Quarterly Economic Bulletin

September 2018
Volume 24 Issue 3

This bulletin is compiled by the Research Division (RD) of the Maldives Monetary Authority (MMA). It covers developments in the domestic and international economy during the third quarter of 2018. The analyses are based on information provided by relevant government authorities, commercial banks operating in the country, public enterprises and other private sector sources, as at 30 December 2018. Where actual data is not readily available, estimates have been made by RD based on available information. The timely receipt of data is therefore crucial to the compilation of this publication and the analyses contained herein.

Contents

Abbreviations

bps	basis points
c.i.f.	cost, insurance, freight
CPI	consumer price index
f.o.b.	free on board
GDP	gross domestic product
GIR	gross international reserves
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MACL	Maldives Airports Company Limited
MMA	Maldives Monetary Authority
MRR	minimum reserve requirement
NPL	non-performing loan
ODF	Overnight Deposit Facility
OPEC	Organization of the Petroleum Exporting Countries
PCE	personal consumption expenditure
PMI	Purchasing Managers Index
UAE	United Arab Emirates
UK	United Kingdom
US	United States

Recent Economic Developments

International Economic Developments

Output

Global economic expansion remained firm during the third quarter of 2018. However, the pace of expansion lost its momentum and the growth rates observed to be more divergent across different country groups. As such, activity in the advanced economies showed mixed developments, while activity in the emerging markets and developing economies were suppressed by country-specific factors, higher oil prices, geopolitical tensions and tighter financial conditions. Hence, growth[1] is now estimated at 3.7% for 2018—0.2 percentage points lower than the estimates made in April 2018—mostly due to mounting downside risks and receding upside risks.

Looking at the advanced economies, the United States (US) economy remained strong in Q3-2018, recording a growth rate of 3.4%, albeit a deceleration from a 4.2% recorded in Q2-2018. This deceleration in growth primarily reflected a slowdown in exports as well as a turnaround in imports. Growth during the quarter mainly stemmed from robust personal consumption expenditure (PCE)—the main driver of the economy—on the back of further declines in unemployment rates, as well as increased disposable income through tax cuts and fiscal reforms. Further, a positive contribution from business investment was observed over the period.

Based on the latest data for the euro area, the region lost traction and recorded a growth rate of 1.7% in Q3-2018, down from 2.2% in the preceding quarter. The moderation in growth primarily reflected a weakening of global trade. Nevertheless, growth in the region continued to be driven by robust consumption, stemming from labour market improvements and growing household wealth. Meanwhile, strong investments amid favourable financing conditions also contributed to growth. Looking at the main economies in the region, growth in Germany observed a marked slowdown due to a temporary downturn in automotive sector. In contrast, growth in France picked up over the period, fuelled by a turnaround in household consumption as well as an increase in external trade. Meanwhile, economic activity in Italy remained unchanged after fourteen consecutive quarters of expansion due to stagnations in both domestic and external demand. Similarly, growth in Spain remained stable supported by buoyant domestic demand.

In Japan, economic growth contracted for the second time in this year, after a marked turnaround in the previous quarter. The growth rate for Q3-2018 was recorded at -1.2% as the economy was hit by natural disasters throughout the quarter. This resulted in a slump in domestic demand—the main driver of the economy—as well as disruption in production. Economic growth was also hindered partly because

1 International Monetary Fund, 'World Economic Outlook (WEO) October 2018'.

of mounting global trade tensions as evident from the decline in Japanese exports over the period.

Meanwhile, the United Kingdom (UK) economy recorded a growth rate of 1.5% during the quarter, showing signs of gradual improvement after a weak start to the year. Growth was largely driven by the services sector—which accounts for nearly 80% of GDP—due to strong retail sales benefited from warm weather and the FIFA World Cup celebrations. Moreover, positive contributions were observed in both construction and manufacturing sector.

Looking at the emerging markets and developing economies, the Chinese economic growth eased to 6.5% during Q3-2018 from 6.8% recorded in Q3-2017. This deceleration in growth partly reflected the ongoing bilateral trade tensions, as well as the transition to a consumption-driven economy. Nevertheless, economic activity remained stable, maintaining growth rate at the target level set by the authorities for the year. Similar to the preceding quarters, growth in Q3-2018 stemmed from buoyancy in services sector as evidenced by the growth in retail sales. In addition, the economy was boosted by the strong growth in private investments.

Similar to the first half of the year, the Russian economy remained firm in Q3-2018, supported by both external and domestic demand, coupled with strong investment. While external demand was fuelled by strong growth in exports, domestic demand continued to benefit from the growth in real wages which has resulted in an upturn in household consumption. Meanwhile, the expansion of industrial production mirrored the growth in investments over the period.

In India, economic growth remained strong and buoyant albeit a deceleration in pace during the quarter. Growth during the quarter stood at 7.1%, lower from the 8.2% recorded in the previous quarter. The moderation in growth momentum was broad-based and stemmed mainly from higher fuel prices and depreciation of Indian rupee. As such, this moderation was concentrated in both manufacturing and services-related sectors. Likewise, the Purchasing Managers Index (PMI) for both these sectors observed a deceleration during the review period.

Inflation

Global inflation continued to be elevated against the backdrop of rising energy prices, with headline inflation lifting across the advanced economies, as well as the emerging markets and developing economies. However, core inflation remained below the central banks' target level across many advanced economies, while it generally edged up in the emerging market and developing economies due to the pass-through effects from currency depreciations.

Looking at the price developments in the advanced economies, inflation in the US stood at 2.6% during Q3-2018, down slightly from 2.7% in the preceding quarter. The rise in prices mostly stemmed from higher global energy prices, as reflected by the significant increases in the prices of gasoline and fuel oil. Further, major upward contributions came from shelter, transportation and medical care. Meanwhile, prices of food witnessed a modest increase during the period.

In the euro area, the rate of inflation as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) stood at 2.1% during Q3-2018, up from 1.7% in the previous quarter. Inflation in the region continued to be driven by higher prices of energy-related items, followed by services and food, although the prices of telecommunications continued to contribute negatively over the period.

In Japan, while the inflation rate edged up to 1.1% during the third quarter of 2018, it still remains far below the Bank of Japan's target rate of inflation. The growth in inflation largely stemmed from higher prices of energy-related items such as fuels, gas and utilities, together with rising food prices as the domestic economy continues to be marred by unusually bad weather and natural disasters. As such, a substantial increase was observed in fresh food items as the prices of vegetables and fruits soared over the period.

