# MONTHLY ECONOMIC REVIEW

**April 2009**

Volume III, Number: 4

Maldives Monetary Authority

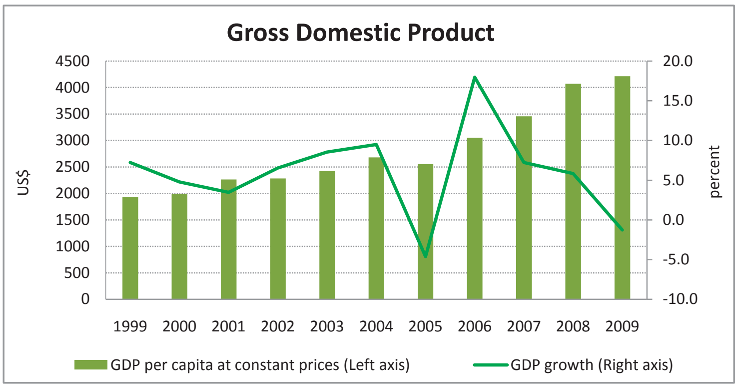
This report covers the macroeconomic developments during the month of March 2009. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Economic Review* contains data available as of 5th May2009.

# 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 decelerated 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.

CHART 1



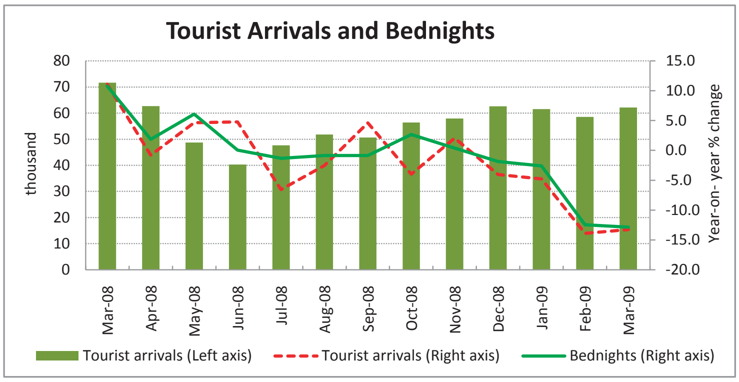

Source: Department of National planning

## 1.2 Tourism

Visitor arrivals into the country totalled 62.1 thousand in the month of March 2009, recording an increase of 6 percent compared to February 2009, while tourist arrivals still stood 13 percent lower compared to the corresponding month of 2008. In analysing the other main indicators of the sector, bednights grew by 5 percent compared to the preceding month, although the average length of a tourist visit remained the same at 8.0 days as the previous month. However, when compared to the corresponding month of 2008, bednights registered a fall of 13 percent. As for the capacity of the industry, the number of operational beds in resort/hotels remained relatively the same, at 19,358 beds, compared to February 2009, while it only increased by 354 beds compared to March 2008. Hence, the capacity utilisation of the industry fell to 82 percent during the review month from 96 percent in the corresponding month of 2008 (Chart 2).

On cumulative basis, tourist arrivals for the first three months of 2009 totalled 182.2 thousand, registering a fall of 11 percent from 204.2 thousand at the end of the corresponding period of 2008. Meanwhile, bednights also decreased by 9 percent during the period, as the average duration of a tourist stay only increased to 8.2 days from 8.0 days in the same period of 2008. The capacity utilisation of the industry also dropped to 85 percent during Jan-Mar 2009, from 94 percent in Jan-Mar 2008, mainly contributed by the fall in tourist arrivals.

CHART 2




Source: Ministry of Tourism, Arts and Culture

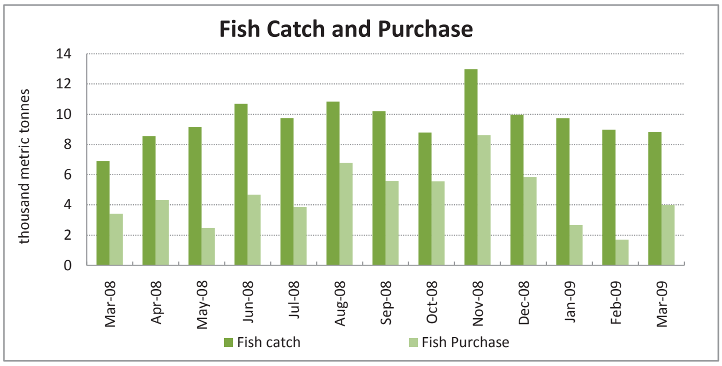
## 1.3 Fisheries

Fish landings totalled 8.8 thousand metric tonnes at the end of March 2009, plunging by 2 percent on month on month basis, whereas fish catch improved by 28 percent when compared to the corresponding month of 2008. Similarly, fish purchases made by the commercial buyers increased and stood at 4.0 thousand metric tonnes, registering improvements of 134 percent and 17 percent on monthly as well as on annual terms, respectively (Chart 3).

