

# ECONOMIC UPDATE

AUGUST 2020

VOLUME 2 ISSUE 8



## **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 31 August 2020.

# Domestic Economic Developments

## Real Economy

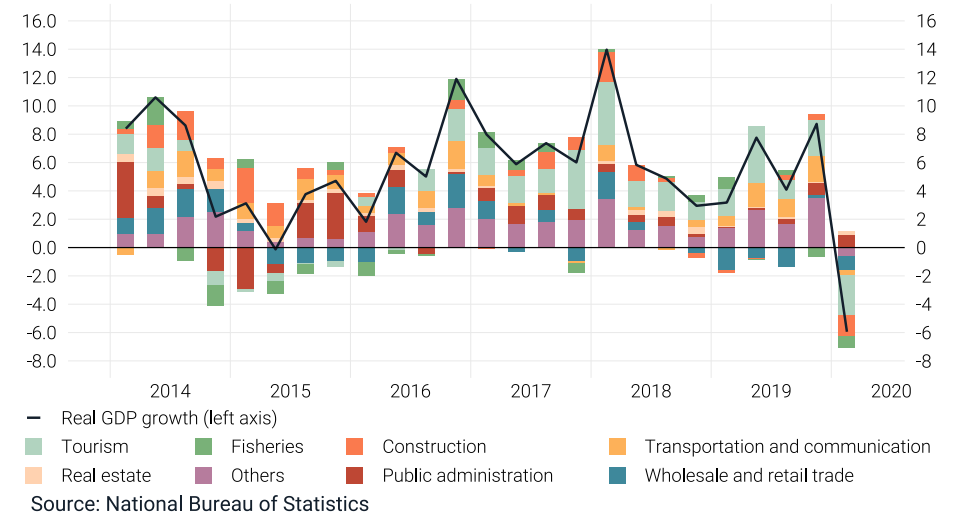
### Gross Domestic Product

- According to the advance estimate<sup>1</sup> of the Quarterly National Accounts for Q1-2020 released by the National Bureau of Statistics, real GDP declined significantly by 5.9% in Q1-2020, when compared with the same quarter a year ago. This was down from the revised growth rate of 8.7% for Q4-2019 (previously at 8.0%).
  - The decline in growth during Q1-2020 largely reflected the adverse effects of spread of the COVID-19 pandemic on the domestic economy. As such, negative contributions were observed in main sectors of the economy including tourism; construction; and wholesale and retail trade sector.
  - Meanwhile, 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)



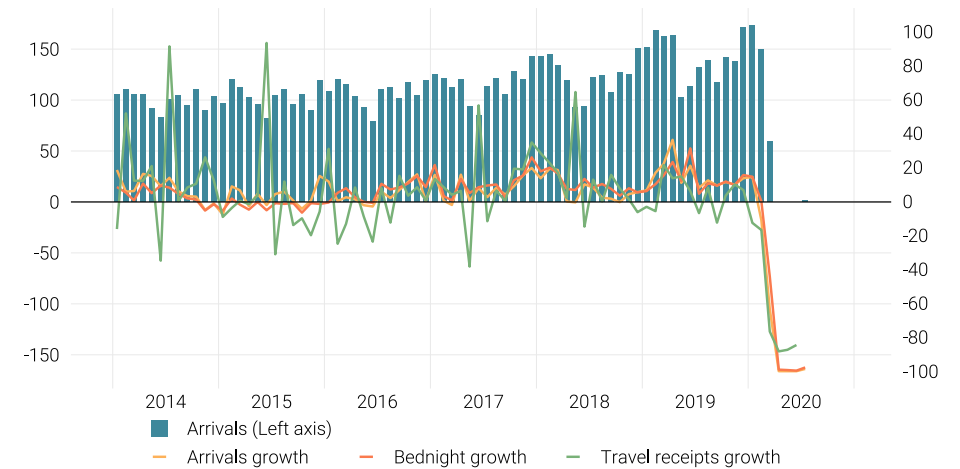
<sup>1</sup>QNA data was available up until Q1-2020 at the time of this publication. Advance estimates data are released with a four-month lag.

## Tourism

- In July 2020, both tourist arrivals and bednights declined annually, by 99% and 98%, respectively.
  - Following the reopening of the Maldives border to international arrivals on 15 July 2020, activity in the tourism sector resumed. However, the pick up in tourist arrivals has been slow, as global tourism demand has been significantly low due to the spread of the COVID-19 pandemic. During July 2020, the most number of tourist arrivals were recorded from the European market.
- Compared to July 2019, the operational bed capacity of the tourism industry decreased by 79%, while the occupancy rate fell to 5% in July 2020, from 53% in July 2019.
- Overall, for the period January to July 2020, total tourist arrivals decreased by 61% in annual terms, while total bednights of the industry recorded a 56% decline. During this period, average stay stood at 24.4, while it stood at 6.3 in the corresponding of 2019.

### Tourism, 2014 - 2020

(thousands, annual percentage change)

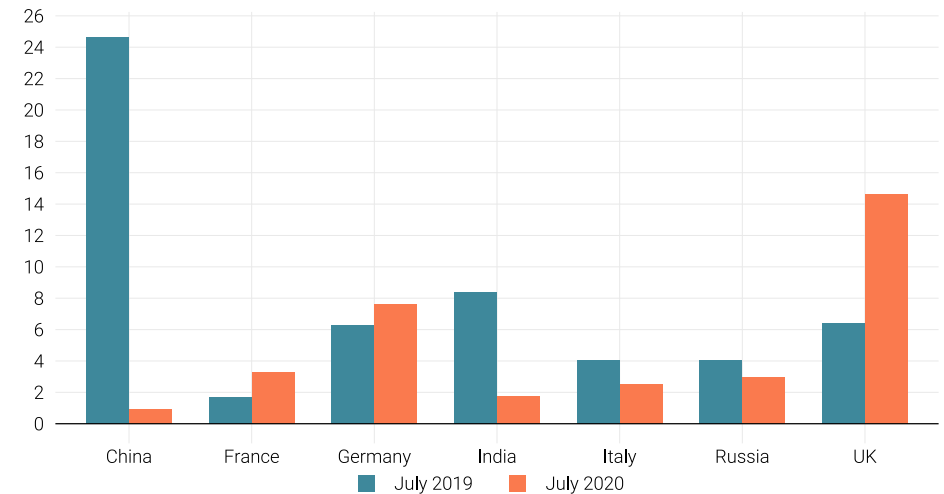


Source: Ministry of Tourism

Note: Tourism receipts available up to June 2020.

### Shares of Key Inbound Markets

(percent)



Source: Ministry of Tourism

# Inflation

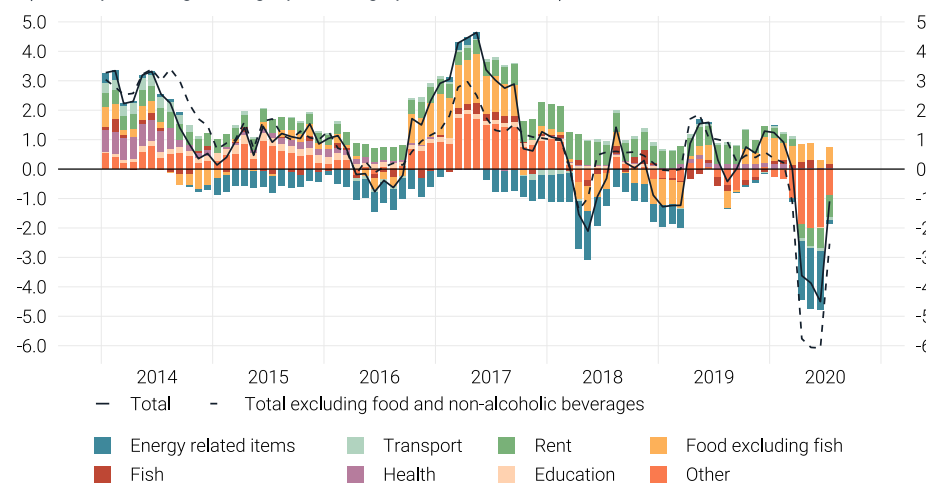
- The rate of inflation, as measured by the annual percentage change in the national CPI, continued to remain in negative territory, but edged up to -1.1% in July 2020 from -4.5% in June 2020. This was largely reflecting the discontinuation of government subsidies on electricity and water charges, given as temporary relief to households following the outbreak of COVID-19 pandemic, as well as the slight increase in food prices during the month. The pick up in food prices was largely due to the rise in prices of certain vegetables. In the month, inflation continued to be dragged down by the fall in the price of information and communication services; and housing rent, which also reflects the extra data allowances given by telecommunication companies and temporary relief given on rent due to COVID-19, respectively.

