

MONTHLY ECONOMIC REVIEW

August 2008

Volume: II , Number : 8



Maldives Monetary Authority

This report covers the macroeconomic developments during the month of August 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 8th September 2008.

1- The Real Economy

1.1 Output

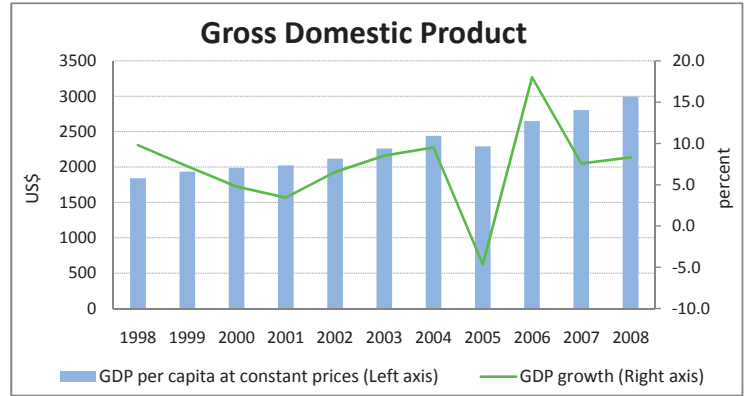
According to revised GDP estimates of April 2008, published by the Ministry of Planning and National Development, the real GDP grew by 7.6 percent in 2007 and is projected to grow by a further 8.3 percent in 2008, largely driven by tourism and construction sectors. The economy shows a return to a more 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

Tourist arrivals into the country improved in the month of July 2008, gaining by 18 percent compared to the previous month and totalled at 47.7 thousand at the end of the month. However, visitor arrivals registered a decline of 7 percent when compared to the corresponding month of 2007. Owing to the gain in average duration of a tourist visit, from 7.6 days in the preceding month to 8.0 days in the review month, bednights improved by 25 percent against the previous month, though it fell by 1 percent compared to a year ago. As for the capacity of the industry, the number of operational beds in resorts/hotels stood at 18,842 beds at the end of the review month, which is an increase of 9 percent (1,509 beds) from the corresponding period of 2007. As a result, in spite of the increase in capacity of the industry, capacity utilisation in resorts/hotels declined to 65 from 72 percent in the previous year, partly reflecting the annual fall in tourist arrivals.

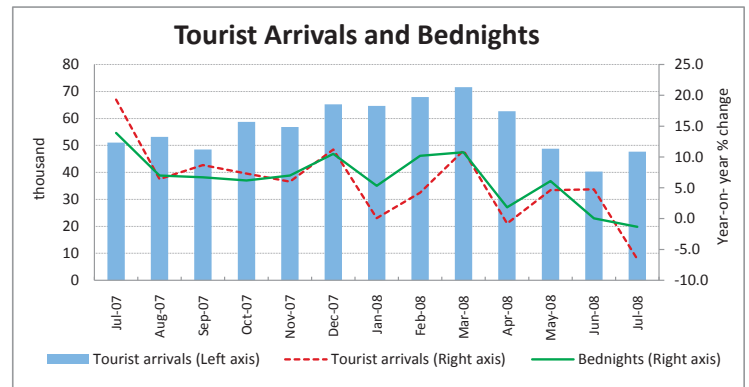
Cumulatively, visitor arrivals from Jan-July 2008, registered a growth of 3 percent compared to the same period of 2007 and recorded 403.6 thousand at the end of July 2008. The increase in tourist arrivals together with the improvement in average duration of a tourist visit during the period, resulted in a growth of 5 percent in bednights during Jan-July 2008. At the same time, with the 9 percent (1,515 beds) increase in the operational bed capacity of the industry, capacity utilisation fell from 83 percent to 80 percent during the review period.

CHART 1



Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

1.3 Fisheries

In July, fish landings totaled 9.7 thousand metric tonnes, recording a decline of 9 percent compared to the previous month, nevertheless, reflected an increase of 24 percent compared to July 2007. Similarly, fish purchases made by the commercial buyers stood at 3.9 thousand metric tonnes, which fell by 18 percent against the preceding month, though it significantly improved by 146 percent compared to a year ago.

