

# MONTHLY ECONOMIC REVIEW

**December 2009**

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**Volume III, Number: 12**



**Maldives Monetary Authority**

This report covers the macroeconomic developments during the month of November 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 31st December 2009.

# 1- The Real Economy

## 1.1 Output

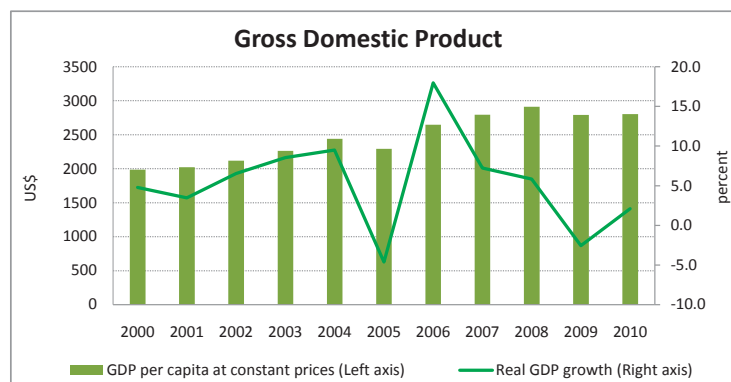
According to the latest GDP estimates released by Department of National Planning in November 2009, real GDP is projected to contract by 2.6 percent in 2009. This was in contrast to a decline of 1.8 percent projected earlier and is despite a better than anticipated performance from the tourism and construction sector during the year. The downward revision mainly reflects the much poorer than expected performance of the fisheries sector and a partial reversal of wage increases of the government sector in the fourth quarter of the year. Nonetheless, real output is projected to recover in 2010 with growth forecast at 2.1 percent as tourism and construction related activity is expected to rebound, reflecting the improved global economic and financial conditions (Chart 1). Hence, after having shrunk by 6 percent tourism growth is projected to turn positive in 2010 to 6.0 percent, while construction growth is projected to rebound to 3.4 percent from a decline of 16.6 percent in 2010.

## 1.2 Tourism

The decline in tourist arrivals caused by the global downturn appears to have bottomed out as indicated by the latest tourism statistics. Tourist arrivals which have been on a downward trend since the last quarter of 2008 recorded an annual expansion for the second consecutive month and grew by 7 percent totalling 62.0 thousand during November 2009 (Chart 2). However, compared to the previous month tourist arrivals showed a decline of 1 percent. Tourist bed nights remained more or less the same compared with November 2008 and stood lower than the growth in tourist arrivals, due to the decline in average duration of a tourist visit. Meanwhile, compared to the previous month bednights declined by 1 percent. The number of operational beds in resorts/hotels increased from 20,215 beds in the previous month to 20,260 beds during the review month and increased by 966 beds compared to November 2008. The capacity utilization rate of the industry improved to 75.1 percent in November 2009 from 73.6 percent in the previous month but declined when compared to November 2008 (78.7 percent).

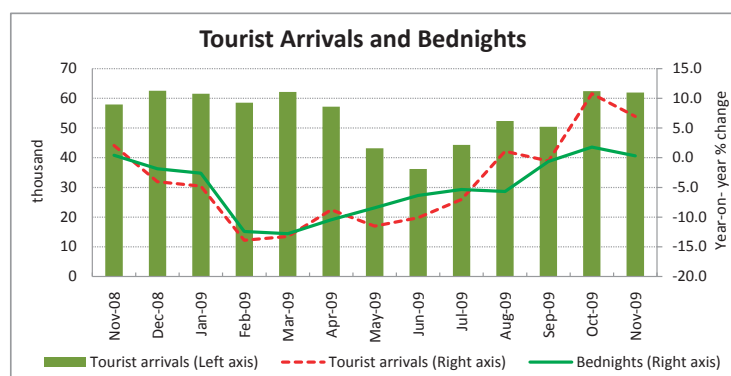
Cumulatively, tourist arrivals totalled 590.3 thousand at the end of Jan-Nov 2009, lower by 5 percent compared to Jan-Nov 2008. Meanwhile, with slight decline in aver-

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

age duration of a tourist visit to 7.9 days, bed nights fell by 6 percent during the period. Capacity utilization of the industry also dropped to 70.1 percent in Jan-Nov 2009 from 78.2 percent in Jan-Nov 2008.

