

# MONTHLY ECONOMIC REVIEW

**August 2009**

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**Volume III, Number: 8**



**Maldives Monetary Authority**

This report covers the macroeconomic developments during the month of July 2009. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Economic Review* contains data available as of 6th September 2009.

# 1- The Real Economy

## 1.1 Output

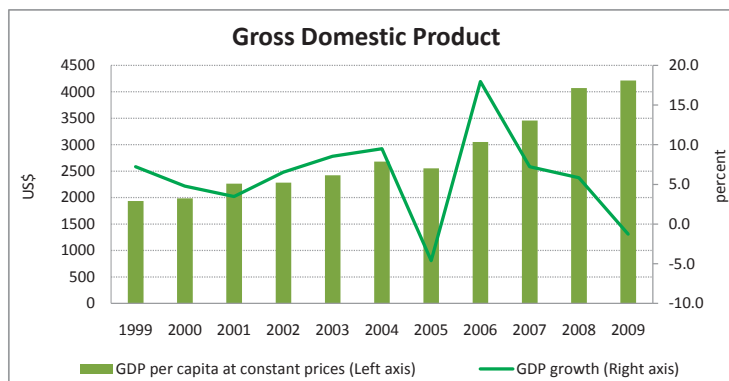
According to revised GDP estimates of March 2009 released by the Department of National Planning, the real GDP growth moderated to 5.8 percent in 2008 from 7.2 percent in 2007 largely due to the slowdown in tourist arrivals, especially in the second half of the year. Meanwhile, real output is now projected to contract by 1.3 percent in 2009 as tourism is projected to decline significantly during the year owing to the global economic recession. As such, tourism is forecasted to decline by 11 percent in 2009 while the construction sector – which has been a key driver of growth over the last 5 years – is also projected to register a sharp decline (of 24 percent) as major tourism resort development projects and other capital projects of the government are being held up due to financing difficulties externally.

## 1.2 Tourism

Tourist arrivals into the country picked up in the month of July 2009, increasing by 22 percent from the previous month and totaled 44.3 thousand at the end of the month. Nevertheless, visitor arrivals recorded a decline of 7 percent compared to July 2008. In the meantime, reflecting the gain in the duration of a tourist stay from 7.9 days in the preceding month to 8.1 days in the review month, bednights gained by 26 percent over the previous month, whereas compared to a year ago, bednights fell by 5 percent. As for the capacity of the industry, with an addition of a new resort, the number of operational beds in resorts/hotels totaled 20,538 beds at the end of July 2009, expanding by 1,696 beds from the corresponding month of 2008. As a result, the capacity utilization of the industry fell to 56.7 percent from 65.3 percent at the end of July 2008 (Chart 2).

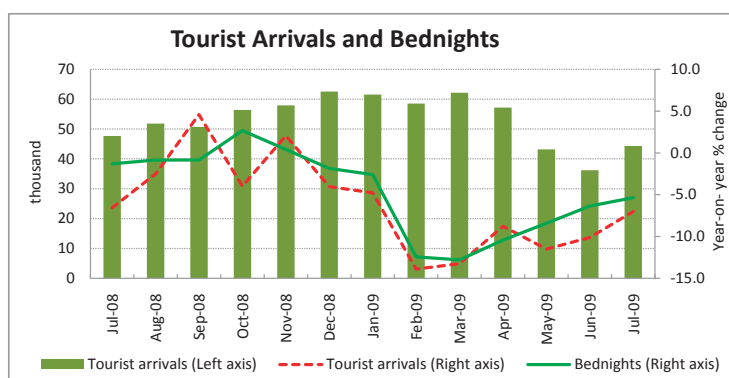
Cumulatively, visitor arrivals totaled 363.1 thousand during Jan-July 2009, registering a decline of 10 percent from 403.6 thousand in Jan-July 2008. Meanwhile, reflecting the improvement in the average stay, fall in bednights was lower than the decrease in arrivals and dropped by 9 percent during the period. At the same time, with the 5 percent (964 beds) increase in the operational bed capacity of the industry, capacity utilisation dropped from 80.6 percent in Jan-July 2008 to 70.3 percent in Jan-July 2009.

