MONTHLY

ECONOMIC REVIEW

May 2008

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Maldives Monetary Authority

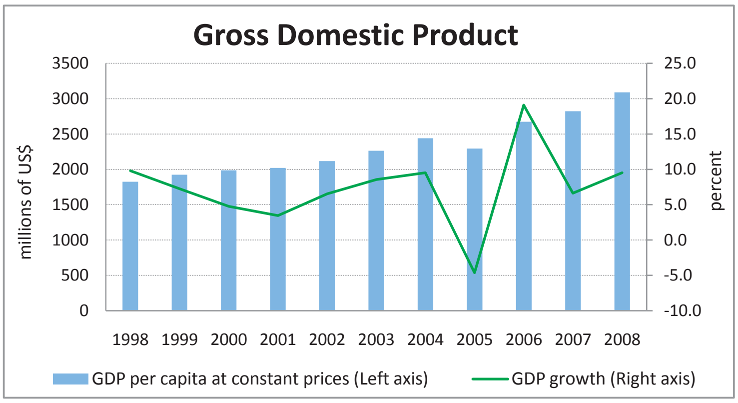
This report covers the macroeconomic developments during the month of May 2008. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Economic Review* contains data available as of 5th June 2008.

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

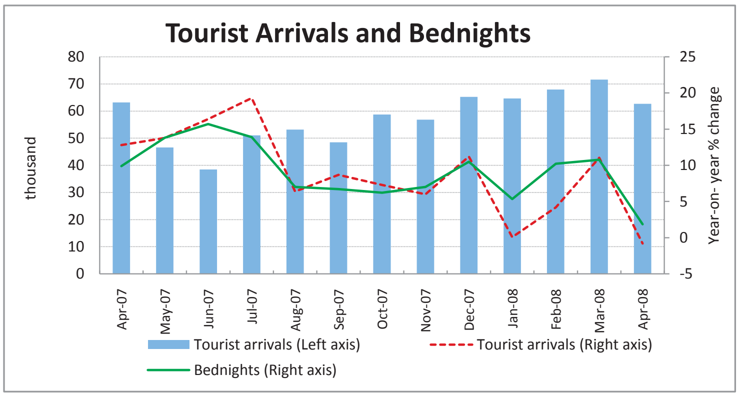


Source: Ministry of Planning and National Development

1.2 Tourism

Followed by a robust period of activity in the tourism sector, visitor arrivals slowed down in April and declined by 13 percent compared with the preceding month, as the tourist high season came close to an end. Year-on-year, visitor arrivals to the Maldives fell by 1 percent, from 63.2 thousand in April 2007 to 62.7 thousand in April 2008, as arrivals from some of the major tourist generating markets such as Italy, Germany, Japan and India plunged, registering double digit declines. Nonetheless, in spite of the decline in arrivals, bednights improved by 2 percent, owing to the increase in average duration of stay from 7.8 to 8.0 in April this year. As for the capacity of the industry, the number of operational beds in resort/ hotels grew by 7 percent from the corresponding month of 2007 and stood at 18,872 beds at the end of the review month. As a result, capacity utilization in tourist establishments fell from 92.5 to 88.2 percent during April 2008.

CHART 2



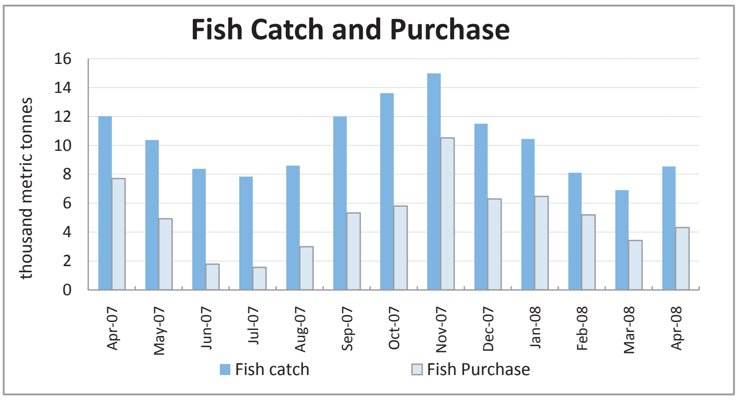
Source: Ministry of Tourism and Civil Aviation

