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This bulletin is compiled by the Research Division (RD) of the Maldives Monetary Authority (MMA). It covers developments in the domestic and international economy during the third quarter of 2022. The analyses are based on information provided by relevant government authorities, commercial banks operating in the country, public enterprises and other private sector sources, as at 07 November 2022. Where actual data is not readily available, estimates have been made by RD based on available information. The timely receipt of data is therefore crucial to the compilation of this publication and the analyses contained herein.

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Abbreviations

BPT	business profit tax
CPI	consumer price index
FAO	Food and Agriculture Organization
GDP	gross domestic product
G-GST	general goods and services tax
GIR	gross international reserves
GWP	Gross Written Premium
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MBS	Maldives Bureau of Statistics
MIFCO	Maldives Industrial Fisheries Company
MMA	Maldives Monetary Authority
NCG	net claims on central government
NDA	net domestic assets
NFA	net foreign assets
NPL	non-performing loan
ODF	overnight deposit facility
PMI	purchasing managers' index
ROA	return on assets
ROE	return on equity
QNA	quarterly national accounts
RBI	Reserve Bank of India
SOE	state-owned enterprise
STO	State Trading Organization
T-GST	tourism goods and services tax
UNWTO	United Nations World Tourism Organization
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WEO	World Economic Outlook

RECENT ECONOMIC DEVELOPMENTS

Macroeconomic Outlook

With turbulent economic conditions persisting across the globe, the recovery of the global economy is expected to decelerate in 2022 with further slowdowns expected for 2023. According to the International Monetary Fund (IMF) 'World Economic Outlook (WEO) October 2022', the global GDP is now estimated to grow by 3.2% in 2022 and 2.7% in 2023, with several advanced and emerging market economies expected to register quarterly output contractions during 2022-2023. This weak growth profile reflects the materialisation of several downside risks identified in previous WEO updates such as the continued supply chain disruptions emanating from China's "zero-COVID" policies and spill-overs from the war in Ukraine, as well as the tight financial conditions stemming from aggressive monetary policies implemented by central banks to combat the significant hikes in inflation.

Despite the negative global headwinds, the Maldivian economy is expected to continue its strong recovery trajectory in 2022 and 2023. According to the revised forecast of October 2022¹, the domestic economy is estimated to grow by 12.3% in 2022 and reach pre-pandemic levels of output by the end of 2022. The robust economic growth projections for the economy is a result of the strong performance of the tourism sector during the year; incoming high frequency data indicate that the tourist bednights grew by 33% in the first three quarters of 2022 and the sector is expected to register further growth rates in 2023 as well. As such, the latest forecast indicates a real GDP growth of 7.6% for 2023 which is higher than the average growth rates registered by the domestic economy prior to the COVID-19 pandemic.

In spite of the strong recovery of tourism receipts in 2022, the current account deficit for the year is expected to widen to 18% of GDP in 2022 from 8% in 2021 as per projections of October 2022, owing to the significant increase in the total imports. With significant hikes in global commodity prices, particularly oil, the total expenditure on merchandise imports are expected to increase from US\$2.4 billion in 2021 to US\$3.2 billion in 2022. During the year, the current account deficit is expected to be financed primarily by foreign direct investments (FDI) inflows, drawing on commercial bank deposits abroad, and borrowings by the government and the private sector. However, as the current account deficit is projected to exceed the overall financial account position during 2022, the overall balance of payment is anticipated to record a deficit of US\$167.4 million. Reflecting these developments, the GIR is set to decline to US\$638.4 million, from US\$805.8 million in 2021. With the moderation of oil prices anticipated for 2023, together with the forecasted growth of tourism sector and the overall economy, the current account deficit is expected to narrow to 15% of GDP by the end of 2023. Similar to 2022, the current account deficit is projected to be financed predominantly by the FDI inflows and borrowings by the government and the private sector.

The domestic inflation rate moderated slightly from 2.9% in Q2-2022 to 2.7% in Q3-2022. With sustained inflationary pressures originating from higher global commodity prices, domestic inflation is expected to remain high in 2022 and average at 2.2% for the year. Furthermore, with the anticipated government policy changes such as the hike in the general goods and services tax (G-GST)

¹ According to the growth forecast scenarios estimated in October 2022 jointly by the MMA and the Ministry of Finance.

rate from 6% to 8% in 2023 and the transition to a more targeted fuel and electricity subsidy policy, along with persistently high global inflation rates, domestic inflation rate is expected to accelerate significantly to 5.4% in 2023.

The risks to the domestic outlook remain firmly tilted towards the downside. The weakening of global outlook, especially Europe, tighter external financial conditions and widespread debt distress, resurgence of more severe variants of COVID-19, and potential shocks to global energy and food prices resulting from escalation of global tensions

may severely hinder the anticipated development of the domestic economy, by impacting the rate at which tourists arrive from various advanced and emerging market countries. However, a relaxation of border controls implemented by China, coupled with a better-than-anticipated surge of tourist arrivals from traditional Western Europe source markets are potential upside risk factors which may result in the domestic economy registering higher GDP growth compared to the baseline estimates.

Overview

The recovery of the Maldivian economy is estimated to have continued during the third quarter of 2022, as most of the available high frequency indicators and business survey results suggest an expansion across all major sectors, largely in annual terms. This was against the backdrop of a slowdown in the tourism sector coinciding with the off-peak season. Nonetheless, major sectors including transportation and communication, wholesale and retail trade, and construction is estimated to have strengthened in Q3-2022.

As for the developments in domestic prices, the rate of inflation, as measured by the annual percentage change in the National Consumer Price Index (CPI), decelerated to 2.7% in Q3-2022, from 2.9% in Q2-2022. Developments in domestic inflation during the quarter mainly reflected higher prices in most of the major food categories, energy-related items, health, transport services and services of restaurants and cafés, which offset the decline in prices for information and communication services. This reflected the elevated global food and energy prices, driven by the demand and supply imbalances, and global supply chain disruptions amid the war in Ukraine.

As for fiscal developments, total government revenue (excluding grants) registered an annual increase during Q2-2022², on account of a significant increase in tax revenue, together with an increase in non-tax revenue. This reflected an upturn in economic activity fuelled by the growth in tourism sector. Meanwhile, total expenditure (excluding debt amortisation) also grew during Q2-2022. This was owing to a significant rise in recurrent expenditure, together with an increase in capital expenditure. The increase in recurrent

expenditure was driven by a substantial growth in administrative and operational expenses, while growth in capital expenditure largely stemmed from expenditure on infrastructure assets.

Turning to monetary developments, annual broad money growth decelerated sharply to 11% at the end of September 2022, owing to a sizeable slowdown in the growth of net foreign assets (NFA), despite an expansion in net domestic assets (NDA) of the banking system. The slowdown in NFA largely reflected a slower growth in foreign currency deposits held abroad by commercial banks and a decline in foreign asset accumulation by the MMA. Meanwhile, the growth in NDA was led by the increase in net credit to the government (NCG) by the MMA as well as commercial banks, and the expansion in bank credit to public non-financial corporations, despite the increase in overnight deposit facility (ODF) placements by commercial banks.

On the external sector front, total merchandise exports observed an increase driven by a significant rise in merchandise re-exports, although domestic exports recorded a decline during the quarter. This primarily reflected an increase in jet fuel re-exports, while the decline in domestic exports largely mirrored significant falls in earnings from fresh or chilled yellowfin tuna and frozen yellowfin tuna exports. Further, export earnings from frozen skipjack tuna also declined during the quarter. Meanwhile, merchandise imports observed a sizeable increase with all major import categories recording growths. This reflected both the continued expansion of import demand amid the post-pandemic recovery, and the hike in global oil prices.

² Data for Q3-2022 was not available at the time of compilation of this report.

International Economic Developments

Global Output

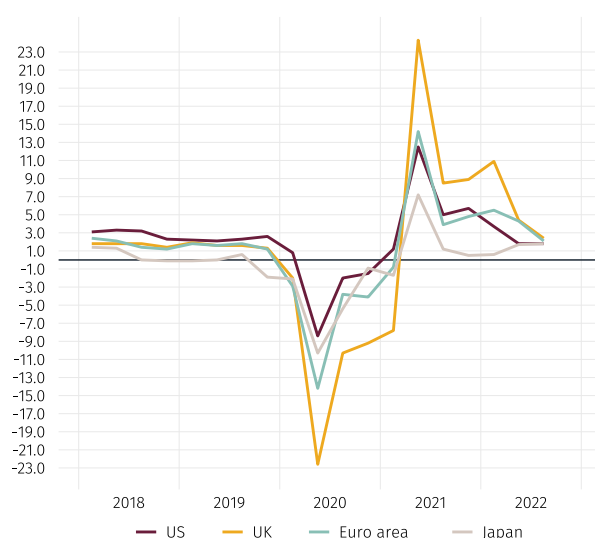
The global economy showed mixed developments in Q3-2022, due to divergent patterns in both advanced; and emerging markets and developing economies. While growth outperformed expectations in some countries, the war in Ukraine has been a key factor hindering economic growth in certain countries. According to the IMF, 'World Economic Outlook (WEO) October 2022', after registering a growth of 6.0% in 2021, global growth is estimated to decelerate to 3.2% in 2022, a downward revision of 0.4 percentage points from estimates made in April.

Looking at the advanced economies, the US economy registered a growth of 1.8% in Q3-2022, remaining broadly unchanged when compared with the previous quarter (Figure 1). The annual increase in growth primarily stemmed from the narrowing of trade deficit driven by the increase in exports. Further, personal consumption expenditure (PCE), the main driver of the economy, contributed positively to growth reflecting the pickup in consumer spending, as the increase in spending on services offset the decrease in spending on goods during the review quarter.

As per the Eurostat flash estimates, the euro area recorded a growth of 2.1%, a further deceleration from 4.3% recorded in the previous quarter, with high inflation being the key factor dragging down the economy with negative effects on consumer spending and production. Further, severe disruptions in the supply of gas have deteriorated the economic situation with both business and consumer confidence falling

Figure 1: Real GDP Growth in the Advanced Economies, 2018 - 2022

(annual percentage change)



Source: Bloomberg Database

sharply. Looking at the growth performance of major economies, growth in Germany remained stable owing to robust private consumption expenditure while, economic growth in France observed a slowdown primarily due to negative contribution from foreign trade. Similarly, growth in Italy decelerated from the previous quarter, but remained resilient due to increase in consumer demand. Further, the growth momentum in Spain moderated in the review quarter, with consumer demand stalling due to higher energy prices.

Contrary to the performance of other major economies, the Japanese economy is estimated to have grown by 1.8% in Q3-2022, up from 1.7% recorded in Q2-2022. With the impact of COVID-19 waning, the pickup in growth has been driven primarily by the strengthening of

private consumption, despite the effects of higher commodity prices. Further, the economy continues to be supported by robust external demand, while industrial production has increased with the easing of supply-side constraints.

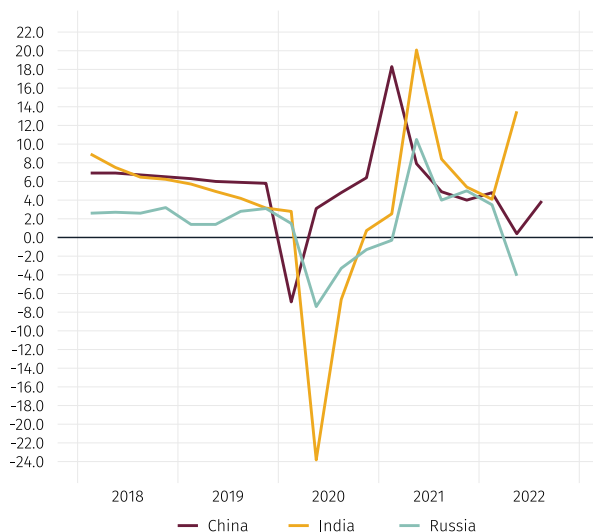
The growth momentum in the United Kingdom (UK) slowed down further in Q3-2022 and registered a growth of 2.4% in the review quarter, down from 4.4% observed in the preceding quarter. This largely reflected a stagnation in output from the services sector, as well as a negative contribution from production output. The economy has been surrounded by high cost of living due to inflated energy prices, which has weighed on the disposable income of the households.

