SAARC

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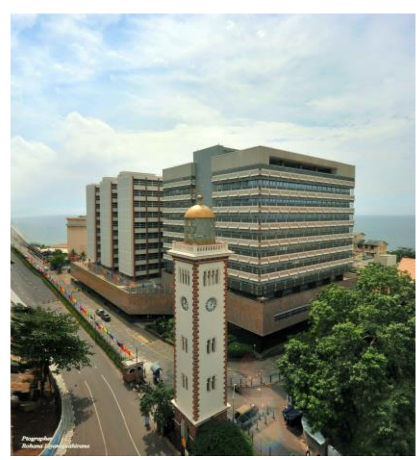

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CENTRAL BANK OF SRI LANKA

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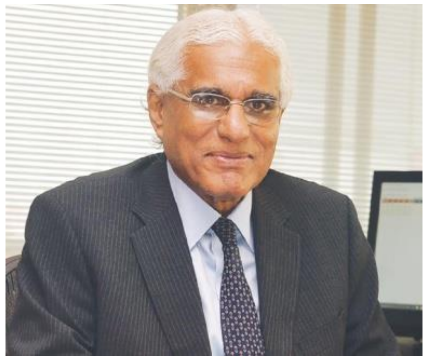
Message from the Chairperson of SAARCFINANCE Network



It is with great pleasure the Central Bank of Sri Lanka is publishing the 20th volume of the SAARCFINANCE e-Newsletter, which covers the activities undertaken by SAARCFINANCE during the first half of 2016.

I would like to thank the SAARCFINANCE members for inviting the Central Bank of Sri Lanka to chair the SAARCFINANCE Group and giving the opportunity to publish this issue of the e-Newsletter.

The SAARCFINANCE Network was initiated in 1998 to establish a "Network of Central Bank Governors and Finance Secretaries of the SAARC Region" with a view to opening a dialogue on macroeconomic policies and sharing mutual experiences and views.

I am sure the content of these publications, which encompasses the recent macroeconomic developments, major policy announcements and key economic indicators as well as the content of other platforms to share information would help us enhance our understanding of the regional economic conditions thereby aiding improved policy making at national level.

I would also like to acknowledge the active contributions made by SAARCFINANCE Coordinators and Alternate Coordinators and the efforts of the SAARCFINANCE Cell operating under the Economic Research Department of the Central Bank of Sri Lanka, towards the preparation of this e-Newsletter.

Dr. Indrajit Coomaraswamy
Governor, Central Bank of Sri Lanka and
Chairperson, SAARCFINANCE Network

Objectives of SAARCFINANCE

The broad objective of establishing SAARCFINANCE Network is to promote cooperation among central banks and finance ministries in SAARC member countries and learn from shared experiences among member countries on macroeconomic policy challenges facing the region. The specific objectives of SAARCFINANCE Network are as follows:

- To promote cooperation among central banks and finance ministries in SAARC member countries through staff visits and regular exchange of information;
- To consider and propose harmonization of banking legislations and practices within the region;
- To work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation;
- To forge closer cooperation on macroeconomic policies of SAARC member states and to share experiences and ideas;
- To study global financial developments and their impact on the region including discussions relating to emerging issues in the financial architecture, IMF and World Bank and other international lending agencies;
- To monitor reforms of the international financial and monetary system and to evolve a consensus among SAARC countries in respect of the reforms;
- To evolve, whenever feasible, joint strategies, plans and common approaches in international fora for mutual benefit, particularly in the context of 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 specialising 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; and,
- 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

Real sector

Afghan economy slowed down markedly in the year 2015. According to available data in 2015 Afghanistan's growth rate was mere 0.9 percent, well lower than 2.1 percent observed in 2014. The slowing down of the economy was largely due to substantial meltdown of Agriculture sector, which is the second largest contributor to GDP. Meanwhile, industry sector and services recorded modest growth of just over 1 percent. The performance of Afghan economy has deteriorated significantly with the escalation in insurgency and uncertainty following the withdrawal of international forces in 2014. The surge in insurgencies remains the biggest factor undermining private and public sector confidence.

In the first six months of year 2016 Afghan economy continued to face an array of challenges emanating from uncertain political and economic environment. However, prudent taxation reform and imposition of further restrictions on imports are expected to invigorate economic activities in the country. Agriculture sector is showing signs of expansion in addition to a modest surge in foreign and domestic investment. Meanwhile, in the first half of 2016 large number of emigrants repatriated back to Afghanistan. The overwhelming majority of repatriates are equipped with skills which will not only contribute to human capital development but also make to technological progress in the long run. The first six month of 2016 also witnessed advances in domestic revenue collections in confluence with Afghanistan's Accession to World Trade Organization, successful completion IMF Staff Monitored Program and agreement on and approval of a new three year IMF program.

All the above stated factors have positively impacted the Afghan economy; consequently, Afghan economy edged up in the first six month of 2016 and is expected to pick up modestly in the year 2016.

Inflation

In the first quarter of 2016, consumer price in Afghanistan increased. Headline inflation rose to 3.8 percent from a deflation rate of 0.6 percent. High inflation during the review period was large due to devaluation of Afghani against USD. Higher price of commodity in South Asia was also responsible for elevating inflation in Afghanistan.

The trend toward upward inflation in Afghanistan, which has been started in the mid 2015 continued by the second quarter of 2016 as the headline inflation increased to 5.96 percent from -2.79 percent (year over year). Consumer price rose in the back of higher global price of oil, repatriation of refugees from Pakistan, and more importantly decrease of imports from Pakistan. Depreciation of Afghani against the US dollar is also a strong determinant of inflation during the reporting period.

In June 2016, decrease in imports volume from Pakistan alarmed for jumping commodity price in Afghanistan. This decline among other commodities includes cement, flour, clothing, and medicine, which has resulted in short-term increase in price of these commodities. Inflation has get momentum also because of increased in repatriation of refugees from Pakistan. As these returnees are seen to reside in the cities rather than their native villages, it has resulted in for food, housing, furnishing goods, and public services.

Monetary Sector

After experiencing a considerable negative growth over first quarter 2016, CIC and RM experienced a positive growth of five percent in the second quarter. At the end first half of 2016 reserve money (RM) which is Da Afghanistan Bank's operational target, stood at Af 223,151 million while Currency in circulation (CIC) which is indicative target of DAB reached Af 199.257 million.

Meanwhile, Narrow money (M1) decreased to Af 380,284 million from Af 389,916 million, down by almost -2.47 percent. Broad money (M2) demonstrated similar behavior albeit at relatively slower pace compared to M1. By the end first half of 2016 M1 stood at Af 409,104 million, down by almost 1 percent since the beginning of the fiscal year 2016.

Afghani currency remained stable during the first half of the fiscal year 2016. At the beginning of the year Afghani was traded at Af 68.37 against USD while on 31st of June 2016 the Afghani exchange rate against USD was Af 68.42.

Fiscal Sector

In the year 2015 Afghan Unity Government embarked on crucial reforms in taxation. As a result the domestic revenue increased substantially in the year 2015. Afghanistan continued to increase its domestic revenue collection in the first six month of 2016 by more than 30 percent to over Af 80 billion. The amount collected in the first six months exceeded expectations and projections. A large portion of the total revenue increase was primarily due to greater mobilization efforts of the National Unity Government and new and higher taxes imposed in the second half of 2015. The role of currency depreciation in robust revenue growth was very limited. Despite the massive improvement in revenue collection Afghanistan still heavily relies on foreign aid and donations as the government expenditure is substantially higher its revenue.

Meanwhile, government expenditure also increased by over Af 6 billion in the first six month of 2016 compared to same period of the previous year. The budget execution rate, however, remained the same at 29 % when compared to same period of the previous year. The execution rates of current budget increased by 6 percentage points while the execution rate of development budget dropped by 3 percentage points.

Key Economic Indicators of Afghanistan

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Jan-June 2016
I. Real Sector														
Per Capita GDP	US$	242.2	281.1	312.6	426.0	426.0	504.7	628.6	709.0	780.0	772.0	747	677	-
Real GDP Growth	%	2.3	9.9	9.2	16.1	2.3	17.2	3.2	8.7	10.9	6.5	2.2	-2.41	-
GDP (Nominal)	Million US$	5.6	6.6	7.5	10.4	10.6	12.9	16.3	18.8	21.0	21.2	21.0	19365	-
Agriculture	% of GDP	33.3	34.2	32.7	33.6	27.7	31.1	27.8	27.0	25.4	24.7	24.32	22.12	-
Industry	% of GDP	24.5	25.2	26.2	25.2	25.6	21.2	20.6	21.6	20.5	19.6	20.92	22.13	-
Services	% of GDP	39.5	37.7	38.1	38.7	44.0	44.3	48.0	47.8	50.3	51.7	51.3	52.28	-
Investment	% of GDP	-	-	-	-	18.1	17.4	17.5	15.8	16.4	16.7	17.7	-	-
National Savings	% of GDP	-	-	-	-	-23.3	-9.9	-11.4	-4.0	4.0	7.8	7.0	-	-
Headline Inflation	%	-	9.8	3.8	24.3	4.8	-4.5	13.7	8.4	5.8	7.2	1.4	0.1	3.83
- Food Inflation	%	-	9.1	4.9	31.9	4.3	-9.1	14.0	7.0	4.4	9.6	2.9	0.3	3.99
- Non-Food Inflation	%	-	10.9	2.2	12.2	6.0	3.8	13.3	16.6	7.4	4.7	-0.5	0.5	4
- Core Inflation	%	-	-	4.7	11.3	7.8	2.3	9.8	10.0	5.9	5.5	4.3	2.2	5.14
II. Fiscal Sector														
Revenue Collection (CSR)	Million Afs	18,837	76,456	62,038	56,885	71,638	101,118	134,840	169,674	164,589	108,508	99,619	123,387	91,611
Fiscal Deficit (excluding Grants)	% of GDP	19%	18%	14%	14%	9%	8%	1%	4%	2%	4%	14%	15%	6%
Fiscal Deficit (including Grants)	% of GDP	1%	4%	1%	2%	15%	14%	8%	12%	10%	14%	8% Supl	11% Supl	10%
Public Debt	% of GDP	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which foreign currency	% of GDP	-	-	-	-	-	-	-	-	-	-	-	-	-
- domestic debt	% of GDP	-	-	-	-	-	-	-	-	-	-	-	-	-
- debt servicing	% of total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
III. External Sector														
Exports (f.o.b)	Billion US$	0.31	0.38	0.42	0.45	0.55	0.40	0.40	0.38	0.26	0.50	0.62	0.58	0.53
Imports (f.o.b)	Billion US$	2.18	2.47	2.74	3.02	2.98	3.11	4.87	6.05	6.03	8.65	6.91	7.04	3.63
Trade Deficit	Billion US$	1.87	2.09	2.33	2.57	2.43	2.70	4.48	5.67	5.76	8.15	6.29	6.46	3.10
Remittances	Billion US$	-	-	-	-	-0.08	-0.18	-0.02	0.01	0.06	0.11	-0.03	0.06	0.08
Current Account Balance	Billion US$	-	-	-	-	-5.69	-6.02	-6.61	-6.76	-6.63	-6.95	-4.39	-4.81	-2.11
Current Account Balance	% of GDP	-	-	-	-	-0.53	-0.47	-0.40	-0.36	-0.32	-0.33	-0.21	-3.9	-
Total Foreign Investment	Million US$	-	186	218	188.41	97.59	93.78	94.96	85.17	72.65	70.24	42.98	87.64	18.36
- Foreign Direct Investment	Million US$	-	186	218	188.41	97.59	93.78	94.96	85.17	72.65	70.24	42.98	169.15	-39.27
- Portfolio Investment	Million US$	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-81.51	57.62
External Debt	Billion US$	-	-	-	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	% of forex earings	-	-	-	-	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Short-term debt to GDP	%	-	-	-	-	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
External Debt Servicing Ratio (Pl see footnote	*	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange Rate (Average)	Per US$	47.79	49.63	49.92	49.82	50.95	49.26	45.80	47.76	50.92	55.38	57.52	61.14	68.67
Foreign Exchange Reserves	Billion US$	-	-	-	-	3.61	4.13	5.34	6.25	6.95	7.10	7.00	6.86	6.85
IV. Monetary & Capital Market		-	-	-	-	-	-	-	-	-	-	-	-	-
Growth Rate of M1	y-o-y	-	-	-	40.59	31.91	30.33	25.02	21.00	9.78	9.88	9,54	1.50	6.2
Growth Rate of M2	y-o-y	-	-	-	42.40	31.38	33.05	26.95	21.31	8.80	9.40	8,34	3.30	7.4
Growth Rate of M3	y-o-y	-	-	-	-	-	-	-	-	-	-	-	-	
Weighted Avg Lending Rate	%	-	-	-	15.70	23.40	15.10	15.00	14.50	15.00	15.00	16,05	15.13	14.93
Credit growth to Private Sector	%	-	-	-	96.98	45.63	33.90	29.80	-49.80	1.90	8.80	-6.13	6.15	19.03
Stock Market (Price Index)	1991=100	-	-	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	estic currency in Bil	-	-	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	% of GDP	-	-	-	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)	Billion US$	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Banking Sector Indicators														
Capital Adequacy ratio	%	N/A	N/A	38.91	31.77	29.83	25.81	-14.48	23.83	21.84	26.24	26.46	21.14	20.63
Non performing loans	%	N/A	N/A	N/A	0.68	1.15	0.94	48.4	5.16	5.31	5.08	8.09	15.48	17.11
Profitability (R.O.E)	%	N/A	8.39	-1.11	9.89	1.69	1.4	-20.69	-1.01	-0.42	0.61	7.35	4.35	24.49
Profitability (R.O.A)	%	N/A	1.79	0.28	1.8	10.28	10.25	-520.84	-14.98	-5.71	8.18	0.9	43.74	2.46

* from 2007 to 2012 figures are as of March

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

BANGLADESH

Recent Overall Macroeconomic Developments

Overview

Bangladesh economy has maintained its macroeconomic stability and high growth trajectory over the years. In FY16, Bangladesh has registered 7.05 percent annual GDP growth which projected to increase further at 7.2 percent in FY17. Higher growth of industry and service sectors, vibrant rural economy, increase in public investment and higher wage rate in the private and public sectors together helped to achieve this growth. Industry and service sectors on the supply-side and, consumer spending and public and private investment, on the demand-side, will be the key drivers to achieve this growth. Moreover, efficient coordination between fiscal and monetary policies will help to realize this goal.

Twelve-month average CPI inflation in Bangladesh has shown a slowly declining trend for the last couple of years. The CPI inflation gradually fell to 5.92 percent in June 2016 which was 7.28 percent in July 2014, owing to lower fuel and commodity prices. The decline in average inflation is mainly attributable to the falling food prices by continuing moderate trends of global commodity prices. On the other hand, the nonfood inflation is increasing in the wake of wage hike of rural laborers and public employees. It is expected that the average CPI inflation will remain within the target level of FY17 or close to the 5.8 percent. Budget deficit will be contained within 5 percent of GDP as in the past. Sector-wise brief analyses on Bangladesh economy are given below:

Price Developments

The decline in average inflation from 7.28 percent in July 2014 to 5.92 percent in June 2016 is mainly attributable to the falling food prices while nonfood inflation edges up primarily because of the consumption boost in the wake of the historically highest salary hike in the public sector. As past evidence suggests, the private sector is likely to follow suit in a staggered fashion, putting an upward pressure on nonfood inflation. Food inflation of as high as 8.55 percent in July 2014 skidded down to 4.90 percent in June 2016 while nonfood inflation was as low as 5.41 in July 2014 percent kept on rising to reach 7.47 percent over the same period. Core inflation that excludes both food and fuel components rose from 6.29 percent in July 2015 to 8.04 percent in June 2016.

Money and Credit Developments

Available data indicate attainment of almost all key objectives of the monetary program and policies for FY16. Broad money (M2) growth remained above the target ceiling reaching 16.35 percent against the targeted ceiling of 15.5 by end June 2016. Private sector credit grew robustly throughout FY16, at 16.78 percent as of June 16 overshooting the targeted end June ceiling of 14.8 percent. However, with government's belated small net bank borrowing at the closing end of FY16, overall domestic credit growth remained below the targeted path reaching 14.44 percent in June 2016 against the target of 15.5 percent.

Bangladesh Bank has kept sufficient provisions for the government's need in current fiscal year. The credit growth figures in the public sectors have always been very volatile based on the actual financing needs of the government. It registered a positive figure of 3.28 percent in June 2016 (Y-t-Y) in the last fiscal year whereas Bangladesh Bank projects a positive growth rate of public credit at 15.9 percent in June 2017. Private sector credit growth has shown an uptrend at the end of the FY16. While it was 10.8 percent in June 2013, private credit growth reached as high as 16.35 percent in June 2016. The target of 16.5 percent private credit growth appears to be adequate to support output growth ranging from 7.1 to 7.3 percent – Bangladesh Bank forecasts for the FY17 where the government's output growth target 7.2 percent.