On cumulative terms, visitor arrivals in the first four months of the year were higher by 4 percent compared to the corresponding period of 2007 and reached a record 266.9 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-Apr 2008. Meanwhile, reflecting the 9 percent (1,633 beds) growth in the operational bed capacity of the industry, capacity utilization fell from 95 percent to 93 percent in the first four months of 2008.

1.3 Fisheries

In April, fish landings (excluding EEZ) improved by 24 percent compared to the previous month and totalled 8.5 thousand metric tonnes, though landing remained 29 percent lower than the corresponding period of 2007. Consequently, fish purchases made by the commercial buyers was boosted by 26 percent from the preceding

CHART 3



Source: Ministry of Fisheries, Agriculture and Marine Resources month to 4.3 thousand metric tones, while it plummeted by 44 percent compared with April 2007 (Chart 3).

On the export front, despite the monthly improvement in fish catch, the volume of fish exports (excluding live fish), which totalled 3.0 thousand metric tonnes at the end of April 2008 remained poor, falling by 53 percent compared with the previous month and by 49 percent compared with the corresponding month of last year. Yet, given the higher prices for tuna in the global market, fish export earnings declined by a much smaller amount, by 42 percent compared with the previous month and by 28 percent compared annually, totalling US$7.0 million.

Cumulatively, during Jan-Apr 2008, fish catch declined by 36 percent from 53.2 thousand in the same period a year ago to 34.0 thousand metric tones, while fish purchases by commercial buyers fell by 31 percent to 19.4 thousand metric tonnes. As a result of the reduced fish catch, the volume of fish exports (excluding live fish) which totalled 25.5 thousand metric tonnes during the first four months of this year, fell by 4 percent compared with the first four months of last year, although earnings from such exports remained buoyant and reached US$47.6 million percent -- growing by 19 percent-- on account of strengthened global tuna prices.

1.4 Prices

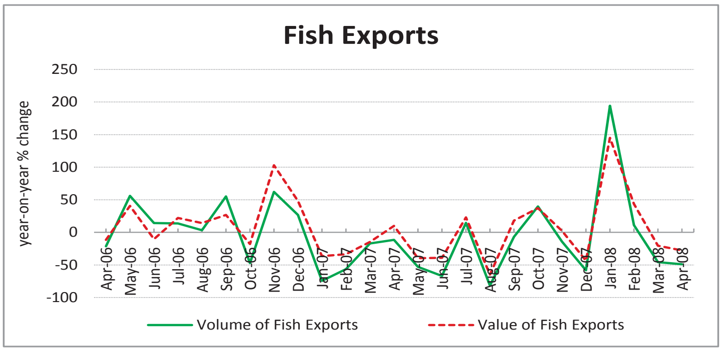
Consumer Price Index

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 9.0 percent in April 2008, from 3.5 percent a year ago and 8.2 percent in the previous month. CPI excluding the volatile fish prices rose by 7.1 percent while CPI excluding all food prices went up by 4.4 percent. The biggest contributions to CPI inflation during April came from higher prices for food; housing; miscellaneous goods and services; tobacco and narcotics; and transport (Chart 5).