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

### 1.3 Fisheries

According to the preliminary data available, fish landings totaled 8.7 thousand metric tonnes at the end of July 2009, slightly increasing by 2 percent (or 0.2 thousand metric tonnes) on monthly terms, whereas fish catch plunged by 12 percent (or 1.2 thousand metric tonnes) when compared to July 2008. Similarly, fish purchases by the commercial buyers continued to decline and totaled 2.0 thousand metric tonnes at the end of the review month, falling by 21 percent compared to the preceding month and by 49 percent from the corresponding month of 2008.

On the export front, the volume of fish exports (excluding live fish) which totaled 1.1 thousand metric tonnes at the end of July 2009, registered a growth of 10 percent from 1.0 thousand metric tonnes in the preceding month. Nevertheless, compared to a year ago, fish exports volume plunged by 57 percent from 2.7 thousand metric tonnes in July 2008. Meanwhile, earnings on fish exports (excluding live fish), which totaled US\$3.5 million during the review month, stood the same as the previous month, however, declined by 45 percent from US\$6.3 million when compared the same period of 2008.

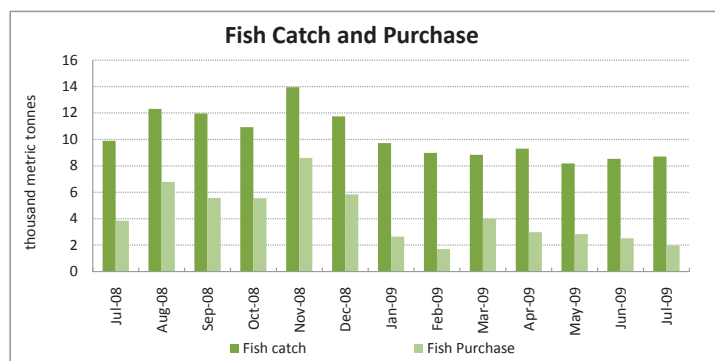
Fish catch totalled 62.3 thousand metric tonnes for the period Jan-July 2009, plummeting by 12 percent (or 8.6 thousand metric tonnes) from Jan-July 2008. Similarly, fish purchases by commercial buyers also dropped by 39 percent (or 11.8 thousand metric tonnes) during the same period. As a result, the volume of fish exports (excluding live fish) which totalled 20.9 thousand metric tonnes during Jan-July of this year, sharply fell by 39 percent (or 13.5 thousand metric tonnes) compared to the corresponding period of 2008. Likewise, due to the low levels of tuna prices in the international market, earnings on fish exports declined by 44 percent (or US\$30.1 million) on annual terms and totalled US\$38.7 million at the end of the review period.

### 1.4 Prices

#### Consumer Price Index

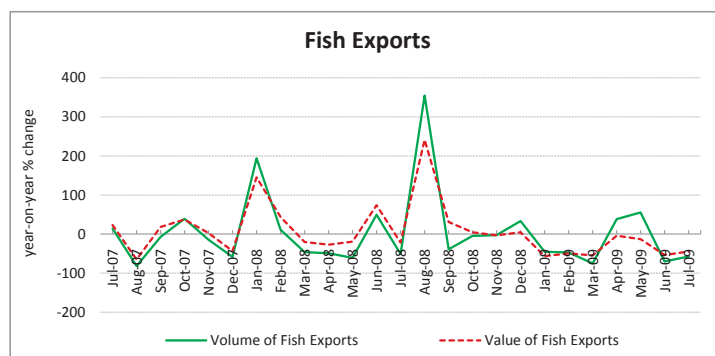
Consumer price inflation, measured by the annual percentage in the 12 month moving average of Consumer Price Index (CPI) for Male', continued to decline and fell to 7.4 percent at the end of July 2009 from 8.6 percent in June 2009 and by 11.3 compared to July 2008.

