

Quarterly Economic Bulletin

December 2018
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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 fourth 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 28 February 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.

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Abbreviations

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
MMA	Maldives Monetary Authority
NPL	non-performing loan
PCE	personal consumption expenditure
UAE	United Arab Emirates
UK	United Kingdom
US	United States
VAT	value-added tax



Recent Economic Developments

International Economic Developments

Output

The global economic expansion marked a slowdown in the final quarter of 2018, as a loss of momentum was observed across both country groups owing to mounting global trade tensions as well as country-specific factors. These factors include tariff hike in United States (US); China; and Russia, natural disasters in Japan and overall tighter global financial conditions, in addition to persistent trade and geopolitical tensions. However, growth¹ is still estimated at 3.7% for 2018—unchanged from the estimates made in October 2018—despite these prevalent downside risks in the global economy.

Looking at the advanced economies, the US economy witnessed a further deceleration as output weakened from 3.4% in Q3-2018 to 2.6% in Q4-2018, amid bilateral trade tensions and partial government shutdown in the review quarter. This primarily reflected slower growth in business investment as well as personal consumption expenditure (PCE). Nevertheless, the solidity in growth was supported by resilience in PCE underpinned by increased disposable income owing to tax cuts and past fiscal reforms while unemployment rate remained relatively unchanged during the quarter.

1 International Monetary Fund (IMF), 'World Economic Outlook (WEO) January Update 2019'.

Based on the latest data for the euro area, the region further lost traction and recorded a growth rate of 1.2% in Q4-2018, down from 1.6% in the preceding quarter. This moderation in growth primarily reflected a weakening of global trade as external demand remained soft. Nevertheless, growth in the region remained underpinned by robust consumption as labour market improvements and growing household wealth continued to drive the expansion while financing conditions remained favourable in the region. Looking at the main economies in the region, growth in Germany was hindered by a marked slowdown in automotive sector. Meanwhile, growth in France was stagnant over the period, as an increase in external trade was offset by fall in household consumption and investment. Similarly, economic activity in Italy remained muted due to the negative performance of domestic demand. Meanwhile, growth in Spain remained relatively unchanged underpinned by buoyant domestic demand.

In Japan, economic growth recovered modestly recording 1.4% growth in the final quarter of the year following a disaster-hit slump in the previous quarter. This recovery primary reflected a pickup in domestic demand—the main driver of the economy—as well as growth in non-residential investment. Nevertheless, negativity of global trade tensions was still persistent in the economy as seen by the decline in net exports over the period.

Meanwhile, growth in the United Kingdom (UK) economy dropped to 1.3% during Q4-2018, on

the back of a slowdown in global economy amid Brexit uncertainty. This was mainly on the account of negative contributions from production and construction sector during the review period. Further, this drop in output was reflected in the services sector—which accounts for nearly 80% of GDP—as growth hindered owing to loss in business confidence after a strong performance in the summer.

Looking at the emerging markets and developing economies, the Chinese economic growth eased for the third successive quarter as the economy was marred by the ongoing bilateral trade tensions amid weakening domestic demand. Growth was recorded at 6.4% during Q4-2018 as the economy recorded its lowest quarterly performance since 2009. This deceleration in growth largely reflected the slowdown in services sector as well as investments. Meanwhile, industrial output increased over the period, preventing any further dampening of the output.

The Russian economy maintained its growth trajectory into the final quarter of the year, outpacing expectations, fuelled by buoyancy in domestic demand. However, a noticeable slowdown was observed owing to temporary factors such as value-added tax (VAT) hike, global economic slowdown and decline in oil prices. Further, deceleration in household consumption due to slower growth in real wages added to this slowdown. Nevertheless, the construction sector and industrial production remained solid over the period.

In India, the pace of economic growth further decelerated during the fourth quarter of 2018. Growth during the quarter stood at 6.6%, lower from the 7.0% recorded in the previous quarter. This moderation in growth momentum mainly reflected weakening domestic consumption. As such, output of both services and manufacturing sector softened during the review quarter. While services sector growth decelerated owing to weakening demand triggered by volatility in petroleum prices and strict safety regulations, growth in manufacturing sector was hindered by slowdown in industrial production.

Inflation

Global inflation has remained contained in the final quarter of 2018, underpinned by the decline in energy prices. Against this backdrop, headline inflation eased across both advanced economies and emerging markets and developing economies. Meanwhile, core inflation moved further away from the central banks' target level in many countries across both country groups, with the exception of some emerging market and developing economies, where core inflation edged up due to the pass-through effects from currency depreciations.

Looking at the price developments in the advanced economies, inflation in the US decelerated and stood at 2.2% during Q4-2018. This deceleration in prices mostly stemmed from a turnaround in energy prices, as prices of fuel oil and gasoline went down after an upsurge in the preceding

quarter. This deceleration was further witnessed in the price of transportation, as reflected in lower airfare prices. Meanwhile, prices of food remained relatively unchanged 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 1.9% during Q4-2018, down from 2.1% in the previous quarter. This slowdown in inflation mainly reflected the fall in price of energy-related items against the background of lower global oil prices, as well as higher base prices due to past increases in oil price. Similarly, prices of food items remained muted in the review quarter, which also contributed to the deceleration.

In Japan, the inflation rate decelerated to 0.9% during the final quarter of 2018, moving further away from the Bank of Japan's target rate of inflation. This sluggish growth in inflation mainly reflected the downward base effect of food prices, as price of fresh food and vegetables slowed down in the review quarter after soaring up in the previous quarter, owing to unusually bad weather and natural disasters. Nevertheless, growth in the price of energy-related items such as fuels, gas and utilities remained as the driver of inflation in the economy.