- From the major categories of the CPI, the largest contributors to the annual rate of inflation during July 2020 were information and communication services (-0.9 percentage points); housing rent (-0.8 percentage points); vegetables (0.5 percentage points) and fish (0.1 percentage point).

- The monthly percentage change in the national CPI turned positive and registered 2.8% in July 2020, after recording -0.4% in June 2020.

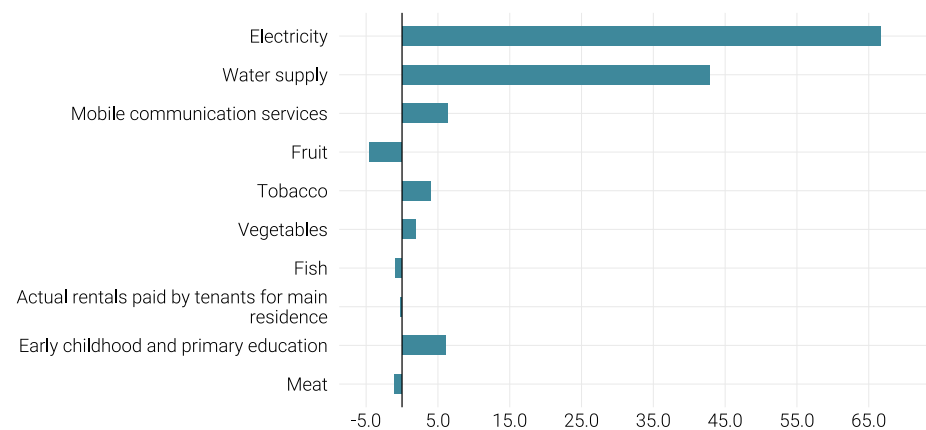
- The largest contribution to the monthly rate of inflation came from electricity (2.0 percentage points); water supply (0.6 percentage points); information and communication services (0.3 percentage points); tobacco (0.1 percentage point); and fruits (-0.1 percentage point).

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), July 2020  
(monthly percentage change)



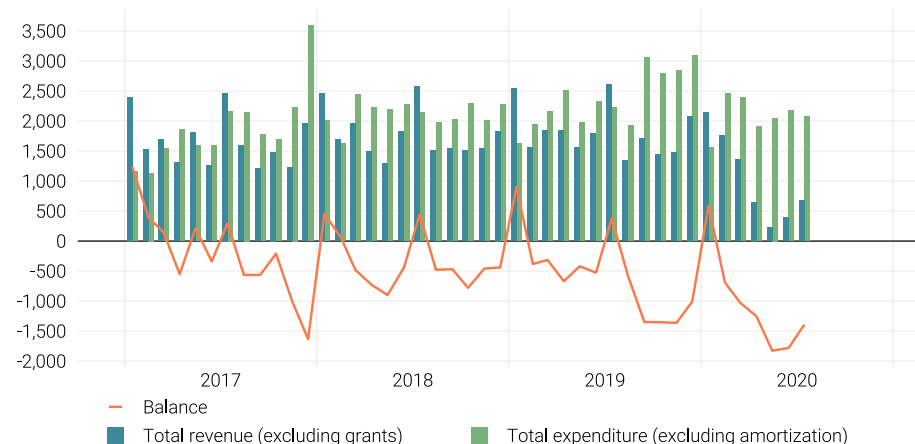
Source: National Bureau of Statistics  
Note: Ordered by the size of the contribution.

# 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 also decreased 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 MVR55.8 billion in Q1-2020, a 3% increase from Q4-2019. Similarly, total government debt as a percentage of GDP<sup>2</sup> increased to 86% at the end of Q1-2020.
  - During this period, the increase in government debt was driven by domestic debt.

## Government Revenue and Expenditure, 2017 - 2020

(millions of rufiyaa)

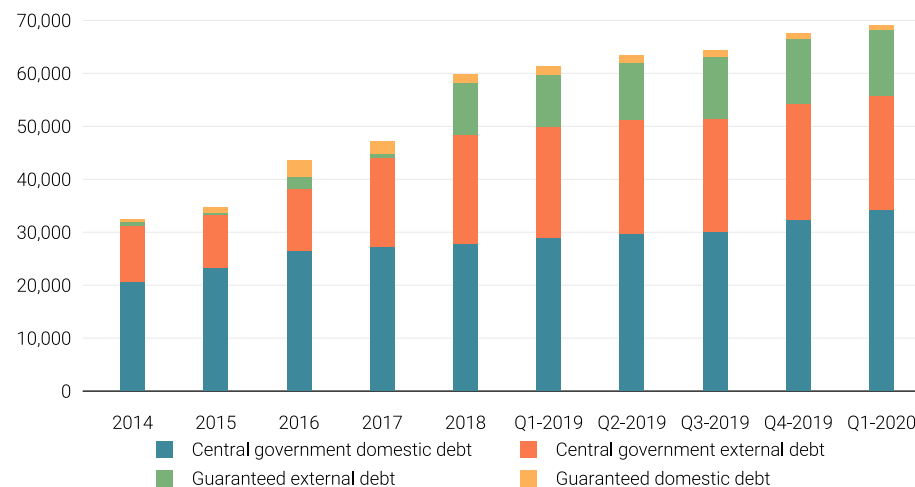


Source: Ministry of Finance

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

<sup>2</sup>Nominal 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

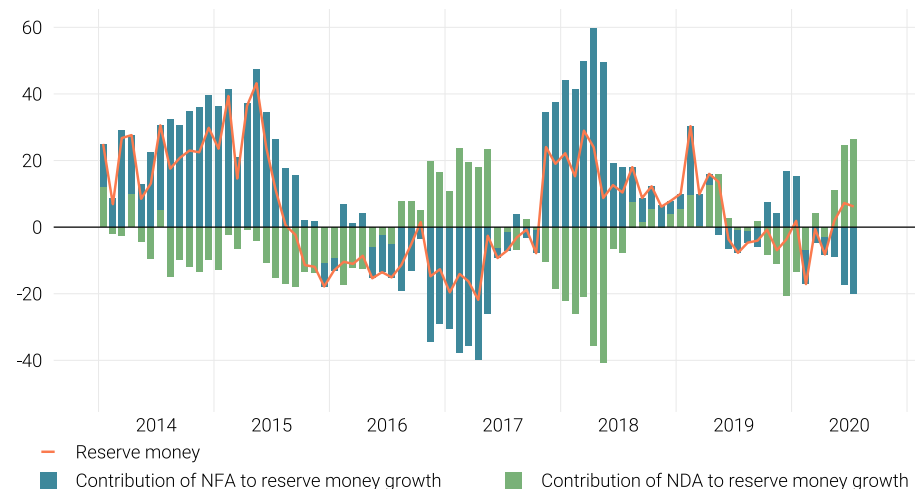
- Annual reserve money (M0) growth decelerated slightly to 6% in July 2020, after recording a growth of 7% in June 2020.
  - The deceleration of reserve money growth stemmed from a fall in net foreign assets, although net domestic assets of the MMA showed a significant increase.
  - Net foreign assets declined owing to a surge in foreign liabilities as well as due to a decline in foreign asset accumulation. 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 accelerated to 9% in annual terms at the end of July 2020, after registering 7% during the previous month.
  - On the components side, the acceleration in broad money growth was primarily due to a growth in narrow money, which mainly reflected an increase 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.

