Quarterly Economic Bulletin

September 2016

Volume 22 Issue 3

MALDIVES MONETARY AUTHORITY

This bulletin is compiled by the Monetary Policy and Research Division of the Maldives Monetary Authority (MMA). It covers developments in the domestic and international economy during the third quarter of 2016. 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 6 November 2016. Where actual data is not readily available, estimates have been made by MPRD based on available information. The timely receipt of data is therefore crucial to the compilation of this publication and the analyses contained herein.

Contents

Abbreviations

bps	basis points
c.i.f.	cost, insurance, freight
CPI	consumer price index
f.o.b.	free on board
GDP	gross domestic product
G-GST	general goods and services tax
GIR	gross international reserves
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
M0	reserve money
M2	broad money
MMA	Maldives Monetary Authority
NCG	net claims to government
NDA	net domestic assets
NFA	net foreign assets
NPL	non-performing loan
ODF	Overnight Deposit Facility
PMI	Purchasing Managers Index
T-GST	tourism goods and services tax
UK	United Kingdom
US	United States

Recent Economic Developments

International Economic Developments

Output

According to the *World Economic Outlook* published by the International Monetary Fund (IMF) in October 2016, global growth projections for both 2016 and 2017 have been revised downward by 0.1 percentage points from the estimates made in April 2016. The revisions have mainly been concentrated in advanced countries–underlined by persistently weak demand, political discord and geopolitical tensions in several countries. However, growth in emerging markets and developing economies are expected to pick up in both 2016 and 2017, aided by the recovery in commodity prices and the signs of stabilisation in key economies such as Russia and Brazil during this period.

Looking at the growth performance of key advanced economies, the United States (US) economy accelerated to an annualised growth rate of 2.9% in Q3-2016 compared with a growth of 1.4% in Q2-2016. This marks the strongest growth since Q3-2014, buoyed by robust exports in the review quarter. The acceleration in the economy was also supported by higher investments by firms which offset a slight deceleration in consumer spending (the largest component of gross domestic product [GDP]) in Q3-2016.

Looking at preliminary GDP data for the euro area, output grew at a steady rate and recorded an annualised growth of 1.4% in Q3-2016, up from 1.2% in the previous quarter. This was also reflected in high frequency indicators such as the Economic Sentiment Indicator (ESI) which observed an improvement at the end of Q3-2016 after experiencing flat or negative growth rates during the previous three months. The improved euro area sentiment stemmed from stronger confidence in industry, retail trade and construction sectors.

Meanwhile, Japan's economic growth beat expectations and recorded an annualised growth rate of 2.2% in Q3-2016, up from 0.7% in Q2-2016. The acceleration in growth was boosted by strong exports, which rebounded following a decline in the preceding quarter. Despite the acceleration in trade, growth in other key components of the economy remained subdued during the review quarter. For example, private consumption which accounted for roughly 58% of GDP decelerated in Q3-2016, while business investment grew marginally during the same period.

On the backdrop of the Brexit vote, the United Kingdom (UK) economy eased to an annualised growth rate of 2.0% in Q3-2016 compared with 2.7% in Q2-2016. Despite the slowdown, growth performance for Q3-2016 was better than expected, supported by a robust growth in the services sector which offset the declines in other industrial groups. While the financial markets'reaction to the Brexit vote was reassuringly orderly, the wider macro-economic impact on trade and financial flows remain uncertain.

Looking at emerging markets and developing economies, the Chinese economy grew steadily at an annual rate of 6.7% during Q3-2016, maintaining the same pace as in the previous two quarters of the year. During the quarter, growth accelerated in the industrial sector and; the wholesale and retail trade sector, which offset the slowdown in the construction sector.

The Indian economy is expected to grow at a moderate level in Q3-2016 based on advanced indicators for the period. Accordingly, Purchasing Managers' Index (PMI) data for the two largest sectors of the economy—services sector and manufacturing sector—indicated an overall growth during Q3-2016. In Q3-2016, the services sector experienced an uptick in business activity, supported by higher business confidence. As for the manufacturing sector, a robust growth was observed during Q3-2016, underlined by strong exports which rose at the fastest pace in more than a year.

In Russia, the economic recession that began at the end of 2014 continues to abate amid stabilising commodity prices and a recovery in manufacturing. The Bank of Russia estimates that output will decline in annual terms by 0.4%-0.7% during Q3-2016. Looking at PMI data for the Russian economy, output in the manufacturing sector at the end of Q3-2016 grew at its fastest pace in almost two years.

Inflation

Global inflation remained stagnant and stood at 2.6% in Q3-2016 when compared with the previous quarter. Despite a recovery in global commodity prices in 2016, inflation continues to be timid as a result of persistent economic slacks. Accordingly, inflation in advanced economies remained low and recorded 0.6% in Q3-2016, a marginal growth of 0.1 percentage points over Q2-2016. As for emerging markets and developing economies, inflation decelerated slightly to 4.9% in Q3-2016.

Looking at inflation trends in the individual advanced economies, consumer price inflation in the US increased marginally to 1.1% in Q3-2016 compared with 1.0% in Q2-2016. The slight acceleration in inflation reflected higher prices for housing and medical care during the review quarter. Mirroring the rebound in oil prices, fuels and utility prices also observed a growth for the first time in four quarters, recording a growth of 0.4% in Q3-2016.

In the euro area, the rate of inflation as measured by the percentage change in the Harmonised Index of Consumer Prices (HICP) picked up marginally to 0.3% in Q3-2016 followed by -0.1% during Q2-2016. Looking at individual components, the acceleration in HICP during Q3-2016 was primarily due to increased food prices. Furthermore, the recovery in energy prices also contributed to the higher HICP. However, inflation is well below the European Central Bank's target of 2.0%, hampered mainly by the low inflation environment prevailing in euro area economies.