The annual rate of inflation in the UK stood at 2.1% in Q4-2018, slightly lower compared to Q3-2018. The slower growth in prices broadly reflected diminishing effects of past pound sterling depreciations, as well as the fall in global oil

prices. As a result, major downward inflationary pressures stemmed from price of petrol and airfare. In addition, food inflation and price of clothing and footwear also contributed to this slowdown, which was partially offset by the upward contribution from housing and household services.

Turning to the emerging markets and developing economies, the rate of inflation in China eased slightly to 2.2% in the review quarter from 2.3% in Q3-2018, partly reflecting the weakening of domestic demand in the economy. This easing mainly stemmed from the deceleration in prices for healthcare, in addition to slowdown in the price of transportation and communication services. Similar to the previous quarter, upward pressures in prices mainly stemmed from surge in food prices as prices of fresh vegetables and fruits soared up following the increase in flooding events.

In India, inflation decelerated in Q4-2018 when compared with the previous quarter, driven by the continuing deflation in food prices. As such, price of food items—which accounts for nearly half of India's CPI basket—declined owing to large downward contributions from vegetables and fruits. Additionally, fall in price of energy-related items, particularly fuel and light, in line with the fall in global oil prices contributed to this slowdown in prices. Further, the dissipation of housing inflation continued to curb inflation in the review quarter.

Meanwhile, inflation in Russia lifted to 3.9% during the quarter, edging marginally close to the Bank of Russia's target rate. The growth in prices

was mainly driven by higher food inflation, led by the depletion of food supply due to lower harvest. Meanwhile, the hike in VAT rate as well as past ruble depreciations also contributed to the growth in prices of goods and services during the period.

Commodity Prices

According to the World Bank Commodity Price Index, the annual growth in global commodity prices moderated during Q4-2018. The moderation mirrored a softening of energy prices relative to previous quarters of the year, together with a decline in non-energy prices in both annual and quarterly terms. During the period, non-energy prices fell as a result of lower prices of metals, food and beverages.

Prices of crude oil recorded an average of US\$64.3 per barrel² during the final quarter of the year, representing an annual growth of 10%. It is worth noting that this was a moderation, relative to previous quarters, and a decline of 12% in quarterly terms. Prices rallied during the earlier part of the quarter mostly due to supply concerns arising from the looming US sanctions on Iranian oil exports, which came into effect in November. However, prices receded substantially during the remainder of the quarter, in light of higher US inventories and supplies, together with the US government's issuance of sanctions waivers to eight major importers of Iranian crude oil. On the demand-side, crude oil prices were driven by better-than-expected demand from the advanced economies,

particularly the US, due to its robust petrochemical and industrial sectors. Meanwhile, demand was weaker-than-expected in China during the quarter, in light of the country's economic slowdown.

Turning to the major commodities in the non-energy index, metal prices fell by 7% in annual terms during Q4-2018. The recovery in metal prices continued to be hampered mainly due to subdued demand arising from the deepening slowdown in the expansion of global manufacturing, especially in China. With regard to global food prices, the World Bank food price index showed a 3% decline in annual terms during the quarter. Although a notable price growth was observed for grains, such as wheat, maize and rice, this was fully offset by declines in the prices of oils and sugar. Meanwhile, the prices of beverages declined due to lower tea and coffee prices.

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

Domestic Economic Developments

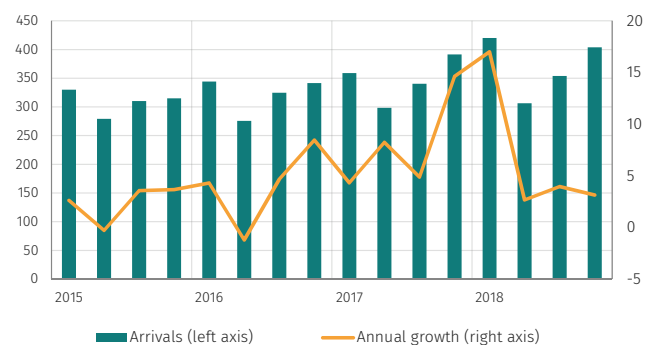
Real Economy

Tourism

Reflecting the commencement of the peak season, the tourism sector depicted solid growth during the last quarter of 2018, as indicated by the notable growth posted by key indicators of sector performance. The growth was buoyed by economic prosperity in the European region as well as the upsurge in flight movements and connectivity. Tourist arrivals for the quarter recorded an annual growth of 3%—a slight deceleration from 4% recorded during Q3-2018—and reached a total of 403,815 tourists (Figure 1). Cumulative tourist arrivals for the year 2018 reached 1.48 million by the end of December, achieving 99% of the 1.5 million target.

Global flight movements to the Maldives recorded a 6% annual growth during the quarter, when compared with Q4-2017—an increase of over 388 flights. The bulk of flight movement increases stemmed from major long-haul airlines such as the Qatar, Etihad and Emirates Airways. This was followed closely by increases in number of scheduled flights to the Maldives by Silk Air, Alitalia as well as Aeroflot during the quarter. In addition, two commercial airlines from India, GoAir and IndiGo, commenced flight operations to the country during Q4-2018.

