

MONTHLY ECONOMIC REVIEW

October 2008

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Maldives Monetary Authority

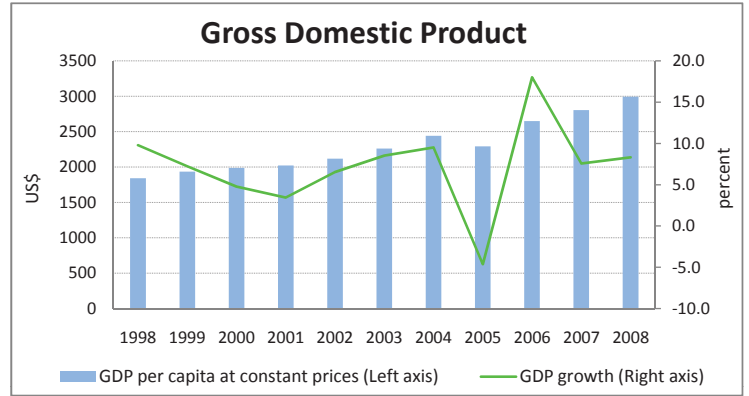
This report covers the macroeconomic developments during the month of October 2008. Where data for the review period is not available, the latest available data has been used. This issue of *Monthly Economic Review* contains data available as of 30th October 2008.

1- The Real Economy

1.1 Output

According to revised GDP estimates of April 2008, published by the Ministry of Planning and National Development, the real GDP grew by 7.6 percent in 2007 and is projected to grow by a further 8.3 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

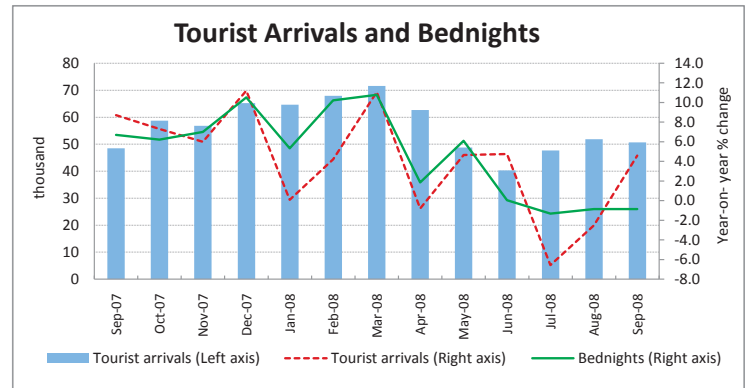


Source: Ministry of Planning and National Development

1.2 Tourism

Tourist arrivals into the country were lower in the month of September 2008, decreasing by 2 percent compared to the previous month and totalled 50,687 at the end of the month. Nevertheless, visitor arrivals registered an increase of 5 percent when compared to the corresponding month of 2007. However, reflecting the fall in average duration of a tourist visit, from 8.7 days in the preceding month to 7.5 days in the review month, tourist bed nights decreased by 16 percent against the previous month, it fell slightly by 1 percent compared to a year ago. As for the capacity of the industry, the number of operational beds in resort/ hotels grew by 11 percent (1,845 beds) from the corresponding month of 2007 and stood at 19,304 beds at the end of the review month. As a result, capacity utilization in resorts/hotels declined to 66 percent from 74 percent in the previous year.

CHART 2



Source: Ministry of Tourism and Civil Aviation

Cumulatively, during the period January-September 2008 visitor arrivals registered a growth of 2 percent compared to the corresponding period of 2007 and recorded 506.1 thousand at the end of September 2008. The increase in tourist arrivals together with the improvement in average duration of a tourist visit during the period, led to a growth of 4 percent in bed nights during January-September 2008. Similarly, with the 9 percent (1,579 beds) increase in the operational bed capacity of the industry, capacity utilisation fell from 82 percent to 78 percent during the review period.

1.3 Fisheries

In September, fish landings fell by 6 percent compared to the previous month while it fell by 15 percent compared to a year ago and totalled 10.2 thousand metric tonnes. Similarly, fish purchases made by the commercial buyers stood at 5.6 thousand metric tonnes, which is a fall of 18 percent against the previous month, while it decreased by 4 percent compared to September 2007.

Reflecting the decline in fish catch, the volume of fish exports (excluding live fish) which totalled 2.7 thousand metric tonnes at the end of the review month, decreased by 56 percent when compared to the preceding month and fell by 39 percent compared to September 2007. Meanwhile, earnings from such exports which totalled US\$9.3 million at the end of the review period declined by 21 percent when compared on a monthly basis, while it rose by 31 percent when compared on an annual basis.

