

MONTHLY ECONOMIC REVIEW

June 2009

Volume III, Number: 6



Maldives Monetary Authority

This report covers the macroeconomic developments during the month of May 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 30th June 2009.

1- The Real Economy

1.1 Output

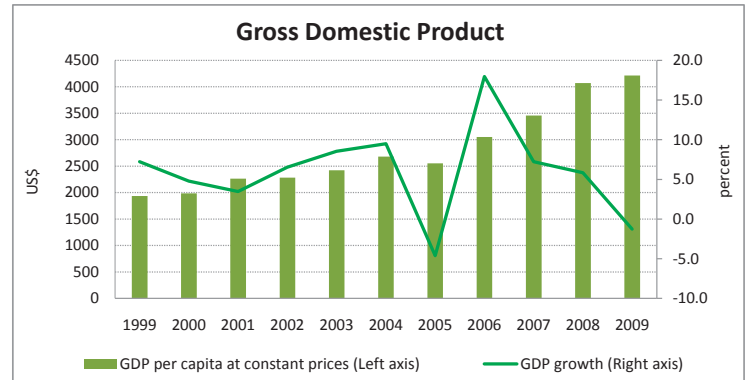
According to revised GDP estimates of March 2009 released by the Department of National Planning, the real GDP growth moderated to 5.8 percent in 2008 from 7.2 percent in 2007 largely due to the slowdown in tourist arrivals, especially in the second half of the year. Meanwhile, real output is now projected to contract by 1.3 percent in 2009 as tourism is projected to decline significantly during the year owing to the global economic recession (Chart 1). As such, tourism is forecasted to decline by 11 percent in 2009 while the construction sector – which has been a key driver of growth over the last 5 years – is also projected to register a sharp decline (of 24 percent) as major tourism resort development projects and other capital projects of the government are being held up due to financing difficulties externally.

1.2 Tourism

With the on set of the off peak season of the tourism industry in April tourist arrivals further weakened and plunged by 25 percent on monthly terms totalling 43.2 thousand in May 2009. Meanwhile, reflecting the ongoing economic recessions in major tourism source markets, tourist arrivals recorded a decline of 12 percent compared to May 2008. Owing to the increase in average length of a tourist visit, the decline in tourist bednights was lower than the decline in arrivals. Hence, on a monthly basis, bednights declined by 17 percent while on annual terms, bednights fell by 8 percent. As for the capacity of the industry, the number of operational beds expanded to 20,132 beds at the end of May 2009, recording an increase of 1,556 beds from the corresponding month of 2008. As a result, coupled with the low levels of tourist arrivals during the month, capacity utilisation of the industry further declined to 59 percent during the review period from 70 percent in the same period a year ago, (Chart 2).

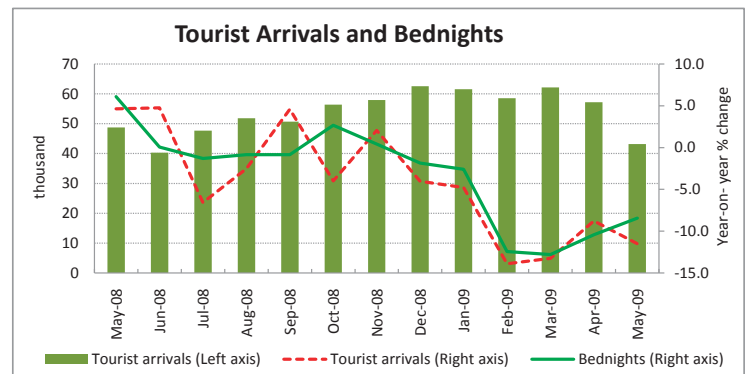
On cumulative terms, in the first five months of 2009 tourist arrivals declined by 10 percent annually and totalled 282.5 thousand while bednights recorded a decrease of 9 percent during the period. The increase in operational bed capacity of the industry together with the fall in visitor arrivals dropped the capacity utilisation to 78 percent in Jan-May 2009 from 89 percent in Jan-May 2008.

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

1.3 Fisheries

Fish landings which totalled 8.2 thousand metric tonnes at the end of the month, plunged by 12 per cent month-on-month while it decreased by 18 per cent when compared year-on-year. Fish purchases by the commercial buyers, which totalled 2.8 thousand metric tonnes at the end of the review month, registered a decline of 5 per cent compared to the preceding month while on annual terms it registered a growth of 15 per cent (Chart 3).

