

MONTHLY ECONOMIC REVIEW

November 2008

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Maldives Monetary Authority

This report covers the macroeconomic developments during the month of November 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 1st December 2008.

1- The Real Economy

1.1 Output

According to revised GDP estimates of November 2008, published by the Ministry of Planning and National Development, the real GDP grew by 7.2 percent in 2007 and is projected to grow by 5.7 percent in 2008. The downturn in growth trajectory of the economy, initially estimated at 9.5 percent earlier this year, is largely due to the slow down in growth of tourist arrivals into the country and the setback witnessed in the fisheries sector, especially in the first half the year (Chart 1).

1.2 Tourism

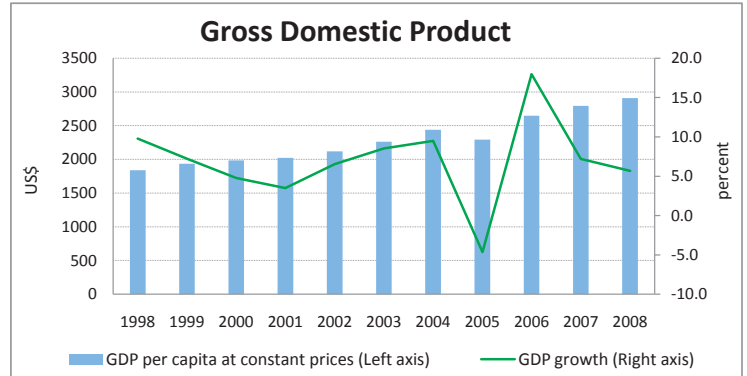
Tourist arrivals into the country regained in the month of October 2008, growing by 11 percent compared to the preceding month and totalled 56.4 thousand at the end of the month. Nonetheless, tourist arrivals still stood 4 percent lower when compared on annual terms (Chart 2). Reflecting the gain in average duration of tourist visit, from 7.5 days in the previous month to 8.0 days in the review month, bednights improved by 19 percent on month-on-month, while it registered a growth of 3 percent year-on-year. As for the capacity of the industry, the number of operational beds in resorts/hotels increased by 9 percent (1,643 beds) from the corresponding month of 2007 and stood at 19,194 beds at the end of October 2008. Reflecting the above, the capacity utilization in resorts/hotels fell to 76 percent from 81 percent in the previous year.

On cumulative terms, visitor arrivals totalled 562.5 thousand for the period of Jan-Oct 2008, recording an improvement of 2 percent compared to the corresponding period of 2007. The growth in tourist arrivals coupled with the increase in average duration of a tourist visit during the period, resulted in the growth in bednights by 4 percent during Jan-Oct 2008. Likewise, with the expansion in operational bed capacity of the industry by 9 percent (1,585 beds), together with the increase in tourist arrivals, capacity utilisation fell to 78 percent during the review period compared to 82 percent a year ago.

1.3 Fisheries

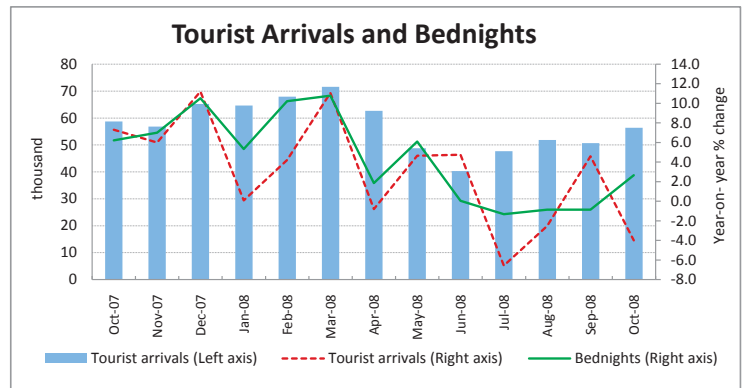
According to preliminary data available, fish landings totalled 8.8 thousand metric tonnes at the end of October 2008, plunging by 15 percent compared to Sep-

CHART 1



Source: Ministry of Planning and National Development

CHART 2



Source: Ministry of Tourism and Civil Aviation

tember 2008 and by 36 percent compared to October 2007. Fish purchases made by the commercial buyers stood the same as last month, at 5.6 thousand metric tonnes, while it plummeted by 4 percent when compared to October 2007 (Chart 3).

