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This bulletin is compiled by the Research Division (RD) of the Maldives Monetary Authority (MMA). It covers developments in the domestic and international economy during the third quarter of 2020. The analyses are based on information provided by relevant government authorities, commercial banks operating in the country, public enterprises and other private sector sources, as at 2 November 2020. Where actual data is not readily available, estimates have been made by RD based on available information. The timely receipt of data is therefore crucial to the compilation of this publication and the analyses contained herein.

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Abbreviations

CPI	consumer price index
GDP	gross domestic product
GIR	gross international reserves
GWP	Gross Written Premium
HPA	Health Protection Agency
IMF	International Monetary Fund
MMA	Maldives Monetary Authority
NCG	net claims on central government
NDA	net domestic assets
NFA	net foreign assets
NPL	non-performing loan
PCR	Polymerase Chain Reaction
PCE	personal consumption expenditure
QNA	quarterly national accounts
T-GST	tourism goods and services tax
UNWTO	United Nations World Tourism Organization
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

RECENT ECONOMIC DEVELOPMENTS

Macroeconomic Outlook

Global economy rebounded considerably in Q3-2020 following a sharp contraction in the first half of 2020, owing to the global outbreak of the COVID-19 pandemic in March 2020. According to forecasts released by the International Monetary Fund (IMF) in October 2020, global growth is now estimated at -4.4% for 2020—0.8 percentage point higher than the estimates made in June 2020. For 2021, the IMF projects growth to be 5.2%. Nonetheless, the sharp increase in coronavirus infection rates across many countries in recent weeks and the reintroduction of strict containment measures has increased the uncertainty surrounding the global prospects for 2020 and beyond—for instance, recent survey indicators are showing signs that global recovery may be losing momentum. While recent upbeat news on vaccine trials has raised hopes for faster global recovery, mass production and distribution of vaccines takes time. Given that the pace of recovery will largely depend on future path of the pandemic, if countries experiencing a strong resurgence of the virus have limited success in containing the virus, it would lead to more stringent and lengthier containment measures, which may prolong and deepen the global downturn.

After recording an unprecedented decline in Q2-2020, domestic economic activity is estimated to have picked-up in Q3-2020, following the gradual easing of lockdown measures and re-opening of the country's international borders in July 2020. Under the moderate case growth forecast scenario constructed using data available as at 29 September 2020[1], real Gross Domestic Product (GDP) is projected to decline severely by 29.3% in 2020, 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. Under the moderate case, tourism sector is projected to decline by 68.2% in 2020, which is in sharp contrast to the 13.2% growth achieved in 2019. Going forward, real GDP is projected to grow by 13.5% in 2021. However, there is still a high level of uncertainty surrounding the growth prospects for 2021. This mainly stems from the reintroduction of travel restrictions and advisories amid a resurgence of infections in major tourism markets, along with safety concerns and lower consumer confidence which weighs heavily on global demand for tourism; and the probability of a third wave of infections in the Maldives.

With regard to prices, global inflation is expected to remain subdued due to low global oil prices and the decline in global demand. Meanwhile, domestic inflation is expected to further pick-up in the fourth quarter of 2020 and turn positive in 2021, from -1.1% in Q3-2020, as downward pressure on inflation from COVID-19 related price reduction measures is expected to wane (with the full expiration of all these measures during the quarter) and also due to high import prices stemming from increased foreign exchange shortages in the economy.

On the external front, the October 2020 revised estimates based on the moderate case scenario, project the current account deficit to widen to 29% of GDP in 2020, mainly due to the significant reduction in tourism receipts and the economic contraction, which is expected to outweigh the decline in imports due to lower oil prices and depressed domestic and external demand. Going forward, the 2021 current account deficit is projected to further widen to 32% of GDP, as the expected increase in services surplus from higher travel receipts is estimated to be offset by the rise in the trade deficit driven by higher imports.

[1] The scenario analyses for GDP growth were made jointly with Ministry of Finance.

Overview

Following the severe disruption to economic activity in Q2-2020 due to the spread of the COVID-19 pandemic, the contraction in activity in major sectors of the economy—such as tourism; transportation and communication; construction; wholesale and retail trade; and the fisheries sector—appears to have eased during Q3-2020, as per the latest available high frequency indicators and business survey results. This predominantly reflected the phased easing of the stringent lockdown measures implemented by the government, which included the re-opening of the country's international borders to tourists as well as the phased relaxation of the lockdown measures imposed in the Greater Male' region from 29 May 2020 onwards.

As for the developments in domestic prices, the annual rate of CPI (Consumer Price Index) inflation (national) recorded an uptick to -1.1% in Q3-2020, from -4.0% in Q2-2020, although the rate continued to remain in negative territory. The upward inflationary pressure during the quarter stemmed primarily from the discontinuation of government measures to mitigate impact of COVID-19, namely the discounts given on electricity and water bills, as well as a pick-up in prices of certain fresh food items. Additionally, the growth in prices of cigarettes owing to the rise in import duty on specific tobacco products, also exerted upward inflationary pressure during the review quarter. However, the continuation of the COVID-related reduction in the prices of information and communication services; and housing rent were the main factors contributing to the downward pressure on inflation during the quarter.

With regard to fiscal developments, total government revenue (excluding grants) observed a sizable decline, due to the adverse impact of the COVID-19 pandemic on key sectors of the economy. As such, revenue receipts from the tourism sector dropped markedly, reflecting both the sharp reduction in tourism activity as well as the payment deferment options provided by the government. Additionally, the fall in domestic demand which reflected the slowdown in economic activity due to the movement restrictions also contributed to the reduction in revenue. The largest declines in revenue stemmed from the decrease in import duties, tourism-related taxes and rent from resorts. Meanwhile, total expenditure (excluding debt amortisation) registered a decline during the quarter, entirely owing to the significant reduction in recurrent expenditure. This mirrored the government's pledge to reduce recurrent expenditure as a measure to curb government expenditure following the COVID-19 outbreak. On the contrary, capital expenditure rose during the review quarter, reflecting higher lending stemming from the COVID-19 Recovery Loan Scheme as well as the continuation of ongoing planned infrastructure projects.

Turning to monetary developments, broad money growth accelerated in annual terms to 10% at the end of September 2020, following a growth rate of 7% at the end of June 2020. On the components side, similar to the previous quarter, this was primarily owing to the growth in the local currency denominated transferable deposits; and savings and time deposits, as well as the growth in currency outside depository corporations. This offset the fall in foreign currency denominated transferable deposits during the review quarter. On the sources side, the acceleration of broad money growth mirrored the increase in commercial banks' investment in government securities and bank credit to the private sector, despite the decline in net foreign assets of the banking system during the quarter.

On the external front, reflecting a sizable increase merchandise re-exports, total merchandise exports increased significantly during Q3-2020. This was largely due to the growth in re-exports of capital goods, which offset the decline in jet fuel re-exports during the review quarter. Meanwhile, fish exports earnings increased during Q3-2020, owing to the growth in export earnings from canned or pouched tuna; and processed tuna. As for merchandise imports, a significant decline was observed, owing to the continued contraction in domestic economic activity, reflecting the negative impact of the pandemic on the major sectors of the economy such as tourism and related sectors.

International Economic Developments

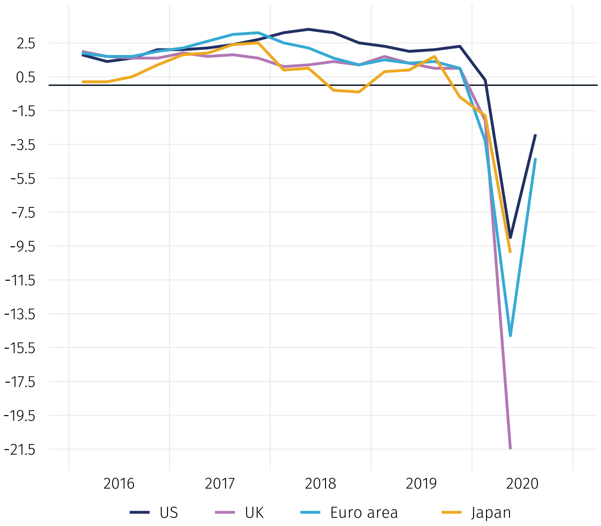
Global Output

The global economic output picked up and partially recovered in Q3-2020 from the deep economic downturn witnessed in Q2-2020 due to the novel coronavirus. As such, both the advanced economies and the emerging market and developing economies have posited a strong rebound, but remain well below pre-pandemic levels. Additionally, against the backdrop of a better-than-anticipated Q2-2020 performance and the resumption of economic activity across the globe, the global growth[2] is now estimated at -4.4% for 2020—0.8 percentage points higher than the estimates made in June 2020.

Looking at the advanced economies, the United States (US) economy rebounded and registered a contraction of 2.9% in Q3-2020 from -9.0 in Q2-2020, reflecting the revival due to the reopening of the economy and the income support schemes. The ease in the contraction mainly reflected the resurgence in consumer spending on durable goods such as motor vehicles and parts as well as non-durable goods. The contractions in the personal consumption expenditure on services continued to weigh on the economy, alongside the fall in exports (Figure 1).

Based on the Eurostat flash estimates, the growth in the euro area retracted to -4.3% in Q3-2020 up from -14.8% in the previous quarter, indicating a better-than-expected growth for the review quarter. The partial recovery mirrored the positive impact of the relaxation of the containment measures on the overall output of sectors. Meanwhile, economies in the region less dependent on contact-intensive

Figure 1: Real GDP Growth in the Advanced Economies, 2016 - 2020
(annual percentage change)



Source: Bloomberg Database

sectors fared better during the quarter. As such, the revival in the German economy was aided by higher consumer spending, investments and robust exports, while the French economy bounced back from its first COVID-19 lockdown on the back of higher household consumption and public spending. Meanwhile, the economic downturn in Italy moderated significantly, reflecting sector-wide recovery driven by both the domestic and external demand. Similarly, the rebound in the tourism-dependent Spanish economy was underpinned by improved domestic demand and the government's labour market support schemes.

Similarly, incoming data for the Japanese economy signal some improvements in the world's third-largest economy in Q3-2020, after contracting

[2] International Monetary Fund, 'World Economic Outlook (WEO) October 2020'.

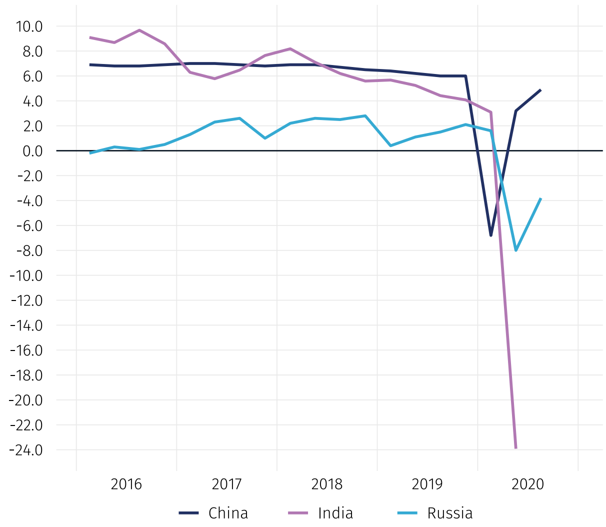
by 9.9% in Q2-2020. The improvements in the economic conditions owed to the robust rebound in consumer spending and exports, on the back of the demand pick up at home and abroad. Moreover, the government's travel discount campaign announced at the beginning of the quarter have aided domestic tourism during the period.

As per the high frequency data, the economy of the United Kingdom (UK) recorded a strong rebound in Q3-2020 after suffering a deep loss of 21.5% in the previous quarter. This was mainly on account of a strong consumption revival due to the increased household spending as well as improved demand in the housing market. Meanwhile, the rebound in economic activity was also driven by government spending targeted to protect incomes such as the 'Eat Out to Help Out' scheme introduced at the onset of the review quarter.

Looking at the emerging market and developing economies, the economic growth in China accelerated to 4.9% in the review quarter from 3.2% recorded in Q2-2020, moving closer to a V-shaped recovery from the pandemic. The acceleration was largely underpinned by the continued rebound in investment and exports due to the waning of COVID-induced pessimism. As such, value-added from the tertiary industry and manufacturing industry increased significantly during the period (Figure 2).

Incoming data indicate better economic conditions in the Indian economy, after a sizable contraction of 23.9% in Q2-2020, amid the stringent and prolonged lockdown measures in comparison to the other countries. As such, the composite Purchasing Manager's Index (PMI) has improved and entered expansionary territory at the end of Q3-2020. In addition, the contraction in the general index of industrial production has moderated significantly due to the increase in manufacturing activity, while the use of all types of goods have also ameliorated, reflecting improved sentiments during the period.

