

ECONOMIC UPDATE

JULY 2020

VOLUME 2 ISSUE 7



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 12 August 2020.

Domestic Economic Developments

Real Economy

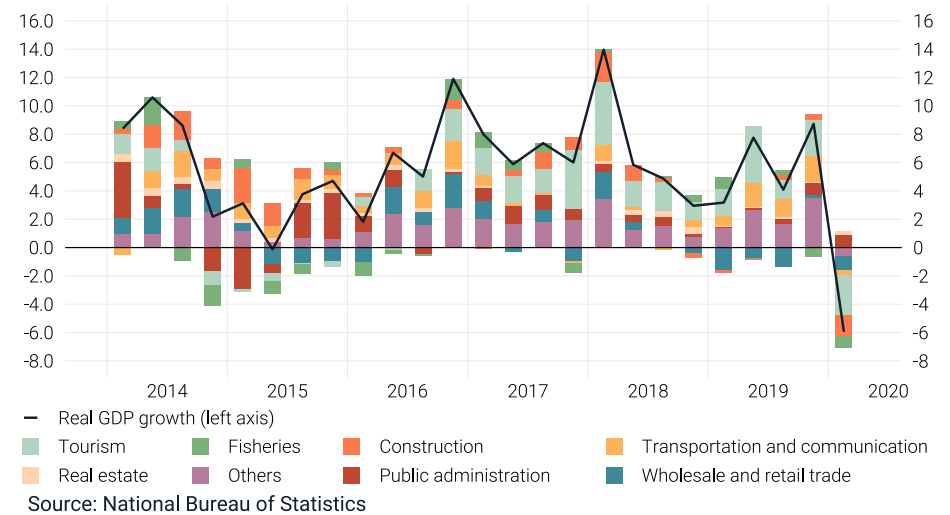
Gross Domestic Product

- According to the first estimate of the Quarterly National Accounts for Q1-2020 released by the National Bureau of Statistics, real GDP declined significantly by 5.9% in Q1-2020, when compared with the same quarter a year ago, from the revised growth rate of 8.7% for Q4-2019 (previously at 8.0%).
 - The decline in growth during Q1-2020 largely reflected the adverse effects of spread of the COVID-19 pandemic on the domestic economy. As such, negative contributions were observed in main sectors of the economy including tourism; construction; and wholesale and retail trade sector.
 - Meanwhile, activity in public administration; and human health and social work activities picked up over the review quarter.

Annual GDP Growth Forecast

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

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

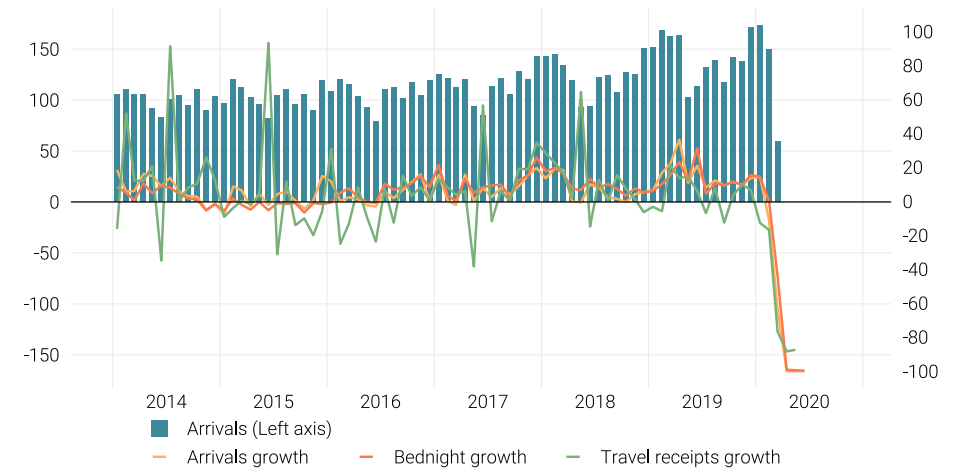


Tourism

- In June 2020, no new tourist arrivals were registered, while bednights fell significantly.
 - The halt in tourist arrivals stemmed from the government’s decision to impose travel restrictions with the temporary closure of the international border in March 2020, as a measure to contain the spread of COVID-19 pandemic.
- During the review period, the operational bed capacity of the tourism industry decreased by 88%, while the occupancy rate fell to 1% in June 2020 from 50% in June 2019.
- Overall, for the period January to June 2020, total tourist arrivals decreased by 56% in annual terms, while total bednights of the industry recorded a 50% decline.

Tourism, 2014 - 2020

(thousands, annual percentage change)

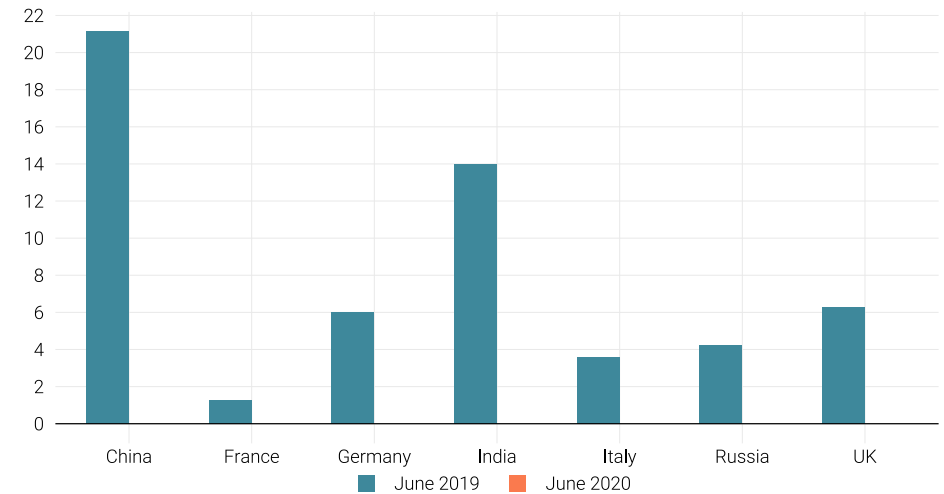


Source: Ministry of Tourism

Note: Tourism receipts available up to May 2020.

Shares of Key Inbound Markets

(percent)



Source: Ministry of Tourism

Inflation

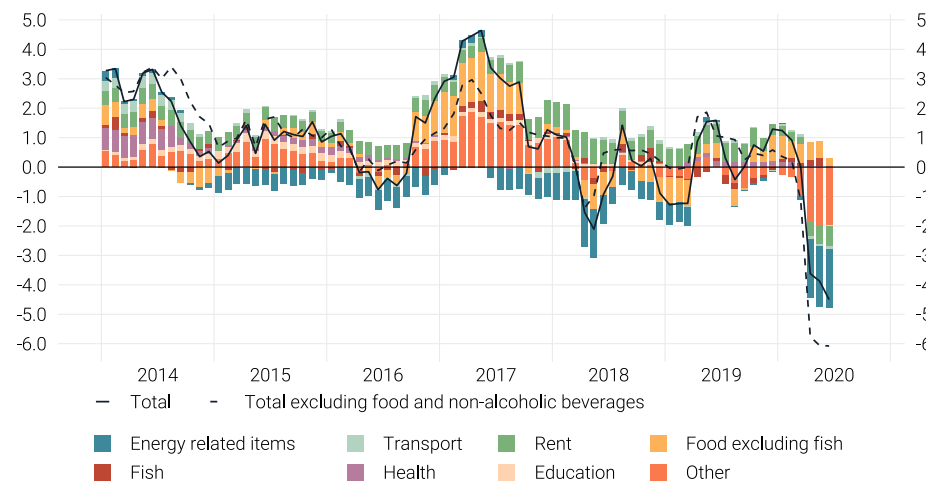
- The rate of inflation, as measured by the annual percentage change in the national CPI, declined further to -4.5% in June 2020, after recording -3.9% in May 2020. The decline in inflation mainly reflected government subsidies on electricity and water charges; and extra data allowances given by telecommunication companies due to COVID-19; as well as the fall in housing rent—reflecting the temporary relief given on rent due to COVID-19—which offset the increase in prices of vegetables.

