

MONTHLY ECONOMIC REVIEW

March 2009

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Maldives Monetary Authority

This report covers the macroeconomic developments during the month of February 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 9th April 2009.

1- The Real Economy

1.1 Output

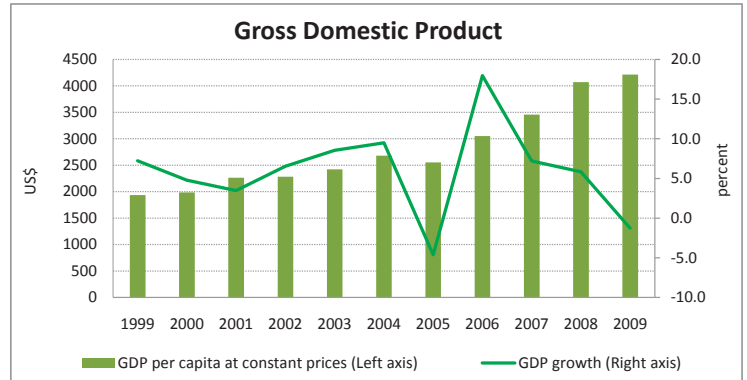
According to revised GDP estimates of March 2008 released by the Department of National Planning, the real GDP growth decelerated to 5.8 percent in 2008 from 7.2 percent in 2007 mainly due to the slowdown in tourist arrivals, especially in the second half of the year. Meanwhile, real output is now projected 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 10 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 tourist resort development projects and other capital projects of the government are being held up due to financing difficulties.

1.2 Tourism

Tourist arrivals, which totalled 58.5 thousand at the end of February 2009, dropped by 5 percent and by 14 percent both on monthly as well as on annual terms, respectively. Meanwhile, bednights also fell by 10 percent month-on-month owing to the shortened length of the average duration of a tourist visit from 8.5 days in the previous month to 8 days in the review month. When compared year-on-year, bednights registered a decline of 12 percent. As for the capacity of the industry, the number of operational beds in resort/hotels, which totalled 19,342 beds at the end of the month, stood relatively the same as the preceding month and only increased by 62 beds compared to the same month of last year. Thus, mainly due to the fall in tourist arrivals, the capacity utilisation of the industry fell to 87 percent during the review month compared to 96 percent a year ago (Chart 2).

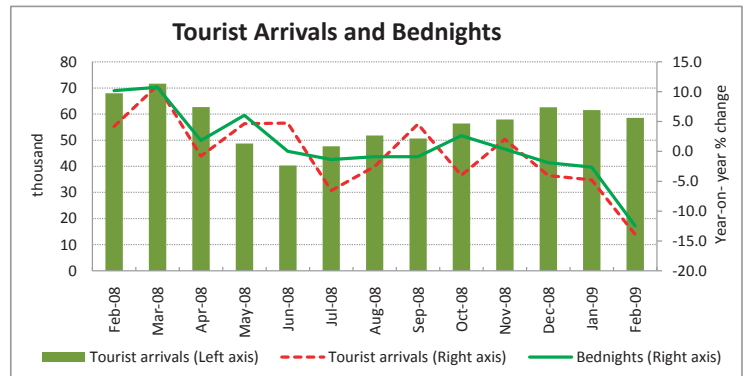
Total visitor arrivals in the first two months of the year, which reached 120.1 thousand, recorded a decrease of 9 percent compared to the corresponding period of 2008. This, along with no change in the average duration of a tourist visit during the period, led to an 8 percent fall in bednights during the same period. Given the fall in tourist arrivals with no significant change in the operational bed capacity of the industry, capacity utilization of the industry fell from 93 percent in Jan-Feb 2008 to 87 percent in the first two months of 2009.

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

1.3 Fisheries

The fisheries sector showed signs of further decline during the month of February 2009. As such, fish catch plummeted by 8 percent compared to the preceding month and totalled 9.0 thousand metric tonnes at the end of the month. Nevertheless, fish catch increased by 11 percent compared to the corresponding month of 2008. With the slump in fish catch, fish purchases by commercial buyers further fell to 1.7 thousand metric tonnes at the end of the month, indicating declines of 36 percent when compared to January 2009 and 67 percent when compared to February 2008 (Chart 3).

