

MONTHLY ECONOMIC REVIEW

May 2009

Volume III, Number: 5



Maldives Monetary Authority

This report covers the macroeconomic developments during the month of April 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 10th June 2009.

1- The Real Economy

1.1 Output

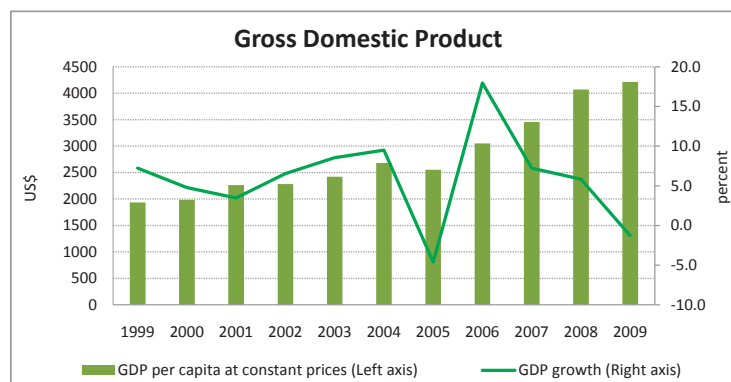
According to revised GDP estimates of March 2009 released by the Department of National Planning, the real GDP growth decelerated to 5.8 percent in 2008 from 7.2 percent in 2007 largely due to the slowdown in tourist arrivals, especially in the second half of the year. Meanwhile, real output is now projected to contract by 1.3 percent in 2009 as tourism is projected to decline significantly during the year owing to the global economic recession. 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.

1.2 Tourism

Tourist arrivals into the country totalled 57.2 thousand in the month of April 2009, decreasing by 8 percent compared to March 2009, while it fell by 9 percent compared to April 2008. Due to the drop in average stay of a tourist visit from 8.0 days in the previous month to 7.8 days during the review month, bednights fell by 10 percent when compared both on monthly as well as on annual terms. As for the capacity of the industry, the number of operational beds in resorts/hotels stood at 19,878 beds at the end of the month, indicating an increase of 1,006 beds from the corresponding month of 2008. Thus, the capacity utilisation of the industry dropped to 75 percent during the review month from 88 percent a year ago, mainly as a result of the fall in tourist arrivals (Chart 2).

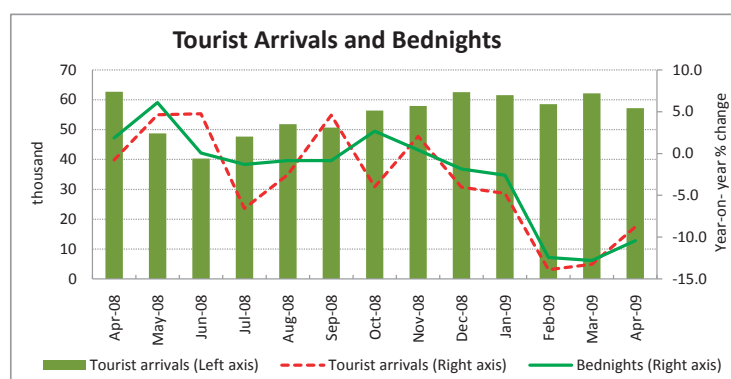
On a cumulative basis, tourist arrivals for Jan-April 2009, which totalled 239.4 thousand at the end of the period, recorded a decline of 10 percent from 266.9 thousand at the end of the same period of 2008. Bednights also registered a decline of 10 percent during Jan-April 2009. Hence, capacity utilisation of the industry fell to 82 percent in the first four months of 2009 from 93 percent in same period of 2008, which also partly reflected the increase in bed capacity of the industry during Jan-April 2009.

CHART 1



Source: Department of National planning

CHART 2



Source: Ministry of Tourism, Arts and Culture

1.3 Fisheries

In April, fish landings totalled 9.3 thousand metric tonnes, registering an increase of 5 percent compared to the preceding month, while it rose by 14 percent compared to the same month of the previous year. Nevertheless, fish purchases made by the commercial buyers plunged to 3.0 thousand metric tonnes, decreasing by 25 percent month-on-month, while it plummeted by 31 percent when compared year-on-year (Chart 3).

