

MONTHLY ECONOMIC REVIEW

December 2008

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Maldives Monetary Authority

This report covers the macroeconomic developments during the month of December 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 31st December 2008.

1- The Real Economy

1.1 Output

According to latest GDP statistics published by the Ministry of Planning and National Development, real GDP is projected to grow by 5.7 percent in 2008, down from 8.3 percent forecast earlier during the year while growth is expected to slow further to 4.5 percent in 2009 (Chart 1).

1.2 Tourism

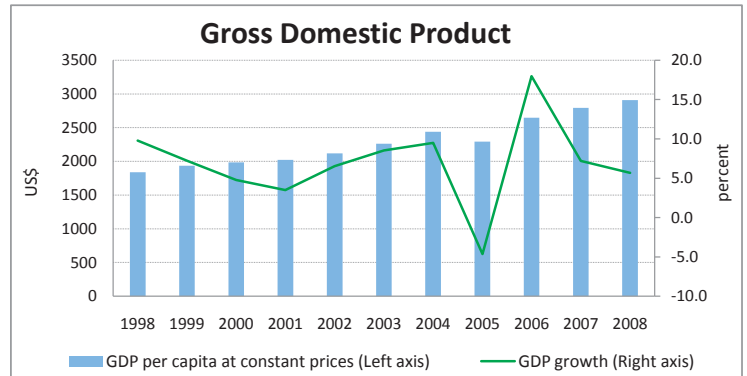
Tourist arrivals into the country remained strong in the month of November 2008, which grew by 3 percent compared to the preceding month and by 2 percent compared to November 2007 (Chart 2). Despite the slight fall in average duration of tourist stay, from 8.0 days in the previous month to 7.9 days in the review month, bednights remained almost unchanged when compared to the previous as well as the corresponding quarter of 2007. As for the capacity of the industry, the number of operational beds in resorts/hotels, which stood at 19,294 beds at the end of the month, increased by 10 percent (1,787 beds) from the corresponding month of 2007. Reflecting the above, capacity utilisation in resorts/hotels fell to 79 percent during the review period from 86 percent in November 2007.

On cumulative terms, visitor arrivals which totalled 620.4 thousand for the period Jan-Nov 2008, registered an improvement of 2 percent compared to the same period of 2007. The rise in tourist arrivals coupled with the increase in average duration of a tourist visit increased bednights by 3 percent during the period. Similarly, with the expansion in the operational bed capacity of the industry by 9 percent (1,603 beds), capacity utilisation of the industry dropped to 78 percent in the period Jan-Nov 2008 from 83 percent a year ago.

1.3 Fisheries

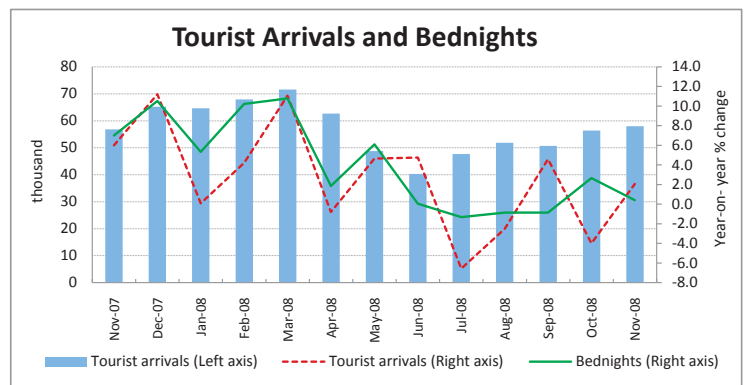
In November, fish landings improved by 48 percent compared to the preceding month and totalled 13.0 thousand metric tonnes at the end of the month. However, landings recorded a decline of 14 percent when compared to a year ago. Similarly, fish purchases by the commercial buyers which totalled 8.6 thousand metric tonnes, rose by 55 percent compared to the previous month while it declined by 18 percent when compared to the corresponding period of 2007 (Chart 3).

