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Message from the Chairperson of SAARCFINANCE Group

I would like to thank SAARCFINANCE members for entrusting Nepal Rastra Bank to chair SAARCFINANCE Group for the year ending October 2014 and for providing the opportunity to publish this issue of *e-Newsletter*. This issue encompasses the economic activities of the member countries during the first half of 2014 including the recent macroeconomic developments, major policy announcements, and key economic indicators. I hope the member countries would find this issue quite useful.

I would also like to take this opportunity to express my sincere appreciation and gratitude to my fellow Governors, Finance Secretaries, SAARCFINANCE Coordinators, Alternate Coordinators and staff members of the SAARC Central Banks who have been instrumental in enhancing the activities of SAARCFINANCE in recent years.

I express my sincere thanks to the SAARCFINANCE Co-ordinators and Alternate Coordinators for their support and contribution to this volume. Likewise, the efforts of SAARCFINANCE Cell, under the International Relations Division of the Nepal Rastra Bank towards preparation of this *e-Newsletter* are duly acknowledged.

Any comments and suggestions pertaining to this issue of the *e-Newsletter* are most welcome.

Dr. Yuba Raj Khatiwada
Chairperson, SAARCFINANCE Group and
Governor, Nepal Rastra Bank

OBJECTIVES OF SAARCFINANCE

The basic objective of establishing SAARCFINANCE Network is to share experiences on macroeconomic policy issues between member counties of the region. The broad objectives include the following:

- To promote cooperation among central banks and finance ministries in SAARC member countries through staff visits and regular exchange of information.
- To consider and propose harmonization of banking legislations and practices within the region.
- To work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation.
- To forge closer cooperation on macroeconomic policies of SAARC member states and to share experiences and ideas.
- To study global financial developments and their impact on the region including discussions relating to emerging issues in the financial architecture, IMF and World Bank and other international lending agencies.
- To monitor reforms of the international financial and monetary system and to evolve a consensus among SAARC countries in respect of the reforms.
- To evolve, whenever feasible, joint strategies, plans and common approaches in international fora for mutual benefit, particularly in the context of liberalization of financial services.
- To undertake training of staff of the ministries of finance, central banks and other financial institutions of the SAARC member countries in subjects relating to economics and finance.
- To explore networking of the training institutions within the SAARC region specializing in various aspects of monetary policy, exchange rate reforms, bank supervision and capital market issues.
- To promote research on economic and financial issues for the mutual benefit of SAARC member countries.
- To consider any other matter on the direction/request of the SAARCFINANCE, Council of Ministers or other SAARC bodies.

COUNTRY REPORTS

AFGHANISTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

GDP Growth outlook

The real GDP growth rate in Afghanistan slowed to 6.4 percent in 2013 from 10.9 percent the year before, due mainly to uncertainties that arose from withdrawal of international peacekeeping forces from the country in 2014. The agriculture sector, the main contributing sector to GDP, rebounded strongly in 2013, representing an annual growth rate of 8.1 percent, mainly as a result of favorable weather conditions and bumper harvest. Due to the importance of the sector in the economy, changes in agriculture output have a large influence on overall GDP growth. On the other hand, services, the fastest growing sector in the past years, which accounts for more than half of GDP, grew by 6.3 percent in 2013 from 16 percent the year before. Among the others, telecommunication, transport, and public services remained the most dynamic sub-sectors. Industry sector also recorded low growth rate, standing at 4.9 percent in 2013 compared to 7.8 percent in 2012. However, the share of agriculture sector to GDP decreased from 25.4 percent in 2012 to 24.6 percent in 2013, while for services sector, it has increased further in 2013 standing at 51.8 percent, up from 50.3 percent the year before. The share of industry remained almost unchanged at around 20 percent.

For the FY 2014, the earlier projected real GDP growth was revised downward at 1-3 percent, mainly as a result of uncertainty arising from 2014 withdrawal of international forces from Afghanistan, as well as the 2014 Presidential Elections. Agriculture sector, which is heavily dependent on the seasonal rainfall, is expected to return to its average level due to favorable rainfall. The non-agricultural sectors are expected to grow at 6 percent.

Inflation and Prices

Inflation remained subdued. Headline inflation, as measured by the year-on-year percentage changes in national CPI, remains in the comfort zone of a single digit. The inflation rate recorded in the month of June 2014 was 5.65 percent (y-o-y). The food price-index, which accounts for 52 percent of the CPI basket, increased by 2.8 percentage points or 9.7 percent y-o-y in June 2014. Regionally, food prices were affected by an upward food prices in Bangladesh, Indonesia, Pakistan and Sri Lanka, where food prices were the main factor in pushing the overall prices up. In Afghanistan, higher wheat and rice prices have driven up the food index in the CPI.

Non-food sub-index exhibited similar behavior, and rose in the month of June 2014. The increase in the rate of inflation in non-food was led by furnishing and household goods, transportation, and restaurants & hotels.

Monetary Sector Developments

Monetary policy helped to contain inflation low. Da Afghanistan Bank (DAB) relies mainly on open market operations as an instrument of, and reserve money growth as a target for, monetary policy. For 2014, the key operational target (performance criterion) is the reserve money (RM), while currency in circulation remains as the indicative target. The ceiling on reserve money growth was revised upward to 12.7 percent, which requires DAB to tighten its monetary policy. Under the open market operations, DAB sold a total of USD 1.577 billion in the first six months of 2014, through a bi-weekly auction to manage liquidity in the market.

Broad money (M2) grew by 5.63 percent, y-o-y in the month of June 2014, compared to the same period of the year before. M1 remained as the main contributor to the growth in broad money. M1 grew by 6.15 percent in June 2014. Quasi money or time deposits of commercial banks, the other component of M2, grew by 5.91 percent, down from 6.37 percent in June 2013.

National currency (afghani) depreciated by 1.5 percent against the US dollar in the first six moths of 2014. The depreciation was due to political and security uncertainties, huge trade deficit, and concerns over the withdrawal of foreign troops from Afghanistan.

External Sector Outlook

Afghanistan's trade balance is heavily centered-off towards imports, reflecting large dependency on food, oil, and capital goods imports. Afghanistan still is experiencing a huge trade deficit due to increasing imports. In the first six months of 2014, total exports decreased by about 18 percent or USD 59 million, standing at USD 0.269 billion, down from USD 0.328 billion in the same period of the previous year. Similarly, total imports recorded a decrease of almost 30 percent or USD 1.5 billion in the first six months of 2014. Total imports in the first six months stood at USD 3.46 billion, down from USD 4.95 billion in the same period of the preceding year. As a result, the trade deficit decreased from USD 4.62 billion in the first six months of 2013 to USD 3.19 billion in the same period of 2014. On the other hand, the current account deficit of Afghanistan stood at USD 6.83 billion in the first six months of 2014.

Fiscal Sector Outlook

Core budget/national budget for the FY1393 is AF 440.978 billion, from which the operating budget is AF 288.61 billion, and core development budget is AF 152.371 billion.

The share of the operating budget in core budget has increased as compared to that of last year. Operating budget as percent of the core budget is 65 percent, while last year it was 60 percent as reported in the first six months.

However, the share of the development budget in the core budget has decreased as compared to that of last year. Core development budget as percent of core budget is 34 percent, while last year it was 39 percent as reported in the first quarter.

The execution rate of core development budget is 21 percent for the first six months of 2014, while last year it was 15 percent for the same period. On the other hand, the execution rate of operating budget is 33 percent, while last year it was 38 percent for the same period.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

The Central Bank of Afghanistan continues the same monetary policy framework "Monetary Aggregate Targeting". This framework is based on the quantitative theory of money. Under this framework, monetary policy has chosen reserve money (RM) as its operational target. The success of the monetary policy is highly dependent on the political and security conditions in the country. The central bank's major policy steps in the fiscal year 2014 are as follows:

1. For the fiscal year 2014, the projected economic growth was revised downward to 1-3 percent. The average inflation rate is expected to be 6 percent. Therefore the ceiling on the reserve money (RM) growth and the currency in circulation (CiC) has been set about 12.7 percent.
2. To control the RM growth and to maintain domestic price stability (DAB's primary objective), DAB utilizes its primary and secondary monetary tools of FX auction and Capital Notes (CNs), efficiently.
3. The central bank will continue to intervene in the market via the managed floating exchange rate regime to avoid extreme fluctuation in the exchange rate.
4. DAB will focus more on the expansion of the capital notes to reduce pressures on the FX auction. DAB introduced new CNs of one year maturity in addition to the existing notes of one month and six months maturities. This will allow DAB to accumulate more foreign reserves.
5. Dollarization remains a concern in Afghanistan that limits the impact of monetary policy. Although DAB has taken bold actions to overcome this problem by rebuilding people's confidence in the domestic currency and some improvements are already there, this problem still remains as a challenge to the monetary policy implementation. The central bank also intends to increase public awareness toward the use of local currency in their daily transactions and business activities.

KEY ECONOMIC INDICATORS

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014 (Jan to June)
I. Real Sector												
Per Capita GDP	US$	242	281	313	426	426	505	629	709	780	772	-
Real GDP Growth	%	2.3	9.9	9.2	16.1	2.3	17.2	3.2	8.7	10.9	6.4	1-3^{prj}
GDP (Nominal)	Billion US$	5.62	6.63	7.53	10.43	10.64	12.87	16.34	18.79	21.04	21.23	21.7^{prj}
Agriculture	% of GDP	33.28	34.23	32.66	33.62	27.75	31.11	27.76	26.98	25.40	24.58	-
Industry	% of GDP	24.51	25.21	26.17	25.16	25.62	21.17	20.57	21.58	20.52	19.72	-
Services	% of GDP	39.47	37.68	38.09	38.68	43.99	44.28	48.02	47.82	50.29	51.75	-
Investment	% of GDP	-	-	-	-	18.1	17.4	17.5	15.8	16.4	17	-
National Savings	% of GDP	-	-	-	-	-23.3	-9.9	-11.4	-4	4	7.8	-
Headline Inflation	%	-	9.8	3.8	24.3	4.8	-4.5	13.7	8.4	5.8	7.2	5.65
- Food Inflation	%	-	9.1	4.9	31.9	4.3	-9.1	14.0	7.0	4.4	9.6	9.7
- Non-Food Inflation	%	-	10.9	2.2	12.2	6.0	3.8	13.3	10.6	7.4	4.7	1.41
- Core Inflation	%	-	-	4.7	11.3	7.8	2.3	9.8	10.0	5.9	5.5	6.26
II. Fiscal Sector												
Revenue Collection (CSR)	Million Afs	18,837	76,456	62,038	56,885	71,638	101,118	134,840	169,674	164,589	226,650	127,798
Fiscal Deficit (excluding Grant	% of GDP	19%	18%	14%	14%	9%	8%	1%	4%	2%	4%	7%
Fiscal Deficit (including Grant	% of GDP	1%	4%	1%	2%	15%	14%	8%	12%	10%	14%	0.28%
Public Debt	% of GDP	-	-	-	-	-	-	-	-	-	-	-
- of which foreign currency	% of GDP	-	-	-	-	-	-	-	-	-	-	-
- domestic debt	% of GDP	-	-	-	-	-	-	-	-	-	-	-
- debt servicing	% of total	-	-	-	-	-	-	-	-	-	-	-
III. External Sector												
Exports (f.o.b)	Billion US$	0.31	0.38	0.42	0.45	0.55	0.40	0.40	0.38	0.26	0.50	0.269
Imports (f.o.b)	Billion US$	2.18	2.47	2.74	3.02	2.98	3.11	4.87	6.05	6.03	8.65	3.46
Trade Deficit	Billion US$	1.87	2.09	2.33	2.57	2.43	2.70	4.48	5.67	5.76	8.15	3.19
Remittances	Billion US$	-	-	-	-	-0.08	-0.18	-0.02	0.01	0.06	0.11	0.13
Current Account Balance	Billion US$	-	-	-	-	-5.69	-6.02	-6.61	-6.76	-6.63	-6.95	-6.83
Current Account Balance	% of GDP	-	-	-	-	-0.53	-0.47	-0.40	-0.36	-0.32	-0.33	-0.31
Total Foreign Investment	Million US$	-	186	218	188.41	97.59	93.78	94.96	85.17	72.65	70.24	59.6
- Foreign Direct Investment	Million US$	-	186	218	188.41	97.59	93.78	94.96	85.17	72.65	70.24	59.6
- Portfolio Investment	Million US$	-	-	-	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Debt	Million US$	-	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	% of forex earings	-	-	-	-	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Short-term debt to GDP	%	-	-	-	-	n.a	n.a	n.a	n.a	n.a	n.a	n.a
External Debt Servicing Ratio (Pl see footnote)	*	-	-	-	-	-	-	-	-	-	-	-
Exchange Rate (Average)	Per US$	-	-	-	-	50.95	49.26	45.80	47.76	50.92	55.38	57.26
Foreign Exchange Reserves	Billion US$	-	-	-	-	3.61	4.13	5.34	6.25	6.95	7.10	7.39
IV. Monetary & Capital Market												
Growth Rate of M1	y-o-y	-	-	-	40.59	31.91	30.33	25.02	21.00	9.78	9.88	5.82
Growth Rate of M2	y-o-y	-	-	-	42.4	31.38	33.05	26.95	21.31	8.80	9.40	5.91
Growth Rate of M3	y-o-y	-	-	-		-	-	-	-	-	-	-
Weighted Avg Lending Rate	%	-	-	-	18	15.00	18.00	15.00	15.00	15.00	15.00	15.00
Sector	%	-	-	-	96.98	45.63	33.89	29.80	-49.80	1.94	8.81	3.95
Stock Market (Price Index)	1991=100	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	Domestic currency in	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	% of GDP	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	Billion US$	-	-	-	-	-	-	-	-	-	-	-
V. Banking Sector Indicators												
Capital Adequacy ratio	%	N/A	N/A	38.91	31.77	29.83	25.81	-14.48	23.83	21.84	26.24	25.4
Non performing loans	%	N/A	N/A	N/A	0.68	1.15	0.94	48.4	5.16	5.31	5.08	6.3
Profitability (R.O.E)	%	N/A	8.39	-1.11	9.89	1.69	1.4	-20.69	-1.01	-0.42	0.61	9.4
Profitability (R.O.A)	%	N/A	1.79	0.28	1.8	10.28	10.25	-520.84	-14.98	-5.71	8.18	1.1

* from 2007 to 2012 figures are as on March

** Dec.2012 ROA and ROE are for nine months as fiscal year changed

BANGLADESH

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Overview

Bangladesh is one of the rapidly growing developing economies in the South Asia region. It has witnessed six-plus percent annual average real GDP growth for more than a decade and registered a growth of 6.12 percent in FY14. Moderate growth of agriculture sector along with a satisfactory growth in services sector has helped to achieve this growth. During FY14 the average inflation showed somewhat an upward trend which mainly surged by food inflation while non-food inflation showed a downward trend. At the end of the FY14, average inflation stood at 7.35 percent (base: 2005-06=100) compared to 6.78 percent in the preceding year. The country's overall balance of payments recorded a surplus of USD 5.48 billion in FY14 which contributed to foreign exchange reserves reaching USD 21.5 billion at the end of FY14, sufficient to cover over six months of imports. In order to protect Bangladesh's external competitiveness Bangladesh Bank continued its interventions in the domestic foreign exchange market by purchasing foreign currencies. As a result, Taka-USD exchange rate remained stable during FY14.

Price Developments

The yearly average inflation rate (base: 2005-06=100) increased to 7.35 percent at the end of FY14 from 6.78 percent at the end of FY13 driven mainly by increase in food inflation. Food inflation witnessed an increase from 5.22 percent at the end of FY13 to 8.57 percent at the end of FY14 due to global price hike and supply disruptions in the domestic market caused by political unrest. On the other hand, non-food inflation showed a gradual decline because of weaker domestic demand and stood at 5.54 percent in June 2014 compared to 9.17 percent in June 2013. Though average inflation went up, point-to-point inflation decreased to 6.97 percent in FY14 from 8.05 percent in FY13.

