

# COVID 19: Impact on the tourism sector and GDP of the Maldives

Maldives Monetary Authority

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## 1. Introduction

The COVID-19 pandemic has made countries vividly aware of the major global imbalances and challenges that can occur at any time. The pandemic has been by far the worst crisis faced by the Maldives in a very long time. The economic crisis unleashed by the outbreak of COVID-19 has hurt economies regardless of income level. While the Maldives had looked forward to a very prosperous year 2020, economic events took a radical turn during the first quarter of the year. While the tourism sector contributes to over a quarter of the GDP, the sector also attracts most of the foreign investments into the country. It also acts as one of the most important sources of foreign exchange, government revenue and employment in the tertiary sector. Because of the inter-twined nature of the economy, the performance of various other sectors is also linked with that of the tourism sector. With the unprecedented hit to the tourism sector, the Maldives faced the worst economic downturn, with GDP contracting by 32.0% in 2020, worsening the already prevalent macroeconomic imbalances in the economy

## 2. Pre-pandemic outlook

With the year 2019 being an exceptionally good year for the tourism industry, the forecasts that were produced for the budget 2020 considered the effects to spill over into 2020 as well. The real GDP was expected to increase by 7.5% mainly due to the expected increase in the performance of all the sectors. The tourism sector was presumed to sustain the high growth in the medium term mainly due to the expectations around the commencement of the airport



runway and opening of new resorts while the construction sector also expected to revert to a higher performance owing to more developmental projects initiated by the government. As a result, the wholesale and retail trade were also expected to pick up in tandem with the growth in the aforementioned sectors.

In terms of tourism indicators, the 2020 budget forecasts stated that it expected tourist arrivals to increase by 8%, registering at 1.8 million tourists while bednights was expected to increase by 10%. The reason for the increase stems from the expectations towards the usage of the new runway and the increased forecast for new airlines to the Maldives.

### 3. COVID-19 and its impact

With the first cases of COVID-19 recorded on 7 March 2020 in the Maldives, protocols established by the COVID-19 national taskforce was initiated and strict monitoring was undertaken. As the very first measure, the Maldives established thermal screening, local testing facilities, travel advisories and designated quarantine centers. With the increase in cases, the health authorities announced several restrictive measures such as the suspension of activities in all universities colleges and other academic institutions and restrictions on tourist check-ins in Greater Male' area. A State of Public Health Emergency was declared on 12 March 2020.

Initially the Maldives had closed its borders to arrivals from some of the worst-hit countries, including mainland China, Italy, Bangladesh, Iran, Spain, the United Kingdom, Malaysia and Sri Lanka while all direct flights to and from China, Italy, South Korea and Iran had also been cancelled. With several other restrictions also in place, the country then went into a temporary lockdown, with the closure of the international borders on 27 March 2020. The first case of local transmission was then recorded on 15 April 2020.

With the closure of the borders, and no arrivals into the country, the Maldives started facing several economic downturns. The tourism industry started plummeting while the businesses



faced huge losses. As a result of the lockdown, many individuals lost their source of income generation and had to face a lot of hardship.

### 3.1 Revised forecasts indicating COVID-19 scenarios

With the shortfall in revenue received due to the lockdown, the Maldives Monetary Authority along with the Ministry of Finance revised down the economic outlook. A decrement of 59.6% was recorded in the revenue collection in April 2020 while it further declined by 81% in May 2020 when compared to 2019. The decline stemmed from the closure of international borders and the extension of tax deadlines.

The Maldivian government initially imposed a travel restriction on passengers who originate or transit through mainland China on 4th February 2020. As a result of this ban, Chinese arrivals dropped to virtually zero. The ban had a major impact on the overall tourism industry with February 2020 registering a decline of 11%; the biggest decline recorded since the financial crisis. As a result of the border closure, tourist arrivals for the month of March 2020, registered at 59,630 arrivals indicating a marked decline of 63% for the month of March 2020.

