

# **MONTHLY MACROECONOMIC REVIEW**

**DECEMBER 2007**

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Maldives Monetary Authority

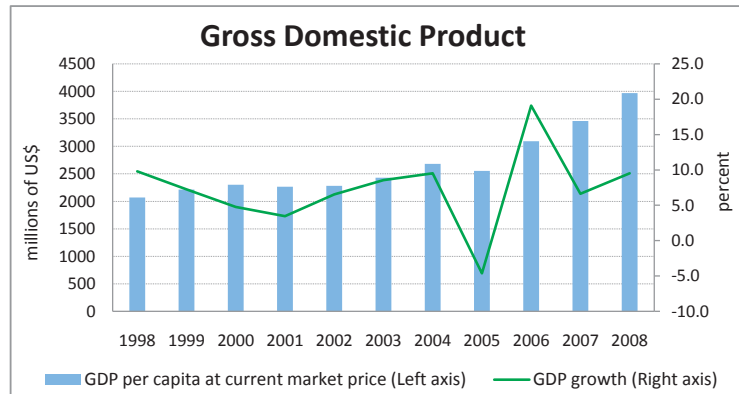
This report covers the macroeconomic developments during the month of November 2007. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Macroeconomic Review* contains data available as of 30th December 2007.

# 1- The Real Economy

## 1.1 Output

The real economy is estimated to grow by 6.6 per cent 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).

CHART 1

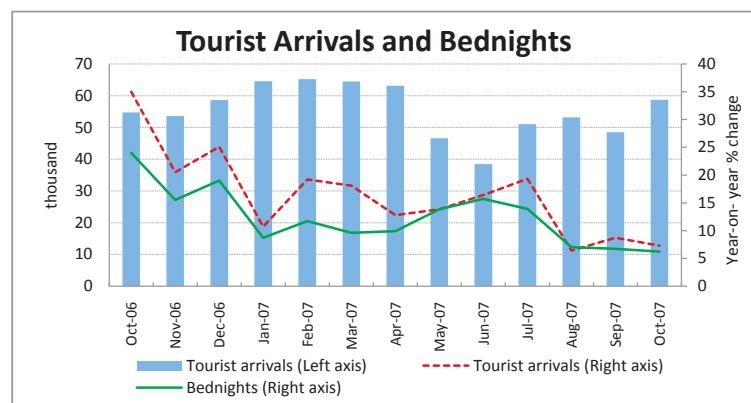


Source: Ministry of Planning and National Development

## 1.2 Tourism

Tourism activities picked up strongly during October, at the onset of the high season in the industry. The number of tourists who visited the country during October increased by 21 percent from September, while registering a 9 percent increase from October last year (Chart 2). Reflecting this, tourist bednights increased and capacity utilisation in the industry rose from 82 percent in October last year and 74 percent in September of this year to 81 percent in October. The industry operated 17,481 beds during the month, an increase of 32 beds from last month and 1,079 beds from October last year.

CHART 2



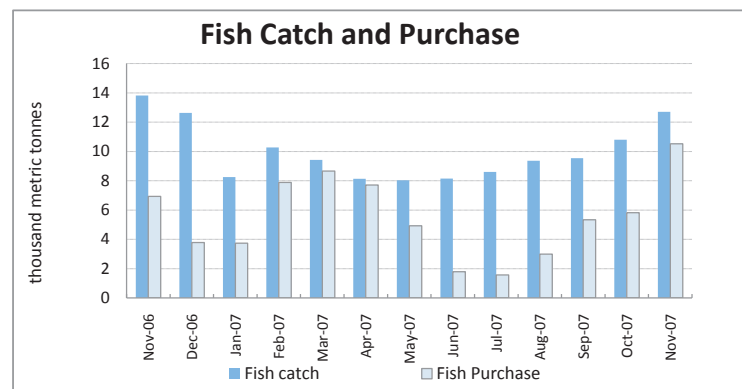
Source: Ministry of Tourism and Civil Aviation

Total tourist arrivals in the first 10 months of the year reached half a million mark, totalling 553.9 thousand. This reflects a 13 percent growth compared to the same period last year. Given the slight fall in average stay during the period Jan-Oct of this year to 7.9 days from 8.4 days in the same period last year, bednights grew at 6 percent during the period. Capacity utilisation in the industry edged up from 81 percent in the first 10 months of last year to 82 percent this year.

