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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 and for providing the opportunity to publish this issue of *e-Newsletter*. This issue covers the economic activities of the member countries during the second half of 2013. It encompasses the recent macroeconomic developments, major policy announcements, and key economic indicators of SAARC member countries. I hope the member countries would find this issue quite useful.

Some major activities launched by SAARCFINANCE between July to December 2013 include the initiation and implementation of SAARCFINANCE Scholarship Scheme by Reserve Bank of India as well as the launching of SAARCFINANCE Portal by the Maldives Monetary Authority. It is through these activities that SAARCFINANCE has been serving as an important network towards regional cooperation. I take this opportunity to express my sincere appreciation and gratitude to my fellow Governors, Finance Secretaries, 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 Coordinators 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.

Finally, any comments and suggestions regarding 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 countries 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 harmonisation 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 forafor mutual benefit, particularly in the context of liberalisation 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 2014 withdrawal of international peacekeeping forces from the country. 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 and bumper harvest. Due to the importance of the sector in the economy, changes in agriculture output have a large influence on 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 others, telecommunication, transport, and public services remained the most dynamic subsectors. 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.

Inflation and Prices

Inflation remained subdued. After dropping to 4.6 percent, y-o-y in July 2012, overall inflation accelerated at the turn of 2013. Inflation rose in the month of December 2013, resulting in a rise of the overall price index by 1.36 percentage points, or 7.24 percent y-o-y. Inflation over the year 2013 has been driven largely by higher prices of food items, while non-food prices decreased by 2.67 percentage points, or 4.75 percent y-o-y.

The food price-index, which accounts for 52 percent of the CPI basket, increased by 5.1 percentage points or 9.62 percent, y-o-y in December 2013, due mainly to increase in the food prices in the international markets. Regionally, food prices were affected by rising 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.

Inflation in non-food prices fell significantly to 4.8 percent in December 2013 from 7.4 percent the previous year and the effect on overall inflation was quite pronounced, which contributed largely to offset the increase in food inflation.

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 2013, the key operational target (performance criterion) was reserve money (RM), while currency in circulation was set as the indicative target. The ceiling on reserve money growth was revised downwards from 12 percent to 8 percent, which required DAB to tighten its monetary policy. DAB continued tightening its stance and reduced money supply. Under the open market operations, DAB sold a total of USD 3.48 billion through a bi-weekly auction to achieve the reserve money target.

Broad money (M2) grew by 9.4 percent, y-o-y in 2013 compared to 8.9 percent the year before. M1 remained as the main contributor to the growth in broad money. Quasi money or time deposits of commercial banks, the other component of M2, grew by 7 percent, y-o-y in 2013.

Afghani depreciated against the major currencies due to poor security conditions, huge trade deficit, and concerns over the withdrawal of foreign troops from Afghanistan. Afghani depreciated against the US dollars by 2.1 percent in the second half of 2013. The currency was traded at 56.64 per USD at the end of December 2013.

External Sector Outlook

Afghanistan's trade balance is heavily centered on imports, reflecting large dependency on food, oil, and capital goods imports. Afghanistan still is experiencing a huge trade deficit due to increasing imports. In 2013, exports increased to USD 0.56 billion, compared to USD 0.35 billion in the previous year, while total imports recorded a total of USD 9.3 billion from USD 8.3 billion in the year before. As a result, the trade deficit increased from USD 7.96 billion in 2012 to USD 8.78 billion in 2013. On the other hand, the current account deficit of Afghanistan also increased to USD 7.84 billion in 2013 from USD 5.7 billion in 2012.

Fiscal Sector Outlook

Net operating budget balance increased from a surplus of 1.4 percent of GDP in 2012 to 4.9 percent of GDP in the fiscal year 2013. Total domestic revenue collection stood at AF 109.7 billion in 2013, up by AF 28.1 billion from the year before. Total revenues accounted for 9.6 percent of GDP. On the other hand, in the fiscal year 2013, total grants, receipts to the core budget were AF 196.4 billion, of which AF 114.8 billion was allocated to finance operating budget and the remaining AF 81.6 billion was allocated to finance development budget.

In the fourth quarter of 2013, the total government expenditures reached AF 97.424 billion, up from AF 76.088 billion in the preceding quarter, which shows an increment of 28.04 percent. On the other hand, the total revenue collections decreased by almost 44 percent in the fourth quarter of 2013 compared to the preceding quarter, due mainly to prevailing of uncertainties and the Presidential Elections of 2014. Total donor grants and loans increased in the fourth quarter, standing at AF 57.4 billion, from 50.5 billion in the previous quarter.

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 economic growth is projected at 4-6 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 at about 12 percent.
2. To control the reserve money (RM) growth, in order to maintain domestic price stability, the main objective of the DAB, the DAB uses its primary and the 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. Da Afghanistan Bank will focus more on the expansion of the use of the capital notes to reduce pressures on the FX auction. DAB intends to introduce new CNs of one year maturity besides the current notes of 6 months and one month maturities. This will allow DAB to accumulate more foreign reserves.
5. Dollarization remains a concern in Afghanistan that limits the impact of monetary policy. Though Da Afghanistan Bank 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 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 OF AFGHANISTAN

	Unit	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
I. Real Sector							
Per Capita GDP	US$	426	505	629	709	780	772
Real GDP Growth	%	2.3	17.2	3.2	8.7	10.9	6.4
GDP (Nominal)	Billion US$	10.64	12.87	16.34	18.79	21.04	21.23
Agriculture	% of GDP	27.75	31.11	27.76	26.98	25.40	24.58
Industry	% of GDP	25.62	21.17	20.57	21.58	20.52	19.72
Services	% of GDP	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	%	4.8	-4.5	13.7	8.4	5.8	7.2
- Food Inflation	%	4.3	-9.1	14.0	7.0	4.4	9.6
- Non-Food Inflation	%	6.0	3.8	13.3	10.6	7.4	4.7
- Core Inflation	%	7.8	2.3	10.0	10.7	5.9	5.5
II. Fiscal Sector							
Revenue Collection (CSR)	Million Afs	71,638	101,118	134,840	169,674	164,589	226,650
Fiscal Deficit (excluding Grants)	% of GDP	-9%	-8%	-1%	-4%	-2%	-4%
Fiscal Deficit (including Grants)	% of GDP	-15%	-14%	-8%	-12%	-10%	-14%
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$	0.55	0.40	0.40	0.38	0.26	0.50
Imports (f.o.b)	Billion US$	2.98	3.11	4.87	6.05	6.03	8.65
Trade Deficit	Billion US$	-2.43	-2.70	-4.48	-5.67	-5.76	-8.15
Remittances	Billion US$	-0.08	-0.18	-0.02	0.01	0.11	0.11
Current Account Balance	Billion US$	-1.68	-1.90	-2.80	-3.59	-5.70	-7.84
Current Account Balance	% of GDP	1.68	1.90	2.80	3.59	5.70	7.84
Total Foreign Investment	Million US$	68.68	118.14	-1.69	27.82	52.67	3.24
- Foreign Direct Investment	Million US$	87.28	213.67	75.65	91.23	70.74	70.24
- Portfolio Investment	Million US$	-18.59	-95.53	-77.34	-63.41	-18.07	-67.00
External Debt	Billion US$	0.14	0.10	0.10	0.06	0.04	0.03
External Debt and Forex Liabilities	% of forex	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
External Debt Servicing Ratio (Pl see footnote)	*	38.90	27.94	40.96	26.44	8.96	2.61
Exchange Rate (Average)	Per US$	50.95	49.26	45.80	47.76	50.92	55.38
Foreign Exchange Reserves	Billion US$	n.a	-0.13	-1.02	-0.73	-0.37	-0.46
IV. Monetary & Capital Market							
Growth Rate of M1	y-o-y	31.91	30.33	25.02	21.00	9.78	9.88
Growth Rate of M2	y-o-y	31.38	33.05	26.95	21.31	8.80	9.40
Growth Rate of M3	y-o-y	-	-	-	-	-	-
Weighted Avg Lending Rate	%	23.40	15.10	15.00	14.50	15.00	15.00
Credit growth to Private Sector	%	45.63	33.90	29.80	-49.80	1.90	8.80
Stock Market (Price Index)	1991=100	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	Domestic	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	% of GDP	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	Billion US$	-	-	-	-	-	-
V. Banking Sector Indicators							
Capital Adequacy ratio	%	29.83	25.81	-14.48	23.83	21.84	26.24
Non performing loans	%	1.15	0.94	48.4	5.16	5.31	5.08
Profitability (R.O.E)	%	1.69	1.4	-20.69	-1.01	-0.42	0.61
Profitability (R.O.A)	%	10.28	10.25	-520.84	-14.98	-5.71	8.18
* 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

Bangladesh economy continues to achieve over 6% GDP growth in fiscal year 2014

During the fiscal year 2013, Bangladesh economy achieved robust foreign remittance growth (12.60 percent) and export growth (11.22 percent) while decelerated import growth (-4.03 percent) led to sharp growth of net foreign assets. As a result, the countries foreign exchange reserves swelled and its domestic currency (Taka) showed a tendency of appreciation and finally the economy achieved a steady growth of 6.2 percent in fiscal year 2013. In spite of some undesirable political unrests; particularly, during the second quarter of the current fiscal year, Bangladesh economy continues to achieve a steady growth of over 6 percent in fiscal year 2014. As per the latest available information, export growth stood at 12.88 percent during July-March of FY14 and import growth stood at 16.42 percent during July-February of the same financial year. The Government and Bangladesh Bank (BB) have taken a number of steps to cushion the impact of domestic disruptions on business which occurred during the political unrests. These steps include broadening the scope of the Export Development Fund (EDF), and reducing the borrowing costs, as well as instructing banks to offer loan rescheduling facilities to genuine borrowers facing cash flow difficulties, especially SMEs, who are temporarily affected by the political unrests. Moreover, in order to stimulate entrepreneurship among low income rural households who have opened ten taka accounts, BB is launching a new 2 billion taka refinancing facility to be implemented by Micro-Finance Institutions.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

BB declares its monetary policy stance for the 2nd Half of FY14

The monetary policy stance in the 2nd half of financial year 2013-14 (January-June, 2014) takes recent economic and financial sector developments into account and will target a monetary growth path which aims to bring average inflation down to 7 percent, while ensuring that credit growth is sufficient to stimulate inclusive economic growth. 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 FY14 inflation target will be challenging. As such BB has decided to keep policy rates unchanged. Moreover the ample liquidity in the banking system suggests that an easing of reserve requirement ratios is also unnecessary.

Specifically, BB aims to contain reserve money growth to 16.2 percent and broad money growth to 17 percent by June 2014. BB will have a ceiling on net domestic assets as a key operating target. The space for private sector credit growth of 16.5 percent 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 should economic growth pick up faster than projected. The monetary policy stance also assumes government borrowing from the banking sector will remain around the FY14 budgetary figure of 260 billion taka, and the limited borrowing of 46 billion taka in H1FY14 suggests that this will not exceed the target.

Bangladesh Taka remains stable in the 1st half of FY14

The Taka/US Dollar reference exchange rate (buy) remained same at 77.75 throughout the entire period of July-December, 2013.

BB's gross foreign exchange reserves exceeded US$20 billion

The gross foreign exchange reserves of BB reached US$ 18.10 billion in December, 2013 from US$ 15.53 billion in July, 2013 which further accelerated to a record high of US$ 20.2 billion as on 29 May 2014.