With these new developments and uncertainty around the containment of the disease, growth projections across the globe were revised to account for the economic impact of this crisis. As the real GDP of Maldives is mainly driven by the developments in the tourism industry and other related industries, any decline in arrivals will significantly dampen overall growth. Accordingly, five scenarios were computed to forecast the arrivals as well as bednights for the year 2020.



Table 1<sup>1</sup> : Scenario description of new forecasts

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<b>Stopped Market</b> (China, Italy, Germany, France, UK, Korea and Spain)	Zero arrivals for April 2020  3 months recovery at -97% growth (y-o-y)  Rebounds from August 2020	Zero arrivals from April till May 2020  3 months recovery at -97% growth (y-o-y)  Rebounds from September 2020	Zero arrivals from April to June 2020  3 months recovery at -97% growth (y-o-y)  Rebounds from October 2020	Zero arrivals from April till September 2020  3 months recovery at -97% growth (y-o-y)  Rebounds at the beginning of 2021	Zero arrivals from April till December 2020
<b>Rest of the World</b>	Zero arrivals for April 2020  3 months recovery at growth at -5% growth (y-o-y)  Rebounds from August 2020	Zero arrivals from April till May 2020  3 months recovery at -5% growth (y-o-y)  Rebounds from September 2020	Zero arrivals from April to June 2020  3 months recovery at -5% growth (y-o-y)  Rebounds from October 2020	Zero arrivals from April till September 2020  3 months recovery at -5% growth (y-o-y)  Rebounds at the beginning of 2021	Zero arrivals from April till December 2020

Taking these into consideration, new forecasts were generated where the real GDP ranged between -7.7% and -29.7%. The revised forecasts for key indicators are presented in table 2

<sup>1</sup> The -97% growth for recovery was assumed based on how Chinese arrivals reacted following SARS pandemic whereas the -5% growth for other markets was assumed based on how the remaining markets responded in the month of March 2020.

Table 2: Revised forecast – April 2020

		Forecast date October 2019	2020 forecast revision COVID scenarios				
			Forecast date April 2020				
		2020 budget est.	Scenario 1 Border opening in May 2020	Scenario 2 Border opening in June 2020	Scenario 3 Border opening in July 2020	Scenario 4 Border opening in October 2020	Scenario 5 Border opening in January 2021
Real GDP growth	7.0%	7.5%	-7.7%	-9.9%	-11.5%	-17.7%	-29.7%
Tourism	13.2%	9.6%	-30.6%	-36.3%	-39.8%	-56.4%	-74.8%
Wholesale retails trade	-1.2%	9.3%	-6.0%	-8.2%	-9.6%	-16.1%	-23.4%
Construction and real estate	1.9%	9.3%	-1.0%	-3.8%	-7.3%	-14.2%	-33.7%
Transport and communications	3.7%	7.6%	-7.4%	-8.5%	-9.0%	-11.8%	-0.4%
Bednights	10,753,478	11,874,541	74,968	68,868	6,506,288	4,738,723	2,765,407
Growth	14%	10%	-30%	-36%	-39%	-56%	-74%
Arrivals	1,721,620	1,859,350	962,398	883,288	845,546	625,082	382,678
Growth	16%	8%	-44%	-48%	-50%	-63%	-78%

