly higher incidence of poverty in Maldives, but it seems that this is primarily driven by Malé. Earning household heads can be categorized as employees, self-employed, and employers, the latter being individuals who provide jobs to non-family members. As shown in Table A.1, the incidence of poverty among households with self-employed household heads is more than double that of households with heads in wage-earning jobs (Box 2 provides additional labor market analysis and the potential for green jobs).

**Table A.1: Deprivations differ under different characteristics**

Characteristic		Population Share, % (National)	Poverty Rate, % (National)	Population Share, % (Malé)	Deprivation Rate, % (Malé)	Population Share, % (Atolls)	Deprivation Rate, % (Atolls)
Household size	10 members or more	7.7	12	5.8	15.9	9.6	10.5
	9 members or less	92.3	4	94.2	5.7	90.4	5.1
Children / Household Size	More than 0.5	7.1	12	5.3	12.5	8.9	13.9
	0.5 or less	92.9	4.9	94.7	6.7	91.1	5.5
Members / Room	More than 3	10.4	8.4	13.9	22.4	7.2	13.2
	3 or less	89.6	4.9	86.1	2.9	92.8	5.5
Gender of Head	Female	42.7	6	38.7	7.5	46.3	6.6
	Male	57.3	5	61.3	6.7	53.7	5.8
Employment Status of Head (Earning Heads Only)	Employee	66.7	2.4	77.7	5.8	54.2	4
	Self-Employed	27.6	5.5	16.3	10.4	40.4	5.3
	Employer	5.7	3.5	6	0	5.4	2.5

Source: HIES 2019, World Bank Staff estimates.

<sup>5</sup> Households with more than one child per adult are also at least twice as likely to be poor or deprived relative to other households (12 percent poverty rate among the former against 4.9 percent for the latter).

<sup>6</sup> 8.4 percent of the population living in households with more than three members per room lives in poverty versus 4.9 percent for households with three or less members per room. The incidence of poverty among overcrowded households in Malé is greater, and such households are about eight times more likely to be deprived than households that are not.



**Box 2: The Green Transition and its labor market implications for Maldives**

Job creation is a priority for Maldives to achieve green, resilient, and inclusive growth (WB 2021). The green transition presents an opportunity to create green jobs such as recycling and environmental engineers (Granata and Posadas 2022). The green transition is also expected to reduce pollution-intensive jobs that are most common in industries with high pollution intensity, such as machinery mechanics and construction laborers (Vona et al 2018). Workers in such jobs that may be lost may require assistance, and policies such as increasing access to education can help ease the transition.

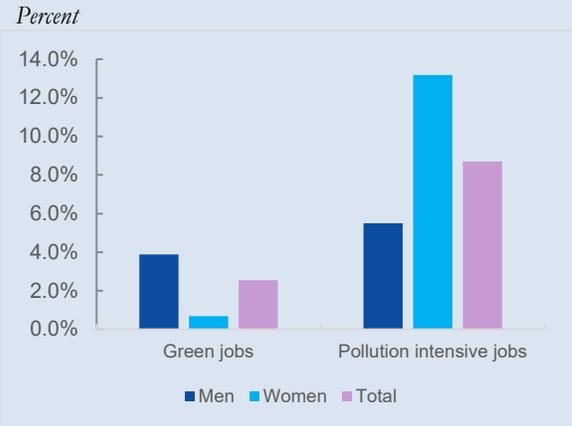
In Maldives, the share of workers in green jobs is 3 percent, lower than the 8 percent share of workers in pollution-intensive jobs (HIES 2019), similar to the rest of South Asia. Most jobs are neither green nor pollution-intensive, like the rest of the region and globally (Figure A.10). Gender inequality in the country’s labor market is reflected in the disparity in employment in green jobs: 88 percent of workers in green jobs are men while 36 percent of workers in pollution-intensive jobs are men. Among men, 4 percent of workers are in green jobs, and 6 percent in pollution intensive jobs. Among women, less than 1 percent of workers are in green jobs and 13 percent are in pollution intensive jobs. Additionally, women in the informal sector, with limited social protection, are more likely to be employed in green jobs while this is not the case for men. Collaborating with groups like South Asia Gender and Energy (SAGE) and Women Practitioners' Network in the Energy Sector (WePOWER) can promote green, formal employment for women and promote gender equality for inclusive growth. Growing the formal sector can also increase private investment and revenue mobilization.

Globally, workers in green jobs are relatively high paying and workers in green jobs tend to be better educated (IMF 2022), but in Maldives, workers with lower education are more likely to have green jobs and as a result, there is no wage premium in green jobs (SADU 2023). This is due to the 20 percent of low-skilled workers in green jobs such as garbage collection and recycling. While waste management is important for the country’s environmental sustainability, Maldives has the potential to increase higher-skilled green occupations, such as civil engineers and technicians as the renewable energy sector grows.

The country’s green jobs are less concentrated than its pollution-intensive jobs, with about 70 percent in manufacturing (Figure A.11). Almost all the women employed in pollution-intensive jobs are in manufacturing, while women employed in green jobs are more heterogeneous. The country’s growing blue economy holds the potential to create green jobs. About 5 percent of green jobs are in aquaculture. There is, however, a need to shift towards higher-skilled, higher-wage occupations. The importance of tourism and related activities is also reflected in the country’s green jobs. About 2 percent of green jobs are in tourism and 13 percent of green jobs are in retail. Among men, about 15 percent of green and pollution-intensive jobs are in retail. Among women, a higher share of women employed in tourism and retail are in green jobs. These sectors can grow more sustainably so workers can transition to greener jobs. The continued growth in tourism may also help address the gender gap in the labor market to improve the country’s social sustainability.

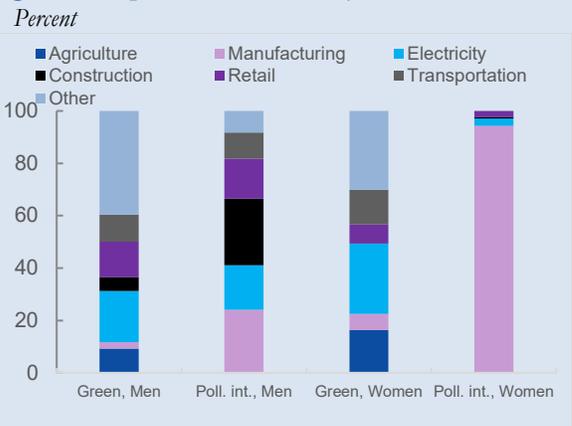
Maldives has made progress in growing its renewable energy, aquaculture, and tourism sectors, which are sources of greener jobs for sustainable growth. The green jobs available in the country are currently lower skilled, but there are opportunities to create higher-skilled green jobs. Policies that address the skill gap to prepare workers, especially the young, can ease the transition and allow the country to grow sustainably.

**Figure A.10: Share of workers in green and pollution-intensive jobs in the Maldives**



Source: National Bureau of Statistics, WB staff calculations.

**Figure A.11: Industry composition of workers in green and pollution-intensive jobs in the Maldives**



Source: National Bureau of Statistics, WB staff calculations.

Source: WB Staff analysis.

#### 4. MMA’s exposure to the sovereign remains high, while lending to the private sector is picking up and deposit growth is low

**Policy rates have been unchanged since June 2021, despite inflationary pressures.**

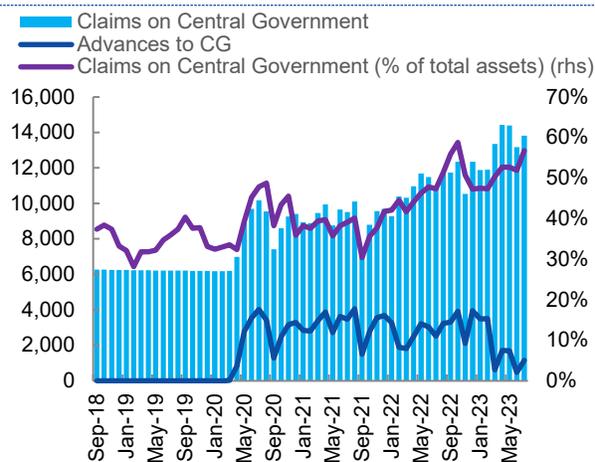
The Maldives Monetary Authority (MMA) has kept the minimum reserve requirement (MRR) unchanged at 10 percent of average local currency deposits, since the last increase from 7.5 percent in June 2021, while the MRR for foreign currency deposits has been maintained at 10 percent since October 2022. In addition, the interest rate corridor has also been maintained in the same band, with the overnight deposit facility (ODF)<sup>7</sup> and overnight Lombard facility (OLF)<sup>8</sup> unchanged at 1.5 percent and 10 percent, respectively.

**MMA continues to finance the budget deficit.**

The Ministry of Finance (MOF) has securitized most of the advances received from the MMA over the 2020–2023 period under the exemption of certain clauses of the Fiscal Responsibility Act (FRA).<sup>9</sup> According to the latest figures, around MVR 6 billion out of MVR 8 billion has been securitized and the MMA’s advance limit was reduced from MVR 4.4 billion to MVR 2 billion. Repeated debt exchange operations through securitizations have, however, created space for new advances, and therefore expanded MMA’s total exposure to central government, with exposures increasing to MVR 13.8 billion, or 56.8 percent of MMA assets (Figure A.12).

**Figure A.12: MMA’s claims on central government remain high...**

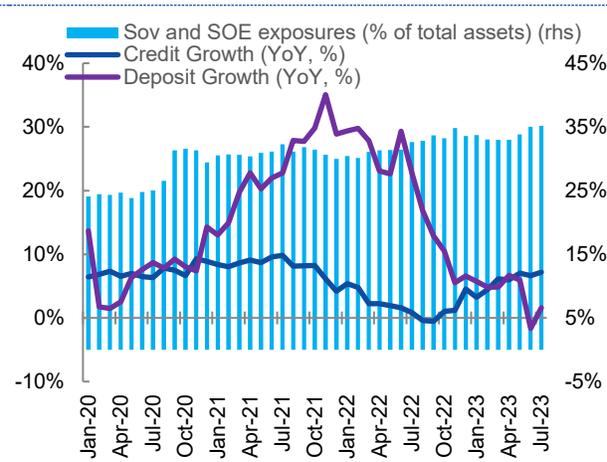
*MVR million, percent*



Source: MMA, World Bank staff calculations.

**Figure A.13: ...while credit growth remains low and exposure of banks to the public sector rises**

*Percent, percentage change (rhs)*



Source: MMA, World Bank staff calculations.

**Lending to the private sector picked up, while deposit**

Growth of bank credit to the private sector remained broadly unchanged, at 7.2 percent (y-o-y) in July 2023. Credit to major sectors (tourism, construction, personal loans, and commerce) except for the construction sector, continued to expand. The

<sup>7</sup> MMA commenced the ODF for commercial banks on 23 March 2010, whereby banks can place their excess funds at MMA overnight. This facility carries the lowest rate in the system, below the deposit rate offered to commercial banks' customers. The ODF rate is 1.5 percent per annum, effective 1 September 2014.

<sup>8</sup> The MMA introduced OLF to commercial banks on 9 May 2010, allowing for banks to borrow from the MMA on an overnight basis, mainly to avoid disruptions in the payments system and to meet the MRR level. This facility carries the highest rate in the system, above the overnight lending rates among commercial banks. The OLF rate is 10 percent per annum, effective 1 September 2014.

<sup>9</sup> The Fiscal Responsibility Act (FRA) aims to achieve fiscal stability and sustainability, improve fiscal transparency, and increase the accountability of government. The Act sets out several quantitative fiscal targets and procedural rules to be followed to enforce responsibility in fiscal management. The suspension of certain clauses of the FRA was approved by parliament in April 2020 at the request of the Minister of Finance, citing weak government cashflows due to the COVID-19 pandemic.