Notwithstanding the drop in fish catch, the total volume of fish exports (excluding live fish) registered a slight growth of 1 per cent compared to April 2009 and grew by 56 per cent annually to register 4.3 thousand metric tonnes in the review month. Despite the above, total earnings on fish exports (excluding live fish) which totalled US\$6.4 million, declined by 4 per cent compared to the preceding month and by 13 per cent compared to May last year (Chart 4).

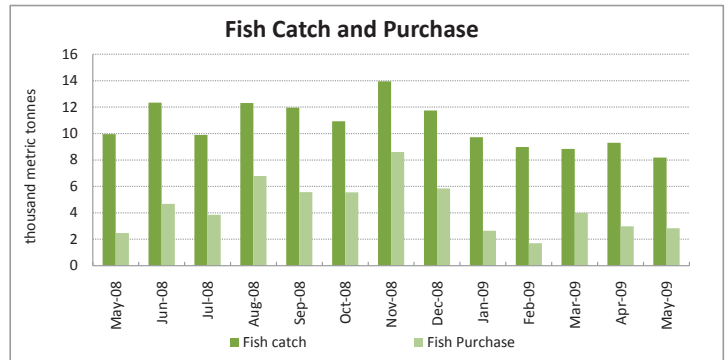
On cumulative basis, fish landings totalled 45.0 thousand metric tonnes during Jan-May 2009, plummeting by 7 per cent from 48.6 thousand metric tonnes in Jan-May 2008. Likewise, fish purchases by the commercial buyers also went down by 35 per cent, from 21.9 thousand metric tonnes in the same period in 2008 to 14.2 thousand metric tonnes in the review period of 2009. On the exports front, the volume of fish exports (excluding live fish) amounted to 18.7 thousand metric tonnes during the first five months of the year, indicating a drop of 34 per cent compared to the same period a year ago. Meanwhile, reflecting the decline in tuna prices in the global market, the decline in fish export earnings were much higher during the period registering a decline of 42 per cent to US\$31.8 million during Jan-May 2009.

1.4 Prices

Consumer Price Index

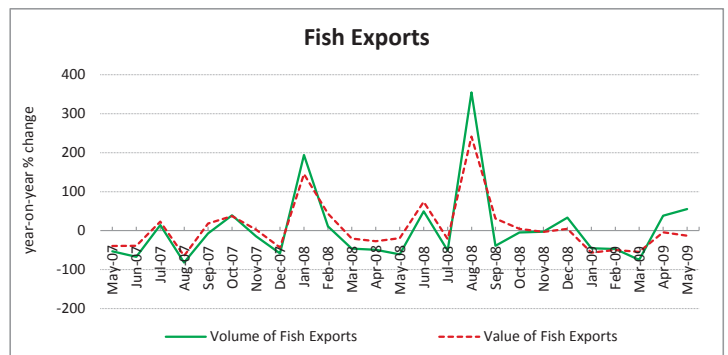
Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', fell to 9.5 per cent at the end of May 2009, from 10.4 per cent in April 2008. As for inflation excluding the volatile fish prices, it ended up slightly higher, at 10.1 per cent, at the end

CHART 3



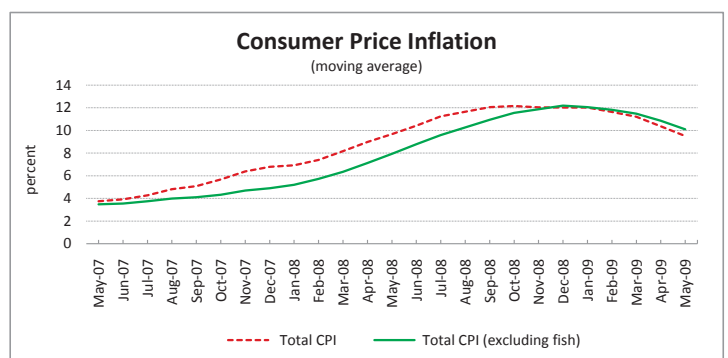
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

of the review month. Price developments during the month were mainly influenced by the food category, particularly the price of fish in the domestic market which increased by 5.3 percent on a month-on-month basis. The housing category which registered a monthly increase of 1 percent also contributed to inflation during the month (Chart 5).

