Maldives Update

Overview:

Maldivian economy showed expansion and growth in 2011, supported by the tourism industry, the leading sector of the country. Inflation however continued to be an issue as it has been increasing mainly due to higher food and transport prices. The country's international (forex) reserves expanded during the year

Overall GDP:

The GDP is estimated to grow at 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 (%)

%	2008	2009	2010	2011	2012*
GDP	12.2	-4.7	5.7	7.5	5.5

Source: MMA *Projected

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 the meantime, bed nights grew by 9.1% during the year 2011 which is less than the arrival growth rate. Consequently, the average stay declined to 7.0 days from 7.6 days in the corresponding period of 2010.

In 2011, maximum tourist arrivals were from Europe (57.7%), followed by Asia (35.9%). China (21.3%) and United Kingdom (11.2%) are among the countries from where highest number of tourists entered Maldives. A significant development is the relative growth of Asia as a source for tourists which helps to negate the effects of a slowdown in the western world.

Europe has had the maximum tourist arrivals since 2001. In the coming years, the euro zone austerity and unemployment impact may be felt on Maldives too in terms of tourist arrivals. However, there could be compensation from the Asian region, especially China.

Table 2: Tourist Arrival and Bed nights

Thousands	2010	2011
Tourist Arrivals	791.9	931.3
Tourist Bed nights	5986.0	6529.1
Average stay (days)	7.6	7.0

Source: MMA

Inflation:

Inflation, measured by the Consumer Price Index (CPI) for Male, continues to edge up. CPI stood at 12.3% at the end of January 2012 from 6.5% at the end of January 2011. Inflation during the period was mostly influenced by the food index owing to the increase in prices of both fish (67.1%) and other food items (12.3%) followed by the increase in hotels, cafes and restaurants costs. Transportation costs and health care also contributed to the high inflation.

The price rise can be attributed partly to the higher costs of imports due to the increase in commodity prices coupled with the depreciation in the currency since April 2011. World Bank data shows that during the last two quarters of 2011 there has been an increase in the price indices of energy, agriculture (including raw materials) and metals. These price increases get transmitted to the domestic prices through higher import costs. Also rising oil prices will impact inflation in the transport sector and would remain the main risk for inflation this year for the economy. However, this factor holds for all countries in the world that are dependent on imported oil.

Table 3: Inflation

Inflation (%)	2011	2012
	January	
Male's- CPI	**6.5**	**12.3**
Food and non-alcoholic beverages	9.1	21.2
Health	4.9	11.4
Transport	3.6	15.1
Hotels, cafes and restaurants	3.3	18.7

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 and grants	9,095.7	11,480.3
% of GDP	*30.4*	*36.2*
Expenditure and net lending	12,159.9	14,567.0
% of GDP	*40.6*	*45.9*
Overall Deficit	3,064.2	3,086.7
% of GDP	*10.2*	*9.7*

Source: MMA *Projected

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. The major source of revenue is from the miscellaneous group, whose share has increased from 15.1% in 2011 to 37.6% in 2012. This is mainly through license fees, company registration fees, revenue stamps and motor vehicle taxes.

Expenditure in 2012 is 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 31.8% as against 18.4% in 2011. Further, expenditure on goods and services is to increase by 12% (12.5%). 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. The deficit is mainly projected to be financed domestically by proceeds from privatization and by T-Bills while the remaining from external sources.

Money and Credit

Table 5: Money and Banking

Rf million	2011	2012
	January	
Broad Money	16,409.1	19,613.8
% growth	21.0	19.5
Deposits	14,824.8	17,831.1
% growth	*23.9*	*20.3*
Loans and Advances	17,160.6	18,042.4
% growth	*0.8*	*5.1*

Source: MMA

Broad money (M2) registered a year-on-year increase of 19.5% and totaled Rf 19,613.8 million at the end of January 2012. Deposits and Loans and Advances in January 2012 totaled to Rf 17,831.1 million and Rf 18,042.4 million, growing at 20.3% and 5.1% respectively.

The Interest Rate on loans by private sector ranges from 2% to 14%. The weighted average of the same went down from 10.45% in January 2011 to 10.21% in January 2012.

Table 6: Private Sector Interest Rate

%	2011	2012
Private Sector	January	
Minimum	5.0	2.0
Maximum	14.0	14.0
Weighted Average	10.45	10.21

Source: MMA

Gross International Reserves

Gross international reserve improved to US $ 354.3 million at the end of January 2012 from US $ 335 million at the end of December 2011, when compared to January 2011, gross reserves show an increase of US $ 9.8 million from US $ 344.5

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 19%. The exchange rate against the US dollar stood at Rf 15.21 per US dollar by the end of January 2012.

Balance of Trade and Impact of Rufiyaa Devaluation

In cumulative terms, the value of merchandise exports amounted to US $ 315.7 million during Jan – Nov 2011 and registered a growth of 82.1% from US $ 173.4 million in Jan – Nov 2010. The higher growth in exports was due to marine products (88.6%).

The value of merchandise imports amounted to US $ 1,314.8 million and registered a growth of 33.2% from US $ 987 million in 2010. High growth in imports was due to petrol (50.5%), intermediate and capital goods (33.4%) and consumer goods (23.5%).

With the increase in imports more than offsetting the growth in exports, the trade deficit widened to US $ 999.1 million during Jan – Nov 2011 from US $ 813.6 million in 2010.

Maldivian economy is primarily dependent on imports. In cumulative terms, the value of merchandise imports amounted to US $ 1,003 million during Apr – Nov 2011 from US $ 311.8 million in Jan – Mar 2011. Hence, while depreciation increases costs, given that there is full dependence on imports, demand for the same may not come down.

The value of exports amounted to US $ 224.6 million during Apr – Nov 2011 (post devaluation) as against US $ 90.9 million during Jan–Mar 2011 (pre devaluation). The effect of exchange rate depreciation has started to show only marginally in exports. The full effect of depreciation is expected to workout over a longer period of time.

Table 7: Balance of Trade

$ Million	2011	
	Jan – Mar	Apr – Nov
Exports	90.9	224.6
Imports	311.8	1,003
Trade Deficit	220.9	778.4

Source: MMA

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