**growth slowed down substantially...**

highest growth was observed in personal loans<sup>10</sup> and tourism – 25 and 12 percent, respectively. At the same time, deposit growth continued to slow down, to 1.6 percent (y-o-y) in July 2023. The slowdown was mostly driven by a decline in foreign exchange deposits that dropped by 4.3 percent (y-o-y) in the same period.

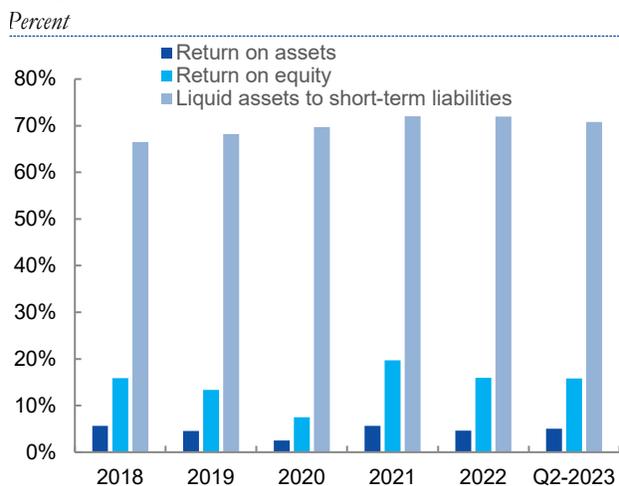
**...while lending to the public sector intensified, constraining private sector lending.**

The build-up of the sovereign exposure, that intensified during the pandemic, reflects a combination of supply and demand factors, including lack of domestic investment opportunities and weaknesses in credit infrastructure that constrain private sector lending. Bank exposure to the central government increased to 30.6 percent of their assets, as of July 2023, compared to 28.8 percent a year earlier. Direct exposures to SOEs (some of which have known financial difficulties, such as the Housing Development Corporation) represented 4.6 percent of banking sector assets, growing by 25.3 percent (y-o-y) in July 2023 (combined central government and SOE exposure is shown in Figure A.13).

**The banking sector currently remains well capitalized, but vulnerabilities exist.**

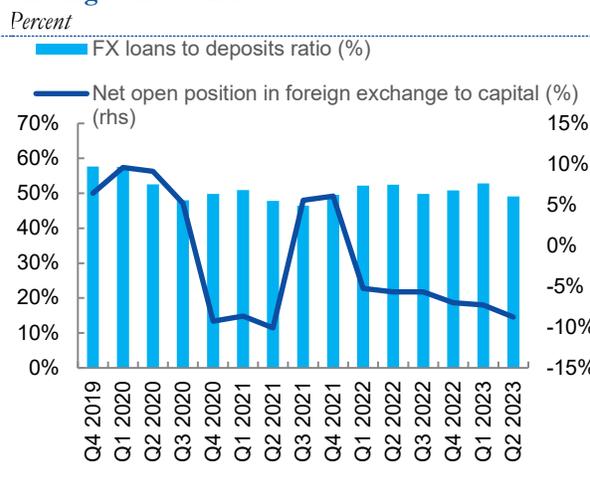
As of Q2 2023, the banking system’s capital adequacy ratio (CAR) is well above the regulatory minimum of 12 percent,<sup>11</sup> and profitability is high. Non-performing loans remain constant, at around 6 percent, and provisioning is high (Figure A.14). Vulnerabilities mostly stem from intensification of the sovereign-bank nexus that could erode bank capital in the event of sovereign distress. In addition, high dollarization, combined with FX shortages, poses risks to financial stability. FX loans account for around 40 percent of total loans, and FX deposits account for 50 percent of total deposits. Since 2022, the net open position in foreign exchange has been negative, exposing banks’ balance sheets to FX exchange risk arising from a potential Maldivian rufiyaa devaluation (Figure A.15).

**Figure A.14: Banks financial stability indicators remain stable...**



Source: MMA, World Bank staff calculations.

**Figure A.15: ...but exchange rate risks contribute to existing vulnerabilities**



Source: MMA, World Bank staff calculations.

**Although Maldives continues to maintain and manage a *de facto* stabilized**

Under the current monetary policy framework, the exchange rate peg to the US dollar is used as the nominal anchor to help maintain price stability through the exchange rate. The MMA aims to maintain the exchange rate peg within a set horizontal band, where the exchange rate is allowed to fluctuate within the bounds

<sup>10</sup> Household indebtedness continues growing, including through ‘rent-to-own’ and ‘lease and hire’ schemes that are not properly recorded in the credit information bureau, leaving recurring household payment obligations underreported.

<sup>11</sup> Financial soundness indicators might be overstated since government exposures receive a zero-risk weight and therefore there are no credit risk charges for these exposures.

exchange rate, some transactions are being pushed into the parallel market.

of MVR 10.28 to MVR 15.42. Furthermore, the MMA continues to manage excess liquidity in the banking system through Open Market Operations and the Foreign Exchange Swap Facility to maintain the domestic money supply and support exchange rate stability consistent with economic activity. However, due to limits on FX deposit withdrawals and FX-denominated credit card spending, firms and households make a large part of their FX transactions through the parallel FX market, which is trading at a 10–15 percent premium.

### 5. Higher commodity prices and financing needs are keeping pressure on external balances and reserves

The current account deficit (CAD) widened significantly in 2022...

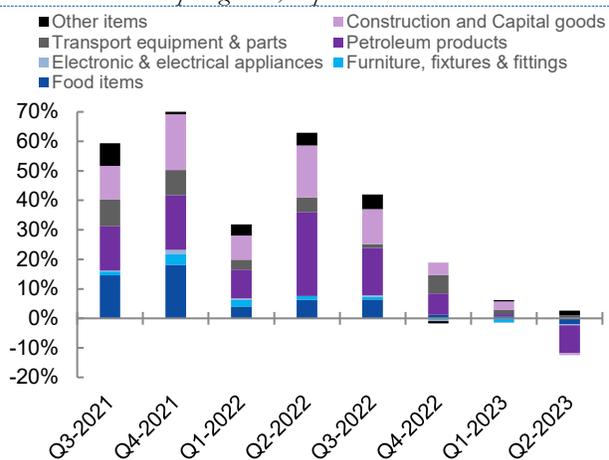
The CAD, which was 8.7 percent of GDP (US\$455 million) in 2021, widened to 16.8 percent of GDP (just over US\$1 billion) in 2022, following a 48.4 percent (y-o-y) growth in capital goods imports and higher import costs that were primarily driven by global commodity price increases (see Annex 1). Services exports grew by 26.9 percent (y-o-y) in 2022 – of which 90 percent of earnings came from tourism and related sectors – yet they failed to curtail the overall CAD.

...as elevated import costs, along with sizeable capital goods imports, drove a considerable expansion in the trade deficit.

The merchandise trade deficit expanded by 38.4 percent (y-o-y) to US\$2.9 billion in 2022, due to the sizeable petroleum import bill (up to over 13.5 percent of GDP), as well as higher construction and capital goods imports, driven by accelerated PSIP projects. Petroleum imports grew sharply by 83 percent (y-o-y) and contributed to half of the overall import growth, while imports of transport equipment and construction materials also soared by 48 percent (y-o-y) in 2022. The annualized trade deficit increased by 7.4 percent (y-o-y) to US\$3.07 billion, as of July 2023. Starting from the second quarter of 2023, petroleum imports declined by 9 percent (y-o-y), but the overall import bill remained high (Figure A.16), and imports of transport equipment and construction materials remained high in the first half of 2023. Despite the robust growth in tourism, the high trade deficit continues to exert pressure on the balance of payments (Figure A.17).

Figure A.16: Despite reduced imports in 2023Q2...

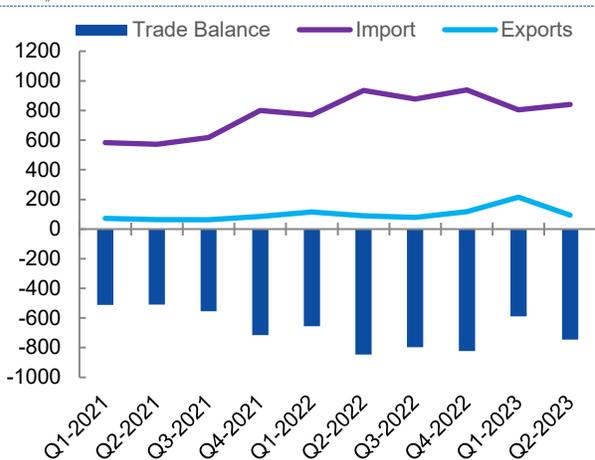
Contribution to import growth, in percent



Source: MMA, World Bank staff calculations.

Figure A.17: ...the trade deficit remains high

US\$ million



Source: MMA, World Bank staff calculations.

The CAD was largely financed by FDI in 2022...

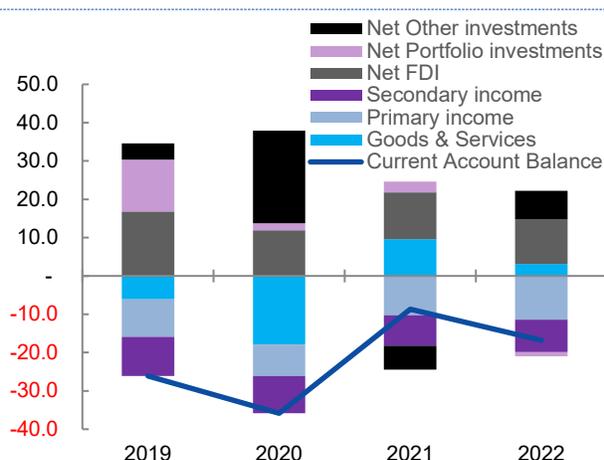
While net FDI in 2022 grew by 12.3 percent (y-o-y) to US\$721.9 million, it remained below the pre-pandemic level of US\$961 million in 2019. The government did not issue any international securities in 2022 and depended on MMA reserves and

domestic market borrowing of US\$100 million, through the State Bank of India’s Maldives branch, to boost reserves (Figure A.18). Given the large trade deficits in 2023, the CAD is expected to remain high. In August 2023, the authorities borrowed a \$55 million loan for budgetary support purposes.

**... and pressures on official reserves persist, making Maldives yet more vulnerable to external shocks.**

The widening trade deficit kept the pressure on official reserves in 2022, which have fallen further in 2023 (Figure A.19). As the import bill remained high, at US\$3.5 billion in the first seven months of 2023 compared to \$3.2 billion in the same period of 2022, official reserves continued to decline – falling by 28.6 percent since end-2022 to US\$594.1 million in July 2023. This is only sufficient to cover 2.0 months of imports, a significant drop from 3.0 months at end-2022. More concerning though, is the sharp fall in useable reserves. Although short-term liabilities (i.e., coming due within the next 12 months) declined from US\$564.5 to US\$469.1 million from end-2022 to July 2023, this improvement was not sufficient to improve the reserve coverage – usable reserves declined from US\$268 million (0.9 months of import) to US\$125 million (0.4 months of import) over the same period.

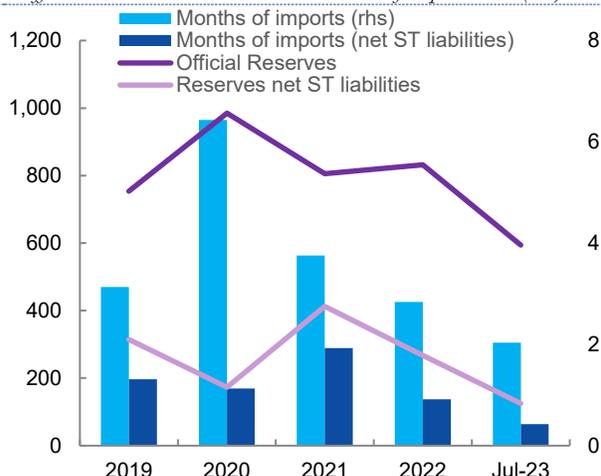
**Figure A.18: CAD largely financed by FDI...**  
Percent of GDP



Source: MMA, World Bank staff calculations.