With growth supporting accommodative stance, the stock of broad money is projected to rise to Taka 10373 billion in June 2017 from Taka 8755 billion in May 2016. This stock of June 2017 comprises two figures: 1) Taka 2552 billion or USD 32.55 billion as net foreign assets (NFA) and 2) Taka 7821 billion as net domestic assets (NDA). The amount of NDA is projected to be composed of domestic credit of Taka 9275 billion and a negative figure of Taka 1454 billion against other items (net). NFA growth of 10.7 percent projected for FY 17 is much lower than the 22.1 percent growth in FY16; reflecting the expectation that the external fund inflows will be much better absorbed in the real economy in FY17 than in the preceding year.

External Sector Developments

The central bank exercises a managed float to maintain exchange rate stability by managing day-to-day fluctuations. Bangladesh Bank kept on buying foreign currencies to prevent Taka from appreciating. Preserving that stability is an integral part of monetary policy although infrequent adjustments to market pressures have been carried out in the past. That policy stance helped Bangladesh Bank to maintain exchange rate stability for almost three years since early 2013.

Bangladesh Bank's foreign exchange reserves have grown fast to reach an adequately comfortable level. Reserves of USD 30 billion met almost 8 months' import bills in June 2016. At the end of FY17, foreign exchange reserves are expected to reach a record high of 33 billion dollars which will be adequate to meet import bills for 9 months. Large and persistently growing current account surpluses signify some sluggishness in the external economy. As remedial efforts, the government may speed up implementation of large projects, using up the surpluses and eventually crowding in new private sector investments in the linked sectors.

Partly due to subdued price levels in global commodity markets, import growth in FY16 remained slow and lagging in absorbing the inflows from growing exports, worker's remittances, and FDI. Worries persist over appreciation of Taka's REER being hurtful for export competitiveness, but support mechanisms like low cost Export Development Fund (EDF) financing for input imports and cash incentives are working well to compensate exporters; as evidenced by sustained export growth amid global slowdown.

At the end of the last fiscal year 2016, current account surplus is estimated to reach USD 3 billion from almost USD 2 billion in June 2015. This current account surplus helped reach an overall balance to the tune of USD 5.1 billion which contributes to the buildup of net foreign assets. We have achieved 9.7 percent growth in exports and 6.0 percent growth in imports in FY16. Remittance growth, however, ended up with a negative growth of 2.5 percent at the end of the same fiscal year. The import coverage of nine months by foreign reserves in FY17 leaves us much ahead of many developing economies in this respect.

Fiscal Developments

1. **Government expenditure**: Government Expenditure is shown under two broad categories, namely, Non-Development Expenditure and Development Expenditure. Total actual non-development spending up to June, 2016 stood at TK 135574 crore which is 82.4 percent of the non-development budget allocated for the year FY16. Actual development expenditure during the same period is 69 percent of the development budget estimate. Note that, three memorandum items (Net Outlay of Food Accounts Operation, Loans and Advances and Non ADP Employment Generation Programme) are out of these two broad categories.

1.1. Non-Development Expenditure

1.1.1. Non-Development Expenditure: General Classification

Allocations for non-development expenditure against different Ministries/Divisions are grouped into 14 sectors. Some of the noteworthy features are:

- For FY15-16, budget allocation were raised by 23.3 percent over the FY14-15 revised estimates and 19.2 percent over the original budget;
- Up to June 2016, spending in education, public order and safety, defense, recreation, culture and religious affairs and health sectors were on the higher side. Below-average utilization in some sectors, like, general public service, social security and welfare, agriculture and LGD, RD & Cooperatives sector contributed to less-than-expected performance in total non-development spending;
- As a whole, non-development spending up to June 2016 amounts to 82.4 percent of total Non-development budget

1.1.2. Non-Development Expenditure: Economic Classification

Besides broad sector-wise and ministry-wise classification, non-development spending is also categorized into 08 economic groups, namely, Pay and Allowances (PA), Goods & Services (GS), Interest Payment (IP) [Domestic & Foreign], Subsidies & Current Transfer(SCT), Block Allocation (BA), Acquisition of Assets and Works (AAW), Investment in share & equities (ISE), Programme financed from Non-Development Budget (PFNDB). Up to June 2016, utilization rate of total non-development expenditure is 80 percent.

1.2. Development Expenditure

Total allocations against different ministries/divisions for development spending are grouped under 13 broad sectors. Up to June 2016, actual development expenditure is 69 percent of the total ADP.

2. **Revenue income**: It is generated from tax and non-tax sources. Up to June 2016, 82 percent of total revenue target has been achieved. During this period, major share of the revenue came from NBR taxes (88.9 percent). Total NBR tax collection is 83.3 percent of the annual target. Regarding NTR (Non Tax Revenue) 72.7 percent of the annual target has been achieved.

- Total NBR revenue collection in FY15 was 9.6 percent of GDP (base 2005-06) and 89.3 percent of the revised budget target;
- In FY16, total revenue is expected to be scaled up to 12.1 percent of GDP (base 2005-06). This figure is about 27.6 percent higher than the revised budget estimate of FY15 and about 42.8 percent higher than the actual collection in the FY15;

3. Budget Deficit

- In FY15, actual budget deficit (excluding grants) as percentage of GDP was 3.85 percent. Including grants it was 3.70 percent of GDP;
- Budget deficit (excluding grants) for FY16 is estimated to be 5.05 percent of GDP (Including grants the deficit is expected to be 4.71 percent of GDP);
- For FY16, actual overall balance up to June, 2016 (excluding grants) as percentage of GDP was negative 3.3 percent.

Achieving Targeted Growth

- Sustained political stability will encourage private investment;
- Improved physical infrastructure (power and energy, transport and communication) will facilitate higher growth in the medium term;
- Increase in private sector credit flows, growth in agriculture, vibrant rural economy and higher Govt. spending will boost domestic demand;
- Fiscal space created by sharp fall in international oil prices will facilitate channeling resources to the priority sectors;
- Sustained macro-economic stability along with declining inflation and interest rates and stable exchange rate will create conducive provide a favorable environment for higher growth;
- Rise in exports is expected to contribute to further boost the economic growth;
- Wide range reforms in fiscal, monetary, financial and external sectors will help sustain and consolidate the medium term growth possibilities.

Fiscal Outlook for FY2015-16

- It is expected that the positive impacts of ongoing and future reforms in modernizing revenue administration, broadening the tax base, higher tax compliance, and procedural improvements will pave the way for significantly higher revenue and hence, total revenue is projected to grow by 0.3-0.4 percent of GDP every year over the medium term.
- The main principle followed by the government in expenditure management is to allocate resources for productive sectors by controlling unnecessary and wasteful expenditures. Moreover, the government is pursuing the policy of keeping the budget deficit within the sustainable range of 5 percent of GDP in a bid to strike a balance between revenue and expenditure.
- The size of public expenditure is historically low relative to GDP. It was only 13.4 percent of GDP in FY 2014-15, while this expenditure stands at 15.3 percent in the revised budget of current fiscal year. It is targeted to be elevated to 17-18 percent of GDP over the medium term.
- Increase in development expenditure as well as pay and allowances for government employees is expected to expand total public expenditure over the medium term. Actual budget deficit stood at 3.8 percent of GDP in FY 2014-15. On the whole, this deficit is expected to remain within the range of 5 percent of GDP over the medium term.
- A slew of reform measures have been taken to enhance public expenditure management capacity. The existing i-BAS system is going to be replaced by i-BAS++ system to be effective from the next fiscal year.
- New accounting codes have been introduced for better Government Finance Statistics (GFS) reporting. A database of government employees has been prepared in order to simplify pay and allowances management and budget projection system. On the other hand, various measures have been taken to modernize treasury debt management.

Latest Development of some Macroeconomic Indicators

The latest developments of some key macroeconomic indicators of Bangladesh economy are given below. Moreover, 11 years data on key macroeconomic indicators of Bangladesh economy are also given at Annex-1.

- As per latest available data, overall inflation (base: 2005-06=100) is 5.77% on yearly average basis (5.37% on point-to-point basis) at the end of August, 2016 which is within the targeted level of FY17.

- Export growth recorded a negative growth of 3.49 percent (y-o-y) in the starting month of FY17 from its level of FY16 amounting USD 2.54 billion. However, Export growth stood a positive growth of 8.94 percent (y-o-y) in the FY17 from FY16 amounting USD 33.44 billion.

- Import growth of FY16 increased by 5.45 percent and stood at USD 39.72 billion compared to the previous fiscal year.

- Current account surplus along with a financial account surplus of USD 1610 million resulted in a surplus of USD 5036 million in overall balances during FY 2015-16 as compared to the surplus of USD 4373 million during FY 2014-15.

- The country's foreign exchange reserve as on 06 October, 2016 stood at USD 31.359 billion.

- The nominal exchange rate of Taka against USD remained stable at Tk.78.40 per USD as on 09 October, 2016.

Highlights of Major Policy Announcements

BB has issued 'Integrated Risk Management Guidelines' for financial institutions

Bangladesh Bank has issued several guidelines and directives on risk management along with five core risk guidelines in light with all the earlier guidelines. The guidelines will help FIs strengthening their risk management system as a whole and encompass all the probable risks associated with financing companies. The guidelines will be treated as supplement to the existing risk management guidelines.

BB has introduced Green Transformation Fund for export oriented textile & textile products and leather manufacturing industries

With a view to accelerate sustainable growth in export oriented textile and leather sectors contributing to transformation of green economy in the country, Bangladesh Bank has established a revolving Green Transformation Fund (GTF) of USD 200 million. The GTF is intended to facilitate access to financing in foreign exchange by all manufacturer-exporters in export oriented textiles & textile products and leather manufacturing sectors to import capital machinery and accessories for implementing green/environment-friendly initiatives.

BB has re-fixed Repo and Reverse Repo interest rates

The existing Repo and Reverse Repo rates of interest of Bangladesh Bank have been reduced by 50 basis points and re-fixed at 6.75 percent and 4.75 percent respectively from the rates of 7.25 percent and 5.25 percent.

BB has extended the coverage of School banking

To achieve financial inclusion, school banking has been introduced, where, from now on, students aged below six years will be able open bank accounts.

BB has issued Guidelines on Commercial Paper for Financial Institution

Commercial Paper (CP) refers to a promissory note with a maturity of not less than 30 days and not more than 1 (one) year that is sold at a fixed rate of interest or discount from face value. The guidelines have been issued to provide the legal framework and procedure regarding CP. The guidelines shall be applicable to all FIs operating in Bangladesh licensed under Financial Institutions Act, 1993.

BB has Reduced Interest Rate on Agricultural and Rural Credit

Considering the downward trend in lending and deposit interest rates, Bangladesh Bank has reduced the maximum ceiling of interest rate on agricultural and rural credit to 10% from 11% effective from 01 July 2016.

Key Macroeconomic Indicators of Bangladesh

	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
I. Real Sector												
Per Capita GDP	USD	476	487	559	620	687	748	766	1088	1115	1236	1384
Real GDP Growth	%	6.6	6.4	6.2	5.7	6.1	6.7	6.3	6.2	6.12	6.6	7.1
GDP (Market Price)	Billion USD	62.0	68.4	79.6	89.4	100.4	111.9	115.7	129.9	173.8	195.2	221
Agriculture	% of GDP	21.9	21.4	20.7	20.5	20.3	18.0	17.4	16.8	16.3	15.5	14.8
Industry	% of GDP	29.0	29.4	29.8	29.8	29.9	27.4	28.1	29.0	29.6	28.2	28.6
Services	% of GDP	49.1	49.2	49.5	49.7	49.8	54.6	54.5	54.2	54.1	56.4	56.7
Investment	% of GDP	24.7	24.5	24.2	24.4	24.4	27.4	28.2	28.4	28.7	28.9	29.4
National Savings	% of GDP	27.7	28.7	30.2	29.6	30.0	29.0	29.9	30.5	30.5	29.0	30.1
Headline Inflation(12 mth avg)*	%	7.2	7.2	9.9	6.7	7.3	8.8	10.6	6.8*	7.4*	6.4*	5.9*
- Food Inflation	%	7.8	8.1	12.3	7.2	8.5	11.3	10.4	5.2*	8.6*	6.7*	4.9*
- Non-Food Inflation	%	6.4	5.9	6.3	5.9	5.5	4.2	11.1	9.2*	5.5*	6.0*	7.5*
- Core inflation	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	8.0*
II. Fiscal Sector												
Revenue Collection (CSR)	Billion USD	6.7	7.2	8.8	10.1	11.5	13.4	15.0	17.5	18.1	21.0	22.7
Fiscal Deficit (excluding grants)	% of GDP	3.9	3.7	6.2	4.1	3.7	4.4	5.0	4.8	4.1	5.0	5.0
Fiscal Deficit (including grants)	% of GDP	3.3	3.2	5.4	3.3	3.3	3.8	4.6	4.3	3.5	4.6	4.7
Public Debt	% of GDP	40.2	38.6	37.1	35.9	32.3	32.4	31.8	30.0	29.1	27.5	27.3
- of which foreign debt	% of GDP	25.9	24.3	22.1	20.4	17.6	17.2	16.6	14.9	14.1	12.3	11.7
- domestic debt	% of GDP	14.3	14.3	15.0	15.5	14.7	15.2	15.2	15.1	15.0	15.2	15.6
- debt servicing	% of total revenue	9.6	9.7	8.8	8.2	7.7	6.9	6.5	6.3	7.2	5.2	4.6
III. External Sector												
Exports (f.o.b)	Billion USD	10.4	12.1	14.2	15.6	16.2	22.6	24.0	26.6	30.2	30.8	33.4
Imports (f.o.b.)	Billion USD	13.3	15.5	19.5	20.3	21.4	30.3	33.3	33.6	36.6	36.6	39.7
Trade Deficit	Billion USD	2.9	3.4	5.3	4.7	5.2	7.7	9.3	7.0	6.8	5.8	6.3
Remittances	Billion USD	4.8	6.0	7.9	9.7	11.0	11.7	12.8	14.5	14.2	15.3	14.9
Current Account Balance	Billion USD	0.8	0.9	0.7	2.4	3.7	-1.7	-0.4	2.4	1.4	1.5	3.7
Current Account Balance	% of GDP	1.3	1.4	0.9	2.7	3.7	1.5	0.3	1.9	0.9	0.8	1.7
Total Foreign Investment	Million USD	775	899	795	802	796	740	1193	2094	2369	2448	2125
- Foreign Direct Investment	Million USD	743	793	748	961	913	768	995	1726	1432	1830	2001
- Portfolio Investment	Million USD	32.0	106.0	47.0	-159.0	-117.0	-28.0	198.0	368	937	379	124
External Debt and Forex Liabilities	Billion USD	18.6	19.4	20.3	20.1	20.3	21.5	22.8	22.3	24.9	23.9	26.0
External Debt and Liabilities	As % of Forex earnings	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Outstanding Debt	% GDP	30.5	28.3	25.5	23.3	20.3	19.7	19.7	14.9	14.1	12.3	11.8
External Debt Servicing Ratio	% of outstanding external debt	3.4	3.6	3.8	4.0	4.3	4.2	4.2	4.2	4.2	4.7	4.0
Exchange Rate	Per USD	67.1	69.0	68.6	68.8	69.2	71.2	79.1	79.9	77.8	77.7	78.3
Foreign Exchange Reserve	Billion USD	3.5	5.1	6.1	7.4	10.8	10.9	10.2	15.3	21.5	25.0	30.2
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	23.4	16.5	22.7	10.3	28.0	18.7	6.4	10	14.6	14.3	32.1
Growth Rate of M_2	y-o-y	19.3	17.1	17.6	19.2	22.4	21.3	17.4	16.7	16.1	12.4	16.4
Growth Rate of M_3	y-o-y	17.8	15.8	15.7	17.7	23.0	18.9	15.5	15.3	16.5	14.8	18.3
Weighted Avg. Lending Rate	%	12.1	12.8	12.3	11.9	11.3	12.4	13.8	13.7	13.1	11.7	10.4
Credit growth to Private Sector	%	18.1	15.0	25.0	14.6	24.2	25.8	19.7	10.9	12.2	12.9	17.2
Stock Market (Price Index)		1339.5	1764.2	2588.0	2520.2	5111.6	6117.2	4572.9	4385.8	4480.5	4583.1	4507.6
Market Capitalization of DSE#	Billion Taka	225.3	491.7	931.0	1241.3	2700.7	2853.9	2491.6	2530.2	2386.3	2701.9	3181.3
Market Capitalization of DSE#	% of GDP	5.4	10.4	17.1	20.2	38.9	35.8	27.2	24.4	17.7	17.8	21.1
Market Capitalization of DSE#	Billion USD	3.4	7.1	13.6	18.0	39.0	40.1	31.5	31.7	30.7	34.8	40.6
V. Banking Sector Indicators												
Capital adequacy ratio	%	6.7	9.6	10.1	11.6	9.3	11.4	10.5	9.1	10.7	10.3	10.3
Non performing loans	%	13.2	13.2	10.8	9.2	7.3	6.1	10.0	11.9	10.8	9.7	10.1
Profitability (R.O.E)	%	14.1	13.8	15.6	21.7	21.0	17.0	8.2	10.8	8.1	10.5	6.7
Profitability (R.O.A)	%	0.8	0.9	1.2	1.4	1.8	1.5	0.6	0.9	0.6	0.8	0.4

Note: All data are provided on the basis of Bangladesh Financial Year (July-June). *=Base 2005-06=100, # DSE= Dhaka Stock Exchange, NA= Not available

BHUTAN

Recent Overall Macroeconomic Developments

1. Bhutan's real GDP continues to grow by 6.49 percent in 2015 from 5.75 percent in the previous year. Contribution to real GDP was mainly due to growth in Secondary sector by 3.52 percent followed by Tertiary sector 2.39 percent and Primary sector 0.59 percent.