Despite the drop in fish catch, the total volume of fish exports (excluding live fish) regained and totalled 4.2 thousand metric tonnes at the end of the month, recording a monthly growth of 160 percent while it registered an annual increase of 38 percent. The total value of fish exports (excluding live fish) also rose to US\$6.8 million during the review month, indicating a 23 percent increase over the preceding month. However, in comparison to the corresponding month of 2008, such exports declined by 4 percent (Chart 4).

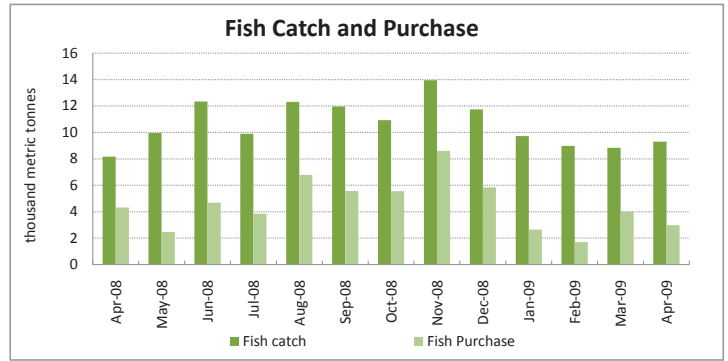
During the first four month of 2009, fish catch declined by 5 percent from 38.7 thousand metric tonnes in Jan-April 2008 to 36.8 thousand metric tonnes during Jan-April 2009. Similarly, fish purchases by the commercial buyers also slumped from 19.4 thousand metric in the same period last year to 11.3 thousand metric tonnes in the review year, indicating a drop of 42 percent. Reflecting the low fish catch, the total volume of fish exports, which totalled 14.5 thousand metric tonnes in the first four months of the year, registered a decline of 43 percent compared to the corresponding period of 2008. Meanwhile, the decline in fish export earnings was much higher (47 percent), from US\$47.7 million in Jan-April 2008 to US\$25.4 million in Jan-April 2009 as a result of falling tuna prices in the international market.

1.4 Prices

Consumer Price Index

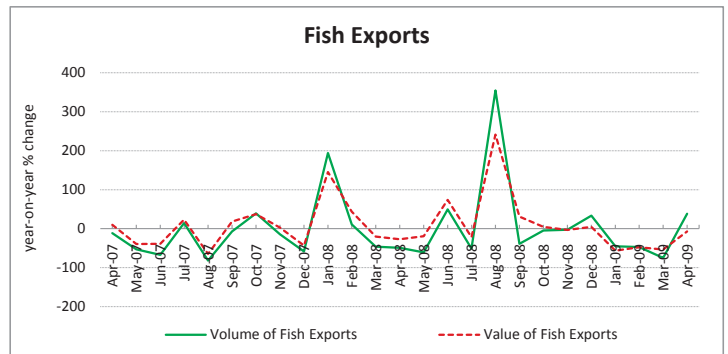
Consumer price inflation, measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', fell to 10.4 percent at the end of April 2009, from 11.2 percent at the end of March 2009, nevertheless, edged up from 9.0 percent in April 2008. Inflation excluding the volatile fish prices also dropped to 10.9 percent from 11.5

CHART 3



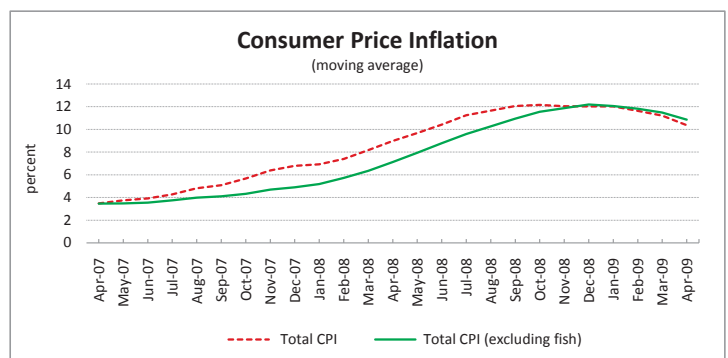
Source: Ministry of Fisheries and Agriculture

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Department of National Planning

percent in the previous month. During April, inflation was mainly contributed by prices of food, transportation, health and housing (Chart 5).

