Quarterly Economic Bulletin

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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 third quarter of 2017. 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 23 November 2017. 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

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

Recent Economic Developments

International Economic Developments

Output

The global economy continues to gather strength as the cyclical upswing that began in the second half of 2016 continued into the first half of 2017. Global output growth[1] for both 2017 and 2018 are revised upward by 0.1 percentage points, in comparison with the estimates made in July 2017. Hence, the growth projections for 2017 and 2018 now stand at 3.6% and 3.7%, respectively. Growth is bolstered by strong pickups in investments, trade, industrial production together with higher business and consumer confidence. These revisions are broad-based across countries and better-than-expected growth outturns in the euro area, Japan, emerging Europe, emerging Asia and Russia helped to more than offset the downward revisions for the United States (US) and the United Kingdom (UK).

Looking at the advanced economies, the US economy accelerated despite the hurricane-related slowdown, which caused minor disruptions in consumer spending. The economy expanded at an annualised growth rate of 3.0% in Q3-2017, a slight deceleration when compared with a 3.1% recorded at the end of Q2-2017. Growth was boosted by buoyant inventory investment, while personal consumption expenditure (PCE)—the main driver of the economy—also contributed considerably to real GDP growth. The growth in PCE was largely due to the tightening in labour market as unemployment rate further declined coupled with increased consumer confidence. These positive developments were slightly offset by a decrease in housing investment and imports.

Preliminary GDP data for the euro area showed a remarkable performance in the region, with an annualised growth of 2.5% in Q3-2017, up from 2.3% in the previous quarter. Growth continued to be driven by strong domestic consumption and labour market improvements as unemployment rate in the region declined. Further, the Economic Sentiment Indicator (ESI) also pointed towards an improved performance as confidence across all economic sectors showed an upward trend. Looking at the main economies in the region, Germany maintained its strong growth on the back of buoyant export demand and robust industrial activity. Growth in France accelerated further, fuelled by the increase in consumer spending and business investment. Similarly, domestic demand continued to support growth in Spain although growth momentum slowed slightly, when compared with the preceding quarter, due to a deceleration in external demand. Meanwhile, economic activity in Italy improved further because of a strong recovery in the manufacturing sector and labour markets.

1 International Monetary Fund (IMF), 'World Economic Outlook (WEO) October 2017'.

In Japan, economic growth outperformed expectations and recorded an annualised growth rate of 1.4% in Q3-2017, although this was a deceleration when compared with the previous quarter. Growth was driven by a strong rebound in exports due to the depreciation of the Japanese yen in the global market. Despite the acceleration in trade, growth in other key drivers of the economy slowed during the quarter. Private consumption which accounted for roughly 56% of GDP declined in Q3-2017.

Meanwhile, the UK economy recorded a modest growth of 1.5% during the quarter. Growth was driven by the services sector, which accounts for 80% of GDP, and the manufacturing sector. However, the economy continues to underperform because of the weakening in the construction sector due to lower productivity.

Looking at the emerging markets and developing economies, the Chinese economy grew steadily at a growth rate of 6.8% during Q3-2017, which is well above the projected target of 6.5% set by the Chinese authorities for the year. However, this was a slight deceleration when compared with the growth rate of 6.9% recorded in the preceding two quarters. Growth during the quarter stemmed from external demand as stronger global performances boosted exports. Moreover, domestic demand continued to strengthen against the background of it rebalancing efforts as shown by higher retail sales during the quarter.

Similar to the first half of the year, Russia maintained its robust growth in Q3-2017, fuelled by strong investment and consumption. The firming of global oil prices and the improved performance of Russian ruble in the global market supported investment, while real wage growth and improvements in labour market conditions contributed to the upturn in domestic consumption.

In India, a mixed performance was observed during the quarter. While the negative impact of demonetisation which resulted in temporary cash shortages and payment disruptions continues to wane, it was again hit by another setback from the introduction of the goods and services tax (GST) in July. As indicated by the Purchasing Managers Index (PMI), manufacturing sector contracted at the beginning of the quarter although it rebounded towards the end of the quarter. Moreover, the recovery of the service sector was much slower and stalled until September 2017. Nevertheless, activity gained momentum towards the latter part of the quarter as strong domestic demand provided impetus to both manufacturing and services sector.

Inflation

Following a softening towards the end of the first half of 2017, global inflation has started to pick up during Q3-2017, largely reflecting the strong recovery in energy prices. Headline inflation in most of the advanced economies accelerated, while core inflation continues to be timid and remains below the central banks’ target. Across emerging markets and developing economies, inflation generally moderated during the quarter, mostly because of the waning pass-through effects from earlier exchange rate depreciations.

Looking at the price developments in the advanced economies, inflation in the US accelerated slightly to 2.0% during the quarter from 1.9% in the preceding quarter. Inflation rose towards the end of the quarter due to a temporary hike in gasoline prices following the hurricanes. Moreover, prices of transportation services and housing also contributed to the growth in prices although food prices moderated over the period.