   Meanwhile, Bhutan's inflation (measured by the year-to-year change of the consumer price index) recorded at 3.6 percent during the June of 2016 compared to 4.8 percent of same month of previous year. Decline in the prices of both food and non-food commodities mainly contributed for the fall during the period. On the other hand, the month-to-month change in imported inflation, during June 2016 was recorded at 2 percent while domestic inflation rate was recorded at 5.3 percent.

2. The broad money has recorded growth of 15.8 percent as of June 2016 which has increased from 7.8 percent in June 2015. The growth in the broad money growth was attributed to higher growth in both the narrow money (M1) and other deposits. The growth in narrow money and other deposits recorded growth of 7.8 percent and 28.3 percent, respectively as of June 2016.While on the counterpart, net foreign assets and domestic credit grew by 28 percent and 16.8 percent. The credit to private sector slightly increased to 14.7 percent in June 2016 as compared to 14 percent in June 2015.

3. As of March 2016, the growth of combined assets of the financial sector increased by 25.7 percent (Nu.130.6 billion). Of the total assets, 81.6 percent of the total share belonged to the commercial banks while 18.4 percent were held by non-bank financial institutions (NBFIs). During the same period, banking sector assets grew by 25.5 percent to Nu.114.4 billion while that of the NBFIs grew by 27.4 percent to Nu.16.2 billion. Non-performing loans (NPLs) increased from Nu.6.8 billion to Nu.8.9 billion recording a growth of 31.4 percent at the end of June 2016 against 10.2 percent in the same period last year. In terms of sector wise NPLs, high NPLs were observed under the trade and commerce (28.1 percent), housing sector (18.1 percent), personal loan (13.4 percent), service and tourism (12.2 percent) and manufacturing and industry with 12.1 percent.

4. On external front, as of the March 2016, the current account deficit narrowed by 32.5 percent as compared to the same quarter of previous year. With a decrease of 16.2

percent in imports the trade deficit decreased in the quarter ending March 2016 as compared to the same quarter in 2015. The trade deficits with India as compared to the same quarter in 2015, increased slightly to Nu. 8.4 billion from Nu. 7.9 billion. Similarly trade deficit with COTI also decreased to Nu. 1.4 billion from Nu, 4.5 billion.

5. As of June 2016, gross international reserves stood at USD 1118.8 million. Of the total reserves, USD 811 million were in convertible currency reserves and 20.8 billion were Indian Rupee reserves. Reserves were sufficient to cover 14.7 months of merchandise imports.

6. The country's total outstanding external debt as of June 2016 stood at USD 2.2 billion. Of the total, 108.7 billion (USD 1,607.3 million equivalent) were Indian Rupee debt and USD 599 million were outstanding convertible currency debt. Debt servicing for the quarter ending June 2016 amounted to USD 29 million on convertible currency debt and 4127.6 million for Rupee denominated debt.

7. On the fiscal front, as of June 2016, total revenue including grants stood at Nu.43.7 billion from Nu.36.2 billion in preceding year. An increase by 20.7 percent in 2015/16, compared to the 4.2 percent negative growth in 2014/15. Of the total revenue and grants, domestic revenue collection totaled Nu.26.3 billion (an increase of 4.6 percent from the previous year) which was more than sufficient to finance current expenditure (Nu.23.9 billion). On the other hand, total expenditure increased significantly by 39.7 percent (from Nu.34.3 billion in FY 2014/15 to Nu.48 billion) during the year. The increase was on account of growth in spending for both current and capital expenditures, which grew by 13.7 percent and 67.1 percent, respectively.

Highlights of Major Policy Announcements

1. Royal Monetary Authority of Bhutan developed and hosted the remit Bhutan system to facilitate non-resident Bhutanese to apply for non-face-to-face foreign currency account with the authorized banks in the country.
2. The RMA introduced a new, forward-looking and integrated interest rate policy called the 'Minimum Lending Rate (MLR)'. The MLR is a single benchmark or minimum reference rate for lending to be uniformly applied across all the financial institutions.
3. Implementation of 'Financial Literacy Program' to educate the nation on financial literacy.
4. Drafting of 'Agent Banking Rules and Regulations'.

Key Economic Indicators of Bhutan

Bhutan Key Macroeconomic Indicators

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
I. Real Sector											
Per Capita GDP(a)	US$	1387.40	1814.90	1875.54	1851.58	2277.76	2570.94	2532.77	2463.80	2611.74	-
Real GDP Growth(a)	%	6.85	17.93	4.77	6.66	11.73	7.89	5.07	2.14	5.75	6.49
GDP (MP)	Billion US$	1.13	1.09	1.24	1.44	1.75	1.84	1.82	1.80	1.96	2.02 (P)
Agriculture	% of GDP	23.60	20.50	20.71	18.23	16.80	16.33	15.96	16.10	16.77	16.67
Industry	% of GDP	35.50	42.30	40.88	41.97	42.78	40.98	41.62	42.35	40.55	41.34
Services	% of GDP	40.90	37.30	38.41	39.81	40.42	42.69	42.42	41.55	42.68	41.99
Investment	% of GDP	47.95	37.70	41.39	43.03	61.70	67.65	67.87	45.96	57.75	54.59 (P)
National Savings	% of GDP	0.00	0.00	0.00	0.00	35.16	42.11	44.99	22.96	35.33	30.51 (P)
Headline Inflation	%	5.94	8.85	2.96	6.14	8.33	13.53	5.51	8.55	5.15	3.56
- Food Inflation	%	8.84	11.75	10.74	9.53	8.96	18.72	2.81	12.33	2.92	4.36
- Non-Food Inflation	%	2.95	7.74	0.73	8.86	8.17	10.67	7.14	6.11	6.66	3.04
- Core inflation	%	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector											
Revenue Collection (CSR)	Billion US$	0.23	0.31	0.35	0.43	0.39	0.40	0.39	0.27	0.39	-
Fiscal Balance (excluding grants)	% of GDP	-14.05	-11.19	-10.02	-16.36	-16.78	-20.16	-14.17	-9.43	-11.68	-15.14
Fiscal Balance (including grants)	% of GDP	0.71	0.82	2.00	1.80	-2.30	-1.23	-4.36	4.08	-2.35	-3.00
Public Debt	% of GDP	31.55	27.28	29.46	29.20	32.52	35.49	41.61	36.13	33.94	134.63 (P)
- of which foreign currency	% of GDP	31.55	27.28	29.04	28.39	31.83	34.20	35.10	35.80	31.50	108.63 (P)
- domestic debt	% of GDP	0.00	0.00	0.42	0.80	0.69	1.29	6.51	0.33	2.44	0.26(P)
- debt servicing	% of total revenue	11.03	30.75	26.94	28.64	26.41	44.74	88.21	46.64	34.29	6.71 (Sept.)
III. External Sector											
Exports (f.o.b)	Billion US$	0.57	0.60	0.52	0.54	0.67	0.62	0.59	0.55	0.56	0.39
Imports (f.o.b.)	Billion US$	0.53	0.67	0.61	0.84	1.12	1.01	0.95	0.93	0.97	0.74
Trade Deficit	Billion US$	0.47	0.08	0.09	0.27	0.46	0.40	-0.35	-0.38	-0.41	-0.36
Remittances	Billion US$	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	8.48
Current Account Balance	Billion US$	0.08	-0.11	-0.01	-0.32	-0.52	-0.39	-0.42	-0.47	-0.55	-0.37
Current Account Balance	% of GDP	9.22	9.10	6.54	24.19	32.25	22.99	26.43	28.31	29.26	18.64
Total Foreign Investment	Million US$	-	0.00	18.12	74.35	31.08	24.06	49.36	43.42	8.08	5.37
- Foreign Direct Investment	Million US$	-	0.00	18.12	74.35	31.08	24.06	49.36	43.42	8.08	5.37(Mar)
- Portfolio Investment	Million US$	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	Billion US$	0.72	0.82	0.80	0.87	1.35	1.42	1.61	1.76	1.82	2.21
External Debt and Forex Liabilities	% of forex earnings	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	%	-	3.29	7.16	7.35	10.92	12.99	15.81	9.58	6.68	0.08
External Debt Servicing Ratio (pl see footnote)	***	3.68	18.27	30.51	29.75	30.96	55.80	167.71	21.02	15.98	11.17
Exchange Rate	Per US$	44.19	40.37	47.78	46.65	45.33	50.27	62.00	63.33	63.76	66.32
Foreign Exchange Reserves	Billion US$	0. 608	0.55	0.68	0.76	0.80	0.67	0.93	1.20	0.93	1.12
IV. Monetary & Capital Market											
Growth Rate of M_1	y-o-y	26.80	6.30	27.70	22.70	34.30	5.60	2.10	5.05	4.97	7.81
Growth Rate of M_2	y-o-y	8.62	2.27	24.57	30.09	21.21	-1.02	3.53	6.62	7.82	15.83
Growth Rate of M_3	y-o-y	-	-	-	-	-	-	-	-	-	-
Weighted Avg Lending Rate	%	-	-	-	-	-	-	-	-	-	-
Credit growth to Private Sector	%	34.40	35.80	28.90	40.73	29.40	30.07	7.07	6.44	14.00	14.70
Stock Market (Price Index)	1991=100	-	-	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)(a)	Domestic Currency in Billion	4.64	5.03	7.37	8.07	10.01	14.38	17.63	20.59	22.00	23.99
Market Capitalization (as leading stock mkt) (a)	% of GDP	11.4	10.17	13.47	13.18	13.81	16.80	18.19	17.70	21.08	20.07
Market Capitalization (as leading stock mkt)(a)	Billion US$	0.11	0.13	0.15	0.17	0.22	0.29	0.32	0.35	0.35	0.36
V. Banking Sector Indicators											
Capital adequacy ratio	%	17.05	16.12	14.94	14.78	15.90	17.89	19.61	18.51	18.29	16.42
Non performing loans	%	4.92	4.91	7.53	6.83	5.20	3.92	6.57	6.33	10.21	11.38
Profitability (R.O.E.)	%	18.37	18.31	17.08	22.54	15.72	16.10	13.00	13.06	-0.05	(0.31)
Profitability (R.O.A.)	%	1.58	1.54	1.50	1.86	1.58	2.24	2.40	2.27	-0.27	(1.83)

*** 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).
Data for FY 2015-16 is as of December '2015 except for III. External Sector and V.Banking Sector Indicators which are for September, 2015 .

1.(a) on a calendar year basis, example, the entry under 2015/16 is for 2015

2.Credit to private sector includes credit given by non bank financial institutions as well.

3.Foreign Exchange Reserve comprises of Indian Rupee and USD

4. (-) data not available

5.(P) Provisional estimates

6. External sector data for 2015/16 is as of March 2016

INDIA

Recent Overall Macroeconomic Developments

- **Growth Outlook:** Growth in real GDP at market prices slowed down to 7.3 per cent in 2016-17:Q2 (7.6 per cent in 2015-16:Q2), largely reflected in contraction in fixed investment, while growth in consumption expenditure (both private and government) and net exports improved. During 2016-17:H1, growth in real GDP at market price was placed at 7.2 per cent as compared to 7.5 per cent in 2015-16:H1.

- Real GVA growth decelerated to 7.1 per cent in 2016-17:Q2 (7.3 per cent in 2015-16:Q2) on account of sharp deceleration in industrial sector growth, whereas growth in agriculture and services sector increased. Within industrial sector, while growth in 'electricity, gas, water supply and other utility services' and manufacturing subsector decelerated, that of value added in 'mining & quarrying' subsector contracted. Increase in services sector growth was reflected in growth in construction, 'trade, hotels, transport, communication and services related to broadcasting', 'public administration, defence and other services' subsector, even as growth in 'financial, real estate & professional services' subsector moderated. Real GVA growth in 2016-17:H1 was placed at 7.2 per cent same as in 2015-16:H1.

- **Inflation Outlook:** CPI inflation increased from an intra-year low of 3.69 per cent in July 2015 to 5.69 per cent in January 2016 (17-month high), thereby falling below the target of 6 per cent set for that month in the medium-term disinflation glide path. Post January 2016, inflation declined considerably to 4.83 per cent in March 2016 (lowest since September 2015) on account of fall in prices of fuel and light, transport and communication (under miscellaneous sub-group) and select food items. However, beginning 2016-17, CPI inflation gained ground and stood at 5.47 per cent in April 2016 due to significant price pressures in the food group. The rise in inflation continued till July 2016, as inflation went up to 6.07 per cent (23-month high) before declining to 5.05 per cent in August 2016 driven by a sharp correction in food prices.

- Food inflation depicted a consistent rise during April-July 2016 on account of price pressures in protein rich items (mainly pulses, egg, meat and fish), vegetables and sugar. Inflation in the food group increased to 8.0 per cent in July 2016 (highest since August 2014) before declining to 5.8 per cent in August 2016. While vegetables inflation declined sharply to 1 per cent in August 2016 after remaining in double digits during May-July 2016, sugar continued to post double-digit inflation. Pulses, despite having a low weight of around 5 per cent in the food group, accounted for 22 per cent of food inflation and 13 per cent of overall inflation during April-August 2016. Inflation in case of fuel and light remained moderate at 2.8 per cent during April-August 2016. In excluding food and fuel category, inflation remained range-bound at around 4.7 per cent during this period.

- Going forward, inflation is expected to remain range-bound with food price pressures likely to abate with a normal south-west monsoon. However, the roll-out of the 7th Pay Commission Awards poses an upside risk to the inflation trajectory. Also, persistent price pressures in select services segments like personal care and effects and education warrant some caution.

- **External Sector Outlook:** The current account deficit (CAD) narrowed to US$ 0.3 billion (0.1 per cent of GDP) in Q1 of 2016-17 (April-June), significantly lower than US$ 6.1 billion (1.2 per cent of GDP) in Q1 of 2015-16. The contraction in the CAD was primarily on account of a lower trade deficit (US$ 23.8 billion) than in Q1 of last year (US$ 34.2 billion) and in the preceding quarter (US$ 24.8 billion).

- On a BoP basis, merchandise imports declined sharply (by 11.5 per cent) vis-à-vis merchandise exports (which declined by 2.1 per cent), leading to a lower trade deficit in Q1 of 2016-17.

- Net inflows under the capital and financial account (excluding change in foreign exchange reserves) moderated to about US$ 7.1 billion in Q1 from US$ 18.6 billion in the previous year. There was an accretion to India's foreign exchange reserves to the tune of US$ 7.0 billion in Q1 as compared with US$ 11.4 billion in in the corresponding period of 2015-16.

- During current calendar year so far (since end-December 2015), there has been an accretion of reserves by US$ 21.6 billion (including valuation change) up to end-September 2016. The reserves stood at US$ 372 billion on September 30, 2016.

- On September 22, 2016, in the backdrop of the continued challenging global environment being faced by Indian exporters, Department of Commerce (Govt. of India) has extended support to certain new products and enhanced the rate of incentives for certain other specified products under the Merchandise Exports from India Scheme (MEIS).

- In 2016 so far, FDI limits/norms for select sectors have been further eased. Major sectors include insurance, pension, business to consumer e-commerce, defence, civil aviation, single brand retail trading, and pharmaceuticals.

- **Monetary Developments:** Reserve money grew by 14.3 per cent on a y-o-y basis for the week ended September 16, 2016 as compared with an increase of 12.3 per cent in the previous year mainly because the currency in circulation growing at 17.4 per cent.

- The y-o-y growth in broad money (M3) at 10.7 per cent in the fortnight ended on September 2, 2016 was almost at the last year's corresponding growth of 10.8 per cent. On the components side, the growth in aggregate deposits witnessed some moderation. On the sources side SCBs' credit to commercial sector recorded a higher growth at 9.8 per cent as compared to 9.2 per cent during the corresponding period last year.