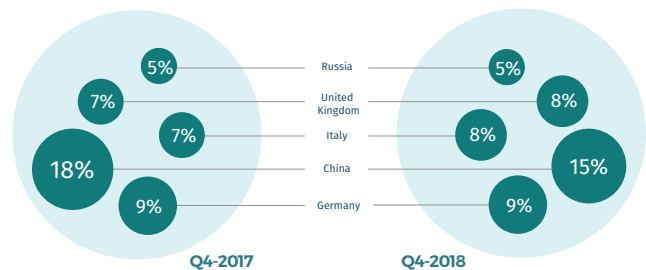
Figure 1: Quarterly Inbound Tourist Arrivals , 2015–2018
(thousands, annual percentage change)



Source: Ministry of Tourism

During the quarter, the market share of the European region soared to a sizable 52% (a proportion similar to the traditional market share commanded by the region), while the share of Asia and the Pacific plunged to 39% from 42% during Q4-2017. Tourist arrivals from Europe registered an annual increase of 7%, bolstered by the growth in arrivals from the main source countries, Italy (18%), UK (10%), France (12%), Germany (4%) and Spain (14%) . Turning to Asia and the Pacific, the region registered an overall decline of 3% during the quarter, on the back of declines from China (13%), Thailand (19%), South Korea (9%) and Malaysia (19%). However, a noteworthy growth in arrivals was recorded for India during the quarter (25%), while increases were recorded for Saudi Arabia as well as Australia (Figure 2).

Figure 2: Changes in Shares of Key Inbound Markets



Source: Ministry of Tourism

Looking at other major indicators of sector performance, tourist bednights observed a 5% annual growth during the quarter, reflecting the increase in average duration of stay from 6.2 in Q4-2017 to 6.3 days in Q4-2018 (Figure 3). Mirroring these developments, tourism receipts for the quarter is estimated at US\$821.7 million at the end of the quarter.

Figure 3: Quarterly Bednight Growth of Resorts and Average Stay, 2015–2018

(annual percentage change, days)



Source: Ministry of Tourism

With regard to the supply side of the sector, the total number of resorts in operation expanded from 130 at the end of Q4-2017 to 136 at the end of Q4-2018. Correspondingly, guesthouses in operation increased by 76 to total 534 by the end of the review quarter. In line with these developments, the operational capacity of the industry expanded

to reach 43,040—an 8% annual growth. As the expansion in capacity outpaced the growth in bednights, the occupancy rate of the industry registered a slight annual decline from 65% to 64% during Q4-2018.

Fisheries

Following weak performances during the preceding quarters, activity in the fisheries sector showed signs of improvement during Q4-2018 as indicated by the growths in the key indicators used to gauge the performance of the sector—fish purchases by fish processing companies and the volume of fish exports.

Fish purchases registered a significant growth of 91% during Q4-2018 when compared with the previous quarter, signaling a turnaround following trends of dwindling fish purchases over the past three quarters of the year. In annual terms, fish purchases posted a growth of 8% during the review quarter, improving on the modest growth observed in Q3-2018. The continued recovery in fish purchases stemmed from notable growths in purchases of both skipjack tuna and yellowfin tuna purchases. While total fish purchases amounted to 24,789.5 metric tons, skipjack tuna and yellowfin tuna collectively accounted for 98% of total purchases made by fish processing companies during the period.

With regard to price developments in the domestic tuna market, local fish processing companies maintained their purchasing prices for both fresh and iced skipjack tuna since the last upward revisions during the third quarter of 2017. However, yellowfin tuna prices remained relatively volatile throughout the quarter and averaged MVR56.1 per kilogram, down from the average prices of MVR72.5 per kilogram during the previous quarter, and MVR77.5 per kilogram in the same period a year ago. Prices of yellowfin tuna started at MVR52.0 per kilogram in October 2018 and rose to MVR68.7 per kilogram by the end of December 2018.

On the export front, following negative annual growths for the past two quarters, the volume of fish exports observed a growth of 11% and totalled 23,396.7 metric tons during Q4-2018. This upturn was driven primarily by substantial increases in the volumes of frozen skipjack tuna and canned or pouched tuna products, which offset the decline in the volume of fresh or chilled yellowfin tuna exports during the period.

Construction

The progressive trend in the construction sector continued into the final quarter of 2018, as indicated by the growth in the key indicators used to gauge the performance of the sector—bank credit to the sector³ and construction sector-related imports. Commercial bank credit to the construction sector

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.

witnessed an annual increase of 21% during the review period, predominantly owing to the increase in loans for the construction of residential housing, new resort developments, as well as renovation of resorts. However, the growth in bank credit was partially curbed by a substantial 57% annual decrease in loans for guest house development.

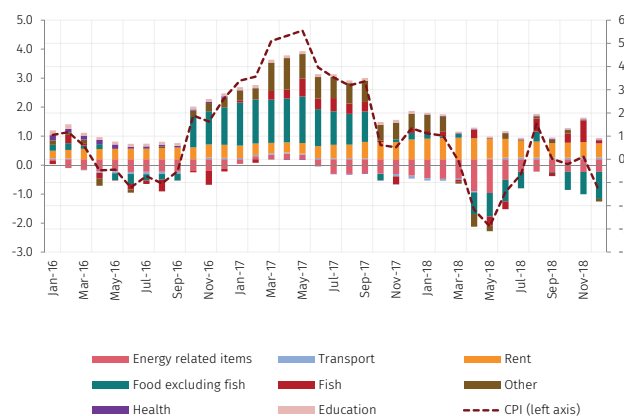
In line with the overall positive performance of the sector, construction sector-related imports posted a growth during the quarter. However, it is noteworthy that the growth of such imports was only marginal in Q4-2018, depicting a marked slowdown relative to previous quarters. This can be attributed to the winding down of the major infrastructure projects toward the last quarter of 2018.