Figure 2: Real GDP growth in the Emerging Economies, 2016 - 2020
(annual percentage change)



Source: Bloomberg Database

Meanwhile, the growth in Russia improved to -3.8% in Q3-2020 from a strong collapse of -8.0% in Q2-2020, mirroring a gradual rebound across basic industries, supported by the domestic demand. As per the high frequency data for the review quarter, agricultural output continued on a robust path, while the services sector also contributed significantly to the recovery of the economy. Meanwhile, falling oil prices dragged the receipts from oil exports, while non-oil exports slightly rose during the period.

Global Inflation

Global inflation dynamics in Q3-2020 continued to be influenced by the impact of the coronavirus crisis on the demand and supply conditions as well as the commodity prices. Against this backdrop, the headline inflation in the advanced economies remain below the pre-pandemic level, while the rate picked up in some of the emerging market and developing economies. Meanwhile, core inflation has eased for most of the economies in both the country groups.

Looking at the price developments in the advanced economies, the rate of inflation in the US accelerated to 1.2% in Q3-2020, up from 0.4% in Q2-2020. The acceleration in the rate of inflation mostly stemmed from the increase in the services (less energy services) category due to the rise in the rent and the cost of medical care. In addition, the rise in the prices of food items resulted in an upward contribution, while the main downward contribution stemmed from energy-related items during the period (Figure 3).

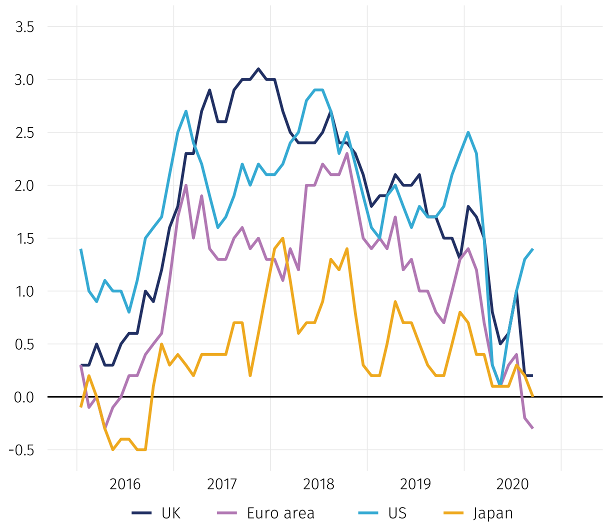
In the euro area, the rate of inflation, as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) decelerated to -0.03% in Q3-2020, from 0.2% in the previous quarter. The disinflation in the region was mainly contributed by the reduced cost of energy-related items and industrial goods. Meanwhile, the rise in the prices of food (including alcohol and tobacco) and services items continued to partially offset the disinflationary pressure during the quarter.

In Japan, the rate of inflation rose modestly and stood at 0.2% in Q3-2020, compared with 0.1% in Q2-2020. The rise in the rate of inflation owed to the increase in the prices of food items, mainly due to fresh food prices as well as housing-related items. However, upward contributions were curtailed by the significant fall in education-related expenses, reflecting the effect of the waivers introduced amidst the pandemic.

The annual rate of inflation in the UK remained unchanged at 0.8% during the review quarter. As such, major disinflationary pressure stemmed from fall in prices in the restaurants and hotels category, due to the 50% subsidisation scheme (Eat Out to Help Out) introduced at the onset of the quarter. On the flipside, some items under recreation and culture; and housing categories added inflationary pressure during Q3-2020.

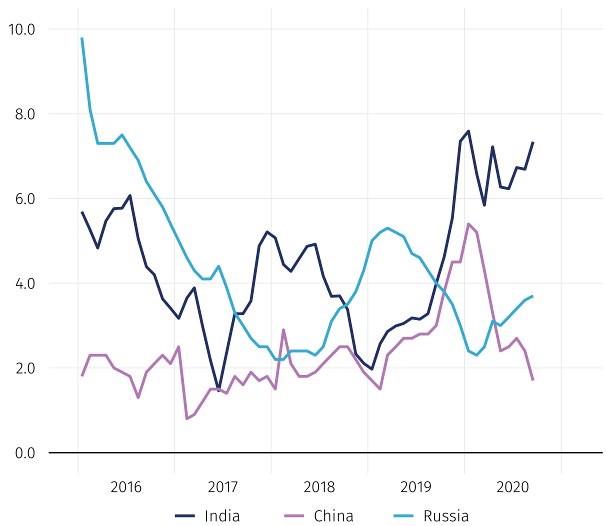
Turning to the emerging market and developing economies, the rate of inflation in China eased further to 2.3% in the review quarter, from 2.7% in Q2-2020, reflecting the decline in prices in the recreation and culture category. In addition, the decline in the prices of food items due to the moderation in pork prices as a result of a higher base, added significant downward pressure during the review quarter (Figure 4).

Figure 3: Inflation Rate in the Advanced Economies, 2016 - 2020
(percent)



Source: Bloomberg Database

Figure 4: Inflation Rate in the Emerging Economies, 2016 - 2020
(percent)



Source: Bloomberg Database

In India, the rate of inflation increased to 6.9% in Q3-2020, from 6.5% in Q2-2020, exceeding the upper margin of 6.0% set by the Reserve Bank of India. The rate of inflation continued to be pushed up by prices of food and beverages, owing to the persistent COVID-19 related supply-side disruptions. Moreover, the transportation and communications category also contributed positively to the price level in the economy during the quarter.

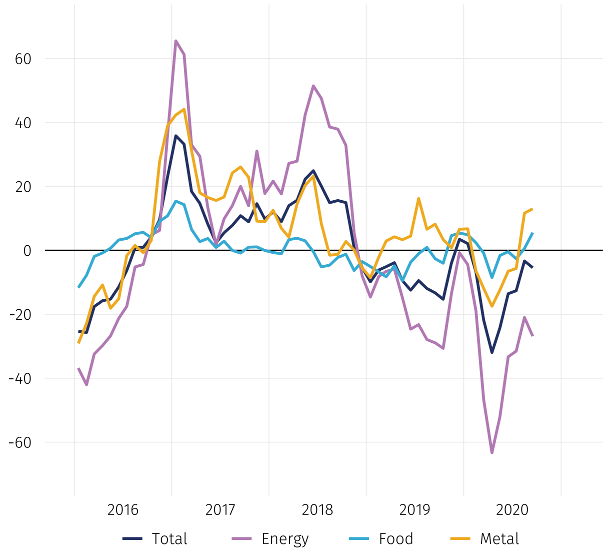
Meanwhile, the rate of inflation in the Russian economy edged up to 3.5% in Q3-2020, from 3.1% in the preceding quarter. The acceleration in the rate of inflation was mainly underpinned by the revival of demand witnessed with the easing of the lockdown measures. Further, the foreign exchange pass-through effects of a depreciating rouble caused by the heightened global risk aided the price increases during the period.

Commodity Prices

The IMF price index for all commodities headed for recovery, declining by 7% in annual terms and increasing by 17% in quarterly terms. The improvement in the commodity prices reflected the relaxation of the lockdown measures and the resumption of economic activity in various sectors. Consequently, energy prices plummeted less than Q2-2020 in annual terms, while the energy prices surged considerably in quarterly terms, underpinned by better oil market fundamentals during Q3-2020. Meanwhile, the non-energy prices registered a significant hike mainly owing to the increase in the metals prices during the period (Figure 5).

The price of crude oil recorded an average of US$42.0 per barrel[3] in Q3-2020, an annualized decline of 30% and a surge of 39% in quarterly terms. In Q3-2020, the ease in the oil prices was supported by the interplay of both the supply and demand-side factors. On the supply front, the fall

Figure 5: Commodity Prices, 2016 - 2020
(annual percentage change)



Source: IMF

in the US crude production and stock level initially supported the prices. However, the production shutdowns due to the hurricane Sally in the Gulf of Mexico proved insufficient to lift up the prices during the quarter. This was mainly due to the already well-supplied oil market, as reflected by the large amount of unsold oil cargoes. On the demand-side, as more countries relaxed the restrictions and opened for travel, the global demand for oil and transportation fuel rebounded. However, the recovery in global demand slowed towards the end of Q3-2020, reflecting softened demand from the Asia Pacific and Europe, coupled with the repercussions of rising new COVID-19 cases across the globe.

Turning to the major commodities in the non-energy index, the metal price index rose by 17% annually and 16% in quarterly terms, mainly due to the hike in prices of the precious metals (gold) caused by the lower US real interest rates. Meanwhile, the base metals index recovered during the quarter on the back of strong recovery in both the global manufacturing sector as well as financial market sentiments. With regard to the global food prices, the IMF food price index rose by 1% and 3%, in annual

[3] Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

and quarterly terms, respectively. Additionally, the FAO food price index registered an annual increase of 2% and an increase of 4% in quarterly terms, mirroring the supply concerns amidst the recovering import demand.

Global Trade

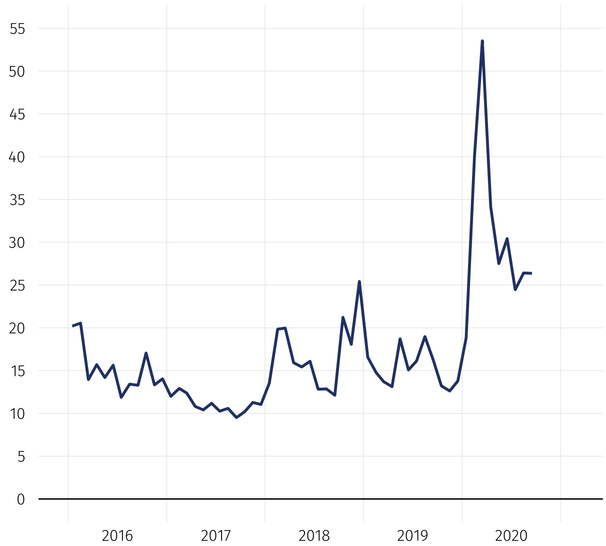
Against the backdrop of relaxation of the COVID-19 related lockdowns and restrictions, as per the World Trade Organization (WTO) statistics, global trade depicted signs of recovery in Q3-2020, after registering an approximate annual downturn of 21% in the global merchandise trade and a deep 30% contraction in the global services trade in Q2-2020. The global trade statistics in Q2-2020 depict a contraction steeper than the downturn witnessed during the Global Financial Crisis in 2009. Looking at the advanced; and the emerging market and developing economies, the export indices for all the economies, except China, recorded smaller reductions during Q2-2020 in annual terms. On the other hand, the strong rebound in the global trade is confirmed by the double-digit quarterly growth rates recorded for most of the economies in Q3-2020. Accordingly, the WTO now forecasts the global merchandise trade to decline by 9.2% for 2020, less severe than the 12.9% drop projected in April 2020. In addition, it is worth noting that the pandemic-related restrictions and weakened demand had a more significant impact on the trade of the adversely affected sectors such as tourism; transportation and fuel; and mining. However, trade of necessities—food and medical supplies—were less affected, while the nature of the pandemic boosted the trade of information technology products and services.

Global Financial Markets

The global financial market conditions further eased in Q3-2020 in both the advanced; and the emerging market and developing economies, on the back of the unprecedented policy measures implemented to counter the pandemic-related financial vulnerabilities and risks. In this regard, the financial markets were marked by rising implied volatility (measured by VIX), reflecting the bearish sentiments in the US stock market when compared to a year ago (Figure 6). Meanwhile, in the advanced economies, the yield-to-maturity on the euro and the US sovereign bonds declined in quarterly terms, while the yield on the Japanese and the UK sovereign bonds increased. In the emerging market and developing economies, except for the Indian sovereign bonds, the yield on the Chinese and the Russian sovereign bonds increased during the quarter. Amid these developments, the monetary policy stance in both the country groups remained accommodative, alongside the introduction of unconventional policy initiatives to support the domestic financial conditions. Given the already muted inflation across the economies, the central banks kept away from any further policy rate cuts during Q3-2020.

In the foreign exchange market, the overall performance of the US dollar against the currencies of the Maldives' major trading partners was mixed in annual terms, while it weakened in quarterly terms at the end of Q3-2020, representing the

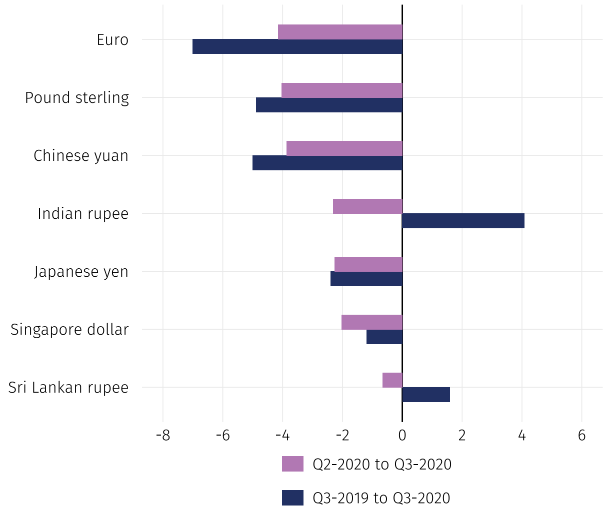
Figure 6: Volatility Index, 2016 - 2020
(percent)



Source: Bloomberg Database

improved global risk sentiments (Figure 7). The US dollar depreciated against all the currencies, except the Indian rupee and the Sri Lankan rupee at the end of the period when compared with Q3-2019. Meanwhile, the US dollar depreciated against all the currencies when compared with Q2-2020.