Looking at the emerging markets and developing economies, China's economic growth observed a turnaround and grew by 3.9% in Q3-2022, after plunging to 0.4% in the previous quarter (Figure 2). After a massive COVID-19 outbreak and related stringent containment measures in the preceding quarter, the economy benefitted from the gradual relaxation of these measures during the review quarter. As a result, positive contributions were observed in net trade, investment and consumption, although key indicators pointed towards a loss in momentum.

The growth momentum in India observed a moderation in the review quarter, following a remarkable growth of 13.5% in the preceding quarter. In this regard, high-frequency data for the economy—the composite purchasing manager's index (PMI) indicators for both services and manufacturing sectors—witnessed a deceleration towards the end of the quarter. Nevertheless, the economy remains resilient despite the uncertainties in the global economic environment.

The Russian economy is estimated to have outperformed expectations and accelerated in Q3-2022, according to the available high-frequency indicators. This was primarily due to the pickup in business activity as enterprises adjust to operate

Figure 2: Real GDP growth in the Emerging Economies, 2018 - 2022
(annual percentage change)



Source: Bloomberg Database

under the tight external environment conditions and overcome the financial restrictions. While production and logistical difficulties persist for businesses, consumer demand continues to recover, albeit at a slower pace, supported by fiscal policy measures.

Global Inflation

Global inflation soared to a multidecade high, prompted by the ongoing war in Ukraine which led to higher global energy and food prices. As such, headline inflation in the selected advanced economies accelerated considerably, while it remained elevated for selected emerging and developing economies during Q3-2022.

Looking at the price developments in the advanced economies, the rate of inflation in the US remained elevated, despite decelerating modestly to 8.1% in Q3-2022, from 8.6% registered in Q2-2022—the highest rate since the fourth quarter of 1981 (Figure 3). This was primarily owing to rising shelter and food costs, which offset the decline in gasoline prices. Similarly, price increases were observed in medical care services as well as transportation services.

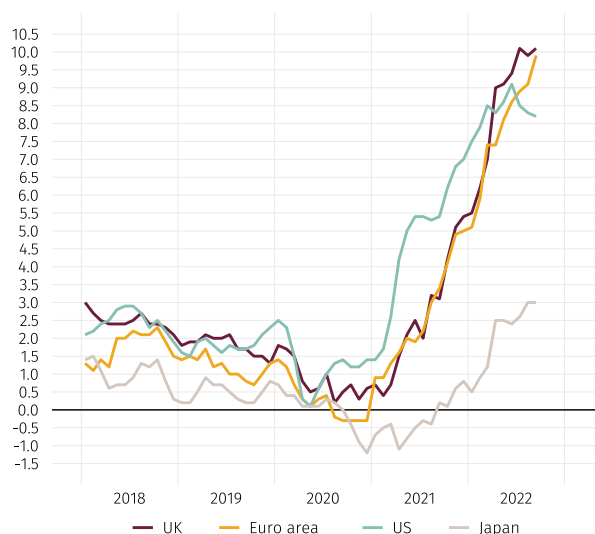
In the euro area, the rate of inflation as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) rose to 9.3%—the highest recorded—in Q3-2022, from 8.0% in the previous quarter. The acceleration mainly reflected the high energy prices and its pass-through to related items such as utilities and transportation costs, stemming largely from the Russia-Ukraine war related prices pressures. In addition, food and beverage prices also remained elevated during the review quarter.

In Japan, the rate of inflation further accelerated to 3.1% in the review quarter, higher than the 2.4% recorded in the preceding quarter. The inflation rate continues to remain above the Bank of Japan's target rate of 2.0%. This predominantly reflected the surge in domestic energy and food prices owing to rising import costs. Meanwhile, inflationary pressures were partially dampened by the fall in the cost of information and communication (mobile fees and plans) services.

The rate of inflation in the UK further accelerated to 10.4% in Q3-2022 (the highest rate of inflation recorded since the second quarter of 1991), after registering 9.5% during the previous quarter. The largest upward contributions stemmed from both the housing, water, electricity, gas and other fuels; and transport category, reflecting the impact of the surge in energy prices on such categories. Similarly, food prices, cost of furniture, household equipment and maintenance category, and services of restaurants and hotels also contributed to the upward pressure on inflation.

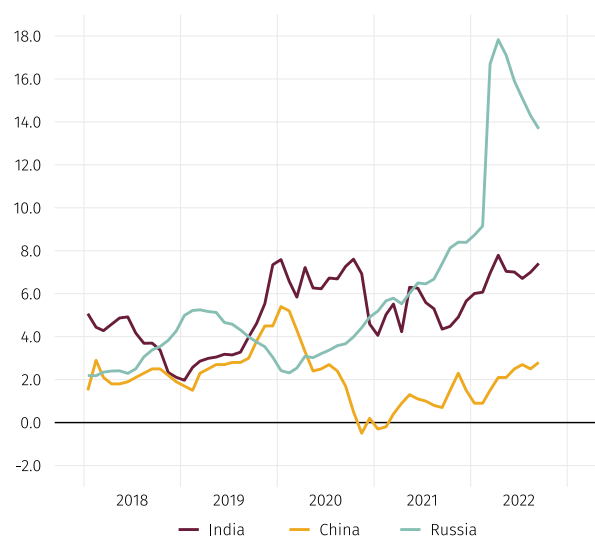
Turning to the emerging market and developing economies, the rate of inflation in China rose to 2.7% in the review quarter from 2.3% recorded in Q2-2022 (Figure 4). The acceleration mainly reflected the surge in prices of pork in September—a staple meat in the country, owing to increased consumer demand. However, inflation remained low owing to the property market crisis, heatwaves, and weaker demand amid stricter COVID-19 measures.

Figure 3: Inflation Rate in the Advanced Economies, 2018 - 2022
(percent)



Source: Bloomberg Database

Figure 4: Inflation Rate in the Emerging Economies, 2018 - 2022
(percent)



Source: Bloomberg Database

In India, the rate of inflation decelerated marginally to 6.0% in Q3-2022, from 6.5% in Q2-2022. The easing of energy prices during the review quarter were mostly offset by the surge in prices of food items—mainly higher price of dairy products, meat and poultry, and certain vegetable items. Further, price increases were observed for categories of fuel and light, clothing and footwear, and housing segment.

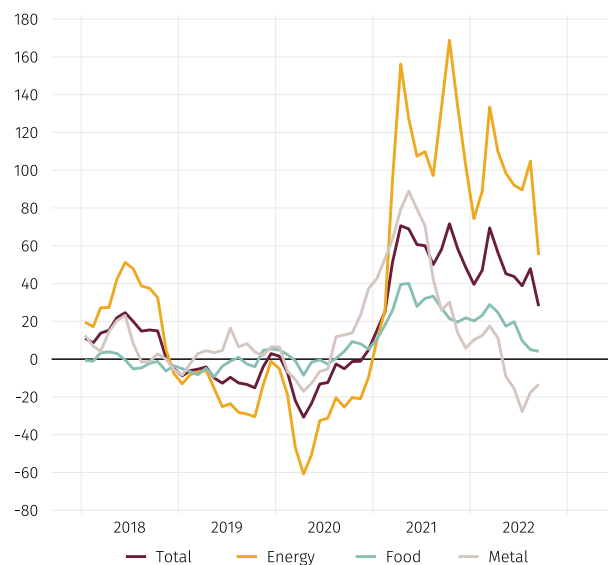
The rate of inflation in Russia decelerated to 14.4% in Q3-2022, from 15.9% in Q2-2022, mainly reflecting the fall in the growth of food prices (excluding fruits and vegetables). This was mainly owing to a noticeable expansion of supply and lower export prices during the quarter. Further, decelerations stemmed from restrained demand and export restrictions on several goods produced domestically. Meanwhile, upward price pressures during the quarter were driven predominantly by higher import costs and restrictions on imports of goods and services.

Commodity Prices

The IMF price index for all commodities rose by 38% and 1% in annual and quarterly terms, respectively, observing further moderation when compared with Q2-2022 (Figure 5). During the quarter, both energy and food prices witnessed hikes in annual terms, although the prices moderated in quarterly terms, primarily reflecting the easing of supply bottlenecks. Meanwhile, metal prices declined in both annual and quarterly terms owing to weaker demand. Mirroring these developments, the energy price index observed a large gain in annual terms, while observing a slight acceleration in quarterly terms. Similarly, the non-energy price index witnessed a modest growth in annual terms, although a notable decline was recorded when compared with Q2-2022.

The price of crude oil averaged³ US\$96.4 per barrel during Q3-2022, representing an increase of 35% in annual terms, while this depicted a decline of 12% in quarterly terms. After surging to a record high during the previous quarter, oil prices moderated in Q3-2022 owing to a combination of factors. While the global growth momentum slowed down amid concerns surrounding the impending global recession, demand weakened, particularly in

Figure 5: Commodity Prices, 2018 - 2022
(annual percentage change)



Source: IMF

China, as pandemic restrictions continued to weigh on consumption. However, this has been curbed to some extent by the hike in demand for oil products from power generators, with such products being preferred over natural gas due to the higher prices. Further, with the global tourism industry observing a steady recovery, demand for jet fuel rose considerably when compared with a year ago. Meanwhile, on the supply front, prices declined due to the release of strategic reserve stocks, while production also recovered to pre-pandemic levels. However, due to operational issues and capacity constraints, a significant gap continues to exist between the target and the actual output, with most countries in the OPEC (Organization of the Petroleum Exporting Countries) and the OPEC+ unable to meet the production quotas.

Turning to major commodities in the non-energy index, the base metal index fell by 20% both in annual and quarterly terms. This primarily reflected softer global demand amid concerns of a possible global recession. In particular, demand from China has moderated due to the ongoing

³ Quarterly average of Brent, West Texas Intermediate, and Dubai Fateh.

lockdowns as well as the distress in the property sector. Looking at the global food prices, the IMF food price index grew by 7% in annual terms, while it declined by 12% in quarterly terms. Similarly, the Food and Agriculture Organization (FAO) food price index also registered an annual growth of 8% and a decline of 12% quarterly terms during Q3-2022. The moderation in prices largely reflected increased supplies of grain from the Ukraine in the global market.

Global Financial Markets

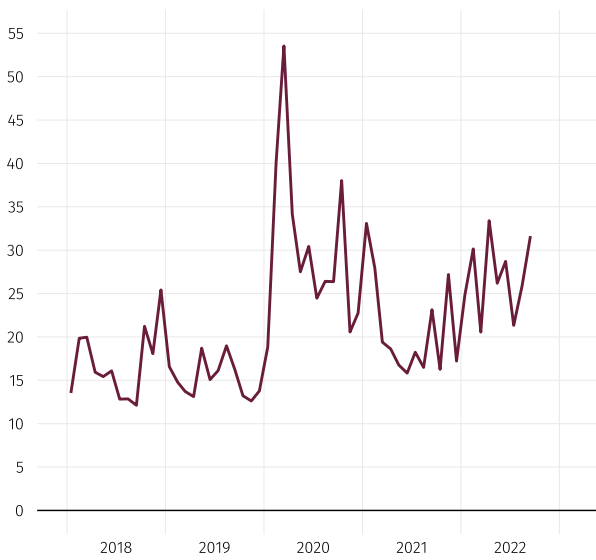
The global financial conditions have continued to tighten since April 2022, fuelled by the extremely volatile markets amid high inflation rates and successive tightening of the monetary policy measures by various central banks. In Q3-2022, the share prices fell on average in the majority of the economies when compared to a year ago. Similarly, share prices on average observed declines in both the advanced, and emerging and developing country groups when compared with the preceding quarter. As such, the implied volatility of the US stock market registered an increase during the review quarter (Figure 6). However, the yield-to-maturity on longer term sovereign bonds accelerated in most of the economies in both the country groups when compared to Q3-2021 and Q2-2022—with the exception of Europe and China—mirroring the impact of the monetary policy announcements on the bond market.