CHART 1



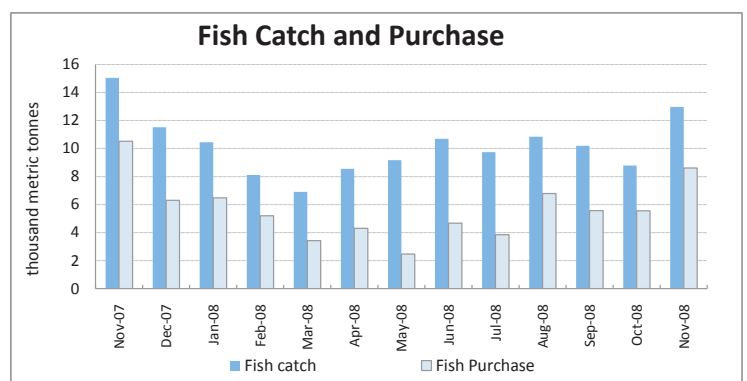
Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

Reflecting the improvement in fish catch, the volume of fish exports also gained and totalled 8.8 thousand metric tonnes, registering a significant growth rate of 98 percent when compared on monthly terms. Likewise, earnings on fish exports also stood strong at US\$ 13.7 million at the end of the review period and registered an increase of 61 percent on month-on-month basis. Both the volume and earnings on fish exports plunged by 3 percent when compared on a year-on-year basis (Chart 4).

Cumulatively, fish landings which amounted to 106.4 thousand metric tonnes during the period Jan-Nov 2008, plunged by 18 percent from 129.6 thousand metric tonnes in the same period of 2007. Similarly, fish purchases also fell by 7 percent to 56.9 thousand metric tonnes when compared to the corresponding period of 2007. On the export front, the volume of fish exports (excluding live fish) totalled 56.4 thousand metric tonnes during Jan-Nov of this year, registering a decline of 7 percent from 60.8 thousand metric tonnes compared to Jan-Nov 2007. Nonetheless, on account of the strengthened global tuna prices, earnings on fish exports continued to grow and totalled US\$112.0 million at the end of Nov 2008, indicating a 19 percent increase from the period Jan-Nov 2007.

1.4 Prices

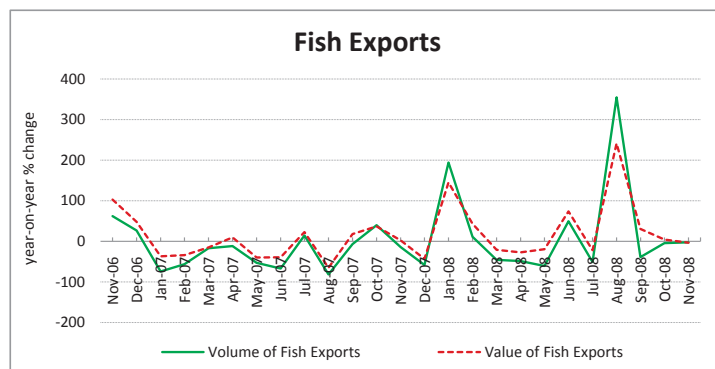
Consumer Price Index

Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', fell slightly in the month of November to 12.1 percent from 12.2 percent in October 2008, largely due to the decline in fish prices. When compared to a year ago, consumer price inflation stood much lower at 6.4 percent. Core measures of inflation such as CPI excluding the highly volatile fish prices rose by 11.9 percent while CPI excluding all food prices also increased by 8.4 percent. The biggest contributions to CPI during the period came from increased prices of food, housing, transport and health care (Chart 5).

World Commodity Prices

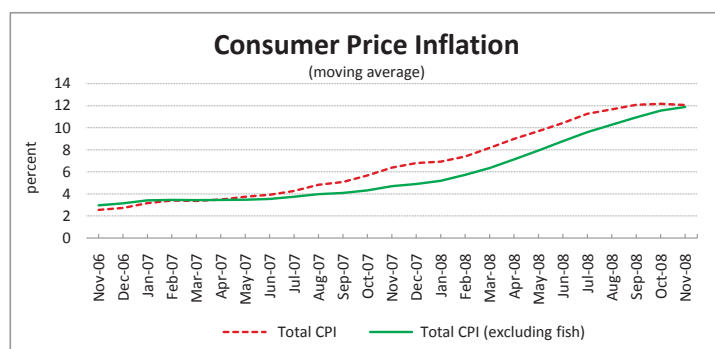
The International Monetary Fund (IMF) primary commodity price index dropped by a further 17 percent at the end of November 2008 and by a significant 27 percent year-on-year, led by the sharp fall in energy

