

# MONTHLY ECONOMIC REVIEW

**February 2009**

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**Volume III, Number: 2**



**Maldives Monetary Authority**

This report covers the macroeconomic developments during the month of February 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 11th March 2009.

# 1- The Real Economy

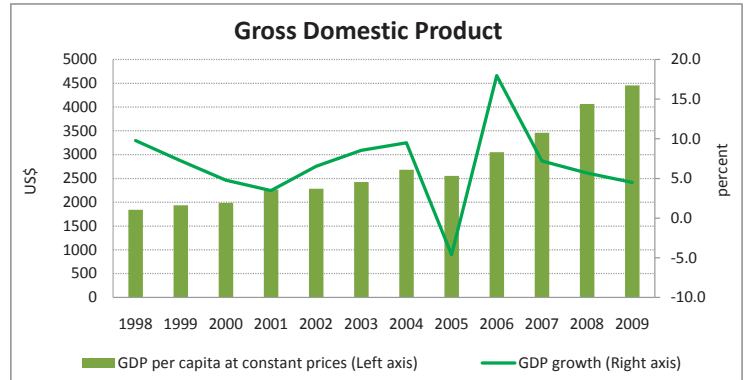
## 1.1 Output

According to revised GDP estimates of November 2008, real GDP is expected to have grown by 5.7 percent in 2008, down from 8.3 percent forecasted earlier during the year owing to the slowdown in tourist arrivals and deterioration in fish catch. Meanwhile, based on the estimates of November 2008, growth is expected to slow further to 4.5 percent in 2009 which was initially (in June 2008) forecasted at 10.3 (Chart 1). The downward revision for 2009 comes mainly from the revisions made to growth projections of tourism and construction sector. Given the deteriorating economic situation in major economies of Europe (which accounts for over 73 percent of tourist arrivals to the country) tourist arrivals to the country is projected to increase by just 0.4 percent in 2009. Construction related activities – which has been a key driver of growth over the last 5 years – is also expected to slow markedly in the year to 8.0 percent from the initial forecast of 31.7 percent, due to the delaying of major resort development projects on account of tight availability of credit.

## 1.2 Tourism

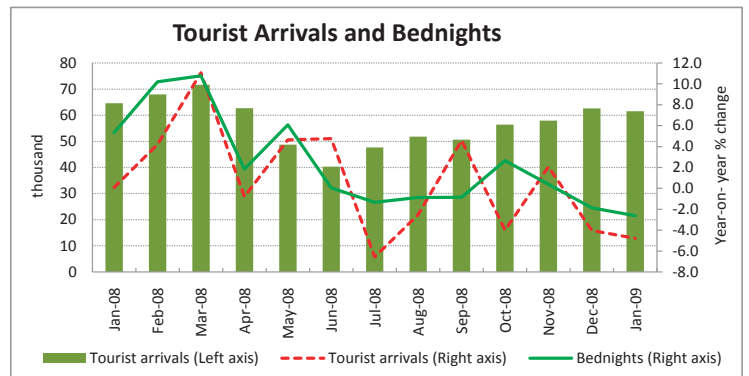
Despite being in the midst of the peak season of the tourism industry, tourist arrivals into the country declined during the month of January 2009. As such, tourist arrivals which totalled 61.5 thousand at the end of the review month, plunged by 2 percent compared to the preceding month and by 5 percent compared to the corresponding month of 2008. Bednights grew by 11 percent on monthly terms owing to the improvement in the average duration of tourist stay from 8.3 days in the previous month to 9.4 days in the review month. However, bednights fell by 3 percent when compared on annual terms. As regards the capacity of the industry, the operational beds in resorts/hotels stood fairly the same as the corresponding month of last year, and only increased by 48 beds to total 19,316 beds at the end of the month. Hence, the capacity utilisation of the industry fell to 87 percent during the review month from 90 percent in the same period of 2008, owing to the fall in tourist arrivals (Chart 2).

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

### 1.3 Fisheries

The performance of the fisheries sector appeared more sluggish during January 2009, with total fish catch, which totalled 9.7 thousand metric tonnes at the end of the month, plummeting by 2 percent compared to the preceding month and by 7 percent compared to the corresponding month of 2008. Similarly, fish purchases at the end of the month dropped sharply to 2.7 thousand metric tonnes, decreasing by 55 percent month-on-month while it plunged by 59 percent when compared year-on-year (Chart 3).

