

MONTHLY MACROECONOMIC REVIEW

February 2008

Volume: II , Number :2



Maldives Monetary Authority

This report covers the macroeconomic developments during the month of January 2008. 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 25th February 2008.

1- The Real Economy

1.1 Output

The real economy is estimated to grow by 6.6 percent 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).

1.2 Tourism

Tourism activities continued to perform strongly during the month of December – being in the midst of the high season of the industry. The number of tourists who visited the country during the month of December increased by 15 percent from November (after witnessing a decline of 3.3 percent compared to October); while it registered an 11 percent increase against December 2006 (Chart 2). Reflecting this, a similar growth was seen in the bed nights as well while capacity utilisation rose from 83 percent in December last year to 86 percent as of this year. During the review month the industry operated 18,081 beds, an addition of 574 beds from November and 1,178 beds from December last year.

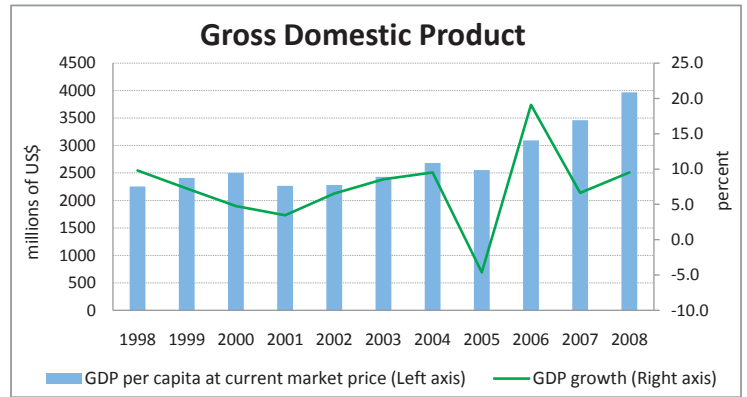
On year on year basis total tourist arrivals totalled to 675.9 thousand during 2007, reflecting a growth of 12 percent from 2006. Given the slight fall in average stay from 8.0 days in 2006 to 7.9 days in 2007 bednights grew at a lesser magnitude than arrivals - by 10 percent. The average bed capacity of the industry increased by 1336 beds, from 16,175 beds in 2006 to 17,511 beds in 2007 due to the opening of a new resort during the year as well as many resorts becoming operational for the high season after being closed down for renovation during the low season. Meanwhile, the capacity utilisation in the industry rose from 81 percent last year to 82 percent during 2007.

1.3 Fisheries

Fisheries sector activities picked up during the review month with total landings improving from 9.3 thousand metric tonnes in December 2007 to 10.5 thousand metric tonnes in January 2008, registering a growth of 12 percent, while compared to January 2007 fish catch showed a much higher growth of 27 percent. As such, fish purchases by commercial buyers also increased, by 3 percent, compared to the previous month and by 74 percent on annual terms and totalled 6.5 thousand metric tones at the end of the review month (Chart 3).

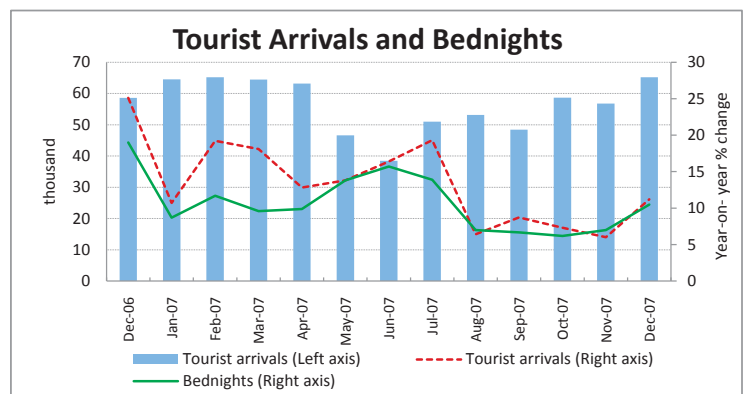
On the export front, reflecting the buoyant developments in fish catch and collection by commercial buyers,

