

SECTOR OVERVIEW

A. The Economy

1. Maldives is an upper middle-income country with gross domestic product (GDP) per capita at \$8,603 (2019: \$10,477) and a population of 581,300 in 2021.¹ The economy grew at an average annual rate of 6.4% in 2009–2019, driven primarily by tourism and related services and government infrastructure investment.² Tourism directly and indirectly accounts for about 75% of GDP.³ Maldives is among the economies hardest hit by the coronavirus disease (COVID-19) pandemic, with real GDP contracting by 33.5% in 2020.⁴ Fitch downgraded Maldives' sovereign rating to CCC from B in November 2020, following a downgrade by Moody's to B3 from B2 in May. In October 2021, Fitch upgraded Maldives to B– after Moody's downgraded the rating to Caa1 in August, while revising the country's outlook to stable. Pandemic-induced lockdowns and border closures completely halted business operations and mobility in early 2020 and greatly impacted livelihoods.⁵ The poverty rate is estimated to have increased from 2.1% in 2019 to 7.2% in 2020.⁶

2. Other macroeconomic indicators are under stress because of the pandemic. The current account deficit as a share of GDP widened to 35.6% in 2020 from 26.6% in 2019 because GDP contracted, while the fiscal deficit widened to 23.5% in 2020 from 6.7% in 2019 (footnote 1). The government financed the gap through net domestic borrowings of MVR9.4 billion (compared with MVR4.6 billion in the previous year) and net external borrowings of MVR2.9 billion. Total public and publicly guaranteed debt remained elevated at 150% of GDP at the end of 2020, up from 79% at the end of 2019; the debt is projected to stand at 123% of GDP in 2026.⁷ The International Monetary Fund (IMF) and Asian Development Bank (ADB) debt sustainability analysis in June 2020 concurred that debt was sustainable, but Maldives continues to be at high risk of debt distress, with most debt indicators expected to fall within the thresholds before 2030.⁸ With the slump in tourism, official foreign reserves declined in 2020 but recovered to pre-pandemic levels by the end of March 2021, partly because tourism recovered and partly because the Maldives Monetary Authority (MMA) deployed a \$400 million foreign currency swap arrangement with the Reserve Bank of India. Usable reserves (netting out short-term liabilities) amounted to 1.2 months of 2020 imports (footnote 6), although the government's \$200 million sukuk bond issuance on 3 September 2021 covered unsecured financing needs for 2021. The outlook risks are tilted to the downside, with COVID-19 variants increasing the possibility of a protracted global pandemic, and rising energy prices adding pressure on expenditures.

3. To alleviate the impact of the pandemic, the MMA improved bank liquidity, supported borrowers through loan moratoriums, and boosted foreign reserves. The government's Economic

¹ ADB. 2022. [Asian Development Outlook 2022: Mobilizing Taxes for Development](#). Manila.

² World Bank. [Development Indicators](#) (accessed 24 May 2021).

³ World Bank. [Tcddata360—Travel and Tourism Contribution to GDP](#) (accessed 08 December 2021).

⁴ ADB. 2021. [Asian Development Outlook Update September 2021: Financing a Green and Inclusive Recovery](#). Manila.

⁵ Maldives Marketing and Public Relations Corporation. 2021. [COVID-19 UPDATES—18th November 2021](#). International tourists were allowed into the country from 15 July 2020.

⁶ World Bank. 2021. [Maldives Development Update: A Digital Dawn](#).

⁷ International Monetary Fund (IMF). 2021. [IMF Executive Board Concludes 2021 Article IV Consultation with Maldives](#).

⁸ IMF. 2020. [Maldives: Request for Disbursement under the Rapid Credit Facility—Press Release: Staff Report; and Statement by the Executive Director for Maldives](#). IMF Country Report. 20/133. Washington, DC.

Recovery Package,⁹ worth MVR2.5 billion (4.1% of GDP), helped individuals shoulder household expenses and offered special financing facilities to affected businesses, which supported economic recovery starting from the second half of 2020, with third quarter (Q3) GDP growing by 12.5% and Q4 GDP by 33.8% over preceding quarters. Tourist arrivals in 2021 increased to 1.32 million almost 78% of arrivals for 2019 and 238% of arrivals for 2020. Tourism receipts are rebounding faster than arrivals, totaling \$3.11 billion for 2021 or only 0.6% lower than in 2019.¹⁰ Maldives is further ramping up its global marketing program, Visit Maldives, supported by the government's efficient management of COVID-19 cases and extensive vaccination program, which started on 1 February 2021. By 30 September 2021, 62.4% of the population had been fully vaccinated and 9.7% partially vaccinated.¹¹ The MMA has forecast that tourist arrivals may reach up to 1.4 million in 2022.¹² The recovery in tourist arrivals is the main impetus for economic revival, leading to GDP growth of 31.6% in FY2021 and expected growth of 11.0% in FY2022.¹³