During Q3-2018, the annual rate of inflation in the UK was steady at 2.3% from the previous quarter. The growth in prices mainly reflects the developments in energy prices as well as the pass-through effects of higher import prices following the past depreciation of the pound sterling. Furthermore, inflationary pressure strengthened on the back of rising wage growth. The rise in prices was broad-based during the period, with transportation being the largest contributor due to higher sea and air fares. Upward contributions also came from the prices for recreation and culture, which was partly offset by decreased clothing and footwear prices.

Turning to the emerging markets and developing economies, the rate of inflation in China increased to 2.3% during the quarter, up from 1.8% in Q2-2018. The acceleration stemmed mainly from increased prices for healthcare as well as transportation and communication services. Meanwhile, food prices also surged by the end of the quarter, driven by the rise in prices of fresh vegetables and fruits following the increase in floods. Moreover, meat prices dropped towards the end of the quarter having witnessed recent gains in light of the increased animal diseases towards the end of the summer period.

In India, inflation decelerated in Q3-2018 when compared with the previous quarter. This mainly reflected the falls in the prices of food and beverages, which accounts for nearly half of India's CPI basket. However, the deceleration was somewhat offset by the lifting of prices for certain imported goods, particularly for fuel and light, which rose due to a depreciating Indian rupee. In addition, the upward base effect arising from the revision to the housing rent allowance also contributed to inflation, although these effects had begun to wane during the period. Meanwhile, falls in food prices were mainly driven by the ongoing trend of declining prices for fresh vegetables and fruits, together with pulses and products, on the back of effective supply management by the government.

Meanwhile, inflation in Russia lifted to 3.0% during the quarter, up from 2.4% in the preceding quarter, and reaching closer to the Bank of Russia's target rate. The growth in prices gained momentum towards the end of the quarter, mainly reflecting the faster food price growth amid the ongoing depletion of the excess supply within certain food markets, such as fruits and vegetables. The weaker ruble also weighed on the growth in prices of goods and services during the period.

Commodity Prices

According to the World Bank Commodity Price Index, there was a substantial annual increase in global commodity prices during Q3-2018. This was largely reflected by a rise in energy prices resulting from higher oil prices. During the period, non-energy prices showed a marginal decline, which mainly stemmed from lower food and metal prices. In quarterly terms, energy prices showed a modest growth, while non-energy prices declined.

Prices of crude oil recorded an average of US$73.0 per barrel[2] during Q3-2018, representing an annual growth of 46%. Although crude oil prices continued to be supported by both supply-side and demand-side factors, supply shortfalls have become increasingly prevalent in recent months. As such, prices rallied during the earlier part of the quarter due to supply concerns arising from the US sanctions on Iranian oil exports, the ongoing capacity constraints in Venezuela, and the unexpected outages in Libya. However, prices receded during August following a decision by the Organization of the Petroleum Exporting Countries (OPEC) and the non-OPEC oil exporters—mainly Russia—to significantly raise production to offset these declines. Additionally, the termination of disruptions in Libya, coupled with increased US shale production weighed on crude oil prices. Thereon, prices peaked once again in September, driven by expectations of significantly lower Iranian oil exports, the decision by OPEC and non-OPEC exporters to maintain production, and lower-than-expected US oil inventories. On the demand-side, crude oil prices were driven by robust global consumption, whereby demand continues to be supported by a sustained global recovery amid strong economic activity arising from both the advanced and emerging economies.

Turning to the major commodities in the non-energy index, metal prices fell by 2% in annual terms during the third quarter of 2018. The downturn in metal prices was mainly due to softening global demand amid mounting trade tensions between the US and China, as well as due to a strengthening US dollar. With regard to global food prices, the World Bank food price index showed a marginal decline in annual terms during the quarter. Although a notable price growth was observed for grains, such as wheat and rice, this was offset by declines in the prices of oils and sugar. Meanwhile, the prices of beverages declined due to lower coffee and tea prices.

2 Quarterly average of Brent, West Texas Intermediate and Dubai Fateh.

Domestic Economic Developments

Real Economy

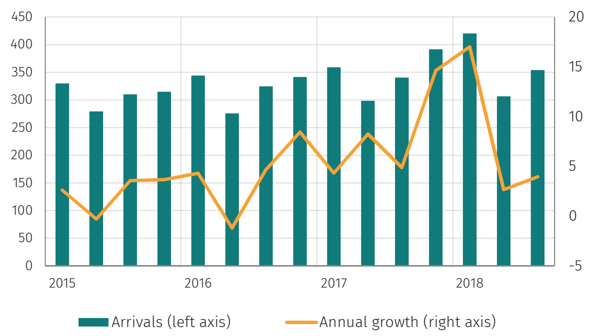
Tourism

Reflecting the seasonal pattern, activity in the tourism sector started to gain momentum during the third quarter of the year after a slowdown in the previous quarter. As such, tourist arrivals recorded a quarterly growth of 16% and totalled 353,944 in Q3-2018. Moreover, underpinned by the favourable economic conditions in the major source markets, tourist arrivals growth stood at 4% in annual terms, although a slight deceleration when compared with the 5% annual growth observed in the corresponding quarter of 2017 (Figure 1). Furthermore, total tourist arrivals by the end of September 2018 reached 1,080,459—achieving 72% of the 1.5 million arrivals target for the year—and surpassed the one millionth tourist mark in early September, a month prior to last year.

Despite the favourable growth in tourist arrivals, the number of scheduled flights into the country during the quarter observed a decline of 10% when compared with the corresponding period of 2017. This represents a decrease of over 500 flights which can broadly be attributed to the decrease in scheduled flights by *Indian Airlines*, *SpiceJet* and *SriLankan Airlines*. In addition, *flydubai* ceased their operations at the end of February 2018,

Figure 1: Quarterly Inbound Tourist Arrivals , 2015–2018

(thousands, annual percentage change)



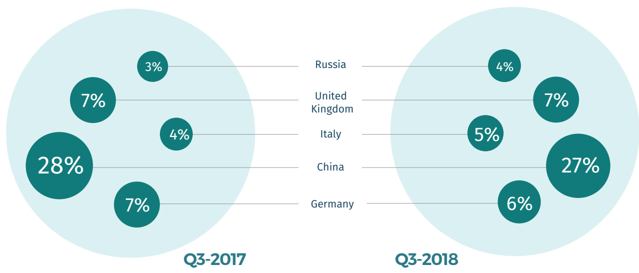
Source: Ministry of Tourism

hence contributed to the decline in the number of scheduled flights during the quarter.

