

# ECONOMIC UPDATE

NOVEMBER 2020

VOLUME 2 ISSUE 11



## **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 1 December 2020.

# Domestic Economic Developments

## Real Economy

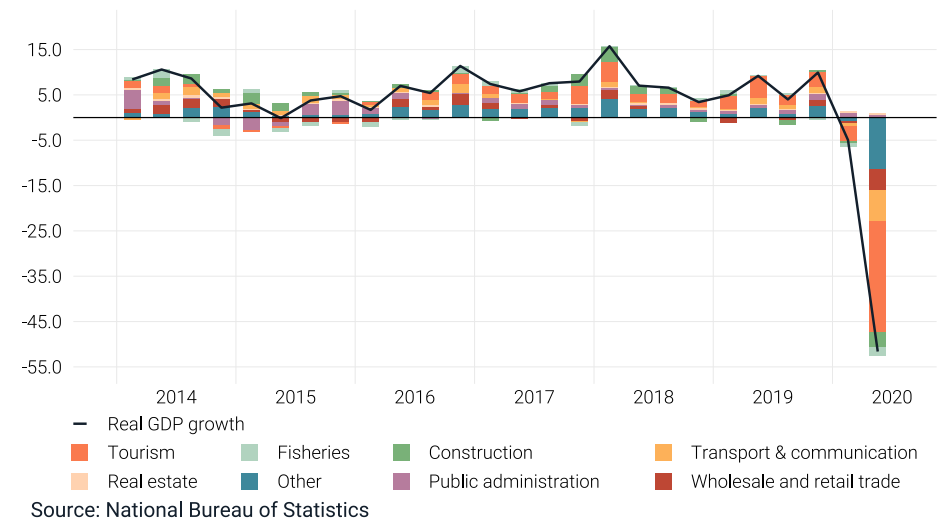
### Gross Domestic Product

- 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 is projected to decline severely by 29.3% in 2020 according to the moderate case growth forecast scenario<sup>1</sup>, underpinned by a sharp decline in tourism sector and related sectors such as wholesale and retail trade; construction and real estate; as well as transport and communication. Going forward, real GDP is projected to grow by 13.5% in 2021.

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



Source: National Bureau of Statistics

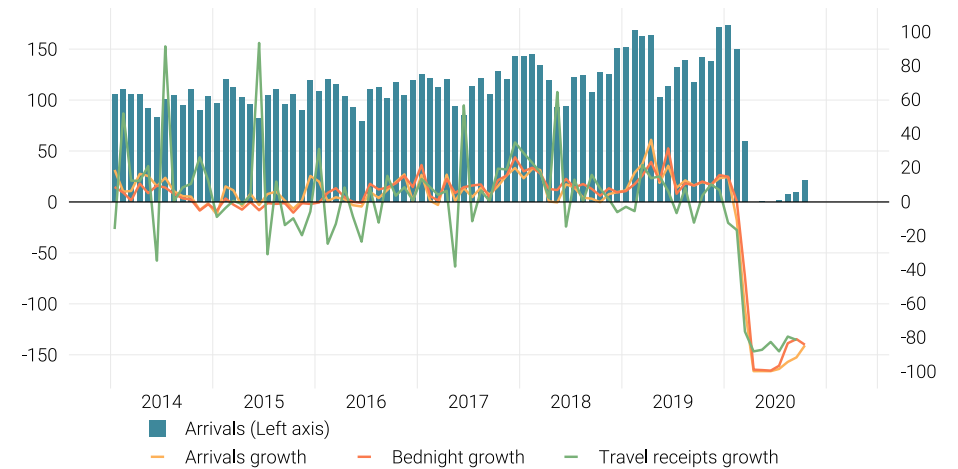
<sup>1</sup>Prepared jointly with Ministry of Finance in October 2020.

## Tourism

- In October 2020, both tourist arrivals and bednights declined annually, by 85% and 84%, respectively.
  - Following the reopening of the Maldives borders 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 October 2020, the most number of tourist arrivals were recorded from the European market.
- When compared with October 2019, the operational bed capacity of the tourism industry decreased by 34%, while the occupancy rate fell to 14% in October 2020, from 60% in October 2019.
- Overall, for the period January to October 2020, total tourist arrivals decreased by 70% in annual terms, while total bednights of the industry recorded a 65% decline. During this period, average stay stood at 20.4 days, while it stood at 6.3 days in the corresponding period of 2019.

### Tourism, 2014 - 2020

(thousands, annual percentage change)

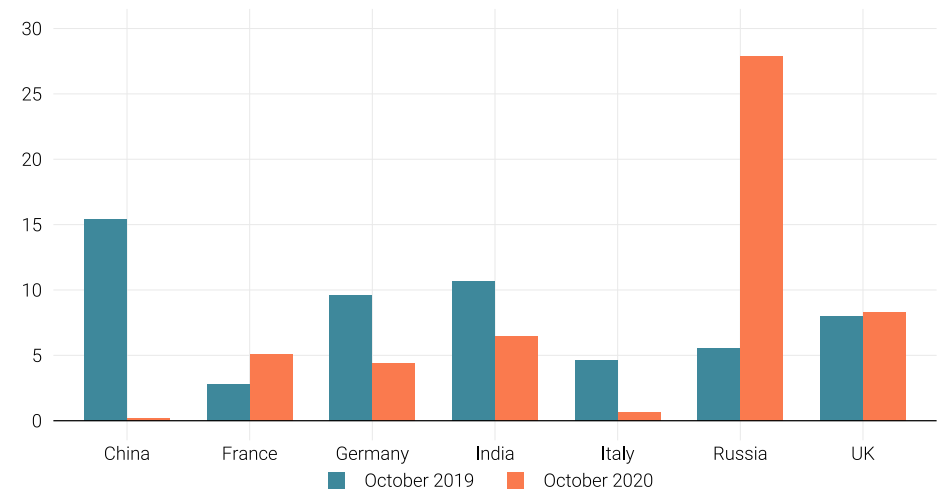


Source: Ministry of Tourism

Note: Tourism receipts available up to September 2020.

### Shares of Key Inbound Markets

(percent)



Source: Ministry of Tourism

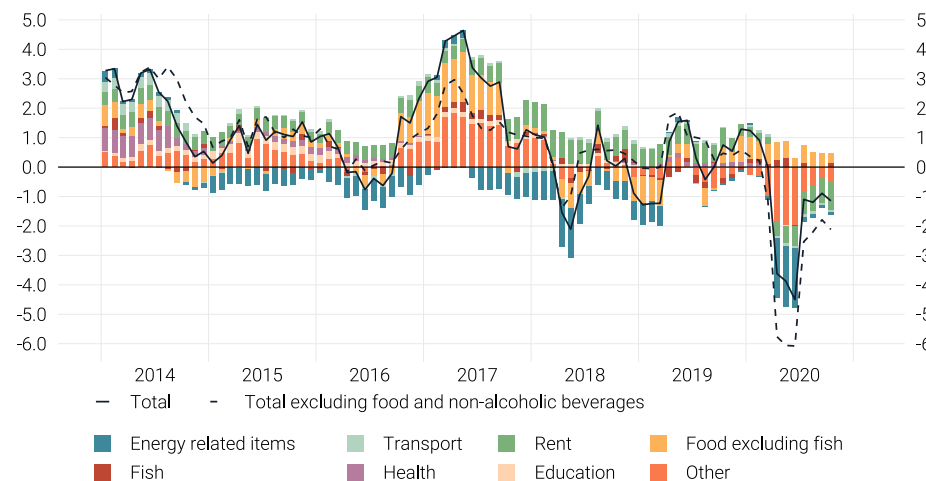
# Inflation

- The rate of inflation, as measured by the annual percentage change in the national CPI, continued to remain negative in October 2020 as well. In this regard, the rate of inflation decreased further to -1.1% in October 2020 from -0.9% in September 2020, mainly reflecting the continuous fall in prices 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 addition to this, the fall in prices of certain vegetables also contributed to the fall in inflation, despite an overall increase in food prices largely stemming from the increase in price of fruits. On the upside, the largest increase was observed on the price of tobacco, following the ratification of the 17th amendment to Import Export Act in July 2020 imposing additional duties on specific tobacco products.