- From the major categories of the CPI, the largest contributors to the annual rate of inflation during May 2020 were electricity (-1.9 percentage points); information and communication services (-1.2 percentage points); housing rent (-0.7 percentage points); and water supply (-0.6 percentage points); and vegetables (0.5 percentage points).

- Similarly, the monthly percentage change in the national CPI turned negative to -0.4% in June 2020, after recording 0.1% in May 2020.

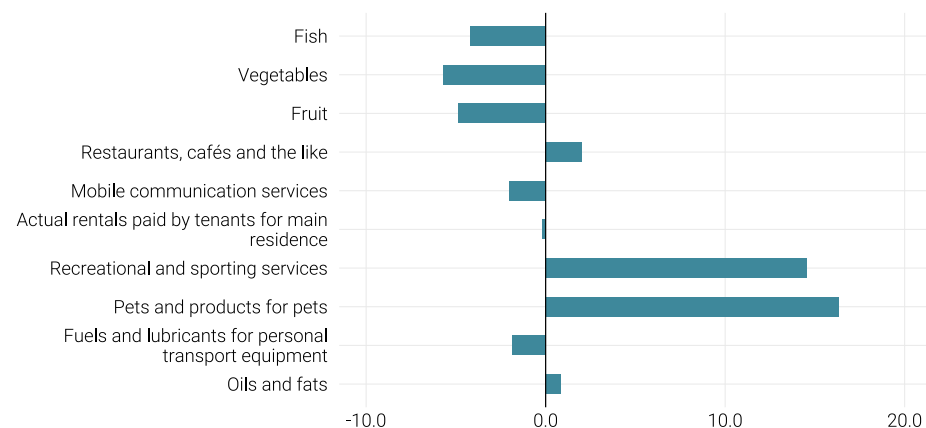
- The largest contribution to the monthly rate of inflation came from fish (-0.2 percentage points);vegetables (-0.1 percentage point); fruits (-0.1 percentage point); information and communication services (-0.1 percentage point); and restaurant and cafés (0.1 percentage point).

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



Source: National Bureau of Statistics

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



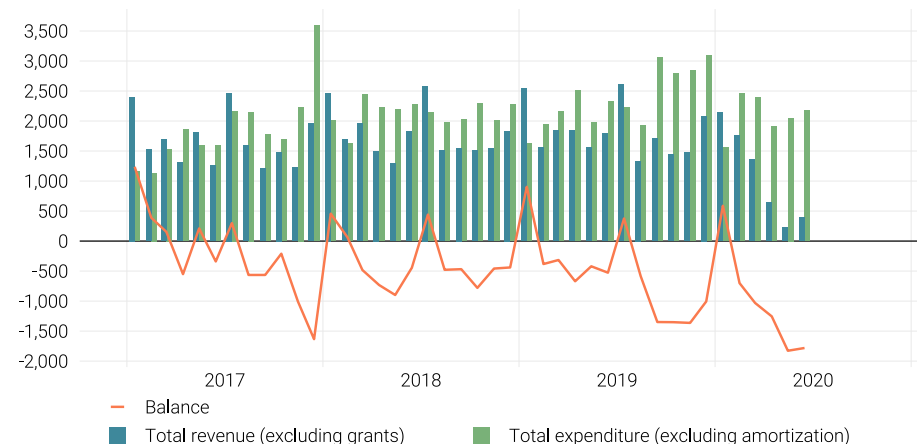
Source: National Bureau of Statistics
Note: Ordered by the size of the contribution.

Public Finance

- Total government revenue (excluding grants) observed a decline of MVR1.4 billion (or 78%) in June 2020 when compared with June 2019.
 - This was due to a fall in tax revenue as well as non-tax revenue. As such, tax revenue declined by MVR1.1 billion, while non-tax revenue decreased by MVR297.8 million.
- Total expenditure (excluding amortisation) decreased by MVR148.6 million (or 6%) in June 2020 when compared with June 2019.
 - The fall in expenditure stemmed from a decline in recurrent expenditure, which posted a decrease of MVR117.5 million, while capital expenditure also decreased by MVR31.1 million..
- According to the latest available data, the stock of government debt (excluding government guaranteed debt) amounted to MVR55.8 billion in Q1-2020, a 3% increase from Q4-2019. Similarly, government debt as a percentage of GDP¹ increased to 86% at the end of Q1-2020.
 - During this period, the increase in government debt was driven by domestic debt.

Government Revenue and Expenditure, 2017 - 2020

(millions of rufiyaa)

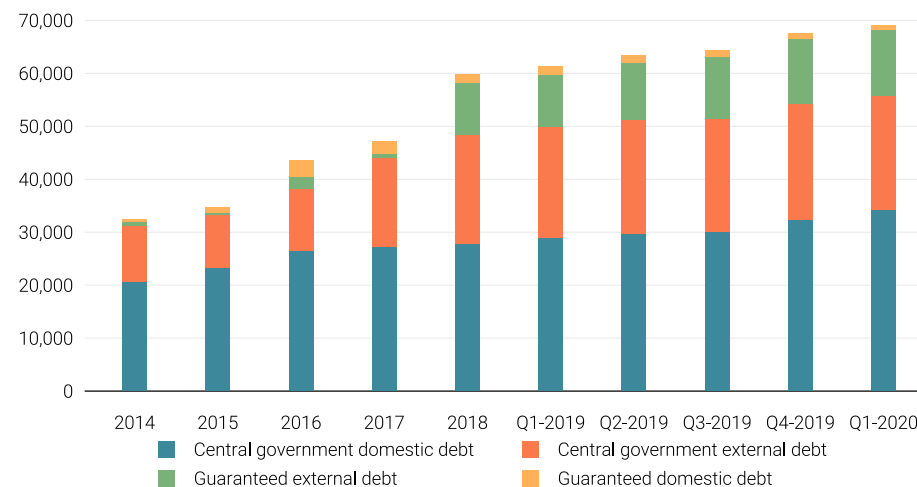


Source: Ministry of Finance

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

Total Outstanding Stock of Public Debt, 2014 - 2020

(millions of rufiyaa)



Source: Ministry of Finance

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

Monetary Developments

Reserve Money

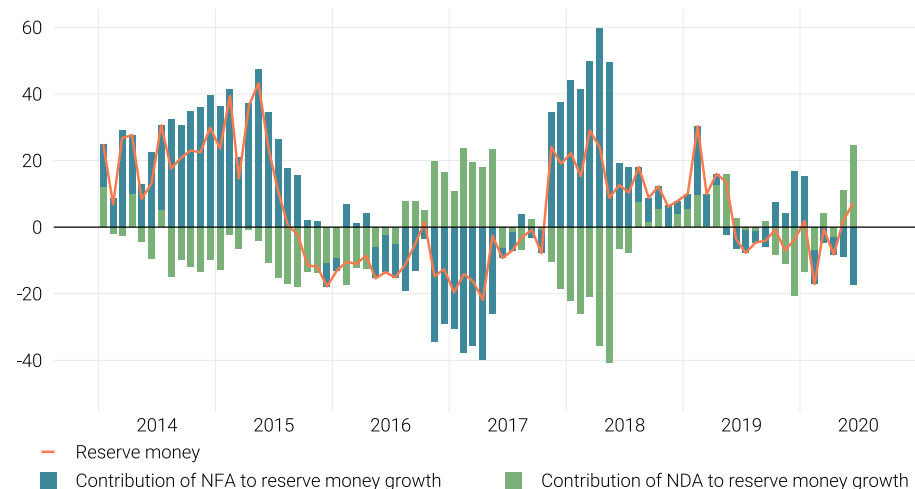
- Annual reserve money (M0) growth accelerated further to 7% in June 2020, after recording an increase of 2% in May 2020.
 - The acceleration of reserve money growth stemmed from an increase in net domestic assets of the MMA, despite a fall in net foreign assets.
 - The increase in net domestic assets mainly reflected the growth in net claims on central government, while net foreign assets declined, owing to a surge in foreign liabilities as well as due to a decline in foreign asset accumulation.

