

MALDIVES

STATE OF ECONOMY AND PROSPECTS

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Having won both the presidential election in October 2023 and the parliamentary elections in April 2024, the road ahead now seems to be cleared for President Muizzu of the Maldives to implement his domestic plans and external policies. The scheme of things will include undertaking reforms to improve the finances of the state and bring debt to sustainable levels by focussing on improving tourism and mobilising large investments in the Maldives.¹ The success of this largely depends on a strong and stable economic foundation. However, the optics and reports from global economic institutions suggest otherwise due to the low forex reserves, increased public debt, widening current account deficit, and fiscal challenges.

Forex reserves in the first six months of 2024 have been the lowest since 2018, except in April, when these reached US\$614.79 million, crossing the benchmark of US\$500 million for the first time in this

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1. The President's Office, Republic of Maldives, "Presidential Address 2024: Government Plans to Tormulate a Reform Policy to Improve the State's Finances and Bring Debt and Fiscal Conditions to a Sustainable Level - The President", February 5, 2024, <https://presidency.gov.mv/Press/Article/29738>. Accessed on June 5, 2024.

year.² But this is still lower than in the same month last year, when it was US\$748.21 million. The International Monetary Fund (IMF) has called for an urgent policy adjustment and has put the Maldives in the high category of overall debt distress, which continues to hover around 115 per cent of the Gross Domestic Product (GDP).³ In another report of the IMF executive board, the current account deficit of the Maldives for 2023 was 22.8 per cent. However, it is likely to reduce in the medium term.⁴ All this indicates that the grammar of economics is not right to chart a prosperous future for the Maldives, the smallest South Asian country. Simultaneously, its closest neighbour and the largest country in South Asia, India, has emerged as one of the fastest growing economies post-COVID-19, according to the World Bank, largely due to accommodative monetary and fiscal policies, and recorded a growth rate of 6.9 per cent in 2022-23.⁵ The forecasts suggest that India is likely to continue on this path. According to the IMF's latest World Economic Outlook, the GDP forecast for India in 2023-24 has been revised and increased by 20 basis points, taking the produced GDP growth to 7 per cent.⁶ What and how Malé can gain from New Delhi's economic ascendancy and support remains to be seen under the newly elected pro-Chinese president of the Maldives.

MALDIVES' ECONOMY: AN INSIGHT

Made up of nearly 1,190 coral islands, grouped in a double chain of 27 atolls, the Maldives is an upper middle-income country located in the central Indian Ocean basin. Despite the ripples of the pandemic, which caused a global economic slowdown, the Maldives has not only

2. Maldives Monetary Authority, "Foreign Currency Reserves", <https://viya.mma.gov.mv/series/3383>. Accessed on July 20, 2024.
3. International Monetary Fund, "Maldives: Staff Report for 2024 Article IV Consultation Debt Sustainability Analysis", May 13, 2024, <https://www.imf.org/en/Publications/CR/Issues/2024/05/10/Maldives-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-548770>. Accessed on July 30, 2024.
4. International Monetary Fund, "IMF Executive Board Concludes 2024 Article IV Consultation with Maldives", n. 24/152, May 13, 2024, <https://www.imf.org/en/News/Articles/2024/05/10/pr-24152-maldives-imf-executive-board-concludes-2024-art-iv-consultation>. Accessed on July 20, 2024.
5. World Bank Group, "The World Bank in India", <https://www.worldbank.org/en/country/india/overview>. Accessed on July 18, 2024.
6. Ministry of Finance (India), "India Shines as IMF Upgrades GDP Forecast to 7% in 2024-2025", Press Information Bureau, July 17, 2024, <https://pib.gov.in/PressNoteDetails.aspx?NoteId=151934&ModuleId=3>. Accessed on July 20, 2024

surpassed the pre-pandemic levels in terms of economic indicators but has also scaled new heights. In 2019, the GDP of the Maldives was US\$5.73 billion, with a GDP per capita of US\$11,350 and an economic growth rate of 7.30 per cent. By 2022, these figures had increased to US\$6.17 billion in GDP, US\$11,781 in GDP per capita (the highest in South Asia), and a growth rate of 13.91 per cent. This was mainly due to the revival of tourism and expansion of activities in other sectors like construction, transportation, and communication.⁷ Despite all of this, the real GDP growth rate of the Maldives in 2023, according to the IMF, was 4.4 per cent—much lower than in yesteryears.⁸ The projection for 2024 is 5.2 per cent, but it remains to be seen how well the Maldives can maintain this rate amid the ongoing Ukraine War, which has increased the prices of food, fuel, and fertilisers. All of this becomes more relevant for the Maldives as it is a net importer of agricultural products and fossil fuels.