- From the major categories of the CPI, the largest contributors to the annual rate of inflation during October 2020 were information and communication (-1.0 percentage point); housing rent (-1.0 percentage point); transport (-0.1 percentage point), vegetables (-0.1 percentage point), tobacco (0.5 percentage points) and fruits (0.2 percentage points).

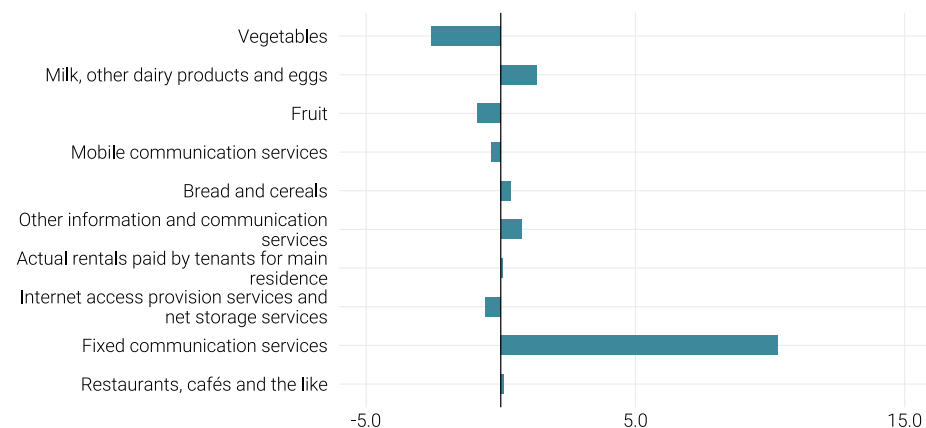
- The monthly percentage change in the national CPI decelerated to 0.02% in October 2020, after recording 0.1% in September 2020.
  - The largest contribution to the monthly rate of inflation came from dairy products (0.05 percentage points), housing rent (0.01 percentage point), restaurant and café (0.01 percentage point), vegetables (-0.06 percentage points), fruits (-0.02 percentage points); and information and communication services (-0.01 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), October 2020  
(monthly percentage change)



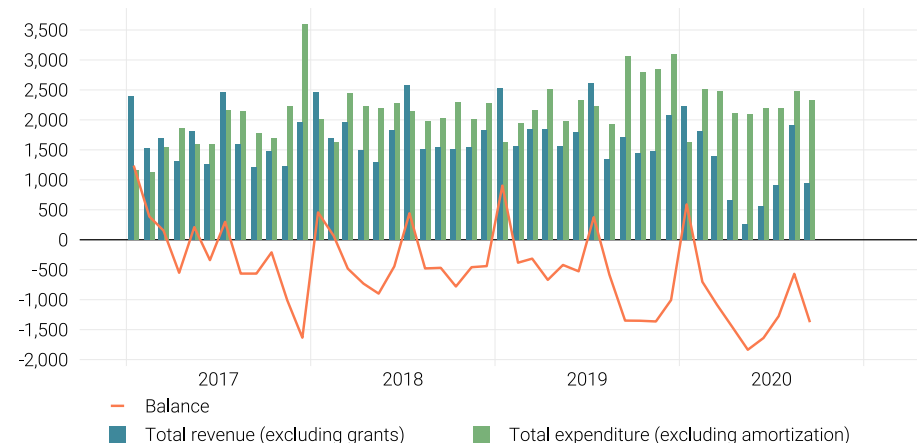
Source: National Bureau of Statistics  
Note: Ordered by the size of the contribution.

# Public Finance

- Government revenue (excluding grants) observed a decrease of MVR828.5 million (or 48%) in September 2020 when compared with September 2019.
  - This was mainly due to a decrease in non-tax revenue followed by a fall in tax revenue. As such, non-tax revenue decreased by MVR552.7 million, while tax revenue decreased by MVR275.9 million.
- Total expenditure (excluding amortisation) decreased by MVR838.7 million (or 27%) in September 2020 when compared with September 2019.
  - The fall in expenditure stemmed from a significant decrease in recurrent expenditure, which posted a decline of MVR675.8 million, followed by a decline in capital expenditure of MVR162.8 million.
- Overall, during the period January to September 2020, total revenue recorded a 39% decline, while total expenditure decreased by 1% 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 GDP<sup>2</sup> increased to 98.9% 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)

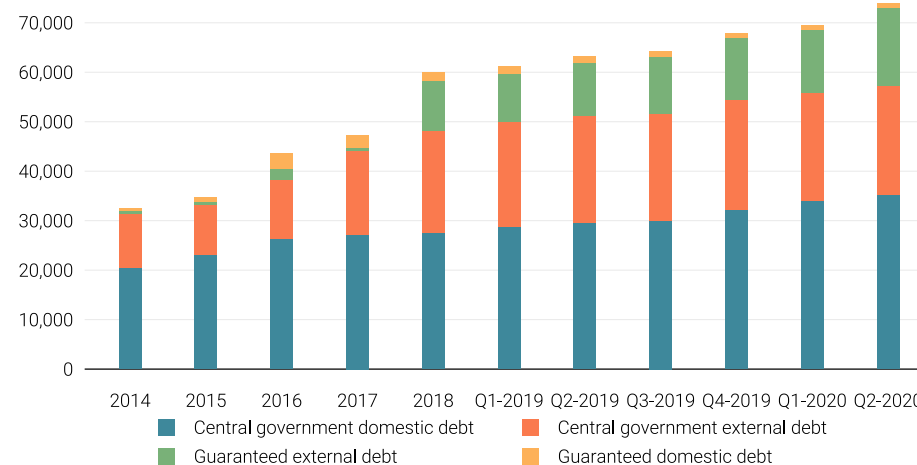


Source: Ministry of Finance

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

<sup>2</sup>Nominal GDP is based on revised GDP forecasts (moderate case scenario) of October 2020

# Monetary Developments

## Reserve Money

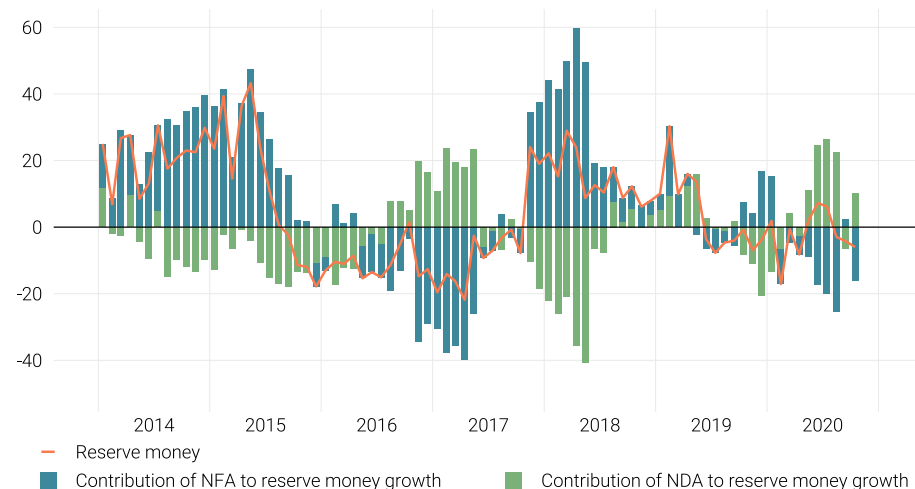
- Annual reserve money (M0) growth remained negative and fell further to -6% in October 2020, after recording -4% in September 2020.
  - Contrary to last month, the decline in reserve money stemmed from a significant fall in net foreign assets, while the net domestic assets of the MMA showed a significant increase.
  - Net foreign assets declined mainly owing to a surge in foreign liabilities, reflecting a base effect following the increase in such liabilities in April 2020, despite an increase in foreign asset accumulation. Meanwhile, net domestic assets increased, reflecting a growth in net claims on government which offset the increase in ODF placements by commercial banks.

