

ECONOMIC UPDATE

SEPTEMBER 2020

VOLUME 2 ISSUE 9



About the Economic Update

Economic Update is a new monthly publication produced by the Research Division of MMA presenting a quick overview of current developments in the Maldivian economy. It also includes a chart pack of global economic and financial indicators. The Economic Update will be posted on MMA's website at the end of each month. This Economic Update is based on the latest available data as at 29 September 2020.

Domestic Economic Developments

Real Economy

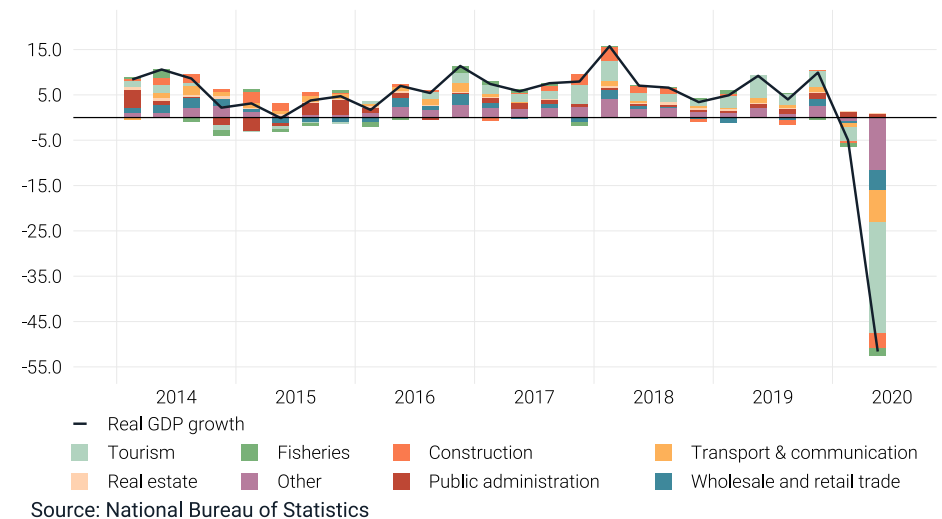
Gross Domestic Product

- According to the advance estimate of the Quarterly National Accounts for Q2-2020 released by the National Bureau of Statistics, real GDP declined significantly by 51.6% in Q2-2020, when compared with the same quarter a year ago. This was a deeper plunge when compared with the revised growth rate of -5.0% for Q1-2020 (previously at -5.9%).
 - The marked decline in growth during Q2-2020 reflected the adverse effects of spread of the COVID-19 pandemic on the domestic economy. Particularly, the government imposed a full lockdown in the Greater Male' area for a large part of the quarter, while the international border remained temporarily closed from 27 March 2020. As such, negative contributions were observed in the main sectors of the economy including tourism; transport and communication; wholesale and retail trade; and construction sector.
 - On the upside, activity in public administration; and human health and social work activities picked up over the review quarter.

Annual GDP Growth Forecast

- Real GDP growth is now projected to decline significantly in 2020 due to the severe impact of COVID-19 pandemic on tourist arrivals, amid strict measures taken by governments across the world to contain the spread of COVID-19. In 2020, tourist arrivals is expected to fall sharply, with negative spillover effects on all major sectors of the economy such as transport and communications; construction and; wholesale and retail trade.

Contribution to Real GDP Growth by Economic Sectors, 2014 - 2020
(annual percentage change, percentage point contribution)

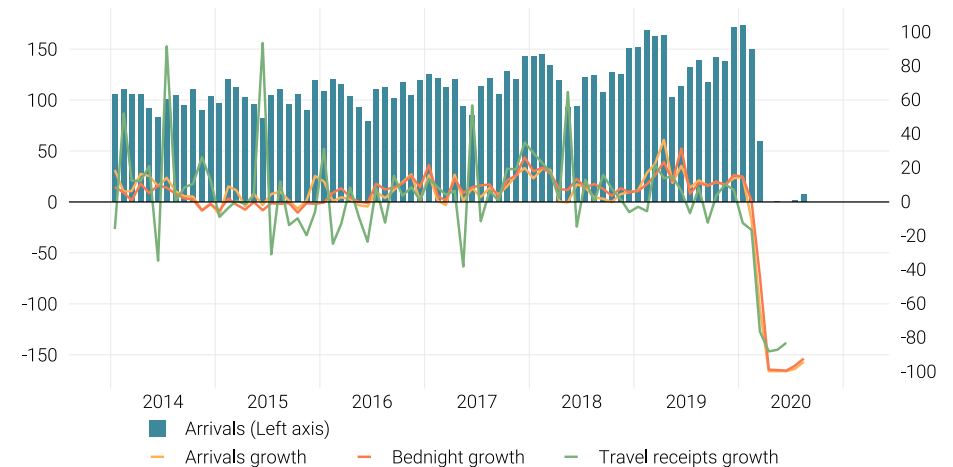


Tourism

- In August 2020, both tourist arrivals and bednights declined annually, by 95% and 93%, respectively.
 - Following the reopening of the Maldives border to international tourists on 15 July 2020, activity in the tourism sector resumed. However, the pickup in tourist arrivals has been slow, as global tourism demand has been low due to the spread of the COVID-19 pandemic. During August 2020, the most number of tourist arrivals were recorded from the European market.
- When compared with August 2019, the operational bed capacity of the tourism industry decreased by 59%, while the occupancy rate fell to 11% in August 2020, from 62% in August 2019.
- Overall, for the period January to August 2020, total tourist arrivals decreased by 65% in annual terms, while total bednights of the industry recorded a 60% decline. During this period, average stay stood at 22.5 days, while it stood at 6.3 days in the corresponding period of 2019.

Tourism, 2014 - 2020

(thousands, annual percentage change)

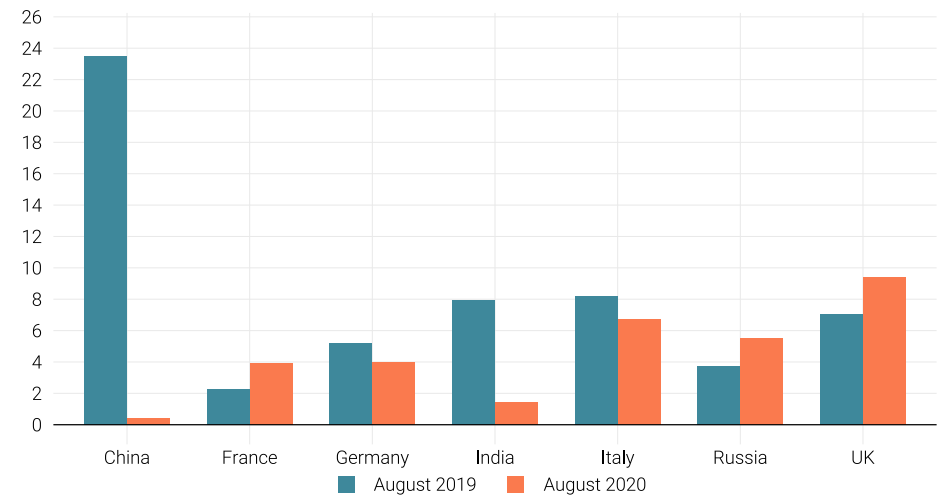


Source: Ministry of Tourism

Note: Tourism receipts available up to June 2020.

