

MONTHLY ECONOMIC REVIEW

April 2008

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Maldives Monetary Authority

This report covers the macroeconomic developments during the month of March 2008. 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 5th May 2008.

1- The Real Economy

1.1 Output

The real economy is estimated to grow by 6.6 percent in 2007 and by a further 9.5 percent in 2008, largely driven by tourism and construction sectors. The economy shows a return to a more sustainable growth trajectory after the 19 percent growth in GDP in 2006 as the economy bounced back from the severe economic contraction in 2005 in the aftermath of December 2004 tsunami (Chart 1).

1.2 Tourism

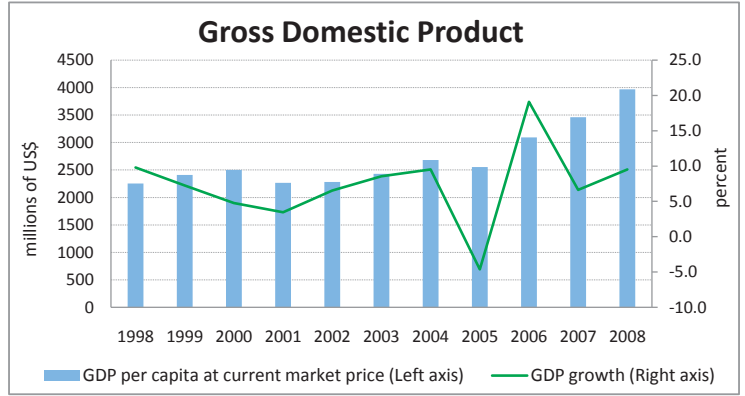
Tourism sector posted yet another month of remarkable achievement as arrivals reached a record figure of 71.6 thousand at the end of March 2008 and grew by 11 percent compared with March 2007 while on monthly terms such arrivals grew by 5 percent (Chart 2). In absolute numbers this shows an annual growth of 7.1 thousand and a monthly growth of 3.7 thousand. As such, total bed nights increased by almost the same magnitude as arrivals and rose by 11 percent on annual terms, while on a monthly basis bednights grew by a slightly higher magnitude than arrivals (by 6 percent) owing to a modest increase in average stay which stood at 7.9 days at the end of March 2008. Meanwhile, in spite of the 1.3 thousand beds that were added to the operational bed capacity of the industry--which currently stands at 18,846 beds--over the past twelve months period, capacity utilisation in the industry rose to 97.2 percent from 94.3 percent in March 2007.

On cumulative terms, total tourist arrivals in the first three months of the year rose by 5 percent while bednights grew by 9 percent as average length of a tourist visit was increased from 7.8 days in Jan-Mar 2007 to 8.0 days in Jan-Mar 2008. Reflecting the 8 percent increase in the number of operational beds during the period, capacity utilisation in the industry declined from 96.4 percent in the first three months of last year to 95.7 percent this year.

1.3 Fisheries

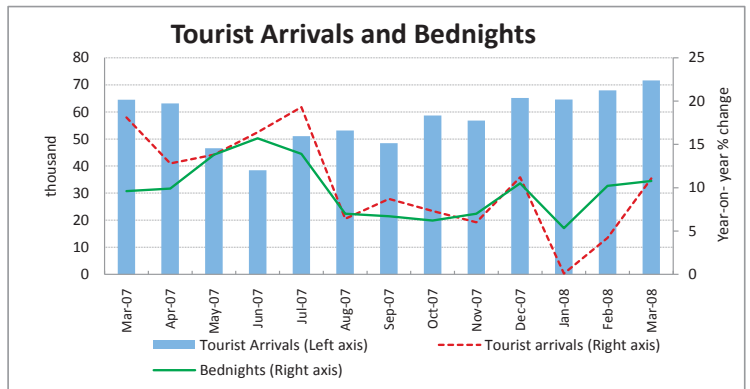
Fish landings have continued to perform sluggishly since February 2008 and total landings recorded a decline of 15 percent compared with the previous month and totalled 6.9 thousand metric tonnes at the end of March 2008. On annual terms, this reflects a fall of 27 percent or 2.5 thousand metric tonnes. Similarly, fish purchases by commercial buyers also remained sluggish and plunged by 34 percent compared with the previous month and by 60 percent on annual terms and thus totalling 3.4 thousand metric tonnes at the end of the review month (Chart 3).

