

APRIL 2020

---

# COVID-19 CRISIS

**MALDIVES ECONOMIC UPDATE**



*Empowered lives.  
Resilient nations.*



Prepared by:  
*UNDP MALDIVES*

---

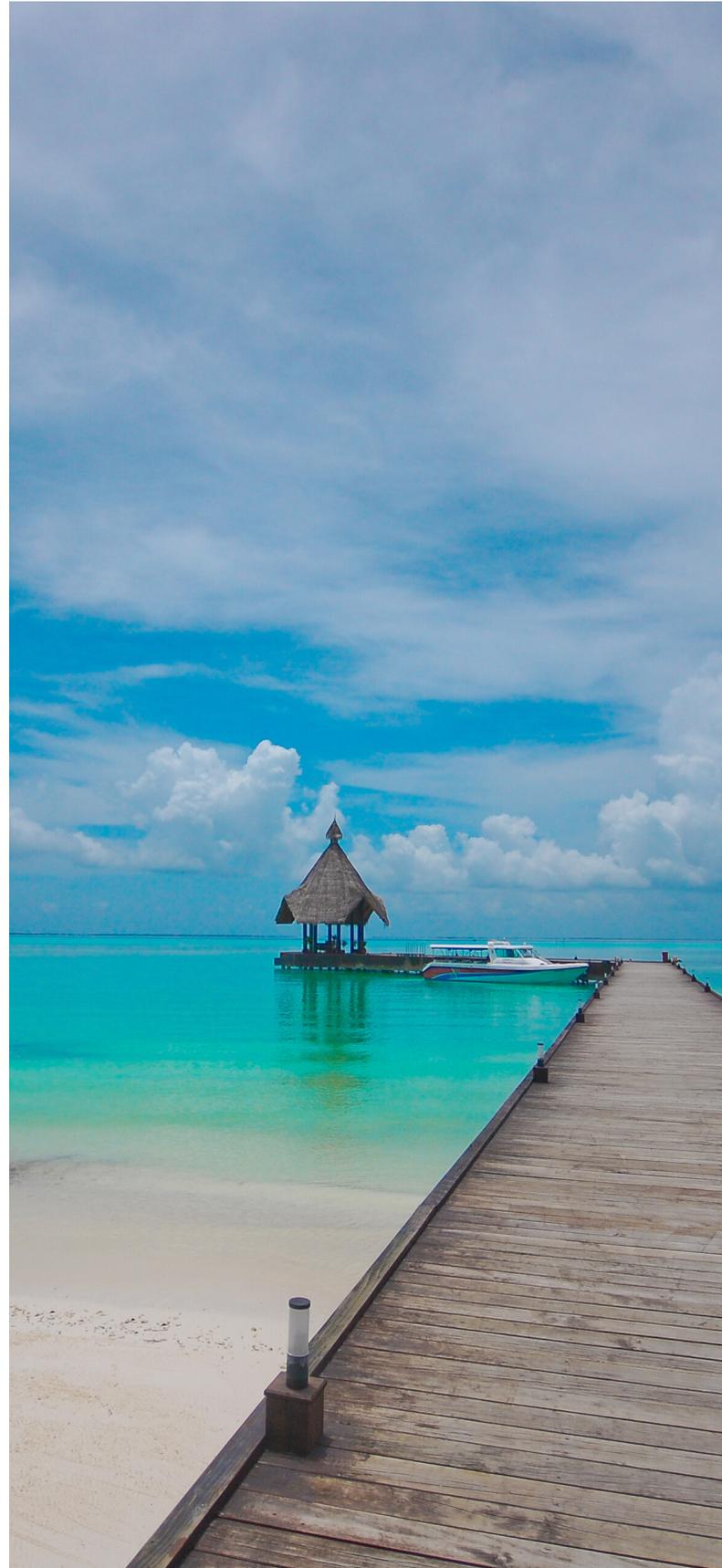
# Background

The Maldives economy has been experiencing positive growth rates in recent years. In 2018, GDP growth rate was 6.9 percent which was mainly driven by the tourism sector, construction and real estate industry.[1] Tourism industry directly accounted for 25.2 percent of this growth while indirectly it contributed more through growth in communications, transport and retail trade sectors. The medium-term forecasts for the economy included a 7.5 percent GDP growth rate for 2020 and 6.3 percent for 2021 and 6.2 percent in 2022.[2] In the preliminary forecasting exercise carried out by the Ministry of Finance, the forecasted GDP of 7.5 percent for 2020 could decrease to a range between 0.5 to -5.6 percent.[3] These forecasts were based on a revision of estimated tourist arrivals for 2020 which was originally expected to grow by 8 percent. The revised figures showed a negative tourism sector growth in the range 12-35 percent. The most recent updates from the Ministry of Finance show that the tourism sector could experience a negative growth of up to 50 percent which will result in a fall in GDP by 5.6 percent.