## 1.3 Fisheries

Fish catch has been very low throughout this year, but there are now signs of improvement. During November 2007, fish catch increased from 10.8 metric tonnes in October to 12.7 metric tonnes, while still remaining 8 percent lower than November last year. Fish purchases by commercial buyers increased significantly from the previous month (81 percent), although it registered a 52 percent decline compared to November last year (Chart 3).

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

Reflecting the improvement in fish catch, the volume of fish exports (excluding live fish) grew by a significant 95 percent on a month-on-month basis in November 2007, while growth in earnings from such exports stood slightly lower at 73 percent, mainly due to the decline in export prices of frozen yellow fin tuna during the review month relative to the previous month. As for year-on-year

comparisons of fish exports, although the volume of fish exports (excluding live fish) declined by 14 percent from 10.6 metric tonnes in November last year to 9.1 metric tonnes in November this year, growth in fish exports earnings stood positive at 2.3 percent and totalled US\$14.1 million at the end of November 2007 (Chart 4).

During the period Jan-Nov 2007, fish catch fell by 39 percent compared to the corresponding period of 2006 while fish purchases declined by 35 percent. The volume of fish exports (excluding live fish) declined by 38 percent in the first 11 months of 2007, while fish export earnings declined by a much lesser magnitude (17 percent) — given the stronger international price of tuna during the year as a whole—totalling US\$94.3 million during Jan-Nov 2007.

## 1.4 Prices

### Consumer Price Index

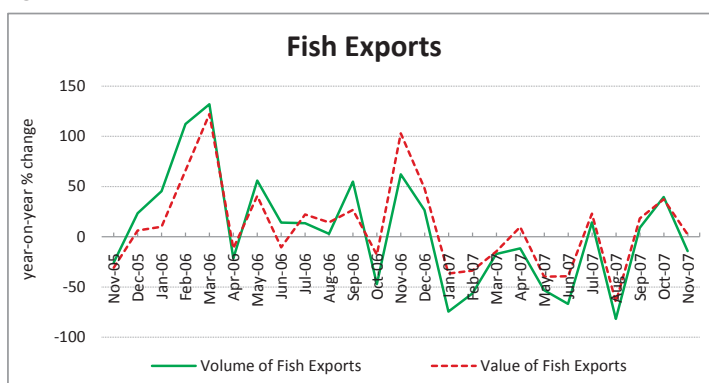
The domestic rate of inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', has been steadily rising since last year. Inflation which edged up from 5.7 percent in October to 6.4 percent in November is a significant increase from 2.6 percent registered a year ago. The increase in inflation is largely attributed to the rapid increase in imported food prices and also the increase in domestic fish prices reflecting the low catch. Hence, CPI excluding fish was slightly lower at 4.7 percent at the end of November, and excluding all food prices stood much lower at 3.0 percent (Chart 5).

Meanwhile, the year-on-year rate of inflation reached a high of 9.5 percent in November 2007 from 1.2 percent a year ago, again explained by higher prices of fish and food items. The year-on-year rate of inflation (excluding fish) in November 2007 was lower at 6.8 percent and excluding food was 2.5 percent.

### World Commodity Prices

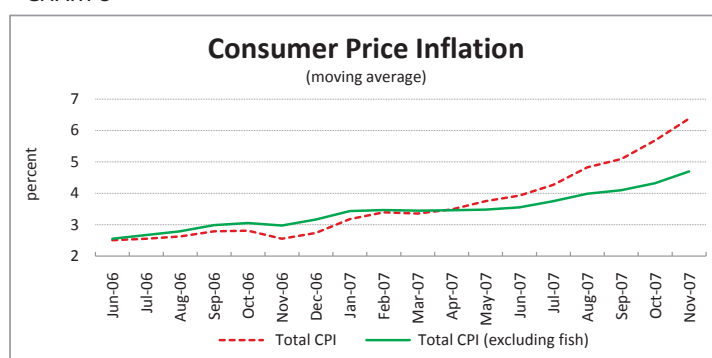
The International Monetary Fund (IMF) primary commodity price index firmed up in November 2007 led by higher crude oil prices and food prices (Chart 6). Price of crude oil (an average of UK Brent and US WTI) soared during the year and reached a record US\$94.0 per barrel at the end of November compared to US\$59.4 per barrel in the same period last year