Money and Credit Developments

In FY14, Bangladesh Bank (BB) pursued a cautious but growth-supportive and investment-friendly monetary policy stance against the backdrop of sharp growth of net foreign assets and risk of inflationary pressure. To keep the inflation at targeted level, BB continued to pursue a restrained policy stance both in H1 and H2 of FY14. BB's policy rates, namely repo and reverse repo rates, were kept unchanged at 7.25 percent and 5.25 percent respectively from the H2 of FY13. Besides, BB increased the cash reserve ratio (CRR) by 50 basis points for banks at 6.5 percent from 24 June 2014. Broad money (M2) recorded a growth of 16.1 percent in FY14 against the targeted growth of 17.0 percent. It had grown by 16.7 percent in FY13. The broad money growth undershot the program ceiling due to lower public sector borrowing from the banking system. The net foreign asset (NFA) of the banking system grew by 41.2 percent and was considered high against the targeted growth of 9.9 percent in FY14, but low compared to

43.9 percent growth in the preceding year. The credit to public sector increased by 8.9 percent in FY14. The growth rate of the credit to private sector increased moderately from 10.9 percent in FY13 to 12.3 percent in FY14 against the targeted growth of 16.5 percent. On the other hand, net domestic assets (NDA) recorded a lower growth of 10.3 percent in FY14 against the targeted growth of 18.6 percent and 11.8 percent growth in FY13. Sluggish credit demand induced the slow of growth of NDA. Reserve Money (RM) growth decreased to 15.5 percent in FY14 which was lower than the projected growth of 16.2 percent due mainly to the decrease of net domestic asset of BB. Decline in lending by BB to the Government and the commercial banks contributed to the slower growth of RM during the year.

External Sector Developments

The exports earnings (including EPZ) increased from USD 27.03 billion to USD 30.19 billion and import payments increased from USD 34.08 billion to USD 40.69 billion in FY14 over FY13. Trade deficit declined to USD 6.8 billion in FY14 from USD 7.0 billion in FY13. Current account balance registered a surplus of USD 1.5 billion in FY14 compared to a surplus of USD 2.4 billion in FY13. The overall balance of payments also registered a surplus of USD 5.5 billion in FY14 which is slightly higher than the preceding fiscal year. Gross international foreign exchange reserves stood at USD 21.5 billion at end of FY14 representing over 6 months of import coverage. The workers' remittance inflows experienced a negative growth of 1.6 percent in FY14 compared to 12.6 percent growth in FY13. This sluggish performance was mainly attributed to a remarkable drop-out of overseas employment, especially in the Middle East countries.

BB closely monitors the exchange rate movements and intervenes in the foreign exchange market to avoid unusual volatility in the foreign exchange market. As a result, the weighted average exchange rate of Taka against USD remained almost stable throughout the whole of FY14 and registered an appreciation of 2.9 percent compared to 1.04 percent depreciation in FY13. The weighted average exchange rate of Taka stood at Taka 77.75 per USD at the end of June 2014 compared to Taka 79.93 per US dollar at the end of June 2013.

Fiscal Developments

In FY13-14 total estimated budget expenditure was Bangladeshi Taka (BDT) 222,491 crore. Later on, the revised budget estimate amounted to BDT 216,115 crore. In FY14, actual expenditure (Using Integrated Budgeting & Accounting System-iBAS data) is BDT 173,339 crore which is 80.21 percent of the revised budget. Government expenditure in Bangladesh is shown under two broad categories, namely, Non-Development Expenditure and Development Expenditure. Total non-development spending in FY14 is 81.90 percent of the revised budget estimates, whereas actual development expenditure during the same period amounts to 80.26 percent of the revised development budget. Considering Implementation Monitoring and Evaluation Division (IMED), Ministry of Finance, Government of the People's Republic of Bangladesh data, ADP expenditure in FY14 is 56,747 crore Taka. Utilization rate is about 95 percent of the revised estimate. Overall utilization of government expenditure is satisfactory.

Revenue income of the government comes from both tax and non-tax sources. In FY14, total revenue (using iBAS data) is 82.83 percent of the revised annual target. During this period major share of the revenue came from National Board of Revenue (NBR) sources (76.71 percent). Achievement of NBR tax revenue is 82.67 percent of the revised annual target. Revenue performance of Non-tax Revenue (NTR) sources is also satisfactory. In FY14, 79.59 percent of the revised annual target has been achieved.

Overall balance of the budget is calculated either by including grants or by excluding grants. In FY14, as per revised estimate, overall balance (including grants) is -3.6 percent of the estimated GDP and excluding grants it is -4.1 percent of GDP. Revised overall balance is estimated at -4.0

percent of GDP (including grants) and -4.4 percent of GDP (excluding grants) for FY2013-14. All in all, fiscal policy outcomes for FY13-14 were satisfactory.

Fiscal Outlook for FY2014-15

In FY2014-15 total estimated expenditure is 2,50,506 crore Taka which is 15.86 percent higher than the revised budget of the FY2013-14. The current budget estimate is 18.70 percent of the estimated GDP for FY2014-15. In FY2014-15 total estimated revenue income is 1,89,160 crore Taka which is 20.74 percent higher than the revised estimate of FY2013-14. In the current fiscal year revenue estimate is 13.7 percent of GDP. Budget deficit excluding grants is 5 percent of GDP.Total amount to be financed from foreign and domestic sources is 61,346 crore Taka. Out of this, only 50.9 percent will be financed from banking system. As a result the risk from deficit financing is much lower. The rest will be financed from foreign borrowing and non-bank sources. Net sale of savings certificate is very much satisfactory.

The world economy is strengthening. There is no imminent threat of any economic crises. As a result fiscal sector in Bangladesh is expected not to face any fiscal crisis. If there are no domestic political crises, outlook for FY2014-15 would be better than the previous year.

A glimpse of the latest developments of some key macroeconomic indicators of Bangladesh economy is given below.

- Real GDP growth is estimated to be 6.12 percent in FY 2013-14 which was 6.03 percent in FY 2012-13.
- As per latest available data overall inflation (base: 2005-06=100) is 7.24 percent on annual basis (6.91 percent on point-to-point basis) at the end of August 2014.
- Export growth has increased to 1.78 percent amounting to USD 5.14 billion in July-August 2014 compared to USD 5.05 billion in July-August 2013.
- Imports have decreased by 11.40 percent amounting USD 2.80 billion in July 2014 compared to USD 3.13 billion in July 2013.
- Remittance growth has increased by 20.53 percent amounting USD 2.7 billion in July-August 2014 compared to USD 2.24 billion in July-August 2013.
- The surplus in the country's BOP stood at USD 5.48 billion in FY14.
- As per latest available data, the country’s foreign exchange reserves stood at USD 21.70 billion as on 21 September 2014.
- The nominal exchange rate of Taka against US$ has remained stable at Tk.77.40 per USD since 26 August 2014.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

BB declares its monetary policy stance for the 1st Half of FY15

The monetary stance in H1FY15 takes the recent economic and financial sector developments into account and will target a monetary growth path which aims to bring average inflation down to 6.5% by end FY15, while ensuring that credit growth is sufficient to stimulate inclusive economic growth. The risks to the inflation target include global food price volatility, any shocks to domestic crop output and the knock-on impacts of any upward adjustments in public sector wages. BB will use both monetary and financial sector policy instruments to achieve these goals. The persisting inflationary pressures over the past few months with the risks ahead related to the inflation outlook imply that achieving the FY15 inflation target will be challenging. At the same time the significant liquidity in the banking system has led to a sharp rise in reverse repo operations with consequent costs to BB and ultimately the taxpayer. For both these reasons BB decided to raise the Cash Reserve Requirement (CRR) by 50 basis points in June 2014.

Specifically BB will aim to contain reserve money growth to 15.5% and broad money growth to 16.0% by December 2014. The space for private sector credit growth of 16.5% (including foreign borrowing by local corporate entities) has been kept well in line with output growth targets and is sufficient to accommodate any substantial rise in investment over the next six months. BB views these figures as indicative ceilings—banks continue to be advised to lend only to creditworthy clients for productive purposes. At the same time these ceilings are flexible and the monetary program can be recalibrated if economic growth pick up faster than projected. The projected pick-up in economic growth in FY15 should absorb some of the current excess liquidity though BB stands ready to use its range of instruments to further limit excess liquidity as and when required. Fiscal-monetary coordination will continue and the track record of containing government borrowing well within budgetary limits is expected to continue, further limiting any crowding out of private sector borrowing.

BB has enhanced foreign exchange entitlement for private travel abroad

BB has enhanced global private travel entitlement for the resident Bangladesh nationals to US$ 12,000 per adult passenger during a calendar year, with up to US$ 5,000 or equivalent for travelling to SAARC member countries and Myanmar and up to US$ 7,000 or equivalent for travelling to other countries. As before, for minors (below 12 years in age) the applicable quota will be half of the amount admissible for adults. The threshold of releasing foreign exchange in the form of cash USD (notes & coins) is up to 3000 per person per trip.

BB has introduced refinance scheme for 10 Taka account holders under financial inclusion program

With a view to extending soft loans to the deprived grass-root population/ 10 Taka account holders, small/ marginal/ landless/ natural disaster affected farmers and micro/small traders under financial inclusion program, BB has constituted a Taka 200 crore revolving refinance fund from its own source.

BB has increased Cash Reserve Requirement (CRR) for all scheduled banks

With a view to attaining the objectives of monetary policy, BB has decided that CRR will be 6.5 percent (previously, it was 6 percent) on bi-weekly average basis with a provision of minimum 6.0 percent (previously, it was 5.5 percent) on daily basis for all scheduled banks (including Shariah based banks).

BB has allowed foreign owned/controlled companies to have access to BD Taka term loans from the domestic market

Given the prevailing comfortable liquidity situation in the local markets, BB has decided that foreign owned/controlled companies engaged in manufacturing or services output activities for three years or longer in Bangladesh can access Taka term loans from the domestic market regardless of local content in their equity, subject to adherence by banks/financial institutions to all applicable credit norms and prudential parameters including single borrower exposure limit, debt-equity ratio and so forth.

BB has allowed foreign owned/controlled industrial enterprises to have access to short term interest free loan from parent companies/shareholders abroad

Foreign owned/controlled industrial enterprises in Bangladesh have indicated occasionally arising urgent necessity of short term borrowing for business needs other than inputs procurements, for which working capital financing from the local market has not yet been lined up. To help foreign owned/controlled industrial enterprises get around such difficulties, BB has decided that they may henceforth access interest free loans from parent companies/shareholders abroad for up to one year without any prior approval, subject to post facto reporting to BB.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year										
		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector												
Per Capita GDP	USD	441	463	476	487	559	620	687	748	766	1088	1115
Real GDP Growth	%	6.3	6.0	6.6	6.4	6.2	5.7	6.1	6.7	6.3	6.2	6.12
GDP (Market Price)	Billion USD	56.5	60.4	62.0	68.4	79.6	89.4	100.4	111.9	115.7	129.9	173.8
Agriculture	% of GDP	23.1	22.3	21.9	21.4	20.7	20.5	20.3	18.0	17.4	16.8	16.3
Industry	% of GDP	27.7	28.3	29.0	29.4	29.8	29.8	29.9	27.4	28.1	29.0	29.6
Services	% of GDP	49.2	49.4	49.1	49.2	49.5	49.7	49.8	54.6	54.5	54.2	54.1
Investment	% of GDP	24.0	24.5	24.7	24.5	24.2	24.4	24.4	27.4	28.2	28.4	28.7
National Savings	% of GDP	19.5	25.8	27.7	28.7	30.2	29.6	30.0	29.0	29.9	30.5	30.5
Headline Inflation (12 mth avg)	%	5.8	6.5	7.2	7.2	9.9	6.7	7.3	8.8	10.6	6.8*	7.4*
- Food Inflation	%	6.9	7.9	7.8	8.1	12.3	7.2	8.5	11.3	10.4	5.2*	8.6*
- Non-Food Inflation	%	4.3	4.3	6.4	5.9	6.3	5.9	5.5	4.2	11.1	9.2*	5.5*
- Core inflation	%	-	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector												
Revenue Collection (CSR)	Billion USD	6.0	6.4	6.7	7.2	8.8	10.1	11.5	13.4	15.0	17.5	20.2
Fiscal Deficit (excluding grants)	% of GDP	4.2	4.4	3.9	3.7	6.2	4.1	3.7	4.4	5.0	4.8	4.4
Fiscal Deficit (including grants)	% of GDP	3.4	3.7	3.3	3.2	5.4	3.3	3.3	3.8	4.6	4.3	4.0
Public Debt	% of GDP	4.6	47.0	46.7	44.8	42.9	41.0	37.4	37.4	36.5	35.3	-
- of which foreign debt	% of GDP	2.2	30.5	30.1	28.2	25.5	23.3	20.3	19.7	19.0	17.9	-
- domestic debt	% of GDP	2.4	16.4	16.6	16.6	17.2	17.7	16.9	17.7	17.5	17.4	-
- debt servicing	% of total revenue	10.0	16.6	16.8	18.5	19.8	19.2	18.4	15.3	15.2	19.8	-
III. External Sector												
Exports (f.o.b)	Billion USD	7.5	8.7	10.4	12.1	14.2	15.6	16.2	22.6	24.0	26.6	30.2
Imports (f.o.b.)	Billion USD	9.8	13.2	13.3	15.5	19.5	20.3	21.4	30.3	33.3	33.6	40.7
Trade Deficit	Billion USD	2.3	4.5	2.9	3.4	5.3	4.7	5.2	7.7	9.3	7.0	10.5
Remittances	Billion USD	3.4	3.8	4.8	6.0	7.9	9.7	11.0	11.7	12.8	14.5	14.2
Current Account Balance	Billion USD	0.2	-0.6	0.8	0.9	0.7	2.4	3.7	-1.7	-0.4	2.4	1.5
Current Account Balance	% of GDP	0.4	-0.9	1.3	1.4	0.9	2.7	3.7	1.5	0.3	1.9	0.9
Total Foreign Investment	Million USD	391	800	775	899	795	802	796	740	1193	2094	2375
- Foreign Direct Investment	Million USD	385	800	743	793	748	961	913	768	995	1726	1550
- Portfolio Investment	Million USD	6.0	0.0	32.0	106.0	47.0	-159.0	-117.0	-28.0	198.0	368	825
External Debt and Forex Liabilities	Billion USD	18.0	18.4	18.6	19.4	20.3	20.1	20.3	21.5	22.8	23.3	-
External Debt and Liabilities	As % of Forex earnings	-	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	%	0.8	1.0	1.5	0.9	2.0	1.7	1.2	2.3	3.2	2.7	-
External Debt Servicing Ratio	% of outstanding external debt	3.1	3.6	3.4	3.6	3.8	4.0	4.3	4.2	4.2	4.7	-
Exchange Rate	Per USD	58.9	61.4	67.1	69.0	68.6	68.8	69.2	71.2	79.1	79.9	77.8
Foreign Exchange Reserve	Billion USD	2.7	2.9	3.5	5.1	6.1	7.4	10.8	10.9	10.2	15.3	21.5
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	13.7	17.1	23.4	16.5	22.7	10.3	28.0	18.7	6.4	10	14.6
Growth Rate of M_2	y-o-y	13.8	16.7	19.3	17.1	17.6	19.2	22.4	21.3	17.4	16.7	16.1
Growth Rate of M_3	y-o-y	13.7	15.2	17.8	15.8	15.7	17.7	23.0	18.9	15.5	15.3	16.5
Weighted Avg. Lending Rate	%	11.0	10.9	12.1	12.8	12.3	11.9	11.3	12.4	13.8	13.7	13.1
Credit growth to Private Sector	%	16.7	16.9	18.1	15.0	25.0	14.6	24.2	25.8	19.7	10.9	12.2
Stock Market (Price Index)		1319.0	1713.2	1339.5	1764.2	2588.0	2520.2	5111.6	6117.2	4572.9	4385.8	4480.5
Market Capitalization of DSE#	Billion Taka	142.4	224.6	225.3	491.7	931.0	1241.3	2700.7	2853.9	2491.6	2530.2	2386.3
Market Capitalization of DSE#	% of GDP	4.3	6.1	5.4	10.4	17.1	20.2	38.9	35.8	27.2	24.4	17.7
Market Capitalization of DSE#	Billion USD	2.4	3.7	3.4	7.1	13.6	18.0	39.0	40.1	31.5	31.7	30.7
V. Banking Sector Indicators												
Capital adequacy ratio	%	5.5	5.6	6.7	9.6	10.1	11.6	9.3	11.4	10.5	9.1	10.7
Non-performing loans	%	14.0	13.6	13.2	13.2	10.8	9.2	7.3	6.1	10.0	11.9	10.8
Profitability (R.O.E)	%	12.2	12.4	14.1	13.8	15.6	21.7	21.0	17.0	8.2	8.2	8.4
Profitability (R.O.A)	%	0.7	0.6	0.8	0.9	1.2	1.4	1.8	1.5	0.6	0.6	0.6

Note: All data are provided on the basis of Bangladesh Financial Year (July-June). This format is adopted on recommendations of the SAARCFINANCE meeting on Improvement of SAARCFINANCE e-Newsletter and Development of SAARCFINANCE Scholarship Scheme, 9-10 January 2013, Dhaka, Bangladesh.
PJ= projected, p=provisional, *=Base 2005-06=100
- Not available, # DSE= Dhaka Stock Exchange

BHUTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real GDP growth slowed down to 4.6 percent in 2012 from 8.6 percent in the preceding year. The drop in Bhutan's growth was largely attributed to a negative growth in the community, social and personal; financial, and insurance, as well as mining/quarrying and electricity sectors. Other key sectors that also experienced a slowdown in economic performance were the construction, real estate, and transportation sectors.