Shares of Key Inbound Markets

(percent)

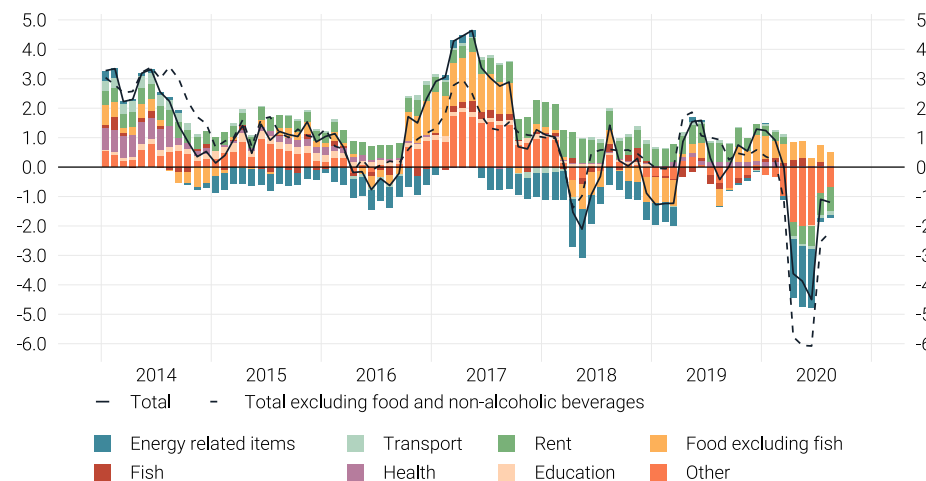


Source: Ministry of Tourism

Inflation

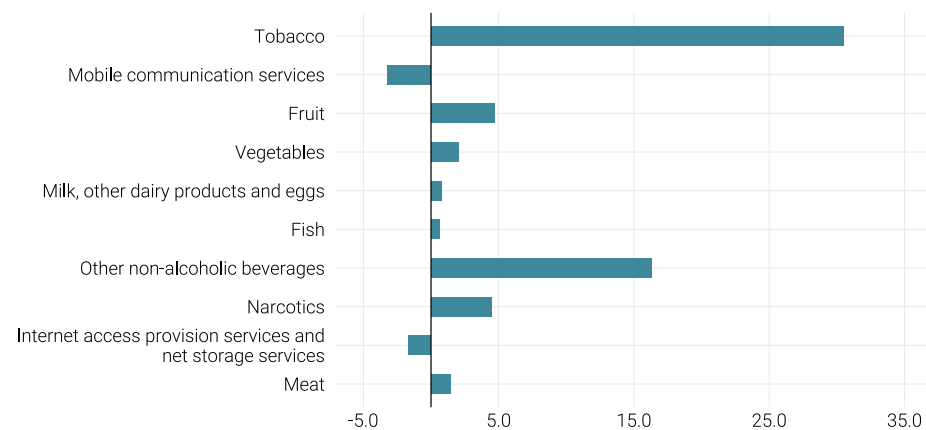
- The rate of inflation, as measured by the annual percentage change in the national CPI, continued to remain in negative territory after declining further to -1.2% in August 2020, from -1.1% in July 2020. During the month, inflation was dragged down by the fall in the price of information and communication services; and housing rent, which reflected a reduction in telecommunication prices and temporary relief given on rent due to COVID-19, respectively. In contrast, food prices continued to pick up largely due to the rise in prices of certain vegetables. Further, price of tobacco also observed a significant increase following the ratification of the 17th amendment to Import Export Act in July 2020, which imposed additional duties on specific tobacco products.
 - From the major categories of the CPI, the largest contributors to the annual rate of inflation during August 2020 were information and communication services (-1.1 percentage points); housing rent (-0.8 percentage points); tobacco (0.5 percentage points) and vegetables (0.2 percentage points).
- The monthly percentage change in the national CPI remained positive and registered 0.5% in August 2020, after recording 2.8% in July 2020.
 - The largest contribution to the monthly rate of inflation came from tobacco (0.4 percentage points); fruits (0.1 percentage point); and information and communication services (-0.2 percentage points).

Contribution of Major Categories to CPI Inflation (National), 2014 - 2020
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

Monthly Changes of Subcategories of CPI Inflation (National), August 2020
(monthly percentage change)



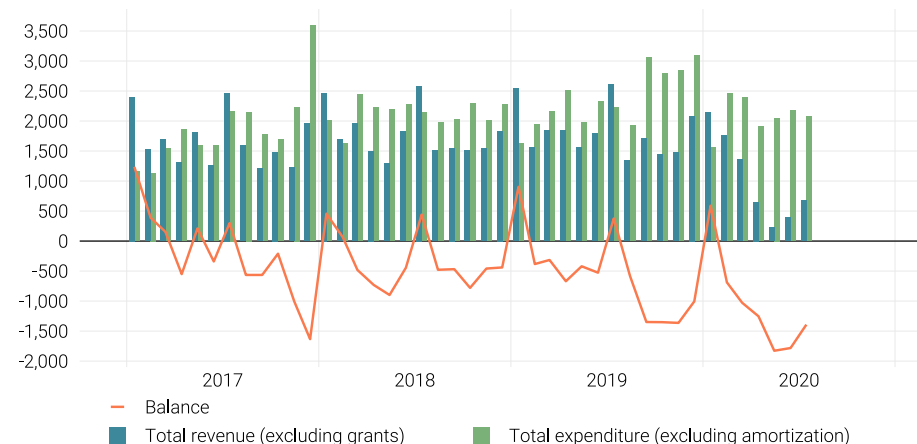
Source: National Bureau of Statistics
Note: Ordered by the size of the contribution.

Public Finance

- Government revenue (excluding grants) observed a decline of MVR1.9 billion (or 74%) in July 2020 when compared with July 2019.
 - This was due to a fall in tax revenue as well as non-tax revenue. As such, tax revenue declined by MVR1.6 billion, while non-tax revenue decreased by MVR326.5 million.
- Total expenditure (excluding amortisation) decreased by MVR158.2 million (or 7%) in July 2020 when compared with July 2019.
 - The fall in expenditure stemmed from a decline in recurrent expenditure, which posted a decrease of MVR519.1 million, given that capital expenditure increased by MVR360.8 million.
- Overall, during the period January to July 2020, total revenue recorded a 47% decline, while total expenditure decreased only marginally, when compared with the corresponding period of 2019.
- According to the latest available data, the stock of total government debt (excluding government guaranteed debt) amounted to MVR57.3 billion at the end of Q2-2020, a 3% increase from Q1-2020. Similarly, total government debt as a percentage of GDP¹ increased to 84% at the end of Q2-2020.
 - During this period, the increase in government debt was primarily driven by domestic debt.

Government Revenue and Expenditure, 2017 - 2020

(millions of rufiyaa)

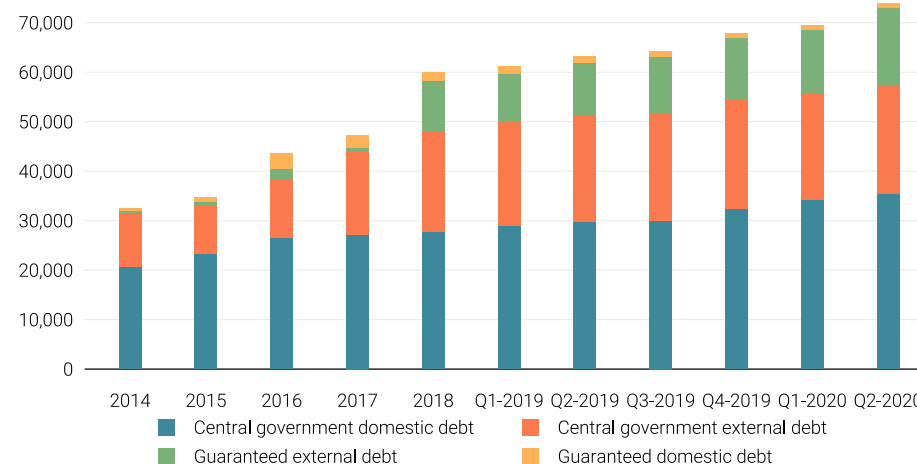


Source: Ministry of Finance

Note: Figures do not accord with the methodology of IMF's GFS Manual 1986.