- **Fiscal Policy:** The Union Budget 2016-17 has been formulated with the objective of ensuring macroeconomic stability and prudent fiscal management while boosting aggregate demand through enhanced expenditure in priority areas with an emphasis on rural development. The Budget estimates (BE) for 2016-17 indicate a continuation of the process of fiscal consolidation as formulated in the revised roadmap outlined in 2015-16 Union Budget, with all key deficit indicators (relative to GDP) set to decline. As a ratio to GDP, gross fiscal deficit (GFD) and revenue deficit (RD) are budgeted to decline to 3.5 per cent and 2.3 per cent, respectively. The expected reduction in GFD reflects the combined impact of an increase in non-debt receipts, particularly through tax revenues, spectrum revenues, dividends, and disinvestment receipts, while making room for enhanced budgetary allocation towards Seventh Pay Commission's recommendations and implementation of One Rank One Pension (OROP) scheme.

- In provisional accounts (PA) for 2015-16, RD, as ratio to GDP, was lower than the budget estimates, by 0.3 percentage point, at 2.5 per cent. GFD met the budget estimate of 3.9 per cent. Reduction in revenue deficit despite maintaining the revenue expenditure around the budgeted target was achieved through higher than budgeted tax and non-tax revenues.

- During April-June 2016, as percentages to BE, both RD and GFD were higher than in the corresponding period of the previous year. The deterioration in fiscal position of the Central Government reflects lower non-tax revenue combined with higher revenue expenditure. Gross tax revenue, both in absolute terms as well as percentage of BE, was significantly higher than last year with higher collections under all categories of taxes. The sharp growth in income tax collections in April-June reflected the change in advance tax payment requirements for individuals[1], lower refunds by the Government than in the previous year and increase in surcharge[2] on high net worth individuals. Within indirect taxes, the growth in the service tax receipts was significantly higher than a year ago due to the imposition of Krishi Kalyan cess at 0.5 per cent with effect from June 1, 2016. Growth in union excise duty collections, though robust, was somewhat lower compared to last year on account of base effects. Total expenditure, as percentages to BE, was higher than last year reflecting higher expenditure on the revenue account. Expenditure on major subsidies at 39.8 per cent of BE was significantly higher than in last year (26.5 per cent) due to higher outgo on food and petroleum subsidy. While plan expenditure in certain infrastructure and social sectors, viz., food and public distribution, civil aviation, rural and urban development, agriculture, and information and communication technology, was higher than last year, capital expenditure in absolute terms and as percentage to BE, on the other hand, was lower, both on plan and non-plan accounts.

Highlights of Major Policy Announcements

August 09, 2016	Third Bi-monthly Monetary Policy Statement, 2016-17 decided to • keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent; • keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL); and • continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality.
June 07, 2016	Second Bi-monthly Policy Statement, 2016-17 decided to keep the policy keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent.
April 05, 2016	First Bi-monthly Monetary Policy Statement, 2016-17 decided to • Reduce the policy repo rate under the LAF by 25 basis points from 6.75 per cent to 6.5 per cent; and • Reduce the minimum daily maintenance of the cash reserve ratio (CRR) from 95 per cent of the requirement to 90 per cent with effect from the fortnight beginning

[1] As per the new rule, individuals are now required to make four instalments of advance tax payments from the current year as compared to three instalments earlier.

[2] The surcharge on high net worth individuals having income above Rs. 1 crore has been increased from 12 per cent to 15 per cent from the current financial year in line with the announcement made in the Union Budget 2016-17.

	April 16, 2016, while keeping the CRR unchanged at 4.0 per cent of net demand and time liabilities (NDTL); • Continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality; and supply of durable liquidity will be smoothened over the year using asset purchases and sales as needed. • Narrow the policy rate corridor from +/-100 basis points (bps) to +/- 50 bps by reducing the MSF rate by 75 basis points and increasing the reverse repo rate by 25 basis points, with a view to ensuring finer alignment of the weighted average call rate (WACR) with the repo rate; • Adjusted the reverse repo rate under the LAF to 6.25 per cent, and the MSF rate and the Bank Rate to 8.25 per cent. • Allow substitution of securities in market repo transactions in order to facilitate development of the term money market; and • Consult with the Government on how to moderate the build-up of cash balances with the Reserve Bank.
April 01, 2016	Marginal Cost of Funds based Lending Rate (MCLR) system came into effect.
February 17, 2016	In order to facilitate better liquidity management by the market participants and to align the liquidity operations with the working of payment systems, reverse repo and MSF operations will be conducted on all Mumbai holidays when the RTGS is open, with effect from February 19, 2016. The timings of the Reverse Repo/MSF operations will be between 5:30 pm and 7: 30 pm on such holidays.
February 11, 2016	Banks were permitted to reckon government securities held by them up to another 3 per cent of their NDTL under the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the mandatory SLR requirement as level 1 High Quality Liquid Assets (HQLA) for the purpose of computing their LCR. Hence the total carve-out from SLR available to banks would be 10 per cent of their NDTL.
February 02, 2016	• Sixth Bi-monthly Policy Statement for the year 2015-16 • The policy repo rate under the LAF kept unchanged at 6.75 per cent; • The reverse repo rate under the LAF kept unchanged at 5.75 per cent, and the MSF rate and the Bank Rate kept unchanged at 7.75 per cent; • The CRR of scheduled banks kept unchanged at 4.0 per cent of NDTL; • Continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent of NDTL of the banking system through auctions; • Continue with daily variable rate repos and reverse repos to smooth liquidity.

Key Economic Indicators of India

	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
I. Real Sector													
Per Capita GDP (Real) $	US$	664	701	851	785	814	909	911	1373	1300	1362	1351	
Real GDP Growth $	%	9.5	9.6	9.3	6.7	8.6	8.9	6.7	5.4	6.3	7.1	7.2	
GDP (MP at Current Prices) $	Billion US$	834	948	1241	1227	1367	1707	1881	1829	1863	2042	2074	
Agriculture Growth	%	5.1	4.2	5.8	0.1	0.8	8.6	5	1.5	4.2	-0.2	1.2	
Industry Growth	%	8.5	12.9	9.2	4.1	10.2	8.3	6.7	4.8	5.2	6.5	8.8	
Services Growth	%	11.1	10.1	10.3	9.4	10	9.2	7.1	6.9	7.3	9.4	8.2	
Investment	% of GDP(MP)	34.7	35.7	38.1	34.3	36.5	36.5	35.5	38.6	34.7	34.2		
Domestic Savings $$	% of GDP(MP)	33.4	34.6	36.8	32	33.7	33.7	31.3	33	32.3	32.3		
Headline Inflation (WPI)	%	4.5	6.6	4.7	8.1	3.8	9.6	8.9	7.4	6	2	-2.5	2.7**
- Food Inflation	%	3.7	7.9	5.6	8.9	14.6	11.1	7.2	9.3	9.4	4.9	2.6	8.3**
- Non-Food Inflation	%	4.7	6.2	4.5	7.8	0.2	9	9.6	6.6	4.6	0.8	-4.6	0.2**
- Excl. Food and Fuel inflation	%	2.6	6.1	5.7	6.8	0.9	8.1	8.4	5.6	3	1.4	-2.4	0.3**
Headline Inflation (CPI)*	%	4.4	6.7	6.2	9.1	12.4	10.4	8.4	9.9	9.4	5.8	4.9	5.2**
- Food Inflation	%	4.1	9.2	8.4	12.3	15.2	9.9	6.3	11.2	11.9	6.5	5.1	6.1**
- Fuel & Light Group Inflation	%	-4.5	5.7	2.2	8.2	3.6	9.8	15.3	9.7	7.7	4.2	5.3	2.9**
- Excl. Food and Fuel inflation	%	6.6	3.2	4.6	6	10.5	11.2	9.8	9	7.2	5.4	4.6	4.7**
II. Fiscal Sector													
Revenue Collection (CSR) ***	Billion Rs.	3471	4344	5419	5403	5728	7885	7514	8792	10147	11015	12061@	13770 #
Fiscal Deficit (excluding grants)	% of GDP												
Fiscal Deficit (including grants)	% of GDP	4	3.3	2.5	6	6.5	4.8	5.9	4.9	4.5	4.1	3.9 @	3.5 #
Public Debt	% of GDP	40.2	38.4	38.5	38.1	38	36.2	38.9	39.6	39.3	39.5	40.7@	40.0 #
- of which external debt^	% of GDP	2.6	2.4	2.2	2.2	2.1	2	1.9	1.8	1.6	1.6	1.5@	1.5 #
- domestic debt ^^	% of GDP	37.6	36	36.3	35.9	35.9	34.2	37	37.8	37.6	37.9	39.1@	38.5 #
- debt servicing	% of total Revenue	4	3.3	2.5	6	6.5	4.8	5.9	4.9	4.5	4.1	3.9 @	3.5 #
III. External Sector													
Exports (f.o.b)	Billion US$	105.2	128.9	166.2	189	182.4	256.2	309.8	306.6	318.6	316.5	266.4	66.6
Imports (c.i.f)	Billion US$	157.1	190.7	257.6	308.5	300.6	383.5	499.5	502.2	466.2	461.5	396.4	90.4
Trade Deficit	Billion US$	-51.9	-61.8	-91.5	-119.5	-118.2	-127.3	-189.8	-195.7	-147.6	-144.9	-130.1	-23.8
Remittances	Billion US$	24.5	29.8	41.7	44.6	51.8	53.1	63.5	64.3	65.5	66.3	63.1	14.2
Current Account Balance	Billion US$	-9.9	-9.6	-15.7	-27.9	-38.2	-48.1	-78.2	-88.2	-32.4	-26.9	-22.2	-0.3
Current Account Balance	% of GDP	-1.2	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.3	-1.1	-0.1
Total Foreign Investment	Million US$	15528	14753	43326	8342	50363	42127	39231	46711	26386	73456	31891	6192
- Foreign Direct Investment	Million US$	3034	7693	15893	22372	17966	11834	22061	19819	21564	31251	36021	4088
- Portfolio Investment	Million US$	12494	7060	27433	-14031	32396	30293	17170	26891	4822	42205	-4130	2103
External Debt and Forex Liabilities	Billion US$	139.1	172.4	224.4	224.5	260.9	317.9	360.8	409.4	446.2	475	485.1	479.7
External Debt and Forex Liabilities	% of forex earnings	109	115.6	138	112.2	106.9	95.9	81.6	71.3	68.2	71.9	74.3	75.8
Short-term debt to GDP	%	2.4	2.9	3.7	3.9	3.6	3.7	4.6	5.3	4.9	4.3	4.1	4
External Debt Service Ratio		10.1##	4.7	4.8	4.4	5.8	4.4	6	5.9	5.9	7.6	8.8	7.5
Exchange Rate	Per US$	44.3	45.3	40.3	46	47.4	45.6	47.9	54.4	60.5	61.1	65.5	66.9
Foreign Exchange Reserves	Billion US$	152	199	310	252	279	305	294	292	304	342	360	364
IV. Monetary & Capital Market													
Growth Rate of M1	y-o-y	20.7	17.1	19.4	9	18.2	10	6	9.2	8.5	11.3	13.5(P)	15.5 (P)*
Growth Rate of M2	y-o-y												
Growth Rate of M3	y-o-y	16.9	21.7	21.4	19.3	16.9	16.1	13.5	13.6	13.4	10.9	10.1 (P)	10.7 (P) *
Weighted Avg Lending Rate of SCBs	% (as on 31st March)	12	11.9	12.3	11.5	10.5	11.4	12.6	12	12	11.8	-	-
Bank Credit to commercial sector (%)	%	27.3	26.1	21.1	16.9	15.8	21.3	17.8	13.5	13.7	9.3	11.1(P)	9.2 (P)
Stock Market (Price Index) (BSE)	End 1991=100	965.8	1119.2	1339.5	831.2	1500.7	1664.9	1490.1	1612.7	1916.7	2393.7	2169.7	2422.5
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	30221.9	35450.4	51380.2	30860.8	61656.2	68390.8	62149.1	63878.9	74153	101492.9	94753.3	111472.8
Market Capitalization (as leading stock mkt)	% of GDP	81.8	82.5	103	54.8	95.2	87.9	70.4	64	65.8	81.3	69.8 (P)	-
Market Capitalization (as leading stock mkt)	Billion US$	679.4	805.2	1273.2	602.4	1355.2	1520.1	1235.1	1209.6	1215.4	1625.2	1422.7	1678.3
V. Banking Sector Indicators													
Capital adequacy ratio	%	12.3	12.3	13	13.2	13.6	13	12.9	13.9	13	12.9	13.2 &	-
Non-performing loans	%	3.3	2.5	2.3	2.3	2.4	2.5	3.1	3.2	3.8	4.3	7.6	-
Profitability (R.O.E.)	%	14.8	15.5	16	15.4	14.3	15	14.6	13.8	10.7	10.4	4.8	-
Profitability (R.O.A.)	%	1	1.1	1.1	1.1	1.1	1.1	1.1	1.04	0.8	0.8	0.4	-

P : Provisional Data

$: The data from the year 2012-13 onwards is in new GDP series (with base 2011-12).

$$: Domestic saving is a ratio to Gross National Disposable Income (GNDI) from 2012-13 onwards.

* : Figures for 2002-03 to 2011-12 correspond to CPI-IW and thereafter CPI-Combined. Further, base 1982 =100 for 2002-03 to 2006-07 and base 2001=100 for 2007-08 to 2011-12 in case of CPI-IW; for CPI-Combined base 2012=100 for 2012-13 to 2015-16.

** : Inflation for 2016-17 is calculated using indices till October 2016 as per the latest data available.

*** : Pertains to revenue receipts of the central government.

@ : pertains to revised estimates.
# : Pertain to budget estimates
^ : External debt at historical exchange rate.
^^ : Pertains to internal debt.
: Works out to 6.3 per cent, with the exclusion of India Millennium Deposits (IMDs) repayments of US$ 7.1 billion and pre-payment of US$ 23.5 million.
& : CRAR figures for 2013-14, 2014-15 and 2015-16 are as per the Basel III framework.

MALDIVES

Recent Overall Macroeconomic Developments

The recent tourism indicators showed that the growth in the tourism sector (largest contributor to GDP) remained weaker than expected during H1-2016 although it accelerated slightly when compared with H1-2015. The growth in tourist arrivals in the review period was attributed to the increase in arrivals from Europe which offset the sharp decline in arrivals from Asia and the pacific region in H1-2016. Looking at other tourism indicators, both tourist bed nights and the estimated tourism receipts for H1-2016 posted a decline when compared with the same period of 2015. With regard to the other sectors of the economy, the construction sector continued to perform robustly, reflecting the commencement of large public infrastructure projects during H1-2016. Furthermore, the performance of the fisheries sector also improved during the first half of 2016 as indicated by the annual increase in fish purchases made by the collector vessels from local fishermen in the review period. Meanwhile, activity in the wholesale and retail sector expanded further as reflected by increased imports and commercial bank credit to the sectors.

As for the developments in prices, the annual consumer price inflation eased slightly on average from 1.3% in H1-2015 to 0.9% in H1-2016. The slowdown in inflation was largely owing to a decline in food prices and the deceleration in housing and utility prices. Domestic prices were largely influenced by the decline in global food and oil prices which also registered annual declines in the first half of 2016.

Turning to public finance, total revenue for H1-2016 registered an increase when compared with the corresponding period of 2015 while the total expenditure fell during the period. The increase in the revenue was due to the increase in both tax and non-tax revenues for the review period whereas the decline in expenditure was brought about by decreased recurrent expenditure despite a growth in capital expenditure. The main contributors to the decline in recurrent expenditure were grants, contributions and subsidies, interest payments and operational services. The fall in grants, contributions and subsidies was entirely due to decrease in electricity subsidy following the abolishment of such subsidies from March 2016 onwards. Interest payments of the government decreased during the review period owing the decline in T-bills interest payments. This reflected the change in T-bills issuance from auction to tap system; and shifting of the interest rates on T-bills of all maturities further downwards, from October 2015 onwards. As for the decline in expenditure on operational services this mainly reflected a decrease in the electricity bill amount, owing to the cut down in official working hours of the government. It is noteworthy that budget execution was weak in H1-2016 compared with the corresponding period of the previous year with less than half of the budgeted amount being utilized for expenditure. During the review period, the budget deficit was mainly financed through domestic sources: almost entirely through the issuance of treasury bills.

With regard to monetary aggregates, broad money (M2) registered an annual increase in H1-2016 when compared with the corresponding period of 2015. This growth was entirely driven by the increase in Net Domestic Assets (NDA) of the banking system which offset a decline in the Net Foreign Asset (NFA) of the banking system. The annual increase in the NDA reflected a growth in bank credit to the private sector and net claims on central government. Meanwhile, the decline in the NFA of the banking system stemmed from a decline in the NFA of both the MMA and commercial banks.

The merchandise trade deficit widened further during H1-2016 owing to the significant increase in imports while exports declined. The growth in imports was mainly owing to the increase in imports of machinery and mechanical appliances and wood, metal cement and aggregates. Meanwhile, the decline in exports was mainly due to the marked fall in re-exports[3] which reflected the impact of the decreasing global oil prices in H1-2016.