Figure 7: Exchange Rates, Q3-2020
(percentage change)



Source: Bloomberg Database
Note: Percentage changes have been calculated using spot rates at the end of each quarter.

Economic Developments in the Maldives

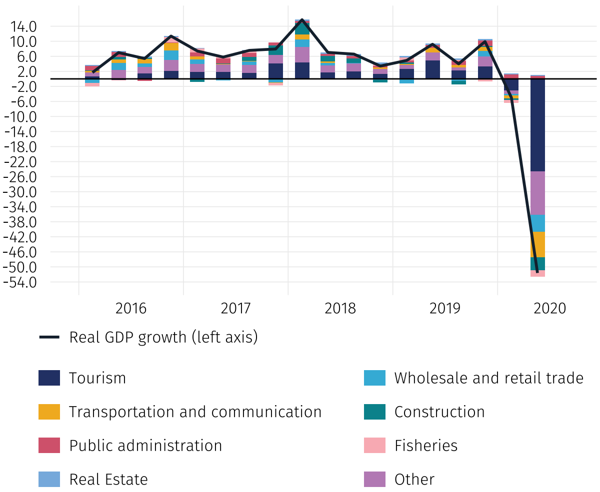
Real Economy

Gross Domestic Product

Following the severe contraction in Q2-2020, the collapse in economic activity appears to have eased during Q3-2020 mirroring both the opening of the country's international borders to tourists, and the phased easing of the stringent lockdown measures imposed by the government to curb the spread of the COVID-19 pandemic. Despite the surge in the COVID-19 cases during the quarter (predominantly in the Greater Male' region)[4], the incoming high frequency data and business survey results for Q3-2020 indicate that the adverse impact of the pandemic on major sectors of the economy was less severe during the review quarter, reflecting the easing of the pandemic containment measures. The relaxation of restrictions commenced with phase one, beginning 29 May 2020, which quickly moved to phase two on 15 June 2020. The country moved to phase three of the lockdown ease plan on 1 July 2020, which permitted movement within the Greater Male' region (from 5 am to 11 pm) as well as gatherings in public spaces of less than 30 people, although certain public health measures such as mandatory mask wearing and physical distancing measures remained in place.[5] However, the public health state of emergency continues to remain in place until 5 December 2020, and mandatory quarantine requirements continue to be imposed on residents travelling between the Greater Male' region and other islands.

According to the latest Quarterly National Accounts (QNA)[6] estimates released by the National Bureau of Statistics (NBS) on 29 September 2020, the annual real GDP growth contracted significantly by 51.6% in Q2-2020, after observing a growth of 9.2% in Q2-2019 (Figure 8). This was following a decline of 5.0% in Q1-2020. However, since the real GDP data for Q1-2020 used in this analysis is based

Figure 8: Contribution to Real GDP Growth by Economic Sectors, 2016 - 2020
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

[4] As at 30 September 2020, the total number of COVID-19 cases in the country climbed to 10,291, with active cases in 22 inhabited islands and 22 resorts (including 10 tourists and 17 staff). As at 30 June 2020, the total number of cases was at 2,361. The quarterly increase in the number of cases in the country amounted to 7,930.

[5] The lifting of restrictions also include resumption of dine-in services at restaurants and cafés, opening of salons and spas, all subject to physical distancing requirements and mandatory mask wearing, as well as other guidelines set by the Health Protection Agency.

[6] QNA data was available up until Q2-2020 at the time of this publication. Advance estimates data are released with a four-month lag.

on advance estimates, this data is subject to change in the upcoming revisions.

The sizable contraction in output during Q2-2020, was largely due to the negative impact of the COVID-19 pandemic on the domestic economy. The slump in economic activity was due to the pandemic-led border closures and travel restrictions worldwide and the subsequent supply chain disruptions as well as an unprecedented decline in domestic and external demand. The primary contributor to the drop in real GDP growth was the tourism sector, which was hit hard by the closure of the international borders to tourists on 27 March 2020. Other related sectors such as transport and communication; as well as wholesale and retail trade sector was hit by both the border closure and the stringent lockdown of the Greater Male' region with travel restrictions placed between outer islands for the most part of Q2-2020, amid the confirmation of community transmission of COVID-19 in Male' City in April 2020. Additionally, the sectors such as construction and fisheries were also affected by the lockdown and travel restrictions. In terms of contribution to the decline in real GDP growth during Q2-2020, the sectors that contributed most heavily were the tourism sector (-25.5 percentage points); followed by the transportation and communication sector (-6.8 percentage points); the wholesale and retail trade sector (-4.0 percentage points); and the construction sector (-3.3 percentage points). Additionally, the entertainment, recreation and other services sector (-2.1 percentage points); and the fisheries sector (-1.9 percentage points) also contributed to the decline.

Turning to the growth rates, the tourism sector registered a substantial decline of 98.0% during the quarter—the second consecutive negative growth rate registered since 2016. Likewise, the transportation and communication sector, which is linked heavily to the tourism sector, observed a sizable decline of 56.5% during Q2-2020, while the wholesale and retail trade sector declined by 55.6%. Meanwhile, the construction sector recorded a contraction of 48.2%, a more severe contraction when compared with Q1-2020. Similarly, entertainment, recreation and other services registered a severe decline of 99.4%, while the fisheries sector declined by 50.6% during Q2-2020.

Looking at the sectors that contributed positively to real GDP growth, the public administration (0.8 percentage points) and human health and social work activities (0.8 percentage points) contributed significantly during the quarter, and recorded annual growth rates of 8.6% and 25.8%, respectively. This reflected the government's continued expenditure on the pandemic containment and mitigation efforts as well as the expenses towards providing relief to households and businesses that were impacted severely by the pandemic.

Tourism

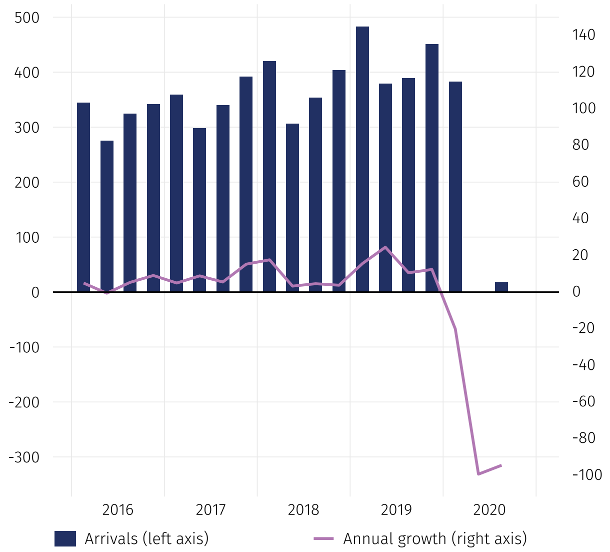
Although the tourism sector ground to a complete halt in Q2-2020, due to the stringent public health measures implemented to curb the spread of COVID-19 which included the temporary closure of the international borders to all the tourists on 27 March 2020, tourism activity resumed in Q3-2020, with the opening of the country's borders on 15 July 2020, to all countries. However, tourism activity was limited to tourist resorts, liveaboards, and hotels located in uninhabited islands, subject to prior approval from the Ministry of Tourism, conditional upon fulfilment of stringent precautionary measures put in place to ensure the safety of the guests as well as the staff employed in the tourism sector. In addition, a number of guesthouses and hotels in the Greater Male' region were granted permission to be opened as transit facilities for tourists. Initially, the guests were not required to present a negative PCR (Polymerase Chain Reaction) test for COVID-19, and no minimum mandatory stay was required. However, effective from 10 September 2020 the Health Protection Agency (HPA) issued guidelines, imposing a requirement for all the tourists to present a negative PCR test for COVID-19 upon arrival.[7] In recognition

[7] It is required that the sample for the test must be taken no more than 72 hours prior to the scheduled time of departure from first port of embarkation en route to the Maldives (infants under one year are exempt from the testing requirement). The rules were changed subsequently on 15 October 2020, to extend the validity of the sample for the PCR test to a maximum of 96 hours prior to the scheduled departure time.

of the Maldives' efforts in implementing enhanced health and safety measures in line with the World Travel and Tourism Council's (WTTC) Global Safe Travels Protocols, the WTTC awarded the Maldives with the 'Safe Travels Stamp' in mid-September. Additionally, to further encourage tourists to visit the country, the Maldives also launched a hospitality loyalty program 'Maldives Border Miles'[8]—the first of its kind in the world. Meanwhile, after halting operations for almost six months, the guesthouses and hotels in the COVID-free inhabited islands were granted permission to commence operations on 1 August 2020, to locals only. As a result, most guesthouses and hotels remained closed for international tourists throughout the review quarter.

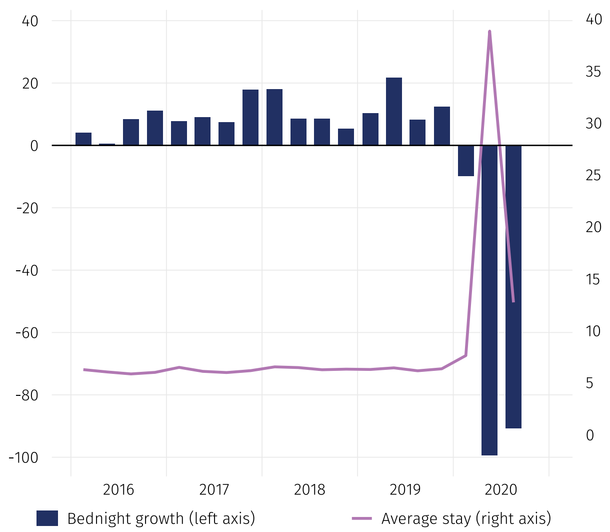
Despite the opening of the country's borders to tourists worldwide, the demand remained lacklustre owing to the continued spread of the pandemic, and the resultant travel and border restrictions as well as lockdowns imposed to curb the spread. While some of the major source markets experienced second and third waves of infections during the quarter, authorities in some countries had taken initiatives to promote domestic tourism to encourage travel within the countries. Although tourist arrivals in the Maldives have been increasing progressively in monthly terms, the numbers remained significantly low in comparison to Q3-2019. Tourist arrivals declined by 95% when compared with the corresponding quarter of 2019, and totalled 18,918 in Q3-2020 (Figure 9). This was in contrast to a total of 389,101 tourist arrivals in Q3-2019. Meanwhile, tourist bednights declined by 94% during the quarter. As for average stay—which spiked to 86.8 days in May and 42.3 days in June, reflecting some of the tourists being stranded due to border closures—average stay dropped to 14.1 days in July. The average stay for Q3-2020 was at 11.0 days, which was an increase when compared with 6.1 days in Q3-2019 (Figure 10). In line with these developments, estimated travel receipts for the

Figure 9: Inbound Tourist Arrivals, 2016 - 2020
(thousands, annual percentage change)



Source: Ministry of Tourism

Figure 10: Bednight Growth and Average Stay, 2016 - 2020
(annual percentage change, days)



Source: Ministry of Tourism

period July to August 2020 plunged by 83% when compared with Q3-2019, and totalled US$64.6 million—a decline of over US$321.2 million.

As for the market composition, the main source region during the review quarter was Europe—accounting for 55% of total tourist arrivals—while Asia and the Pacific region trailed behind with only 8% of tourist arrivals (Figure 11).

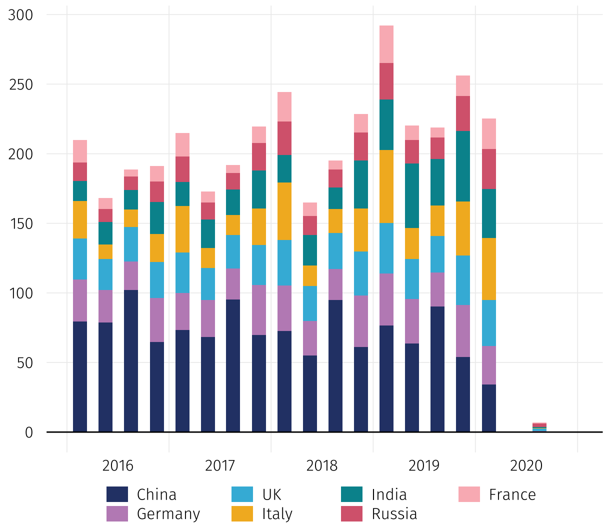
[8] Maldives Border Miles is a three-tiered loyalty program for the tourists that that can be used to earn points based on the number of visits, duration of stay and additional points for the visits to celebrate special occasions. The three tiers include; Abaarana (Gold), Antara (Silver) and Aida (Bronze).