Total Outstanding Stock of Public Debt, 2014 - 2020

(millions of rufiyaa)



Source: Ministry of Finance

¹Nominal GDP is based on Scenario 5 of the COVID-19 Economic and Fiscal Impact paper presented to the People's Majlis by the Ministry of Finance. (<https://bit.ly/2Omeqmx>)

Monetary Developments

Reserve Money

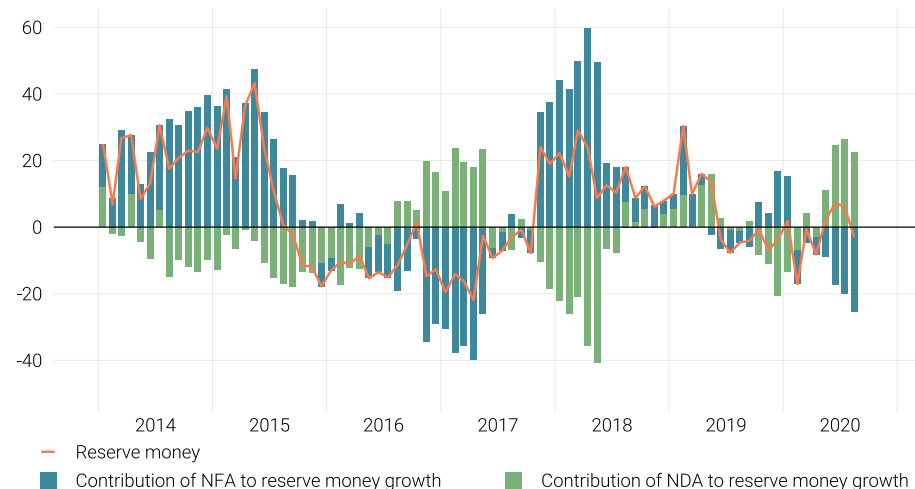
- Annual reserve money (M0) growth turned negative and decreased by 3% in August 2020, after recording a growth of 6% in July 2020.
 - The decline in reserve money stemmed from a fall in net foreign assets, although net domestic assets of the MMA showed a significant increase.
 - Net foreign assets declined owing to a surge in foreign liabilities as well as due to a decline in foreign assets. Meanwhile, the increase in net domestic assets mainly reflected the growth in net claims on central government, despite an increase in ODF placements by commercial banks.

Broad Money

- Broad money (M2) growth slightly decelerated to 8% in annual terms at the end of August 2020, after registering 9% during the previous month.
 - On the components side, the growth in broad money was primarily due to an increase in narrow money, which mainly reflected a rise in transferable deposits. Meanwhile, quasi money observed a decrease owing to a decline in foreign currency transferable deposits, despite increases in time and savings deposits denominated in both local and foreign currency.
 - As for the sources, broad money growth was driven by the increase in net domestic assets of the banking system, which stemmed from the rise in net claims on central government by the MMA and commercial banks, as well as the increase in private sector credit. In contrast, growth in net foreign assets posted a decline largely owing to a surge in foreign liabilities of both the MMA and commercial banks.

Sources of Reserve Money, 2014 - 2020

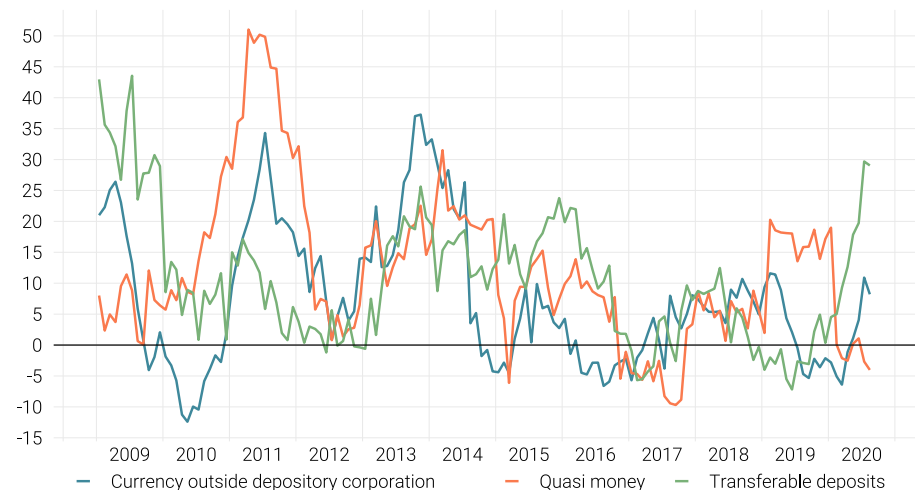
(annual percentage change, contribution percent)



Source: Maldives Monetary Authority

Components of Broad Money, 2009 - 2020

(annual percentage change)

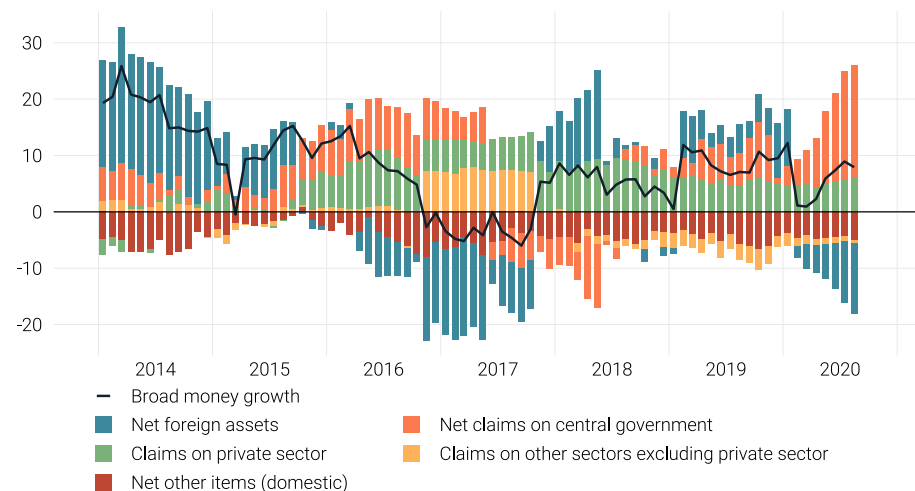


Source: Maldives Monetary Authority

Credit to Private Sector

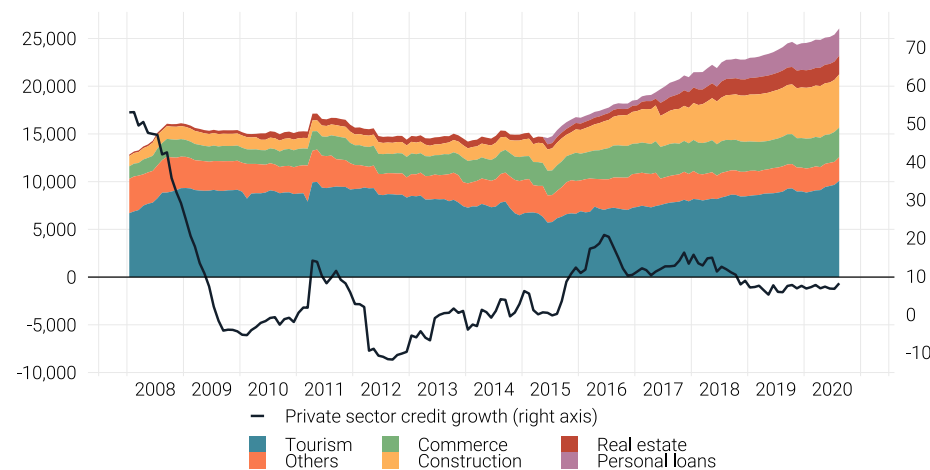
- The annual growth rate of credit to the private sector by commercial banks slightly accelerated to 8% at the end of August 2020, from 7% recorded at previous month. Meanwhile, monthly growth in credit to private sector accelerated to 3% after recording 1% in July 2020.
 - With regard to the composition of credit to private sector, similar to the previous month, credit growth was observed for all main sectors, namely, tourism, construction and real estate; except for transport and communication; and commerce sector. In addition, credit extended as personal loans observed a significant increase over the period.
 - Credit extended to the tourism sector observed the largest increase over the period, registering an annual growth of 13% during August 2020, mainly driven by the growth in credit in the form of working capital, together with credit lent for new resort development.

