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Recent Overall Macroeconomic Developments

## Objectives of SAARCFINANCE

The basic 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. However, the broad objectives of SAARCFINANCE Network are as follows:

1. To promote cooperation among central banks and finance ministries in SAARC member countries through staff visits and regular exchange of information;
2. To consider and propose harmonization of banking legislations and practices within the region;
3. To work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation;
4. To forge closer cooperation on macroeconomic policies of SAARC member states and to share experiences and ideas;
5. 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;
6. To monitor reforms of the international financial and monetary system and to evolve a consensus among SAARC countries in respect of the reforms;
7. To evolve, whenever feasible, joint strategies, plans and common approaches in international for a for mutual benefit, particularly in the context of liberalization of financial services;
8. 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;
9. To explore networking of the training institutions within the SAARC region specializing in various aspects of monetary policy, exchange rate reforms, bank supervision and capital market issues;
10. To promote research on economic and financial issues for the mutual benefit of SAARC member countries; and,
11. 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

GDP growth observed upward trend in the first quarter of 2018 and economic growth was satisfactory and close to the anticipated rate in the agriculture, industry and services sector respectively. The economic growth has reached to 7.2% in first quarter of 2018, with an increase from the figure 3.6% recorded in the same quarter of previous year. Overall growth was largely driven by agriculture, industry and services sectors respectively. In fact agriculture sector plays crucial role in national economy and at first quarter its growth rate has increased as compared to first quarter of previous year due to favorable weather conditions and supportive facilities in agriculture sector. Both government and non-profit organizations are making efforts to support the sector with more facilities and jointly working on launching new projects. The growth rate of agriculture sector increased to 21.4% compared to 12.4%, industry sector growth surged to 0.9% compared to -1.9% percent and services sector growth rate increased to 3.3% compared to 2.3% at the first quarter of 2018 compared to 2017, technically services and industry sectors showed moderate growth, while as in comparison, agriculture showed boosting trend. Although Agriculture sector is heavily dependent on the seasonal rainfalls, favorable weather condition in country and is expected to show positive and desirable changes in coming quarters.

After analyzing the above facts and figures and calculations, Da Afghanistan Bank forecasts GDP growth 3-4 percent for 2018, 3.5-4.5 percent for 2019, 4.5-5 percent for 2020, 4.8-5.3 percent for 2021 and 5-5.5 percent for 2022.

The near-term outlook of inflation is likely to remain steady and move upward gradually, based on the previous analysis which shows high decline rate compared to inflation rate of average 5% in last quarter of 2017. The central bank forecasts inflation rate 1 to 5 percent from 2018 to 2022. In coming years the inflation is projected to increase and the prospects will be subject to a course of factors.

The mid-year monthly inflation rate for June 2018 declined to deflation rate of -1.63 percent as compared to 7.47 percent recorded in 2017. Similarly mid-year average inflation rate came down to 0.82 percent from 6.09 percent observed in previous year which is lower than expected. The main causes of deflation are local production, alternative neighboring countries trade and most importantly lower aggregate demand in country.

Keeping the above macroeconomic activities and indicators in consideration the Inflation rate is going to steadily rise moderately in coming future. Further after analyzing all related factors central bank forecasts inflation rate around 1% to 5% percent during 2018-2022.

External sector Developments:

1. Current Account

- Current account deficit in the first half of the FY 2018 decreased by 10 percent to USD 2364.51 million, indicating a decrease of deficit USD 249.43 million, compared to USD 2613.95 million in first have of the FY 2017.
- This decline in the current account deficit was, mainly due to 34 percent increase in the earnings of total exports, 25 percent increase in net receipts of the primary income and 21 percent increase in net receipts of official grants to the government sector and home worker remittances.

1.1: GOODS ACCOUNT

- Earnings from exports of goods increased by 34 percent to USD 325.02 million in the first half of the FY 2018 from 242.98 million recorded in the first half of the FY 2017. Expenditure on imports of goods slightly increased by 0.2 percent to USD 3514.03 million in the first half of the FY 2018 from USD 3506.18 million recorded in the first half of the FY 2017.

1.2: SERVICES ACCOUNT

- Deficit of the services account increased by 9 percent to USD 355.16 million in the first half of the FY 2018 from USD 325.02 million recorded in the same period of the previous year, mainly due to more out-payments on respect of transportation services.