In the euro area, the rate of inflation as measured by the annual change in the Harmonised Index of Consumer Prices (HICP) eased to 1.4% during Q3-2017, a marginal deceleration from the previous quarter. Inflation in the region continued to be driven by the increase in energy-related items such as transport fuels, while price of accommodation services also observed a hike during the period. However, this was largely offset by a decline in prices of telecommunication.

In Japan, inflation accelerated slightly to 0.6% during Q3-2017, recording a positive inflation rate for the fourth consecutive quarter. However, the growth in prices remains far below the Bank of Japan's target rate of inflation. The slight increase in inflation was driven by a rise in the prices of energy-related items such as fuel, gas and utilities, together with a slight increase in prices of food and medical care. The growth in the prices was partly offset by a decline in prices of housing and rent over the period.

The annual rate of inflation in the UK rose further to 2.7% in Q3-2017, reflecting the global pick up in energy prices coupled with the rise in import prices following the depreciation of the pound sterling. The sharp increase in inflation was concentrated across all major categories including transport; housing and household services; and food and non-alcoholic beverages.

Looking at the emerging markets and developing economies, the rate of inflation in China eased slightly to 1.6% in comparison with the previous quarter and also remained far off from the 3% inflation target set by the Chinese Central Bank for the year. The easing of prices was largely attributed to a muted growth in food prices stemmed from the weaker meat prices throughout the year. The sluggish growth in transportation prices also contributed to this deceleration, while price of medical care observed a substantial increase during the quarter.

In India, inflation overturned in Q3-2017 after decelerating towards the end of the preceding quarter. While general commodity prices has increased due to the pass through effect of GST (introduced in July 2017), rising housing prices also caused a major surge in price growth during the period. Moreover, prices of oil-related items increased against the background of global pick up in oil prices.

Meanwhile, Inflation in Russia stood at 3.4% in Q3-2017, a substantial slowdown compared with the preceding quarter. This marked a remarkable development as inflation level slipped below the target set by the Central Bank of Russia. This deceleration was mainly driven by softer food prices because of a bumper crop. Moreover, lower non-food prices owing to a stronger ruble in the global market also contributed to the slowdown in prices during the quarter.

Commodity Prices

Global commodity prices observed a marked annual increase according to the World Bank commodity price index in Q3-2017, largely reflecting the increase in energy prices stemming from higher oil prices. Non-energy prices contributed to the price growth moderately during the period as a considerable recovery in metal prices was largely offset by a fall in food prices. In quarterly terms, both energy and non-energy prices showed a modest growth.

Prices of crude oil recorded an average of US$50.2 per barrel[2] in Q3-2017, which is an annual growth of 14%. After bottoming out in the early part of 2016, global oil prices have been on a rising trend due to both supply side factors and better-than-expected global demand. Higher prices during the period largely reflected the decision to cut oil production by the Organisation of Petroleum Exporting Countries (OPEC) and some non-OPEC producers towards the end of 2016 and the geopolitical tensions in the Middle East that led to disruptions in oil supply. Additionally, prices during the quarter were influenced by the fall in inventories because of strong global demand and lower distillate stock in the US due to Hurricane Harvey. On the demand side, crude oil prices were pushed up by better-than-expected global demand from the advanced economies, mostly from the US and Europe. Meanwhile, demand from China grew amid improving economic outlook in the world economy.

Looking at major commodities in the non-energy group, global food prices as measured by the World Bank food price index decreased by 4% in annual terms during Q3-2017. Major declines in food prices were observed for meat, sugar and oils. In contrast, prices of grains such as rice and wheat increased during the period. As for industrial inputs, metal prices which have been trending upward since 2016 showed an annual growth of 26% during the quarter. The upsurge in metal prices during the quarter reflected strong demand for metal commodities, particularly in China, and supply bottlenecks.

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

Domestic Economic Developments

Real Economy

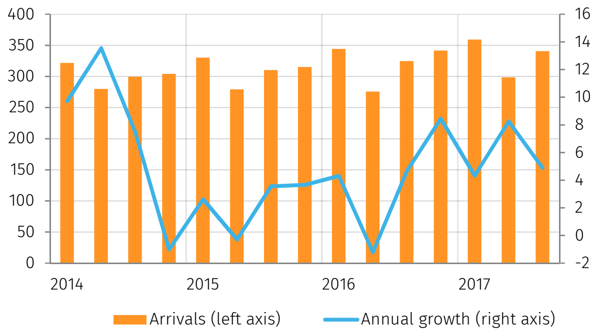
Tourism

Activity in the tourism sector started to pick up during the third quarter of the year after a slowdown in the previous quarter, reflecting the seasonal pattern of the sector. Accordingly, tourist arrivals grew by 14% in quarterly terms to reach 340,469 in Q3-2017. In annual terms, tourist arrivals registered a 5% increase, maintaining the same pace of growth when compared with the corresponding quarter of 2016 (Figure 1). The annual growth in arrivals was largely due to a significant increase in arrivals from Europe, followed by the Americas and the Asia and Pacific region. Russia, Germany, Italy and Spain were the main contributors to the growth in arrivals from Europe, while the US dominated the Americas region during the quarter. On the other hand, growth in arrivals from the Asia and Pacific region, stemming from higher arrivals from India and Thailand during the quarter was largely offset by the sizeable decline in arrivals from China.

