The Maldives’ economic freedom score is 55.2, making its economy the 136th freest in the 2021 Index. Its overall score has decreased by 1.3 points, primarily because of a decline in fiscal health. The Maldives is ranked 31st among 40 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

The economy of the Maldives has declined further in the ranks of the mostly unfree. Impediments to greater economic freedom include inadequate rule of law (property rights, judicial effectiveness, and government integrity); poor fiscal health; and a general lack of investment freedom and financial freedom. Much needed are efforts to reduce debt, tackle corruption, rectify human rights abuses, and reform the judiciary.

**IMPACT OF COVID-19:** As of December 1, 2020, 47 deaths had been attributed to the pandemic in the Maldives, and the economy was forecast to contract by 18.6 percent for the year.

**BACKGROUND:** The Muslim-majority Maldives archipelago lies southwest of India in the Arabian Sea. Ibrahim Mohamed Solih handily defeated incumbent President Abdulla Yameen in the 2018 elections with a surprising 58 percent of the vote. Solih’s Maldivian Democratic Party also won the most seats during the April 2019 parliamentary elections. In 2015, Yameen’s government sentenced Solih’s close friend, former President Mohamed Nasheed, to a long prison term on dubious charges. Political tensions increased when Yameen took actions that appeared to weaken democratic institutions, curtail civil liberties, and tilt the country away from India and toward China, from which he borrowed heavily. Driven by the rapid growth of its tourism and fisheries sectors, the Maldives has become a middle-income country.
Property rights are generally weak. The government owns most of the land, which it leases to private owners or developers. The semi-independent judiciary is politicized, inadequate, and subject to external influence. An estimated 25 percent of judges have criminal records. Corruption is endemic at all levels of government. The enforcement of laws remains inconsistent and targets political opposition. Some whistleblowers have been jailed.

The Maldives government levies no personal income or corporate tax. Bank profits are subject to a profits tax. The overall tax burden equals 18.7 percent of total domestic income. Government spending has amounted to 33.2 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.7 percent of GDP. Public debt is equivalent to 76.8 percent of GDP.

Starting a new business, including the paid-in minimum capital requirement and the cost of obtaining electricity, has become more expensive. The recovery rate when resolving insolvency has fallen. In 2019, the International Labor Organization asked the government to do more to eliminate child labor. According to the finance ministry, the total amount for grants, contributions, and subsidies was 46.3 percent higher in the 2020 national budget than it was in 2019.

The Maldives has two preferential trade agreements in force. The trade-weighted average tariff rate is 12.6 percent, and nontariff barriers persist. A new foreign investment code that still excludes several sectors from foreign participation and ownership was adopted in 2020. The shallow financial sector is dominated by banking. Costly credit and limited access to financial services impede development of a vibrant private sector.