Reflecting the monthly drop in fish cash, the volume of fish exports (excluding live fish) also plunged and totaled 2.7 thousand metric tonnes at the end of the July 2008, decreasing by 23 percent when compared on month-on-month basis and by 51 percent on year-on-year basis. Earnings on fish exports also fell, though at a lesser magnitude than the volume of fish exports, and totaled US\$6.3 million at the end of the review month. This is a decline of 15 percent when compared on a monthly basis, while it plummeted by 22 percent when compared on an annual basis.

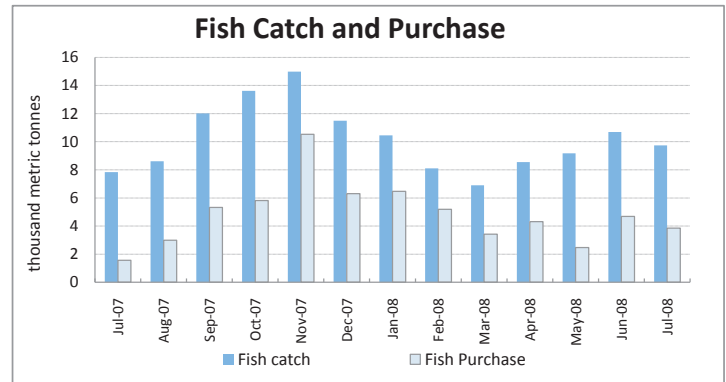
On cumulative terms, fish catch declined by 20 percent during the period Jan-July 2008 to 63.6 thousand metric tonnes from 79.8 thousand metric tonnes in the same period of 2007 tonnes, while fish purchases by commercial buyers fell by 16 percent to 30.4 thousand metric tonnes. Reflecting the decline in fish catch, the volume of fish exports (excluding live fish) which totaled 34.4 thousand metric tonnes during Jan-July of this year, also fell by 17 percent compared to the corresponding period of last year. Nonetheless, on account of the strengthened global tuna prices, earnings of such exports remained buoyant and grew by 12 percent and totaled US\$68.9 million at the end of July 2008.

1.4 Prices

Consumer Price Index

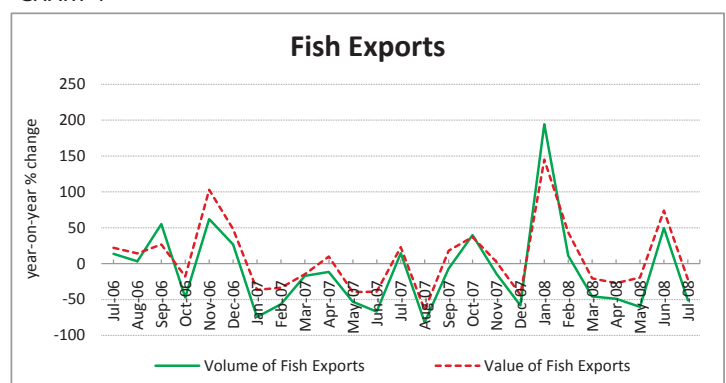
Consumer price inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index measured (CPI) for Male', edged up to 11.3 percent in July 2008 from 10.4 percent in the previous month and 4.3 percent a year ago. Core measures of inflation, such as CPI excluding the volatile fish prices rose by 9.6 percent while CPI excluding all food prices rose by 6.1 percent. The biggest contribution to CPI during the review month came from

CHART 3



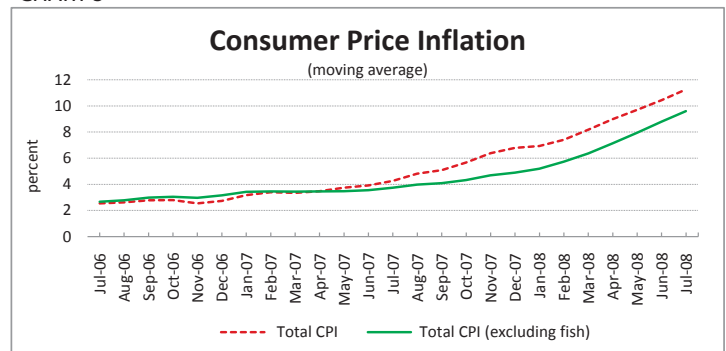
Source: Ministry of Fisheries, Agriculture and Marine Resources

