

MONTHLY MACROECONOMIC REVIEW

March 2008

Volume: II , Number :3



Maldives Monetary Authority

This report covers the macroeconomic developments during the month of February 2008. 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 30th March 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).

1.2 Tourism

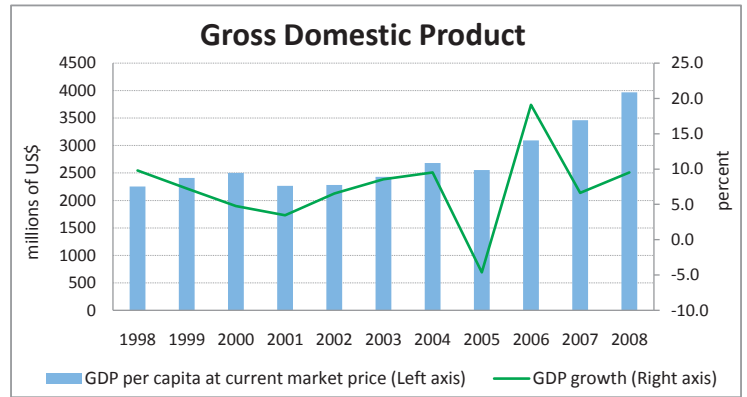
Followed by an impressive monthly growth of 15 percent in the last month of 2007, total number of tourists who visited the country during January 2008 fell by 1 percent from December last year though it registered a slight growth of less than 1 percent against the same month a year ago (Chart 2). In absolute numbers this shows a monthly decline of 589 and an annual growth of 51, totalling 64.6 thousand in January 2008. Nonetheless, despite the slowdown in arrivals' growth, total bed nights improved by 11 percent on monthly terms while growing by 5 percent against January 2007, due to the increased length of a tourist visit recorded during the month, which stood at 8.3 days in January 2008, compared to 7.9 days in January and 7.4 days in December 2007. At the same time, in spite of the increase in number of operational beds in the industry, which rose from 18,081 to 18,772 beds (an increase of 691 beds from the previous month), occupancy levels in resort/hotels rose to 92.1 percent from 86.1 percent in the previous month. However, year-on-year comparisons of the above showed that occupancy levels stood slightly higher in January last year, at 94.8 percent, given the considerable increase in number of operational beds (1,459 beds) during the period.

1.3 Fisheries

Overall, the activities of the fisheries sector slowed down during the review month, with total landings declining from 10.5 thousand metric tonnes in the previous month to 8.1 thousand metric tonnes in February 2008 registering a fall of 22 percent. When compared on an annual basis, fish catch declined by 21 percent against the corresponding month of 2007. Reflecting the above, fish purchases by commercial buyers also declined by 20 percent compared to the previous month and by 34 percent on annual terms and totalled 5.2 thousand metric tonnes at the end of the review month (Chart 3).

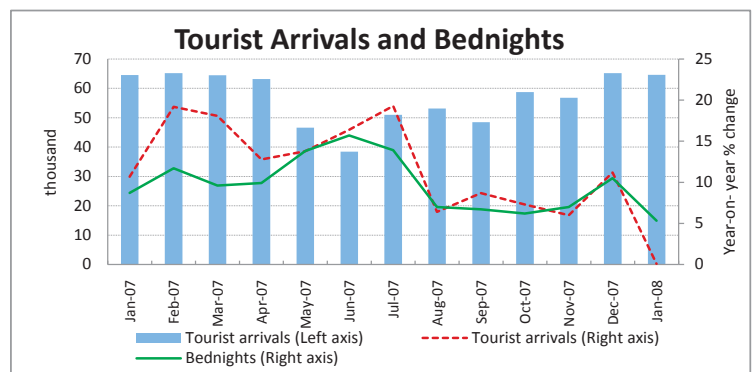
On the export front, the volume of fish exports (excluding live fish) declined by 41 percent against January 2008, while earnings from such exports also fell, though at a