Growth in broad money decreased during the quarter ending June 2014 recording 6.6 percent from 18.6 percent during the same quarter last year. Meanwhile, inflation measured by the year-to-year change of the consumer price index was recorded at 10.0 percent, 9.0 percent and 8.1 percent in January, March and June 2014 respectively and quarterly average inflation during the second quarter of 2013 was recorded at 5.5 percent. The rise in the prices of both food and non-food commodities contributed to the hike during June 2014. During the month, domestic inflation rate was recorded at 9.4 percent and imported inflation rate was at 7 percent.

As of June 2014, the total assets of the financial institutions increased to Nu. 98.8 billion from Nu. 88.4 billion in June 2013, recording a growth of 11.7 percent during the review quarter. This increase was attributed to a rise in cash and bank balances and loans and advances of the financial institutions. Though profits after tax of financial institutions decreased to Nu.0.1 billion from Nu.0.9 billion in the previous year, banks overall capital remained well above regulatory limits with the CAR at 19.5 percent as of June 2014.

As of the FY ending 2012/13, the current account deficit widened to 25 percent of GDP from 23 percent during the previous year. There was a slight improvement on the trade front with country other than India that resulted in improving the merchandise trade deficit from 23.1 percent of GDP to 21.6 percent as of the year ending June 2013 and once again, deficits were considerably countered by substantial inflows on the capital account due to both budgetary as well as hydro-power related grant receipts.

As of June 2014, international reserves stood at USD 997.9 million. Of the total reserves, USD 829.3 million were convertible currency reserves and ₹ 10.1 billion were Indian Rupee reserves. Reserves were sufficient to cover 22.7 months of merchandise imports at the end of June 2014.

The country's total outstanding external debt as of June 2014 stood at USD 1.8 billion. Of the total, ₹ 67.9 billion (USD 1129.4 million equivalent) were Indian Rupee debt and USD 629.5 million were outstanding convertible currency debt. Debt servicing for the quarter ending June 2014 amounted to USD 25.4 million on convertible currency debt and ₹ 9.4 billion for Rupee denominated debt.

Meanwhile, on the fiscal front, as of June 2014, total revenue including grants, increased marginally from 30.8 percent of GDP to 30.9 percent of GDP in FY 2013/14. Total expenditure also increased slightly from 35.1 percent of GDP in 2012/13 to 35.2 percent of GDP during 2013/14. As a result, the national budget deficit was 4 percent of GDP for the FY 2013/14 compared to surplus of 4.1 percent of GDP in the previous year. At Nu.21.9 billion, domestic revenue was more than sufficient to finance all current expenditures totaling Nu.19.3 billion. Capital expenditure during the year decreased to 18 percent of GDP from 19.6 percent of GDP in the previous year. Grant support helped finance 28.2 percent of total expenditure.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

1. The RMA is currently working on lifting a ban on the housing, vehicle and consumer loans which are expected to be implemented from September 2014.

2. During 12-14 May, in line with the Base Rate Operational Guidelines, the RMA conducted the Second Base Rate Review Meeting with the commercial banks. For the FY 2014, the base rate for the commercial banks ranged between 10.32% to 11.43% and 12% for the NBFIs.

3. After in-depth needs assessment with the IMF and the World Bank, the RMA issued the newly revised Reserve Management Policy on 1 September 2014.

4. Ongoing financial literacy initiatives and programs conducted by the RMA have recently targeted Bhutan's youth to increase awareness on the importance of financial inclusion and education. During March 2014, the RMA organized Global Money Week in partnership with the financial institutions in Paro and conducted interactive sessions with selected schools on the importance of money, savings, the difference between "wants" and "needs", with financial institutions, creating livelihoods, gaining insurance, social security, rights of the customers while dealing employment and entrepreneurship. Financial literacy materials were distributed and fast track services were also provided by the banks in opening saving and piggy bank accounts for children.

5. With the ADB's initiative for supporting financial stability in Bhutan, a two-year programme which was launched in March 2013 undertook major tasks including (i) development of macro-prudential policies, tools and a monitoring framework; (ii) improving liquidity management plan and strategies; and (iii) enhancing capacity building and training for central bank staff performing financial stability functions during 2013/14. Under this TA, drafting of macro-prudential regulations including (i) countercyclical buffer for banks; (ii) loan-to-value and loan-to-income rules; (iii) sectoral capital requirements; (iv) time-varying capital provisioning; (v) debt-to-equity ratio; (vi) restriction on distribution of profits; and (vii) minimum ceiling on leverage ratios were initiated and are currently under implementation phase.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year									
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector											
Per Capita GDP(a)	US$	1214.20	1366.40	1387.40	1814.90	1875.54	1851.58	2277.76	2600.09	2584.81	2987.07(P)
Real GDP Growth(a)	%	5.90	7.96	6.85	17.93	4.77	6.66	11.73	8.55	4.62	3.11(P)
GDP (MP)	Billion US$	0.76	0.88	1.13	1.09	1.24	1.44	1.75	1.84	1.89(P)	0.94(P)
Agriculture	% of GDP	10.54	9.80	9.13	9.06	9.25	9.12	8.96	9.49	17.16(P)	17.24(P)
Industry	% of GDP	1.46	1.84	1.94	2.06	2.28	2.25	2.25	2.11	38.86(P)	37.97(P)
Services	% of GDP	6.17	6.34	6.03	5.88	5.81	5.86	6.28	7.12	37.97(P)	38.71(P)
Investment(a)	% of GDP	61.95	51.22	47.95	37.70	41.39	43.03	52.09	61.01	59.20	-
National Savings(a)	% of GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	39.49(P)	33.75(P)
Headline Inflation	%	5.46	6.17	5.94	8.85	2.96	6.14	8.33	13.53	11.31	8.41(Apr)
- Food Inflation	%	5.02	5.23	8.84	11.75	10.74	9.53	8.96	11.80	14.46	11.12(Apr)
- Non-Food Inflation	%	4.89	5.33	2.95	7.74	0.73	8.86	8.17	8.30	9.27	6.41(Apr)
- Core inflation	%	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector											
Revenue Collection (CSR)	Billion US$	0.14	0.16	0.23	0.31	0.35	0.43	0.39	0.40	0.39	0.37(E)
Fiscal Deficit (excluding grants)	% of GDP	-21.63	-18.67	-14.05	-11.19	-10.02	-16.36	-16.78	-20.16	-13.04	-10.92
Fiscal Deficit (including grants)	% of GDP	-7.65	-0.88	0.71	0.82	2.00	1.80	-2.30	-4.38	-1.69	-3.75
Public Debt	% of GDP	100.38	93.44	76.28	61.94	66.73	61.21	73.34	80.42	99.59	94.03(P)
- of which foreign currency	% of GDP	94.72	94.48	76.72	62.30	66.50	63.15	71.42	80.63	-	90.69(P)
- domestic debt	% of GDP	0.057	-0.010	-0.004	-0.004	0.002	-0.019	0.019	-0.002	-0.002	2.51(P)
- debt servicing	% of total revenue	7.42	6.67	6.30	26.31	35.61	27.46	62.10	137.83	-	47.54(P)
III. External Sector											
Exports (f.o.b)	Billion US$	0.21	0.31	0.57	0.60	0.52	0.54	0.67	0.62	0.59	-
Imports (f.o.b.)	Billion US$	0.46	0.435	0.53	0.67	0.61	0.84	1.12	1.01	0.95	-
Trade Deficit	Billion US$	-0.25	-0.12	0.47	-0.08	-0.09	-0.27	-0.46	-0.40	-0.35	-
Remittances	Billion US$	0.001	0.002	0.002	0.002	0.003	0.004	0.005	0.011	0.007	-
Current Account Balance	Billion US$	-0.24	-0.04	0.08	-0.11	-0.01	-0.32	-0.52	-0.39	-0.45	-
Current Account Balance	% of GDP	-32.40	-4.70	9.10	-9.10	-6.60	-24.30	-32.60	-23.00	-25.00	-
Total Foreign Investment	Million US$	8.99	6.12	73.99	3.10	27.80	53.70	67.80	83.30	134.80	-
- Foreign Direct Investment	Million US$	8.99	6.12	73.99	3.10	27.80	53.70	67.80	83.30	134.80	-
- Portfolio Investment	Million US$	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	Billion US$	0.67	0.78	0.72	0.82	0.80	0.87	1.35	1.42	1.54	1.76
External Debt and Forex Liabilities	% of forex earnings	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	%	-	-	-	4.47	7.16	7.35	12.99	15.14	16.36	9.97(P)
External Debt Servicing Ratio (pl see footnote)	***	12.20	7.91	3.68	18.27	30.51	29.75	30.96	55.80	-	-
Exchange Rate	Per US$	44.61	44.74	44.19	40.37	47.78	46.65	45.33	50.27	62.00	59.81
Foreign Exchange Reserves	Billion US$	0.363	0.486	0. 608	0.55	0.68	0.76	0.80	0.67	0.93	1.00
IV. Monetary & Capital Market											
Growth Rate of M_1	y-o-y	9.70	14.40	26.80	6.30	27.70	22.70	34.30	5.60	2.60	5.00
Credit growth to Private Sector	%	27.74	35.86	34.4	35.80	28.90	40.73	29.4	30.07	7.96	8.21
Stock Market (Price Index)	1991=100		-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)(a)	Domestic Currency in Billion	4.3	4.47	4.64	5.03	7.37	8.07	10.01	14.38	17.63	20.59
Market Capitalization (as leading stock mkt) (a)	% of GDP	14.0									
Market Capitalization (as leading stock mkt)(a)	Billion US$	0.10	0.10	0.11	0.13	0.15	0.17	0.22	0.29	0.32	0.35
V. Banking Sector Indicators											
Capital adequacy ratio (a)	%	17.72	20.81	17.05	16.12	14.94	14.78	15.90	17.89	19.61	19.5
Non-performing loans(a)	%	-	6.57	4.92	4.91	7.53	6.83	5.20	3.92	6.57	12.11
Profitability (R.O.E.)(a)	%	14.19	15.02	18.37	18.31	17.08	22.54	15.72	16.10	13.00	0.41
Profitability (R.O.A.)(a)	%	1.30	1.42	1.58	1.54	1.50	1.86	1.58	2.24	2.40	0.07

******* The ratio of debt service (interest and principal payments due) during a year, expressed as a percentage of current receipts minus official transfers. (This is the formula used while computing DSR in India).
(a) on a calendar year basis, for example, the entry under 2002/03 is for 2002
Credit to private sector includes credit given by non-bank financial institutions as well.
Foreign Exchange Reserve comprises of Indian Rupee and USD
GDP estimates as per MFCTC (September 2014)

INDIA

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Growth Outlook

India's real GDP growth picked up marginally to 4.74 percent during 2013-14 (4.47 percent in 2012-13), preceded by two years of consecutive slowdown. Real GDP growth during 2013-14 (and 2012-13) was lower than the growth achieved during 2008-09 (6.72 percent) following the impact of global financial crisis. While the growth rates of agriculture sector picked up in 2013-14, industrial sector growth contracted and that of services sector growth remained almost same as that in the corresponding period of the previous year. Within industry, while the value added in both 'mining & quarrying' and 'manufacturing' sub-sectors contracted, the 'electricity' sub-sector showed higher growth during 2013-14. Within the services sector, the higher growth rate of the 'financing, insurance, real estate and business services' sub-sector was largely offset by the deceleration in the 'trade, hotels, transports and communication' sub-sector. Structural impediments, high inflation and domestic policy uncertainties are some of the factors that weighed down the growth process. Real GDP growth for Q1 of 2014-15 (April-June) improved to 5.7 percent as compared with 4.7 percent recorded in Q1 of 2013-14 and 4.6 percent recorded in Q4 of 2013-14. The quarterly growth in real GDP was higher than 5.5 percent after a gap of ten consecutive quarters. The pick-up in growth in real GDP during Q1 of 2014-15 reflected significant improvement in industry, while agriculture growth moderated marginally. Services sector showed marginal improvement.

Inflation Outlook

CPI-combined inflation declined to 7.80 percent in August 2014 from 7.96 percent in July 2014 driven by the base effect of sharp increase in prices a year ago. Food prices, however, increased by 1.6 percent over the month. Vegetables prices increased by 7.0 percent m-o-m driving this increase. CPI inflation, excluding food and fuel, moderated significantly and moved below 7.0 percent in August 2014 from 7.4 percent in July 2014. Overall decline in pace of price increase was witnessed in most categories with housing sub-group showing a marked decline to 8.5 percent. Earlier during the year, CPI inflation eased to 8.0 percent in February 2014 from 8.8 percent in January 2014 on account of seasonal price corrections of vegetable prices. However, the respite from seasonal correction was short lived as CPI inflation increased to 8.6 percent in April 2014 driven by sharp pick-up in food price inflation. Thereafter CPI inflation eased during May-June 2014 on account of favorable base effects and disinflationary momentum in non-food items. Higher prices of vegetables, fruits and protein-based food items were offset by the muted increase in the prices of non-food items, particularly those of household requisites and transport and communication.

External Sector Outlook

India's merchandise exports during 2013-14 at US$ 314.41 billion posted an increase of 4.66 percent as against a contraction of 1.82 percent during 2012-13. Imports during 2013-14 at US$

450.23 billion recorded a decline of 8.25 percent as compared to an increase of 0.29 percent during 2012-13. The fall in import growth was mainly due to fall in non-oil imports, particularly gold imports. With a pickup in exports and moderation in imports, India's trade deficit narrowed significantly from US$ 190.34 billion during 2012-13 to US$ 135.82 billion during 2013-14. In 2014-15 so far (April-July), exports increased by 8.62 percent as compared with 2.73 percent in the corresponding period of the previous year. On the other hand, imports contracted by 3.80 percent in April-July 2014 as against an increase of 1.31 percent in the corresponding period of the previous year. Trade deficit stood at US$ 45.31 billion in April-July 2014, much lower than US$ 59.91 billion in the corresponding period of the previous year. Following a lower trade deficit, India's current account deficit narrowed sharply from 4.73 percent in 2012-13 to 1.72 percent of GDP in 2013-14 and thus remained within the sustainable level.

Despite a steep decline in net capital and financial flows, there has been larger accretion to foreign exchange reserves to the tune of US$ 15.51 billion during 2013-14 as compared to US$ 3.83 billion during 2012-13. Reserve Bank's swap windows offered during September to November 2013 to mobilize fresh FCNR(B) and raise overseas borrowing helped in rebuilding the forex reserves which stood at US$ 304.22 billion as at end-March 2014 which further increased to US$ 317.31 billion as on September 05, 2014.

Monetary Developments

The average y-o-y growth in reserve money during 2014-15 (upto 5 September 2014) has been around 10 percent. The reserve money variation was primarily led by pick-up in currency in circulation on the components side and net foreign assets on the sources side. Reserve money grew by 9.2 percent as on week ended 5 September 2014 compared with an increase of 8.2 percent in the previous year. Adjusted for the first round effect of change in cash reserve ratio (CRR), reserve money growth was 9.0 percent compared with 11.4 percent in the previous year. The y-o-y growth in broad money (M3) was 13.0 percent as on fortnight ended 22 August 2014, compared with a growth of 12.1 percent in the same period of previous year. Higher growth in M3 was mainly driven by improved growth in aggregate deposits at 13.3 percent as compared with 12.5 percent growth seen during the corresponding period of the previous year. On the sources side, growth in broad money supply was mainly supported by increase in net foreign exchange assets of the banking sector.