CHART 4



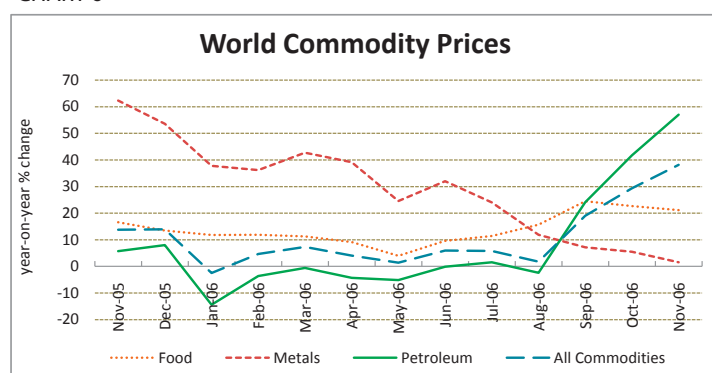
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

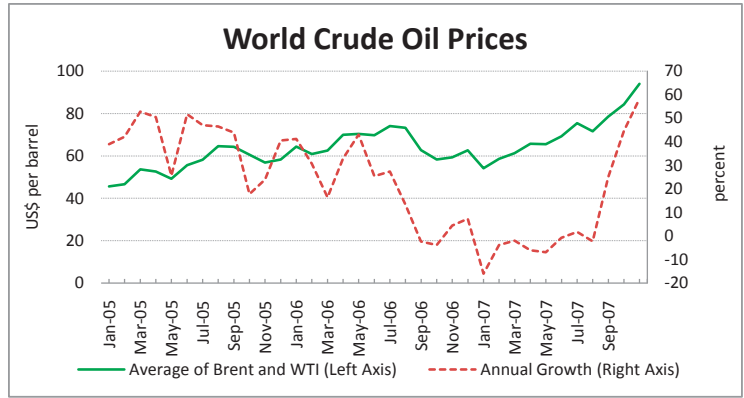
CHART 6



Source: International Monetary Fund

(Chart 7). The rise in food prices during the review month was mainly influenced by the surge in international wheat prices and price of most types of edible oils.

CHART 7

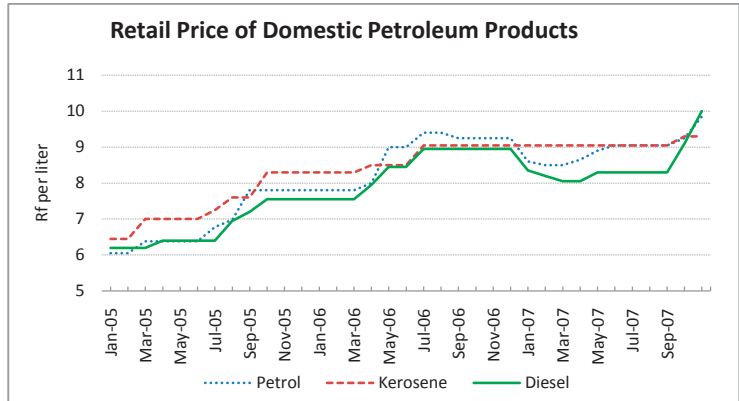


Source: Energy Information Administration, USA

## Domestic Petroleum Prices

Reflecting the surge in global oil prices, the retail prices of domestic petroleum products such as diesel, kerosene and petrol were raised in November 2007. Price of diesel was increased from Rf9.1 per litre in October 2007 to Rf10.0 per litre in November 2007 while price of petrol was increased from Rf9.3 per litre to Rf9.9 per litre. Price of kerosene, which was lifted from Rf9.1 per litre in July this year to Rf9.3 per litre in October 2007, remained unchanged during the review month (Chart 8).