The growth in tourist arrivals during the quarter was predominantly due to a rise in arrivals from the European region, which accounted for 41% of total tourist arrivals. Arrivals from the region posted a noticeable growth of 11% when compared with Q3-2017. This largely reflected the upsurge in arrivals from key source markets in the region such as Italy, United Kingdom and Russia, coupled with the growth in arrivals from emerging markets such as Spain and France. Accounting for 49% of total tourist arrivals during the quarter, arrivals from the Asia and the Pacific region observed a marginal increase during the quarter. Increase in arrivals from Australia, Taiwan and Malaysia were the major contributors in this region. However, this was curbed to an extent by a significant decrease in arrivals from India, followed by Sri Lanka. Additionally, China–the single largest market accounting for 27% of total tourist arrivals–observed a marginal decline of 1% when compared with the corresponding quarter of 2017 (Figure 2).

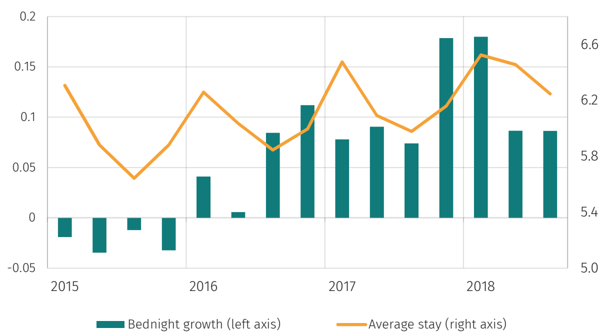
As for other key indicators of the sector, the annual growth in tourist bednights posted a strong growth of 9% during the quarter, reflecting the growth in arrivals and the increase in the average duration of stay from 6.0 days in Q3-2017 to 6.2 days in Q3-2018 (Figure 3). Mirroring these developments, total travel receipts for the quarter are estimated at US$580.7 million, a growth of 4% in annual terms.

Figure 2: Changes in Shares of Key Inbound Markets



Source: Ministry of Tourism

Figure 3: Quarterly Bednight Growth of Resorts and Average Stay, 2015–2018
(annual percentage change, days)



Source: Ministry of Tourism

On the supply side, 129 resorts were in operation by the end of Q3-2018, up from 125 resorts observed at the end of Q3-2017. Similarly, the number of guesthouses in operation totalled 500, signifying the opening of 50 new guesthouses when compared with the 450 guesthouses by the end of Q3-2017. As a result, the total operational bed capacity of the industry reached 41,890 beds, which is a 7% annual growth. Reflecting this, coupled with the 9% growth in bednights, the occupancy rate of the industry stood at 57%, unchanged from corresponding quarter of 2017.

Fisheries

Turning to the development in the fisheries sector, primary fishing activity continued to show weak developments as indicated by a timid growth in fish purchases—the key indicator used to gauge the performance of the activity. Meanwhile, fishing-related manufacturing activity plummeted during the quarter, although production of canned or pouched tuna products continued to show a robust growth during the period.

The trends of dwindling fish purchases observed over the past two quarters continued into the third quarter, with a quarterly decline of 33% during the quarter. The decline could be attributed to lower fishing activity because of the monsoon rains during the period. However, fish purchases has begun to show some signs of improvements as a modest growth of 3% was recorded, in annual terms, during the quarter. In contrast, fish purchases posted an annual decline of 3% during the preceding quarter. The recovery in the annual growth of fish purchases was mostly due to a turnaround in both yellowfin tuna and skipjack tuna purchases. While total fish purchases amounted to 12,948.4 metric tons during Q3-2018, skipjack tuna and yellowfin tuna collectively accounted for 98% of total purchases made by fish processing companies during the period.

With respect to price developments in the domestic tuna market, the local fish processing companies maintained their purchasing prices for both fresh and iced skipjack tuna since the last upwards revisions during Q3-2017. However, yellowfin tuna prices remained relatively volatile throughout the quarter and averaged MVR72.5 per kilogram during the quarter, slightly higher than the average price of MVR67.0 per kilogram in the same period a year ago. Prices of yellowfin tuna started at MVR78.8 per kilogram in July 2018 and dropping to MVR66.8 per kilogram by the end of September 2018.

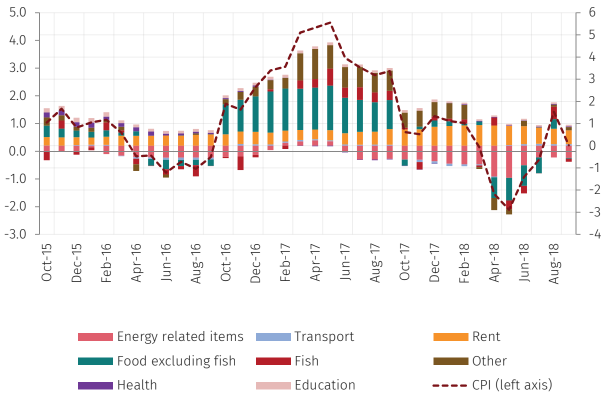
On the export front, the volume of fish exports amounted to 8,711.4 metric tons and observed a significant decline of 21% in annual terms during the third quarter of 2018. While there were substantial increases in the volumes of canned or pouched tuna products, together with increases in fresh or chilled yellowfin tuna exports, these were entirely offset by significant drops in the volumes of frozen skipjack tuna and frozen yellowfin tuna exports during the period.

Construction

The performance of the construction sector continued to be buoyant during Q3-2018, as indicated by the growths in the key indicators used to gauge the performance of the sector—bank credit to the sector and construction sector-related imports. Commercial bank credit to the construction sector witnessed an annual increase of 23% during the quarter, predominantly owing to the increase in loans for the construction of residential housing, new resort developments and residential real estate developments[3]. It is worth noting, however, that the growth in bank credit was partly curbed by the annual decline in loans for guest house development. In line with the positive trend in bank credit, construction sector-related imports posted a significant growth of 39% in annual terms during the quarter. The continued buoyancy of the sector is largely attributed to the various infrastructure projects that are under way.

