

MONTHLY ECONOMIC REVIEW

June 2008

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Maldives Monetary Authority

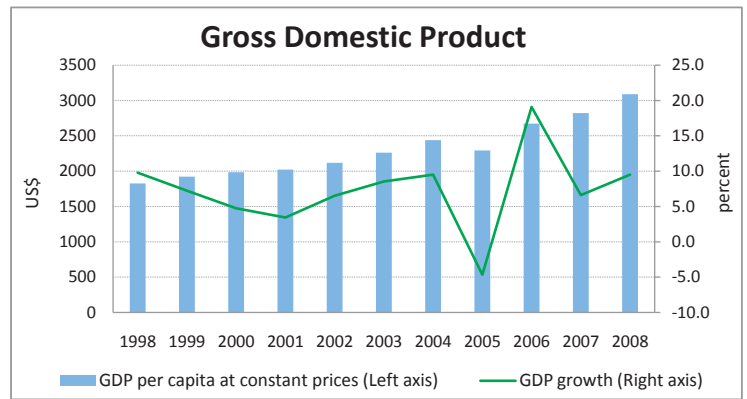
This report covers the macroeconomic developments during the month of June 2008. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Economic Review* contains data available as of 8th July 2008.

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

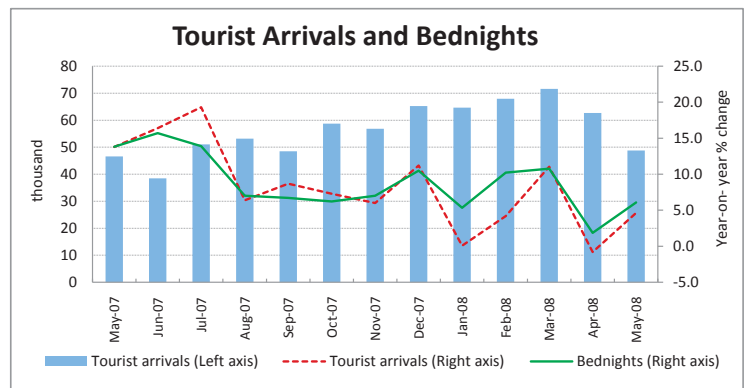


Source: Ministry of Planning and National Development

1.2 Tourism

Visitor arrivals, which observes the lowest dip in May-June during the low season, plunged by 22 percent in May 2008 compared to the previous month and totalled 48.8 thousand at the end of the review month. However, when compared to the corresponding month of 2007, visitor arrivals to the country registered a growth of 5 percent. Reflecting the increase in average duration of a tourist visit, from 8.2 in May 2007 and 8.0 in April 2008 to 8.3 in the review month, growth in bednights remained higher than arrivals growth and improved by 6 compared to a year ago while it declined by 19 percent compared to the preceding month. As for the capacity of the industry, the number of operational beds in resort/ hotels grew by 6 percent (1,055 beds) from the corresponding month of 2007 and stood at 18,576 beds at the end of the review month. Nonetheless, capacity utilization in resorts/hotels remained around the same as in May 2007, at 70 percent.

CHART 2



Source: Ministry of Tourism and Civil Aviation

On cumulative terms, visitor arrivals in the first five months of the year were higher by 4 percent compared to the corresponding period of 2007 and reached a record 315.6 thousand. This, along with the improvement in average duration of a tourist visit during the period, led to a 7 percent growth in bednights during Jan-May 2008. Meanwhile, reflecting the 9 percent (1,517 beds) growth in the operational bed capacity of the industry, capacity utilization fell from 90 percent to 88 percent in the first five months of 2008.

1.3 Fisheries

In May, fish landings (excluding EEZ) improved by 7 percent compared to the previous month and totalled 9.2 thousand metric tonnes, though landing remained 12 percent lower than the corresponding period of

2007. During the review month, fish purchases made by the commercial buyers fell by 43 percent from the preceding month to 2.5 thousand metric tonnes, while it plummeted by 50 percent compared with May 2007 (Chart 3).