During the quarter, most economies further tightened monetary policy measures to curb the soaring inflationary pressures. In this regard, the

Federal Reserve raised the policy rates by a total of 225 basis points in July and September 2022—with two consecutive hikes in July. Similarly, Bank of England increased the policy rate by a total of 50 basis points during the quarter—the highest level since December 2008. In tandem, the European Central Bank also raised their policy rate for the first time since 2011. Meanwhile, in the emerging markets and developing economies, the Reserve Bank of India raised the policy rate during the quarter in order to tackle the persistently higher inflation. However, the Bank of China further cut rates amid renewed lockdowns and the deepening property downturn. Similarly, Bank of Russia lowered the interest rate by a total of 200 basis points in tandem with inflation dynamics of the country.

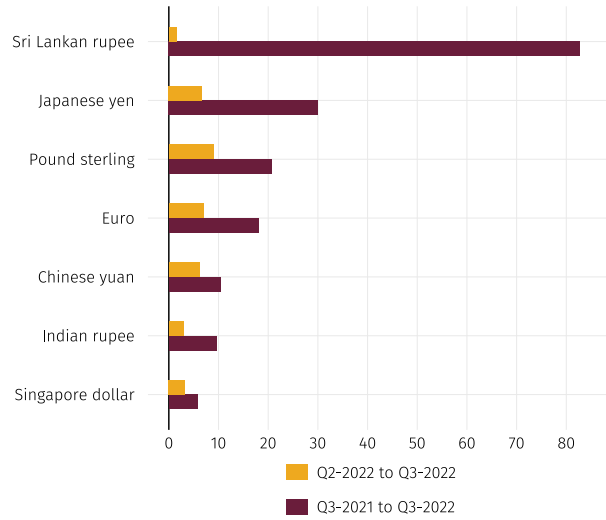
In the foreign exchange market, the overall performance of the US dollar against the currencies of the Maldives' major trading partners was strong during the review quarter, when compared with Q3-2021 and Q2-2022 (Figure 7). The US dollar strengthened against all the currencies at the end of Q3-2022 when compared to a year ago, with the Sri Lankan rupee recording a significant depreciation in value mirroring the domestic economic conditions. Meanwhile, in quarterly terms, the US dollar strengthened against all the currencies, reflecting the demand for the safe haven currency amid rising inflationary pressures.

Figure 6: Volatility Index, 2018 - 2022
(percent)



Source: Bloomberg Database

Figure 7: Exchange Rates, Q3-2022
(percentage change)



Source: Bloomberg Database

Note: Percentage changes have been calculated using spot rates at the end of each quarter.

Economic Developments in the Maldives

Real Economy

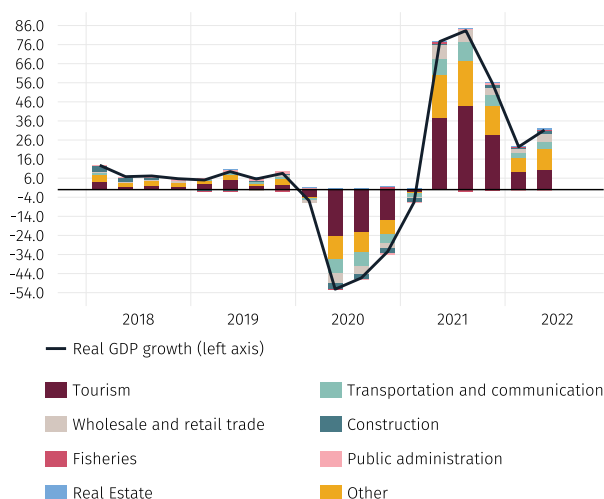
Gross Domestic Product

The recovery of the Maldivian economy is estimated to have continued during the third quarter of 2022, despite the slowdown in tourism sector. As such, most of the available high frequency indicators and business survey results suggest that all major sectors expanded in annual terms during the quarter. The slower pace of growth of the tourism sector during the review quarter primarily reflected the decline in arrivals due to off-peak season, as evidenced by the results of the MMA's *Quarterly Business Survey Q3-2022*, which indicated negative indices for resort bookings and total revenue.

According to the latest Quarterly National Accounts (QNA)⁴ estimates released by the Maldives Bureau of Statistics (MBS) on 5 October 2022, real GDP registered an annual growth of 31.2% in Q2-2022⁵, after a growth of 22.4% in Q1-2022 (Figure 8). Similarly, when compared to the pre-pandemic levels of Q2-2019, real GDP registered a growth of 11.5% during the quarter.

In Q2-2022, real GDP growth was mainly contributed by the tourism sector (10.4 percentage points); followed by wholesale and retail trade sector (4.0 percentage points) and transportation and communication sector (4.0 percentage points)—both sectors which are closely linked to the developments in the tourism sector. Other

Figure 8: Contribution to Real GDP Growth by Economic Sectors, 2018 - 2022
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

notable positive contributions to growth were also made by the human, health, and social work sectors (1.9 percentage points), construction sector (1.5 percentage points) and entertainment, recreation, and other services (1.2 percentage points). The construction activity is estimated to have moderately expanded compared to the previous quarter, as indicated by the increase in gross value added of the sector (21.2%). Further, fisheries sector (0.9 percentage points) and the financial services sector (0.8 percentage points) registered growths, with output exceeding pre-

⁴ Latest QNA data available at the time of compilation of this report was for Q2-2022. Advance estimates data are released with a four-month lag.

⁵ As QNA data for Q2-2022 used in this analysis is based on advance estimates, the data is subject to change in the upcoming revisions.

pandemic levels of Q2-2019, reflecting increase in activities of the fisheries sector as well as both banking and insurance services.

Meanwhile, the gross value added of the public administration sector is estimated to have declined by 6.5% (-0.7 percentage points), mirroring a decline in public administration and defence services.

Tourism

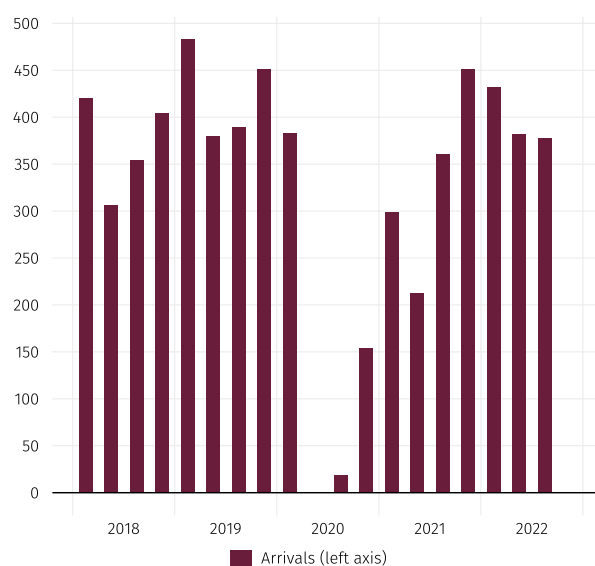
Despite the ongoing challenges from the Russia-Ukraine war, recovery of the tourism sector has been resilient during the review quarter. As such, more than half of the target for tourist arrivals (1.6 million tourists) have been achieved, supported strongly by increased arrivals from the European source markets—mainly owing to the pent-up demand from traditional source markets—as well as the Indian market.

During Q3-2022, tourist arrivals rose by 5% when compared to the same period of 2021, totalling 377,409 in arrivals. However, total tourist arrivals remain 3% below pre-pandemic levels of Q3-2019 and registered a modest decline when compared with Q2-2022, primarily reflecting a slowdown in tourist arrivals from India (Figure 9). With the resumption of operation by Aeroflot⁶, the daily average arrivals from Russia has increased to 678 arrivals per day during September 2022, from an average of 511 arrivals per day during June 2022. The Russian market accounted for 16% of total market share during the quarter, up from 8% recorded in Q2-2022. However, arrivals from Russia continue to remain below the average arrivals (736 arrivals) observed prior to the war (i.e. from 1 January 2022 to 24 February 2022), while arrivals from Ukraine also remained comparatively low.

As for the tourist bednights, a 13% annual growth was observed during the quarter, while the

Figure 9: Inbound Tourist Arrivals, 2018 - 2022

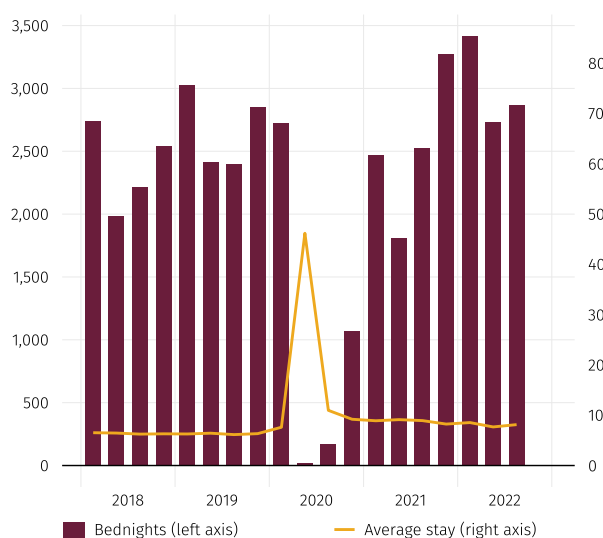
(thousands)



Source: Ministry of Tourism

Figure 10: Bednights and Average Stay, 2018 - 2022

(thousands, days)



Source: Ministry of Tourism

average stay dropped marginally to 8.2 days in Q3-2022, from 8.9 days in Q3-2021. Similarly, bednights rose by 19% when compared to pre-pandemic levels (Figure 10).

In terms of market composition, Europe remained as the main source region, accounting for a sizeable 59% of tourist arrivals, while the market

⁶ Aeroflot resumed its operation during May 2022 and has increased the frequency of flights from three times a week to six times a week in June 2022.

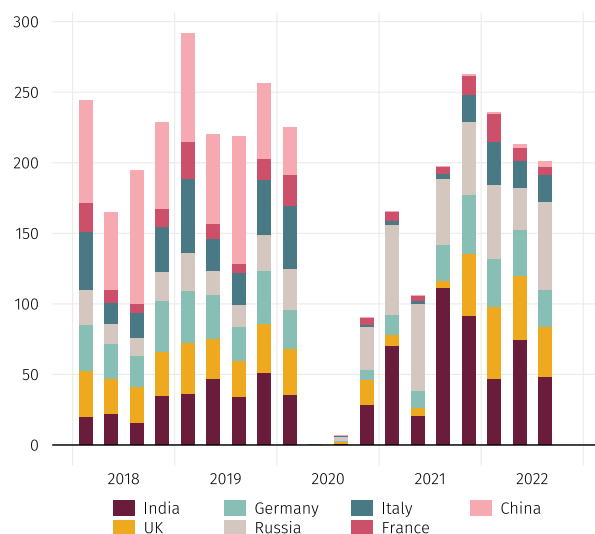
share of Asia dropped to 27% owing to a decline in Indian arrivals⁷—after registering 31% during Q2-2022 (Figure 11). During Q3-2022, Russia was the largest source market, accounting for 16%, followed by India (13%), the UK (9%), Germany (7%), and Italy (5%). In this regard, increases were observed for arrivals from Russia, UK and Italy, while arrivals from Germany also observed a modest growth.

According to international flight movements data, the number of flight movements rose by 7% when compared with Q3-2021 and by 10% compared to Q3-2019. This mainly reflected the increase in frequency of flight movements by major carriers such as Sri Lankan Airlines, Singapore Airlines, Emirates and Qatar Airways. During the quarter, Bangkok Airways resumed operations to the Maldives after halting operations in 2020 due to the COVID-19 pandemic.

