QUARTERLY ECONOMIC BULLETIN

JUNE 2019

VOLUME 25 ISSUE 2

MALDIVES MONETARY AUTHORITY

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 first half of 2019. 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 4 August 2019. 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.

The cover page features an image taken from the MVR 500 note. The image depicts a wood worker carving an intricate design, illustrating the theme 'Our Ancestral Craftsmanship'.

Contents

Abbreviations

BPT	business profit tax
CPI	consumer price index
GDP	gross domestic product
G-GST	general goods and services tax
GIR	gross international reserves
GST	goods and services tax
GWP	gross written premium
IMF	International Monetary Fund
MMA	Maldives Monetary Authority
NDA	net domestic assets
NPL	non-performing loan
OPEC	Organization of the Petroleum Exporting Countries
PMI	purchasing managers' index
PSIP	Public Sector Investment Programme
SDFC	SME Development Finance Corporation
SMEs	small- and medium-sized enterprises
T-GST	tourism goods and services tax
UAE	United Arab Emirates
UK	United Kingdom
US	United States
VAT	value-added tax
WEO	World Economic Outlook

RECENT ECONOMIC DEVELOPMENTS

Overview

According to preliminary estimates released by the National Bureau of Statistics, the pace of real Gross Domestic Product (GDP) growth decelerated to 3.1% in Q1-2019 from 4.7% in Q4-2018. Meanwhile, available economic indicators for H1-2019 point to a continued moderation in economic activity, despite the strong growth of the tourism sector during the period. The slowdown in activity largely stems from the weakening of value-added in construction sector, which registered a significant decline in Q1-2019, while high frequency indicators for the sector, such as construction related imports, suggest a continuation of this growth trend in Q2-2019 as well. Meanwhile, indicators for the wholesale and retail trade sector for H1-2019 also point to sluggishness, as depicted by the annual decline in credit to the sector and muted imports growth.

The rate of inflation accelerated to 0.03% in H1-2019, after recording -0.4% in H1-2018. Average inflation was negative for most of 2018 and fell further during Q1-2019. This reflected the base effect of changes to administered prices in March 2018 and April 2018, namely the harmonization of utility rates across the country and reduction in administered prices of staple food items. However, the rate of inflation turned positive in Q2-2019 and recorded 0.7% reflecting the dissipation of these base effects. During the quarter inflationary pressure was exerted primarily by rental prices, fruit prices and cost of medical and dental services.

On the fiscal side, total revenue observed an increase during H1-2019, on the back of higher tax revenues, which offset the decline in non-tax revenues. The growth in tax revenue was bolstered by an upward base effect of extensions given in 2018 as well as higher earnings from tourism sector. Meanwhile, total expenditure recorded a decline in annual terms, on account of a marked decline in capital expenditure, which completely offset the rise in current expenditure. The decline in capital expenditure during the period mainly reflected the completion of major infrastructure projects, as well as the winding down of other major projects.

As for the latest monetary developments, broad money growth accelerated in H1-2019, largely contributed by a significant increase in both other deposits and transferable deposits of the banking system. While the growth in demand deposits during the period was due to the increase in such deposits denominated in foreign currency, this reflected the increase in such deposits by the private sector and public non-financial corporations. On the sources side, the upsurge in both net domestic assets and net foreign assets were the main drivers behind the growth in broad money.

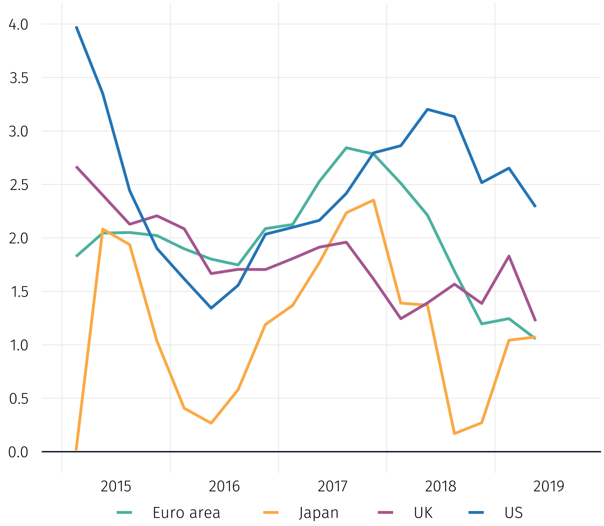
With regard to external sector developments, total merchandise exports grew markedly, owing to significant growth in re-exports, while domestic export recorded a marginal increase. In contrast, total merchandise imports observed a decrease during H1-2019, contributed by the considerable fall in import expenditure on construction-related items; and machinery and mechanical parts. As for the sources of imports, Asia remained as the major continental source of imports.

International Economic Developments

Global Output

Global economic growth momentum continued to remain subdued during the first half of 2019, on the back of weakened global trade arising from bilateral trade disputes and prolonged uncertainties surrounding Brexit. However, the pace of slowdown remains uneven and less synchronized across countries amid the mounting global uncertainties. Growth momentum in most of the advanced economies as well as emerging markets and developing economies hinted towards slowdown during the period, albeit the positive surprises in some of the advanced economies. Hence, risks to the outlook are tilted towards the downside with growth[1] estimated at 3.2% for 2019– 0.1 percentage point lower than the April 2019 forecast.

Figure 1: Real GDP growth in the Advanced Economies, 2015 - 2019
(annual percentage change)



Source: OECD Database

Looking at the advanced economies (Figure 1), in the United States (US) growth decelerated to 2.3% in Q2-2019 down from 2.7% in Q1-2019. This was largely contributed by the fall in private inventory investment (non-farm), weakening exports of goods and services; and decline in fixed non-residential private investment, particularly in structures and transportation equipment amid policy concerns. Meanwhile, robust personal consumption expenditure in both goods and services, followed by strong federal government nondefense spending; and state and local government spending partly contained the deceleration in real GDP growth during Q2-2019. Further, unemployment in the economy fell during the first half of 2019 when compared to H1-2018 (Figure 2). Looking forward, growth outlook of the economy remains sluggish, partly owing to subdued domestic demand with weaker imports, on the back of heightened trade tensions.

Based on the preliminary Eurostat flash estimates, growth momentum remained largely unchanged as reflected by annual real GDP growth of 1.1% in Q2-2019, down from 1.2% in Q1-2019 (Figure 3). This was mainly contributed by contraction of economies in the euro area due to temporary factors, although growth is anticipated to regain momentum during the rest of the year, aided by improved external demand and waning of temporary factors in the region. Growth in the region continued to be

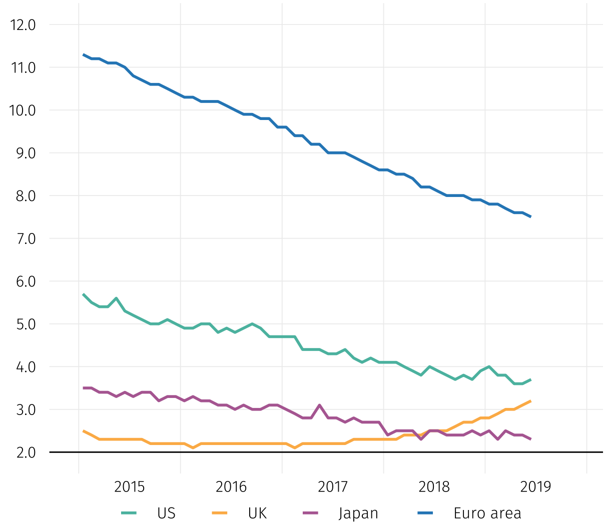
[1]International Monetary Fund (IMF), 'World Economic Outlook (WEO) Update July 2018'.

underpinned by improvements in labour market–rising employment and wages, followed by robust performance in the services and construction sector; while worsening of economic sentiments, particularly in the manufacturing sector and weak international trade limited economic activity during the review period. Looking at the main economies, Germany's economic performance observed a decline as a result of weaker than expected external demand and lower investments amid declined global trade when compared with Q1-2019. Growth in France remained broadly unchanged in Q2-2019, underpinned by government consumption expenditure and gross fixed capital formation, while changes in inventories and stronger imports negatively impacted growth. Similarly, economic activity in Italy remained unchanged in Q2-2019, when compared to Q2-2018 and Q1-2019, as the growth in value-added in services sector was offset by the decline in value-added in primary industry. Meanwhile, growth in Spain registered a modest slowdown, stemming from weakened private and government consumption expenditure during Q2-2019.

In Japan, economic growth observed a moderate slowdown during Q2-2019, after a strong performance in Q1-2019–buoyed by robust inventory accumulation and hike in net exports. Growth decelerated in Q2-2019, primarily contributed by reduced net exports, reflecting the better-than-expected domestic import demand during the period. Meanwhile, the economy witnessed better employment levels during the first half of 2019, as against H1-2018. Looking ahead, growth is expected to decline, owing to an anticipated rise in consumption tax in October 2019 which in turn is expected to stabilise economic growth during the year.

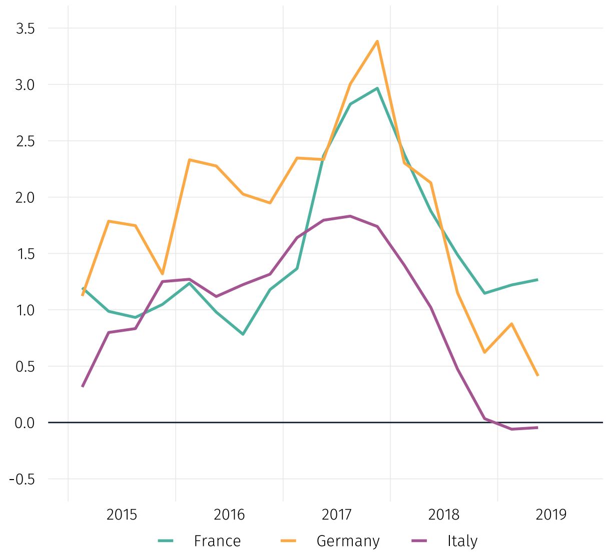
Meanwhile, the United Kingdom (UK) economy observed real GDP growth of 0.5% during the first half of 2019, despite the volatility in GDP

Figure 2: Unemployment Rate in the Advanced countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

Figure 3: Real GDP growth in the Euro area, 2015 - 2019
(annual percentage change)



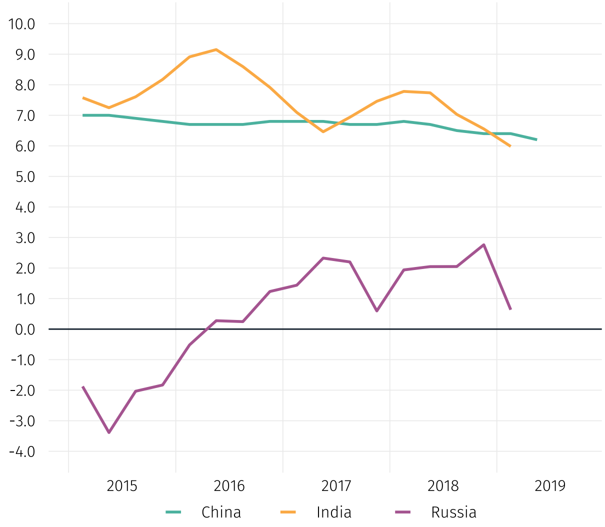
Source: OECD Database

components, stemming from the originally planned exit from European Union (EU) in March 2019. However, the economy contracted in the second quarter when compared to Q1-2019, resulting from the deterioration in production output–the largest decline since Q4-2012. The main contributor to this deterioration–fall in manufacturing output reflected the shutdown of car production for maintenance purposes in April 2019 as well as decline in construction output. Meanwhile, the only positive contribution emerged from the services sector–the main driver of the economy; although the growth in services output slowed during the review quarter. Additionally, an increase in unemployment rate was observed for H1-2019 when compared to H1-2018. Reflecting the expectation of a well-ordered Brexit followed by smooth transition, the growth projections have been revised up for the economy, although uncertainties regarding Brexit hiked up by the end of H1-2019.

Looking at the emerging markets and developing economies (Figure 4), the Chinese economy remained stable with growth rate of 6.3% during the first half of 2019 and an annual growth rate of 6.2% in Q2-2019, down from 6.4% in Q1-2019. Activity in the economy was primarily supported by increase in value-added of the primary industry and construction industry while growth in the services sector was the lowest when compared to Q1-2019. While the positive contributions from transportation facilities and real estate supported the growth of services sector, downturn in hospitality and banking sector hampered these positive growth contributions during the review quarter. However, the economy is expected to maintain growth at 6.2% in 2019, despite the downward pressures due to weakening external demand arising from increasing tariffs.

The Russian economy slowed down towards May 2019, reflecting lower industrial production and

Figure 4: Real GDP growth in the Emerging Economies, 2015 - 2019
(annual percentage change)



Source: OECD Database

subdued domestic demand. This was largely due to the slowdown in manufacturing, such as the declined crude oil extraction–partly owing to the limitations resulting from the Organization for Petroleum Exporting Countries (OPEC) agreement, while the decrease in retail trade and market services added to the slowdown during the first half of 2019. Meanwhile, the outlook for the economy was downgraded, reflecting weak performance in the first quarter of 2019, partly contributed by lower disposable income and weaker domestic demand.

In India, economic activity slowed towards the latter months of H1-2019, after recording a growth of 5.8% in Q1-2019. During the review period, activity was subdued as a result of weakened private consumption, particularly the decline in domestic vehicle sales reflecting muted rural and urban demand. In addition, industrial activity moderated, resulting from the downhill in manufacturing and mining towards the end of the review period, despite the positive contribution from electricity production. The outlook for the economy has been revised down, to reflect weaker than expected domestic and external demand.

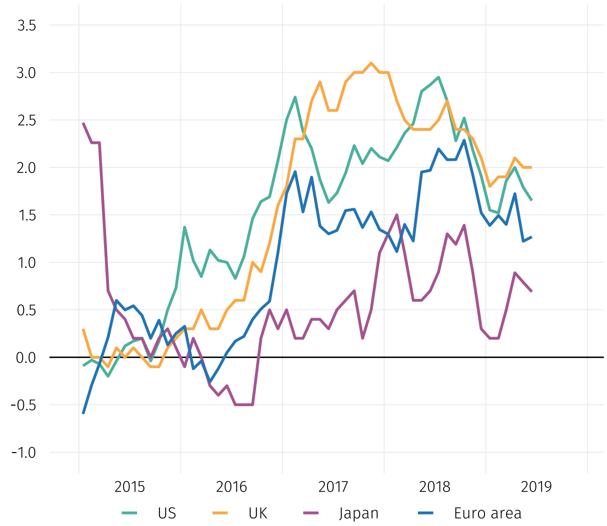
Global Inflation

Against the backdrop of subdued global activity, global inflation remained muted during the first half of 2019, with headline and core inflation softening across most advanced economies, thus registering a rate of inflation well below the central banks' target level of inflation. Meanwhile, emerging markets and developing economies observed a marginal annual upturn in the headline and core inflation on account of supply-side disruptions.

Looking at the price developments in the advanced economies (Figure 5), inflation in the US decelerated to 1.7% during H1-2019, in annual terms, mostly reflecting suppressed global energy prices and subdued economic growth on the back of re-intensified trade tensions and geopolitical risks. As such, prices of gasoline observed a significant decline during the period. Additional downward contributions were driven by fall in prices of medical care commodities, apparel and natural gas along with decline in prices of electricity. Meanwhile, slight upward trend in prices of new vehicles, education and communication; and food, somewhat curbed the further decline of prices during the period.

In the euro area, the rate of inflation as measured by the annual change in the Harmonised Index of Consumer Prices stood at 1.4% during H1-2019, a marginal decrease from the rate of inflation at the end of H1-2018. Inflation in the region was driven down by decline in prices of communication and transport, followed by fall in alcoholic beverages and tobacco prices. Meanwhile, annual increase in education; and housing and utilities aided in restricting the downward pressures in prices during the period. Additionally, these movements kept the rate of inflation below the European Central Bank's target inflation of 2%, during H1-2019.

Figure 5: Inflation Rate in the Advanced countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

In Japan, the inflation rate slightly dropped in annual terms and stood at 0.5% during H1-2019, despite the positive economic situation and firm labour market conditions. This downhill in inflation was partly induced by downward pressure from fresh food and imputed rent that have a large weight in Consumer Price Index (CPI). Similarly, fall in prices of vegetables and seaweeds; communication, expenses for information and communication together with lowered prices of alcoholic beverages further pushed prices down. Conversely, increase in prices of household durable goods, energy; and fuel, gas and utilities sustained prices during the period.

The annual rate of inflation[2] in the UK softened to 1.9% during H1-2019, down from 2.4% in the corresponding period of 2018. As such, the decline in the rate of inflation was mainly contributed by fall in prices of clothing and footwear, reflecting lowered prices due to the summer sales promotions.

[2]Measured by Consumer Prices Index Including Owner Occupiers' Housing Costs.

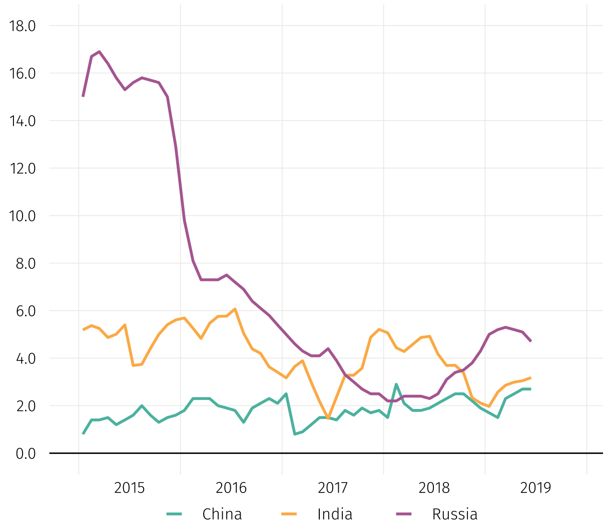
However, increases were observed in prices of alcoholic beverages and tobacco, communication prices, air transport prices and education prices which facilitated to curb the downward trend in prices.

Turning to the emerging markets and developing economies (Figure 6), the rate of inflation in China slightly increased in annual terms and averaged 2.2% during H1-2019. The modest increase in inflation stemmed mainly from rise in prices of food and tobacco, reflecting the elevated food price index as a result of high pork and fruit prices arising from supply disruptions. However, deterioration in prices of healthcare services, transport and communication as well as household goods and services subdued the overall rise in inflation during the period.

In India, rate of inflation elevated to 2.1% during H1-2019, when compared to same period of the preceding year. The overall rise in inflation reflected rise in prices of food and beverages; and miscellaneous item group, classifications having large CPI weights. However, the Consumer Food Price Index (CFPI) moderately declined in annual terms, although it depicted an increasing pattern during the review period, mirroring the upward trend in the prices of vegetable combined with the negative impact of substandard spread of monsoon rainfall on yield and food prices.

Meanwhile, inflation in Russia eased towards the end of H1-2019 and stood at 5.1% in H1-2019, after reporting highest rate of inflation since December 2016, during the month of March (5.3%). In addition, inflation in Russia accelerated in annual terms, up from 2.3% in H1-2018, reflecting the continued rise in inflation due to the increase in the value-added tax (VAT). However, slowdown in inflation began towards the end of H1-2019, reflecting short-lived disinflationary forces such as appreciation of ruble

Figure 6: Inflation Rate in the Emerging countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

observed since start of 2019. Additionally, drop in prices of fruit and vegetables as well as consumer demand trends restricted inflation during the period.

Commodity Prices

According to the World Bank Commodity Price Index, the global commodity prices moderately decreased in annual terms during H1-2019. This was entirely due to the decline in both energy and non-energy prices, against the backdrop of heightened trade tensions, geo-political uncertainties and natural calamities. Subsequently, prices of food, metal and minerals; and beverages marked modest declines over the period (Figure 7).

