COVID-19 IMPACT ON MALDIVES

ECONOMIC IMPACT

The Asian Development Bank expects that the COVID-19 outbreak will have a significant impact on developing economies through numerous channels, including sharp declines in domestic demand, lower tourism and business travel, trade and production linkages, supply disruptions and health effects. The recent ADB publication ‘Economic Impact of the COVID-19 Outbreak on Developing Asia’ shows Maldives amongst the top 3 countries in the Asia region to be hardest hit by the global crisis. The report argues that the decline in tourism and business travel as a key channel for transmission of the Covid-19 impact on ADB’s Developing Member Countries such as the Maldives. Given that tourism revenues account for more than 40 percent of the GDP, and indirectly, tourism and tourism related sectors such as transport, communication and retail accounts for more than 70% of the GDP, the report estimates major growth impacts for the Maldives economy in four different scenario cases - a loss equivalent to 1.8 percent of GDP in the best case scenario (a 2 month travel ban and 50% drop in Chinese outbound travel for two months) to a loss equivalent to 5.5 percent of GDP in a worst case scenario (a 6 month travel ban and 50% drop in Chinese outbound travel for six months). Preliminary forecasts done by the Ministry of Finance show that as a result of the Covid-19 pandemic, tourist arrivals will experience negative growth between 12 to 35 percent. As a result of these forecasts, it is now estimated that the expected GDP growth rate could fall into a range between 0.5% to -5.6%. The fish exports to Europe has reportedly gone down due to the lockdowns and social gathering restrictions that are affecting restaurants and markets, the main clientele of the Maldives live/chilled fish exports. The spill-over effects of the crisis are expected in a number of sectors such as transportation, construction and retail. The impact on employment and micros-small and medium enterprises (MSMEs) is likely to be significant. Conditions of existing vulnerable groups and low-income households could worsen.

UNDP MALDIVES RESPONSE

UNDP is working closely with the Government and people of Maldives to prepare, respond and recover from the COVID-19 crisis to build back better towards achieving the Sustainable Development Goals (SDGs).

Learn more: https://bit.ly/34c0idT
The impact on unemployment losses and income losses is expected to be significant. Those who are working in the tourist resorts, aviation sector and other tourism support industries are experiencing pay cuts, no-pay leaves and lay-offs. Within the SME sector, incomes of domestic travel companies, guest houses, safari and diving liveaboard businesses, entertainment services to resorts, diving and water sports outlets, food and beverage outlets, and food suppliers supporting the tourism sector will be affected. Conditions of existing vulnerable groups could worsen. This includes:- elderly, unemployed Persons with Disabilities, disadvantaged women (single parents, single headed households, women experiencing gender-based violence), disadvantaged children (neglected children, children from low income households, children subject to abuse), foreign expatriate workers (particularly those in low-skilled/manual labour, informal/undocumented workers), unemployed youth, young people engaging in substance abuse and resorting to criminal activity.
Key Fiscal and Economic Policy Responses:

- To minimize the economic impact of the COVID–19 virus, the authorities announced on March 20 an Economic Recovery Plan of 2.5 Billion rufiyaa (2.8 percent of GDP), that is also accessible to MSMEs and informal economy.
- Under the plan, the Government of Maldives will (i) reduce recurrent expenditure by 1 billion rufiyaa (1.1 percent of GDP); (ii) increase the amount of funds allocated for the health sector; (iii) subsidize 40 percent of electricity bills and 30 percent of water bills for the months of April and May; and (iv) ensure through banks, availability of working capital to businesses, including short term loans, and installment arrangements for outstanding tax payments. At the same time, the government intends to continue public sector investment program (PSIP) projects as planned.
- The Maldives Monetary Authority (MMA) has been in close contact with the banks to discuss the impact on the domestic financial system and has identified the measures that can be taken through the financial institutions to reduce economic disruptions and loss of jobs and output. The announced measures include: (i) reduction of the minimum required reserves up to 5 percent as and when required; (ii) making available a short-term credit facility to financial institutions as and when required; (iii) introducing regulatory measures to enable a moratorium of 6 months on loan repayments for those impacted by the current situation (customers have to submit their requests to the banks in order to avail themselves of this moratorium).
- The MMA will increase its foreign exchange interventions and use other available facilities to maintain the exchange rate peg against the US dollar. At the same time, the authorities have announced their intention to obtain a foreign currency swap facility amounting to US$150 million under the currency swap agreement signed between the MMA and the Reserve Bank of India.

Other Socio-Economic Responses:

- Importers have been granted concessions and port fees reduced.
- Delivery services encouraged from retailers and eateries to keep afloat businesses.
- Banks have offered moratorium for 6 months on interest and principle repayments for all types of repayments except for overdraft facilities.
- Cargo flights operationalized for staple food, and charter flights in operation to bring Maldivians living abroad home.
- Maldivian flight delivered care packages for Maldivians in Sri Lanka.
- Phone and data packages subsidized starting April.
- Designated flu clinic opened for foreigners/ expatriate workers.
- Inclusive, sensitized messaging, information sharing to the public underway.

*All updates as of 31 March 2020

Photos: Ashwa Faheem/ Munshid Mohamed/ UNDP Maldives