CHART 3



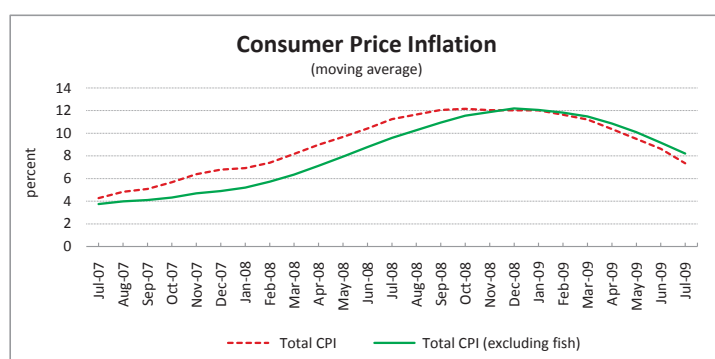
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

Inflation excluding the volatile fish prices remained slightly higher at 8.2 percent while inflation excluding all food prices went down to 7.5 percent. During the review month, inflation was mainly contributed by price increases in food items (7 percent), housing (9 percent) and transportation (10 percent)

### World Commodity Prices

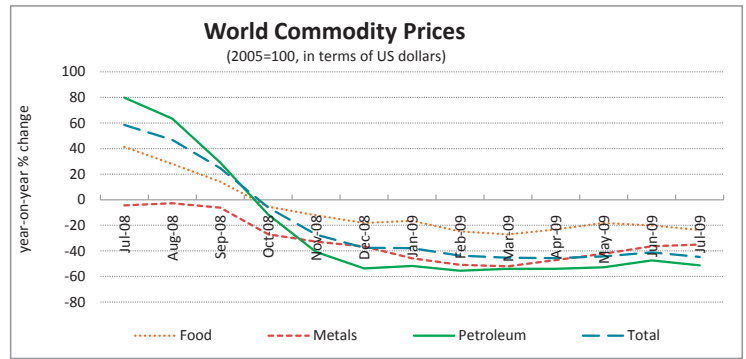
In July 2009, the International Monetary Fund (IMF) primary commodity index slightly went down by 5 percent on monthly terms, reflecting the decline in global food and energy prices during the month which recorded declines of 5 percent and 6 percent respectively. When compared on a year-on-year basis, world commodity prices further fell by 45 percent from July 2008. Global food prices also posted an annual decline of 24 percent from July 2008, while energy prices decreased by 51 percent during this period (Chart 6).

Likewise, price of crude oil (an average of UK Brent and US WTI) fell by 7 percent from US\$69.2 per barrel in the previous month to US\$64.4 per barrel in the review month. Compared to a year ago, oil prices stood 52 percent lower compared to US\$133.7 per barrel in July 2008 (Chart 7).

### Domestic Petroleum Prices

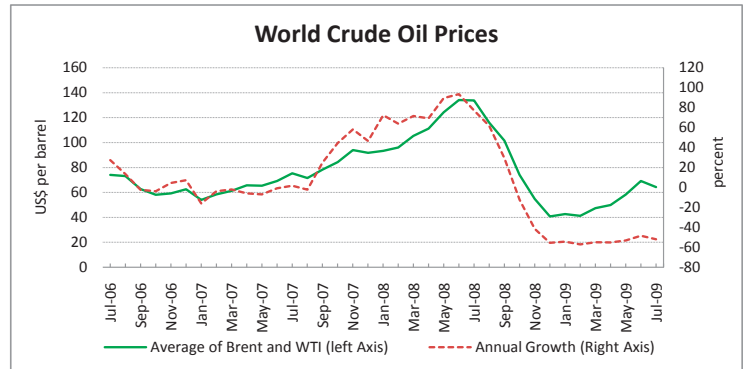
Prices of domestic petroleum products were further adjusted in July 2009 as to reflect the changes in global oil prices. Accordingly, price of petrol was increased to Rf9.75 per litre in the review month from Rf8.90 in the preceding month. Price of diesel was also raised to Rf8.05 per litre in July 2009 from Rf7.60 per litre in June 2009. Price of kerosene remained unchanged at Rf8.00 since its last adjustment in November 2008.