As for fish exports, the volume of fish exports (excluding live fish) plunged to 3.1 metric tonnes at the end of the month, recording a monthly drop of 44 percent and an annual decrease of a further 47 percent. Similarly, earnings on fish exports also declined to US\$5.8 million, falling by 21 percent compared to the last month and by 50 percent compared to the same month of 2008 (Chart 4).

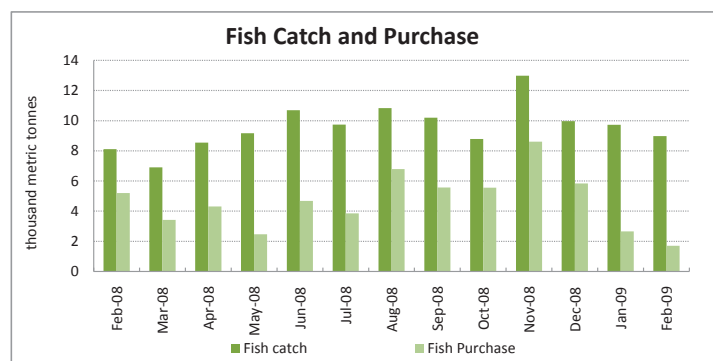
Cumulatively, during Jan-Feb 2009, fish catch increased by a mere 1.0 thousand metric tonnes to 18.7 thousand metric tonnes from the same period of 2008, whereas fish purchases fell sharply by 7.3 thousand metric tonnes (or 63 percent) to 4.4 thousand metric tonnes. The volume of fish exports (excluding live fish) also dropped by 46 percent in Jan-Feb 2009 compared to Jan-Feb 2008, while fish export earnings which totalled US\$13.1 million during the period, declined by a greater magnitude, by 54 percent compared to a year ago.

1.4 Prices

Consumer Price Index

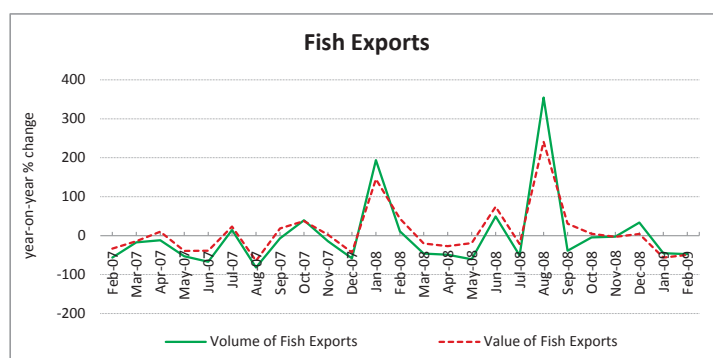
Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male' dropped to 11.6 percent in February 2009 from 12.0 in January 2009, however stood much higher compared to 7.4 percent in February 2008. Inflation excluding the highly volatile fish prices also fell to 11.8 from 12.1 percent in the previous month. Similar to the previous month, the main contributors to inflation during the month were the food; transport; health; and housing categories (Chart 5).

CHART 3



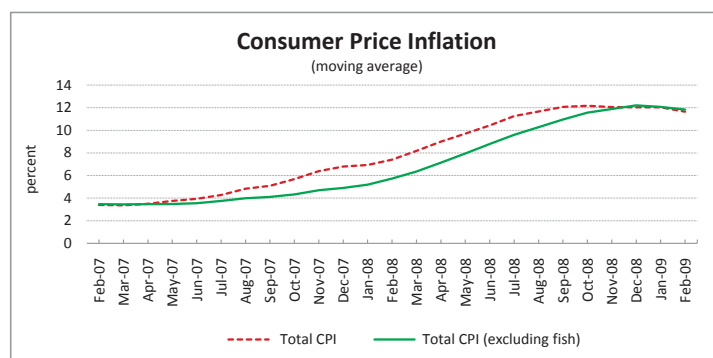
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