In the Japanese economy, inflation was negative for the second consecutive quarter and recorded a -0.5% in Q3-2016 following a -0.3% in Q2-2016. The decline in prices was due to a fall in prices of housing, utilities, furniture and transportation. Additionally, prices of food observed a considerable easing during Q3-2016. In UK, the rate of inflation picked up to 0.7% in Q3-2016 from 0.3% in Q2-2016. The increase in inflation during the review quarter was mainly due to the weaker pound sterling, which pushed up import costs during the review quarter.

Looking at emerging markets and developing economies, the rate of inflation in China eased to 2.0% in Q3-2016 from 2.4% in the previous quarter. The moderation in prices largely reflected the slowdown in food prices. Similarly, inflation in India decelerated to 5.3% in Q3-2016 compared with 6.2% in Q2-2016. The easing of prices reflected a steep decline in food prices, most notably vegetable prices.

In Russia, inflation eased from 7.4% in Q2-2016 to 6.8% in Q3-2016, the lowest recorded growth since Q1-2014. The slowdown in prices during Q3-2016 reflects weaker consumer demand, decreasing inflation expectations and relatively stable exchange rate dynamics.

Commodity Prices

The IMF commodity price index fell by 5% in annual terms during Q3-2016, reflecting the declines in metal prices and crude oil prices. However, when compared with the previous quarter, the IMF commodity price index observed an increase of 1%, pushed up by higher prices for agricultural raw materials and metal prices.

The continued decline in crude oil prices observed a significant slowdown as oil prices recorded an average of US$44.7 per barrel[1] in Q3-2016 compared with US$48.8 per barrel in Q3-2015. This reflected an annual decline of 8% in Q3-2016–the first single digit decline witnessed since Q3-2014. The recovery in oil prices during Q3-2016 was primarily due to supply disruptions and speculations of a supply cut by the Organisation of Petroleum Exporting Countries towards the end of 2016.

Looking at other major commodities, global food prices as measured by the IMF food price index, increased in annual terms by 4% in Q3-2016. The annual price increases were observed in meat and seafood which offset the declines in prices of cereals, vegetable oils and protein meals. As for industrial inputs, metal prices observed an annual decline of 1%, slowing down significantly from a decline of 15% in the previous quarter. The recovery in metal prices during Q3-2016 reflected a surge in demand for metal commodities in China, which is driven by stimulus packages aimed towards the construction sector.

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

Domestic Economic Developments

Real Economy

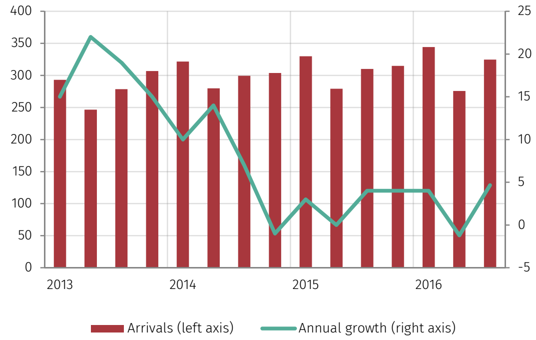
According to the latest quarterly GDP data released by the National Bureau of Statistics, the Maldivian economy continues to expand and recorded a strong growth during Q2-2016. The annual real GDP growth is estimated to have accelerated by 6.8% in Q2-2016 compared with 3.9% in the preceding quarter. The growth in GDP was almost entirely driven by increased domestic demand, although the tourism sector was observed to be slightly weakened. Domestic demand mainly stemmed from the continued robust growth in the construction sector, which grew by 12.8% during the quarter, on annual terms. However, growth in the tourism sector, which accounted for 21% of GDP in Q2-2016, weakened further and recorded a negative growth of 1.0% in annual terms, the seventh consecutive quarter of negative growth.

Tourism

Tourist arrivals to the Maldives usually start to pick momentum in July 2016 after reaching a low in April-June. Accordingly, tourist arrivals grew by 18% on quarterly terms to reach 324,623 in Q3-2016 (Figure 1). Meanwhile, the annual growth in tourist arrivals rebounded to 5% in Q3-2016 after a weak performance in the previous quarter (-1%). Arrival growth in Q3-2016 has also been better than global tourist arrivals growth, as reported by the United Nations World Tourism Organisation (UNWTO) (3.5%), but slower than arrivals to the Asia and the Pacific region (10%).

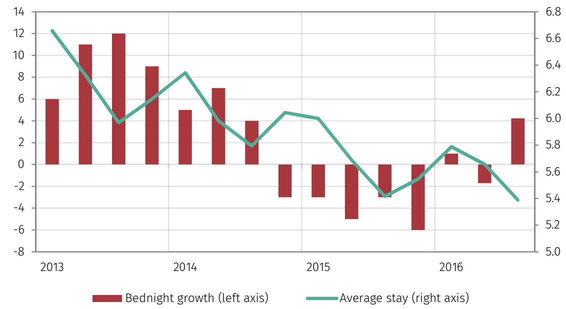
Looking at other key indicators of the tourism industry, the annual growth in bednights improved to 4% in Q3-2016 (Figure 2), reflecting the pick-up in arrivals, but this was slightly lower than the pace of growth in arrivals as the average duration of stay was maintained at 5.4

Figure 1: Quarterly Inbound Tourist Arrivals , 2013–2016
(thousands, percentage change)



Source: Ministry of Tourism

Figure 2: Quarterly Bednight Growth and Average Stay, 2013–2016
(percentage change, days)



Source: Ministry of Tourism

days during the period. With regard to supply-side indicators, the operational bed capacity increased annually by 4% and amounted to 28,135 beds during the review quarter. In Q3-2016 the average occupancy rate of tourism establishments was maintained at 67%, the same level recorded during the corresponding quarter of 2015. Meanwhile, despite the stronger arrivals growth the estimated tourism receipts during the review quarter increased only marginally by just 3% due to lower prices as part of promotional activities.