On the export front, the volume of fish exports (excluding live fish) stood strong and totalled 4.5 thousand metric tonnes at the end of the review month, increasing by 68 percent when compared on monthly basis, whereas it fell by 5 percent on annual basis. Meanwhile, earnings on fish exports declined and totalled US\$8.5 million at the end of the review period. This indicated a fall of 8 percent when compared to the fish export earnings of the previous month, yet, it rose by 4 percent when compared to October 2007 (Chart 4).

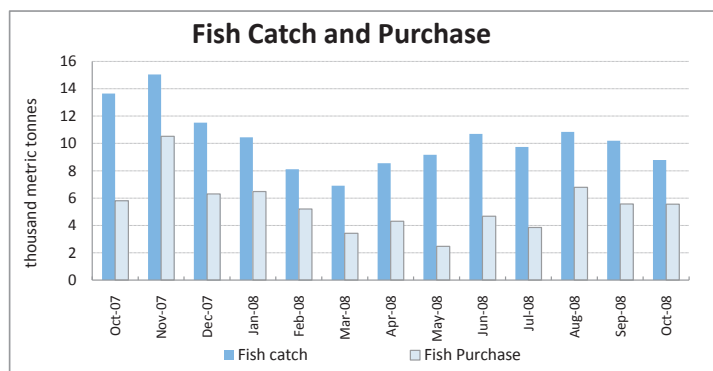
Cumulatively, fish catch plummeted by 18 percent during the period Jan-Oct 2008 to 93.4 thousand metric tonnes from 114.5 thousand metric tonnes in the same period of 2007, while fish purchases by commercial buyers fell by 4 percent to 48.3 thousand metric tonnes when compared to the corresponding month of last year. Similarly, the volume of fish exports (excluding live fish) which totalled 47.6 thousand metric tonnes during Jan-Oct of this year, also slumped by 8 percent compared to the corresponding period of last year. Nonetheless, on account of the strengthened global tuna prices, earnings of such exports remained buoyant and grew by 23 percent and totalled US\$98.4 million at the end of October 2008.

1.4 Prices

Consumer Price Index

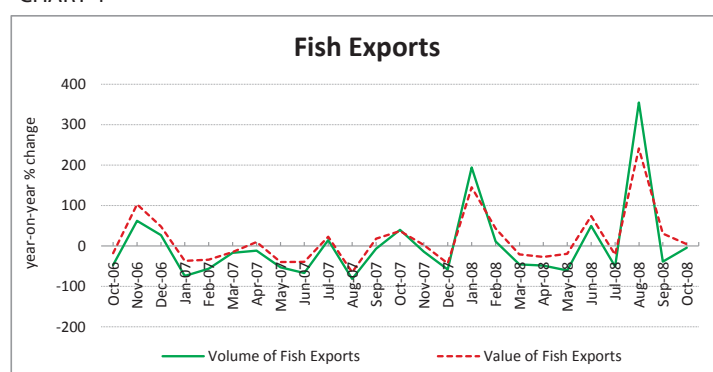
Consumer price inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index (CPI) for Male', slightly rose to 12.2 percent in the month of September 2008, from 12.1 percent in the previous month and 5.7 percent in October 2007. Core measures of inflation such as CPI excluding the volatile fish prices rose by 11.6 percent while CPI excluding all food prices went up by 7.8 percent. The biggest contributions to CPI during the period came from increased prices of food, health care, transport and housing (Chart 5).

CHART 3



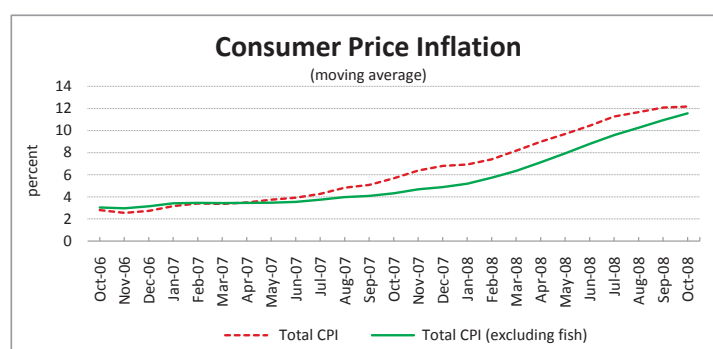
Source: Ministry of Fisheries, Agriculture and Marine Resources