CHART 8



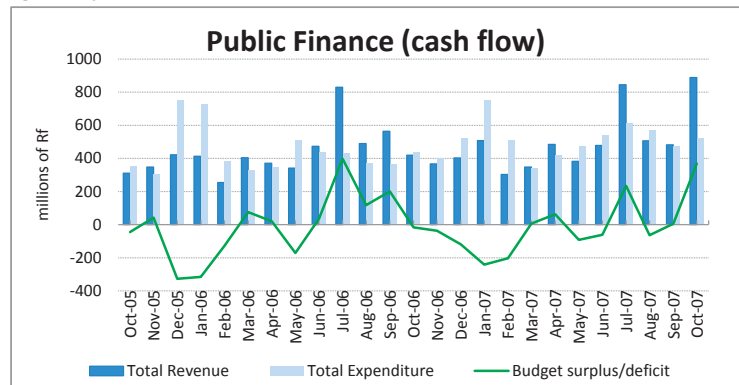
Source: State Trading Organization

## 2- Public Finance

### 2.1 Revenue and Expenditure (cash flow)

According to monthly cash flow data of the government, the overall balance of government cash flow position during Jan-Oct 2007 showed a surplus of Rf16.0 million compared to a surplus of Rf217.4 million during the first ten months of 2006. Total revenue stood at Rf5,225.6 million during first ten months of 2007 reflecting a growth of 15 percent when compared to the corresponding period of 2006. This was mainly on account of the 22 percent growth in import duty which comprised 70 percent of the increase in tax revenue. Total expenditure (budget/cash) stood at Rf5,209.5 million during first ten months of 2007 indicating a growth of 20 percent when set against the same period of 2006 (Chart 9).

CHART 9



Source: Ministry of Finance and Treasury

### 3- Monetary Developments

#### 3.1 Money and Credit

In November broad money or M2 increased by Rf322.7 million to Rf9,754.7 million. In the 12 months to November 2007 M2 expanded by 23 percent largely underpinned by the substantial increase in domestic credit (by 56 percent), especially to the private sector (Chart 10 and 11). As such, credit to private sector grew by 57 percent or by Rf4,358.2 million to Rf11,943.8 million during the period, of which 52 percent was lent to the tourism sector, 21 percent to commerce and 8 percent to construction sector.

Meanwhile, reflecting the increase in government expenditure, net credit to government expanded by 33 percent (or Rf222.2million) year-on-year, to Rf886.3 million at the end of November 2007 which also contributed to the growth in M2 (it has to be noted that a significant part of the growing budget deficit is monetary financed). The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 148 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 decline in foreign liabilities of commercial banks as foreign owned commercial banks continued borrowing from their head offices abroad to finance the strong domestic credit demand especially from the tourism sector. On the contrary, the net foreign asset position of the MMA improved by 14 percent or Rf402.0million during the period.

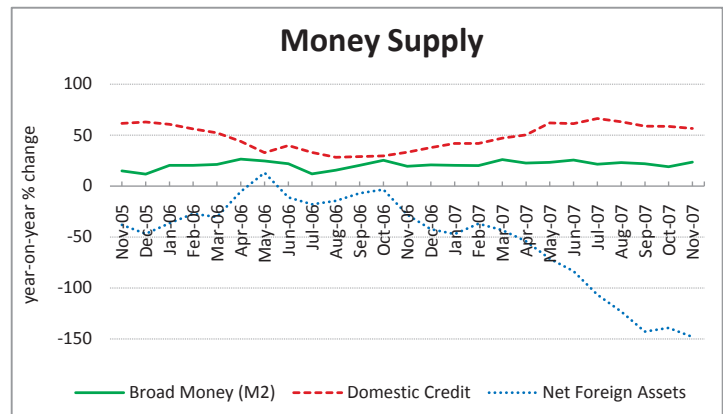
#### 3.2 The Monetary Base

In November the monetary base (M0) increased by Rf141.2 million to Rf4,008.4 million. The improvement in M0 came largely from the 6 percent (or Rf143.0 million) increase in commercial bank deposits held with MMA which can be reflected in the decline in investment in treasury bills by commercial banks during the period. The total amount of treasury bills outstanding at the end of November stood at Rf672.0 million compared to Rf962.0 million at the end of October. The continued high demand for credit mainly explain this development.