CHART 4



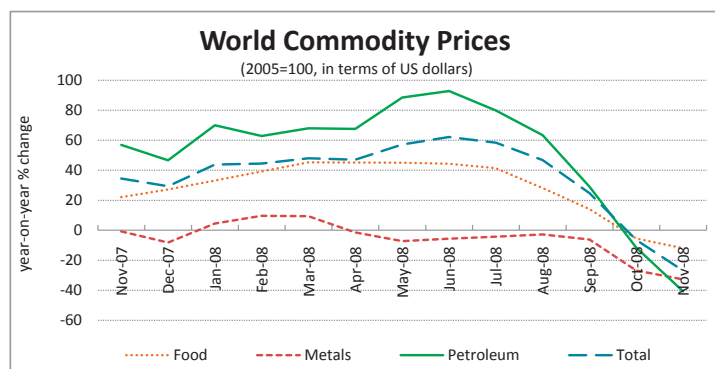
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



Source: International Monetary Fund

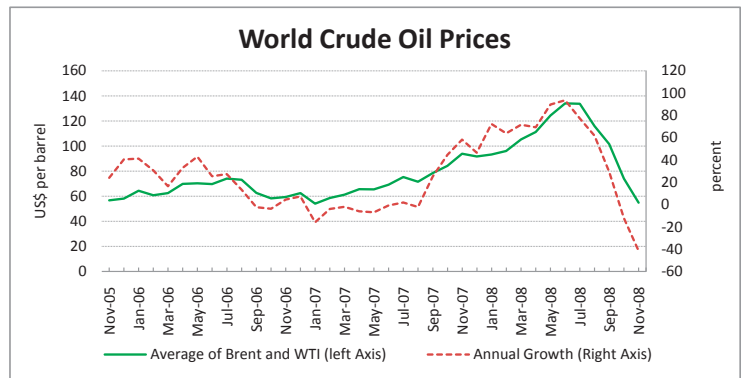
prices and food prices. The energy index plunged by 41 percent annually while the food index registered a decline of 12 percent as global demand for commodities continue to slacken reflecting the global economic slowdown.

Meanwhile, price of crude oil (an average of UK Brent and U.S WTI) fell by 26 percent from US\$74.1 per barrel in October 2008 to US\$55.0 per barrel in November 2008, the lowest recorded since January 2007. When compared to the corresponding month of 2007, oil prices further plummeted by 42 percent (Chart 7).

Domestic Petroleum Prices

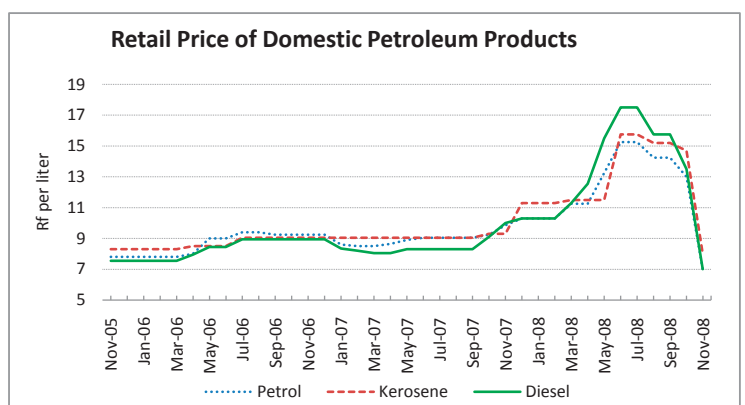
The retail prices of domestic petroleum products were further reduced during October 2008, reflecting the fall in global oil prices. Price of petrol was reduced to Rf7.00 per litre from Rf13.00 per litre while price of diesel was also lowered to Rf7.00 per litre from Rf13.50 per litre. Similarly, price of kerosene was also brought down to Rf8.00 per litre from Rf14.70 per litre in the previous month (Chart 8).

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

2- Monetary Developments

2.1 Money and Credit

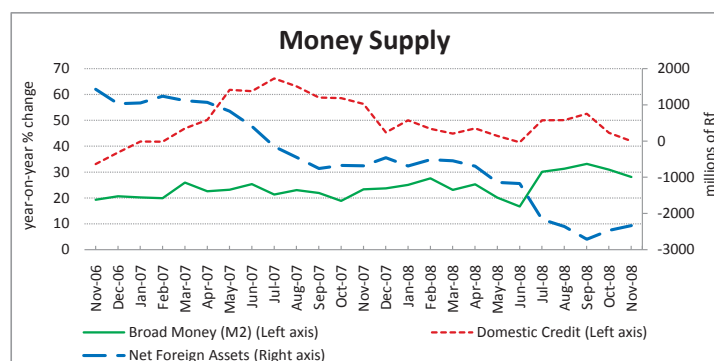
In November, broad money or M2 increased by Rf146.9 million to Rf12,492.7 million. In the 12 months to November 2008, M2 expanded by 28 percent largely on account of the substantial increase in domestic credit (by 42 percent), especially to the government sector (Chart 9 and 10). Net credit to government registered an increase of 134 percent (or Rf1,187.9 million) year-on-year, to Rf2,074.2 million at the end of November 2008 on account of the significant increase in government expenditure during the period. Meanwhile, growth in credit to private sector slowed down to 35 percent year-on-year from 37 percent in the previous month and totalled Rf16,155.1 million at the end of November. Around 61 percent of private sector credit was lent to the tourism sector, 10 percent construction sector, and 7 percent to both the fisheries sector and commerce.