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

World Commodity Prices

World commodity prices further decreased during October 2008, due to the continued fall in global food and energy prices. Hence, the International Monetary Fund (IMF) primary commodity index fell by 22 percent month-on-month, while it dropped by 7 percent year-on-year. Similarly, the food and energy price indexes also declined by 5 percent and 12 percent, respectively, on annual terms (Chart 6).

Price of crude oil (an average of UK Brent and U.S WTI) fell by 27 percent from US\$101.5 per barrel in the preceding month to US\$74.1 per barrel in the review month. On annual terms, this further indicated a decline of 12 percent compared to the corresponding month of 2007 (Chart 7).

Domestic Petroleum Prices

The retail prices of domestic petroleum products were further reduced during the month of October 2008, reflecting the fall in global oil prices. Price of petrol was reduced to Rf13.00 per litre from Rf14.25 per litre while price of diesel was lowered to Rf13.50 per litre from Rf15.75 per litre. Similarly, price of kerosene was also brought down to Rf14.70 per litre from Rf15.75 per litre in the review month (Chart 8).

2- Public Finance

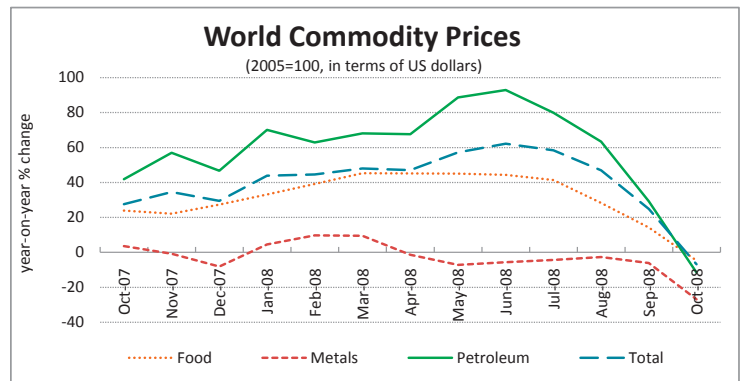
2.1 Government Budget

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)

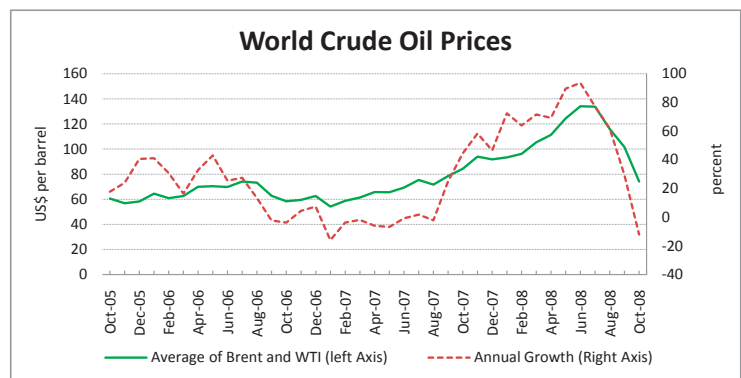
According to the latest monthly cash flow data of the government, total revenue in the nine months to September 2008 rose to Rf5,415.7 million from Rf4,268.5 million in the same period of last year. Meanwhile, total expenditure surged from Rf4,689.6 million in Jan-Sep of 2007 to Rf6,461.4 million in Jan-Sep of this year. As a result, the overall cash flow position of the government deteriorated sharply by Rf302.7million from a deficit of Rf351.9 million in Jan-Sep 2007 to Rf654.7 million in the review period (Chart 9).