**Figure A.19: ...as reserves reached critically low levels**

Official reserves US\$ million and months of import cover (rhs)



Source: MMA, World Bank staff calculations.

## 6. Fiscal deficit and public debt remain high, even with stronger revenues

**Fiscal deficit remained high in 2022.**

At 14.4 percent of GDP in 2022, the fiscal deficit further rose compared to 2021 (see Annex 2). Increasing revenues (by almost 2.0 percentage points) to 27.8 percent of GDP were, however, offset by increasing expenditures of a similar scale. Total expenditures reached 41.8 percent of GDP in 2022, significantly higher than the 32.9 percent of GDP in 2019, but lower than the peak of 50.4 percent of GDP in 2020.

**Growth in tourism and recent tax reforms contributed to robust revenue growth in 2023...**

The expansion in tourism and related taxes continued to drive revenue growth in 2023, which was 18 percent between January and April 2023, compared to the same period in 2022. Much of this came from the Tourism Goods and Services Tax (TGST) and business and property tax collections, linked to the robust business activity in this period (Figure A.20).

**...but the overall fiscal performance was constrained by October 2023**

Total expenditure grew by 33.5 percent between January and April 2023 compared to the same period in 2022. In this period, other recurrent and capital spending climbed by 45.1 and 43 percent (y-o-y), respectively (Figure A.21). This sharp increase has been

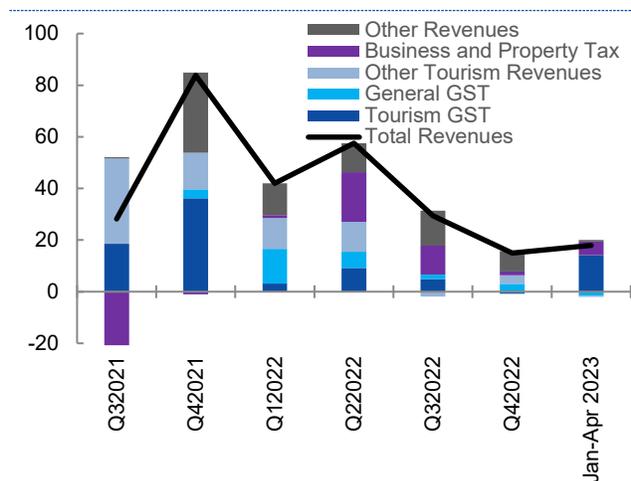
**increased spending across the board.**

driven by higher subsidies, elevated Aasandha (health) spending, an increase in the health sector wage bill (related to implementation of the *Public Sector Pay Harmonization* (PSPH) policy), higher interest costs, and sustained high levels of capital spending (under the PSIP). Interest payments were substantial between January and August 2023, totaling MVR2.5 billion (US\$162.3 million), compared to MVR2.18 billion (US\$141.6 million) during the same period in 2022 – far exceeding the annual average between 2014–2019 of MVR 1.3 billion (US\$85 million) or about 2 percent of GDP. This was driven by a large increase in interest payments for both domestic and external debt, due to increased outstanding Treasury securities and more reliance on external commercial debt.

**Capital expenditure continued to increase in 2023, and subsidy reforms were not implemented.**

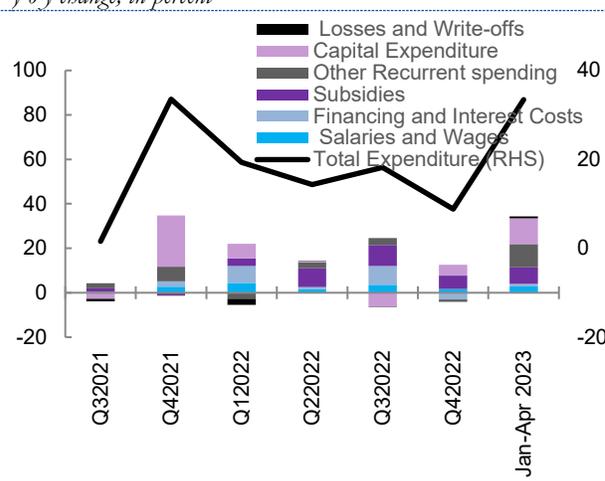
Despite a projected reduction in the 2023 Budget, capital expenditure increased by 43 percent (y-o-y) between January and April 2023. Accelerated capital spending was driven mainly by the Greater Malé Connectivity Project, water and sewerage projects, land reclamation projects and large-scale public housing developments in Hulhumalé, which constitute the main projects of the PSIP and are largely financed through external non-concessional borrowing. The previously planned and budgeted subsidy reforms (including fuel subsidies) – that aimed to reduce expenditures by 3 percent of GDP in 2023 – have not been implemented. Government’s spending on subsidies reached a historic high in August 2023 due to elevated global commodity prices, climbing to MVR2.63 billion (US\$170.9 million) for the year, and already exceeding the MVR2.28 billion (US\$148 million) that was budgeted for 2023.

**Figure A.20: Growth in revenues driven by tourism expansion, tax hikes and business and property taxes...**  
y-o-y change, in percent



Source: Ministry of Finance, World Bank staff calculations.  
Note: Other Tourism Revenues consists of import duties, green tax, airport service charges/departure tax, airport development fees and resort rents.

**Figure A.21: ...yet expenditure remains elevated due to capital investments, subsidies and other recurrent spending**  
y-o-y change, in percent



Source: Ministry of Finance, World Bank staff calculations/estimate.

**Public debt remains high, exceeding the size of the economy...**

Total public and publicly guaranteed (PPG) debt rose to US\$7.0 billion (113.5 percent of GDP) at the end of 2022, compared to US\$5.9 billion (112.1 percent of GDP) the year before, due to sustained borrowing to finance the budget deficit and infrastructure projects (Figure A.22). Domestic debt accounts for 62.1 percent of GDP, while external and externally guaranteed debt accounts for the remainder (51.4 percent of GDP). These figures do not, however, include advances from MMA, which have been ongoing since the suspension of the FRA in early 2020 (see Section 3).

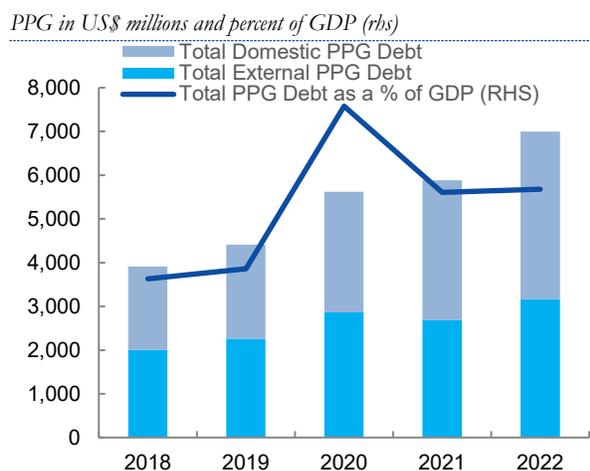
**...with growing external debt service needs, especially in 2026.**

A US\$500 million Sukuk issuance in 2021 allowed the government to address the immediate refinancing risks, by paying off 77 percent of a US\$250 million Eurobond maturing in 2022. Additionally, a privately placed bond of US\$100 million, initially due in 2023, has been extended to 2026. The Sukuk issuance, however, came at a higher cost with a coupon rate of 9.875 percent and a yield of 10.5 percent. In addition, both the Sukuk and privately placed bond will now be due in 2026, which will contribute to significant external debt servicing of almost US\$1.07 billion in 2026, including the guaranteed debt of SOEs (Figure A.27). The Sovereign Development Fund (SDF)<sup>12</sup> could partially finance some of this, while possible refinancing options could imply even higher borrowing costs (Figure A.23). The high levels of debt and rising debt servicing, including larger principal payments, are likely to further constrain fiscal space and the balance of payments in the medium term. This will constrain Maldives' capacity to absorb further shocks.

**To address the elevated fiscal vulnerabilities, government raised taxes in early 2023, which alone are unlikely to be sufficient for a meaningful fiscal adjustment.**

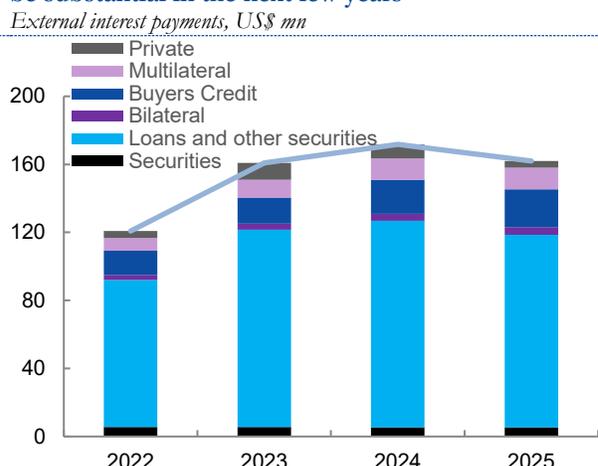
Increases in the GGST rate from 6 to 8 percent, and the TGST rate from 12 to 16 percent, were rolled out in January 2023. This reform is expected to increase government revenues by 3 percent of GDP annually. A strong increase in tax revenues (26 percent, y-o-y) in the first four months of 2023 reflects the effects of these hikes. A few additional expenditure measures were also taken. The government finalized bulk procurement agreements for pharmaceutical products with bilateral partners in June 2023, which will help reduce costs. The government is also phasing the implementation of the ongoing PSPH policy to smoothen the fiscal burden from public wage increases. Despite these recent measures, expenditure is expected to remain elevated given the delay in implementing the planned energy subsidy reforms, continued increase in recurrent spending, acceleration of public investment projects, and high (and rising) interest payments. The elimination of blanket subsidies is urgently required for a meaningful start to the fiscal adjustment, which can instead be replaced by an enhanced and targeted social protection mechanism (see Box 3).

**Figure A.22: Public debt remains high...**



Source: Ministry of Finance, World Bank staff calculations.

**Figure A.23: ...whilst external interest payments will be substantial in the next few years**



Source: Ministry of Finance, World Bank staff calculations.  
 Note: Data as of August 2023. Does not include debt service costs of pipeline loans, including non-concessional and commercial. Thus, interest costs of outer years may be underestimated.

<sup>12</sup> Proceeds from the Airport Development Fee and dividends from the state-owned airport operator, MACL, are transferred into the SDF and earmarked for debt repayment. As of August 2023, the SDF amounted to US\$450.9 million.

### Box 3: Targeted social protection is a critical component of successful subsidy reforms

Over the past several decades, there has been growing recognition of the potential for targeted social protection to help governments achieve desired policy reforms around cutting general subsidies (food, fuel, etc.), including to lower fiscal cost while mitigating the impact of such reforms on the poor and most vulnerable. Evidence shows that generalized price subsidies are captured mainly by those who consume more and often tend to belong to higher income groups, thereby making such subsidies regressive. In fact, in most cases, a large share of the benefit from subsidies increases the political influence and vested interest of well-off people rather than those most in need of financial support (Arze del Granado et al 2023, IMF 2017).

Many countries around the world have moved away progressively from universal price subsidies, and opted for more fiscally sustainable targeted cash transfers that help mitigate the negative welfare effects of subsidy reforms on households. The Dominican Republic is a successful case in which the government took advantage of the existing social protection systems to design and deliver an energy subsidy reform program in 2012. More specifically, the beneficiaries of *Solidaridad*, the conditional cash transfer program, received additional transfers for gas and electricity (*Bonogas* and *Bonoluz* respectively). These direct compensation mechanisms could be put in place rapidly because the country had effective delivery platforms, including mechanisms to identify those most in need, whilst also improving fiscal efficiency (Mukherjee et al 2023). Assurance that compensation mechanisms are in place allowed the government to generate the political support needed for the overall reform. Another example is Indonesia where subsidy reforms were carried out in two waves. A new social protection program was set up in the first wave, while existing programs were expanded later. In a time of fiscal constraints, such targeted cash transfers systems have become even more critical.