On the export front, despite the monthly improvement in fish catch, the volume of fish exports (excluding live fish), which totalled 2.8 thousand metric tonnes at the end of May 2008 remained poor, falling by 9 percent compared with the previous month and by 60 percent compared with the corresponding month of last year. Yet, given the higher prices for tuna in the global market, fish export earnings registered a growth of 6 percent compared with the previous month and declined by 19 percent compared annually, totalling US\$7.4 million.

Cumulatively, during Jan-May 2008, fish catch declined by 32 percent from 63.6 thousand in the same period a year ago to 43.2 thousand metric tonnes, while fish purchases by commercial buyers fell by 34 percent to 21.9 thousand metric tonnes. As a result of the reduced fish catch, the volume of fish exports (excluding live fish) which totalled 28.3 thousand metric tonnes during the first five months of this year, fell by 16 percent compared with the first five months of last year, although earnings from such exports remained buoyant and reached US\$55.1 million -- growing by 12 percent-- on account of strengthened global tuna prices.

1.4 Prices

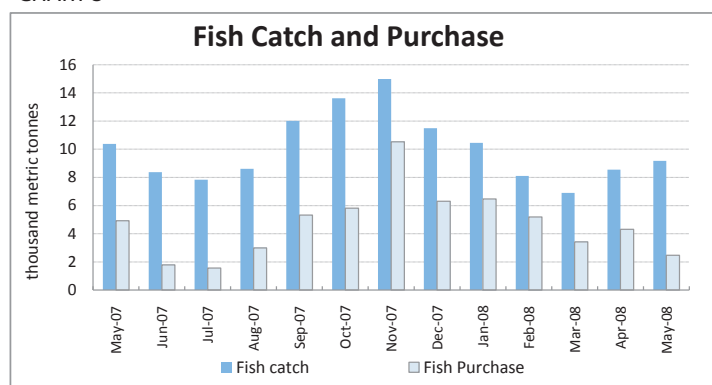
Consumer Price Index

Consumer price inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', rose to 9.7 percent in May 2008, from 3.8 percent a year ago and 9.0 percent in the previous month. CPI excluding the volatile fish prices rose by 7.9 percent while CPI excluding all food prices went up by 4.9 percent. The biggest contributions to CPI inflation during May came from higher prices for food; housing; miscellaneous goods and services; tobacco and narcotics; and transport (Chart 5).

World Commodity Prices

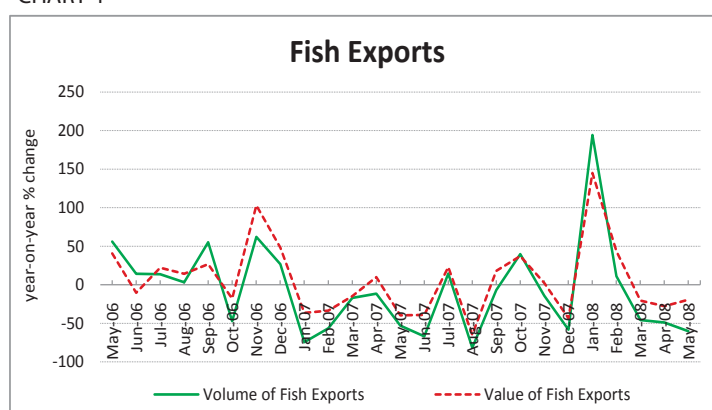
World commodity prices continue to climb dominated by higher energy and food prices. At the end of May

CHART 3



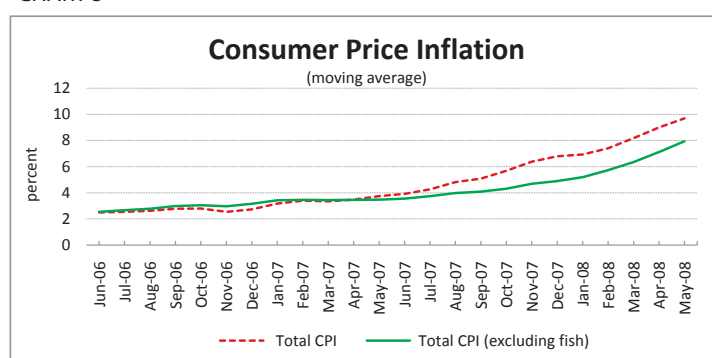
Source: Ministry of Fisheries, Agriculture and Marine Resources