World Commodity Prices

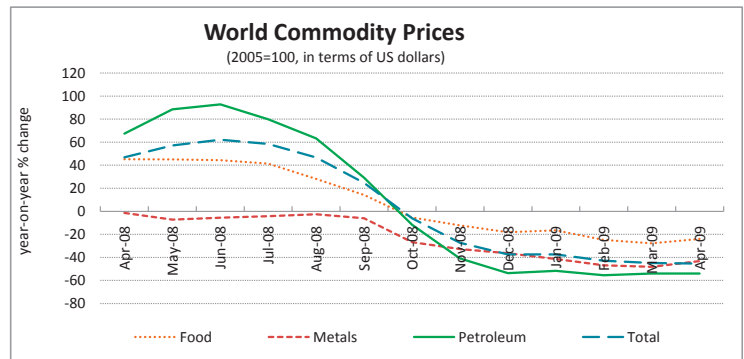
World commodity prices further declined in the month of April 2009, reflecting the drop in food and energy prices. As such, the International Monetary Fund's (IMF) primary commodity index stood 45 percent lower when compared to the corresponding month of 2008, though it slightly rose by 4 percent when compared to the preceding month. Global food prices decreased by 24 percent while energy prices went down by 54 percent compared to a year ago (Chart 6).

In the Meantime, price of crude oil (an average of UK Brent and U.S WTI) climbed up to US\$50.0 per barrel in April 2009 from US\$47.5 per barrel in March 2009. Nonetheless, oil prices fell by 55 percent when set against US\$111.3 per barrel in April 2008 (Chart 7).

Domestic Petroleum Prices

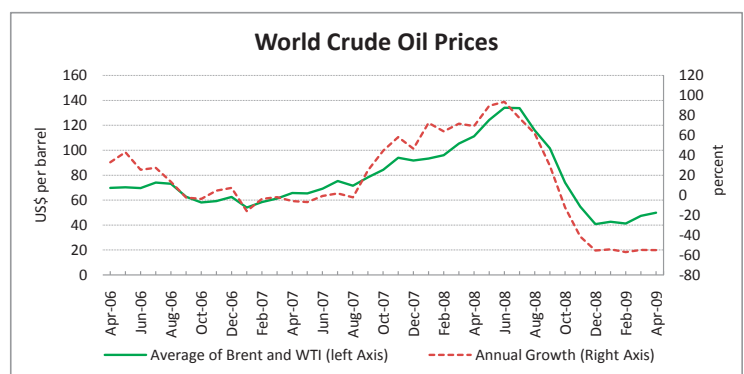
Adjustments to the retail prices of domestic petroleum products were made during the month, in order to reflect the movements in the price of oil in the global market Accordingly, price of petrol was brought up to Rf8.15 per litre in April 2009 from Rf7.50 per litre in the March 2009, while price of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

CHART 6



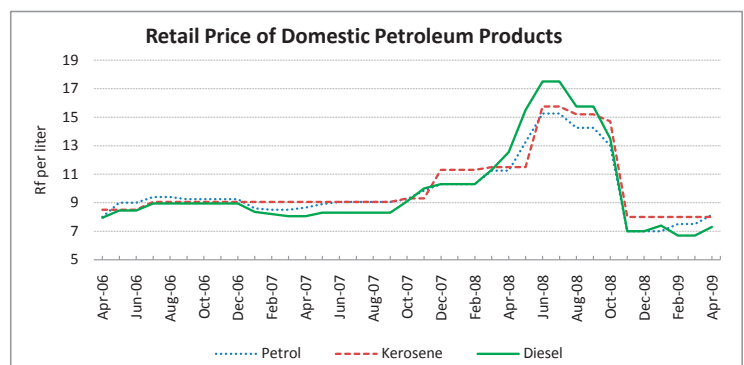
Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