Inflation

The average rate of inflation (as measured by the annual percentage in the Consumer Price Index [CPI]) declined markedly and entered deflation territory during the quarter and stood at -0.2%, after recording 0.4% in Q3-2018 (Figure 4). The decline in the price level was mainly contributed by a significant decrease in the prices of electricity and staple food items during the quarter, reflecting the base effects of a number of policy changes that came to effect during the first half of 2018. However, this decline was offset to some extent by the continued growth in rental prices coupled with a significant increase in fish prices during the quarter.

Looking at the major categories of CPI, food price— which carries the largest weight of the CPI basket—

Figure 4: Contribution of Sub-Categories to CPI Inflation (National), 2016-2018
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

declined substantially 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. Additionally, the prices of vegetables also declined during Q4-2018, after a marked hike during the previous quarter as a result of supply shortage caused by the flooding in India's Kerala State. However, this was offset to a large extent by a sizable upturn in fish prices—primarily fresh, chilled or frozen fish. Fish prices are generally the most volatile item of the CPI basket and also carries the highest weight in the food category.

Similarly, the cost of electricity fell significantly by 19.2% during the period and exerted downward pressure on the overall inflation, despite a recovery in global oil prices in annual terms. 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, the upward trend in rental prices—which has been more pronounced since the third quarter of 2017—continued into Q4-2018 and recorded an annual price growth of 4.8% during the period. This growth, however, has decelerated when compared to the growth rate of 5.2% in Q3-2018. Furthermore, prices of areca nuts also

increased and contributed positively to overall inflation during the period, mainly due to the base effect of the upward revision of import duty on supari, in January 2018.

Public Finance⁴

Total government revenue (excluding grants) increased by MVR221.3 million relative to the last quarter of 2017 and totalled MVR4.9 billion during Q4-2018 (Figure 5). This increase was largely due to a substantial growth in tax revenues, which was offset to an extent by a marginal decline in non-tax revenues. During the quarter, tax revenues accounted for 69% of the total revenue and amounted to MVR3.4 billion, having registered an upsurge of MVR205.6 million in annual terms when compared with Q4-2017.

The growth in tax revenues was driven primarily by a sizable rise in the tourism goods and services tax (T-GST), which was MVR88.5 million higher than in the corresponding period of 2017. This reflected the strong performance of the tourism sector during the period. Turning towards other major revenue categories, the general goods and service tax (G-GST) registered a substantial growth of MVR85.5 million, followed by an increase of MVR51.2 million in revenue from import duties, and a MVR16.5 million rise in green tax revenue. However, revenues generated from the business profit tax and airport service charge declined on an annual basis during the review quarter. It is worth noting that the airport

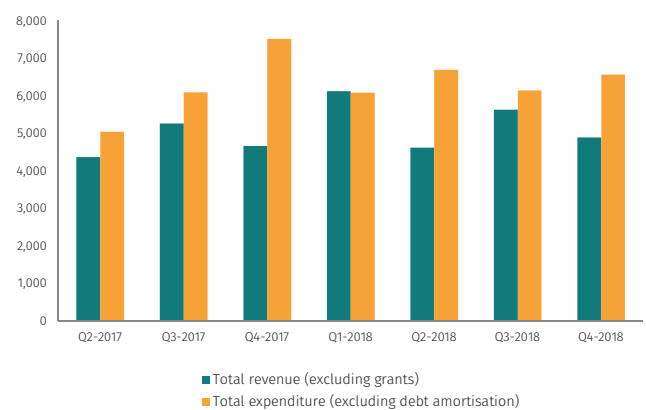
⁴ According to the latest data available from the Ministry of Finance as at 30 December 2018.

service charge declined primarily owing to the higher base effect arising from the ratification of the airport fees and tax act in 2016.

Non-tax revenues, which comprised 31% of the total revenue, observed a marginal decline of MVR19.7 million in annual terms and totalled MVR1.5 billion during Q4-2018. This reflected a MVR162.4 million decline in the airport development fee, which could be attributed to some airlines deferring payments, coupled with a decline of MVR118.6 million in other fees and charges, which together curbed the MVR235.2 million increase in receipts from dividend transfers from state-owned enterprises.

Total expenditure (excluding debt amortisation) recorded a marked decline of MVR954.2 million in annual terms and amounted to MVR6.6 billion during the final quarter of 2018. This was mainly 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 MVR1.5 billion annual decline in spending on the Public Sector Investment Program (PSIP) projects. Meanwhile, current expenditure grew by MVR868.2 million during the quarter, driven by the increased expenditure on subsidies, which rose by MVR294.8 million in annual terms. Moreover, the largest component of current expenditure—salaries and wages—posted a growth of MVR330.1 million, mainly reflecting the increase in expenditure on allowances during the quarter. In addition, interest payments and financing costs also observed an increase, mirroring the rise in foreign debt.