Broad Money

- Broad money (M2) growth accelerated to 7% in annual terms at the end of June 2020, after registering 6% during the previous month.
 - On the components side, the acceleration in broad money growth was primarily due to a growth in narrow money, which mainly reflected an increase in transferable deposits. Meanwhile, quasi money increased largely mirroring an increase in time and savings deposits denominated in both local and foreign currency, despite the decline in foreign currency transferable deposits.
 - As for the sources, broad money growth was driven by the increase in net domestic assets of the banking system, which stemmed from the rise in net claims on central government by the MMA and commercial banks, as well as the increase in private sector credit, while growth in net foreign assets posted a decline.

Sources of Reserve Money, 2014 - 2020

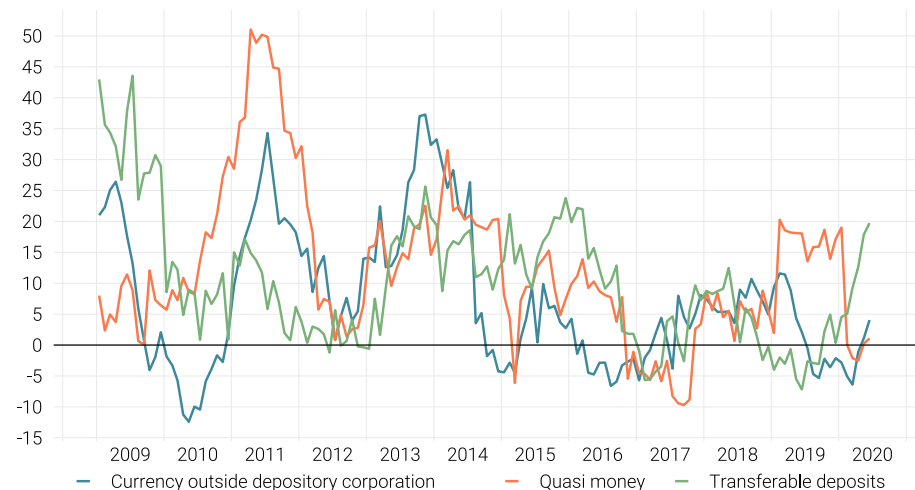
(annual percentage change, contribution percent)



Source: Maldives Monetary Authority

Components of Broad Money, 2009 - 2020

(annual percentage change)

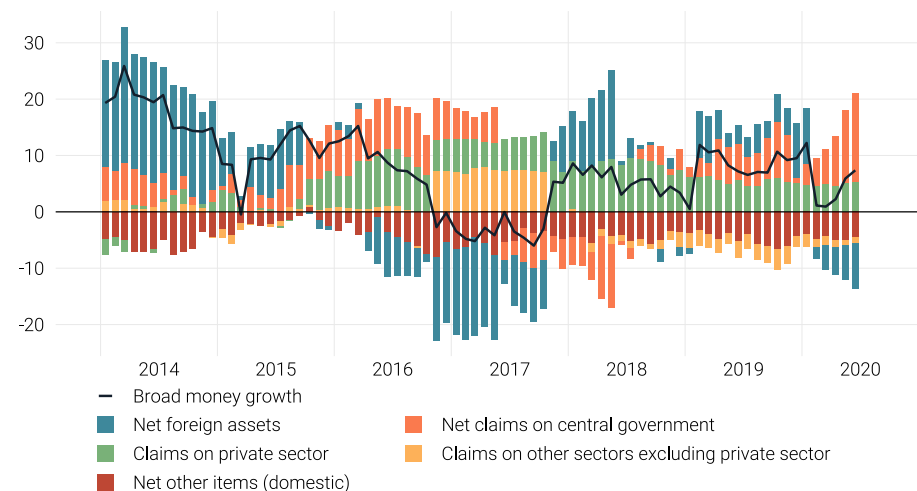


Source: Maldives Monetary Authority

Credit to Private Sector

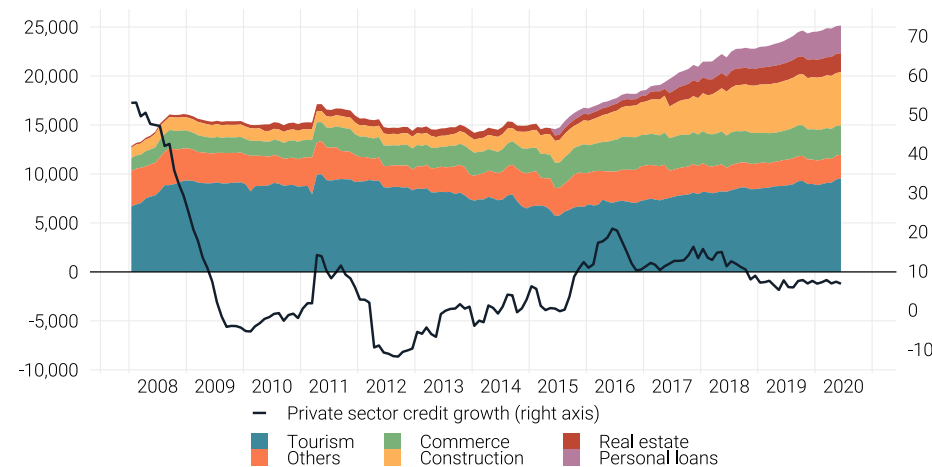
- The annual growth rate of credit to the private sector by commercial banks remained unchanged at 7% at the end of June 2020.
 - With regard to the composition of credit to private sector, similar to the previous month, credit growth was observed for all main sectors, namely tourism, construction, real estate, and commerce; except for the transport and communication sector. In addition, credit extended as personal loans continued to expand rapidly and observed a significant increase over the period as well.
 - Credit extended to tourism sector observed the largest increase over the period registering an annual growth of 9% during June 2020, driven by the growth in credit in the form of working capital. This partially reflected the increase in working capital loans disbursed to the sector, as part of the government’s COVID-19 economic relief package.