BB has re-fixed maintenance of Statutory Liquidity Ratio (SLR) by Deposit Money Banks (DMBs)

According to the amendment of subsection (2) under section 33 of Bank Company Act, 1991, BB has decided that (a) for the conventional banks the statutory liquid assets inside Bangladesh, which also includes excess reserves with Bangladesh Bank, shall not be less than 13.0 percent of their total demand and time liabilities, and (b) for the shariah based islami banks, this rate shall not be less than 5.5 percent.

BB has determined minimum maturity period of term deposit for financial institutions

BB has decided that minimum maturity period for term deposit by financial institutions will be three months. In that case Premature Encashment will also be possible after expiring the three months period on request.

BB has eased the regulation of opening of bank account for readymade garments (RMG) sector laborers

In order to get salary and allowance through bank account workers in RMG sector can open bank account against their National ID card and ID card issued by their Company through depositing a minimum of Tk.100. These bank accounts are not subject to any minimum balance requirements or fees/charges. In case of inadequacy of cheque books, transactions can be done through vouchers.

BB has issued "Guidelines on the Base Rate System for Non-Bank Financial Institutions"

BB has issued "Guidelines on the Base Rate System for Non-Bank Financial Institutions". Base rate is the minimum rate below which it is not viable for a FI to lend in the market. FIs have to compute their base rate as per instructions in the guidelines on monthly basis and submit statements to the Department of Financial Institutions and Markets of Bangladesh Bank within 10(ten) days of the following month.

BB has introduced Refinance Scheme for Financing Renewable Fuel and Environment Friendly Sector

BB has introduced a scheme named "Refinance Scheme for Solar Energy, Bio-Gas and Effluent Treatment Plant Sector" with a revolving fund of Tk.200 crore primarily financed from Bangladesh Bank's own source for advancing loan on easy terms for renewable fuel and environment friendly sector.

KEY ECONOMIC INDICATORS OF BANGLADESH

	Unit	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	$2012\text{-}13^{P}$	2013-14 (Jul-Dec)
I. Real Sector												
Per Capita GDP	US$	441	463	476	487	559	620	687	748	766	1088	-
Real GDP Growth	%	6.3	6.0	6.6	6.4	6.2	5.7	6.1	6.7	6.3	6.2*	7.2^{PJ}
GDP (Market Price)	Billion US$	56.5	60.4	62.0	68.4	79.6	89.4	100.4	111.9	115.7	129.9	153.9^{PJ}
Agriculture	% of GDP	23.1	22.3	21.9	21.4	20.7	20.5	20.3	19.9	19.4	18.7	-
Industry	% of GDP	27.7	28.3	29.0	29.4	29.8	29.8	29.9	30.4	31.1	32.0	-
Services	% of GDP	49.2	49.4	49.1	49.2	49.5	49.7	49.8	49.7	49.5	49.3	-
Investment	% of GDP	24.0	24.5	24.7	24.5	24.2	24.4	24.4	25.2	26.5	26.8	-
National Savings	% of GDP	19.5	25.8	27.7	28.7	30.2	29.6	30.0	28.8	29.2	29.5	-
Headline Inflation (12 mthavg)	%	5.8	6.5	7.2	7.2	9.9	6.7	7.3	8.8	10.6	6.8*	7.5*
- Food Inflation	%	6.9	7.9	7.8	8.1	12.3	7.2	8.5	11.3	10.4	5.2*	7.9*
- Non-Food Inflation	%	4.3	4.3	6.4	5.9	6.3	5.9	5.5	4.2	11.1	9.2*	6.9*
- Core inflation	%	-	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector												
Revenue Collection (CSR)	Billion US$	6.0	6.4	6.7	7.2	8.8	10.1	11.5	13.4	15.0	17.5	-
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	-
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	-
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 US$	7.5	8.7	10.4	12.1	14.2	15.6	16.2	22.6	24.0	26.6	14.5
Imports (f.o.b.)	Billion US$	9.8	13.2	13.3	15.5	19.5	20.3	21.4	30.3	33.3	33.6	16.9
Trade Deficit	Billion US$	2.3	4.5	2.9	3.4	5.3	4.7	5.2	7.7	9.3	7.0	2.4
Remittances	Billion US$	3.4	3.8	4.8	6.0	7.9	9.7	11.0	11.7	12.8	14.5	6.8
Current Account Balance	Billion US$	0.2	-0.6	0.8	0.9	0.7	2.4	3.7	-1.7	-0.4	2.5	1.7
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	-
Total Foreign Investment	Million US$	391	800	775	899	795	802	796	740	1193	1587	1114
- Foreign Direct Investment	Million US$	385	800	743	793	748	961	913	768	995	1300	840
- Portfolio Investment	Million US$	6.0	0.0	32.0	106.0	47.0	-159.0	-117.0	-28.0	198.0	287	274
External Debt and Forex Liabilities	Billion US$	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 US$	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 US$	2.7	2.9	3.5	5.1	6.1	7.4	10.8	10.9	10.2	15.3	18.1
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	10
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	15.6
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	10
Weighted Avg. Lending Rate	%	11.0	10.9	12.1	12.8	12.3	11.9	11.3	12.4	13.8	13.7	13.6
Credit growth to Private Sector	%	16.7	16.9	18.1	15.0	25.0	14.6	24.2	25.8	19.7	11.0	12.0
Stock Market (Price Index)		1319.0	1713.2	1339.5	1764.2	2588.0	2520.2	5111.6	6117.2	4572.9	4385.8	4266.6
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	2086.4
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	-
Market Capitalization of DSE$^{\#}$	Billion US$	2.4	3.7	3.4	7.1	13.6	18.0	39.0	40.1	31.5	31.7	26.8
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	11.5
Non performing loans	%	14.0	13.6	13.2	13.2	10.8	9.2	7.3	6.1	10.0	11.9	8.9
Profitability (R.O.E)	%	12.2	12.4	14.1	13.8	15.6	21.7	21.0	17.0	8.2	8.2	10.8^{P}
Profitability (R.O.A)	%	0.7	0.6	0.8	0.9	1.2	1.4	1.8	1.5	0.6	0.6	0.9^{P}

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.[1] 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 increased during the quarter ending December 2013 recording 6.5 percent from 5.6 percent during the same quarter last year. Meanwhile inflation measured by the year-to-year change of the consumer price index, increased to 11.3 percent in the fourth quarter of 2013, from 9.5 percent in the same quarter of 2012. Increase in the CPI during the review quarter is attributed to rise in the prices of both food and non- food commodities.

As of December 2013, the total assets of the financial institutions increased to Nu. 86.3 billion from Nu. 81.6 billion in December 2012, recording a growth of 5.8 percent during the review quarter. This increase is attributed to rise in loans and advances and cash and bank balances of the financial institutions. Though profits after tax decreased slightly to Nu.1.6 billion from Nu.1.7 billion in the previous year, banks overall capital remained well above regulatory limits with the CAR at 19.6 percent as of December 2013.

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 merchandise trade deficit with Country Other than India improving from 23.1 percent of GDP to 21.6 percent as of the year ending June 2013. 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.

[1] The latest data available for GDP, fiscal sector statistics and balance of payments statistics are as of June 2013.

As of the quarter ending December 2013, international reserves stood at USD 933.1 million. Of the total reserves, USD 833.8 million were convertible currency reserves and ₹ 6.2 billion were Indian Rupee reserves. Reserves were sufficient to cover 21.9 months of merchandise imports at the end of December 2013.

The country's total outstanding external debt as of December 2013 stood at USD 1.5 billion. Of the total, ₹ 58.3 billion (USD 940.5 million equivalent) were Indian Rupee debt and USD 604.0 million were outstanding convertible currency debt. Debt servicing for the quarter ending December 2013 amounted to USD 12.6 million on convertible currency debt and ₹ 7.5 billion for Rupee denominated debt.

Meanwhile, on the fiscal front, as of June 2013, total revenue including grants, increased from 35.8 percent of GDP to 36.9 percent of GDP in FY 2012/13. Total expenditure also increased from 36.9 percent of GDP in 2011/12 to 37.8 percent of GDP during 2012/13. As a result, the national budget deficit was 0.9 percent of GDP for FY 2012/13 from 1.1 percent of GDP in the previous year. At Nu.20.4 billion, domestic revenue was more than sufficient to finance all current expenditures totaling Nu.16.7 billion. Capital expenditure during the year increased to 19.6 percent of GDP from 18.6 percent of GDP in the previous year. Grant support helped finance 37.1 percent of total expenditure.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

The RMA in collaboration with the Government undertook several measures to address volatility in the financial and external sectors during July-December, 2013. Some of the measures are as follows;

1. During May 12-14, 2014, in line with the Base Rate Operational Guidelines, the RMA conducted the Second Base Rate Review Meeting with the commercial bank. For the FY 2014, the Base Rate for the commercial banks ranged between 10.32 percent to 11.43 percent and 12.00 percent for the NBFIs.

2. With effect from December 1, 2013, the RMA revised the risk weights for the following sectoral loan portfolios;
   (i) Agriculture – 50 percent
   (ii) Manufacturing/Industry – 100 percent
   (iii) Services – 150 percent
   (iv) Trade/Commerce – 100 percent
   (v) Housing – 150 percent
   (vi) Transport – 150 percent
   (vii) Loan to Purchase Securities – 100 percent
   (viii) Personal Loan – 300 percent

(ix) Education Loan – 100 percent
(x) Loan against Term Deposits – 0 percent
(xi) Loans to FIs – 100 percent
(xii) Infrastructure Loan – 100 percent
(xiii) Staff Loan – 50 percent
(xiv) Loan to Government Owned Corporations – 20 percent
(xv) Consumer Loans (GE) – 50 percent

These risk weights shall be assigned to each sector and reviewed after 6 months from the date of compliance. Furthermore, for sector exposures above 20 percent, further 50 percent risk weight shall apply for additional exposure.

3. To ease the current liquidity shortage and to restart lending to productive and priority economic sectors, the RMA represented the Government-constituted Economic Stimulus Plan Taskforce from August 2013 to draw up the ESP Strategy and Implementation Plan. The RMA also represented the December 2013 Task Force to Review the Existing Import Restrictions on Import of Vehicle, Furniture and Alcohol. During the review, the RMA recommended the government to lift the ban on furniture and alcohol imports.

