QUARTERLY ECONOMIC BULLETIN

MARCH 2019

VOLUME 25 ISSUE I

MALDIVES MONETARY AUTHORITY

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 first quarter of 2019. 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 7 May 2019. 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.

The cover page features an image taken from the MVR 500 note. The image depicts a wood worker carving an intricate design, illustrating the theme 'Our Ancestral Craftsmanship'.

*Erratum to QEB-Q1-2019: Japanese yuan in Global Financial Markets page 7 has been corrected to Japanese yen.

Contents

Abbreviations

c.i.f.	cost, insurance, freight
CPI	consumer price index
GDP	gross domestic product
GIR	gross international reserves
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MMA	Maldives Monetary Authority
NPL	non-performing loan
OPEC	Organization of the Petroleum Exporting Countries
PCE	personal consumption expenditure
QNA	quarterly national accounts
UAE	United Arab Emirates
UK	United Kingdom
US	United States
VAT	value-added tax

RECENT ECONOMIC DEVELOPMENTS

Overview

According to preliminary estimates released by the National Bureau of Statistics, the annual real GDP grew by 3.7% in Q4-2018, down from 5.4% in Q3-2018. Latest available indicators point to a recovery in economic activity in Q1-2019, bolstered by the buoyant growth of the tourism sector, as tourist arrivals recorded a remarkable growth during the peak season of the industry in Q1-2019. Arrivals growth was predominantly supported by an upsurge in arrivals from the main source markets in the European region and the fast growing Indian market. Following the slowdown in Q4-2018, the construction sector performance showed mixed developments in Q1-2014. This reflects the winding down of mega infrastructure projects of government and the continued expansion in resort development and private and public residential construction. Meanwhile, latest data on fish purchases and exports point to a moderation in primary fishing activity and the fish processing sector in Q1-2019, after a turnaround growth observed during the last quarter of 2018.

The rate of inflation continued to decline and remained in negative territory throughout Q1-2019, falling from -0.2% in Q4-2018 to -1.3% in Q1-2019. The decline in inflation was primarily contributed by the marked decrease in the prices of staple food items and electricity reflecting the base effects of policy changes to administered prices in Q2-2018. Inflation rate also declined marginally when compared with Q4-2018, mainly contributed by fall in prices of fish, transport, and tobacco and arecanuts, which was partially offset by the increase in rental prices and health sector-related services.

On the fiscal front, total government revenue observed a decline during Jan-Feb 2019, primarily due to a decline in non-tax revenues together with a slight decline in tax revenues during the review period. Total expenditure posted a decline, entirely contributed by a significant drop in capital expenditure, offsetting the rise in current expenditure. During the review period, fiscal deficit was financed primarily through domestic sources, while borrowing from foreign sources also registered a considerable growth. Largely reflecting the growth in domestic debt, the total outstanding stock of public debt increased during the quarter.

With regard to monetary developments, the annual growth rate of broad money accelerated during Q1-2019, primarily contributed by demand deposits of the banking system. The growth in demand deposits stemmed entirely from the rise in foreign currency denominated deposits, as local currency denominated deposits recorded a decline during the period. On the sources side, the upsurge in net foreign assets of the banking sector was the main driver of broad money growth followed by the expansion in credit to the private sector.

As for latest developments in the external trade, the merchandise trade balance is estimated to have narrowed in Q1-2019 due to the growth in exports and along with the decline in imports. Total merchandise exports grew significantly, due to sizable growth in re-exports, while domestic export also recorded an increase. Conversely, total merchandise imports observed a decrease during Q1-2019, contributed by the considerable fall in import expenditure on machinery and mechanical parts; and construction-related items.

International Economic Developments

Global Output

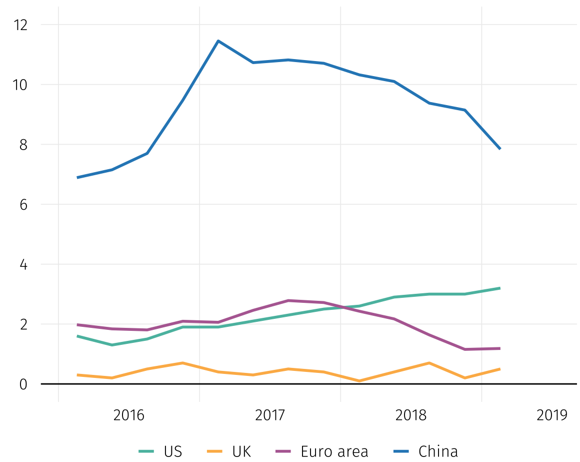
The global economic momentum remained weak in Q1-2019 on the back of heightened trade tensions between the United States (US) and China, slowdown in industrial activities and the geopolitical uncertainties surrounding Brexit. Against this backdrop, according to the latest projections made by the International Monetary Fund (IMF), global growth is now estimated at 3.3% for 2019 after recording 3.6% in 2018, which is 0.4 percentage point lower than the estimates made in the October 2018, following a weaker outturn in the second half of 2018. In Q1-2019 activity in the advanced economies showed mixed developments, while activity in the emerging markets and developing economies was suppressed by country-specific factors.

Looking at the advanced economies, the US economy performed higher than expected and growth accelerated to 3.2%, quarter on quarter in Q1-2019 from 2.2% recorded in Q4-2018 (Figure 1). The acceleration was mainly driven by a rise in private inventory investments and non-residential fixed investment. In addition, the economy was bolstered by growth in net exports while personal consumption expenditure which is the main driver of the economy, remained high during the quarter.

Based on preliminary Eurostat flash estimates, annual real GDP growth in the euro area was maintained 1.2% in Q1-2019 amidst geopolitical tensions in the region and weaker external demand. Domestic demand remained as the main driver of the economy, boosted by favourable

Figure 1: Real GDP growth in the Advanced and Emerging Economies, 2016 - 2019

(annual percentage change)



Source: National authorities, OECD database

financing conditions and labour market developments during the quarter. Looking at the main economies in the region, the German economy posted a moderate growth during Q1-2019, due to temporary factors such as the revival of the construction sector owing to favourable weather conditions as well as high domestic demand boosted by fiscal measures. Growth in France showed an improvement with easing of the protests in the country, while growth in Italy pointed towards a slight recovery, aided by improvements in labour market. Similarly, growth in Spain was driven by strong private consumption boosted by improvements in the labour market, offsetting the downturn in external demand.

In Japan, economic growth showed signs of contraction, owing to weaker external demand, partly reflecting the on-going US-China trade tensions. This weighed on the industrial production as seen by the deceleration in business investments and lower corporate profits. In contrast, domestic demand continued to provide positive stimulus to the economy.

The United Kingdom (UK) economy performed better than the previous quarter, with real GDP growing by 0.5% during Q1-2019. The economy expanded during the review quarter, with strong performance in production, owing to the recovery of manufacturing amid higher demand. Meanwhile, services sector—the main driver of the economy—remained robust during the period. However, uncertainties surrounding Brexit remained as a threat to the economy, negatively impacting consumer and business confidence.

Looking at the emerging markets and developing economies, the Chinese economy maintained a steady growth of 6.4% in Q1-2019. Activity in the economy improved, largely supported by resilience in the services sector. This was further evidenced by growth in retail sales as the economy continues its transition to a consumption-driven economy. Meanwhile, this was aided by higher industrial production spurred on by investments in high-tech industries and improved market expectations.

The Russian economy slowed down in Q1-2019, largely owing to the implementation of the value-added tax (VAT) which has resulted in lower disposable income amid slower wage growth. As a result, annual retail sales declined during the period, mirroring weaker domestic demand in the economy. Meanwhile, industrial production grew moderately, owing to slowdown in manufacturing sector.

In India, economic activity decelerated in Q1-2019 reflected by the fall in real GDP, following a drop in private consumption, as well as muted growth in exports. This was further reflected in the slowdown of the agricultural sector which led to slower growth in consumption and exports. Furthermore, moderate growth in investments added to this deceleration in economic activity.

Global Inflation

Global inflation remained benign in Q1-2019, underpinned by lower energy prices. Against this backdrop, Q1-2019 reflected subdued inflationary pressure across both the advanced economies and emerging markets and developing economies. Meanwhile, core inflation remained below the central banks' target level in many countries across both the groups, with the exception of some emerging markets and developing economies.

Looking at the price developments in the advanced economies, inflation in the US decelerated and stood at 1.7% during Q1-2019 (Figure 2). This deceleration in inflation mostly stemmed from the decline in energy prices, as prices for electricity and utility gas fell during the quarter. This slowing down was further witnessed in the price transportation services while a slight decline in medical services was recorded during the period.

In the euro area, the rate of inflation as measured by the annual change in Harmonised Index of Consumer Prices (HICP) stood at 1.4% during Q1-2019, down from 1.9% in the previous quarter. This slowdown in inflation mainly reflected from a continued declining trend in the prices of energy related items, against the background of lower global oil prices, as seen in the preceding quarter.

Prices of food items and services also remained slightly subdued, contributing to the deceleration in inflation.

In Japan, the inflation rate moved further below the Bank of Japan's target inflation rate of 2% and stood at 0.3% during Q1-2019. This sluggish trend in inflation mainly mirrored the effects of downward movement in food prices, especially the continued reduction in prices of fresh food and vegetables. In addition, the weaker price of energy-related items and communication contributed to the downward inflationary pressure in the economy.

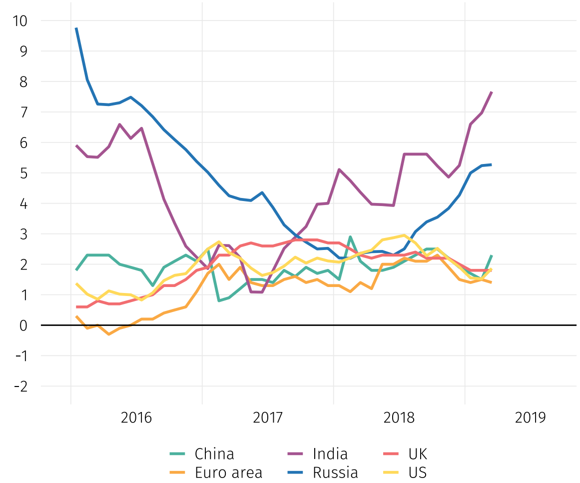
The annual rate of inflation in the UK stood at 1.8% in Q1-2019, lower compared to the preceding quarter. The slower growth in prices broadly revealed the effects of downward inflationary pressures from lower energy prices such as electricity and gas. The appreciation of pound sterling during February 2019 restricted inflation, while food and non-alcoholic beverages remained stable during the review quarter.

Turning to emerging markets and developing economies, the rate of inflation in China fell to 1.8% in Q1-2019 from 2.2% in Q4-2018, partly reflecting weakened domestic demand in the economy. This downward pressure mainly stemmed from the decline in the price of transportation. Similar to the previous quarter, food prices remained high during Q1-2019 while the rise in prices of health care services and clothing contributed positively to inflation in the Q1-2019.

In India, inflation moved further downwards in Q1-2019, reflecting the similar trend observed in the previous quarter, driven by deflation in food prices. Prices of food items which account for nearly half of India's CPI basket declined

Figure 2: Global Inflation, 2016 - 2019

(annual percentage change)



Source: OECD Database

owing to a huge drop in the prices of vegetables and fruits, and a lower price in cereal products. Additionally, the fall in prices of energy-related items, particularly fuel and light, continued and contributed to the deceleration in inflation. In contrast, health care prices rose while transportation and communication prices declined in the review quarter.