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



Source: Maldives Monetary Authority

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



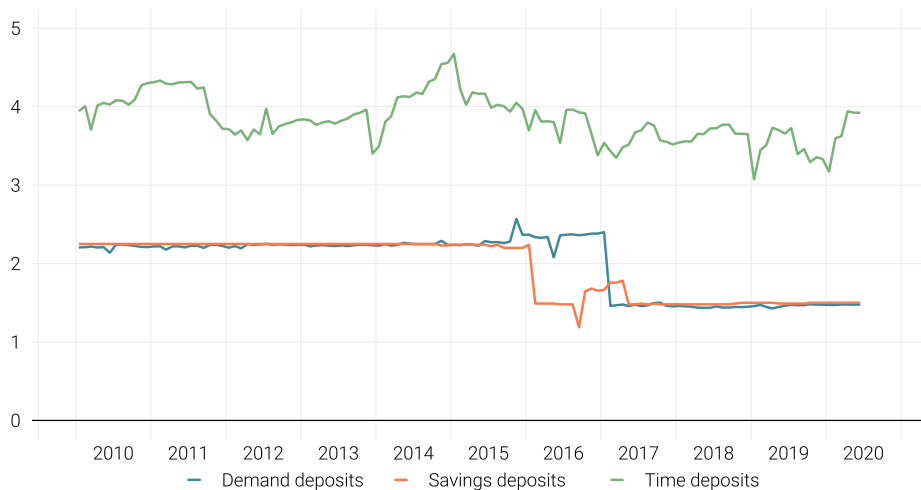
Source: Maldives Monetary Authority

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

Interest rates

Interest Rate on National Currency Deposits, 2010 - 2020

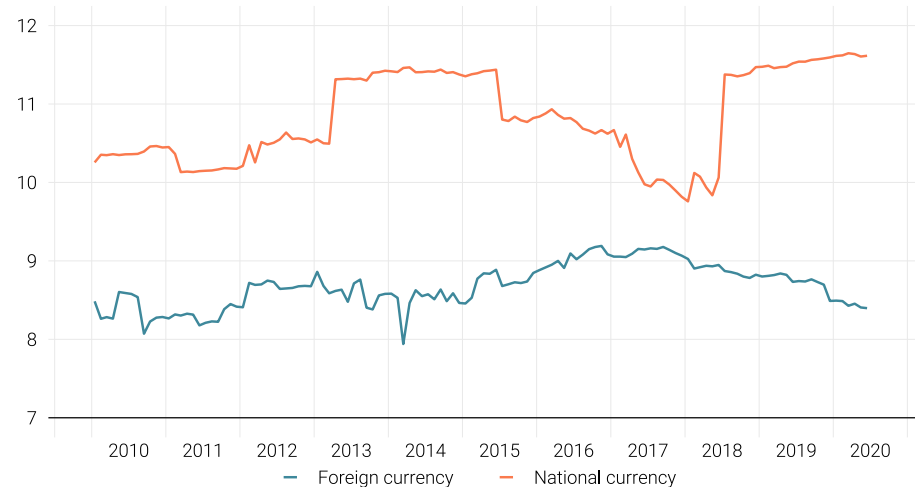
(weighted average)



Source: Maldives Monetary Authority

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

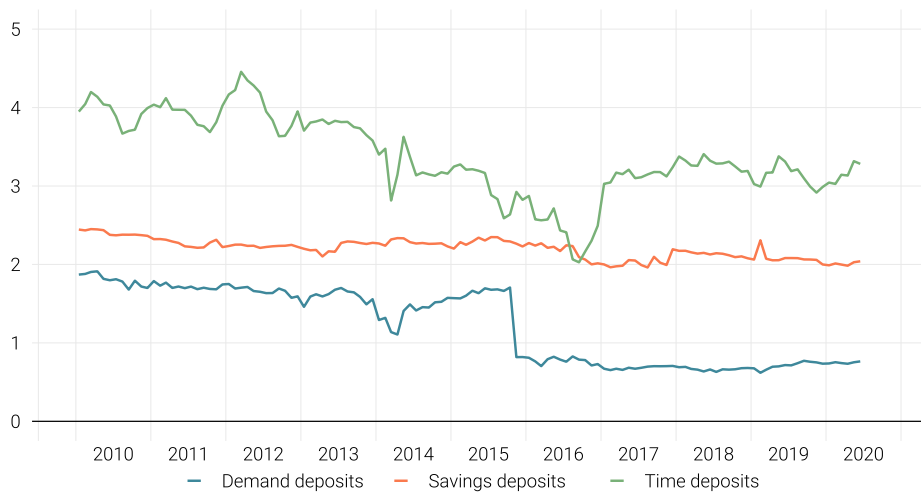
(weighted average)



Source: Maldives Monetary Authority

Interest Rate on Foreign Currency Deposits, 2010 - 2020

(weighted average)

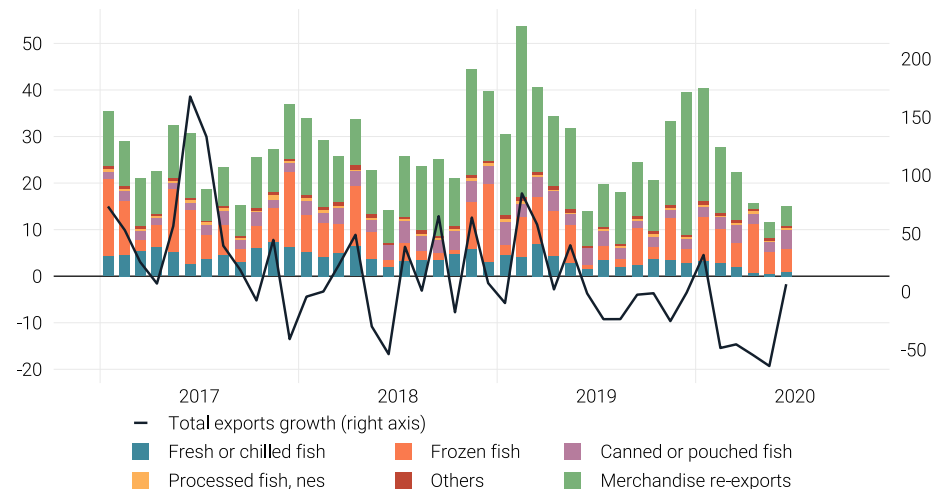


Source: Maldives Monetary Authority

External Trade

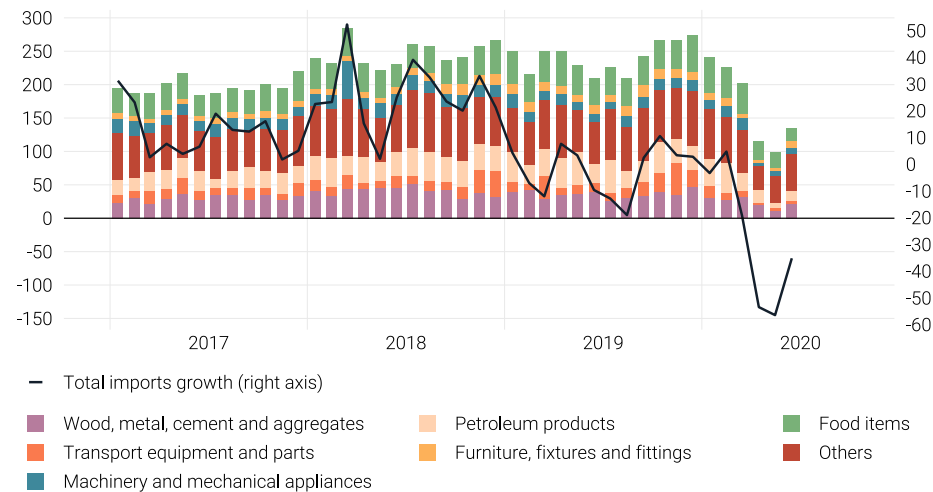
- Total exports (f.o.b) observed an annual increase of 6% in June 2020, while total imports (c.i.f) observed an annual decline of 35% during the period. In monthly terms, both total exports and imports expanded, by 30% and 36%, respectively.
 - The annual growth in total exports stemmed from a significant increase in domestic exports, despite a sizeable decline in re-exports. The increase in domestic exports was largely driven by the increase in export earnings from frozen yellowfin tuna, frozen skipjack tuna and canned or pouched tuna exports.
 - As for the annual decline in total imports, the most significant decreases were observed in the imports of food items, construction-related items and petroleum products; although the decline was broad-based across all major import categories. However, imports of medical and surgical supplies; electrical and electronic machinery and equipment; and pharmaceutical products expanded during the period.
- Overall, during the period January to June 2020, total exports recorded a 36% decline, while total imports decreased by 27%, when compared with the corresponding period of 2019.