2- Public Finance

2.1 Government Budget

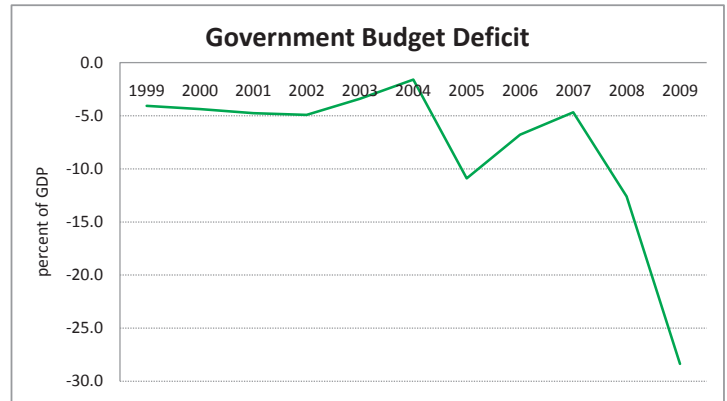
According to revised budget estimates of March 2008, the government budgetary position deteriorated significantly during 2008 by Rf1.4 billion to record an overall deficit of Rf2.0 billion. As such, despite the 2 percent increase in revenue in 2008, the overall deficit widened to 13 percent of GDP in 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.

2.2 Revenue and Expenditure (Cash flow)

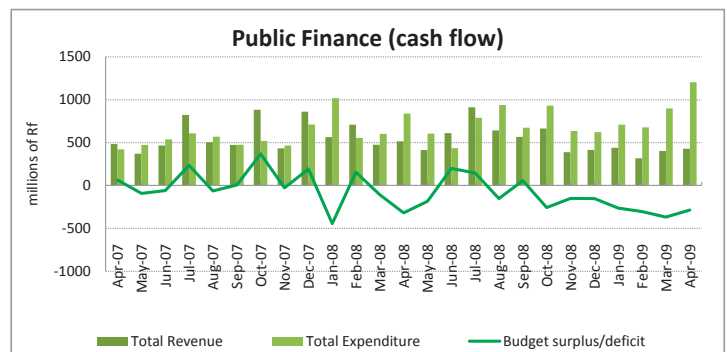
As per the monthly cash flow statement of the government for April 2009, total revenue in the first four months of the year declined by 30 percent to Rf1, 589.3 million when compared to the same period of 2008. Total government expenditure for the review period grew by 16 percent annually and amounted Rf3,489.8 million at the end of April 2009. Hence, the overall cash flow position of the government showed a deficit of Rf1,223.3 million in the first four months of 2009, in comparison to Rf719.0 million in the corresponding period a year ago.

CHART 9



Source: Ministry of Finance and Treasury

CHART 10



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

In April 2009, broad money (M2) grew by 14 percent year-on-year (17 percent in March 2009) or Rf1,672.9 million which was entirely contributed by the increase in domestic credit, of which a 79 percent was lent to the private sector. Nonetheless, growth in private sector credit further slowed down during the month and grew by 17 percent (22 percent in March 2009), mainly due to the tight availability of credit to commercial banks from abroad. Of the total private sector credit, 62 percent was lent to the tourism sector, 11 percent to construction sector while the fisheries sector and commerce accounted for 7 percent and 6 percent, respectively. Meanwhile, the huge expansion in net credit to government of 129 percent, totalling Rf2,927.1 million, which reflects the rapid rise in government expenditure, also contributed significantly to the expansion in domestic credit growth (Chart 12).

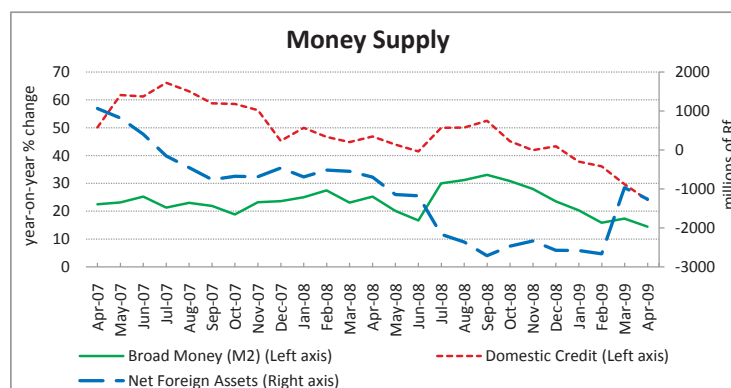
In the meantime, the expansionary effect of the domestic credit growth on M2 was somewhat offset by the decline in the net foreign assets (NFA) of the banking sector which has been on a net liability position since July 2007. In April 2009 net foreign liabilities of the banking sector increased by 82 percent year-on-year due to the decline net foreign assets of MMA.