Maldives spends a substantial portion of its budget on subsidies that are poorly targeted. Subsidies (including electricity, water, food, fuel, and lending to SOEs) account for 4.6% percent of GDP (MoF 2023). The subsidy bill as a percent of GDP almost doubled between 2019 and 2022, mainly due to a sharp rise in fuel subsidies (MoF 2023), adding further pressure to an already high public debt ceiling. Due to their regressive nature, the cost of subsidies exceeds their benefit, and these programs could be replaced by better-targeted cash transfers.

Poverty-targeted cash transfer programs in Maldives cover less than 5 percent of the population, but with generous transfers. Cash transfer programs in the Maldives have the most generous benefits in the South Asia region, but are narrowly targeted, covering only 4.1 percent of the total population. Monthly transfers range between MVR1,000 (US\$65) per child per month for the foster/single parent allowance and MVR2,000 (US\$130) for the disability allowances (NSPA 2023).<sup>13</sup> In terms of the coverage of the poor, cash transfer programs covered 5.8 percent of those in the poorest quintile, and 6.5 percent in the second-poorest quintile (World Bank 2023).<sup>14</sup> Cash transfers reach people in all income quintiles, and there is a case for improved targeting to focus on the inclusion of the poorest and exclusion of those in the higher income categories. The low coverage of poor and vulnerable households through social protection, coupled with the high expenditures on subsidies and ongoing fiscal vulnerabilities, present a strong case for subsidy reforms. Targeted cash transfers can help Maldives manage potential distributional and welfare impacts of the reforms.

The National Social Protection Agency (NSPA) houses the Social Protection Information System (SPIS), a digitalized beneficiary registry that can be used to identify social protection beneficiaries. Given the low coverage of poverty-targeted programs, the number of people registered in the system to date is limited. However, the system has great potential. It was used to deliver the Emergency Income Support program for workers who had suffered a loss of income or jobs because of the COVID-19 pandemic in 2020. The emergency program was put in place in only a few weeks as it could piggyback on existing delivery systems, benefiting from the broad penetration of online services, a unique ID, systems interoperability, and electronic payment. Going forward it would be critical for the country to invest in broadening the scope of the national social protection information system to cover a larger share of the population.

Social protection information systems that are regularly updated and have good coverage can help better target limited resources to those most in need and ensure effective implementation of forthcoming subsidy reforms. Going forward, Maldives will have to invest in strengthening the national social registry and continue to invest in enhancing delivery mechanisms and efficient payment channels for cash transfer programs.

Source: WB staff analysis.

<sup>13</sup> National Social protection Agency website. Accessed on 9.1.2023. <https://www.nspa.gov.mv/v2/index.php/v2-4/>

<sup>14</sup> ADePT SP Output, World Bank, 2023.

## A2. Outlook and Risks



### 7. Medium-term growth outlook remains positive, but clouded by rising macro-fiscal vulnerabilities

**Growth outlook is positive over the medium term, but with significantly elevated external and fiscal risks.**

The economy is expected to experience continued growth due to an increase in tourist arrivals, capital spending and private consumption. Real GDP growth is projected to be 6.5 percent in 2023, and 5.4 percent on average in the 2024–25 period. The baseline projections for 2024–2025 are lower than the forecasts in April 2023 (Figure A.24), reflecting the following factors: (i) actual 2022 GDP growth was higher than expected (i.e., 13.9 percent compared to 12.3 percent); and (ii) the completion of the Velana International Airport project, along with other major infrastructure projects, are delayed. Better than expected tourist arrivals marginally offset these factors. Heightened external and fiscal vulnerabilities, however, pose significant downside risks to the economic outlook – which include continued external borrowing at more expensive terms during a global tightening cycle and a weaker global economic outlook. Stronger tourism performance could present some upside, including more tourists from Europe, China, Russia, and India, and growing interest from new markets. Higher PSIP spending on infrastructure, housing, and renewable energy projects could also help boost growth, especially over the longer term, but will come at the cost of increased macro-fiscal vulnerabilities unless they are better planned, sequenced, and managed – and with their impacts on fiscal and external vulnerabilities properly considered (Table A.2).

**Table A.2: Growth is expected to remain robust, but macro-fiscal vulnerabilities will persist**

	2021	2022	2023f	2024f	2025f
Real GDP Growth, at constant market prices	37.7	13.9	6.5	5.2	5.5
Inflation (Consumer Price Index)	0.5	2.3	3.2	2.7	2.5
Current Account Balance (% of GDP)	-8.7	-16.8	-17.6	-20.9	-19.4
Fiscal Balance (% of GDP)	-14.2	-14.4	-12.4	-11.8	-10.4
Debt (% of GDP)	112.1	113.5	113.7	115.1	116.3

Source: World Bank estimates and forecasts as of September 2023.

**Inflation is expected to remain modest due to the government’s subsidy program, notwithstanding the recent tax increases.**

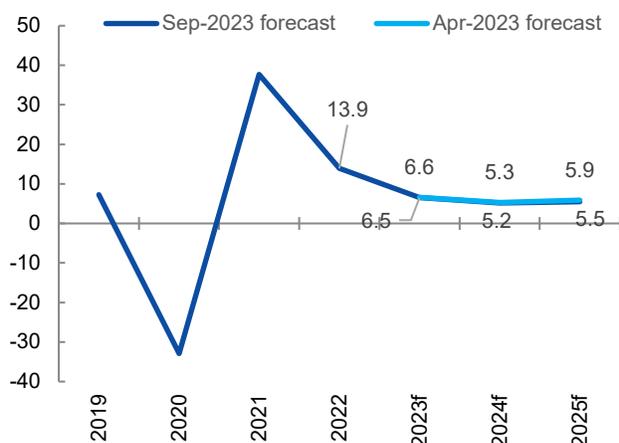
Inflation is projected to rise to 3.2 percent in 2023, largely due to the recent increase in GST rates. This is lower than the April 2023 forecast of 5.7 percent for 2023 given the additional subsidies provided by government to help contain price pressures. Despite these additional fuel and food subsidies, elevated global commodity prices are still expected to be partially passed through to households, due to the limited fiscal space to fully absorb the price increases. Although inflation is expected to decline to 2.5 percent over the medium term, recent global oil production cuts pose risks to the stability of oil prices.

**Fiscal deficits are likely to remain high, given ambitious spending commitments and plans.**

Despite an increase in revenues, blanket subsidies, sustained support to poorly managed SOEs, high recurrent spending, continued capital spending despite worsening borrowing conditions, and implementation of the PSPH policy are expected to keep government spending and fiscal deficits elevated (Figure A.25). Capital spending is expected to remain raised over the medium term, as government aims to accelerate the completion of water and sanitation projects and the Velana Airport terminal by 2025. In addition, *The Greater Malé Connectivity Project*, regional airports, social housing, harbors, hospitals, and land reclamation projects are ongoing or in the pipeline. Although initial revenue reforms have been initiated and further reforms are being considered, these are unlikely to be sufficient to achieve government’s ambitious fiscal adjustment plans. A better targeted subsidy program is critical to reducing the overall fiscal burden.

**Figure A.24: Real GDP growth is expected to remain robust in the medium term...**

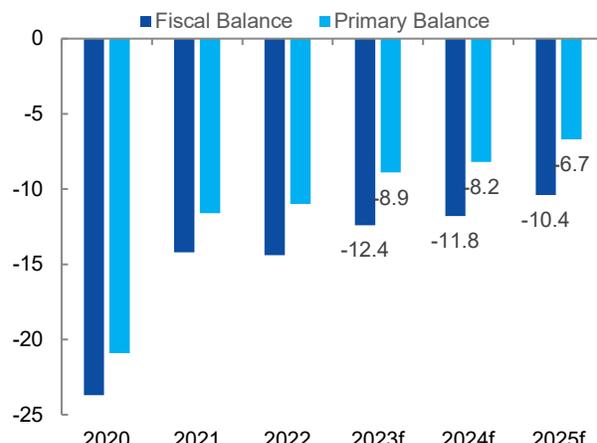
*Year-on-year growth, percent*



Source: Ministry of Finance and World Bank projections.

**Figure A.25: ...while spending commitments and plans may impede a stronger narrowing of the fiscal deficit**

*Percent of GDP*



Source: Ministry of Finance and World Bank projections.

**Despite tourism growth, the current account deficit is expected to remain substantially elevated.**

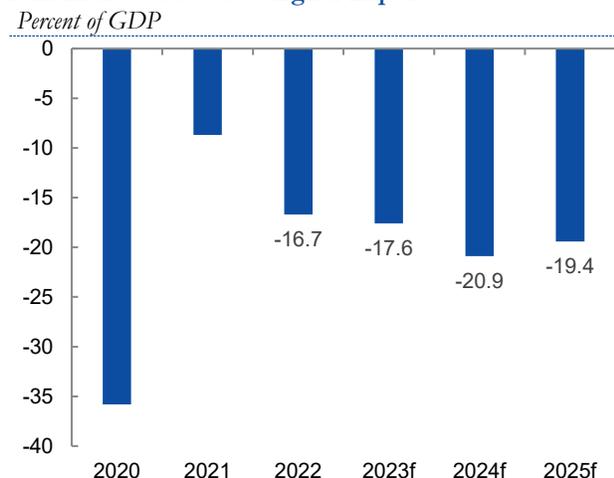
Imports of capital goods and growth in consumption spending are expected to keep the current account deficit (CAD) elevated over the medium term (Table A.2). The CAD is projected to moderate slightly in 2025, as larger investment projects are wound up and capital spending declines (Figure A.26). Persistently large CADs and significant external debt servicing will continue to exert pressures on the balance of payments and external buffers.

**A strong fiscal adjustment is urgently required to rebuild buffers**

As discussed, public debt significantly exceeds the size of Maldives’ entire economy. Although fiscal deficits are expected to gradually narrow over the medium term, total PPG debt to GDP is forecast to remain elevated at over 115 percent (Table A.1). Such high levels of public debt, and associated refinancing risks, make the Maldivian economy extremely vulnerable to domestic and external shocks. Thus, despite robust

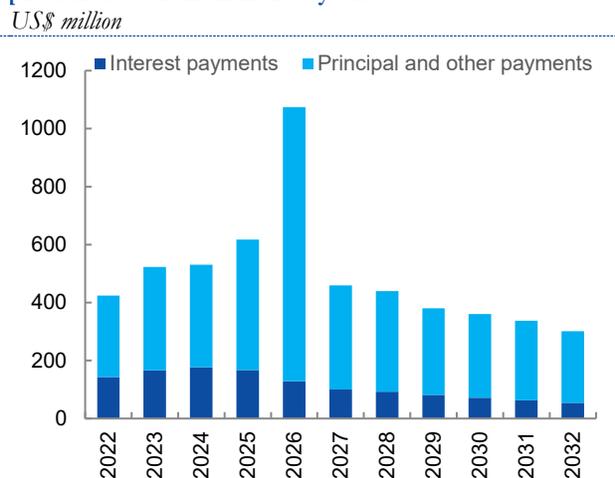
**against domestic and external shocks.** growth prospects, prudent debt management remains a top priority for improving fiscal sustainability, lowering the cost of growth-enhancing investments – especially with large debt service obligations coming due (Figure A.27) – and ensuring a more resilient economy going forward.

**Figure A.26: Current account deficit expected to remain elevated due to higher imports...**



Source: Maldives Monetary Authority and World Bank estimates.

**Figure A.27: ...with significant external debt servicing pressures over the next few years**



Source: Ministry of Finance and World Bank staff calculations. Note: Data as of August 2023. Does not include debt service costs of pipeline loans, neither non-concessional nor commercial. Thus, debt servicing costs of the outer years may be underestimated.