Gross international reserves[4] (GIR) observed a decline in H1-2016 when compared with the corresponding period of 2015. This mainly reflected a decline in commercial bank's foreign currency reserve account balances at the MMA. In line with the decrease in GIR, usable reserves[5] also recorded a decline, primarily owing to the growth in payments for development projects by the government during H1-2016. In terms of import cover, GIR decreased to 3.7 months at the end of H1-2016 from 4.3 months at the end of H1-2015.

Highlights of Major Policy Announcements

The monetary policy framework broadly remained unchanged during H1-2016. The MRR remained fixed at 10% for both local and foreign currency deposits since August 2015. Likewise, there were no operational reforms brought to open market operations and standing facilities of the MMA during the review period. Excess liquidity in the banking system was absorbed through the overnight deposit facility (at a 1.5% p.a. remuneration rate), due to the suspension in open market operations since May 2014. Meanwhile, the facility of short-term borrowings from the MMA continues to be open for all banks via the overnight Lombard facility. The borrowing rate of overnight Lombard facility remained unchanged at 10% p.a. Despite this, no bank applied for this facility during the review period.

[3] Re-exports mainly consist of jet fuel sold to international aircrafts at the Ibrahim Nasir International Airport.
[4] 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.
[5] Usable reserves = gross international reserves minus short-term foreign liabilities. This shows the amount of funds are that are readily available for use by the MMA in the foreign exchange market.

Key Economic Indicators of Maldives

	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Real Sector													
Per Capita GDP[/1]	**US$**	3666.6	3307.3	4161.5	4656.7	5404.4	5585.4	5903.3	6041.3	5974.5	6410.7	6791.6	NA
Real GDP Growth[/2]	**%**	13.2	-8.1	19.9	10.2	12.7	-5.3	7.2	8.7	2.5	4.7	6.5	2.1
GDP[/3]	**Million US$**	1202.2	1119.8	1474.7	1746.0	2110.0	2149.3	2323.4	2454.9	2509.3	2785.5	3055.9	3365.7
Agriculture	**% of GDP**	5.4	6.9	5.7	5.0	5.1	4.0	4.0	3.6	3.4	3.3	3.1	NA
Industry	**% of GDP**	11.9	13.6	11.9	11.7	16.2	13.9	14.3	16.6	17.1	15.0	16.9	NA
Services	**% of GDP**	74.3	71.5	74.8	76.3	72.3	78.7	77.8	72.2	71.9	72.0	71.2	NA
Investment	**% of GDP**	NA	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	NA
Headline Inflation/[4]	**%**	-1.7	1.3	2.7	6.8	12.0	4.5	6.1	11.3	10.9	4.0	2.4	1.4
Food Inflation/[5]	**%**	16.0	7.8	4.0	16.2	19.1	0.5	7.5	19.9	17.7	7.5	1.0	0.8
Non-Food Inflation/[6]	**%**	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.8	2.9	1.6
Core inflation	**%**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. Fiscal Sector													
Revenue Collection (CSR)/[7]	**Million US$**	267.6	360.4	480.8	591.5	582.5	448.0	511.5	673.3	658.7	773.3	985.3	1151.6
Fiscal Deficit (excluding grants)	**% of GDP**	-1.5	-13.0	-8.9	-7.9	-12.0	-20.5	-14.9	-8.6	-8.6	-4.4	-3.3	-9.0
Fiscal Deficit (including grants)	**% of GDP**	-1.0	-7.3	-4.3	-3.2	-10.1	-19.0	-14.4	-6.6	-7.7	-4.1	-2.9	-6.9
Public Debt/[8]	**% of GDP**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
- of which foreign currency(debt)	**% of GDP**	26.3	33.9	37.8	46.6	41.5	43.2	41.2	36.8	32.4	28.5	24.3	20.6
- domestic debt	**% of GDP**	0.1	0.1	11.1	11.1	15.8	28.7	40.0	35.7	37.4	39.4	43.8	44.5
- debt servicing	**% of total revenue**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
III. External Sector/[9]													
Exports (f.o.b)	**Million US$**	NA	NA	NA	NA	NA	NA	NA	346.4	314.4	331.0	300.9	239.7
Imports (f.o.b.)	**Million US$**	NA	NA	NA	NA	NA	NA	NA	1716.8	1575.8	1703.0	1960.9	1894.5
Trade Deficit[/10]	**Million US$**	NA	NA	NA	NA	NA	NA	NA	1370.5	1261.4	1372.0	1660.0	1654.8
Remittances	**Million US$**	NA	NA	NA	NA	NA	NA	NA	239.4	259.3	265.0	300.8	362.9
Current Account Balance	**Million US$**	NA	NA	NA	NA	NA	NA	NA	-383.4	-184.5	-127.4	-117.8	-295.5
Current Account Balance	**% of GDP**	NA	NA	NA	NA	NA	NA	NA	-15.6	-7.4	-4.6	-3.9	-8.8
Total Foreign Investment	**Million US$**	NA	NA	NA	NA	NA	NA	NA	423.7	281.0	307.5	316.1	319.0
- Foreign Direct Investment	**Million US$**	NA	NA	NA	NA	NA	NA	NA	423.5	228.0	360.8	333.4	323.9
- Portfolio Investment	**Million US$**	NA	NA	NA	NA	NA	NA	NA	0.1	53.1	-53.3	-17.2	-4.9
External Debt and Forex Liabilities	**Million US$**	315.7	379.3	557.6	812.9	875.4	927.9	956.9	904.3	813.1	793.5	742.2	693.7
External Debt and Forex Liabilities/[11]	**% of forex earnings**	NA	NA	NA	NA	NA	NA	NA	36.9	32.6	27.1	22.4	22.1
Short-term debt to GDP	**%**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
External Debt Servicing Ratio/[12]	*******	NA	NA	NA	NA	NA	NA	NA	2.7	3.0	2.1	2.3	2.3
Exchange Rate/[13]	**Per US$**	12.8	12.8	12.8	12.8	12.8	12.8	12.8	15.4	15.4	15.4	15.4	15.4
Foreign Exchange Reserves	**Million US$**	203.6	186.4	231.6	308.4	240.6	261.0	350.2	334.9	304.5	368.3	614.7	564.0
IV. Monetary & Capital Market													
Growth Rate of M1/[14]	y-o-y	19.7	22.5	22.2	20.0	37.1	22.3	1.1	8.7	2.9	23.6	7.5	19.1
Growth Rate of M2/[15]	y-o-y	31.4	10.6	18.9	24.1	21.8	14.4	14.6	20.0	4.9	18.4	14.7	12.3
Growth Rate of M3/[16]	y-o-y	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Weighted Avg Lending Rate/[17]	**%**	NA	NA	NA	NA	NA	NA	10.4	10.2	10.5	11.4	11.4	10.8
Credit growth to Private Sector	**%**	58.2	59.7	48.6	49.4	29.7	-4.1	-2.3	5.9	-9.9	0.9	3.1	11.4
Stock Market (Price Index)/[18]	**2002=100**	239.6	199.8	137.6	342.7	287.1	229.6	211.2	157.4	149.7	114.6	134.1	156.5
Market Capitalisation (as leading stock mk	**Domestic Currency in million**	NA	1113.3	766.8	11450.2	2246.1	1862.0	1726.1	1286.9	7528.1	NA	NA	NA
Market Capitalisation (as leading stock mk	**% of GDP**	NA	8.8	4.6	58.0	9.3	7.3	6.3	4.1	22.1	NA	NA	NA
Market Capitalisation (as leading stock mk	**million US$**	NA	87.0	59.9	894.5	175.5	145.5	134.9	83.5	490.0	NA	NA	NA
V. Banking Sector Indicators													
(information provided are annual figures)													
Capital adequacy ratio	**%**		19.8	16.7	17.2	17.5	24.7	28.9	29.3	35.8	35.1	44.5	41.5
Non performing loans	**%**		6.4	6.6	2.4	8.9	12.7	17.2	19.4	21.0	17.7	17.4	13.6
Profitability (R.O.E.)	**%**		37.0	40.8	53.5	30.8	13.8	11.7	15.0	13.8	23.5	20.3	17.2
Profitability (R.O.A.)	**%**		4.5	4.8	6.4	4.1	2.2	2.0	2.6	2.6	5.0	4.6	3.8

Note: 2014-15 refers to 2014 values and the same is followed accordingly for previous years.

* 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).

Footnotes

1 - Refers to nominal GDP per capita (PPP $).

2 - Real GDP at market prices.

3 - GDP by sector as a percent of GDP, agriculture refers to primary sector, industry refers to secondary sector and services refer to tertiary sector.

4 - Maldives Male' series 12 month moving average is taken for Headline Inflation and Food Inflation.

5 - Refers to inflation in "Food and non-alcoholic beverages" for the Male' series.

6 - 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.

7 - Revenue collection (CSR) is the total revenue including grants. The exchange rate (MVR/USD) used applied from 2004-2010 is 12.8; to 2011 is 14.71; 2012-2014 is 15.39; 2015 is 15.37.

These are the average of the monthly reference rates (mid-rate of the buying and selling rates) for the year.

8 - Public Debt refers to Public debt (medium and long term)of Total external and domestic debt outstanding and disbursed including publicly guaranteed debt.

9 - Balance of payments data is only available from 2011 onwards as the methodology and assumptions of BOP data have been revised.

10 - Indicates balance of goods only

11 - Government and Commercial Banks' External Debt stock outstanding divided by Export of Goods and Services (XGS).

12 - Debt service (Principle and Interest Payment) divided by Export of Goods and Services (XGS) minus grants

13 - End of period reference rate.

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

Nepalese economy is expected to grow by 0.8 percent in 2015/16 compared to a growth of 2.3 percent in the previous year. Such a growth deceleration is due to delayed monsoon, strikes in the Terai region and obstruction at the custom points in the Southern border. In the review year, the agriculture sector is expected to grow 1.3 percent whereas the non-agriculture sector is expected to expand by 0.6 percent. These sectors had grown 0.8 percent and 3.1 percent respectively in the previous year. With the hope of having timely monsoon and stability in the political system, the economy is expected to grow by 6.5 percent in FY 2016/17.

Price Situation

The annual average consumer price inflation increased by 9.9 percent in 2015/16 compared to 7.2 percent in the previous year. This is mainly due to strikes in Terai region, obstructions at border points and supply disturbances promoting black marketing. The y-o-y consumer price inflation stood at 10.4 percent in mid-July 2016 compared to that of 7.6 percent a year ago. The average price indices of food and beverages group and non-food and services group increased 10.9 percent and 9.2 percent respectively in the review year. These indices had increased 9.6 percent and 5.2 percent respectively in the previous year.

The y-o-y wholesale price index increased by 6.3 percent in 2015/16 compared to a rise of 6.1 percent in the previous year. The annual average wholesale price indices of agricultural commodities and domestic manufactured commodities remained 10.5 percent and 6.2 percent respectively, whereas such an index of imported commodities declined by 2.9 percent in the FY 2015/16. These increments were 8.8 percent, 5.6 percent and 0.7 percent respectively in FY 2014/15.

Monetary Situation

In FY 2015/16, Broad money supply (M2) increased by 19.5 percent compared to an increase of 19.9 percent in the previous year. Net foreign assets (NFA, after adjusting foreign exchange valuation gain/loss) increased by NPR 191.24 billion (25.6 percent) during the review year compared to an increase of NPR 145.04 billion in the preceding year owing to increase in workers' remittance and contraction in imports. On y-o-y basis, the reserve money also recorded an increase by 4.6 percent in the review year compared to an increase of 19.8 percent in the previous year.

In 2015/16, deposits in the banks and financial institutions (BFIs) increased by 19.4 percent compared to an increase of 20.1 percent in the previous year. Deposits at commercial banks and development banks increased by 20.7 percent and 16.5 percent respectively, while that of finance companies decreased by 12 percent in the review year. The merger and acquisition drive in the review year resulted in a contraction in finance companies' deposit.

Similarly, the overall domestic credit increased by 17.4 percent in the review year compared to a growth of 16.2 percent in the previous year. Claims on the private sector increased by 23.2 percent compared to a growth of 19.4 percent in the previous year. Credit to the private sector from BFIs increased by 23.7 percent in the review year compared to a growth of 19.8 percent in the previous year. The credit off-take increased in the fourth quarter of 2015/16 after the end of the border blockade. In the review year, private sector credit from commercial banks and development banks increased by 26.5 percent and 20.3 percent respectively, while that of finance companies decreased by 12.5 percent.

In 2015/16, the NRB mopped up NPR 591.63 billion liquidity, on a turnover basis, through various instruments. Liquidity absorption consisted of NPR 297.50 billion through deposit collection auctions, NPR 235.95 billion through reverse repo auctions, NPR 49.08 billion through issuance of NRB Bonds and NPR 9.10 billion through outright sale auctions on a cumulative basis. In the previous year, NPR 155 billion was mopped up through deposit collection auctions, NPR 315.80 billion through reverse-repo auctions and NPR 6 billion through outright sale auctions.

Interest Rate Structure

Both weighted average 91-day Treasury bill rate and inter-bank transaction rates among commercial banks decreased at the last month of 2015/16 compared to the same time of last year. The weighted average 91-day Treasury Bill rate decreased to 0.0456 percent as of mid-July 2016 from 0.1739 percent a year ago. The weighted average inter-bank transaction rate among commercial banks declined to 0.69 percent in the review month from 1.01 percent a year ago. Likewise, the weighted average inter-bank rate among other financial institutions decreased to 3.25 percent as of mid-July 2016 from 3.89 percent a year ago.

Fiscal Situation

Government of Nepal's (GON) budget on cash basis remained at a deficit of NPR 37.49 billion compared to the deficit of NPR 45.88 billion in 2014/15. The ratio of budget deficit-to-GDP fell to 1.7 percent in the review year from 2.2 percent in the preceding year. The government revenue collection increased by 18.9 percent to NPR 482.75 billion in 2015/16. The revenue collection had risen by 13.8 percent to NPR 405.85 billion in 2014/15.

Similarly, Government expenditure, on cash basis, increased by 11.9 percent to NPR 569.57 billion in 2015/16 compared to an increase of 22 percent in 2014/15. During the review year, recurrent expenditure increased by 6.5 percent to NPR 356.50 billion compared to a growth of 12.9 percent in the preceding year. Such expenditure stood at 73.6 percent of budget estimate. In the review year, capital expenditure increased 37.9 percent to NPR 111.70 billion compared to its growth of 32.1 percent in the previous year. The capital expenditure in the review year accounted for 53.5 percent of budget estimate. Delay in post-earthquake reconstruction, infrastructural bottlenecks and interruption in important projects due to fuel shortage caused by border disturbances have contributed to low capital expenditure in 2015/16.

External Sector Situation

In 2015/16, merchandise exports decreased by 17.8 percent to NPR 70.12 billion compared to a drop of 7.3 percent in the previous year. Exports to both India and China decreased 29.3 percent and 24.6 percent respectively whereas exports to other countries increased by 6.3 percent in 2015/16. In the review year, the ratio of total exports to GDP remained at 3.1 percent compared to 4 percent a year ago. Similarly, merchandise imports declined by 0.1 percent to NPR 773.60 billion in the review year compared to the growth of 8.4 percent in merchandise imports in the previous year. The decline in growth rate of imports is mainly due to the large fall in imports of petroleum products due to border disturbances for long period and decline in the price of the petroleum product. Merchandise import, excluding the petroleum products, increased by 6.4 percent in the review year.

In the review period, total trade deficit in the review year widened by 2 percent to NPR 703.48 billion compared to an expansion of 10.8 percent in the same period of the previous year.

The workers' remittances increased by 7.7 percent to NPR 665.06 billion in the review year compared to a growth of 13.6 percent in the previous year. However, the ratio of remittances to GDP increased to 29.6 percent in the review year from 29.1 percent in the previous year. The gross foreign exchange reserves increased by 26.1 percent to NPR

1039.21 billion in mid-July 2016, from NPR 824.06 billion a year ago. Of the total foreign exchange, reserves held by NRB increased by 26.2 percent to NPR 887.01 billion and reserves of banks and financial institutions increased by 25.8 percent to NPR 152.20 billion. With this, NRB now holds 85.3 percent of total foreign exchange reserves. The foreign exchange holding of the banking sector is sufficient to cover the prospective merchandise imports of 16.5 months, and merchandise and services imports of 14.1 months.

In 2015/16, the current account registered a surplus of NPR 140.42 billion. This is due to the increase in net surplus in current transfer. The surplus in current account was NPR 108.32 billion in the previous year. Similarly, the overall balance of payments (BOP) recorded a significant level of surplus of NPR 191.24 billion in 2015/16 on account of the increase in current account surplus and capital inflows. The surplus in BOP was NPR 145.04 billion in the previous year. In the review year, Nepal received capital transfer of NPR 16.99 billion and Foreign Direct Investment (FDI) inflow of NPR 5.92 billion. In the previous year, capital transfer and FDI inflow were NPR 14.81 billion and NPR 4.38 billion respectively.