CHART 1



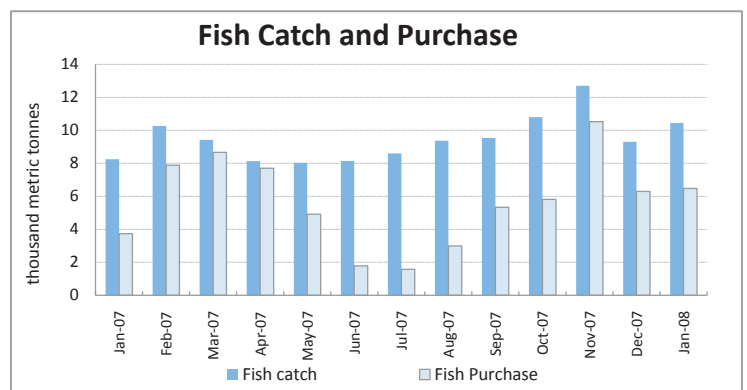
Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

the volume of fish exports (excluding live fish) more than doubled during the review month and registered a growth of 102 percent, while earnings from such exports rose by a much higher magnitude (153 percent). As for year-on-year comparisons of fish exports, the volume of fish exports (excluding live fish) rose significantly by 194 percent from 3.4 thousand metric tonnes in January last year to 10.1 thousand metric tonnes in the review month, while earnings from fish exports rose from US\$8.3 million in December 2007 to US\$17.5 million in January 2008 (Chart 4).

1.4 Prices

Consumer Price Index

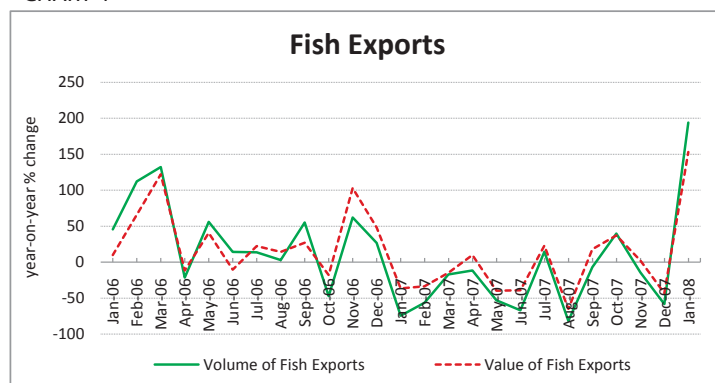
The domestic rate of inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', rose by 0.1 percent from the previous month to 6.9 percent at the end of January 2008. The increase in CPI during the period came largely from the increase in health care prices, housing rent and transport prices while higher food prices also contributed to CPI growth. Core measures of inflation such as CPI excluding the volatile fish prices rose by 0.3 percent in January while CPI excluding all food prices rose by 0.2 percent (Chart 5).

On year-on-year terms, the domestic inflation rate decelerated slightly to 8.4 percent from 8.9 percent in the previous month. The year-on-year rate of inflation (excluding fish) in January 2008 stood higher at 9.0 percent while CPI excluding food also rose to 6.9 percent.

World Commodity Prices

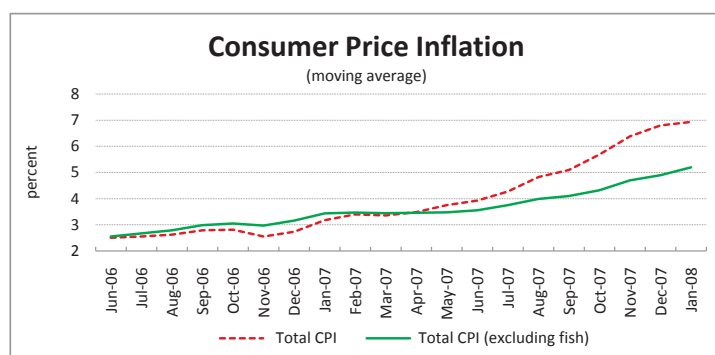
At the end of January 2008, the International Monetary Fund (IMF) primary commodity price index rose by 42 percent year-on-year, mainly led by higher prices of crude oil and food commodities (Chart 6). Price of crude oil (an average of UK Brent and US WTI) rose to US\$93.3 per barrel during the review month, from US\$91.7 per barrel in the previous month, while a year ago price of crude oil stood much lower at US\$54.1 per barrel (Chart 7).