Looking at other key indicators of the sector, the annual growth in resort bednights recorded a strong growth of 6% during the quarter, reflecting higher arrivals coupled with a slight increase in the

Figure 1: Quarterly Inbound Tourist Arrivals , 2014–2017

(thousands, annual percentage change)



Source: Ministry of Tourism

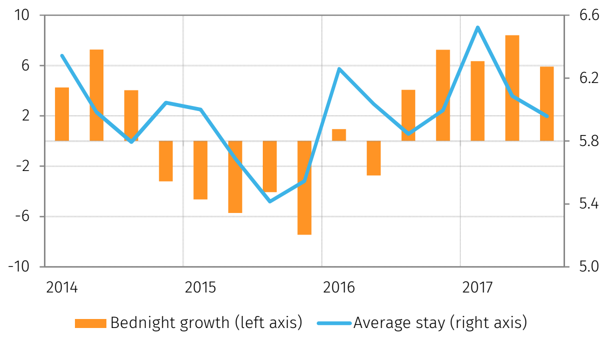
average duration of stay which recorded 6.0 days in Q3-2017 (Figure 2). However, total tourism receipts for the quarter are estimated to have dropped by 2% in annual terms, which can be attributed to a reduction in the sector prices.

On the supply side, the operational bed capacity of resorts increased annually by 15% and totalled 27,955 beds during the review quarter, largely reflecting the opening of 13 new resorts. Mirroring these developments, the average occupancy rate of resorts fell to 68% in Q3-2017 from 73% in the corresponding quarter of 2016.

With regard to the market share by region, the majority of tourists to the Maldives during Q3-2017 arrived from the Asia and Pacific region, which accounted for 51% of total arrivals. Despite being the largest source market, the growth of arrivals from the Asia and Pacific region registered a marginal growth of 1% in annual terms. Similar to previous years, China remained as the main market from the region and accounted for 28% of total tourist arrivals during the quarter. Other main markets from the region were India, Japan and Thailand. Arrivals from India, Japan and Thailand increased while arrivals from China decreased significantly in annual terms. Meanwhile, tourist arrivals from Europe —the second largest market with a market share of 38%—grew by 10% in annual terms. The UK (18% arrivals from European region) and Germany (17%) remained as the top generating markets from the region, followed by

Figure 2: Quarterly Bednight Growth of resorts and Average Stay, 2014–2017

(annual percentage change, days)



Source: Ministry of Tourism

Italy (11%), Russia (9%) and Spain (8%). All these markets registered an increase with the exception of the UK, which recorded a slight decline.

Fisheries

Turning to the developments in the fisheries sector, primary fishing activity remained weak during the quarter when compared with the first two quarters of the year, as indicated by the quarterly drop in fish purchases by fish processing companies. The decline was attributed to lower fishing activity because of the wet monsoon period. However, fish purchases posted a strong annual growth of 38% during the quarter and recorded 9,985 metric tonnes. This was driven by a significant increase in both skipjack tuna and yellowfin tuna purchases during the quarter.

On the export front, developments in fish exports also remained buoyant during the period, registering annual increase of 58% in the volume of fish exports. The volume of fish exports rose due to higher volumes from frozen skipjack tuna, fresh or chilled yellowfin tuna and frozen yellowfin tuna exports.

Construction

In line with the current trend in the construction sector, the sector continued to perform robustly in Q3-2017, as indicated by the increase in both bank credit to the sector and construction-related imports—key indicators to measure the performance of the sector. Commercial bank credit to the construction sector rose by 22% in annual terms, largely owing to increases in loans for residential housing, new resort development and construction of guest houses. In addition, construction-related imports grew by 33% in annual terms during the quarter, mainly attributed to the ongoing infrastructure projects.

Wholesale and Retail Trade

Activity in the wholesale and retail trade sector showed mixed developments during Q3-2017 as indicated by bank credit to the sector and private sector imports—key indicators of the sector performance. Bank credit to the wholesale and retail trade sector recorded a marginal decrease of 1% during the quarter when compared with the corresponding quarter of 2016. As for private sector imports, it increased by 9% in annual terms during the quarter.

Inflation

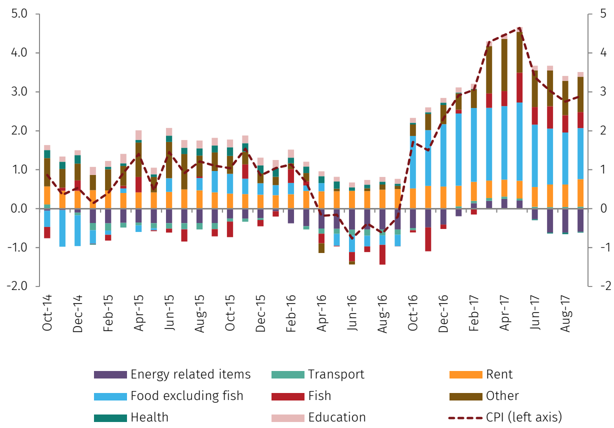
The rate of inflation (as measured by the annual change in consumer price index [CPI] at the national level) slowed down significantly to 2.9% during Q3-2017 from 4.2% in Q2-2017. This was largely due to a decline in electricity prices during the quarter. Furthermore, a deceleration in food prices and a fall in prices of household appliances dragged down the rate of inflation during the period.