CHART 1



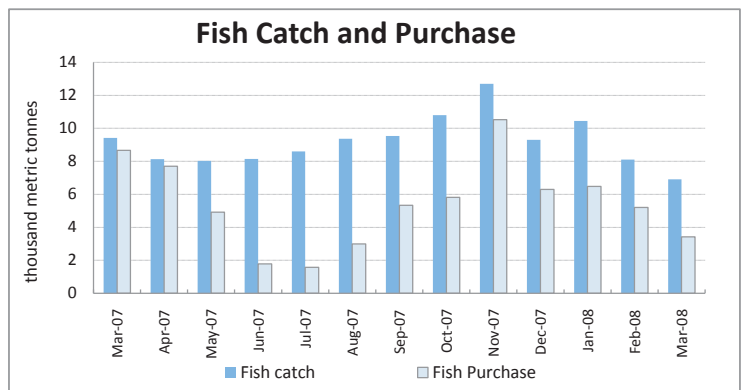
Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

On the export front, despite the monthly decline in fish catch, the volume of fish exports (excluding live fish), which totalled 6.4 metric tonnes at the end of March 2008, improved by 9 percent compared with the previous month, though when compared on an annual basis such exports declined by 46 percent. In terms of export earnings, fish exports rose by 4 percent on a monthly basis while it declined by 21 percent over March 2007 and totalled US\$12.1 million in March 2008 (Chart 4).

Cumulatively, during Jan-Mar 2008, fish catch plummeted by 9 percent (or 2.5 thousand metric tonnes) from the same period of 2007 to 25.5 thousand metric tonnes, while fish purchases fell by 5.2 metric tonnes to 15.1 thousand metric tonnes. Meanwhile, the volume of fish exports (excluding live fish) rose by 9 percent in Jan-Mar 2008, while fish export earnings grew by 36 percent, totalling US\$41.2 million on account of strengthened global tuna prices during the period.

1.4 Prices

Consumer Price Index

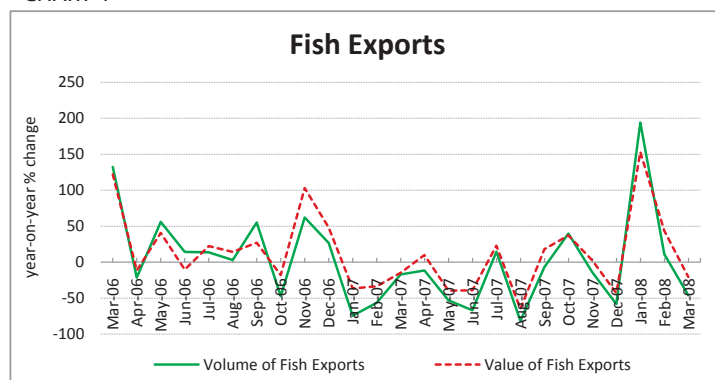
Consumer price inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', rose by 8.2 percent in the year to March 2008, up from 3.4 percent a year ago and 7.4 percent in the previous month. The biggest increase in CPI during the period came from the food index (18.5 percent) particularly from soaring domestic fish prices on account of lower fish catch. In the meantime, the hotels, cafés and restaurant index also posted a gain of 15.1 percent due to the increasing cost of eating out while health, transport and housing indexes recorded notable increases during the period. Core measures of inflation such as CPI excluding the volatile fish prices rose by 6.4 percent in the 12 months to March while CPI excluding all food prices rose by 4.0 percent (Chart 5).

Year-on-year rate of inflation rose by 12.7 percent from 10.6 percent in the previous month. The year-on-year rate of inflation (excluding fish) in March 2008 stood at 10.9 percent while CPI excluding food rose to 7.5 percent.