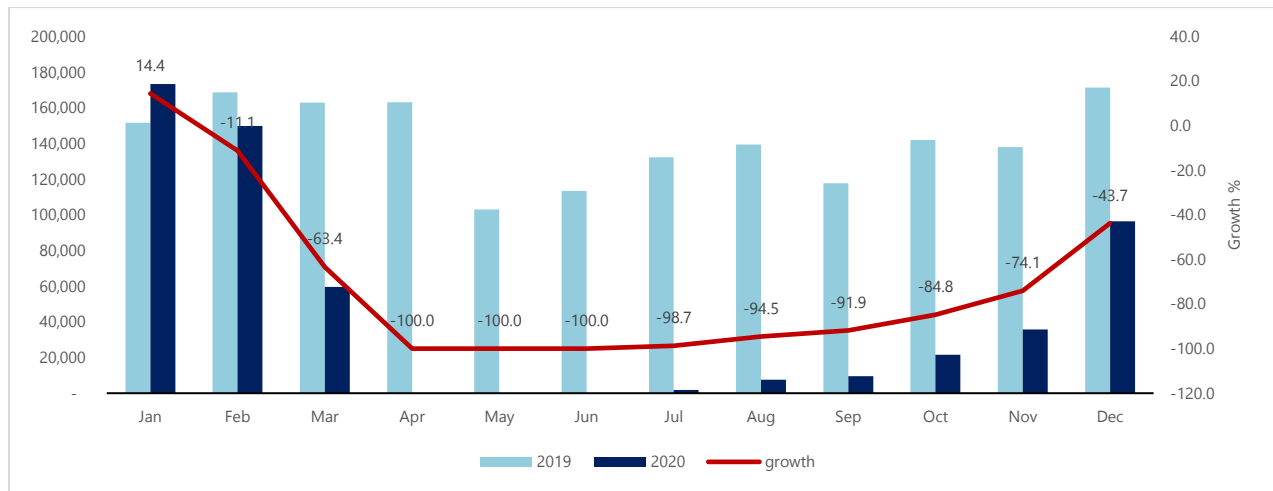
#### 4. Re-opening the borders

After almost four months of border closure, the tourism industry re-opened on 15 July 2020, with enhanced precautionary measures against COVID-19. A safe tourism guideline was issued by the Ministry of Tourism. Resorts and liveaboards resumed operations on this date, whereas guesthouses resumed operations on 15 October 2020. Maldives was among the first countries to open its borders to international tourists with no quarantine requirements or PCR



certification. With the reopening in July 2020, Maldives received a total of 1,752 arrivals, a decline of 98% compared to the corresponding month in 2019. There were news about huge discounts in the tourism industry.

Chart 1: Total Tourist Arrivals, Jan 2020 – Dec 2020



Source: Ministry of tourism

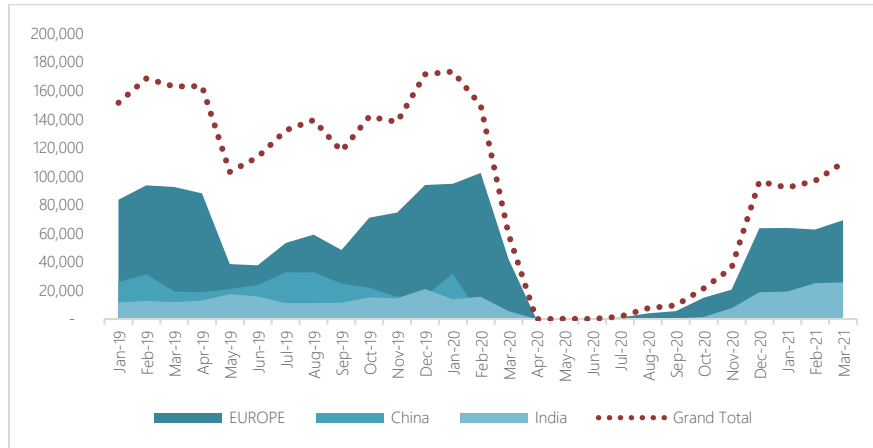
The pace of recovery was slow during July to September 2020. In September, the recovery pace slightly increased mainly due to the start of the Russian flight and new charter flights. In the subsequent months until November 2020, the sector slowly started recovering and during December 2020, the Maldives reached its new target of achieving 100,000 tourists post re-opening, ahead of the projections. The pace of recovery boosted during December 2020 with the peak season.