With the decline in fish landings and purchases, the volume of fish exports also fell from 6.7 thousand metric tonnes in December 2008 to 5.5 thousand metric tonnes in January 2009, registering a decline of 17 percent. Fish export earnings also declined by 15 percent on monthly terms and totalled 7.3 thousand metric tonnes at the end of the month. When compared to a year ago, the volume of fish exports slumped by 45 percent while fish export earnings fell by a much higher magnitude 57 due to declining global tuna prices (Chart 4).

### 1.4 Prices

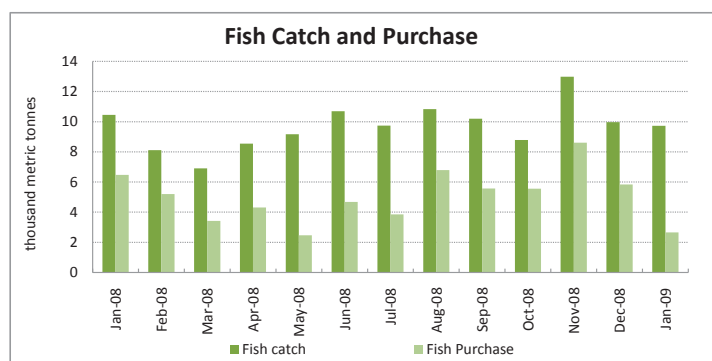
#### Consumer Price Index

Price pressures in the domestic economy remained relatively high, given the persistent increase in demand in the economy. As such, the consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', stood the same at 12.0 percent in January 2009. Inflation excluding the volatile fish prices fell slightly to 12.1 percent from 12.2 percent in the previous month. The main contributors to inflation during the review period were food, transport, health and housing categories (Chart 5).

#### World Commodity Prices

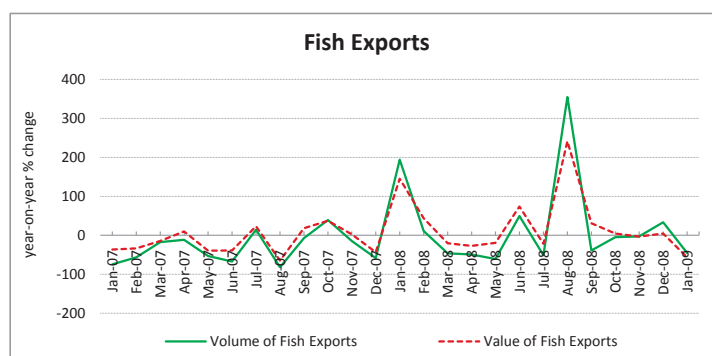
In January 2008, the International Monetary Fund (IMF) primary commodity index registered a growth of 4 percent compared to the previous month although year-on-year, commodity prices continue to plummet and fell by 37 percent due to slowing global demand. The annual decrease in the world commodity prices was mostly due to the decline in global food and energy prices, which dropped by 17 percent and 52 percent, respectively (Chart 6).

CHART 3



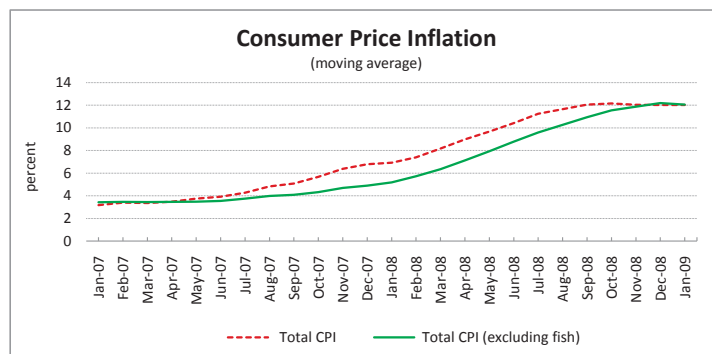
Source: Ministry of Fisheries and Agriculture