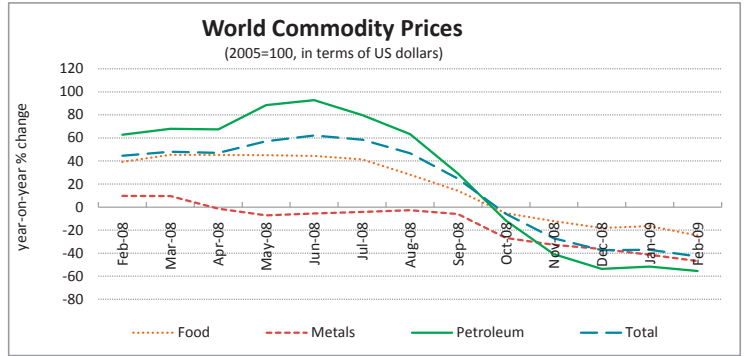
Source: Department of National Planning

World Commodity Prices

World commodity prices continued to decline, reflecting the slowing global demand. As such, the International Monetary Fund's (IMF) primary commodity index fell by 4 percent month-on-month, while compared year-on-year, it fell by 43 percent. The annual decrease in the world commodity prices was mostly due to the decline in global food and energy prices, which dropped by 25 percent and 55 percent on annual terms, respectively (Chart 6).

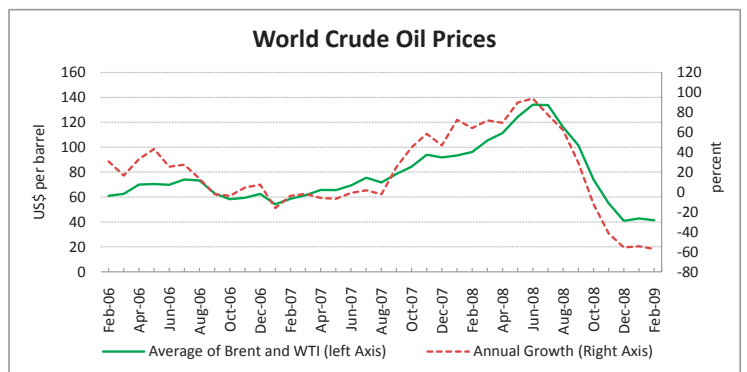
Meanwhile, price of crude oil (an average of UK Brent and U.S. WTI) fell further to US\$41.3 per barrel in February 2009 from US\$42.7 in January 2009. Compared to a year ago oil prices have fallen by 57 percent from US\$96.1 per barrel in February 2008 (Chart 7).

CHART 6



Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

2- Public Finance

2.1 Government Budget

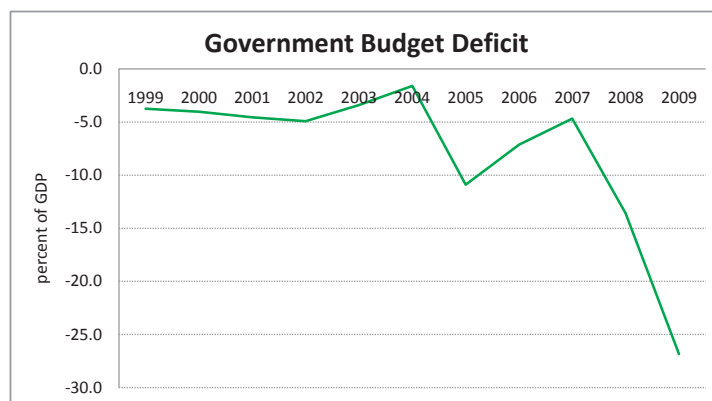
According to provisional budget estimates of November 2008, the government budgetary position deteriorated significantly during 2008 by Rf1.6 billion to record an overall deficit of Rf2.2 billion. Hence, despite the 5 percent increase in revenue in 2008, the overall deficit widened to 14 percent of GDP in 2008 as total expenditure and net lending reached unsustainably higher levels during the year – to 65 percent of GDP. Around 90 percent of the increase in expenditure was spent on current expenditure. With regard to financing of the deficit, 65 percent of the deficit was domestically financed –which was mostly through monetization– and compares with 2 percent in 2007.