1.3: PRIMARY INCOM ACCOUNT:

- Primary income account recorded net inflow of USD 65 million in the first half of the FY 2018 shows an increase of 25 percent compared to USD 52.08 million recorded in the first half of the FY 2017.

1.4: SECONDARY INCOME ACCOUNT:

- Secondary income account recorded net inflow of USD 1114.65 million in the first half of the FY 2018, in contrast to USD 922.18 million net inflows, observed the same period of the FY 2017, that indicate 21 percent increase.

2: CAPITAL ACCOUNT

- Capital account recorded a net inflow of USD 257.47 million in the first half of the FY 2018, decreased by 59 percent, compared to USD 627.80 million in the same period of the previous year as a result of shortage in capital transfers to the country during the period under review.

3: FINANCIAL ACCOUNT

- Direct investment: (Net) in the country increased to USD 72.48 million in the first half of the FY 2018 as compared to USD 31.62 million recorded in the first half of the FY 2017.
- Portfolio Investment (Net): decreased to USD – 35.80 million in the first half of the FY 2018 from USD 6.47 million in the same period previous year.
- Other Investment (Net): increased to USD 214.23 million in the first half of the FY 2018 from USD 37.97 million in the same period of the last year.

- Reserve Assets decreased from USD -43.34 million in the first half of the 2017 to USD -45.05 million in the first half of the FY 2018.

Monetary Sector Developments

- The primary objective of Da Afghanistan Bank (DAB) is to achieve and maintain the domestic price stability. To achieve its primary goal and to target a moderate inflation rate, Da Afghanistan Bank targets reserve money (RM) as its operational target and currency in circulation as its indicative target. DAB uses the foreign exchange and capital notes auction as the main monetary instruments to conduct sound and prudent monetary policy.

- For evaluating the effectiveness of monetary policy, DAB has assigned the quantitative targets under three-year arrangement with the IMF (Extended Credit Facility).
- In the first half of 2018 reserve money grew by -8.2 percent, down from -0.5 percent in the same period of previous year.

Broad money (M2) recorded decrease of 6.2 percent in the first half of FY 2018, while it registered 7.1 percent growth in the first half of fiscal year 2017. The decrease in broad money was mainly driven by a reduction in (M1) and quasi money. Currency in circulation which is the main component of M1, registered a growth of 2.7 percent in the first half of fiscal year 2018, while it had growth of 10.7 percent in the same period of the previous year. Meanwhile, quasi money, the other component of broad money, saw a decline of 25 percent in the period under review compared to the same period of last year. The impact of the decrease in quasi money on broad money was minimal since it accounts for less than 8 percent of broad money.

- Net international reserves (NIR) enjoyed favorable accumulation in the first half of 2018, which indicates 2 percent increase from the beginning of the year.
- In the first half of fiscal year 2018, the national currency depreciated against major foreign currencies. It witnessed 2.9 percent depreciation against the U.S. dollars, 1.6 percent against Sterling pound, and 0.6 percent against Euro, while it appreciated by 1.4 percent against Indian rupee. Main causes to this depreciation are thought to be the uncertain economic environment, political tensions, huge trade deficit, low investment and smuggling of dollars out of the country.
- It is worth to mention that DAB's performance was satisfactory and could met all quantitative performance criteria in the respective period.

Fiscal Development

The key objective in the fiscal area is to achieve sustained increase in revenue collection to permit gradual takeover of externally financed operating & development spending to ensure an expenditure allocation consistent with Afghanistan National Development Strategy (ANDS). Furthermore, other goals include improvements in public expenditure management, fiscal policy formulation, efficiency in public enterprises, tax and customs administration.

Moreover, as other emerging and under developing economies around the world, a budget imbalance (Budget Deficit) exists in Afghanistan total core expenditure exceeded total domestic revenue (excluding grants).

Furthermore, total core budget is decreased from AF 429.41 billion of 2017 to AF 377.19 billion of FY 2018 a decrease of AF 52.22 billion showing 12.16% significant decrease in total core budget on annual basis. On the other hand, a minor decrease in core budget of 2018 comprise of operating budget representing 0.85% decrease comparably while a considerable decrease in development budget indicating 31.02% decrease as a result of low budget execution rate of 83% for the approved core budget of 2017. It is worth mentioning that budget execution rate indicated a significant increase of 4.31% from 31.75% in first half of 2017 to 36.06% in first half of 2018 comparably as a result of decrease in overall approved core budget of 2018.