Prices of crude oil weakened by 8% in annual terms and averaged US$62.8 per barrel[3] in H1-2019 compared with US$68.0 per barrel during the corresponding period of 2018 (Figure 8). In H1-2019, crude oil prices continued to be supported by both supply-side factors and demand-side

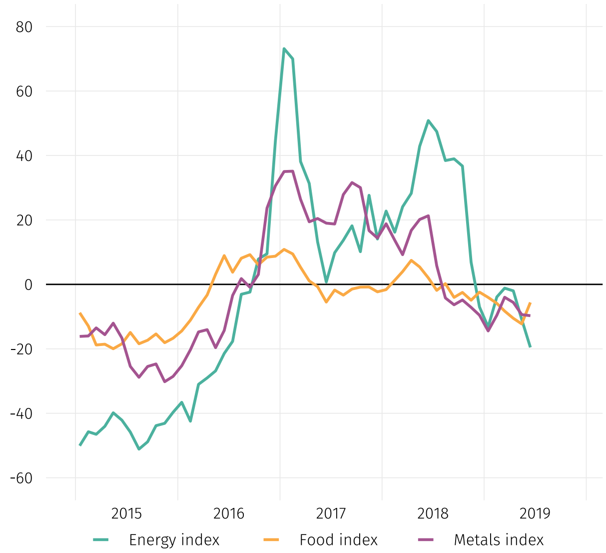
[3]Average of Brent, West Texas Intermediate and the Dubai Fateh during H1-2019.

factors. On the supply-front, the upward trend in prices during the earlier part of the year chiefly reflected the supply constraints arising from the high compliance of OPEC and non-OPEC countries participating in the "Declaration of Cooperation" as well as increased planned and unplanned outages. Conversely, oil prices eased towards the end of Q2-2019 as a spill-over effect of growing uncertainty relating to trade disputes between the US and China and prevalent geo-political tensions. Meanwhile, on the demand-side, crude oil prices were pushed by strong demand from Asia-Pacific during Q1-2019, particularly from the efforts to meet import quotas by Chinese independent refiners, contributing to a more balanced oil market. However, oil prices took a downturn towards the end of H1-2019, due to prolonged uncertainties over growth in economic activity and oil demand.

Looking at the major commodities in the non-energy group, metal and mineral prices dropped by 9% in annual terms during H1-2019. The annualised downturn in the metal and mineral prices was mainly contributed by downward pressure in prices of all metals and minerals in the group except for the prices of iron ore. Similar to crude oil prices, base metal prices moved towards recovery till the end of Q1-2019 owing to the stimulus measures by the Chinese government combined with the anticipation of a positive end to the existing trade tensions. Within the base metals group, the recovery of copper prices until May 2019 was determined by the aforementioned factors coupled with rising inventory levels at the London Metal Exchange. However, prices turned around by May 2019 as a result of the re-intensification of trade disputes between the US and China, followed by supressed global manufacturing activity and mining disruptions in Peru (the second-largest copper ore producer) towards the end of H1-2019. Meanwhile, removal of sanctions by the US on RUSAL Plc (a Russian company) and higher stock

Figure 7: Commodity prices, 2015 - 2019

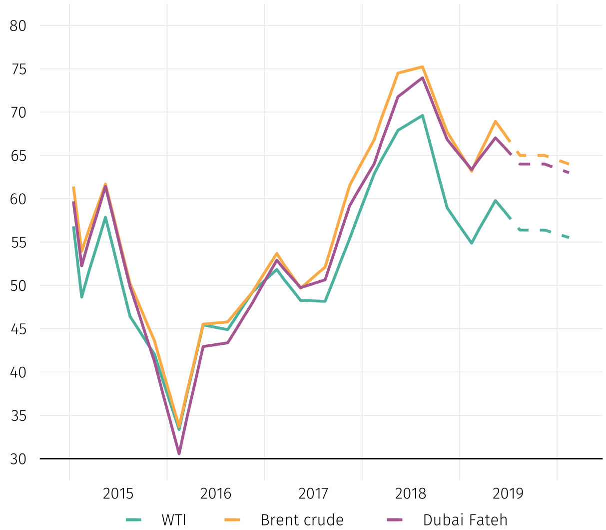
(annual percentage change)



Source: World Bank

Figure 8: Oil prices, 2015 - 2019

(dollars per barrel)



Source: Thomson Reuters Database
Note: The dashed lines represent forecasts.

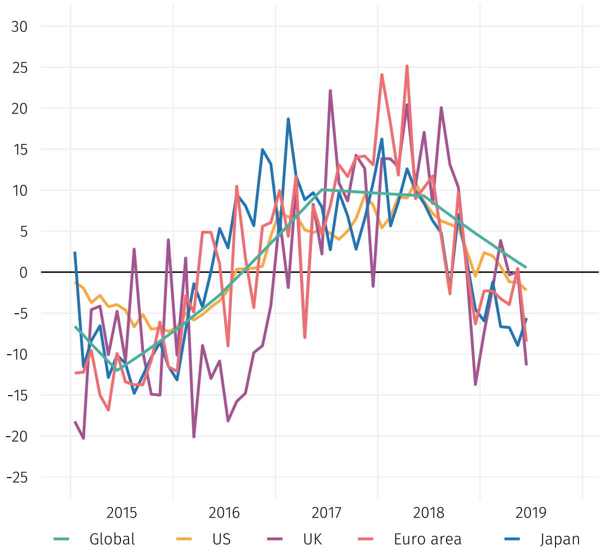
levels pushed aluminium prices down. On the other hand, iron-ore prices rose in annual terms due to disruptions in supplies as a result of the Brumadinho Dam accident in Brazil and weather-related disruptions, causing temporary suspension of several mines.

With regard to global food prices, the World Bank food price index showed an annual decline of 8% during H1-2019. In this regard, a notable drop in prices was observed for oils and meals, particularly for palm kernel oil, reflecting better harvests as a result of favourable weather conditions experienced by major producers – Indonesia and Malaysia (palm oil); Argentina and US (soybeans and soybeans oil); and Ukraine and Russia (sunflower oil). However, this downturn was somewhat offset by rallying grain prices in H1-2019, particularly prices of maize and wheat due to lower production levels and weather-related yield losses. Meanwhile, prices of beverages observed an annualised drop of 9%, as reflected by substantial falls in coffee, cocoa and tea prices. Large crop harvests in Brazil and Vietnam, coupled with weaker consumption moderated prices of coffee – Arabica and Robusta while cocoa prices improved amidst balanced global supplies. Meanwhile, average auction prices of tea stabilised during H1-2019.

Global Trade

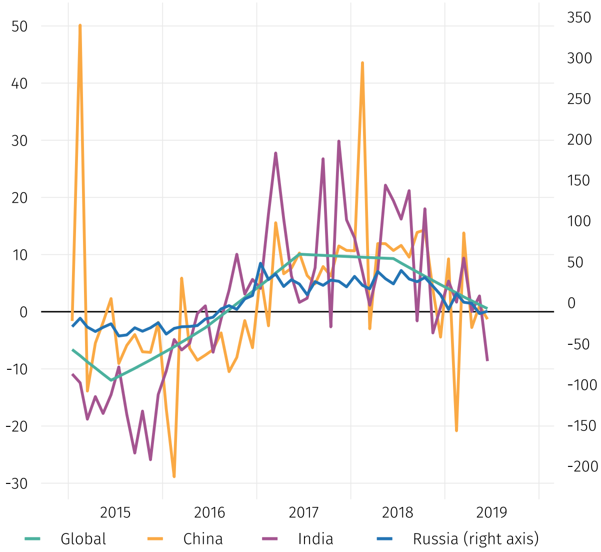
Against the backdrop of subdued economic activity, heightened trade disputes and geopolitical uncertainties; global trade (intensive in machinery and consumer durables) remained sluggish and the annualised growth in global exports stood at 2.3% during the first half of the year (Figure 9). Accordingly, total exports of US and Japan slightly declined in Q2-2019 when compared to Q1-2019, mainly reflecting the lowered investments arising from the uncertainties surrounding bilateral trade agreements. Similarly, the total exports fell in some

Figure 9: Exports in the Advanced countries, 2015 - 2019
(annual percentage change)



Source: Thomson Reuters Database

Figure 10: Exports in the Emerging countries, 2015 - 2019
(annual percentage change)



Source: Thomson Reuters Database

of the emerging markets and developing economies (Figure 10) – particularly India and Russia, during Q2-2019 while the total exports of China reported a significant increase during the review quarter. Meanwhile, the merchandise trade declined as reflected by below trend indices for international air freight, automobile production and sales; and agricultural raw materials. Consequently, the growth in volume of world merchandise trade for 2019 is projected[4] 0.4 percentage points lower than the growth of 3.0% recorded for the preceding year.

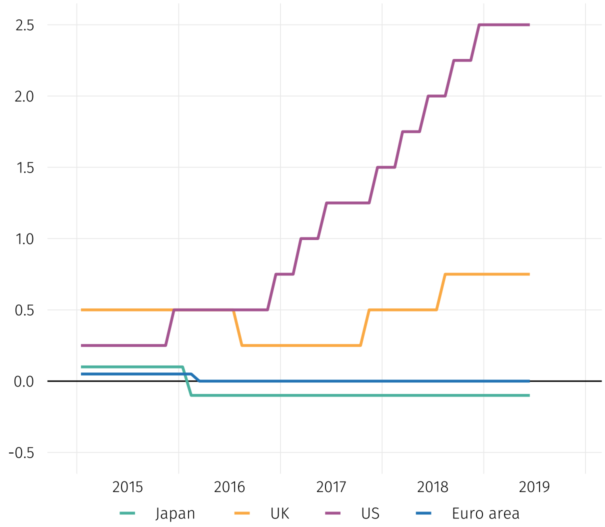
Turning to the Purchasing Manager's Index (PMI), most countries in both advanced economies; and emerging markets and developing economies registered a fall in Q2-2019, when compared to the preceding quarter. In the advanced economies, even though UK and US signalled slight expansion, the PMI fell during Q2-2019 when compared to the preceding quarter. Conversely, PMI for euro area and Japan signalled contraction during Q2-2019. Meanwhile, in the emerging markets and developing economies, China registered a slight increase in the PMI, while the PMI for both India and Russia declined. Consistent with the weakened global exports and deteriorating PMIs for most advanced economies; and emerging markets and developing economies, the outlook for global trade remains sluggish. However, the resilient services sector is expected to improve global trade by fostering employment and consumer confidence.

Global Financial Markets

The recovery of global financial markets halted towards the end of H1-2019, as a consequence of the deepening bilateral trade tensions, weakening global economic activity and lower consumer confidence. Reflecting the implications of the

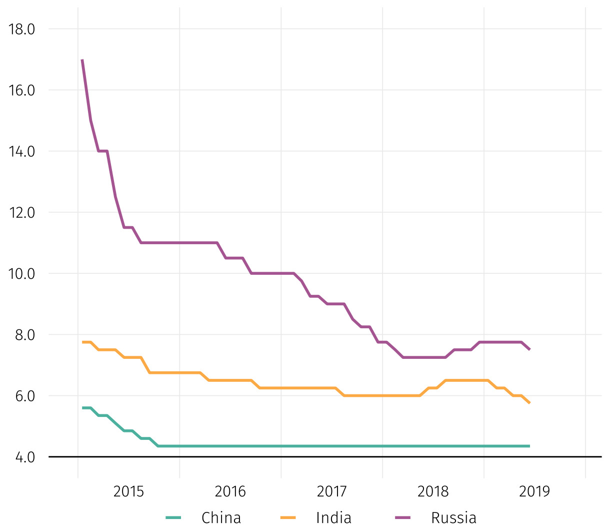
[4]World Trade Organization, 'Report of the TPRB from the Director-General on Trade-Related Developments July 2019'

Figure 11: Monthly Policy Rates in the Advanced countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

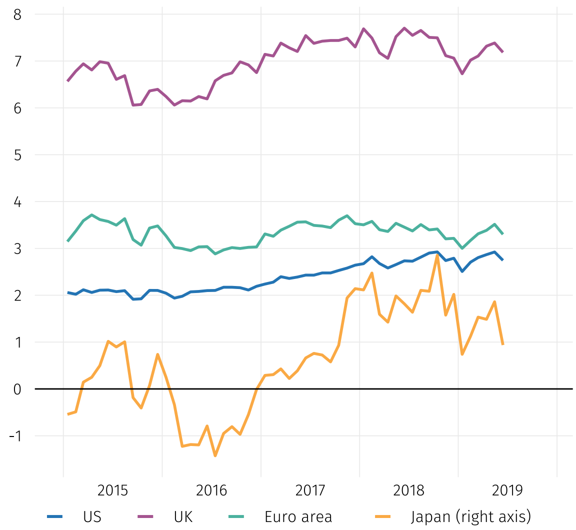
Figure 12: Monthly Policy Rates in the Emerging countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

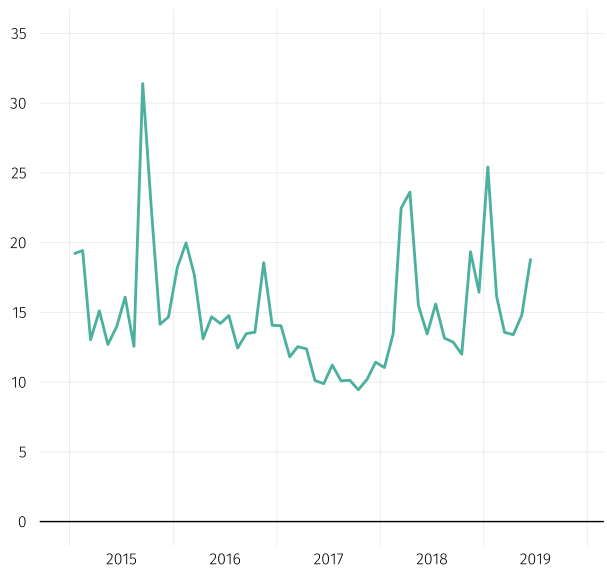
aforementioned conditions, the monetary policy stances of some central banks in the advanced; and emerging markets and developing economies indicated a dovish shift towards the end of the first half of 2019. The Reserve Bank of India and the Bank of Russia have shifted down their respective policy rates while policy rates of euro area, UK and China remained unchanged during the first half of 2019 (Figure 11 & 12). Accordingly, this had led to further review of the expected path of monetary policy rates, with investors expecting reduced policy rates in the near future. Subsequently, share prices in both advanced economies (Figure 13); and emerging and market economies recovered in Q2-2019, as reflected by the significant growth in the share prices across most of the countries, when compared to the preceding quarter. In addition, the implied volatility of US stock, as measured by VIX weakened significantly during the review quarter when compared to Q1-2019 (Figure 14). Conversely, the sovereign bond yields registered an annualised fall in most advanced (Figure 15); and emerging markets and developing economies (Figure 16) during the first half of 2019. In the advanced economies, government bond yields moderately declined for the US and UK while the bond yields of Japanese bonds remained largely unchanged in Q2-2019. Similarly, the yields on government bonds of India and Russia fell, although the yields on Chinese government bonds slightly increased during the same period.

Figure 13: Share Price Index in the Advanced countries, 2015 - 2019
(price index, in thousands)



Source: Thomson Reuters Database

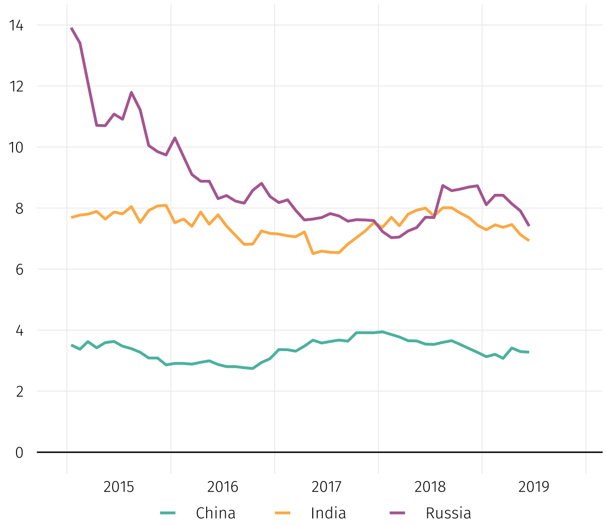
Figure 14: Volatility Index, 2015 - 2019
(percent)



Source: Thomson Reuters Database

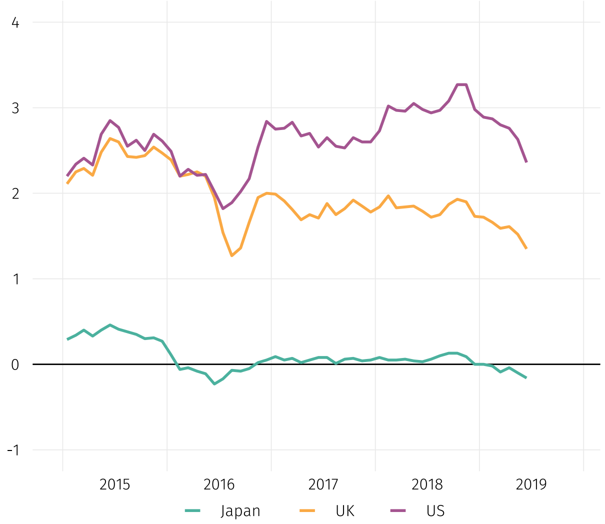
In the foreign exchange markets, the performance of the US dollar strengthened against the currencies of all Maldives' major trading partners among the advanced economies (except for the Japanese yen); and the emerging markets and developing economies during Q2-2019, when compared with Q2-2018, although, the performance of the US dollar showed mixed developments during Q2-2019 when compared with Q1-2019. Meanwhile, the US dollar recorded appreciation against pound sterling, Chinese yuan, followed by modest strengthening of the US dollar against Singapore dollar and euro during the review quarter when compared with Q1-2019. Conversely, US dollar depreciated against Japanese yen, Sri Lankan rupee and Indian rupee during Q2-2019, indicating the weakening of US dollar against these currencies (Figure 17).

Figure 16: Spread Yield of Bonds in Emerging countries, 2015 - 2019
(percent)



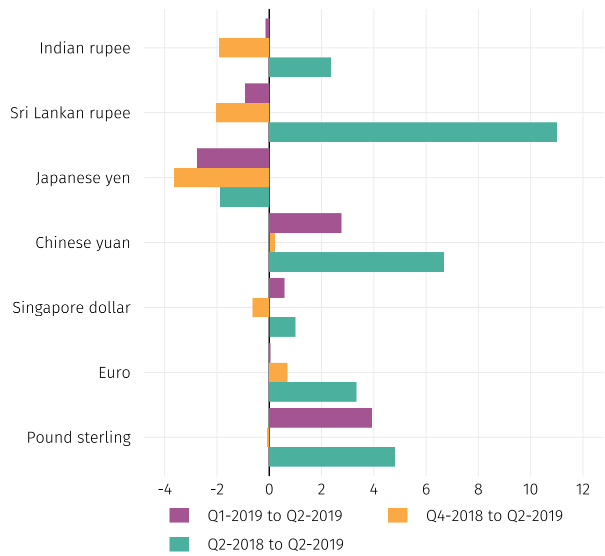
Source: Thomson Reuters Database

Figure 15: Spread Yield of Bonds in Advanced countries, 2015 - 2019
(percent)



Source: Thomson Reuters Database

Figure 17: Exchange Rates, Q2-2019
(percentage change)



Source: Thomson Reuters Database

Economic Developments in the Maldives

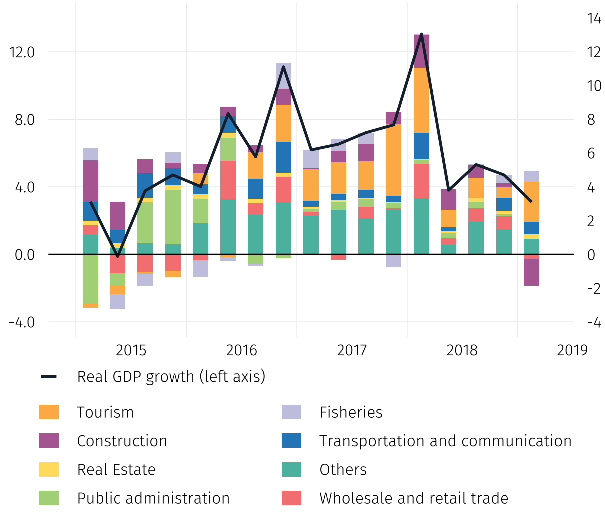
Real Economy

Gross Domestic Product

According to preliminary Quarterly National Accounts (QNA) estimates released by the National Bureau of Statistics[5], the annual rate of real GDP growth in Q1-2018 was 3.1%, lower than the growth rate of 4.7% recorded in Q4-2018 (Figure 18).

As for the contribution by economic sectors for real GDP growth in Q1-2019, tourism sector contributed the highest with 2.4%, followed by transport and communication (0.7%), fisheries (0.6%) and financial services (0.4%). According to percentage share by sector to GDP, tourism sector has the highest share with 27.9%, followed by transport and communication (13.1%), wholesale and retail trade (8.2%), public administration (6.7%) and construction sector (5.1%).