Meanwhile, inflation in Russia accelerated during Q1-2019, exceeding the Bank of Russia's target inflation rate of 4%. The growth in prices was mainly driven by the continued effect of the hike in VAT rate and the weakening of the ruble, together with a rise in prices of fruits and vegetables and services. However, the extent of the weakening of the ruble and the effect of VAT hike moderated during the quarter compared to Q4-2018.

Commodity Prices

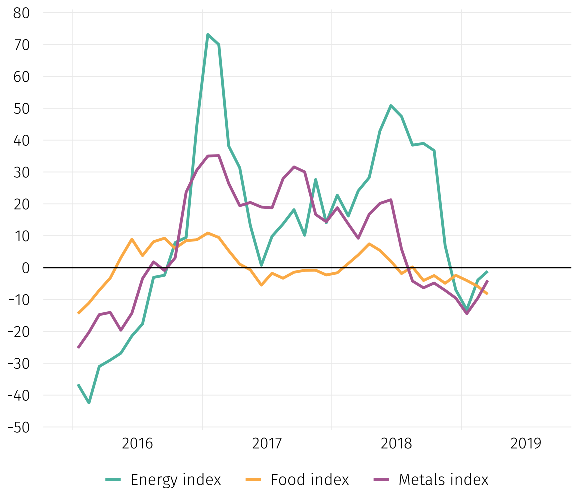
According to the World Bank Commodity Price Index, global commodity prices softened during Q1-2019. Energy prices fell in both annual and quarterly terms, together with a broad-based annualised decline in non-energy prices and a marginal rise in non-energy prices during the review quarter (Figure 3).

Prices of crude oil recorded an average of US$60.5 per barrel[1] in Q1-2019, representing a decline of 6% in both annual and quarterly terms. However, following the moderation in crude oil prices in Q4-2018, prices showed an increasing trend throughout Q1-2019, driven by both supply-side and demand-side factors. On the supply front, prices were supported by supply constraints following the 2018 year-end agreement by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC oil exporters to cut production for an initial six-month period, together with mandatory production cuts in Canada and unexpected outages in Venezuela. On the demand side, crude oil prices were pushed by high consumption from some emerging economies and advanced economies, partly reflecting stronger US economic growth, booming petrochemical industry and increasing demand from transport sector in the US economy.

Turning to major commodities in the non-energy index, metal prices fell by 9% in annual terms in Q1-2019, albeit a 2% rise from Q4-2018. Following the softening of prices towards the tail-end of the 2018, metal prices rebounded in 2019 due to trade negotiations between the US and China, fiscal stimulus in China, and as a consequence of the Brumadinho dam disaster on the iron-ore prices. With regard to global food prices, the World Bank food price index showed a 6% decline in annual terms during the quarter and a 1% rise from Q4-2018 records. Although a marginal price growth was observed for grains such as wheat and maize,

Figure 3: Global Commodity Prices, 2016 - 2019

(annual percentage change)



Source: World Bank

this was fully offset by declines in the prices of oils and sugar, in the light of weaker global economic activity and excess supply. Meanwhile, the prices of beverages declined due to lower tea and coffee prices.

Global Trade

Growth in global trade slowed down by 0.3% in Q4-2018 although it registered a slight increase in Q1-2019. However, global trade remained relatively weak during Q1-2019, owing to heightened trade tensions and uncertainties surrounding policy decisions by major advanced, and emerging and developing economies. Conversely, the uncertainties around US-China trade disputes and Brexit outcome has affected market sentiment and consumer confidence. In addition, the turning around of global industrial cycle has led to a slowdown in global trade, with industrial activity remaining contained amidst unfavourable market conditions. In the major

[1]Quarterly average of Brent, West Texas Intermediate and the Dubai Fateh.

advanced economies, the composite Purchasing Managers' Index (PMI) declined considerably for the US, UK and Japan. In the case of emerging and developing economies, the PMI rose for Brazil, while India and Russia reported declines during the review quarter. Additionally, consistent with slower global growth, growth of global trade continued to be sluggish, as reflected by the weaker PMI during the review quarter.

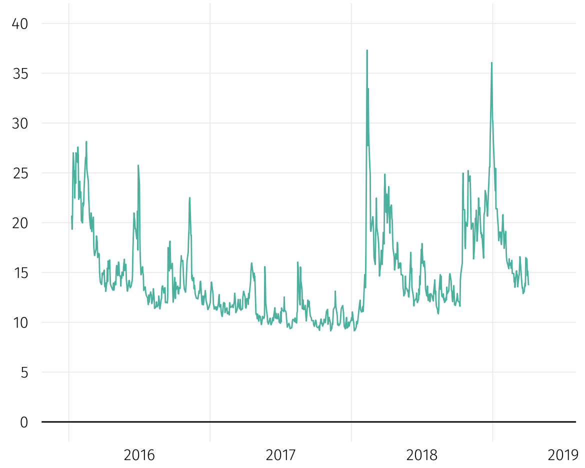
Global Financial Markets

Global financial conditions rebounded in early 2019 after remaining weak in Q4-2018, reflecting recovering market sentiments owing to expectations of an agreement between the US and China, higher equity valuations and lower borrowing costs. The advanced economies witnessed an easing of financial conditions with the US Federal Reserve and the European Central Bank delaying the rise in interest rates to late 2019. The financial conditions in emerging markets improved in the beginning of 2019, reflecting loosening policy decisions by some central banks as well as liquidity support with reduced reserve requirements by other central banks—China—added to this improvement. Additionally, the rise in equity prices and drop in yield spreads eased financial conditions in these economies.

In Q1-2019 capital flows were contained with increasing equity prices and decreasing yield spreads while government and corporate bonds advanced. In addition, the implied volatility in equity prices as measured by volatility index (VIX) has weakened in both advanced and emerging and developing economies since the beginning of the year. Furthermore, volatility of the US stock market fell considerably since the beginning of the year, following a hike towards the end of 2018 (Figure 4).

Figure 4: Volatility Index, 2016 - 2019

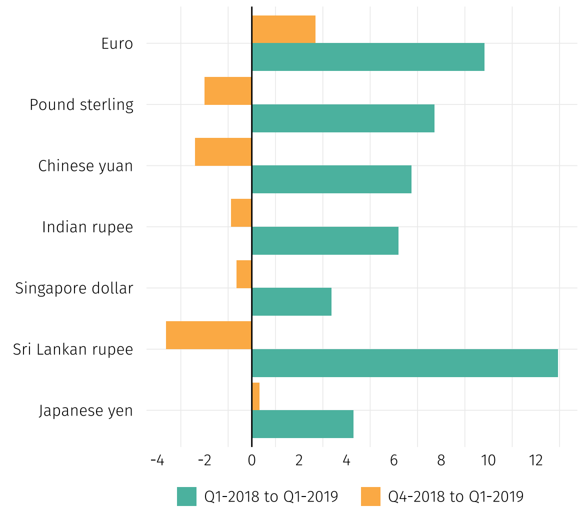
(index points)



Source: Chicago Board Options Exchange

Figure 5: Exchange Rates, Q1-2019

(percentage change)



Source: National authorities

In the foreign exchange markets, the annualised performance of the US dollar against the currencies of Maldives' major trading partners showed mixed developments during Q1-2019. Based on the quarterly percentage change figures, the US dollar showed a more pronounced weakening against the Sri Lankan rupee (-3%), the Chinese yuan (-2%) and pound sterling (-2%) while the depreciation against the Indian rupee (-1%) and Singapore dollar (-1%) were lower in comparison. However, the euro and Japanese yen depreciated, signalling the strengthening of US dollar during the period (Figure 5).

Economic Developments in the Maldives

Real Economy

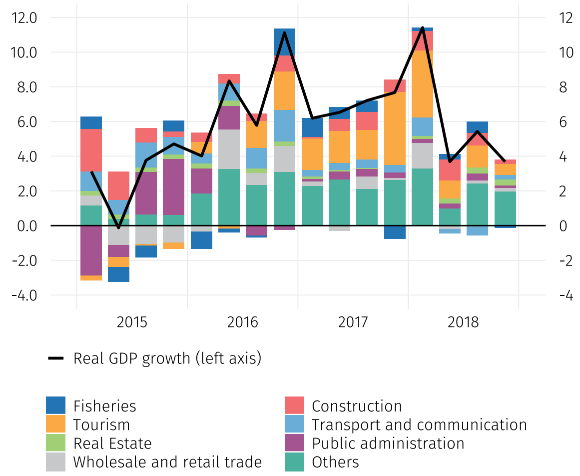
Gross Domestic Product

According to preliminary estimates released by the National Bureau of Statistics, real GDP grew by 3.7% in Q4-2018 when compared with the corresponding quarter of 2017 (Figure 6), down from 5.4% recorded in Q3-2018. Meanwhile, for the year as a whole this shows a growth of 6.1% in 2018, which is lower than the estimates made in October 2018. However, given that the real GDP data for Q4-2018 used in this analysis is based on the advance estimates, these data are subject to change in upcoming revisions (Box 1).

In Q4-2018, real GDP growth was mainly contributed by the tourism sector (0.6%) followed by real estate (0.4%) construction (0.3%) and education (0.3%) sectors. The tourism sector was the fastest growing sector in Q4-2018 which registered an annual growth of 2.5%, although this is in contrast to exceptionally high annual growth rates in Q4-2017 and Q1-2018. The construction sector, which has been booming over the past five years, expanded by 4.0% during the period, which, however, is a marked slowdown compared to double digit growth rates witnessed since Q4-2017. The transportation and communication sector grew by 1.9%, after contracting in the previous two quarters. Meanwhile, wholesale and retail trade sector growth remained steady and expanded by 2.6% during Q4-2108.

Figure 6: Contribution to Real GDP Growth by Economic Sectors, 2015 - 2018

(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

Box 1: Revisions to Quarterly National Accounts

The National Bureau of Statistics releases three vintages of quarterly estimates for GDP. The first or "Advance" estimates are released with a four month lag and are based on estimates or source data that are incomplete or subject to further revision by the source agency. The "second" and "third" estimates are released with a seven months lag and ten months lag respectively, and are based on more detailed comprehensive data as they become available. Despite the lag in Quarterly National Accounts (QNA) releases, it does provide an important overview of the economy.

Annual and comprehensive updates are released in October, and it covers the 3 most recent calendar years and their associated quarters at least. Additionally, it incorporates newly available major annual source data as well as some changes in the methods and definitions to improve accounts.

The data for Q4-2018 used in this analysis is based on the advance estimates, and therefore, will be subject to change. When analyzing the revision indicators, based on the revision history from Q1-2017 to Q3-2018, for the preceding quarter growth rates of GDP, advance estimates have generally had an upward bias (on average, above the later estimate). Moreover, revision history, on average, has had a magnitude of approximately 1.9%.

While QNA gives an important overview of the economy, it should be noted that they are comprised of advance estimates, and more reliable data would only be available later in the year.