On the export front, the volume of fish exports (excluding live fish) fell to 1.6 thousand metric tonnes at the end of the review month, which plummeted by 48 percent compared to the previous month and by a further 75 percent compared to the same period a year ago. Similarly, earnings on fish exports also declined to US$5.5 million, falling by 5 percent against the previous month while it dropped by 55 percent over the same month of 2008 (Chart 4).

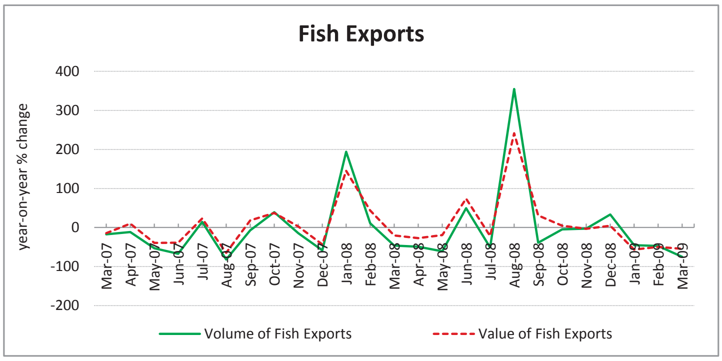
Cumulatively, during the first three months of 2009, fish catch increased by 8 percent from 25.5 thousand metric tonnes to 27.5 thousand metric tones. Nevertheless, fish purchases by commercial buyers plunged by 45 percent from 15.1 thousand metric tonnes in Jan-Mar 2008 to 8.3 thousand metric tonnes in Jan-Mar 2009. Reflecting the decline in fish purchases, the volume of fish exports (excluding live fish), which totalled 10.3 thousand metric tonnes during the period, decreased by 54 percent compared to the corresponding period of last year. Similarly, earnings on fish exports also declined by 54 percent from US$40.6 million in the first three months of 2008 to US$18.6 million in the same period of 2009.

CHART 3




Source: Ministry of Fisheries and Agriculture

CHART 4



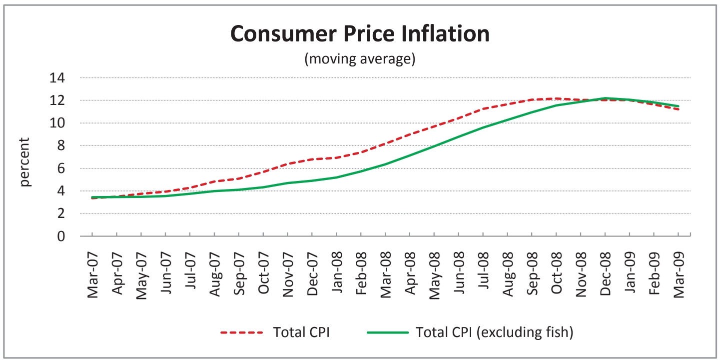

Source: Maldives Customs Service

## 1.4 Prices

### Consumer Price Index

Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', slightly fell to 11.2 percent at the end of March 2009 from 11.6 in February 2009. However, inflation still stood much higher when set against 8.2 percent in the corresponding month of 2008. Inflation excluding the highly volatile fish prices also declined to 11.5 percent (Chart 5). During the review month, inflation was mostly contributed by price of food, transport, health and housing (Chart 5).

CHART 5




Source: Department of National Planning

## World Commodity Prices

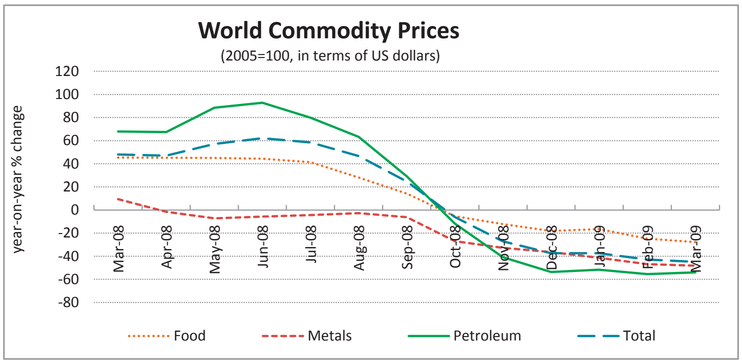
World commodity prices continued its declining trend, reflecting the decrease in global food and energy prices as a result of the slowing demand in the international economy. As such, the International Monetary Fund's (IMF) primary commodity index decreased by 45 percent when compared on annual basis, however, stood 2 percent higher when compared to February 2009. Moreover, global food prices slumped by 28 percent while energy prices dropped by 54 percent on annual terms (Chart 6).