Highlights of Major Policy Announcement

The monetary policy announced for the fiscal year 2016/17 focuses on increasing credit flow towards the productive sectors such as agriculture, energy, tourism, small and cottage industries as well as to the poor. The review period witnessed the continuation of the main policy stances in terms of cash reserve ratios (CRR) of BFIs, concessional loan to earthquake victims, productive sector lending, and enhanced financial access, among others. However, the duration of maintaining mandatory cash reserve ratio has been increased to two weeks from one week. Productive sector lending on agricultural and energy sectors has been hiked from the minimum 12 percent to 15 percent. This means commercial banks will now have to float their 20 percent of loans on the productive sectors and 15 percent of such loans must be extended to agriculture and energy sectors.

Similarly, the deprived sector lending requirement by the commercial banks, development banks and finance companies has been kept unchanged at 5 percent, 4.5 percent, and 4 percent respectively. However, the commercial banks are required to extend minimum 2 percent of the loans to the deprived sector directly. Monetary policy has mandated the national level microfinance institutions providing wholesale lending to maintain minimum paid up capital of Rs. 600 million by mid-July 2018. Moreover, MFIs are required to maintain maximum of 7 percent spread in excess to their cost of fund while charging interest on loans. Except nine unbanked districts in remote areas, a moratorium has been imposed to receive the applications for opening MFIs for the time being.

The interest rate corridor has been introduced and implemented for the first time from the current FY 2016/17 to stabilize the short term interest rates and modernize the monetary management system.

Nepal Rastra Bank (NRB) has recently released a new Merger and Acquisition Bylaws 2073 for BFIs. Alarmed by the rising cases of merger and acquisition (M&A) process of BFIs collapsing midway, the new bylaws has authorized the NRB to take action against those BFIs, who scrap merger or acquisition merger process after getting the letter of intent or the final approval from NRB. The new bylaw empowers the NRB to take action against the officials of the respective BFIs as per NRB Act and disqualify shareholders (having more than 5 percent stakes) from becoming board directors. Similarly, the other actions that the NRB may take include barring such BFIs from going into M&A for a certain period, prohibiting them from opening branch offices for three years or/and blocking them from getting any facilities from the NRB. The new bylaw endows additional benefits for BFIs acquiring troubled institutions. The new bylaw also allows the NRB to play a role of mediator if there are any disputes between BFIs while undergoing M&A.

Key Economic Indicators of Nepal

Indicator	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16^{P}
I. Real Sector													
Per Capita GDP	US$	328	350	410	491	497	610	714	702	708	725	762	752
Real GDP Growth (at producers price)	%	3.5	3.4	3.4	6.1	4.5	4.8	3.4	4.8	4.1	6	2.73	0.56
GDP (Market Price)	Billion US$	8.3	9.0	10.3	12.5	12.9	16.0	18.9	18.9	19.2	20	21.31	21.15
Agriculture	% of GDP	35.2	33.6	32.5	31.7	33.0	35.4	37.1	35.2	33.9	32.6	31.8	31.7
Industry	% of GDP	17.1	16.7	16.6	16.8	15.9	15.1	14.9	15.0	15.2	14.9	14.9	14
Services	% of GDP	47.7	49.7	50.9	51.5	51.2	49.5	48.0	49.8	51.0	51.5	53.3	54.3
Investment	% of GDP	26.5	26.9	28.7	30.3	31.7	38.3	38.0	34.5	37.0	41	39	34
National Savings	% of GDP	28.4	29.0	28.6	33.2	35.9	35.9	37.0	39.5	40.7	45.7	43.9	42.9
Headline Inflation	%	4.5	8.0	6.4	7.7	13.2	9.6	9.6	8.3	9.9	9.1	7.2	9.9
- Food Inflation	%	4.0	7.8	7.2	10.1	16.7	15.1	14.7	7.7	9.6	11.6	9.6	10.9
- Non-Food Inflation	%	5.1	8.1	5.5	5.1	9.5	4.9	5.4	9.0	10.0	6.8	5.2	9.2
- Core inflation	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. Fiscal Sector													
Revenue Collection	Billion US$	0.98	1.00	1.25	1.66	1.87	2.40	2.75	3.03	3.40	3.63	4.08	4.54
Fiscal Deficit (excluding grants)	% of GDP	-5.5	-5.9	-6.3	-6.59	-7.71	-6.69	-6.99	-6.19	-3.28	-2.58	-3.53	-3.44
Fiscal Deficit (including grants)	% of GDP	-3.1	-3.8	-4.1	-4.10	-5.04	-3.45	-3.63	-1.50	-1.84	-0.71	-2.20	-1.7
Public Debt*	% of GDP	53.3	51.6	45.7	46.10	40.80	33.90	32.50	34.30	32.20	28.20	25.7	27
- of which foreign currency	% of GDP	37.3	35.8	29.8	30.60	27.90	21.50	19.00	20.20	19.70	17.70	16.20	16.7
- domestic debt#	% of GDP	16.1	15.9	15.9	15.40	15.00	12.40	13.50	14.00	12.50	10.50	9.5	10.30
- debt servicing^	% of total revenue	28.2	28.3	26.1	21.15	18.81	15.96	15.10	14.45	16.51	15.12	18.16	17.88
III. External Sector													
Exports (f.o.b)	Billion US$	0.83	0.85	0.89	0.95	0.90	0.85	0.95	1.00	0.98	1.03	0.99	0.7
Imports (f.o.b.)	Billion US$	2.02	2.37	2.66	3.35	3.63	4.95	5.37	5.61	6.22	7.09	7.66	7.11
Trade Deficit	Billion US$	-1.19	-1.52	-1.77	-2.40	-2.72	-4.09	-4.42	-4.60	-5.25	-6.33	-6.93	-6.61
Remittances	Billion US$	0.91	1.35	1.42	2.19	2.73	3.13	3.51	4.41	4.93	5.53	6.2	6.25
Current Account Balance	Billion US$	0.16	0.20	0.05	0.36	5.39	-0.37	-0.18	0.91	0.63	0.91	1.09	1.32
Current Account Balance	% of GDP	1.91	2.27	0.45	3.02	4.19	-2.36	-0.94	4.50	3.40	4.57	5.11	6.24
Total Foreign Investment	Million US$	1.89	-6.49	5.14	4.52	23.79	38.99	89.96	112.46	102.00	32.50	44.1	55.7
- Foreign Direct Investment	Million US$	1.89	-6.49	5.14	4.52	23.79	38.99	89.96	112.46	102.00	32.50	44.1	55.7
- Portfolio Investment	Million US$	-	-	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	Billion US$	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
External Debt and Forex Liabilities	% of forex	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Short-term debt to GDP	%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
External Debt Servicing Ratio		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Exchange Rate@	Per US$	70.35	74.1	64.85	68.5	78.05	74.44	70.95	88.6	95	96.2	101.44	107.03
Foreign Exchange Reserves	Billion US$	1.85	2.23	2.55	2.64	3.67	3.61	3.83	4.96	5.61	6.94	8.15	9.74
IV. Monetary & Capital Market													
Monetary **													
Growth Rate of M_1	y-o-y	6.6	14.2	12.2	21.6	27.3	11.1	4.8	18.6	14.4	17.7	19.7	18.5
Growth Rate of M_2	y-o-y	8.3	15.6	14.0	25.2	27.3	16.7	12.2	22.7	16.4	19.1	19.9	19.5
Growth Rate of M_3	y-o-y	7.9	15.7	13.9	25.0	29.4	15.3	11.6	22.3	16.7	18.4	19.8	19.4
Weighted Avg Lending Rate	%	NA	NA	NA	NA	NA	NA	NA	12.4	12.1	10.55	9.62	8.86
Credit growth to Private Sector	%	14.2	14.4	12.3	24.3	29.0	17.9	13.9	11.3	20.2	18.7	19.8	23.7
Capital Market													
Stock Market (Price Index)		286.7	386.8	683.9	963.4	749.1	477.7	362.9	389.7	518.3	1036.1	961.2	1718.2
Market Capitalization (as leading stock mkt)	Domestic	61.4	96.8	186.3	366.2	512.9	376.9	323.5	368.3	514.5	1057.2	989.4	NA
Market Capitalization (as leading stock mkt)	% of GDP	10.4	14.8	25.6	44.9	51.9	31.6	23.7	24.1	30.4	54.4	46.6	NA
Market Capitalization (as leading stock mkt)	Billion US$	0.856	1.344	2.654	5.658	6.698	5.077	4.489	4.563	5.869	10.793	9.939	NA
V. Banking Sector Indicators													
Capital adequacy ratio	%	NA	NA	NA	NA	7.2	9.6	10.6	11.5	13.2	11.3	12.92	11.52
Non performing loans	%	NA	NA	NA	NA	3.6	2.5	3.2	2.6	2.6	3.8	3.33	2.19
Profitability (R.O.E.)	%	NA	NA	NA	NA	NA	NA	NA	11.4	13.2	20.1	22.8	23.7
Profitability (R.O.A.)	%	NA	NA	NA	NA	NA	NA	NA	1.2	1.4	1.6	1.7	1.9

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 domestic and external debt servicing.

@ = Represents the exchange rate of the last day of the fiscal year

** = Including consolidated balance sheet of 'B' and 'C' lass Financial Institutions since July 2011.

P= Provisional Figures

PAKISTAN

Recent Overall Macroeconomic Developments

Pakistan's economy maintained its growth momentum during FY16. Despite global economic slowdown, GDP growth in Pakistan reached an eight-year high of 4.7 percent in FY16, from 4.0 percent in the previous year. Both the external and domestic factors have contributed towards improvement of the economy. The inflation remained subdued, the overall fiscal deficit and public debt brought down markedly, the private sector credit posted a considerable surge with accelerating loans for fixed investment and working capital and the growth in broad money was contained as the government borrowing remained lower. Similarly, the current account position also became comfortable, which was complemented by large reserve accumulation. Finally, the initiatives under China-Pakistan Economic Corridor (CPEC) not only attracted foreign direct investment, but also helped in reviving the confidence of local businesses.

The broad improvement in macroeconomic indicators sets the foundation for a higher and sustained economic growth. A better availability of energy supplies and an improved security situation have eased two of the major constraints which were holding back the country's economic growth. In this backdrop, the government envisages a higher growth of 5.7 percent in FY17. This buildup in growth momentum depends on a recovery in the agriculture sector, and a further acceleration in industrial growth. The challenge, however, has become more complex, as the world faces heightened risks of a prolonged low growth, and continued soft commodity prices – both have strong bearing on Pakistan's economy. Also, higher growth is supported by construction activity, improved energy supply particularly of gas, and a stable and low interest rate environment. Buoyant construction activity has also largely been led by the Public Sector Development Program.

Average CPI inflation declined to a 47 year low of 2.9 percent in FY16, which was also lower than the previous year's level of 4.5 percent and target of 6.0 percent. Core inflation, both NFNE and the 20 percent trimmed mean, also declined during the year. Lower inflation is attributed to low international oil prices and other commodities, stable exchange rate and ample supply of food items. However, the upside risk to inflation for FY17 are seen in the likely increase in international oil prices, change in administrative prices of energy and pickup in aggregate demand; whereas, delay in clearance of the domestic food stock poses a downside risk.

Money supply (M2) grew by 13.7 percent in FY16 compared to 13.2 percent in FY15 which can be linked with higher private sector credit and some revival in aggregate demand. Private sector credit with flow of Rs. 460.6 billion for FY16 was 11.5 percent higher than the preceding year and was over two-fold the 5 year average of Rs. 264.5 billion. Demand by the private sector businesses, as part of private sector credit, was at Rs. 383 billion, with the share of fixed and working capital loans at Rs. 171.7 billion and Rs. 211.6 billion respectively. Private sector credit posted a considerable surge with accelerating loans for fixed investment and working capital. Growth in broad money was contained as the government borrowing remained lower.

On the external front, despite a decline in exports growth, foreign exchange market remained broadly stable due to lower oil prices, healthy workers' remittances, and adequate official capital inflows. The current account deficit decreased slightly to USD 2.5 billion in FY16 from USD 2.7 billion last year. Despite slow growth in exports, workers' remittances supported the current account deficit. Foreign exchange reserves held by SBP recorded steady increases and stood at USD 18.1 billion by end-June 2016.

Trends in the external sector are likely to continue in FY17 where only modest recovery in exports is expected, mainly due to weak global economic conditions, though workers' remittances are expected to maintain positive growth despite their dependence on the economic health of Gulf countries. Financial and capital account mostly witnessed multilateral and bilateral inflows and the situation is likely to continue in FY17.

Reclassification of Pakistan Stock Exchange in the Emerging Markets index by MSCI has triggered some increase in FPI and the trend is likely to strengthen in FY17. Despite maturing of the Extended Fund Facility by the IMF in September 2016, inflows from ADB, World Bank and China under CPEC are expected to continue in FY17 which is likely to maintain the surplus in the balance of payments position and the upward trajectory in foreign exchange reserves.

On fiscal front, the improvements occurred as fiscal deficit was contained to 3.4 percent of GDP during FY16, compared to 5.3 percent in the same period of last year. This reduction, despite substantial increase in development expenditures during FY16, was due to improvement in tax revenues and containment of current expenditures. Revenue collection efforts improved as the tax collected by government registered a growth of 19.9 percent, exceeding the average of 16.6 percent for the last 3 years. An increase in government revenues has helped in increasing development spending, while at the same time maintaining fiscal deficit close to the target level.

Pakistan's economic growth is set to increase further in FY17. The impetus is likely to come from the continuation of same positive factors as of FY16, which include: (i) rising investment under PSDP and CPEC; (ii) improved energy availability to industry; (iii) lagged impact of prudent monetary policy; (iv) healthy private sector credit uptake; and (v) improving law and order situation. Adverse supply shocks, continued declining trend in commodity prices, and any setback to security situation may hamper the possibility of attaining the GDP growth target of 5.7 percent in FY17.

Highlights of Major Policy Announcements

Monetary Policy Statement

State Bank of Pakistan remained vigilant to uptick in inflation and inflation expectations, and kept the policy rate unchanged in three reviews of the monetary policy subsequent to a 50 bps cut in September 2015. However, in its decision in May 2016 meeting, the Monetary Policy Committee (MPC) cut the policy rate by 25 bps. The Committee gained comfort from the fact that despite gradual uptick in inflation and inflation expectations, the inflation outlook for the next year still remained benign. On the external sector, the balance of risk was neutral in the short-term: (a) the current account posted back-to-back surpluses in February, March and April 2016, thereby leading to buildup in FX reserves to historic high level; (b) from SBP perspective, risks to the external account (e.g., decline in exports, slowdown in remittance inflows, increase in non-oil imports, and low volume of non-CPEC FDI inflows) become a cause for concern only over the medium-term.

Other Policy Changes

1. The State Bank of Pakistan launched the Credit Guarantee for Small and Marginalized Farmers (CGSMF) with the funding support of Government of Pakistan. The main objective of the scheme is provide risk sharing to Participating Financial Institutions (PFIs) against their collateral free lending to small & marginalized farmers. All farmers cultivating up to five acres of irrigated and ten acres of non-irrigated land shall be eligible under the Scheme. CGSMF will share 50% of the losses on the outstanding loans (Principal only) to small and marginalized farmers. The incidence of default shall be declared after the loan is classified as "Substandard" under the relevant Prudential Regulations. The Scheme would provide an opportunity to PFIs to explore the financing potential in this underserved market segment which constitutes majority of the farming community. Banks also are advised to develop specific financing products and align their business models to meet financing needs of small & marginalized farmers on a sustainable basis.

2. The State Bank of Pakistan revised the guidelines for handling of customer complaints by banks. Unlike the earlier guideless, the revised guidelines prescribe minimum benchmark for handling of customer complaints by the banks keeping in view their scale and scope of operations. Similarly, the guidelines also prescribe a reporting requirement which will facilitate SBP to supervise performance of the banks in handling customer complaints as well as overall trend in the banking industry. The compliance of the revised guidelines will become effective from July 1, 2016.

3. In order to facilitate the branchless banking service providers, State Bank of Pakistan and Pakistan Telecommunication Authority (PTA) have developed regulatory framework for Branchless Banking (BB) for market participants including banks, mobile network operators and technology service providers. These regulations aim to create an enabling regulatory environment, bring systemic harmony and introduce standardization and set benchmarks for mobile/branchless banking interoperability. The Third Party Service Provider (TPSP) model, as stipulated in the regulations, will offer maximum outreach and connectivity whereby all banks and all mobile network operators shall be able to entertain each other's customers. BB Regulations also permit Authorized Financial Institutions to operate many-to-many model where many banks and many mobile network operators, by joining hands, can offer interoperable financial services to all bankable customers. According, the Authorized Financial Institutions would upgrade their systems, controls and procedures.