Post the re-opening, the dynamics of the tourism sector also changed. Prior to the pandemic, the single largest source market remained to be China and the average stay was recorded at around 6.5 days. Post re-opening, the data published in the Immigration portal revealed that the average stay had increased to around 9 days. By the end of 2020, the average, average stay recorded in the Maldives was 7.2 days. Post re-opening of the border, except for India,



the markets that have been dominating are expected to have higher average stay. Top 5 markets post the re-opening include Russia, India, India, UK, Germany and Ukraine.<sup>2</sup>

Chart 2: Performance by Region, Jan 2019 – March 2019



2019 59% arrivals from Europe & India

2020 74% arrivals from Europe & India

2021\* 90% arrivals from Europe & India

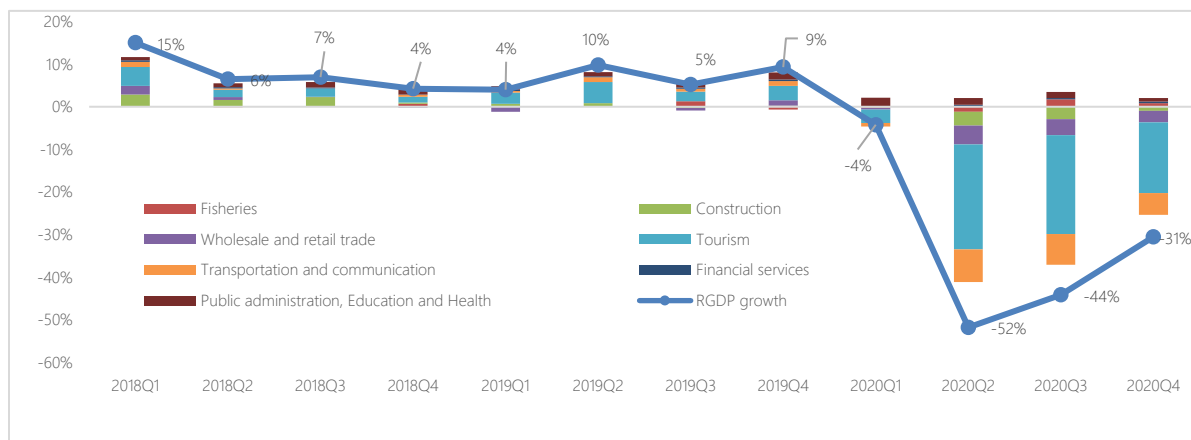
Source: Ministry of tourism

The main contributor to the GDP of the Maldives remains to be the tourism industry. Any effect on the tourism industry will have its direct and indirect impacts to the whole economy. Moving forward in the year 2020, the National Bureau of Statistics published the actual quarterly GDP (Chart 3). While the real GDP declined by 5.1% in quarter 1 compared to the corresponding quarter of 2019, the decline was much larger in Q2 and Q3 registering at -52% and -44.2% respectively. This decline stemmed mainly from the decline in the performance of tourism and transport and communication sector.

<sup>2</sup> Post re-opening until 24<sup>th</sup> May 2021



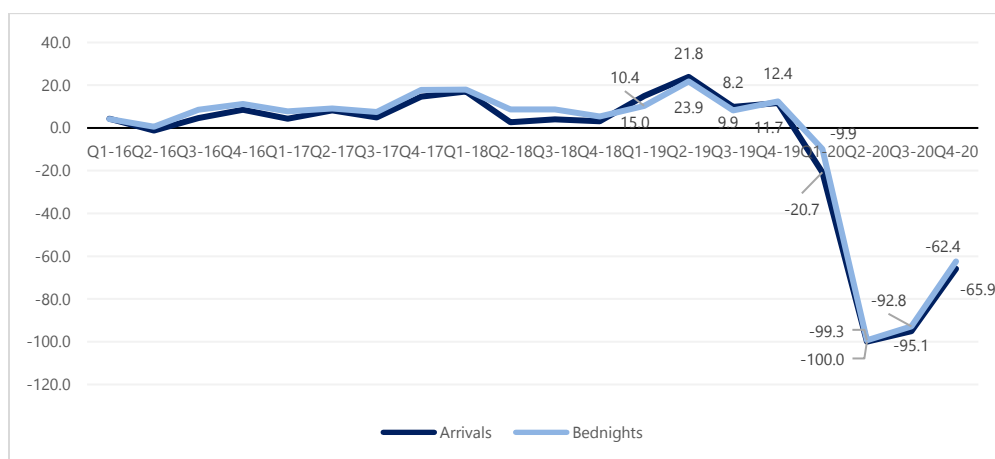
Chart 3: Quarterly GDP Developments, 2018-2020