Sources of Reserve Money, 2014 - 2020

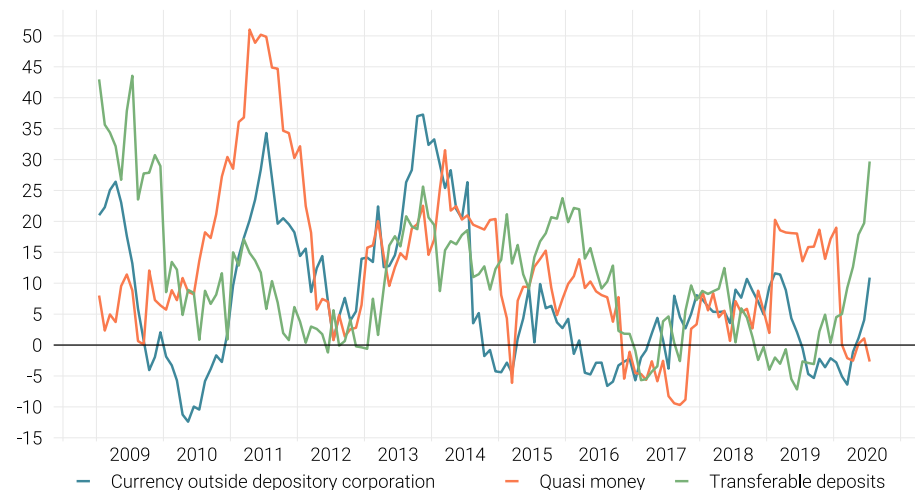
(annual percentage change, contribution percent)



Source: Maldives Monetary Authority

Components of Broad Money, 2009 - 2020

(annual percentage change)

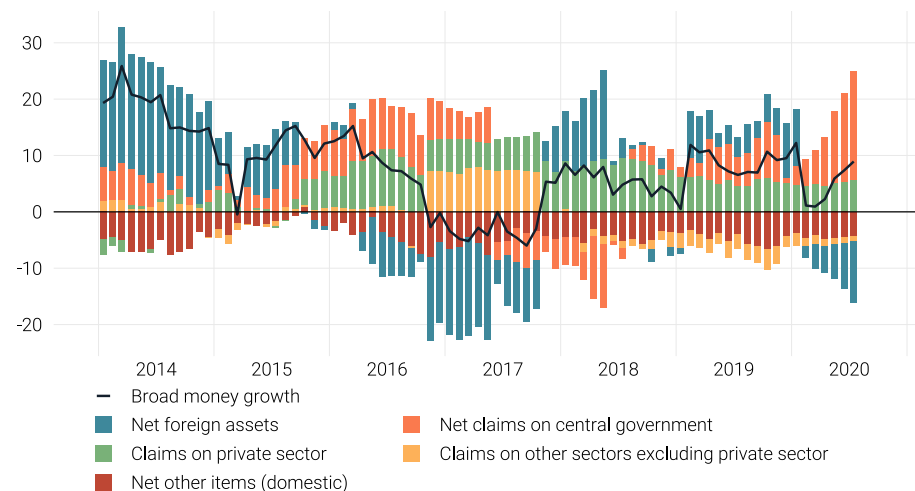


Source: Maldives Monetary Authority

## Credit to Private Sector

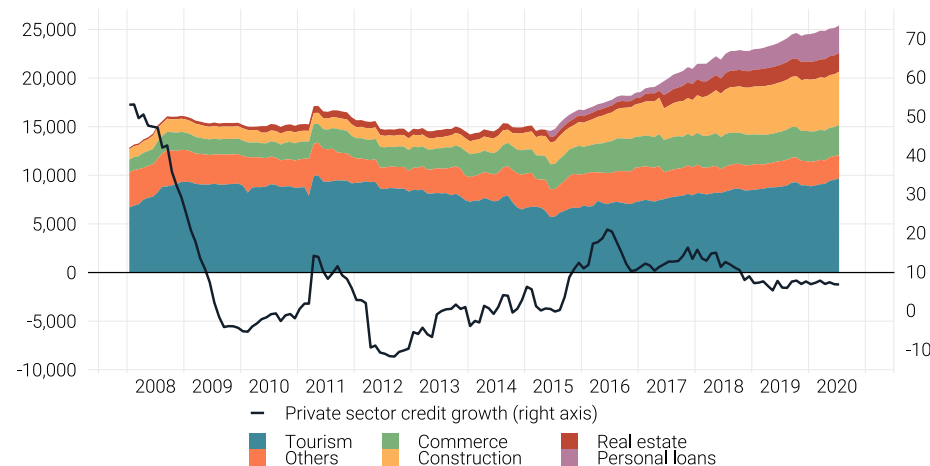
- The annual growth rate of credit to the private sector by commercial banks remained unchanged (same as the previous month) at 7% at the end of July 2020.
  - With regard to the composition of credit to private sector, similar to the previous month, credit growth was observed for all main sectors, namely, tourism, construction, real estate, and commerce; except for the transport and communication 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 9% during July 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)



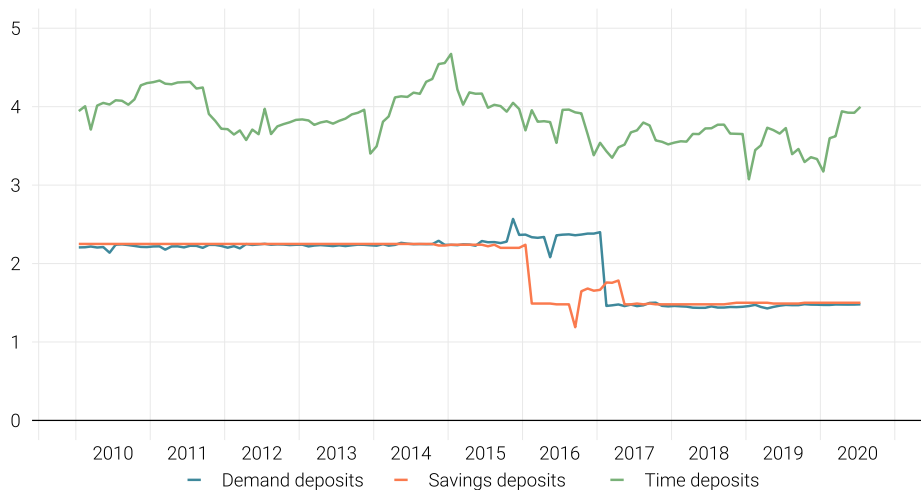
Source: Maldives Monetary Authority

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

## Interest rates

### Interest Rate on National Currency Deposits, 2010 - 2020

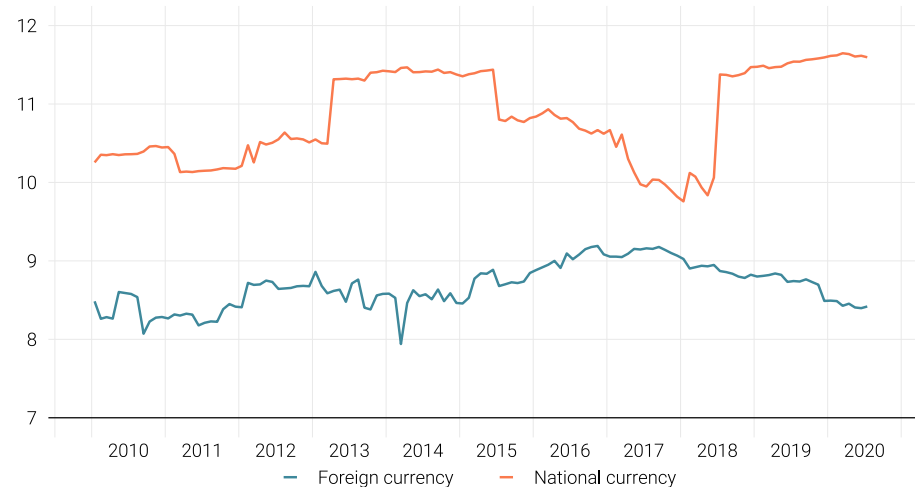
(weighted average)