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



Source: Maldives Customs Service

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

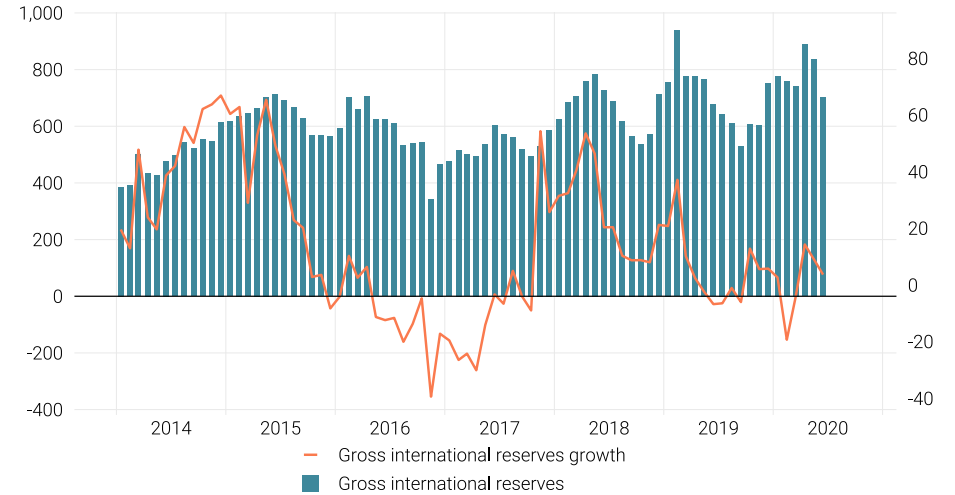


Source: Maldives Customs Service

Gross International Reserves

- Gross international reserves decreased to US\$702.4 million at the end of June 2020 from US\$836.9 million at the end of May 2020.
 - This was a decline of 16% when compared with May 2020. However, an increase of 4% was recorded when compared with June 2019.

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

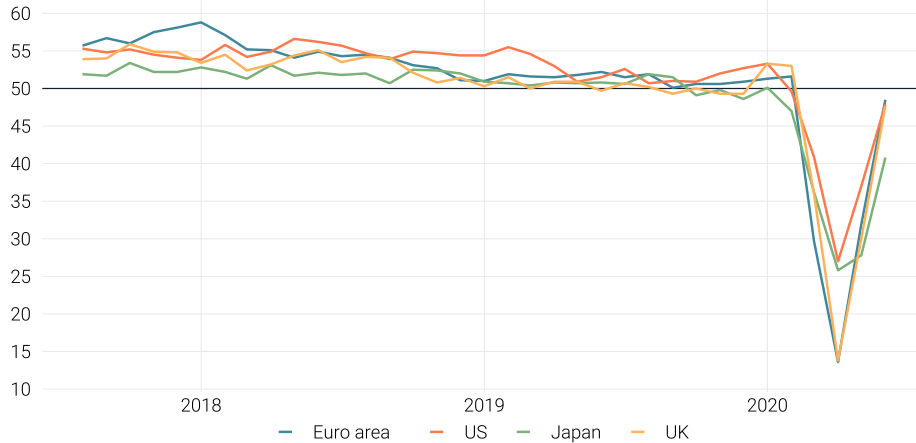


Source: Maldives Monetary Authority

International Economic Developments

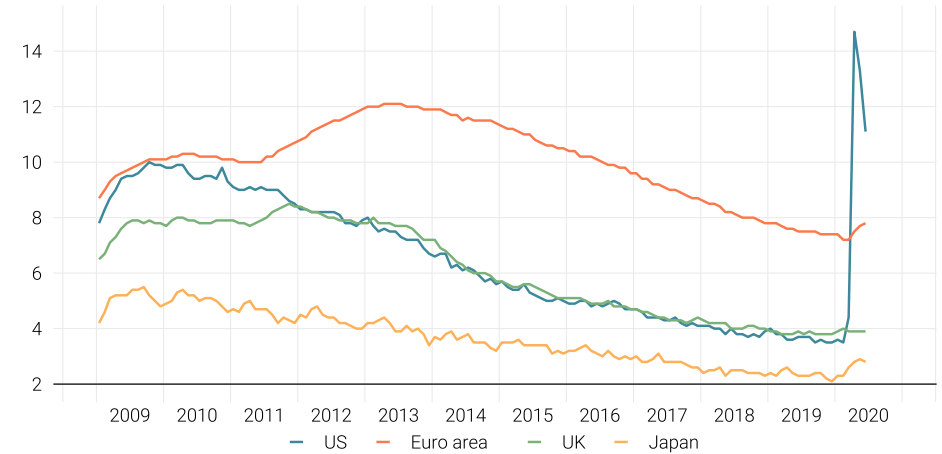
Global Output

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



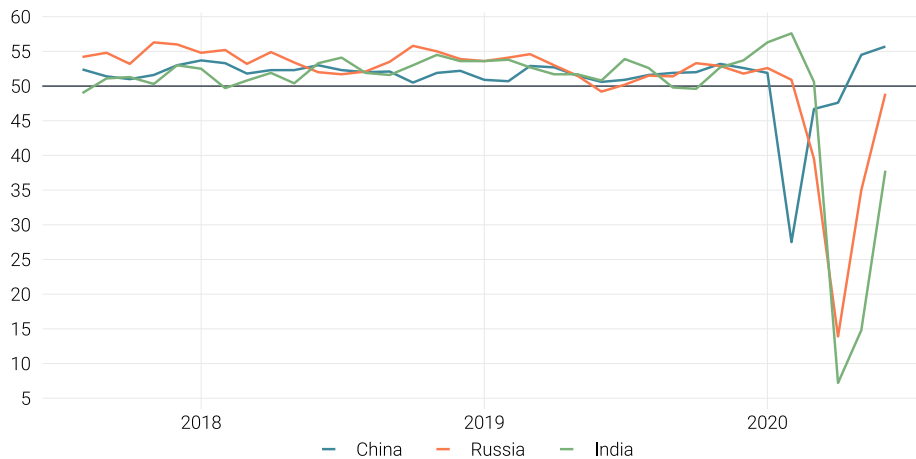
Source: Bloomberg Database

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



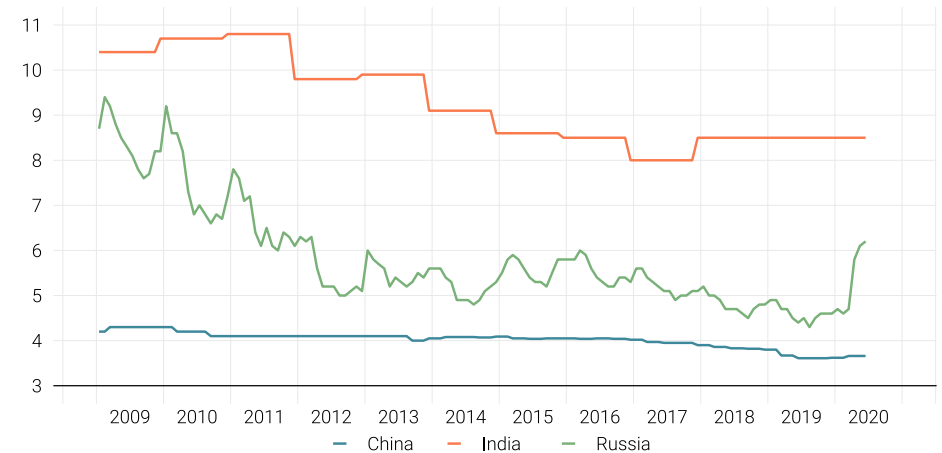
Source: Bloomberg Database

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



Source: Bloomberg Database

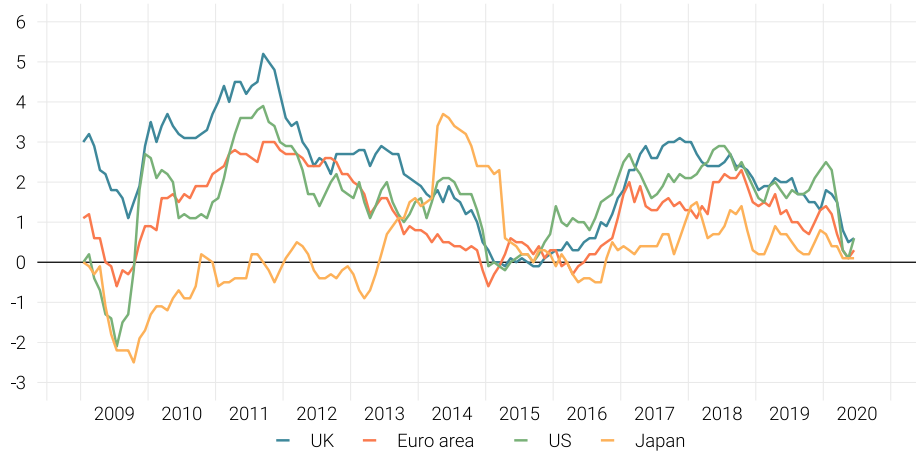
Unemployment in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

