IMF Staff Completes 2025 Article IV Mission to the Maldives

February 18, 2025

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- The Maldives' economy is expected to grow by 5 percent in 2025, driven by robust tourism activity. Nevertheless, macroeconomic imbalances have continued to widen and risks are tilted to the downside.
- The immediate policy priority is to restore sustainable public finance and debt. Broad-based fiscal reforms and a comprehensive debt strategy, alongside well-calibrated monetary and macro-financial policies, are urgently needed.
- Reforms to strengthen climate resilience, improve the business climate and governance, and enhance skill developments will support stronger external competitiveness and strong, sustainable, and inclusive growth.

Washington, DC: An International Monetary Fund (IMF) mission, led by Ms. Piyaporn Sodsriwiboon, visited Malé during February 3 – 16, 2025, to discuss recent economic developments, the outlook, and the country's policy priorities in the context of the 2025 Article IV consultation.

At the end of the mission, Ms. Sodsriwiboon issued the following statement:

"Thanks to the Maldives' strong tourism base, growth has held up well. Real GDP growth is projected at 5 percent in 2025, and the opening of airport terminal expansion would ease supply-side bottleneck for tourism and help sustain growth momentum over the medium term. Inflation is expected to rise to 2.3 percent in 2025, partially due to higher import duties. There is large uncertainty around the forecasts and risks are tilted to the downside.

“External vulnerabilities remain, amid a persistently large current account deficit and pressures on foreign exchange reserves. The overall fiscal deficits and public debt are projected to stay elevated, calling for urgent policy adjustment. Over the medium term, the Maldives is highly vulnerable to climate change risks, due to sea level risk, floods and the degradation of its natural capital.

“The Maldives is navigating a pivotal moment to urgently restoring macroeconomic stability and debt sustainability. The Government of Maldives has assumed its homegrown fiscal reform agenda, importantly with the discontinuation of exceptional use of Maldives Monetary Authority (MMA) advances and the passage of Fiscal Responsibility Act and Public Debt Management Act. Swift implementation of expenditure reform measures as outlined in the 2025 Budget would be key to reduce imbalances in an orderly manner and restore economic stability.

“In addition to the revenue mobilization measures enacted by the government, there is the need for more urgent and stronger fiscal consolidation. Holistic expenditure rationalization is necessary to restrain excessive spending, while improving spending efficiency and protecting priority social spending. Subsidy reforms, which phase out untargeted subsidies and roll out well-targeted direct income transfers to vulnerable households, should be introduced as envisaged in the 2025 Budget. The reprioritization and rationalization of public sector investment program (PSIP) is critically necessary to address immediate fiscal challenges. Building on recent progress, the reforms of state-owned enterprises (SOEs) and *Aasandha*-healthcare reforms should be continued. Strengthening the public financial framework is critical to enhance fiscal policy credibility and effectiveness. A comprehensive debt strategy would also help restore debt sustainability and improve debt management.

"A coordinated tightening of the policy mix would effectively help address macroeconomic vulnerabilities. The MMA's commitment to resume active monetary operations is a welcome step in this regard. Should inflationary or external pressures intensify, the MMA should stand ready to further tighten monetary policy. Heightened systemic risks from bank-sovereign nexus call for tighter macroprudential policies and vigilant financial sector oversight. Prudent foreign exchange reserve management, alongside the necessary macroeconomic adjustments that include substantial and immediate fiscal adjustments as well as stricter monetary and macroprudential policies to address economic imbalances effectively, would help safeguard the exchange rate peg.

"Given the Maldives' threats to climate change, integrating climate sensitivity into public financial and investment management processes is essential for tackling climate-related challenges and mobilizing additional climate finance. Structural reforms aimed at improving the business environment and governance, expanding trade and investment, and enhancing skill development remain crucial for sustaining robust and inclusive growth.

"The IMF team would like to thank the Maldivian authorities for their hospitality and constructive discussions. Meetings were held with Finance Minister M. Zameer, Governor A. Munawar, and other senior officials, as well as representatives from the private sector and development partners."

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