On the other hand, total revenue (domestic revenue and grants) composed during the first half of 2018 signified amount AF 156.26 billion indicated momentous increase of AF 19.71 billion from 136.55 billion to 156.26 billion representing14.43% increase compared to first half of 2017 as a result of set of reforms, tax compliance, measures against corruption, momentous improved in business activity during the year and reflecting an improvement in retail activity from the low base last year.

In addition, total grants received during the first half of 2018 indicated amount AF 76.36 billion represented crucial increase of AF 14.10 billion from AF 62.27 billion of 2017 to AF 76.36 billion of 2018 resulted in 22.65% increase compared to first half of 2017 as result of change in annual pledge, commitment and disbursement in which the main donor contributors are ARTF, LOTFA, (CSTC-Mood, MoI and NATO), ADB and WB compared to same period.

Meanwhile, total expenditure during the first half of 2018 represented amount Af 141.62 billion comprise of AF 108.95 billion operating expenditure and Af 32.67billion development expenditure indicating momentous increase of amount AF3.06 billion from AF 138.56billion of 2017 to AF 141.62 billion of 2018 Showing 2.21% significant amplify compared with first half of 2017 as a result of increase in expenditure in eight deferent sectors such as security governance ,education ,health, agriculture ,social protection, infrastructure and economic governance .

KEY ECONOMIC INDICATORS: AFGHANISTAN

| Key Macroeconomic Indicators (in million USD) | First half/2018 | Second half/2017 | First half/ 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| A-Real sector | | | | | |
| Inflation | 0.82 | 3.90 | 6.09% | 4.55 | 0.08 |
| Real GDP | | 8126 | N/Y | 7345.41 | 7596.61 |
| Nominal GDP | | 21,322 | N/Y | 19730.95 | 19347.72 |
| Per Capita income | | 718 | N/Y | 695.71 | 688.41 |
| B-External Sector | | | | | |
| 1.Current Account | -2354.10 | -2000.63 | -2613.95 | -4614.57 | -3610.47 |
| Goods and services | -3533.76 | -3416.48 | -3588.21 | -7004.69 | -6348.00 |
| Primary income | 65.01 | 44.04 | 52.08 | 96.12 | 94.57 |
| Secondary income | 1114.65 | 1371.81 | 922.18 | 2293.99 | 2642.95 |
| 2. capital Account | 257.47 | 1087.05 | 627.80 | 1714.85 | 1757.88 |
| 3.Fianancial Account | 60.97 | 455.71 | -30.75 | 424.96 | 690.19 |
| Direct investment | -72.48 | -30.70 | -31.62 | -62.33 | -108.37 |
| Portfolio investment | -35.80 | -35.57 | 6.47 | -29.11 | 98.70 |
| Other investment | 214.23 | -69.36 | 37.97 | -31.43 | 0.59 |
| Net errors and omissions | 2157.61 | 1369.28 | 1955.40 | 3324.68 | 2542.79 |
| Reserves assets | -45.08 | 591.08 | -43.34 | 547.75 | 699.03 |
| C- Monetary Sector | | | | | |
| Currency in circulation | 3,165.5 | 3,290.17 | 3,206.60 | 3,345.47 | 2,970.89 |
| Net international reserves | 7,491.8 | 7,345.36 | 6,834.37 | 6,777.87 | 6,343.36 |
| Reserve assets | 8,227.6 | 8,159.01 | 7,406.44 | 7,581.98 | 6,927.94 |
| Reserve liabilities | 735.76 | 813.65 | 572.08 | 804.11 | 584.58 |
| Commercial banks deposits in foreign currency | 675.38 | 750.66 | 506.58 | 732.66 | 498.27 |
| Nonresident deposits in foreign currency | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 |
| Use of fund resources | 60.24 | 62.85 | 65.36 | 71.31 | 86.17 |
| D-Fiscal Sector | | | | | |
| Overall balance | 214.25 | -41.56 | (2,007) | 79 | (258) |
| Total revenue including Grants | 2,286.50 | 3,213.28 | 136,553 | 5,347 | 5,326 |

| | | | | | |
|---|---|---|---|---|---|
| Total Grants | 1,117.43 | 1,793.93 | 62,269 | 3,042 | 3,161 |
| Total Expenditure | 2,072.26 | 3,254.84 | 138,559 | 5,268 | 5,583 |
| Total Operating Expenditures | 1,594.22 | 2,172.40 | 107,540 | 3,867 | 4,129 |
| Total Development Expenditure | 214.25 | 1,082.44 | 31,020 | | |