The second-largest regional contributor was the Middle East which accounted for 21%, while the Americas followed closely with 15%. Turning to the composition of tourist arrivals from Europe, Russia and the UK dominated, accounting for 15% and 8% of total tourist arrivals, respectively. This was followed by Germany (4%), France, Italy and Spain (3% each). Meanwhile, the United Arab Emirates (UAE) was the single-largest source country during Q3-2020, contributing 15% of total tourist arrivals during the quarter, while the US followed closely with 10%.

Turning to developments in the international tourism, as per the United Nations World Tourism Organization (UNWTO), the international tourist arrivals observed an annual decline of 95% on average during Q2-2020. However, the decline eased to 81% and 79% in the months of July and August, respectively. According to the seventh edition of the UNWTO's report on *COVID-19 Related Travel Restriction: A Global Review for Tourism*, a majority of destinations worldwide (53%) have begun easing travel restrictions[9] imposed in response to the pandemic. However, the report also observed that a high level of caution remained as indicated by the restrictive measures that continue to be implemented. As of 1 September 2020, a total of 150 destinations eased travel restrictions, while 113 destinations continue to have restrictive measures in place (93 of which continue to implement complete border closures to tourism). Despite the resumption of tourism in some regions across the globe, restrictions are expected to tighten if the spread of the pandemic intensifies again.

With regard to the international flight movements data, the number of flight movements were down by 81% when compared with Q3-2019—a massive decline of 2,537 flights. With the opening of the country's international borders, the long-haul airlines such as Qatar Airways, Emirates and Etihad Airways were among the first airlines to resume operation to the Maldives, along with airlines such as SriLankan Airlines and Turkish Airlines. Meanwhile, owing largely to the operation of two Aeroflot flights, which resumed in September 2020, tourists from Russia accounted for one of the largest portions of total tourist arrivals from Europe. Along with Aeroflot, Switzerland's Edelweiss Air has also commenced operation, with two weekly flights.

Figure 11: Arrivals from Major Inbound Markets, 2016 - 2020
(thousands)



Source: Ministry of Tourism

On the supply side, with the opening of the borders 41 resorts resumed operation in July 2020, and the number more than doubled to 83 resorts by the end of Q3-2020. However, the number fell short in comparison to the 151 resorts in operation at the end Q3-2019. Meanwhile, 107 safari vessels were in operation at the end of Q3-2020, the majority of which resumed operations during September 2020, in comparison to the 154 vessels that were in operation at the end of Q3-2019. As for the guesthouses and hotels, only 27 guesthouses and 9 hotels resumed operation during review quarter. In contrast, 577 guesthouses and 10 hotels were in operation at the end of Q3-2019. As for the operational bed capacity of the industry, a decline of 29,922 beds was recorded during the review quarter, reflecting a 63% decline in annual terms. During the quarter, the total operational bed capacity was at 17,908 beds. Tourist

[9] Including partial or complete border closures for tourists, suspension of international flights or implemented differentiated entry, based on specific countries of origin.

resorts continued to dominate the total operational bed capacity, with a share of 85% during the review quarter. As the decline in bednights outpaced the decline in the operational bed capacity, the average occupancy rate of the industry dropped to 9%, in comparison to 54% registered in Q3-2019. For the resorts, the average occupancy rate was only 1% higher, recording 10% in Q3-2020, down from 66% a year ago.

Construction

Activity in the construction sector observed a decline of 48.2% in Q2-2020, owing largely to the lockdown of Greater Male' region to contain the spread of the COVID-19. However, with the phased easing of the lockdown, disruption to construction activity eased to some extent during Q3-2020, although activity in the sector contracted for the quarter. According to the MMA's *Quarterly Business Survey* for Q3-2020, the majority of survey respondents indicated that although construction activity declined during the review quarter, the pace of decline slowed, as depicted by the volume of construction activity index—which improved by 43 points (from -61 to -18).

Delving into the available short-term indicators for sector performance, reflecting the contraction in construction activity, imports of construction-related items declined by 43% (US$51.9 million) during Q3-2020 when compared with Q3-2019. Similar to the previous quarter, this largely reflected the plunge in import expenditure on wood, metal, cement and aggregates. However, the slower pace of the decline when compared to the previous quarter, stemmed from the resumption of construction activity following the easing of the lockdown measures and travel restrictions, as well as potential easing in supply chain disruptions.

On the other hand, commercial bank credit to the construction sector[10]—an important indicator to gauge sector performance—observed an annual growth of 5% at the end of Q3-2020. During the quarter, the largest growth in credit was recorded for residential housing and new resort development; followed by loans to residential real estate projects. The largest decline in credit during review quarter was recorded for renovation of resorts.

Fisheries

After contracting by 50.6% in Q2-2020, activity in the fisheries sector observed a slight improvement, as indicated by the increase in fish purchases during Q3-2020. As for the fish exports, the decline recorded during the review quarter was marginal, in contrast to the sizable decline observed during Q2-2020. The improvement in the fishing activity mirrored the phased relaxation of the lockdown and movement restrictions; as well as the pick-up in demand in some of the major export destinations.

With regard to the main indicators of sector performance, fish purchases by the fish processing companies registered a growth of 10% during Q3-2020 when compared with Q3-2019, and amounted to 16,461.6 metric tons. The growth in the fish purchases stemmed entirely from the 22% increase in the skipjack tuna purchases, as purchases of yellowfin[11] and other tuna recorded declines during the quarter. In September 2020, the government-owned Maldives Industrial Fisheries Company (MIFCO) announced that the fixed rate at which fish purchases were made over the past seven years would be abandoned in favour of purchasing fish at the same rate as prices in the world fish market. It is expected that this would benefit fishermen at times during which fish purchase prices are higher. As a result the purchase price for skipjack and iced skipjack tuna—which have remained unchanged since 2017—were reduced in September 2020. For

[10] Although a substantial portion of the financing for public infrastructure projects, resort development and social housing development is sourced externally, commercial bank credit to the construction sector remains an important indicator to gauge the performance of the sector.

[11] The decline in yellowfin tuna catch partially reflects the efforts by the government as well as the Maldivian tuna fishery industry to reduce yellowfin tuna catch in the country, in accordance with the resolutions set by the Indian Ocean Tuna Commission (IOTC). The resolutions aim to reduce the yellowfin tuna catch to help replenish stocks in the Indian Ocean.

skipjack tuna the purchase price was reduced to MVR16.0 per kilogram (from MVR18.0 per kilogram), while for iced skipjack tuna the price was reduced to MVR18.0 per kilogram (from MVR20.0 per kilogram). As for yellowfin tuna, the local companies' average purchase price declined to MVR51.6 per kilogram during Q3-2020, from MVR69.8 per kilogram during Q3-2019.

Despite the increase in tuna prices in international markets, the volume of fish exports registered a marginal decline during the quarter, in contrast to the sizable annual decline during Q2-2020—totalling 10,074.9 metric tons. In annual terms, the marginal decline was primarily led by the fall in frozen yellowfin tuna exports which fell by 42%, followed by frozen skipjack tuna which registered a 4% decrease during the review quarter. Meanwhile, the volume of live fish exports also observed a 79% decline. This was offset to a large extent by the 37% growth in export volume of canned or pouched tuna, while processed tuna exports recorded a 69% increase during Q3-2020.

Wholesale and Retail Trade

Following the sharp contraction in domestic economic activity in Q2-2020 due to the spread of the COVID-19 pandemic, the resultant lockdown, movement restrictions and supply chain disruptions, activity in the wholesale and retail trade sector declined during Q3-2020 as well. However, the contraction during the quarter was less severe, mirroring the phased easing of the lockdown and movement restriction measures implemented by the government, which had brought some businesses to a complete halt during the first two months of Q2-2020. According to the MMA's *Quarterly Business Survey* for Q3-2020, the sales index as well as the volume of orders index for the wholesale and retail trade sector turned positive during the review quarter.

As per the short-term indicators of sector performance, the decline in private sector imports (excluding tourism) slowed down during Q3-2020. As such, imports by the private sector (excluding tourism) observed an annual decline of 37% (US$133.7 million) during the review quarter. Meanwhile, growth of commercial bank credit to the sector turned negative for the first time in 2020, recording an annual decline of 3% at the end Q3-2020.

Inflation

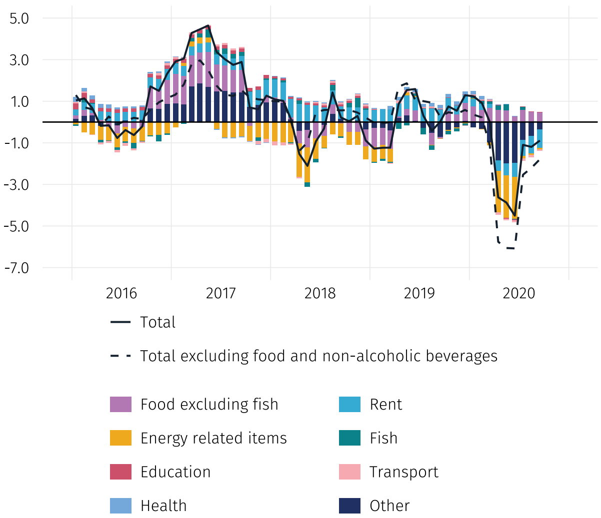
The rate of inflation (as measured by the annual percentage change in the CPI at the national level) remained in negative territory during Q3-2020. However, the rate of inflation observed an uptick from -4.0% in Q2-2020 to -1.1% in Q3-2020, reflecting the upward pressure stemming from the discontinuation of government measures to mitigate impact of COVID-19, namely discounts on electricity and water bills, as well as the pick-up in food prices primarily due to the increase in prices of certain vegetables, fruits and fish. In addition, the growth in cigarette prices following the ratification of the 17th amendment to the Export-Import Act in July 2020, which imposed additional duties on specific tobacco products, also contributed to the upward inflationary pressure during the review quarter. However, these increases were offset completely by the continued pandemic-related reductions in the prices of information and communication services; and temporary relief given on housing rent. Further, the fall in fuel prices and the cost of domestic passenger transport services (both sea as well as air transport) continued to weigh on inflation during the review quarter (Figure 12).

Delving into the major categories of the CPI, prices of food items—which accounts for 19.5% of the CPI basket weight—recorded an overall growth of 2.9% during the quarter. The most notable increases stemmed from the other vegetables category (which includes carrots, garlic and onions), which surged by 13.1% due to the growth in onion prices, despite the government imposed price controls on the retail price of onion.[12] The upsurge in onion prices during the quarter mirrored the rise in onion prices in India since late August 2020, due to the COVID-infused lockdowns and heavy monsoon rainfall in key onion farming districts which caused widespread crop damage as well as destruction of storage facilities.[13] Meanwhile, growth in prices in the fruit-bearing vegetables category also exerted upward pressure on inflation, registering a growth of 16.6%, owing mainly to the growth in price of scotch bonnets (githeyo mirus) and green chilly. Additionally, overall fruit prices observed a growth of 5.6%, reflecting the growth in prices of tropical fruits, dates and figs which increased by 12.7%, while prices of fresh citrus fruits increased by 3.4% during the review quarter. As for fish prices—the most volatile component of the CPI basket—a 1.3% growth was recorded, owing to the 4.4% increase in prices in the dried, salted, in brine or smoked fish category, while a 1.4% increase was recorded for the live, fresh, chilled or frozen fish category. However, the 6.0% decline in price of eggs offset the upward pressure on inflation to an extent during Q3-2020.

Meanwhile, the growth in cigarette prices also contributed positively to inflation during Q3-2020. Prices of cigarettes observed a 25.4% increase, following the ratification of the 17th amendment of Export-Import Act in July 2020, which saw the per unit tax increased from MVR2.0 to MVR3.0. Contrastingly, despite the increase in import duty[14] on soft drinks and energy drinks, the effects of this was not observed in the CPI inflation.