Regarding the market share of incoming tourists, the majority of tourists to the Maldives during Q3-2016 arrived from the Asia and the Pacific region, which accounted for 53% of tourist arrivals (170,752). Arrivals from the region declined during the period on the back of a significant decline (11%) in arrivals from China (31% of total arrivals and 60% of arrivals from the region) compared with the corresponding quarter of 2015. This decline was somewhat offset by the growth in arrivals from Europe—the second largest market share during Q3-2016 with a contribution of 36%—which grew by 9% compared with Q3-2015. In Q3-2016 the United Kingdom (21% of European arrivals) and Germany (18%) remained as the top generating markets from the region, followed by Italy (11%), Spain (8%) and Russia (8%). All these markets registered faster annual growth rates compared with Q3-2016.

Fisheries

Turning to the developments in other major production sectors of the economy, primary fishing activity remained sluggish during the review quarter when compared with the same period of 2015. Fish purchases by local fish processing companies, which closely correlate with fish catch, increased marginally in Q3-2016 and recorded 6,862 metric tonnes (growth of 8%) compared with 6,366 metric tonnes in Q3-2015. Additionally, fish exports data also pointed towards a weakening of activity in the review quarter, as volume of fish exports declined by 32% in Q3-2016 when compared with Q3-2015. In terms of prices of main varieties of fish exported by the Maldives, the average price of fresh yellowfin tuna increased in the international markets, while the average price of frozen skipjack tuna and big-eye tuna declined marginally during the review period[2]. Therefore, the decline in exports earnings can almost entirely be attributed to the decline in the volume of fish exports during the period, which declined despite a slight increase in total purchases by processors.

Construction

Activities in the construction sector can be gauged by looking at the developments in monthly indicators such as bank credit to the sector and construction-related imports. Both indicators showed that the sector continued to perform robustly during the review quarter, mainly due to the large infrastructure projects that are underway in 2016. During Q3-2016, construction-related imports increased by 13% while bank credit to the construction sector increased by 29%. The growth of the sector was also evident from the Quarterly Business Survey carried out by the MMA, in which majority of respondents from the construction sector indicated an increase in the volume of construction sector activity in Q3-2016 compared with the preceding quarter.

Wholesale and Retail Trade

Looking at the wholesale and retail trade sector, activity in the sector is expected to have grown further during Q3-2016 when compared with the same period a year ago. This was reflected by the 24% annual growth in commercial bank credit to the sector and the 15% annual growth in private sector imports (excluding tourism) in the review quarter

[2]Yellowfin tuna prices are based on Spain Mercamadrid Fresh market prices, skipjack prices are based on Bangkok market prices and big-eye tuna prices are based on Tokyo Metropolitan market prices.

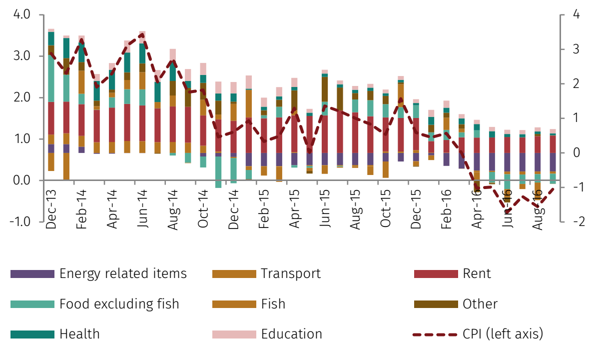
Inflation

The rate of inflation (as measured by the annual percentage change in the Consumer Price Index [CPI][3]), remained negative for the second consecutive quarter and averaged -0.4% in Q3-2016 (Figure 3). Inflation excluding the volatile fish prices stood slightly lower at -0.2%, the same as in Q2-2016, while inflation excluding the food and beverages index picked up to 0.1%. As in the previous quarter, food prices, in particular fish prices and vegetable prices continued to be the main drag on consumer prices followed by transportation prices that reflected past declines in local oil prices. Meanwhile, all other major categories of CPI contributed positively to inflation during Q3-2016.

Fish prices (the most volatile and heavily weighted component [9% of total CPI] in the food index) fell further in the review quarter owing to a decline in prices of fresh, chilled or frozen fish. As for the decline in vegetable prices, this has largely resulted from the continued decline in prices of onions, carrots, cabbages and potatoes being observed since March 2016. This reflected a decline in vegetable prices in India—which is the main source of such imports to the Maldives. In contrast, prices of fruits, another volatile component in the food index, continued its upward trend in the review quarter—owing to increased prices of citrus and dried fruits—although this was entirely offset by the declines in fish and vegetable prices.

Looking at the other major categories of the CPI, prices charged in the furnishing and household equipment category registered an increase, recording an inflation rate of 1.2%. This was due to an increase in prices of major household appliances, especially heaters and air conditioners. This entirely offset the slight decline in prices of furniture and furnishings in the review period.

Figure 3: Contribution of Sub-Categories to CPI Inflation, 2013-2016
(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

[3]Inflation analysis is based on CPI data at the national level.