4. In order to promote financial inclusion as well as the use of efficient and secure electronic payment instruments, State Bank of Pakistan has issued Regulations for Prepaid Cards with the aim of providing an enabling regulatory framework for prepaid card issuance and providing a level playing field to all the banks. These Regulations outline a minimum set of operational, administrative and technical standards for issuance of Prepaid Cards by the banks in Pakistan and will be effective immediately. Banks are also advised to ensure that the Prepaid Cards already in circulation are compliant with these regulations by September 2016.

5. In the wake of growing diversity and complexity in financial products, making an informed decision is one of the challenges for the financial consumers. In this regard relevant, reliable and comparable information on financial products, complemented with a robust consumer protection framework, is necessary to facilitate consumers and also to promote financial inclusion and stability. In order to help consumers to make informed decisions and enhance their confidence in financial products, the State Bank of Pakistan has formulated Product Disclosure Requirements (PDRs) for all types of Personal, Housing and Auto Finance products. Further, to enhance the existing level of transparency and disclosure in the financial products, banks/MFBs have been instructed to invariably provide an upfront 'Product Key Fact Statement' (PKFS) to their prospective customers with effect from 1st January, 2017. Banks/MFBs may, however, may add any further information in the PKFS as deemed necessary.

6. In view of changes in the international regulatory landscape, the State Bank of Pakistan has adopted the Liquidity Standards as proposed by the Basel Committee on Banking Supervision (BCBS) under its Basel III reforms package. For measurement of liquidity risk, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), along with a set of five risk monitoring tools will be used. Both of these ratios aim to achieve two separate but complementary objectives and their calculations involve assessing bank's overall liquidity position through detailed evaluation of assets, liabilities and off-balance sheet activities. The aforementioned guidelines are expected to provide banks' customers an efficient and fair mechanism for resolution of their grievances.

Key Economic Indicators of Pakistan

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15[P]	2015-16
Real Sector											
Per Capita GDP	US$	980	1053	1026	1072	1274	1321	1340	1389	1517	1560
Real GDP Growth	%	6.8	3.7	1.7	3.1	3.0	4.4	3.7[R]	4	4	4.7
Nominal GDP (MP)	Billion US$	143.0	163.5	161.8	176.5	214	225	231	245	271	284
Agriculture	% of GDP	21.9	21.3	21.8	21.3	21.2	21.1	21.2	21	20.8	19.8
Industry	% of GDP	26.3	25.8	25.3	26.0	25.5	25.4	20.9	20.5	20.6	21
Services	% of GDP	51.8	52.9	52.9	52.6	53.4	53.5	57.7	58.4	58.6	59.2
Investment	% of GDP	22.5	22.1	18.2	15.6	13.1	14.9	14.6[R]	14.6	15.5	15.2
National Savings	% of GDP	17.4	13.6	12.5	13.1	13.2	12.8	13.5	13.4	14.5	14.6
Headline Inflation (yoy)	%	7.77	12.00	17.0	10.10	13.66	11.0	7.4	8.6	4.5	2.9
- Food Inflation (yoy)	%	10.30	17.60	23.70	12.9	18.00	11.0	7.1	9	3.5	2.1
- Non-Food Inflation (yoy)	%	6.00	7.90	18.40	8.2	10.70	11.0	7.5	8.3	5.3	3.4
- Core inflation (yoy)	%	5.90	8.40	17.60	7.6	9.40	10.6	9.6	8.5	4.9	3.1
Fiscal Sector											
Revenue Collection	Billion US$	21.4	23.9	23.5	24.8	26.3	27.8	30.78	36.8	38.6	42.4
Fiscal Deficit	% of GDP	4.35	7.59	5.35	6.28	6.62	8.8 [$]	8.2	5.5	5.3	4.6
Public Debt	% of GDP	-	-	58.6	60.6	58.9	63.3	63.9	63.5	63.2	66.5
- of which foreign currency	% of GDP	27.5	29.7	32.3	33.0	31.2	30.9	27	24.4	22.7	24.6
- domestic debt	% of GDP	30.1	31.9	29.2	31.3	32.9	38.1	42.8[R]	43.3	44.3	46
Public Debt Servicing	% of total revenue	36.7	37.2	46.6	47.1	45.0	49.3	51.6	31.9	33.5	28.4
External Sector											
Exports (f.o.b)	Billion US$	17.0	19.1	17.7	19.3	24.8	24.7	24.8	25.1	24.1	22
Imports (c.i.f)	Billion US$	30.5	40.0	34.8	34.7	40.4	40.5	40.2	41.7	41.3	40.5
Trade Balance	Billion US$	-13.6	-20.9	-17.1	-15.4	-15.6	-15.7	-15.4	-16.6	-17.2	-18.5
Remittances	Billion US$	5.5	6.5	7.8	8.9	11.2	13.2	13.9	15.8	18.7	19.9
Current Account Balance	Billion US$	-6.9	-13.9	-9.3	-3.9	0.2	-4.7	-2.5	-3.1	-2.7	-2.5
Current Account Balance	% of GDP	-4.8	-8.5	-5.7	-2.2	0.1	-2.1	-1.1	-1.3	-1.9	-1.7
Total Foreign Investment	Million US$	8688.6	5574.8	2646.8	2086	1979.2	707.8	1580.6	4436.6	2767	887
- FDI	Million US$	5140	5410	3720	2151	1634.7	820.6	1456	1700	923	1282
- Portfolio Investment	Million US$	3283	32	-1073	-65	344.5	-144	26	2762	1882	408
External Debt and Forex Liabilities	Billion US$	40.32	46.16	52.33	61.57	66.37	65.48	60.89	65.37	65.1	72.98
EDL/FEE	Percent	127.9	131.3	152.7	166.5	143.8	140.8	120	160.0@	-	-
Short-term external debt	% of GDP	0.05	0.49	0.43	0.56	0.34	0.23	0	0.21	-	0.43
External Debt Servicing Ratio	***	8.8	8.7	13.5	12.3	8.4	9.5	-	-	-	10.6
Exchange Rate (average)	Per US$	60.64	62.63	78.62	83.89	85.56	89.27	96.85	102.89	101.45	104.37
Foreign Exchange Reserves	Billion US$	16.6	11.6	12.8	16.7	18.2	15.3	11.01	14.1	18.7	23.09
Monetary & Capital Market											
Growth Rate of M_1	y-o-y	16	4.6	9.8	14.1	17.5	13.9	20.7	15.2	16.2	15.9
Growth Rate of M_2	y-o-y	19.3	15.3	9.6	12.5	15.9	14.1	15.9	12.5	13.2	13.7
Growth Rate of M_3	y-o-y	16.3	10.9	12.5	13.7	16.3	12.7	17.1	12.1R	12.7	13.2
Weighted Avg Lending Rate	%	10.32	12.75	14.32	13.22	14.25	13.13	10.56	10.37	8.24	7.15
Credit growth to Private Sector	%	17.3	16.5	0.7	3.9	4.0	7.5	-0.56	12.6	5.9	11.5
Stock Market (Price Index)	1991=1000	17772.5	12289	7162.2	9721.9	12496.6	13801	21005.7	29,653	34,399	37,784

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15P	2015-16
Market Capitalization (as leading stock mkt)	PKR Billion	4019.4	3777.7	2120.7	2732.4	3288.7	3518.1	5154.7	7023	7421	7589
Market Capitalization (as leading stock mkt)	% of GDP	46.3	36.9	16.7	18.5	18.2	17.0	22.5	27.9	26.99	25.64
Market Capitalization (as leading stock mkt)	Billion US$	66.5	55.3	26.1	32	38.2	37.2	53.2	71.07	72.91	72.44
Banking Sector Indicators											
Capital adequacy ratio (CAR)	%	12.3	12.2	14.0	13.9	14.1	15.1	15.5	15.1	17.2	16.1
Non-performing loans	%	7.6	10.5	12.6	14.9	15.3	15.9	14.8	12.8	12.4	11.1
Before Tax Profitability(R.O.E.)	%	22.6	11.4	13.2	15.5	21.8	25.9	18.5	23.5	27.5	24.9
Before Tax Profitability (R.O.A.)	%	2.2	1.2	1.3	1.5	2.1	2.4	1.7	2.1	2.7	2.2

Source: Pakistan Bureau of Statistics; State Bank of Pakistan, Ministry of Finance. Note: P= Provisional; R: Revised; T= target; $ 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 with Post Office + National Saving Schemes (CDNS).; "Total Public Debt" as "The debt of the government serviced out of consolidated fund and debts owed to International Monetary Fund (IMF)".

*** 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 grew at the moderate rate of 3.9 per cent in real terms during the first half of 2016 following the annual growth of 4.8 per cent registered in 2015. The services and industry sectors grew while the agriculture sector contracted. The growth of the services sector, which is the largest sector of the Sri Lankan economy, was supported by financial service activities, and wholesale and retail trade activities mainly. The industrial sector expansion was a result of higher value addition from construction and manufacturing activities. The agriculture sector contracted due to adverse weather conditions, which also affected prices of domestic food in the first half of the year.

The unemployment rate during the first half of 2016 was 4.4 per cent in comparison to 4.6 per cent in the first half of the previous year. The decline in the unemployment rate among females to 6.7 per cent in the first half of 2016 compared to 7.5 per cent in the corresponding period of the previous year mainly contributed to this.

Consumer price inflation remained in single digits during the first nine months of 2016, though with an upward trend despite spite of the price pressures arising from these domestic supply side disruptions (mainly owing to adverse weather conditions) and the immediate impact of increase in taxes on consumption of goods and services introduced by the government. Headline inflation, as measured by both the National Consumer Price Index (NCPI, 2013=100) on a year-on-year basis, increased to a peak of 6.4 per cent in June 2016, and moderated to 4.7 per cent by September 2016. On an annual average basis, NCPI based headline inflation was 3.8 per cent in September 2016. The increase in inflation in the second quarter of 2016 reflected the combined impact of domestic supply side disturbances, particularly due to adverse weather conditions, and the increase in the Value Added Tax (VAT). Nonetheless, inflation declined in the third quarter of 2016 mainly reflecting the impact of the normalization in domestic supply conditions as well as the suspension of the implementation of changes to the government tax structure.

Despite considerable depreciation pressure on the rupee during the first four months of 2016, the rupee remained relatively stable during the year up to September 2016. The Sri Lankan rupee recorded a depreciation of 1.8 per cent against the US dollar by the end of

September 2016. The net supply of foreign exchange liquidity by the Central Bank was limited to US dollars 693 million during the first nine months of 2016.

The deficits in trade and primary income accounts were offset partially by the surplus in the services and the secondary income accounts, leading for the current account deficit to narrow to US dollars 795 million in the first half of 2016 from the deficit of US dollars 953 million recorded during the corresponding period of 2015.

The deficit in the trade balance increased by 1.6 per cent year-on-year to US dollars 5538 million, during the first eight months of 2016, as a result of the considerable reduction in exports compared to marginal decline in imports. Earnings from exports during the first eight months of 2016 declined by 4.1 per cent, year-on- year, to US dollars 6,865 million, while expenditure on imports decreased moderately by1.6 per cent to US dollars 12,403 million. The substantial reduction in international commodity prices contributed significantly to the decline in both exports and imports. Despite the improvement recorded in earnings from textile and garment exports, lower earnings from transport equipment, petroleum products, tea, and spices exports contributed mainly to the decline in exports. Earnings from textiles and garments exports, increased by 3.6 per cent during the first eight months of 2016. The decline in import expenditure was led by the significant decline recorded in the importation of fuel and motor vehicles. However, import expenditure on machinery and equipment, building materials, textile and textile articles, and gold increased considerably during the period.

The services account recorded a surplus primarily due to the continuous growth in earnings from tourism and earnings from transportation and computer and information related services. The primary income account also recorded a slightly larger deficit during the first half of 2016 compared to the first half of 2015. The secondary income account continued to record a surplus despite a moderate growth in workers' remittances. Workers' remittances increased by 5.3 per cent during the first half of 2016 over the relatively low base recorded last year but remained subdued compared to the average annual growth of 13.6 per cent over the 2000-2014 period.

In the financial account, limited FDI inflows, net outflows from the foreign investments in the Colombo Stock Exchange (CSE) together with the unwinding of foreign investments in government securities, on a net basis, resulted in an overall deficit in the BOP by end June 2016. Inflows in the form of direct investments remained stagnant during the first half of 2016.

The aforesaid developments in the current and the financial accounts of BOP, along with the need to strengthen fiscal consolidation, prompted Sri Lanka to obtain a three year EFF of SDR 1.1 billion (approximately US dollars 1.5 billion) from the IMF to strengthen the external position of the country and to support the government's economic reform agenda. The receipt of this first tranche of the IMF-EFF, proceeds from the issuance of the ISB of US dollars 1.5 billion, proceeds from syndicated loans of US dollars 700 million and rolling over of US dollars 400 million under the SAARCFINANCE currency swap arrangement contributed positively to the reserve level as at September 2016. Conversely, settlement of the RBI swap facility, foreign currency debt service payments, supply of liquidity to the domestic foreign exchange market and principal payments of IMF-SBA were the main drains on the reserves during the first nine months of 2016. The level of gross official reserves of the country amounted to US dollars 6.5 billion by end September 2016 which is estimated to be equivalent to 4.1 months of imports.

The fiscal sector exhibited a favourable performance during the first seven months of 2016. Government revenue as a percentage of estimated GDP increased to 7.0 per cent in the first seven months of 2016 in comparison to 6.4 per cent in the first seven months of 2015, reflecting an increase in tax revenue. The Value Added Tax (VAT), import duties, income taxes, Ports and Airports Development Levy (PAL), Cess, Special Commodity Levy (SCL) and other import related taxes contributed positively to the increase in tax revenue, total expenditure and net lending as a percentage of estimated GDP declined marginally to 10.5 per cent during the first seven months of 2016 compared to 10.8 per cent recorded during the corresponding period in 2015, as a result of the decline in recurrent expenditure. Consequently, the overall budget deficit declined to 3.5 per cent of estimated GDP during the first seven months of 2016 from 4.4 per cent in the corresponding period in 2015, reflecting a significant improvement in the fiscal sector. However, net domestic financing declined by 24.8 per cent to Rs. 409.8 billion during the first seven months of 2016, Net foreign financing amounted to Rs. 22.9 billion in the first seven months of 2016 compared to the repayment of Rs. 41.8 billion in the corresponding period of 2015. This was mainly on account of the utilisation of the proceeds from the ISB and improved foreign holdings of Treasury bills despite the net repayment of foreign project loans and net outflows from foreign holdings of Treasury bonds.

Credit extended to the private sector expanded significantly during the first eight months of 2016. The year-on-year growth of credit extended to the private sector peaked at 28.5 per cent in July 2016, and ended at 27.3 per cent in August 2016, compared to 25.1 per cent at end 2015, while the average growth of credit has remained high at 27.5 per cent thus far during 2016, year-on-year growth of credit to the services and industry sectors were high at 46.1 per cent and 29.6 per cent, respectively, by end June 2016, while credit in the form of Personal Loans and Advances grew by 23.3 per cent. Credit to the Agriculture and Fishing sectors was relatively low, with growth recording 8.9 per cent, year-on-year, by end June 2016.

Due to high credit expansion and the possibility of a shortfall in government tax revenue collection necessitated tightening of the monetary policy stance, first by raising the Statutory Reserve Ratio (SRR) by 1.50 percentage points to 7.50 per cent, to be effective from January 2016, and subsequently by increasing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 basis points each, to 6.50 per cent and 8.00 per cent, respectively, in February 2016. However, amidst an increase in lending rates, credit disbursements to the private sector by commercial banks continued to grow unabated beyond the desired levels during the second quarter of 2016 as well. Therefore, considering the potential threats to price stability due to the sustained increase in credit and monetary aggregates amidst upward trending underlying inflation, the Central Bank tightened its monetary policy stance further in a forward looking manner by increasing SDFR and SLFR by 50 basis points each, to 7.00 per cent and 8.50 per cent, respectively, in July 2016.

The tightening of monetary policy was also expected to support the reduction of the pressure on the external sector through the dampening of import intensive credit flows to the economy and discouraging portfolio capital outflows in the context of the normalization of monetary policy in the United States of America.

By taking into account risks relating to financial system stability from the higher than expected domestic credit growth and, several macroprudential policy measures, such as imposing cash margins and maximum loan-to-value ratios, were introduced by the Central Bank in the last quarter of 2015 to contain credit flows to certain sectors, while allowing the exchange rate to be determined by market forces.

Market interest rates moved upwards during the first nine months of 2016 reflecting transmission of the impact of tight monetary conditions in the economy. The Average Weighted Call Money Rate (AWCMR), which is the operating target variable under the present enhanced monetary policy framework, increased and hovered within the range of 8.15-8.24 per cent levels, while Open Market Operations (OMOs) conducted by the Central Bank helped stabilize money market rates. Following the increase in short term interest rates, lending rates and deposit rates of commercial banks registered an upward adjustment thus far in 2016. Accordingly, the Average Weighted Lending Rate (AWLR), increased by 188 basis points to 12.88 per cent by end September 2016 from 11.00 per cent at end 2015. Similarly, the Average Weighted New Lending Rate (AWNLR) also increased to 13.97 per cent at end September 2016 from 10.79 per cent at end December 2015.

