

# **MONTHLY MACROECONOMIC REVIEW**

**January 2008**

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Maldives Monetary Authority

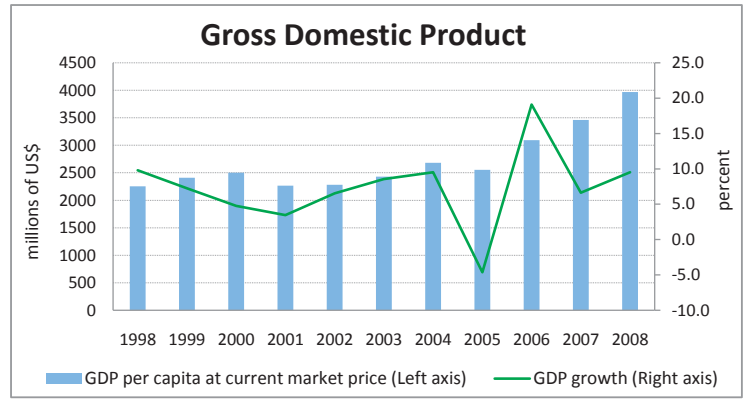
This report covers the macroeconomic developments during the month of December 2007. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Macroeconomic Review* contains data available as of 27th January 2008.

# 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).

CHART 1

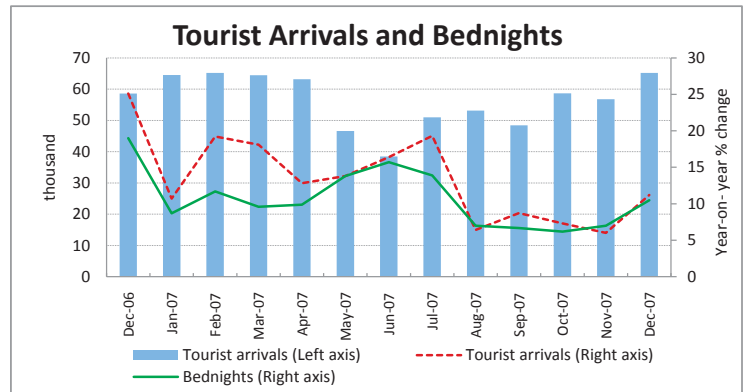


Source: Ministry of Planning and National Development

## 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.

CHART 2



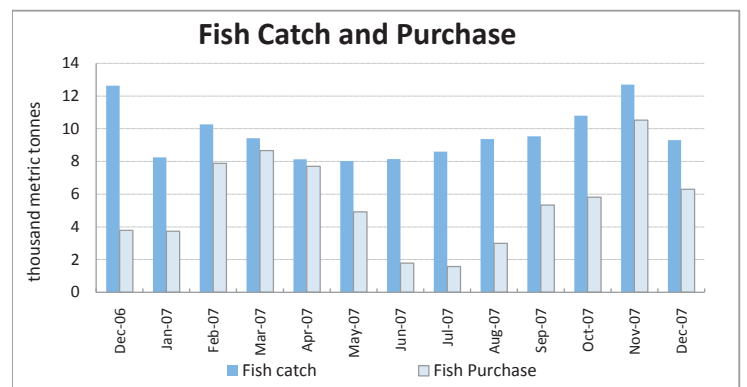
Source: Ministry of Tourism and Civil Aviation

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

After witnessing signs of improvement in the fisheries sector in November 2007, fishing activities slowed down again during the last month of the year. Fish catch decreased slightly from 12.7 metric tonnes in November to 9.3 metric tonnes in December. Fish purchases by commercial buyers also fell by 40 percent compared to

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

the previous month, but on the contrary, registered an increase of 67 percent compared to the month of December 2006 (Chart 3).

The volume of fish exports (excluding live fish) fell by 45 percent on a month-on-month basis in December 2007, while earnings from such exports declined by 41 percent. As for year-on-year comparisons of fish exports, the volume of fish exports (excluding live fish) declined significantly by 58 percent from 11.9 metric tonnes in December last year to 4.9 metric tonnes in the review month, while earnings from fish exports fell from US\$14.6 million in December 2006 to US\$8.3 million in December 2007 (Chart 4).

During 2007, fish catch fell by 38 percent compared to 2006 while fish purchases declined by 31 percent. The volume of fish exports (excluding live fish) declined by 41 percent during 2007, while fish export earnings declined by a lesser magnitude (20 percent), totalling to US\$102.5 million at the end of December 2007, reflecting the high tuna prices in the international market.