**Macroeconomic Surveillance Indicators for SAARCFINANCE e-newsletter**

| | **Unit** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Core Indicators** | | | | | | | | | | | | | |
| Current Account Balance as percentage of GDP | **%** | | | -9% | -7% | -10% | -15% | -21% | -27% | -19% | -24% | - 18% | -22% |
| External Debt as a percentage of GDP | **%** | | | | 18.47% | 14.98% | 12.87% | 11.70% | 12.16% | 10.90% | 10.97% | 10.48% | 10.27% |
| Reserves to Import | **%** | | | 75% | 89% | 79% | 79% | 85% | 67% | 86% | 80% | 101% | 100% |
| National Debt to GDP | **%** | | | | 18.47% | 14.98% | 16.99% | 14.48% | 14.69% | 13.41% | 13.13% | 12.18% | 11.29% |
| Domestic credit | **% of GDP** | 1.8 | 2 | 5.9 | 4.7 | 4.6 | 2.4 | 1.9 | 2 | 0.6 | 0.4 | 1.1 | 4.4 |
| Fiscal Deficit | **% of GDP** | | | -2% | 0% | 2% | 0% | 0% | 2% | -1% | -1% | 0% | -0.33 |
| Inflation(12 month average) | **%** | 7.09 | 9.99 | 34.55 | -9.58 | 0.63 | 12.17 | 6.51 | 7.40 | 4.67 | -1.55 | 5.03 | 4.98 |

# BANGLADESH

## RECENT OVERALL MACROECONOMIC DEVELOPMENTS

**Overview**

Bangladesh economy continues to maintain robust and stable growth performance. The strong growth comes with stable inflation, prudent fiscal deficit and greater resilience to external shocks. The real GDP growth in FY18 accelerated to 7.86 percent, underpinned by strong domestic and external demand. A surge in remittance inflows, export earnings along with strong private sector credit growth boosted consumption demand. At the same time, higher growth in investment-related imports reflected robust investment demand in the economy. CPI inflation remained broadly stable in FY18. The major monetary aggregates broadly followed the monetary program path set for FY18. Fiscal position improved and budget deficit maintained within the 5 percent of GDP in FY18. Sector-wise brief analyses on Bangladesh economy are given below:

### Real Economy and Outlook

Bangladesh economy grew by 7.86 percent in FY18, up from 7.28 percent in FY17. GDP growth in FY18 was underpinned by strong domestic and external demand, as reflected in buoyant public and private investment, and consumption, driven by higher exports, remittances, and private credit growth. On the supply side, the growth impulse largely came from the industry and the service sectors (increased by 12.06 and 6.39 percent respectively). The agriculture sector activities also remained solid (increased by 4.19 percent), supported by benign weather conditions, higher crop price, and timely supply of inputs and finance.

Looking ahead, output growth momentum remains robust in FY19. The growth is expected to be achieved through a pick-up in the implementation of government's mega projects, implementation of prudent fiscal management, effective application of accommodative monetary policy, appropriate management of expenditure and sound implementation of the reform activities.

## Price Developments and Inflation Outlook

Average inflation edged up during most of FY18. It peaked at 5.83 percent in April 2018 from 5.44 percent in June 2017, and then moderated to 5.78 percent in June 2018, slightly above the target of 5.5 percent. Average inflation followed the food inflation dynamics, driven by flood related domestic shocks and higher global commodity prices. Food inflation reached to 7.32 percent in April 2018 from 6.02 percent in June 2017 and then moderated to 7.13 percent in June 2018. On the other hand, non-food inflation fell gradually to 3.50 percent in December 2017 from 4.57 percent in June 2017, and then showed an uptick and stood at 3.74 percent in June 2018.