Source: Maldives Monetary Authority

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

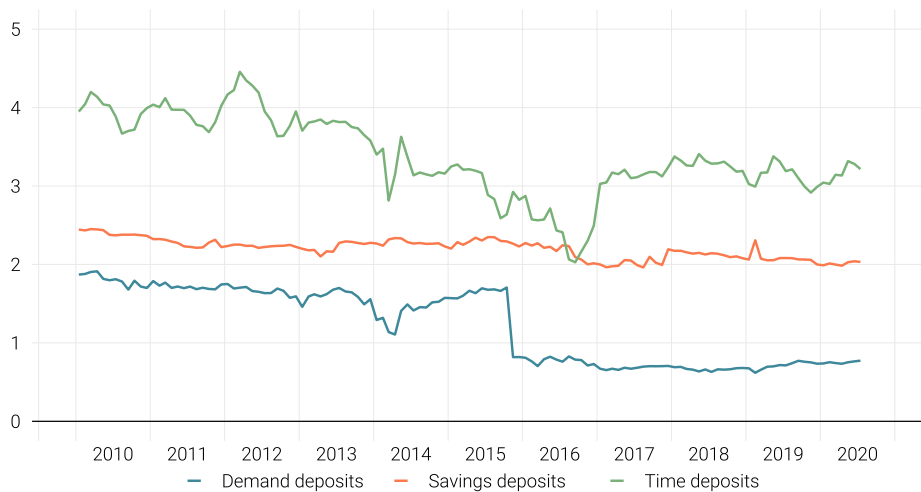
(weighted average)



Source: Maldives Monetary Authority

### Interest Rate on Foreign Currency Deposits, 2010 - 2020

(weighted average)

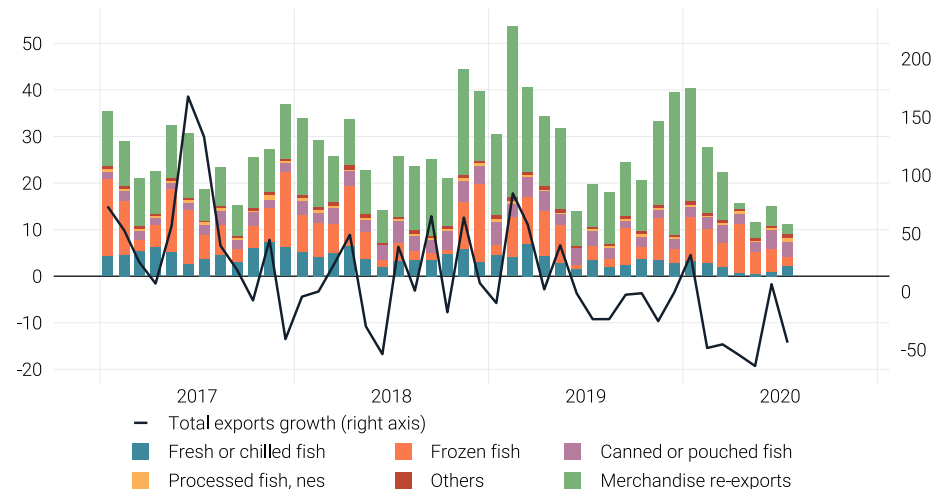


Source: Maldives Monetary Authority

# External Trade

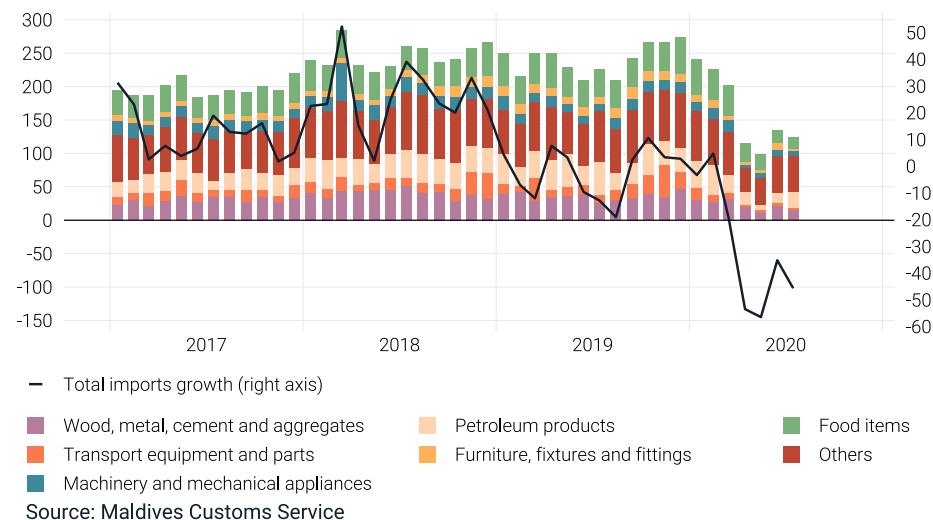
- Total exports (f.o.b) observed an annual decline of 44% in July 2020, while total imports (c.i.f) observed an annual decline of 46% during the period. In monthly terms, both total exports and imports decreased by 26% and 9%, respectively.
  - The annual decline in total exports stemmed largely from a sizeable decline in re-exports, together with a decrease in domestic exports. The decrease in domestic exports was largely due to fall in export earnings from fresh or chilled yellowfin tuna and frozen skipjack tuna, which were partially offset by 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, petroleum products and construction-related items; although the decline was broad-based across all major import categories. In contrast, imports of chemical and chemical products observed an expansion during the period.
- Overall, during the period January to July 2020, total exports recorded a 36% 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)

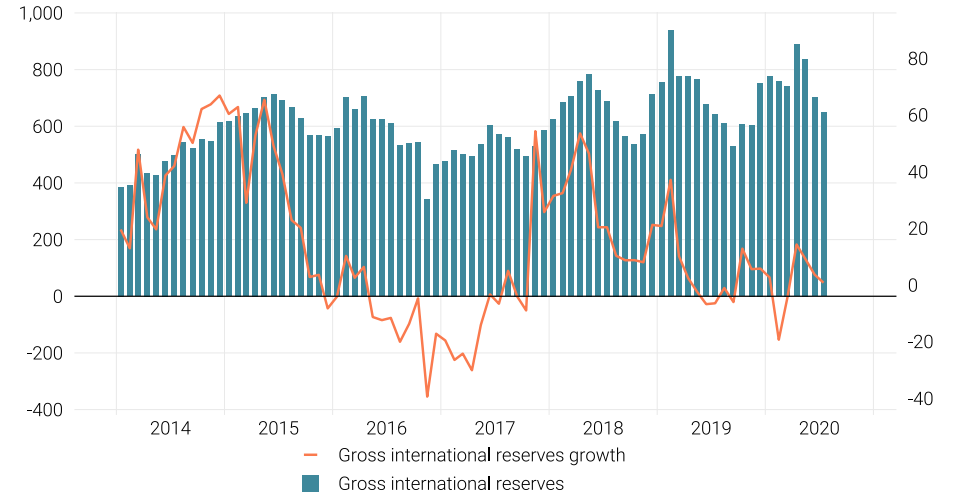


Source: Maldives Customs Service

## Gross International Reserves

- Gross international reserves decreased to US\$649.4 million at the end of July 2020 from US\$702.4 million at the end of June 2020.
  - This was a decline of 8% when compared with June 2020. However, an increase of 1% was recorded when compared with July 2019.