Tourism

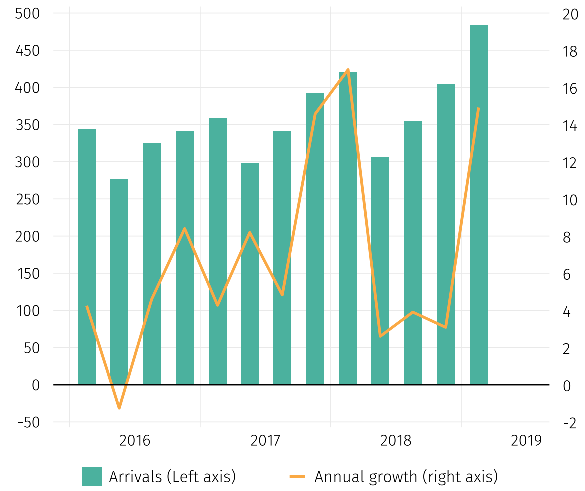
Activity in the tourism sector continued to remain buoyant in Q1-2019 and was stronger compared to the previous quarter. During Q1-2019 tourist arrivals recorded an annual growth of 15% and totalled 482,978, compared to 3% growth in Q3-2018 (Figure 7). Meanwhile, bednights grew by 10% although the average duration of stay declined marginally to 6.3 days in Q1-2019 from 6.5 days in Q1-2018 (Figure 8). Reflecting these developments, tourism receipts are estimated at US$1.1 billion during the period, a marginal growth of 3% when compared with the corresponding quarter of 2018.

Tourist arrivals to the Maldives continues to be driven by strong domestic demand in the main source markets, along with the increased air connectivity, reflecting the increased flight movements from major long-haul carriers. In Q1-2019 international flight movements to the Maldives recorded a remarkable growth of 15% when compared with Q1-2018—an increase of over 900 flights.

The growth in tourist arrivals during the quarter was predominantly due to a rise in arrivals from the European region, which accounted for 56% of total tourist arrivals in Q1-2019. Tourist arrivals from Europe registered an annual increase of 13%, bolstered by the growth in arrivals from the main source markets such as Italy (27%), France (28%), Germany (14%), UK (11%), and Russia (8%). Accounting for 35% of total tourist arrivals during the quarter, arrivals from the Asia and Pacific region recorded an annual growth of 16%, owing mainly to a remarkable increase of 86% in arrivals from fast growing Indian market, which has been among the top five source markets since Q2-2018. It is also noteworthy that arrivals from China—the single largest market accounting for 16% of total

Figure 7: Inbound Tourist Arrivals, 2016 - 2019

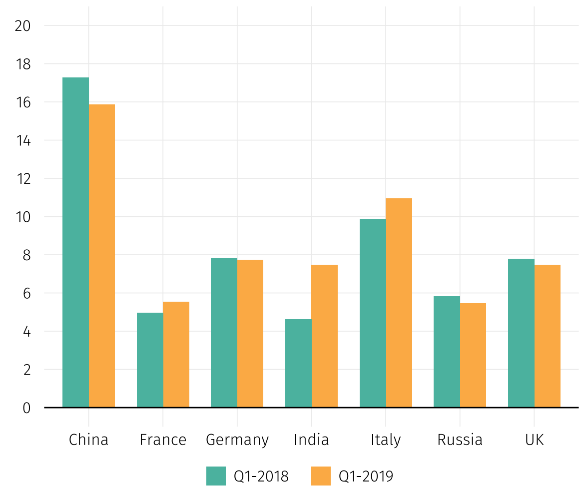
(thousands, annual percentage change)



Source: Ministry of Tourism

Figure 8: Shares of Key Inbound Markets

(percent)



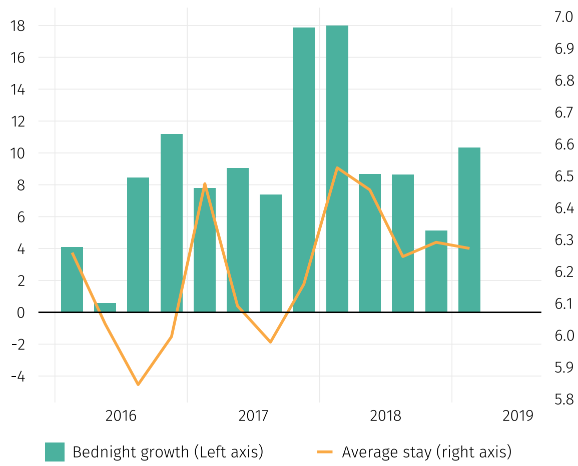
Source: Ministry of Tourism

tourist arrivals—which has been on a declining trend marked a turnaround and increased by 6%. Additionally, tourist arrivals from emerging markets of Australia and Taiwan also contributed to the growth in tourist arrivals from this region. (Figure 9).

On the supply side, the total number of resorts in operation expanded to 139 resorts in Q1-2019, an increase from 129 resorts at the end of Q1-2018. Concurrently, guesthouses in operation increased by 65 and totalled 533 by the end of review quarter. With these developments, the operational bed capacity of the industry expanded by 3,744 beds to reach a total of 44,707 beds, which represents a 9% increase in annual terms. Of the total operational bed capacity, resorts accounted for the major share while guesthouses accounted for 19%. In line with the increase in bednights and operational bed capacity, the average occupancy rate remained unchanged at 75% from the corresponding quarter of 2018, with occupancy rates in the resorts increasing to 88%.

Figure 9: Bednight Growth and Average Stay, 2016-2019

(annual percentage change, days)



Source: Ministry of Tourism

Construction

The performance of the construction sector showed mixed developments during Q1-2019, as the key indicators of the sector, namely construction sector-related imports and commercial bank credit to the sector[2], moved in opposite directions. Import expenditure on construction sector-related items recorded a decline while bank credit to the construction sector showed an increase.

In Q1-2019 construction sector-related imports, which includes wood, metal, cement and aggregates and other construction-related items, declined markedly by 21% when compared with Q1-2018. It is noteworthy that construction sector-related imports have been on a declining trend since the last quarter of 2018 which can mostly be attributed to the winding down of the major public infrastructure projects toward the last quarter of 2018. While a large portion of the financing for resort development projects and social housing projects are sourced from abroad, commercial bank credit to the construction sector is considered an important indicator to gauge the development of the sector. In Q1-2019 bank credit to construction witnessed a 17% growth predominantly owing to the increase in loans for construction of residential housing, new resort development, as well as renovation of resorts. However, loans for guesthouse development continued to decline in annual terms during the quarter.

[2]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.

Fisheries

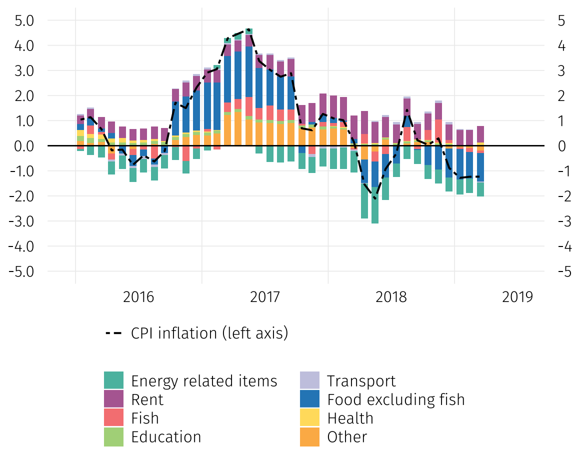
Activity in the fisheries sector showed mixed developments during Q1-2019 as fish purchases by fish processing companies posted an increase during the quarter, while the volume of fish exports registered a decline. After a turnaround growth observed during the previous quarter, fish purchases continued to increase, albeit marginally, totalling 24,929.1 metric tons in Q1-2019. Meanwhile, following a positive annual growth in Q4-2018, the volume of fish exports declined by 4% and totalled 16,872.9 metric tons during Q1-2019. This was largely driven by a substantial decline in frozen skipjack tuna and; fresh, chilled or frozen fish (excluding tuna), although it was partially offset by a significant increase in the volume of fresh or chilled yellowfin tuna exports

Inflation

The rate of inflation (as measured by the annual percentage change in the Consumer Price Index [CPI] at the national level) which remained in deflation territory throughout Q1-2019, further decelerated to -1.3% in Q1-2019 from -0.2% in Q4-2018. This decline in the rate of inflation during Q1-2019 was mainly contributed by a significant decrease in the prices of food items and electricity during the quarter, reflecting the base effect of a number of policy changes that came to effect in Q2-2018. However, this decline was offset to some extent by the persistent growth in rental prices during the quarter (Figure 10). In quarterly terms, inflation rate also declined marginally when compared with Q4-2018. This decline was mainly contributed by fall in prices of fish, transport, and tobacco and arecanuts, which was partially offset by the increase in rental prices and health sector-related services.

Figure 10: Contribution of Sub-Categories to CPI Inflation (National), 2016 - 2019

(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

Food prices—which carry the largest weight of the CPI basket—declined substantially by 4.6% during the review quarter. This was largely driven by the decline in prices of staple food items (rice, sugar and flour), reflecting 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. Meanwhile, prices of vegetables also declined during the period, stemming entirely from the fall in prices of root crops and non-starchy bulbs. Additionally, fish prices which are generally the most volatile component of the CPI basket also declined during the quarter, mainly due to declines in prices of preserved or processed fish.

Similarly, price of electricity fell significantly by 18.9% during the period and exerted downward pressure on the overall inflation in Q1-2019. 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.

In contrast, rental prices continued to increase during Q1-2019, however at a marginally decelerated rate when compared with the corresponding quarter of the previous year. As such, prices declined by 4.6% compared with 7.2% in Q1-2018. With regards to other categories of the CPI basket, prices of tobacco and areca nuts; health sector-related products and services, as well as communication also increased marginally and contributed positively to overall inflation.

As for the decline in inflation compared to Q4-2018, fish prices contributed mostly to the decline. Additionally, with the reduction in prices of air fare by the national carrier—Maldivian—prices of transport also eased during the period. However, this decrease was offset by the persistent upsurge in rental prices and health sector-related services, which mainly reflected the fall in doctor consultation fees.

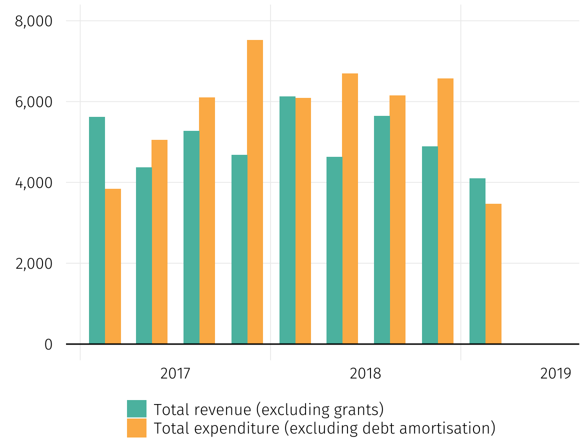
Public Finance[3]

Total government revenue (excluding grants) decreased by MVR71.9 million during Jan-Feb 2019 when compared to the corresponding period of the previous year and totalled MVR4.1 billion at the end of the period (Figure 11). This decrease was primarily due to a decline in non-tax revenues together with a slight fall in tax revenues. During this period, tax revenues accounted for 83% of the total revenue and amounted to MVR3.4 billion, despite registering a downfall of MVR18.8 million in annual terms when compared with Jan-Feb 2018.