Fiscal Policy

The Union Budget 2014-15, in line with the revised roadmap for fiscal consolidation, has indicated reduction in gross fiscal deficit-GDP ratio from 4.5 percent in 2013-14 to 4.1 percent in 2014-15 and further to 3.0 percent by 2016-17. The key deficit indicators of the Central Government, viz., revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD), as percentage of GDP, at 3.2 percent, 4.5 percent and 1.2 percent, respectively, in the provisional accounts (PA) for 2013-14 were lower than in the revised estimates and budget estimates for the year. Reduction in revenue deficit in 2013-14 (PA) over the revised estimates for the year was brought about by cutbacks in plan and non-plan revenue expenditures coupled with higher non-tax revenue which more than offset the shortfall in tax revenue, resulting from continued slowdown in growth. Reduction in revenue deficit coupled with higher non-debt capital receipts and lower capital expenditure resulted in a marginally lower GFD-GDP ratio compared to the revised estimate of 4.6 percent. RD, GFD and PD as percentages to their budget estimates (BE) were higher during April-June 2014 than that in the corresponding period of the previous year. The revenue deficit as percentage to BE was higher by 10.5 percentage points than that in April-June 2013. Tax revenues, both in absolute terms as well as percentage of BE, was lower than in the corresponding period of the previous year, with lower collections under corporation taxes, custom duties and union excise duties. Total expenditure as percentage to BE remained unchanged from the previous year. While revenue expenditure as percent of BE was marginally higher, expenditure on major subsidies was 32.4 percent of BE in April-June 2014 (35.7 percent of BE in April-June 2013). Capital expenditure during April-June 2014 was lower, both in absolute terms as well as percentage to BE, on account of lower non-plan capital expenditure.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

December 18, 2013	The policy repo rate under the Liquidity Adjustment Facility (LAF) at 7.75 percent and Cash Reserve Ratio (CRR) at 4.0 percent of Net Demand and Time Liabilities (NDTL) were kept unchanged.
January 22, 2014	Open Market Operations (OMO) purchase of INR 94.8 billion.
January 28, 2014	• The policy repo rate under LAF was increased by 25 basis points (bps) from 7.75 percent to 8.0 percent. Consequently, the reverse repo rate stood adjusted at 7.0 percent, and the Marginal Standing Facility (MSF) rate and the Bank Rate at 9.0 percent. CRR was kept unchanged. • Enunciation of the "glide path" for disinflation that sets an objective of 8 percent CPI inflation by January 2015 and 6 percent consumer price index (CPI) inflation by January 2016, as indicated by the Expert Committee to Revise and Strengthen the Monetary Policy Framework. • Monetary policy reviews to be undertaken in a bi-monthly cycle going forward.
April 1, 2014	Liquidity provided under 7-day and 14-day term repos was increased from 0.5 percent of NDTL of the banking system to 0.75 percent of NDTL, and liquidity provided under overnight repos under the LAF was reduced from 0.5 percent of bank-wise NDTL to 0.25 percent.
June 3, 2014	• The liquidity provided under the export credit refinance (ECR) facility was reduced from 50 percent of eligible export credit outstanding to 32 percent. Commensurately, a special term repo of 0.25 percent of NDTL of banks was done. • The Statutory Liquidity Ratio (SLR) of scheduled commercial banks was reduced by 50 bps from 23.0 percent to 22.5 percent of their NDTL with effect from the fortnight beginning 14 June 2014.
August 5, 2014	• The SLR of scheduled commercial banks was reduced by 50 bps from 22.5 percent to 22.0 percent of their NDTL with effect from the fortnight beginning August 9, 2014. • In order to enable banks greater participation in financial markets, the Held to Maturity (HTM) ceiling reduced to 24 percent of NDTL with effect from the fortnight beginning August 9, 2014. • Since January 2014, variable rate term repo auctions of varied tenors (1-day, 3-day, 5-day, 7-day, 9-day, 21-day and 28-day) in addition to the regular 7-day and 14-day auctions, have been conducted from time to time, based on assessment of liquidity. Since June 2014, two 4-day term reverse repo auctions have been conducted.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year											
		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector													
Per Capita GDP (Real)	US$	503	564	607	664	701	851	785	814	909	911	828	770
Real GDP Growth	%	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.6	8.9	6.7	4.5	4.7
GDP (MP at Current Prices)	Billion US$	523	618	722	834	948	1241	1227	1367	1707	1881	1859	1877
Agriculture	% of GDP	20.1	20.3	19.0	18.3	17.4	16.8	15.8	14.6	14.6	14.4	13.9	13.9
Industry	% of GDP	20.6	20.1	20.2	20.1	20.7	20.6	20.1	20.4	20.3	20.3	19.6	18.7
Services	% of GDP	59.3	59.6	60.7	61.7	62.0	62.5	64.1	64.9	65.1	65.3	66.4	67.4
Investment	% of GDP(MP)	24.8	26.9	32.8	34.7	35.7	38.1	34.3	36.5	36.5	35.5	34.8	
Domestic Savings	% of GDP(MP)	25.9	29.0	32.4	33.4	34.6	36.8	32.0	33.7	33.7	31.3	30.1	
Headline Inflation (WPI)	%	3.4	5.5	6.5	4.5	6.6	4.7	8.1	3.8	9.6	8.9	7.4	6.0
- Food Inflation	%	3.1	4.3	3.6	3.7	7.9	5.6	8.9	14.6	11.1	7.2	9.3	9.4
- Non-Food Inflation	%	3.5	5.9	7.5	4.7	6.2	4.5	7.8	0.2	9	9.6	6.6	4.6
- Excl. Food and Fuel inflation	%	2.8	5.7	6.5	2.6	6.1	5.7	6.8	0.9	8.1	8.4	5.6	3.0
II. Fiscal Sector													
Revenue Collection (CSR) *	Billion Rs.	2308.3	2638.1	3059.9	3470.8	4343.9	5418.6	5402.6	5728.1	7884.7	7514.4	8792.3	10152.8(P)
Fiscal Deficit (excluding grants)	% of GDP												
Fiscal Deficit (including grants)	% of GDP	5.7	4.3	3.9	4.0	3.3	2.5	6.0	6.5	4.8	5.7	4.8	4.5(P)
Public Debt	% of GDP	42.7	41.9	41.2	40.2	38.4	38.5	38.1	38.0	36.2	37.7	39.0(P)	39.0 @
- of which external debt***	% of GDP	2.4	1.6	1.9	2.6	2.4	2.2	2.2	2.1	2.0	1.9	1.8(P)	1.6 @
- domestic debt ****	% of GDP	40.3	40.2	39.4	37.6	36.0	36.3	35.9	35.9	34.2	35.8	37.2(P)	37.4 @
- debt servicing	% of total Revenue												
III. External Sector													
Exports (f.o.b)	Billion US$	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	256.2	309.8	306.6	318.6
Imports (c.i.f)	Billion US$	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	383.5	499.5	502.2	466.2
Trade Deficit	Billion US$	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-127.3	-189.8	-195.7	-147.6
Remittances	Billion US$	16.8	22.2	20.8	24.7	30.1	41.9	44.8	52.0	53.1	63.5	64.0	65.3
Current Account Balance	Billion US$	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-48.1	-78.2	-88.2	-32.4
Current Account Balance	% of GDP	1.3	2.3	-0.3	-1.2	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.7	-1.7
Total Foreign Investment	Million US$	4161	13744	13000	15528	14753	43326	8342	50363	42127	39231	46711	26,386
- Foreign Direct Investment	Million US$	3217	2388	3713	3034	7693	15893	22372	17966	11834	22061	19819	21,564
- Portfolio Investment	Million US$	944	11356	9287	12494	7060	27433	-14031	32396	30293	17170	26891	4,822
External Debt and Forex Liabilities	Billion US$	104.9	112.6	134.0	139.1	172.4	224.4	224.5	260.9	317.9	360.8	409.4	440.6
External Debt and Forex Liabilities	% of forex earnings	72.5	100.3	105.6	109.0	115.6	138.0	112.2	106.9	95.9	81.6	71.3	69.0
Short-term debt to GDP	%	0.9	0.7	2.4	2.4	2.9	3.7	3.9	3.6	3.7	4.4	5.2	4.7
External Debt Servicing Ratio (pl see footnote)		16.0&	16.1&&	5.9^	10.1#	4.7	4.8	4.4	5.8	4.3	6.0	5.9	5.9
Exchange Rate	Per US$	48.4	46.0	44.9	44.3	45.3	40.2	45.9	47.4	45.6	47.9	54.4	60.5
Foreign Exchange Reserves	Billion US$	76	113	142	152	199	310	252	279	305	294	292	304
IV. Monetary & Capital Market													
Growth Rate of M_1	y-o-y	12.0	22.2	12.3	20.7	17.1	19.4	9.0	18.2	10.0	6.0	9.2	8.3(P)
Growth Rate of M_2	y-o-y												
Growth Rate of M_3	y-o-y	14.7	16.7	12.0	16.9	21.7	21.4	19.3	16.9	16.1	13.5	13.6	13.2(P)
Weighted Avg Lending Rate of SCBs	% (as on 31st March)	13.3	13.2	12.6	12.0	11.9	12.3	11.5	10.5	11.4	12.6	12.1 (P)	
Bank Credit to commercial sector (%)	%	18.3	13.0	**25.6**	27.3	26.1	21.1	16.9	15.8	21.3	17.8	13.5	13.7(P)
Stock Market (Price Index) (BSE)	End 1991=100	261	478.7	555.9	965.8	1119.2	1339.5	831.2	1500.7	1664.9	1490.1	1612.7	1916.7
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	5722	15396	16984.3	30221.9	35450.4	51380.2	30860.8	61656.2	68390.8	62149.1	63878.9	74153
Market Capitalization (as leading stock mkt)	% of GDP	22.6	54.2	52.4	81.8	82.5	103	54.8	95.2	87.9	69	63.2	65.3
Market Capitalization (as leading stock mkt)	Billion US$	120.1	341.2	388.7	679.4	805.2	1273.2	602.4	1355.2	1520.1	1235.1	1209.6	1215.4
V. Banking Sector Indicators													
Capital adequacy ratio	%	12.7	12.9	12.8	12.3	12.3	13.0	13.2	13.6	13.0	12.9	13.9@@	12.9@@
Non-performing loans	%	8.8	7.2	5.2	3.3	2.5	2.3	2.3	2.4	2.5	3.1	3.6	-
Profitability (R.O.E.)	%	18.8	20.6	15.8	14.8	15.5	16.0	15.4	14.3	15.0	14.6	13.8	-
Profitability (R.O.A.)	%	1.1	1.2	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0	-

##: Data pertains to 2013-14 Apr-Dec
*: Pertains to revenue receipts of the central government.
**: Data pertains to 2013-14 Apr-Feb
***: External debt at historical exchange rate.
****: Pertains to internal debt.
@: pertains to revised estimates.
& works out to 12.4 percent with the exclusion of prepayment of external debt of US $ 3,430 million
&& works out to 8.2 percent with the exclusion of pre payment of external debt of US $ 3,797 million & redemption of Resurgent India Bonds (RIBs) of US $ 5,549 million.
^ works out to 5.7 percent with the exclusion of pre payment of external debt of US $ 381 million
\# works out to 6.3 percent with the exclusion of India Millennium Deposits (IMDs)
P: Provisional Data
@@CRAR under Basel II

MALDIVES

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

The tourism sector recorded robust growth in the first half of 2014, supported by increased arrivals from both Europe and China. The favourable growth in the tourism industry during the period suggests that the arrival of a million tourists during one calendar year is likely to be achieved in 2014 as well. Spurred by the improvement in tourism, wholesale and retail trade also showed positive developments during the first half of the year. Meanwhile, the productive activities of the fisheries sector improved with a higher volume of fish purchases. Although the volume of fish exports increased during the period, the earnings on such exports declined reflecting the decline in international fish prices. As for the construction sector, it continued to strengthen on the back of further easing of supply shortages as well as commencement of several major government construction projects.

Despite some pick-up inflation in recent months, consumer price inflation decelerated further from 4.7% in the first half of 2013 to 2.9% in the first half of 2014. The moderation in the rate of inflation reflected slower growth in food prices and the cost of housing and utilities. The most volatile item in the CPI basket, fish prices, remained largely stable during this period. Therefore, inflation excluding fish stood only slightly higher at 3.0% during this period.

As for public finances, most of the new revenue measures proposed for the year were approved by the Peoples' Majlis, albeit with several amendments. This is likely to result in a revenue shortfall compared to what was budgeted. However, total revenue increased during the first half of the year due to sizable receipts from Goods and Services Tax and Business Profit Tax. As for total expenditure, a significant increase was recorded during this period, owing mostly to higher recurrent expenditure. With the widening budget deficit, financing issues mounted during the period. Therefore, the government relied entirely on T-bills subscriptions and borrowings, mostly from Maldives Monetary Authority (MMA), to finance the deficit during this period.

On the monetary front, monetary aggregates continued to register strong growth during the first half of 2014. As such, broad money and reserve money grew at an accelerated annual growth rate during this period. Commercial bank credit to the private sector, which grew only modestly during the last half of 2013, continued this trend and recorded a marginal growth during the first half of 2014. As for the overall banking sector, it remained robust with strong deposit growth, increased earnings and healthy capital and liquidity positions.

With regard to the external sector, trade deficit widened further during the first half of the year due to higher imports coupled with falling exports. During this period the higher imports were due to strong growth in real sector activities such as construction and commerce. Gross international reserves continued on an upward trend during the first half of 2014, driven by an increase in reserve balances of commercial banks kept with MMA as a result of increase in foreign currency deposit base. Reserves in terms of months of imports increased to 3.1 months by the end of the first half of the year.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

During the first half of the year (January–June 2014), the monetary policy framework remained broadly unchanged, with the exception of the reduction in the MRR rate. Accordingly, the prime objective of the MMA's monetary policy remains at attaining price stability and managing an adequate level of external reserves. The current monetary policy framework of the MMA is designed to enhance the effectiveness of the monetary policy implementation and develop the domestic interbank market. In pursuit of the ultimate objective, MMA aims to maintain the external value of the rufiyaa against the US dollar by managing the level of liquidity in the banking system. At present, the policy instruments utilized are the Minimum Reserve Requirement (MRR), Open Market Operations (OMOs), MMA's standing facilities: overnight Lombard facility (OLF), overnight deposit facility (ODF) and foreign exchange SWAP facility.

The MRR was reduced from 25% to 20% on 20 February 2014, with the aim of adopting a modern central banking system that is less reliant on direct monetary policy instruments to manage the liquidity in the banking system. Meanwhile, the gradual reduction in MRR also intends to align the MRR rate to that of international standards. Nonetheless, the remuneration rate remained unchanged for both local and foreign currency MRR balances. As such, the remuneration rate for local and foreign currency MRR is at 1% and 0.01% per annum, respectively. Moreover, all commercial banks are required to maintain their MRR balances for a 14-day period.

The MMA continued to conduct monetary operations with the commercial banks to manage the liquidity in the banking system via OMOs and ODF during the first six months of 2014. The main policy rate, i.e. the Indicative Policy Rate (IPR), remains at 7% per annum as an indicative rate for conducting the OMOs. Nevertheless, given the macroeconomic conditions at the time, OMOs was temporarily suspended from 30 April 2014 onwards. The underlying reason for the short term intermission of OMO was to mainly provide fiscal ease for the government due to a tight cash flow position.

In the first half of 2014, the ODF and OLF rate remained unchanged at 3% and 12% per annum, respectively. In addition, the conditions and terms of these facilities also remained unaltered as described in the Monetary Operations Manual of the MMA.