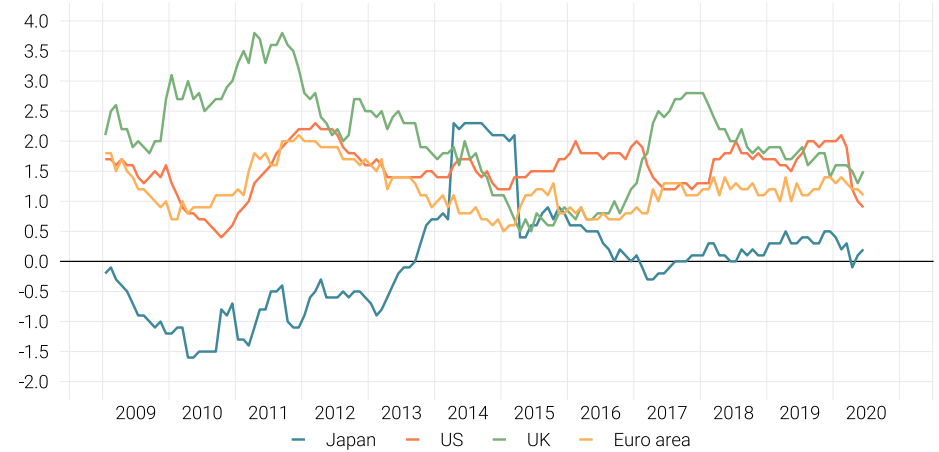
Global Inflation

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



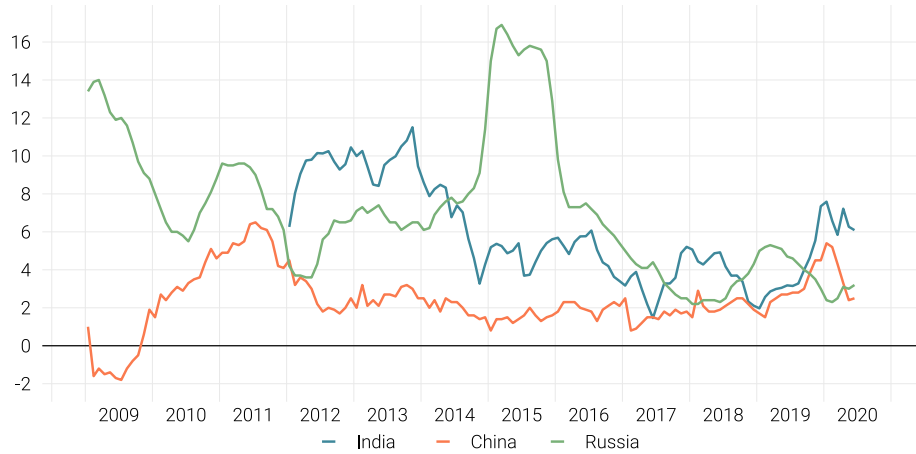
Source: Bloomberg Database

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



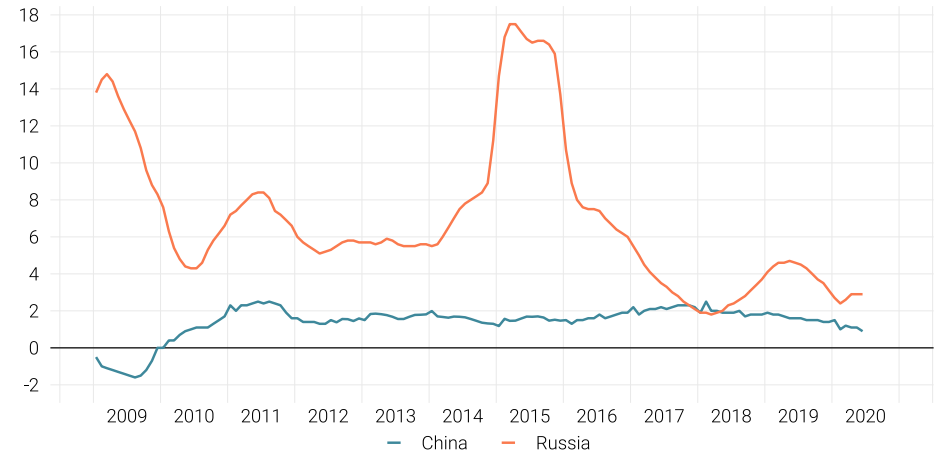
Source: Bloomberg Database

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



Source: Bloomberg Database

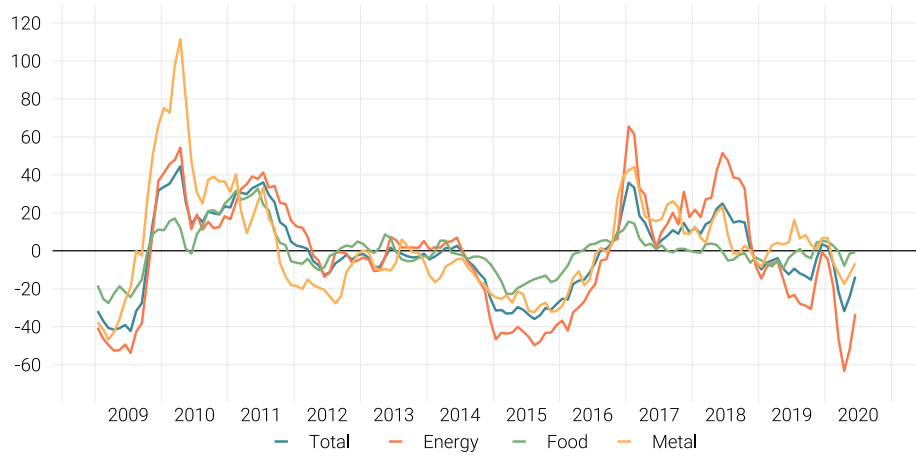
Core Inflation in the Emerging Economies, 2009 - 2020
(percent)



Source: Bloomberg Database

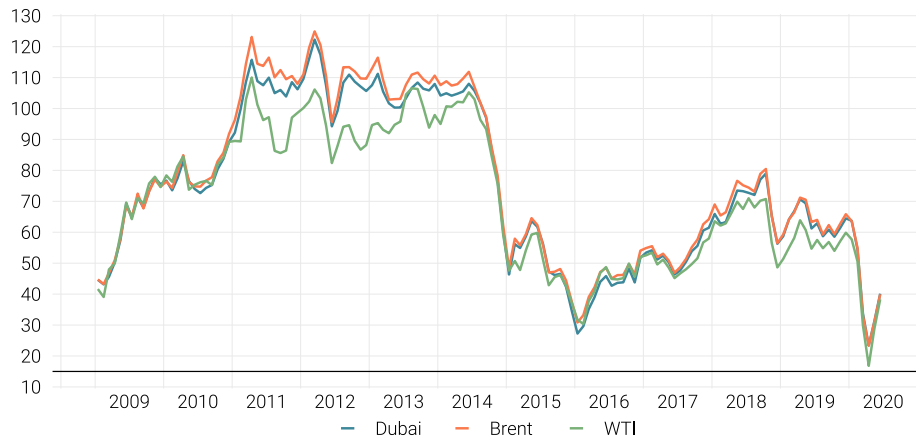
Commodity Prices

Commodity prices, 2009 - 2020
(annual percentage change)