[3]According to the latest data available from the Ministry of Finance as at 7 May 2019.

Figure 11: Government Revenue and Expenditure, 2017 - 2019

(millions of rufiyaa)



Source: Ministry of Finance
Note: Data for Q1-2019 was available up to February 2019.

The fall in tax revenues was driven primarily by a decline in the tourism goods and services tax (T-GST), which was MVR62.8 million lower than the corresponding period of 2018. This was on the account of the base effect of collection of arrears for tourism-related revenues in the same period of 2018. As such, this was further noticed in revenue from green tax, which posted a decline of MVR30.3 million in annual terms. Turning towards other major revenue categories, business profit tax (BPT) registered a considerable growth of MVR24.5 million while revenue from import duties showed a substantial growth of MVR45.9 million. Meanwhile, the general goods and service tax (G-GST) also registered a slight growth which curbed further dampening of tax revenues.

Non-tax revenues, which comprised 17% of the total revenue, observed a decline of MVR94.4 million in annual terms and totalled MVR692.0 million during Jan-Feb 2019. This reflected significant falls in revenue from SOE dividends;

and land acquisition and conversion fee, which fell by MVR77.9 million and MVR76.8 million, respectively. However, these falls were partly offset by increased interest and profits as well as revenue from fees and charges during the period. As such, interest and profits grew by MVR59.1 million while revenue from fees and charges rose by MVR43.9 million.

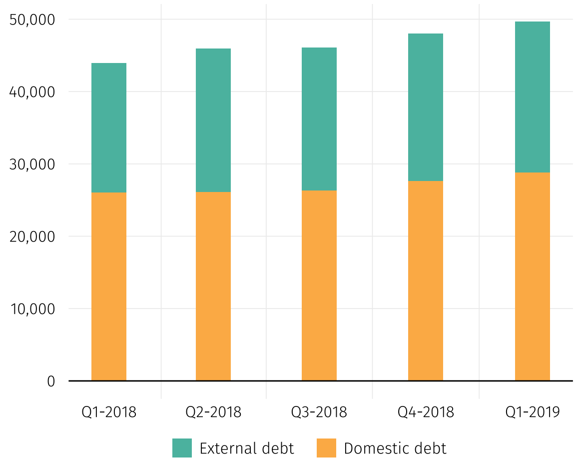
Total expenditure (excluding debt amortisation) recorded a decline of MVR177.4 million in annual terms and amounted to MVR3.5 billion during Jan-Feb 2019. This was entirely on account of a significant drop in capital expenditure, which completely offset the rise in the government's current expenditure. The fall in capital expenditure largely mirrored the MVR502.3 million decline in spending on the Public Sector Investment Program (PSIP) projects. Contrastingly, current expenditure grew by MVR281.1 million during the quarter, driven by the increased expenditure on salaries and wages—the largest component of current expenditure—which rose by MVR132.2 million in annual terms, reflecting the increase in both expenditure on allowances; and salaries and wages during the quarter. In contrast, expenditure administrative and operational expenses went down by MVR126.3 million owing to decrease in expenditure on financing and interest costs; and Aasandha during the period.

Public Debt

The total outstanding stock of public debt increased to MVR49.6 billion at the end of Q1-2019 from MVR48.0 billion at the end of Q4-2018, largely owing to increase in domestic debt (Figure 12). With regard to the composition of debt, domestic debt remained as the largest component, with a share of 58% at the end of Q1-2019, while the share of external debt stood at 42%.

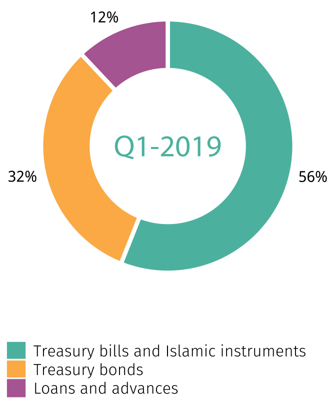
Figure 12: Total Outstanding Stock of Public Debt, 2018 - 2019

(millions of rufiyaa)



Source: Ministry of Finance

Figure 13: Composition of Domestic Claims on Government



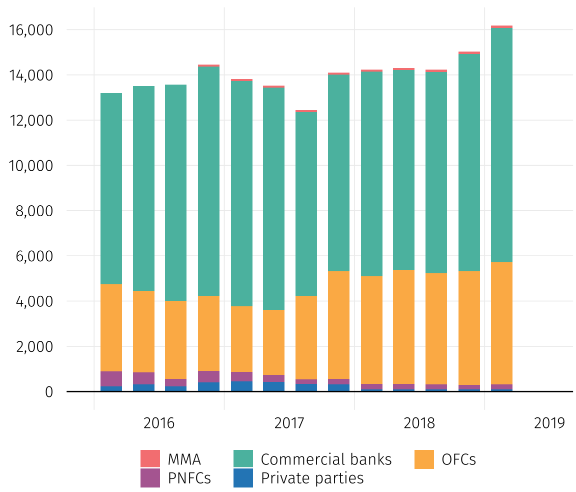
Source: Maldives Monetary Authority

External debt rose to MVR20.8 billion at the end of Q1-2019 from MVR20.3 billion at the end of Q4-2018. This increase in external debt largely reflected the increase in external loans as buyer's credit which registered a growth of MVR558.8 million. Meanwhile, domestic debt rose from MVR27.7 billion in Q4-2018 to MVR28.8 billion at the end of Q1-2019. The primary source of domestic borrowing during the review quarter has been the issuance of government securities[4] (treasury bills and treasury bonds) (Figure 13). As such, this MVR1.1 billion increase in domestic debt largely reflected the increase in treasury bills issued to commercial banks which rose by MVR751.9 million. Additionally, treasury bills issued to other financial corporations rose by MVR386.8 million over the period. In contrast, the outstanding stock of treasury bonds declined slightly at the end of Q1-2019.

Turning to the outstanding stock of treasury bills by holder, commercial banks remained the main investor in terms of holdings, with a share of 64% of the total outstanding treasury bills, followed by other financial corporations (33%) (Figure 14).

Figure 14: Treasury Bills by Holder, 2016 - 2019

(millions of rufiyaa)



Source: Maldives Monetary Authority

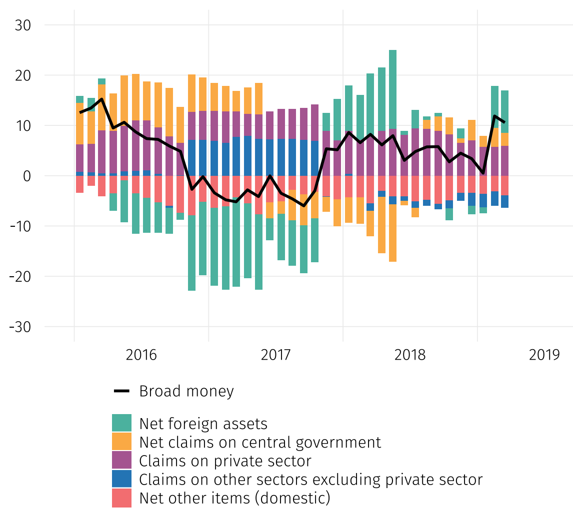
Money and Banking

Broad Money

The annual growth rate of broad money (M2 or money supply) accelerated to 11% at the end of Q1-2019 from 3% at the end of 2018 (Figure 15). On the components side, the acceleration in the broad money was largely contributed by the 11% growth in the transferable deposit base or demand deposits of the banking system—which accounted for 74% of the broad money in Q1-2019. This was a considerable growth in demand deposits when

Figure 15: Contribution to Broad Money, 2016 - 2019

(annual percentage change, percentage point contribution)



Source: Maldives Monetary Authority

[4]The pension recognition bond is not classified as a treasury bond as it is non-tradable.

compared with the 1% annual growth recorded at the end of 2018. The growth in demand deposits during Q1-2019 entirely stemmed from the increase demand deposits denominated in foreign currency, as local currency demand deposits observed a decline during the period. The growth in foreign currency deposits was predominantly due to the increase in such deposits by the private sector and public non-financial corporations, while the decline in local currency deposits was broadly attributed to the decline in deposits of private non-financial corporations.

In addition, other deposits (savings and time deposits) posted a growth of 9% at the end of Q1-2019, after registering a growth of 11% at the end of 2018. This slowdown primarily stemmed from the decline in local currency time deposits and foreign currency savings deposits during the period. Conversely, local currency savings deposits and foreign currency time deposits increased. Currency outside depository corporations grew by 11% in annual terms, an acceleration when compared with the 5% recorded in the previous quarter.

On the sources side, the annual growth rate of broad money was largely driven by the upsurge in net foreign assets (NFA) of the banking sector, which recorded an annual growth of 23% at the end of Q1-2019. The increase in NFA stemmed from the rise in NFA of the MMA and commercial banks. In addition, net domestic assets (NDA) of the banking sector grew by 3% in annual terms and contributed to the growth in broad money during the period. In Q1-2019, the domestic sources of broad money growth were contributed predominantly by commercial banks credit to the private sector, followed by the growth in net claims on central government. Net claims on government by banks grew by 8% and amounted to MVR12.4 billion at the end of Q1-2019, largely reflecting the 14% annual expansion in government securities. Meanwhile, the NDA of the MMA also increased during Q1-2019, owing to the decline in Overnight Deposit Facility investments made by commercial banks.

Credit to Private Sector

Bank credit to the private sector grew by 7% in annual terms and totalled MVR23.1 billion at the end of Q1-2019, a slight deceleration when compared to the 9% annual growth observed in Q4-2018. Similar to previous quarters, the sectors with the highest share of credit were tourism (37% of total private sector credit), construction (22%) and commerce (13%). Credit lent for the tourism sector recorded an annual growth of 7% when compared to Q1-2018, largely attributed to the considerable growth in loans given for new resort development, followed by credit extended for renovation of resorts. However, the credit growth in this sector was curbed to an extent by the decrease in credit lent for the construction of guesthouses. With a 23% growth observed at the end of Q1-2019, constructions sector loans accounted for the largest growth in credit when compared to the corresponding period of 2018. Accordingly, this growth was almost entirely contributed by the growth in credit lent for the construction of residential housing. Commerce sector credit declined by 6% during the period, which is the fourth consecutive quarter of decrease and the pace of decline has picked up when compared to the 2% decline recorded in Q4-2018. This decline largely stemmed from the decrease in credit for the wholesale and retail market, followed by the decline in loans extended to restaurants and cafes. Additionally, personal loans, which accounted for 9% of total private sector credit, posted a growth of 17% at the end of Q1-2019, reflecting the rise in credit for consumer durables and credit cards.

Interest Rates

As for interest rates at the end of Q1-2019, the rates on local currency demand deposits remained largely unchanged from Q1-2018, while the rates on foreign currency demand deposits registered a marginal decline in annual terms. Interest rates on time deposits (maturity of six months to one year) denominated in both local and foreign currency posted annual declines during the period. Meanwhile, interest rates on local currency savings deposits increased while foreign currency savings deposits decreased in Q1-2019 when compared to the corresponding quarter of 2018 (Figure 16 and 17).