Further, the foreign exchange swap facility was provided to the commercial banks during the period to ease dollar pressures in the domestic foreign exchange market. Despite this, none of the banks have applied for this facility during this period.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year										
		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector												
Per Capita GDP/[1]	US$	2979.2	3280.4	2931.2	3678.0	4112.6	4845.2	5157.6	5422.3	5334.5	5013.5	5274.7
Real GDP Growth	%	14.2	12.5	-8.7	19.6	10.6	12.2	-3.6	7.1	6.5	1.3	3.7
GDP/[1] (MP)	Million US$	949.9	1075.6	992.5	1303.4	1542.0	1891.6	1984.6	2134.1	2167.7	2105.7	2291.9
Agriculture/[2]	% of GDP	6.0	5.4	6.3	5.5	4.4	3.8	3.8	3.5	3.4	3.3	3.2
Industry/[2]	% of GDP	13.8	16.1	19.5	17.9	19.9	19.4	14.9	14.5	15.3	15.2	14.5
Services/[2]	% of GDP	82.3	80.4	75.9	78.1	77.1	78.0	82.3	83.0	82.5	82.5	83.4
Investment	% of GDP	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
National Savings	% of GDP	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Headline Inflation/[3]	%	-2.83	0.96	1.78	3.99	8.89	8.94	5.41	6.94	16.66	5.43	3.07
Non-Food Inflation/[3]	%	-3.79	24.92	5.74	5.93	21.80	9.46	0.78	14.32	23.87	12.03	3.89
Non-Food Inflation/[4]	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Core inflation	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. Fiscal Sector												
Revenue Collection (CSR)/[5]	Million US$	241.2	267.6	360.4	480.8	591.5	582.5	448.0	511.5	673.3	658.5	762.5
Fiscal Deficit (excluding grants)	% of GDP	-3.5	-1.7	-14.7	-10.0	-8.9	-13.4	-22.2	-16.2	-9.8	-10.3	-5.3
Fiscal Deficit (including grants)	% of GDP	-2.5	-1.1	-8.2	-4.8	-3.6	-11.2	-20.5	-15.6	-7.5	-9.2	-4.7
Public Debt/[6]	% of GDP	33.6	31.1	39.8	35.8	35.8	36.4	NA	NA	NA	NA	NA
- of which foreign currency(debt)	% of GDP	21.6	22.0	25.7	22.8	22.8	21.3	NA	NA	NA	NA	NA
- domestic debt	% of GDP	12	9.1	14.1	13	13	15.1	NA	NA	NA	NA	NA
- debt servicing	% of total revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
III. External Sector												
Exports (f.o.b)/[7]	Million US$	151.9	180.8	161.8	224.2	227.5	331.4	169.0	197.5	346.4	314.4	331.0
Imports (f.o.b.)/[7]	Million US$	412.7	562.6	682.6	849.2	999.1	1271.8	877.7	999.3	1353.4	1436.4	1602.1
Trade Deficit	Million US$	-260.8	-381.8	-520.8	-624.9	-771.6	-940.4	-708.7	-801.8	-1007.0	-1122.0	-1271.2
Remittances/[8]	Million US$	NA	NA	NA	NA	-188.4	-218.3	-189.7	-188.9	-216.5	-259.3	-264.9
Current Account Balance/[9]	Million US$	NA	NA	NA	NA	-510.3	-673.2	-276.0	-355.9	-427.4	-313.1	-232.4
Current Account Balance	% of GDP	NA	NA	NA	NA	-33.1	-35.6	-13.9	-16.7	-19.7	-14.9	-10.1
Total Foreign Investment	Million US$											
- Foreign Direct Investment/[10]	Million US$	NA	NA	NA	NA	132.4	181.3	158.0	216.5	287.4	270.4	NA
- Portfolio Investment/[10]	Million US$	NA	NA	NA	NA	3.3	11.4	-12.0	-12.2	0.1	0.1	NA
External Debt and Forex Liabilities/[11]	Million US$	279.2	315.7	379.3	557.6	828.3	878.7	933.7	961.7	913.4	815.7	800.0
External Debt and Forex Liabilities	% of forex earnings	NA	NA	NA	NA	44.0	43.8	53.5	47.3	37.8	34.1	30.4
Short-term debt to GDP	%											
External Debt Servicing Ratio/[12]	***	NA	NA	NA	NA	NA	2.6	2.9	2.5	2.8	3.4	2.9
Exchange Rate/[13]	Per US$	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	15.4	15.4	15.4
Foreign Exchange Reserves	Million US$	159.5	203.6	186.4	231.6	308.4	240.6	261.0	350.2	334.9	304.6	368.3
IV. Monetary & Capital Market												
Growth Rate of M_1/[14]	y-o-y	11.5	19.7	22.5	22.2	20.0	37.1	22.3	1.1	8.7	2.9	23.6
Growth Rate of M_2/[15]	y-o-y	17.2	31.4	10.6	18.9	24.1	21.8	14.4	14.6	20.0	4.9	18.4
Growth Rate of M_3/[16]	y-o-y											
Weighted Avg Lending Rate/[17]	%	NA	NA	NA	NA	NA	NA	NA	10.4	10.2	10.5	11.4
Credit growth to Private Sector	%	6.9	58.1	59.6	48.6	49.4	29.7	-4.1	-2.3	5.9	-9.9	4.9
Stock Market (Price Index)/[18]	2002=100	154.4	239.6	199.8	137.6	342.7	287.1	229.6	211.2	157.4	149.7	114.6
Market Capitalisation (as leading stock mkt)	Domestic Currency in million	NA	NA	1113.3	766.82	11450	2246.1	1862	1726.1	1286.9	7528.1	
Market Capitalisation (as leading stock mkt)	% of GDP	NA	NA	8.76	4.6	58.01	9.28	7.33	6.32	4.09	22.05	
Market Capitalisation (as leading stock mkt)	million US$	NA	NA	86.97	59.91	894.54	175.48	145.47	134.85	83.51	489.95	
V. Banking Sector Indicators												
(information provided are annual figures)												
Capital adequacy ratio	%	19.81%	16.73%	17.21%	17.47%	20.97%	21.40%	24.70%	28.90%	28.20%	35.80%	35.20%
Non-performing loans	%	6.37%	6.59%	2.36%	1.59%	8.90%	6.50%	12.70%	17.20%	19.40%	21.00%	17.70%
Profitability (R.O.E.)	%	37.00%	40.80%	53.50%	30.75%	19.04%	23.40%	13.70%	11.60%	15.00%	13.60%	23.50%
Profitability (R.O.A.)	%	4.50%	4.80%	6.40%	4.09%	3.13%	3.40%	2.20%	2.00%	2.60%	2.50%	5.00%

Note: This format is adopted on recommendations of the SAARCFINANCE meeting on "Improvement of SAARCFINANCE *e- Newsletter*."

* The last column of the table will be updated on half yearly basis and 1st column of yearly data will be taken out with inclusion of new year data.

*** The ratio of debt service (interest and principal payments due) during a year, expressed as a percentage of current receipts minus official transfers. (This is the formula used while computing DSR in India).

1. Refers to nominal GDP
2. In real sector, GDP by sectors as a % of GDP, agriculture refers to primary sector, industry refers to secondary sector and services refer to tertiary sector.
3. Maldives Male' series End of period is taken for Headline Inflation and Food Inflation
4. Since CPI basket was rebased in June 2012, nonfood inflation series is not available as data is not available for the period before June 2012.
5. Revenue collection (CSR) is the total revenue including grants. The exchange rate (MVR/USD) used applied from 2003-2010 is 12.8; to 2011 is 14.71; 2012-2013 is 15.39. These are the average of the monthly reference rates (mid-rate of the buying and selling rates) for the year.
6. Public Debt refers to Public and publicly guaranteed (medium and long term) debt of Total external debt outstanding and disbursed
7. Source: Maldives Customs Service
8. Worker's Remittances outflow
9. As part of MMA's efforts to improve the coverage of the balance of payments statistics, the methodology and assumptions of BOP data from 2007 onwards have been revised. This new series is therefore not comparable with BOP data published prior to November 2012.
10. The financial account of the Balance of Payments for 2013 has not been estimated as at September 2014.

NEPAL

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

Nepal's real GDP is expected to increase by 5.2 percent at basic price and by 3.5 percent in producers' price in fiscal year 2013/14 compared to its respective growth of 3.5 percent and 3.9 percent in the previous year. In 2013/14, the growth in agriculture and service sectors are expected to experience a marked improvement. The agriculture sector is expected to grow by 4.7 percent whereas the non-agriculture sector is expected to expand by 5.3 percent. These sectors had grown by 1.1 percent and 4.6 percent respectively in the previous year. In 2013/14, the agriculture sector grew satisfactorily because of the favorable monsoon and smooth supply of agricultural inputs such as seed and chemical fertilizers, among others.

In 2013/14 the industrial sector is estimated to grow by 2.7 percent compared to its growth of 2.5 percent in the previous year. Despite the power shortages, gradual improvements in industrial labor relation, among others, have facilitated the growth of this sector. The service sector, on the other hand, is estimated to expand by 6.1 percent in 2013/14 compared to its growth of 5.2 percent in the previous year. The responsible factor for the growth of the service include the expansion in the wholesale and retail trade, hotels and restaurants, transport, storage and communication, financial intermediaries, public administration and defense, education and health and social work.

Price Situation

The annual average consumer price inflation rose by 9.1 percent in 2013/14 compared to an increase of 9.9 percent a year earlier. The price index of food and beverages group went up by 11.6 percent whereas the index of non-food and services group rose by 6.8 percent in the review period. The indices of food and beverages group and non-food and services group had gone up by 9.6 percent and 10.0 percent respectively in 2012/13.

The annual average wholesale price index increased by 8.3 percent in 2013/14 compared to its growth of 9.0 percent in the previous year. The annual average price indices of agricultural commodities, imported commodities and domestic manufactured commodities rose by 11.3 percent, 4.2 percent and 6.0 percent respectively compared to the growth of 10.6 percent, 8.4 percent and 5.2 percent in the previous year.

Monetary Situation

Broad money supply (M2) increased by 19.1 percent in 2013/14 compared to an increase of 16.4 percent in the corresponding period of the previous year. Narrow money supply (M1), on the other hand, increased by 17.7 percent during the review period compared to an increase of 14.4

percent in the same period of the previous year. Claims on private sector credit increased by 18.3 percent during the review period compared to 20.2 percent in the previous year.

Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by 27.2 percent to Rs. 127.1 billion during the review period compared to an increase of 18.0 percent in the corresponding period of the previous year. Higher growth of remittance inflow accompanied by an increase in foreign assistance resulted in such a growth of net foreign assets in the review period.

Deposit mobilization of banks and financial institutions (BFIs) soared by 18.4 percent in 2013/14. Such deposit mobilization had increased by 17.4 percent in the previous year. While the deposit mobilization of commercial banks increased by 17.8 percent, such mobilization of development banks and finance companies rose by 29.1 percent and 5.7 percent, respectively. In 2012/13, the deposit mobilization of commercial banks and development banks had risen by 17.9 percent and 27.1 percent respectively while the deposit mobilization of finance companies had declined by 9.6 percent.

In 2013/14, the loan and advances of BFIs augmented by 14.4 percent compared to a growth of 18.6 percent in the previous year. Loan and advances of commercial banks rose by 13.7 percent while that of development banks and finance companies by 27.0 percent and 4.3 percent respectively in the review year. Credit from BFIs to the private sector increased by 18.7 percent compared to a rise of 20.8 percent in the previous year. While credit flows to the private sector from commercial banks and development banks posted a growth of 18.7 percent and 29.3 percent respectively, the credit flows to the private sector from finance companies declined by 2.1 percent.

The weighted average 91-day Treasury bill rate stood at 0.02 percent in the last month of 2013/14 compared to 1.19 percent a year ago. Similarly, the weighted average inter-bank rate among commercial banks fell to 0.16 percent from 0.86 percent and the weighted average inter-bank rate among other financial institutions declined to 2.40 percent from 5.03 percent in the previous year.

As per the modified method of spread rate calculation, weighted average interest rate spread of commercial banks stood at 5.15 percent (Excluding Agricultural Development Bank Limited) in mid-July 2014. Moreover, the average base rate of commercial banks remained at 8.36 percent in mid-July 2014 compared to 9.83 percent a year ago.

Fiscal Situation

In 2013/14, revenue mobilization of the Government of Nepal (GoN) increased by 20.5 percent to Rs. 356.62 billion, which was 100.6 percent of annual budget estimate of Rs. 354.50 billion. The revenue had risen by 21.2 percent to Rs. 296.01 billion in 2012/13. Consequently, the revenue to GDP ratio remained at 18.5 percent in 2013/14 compared to that of 17.5 percent in 2012/13. An increase in imports and resulting rise in custom revenue, increase in value added tax and income tax, tax leakage control as well as overall revenue administration reforms mainly contributed to such an increase in revenue mobilization.

Government expenditure, on cash basis, increased by 15.7 percent to Rs. 415.58 billion in 2013/14 compared to an increase of 12.3 percent to Rs. 359.04 billion in 2012/13. An increase in recurrent and capital expenditure contributed to such a growth of total expenditure during the review year.

In the review year, government budget on cash basis remained at a deficit of Rs. 12.06 billion. Such budget was at deficit by Rs. 31.21 billion in 2012/13. The ratio of budget deficit to GDP remained at 0.6 percent in the review year. Such ratio was 1.8 percent in the previous year.

External Sector Situation

Merchandise exports went up by 17.4 percent to NRs. 90.29 billion during the six months of 2013/14. Such exports had increased by 3.6 percent during the same period of the previous year. In the same period, imports surged by 27.3 percent to NRs. 708.76 billion in 2013/14 compared in rise of 20.6 percent in the previous year. Because of a large base and high growth rate of imports compared to exports, total trade deficit escalated by 28.9 percent to Rs. 618.47 billion in the review year. Such deficit had expanded by 23.9 percent in the previous year.

The overall BoP posted a significant surplus of Rs. 127.13 billion (USD 1.33 billion) in 2013/14 in comparison to a lower surplus of Rs. 68.94 billion (USD 86.5 million) in the previous year. Likewise, the current account recorded a surplus of Rs. 89.85 billion (USD 936.9 million) in the review year compared to a surplus of Rs. 57.06 (USD 49.7 million) billion in the last year. The current account surplus was higher in the review year primarily owing to a sharp rise in remittance inflow, travel income and foreign grants.

The net service income posted a surplus of Rs. 20.88 billion in 2013/14 compared to a surplus of Rs. 7.59 billion in the previous year. Net transfers registered a growth of 26.9 percent to Rs. 631.50 billion compared to a growth of 17.7 percent in the previous year. Under transfers, workers' remittances rose by 25 .0 percent to Rs. 543.29 billion in 2013/14 the review year compared to an increase of 20.9 percent in the last year. In USD terms, remittance inflows increased by 12.3 percent to USD 5.54 billion in the review year compared to an increase of 11.7 percent in the preceding year. Likewise, under financial account, foreign direct investment of Rs. 3.19 billion was recorded in 2013/14 compared to such investment of Rs. 9.08 billion in the previous year.

The gross foreign exchange reserves increased by 24.8 percent and aggregated Rs. 665.41 billion (USD 6.94 billion) as at mid-July 2014. Such reserves had risen by 21.4 percent in the preceding year. The existing level of reserves was adequate for financing merchandise and services imports of 10.0 months.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Monetary policy for the fiscal year 2014/15 has adopted slightly tight policy stance to address long standing excess liquidity situation in the banking system and its likely adverse impact on inflation, external sector and financial stability. It has set the target of containing annual average CPI inflation at 8 percent and maintaining foreign exchange reserves sufficient to cover the import of goods and services for at least 8 months. In addition, the monetary policy has also made an arrangement for providing adequate credit to support the economic growth of 6 percent. The growth rate of broad money is projected to remain at 16.0 percent for 2014/15.

From 2014/15 onwards, the CRR to be maintained by BFIs has been fixed at 6 percent for "A" class, 5 percent for "B" class and 4 percent for "C" class financial institutions. The bank rate has been kept unchanged at 8 percent. The refinance rate for agriculture, hydropower, livestock and fishery and other specified productive sectors has been set to 4 percent.

To make OMO, a principal instrument of monetary policy, purposeful and in order to conduct it transparently, "Nepal Rastra Bank Open Market Operations By-laws" has been brought into implementation. New provisions of the by-laws such as (1) regular (2) fine tuning (3) structural OMOs will be gradually implemented as and when necessary to curb the shortage/excess liquidity seen in the financial market. Regular OMOs will be used for maintaining general type of shortfall/excess liquidity seen in the financial market. Fine tuning operation will be conducted in any day of the week if monetary liquidity fluctuates substantially causing significant volatilities in short-term interest rates and the financial markets seem to be unstable. Structural OMOs will be conducted as necessary for managing long term liquidity and signaling monetary policy stance.

Financial Sector Development Strategy (FSDS) is to be implemented in 2014/15 to maintain financial stability and enhance the financial access and inclusion. FSDS is in the process of formulation for the overall development and stability of the financial sector.

Since the payment and settlement system is an infrastructure for financial stability, policy provisions linked to electronic banking have been made to facilitate the adoption of Real Time Gross Settlement (RTGS) system. Necessary provision would be made for the implementation of RTGS after introducing the Payment System Development Strategy in 2014/15. In addition, Payment and Settlement Act would be formulated and implemented.