World Commodity Prices

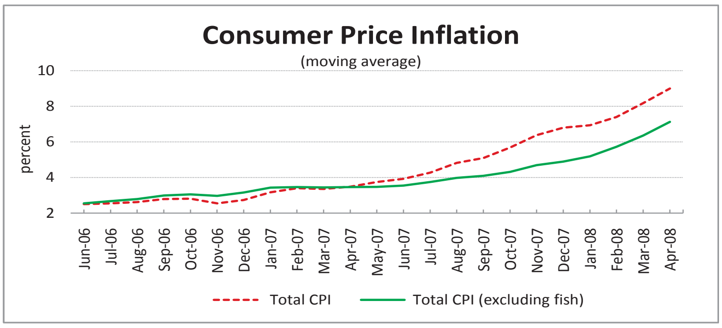
World commodity prices continue to climb dominated by higher food and energy prices. At the end of March 2008, the International Monetary Fund (IMF) primary commodity price index rose by 46.9 percent

CHART 4



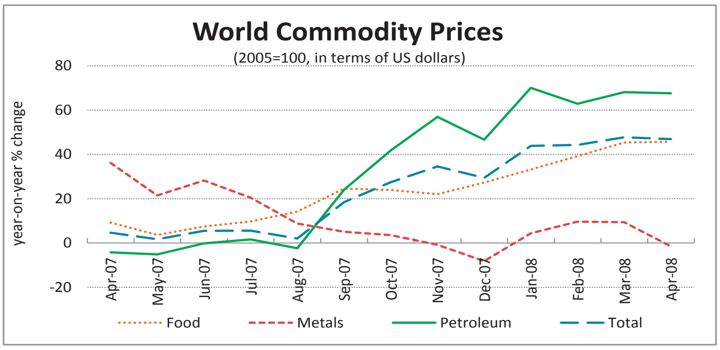
Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

CHART 6



Source: International Monetary Fund

year-on-year, with the energy and food index rising by 67.5 percent and 45.7 percent, respectively (Chart 6). Meanwhile, price of crude oil (an average of UK Brent and U.S WTI) rose to US$110.6 per barrel during the review month, up from US$105.3 per barrel in the previous month, while a year ago price of crude oil stood much lower at US$65.7 per barrel (Chart 7).

Domestic Petroleum Prices

Reflecting the surge in global oil prices, the retail price of diesel was raised by Rf1.25 per liter, from Rf11.30 per liter in March 2008 to Rf12.55 per liter in April 2008, although price of petrol and kerosene was kept unchanged at Rf11.25 per liter and Rf11.50 per liter, respectively (Chart 8).

2- Public Finance

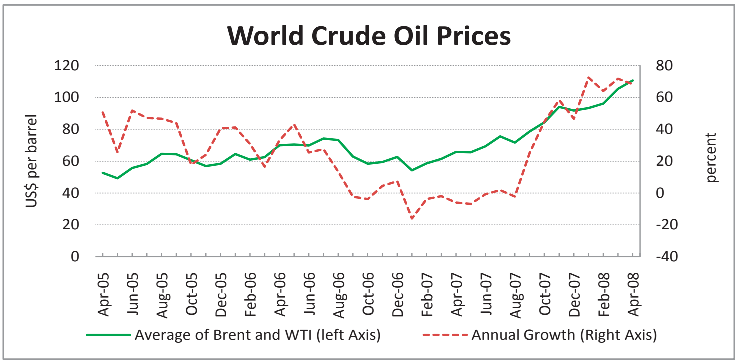
2.1 Government Budget

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)

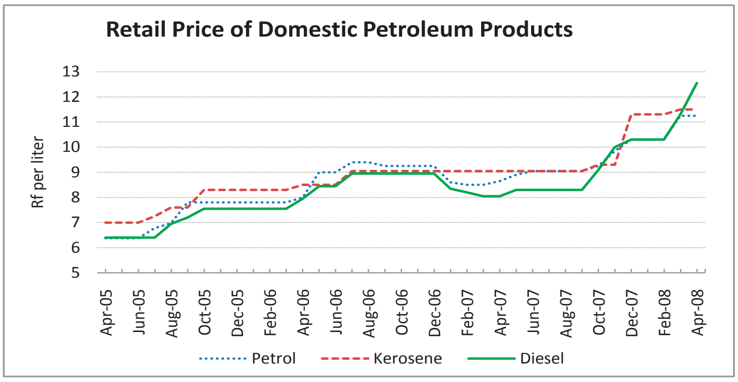
According to the latest monthly cash flow data of the government, total revenue in the first four months of 2008 rose to Rf2,266.6 million from Rf1,627.5 in the same period last year. The improvement in revenue came largely from increased collections of resort lease rent (35 percent), mainly in the form of advance lease payments from some of the newly leased out resorts, and import duty (32 percent). Meanwhile, total expenditure surged from Rf2,019.4 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 7