Food prices which accounted for 26% of the CPI basket, decelerated markedly from 9.2% in Q2-2017 to 7.1% in Q3-2017. The base effects of the removal of food subsidy in October 2016 continued into the quarter, which was evident from its significant positive contribution to overall inflation. However, it was observed that the base effects have started to dissipate gradually. Furthermore, the decline in prices of eggs and some vegetables as well as the decelerations in prices of some fruits contributed to the slower growth in food prices. In addition, food price growth was also curbed by a deceleration in fish prices—the most volatile and heavily weighted item in the food category. This can be evidenced by the higher rate of inflation recorded for food and beverages excluding fish prices, which stood higher at 7.2% when compared with the total food and beverage inflation of 6.8% recorded for the period (Figure 3).

A decline in electricity prices was a significant contributor to the slower rate of inflation in Q3-2017. This decline was the result of a downward revision of import duties charged on petrol and diesel during June 2017, which led to the removal of fuel surcharge on electricity by the service providers—State Electric Company Limited and Fenaka Corporation Limited. However, the effect of lower electricity prices in this category was partly offset by the continued increase in the rental prices of housing. Meanwhile, the base effects of the upward revision of import duties on cigarettes remained prominent during Q3-2017 as well, and hence the inflation rate of cigarette prices remained

Figure 3: Contribution of Sub-Categories to CPI Inflation, 2014-2017

(annual percentage change, percentage point contribution)



Source: National Bureau of Statistics

substantially high at 43.0%, unchanged from the previous quarter.

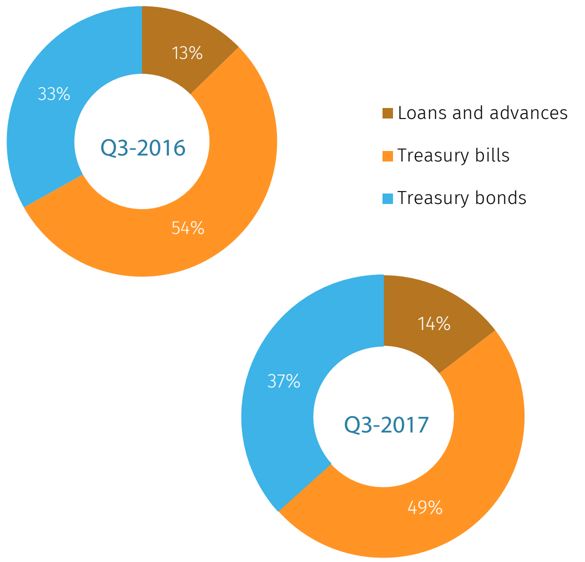
As for the prices in the furnishing and household equipment category, a marked deceleration in prices was observed during the period, mainly reflecting a decline in the prices of major household appliances. This was contributed by a deceleration in prices of ovens as well as declines in prices of stoves, washing machines, refrigerators and ceiling fans. Moreover, the deceleration in prices charged for domestic services also contributed to the slowdown in prices in this category.

Meanwhile, prices in the transport category also showed a slowdown, owing to the decline in prices of fuels and lubricants which resulted from the reduced domestic oil prices in June 2017. Furthermore, airline ticket prices were also observed to have declined during the period, although this was partly offset by an increase in prices charged for land transport services.

Public Finance[3]

The total outstanding domestic claims on government—which includes treasury bills, treasury bonds; and loans and advances to the government—stood at MVR25.5 billion at the end of September 2017, a decline when compared with MVR27.0 billion at the end of June 2017 (Figure 4). This depicted a net repayment of MVR1.5 billion during Q3-2017 when compared with a net issuance

Figure 4: Composition of Domestic Claims on Government, 2016-2017



Source: Maldives Monetary Authority

3 A complete set of public finance data was not available at the time of compilation of this report.

of MVR474.4 million during the corresponding quarter of 2016.

Looking at the sources of domestic financing, government securities (treasury bills and treasury bonds) remained as the primary source of borrowing during the quarter. The total stock of outstanding government securities amounted to MVR21.8 billion at the end of September 2017, representing a net repayment of MVR1.1 billion. This was due to a net repayment of both treasury bills (MVR1.1 billion) and treasury bonds (MVR77.0 million) during the quarter. As for loans and advances to the government, it totalled MVR3.7 billion at the end of the quarter. This also reflected a net repayment of MVR368.8 million during Q3-2017.

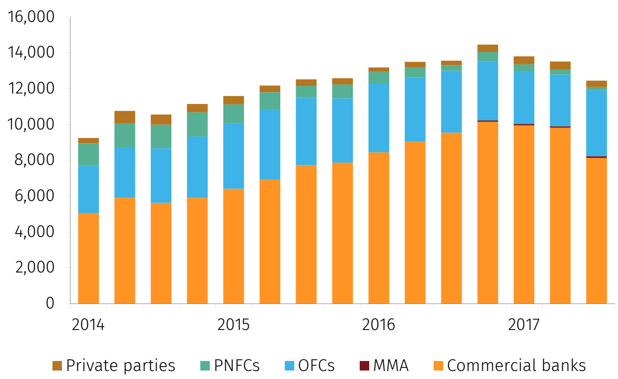
With regard to the composition of government securities during the quarter, treasury bills accounted for the largest share (49%), followed by treasury bonds (37%). At the end of the quarter, the outstanding stock of treasury bills amounted to MVR12.4 billion, while treasury bonds stood at MVR9.3 billion. Moreover, commercial banks remained as the largest investor in treasury bills, followed by the pension fund (Figure 5).