Prices charged in the health sector slowed down to 1.2% on average during Q3-2016 compared with the 2.4% recorded in the previous quarter. This was entirely contributed by a price-slowdown of pharmaceutical products in the review quarter. Meanwhile, prices related to the education sector remained stagnant in Q3-2016 and registered an inflation of 4.4% in the same period. The inflation rate for all subcategories in the education sector remained unchanged when compared with the previous quarter. However, it is noteworthy that the most significant inflation rates were observed for post-secondary education sector and; pre-primary and primary education sectors with rates of 8.1% and 6.1%, respectively.

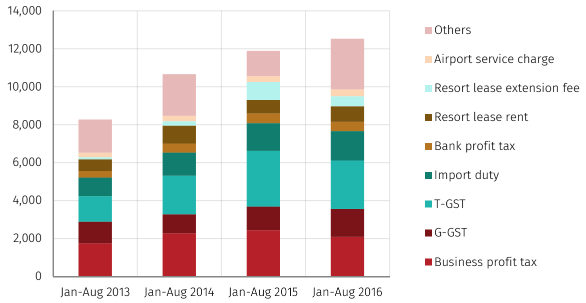
As for prices in the housing and utilities category, while housing rentals increased by 3.9% in the review quarter, prices of energy-related items in this category, such as electricity, gas and other fuels registered a decline of 7.3%. Hence, this resulted in an overall stagnant price growth for this category.

Public Finance

The latest data from the Ministry of Finance and Treasury[4] depict that an estimated 58% of the total revenue budgeted for the year 2016 was realised by the end of August 2016, while 53% of the budgeted expenditure was spent by the end of the period. Total revenue (excluding grants) rose to MVR12.5 billion during the period Jan-Aug 2016 (Figure 4), which is an increase of MVR641.2 million (5% increase) compared with the corresponding period of 2015. The increase in total revenue was owing to growth in both tax and non-tax revenue during the period.

Tax revenue, which accounted for 74% of total revenue during Jan-Aug 2016, showed an increase

Figure 4: Breakdown of Revenue (Excluding Grants), 2013-2016
(millions of rufiyaa)



Source: Ministry of Finance and Treasury

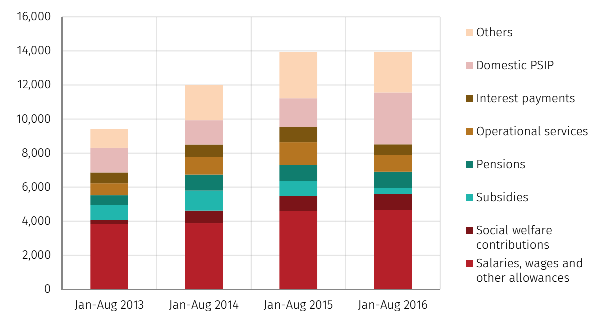
[4]Monthly income and expenditure data are subject to change and may vary in different publication cycles as the Public Accounting System data is frequently updated. Data for the period Jan-Aug is based on information available as at 21 September 2016.

of MVR230.1 million (3% increase) when compared with the corresponding period of 2015. The growth was driven by increased receipts from green tax[5] and general goods and services tax (G-GST). However, it is noteworthy that receipts from tourism goods and services tax (T-GST) recorded a marked decline by MVR371.0 million when compared with the corresponding period of 2015. The fall in T-GST receipts was mainly owing to weaker performance of the tourism sector. As for non-tax revenue, which accounted for 26% of total revenue during the period, it depicted an increase of MVR426.8 million (15% increase). The main contributors to the growth were receipts from land acquisition and conversion fees, profit transfers from State Owned Enterprises (SOEs) and resort lease rent.

With regard to total expenditure (excluding debt amortisation), it reached MVR13.9 billion during Jan-Aug 2016 (Figure 5), which is a slight increase of MVR23.6 million when compared with Jan-Aug 2015. The increase in total expenditure reflected the significant growth in capital expenditure during the period which almost entirely offset the decline in recurrent expenditure. Capital expenditure (accounting for 29% of total expenditure) increased by MVR1.5 billion (43% increase) during the period. The growth in capital expenditure was largely contributed by an increase in expenditure on the Public Sector Investment Program. This mainly included the Male' redevelopment projects. This was followed by growth in expenditure on airport upgrade and roads, harbor and bridge projects.

Recurrent expenditure (accounting for 71% of total expenditure) declined by MVR1.3 billion (12% decline) during the period. The main contributors to the decline were subsidies, operational services and interest payments. The decrease in subsidies was almost entirely due to the decrease

Figure 5: Expenditure Breakdown, 2013-2016
(millions of rufiyaa)



Source: Ministry of Finance and Treasury
Note: Pensions include expenditure on two budget codes: pensions and "other benefits and gratuities".

[5]Green tax was introduced in November 2015.

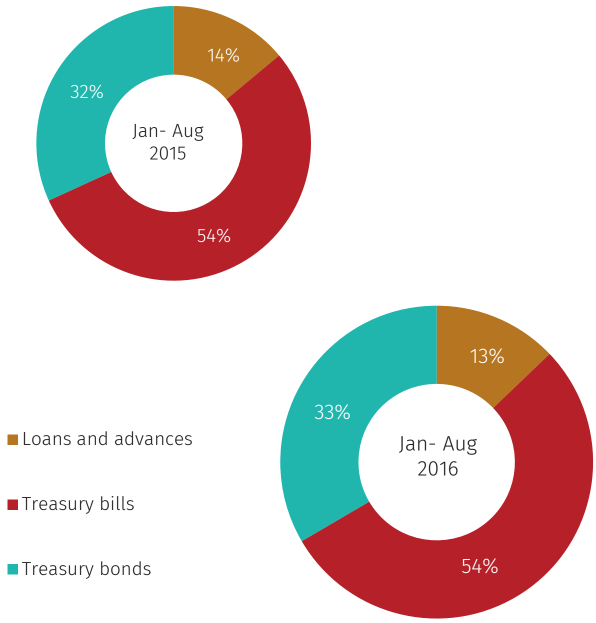
in electricity subsidy following the abolishment of such subsidies from March 2016 onwards. The decline in expenditure on operational services was mainly owing to a decrease in the electricity cost, reflecting the cut down in official working hours of the government effective from Q4-2015. As for interest payments of the government, the decrease during the period was owing to a decline in treasury bills interest payments.