According to the Human Development Index (HDI) published by the United Nations Development Programme (UNDP), along with Sri Lanka, the Maldives is the only country in South Asia categorised under high human development. Its growth from 0.753 in 2019 to 0.762 in 2022 is laudable,⁹ though the overall loss in human development due to inequality, according to the inequality-adjusted HDI, has come down from 22.6 per cent in 2019 to 21.7 per cent in 2022. A closer look at the above numbers shows that even this level of inequality is higher for a population of 5,30,000. More so, being an island country that is scattered between the equator and the eight-degree channel, the population is spread across different islands that have limited communication and transportation facilities, which has added to this gap. This has been confirmed in a report titled “National Multidimensional Poverty in Maldives 2020”, a result of the joint effort of the National Bureau of Statistics (Maldives), Oxford Poverty

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7. Islamic Development Bank, “Member Country Partnership Strategy for The Republic of Maldives”, May 2022, https://www.isdb.org/sites/default/files/media/documents/2022-08/Maldives%20MCPS_20220603_Final.pdf. Accessed on May 05, 2024.
 8. International Monetary Fund, “Maldives”, <https://www.imf.org/en/Countries/MDV>. Accessed on May 05, 2024.
 9. United Nations Development Programme, “Maldives”, Human Development Reports, <https://hdr.undp.org/data-center/specific-country-data#/countries/MDV>. Accessed on May 05, 2024.

and Human Development Initiative, and United Nations Children Fund (UNICEF) Maldives Country Office that compares the multi-dimensional poverty index of Malé, the economic and political hub, with that of the other atolls.¹⁰ The report concludes that poverty is much higher in the surrounding atolls than in the capital city of Malé, due to imbalanced allocation of resources and limited connectivity.

Another critical issue plaguing the Maldivian economy is the high and rising internal and external debt (Table 1), which has led to an acceleration in the total debt- to-GDP ratio. This issue did not originate with the current Muizzu administration or the previous Solih administration; rather, it stems from the increased borrowings from China during the second half of the Yameen administration (2013-18) (Table 2). The after-effects of these borrowings have continued to blot the economics of successive governments.

Table 1: Comparison of the Internal and the External Debt of Maldives
(Data is presented in MVR million)

		Internal Debt	External Debt
2020	S1	35	22
	S2	42	25
2021	S1	45	27
	S2	48	32
2022	S1	54	32
	S2	58	33
2023	S1	67.0	33.9

Source: This table has been created by the author based on data compiled from various Debt Bulletins released semi-annually by the Ministry of Finance, Republic of the Maldives.

Table 2 reflects that the rise in borrowing from China was continuously increasing each year, concomitantly followed by a sharp decline in borrowing from India. In fact, in 2019, when the

10. National Bureau of Statistics Maldives, Oxford Poverty and Human Development Initiative, and UNICEF Maldives Country Office, "National Multidimensional Poverty in Maldives 2020", <https://www.unicef.org/maldives/media/3116/file/National%20Multidimensional%20Poverty%20in%20the%20Maldives.pdf>. Accessed on May 06, 2024.

borrowing from Beijing was the highest, simultaneously, it was the lowest from New Delhi. These were also the years when the Maldives had approved many Chinese infrastructure and connectivity projects in Malé. All of this has proved to be a deadly cocktail for the growth of the Maldives today. The two most prominent global economic institutions, the IMF and World Bank, have now cautioned the Maldives about getting too close to China. The IMF has speculated the need for urgent policy adjustments, which, if not done, could spell trouble for its overall debt.¹¹ The World Bank has advised the Maldives to exercise caution when borrowing from China for its infrastructural development. According to the Debt Bulletin released by the Maldivian government, the country owes more than a quarter of the external debt to the Export-Import (EXIM) Bank of China.¹²

Table 2: Comparison of Borrowing from India and China during Yameen’s Administration
(Data is presented in MVR million)

	June 2016	December 2016	June 2017	December 2017	June 2018	December 2018	June 2019	December 2019
EXIM China	2,778	4,708	4,777	5,935	7,219	8,093	8,896	8,892
EXIM India	221	220	221	201	181	162	142	122

Source: Data has been compiled by the author from various Public Debt Bulletins released by the Ministry of Finance and Treasury, Malé, Republic of the Maldives.