**The revised Medium-Term Fiscal Strategy (MTFS) could set a new benchmark for expenditure rationalization.**

Through the new MTFS, the authorities plan to reduce expenditure by: (i) eliminating fuel, electricity, food and sanitation subsidies, and replacing them with a targeted cash transfer mechanism – with an ambitious plan to have this in place by July 2024; (ii) changing the coverage policy of health services for high income earners, and implementing measures to reduce drug costs (such as bulk procurement of medicines from India and other countries, which also requires an upgrade in the storage capacity of STO); and (iii) reducing the PSIP envelope. Implementation of these reforms will, however, require strong commitment and effective communication with all Maldivians.

**8. Downside risks persist, so restoring fiscal and debt sustainability remains a priority**

**Significant downside risks cloud the medium-term growth prospects.**

The global economic outlook is dimmed by high levels of uncertainty, stemming from supply-side shocks caused by the pandemic and Russia’s invasion of Ukraine, as well as monetary tightening measures to address rising global inflation. As discussed in Box 1, major economies including China are projected to experience an extended slowdown due to financial and fiscal distress, with risks tilted towards the downside. The existence of these global uncertainties, as well as any additional global shocks, poses significant risks to Maldives’ economic outlook, especially if there is a slowdown in key source countries for tourists, as was the case during the height of the pandemic.

**External financing risks are growing and are highly sensitive to global conditions.**

External debt and fiscal vulnerabilities remain a significant concern for Maldives in the medium term. The country is projected to pay, on average, about US\$570 million annually as external debt servicing over the 2024–25 period (Figure A.29). PPG debt servicing is then expected to reach US\$1.07 billion in 2026, which includes bullet payments for the US\$500 million Sukuk and US\$100 million private placement – significantly testing the country’s ability to repay or roll over this debt. The latter is also very much dependent on an improved global financing environment by 2026.

**Continued borrowing and limited external buffers are concerning.**

Despite government’s efforts to transfer a portion of revenues to the SDF, which is designed to pay off some of the maturing debt, the available balance in the fund remains much lower than the external debt servicing that is coming due over the next few years. In addition, the continuation of high global commodity prices could lead to a sustained deterioration in the country’s fiscal and current account balances, and further erode the official reserves. The inadequate level of official reserves (currently at US\$594.1 million or 2.0 months of imports as of July 2023) is concerning as: (i) the current account deficit may widen further due to a combination of weaker-than-expected tourism arrivals, continued high PSIP spending, and/or higher-than-expected commodity prices; and (ii) further tightening of global financial markets could make it difficult or too expensive to roll over debt.

**Restoring fiscal and debt sustainability is critical for sustainable long-term growth.**

It’s time for Maldives to ‘batten down the hatches.’ A significant fiscal adjustment is needed. Government’s decision to raise the GST rates is a positive start, but not sufficient for the adjustment that is required. A stronger commitment is urgently needed, as the planned subsidy reforms didn’t happen in 2023. A notable reduction in (and more effective) spending, and more effective revenue mobilization are crucial for Maldives’ debt and fiscal sustainability. Reforms to Aasandha, reducing and rationalizing subsidies to SOEs – especially for fuel and food subsidies – and a solid public investment management framework are amongst the key reform areas to bring down the high levels of public expenditure, replenish fiscal buffers against future shocks, and lower the cost of growth-enhancing investments. On the other hand, revenue mobilization can be improved by diversifying the tax base and mobilizing more domestic sources of revenue, reducing informality, and enhancing the tax morale and equity of the tax system.

**Reducing the dependency on tourism, limiting state involvement in economic activity, and diversifying the economy remains a major challenge.**

Maldives’ heavy dependence on tourism makes the country vulnerable to external shocks, emphasizing the need for structural diversification of the economy over the longer term. In addition, government’s heavy presence in economic activity, with SOEs forming a significant part of the non-tourism economy, hinders private sector development. To enable this development and diversify the economy, Maldives could benefit from a more diversified tourism sector that also provides further benefits to those living in the outer atolls and inhabited islands, including offering new tourism products, such as environmentally friendly eco-tourism options, and developing the industry in the Northern and Southern Atolls through better infrastructure, further enhanced connectivity, and favorable rents for resort developments. An upcoming new submarine cable is expected to enhance digital connectivity in Maldives, potentially leading to greater job opportunities. However, any infrastructure investments must be well sequenced and planned, and consider the country’s current debt vulnerabilities. Boosting the fisheries sector, by expanding fish processing and cold storage facilities, as well as opening new export markets, could help reduce the country’s high dependency on tourism. Additional avenues for diversification, trade, and growth also need to be explored.

## B. Supporting Sustainable and Resilient Infrastructure



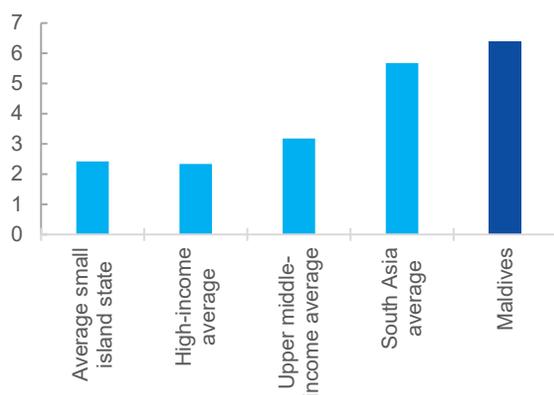
### 1. Context

**Maldives has enjoyed strong economic growth, driven largely by tourism...**

In the decade prior to the COVID-19 pandemic (2010–2019), Maldives grew at an average rate of 6.4 percent, with real GDP growth outpacing the upper middle income and South Asian averages (Figure B.1). While the country was severely impacted by the pandemic, with GDP shrinking by 33.5 percent in 2020, it rebounded strongly in 2021 with GDP growing by 41.7 percent. This strong recovery was supported by a rapid COVID-19 vaccination rollout, quick relaxation of border measures with simple entry requirements, and the unique “one island, one resort” model (Figure B.2).

**Figure B.1: Before the pandemic, Maldives had grown faster than its peers...**

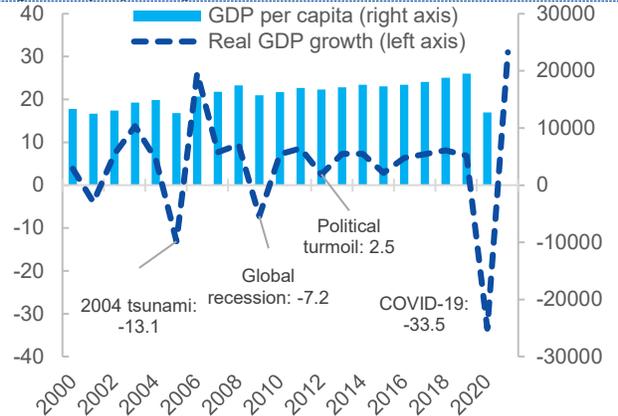
*In percent, y-o-y change*



Source: IMF WEO and WDI, staff calculations.

**Figure B.2: ...but growth has been volatile due to its high dependence on tourism**

*In percent, y-o-y change and in US\$*



Source: Statistics Maldives, WB Staff calculations.

**... and outperforms most of its peers in terms of infrastructure access.**

Available data indicate that Maldives outperforms most of its regional and Small Island Developing States (SIDS) peers in the provision of basic infrastructure services (Table B.1). Maldives has benefitted from universal access to electricity since 2008, and there is widespread use of mobile phone services. Hospital beds per 1,000 people at 4.1 is higher than the upper middle-income average and the pupil-teacher ratio is very low at 5.0.

**Table B.1: Benchmarking of key infrastructure indicators**

	Maldives	Average S. Asia	Upper MI	SIDS
Access to electricity, % of population	100	93.1	96.2	93.6
Internet users, % of population	63.2	17.0	61.3	56.0
Mobile cellular subscriptions, per 100 people	144	99.2	116.3	113.3
Hospital beds, per 1000 people	4.1	1.4	3.1	2.8
Pupil-teacher ratio, secondary level	5.0	24.7	14.0	12.4

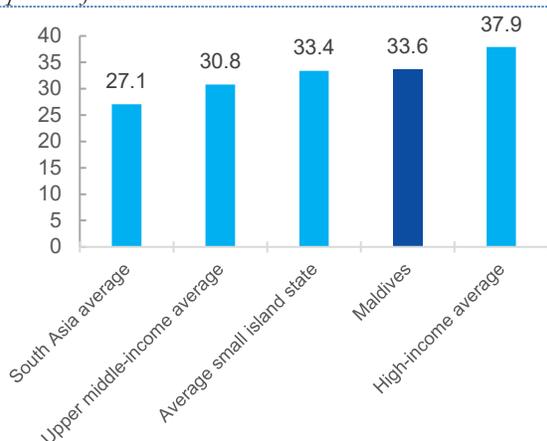
Source: World Bank WDI and Maldives MoH 2021.

**This positive infrastructure access has come at the cost of a significant rise in public spending...**

Prior to COVID-19, annual public spending in Maldives was around one third of nominal GDP, which is slightly ahead of other upper middle-income countries, but in line with other SIDS (Figure B.3). This increased to around 50 percent in 2020, due to the significant increase in public spending to mitigate the economic impacts of COVID-19 but has since dropped to 42 percent in 2022. This rapid growth in spending has outpaced real GDP growth in most years (Figure B.4), with much of the growth being driven by substantial increases in capital spending under the PSIP, subsidies and transfers to SOEs, and the wage bill (Figure B.5). It is estimated that between 2014–2022, over 50 percent of the approved PSIP budget was spent on transport related infrastructure (including airports, ports, roads, and bridges), housing, and land reclamation.

**Figure B.3: Maldives spends more than the average upper middle-income country, but on par with other SIDS**

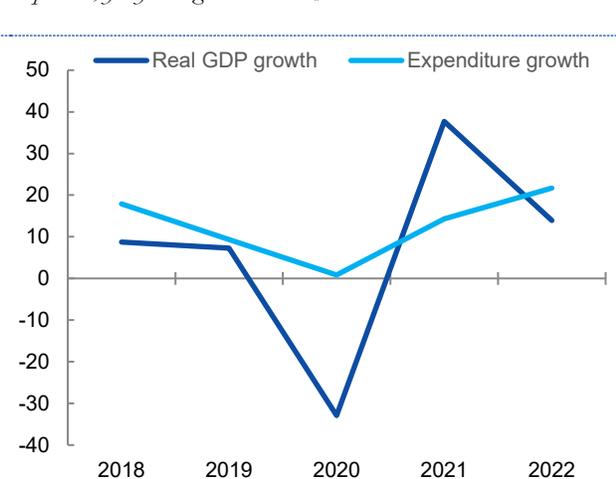
*In percent of GDP*



Source: IMF Fiscal Affairs Database, October 2021.

**Figure B.4: Public expenditure growth mostly outpaced GDP growth...**

*In percent, y-o-y change and in US\$*



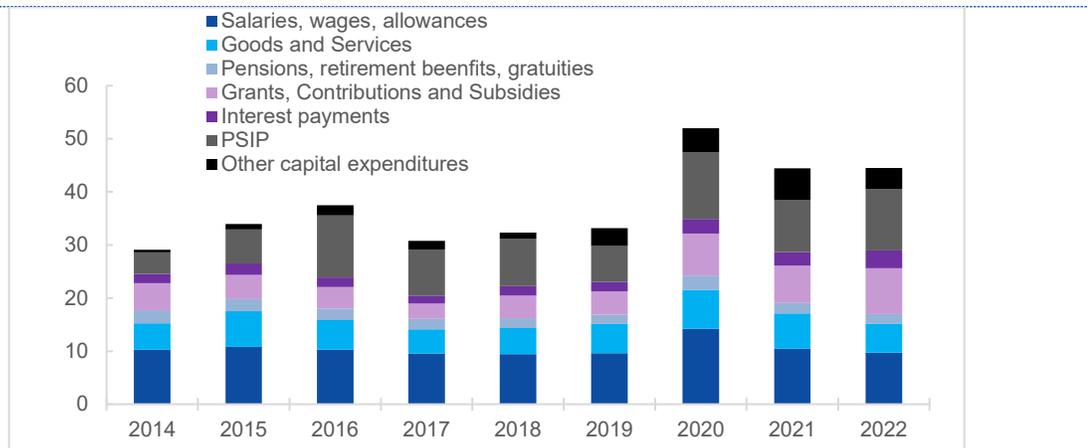
Source: IMF Fiscal Affairs Database, October 2021, MMA and WB staff calculations.