## Broad Money

- Annual broad money (M2) growth slightly decelerated to 9% at the end of October 2020, after registering 10% during the previous month.
  - On the components side, the annual growth in broad money was primarily driven by 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, together with a marginal decrease in time deposits denominated in foreign currency. This was despite increases in time and savings deposits denominated in local currency and savings deposits denominated in foreign currency.
  - As for the sources, annual 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 the central government by commercial banks and the MMA, 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 commercial banks and the MMA, together with a fall in foreign assets of the banking system.

Sources of Reserve Money, 2014 - 2020

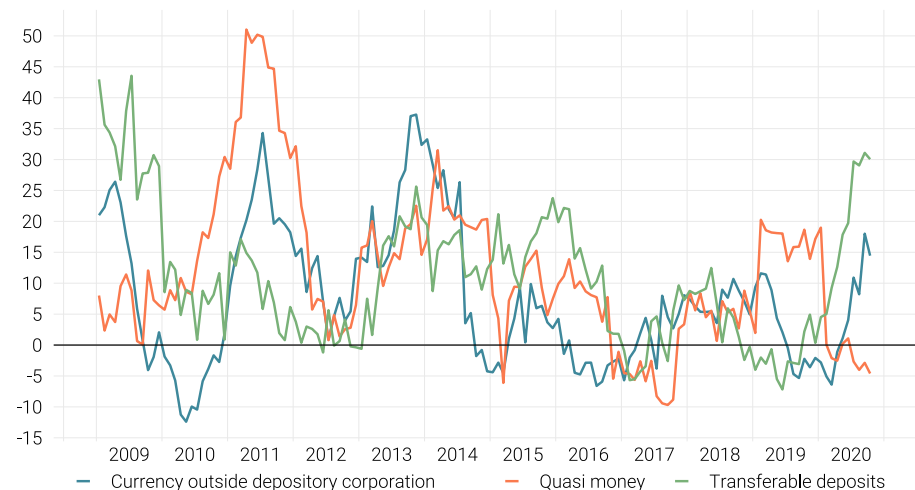
(annual percentage change, contribution percent)



Source: Maldives Monetary Authority

Components of Broad Money, 2009 - 2020

(annual percentage change)



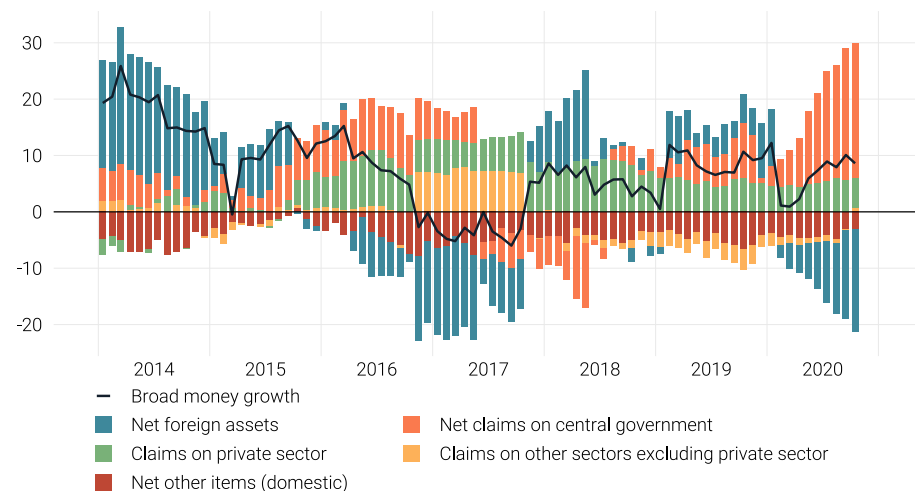
Source: Maldives Monetary Authority

## Credit to Private Sector

- The annual growth of credit to the private sector by commercial banks slightly decelerated to 7% at the end of October 2020, after recording 8% at the end September 2020. Meanwhile, the monthly growth in credit to the private sector remained largely unchanged after recording 1% in September 2020.
  - With regard to the composition of credit to the private sector, similar to the previous month, annual credit growth was observed in all the main sectors, namely tourism, construction and real estate, except for transport and communication, and commerce sector. Likewise, credit extended as personal loans observed a significant increase over the period.
  - Credit extended to tourism sector observed the largest increase over the period, registering an annual growth of 12% during October 2020, mainly driven by the significant growth in credit in the form of working capital, together with credit lent for new resort development.

### Contribution to Broad Money, 2014 - 2020

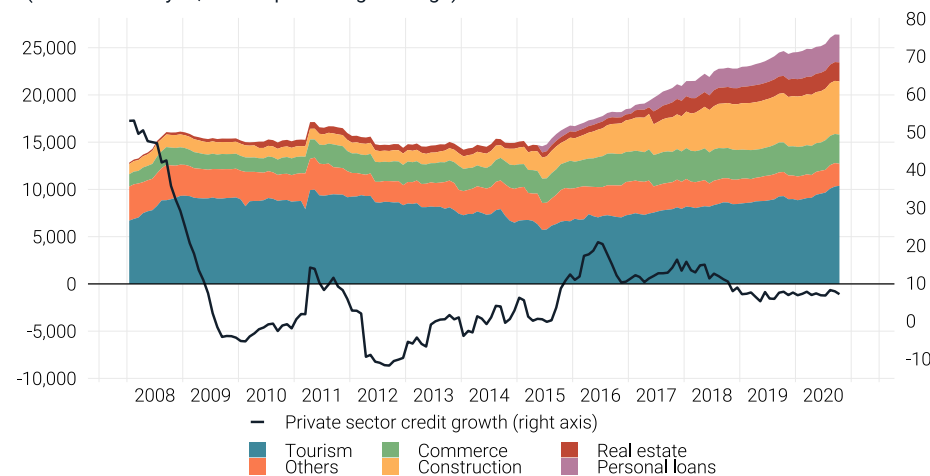
(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

### Private Sector Credit, 2008 - 2020

(millions of rufiyaa, annual percentage change)