Figure 5: Government Revenue and Expenditure, 2017-2018 (millions of rufiyaa)



Source: Ministry of Finance

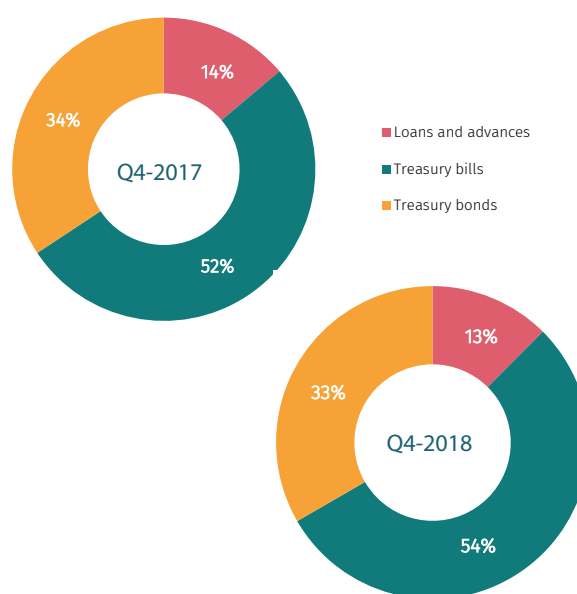
Domestic Financing⁵

Domestic borrowing by the government—which includes treasury bills, treasury bonds; and loans and advances to the government—totalled MVR27.7 billion at the end of Q4-2018, up from the MVR26.9 billion recorded at the end of Q3-2018. This represented a net borrowing of MVR802.0 million during the review quarter, lower than the net borrowing of MVR1.7 billion during the corresponding quarter of 2017.

The primary source of domestic borrowing during the review quarter has been the issuance of government securities⁶ (treasury bills and treasury bonds) (Figure 6). The total outstanding stock of government securities stood at MVR24.3 billion at the end of Q4-2018, up from MVR23.5 billion from the previous quarter. This represented a net issuance of MVR766.9 million during the period. However, it is noteworthy that the net issuance of government securities during Q4-2017 was substantially higher, standing at MVR1.6 billion. The net issuance during Q4-2018 stemmed entirely from the issuance of treasury bills. As such, the investment in treasury bills by commercial banks observed a substantial increase during the period, which offset the sizable decline in investment by public non-financial corporations.

With respect to the composition of government securities during the final quarter of 2018, treasury bills accounted for the largest share (62%), followed

Figure 6: Composition of Domestic Claims on Government



Source: Maldives Monetary Authority

⁵ Domestic financing comprises domestic debt of the government excluding publicly guaranteed debt.

⁶ Government securities comprised 88% of total domestic borrowing at the end of Q4-2018.

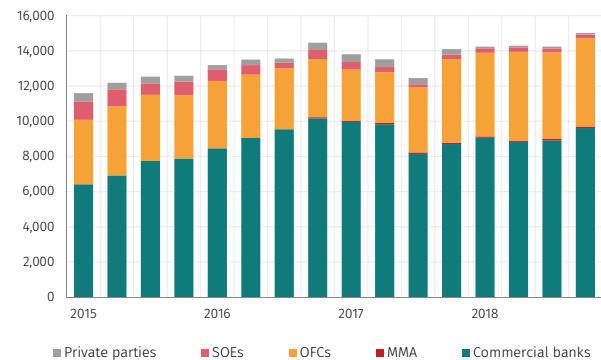
by treasury bonds (38%). At the end of the quarter, the outstanding stock of treasury bills amounted to MVR15.0 billion, while treasury bonds stood at MVR9.2 billion. Commercial banks remained as the main investors in terms of holdings, with a share of 64% of the total outstanding treasury bills, followed by other financial corporations, which accounted for 33% (Figure 7).

Money and Banking

Money Supply

The annual growth in money supply decelerated and stood at 3% at the end of Q4-2018. This is in comparison to the 6% annual growth in money supply observed at the end of the previous quarter. The slowdown in the money supply at the end of December 2018 was primarily caused by the slower pace of growth in transferable deposit base (demand deposits) of the banking system—which accounted for 72% of the money supply at the end of Q4-2018 (Figure 8). As such, demand deposits grew by 1% in annual terms, down from 3% recorded in the previous quarter. This was largely due to the slowdown in local currency denominated deposits during the period, which can be attributed predominantly to the decline in deposits of private non-financial corporations, followed by public non-financial corporations. However, foreign currency demand deposits posted a favourable growth, owing to a significant increase in such deposits by the private sector and non-residents.

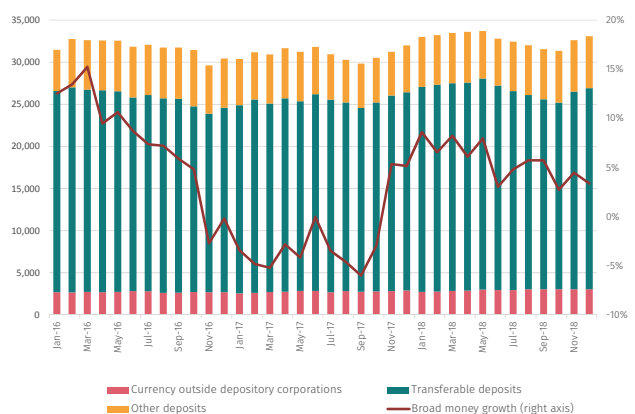
Figure 7: Treasury Bills by Holder, 2015-2018
(millions of rufiyaa)



Source: Maldives Monetary Authority

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

Figure 8: Components of Broad Money, 2016-2018
(millions of rufiyaa, annual percentage change)



Source: Maldives Monetary Authority

In addition, other deposits (savings and time deposits)—which accounted for 19% of the money supply—registered an annual growth of 11% at the end of December 2018, after posting a growth of 13% in the preceding quarter. This slowdown was primarily attributed to the marginal decline in foreign currency savings deposits, followed by a deceleration in the growth of local currency time deposits. Conversely, foreign currency time deposits and local currency savings deposits increased during the period.

As for currency outside depository corporations—which accounted for 9% of money supply—grew by 5% in annual terms, a deceleration when compared with the 11% recorded in the previous quarter.