Figure 4: Contribution of Sub-Categories to CPI Inflation (National), 2015-2018

(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

Inflation

The average rate of inflation (as measured by the annual percentage in the Consumer Price Index [CPI]) marked a turnaround and stood at 0.4% in Q3-2018, after recording a negative inflation rate of -1.5% in Q2-2018 (Figure 4). The acceleration in prices was mainly contributed by a significant increase in the prices of rent as well as a surge in the prices of vegetables, together with increase prices

3 Construction sector-related loans include loans for new resort development, resort renovation and construction of guesthouses (classified as tourism sector loans), as well as loans to the real estate sector. Hence, this figure will be different from the loans to the construction sector reported under Monetary Developments.

of tobacco and areca nuts. However, the growth in prices was largely offset by declines in the prices of staple food items and electricity during the period.

Looking at the major categories of CPI, food prices—which carry the largest weight of the CPI basket—made only a small positive contribution to the overall inflation rate. During the period, prices of vegetables increased markedly due to a supply shortage of onions resulting from floods in the southern Indian state of Kerala. Meanwhile, increases in the prices of fish and fruits also pushed food prices up, to some extent, during the period. However, the contributions from such items were almost entirely offset by the declines in the prices of staple food items (rice, sugar and flour). This mainly reflected the base effect from the reduction of wholesale prices in April 2018 by the State Trading Organization (STO), along with the subsequent revision of the controlled prices of staple food items by the Ministry of Economic Development.

Similarly, the upward trend in rental prices—which has been more pronounced since the third quarter of 2017—continued into Q3-2018 and recorded an annual price growth of 5.2% during the period. This growth, however, has decelerated when compared to the growth rate of 7.2% and 6.7% in Q1-2018 and Q2-2018, respectively. Meanwhile, prices of tobacco and areca nuts also increased and contributed positively during the period, mainly due to the base effects of the upward revision of import duties on supari in January 2018.

In contrast, the impact of higher oil prices was not reflected in domestic prices during the period, despite a strong recovery in global oil prices over the past year. This was mainly due to the base effect of the reduction of electricity and water tariffs in the atolls in March 2018, to harmonise utility rates across the country. As a result, the prices of electricity fell by 19.2% during the period and exerted downward pressure on the overall inflation.

Public Finance[4]

Total government revenue (excluding grants) increased by MVR371.8 million and totalled MVR5.6 billion during Q3-2018 when compared with the corresponding period of 2017 (Figure 5). This was mainly due to a considerable increase in tax revenues, which was offset to an extent by a decrease in non-tax revenues. Tax revenue, which accounted for 76% of the total revenue during the quarter, amounted to MVR4.3 billion, recording an increase of MVR404.9 million in annual terms.

The growth in tax revenue was driven primarily by a sizable increase in business and property taxes[5], which posted an annual increase of MVR242.1 million during the quarter. This was mainly on account of the annual growth in receipts from bank profit tax. This reflected the base effect from

4 According to the latest data available from the Ministry of Finance as at 30 December 2018.

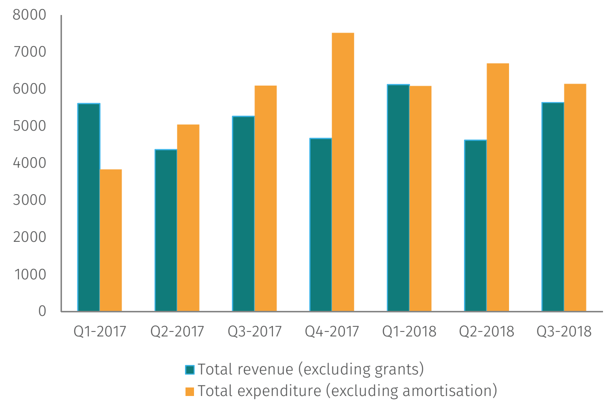
5 Business and Property Taxes includes Business Profit Tax, Withholding Tax and Other Business and Property Taxes (the main component of which is Bank Profit Tax).

the advanced payments made by banks ahead of the actual deadline (31 July), and therefore did not fall into the third quarter of 2017. However, the payments for 2018 were made in Q3-2018. Looking at other main revenue categories, revenue from import duties posted a significant growth of MVR136.7 million, while a slight decline in revenue was recorded for tourism goods and services tax (T-GST). Meanwhile, revenues from airport service charge, business profit tax and green tax also posted an increase during the quarter.

Non-tax revenue, which accounted for 24% of the total revenue, decreased by MVR53.1 million in annual terms and totalled MVR1.4 billion during Q3-2018. This was largely due to lower receipts from dividend transfers from state-owned enterprises during the quarter, which curbed the increase in revenue from airport development fee.

Figure 5: Government Revenue and Expenditure, 2017-2018

(millions of rufiyaa)



Source: Ministry of Finance

Total expenditure (excluding debt amortisation) recorded a marginal growth of MVR44.5 million in annual terms and amounted to MVR6.1 billion during Q3-2018. This was largely due to a marked increase in current expenditure which offset the decrease in capital expenditure. The fall in capital expenditure largely reflected the decline in spending on the Public Sector Investment Program, which fell by MVR452.2 million in annual terms. Meanwhile, current expenditure grew by MVR484.3 million during the quarter, largely on the back of a significant increase in expenditure on subsidies, which increased by MVR199.8 million in annual terms. In addition, the largest component of current expenditure—salaries and wages—posted a growth of MVR203.7 million, mainly reflecting the increase in expenditure on allowances during the quarter.

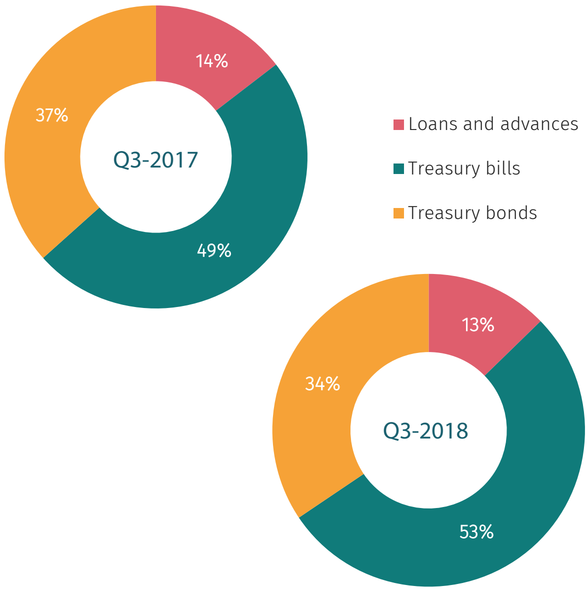
Domestic Financing

Domestic borrowing by the government—which includes treasury bills, treasury bonds; and loans and advances to the government—totalled MVR26.9 billion at the end of Q3-2018, down from MVR27.0 billion recorded at the end of Q2-2018. This represented a net repayment of MVR44.3 million during the review quarter. A net repayment of MVR1.5 billion was recorded in the corresponding period of 2017.