With regard to private sector loans, interest rates on local currency denominated private sector loans increased during the period while the rates on foreign currency denominated private loans declined (Figure 18).

Banking Sector Performance

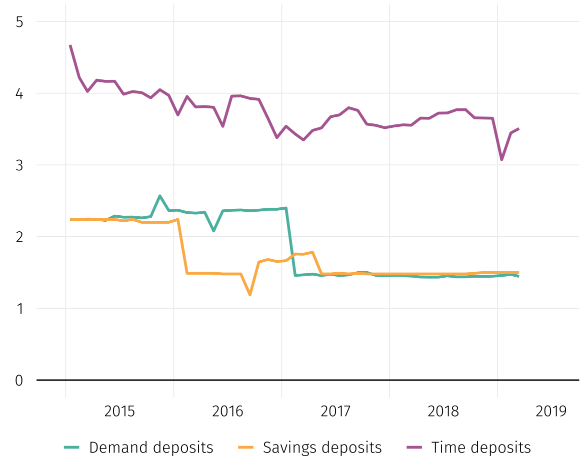
The banking sector remained healthy during the quarter, with key prudential indicators being well above the regulatory minimum requirements.

The capital adequacy ratios of the banking sector remained robust, with the total capital to risk-weighted assets at 46% against the minimum requirement of 12%, on account of the significant portion of low risk assets in the portfolio. The leverage capital measured by equity to gross assets stood at 22% (minimum requirement of 5%).

The profitability of the banking industry remained strong as indicated by return on equity of 18% during the quarter. The pre-tax profit for the quarter reported a growth of 7% and is recorded at MVR699.8 million compared to the same period a year ago. The growth is on account of

Figure 16: Interest Rate on National Currency Deposits, 2015 - 2019

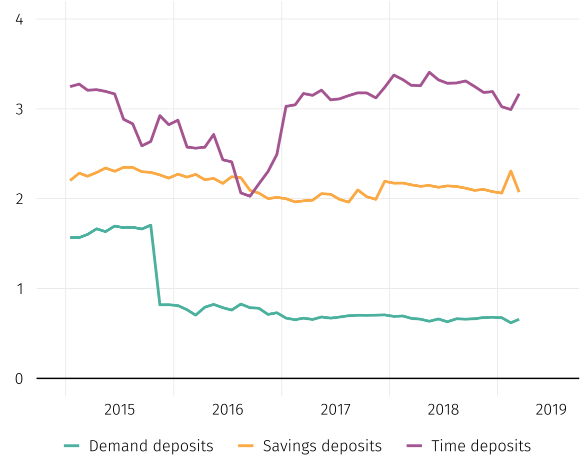
(weighted average)



Source: Maldives Monetary Authority

Figure 17: Interest Rate on Foreign Currency Deposits, 2015 - 2019

(weighted average)



Source: Maldives Monetary Authority

increase in both net-income from lending of 7%, net-non interest income of 7%, and lower level of provisioning expense compared with the same period from a year ago.

Absolute value of Non-Performing Loans (NPLs) declined by 10% (MVR217.1 million) compared to the same period from a year ago, owing to large write-off's during the previous year; however the figure increased by 6% (MVR123.8 million) compared to previous quarter. NPLs as a percentage of total loans remains relatively unchanged at 9% compared to last quarter and from a year ago. Banks have made loan loss provisions which cover 91% of the NPLs.

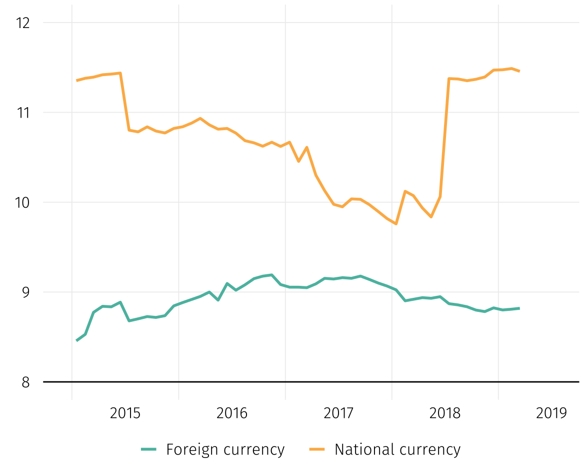
The largest portion of the banking sector's asset portfolio consists of loans which make up 46% of the asset portfolio amounting to MVR25.2 billion at the end of this quarter. The loan portfolio increased by 7% (MVR1.7 billion) when compared to same period from a year ago.

Investments in debt securities are 18% of the banking sectors gross assets, amounting to MVR 10 billion at the end of Q1-2019. Investment in debt securities increased by 8% compared to quarter ago and 15% compared to the same period from a year ago.

Liquid asset remain a high proportion of deposits and borrowings at 64%. Deposit base recorded a growth of 11% (MVR3.3 billion) on compared to the same period a year ago amounting to MVR36.5 billion. The growth in deposits was mainly due to an increase in demand deposits by 12% (MVR2.9 billion) and increase in term deposits by 11% (MVR460.3 million).

Figure 18: Interest Rate on Private Sector Loans and Advances, 2015 - 2019

(weighted average)



Source: Maldives Monetary Authority

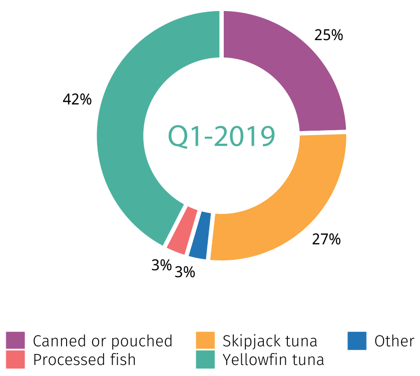
External Trade

According to customs data, total merchandise exports—comprising domestic exports and re-exports—grew by 41% (US$36.2 million) in annual terms and totalled US$124.9 million in Q1-2019 mainly driven by a 78% (US$31.5 million) growth in re-exports. This reflected the significant growth in re-exports of jet fuel to international carriers during the period.

The annual growth in domestic exports was predominantly due to a rise in earnings from canned or pouched tuna, as well as both frozen and fresh or chilled yellowfin tuna exports. This was largely attributed to the surge in yellowfin tuna prices in the international market against subdued skipjack tuna prices during the period. During Q1-2019 earnings from frozen skipjack tuna exports declined by 20% (US$3.4 million), largely reflecting a fall in the volume of such exports (Figure 19).

As for total merchandise imports (cif), it recorded a decrease of 5% (US$39.9 million) during Q1-2019 when compared with the corresponding quarter of 2018 and totalled US$715.0 million. This was largely contributed by a considerable drop in imports of machinery and mechanical parts; construction-related items; and petrol during the quarter. On the other hand, increases in imports of furniture, fixtures and fittings, food items; and transport equipment and parts, partially curbed the decline in total merchandise imports during the quarter (Figure 20).

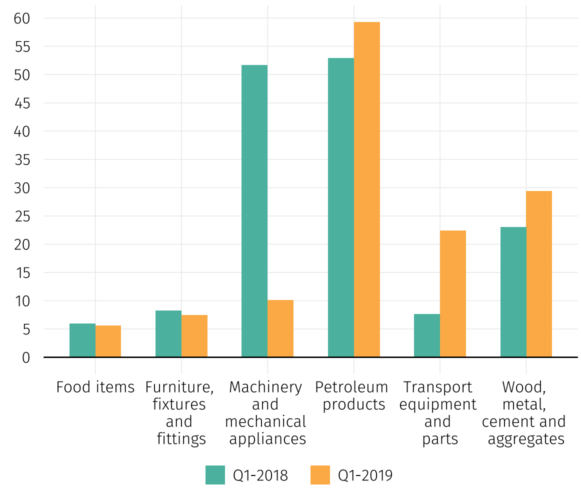
Figure 19: Composition of Fish Exports Earnings



Source: Maldives Customs Service

Figure 20: Composition of Imports, 2018 - 2019

(millions of US dollars)



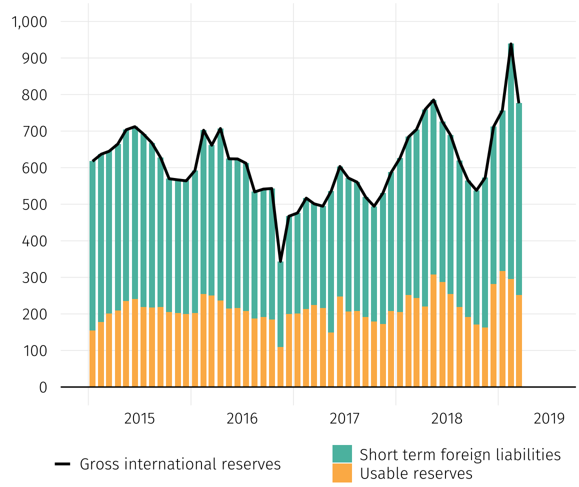
Source: Maldives Customs Service

Gross International Reserves

Gross International Reserve (GIR[5]) rose to US$776.2 million at the end of Q1-2019, increasing by 10% when compared with the corresponding quarter of 2018. Meanwhile, the GIR grew by 9% when compared with Q4-2018 (Figure 21). The annual growth in GIR was mainly driven by a rise in commercial banks' foreign currency deposits held at the MMA.

Figure 21: Gross International Reserves, 2015 - 2019

(millions of US dollars)



Source: Maldives Monetary Authority

[5]GIR comprises of foreign currency deposits of the MMA and the government, commercial banks' US dollar reserve accounts and Maldives' reserve position at the IMF.

ARTICLE

Analysis of the Recent Credit Conditions in the Maldives

*By: Aminath Sunooha Ali and Ahmed Saaid Musthafa**

Introduction

In the Maldives, the commercial banks are the key players of the financial sector. Given the few investment options available for the commercial banks in the domestic market, major activities of the banking sector are focused on lending to the private sector and investment in government securities. As private sector lending is a key financial activity of the commercial banks, this article focuses on the findings of bank credit survey which captures the qualitative information of the lending activities of the domestic banking system. The qualitative information is based on the bank credit surveys conducted by the Maldives Monetary Authority (MMA) on a semi-annual basis between 2015 and 2018.

In this respect, the article investigates the demand for and supply of and credit conditions of the loans extended to two major segments of the private sector; private businesses and households. Out of the total loans and advances to households, the article considers only the credit conditions of the housing loans segment due to the data limitations.

The article is organized as follows including the introduction explained in section 1. Section 2 discusses the methodology applied for calculating the diffusion indices based on the qualitative data provided by the banks for the bank credit surveys conducted. Section 3 and 4 look into the demand and supply of credit conditions of the businesses, and housing loans, respectively. Lastly, section 5 provides a summary of the overall findings and provides some policy recommendations.

Methodology used for Bank Credit Survey

The Bank Credit Survey is based on a survey questionnaire designed to extract broadly qualitative information from commercial banks regarding the demand for and supply of credit, and factors that affect credit conditions for private businesses and households.