Contribution to Broad Money, 2014 - 2020
(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

Private Sector Credit, 2008 - 2020
(millions of rufiyaa, annual percentage change)



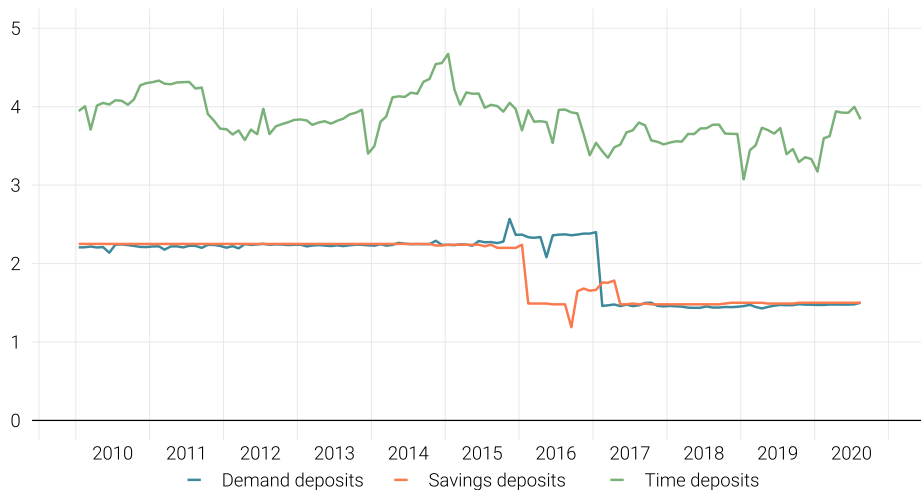
Source: Maldives Monetary Authority

Note: Personal loans were not classified as a separate category prior to June 2015.

Interest rates

Interest Rate on National Currency Deposits, 2010 - 2020

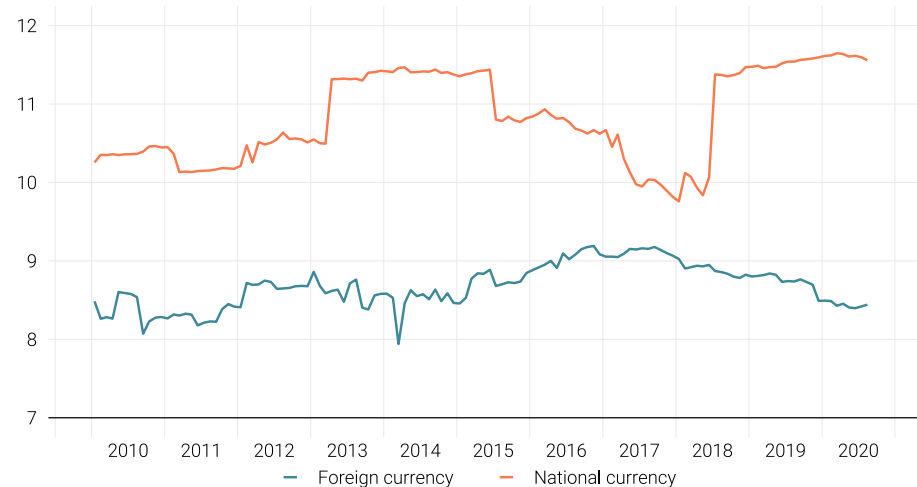
(weighted average)



Source: Maldives Monetary Authority

Interest Rate on Private Sector Loans and Advances, 2010 - 2020

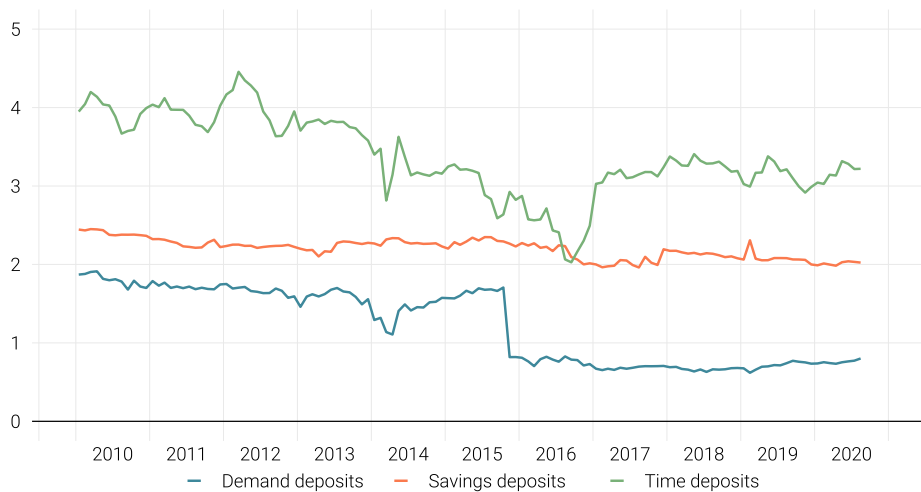
(weighted average)



Source: Maldives Monetary Authority

Interest Rate on Foreign Currency Deposits, 2010 - 2020

(weighted average)

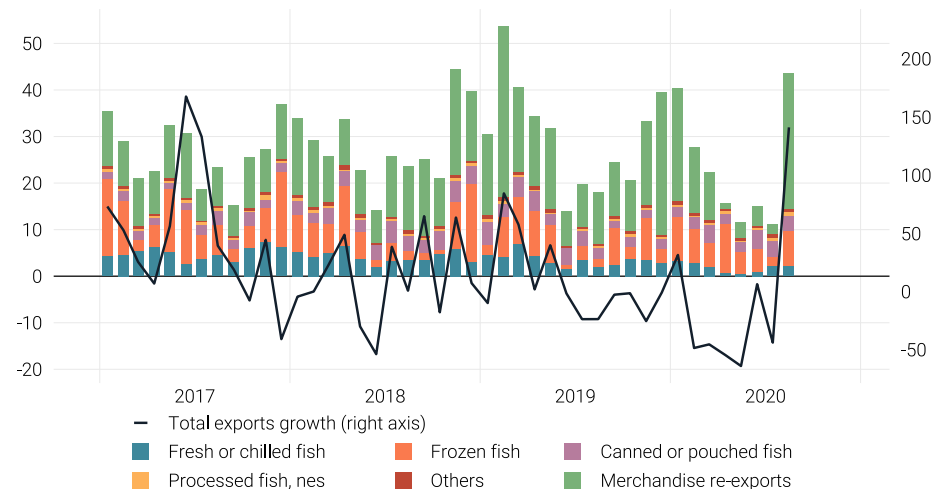


Source: Maldives Monetary Authority

External Trade

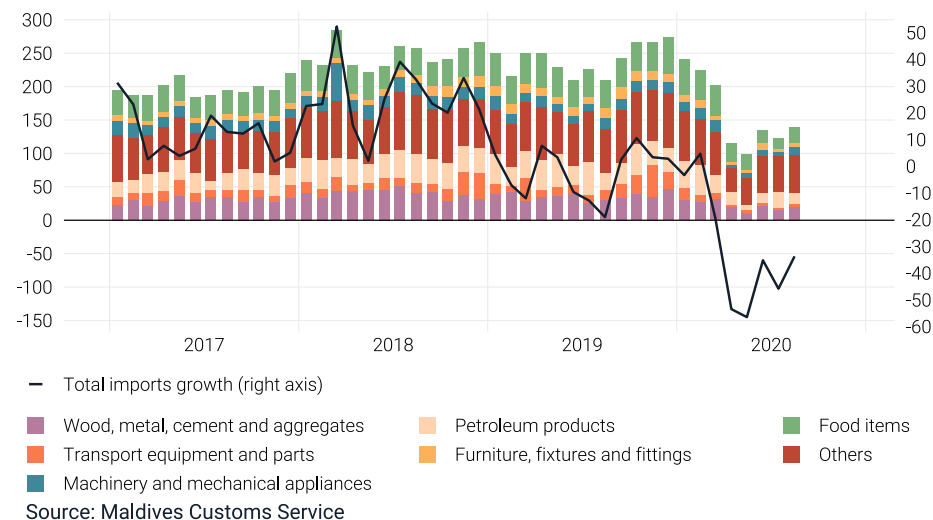
- Total exports (f.o.b) more than doubled in August 2020 when compared with August 2019, while total imports (c.i.f) observed an annual decline of 34% during the period. Similarly, total exports recorded an almost three-fold increase in monthly terms, while total imports also increased by 13%.
- The annual growth in total exports stemmed largely from a sizeable increase in re-exports as well as domestic exports. The increase in domestic exports was largely due to an increase in export earnings from frozen skipjack tuna, together with increases in canned or pouched tuna and dried tuna exports.
- As for the annual decline in total imports, the most significant decreases were observed in the imports of food items, construction-related items and petroleum products; although the decline was broad-based across all major import categories, except for electrical and electronic machinery and equipment.
- Overall, during the period January to August 2020, total exports recorded a 23% decline, while total imports decreased by 30% when compared with the corresponding period of 2019.