CHART 6



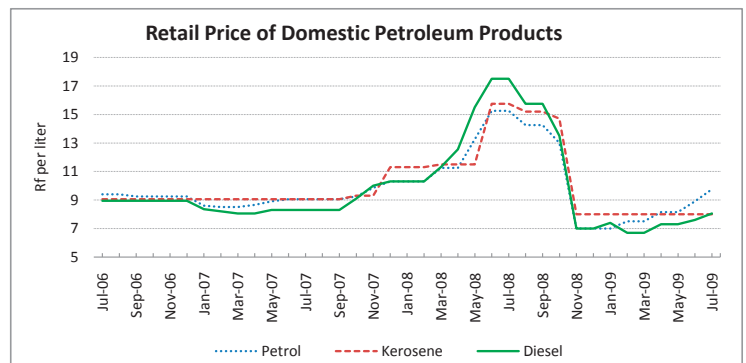
Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

## 2- Public Finance

### Government Budget

According to revised budget estimates of March 2009, the government budgetary position deteriorated significantly during 2008 by Rf1.4 billion to record an overall deficit of Rf2.0 billion. As such, despite the 2 percent increase in revenue in 2008, the overall deficit widened to 13 percent of GDP in 2008 as total expenditure and net lending reached unsustainably higher levels during the year – to 61 percent of GDP. Around 87 percent of the increase in expenditure was spent on current expenditure. With regard to financing of the deficit, 70 percent of the deficit was domestically financed –which was mostly through monetization– compared to 2 percent in 2007.

With regard to the revised medium term budget for 2009-2011 of March 2009, despite a 21 percent decline projected for current revenue (mainly due to decline in import duty and tourism related revenues) and a 16 percent increase in planned expenditure, the overall fiscal deficit for 2009 is projected to decline to 7 percent of GDP as total revenue is projected to register an improvement of 33 percent. The increase in total revenue mostly comes from revenue from the planned privatization proceeds. The deficit for 2009 is projected to be financed entirely through foreign sources. As a result public external debt is forecasted to reach 45 percent of GDP by the end of 2009 with debt service projected to increase to 10 percent of total exports of goods and services.

### 2.2 Revenue and Expenditure (Cash flow)

According to the latest cash flow statement of the government, total revenue (excluding repaid loans) for the first six months of the year totaled Rf2,567.1 million and declined by 22 percent from Rf3,293.8 million in the first six months of 2008. Meanwhile, total expenditure of the government reached Rf5,080.6 million for Jan-June 2009, rising by 25 percent from Rf4,056.9 million in the same period a year ago. Thus, the overall fiscal deficit during the first half of the year totaled Rf1,809.2 million compared to Rf704.4 million in the first half of 2008.

CHART 9

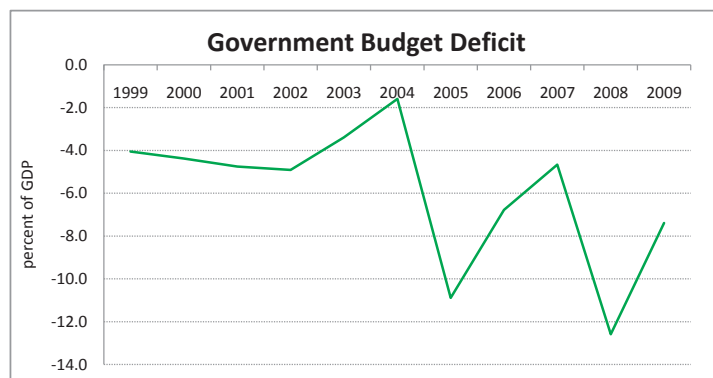
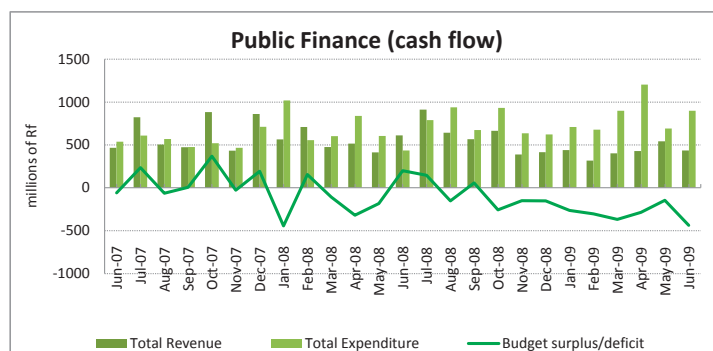