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 liability 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. During November foreign assets of MMA also declined (by 2 percent).

2.2 The Monetary Base

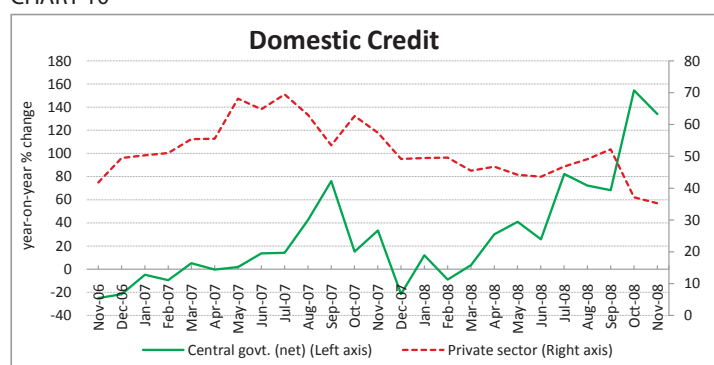
During November 2008 the monetary base (M0) increased by Rf272.2 million and stood at Rf5,575.2 million. The increase in M0 was mainly influenced by the increase in net credit to government. Total amount of treasury bills outstanding at the end of November 2008 stood at Rf809.0 million compared with Rf887.0 million at the end of October 2008.

CHART 9



Source: Maldives Monetary Authority

CHART 10



Source: Maldives Monetary Authority

3- External Sector Developments

3.1 Balance of Payments

According to the balance of payments revisions made in November 2008, the current account deficit widened by 36 percent to record US\$412.1 million (39 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\$76.9 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 deficit of US\$72.3 million while gross international reserves are projected to decline to US\$236.8 million, equivalent to 2.0 months of imports.

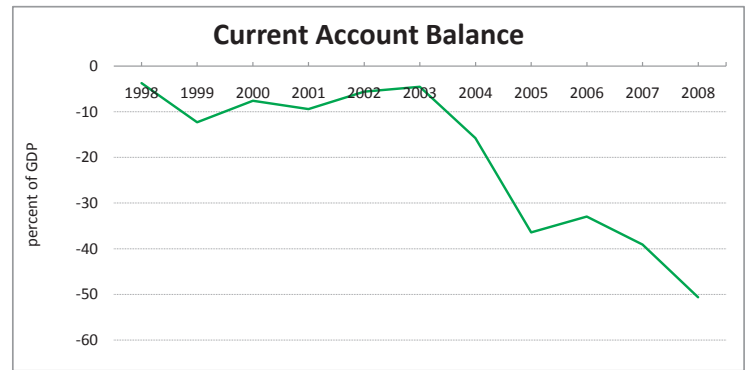
3.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports stood at US\$27.4 million during November, increasing by 54 percent compared to the previous month, owing to the rise in both re-exports and domestic exports while such exports registered a growth of 11 percent compared to a year ago. Total merchandise imports amounted to US\$83.3 million, decreasing by 15 percent on monthly terms and by 10 percent on annual terms. Thus, the trade deficit was reduced to US\$55.8 million from US\$80.1 million in October 2008 and US\$68.1 million in November 2007 (Chart12).

Earnings on total merchandise exports for the period of Jan-Nov 2008 recorded US\$314.9 million, which is a growth of 52.3 percent (or US\$108.1 million) compared to the same period of 2007. Similarly, the value of merchandise imports for this period, which totalled US\$1147.6 million, grew by 32.3 percent (or US\$280.4 million) over the corresponding period of 2007. This further worsened the trade deficit to US\$832.7 million in comparison to US\$660.4 million in Jan-Nov 2007.