B. Financial Sector

4. The finance sector is still developing, with banks dominant. As of FY2020, there were eight commercial banks (three locally incorporated banks, four branches of foreign banks, and one subsidiary of a foreign bank), three nonbanking finance companies, five insurance companies, two money remittance providers, and two payment service providers. Banks control nearly 77% of total financial sector assets of MVR89.2 billion. Maldives is well-banked, with 97.6% of adults having a bank deposit account, and 1,070.6 debit cards issued per 1,000 adults. However, access to finance remains challenging, with only 15.6% of all adults and 13.5% of women borrowing from commercial banks.¹⁴ The Bank of Maldives, a state-owned locally incorporated bank, has the dominant market share, with about 52% of total assets and total deposits.¹⁵

5. The banking sector had cumulative asset growth of 9.3% and loan growth of 11.7% on a net basis in FY2015–FY2020, driven primarily by tourism, construction, and retail business. Deposit growth in FY2015–FY2020 was 6.6%, increasing in FY2020 to 15.7% as residents searched for safe assets. As of FY2020, foreign currency deposits constituted 50% of total deposits and 77% of all deposits were demand deposits. Total assets stood at MVR64.2 billion, total deposits MVR41.3 billion, and total gross loans outstanding MVR29.3 billion as of FY2020.

6. Asset quality in banking has improved, with gross nonperforming assets (GNPAs) reducing from a peak of 21% in FY2012 to 8% in FY2020. Prudent provisioning policies have helped to mitigate asset quality stress, with an average provision coverage ratio of 105% since 2016.¹⁶ Profitability has continued to be strong despite high provisioning because of healthy spreads and low competitive intensity. The return on assets for banks was 2% in FY2020 (FY2019: 3%) and return on equity 8% (FY2019: 14%). Banks' capital adequacy ratio rose marginally to a robust 48% in FY2020 (FY2019: 47%).

⁹ The Economic Recovery Package included temporary discounts on utility bills, lower retail fuel prices, price controls on food staples, and deferred housing rent and resort lease payments.

¹⁰ Maldives Monetary Authority, [Statistical Database](#) (accessed 5 April 2022).

¹¹ Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#) (accessed 28 October 2021).

¹² PSM News. 2021. [MMA Forecasts 1.4 Million Tourist Arrivals in 2022](#).

¹³ ADB. April 2022. [Asian Development Outlook \(ADO\): Mobilizing Taxes for Development](#). Manila.

¹⁴ IMF. 2020. [Financial Access Data 2020](#). Washington, DC.

¹⁵ Government of Maldives, MMA. 2020. [Monthly Statistics. 21 \(6\)](#). Malé.

¹⁶ Fitch Ratings. 2020. [Maldives, November 2020](#).

7. The nonbanking finance sector consists of one specialized housing finance company,¹⁷ one leasing company, and a government-owned company financing small and medium-sized enterprises (SMEs). Nonbanking finance sector assets grew by 17.2% in FY2015–FY2020, with total assets reaching MVR3.1 billion as of FY2020. Nonbanking finance asset quality has been strong since FY2016, with GNPA of 1.5%–2.0%. However, GNPA spiked to 2.7% in FY2020 (FY2019: 1.5%) because of the pandemic, although supported by a strong provision coverage ratio of 147% (FY2020). Profitability has continued to be robust, with a return on assets at 3.6% in FY2020 (FY2019: 5.3%) and return on equity at 9.1% (FY2019: 15.2%). The capital adequacy ratio improved marginally to a robust 45% in FY2020 (FY2019: 44%).

C. Blue Economy and Tourism

8. Given that Maldives is a small archipelago of 1,192 small islands, of which 187 are inhabited,¹⁸ and that it is impacted by climate change, it must promote the blue economy and sustainable use of marine resources while nurturing tourism. Maldives has one of the highest blue economy ratios worldwide, accounting for about 36% of GDP, compared with the Philippines (4.5%), Solomon Islands (13.3%), Samoa (25%), and Fiji (41%).¹⁹

9. Tourism has grown significantly, with bed capacity increasing from 280 in two resorts in 1972 to nearly 54,611 in more than 1,060 properties in 2021;²⁰ tourist arrivals grew from 0.43 million in 1999 to a peak of 1.70 million in 2019.²¹ Large-scale resorts (including marinas), which usually occupy a whole island, account for about 70% of total bed capacity. Smaller guesthouses—mostly run by local resident-owners—are popular among low- and mid-market tourists and have increased almost threefold since 2014.²² In 2021, guesthouses accounted for about 69% of total accommodations by number of properties but supply only 22% of total bed capacity. Hotels and safari vessels are other options, together accounting for 15% of total accommodations by number of properties and 8% of total bed capacity.²³