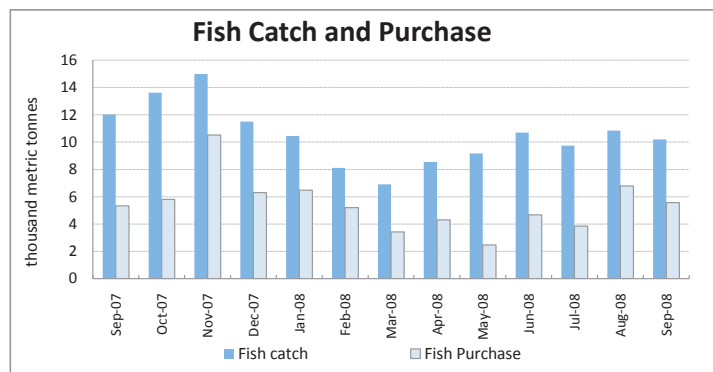
On cumulative terms, fish catch during January-September 2008 fell by 16 percent to 84.7 thousand metric tonnes, while fish purchases by commercial buyers increased by 4 percent to 42.8 thousand metric tonnes. Similarly, the volume of fish exports (excluding live fish) which totalled 43.1 thousand metric tonnes during January-September of this year also fell 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 25 percent and totalled US\$89.9 million at the end of September 2008.

1.4 Prices

Consumer Price Index

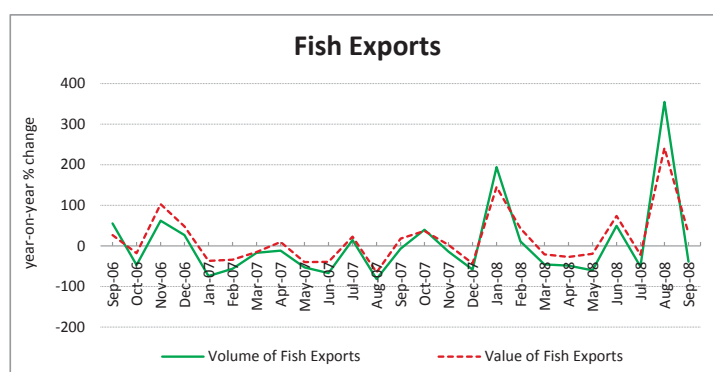
Consumer price inflation, as measured by the annual percentage change in the 12 month moving average of Consumer Price Index measured (CPI) for Male', edged up to 12.1 percent in September 2008 from 11.7 percent in the previous month and 5.1 percent a year ago. Core measures of inflation, such as CPI excluding the volatile fish prices rose by 10.9 percent while CPI excluding all food prices rose by 7.3 percent. The biggest contribution to CPI during the month of September came from increased prices of food, health care, transport and housing (Chart 5).

CHART 3



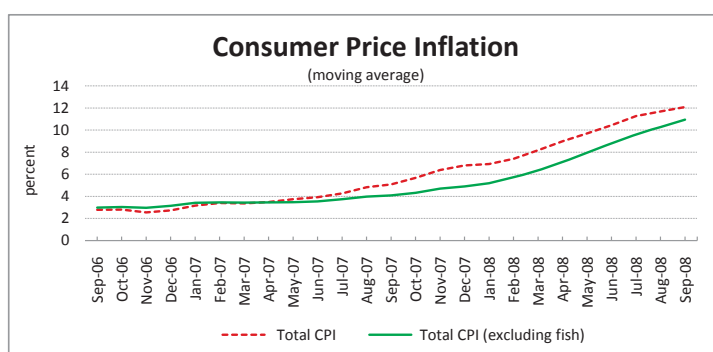
Source: Ministry of Fisheries, Agriculture and Marine Resources

CHART 4



Source: Maldives Customs Service

CHART 5



Source: Ministry of Planning and National Development

World Commodity Prices

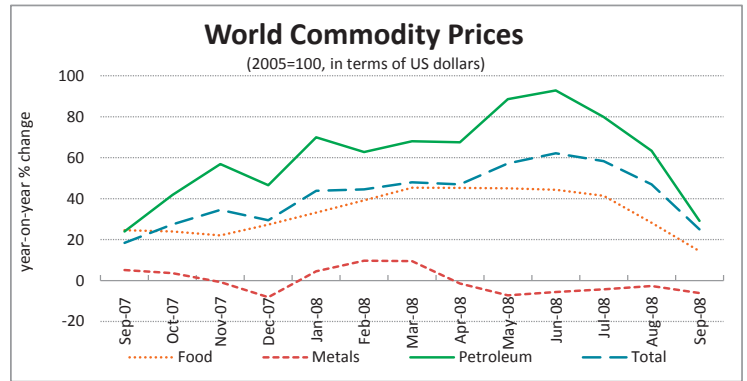
World commodity prices fell during September 2008, with the drop in energy and food prices. As such, at the end of the review month, the International Monetary Fund (IMF) primary commodity index declined by 10 percent month-on-month compared to the previous month though prices strengthened by 25 percent year-on-year. The food and energy index also declined and fell by 6 percent and by 13 percent, respectively (Chart 6).

