

# MONTHLY ECONOMIC REVIEW

**January 2009**

---

**Volume III, Number: 1**



**Maldives Monetary Authority**

This report covers the macroeconomic developments during the month of January 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 1st February 2009.

# 1- The Real Economy

## 1.1 Output

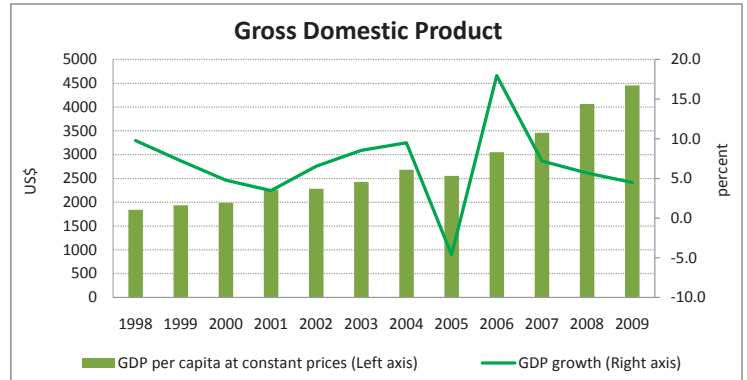
According to revised GDP estimates of November 2008, real GDP is projected to grow by 5.7 percent in 2008, down from 8.3 percent forecasted earlier during the year owing to the slowdown in tourist arrivals and deterioration in fish catch. Meanwhile, growth is expected to slow further to 4.5 percent in 2009 which was initially 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

Tourist arrivals recorded a gain of 8 percent in December 2008 and totalled 62.6 thousand, whereas it registered a decline of 4 percent compared to the corresponding month of 2007 (Chart 2). Despite the slight fall in average duration of tourist stay from 7.9 days in the preceding month to 7.6 percent in the review month, bednights showed an improvement of 4 percent on monthly terms, whereas it fell by 2 percent when compared on annual terms. The capacity of the industry expanded by 7 percent (1,213 beds) compared to a year ago, with the number of operational beds in resorts/hotels totalling 19,294 beds at the end of December 2008. Hence, capacity utilisation fell to 79 percent during the review period from 86 percent in the same period of 2007.

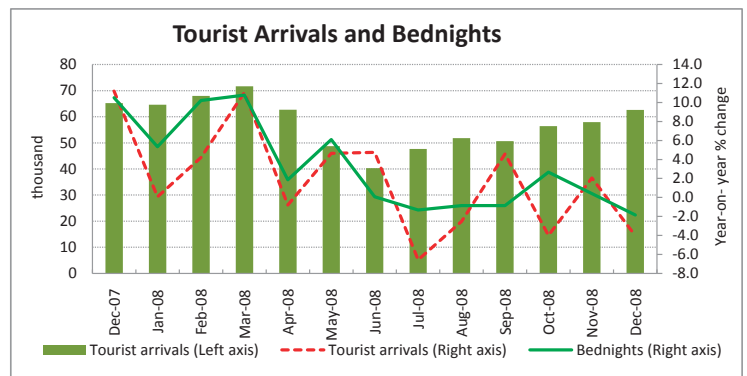
Cumulatively, tourist arrivals totalled 683.0 thousand during 2008 and registered a growth of 1 percent over 2007. This coupled with the rise in average duration of a tourist visit, increased bednights by 3 percent during the year. Meanwhile, with the 9 percent increase in bed capacity of the industry (1,571 beds) during the year, capacity utilisation of the sector fell to 78 percent from 83 percent in 2007.

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

### 1.3 Fisheries

Fish catch declined by 23 percent compared to the preceding month and recorded 10.0 thousand metric tonnes at the end of the December 2008 while it registered a drop of 13 percent compared to December 2007. Likewise, fish purchases by the commercial buyers which totalled 5.8 thousand metric tonnes, slumped by 32 percent compared to the previous month while it declined by 8 percent when compared to the corresponding period of 2007 (Chart 3).

On the export front, the volume of fish exports amount- ed 6.7 thousand metric tonnes in December , falling by 24 percent when compared with the previous month and increasing by 34 percent compared to the same month of 2007. Similarly, earnings on fish exports also fell by 37 percent against the preceding month and totalled US\$8.6 million at the end of December 2008. However, earnings on fish exports recorded a gain of 4 percent compared to a year ago (Chart 4).