World Commodity Prices

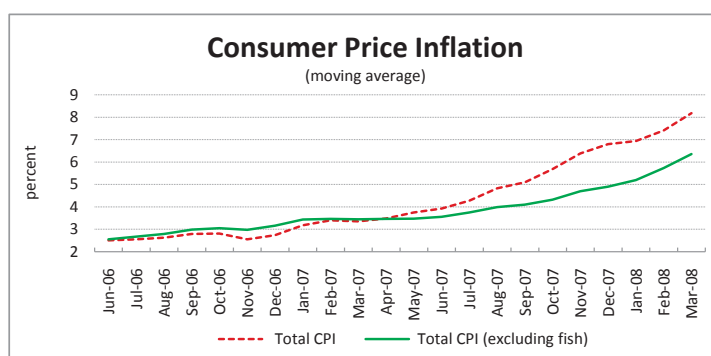
World commodity prices continue to climb dominated by higher food and energy prices. At the end of March 2008, the International Monetary Fund (IMF) primary commodity price index rose by 48.0 percent year-on-year, with the energy and food index rising by 68.0 percent and 43.6 percent, respectively (Chart 6). Meanwhile, price of crude oil (an average of UK Brent and US WTI) rose to US\$105.3 per barrel during the

CHART 4



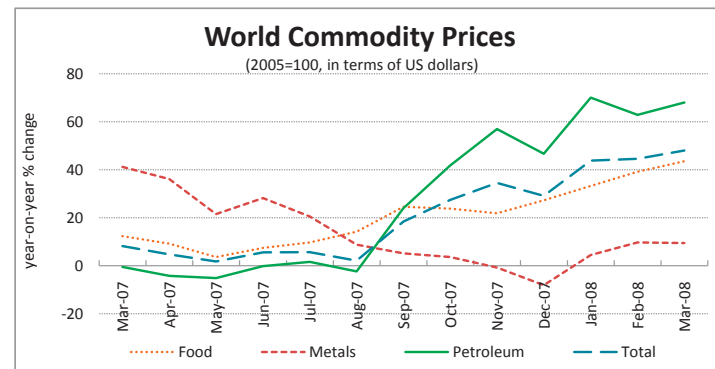
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



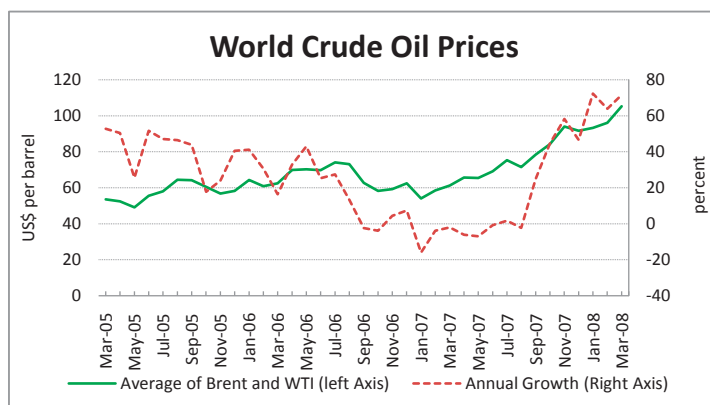
Source: International Monetary Fund

review month, up from US\$96.1 per barrel in the previous month, while a year ago price of crude oil stood much lower at US\$61.3 per barrel (Chart 7).

Domestic Petroleum Prices

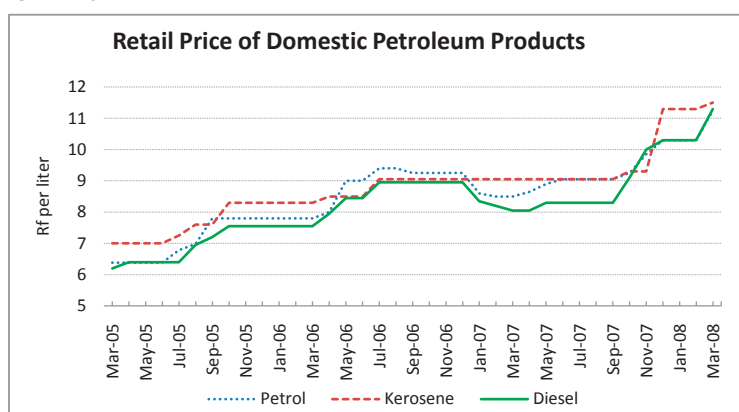
Reflecting the surge in global oil prices, the retail price of domestic petroleum products such as diesel, kerosene and petrol were raised in March 2008 after it was last adjusted in December 2007. Price of diesel was increased by Rf1 per liter, from Rf10.30 per liter to Rf11.30 per liter in March 2008, while price of petrol was increased from Rf10.30 per liter to Rf11.25 per liter. Price of kerosene was also raised from Rf11.30 per liter to Rf11.50 per liter in March 2008 (Chart 8).