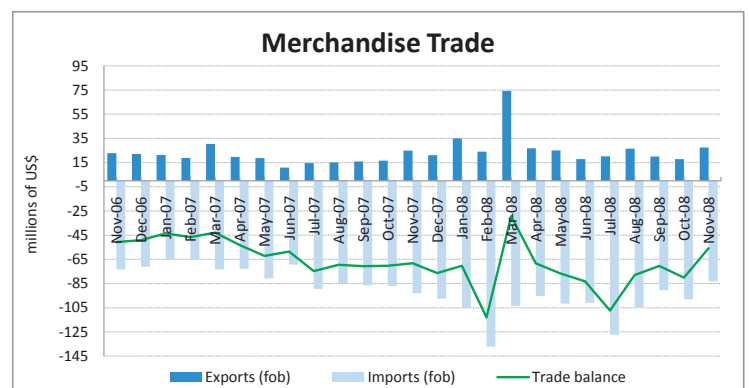
In the meantime, despite the pickup in tourism activity, gross international reserves slightly declined to US\$260.0 million at the end of November 2008 from US\$260.7 million at the end of last month. Reserves

CHART 11



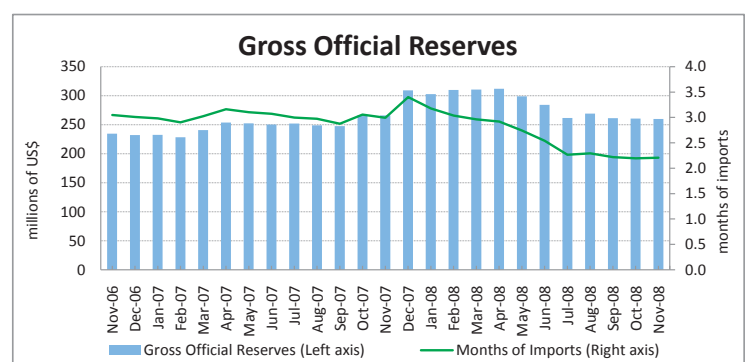
Source: Maldives Monetary Authority

CHART 12



Source: Maldives Customs Service

CHART 13



Source: Maldives Monetary Authority and Maldives Customs Service

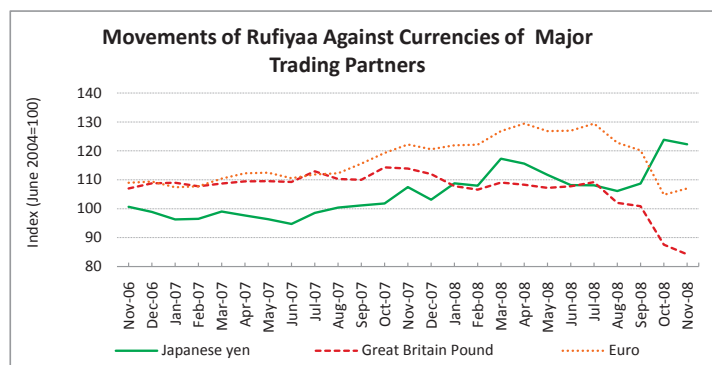
in terms of import cover remained constant at 2.2 months. Nevertheless, when compared with November 2007, gross international reserves showed a decline of US\$6.1 million while reserves in months of imports dropped to 2.2 month from 3.0 owing to the increase in imports (Chart 13).

3.3 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.

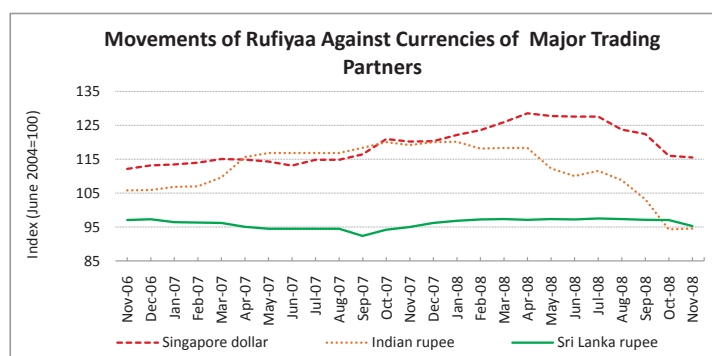
Year-on-year comparisons of bilateral exchange rates at the end of November 2008 showed that with the exception of the Japanese Yen and the Sri Lankan rupee, against which the rufiyaa depreciated by 13.8 percent and 0.3 percent, the rufiyaa appreciated against the major currencies of trading partners. As such, the rufiyaa appreciated against the British pound by 26 percent, Indian rupee by 20.6 percent, the Euro by 12.4 percent and Singapore dollar by 3.9 percent (Chart 14 and 15).

CHART 14



Source: Maldives Monetary Authority

CHART 15



Source: Maldives Monetary Authority

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