Total Exports, 2017 - 2020
(millions of US dollars, annual percentage change)



Source: Maldives Customs Service

Total Imports, 2017 - 2020
(millions of US dollars, annual percentage change)



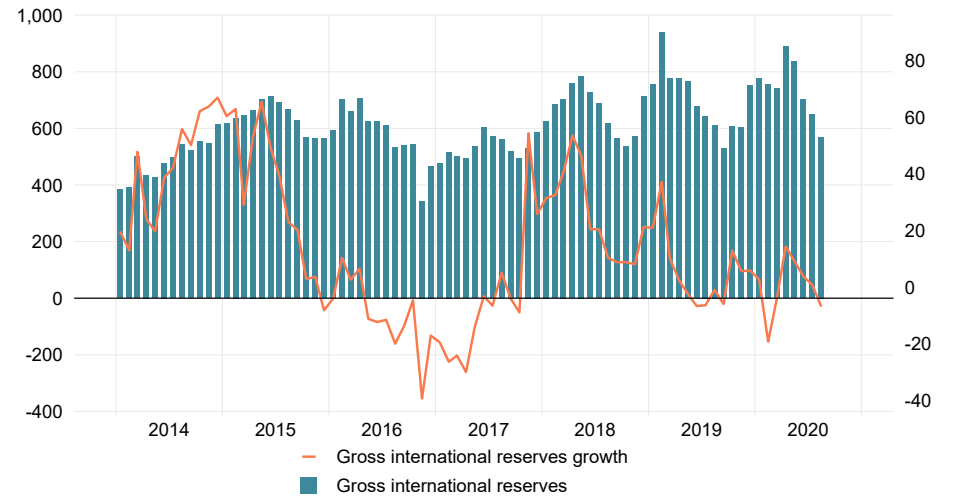
Source: Maldives Customs Service

Gross International Reserves

- Gross international reserves decreased to US\$569.7 million at the end of August 2020 from US\$649.4 million at the end of July 2020.
 - This was a decline of 12% and 7% when compared with July 2020 and August 2019, respectively.

Gross International Reserves, 2014 - 2020

(millions of US dollars, annual percentage change)

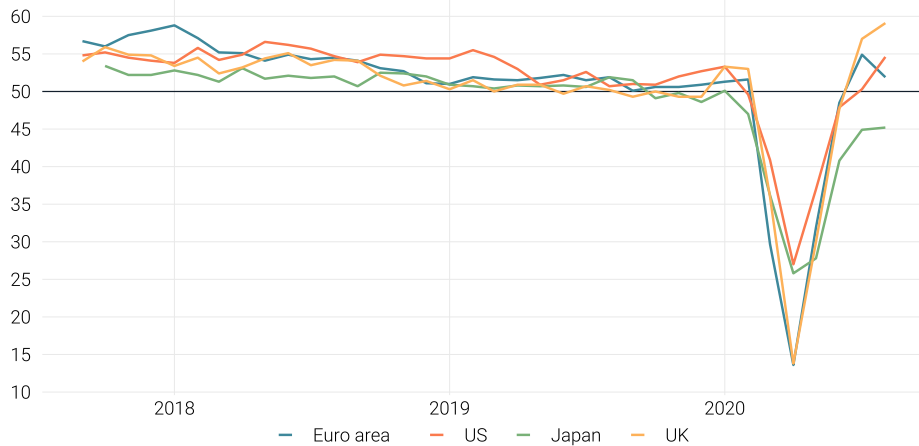


Source: Maldives Monetary Authority

International Economic Developments

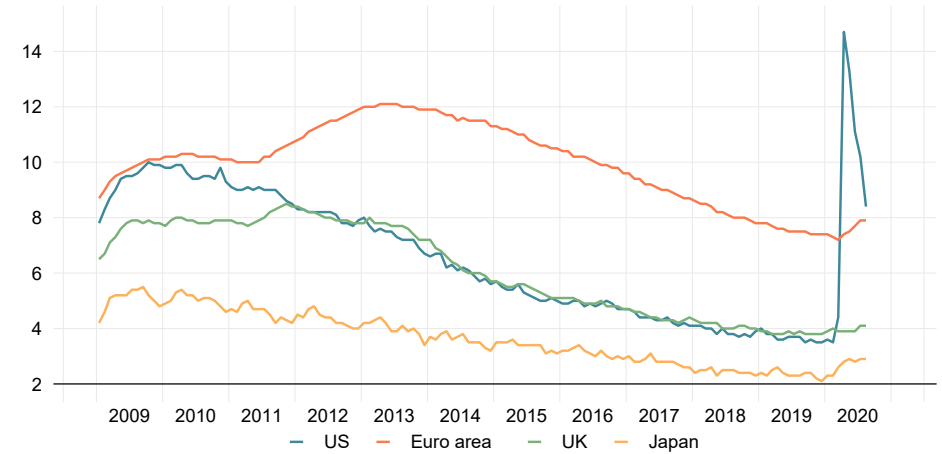
Global Output

Purchasing Manager's Index in the Advanced Economies, 2017 - 2020
(index points)



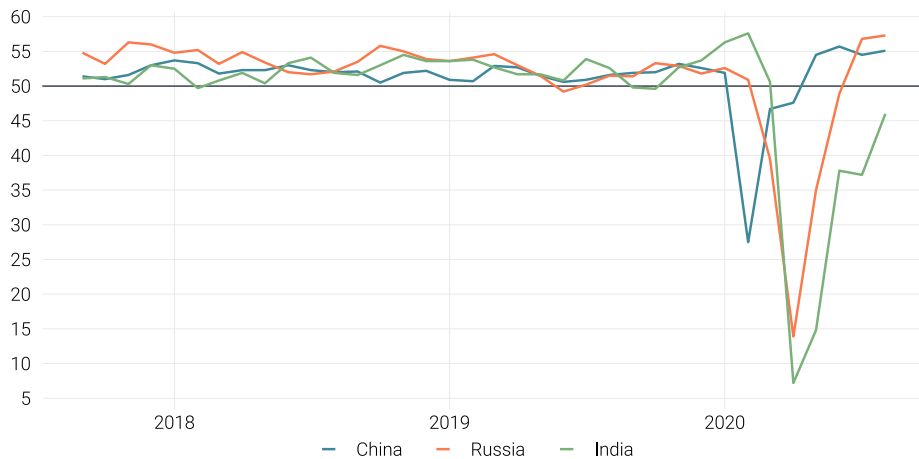
Source: Bloomberg Database

Unemployment in the Advanced Economies, 2009 - 2020
(percent)



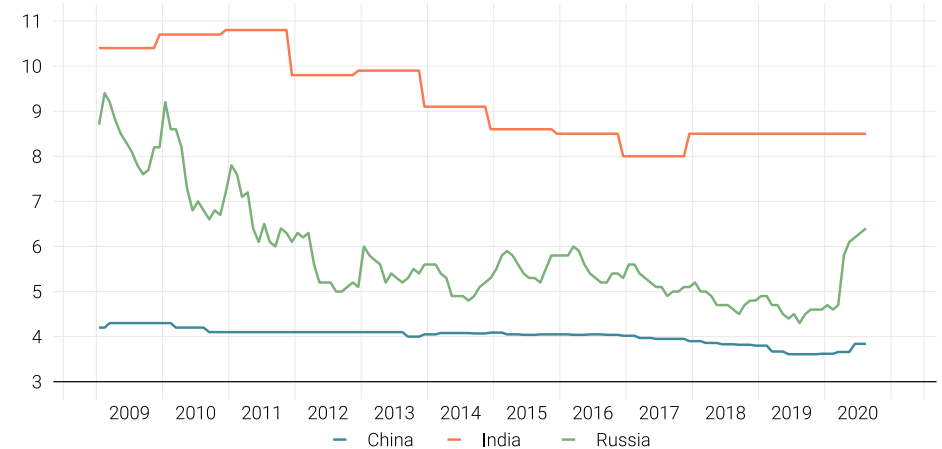
Source: Bloomberg Database

Purchasing Manager's Index in the Emerging Economies, 2017 - 2020
(index points)