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

2- Public Finance

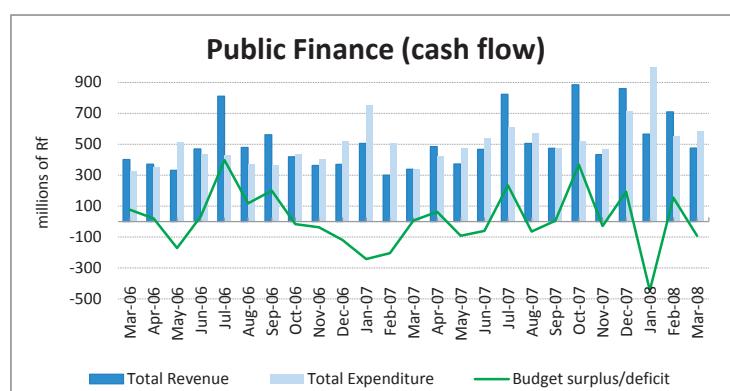
2.1 Government Budget

According to provisional budget estimates the overall deficit widened from Rf794.0 million (7 percent of GDP) in 2006 to Rf1,061.7 million (8 percent of GDP) during 2007 with a large portion of deficit being financed by foreign sources. The budget estimated for 2008 was a deficit of Rf1,564.6 million.

2.2 Revenue and Expenditure (cash flow)

According to monthly cash flow data of the government, the overall balance of government cash flow position during Jan-Mar 2008 showed a deficit of Rf380.7 million compared with a deficit of Rf438.3 million during the first three months of 2007. Total revenue stood at Rf1,750.3 million during first three months of 2008 reflecting an annual growth of 53 percent, mainly due to high amounts of revenue received from import duty and resort lease rent, especially in the form of advance lease payments from some of the newly leased out islands for resort development. Total expenditure (budget/cash) stood at Rf2,161.0 million during first three months of 2008 indicating a growth of 35 percent when set against the same period of 2007 (Chart 9).

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In March, broad money or M2 increased by Rf147.3 million to Rf11,089.1 million. In the 12 months to March 2008, M2 expanded by 23 percent largely on account of the substantial increase in domestic credit (by 45 percent), especially to the private sector (Chart 10 and 11). Growth in credit to private sector slowed down to 46 percent (or by Rf4,053.5 million) from 50 percent the previous month to record Rf12,957.6 million during the period, of which 54 percent was lent to the tourism sector, 12 percent to commerce, 10 percent to fisheries and 9 percent to construction sector.

Net credit to government, after registering a fall of 9 percent in February 2008, rose by 4 percent (or Rf37.0 million) year-on-year, to Rf1,047.6 million at the end of March 2008. The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 149 percent decline in net foreign assets (NFA) of the banking sector which has been on a net liabilities position since July 2007. The decline in NFA is due to the large increase in foreign liabilities of commercial banks as foreign owned commercial banks continues to borrow from their head offices abroad to finance the strong domestic credit demand, especially from the tourism sector. During the period, net foreign assets of MMA improved by 30 percent or Rf895.2 million.

3.2 The Monetary Base

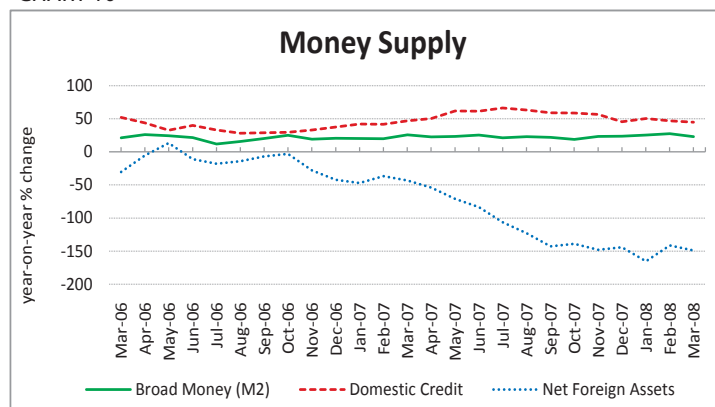
During March 2008 the monetary base (M0) increased by Rf59.7 million to Rf4618.7 million. The increase in M0 is attributable to the 25 percent increase in net credit to government, and was reflected in the (Rf60.8 million) increase in commercial bank deposits held with MMA. The increased liquidity in the banking system also reflects the reduced investment in newly issued treasury bills by the banks during the month. However, total amount of treasury bills outstanding at the end of March 2008 stood at Rf1335.0 million compared with Rf1157.0 million at the end of February 2008.