The current Muizzu government must heed these warnings, as it has been sending strong signals of bending toward China to support its economy. At the same time, it has adopted an economic policy focused on the construction of airports, international bunkering facilities, trade port, and other economic gateway projects.¹³ All this

11. “IMF Warns of Maldives Foreign Debt Crisis, After China Borrowing”, *The Hindu*, February 7, 2024, <https://www.thehindu.com/news/international/imf-warns-of-maldives-foreign-debt-crisis-after-china-borrowing/article67821241.ece>. Accessed on May 8, 2024.

12. Ministry of Finance, Republic of Maldives, “Debt Bulletin”, Issue 11, June 2023, <https://www.finance.gov.mv/public/attachments/3refilbLVPCvItrVMDI9sVhFWtUbAb1a1zFJuNPc.pdf>. Accessed on May 10, 2024.

13. n. 1

requires a colossal amount of finances generated both from within the country and borrowed from outside in the form of cheap loans, lines of credit, and budgetary support. However, the challenge is that finances from within are limited due to extensive reliance on tourism and fisheries. This necessitates its dependence on outside sources which will be guided by its robust bilateral partnerships and global stance.

KEY CHALLENGES

Being a maritime South Asian country, the economy of the Maldives' economy is highly dependent on the twin pillars of tourism and fisheries. One-third of the country's GDP comes from tourism and related sectors. Despite the significant decline experienced during the pandemic, which took down its contribution by 62.7 per cent, the sector bounced back in 2021 and grew by 152.8 per cent.¹⁴ Though the number of tourist arrivals has been increasing, the foreign exchange earned from this is not enough to service the large debt the country is facing (in 2023, it was 118 per cent of the GDP).

Simultaneously, tourists from India, which was one of the Maldives largest sources of visitors till 2023, have been sharply dropping, especially after the social media outrage over the derogatory remarks made by the Maldivian ministers on Prime Minister (PM) Modi's visit to the Indian territory of Lakshadweep. This has affected the tourism campaign, and its impact is evident in the declining share of the Indian tourist market share from 10 per cent to 6 per cent.¹⁵

The second quintessential pillar of the Maldives' economy is fisheries, naturally due to its large maritime boundary. The fisheries sector, which apart from being a source of nutrition and livelihood, also has huge export potential, is suffering from the staggering challenges of illegal, unreported, and unregulated fishing, thereby

14. Ministry of Finance, Republic of Maldives, "Macroeconomic Update", May 2023, <https://www.finance.gov.mv/public/attachments/eeT52rQgZS8udDWot7K22jtH6uhcwC8rSjmFRKGc.pdf>. Accessed on May 10, 2024.

15. Vaishnavi Sinha, "Maldives Sees 33% Drop in Indian Tourists Amid Diplomatic Row; Top Visiting Country is...", *Hindustan Times*, March 8, 2024, <https://www.hindustantimes.com/world-news/amid-escalating-row-maldives-sees-33-drop-in-indian-tourists-top-visiting-country-is-china-101709887778340.html>. Accessed on May 10, 2024.

reducing its contribution by 5 percent per annum.¹⁶ Other challenges affecting the growth of this sector include the limitation of advanced fish processing, banking facilities, delayed payments, difficulties in acquiring ice and fuel, and challenges to the use of satellite phones.¹⁷ Another sector that has picked up momentum is construction, but even that is completely dependent on the import of construction materials.

These are the two main engines of growth and prosperity in the Maldives. A commonality between them is their vulnerability to climate change. As the temperature of the Indian Ocean increases, this will, in all circumstances, impact the fish catch; at the same time, the increase in water levels will seriously impact the infrastructure and, consequentially, the tourism sector. Secondly, both sectors are highly vulnerable to external shocks, as was seen during the pandemic, which affected both the influx of tourists and the export of fish. The penultimate takeaway from the Maldivian economy is its low diversification and heavy reliance on imports.

WHAT THE FUTURE HOLDS FOR THE MALDIVES AND INDIA

A brief look at Malé's economic indicators suggests that it would potentially be vulnerable due to internal as well as external factors if the right steps are not taken now. Domestically, the demand for several infrastructure projects will increase, and so will the borrowings and the import of construction materials, fossil fuels, and even agricultural products to feed the increasing population. However, in pursuing development, it is crucial to consider the cost. Development should not come at the expense of political gains that offer short-term benefits but have long-term implications.