#### 3.3 Interest Rates

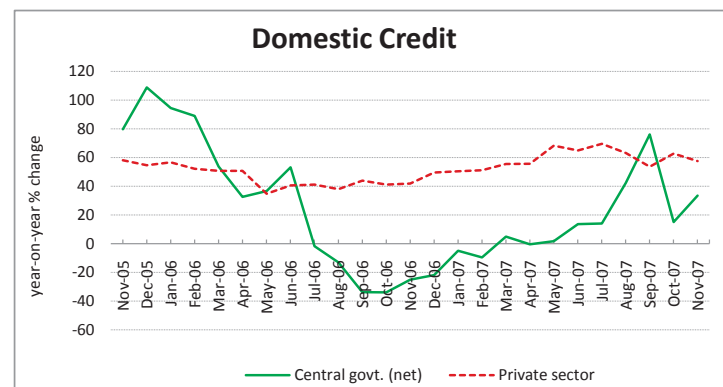
The interest rates of Treasury bills remained unchanged since the 1 percentage point upward adjustment of both the 1-month and 3-months Treasury bills on August 2007 to 6 percent and 6.25 percent, respectively. The commercial banks lending and deposit rates also remained unchanged during the period. 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 7.75 -13 percent.

CHART 10



Source: Maldives Monetary Authority

CHART 11



Source: Maldives Monetary Authority

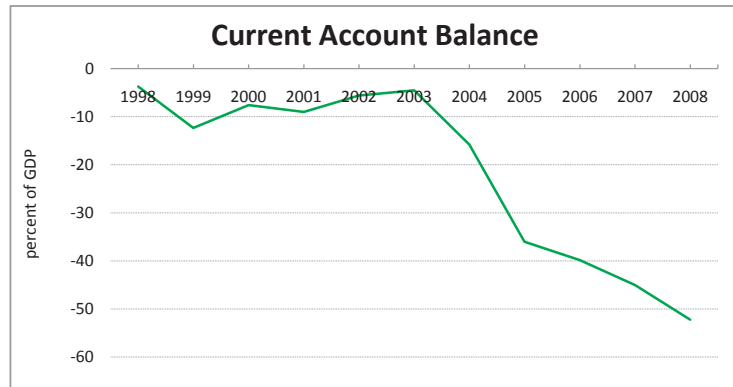
## 4- External Sector Developments

### 4.1 Balance of Payments

Higher import prices coupled with the strong demand in the economy widened the current account deficit by 28 percent to US\$472.3 million (45 percent of GDP) in 2007. Given that these conditions will continue to prevail in 2008, current account deficit is expected to further deteriorate by 33 percent or 52 percent of GDP next year (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 is projected to reach US\$289.9 million, equivalent to 3.1 months of imports.

CHART 12

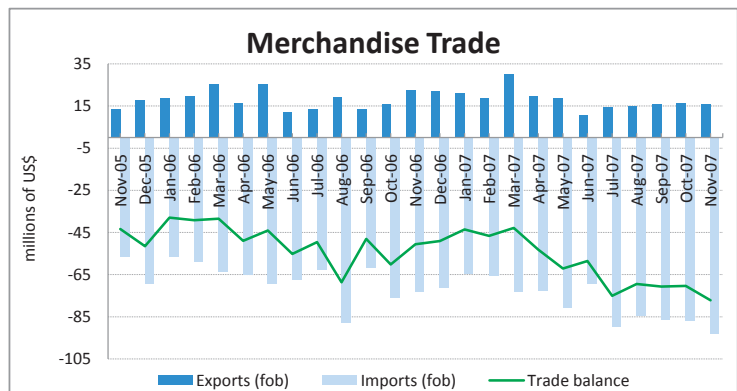


Source: Maldives Monetary Authority

### 4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports, which totalled US\$24.8 million in the review month, registered a growth of 50 percent (US\$8.3 million) compared to the previous month and a growth of 9 percent (US\$2.0 million) compared to the corresponding period of 2006, largely due to the higher value of domestic exports during November 2007. Given the continued high demand for imports, total imports which increased by US\$6.1 million compared to the previous month grew by 27 percent (US\$19.6 million) compared to November 2006. Hence, total trade deficit widened to US\$68.2 million from US\$50.7 million in November 2006 (Chart 13).