World Commodity Prices

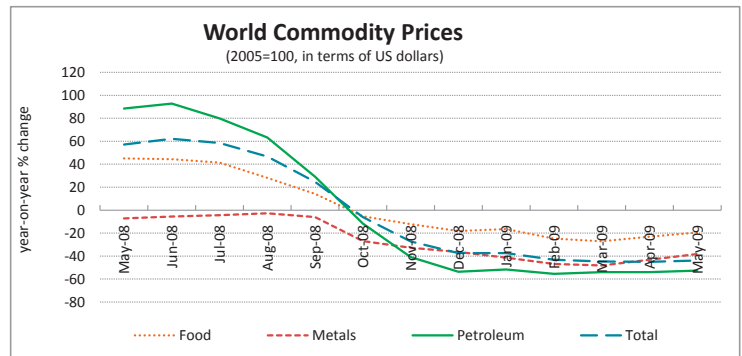
The International Monetary Fund's (IMF) primary commodity index which began to recover in March 2009 rose by a further 10 percent on monthly terms owing to the increase in demand. Despite the recent rebound in prices, global commodity prices remained 44 percent lower than its record highs a year ago. The monthly growth in commodity prices was led by the rise in global energy and food prices, while price of industrial inputs also firmed up during the month. In May 2009 global food prices increased by 6 percent month-on-month, while energy prices surged by 16 percent. However, when compared to a year ago global food and energy prices have fallen by 19 percent and 53 percent, respectively (Chart 6).

In May, price of crude oil (an average of UK Brent and U.S WTI) rose to US\$58.4 per barrel from US\$50.0 per barrel in April 2009. However, oil prices remained lower compared to US\$124.3 per barrel in May 2008 (Chart 7).

Domestic Petroleum Prices

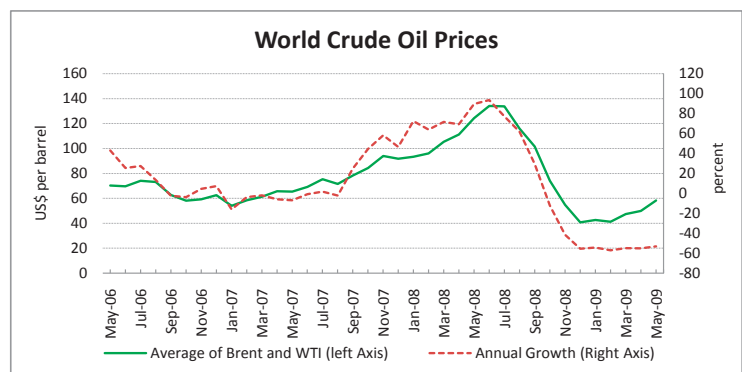
Adjustments to the retail prices of domestic petroleum products were last made during April 2009. Price of petrol was raised to Rf8.15 per litre in April 2009 from Rf7.50 per litre in the March 2009, while price of diesel was lifted to Rf7.30 per litre from Rf6.70 per litre in March 2009. Price of kerosene remained unchanged at Rf8.00 per litre since its last price adjustment in November 2008 (Chart 8).

CHART 6



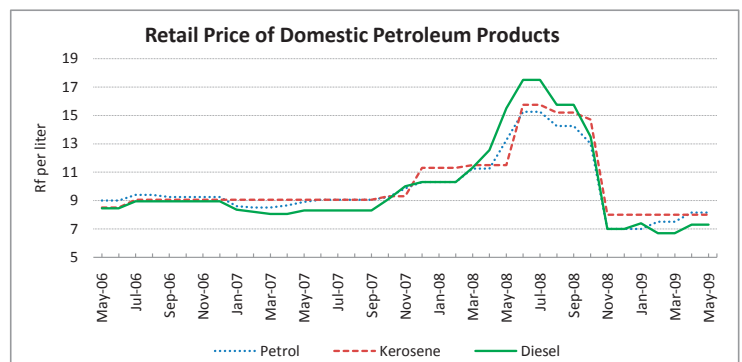
Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