CHART 10



Source: Ministry of Finance and Treasury

## 3- Monetary Developments

### 3.1 Money and Credit

Broad money (M2) totaled Rf13,560.1 million at the end of July 2009, increasing by 15 percent on annual terms. This was mainly on account of the expansion in domestic credit, especially to the government. Growth in credit to the private sector continued to show a downward trend, attributed by the decrease in foreign borrowings by the commercial banks during the period, and registered an annual growth rate of 2 percent in July 2009 (11 percent in June 2009). Around 63 percent of private sector credit was lent to the tourism sector, 11 percent to the construction sector, 7 percent to the fisheries sector and 6 percent to commerce. At the same time, net credit to government, which reached Rf3,778.2 million at the end of July 2009, recorded a significant increase of 146 percent reflecting the huge expansion in government expenditure (Chart 12).

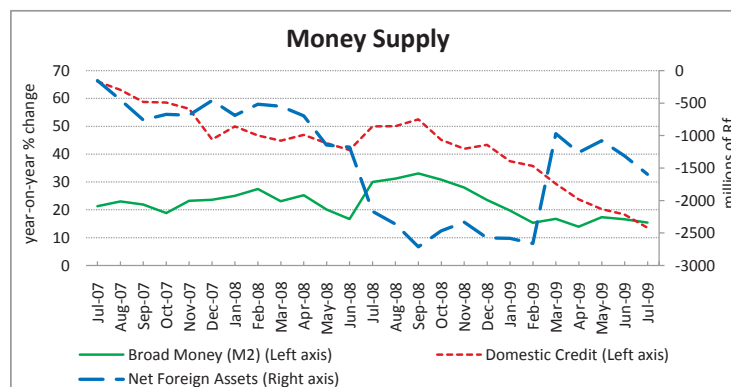
Nonetheless, the growth effect of domestic credit on M2 was largely offset by the decline in net foreign assets of the banking sector which has been on a net liability position since 2007. However, net foreign liabilities of the banking sector declined by 26 percent on annual terms in July 2009 as a result of the decrease in foreign liabilities of the commercial banks during the period.

### 3.2 The Monetary Base

The monetary base (M0), totalled Rf5,977.5 million at the end of the review month, increasing by 25 percent (or Rf1,208.8 million) on annual terms. The growth in monetary base was as a result of the increase in commercial banks deposits held with the MMA, which grew by Rf933.8 million during the period.

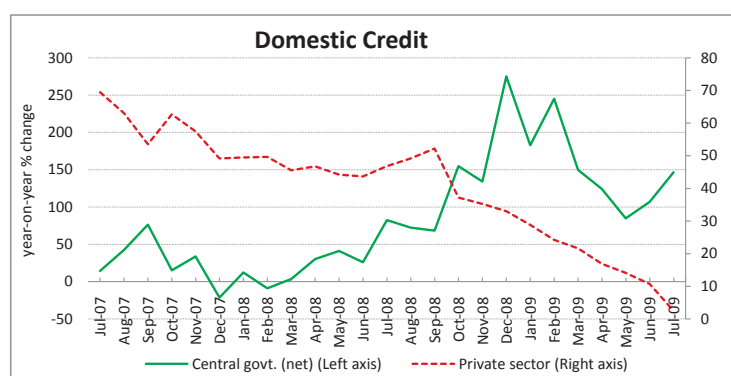
The amount of treasury bills outstanding totalled Rf2,453.0 at end-July 2009 compared to Rf1,139.0 million at end-July 2008.