Figure 18: Contribution to Real GDP Growth by Economic Sectors, 2015 - 2019
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

On the production side, the fisheries sector recorded the fastest growth in Q1-2019 with an annual growth rate of 16.9%, higher than the 11.8% annual growth recorded in Q4-2018. This was followed by electricity and water generation, recording an annual growth of 9.5%, and tourism which registered a growth of 9.1%. As for the developments in other main sectors of the economy, after years of consecutive growth, construction sector made a turnaround as indicated by the 23.1% annual decline in Q1-2019. It is noteworthy that this is the first time the construction sector growth has declined since Q3-2013. Meanwhile, wholesale and retail trade sector declined by 3.0% in Q1-2019 after six consecutive quarters of positive growth.

Tourism

The tourism sector continued to depict a robust performance during the first half of 2019 as indicated by the key indicators to gauge the performance of the sector. The sector growth was bolstered by strong demand from the European and; the Asia and the Pacific region as well as the growth in flight movements and improved connectivity. The number of scheduled flights to the Maldives recorded an annual growth of 18% when compared with the corresponding period of 2018. This was

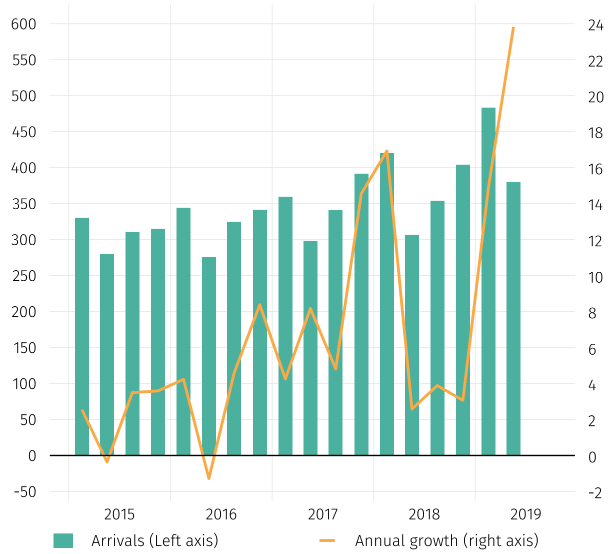
[5]Quarterly National Accounts data was available up until Q1-2019 at the time of this publication.

an increase of over 1000 flights which was largely contributed by the new airlines–Indigo and GoAir–which commenced their operations in late 2018. In addition, increased flight movements by the existing long-haul airlines such as Qatar Airways and Etihad, as well as the recommencement of Oman Air contributed to the growth in flight movements.

Total tourist arrivals during H1-2019 observed an upsurge of 19% and totalled 862,589 tourists (Figure 19). This was an impressive growth when compared with the total tourist arrivals of 726,515 recorded in H1-2018. This growth was largely attributed to the higher European arrivals–accounting for 50% of total tourist arrivals–followed by the increase in arrivals from the Asia and the Pacific region–accounting for 40% of total tourist arrivals. Accordingly, European arrivals grew by 17% in annual terms, bolstered by the growth in arrivals from the main source markets, Italy (34%), Germany (20%), UK (13%), France (23%) and Russia (12%) (Figure 20). Meanwhile, arrivals from the Asia and the Pacific region increased by 20% during the period which stemmed predominantly from the significant growth of almost 100% in arrivals from India. In addition, arrivals from China–the single largest source market accounting for 16% of total tourist arrivals–maintained its growth trajectory since the beginning of this year and increased by 10%. Meanwhile, tourist arrivals from emerging markets of Japan and Australia also contributed to the growth in tourist arrivals from this region. Moreover, other markets which induced growth in tourist arrivals in H1-2019 include the rise in arrivals from US (34%) and Saudi Arabia (15%).

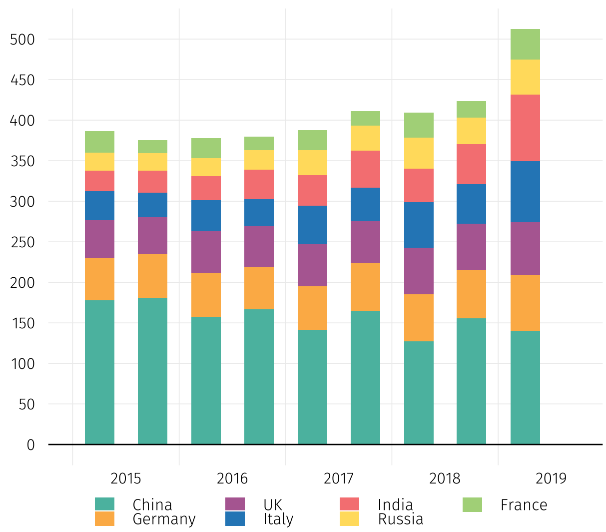
The growth in tourist arrivals to the country also mirrored the international trends in tourism. According to the May 2019 issue of the United Nations World Tourism Organization's World Tourism Barometer and Statistical Annex, international tourist arrivals increased annually

Figure 19: Inbound Tourist Arrivals, 2015 - 2019
(thousands, annual percentage change)



Source: Ministry of Tourism

Figure 20: Arrivals from Major Inbound Markets, 2015 - 2019
(thousands)



Source: Maldives Monetary Authority

by 4% during the first quarter of the year. In comparison, tourist arrivals to the Maldives performed better during the same period with a growth of 15% annual terms.

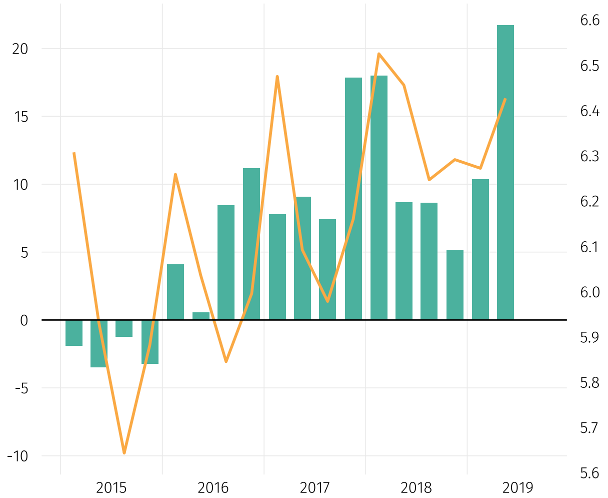
With regard to other key indicators of the sector, total tourist bednights posted a significant growth of 15% (Figure 21), predominantly driven by the rise in bednights from resorts, followed by guesthouses. This growth was reflected by the remarkable growth in tourist arrivals as average stay declined during the period. The average duration of stay in H1-2019 was 6.3 days down from 6.5 days in H1-2018. Reflecting these developments, receipts from the tourism sector are estimated at US$1.7 billion[6] in H1-2019, a growth of 7% (US$117.6 million).

Looking at the supply side, the number of resorts in operation increased from 129 in H1-2018 to 142 in H1-2019. Similarly, 542 guesthouses were in operation during H1-2019, up from 477 in the corresponding period of 2018. The average operational bed capacity of the sector also grew by 11% and totalled 45,772 beds. Meanwhile, the average occupancy rate of the sector increased to 66% in H1-2019, up from 63% in H1-2018. Despite this expansion in the operational bed capacity, the growth in the average occupancy rate of the sector mirrored the rise in bednights during the period.

Construction

During H1-2019, available short-term indicators for the construction sector, namely construction-related imports and commercial bank credit to the sector[7], showed mixed developments suggesting that

Figure 21: Bednight Growth and Average Stay, 2015 - 2019
(annual percentage change, days)



Source: Ministry of Tourism

growth of the sector remained weak. For example, import expenditure on construction sector-related imports observed a decline while bank credit to the sector increased during the period.

Construction sector-related imports, which includes wood, metal, cement and aggregates, together with other construction-related items, declined substantially by 19% in H1-2019 when compared with H1-2018. Such imports have continued to decline since Q4-2018 which mirrors the completion of major public infrastructure projects during the final quarter of 2018. This decline stemmed largely from the fall in import expenditure of other construction-related items, followed by cement and aggregates. With regard to the composition, construction-related imports by the tourism sector (which accounted for 45% of total construction-related imports) was the only sector which recorded an annual growth (US$4.1 million). Meanwhile, imports by the private sector which carried the second highest share (43%), witnessed the largest drop in import expenditure with a decline of US$45.7 million in H1-2019. Meanwhile, the government sector (8%) and the

[6]Travel receipts include actuals for January-May 2019 and a forecasted estimate for June 2019.

[7]Construction sector-related loans include loans to the construction sector, real estate sector and tourism sector (new resort development, resort renovation and construction of guesthouses). Hence, this figure will differ from the loans to the construction sector reported under Monetary Developments (Credit to Private Sector).

public sector (5%), observed annual declines in import expenditure by US$15.7 million and US$9.1 million, respectively.

In contrast, bank credit to the sector grew by 12% in the first half of 2019 when compared with the corresponding period of 2018. This growth was mainly on the back of the upsurge in credit lent to the construction and purchase of residential housing, new resort development and renovation of resorts.

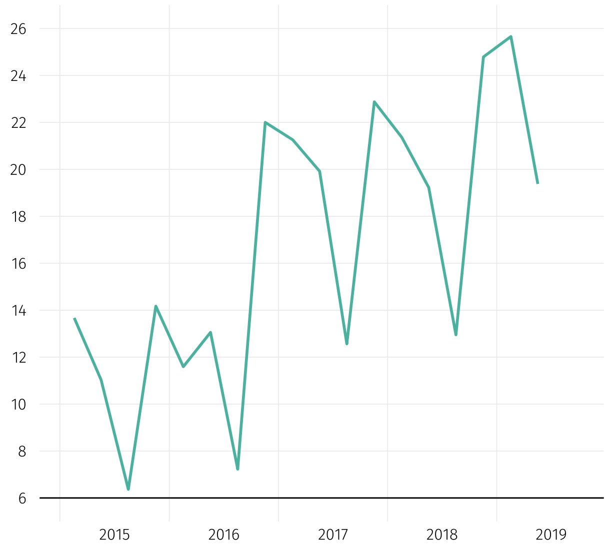
Fisheries

Activity in the fisheries sector showed mixed developments during the first half of the year, as indicated by the increase in fish purchases by fish processing companies while a marginal decline was recorded for the volume of fish exports.

During H1-2019, fish purchases by fish processing companies observed a growth of 11% in annual terms and totalled 45.0 thousand metric tons (Figure 22). This was in comparison with the marginal decline of 1% recorded in the corresponding period of 2018. The growth in fish purchases stemmed largely from the rebound in yellowfin tuna purchases, followed by the increase in the purchases of skipjack tuna. Yellowfin tuna purchases grew by 29%, while skipjack tuna purchases posted a growth of 5%. Yellowfin tuna and skipjack tuna collectively accounted for 98% of the total fish purchases made by fish processing companies during H1-2019.

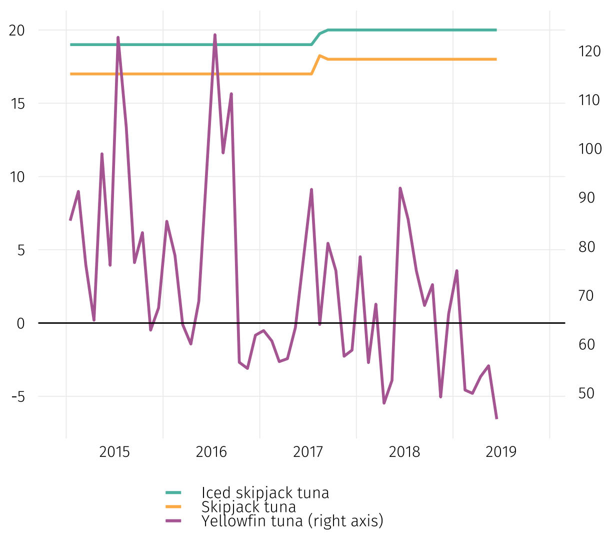
With regard to the domestic price developments, local fish processing companies continued to maintain their purchasing prices for both fresh and iced skipjack tuna at MVR18.0 per kilogram and MVR20.0 per kilogram, respectively (Figure 23). The last upward revisions for these prices were made during the third quarter of 2017. Yellowfin

Figure 22: Fish Purchases, 2015 - 2019
(thousand metric tons)



Source: Ministry of Fisheries, Marine Resources and Agriculture

Figure 23: Prices Paid for Fish by Local Processing Companies, 2015 - 2019
(rufiyaa per kilogram)



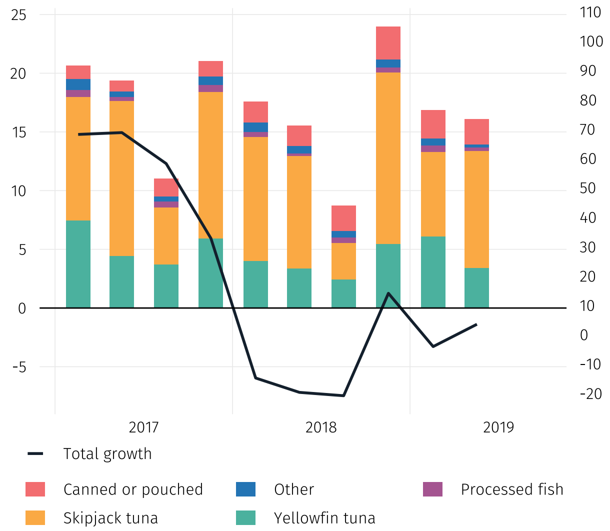
Source: Ministry of Fisheries, Marine Resources and Agriculture tuna prices remained volatile throughout the first half of 2019 and averaged MVR54.8 per kilogram, down from the average of MVR65.8 per kilogram recorded in H1-2018. This constituted an annual decline of 17%. The average price of yellowfin tuna declined until March to MVR49.9, after having started the year at MVR75.0 per kilogram. The price made a slight rebound in April 2019 and rose to MVR55.5 per kilogram by the end of May 2019 before declining to MVR44.6 per kilogram at the end of June 2019.

As for exports, fish exports posted a marginal decline of 1% in annual terms and totalled 33.0 thousand metric tons in H1-2019 (Figure 24). This decline stemmed mainly from the significant drop in the export volume of frozen skipjack tuna which fully curbed the growth in export volume of frozen yellowfin tuna and fresh or chilled yellowfin tuna. Additionally, exports of fresh, chilled or frozen fish (excluding tuna) declined notably in H1-2019. In contrast, canned or pouched tuna recorded a considerable growth in the volume of exports, while the export volume of processed tuna (especially dried tuna) also increased during the period.

Wholesale and Retail Trade

Looking at the developments in the wholesale and retail trade sector, they key indicators of the sector, such as private sector imports (excluding tourism) and loans to the sector, pointed towards a slowdown in the performance of the sector. During the first half of the year, private sector imports (excluding tourism) posted a negligible growth when compared with the corresponding period of 2018. Accordingly, such imports totalled US$719.3 million in H1-2019 compared with the US$719.1 million in H1-2018. Meanwhile, commercial bank credit to the sector recorded an annual decline of 9% when compared with H1-2018. The pace of decline in bank credit to the sector accelerated in

Figure 24: Volume of Fish Exports, 2017-2019
(thousand metric tons, annual percentage change)



Source: Maldives Customs Service

the first half of 2019, as the annual decline in H1-2018 was recorded at 3%.

Inflation

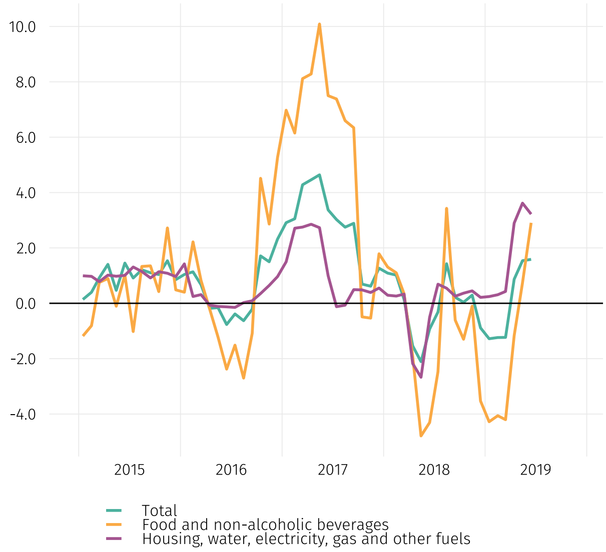
The rate of inflation, as measured by the annual percentage change in the CPI at the national level, picked up to 0.03% in H1-2019 from -0.4% in H1-2018 (Figure 25). This reflects a turnaround in the rate of inflation in Q2-2019 to 0.7% after having registered negative inflation rates for the most of 2018 and in Q1-2019.The upturn in inflation during H1-2019 was largely contributed by the rise in rental prices, together with fruit prices and the price of medical and dental services. The decline in average price level during 2018 and at the beginning of 2019 largely mirrored the base effect of policy changes–harmonization of utility rates across the country and reduction in administered prices of staple food items–that came into effect in March 2018 and April 2018, respectively.

With regard to major categories of CPI, food prices which accounts for 26% of the CPI basket, recorded an annual decrease of 1.9% during the first half of the year (Figure 26). This decline was largely contributed by the reduction in staple food items (rice, sugar and flour) which can be attributed to the base effect from the reduction of wholesale prices in April 2018 by the State Trading Organization (STO) coupled with the subsequent revision of the controlled prices of staple food items by the Ministry of Economic Development. However, the decline in food prices attributed to this base effect has decelerated in H1-2019 as the base effect would have dissipated in April 2019. Fish prices which accounts for 33% of the food category and generally the most volatile component of the CPI basket also declined, largely due to the decrease in prices of skipjack tuna and smoked fish. Similarly, vegetable prices recorded a substantial decline during the period which stemmed from the fall in root crop prices (notably onions and carrots). However, this decline was partly offset by the annual rise in prices of other vegetable items such as green chilli, pumpkin, cabbage and potato.

Similarly, electricity prices fell by 10.5% in H1-2019 when compared with H1-2018. This decline reflected the base effect of the reduction of electricity and water tariffs in the atolls to harmonise utility rates across the country. Moreover, the annual fall in global oil prices during H1-2019 contributed negatively to the inflation rate. However, the pace of decline in electricity prices has slowed down when compared with the annual decline of 18.9% and 28.4% recorded in Q1-2019 and H1-2018, which can be attributed to the dissipation of the base effect of the policy change. As for other categories which contributed negatively to the inflation rate, clothing prices fell during the period which was mainly contributed by the decline in prices of men's garments, while the category of recreation and culture declined on the back of the fall in television prices.

Figure 25: Inflation (National), 2015 - 2019

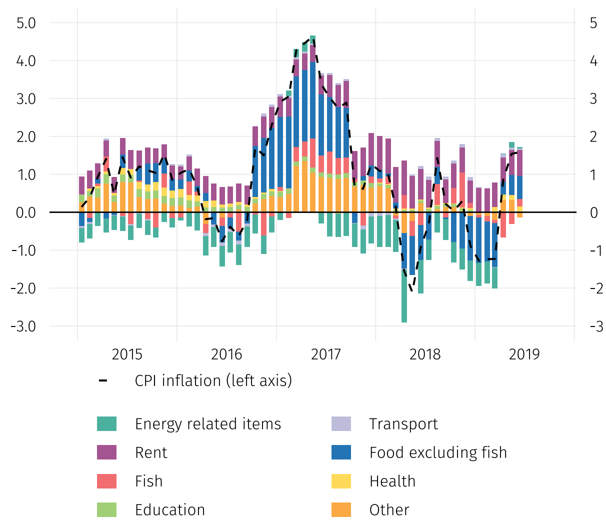
(annual percentage change)



Source: National Bureau of Statistics

Figure 26: Contribution of Sub-Categories to CPI Inflation (National), 2015 - 2019

(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

In contrast, rental prices increased by 4.7% and was the main contributor to the growth in inflation rate during the period. Meanwhile, fruit prices increased by 16.8% broadly due to the increase in the price of dried fruits. However, price of fresh citrus fruits and apples observed a decrease when compared with the corresponding period of 2018. As for the health category, prices increased by 1.6% which stemmed mainly from the 2.9% and 27.6% increase in the price of medical services and dental services, respectively. Similarly, reflecting the price growth in mobile phones, the communication prices rose by 1.4% in H1-2019. Despite the decline in air transport prices amid the reduction in airfare by the national carrier–Maldivian–the price of transport also contributed positively to inflation rate on the back of the rise in the price of maintenance and repair services of motorcycles. With regard to other components of the CPI which made upward pressure to the inflation rate in H1-2019 include the increase in prices of furniture and furnishings; and restaurants and hotels.

