

Funding Allocated to Maldives in the Union Budget 2025-26

Introduction

With ambitious endeavours, and a strategic vision the Union Budget 2025-26 revealed promising estimates and proportional allocations, from increasing the income tax rebate to 12 lakhs to allocating 3.1% of the GDP to capital expenditure. This year's theme, 'Sabka Vikas,' lives up to its literal meaning by giving equal attention to all sectors of the economy, mainly agriculture, education, and foreign policy. The budget gave equal emphasis to both domestic and foreign affairs. Foreign aid allocation reflects bold diplomacy and strategic foresight, essential for rapidly growing nations. Especially with the Neighbourhood First Policy, India firmly stands by fostering mutual benefit and aims to build stronger economic, political, and cultural ties between India and its neighbouring countries.¹ This paper delves into the factors, consequences, and strategic importance of the funding allocated to the Maldives in this year's Union Budget, highlighting a larger geopolitical agenda.

A Historical Overview

India and Maldives - A small country located southwest of India- have shared close relations since its independence in 1965. Throughout a history of consistent and close cooperation which at any point was free of any bilateral irritants² India and Maldives have cooperated in multiple segments, mainly defence, science and technology, and have shared similar views regarding international issues. A significant aspect of the relations between the two countries is that the changes in the Government or the leadership have never altered the pattern of their bilateral relations.³ India has assisted the Maldives in capacity enforcement, healthcare, and financial assistance. During the pandemic, India provided critical medical supplies and facilitated travel for Maldivian patients to Indian medical facilities, underscoring the robust health cooperation between the two nations. Under Mission Sagar, India dispatched the Indian Naval Ship Kesari in May 2020, delivering medical assistance teams and essential COVID-19-related medicines to the Maldives and other Indian Ocean nations.

Strategic Importance- The Chinese Interference

The Maldives' strategic location gives India access to the Sea Lanes of Communication, a critical maritime checkpoint for trade between West Asia and Southeast Asia. Given that the Indian Ocean functions as a global trade and energy route, the Maldives is a significant passageway, which is crucial in securing these important routes. This holds immense significance for India, as nearly 50% of its external trade and 80% of its energy imports transit through these waters. With increasing maritime trade, economic development and geopolitical competition, China is one of the obvious challengers in this region. Beyond diplomatic and trade partnerships, Beijing has begun a consistent military presence in the area.⁴ Despite not being in the Indian Ocean region, China was quick to respond to the water crisis in Male, Maldives. While India was the first to extend assistance to the Maldives, China quickly followed, demonstrating its "responsiveness" during times of crisis. To make its presence evident, China 2017 opened its first-ever military facility in the Indian Ocean highlighting not only China's vigilance when it comes to seeking opportunity but also China's attempt at being an everpresent factor

¹ [India's Relations with Neighbouring Countries - UPSC Notes](#)

² [MALDIVES – INDIA RELATIONS](#)

³ [MALDIVES – INDIA RELATIONS](#)

⁴ [Surrounding the Ocean: PRC Influence in the Indian Ocean](#)

affecting trade routes and geopolitical ties. However, the traditionally strong relationship between India and the Maldives has faced growing challenges in recent years, driven by shifting geopolitical priorities, domestic political changes, and external influences. While India has historically been the Maldives' closest ally, China's increasing involvement in the island nation has reshaped regional dynamics, leading to diplomatic tensions. This shift has been further compounded by the rise of the 'India Out' campaign, a nationalist movement calling for the removal of India's military presence in the Maldives.

Influence of Politics

In the budget of 2025, India's allocation to the Maldives has increased from Rs. 400 Crore to Rs. 600 crore as Maldives attempts to re-strengthen ties with India emphasising the "Neighbourhood First" policy. The India-Maldives ties faced headwinds in early 2024 when Prime Minister Narendra Modi's visit to Lakshadweep seemingly symbolised the island to be an alternative to Maldives as a tourist destination. The controversy arose shortly after Mohamed Muizzu assumed office as the Maldives president. Known for his close ties with China, Muizzu requested the withdrawal of Indian troops stationed in the Maldives, further straining diplomatic relations between the two nations.

However, nine months later, tensions appeared to subside. During External Affairs Minister S. Jaishankar's visit to the Maldives in August 2024, leaders characterized the relationship between India and the Maldives as a "strongest" bond and "modern" partnership. President Muizzu who initially propagated the anti-India rhetoric seeks to mend ties after taking office. Factors could include the Maldives' grappling budget deficit and debt burden. It faces the prospect of defaulting on debt repayments with its foreign reserves falling to \$440 million.⁵ This is due to Maldives' heavy borrowing from China during the rule of the former president, Abdulla Yameen owing China \$1.37 billion. China and India are engaged in a geopolitical competition for influence in the strategically crucial Maldives, which lies along one of the world's busiest maritime routes. India remains cautious about China's expanding military presence in the Maldives and other island nations.

Criticisms

No relationship is without its share of criticism. The New Delhi- Male ties are subject to critique in areas of economic dependency, and growing nationalist sentiments of the Maldives. The opposition in Malé has categorically denied accusations of harassment targeting Indian nationals (such as teachers and doctors).⁶ New Delhi officially expressed its concern about the display of public violence. However, New Delhi has thus far exercised considerable restraint to retain the diplomatic ties shared by the two nations. Economically, India has been a constant provider of grants, loans and financial aid to the Maldives. In the fiscal year 2023-24, India allocated ₹770.90 crore in aid to the Maldives, marking an increase of over 300% from the ₹183.16 crore granted in 2022-23. This on the one hand has played a crucial role in strengthening diplomatic ties and on the other hand, has fostered dependency on Indian aid and support. Additionally, India has provided budgetary support to the Maldives during financial crises, such as the \$250 million loan in 2020 to help stabilize the Maldivian economy during the COVID-19 pandemic. Thus, while Indian financial assistance has been vital in supporting the Maldives' development and economic stability, it also poses challenges in maintaining an independent foreign policy.

⁵ [Why is pro-China Maldives leader Muizzu seeking to mend India ties?](#)

⁶ [The Maldives' Tug of War Over India and National Security](#)

Conclusion

To conclude, India's budgetary allocation has a deep geopolitical incentive linked to it mutually balancing and benefiting both India and the Maldives. Serving as a strategic tool to strengthen bilateral ties, counter Chinese influence, and ensure regional stability. This financial assistance not only supports Maldives' economic growth and infrastructure development but also reinforces India's role as the primary security provider in the Indian Ocean Region.

By extending support and investment, India ensures consistent diplomatic aid and safeguards its economic and strategic interests in the region. For the Maldives, this assistance provides critical support in managing its budget deficit, funding essential projects, and maintaining economic stability. However, the growing dependency on Indian aid raises concerns about economic sovereignty, while China's parallel investments create a balancing act for the Maldives in its foreign policy. India's financial support to the Maldives is not merely economic generosity but a strategic diplomatic move. It strengthens bilateral ties, counters China's influence, and ensures regional stability. This assistance helps the Maldives manage its economy while reinforcing India's role in the Indo-Pacific. However, growing dependency raises concerns over economic sovereignty, making it a delicate balancing act for Malé in its foreign policy decisions.