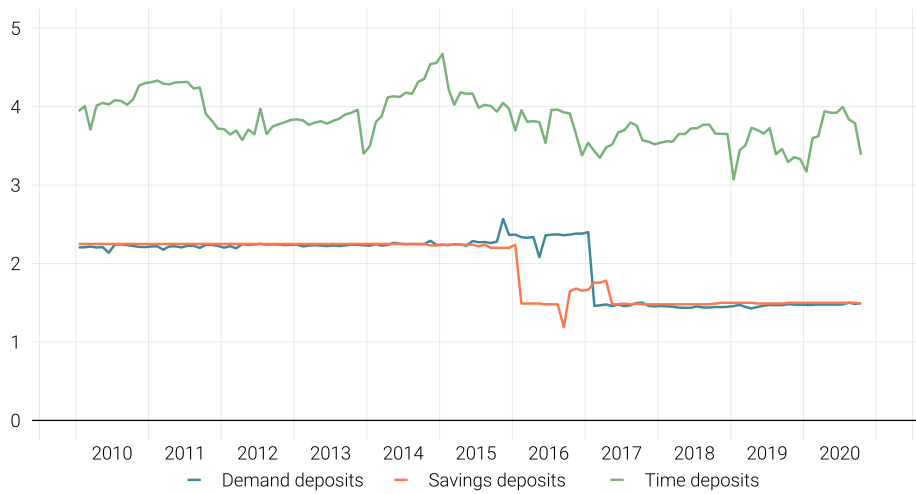
Source: Maldives Monetary Authority

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

## Interest rates

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

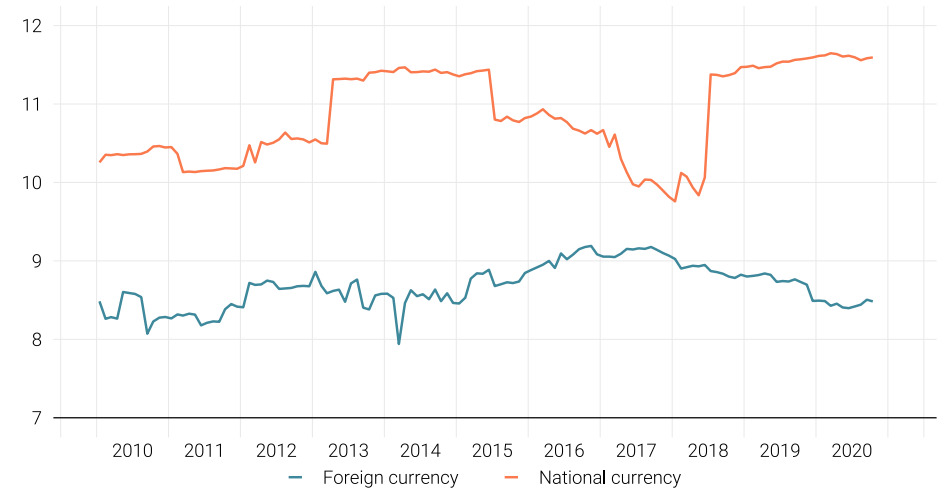
(weighted average)



Source: Maldives Monetary Authority

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

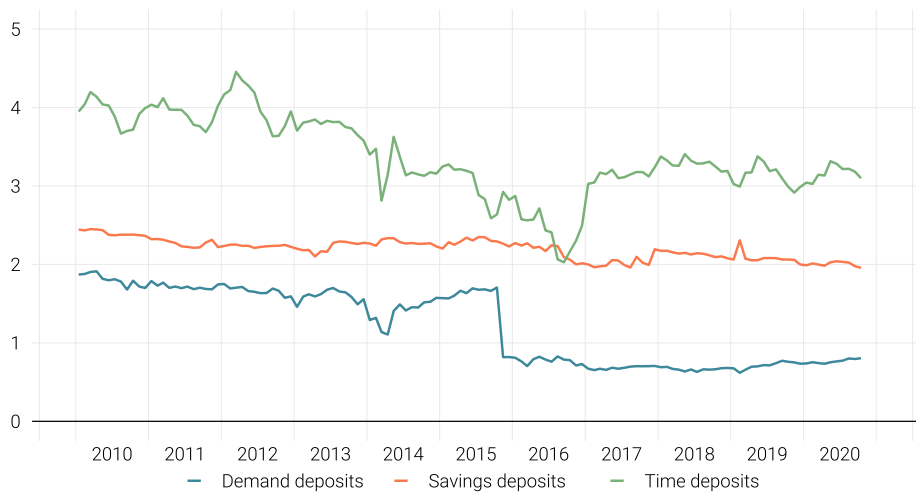
(weighted average)



Source: Maldives Monetary Authority

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

(weighted average)

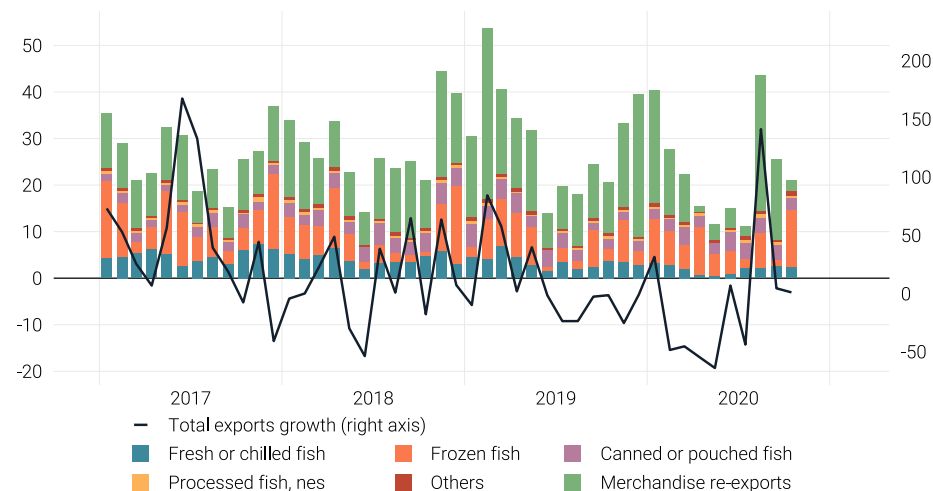


Source: Maldives Monetary Authority

# External Trade

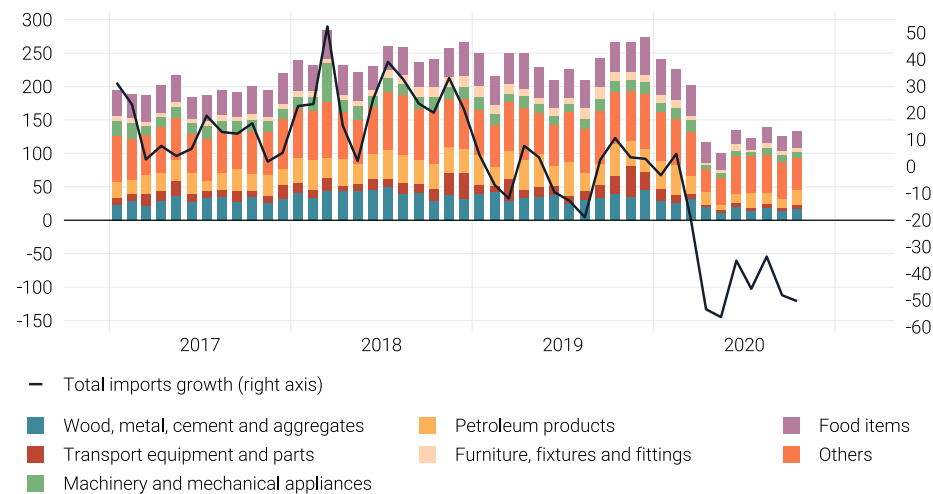
- Total exports (f.o.b) registered a growth of 1% in October 2020 when compared with October 2019, while total imports (c.i.f) observed an annual decline of 50% during the period. In monthly terms, total exports declined by 18%, while total imports increased by 6%.
  - The annual growth in total exports stemmed from a significant increase in domestic exports, which offset a sizeable decrease in re-exports. The increase in domestic exports was primarily due to the substantial increase in export earnings from frozen skipjack tuna together with an increase in canned or pouched tuna, despite a substantial fall in fresh or chilled yellowfin tuna.
  - As for the annual decline in total imports, the most significant decreases were observed in the imports of petroleum products; construction related items; transport equipment and parts; and food items, although the decline was broad-based across all major import categories. In contrast, import of medical and surgical supplies observed a growth during the review month.
- Overall, during the period January to October 2020, total exports recorded a 19% decline, while total imports decreased by 34% 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)