Conversely, the prices in the information and communication category—which exerted the most amount of downward pressure on inflation—

Figure 12: Contribution of Sub-Categories to CPI Inflation (National), 2016 - 2020
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

recorded an annual decline of 9.9% during the quarter. The cost of information and communication services observed a decline of 12.0%, which mirrored the continued provision of discounted data packages by the telecommunication service providers to facilitate remote working, education and entertainment for their customers during the ongoing COVID-19 pandemic. Additionally, the prices of information and communication equipment recorded a 2.9% decline during Q3-2020, primarily due to the fall in prices of mobile phones; and other video and audio recording equipment, amid the reduction in domestic demand.

Similarly, the housing, utilities, gas and other fuels category—which carries the largest weight (23.4%) in the CPI basket—also observed an overall decline of 3.4% during the quarter. This largely reflected the continuation of the temporary relief given on housing rent, mirroring the loan moratoriums given by banks and finance companies as part of the economic recovery package of the government to combat the pandemic-led economic fallout. Moreover, the 30% rent deferment option

[12] As part of the government price control measures, STO rationed prices and announced maximum prices for red onions (MVR20.0 per kilogram), potatoes (MVR20.0 per kilogram), yellow lentils (MVR45.0 per kilogram), and eggs (MVR1.8 per egg). It was announced that retailers who sell at higher prices will be fined MVR100,000.0 and could be subject to a 6-month business closure.

[13] It is estimated that around a million tons of crop was lost due to rainfall-related damages, and the effects of this on onion prices are expected to last until December 2020.

[14] For soft drinks the specific duty was almost doubled to MVR8.00 per litre from MVR4.60 per litre, while for energy drinks it was increased to MVR60.55 per litre from MVR33.64 per litre.

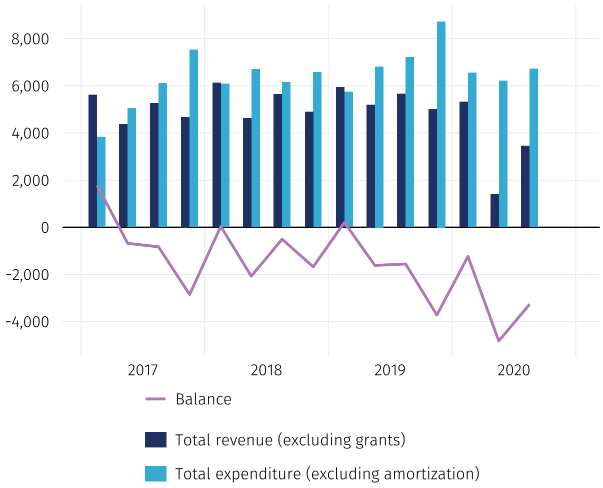
provided to households and businesses by the Housing Development Corporation, on properties managed by the corporation—which include flats, residential land plots, row houses, commercial units and industrial lands—was also extended until September 2020. However, the dampening of inflationary pressure by rent reductions was offset to a large extent by the discontinuation of the government subsidies[15] on electricity and water supply bills during the quarter.

Meanwhile, prices in the transport category observed a fall of 2.5%, mainly due to the continued dampening effects of the reduction in prices of fuel and lubricants, which dropped by 17.5% during Q3-2020, largely reflecting the decline in global oil prices.. Furthermore, the prices of passenger transport services also declined by 1.8% during the review quarter, due to the fall in the cost of both domestic passenger sea transport and air transport. This reflected the slump in domestic transportation amid the pandemic-related travel restrictions and ongoing community spread in the country. Likewise, the clothing and footwear category fell by 2.0%, mainly reflecting the fall in prices of garments for men and boys as well as shoes and footwear.

Public Finance[16]

Total government revenue (excluding grants) declined by MVR2.2 billion during Q3-2020 when compared with Q3-2019 and totalled MVR3.5 billion at the end of the period (Figure 13). This sizable downfall in revenue summed up the negative adverse impact of the COVID-19 pandemic on the main sectors of the economy. In particular, collection of revenue related to the tourism sector was significantly low during the quarter, owing to both the sharp drop in tourism activity as well as the payment deferrals allowed by the government to support the sector. Consequently, this led to substantial declines in both tax and non-tax revenues. Most notably,

Figure 13: 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.

tax revenues which accounted for 84% of the total revenue over the period, registered an annual decline of MVR1.5 billion.

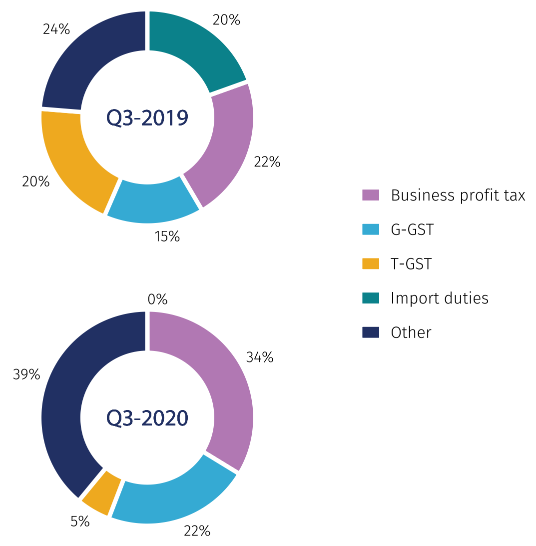
The decline in tax revenue during the quarter was largely concentrated across all major revenue sources, except for bank profit tax. The most prominent decrease was observed in import duties which registered a decline of MVR857.6 million, owing to the fall in domestic demand amid slowdown in economic activity. This was on the account of the containment and mitigation measures taken by the government to limit the spread of COVID-19. Despite the easing of lockdown measures, movement restrictions continued to be implemented within the Greater Male' region, while imports also observed a sizable downfall. Secondly, tourism goods and services tax (T-GST)—predominantly the main single source of revenue for the government—fell by MVR715.7 million, stemming from the contraction of the sector. As a result, significant declines were observed in the collection of airport service charge and green tax, as these are revenue sources that carries direct implications from the developments in the tourism sector. As such, green tax posted an

[15] Discounts of 40% and 30% were provided for electricity and water bills, respectively, for the months April to June 2020.
[16] Government revenue and expenditure data as at 29 October 2020. These figures might vary due to ongoing data reconciliation.

annual decline of MVR177.8 million, while revenue from airport service charge fell by MVR156.1 million during the quarter (Figure 14). In contrast, a significant increase was observed in bank profit tax, due to an extension given to the deadline of this tax which fell into the review quarter. Non-tax revenue, which comprised 16% of the total revenue, observed a decline of MVR745.8 million in annual terms and totalled MVR540.9 million at the end of Q3-2020. The largest decline within non-tax revenue was observed in the collection of rent from resorts, for which the government has allowed a deferment[17] to alleviate the adverse economic impact of the pandemic on the tourism industry. Further, a significant decline was observed in airport development fee, exacerbated by the fall in tourist arrivals due to the pandemic. In contrast, dividends from State Owned Enterprises observed a growth over the review quarter.

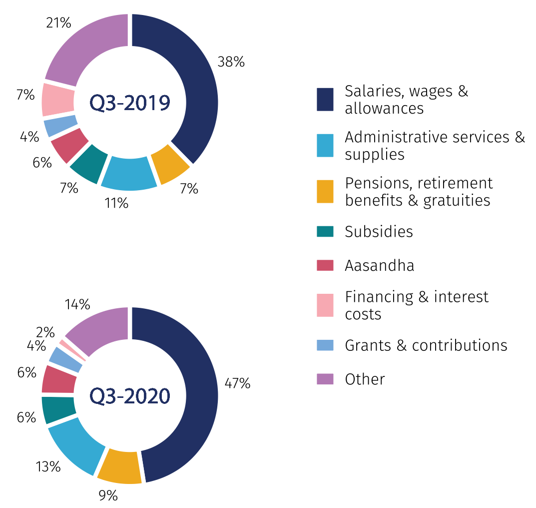
Total expenditure (excluding debt amortisation) recorded a decline of MVR486.1 million in annual terms and totalled MVR6.7 billion during Q3-2020. This was entirely driven by a significant decrease in recurrent expenditure, which fell by MVR1.2 billion and offset a sizeable increase in capital expenditure. The decline in recurrent expenditure was also in line with the government's pledge to cut down recurrent expenditure by MVR1.0 billion, as a measure to reduce government expenses following the COVID-19 outbreak. The fall in recurrent expenditure stemmed largely from a substantial decrease in administrative and operational expenses. Within this category, the most significant decline was observed in finance and interest costs, which fell by MVR309.3 million. This can be largely attributed to the impact of the G20 Debt Service Suspension Initiative (DSSI) relief. In addition, decreases were observed in costs related to subsidies, administrative services and Aasandha. Likewise, salaries and wages also recorded a decline during the quarter. On the contrary, an increase was observed on allowances to employees which partly reflected increased additional costs on government employees; more specifically health-sector related employees amid the ongoing health crisis. Meanwhile, capital expenditure observed an increase of MVR720.5 million, primarily due to higher lending stemming from the COVID-19 Recovery Loan Scheme as well as increased capital spending on infrastructure assets. The increase in infrastructure assets mirrored the spending on land and buildings, together with spending on wharves, ports and harbours which recorded increases of MVR270.0 million and MVR62.5 million, respectively (Figure 15).

Figure 14: Composition of Tax Revenue, 2019 - 2020



Source: Ministry of Finance

Figure 15: Composition of Recurrent Expenditure, 2019 - 2020



Source: Ministry of Finance

[17] The government allowed a year-long deferment on tourism land rent as well as those on agricultural islands, as part of the fiscal measures in response to COVID-19.

Monetary Developments

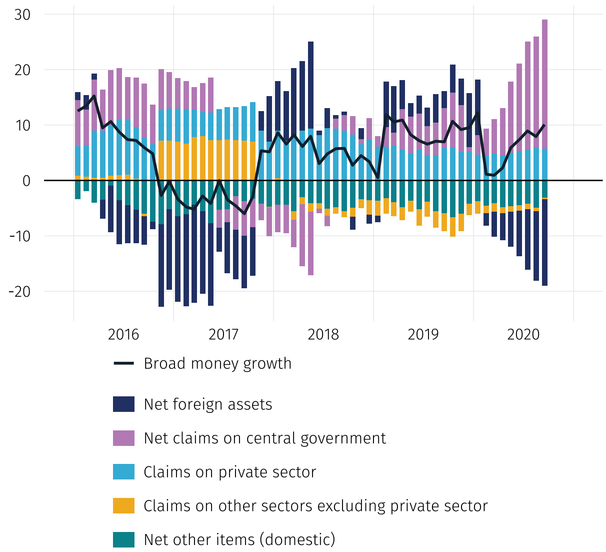
Broad Money

The annual growth rate of broad money (M2 or money supply) accelerated to 10% at the end of September 2020, after recording 7% at the end of June 2020 (Figure 16). On the components side, this was due to increases in both the transferable deposit base (demand deposits) and other deposits (savings and time deposits), mostly local currency demand deposits, of the banking system. In addition, currency outside depository corporations recorded an increase over the review period. Demand deposits—which accounted for 70% of the money supply during the period—rose by 8%, an acceleration from 6% recorded at the end of June 2020. The growth in demand deposits during the period stemmed from an increase in such deposits denominated in local currency, despite foreign currency denominated demand deposits observing a decline over the period. In this regard, the increase in local currency denominated demand deposits stemmed mainly from an increase in such deposits by private individuals as well as private non-financial corporations. Similarly, other deposits—which accounted for 21% of money supply—maintained its high growth trajectory, recording 12% at the end of September 2020, after registering a growth of 14% at the end of June 2020. This growth reflected the rise in both foreign and local currency savings and time deposits during the period. Meanwhile, currency outside depository corporations—which accounted for 9% of money supply—increased significantly by 18%, after recording an annual increase of 4% at the end of June 2020.

On the sources side, the acceleration in broad money growth reflected a 36% increase in net domestic assets (NDA) of the banking system, despite a decrease in net foreign assets (NFA) of the banking system, which recorded an annual decline of 54% at the end of September 2020. Looking at the developments in NDA, the growth in NDA

Figure 16: Contribution to Broad Money, 2016 - 2020

(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

was on account of a substantial increase in NDA of commercial banks during the period, although NDA of the MMA observed a decline. The increase in NDA of commercial banks was mainly driven by the increase (MVR6.9 billion) in net claims on central government (NCG), while the increase (MVR1.9 billion) in commercial banks' credit to the private sector also contributed. In particular, the increase in commercial banks' NCG largely reflected the annual expansion in government securities. On the other hand, the fall in NDA of the MMA largely reflected an increase in overnight deposit facility (ODF) placements by commercial banks, which surpassed the increase in NCG by the MMA. The increase in NCG by the MMA reflected the impact of monetisation. It is noteworthy that, the growth in NCG by the MMA stood at 19% at the end of September 2020, observing a significant deceleration from June 2020. Meanwhile, the decrease in NFA stemmed from the fall in NFA of commercial banks, albeit an increase in NFA of the MMA. The decline in the NFA of the commercial banks was mainly due to increase in foreign liabilities together with a decline in foreign assets, primarily due to the decrease in foreign currency deposits held abroad. The growth in NFA of the MMA can be attributed to a significant increase in foreign asset accumulation which surpassed the surge in foreign liabilities.