Price of crude oil (an average of UK Brent and U.S WTI) fell by 12 percent from US\$115.9 per barrel in the previous month to US\$101.5 per barrel in the review month. However, global oil prices still remain 29 percent higher than a year ago (Chart 7).

Domestic Petroleum Prices

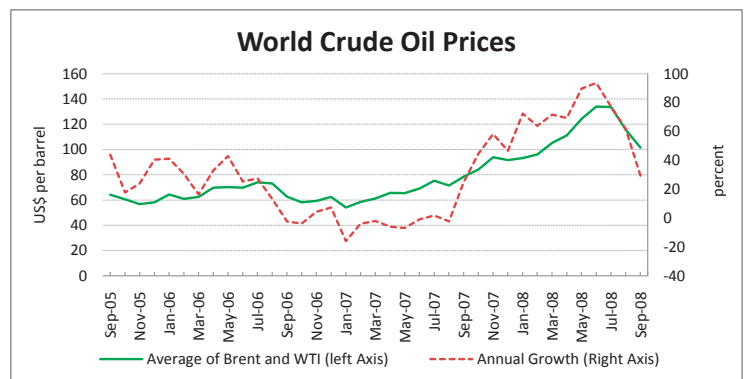
The retail prices of domestic petroleum products remained unchanged during September 2008 since it was last adjusted in August 2008. Price of diesel stood at Rf15.75 per litre while price of petrol and kerosene were kept unchanged at 14.25 per litre and Rf15.20 per litre, respectively, during the review month. (Chart 8).

CHART 6



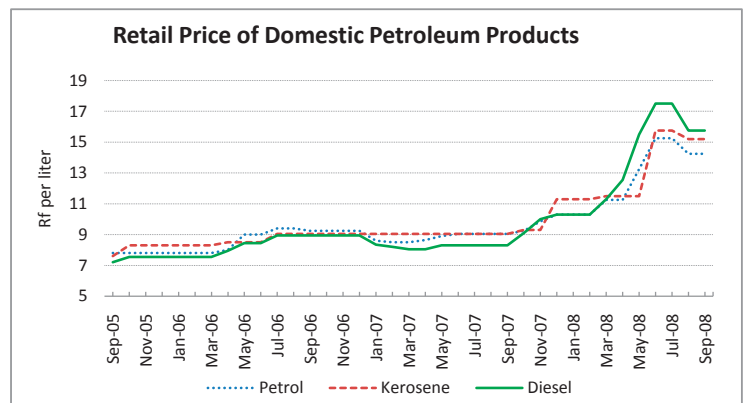
Source: International Monetary Fund

CHART 7



Source: Energy Information Administration, USA

CHART 8



Source: State Trading Organisation

3- Monetary Developments

3.1 Money and Credit

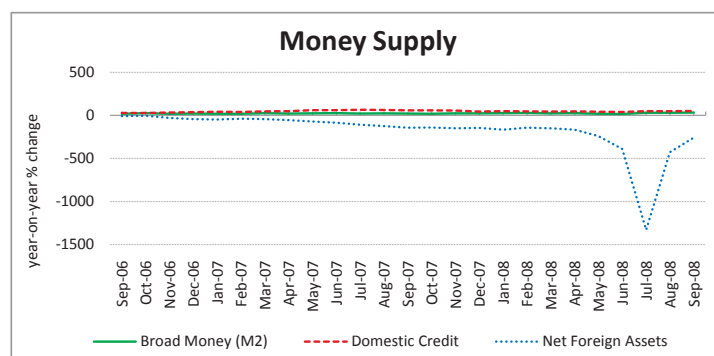
In September, broad money or M2 increased by Rf195.9 million to Rf12,221.3 million. In the 12 months to September 2008, M2 expanded by 33 percent largely on account of the substantial increase in domestic credit (by 53 percent), especially to the private sector (Chart 9 and 10). Growth in credit to private sector increased by 52 percent (or by Rf5,562.6 million) to Rf16,218.2 million during the period, of which 60 percent was lent to the tourism sector, 7 percent to commerce, 10 percent construction sector and 7 percent to fisheries sector.