CHART 4



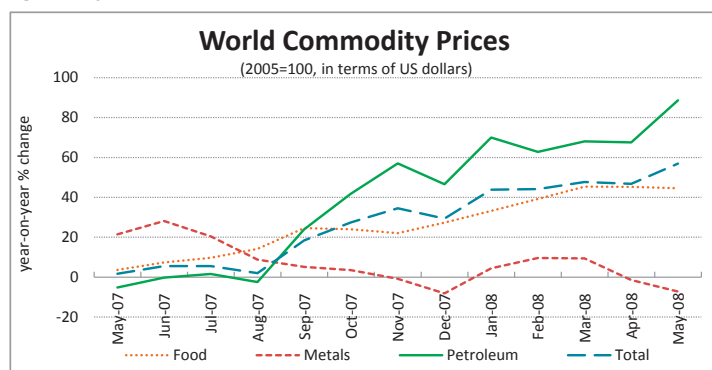
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



Source: International Monetary Fund

2008, the International Monetary Fund (IMF) primary commodity price index rose by 57 percent year-on-year, with the energy and food index rising by 89 percent and 44 percent, respectively (Chart 6). Meanwhile, price of crude oil (an average of UK Brent and U.S WTI) rose to US\$124.3 per barrel during the review month, up from US\$111.3 per barrel in the previous month, while a year ago price of crude oil stood much lower at US\$65.5 per barrel (Chart 7).

Domestic Petroleum Prices

Reflecting the surge in global oil prices, the retail price of diesel was raised by Rf2.95 per litre, from Rf12.55 per litre in April 2008 to Rf15.50 per litre in May 2008, while price of kerosene was increased by Rf2.00 per litre to Rf13.25 per litre. The price of petrol was kept unchanged at Rf11.50 per litre (Chart 8).

2- Public Finance

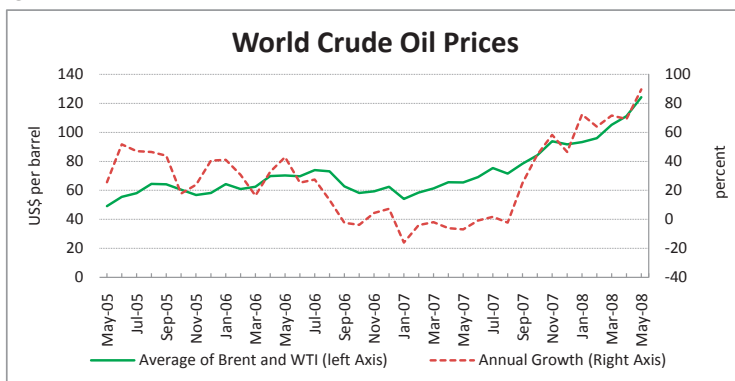
2.1 Government Budget

According to provisional budget estimates the overall deficit widened from Rf794.0 million (7 percent of GDP) in 2006 to Rf1,061.7 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 Rf1,564.6 million.

2.2 Revenue and Expenditure (cash flow)

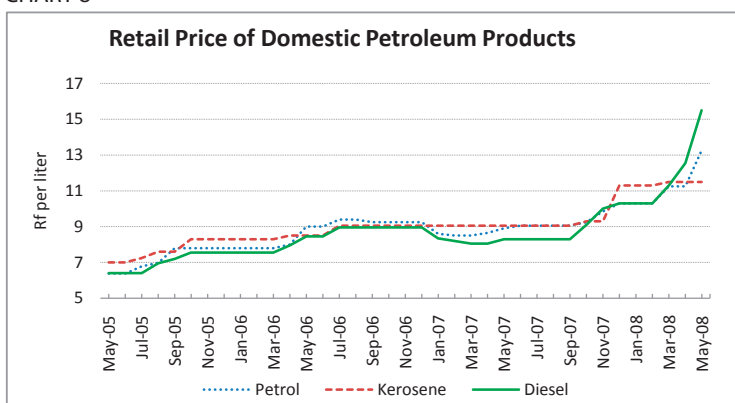
According to the latest monthly cash flow data of the government, total revenue in the first four months of 2008 rose to Rf2,266.6 million from Rf1,627.5 in the same period last year. The improvement in revenue came largely from increased collections of resort lease rent (68 percent), mainly in the form of advance lease payments from some of the newly leased out resorts, and import duty (34 percent). Meanwhile, total expenditure surged from Rf2019.4 million in the four months of 2007 to Rf2,999.9 million in Jan-Apr this year. As a result, the overall cash flow position of the government deteriorated sharply by Rf326.5 million from a deficit of Rf375.5 million in Jan-Apr 2007 to Rf702.0 million in the review period, as the 39 percent increase in revenue was not enough to offset the 49 percent expansion in expenditure (Chart 9).