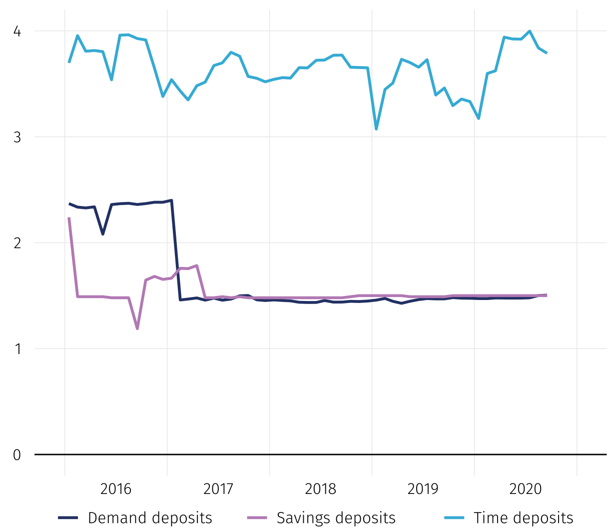
Credit to Private Sector

Credit to the private sector continued to grow and stood at MVR26.4 billion at the end of September 2020. This depicted an annual growth rate of 8% (MVR1.9 billion), an acceleration compared to 7% recorded in June 2020. During the quarter, credit extended to tourism, construction, commerce, and as personal loans accounted for the highest shares of credit over the period. Credit extended to the tourism sector (which accounted for 39% of total private sector credit) observed the largest growth over the quarter, registering an 11% annual growth. This was largely due to the significant rise in credit extended as working capital—reflecting an increase in such loans disbursed to the sector, following the COVID-19 pandemic. In addition, credit extended for new resort development contributed to this growth. Meanwhile, credit extended to the construction sector rose by 9%, primarily driven by the growth in credit lent for the construction of residential housing. However, a decline was observed in credit extended to the commerce sector, stemming from the decline in credit for wholesale and retail businesses together with a decrease in credit extended to restaurant and cafés. In contrast, credit extended as personal loans continued to a show remarkable growth, recording 15% at the end of the period, reflecting the rise in credit extended as credit cards and consumer durables.

Interest Rates

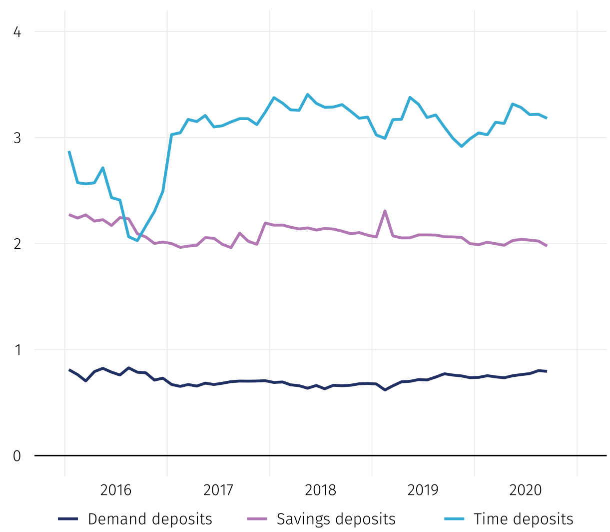
As for interest rates, the rates on both local and foreign currency demand deposits registered an annual increase at the end of September 2020. Likewise, rates on both local and foreign currency time deposits (maturity of six months to one year) increased during the period. As for savings deposits, interest rates on local currency denominated savings deposits observed a marginal increase, while the interest rates on foreign currency savings deposits decreased over the period (Figure 17 and 18). With regard to interest rates of loans to the private sector, interest rates on local currency denominated private sector loans increased during the period, while the rates on foreign currency denominated private sector loans declined (Figure 19).

Figure 17: Interest Rate on National Currency Deposits, 2016 - 2020
(weighted average)



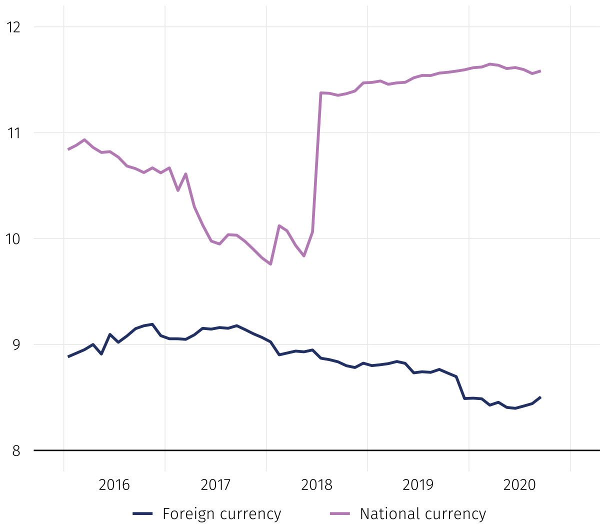
Source: Maldives Monetary Authority

Figure 18: Interest Rate on Foreign Currency Deposits, 2016 - 2020
(weighted average)



Source: Maldives Monetary Authority

Figure 19: Interest Rate on Private Sector Loans and Advances, 2016 - 2020
(weighted average)



Source: Maldives Monetary Authority

Financial Sector

Banking Sector

Performance of the banking sector during Q3-2020 show indications of the impact of COVID-19 pandemic. During the quarter, significant decline in profitability and signs of deteriorating asset quality were evident. However, the capital strength remained strong with key prudential indicators being well above the regulatory minimum requirements. Capital as a percentage of risk-weighted assets was at 48% against the minimum requirement of 12%, on account of the significant portion of low risk assets in the asset portfolio. The leverage capital ratio, measured by equity (Tier 1 Capital) to assets, stood at 22% (against the minimum requirement of 5%).

At the end of Q3-2020, the year-to-date pre-tax profits were MVR1,462.2 million, a decline of 24% compared to a year ago, mainly on account of the high provision expenses and decline in non-interest income. As the impact of the global COVID-19 pandemic was felt by borrowers across all sectors, banks were accommodative in providing loan moratoriums to affected borrowers for at least a period of six months. Loan loss provisions made during the year amounted to MVR608.1 million, more than 2.4 times the provisions made during the same period in 2019. Total loan loss provisions accounted for MVR3.1 billion at the end of Q3-2020, an increase of 34% from Q3-2019. Furthermore, the net non-interest income declined by 120% or MVR220.9 million compared to Q3-2019, with the decrease in fee income as commercial activities reduced significantly in the economy. The profitability ratios, return on assets and return on equity, decreased from 4% and 15%, to 3% and 10%, respectively, compared with the year-to-date profitability ratios recorded at the end of Q3-2019.

Net loans constituted 44% of the asset portfolio and amounted to MVR25.9 billion at the end of the quarter. In terms of gross loans, there was an annual growth of 9% (equivalent to MVR2.4 billion), and a quarterly growth of 5%, with the majority of the new loans having been granted to the tourism sector. While an increase in the absolute value of the non-performing loans (NPLs) by 1% or MVR27.2 million, was seen during the quarter, the percentage of NPLs in the total loan portfolio remained steady at 9%. The total provision coverage increased further during the quarter, from 117% to 119% of the NPL portfolio, which significantly mitigated the risk to capital (Figure 20).

Total deposits recorded an annual growth of 11% or MVR3.6 billion to reach MVR37.1 billion. This was driven mainly by an increase in local currency deposits, which increased despite the economic slow-down, due to monetization. The impact of COVID-19 resulted in a significant decrease in foreign currency earnings in the economy, which combined with the use of foreign currency deposits for payments for imports, led to a decline in foreign currency deposits by 6% compared to the end of Q3-2019.

At the end of the Q3-2020, investments in debt securities amounted to MVR17.9 billion and accounted for 29% of the banks' asset portfolio. Liquidity remained strong, with a high proportion of banking sector's assets being in liquid assets such as placements in banks, the MMA, and investments in treasury bills. The ratio of total liquid assets to total deposits and borrowings was 55%. However with the decline in tourism, foreign currency liquidity has been trending downward, with such liquid assets at 33% of foreign currency deposits and borrowings as compared to 47% a year ago.

Finance Companies

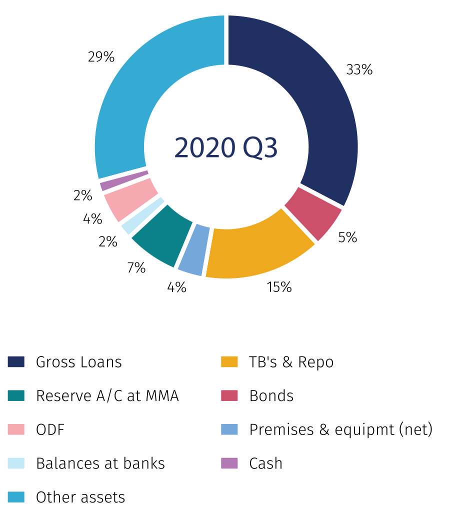
The non-bank financial sector consists of a specialized housing finance institution and two finance companies. In comparison to the previous quarter, the non-bank financial sector observed growth in total assets by 6.3%, reaching MVR3.0 billion in Q3-2020, on account of a capital injection by one of the institutions. Lending also improved slightly by 1.5% from the previous quarter. Similar to the banks, finance companies had also provided loan moratoriums to affected borrowers and some institutions extended the period until December 2020 and January 2021. At the end of Q3-2020, a total of MVR22.6 million had been reserved as loan loss provisions during the year, an increase of MVR20.8 million compared with the same period in 2019.

Capital strength of the industry remained strong with total capital to risk weighted assets ratio at 47.9%, indicating adequate capital for absorbing risks. The asset quality also remained satisfactory with a low NPL ratio of 3.1% at the end of Q3-2020, which however showed an increase from 2.6% in Q2-2020. This is reflective of an increase in absolute NPLs by 22% during the third quarter. At the end of Q3-2020, the year-to-date pre-tax profits were MVR105.8 million, a decline of 12% compared to a year ago, due to higher loan loss provisioning. The ROE and ROA declined as a result, from 16.9% and 5.8% in Q3-2019, to 9.8% and 3.9%, respectively.

Money Remittance Companies

Currently, there are three licensed money remittance businesses. Two remittance businesses

Figure 20: Gross Asset Composition of Banking Industry, 2020 Q3



Source: Maldives Monetary Authority

are actively providing remittance services, and one has been inactive following the COVID-19 related lockdown.

Remittance businesses had faced challenges in providing services during the lockdown earlier this year. However, moving on to Q3-2020, there was an increase noted in remittance following the ease of movement restrictions. Total outward remittances done through remittance businesses during Q3-2020 amounted to US$27.1 million. In terms of year-to-date outward remittances, US$77.5 million was remitted up to Q3-2020, an increase of 48% or US$25.1 million compared with 2019. The overall increase in outward remittance in 2020 is likely due to the portion of funds previously being remitted through the informal system re-entering the formal system following the abolishment of the Remittance Tax, in addition to the inability to have an informal system due to continuing challenges in international movement.

Outward remittances by foreigners amounted to 81% in Q3-2020, an increase from the 41% noted in Q3-2019. Most outward remittances in Q3-2020 were made for family maintenance and savings. Bangladesh remained the most prominent outward remittance destination, representing 67% of total outward remittance, followed by 14% to India.

Inward remittances received through remittance businesses amounted to MVR12.2 million in Q3-2020, a decrease of 33% compared with the inward remittance of Q3-2019. Most inward remittances in Q3-2020 originated from the United Arab Emirates, representing 26%.

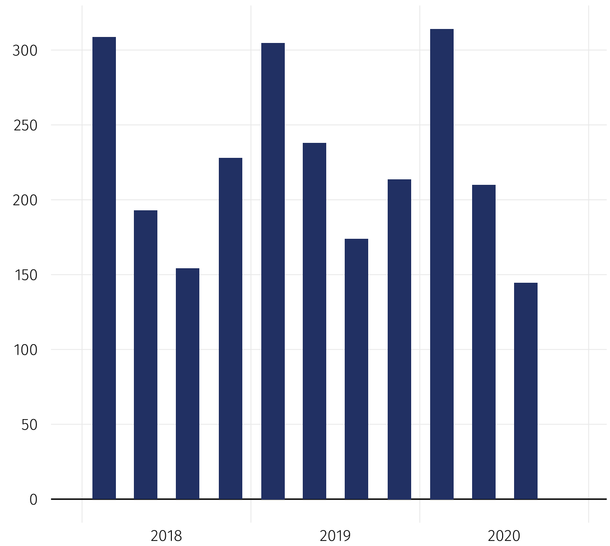
Insurance Industry

Gross Written Premium (GWP) for Q3-2020 was MVR144.3 million, a decrease of 17% compared to the same period in 2019, which is attributed to the economic slowdown caused by the outbreak of COVID-19. At the same time, Net Written Premiums during Q3-2020 totalled MVR48.3 million. The premium income from all major insurance classes, declined compared to Q3-2019. The most significant declines in the GWP were in marine cargo, health, and travel insurance (Figure 21).