Source: National Bureau of Statistics

Regarding the tourism sector indicators (Chart 4), in the first quarter, the arrivals declined by -20.7% mainly owing to the ban of the Chinese arrivals. In the second quarter, a decline of 100% was registered owing to the border closure in the quarter. Even though the international borders re-opened in early quarter 3, the recovery was slower than expected registering a decline of 95.1%. However, the tourism sector did perform relatively better during the last quarter of the year.

Chart 4: Tourism Sector Growth, Q1 2016 – Q4 2020



Source: Ministry of tourism





## 5. Revised outlook for 2020 and 2021.

With the better than expected performance in GDP and the tourism industry, the forecasts were revisited again in October 2020 in preparation of the annual government budget 2021. Based on the data up to September 2020, indicators were revised. In the moderate case, the GDP was expected to decline by 29.3% in 2020 while it was expected to rebound by 13.5% in 2021. Although the arrivals and bednights were forecasted to decline by 73% and 67% respectively, as aforementioned earlier in the paper, due to the better performance in the last quarter, the actual arrivals and bednights registered at -67% and -63% respectively.

The table 3 below presents a summary of the key indicators forecasted.

Table 3: Revised forecast – October 2020<sup>3</sup>

	2019 actual	2020 actual	2020 budget est.	2020 revised - budget 2021	2021 - budget 2021
<b>Real GDP growth</b>	7.0%	-32.0%	7.5%	-29.3%	13.5%
<i>Tourism</i>	13.2%	-63.1%	9.6%	-68.2%	27.8%
<i>Wholesale retails trade</i>	-1.2%	-35.1%	9.3%	-27.6%	24.1%
<i>Construction and real estate</i>	1.9%	-13.4%	9.3%	-11.4%	9.1%
<i>Transport and communications</i>	3.7%	-41.6%	7.6%	-11.1%	25.9%
<b>Bednights</b>	10,753,478	3,984,712	11,874,541	3,527,424	4,491,928
<i>Growth</i>	14%	-63%	10%	-67%	27%
<b>Arrivals</b>	1,721,620	555,494	1,859,350	458,768	604,277
<i>Growth</i>	16%	-67%	8%	-73%	32%

<sup>3</sup> Budget estimates published indicates the moderate case scenario forecasts. Ideally 3 scenarios – best, moderate and worst case forecasts were produced.



By the end of 2020, total arrivals registered at 555,494 of which 172,568 was recorded during July-December 2020. Overall, the country was able to achieve only 32% of the 2019 levels in terms of arrivals. Total bednights registered at 3,984,712 in 2020 with 1,243,435 post re-opening.