### 1.3 Fisheries

The latest fisheries statistics shows that total fish catch declined by 15 percent to 7.2 thousand metric tonnes during November 2009 and by 48 percent compared to the corresponding month of 2008. Similarly, fish purchases by the commercial buyers which totalled 2.4 thousand metric tonnes during the review month, declined by 30 percent on monthly terms and by 72 percent when compared annually (Chart 3).

As for exports, the volume of fish exports (excluding live fish) in the review month improved by 5 percent compared to the previous month, however declined by 70 percent compared to a year ago totalling 2.7 thousand metric tonnes at the end of the review month. Earnings on fish exports which amounted to US\$5.2 million in November 2009 declined by 21 percent compared to the previous month and by 62 percent when compared to the corresponding month of 2008 (Chart 4).

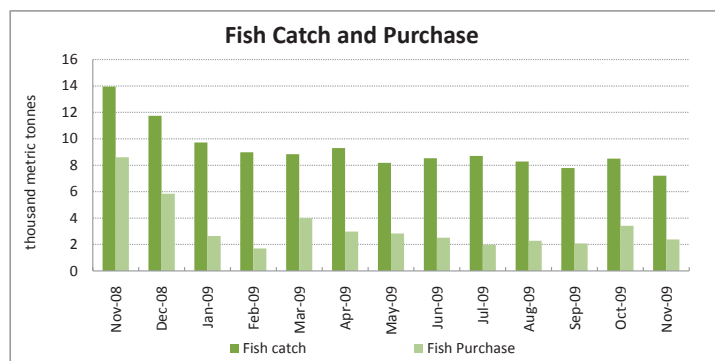
Fish landings during Jan-Nov 2009 totalled 94.1 thousand metric tonnes which was a 22 percent decline (120.0 thousand metric tonnes) compared to the corresponding period of 2008. Furthermore, fish purchases by the private sector also declined by 49 percent during the same period. Reflecting the poor catch during the year, the volume of fish exports also declined, by 40 percent, and totalled 33.9 thousand metric tonnes during Jan-Nov 2009. Owing to the fall in unit prices received, fish export earnings which totalled US\$63.4 million during the period declined by 43 percent compared to the same period of last year.

### 1.4 Prices

#### Consumer Price Index

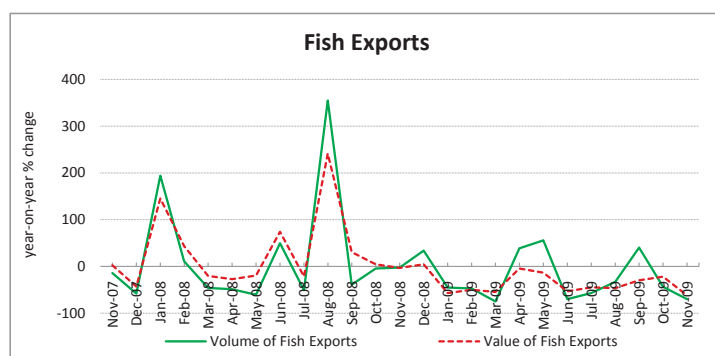
Inflation as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male' continued to decline and registered 4.8 percent at the end of November 2009 from 4.9 percent the previous month and 12.1 percent in November 2008 (Chart 5). Inflation excluding fish prices fell to 5.7 percent while inflation excluding