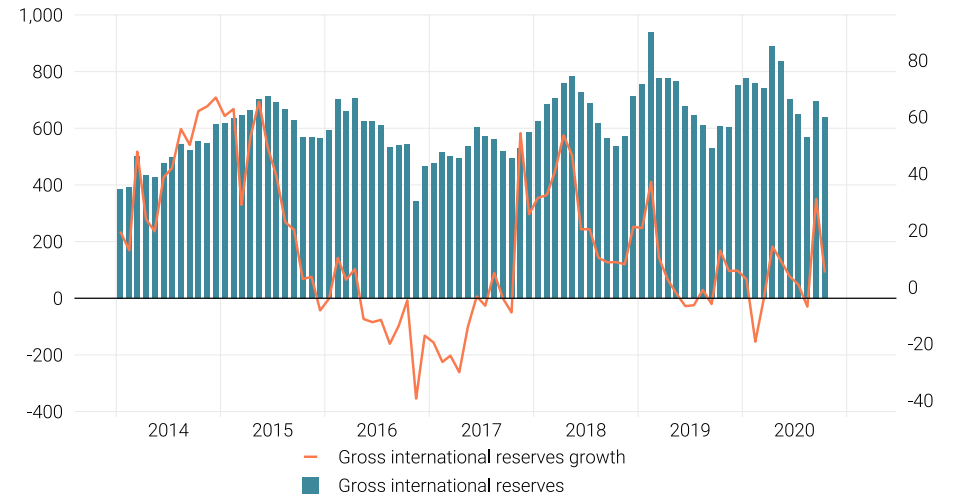


Source: Maldives Customs Service

## Gross International Reserves

- Gross international reserves<sup>3</sup> (official reserve assets) decreased to US\$638.1 million at the end of October from US\$696.1 million at the end of September 2020 and USD\$607.2 million at the end of October 2019..
  - This was a decline of 8% when compared with September 2020. However, a 5% growth was registered when compared with October 2019.

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



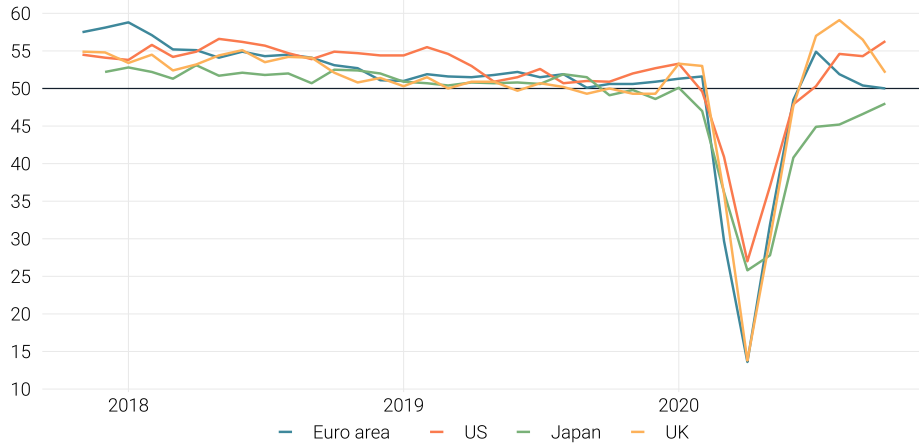
Source: Maldives Monetary Authority

<sup>3</sup>Comprises foreign currency deposits of the MMA and the government, commercial banks' US dollar reserve accounts and Maldives' reserve position at the IMF.

# International Economic Developments

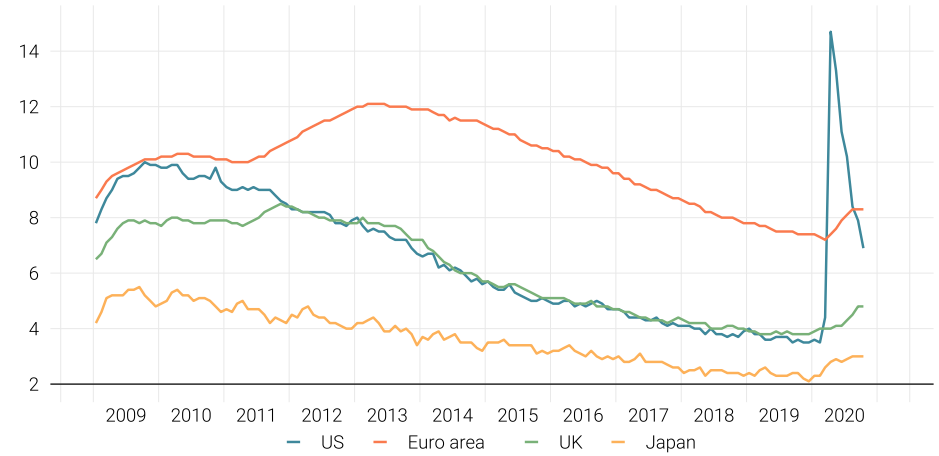
## Global Output

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



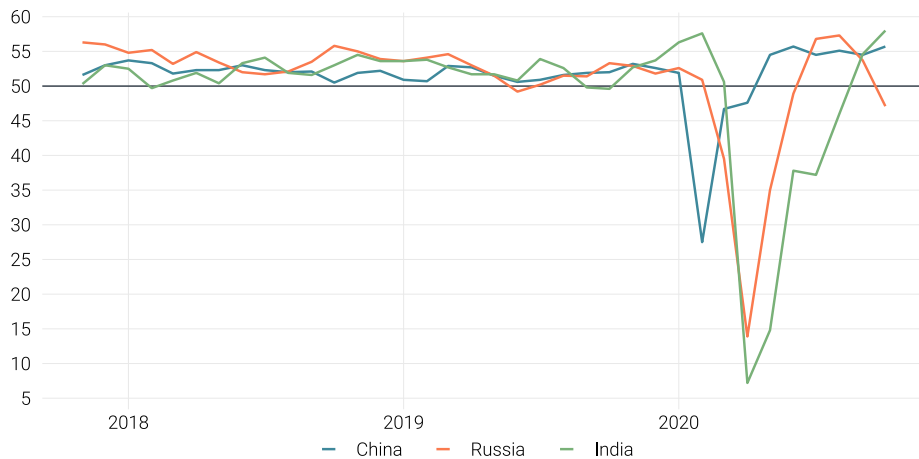
Source: Bloomberg Database

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



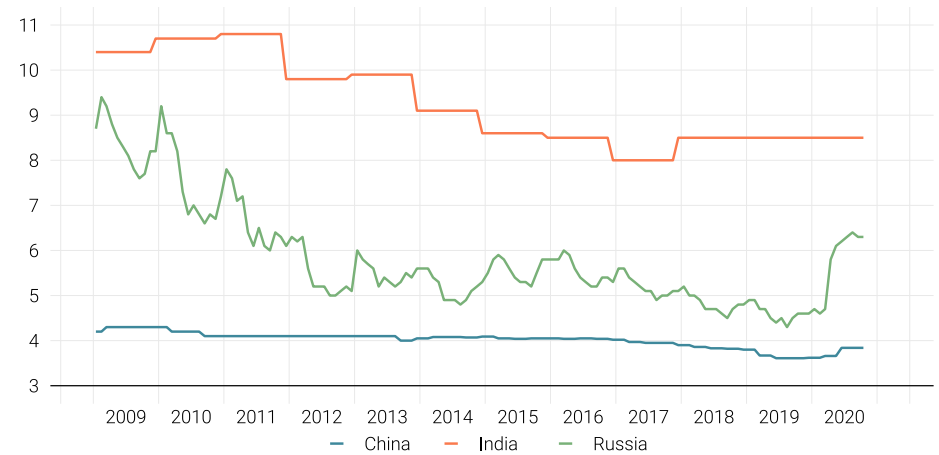
Source: Bloomberg Database

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



Source: Bloomberg Database

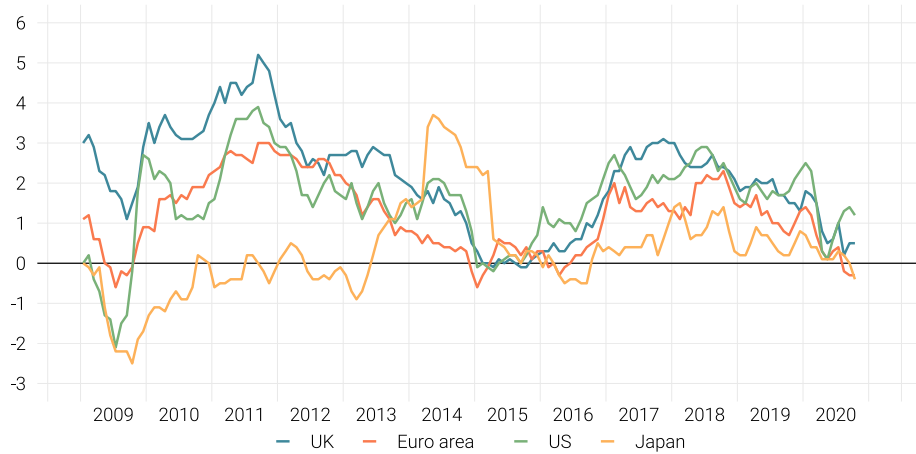
Unemployment in the Emerging Economies, 2009 - 2020  
(percent)



