MALDIVES

Table 1	2020
Population, million	0.5
GDP, current US$ billion	4.0
GDP per capita, current US$	7458.8
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	31.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	78.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Maldives has suffered an unprecedented shock from COVID-19 as tourism came to a standstill. Output contracted by an estimated 28 percent in 2020, leading to a projected increase in poverty. In 2021, with a partial recovery in tourism and large base effects, growth is expected to rebound to 17 percent. While Maldives' appeal to tourists remains strong, the outlook largely hinges on factors outside its control. More prudent fiscal policies would help reduce debt vulnerabilities, which were already high before the pandemic.

Key conditions and challenges

Maldives has managed to attain upper middle-income status and reduce poverty mainly through the successful development of high-end tourism. According to official estimates, only 3.6 percent of the population lived below the poverty line for upper middle-income countries (US$ 5.50/person/day in PPP) in 2016. However, heavy reliance on tourism, which directly accounts for a quarter of GDP, makes the economy vulnerable to external shocks. Although growth averaged 5.7 percent from 2000 to 2019, natural disasters and global shocks have repeatedly caused large and sudden swings in output. Opportunities for diversification are limited in the near term due to scarce land, remoteness, and other geographical constraints.

The COVID-19 pandemic is the largest shock to have ever hit the Maldives' economy. The government closed borders between end-March and mid-July 2020, resulting in a sudden stop of tourist inflows. To mitigate the adverse welfare impacts of the crisis, the government spent USD 187 million or about 4.7 percent of estimated 2020 GDP on special financing facilities for firms and freelance workers, monthly income support allowances, and discounted utility bills.

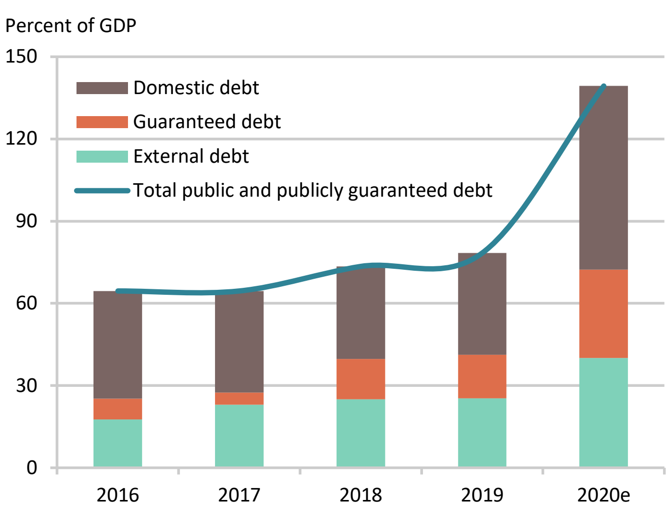
Restoring fiscal and debt sustainability is key to building back better. Even before the pandemic, Maldives was already at high risk of overall and external debt distress. Reliance on external non-concessional loans to finance the ambitious public infrastructure agenda led to a large increase in debt between 2016 and 2019. The large contraction in GDP and additional borrowing due to COVID-19 have further elevated debt vulnerabilities. Delaying large public investment projects until the economy strengthens would help to alleviate these pressures.

Recent developments

Maldives' economy is estimated to have contracted by 28 percent in fiscal (calendar) year 2020 as tourism and construction activity slumped. Only 555,494 tourists visited the country, a third of the number in 2019. Since December, however, tourism has picked up strongly thanks to the absence of quarantine requirements and the unique 'one island, one resort' concept. Approximately 189,000 tourists, mostly from Russia and India visited Maldives in January and February 2021; however, this is still 42 percent below the comparable period in 2019.

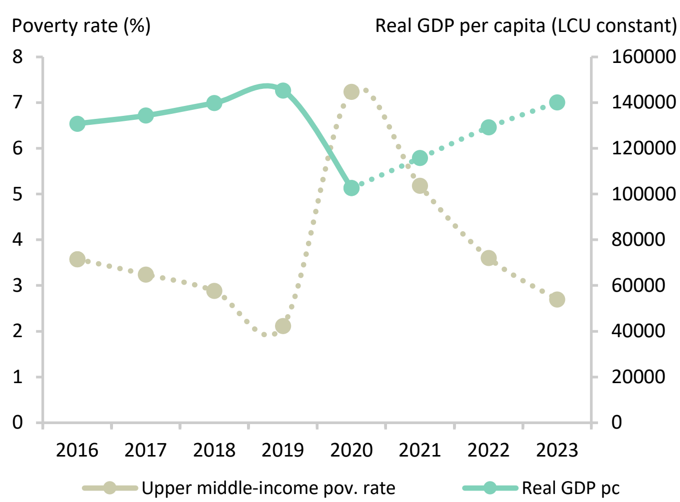
Against this backdrop of anemic economic activity, prices fell by an average of 1.4 percent y-o-y in 2020. The deflation was more pronounced in Malé than in the atolls, but in both cases driven by housing and utilities (reflecting lower rent and oil prices), as well as information and communications services. Food prices, however, rose by 3 percent on average, driven by an increase in tobacco duties.