The primary source of domestic borrowing has been the issuance of government securities[6] (treasury bills and treasury bonds) (Figure 6). The total outstanding stock of government securities decreased to MVR23.5 billion at the end of Q3-2018 from MVR23.6 billion at the end of Q2-2018, representing a net repayment of MVR76.1 million during Q3-2018. The net repayment for Q3-2017 was higher at MVR1.1 billion. The net repayment in Q3-2018 stemmed largely from the net repayment of treasury bills over the period. As such, investments in treasury bills by other financial corporations observed a substantial decline, despite the increase in treasury bills investments by commercial banks.

Looking into the composition of government securities during the quarter, treasury bills

Figure 6: Composition of Domestic Claims on Government



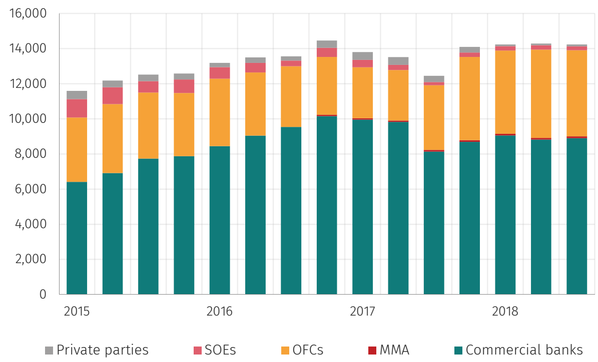
Source: Maldives Monetary Authority

6 Government securities comprised 87% of total domestic borrowing at the end of Q3-2018.

accounted for the largest share (61%), followed by treasury bonds (39%). At the end of the quarter, the outstanding stock of treasury bills amounted to MVR14.2 billion, while treasury bonds stood at MVR9.3 billion. Turning to the outstanding stock of treasury bills by holder, commercial banks remained as the main investors in terms of holdings, with a share of 63% of the total outstanding treasury bills, followed by the other financial corporations (34%) (Figure 7).

Figure 7: Treasury Bills by Holder, 2015-2018

(millions of rufiyaa)



Source: Maldives Monetary Authority

Note: MMA represents dormant account and deposit insurance funds invested in government treasury bills.

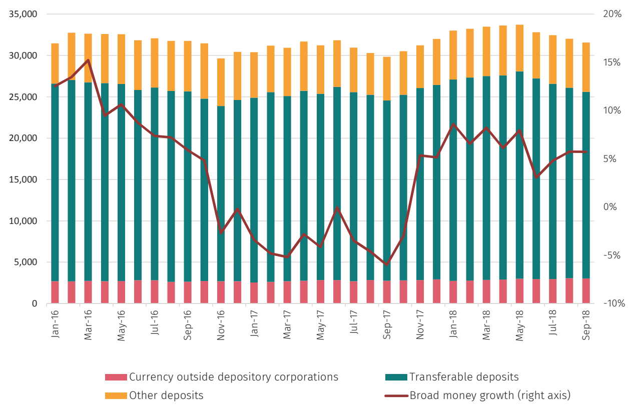
Money and Banking

Money Supply

The slowdown in the annual growth of money supply observed over the first half of 2018 marked a turnaround and stood at 6% at the end of Q3-2018. This is in comparison to the 3% annual growth in the money supply recorded at the end of the previous quarter. The annual growth of money supply was largely contributed by a 3% growth of transferable deposits base (demand deposits) of the banking system—which accounted for 71% of the money supply during Q3-2018 (Figure 8). However, this was a slight deceleration when compared with the 4% growth of transferable deposits at the end of Q2-2018. The growth in transferable deposits during Q3-2018 was contributed by an increase in such deposits denominated in both local and foreign currency. The growth in local currency transferable deposits was mostly attributed to a rise in deposits of public non-financial corporations, followed by an increase in private sector deposits, while the

Figure 8: Components of Broad Money, 2016-2018

(millions of rufiyaa, annual percentage change)



Source: Maldives Monetary Authority

growth in foreign currency transferable deposits was mainly driven by the upturn in private sector deposits.

As for other deposits, savings and time deposits—which accounted for 19% of the money supply—posted a significant growth of 13% at the end of Q3-2018, after registering a decline of 1% at the end of Q2-2018. This improvement broadly reflected the increase in time deposits and savings deposits denominated in local currency while foreign currency denominated time deposits and savings deposits also increased during the period.

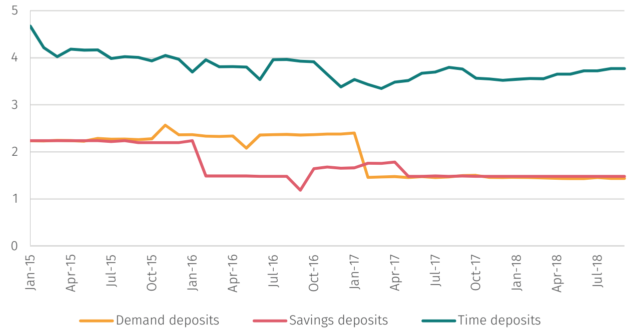
Meanwhile, currency outside depository corporations—which accounted for 10% of money supply—increased by 11% in annual terms, an acceleration when compared with the 4% recorded in the previous quarter.