Note: 2023 figures take into account the budgeted amount and the GOM's GDP growth estimates.

**...leading to excessive borrowing, and rising debt and fiscal vulnerabilities.**

Driven by the need to increase public expenditures to offset the adverse impacts of COVID-19, total public and publicly guaranteed (PPG) debt stood at around 150 percent of GDP in 2020. Despite this figure falling to 113.5 percent at the end of 2022, it is still significantly higher than the pre-COVID-19 levels, when the debt figure stood at 77.2 percent of GDP. As discussed in Section A, the level of PPG debt is forecast to remain above 115 percent of GDP in the medium term (see Section A). Such high levels of debt will likely limit the ability of the government to address future economic shocks and invest in infrastructure.

**Figure B.5: ...primarily driven by substantial increases in PSIP spending, subsidies, and the wage bill**  
Percent of GDP



Source: WB PER (2022), MOF, WB staff calculations.

**SOEs also have a dominant role in the economy and in service provision...**

The dominant role of the public sector, including SOEs, is not unusual in a small island state such as Maldives. Services need to be delivered to a small population, spread out over many islands, and opportunities for private sector investment are limited. However, the public sector plays a much larger role in the economy of Maldives compared with other SIDS. Aside from the associated fiscal risks, this outsized role for the public sector can potentially “crowd out” the private sector and stifle innovation and enterprise.

**... and climate change and disaster vulnerability pose significant challenges.**

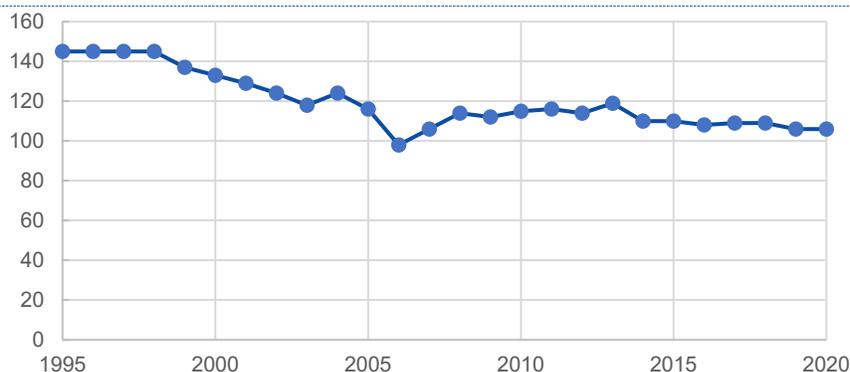
Maldives is the world’s lowest lying country, with 80 percent of its land area lying less than one meter above the sea level, making it extremely vulnerable to climate change. In addition, most of Maldives’ critical infrastructure assets lie less than 100 meters from the shoreline. Storms, heavy rainfall, cyclones, floods, and sea surges have damaged infrastructure and interrupted service delivery in the past, and such events are expected to increase in intensity and frequency. Maldives ranks 106 out of 181 countries in the 2020 Notre Dame Global Adaptation Initiative (ND-GAIN) Index<sup>15</sup> (Figure B.6). The adverse impacts of climate change under a business-as-usual scenario are expected to reduce Maldives’ GDP by 2.3 percent by 2050,<sup>16</sup> which is the highest of any country in South Asia.

<sup>15</sup> The ND-GAIN Index ranks countries using a score that calculates a country’s vulnerability to climate change and other global challenges, as well as its readiness to address resilience.

<sup>16</sup> <https://climateknowledgeportal.worldbank.org/country/maldives>

**Figure B.6: Maldives ND-GAIN Ranking (1995–2020)**

Ranking



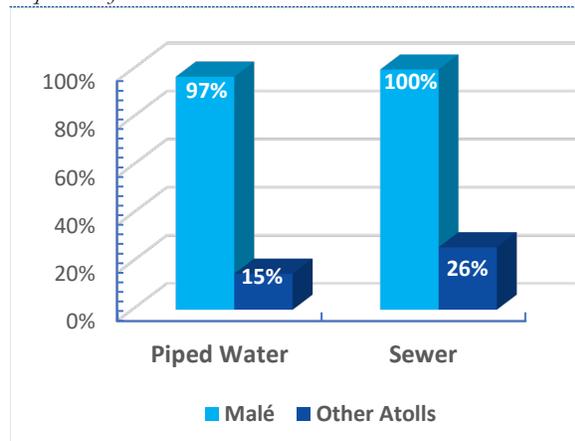
Source: ND Gain Index.

**Large disparities exist between Malé and the outer atolls in terms of infrastructure quality.**

The expansion of spending under the PSIP, together with a policy of decentralizing services to the atolls, has led to a significant improvement in terms of infrastructure provision in the atolls. However, spatial disparities remain. Only 15 and 26 percent of households residing in the atolls have access to piped water and sewage connections respectively, versus nearly universal access in Malé (Figure B.7). Similar disparities exist in broadband internet service speeds (Figure B.8).

**Figure B.7: Piped water and sewer connections**

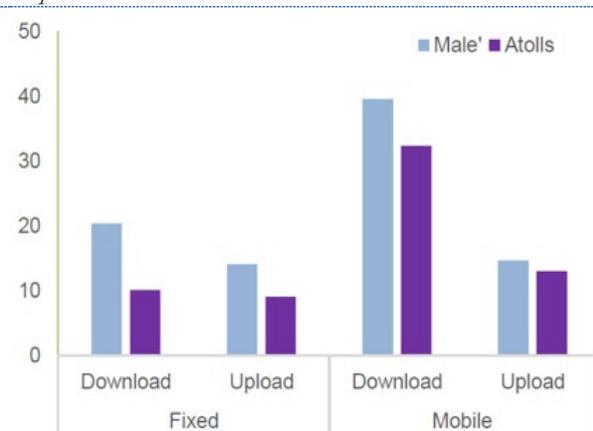
In percent of total access



Source: Statistics Maldives, 2020.

**Figure B.8: Fixed and mobile up/download speeds**

Mbps



Source: WB Staff analysis based on Speedtest Intelligence data between Jan 2020–Jan 2021.

**2. Despite a major focus on improving connectivity, Maldives faces ‘small island’ constraints in addressing remaining infrastructure gaps**

**The costs of service delivery are high and there is limited ability to benefit from economies of scale...**

With just over half a million inhabitants (521,547 as at 2021) and less than 300 square kilometers of total land area, Maldives is the smallest and most densely populated country in South Asia, with a population density of around 1,700 people per square kilometer. The country is an archipelago of 1,190 coral islands grouped into 26 atolls, of which around 200 are inhabited islands. The capital city of Malé has an even higher population density of 53,700 people per square kilometer. This puts it well ahead of other large and densely populated cities in the region, such as Mumbai and Dhaka. Except for tourism and fisheries, all economic activity is concentrated in Malé and, while national poverty levels are low (1.7 percent in 2022), significant

disparities persist between Malé and the outer atolls. Due to the country's small size, remote location in the Indian Ocean, and a very dispersed population, the costs of doing business and delivering services are high and there is limited ability to benefit from economies of scale.

**...whilst the economy remains heavily dependent on tourism.**

Tourism and associated services account for almost 30 percent of GDP, more than 60 percent of foreign exchange receipts, almost half of public revenues,<sup>17</sup> and the bulk of private sector jobs. While the COVID-19 pandemic prompted the government to accelerate economic diversification, opportunities outside tourism will remain limited in the near-term. The scarcity of land and other natural resources constrains domestic production and leads to a heavy reliance on imports, especially for fuel and construction materials.

### 3. Maldives is also facing several 'micro' cross-cutting and sector specific constraints to the delivery of infrastructure services<sup>18</sup>

**Cross-cutting constraints include public investment management, financing, SOEs, and PPPs.**

These cross-cutting constraints are not specific to one sector, but typically have an impact across several sectors. Therefore, addressing such constraints can have a positive multiplier effect across sectors. There are four cross-cutting areas that are typically relevant in the context of infrastructure delivery in many countries, namely:

- Public Investment Management (PIM)
- Funding and Financing
- State Owned Enterprises (SOEs)
- Public Private Partnerships (PPPs)

**Efficiency of public investment spending needs to be improved...**

International benchmarking indicates that Maldives needs to improve the efficiency of its public spending on infrastructure, particularly in terms of prioritization, procurement, and execution, with the following weaknesses having been identified:

- Lack of capital costing in national strategies and plans, leading to the risk that infrastructure investment plans are approved without a proper understanding of the actual costs.
- Lack of operations and maintenance costing over the lifetime of the project.
- Lack of robust and transparent criteria to select and prioritize projects.
- Weak framework for project appraisals.
- Projects being procured on a negotiated or unsolicited basis which undermines the value for money proposition.
- Weaknesses in implementing projects on time and on budget, leading to higher implementation costs.

**...and financing constraints need to be considered while making investment decisions.**

Most of Maldives' infrastructure investments to date have been financed through public funding or external borrowings, including G2G loans and commercial sources which can be more expensive. More importantly, the scale of these investments and borrowings have contributed to the fiscal vulnerabilities currently being experienced by the country (see Section A). Given these vulnerabilities, it will be important for Maldives to mobilize private sector capital and long-term sources of financing (including climate financing) to support future infrastructure investments. In this context, there are several constraints that need to be addressed, including:

<sup>17</sup> World Bank Group. 2023. Maldives Country Partnership Framework.

<sup>18</sup> For a more detailed assessment, see World Bank Group. 2023. Maldives InfraSAP Report

- Dominant role of the public sector in providing infrastructure services (particularly SOEs), which is crowding out the private sector.
- Limited availability of domestic long-term debt in the country.
- Limited size of capital markets.
- Lack of institutional investors.

**The dominant role of SOEs in the economy is leading to further inefficiencies...**

While SOEs typically play a significant role in service provision in many SIDS, the SOE sector in Maldives plays a much more significant role in the economy, accounting for around 10 percent of GDP. Many of these SOEs are underperforming (particularly those in the energy and transport sectors) and, because of their public service obligations, are being run at a loss, with less than one fifth of the SOEs paying dividends to the government on a regular basis. The remainder are a drain on the budget, resulting in the government needing to provide a combination of loans, guarantees, subsidies and cash injections to keep the majority of SOEs running. The following are some of the key issues related to the provision of infrastructure services by SOEs in Maldives:

- Lack of an SOE legal framework.
- Weak financial reporting.
- Lack of transparency and limited competition in procurement.
- Poor SOE governance and limited capacity.

**...but, PPPs can be utilized to reduce inefficiencies.**

Considering the government's fiscal vulnerabilities, it will be important to support the mobilization of private sector capital for infrastructure investments, particularly using public-private partnerships (PPPs). However, while the Strategic Action Plan (SAP) 2019–2023 identifies and supports infrastructure investments through PPPs, PPPs and private investment in infrastructure have been relatively limited. To support the successful implementation of PPPs, several constraints need to be addressed, including:

- Lack of a clear and consistent PPP policy and legal and regulatory framework.
- A PIM framework that doesn't support the identification of potential PPP projects.
- Weak PPP institutional framework, limited capacity, and poor coordination.
- Lack of a competitive and transparent PPP procurement framework.
- Limited framework to manage PPP related fiscal risks.