Meanwhile, price of crude oil (an average of UK Brent and U.S WTI) slightly went up to US$47.5 per barrel in March 2009 from US$41.3 in the previous month. Yet, oil prices stood 55 percent lower compared to US$105.3 per barrel in March 2008 (Chart 7).

## Domestic Petrolium Prices

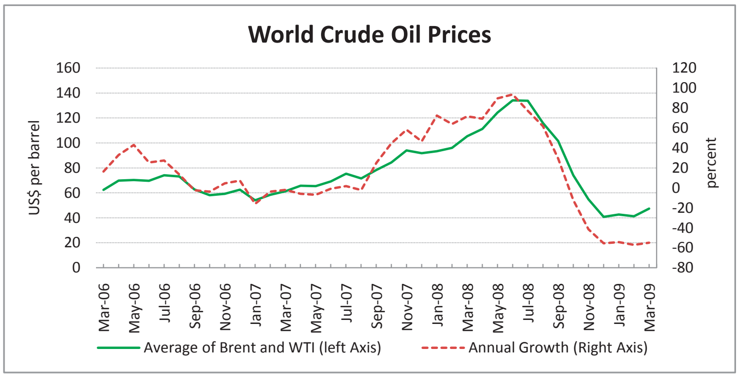
The retail prices of domestic petroleum products were last adjusted in February 2009. As such, price of diesel was brought down to Rf6.70 per litre, while price of petrol was slightly increased to Rf7.50 per litre in February 2009 from Rf7.00 per litre in January 2009 reflecting the price movements in the international market. However, price of kerosene remained unchanged at Rf8.00 per litre since November 2008 (Chart 8).

CHART 6



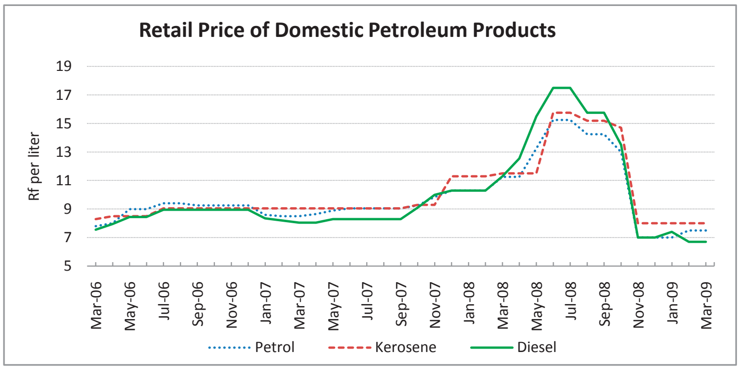

Source: International Monetary Fund

CHART 7




Source: Energy Information Administrantion, USA

CHART 8




Source: State Trading Organisation

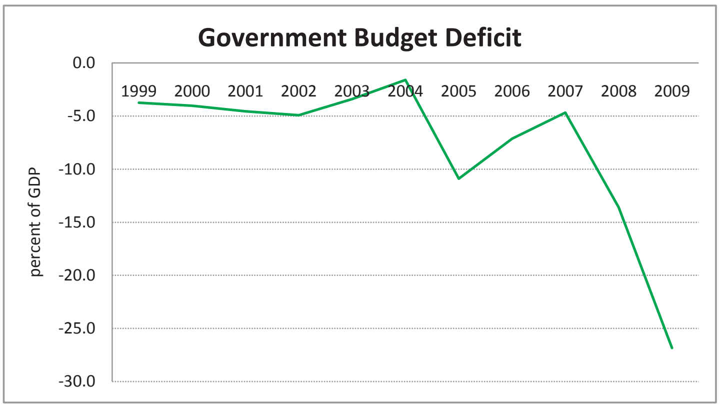
# 2- Public Finance

## 2.1 Government Budget

According to provisional budget estimates of November 2008, the government budgetary position deteriorated significantly during 2008 by Rf1.6 billion to record an overall deficit of Rf2.2 billion. Hence, despite the 5 percent increase in revenue in 2008, the overall deficit widened to 14 percent of GDP in 2008 as total expenditure and net lending reached unsustainably higher levels during the year – to 63 percent of GDP. Around 89 percent of the increase in expenditure was spent on current expenditure. With regard to financing of the deficit, 65 percent of the deficit was domestically financed –which was mostly through monetization– and compares with 2 percent in 2007.