3.2 The Monetary Base

The monetary base (M0) grew by 27 percent (or by Rf1,306.6 million) on annual terms at the end of April 2009. The growth in monetary base was contributed by both the increase in currency in circulation and the increase in commercial bank deposits held with the MMA.

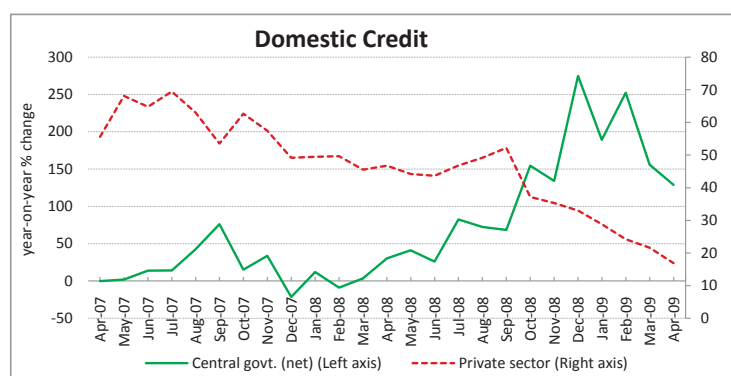
Total amount of treasury bills outstanding increased to Rf1,689.0 million at the end of April 2009 in comparison to Rf1,507.0 million at the end of April 2008.

CHART 11



Source: Maldives Monetary Authority

CHART 12



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 13). 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).

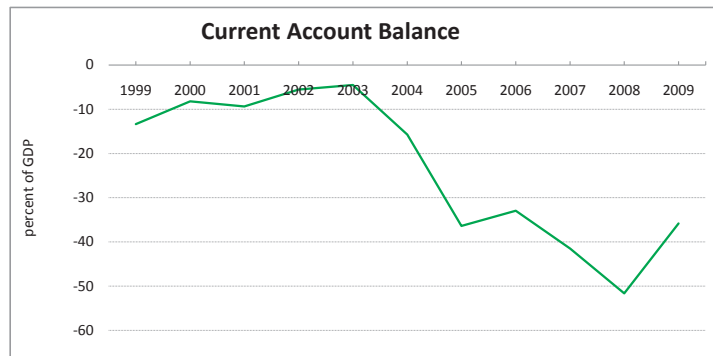
With tourism receipts and imports forecast to decline markedly in 2009 due to deteriorating global economic conditions and slowing domestic demand, the current account deficit is projected to decline by 27 percent to US\$475.4 million (36 percent of GDP) in 2009. Nonetheless, as net financial flows is 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 had risen to US\$16.2 million in April 2009, remaining the same compared to the previous month and registering a fall of 40 percent compared to the corresponding month of 2008. Total merchandise imports (f.o.b) totalled US\$75.0 million in April 2009, increasing by 10 percent compared to the previous month while it declined by 21 percent compared to the corresponding month of 2008. Thus, the trade deficit increased to US\$58.8 million from US\$52.0 million in March 2009 and US\$68.4 million in April of 2008 (Chart14).

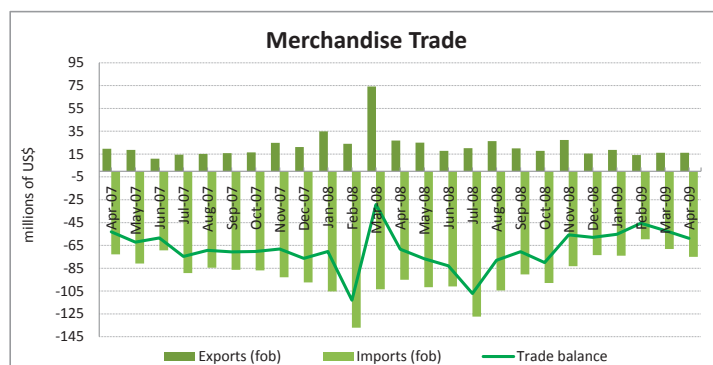
During the first four months of 2009, earnings on total merchandise exports stood at US\$65.2 million, indicat-

CHART 13



Source: Maldives Monetary Authority

CHART 14



Source: Maldives Customs Service

ing a drop of 59 percent (or US\$95 million) compared to same period of 2008. Similarly, the value of merchandise imports (f.o.b) for this period, which totalled US\$276.9 million, decreased by 37 percent (or US\$164.3 million) over the corresponding period of 2008. Hence, the trade deficit stood at US\$211.7 million in comparison to US\$281.0 million in 2008.