Credit to Private Sector

Credit to the private sector recorded a growth of 9% and totalled MVR22.8 billion at the end of Q4-2018, a moderate slowdown when compared to the 11% annual growth trajectory observed over the past two quarters of 2018. Similar to previous quarters, the sectors with the highest share of credit were tourism (37% of total private sector credit), construction (21%) and commerce (14%). The tourism sector credit grew by 7%, predominantly due to the significant upturn in loans given for new resort development, followed by the growth in credit extended for renovation of resorts. However, the credit growth in this sector was partly offset by the decrease in credit lent for the construction of guesthouses. Maintaining its upward trend, the construction sector loans grew by 30% at the

end of Q4-2018, a growth of MVR1.1 billion when compared to Q4-2017. This growth was almost entirely contributed by the credit lent for the construction of residential housing. With a 2% decrease at the end of Q4-2018, the commerce sector credit declined for the third consecutive quarter during the year. This is attributed to the decline in credit for the wholesale and retail market which fully offset the growth in loans given to restaurants and cafes. In addition, reflecting the rise in credit for consumer durables and credit cards, personal loans—which accounted for 9% of total private sector credit—posted a significant growth of 32% at the end of Q4-2018.

Interest Rates

With regard to interest rates at the end of Q4-2018, rates on foreign currency demand deposits registered a marginal decline in annual terms, while the rates on local currency demand deposits remained largely unchanged when compared to Q4-2017. Meanwhile, interest rates on savings deposits and time deposits (maturity of six months to one year) denominated in local currency increased during the period, whereas rates on foreign currency savings and time deposits posted an annual decline (Figures 9 and 10).

As for 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 11).

Banking Sector Performance

During the year 2018, the banking sector remained strong with the key prudential indicators well above the minimum regulatory requirements.

The capital adequacy ratios of the banking sector remained robust, with the total capital to risk-weighted assets at 44% 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 20% (minimum requirement of 5%).

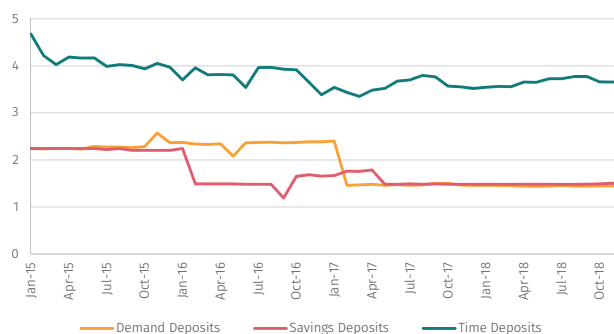
The profitability remained high as indicated by return on equity of 15% during the year. The pre-tax profit for the year 2018 reported a growth of 9% and recorded at MVR2.4 billion compared to the previous year. This growth is mainly due to the increase in both non-interest and interest income combined with lower provisioning expenses during this year.

With regard to asset quality, the absolute value of non-performing loans (NPLs) during the year 2018 declined by 2% (MVR0.4 billion) on annual terms, however when compared to the previous quarter it increased by 4% (MVR91.3 million). NPLs as a percentage of total loans at the end of year 2018 decreased to 9% from 10% a year ago, owing to the large write off of NPLs during the year. Banks have made loan loss provisions that cover 96% of the NPLs.

Loans continue to dominate the asset portfolio of the banking sector with 49%, amounting to MVR24.8

Figure 9: Interest Rates on National Currency Deposits, 2015-2018

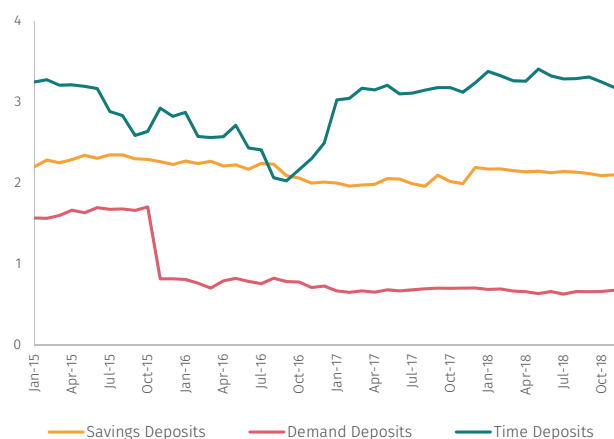
(weighted average)



Source: Maldives Monetary Authority

Figure 10: Interest Rates on Foreign Currency Demand and Savings Deposits, 2015-2018

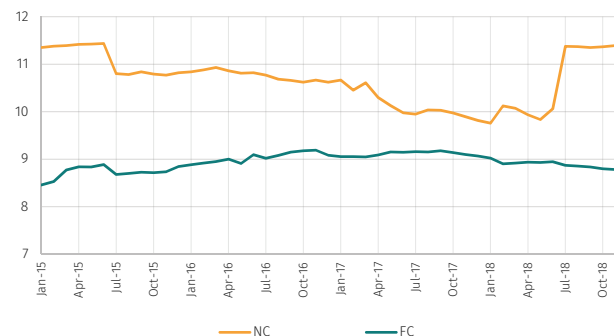
(weighted average)



Source: Maldives Monetary Authority

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

(weighted average)