The fire, health, and marine hull classes of insurance together contributed to 72% of the GWP, with a share of 41%, 20%, and 11% of the GWP, respectively. Insurance companies paid out a lower amount in claims in Q3-2020 than in Q3-2019; MVR67.5 million in Q3-2019 compared to MVR46.7 million in Q3-2020. This decrease was mainly from marine hull and health classes of insurance, both of which experienced 50% reductions in claims for Q3-2020 compared to Q3-2019. Similarly, net claims (gross claims after deduction of the portion borne by the reinsurers) also decreased from MVR31.5 million in Q3-2019 to MVR28.3 million in Q3-2020. The decrease in claims is attributed to the lockdown situation and overall downturn in business activities and movement restrictions during the quarter. Despite the decrease in net claims during the period, profitability of the insurance industry declined due to the significant reduction in GWP during the period (Figure 22).

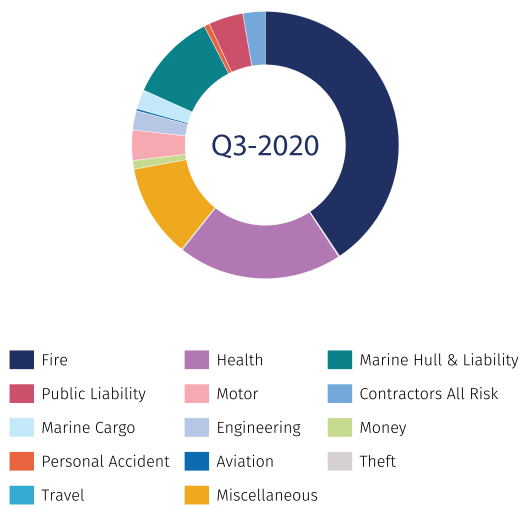
The retention ratio for Q3-2020 stood at 33% of the GWP, comparable to the 32% retained during the corresponding period of 2019. While fire, aviation, and marine insurance classes depend heavily on reinsurance, most of the premium generated from classes such as motor and health are retained by the companies. Insurance companies retained 20% of the premium from marine cargo class, while 92% of the premium income from motor insurance and 99% income from health insurance was retained. The insurance companies operating in the Maldives retain an average of 25-40 per cent of the premium underwritten, as the companies lack the capacity to absorb substantial risks (Figure 23).

Figure 21: Gross Written Premium, 2018 - 2020
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 22: Premium Contributions by the Classes of Insurance, Q3-2020



Source: Maldives Monetary Authority

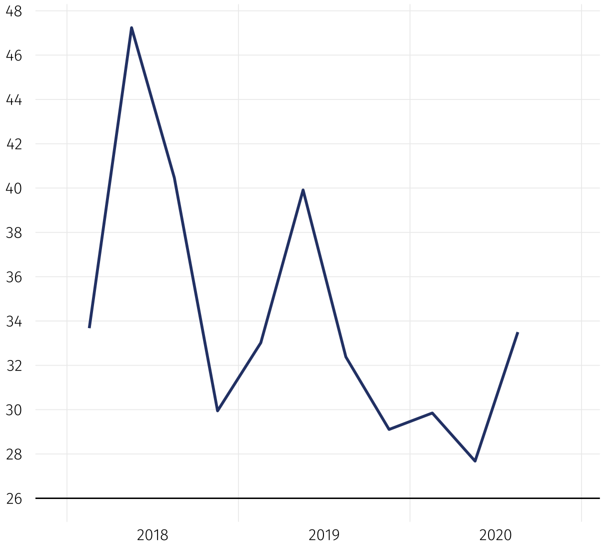
The industry received MVR24.5 million as reinsurance commission during Q3-2020, which made a significant contribution to the profits generated by the industry. The total industry expenditure for the quarter amounted to MVR44.8 million (Figure 24).

Total investments of the industry stood at MVR595.8 million at the end of Q3-2020. Debt Securities accounted for 56% of the total investments of insurance companies, with 27% invested in bonds and 29% in treasury bills (Figure 25).

Profit before tax declined significantly during Q3-2020, totalling MVR28.2 million; a decline of 21% compared to Q3-2019. In terms of year-to-date profits, the decline in 2020 was less significant at 3%, due to high profits made in the first quarter of the year. The decline in profitability during Q2 and Q3 of 2020 was mainly on account of the significant decrease in GWP due to the economic slowdown resulting from the COVID-19 pandemic (Figure 26).

Figure 23: Retention Ratio, 2018 - 2020

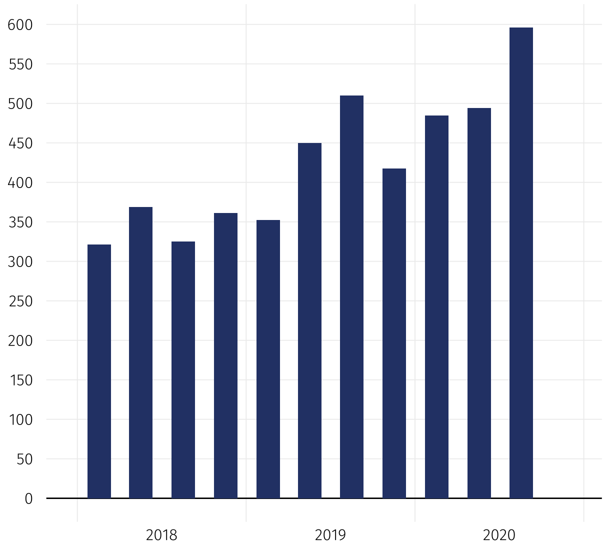
(percent)



Source: Maldives Monetary Authority

Figure 25: Investments, 2018 - 2020

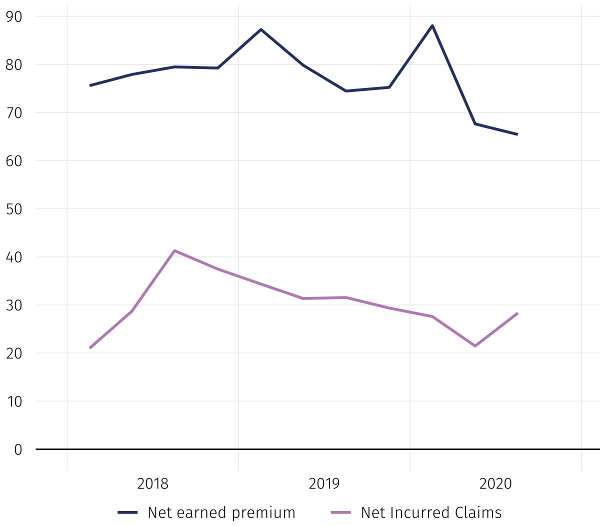
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 24: Net Earned Premium vs Net Incurred Claims, 2018 - 2020

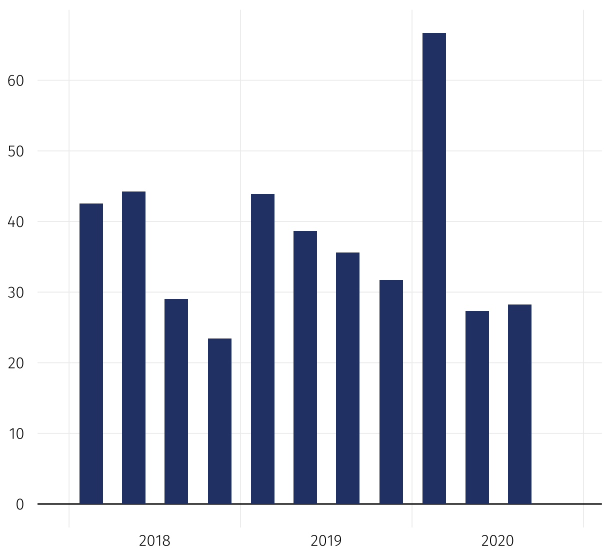
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 26: Pre-tax Profit, 2018 - 2020

(millions of rufiyaa)



Source: Maldives Monetary Authority

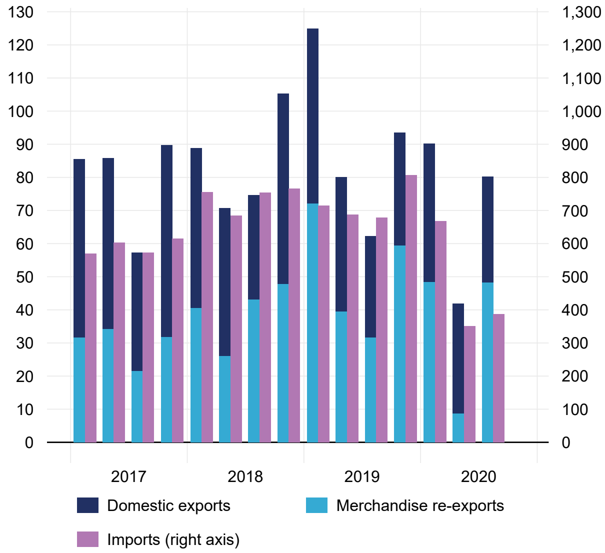
External Trade

Merchandise Exports

Total merchandise exports registered a growth of 29% (US$18.0 million) in Q3-2020 when compared with Q3-2019 and totalled US$80.2 million. This reflected a significant increase in merchandise re-exports, coupled with an increase in domestic exports during the quarter (Figure 27). The growth in merchandise re-exports, which rose markedly by 53% (US$16.7 million) in Q3-2020 was mainly due to the increase in re-exports of capital goods during the review quarter. Despite the opening of the country's borders on 15 July 2020 and the easing of lockdown measures in the country, re-exports of jet fuel fell significantly in annual terms during Q3-2020, owing to the low demand for tourism across the globe.

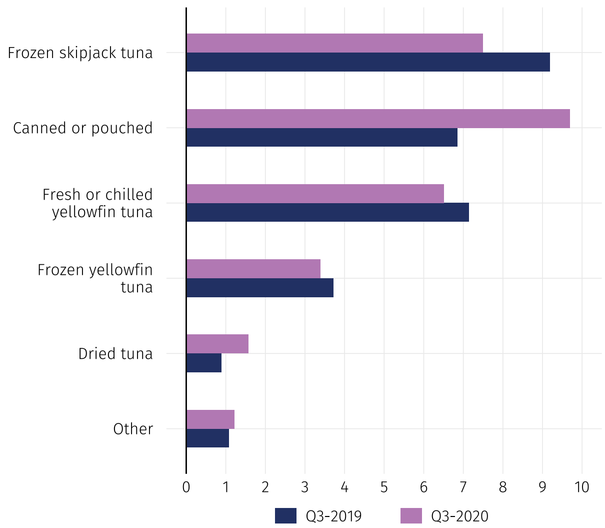
Domestic exports—which mainly comprise fish and fish products—increased by 4% (US$1.3 million) during Q3-2020 and totalled US$32.0 million. This was largely due to an increase in export earnings from canned or pouched tuna as well as processed tuna, as the remaining major categories posted declines in export earnings. Export earnings from canned or pouched tuna rose by 41% (US$2.8 million), reflecting an increase in both the export volume and the demand for such products during the quarter (Figure 28). Additionally, earnings from processed tuna exports increased by 89% (US$1.0 million) in Q3-2020. Meanwhile, export earnings from frozen skipjack tuna fell by 18% (US$1.7 million), reflecting the fall in the volume of such exports. The skipjack prices in the Bangkok frozen market increased in August 2020 to MVR23.9 per kilogram, and continued to remain the same throughout the quarter, most likely owing to the sustained global demand for shelf-stable canned tuna—for which skipjack tuna is a popular raw material. As for yellowfin tuna exports, the export earnings from fresh or chilled yellowfin tuna declined by 9% (US$0.6 million) during the review quarter, largely reflecting the fall in export volumes. Likewise, frozen yellowfin tuna earnings also fell by 9% (US$0.3 million), mirroring the decline in the volume of such exports. Although the yellowfin tuna prices were higher on average in annual terms in Q3-2020, prices declined towards the end of the quarter. As such, prices of yellowfin tuna in the Spain's Mercamadrid fresh fish market observed a fall from MVR404.5 per kilogram in August 2020, to MVR313.3 in September 2020.