CHART 6



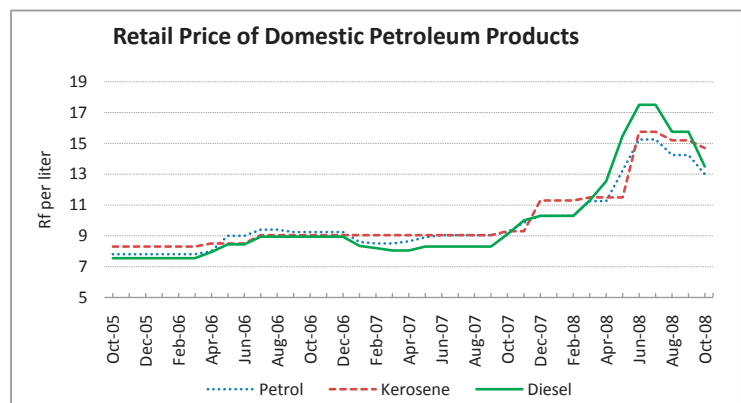
Source: International Monetary Fund

CHART 7



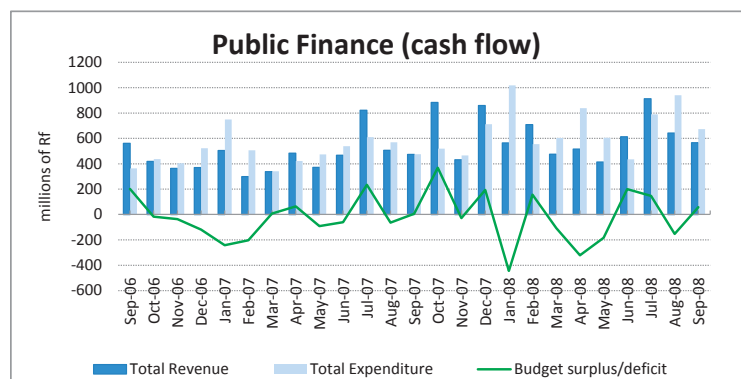
Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

CHART 9



Source: Ministry of Finance and Treasury

3- Monetary Developments

3.1 Money and Credit

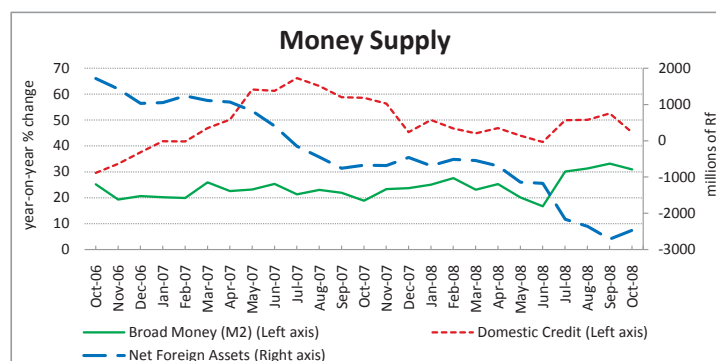
In October, broad money or M2 increased by Rf124.5 million to Rf12,345.8 million. In the 12 months to October 2008, M2 expanded by 31 percent largely on account of the substantial increase in domestic credit (by 45 percent), especially to the government sector (Chart 10 and 11). Net credit to government registered an increase of 155 percent (or Rf1,086.5 million) year-on-year, to Rf1,789.3 million at the end of October 2008 on account of the significant increase in government expenditure during the period. Meanwhile, growth in credit to private sector slowed down to 37 percent year-on-year from 52 percent in the previous month and totalled Rf16,152.2 million at the end of October. Around 60 percent of private sector credit was lent to the tourism sector, 10 percent construction sector, and 7 percent to both the fisheries sector and commerce.

The expansionary effect of the huge domestic credit growth on M2 was to a large extent offset by the steep decline in the net foreign assets (NFA) of the banking sector which has been on a net liability position since July 2007. The decline in NFA was mainly due to the large increase in foreign liabilities of commercial banks as foreign owned commercial banks continue to borrow from their head offices abroad to finance the strong domestic credit demand. During October foreign assets of MMA also declined (by 2 percent).