10. Tourist arrivals fell 67.4% in 2020 from a record 1.7 million in 2019 but recovered well (para. 3), with arrivals in 2021 of 1.32 million exceeding 2020 arrivals by 238%. Historically, most tourists came from mainland Europe and the People's Republic of China, but border closures and lack of connectivity have reduced their numbers. Tourists from India, Central and Eastern Europe, and the Middle East have made up for the loss.

11. Before the pandemic, Maldives is forecast to receive 2.3 million tourists by 2023 and the anticipated increase in demand is expected to require rapid expansion of capacity by about 12,000 more beds, assuming 70% occupancy rate and an average stay of 6 nights.²⁴ Expected demand is in line with 2019 average capacity utilization of 62.3% (2020: 25.7%; 2021:

¹⁷ Housing Development Finance Corporation Plc, Maldives (HDFC Maldives) is the specialized housing finance company in Maldives. ADB is an investor in HDFC Maldives, holding a stake of 18%.

¹⁸ Government of Maldives, Ministry of National Planning, Housing and Infrastructure, National Bureau of Statistics. 2020. [Statistical Pocketbook of Maldives 2020](#).

¹⁹ P. Bhattacharya and A. Kumar Dash. 2020. [Drivers of Blue Economy in Asia and the Pacific Island Countries – an Empirical Investigation of Tourism and Fisheries Sectors](#). ADBI Working Paper Series. 1161. Tokyo: ADB Institute.

²⁰ Data on beds and accommodation are for establishments registered as of December 2021. Government of Maldives, Ministry of Tourism. 2021. [Monthly Statistics—December 2021](#).

²¹ Government of Maldives, Ministry of Tourism. 2004. [Tourism Statistics](#); and Government of Maldives, Ministry of Tourism. 2020. [Monthly Statistics—December 2019](#).

²² Government of Maldives, Ministry of National Planning, Housing and Infrastructure, National Bureau of Statistics. [Statistical Yearbook 2020](#). Malé.

²³ Maldives Monetary Authority, [Statistical Database](#) (accessed 5 April 2022, Malé).

²⁴ Travel Trade Maldives. 2020. [TTM Report: Maldives Tourism Industry Forecast 2023](#).

56.1%) and average stay of 6.3 days (2020: 7.2; 2021: 8.8). Resorts had even higher occupancy rates, averaging 73% in 2012–2020.

12. Maldives' reliance on tourism is a major vulnerability and the sector is key in ensuring stable post-COVID-19 recovery. However, even once travel conditions ease, tourism will continue to be under pressure from sea-level rise, temperature extremes, and changes to global tourism behavior and preferences.²⁵ Because of a combination of political, geographic, and social factors, Maldives is highly vulnerable to climate change impacts, ranking 103 out of 182 countries in the 2019 ND-GAIN Index.²⁶ Erosion threatens more than 80% of the islands and about 30 islands are critically eroded.²⁷

13. In July 2019, the government unveiled the Fifth Tourism Master Plan. It emphasizes the need for sustainable development of tourism in 2020–2025 and increased focus on (i) promoting the sustainable use of natural resources, environmental conservation, and renewable energy across the tourism industry; (ii) increasing jobs for locals in tourism; and (iii) expanding the role of women in tourism. The government is seeking ways to make tourism more resilient, inclusive, and adaptable in dealing with future shocks by ensuring that regulations promote local employment, encourage participation by women, increase training for locals to fill staff positions, tackle environmental issues, and spread the benefits of tourism more evenly in the outer islands (atolls). Blue economy is one the five priority areas in the Strategic Action Plan 2019–2023 as the well-being of Maldives is tied to the health and wealth of the natural environment, primarily the ocean, coral reefs, beaches, and marine life.²⁸ Investments in blue economy projects (including small-scale renewable energy, wastewater and sewage management, disaster risk management, recycling, and water conservation) are absent given the lack of financing and focus on short-term revenue-increasing measures.

14. **Small and Medium-Sized Enterprises.** Maldives had an estimated 4,910 SMEs (out of 8,422 enterprises) in 2019, operating predominantly in wholesale and retail trade, tourism, construction, and service activities;²⁹ 43.8% of all enterprises were categorized as small and 14.5% as medium-sized.