## 1.4 Prices

### Consumer Price Index

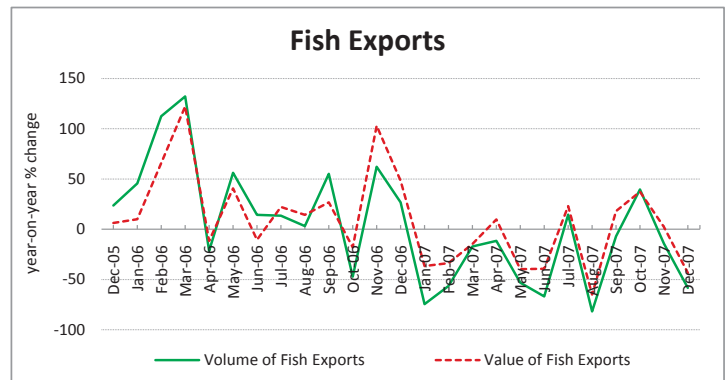
The domestic rate of inflation, as measured by the percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', edged up to 6.8 percent during December 2007 increasing by 0.4 percentage points when compared to November. The determinants of the high inflation rate since last year is largely explained by the higher prices of both fish and imported food items. As such, CPI excluding fish was slightly lower at 4.9 percent at the end of December, and excluding all food prices, inflation stood much lower at 3.0 percent (Chart 5), which is fairly the same as for the month of November 2007.

In comparison to 2006, the domestic inflation rate for the 12 month period of 2007 was significantly high at 8.5 percent from 4.0 percent a year ago. The year-on-year rate of inflation (excluding fish) in December 2007 was lower at 6.5 percent and excluding food was 3.6 percent.

### World Commodity Prices

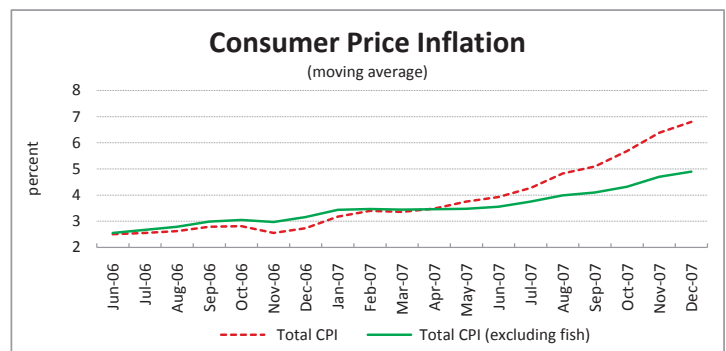
The International Monetary Fund (IMF) primary commodity price index slightly fell by 16 percent from

CHART 4



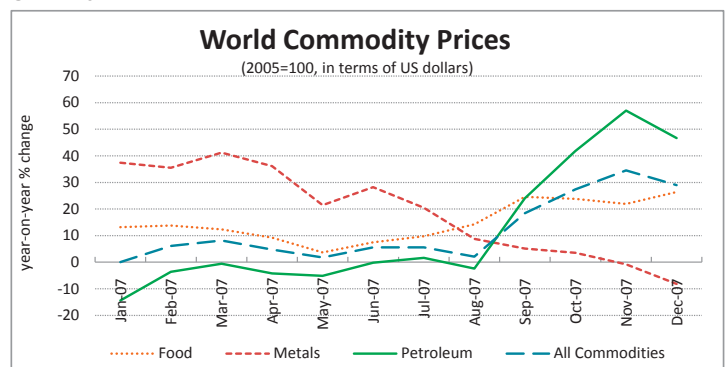
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



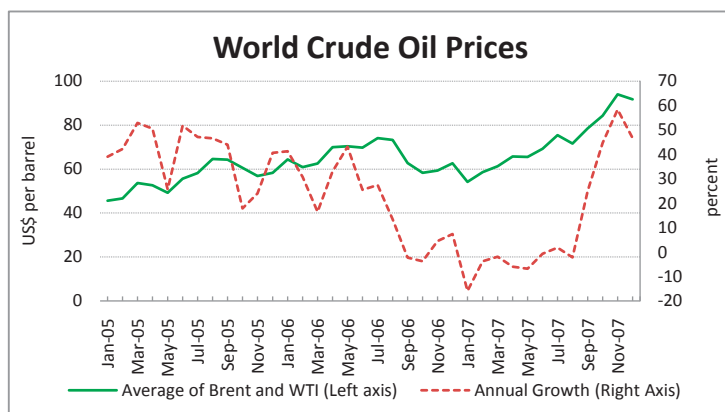
Source: International Monetary Fund

US\$34.5 in November to US\$29.0 in December 2007, mainly led by lower prices for crude oil and industrial inputs (Chart 6). Price of crude oil (an average of UK Brent and US WTI) fell to US\$91.7 per barrel during the review month, after reaching a record level of US\$94.0 per barrel at the end of November, compared to US\$62.6 per barrel in the same period last year (Chart 7).