Source: Maldives Monetary Authority

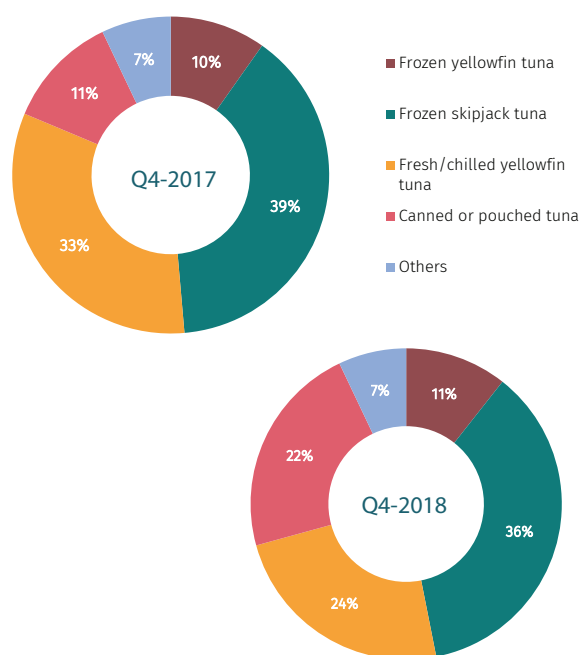
billion at the end of Q4-2018 and registered a growth of 7% (MVR1.5 billion) when compared to a year ago. Investments in debt securities accounts to 19% of asset portfolio and amounted to MVR9.8 billion at the end of Q4-2018.

Liquid asset as a proportion of deposits and borrowings remained high even though the ratio declined on annual terms from 62% to 60%, owing to the increase in lending. Deposit base recorded a growth of 6% (MVR1.9 billion) on annual terms amounting to MVR33.1 billion. The growth in deposits was mainly due to an increase in term deposits by 22% (MVR907.3 million) within the year.

External Trade

Total domestic exports⁷ declined by US\$1.0 million in annual terms and totalled US\$57.0 million during Q4-2018. This was entirely due to a significant decrease in fish exports⁸, largely owing to a marked drop in the earnings from fresh or chilled yellowfin tuna and frozen skipjack tuna by 29% and 9%, respectively (Figure 12). The decline in export earnings from fresh or chilled yellowfin tuna resulted from the decrease in volume of such exports, coupled with a drop in yellowfin tuna prices in the international market during the period. As for frozen skipjack tuna, despite a sizable increase in the volume of exports, export earnings from frozen skipjack tuna declined

Figure 12: Composition of Fish Exports Earnings



Source: Maldives Customs Service

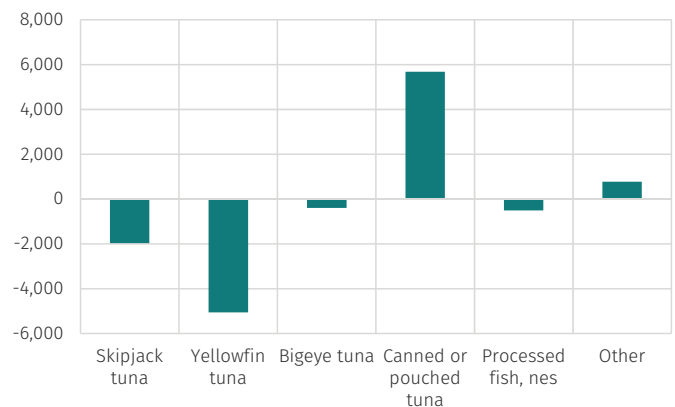
⁷ Re-export data was available only up to November 2018 at the time of compilation of the report.

⁸ Fish exports comprised 97% of all domestic exports.

markedly, entirely reflecting a fall in the price of the product in the international market. However, export earnings from canned or pouched tuna recorded a tremendous growth of 87% during the quarter, offsetting the decline in exports from other categories to a large extent (Figure 13).

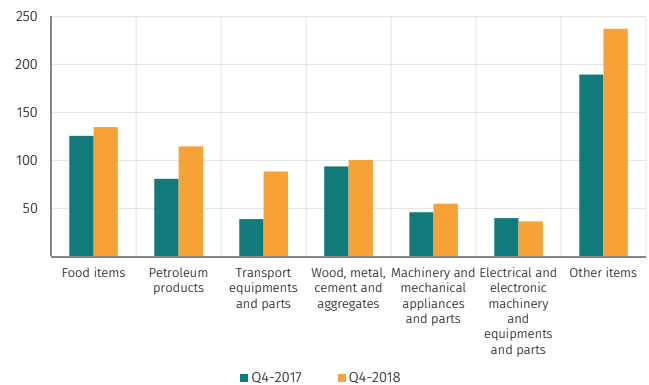
Meanwhile, the total merchandise imports (c.i.f) recorded an upsurge of 25% (US\$152.7 million) in annual terms during Q4-2018, reflecting increases in all major import categories—particularly transport equipment and petroleum products (Figure 14). As such, import expenditure on transport equipment and parts increased significantly by US\$49.6 million, due to the import of aircrafts for a new airline during the quarter. Similarly, in line with rising global oil prices, import expenditure on petroleum products—particularly diesel (marine gas oil)—posted a substantial growth of 50% during the quarter. In addition, import expenditure on furniture, fixtures and fittings; food; and machinery and mechanical appliances also contributed to the growth. Further, import expenditure on medical and surgical appliances recorded a notable surge during the period, mainly driven by the import of machinery and equipment parts for medical and surgical purposes. It is also noteworthy that import expenditure on construction-related materials—which has been increasing substantially over the past quarters—grew only marginally during Q4-2018. In contrast to these developments, import expenditure on electric and electronic machinery; equipment and; appliances declined during the quarter.