Gross International Reserves, 2014 - 2020  
(millions of US dollars, annual percentage change)

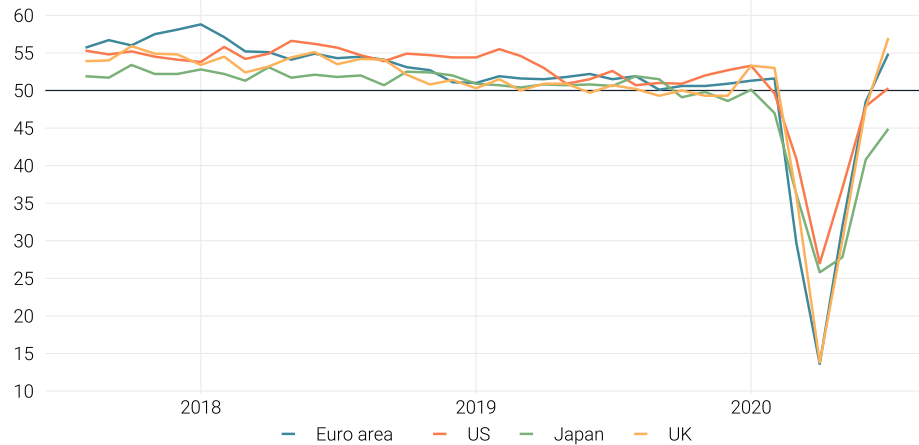


Source: Maldives Monetary Authority

# International Economic Developments

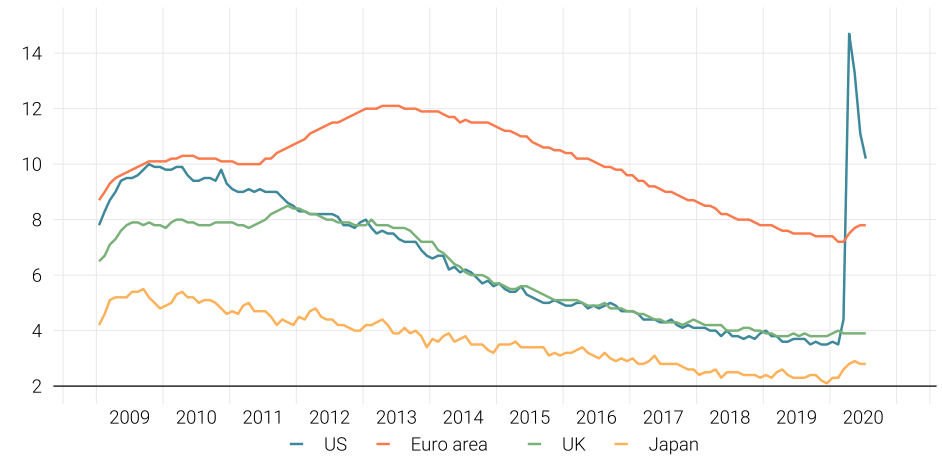
## Global Output

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



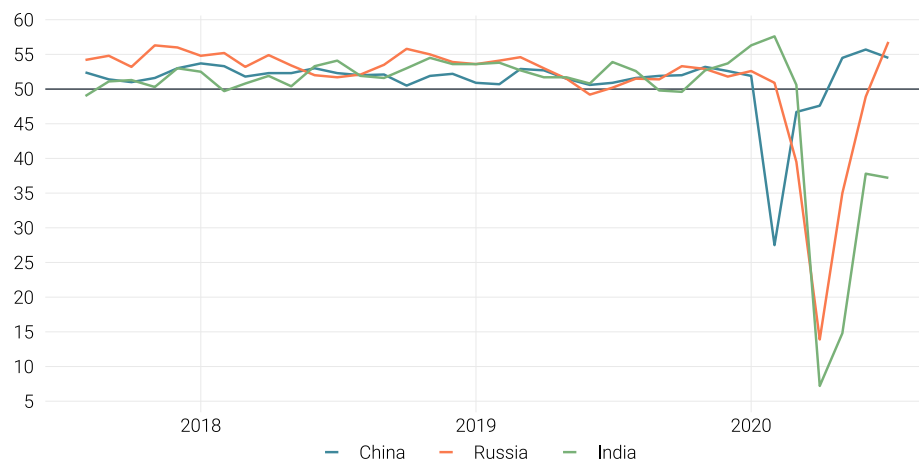
Source: Bloomberg Database

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



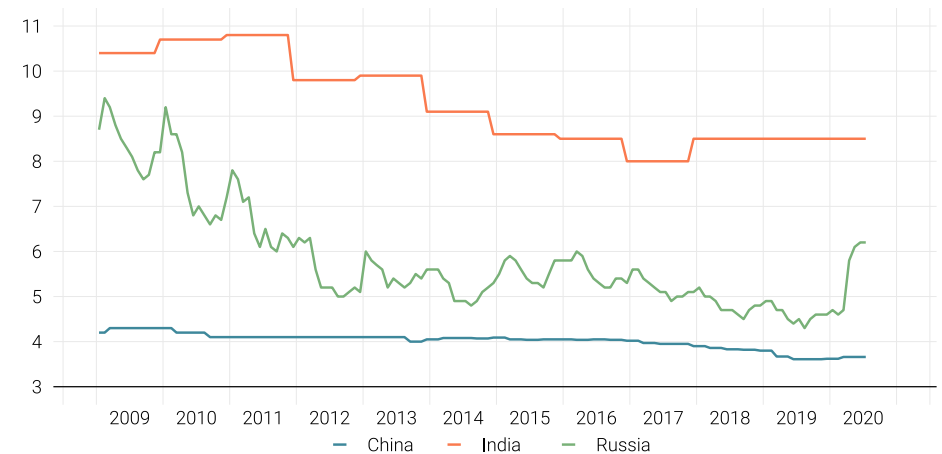
Source: Bloomberg Database

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



Source: Bloomberg Database

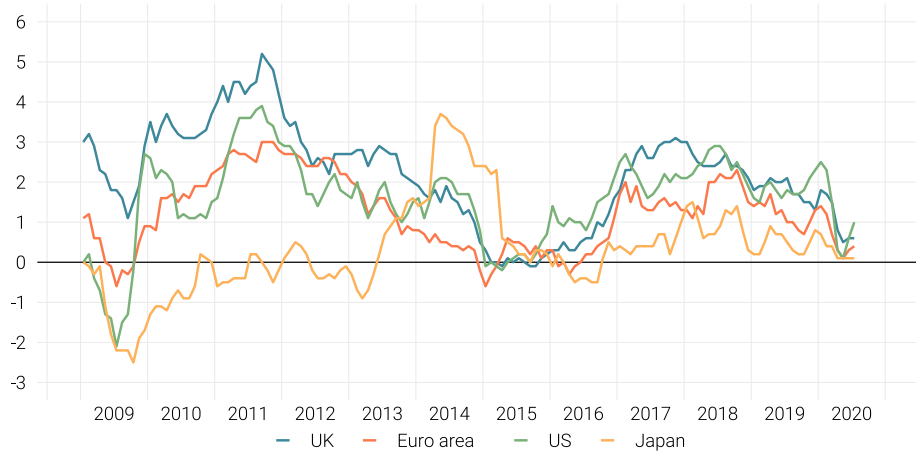
Unemployment in the Emerging Economies, 2009 - 2020  
(percent)