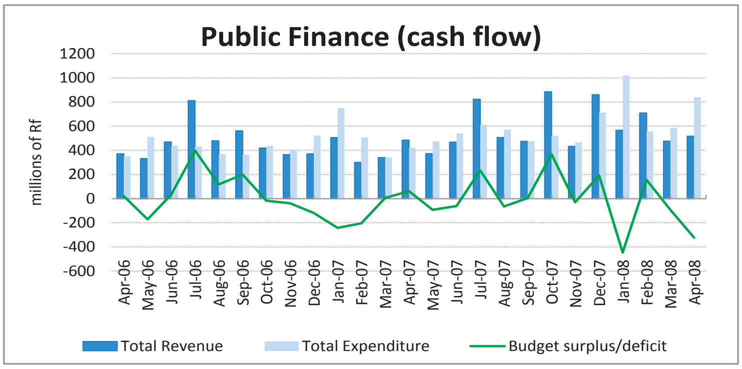
Source: Energy Information Administrantion, USA

CHART 8



Source: State Trading Organisation

CHART 9



Source: Ministry of Finance and Treasury

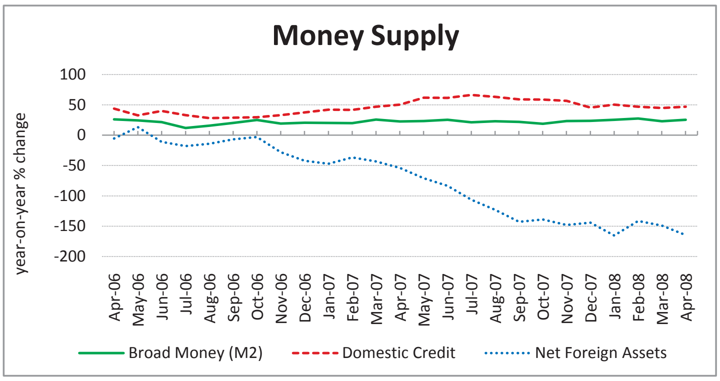
3- Monetary Developments

3.1 Money and Credit

In April, broad money or M2 increased by Rf2,339.9 million to Rf11,566.2 million. In the 12 months to April 2008, M2 expanded by 25 percent largely on account of the substantial increase in domestic credit (by 47 percent), especially to the private sector (Chart 9 and 10). Growth in credit to private sector accelerated to 47 percent (or by Rf4, 267.8 million) from 46 percent the previous month to record Rf13,396.2 million during the period, of which 53 percent was lent to the tourism sector, 13 percent to commerce and 10 percent to fisheries and construction sector, respectively.

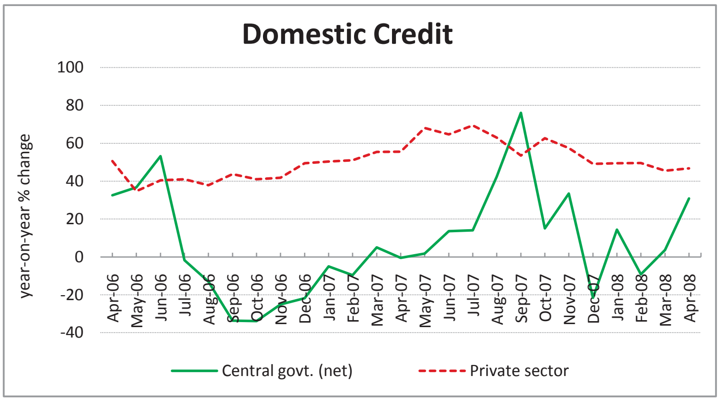
Net credit to government, registered a sharp increase of 61 percent (or Rf604.1 million) year-on-year, to Rf1,587.9 million at the end of April 2008 on account of the substantial increase in government expenditure during the period. However the expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the 165 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 24 percent or Rf744.0 million.