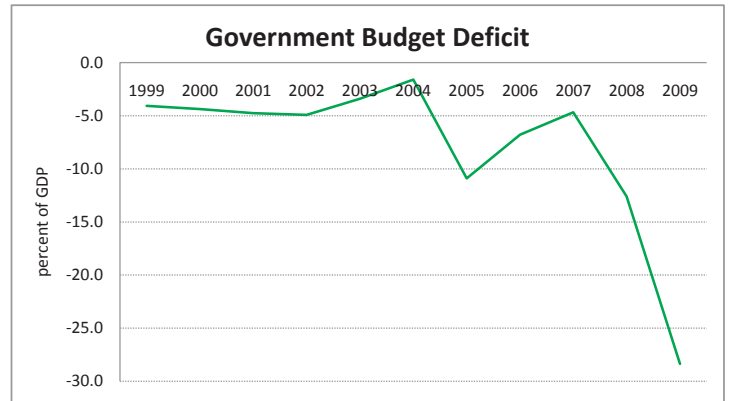
2- Public Finance

2.1 Government Budget

According to revised budget estimates of March 2008, the government budgetary position deteriorated significantly during 2008 by Rf1.4 billion to record an overall deficit of Rf2.0 billion. As such, despite the 2 percent increase in revenue in 2008, the overall deficit widened to 13 percent of GDP in 2008 as total expenditure and net lending reached unsustainably higher levels during the year – to 61 percent of GDP. Around 87 percent of the increase in expenditure was spent on current expenditure. With regard to financing of the deficit, 70 percent of the deficit was domestically financed –which was mostly through monetization– compared to 2 percent in 2007.

With regard to the revised medium term budget for 2009-2011, despite a 21 percent decline projected for current revenue (mainly due to decline in import duty and tourism related revenues) and a 16 percent increase in planned expenditure, the overall fiscal deficit for 2009 is projected to decline to 7 percent of GDP as total revenue is expected to register an improvement of 33 percent. The increase in total revenue mostly comes from revenue from the planned privatization proceeds. The deficit for 2009 is projected to be financed entirely through foreign sources. As a result public external debt is forecasted to reach 45 percent of GDP by the end of 2009 with debt service projected to increase to 10 percent of total exports of goods and services.

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In May, broad money (M2) registered a growth rate of 18 percent (14 percent in the previous month), which was almost entirely contributed by the expansion in domestic credit (21 percent increase in May 2009), of which lending to the private sector accounted for 79 percent. Nevertheless, credit to the private sector continued to show a declining trend, mainly owing to the tight credit availability to the commercial banks from abroad and registered a growth rate of 14 percent in the review month compared to 17 percent growth in the preceding month. Credit to the tourism sector accounted for 58 percent of total private sector credit, with 11 percent to construction sector, 9 percent for commerce and 7 percent for the fisheries industry. In the meantime, owing to the huge expansion in government expenditure, net credit to the government which totalled Rf3,012.4 million at the end of the month, registered an annual increase of 88 percent (Chart 10 and 11).

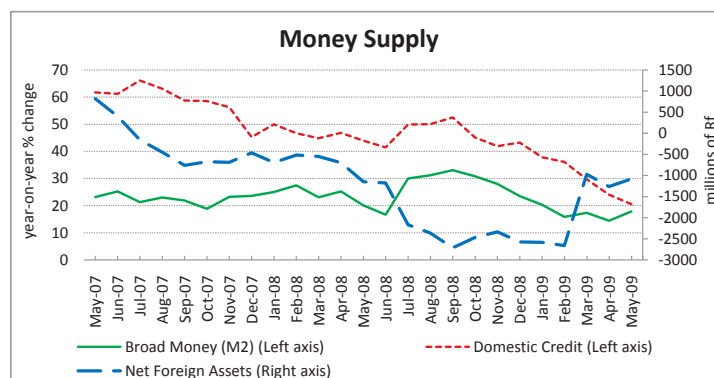
The expansionary effect of the domestic credit on broad money was to some extent offset by the fall in net foreign assets (NFA) of the banking sector which has been on a net liability position since July 2007. In the review month, net foreign liabilities of the banking sector declined by 6 percent compared to May 2008, reflecting the fall in the net foreign liabilities of the commercial banks. During the month NFA of MMA registered a decline of 19 percent due to the continued decline in foreign assets of MMA.

3.2 The Monetary Base

The monetary base (M0) increased by 20 percent (or Rf1,016.6 million) on annual terms at the end of May 2009. The growth in monetary base was mainly contributed by both the increase in commercial bank deposits held with the MMA and the increase in currency in circulation.

