Maldives

Forecasts of GDP growth are unchanged from those in *ADO 2019*. Tourism was strong in the first half of 2019, especially in the second quarter (Q2), with arrivals expanding by 18.7% from the year-earlier period. Growth was driven mainly by a substantial rebound from Asian markets, up by 20.4% and accounting for 37.9% of arrivals, especially from India and the People’s Republic of China (PRC).

Growth in PRC tourists, the largest single national group, rebounded by 10.1% from a similar decline earlier, while Indian visitors almost doubled. European guests, about half of arrivals, grew by 16.5%. Bed-nights sold, a proxy for tourism earnings, rose by 14.7%. These results so far justify the *ADO 2019* forecast that tourism and growth would remain solid this year but less robust in 2020.

The main downside risk to the outlook is a much sharper fall in global economic growth than expected. Such a shock would, as in the past, markedly weaken tourism earnings and raise issues of fiscal and public debt sustainability, given the country’s very low buffer of usable foreign exchange reserves.

Average inflation in the first half 2019 was negligible at 0.04% as prices for food, electricity, and transport fell significantly in Q1 from a year earlier, with the price index down by 1.2%. This reflected policy changes that came into effect in Q2 of 2018—reversing an earlier decision to remove blanket subsidies on staple foods and cutting electricity tariff on the atolls—as well as a 20%–25% cut in domestic air fares in January 2019. The index climbed by 1.3% in Q2 of 2019, without a notable base effect, on somewhat higher food prices, an uptick in house rentals, and price increases for restaurants and hotels. Prevailing domestic price policies and forecasts of lower global energy prices are expected to keep price pressures in check and maintain low inflation in the remainder of 2019 and in 2020. Accordingly, *ADO 2019* inflation projections are maintained.

The trade deficit narrowed by 6.1% in the first half of 2019 from the year earlier period, mainly as imports surprised on the downside with the completion of some public infrastructure projects and delays in the implementation of ongoing projects, while the formulation of new projects has slowed. Moreover, robust tourism has boosted the service balance. Given these developments, projections for current account deficits are lowered from those in *ADO 2019*.

Gross foreign reserves in the first half of 2019 fell from $712.0 million a year earlier to $677.4 million, taking into account a $100 million currency swap repayment to the Reserve Bank of India. Usable reserves (gross reserves less commercial banks’ foreign currency deposits) fell slightly from $281.4 million to $276.0 million, maintaining cover for only about 1 month of imports.