Net credit to government registered a sharp increase of 68 percent (or Rf708.8 million) year-on-year, to Rf1,746.7 million at the end of September 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 steep decline in the net foreign assets (NFA) of the banking sector which has been on a net liabilities 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, especially from the tourism sector. During the period, net foreign assets of MMA improved by 6 percent or Rf195.9 million.

3.2 The Monetary Base

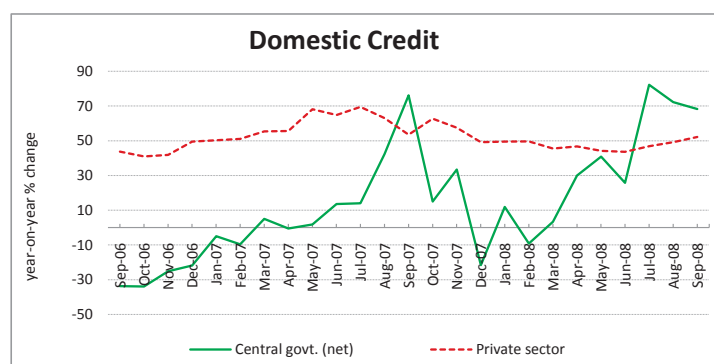
During September 2008 the monetary base (M0) increased by Rf151.2 million to Rf5,252.1 million. The increase in M0 was mainly influenced by the substantial increase in net credit to government, although the 8 percent increase in the NFA of MMA also contributed to this increase. Total amount of treasury bills outstanding at the end of September 2008 stood at Rf905.0 million compared with Rf1,194 million at the end of August 2008.

CHART 9



Source: Maldives Monetary Authority

CHART 10



Source: Maldives Monetary Authority

4- External Sector Developments

4.1 Balance of Payments

According to the balance of payments revisions made in June 2008, the current account deficit widened by 41 percent to record US\$424.5 million (40 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 11). The overall balance of payments recorded a surplus of US\$77.0 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 surplus of US\$71.8 million while gross international reserves are projected to improve to US\$380.8 million, equivalent to 3.2 months of imports.

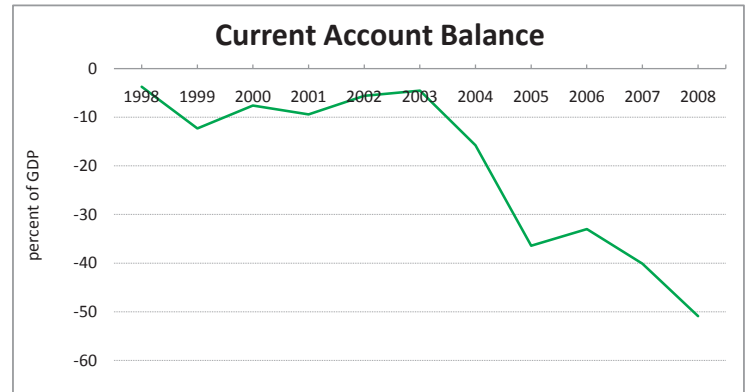
4.2 Balance of Trade and Gross International Reserves

Total exports at the end of September 2008 stood at US\$19.3 million, decreasing by 27 percent compared to the preceding month, nevertheless registered a gain of 22 percent compared to the corresponding month of 2007. Meanwhile, total imports fell by 13 percent or US\$13.9 million against the preceding month, owing to the decline in imports of consumer and petroleum imports, whereas on annual terms total imports rose by 5 percent or US\$4.1 million. Hence, the trade deficit widened to US\$71.2 million at the end of the review month from US\$78.1 million in August 2008 and US\$70.7 million a year ago (Chart 12).

Earnings on total merchandise exports from January-September 2008 totalled US\$269.0 million, increasing by 63 percent (or US\$103.5 million) compared to the same period of 2007. Similarly, total value of merchandise imports from January-September 2008 also rose by 41 percent (or US\$279.1 million) compared to the same period a year ago. Hence, this led to a further deterioration in the trade deficit to US\$697.5 million in the past nine months of 2008 from US\$521.9 million in the same period of 2007.