Data is collected through a multiple-choice survey form in which responding commercial banks can select an answer from five choices per question. These answers are weighted individually and then aggregated using the market shares of individual banks based on different categories of their loan portfolio. The different categories of loans considered in the survey include commercial loans made to private businesses and housing loans,

**The authors are from the Monetary Policy and Exchange Rate Division of the MMA.* *The authors would like to thank Aminath Shafwath and Aminath Seema Ismail for their comments on the article.*

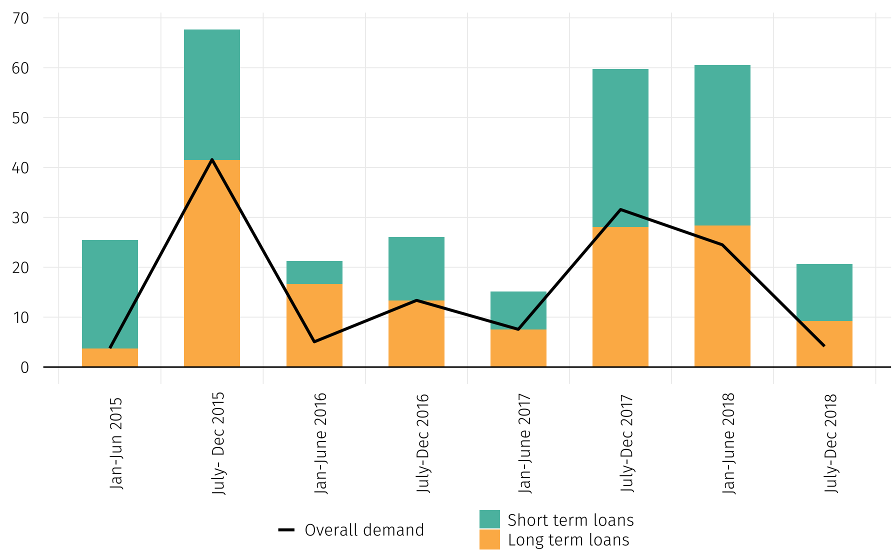
credit card facilities and consumer financing loans extended to households. The data is ultimately processed into a quantitative form through the creation of a composite index called a Diffusion Index (DI). A net positive DI indicates either a contribution to a tightening or increase in the relevant aspect and vice versa.

Credit Conditions of Loans to Private Businesses

Demand for Loans

On average, the overall demand for credit by private businesses increased moderately, albeit at varying paces during the period, 2015 – 2018. Demand for loans by businesses was relatively robust during the last six months of 2015 and from July 2017 to June 2018. Considering the maturities of the loan demand, on average, businesses showed more willingness towards short-term tenure during the review period (Figure 1). However, demand for long term loans were reported to be relatively higher from July 2015 to June 2016.

Figure 1: Overall Demand for Private Businesses Loans, 2015 - 2018
(Diffusion Index)



Source: Maldives Monetary Authority

Note: A net positive DI indicates either a contribution to a tightening or increase in the relevant aspect and vice versa. This is applied for all the figures throughout the article.

Factors Affecting Credit Demand

Factors that contribute to the changes in demand for loans by private enterprises are generally classified into financing needs, availability of alternative finance and interest or profit rate.

Financing needs

Banks reported that businesses mostly demanded loans to purchase inventories, meet working capital needs as well as for capital investment purposes during the review period, 2015 – 2018 (Figure 2). Additionally, banks indicated that businesses also demand for loans to refinance their existing borrowings. As such, demand for loans for refinancing purposes were particularly high in 2015 and 2018.

Alternative sources of financing

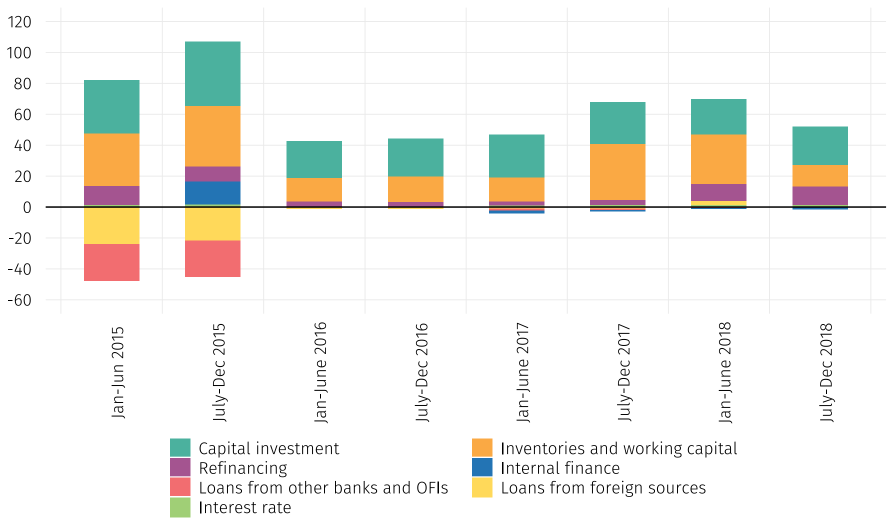
Banks indicated that alternative financing options such as internal financing sources and from other banks and foreign sources had limited effects on the overall credit demand over the last three years. Meanwhile, limited internal financing options led to a rise in overall demand during the last six months of 2015, while credit availability from other banks and foreign institutions partly hampered the overall demand for credit in 2015.

Interest rates and profit rates

It is noteworthy that interest rates had minimal effect on the overall demand for credit by private enterprises during the period 2015 – 2018. This could be attributed to the limited availability of financial products in the market.

Figure 2: Factors Contributing to Changes in Demand of Private Businesses, 2015 - 2018

(Diffusion Index)



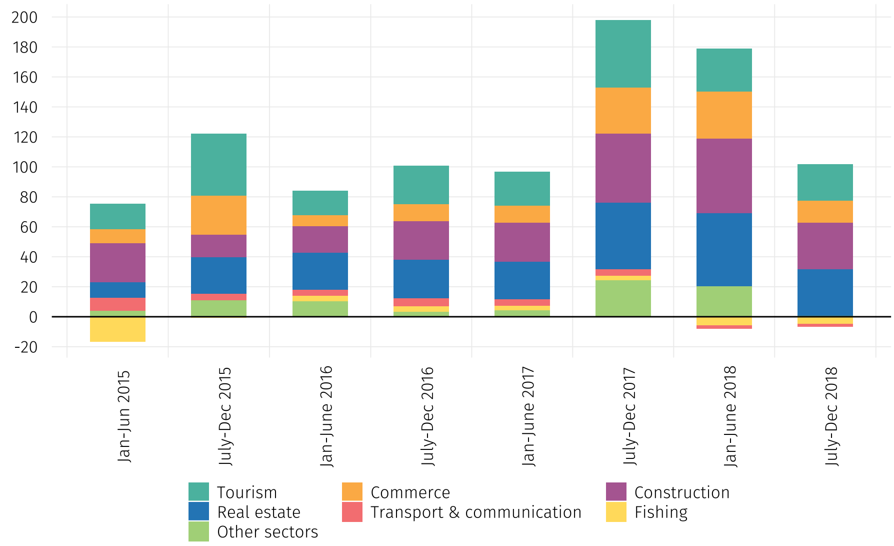
Source: Maldives Monetary Authority

Demand for Loans by Economic Sector

Looking into the sector-wise demand for loans, demand for loans was the highest from construction sector, followed by real estate, and tourism during the review period (Figure 3). In particular, banks reported that credit demand from real estate and construction sectors was substantially robust from July 2017 to June 2018. This demand hike could be attributed with the housing boom in the recent years. Additionally, private businesses applied for bank credit for financing business projects related to communication and transportation, as well as commerce. Conversely, banks indicated that demand for loans for financing fisheries sector declined for the first six months of 2015 and throughout 2018. Likewise, credit demand from transport and communication sector registered a marginal decline in 2018.

Figure 3: Demand for Loans by Economic Sectors, 2015 - 2018

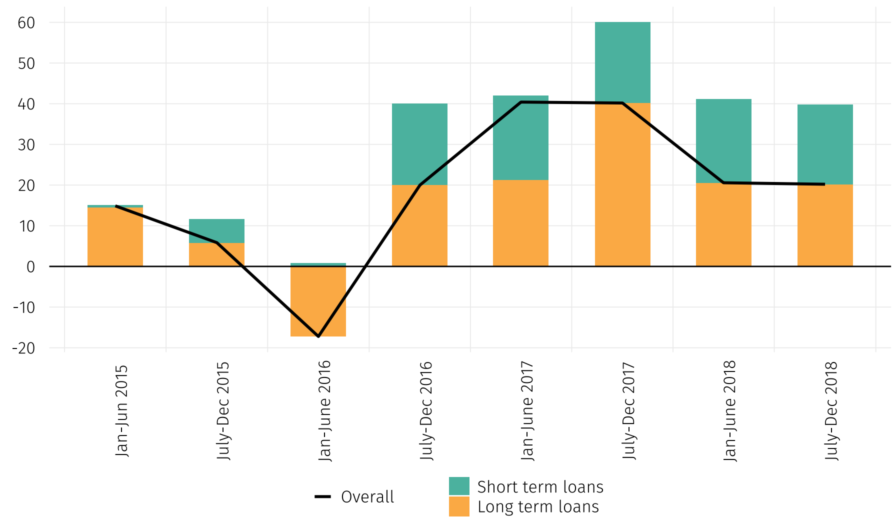
(Diffusion Index)



Source: Maldives Monetary Authority

Figure 4: Changes in Overall Credit Standards of Loans to Private Businesses, 2015 - 2018

(Diffusion Index)



Source: Maldives Monetary Authority

Supply-side Factors of Loans

The supply-side factors of loans to private businesses are assessed in relation to the banks credit standards, which describes the internal guidelines or criteria for approving loans. Changes in credit standards, generally in the form of adjustments to the terms and conditions, indicate the willingness of banks to lend to the private sector.

In general, banks practiced a tight credit policy for loans to businesses during 2015 to 2018, except for the first half of 2016 (Figure 4). As shown in Figure 4, credit policy was strict for both short-term and long-term loans at varying levels during the aforementioned periods of tightened credit standards. As for the ease in credit standards in the first six months of 2016, this was on account of the marked reduction in the credit standards on long term loans. Meanwhile, credit standards for short term loans was marginally tightened during the first six months of 2016.

Terms and Conditions of the Loans

In line with the changes in the credit policy, banks generally adjust the terms and conditions of the loans; both price factors and non-price factors. Price factors include the interest rates on the loans denominated in local currency and foreign currency while non-price factors comprise non-interest charges and fees, size of credit facility, collateral requirement and maturity periods of the loans.

Non-price factors

During the review period, banks brought the most notable adjustments to non-price factors such as non-interest charges and fees, equity contributions, size of credit facility and collateral to reflect the changes in their credit standards applied for business loans. The overall tightening in credit standards for business loans, as discussed in the previous section, were mainly reflected through increases in equity contributions and collateral requirement. Other adjustments include increases in non-interest charges and fees since July 2016, and declines in size of the credit facility recorded from July 2017 to December 2018.

The significant reductions in the credit standards for long term loans in January to June 2016, indicated earlier, were reflected through a marked decline in non-interest charges and fees during this period.