CHART 10



Source: Maldives Monetary Authority

CHART 11



Source: Maldives Monetary Authority

3.2 The Monetary Base

During April 2008 the monetary base (M0) increased by Rf186.5 million to Rf4,805.2 million. The increase in M0 is attributable to the 23 percent increase in net credit to government, which was reflected in the (Rf126.2 million) increase in commercial bank deposits held with MMA. The increased liquidity in the banking system also reflects the reduced investment in newly issued treasury bills by the banks during the month. However, total amount of treasury bills outstanding at the end of April 2008 stood at Rf1,507.0 million compared with Rf1,335.0 million at the end of March 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.

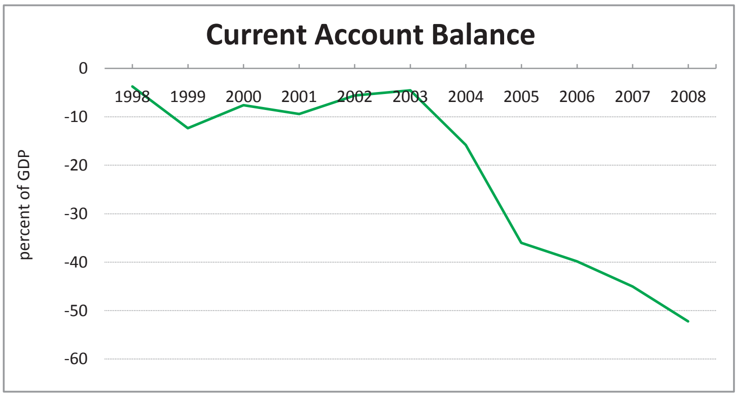
The commercial banks lending and deposit rates also remained unchanged during the period. Local and foreign currency saving deposit had a range between 2.25 – 3.0 and 1.5 – 3.0 per annum. For term deposits, interest rates had a range 2.25 – 6.5 percent for local currency and 1.5 – 6.5 percent for foreign 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 in 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 52 percent of GDP (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.

CHART 12



Source: Maldives Monetary Authority

4.2 Balance of Trade and Gross International Reserves

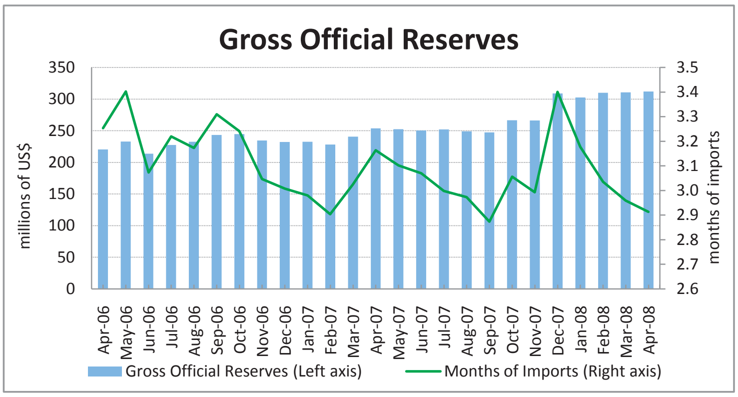
In April 2008, the value of total merchandise exports which totalled US$26.5 million, recorded a decline of 64 percent against the previous month and an increase of 34 percent against April 2007. During the review month, total imports declined by 8 percent compared with the previous month, while it rose by 31 percent compared to the corresponding month of 2007 and totalled US$95.7 million at the end of April 2008. This widened the trade deficit to US$69.2 million from US$29.3 million in March 2008 and US$53.2 million a year ago (Chart 12).