With regard to the financing data for Jan-Aug 2016, the total stock of domestic claims[6] –which includes treasury bills, treasury bonds and loans and advances to the government - increased to MVR24.7 billion at the end of August 2016 from MVR21.9 billion at the end of August 2015. The growth of domestic claims depicted a net borrowing of MVR2.8 billion during Jan-Aug 2016 compared with MVR2.0 billion during the corresponding period of 2015.

Looking at the sources of financing, the outstanding stock of government securities reached MVR21.5 billion at the end of August 2016, indicating a net issuance of MVR2.7 billion during Jan-Aug 2016. This indicated that total domestic financing during the period was almost entirely through the issuance of government securities. Treasury bills issuance remained the largest source of domestic borrowing, followed closely by treasury bonds (Figure 6). Commercial banks remained the largest investor in treasury bills, with such investments increasing by MVR2.0 billion during Jan-Aug 2016 (Figure 7). The increase in government securities were also contributed by a MVR1.3 billion net issuance of treasury bonds during Jan-Aug 2016 when compared with the corresponding period of 2015. The increase in treasury bonds depicted the conversion of part of the treasury bills held by the pension fund to treasury bonds. Further, the issuance of a treasury bond to a commercial bank within the past year also contributed to the growth.

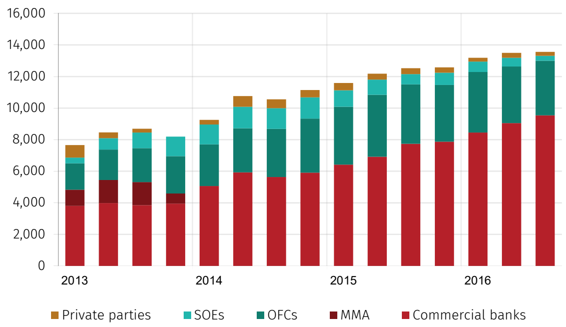
[6]Excluding publicly guaranteed debt and external financing.

Figure 6: Composition of Domestic Claims on Government, 2015-2016



Source: Maldives Monetary Authority

Figure 7: Treasury Bills by Holder, 2013-2016
(millions of rufiyaa)



Source: Maldives Monetary Authority

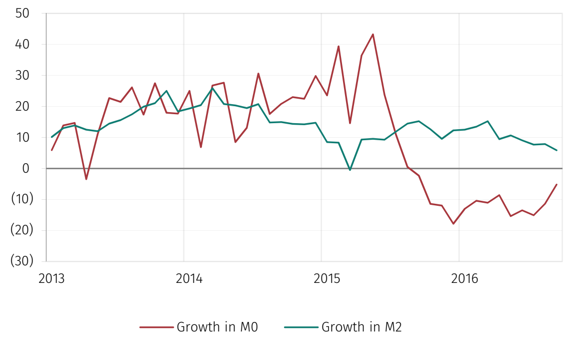
As for loans and advances to the government, only a modest increase of MVR116.5 million was recorded during Jan-Aug 2016. Total loans and advances to the government stood at MVR3.2 billion at the end of the period.

Money and Banking

Looking at the developments in monetary aggregates, reserve money (M0) registered an annual decline of 5% at the end of September 2016 (Figure 8) and amounted to MVR9.9 billion. However, the pace of decline in M0 slowed down when compared with the 14% recorded at the end of June 2016. The decline in M0 solely resulted from a fall in net foreign assets (NFA) of the MMA, which was partly offset by an increase in the net domestic assets (NDA) in the review period. Accordingly, the NFA of the MMA declined to 15% at the end of September 2016 from 14% at the end of June 2016. This was largely due to an increase in foreign currency liabilities of the MMA. As for the annual growth in NDA of the MMA, it was mainly on account of a fall in MMA's liabilities to the central government, which resulted from a decline in government deposits at the MMA. However, it is noteworthy that the increase in MMA's domestic claims was partly offset by a growth in total liquidity absorbed by MMA's monetary operations via the MMA's Overnight Deposit Facility (ODF). The MMA absorbed MVR2.9 billion on average during Q3-2016 via the ODF, which is an increase of MVR405.2 million when compared with the same period the previous year.

Meanwhile, the annual broad money (M2) growth decelerated to 6% at the end of September 2016 and stood at MVR31.8 billion when compared with the 9% growth recorded at the end of June 2016. On the components side, the main contributor to the slowdown in M2 was a slower annual growth in quasi money driven by the 3% annual decline in foreign currency demand deposits.

Figure 8: Changes in Reserve Money and Broad Money, 2013-2016
(annual percentage change)



Source: Maldives Monetary Authority

Looking at the counterparts of M2, the annual deceleration in M2 was entirely due to a slowdown in the annual growth of NDA of the banking system. Meanwhile, the annual decline in NFA of the banking system slowed down to 12% at the end of Q3-2016 from 16% at the end of Q2-2016. The slower growth in NDA was attributed to a deceleration in the decline in commercial banks' balances at the MMA, together with a slower expansion in credit extended to the private sector. With regard to the decline in NFA of the banking system, it largely reflected a decline in NFA of the MMA.