CHART 1



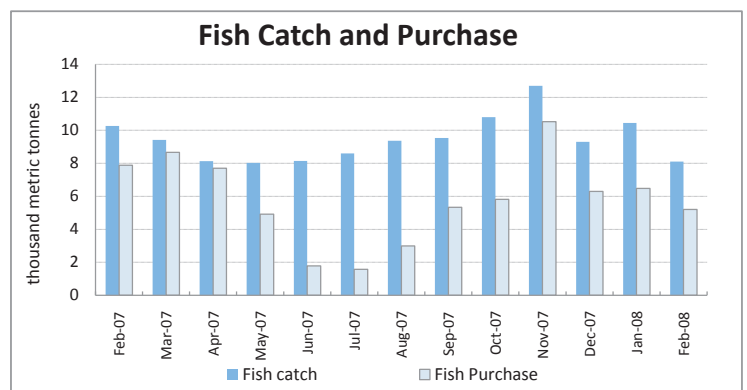
Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources

lesser magnitude, by 34 percent and totalled US\$11.6 million at the end of February 2008. However, year-on-year comparisons of fish exports showed an improvement in fish export numbers against February 2007, with the volume of fish exports (excluding live fish) showing a growth of 11 percent, from 5.3 thousand metric tonnes in February last year to 5.9 thousand metric tonnes in the review month, while fish export earnings registered a significant growth of 43 percent (or US\$3.5 million) and hence totalling US\$11.6 million in February 2008 (Chart 4).

Cumulatively, during the first two months 2008, fish catch increased by 4.4 thousand metric tonnes to 18.6 thousand metric tones from the same period of 2007 while fish purchases increased by 5.0 thousand metric tones to 11.7 thousand metric tonnes. The volume of fish exports (excluding live fish) expanded by 83 percent in Jan-Feb 2008, while fish export earnings rose by a 94 percent, totalling US\$29.1 million during the period.

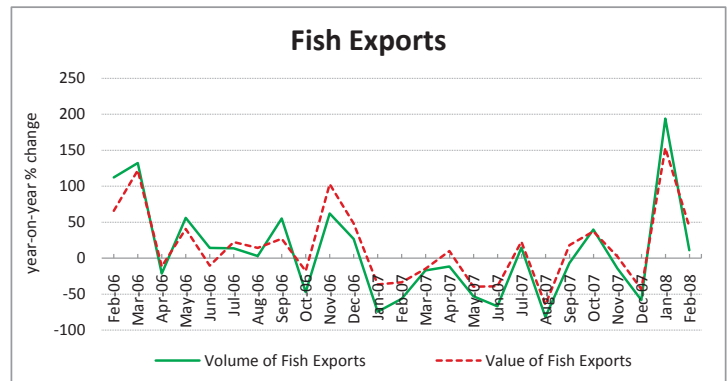
1.4 Prices

Consumer Price Index

In the review month, the domestic rate of inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', registered a monthly increase of 0.5 percent and reached 7.4 percent at the end of February 2008. The biggest increase in CPI during the period came largely from the food index (16.7 percent) and the hotels, cafés and restaurant index (15.5 percent), of which the latter was due to the increasing cost of eating out mainly due to higher food prices. This was followed closely by health (10.3 percent), housing (5.0 percent) and transport (7.6 percent) while gains were also recorded in the miscellaneous goods and services index (3.1 percent), owing to the increased cost of salon services and price increase of personal care products. Meanwhile, core measures of inflation such as CPI excluding the volatile fish prices rose by 0.5 percent in February while CPI excluding all food prices rose by 0.3 percent (Chart 5).