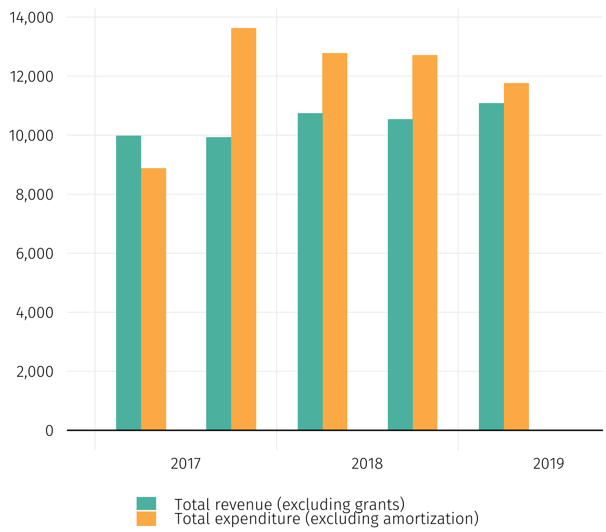
Public Finance

Revenue

Total government revenue (excluding grants) increased by MVR329.8 million during H1-2019 when compared to the corresponding period of the previous year, totalling MVR11.1 billion at the end of the period (Figure 27). As a result, 50% of the total revenue envisaged under the national budget for 2019 was realised by the end of June 2019. This increase was entirely driven by a significant growth in tax revenues which fully offset the decline in non-tax revenues. Tax revenue growth was primarily higher due to an upward base effect as extensions were given in 2018 for deadlines which fell into June 2018. In 2018, BPT deadline originally fell to a public holiday, thus, the deadline was extended to July 2018. In addition, growth was spurred on by higher tourist arrivals which resulted in higher tourism sector-related revenues. During this period, tax revenues accounted for 78% of the total revenue and amounted to MVR8.7 billion, registering a remarkable growth of MVR511.7 million in annual terms when compared with the corresponding period of 2018.

The growth in tax revenues was led by an increase in import duties, which rose by MVR172.8 million in annual terms. This was followed closely by the increases in both BPT and goods and services tax (GST), which rose by MVR158.5 million and MVR135.6 million, respectively. As for the increase in GST, both tourism goods and services tax (T-GST) and general goods and service tax (G-GST) contributed to this growth as–T-GST which is the single largest source of tax revenue–rose by MVR94.3 million while G-GST increased by MVR41.3 million. This mirrored the buoyancy in tourism sector as well as robust economic activity in the domestic economy. The buoyancy of tourism sector was further reflected in the growth in revenue from airport service charge, which posted a growth of MVR46.9 million in annual terms (Figure 28).

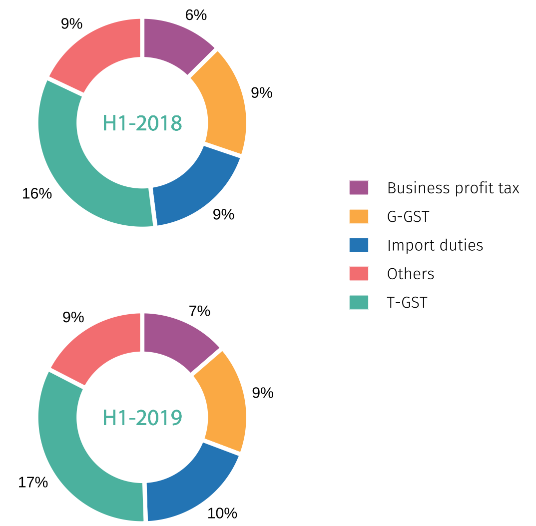
Figure 27: Government Revenue and Expenditure, 2017 - 2019
(millions of rufiyaa)



Source: Ministry of Finance

Non-tax revenues, which comprised 22% of the total revenue, observed a decline of MVR220.6 million in annual terms and totalled MVR2.4 billion at the end of H1-2019. This reflected significant falls in revenue from state-owned enterprises' dividends; and land acquisition and conversion fee, which fell by MVR194.8 million and MVR114.3 million, respectively. However, these falls were partly offset by increased revenue from resort rent as well as increased revenue through fees and charges, most notably airport development fee. As such, resort rent grew by MVR72.9 million while revenue from fees and charges rose by MVR63.9 million during the period. Meanwhile, interest and profits also registered a growth which curbed further dampening of non-tax revenues.

Figure 28: Composition of Tax Revenue, 2018 - 2019

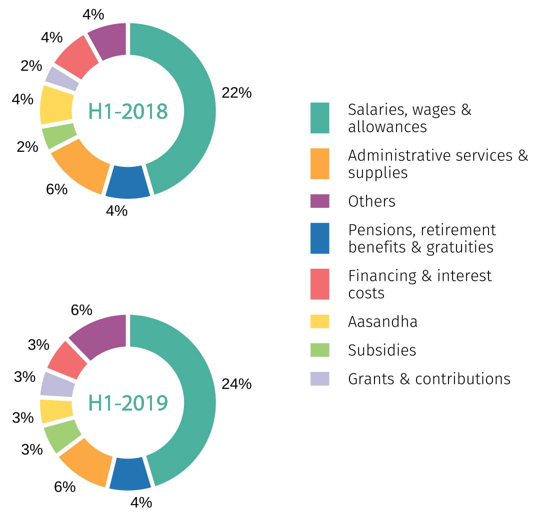


Source: Ministry of Finance

Expenditure

Total expenditure (excluding debt amortisation) recorded a decline of MVR1.0 billion in annual terms and amounted to MVR11.8 billion during H1-2019. This was entirely on account of a significant drop in capital expenditure, which completely offset the rise in the government's current expenditure. Hence, less than half (43%) of the approved budget for the year was spent during H1-2019. Looking at the major contributors to this decline, the fall in capital expenditure largely mirrored the MVR2.3 billion decline in spending on the Public Sector Investment Programme (PSIP) projects. This largely reflected the fall in spending on roads, bridges and airports. This was on the back of major completion of large infrastructure projects in the preceding year such as the Sinamale' Bridge, Male' re-development project, expansion of Velana International Airport and the construction of Dharumavantha Hospital.

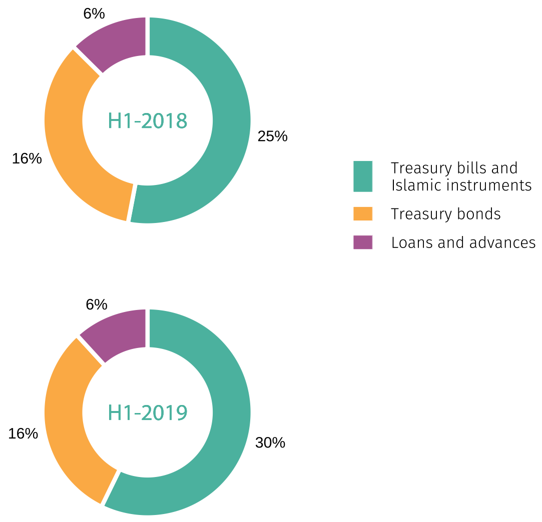
Figure 29: Composition of Recurrent Expenditure, 2018 - 2019



Source: Ministry of Finance

Contrastingly, current expenditure grew by MVR735.4 million (Figure 29) during the first half of the year, driven by the increased expenditure on salaries and wages–the largest component of current expenditure–which rose by MVR334.7 million in annual terms, reflecting the increase in both expenditure on salaries and wages; and allowances during the period. Similarly, administrative and operational expenses rose by MVR120.2 million largely owing to increased expenditure on grants and contributions; and subsidies despite an MVR192.9 million fall in expenditure on Aasandha, with continued measures to curb such expenditure during the period. Increase in expenditure on subsidies can be attributed to higher costs associated with the reinstatement of subsidy on staple food items as well as fuel subsidies.

Figure 30: Composition of Domestic Claims on Government, 2018 - 2019



Source: Ministry of Finance

Financing

During the first half of the year, the fiscal deficit was mostly financed through domestic sources while borrowing through foreign sources also registered a considerable increase over the period.

Domestic borrowing by the government–consisting of both short-term and long-term loans and debt securities– represented a net borrowing of MVR2.0 billion in H1-2019, after recording a net repayment of MVR195.0 million in H1-2018. The growth in domestic borrowing over the review period mostly stemmed from the net issuance of treasury bills, which recorded a net borrowing of MVR2.0 billion despite the marginal decline in net borrowing of treasury bonds during the period (Figure 30).

External financing includes borrowings as loans–contracted from buyer's credit, bilateral and multilateral sources and commercial banks–and debt securities issued in the international market. Likewise, external financing recorded a net borrowing of MVR920.5 million down from a net borrowing of MVR3.2 billion when compared to the corresponding period of 2018. During this period, borrowings as external financing was largely driven by loan proceeds acquired through buyer's credit.

Public Debt

The total outstanding stock of public debt increased to MVR50.9 billion at the end of June 2019 from MVR48.0 billion recorded the end of December 2018, largely owing to an increase in domestic debt (Figure 31). With regard to the composition of debt, domestic debt remained as the largest component, with a share of 58%, while the share of external debt stood at 42%.

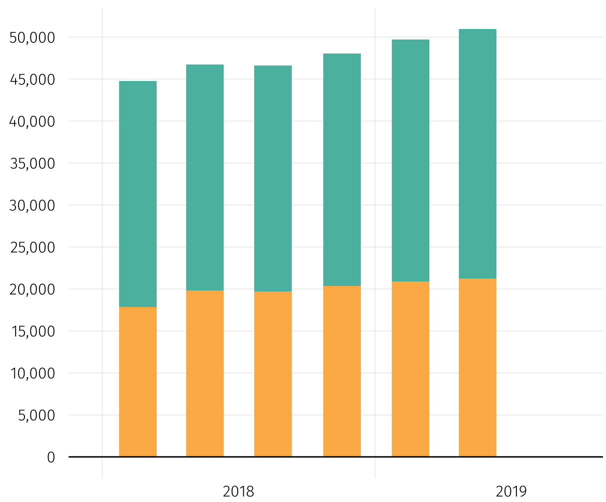
Domestic debt totalled MVR29.7 billion at the end of June 2019, up from MVR27.7 billion in December 2018. The primary source of domestic borrowing during the review period has been the issuance of government securities[8] (treasury bills and treasury bonds). As such, the increase in domestic debt largely reflected an increase in treasury bills issued

[8]The pension recognition bond is not classified as a treasury bond as it is non-tradable.

to both commercial banks and other financial corporations, which rose by MVR1.1 billion and MVR819.2 million, respectively. In contrast, the outstanding stock of treasury bonds decreased slightly at the end of H1-2019. Meanwhile, external debt rose to MVR21.3 billion at the end of June 2019 from MVR20.4 billion at the end of December 2018. This increase in external debt largely reflected increase in external loans as buyer's credit which registered a growth of MVR733.5 million.

Turning to the outstanding stock of treasury bills by holder, commercial banks remained the main investor in terms of holdings, with a share of 63% of the total outstanding treasury bills, followed by the other financial corporations (34%) (Figure 32).

Figure 31: Total Outstanding Stock of Public Debt, 2018 - 2019
(millions of rufiyaa)



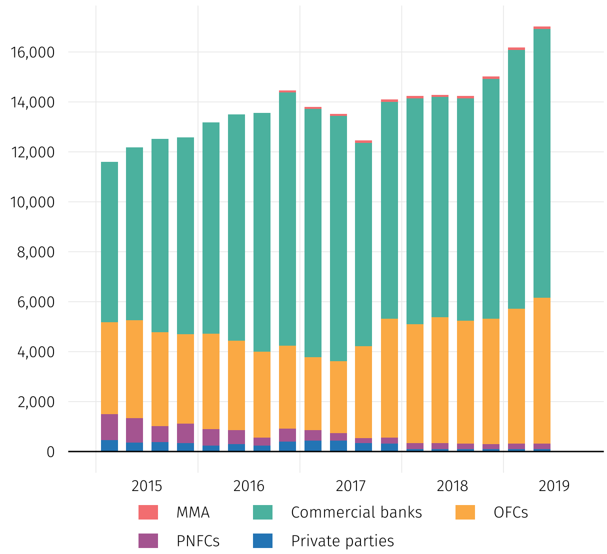
Source: Ministry of Finance

Monetary Developments

Broad Money

The annual growth in broad money (M2 or money supply) stood at 7% at the end of June 2019, a significant acceleration when compared to the 3% annual growth in money supply recorded at the end of 2018. On the components side, this was largely contributed by a significant increase in both other deposits (savings and time deposits) and transferable deposit base (demand deposits) of the banking system. As such, demand deposits–which accounted for 72% of the money supply during the period–grew by 5%, after recording a 1% annual growth at the end of 2018. The growth in demand deposits during the period entirely stemmed from the increase in such deposits denominated in foreign currency as local currency demand deposits observed a decline during the period. The growth in foreign currency deposits was primarily due to the increase in such deposits by the private sector and public non-financial corporations while the decline in local currency deposits was broadly

Figure 32: Treasury Bills by Holder, 2015 - 2019
(millions of rufiyaa)



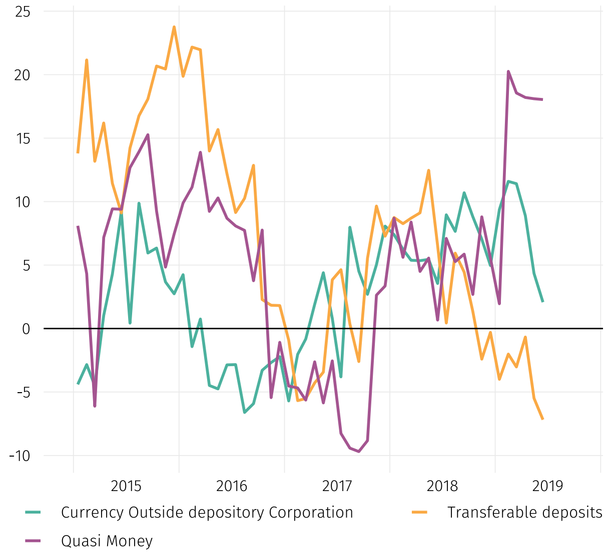
Source: Maldives Monetary Authority

attributed to the decline in deposits of private non-financial corporations.

Other deposits which accounted for 19% of money supply, posted a significant annual growth of 21% at the end of June 2019, after registering a growth of 11% at the end of December 2018. This improvement reflected the rise in both foreign currency savings and time deposits as local currency savings and time deposits also observed an increase during the period. Meanwhile, currency outside depository corporations–which accounted for 9% of money supply–grew by 2% in annual terms, a deceleration in comparison to the 5% recorded at the end of December 2018 (Figure 33).

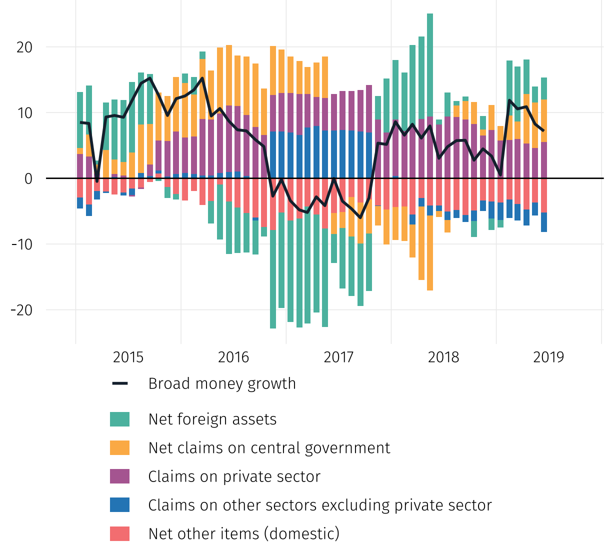
On the sources side, the growth in broad money was driven by the upsurge in both net domestic assets (NDA) and net foreign assets (NFA) of the banking sector, which recorded an annual growth of 6% and 10% at the end of June 2019, respectively (Figure 34). The growth in NDA was mainly on the account of the increase in commercial banks' NDA together with the growth in NDA of MMA during the period. The domestic sources of broad money growth were contributed predominantly by growth in net claims on central government, followed by the growth in commercial banks credit to the private sector. Net claims on government of the total banking system grew significantly by 19% and amounted to MVR13.3 billion at the end of June 2019, largely reflecting the 22% annual expansion in government securities. Meanwhile, the NDA of the MMA also increased during the period, owing to the decline in Overnight Deposit Facility investments made by commercial banks. Looking at the developments in NFA, the increase in NFA stemmed from the rise in NFA of commercial banks which fully offset the decline in NFA of the MMA. As such, the growth in NFA of the commercial banks was primarily due to the increase in foreign currency deposits held abroad.

Figure 33: Components of Broad Money, 2015 - 2019
(annual percentage change)



Source: Maldives Monetary Authority

Figure 34: Contribution to Broad Money, 2015 - 2019
(annual percentage change, percentage point contribution)

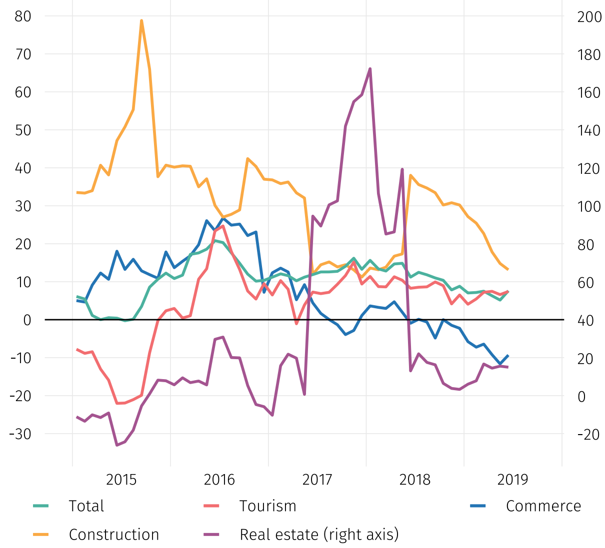


Source: Maldives Monetary Authority

Credit to Private Sector

Credit to the private sector continued to grow and stood at MVR23.6 billion at the end of June 2019. This marked an annual growth rate of 8% (MVR1.7 billion), albeit a slight deceleration when compared to December 2018. Similar to the previous year, credit extended to tourism, construction and commerce sector accounted for the highest share of credit over the period. Credit extended for tourism sector (which accounted for 37% of total private sector credit) registered a 7% annual growth, largely due to the significant rise in credit extended for new resort development combined with the credit extended to renovation of resorts, while credit to the construction sector rose by 13%. The growth in credit extended to the construction sector was largely driven by the growth in credit lent for the construction of residential housing. Meanwhile, a decline in credit was observed in the commerce sector, stemming from the fall in credit for wholesale and retail together with a slight decrease in credit extended to restaurant and cafes (Figure 35). In contrast, credit extended as personal loans recorded an annual growth of 18% at the end of the period, reflecting the rise in credit for credit cards and consumer durables.

Figure 35: Private Sector Credit Growth, 2015 - 2019
(annual percentage change)

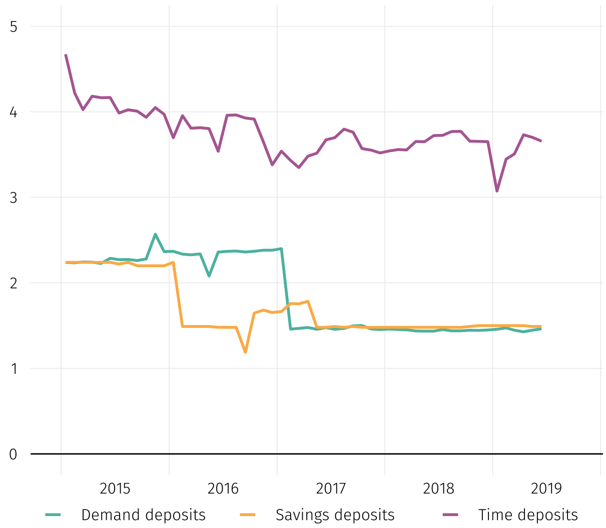


Source: Maldives Monetary Authority

Interest Rates

As for interest rates, the rates on both local and foreign currency demand deposits registered an annual increase at the end of June 2019, while rates on both local and foreign currency time deposits (maturity of six months to one year) decreased during the period. As for savings deposits, interest rates on local currency denominated savings deposits remained largely unchanged by the end of June 2019, while foreign currency savings deposits decreased over the period (Figure 36 and 37).

Figure 36: Interest Rate on National Currency Deposits, 2015 - 2019
(weighted average)



Source: Maldives Monetary Authority

With regard to private sector loans, interest rates on local currency denominated private sector loans increased during the period while the rates on foreign currency denominated private loans declined (Figure 38).