CHART 3



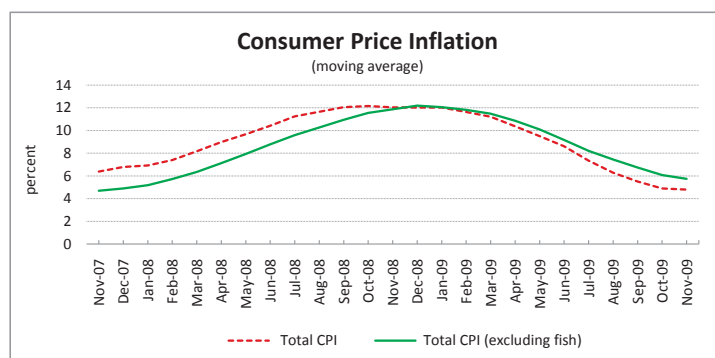
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

all food prices also went down to 6.6 percent during the review month. Meanwhile, according to latest available National CPI statistics, the national rate of inflation stood at 4.4 percent at the end of October 2009 compared with 12.8 percent in October 2008.

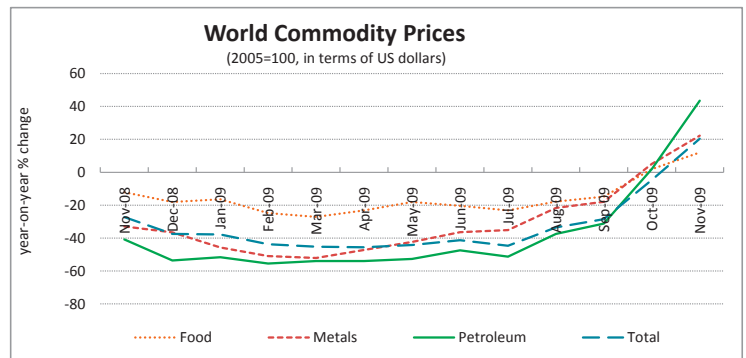
On a month-on-month (m-o-m) basis CPI picked up by 2.5 percent in November 2009 from -0.4 percent in October 2009 mainly contributed by the food index and the housing, water, electricity, gas and other fuel index. Food prices rose by 4.1 percent m-o-m driven by higher fish prices while the housing index rose by 4.5 percent reflecting the upward adjustment in electricity tariffs by about 40-60 percent during November. Domestic electricity tariffs were last adjusted in July 2005.

### World Commodity Prices

International Monetary Fund (IMF) primary commodity price index edged up by 4.2 percent in November 2009 compared to the previous month as a result of rising energy prices (4.8 percent) and food prices (3.6 percent) in the international market. Moreover, with the annual increases in energy and food prices, world commodity prices showed an increase of 20.4 percent on annual terms (Chart 6).

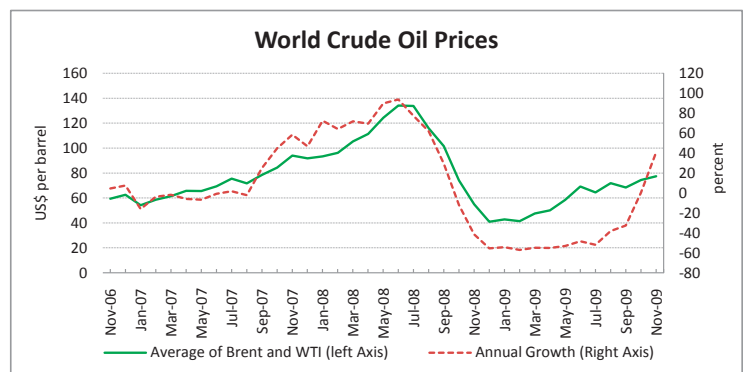
Price of crude oil ( an average of UK Brent and US WTI) rose to US\$77.4 per barrel at the end of November 2009 from US\$74.4 per barrel the previous month and US\$55.0 per barrel in November 2008 (Chart 7).