CHART 4



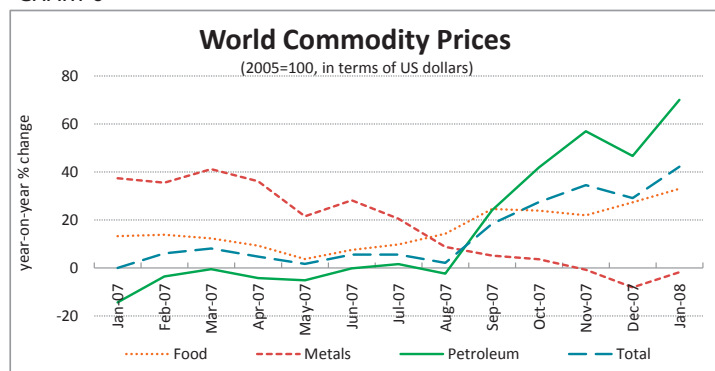
Source: Maldives Customs Service

CHART 5



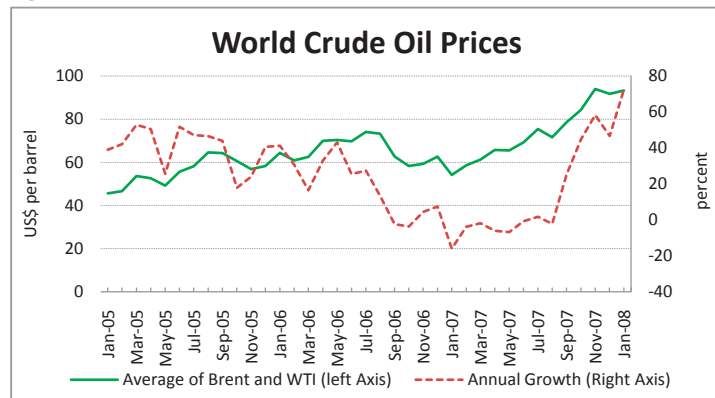
Source: Ministry of Planning and National Development

CHART 6



Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

2- Public Finance

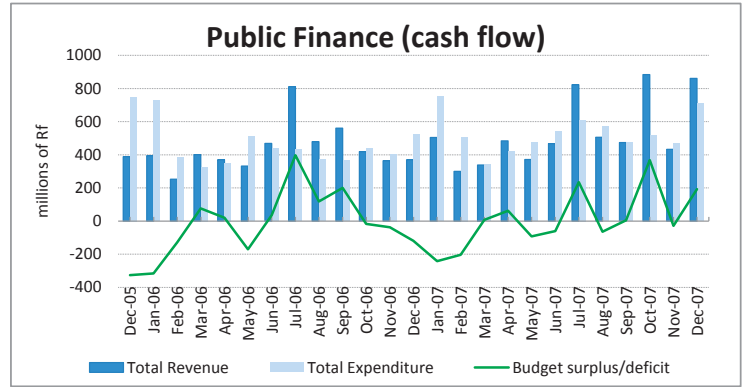
2.1 Government Budget

According to provisional budget estimates the overall deficit widened from Rf794.0 million (7 percent of GDP) in 2006 to Rf1061.7 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 1,564.6 million.