Figure 13: Annual Changes in the Value of Fish Exports, Q4-2018
(thousands of US dollars)



Source: Maldives Customs Service

Figure 14: Composition of Imports, 2017-2018
(millions of US dollars)

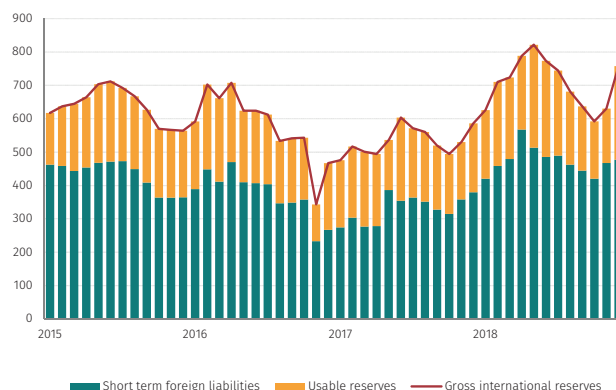


Source: Maldives Customs Service

Gross International Reserves

The Gross International Reserve (GIR⁹) stood at US\$757.8 million at the end of Q4-2018, an annual growth of 29% when compared with the corresponding quarter of 2017 (Figure 15). Meanwhile, GIR increased by 19% when compared with Q3-2018. The growth in annual GIR primarily reflected a rise in commercial banks' foreign currency deposits held at MMA while a sizable increase in usable reserves contributed to the quarterly growth in GIR.

Figure 15: Gross International Reserves, 2015-2018
(millions of US dollars)



Source: Maldives Monetary Authority

⁹ 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, 2016 - 2018

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

	2016	2017	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
Real Sector										
Tourist arrivals	4	8	4	8	5	15	17	3	4	3
Bednights	6	11	8	9	7	18	18	9	9	5
Operational capacity	8	14	13	15	16	13	11	9	7	8
Occupancy rate (%)	63	61	70	53	57	65	75	52	57	64
Average stay (days)	6.0	6.2	6.5	6.1	6.0	6.2	6.5	6.5	6.2	6.3
Fish purchases	19	42	83	53	74	4	0	(3)	3	8
Prices^{1/}										
Total (National)	0.5	2.8	3.4	4.2	2.9	0.9	0.7	(1.5)	0.4	(0.2)
Total excluding fish	0.7	3.7	3.6	7.5	2.6	1.0	0.7	(4.8)	0.3	(0.7)
Food and non-alcoholic beverages excluding fish	1.5	6.6	9.6	9.6	7.2	0.5	0.9	(4.6)	(0.5)	(4.6)
Government Securities (millions of rufiyaa)										
Government securities outstanding	23,230.2	23,414.2	23,231.7	22,930.6	21,785.6	23,414.2	23,536.5	23,571.1	23,495.0	24,262.0
Treasury bonds	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	9,248.4
Treasury bills	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	15,013.6
MMA	68.2	82.4	68.2	68.2	82.4	82.4	82.4	79.0	89.0	90.3
Commercial banks	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	9,605.5
Others	4,232.6	5,316.5	3,778.7	3,623.5	4,228.2	5,316.5	5,101.4	5,385.5	5,245.0	5,317.8
Money and Banking										
Broad money	(0)	5	(5)	(0)	(6)	5	8	3	6	3
Net foreign assets	(36)	31	(41)	(11)	(26)	31	48	9	15	2
Net domestic assets	24	(4)	22	7	6	(4)	(7)	0	2	4
Net claims on central government	18	(13)	11	(8)	(15)	(13)	(17)	(9)	(2)	5
Claims on other sectors	21	9	22	21	21	9	9	10	10	6
o/w Private sector	11	12	10	10	11	12	13	13	13	11
Reserve money	(13)	19	(16)	(9)	(1)	19	29	13	9	8
Monetary operations ^{2/}										
Open market operations ^{3/}	-	-	-	-	-	-	-	-	-	-
Overnight Deposit Facility	29	(4)	(4)	(21)	(2)	13	(6)	45	5	(27)

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 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, 2016 - 2018

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

	2016	2017	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
External Trade										
Merchandise exports (f.o.b.) ^{1/}	7	24	52	61	52	(18)	4	(18)	30	NA
Domestic exports	(3)	43	50	35	58	36	(11)	(14)	(12)	(2)
o/w Fish exports	(2)	43	51	34	60	36	(12)	(15)	(14)	(3)
Re-exports	22	2	56	126	44	(52)	29	(24)	101	NA
Merchandise imports (c.i.f.)	12	11	18	6	15	7	33	14	32	25
o/w Food	6	8	7	3	11	10	11	8	2	7
Petroleum	(13)	27	45	42	14	13	57	18	66	42
Construction-related imports	20	24	19	20	33	24	64	39	39	1
Direction of Trade of Imports of Goods (as a percentage of total) ^{2/}										
o/w Singapore	14	13	13	14	12	15	12	12	12	NA
India	13	12	12	13	12	12	11	10	9	NA
Sri Lanka	6	7	8	6	6	6	5	5	7	NA
UAE	16	18	18	19	18	18	17	21	18	NA
Thailand	5	5	4	5	5	5	4	4	3	NA
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	34	49	53	56	39	44	41	37	19	41
Sri Lanka	10	4	4	3	5	4	2	2	4	5
France	9	7	6	7	8	8	7	8	10	6
Germany	9	7	6	7	10	6	10	14	19	11
External Reserves										
Gross international reserves (millions of US dollars)	467.1	586.1	501.2	603.4	519.4	586.1	723.9	773.3	637.1	757.8

1/ Re-exports data was available only up to November 2018 at the time of compilation of this report.

2/ Direction of imports was available only up to November 2018 at the time of compilation of this report.

Sources: Ministry of Tourism, Ministry of Fisheries 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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