Delving into the developments of different components of NDA, net claims on central government (NCG) of the banking system rose by 28% on annual terms and stood at MVR13.2 billion reflecting a slight acceleration when compared with the 27% recorded at the end of June 2016. This largely resulted from a decline in liabilities to the central government owing to a fall in government deposits at the MMA. On the asset side, the claims on central government by the banking system grew at a slower pace at the end of Q3-2016 compared with a year ago. This was mainly contributed by a slowdown in treasury bills investments by commercial banks from 37% at the end of September 2015 to 23% at the end of September 2016.

With regard to the annual growth of credit to the private sector by the commercial banks, it decelerated from 20% at the end of June 2016 to 15% at the end of September 2016. This was due to a slowdown in credit extended to the tourism sector (39% of total private sector credit), especially for working capital. However, credit extended for new resort development showed an improvement in the review period when compared with Q2-2016. Looking at other sectors, credit extended to the construction sector remained strong and continued its upward trend, registering an annual growth of 29% (MVR699.4 million) at the end of Q3-2016. This was entirely fuelled by credit extended for residential housing. Similarly, credit extended to commerce and transport sectors also registered annual growths of MVR679.0 million and MVR509.8 million, respectively.

With regard to the rates on loans and advances to the private sector, rates on local currency loans registered declines of 62 bps and 18 bps at the end of September 2016 when compared with June 2016 and September 2015, respectively. However, rates on foreign currency loans registered increases of 21 bps and 42 bps when compared with June 2016 and a year ago.

Banking Sector Performance

During Q3-2016, "Commercial Bank of Maldives" was opened and with this, there are a total of eight commercial banks currently operating in the Maldives.

Looking at the developments in the key indicators of the sector for Q3-2016, net assets of the commercial banks rose by 12% on annual terms and amounted to MVR44.8 billion. This reflected an annual growth in commercial banks' deposit base which rose by 9%, reaching MVR31.8 billion. Looking at the composition of net assets, net loans and investment in treasury bills rose by 22% and 25%, respectively, and contributed significantly to the increase in net assets during the review period.

As for the asset quality of the banks, non-performing loans (NPL) followed a downward trend over the past three quarters and registered an annual decline of 21% at the end of Q3-2016. Consequently, NPL ratio improved significantly and recorded 11% at the end of the review period from 15% a year ago. Furthermore, it is noteworthy that credit risk was mitigated by a high level of loan loss provisions that fully cover the NPLs. With regard to the composition of loans, 36% of the total loans were granted to tourism sector while commerce and construction sectors followed 19% and 15%, respectively.

The capital adequacy of the banking sector remained strong, with capital ratios being well above the minimum requirements. Accordingly, the total risk-weighted capital ratio of the banking sector stood at 42% at the end of the review period, representing a high proportion of low risk assets in the commercial banks' portfolio.

As for the profitability of the industry, the pre-tax profits earned by the commercial banks during Q3-2016 amounted to MVR2.1 billion, which represented an annual increase of 62%. This was mainly due to the reversal of loan loss provisions resulting from loan recoveries, as well as due to a growth in interest income from increased lending.

External Trade

During the review quarter, the total merchandise exports (f.o.b) fell by 28% (US$14.9 million) in annual terms and totaled US$38.0 million. This reflected the annual declines in both domestic exports and re-exports, which fell by 27% (US$8.7 million) and 30% (US$6.3 million), respectively. The annual fall in re-exports—which mainly consists of jet fuel sold to international aircrafts at the Ibrahim Nasir International Airport—largely reflected the past decline in global oil prices.

The annual decline in domestic exports during Q3-2016 was largely on account of a significant fall in earnings from fresh or chilled yellowfin tuna (Figure 9), which declined by 45% in annual terms. This has been attributed to the steep decline in the volume of such exports despite a recovery in international yellowfin tuna prices during the review period. Meanwhile, earnings from frozen skipjack tuna—which accounted for 27% of fish exports—also decreased by 33% in Q3-2016 when compared with Q3-2015. This decline was due to the sharp fall in volume of such exports coupled with a slight drop in international skipjack tuna prices during the period. Furthermore, the fall in earnings from dried skipjack tuna also contributed to the decline in earnings from domestic exports during the review period. In contrast, earnings from other major categories of fish exports (Figure 10), which includes earnings from big-eye tuna, canned or pouched tuna and fish excluding tuna, rose during Q3-2016 when compared to the same quarter a year ago.

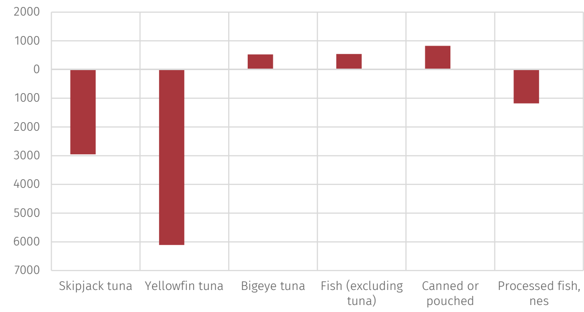
The expenditure on imports (c.i.f) increased by 6% (US$28.5 million) on an annual basis and summed US$500.7 million during Q3-2016. The increase was largely contributed by the growth in imports of machinery and mechanical appliances and parts, which rose by 51% from a year ago. This is attributed to the large infrastructure projects that are underway during the current year. Mirroring the continued growth in the construction sector, imports of wood, metal, cement and aggregates increased by 13% during Q3-2016, in annual terms (Figure 11). Furthermore, the 48% annual growth in imports of furniture, fixtures and fittings also contributed to the overall increase in the value of imports. Meanwhile food items, which hold the largest share of imports (20% share of the total imports Q3-2016) rose marginally by 2% in annual terms, during the review quarter. Additionally, in line with lower global oil prices, the import value of petroleum products declined by 13% when compared with the corresponding period of 2015.