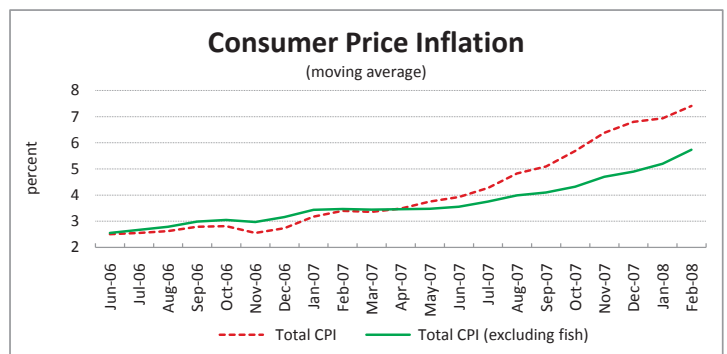
As for the year-on-year rate of inflation, for the first time since the CPI numbers were rebased in June 2004, the domestic inflation rate recorded a double digit growth of 10.6 percent from 8.4 percent in the previous month. The year-on-year rate of inflation (excluding fish) in February 2008 stood at 10.0 percent while CPI excluding food rose to 6.9 percent.

CHART 4



Source: Maldives Customs Service

CHART 5

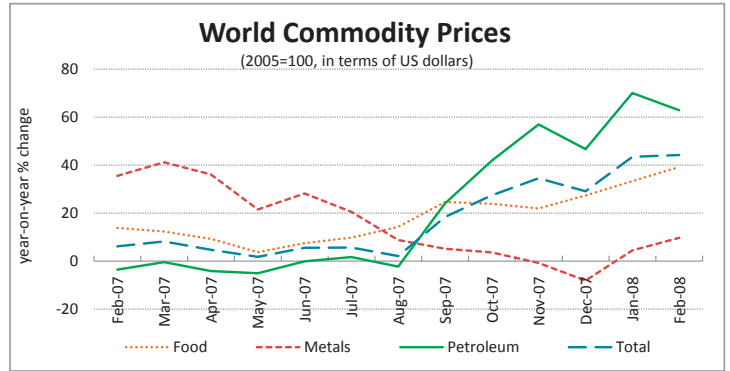


Source: Ministry of Planning and National Development

World Commodity Prices

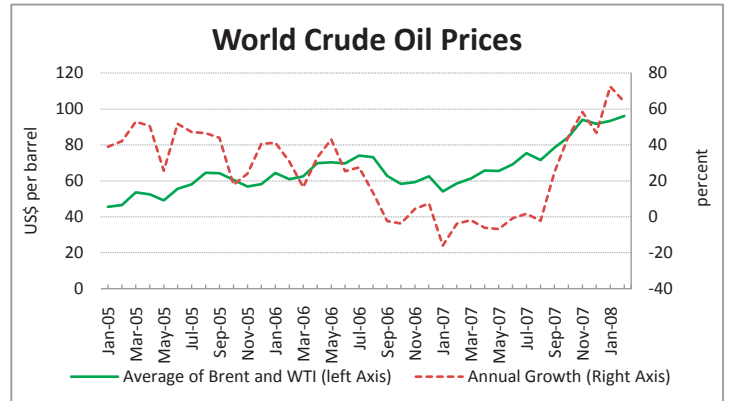
World commodity prices continue to climb up dominated by higher food and energy prices. As such, at the end of February 2008, the International Monetary Fund (IMF) primary commodity price index rose by 44.2 percent year-on-year, with the food and energy index rising by 39.2 percent and 62.8 percent, respectively (Chart 6). Meanwhile, price of crude oil (an average of UK Brent and US WTI) rose to US\$96.1 per barrel during the review month, up from US\$93.3 per barrel in the previous month, while a year ago price of crude oil stood much lower at US\$58.6 per barrel (Chart 7).