In the government securities market, there was an upward adjustment in the yields immediately after the policy interest rate hike in July 2016. However, the yield rates indicated a gradual decline thereafter. The government securities market experienced a net foreign inflow since the latter part of April 2016 reflecting positive sentiments following the announcement of the EFF programme of the IMF. Accordingly, 91-day, 182-day and 364-day Treasury bill yield rates were at 8.55 per cent, 9.39 per cent and 10.11 per cent respectively, by end September 2016 compared to 6.45 per cent, 6.83 per cent and 7.30 per cent respectively, reported at end 2015. Meanwhile, interest rates applicable on debt instruments issued by the corporate sector have also showed some upward adjustment thus far in 2016.

Reserve money, which represents the monetary base of the economy, recorded a notable growth of 23.3 per cent (year-on-year) by end August 2016, compared to 16.5 per cent at end 2015. The significant expansion in commercial banks' deposits with the Central Bank during this period is mainly attributable to the increase in SRR applicable on all rupee deposit liabilities of commercial banks. On the assets side, the expansion in reserve money was entirely on account of the increase in net domestic assets (NDA) of the Central Bank, as net foreign assets (NFA) of the Central Bank declined during the first eight months of the year. The expansion was largely on account of the substantial increase in the Central Bank's holdings of government securities (by around Rs. 133 billion), which led to an increase in net credit to the government (NCG) by the Central Bank by around Rs. 166.6 billion during the first eight months of the year. Nevertheless, a sharp contraction in Central Bank's holding of government securities of Rs. 59.3 billion was observed in the month of August 2016 on account of the maturing of Treasury bills. NDA of the Central Bank improved further following a notable decline in funds placed under the Standing Deposit Facility by Rs. 51.2 billion, which led to the contraction of other liabilities of the Central Bank by Rs. 26.3 billion during the period January-August 2016. Meanwhile, NFA of the Central Bank declined by Rs. 77.2 billion reflecting a decline in foreign currency reserves during this period.

Buttressed by the expansion in credit extended to the private sector and the government, the growth in broad money supply (M2b) continued to remain high with an average growth of 18.1 per cent during the first eight months of 2016. The year-on-year growth of broad money (M2b) was 17.3 per cent in August 2016 compared to 17.8 per cent at end 2015.

The growth momentum in the financial sector continued during the first eight months of 2016 with all major sectors remaining sound. The banking system continued its accelerated growth in assets while maintaining capital and liquidity well above the regulatory minimum requirements. The asset quality of the banking system enhanced as shown by the historically lower level of non-performing loan (NPL) ratio and improvement of accessibility to banking facilities with the expansion of branch network and ATM facilities.

Profitability and asset base of other financial sub sectors, such as insurance, unit trust, primary dealers and superannuation funds also recorded positive growth during the reference period, though stock brokers' performance was subdued due to the poor performance of the Colombo Stock Exchange during this period. An upward pressure on money market interest rates was observed towards the latter part of the reference period resulting from the tight monetary policy stance of the CBSL and the liquidity shortage that prevailed in the money market. Yield rates of government securities in the secondary market too have increased and showed volatility during this period. While corporate debt securities market's growth momentum and investor base improved during the reference period, equity market's performance slowed down due to the foreign outflows and adverse investor sentiments connected to uncertainties over global economic outlook, exchange rate movements and political changes. Access to finance improved during this period as evident by several concessionary development credit schemes offered to micro, small and medium scale enterprises (MSME). The efficiency and safety of the national payment system were enhanced during this period and the national payment council has prepared a draft Road Map for the medium term development of payment systems.

Highlights of Major Policy Announcements

16 January 2016	The Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of LCBs was increased by 1.50 percentage points to 7.50 per cent from 6.00 per cent.
25 January 2016	All licensed banks were instructed to submit information on the occurrence of cyber security events to the Director of Bank Supervision, CBSL within one working day from the date of detection and within 15 days from the end of each quarter, for purposes of monitoring.
01 February 2016	All licensed banks were required to display of fees charged from customers for fund transfers effected through systemically important payment systems in all branches and display them in banks' web site.
19 February 2016	The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 50 basis points to 6.50 per cent and 8.00 per cent, respectively

28 July 2016	The SDFR and SLFR were increased by 50 basis points to 7.00 per cent and 8.50 per cent, respectively.
Forthcoming	Implementation of minimum capital requirement and leverage ratio for licensed banks under Basel III.

Key Economic Indicators of Sri Lanka

	Unit	2010	2011	2012	2013	2014	2015	2016 H1
I. Real Sector								
Per Capita GDP (a)	US$	2,744 (e)	3,129 (e)	3,351	3,610	3,853	3,924	-
Real GDP Growth (b)	%	8	8.4	9.1	3.4	4.9	4.8	3.9
GDP (MP) (a)	Billion US$	56.7	65.3	68.4	74.3	80	82.3	41.0
Agriculture (a) (c)	% of GDP	8.5	8.8	7.4	7.7	7.8	7.9	
Industry (a) (c)	% of GDP	26.6	28	30.1	29.2	26.7	26.2	
Services (a) (c)	% of GDP	54.6	55.1	55.6	56.4	56.3	56.6	
Investment (d)	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33.0
National Savings (d)	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Headline Inflation (f)	%	6.2	6.7	7.6	6.9	3.3	0.9	2.2
- Food Inflation	%	6.9	8.8	4.7	7.9	3.8	4.9	3.3
- Non-Food Inflation	%	5.6	5.0	10.0	6.1	2.8	-2.5	1.2
- Core inflation	%	7.0	6.9	5.8	4.4	3.5	3.1	4.8
II. Fiscal Sector								
Revenue Collection	Billion US$	7.2	8.8	8.2	8.8	9.2	10.7	5.1
Fiscal Deficit (excluding grants) (a)	% of GDP	-7.2	-6.4	-5.8	-5.5	-5.8	-7.4	-2.7
Fiscal Deficit (including grants) (a)	% of GDP	-7	-6.2	-5.6	-5.4	-5.7	-7.4	-2.7
Public Debt (a)	% of GDP	71.6	71.1	68.7	70.8	70.7	76	n.a.
- of which foreign debt (a)	% of GDP	31.6	32.3	31.7	30.9	29.8	31.7	n.a.
- domestic debt (a)	% of GDP	40.0	38.8	37.0	40.0	40.9	44.3	n.a.
- debt servicing	% of total revenue	100.4	92.5	96.8	102.2	90.0	90.6	90.6
III. External Sector								
Exports (f.o.b)	Billion US$	8.6	10.6	9.8	10.4	11.1	10.5	5.1
Imports (f.o.b.)	Billion US$	13.5	20.3	19.2	18.0	19.4	18.9	9.3
Trade Deficit	Billion US$	-4.8	-9.7	-9.4	-7.6	-8.3	-8.4	-4.2
Remittances	Billion US$	4.1	5.1	6.0	6.4	7.0	7.0	
Earnings from Tourism	Billion US$	0.6	0.8	1.0	1.7	2.4	3.0	
Current Account Balance	Billion US$	-1.1	-4.6	-4.0	-2.5	-2.0	-2.0	-0.8
Current Account Balance (a)	% of GDP	-1.9	-7.1	-5.8	-3.4	-2.5	-2.4	-
Major Inflows to the Financial Account								
- Foreign Loans (net)	Billion US$	2.7	2.9	3.1	1.1	1.7	0.7	
- Foreign Direct Investment (net)	Billion US$	0.4	0.9	0.9	0.9	0.8	0.6	

	Unit	2010	2011	2012	2013	2014	2015	2016 H1
- Portfolio Investment : Equity (net)	Billion US$	-0.2	-0.2	0.3	0.2	0.2	-	
- Portfolio Investment : Securities (net)	Billion US$	1.5	1.2	1.3	1.8	1.9	0.7	
- Trade Credits (net)	Billion US$	-1	-0.2	-0.7	-0.5	-0.5	-0.4	
External Debt and Forex Liabilities outstanding	Billion US$	24.8	32.7	37.1	39.9	42.9	44.8	
External Debt and Forex Liabilities to GDP (a)	%	37.8	50.2	54.2	53.7	53.6	54.4	-
Short-term debt to GDP (a)	%	10.6	11.1	9.4	9.1	9.1	9.2	9.2
External Debt Servicing Ratio	% of forex earnings	11.9	9.3	13.5	18.7	14.5	9.5	
Exchange Rate (Annual Average)	Per US$	113.1	110.6	127.6	129.1	130.6	135.9	144.5
Total Foreign Assets	Billion US$	8.6	8.0	8.6	8.6	9.9	9.3	
IV. Monetary & Capital Market								
Growth Rate of M_1	y-o-y	20.9	7.7	2.6	7.7	26.3	16.8	12.1
Growth Rate of M_2	y-o-y	18.0	20.9	18.3	18.0	13.1	17.2	
Growth Rate of M_{2b}	y-o-y	15.8	19.1	17.6	16.7	13.4	17.8	17.0
Weighted Avg Lending Rate	%	14.8	13.44	15.98	15.18	11.91	11	12.1
Credit growth to Private Sector (As per M_{2b})	%	24.9	34.5	17.6	7.5	8.8	25.1	28.2
All Share Price Index (ASPI)	(1985=100)	6,635.9	6,074.4	5,643.0	5,912.8	7,299.0	6,894.5	6,283.3
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	4,089.1	3,625.7	3,300.2
Market Capitalisation (as leading stock mkt)	Domestic Currency in Billion	2,210.5	2,213.9	2,167.6	2,459.9	3,104.9	2,938.0	2,677.6
Market Capitalisation (as leading stock mkt)	% of GDP	34.5	30.7	24.8	25.6	29.7	26.3	
Market Capitalisation (as leading stock mkt)	Billion US$	19.9	19.4	17.1	18.8	23.7	20.4	
V. Banking Sector Indicators								
Capital adequacy ratio	%	14.3	16	16.3	17.6	16.6	14.2	
Non-performing loans ratio (Net IIS)	%		3.8	3.7	5.6	4.2	3.2	3.0
Profitability (R.O.E.) (After Tax)	%	22.4	19.8	20.3	16.0	16.6	16.1	
Profitability (R.O.A.) (Before Tax)	%		2.4	2.5	2.0	2.0	1.9	

(a) From 2010 to 2015H1, data based on rebased estimates [(2010) prices] published by the Department of Census and Statistics

(b) From 2011 to 2015H1, data based on rebased estimates [(2010) prices] published by the Department of Census and Statistics

(c) Value added at basic price from 2010 to 2015H1

(d) Expenditure approach estimates under new method is not yet available for 2010 to 2015H1

(e) Updated with latest population figures

(f) Based on CCPI(2006/07=100)

n.a. - Not available

Highlights of SAARCFINANCE, SPC and IGEG Related Activities

- As per the decision of the 32nd SAARCFINANCE Group Meeting held in Mumbai, India, Bangladesh Bank will host a seminar on `Impacts of Mobile Financial Services in the SAARC Region' alongside the second meeting of researchers for the collaborative research study on "Promoting Financial Inclusion in the SAARC region" on 19 December 2016 at Dhaka, Bangladesh.

- The SAARCFINANCE Governors' Symposium 2016 was organized by Reserve Bank of India on May 26-27, 2016 at Mumbai, India. The Meeting was attended by Governors andDeputy Governors of member countries of SAARC. The theme of the Symposium was "Impact of Chinese Slowdown on SAARC Region and Policy Options". Country papers on the theme were presented by each of the eight SAARC Member countries. Dr. Gian Maria Milesi Ferretti from the International Monetary Fund and Mr. Madhusudan Mohanty from Bank for International Settlements made presentations on topical interest.

- Mr. Arjuna Mahendran, Governor, Central Bank of Sri Lanka and Chairperson of the SAARCFINANCE Group, launched the SAARCFINANCE Database, developed by the Reserve Bank, in collaboration with other SAARC central banks. The database has been made available at http://dbie.rbi.org.in/DBIE/dbie.rbi?site=saarcHome. The database has been made available to general public free of cost. Link for the database has also been placed in the SAARCFINANCE website (www.saarcfinance.org) being maintained by the RBI.

- The first SAARCFINANCE collaborate study on "Managing Capital and Remittance Flows in SAARC Region for Safeguarding Financial Stability", was presented on May 27, 2016 by the lead researchers Dr. Shah Hussain and Dr. Rajeev Jain as Lead Researchers from the State of Bank of Pakistan and the Reserve Bank of India, respectively. Mr. H.R. Khan, Deputy Governor, Reserve Bank of India was the moderator for the paper presentation while Dr. Gian Maria Milesi Ferretti from the International Monetary Fund and Mr. Madhusudan Mohanty from Bank for International Settlements were the discussant.

- The 32nd SAARCFINANCE Group Meeting was held at Mumbai on May 27, 2016 on the sidelines of the SAARCFINANCE Governors' Symposium 2016. Chairman of SAARCFINANCE and Central Bank of Sri Lanka, Mr. Arjuna Mahendran, chaired the Group Meeting. The Meeting discussed a wide range of issues including (a) topics for undertaking joint studies, (b) way forward for the SAARCFINANCE database; (c) management of SAARCFINANCE portal by a large central bank; and (d) cooperation in payments systems. Further, a working group will be established to examine ways and means to expand and improve the SAARCFINANCE database.

Training Programmes/Staff Exchange Programmes Organised by the RBI

- A half-day session on "Supervisor's Perspectives on Basel II, III and Liquidity Ratios (Pillar I, II and III)" was organised at Reserve Bank of India, Mumbai for international delegates from 18 countries including participants from Afghanistan, Nepal and Bangladesh on January 14, 2016.
- Reserve Bank of India organised the Training of Trainers (ToT) Program on Restructuring and strengthening of Agricultural/Rural Financial Institutions at College of Agricultural Banking, Pune, India on Feb 1-5, 2016 where in thirteen participants from Nepal and two participants from Sri Lanka participated. The program was held in collaboration with Centre for International Cooperation in Agricultural Banking, Pune.
- One participant each from Bangladesh and Sri Lanka participated in the International Monetary Fund's five-day course on Early Warning Exercise (EWE) organised by the Reserve Bank of India on February 22-26, 2016, at College of Agricultural Banking, Pune. The course covered areas related to macroeconomic

and financial risk assessment, quantitative methods used for early warning exercise, analyzing vulnerability indicators, spillover and contagion analysis.

- RBI organised a session on "Risk Management" on March 16, 2016, at RBI, Central Office, Mumbai, India, for international delegates wherein delegates from Nepal and Bangladesh also participated.
- Twenty seven journalists from Nepal representing the financial media participated in an interactive session with Department of Communication and Department of Economic and Policy Research of the Reserve Bank of India on May 27, 2016.
- Sixty four participants from Bangladesh Bank interacted with RBI officials from various departments on June 1, 2016 at RBI Central Office, Mumbai.
- A workshop on Role and Functions of the Reserve Bank of India was organised by Reserve Bank of India on June 15-17, 2016 at the College of Agricultural Banking, Pune training programme for thirty one participants, representing the Nepal Rastra Bank and financial media from Nepal.

Training Programmes/Staff Exchange Programmes/meetings attended by the RBI officials

- Two officials from Reserve Bank of India visited Royal Monetary Authority of Bhutan to provide technical assistance on Minimum Lending Rate, and other related issues during June 29-July 1, 2016.

Other Activities - Pakistan

- SAARCFINANCE seminar on 'Payment Systems and Correspondent Banking in the SAARC Region

  State Bank of Pakistan (SBP) hosted a seminar on 'Payment Systems and Correspondent Banking in the SAARC Region' during May 16-18, 2016 at NIBAF, Islamabad. Besides Pakistan, the seminar was attended by all member countries of SAARC, except Maldives. Local and foreign experts on the subject shared their views on different dimensions of correspondent banking. Governor SBP, Mr. Ashraf Mahmood Wathra, was the Chief Guest for the event. In this inaugural address, Mr. Wathra stated that central banks may enhance cooperation to develop regional correspondent banking channel mainly to facilitate flow of funds in the region without the involvement of any third country correspondent bank. He emphasized that the need of strengthening the payment and settlement mechanism, which could facilitate in developing correspondent banking in the SAARC region. He stated that the cost and time of money transaction can be reduced significantly if the SAARC countries are able to develop their own corresponding banking. He underscored the importance of developing a regional correspondent banking system due to decline in correspondent banking business of American and European banks in the backdrop of stringent AML/TF rules. He told that a robust payment systems and correspondent banking can play an important role developing secure, safe and reliable medium for financial transaction

SAARCFINANCE Collaborative Research Studies

- The lead researchers from SBP and RBI have presented the study on "Managing Capital and Remittance Flows in SAARC Region for Safeguarding Financial Stability" before the Group Meeting held in Mumbai, India in May 2016.