On the supply side, the number of resorts in operation on average remained unchanged at 164 resorts during Q3-2022 when compared with the preceding quarter. However, number of resorts increased when compared to 156 resorts recorded in Q3-2021. The operational bed capacity of the industry rose by 16% in Q3-2022 compared to Q3-2021 and by 3% compared with the previous quarter. Of the total operational bed capacity, resorts accounted for 69% of beds, followed by guesthouses (24%). In Q3-2022, the occupancy rate of the industry fell to 53%, from 55% recorded a year ago. Meanwhile, the average occupancy rate of resorts rose to 65%—an uptick from 62% recorded during Q3-2021.

As for developments in the global tourism, international tourist arrivals depicted strong signs of recovery over the first seven months of 2022. According to the United Nations World Tourism Organization (UNWTO), international tourist arrivals almost tripled during the period (by 172%)

Figure 11: Arrivals from Major Inbound Markets, 2018 - 2022 (thousands)



Source: Ministry of Tourism

compared to the corresponding period of 2021 and reached 57% of the pre-pandemic levels of 2019. The recovery reflected the strong pent-up demand for international travel amid easing of travels restrictions across countries. The recovery remains uneven across countries and regions, with Asia and the Pacific region posting the largest drop in arrivals over the same period of 2019 (-86%). Meanwhile, the Middle East region recorded the smallest decline (-24%), while the European region posted a decline of 26%. The continued impact of the Russian war in Ukraine, high global inflationary pressures, and looming global recession continues to pose risks for recovery of global tourism.

Construction

Activity in the construction sector continued to expand in Q3-2022, following a 32.5% growth in the gross valued added of the sector in the previous quarter, which, however, is 20.7% lower than pre-pandemic levels of Q2-2019. The growth of the sector reflected the ease in labour shortages as well as easing of supply chain disruptions.

⁷ The decline in arrivals mainly reflects the higher base effect of a surge in arrivals from India in August and September 2021.

While the import of construction-related items rose significantly—an annual increase of 71%—the commercial bank credit⁸ to the construction sector⁹ declined by 6% at the end of Q3-2022. This was largely due to the decline in credit extended for renovation of resorts and new resort development. Further, declines were observed in credit lent for construction of residential or housing projects, property development projects and construction of guest houses. However, increases were observed for credit extended to real estate of commercial buildings and residential or housing projects.

According to the MMA's Quarterly Business Survey for Q3-2022, the volume of construction activity index rose by 7 points to register 54 in Q3-2022—55% of businesses reported growth in the volume of construction activity, while 44% of businesses reported no change and 1% reported declines. Meanwhile, the volume of orders received index dropped by 11 points to 35 during the quarter.

Fisheries

Activity in the fisheries sector observed mixed developments during the third quarter of 2022, similar to the preceding quarter, according to the available high frequency indicators. In Q3-2022, fish purchases made by processing companies fell in annual terms, although the volume of fish exports increased. Meanwhile, the gross value added of the fisheries sector registered a growth of 27.7% during Q2-2022 and exceeded pre-pandemic levels of 2019 (14.0%).

In Q3-2022, fish purchases totalled 14,452.0 metric tonnes, observing a decline of 19% compared to Q3-2021. This was largely due to the 53% decrease in purchases of yellowfin tuna and 5% decline in purchases of skipjack tuna. The decline in fish purchases mainly reflected the limited purchases¹⁰ made by fish processing companies owing to the limited storage capacity, despite a better-than-anticipated increase in fish catch from the Southern Region during the quarter. As for local purchase prices¹¹ during the quarter, the average purchase price of skipjack tuna¹² rose marginally from MVR14.0 per kilogram to MVR15.0 per kilogram, while that of iced skipjack tuna rose from MVR16.0 per kilogram to MVR17.0 per kilogram, in annual terms. Similarly, the average purchase price of yellowfin tuna by local companies witnessed a modest uptick to MVR89.3 per kilogram in Q3-2022, from MVR88.8 per kilogram in Q3-2021.

The volume of fish exports increased by 2% (413.9 metric tonnes) in Q3-2022 when compared with Q3-2021 and totalled 19,372.1 metric tonnes. The growth in the volume of fish exports primarily reflected the increase in frozen yellowfin tuna exports, which more than doubled (6,505.9 metric tonnes) during the quarter. Meanwhile, exports of frozen skipjack tuna (4,423.9 metric tonnes), fresh or chilled yellowfin tuna (1,343.1 metric tonnes), and canned or pouched tuna (63.1 metric tonnes) observed declines during Q3-2022.

⁸ Although a substantial portion of the financing for public infrastructure projects, resort development and social housing development is sourced externally, commercial bank credit to the construction sector remains an important indicator to gauge the performance of the sector.

⁹ Construction sector-related loans include loans for new resort development, resort renovation and construction of guesthouses (classified as tourism sector loans), as well as loans to the real estate sector. Hence, this figure will be different from the loans to the construction sector reported under Monetary Developments.

¹⁰ During September 2022, weighing limits were imposed by MIFCO and Horizon Fisheries due to the increase in fish catch which overwhelmed the storage capacity of the companies.

¹¹ Based on prices collected by the Ministry of Fisheries, Marine Resources and Agriculture.

¹² In September 2020, the state-owned enterprise MIFCO abandoned the fixed rate of fish purchases.

Wholesale and Retail Trade

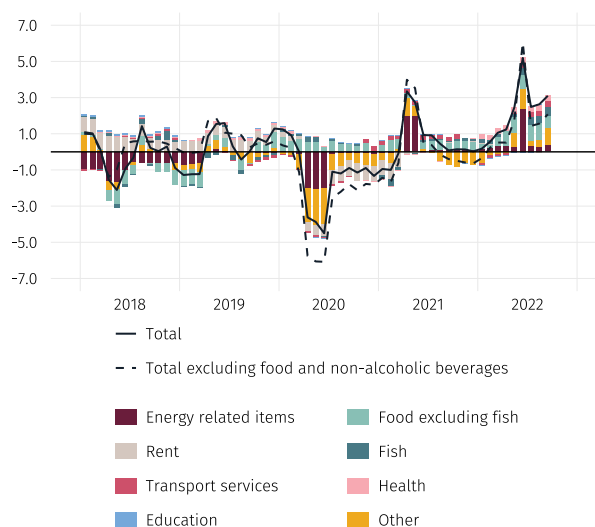
In Q3-2022, the wholesale and retail trade activity is estimated to have expanded, as indicated by the private sector imports and bank credit to the sector. As for Q2-2022, activity in the wholesale and retail trade sector is estimated to have improved significantly, as suggested by the 50.7% growth in the gross value added of the sector, which also rose by 22.9% when compared with pre-pandemic levels (Q2-2019).

In Q3-2022, private sector imports (excluding imports by the tourism sector) increased by 38% in annual terms, while the commercial bank credit to the sector rose by 4% during the review quarter. Nonetheless, according to the MMA's Quarterly Business Survey for Q3-2022, activity in the wholesale and retail trade sector was observed to have weakened considerably as indicated by the sales index and the volume of orders index. The sales index turned negative for the first time since Q2-2020 and plunged 77 points to register -29 during Q3-2022. Meanwhile, the volume of orders placed with suppliers remained unchanged at 55 during the review quarter.

Inflation

The rate of inflation (as measured by the annual percentage change in the national CPI) decelerated to 2.7% in Q3-2022 from 2.9% in Q2-2022. Developments in domestic inflation during the quarter mainly reflected higher prices in most of the major food categories, energy-related items, health, transport services, and services of restaurants and cafés, which offset the decline in cost of information and communication services (Figure 12). The cost of domestic food and energy-related items have been steadily increasing, owing to the elevated global food and energy prices,

Figure 12: Contribution of Sub-Categories to CPI Inflation (National), 2018 - 2022
(annual percentage change, percentage point contribution)



Source: Maldives Bureau of Statistics

driven by the demand and supply imbalances, and global supply chain disruptions amid the negative spill-over effects from the Russia-Ukraine war.

Food and non-alcoholic beverages including fish, which carries the second highest weight in the CPI basket, contributed the most to the upward pressure on inflation during Q3-2022 (1.4 percentage points), registering an increase of 5.9% in overall prices. This was mainly owing to increased price of fish (0.4 percentage points), meat (0.3 percentage points) and, oils and fats (0.2 percentage points). As such, price of fish, meat, and oils and fats rose by 9.8%, 32.0% and 24.2%, respectively. Similarly, prices for dairy products and fruits also rose during the quarter, by 3.7% and 5.6%, respectively. The surge in global food commodity prices, further elevated by the war-driven disruptions in food production and trade, contributed significantly towards domestic food inflation. However, these effects were offset to some extent, with the fall in prices of certain vegetables, which declined by 3.9% (-0.1 percentage points), contributing to the downward pressure on inflation during the quarter.

The energy-related items¹³ was another major contributor to upward inflation during Q3-2022. This primarily reflected the increase in price of petrol. During the quarter, the price of petrol rose by 56.8% (0.3 percentage points), owing to the increase in administered price of petrol by the State Trading Organization (STO)¹⁴ from MVR8.85 per litre in June 2021¹⁵ to MVR16.55 per litre in June 2022. However, looking at the global developments in the oil market, the global crude oil prices¹⁶ dropped to US\$96.4 per barrel on average at the end of Q3-2022, from US\$110.1 per barrel at the end of Q2-2022, owing to recessionary concerns in the US and Eurozone countries, and concerns of reduced demand from China amid strict COVID-19 curbs.

Further, the health category also registered a growth of 4.4% (0.3 percentage points), predominantly owing to the increase in price of medicines by 9.8% (0.2 percentage points), which led to upward pressure on inflation during the review quarter.

Additionally, the cost of transport services also rose during the quarter, reflecting the increase in the cost of domestic passenger transport by air and passenger transport by taxi and hired cars, despite the decline in cost of international passenger transport by air. As such, domestic passenger transport by air rose by 21.9% (0.3 percentage points), largely owing to the high demand for domestic travel during Eid and school holidays. However, the cost of international passenger transport by air declined by 7.6%

(-0.1 percentage points). Meanwhile, the cost of passenger transport by taxi and hired car rose during the quarter, registering an increase of 21.5% (0.1 percentage points), reflecting the upward adjustment of taxi fares of the Greater Male' Region in July 2022, amid the hike in petrol prices.

Meanwhile, the cost of restaurants and accommodation services recorded a growth during the quarter, primarily owing to cost of services of restaurants and cafés, which accelerated by 3.6% (0.2 percentage points) during the review quarter.

In contrast, the decline in information and communication category was the main contributor to the downward pressure on inflation during Q3-2022 (-0.7 percentage points). The cost of information and communication services fell by 11.3% during the quarter, reflecting the base effect of the reduction in the unit price of mobile services used by consumers. This mainly reflected the pledge made by the government to improve affordability of broadband and mobile internet for consumers.

¹³ Energy-related items include the price charged on electricity, gas and other fuels, and price of fuels and lubricants for personal transport equipment.

¹⁴ Domestic petrol prices reflect markets prices with a lag even though they are administered by STO.

¹⁵ This is based on the retail price of Fuel Supply Maldives (FSM), a subsidiary of STO, the largest importer of petroleum products in the Maldives. Revisions brought to the price charged on fuel are also reflected in the changes to the cost of electricity.

¹⁶ Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

¹⁷ Changes to the mobile internet plans were implemented in October 2021.