CHART 6



Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

## 2- Public Finance

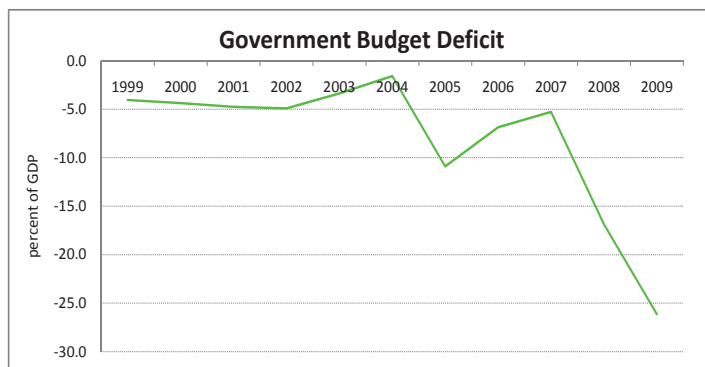
### Government Budget

The revised government budget estimates of November 2009 (format based on *IMF Government Finance Statistics Manual 2001*) shows that the overall budget deficit for 2009 is projected to deteriorate to 26 percent of GDP from 17 percent in 2008 due to a combined reduction in revenue and an increase in expenditure (Chart 8). Total revenue (excluding grants) for 2009 is projected to plunge by 23 percent as a result of declines in tourism-related revenues and import duty. Total expenditure (excluding net lending) is projected to rise by 6 percent in 2009, mainly as a result of expansion in recurrent expenditure, particularly due to the increased wage bill. With regard to financing of the deficit, 84 percent of the deficit is projected to be financed domestically, partly through the sale of treasury bills and bonds.

### 2.2 Revenue and Expenditure (Cash flow)

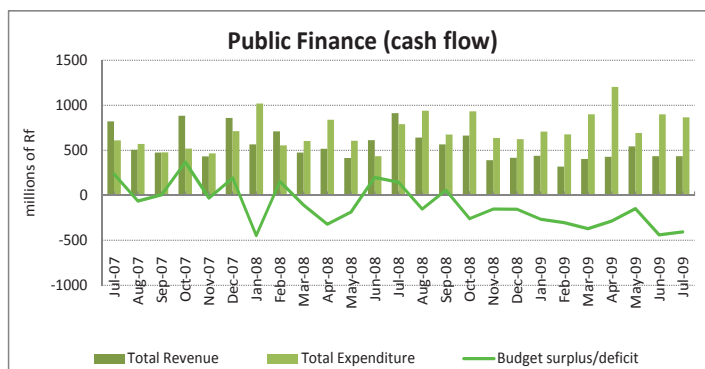
According to the latest available cash flow statement of the government, total revenue (excluding repaid loans) during the first seven months (Jan-Jul) of 2009 totalled Rf3,001.9 million and declined by 29 percent from Rf4,206.8 million in the first seven months of 2008. The decline in revenue was mainly due to the decline in import duty and tourism related revenues. Meanwhile, total expenditure of the government reached Rf5,947.5 million during Jan-Jul 2009, rising by 23 percent from Rf4,847.4 million in the same period a year ago. Thus, the overall fiscal deficit during the first seven months of the year totalled Rf2,214.4 million compared to Rf558.5 million in the first seven months 2008 (Chart 9).