With regard to the proposed budget for 2009, the overall deficit is projected to be Rf4.8 billion (which is 27 percent of GDP) as total revenue is projected to decline by 26 percent while total expenditure and net lending is projected to increase by Rf1.9 billion to 71 percent of GDP. The decline in revenue comes mainly from the decline in import duty and tourism bed tax. The deficit for 2009 is estimated to be financed from both external (70 percent) and domestic sources (through the adoption of the proposed new revenue measures) (Chart 8).

2.2 Revenue and Expenditure (Cash flow)

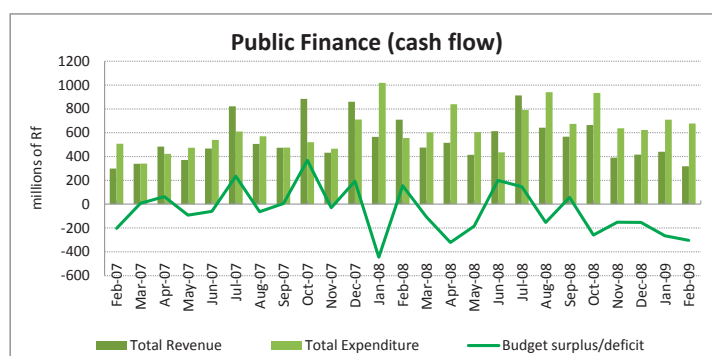
According to the monthly cash flow data of the government, total revenue in the first two months of 2009 totalled Rf758.0 million, reflecting an annual decline of 41 percent. Similarly, total expenditure, which stood at Rf1,387.0 million during Jan-Feb of 2009, indicated a fall of 12 percent when set against the same period of 2008 (Chart 9). Thus, the overall balance of government cash flow position during Jan-Feb 2009 further deteriorated to a deficit of Rf568.2 million compared with a deficit of Rf289.7 million during the first two months of 2008.

CHART 8



Source: Ministry of Finance and Treasury

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In the 12 months to February 2009, M2 increased by 16 percent mainly due to the increase in domestic credit (by 36 percent), especially to the private sector (Chart 10 and 11). Nonetheless, private sector credit which totalled Rf16,002.5 million at the end of the review month, continued its decelerating trend and registered an annual growth of 24 percent compared to a growth of 29 percent in the previous month reflecting the tight availability of credit to commercial banks externally owing to the global financial and economical crisis. Of the total credit to the private sector, 62 percent was lent to the tourism sector, 11 percent to the construction sector, 7 percent to the fisheries sector and 6 percent to commerce.

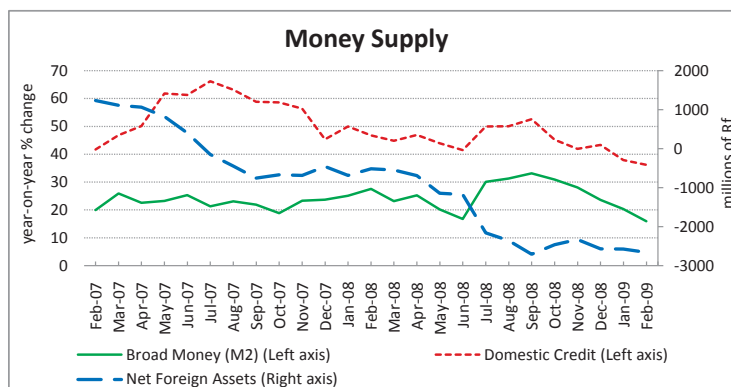
Net credit to government expanded by Rf2,120.0 million percent annually to Rf2,960.2 million at the end of February 2009 reflecting the rapid increase in government expenditure and hence contributed to the domestic credit growth. However, the expansionary effect of the domestic credit growth was to a greater extent offset by the decline in net foreign assets (NFA) of the banking sector, which has been on a net liability position since July 2007. The decline in NFA owes to the sharp increase in net foreign liabilities of the commercial banks and the decline in the net foreign assets of the MMA. The NFA of MMA continues to fall due to the decline in foreign assets.