Price factors

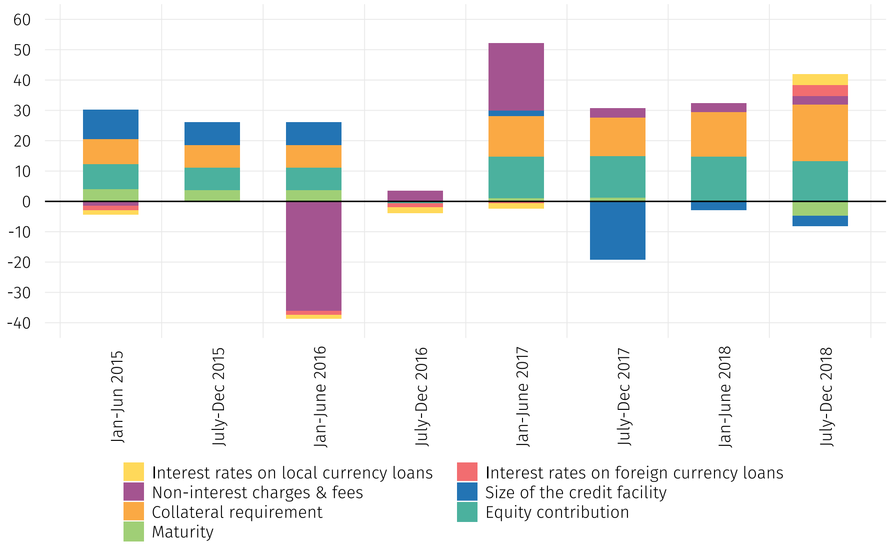
Reflecting the changes in the credit policy over the past four years, adjustments made to interest rates on both local currency and foreign currency loans by banks were minimal compared to the adjustments made with respect to non-price factors of the business loans (Figure 5).

Factors Affecting the Credit Standards

The supply-side factors that affected the credit standards of the loans to private businesses can be broadly categorized into three areas; cost of funds and balance sheet constraints, perception of risk and pressure from competition.

Figure 5: Conditions and Terms of Loans to Private Businesses, 2015 - 2018

(Diffusion Index)



Source: Maldives Monetary Authority

Changes in cost of funds and balance sheet constraints

Balance sheet factors that affect credit policy of the commercial banks consists mainly of the cost of funds, liquidity positions, availability of credit from interbank market and abroad and non-performing loans. Of these factors, banks reported that the issue of non-performing loans as a significant balance sheet constraint for the review period. However, as per the monetary data, the total non-performing loans as a percentage of total loans of the banking industry has been declining. This difference in the non-performing loans between the survey responses and the quantitative data could be attributed with the diffusion index[1] used for quantifying the qualitative information from the survey.

Meanwhile liquidity conditions were also regarded as a contributor towards a tightening in the credit standards (Figure 6). This may be because the majority of the deposits in the domestic banking system are in the form of short-term deposits. However, banks indicated brief improvements in the liquidity position of the commercial banks that were observed from July 2015 to June 2016, which contributed to the decrease in credit standards. The improvement in liquidity partly reflects the lag effects of the significant reduction in minimum reserve requirement by the MMA during August 2015.[2]

[1] For analytical purposes, the survey responses from individual banks are ranked from 1 to 5 and a weight is assigned to each answer as per the rank (i.e.W1=1, W2=0.5, W3=0, W4=-0.5 and W5=-1). In the past survey periods, few banks noted that non-performing loans led to a tightening in credit standards while majority reported NPLs did not contribute at all. As per the ranking and weight allocation required for the diffusion index methodology, the answers by the majority banks are weighted as zero, while banks that reported NPLs led to a tightening in credit standards are either weighted as 0.5 or 1 depending on the ranking. Thus, a positive value is derived for diffusion index with respect to non-performing loans.

[2] With effect from August 2015, the MMA lowered the minimum reserve requirement from 20% to 10%.

Perception of risk

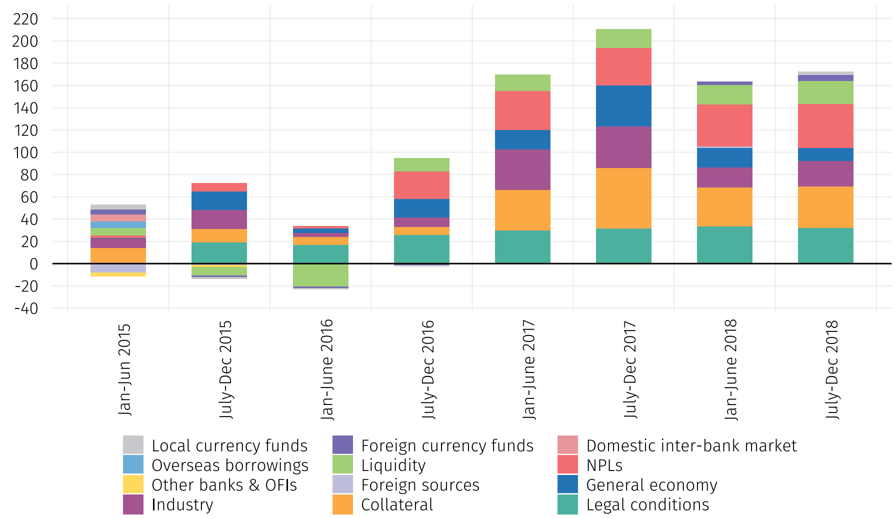
Likewise, perception of risks related to general economy, industry outlook, collateral and legal conditions also shape the credit standards of the banks. Banks' perception of risks associated with these factors were major contributors to the overall rise in credit standards from 2016 onwards.

Pressure from competition

Competition from other banks and financial institutions had minimal effects on the credit policy of the banks during the survey periods.

Figure 6: Factors Affecting Credit Standards of Loans to Private Businesses, 2015 - 2018

(Diffusion Index)



Source: Maldives Monetary Authority

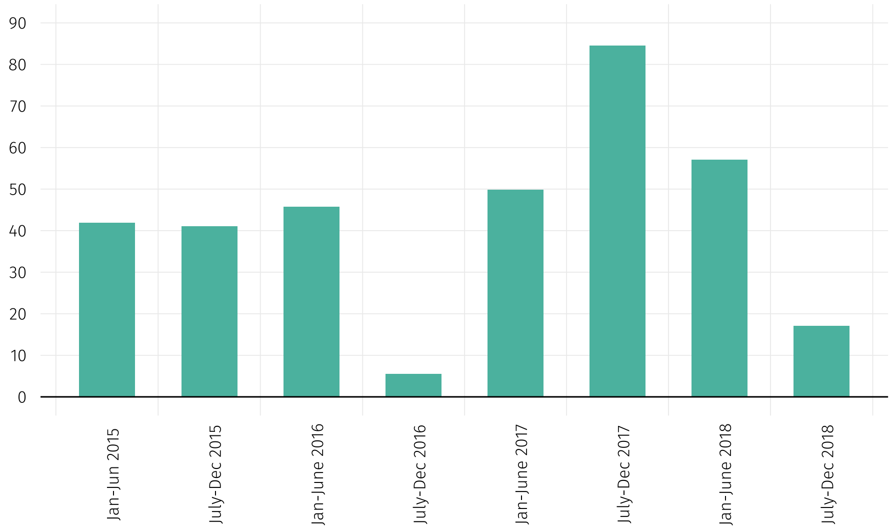
Credit Conditions of Housing Loans

Demand for Loans

Demand for housing loans by households were relatively robust between 2015 and 2018 (Figure 7) with the exception of the last six months of 2016 and 2018. The robust growth in the demand for housing loans could be attributed to the boom in the housing market due to real estate investments of the private sector. The deceleration in the overall demand since 2018 could be attributed to slowdown in the number of new housing projects during this period.[3]

[3] As per the quarterly business surveys, the number of orders received by construction companies has fallen during 2018 compared to previous years.

Figure 7: Overall Demand for Housing Loans, 2015 - 2018
(Diffusion Index)



Source: Maldives Monetary Authority

Factors Affecting the Credit Demand

Generally, factors that contribute to the changes in demand for housing loans are categorized into financing needs, alternative financing sources and interest or profit rate.

Changes to financing needs

The primary factor that increased the overall demand for housing loans was financing needs, of which banks cited that favourable prospects in the housing market as the major driver of this increase in financing needs (Figure 8). Apart from this, banks also indicated that the need to refinance existing housing loans was also a significant factor that contributed towards the rise in demand for housing loans between July 2015 and June 2016.

Changes to alternative finance

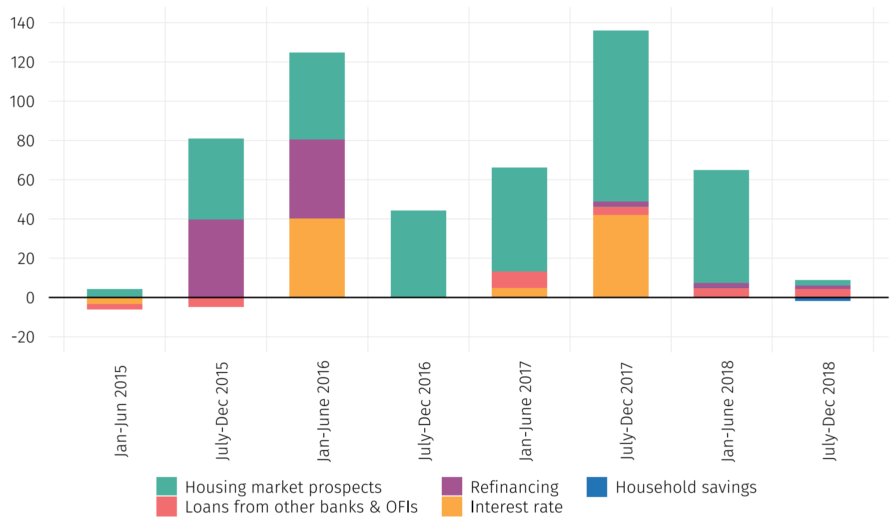
Unavailability of loans from other banks and other financial institutions also contributed to the overall rise in demand for housing loans in both 2017 and 2018. As for household savings, it marginally dampened the demand in the past four years.

Interest or profit rate

Favourable interest rates aided to the rise in demand during January to June 2016 and July to Dec 2017.

Figure 8: Factors Contributing to Changes in Demand of Housing Loans, 2015 - 2018

(Diffusion Index)



Source: Maldives Monetary Authority

Supply-side Factors of Housing Loans

Credit standards of the commercial banks on housing loans were tightened over the past four years, except for the first half of 2015, and the full year of 2016 (Figure 9).

Terms and Conditions

Similar to loans to private businesses, banks generally adjust non-price factors such as collateral requirements, and non-interest charges fees to reflect the changes in the overall credit policies while changes to price factors are less common.