Source: IMF

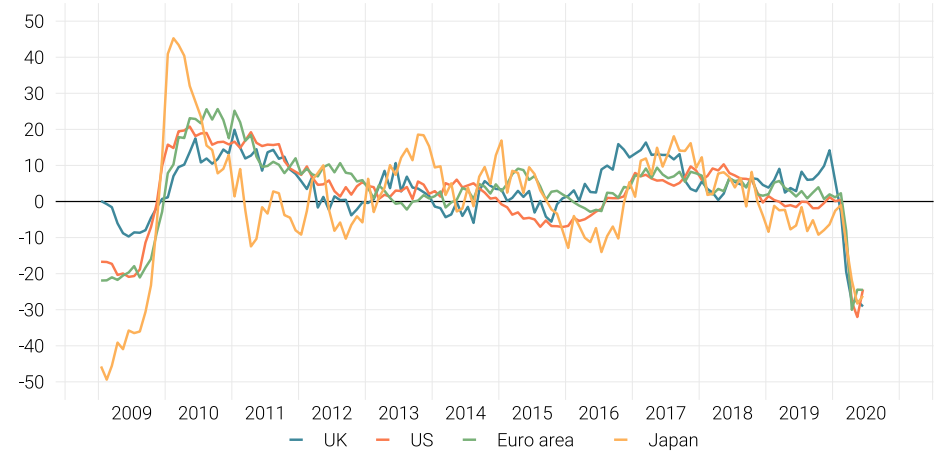
Oil prices, 2009 - 2020
(dollars per barrel)



Source: Bloomberg Database

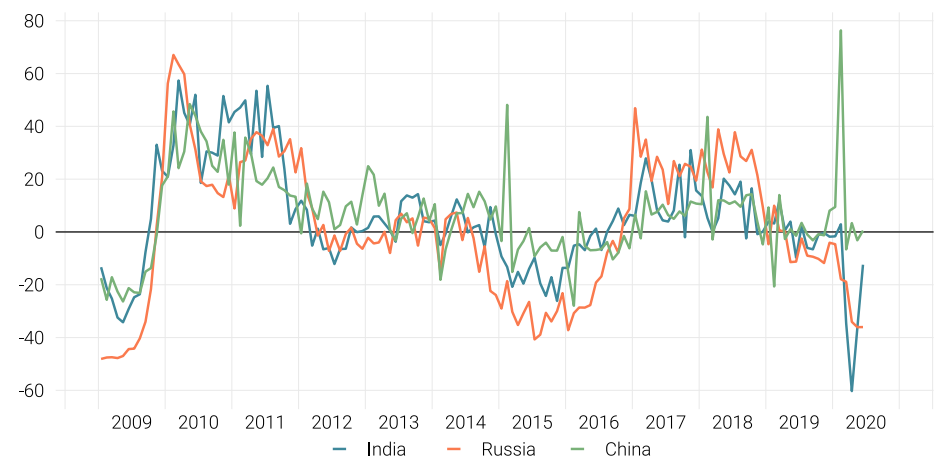
Global Trade

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



Source: Bloomberg Database

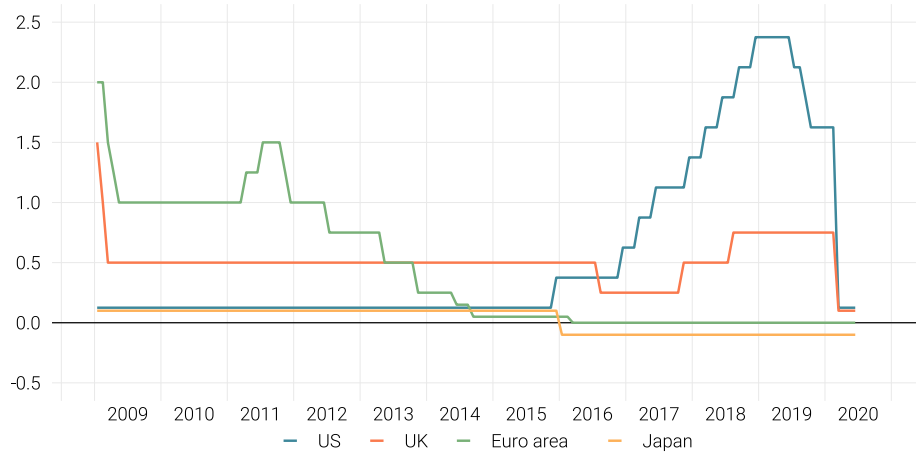
Exports in the Emerging Economies, 2009 - 2020
(annual percentage change)



Source: Bloomberg Database

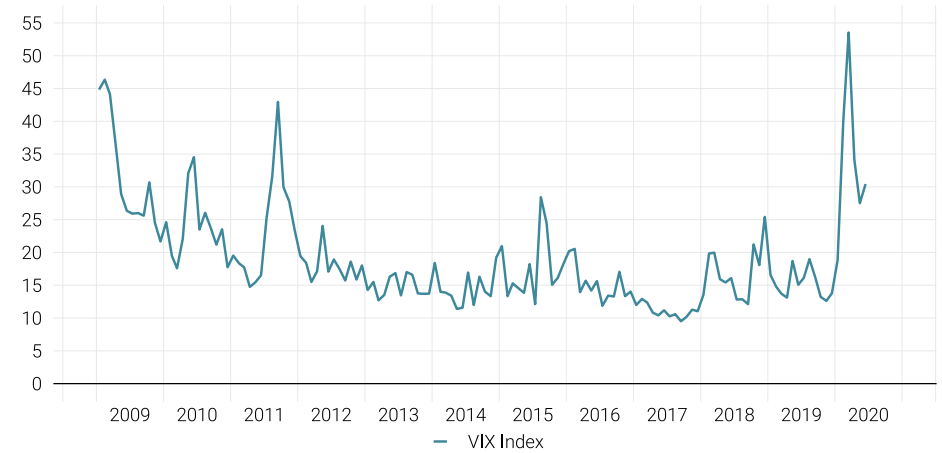
Global Financial Markets

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



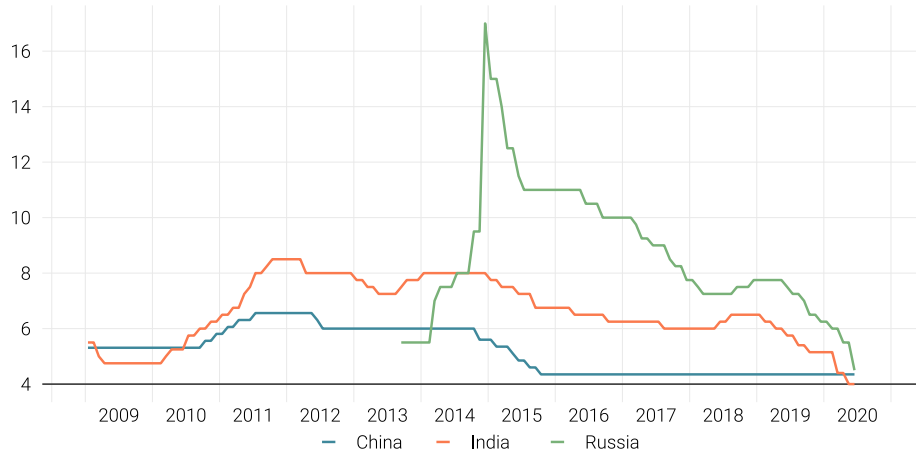
Source: Bloomberg Database

Volatility Index, 2009 - 2020
(percent)