Figure 27: Total Trade Summary, 2017 - 2020
(millions of US dollars)



Source: Maldives Custom Service

Figure 28: Composition of Fish Export Earnings, 2019 - 2020
(millions of US dollars)



Source: Maldives Customs Service

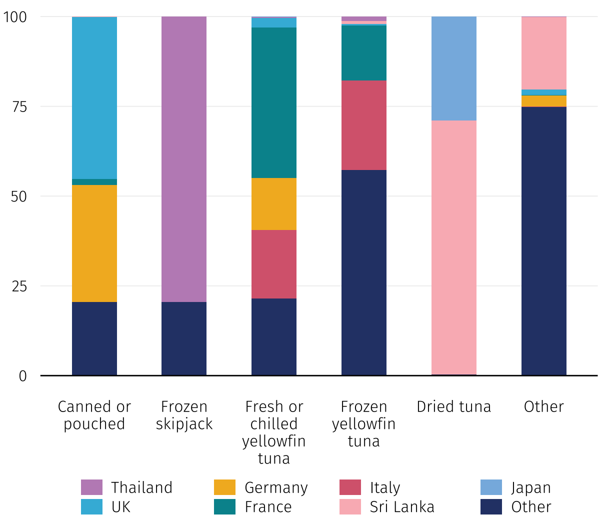
As for the direction of trade of exports, Europe became the major continental exports destination during the quarter, accounting for 54% of domestic exports in Q3-2020—a marked increase from 41% in Q3-2019 (Figure 29). Meanwhile, Asia became the second-largest destination for exports with a share of 39% in Q3-2020, down from 49% in the corresponding quarter of 2019. During Q3-2020, a growth in export demand was observed in a majority of the European export markets, in comparison to the Asian markets. Nonetheless, Thailand remained the dominant export market and accounted for 19% of total domestic exports, although this is a noteworthy fall from 32% recorded in Q3-2019. Meanwhile, the second-largest export market was the UK, accounting for 14% of total domestic exports, an increase from 10% registered in Q3-2019. Other notable export destinations include Germany, Italy and Sri Lanka, all of which observed increases in terms of share of total exports during the review quarter.

Merchandise Imports

Total merchandise imports (c.i.f) recorded a decline of 43% (US$291.0 million) during Q3-2020 and totalled US$386.9 million. Despite the reopening of the country's borders at the beginning of the quarter, domestic activity remained subdued. Consequently, a continuous broad-based decline was observed for all major import categories during the review quarter (Figure 30). As such, the main contributors to the annual decline in imports were food items, which fell significantly by 51% (US$64.8 million), followed by petroleum products, which recorded a fall of 51% (US$55.3 million) and construction-related items which decreased by 43% (US$51.9 million). Furthermore, import expenditure on transport equipment and parts declined by 72% (US$33.4 million), while expenditure on machinery and mechanical appliances dropped by 34% (US$14.9 million). However, growths were registered for import expenditure linked to the COVID-19 pandemic containment and mitigation efforts, such as the medical and surgical supplies which increased by 71% (US$6.3 million) and pharmaceuticals which registered a growth of 14% (US$1.3 million) during the review quarter.

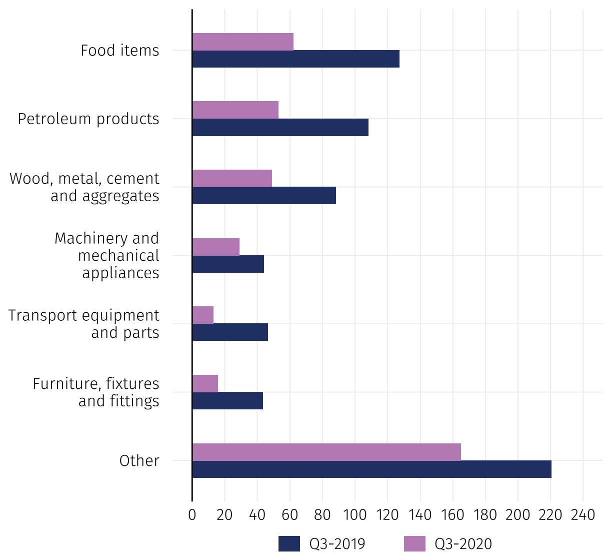
With regard to the direction of the trade of imports, Asia remained the largest continental source of imports, accounting for 85% of total merchandise imports during Q3-2020—an increase compared with 81% recorded during Q3-2019 (Figure 31). This was followed by Europe, accounting for 10% of total imports. During Q3-2020, China was the single-largest source market for imports, accounting for 17% of total imports—an uptick from 16% in Q3-2019. This was followed closely by India,

Figure 29: Direction of Trade by Domestic Export Categories, Q3-2020
(percent)



Source: Maldives Customs Service

Figure 30: Composition of Imports, 2019 - 2020
(millions of US dollars)



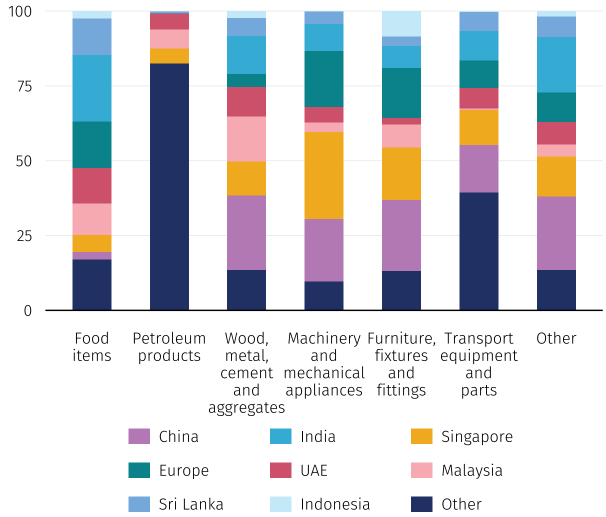
Source: Maldives Customs Service

accounting for 14% of the total imports during the quarter, which was an increase from 10% in Q3-2019. While Singapore and the UAE, accounted for 12% and 8% of total imports, respectively, the share of imports from Singapore remained unchanged during the review quarter. However, for the UAE this was a considerable decline from 18% in the corresponding quarter of 2019.

Gross International Reserves

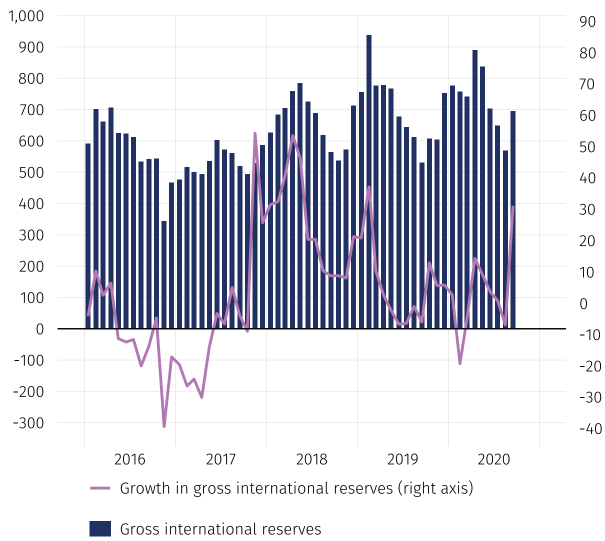
Gross international reserves (Official Reserve Assets)[18] observed a notable increase to total US$696.1 million at the end of Q3-2020, recording a growth of 31% when compared with the corresponding quarter of 2019 (Figure 32). However, only a marginal growth was recorded in quarterly terms during the review quarter. The annual growth in gross international reserves was due to the US$150 million swap facility obtained from the Reserve Bank of India as well as the US$250 million treasury bond issued in September 2020, despite the decline in foreign currency reserve balances of the commercial banks.

Figure 31: Direction of Trade by Import Categories, Q3-2020
(percent)



Source: Maldives Customs Service

Figure 32: Gross International Reserves, 2016 - 2020
(millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

[18] Also called official reserve assets comprise foreign currency deposits of the MMA and the government, commercial banks' US dollar reserve accounts and Maldives' reserve position at the IMF.

STATISTICAL APPENDIX

Table of Selected Economic Indicators, 2017 - 2020

(annual percentage change over the corresponding period, unless stated otherwise)

	2017	2018	2019	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3
Real Sector										
Tourist arrivals	8	7	15	15	24	10	12	-21	-100	-95
Bednights of resorts	11	9	12	8	21	9	13	-9	-99	-90
Operational capacity of resorts	13	6	14	6	14	17	18	16	-87	-54
Occupancy rate of resorts (%)	73	75	74	88	69	66	74	68	4	10
Average stay (days)	6.2	6.4	6.3	6.3	6.4	6.1	6.3	7.6	38.8	12.7
Fish purchases	42	3	3	18	1	15	-15	-14	-39	10
Prices [1]										
Total (Republic)	2.8	-0.1	0.2	-1.2	1.3	0	0.9	0.7	-4.0	-1.1
Total excluding fish	2.8	-0.3	0.5	-1.3	1.7	0.3	1.1	0.6	-4.4	-1.2
Food and non-alcoholic beverages excluding fish	6.6	-2.2	-0.1	-5.4	2.4	-0.9	3.7	4.0	2.5	2.9
Government Securities (millions of rufiyaa)										
Government securities outstanding	23,414.2	24,262.0	28,591.2	25,405.6	26,218.8	26,445.5	28,591.2	30,283.8	31,427.9	36,311.8
Treasury bonds	9,320.9	9,248.4	9,626.4	9,227.2	9,210.4	9,190.4	9,626.4	9,649.5	9,622.0	13,488.7
Treasury bills	14,093.4	15,013.6	18,964.7	16,178.4	17,008.4	17,255.2	18,964.7	20,634.3	21,805.9	22,823.1
MMA	82.4	90.3	103.6	91.5	91.4	103.9	103.6	102.8	103.1	96.9
Commercial banks	8,694.4	9,605.5	11,954.4	10,357.4	10,755.0	10,815.1	11,954.4	12,245.1	12,663.7	13,473.7
Others	5,316.5	5,317.8	6,906.8	5,729.6	6,161.9	6,336.2	6,906.8	8,286.5	9,039.2	9,252.5

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

[1] The inflation rate for the year refers to the period average values, whereas inflation for the quarter represents the annual percentage change in the three-month-average.

	2017	2018	2019	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3
Money and banking										
Broad money	5	3	10	11	7	7	10	1	7	10
Net foreign assets	32	-5	33	23	10	11	33	-11	-24	-54
Net domestic assets	-4	7	0	3	6	6	0	9	24	36
Net claims on central government	-12	10	2	7	19	19	2	19	42	55
Claims on other sectors	9	6	4	5	3	3	4	5	6	7
o/w Private sector	12	11	7	10	8	8	7	8	8	8
Reserve money	19	8	-4	10	-4	-4	-4	-1	7	-4
Monetary operations[1]										
Open market operations[2]	0	0	0	0	0	0	0	0	0	0
Overnight Deposit Facility	-4	2	-26	-34	-39	-25	6	-19	25	74
External trade										
Merchandise exports (f.o.b.)	24	7	6	23	9	-20	-13	-16	-85	76
Domestic exports	43	-9	-13	10	-9	-2	-41	-21	-18	4
o/w Fish exports	43	-10	-14	9	-9	-3	-42	-20	-16	3
Re-exports	2	32	29	36	27	-39	17	-13	-136	205
Merchandise imports (c.i.f.)	11	25	-2	-5	0	-10	5	-7	-49	-43
o/w Food	8	7	10	9	13	12	7	6	-46	-51
o/w Petroleum	27	44	3	4	16	-11	4	-3	-67	-51
o/w Construction-related imports	24	34	-17	-21	-16	-35	14	-16	-53	-43

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

[1] Monetary operations figures repesent the average investment.

[2] Open market operations were suspended May 2014 onwards.

	2017	2018	2019	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	13	12	12	14	12	12	10	10	11	12
o/w India	12	10	10	10	9	10	10	12	15	14
o/w Sri Lanka	7	6	6	6	5	6	6	6	6	6
o/w UAE	18	18	19	18	22	18	18	15	12	8
o/w Thailand	5	4	4	4	5	5	3	4	3	3
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	49	36	36	36	40	32	36	45	46	19
o/w Sri Lanka	4	3	3	4	2	3	4	2	2	6
o/w France	7	7	9	9	9	11	11	9	6	11
o/w Germany	7	13	12	12	16	9	9	10	12	13
External Reserves										
Gross international reserves (millions of US dollars)	587.3	712.2	753.5	776.3	677.5	531.0	753.5	741.6	702.5	696.1

Source:

Ministry of Tourism; Ministry of Fisheries, Marine resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service, Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority

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