Public Finance¹⁸

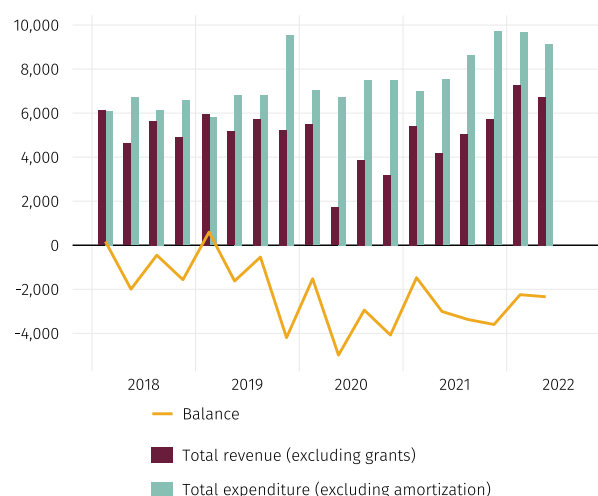
Total government revenue (excluding grants) increased by MVR2.5 billion during Q2-2022¹⁹ when compared with Q2-2021 and totalled MVR6.7 billion at the end of the quarter (Figure 13). This was on account of a significant increase in tax revenue, together with a growth in non-tax revenue, reflecting the upturn in economic activity fuelled by the growth in tourism sector. In this regard, tax revenue, which accounted for 73% of the total revenue over the period, registered a marked increase of MVR1.9 billion in annual terms.

The increase in tax revenue during the quarter was spread across all major revenue sources, with revenue from business and property tax observing the largest increase over the quarter. Within this category, business profit tax (BPT) accounted for the largest increase recording a growth of MVR523.0 million, mainly reflecting the base effect of the extensions given on the deadline of these taxes in Q2-2021. This was followed by sizeable growths in other major revenue sources including the tourism goods and services tax (T-GST), G-GST and import duties. In this regard, T-GST—the main single source of revenue for the government increased by MVR384.0 million, owing to the robust performance of the tourism sector during the quarter (Figure 14). Further, the positive spill-over effects from the tourism sector were carried into the domestic economy as seen by significant growths in the collection of G-GST and import duties, mirroring the increase in domestic economic activity with higher demand and higher imports. In addition, the positive momentum in the tourism sector was further witnessed in the collection of airport service charge and green tax.

Non-tax revenue, which comprised 27% of the total revenue, observed an increase of MVR581.7 million in annual terms and totalled

Figure 13: Government Revenue and Expenditure, 2018 - 2022

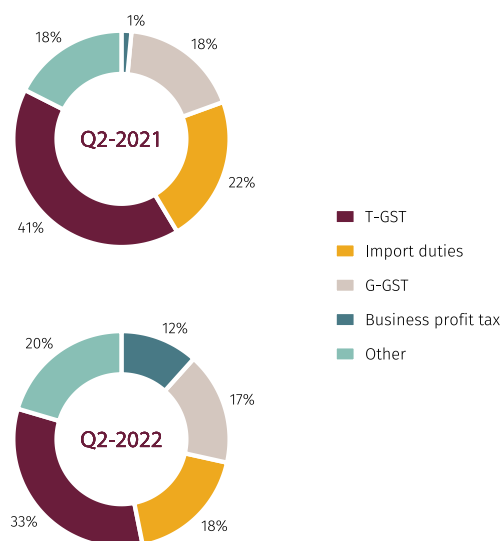
(millions of rufiyaa)



Source: Ministry of Finance

Note: Figures do not accord with the methodology of IMF's GFS Manual 1986.

Figure 14: Composition of Tax Revenue, 2021 - 2022



Source: Ministry of Finance

¹⁸ Government revenue and expenditure data as of 7 November 2022. These figures might vary due to ongoing data reconciliation.

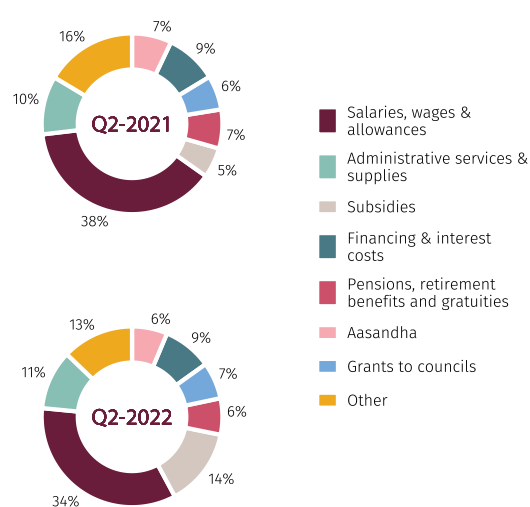
¹⁹ Data for Q3-2022 was not available at the time of compilation of this report.

MVR1.8 billion at the end of Q2-2022. The growth in non-tax revenue was largely driven by the collection of fees and charges. Delving into this category, an increment of MVR227.9 million was observed in other fees and charges while airport development fee observed a growth of MVR127.5 million. It is noteworthy that an amendment was implemented in the collection of airport development fee and airport service charge effective from January 2022, which partly contributed to this increment. This was followed by a sizeable growth in land acquisition and conversion fee. However, a decline was observed in rent from resorts, largely reflecting a higher base effect, owing to the collection of deferred rental payments²⁰ in Q2-2021. Meanwhile, receipt from state-owned enterprises (SOE) dividends also showed a significant growth over the review quarter.

Total expenditure (excluding debt amortisation) recorded an increase of MVR1.0 billion in annual terms and totalled MVR8.5 billion during Q2-2022. This stemmed largely from a significant increase in recurrent expenditure which posted an annual growth of MVR730.1 million, together with an increase in capital expenditure. The increase in recurrent expenditure was driven by a substantial increase in administrative and operational expenses, almost entirely due to increased spending on grants, contributions and subsidies. Within this category, a significant proportion on expenditure stemmed from subsidies, which grew by MVR614.2 million, while grants to councils also recorded a notable growth (Figure 15). The substantial rise in expenditure on subsidies can be partly attributed to rising global oil and food prices, which has led to an additional burden on the government budget, amid delays in implementation of the policies envisioned to reduce such expenditure. Meanwhile, capital expenditure

observed an increase of MVR290.1 million, largely owing to higher expenditure on infrastructure assets together with an increase in development projects and investment outlays, despite a decline in spending on capital equipments and lendings. The increase in infrastructure assets primarily mirrored the rise in spending wharves, ports, and airports, and expenditure on land and buildings, which grew by MVR196.4 million and MVR162.6 million, respectively.

Figure 15: Composition of Recurrent Expenditure, 2021 - 2022



Source: Ministry of Finance

²⁰ The government allowed a year-long deferment on tourism land rent as well as those on agricultural islands, as part of the fiscal measures in response to COVID-19 in 2020.

Monetary Developments

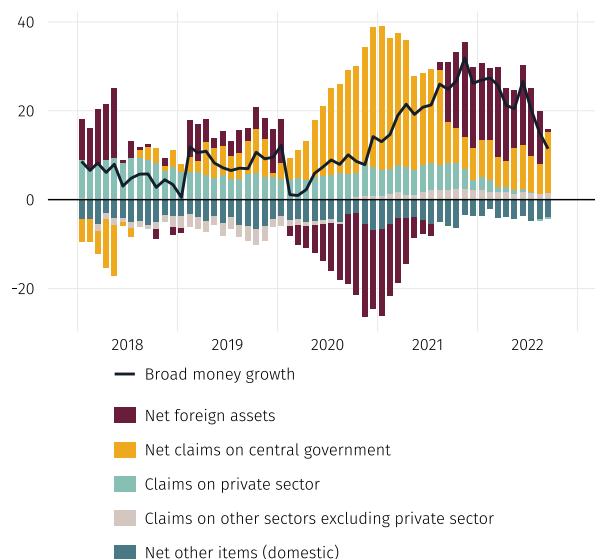
Broad Money

The annual growth rate of broad money (M2 or money supply) decelerated sharply to 11% at the end of September 2022, after recording 27% at the end of June 2022 (Figure 16). On the components side, this reflected a significant slowdown in the transferable deposit base (demand deposits), together with a slowdown in other deposits (savings and time deposits) of the banking system. Further, currency outside depository corporations posted a decline over the review period.

Demand deposits—which accounted for 72% of the money supply during the review period—grew by 12%; a sharp deceleration from the 31% growth recorded at the end of June 2022. This deceleration in demand deposits during the period mirrored a sizeable slowdown in such deposits denominated in foreign currency, together with local currency. The slowdown in growth of foreign currency denominated demand deposits stemmed largely from a moderation in deposits by private non-financial corporations together with public non-financial corporations and private individuals, while the slowdown in local currency denominated demand deposits stemmed mainly from public non-financial corporations.

Other deposits—which accounted for 23% of money supply—observed a deceleration, recording 17% at the end of September 2022, after registering 22% at the end of June 2022. This deceleration largely reflected a slowdown in time deposits denominated in local currency despite a growth in such deposits denominated in foreign currency. Meanwhile, savings deposits denominated in both local and foreign currency observed marginal growths in annual terms in September 2022. Meanwhile, currency outside depository corporations—which accounted for 6% of money supply—observed a decline of 8% at the

Figure 16: Contribution to Broad Money, 2018 - 2022
(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

end of September 2022, further down from the 7% decline recorded at the end of June 2022.

On the sources side, the significant deceleration in broad money growth reflected a sizeable slowdown in growth of net foreign assets (NFA), despite an expansion in net domestic assets (NDA) of the banking system. As such, NFA growth decelerated markedly to 4% at the end of September 2022, after recording a growth of 98% at the end of June 2022. This deceleration largely stemmed from a slowdown in NFA of the commercial banks, while a decline was observed in NFA of the MMA. The slowdown in NFA of the commercial banks reflected a deceleration in foreign assets growth due to a slower growth in foreign currency deposits held abroad. Meanwhile, the decline in NFA of the MMA can be attributed to a sizeable decline in foreign asset accumulation of the MMA, despite a significant drop in foreign liabilities due to the base effect of the repayment of the swap with the Reserve Bank of India (RBI) in December 2021.

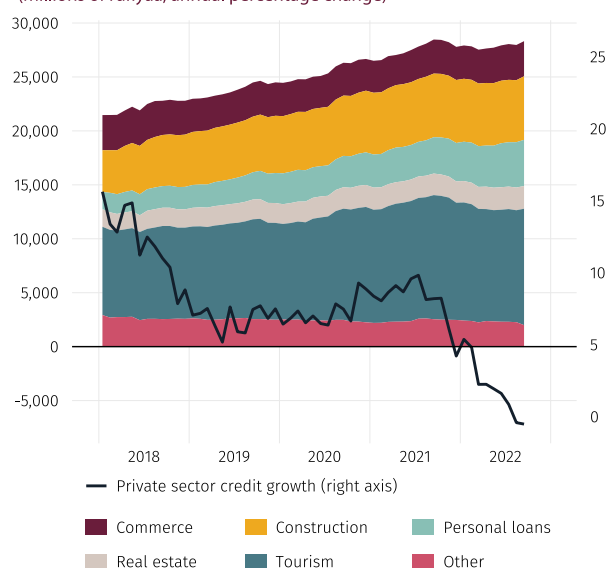
Looking at the developments in NDA, growth accelerated to 13% at the end of September 2022, a slight uptick from 11% recorded at the end June

2022. The annual growth in NDA was driven by the increase in NDA of the MMA as well as NDA of the commercial banks. The increase in NDA of the MMA mainly stemmed from an increase in net claims on central government (NCG) by the MMA which outpaced the increase in overnight deposit facility (ODF) placements by commercial banks and offset the decline in claims on commercial banks by the MMA. Meanwhile, the increase in NDA of the commercial banks was mainly driven by the increase in NCG which grew by MVR2.2 billion, primarily reflecting the annual expansion in government securities. In addition, commercial banks' credit to the public non-financial corporations grew by MVR732.3 million and contributed to this increase. However, credit to private sector observed a decline of MVR315.3 million, largely reflecting the conclusion of debt moratoriums extended by commercial banks, although new disbursements increased in annual terms.

