

Ali Hashim: Current state of the Maldives' economy and outlook

Remarks by Mr Ali Hashim, Governor of the Maldives Monetary Authority, at the press conference, Malé, 22 August 2021.

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A very good afternoon! Let me first and foremost, warmly welcome you to the Maldives Monetary Authority and thank you sincerely for accepting our invitation by being here today. It always gives me great pleasure to engage and interact with the hard-working journalists of the Maldivian press and media community.

I would like to take this opportunity to say a few words about the current state of the economy, our outlook going forward, and the work being undertaken by the MMA to ensure that the economic recovery stays on track.

As we all know, the Maldives is one of the most affected economies due to the Covid-19 pandemic, with an estimated GDP contraction of 32 % in 2020. Nearly all major economic sectors, including tourism, construction, transport, communication, and the trade sector recorded negative growth numbers due to the dampening effects of the lockdown and concurrent border closure during the 2nd quarter of 2020.

The bank intervened at the beginning of the crisis, actively providing liquidity support to the banking sector to mitigate adverse economic impacts. With the strong tourism sector recovery in recent months, the foreign exchange (FX) liquidity position of the banking sector has since improved. In order to ensure an adequate FX buffer, we have established and continue to maintain bilateral liquidity arrangements with other central banks.

Despite the very trying and challenging circumstances we faced in 2020, the Maldives is also among the quickest to rebound from the crisis. The tourism sector, which accounts for an estimated 26% of real output, has significantly exceeded expectations when compared to initial forecasts for the first half of 2021. This recovery is expected to continue over the medium-term and support the recovery of other economic sectors.

Other important sectors of the economy continue to rebound as well. The Quarterly National Accounts for the 1st quarter of 2021, indicates a Quarterly GDP growth rate of 34.4% compared to the preceding 4th quarter of 2020. Most major economic sectors registered positive growth numbers. While we anticipate a slight dampening in the growth prospects for the 2nd quarter of 2021 due to the second lockdown and travel restrictions imposed earlier this year, the revival of economic activity in general and the tourism sector in particular since then, gives us cause for optimism for 2021 as a whole.

July 2021 was a particularly good month for tourism with arrivals surpassing 100,000 for the second month since the reopening of our borders. Arrivals statistics for August continue to come in strongly and based on our monitoring of high-frequency, daily tourist arrival data, monthly arrivals for August are likely to once again surpass 100 thousand. As of 21st August 2021, we have welcomed over 700,000 tourists to our shores this year, and with the peak season still ahead of us it is likely that in the absence of further travel restrictions, total arrivals for the year will surpass 1 million.

Given the revival of the tourism sector and other economic sectors, our outlook for economic growth is positive. Presently, we forecast that Real GDP growth for 2021 will range between 17.7% in the most pessimistic scenario, to 30.4% in the most optimistic scenario. Our forecasts also indicate that, in the absence of future shocks, our current recovery trajectory is likely to bring economic activity back to pre-pandemic levels by the end of 2023.

Our short-term inflation outlook is low and stable. Following the volatility, and significant deflation of the CPI in 2020 – primarily due to domestic policy measures implemented by the government to alleviate some of the financial burden of the lockdown – we currently forecast that, if the policy environment does not change drastically, average CPI inflation for 2021 is likely to come in slightly under 2%.

We are closely monitoring incoming high and low-frequency macroeconomic indicators as we progress into the second half of 2021. While mindful of the downside risks to growth prospects, posed by the uncertainties surrounding the evolution of the pandemic, we remain cautiously optimistic about the steady progress that we are making towards a full recovery of economic activity back to pre-pandemic levels.

I also take great solace from the fact that the vaccination rollout continues to gain momentum, in the Maldives particularly, and also in many other parts of the world. As the percentage of the eligible population that has been safely and fully vaccinated in continues to grow, I would like to take this opportunity to urge all eligible Maldivians and residents that are yet to do so, to get vaccinated at the earliest, in accordance with the advice and recommendation of medical professionals and public health experts.

Before I conclude, I would like to reaffirm our sense of cautious optimism for the current trajectory of economic growth and recovery. I would also like to extend the assurance that we will continue to diligently monitor incoming macroeconomic and financial sector data and stand ready to make necessary adjustments to our policy instruments and intervention strategy, should the need arise.

Thank you.