Money and Banking

Looking at the developments in monetary aggregates, reserve money continued to decline in annual terms and stood at MVR9.9 billion at the end of Q3-2017. However, the pace of decline slowed down from 9% at the end of Q2-2017 to 1% at the end of Q3-2017 (Figure 6). The slowdown

Figure 5: Treasury Bills by Holder, 2014-2017

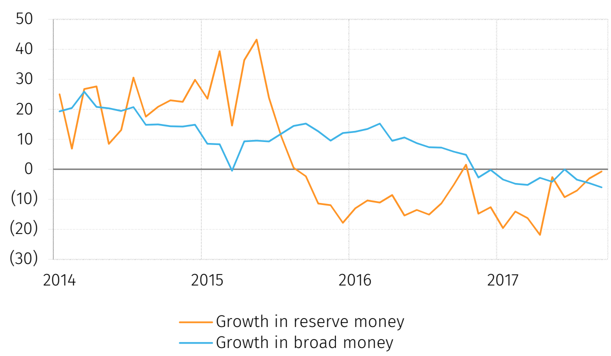
(millions of rufiyaa)



Source: Maldives Monetary Authority

Figure 6: Changes in Reserve Money and Broad Money, 2014-2017

(annual percentage change)



Source: Maldives Monetary Authority

was entirely due to the growth in the net domestic assets (NDA) of the MMA by 12% during the quarter, largely propelled by a significant increase in claims on public non-financial corporations. This reflected MMA's investment in a foreign currency bond issued by the Maldives Airports Company Ltd (MACL) in November 2016. Additionally, the annual decline in the overnight deposit facility (ODF) placements in Q3-2017, also contributed to the growth in the NDA of the MMA.

However, the growth in the NDA of the MMA was more than offset by the fall in the net foreign assets (NFA) of the MMA, entirely leading to the annual contraction in reserve money. The fall in the NFA was a result of a drawdown in foreign currency reserve account balances of commercial banks at the MMA at the end of the quarter.

Looking at the monetary operations of the MMA, the average liquidity absorbed via ODF stood at MVR2.9 billion in Q3-2017. This depicted an annual decline of 2% (MVR71.2 million), compared with the corresponding quarter of 2016.

Broad money recorded an annual decline of 6% in Q3-2017 and stood at MVR29.8 billion. This followed a marginal decrease of less than 1% at the end of the preceding quarter. Looking at the components of broad money, the fall in quasi money largely contributed to the decline in broad money while narrow money also declined by a lesser extent. The main contributor to the drop in quasi money was the fall in foreign currency demand deposits, while the decline in narrow money was mainly due to a decline in local currency demand deposits.

With regard to the counterparts of broad money, the annual decline in broad money during the quarter was primarily contributed by the 26% decline in the NFA of the banking system, largely on account of the decline in NFA of commercial banks. This mainly reflected the decline in commercial banks' investments in foreign currency demand deposits and other foreign currency deposits overseas, coupled with an increase in foreign liabilities of commercial banks. Additionally, the decline in the NFA of the MMA also contributed to the fall in broad money. However, the NDA of the banking system registered an annual growth of 6% in Q3-2017. This largely stemmed from the expansion of the NDA of commercial banks, owing to the increase in commercial banks' credit to the private sector.

As for other components of the NDA of banking system, net claims on central government (NCG) of the banking system continued to decline and stood at MVR11.2 billion at the end of Q3-2017. It contracted by 15% during the quarter when compared with a decline of 8% at the end of Q2-2017. This largely reflected the fall in commercial banks' investment in government securities.

With regard to credit extended to the private sector, it registered an annual growth of 13% at the end of Q3-2017, a slight acceleration from the preceding quarter. Local currency denominated loans registered an annual growth of 22% while foreign currency denominated loans increased by 6% during the quarter. Private sector credit growth was mainly driven by the credit extended to the construction sector, which recorded an increase of 31% (MVR1.2 billion). This primarily reflected credit for residential and housing construction. Furthermore, credit extended to the tourism sector also expanded, particularly for new resort development and guesthouses. As for credit to other sectors of the economy, personal loans grew significantly by MVR931.9 million, almost entirely on account of credit cards and consumer durables.

Looking at weighted average interest rates on loans and advances to the private sector, the rates on local currency loans increased by 6 bps at the end of September 2017 when compared with June 2017, while it declined by 63 bps when compared with September 2016. Meanwhile, the rates on foreign currency loans increased by 3 bps, when compared with both June 2017 and September 2016.