CHART 6



Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

2- Public Finance

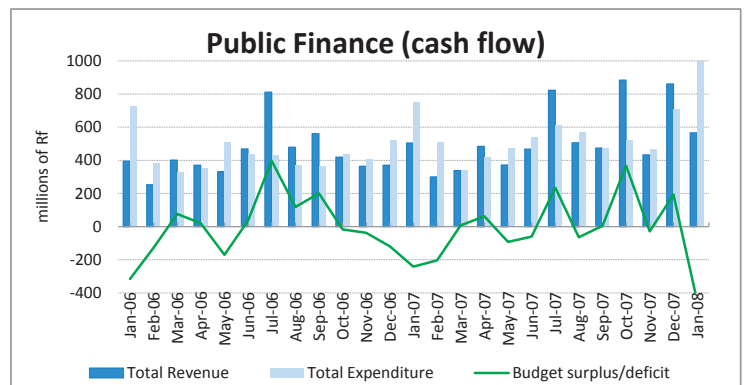
2.1 Government Budget

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)

Preliminary data according to monthly cash flow statements indicated that the fiscal performance of the government during the first month of 2008 showed a deficit of Rf444.8 million compared to a deficit of Rf241.7 million during the same month of 2007. Total revenue (excluding repaid loans) stood at Rf565.6 million at the end of January 2008 reflecting a growth of 12 percent when compared to 2007. Of the components of tax revenue, import duty which accounts for around three quarters of tax revenue, grew by 39 percent while tourism tax grew by 18 percent. Total expenditure (budget/cash) stood at Rf1,018.7 million at the end of January 2008 indicating a growth of 36 percent when set against 2007 (Chart 8).

CHART 8



Source: Ministry of Finance and Treasury

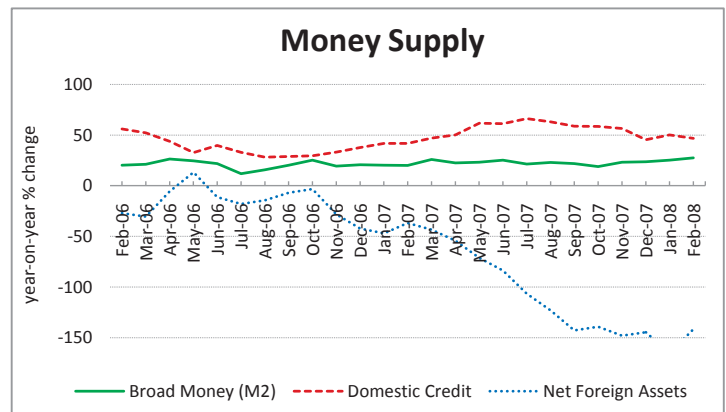
3- Monetary Developments

3.1 Money and Credit

In February, broad money or M2 increased by Rf423.3 million to Rf10,941.8 million. In the 12 months to February 2008, M2 expanded by 28 percent largely on account of the substantial increase in domestic credit (by 47 percent), especially to the private sector (Chart 9 and 10). As such, credit to private sector grew by 50 percent or by Rf4,274.3 million to record Rf12,884.3 million during the period, of which 54 percent was lent to the tourism sector, 12 percent to commerce, 10 percent to fisheries and 9 percent to construction sector.

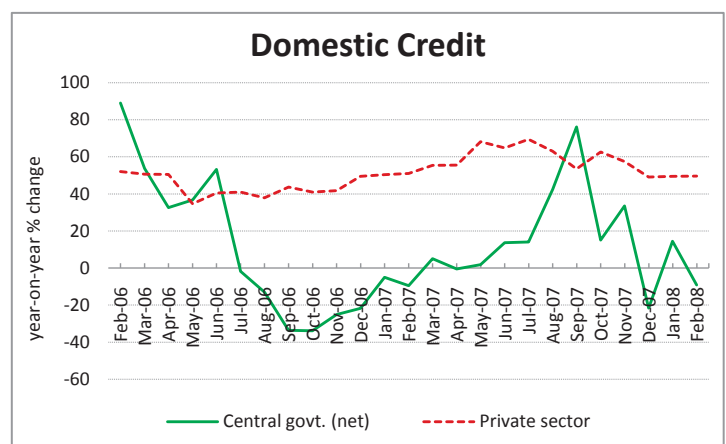
Despite the improvement in government deposits, net credit to government, after registering a growth of 14 percent in January 2008, declined by 9 percent (or Rf86.1 million) year-on-year, to Rf840.3 million at the end of February 2008 mainly. The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 142 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 37 percent or Rf1,044.2 million.