3.2 The Monetary Base

The monetary base (M0) recorded an annual increase of 22 percent at the end of February 2009. This was mainly brought about by the acceleration in the annual growth rate of commercial bank deposits with MMA and the increase in currency in circulation outside banks during the period.

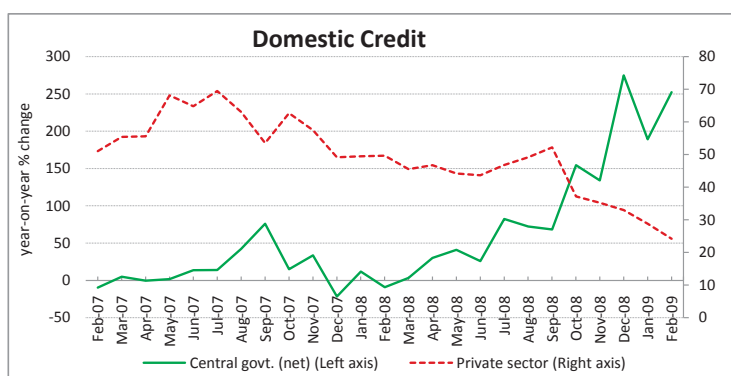
Total amount of treasury bills outstanding at the end of February 2009 rose to Rf1,312.0 million compared to Rf740.0 million at the end of January 2008.

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 due to high import growth owing to strong domestic demand, high global commodity prices and 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).

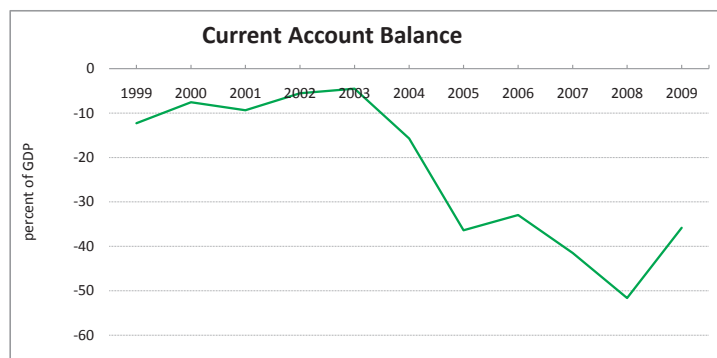
With tourism receipts and imports forecast to decline markedly in 2009 due to deteriorating global economic conditions and slowing domestic demand, the current account deficit is projected to decline by 27 percent to US\$475.4 million (36 percent of GDP) in 2009. Nonetheless, as net financial flows is 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 the latest trade data available, the value of total merchandise exports fell to US\$14.2 million at the end of February 2009, registering a monthly decrease of 19 percent and a fall of 41 percent compared to the corresponding month of 2008. Total merchandise imports (f.o.b) totalled US\$59.7 million, declining by 19 percent compared to the previous month while it fell by 56 percent compared to the corresponding month of 2008. Thus, the trade deficit decreased to US\$45.6 million from US\$56.7 million in January 2009 and US\$113.1 million in February 2008 (Chart13).

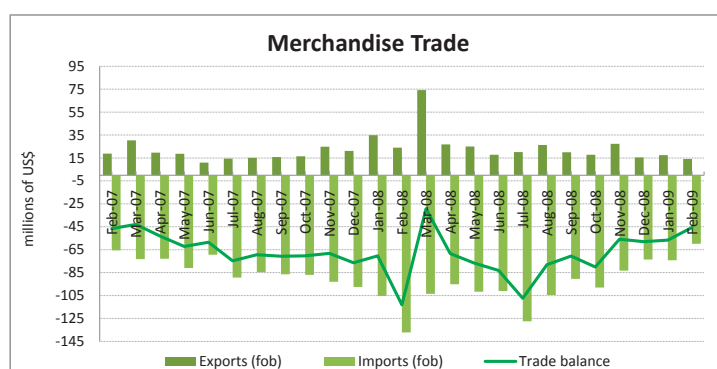
Earnings on total merchandise exports during the first two months of 2009 stood at US\$31.6 million, indicating a drop of 46 percent (or US\$27.5 million) com-

CHART 12



Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

pared to the same period of 2008. Similarly, the value of merchandise imports (f.o.b) for this period, which totalled US\$133.9 million, decreased by 45 percent (or US\$108.6 million) over the corresponding period of 2008. Hence, the trade deficit stood at US\$102.3 million in comparison to US\$183.4 million in 2008.