KEY ECONOMIC INDICATORS OF BHUTAN

Bhutan Key Macroeconomic Indicators

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
I. Real Sector												
Per Capita GDP(a)	**US$**	940.62	1082.20	1214.20	1366.40	1387.40	1814.90	1875.54	1851.58	2277.76	2600.09	2584.81
Real GDP Growth (a)	**%**	10.76	3.98	7.96	6.85	17.93	4.74	6.66	11.73	8.55	4.62	-
GDP (MP)(a)	**Billion US$**	0.60	0.70	0.81	0.91	1.12	1.36	1.28	1.55	1.90	1.98	1.92(P)
Agriculture(a)	**% of GDP**	24.39	23.98	22.34	21.41	18.67	18.41	18.23	16.80	16.14	16.99	16.49(P)
Industry(a)	**% of GDP**	39.91	36.31	35.93	37.70	44.05	43.20	41.97	42.78	40.52	39.30	39.40(P)
Services(a)	**% of GDP**	37.50	39.72	33.65	40.89	37.28	38.39	39.81	40.42	43.33	43.71	38.06(P)
Investment(a)	**% of GDP**	59.96	56.78	61.95	51.22	47.95	37.70	41.39	43.03	52.09	61.01	59.20
National Savings(a)	**% of GDP**	34.40	44.21	43.12	37.10	57.59	45.47	41.21	35.56	41.53	46.14	17.56
Headline Inflation	**%**	1.85	-	5.46	6.17	5.94	8.85	2.96	6.14	8.33	13.53	11.31
/';- Food Inflation	**%**	-	2.70	5.02	5.23	8.84	11.75	10.74	9.53	8.96	11.80	14.46
- Non-Food Inflation	**%**	-	4.50	4.89	5.33	2.95	7.74	0.73	8.86	8.17	8.30	9.27
- Core inflation	**%**	-	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector												
Revenue Collection (CSR)	**Billion US$**	0.10	0.13	0.14	0.16	0.23	0.31	0.35	0.43	0.39	0.40	0.39
Fiscal Deficit (excluding grants)	**% of GDP**	-19.85	-16.82	-21.63	-18.67	-14.05	-11.19	-10.02	-16.36	-16.78	-20.16	-13.04
Fiscal Deficit (including grants)	**% of GDP**	-11.12	2.04	-7.65	-0.88	0.71	0.82	2.00	1.80	-2.30	-4.38	-1.69
Public Debt	**% of GDP**	86.93	94.79	100.38	93.44	76.28	61.94	66.73	61.21	73.34	80.42	-
- of which foreign currency	**% of GDP**	85.97	95.67	94.72	94.48	76.72	62.30	66.50	63.15	71.42	80.63	-
- domestic debt	**% of GDP**	0.01	-0.01	0.057	-0.010	-0.004	-0.004	0.002	-0.019	0.019	-0.002	-0.002
- debt servicing	**% of total revenue**	5.38	3.72	7.42	6.67	6.30	26.31	35.61	27.46	62.10	137.83	-
III. External Sector												
Exports (f.o.b)	**Billion US$**	0.11	0.16	0.21	0.31	0.57	0.60	0.52	0.54	0.67	0.62	0.59
Imports (f.o.b.)	**Billion US$**	0.21	0.26	0.46	0.435	0.53	0.67	0.61	0.84	1.12	1.01	0.95
Trade Deficit	**Billion US$**	-0.09	-0.11	-0.25	-0.12	0.47	-0.08	-0.09	-0.27	-0.46	-0.40	-0.35
Remittances	**Billion US$**	-	0.001	0.001	0.002	0.002	0.002	0.003	0.004	0.005	0.011	0.007
Current Account Balance	**Billion US$**	-0.14	-0.12	-0.24	-0.04	0.08	-0.11	-0.01	-0.32	-0.52	-0.39	-0.45
Current Account Balance	**% of GDP**	-15.30	-11.30	-32.40	-4.70	9.10	-9.10	-6.60	-24.30	-32.60	-23.00	-25.00
Total Foreign Investment	**Million US$**	2.46	3.46	8.99	6.12	73.99	3.10	27.80	53.70	67.80	83.30	130.00
- Foreign Direct Investment	**Million US$**	2.46	3.46	8.99	6.12	73.99	3.10	27.80	53.70	67.80	83.30	130.00
- Portfolio Investment	**Million US$**	-	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	**Billion US$**	0.47	0.61	0.67	0.78	0.72	0.82	0.80	0.87	1.35	1.42	1.54
External Debt and Forex Liabilities	**% of forex earnings**	-	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	**%**	-	-	-	-	-	3.30	1.70	2.50	6.80	6.00	-
External Debt Servicing Ratio (pl see footnote)	*******	7.28	7.20	12.20	7.91	3.68	18.27	30.51	29.75	30.96	55.80	8.80
Exchange Rate	**Per US$**	47.93	45.41	44.61	44.74	44.19	40.37	47.78	46.65	45.33	50.27	62.00
Foreign Exchange Reserves	**Billion US$**	0.37	0.38	0.363	0.486	0. 608	0.55	0.68	0.76	0.80	0.67	0.93
IV. Monetary & Capital Market												
Growth Rate of M_1	**y-o-y**	49.47	13.39	9.7	14.4	26.8	6.3	27.7	22.7	34.3	5.6	2.6
Growth Rate of M_2	**y-o-y**	43.58	4.25	10.84	11.37	8.62	2.27	24.57	30.09	21.21	-1.02	3.53
Growth Rate of M_3	**y-o-y**	-	-	-	-	-	-	-	-	-	-	-
Weighted Avg Lending Rate	**%**	-	-	-	-	-	-	-	-	-	-	-
Credit growth to Private Sector	**%**	27.36	30.17	27.74	35.86	34.4	35.80	28.90	40.73	29.4	30.07	7.96
Stock Market (Price Index)	**1991=100**											
Market Capitalization (as leading stock mkt)(a)	**Domestic Currency in Billion**	3.44	3.53	4.3	4.47	4.64	5.03	7.37	8.07	10.01	14.38	17.63
Market Capitalization (as leading stock mkt) (a)	**% of GDP**	14	12.4	14.0	12.4	11.4	10.17	13.47	13.18	13.81	16.80	18.19
Market Capitalization (as leading stock mkt)(a)	**Billion US$**	0.07	0.08	0.10	0.10	0.11	0.13	0.15	0.17	0.22	0.29	0.32
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
Non performing loans(a)	**%**	-	-	-	6.57	4.92	4.91	7.53	6.83	5.20	3.92	6.57
Profitability (R.O.E.)(a)	**%**	-	-	14.19	15.02	18.37	18.31	17.08	22.54	15.72	16.10	13.00
Profitability (R.O.A.)(a)	**%**	-	-	1.30	1.42	1.58	1.54	1.50	1.86	1.58	2.24	2.40

Note: (a) on a calendar year basis, example, the entry under 2002/03 is for 2003

Credit to private sector is as of October 2013 and includes credit given by non bank financial institutions as well.

INDIA

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Growth Outlook

GDP growth in India continued to be moderate, though it increased marginally in Q2 (July-September 2013) of 2013-14 to 4.8 percent in the quarter from 4.4 percent recorded in the previous quarter. The growth momentum was maintained with growth in Q3 of 2013-14 registering 4.7 percent. Prospects of industrial sector remain uncertain with the Index of Industrial Production (IIP) recording stagnation during April 2013-January 2014. This stagnation in growth reflects subdued investment and consumption demand, which resulted in contraction of capital goods and consumer durables during the year. However, by the end of January 2014, the Cabinet Committee on Investment (CCI) and the Project Monitoring Group (PMG) had together undertaken resolution of impediments for 296 projects with an estimated project cost of Rs. 6.6 trillion. Also, there is a slight decline in the total number of delayed infrastructure projects. Further, corporate investment intentions improved during Q3 2013-14, as 179 new large projects with an envisaged cost of Rs. 791 billion received financial assistance during the quarter. The lead indicators for service sector activity signal improvement in most segments. Moderate recovery is likely to set-in in 2014-15, supported by improvement in investment activity, rural demand, and export demand. Accordingly, real GDP growth is projected to pick up from a little below 5 percent in 2013-14 to a range of 5 to 6 percent in 2014-15, *albeit* with downside risks to the central estimate of 5.5 percent.

Inflation Outlook

CPI inflation declined to 8.1 percent in February 2014 (a 25-month low) from 11.2 percent in November 2013, mainly due to declining vegetable prices, and cereals and products. Both the build-up during April-November 2014, and the subsequent fall in CPI inflation was driven by food prices. The renewed increase in inflation of Food and Beverages group in March 2014 seems to suggest that the pace of decline is coming off as vegetable prices appear to have run their course of seasonal correction. Notwithstanding some moderation in food inflation, CPI inflation, excluding food and fuel remained high and persistent at 8.3 percent in March 2014, compared with 8.0 percent a month earlier. The persistence of high CPI inflation in non-food, non-fuel inflation was on account of pressures from housing; transport and communication; and services. High CPI inflation in services reflected wage pressures and other second round effects. The WPI inflation also, which recorded a significant decline to 4.7 percent in February 2014 from its peak level of 7.5 percent recorded in November 2013, increased again to 5.7 percent in March

2014. Overall, since July 2013, while disinflationary impulses were led by food prices, non-food manufactured products inflation increased moderately, mainly due to cost-push pressures from exchange rate pass-through during July-September and upward price revisions in paper and paper products; chemicals and chemical products; and base metals and alloys. While suppressed inflation in the energy sector seems to have passed through, the WPI inflation in fuel group continues to be high. Some more adjustments will be necessary in diesel, gas and electricity, which may keep the fuel inflation high in the coming months.

External Sector Outlook

External sector risks have declined considerably during Q2 and Q3 of 2013-14, allowing monetary policy to focus on its core objective of inflation control. With a gradual recovery in key partner economies and a depreciating rupee, India's exports recorded positive growth during July 2013-January 2014. However, export growth started decelerating from November 2013 and turned negative in February 2014. On account of high current account deficit witnessed in 2012-13, several measures were implemented by the Government and Reserve Bank of India to reduce imports, particularly the gold imports. These measures included (i) increase in the customs duty on gold; (ii) increase in the Loan-to-Value requirements for gold loans; (iii) prohibition of granting loans against bullion/gold coins; (iv) requirement that Non-Banking Finance Companies (NBFCs) engaged in gold loan business may put in place a board approved lending policy adhering with KYC norms; (v) advise to banks to reduce their exposures to NBFCs having gold exceeding 50 percent of their financial assets; (vi) measures to rationalize import of gold in any form/purity, such as to ensure that at least one fifth of every lot of import of gold (in any form/purity including import of gold coins/dore) be exclusively made available for the purpose of export, and making available gold in any form for domestic use only to entities engaged in jewellery business/bullion dealers supplying gold to jewelers; *etc.* Measures were also taken in the Union Budget 2013-14 to incentivise savings in financial instruments. These include liberalised norms for Rajiv Gandhi Equity Savings Scheme, additional deduction of interest of up to Rs.100,000 on home loans and introduction of inflation indexed bonds. Consequent upon these measures, imports contracted during the 9-month period starting from June 2013, primarily due to a sharp moderation in gold imports from July 2013, and a stable import bill for Petroleum, Oil and Lubricants.

Overall, India's trade deficit at US$ 138.6 billion during the financial year 2013-14 (April-March) was about 27 percent lower than that of US$ 190.3 billion during the previous financial year essentially due to compression in gold imports. The current account deficit (CAD) to GDP ratio in Q3 of 2013-14 narrowed to 0.9 percent from 6.5 percent in the comparable quarter of the previous year. The CAD-GDP ratio for Q3 2013-14 was also lower than 1.2 percent recorded for Q2 of 2013-14. For the full year 2013-14 (April-March), the CAD-GDP ratio is expected to be around 2 percent. Various measures undertaken by the Reserve Bank since September 2013 resulted in resumption of capital flows in subsequent months. The Reserve Bank's swap windows for banks' mobilisation of FCNR(B)[2] deposits and overseas borrowing helped to build up reserves during September-November 2013. With a revival of portfolio flows since December 2013, India's forex reserves reached US$309.4 billion on April 18, 2014, an accretion of US$ 33.9 billion over end-August 2013. With revival of capital flows and lower CAD, concerns about financing CAD have subsided, along with easing of volatility and downward pressure on Indian rupee.