Chart 5: Forecast vs. Actuals 2020: Arrivals and PAX

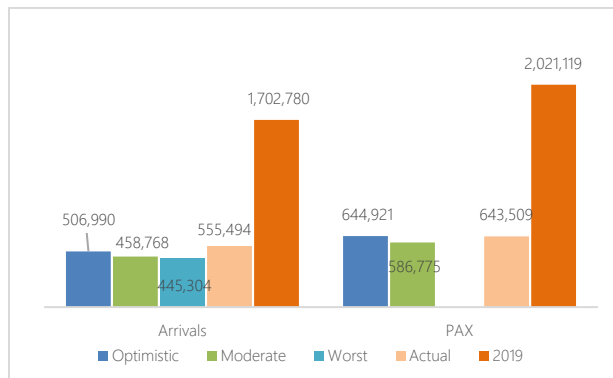
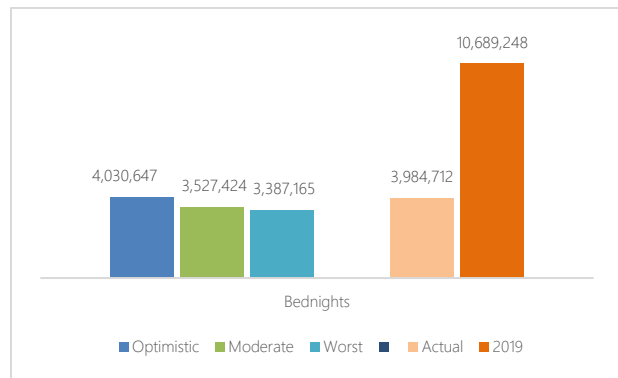


Chart 6: Forecast vs. Actuals 2020 : Bednights



Source: Maldives Monetary Authority, Maldives Airports Company Ltd

The tourism forecast for the year 2020 surpassed the optimistic case while the bednights registered between the moderate and optimistic case. With the more than expected recovery since December 2020, the authority expects that the revised forecasts for 2021 may have positive impact and may be higher than expectations. The revenue received via Maldives Inland Revenue Authority in the first quarter of 2021 is also better than expected, boosting the foreign currency reserves as well. However with the recent developments in the COVID-19 situation, the authority in collaboration with the line ministries are in the process of revising these forecasts again to factor in the changes that the economy is currently seeing in 2021. As of 24 May 2021, total tourist arrivals to the country registered at 444,085 with an average of 3,084 tourists per day.



Chart 7: Total Revenue 2020

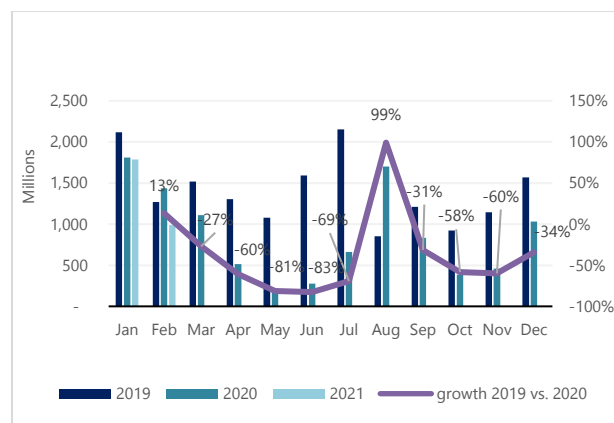
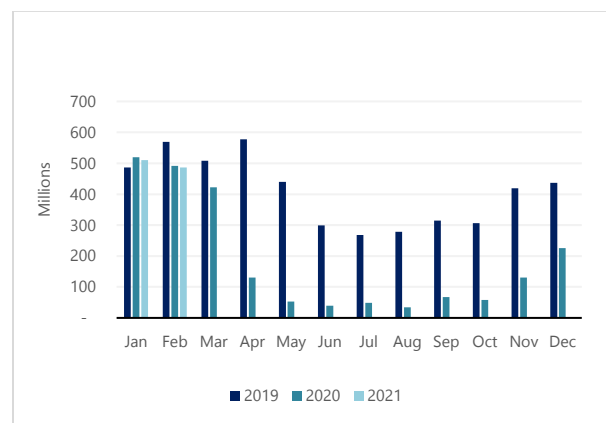


Chart 7: Total TGST 2020



Source: Maldives Inland Revenue Authority

The actual revenue received by MIRA also started surpassing the forecasts. There were high sales in high-end resorts with higher average daily rates. Therefore, the overall industry sales improved largely and the TGST recovery was much stronger.