CHART 9



Source: Maldives Monetary Authority

CHART 10



Source: Maldives Monetary Authority

3.2 The Monetary Base

During February 2008 the monetary base (M0) decreased by Rf224.2 million to Rf4559.0 million. The decline in M0, which was mainly due to the decline in net credit to government (9 percent) during the period, was reflected in the (Rf265.8 million) decrease in commercial bank deposits held with MMA. As of end February 2008, total amount of treasury bills outstanding stood at Rf1,157.0 million compared to Rf811.0 million at the end of February 2007.

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 deposits 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.

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 11). 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.

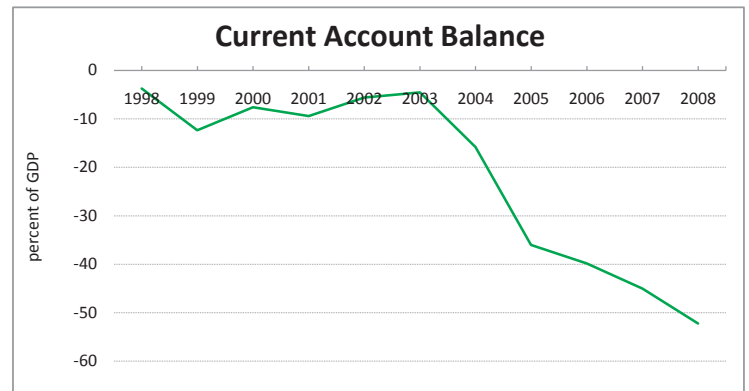
4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports, which totalled US\$24.1 million in the review month, fell by 32 percent against the previous month, although compared to February 2007 it registered a growth of 28 percent owing to the significant improvement in fish export earnings during the period. During the review month total imports into the country recorded a significant growth of 30 percent (or US\$32.1 million) compared to the previous month, while the value of imports more than doubled compared to February 2007, growing by 110 percent, and thus totalling US\$137.5 million at the end of February 2008. Hence, trade deficit widened further to US\$113.5 million from US\$69.9 million in January 2008 and US\$46.7 million recorded a year ago (Chart 12).

Earnings on total merchandise exports, which amounted to US\$59.6 million in Jan-Feb 2008, rose by 49 percent or by US\$19.5 million compared to the corresponding period of 2007 while total imports registered a significant growth of 86 percent, from US\$130.4 million in the first two months of 2007 to US\$243.0 million in the review period. As such, the trade balance continues to be in deficit and widened further to US\$183.4 million from US\$90.3 million in the first two months of 2008.

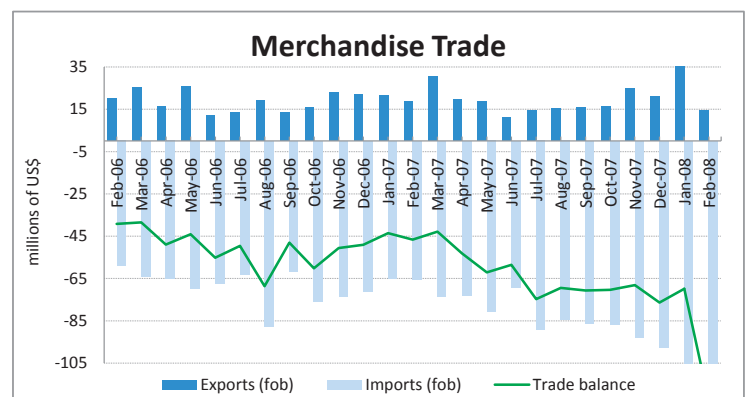
Reflecting the buoyant developments in the tourism sector, gross international reserves improved from US\$302.6 million at the end of January 2008 to US\$309.8 million at the end of the January 2008, while reserves in terms of import cover fell to slightly to 3.0 months from 3.2 months in the previous month, due to the higher value of imports recorded during the month.