Credit to Private Sector

Credit to the private sector maintained its annual growth trajectory at 11%, unchanged from the previous quarter, and totalled MVR22.8 billion at the end of Q3-2018. Similar to previous quarters, tourism, construction and commerce sector accounted for the highest share of credit during the period. Credit extended to the tourism sector, which accounted for 38% of total private sector credit, posted a growth of 10%, largely due to a substantial increase in credit lent for new resort development. Reflecting the increase in credit lent for residential housing, construction sector (21% of total private sector credit) grew by 33%, while the

Figure 9: Interest Rate on Deposits (National Currency), 2015-2018

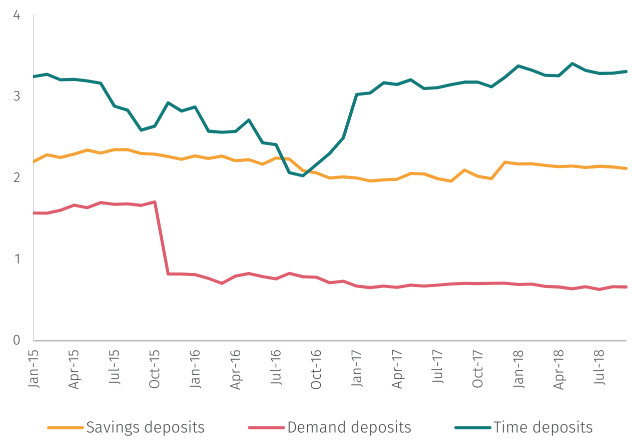
(weighted average)



Source: Maldives Monetary Authority

Figure 10: Interest Rate on Deposits (Foreign Currency), 2015-2018

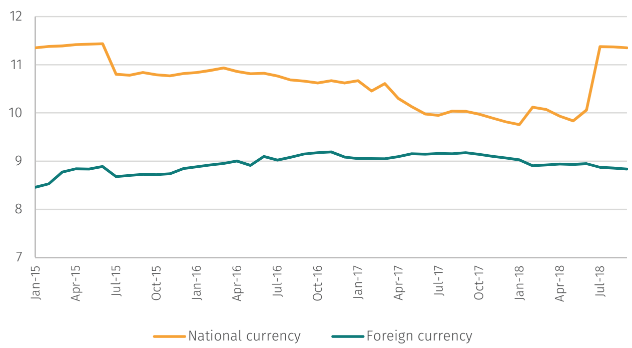
(weighted average)



Source: Maldives Monetary Authority

Figure 11: Interest Rate on Private Sector Loans and Advances, 2015-2018

(weighted average)



Source: Maldives Monetary Authority

real estate sector (7% of total private sector credit) recorded a growth of 17% during the period. Similar to the previous quarter, a 5% decline in credit was observed for the commerce sector, attributed by the decline in credit for wholesale and retail market. As for personal loans, a significant growth of 33% was observed at the end of Q3-2018, predominantly driven by the rise in credit for consumer durables and credit cards.

Interest Rates

As for interest rates, the rates on both local and foreign currency demand deposits registered an annual decline at the end of Q3-2018, while rates on both local and foreign currency time deposits (maturity of six months to one year) increased during the period. With regard to savings deposits, interest rates on local currency denominated savings deposits posted a slight decline, while foreign currency savings deposits increased over the period (Figure 9 and 10).

Meanwhile, interest rates on local currency denominated private sector loans increased during the period while the rates on foreign currency denominated private loans declined (Figure 11).

Banking Sector Performance

The banking sector remained strong during Q3-2018, with key prudential indicators well above the minimum requirements. As such, the capital adequacy ratios of the banking sector remained robust, with the total capital to risk-weighted assets standing at 44% against the minimum requirement of 12%, reflecting a significant portion of low risk assets in the portfolio. Meanwhile, the leverage capital measured by equity to gross assets stood at 22% against the regulatory minimum requirement of 5%.

Furthermore, the profitability remained high as indicated by an annualised return on equity of 15%. The year-to-date pre-tax profit reported an annual growth of 15% and amounted to MVR1.8 billion. This was mainly due to the increase in non-interest income combined with the reversal of provision expenses resulting from large loan write-offs during this year.

Regarding asset quality, the absolute value of non-performing loans (NPLs) declined by 14% (MVR0.4 billion) in annual terms, while it declined by 2% in quarterly terms. NPLs as a percentage of total loans declined from 10% to 8% from a year ago, due to the 11% (MVR2.4 billion) growth in total loans as well as the large write off of NPLs during the year. Banks have made loan loss provisions that cover 97% of the NPLs.

Loans continue to dominate the asset portfolio of the banking sector, which accounted for 52% of the assets at the end of Q3-2018. During the period, loans registered a significant annual growth of 13% (MVR2.7 billion) and totalled MVR25.3 billion. Treasury bills investments accounts for 18% of asset portfolio and amounted to MVR8.7 billion at the end of the period.

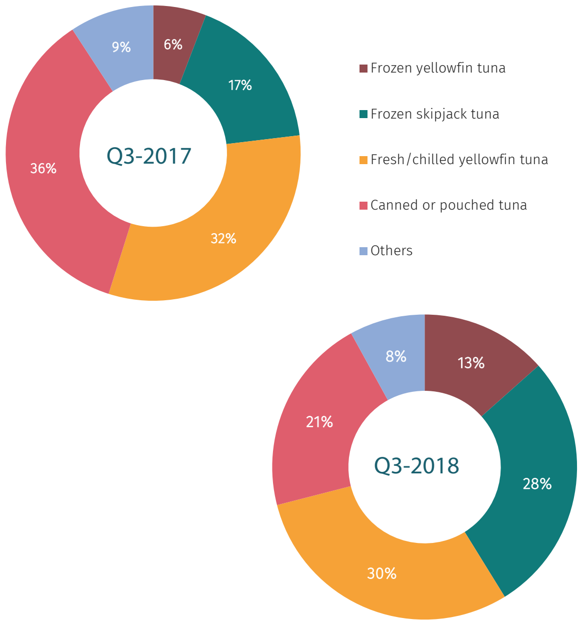
In addition, liquidity remained high, with liquid assets as a percentage of total deposits standing at 58%, however, a decline when compared with the 61% recorded a year ago. Meanwhile, deposit base recorded a growth of 8% (MVR2.2 billion) in annual terms to reach MVR31.0 billion at the end of the period.

External Trade

The total merchandise exports—comprising domestic exports and re-exports—grew by 30% (US$17.3 million) in annual terms and totalled US$74.6 million in Q3-2018. This was entirely due to a two-fold increase in re-exports as domestic exports posted a 12% (US$4.4 million) decline during the quarter. The annual increase in re-exports was largely due to the growth in jet-fuel sold to aircraft at international airports, reflecting the recovery in global oil prices. As for the annual decline in domestic exports, this was due to a fall in fish exports during the period (Figure 12).