### Domestic Petroleum Prices

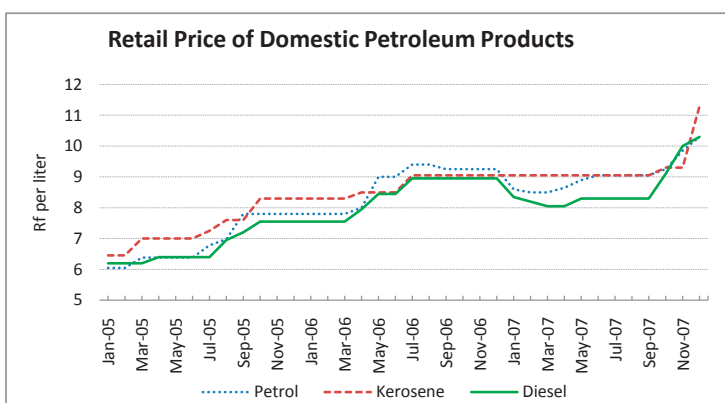
Despite the fall in global oil prices towards the very end of the year, the domestic retail prices of petroleum products such as diesel, kerosene and petrol were on the rise in 2007. In comparison to the past three years, the prices of domestic petroleum products were raised to a record level in December 2007 with price of diesel, kerosene, and petrol at Rf10.3 per litre, Rf11.30 per litre and Rf10.30 per litre respectively (Chart 8). In percentage change this was an increase of 3 percent for diesel, 22 percent for kerosene and 5 percent for petrol when compared to November 2007.

CHART 7



Source: Energy Information Administration, USA

CHART 8



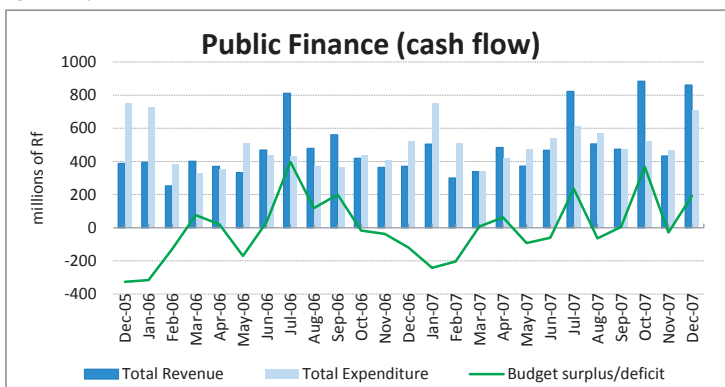
Source: State Trading Organization

## 2- Public Finance

### 2.1 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 10).

CHART 9



Source: Ministry of Finance and Treasury

### 3- Monetary Developments

#### 3.1 Money and Credit

During the month of December broad money or M2 increased by Rf217.4 million to Rf9,972.0 million. In the 12 months to December 2007 M2 expanded by 24 percent largely on account of the substantial increase in domestic credit (by 45 percent), especially to the private sector (Chart 10 and 11). As such, credit to private sector grew by 49 percent or by Rf4,024.5 million to record Rf12,216.2 million during the period, of which 51 percent was lent to the tourism sector, 22 percent to commerce and 9 percent to construction sector.

Meanwhile, reflecting an increase in government revenue, net credit to government declined by 22 percent (or Rf161.3million) year-on-year, to Rf583.7 million at the end of December 2007. The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 144 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 continued to borrow from their head offices abroad to finance the strong domestic credit demand especially from the tourism sector. However, during the month of December 2007, the net liability position of the banking sector improved by a 33 percent drop following a growth 2 percent in November 2007. On the contrary, the net foreign asset position of the MMA improved by 17 percent or Rf551.5 million during the period.