[1] *Fiscal and Macroeconomic Outlook – BIS 2020–Draft*, Ministry of Finance, Government of Maldives

[2] *Ibid.*

[3] *Maldives Macroeconomic Update: Novel Coronavirus outbreak*, Ministry of Finance



---

# Impact Transmission of the Crisis on the Maldivian Economy

## **Decline in tourist arrivals since 1 February 2020:**

Although in January the number of tourist arrivals increased compared to previous year, February recorded a decline of 11.1% from 2019 with Asia and the Pacific recording a decline of 45% compared to February 2019.[4] Travel restrictions imposed in late February and throughout March for passengers from countries which coincidentally are the largest tourist markets had an immediate impact. The decision to halt issuing of on-arrival visas to the country meant a complete halt of tourism operations in the country. Extended recession globally will further suppress travel even if travel regulations relax.

## **Decline in fish exports:**

The export of live fish and chilled tuna which takes up about 28% of the total fish export earnings is experiencing the impact most. According to one source, the export of live and chilled fish (mostly yellow fin tuna) has shut down almost completely to Europe while supply continues to US and to Thailand with some difficulties. [5] The fish purchase from Europe has gone down drastically due to the lockdowns and social gathering restrictions that are affecting restaurants and markets, the main clientele of the Maldives live/chilled fish exports. Transport and supply chain disruptions have affected fish exports to Asia and exports to Europe that route through Asia.

## **Supply chain/import disruptions:**

Due to closure of borders, cancellation of flights, and closure of seaports and cancellation of shipping and due to closure of production facilities. Given the high dependency on imports from main sectors such as tourism, construction, wholesale and retail, etc. have reported supply chain disruptions with the closure of borders, exports, and production facilities. Wholesale and retail sector which has major shipments from UAE, Singapore, Indonesia, Malaysia, and Thailand are experiencing cancellation of orders to the point of halting operations altogether.

[4]<https://www.tourism.gov.mv/statistics/monthly-updates/>

[5]<https://mihaaru.com/business/70837>

---

**Fall in international and domestic credit:**

Due to loss of investor confidence due to uncertainty, financial markets decline, foreign exchange loss and global recessionary pressures as well protracted internal shock to the economy.

Maldives relies on large investments, foreign direct investment and foreign loans for resort development, infrastructure, construction projects, etc. which are currently paused financially and operationally.

**Internal containment measures by the****Government:**

Including travel restrictions, internal mobility restrictions and mandatory closure of selected businesses is affecting businesses and associated employment.

## Direct and Spill-over Effects on Businesses

The impact on business can be visible amongst businesses that are integrated in the tourism value chain and businesses in an island/city economy. The likely impact on businesses include loss of sales and revenue, loss/shortage of employees, reduction of operational hours or stopping operations, employee cuts, loss of vendors or supply disruptions etc. Companies are likely to experience cash flow issues, increased debt and experience increased risk of bankruptcy.

Impact on micro and informal businesses which are predominantly women-led or women-owned and those with a large participation from the foreign expatriate population is likely to bear lasting impacts. Challenges facing MSMEs prior to the crisis such as access to credit, access to skills and entrepreneurship training, time, access to affordable raw materials and markets are likely to worsen.

The Ministry of Economic Development with support of UNDP Maldives is currently conducting a rapid livelihood assessment to understand the impact of the crisis on businesses in an in-depth manner.

## Impact on Employment

Prior to the crisis, the Maldives has an underutilized labour force with a large proportion of women and young people are left out of the work force. Over a quarter of women are either unemployed or not looking for a job. Youth unemployment is high at 15.3 percent. The Government or public service is the top employer among Maldivians. Tourism and construction, the main drivers of growth, rely mostly on foreign labor and male employment. Women are mainly care givers, and lack adequate childcare facilities and alternative/flexible working arrangements. There is lack of incentives to encourage hiring of female workers, along with cultural barriers and stereotyping.

About two thirds of Maldivians are employed in jobs not related to tourism, suggesting a misalignment between the drivers of growth and aspirations of job seekers. Poor working conditions and occupational health and safety standards are key shortcomings in the labour sector. There are challenges specific to managing the foreign workforce. This includes poor quota policy formulation, administration, compliance with laws, and the absence of a client charter and service standards. Fraudulent labour recruitment practices exist leading to human trafficking. Labour market services are weak including the limited support in career guidance, job matching, employment monitoring, skill building and weak redressal of employment complaints etc. The crisis is likely to exacerbate existing employment and labour market challenges. It is expected to have a significant impact on employment as a result of the closure of all resort accommodation establishments in the country which is expected to directly affect approximately 50,000 resident resort population.