Financial Sector

Banking Sector

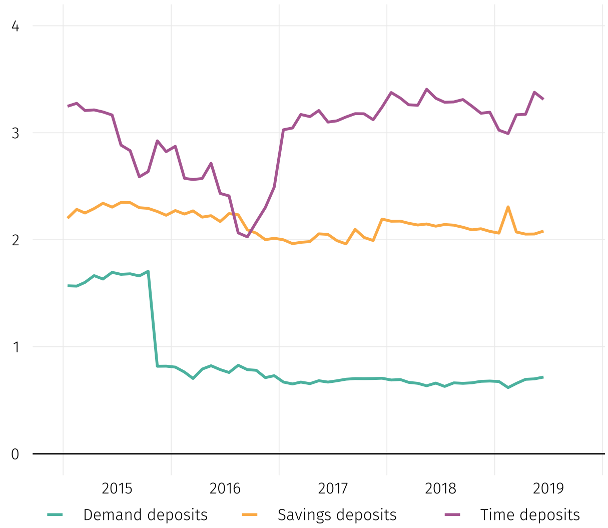
The banking sector remained healthy during the quarter, with key prudential indicators being well above the regulatory minimum requirements.

The capital adequacy ratios of the banking sector remained strong, with the total capital to risk-weighted assets at 47% against the minimum requirement of 12%, on account of the significant portion of low risk assets in the portfolio. The leverage capital ratio measured by equity (Tier 1 Capital) to net assets stood at 23% (against minimum requirement of 5%).

The profitability of the banking industry remained strong as indicated by return on equity of 15% during the quarter. The pre-tax profit for the quarter reported a growth of 22% and is recorded at MVR1.3 billion compared to the same period a year ago. This growth is on account of increase in net-income from lending by 26% amounting to MVR247.4 million, compared to the same period a year ago.

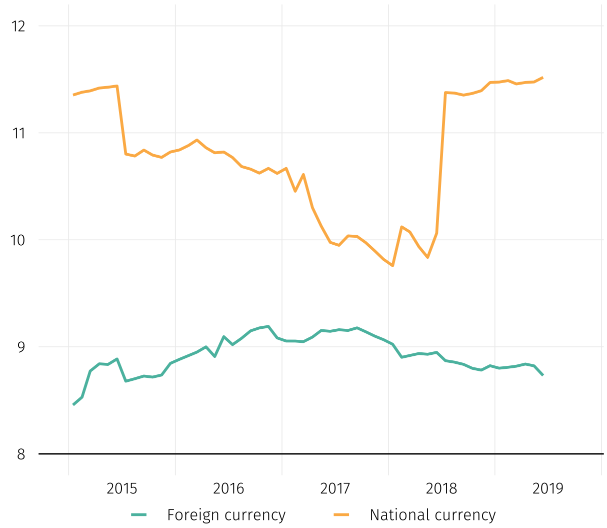
Absolute value of Non-Performing Loans (NPLs) increased by 14% (MVR302.8 million) compared to the same period from a year ago mainly due to a few large loans going to NPL, and compared to previous quarter the figure increased by 5% (MVR119.9 million). Percentage of NPLs over total loans is at 10%, and banks have made loan loss provisions which covers 91% of the NPLs.

Figure 37: Interest Rate on Foreign Currency Deposits, 2015 - 2019
(weighted average)



Source: Maldives Monetary Authority

Figure 38: Interest Rate on Private Sector Loans and Advances, 2015 - 2019
(weighted average)



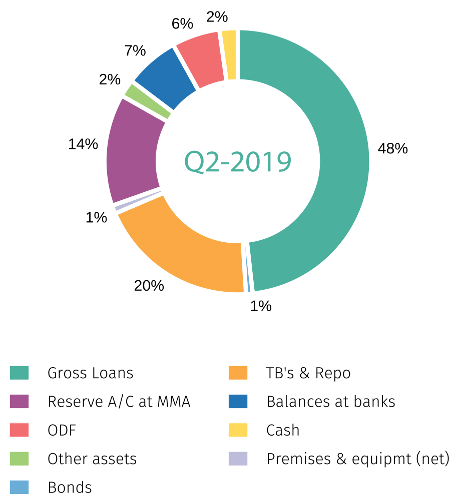
Source: Maldives Monetary Authority

Loans continue to dominate the asset portfolio of the banking sectors which make up 48% of the asset portfolio amounting to MVR25.7 billion at the end of this quarter (Figure 39). The loan portfolio increased by 5% (MVR1.4 billion) when compared to same period from a year ago.

At the end of the review period, investments in debt securities consists 20% of the banking sectors gross assets, and amounting to MVR10.8 billion. Investment in debt securities increased by 3% compared to quarter ago and 19% compared to the same period from a year ago.

Liquid asset remain a high proportion of deposits and borrowings at 63%. Deposit base recorded a growth of 6% (MVR2.0 billion) when compared to the same period a year ago amounting to MVR34.7 billion. The growth in deposits was mainly due to an increase in demand deposits by 3% (MVR812.5 million) and increase in term deposits by 25% (MVR1.1 billion).

Figure 39: Gross Asset Composition of Banking Industry, Q2-2019



Source: Maldives Monetary Authority

Finance Companies

A new finance company, SME Development Finance Corporation Pvt. Ltd. (SDFC), was licensed in Feb-19. SDFC is a specialized financial institution providing financing products and ancillary services to Micro, Small and Medium Enterprises and entrepreneurial start-ups. With this license, the number of finance companies in the Maldivian financial sector totals to three, including Housing Development Finance Corporation PLC and the Maldives Finance Leasing Company Pvt. Ltd.

During H1-2019, finance companies grew in terms of assets and showed an annual growth of 17% to reach MVR2.4 billion. Lending of the industry showed steady improvement of 14% when compared with the same period of 2018. Overall performance of the industry improved with increase in net profits, and maintaining satisfactory asset quality over the first six months of 2019.

Capital strength of the finance companies is strong, with the total capital to risk weighted assets ratio being 41%, representing a comfortable level to absorb risks in the sector. The asset quality of finance companies remains satisfactory, with NPL ratio (NPLs to Total Loans) of 1.8% in H1-2019, a slight increase from 1.7% at the end of 2018. Earnings are satisfactory, with the industry recorded net profits of MVR58.3 million, an increase of 16% compared to same period of 2018. This was mainly contributed by 18% increase of interest income and a fall in loan loss provisions.

Money Remittance Companies

Currently, there are four money remittance businesses providing remittance services. Outward remittances done through the remittance companies remains similar in value during H1-2019, compared with the first half of 2018, while inward remittances has increased by 12%.

Outward remittance through money remittance companies showed a slight decrease of 0.1% and summed to MVR562.8 million in H1-2019. While the amount remitted by foreigners increased by 3% in H1-2019 compared with the corresponding period of 2018, the amount remitted by Maldivians decreased by 3% during the referred period. However, outward remittances by Maldivians still amounted to 50% of the total outward remittances.

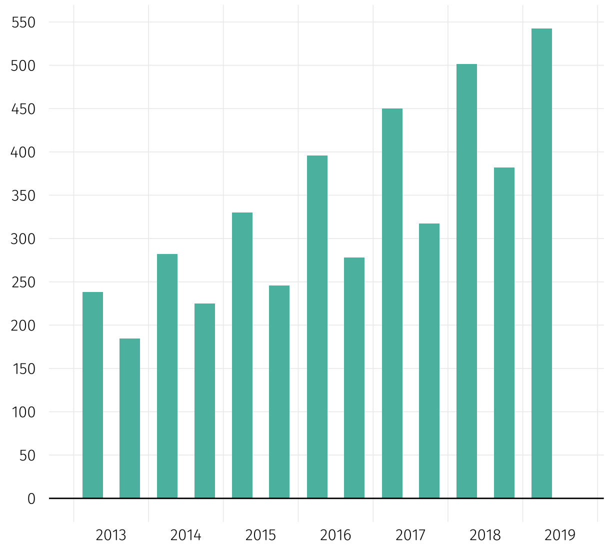
Most of the outward remittances were made mainly for family maintenance and savings. Bangladesh remained the most popular outward remittance destination representing 40% of the total outward remittance, a decrease from the 48% remitted to Bangladesh in 2018.

Inward remittance through money remittance companies increased by 12% compared with the corresponding period of 2018, and totalled MVR39.4 million in H1-2019. Most of the inward remittances were received from China (representing 19% of the total inward remittance) and the United Arab Emirates (UAE) (representing 16%).

Insurance Industry

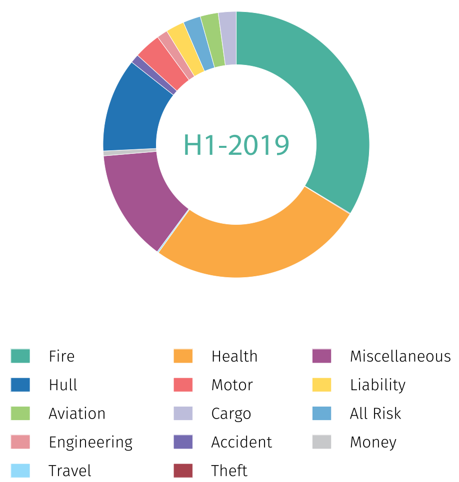
Insurance industry recorded moderate growth during the first half of 2019. Gross Written Premium (GWP) was MVR542.5 million, an increase of 8% compared with the same period in 2018 (Figure 40). This increase in GWP was mainly due to the growth in fire, health and aviation Insurance classes. It is noteworthy that GWP is generally high during the first half of the year as most insurance contracts are renewed during this period. Fire, health and marine hull classes of insurance contributed to 71% of the GWP, with a share of 34%, 26% and 11% of the GWP, respectively (Figure 41). Gross claims

Figure 40: Gross Written Premium, 2013 - 2019
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 41: Premium Contributions by the Classes of Insurance, H1-2019



Source: Maldives Monetary Authority

increased marginally from MVR110.2 million in the first half of 2018 to MVR110.6 million in the first half of 2019.

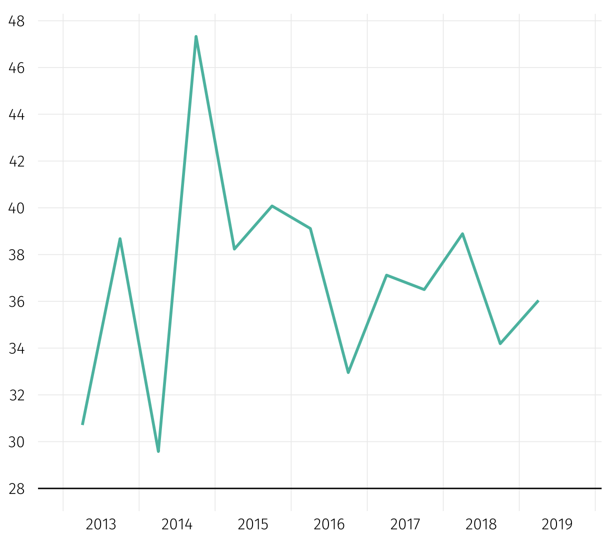
With regard to the retention ratio for the first half of 2019, it stood slightly lower at 36% of the GWP against 39% of GWP in the corresponding period of 2018 (Figure 42). While fire, aviation and marine insurance classes depend heavily on reinsurance, most of the premium generated from classes such as motor and health are retained by the companies.

Net Written Premiums during the first half of 2019 totalled MVR195.5 million, while net claims amounted to MVR65.7 million which is an increase of 31% compared with the same period in 2018 (Figure 43). Similar to GWP, net written premium generally remains high during the first half of the year.

Figure 43: Net Written Premium vs. Net Claims Paid, 2013 - 2019
(millions of rufiyaa)

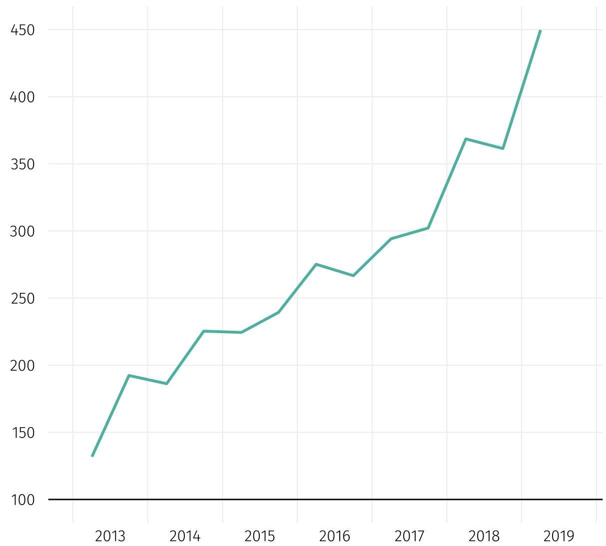
Source: Maldives Monetary Authority

Figure 42: Retention Ratio, 2013 - 2019
(percent)



Source: Maldives Monetary Authority

Figure 44: Total Investment, 2013 - 2019
(millions of rufiyaa)

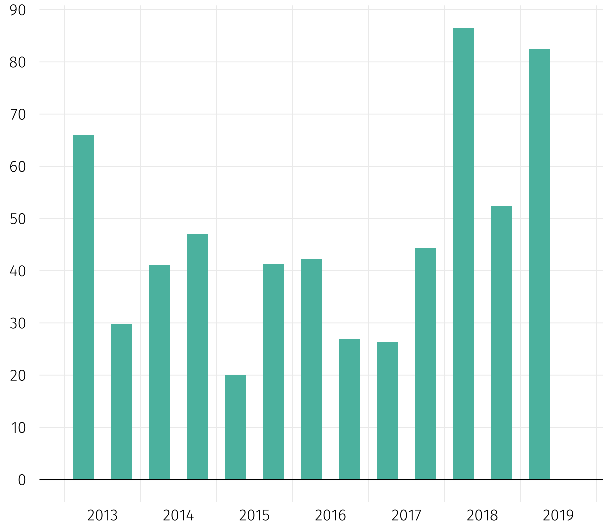


Source: Maldives Monetary Authority

Total investments of the industry stood at MVR449.7 million at the end of June 2019. Out of the total investments, 38% was invested in treasury bills (which was a decrease of 6% when compared with the same period of 2018) while investment in debt securities accounted to 25% of total investments (Figure 44).

Profit of the insurance sector declined slightly during H1-2019 and totalled MVR82.5 million (Figure 45). This is mostly due to an increase in net claims during this period. The insurance companies operating in Maldives are currently retaining 30-40 per cent of the premium underwritten, as the companies lack the capacity to absorb substantial risks. The industry received MVR53.6 million as reinsurance commission during this period, which made a significant contribution to the profits generated by the industry.

Figure 45: Profitability, 2013 - 2019
(millions of rufiyaa)



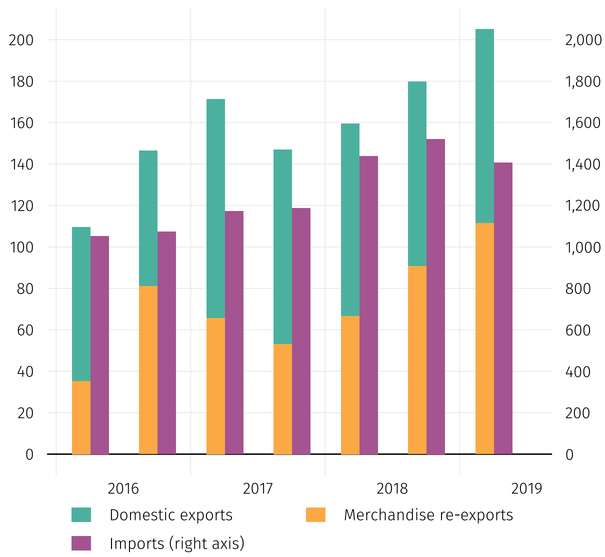
Source: Maldives Monetary Authority

External Trade

Merchandise Exports

The total merchandise exports–sum of domestic exports and re-exports–amounted to US$205.2 million in H1-2019, a significant growth of 29% (US$45.8 million) when compared with the preceding period of 2018 (Figure 46). This growth was almost entirely attributed to the increase in re-exports which posted an annual growth of 68% during H1-2019. As re-exports mainly comprise the jet fuel sold to airlines at international airports, the growth in re-exports largely reflected the considerable growth in jet fuel sold to international carriers during the first half of 2019.

Figure 46: Total Trade Summary, 2016 - 2019
(millions of US dollars)



Source: Maldives Custom Service

As for domestic exports, a marginal growth of 1% (US$0.7 million) was observed in H1-2019 which broadly mirrored the minimal growth in fish exports during the period. This was due to the significant drop in earnings from frozen skipjack tuna by 16% (US$5.4 million) and fresh or chilled yellowfin tuna by 5% (US$1.3 million) which largely curbed the increase in earnings from canned or pouched tuna by 26% (US$4.6 million) and frozen yellowfin tuna by 49% (US$3.5 million). The decrease in earnings from frozen skipjack tuna reflected the decline in the volume of such exports, coupled with the annual decrease in skipjack tuna prices in the international market[9]. As for the decline in fresh or chilled yellowfin tuna earnings, this was largely contributed by the fall in yellowfin tuna prices in the international market[10], despite the increase in the volume of such exports during the first half of the year. Meanwhile, the increase in earnings from frozen yellowfin tuna can be largely attributed to the growth in the volume of such exports during the period (Figure 47).

Asia and Europe remained the two major continental destinations of exports, accounting for 51% and 38% of domestic exports in H1-2019, respectively. Thailand continued to be the main export market and accounted for 38% of domestic exports, followed by Germany (14%) (Figure 48).

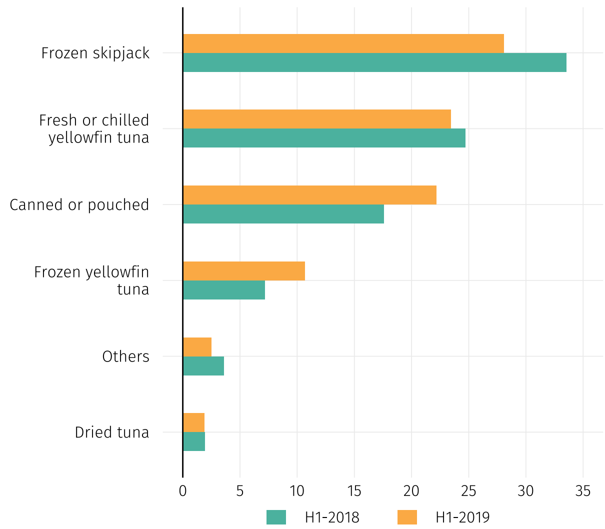
Merchandise Imports

Total merchandise imports posted a marginal decline of 2% (US$32.6 million) in annual terms and totalled US$1.4 billion during H1-2019. This decline was largely contributed by the significant fall in import value of construction-related items (wood; metal; cement and aggregates; and other construction related items) by 19% (US$66.5 million) (Figure 49). The decline in imports of construction-related items broadly mirrors the conclusion of

[9]Skipjack prices are based on Bangkok frozen market prices.

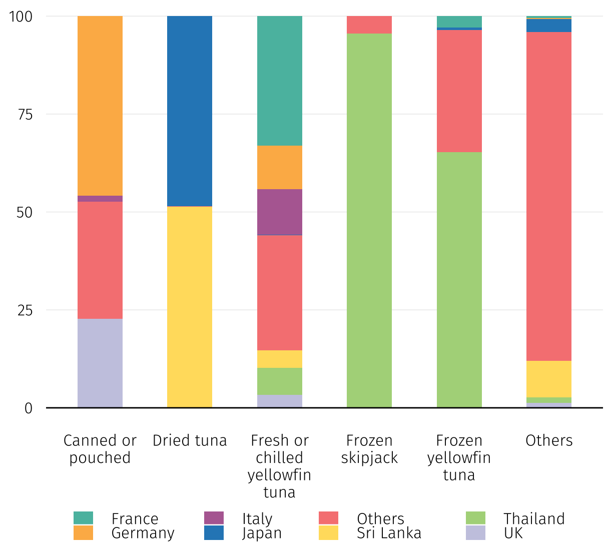
[10]According to the European Price Report for June 2019, published by the Food and Agriculture Organization of the United Nations.