2.2 Revenue and Expenditure (cash flow)

Preliminary data according to monthly cash flow statements indicated that the fiscal performance of the government improved during 2007 showing a surplus of Rf180.0 million compared to a surplus of Rf61.3 million during 2006. Total revenue (excluding repaid loans) stood at Rf6,445.7 million at the end of December 2007 reflecting a growth of 23 percent when compared to 2006. This growth was mainly on account of the 24 percent increase in import duty which comprised 72 percent of the raise in tax revenue. Total expenditure (budget/cash) stood at Rf6,387.4 million at the end of December 2007 indicating a growth of 21 percent when set against 2006 (Chart 8).

CHART8



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In January, broad money or M2 increased by Rf546.5 million to Rf10,518.5 million. In the 12 months to January 2007 M2 expanded by 25 percent, largely on account of the substantial increase in domestic credit (by 50 percent), especially to the private sector (Chart 9 and 10). As such, credit to private sector grew by 50 percent or by Rf4,159.5 million to record Rf12,562.0 million during the period, of which 55 percent was lent to the tourism sector, 11 percent to commerce and 10 percent to construction sector.

Despite the improvement in government deposits, net credit to government, after registering a decline of 22 percent in December 2007, increased by 14 percent (or Rf116.6 million) year-on-year, to Rf926.4 million at the end of January 2008, as a result of the higher government expenditure during the period. The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 165 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 increase in foreign liabilities of commercial banks as foreign owned commercial banks continues 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 31 percent or Rf898.9 million.

3.2 The Monetary Base

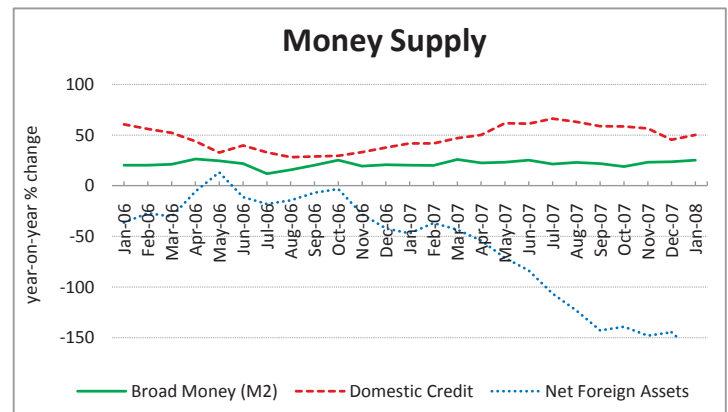
During January the monetary base (M0) increased by Rf409.1 million to Rf4,783.2 million. The expansion in M0, which was mainly caused by the substantial increase in net credit to government (59 percent) during the period, was reflected in the (Rf368.7 million) increase in commercial bank deposits held with MMA. The banks invested the increased liquidity in the banking system almost entirely in newly issued treasury bills during the period – total amount of treasury bills outstanding at the end of January 2008 stood at Rf811.0 million compared to 543.0 million at the end of December 2007.

3.3 Interest Rates

The interest rates, of both the 1-month and 3-months, Treasury bills remained unchanged during the period, at 6 percent and 6.25 percent respectively, since August 2007.

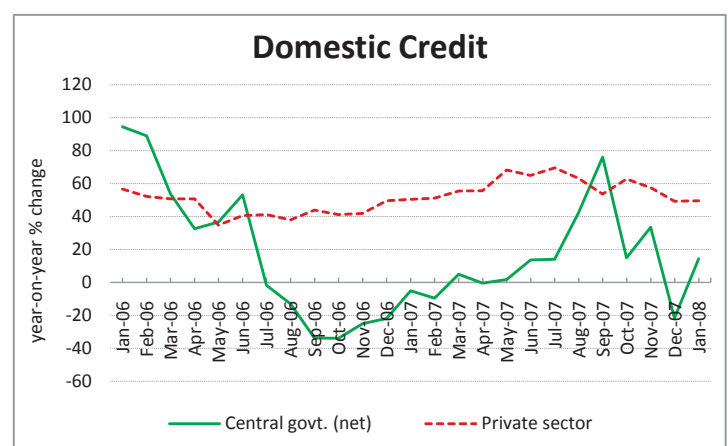
The commercial banks lending and deposit rates also remained unchanged during the period. Local and foreign currency saving deposit had a range between 2.25 – 3.0 and 1.5 – 3.0 per annum. For term deposits, interest rates had a range 2.25 – 6.5 percent for local currency and 1.5 – 6.5 percent for foreign currency. With respect to lending rates, local currency rates had a range between 8 – 13 percent and foreign currency 7.5 -13 percent.