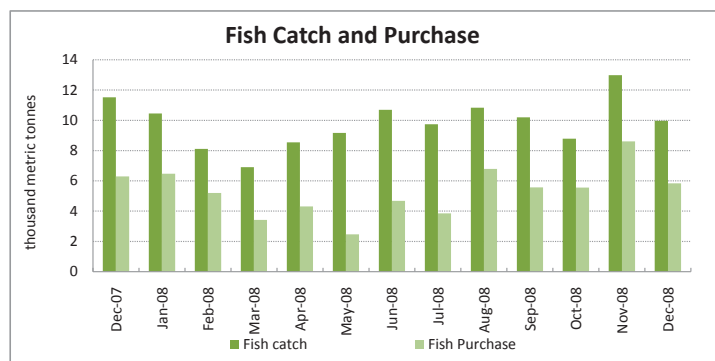
As for the year 2008 as a whole, fish landings which totalled 116.4 thousand metric tonnes, plummeted by 17 percent compared to 2007 while fish purchases also fell by 7 percent to 62.8 thousand metric tonnes. Reflecting the above, the volume of fish exports (excluding live fish) dropped by 4 percent and totalled 63.1 thousand metric tonnes during the review period. Nevertheless, on account of the strengthened global tuna prices, fish exports earnings stood strong and totalled US\$120.7 million in 2008, indicating an 18 percent growth over 2007.

### 1.4 Prices

#### Consumer Price Index

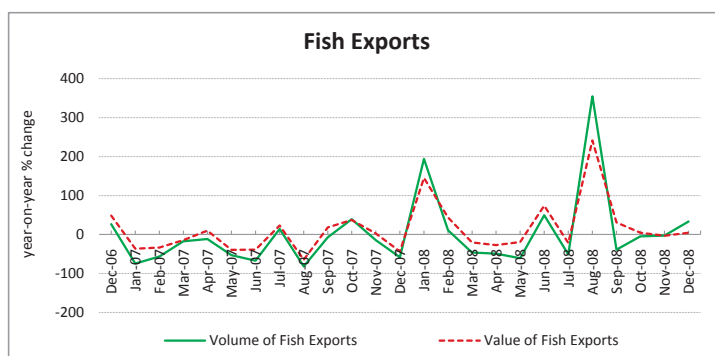
Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', fell slightly to 12.0 in December 2008 from 12.1 percent in November 2008, owing to the decline in domestic fish prices -- the decline in fish prices has been due to improvements in fish catch in recent months. As such, inflation excluding the volatile fish prices edged up further to 12.2 percent from 11.9 percent in the previous month. Hence, given the strong demand conditions in the domestic economy, inflation continues to increase with the biggest price increases during the review month being observed from food; transport; and housing categories (Chart 5).

CHART 3



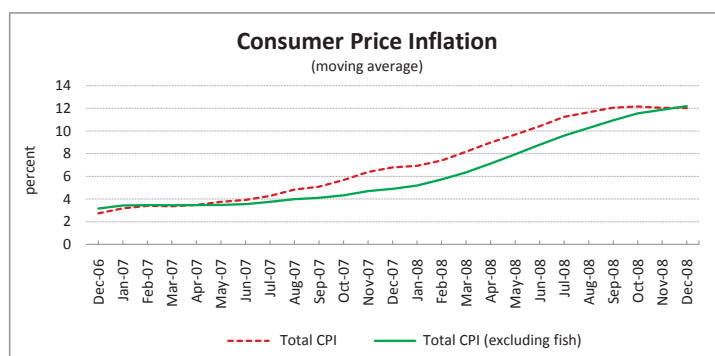
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

## World Commodity Prices

The International Monetary Fund (IMF) primary commodity index further declined by 14 percent in December 2008 compared to the preceding month, while it fell by 36 percent on annual basis. This decline in world commodity prices is largely attributed to the drop in global food and energy prices which fell by 18 percent and 54 percent, respectively, during the review month (Chart 6).

Price of crude oil (an average of UK Brent and U.S WTI) fell by 26 percent from US\$55.0 per barrel in November 2008 to US\$40.9 per barrel in December 2008, the lowest recorded since December 2004. When compared to December 2007, oil prices further plunged by 55 percent (Chart 7).

