CORONAVIRUS DISEASE IMPACT AND RESPONSE IN MALDIVES

A. Health

1. **Health impact.** The direct impact of the coronavirus disease (COVID-19) pandemic in Maldives has so far been modest. As of 12 August 2020, 5,366 cases had been registered, resulting in 2,471 hospitalizations and 21 deaths. Of the 5,366 cases, around 25.8% were women and around 45% were foreign nationals, predominantly workers from Bangladesh and India.¹

2. **Health system vulnerability.** While the dispersed nature of the islands can help slow transmission, the health system faces challenges in responding to the pandemic. Maldives had no testing laboratories when the first case was confirmed on 8 March 2020. Data from 2017 show that the country has 23 doctors and 49 hospital beds per 10,000 people, and 54 health facilities per 100,000 population, which are heavily concentrated in the Malé capital region. As of March 2020, there were a total of 97 ventilators nationwide. While these ratios compare favorably to the rest of South Asia, the focus of the health system is on curative health, with 80% of total health care spending allocated to outpatient care and hospitalization, and only 0.5% for promotion and preventive care, suggesting that Maldives is not well equipped to respond to the pandemic.²

3. **Government Response.** The government’s response has been prompt. A State of Public Health Emergency was declared on 12 March 2020, and on-arrival visas suspended from 27 March 2020. With Indian assistance, testing labs were established, and local medical professionals trained to deal with the pandemic. Social distancing measures were enforced, including the temporary suspension of movement of people from resorts to other islands, check-in for guesthouses and city hotels, activities in academic institutions, and use of public grounds and parks. Dedicated clinics were designated in Malé for free screening of possible cases, and isolation and quarantine facilities were established. The government established a COVID-19 task force led by the National Disaster Management Authority, including the President’s Office and the ministries of Health, Tourism, Defense, Maldives Police Services, and other government agencies, with a technical advisory group composed of senior healthcare professionals.

4. **Asian Development Bank response.** ADB provided a $798,000 grant to help Maldives respond to the ongoing COVID-19 disease outbreak with the aim of mitigating long-term damage to economies and adverse effects on population health.³ ADB also processed a $1,500,000 grant from its Asia Pacific Disaster Response Fund to support the procurement of emergency medical goods and supplies; diagnostic equipment; materials for critical care facilities, including intensive care unit beds; and personal protection and other key medical equipment.

B. The Economy

5. **Immediate economic impact.** The impact of COVID-19 on the Maldivian economy is projected to be very significant. The current pandemic is expected to nearly halve tourist arrivals in 2020, causing a 30%–40% reduction in the sector’s output, resulting in a 8%–17% contraction in gross domestic product (GDP), compared with earlier projections of 6.3% growth; this exceeds the impact of the 2004 tsunami (when GDP fell by 13%) or the 2008 financial crisis (when GDP declined by 7%). Projections for 2020 suggest (i) a temporary 6–17 percentage point increase in unemployment, with peak job losses of 15%–40% in the tourism sector; (ii) a one-third decline in

² ADB. Maldives. COVID-19 Active Response and Expenditure Support Program.
³ ADB. 2020. Regional Support to Address the Outbreak of Coronavirus Disease 2019 and Potential Outbreaks of Other Communicable Diseases. Manila.
government revenues, resulting in a fiscal deficit equivalent to 12% of GDP; and (iii) a balance of payments current account deficit of 23% of GDP, confirming Maldives’ vulnerability to external events. Depending on the speed at which testing, therapies and vaccines become available, the impact may extend to 2021, although it will most likely be less severe.

6. **Increased short-term economic vulnerability.** For the reasons discussed in the Inclusive and Sustainable Growth Assessment,\(^4\) Maldives suffers from structural budget deficits (5.5% of GDP during 2014–2019) and balance of payments current account deficits (18.4% of GDP during the same period). Maldives reliance on public and external debt to meet these gaps has placed the country in a situation of high risk of debt distress since 2019. COVID-19 will aggravate these structural imbalances and the need to resort to domestic and external public debt financing. The International Monetary Fund (IMF) estimates that the economic decline during 2020 will create $214 million balance of payments and a $228 million public budget financing requirements, with foreign currency reserves declining by 23% to $580 million, equivalent to 2 months of imports.\(^5\) To finance these deficits, the ratio of public debt to GDP will increase from 72% in 2019 to 87% in 2020, and the share of external public debt from 33% to 43%. The sectors of the economy that will be most affected, aside from hotels and restaurants, will be personal services, transport services, and agriculture. In the absence of a protracted pandemic, the situation will stabilize by 2022 if tourism arrivals rebound in 2021. By the end of the CPS period, the IMF projects 5.4% GDP growth in 2024, with a 3.3% budget deficit, 9% balance of payments current account deficit, and public and publicly guaranteed total debt at 81% of GDP.

7. **Social vulnerability.** Unemployment is expected to increase by 11,000–27,000 depending on the scenario that actually unfolds, with 20%–40% unemployment in the tourism sector and 13%–27% in transport services in 2020 compared to 2019. The percentage of Maldivians living below the $3.2 per day international poverty line is expected to grow from 0.4% in 2018 to 0.9% in 2020, and the proportion living below the $5.5 per day poverty line will increase from 5.6% to 8.4%. Youth (aged 18–34 years) and women, many of whom are own-account workers, will be at higher risk of unemployment.

8. **Government response.** The government has articulated a clear response. Fiscal measures totaling $169 million (3% of GDP) will provide working capital to businesses that do not lay off employees, defer loan repayments for 6 months for both companies and individuals, subsidize a 30%–40% share of the electricity bills for 2 months, and provide unemployment allowances. In parallel, the Maldives Monetary Authority is pursuing an expansive monetary policy reducing the minimum reserve requirement, providing short-term credit to financial institutions, and intervening to stabilize foreign exchange markets.

9. **ADB response.** ADB approved a $50 million countercyclical support facility (half grant and half concessional loan) to support the government fiscal program,\(^6\) when combined with an IMF $28.9 million rapid credit facility and other development partners’ budget will, to a large extent, help the government meet the cost of the fiscal stimulus package. ADB has also provided TA support for monitoring program implementation, strengthening the capacity of the agencies delivering the funds, and developing a medium to long-term roadmap to improve public services delivery (footnote 5).

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\(^4\) Inclusive and Sustainable Growth Assessment (accessible from the list of linked documents in Appendix 3 of the Maldives CPS, 2020–2024).