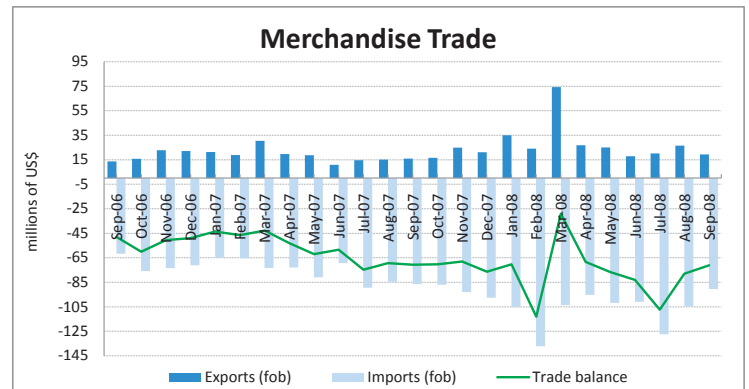
Reflecting the monthly decline in tourism activity, gross international reserves decreased from US\$269.2 mil-

CHART 11



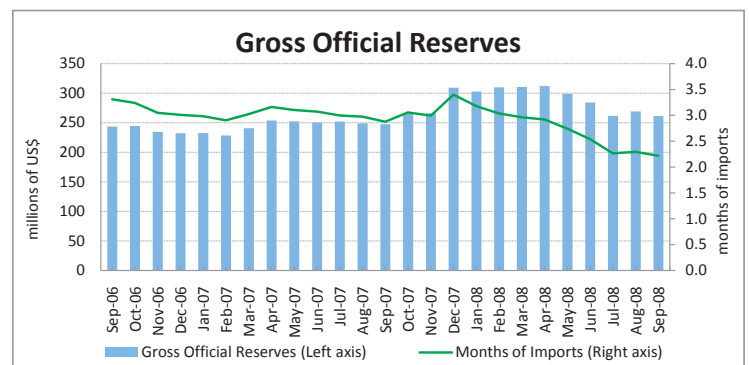
Source: Maldives Monetary Authority

CHART 12



Source: Maldives Customs Service

CHART 13



Source: Maldives Monetary Authority and Maldives Customs Service

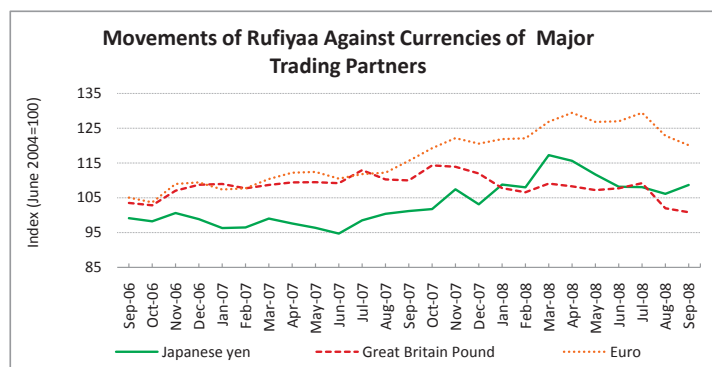
lion at the end of August 2008 to US\$261.2 million at the end of September 2008, while reserves in terms of import cover fell to at 2.2 months. In comparison to September 2007, gross international reserves grew by US\$13.6 million while reserves in months of imports fell by 0.7 months due to the increase in imports (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.

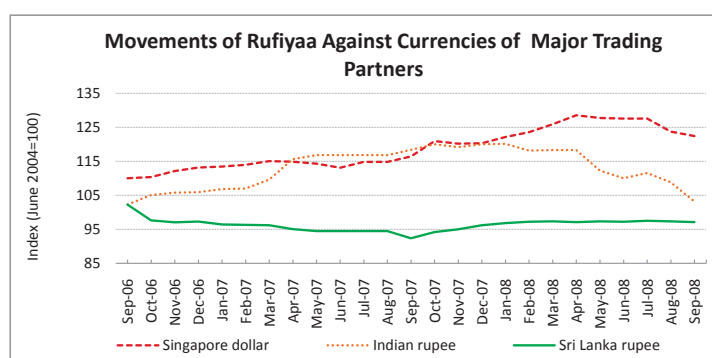
Year-on-year comparisons of bilateral exchange rates at the end of September 2008 showed that with the exception of the Indian rupee and the British pound, against which the rufiyaa appreciated by 12.8 percent and 8.3 percent respectively, the rufiyaa depreciated against major currencies of the trading partners. As such the rufiyaa depreciated against the Japanese yen by 7.4 percent, Singapore dollar by 5.1 percent, Sri Lankan rupee by 5.2 percent and the Euro by 3.9 percent (Chart 14 and 15).

CHART 14



Source: Maldives Monetary Authority

CHART 15



Source: Maldives Monetary Authority

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