3.2 The Monetary Base

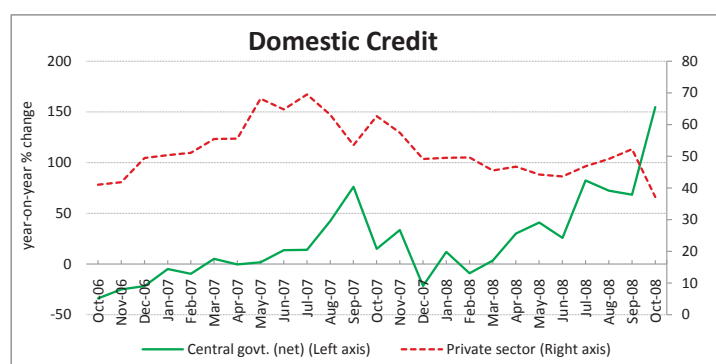
During October 2008 the monetary base (M0) increased by Rf51.0 million and stood at Rf5,303.0 million. The increase in M0 was mainly influenced by the increase in net credit to government. Total amount of treasury bills outstanding at the end of October 2008 stood at Rf887.0 million compared with Rf905.0 million at the end of September 2008.

CHART 10



Source: Maldives Monetary Authority

CHART 11



Source: Maldives Monetary Authority

4- External Sector Developments

4.1 Balance of Payments

According to the balance of payments revisions made in November 2008, the current account deficit widened by 36 percent to record US\$412.1 million (39 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 51 percent of GDP (Chart 12). The overall balance of payments recorded a surplus of US\$76.9 million at the end of 2007, as gross international reserves reached US\$309.1 million (3.4 months of imports), largely on account of the unprecedented amount of advanced lease rents received from the newly leased resorts in 2007. In 2008, the overall balance of payments is expected to record a deficit of US\$72.3 million while gross international reserves are projected to decline to US\$236.8 million, equivalent to 2.0 months of imports.

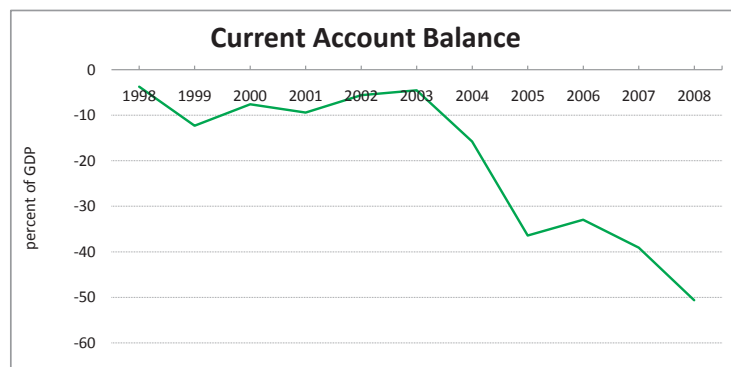
4.2 Balance of Trade and Gross International Reserves

The value of total merchandise exports stood at US\$17.9 million at the end of October, falling by 10 percent compared to the previous month, owing to the decline in both re-exports and domestic exports. Nevertheless, total merchandise exports registered a growth of 8 percent compared to a year ago. Total merchandise imports amounted to US\$98.1 million, increasing by 8 percent on monthly terms while such imports rose by 13 percent on annual terms. Thus, the trade deficit deteriorated to US\$80.2 million from US\$70.6 million in September 2008 and US\$70.4 million in October 2007 (Chart13).

Earnings on total merchandise exports for the period of Jan-Oct 2008 recorded US\$287.5 million, which is a growth of 58 percent (or US\$105.5 million) compared to the same period of 2007. Similarly, the value of merchandise imports for this period, which totalled US\$1,064.6 million, grew by 37 percent (or US\$290.3 million) over the corresponding period of 2007. This further worsened the trade deficit to US\$777.1 million in comparison to US\$592.3 million in Jan-Oct 2007.

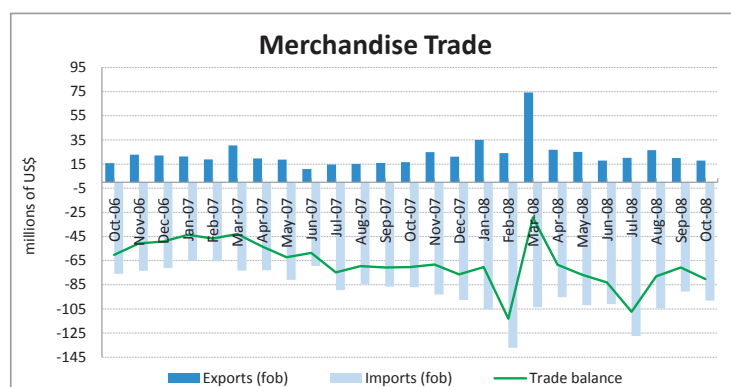
In the meantime, despite the pickup in tourism activity, gross international reserves slightly declined to US\$260.7 million at the end of October 2008 from

