

COVID-19: Economic Impact and Challenges for the Maldives

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Summary

A decline in the number of tourists to the Maldives due to COVID-19 will severely affect the country's tourism sector. This will also have a negative spill-over on the other sectors of the economy, as most of them are linked to tourism. Many people have already lost their jobs and it is expected that these numbers will only increase. To reduce the economic damage, the Maldives' government announced specific measures to address COVID-19-related damages and challenges, the efficacies of which have to be observed.

Introduction

Before the global spread of COVID-19 in early 2020, the Maldives government and international organisations such as the World Bank had predicted that the debt-distressed country would perform much better in 2020. However, the COVID-19 pandemic has put an end to all such projections. Now, instead, the country's economy is projected to face contraction between 8 and 13 per cent. Also, it is now forecasted that tourism – the spine of Maldives economy – will suffer a huge loss. To reduce the short and long-term economic impacts of COVID-19, the Maldives' President, Mohammad Ibrahim Solih, has announced a number of measures whose efficacy to reduce the impact of economic slump has to be observed.

Economic Situation before COVID-19

Assistance and investments from India and other foreign countries and loans from international organisations such as the Organisation of Petroleum Exporting Countries Fund for International Development, along with the policies of Solih government helped the debt-distressed Maldivian economy to record some positive economic indicators in 2019. Real gross domestic product (GDP) of the country in 2019 was 5.7 per cent and was projected to accelerate to 7.5 per cent in 2020. This resulted in an enormous increase in its foreign currency reserve. In 2020, the country had foreign exchange reserves of US\$752 million (S\$1.06 billion), which was much more than the expected amount of US\$635 million (S\$903 million).¹

This economic performance of the Maldives has been spearheaded by the country's tourism sector, which contributes around 28 per cent to the country's GDP and earns about 60 per cent of the total foreign exchange. In 2018, the Maldives received around 1.4 million tourists and this number was little over 1.7 million in 2019. According to the statistics

¹ "Maldives official reserve reached USD 752 million: MMA" AWAS, 31 December 2019. <https://avas.mv/en/75751>. Accessed on 25 April 2020.

released by the Ministry of Tourism, tourist arrivals 2019 saw a 14.7-per cent increase over 2018.² Of the total number of tourists, 16.7 per cent were from China.³ To boost its tourism sector in the global market, in 2019, the Maldives government spent US\$10 million (S\$14.4 million) on promotional activities. The government also undertook some infrastructure-related measures such as increasing the total number of flights from major tourist market such as India, Italy and West Asia. Also to accommodate the expected increased number of tourists, 20 new resorts were also opened.⁴

Fishing is the second largest industry of the country. This sector achieved positive growth in the first three quarters of 2019 before recording decline in the fourth quarter. This decline has been mainly attributed to the drop in fish purchases by fish-processing companies as well as a decline in the volume of fish exports by the Maldives.⁵

In recent years, its construction sector has also performed well. According to the Maldives Monetary Authority's quarterly economic review, in the fourth quarter of 2019, construction related imports such as wood, metal, cement and aggregates, along with other items, increased by 14 per cent.⁶ This was an impressive turnaround as the import of construction-related items was actually on a decline since the last quarter of 2018. This coincided with the winding-down of several major infrastructure projects.⁷ In an effort to support the construction sector, in May 2019, the government formed a 100-per cent state-owned company, Maldives Fund Management Corporation Limited. This company works to attract finance from international markets and increase private sector investments in the country's construction sector.⁸

To boost construction activities, Solih's government decided to take infrastructure development beyond the country's capital city, Male, projects to the islands and atolls. It has launched specific projects for individual islands and atolls by year-marking project-centric funding from foreign countries.⁹

The above-mentioned indicators show that, despite a number of challenges, such as high trade deficit, difficulties in doing business and mounting debts, among others, the Maldives' economy has performed fairly well. Riding on such performance, Solih's government was

² "TTM Report: Maldives Tourism Industry Forecast 2023" 5 March 2020. <https://www.traveltrademaldives.com/ttm-report-maldives-tourism-industry-forecast-2023/>. Accessed on 24 April 2020.

³ "A record 1.7 million tourists visit the Maldives in 2019", AWAS, op cit.

⁴ "Maldives Economic Update 2019", *Asian Development Bank*, p. 12, <https://www.adb.org/sites/default/files/institutional-document/544946/maldives-economic-update-2019.pdf>. Accessed on 27 April 2020.

⁵ "Fisheries sector of Maldives contracts in Q4-2019", *Maldives Business Review*, 8 March 2020. <https://mbr.mv/8906/>. Accessed on 24 April 2020.

⁶ "Construction sector witness improvement in Q4-2019", *Maldives Business Review*, 8 March 2020. <https://mbr.mv/8903/>. Accessed on 22 April 2020.

⁷ Ibid.

⁸ "Maldives Economic Update 2019", *Asian Development Bank*, op cit.