Money and Credit Developments

In the wake of uncertainty emanating from the US tapering indication, the Reserve Bank resorted to exceptional monetary measures, such as raising the Marginal Standing Facility (MSF), capping the borrowing under LAF, to address exchange rate pressures by liquidity tightening. The policy induced tight liquidity conditions during Q2 of 2013-14, eased considerably in October 2013 and led to increase in reserve money growth in the full financial year 2013-14 to 12.6 percent as compared with 9.2 percent in the previous financial year. A pick-up in festive demand during Q3 of 2013-14 helped currency with public increase to 11.2 percent (y-o-y) at end of Q3, compared with 9.6 percent at the end of Q2. Further, a large inflow of FCNR(B) deposits and advance tax collections led to an increase in broad money supply (M_3) growth to 14.5 percent in Q3 as compared with 12.9 percent at end of Q2. On the credit side, in view of higher cost of non-bank funds, corporate had earlier resorted to cheaper bank credit, thereby causing it to increase in Q2 of 2013-14. However, with the normalization of policy rate corridor (*i,e,* lowering of MSF rate to the current 100 bps above repo rate), credit growth moderated subsequently in Q3 to be in line with the Reserve Bank's indicative trajectory of 15 percent. Also, the asset quality indicators, which have been deteriorating since 2011-12 have led to some moderation in credit growth, in face of slowdown in economic activity. With the normalization of policy rate corridor, the weighted average lending rate of banks declined during Q3, with the decline being more pronounced for fresh loans. On account of the financial volatility faced in the early part of 2013-14, the policy the policy induced tightening started with raising of Marginal Standing Facility (MSF) rate by 200 basis points on July 2013. Subsequently, further liquidity tightening was done by increasing the repo rate thrice (and reverse repo rate) by 25 basis points each on September 20, 2013, October 29, 2013 and January 28, 2014. However, on account of the increase in repo rates, the MSF rate was reduced thrice cumulatively by 150 bps during September to October 2013. However, the MSF rate was again increased by 25 basis points on January 28, 2014. Subsequently, in the Annual Policy Statement of April 1, 2014, it was decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 percent. To ease the liquidity conditions for the longer-term, it

[2] FCNR(B) deposits are foreign currency deposits which can be opened by Non Resident Indians in Indian banks. Deposit can be made for a minimum of 1 year and a maximum of 5 years, with minimum deposit US$ 1,000 or equivalent. Both principal and interest are payable in foreign currency. Hence, there is no exchange loss on principal and interest.

was decided to increase the liquidity provided under 7-day and 14-day term repos from 0.5 percent of net demand and time liabilities (NDTL) of the banking system to 0.75 percent. However, it was decided to decrease the liquidity provided under overnight repos under the LAF from 0.5 percent of bank-wise NDTL to 0.25 percent, to decrease the overnight liquidity.

Fiscal Policy

As reported earlier,the Union Budget 2013-14 focuses on infrastructure investment in sectors like roads, ports, coal, power and waterways through such measures as encouraging Infrastructure Debt Funds; credit enhancement through access of infrastructure companies to bond market; increase in the aggregate ceiling of issuance of tax-free bonds; and setting up a regulatory authority for the road sector. All key deficits, with the exception of effective revenue deficit have turned out be lower in 2013-14 Revised Estimates (RE) than the Budget Estimates (BE) in absolute terms. In terms of GDP, while the revenue deficit of 3.3 percent remained unchanged from the BE, gross fiscal deficit and primary deficit were lower by 0.2 percentage points each, at 4.6 percent and 1.3 percent respectively. In 2013-14 (RE), gross tax revenues recorded shortfall of around 6.2 percent over the budgeted level, mainly on account of lower collection of indirect taxes, which were affected by industrial slowdown, deceleration in service sector and lower imports. Similarly, non-debt capital receipts also fell short of budgetary targets, due to lower than expected receipts from disinvestment. On the other hand, non-tax revenues exceeded budget targets mainly on account of increased dividend payments from Public Sector Undertakings. However, the short-fall in achieving the budgeted receipts under tax revenue and disinvestment proceeds was more than offset by a sharp cutback in public expenditure, particularly on the revenue account. Continuing with the fiscal consolidation efforts, during 2014-15, the gross fiscal deficit to GDP ratio is budgeted to decline by 0.5 percentage points to 4.1 percent, which will be in line with the stipulated minimum reduction under the amended Fiscal Responsibility and Budget Management (FRBM) rules.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

In the wake of financial turbulence caused by the announcement of the US Fed's intention of tapering its large scale asset purchase programme, Reserve Bank had to undertake several exceptional monetary policy actions since May 22, 2013. These measures mainly included (i) any transaction in the currency futures/exchange traded currency options markets by the Authorised Dealer (AD) Category (I) banks in these markets should be necessarily on behalf of their clients and (ii) tightening the exposure norms and doubling of margins for currency derivatives to check large scale speculations in the market. The Reserve Bank has also advised the oil marketing companies to channelize their dollar demand through a single state owned bank. On July 11, 2013 ADs were advised that for availment of trade credit, the period of trade credit should be linked to the operating cycle and trade transaction. On July 15, 2013 it was decided to extend the benefit of US$ 10 billion scheme to Indian companies in manufacturing, infrastructure sector and hotel sector which have established Joint Venture (JV) / Wholly Owned Subsidiary (WOS) / have acquired assets overseas in compliance with extant regulations, subject to certain conditions.

Recognising the need to restore stability to the foreign exchange market, the following measures were announced on July 15, 2013:

- The Marginal Standing Facility (MSF) rate was recalibrated with immediate effect to be 300 basis points above the policy repo rate under the Liquidity Adjustment Facility (LAF). Consequently, the MSF rate was raised to 10.25 percent.
- Accordingly, the Bank Rate was adjusted to 10.25 percent with immediate effect.
- The overall allocation of funds under the LAF was limited to 1.0 percent of the Net Demand and Time Liabilities (NDTL) of the banking system, reckoned as Rs.75,000 crore for this purpose. The allocation to individual banks was made in proportion to their bids, subject to the overall ceiling. This change in LAF came into effect from July 17, 2013.
- The Reserve Bank announced to conduct Open Market Sales of Government of India Securities of Rs.12,000crore on July 18, 2013.

On July 23, 2013 the liquidity tightening measures were modified as follows:

- The overall limit for access to LAF by each individual bank was set at 0.5 percent of its own NDTL outstanding as on the last Friday of the second preceding fortnight.
- Earlier, banks were allowed to maintain their Cash Reserve Ratio (CRR) prescribed by the RBI on an average daily basis during a reporting fortnight, with a minimum of 70 percent of the required CRR on a daily basis. Effective from July 27, 2013 banks were required to maintain a minimum daily CRR balance of 99 percent of the requirement.
- On a review of the impact of these measures and for effective liquidity management, on August 8, 2013, the RBI decided to auction Government of India Cash Management Bills for a notified amount of Rs.22,000 crore once every week on Mondays.

FDI norms and routes were again modified for certain sectors in August 2013. For instance, FDI limit was raised from 74 percent to 100 percent (upto 49 percent under automatic route and above 49 percent under government route) in telecom sector and asset reconstruction companies. The present FDI limits in sectors, *viz*., petroleum and natural gas, courier services, commodity exchanges, infrastructure companies in the securities market and power exchanges are now allowed under automatic route. Foreign investment limit in credit information companies has been raised from 49 percent under government route to 74 percent under automatic route.

On August 12, 2013 in order to enhance the capital inflows into India, the Government announced that public sector financial institutions can raise quasi-sovereign bonds to finance long-term infrastructure. It also liberalised ECB guidelines and permitted PSU oil companies to raise additional funds through ECBs and trade finance.

On August 14, 2013 with a view to moderate foreign currency outflows, the Reserve Bank undertook certain measures on August 14, 2013. These included (i) reduction in limit for overseas direct investment (ODI) under automatic route from 400 percent to 100 percent (except for Navratna PSUs, ONGC Videsh Limited and Oil India in overseas unincorporated entities and incorporated entities, in the oil sector), (ii) reduction in remittances by resident individuals under the Liberalised Remittance Scheme (LRS) from US$200,000 to US$75,000 per financial year, and (iii) prohibition on use of LRS for acquisition of immovable property outside India directly or indirectly. However, the Reserve Bank would continue to consider genuine requirements above the revised limits under approval route.

On August 19, 2013 the ceiling for FDI in Asset Reconstruction Companies was increased from 49 percent to 74 percent subject to the condition that no sponsor may hold more than 50 percent of the shareholding in an ARC either by way of FDI or by routing through an FII. The foreign investment limit of 74 percent in ARC would be a combined limit of FDI and FII. Hence, the prohibition on investment by FII in ARCs will be removed. The total shareholding of an individual FII shall not exceed 10 percent of the total paid-up capital.

On August 28, 2013 the Reserve Bank of India opened a forex swap window to meet the entire daily dollar requirements of three public sector oil marketing companies (IOC, HPCL and BPCL). Under the swap facility, the Reserve Bank would undertake sell/buy USD-INR forex swaps for fixed tenor with the oil marketing companies through a designated bank.

Following the ebbing of volatility in the foreign exchange market, the Reserve Bank initiated normalization of the exceptional measures in a calibrated manner since its mid-quarter review of September 20, 2013. The interest rate corridor was realigned to normal monetary policy operations with the MSF rate being reduced by 150 bps in three steps to 8.75 percent between September 20, 2013 and October 29, 2013 before increasing it again by 25 bps to 9.00 percent at end-January 2014. However, with a view to containing inflation and inflation expectations, the repo rate was increased in two steps of 25 bps each to 8.00 percent by end-January 2014. Subsequently, in the Annual Policy Statement of April 1, 2014, it was decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 percent. To ease the liquidity conditions for the longer-term, it was decided to increase the liquidity provided under 7-day and 14-day term repos from 0.5 percent of net demand and time liabilities (NDTL) of the banking system to 0.75 percent. However, it was decided to decrease the liquidity provided under overnight repos under the LAF from 0.5 percent of bank-wise NDTL to 0.25 percent, to decrease the overnight liquidity.

The Reserve Bank offered a window to the banks to swap the fresh FCNR (B) dollar funds, mobilised for a minimum tenor of three years and over at a fixed rate of 3.5 percent per annum for the tenor of the deposit. This scheme was valid till November 30, 2013.

The Reserve Bank also raised the current overseas borrowing limit of 50 percent of the unimpaired Tier I capital to 100 percent which can be swapped with it at the option of the commercial banks at a concessional rate of 100 basis points below the ongoing swap rate prevailing in the market. The Scheme was *inter alia* subject to the condition that the borrowing would have a minimum maturity of three years. However, on September 25, 2013 the requirement of minimum maturity was reduced from three years to one year for such borrowing. This scheme was valid till November 30, 2013.
The Reserve Bank decided to retain the limit of 400 percent of the net worth of the Indian Party for the financial commitments funded by way of eligible External Commercial Borrowing (ECB) raised by the Indian Party as per the extant ECB guidelines issued from time to time. Further, it was clarified that limit of financial commitments for an Indian Party (presently 100 percent of its net worth) shall not apply to the financial commitments funded out of EEFC account of the Indian Party or out of funds raised by way of ADRs / GDRs by the Indian Party, as hitherto.

The Reserve Bank permitted eligible borrowers to avail of ECB under the approval route from their foreign equity holder company with minimum average maturity of 7 years for general corporate purposes subject to certain conditions. Earlier ECB were not allowed to be utilized for general corporate purpose.

In April 2012, the Reserve Bank allowed that the eligible borrowers desirous of refinancing an existing ECB can raise fresh ECB at a higher all-in-cost / reschedule an existing ECB at a higher all-in-cost under the approval route subject to the condition that the enhanced all-in-cost does not exceed the all-in-cost ceiling prescribed as per extant guidelines. On September 30, 2013 on a review, it was decided to discontinue this facility allowing eligible borrowers to raise ECB at a higher all-in-cost to refinance / reschedule an existing ECB with effect from October 01, 2013.