Point-to-point inflation, despite some fluctuations, fell from 5.94 percent in June 2017 to 5.54 percent in June 2018. Point-to-point food inflation declined from 7.51 percent in June 2017 to 5.98 percent in June 2018, while non-food component increased from 3.67 percent to 4.87 percent during the period.

In FY19, inflation risks are on the upside from higher global commodity prices and exchange rates movements. Bangladesh Bank's projection showed that average inflation to be around 5.4-5.8 percent in December 2018, assuming no large domestic or external shocks.

## Money Supply and Credit Growth

Almost all monetary aggregates in FY18 stayed close to or even below the monetary program path. Broad money (M2), domestic credit (DC), and credit to private sector (PC) growth in June 2018 stood at 9.2, 14.6, and 16.95 percent, respectively, against their targeted ceilings of 13.3, 15.8, and 16.8 percent. Though PC increased by 16.95 percent in June 2018, slightly above the target of 16.8 percent, however, credit to the public sector declined by (-) 2.5 percent as the Government's bank loans were paid off from the sales of National Savings Certificates (NSCs). As a result, DC growth reached 14.6 percent in June 2018, well within the program target of 15.8 percent. Net foreign assets (NFA) declined by (-) 4.3 percent in FY18 due to the sharp increase in current account deficits from high import growth. Strong private sector credit growth (at around 17.0 percent against the deposit growth of 10.3 percent) accompanied by liquidity withdrawals from the negative growth in NFAs increased liquidity pressures in H2 FY18. To moderate the tightening of liquidity conditions, Bangladesh Bank reduced Cash Reserve Ratio (CRR) by 1 percentage point and re-fixed at 5.5 percent on bi-weekly average basis with a provision of minimum 5.0 percent on daily basis. Bangladesh Bank also reduced repo rates by 75 basis points to 6 percent and increased available repo tenors to 7, 14, 28 days in April 2018.

The FY19 monetary program sets growth ceilings of domestic credit and broad money at 15.9 and 12.0 percent respectively, adequate to support targeted growth while maintaining price stability. Public sector bank borrowing is projected to grow by 8.5 percent, leaving adequate space for private sector credit at the ceiling of 16.8 percent. In light of the domestic and global inflation outlook, repo and reverse repo rates has been kept unchanged at 6.0 and 4.75 percent respectively for H1FY19.

## External Sector Developments and Outlook

In the external sector, despite a strong rebound in remittances and export growth (17.3 percent and 5.8 percent respectively in FY18 from (-) 14.5 percent and 1.2 percent in FY17), current account deficit (CAB) widened to US$ 9780 million in FY18, due to higher trade deficit from sharp increase in imports growth (25.2 percent). The import increased sharply, reflecting higher demand for investment goods and imports due to the flood-related weather shocks. Though surplus in capital account balance (US$ 292 million) and financial account balance (US$ 9076 million) partially offset CAB, overall balance turned to a deficit of US$ 885 million in FY18 from a surplus of US$ 3169 million in the previous year. The exchange rate depreciated by 3.7 percent in FY18 which has helped to improve export competitiveness. Foreign exchange reserves stood at USD 32.9 billion at the end of June 2018, which are broadly adequate at around 6.5 months of import coverage.

According to Bangladesh Bank projections for FY19, remittance inflows and export growth are expected to continue their recent performances, driven by higher global output growth and stronger economic activities in the Middle East countries. Import growth is expected to be moderate, aided by better harvests and progress in some of the mega projects. Bangladesh Bank projects export growth at around 8.0 percent, remittance growth at around 16 percent and import growth at 12.0 percent in FY19, resulting in a current account deficit of around 3 percent of GDP. The foreign exchange reserve is expected to continue in rising trend and exchange rate of Taka is expected to remain broadly stable in FY19.

## Fiscal Policy and Outlook

### Fiscal Policy Activities and Outcomes for the FY 2017-18:

In the fiscal year 2017-18, revised target for revenue collection was set at TK. 2,59,454 crore which was 11.5 percent of GDP for the year. In the first eleven month of the year, i.e. during July 2017-May 2018, the actual revenue collection was TK. 2,03,059 crore which was 15.0 percent higher than the actual collection during the same period in the previous fiscal year. On the other hand, the revised estimate for annual expenditure for FY18 was set at TK. 3,71,495 crore which was 16.5 percent of GDP of the year. Up to May 2018, the actual expenditure was 60.8 percent of the annual budget exhibiting a 16.0 percent growth over the same period in the previous fiscal year.