CHART 9



Source: Maldives Monetary Authority

CHART 10



Source: Maldives Monetary Authority

4- External Sector Developments

4.1 Balance of Payments

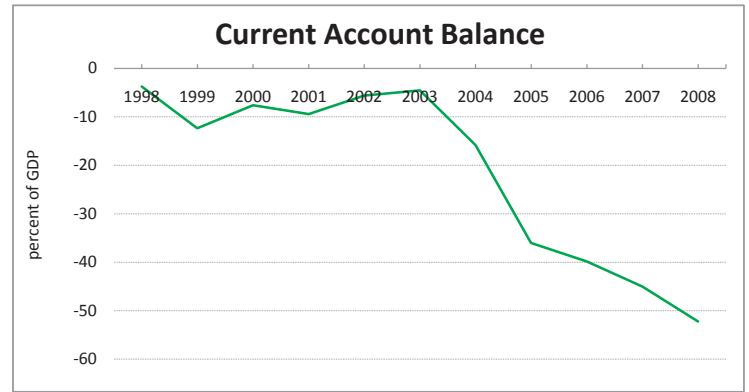
According to the balance of payments revisions made on November 2007, the current account deficit widened by 28 percent to record US\$472.1 million (45 percent of GDP) in 2007 due to high import prices coupled with the strong demand in the economy. Given that these conditions will continue to prevail in 2008, current account deficit is expected to further deteriorate by 33 percent or 52 percent of GDP next year (Chart 11). 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 are projected to reach US\$289.9 million, equivalent to 3.1 months of imports.

4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports, which totalled US\$35.6 million in the review month, registered a significant growth of 68 percent compared to the previous month while compared to the corresponding month of 2007 it registered a growth of 67 percent, largely due to the higher value of domestic exports during January 2008. Moreover, the marked growth in re-exports, which largely comprise of sale of jet fuel, also contributed to growth in total exports. Meanwhile, given the continued high demand for imports, total imports which increased by US\$8.0 million compared to the previous month grew by 63 percent (US\$40.7 million) compared to a year ago. Hence, trade deficit continues to be in deficit and widened further to US\$70.0 million from US\$43.6 million recorded in January 2007 (Chart 12).

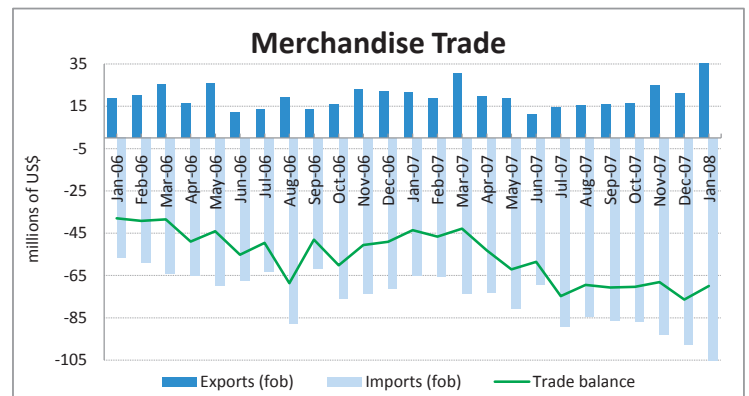
Reflecting the buoyant developments in the tourism sector, gross international reserves improved from US\$232.2 million at the end of January 2007 to US\$302.6 million at the end of the January 2008, while reserves in terms of import cover increased to 3.2 months. However, compared to the previous month, gross international reserves showed a decline of US\$6.5 million (decline of month of imports by 0.2 months) as the previous month recorded an exceptional growth in reserves due to a large amount of lump sum advance lease payment received from the newly leased out resorts (Chart 13).