Source: Bloomberg Database

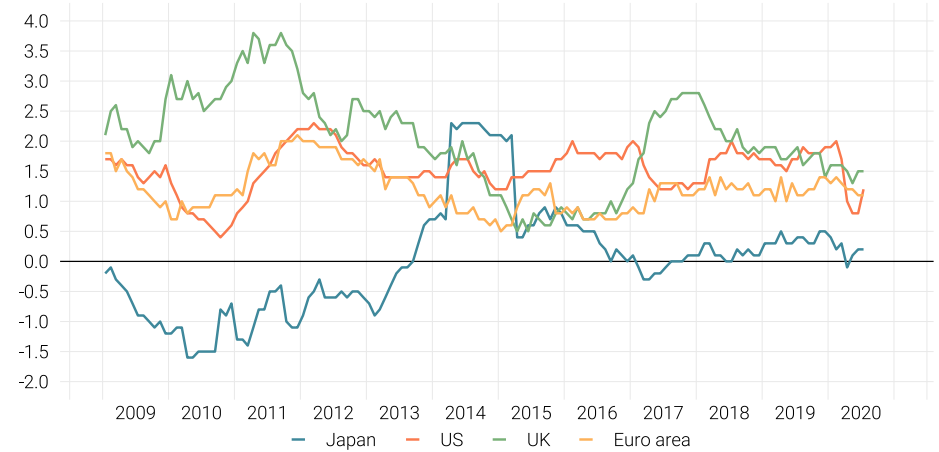
# Global Inflation

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



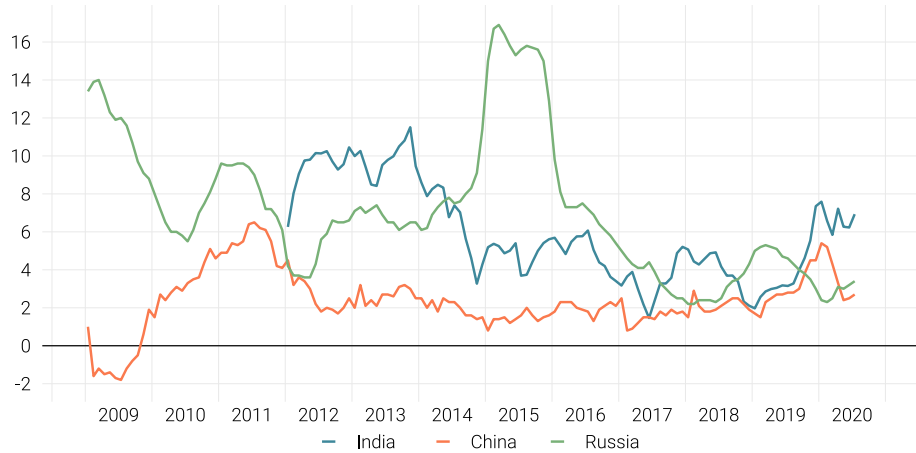
Source: Bloomberg Database

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



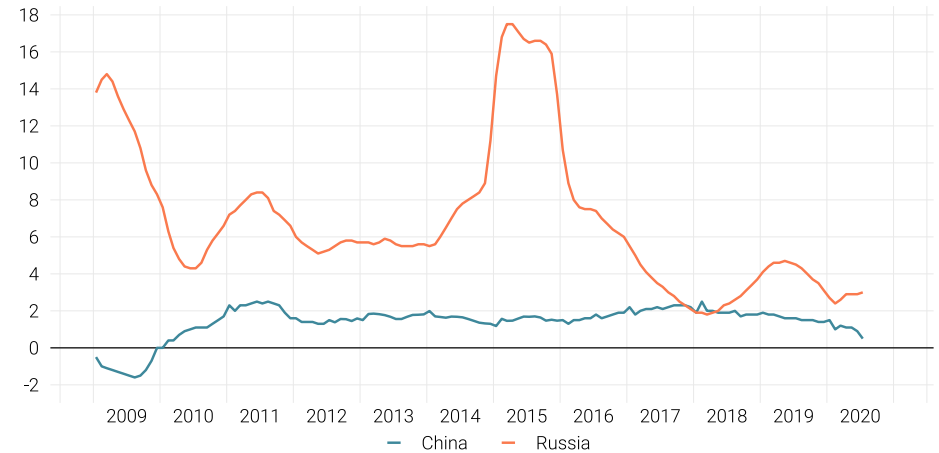
Source: Bloomberg Database

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



Source: Bloomberg Database

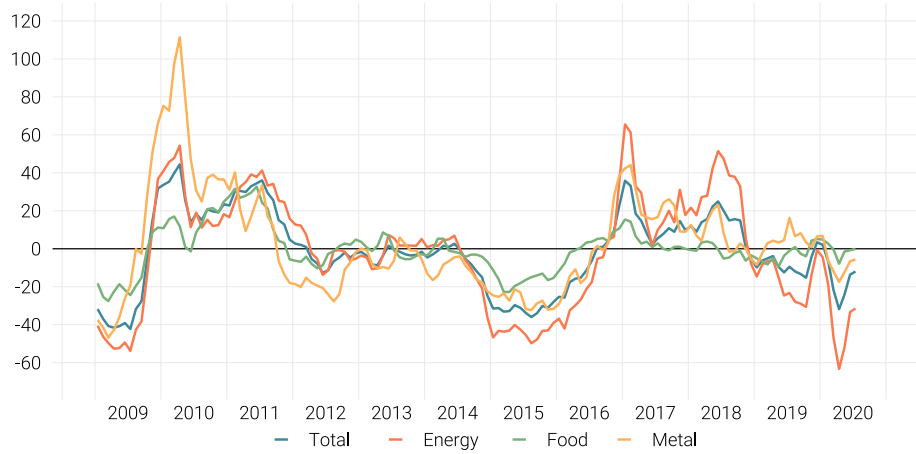
**Core Inflation in the Emerging Economies, 2009 - 2020**  
(percent)



Source: Bloomberg Database

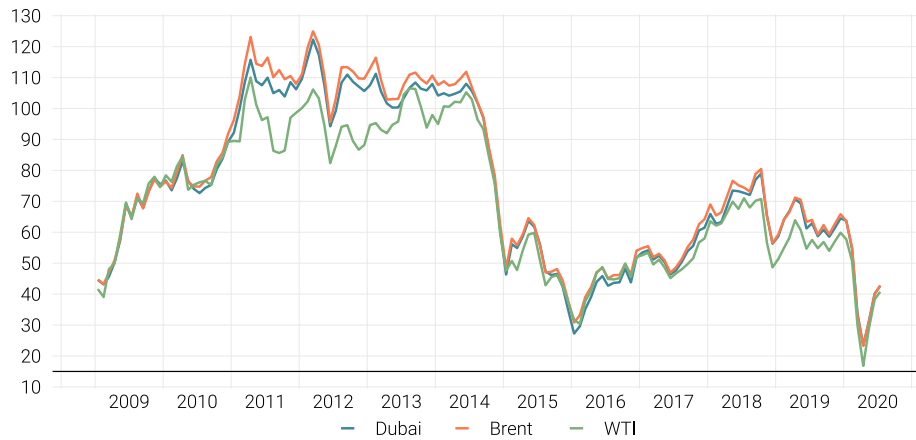
# Commodity Prices

Commodity prices, 2009 - 2020  
(annual percentage change)