CHART 11



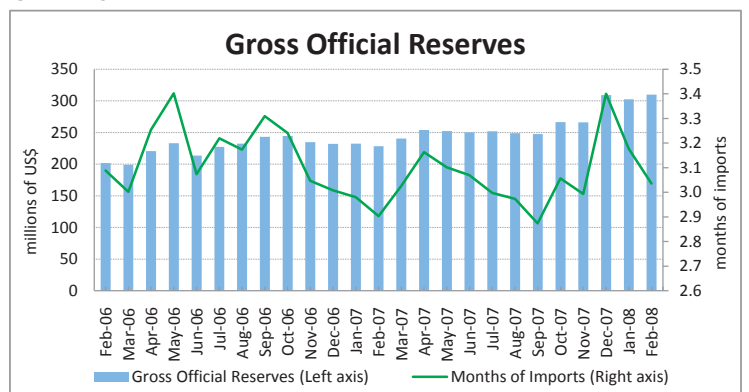
Source: Maldives Monetary Authority

CHART 12



Source: Maldives Customs Service

CHART 13



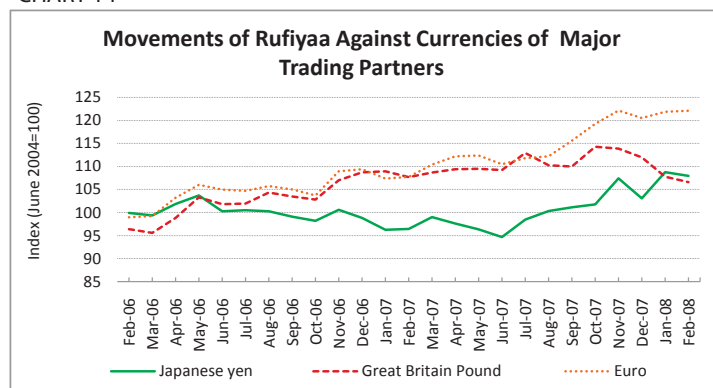
Source: Maldives Monetary Authority and Maldives Customs Service

Year-on-year, compared to February 2007, gross international reserves showed a growth of US\$81.5 million (Chart 13).

4.3 Exchange Rate

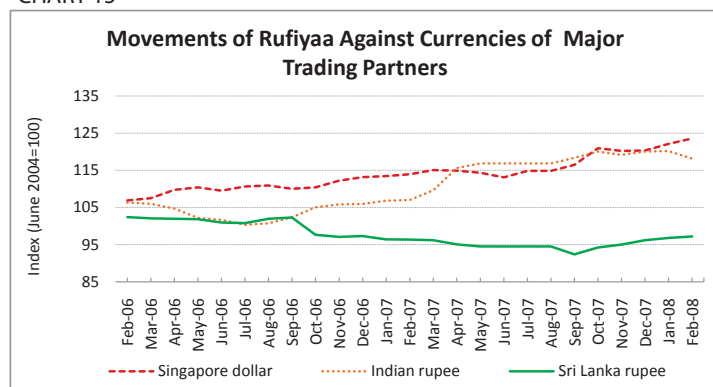
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively. Year-on-year comparisons of bilateral exchange rates at the end of February 2008 showed that the rufiyaa depreciated against major currencies of our trading partners — except for the pound sterling against which the rufiyaa appreciated by 1.0 percent— as the US dollar continued to decline against major currencies of the world. As such, the rufiyaa depreciated against the euro by 13.4 percent, the Japanese yen by 11.9 percent, the Indian rupee by 10.4 percent, the Singapore dollar by 8.4 percent and by 0.9 percent against the Sri Lankan rupee (Chart 14 and 15).

CHART 14



Source: Maldives Monetary Authority

CHART 15



Source: Maldives Monetary Authority

Maldives Monetary Authority

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