15. Small, and medium-sized enterprises (SMEs) face a range of challenges, the most critical being access to finance. Most SMEs do not use bank loans as they are difficult to obtain because of restrictive credit policies and the high cost of credit. In the atolls, two-thirds of entrepreneurs have never borrowed from a bank (footnote 29). The pandemic exacerbated challenges for SMEs, causing major supply disruptions, leading to reduced working hours and slow demand and substantially reduced sales and revenues, compounding existing challenges such as limited market access, poor human capital, and difficult access to land or workspace. However, the most critical was access to finance because of restrictive credit policies, high cost of credit, collateral requirements, and low levels of financial literacy (footnote 29). To meet liquidity challenges, the

²⁵ World Bank Group and ADB. 2021. [Climate Risk Country Profile, Maldives](#).

²⁶ University of Notre Dame–Notre Dame Global Adaptation Initiative. [Rankings](#). The Notre Dame Global Adaptation Initiative Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with the country's readiness to improve resilience.

²⁷ Green Climate Fund. 2018. [Building Climate Resilient Safer Islands in the Maldives](#).

²⁸ Government of Maldives, The President's Office. [Strategic Action Plan 2019-2023](#).

²⁹ Government of Maldives, Ministry of Economic Development; and United Nations Development Programme. 2020. [Rapid Livelihood Assessment: Impact of the COVID-19 Crisis in the Maldives, Part III—Micro, Small and Medium Enterprises](#). SMEs are defined as meeting criteria for annual turnover and number of employees and filing business profit tax and gross sales tax with the Maldives Inland Revenue Authority. The government defines small businesses as those with a turnover of MVR500,000–MVR5 million and 6–30 employees and medium-sized companies as those with a turnover of MVR5 million–MVR20 million and 31–100 employees.

government implemented the COVID-19 Viyafaari Ehee loan scheme through the SME Development Finance Corporation Private Limited as part of the Economic Recovery Plan to financially assist SMEs experiencing cash flow constraints.³⁰

16. **Energy.** Maldives does not have any indigenous conventional energy resources and is dependent on expensive and polluting imported fossil fuel. Because the islands are so spread out, each is electrified with its own diesel-powered grid system, resulting in expensive and unreliable supply. About 290 megawatts (MW) of diesel generation capacity are installed in 186 inhabited islands, with resort islands adding 144 MW and industrial islands 20 MW. The total installed capacity of renewable energy was only about 21.5 MW as of December 2019 or less than 5% of installed capacity,³¹ leading to extremely expensive electricity (\$0.45/kilowatt-hour [kWh] in 2019, compared with \$0.17/kWh in Sri Lanka and \$0.11/kWh in Indonesia) and requiring a subsidy of more than 50%.³² In 2019, the government spent about \$21.1 million on electricity subsidies and \$38.7 million on fuel subsidies, which accounted for 1% of nominal GDP in 2019.³³ In 2019, the country imported more than 700,000 metric tons of fuel (80% of which was diesel), translating into an import bill of \$465 million, equivalent to one-sixth of all imports and 8.3% of GDP.³⁴

17. While economic growth has led to increased demand for electricity, the Maldives has struggled to decrease dependency on external fuel sources. Various initiatives, such as the ADB sovereign cofinanced and highly concessional Preparing Outer Island Sustainable Electricity Development (POISED) Project, aim to help the government achieve carbon neutrality and energy security and shift to greater energy self-sufficiency through renewable energy projects.³⁵

³⁰ SMEs with an annual turnover not exceeding MVR10 million were eligible for a maximum loan amount of up to MVR500,000 at 6% interest for a payment period of 3 years (excluding 6 months grace period). SMEs were not required to provide any security or equity.

³¹ GOM, Ministry of Environment. 2018. [Island Electricity Data Book 2018](#). Malé. This includes installations from the private sector and resorts islands. Approximately 50% of the renewable capacity is installed through the ongoing Preparing Outer Islands for Sustainable Energy Development Project.

³² Climate Investment Fund. 2019. [Preparing Outer Island Sustainable Electricity Project \(POISED\)](#).

³³ GOM, Ministry of Finance. 2020. [Budget in Statistics](#). Malé.

³⁴ World Bank. 2021. [Maldives: Towards a Sustainable Net-Zero Future](#).

³⁵ The POISED Project mobilized \$130 million to finance the expansion of renewable-based hybrid systems, distribution grid upgrades, energy management systems, and supervisory control and data acquisition systems in outer islands. Following a ramp-up of the ADB assistance in October 2020, the project is financed by a \$48.47 million ADB ADF grant/ concessional finance as well as \$12 million grants from the Strategic Climate Fund. ADB. 2014. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant for Additional Financing Republic of Maldives: Preparing Outer Islands for Sustainable Energy Development Project](#). Manila.