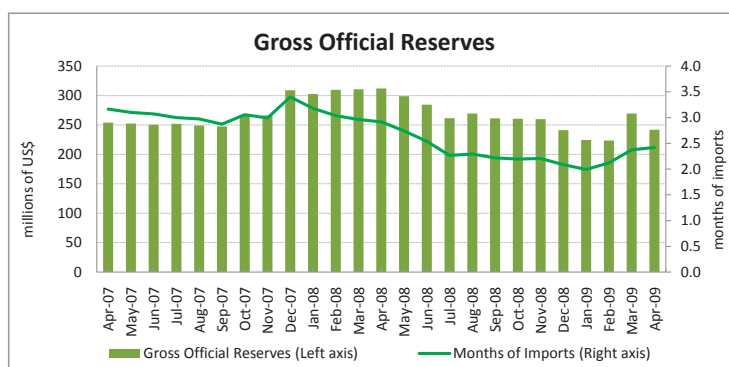
Reflecting the slowdown in tourism activity, gross international reserves declined to US\$242.0 million at the end of the review month, from US\$269.5 million at the end of last month, while reserves in terms of import cover remained the same as in March 2009, at 2.4 months. When compared with April 2008, gross international reserves showed a decline of US\$70.0 million while reserves in months of imports fell by 0.5 months (Chart 15).

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.

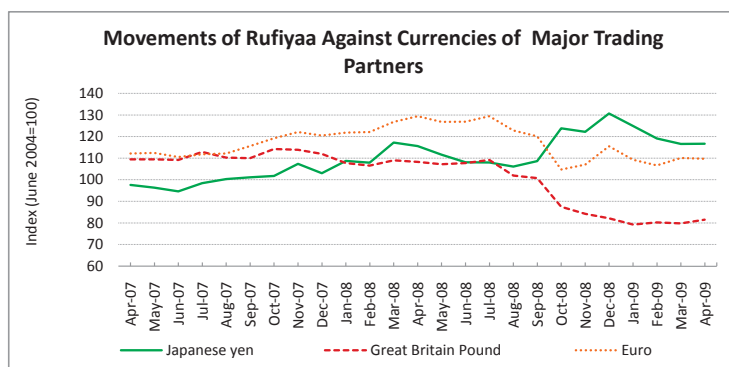
On annual terms, the bilateral exchange rates of Maldivian rufiyaa at the end of April 2009 showed that with the exception of the Japanese yen, the rufiyaa appreciated against the currencies of the country's major trading partners. As such, the rufiyaa appreciated against the Sterling pound, the Euro, the Indian rupee, the Singapore dollar and the Sri Lankan rupee by 24.7 percent, 15.2 percent, 20.9 percent, 9 percent and 9.5 percent, respectively. The rufiyaa depreciated against the Japanese yen by 0.9 percent (Chart 16 & 17).

CHART 15



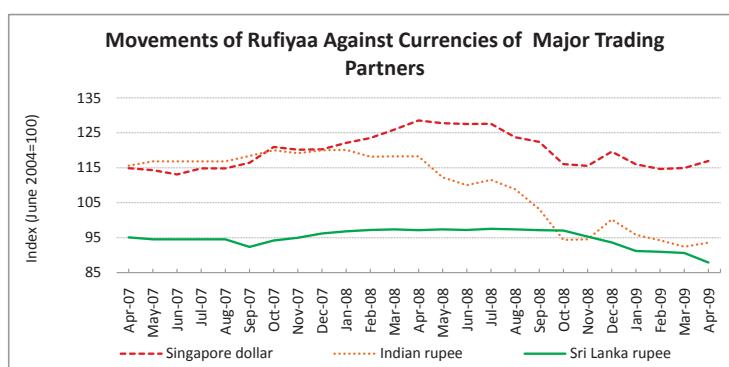
Source: Maldives Monetary Authority and Maldives Customs Service

CHART 16



Source: Maldives Monetary Authority

CHART 17



Source: Maldives Monetary Authority

Maldives Monetary Authority

Malé- 20182, Republic of Maldives

Tel: (960) 331 2343, Fax: (960) 332 3862, Email: mail@mma.gov.mv