Among the tasks pinpointed by the report of Financial Sector Assessment Program, recently carried out with the assistance of the IMF and the World Bank (WB), some of them such as reforming the financial sector laws and regulation, ensuring sufficient resources for the management of the financial sector in the event of the financial crisis, building a crisis management system and implementing international best practices adopted on the banking system will be gradually implemented.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year									
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector											
Per Capita GDP	US$	328	350	410	491	497	610	714	702	707	703
Real GDP Growth at Producer's Price	%	3.5	3.4	3.4	6.1	4.5	4.8	3.4	4.8	3.9	5.5
Current GDP at Producer's Price	Billion US$	8.3	9.0	10.3	12.5	12.9	16.0	18.9	18.9	19.2	19.4
Agriculture	% of GDP	35.2	33.6	32.5	31.7	33.0	35.4	37.1	35.2	33.9	33.1
Industry	% of GDP	17.1	16.7	16.6	16.8	15.9	15.1	14.9	15.0	15.2	14.7
Services	% of GDP	47.7	49.7	50.9	51.5	51.2	49.5	48.0	49.8	51.0	52.2
Investment	% of GDP	26.5	26.9	28.7	30.3	31.7	38.3	38.0	34.5	36.9	37.1
National Savings	% of GDP	28.4	29.0	28.6	33.2	35.9	35.9	37.0	39.5	40.3	46.4
Headline Inflation	%	4.5	8.0	6.4	7.7	13.2	9.6	9.6	8.3	9.9	9.1
- Food Inflation	%	4.0	7.8	7.2	10.1	16.7	15.1	14.7	7.7	9.6	11.6
- Non-Food Inflation	%	5.1	8.1	5.5	5.1	9.5	4.9	5.4	9.0	10.0	6.8
- Core inflation	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. Fiscal Sector											
Revenue Collection (CSR)	Billion US$	0.98	1.00	1.25	1.66	1.87	2.40	2.75	3.03	3.40	3.62
Fiscal Deficit (excluding grants)	% of GDP	-5.5	-5.9	-6.3	-6.59	-7.71	-6.69	-6.99	-6.19	-3.54	-4.66
Fiscal Deficit (including grants)	% of GDP	-3.1	-3.8	-4.1	-4.10	-5.04	-3.45	-3.63	-3.52	-1.46	-2.20
Public Debt*	% of GDP	3.1	3.1	3.8	3.61	2.87	3.45	3.99	3.11	1.83	3.51
- of which foreign currency	% of GDP										
- domestic debt#	% of GDP	1.5	1.8	2.5	2.51	1.86	2.51	3.11	2.38	1.13	2.28
- debt servicing^	% of total	28.2	28.3	26.1	21.15	18.81	15.96	15.10	14.45	16.40	16.56
III. External Sector											
Exports (f.o.b)	Billion US$	0.83	0.85	0.89	0.95	0.90	0.85	0.95	1.00	0.98	1.03
Imports (f.o.b.)	Billion US$	2.02	2.37	2.66	3.35	3.63	4.95	5.37	5.61	6.22	7.10
Trade Deficit	Billion US$	-1.19	1.52	1.77	2.40	-2.72	-4.09	-4.42	-4.60	-5.25	-6.07
Remittances	Billion US$	0.91	1.35	1.42	2.19	2.73	3.13	3.51	4.41	4.93	5.53
Current Account Balance	Billion US$	0.16	0.20	0.05	0.36	5.39	-0.37	-0.18	0.91	0.63	0.91
Current Account Balance	% of GDP	1.91	2.27	0.45	3.02	4.19	-2.36	-0.94	4.50	3.40	4.70
Total Foreign Investment	Million US$	1.89	-6.49	5.14	4.52	23.79	38.99	89.96	112.46	102.00	32.50
- Foreign Direct Investment	Million US$	1.89	-6.49	5.14	4.52	23.79	38.99	89.96	112.46	102.00	32.50
- Portfolio Investment	Million US$	0	0	0	0	0	0	0	0	0	0
External Debt and Forex Liabilities	Billion US$	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
External Debt and Forex Liabilities	% of forex	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Short-term debt to GDP	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
External Debt Servicing Ratio		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Exchange Rate@	Per US$	70.35	74.1	64.9	68.50	78.05	74.44	70.95	88.6	95.00	95.90
Foreign Exchange Reserves	Billion US$	1.85	2.23	2.55	2.64	3.67	3.61	3.83	4.96	5.61	6.94
IV. Monetary & Capital Market											
Monetary**											
Growth Rate of M_1	y-o-y	6.6	14.2	12.2	21.6	27.3	11.1	4.8	18.6	14.4	17.7
Growth Rate of M_2	y-o-y	8.3	15.6	14.0	25.2	27.3	16.7	12.2	22.7	16.4	19.1
Growth Rate of M_3	y-o-y	7.9	15.7	13.9	25.0	29.4	15.3	11.6	22.3	16.7	18.4
Weighted Avg Lending Rate	%	NA	NA	NA	NA	NA	NA	NA	12.4	12.1	10.6
Credit growth to Private Sector	%	14.2	14.4	12.3	24.3	29.0	17.9	13.9	11.3	20.2	18.3
Capital Market											
Stock Market (Price Index)	1991=100	286.7	386.8	683.9	963.4	749.1	477.7	362.9	389.7	518.3	1036.1
Market Capitalization (as leading stock mkt)	Domestic	61.4	96.8	186.3	366.2	512.9	376.9	323.5	368.3	514.5	1057.2
Market Capitalization (as leading stock mkt)	% of GDP	10.4	14.8	25.6	44.9	51.9	31.6	23.7	24.1	30.4	54.8
Market Capitalization (as leading stock mkt)	Billion US$	0.856	1.344	2.654	5.658	6.698	5.077	4.489	4.563	5.869	10.793
V. Banking Sector Indicators											
Capital adequacy ratio	%					7.2	9.6	10.6	11.5	13.2	11.3
Non-performing loans	As % of total					3.6	2.5	3.2	2.6	2.6	3.8
Profitability (R.O.E.)	%	NA	NA	NA	NA	NA	NA	NA	11.35	13.18	6.58∆
Profitability (R.O.A.)	%	NA	NA	NA	NA	NA	NA	NA	1.24	1.44	0.64∆

Fiscal year in Nepal starts at mid-July
Amount in Nepalese Rs. has been converted into US$ with the fiscal year's annual average exchange rate

Fiscal sector data from FY 2009/10 has been reported as per Government Finance Statistics Manual (IMF), 2001 that may not be consistent with previous reporting.

Foot Notes:

* includes both gross domestic and external borrowing

\# Gross domestic debt .

^ includes both domestic and external debt servicing.

@ represents the exchange rate (buying) of the last day of the fiscal year

** including the consolidated balance sheet of 'B' and 'C' class Financial Institutions since July 2011.

∆ mid-January 2014

PAKISTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Pakistan's economy witnessed improvements in most of its macroeconomic indicators during FY14. Led by external sector, both monetary and fiscal sectors showed visible progress. Economic activity continued an upward trajectory as indicated by increase in production (GDP), growth in Large Scale Manufacturing (LSM) and rise in private sector credit. Inflation, despite some volatility, remained in single digit. These are all welcome signs requiring continuity in policy stance and vigilance regarding potential risks.

The real GDP grew by 4.1 percent in FY14 compared to 3.7 percent last year. Though real GDP growth target of 4.4 percent for FY14 was missed, it is the first time in 6 years that growth has surpassed the 4 percent mark. This relatively higher growth was led by recovery in the industrial sector, especially due to better performance of LSM. While agriculture sector posted growth of 2.9 percent, industry sector grew by 1.4 percent and services sector by 4.9 percent. Nevertheless, the power shortages and security conditions continued to remain impediments to growth.

The average CPI inflation remained within the single digit level of 8.6 percent in FY14 though it is still higher than the year's inflation target of 8.0 percent set by the government. Despite relatively high average CPI inflation than FY13, core inflation (i.e. non-food non-energy) stood at 8.3 percent which exhibited gradual softening trend during FY14. This also indicates moderate aggregate demand in the economy relative to the available productive capacity. The marginal increase in GDP growth to 4.1 percent in FY14 is mostly a reflection of better utilization of spare capacity.

The year-on-year growth in broad money (M2) has decelerated to 12.8 percent in FY14 from 16.6 percent a year earlier. This is the lowest monetary expansion during the last three years. Credit to the private sector improved on the back of receding government borrowings from the banking system. It also grew due to pickup in economic activities, improved market sentiments and better energy availability. Increase in credit to the private sector was dominated by private sector businesses and resurgence in consumer financing. Importantly, private sector businesses not only availed credit for ongoing activities (i.e. working capital requirements) but also for expansion purposes (i.e. fixed capital).

On the fiscal front, the government successfully brought down fiscal deficit. The contraction in fiscal deficit primarily came on the back of: i) substantial increase in non-tax revenues; ii) reduction in energy sector subsidy and iii) decrease in development outlay of federal and provincial governments. Total revenues grew by 16.8 percent in FY14 as compared to 15.2 percent during the last year. This reduction in revenue growth is primarily due to substantial increase in non-tax revenues. Furthermore, the efforts of fiscal consolidation were also reflected in a slower growth in total expenditures. Therefore, the fiscal deficit for FY14 was revised downwards to 5.5 percent of GDP from 8.2 percent last year.

Another important highlight, in the fiscal sector, is the slower accumulation of domestic debt. Lower fiscal deficit and increase in external financing in FY14 resulted in slower accumulation of domestic debt. The growth in domestic debt during FY14 has decelerated to 14.5 percent, which is significantly lower than the average growth of around 27 percent during the last three years. Pakistan's external debt and liabilities in terms of foreign exchange earnings stood at 130.3 percent.

With increased external inflows, the government was also able to boost its foreign exchange reserves vis-à-vis improving exchange rate of Pak Rupee against major international currencies. This also contributed in reducing public external debt.

As regards external side, Pakistan's external account also witnessed some improvements. This has been mainly due to a substantial increase in the capital and financial account, which witnessed a surplus of $7.1 billion during FY14 against $813 million in the corresponding period of last year. However, the external current account witnessed a higher deficit of $2.6 billion during FY14 as compared to $2.2 billion in the same period last year. This was mainly contributed by a higher trade deficit as growth in imports (3.9 percent) outpaced growth in exports (1.6 percent). As regards trade deficit, it also remained high.

The exports grew during FY14 largely due to increase in textiles items, as non-textile exports witnessed a decline. Given the high concentration of textiles in Pakistan's exports to European region (75 percent of total exports to EU), Pakistan partially gets benefit from GSP plus status because textiles have the least tariff relief under this scheme. As regards imports, the oil imports remained the major contributor to rising import bill. This suggests that reducing oil imports could go a long way in keeping trade deficit at a manageable level.

The foreign exchange reserves also showed substantial improvements. In fact, Pakistan successfully tapped international capital markets after a gap of 7 years which highlights investors' confidence on country's leading economic indicators, external finances and structural reforms undertaken by the present government. The investor response was overwhelming with US$ 2 billion raised against the initial expectations of US$ 500 million. Loans from multilateral donors under the IMF program ($1.8 billion), auction of 3G/4G spectrum (foreign exchange component of $547 million), UBL privatization proceeds ($311 million), continued CSF inflows ($1.0 billion), and government loans from commercial banks ($348 million) supported an upward trajectory of foreign exchange reserves. As a result, the exchange rate stabilized slightly below Rs 99 to USD. In view of improved economic outlook, the Moody's Investors Service also revised upward the outlook on Pakistan's foreign currency government bond rating to stable from negative.

Taking into account the impetus of positive sentiments along with continuation of IMF program and government's privatization plan, the external position of the economy is likely to strengthen further during FY15, specifically with current account deficit projected to remain around 1 percent of GDP in FY15. However, the main risks to this assessment are uncertainty over international oil prices and possible delays in planned foreign inflows.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Monetary Policy Statement

Monetary policy has been kept tightened since September 2013 (there were two consecutive 50 bps increases in the policy rate in September and November), which helped cap inflation. To consolidate the improvement in major economic indicators and market sentiments, SBP kept its reverse repo (policy) rate unchanged at 10.0 percent during H2-FY14. Besides favorable outlook for inflation, the most significant factor contributing towards this stability in interest rates is the recent improvements in the external sector.

Other Policy Changes

- With a view to promote low cost/low income/affordable housing, the SBP has removed 10% limit on financings under Government Housing schemes and initiatives. According to SBP, by linking exposure with the advances and investments (net of Government Securities), a substantial cushion will become available to the banks for promoting housing finance. However, all other instructions embodied in BPRD Circular No. 01 dated 2 January 2014 will remain unchanged.

- The SBP has amended its earlier instructions as given in BPRD Circular No. 7 dated 27 September 2013. Accordingly, the clause 2(iii) of the circular has been amended as: the Minimum Profit Rate, on average monthly balances, shall be applicable on all new and existing savings products (including any other profit bearing deposits with no fixed maturity) except term deposits. The new instructions will be applicable from 1 June 2014.

- The SBP has decided to prescribe additional security features for cheques provided by banks to their account holders. In this context, banks has been instructed to ensure that all cheques must carry bank's logo or name as a standardized Watermark visible only if the cheque is placed against a light source. The Watermark can be single or multi tone; however no part of Watermark should appear in area specified for Magnetic Ink Character Recognition (MICR) line. Further, the paper used for cheques must contain at least one Invisible Ultraviolet (UV) security feature such as UV fibers, UV Hi-Lites or any other. The space on the cheques allocated for the amount and name of payee must contain anti forgery ink. In addition to MICR line, the name of the account holder should also be printed using the bleed through technology. Banks have also been advised to acquire pre-shipment verification of CBS-1 paper being imported for the printing of cheques. Besides, banks must ensure that the paper used for the printing of cheques has been granted NOC from Pakistan Security Printing Corporation (PSPC) as per the import policy. Also, the banks would ensure availability of Instant Verification (IV) markers at their cash counters as well as at all clearing units and devise a policy whereby authenticity of cheques drawn for an amount over a specified limit must be subject to verification by IV marker. The limit may be different for cheques being paid over the counter and via clearing. The instructions will become effective from 30 June 2014.

- In order to further broaden the investor base of Government securities, the SBP decided to allow trading of Government Securities (Market Treasury Bills, Pakistan Investment Bonds & GOP Ijara Sukuk) on the Stock Exchanges. However, the current OTC market of Government Securities and all its associated platforms will continue to work as usual. In this context, all Primary Dealers (PDs) who opt to participate as a Trading Participant/Market Maker on the Exchange will be required to formally inform SBP about the start date of their operations. However, the Non-Primary Dealer Banks/DFIs desirous of transacting on their own account or settle and clear transactions executed by their customers will have to route transactions through other designated Trading participants on the Exchange. Similarly, all banks and DFIs would report their transactions on stock exchanges as per existing procedure.

- Recognizing the economic significance of Small & Medium Enterprises (SMEs), the SBP has introduced some special incentives for both banks and SME exporters to enhance their share under Export Finance Scheme (EFS). These incentives will enable

SME borrowers to fulfill their financing needs and ultimately contribute to exports growth of the country.