The annual decline in fish exports was largely due to a significant drop in earnings from frozen skipjack tuna and frozen yellowfin tuna exports (Figure 13). While earning from frozen skipjack tuna declined by 46% (US$4.4 million), earnings from frozen yellowfin tuna export fell by 63% (US$2.9 million). This was mainly owing to a fall in the volume of such exports as well as lower prices in the international market. In addition, reflecting lower prices in the international market, earnings from fresh or chilled yellowfin tuna exports declined despite an increase

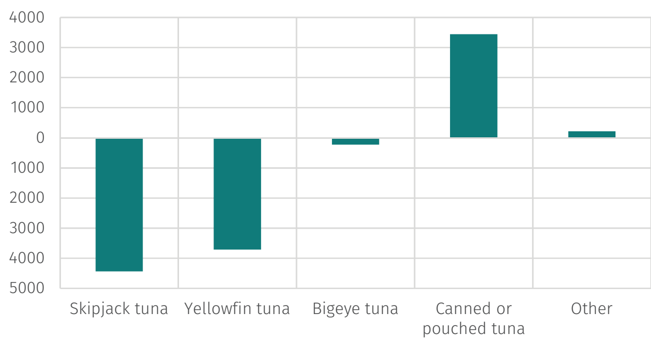
Figure 12: Composition of Fish Exports Earnings



Source: Maldives Customs Service

Figure 13: Annual Changes in the Value of Fish Exports, Q3-2018

(thousands of US dollars)



Source: Maldives Customs Service

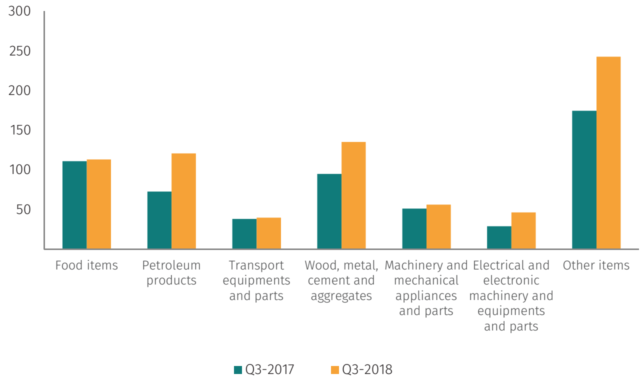
in the volume of such exports during the period. In contrast, both earnings and volume of canned or pouched tuna exports showed a remarkable growth of 47% (US$3.4 million) during the quarter.

Meanwhile, the total merchandise imports (c.i.f) recorded an upsurge of 32% (US$182.7 million) in annual terms during Q3-2018, due to increases in all major import categories—predominated by construction-related items and petroleum products (Figure 14). As such, reflecting the increase in global oil prices, import expenditure on petroleum products–particularly diesel (marine gas oil)—posted a substantial growth of 66% during the period. Similarly, construction materials (wood, metal, cement and aggregates; and other construction-related items) also recorded a marked increase of 39% in annual terms. Furthermore, import expenditure on medical and surgical appliances increased significantly during the period, mainly driven by the import of machinery and equipment parts for medical and surgical purposes. Similarly, import expenditure on other categories including, electric and electronic machinery, equipment and appliances; furniture, fixtures and fitting; and food items also showed an increase during the quarter.

As for the direction of trade, Europe and Asia remained the two major continental destinations for exports, with a share of 55% and 34% of total domestic exports, respectively. It is noteworthy that Asia, which is the traditional leading destination for Maldivian exports, has been ranked as the

Figure 14: Composition of Imports, 2017-2018

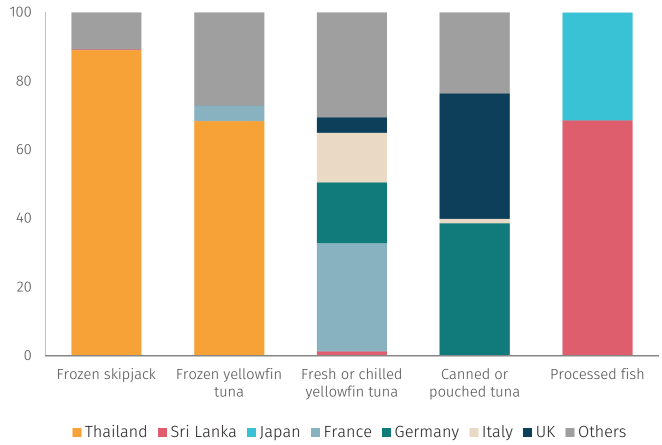
(millions of US dollars)



Source: Maldives Customs Service

Figure 15: Direction of Trade of Exports, Q3-2018

(percent)



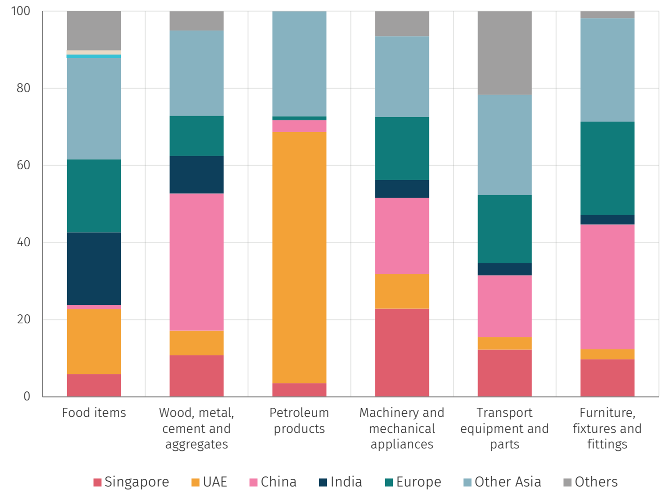
Source: Maldives Customs Service

second top continent during the quarter, due to a significant fall in exports to Thailand. Nevertheless, Thailand remained the single largest market, closely followed by Germany and the UK (Figure 15).

Looking at the direction of imports, Asia continued to be the main continental source of imports, accounting for 82% of total merchandise imports during the period. China and the United Arab Emirates were the main import markets, each accounting for 18% of the total merchandise imports (Figure 16).