CHART 4



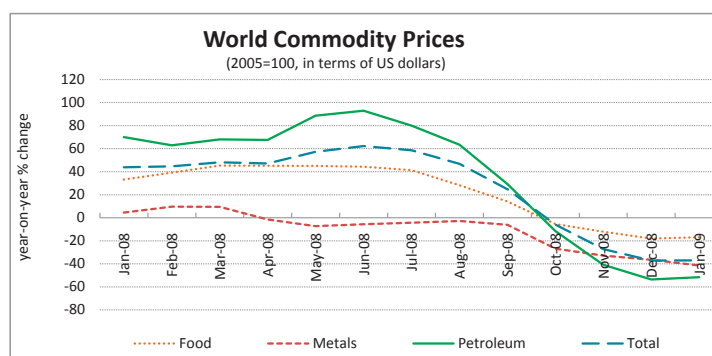
Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

CHART 6



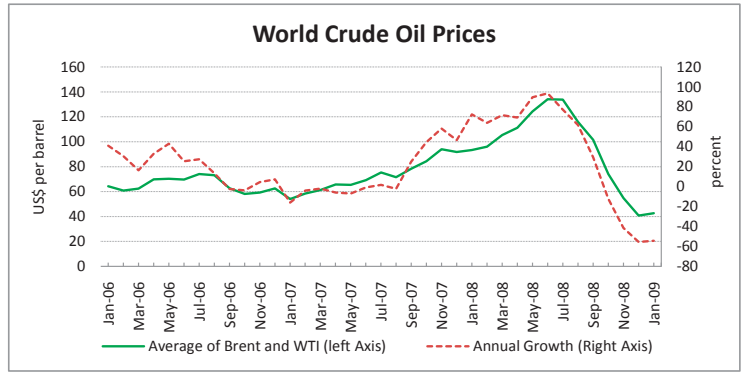
Source: International Monetary Fund

Meanwhile, price of crude oil (an average of UK Brent and U.S WTI) rose to US\$42.7 per barrel in January 2009 from US\$40.9 in the December 2008. Nevertheless, it stood 54 percent lower compared to January 2008 (Chart 7).

### Domestic Petroleum Prices

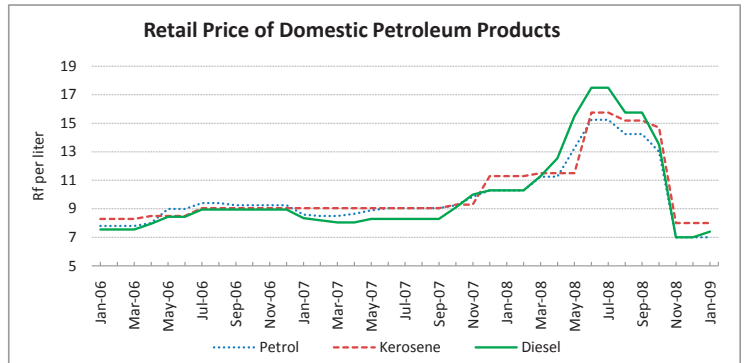
With the exception of the price of diesel, the retail prices of domestic petroleum products remained unchanged, since it was last adjusted in November 2008. Price of petrol was the same at Rf7.00 per litre while price of kerosene also stood unchanged at Rf8.00 per litre. The price of diesel was slightly increased to Rf7.40 per litre in the review month from Rf7.00 per litre in November 2008 (Chart 8).

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

## 2- Public Finance

### 2.1 Government Budget

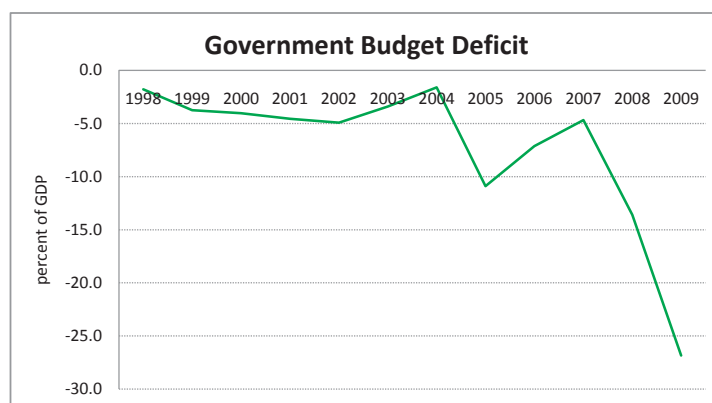
According to provisional budget estimates of November 2008 the government budgetary position deteriorated significantly during 2008 by Rf1.6 billion to record an overall deficit of Rf2.2 billion. Hence, despite the 5 percent increase in revenue in 2008, the overall deficit widened to 14 percent of GDP in 2008 as total expenditure and net lending reached unsustainably higher levels during the year – to 63 percent of GDP. Around 90 percent of the increase in expenditure was spent on current expenditure. With regard to financing of the deficit, 65 percent of the deficit was domestically financed –which was mostly through monetization– and compares with 2 percent in 2007.