KEY ECONOMIC INDICATORS OF INDIA

	Unit	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	776
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	4.9
GDP (MP at Current Prices)	Billion US$	523	618	722	834	948	1241	1227	1367	1707	1881	1859	1884
Agriculture Growth	%	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	0.8	8.6	5.0	1.4	4.6
Industry Growth	%	6.9	5.6	7.5	8.5	12.9	9.2	4.1	10.2	8.3	6.7	0.9	0.2
Services Growth	%	7.1	8.6	9.1	11.1	10.1	10.3	9.4	10.0	9.2	7.1	6.2	6.3
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	5.9**
- Food Inflation	%	3.1	4.3	3.6	3.7	7.9	5.6	8.9	14.6	11.1	7.2	9.3	9.7**
- Non-Food Inflation	%	3.5	5.9	7.5	4.7	6.2	4.5	7.8	0.2	9.0	9.6	6.6	4.5**
- 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	2.9**
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	8776.1 @	10292.5@
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	4.9@	4.6@
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@	
- 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	1.7@	
- domestic debt *****	% of GDP	40.3	40.2	39.4	37.6	36.0	36.3	35.9	35.9	34.2	35.8	37.3@	
- 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	234.9##
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	351.9##
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	-116.9##
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	49.1##
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	-31.1##
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	-2.3##
Total Foreign Investment	Million US$	4161	13744	13000	15528	14753	43326	8342	50363	42127	39231	46711	16218##
- Foreign Direct Investment	Million US$	3217	2388	3713	3034	7693	15893	22372	17966	11834	22061	19819	20655##
- Portfolio Investment	Million US$	944	11356	9287	12494	7060	27433	-14031	32396	30293	17170	26891	-4436##
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	404.9	426.0##
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	72.1	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	5.3##
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	6.0##
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	60.1##
Foreign Exchange Reserves	Billion US$	76	113	142	152	199	310	252	279	305	294	292	293.9##
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	9.3	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	13.2	13.6	13.3(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	17.0	13.5	13.9(P)
Stock Market (Price Index) (BSE)	End 1991=100	261.0	478.7	**555.9**	965.8	1119.2	1339.5	831.2	1500.7	1664.9	1490.1	1612.7	1916.7(P)
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	5722.0	15396.0	**16984.3**	30221.9	35450.4	51380.2	30860.8	61656.2	68390.8	62149.1	63878.9	74153.0(P)
Market Capitalization (as leading stock mkt)	% of GDP	22.6	54.2	**52.4**	81.8	82.5	103.0	54.8	95.2	87.9	69.0	63.2	65.5(P)
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(P)
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	13.8@@	
Non-performing loans	%	8.8	7.2	5.2	3.3	2.5	2.3	2.3	2.4	2.5	3.1	3.4	
Profitability (R.O.E.)	%	18.8	20.6	15.8	14.8	15.5	16.0	15.4	14.3	15.0	14.6	-	
Profitability (R.O.A.)	%	1.1	1.2	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	-	

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 further improved in the second half of 2013, following strong arrivals from China despite slower growth in the European market. The industry marked a milestone in November as it marked the arrival of over a million tourists in a year. In line with the growth in the tourism sector, other sectors such as transport and wholesale and retail trade showed positive developments during the latter half of the year as well. Meanwhile, the construction sector also showed some signs of recovery. This reflects the ease in obtaining construction aggregates following the shortage of these materials in the beginning of the year.

With regard to the developments in prices, consumer price inflation decelerated to 3.3 percentin the last six months of the year from an average of 4.7percent in the first six months of the year. The rate of inflation stood at 3.1percent at the end of December 2013. The decline in inflation mainly reflects the deceleration in the price of fish in the domestic market. On the other hand, food inflation (excluding fish) witnessed an increase during the second half of the year contributed by hikes in the price of certain vegetables in India.

As for public finances, fiscal conditions continued to remain challenging as the new revenue measures proposed for the year did not materialise. Total revenue, however, increased modestly during the latter half of the year due to receipts from bank profit tax (which falls during the third quarter of the year) and increase in transfers from state-owned enterprises. On the spending side, total expenditure of the government decreased during this period, owing to a reduction in public sector infrastructure projects on the back of budget constraints. The government continued to face financing issues due to the large budget deficit, and therefore, relied almost entirely on T-bills subscriptions and borrowings from MMA to finance the deficit during this period.

On the monetary front, monetary aggregates continued to grow robustly during the second half of the year. As such, the annual growth rate of both broad money and reserve money accelerated during this period. Meanwhile, bank credit to the private sector continued its upward trend observed since June and grew modestly in the last six months of 2013. This reflects the strong recovery in economic growth and improving asset quality of the banking system.

The external trade deficit further widened in the second half of the year, owing to a higher level of imports coupled with weak exports. The increase in imports largely reflects the improvement in the real sector activities, especially tourism, towards the latter half of the year. Gross international reserves[3] improved slightly by the end of December 2013, contributed by the accumulation of foreign assets by the commercial banks, after a slight decline during the months prior. As such, although reserves in terms of months of imports declined to 2.3 in November due to a dip in the level of international reserves, it is expected to be higher by the end of the year.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

In November 2013, the Board of Directors of the MMA decided to halt monetisation of the government deficit. This step was taken, following the substantial overdrawing of the government's public bank account (PBA) that had been continuing for several months.

[3] Gross international reserves comprises Maldives' reserve position in the IMF, commercial banks' US dollar reserve accounts, foreign currency deposits of both the MMA and the government.

KEY ECONOMIC INDICATORS OF MALDIVES

	Unit	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 DP/[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	% 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	% 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	% 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	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	NA
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	NA
Trade Deficit	Million US$	-260.8	-381.8	-520.8	-624.9	-771.6	-940.4	-708.7	-801.8	-1007.0	-1122.0	NA
Remittances/[8]	Million US$	NA	NA	NA	NA	-188.4	-218.3	-189.7	-188.9	-216.5	-259.3	-283.8
Current Account Balance/[9]	Million US$	NA	NA	NA	NA	-610.2	-226.6	-189.5	-414.9	-484.3	-469.3	-562.5
Current Account Balance	% of GDP	NA	NA	NA	NA	-17.3	-32.3	-11.4	-8.9	-19.1	-23.0	-20.5
Total Foreign Investment	Million US$											
- Foreign Direct	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	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	% of forex	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	***	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	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												
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	%	NA	NA	NA	NA	NA	NA	NA	10.4	10.2	10.5	11.4
Credit growth to Private	%	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	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	Domestic	NA	NA	1113.3	766.82	11450	2246.1	1862	1726.1	1286.9	7528.1	
Market Capitalisation (as	% of GDP	NA	NA	8.76	4.6	58.01	9.28	7.33	6.32	4.09	22.05	
Market Capitalisation (as	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												
Capital adequacy ratio	%	19.81%	16.73%	17.21%	17.47%	20.97%	24.71%	28.85%	28.17%	35.74%	36.10%	
Non performing loans	%	6.37%	6.59%	2.36%	1.59%	8.90%	12.84%	17.02%	19.37%	20.87%	19.00%	
Profitability (R.O.E.)	%	37.00%	40.80%	53.50%	30.75%	19.04%	25.11%	15.59%	14.74%	13.18%	49.96%	
Profitability (R.O.A.)	%	4.50%	4.80%	6.40%	4.09%	3.13%	3.51%	2.66%	2.56%	2.45%	10.23%	

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 February 2014.
11. Government and Commercial Banks' External Debt stock outstanding Debt service (Principle and Interest Payment) divided by Export of Goods and Services (XGS)
13. End of period
14. This refers to the narrow money
15. This refers to the broad money or total liquidity
16. M3 is not calculated in Maldives
17. This refers to the Weighted average lending rate to the private sector in national currency which is available from 2010 onwards
18. Stock market index (2002=100) represents the end of period
19. NA refers to not available

NEPAL

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

The economy is estimated to grow by 5.5 percent in 2013/14. While the growth of agricultural sector is estimated at 4.7 percent, the growth rate of industrial sector and service sector are estimated at 2.7 percent and 6.1 percent respectively.

Price Situation

The annual average consumer price inflation increased by 9.7 percent in the first six months of the 2013/14 compared to an increase of 9.8 percent in the corresponding period of the previous year. The price index of food and beverages group increased by 12.9 percent whereas the index of non-food and services group rose by 6.9 percent in the review period.

Monetary Situation

Broad money supply (M2) increased by 9.0 percent in the six months of 2013/14 compared to an increase of 4.8 percent in the corresponding period of the previous year. Narrow money supply (M1), on the other hand, increased by 8.9 percent during the review period in contrast to a decline by 0.5 percent in the same period of the previous year.

Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by 16.5 percent during the review period compared to an increase of 2.0 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.

There are altogether 2,541 bank branches of 210 of banks banks and financial institutions (BFIs) all over the country which includes 31 A class commercial banks, 87 B class development banks, 57 C class finance companies and 35 D class microfinance banks at the end of the first half of 2013/14. The number of ATMs operating by the above BFIs in the country aggregated 1,565.

Interest Rate Structure

The weighted average 91-day Treasury bill rate stood at 0.47 percent in the review period compared to 1.52 percent in the same period of the previous year. The inter-bank rate of commercial banks remained at 0.21 percent and the weighted average deposit and lending rate of commercial banks remained at 4.68 percent and 11.53 percent respectively in the first six months of the 2013/14.

Fiscal Situation

During the first six months of the 2013/14, government budget on cash basis remained at a surplus of the NRs. 56.10 billion (USD 571.6 million). Such surplus was NRs. 40.44 billion (USD 412.06 million) in the corresponding period of the previous year. The total expenditure of the government grew by 25.4 percent to NRs.134.42 billion (USD 1.37 billion). Likewise, the government revenue grew by 21.5 percent to NRs. 163.44 billion (USD 1.67 billion) .

External Sector Situation

Merchandise exports went up by 15.0 percent to NRs. 45.14 billion during the six months of 2013/14. Such exports had risen by 9.3 percent during the same period of the previous year. In the same period, imports surged by 23.1 percent to Rs. 333.91 billion compared to a rise of 25.2 percent during the previous year. Due to high growth of imports compared to exports, the ratio of export to import declined to 13.5 percent in the review period from 14.5 percent a year ago.

The overall balance of payments recorded a surplus of Rs. 77.19 billion (USD 776.7 million) during the six months of 2013/14 compared to a surplus of Rs. 7.77 billion (USD 86.5 million) during the previous year. The current account posted a surplus of Rs. 55.02 billion (USD 553.2 million) in the review period compared to a surplus of Rs. 4.41 billion (USD 49.7 million) in the previous year. Workers' remittances grew by 34.4 percent to Rs. 265.62 billion (USD 2.67 billion) in the review period compared to a growth of 21.8 percent in the corresponding period of the previous year.

The gross foreign exchange reserves increased by 17.1 percent and reached Rs. 624.60 billion (USD 6.34 billion) in the six months of 2013/14. The level of reserves was sufficient for financing merchandise and services imports of 10.2 months.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

The mid-term review of the Monetary Policy of 2013-14 had adopted cautious and balanced policy stance in managing the excess liquidity situation arising from the external factors. While anticipating the pressure in the interest rate as well as rising inflation and excess liquidity in the first six months of the fiscal year, Nepal Rastra Bank would attempt to keep the monetary aggregates at desired level through the effective implementation of open market operations by closely monitoring the liquidity position.