Credit to Private Sector

Credit to the private sector recorded a slight growth when compared with the previous quarter and stood at MVR28.3 billion at the end of Q3-2022 (Figure 17). However, the annual growth rate turned negative and recorded a decline of 1% (MVR151.5 million) in September 2022. During this period, credit extended to tourism, construction, personal loans, and commerce accounted for the highest shares of credit over the period. Credit extended to the tourism sector (which accounted for 38% of total private sector credit) registered an annual decline of 6% in the review period, after recording a 7% annual decline in June 2022. This was owing to sizeable declines in credit extended for renovation of resorts and new resort development, which offset the growth in credit extended as working capital. Meanwhile, credit extended to the construction

Figure 17: Private Sector Credit, 2018 - 2022
(millions of rufiyaa, annual percentage change)



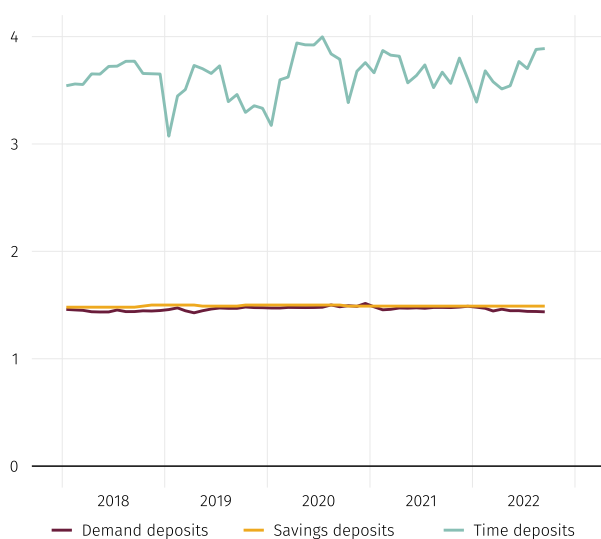
Source: Maldives Monetary Authority

sector observed a marginal decrease as the fall in credit lent for construction of residential or housing projects offset the growth in credit lent for other construction projects. In contrast, credit extended as personal loans expanded significantly and observed the largest increase over the period, recording a growth of 27% reflecting the rise in credit extended as credit cards and for consumer durables. Likewise, credit extended to the commerce sector observed an increase, stemming from the rise in credit for wholesale and retail businesses.

Interest Rates

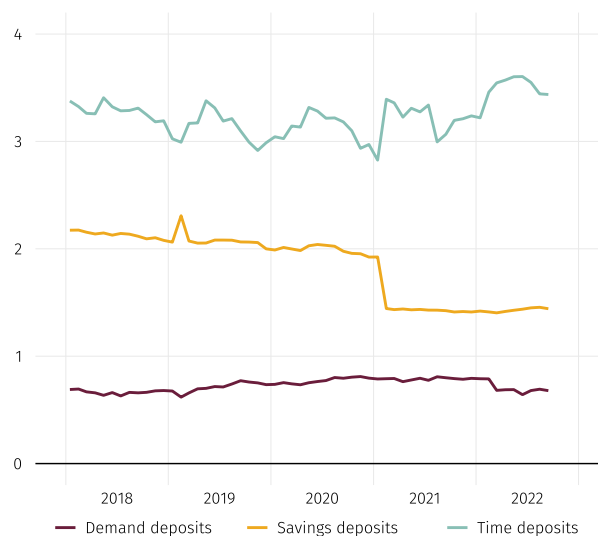
As for interest rates, the rate on both local and foreign currency denominated demand deposits observed a decrease at the end of September 2022. Meanwhile, the rate on local currency savings deposits remained broadly unchanged, although the rate on foreign currency savings deposits observed a slight increase in the review period. Similarly, the interest rate on both local and foreign currency denominated time deposits (maturity of six months to one year) posted an increase over the period (Figure 18 and 19). With regard to the interest rates on loans to the private sector, the interest rate on both local and foreign currency denominated private sector loans observed an increase during the period (Figure 20).

Figure 18: Interest Rate on National Currency Deposits, 2018 - 2022
(weighted average)



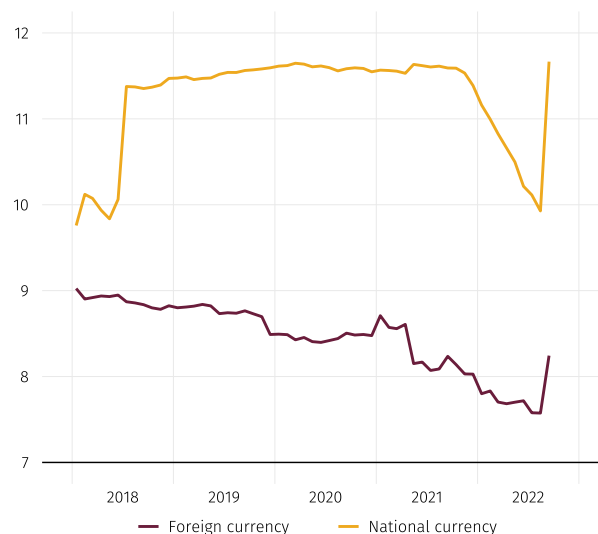
Source: Maldives Monetary Authority

Figure 19: Interest Rate on Foreign Currency Deposits, 2018 - 2022
(weighted average)



Source: Maldives Monetary Authority

Figure 20: Interest Rate on Private Sector Loans and Advances, 2018 - 2022
(weighted average)



Source: Maldives Monetary Authority

Financial Sector

Banking Sector

The banking sector remained robust during the quarter, with strong capital ratios and healthy profitability. Total capital to risk-weighted assets ratio stood at 52%, compared to the regulatory minimum requirement of 12%, due to a substantial share of assets being in low-risk form. The leverage capital ratio, measured by Tier 1 capital to net assets, stood at 20% against a minimum requirement of 5%.

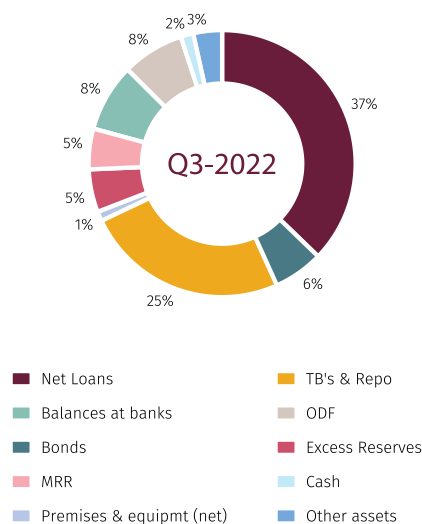
The deposit base stood at MVR52.2 billion at the end of Q3-2022, having increased by 11% in annual terms, but with a decrease of 10% on a quarterly basis. The majority of the decrease (76%) was from foreign currency deposits. The overall decline is mainly attributed to increased import costs.

Gross loans stood at MVR32.5 billion, a growth of 2% on both quarterly and annual terms. The absolute value of non-performing loans (NPLs) decreased by 16% year-on-year mainly due to significant loan write-offs during the period, although a slight increase of 4% was observed on quarterly terms. Thus, at the end of Q3-2022, the NPL ratio was 6%, which is same as the previous quarter, whereas it was at 8% a year ago. Specific loan-loss provisions covered 126% of NPLs, the ratio being high due to provisions made for credit risks on some loans not in NPL category.

At the end of Q3-2022, the year-to-date profits before tax was at MVR3.3 billion—a growth of 2% compared to the same period a year ago. The increase in profits was driven mainly by the growth in net interest income and the reversal of provisions made for performing loans with increased credit-risk. Despite the increase in profits, the ratios of return on assets (ROA) and return on equity (ROE) declined slightly to 4.2% and 18.2%, compared to 4.6% and 20.0% a year ago, respectively.

While the foreign currency basic liquidity ratio (foreign currency liquid assets as a share of total foreign currency deposits and borrowings) declined

Figure 21: Net Asset Composition of Banking Industry, Q3-2022



Source: Maldives Monetary Authority

on a quarterly basis owing to the decrease in foreign currency deposit, the ratio remained adequate at 47%, with the overall liquidity position of both local and foreign currencies being higher at 66%. Liquid assets—which made up 47% of the asset portfolio—consisted mostly of investments in T-bills, which amounted to 25% of assets. Balances at commercial banks made up 8%, while balances in the ODF and excess reserves at the MMA represented 8% and 5% of the asset portfolio, respectively (Figure 21).

Finance Companies

Financing companies continued to perform well and recorded total assets of MVR4.0 billion at the end of Q3-2022, a quarterly increase of 3% and an annual increase of 15%. The annual growth is mostly attributed to a capital injection made by a state-owned financial institution during the year, amounting to MVR213.3 million.

The ratio of total capital to risk-weighted assets remained strong at 56%, demonstrating adequate capital strength for risk absorption. In addition, the

leverage capital ratio as measured by equity to assets also stood high at 48%.

At the end of the quarter, gross loans amounted to MVR3.1 billion, an increase of 4% on a quarterly basis, and 16% on an annual basis. Loan portfolio growth was noted in tourism, commerce and personal loans sectors. Absolute NPLs increased by MVR 52.2 million at the end of the quarter and is reflected in the NPL ratio, which increased from 9% to 11%. The specific provisions coverage of NPLs stood at 37% at the end of the quarter.

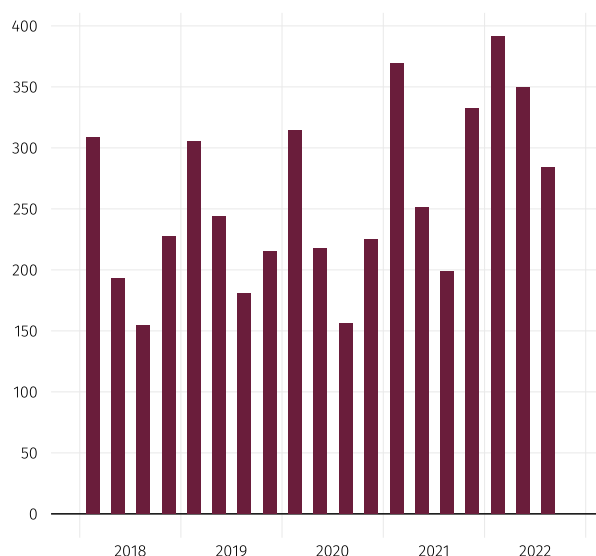
Finance companies reported year-to-date net profits before taxes of MVR88.8 million as at the end of the quarter—a decline of 13% compared to the same period in 2021. This decline was due to significant increases in provisions for loan losses, and non-interest expenses during the quarter. As a result, the annualised profitability ratios—ROA and ROE—declined from 3.3% and 7.2% during the period, compared to 2.4% and 5.0% a year ago, respectively

Insurance Industry

The general insurance companies remained strong, with robust prudent and performance indicators. The asset portfolio amounted to MVR2.3 billion at the end of Q3-2022, which grew by 6% year-on-year, with the equity increasing by 13%. There was a substantial increase in Gross Written Premium (GWP) compared to a year ago, indicating growth of the industry (Figure 22). Insurance companies remained well-capitalised in relation to the business underwritten and retained, as shown by the Net Written Premium (NWP) to annualised equity ratio of 76%, and an equity to assets ratio of 31%.

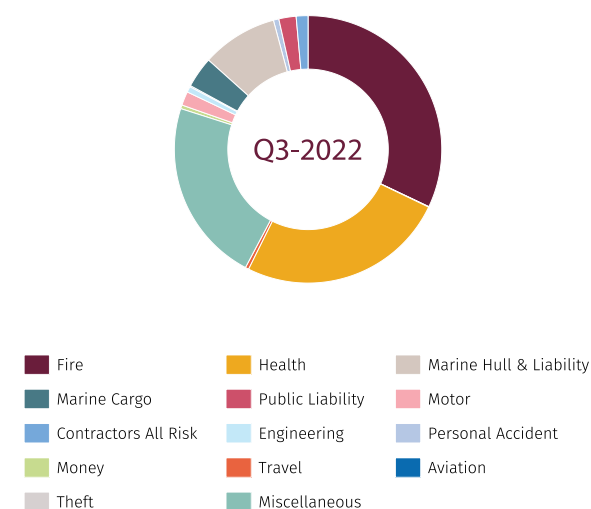
The year-to-date GWP amounted to MVR1.0 billion as of end of September 2022, which was 25% higher when compared with Q3-2021. The GWP in Q3-2022 amounted to MVR284.4 million, of which the largest classes were fire, health and marine, which made up 32%, 25% and 13% of the quarterly GWP, respectively (Figure 23).

