MALDIVES UPDATE

Overview:

Maldivian economy showed expansion and growth in 2011, supported by the tourism industry, the leading sector of the country. However, the GDP growth is expected to moderate to 5.5% in 2012. Inflation continues to be an issue as it has been increasing mainly due to higher food prices. On the positive side, the country's international (forex) reserves are seeing an expansion.

Overall GDP:

The GDP grew by 7.5% in 2011, underpinned by the strong growth in tourism, electricity, communication and transportation sectors. During 2012 a lower growth of 5.5% has been projected. ***This projection is based on expected moderation in the tourism sector from 13.6% in 2011 to 7.5% in 2012 and a slowdown in the transport sector from 7.2% to 5.4%.*** Excluding 2009, the average growth in the period 2008-2011 would be at 8.5%.

Maldivian economy has been a tertiary driven economy with 83% of the GDP contributed by this sector. The secondary and primary sector contribution stood at 14% and 3% respectively.

Table 1: GDP Growth

%	2009	2010	2011	2012
Overall GDP	**-4.7**	**5.7**	**7.5**	**5.5**
Primary	-7.4	-6.9	-1.1	3.2
Secondary	-26.2	5.2	5.9	6.1
Tertiary	0.5	6.3	8.0	5.4

Source: MMA

Tourism:

Tourism sector is the main driver of the Maldivian economy. In cumulative terms, total tourist arrivals reached 931.1 thousand during 2011, increasing by 17.6% from 791.9 thousand in 2010. In 2012, the cumulative tourist arrivals between January and May totaled to 398.7 thousand.

In 2012 (Jan – May), maximum tourist arrivals were from Europe (63%), followed by Asia (30.5%). China (18.4%) and Germany (11.6%) are among the countries from where highest number of tourists entered Maldives.

Table 2: Tourist Arrivals

Tourist Arrivals ('000)	2010	2011	2012
Q1	219.6	247.6	255.8
Q2	163.1	200.4	142.8* (144.4*)
Q3	186.1	221.2	-
Q4	223.2	262.2	-

Source: MMA
*****Data for April and May*

Seasonal trend has been observed in the tourism sector, indicating Q1 (January – March) and Q4 (October – December) to be the busy season for the tourism sector.

Europe has had the maximum tourist arrivals since 2001. The Euro zone austerity and unemployment impact can be felt on the country's tourism sector. In 2012, Q1 saw an increase of 3.3% to 255.8 thousand tourist arrival in comparison to 12.8% increase in the same quarter previous year. Cumulative tourist arrivals saw a drop of 1.1% in April and May 2012 when compared with the same period in the previous year.

Table 3: Nation wise tourist arrivals (2011 & 2012)

('000)	Europe	Germany	UK	Asia	China	India	Africa	S. Africa	Americas	Brazil	Canada	USA
2011												
Q1	**168.3**	21.9	27.7	**67.2**	40.1	6.9	**1.3**	0.7	**5.6**	0.6	1.2	3.3
Q2	**113.3**	22.1	25.5	**73.2**	40.5	7.6	**1.7**	1.0	**5.4**	0.6	1.0	3.2
Q3	**106.3**	17.9	25.5	**98.7**	66.1	6.1	**1.6**	0.8	**5.4**	0.6	1.0	3.3
Q4	**149.8**	28.6	25.7	**95.5**	52.0	10.4	**1.9**	1.1	**7.3**	0.5	1.5	4.6
2012												
Q1	**167.0**	26.4	24.4	**73.7**	46.7	6.2	**1.3**	0.6	**6.1**	0.6	1.2	3.6
Q2*	**83.8**	19.9	15.6	**47.9**	26.7	4.6	**1.3**	0.8	**4.1**	0.5	0.7	2.4

Inflation:

Inflation, measured by the Consumer Price Index (CPI) for Male, continues to edge up. CPI stood at 14.7% at the end of May 2012 from 7.5% at the end of May 2011. Inflation during the period was mostly influenced by the food index owing to the increase in prices of both fish (75.6%) and non alcoholic beverages (19.6%) and tobacco and narcotics (64%), followed by the increase in hotels, cafes and restaurants costs. Transportation costs and clothing and footwear have also contributed to the high inflation.

Inflation is majorly attributed to the import costs which are increasing with the depreciation in the currency since April 2011. The International Monetary Fund commodity price index has seen a decline due to fall in petroleum, food and metal prices. Since, Maldivian inflation is primarily imported inflation, the declining global commodity prices will have a soothing effect on the inflation numbers going ahead.