CHART 13

Source: Maldives Customs Service

Earnings on total merchandise exports, which amounted to US$159.8 million in the first four months of 2008, rose by 77 percent or by US$69.6 million compared to the first four months of 2007, while total imports registered a significant growth of 60 percent, from US$276.6 million in 2007 to US$442.1 million in the review period. As such, the trade balance continues to be in deficit and widened further to US$282.3 million from US$186.3 million in the first four months of 2007 (Chart 13).

CHART 14



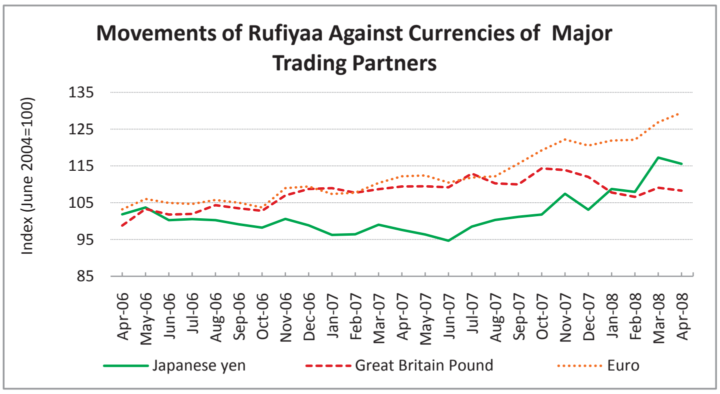
Source: Maldives Monetary Authority and Maldives Customs Service

Reflecting the buoyant developments in the tourism sector, gross international reserves improved from US$310.5 million at the end of March 2008 to US$312.0 million at the end of the April 2008, while reserves in terms of import cover fell to 2.9 months. Year-on-year, compared to April 2007, gross international reserves showed a growth of US$58.1 million (Chart 14).

4.3 Exchange Rate

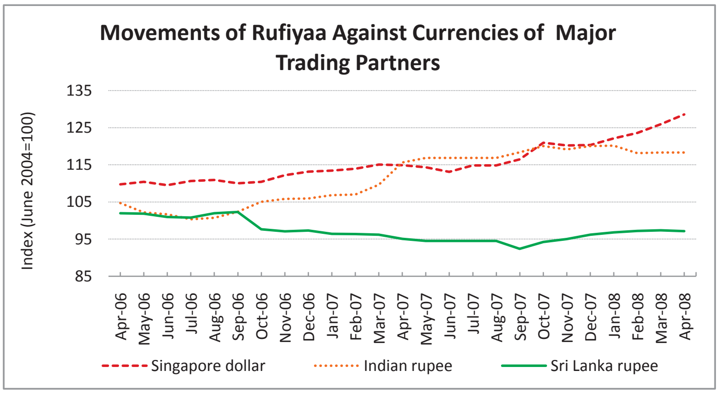
The rufiyaa which has been pegged to the dollar remained unchanged since the 9 percent devaluation in July 2001, with the buying and selling rates remaining at 12.75 and 12.85, respectively. Year-on-year comparisons of bilateral exchange rates at the end of April 2008 showed that, with the exception of the pound sterling, against which the rufiyaa appreciated by 1.0 percent, the rufiyaa depreciated against major currencies of trading partners as the U.S. dollar continues to depreciate vis-à-vis the major currencies of the world. As such, the rufiyaa depreciated against the Japanese yen by 18.4 percent, euro by 15.4 percent, the Singapore dollar by 11.9 percent, the Indian rupee by 2.3 percent and the Sri Lankan rupee by 2.2 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

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