3.3 Interest Rates

The interest rates, of both the 1-month and 3-months, Treasury bills remained unchanged during the period, at 6 percent and 6.25 percent respectively, since August 2007.

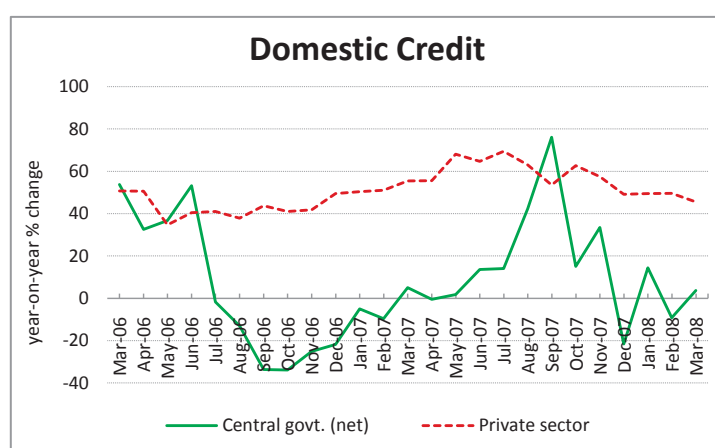
The commercial banks lending and deposit rates also remained unchanged during the period. Local and foreign currency saving deposit had a range between 2.25 – 3.0 and 1.5 – 3.0 per annum. For term deposits, interest rates had a range 2.25 – 6.5 percent for local currency and 1.5 – 6.5 percent for foreign currency. With respect to lending rates, local currency rates had a range between 8 – 13 percent and foreign currency 7.5 -13 percent.

CHART 10



Source: Maldives Monetary Authority

CHART 11



Source: Maldives Monetary Authority

4- External Sector Developments

4.1 Balance of Payments

According to the balance of payments revisions made in November 2007, the current account deficit widened by 28 percent to record US\$472.1 million (45 percent of GDP) in 2007 due to high import prices coupled with the strong demand in the economy. Given that these conditions will continue to prevail in 2008, current account deficit is expected to further deteriorate to 52 percent of GDP (Chart 12). The overall balance of payments is estimated to record a surplus of US\$48.0 million at the end of 2007, as gross international reserves is estimated to reach US\$280.2 million (3.6 month of imports), largely on account of the extraordinary inflow received in the form of advanced lease rents from the newly leased resorts in 2007. Hence, in 2008, balance of payments surplus is expected to shrink to US\$9.7 million. Gross international reserves are projected to reach US\$289.9 million, equivalent to 3.1 months of imports.

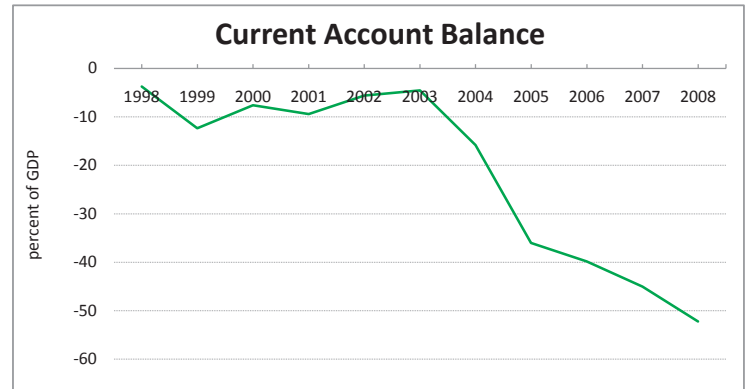
4.2 Balance of Trade and Gross International Reserves

In March 2008, the value of total merchandise exports which totalled US\$74.3 million, recorded a threefold increase of around 209 percent against the previous month and an increase of 144 percent against March 2007, owing to a significant increase in re-export earnings. This was due to the re-export of a single item (a dredger) which was imported in the previous month. During the review month, total imports declined by 25 percent (or by US\$33.9 million), while the value of such imports rose by 41 percent on annual terms, and totalled US\$103.6 million at the end of March 2008. This reduced the trade deficit to US\$29.3 million from US\$113.5 million in February 2008 and US\$42.9 million a year ago (Chart 13).