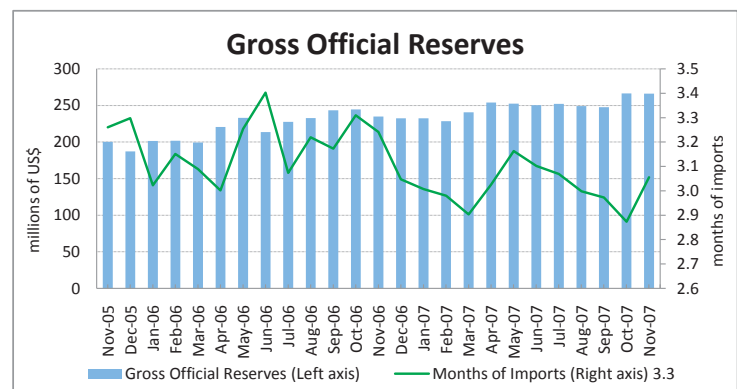
CHART 13



Source: Maldives Customs Service

Earnings on total merchandise exports, which amounted to US\$206.8 million in the first eleven months of 2007, increased by 2 percent or by US\$3.7 million compared to the corresponding period of 2006 while total imports (f.o.b) registered a significant growth of 17 percent, from US\$744.2 million in the first eleven months of 2006 to US\$867.6 million in the review period. As such, the trade balance continues to be in deficit and widened further to US\$660.8 million (by US\$119.7 million) from US\$541.0 million in the first eleven months of 2006

CHART 14



Source: Maldives Monetary Authority and Maldives Customs Service

In the meantime, reflecting the buoyant developments in the tourism sector, gross international reserves improved from US\$234.7 million at end-November 2006 to US\$266.1 million at the end of November 2007, while reserves

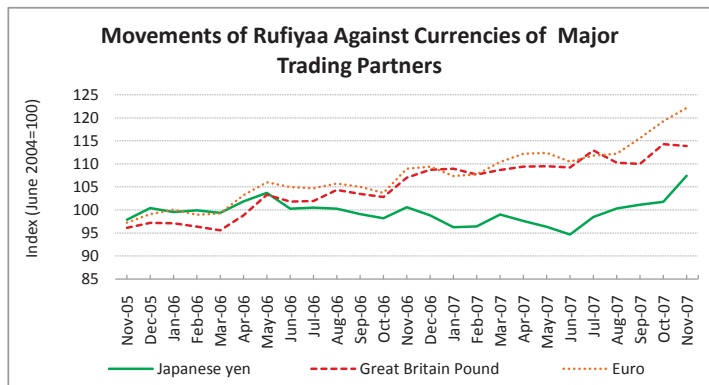
in terms of import cover remained the same as a year ago at 3.0 months. Conversely, compared to the previous month, gross international reserves fell by 0.3 million while reserves in terms of import cover also fell by 0.1 months (Chart 14).

### 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.

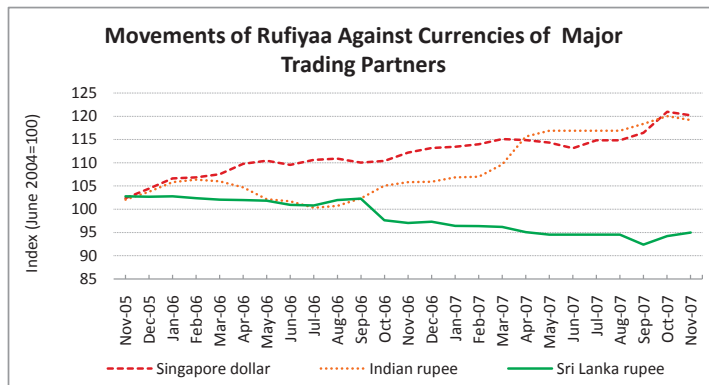
Year-on-year comparisons of bilateral exchange rates at the end of November 2007 showed that the rufiyaa depreciated against major currencies of trading countries — except for the Sri Lankan Rupee — as the US dollar continue to weaken against these currencies. Hence, the rufiyaa depreciated against the euro by 12 percent, the Pound sterling by 6 percent, the Indian rupee by 13 percent, the Singapore dollar by 7 percent, the Japanese yen by 7 percent. Rufiyaa appreciated only against the Sri Lankan rupee, by 2 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority



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