With regard to the proposed budget for 2009[1] , the overall deficit is projected to be Rf4.8billion (which is 28 percent of GDP) as total revenue is projected to decline by 9 percent while total expenditure and net lending is projected to increase by Rf1.9 billion to 71 percent of GDP. The decline in revenue comes mainly from the decline in import duty and tourism bed tax. The deficit for 2009 is estimated to be financed from both external (70 percent) and domestic sources (through adoption of the proposed new revenue measures)

CHART 9

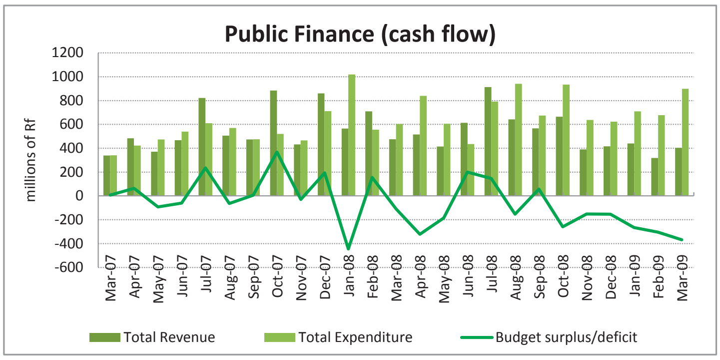



Source: Ministry of Finance and Treasury

## 2.2 Revenue and Expenditure (Cash flow)

According to the latest monthly cash flow data of the government, total revenue in the first three months of 2009 declined by 34 percent when compared on annual basis, and totalled Rf1,160.3 million at the end of the review period. Total expenditure, which amounted to Rf2,285.4 million, increased by 5 percent over the same period of last year. Hence, the overall balance of government cash flow position further widened to Rf937.2 million in the first three months of 2009 in comparison to Rf397.7 million in the first three months of 2008.

CHART 10




Source: Ministry of Finance and Treasury

1/ These numbers are according to the budget proposed in December 2008 and are based on IMF standardised format.

# 3- Monetary Developments

## 3.1 Money and Credit

In the 12 months to March 2009, broad money (M2) rose by 17 percent reflecting the increase in domestic credit, largely to the private sector, which accounted for 80 percent of the total domestic credit. Nevertheless, in terms of growth rate, private sector credit which totalled Rf15,751.9 million at the end of March 2009, continued to decelerate and increased by 22 percent on annual terms, compared to a growth of 24 percent in the previous month. The slowdown in lending to the private sector was mainly as a result of the tight availability of credit to commercial banks externally owing to the global financial and economic crisis. Of the credit to the private sector, 59 percent was lent to the tourism sector, 11 percent to the construction sector, 9 percent to commerce and 7 percent to the fisheries sector.

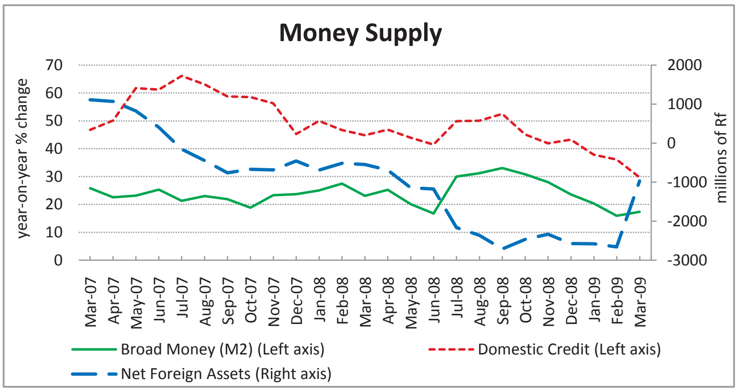
Net credit to government increased to Rf2,671.9 million at the end of March 2009, from Rf1,044.5 million at the end of March 2008, as a result of the sharp rise in government expenditure during the period and this also contributed to domestic credit growth (Chart 12). In the meantime, the net foreign assets (NFA) of the banking system, which has been on a net liability position since July 2007, further deteriorated by 77 percent in March 2009 compared to March 2008. The decline in net foreign assets of the banking system is as a result of the rise in net foreign liabilities of the commercial banks in addition to the fall in net foreign assets of the MMA. However, the net liability position of the commercial banks declined for the first time since 2005, as a result of the deceleration of foreign borrowings and the increase in foreign assets accumulation by the commercial banks.