Source: IMF

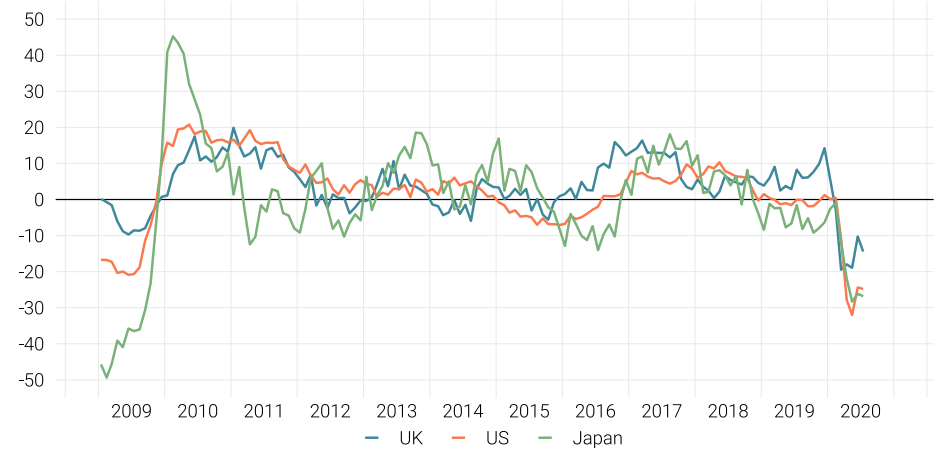
Oil prices, 2009 - 2020  
(dollars per barrel)



Source: Bloomberg Database

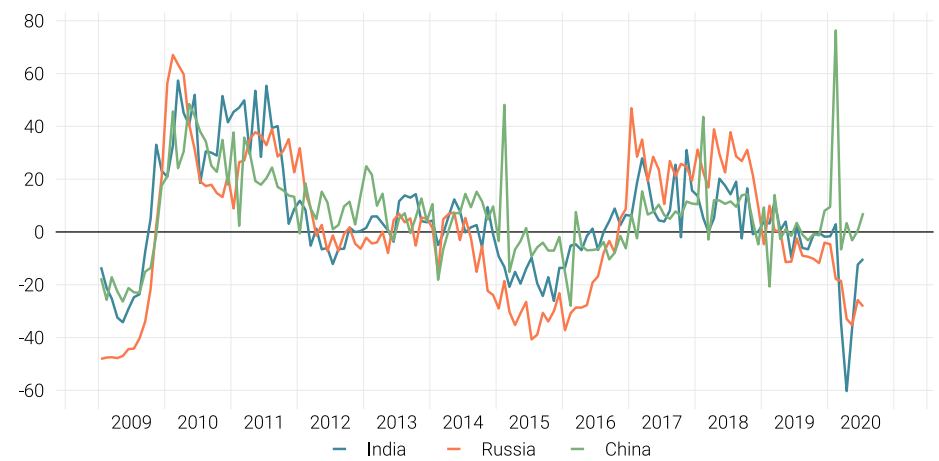
# Global Trade

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



Source: Bloomberg Database

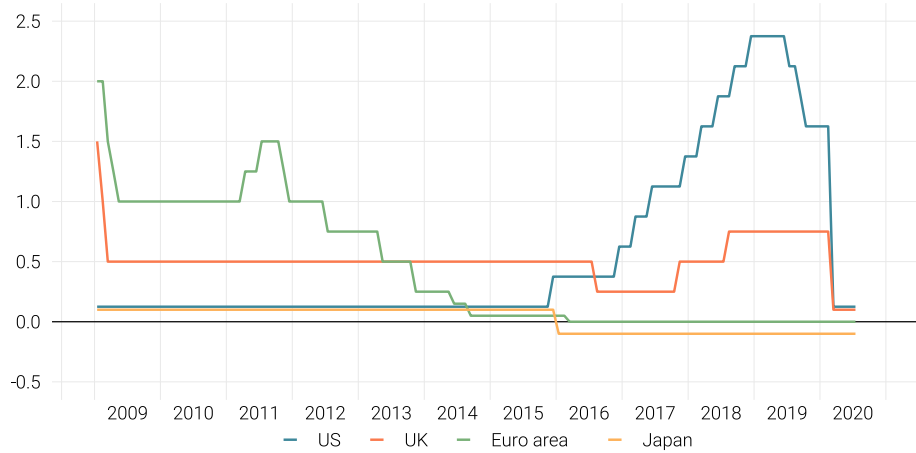
Exports in the Emerging Economies, 2009 - 2020  
(annual percentage change)



Source: Bloomberg Database

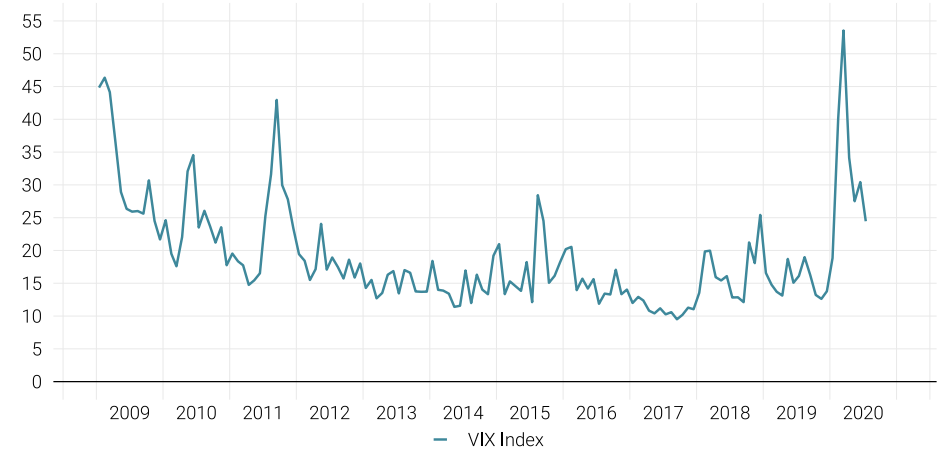
# Global Financial Markets

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



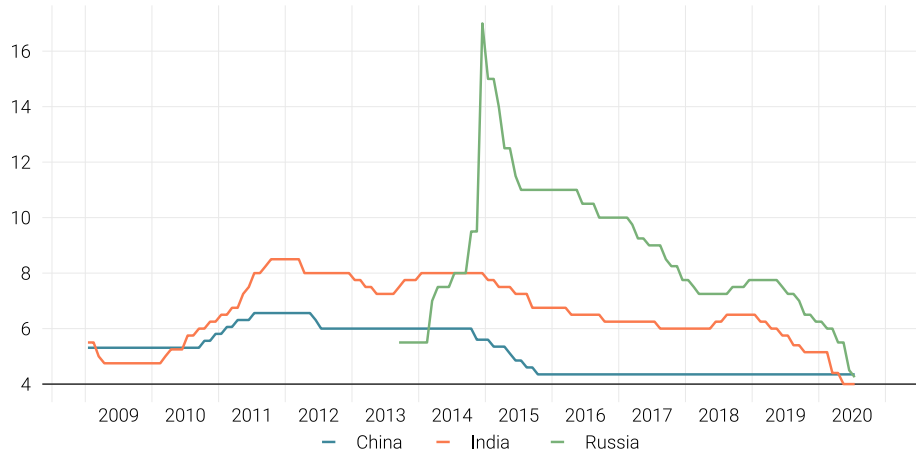
Source: Bloomberg Database

Volatility Index, 2009 - 2020  
(percent)