⁹ N Sathiya Moorthy, "Maldives: Development & Decentralisation, MDP's plank for Island-council polls?", *ORF*, 21 January 2020. <https://www.orfonline.org/expert-speak/maldives-development-decentralisation-mdps-plank-for-island-council-polls-60525/>. Accessed on 28 April 2020.

expecting 2020 to be a better year for the country's economy. Besides accelerating at 7.5 per cent, it was also projected that the total GDP would be higher than its debt.¹⁰

Impact of COVID-19 on the Economy

The Maldives detected its first Coronavirus case on 8 March 2020. Within a few days, from 12 March 2020, its Health Minister, Abdulla Ameen, declared a public health emergency for the next 30 days. The lockdown was first extended up to 30 April 2020 and then, as the number of COVID-19 positive cases touched 250, it has been now extended till 14 May 2020.

Due to COVID-19, the real GDP of the Maldives is forecasted by the World Bank to fall between 8.5 and 13.5 per cent in 2020.¹¹ Further, as the Maldives' Finance Minister, Ibrahim Ameer, said that the country expects a total deficit of about US\$778.2 million (S\$1.10 billion).¹² Buoyed by the number of tourist arrivals to the Maldives in 2019, the country had targeted to hit the two million mark in 2020 and 2.5 million by 2023.¹³ However, due to the global spread of COVID-19, strict restrictions have been placed on travel by all affected countries, including the Maldives. This has caused a decline of about 11 per cent in the number of tourist arrivals to the country in February 2020.¹⁴ In March 2020, there was a decline of about 22.8 per cent in tourist arrivals, compared to the same period in 2019. The period between 26 January and 12 March 2020 recorded cancellation of around 161,740 travel bookings to the Maldives. Overall, due to COVID-19, it is estimated that, compared to 2019, there will be a decline of between 12 and 35 per cent in tourist arrivals to the Maldives in 2020.¹⁵ However, Ameer estimates that such decline would be somewhere between 37 and 50 per cent.¹⁶

Besides affecting the country's economy, a slump in the tourism sector has already started hitting hard a large number of people employed in this sector. It has been reported that at least 38 resorts have cut salaries of their employees and around 11,000 employees from different resorts and hotels have been asked to go on 'no-pay leave'.¹⁷ According to Mauroof Zakir, Secretary-General of the Tourism Employees Association of Maldives, "[Management in] about 90% [per cent] of resorts have decided to send their workers on no-pay leave or cut their salaries by up to 15-20% [per cent] of the basic

¹⁰ "No Risks to Maldives from Loans: Finance Minister", *PSM News*, 19 January 2020. <https://psmnews.mv/en/62696>. Accessed on 25 April 2020.

¹¹ The World Bank, "South Asia Must Ramp Up COVID-19 Action to Protect People, Revive Economies", 12 April 2020. <https://www.worldbank.org/en/news/press-release/2020/04/12/south-asia-must-act-now-to-lessen-covid-19-health-impacts>. Accessed on 28 April 2020.

¹² "Maldives Projects Deficit of USD 778 million for 2020", *PSM News*, 3 April 2020. <https://psmnews.mv/en/66192>. Accessed on 28 April 2020.

¹³ "TTM Report: Maldives Tourism Industry Forecast 2023", 5 March 2020, op cit.

¹⁴ Maldives Monetary Authority, "Economic Update", op cit.

¹⁵ Zunana Zalif, "Maldives' economy will be greatly affected due to Covid-19: president", *Rajje MV*, 12 March 2020. <https://raajje.mv/73046>. Accessed on 18 March 2020.

¹⁶ "Maldives Projects Deficit of USD 778 million for 2020", *PSM News*, op cit.

¹⁷ Gulbin Sultana, "Maldivian Response to COVID-19", *Manohar Parrikar Institute for Defence Studies and Analyses*, 20 April 2020. <https://idsa.in/issuebrief/maldivian-response-covid-19-gsultana-200420>. Accessed on 22 April 2020.

salary...[Mauroof estimates that] over 11,000 workers will be sent on no-pay leave.”¹⁸ To protect the workers’ livelihood, the Union is demanding no forced unpaid leave, no layoffs and the implementation of unemployment benefits. The Union has also called for the protection of the migrant workers who are most vulnerable group in Maldives.¹⁹

Migrant Workers Test Positive

According to an estimate there are about 100,000 migrant workers in the Maldives, mostly from Bangladesh. They account for 25 per cent of the country’s total population and most of them work in the tourism sector. Many among the 100,000 workers are undocumented and live in congested houses. To look after the health of these migrant workers, the government of Maldives has established a dedicated COVID-19 clinic for them on Hulhumale island. In the clinic, migrant workers do not require to show work permits or any other documents.²⁰ Underlining his government’s policy, during his talk with the Bangladesh Prime Minister, Sheikh Hasina, Solih stated that Maldives would not differentiate between foreigners and citizens on the issue of aid. However, Solih acknowledged that several Bangladeshi expatriates in the Maldives have been tested positive for the Coronavirus²¹ and have been a source of its spread in the island country. To help the Maldives, Bangladesh has supplied 100 metric tonnes of food, medicines and medical equipment.