## 3.2 The Monetary Base

The monetary base (M0) registered an annual growth of 24 percent at the end of March 2009. The growth in monetary base was contributed by the high annual growth rate of commercial bank deposits held with the MMA coupled with the increase in currency in circulation outside the banks during the period.

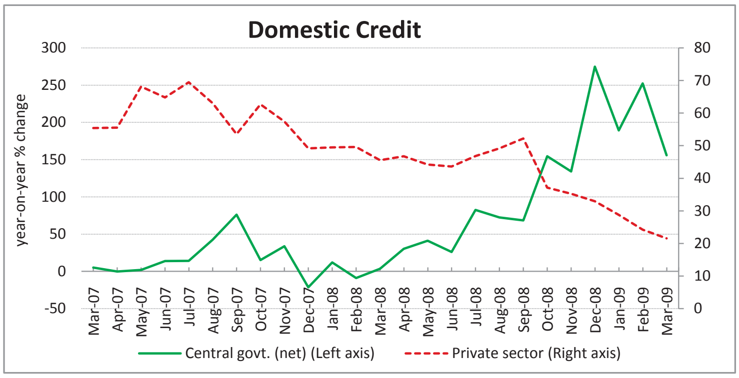
Total amount of treasury bills outstanding at the end of March 2009 totalled Rf1,639.0 million compared to Rf1,335.0 million at the end of March 2008.

CHART 11




Source: Maldives Monetary Authority

CHART 12




Source: Maldives Monetary Authority

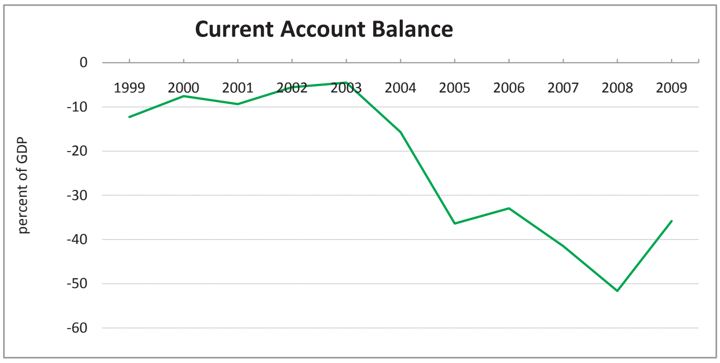
# 4- External Sector Developments

## 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 and 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 growth of 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 through foreign exchange from privatization proceeds and government external borrowing 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.

CHART 13



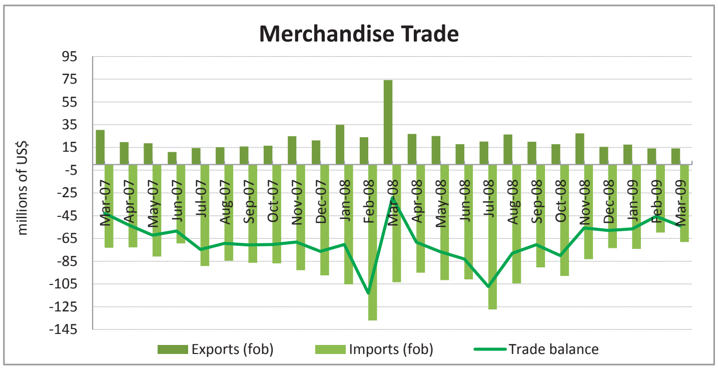

Source: Maldives Monetary Authority

## 4.2 Balance of Trade and Gross International Reserves

The current trade data available shows that the value of total merchandise exports remained more-or-less the same, compared to February 2009 and stood at US$14.1 million at end-March 2009, but registered a decline of 81 percent compared to the corresponding month of 2008. Total merchandise imports (f.o.b) totalled US$68.1 million, increasing by 14 percent compared to the previous month while it fell by 34 percent compared to the corresponding month of 2008. The trade deficit had increased to US$54.0 million from US$45.5 million in February 2009 and US$29.2 million in March 2008 (Chart14).