Source: Bloomberg Database

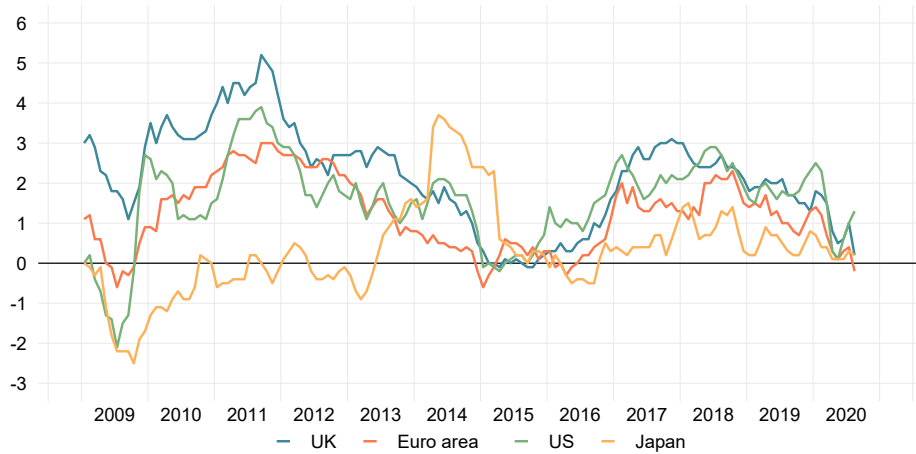
Unemployment in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

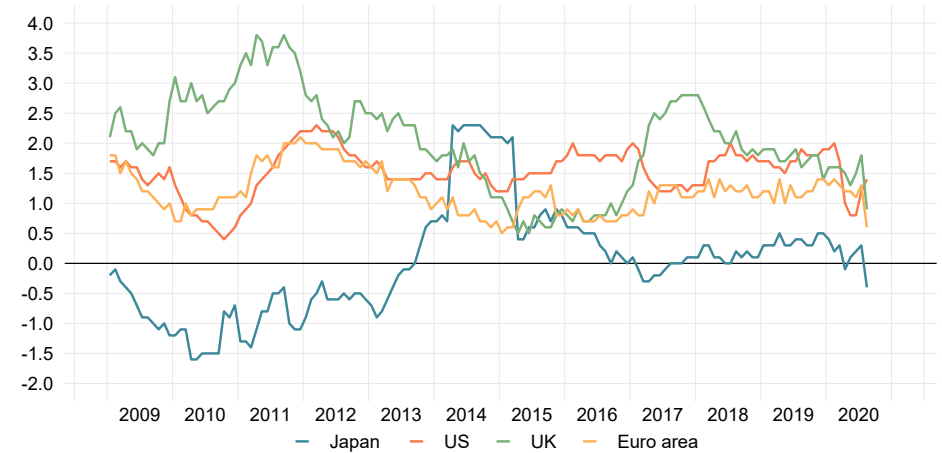
Global Inflation

Inflation in the Advanced Economies, 2009 - 2020
(percent)



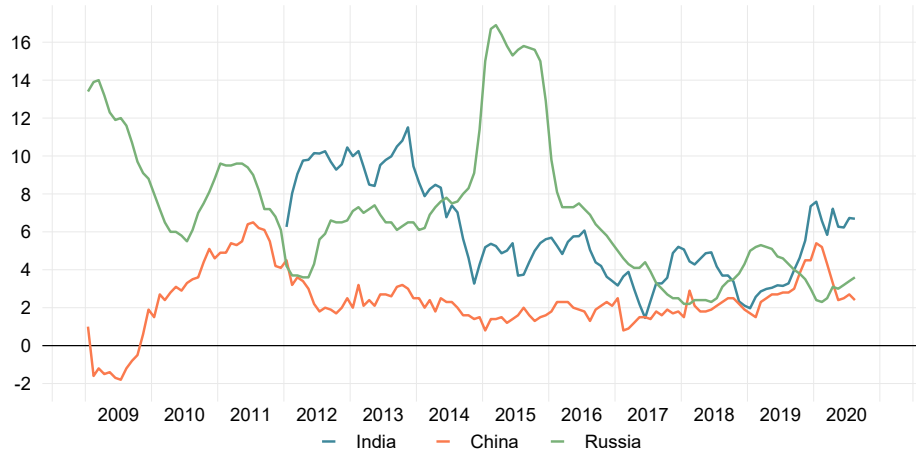
Source: Bloomberg Database

Core Inflation in the Advanced Economies, 2009 - 2020
(percent)



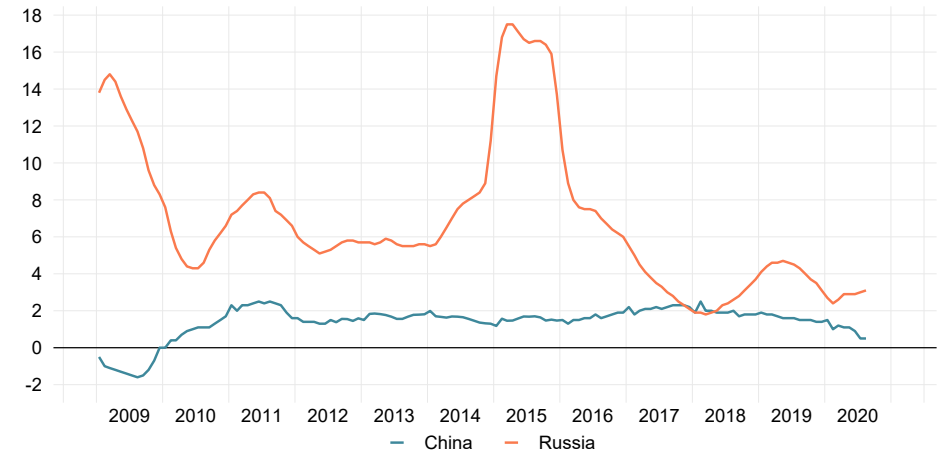
Source: Bloomberg Database

Inflation in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

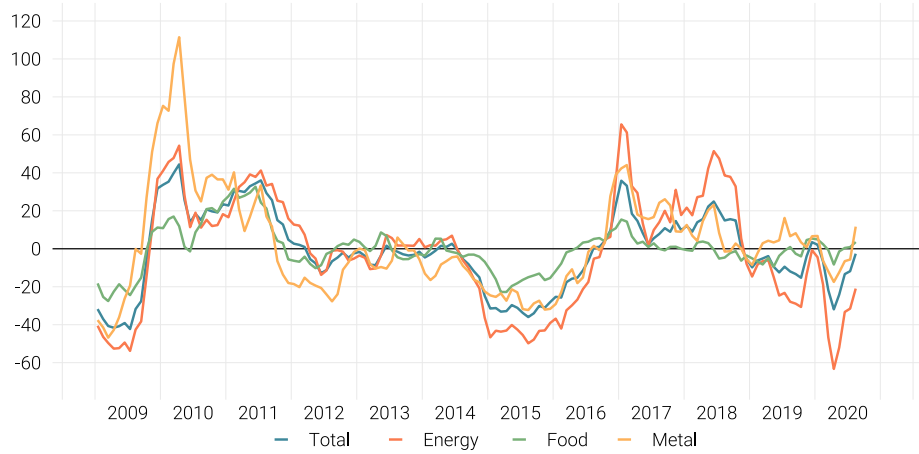
Core Inflation in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