CHART 7



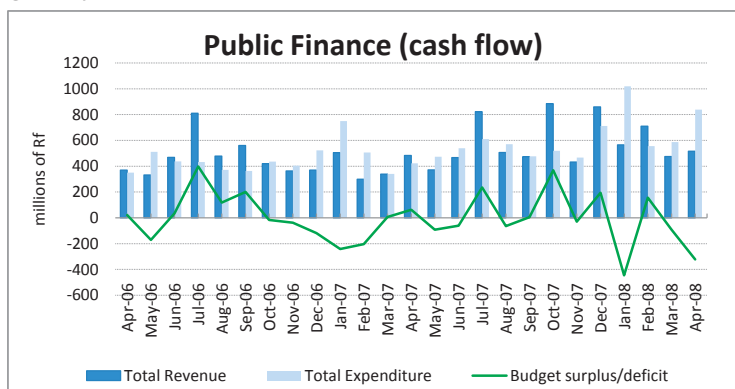
Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In May, broad money or M2 declined by Rf159.6 million to Rf11,406.8 million. In the 12 months to May 2008, M2 expanded by 20 percent largely on account of the substantial increase in domestic credit (by 44 percent), especially to the private sector (Chart 10 and 11). Growth in credit to private sector accelerated to 44 percent (or by Rf4,175.8 million) from 47 percent in the previous month to record Rf13,618.8 million during the period, of which 52 percent was lent to the tourism sector, 13 percent to commerce and 10 percent to fisheries and construction sector, respectively.

Net credit to government, registered a sharp increase of 40 percent (or Rf458.7 million) year-on-year, to Rf1,592.9 million at the end of May 2008 on account of the substantial increase in government expenditure during the period. However the expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 239 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 19 percent or Rf595.3 million.

3.2 The Monetary Base

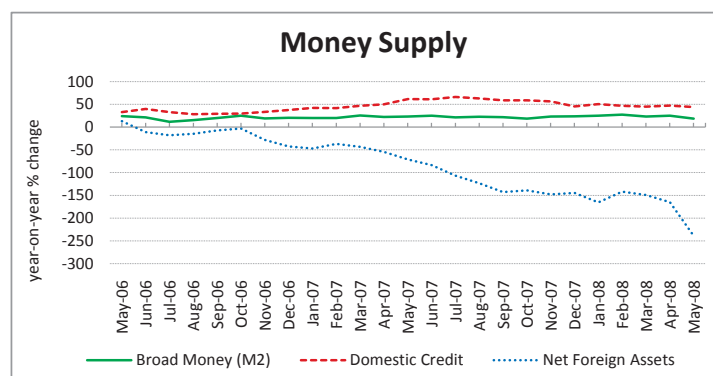
During May 2008 the monetary base (M0) increased by Rf252.3 million to Rf5,057.5 million. The increase in M0 is attributable to the Rf190.2 million increase in commercial bank deposits held with MMA. The increased liquidity in the banking system also reflects the increased investment in newly issued treasury bills by the banks during the month. Total amount of treasury bills outstanding at the end of May 2008 stood at Rf1,690.0 million compared with Rf1507.0 million at the end of April 2008.

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.