---

## The key impact areas include:

**Loss of employment:** While majority of the large enterprises including resort establishments have been encouraged by the Government to retain employment, it is likely that those staff who have casual contracts or consultancy contracts, those on probation and tourism employees with a fixed term contract less than two years are likely to be laid off. This also includes freelancers and those working without formal contracts.

**Loss of income:** Many in the service industry, particularly those working in the resorts and guest houses are likely to have experienced loss of income since 1 February 2020 due to loss in service charge or tips. As a result of the closure of resort accommodation establishments and other businesses, employees have been given only basic pay (all allowances and overtime will be lost), pay cuts or no pay arrangements for the next 3 months. The Tourism Employees Association of Maldives (TEAM) has estimated that 11,000 workers are affected by no-pay arrangements or a complete loss of incomes.

**Loss of legal status of foreign expatriate workers as result of loss of employment:**

This is particularly critical for foreign expatriate workers in the low skilled or unskilled categories and those that do not have formal employment contracts. As a result, the pool of undocumented workers may increase.

**Physical relocation of resort employees/migration to Male' or home islands:** The resort and guest house establishments are expected to close by mid-April 2020 two weeks after the departure of the last guest following the cancellation of on arrival visas for tourists for the Maldives effective 27 March 2020. An unprecedented migration is expected of more than 23,000 resort employees to their home islands or to the Greater Male' region. This is going to compound loss of accommodation/shelter or housing for a proportion of the workers.

**Physical relocation or departure of foreign expatriate workers working in resort establishments and other businesses:** The resorts and other businesses are facilitating the departure of foreign expatriate workers (about 24,000) due to the upcoming closure of resort accommodation establishments.

**Negative psychological impact and stress:** The shock to the economy and employment trends in the economy is likely to have a negative impact on employee's mental health. Additionally, restricted mobility, social distancing and travel ban in resorts are aggravating the stress levels of employees.

---

# Measures Taken by the Government of Maldives

The government has announced on 20th March, 2020 an Economic Recovery Plan of USD 162 million; 2.8 percent of the GDP to keep businesses afloat and to maintain employment and consumption.[6] Local businesses (large, MSME, and informal sector) can access finance on the condition that businesses retain employment to a maximum.

- Companies gaining revenue of MVR10 million or more can access working capital financing from Bank of Maldives (BML) at a 6 percent interest rate with a repayment period of 3 years. Companies with revenues lower than MVR 10 million can access working capital loans from the SME Development Finance Corporation (SDFC).
- Within the fiscal stimulus is an allowance to individuals who have suffered Covid-19 related job losses/pay cuts as safety net for 3 months.

[6]<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>



- Furthermore, a debt moratorium of 6 months by BML, SDFC, and Housing Development Finance Corporation has been announced to businesses and individuals with availed facilities other than overdraft facilities. SDFC has lowered interest rate to 4 percent for all SMEs and Agri-businesses. BML, in addition to moratorium of 6 months, has reduced repayment by 20 percent for the next 6 months. Interests charged will be simple, and not compounded.
- The central bank, the Maldives Monetary Authority (MMA) estimates USD 400 million decline in foreign currency entering the country and will intervene in the market stabilize the currency. On 20th March, 2020, MMA announced that it will be utilizing the currency swap facility with Reserve Bank of India to inject USD 150million into the banks. MMA has also reduced reserve requirements of banks to 5% to support liquidity.[7]
- The government is conducting cost reduction measures such as explicit approval from Ministry of Finance for any expenditure above USD 2270 by government entities, to reduce expenditure by more than USD 64.8 million.

[7][http://www.mma.gov.mv/#/news/PR-MCS-2020-3\(english\).html](http://www.mma.gov.mv/#/news/PR-MCS-2020-3(english).html)



# Socio-Economic Impact on the Maldives



“

As the Government of Maldives starts designing relief funds and other responses, this presents an unprecedented opportunity for transforming the economic structure to be low-carbon, climate-resilient and inclusive. UNDP is pleased to be part of the process.

- UNDP Maldives Resident Representative, Akiko Fujii



*Empowered lives.  
Resilient nations.*

FOR MORE INFO: [WWW.MV.UNDP.ORG](http://WWW.MV.UNDP.ORG) / [REGISTRY.MV@UNDP.ORG](mailto:REGISTRY.MV@UNDP.ORG)

Photos: Umair Badeeu/ Ashwa Faheem/ Masrah Naseem/ Shoko Noda/ UNDP Maldives