Earnings on total merchandise exports, which amounted to US\$133.9 million in the first three months of 2008, rose by 90 percent or by US\$63.4 million compared to the first three months of 2007, while total imports registered a significant growth of 70 percent, from US\$203.7 million in 2007 to US\$346.6 million in the review period. As such, the trade balance continues to be in deficit and widened further to US\$212.6 million from US\$133.1 million in the first three months of 2007 (Chart 13).

Reflecting the buoyant developments in the tourism sector, gross international reserves improved from US\$309.8 million at the end of February 2008 to US\$310.5 million at the end of the March 2008, while reserves in terms of import cover remained the same, at 3.0 months. Year-on-year, compared to March 2007, gross international

CHART 12



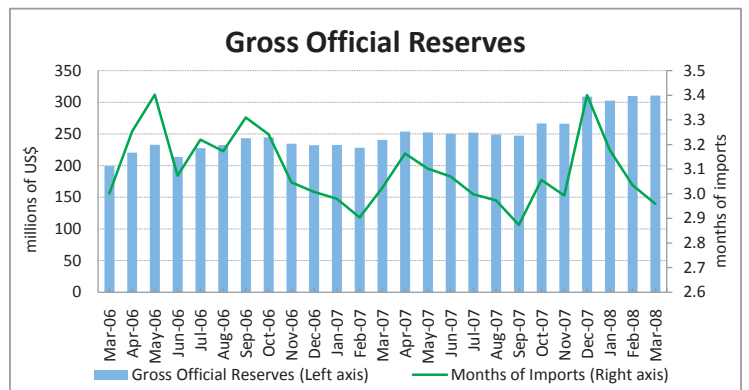
Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

CHART 14



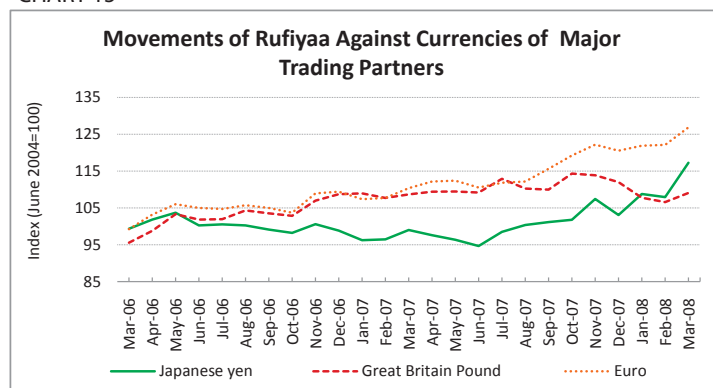
Source: Maldives Monetary Authority and Maldives Customs Service

reserves showed a growth of US\$69.9 million (Chart 14).

4.3 Exchange Rate

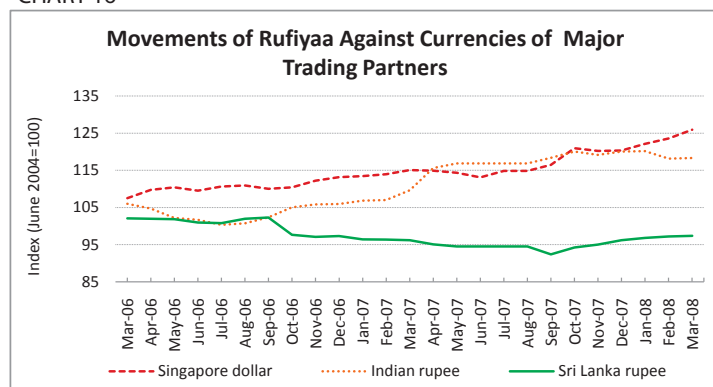
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively. Year-on-year comparisons of bilateral exchange rates at the end of March 2008 showed that the rufiyaa depreciated against major currencies of trading partners as the US dollar continues to depreciate against major currencies of the world. As such, the rufiyaa depreciated against the Japanese yen by 18.4 percent, euro by 14.9 percent, the Singapore dollar by 9.4 percent and the Indian rupee by 7.9 percent. The rufiyaa also recorded declines against the Sri Lankan rupee, by 1.2 percent, and by 0.3 percent against the pound sterling (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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