Banking Sector Performance

The banking sector remained strong during Q3-2017, with key prudential indicators standing well above the regulatory minimum requirements. The profitability remained high as indicated by an annualised return on average equity of 14%, despite a 26% decrease in pre-tax profits compared with the same period of the previous year. This decrease was due to extraordinary profits reported in 2016 due to large loan recoveries.

Capital to risk-weighted assets was 44% against the minimum requirement of 12%, on account of the significant portion of low risk assets in the portfolio. Leverage capital—as measured by equity to gross assets—stood at 21% compared to the minimum requirement of 5%. Liquidity remained high with liquid assets as a percentage of total deposits and borrowings at 61%, against 68% a year ago.

Deposit base of banks stood at MVR28.8 billion by end of the third quarter of 2017, representing a decline of 6% (MVR1.9 billion) in quarterly terms. This was mainly due to increased withdrawals for resort development projects as well as for dividend and tax payments.

With regard to loans, which made up 50% of the asset portfolio at the end of the quarter, registered a strong growth of 15% (MVR2.6 billion) in annual terms to reach MVR20.2 billion. Investments in treasury bills made up 17% of assets at the end of the quarter.

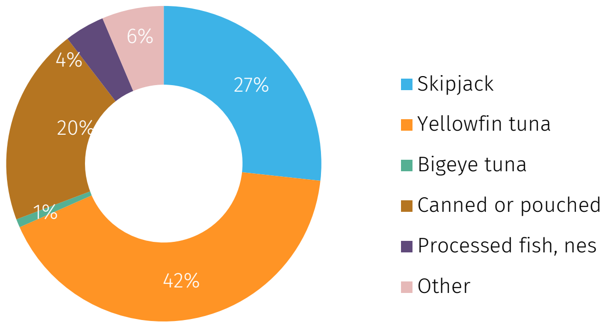
As regards asset quality, absolute value of non-performing loans (NPLs) increased by 17% in Q3-2017 when compared with the corresponding period of 2016. However, NPLs as a percentage of total loans remained at 11% during the quarter—which was same as the year before—owing to the significant growth in loans during the period. Banks have made loan loss provisions that cover 97% of the NPL portfolio during the period.

External Trade

Total merchandise exports—comprising domestic exports and re-exports—grew by 52% (US$19.7 million) in annual terms and totalled US$57.3 million in Q3-2017. This was mainly due to a growth in domestic exports while re-exports also increased during the period. Domestic exports rose by 58% (US$13.2 million) during the quarter, largely due to the increase in earnings from frozen skipjack and yellowfin tuna as well as fresh or chilled yellowfin tuna exports (Figure 7). Earnings from frozen skipjack tuna exports–which accounted for 27% of total domestic exports during the quarter–grew by 59% when compared with the corresponding quarter of 2016. This reflected a substantial growth in both the volume of such exports as well as a hike in international skipjack tuna prices (Figure 8). Higher international prices mirrored the decline in the supply of skipjack tuna in the international market, owing to persistently poor tuna catch in the Pacific Ocean during the July-October ban of fish aggregating devices (FAD) and the 'veda' fishing closures period.

Earnings from frozen yellowfin tuna (13% of total domestic exports) recorded an almost twofold increase while the earnings from fresh or chilled yellowfin tuna (29% of domestic exports), grew by 53%. Earnings from such exports increased markedly due to the growth in volume of such exports, while yellowfin tuna prices in the international market remained fairly stable. As for re-exports, which mainly consists of jet fuel sold to

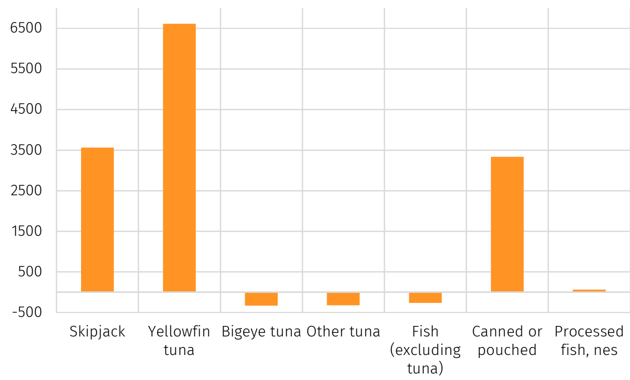
Figure 7: Composition of Fish Exports Earnings, Q3-2017



Source: Maldives Customs Service

Figure 8: Annual Changes in the Value of Fish Exports, Q3-2017

(thousands of US dollars)



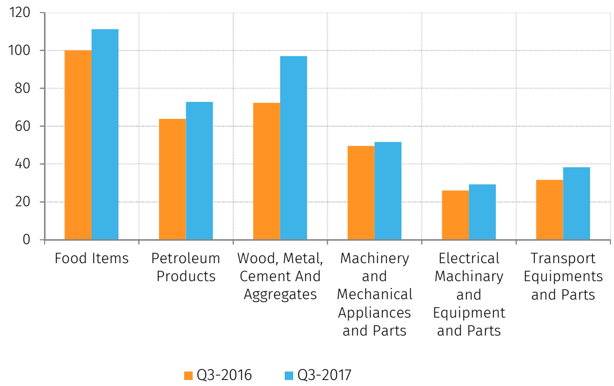
Source: Maldives Customs Service

international aircrafts at the Velana International Airport, an increase of 44% (US$6.5 million) was recorded during the quarter, reflecting the growth in global oil prices.