#### 3.2 The Monetary Base

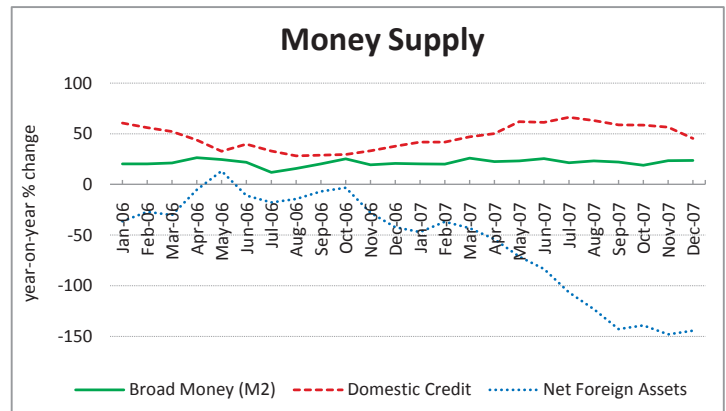
The monetary base (M0) in December increased by Rf365.6 million to Rf4,374.0 million. The expansion in M0 came from the 12 percent (or Rf310.7 million) increase in commercial bank deposits held with MMA which reflected the decline in investment in treasury bills by commercial banks during the period. The total amount of treasury bills outstanding at the end of December stood at Rf543.0 million compared to Rf672.0 million at the end of November. The continued high demand for credit, mainly explain this development.

#### 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.

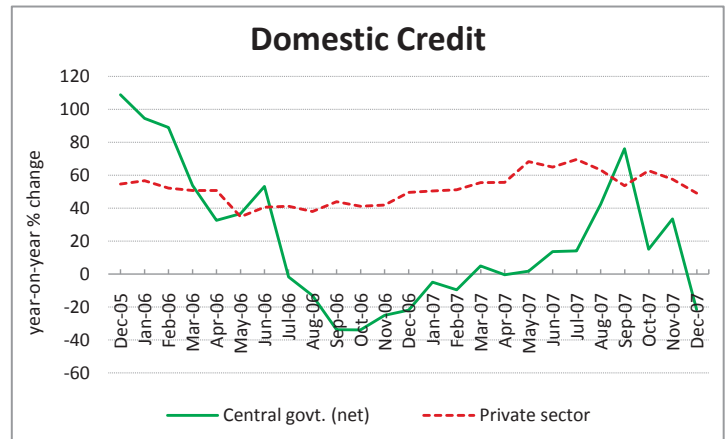
The commercial banks lending and deposit rates also remained unchanged during the period. Local and foreign currency saving deposit had a range between 2.25 – 3.0 and 1.5 – 3.0 per annum. For term deposits, interest rates had a range 2.25 – 6.5 percent for local currency and 1.5 – 6.5 percent for foreign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

CHART 10



Source: Maldives Monetary Authority

CHART 11



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 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 are projected to reach US\$289.9 million, equivalent to 3.1 months of imports.

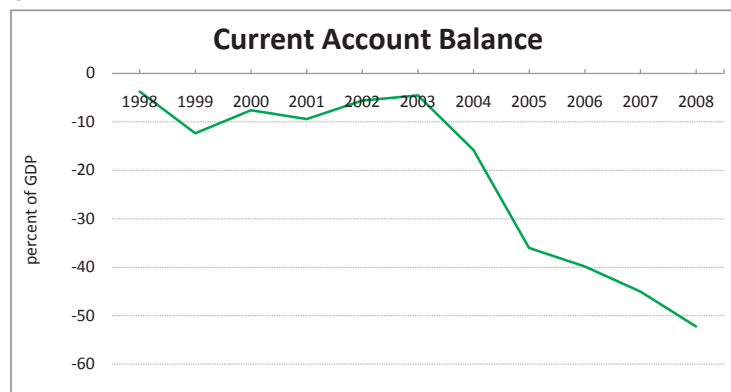
### 4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports, which totalled US\$21.2 million in the review month, registered a decline of 15 percent (US\$3.6 million) compared to the previous month and a decline of 4 percent (US\$1.0 million) compared to the corresponding month of 2006, largely due to the lower value of domestic exports during December 2007. Given the continued high demand for imports, total imports which increased by US\$4.6 million compared to the previous month grew by 37 percent (US\$26.3 million) compared to December 2006. Hence, trade deficit widened by US\$76.4 million from US\$49.0 million recorded in December 2006 (Chart 13).

Earnings on total merchandise exports, which amounted to US\$228.0 million in 2007, increased by 1 percent or by US\$2.7 million compared to 2006 while total imports (fob) registered a significant growth of 18 percent, from US\$815.3 million in 2006 to US\$964.7 million at the end of 2007. As such, the trade balance continues to be in deficit and widened further to US\$736.8 million (by US\$146.7 million) from US\$590.1 million in 2006.