CHART 8



Source: Ministry of Finance and Treasury

CHART 9



Source: Ministry of Finance and Treasury

## 3- Monetary Developments<sup>1</sup>

### 3.1 Money and Credit

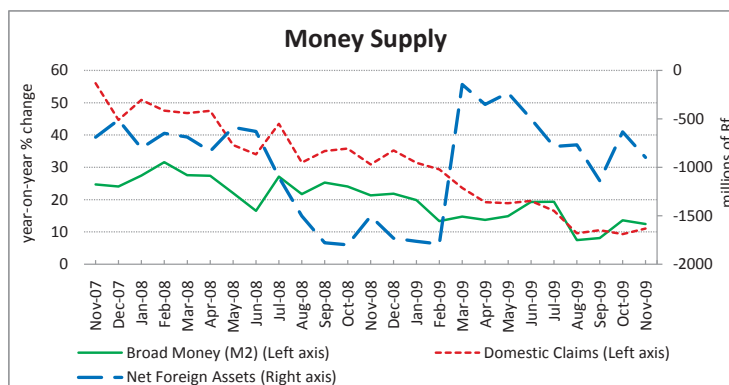
Broad money (M2)<sup>2</sup> registered a growth of 12 per cent from Rf11,872.0 million in November 2008 to Rf13,348.0 million in November 2009. When compared on a monthly basis, broad money declined by 1 percent or Rf84.5 million. The annual expansion in broad money was mostly led by the increase in net domestic assets driven by the 11 percent growth in domestic claims. As in the previous month growth in domestic claims was entirely due to liquidity creation on behalf of the government. Net credit to government increased by Rf2,310.0 million year-on-year while growth in claims on private sector continues to remain negative which declined by 2 percent in the review month. Meanwhile, net foreign liabilities of depository corporations<sup>3</sup>, declined further from Rf1,503.4 million in October to Rf898.2 million in November (Chart 10 & 11). The decline in net foreign liabilities reflects the decline in both the net foreign assets of the central bank and the decline in net foreign liabilities of other depository corporations.

### 3.2 The Monetary Base

Growth in monetary base (M0)<sup>4</sup> further decelerated to 7 percent (Rf385.9 million) year-on-year in November 2009 from 12 percent in the October and recorded Rf5,899.7 million at the end of month. The deceleration in M0 mainly reflects the slowdown in net credit to government by the central bank.

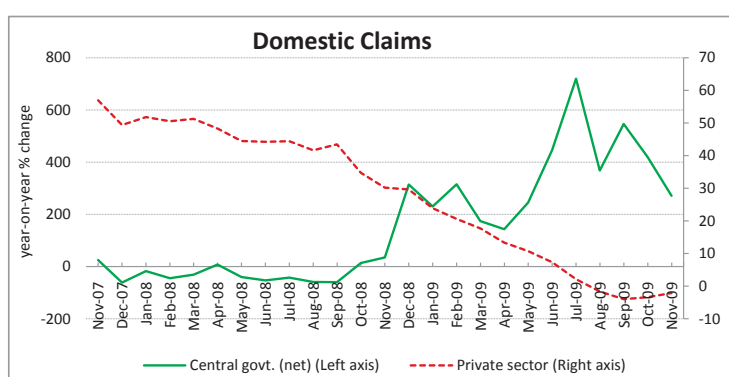
Total treasury bills outstanding stood at Rf3,163.0 million at the end of November 2009 compared to Rf809.0 million at the end of November 2008.

CHART 10



Source: Maldives Monetary Authority

CHART 11



Source: Maldives Monetary Authority

1/ With effect from November 2009 the format of Monetary and Financial statistics has been changed based on the IMF Monetary and Financial Statistics Manual 2000 (MFSM 2000).

2/ A measure of the money supply that includes both money or M1 (currency and demand deposits) and quasi money (time and savings deposits and securities).

3/ Depository corporations include the central bank in addition to all the commercial banks in the financial system.

4/ Comprises currency in circulation, transferable deposits of banks and public nonfinancial corporations with the MMA in national and foreign currency, and securities issued by the MMA held by public nonfinancial corporations.