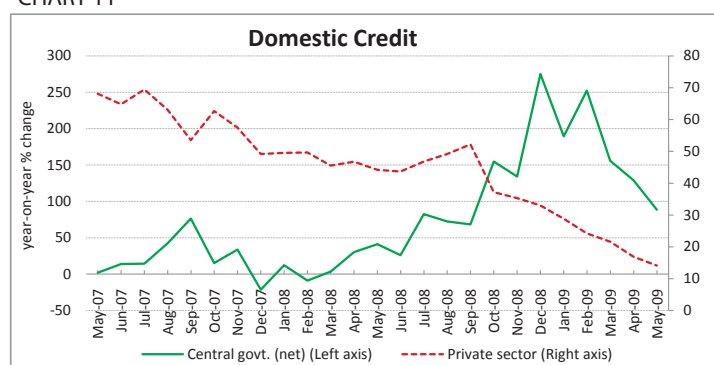
Total amount of treasury bills outstanding rose to Rf1,982.0 million at the end of May 2009 in comparison to Rf1,690.0 million at the end of May 2008.

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 April 2009, the current account deficit is estimated to have widened by 49 percent to US\$651.3 million (52 percent of GDP) in 2008 largely due to high import growth owing to strong domestic demand, high commodity prices record high oil prices earlier during the year (Chart 12). The large current account deficit led to an overall balance of payments deficit of US\$67.8 million in 2008, as net financial inflows to the country moderated during the year due to a significant decline in external borrowings by commercial banks. As a result, gross official reserves declined by 22 percent in 2008 which was recorded at US\$241.3 million at the end of year (equivalent to 2.1 months of import cover, down from 3.4 months in 2007).

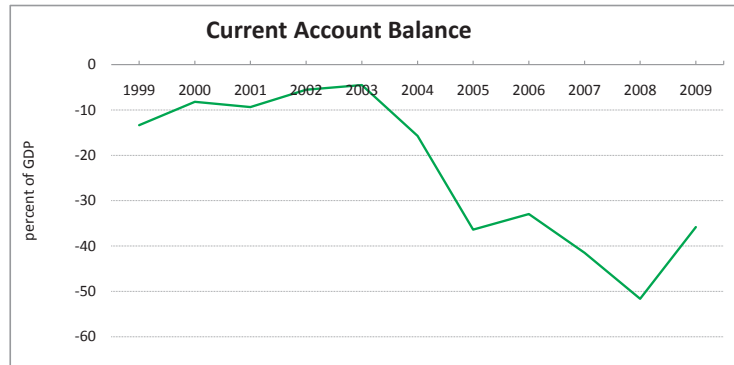
With tourism receipts and imports forecast to decline markedly in 2009 due to deteriorating global economic conditions and slowing domestic demand, the current account deficit is projected to decline by 27 percent to US\$475.4 million (36 percent of GDP) in 2009. Nonetheless, as net financial flows is expected to improve through foreign exchange from privatization proceeds and government external borrowing the overall balance of payments is projected to record a surplus of US\$144.8 million in 2009. Hence, gross official reserves are projected to reach US\$386.1 million which is 4.3 months of imports.

4.2 Balance of Trade and Gross International Reserves

According to latest trade data available, the total value of merchandise exports, which totalled US\$13.6 million in May 2009, fell by 16 percent compared to the previous month and showed a decline of 46 percent compared to May 2008. Similarly, the value of merchandise imports fell by 20 percent on monthly terms and by 41 percent on annual terms and totalled US\$60.0 million at the end of the review month. Hence, the trade deficit continued to remain in deficit, however, shrank to US\$46.5 million at the end of May 2009 from US\$58.8 million in April 2009 and US\$76.7 million a year ago (Chart 13).

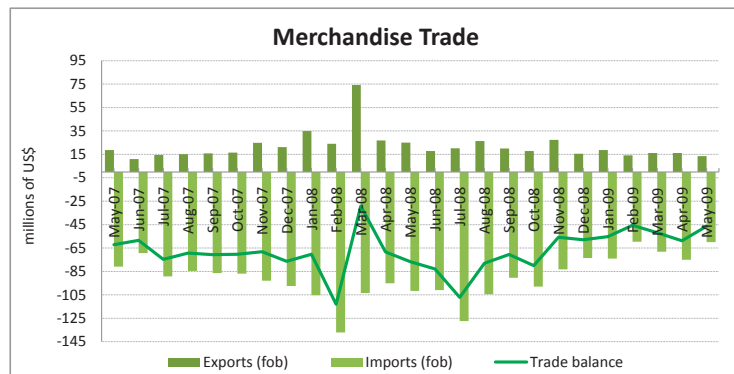
Earnings on total merchandise exports during the first five months of 2009 totalled US\$78.8 million, falling

CHART 12



Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

by a marked 57 percent (or US\$106.4 million) compared to the first five months of 2008. Meanwhile, the total value of merchandise imports during Jan-May 2009 decreased by 38 percent (or US\$206.0 million) and stood at US\$336.9 million compared to the same period of last year. Thus, the trade deficit declined to US\$258.1 million from US\$357.7 million in the first five months of 2008.