To allay fears among the workers, in his address to the nation on 12 March 2020, Solih stated, “[T]he government has no intention to reduce the wages of government employees nor has any intention to halt any development project that has already been initiated”.²² In April 2020, the government also decided to pay an allowance of Maldivian Rufiyaa of 5,000 (S\$458) to those who have lost their jobs due to the COVID-19 pandemic. They will initially be paid for three months and this will be extended if the pandemic situation does not improve.²³

It has been projected by the Maldives Monetary Authority that the decline in tourism would have negative spill-over effects on all other major sectors of the economy such as transport and communications, construction and wholesale and retail trade.²⁴ To reduce the economic impact of COVID-19 on the country’s economy, Solih announced measures such as the injection of a stimulus package worth 2.5 billion Maldivian Rufiyaa (S\$23.3 million)

¹⁸ Aditya Sharma, “Coronavirus hits Maldives’ lucrative tourism industry”, *DW.Com*, 15 April 2020. <https://www.dw.com/en/coronavirus-hits-maldives-lucrative-tourism-industry/a-53131198>. Accessed on 28 April 2020.

¹⁹ Ibid.

²⁰ Patricia Gossman, Migrant workers in Maldives to added risk from COVID-19”, *Human Rights Watch*, 27 March 2020. <https://www.hrw.org/news/2020/03/27/migrant-workers-maldives-added-risk-covid-19>. Accessed on 28 March 2020.

²¹ The President Office, Government of Maldives, “President discusses COVID-19 Pandemic with the Prime Minister of Bangladesh”, 24 April 2020, <https://presidency.gov.mv/Press/Article/23312>. Accessed on 28 April 2020.

²² The President Office, Republic of Maldives, “President calls upon all Maldivians to avoid mass gatherings and adhere to the advice from Healthcare Professionals”, 12 March 2020, <https://presidency.gov.mv/Press/Article/23258>. Accessed on 15 March 2020.

²³ “COVID-19: Allowance to be given to those who lose employment”, *AWAS*, 23 April 2020. <https://avas.mv/en/81782>. Accessed on 24 April 2020.

²⁴ Maldives Monetary Authority, “Economic Update”, op cit.

into the Maldivian economy, modification of the Bank of Maldives loan repayment structure, putting a moratorium of six months on all loan repayments and extension of repayment terms amongst several other waivers, apart from providing financial assistance to businesses through loan schemes. Solih also announced a moratorium of six months on repayment of housing loans under the Housing Development Finance Corporation.²⁵

Reving up the Economy

The Maldives has been utilising all loans and assistance from other countries and international organisations to revive its economy. Due to the flow of loans, in January 2020, the Maldives was under total debt of over US\$3.36 billion (S\$4.47 billion).²⁶ As the economy will suffer due to the COVID-19 pandemic, there may be delay in the payment of interest to these loans which will add to the economic burden of the Maldives.

It is certain that the US\$5 billion (S\$7 billion) Maldivian economy will face contraction due to COVID-19. Among all sectors, tourism will be the most affected and will have negative spill-over onto the other sectors. Hence, it has to be observed that to what extent will the government's policies lessen the damage and reduce the negative spill-over impacts on the other important sectors of the Maldivian economy.

As the economy contracts, people may be asked to leave their jobs with no new hiring for a long period of time. In the long term, this may create unrest among the youth. Already, as earlier mentioned in this paper, some of the resorts and hotels have fired a number of their employees and many have been asked to go on 'no-pay leave'. In such a situation, the government has to make a direct intervention. It has to prop up the market by spending on construction and other sectors and provide tax-related and other relaxations to hotels and resorts so that they do not fire their employees, as well as spend substantially on welfare measures such as giving unemployment benefits, etc.

Amid this gloomy picture, one positive development is that the government established the state-owned Maldives State Shipping in March 2020²⁷ which will help reduce the country's dependence on the foreign and private shipping companies for trade. In the past, its national shipping line was so mismanaged that it went bankrupt²⁸ and, eventually, its operation was stopped.

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²⁵ The President Office, Republic of Maldives, "President Delivers Press Conference Regarding COVID-19", 25 March 2020. <https://presidency.gov.mv/Press/Article/23258>. Accessed on 28 March 2020.

²⁶ "No Risks to Maldives from Loans: Finance Minister", *PSM News*, 19 January 2020. <https://psmnews.mv/en/62696>. Accessed on 25 April 2020.

²⁷ Gulbin Sultana, "Maldivian Response to COVID-19", *Manohar Parrikar Institute for Defence Studies and Analyses*, op cit.

²⁸ "State Trading Organization establishes Maldives State Shipping company", *The Edition*, 26 March 2020. <https://edition.mv/business/15767>. Accessed on 28 March 2020.