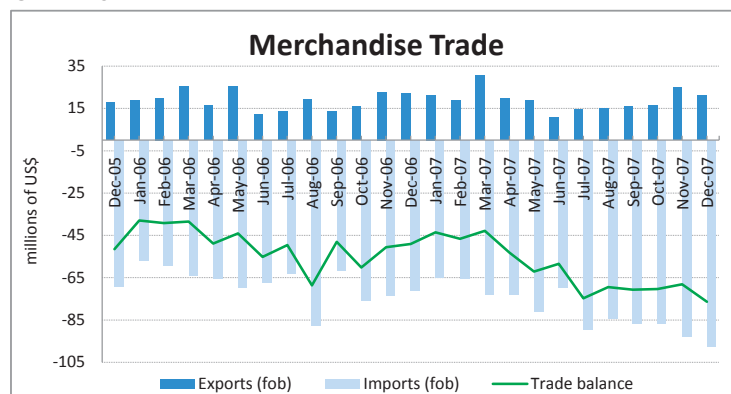
In the meantime, reflecting the buoyant developments in the tourism sector coupled with the high inflows received in the form of advanced lease rents from the newly leased resorts in 2007, gross international reserves improved from US\$232.2 million at the end of 2006 to US\$309.1 million at the end of 2007, while reserves in terms of import cover increased to 3.4 months. Conversely, compared to the previous month, gross international reserves increased by US\$43.1 million while reserves in terms of import cover also increased by 0.4 months (Chart 14).

CHART 12



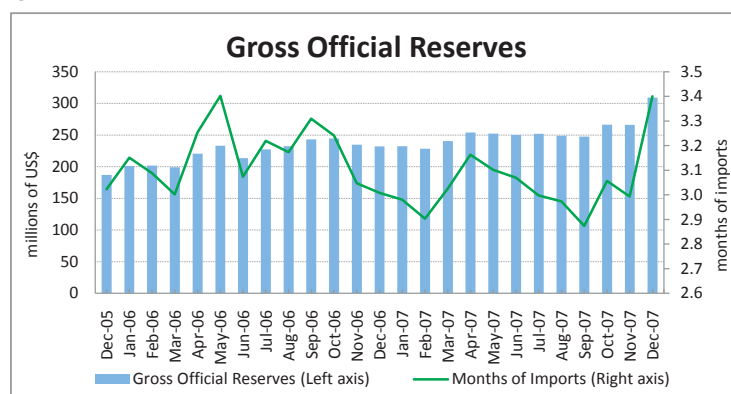
Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

CHART 14

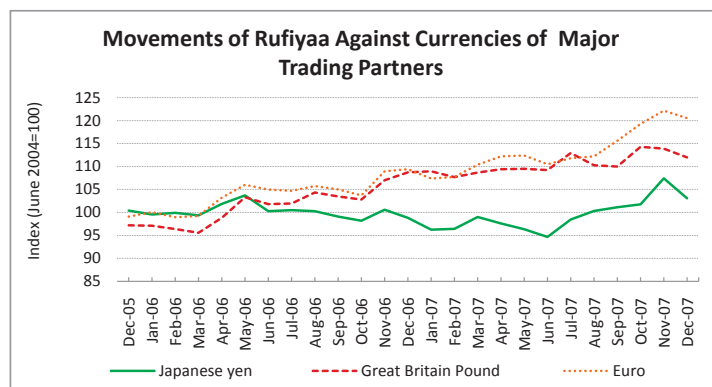


Source: Maldives Monetary Authority and Maldives Customs Service

### 4.3 Exchange Rate

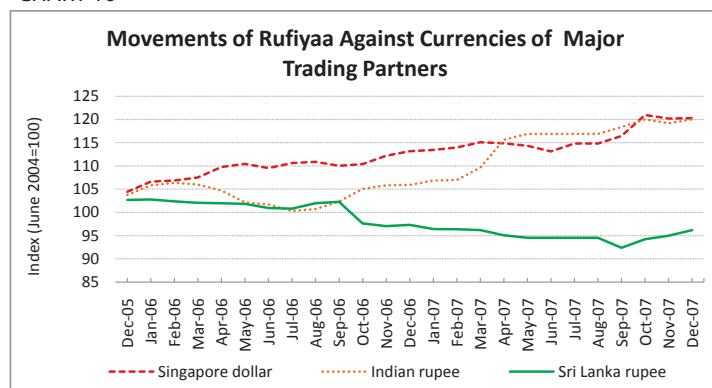
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively. Year-on-year comparisons of bilateral exchange rates at the end of 2007 showed that the rufiyaa depreciated against major currencies of trading countries — except for the Sri Lankan Rupee— as the US dollar continue to weaken against these currencies. Hence, the rufiyaa depreciated against the euro by 9 percent, the Pound sterling by 3 percent, the Indian rupee by 12 percent, the Singapore dollar by 6 percent, the Japanese yen by 4 percent. Rufiyaa appreciated only against the Sri Lankan rupee, by 1 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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