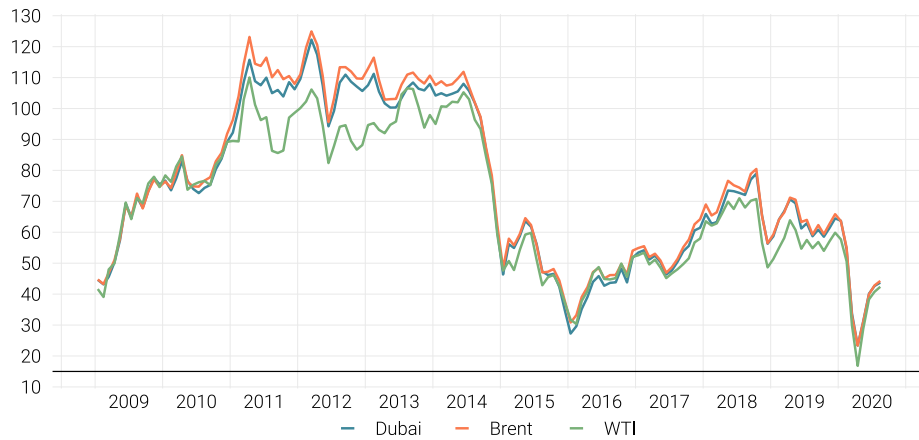
Commodity Prices

Commodity prices, 2009 - 2020
(annual percentage change)



Source: IMF

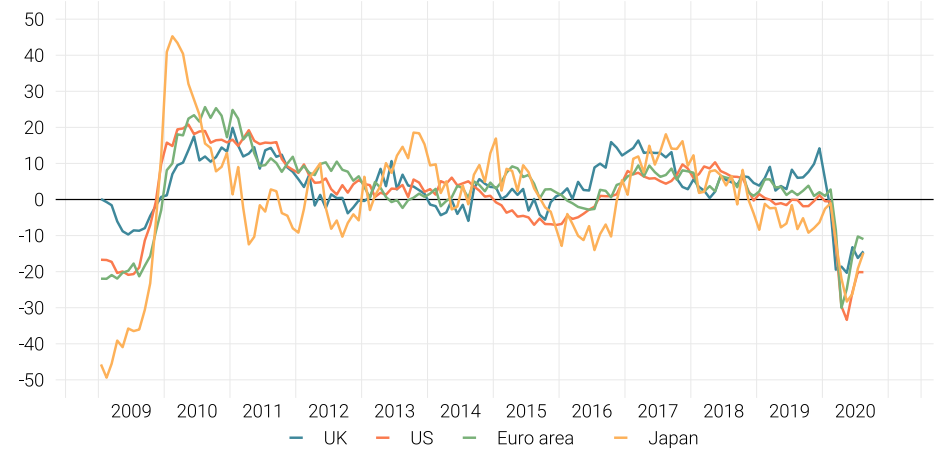
Oil prices, 2009 - 2020
(dollars per barrel)



Source: Bloomberg Database

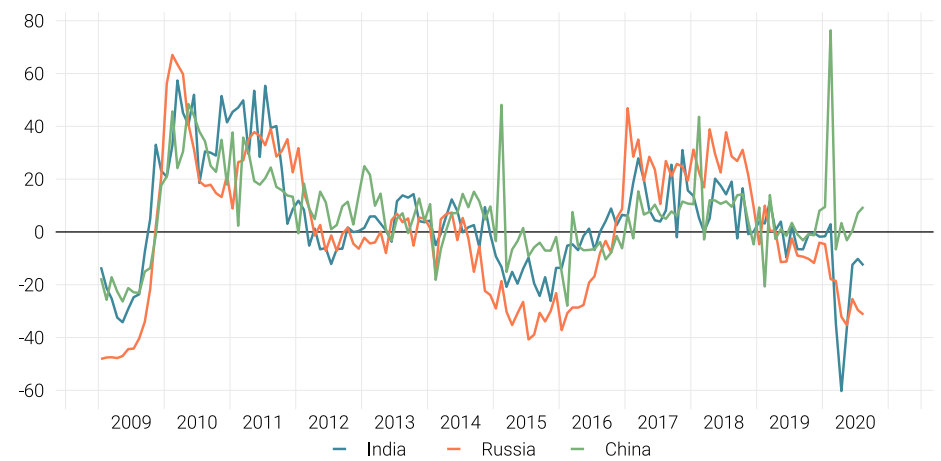
Global Trade

Exports in the Advanced Economies, 2009 - 2020
(annual percentage change)



Source: Bloomberg Database

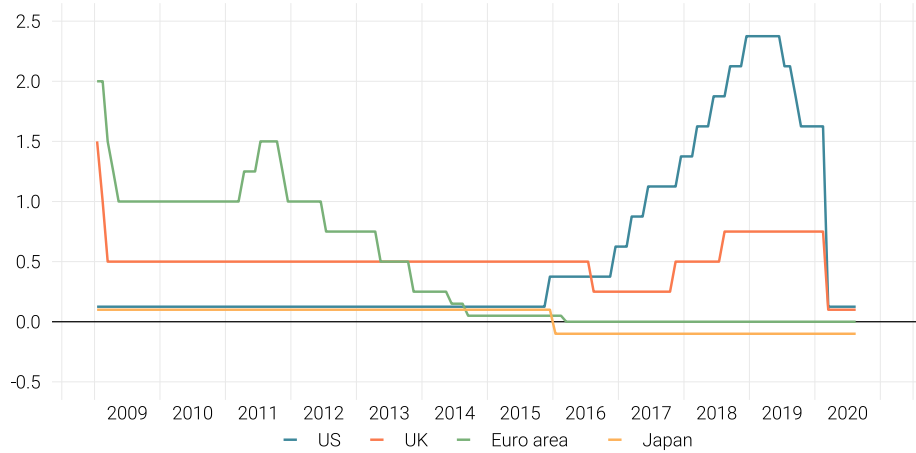
Exports in the Emerging Economies, 2009 - 2020
(annual percentage change)



Source: Bloomberg Database

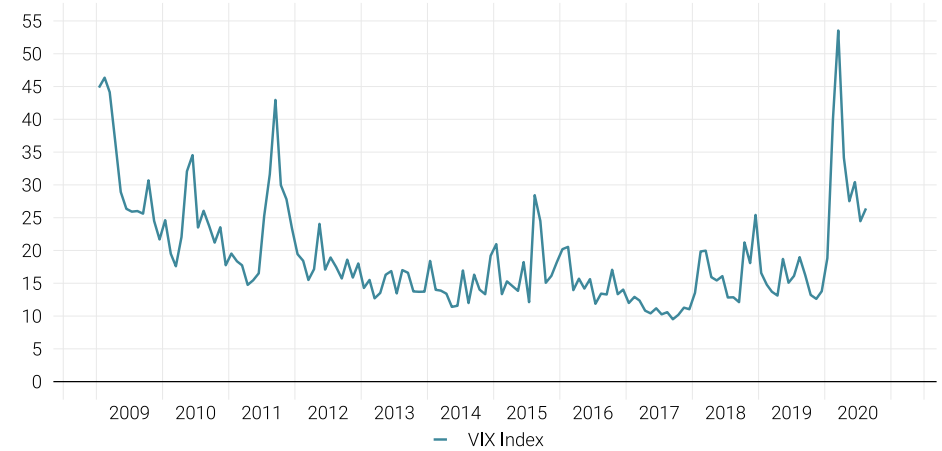
Global Financial Markets

Monthly Policy Rates in the Advanced Economies, 2009 - 2020
(percent)



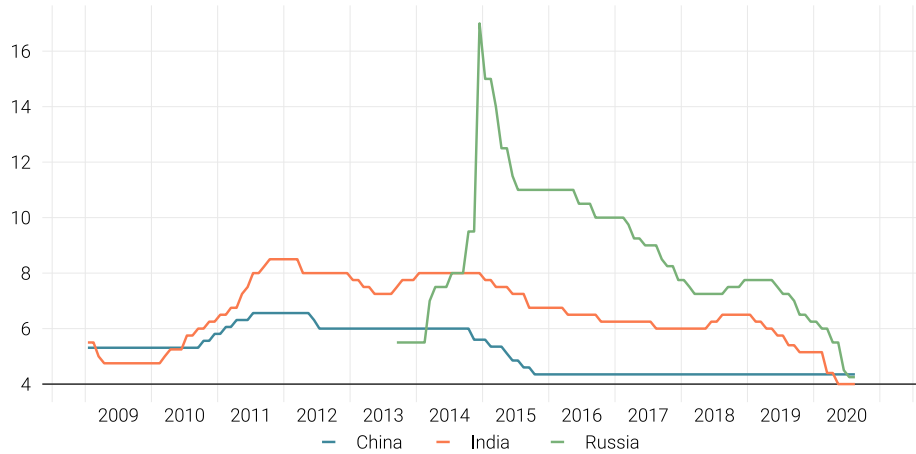
Source: Bloomberg Database

Volatility Index, 2009 - 2020
(percent)