Monetary policy also focused on financial stability and emphasized on the use of monetary and macro-prudential tools in a coordinated way for sound and efficient financial system. It is observed that return in the money market is low and this may divert investor into the stock market which could result in speculation in the stock market. Taking this into consideration, monetary policy has acknowledged the need of revising the existing margin lending policy by closely monitoring the developments in the stock market.

Based on the first six months' data, some targets have been revised in the mid-term review of the monetary policy of 2013/14. The targets of inflation were revised to 8.5 percent from 7.5 percent and the growth of broad money supply (M2) is targeted at 18 percent for 2013/14. The foreign exchange reserves target was revised to cover imports of goods and services of at least ten months from the earlier eight months.

The provision of statutory liquidity ratio (SLR), cash reserve ratio (CRR), bank rate and refinance rate, among others, has remained the same. Prudent regulation and supervision adopted by Nepal Rastra Bank has resulted in the comfortable level of liquidity and moderate non-performing loans (NPL) of the banking sector. Nonperforming loans ratio (NPL) of the banking industry remained at 3.1 percent and capital adequacy ratio at 12.2 percent at the end of the first half of 2013/14.

KEY ECONOMIC INDICATORS OF NEPAL

Indicator	Unit	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 first six months
I. Real Sector							
Per Capita GDP	US$	497	610	714	702	707	703
Real GDP Growth at Producer's Price	%	4.5	4.8	3.4	4.8	3.9	5.5
Current GDP at Producer's Price	Billion US$	12.9	16.0	18.9	18.9	19.2	19.4
Agriculture	% of GDP	33.0	35.4	37.1	35.2	33.9	33.1
Industry	% of GDP	15.9	15.1	14.9	15.0	15.2	14.7
Services	% of GDP	51.2	49.5	48.0	49.8	51.0	52.2
Investment	% of GDP	31.7	38.3	38.0	34.5	36.9	37.1
National Savings	% of GDP	35.9	35.9	37.0	39.5	40.3	46.4
Headline Inflation	%	12.6	9.6	9.6	8.3	9.9	9.7
- Food Inflation	%	17.3	15.1	14.6	7.7	9.6	12.9
- Non-Food Inflation	%	8.9	4.9	5.4	9.0	10.0	6.9
- Core inflation	%					NA	
II. Fiscal Sector							
Revenue Collection (CSR)	Billion US$	1.87	2.39	2.75	3.02	3.35	1.65
Fiscal Deficit (excluding grants)	% of GDP	-7.7	-4.1	-4.3	-3.3	-3.3	NA
Fiscal Deficit (including grants)	% of GDP	-5.0	-0.9	-1.0	-0.6	-0.5	NA
Public Debt*	% of GDP	4.7	6.0	7.1	5.5	3.8	NA
- of which foreign currency	% of GDP	NA	NA	NA	NA	NA	NA
- domestic debt#	% of GDP	1.9	2.5	3.1	2.4	2.2	NA
- debt servicing^	% of total revenue	18.8	16.0	15.1	14.5	17.3	NA
III. External Sector							
Exports (f.o.b)	Billion US$	0.90	0.85	0.95	1.00	0.98	0.55
Imports (f.o.b.)	Billion US$	3.63	4.95	5.37	5.61	6.22	3.29
Trade Deficit	Billion US$	-2.72	-4.09	-4.42	-4.60	-5.25	-2.78
Remittances	Billion US$	2.73	3.13	3.51	4.41	4.93	2.67
Current Account Balance	Billion US$	5.39	-0.37	-0.18	0.91	0.63	0.55
Current Account Balance	% of GDP	4.19	-2.36	-0.94	4.88	3.40	NA
Total Foreign Investment	Million US$	23.79	38.99	89.96	112.46	102.00	12.60
- Foreign Direct Investment	Million US$	23.79	38.99	89.96	112.46	102.00	12.60
- Portfolio Investment	Million US$	-	-	-	-	NA	
External Debt and Forex Liabilities	Billion US$					NA	
External Debt and Forex Liabilities	% of forex earnings					NA	
Short-term debt to GDP	%					NA	
External Debt Servicing Ratio						NA	
Exchange Rate@	Per US$	78.05	74.44	70.95	88.6	95.00	98.14
Foreign Exchange Reserves	Billion US$	3.67	3.61	3.83	4.96	5.61	6.36
IV. Monetary & Capital Market							
Growth Rate of M_1	y-o-y	27.3	11.0	5.2	18.6	14.4	8.9
Growth Rate of M_2	y-o-y	27.3	14.1	12.3	22.7	16.4	9.0
Growth Rate of M_3	y-o-y	29.4	12.5	11.7	22.3	16.7	8.7
Weighted Avg Lending Rate	%	NA	NA	NA	12.4	12.1	11.5
Credit growth to Private Sector	%	29.0	14.2	13.9	11.3	20.2	8.9
Stock Market (Price Index)	1991=100	749.1	477.7	362.9	389.7	518.3	787.1
Market Capitalization (as leading stock	Domestic Currency in Billion	512.9	376.9	323.5	368.2	514.5	799.8
Market Capitalization (as leading stock	% of GDP	51.9	32.1	23.5	24.0	30.2	47.0
Market Capitalization (as leading stock	Billion US$	6.698	5.077	4.489	4.561	5.869	8.063
V. Banking Sector Indicators							
Capital adequacy ratio	%	7.2	9.6	10.6	11.5	13.2	12.2
Non performing loans	%	3.6	2.5	3.2	2.6	2.6	3.1
Profitability (R.O.E.)	%	NA	NA	NA	NA	NA	NA
Profitability (R.O.A.)	%	NA	NA	NA	NA	NA	NA

1. Fiscal year in Nepal starts at mid–July
2. Amount in Nepalese Rs. has been converted into US$ with the fiscal year's annual average exchange rate
3. 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.
4. Foot Notes:
   * = Includes both gross domestic and external borrowing
   # = Gross domestic debt.
   ^ = Includes both domestc and external debt servicing.
   @ = Represents the exchange rate of the last day of the fiscal year.

PAKISTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

While the challenges for macroeconomic stability in the external sector remain, the fundamentals of Pak economy going forward appear stable. In view of this, the government has set 4.3 percent GDP growth target for FY14, which is higher than 3.6 percent GDP growth in FY13. However, the power shortages and security conditions continued to remain strong impediments to growth.

Keeping in view the expectations of accelerated activities in Pak economy, the government has set relatively higher growth targets for agriculture sector (21.3perecent), industry (21.0 percent), and services sector (57.8 percent) during FY14. The settlement of energy sector circular debt and pick-up in credit to private businesses are likely to help augment performance of Pak economy during the period.

The headline CPI Inflation has increased significantly to 8.9 percent during H1-FY14. Both food and non-food groups of the CPI basket have contributed to the increase in headline inflation. While the food inflation has increased to 9.9 percent during H1-FY14 due to volatile price movements in perishable food items in the backdrop of disruptions in supply chain, the non food went up by 8.2 on account of fiscal measures that had been announced in the federal budget for FY14. As regards core inflation, it stood at 8.2 percent; marginally up from 7.8 percent in June 2013.

During H1-FY14, the money supply (M2) has shown an increase of 6.2 percent mainly due to a rise in budgetary borrowings and a pick-up in credit to private sector. The private sector has borrowed Rs. 321 billion during H1-FY14. This increase in credit to private sector, both in terms of volume and type, can be attributed to several factors. These include: (a) improved financial conditions of the corporate sector partly due to decrease in interest rates during FY12 and FY13; (b) improved supply of electricity after settlement of energy sector circular debt by the government; and (c) better business sentiments after the May 2013 elections.

In the FY14 budget, the government has set a target of 6.3 percent of GDP for fiscal deficit, which is significantly lower than 8.0 percent realized in FY13. This lower target assumed a substantial growth in tax revenues and reduction in subsidy related expenditures. The data for Q1-FY14 reveals that the tax revenue has shown a sharp growth of 19.0 percent. As regards the current expenditure, it was also contained in Q1-FY14 and grew by 5 percent compared to 28.1 percent growth in the corresponding period of last year. Reduction in interest payments partly explains this deceleration in growth of current expenditures.

On the external sector front, the Pak economy remained vulnerable and deteriorated further during H1- FY14. Weak financial inflows together with high debt repayments are the major source of stress on external accounts. Consequently, deficit in the overall balance of payments has widened. With large net repayments to the IMF, the foreign exchange reserves has declined further and depreciation of exchange rate has accelerated before steadying in December 2013. In fact, the exchange rate has depreciated by 5.5 percent since end-June 2013 to 10 January 2014. Most of this depreciation took place till 3 December, when exchange rate had depreciated by approximately 8.2 percent. Besides SBP interventions in the foreign exchange market, strong communication by both SBP and the government to contain speculative sentiments in the market helped in stemming the fall of rupee.

The trade sector has witnessed slight improvements in the wake of rise in export and decline in import during H1-FY14. The exports stood at $12.5 billion while imports amounted to $21.7 billion during the period. Accordingly, the trade deficit increased to $9.2 billion during H1-FY14 despite an increase in export receipts which includes the impact of recently approved GSP plus status accorded to Pakistani exports by European Union. Similarly, the import growth accelerated which was mainly driven by higher import of machinery and metals.

Going forward, higher expected foreign inflows during H2-FY14 are likely to relieve some of the pressure of government borrowings from the banking system. Also, the implementation of reforms is likely to improve the overall business environment in Pakistan. Moreover, the improvement in security conditions could also provide a positive signal to foreign private investors. Reinitiating of privatization process will also attract foreign investment in the country.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Latest Monetary Policy Statement

After reducing the policy rate to 9.0 percent in June 2013, the State Bank of Pakistan (SBP) increased it by 50 bps each in the monetary policy decisions of September and November 2013. The decision for increasing the policy rate was made on two key concerns. One was the continued deterioration in the balance of payments position while the other was worsening of inflation outlook. The increases in policy rate have also helped the fiscal authority in raising sufficient funds from the scheduled banks, albeit mostly in 3-month T-bills, and retiring some of their borrowings from the SBP in Q2-FY14.

Other Policy Changes

State Bank of Pakistan has decided to implement Transport Layer Security (TLS) certificates on its e-mail gateways with the aim to protect confidentiality and integrity of its e-mail communication with banks and other financial institutions in Pakistan, besides mitigating information security risks. TLS is a protocol that provides communication security over the internet by encrypting e-mail messages between servers at both ends of a communication channel and reduces risks like spoofing and tampering associated with e-mail communication.

The State Bank of Pakistan has decided to implement the Basel III reforms issued by the Basel Committee on Banking Supervision (BCBS) to further strengthen the capital related rules for banks/DFIs. The major changes under the Basel III reform package pertains to numerator of the Capital Adequacy Ratio (CAR) i.e., eligible capital.In fact, the new instructions will replace the already issued instructions pertaining to eligible capital and related deductions. This also includes instructions on leverage ratio. Moreover, the remaining instructions under Basel III reforms will be issued separately. The new instructions will become effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. The transitional arrangements are broadly in line with the internationally agreed timelines and intended to ensure smooth implementation by allowing sufficient time to banks/ DFIs for adjustment in their capital planning.
The State Bank of Pakistan has amended the regulations for anti-money laundering and combating the financing of terrorism (AML/CFT). These amendments have been made on the feedback received from the Pakistan Banks Association/banks, which include the following:

- Review of banks' internal policies/procedures & compliance programs; and
- System enhancement for capturing originator information in case of online transactions or other new areas which can only be implemented through system enhancement.

The above changes are also effective from the implementation date of 'AML/CFT Regulations' i.e. October 31, 2012 and implementation deadline in respect of aforesaid areas of the subject Regulations has been extended upto September 30, 2013. All other instructions on the subject issue shall, however, remain unchanged.