CHART 12



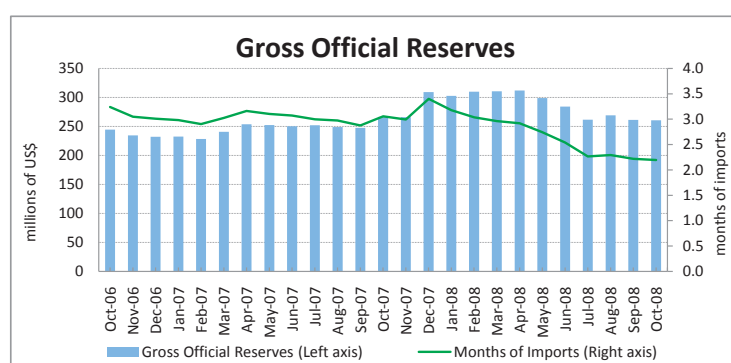
Source: Maldives Monetary Authority

CHART 13



Source: Maldives Customs Service

CHART 14



Source: Maldives Monetary Authority and Maldives Customs Service

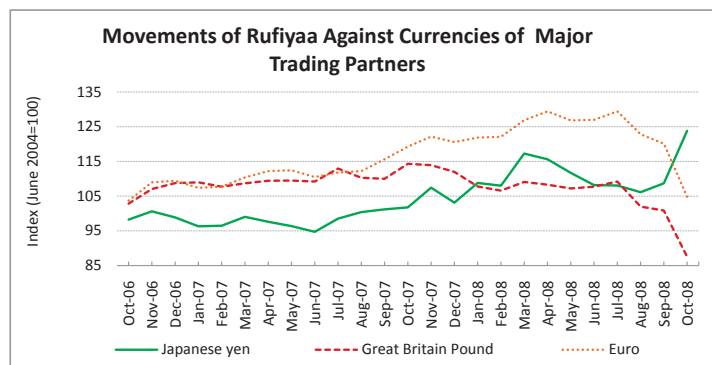
US\$261.2 million at the end of last month. Reserves in terms of import cover remained constant at 2.2 months. Nevertheless, when compared with October 2007, gross international reserves showed a decline of US\$5.7 million while reserves in months of imports dropped by 0.9 months owing to the increase in imports (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.

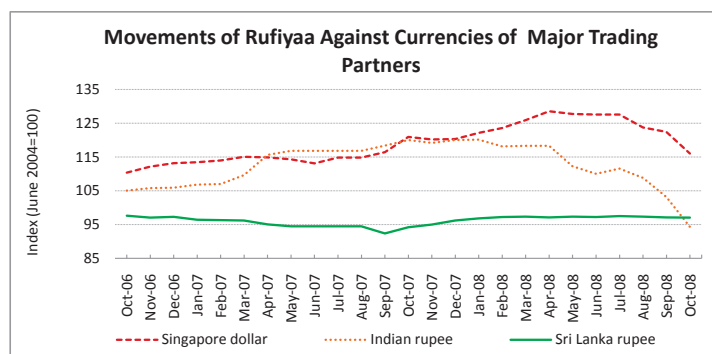
Year-on-year comparisons of bilateral exchange rates at the end of October 2008 showed that with the exception of the Japanese Yen and the Sri Lankan rupee, against which the rufiyaa depreciated by 21.7 percent and 3.0 percent respectively, the rufiyaa appreciated against the major currencies of trading partners. As such, the rufiyaa appreciated against the British pound by 23.4 percent, the Indian rupee by 21.4 percent, the Euro by 12.1 percent and the Singapore dollar 4.1 percent (Chart 15 and 16).

CHART 15



Source: Maldives Monetary Authority

CHART 16



Source: Maldives Monetary Authority

Maldives Monetary Authority

3rd Floor, Umar Shopping Arcade, Malé- 20156, Republic of Maldives

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