Earnings on total merchandise exports in the first three months of 2009 totalled US$45.7 million, show-

CHART 14

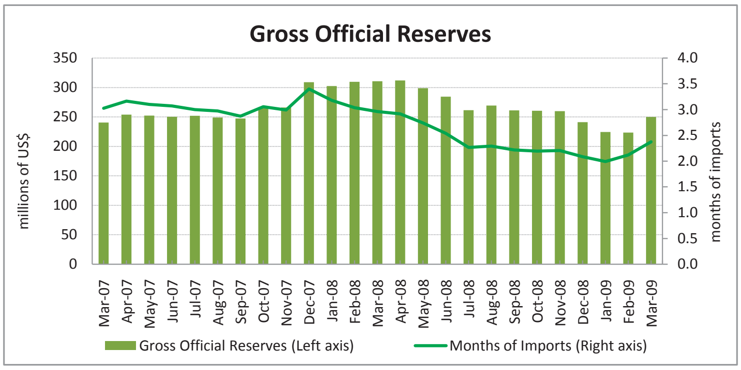



Source: Maldives Customs Service

ing a decline of 66 percent (or US$87.7 million) compared with the same period of 2008. Also, the value of merchandise imports (f.o.b) for this period, which totalled US$201.9 million, had fallen by 42 percent (or US$144.1 million) over the corresponding period of 2008. The trade deficit decreased to US$156.1 million as compared to US$212.6 million in 2008.

With the realisation of the external borrowing of US$50 million loan from India, gross international reserves increased to US$269.5 million at the end of the review month, from US$223.4 million at the end of last month, while reserves in terms of imports cover slightly rose to 2.6 months from 2.1 months in February 2009. Compared to March 2008, gross international reserves declined by US$60.4 million while reserves in months of imports dropped by 0.3 months (Chart 15).

CHART 15



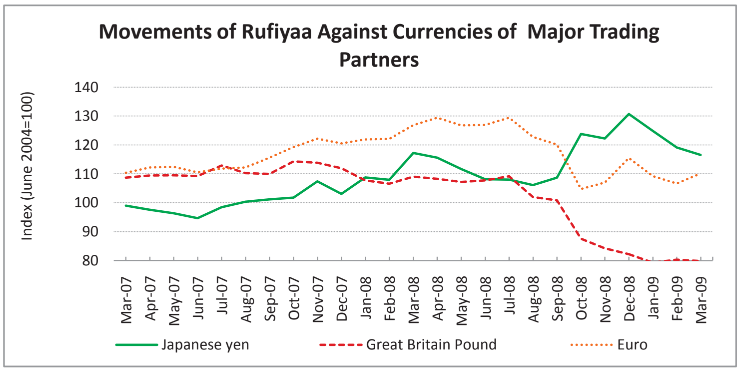

Source: Maldives Monetary Authority and Maldives Customs Service

## 4.3 Exchange Rate

The Maldivian Rufiyaa, which is pegged to the United States 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.

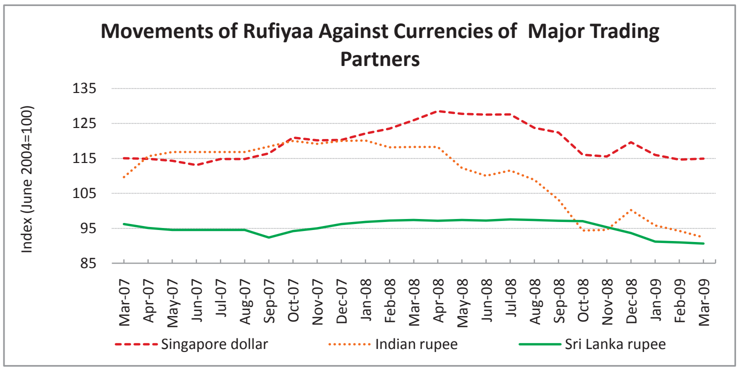
Compared on annual basis, the bilateral exchange rates of Maldivian Rufiyaa at the end of March 2009 showed that the Rufiyaa appreciated against the currencies of the country's major trading partners. As such, the Rufiyaa appreciated against the Sterling Pound by 27 percent, the Indian Rupee by 22 percent, the Euro by 13 percent, the Singapore dollar by 9 percent, the Sri Lankan Rupee by 7 percent and the Japanese Yen by 1 percent (Chart 16 & 17).

CHART 16




Source: Maldives Monetary Authority

CHART 17




Source: Maldives Monetary Authority

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