## 6. Tourism industry – Reasons for the better-than-expected recovery Q4 2020-Q1 2021

The Maldives was promoted as a haven for tourists because of its long-standing one-island-one-resort concept which serves as the perfect isolation units for tourists seeking a getaway from the global pandemic ravaging through their own countries. The industry put a remarkable amount of effort in order to revive the industry. Major highlights include,

- In September 2020 Maldives required tourists to declare their virus status before arrival.
- Maldives introduced a three-tier loyalty program under the name “Maldives Border Miles” for international tourists visiting the country.
- High-end resorts provided added layers of safety and security for tourists within the resorts. This includes rapid COVID testing on arrivals, in-resort consultations and private transfers for tourists from the main airport to ensure minimal contact with people.
- Duration of stay increased significantly post border opening and to take advantage of this changing dynamic, resorts customised their packages to take this into account.



Packages ranging from full year stays and high-speed internet and wellness activities to “Workcation” packages were introduced by resorts.

- New direct connections to European countries assisted the pent-up demand created by the Pandemic.
- To ensure safety of our tourists, Ministry in collaboration with Allied Insurance introduced First Travel Insurance Covering COVID-19 in Maldives. The policy covers charges for services including isolation costs, medical treatment and transportation to isolation/medical facility. The insurance package include two plans; “Allied Inbound” and “Allied Inbound Plus”. The packages covers for 7 or more days and are to be purchased before arriving in Maldives

MMPRC’s aggressive marketing campaign during the lockdown period and post re-opening supplemented the industry efforts to revive the industry. This effort received a further boost when the World Travel and Tourism Council (WTTC) recognized the efforts of Maldives in implementing enhanced health and safety measures, in line with the WTTC global Safe Travels protocols, and creating a safe, gradual plan by rebuilding confidence among travellers and ensuring a coordinated approach in restarting our Tourism industry.

Maldives achieved the Safe Travels Stamp on 15 September 2020 which is endorsed by the World Tourism Organization and more than 200 travel companies. The objective of the Safe Travel Stamp is to provide confidence to travellers and re-establish consumer confidence in Travel & Tourism and ensure travellers of enhanced standards of hygiene are in place and the assurance that they can once again experience ‘Safe Travels’. It is the world’s first ever global safety and hygiene stamp for Travel & Tourism, designed to address COVID-19 and similar outbreaks.

The United Nations World Tourism Organization (UNWTO) also embraced the WTTC Safe Travels stamp, which have the safety and hygiene of travellers as their top priority. Since the



launch of the stamp, major destinations around the world have signed up to the world's first ever global safety and hygiene stamp.

Global factors also contributed to the more than average rebound of the industry. Since destinations in Asia pacific were more cautious about opening their borders relative to Europe and America, tourists from these regions had fewer options in the Asian-pacific region. Similar destinations such as Bali, Tahiti and Phuket have been closed since the pandemic began, and their re-opening date remains uncertain. Other similar destinations in the Indian Ocean gradually re-opened with tougher restriction on international travelers.

- Seychelles opened its borders in August 2020 with PCR certification and quarantine requirements

- Sri Lanka opened its borders in December 2020 with tight control of tourist movement

Recovery in the Maldives outpaced the recovery in Seychelles in October 2020 and has since reached 65% of pre-crisis arrivals. However, the recovery has been met with setbacks as major source markets tighten outbound travel restrictions in order to break the chain of transmission within their borders. For instance, UK has played a major role in maintaining the recovery pace in December 2020 before their borders were shut in January 2021, which hindered the recovery in January 2021 relative to the previous month.

## 7. Conclusion

On its journey to recovery, Maldives was able to achieve over 100,000 visitors in a span of a month in 2021. Arrival numbers surpassed the 200,000 mark on 4th March 2021, exactly one month since arrivals surpassed 100,000 on the 4th of February 2021. As of 10th March 2021, the Central/Eastern Europe and South Asia region both surpassed pre-COVID levels, posing above average growth rates. India and Russian markets recorded an all-time high during the first quarter of 2021, higher than what was registered pre-crisis. With the increase in tourist



arrivals since the last quarter of 2020, the sector continued to thrive in 2021. By the end of the first quarter, total arrivals registered at 298,570, reaching around 62% of 2019 levels. However, with the new developments in the global pandemic situation and the current suspension of tourist visas from South Asia, the tourist arrivals in quarter two declined compared to quarter one. This mainly stems from the travel restrictions along with the start of the low season.

