

Maldives Economy Update – March 2014

Overview

Maldivian economy recovered modestly to 3.7% in 2013 from 1.3% in 2012, mainly supported by its dynamic tourism industry. Further, the political stability and clearer policy direction by the new government is expected to boost real GDP growth rate to 4.5% in 2014. Moreover, other indicators such as inflation eased significantly owing to decline in global food and energy prices. However, the trade deficit continues to deteriorate due to rising imports while the gross international reserves recorded an increase on account of strong tourist receipts. On the fiscal front, revenue collections have increased while the expenditure remains under control. As a result, the overall fiscal deficit has improved from 9.2% of GDP in 2012 to 4.7% of GDP in 2013. It is further aimed to reduce to 3.2% in 2014.

Economic growth

Maldivian economy registered an improvement in its growth rate from 1.3% in 2012 to 3.7% in 2013 on account of significant pick up in the tourism industry. The upturn in the tourism industry is mainly due to global economic recovery leading to a significant rise in the number of tourist arrivals particularly from China.

Table 1: Real GDP Growth rate

%	2010	2011	2012	2013	2014*
Overall GDP	7.1	6.5	1.3	3.7	4.5
Primary	-0.9	1.1	0	1.7	0.7
Secondary	4.3	12.1	1.2	-1.2	3.3
Tertiary	8	5.8	1.4	4.7	4.9

*Source: Maldives Monetary Authority, * projection*

During 2013, the contribution of tertiary sector accounted for nearly 83.4% towards GDP followed by secondary sector at 14.5% and primary sector with around 3.2% towards GDP.

According to the estimates of the Department of National Planning, the real GDP growth is expected to further accelerate to 4.5% in 2014, driven mainly by the tourism sector coupled with increasing government expenditure. The tourism sector which accounts for nearly 28.9% of the GDP is estimated to grow by 5.2%. The growth in this sector is estimated to lift growth in the tertiary segment to 4.9% from 4.7% in 2013. The secondary sector which comprises of construction is also expected to recover and register a positive growth of 3.3%.

Tourism

Tourism sector is the main driver of the Maldivian economy. It directly and indirectly accounts for two-thirds of economic activity in Maldives. In 2013, total tourist arrivals increased by an impressive 17.4% to 1,125 thousand against 958 thousand in 2012. The increase in tourist arrivals was mainly due to large increase in tourist arrivals from China which accounted for nearly 30% of the total. During 2013, tourist arrivals from China increased by 44.5% as against 2012 thereby offsetting the weaker European demand. However, the number of tourist arrivals from Europe increased slightly by 1.8% compared to the decline of -3.7% in 2012.

In the meantime, bed nights grew by 9.1% during 2013 which is less than the arrival growth rate. Considering the shift in the composition of the tourist arrivals, there has been a shift in the type of services offered to the tourists. The Chinese tend to travel more across islands and pursue a variety of activities but stay for a shorter period of time than Europeans. Consequently, the average stay declined to 6.3 days from 6.7 days in 2013. However, the trend in increasing number of tourist arrivals has been encouraging, clearly indicating that the tourism industry has not been unduly affected by the political situation.

Table 2: Tourist Arrivals and Bed nights

	2010	2011	2012	2013	2013 (Jan)	2014 (Jan)
Tourist Arrivals ('000)	729	931	958	1,125	89	105
Tourist bed nights	5,841	6,529	6,451	7,041	628	680
Average stay (days)	7.4	7.0	6.7	6.3	7.1	6.5

Source: Maldives Monetary Authority

Inflation

After the depreciation in April 2011, inflation had been on the rise in Maldives. However, CPI- Male', moderated to 4% during 2013 from 10.9% in 2012. The deceleration in inflation during 2013 was influenced by food index owing to a relatively lower growth in prices of fish (10%) followed by transportation (2.5%) and Restaurants and hotels (12.9%) compared with 2012. Negative inflation was recorded in prices of furnishing and household equipments and communication segment at -2.0% and -1.9% respectively. Besides, the value of Rufiyaa remained stable against the currencies of its major trading partners and this in turn helped curtail inflation to a manageable level.

The International Monetary Fund commodity price index declined both in monthly and annual terms during January 2014 by 2% and 4% respectively. This is attributed to the fall in food, metal and petroleum prices. The crude oil prices also declined by 3% both in annual and monthly terms. Hence, given that Maldives is heavily dependent on imports to cope with its demand for commodities, the pass through of the falling food and oil prices have led to the overall moderation in inflation.