Source: Bloomberg Database

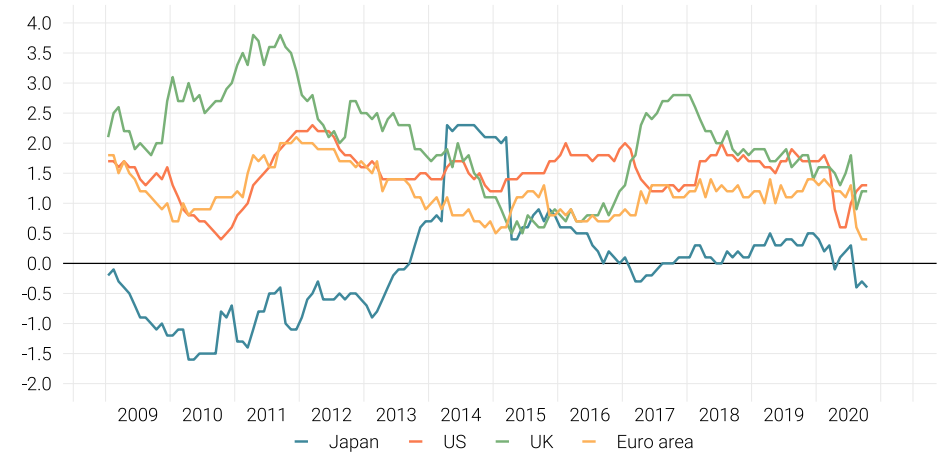
# Global Inflation

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



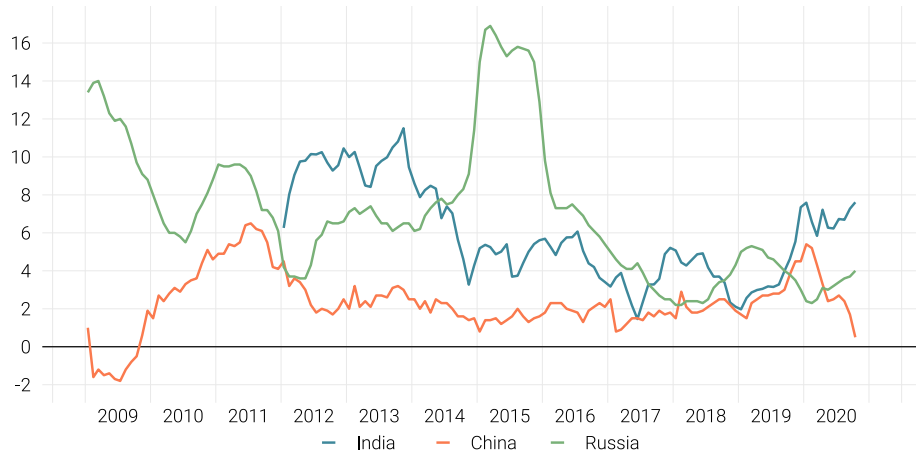
Source: Bloomberg Database

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



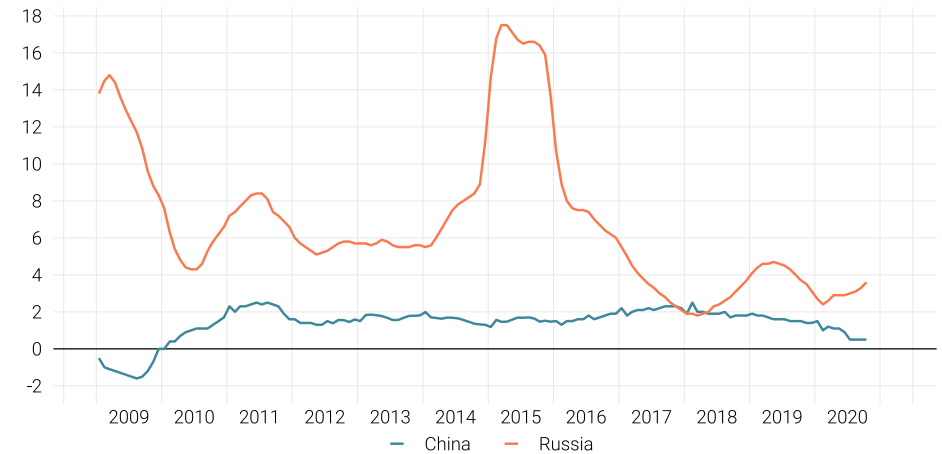
Source: Bloomberg Database

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



Source: Bloomberg Database

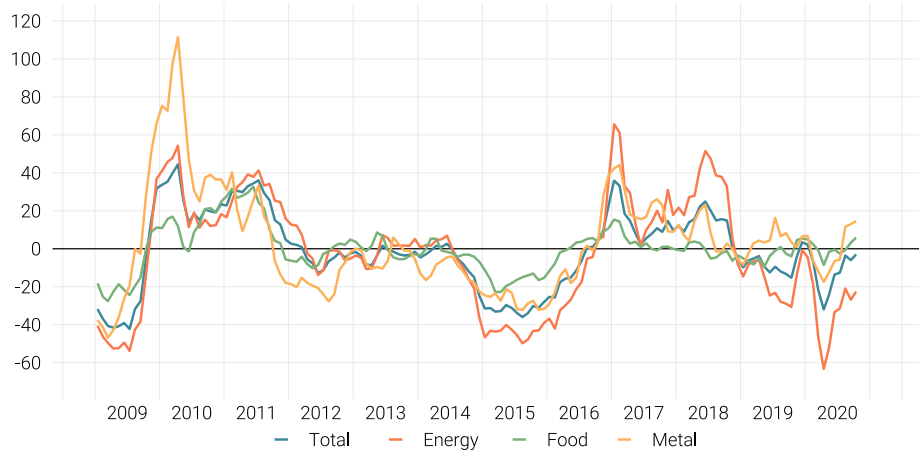
**Core Inflation in the Emerging Economies, 2009 - 2020**  
(percent)



Source: Bloomberg Database

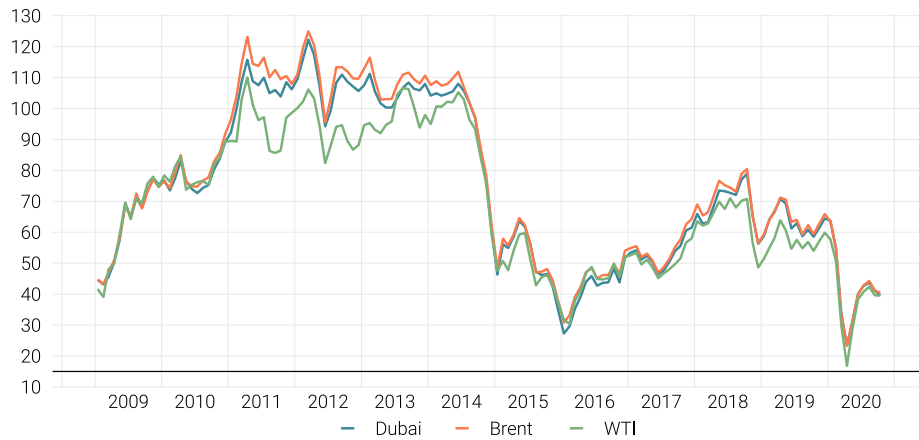
# Commodity Prices

Commodity prices, 2009 - 2020  
(annual percentage change)