Figure 16: Direction of Trade of Imports, Q3-2018

(percent)



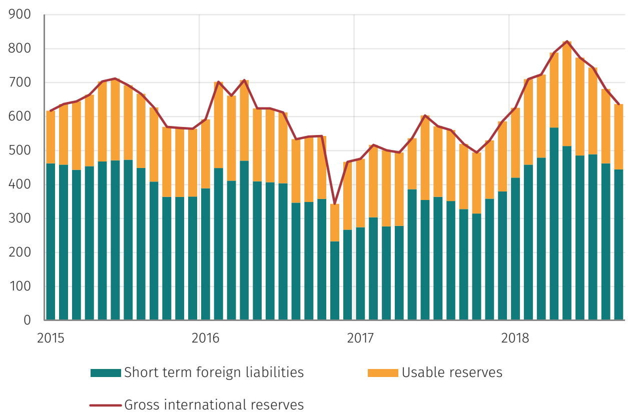
Source: Maldives Customs Service

Gross International Reserves

The Gross International Reserve (GIR[7]) stood at US$637.1 million at the end of Q3-2018, an annual growth of 23% when compared with the corresponding quarter of 2017 (Figure 17). The growth in GIR reflected a rise in commercial banks' foreign currency deposits held at the MMA. Meanwhile, the GIR declined by 18% when compared with Q2-2018.

Figure 17: Gross International Reserves, 2015-2018

(millions of US dollars)



Source: Maldives Monetary Authority

7 GIR comprises of foreign currency deposits of the MMA and the government, commercial bank's US dollar reserve accounts and Maldives' reserve position at the IMF.

Statistical Appendix

Table of Selected Economic Indicators, 2015 - 2018

(annual percentage change over the corresponding period, unless stated otherwise)

	2015	2016	2017	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
Real Sector										
Tourist arrivals	2	4	8	4	8	5	15	17	3	4
Bednights	(2)	6	11	8	9	7	18	18	9	9
Operational capacity	6	8	14	13	15	16	13	11	9	7
Occupancy rate (%)	64	63	61	70	53	57	65	75	52	57
Average stay (days)	5.9	6.0	6.2	6.5	6.1	6.0	6.2	6.5	6.5	6.2
Fish purchases	(10)	19	42	83	53	74	4	0	(3)	3
Prices [1/]										
Total (Republic)	1.0	0.5	2.8	3.4	4.2	2.9	0.9	0.7	(1.5)	0.4
Total excluding fish	1.1	0.7	3.7	3.6	7.5	2.6	1.0	0.7	(4.8)	0.3
Food and non-alcoholic beverages excluding fish	0.9	1.5	6.6	9.6	9.6	7.2	0.5	0.9	(4.6)	(0.5)
Government Securities (millions of rufiyaa)										
Government securities outstanding	20,001.6	23,230.3	23,414.2	23,231.7	22,930.6	21,785.6	23,414.2	23,536.5	23,571.1	23,495.0
Treasury bonds	7,419.6	8,774.6	9,320.9	9,429.2	9,413.2	9,336.3	9,320.9	9,300.2	9,283.8	9,264.2
Treasury bills	12,582.0	14,455.7	14,093.4	13,802.5	13,517.4	12,449.3	14,093.4	14,236.3	14,287.3	14,230.8
MMA	-	74.4	93.8	74.4	77.2	93.8	93.8	96.5	93.1	105.8
Commercial banks	7,875.9	10,154.9	8,694.4	9,955.6	9,825.7	8,138.7	8,694.4	9,052.4	8,822.9	8,896.8
Others	4,706.1	4,226.4	5,305.1	3,772.5	3,614.5	4,216.8	5,305.1	5,087.3	5,371.4	5,228.2
Money and Banking										
Broad money	12	0	(5)	(5)	(0)	(6)	5	8	3	6
Net foreign assets	(2)	(36)	31	(41)	(11)	(26)	31	48	9	15
Net domestic assets	24	24	(4)	22	7	6	(4)	(7)	0	2
Net claims on central government	24	18	(13)	11	(8)	(15)	(13)	(17)	(9)	(2)
Claims on other sectors	12	21	9	22	21	21	9	9	10	10
o/w Private sector	12	11	12	10	10	11	12	13	13	13
Reserve money	(18)	(13)	19	(16)	(9)	(1)	19	29	13	9
Monetary operations [2/]										
Open market operations [3/]	-	-	-	-	-	-		-		
Overnight Deposit Facility	121	29	(4)	(4)	(21)	(2)	13	(6)	45	5

1/ The inflation rate for the year refers to the period average values, whereas inflation for the quarter represents the annual percentage change in the three-month average.

2/ Monetary operations figures represent the growth in average investment.

3/ Open market operations were suspended from May 2014 onwards.

Sources: Ministry of Tourism; Ministry of Fisheries, Marine Resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service; Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority.

Table of Selected Economic Indicators, 2015 - 2018

(annual percentage change over the corresponding period, unless stated otherwise)

	2015	2016	2017	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
External Trade										
Merchandise exports (f.o.b.)	(20)	7	24	52	61	52	(18)	4	(18)	30
Domestic exports	(0)	(3)	43	50	35	58	36	(11)	(14)	(12)
o/w Fish exports	(1)	(2)	43	51	34	60	36	(12)	(15)	(14)
Re-exports	(39)	22	2	56	126	44	(52)	29	(24)	101
Merchandise imports (c.i.f.)	(5)	12	11	18	6	15	7	33	14	32
o/w Food	(0)	6	8	7	3	11	10	11	8	2
Petroleum	(50)	(13)	27	45	42	14	13	57	18	66
Construction-related imports	48	20	24	19	20	33	24	64	39	39
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	17	14	13	13	14	12	15	12	12	12
India	12	13	12	12	13	12	12	11	10	9
Sri Lanka	7	6	7	8	6	6	6	5	5	7
UAE	17	16	18	18	19	18	18	17	21	18
Thailand	5	5	5	4	5	5	5	4	4	3
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	25	34	49	53	56	39	44	41	37	19
Sri Lanka	12	10	4	4	3	5	4	2	2	4
France	10	9	7	6	7	8	8	7	8	10
Germany	7	9	7	6	7	10	6	10	14	19
External Reserves										
Gross international reserves (millions of US dollars)	564.0	467.1	586.1	501.2	603.4	519.4	586.1	723.9	773.3	637.1

Sources: Ministry of Tourism; Ministry of Fisheries, Marine Resources and Agriculture; Ministry of Finance; National Bureau of Statistics; Maldives Customs Service; Maldives Airports Company Limited; Gan International Airport; Maldives Monetary Authority.

MALDIVES MONETARY AUTHORITY

Boduthakurufaanu Magu
Male' - 20182
Republic of Maldives
Tel: (960) 330 8679
Fax: (960) 332 3862
Email: mail@mma.gov.mv
Website: www.mma.gov.mv