With regard to the proposed budget for 2009<sup>1</sup>, the overall deficit is projected to be Rf4.8 billion (which is 27 percent of GDP) as total revenue is projected to decline by 9 percent while total expenditure and net lending is projected to increase by Rf1.9 billion to 67 percent of GDP. The decline in revenue comes mainly from the decline in import duty and tourism bed tax. The deficit for 2009 is estimated to be financed from both external (70 percent) and domestic sources (through adoption of the proposed new revenue measures) (chart 9).

### 2.2 Revenue and Expenditure (Cash flow)

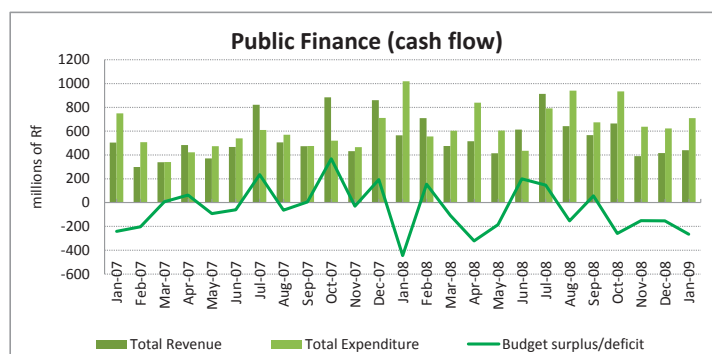
According to latest cash flow statements of the government, total government revenue in the month of January 2009 stood at Rf439.5 million, decreasing by 22 percent when compared to the corresponding month of 2008. Total expenditure also went down by 30 percent compared to the corresponding month of 2008 and totalled Rf708.9 at the end of the month. Thus, the overall cash flow position of the government deteriorated to Rf265.09 million in January 2009 (Chart 10).

CHART 9



Source: Ministry of Finance and Treasury

CHART 10



Source: Ministry of Finance and Treasury

1- These numbers are based on IMF standardised format and these will be revised once the supplementary budget for 2009 (which will be submitted to the parliament in March 2008) is passed.

## 3- Monetary Developments

### 3.1 Money and Credit

In the 12 months to January 2009, M2 increased by 20 percent largely due to the significant increase in domestic credit (by 38 percent), especially to the private sector (Chart 11 and 12). Nevertheless, private sector credit which totalled Rf16,179.3 million at the end of the review month, continued to decelerate and grew annually by 29 percent compared to 33 percent growth in the previous month reflecting the commercial bank's difficulty to borrow additional funds from abroad in order to cater to domestic demand caused by the global financial and economical crisis. Of the total credit to the private sector, 62 percent was lent to the tourism sector, 10 percent to the construction sector, 7 percent to the fisheries sector and 6 percent to commerce.

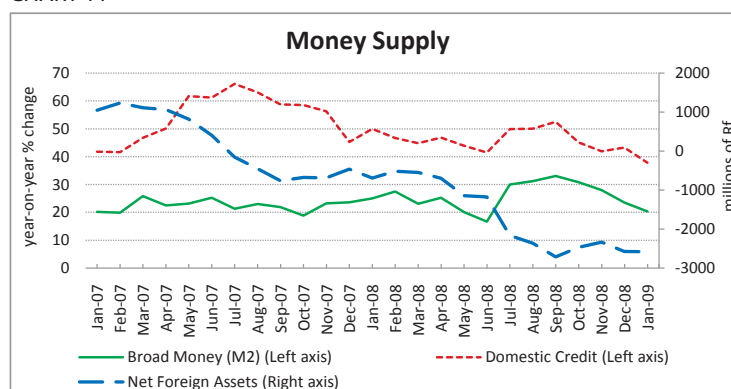
Meanwhile, with the substantial increase in government expenditure, net credit to government expanded, though at a decreasing rate, by 189 percent year-on-year and totalled Rf2621.8 million at the end of January 2009. However, the expansionary effect of the domestic credit was to a greater extent offset by the decline in net foreign assets (NFA) of the banking sector, which has been on a net liability position since July 2007. The deceleration of the NFA both owing to the sharp increase in net foreign liability of the commercial banks as well as the decline in the net foreign assets of the MMA, which declined by 26 percent on annual terms.