Getting the grammar of economics right in the Maldives will require not only domestic reforms like a tighter fiscal consolidation strategy, a mechanism to draw in private investment, and a focus on green and sustainable growth, but also a wise borrowing strategy. One of the prime creditors of Malé is China. However, the economic

16. "Maldives", *Blue Economy Insight*, Research and Information System for Developing Countries, March 2021, <https://www.ris.org.in/sites/default/files/2021-09/Insight%20magazine%20March%202021.pdf>. Accessed on May 10, 2023.

17. The President's Office, Republic of Maldives, "The Main Challenges Facing the Fisheries Sector will be Resolved in Mid-2023, says the President", December 11, 2022, <https://presidency.gov.mv/Press/Article/27752>. Accessed on May 10, 2024.

vulnerability in Sri Lanka suggests that Chinese borrowings not only come with higher interest rates but also at the cost of sovereignty. On the other hand, apart from the cheap EXIM Bank loan, New Delhi also provides budgetary support that Beijing does not provide. Budget support plays a key role in addressing critical economic reforms, supporting structural transformation in debt-stressed countries, and also facilitates the leveraging of private capital for institutional reforms.¹⁸ India has done fantastically well in this regard, and in 2023-24, the budget support has seen an increase of 300 per cent compared to last year.

Cooperation with India and the Indian leadership in the past in various sectors ranging from economic to military, health, education and infrastructure has uplifted not only local Maldivians, but also the nation as a whole. New Delhi's outstanding support in dealing with the coup of 1988, providing defence equipment, and training and conducting joint exercises has strengthened and enhanced the security of the Maldives, which has ultimately contributed to its economic security. Recently, at the request of the Maldivian government to avert the risks of a debt crisis¹⁹ and the fear of its first-ever Islamic sovereign bond default,²⁰ New Delhi assisted the Maldives by buying its treasury bills worth US\$50 million twice,²¹ first in May and again in September 2024.

However, no economic policy can succeed if the politics behind it does not make the right calls at the right time. And in this case, it all

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18. Shahrokh Fardoust, et al., "The Importance of Budget Support for Progress on Sustainable Development", World Bank, December 1, 2023, <https://blogs.worldbank.org/en/arabvoices/importance-budget-support-progress-sustainable-development#:~:text=It%20plays%20a%20key%20role,private%20capital%20for%20development%20needs>. Accessed on May 10, 2024.
 19. "India Extends Emergency Support to Maldives as it Battles Debt Default Threat", *The Economic Times*, September 20, 2024, <https://economictimes.indiatimes.com/news/india/india-extends-50-mn-budgetary-support-to-maldives-for-another-year/articleshow/113519625.cms?from=mdr>. Accessed on September 27, 2024.
 20. Kerim Karakaya, "Traders Shun Maldives as World's First Sukuk Default Looms", *Bloomberg*, September 4, 2024, <https://www.bloomberg.com/news/articles/2024-09-04/traders-dump-maldives-debt-as-world-s-first-sukuk-default-looms>. Accessed on September 27, 2024.
 21. "India Extends Emergency Financial Assistance to Maldives", *Hindustan Times*, September 21, 2024, <https://www.hindustantimes.com/india-news/india-extends-emergency-financial-assistance-to-maldives-101726859653219.html>. Accessed on September 25, 2024.

depends on the newly appointed President of Maldives, Dr Mohamed Muizzu, to take the road not taken. Despite the difficult choices made by Muizzu since he took over as the president of the Maldives in November 2023, which has deeply impacted its ties with India at the cost of China,²² New Delhi has been neutral and gracious towards Malé. The importance of the Maldives for India was seen when PM Modi invited Muizzu for his oath-taking ceremony in June 2024. Despite everything, Malé must know how to balance its relations with different countries as it continues to diversify its diplomatic engagements. Testing the threshold of a benign neighbour like India can offer the ties in the present and the future.

22. Radhey Tambi, "Entailment of Maldives' Actions Against India", *Infocus*, Centre for Air Power Studies, January 19, 2024, <https://capsindia.org/entailment-of-maldives-actions-against-india/>. Accessed on August 5, 2024.