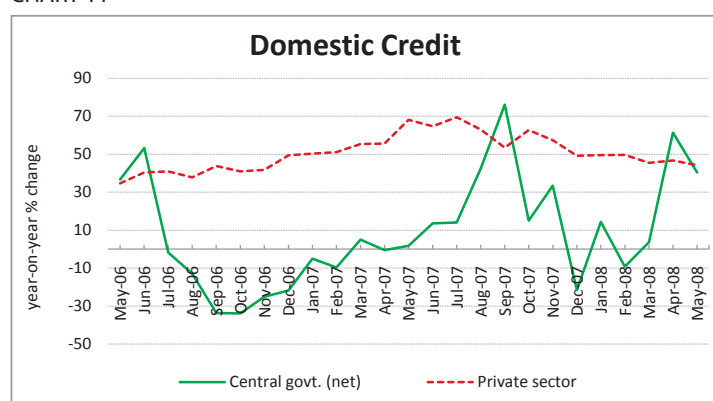
The spread of commercial banks foreign currency lending and deposit rates was changed in May 2008, although local currency lending and deposit rates remained unchanged. As such, the spread of foreign currency savings deposit rates was changed from 1.5-3.0 percent to 1.25-3.0 percent, while local currency rates stood between 2.25-3.0 percent. There was no change in the spread of term deposit rates which remained at 2.25-6.5 percent for local currency and 1.5-6.5 percent for foreign currency. As for lending rates, the spread of local currency rates remained between 8-13 percent, while the spread of foreign currency rates was changed from 7.5-13 percent to 5.5-13 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 in June 2008, the current account deficit widened by 41 percent to record US\$424.5 million (40 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 51 percent of GDP (Chart 12). The overall balance of payments recorded a surplus of US\$76.9 million at the end of 2007, as gross international reserves reached US\$309.1 million (3.4 months of imports), largely on account of the unprecedented amount of advanced lease rents received from the newly leased resorts in 2007. In 2008, the overall balance of payments is expected to record a surplus of US\$71.8 million while gross international reserves are projected to improve to US\$380.8 million, equivalent to 3.2 months of imports.

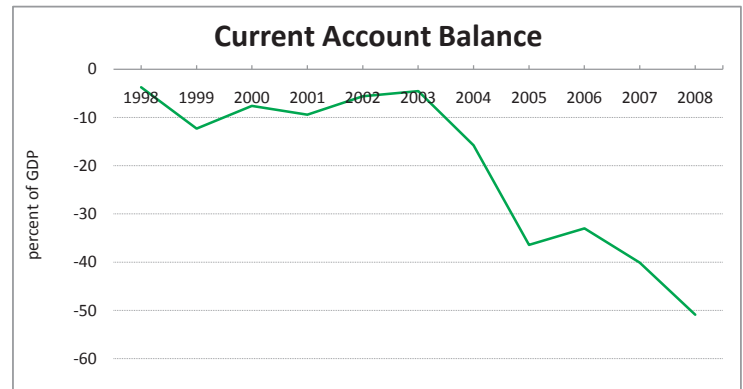
4.2 Balance of Trade and Gross International Reserves

The total value of merchandise exports which totalled US\$28.5 million at the end of May 2008, registered an increase of 8 percent compared to the previous month and improved by 52 percent against May 2007. During the review month, total value of imports gained by 6 percent on month-on-month basis, and increased by 26 percent when compared on year-on-year basis. The trade deficit widened to US\$73.3 at the end of May 2008 from US\$69.2 million in April 2008 and US\$62.1 million a year ago (Chart 13).

Earnings on total merchandise exports for the first five months of 2008 totalled US\$188.4 million, recording an increase of 73 percent (or US\$79.4 million) compared to the first five months of 2007. As for the total value of imports for the first five months of 2008, it increased by 52 percent to US\$543.9 million from US\$357.50 million in the first five months of 2007. Thus, the trade balance deficit further deteriorated to US\$355.6 million from US\$248.5 million in the first five months of 2007.