### 3.2 The Monetary Base

The monetary base (M0) increased annually by 19 percent at the end of January 2009, but decelerated compared to previous month which grew by 24 percent. This was mainly brought about by deceleration in the grow rate of commercial bank deposits with MMA as the growth rate of the total deposits of the banks slowed during the month.

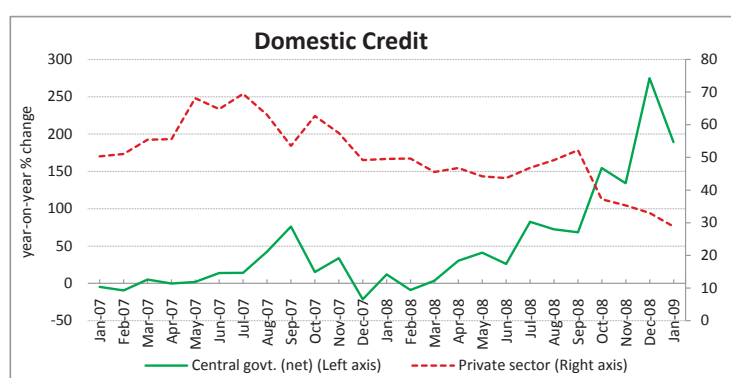
Total amount of treasury bills outstanding at the end January 2009 rose to Rf740.0 million compared to Rf727.0 million at the end of 2008.

CHART 11



Source: Maldives Monetary Authority

CHART 12



Source: Maldives Monetary Authority

## 4- External Sector Developments

### 4.1 Balance of Payments

According to revised balance of payments estimates of November 2008, the current account deficit is projected to widen by 55 percent to US\$637.6 million (51 percent of GDP) in 2008 due to high import growth owing to strong domestic demand and record high oil prices early during the year. The large current account deficit is projected to lead to an overall balance of payments deficit of US\$72.3 million in 2008, as net financial inflows to the country is expected to moderate during the year due to a significant decline in external borrowings by commercial banks. As a result, gross official reserves declined by 22 percent at the end of 2008 and recorded US\$241.3 million (equivalent to 2.1 months of import cover which compares with 3.4 months in 2007).

### 4.2 Balance of Trade and Gross International Reserves

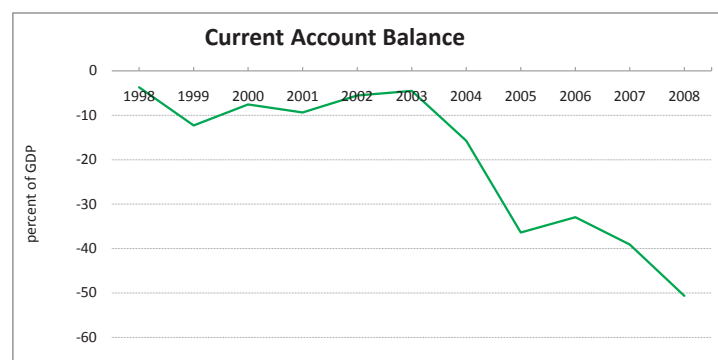
The value of total merchandise exports stood at US\$17.5 million at the end of January, increasing by 12 percent compared to the previous month, owing to the increase in re-exports. However, exports registered a decline of 50 percent compared to the corresponding quarter of 2007. Total merchandise imports (f.o.b) amounted to US\$74.1 million, increasing by 1 percent on monthly terms while it fell by 30 percent on annual terms. Thus, the trade deficit decreased to US\$56.7 million from US\$70.4 million in January 2008 and US\$58.0 million in December 2008 (Chart14).

Due to the slowdown of tourism activity, gross international reserves declined to US\$224.6 million at the end of January 2008 from US\$241.3 million at the end of last month while reserves in terms of import cover decreased to 1.8 months. When compared with January 2008, gross international reserves showed a decline of US\$78.0 million while reserves in months of imports dropped by 1.2 months owing to the increase in imports (Chart 15).