CHART 4



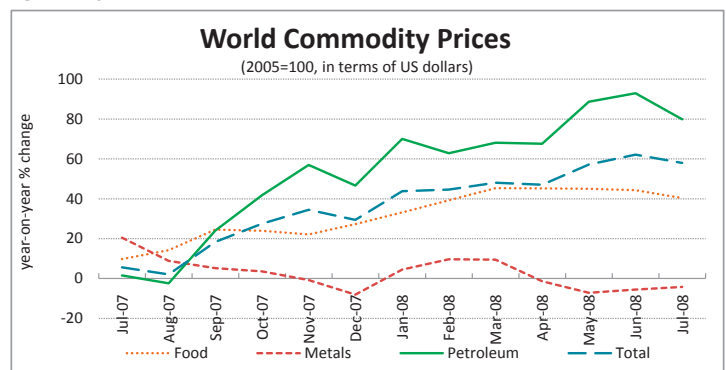
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



Source: International Monetary Fund

increased prices of food, health care, transport and housing (Chart 5)

World Commodity Prices

The rise in world commodity prices slowed down, with the ease in the price increases of energy and food prices. As such at the end of July 2008, the International Monetary Fund (IMF) primary commodity index rose by 58.0 percent year-on-year, whereas the year-on-year increase of the index in June 2008 stood at 62.1 percent. Food and energy index also rose, though at a lesser magnitude than the previous month, by 40.4 percent and 79.9 percent respectively (Chart 6).

In the meantime, price of crude oil (an average of UK Brent and U.S WTI) slightly fell to US\$133.7 per barrel during the review period from US\$134.1 per barrel in the preceding month. Nonetheless, when compared annually, price of crude oil has hiked up by 77 percent from US\$75.4 per barrel in July 2007 (Chart 7).

Domestic Petroleum Prices

Reflecting the decline in global oil prices, the retail prices of domestic petroleum products at the end of July 2008 remained the same as the previous month. Price of kerosene stood unchanged at Rf15.75 per litre while the prices of diesel and petrol were at Rf17.50 per litre and Rf15.25 per litre respectively (Chart 8).

2- Public Finance

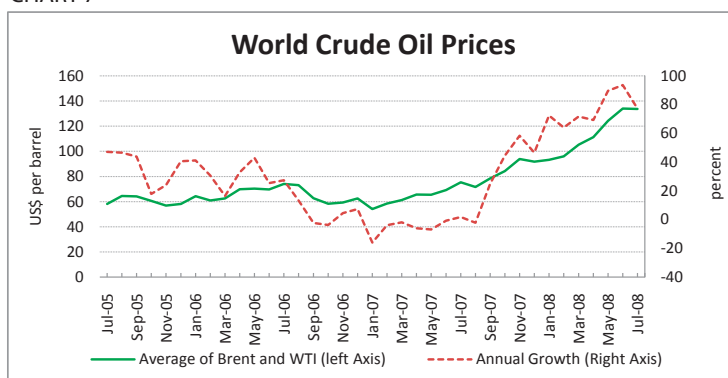
2.1 Government Budget

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)