The State Bank of Pakistan has already set a minimum rate of return on deposits raised by the banks. From October 1, 2013, SBP has instructed banks that the minimum profit rate to be paid on all Pak rupee saving deposits should be 50 basis points below the prevailing SBP Repo Rate (Interest Rate Corridor - Floor). The change in the minimum profit rate, following any change in the SBP Repo Rate, will be applicable with effect from 1st day of the subsequent month. Further, this rate of profit will be applicable on average monthly balances on all existing and new saving deposits including term deposits. However, the payment of profit on saving deposits raised by Islamic Banks, including Islamic banking branches/windows, would continue to be governed under the instructions notified vide IBD Circular No. 03 dated November 19, 2012.

KEY ECONOMIC INDICATORS OF PAKISTAN

	Unit	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13[P]	2013-14[P] (Jul-Dec)
I. Real Sector												
Per Capita GDP	US$	663	724	823	904	1015	990	1068	1258	1372	1402	-
Real GDP Growth	%	7.5	9.0	5.8	6.8	3.7	1.7	3.1	3.0	4.4[R]	3.6	4.4[T]
Nominal GDP (MP)	Billion US$	98.0	109.5	127.3	143.0	163.5	161.8	176.5	214[R]	225[R]	237	252[T]
Agriculture	% of GDP	22.9	22.4	22.5	21.9	21.3	21.8	21.3	21.2	21.1	21.2	21.3[T]
Industry	% of GDP	25.5	26.3	25.9	26.3	25.8	25.3	26.0	25.5	25.4	20.9	21.0[T]
Services	% of GDP	51.6	51.3	51.7	51.8	52.9	52.9	52.6	53.4	53.5	57.7	57.8[T]
Investment	% of GDP	17.8	20.3	23.6	22.5	22.1	18.2	15.6	13.1	14.9[R]	14.2	15.1[T]
National Savings	% of GDP	17.9	17.5	18.2	17.4	13.6	12.5	13.1	13.2	12.8[R]	13.5	14.0[T]
Headline Inflation **(yoy)**	%	4.57	9.27	7.92	7.77	12.00	17.0	10.10	13.66	11.00	7.4	8.9
- Food Inflation (yoy)	%	6.00	12.50	6.90	10.30	17.60	23.70	12.9	18.00	11.00	7.1	9.9
- Non-Food Inflation (yoy)	%	3.60	7.10	8.60	6.00	7.90	18.40	8.2	10.70	11.00	7.5	8.2
- Core inflation (yoy)	%	3.80	7.20	7.50	5.90	8.40	17.60	7.6	9.40	10.60	9.6	8.4
II. Fiscal Sector												
Revenue Collection	Billion US$	13.8	15.2	18.0	21.4	23.9	23.5	24.8	26.3	27.8	30.78	-
Fiscal Deficit	% of GDP	2.30	3.34	4.27	4.35	7.59	5.35	6.28	6.62	8.8[$]	8.0[$a]	6.3[BE]
Public Debt	% of GDP	67.2	62.5	57.7	57.2	60.7	61.5	61.4	60.1	64.3	63.2	63.3
- of which foreign currency	% of GDP	34.3	31.3	28.7	27.5	29.7	32.3	33.0	31.2	30.8	25.9	25.6
- domestic debt	% of GDP	35.7	33.5	30.6	30.1	31.9	29.2	31.3	32.9	38.0[R]	41.6	41.8
- debt servicing	% of total revenue	59.8	38.5	36.6	36.7	42.41	49.20	47.1	45.0	49.3	51.7	-
III. External Sector												
Exports (f.o.b)	Billion US$	12.3	14.4	16.5	17.0	19.1	17.7	19.3	24.8	24.7	24.8	12.5
Imports (c.i.f)	Billion US$	15.6	20.6	28.6	30.5	40.0	34.8	34.7	40.4	40.5	39.8	21.7
Trade Deficit	Billion US$	-3.3	-6.2	-12.1	-13.6	-20.9	-17.1	-15.4	-15.6	-15.7	-15.1	-9.2
Remittances	Billion US$	3.9	4.2	4.6	5.5	6.5	7.8	8.9	11.2	13.2	13.9	7.8
Current Account Balance	Billion US$	1.8	-1.5	-5.0	-6.9	-13.9	-9.3	-3.9	0.2	-4.7	-2.5	-1.6
Current Account Balance	% of GDP	1.8	-1.4	-3.9	-4.8	-8.5	-5.7	-2.2	0.1	-2.1	-1.0	-1.26
Total Foreign Investment	Million US$	1461	2508	6047	8688.6	5574.8	2646.8	2086	1979	600	1264	501.8
- FDI	Million US$	949	1525	3521	5140	5410	3720	2151	1635	744	1258	416.1
- Portfolio Investment	Million US$	314	620	986	3283	32	-1073	-65	344	-144	27	85.7
External Debt and Forex Liabilities	Billion US$	34.7	35.4	37.2	40.3	46.2	52.3	61.6	66.4	65.5	59.6	-
EDL/FEE	Percent	163.2	134.6	123.0	127.9	131.3	152.7	166.5	143.8	140.8	160.0	-
Short-term external debt	% of GDP	0.02	0.25	0.13	0.05	0.44	0.40	0.48	0.30	0.36	0.1	-
External Debt Servicing Ratio	***	23.4	10.4	9.3	8.8	8.7	13.5	12.3	8.4	9.5	-	-
Exchange Rate (average)	Per US$	57.58	59.36	59.88	60.64	62.63	78.62	83.89	85.56	89.27	96.85	105.03
Foreign Exchange Reserves	Billion US$	11.1	12.6	13.2	16.6	11.6	12.8	16.7	18.2	15.3	11.01	8.3
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	23.99	18.00	13.13	16.0	4.6	9.8	14.1	17.5	13.9	20.7	6.38
Growth Rate of M_2	y-o-y	19.6	19.1	15.1	18.9	11.9	9.5	13.0	16.7	13.4	16.6	6.22
Growth Rate of M_3	y-o-y				16.3	10.9	12.5	13.7	16.3	12.7	17.1	5.35
Weighted Avg Lending Rate	%	5.05	8.21	9.93	10.32	12.75	14.32	13.22	14.25	13.13	10.56	10.54
Credit growth to Private Sector	%	33.5	34.4	23.5	17.3	16.5	0.7	3.9	4.0	7.5	-0.56	9.6
Stock Market (Price Index)	1991=1000	5279.2	7450.1	9989.4	17772.5	12289	7162.2	9721.9	12496.6	13801.4	21005.7	25261
Market Capitalization (as leading stock mkt)	PKR Billion	1402.7	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	24.9	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$	24.1	34.1	45.9	66.5	55.3	26.1	32.0	38.2	37.2	53.2	-
V. Banking Sector Indicators												
Capital adequacy ratio	%	10.5	11.3	12.7	12.3	12.2	14.0	13.9	14.1	15.1	15.5	14.9
Non performing loans	%	11.6	8.3	6.9	7.6	10.5	12.6	14.9	15.3	15.9	14.8	14.0
Before Tax Profitabilit(R.O.E.)	%	30.5	38.2	35.2	22.6	11.4	13.2	15.5	21.8	25.9	18.5	18.4
Before Tax Profitability (R.O.A.)	%	1.9	2.8	3.1	2.2	1.2	1.3	1.5	2.1	2.4	1.7	1.7

Source: Pakistan Bureau of Statistics; State Bank of Pakistan, Ministry of Finance (MoF), Economic Affairs Division, Planning Commission of Pakistan, and CDNS.

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 Sri Lankan economy rebounded strongly in 2013 with an annual growth of 7.3 percent amid positive contributions from all sectors of the economy and the gradual recovery in external demand supported by the steady rise in economic growth over the four quarters of the year. Aided by robust construction and manufacturing activities, the industry sector recorded a growth rate of 9.9 percent while improved performance in wholesale and retaile trade and transport and communication subsectors resulted in the growth of the services sector by 6.4 percent. However, extreme weather conditions had capped the growth of the agriculture sector at 4.7 percent.

The Sri Lankan economy is projected to accelerate further over the medium term benefitting from favourable economic conditions domestically and the restoration of growth globally. Steadied by 7.3 percent growth in 2013, the economy is expected to grow by 7.8 percent in 2014, before moving to a higher growth path of over 8 percent in the medium term. This expansion is expected to be broad based with all major sectors, i.e., agriculture, industry and services, contributing positively in the coming years. Expansion of infrastructure facilities and adoption of advanced technology, especially in the agriculture and industry sectors, are expected to result in greater capacity and improved productivity. Growth in trade in services especially in the areas of tourism, transport, telecommunication, portsand financial services is expected to provide the required impetus for the envisaged growth momentum. The gradual recovery in the global economy is expected to maintain Sri Lanka's external demand at favourable levels, sustaining a higher growth trajectory over the medium term. With the favourable developments in the economy, per capita income is expected to surpass US dollars 4,000 in 2015, as proactive measures are taken to avoid the 'middle income trap', while fostering growth in all sectors of the economy.

Inflation remained at single digit levels for the fifth consecutive year. Headline inflation, which remained close to double digit levels during the first two months of the year, decelerated thereafter to mid-single digit levels by the end of the year supported by improved domestic supply conditions and prudent demand management policies. Accordingly, by end 2013, headline inflation was 4.7 percent on a year-on-year basis and 6.9 percent on an annual average basis. Meanwhile, reflecting effective management of aggregate demand, core inflation, moderated gradually during the year and declined to its lowest level in the last quarter of 2013, ending the year at 2.1 percent on a year-on-year basis and 4.4 percent on an annual average basis. The moderation in inflation and inflation expectations helped reduce wage pressures in the economy and raise investor confidence.

Fiscal policy continued to focus on promoting sustainable and regionally balanced growth in the medium term, while commitment to fiscal consolidation efforts led to a gradual improvement in key fiscal indicators. Accordingly, the fiscal deficit declined significantly to 5.9 percent of GDP in 2013 from 6.5 percent in 2012, although marginally higher than the budget estimate of 5.8 percent. Despite the sluggish growth in revenue, fiscal consolidation was the result of concerted efforts made to manage public expenditure. A significant reduction in recurrent expenditure and prioritisation of capital expenditure, which nonetheless maintained public investment at 5.5 percent of GDP, helped reduce the budget deficit in line with the Medium Term Macro Fiscal Framework. However, government revenue as a percentage of GDP declined further to 13.1 percent of GDP, and the continued shortfall in revenue collection from projected levels in recent years remained a major concern. In financing the resource gap, more reliance was placed on domestic sources, with the banking sector contributing 58 percent of the total financing requirement. The debt to GDP ratio improved to 78.3 percent in 2013 from 79.2 percent in 2012, continuing the declining trend observed in the recent past.