## Domestic Petroleum Prices

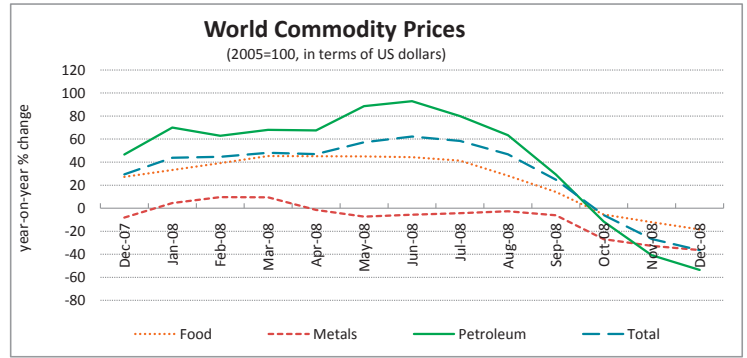
The retail prices of domestic petroleum products were adjusted in the month of November 2008 to reflect the decline in global oil prices. Price of petrol was reduced to Rf7.00 per litre from Rf13.00 per litre while price of diesel was lowered to Rf7.00 per litre from Rf13.50 per litre. Likewise, price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

## 2- Public Finance

### 2.1 Revenue and Expenditure (cash flow)

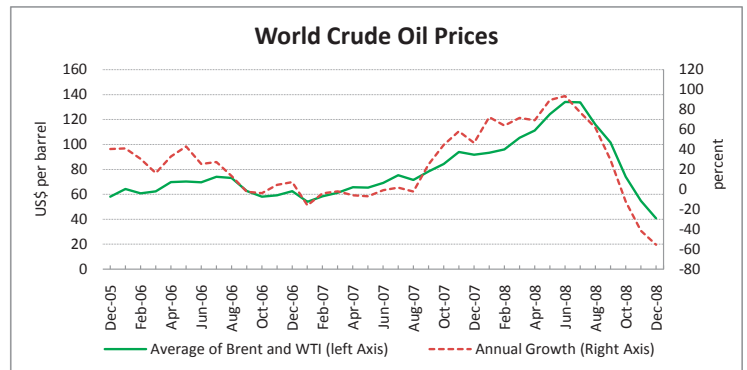
According to the latest monthly cash flow data of the government, total revenue in 2008 rose to Rf6,886.6 million from Rf6,445.7 million compared 2007. The improvement in revenue came largely from import duty, transfers from public enterprises and resort lease rent. Meanwhile, total expenditure surged from Rf6,387.4 million in 2007 to Rf8,655.1 million in 2008. As a result, the overall cash flow position of the government deteriorated sharply by Rf1,398.2 million from a surplus of Rf180.0 million in 2007 to a deficit of Rf1,218.2 million in 2008 (Chart 9).

CHART 6



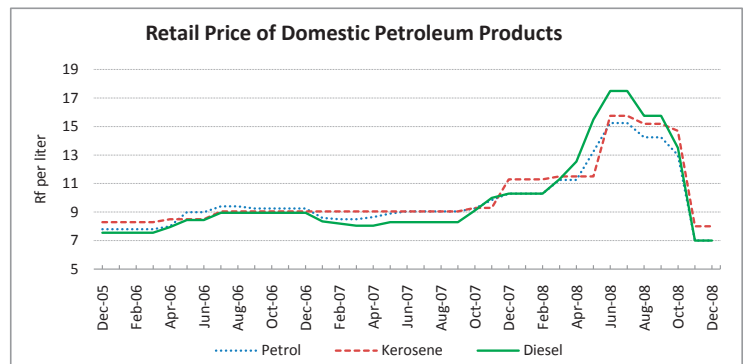
Source: International Monetary Fund

CHART 7



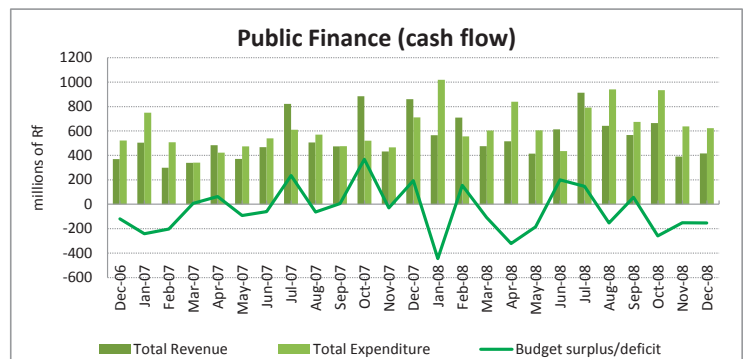
Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