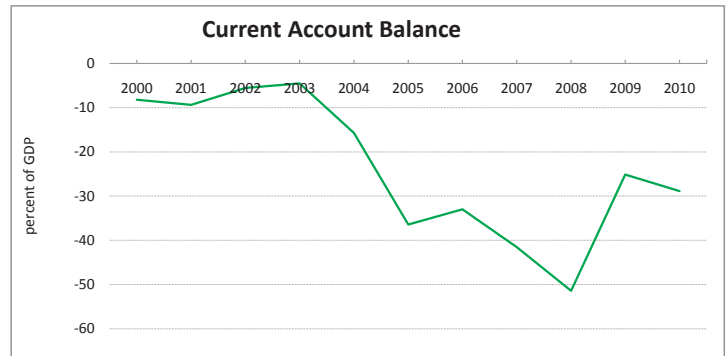
## 4- External Sector Developments

### 4.1 Balance of Payments

According to revised balance of payments estimates of November 2009, total exports are now projected to register a significant reduction in 2009 due to declines in both fish exports and tourism receipts. Reflecting the weaker demand from tourism and construction sector and the fall in global commodity prices, total imports are projected to decline annually by US\$403.7 million or 33 percent in 2009. With the sharp contraction in imports offsetting the decline in export receipts, the current account deficit is projected to improve by US\$276.9 million to 25 percent of GDP in 2009 (Chart 12). As a result, despite the decline in net financial flows owing to a significant reduction in private capital inflows, the overall balance is projected to record a surplus of US\$57.8 million. The revised balance of payments estimates shows a large reduction in net financial inflows compared with projections made earlier during the year, mainly because projected revenue from privatization did not materialise. Meanwhile, supported by foreign loan disbursements, gross international reserves are projected to increase to US\$299.1 million at the end of 2009, with reserves in months of imports increasing to 3.9 months. The increase in gross international reserves also reflects US\$15.6 million as financial support from the IMF.

As for balance of payments projections for 2010, with the rebound in tourist arrivals and fish exports, total exports are projected to improve in 2010. Meanwhile, driven by domestic economic recovery, total imports are projected to increase by 14 percent leading to an increase in current account deficit to 29 percent of GDP. With global financial conditions expected to improve in 2010, private capital inflows are projected to register a turnaround in 2010, mainly owing to projected revenue from privatization and increase in private capital inflows directed towards tourism development projects. As such, net financial flows are projected to register an improvement of 26 percent in 2010 with the overall balance of payments projected to record a surplus of US\$32.6 million. Supplemented by official inflows, including financial support from the IMF, gross international reserves are projected to rise to US\$331.6 million or 3.8 months of imports by the end of 2010.

CHART 12



Source: Maldives Monetary Authority

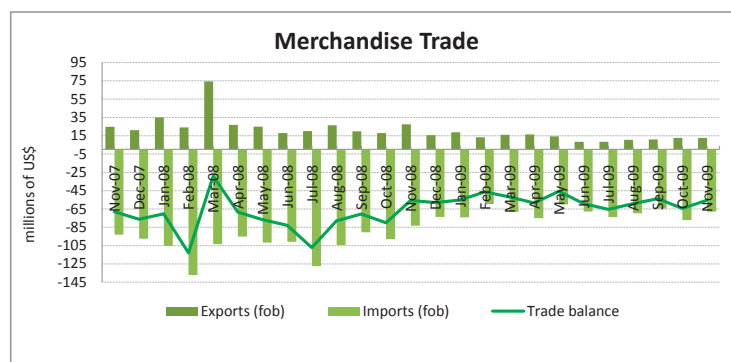
## 4.2 Balance of Trade and Gross International Reserves

According to latest data from Maldives Customs Service, the value of merchandise exports at the end of November totalled US\$12.6 million remaining almost unchanged compared to the previous month and showed a 54 per cent decline when compared to the corresponding quarter of 2008. Furthermore, on monthly terms total imports (f.o.b) registered a decline of 12 per cent in the review month to record US\$68.0 million. This shows an 18 per cent decline when compared to the corresponding quarter of 2008. Thus the trade deficit improved slightly to US\$55.4 million in the review month from US\$64.5 million in the previous month and US\$55.8 million in the corresponding month of 2008 (Chart 13).