With the support of an enabling domestic environment and gradual recovery in the global economy, the external sector performed well in 2013. The significant increase in earnings from exports coupled with a decline in expenditure on imports led to a sharp contraction in the trade deficit. The rebounding of global trade and the increase in demand from major export destinations from the second half of the 2013 had a favourable impact on export earnings, while the decline in imports was mainly on account of lower petroleum imports. Continued high growth in workers' remittances together with an increase in earnings from services including tourism, transport and information technology related services helped narrow the deficit in the external current account substantially to 3.9 percent of GDP in 2013 from 6.7 percent of GDP in 2012. These developments, together with inflows to the financial account in the form of foreign direct investments (FDI), foreign investments in government securities, and long term debt inflows to the government, the banking sector and the corporate sector, resulted in the BOP recording a surplus of US dollars 985 million in 2013 compared to the surplus of US dollars 151 million in 2012. Consequently, the level of gross official reserves rose to US dollars 7.5 billion at end 2013, providing a 5-month import cover. The improvement in the BOP and international reserve position resulted in the Sri Lanka rupee remaining relatively stable during the year despite increasing volatility in the currencies of other emerging market economies. Accordingly, during the year, the Sri Lanka rupee depreciated by only 2.75 percent against the US dollar, while appreciating against several other major currencies.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Considering well contained inflation and inflation expectations, the Central Bank was able to ease monetary policy to support growing economic activity during the year. The easing of monetary policy, which commenced in December 2012 with the Central Bank proactively reducing the Repurchase rate and the Reverse Repurchase rate of the Central Bank by 25 basis points and allowing the ceiling imposed on credit expansion by licensed banks to expire, continued in 2013. Considering the downward rigidity in market interest rates and the continued decline in headline and core inflation, the Central Bank reduced policy interest rates further in May and October 2013, by a total of 100 basis points, and engaged in dialogue with financial institutions to ensure that market interest rates decline reflecting the easing of monetary policy. In order to strengthen this process by reducing banks' cost of funds and by enhancing market liquidity, the Central Bank also reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 2 percentage points effective July 2013. At the beginning of 2014, the Central Bank renamed its Repurchase rate as Standing Deposit Facility Rate (SDFR) and decided to uncollateralise the facility effective February 2014, while renaming its Reverse Repurchase rate as Standing Lending Facility Rate (SLFR) and reducing the latter by 50 basis points with effect from 2 January 2014. The compression of the Standing Rate Corridor (SRC) is expected to reduce the volatility of the short term interest rates further while facilitating the reduction in the spread between market lending and deposit rates.

KEY ECONOMIC INDICATORS OF SRI LANKA

	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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
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
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
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
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
- Food Inflation	%			9.0	11.4	8.9	20.3	30.5	3.1	6.9	8.8	4.7	7.9
- Non-Food Inflation	%			9.0	10.6	10.9	12.1	15.6	3.7	5.6	5.0	10.0	6.1
- Core inflation	%			9.1	10.3	8.5	7.7	13.6	6.9	7.0	6.9	5.8	4.4
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
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
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
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
- 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
- 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
- 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
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
Imports (f.o.b.)	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
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
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
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
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
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
- 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
- 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
- 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	0.5
- 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
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
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
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
IV. Monetary & Capital Market													
Growth Rate of M_1	y-o-y	14	16	16.6	22.4	12.6	2.7	4	21.4	20.9	7.7	2.6	7.7
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	20.9	18.3	18.0
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
Weighted Avg Lending Rate	%	18.2	15.7	14.8	15.4	16.6	18.1	20.1	17.4	14.8	13.4	15.98	15.18
Credit growth to Private Sector (As per M2b)	%	12	16.9	22.1	26.3	24	19.3	7	-5.8	24.9	34.5	17.6	7.5
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 Capitalisation (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
Market Capitalisation (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 Capitalisation (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
V. Banking Sector Indicators													
Capital adequacy ratio	%	11.7	11.3	11.4	13.3	12.1	12.6	12.5	14.1	14.3	16.0	16.3	16.3
Non performing loans ratio (Net IIS)	%										3.8	3.7	5.6
Profitability (R.O.E.) (After Tax)	%	19.1	21.8	18.1	16.4	15.2	14	13.4	11.8	22.4	19.8	20.3	16.0
Profitability (R.O.A.) (Before Tax)	%										2.4	2.4	1.9
All Share Price Index (ASPI)	**(1985=100)**									6,635.9	6,074.4	5,643.0	5,912.8
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

(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 are based on CCPI(2006/07=100).

HIGHLIGHTS OF SAARCFINANCE AND SPC-RELATED ACTIVITIES

1. SAARCFINANCE

18th SAARCFINANCE Coordinators' Meeting

The 18th SAARCFINANCE Coordinators' Meeting was organized by Maldives Monetary Authority, in Male, Maldives, from 25 to 26 August 2013. The Meeting attended by Coordinators/Alternate Coordinators of member countries of SAARC, except Afghanistan, was chaired by Mrs. AishathZahira, Deputy Governor of Maldives Monetary Authority. Excluding the finalization of the Agenda for the 27th Group Meeting to be held in Washington D.C. on 9 October 2013, some of the other issues discussed included the following: a) improvement of SAARCFINANCE Portal and updating SAARFINANCE History, b) publication of *e-Newsletter* in new format, c) setting up of the permanent SAARCFINANCE Secretariat in one of the SAARC Central Banks, d) rotation of SAARCFINANCE Chair on an annual basis, e) template for the publication of SAARCFINANCE Annual Activities Report, and f) new proposals from the member countries to hold seminars and workshops.

Opening Session of the 18th SAARCFINANCE Coordinators' Meeting

The Coordinators and Alternate Coordinators with the Governor and Deputy Govenor of Maldives Monetary Authority at the 18th SAARCFINANCE Coordinators' Meeting

6th Meeting of SAARCFINANCE Ministers

The 6th Meeting of SAARC Finance Ministers and SAARC Finance Secretaries was held in Colombo from 29 to 30 August. While a larger part of the agenda of the Meeting focused on promoting regional economic cooperation and integration of SAARC nations, it also took into consideration the prevailing macro-economic developments, outlook of South Asia, achievement of Millennium Development Goals and reviewed the investment climate, foreign capital inflows, financial sector reforms and other areas of cooperation. Among other issues discussed at the meeting were SAARC Agreement on Promotion and Protection of Regional Investment, impact of global economic trends on the South Asian Region, economic integration in the SAARC region towards South Asian Economic Union, avoidance of double taxation, solution of existing tax issues, and enhancement of intra-customs cooperation. During the course of the Meeting, SAARCFINANCE Chairman Dr. Fazeel Najeeb, Governor and Chairman of Maldives Monetary Authority, presented the SAARCFINANCE Activities Report covering the period from January 2012 to August 2013.

27th SAARCFINANCE Group Meeting

The 27th SAARCFINANCE Group Meeting was organized by the Maldives Monetary Authority on the sidelines of IMF-World Bank Annual Meeting in Washington, D.C. on 9 October 2013. The Meeting was chaired by the SAARCFINANCE Chairman Dr. FazeelNajeeb, Governor and Chairman of Maldives Monetary Authority. Senior officials from central banks/monetary authorities and finance ministries from SAARC countries, except Afghanistan, participated in the Meeting.

Discussions were held on a number of issues such as a) establishment of a permanent SARCFINANCE Secretariat in one of the SAARC Countries, b) rotation of the SAARCFINANCE Chair on an annual basis, c) amendments to SWAP arrangement, d) new proposals from member countries to hold seminars and workshops, and e) venue for SAARCFINANCE Governors' Symposium and 28th SAARCFINANCE Group Meeting.

The major decisions, among others, included the following: a) more discussions were needed relating to the establishment of a permanent SAARCFINANCE Secretariat; b) the SAARCFINANCE Chair would rotate on an annual basis and in alphabetical order along the sidelines of the IMF and World Bank Annual Meetings; c) SWAP arrangement would be amended as proposed by India; d) Central Bank of Sri Lanka would host the SAARCFINANCE Governors' Symposium 2014 and the 28th SAARCFINANCE Group Meeting in Colombo. Among the other activities to be undertaken, the following were agreed upon: a) State Bank of Pakistan would organize the Seminar on "Risk Management Framework for Banks" in March 2014; b) the Reserve Bank of India would host the "SAARC Public Debt Managers' Forum" in Jaipur, India from 6 to 7 December 2013; c) Bangladesh Bank would arrange the Workshop on "Capital Management Regime in South Asia" in March or April, 2014; d) Central Bank of Sri Lanka would hold the Seminar on "Reserve Management" perhaps back to back with the SAARCFINANCE Governors' Symposium and 28th SAARCFINANCE Group Meeting in Colombo during the second quarter of 2014; and e) Nepal Rastra Bank would organize the 19th SAARCFINANCE Coordinators' Meeting in Kathmandu in early 2014. Before the close of the Meeting, the SAARCFINANCE Chair was transferred to Nepal Rastra Bank from Maldives Monetary Authority.

Training Programmes/Staff Exchange Programmes

Twelve participants from Sri Lanka, 14 participants from Nepal and 2 participants from Bangladesh participated in the 'International Training of Trainers Programme on Restructuring and Strengthening of Rural Financial Institutions' organised by the College of Agricultural Banking, Pune, during July 15-19, 2013, in collaboration with Centre for International Co-operation and Training in Agricultural Banking, Pune.

Fourteen participants from Bangladesh participated in the 'Programme on Quantitative Analysis of Monetary Policy: Practice and Impacts', organised by the Reserve Bank Staff College, Chennai, during September 23-27, 2013. This was followed by a staff exchange programme for the participants in the Department of Economic and Policy Research, Monetary Policy Department, and Department of Statistics and Information Management in the Reserve Bank of India, Central Office in Mumbai during September 30-October 3, 2013. Both the training and the staff exchange were arranged by the Reserve Bank in collaboration with the Asian Development Bank.

One participant each from Bangladesh, Bhutan, Nepal and Sri Lanka had participated in the 'International Seminar on Adoption of ISO 20022 in RTGS in collaboration with the Department of Information Technology, Reserve Bank of India, Central Office, Mumbai, during September 30 and October 1, 2013.

One participant from Sri Lanka participated in the 'Advanced Management Development Programme focused on Leadership Development', organised by the College of Agricultural Banking, Pune, during November 18-22, 2013.

The Reserve Bank of India, in collaboration with the South Asian Association for Regional Co-operation (SAARC) Secretariat, organized the second meeting of the SAARC Debt Managers' Forum at Jaipur during December 6 & 7, 2013. Governor of Da Afghanistan Bank, Deputy Governors and Senior Officials of the other Central Banks and the Ministries of Finance of SAARC member countries attended the meeting. The debt managers from SAARC countries shared their country practices, policies, latest developments in debt management, market infrastructure and institutional mechanism, among others.

Seven participants from Sri Lanka, three from Nepal and one from Bangladesh participated in the 'Exposure Programme in SHG, JLG, Farmers Club, etc, organised by the College of Agricultural Banking, Pune, in collaboration with Centre for International Co-operation and Training in Agricultural Banking, Pune, during December 16-20, 2013.

2. SAARC Payments Council (SPC)

13th SAARC PAYMENTS Council Meeting

The Royal Monetary Authority of Bhutan hosted the 13th SAARC Payments Council (SPC) Meeting on 29th July, 2013 in Thimphu. The meeting is chaired by the RMA Deputy Governor. The senior officials of SAARC central banks attended the meeting. The meeting, amongst other, discussed the roadmap for the development of payment systems in each member SAARC country.

14th SAARC PAYMENTS Council Meeting

The 14th meeting of the SAARC Payments Council (SPC) was held on December 09, 2013 at Kovalam, India. The SAARC member countries discussed the recent developments in their respective countries and also emphasized on the need for creating awareness, financial education, capacity building and cooperation amongst each other. Some of the important decisions taken during the meeting are: (i) Organizing training programme at the sidelines of meeting for officials of the host country and few officials of the member countries; (ii) Setting up of a technical committee for taking forward the implementation of the roadmap as also looking into the feasibility of moving towards harmonised payment systems; and (iii) Creating a separate website for the SPC and not linking it to the country acting as Secretariat.