Figure 47: Composition of Fish Export Earnings, 2018 - 2019
(millions of US dollars)



Source: Maldives Customs Service

Figure 48: Direction of Trade of Domestic Exports, H1-2019
(percent)



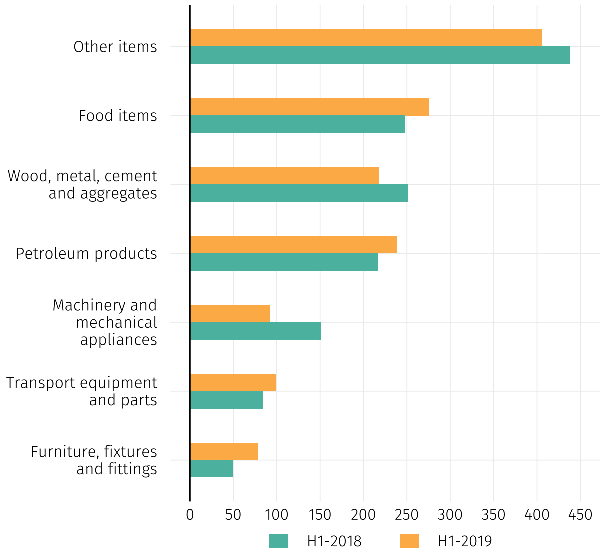
Source: Maldives Customs Service

several large public infrastructure projects coupled with the moderate fall in global commodity prices during the first half of 2019. In addition, imports of machinery and mechanical appliances dropped by 39% (US$58.2 million) and contributed to the decline in total merchandise imports in H1-2019. As for other imports, plastics and articles of plastic posted a noticeable decline during the period.

However, the decline in total merchandise imports was curbed to an extent by the growth in import expenditure on various import categories in H1-2019. Accordingly, imports of furniture, fixtures and fittings increased by 57% (US$28.3 million) when compared with the first half of the preceding year, followed by the growth in import of food items, which posted a growth of 11% (US$27.3 million). Meanwhile, despite the annual decline in global oil prices in H1-2019, import expenditure on petroleum products grew by 10% (US$22.2 million). This growth was broadly contributed by the growth in import of diesel (marine gas oil). Additionally, imports of transport equipment and parts increased by 17% (US$14.0 million) during H1-2019.

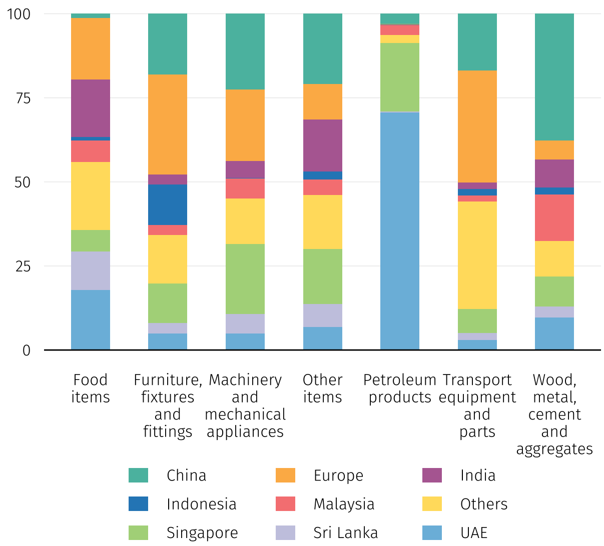
As for the direction of trade of imports, Asia remained as the major continental source of imports, accounting for 81% of total merchandise imports in H1-2019. Meanwhile, imports from Europe accounted for 13% of total merchandise imports. UAE was the main import market and accounted for 20% of total merchandise imports, while China was the second largest import market (16%) in the first half of 2019 (Figure 50).

Figure 49: Composition of Imports, 2018 - 2019
(millions of US dollars)



Source: Maldives Customs Service

Figure 50: Direction of Trade of Imports, H1-2019
(percent)



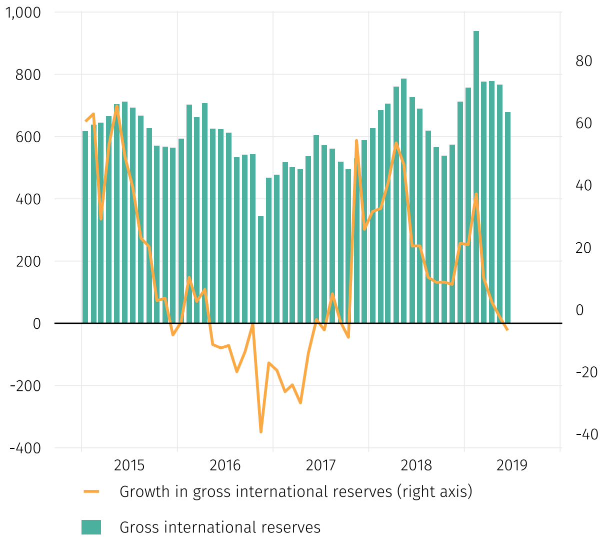
Source: Maldives Customs Service

Gross International Reserves

Gross International Reserves (GIR)[11] stood at US$677.4 million at the end of June 2019, an annual decline of 7% (Figure 51). This was a decline of 5% when compared with the end of 2018. GIR trended upwards during the start of the year and peaked at US$938.6 million in February 2019 before the growth slowed down and began to decline from May 2019 onwards. The annual decline in GIR stemmed mainly from the fall in commercial banks' foreign currency deposits held at the MMA.

Figure 51: Gross International Reserves, 2015 - 2019

(millions of US dollars, annual percentage change)



Source: Maldives Monetary Authority

[11]GIR comprises of foreign currency deposits of the MMA and the government, commercial banks' US dollar reserve accounts and Maldives' reserve position at the IMF.

Outlook

Based on the performance of the economy during the first six months of 2019, real GDP growth for 2019 is expected to remain more or less at the same levels as 2018 on the back of strong tourism sector growth–in turn boosting the growth of related sectors such as transport, communication and also wholesale and retail trade. Growth of the tourism sector is to be driven by better than expected growth in arrivals from emerging markets, in particular India, and the major European source markets, mirroring improved air connectivity and capacity expansion stemming from opening of new resorts. Meanwhile, construction sector growth is now expected to slow markedly in 2019 largely due to the sharp fall in public sector infrastructure projects reflecting the completion of major public infrastructure projects in 2018, namely the China-Maldives Friendship Bridge project, runway development project of Velana International Airport and the Dharumavantha Hospital project.

Following low and stable rates of inflation throughout 2018, further downward pressure on inflation was anticipated in 2019 with the new domestic policy developments in 2019, such as the harmonisation of staple food prices[12] and electricity tariff rates[13] throughout the country; and the provision of a fuel discount on electricity tariff rates[14]. However, the effects of these policy changes on inflation have been observed to be minimal. Hence, with the dissipation of base effects from past changes to administered prices, a positive and moderate rate of inflation is now expected for the year 2019, mirroring mainly the moderation in global commodity prices outlook.

With regard to government finances, according to the budget for 2019 approved by the People's Majlis in November 2018, the overall fiscal deficit is projected to decline to 4.4% of GDP in 2019, down from 4.7% in 2018. However, under the supplementary budget for the year, approved by the People's Majlis on 27 August 2019, in order to increase expenditure by an additional 1.7 billion, the fiscal deficit is now projected to increase by around 1.1% percentage points of GDP to 5.6% in 2019. With the increase in expenditure to be mainly financed by the domestic market, the public debt is projected to increase to 61.6 % of GDP at the end of 2019.

On the external front, according to estimates made in April 2019 the current account deficit is projected to narrow to 21% of GDP in 2019, largely reflecting the slowdown in import growth mirroring the winding down of key public infrastructure projects and the decline in global oil prices, along with the strong growth in tourism receipts. The current account deficit is to be financed mainly from higher debt inflows and Foreign Direct Investments. Reflecting these developments, GIR is projected to remain at moderate levels in 2019.

---

[12]The government subsidizes the cost of transporting staple food items to all other inhabited islands, ensuring the price remains the same as the Greater Male' region.

[13]Electricity tariff rates charged for all bands above 400 units, for domestic consumers was equalised between the Greater Male' region and all other inhabited islands.

[14]Fuel discount of MVR0.12 per unit is given to all categories of electricity tariff rates, from March 2019 onwards.

Risks to Outlook

The overall risks to growth outlook will largely depend on the anticipated developments in the tourism sector which is the key driver of economic growth, offsetting a sharper than expected slowdown to construction sector growth. Risks to the tourism outlook are now tilted to the upside due to stronger than expected growth in arrivals, mainly from India.

With regard to risks to inflation outlook, any new domestic policy developments may add to the forecast uncertainty. Meanwhile, external risks to inflation outlook are modest, as crude oil prices are expected to decline during the year and global food prices are expected to grow modestly.

ARTICLE

Determinants of Money Supply in Maldives – An Empirical Study on Private Sector Credit

By: Mohamed Imthinan Saudulla

Abstract

This paper is motivated on analysing one of the main determinants of money supply in Maldives – private sector credit growth. Using quarterly time series data from the Q1-2010 till the Q2-2018, an Ordinary Least Squares (OLS) regression was conducted to identify the significant factors influencing the private sector credit growth in Maldives. Results indicate that the theoretical propositions on the factors determining private sector credit growth hold in the context of Maldives. In particular, the availability of necessary funds; both local and foreign currency, allows commercial banks to increase their lending to the general public. Moreover, the investigation also illustrates the degree to which the central bank can influence private sector credit through various policy tools; tightening of policy can hinder the lending capacity of commercial banks.

Introduction

The key objectives of Maldives Monetary Authority (MMA) are, to achieve price stability within the local economy, and, to maintain the foreign exchange reserves of Maldives at an adequate level. To achieve this objective, one of the operational targets of MMA is to manage the liquidity position of the banking system. This liquidity of the banking system, which primarily consists of commercial banks balances (excess reserves together with the minimum reserve requirements (MRR)) at the central bank, and bank notes, is determined on the basis of the supply and demand for the central bank money[1]. As such, it is crucial to identify and determine the underlying factors affecting the money supply of Maldives to maintain the domestic money supply at a level which does not exert additional pressure on the exchange rate and in turn the domestic inflation of Maldives. The components which affect the money supply in general are currency or cash outside depository corporations, deposits held in depository corporations, debt securities, and money market fund shares.

While changes to money supply can be attributed to observed changes in the aforementioned components, a thorough analysis on the underlying factors affecting these components is important to formulate policies to maintain the exchange rate at the desired target. As such, this paper will focus on understanding one of the main determinants of money supply; the effect of private sector credit on changes in money supply in Maldives.

The rest of the paper is structured as follows. Section 2 will briefly explain the theoretical aspects of the main determinants of money supply, as well as, private sector lending, while section 3 will describe the models

[1]https://www.suomenpankki.fi/en/monetary-policy/implementation-of-monetary-policy/liquidity-of-the-banking-system/

utilised for the investigation. Section 4 will present the results obtained from the analysis. Lastly, section 5 will provide the conclusion and the policy recommendations based on these results.

Theory

Money supply is defined to be the entire stock of currency and other liquid instruments circulating in a country's economy as of a particular time. While there are various types of monetary aggregates, money supply is generally classified as either narrow money or broad money. For instance, narrow money consists of coins, notes in circulation, and other money equivalents that can be converted easily into cash while broad money is defined as the sum of narrow money, short term time deposits and/or long-term deposits. Since broad money is considered to be the most inclusive method of calculating a country's money supply, most central banks focus on monitoring and managing the broad money in the economy.

However, analysing the factors affecting the money supply in a country requires examining the underlying counterparts of the aforementioned components. This is because the impact of policies formulated by the central government and the central bank, affect counterparts more directly than the components. Hence understanding the behaviour of these counterparts will shed light on how to develop policies, to maintain the money supply at the optimal level. The counterparts of money supply can be broadly classified into two categories[2]:

a. Net foreign assets

b. Net domestic claims

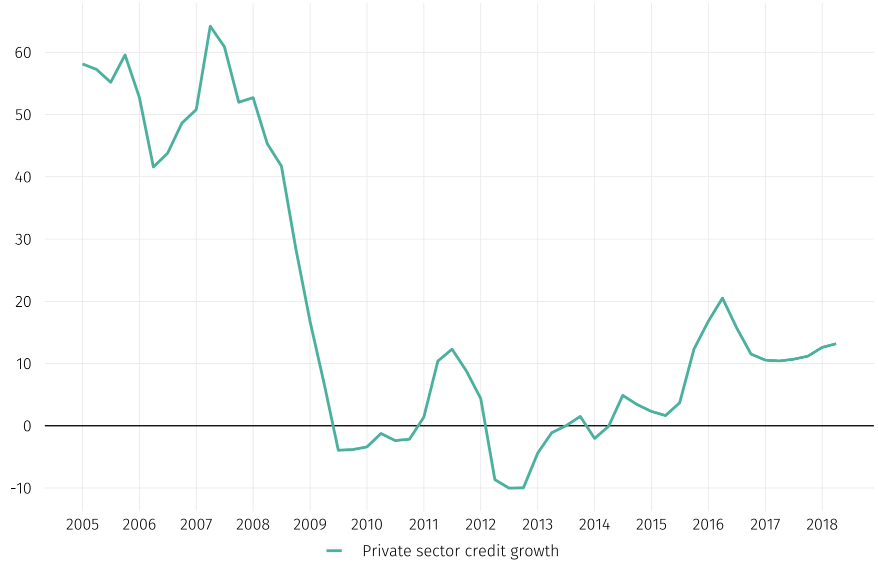
Monthly and quarterly analysis of the monetary data of Maldives indicate, the majority of the money supply (M2) is composed of net domestic claims. For instance, net domestic claims account for an average (from Q4-2002 to Q2-2018) of 74% of total M2 in the local economy. Key factors which affect the net domestic claims are, the amount of credit supplied by the commercial banks to the private sector, and the issuances of Treasury bills (T-bills), Treasury Bonds (T-bonds) and loans by the central government. As such, McLeay et al (2014) emphasizes on the significance of loans provided by commercial banks on determining the level of money supply in the modern economy. Given the importance of private sector credit in determining the changes in money supply, the focus of this paper will be evaluating the fundamental determinants of private sector credit, including the impact of various policy tools of MMA.

Analysing the evolution of private sector credit in Maldives from Q1-2005 till Q2-2018 (Figure 1) indicates that growth in credit extension to the private sector peaked before the financial crisis – culminating at 64% in Q2-2007. The examination also illustrates the profound impact of the global financial crisis of 2008/2009; private lending decelerated between Q3-2009 till Q4-2010. Following an extensive period of stagnated growth, credit to the private sector has been experiencing a burgeoning trend since Q4-2015. This increase in growth may

[2]Per the International Monetary Fund's guideline; "Monetary and Financial Statistics Manual and Compilation Guide", 2018

be attributed to the reduction in MRR brought about in August 2015, which could have led to an increase in the funds available for lending. Given the substantial growth the Maldivian economy has been experiencing, coupled with the constantly evolving financial sector of Maldives, this steady growth in credit lend to the private sector could be present in the near future.

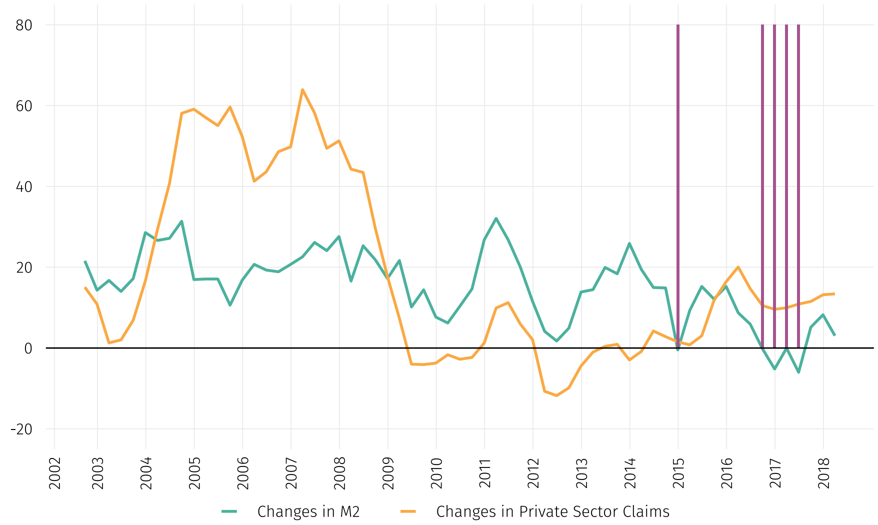
Figure 1: Growth Rate of Private Sector Credit, 2005 - 2018
(annual percentage change)



Source: Maldives Monetary Authority

Historically, increases in money supply has been directly tied with an increase in credit extension to private sector (Figure 2). Only 8% of the analysed sample consists of times at which a positive change in private sector credit is not associated with a positive change in money supply (highlighted periods in Figure 2).

Figure 2: Changes in M2 and Private Sector Claims, 2002 - 2018
(percentage change)



Source: Maldives Monetary Authority
Note: Highlighted periods in which positive growth in credit is not associated with a positive growth in money supply.

Given this linkage between private sector credit and M2 change in Maldives, analysing the variables impacting the credit expansion will be crucial to understand the changes in the domestic money supply. Based on theory (Stepanyan and Guo, 2011), the variables impacting private sector lending can be characterised as either supply side determinants or demand side determinants. Following is a brief description of the main determinants of credit expansion:

a. Deposits: One of the classical theories of money creation is - money is created as a result of commercial banks using deposits for their lending purposes. However, the extent to which commercial banks can use the deposit funds are restricted, mainly due to prudential regulations. As the deposit base of the commercial banks increase, more funds can be utilised to provide credit to the private sector.

b. Foreign Liabilities: Similar to the deposits, foreign liabilities are an alternative source of funding for commercial banks to support their lending behaviour. The magnitude and the proportion of foreign liabilities or deposits to be used as funds to extend credit, depends on the commercial banks strategies, as well as, on the stringent banking regulations set by the central bank. In general, when foreign liabilities increase, it may result in more lending to the private sector.

c. Economic growth and income: The economic growth illustrates the overall health of the economy. As income level in a country increases, the demand for credit will increase as citizens have a higher borrowing capacity with better collateral value and better ability to repay.

d. Inflation: Nominal credit will be affected by the domestic price level; an inflationary episode will in general deteriorate the value of nominal credit.

e. Non-performing loans (NPLs): As the number of NPLs increase, the commercial banks will be limited in their ability to cater to the credit demand of individuals and businesses. As per the latest (January 2019) Bank Credit Survey conducted by the MMA, banks alluded to the high rate of NPLs as the main reason for tightening of credit terms.

f. Regulatory requirements (MRR): As regulatory requirements become more stringent; if the banks are required to deposit a higher proportion of their deposits as MRR, it will decrease the banks willingness and ability to lend.

g. Exchange Rate: Appreciation or depreciation of the domestic currency against foreign currencies, may influence the investment or portfolio strategies of commercial banks. For instance, a potential appreciation of dollar may result in commercial banks investing in foreign (non-resident) assets rather than increase their domestic lending to the private sector.

h. Investment in domestic assets and foreign assets: Given the diversified portfolio of commercial banks, the substitutable investment options will have a significant effect on the amount of lending to private sector. For instance, domestic investments; investments in T-bills or T-bonds of the central government, will have a negative impact on the credit provided to the private sector.

Model

Given the main aim of this paper is to identify the significance of the aforementioned variables in determining the growth[3] of private sector credit, we estimate the following baseline quarterly model from Q1-2010[4] to Q2-2018, based on the methodology used by Stepanyan and Guo (2011).

$$\begin{aligned} Credit\ Growth_t &= \alpha + \beta_1\,(Shdepo_{t-4}\ \times Deposit\ Growth_t) \\ &+ \beta_2\,(Shforeignlia_{t-4}\ \times Non-resident\ Liability\ Growth) \\ &+ \beta_3\ GDP\ Growth_{t-1} + \beta_4\ NPL\ Growth_{\,t-1} + \beta_5\ Inflation_t + \beta_6\ MRR\ Ratio_t \\ &+ \beta_7\ Exhange\ Rate_t\ +\ \varepsilon_t \end{aligned}$$

where

- β1: measures the impact of total deposit growth excluding the deposits of non-residents[5]. The variable is weighted by the share of deposits in total credit to private sector four quarters ago, to account for changes in bank strategies in determining the main sources of funding for their lending behaviour.

- β2: measures the impact of total foreign liabilities growth. The variable is weighted by the share of liabilities to non-residents in total credit to private sector four quarters ago, to account for changes in bank strategies in determining the main sources of funding for their lending behaviour.

- β3: measures the impact of economic (Gross domestic product (GDP)) growth,

- β4: measures the effect of growth in NPLs,

- β5: measures the impact of domestic inflation

- β6: measures the effect of changes in MRR ratio,

- β7: measures the effect of changes in exchange rate.

While the economic growth variable was lagged to account for the endogeneity bias (Stepanyan and Guo, 2011) which arises when credit growth and economic growth of the same period is used, NPL variable was also lagged to account for the timing of events, i.e. banks will decrease their lending behaviour, once they realise the extent of NPLs.

---

[3]Unless otherwise specified, all growth rates are year-on-year growth rates.

[4]The starting point of the estimation sample was chosen to exclude the impact of large shock events such as the Global Financial Crisis of 2008.

[5]The deposits of non-residents were excluded as they were already incorporated into the total foreign liabilities of commercial banks.

