

Maldives Economy Update – October 2013

Overview

Maldivian economy decelerated in the year 2012 witnessing a lower growth rate of 3.4% after registering a significant growth of 7.1% and 7% in 2010 and 2011 respectively. However, the real GDP growth projection for 2013 is expected to improve slightly to 4.3%. This improvement is expected to be supported by the growth in Tourism and its allied sectors. Besides, other indicators such as inflation continued to register a lower growth rate owing to falling global food prices. However, the trade deficit continued to deteriorate due to rising imports while the gross international reserves recorded an increase on account of increase in foreign direct investments.

Given the present economic scenario with concentration of the economic activities in few sectors particularly tourism, the economy is required to diversify in order to bring about sustained growth. However, the diversification of the economy would require significant private sector involvement, for which conducive business environment needs to be created.

Economic growth

Maldivian economy registered a sluggish growth of 3.4% in 2012 compared with 7% in 2011 on account of lower growth of the tourism industry. The slowdown in tourism was on account of persistent euro-zone crisis and weakening of other major economies which led to a lower growth in the number of tourist arrivals. However, the real GDP is expected to recover modestly to 4.3% in 2013 as moderate recovery in the global economy is expected to lift tourism which provides approximately 28% of GDP. Besides, the secondary sector which comprises construction and manufacturing is also expected to rise by 6.6%.

Table 1: Real GDP Growth rate

%	2009	2010	2011	2012	2013*
Overall GDP	-3.6	7.1	7.0	3.4	4.3
Primary	-2.4	-0.9	1.0	4.8	0.1
Secondary	-26.1	4.3	14.7	14.0	6.6
Tertiary	1.7	8.0	6.0	1.4	4.1

Source: Maldives Monetary Authority, * projection

Tourism

Maldives continues to successfully promote its natural assets for tourism. While tourism contributes about 28% to the GDP its indirect contribution is much higher. Consequently, it continues to act as a catalyst for growth. In 2012, the total tourist arrivals reached 957 thousand, increasing by 3% as against 930 thousand in 2011. In 2013, the cumulative tourist arrivals between January to July stood

at 627 thousand against 535 thousand in the corresponding period of the previous year with an increase of 17%. The increase in tourist arrivals was mainly due to large increase in tourist arrivals from China. Tourist arrivals from China in 2013 (Jan to Jul) increased by 50.7% as against 2012 (Jan to Jul) followed by Middle East (40.4%), Asia (42.7%), and America (27.6%). However, the number of tourist arrivals from Europe increased slightly by 0.5% compared to the decline of 2% in the corresponding period last year. As a result, total number of tourists increased in both monthly and annual terms. This trend has been encouraging as it shows that the tourism sector has not been unduly affected by the prevalent political situation.

Table 2: Tourist Arrivals

Tourist Arrivals ('000)	2010	2011	2012	2013
Q1	219	247	255	293
Q2	163	200	202	246
Q3	186	221	234	88*
Q4	223	262	266	-

Source: Maldives Monetary Authority

*Data for July

Reflecting the overall increase in tourist arrivals, the total bed nights and the occupancy rates also recorded an increase of 8% and 5% respectively. However, the average duration of the stay declined by 8%. It may be noted that as the peak season is witnessed from October to December and January till end of March, the number of tourist arrivals is expected to increase for the year.

Inflation

Inflation, measured by the consumer price Index (CPI) for Male, has gradually decelerated over a period of time. CPI inflation came down to 5.3% in August 2013 compared with 13.5% at the end of August 2012.

Table 3: Inflation (%)

%	2012	2013
	August (y-o-y)	
Male' – CPI	13.5	5.3
Food and non – alcoholic beverages	21.4	9.4
Tobacco & narcotics	71.0	4.2
Clothing & footwear	24.6	5.1
Transport	15.0	2.3
Hotels, café & restaurants	32.0	18.2

Source: Maldives Monetary Authority

Decline in the prices charged for health and communication services and the slower growth in prices of food, particularly fish prices, Tobacco & narcotics, clothing and footwear, transport and hotels, café & restaurants have contributed to the lower rate of inflation in August 2013 against August 2012. In monthly terms, the

inflation rate fell due to decline in prices of food items, communication services and also due to slower growth in prices for furnishing and household items.

The International Monetary Fund commodity price index rose marginally both in monthly and annual terms during August 2013. This may be attributed to the increase in metal and petroleum prices as food prices declined during the period. Hence, as Maldives is heavily dependent on imports to cope with its demand for commodities, the falling global food prices have led to the overall moderation in inflation.

Fiscal Position

Maldives is expected to continue with its estimated budget deficit position for the year 2013. However, the government in its 2013 budget aims to cut down expenditure and expects revenue collections to increase further on account of implementation of new taxes (GST and BPT) introduced since January 2011. Hence, the overall fiscal deficit ratio is also expected to lower significantly from 13% of GDP in 2012 to 4% in 2013, the lowest in the past five years.