Table 3: Inflation (%)

%	2011	2012
	May	
Male' - CPI	**7.5**	**14.7**
Food and non – alcoholic beverages	13.6	22.7
Tobacco & narcotics	2.8	64.0
Clothing & footwear	2.1	22.1
Transport	5.5	17.3
Hotels, café & restaurants	3.6	28.9

Source: MMA

Fiscal Position:

2011 : Total revenue in 2011 increased to Rf 9,095.7 million (30.4% of GDP) from Rf 6,546.9 million in 2010 reflecting the introduction of new revenue measures such as goods and services tax on tourism and business profit tax. However, the total expenditure increased to Rf 12,159.9 million (40.6% of GDP) from Rf 10,815.1 million in 2010 reflecting the restoration of civil services wages to the levels prior to October 2009 resulting in an overall deficit of Rf 3,064.1 million (10.2% of GDP).

The employee cost (salary and wages, other allowances and other benefits and gratuities) for the government increased by 8.4% in 2011 as against a decline of 13.8% in 2010 on account of all these revisions.

Table 4: Government Budget

Rf Million	**2011**	**2012**
Total Revenue & grants	**9,095.7**	**11,480.3**
% of GDP	*30.4*	*36.2*
Expenditure & net lending	12,159.9	14,570.5
% of GDP	*40.6*	*45.9*
Overall Deficit	3,064.2	3,090.2
% of GDP	*10.2*	*9.7*

Source: MMA

2012: Total revenue receipts are expected to increase by 26% while total expenditure would rise by 20% in 2012. Within revenue however, there is a decline in share of import duty from 26.9% in 2011 to 17.1% in 2012.

Expenditure in 2012 is estimated to rise by 19.7% as against 12.4% in 2011. However, the employee bill is to decrease by 0.6% this year. Development expenditure is to increase by 32.8% as against 18.4% in 2011.

Further, expenditure on goods and services is to increase by 12.9% (12.6%). These expenditures would help in bringing about growth and development in the country.

Therefore, the overall deficit is projected to grow marginally by 0.7%. While the fiscal deficit ratio is expected to come down, it would be the lowest in the last five years. The progress on this front has been commendable as it was as high as 21% in 2009. It is expected that over the next few years, the fiscal deficit will be rolled back to the pre-2008 levels through effective reforms. During the year, 95% of the deficit is expected to be financed from foreign borrowings while the remaining 5% is to be financed through domestic sources.

Money and Credit:

Table5: Money and Credit

Rf Million	Broad Money	Deposits	Loans & Advances
2011	19,056.8	17,138.8	18,020.4
January – May (% Growth)			
2011	28.2	30.1	4.8
2012	10.9	10.7	0.2

Source: MMA

Broad money (M2) registered a year-on-year increase of 20% and totaled Rf 19,056.8 million at the end of 2011. Deposits and Loans and Advances in 2011 totaled to Rf 17,138.8 million and Rf 18,020.4 million, growing at 19.8% and 5.8% respectively.

Broad money (M2) registered a cumulative growth of 10.9% between January and May 2012 as against 28.2% in the same period previous year. Deposits and Loans and Advances grew by 10.7% and 0.2% respectively.

Table 6: Private Sector Interest Rates

%	2011	2012
Private Sector	**May**	
Minimum	5.00	5.00
Maximum	14.00	14.00
Weighted Average	10.13	10.48

Source: MMA

The Interest Rate on loans by private sector ranges from 5% to 14%. The weighted average of the same went up from 10.13% in May 2011 to 10.48% in May 2012.

Gross International Reserves:

Gross international reserve improved to US $ 342.2 million at the end of May 2012 from US $ 334.9 million at the end of December 2011, when compared to May 2011, gross reserves show an increase of US $ 3.8 million from US $ 338.4.

Exchange Rate

With effect from April 11, 2011 a new exchange rate was introduced wherein the Rufiyaa was allowed to fluctuate within a band of 20% on either side of a central parity of Rf 12.85 per US dollar, in order to ease the pressure on foreign exchange market. Since the introduction of the exchange rate, the Rufiyaa has depreciated by almost 20%. The exchange rate against the US dollar stood at Rf 15.39 per US dollar by the end of May 2012.

Balance of Trade and Impact of Rufiyaa Devaluation

In cumulative terms, the value of merchandise exports amounted to US $ 126.1 million during Jan – April 2012 and registered a growth of 9.1% from US $ 115.6 million in Jan – April 2011. The higher growth in exports was due to marine products (49.4 $ mn).

Table 7: Balance of Trade ($ million)

	2011	2012
	Jan - April	
Exports	115.6	126.1
Imports	420.1	520.1
Trade Deficit	304.5	394.0

Source: MMA

The value of merchandise imports amounted to US $ 520.1 million and registered a growth of 23.8% from US $ 420.1 million in 2011. High growth in imports was due to petroleum products (31.3%), food items (20.8%) and other items (19.8%).

With the increase in imports more than offsetting the growth in exports, the trade deficit widened to US $ 394.0 million during Jan – April 2012 from US $ 304.5 million in 2011.

Maldivian economy is primarily dependent on imports. While depreciation increases costs, given that there is full dependence on imports, demand for the same may not come down. The effect of exchange rate depreciation has started to show on exports. The full effect of depreciation is expected to work out over a longer period of time. Declining commodity prices globally will help to stabilize the external balance.

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