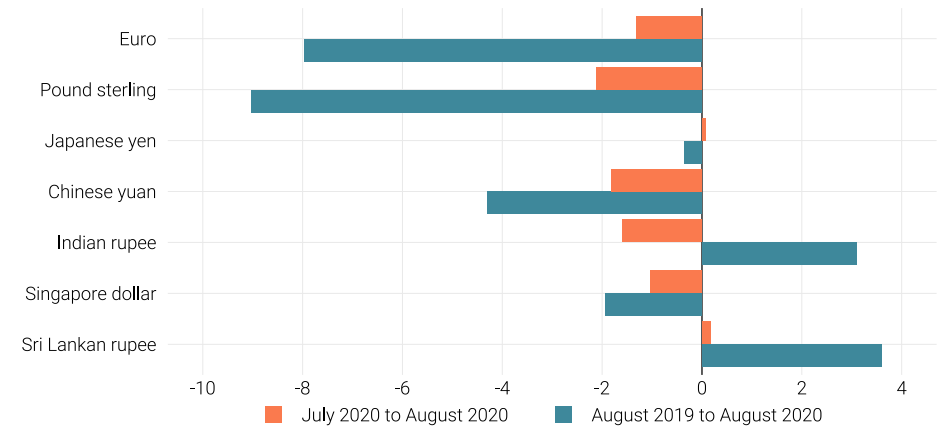
Source: Bloomberg Database

Monthly Policy Rates in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

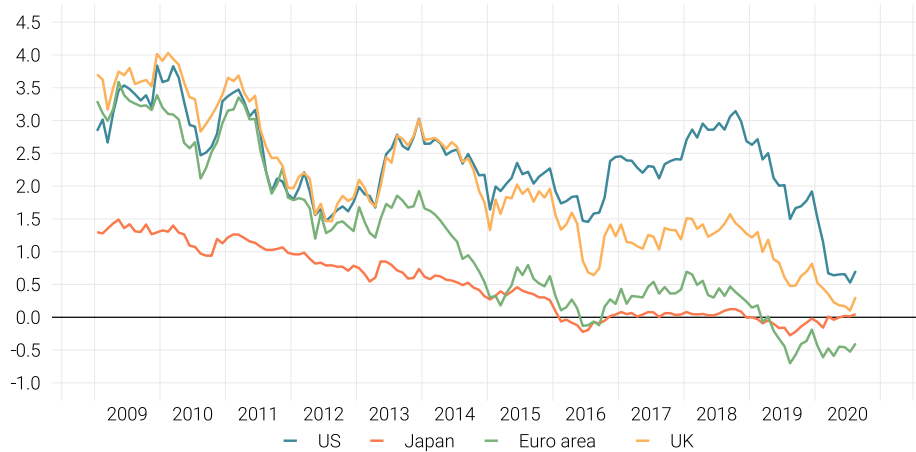
Exchange Rate of US Dollar against Currencies of Major Trading Partners, August 2020
(percentage change)



Source: Bloomberg Database

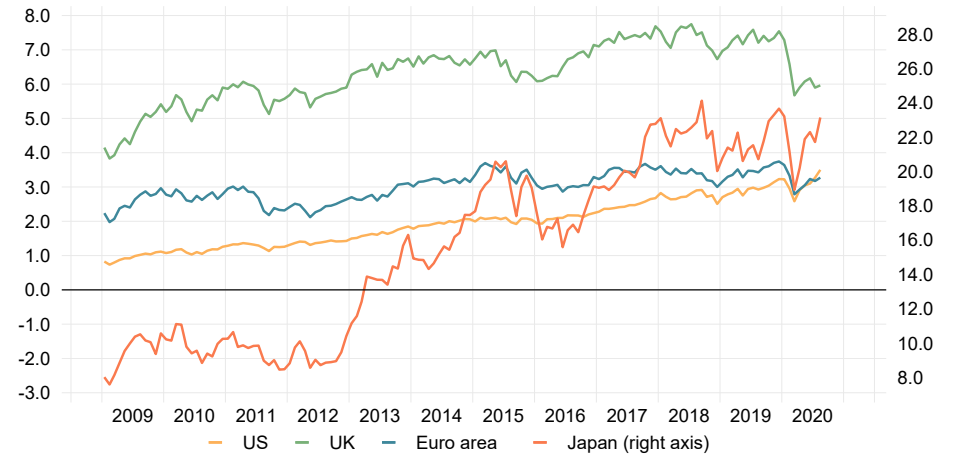
Global Financial Markets

Sovereign Bond Yield in the Advanced Economies, 2009 - 2020
(percent)



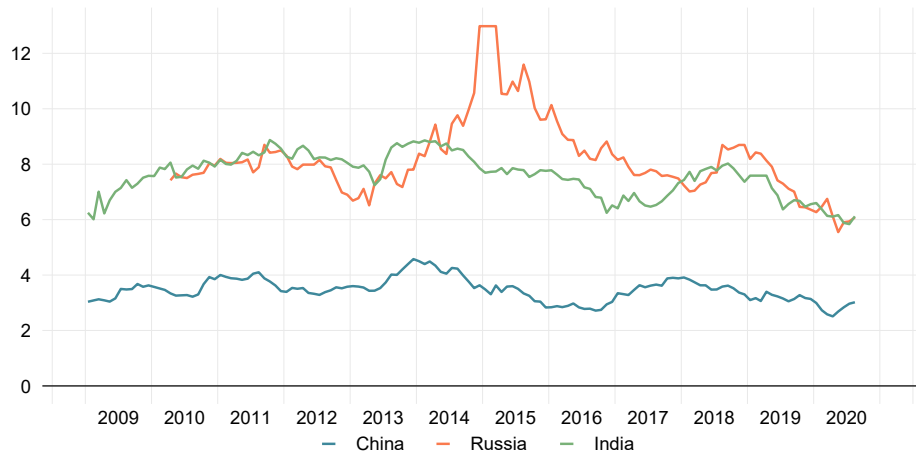
Source: Bloomberg Database

Share Price Index in the Advanced Economies, 2009 - 2020
(price index, in thousands)



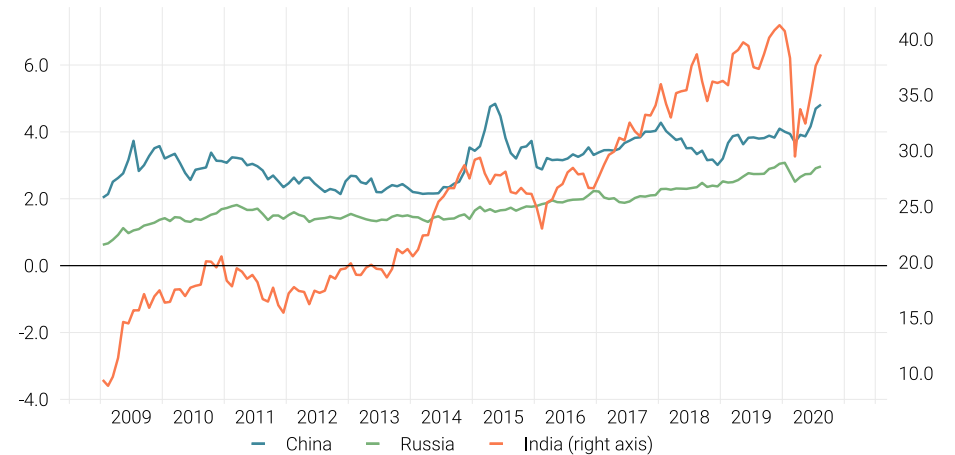
Source: Bloomberg Database

Sovereign Bond Yield in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

Share Price Index in the Emerging Economies, 2009 - 2020
(price index, in thousands)



Source: Bloomberg Database



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