### 4.3 Exchange Rate

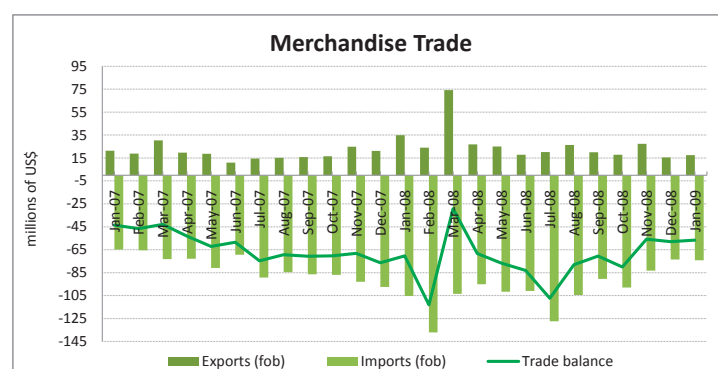
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively.

CHART 13



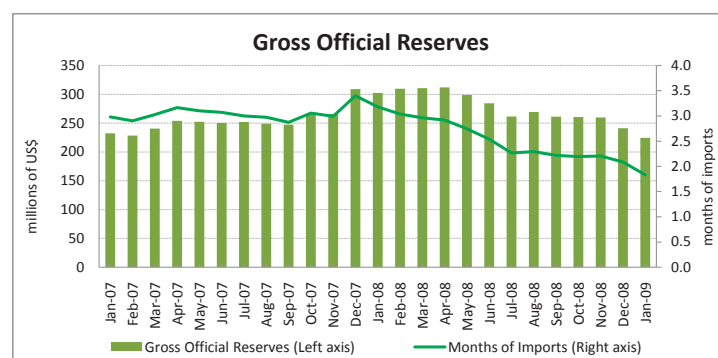
Source: Maldives Monetary Authority

CHART 14



Source: Maldives Customs Service

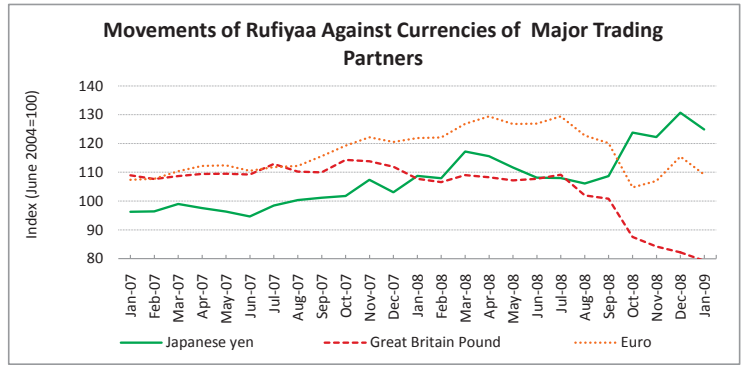
CHART 15



Source: Maldives Monetary Authority and Maldives Customs Service

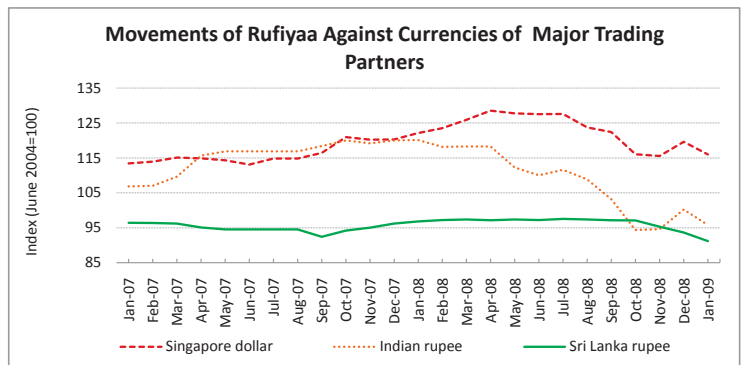
Year-on-year comparisons of bilateral exchange rates at the end of January 2008 showed that with the exception of the Japanese yen, against which the rufiyaa depreciated by 14.8 percent, the rufiyaa appreciated against major currencies of the country's trading partners. As such, the rufiyaa appreciated against the sterling pound, Indian rupee, euro, Sri Lankan rupee and the Singapore dollar by 26.5 percent, 20.2 percent, 10.4 percent, 5.8 percent and 5.0 percent, respectively (chart 16 and 17).

CHART 16



Source: Maldives Monetary Authority

CHART 17



Source: Maldives Monetary Authority

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