CHART 11



Source: Maldives Monetary Authority

CHART 12



Source: Maldives Monetary Authority

## 4- External Sector Developments

### 4.1 Balance of Payments

According to revised balance of payments estimates of April 2009, the current account deficit is estimated to have widened by 49 percent to US\$651.3 million (52 percent of GDP) in 2008 largely due to high import growth owing to strong domestic demand, high commodity prices record high oil prices earlier during the year (Chart 13). The large current account deficit led to an overall balance of payments deficit of US\$67.8 million in 2008, as net financial inflows to the country moderated during the year due to a significant decline in external borrowings by commercial banks. As a result, gross official reserves declined by 22 percent in 2008 which was recorded at US\$241.3 million at the end of year (equivalent to 2.1 months of import cover, down from 3.4 months in 2007).

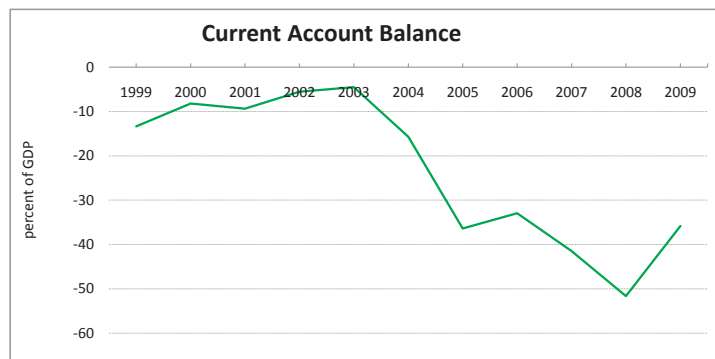
With tourism receipts and imports forecast to decline markedly in 2009 due to deteriorating global economic conditions and slowing domestic demand, the current account deficit is projected to decline by 27 percent to US\$475.4 million (36 percent of GDP) in 2009. Nonetheless, as net financial flows is expected to improve if foreign exchange from privatization proceeds and government external borrowings materialise and thus the overall balance of payments is projected to record a surplus of US\$144.8 million in 2009. Hence, gross official reserves are projected to reach US\$386.1 million which is 4.3 months of imports.

### 4.2 Balance of Trade and Gross International Reserves

The value of merchandise exports in July 2009, which totaled US\$8.4 million at the end of the month, stood relatively the same compared to the previous month. Conversely, this shows a decline of 58 percent when compared to the corresponding month of 2008. In the meantime, the value of imports f.o.b totaled US\$74.0 million in the review month. This showed an increase of 9 percent when compared to the previous month and 42 percent decline when compared to the corresponding quarter of 2008. As a result, trade deficit widened to US\$65.6 million in July 2009 from US\$59.2 million in June 2009 and improved from US\$107.3 million compared to July 2008.

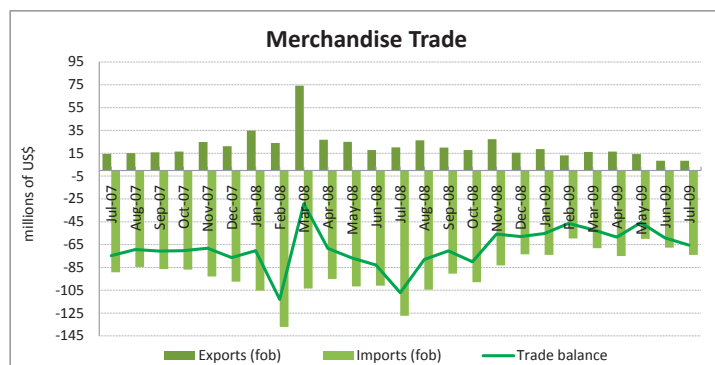
On cumulative basis, the value of merchandise exports

CHART 13



Source: Maldives Monetary Authority

CHART 14



Source: Maldives Customs Service

totalled US\$95.8 million for the period Jan-July 2009, falling by 57 percent (or US\$127.5 million) compared to the same period of 2008. Meanwhile, total merchandise imports (f.o.b), which totaled US\$478.5 million in Jan-July 2009, decreased by 38 percent (or US\$292.7 million) against the corresponding period of 2008. Hence, trade deficit for Jan-July 2009 stood at US\$382.7 million compared to US\$548.0 million a year ago.