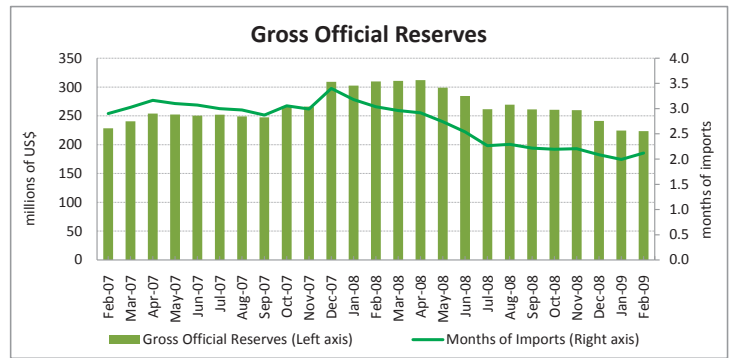
Reflecting the slowdown in tourism activity, gross international reserves declined to US\$223.4 million at the end of the review month, from US\$224.6 million at the end of last month, although reserves in terms of import cover increased slightly to 2.1 months from 2.0 months in January 2009 due to the decline in imports. When compared with February 2008, gross international reserves showed a decline of US\$86.4 million while reserves in months of imports dropped by 0.9 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.

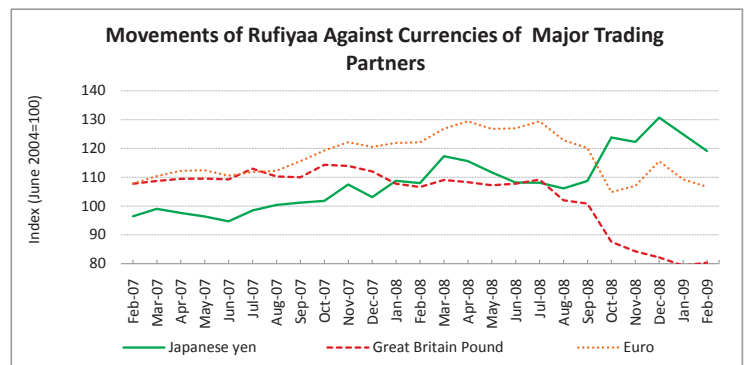
On annual terms, the bilateral exchange rates of Maldivian rufiyaa at the end of February 2009 indicated that with the exception of the Japanese yen, the rufiyaa appreciated against the currencies of the country's major trading partners. As such, the rufiyaa appreciated against the Sterling pound, the Indian rupee, the euro, the Singapore dollar and the Sri Lankan rupee by 24.7 percent, 20.2 percent, 12.7 percent, 7.2 percent and 6.4 percent, respectively. The rufiyaa depreciated against the Japanese yen by 10.3 percent (Chart 15 and 16).

CHART 14



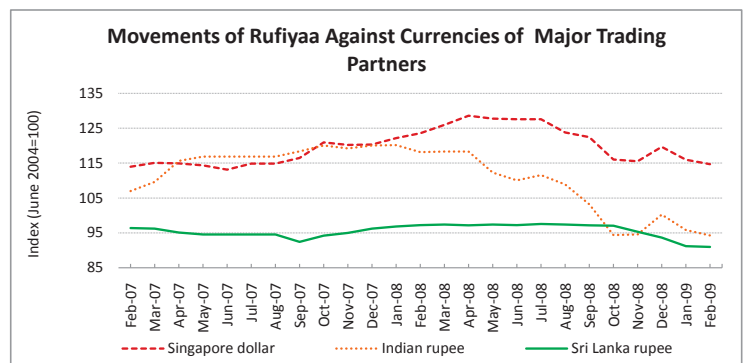
Source: Maldives Monetary Authority and Maldives Customs Service

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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