Table 3: Inflation (%)

%	2010	2011	2012	2013	2013 (Jan)	2014 (Jan)
Male' – CPI	6.1	11.3	10.9	4.0	4.7	2.6
Food and non – alcoholic beverages	7.5	19.9	17.7	7.5	7.5	0.3
<i>Of which, Fish</i>	7.7	59.3	64.6	10.0	23.8	-10.1
Furnishing & Household equipment	6.0	4.2	17.6	-2.0	3.6	-2.3
Health	4.7	10.6	-24.5	7.6	7.5	16.7
Transport	3.3	13.7	9.0	2.5	2.1	6.3
Communications	0.2	0.2	-0.7	-1.9	-0.5	-1.0
Restaurants & hotels	3.2	15.6	28.1	12.9	19.1	8.0

Source: Maldives Monetary Authority

Fiscal Position

Maldives is projected to continue with improvement in its fiscal position for the year 2014. In 2013, the revenue and expenditure figures increased compared to 2012. The revenue increased substantially by 15.8% to Rf 11,736 million compared with 2.4% increase in 2012. The rise in total revenue was mainly due to an increase in tax revenue; largely from goods and services tax (GST) (42.4%), business profit tax (32.9%), effective since January 2011 and import duty (10.2%). However, the non- tax revenue fell during 2013 owing to decline in transfers from state owned enterprises (SOEs). As for the increase in expenditure, it was due to the increase in current expenditure. Overall the fiscal deficit, improved from 9.2% of GDP in 2012 to 4.7% of GDP in 2013.

In 2014, total revenue receipts are estimated to grow by 28.9% while expenditure is estimated to grow by 22.6% owing to increase in capital expenditure. The overall fiscal deficit is projected to improve further to 3.2% of GDP from 4.7% in 2013. Of the overall deficit of Rf 1,295 million, 91.3% of the deficit is projected to be financed through foreign borrowings while the remaining 8.7% through domestic proceeds from issuance of T-Bills and other sources.

Table 4: Government Budget

(in millions of Rufiyaa)

Rf Million	2010	2011	2012	2013	2014
Total Revenue & grants	6,547	9,905	10,138	11,736	15,129
<i>% Change</i>	14.2	51.3	2.4	15.8	28.9
Expenditure & net lending	10,815.	12,265	13,110	13,394	16,421
<i>% Change</i>	-1.3	13.4	6.9	2.2	22.6
Overall Deficit	4,268	2,360	2,972	1,658	1,295
% of GDP	-15.6	-7.5	-9.2	-4.7	-3.2

Source: Maldives Monetary Authority

Money and Credit

Broad money (M2) registered a year-on-year increase of 18.4% and totaled Rf23,676 million at the end 2013. This was largely due to the increase in Net foreign assets (NFA) of the commercial banks which increased by nearly 65% during 2013. Net foreign assets and net domestic assets of the banking system in 2013 totaled to Rf 8,679 million and Rf 14,997 million respectively. Of the domestic claims, net credit to government by the banking system increased by 13.6% on an annual basis, while claims on the private sector registered an annual growth of 5% in 2013.

With regard to deposits, it increased by 16.7% in 2013 over 2012. In terms of loans and advances to the private sector, it increased by 10%.

Table 5: Money and Banking

(in million Rufiyaa)

Rf Million	2010	2011	2012	2013	2013 (Jan)	2014 (Jan)
Broad Money	15,884	19,062	20,002	23,676	21,601	25,774
<i>% Change</i>	14.6	20.0	4.9	18.4	10.1	19.3
Net Foreign Assets	686	2,873	5,258	8,679	6,863	10,560
Net Domestic Assets	15,198	16,189	14,743	14,997	14,739	15,213
Net Claims on Govt.	5,381	6,831	7,650	8,698	7,433	8,661
Claims on Private sector	15,191	16,091	14,505	15,216	14,889	14,999
Deposits	14,302	17,144	17,884	20,872	19,680	23,120
Loans & Advances	17,036	18,027	16,664	18,320	17,204	18,170

Source: Maldives Monetary Authority

Financial Sector

❖ Interest rate structure

The structure of interest rates is important as it affects the investment opportunities in the country which in turn impacts the growth prospects. The rates are laid down by the MMA.