**Moving to sector specific constraints, the energy sector's high fossil fuel dependency, with associated rising subsidies, is problematic...**

While universal energy access was achieved in 2008, this access still mainly relies on the use of small diesel fueled power units to supply an isolated island-based grid system. In recent years, Maldives has been actively supporting several programs to develop renewable energy projects (particularly solar) to reduce the reliance on fossil fuels and meet its 2030 net zero target. However, the percentage share of renewable energy projects in the generation mix remains relatively low, and the sector suffers from several issues and constraints that will need to be addressed, including:

- Heavy dependence on diesel imports for generation, which is leading to increased GHG emissions.
- Unsustainable system of fuel and end user subsidies, which is contributing to fiscal constraints.
- High end-user tariffs despite the subsidies.
- Limited opportunities to benefit from economies of scale.

- Outdated and inefficient transmission and distribution (T&D) systems leading to grid instability and energy losses.
- Poor performance and weak balance sheets of the two main generators and suppliers of electricity (STELCO and FENAKA),<sup>19</sup> which require significant financial support from the government.

**...while transport connectivity requires an upgrade.**

As an archipelago of around 200 highly dispersed islands, sea and air transport connectivity play a critical role in Maldives. To improve connectivity, Maldives is supporting an expansion in the number of airports and rapidly expanding the *Integrated National Public Ferry Network* (INPFN). However, there are several issues and constraints in the sector that need to be addressed to improve the efficiency and effectiveness of transport services:

- Lack of integrated transport planning.
- Irregular and unreliable inter-island ferry services.
- Heavy traffic congestion and high emissions in Malé.
- Heavy reliance on fossil fuels, which leads to increased GHG emissions and subsidies.
- Lack of adequate data for informed decision making.
- Poor SOE performance.
- Limited private sector participation.

**Although performance is better than regional peers, there are significant disparities in accessing digital services.**

Maldives is ahead of its regional peers in terms of digital access and connectivity, having one of the highest per-capita international bandwidths in the region. However, despite 100 percent coverage, there is a digital divide between Malé and the atolls, as well as significant usage gaps. There are also challenges relating to affordability and the quality of fixed broadband services. In this context, the following constraints have been identified:

- Limited competition and gaps in the enabling regulatory environment.
- High prices in the wholesale international capacity segment.
- Lack of information on the performance of the telecom sector.
- No active infrastructure sharing for spectrum.
- Current microwave spectrum assignments do not promote efficient use of this resource and have led to further bottlenecks in the middle mile segment.
- Limited coverage of national submarine fiber backbone.
- No cybercrime law or any cybersecurity policy, strategy, or legislation.

#### 4. Recommendations to improve the delivery of sustainable and resilient infrastructure in support of Jazeera Raajje

**Maldives needs to improve the efficiency and effectiveness of its overall approach to infrastructure planning and delivery...**

To continue to support economic development in the face of severe fiscal constraints and climate change, it will be critical for Maldives to address the constraints and issues identified above, by improving and strengthening the overall PIM framework. This will help to ensure that key infrastructure services are planned, prioritized, and delivered in a way that enhances connectivity, while at the same time ensuring that such services are affordable, sustainable, and resilient.

<sup>19</sup> State Electricity Company Limited (STELCO) and Fenaka Corporation Limited (FENAKA).

...particularly through enhancing inter-agency coordination...

While some of the issues and constraints highlighted above are sector specific, it will be important for the government to ensure that relevant ministries and agencies coordinate more effectively when developing sector policies and planning investments to better leverage cross-sector synergies. For example, it will be critical for the energy and transport sectors to coordinate their respective sector planning in the context of a transition to e-mobility.

... with a climate change agenda integrated into infrastructure decision making...

Given that most of the islands are less than 1 meter above sea level, climate change poses an existential threat to Maldives. Storms, cyclones, and sea surges have damaged infrastructure in the past and have interrupted service delivery. Unfortunately, given the remoteness of some of these islands, repairing and reinstating services not only takes time, but is very expensive. Therefore, it will be critical that climate change considerations are fully integrated into infrastructure investment decisions, by ensuring that all projects are looked at through a climate 'lens'.

... and through actions and policy initiatives that improve the delivery of infrastructure.

There are several specific actions and policy initiatives that Maldives can consider implementing to try and address the cross-cutting and sector-specific issues that have been identified as constraining the efficient and effective delivery of infrastructure. Some of these actions and policy initiatives are summarized in the tables below:

Table B.2: Key cross-cutting constraints and recommendations

Constraint	Key Recommendations/Actions
<p><i>While Maldives continues to invest significant amounts in infrastructure, international benchmarking indicates that Maldives needs to improve the efficiency of its capital spending.</i></p>	<p><b>Strengthen the Public Investment Management Framework:</b></p> <ul style="list-style-type: none"> <li>• Develop a standard template for appraising projects and develop transparent and consistently applied criteria to identify and prioritize projects.</li> <li>• Ensure that identified projects are properly costed (construction and operation), approved and budgeted.</li> <li>• Strengthen procurement rules (as well as the oversight of such rules) to ensure that contracts are competitively and transparently procured.</li> <li>• Strengthen the capacity of ministries and agencies to properly monitor and evaluate the implementation of projects approved under the PSIP.</li> </ul>
<p><i>Given fiscal pressures, the government is likely to be constrained in its future ability to invest in infrastructure.</i></p>	<p><b>Identify opportunities for private sector investment and implement policies to support private sector financing:</b></p> <ul style="list-style-type: none"> <li>• Require all ministries, agencies, and SOEs to assess their project pipelines to determine which projects have the potential to mobilize private sector capital (including climate financing).</li> <li>• Assess the regulatory framework for the pension sector and the life insurance market to determine the feasibility of allowing pension funds and insurance companies to invest in infrastructure assets.</li> <li>• Further develop the regulatory framework to support Sharia-compliant financing.</li> <li>• Review the regulations governing the use and application of the government's existing sustainability funds (including the Green Fund) to determine whether there are any restrictions in using these funds to support blended financing.</li> </ul>
<p><i>SOEs play a dominant role in providing infrastructure services, but many of these SOEs are poorly managed, inefficient and loss making, requiring the government to provide subsidies and cash injections which are adding to fiscal pressures. SOEs can also 'crowd' out the private sector.</i></p>	<p><b>Strengthen the legal framework for SOEs and improve governance and management:</b></p> <ul style="list-style-type: none"> <li>• Introduce an SOE law that, inter alia, sets out the rationale and policy for creating new SOEs and specifies the process for securing the necessary parliamentary approvals for providing financial support.</li> <li>• Performance parameters and key performance indicators (KPIs) should be established for each of the SOEs to incentivize and monitor performance.</li> <li>• Regulations should be implemented that require all SOEs to provide their semi-annual/annual financial statements in a timely manner, using the same consistent format that reflects generally accepted accounting principles.</li> <li>• The current SOE portfolio should be reviewed to determine which of the SOEs are viable without the need for any government support and assess their potential for private sector investment.</li> </ul>
<p><i>There has been limited success in implementing PPP projects to date.</i></p>	<p><b>Strengthen the institutional, legal, and regulatory enabling environment for PPPs:</b></p> <ul style="list-style-type: none"> <li>• Implement the proposed PPP Law, together with the appropriate supporting regulations and guidelines.</li> <li>• Established a formal PPP unit to act as a center of excellence and ensure that it has the necessary resources, capacity, and authority to carry out its designated functions in a coordinated manner.</li> </ul>

- Strengthen the institutional framework for PPPs to clarify roles and responsibilities and remove overlapping responsibilities.
- Develop a comprehensive national PPP project pipeline (including RE and transport projects) to help attract investors.
- Develop a robust institutional framework and process to manage PPP related fiscal risks.

**Table B.3: Key energy sector constraints and recommendations**

Constraint	Key Recommendations/Actions
<i>Heavy reliance on diesel generation and related fuel and tariff subsidies is adding to the government's fiscal problems and increasing GHG emissions. Despite these subsidies, end user tariffs are still relatively high.</i>	<p><b>Continue to scale up the solar renewable energy program to increase RE generation and explore other sources of RE:</b></p> <ul style="list-style-type: none"> <li>• Shorten the government's review and approval process for bids and adopt digital bid submissions.</li> <li>• Explore other sources of RE including wind, tidal, and wave.</li> <li>• Strengthen engagement with domestic and international investors, e.g., by conducting market sounding activities to showcase opportunities and identify potential investors in renewable projects in Maldives.</li> </ul>
<i>To achieve its ambitious goal of net zero emissions by 2030, the government should consider diversifying its sources of renewable energy to include green hydrogen.</i>	<p><b>Develop a Green Hydrogen Roadmap:</b></p> <ul style="list-style-type: none"> <li>• Determine the optimal timing for green hydrogen adoption, considering the country's ambitious net-zero target by 2030 and explore the potential of combining solar + battery systems with green hydrogen solutions to create a techno-commercially optimized energy solution for Maldives.</li> <li>• Establish a pilot project to test the feasibility and effectiveness of green hydrogen production and integration into the grid.</li> </ul>
<i>The current T&amp;D system is outdated and inefficient leading to energy losses and grid instability.</i>	<p><b>Increase investment in transmission and distribution:</b></p> <ul style="list-style-type: none"> <li>• Mobilize private sector financing for grid upgrades by providing incentives for private sector participation in transmission and distribution infrastructure projects.</li> <li>• Engage with the URA to ensure the development and enforcement of regulations and standards that support private sector investment in grid upgrades, as well as the integration of renewable energy into the grid system.</li> </ul>
<i>Increasing the supply of renewables into the generation mix is expensive and will take time.</i>	<p><b>Improve demand side efficiencies to help reduce energy consumption:</b></p> <ul style="list-style-type: none"> <li>• Develop and enforce building energy efficiency codes for the residential and tourism sectors.</li> <li>• Organize awareness campaigns and educational programs to inform consumers, businesses, and the tourism sector about the benefits of energy efficiency measures and the Hakathari program.</li> <li>• Explore partnerships with international organizations and experts to gain insights into best practices and innovative solutions for energy efficiency, adapting them to the unique context of Maldives.</li> </ul>
<i>Given the government's fiscal constraints, it will need to rely on mobilizing financing from a wide range of sources to meet its mitigation and adaptation goals.</i>	<p><b>Proactively tap climate funds and continue efforts to leverage private sector financing into RE:</b></p> <ul style="list-style-type: none"> <li>• Identify and tag potential climate projects and strengthen the government's capacity to prepare and implement climate smart energy projects.</li> <li>• Consider launching a Maldives-focused green bond program, supported by guarantees, to attract private sector investment for renewable energy projects.</li> <li>• Collaborate with development partners to design and implement a country-specific risk guarantee program that provides private investors with increased confidence in the RE market.</li> <li>• Establish a dedicated blended financing facility for RE in Maldives which combines concessional loans and/or grants with private sector financing to accelerate the deployment of renewable energy projects.</li> </ul>

**Table B.4: Key transport sector constraints and recommendations**

Constraint	Key Recommendations/Actions
<i>Maldives, particularly Malé, does not have a well-planned and integrated transport system – mainly due to a lack of integrated transport planning and poor project implementation.</i>	<p><b>Develop a comprehensive transport sector master plan to improve transport sector planning:</b></p> <ul style="list-style-type: none"> <li>• Develop a comprehensive transport sector master plan that is integrated with the master plans of other sectors (including the energy and digital sectors), provides costings for construction and operation, and prioritizes e-mobility and road safety.</li> <li>• In addition to supporting the tourism sector, any new transport master plan should focus on the development of efficient and sustainable maritime logistic services to support the fishing and agricultural sectors.</li> </ul>
<i>There is currently limited availability of data to make informed planning and investment decisions in the transport sector.</i>	<p><b>Strengthen data collection to inform effective planning and investment:</b></p> <ul style="list-style-type: none"> <li>• Develop a centralized transport database that systematically gathers key transport related data.</li> <li>• Utilize the database to generate appropriate analytics to support transport sector planning and project monitoring, as this will help improve the impact and efficiency of investments in the sector.</li> </ul>
<i>The current ferry network still has connectivity gaps which are potentially constraining economic development and the delivery of services particularly in the outer atolls.</i>	<p><b>Continue to expand the inter-island ferry network to improve connectivity:</b></p> <ul style="list-style-type: none"> <li>• It will be important to build out inter-island ferry connectivity, taking into account the need to build and upgrade ports and jetties.</li> </ul>