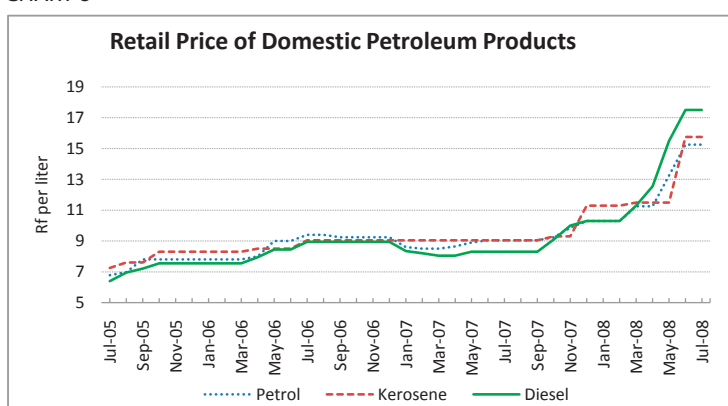
According to the latest monthly cash flow data of the government, total revenue in the first seven months of 2008 rose to Rf4,206.8 million from Rf3,288.9 million in the same period last year. The improvement in revenue came largely from import duty, transfers from public enterprises and resort lease rent. Meanwhile, total expenditure surged from Rf3,643.1 million in the first seven months of 2007 to Rf4,847.4 million in the first seven month of this year. As a result, the overall cash flow position of the government deteriorated sharply by Rf264.9 million from a deficit of Rf293.6 million in Jan-Jul 2007 to Rf558.5 million in the review period (Chart 9) .

CHART 7



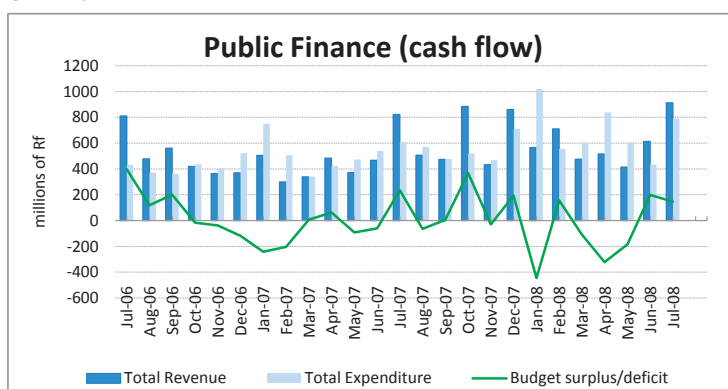
Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

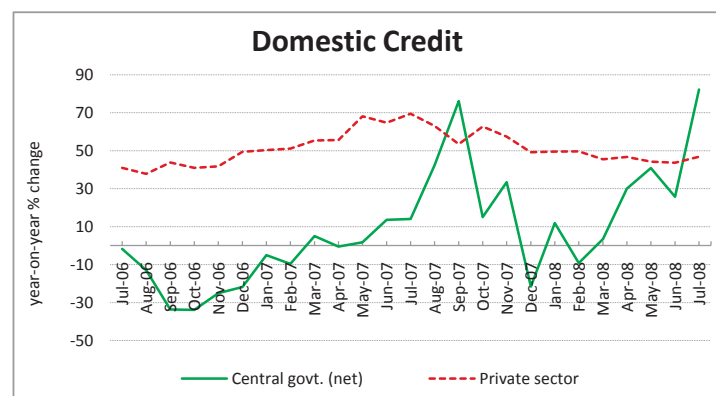
In July, broad money or M2 decreased by Rf483.5 million to Rf11,748.3 million. In the 12 months to July 2008, M2 expanded by 30 percent largely on account of the substantial increase in domestic credit (by 50 percent), especially to the private sector (Chart 10). Growth in credit to private sector increased by 47 percent (or by Rf4,825.4 million) to Rf15,131.8 million during the period, of which 53 percent was lent to the tourism sector, 13 percent to commerce, 10 percent construction sector and 9 percent to fisheries sector.

Net credit to government registered a sharp increase of 82 percent (or Rf692.2 million) year-on-year, to Rf1,533.5 million at the end of July 2008 on account of the substantial increase in government expenditure during the period. However, the expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the steep decline in the net foreign assets (NFA) of the banking sector which has been on a net liabilities position since July 2007. The decline in NFA was mainly due to the large increase in foreign liabilities of commercial banks as foreign owned commercial banks continue 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 a modest 4 percent or Rf133.7 million

3.2 The Monetary Base

During July 2008 the monetary base (M0) decreased by Rf89.9 million to Rf4,768.7 million. The decline in M0 was attributable to the 5 percent decline in commercial bank deposits held with MMA. Total amount of treasury bills outstanding at the end of July 2008 stood at Rf1,139.0 million compared with Rf1,485.0 million at the end of June 2008.