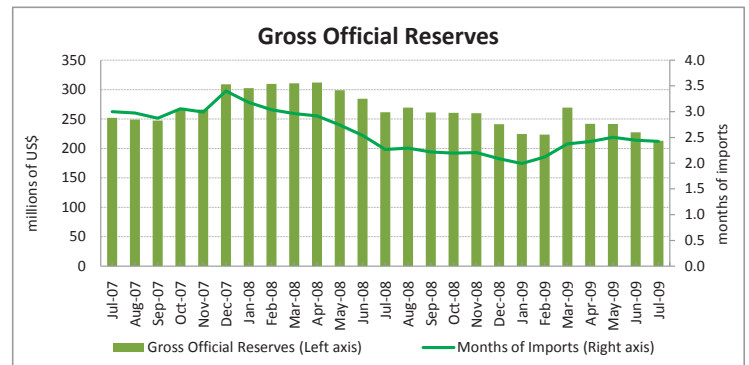
Owing to the slowdown in the tourism industry, gross international reserves decreased to US\$213.1 million at the end of July 2009 from US\$227.4 in the preceding month. Reserves in terms of months of imports stood the same as the previous month, at 2.4 months. Compared to a year ago, gross international reserves further declined by US\$48.5 million while reserves in terms of imports cover fell by 0.2 months (Chart 15).

### 4.3 Exchange Rate

The Maldivian rufiyaa, which is pegged to the U.S. dollar, stood unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively.

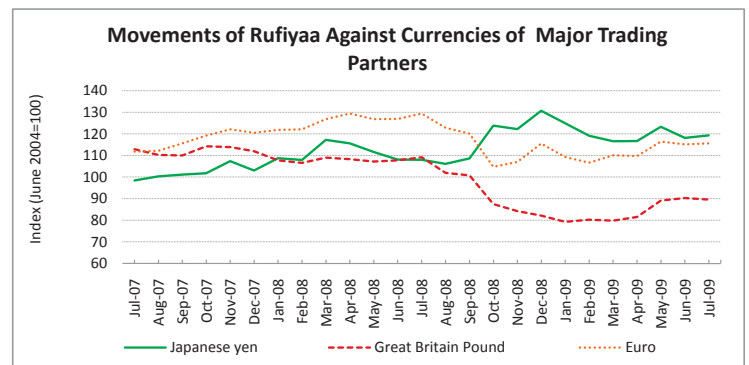
Year-on-year comparisons of bilateral exchange rates at the end of July 2009 showed that with the exception of the Japanese yen against which the rufiyaa depreciated by 10 percent, the rufiyaa appreciated against major currencies of the country's trading partners. The rufiyaa appreciated against the Sterling pound by 18 percent, the Indian rupee by 15 percent, the euro by 11 percent, the Sri Lankan rupee by 9 percent and the Singapore dollar by 6 percent.

CHART 15



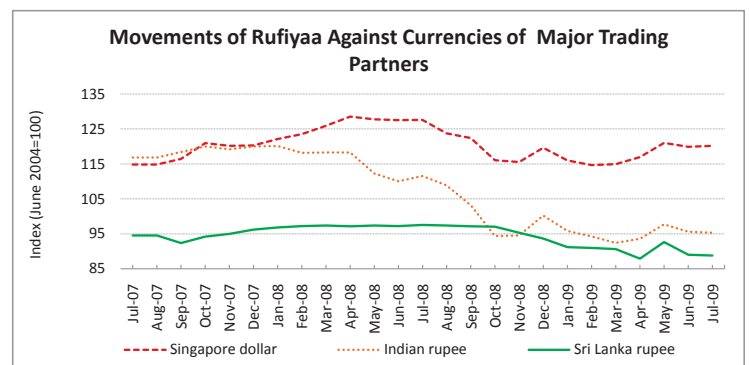
Source: Maldives Monetary Authority and Maldives Customs Service

CHART 16



Source: Maldives Monetary Authority

CHART 17



Source: Maldives Monetary Authority

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