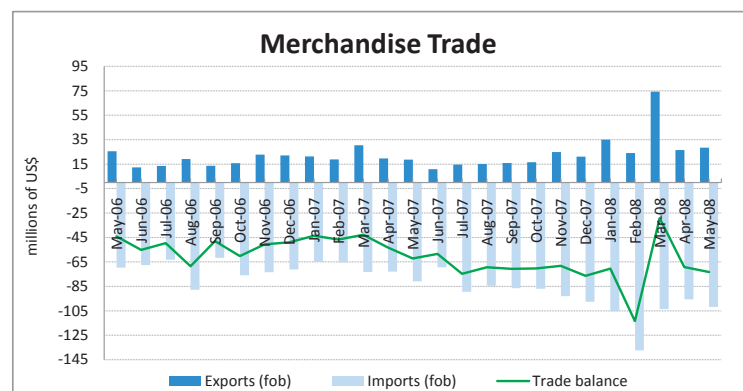
Reflecting the slowdown in tourism related activities, owing to the low season of the industry, gross international reserves deteriorated from US\$312.0 million at the end of April 2008 to US\$298.8 million at the end of May 2008, while reserves in terms of import cover fell from 2.9 months to 2.7 months. Nevertheless, compared to May 2007, gross international reserves showed a growth of US\$46.4 million (Chart 14).

CHART 12



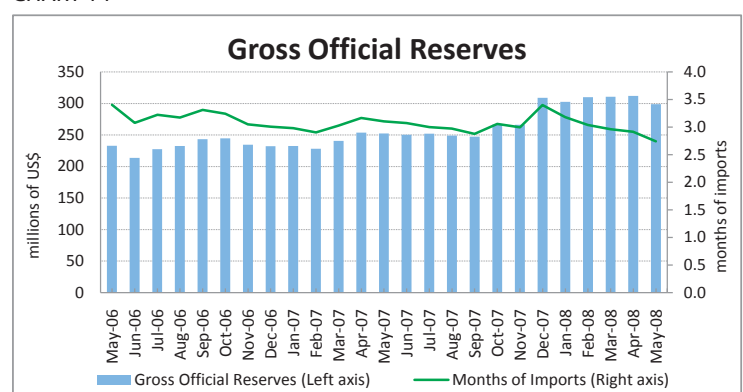
Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

CHART 14



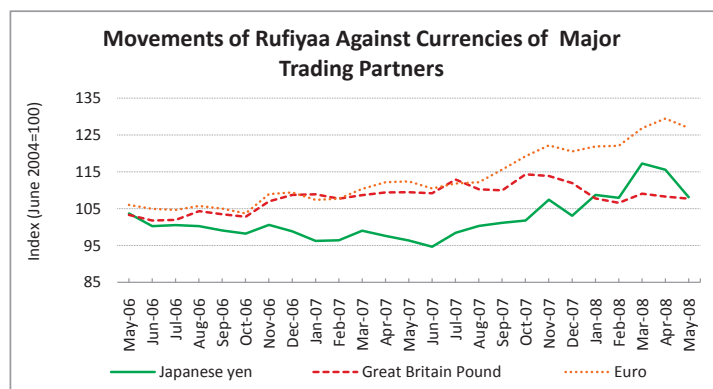
Source: Maldives Monetary Authority and Maldives Customs Service

4.3 Exchange Rate

The rufiyaa which has been pegged to the U.S. 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.

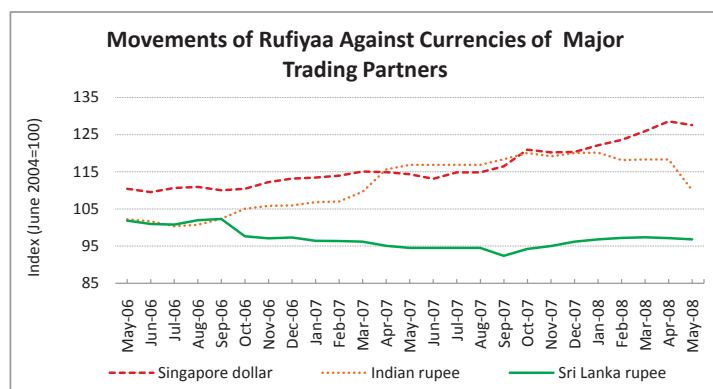
Year-on-year comparisons of bilateral exchange rates at the end of May 2008 showed that, with the exception of the Pound sterling and the Indian rupee against which the rufiyaa appreciated by 2 percent and 4 percent respectively, the rufiyaa depreciated against major currencies of trading partners as the U.S. dollar continue to weaken against the major currencies of the world. As such, the rufiyaa depreciated against the Japanese yen by 16 percent, euro by 13 percent, the Singapore dollar by 12 percent and the Sri Lankan rupee by 3 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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