Source: IMF

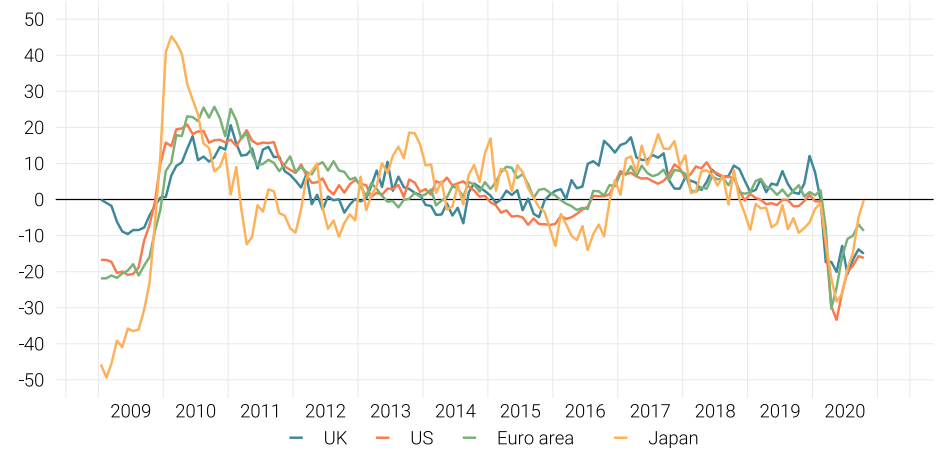
Oil prices, 2009 - 2020  
(dollars per barrel)



Source: Bloomberg Database

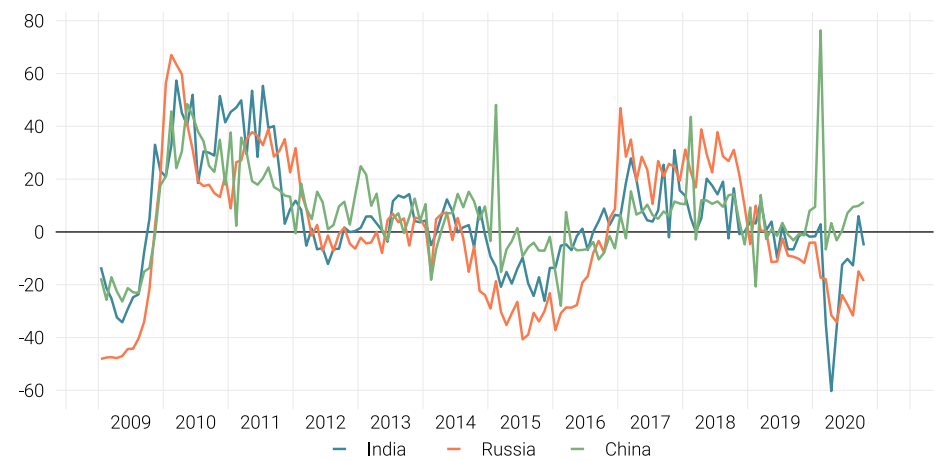
# Global Trade

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



Source: Bloomberg Database

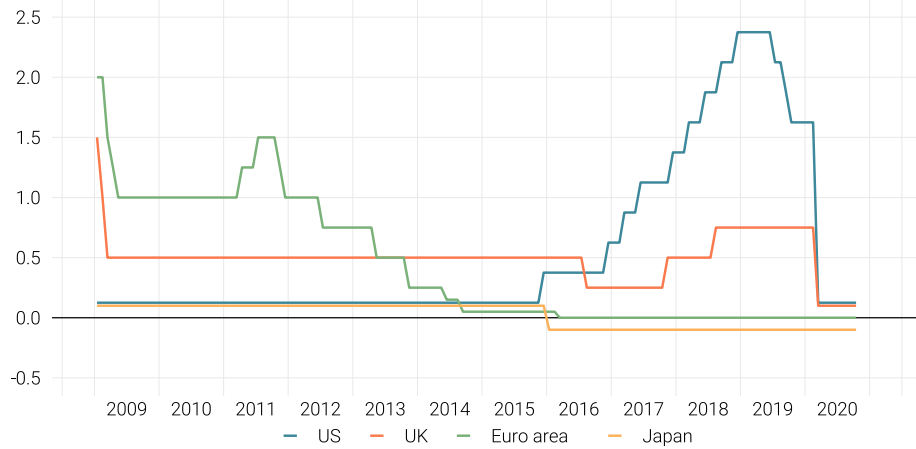
Exports in the Emerging Economies, 2009 - 2020  
(annual percentage change)



Source: Bloomberg Database

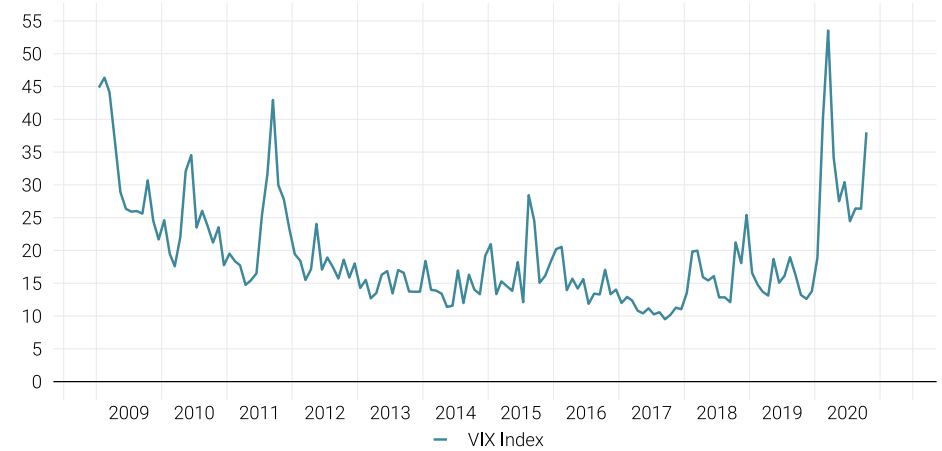
# Global Financial Markets

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



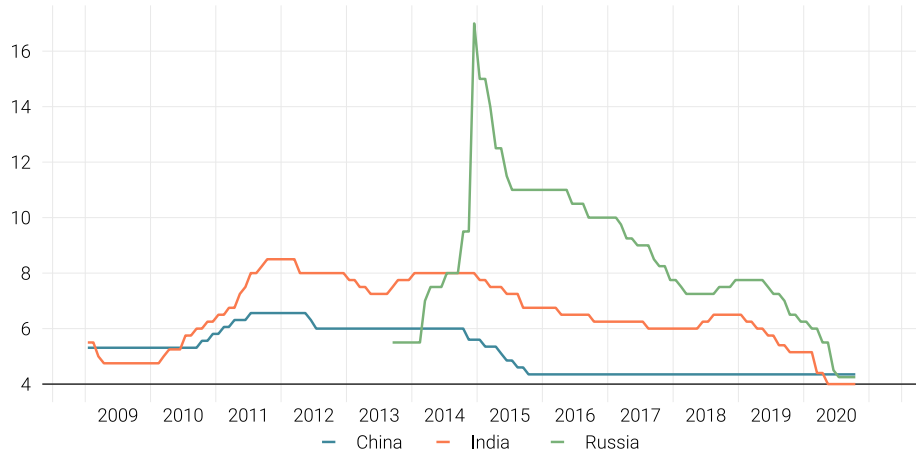
Source: Bloomberg Database

Volatility Index, 2009 - 2020  
(percent)