FIGURE 1 Maldives / Public and publicly guaranteed debt



Sources: Ministry of Finance.

FIGURE 2 Maldives / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

The goods trade deficit narrowed from US$ 2.5 billion in 2019 to US$ 1.5 billion in 2020, as a compression in imports outweighed the decline in exports. Imports fell by an estimated 36 percent y-o-y, driven by lower imports of raw materials as construction activity contracted. Lower imports of food and fuel due to lower tourist arrivals and lower oil prices, respectively, also contributed. Meanwhile, exports fell by 20 percent y-o-y, mostly due to a large decline in re-exports of jet fuel from fewer international aircraft movements. However, exports of fish increased by 3 percent, boosted by a large increase in exports of processed fish in the second half of the year.

Maldives maintains a de facto stabilized exchange rate arrangement. Official reserves recovered from a low of US$ 569.8 million at end-August 2020 to US$ 855.7 million at end-February 2021, as tourists returned and the Maldives Monetary Authority activated the remainder of its US$ 400 million foreign currency swap arrangement with the Reserve Bank of India. The Monetary Authority also implemented measures to manage shortages of US dollars. Usable reserves—netting out short-term liabilities—amounted to US$ 156.5 million at end-February 2021, equivalent to a month of 2020 goods imports.

The fiscal deficit reached 20 percent of estimated GDP in 2020. While the sudden stop in tourism led total revenues and grants to fall by 35 percent y-o-y, total expenditures fell only by 4.5 percent. Although the government cut recurrent spending by 9 percent, capital expenditures are estimated to have grown by 7 percent. As a result of the higher deficit and negative growth, total public and publicly guaranteed debt is estimated to have increased to 139.3 percent of GDP in 2020 from 78.4 in 2019.

With most Maldivians dependent on tourism and fisheries for their livelihoods, World Bank estimates based on household survey data indicate that the poverty rate has increased from an estimated 2.1 percent in 2019 to 7.2 percent in 2020.

Outlook

Assuming its borders remain open to visitors, Maldives is expected to receive 1 million tourists in 2021, about 60 percent of the 2019 number. Real GDP is therefore projected to grow by 17 percent in 2021. The rebound in growth largely reflects base effects and assumes a continuation of strong tourism inflows especially from Russia and India. Although medium-term prospects for tourism are strong, real GDP is not expected to return to pre-pandemic levels until 2023, in line with global aviation and travel forecasts. The poverty rate is expected to decline slowly over the medium term to 2.7 percent in 2023.

External and fiscal imbalances will remain elevated. Despite the recovery in tourism receipts, the current account deficit is expected to widen over the medium term as imports linked to tourism and construction normalize. The fiscal deficit is expected to decline as revenues recover but is forecast to remain in double-digits due to expansionary fiscal policies. The 2021 Budget, for example, targets a 45 percent increase in capital expenditures from 2020, while revenues are not expected to cover current expenditures. With the recovery in growth, the debt ratio is expected to moderate to 131.4 percent of GDP in 2023.

Risks are heavily tilted to the downside and some are outside Maldives' control, such as the pace and effectiveness of COVID-19 vaccinations globally. The outlook would deteriorate if more stringent restrictions on international travel are reintroduced. The low level of usable reserves and high indebtedness pose significant risks to macroeconomic stability.

TABLE 2 Maldives / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.1	7.0	-28.0	17.1	11.5	8.3
Private Consumption	10.6	5.5	-35.0	27.0	20.0	12.0
Government Consumption	9.0	-4.2	0.6	2.7	2.3	1.5
Gross Fixed Capital Investment	29.1	-2.7	-5.9	2.3	4.4	4.8
Exports, Goods and Services	10.1	6.1	-45.0	30.0	14.1	11.9
Imports, Goods and Services	12.8	0.3	-38.0	24.0	14.8	12.0
Real GDP growth, at constant factor prices	8.1	7.1	-25.9	16.0	10.7	8.2
Agriculture	4.8	5.0	8.0	5.5	5.6	3.6
Industry	15.6	1.5	-19.7	7.1	6.6	5.8
Services	7.3	8.0	-28.9	18.4	11.7	8.9
Inflation (Consumer Price Index)	-0.1	0.2	-1.4	2.5	1.1	1.0
Current Account Balance (% of GDP)	-28.3	-26.8	-26.3	-27.1	-27.5	-27.7
Net Foreign Direct Investment (% of GDP)	10.9	17.0	7.9	9.3	10.6	14.0
Fiscal Balance (% of GDP)	-5.3	-6.6	-20.1	-18.5	-15.2	-12.7
Debt (% of GDP)	74.0	78.4	139.3	135.2	132.1	131.4
Primary Balance (% of GDP)	-3.5	-4.9	-16.4	-14.2	-10.9	-8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.9	2.1	7.2	5.2	3.6	2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.