Earning on merchandise exports for the period Jan-Nov totalled US\$142.5million declining 55 per cent (or US\$172.5million) compared to the same period of 2008. Furthermore, the value of merchandise imports (f.o.b) Jan-Nov 2009 totalled US\$758.2 million declining 34 per cent when compared to the same period of the previous year which totalled US\$1,147.4 million. As such the trade deficit for the period Jan-Nov 2009 totalled US\$615.7 million, down from US\$832.5 million in the period Jan-Nov 2008.

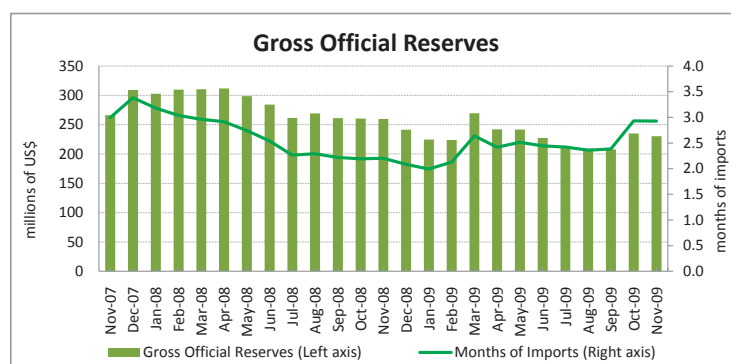
Gross international reserves declined slightly to US\$230.5 million or 2.9 months of imports at the end of November 2009 from US\$235.0 million at the end of previous month. When compared to the corresponding month of 2008 gross international reserves shows a decline of US\$28.8 million (Chart 14).

CHART 13



Source: Maldives Customs Service

CHART 14



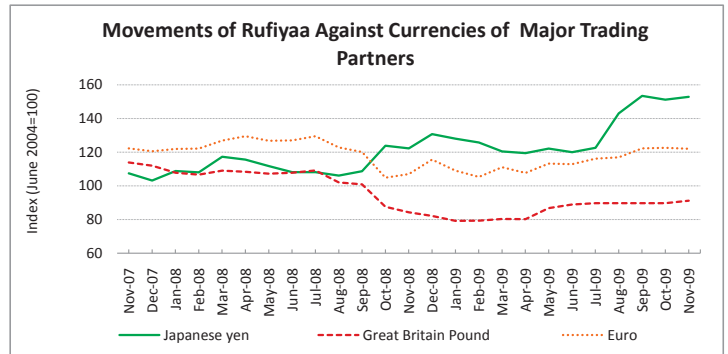
Source: Maldives Monetary Authority and Maldives Customs Service

### 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.

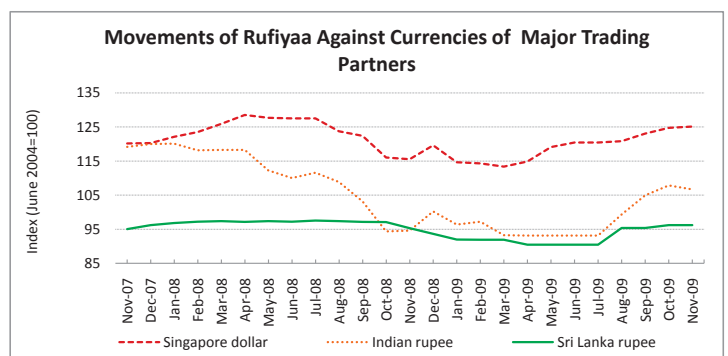
Reflecting the movements of the US dollar, the year-on-year comparison of bilateral exchange rates at the end of November 2009 showed that the rufiyaa depreciated against all the major trading partners. As such, the rufiyaa depreciated against the Japanese yen by 25 percent, the Singapore dollar by 8 percent, the Indian rupee by 13 percent, the Sri Lankan rupee by 1 percent, the Sterling pound by 8 percent and the euro by 14 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority



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