Constraint	Key Recommendations/Actions
	<ul style="list-style-type: none"> <li>Given the need to provide services on loss making routes, it will be critical to look at options to lower costs and improve efficiency, e.g., optimizing routes and combining passengers and freight on the same route.</li> <li>Explore options for attracting private sector investment into the ferry network, given that around USD75 million will be needed to build out the network.</li> </ul>
<i>The transport sector is generating GHG emissions, as well as increasing fiscal constraints, due to fuel and ticket subsidies</i>	<p><b>Promote e-mobility to reduce GHG emission and transport sector related subsidies:</b></p> <ul style="list-style-type: none"> <li>Leverage off the Least Cost Power Generation Expansion plan currently being prepared and develop an Electric Vehicles (EV) roadmap for Maldives.</li> <li>Consider supporting EV pilot schemes that will serve to collect data to support EV charging infrastructure and increased EV share in fleets through the pilot scheme of e-minibuses for the Malé bus network, followed by a potential pilot of an e-ferry network.</li> <li>Integrate electric mobility transition with zero-emissions charging operations enabled by PV generation systems (on the bus and ferry terminal roofs) to ensure both economic and environmental sustainability.</li> </ul>
<i>Given the government's current fiscal constraints, it will be important to look at opportunities for mobilizing private sector capital.</i>	<p><b>Leverage private sector financing, particularly through PPPs:</b></p> <ul style="list-style-type: none"> <li>As part of the transport masterplan, it will be important to screen and identify projects that have the potential to attract private sector investment and develop a pipeline of bankable transport projects.</li> <li>Identify and address the regulatory and policy barriers to private investment in the transport sector and improve overall capacity to implement PPPs.</li> <li>Identify an appropriate risk mitigation package to support private sector investment in the transport sector, e.g., provision of minimum revenue guarantees.</li> </ul>

**Table B.5: Key digital sector constraints and recommendations**

Constraints	Key Recommendations/Actions
<i>While Maldives has 100 percent mobile coverage, there is a digital divide in terms of broadband access between Malé and the outer atolls.</i>	<p><b>Develop a national broadband strategy and action plan to improve broadband access and affordability:</b></p> <ul style="list-style-type: none"> <li>Define policy reforms and regulatory measures to foster competitive pressure with the aim of improving the affordability, coverage, and quality of broadband services.</li> <li>Build the capacity of the regulatory authority to define and enforce regulations on competition and resource management.</li> </ul>
<i>Maldives currently has a duopoly of service providers and a nascent policy and regulatory framework that doesn't incentivize competition.</i>	<p><b>Support a more conducive and competitive environment in the mobile market to reduce prices:</b></p> <ul style="list-style-type: none"> <li>Conduct a study on the viability of active infrastructure sharing in Maldives in consultation with stakeholders and develop legal/regulatory frameworks to cover active infrastructure sharing.</li> <li>Review competition in the communications market in Maldives and impose regulations on dominant providers.</li> <li>Assess the current use of the microwave spectrum to maximize efficiency and reuse of these resources.</li> </ul>
<i>Many atolls are only connected by microwave links, which have limited capacity.</i>	<p><b>Assess the feasibility of extending fiber connections to unconnected atolls:</b></p> <ul style="list-style-type: none"> <li>Undertake a feasibility assessment on the merits and deployment costs of extending fiber to unconnected atolls.</li> <li>Develop public-private funding mechanisms to meet the capital and operating expenditures needed to extend fiber networks and establish a Universal Service Fund as a separate entity that is overseen by an independent administrator to support universal access as outlined in the Telecommunications Act.</li> </ul>
<i>The lack of information on the performance of the telecom sector makes its very difficult to assess sector performance.</i>	<p><b>Increase telecom sector transparency and prescribe standards for service quality and consumer protection:</b></p> <ul style="list-style-type: none"> <li>Require the Communication Authority of Maldives (CAM) to provide monthly statistics on the telecoms sector, such as the number of active SIMs, data usage per SIM, and interconnection prices.</li> <li>Consider imposing a requirement for licensees to make information about the number and type of complaints received from consumers publicly available, and to what extent licensees have complied with the quality-of-service standards issued by CAM.</li> </ul>
<i>Maldives has suffered several instances of data privacy violations, unauthorized access to data, and identify theft, which is potentially reducing the confidence of businesses and citizens in using digital technologies.</i>	<p><b>Introduce a comprehensive legal framework on cybercrime and cybersecurity:</b></p> <ul style="list-style-type: none"> <li>The government should align the substantive cybercrime law provisions in its Telecommunications Act and Penal Code with international best practices and criminalize internationally recognized cybercrimes, to enhance digital security in Maldives.</li> <li>Maldives should introduce comprehensive cybersecurity legislation to, inter alia, identify and categorize critical infrastructure and prescribe measures to enhance security measures for such infrastructure.</li> </ul>
<i>While Maldives does have access to large amounts of climate related data, digital technologies could be better leveraged to collect and run analytics on data more quickly.</i>	<p><b>Leverage digital technologies to address climate change:</b></p> <ul style="list-style-type: none"> <li>Expand and automate data collection to enable seamless data sharing across stakeholders and provide practical insights for government planning and actions around climate change.</li> <li>Identify innovative yet sustainable solutions to bolster the country's information data and decision-making system to help Maldives address the impacts of climate change, e.g., using emerging technologies such as unmanned aerial or underwater vehicles, robotics, and satellite imagery.</li> </ul>

## Annex 1: Balance of payments (percent of GDP)

	2019	2020	2021	2022
<b>Current Account Balance</b>	<b>-26.1</b>	<b>-35.8</b>	<b>-8.7</b>	<b>-16.8</b>
<b>Balance on Goods and Services</b>	<b>-6.1</b>	<b>-17.9</b>	<b>9.6</b>	<b>3.1</b>
<b>Merchandise Trade Balance</b>	<b>-41.9</b>	<b>-39.2</b>	<b>-40.2</b>	<b>-47.4</b>
<b>Merchandise Exports</b>	<b>6.3</b>	<b>7.0</b>	<b>5.4</b>	<b>6.5</b>
<i>o/w fish exports</i>	2.6	4.2	2.7	2.4
<i>o/w jet fuel re-exports</i>	3.6	2.5	2.5	3.9
<b>Merchandise Imports</b>	<b>48.2</b>	<b>46.1</b>	<b>45.7</b>	<b>53.8</b>
<i>o/w fuel</i>	8.1	7.1	8.7	13.5
<i>o/w capital and construction goods</i>	17.6	15.1	14.2	18.0
<b>Services Trade Balance</b>	<b>35.8</b>	<b>21.3</b>	<b>49.8</b>	<b>50.5</b>
<b>Service Exports</b>	<b>59.2</b>	<b>41.3</b>	<b>70.6</b>	<b>76.3</b>
<i>o/w travel services (tourism)</i>	55.3	37.7	67.0	73.1
<b>Service Imports</b>	<b>23.4</b>	<b>20.0</b>	<b>20.8</b>	<b>25.8</b>
<b>Primary Income, net</b>	<b>-9.8</b>	<b>-8.3</b>	<b>-10.2</b>	<b>-11.4</b>
<b>Secondary Income, net</b>	<b>-10.2</b>	<b>-9.7</b>	<b>-8.0</b>	<b>-8.5</b>
<i>o/w worker remittance outflows</i>	10.4	10.7	9.5	9.0
<b>Capital Account Balance</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net borrowing (balance from current and capital a/c)</b>	<b>-26.1</b>	<b>-35.8</b>	<b>-8.7</b>	<b>-16.8</b>
<b>Financial Account Balance (excluding reserves and related items)</b>	<b>34.6</b>	<b>37.9</b>	<b>8.8</b>	<b>18.0</b>
<b>Direct Investment, net</b>	<b>16.8</b>	<b>11.9</b>	<b>12.3</b>	<b>11.7</b>
<b>Portfolio Investment, net</b>	<b>13.5</b>	<b>1.9</b>	<b>2.8</b>	<b>-1.1</b>
<i>o/w general government debt issuance</i>	0.0	0.0	5.9	-0.9
<b>Other Investment, net</b>	<b>4.2</b>	<b>24.1</b>	<b>-6.2</b>	<b>7.4</b>
<b>Net Errors and Omissions</b>	<b>-7.8</b>	<b>3.4</b>	<b>-3.6</b>	<b>-0.9</b>
<b>OVERALL BALANCE</b>	<b>0.7</b>	<b>5.5</b>	<b>-3.4</b>	<b>0.4</b>
<b>FINANCING</b>				
<b>Official Reserves (- increase)</b>	<b>-0.7</b>	<b>-5.5</b>	<b>3.4</b>	<b>-0.4</b>

## Annex 2: Key fiscal indicators (percent of GDP)

	2019	2020	2021	2022
<b>Total Revenue and Grants</b>	<b>26.4</b>	<b>26.7</b>	<b>26.4</b>	<b>27.8</b>
<b>Total Revenue</b>	<b>25.1</b>	<b>25.0</b>	<b>25.2</b>	<b>27.1</b>
<b>Tax Revenue</b>	<b>18.8</b>	<b>19.2</b>	<b>18.2</b>	<b>20.0</b>
<i>o/w Import Duties</i>	3.9	4.0	3.5	3.6
<i>o/w Business and Property Tax</i>	3.6	4.8	2.4	3.3
<i>o/w Tourism Goods and Services Tax</i>	5.6	3.9	6.5	6.8
<i>o/w General Goods and Services Tax</i>	3.2	3.7	3.1	3.2
<i>o/w Airport Service Charges</i>	0.8	0.5	0.6	0.8
<i>o/w Green Tax</i>	1.0	0.6	1.0	1.0
<b>Non-Tax Revenues</b>	<b>6.2</b>	<b>5.8</b>	<b>6.9</b>	<b>7.0</b>
<i>o/w Airport Development Fees</i>	0.8	0.5	0.6	0.8
<i>o/w Property Income</i>	2.0	1.3	2.7	2.2
<b>Grants</b>	<b>1.3</b>	<b>1.7</b>	<b>1.3</b>	<b>0.6</b>
<b>Total Expenditure</b>	<b>32.9</b>	<b>50.4</b>	<b>40.7</b>	<b>41.8</b>
<b>Recurrent Expenditure</b>	<b>24.3</b>	<b>35.6</b>	<b>29.8</b>	<b>29.4</b>
<i>o/w Personal Emoluments</i>	9.4	14.4	10.7	9.9
<i>o/w Pensions, Retirement Benefits &amp; Gratuities</i>	1.7	2.7	2.0	1.8
<i>o/w Goods and Services</i>	5.4	7.4	6.9	5.5
<i>o/w Grants, Contributions and Subsidies</i>	5.9	8.2	7.5	8.7
<i>o/w Interest Payments</i>	1.7	2.8	2.6	3.4
<b>Capital Expenditure</b>	<b>8.7</b>	<b>14.8</b>	<b>10.9</b>	<b>12.7</b>
<i>o/w Public Sector Investment Program</i>	4.8	9.7	6.6	9.4
<i>o/w Development Project Investment &amp; Loan Outlays</i>	3.8	5.0	4.4	3.3
<b>Primary Fiscal Balance</b>	<b>-4.5</b>	<b>-20.9</b>	<b>-11.6</b>	<b>-11.0</b>
<b>Overall Fiscal Balance</b>	<b>-6.5</b>	<b>-23.7</b>	<b>-14.2</b>	<b>-14.4</b>

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