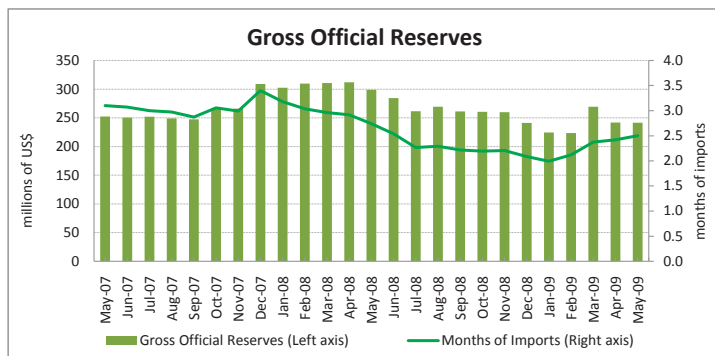
Reflecting the decline in tourism receipts owing to the fall in tourist arrivals, gross international reserves decreased to US\$241.7 million at the end of May 2009, from US\$242.0 million at the end of April 2009 and US\$298.8 million in May 2008. Nevertheless, reserves in terms of import cover slightly rose to 2.5 months in May 2009 from 2.4 months in April 2009 on account of the weaker imports. When compared with May 2008, gross reserves in months of imports fell by 0.2 months (Chart 14).

4.3 Exchange Rate

The Maldivian rufiyaa, which is pegged to the United States dollar, stood unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively.

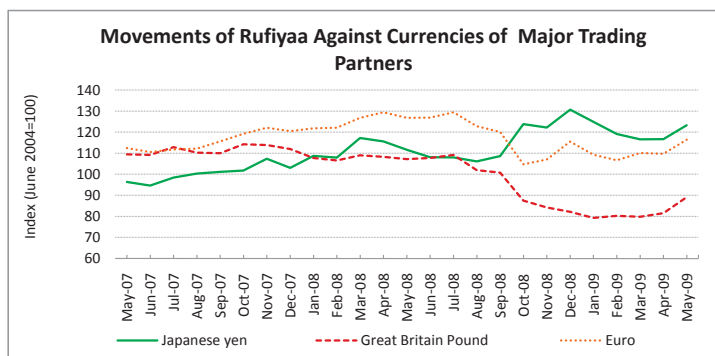
When compared on annual terms, the bilateral exchange rates of Maldivian rufiyaa at the end of May 2009 indicated that, with the exception of the Japanese yen, rufiyaa appreciated against the currencies of the country's other major trading partners. As such, rufiyaa appreciated against the Sterling pound by 17 percent, the Indian rupee by 13 percent, the euro by 8 percent, and both the Singapore dollar and the Sri Lanka rupee by 5 percent. The rufiyaa depreciated against the Japanese yen by 10 percent (Chart 15 and 16)

CHART 14



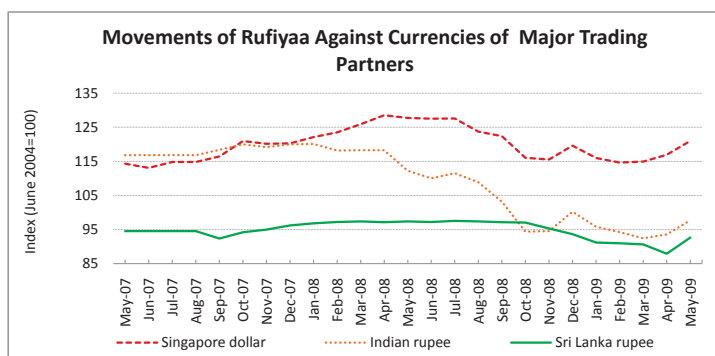
Source: Maldives Monetary Authority and Maldives Customs Service

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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