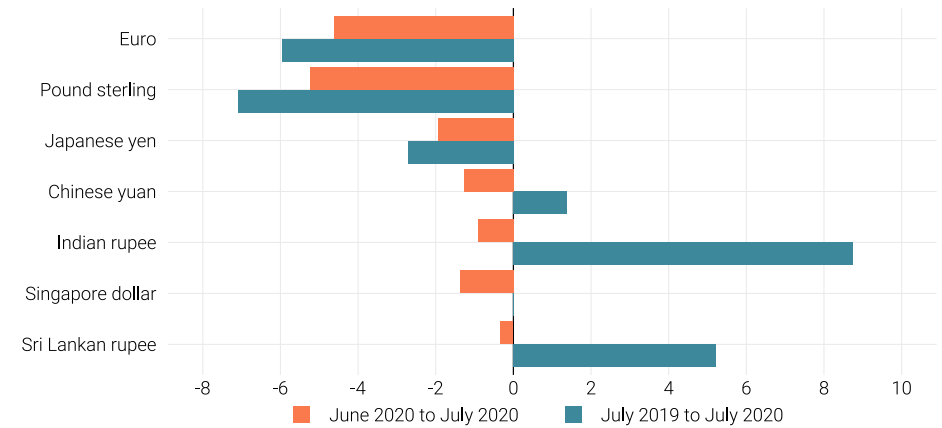
Source: Bloomberg Database

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



Source: Bloomberg Database

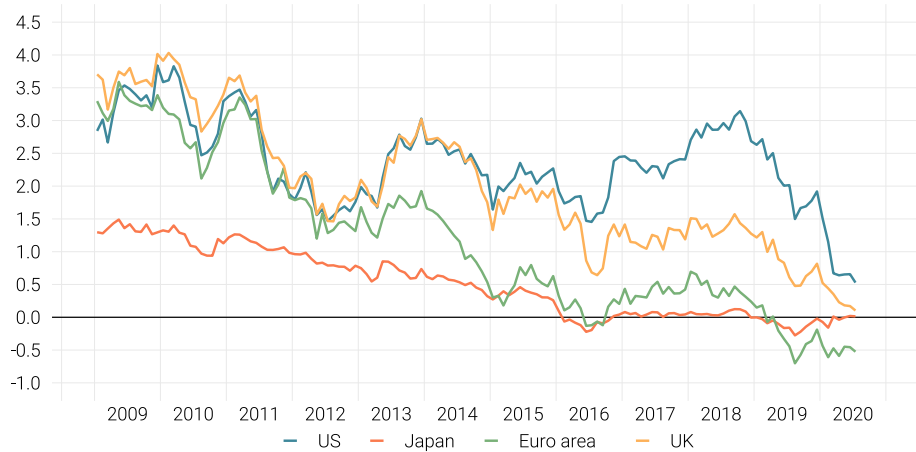
Exchange Rate of US Dollar against Currencies of Major Trading Partners, July 2020  
(percentage change)



Source: Bloomberg Database

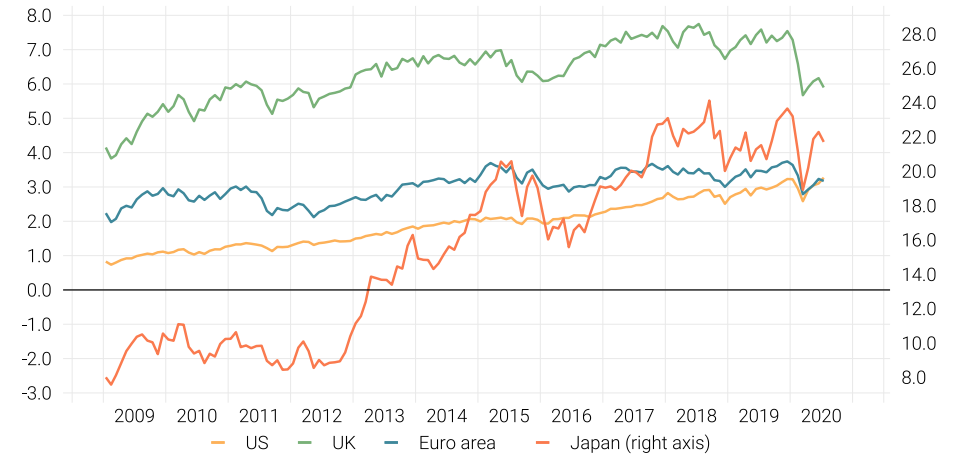
# Global Financial Markets

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



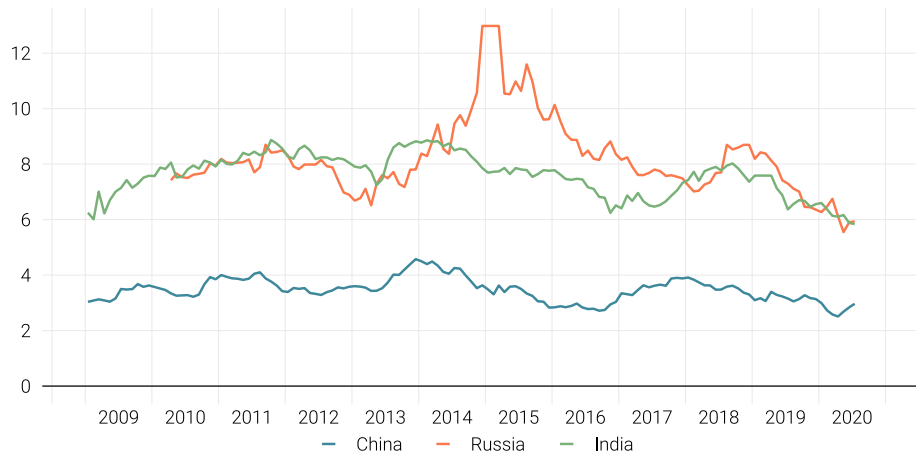
Source: Bloomberg Database

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



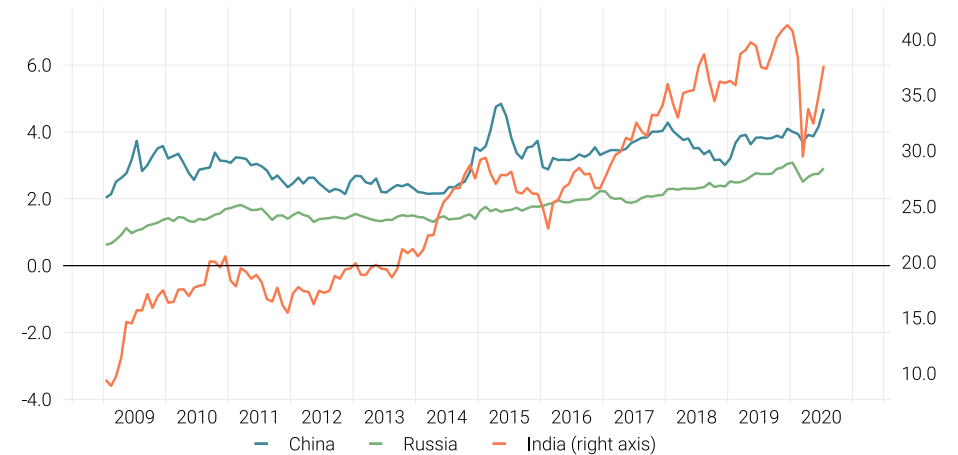
Source: Bloomberg Database

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



Boduthakurufaanu Magu

Male' - 20182

Republic of Maldives

Tel: (960) 3312343

Fax: (960) 3323862

Email: [mail@mma.gov.mv](mailto:mail@mma.gov.mv)

Website: [www.mma.gov.mv](http://www.mma.gov.mv)