CHART 10



Source: Maldives Monetary Authority

4- External Sector Developments

4.1 Balance of Payments

According to the balance of payments revisions made in June 2008, the current account deficit widened by 41 percent to record US\$424.5 million (40 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 by 51 percent of GDP (Chart 11). The overall balance of payments recorded a surplus of US\$77.0 million at the end of 2007, as gross international reserves reached US\$309.1 million (3.4 months of imports), largely on account of the unprecedented amount of advanced lease rents received from the newly leased resorts in 2007. In 2008, the overall balance of payments is expected to record a surplus of US\$71.8 million while gross international reserves are projected to improve to US\$380.8 million, equivalent to 3.2 months of imports.

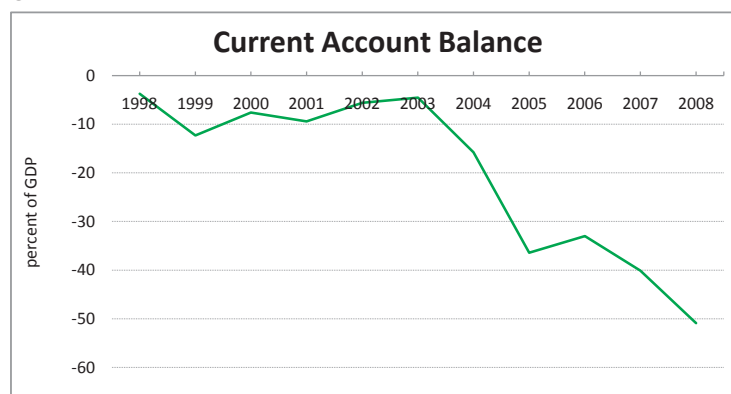
4.2 Balance of Trade and Gross International Reserves

The value of merchandise exports, which totalled US\$14.7 million at the end of July 2008, declined by 17.8 percent compared to the previous month while it showed a growth of 42.8 percent compared to July 2007. The value of imports showed an increase of 26 percent to US\$127.6 million on monthly terms while it increased by 42.8 percent compared to July 2007. As such, the trade deficit continued to remain in deficit and widened to US\$112.9 at the end of July 2008 from US\$83.2 million in June 2008 and US\$74.8 million a year ago (Chart 12).

Earnings on total merchandise exports from January to July totalled US\$221.0 million which is an increase of 64 percent (or US\$86.5 million) compared to the first six months of 2007. Meanwhile, the value of merchandise imports from January to July of 2008 increased by 50 percent to US\$772.7 million compared to the same period a year ago. This further deteriorated the trade deficit between January and July to US\$551.7 million from US\$381.8 million in the same period in 2007.

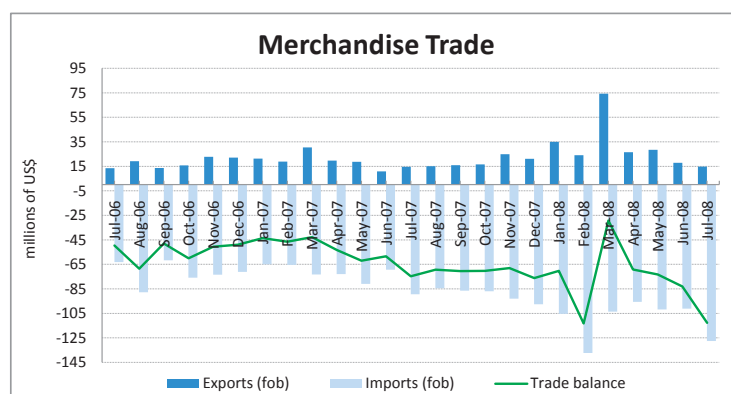
Reflecting the slowdown in tourism related activities, owing to the low season of the industry, gross international reserves deteriorated from US\$284.3 million at the end of June 2008 to US\$261.6 million at the end of July, while reserves in terms of import cover fell from 2.5 months to 2.3 months. However, compared with July of 2007, gross international reserves showed a growth of US\$9.6 million (Chart 13).