With regard to total merchandise imports (cif), a surge of 15% (US$73.0 million) was recorded during Q3-2017 when compared with the corresponding quarter of 2016. The increase in merchandise imports during the period stemmed mainly from construction-related items (wood, metal, cement and aggregates), which recorded a 33% growth, reflecting the ongoing large public infrastructure projects as well the vibrant growth of the construction sector as a whole. A sizable increase was also recorded from imports such as PVC pipes and hose; and chemicals used for construction purposes. Food items, which accounted for 19% of total imports during the quarter, also grew significantly because of the rebound in global food prices. The rise in imports during the quarter was also contributed by the increase in petroleum products, particularly diesel (marine gas oil) and cooking gas, which mirrored higher global oil prices (Figure 9).

Figure 9: Composition of Imports, 2016-2017

(millions of US dollars)



Source: Maldives Customs Service

Direction of Trade

Looking at the major export destinations, the share of Asia dipped slightly to 50% of domestic exports while that of Europe edged up to 44% in Q3-2017. The single largest export destination during the quarter was Thailand (78% of domestic exports to Asia), where frozen skipjack tuna exports increased markedly while frozen yellowfin tuna exports also recorded an increase. According to reports by the Food and Agriculture Organization of the United Nations (FAO), tuna catches have been persistently poor in the Western and Central Pacific, which has in turn boosted demand for other sources such as carriers from the Indian Ocean to supplement the supply of raw materials needed for Thai canneries. As a result, price of frozen tuna imports in Thailand remained at a four-year high since December 2016. Sri Lanka remained the second major export market within Asia (9% of domestic exports to Asia) during the quarter, with the main export items being dried skipjack tuna and fresh or chilled yellowfin tuna. Meanwhile, exports to Europe grew markedly as well, particularly to Germany (23% of exports to Europe) and UK (20%). The main export items to both these countries were fresh or chilled yellowfin as well as canned or pouched tuna exports. During Q3-2017, exports to the United States also registered a significant increase due to a sizable increase in export of fresh or chilled yellowfin tuna.

As for the direction of imports during Q3-2017, Asia continued to dominate as the main import market (83% of the total imports), while the share of Europe declined to 10%. Within the Asia region, the United Arab Emirates (UAE) continued to dominate as the largest source of imports (19% of imports from the region), followed by China (13%), India (12%) and Singapore (11%). Petroleum products continued to be the major import item from UAE, while imports of cement and aggregates from the country registered an annual growth during the period. The marked increase in imports from China during the period was mainly due to the hike in import of construction related items; electrical machinery and equipment; and machinery and mechanical appliances. As for India, imports of food items; stationary and office supplies; and electrical machinery and equipment accounted for the largest share. However, imports from Singapore recorded a decline in annual terms, mainly reflecting the decline in import of petroleum products and construction related items from the country.

Gross International Reserves

At the end of Q3-2017, the Gross International Reserve (GIR[4]) declined by 4% in annual terms and stood at US$519.4 million. The usable reserves component of the GIR amounted to US$191.9 million during the quarter, registering a marginal annual decline. As the GIR mainly includes the commercial banks' foreign currency deposits held at the MMA (minimum reserve requirement [MRR] and excess reserves), the decline in GIR reflected a fall in such deposits at the MMA. As for the marginal annual decline in usable reserves, this was due to an increase in foreign currency sales to the market to ease foreign exchange pressure in the market.

Similarly, the GIR and usable reserves declined by 14% and 23%, respectively, when compared

4 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.

with June 2017. The fall in GIR reflected a decline in commercial banks' foreign currency deposits held at the MMA, while the decrease in usable reserves can be attributed to an increase in net sales of foreign currency, reflecting the increase in loan repayments and payments related to construction of the Dharumavantha Hospital (Figure 10).

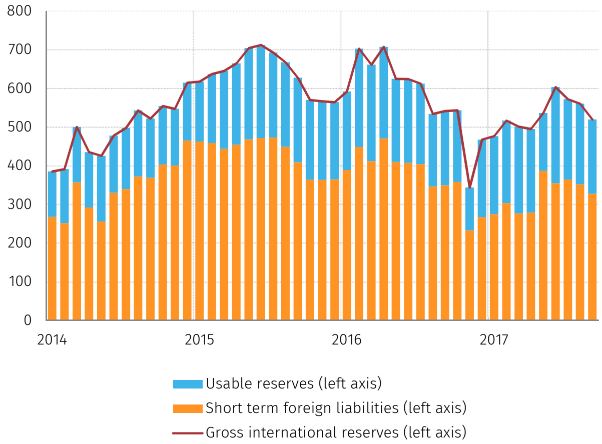
Exchange Rates

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. Since then, it remained virtually fixed at MVR15.42 per US dollar.

Mirroring the movements of the US dollar against the major trading partners of the Maldives at the end of September 2017, the bilateral exchange rates of the rufiyaa appreciated in annual terms against the Sri Lankan rupee by 2%, while it depreciated against the euro by 4%, the pound sterling by 3% and the Indian rupee by 1%. Meanwhile, the rufiyaa remained largely unchanged against the Chinese yuan and the Singapore dollar during this period.

