

**Economic Review:
July 2011**

Overview:

The first five months of 2011 has shown a pick up in the tourism sector, which is one of the leading indicators of the state of the Maldives economy. Net foreign assets in the banking sector are growing at a steady pace, which is encouraging given the dependence on imports. But on the flip side, the economy has been facing widening trade deficit and declining foreign exchange reserves.

Overall GDP

Table 1: GDP Growth (%)

%	2007	2008	2009	2010	2011
GDP	12.1	12.0	-6.5	9.9	8.3*

Source: MMA
*Estimated

The GDP projection for 2011 has been revised from 7.5% to 8.3%, reflecting the recovery of the economy following the downturn in 2009. This growth is supported by continued buoyant growth in tourism and related sectors such as construction and transportation.

Tourism

Tourism sector is the main driver of the Maldivian economy. In cumulative terms, total tourist arrivals reached 327.5 thousand during Jan – April 2011, increasing by 17% from 280.3 thousand in Jan – April 2010. In the meantime, bed nights grew by 11% during the first four months of 2011 which is less than the arrival growth rate. Consequently, the average stay declined to 7.5 days from 7.9 days in the corresponding period of 2010.

Table 2: Tourist Arrivals and Bed nights

Thousands	2010	2011
	Jan - April	
Tourist Arrivals	280.3	327.5
Tourist Bed nights	2215.6	2448.2
Average stay (days)	7.9	7.5

Source:MMA

Analyzed by:

Madan Sabnavis, Chief Economist
madan.sabnavis@careratings.com
91-022-67543489

Anuja Jaripatke, Associate Economist
anuja.jaripatke@careratings.com
91-022-675343552

Table 3: Inflation

Inflation (%)	2010	2011
	Dec	May
Male'	6.2	7.6
Food and non- alcoholic beverages	7.5	13.8
Health	4.6	5.7
Transport	3.3	-0.4

Source:MMA

Introduction of Goods and service tax and business profit tax.

Fiscal deficit remains unchanged

Table 4: Money and Banking

Rf Million	2010		2011
	May	Dec	May
Broad Money	14,117	15,860	18,739
Net Foreign asset	-610.7	689.4	2,322
Net Domestic Asset	14,728	15,171.3	16,417
Net Claims to government	4,333	5401	6,224
Claims on private sector	15,207	15,187	17,226

Source:MMA

Table 5: Private Sector Interest Rate

%	2010		2011
	Dec	May	May
Private Sector			
Minimum	5.0	5.0	5.0
Maximum	14.0	14.0	14.0
Weighted Average	10.45	10.35	10.14

Source:MMA

Inflation

Inflation, measured by the Consumer Price Index (CPI) for Male', stood at 7.6% at the end of May 2011 from 6.2% at the end of Dec 2010. Inflation during the period was mostly influenced by food prices. On annual terms, international commodity price index registered an increase of 32% and y-o-y food prices went up by 33%. Hence higher food prices were imported into the system. However, lower crude oil prices on account of global economic slowdown have moderated transport prices.

Fiscal Deficit Position

Total revenue is projected to increase to 29% of GDP in 2011 from 23% in 2010. The increase is projected to come mainly from the introduction of new revenue measures such as goods and services tax on tourism and business profit tax. However, total expenditure is also projected to increase to 41% of GDP in 2011. Hence, overall fiscal deficit is estimated to remain at 11% of GDP

Money and Credit

Broad money (M2) registered a year-on- year increase of 32.7% and totaled Rf 18,739 million at the end of May 2011. It grew by 18.1% from Dec 2010 to May 2011. Net foreign asset and Net domestic assets of the banking system in May 2011 totaled to Rf 2,322 million and Rf 16,417 million respectively. Of the domestic claims, Net Credit to Government by the banking system increased by 43.6% on an annual basis and by 15.2% between Dec 2010 and May 2011, while claims to the private sector period, registering an annual growth of 13.3% and a growth of 13.4% between Dec 2010 and May 2011.

The Interest Rate on loans by private sector ranges from 5% to 14%. The weighted average of the same went up from 10.35% in May 2010 to 10.45% in Dec 2010 which lowered to 10.14% in May 2011.

Balance of Trade and Gross International Reserves

In cumulative terms, the value of merchandise exports amounted to US \$ 136.6 million during Jan-May 2011 and registered a growth of 75.7% from US \$ 77.7 million in Jan-May 2010. The value of merchandise

imports amounted to US \$ 538.3 million and registered a growth of 24.7% from US \$ 431.7 million in 2010.

With the increase in imports more than offsetting the growth in exports, the trade deficit widened to US \$ 402 million during Jan- May 2011 from US \$ 354 million in 2010.

Gross international reserve declined to US \$ 338.4 million at the end of May 2011 from US \$ 350.2 million at the end of Dec 2010, although when compared to May 2010, gross reserves show an increase of US \$ 23.7. Despite the annual increase in gross reserves, in terms of import cover gross reserve fell to 3.4 months in the review month from 3.7 months in May 2010 owing to the strong increase in imports during the period.

Exchange Rate

With effect from April 14, 2011 the Rufiyaa was allowed to fluctuate within a band of 20% on either side of a central parity of Rf 12.8 per US dollar, in order to ease the pressure on foreign exchange market. Since the introduction of the exchange band, the Rufiyaa has depreciated by 18.8% against the US dollar and stood at Rf 15.21 per US dollar at the end of May 2011.

Concluding Remarks

While the economy appears to be picking up, increasing inflation, widening trade deficit and declining foreign reserves are a concern. The full effect of exchange rate band would work out over a longer period of time as the immediate impact has not yet been positive.

For Further details contact:

CARE Ratings Maldives

4th Floor CHAMPA Center Point, Chandhanee Magu, Male' Republic of Maldives E-mail: care@careratings.com, Phone: +960 3330560

Mr. Vidhyasagar, Head-Maldives Operations

Email: vidhya.sagar@careratings.com, Phone: +960 9848744

Ms. Aishath Arsha, Manager

Email: aishath.arsha@careratings.com, Phone: +960 7901855

Table 6: Balance of Trade

US Million	2010	2011
	Jan- May	
Exports	77.7	136.6
% growth	-1.4	75.7
Imports	431.7	538.3
% growth	12.8	24.7
Trade deficit	354.0	401.7

Source: MMA

Decline in international reserves and import cover

Disclaimer

The Report is prepared by the Economics Division of CARE Limited. The Report is meant for providing an analytical view on the subject and is not a recommendation made by CARE. The information is obtained from sources considered to be reliable and CARE does not guarantee the accuracy of such information and is not responsible for any decision taken based on this Report.