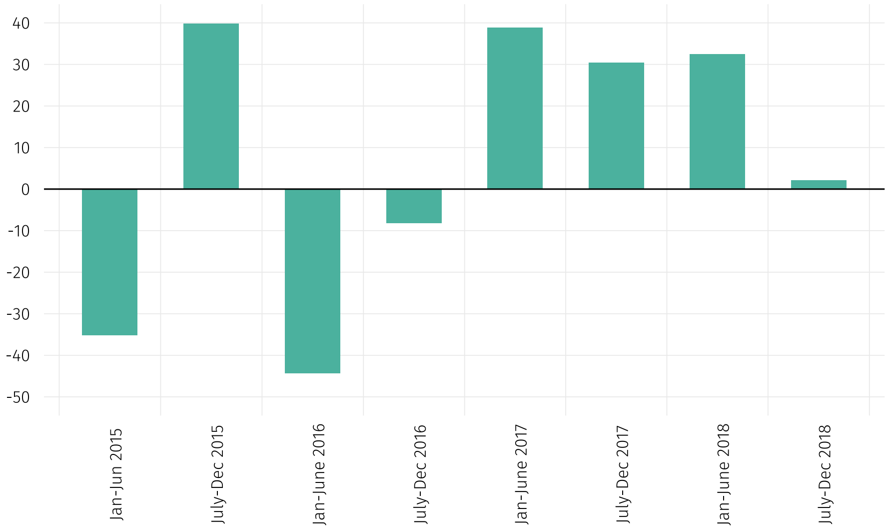
Changes to non-price factors

Over the past four years, credit standards were mainly tightened through adjustments to the non-interest charges and fees, reductions in size of the credit facility and loan-to-income ratio. However, these aspects of terms and conditions including others contributed varyingly to reflect the changes in credit standards on housing loans in different survey periods (Figure 10). Other than these factors, banks also slightly adjusted the collateral requirements, and maturity of loans to align with the changes in the overall credit policy.

It should be noted that banks applied substantial reductions for the non-interest charges and fees during the first half of 2016, in line with the ease in credit standards during this period.

Figure 9: Overall Credit standards on Housing Loans, 2015 - 2018

(Diffusion Index)



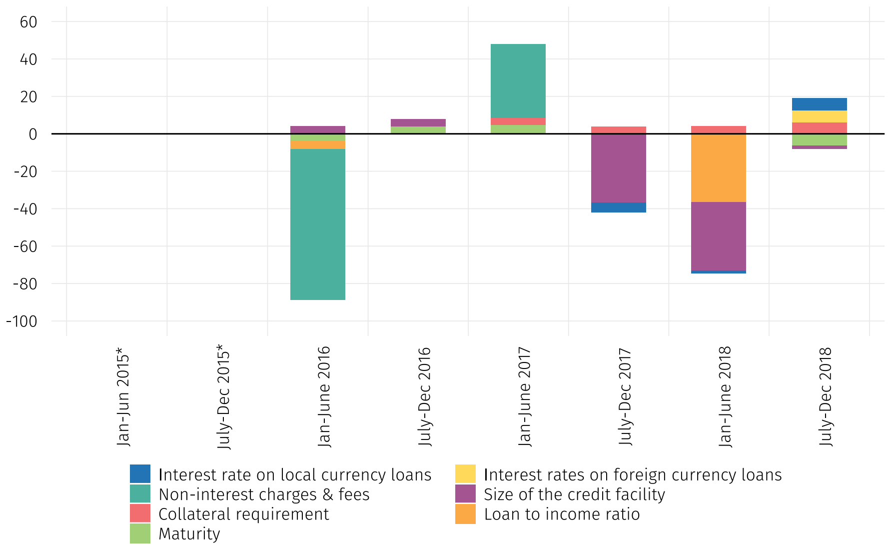
Source: Maldives Monetary Authority

Changes to price factors

Slight reductions in interest rates on local currency loans marginally reduced the overall effects of the constricted credit standards of housing loans from July 2017 and June 2018. However, banks later raised the interest rates for loans denominated in local and foreign currency in the subsequent six months of 2018.

Figure 10: Conditions and Terms of Housing Loans, 2015* - 2018

(Diffusion Index)



Source: Maldives Monetary Authority

Note: Although credit standards changed for 2015, no changes were reported by the commercial banks with respect to the terms and conditions of housing loans specified in the questionnaire.

Factors Affecting the Credit Standards

The supply-side factors that affected the credit standards of housing loans can be broadly categorized into three areas; cost of funds and balance sheet constraints, perception of risk and pressure from competition.

Changes in cost of funds and balance sheet constraints

Balance sheet constraints such as the portfolio of non-performing loans marginally contributed to tightening of credit standards over the past four years but was particularly important to the rise in credit standards during July to December 2018 (Figure 11).

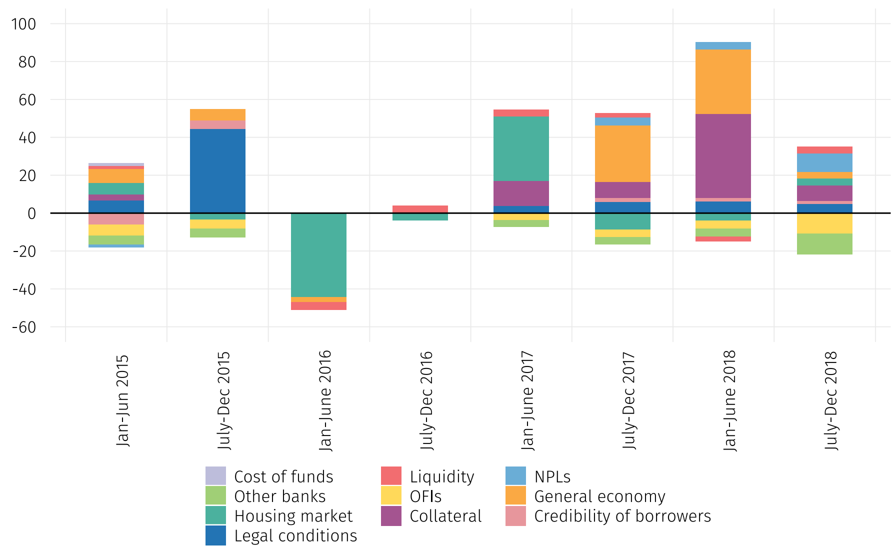
Perception of risk

Over the past four years banks have reported perception of risks related to the general economy, collateral, legal conditions and the housing market to have had marked effects on the rise of credit standards. However, it should be noted that positive housing market prospects helped ease the credit standards on housing loans in 2016.

Pressure from competition

Competition from other banks and OFIs led to a marginal dampening effect on credit standards for housing loans during the review period.

Figure 11: Factors Affecting Credit Standards of Housing Loans, 2015 - 2018
(Diffusion Index)



Source: Maldives Monetary Authority

Conclusion

In conclusion, analysis of the credit conditions of the loans to businesses and housing market show that demand is mainly driven for meeting capital financing needs, financing inventories and for housing needs, respectively. Alternative financing options are found to have limited effect on the overall demand for both loan segments. On the supply side, findings show that there are common major factors affecting the credit standards of commercial banks for loans to businesses and households. These factors include the balance sheet constraints such as non-performing loans and liquidity factors, and risk perception associated with the collateral requirement, general economy and legal conditions.

Based on the information captured through bank credit survey, the following policy actions could be drawn to address some of these challenges indicated above. As such, the legal framework of the Maldives could be improved through greater strengthening, and speeding up of the execution process on the legal matters. This is also expected to lower the risks associated with the collateral required by the banks and improve their willingness to lend to the market. Furthermore, policies can be developed to foster a competitive financial sector and facilitate new entrants to the domestic financial market. Such financial deepening is expected to improve the interest rate channel and encourage competition, as well as provide alternative financing options for borrowers. In recognition of such challenges, the MMA has factored in strengthening the legislation related to financial issues and the need for developing the domestic financial sector into the strategic plan, 2018 – 2022.

In addition, given that the bank credit survey conducted by the MMA might not fully capture information such as the internal policy decisions of banks, such data gaps are acknowledged in this analysis. To address these issues, the credit survey needs to be developed further to improve the data quality and coverage in the near-term.

STATISTICAL APPENDIX

Table of Selected Economic Indicators, 2016 - 2019

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

Indicator	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Real Sector								
Tourist arrivals	4	8	7	17	3	4	3	15
Bednights of resorts	2	11	9	17	7	8	3	8
Operational capacity of resorts	5	13	6	9	6	4	5	6
Occupancy rate of resorts (%)	74	73	75	87	64	70	77	88
Average stay (days)	6.0	6.2	6.4	6.5	6.5	6.2	6.3	6.3
Fish purchases	19	42	2	0	-3	3	8	17
Prices [1]								
Total (Republic)	0.5	2.8	-0.1	0.7	-1.5	0.4	-0.2	-1.2
Total excluding fish	0.7	3.7	-1.2	0.7	-4.8	0.3	-0.7	-1.3
Food and non-alcoholic beverages excluding fish	1.5	6.6	-2.2	0.9	-4.6	-0.5	-4.6	-5.4
Government Securities (millions of rufiyaa)								
Government securities outstanding	23,230.2	23,414.2	24,262.0	23,536.5	23,571.1	23,495.0	24,262.0	25,405.6
Treasury bonds	8,774.6	9,320.9	9,248.4	9,300.2	9,283.8	9,264.2	9,248.4	9,227.2
Treasury bills	14,455.7	14,093.4	15,013.6	14,236.3	14,287.3	14,230.8	15,013.6	16,178.4
MMA	68.2	82.4	90.3	82.4	79.0	89.0	90.3	91.5
Commercial banks	10,154.9	8,694.4	9,605.5	9,052.4	8,822.9	8,896.8	9,605.5	10,357.4
Others	4,232.6	5,316.5	5,317.8	5,101.4	5,385.5	5,245.0	5,317.8	5,729.6

Source:
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

[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.

Indicator	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Money and banking								
Broad money	-0	5	3	8	3	6	3	11
Net foreign assets	-36	32	-5	45	2	2	-5	23
Net domestic assets	24	-4	7	-6	4	7	7	3
Net claims on central government	18	-12	11	-12	-2	8	11	8
Claims on other sectors	21	9	6	9	10	10	6	5
o/w Private sector	11	12	11	13	13	13	11	9
Reserve money	-13	19	8	29	13	9	8	10
Monetary operations[1]								
Open market operations[2]	0	0	0	0	0	0	0	0
Overnight Deposit Facility	30	-4	2	-6	45	4	-27	-34
External trade								
Merchandise exports (f.o.b.)	7	24	7	4	-18	30	17	41
Domestic exports	-3	43	-9	-11	-14	-12	-1	10
o/w Fish exports	-2	43	-10	-12	-15	-14	-2	9
Re-exports	22	2	32	29	-24	101	51	78
Merchandise imports (c.i.f.)	12	11	25	33	14	32	25	-5
o/w Food	6	8	7	11	8	2	7	9
o/w Petroleum	-13	27	44	55	18	66	42	4
o/w Construction-related imports	20	24	34	65	39	39	-0	-21

Source:
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

[1] Monetary operations figures repesent the average investment.

[2] Open market operations were suspended May 2014 onwards.

Indicator	2016	2017	2018	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Direction of Trade of Imports of Goods (as a percentage of total)								
o/w Singapore	14	13	12	12	12	12	14	14
o/w India	13	12	10	11	10	9	8	10
o/w Sri Lanka	6	7	6	5	5	7	6	6
o/w UAE	16	18	18	17	21	18	17	18
o/w Thailand	5	5	4	4	4	3	5	4
Direction of Trade of Exports of Goods (as a percentage of domestic)								
o/w Thailand	34	49	36	41	37	19	42	36
o/w Sri Lanka	10	4	3	2	2	4	5	4
o/w France	9	7	7	7	8	10	6	9
o/w Germany	9	7	13	10	14	19	11	12
External Reserves								
Gross international reserves (millions of US dollars)	467.1	587.3	712.0	704.4	726.4	564.7	712.0	776.2

Source:
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

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