CHART 11



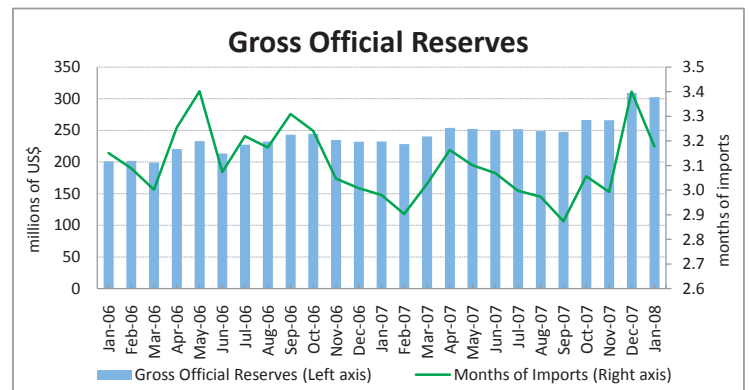
Source: Maldives Monetary Authority

CHART 12



Source: Maldives Customs Service

CHART 13

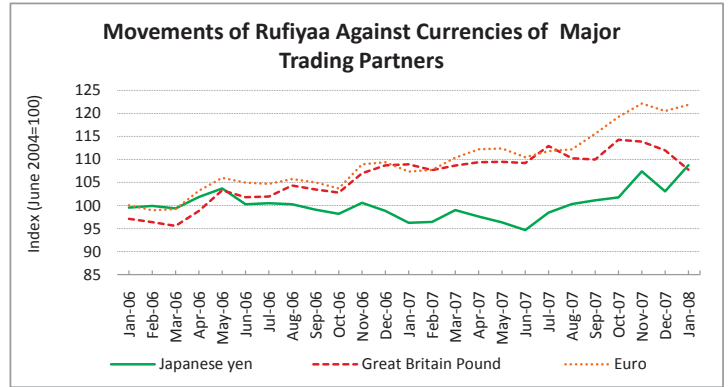


Source: Maldives Monetary Authority and Maldives Customs Service

4.3 Exchange Rate

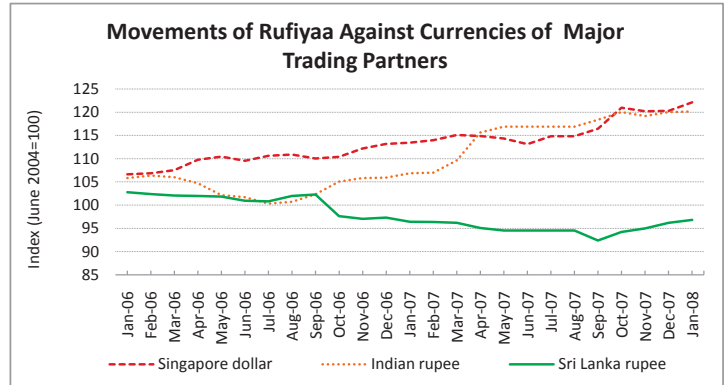
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively. Year-on-year comparisons of bilateral exchange rates at the end of 2007 showed that the rufiyaa depreciated against major currencies of trading countries — except for the Pound sterling— as the US dollar continue to weaken against these currencies. Hence, the rufiyaa depreciated against the euro by 13 percent, the Indian rupee by 12 percent, the Singapore dollar by 8 percent, the Japanese yen by 13 percent. Rufiyaa appreciated only against the Pound sterling, by 1 percent (Chart 14 and 15).

CHART 14



Source: Maldives Monetary Authority

CHART 15



Source: Maldives Monetary Authority

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