- The SBP has launched the 2nd Challenge Round of Financial Innovation Challenge Fund (FICF) on "Promoting Innovative Rural and Agriculture Finance in Pakistan" on 6 March 2014. The program has been funded by UK Aid and implemented by SBP as part of "Pakistan Financial Inclusion Programme". The objective of the 2nd round is to pilot innovative products and delivery channels through development of new technological and infrastructure solutions in the areas of rural and agricultural finance. The Guidelines for 2nd challenge round is available at http://www.sbp. org.pk/mfd/events/FICF-Round-2-Guidelines.pdf.
- The SBP has issued instructions to supplement the existing guidance on Standardized Approaches of operational risk prescribed under SBP Basel instructions which are intended to ensure that banks collect their loss data in a standardized way. Once the banks set up their operational risk framework and start collecting operational loss data, SBP would look into the possibility of forming an operational risk data consortium. Accordingly, all banks/DFIs would set up their operational risk frameworks and start operational loss data collection in line with the SBP instructions by December 2015. During this time period, SBP inspection teams would review the progress made by the banks in this regard.
- SBP has issued revised Prudential Regulations for Microfinance Banks (MFBs) in order to strengthen their governance structure, consumer protection practices, and anti-money laundering (AML) policies. Presently, ten MFBs are providing basic financial services to poor and low-income people in the country. These MFBs are well-capitalized and owned by diverse and strong sponsors. The revised regulations will enable these MFBs to prudently manage their operations in the wake of their recent business growth, technological innovations, and market infrastructure improvements. The revised regulations, among other areas, define role and responsibilities of board of directors, require induction of two independent directors, and prescribe fit and proper test for the appointment of key executives of MFBs. MFBs has also been required to improve their consumer protection policies through basic financial literacy programs, enhanced transparency & disclosures, fair debt collection practices, and effective complaint redressal mechanism. Further, the instructions in certain areas of risk management and operations have also been revised.
- The SBP has revised the Report on Indicative Credit Limits & List of Eligible Items for Agricultural Financing in order to align with inflationary adjustments and current market practices. The parameters for segmentation of borrowers based on land holdings and average requirements of seed, fertilizers and pesticides have also been embedded in the revised Report. An exhaustive list of activities and purposes segregated for farm and non-farm sector has been annexed to the Report. The limits for per acre cost of production are indicative and can be adjusted based on the actual credit requirements of specific farmers, market conditions, and prevailing prices of farm inputs at respective place while sanctioning the loan.
- The SBP has revised the Prudential Regulations (PRs) for Agriculture Financing. The revised PRs provide instructions for banks to develop robust market-oriented policies and adopt practices for facilitation of agriculture finance in Pakistan. All other instructions in respect of the areas not covered under the above regulations will remain unchanged.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year									
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13[P]	2013-14[P]
I. Real Sector											
Per Capita GDP	US$	724	897	980	1053	1026	1072	1274	1321	1340	1386
Real GDP Growth	%	9.0	5.8	6.8	3.7	1.7	3.1	3.0	4.4	3.7[R]	4.1
Nominal GDP (MP)	Billion US$	109.5	127.3	143.0	163.5	161.8	176.5	214	225	232	247
Agriculture	% of GDP	22.4	22.5	21.9	21.3	21.8	21.3	21.2	21.1	21.2	21.0
Industry	% of GDP	26.3	25.9	26.3	25.8	25.3	26.0	25.5	25.4	20.9	20.8
Services	% of GDP	51.3	51.7	51.8	52.9	52.9	52.6	53.4	53.5	57.7	58.1
Investment	% of GDP	20.3	23.6	22.5	22.1	18.2	15.6	13.1	14.9	14.6[R]	14
National Savings	% of GDP	17.5	18.2	17.4	13.6	12.5	13.1	13.2	12.8	13.5	12.8
Headline Inflation (yoy)	%	9.27	7.92	7.77	12.00	17.0	10.10	13.66	11.0	7.4	8.6
- Food Inflation (yoy)	%	12.50	6.90	10.30	17.60	23.70	12.9	18.00	11.0	7.1	9.0
- Non-Food Inflation (yoy)	%	7.10	8.60	6.00	7.90	18.40	8.2	10.70	11.0	7.5	8.3
- Core inflation (yoy)	%	7.20	7.50	5.90	8.40	17.60	7.6	9.40	10.6	9.6	8.5
II. Fiscal Sector											
Revenue Collection	Billion US$	15.2	18.0	21.4	23.9	23.5	24.8	26.3	27.8	30.78	35.35
Fiscal Deficit	% of GDP	3.34	4.27	4.35	7.59	5.35	6.28	6.62	8.8[$]	8.2	5.5[R]
Public Debt	% of GDP	62.5	57.7	57.2	60.7	61.5	61.4	60.1	64.5	64.8[R]	64.5
- of which foreign currency	% of GDP	31.3	28.7	27.5	29.7	32.3	33.0	31.2	30.9	26.8[R]	25.5
- domestic debt	% of GDP	33.5	30.6	30.1	31.9	29.2	31.3	32.9	38.1	42.3[R]	42.9
Public Debt Servicing	% of total revenue	38.5	36.6	36.7	37.2	46.6	47.1	45.0	49.3	51.6	72.3
III. External Sector											
Exports (f.o.b)	Billion US$	14.4	16.5	17.0	19.1	17.7	19.3	24.8	24.7	24.8	25.2
Imports (c.i.f)	Billion US$	20.6	28.6	30.5	40.0	34.8	34.7	40.4	40.5	40.2	41.8
Trade Deficit	Billion US$	-6.2	-12.1	-13.6	-20.9	-17.1	-15.4	-15.6	-15.7	-15.4	-16.6
Remittances	Billion US$	4.2	4.6	5.5	6.5	7.8	8.9	11.2	13.2	13.9	15.8
Current Account Balance	Billion US$	-1.5	-5.0	-6.9	-13.9	-9.3	-3.9	0.2	-4.7	-2.5	-3.0
Current Account Balance	% of GDP	-1.4	-3.9	-4.8	-8.5	-5.7	-2.2	0.1	-2.1	-1.1	-1.2
Total Foreign Investment	Million US$	2508	6047	8688.6	5574.8	2646.8	2086	1979.2	707.8	1580.6	4377.4
- FDI	Million US$	1525	3521	5140	5410	3720	2151	1634.	820.6	1258	1483
- Portfolio Investment	Million US$	620	986	3283	32	-1073	-65	344.5	-112	26	2766
External Debt and Forex Liabilities	Billion US$	35.4	37.2	40.3	46.2	52.3	61.6	66.4	65.5	60.9	61.8
EDL/FEE	Percent	134.6	123.0	127.9	131.3	152.7	166.5	143.8	140.8	140.0	130.3
Short-term external debt	% of GDP	0.25	0.13	0.05	0.49	0.43	0.56	0.34	0.16	0.0	0.28
External Debt Servicing Ratio	***	10.4	9.3	8.8	8.7	13.5	12.3	8.4	9.5	13.0	13.7
Exchange Rate (average)	Per US$	59.36	59.88	60.64	62.63	78.62	83.89	85.56	89.27	96.85	102.88
Foreign Exchange Reserves	Billion US$	12.6	13.2	16.6	11.6	12.8	16.7	18.2	15.3	11.01	14.1
IV. Monetary & Capital Market											
Growth Rate of M_1	y-o-y	18.00	13.13	16.0	4.6	9.8	14.1	17.5	13.9	20.7	15.2
Growth Rate of M_2	y-o-y	19.1	15.1	18.9	11.9	9.5	13.0	16.7	13.4	16.6	12.8
Growth Rate of M_3	y-o-y			16.3	10.9	12.5	13.7	16.3	12.7	17.1	11.8
Weighted Avg Lending Rate	%	8.21	9.93	10.32	12.75	14.32	13.22	14.25	13.13	10.56	10.37
Credit growth to Private Sector	%	34.4	23.5	17.3	16.5	0.7	3.9	4.0	7.5	-0.56	10.3
Stock Market (Price Index)	1991=1000	7450.1	9989.4	17772.5	12289	7162.2	9721.9	12496.6	13801.4	21005.7	29653
Market Capitalization (as leading stock mkt)	PKR Billion	2036.7	2766.4	4019.4	3777.7	2120.7	2732.4	3288.7	3518.1	5154.7	6044
Market Capitalization (as leading stock mkt)	% of GDP	31.3	36.3	46.3	36.9	16.7	18.5	18.2	17.0	22.5	24.7
Market Capitalization (as leading stock mkt)	Billion US$	34.1	45.9	66.5	55.3	26.1	32.0	38.2	37.2	53.2	58.75
V. Banking Sector Indicators											
Capital adequacy ratio (CAR)	%	11.3	12.7	12.3	12.2	14.0	13.9	14.1	15.1	15.5	15.1
Non-performing loans	%	8.3	6.9	7.6	10.5	12.6	14.9	15.3	15.9	14.8	12.8
Before Tax Profitability(R.O.E.)	%	38.2	35.2	22.6	11.4	13.2	15.5	21.8	25.9	18.5	23.5
Before Tax Profitability (R.O.A.)	%	2.8	3.1	2.2	1.2	1.3	1.5	2.1	2.4	1.7	2.1

Source: Pakistan Bureau of Statistics; State Bank of Pakistan, Ministry of Finance. **Note**: P= Provisional; T= Annual Target for FY14; BE= Budget Estimates for FY14; $Fiscal deficit includes PSEs debt adjustment; GDP in dollar terms is calculated using average exchange rate during the year; '-':Data not available.

Definitions:

M1= Notes in Circulation outside Depository Corporation + Transferable Deposits with ODCs + Transferable Deposits with SBP other than Reserve Deposits

M2= M1 + Other Deposits with ODCs + Short Term Securities Issued by ODCs + Coin in Circulation; M3 = M2 + Deposits held wit Post Office + National Saving Schemes (CDNS)

*** The ratio of debt service (interest and principal payments due, excluding short-term debt servicing of banks) during a year, expressed as a percentage of current receipts minus official transfers. Fiscal deficit = total revenue - total expenditure: EDL/FEE: External Debt and Liabilities (EDL) as a percentage of Foreign Exchange Earnings (FEE).

SRI LANKA

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

The economy expanded by 7.7 percent in the first half of 2014, largely supported by increased domestic economic activity and rising external demand. The growth in the economy was led by contributions from the industry and services sectors although a slowdown was observed in the agriculture sector owing to adverse weather conditions. The industry sector is estimated to have grown by around 12.4 percent during the first half, largely driven by construction, mining and quarrying and manufacturing sub sectors. The services sector growth is estimated at 6.1 percent, with high growth in wholesale and retail trade, transport and communication, and hotels and restaurants sub sectors. The agriculture sector is estimated to have grown by 3.1 percent during the period, contributed mainly by fishing and coconut sub-sectors, although some sub-sectors such as paddy were affected by unfavorable weather conditions. The economy is expected to grow further in the second half of the year, and meet the targeted annual growth of 7.8 percent for the year comfortably.

Inflation has remained at single digit levels for over five and a half consecutive years, supported by well managed demand pressures, favorable inflation expectations, and supply side improvements. Year-on-year inflation decelerated to 2.8 percent by June 2014. Annual average inflation continued its decelerating trend since June 2013 and reached 4.9 percent in June 2014. Meanwhile core inflation remained below 4 percent in the first six months of the year on a year-on-year basis. Year-on-year core inflation was 3.5 percent while annual average core inflation was 3.0 percent in June 2014.

The external sector strengthened further in the first half of 2014, with a notable reduction in the trade deficit. The cumulative trade deficit contracted by 20.1 percent, as a result of a significant increase in earnings from exports coupled with moderate expenditure on imports. Earnings from exports in June 2014 grew by 16.8 percent to US dollars 5,439 million, while expenditure on imports for the first six months of 2014 declined marginally by 1.2 percent to US dollars 8,985 million from US dollars 9,094 million recorded in the corresponding period in 2013. Improved trade balance, other inflows to the current account and enhanced inflows to the financial account resulted in BOP surplus of US dollars 1,954 million during the first half of 2014 compared to a deficit of US dollars 169 million recorded during the corresponding period of 2013. Consequently, the gross official reserves, including the Asian Clearing Union (ACU) balances, reached a level of US dollars 9.2 billion by end-June 2014. In terms of months of imports, gross official reserve were equivalent to 6.1 months at end-June 2014. The improvement in BOP and the international reserve position helped maintain the stability of the rupee during this period. Consequently, the Sri Lankan rupee recorded a gradual appreciation of 0.35 percent against the US dollar by end-June 2014.

Fiscal policy continued to focus on promoting sustainable and regionally balanced growth in the medium term, while commitment to fiscal consolidation efforts with a view to reducing the overall budget deficit to 5.2 percent of GDP in 2014 from 5.9 percent recorded in 2013. Accordingly, the overall budget deficit during the first half of 2014 declined to 3.7 percent of the estimated GDP from 4.3 percent of GDP recorded in the corresponding period of 2013. Fiscal management became challenging during the first half of 2014, mainly due to the shortfall in government revenue, although total expenditure as a percentage of estimated GDP declined substantially. The total expenditure and net lending as a percentage of estimated GDP was 9.2 percent during the first half of 2014 compared to the 10 percent recorded during the corresponding period of 2013. In financing the budget deficit during this period, the government relied more on foreign sources while reducing its reliance on domestic sources.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

The easing of monetary policy continued and the Standing Lending Facility Rate of the Central Bank was reduced by 50 basis points to 8.00 percent, thereby compressing the Standing Rate Corridor to 150 basis points from the current 200 basis points on 2 January 2014. It is expected that this compression will facilitate the reduction of the interest spread of banks over time, without affecting the deposit rates offered by banks to their customers. However, with the realization of the effects of the eased monetary policy stance, a turnaround in credit growth could be expected in the second half of the year. The implementation of the credit guarantee scheme in relation to pawning advances is also expected to further stimulate private sector credit growth. In line with the Budget 2014, and as set out in the Road Map of the Central Bank of Sri Lanka, a Master Plan on the Consolidation of the Financial Sector was announced in January 2014, in order to create a stable financial sector with strong and dynamic financial institutions to steer Sri Lanka towards the economic goals set for 2016 and beyond. With effect from 28 May 2014 further measures were taken to liberalize several Exchange Control Regulations to further enhance the external competitiveness of Sri Lanka in the global market. These include permission to foreign investors to invest in non-listed debentures, in addition to listed debentures, through the Securities Investment Account, widening the eligibility to obtain an Electronic Fund Transfer Card, general permission granted to Licensed Commercial Banks to issue travel cards to their customers and removal of the prevailing restriction on extending a Letter of Credit.

KEY ECONOMIC INDICATORS

Indicator	Unit	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 H1
I. Real Sector														
Per Capita GDP	US$	874 (a)	981	1,062	1,241	1,421	1,617	2,014	2,057	2,400	2,836	2,922	3,280	-
Real GDP Growth	%	4.0 (a)	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.2	6.3	7.3	7.7
GDP (MP)	Billion US$	17.1	18.9	20.7	24.4	28.3	32.4	40.7	42.1	49.6	59.2	59.4	67.2	-
Agriculture	% of GDP	14.3	13.2	12.5	11.8	11.3	11.7	13.4	12.7	12.8	12.1	11.0	10.8	11.3
Industry	% of GDP	28.0	28.4	28.6	30.2	30.6	29.9	29.4	29.7	29.4	29.9	31.5	32.5	33
Services	% of GDP	57.7	58.3	58.8	58.0	58.0	58.4	57.2	57.6	57.8	58.0	57.5	56.8	55.7
Investment	% of GDP	21.2 (a)	22.0	25.3	26.8	28.0	28.0	27.6	24.4	27.6	29.9	30.6	29.6	-
National Savings	% of GDP	19.5 (a)	21.5	22.0	23.8	22.3	23.3	17.8	23.7	25.3	22.1	24.0	25.7	-
Headline Inflation (b)	%	9.6	6.3	9.0	11.0	10.0	15.8	22.6	3.5	6.2	6.7	7.6	6.9	4.9
- Food Inflation	%			9.0	11.4	8.9	20.3	30.5	3.1	6.9	8.8	4.7	7.9	4
- Non-Food Inflation	%			9.0	10.6	10.9	12.1	15.6	3.7	5.6	5.0	10.0	6.1	5.7
- Core inflation	%			9.1	10.3	8.5	7.7	13.6	6.9	7.0	6.9	5.8	4.4	3
II. Fiscal Sector														
Revenue Collection (CSR)	Billion US$	2.7	2.9	3.1	3.8	4.6	5.1	6	6.1	7.2	8.8	8.2	8.8	2.6 (c)
Fiscal Deficit (excluding grants)	% of GDP	-8.9	-7.7	-7.9	-8.4	-8.0	-7.7	-7.7	-10.4	-8.3	-7.1	-6.7	6.1	-3.5 (c)
Fiscal Deficit (including grants)	% of GDP	-8.5	-7.3	-7.5	-7	-7	-6.9	-7	-9.9	-8	-6.9	-6.5	-5.9	-3.5 (c)
Public Debt	% of GDP	105.6	102.3	102.3	90.6	87.9	85	81.4	86.2	81.9	78.5	79.2	78.3	73.3 (c)
- of which foreign debt	% of GDP	45.6	46.3	47.6	39	37.5	37.1	32.8	36.5	36.1	35.6	36.5	34.1	32.8 (c)
- domestic debt	% of GDP	60	56	54.7	51.6	50.3	47.9	48.5	49.7	45.8	42.9	42.7	44.2	40.5 (c)
- debt servicing	% of total revenue	108.6	124.6	96.5	91	93	88.6	90.5	118	100.4	92.5	96.8	102.2	139.8 (c)
III. External Sector														
Exports (f.o.b)	Billion US$	4.7	5.1	5.8	6.3	6.9	7.6	8.1	7.1	8.6	10.6	9.8	10.4	5.4
Imports (c.i.f.)	Billion US$	6.1	6.7	8.0	8.9	10.3	11.3	14.1	10.2	13.5	20.3	19.2	18.0	9.0
Trade Deficit	Billion US$	-1.4	-1.5	-2.2	-2.5	-3.4	-3.7	-6.0	-3.1	-4.8	-9.7	-9.4	-7.6	-3.5
Remittances	Billion US$	1.3	1.4	1.6	2.0	2.2	2.5	2.9	3.3	4.1	5.1	6.0	6.4	3.4
Earnings from Tourism	Billion US$	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.6	0.8	1.0	1.7	1.1
Current Account Balance	Billion US$	-0.2	-0.1	-0.6	-0.7	-1.5	-1.4	-3.9	-0.2	-1.1	-4.6	-4.0	-2.6	-0.7
Current Account Balance	% of GDP	-1.4	-0.4	-3.1	-2.7	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8	-6.7	-3.9	-
Major Inflows to the Financial Account														
- Foreign Loans (net)	Billion US$	0.2	0.6	0.4	0.9	0.6	1.2	0.4	0.6	2.7	2.9	3.1	0.9	0.8
- Foreign Direct Investment (net)	Billion US$	0.2	0.2	0.2	0.2	0.5	0.5	0.7	0.4	0.4	0.9	0.9	0.9	0.3
- Portfolio Investment : Equity (net)	Billion US$	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	-0.2	-0.2	0.3	0.3	0.1
- Portfolio Investment : Securities (net)	Billion US$	0.0	0.0	0.0	0.0	0.0	0.4	-0.2	1.9	1.5	1.2	1.3	1.8	1.9
- Trade Credits (net)	Billion US$	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.2	-1.0	-0.2	-0.7	-0.2	0.4
External Debt and Forex Liabilities outstanding	Billion US$	10.3	11.7	12.8	13.0	14.0	16.5	17.8	20.9	24.8	32.7	37.1	39.7	-
External Debt and Forex Liabilities to GDP	%	62.5	61.9	61.8	53.3	49.4	51.0	43.7	49.7	50.1	55.3	62.5	59.2	-
Short-term debt to GDP	%	9.7	8.8	10.0	9.5	9.3	11.1	10.1	12.7	12.1	12.2	10.8	9.7	-
External Debt Servicing Ratio	% of forex earnings	10.8	9.4	9.4	6.3	9.8	10.0	13.9	16.1	11.9	9.3	13.5	17.6	18.7
Exchange Rate (Annual Average)	Per US$	95.7	96.5	101.2	100.5	104.0	110.6	108.3	114.9	113.1	110.6	127.6	129.1	130.6
Total Foreign Assets	Billion US$	2.5	3.2	3.4	4.2	4.0	5.0	3.6	7.0	8.6	8.0	8.6	8.6	10.7
IV. Monetary & Capital Market														
Growth Rate of M_1	y-o-y	14.0	16.0	16.6	22.4	12.6	2.7	4.0	21.4	20.9	7.7	2.6	7.7	16.9
Growth Rate of M_2	y-o-y	13.2	13.8	18.5	19.6	20.7	15.6	11.7	19.9	18.0	20.9	18.3	18.0	13.0
Growth Rate of M_{2b}	y-o-y	13.4	15.3	19.6	19.1	17.8	16.6	8.5	18.6	15.8	19.1	17.6	16.7	13.3
Weighted Avg Lending Rate	%	18.20	15.70	14.80	15.40	16.56	18.08	20.13	17.41	14.80	13.44	15.98	15.18	13.83
Credit growth to Private Sector (As per M2b)	%	12.0	16.9	22.1	26.3	24.0	19.3	7.0	-5.8	24.9	34.5	17.6	7.5	2
Stock Market (Price Index)	1991=100	97.3	126.8	179.8	229.4	324.9	303.3	179.4	404.1	792	725	673.5	*	
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	162.6	262.8	382.1	584	834.8	820.7	488.8	1,092.1	2,210.5	2,213.9	2,167.6	2,459.9	2,673.0
Market Capitalization (as leading stock mkt)	% of GDP	10.3	14.4	18.3	23.8	28.4	22.9	11.1	22.6	39.4	33.9	28.6	28.4	
Market Capitalization (as leading stock mkt)	Billion US$	1.7	2.7	3.8	5.8	8	7.4	4.5	9.5	19.6	20	17	18.8	20.5
V. Banking Sector Indicators														
Capital adequacy ratio	%	12.3	11.9	11.4	13.4	13.3	13.7	14.5	16.1	16.2	16.0	16.4	17.6	16.9
Non-performing loans ratio (Net IIS)	%	14.3	12.3	9.2	7.1	5.6	5.2	6.3	8.5	5.4	3.8	3.7	5.6	6.2
Profitability (R.O.E.) (After Tax)	%	19.1	21.8	18.1	16.4	15.2	14	13.4	11.8	22	19.8	20.3	16.0	15.3
Profitability (R.O.A.) (Before Tax)	%	1.4	1.7	1.7	1.9	1.9	1.9	1.9	1.8	2.7	2.4	2.4	1.9	1.8