Given the lack of variation in the exchange rate before the devaluation of MVR in April 2011, and the low volatility in exchange rate afterwards, the analysis considered a dummy variable – to account for the base effect persisting within one year, following the devaluation. Hence this dummy variable (Devaluation) will be equal to one between Q2-2011 and Q1-2012, while it will be zero otherwise.

Given the variety of investment options available for commercial banks, the substitutability of portfolio choices will have an impact on the extent to which commercial banks provide credit to the private sector. To account for this substitutability, the aforementioned baseline model is augmented by including two alternative investment options; total domestic investments excluding private sector credit, and total foreign investments. This is a major innovation to the model prescribed by Stepanyan and Guo (2011). The augmented model is presented below.

$$
\begin{aligned}
&Credit\ Growth_t \\
&\qquad = \alpha + \beta_1\ (Shdepo_{t-4}\ \times Deposit\ Growth_t) \\
&\qquad + \beta_2\ (Shforeignlia_{t-4}\ \times Non-resident\ Liability\ Growth) \\
&\qquad + \beta_3\ GDP\ Growth_{t-1} + \beta_4\ \ NPL\ Growth\ _{t-1} \\
&\qquad + \beta_5\ Interest\ rate\ Growth_t\ + \beta_6\ MRR\ Ratio_t + \beta_7\ \ Exhange\ Rate_t \\
&\qquad + \beta_8\ Growth\ in\ Local\ Investments\ excl. Private\ Sector\ Credit_t \\
&\qquad + \beta_9\ Growth\ in\ Foreign\ Investments_t\ + \quad \varepsilon_t
\end{aligned}
$$

where

- β8: measures the impact of growth in investments in substitutable local investment options such as T-Bills and T-Bonds issued by the central government.

- B9: measures the impact of growth in investments in substitutable foreign investment options such as purchase of non-residential assets.

Furthermore, given the non-stationarity of most macroeconomic variables, all the variables were initially tested for unit roots. This study employs the Augmented Dickey Fuller (ADF) unit root test and Table 1 illustrates the results of these stationary tests on the aforementioned variables.

Table 1: Augmented Dickey Fuller (ADF) Unit Root Test Results

Variables	ADF (Level)
Credit Growth	-2.10**
Deposit Growth	-1.86*
Non-resident Liability Growth	-1.98**
Real GDP Growth	-2.24**
NPL Growth	-2.11**
Inflation – after accounting for Devaluation impact[6]	-2.05**
MRR Ratio – differenced	-3.16***
Growth in Local Investments Excl. Private Sector Credit	-2.87***
Growth in Foreign Investments	-2.40**
Test statistics are reported Significance Levels: *** P < 0.01, ** P < 0.05, * P < 0.1	

Since almost all variables used are in year-on-year growth rates, the results from the unit root tests are as anticipated; all growth variables are stationary. Hence, we can proceed with our estimation procedure of the models mentioned above.

In addition to the baseline and augmented models, a number of variant models were estimated as robustness checks. These include, replacing the Devaluation dummy variable by the change[7] in nominal exchange rate, inclusion of the change in weighted interest rates of loans and advances (both foreign and local currency denominated) and, replacing the NPL variable by the growth of provision for loans. The results of these estimations will be discussed in the next section.

[6]As the Maldivian economy is highly reliant on imports, any sudden changes to the exchange rate will have an immediate and profound impact on the inflation, evident by the inflationary episode experienced in the local economy following the devaluation of Rufiyaa in April 2011.

[7]Unless otherwise specified, all changes are four quarter differences.

Results

Table 2 presents the results from the baseline specification and the augmented specification, indicating relationships between the dependent variable and the independent variables as identified by the theory.

Table 2: Results for Baseline Specification and Augmented Model Regressions

	Baseline Specification	Augmented Model	Expected sign
α	0.172***	0.116***	
$(Shdepo_{t-4} \times Deposit\ Growth_t)$	0.072	0.255**	(+)
$(Shforeignlia_{t-4} \times Non-resident\ Liability\ Growth)$	0.051	0.594**	(+)
$GDP\ Growth_{t-1}$	0.231	0.195	(+)
$NPL\ Growth_{t-1}$	0.042	0.073*	(-)
$Inflation_t$	-0.815**	-0.738**	<1
$MRR\ Ratio_t$	-0.748***	-0.271	(-)
$Devaluation\ Dummy$	0.172***	0.137***	(+)
$Growth\ in\ Local\ Investments\ excl.\ Private\ Sector\ Credit_t$	-	-0.287**	(-)
$Growth\ in\ Foreign\ Investments_t$	-	-0.018	(-)
$Adj.R^2$	0.809	0.839	
$Sum\ Squared\ Residuals$	0.027	0.021	
$Log\ Likelihood$	73.042	77.311	
$Durbin-Watson\ Statistic$	1.233	1.454	
$F\ Statistic$	20.992	20.134	
$Prob(F\ Statistic)$	0.000	0.000	

Significance Levels: *** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$

The baseline specification illustrates the importance of MRR ratio in determining the growth in private sector credit; implying the policy tool of MRR has the desired economic impact. A unit increase in MRR ratio is associated with a significant (at all significance levels) -0.748 unit change in the growth rate of private sector credit; a negative relationship. In addition to the MRR ratio, the Devaluation dummy is positive and also highly significant, indicating how the devaluation episode resulted in an increase in the growth of private sector lending from commercial banks. Apart from the MRR ratio, Devaluation dummy and inflation, the other economic variable are individually insignificant in their explanatory power (though the model specification is significant), indicating the presence of possible omitted variables bias. The augmented model accounts for this misspecification by the inclusion of substitutable portfolio options for private sector credit; other domestic investments and foreign investments.

Results from the augmented model shows a marked improvement in explanatory power compared to the baseline specification. Although, MRR ratio loses its significance, the Devaluation Dummy is still positive and significant. Contrasting to the previous results, the augmented model illustrates the importance of funding sources in determining the growth rate of private sector credit. For instance, both the deposit growth rate and the foreign liabilities growth rate have a positive and significant (at 5% significance level) impact on the growth rate of private sector lending of commercial banks. Furthermore, while private sector credit remains part of the domestic investment portfolio of commercial banks, the alternative investment choices in the domestic market seem to have a negative impact on the growth of credit to private sector; as indicated by theory given its substitutability; banks prioritise options which are more profitable and riskless. The next alternative investment option – foreign investments – is also negatively correlated with private sector credit growth, though it is not significant.

One striking result from both the baseline and augmented specification is the insignificance of the growth in NPLs, as well as, the estimated sign; positive. Despite, theory (McGuire and Tarashev, 2008)), illustrating how a less healthy banking sector supplies less credit to the private sector, and commercial banks of Maldives indicating the significance of NPLs in determining their lending behaviour, the estimation points to an opposite linkage between NPLs and private sector credit. However, this maybe a result driven by the usage of NPLs which is a stock variable, hence robustness checks replaced this variable by the Provisions of Loans by commercial banks.

As auspicious economic conditions facilitate a boom in private sector credit, the estimations also find a positive impact of lagged real economic growth on private sector credit growth. In spite of the correct sign, the estimated coefficients are insignificant in both the estimations. In both the baseline and augmented models, the coefficient of inflation indicates a significant negative linkage between price level and nominal credit growth. This indicates how an inflationary episode may deteriorate the nominal value of credit available for the private sector.

To factor in for other factors which could determine the growth rate of private sector credit, as well as, to check alternative variables for the ones estimated in the baseline and augmented scenario, different models were estimated. These alternative models include, replacement of the Devaluation dummy variable by the change in exchange rates, replacement of the NPLs variable by growth rates of loan provisions, and examining the impact of loan interest rates. Higher interest rates may dissuade the private sector from demanding for credit, as this will increase the cost of borrowing. Nevertheless, the interest rate channel might be less significant in the context of Maldives, given the inelastic demand for private sector credit. The results from these alternative specifications are illustrated in Table 3.

Table 3: Results for Alternative Specifications

	Alternative Specifications				
	1	2	3	4	5
α	0.130***	0.111***	0.101***	0.119***	0.112***
$(Shdepo_{t-4} \times Deposit\ Growth_t)$	0.198*	0.278**	0.362***	0.264**	0.283**
$(Shforeignlia_{t-4} \times Non-resident\ Liability\ Growth)$	0.522*	0.638**	0.848***	0.751**	0.786**
$GDP\ Growth_{t-1}$	0.097	0.218	0.325*	0.175	0.192
$NPL\ Growth_{\ t-1}$	-	0.078*	0.110**	-	-
$Inflation_t$	-0.747*	-0.696*	0.027	0.381*	0.396*
$MRR\ Ratio_t$	-0.334	-0.248	-0.369	-0.488	-0.445
$Devaluation\ Dummy$	0.166***	0.129**	-	-	-
$Growth\ in\ Local\ Investments\ excl.\ Private\ Sector\ Credit_t$	-0.238*	-0.313**	-0.341**	-0.243	-0.271
$Growth\ in\ Foreign\ Investments_t$	-0.013	-0.019	0.002	0.013	0.009
$Growth\ Provisions\ for\ Loans_t$	0.006	-	-	-0.005	-0.007
$Change\ in\ Interest\ rate_t$	-	-0.073	-	-	-0.107
$Change\ in\ Exchange\ rate_t$	-	-	0.002	-0.000	-0.000
$Adj.R^2$	0.819	0.836	0.789	0.741	0.738
$Sum\ Squared\ Residuals$	0.024	0.021	0.027	0.034	0.033
$Log\ Likelihood$	75.277	77.697	72.719	69.176	69.723
$Durbin-Watson\ Statistic$	1.323	1.455	1.543	1.149	1.133
$F\ Statistic$	17.563	17.818	14.737	11.463	10.285
$Prob(F\ Statistic)$	0.000	0.000	0.000	0.000	0.000

Significance Levels: *** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$

In the first alternative specification, the NPL variable was replaced by the flow variable; the growth in the provisions for loans by commercial banks. Despite the replacement, the coefficient for this variable is still insignificant and is also positive in direction.

The second different scenario examines the interest rate as a determinant of private sector credit growth. While the estimated coefficient indicates the presence of a negative relationship between interest rates and the lending behaviour of commercial banks, this coefficient is not significant. Furthermore, the inclusion of weighted interest rates of loans, results in the coefficient of NPLs to become significant whilst it is positive, contradicting the academia with regards to behaviour of NPLs and private sector credit.

The third alternative model, investigates the replacement of Devaluation dummy by changes in exchange rates – an increase in exchange rate in this study denotes a depreciation of domestic currency. While the sign of this coefficient is positive, indicating a depreciation of domestic currency leads to an increase in the credit growth of private sector, the coefficient is not significant. Moreover, similar to the alternative scenario 2, the NPL variable becomes positive and significant in this specification. However, unlike other estimations, the economic growth variable has a significant impact on the private sector credit growth; a unit increase in the growth in real GDP last quarter results in a 0.325 unit increase in the growth in private sector credit.

The last two alternative specifications tests different combinations of robustness checks. The first case replaces NPLs by provisions for loans by commercial banks and replaces the Devaluation dummy by the change in exchange rates. Contrasting to the other specifications, the coefficient of provisions for loans is negative, pointing towards a more theoretical linkage between loan losses and private sector lending. However, this variable is not significant.

Lastly, in alternative specification 5, the change in interest rates is added to the model estimated in equation 4, for completion and does not produce strikingly different results from the previous specifications. While the substitute domestic investments, provisions for loans, and MRR ratio is negatively (insignificantly) correlated with the dependent variable, the funding sources; deposits and foreign liabilities, together with inflation are positively (significantly) correlated with private sector credit growth.

All in all, the different specifications estimated illustrates the main determinants of private sector credit to be the funding sources for commercial banks. Both deposits and foreign liabilities as funding sources are essential for commercial banks to increase their lending to the private sector. Interest rate channel does not have as significant impact as intuition suggests, and this might be a result stemming from the characteristics of the market for credit which is inelastic. While the MRR ratio was significant in the baseline specification, the alternative scenarios illustrate an insignificant coefficient for this variable. One potential reason for this decrease in significance might be multicollinearity between MRR ratio, and investments in substitute domestic instruments; the available funds resulting from a decrease in MRR might be invested in risk-free assets. Despite the multicollinearity, the coefficient of MRR is still negative indicating an inverse relationship between credit growth and policy tool of MRR, as theory implies. A similar argument can be proposed for the insignificance of NPLs or provisions for loans; an increase in losses may result in commercial banks to divert their funds to risk-free assets such as government securities. As this study has included the variable substitute domestic investments which comprises of investments in government securities, multicollinearity could be a potential issue in the alternative specifications. This partially explains the insignificant coefficient for NPLs. Furthermore, estimation also indicates, the availability of alternative portfolio options will encourage commercial banks to invest in the most profitable and/or less risky options.

Conclusion and Recommendations

Analysis conducted to understand the underlying factors influencing the private sector credit growth, illustrates the existence of theoretically assumed linkages between the dependent variable; private sector claims and independent variables such as funding sources, and alternative investment options.

While private sector credit depends positively on the domestic economic conditions, the extent of various financing available for commercial banks (deposits and foreign liabilities), it is inversely related to other sources of portfolio investments available for commercial banks and MRR of MMA. Despite establishing these linkages, the most significant component impacting the willingness of commercial banks to lend to private sector is the magnitude of funding available for the these banks. Nevertheless, this investigation provides valuable insights for policy makers with regards to the channels via which they can influence the money supply. For instance, estimation indicates how stringent reserve requirements may discourage banks from lending to the private sector. Furthermore, the analysis also indicates the lack of stimulus originating from changes to interest rates in determining private sector credit due to the inelastic demand for credit in the market.

This paper should be viewed as an initial step towards understanding the determinants of money supply in Maldives. Though the analysis conducted in this paper highlights the significant channels affecting private sector credit growth, the analysis could be further strengthened by considering the dynamic nature of private sector credit and the endogeneity between the dependent variable and independent variables such as economic growth – exploring vector autoregression (VARs).

Subsequent studies can be focused on analysing the impact of currency in circulation in Maldives, as well as on understanding the determinants of fiscal deficit which also influences the domestic money supply. In addition, understanding the role of money supply in determining the local inflation level, as well as, estimating the optimal level of money supply for the effective development of the local economy should also be considered in future potential research.

References

International Monetary Fund (2018), Monetary and Financial Statistics Manual and Compilation Guide. Washington: International Monetary Fund.

McGuire, P. and Tarashev, N. (2008). Bank health and lending to emerging markets. BIS Quarterly Review (Basel: Bank for International Settlements, December 2008), pp.67-80

McLeay, M., Radia, A., and Thomas, R. (2014). Money creation in the modern economy. Bank of England Quarterly Bulletin 2014, 54(1), pp.14-27

Pankki, S. (2019). Liquidity of the banking system. [online] Suomen Pankki. Available at: https://www.suomenpankki.fi/en/monetary-policy/implementation-of-monetary-policy/liquidity-of-the-banking-system/ [Accessed 25 Jun. 2019].

Stepanyan, V. and Guo, K. (2011). Determinants of Bank Credit in Emerging Market Economies. IMF Working Papers, 11(51), p.1.

STATISTICAL APPENDIX

Table 1: Tourism Indicators, 2016 - 2019

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Tourist arrivals	1,286,135	1,389,542	1,484,274	420,103	306,412	353,944	403,815	482,978	379,611
o/w Europe	575,176	646,363	726,420	238,696	133,701	144,099	209,924	269,619	164,228
o/w Germany	106,381	112,109	117,532	32,806	25,021	22,426	37,279	37,279	31,958
Italy	71,202	88,867	105,297	41,489	14,883	17,548	31,377	52,848	22,528
Russia	46,522	61,931	70,935	24,415	13,982	12,685	19,853	26,284	16,665
United Kingdom	101,843	103,977	114,602	32,633	24,902	25,776	31,291	36,116	28,676
Asia	598,044	617,099	621,438	147,466	142,999	172,286	158,687	170,602	178,177
o/w China	324,326	306,530	283,116	72,539	54,873	94,696	61,008	76,568	63,697
India	66,955	83,019	90,474	19,435	21,647	15,237	34,155	36,053	46,087
Japan	39,894	41,133	42,304	10,643	8,544	11,278	11,839	11,163	11,461
Korea	29,580	34,808	34,400	7,729	8,186	7,218	11,267	8,156	9,202
Tourist bednights ('000)	7,771	8,596	9,472	2,741	1,983	2,215	2,533	3,024	2,396
Average stay (days)	6.0	6.2	6.4	6.5	6.5	6.2	6.3	6.3	6.4
Operational capacity (beds in operation)	33,802	38,592	41,877	40,962	41,617	41,890	43,040	44,707	46,836
Bednight capacity ('000)	12,373	14,089	15,287	3,687	3,787	3,853	3,960	4,024	4,262
Occupancy rate (percentage)	62.9	61.1	62.1	74.6	52.4	57.4	63.9	75.4	56.4

Source:
Ministry of Tourism

Table 2: Consumer Price Index - National, 2016 - 2019

(June 2012 = 100)

	Weights	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Food and non-alcoholic beverages	28.4	107.0	113.0	111.8	114.4	109.9	112.7	110.2	109.6	110.8
o/w Food	26.1	107.2	113.5	112.2	115.0	110.1	113.1	110.4	109.7	111.0
o/w Fish	8.6	104.1	107.4	109.2	108.1	109.6	110.8	108.5	106.8	106.4
Alcoholic beverages, tobacco and narcotics	2.3	122.2	154.4	167.3	164.3	166.4	170.5	168.2	166.2	165.8
Clothing and footwear	3.9	101.0	100.3	98.2	98.9	98.0	98.1	97.6	96.4	95.6
Housing, water, electricity, gas and other fuels	23.3	108.1	109.5	109.3	110.5	107.9	108.8	110.0	110.8	111.4
Furnishing household equipments and routine maintenance of the house	8.7	97.5	98.6	97.3	98.3	95.2	98.0	97.6	97.5	96.9
Health	5.4	125.8	125.5	126.1	126.0	126.1	126.1	126.3	127.2	128.9
Transport	5.4	101.3	101.8	102.9	102.0	102.9	103.2	103.4	101.6	104.5
Communication	4.8	99.8	99.7	100.4	99.8	99.8	100.8	101.3	101.3	101.1
Recreation and culture	5.1	100.7	100.6	99.0	99.7	99.6	98.8	98.0	97.8	96.7
Education	2.5	124.8	130.1	133.1	133.1	133.1	133.1	133.1	133.1	133.1
Restaurants and hotels	3.0	123.1	125.6	128.2	127.9	128.2	128.4	128.5	129.3	134.9
Miscellaneous goods and services	7.2	98.5	98.3	97.7	98.3	97.5	97.5	97.4	97.5	97.4
Total index (Republic)	100.0	106.9	109.9	109.8	110.8	108.7	110.1	109.5	109.4	110.2
Total index, excluding fish	–	107.2	111.1	109.8	111.1	108.6	110.0	109.6	109.7	110.5
Food and non-alcoholic beverages excluding fish	–	108.3	115.5	112.9	117.1	110.0	113.6	111.0	110.8	112.7
Inflation (annual percentage change of the CPI)										
Food and non-alcoholic beverages	28.4	0.6	5.6	-1.1	1.6	-1.9	2.5	-2.2	-0.6	1.1
o/w Food	26.1	0.7	5.9	-1.2	1.8	-2.1	2.8	-2.4	-0.6	1.2
o/w Fish	8.6	-1.6	3.2	1.7	-0.9	7.2	1.0	-2.1	-1.5	-0.4
Alcoholic beverages, tobacco and narcotics	2.3	4.0	26.4	8.4	2.2	1.3	2.5	-1.3	-1.2	-0.2
Clothing and footwear	3.9	-0.5	-0.7	-2.1	-1.1	-0.8	0.1	-0.5	-1.3	-0.9
Housing, water, electricity, gas and other fuels	23.3	0.3	1.3	-0.2	0.8	-2.3	0.8	1.0	0.8	0.5
Furnishing household equipments and routine maintenance of the house	8.7	0.9	1.1	-1.3	0.2	-3.1	2.9	-0.4	-0.1	-0.7
Health	5.4	1.8	-0.2	0.5	0.2	-0.1	0.1	0.2	0.7	1.3
Transport	5.4	-1.5	0.5	1.0	0.6	-0.2	1.2	0.5	-1.7	2.8
Communication	4.8	-0.8	-0.1	0.8	-0.1	-1.0	1.0	1.5	0	-0.2
Recreation and culture	5.1	-1.2	-0.1	-1.5	-0.1	0.9	-0.9	-1.7	-0.2	-1.1
Education	2.5	4.9	4.2	2.3	2.3	0	0	0	0	0
Restaurants and hotels	3.0	1.7	2.0	2.1	1.0	0.3	0.1	0.1	0.6	4.3
Miscellaneous goods and services	7.2	-0.3	-0.2	-0.7	0.1	-0.8	-0.1	-0.1	0.1	-0.1
Total index (Republic)	100.0	0.5	2.8	-0.1	1.1	-0.9	1.3	-0.5	-0.1	0.7
Total index, excluding fish	–	0.7	3.7	-1.2	0.6	-2.2	1.3	-0.3	0	0.8
Food and non-alcoholic beverages excluding fish	–	1.5	6.6	-2.2	0.6	-6.1	3.2	-2.2	-0.1	1.7

Source:
National Bureau of Statistics
Note: Data refers to the twelve-month average.