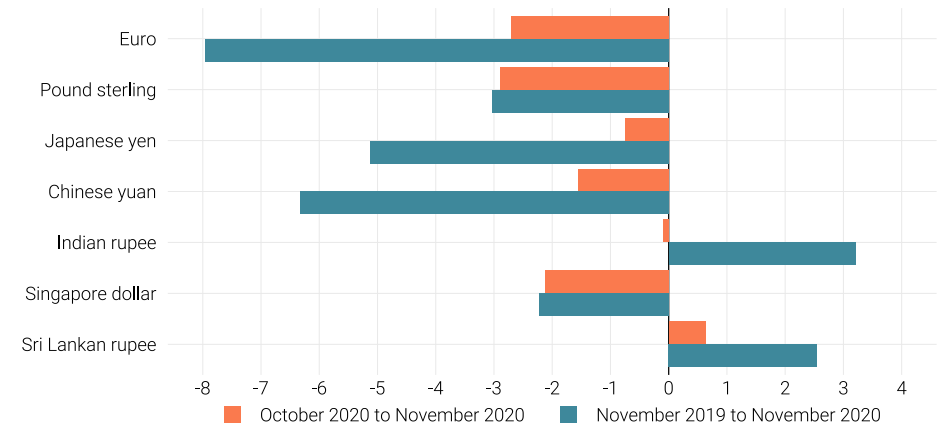
Source: Bloomberg Database

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



Source: Bloomberg Database

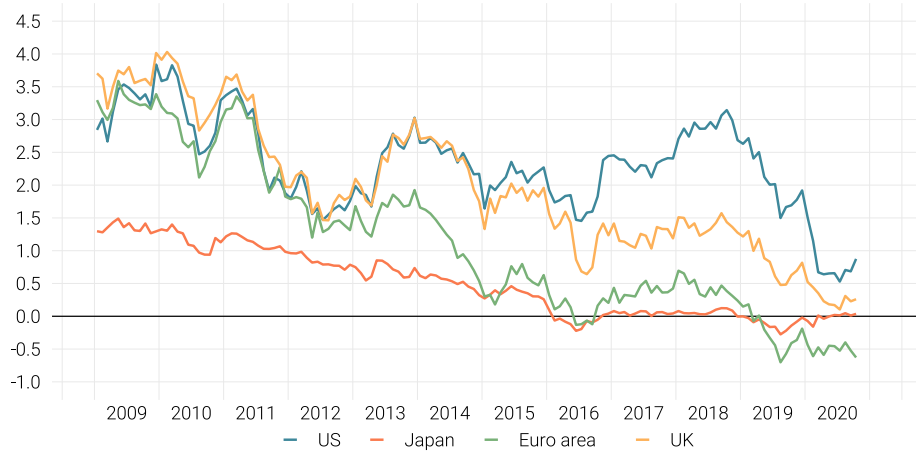
Exchange Rate of US Dollar against Currencies of Major Trading Partners, November 2020  
(percentage change)



Source: Bloomberg Database

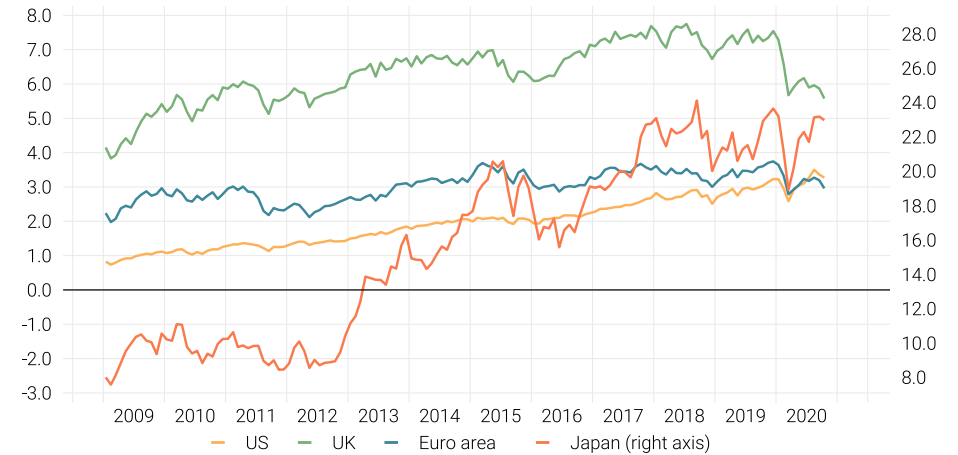
# Global Financial Markets

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



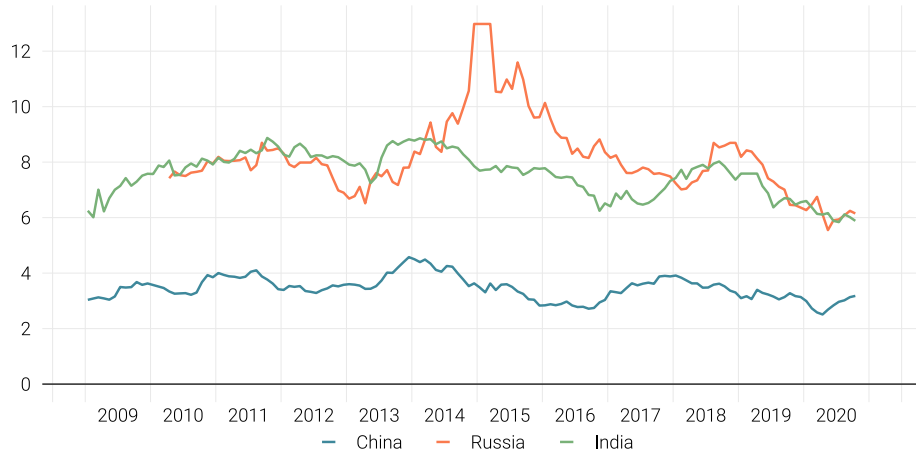
Source: Bloomberg Database

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



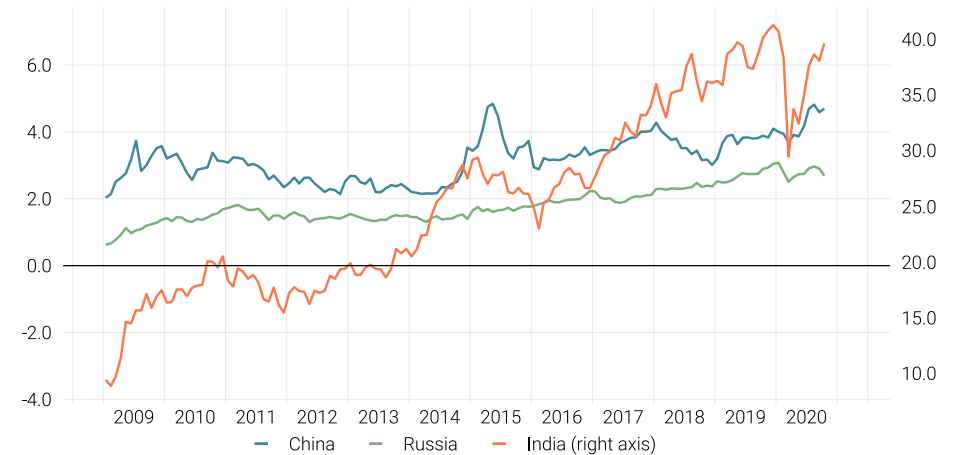
Source: Bloomberg Database

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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