CHART 11



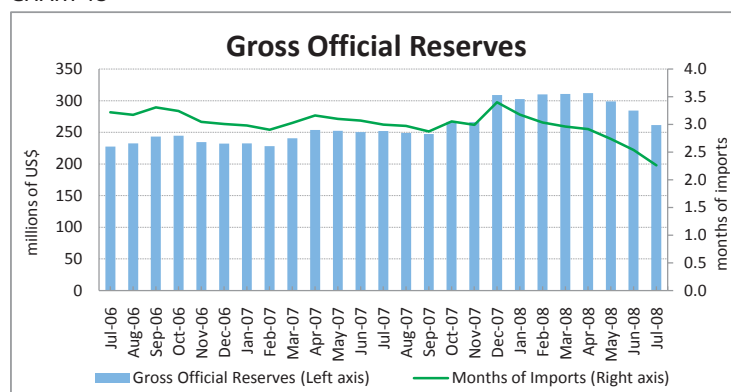
Source: Maldives Monetary Authority

CHART 12



Source: Maldives Customs Service

CHART 13



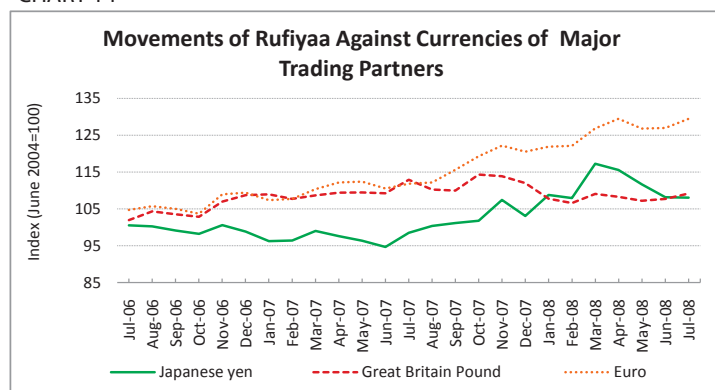
Source: Maldives Monetary Authority and Maldives Customs Service

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.

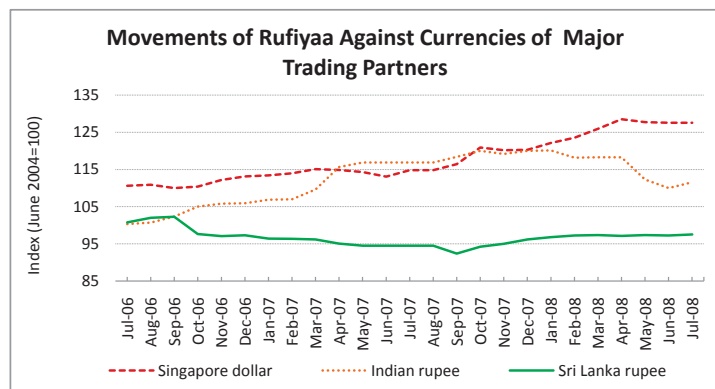
Year-on-year comparisons of bilateral exchange rates at the end of July 2008 showed that with the exception of the Indian rupee and the British pound, against which the rufiyaa appreciated by 4.5 percent and 3.3 percent respectively, and the rufiyaa depreciated against major currencies of trading partners as the U.S. dollar continued to weaken against these currencies. As such, the rufiyaa depreciated against the Japanese yen by 9.7 percent, Singapore dollar by 11.1 percent, Sri Lankan rupee by 3.2 percent and the Euro by 15.8 percent (Chart 14 and 15).

CHART 14



Source: Maldives Monetary Authority

CHART 15



Source: Maldives Monetary Authority

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