Figure 22: Gross Written Premium, 2018 - 2022
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 23: Premium Contributions by the Classes of Insurance, Q3-2022



Source: Maldives Monetary Authority

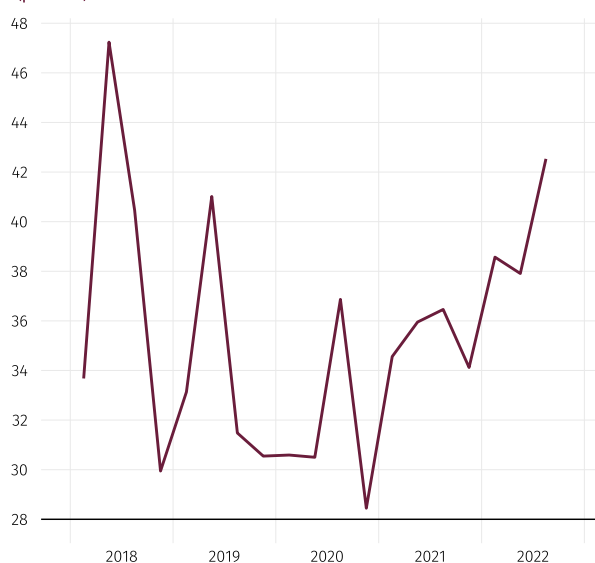
Insurance companies reported lower amounts in gross claims in Q3-2022 compared to Q3-2021; MVR120.8 million in Q3-2022 as compared to MVR148.5 million in Q3-2021. In contrast, the net incurred claims—which shows the claims burden borne by the local insurance companies after adjusting for reinsurance—rose by MVR44.1 million due to a substantial increase in claims in the health class, which is a class of insurance business that is almost 100% retained by the insurance companies.

The retention ratio for the quarter increased to 43%, from 36% in the corresponding period of 2021 (Figure 24). This is attributed to the marked increase in GWP in the health class, which has nearly 100% retention. The GWP in Q3-2022 for the health class increased by MVR26.5 million compared to Q3-2021.

Total investments of the industry stood at MVR577.8 million at the end of Q3-2022, accounting for 25% of the asset portfolio. While 61% of the investment portfolio was in debt securities, 15% was invested in fixed deposits (Figure 25).

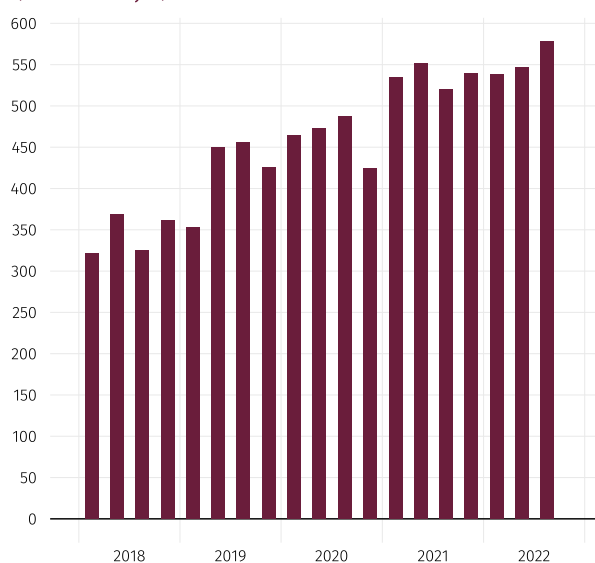
While the year-to-date net loss ratio (net incurred claims to net earned premium)—which is used as a measure of underwriting profitability—deteriorated to 59% in Q3-2022, from 41% in the corresponding period a year ago, the ratio continues to indicate strong profitability (Figure 26). The ratio increased in 2022 due to increased net claims relative to premiums earned during the year. The year-to-date pre-tax profits in Q3-2022 was comparable to that of Q3-2021 and amounted to MVR106.1 million (Figure 27). The key profitability ratios, ROA and ROE, stood strong at 5.3% and 17.6% respectively, on an annualised basis.

Figure 24: Retention Ratio, 2018 - 2022
(percent)



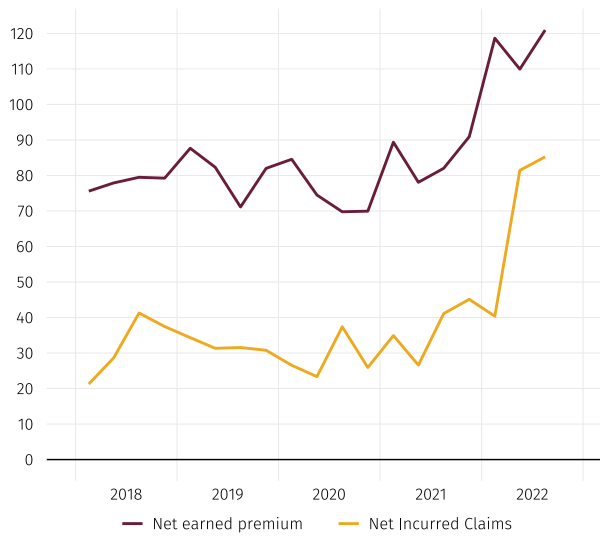
Source: Maldives Monetary Authority

Figure 25: Investments, 2018 - 2022
(millions of rufiyaa)



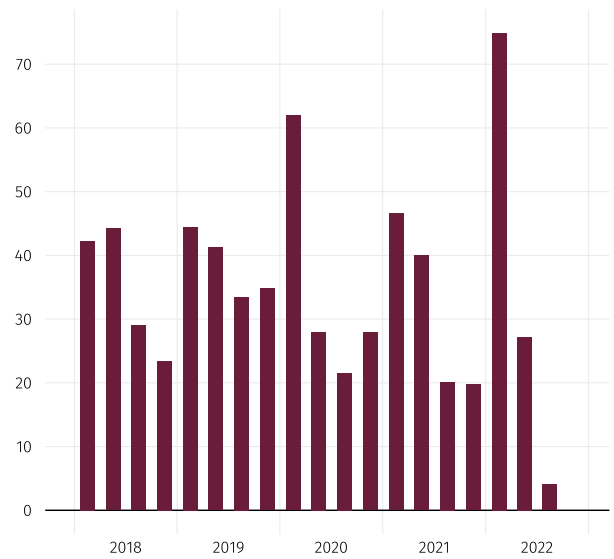
Source: Maldives Monetary Authority

Figure 26: Net Earned Premium vs Net Incurred Claims, 2018 - 2022
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 27: Pre-tax Profit, 2018 - 2022
(millions of rufiyaa)



Source: Maldives Monetary Authority

External Trade

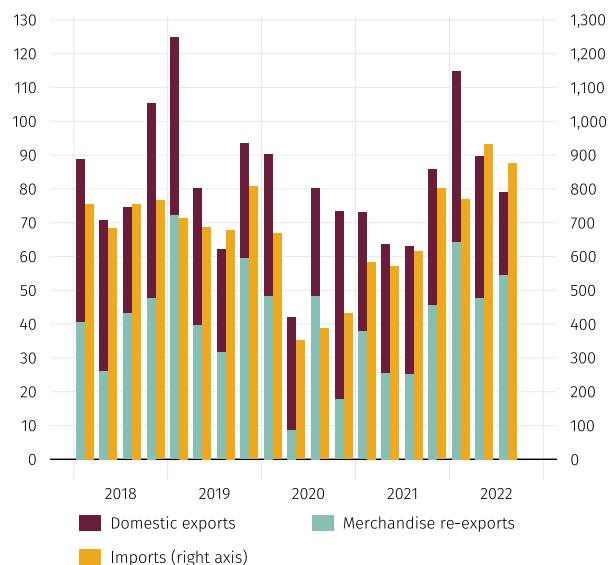
Merchandise Exports

Total merchandise exports registered an annual increase of 25% (US\$16.1 million) in Q3-2022 and totalled US\$79.1 million. This was mainly driven by the significant increase in merchandise re-exports, although domestic exports recorded a decline during the quarter (Figure 28). As such, merchandise re-exports more than doubled (US\$29.4 million) to total US\$54.6 million in Q3-2022. Accordingly, the significant rise in re-exports during the review quarter mirrored the increase in re-exports of jet fuel during quarter compared to the corresponding quarter of 2021. The growth of re-exports mirrors the marked increase in aviation gas exports during the review quarter, which stemmed from the upswing in international flight movements amid the continued recovery of the tourism sector.

Domestic exports—which mainly comprise fish and fish products—declined by 35% (US\$13.4 million) during Q3-2022 and totalled US\$24.5 million. This was mainly due to the significant fall in exports of fresh or chilled yellowfin tuna and frozen yellowfin tuna, which declined by 67% (US\$4.6 million) and 87% (US\$4.6 million), respectively (Figure 29). Similarly, exports of frozen skipjack tuna also declined during the quarter, registering a fall of 24% (US\$3.2 million), reflecting decrease in the volume of such exports. As for the skipjack prices in the Bangkok frozen market, prices increased throughout the quarter and averaged MVR24.4 per kilogram during Q3-2022. Similarly, exports earnings from processed dried tuna also fell during the quarter, declining by 35% (US\$0.3 million).

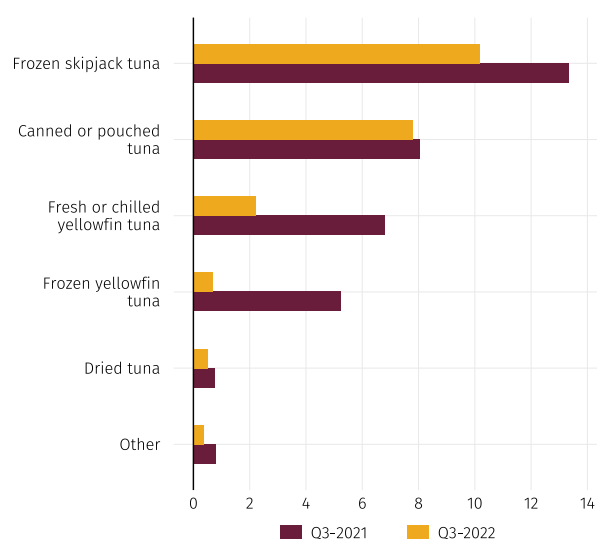
As for the direction of trade of exports, Europe was the major continental export destination during the quarter, accounting for 44% of domestic exports in Q3-2022—a sizable increase from the 35% recorded in the corresponding quarter of 2021. Accordingly, demand from the majority of the European export markets increased during the review quarter.