The country is aware of the downside risks that may occur with the uncertainty around the fluid situation and the emergence of the new variants. For the economy to recover, it is important to have effective containment measures for COVID-19 and the successful implementation of the planned vaccination schedule. Once the travel restrictions are eased and the cases in the Greater Male' area are contained, arrival statistics is expected to rebound. The authorities shall continue strict monitoring of all the indicators and the macroeconomic situation to ensure that the economy bears the least level of downturn in the event of a further worsening.



### BOX 1: Other measures taken by MMA and the government to stabilize the situation

The Maldives Monetary Authority has been mandated to maintain the price stability in the economy. In this regard, the MMA manages the liquidity in the banking system through monetary instruments in order to reduce the pressure on the exchange rate. As such, the authority had increased the amount of foreign exchange provided to the market from April 2020 onwards to address the difficulties in the foreign exchange market due to the COVID-19. This increase was mainly targeted towards the imports of necessities such as medical and food.

Moreover, to help mitigate the pressures faced by the commercial banks' in terms of both foreign currency and local currency liquidity constraints, the MMA reduced the minimum reserve requirement (MRR) from 10% to 7.5% during April 2020. In addition, during July 2020, the MRR for foreign currency was further reduced to 5%.

Several regulatory measures were also taken in March 2020 to facilitate moratorium on loan repayments for a minimum of 6 months, for those affected by the COVID-19 situation. The regulatory leeway is in effect until 31st March 2021. In addition, short-term fixed deposit investments were made available to financial institutions as and when required.

As the MMA utilizes the reserves assets to cater the foreign exchange requirements, further measures were taken to boost the reserves. As such, the repayment of the USD150 million swap that was availed under the swap facility with the Reserve Bank of India was further extended. In addition, MMA also secured an additional USD250 million swap that was availed in December 2020.



The government also initiated several policy responses packages that helped sustain the industries, small and medium enterprises as well as freelance workers and individuals. As such, the government had announced an economic relief package which consisted of some of the following measures.

- a) Provision of working capital loans to businesses and individuals at a low interest.
- b) Discounts on electricity and water bills up to 40% and 30% respectively for two months
- c) A debt moratorium of 6 months for individuals, businesses and students abroad.
- d) Income support allowances for those unemployed due to COVID-19

In addition, the 'COVID-19 front line allowance' was introduced to incentivize the frontline workers exposed to different levels of risk associated with the health protection efforts. The government also received donor financing from several institutions such as Asian Development Bank, the International Monetary Fund, the World Bank, the Government of India etc.

In order to reduce the strain on the economy, there were several other measures that were adopted. The government planned several measures to cut back expenditure. Some of the areas where expenditure cuts were proposed are highlighted below.

- Travel and training
- Temporarily stop recruitment of new civil servants
- Cut back salaries of parliament members and political appointees above the deputy minister level by 20%.
- Construction and repair work
- To halt the PSIP projects scheduled for 2020, that had not passed the tendering stage
- Grants provided to local councils





With these plans, the government aimed to cut back expenditure to MVR30,132.8 million. To further manage the cash flow, it was proposed to temporarily increase the public bank overdrawing limit to MVR4.4 billion for a period of one year.

The loss of revenue earned forced the government to resort to a lot of external financing. Some of the finances that were secured include

- USD28.9 million, rapid credit response loan by IMF in April 2020
- USD50 million, combined grant and loan by ADB in July 2020
- USD250 million domestic treasury bond by State Bank of India
- USD47.5 million by Japan international Corporation Agency
- USD20 million by OPEC fund for international development
- USD10 million by World Bank