CHART 9



Source: Ministry of Finance and Treasury

### 3- Monetary Developments

#### 3.1 Money and Credit

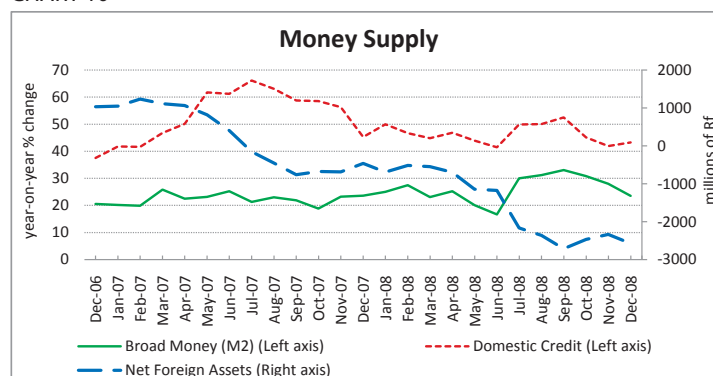
In December, broad money or M2 increased by Rf166.5 million to Rf12,326.2 million. In the 12 months to December 2008, M2 expanded by 24 percent largely underpinned by the substantial increase in domestic credit (by 43 percent), especially to the private sector (Chart 9 and 10). However, growth in private sector credit continues to decelerate and registered 33 percent year-on-year and totalled Rf16,247.9 million at the end of December which could be attributable to the reduction in foreign borrowing by commercial banks during the year (foreign borrowings by commercial banks fell from US\$207.6 million during 2007 to US\$77.3 million during 2008) reflecting tight credit conditions in global financial markets. Around 60 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.

Meanwhile, reflecting the significant increase in government expenditure, net credit to government expanded by 275 percent (or Rf1,604.8 million) year-on-year, to Rf2,188.5 million at the end of December 2008 which contributed to the growth in M2 (it has to be noted that a significant part of the growing budget deficit is monetized). 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 worsening of net foreign liability of commercial banks and also due to the significant decline in foreign assets of MMA (by 22 percent) during the year 2008.

#### 3.2 The Monetary Base

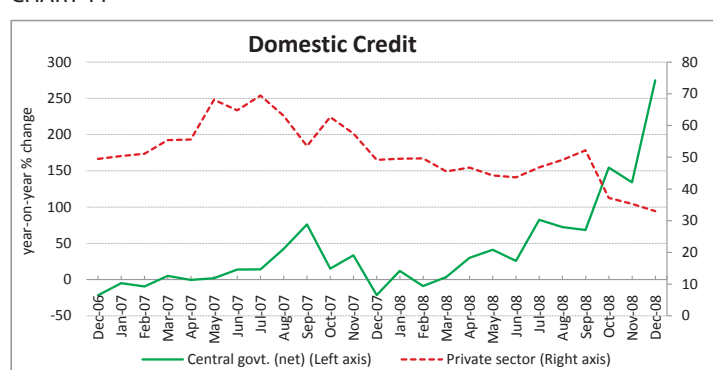
During December 2008, the monetary base (M0) decreased by Rf131.7 million, thereby reducing the year-on-year growth rate from 39 percent in November 08 to 24 percent in December 2008. The deceleration in M0 was mainly influenced by the decline of commercial bank deposits with the MMA. Total amount of treasury bills outstanding at the end of December 2008 stood at Rf968.0 million compared with Rf731.0 million at the end of November 2008.

CHART 10



Source: Maldives Monetary Authority

CHART 11



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 lead to an overall balance of payments deficit of US\$72 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 21 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).

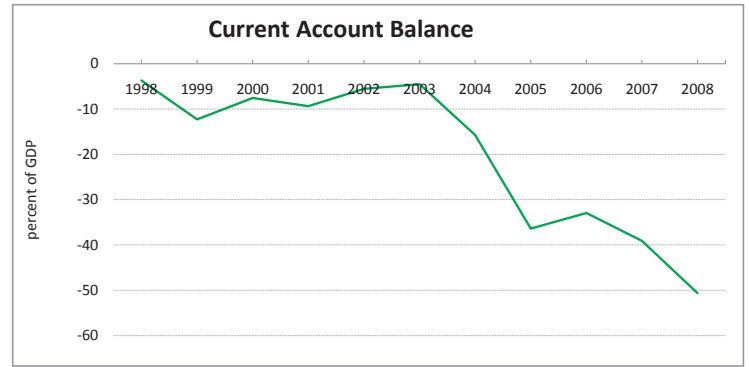
Meanwhile, notwithstanding the significant drop in oil prices since the latter part of 2008, the current account deficit is projected to widen further to 59 percent of GDP in 2009 as domestic demand is expected to remain strong while tourism receipts is forecast to grow only slightly during the year owing to deteriorating global economic conditions, particularly in the main tourism markets of Europe. However, the overall balance of payments is expected to record a surplus of US\$10.0 million with a slight accumulation in reserves, as net financial flows is expected to improve as foreign borrowing by commercial banks is expected to resume growth during the year

### 4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports stood at US\$15.6 million at the end of December, decreasing by 43 percent compared to the previous month, owing to the fall in both re-exports and domestic exports. However, exports registered a decline of 27 percent compared to the corresponding quarter of 2007. Total merchandise imports amounted to US\$73.61 million, decreasing by 12 percent on monthly terms while it fell by 25 percent on annual terms. Thus, the trade deficit increased to US\$58 million from US\$55.8 million in November 2008 and US\$76.4 million in December 2007 (Chart 13).