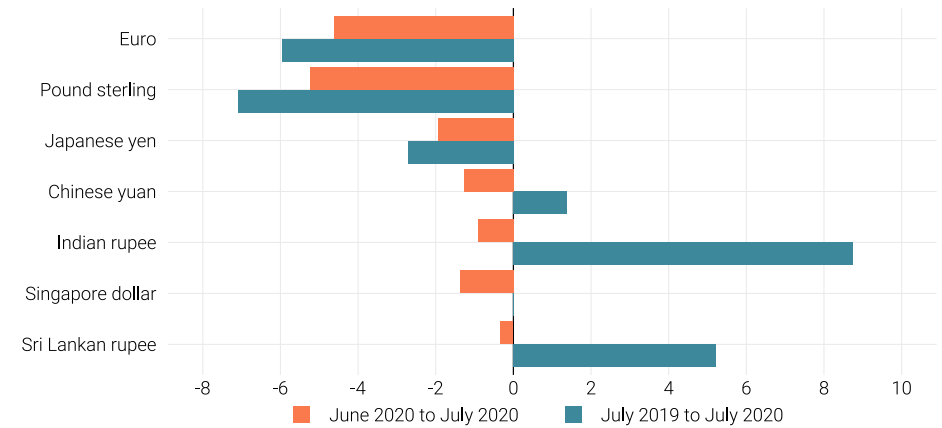
Source: Bloomberg Database

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



Source: Bloomberg Database

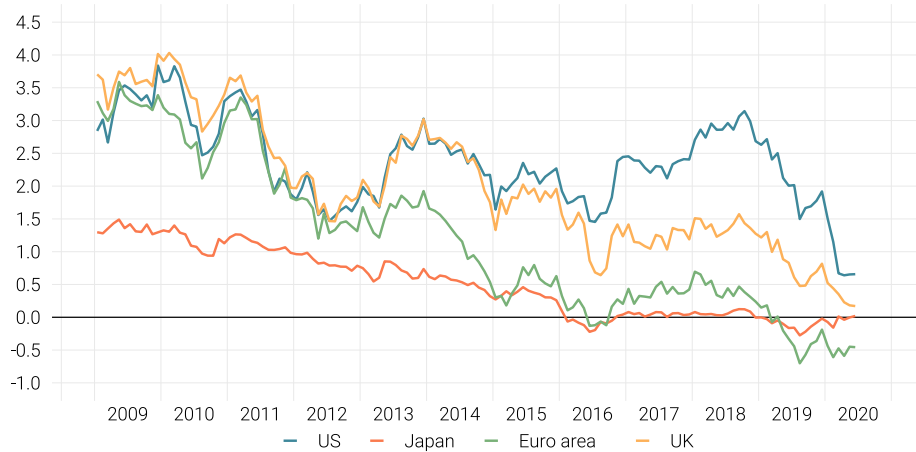
Exchange Rate of US Dollar against Currencies of Major Trading Partners, July 2020
(percentage change)



Source: Bloomberg Database

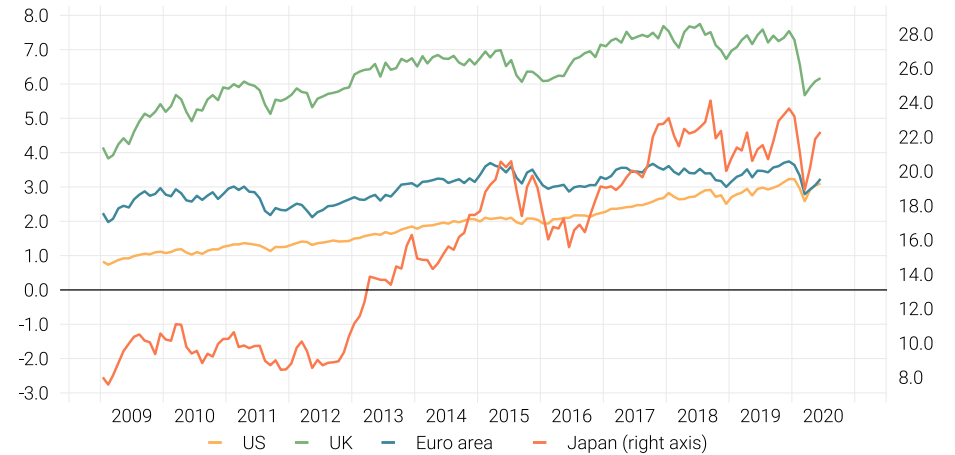
Global Financial Markets

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



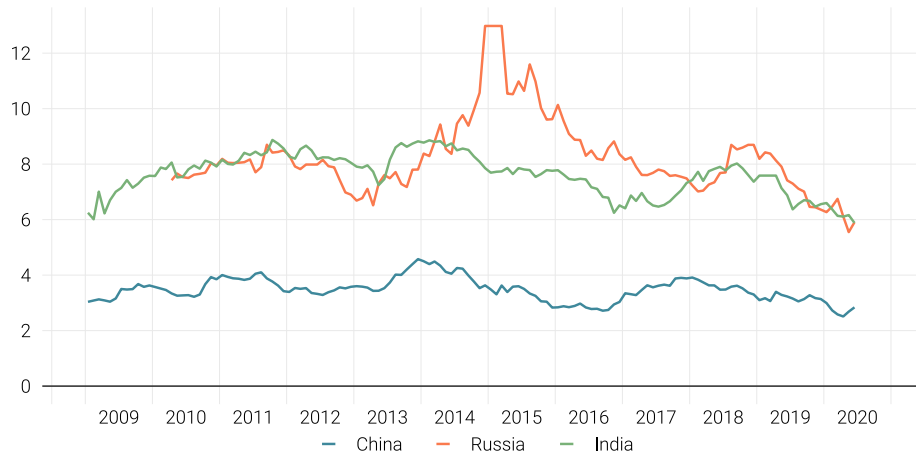
Source: Bloomberg Database

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



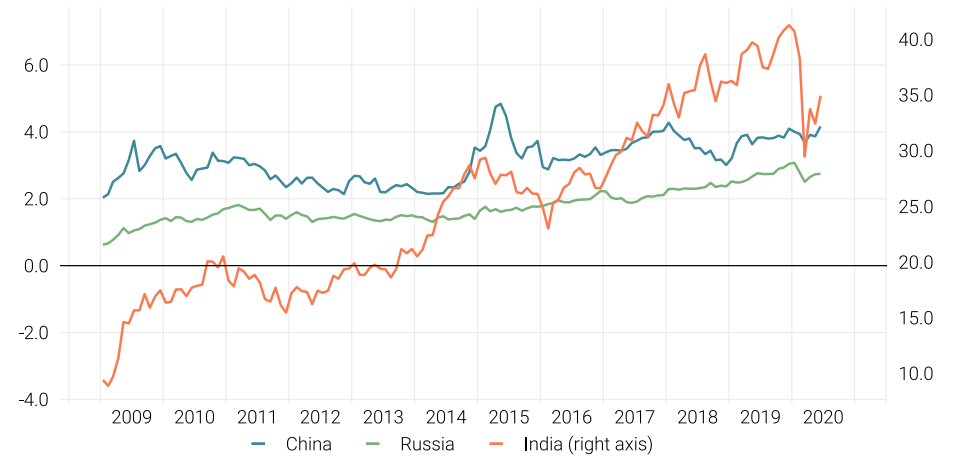
Source: Bloomberg Database

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



Source: Bloomberg Database

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



Source: Bloomberg Database



Boduthakurufaanu Magu
Male' - 20182
Republic of Maldives
Tel: (960) 3312343
Fax: (960) 3323862
Email: mail@mma.gov.mv
Website: www.mma.gov.mv