Table 3: Claims on Central Government, 2018 - 2019

(millions of rufiyaa)

	H1-2018	H1-2019	H1-2018	H2-2018	H1-2019
		Net Issue [1]			Outstanding stock
Government securities	156.9	1,956.8	23,571.1	24,262.0	26,218.8
Treasury bonds and islamic instruments	-37.1	-38.0	9,283.8	9,248.4	9,210.4
MMA	-36.7	-37.5	6,196.8	6,161.0	6,123.4
Commercial banks	0	0	0	0	0
Other financial corporations	-0.4	-0.4	3,087.0	3,087.4	3,087.0
Treasury bills and Islamic instruments	194.0	1,994.8	14,287.3	15,013.6	17,008.4
MMA [2]	-3.5	1.1	79.0	90.3	91.4
Commercial banks	128.5	1,149.5	8,822.9	9,605.5	10,755.0
Other financial corporations	292.2	819.2	5,036.8	5,017.1	5,836.2
Public nonfinancial corporations	-1.2	25.0	249.0	201.0	226.0
Private sector	-222.0	0	99.7	99.7	99.7
		Flow			
Loans and advances	-383.1	48.8	3,387.1	3,453.9	3,502.8
MMA	-16.3	0	0	0	0
Commercial banks	-411.3	-0.9	19.9	19.1	18.1
Other financial corporations	44.5	49.8	3,367.1	3,434.9	3,484.6
		Change			
Total domestic claims on government	-226.2	2,005.7	26,958.2	27,715.9	29,721.5

Source:
Maldives Monetary Authority

[1] Net issue refers to the issued amount less repayment.

[2] Figures represent dormant account and deposit insurance funds invested in government treasury bills.

Table 4: Financial Corporations Survey, 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Net foreign assets	7,796.0	10,335.6	9,852.1	12,149.4	11,311.9	8,929.8	9,852.1	15,085.7	12,418.2
Central bank	5,247.5	8,622.0	9,063.3	10,427.3	10,738.7	8,379.0	9,063.3	11,601.2	10,006.9
Other depository corporations	2,621.3	1,731.4	753.8	1,783.1	570.6	480.6	753.8	3,406.8	2,380.9
Other financial corporations	-72.8	-17.8	35.0	-61.0	2.7	70.1	35.0	77.7	30.5
Net domestic assets	32,337.3	32,639.8	35,556.9	32,732.2	33,264.7	34,731.4	35,556.9	34,612.8	35,981.7
Domestic claims	46,243.1	48,362.8	52,804.7	48,836.2	49,770.6	51,775.6	52,804.7	52,604.9	54,484.8
Net claims on central government	22,039.3	21,736.5	24,358.4	21,765.6	21,870.0	23,041.1	24,358.4	24,130.1	25,520.5
Claims on other sectors	24,203.8	26,626.3	28,446.3	27,070.6	27,900.6	28,734.5	28,446.3	28,474.8	28,964.2
Other items (net)	-13,905.8	-15,723.1	-17,247.8	-16,104.0	-16,505.8	-17,044.2	-17,247.8	-17,992.1	-18,503.1
Currency outside financial corporations	2,694.1	2,911.2	3,055.5	2,848.6	2,943.7	3,039.0	3,055.5	3,172.9	3,003.6
Deposits	27,894.3	29,022.4	29,663.6	30,556.7	29,698.6	28,323.2	29,663.6	33,318.1	31,782.3
Insurance technical reserves	9,544.9	11,041.7	12,689.8	11,476.3	11,934.3	12,299.0	12,689.8	13,207.6	13,614.0

Source:
Maldives Monetary Authority

Table 5: Depository Corporations Survey, 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Net foreign assets	7,868.8	10,353.4	9,817.0	12,210.4	11,309.2	8,859.6	9,817.0	15,008.1	12,387.8
Central bank	5,247.5	8,622.0	9,063.3	10,427.3	10,738.7	8,379.0	9,063.3	11,601.2	10,006.9
Other depository corporations	2,621.3	1,731.4	753.8	1,783.1	570.6	480.6	753.8	3,406.8	2,380.9
Net domestic assets	22,567.5	21,652.4	23,271.3	21,264.7	21,497.7	22,715.7	23,271.3	22,002.4	22,775.8
Domestic claims	35,958.6	36,484.7	39,251.5	36,636.1	37,072.6	38,717.8	39,251.5	38,692.2	40,052.2
Net claims on central government	13,394.4	11,789.2	13,004.5	11,503.9	11,186.3	12,056.6	13,004.5	12,385.0	13,308.3
Claims on other sectors	22,564.1	24,695.5	26,247.0	25,132.2	25,886.3	26,661.2	26,247.0	26,307.2	26,743.9
o/w Claims on private sector	18,583.0	20,723.4	23,084.4	21,272.0	22,052.5	22,964.3	23,084.4	23,277.4	23,879.5
Other items (net)	-13,391.1	-14,832.3	-15,980.2	-15,371.4	-15,574.9	-16,002.1	-15,980.2	-16,689.8	-17,276.3
Broad money	30,436.3	32,005.9	33,088.3	33,475.1	32,806.9	31,575.4	33,088.3	37,010.5	35,163.6
Narrow money	13,468.5	14,469.7	14,579.4	14,307.0	15,202.8	14,514.2	14,579.4	14,285.4	14,383.9
Quasi money	16,967.8	17,536.2	18,508.9	19,168.0	17,604.1	17,061.2	18,508.9	22,725.0	20,779.8
(annual percentage change)									
Net foreign assets	-36	32	-5	45	2	2	-5	23	10
Central bank	-36	64	5	80	22	9	5	11	-7
Other depository corporations	-36	-34	-56	-32	-75	-52	-56	91	317
Domestic claims	20	1	8	1	6	9	8	6	8
Net claims on central government	18	-12	10	-12	-2	8	10	8	19
Claims on other sectors	21	9	6	9	10	10	6	5	3
Broad money	0	5	3	8	3	6	3	11	7
Narrow money	1	7	1	8	6	6	1	0	-5
Quasi money	-1	3	6	8	1	6	6	19	18
Memorandum items:									
Dollarization ratio	48.5	48.7	48.8	50.6	47.9	47.1	48.8	55.2	52.5

Source:
Maldives Monetary Authority

Table 6: Central Bank Survey, 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Net foreign assets	5,247.5	8,622.0	9,063.3	10,427.3	10,738.7	8,379.0	9,063.3	11,601.2	10,006.9
Claims on nonresidents	7,181.3	9,059.9	10,981.3	10,790.7	11,175.3	8,694.5	10,981.3	11,910.4	10,439.0
Liabilities to nonresidents	1,933.9	437.8	1,918.0	363.4	436.6	315.5	1,918.0	309.2	432.1
Net domestic assets	3,730.2	2,061.2	2,467.6	1,603.2	774.1	2,357.9	2,467.6	1,618.2	1,089.1
Domestic claims	7,444.6	5,999.1	6,052.2	5,784.4	5,766.9	5,853.5	6,052.2	4,574.3	4,992.4
Net claims on central government	5,279.3	4,518.5	5,275.1	4,480.5	4,642.6	4,910.8	5,275.1	3,993.7	4,588.3
o/w Claims on central government	6,372.4	6,331.2	6,250.0	6,296.1	6,274.8	6,267.4	6,250.0	6,231.8	6,212.8
Claims on other sectors	2,165.3	1,480.6	777.1	1,303.9	1,124.3	942.8	777.1	580.6	404.1
Other items (net)	-3,714.4	-3,937.9	-3,584.6	-4,181.2	-4,992.8	-3,495.6	-3,584.6	-2,956.0	-3,903.3
Monetary base	8,977.7	10,683.2	11,530.9	12,030.5	11,512.7	10,737.0	11,530.9	13,219.5	11,096.0
Currency in circulation	3,243.5	3,496.3	3,669.0	3,452.5	3,578.2	3,658.5	3,669.0	3,848.3	3,668.8
Liabilities to other depository corporations	5,734.2	7,186.9	7,861.9	8,578.0	7,934.5	7,078.5	7,861.9	9,371.2	7,427.2
Liabilities to other sectors	0	0	0	0	0	0	0	0	0
(annual percentage change)									
Net foreign assets	-36	64	5	80	22	9	5	11	-7
Claims on nonresidents	-17	26	21	40	21	9	21	10	-7
Liabilities to nonresidents	308	-77	338	-81	-2	-3	338	-15	-1
Net claims on central government	-3	-14	17	-18	92	13	17	-11	-1
Monetary base	-13	19	8	29	13	9	8	10	-4
o/w Currency in circulation	1	8	5	5	2	9	5	11	3
Liabilities to other depository corporations	-19	25	9	42	18	9	9	9	-6

Source:
Maldives Monetary Authority

Table 7: Other Depository Corporations Survey, 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Net foreign assets	2,621.3	1,731.4	753.8	1,783.1	570.6	480.6	753.8	3,406.8	2,380.9
Claims on nonresidents	4,519.4	3,949.4	3,021.5	3,972.3	2,239.8	2,254.6	3,021.5	5,076.4	3,980.2
Liabilities to nonresidents	-1,898.1	-2,218.0	-2,267.7	-2,189.2	-1,669.3	-1,774.0	-2,267.7	-1,669.6	-1,599.4
Net domestic assets	25,119.9	27,362.0	29,277.6	28,854.4	29,309.4	28,085.1	29,277.6	30,468.3	29,808.8
Domestic claims	38,237.7	41,630.8	44,563.2	43,534.1	44,145.3	43,405.5	44,563.2	46,382.1	46,142.6
Claims on central bank	9,681.6	11,092.4	11,301.8	12,629.6	12,786.7	10,488.4	11,301.8	12,201.7	11,020.1
Net claims on central government	8,115.1	7,270.7	7,729.3	7,023.4	6,543.7	7,145.9	7,729.3	8,391.3	8,719.9
o/w Claims on central government	10,109.1	9,003.3	9,487.4	8,930.2	8,722.9	8,814.2	9,487.4	10,200.1	10,598.9
Claims on other sectors	20,440.9	23,267.7	25,532.1	23,881.1	24,814.8	25,771.2	25,532.1	25,789.1	26,402.5
Claims on other financial corporations	429.7	565.9	670.6	619.8	625.7	626.7	670.6	776.4	779.5
Claims on public nonfinancial corporations	1,434.3	1,988.7	1,797.4	2,000.4	2,148.4	2,192.1	1,797.4	1,746.2	1,765.4
Claims on private sector	18,576.9	20,713.1	23,064.0	21,261.0	22,040.7	22,952.4	23,064.0	23,266.4	23,857.7
Other items (net)	-13,117.7	-14,268.8	-15,285.7	-14,679.7	-14,835.9	-15,320.5	-15,285.7	-15,913.8	-16,333.8
Transferable, other deposits & securities other than shares included in broad money	27,741.3	29,093.4	30,031.3	30,637.5	29,880.0	28,565.7	30,031.3	33,875.1	32,189.7
(annual percentage change)									
Net foreign assets	-36	-34	-56	-32	-75	-52	-56	91	317
Claims on nonresidents	-12	-13	-23	-14	-43	-30	-23	28	78
Liabilities to nonresidents	82	17	2	11	1	-20	2	-24	-4
Net claims on central government	37	-10	6	-7	-28	4	6	19	33
Claims on other sectors	10	14	10	13	14	14	10	8	6
Claims on other financial corporations	41	32	19	21	16	23	19	25	25
Claims on public nonfinancial corporations	2	39	-10	7	18	15	-10	-13	-18
Claims on private sector	11	11	11	13	13	13	11	9	8

Source:
Maldives Monetary Authority

Table 8: Other Depository Corporations Private Sector Loans and Advances by Economic Group, 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Total loans & advances	18,495.6	20,949.2	22,793.7	21,485.1	21,900.1	22,792.5	22,793.7	23,098.2	23,567.4
Agriculture	1.9	2.7	2.3	2.6	2.6	2.4	2.3	2.2	2.0
Fishing	520.0	501.8	466.3	481.2	470.8	470.7	466.3	490.1	454.6
Manufacturing	171.9	164.4	136.4	134.7	144.9	137.6	136.4	124.4	117.0
Construction	3,345.0	3,720.1	4,843.5	4,073.1	4,486.7	4,739.8	4,843.5	4,997.1	5,076.3
Real estate	633.0	1,638.2	1,697.3	1,540.1	1,550.7	1,694.6	1,697.3	1,801.5	1,787.9
Tourism	7,257.0	7,938.2	8,455.0	8,025.9	8,174.4	8,631.3	8,455.0	8,605.1	8,782.5
Commerce	3,178.1	3,212.9	3,140.1	3,282.2	3,290.6	3,170.2	3,140.1	3,071.3	2,984.0
Transport & communication	1,069.8	983.9	859.9	1,128.2	750.0	888.6	859.9	781.7	995.1
Electricity, gas, water & sanitary services	13.9	2.3	2.8	3.1	3.2	3.0	2.8	2.9	2.8
Other loans and advances, nes	2,305.0	2,784.9	3,190.2	2,813.9	3,026.2	3,054.3	3,190.2	3,221.9	3,365.1
(as a percentage of total; end of period)									
Fishing	3	2	2	2	2	2	2	2	2
Construction	18	18	21	19	20	21	21	22	22
Tourism	39	38	37	37	37	38	37	37	37
Commerce	17	15	14	15	15	14	14	13	13
Transport & communication	6	5	4	5	3	4	4	3	4
(annual percentage change)									
Total loans & advances	10	13	9	13	11	11	9	8	8
o/w Fishing	15	-4	-7	-3	-5	-4	-7	2	-3
Construction	37	11	30	14	38	33	30	23	13
Tourism	9	9	7	9	8	10	7	7	7
Commerce	7	1	-2	3	-1	-5	-2	-6	-9
Transport & communication	20	-8	-13	7	-28	-18	-13	-31	33

Source:
Maldives Monetary Authority

Table 9: Balance of Payments, 2015 - 2019[1]

(millions of rufiyaa)

	2015	2016	2017[2]	2018[2]	2019[3]
Current account	-301.7	-1,032.4	-1,058.9	-1,338.1	-1,235.6
Balance on goods	-1,654.7	-1,838.7	-1,908.1	-2,421.3	-2,326.0
Goods: credit	239.8	256.2	318.3	339.2	334.3
Goods: debit	1,894.5	2,094.9	2,226.5	2,760.5	2,660.3
Balance on services	2,030.6	1,788.0	1,719.4	1,989.9	2,181.3
Services: credit	2,905.3	2,891.4	3,000.7	3,341.3	3,580.9
o/w Travel	2,569.1	2,505.6	2,743.7	3,028.1	3,252.4
Services: debit	874.7	1,103.4	1,281.3	1,351.4	1,399.6
Balance on primary income	-332.5	-352.9	-401.4	-416.6	-557.3
Balance on secondary income	-345.2	-628.8	-468.8	-490.1	-533.6
Capital account [4]	9.5	–	–	–	–
Financial account	-480.9	-673.4	-968.0	-1,418.2	-1,247.7
Direct investment (net)	-298.0	-456.6	-492.7	-551.8	-564.6
Portfolio investment (net)	-122.9	132.3	-328.7	-98.2	-149.9
Other investment (net)	-60.0	-349.0	-146.6	-768.1	-533.3
Net errors and ommissions	-236.4	263.2	211.0	45.3	0
Overall balance	-47.7	-95.8	120.1	125.4	12.1
Memorandum items:					
Export of goods and services	3,145.1	3,147.6	3,319.1	3,680.6	3,915.3
Current account as a percent of GDP	-7.4	-23.5	-21.8	-25.0	-21.1
Reserves (millions of US dollars)	564.0	467.1	587.3	712.0	677.4

Source:
Maldives Monetary Authority

[1] Based on information available as at 25th April 2019.

[2] Figures for 2017 and 2018 are revised estimates.

[3] Figures for 2019 are estimates.

[4] Capital grants are included in secondary income account from 2016 onwards since total grants is not segregated.

Table 10: Composition of Imports (c.i.f.), 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Total imports	2,125.4	2,360.4	2,959.8	754.9	684.4	754.6	765.9	714.7	692.0
Private imports	1,570.3	1,819.7	2,191.9	538.9	509.8	547.8	595.4	563.1	539.3
Private (excluding tourism)	1,084.6	1,258.8	1,463.0	365.3	353.8	358.7	385.2	373.5	345.7
Tourism	485.7	560.9	728.9	173.6	156.0	189.1	210.2	189.5	193.6
Total public imports	555.1	540.7	767.9	216.0	174.6	206.9	170.4	151.6	152.6
Public enterprises	408.9	465.4	557.6	140.1	137.2	149.8	130.4	120.1	137.6
Government	146.1	75.3	210.3	75.9	37.3	57.1	40.0	31.5	15.0
Total imports	2,125.4	2,360.4	2,959.8	754.9	684.4	754.6	765.9	714.7	692.0
Food items	429.6	462.4	495.6	126.0	121.6	113.3	134.7	137.0	137.9
Furniture, fixtures and fittings	99.7	89.4	138.1	23.6	26.3	39.1	49.1	44.4	33.8
Electronic and electrical appliances	61.2	67.2	75.2	18.7	19.5	19.0	18.0	19.7	20.4
Petroleum products	247.3	314.3	452.4	111.2	105.5	121.0	114.8	115.2	123.7
o/w Petrol	26.3	37.4	51.0	15.6	10.1	9.7	15.6	13.9	15.3
Diesel (marine gas oil)	193.1	234.4	350.0	87.7	78.4	98.8	85.2	88.5	95.1
Transport equipments and parts	188.7	167.8	214.0	48.0	36.7	40.0	89.4	56.7	41.9
Wood, metal, cement and aggregates	286.4	355.8	482.4	117.8	133.4	132.3	98.9	109.9	108.1
Machinery, mechanical appliances and parts	203.7	205.2	261.3	97.2	53.7	56.3	54.1	49.1	43.6
Electrical, electronic machinery, equipments and parts n.e.s.	114.6	135.8	149.2	35.9	30.1	46.6	36.6	35.7	28.4
Other items	494.2	562.5	691.5	176.6	157.7	187.0	170.3	147.0	154.1

Source:
Maldives Customs Service

Table 11: Composition of Exports (f.o.b.), 2016 - 2019

(millions of rufiyaa)

	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Merchandise exports	256.2	318.3	339.2	88.8	70.6	74.6	105.3	125.0	80.2
Domestic exports	139.6	199.4	181.6	48.2	44.5	31.4	57.5	52.8	40.6
Fish exports	134.8	193.1	173.8	46.2	42.4	29.8	55.5	50.3	38.5
Fresh, chilled or frozen tuna	106.6	158.2	123.0	34.4	31.8	16.6	40.2	35.4	27.3
o/w Skipjack tuna	37.4	76.4	59.1	17.1	16.5	5.1	20.4	13.7	14.4
Yellowfin tuna	67.0	79.3	62.1	17.1	14.8	11.2	18.9	21.4	12.8
Fresh, chilled or frozen fish (excluding tuna)	4.4	4.5	4.9	1.6	0.8	1.1	1.4	1.1	0.5
Canned or pouched	15.4	23.8	40.5	8.7	8.8	10.7	12.2	12.3	9.9
Processed fish, nes	8.4	6.6	5.5	1.5	0.9	1.5	1.6	1.5	0.8
Fish products, sea food, marine product and live fish	2.2	1.4	1.2	0.3	0.2	0.3	0.4	0.5	0.2
Garments and other exports	2.6	4.8	6.6	1.8	1.9	1.3	1.6	2.0	1.9
Re-exports	116.6	118.9	157.6	40.6	26.1	43.1	47.8	72.1	39.6

Source:
Maldives Customs Service, Maldives Airports Company Limited, Gan International Airport

MALDIVES MONETARY AUTHORITY

Boduthakurufaanu Magu
Male' - 20182
Republic of Maldives
Tel: (960) 330 8679
Fax: (960) 332 3862
Email: mail@mma.gov.mv
Website: www.mma.gov.mv