Figure 28: Total Trade Summary, 2018 - 2022
(millions of US dollars)



Source: Maldives Custom Service

Figure 29: Composition of Fish Export Earnings, 2021 - 2022
(millions of US dollars)



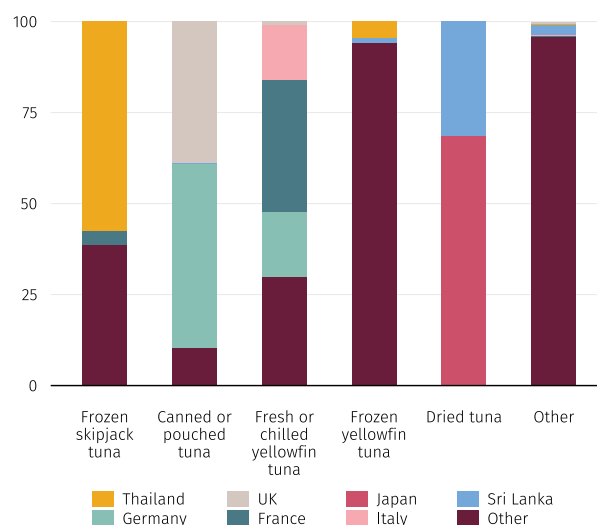
Source: Maldives Customs Service

Germany—the second largest export destination—accounted for 18% of the total domestic exports in Q3-2022, which was an increase from the 11% recorded in Q3-2021. Other notable export destinations include the UK (13%) and France (5%). Meanwhile, Asia emerged as the second largest continental export destination with a market share of 40% in Q3-2022, a marked decline from 58% observed in Q3-2021 (Figure 30). During the review quarter, export demand declined from the Asian markets such as Thailand and Sri Lanka, while the former recorded a significant decline. Nonetheless, Thailand remained as the dominant export market, accounting for 24% of total domestic exports in Q3-2022—although this was a significant decline from 45% in Q3-2021. Meanwhile, the market share of India, accounting for 4% of total domestic exports during the review quarter, remained unchanged.

Merchandise Imports

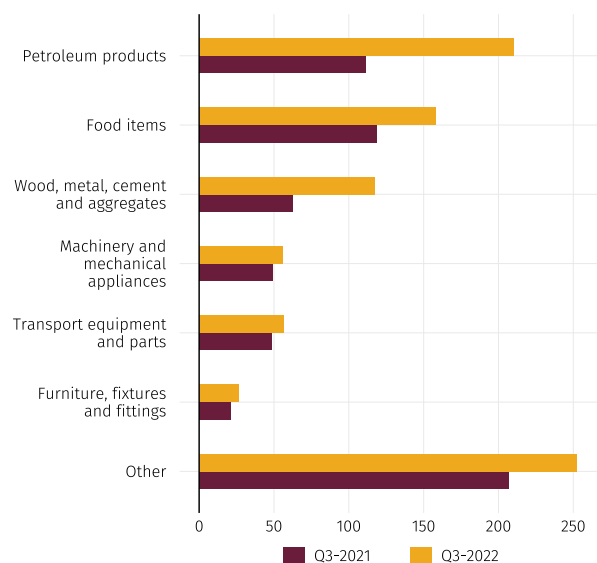
Total merchandise imports (c.i.f) recorded an annual increase of 42% (US\$259.6 million) during Q3-2022 and totalled US\$876.4 million, reflecting the continued import demand amid the post-pandemic recovery as well as the hike in global oil prices. Accordingly, an increase in import expenditure was observed in all the major import categories (Figure 31). The main contributors to the annual increase of merchandise imports were petroleum products, which significantly increased by 90% (US\$99.5 million), followed by construction-related items and food items; which observed increases of 71% (US\$63.8 million) and 33% (US\$39.6 million), respectively. In addition, imports of electrical and electronic machinery and equipment and parts increased by 25% (US\$11.4 million), while expenditure on plastics and articles of plastic which increased by 91% (US\$8.8 million) in tandem. Further, notable increases were registered for import expenditure linked to expenditure on transport equipment and parts also rose by 16% (US\$7.8 million); and machinery and mechanical appliances and parts, which rose by 14% (US\$6.7 million).

Figure 30: Direction of Trade by Domestic Export Categories, Q3-2022 (percent)



Source: Maldives Customs Service

Figure 31: Composition of Imports, 2021 - 2022 (millions of US dollars)



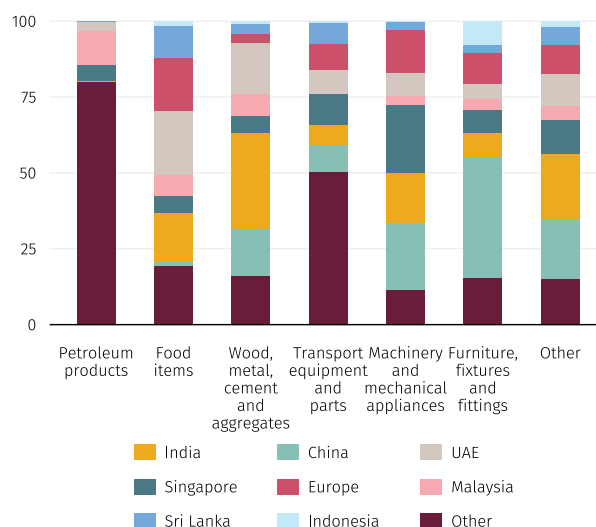
Source: Maldives Customs Service

With regard to the direction of trade of imports, Asia remained as the largest continental source of imports, accounting for 86% of total merchandise imports in Q3-2022—an increase from 82% in Q3-2021 (Figure 32). This was followed by Europe, which accounted for 8% of the total merchandise imports during the review quarter, a decline from 25% in Q3-2021. During Q3-2022, Oman continued to account for the largest share of imports, accounting for 20% of total merchandise imports, an increase from 13% share in Q3-2021. This was followed by India accounting for 15%, up from 13% recorded in the corresponding quarter of 2021. Meanwhile, China accounted for 11%, a decline from 14% registered in Q3-2021, followed by Singapore accounting for 8% during the review quarter, a fall from 10% in the corresponding quarter of 2021. Additionally, Malaysia accounted for 7% of total merchandise imports during the review quarter, a rise from 5% in Q3-2021.

Gross International Reserves

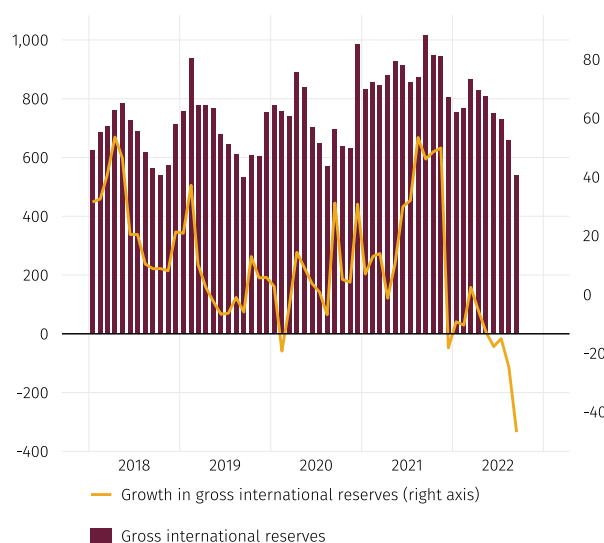
Gross international reserves (GIR)²¹ decreased to US\$540.3 million at the end of Q3-2022, registering a significant annual decline of 47% (US\$476.5 million) when compared with the corresponding quarter of 2021. Similarly, when compared with the preceding quarter, GIR registered a decline of 28% (US\$210.2 million) (Figure 33). The annual decline in GIR largely reflected the base effect of the repayment of swap obtained from Reserve Bank of India (RBI) in December 2021, as well as the high import bill due to the hike in global oil prices.

Figure 32: Direction of Trade by Import Categories, Q3-2022 (percent)



Source: Maldives Customs Service

Figure 33: Gross International Reserves, 2018 - 2022 (millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

²¹ Also called official reserve assets, comprise of foreign currency deposits of the MMA and government, commercial banks' US dollar reserve and the Maldives' reserve position at the IMF.

STATISTICAL APPENDIX

Table of Selected Economic Indicators, 2019 - 2022

(annual percentage change over the corresponding period, unless stated otherwise)

	2019	2020	2021	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Real Sector										
Tourist arrivals	15	-67	138	-22	385,316	1,797	194	45	80	5
Bednights of resorts	12	-63	156	-3	10,340	1,282	190	31	51	15
Operational capacity of resorts	14	-36	69	-5	740	138	26	13	8	9
Occupancy rate of resorts (%)	74	29	65	70	48	62	80	81	66	65
Average stay (days)	6.3	18.5	8.8	8.9	9.1	8.9	8.2	8.5	7.7	8.1
Fish purchases	3	-2	11	14	45	-17	18	-2	3	-19
Prices ¹										
Total (Republic)	0.2	-1.4	0.6	-0.7	2.3	0.5	0.1	0.6	3.0	2.7
Total excluding fish	0.5	-1.6	0.6	-0.4	2.4	0.5	0	0.4	3.1	2.3
Food and non-alcoholic beverages excluding fish	0	2.8	2.4	3.0	1.5	2.7	2.3	1.6	4.0	5.0
Government Securities (millions of rufiyaa)										
Government securities outstanding	28,591.2	37,566.1	44,000.8	39,312.1	40,360.8	42,704.5	44,000.8	47,430.8	49,609.0	50,318.6
Treasury bonds	9,626.4	13,478.6	13,589.9	13,598.8	13,605.1	13,574.9	13,589.9	16,029.1	15,996.4	15,929.9
Treasury bills	18,964.7	24,087.5	30,411.0	25,713.3	26,755.7	29,129.5	30,411.0	31,401.7	33,612.5	34,388.7
MMA	103.6	91.3	97.4	73.9	60.7	97.4	97.4	78.0	71.2	87.9
Commercial bank	11,954.4	14,350.1	18,381.7	15,356.7	16,013.0	17,083.1	18,381.7	19,460.5	20,477.8	20,412.2
Others	6,906.8	9,646.2	11,931.9	10,282.8	10,682.0	11,949.0	11,931.9	11,863.1	13,063.6	13,888.7

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; Maldives Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

¹ The inflation rate for the year refers to the period average values, whereas inflation for the quarter represents the annual percentage change in the three-month-average.

	2019	2020	2021	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Money and banking										
Broad money	10	14	26	19	21	25	26	26	27	11
Net foreign assets	33	-49	114	-40	-12	110	114	113	98	4
Net domestic assets	0	50	9	52	32	13	9	7	11	13
Net claims on central government	2	86	12	76	41	16	12	12	17	25
Claims on other sectors	4	10	6	10	10	10	6	4	3	1
o/w Private sector	7	10	4	9	9	8	4	2	1	-1
Reserve money	-4	10	1	-8	12	29	1	13	-4	-7
Monetary operations¹										
Open market operations²	0	0	0	0	0	0	0	0	0	0
Overnight Deposit Facility	-26	34	44	132	60	10	26	41	37	37
External trade										
Merchandise exports (f.o.b.)	6	-21	0	-19	51	-21	17	57	41	25
Domestic exports	-13	3	-7	-16	14	18	-28	43	10	-35
o/w Fish exports	-14	3	-10	-21	11	16	-29	46	8	-38
Re-exports	29	-39	9	-22	196	-48	158	70	87	117
Merchandise imports (c.i.f.)	-2	-36	40	-13	63	59	86	32	63	42
o/w Food	10	-30	51	0	77	91	81	16	27	33
o/w Petroleum	3	-43	72	-9	152	110	137	56	160	90
o/w Construction-related imports	-17	-41	6	-44	9	31	62	55	57	71

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; Maldives Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

¹ Monetary operations figures represent the average investment.

² Open market operations were suspended May 2014 onwards.

	2019	2020	2021	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	12	11	10	11	10	10	10	9	7	8
o/w India	10	13	12	12	13	13	12	13	13	15
o/w Sri Lanka	6	6	6	6	5	6	5	5	4	5
o/w UAE	19	12	13	13	13	12	13	15	11	11
o/w Thailand	4	3	3	3	3	3	3	3	3	3
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	36	44	46	35	61	45	44	52	60	24
o/w Sri Lanka	3	3	2	2	1	2	1	1	0	1
o/w France	9	8	4	5	2	4	5	3	3	5
o/w Germany	12	10	11	11	8	11	16	6	8	18
External Reserves										
Official reserve assets (millions of US dollars)	753.5	984.9	805.8	844.7	912.4	1,016.7	805.8	865.2	750.4	540.3

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

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