- The weighted average of the Interest Rate on loans and Advances by private sector declined only marginally in the first half of 2013 from 10.51% in Dec 2012 to 10.49% in March 2013. However, since April 2013 it went up to 11.33% and further increased to 11.43% in Dec 2013. In January 2014, it continued to remain stable at 11.43% much higher compared with 10.55% in January 2013.
- Time deposit rates across various tenures have also recorded a gradual increase since 2012.
- The MMA reverse repurchase rate remains stable at 7% since 2012.

Table 6: Interest Rates (%)-Weighted average

	2012	2013	2014*
Private sector (Loans & Advances)			
<i>In domestic currency</i>	10.51	11.43	11.43
<i>In foreign currency</i>	8.68	8.58	8.56
Time Deposits			
<i>Upto 3 months</i>	2.14	2.23	3.07
<i>3 to 6 months</i>	3.16	3.31	3.20
<i>2 to 3 yrs</i>	3.80	4.00	4.01
Reverse Repurchase	7.00	7.00	7.00

Source: Maldives Monetary Authority, *January

❖ Monetary policy

Monetary policy has been aimed at achieving and maintaining price stability, by using exchange rate peg with the US dollar, in a manner conducive to balanced and sustainable growth of the national economy. The main policy instruments currently in use are the Minimum Reserve Requirement (MRR), Central Government Treasury bills (T-bills), Re-purchased (Repo) and Re-discount facilities. A MRR (minimum reserve requirement) of 25% of the average local and foreign currency demand and time liabilities, excluding interbank liabilities and L/C margin deposits is pursued by MMA. Balances of the minimum reserve deposits in excess of 15% bear an interest rate of 2.5% per annum. MMA also has in place with effect from 23rd November 2006, the Rediscount Facilities to develop a secondary market for T-bill holders.

Balance of Trade

In cumulative terms, the value of merchandise exports amounted to US \$ 330 million during 2013 and registered a growth of 4.8% from US \$ 314 million in 2012. This increase in exports was on account of increase in volumes (22.1%) as well as earnings (3.4%) of fish exports.

The value of merchandise imports amounted to US \$ 1,733 million and registered a growth of 11.5% from US \$ 1,554million in 2012 on account of high growth in imports of food items, furniture, fixtures and fittings, electronics appliances, petrol, aviation gas and transport equipments and parts.

With more significant increase in imports than exports, the trade deficit widened further by 13.2% to US \$ 1,404million during 2013 from US \$ 1,240 million in 2012. Consequently, the current account deficit continued to be elevated at 20.5% of GDP.

Table 7: Balance of Trade (in million USD)

	2010	2011	2012	2013
Exports	198	346	314	330
<i>% Growth</i>	16.8	75.4	-9.2	4.8
Imports	1,091	1,465	1,554	1,733
<i>% Growth</i>	13.3	34.3	6.1	11.5
Trade Deficit	-893	-1,119	-1,240	-1,404
CAD (% of GDP)	-8.9	-19.1	-23.0	-20.5

Source: Maldives Monetary Authority

Gross International Reserves

Table8: Gross International Reserves

(in Million USD)	2010	2011	2012	2013	2014*
Gross international Reserves	350.2	334.9	304.5	368.3	385
Import cover (months)	3.9	2.7	2.4	2.5	n/a

Source: Maldives Monetary Authority, *January

Gross international reserves increased by nearly 21% to US \$ 368.3 million at the end 2013 from US \$ 304.5million at the end of 2012. The import coverage also improved marginally from 2.4 months in 2012 to 2.5 months at the end of 2013. The reason for positive increase in reserves is the increasing number of tourist arrivals which have brought in strong receipts and maintained the inflow of foreign currency.

Gross international reserves increased in both monthly and annual terms by 5% and 20% respectively and reached US\$ 385 million at the of January 2014.

Exchange Rate

Table9: Exchange Rate

Exchange rate	2010	2011	2012	2013	2014*
Rf/\$	12.8	15.41	15.37	15.41	15.38

Source: Maldives Monetary Authority, *At the end of January 2014

Maldives follows 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 10, 2011. Since, then the rufiyaa has depreciated by 20% by the end of 2013 to Rf 15.41. During the month of January 2014, the exchange rate against the US dollar stood at Rf 15.38. It appreciated slightly in monthly as well as in annual terms by 0.2%.

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