Earnings on total merchandise exports during 2008 stood at US\$330.5 million, which is a growth of 45 percent (or US\$102.5 million) compared to 2007. Simi-

CHART 12



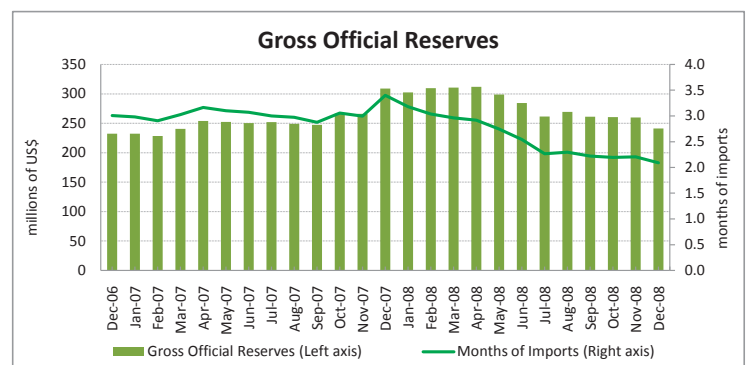
Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

CHART 14



Source: Maldives Monetary Authority and Maldives Customs Service

larly, the value of merchandise imports for this period, which totalled US\$1221.2 million, grew by 27 percent (or US\$256.5 million) over the corresponding period of 2007. This further worsened the trade deficit to US\$890.7 million in comparison to US\$736.8 million in 2007.

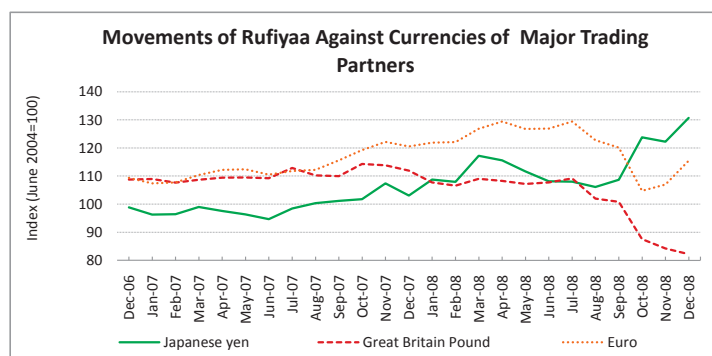
Despite the pickup in tourism activity, gross international reserves declined to US\$241.3 million at the end of December 2008 from US\$260 million at the end of last month while reserves in terms of import cover decreased to 2.1 months. When compared with December 2007, gross international reserves showed a decline of US\$67.8 million while reserves in months of imports dropped by 1.3 months owing to the increase in imports (Chart 14).

### 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.

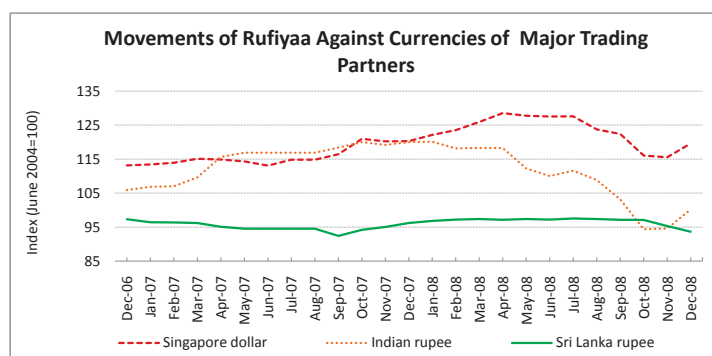
Year-on-year comparisons of bilateral exchange rates at the end of December 2008 showed that with the exception of the Japanese yen against which the rufiyaa depreciated by 26.8 percent, the rufiyaa appreciated against major currencies of the country's trading partners. As such, the rufiyaa appreciated against the Sterling pound, Indian rupee, Euro, Sri Lankan rupee and the Singapore dollar by 26.6 percent, 16.5 percent, 4.2 percent, 2.6 percent and 0.6 percent, respectively.

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

---

## Maldives Monetary Authority

Malé- 20182, Republic of Maldives

Tel: (960) 331 2343, Fax: (960) 332 3862, Email: [mail@mma.gov.mv](mailto:mail@mma.gov.mv)