Table 4: Government Budget

Rf Million	2009	2010	2011	2012	2013
Total Revenue & grants	5,735	6,547	9,905	9,832	12,609
% of GDP	22.6	24.0	31.5	28.8	33.0
Expenditure & net lending	10,953	10,815	12,265	14,146	13,973
% of GDP	43.1	39.6	39.0	41.4	36.6
Overall Deficit	5,219	4,268	2,360	4,314	1,364
% of GDP	-20.5	-15.6	-7.5	-12.6	-3.6

Source: Maldives Monetary Authority,

* Revised, # budget estimates.

The total revenue receipts are estimated to increase by 28% in 2013 compared with the previous year. This increase in share of revenue receipts is expected to come from import duty (21%) and the newly introduced Goods and services tax particularly from the tourism sector (80%) and Business profit tax (16%).

The total expenditure (including net lending) in 2013 is estimated to decline by 1% to Rf 13,973 million. This decline is mainly due to cuts in the current expenditure due to decline in expenditure on goods on services (10.5%). However, the employee bill which includes salaries, wages and allowances is expected to rise by 27% in 2013. The development expenditure is also to increase by 4% compared with 2.9% in 2012. Of the overall deficit of Rf 1,364 million, 62% is to be financed by foreign borrowings while 38% is to be financed through the sale of T-bills and other sources.

Table 5: Revenue and Expenditure (in millions of rufiyaa)

Rf Million	2012(Jan-Jul)	2013(Jan-Jul)
Total Revenue	5,432	6,323
Total Expenditure	7,214	7,967
Overall Deficit	1,782	1,644

Source: Maldives Monetary Authority

During 2013(Jan- Jul), the total revenue increased by 16.4% compared to the corresponding period in 2012. This was due to a significant rise in tax revenue, mainly from goods and services tax and business profit tax. However, non- tax revenue fell during the period owing to decline in transfers made by state owned enterprises (SOE's). Besides, the total expenditure increased by 10.4% due to increase in current expenditure. However, the overall deficit registered a decline of 7.7%. Of the total estimated budget for 2013, 50% of the revenue and 57% of the expenditure has been covered in the first seven months.

Money and Credit

Broad money (M2) increased in both monthly and annual terms, at the end of August 2013. The increase in broad money was solely due to the growth in net domestic assets (NDA) of the banking system, as the net foreign assets (NFA) registered a decline. Meanwhile the annual growth in broad money was on account of significant increase in NFA of the commercial banks. Deposits also grew considerably by 14.8% while loans and advances registered a growth of 4.6% against August 2012.

Table 6: Money and Credit

Rf Million	Aug 2012	Aug 2013	% Change (y-o-y)
Broad Money	19,186.2	22,533.6	17.4
Deposits	17,511.7	20,108.5	14.8
Loans & Advances	17,034.5	17,817.8	4.6

Source: Maldives Monetary Authority

Broad money (M2) registered a year-on-year increase of 17.4% and totaled Rf 22,533.6 million at the end of August 2013 while deposits and Loans & Advances totaled to Rf 20,108.5 million and Rf 17,817.8 million, growing at 14.8% and 4.6% respectively.

Table 8: Private Sector Interest Rates

%	2012	2013
Private Sector	August	
Minimum	5.00	2.00
Maximum	14.00	18.00
Weighted Average	10.64	11.34

Source: Maldives Monetary Authority

The Interest Rate on loans by private sector ranges from 2% to 18%. The weighted average of the same went up from 10.64% in August 2012 to 11.34% in August 2013.

Balance of Trade

In cumulative terms, the value of merchandise exports amounted to US \$ 223.9million during Jan – August 2013 and recorded a growth of 10.18% from US \$ 203.2 million in Jan – August 2012. This increase in exports was on account of increase in volumes (38%) as well as earnings (16%) of fish exports.

Table 9: Balance of Trade (\$ millions)

	2012	2013
	Jan –Aug	
Exports	203.2	223.9
Imports	1,022.8	1,127.2
Trade Deficit	819.6	903.3

Source: Maldives Monetary Authority

The value of merchandise imports amounted to US \$ 1,127.2 million and registered a growth of 10.21% from US\$ 1,022.8 million in 2012 on account of high growth in imports of furniture, fixtures and fittings, electronics appliances, and transport equipments and parts.

With more significant increase in imports than exports, the trade deficit widened further by 10.2% to US \$ 903.3million during Jan – August 2013 from US \$ 819.6 million in corresponding period of 2012.

Gross International Reserves

Gross international reserves increased to US \$ 349 million at the end of August 2013 from US \$ 305 million at the end of December 2012, while compared to August 2012, gross reserves show an increase of 12.4%. However, the reserves registered a decline of 1% in monthly terms. The marginal decline on monthly basis is attributed to the widening trade deficit on account of increasing imports while the increase in annual terms may be attributed to increase in foreign direct investment flows.

Exchange Rate

With a view to ease the volatility in the foreign exchange market, Maldives introduced a pegged exchange rate regime with a horizontal band of 20% on either side of central parity of Rf 12.85 per US dollar with effect from April 2011. Since, then the rufiyaa has depreciated by 19.5%. At the end of August 2013, the exchange rate against the US dollar stood at Rf15.36. It appreciated slightly in monthly as well as in annual terms by 0.3%.

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