*

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 H1
All Share Price Index (ASPI)	(1985=100)									6,635.9	6,074.4	5,643.0	5,912.8	6,378.6
Milanka Price Index (MPI)	(1998 Dec=1000)									7,061.5	5,229.2	5,119.1	-	-
S&P SL 20 Index	(2004 Dec=1000)									n.a.	n.a.	3,085.3	3,263.9	3,534.4

(a) Data based on CBSL Estimates

(b) Data for 2002 and 2003 are based on CCPI (1952=100), from 2004-2008 are based on CCPI (2002=100) and from 2009 onwards are based on CCPI (2006/07=100),

(c) January - April

HIGHLIGHTS OF SAARCFINANCE, SPC and IGEG-RELATED ACTIVITIES

1. SAARCFINANCE

19th SAARCFINANCE Coordinators' Meeting

The 19th SAARCFINANCE Coordinators' Meeting was held in Kathmandu on 18 May 2014. The meeting was hosted by Nepal Rastra Bank as the chairing member central bank of SAARCFINANCE. The major objectives of this Meeting were to review the progress of SAARCFINANCE activities as well as to prepare the draft agenda for the forthcoming 28th SAARCFINANCE Group Meeting scheduled to be held in Colombo on 24 July 2014 on the sidelines of SAARCFINANCE Governors' Symposium. Chairman of SAARCFINANCE and Governor of Nepal Rastra Bank, Dr. Yuba Raj Khatiwada delivered the inaugural address where he touched upon some recent activities of SAARCFINANCE including the Scholarship Scheme and the Swap Arrangement and noted that these kinds of initiatives will foster partnerships amongst the central banks of this region. Governor Dr. Khatiwada stated that the SAARC countries must strengthen their capacities to operate and develop the already established cooperation frameworks more effectively, rather than trying to find new areas for cooperation, and also learn to harness the existing strengths in the region, particularly in the areas of inclusive finance, banking regulation and supervision and economic research. For this, the various SAARC forums, including SAARCFINANCE, need to fine-tune and focus more on key programs in consideration of their own areas of expertise. The welcome remarks were delivered by Deputy Governor of Nepal Rastra Bank Mr. Gopal Prasad Kaphle who also chaired the ensuing Business Session. The Meeting was participated by all SAARCFINANCE Coordinators and/or Alternate Coordinators except from Maldives Monetary Authority as well as the First Deputy Governor of Da Afghanistan Bank.

Issues discussed during the Meeting covered a wide range of areas including establishment of a permanent SAARCFINANCE Secretariat, development of a Regional Statistical Database, change in SAARCFINANCE TOR relating to rotation of SAARCFINANCE Chair on annual basis, holding of a seminar/talk program (on an optional basis) along the sidelines of the SAARCFINANCE Coordinators' Meeting and agenda for the 28th SAARCFINANCE Group Meeting to be held in Colombo, Sri Lanka on 24 July 2014.

The Coordinators and Alternate Coordinators with the Governor (centre) and Deputy Governors of Nepal Rastra Bank (second from left) and Da Afghanistan Bank (second from right) at the 19th SAARCFINANCE Coordinators' Meeting

SAARCFINANCE Seminar on "Risk Management Framework in Banks"

State Bank of Pakistan organized a seminar on risk management framework in banks under the aegis of SAARCFINANCE at NIBAF, Islamabad during 17-19 March 2014. Besides Pakistan, delegates from SAARC central banks attended the seminar. Mr. Ashraf Mahmood Wathra, Governor, State Bank of Pakistan was the Chief Guest of the event.

While addressing the participants of the Seminar, Mr. Wathra said that banks' risk management frameworks should strive to cover the full spectrum of risks and should be tailored as per their specific needs and circumstances. He also elaborated on the main elements of a risk management framework which included the active role of the Board of Directors of Banks and senior management, establishment of adequate policies, procedures, limits and controls, effective MIS and institutionalization of a risk management function. The SAARC delegates also presented their country experiences in the wake of key lessons learnt from the global financial crisis due to weaknesses in the risk management practices. The seminar recommended the need for active involvement of the board of directors in the business planning and strategy, alignment of compensation with the risk-adjusted performance, institutionalization of risk culture, and management of risk at enterprise level. Further, it was also highlighted that expanding business arenas, globalization of financial activities, emergence of new financial products and increased level of competition have opened up opportunities but also increased the potential risks from such developments. There was consensus among the participants of the events that such regional forums are very helpful in facilitating knowledge exchange and ongoing collaboration for region specific issues which may pose potential risks for each of our banking sectors.

Participants of the Seminar with the Governor of SBP

SAARCFINANCE Seminar on "Management of External Sector Openness-South Asian Country Experiences"

Bangladesh Bank (BB) organized a day long SAARCFINANCE seminar on "Management of External Sector Openness-South Asian Country Experiences" during 29-30 April 2014. The seminar was attended by a total of 45 participants of which 9 were from SAARC member countries-Afghanistan, India, Nepal, Pakistan, Bhutan and Sri Lanka. High officials from Bangladesh Bank, different ministries of the Government of Bangladesh, other national & international institutions related to the theme of the seminar and heads of scheduled banks also participated in the seminar. Dr. Atiur Rahman, Governor, BB graced the seminar as the Chief Guest in the inaugural session of the seminar. Dr. A.B.M. Mirza Azizul Islam, Former Adviser, Ministry of Finance and Planning, Government of the People's Republic of Bangladesh delivered the key note speech. The seminar took stock of the extent of openness or exposure of South Asian economies to capital inflows and outflows, the instability risks from volatility of these flows, and explored feasible macroeconomic and financial sector policy options for managing the risks towards sustaining investment and growth momentum and bolstering safeguards against instability in the SAARC Countries.

Participants of the Seminar with the Governor (seated at the centre) and other senior officials of Bangladesh Bank and Government of Bangladesh

Other Training Programmes/Staff Exchange Programmes

- Two participants from Nepal and one participant from Maldives participated in the '7th Programme for Principal Inspecting Officers/Chief Banking Examiners organized by the Reserve Bank Staff College (RBSC), Chennai, during 27-31 January 2014.
- Six participants from Nepal participated in the 'International Programme on Central Banking' organized by the Reserve Bank Staff College (RBSC), Chennai, during 3-5 February 2014.
- Two participants from Nepal participated in the '4th Programme on Bourse' organized by the Reserve Bank Staff College (RBSC), Chennai, during 24-28 February 2014.
- Three participants from Nepal and two participants from Bhutan participated in the 'Pilot Programme on Risk Based Supervision' organized by the Reserve Bank Staff College (RBSC), Chennai, during 1-4 April 2014.
- Three participants from Nepal participated in the '2nd Programme on Basel III' organized by the Reserve Bank Staff College (RBSC), Chennai, during 21-25 April 2014.
- Four participants from Bangladesh Bank (BB) participated in the workshop on 'Inflation Expectation Survey of Households', organized by the RBI at Mumbai during 9-11 April 2014. The workshop was organized on the request of Asian Development Bank (ADB). Under this workshop the participants had interaction with officials from Department of Economic and Policy Research (DEPR), Monetary Policy Department (MPD), and Department of Statistics and Information Management (DSIM) at the RBI, Central Office in Mumbai.
- A familiarization programme was arranged in the areas of technical research studies on interconnectedness of financial institutions, Early Warning Systems, Stress Testing Mechanisms, Integrated Risk Management Systems and other areas related to Financial System Stability for 4 participants from Central Bank of Sri Lanka (CBSL) during 14-18 July 2014 at RBI in Mumbai. The participants also had interaction with officials from Department of Economic and Policy Research (DEPR), Monetary Policy Department (MPD) and Department of Banking Supervision (DBS).

SAARCFINANCE Scholarship Scheme

Under the SAARCFINANCE Scholarship Scheme[1] which was announced on 18 June 2013 at 26th SAARCFINANCE Group Meeting held in Islamabad, a total of six applications were received from the SAARC member countries. The details are given below:

Countries	No. of Applications
Afghanistan	2
Bangladesh	1
Bhutan	1
Maldives	2
Nepal	-
Pakistan	-
Sri Lanka	-
Total Applications	6

Out of the six applications received 2 were shortlisted, 1 from Bangladesh (for Ph. D.) and 1 from Maldives (for M.Sc.). The candidate from Bangladesh Bank has successfully enrolled into the doctoral programme of Jawaharlal Nehru University. The candidate from Maldives withdrew her participation due to personal reasons.

2. SAARC Payments Council (SPC)

Dr. Yuba Raj Khatiwada, Chairman of SAARCFINANCE and Governor of Nepal Rastra Bank, inaugurated the 15th SAARC Payments Council (SPC) Meeting and 1st SPC Seminar on 9 May 2014. In his inaugural address, Governor Dr. Khatiwada mentioned that payment and settlement systems should function safely and efficiently as they formed a crucial part of the financial infrastructure of a country. He observed that central banks, being mostly entrusted for developing a secured and efficient payment system in the country, had to have a proper infrastructure and also strong oversight system in place. He added that the roots of SAARC Payment Initiative (SPI) were intertwined with the spirit of SAARC—shared regional prosperity through greater economic integration. He mentioned that for further economic integration of the least integrated region of SAARC, a proper payment and settlement systems, sufficient infrastructure and oversight agency were critical. The Chairman of SPC Mr. Kazi Abdul Muktadir (Deputy Governor, State Bank of Pakistan) and Mr. H. R. Khan (Deputy Governor, Reserve Bank of India) also delivered their respective addresses focusing on the current challenges of the payment systems.

Mr. Maha Prasad Adhikari (Deputy Governor, Nepal Rastra Bank) delivered the welcome remarks. The Meeting was attended by 21 delegates representing eight Central Banks/Monetary Authorities of the SAARC region, including Da Afghanistan Bank, Bangladesh Bank, Royal Monetary Authority of Bhutan, Reserve Bank of India, Maldives Monetary Authority, Nepal Rastra Bank, State Bank of Pakistan and Central Bank of Sri Lanka.

[1] Under the scheme, the RBI offers one full-time scholarship to a candidate working in SAARC central banks/ministries of finance, for pursuing PhD; or M.A/M.S/MPhil leading to PhD in economics in one of the identified universities/institutions in India. The tenure of the scholarship is of four years, extendable by six months. Alternatively, the RBI also considers awarding scholarship for candidates desirous of pursuing 2-year M.A/M.S/MPhil in economics in selected universities/institutions in India. The research field for the dissertation of PhD/MPhil should be of relevance to any or all of the SAARC countries.

While the SPC, in its 14th meeting, had constituted a Technical Team, consisting of members of members from RBI, SBP and CBSL, which was mandated to develop a concept paper on Single Harmonized Payments Mechanism (SHPM), in its 15th Meeting a concept paper on "Single Harmonized Payments Mechanism" was submitted for members' feedback. Especially, the purpose was to look into the challenges and possibilities for harmonization of payment systems and mechanism within the region. The Meeting also took into account the emergence of virtual currencies and the required proactive measures in order to understand the dynamics and create awareness for their regulatory treatment. A responsibility grid was developed to encourage contribution of all members at equal level in the achievement SPC objective through its roadmap. It also decided to conduct more trainings and information sharing programs.

The 15th SPC Meeting was followed by the 1st SPC Seminar on 10 May. Mr. Esmond Lee from Hong Kong Monetary Authority and Mr. Harish Natarajan from the World Bank participated as resource speakers. In addition to the above delegates, 23 senior officers from Nepal Rastra Bank and domestic banks and financial institutions also participated in the Seminar.

Participants with (1st row from left) Deputy Governor of Reserve Bank of India, Deputy Governor of State Bank of Pakistan, Governor of Nepal Rastra Bank and Deputy Governor of Nepal Rastra Bank

3. Inter-Governmental Expert Group (IGEG) Meeting

7th Inter-Governmental Expert Group (IGEG) Meeting on Financial Issues

The Seventh Meeting of the Inter-Governmental Expert Group (IGEG) on Financial Issues was held at the SAARC Secretariat on 20-21 May 2014. Mr. Moinul Islam, Additional Secretary, Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh and the leader of the delegation of Bangladesh was elected as Chairperson of the Meeting unanimously. The participants of the Meeting included officials from the Ministry of Finance, Ministry of Commerce, Ministry of Foreign Affairs and central banks of the SAARC region.

The Meeting held discussion on a wide range of issues including review of progress in the field of Development of Capital Market in South Asia , review of Progress in SAARC-ADB Studies on "Second Phase of Study on Regional Economic Integration" and "Study on Development of a Regional Coordinated Surveillance Mechanism (RCSM)", preparing a proposal to allow for greater flow of financial capital and intra-regional long-term investment, sharing of experience and best practices in the financial sector, and review of progress on swap arrangement, among others.

Mr. Sagged Shaikh, Joint Secretary (Debt Management), Ministry of Finance, Government of the Islamic Republic of Pakistan and the leader of the delegation of Pakistan presented a vote of thanks to the Chairperson for smoothly conducting the deliberations of the Meeting. It was decided to hold the Eighth Meeting of the IGEG on Financial Issues at the SAARC Secretariat, Kathmandu in the first half of 2015.