When compared with June 2017, the rufiyaa appreciated against the Indian rupee by 2%. During the review period, the rufiyaa depreciated against the pound sterling by 5%, the euro, the Chinese yuan and the Sri Lankan rupee by 4%, while it also depreciated against the Singapore dollar by 2%.

Figure 10: Gross International Reserves, 2014-2017
(millions of US dollars)



Source: Maldives Monetary Authority

Statistical Appendix

Table of Selected Economic Indicators, 2014 - 2017

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

	2014	2015	2016	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3
Real Sector										
Tourist arrivals	7	2	4	4	(1)	5	8	4	8	5
Bednights of resorts	3	(5)	2	1	(3)	4	7	6	8	6
Operational capacity of resorts	2	2	5	2	4	5	10	11	14	15
Occupancy rate of resorts (%)	82	76	74	84	66	73	73	81	63	68
Average stay (days)	6	6	6	6	6	6	6	7	6	6
Fish purchases	(20)	(10)	19	(15)	18	14	55	33	31	38
Prices[1/]										
Total (Republic)	2.1	1.0	0.5	0.9	(0.4)	(0.4)	1.8	3.4	4.2	2.9
Total excluding fish	2.2	1.1	0.7	0.9	(0.2)	(0.2)	2.3	3.6	7.5	2.6
Food and non-alcoholic beverages excluding fish	0.3	0.9	1.5	1.1	(1.0)	(1.4)	7.3	9.6	9.6	7.2
Government Securities (millions of rufiyaa)										
Government securities outstanding	17,586.9	20,001.6	23,230.3	20,599.0	21,398.5	21,843.5	23,230.3	23,231.7	22,930.6	21,785.6
T-bonds	6,440.5	7,419.6	8,774.6	7,414.4	7,903.2	8,284.9	8,774.6	9,429.2	9,413.2	9,336.3
T-bills	11,146.4	12,582.0	14,455.7	13,184.7	13,495.3	13,558.6	14,455.7	13,802.5	13,517.4	12,449.3
MMA	-	-	74.4	-	-	-	74.4	74.4	77.2	93.8
Commercial banks	5,908.5	7,875.9	10,154.9	8,451.8	9,047.6	9,542.9	10,154.9	9,955.6	9,825.7	8,138.7
Others	5,237.9	4,706.1	4,226.4	4,732.9	4,447.7	4,015.7	4,226.4	3,772.5	3,614.5	4,216.8
Money and Banking										
Broad money	15	12	0	15	9	6	0	(5)	(0)	(6)
Net foreign assets	42	(2)	(36)	2	(16)	(12)	(36)	(41)	(11)	(26)
Net domestic assets	(1)	24	24	28	34	20	24	22	7	6
Net claims on central government	6	24	18	29	27	28	18	11	(8)	(15)
Claims on other sectors	2	12	21	16	20	12	21	22	21	21
o/w Private sector	3	12	11	16	20	15	11	12	12	13
Reserve money	30	(18)	(13)	(11)	(14)	(5)	(13)	(16)	(9)	(1)
Market operations[2/]										
Open market operations[3/]	52	-	-	-	-	-	-	-	-	-
Overnight Deposit Facility	227	121	29	70	46	16	0	(4)	(21)	(2)

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, 2014 - 2017

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

	2014	2015	2016	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3
External Trade										
Merchandise exports (f.o.b.)	(9)	(20)	7	(23)	(16)	(29)	115	52	60	52
Domestic exports	(13)	(0)	(3)	(12)	1	(29)	27	50	34	58
o/w Fish exports	(14)	(1)	(2)	(11)	3	(29)	29	51	34	60
Re-exports	(5)	(39)	22	(37)	(41)	(30)	289	56	126	44
Merchandise imports (c.i.f.)	15	(5)	12	(2)	28	6	18	18	6	15
o/w Food	8	(0)	6	7	7	2	7	7	3	11
Petroleum	14	(50)	(13)	(41)	(13)	(13)	29	45	42	14
Construction-related imports	26	48	20	30	25	9	18	19	20	33
Direction of Trade of Imports of Goods (as a percentage of total)										
o/w Singapore	18	17	14	15	15	15	13	12	13	11
India	9	12	13	13	13	13	12	12	13	12
Sri Lanka	7	7	6	7	6	6	6	8	6	6
UAE	24	17	16	15	14	15	19	18	19	19
Thailand	4	5	5	5	5	5	4	4	5	5
Direction of Trade of Exports of Goods (as a percentage of domestic)										
o/w Thailand	32	25	34	27	33	32	43	53	57	39
Sri Lanka	6	12	10	12	10	9	9	4	3	5
France	14	10	9	9	10	9	8	6	7	7
Germany	7	7	9	10	9	6	8	6	7	10
External Reserves										
Gross international reserves (millions of US dollars)	614.7	564.0	467.1	661.4	623.9	541.4	467.1	501.2	603.4	519.4

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

MALDIVES MONETARY AUTHORITY

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