Direction of Trade

Asia and Europe remained the main destination of exports, accounting for 51% and 42% of total export earning in Q3-2016, respectively. Exports to Asia fell in annual terms, largely due to the decline in exports to Thailand, which holds the largest share of exports to Asia (62% of exports to Asia). Main exports to Thailand include frozen skipjack tuna and yellowfin tuna—export earnings from both categories fell over the review quarter. The second major export market within Asia remained Sri Lanka (18%) during Q3-2016, with the bulk of exports being dried skipjack tuna and fresh or chilled yellowfin tuna. Meanwhile export earnings from Europe declined in annual terms in Q3-2016, mainly due to the fall in earnings from fresh or chilled yellowfin tuna exports to the region. The main export markets within Europe were France (20% of exports to Europe), U.K (18%), Germany (16%) and Italy (11%), during the review quarter. The main exports to these countries included fresh or chilled yellowfin tuna except for U.K, where canned or pouched tuna were the main exports.

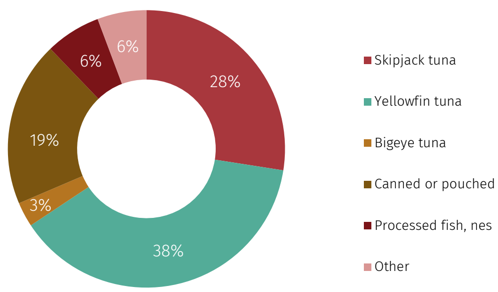
Looking at the direction of imports, Asia was the largest source of imports with a share of 79% of total imports, followed by Europe with a share of 13% during Q3-2016. Main source countries of imports from Asia were United Arab Emirates (UAE) (18% of imports to Asia), Singapore (18%), India (16%) and China (14%). Similar to previous quarters, UAE remained the major supplier of petroleum products in Q3-2016, especially diesel (marine gas oil). Main imports from Singapore were wood, metal, cement and aggregates; machinery and mechanical appliances; and petroleum products. However, the share of imports of petroleum products from Singapore declined significantly during the review quarter. Meanwhile, food items, particularly staples, were the main imports from India during the review quarter. As for imports from China, construction sector-related imports were the major imports in Q3-2016.

Figure 9: Annual Changes in the Value of Fish Exports, Q3-2016
(thousands of US dollars)



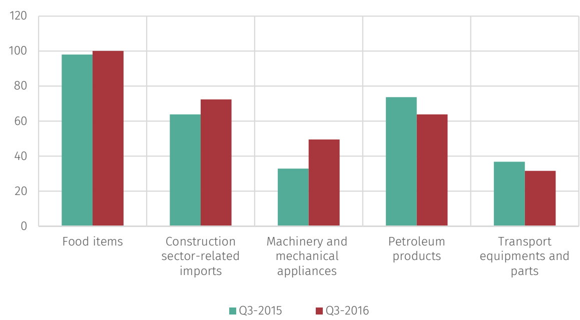
Source: Maldives Customs Service

Figure 10: Composition of Fish Exports Earnings, Q3-2016



Source: Maldives Customs Service

Figure 11: Composition of Imports, 2015-2016
(millions of US dollars)



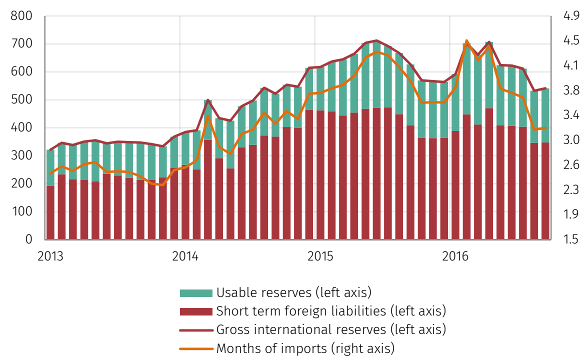
Source: Maldives Customs Service

Gross International Reserves

The Gross International Reserves[7] (GIR) stood at US$541.4 million at the end of September 2016, registering an annual decline of 14% and a quarterly decline of 13% (Figure 12). Meanwhile, the usable reserves[8] component of the GIR amounted to US$193.8 million at the end of September 2016, which was a decrease of 11% when compared with September 2015 and a decrease of 10% when compared with June 2016. The annual and quarterly decline in usable reserves during the review quarter has been largely attributable to the increase in foreign currency sales to the market.

Reflecting the decline in gross international reserves together with the increase in imports, reserves as measured by months of imports decreased to 3.2 months at the end of September 2016 from 3.9 months at the end of September 2015.

Figure 12: Gross International Reserves and Months of Imports, 2013-2016
(millions of US dollars)



Source: Maldives Customs Service

Exchange Rates

With effect from 11 April 2011, the Maldivian rufiyaa was allowed to fluctuate within a horizontal band of 20% on either side of a central parity of MVR12.85 per US dollar. With the introduction of the exchange rate band, the exchange rate of the rufiyaa per US dollar moved towards the upper limit of the band, owing to the persistent foreign exchange pressure in the economy.

Mirroring the movements of the US dollar against the major trading partners of the Maldives at the end of September 2016, the bilateral exchange rates

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

[8]Usable reserves = Gross international reserves — Short-term foreign liabilities. This shows the amount of funds readily available for use by the MMA in the foreign exchange intervention.

of the rufiyaa appreciated in annual terms against the pound sterling by 14%, the Chinese yuan by 5%, the Indian rupee by 1% and the Sri Lankan rupee by 3% while it depreciated against the Japanese yen by 18% and the Singapore dollar by 5%. Meanwhile, the rufiyaa remained unchanged against the euro during this period.

When compared with June 2016, the rufiyaa appreciated against the pound sterling by 3% and the Singapore dollar by 1%. During the review period, the rufiyaa depreciated against the euro and the Japanese yen both by 1% and the Indian rupee by 2%, while it largely remained unchanged against the Chinese yuan and the Sri Lankan rupee.

Statistical Appendix

Table of Selected Economic Indicators, 2013–2016

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

	2013	2014	2015	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3
Real Sector										
Tourist arrivals	17	7	2	3	(0)	4	4	4	(1)	5
Tourist bednights	9	3	(4)	(3)	(5)	(3)	(6)	1	(2)	4
Operational capacity	4	3	3	3	3	1	4	2	4	4
Occupancy rate (%)	74	74	69	79	63	67	67	77	60	67
Average stay (days)	6.3	6.0	5.7	6.0	5.7	5.4	5.5	5.8	5.7	5.4
Fish purchases	27	(20)	(10)	8	(32)	(26)	8	(14)	18	8
Prices[1/]										
Total (Republic)	-	2.1	1.0	0.5	1.1	1.1	1.1	0.9	(0.4)	(0.4)
Total excluding fish	-	2.2	1.1	0.6	1.1	1.3	1.3	0.9	(0.2)	(0.2)
Food and non-alcoholic beverages excluding fish	-	0.3	0.9	(0.5)	0.4	1.6	2.1	1.1	(1.0)	(1.4)
Government Securities (millions of rufiyaa)										
Government securities outstanding	11,330.9	17,586.9	20,001.6	18,011.3	18,583.7	19,500.5	20,001.6	20,587.0	21,383.4	21,818.8
T-bonds	3,136.6	6,440.5	7,419.6	6,423.2	6,406.3	6,977.3	7,419.6	7,402.4	7,888.1	8,260.2
T-bills	8,194.3	11,146.4	12,582.0	11,588.1	12,177.4	12,523.2	12,582.0	13,184.7	13,495.3	13,558.6
MMA	634.0	-	-	-	-	-	-	-	-	-
Commercial banks	3,952.1	5,908.5	7,875.9	6,414.5	6,913.6	7,734.2	7,875.9	8,451.8	9,047.6	9,542.9
Others	3,608.2	5,237.9	4,706.1	5,173.6	5,263.8	4,789.0	4,706.1	4,732.9	4,447.7	4,015.7
Money and Banking										
Broad money	18	15	12	(0)	9	15	12	15	9	6
Net foreign assets	68	42	(2)	1	21	17	(2)	2	(16)	(12)
Net domestic assets	1	(2)	24	(2)	(0)	14	24	28	34	20
Net claims on central government	13	7	23	5	6	18	23	29	27	28
Claims on other sectors	0	2	11	(1)	(0)	3	11	16	20	12
o/w Private sector	1	3	11	2	1	3	11	16	20	15
Reserve money	18	30	(18)	15	24	(2)	(18)	(11)	(14)	(5)
Market operations[2/]										
Open market operations[3/]	110	52	-	-	-	-	-	-	-	-
Overnight Deposit Facility	27	227	121	579	84	82	93	70	46	16

[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 average investment.

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

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

Table of Selected Economic Indicators, 2013–2016

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

	2013	2014	2015	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3
External Trade										
Merchandise exports (f.o.b.)	5	(9)	(20)	(10)	(16)	(19)	(36)	(22)	(16)	(28)
Domestic exports	3	(13)	(0)	12	(8)	10	(12)	(11)	1	(27)
o/w Fish exports	3	(14)	(1)	10	(9)	9	(12)	(10)	3	(28)
Re-exports	8	(5)	(39)	(27)	(26)	(43)	(58)	(36)	(41)	(30)
Merchandise imports (c.i.f.)	12	15	(5)	6	(10)	(8)	(7)	(2)	28	6
o/w Food	19	8	(0)	3	(1)	1	(4)	7	7	2
Petroleum	3	14	(50)	(50)	(48)	(54)	(48)	(41)	(13)	(13)
Construction-related imports	(3)	24	42	25	56	44	43	30	19	13
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	16	18	17	15	19	18	17	15	15	15
India	9	9	12	10	13	12	13	13	13	13
Sri Lanka	6	7	7	6	7	8	7	7	6	6
UAE	28	24	17	16	18	16	17	15	14	15
Thailand	5	4	5	4	5	5	5	5	5	5
Direction of Trade of Exports of Goods (as a percentage of total)										
o/w Thailand	37	32	25	26	26	34	16	24	30	32
Sri Lanka	6	6	12	10	12	12	14	12	13	9
France	13	14	10	10	12	9	11	9	10	8
Germany	6	7	7	6	8	6	8	10	9	7
External Reserves										
Gross international reserves (millions of US dollars)	368.3	614.7	564.0	644.9	712.2	627.2	564.0	661.4	622.6	541.4
Months of imports	2.5	3.7	3.6	3.8	4.3	3.9	3.6	4.2	3.7	3.2

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

MALDIVES MONETARY AUTHORITY

Boduthakurufaanu Magu
Male' - 20182
Republic of Maldives
Tel: (960) 3312343
Fax: (960) 3323862
Email: mail@mma.gov.mv
Website: www.mma.gov.mv