While the tax revenue target for FY18 was TK. 2,32,500 crore, the actual collection up to May 2018 was 78.8 percent marking a growth of 16.2 percent compared to the same period in the previous fiscal year. During this period, the non-tax revenue collection was 73.6 percent of the annual target, which showed a growth of 5.3 percent over that in the same period of the previous fiscal year. Government expenditure is shown under two broad categories, namely, Non-Development Expenditure and Development Expenditure. Annual Development Program (ADP) holds the fundamental portion of the development expenditure. In FY18, revised budget allocation for ADP was TK.1,48,381 crore of which 95.36 percent was expended.

Overall balance of the budget is calculated either by inclusion or exclusion of grants. The deficit (including grants) for FY18 was estimated to be 4.8 percent of annual GDP. In financing this deficit, 61.4 percent was estimated to come from domestic sources, and 38.6 percent from foreign sources. However, up to May 2018, there was a deficit amounting to 1.0 percent of GDP.

**Fiscal Outlook for the FY 2018-19:**

For fiscal year 2018-19, the target for revenue collection has been set at TK. 3,39,280 crore, which is 13.4 percent of the estimated GDP for the year. This target is 30.8 percent higher than the revised target of the previous year. On the other hand, total expenditure for 2018-19 is budgeted at TK. 4,64,573 crore, which is 18.3 percent of the estimated GDP for the year, and is 25.1 percent higher than the revised target of the previous year. Budget allocation for Annual Development Program is TK. 1,73,000 crore.

The fiscal policy adopted by the Government of the People's Republic of Bangladesh has been persistently putting emphasis on pro-people agenda, especially to meet the needs of the poor and the disadvantaged section of the population, alongside establishing necessary physical and social infrastructures to support a sustained higher growth and help ensure higher living standard for the general people. In this connection, reducing physical and socio-economic infrastructure gaps, invigorating private investment, developing human resources, generating employment opportunities, ensuring effective redistribution of wealth through pro-poor and inclusive policies and programs, etc. have been pivotal in government policies.

Human development has been at the core of the Government agenda; thus health, education and skill development issues have been given high priorities. The value of Human Development Index (HDI) for Bangladesh was 0.535 in 2009, which has now grown to 0.608 according to

UNDP's Human Development Report (HDR) 2017, published in 2018. Bangladesh, which is now categorized as a 'Medium Human Development' country, has secured the 136$^{th}$ position among 189 countries in the latest HDI index.

The Government remains committed to the policy of gradually decreasing the outstanding public debt to GDP ratio and keeping budget deficit at a tolerable level (it has consistently remained within five percent of GDP). Besides, the Government has undertaken a number of important reform initiatives to improve the revenue administration and the public expenditure management through structural reforms and wide application of information and communication technology (ICT). Reforms carried out in the Public Financial Management (PFM) system, such as completion of pensioner database, payment of pension through Electronic Fund Transfer (EFT), Government to Person (G2P) payment for social protection transfers, online payment to the government exchequer, introduction of e-challan portal for verification of challans, completion of database of all government employees, introduction of the online pay bill submission system, introduction of new 56 digits Budget and Accounting Classification System (BACS) and web-based modern centralized 'Integrated Budget and Accounting System' (iBAS++) etc., have improved the efficiency of the PFM system. Again, reforms carried out in the revenue administration, such as introduction of E-TIN registration, introduction of on-line return submission, introduction of VAT online registration, initiative to install Electronic Fiscal Device (EFD) in business units for VAT collection etc., have improved efficiency and enhanced transparency of the revenue administration.

## Latest Development of Some Macroeconomic Indicators

The latest developments of some key macroeconomic indicators of Bangladesh economy are given below. Moreover, yearly data on key macro-economic indicators of Bangladesh economy are also given at Annex-1 and data on Macroeconomic Surveillance Indicators for Bangladesh is given at Annex-2.

- As per latest available data CPI inflation is 5.74 percent on yearly average basis (5.48 percent on point-to-point basis) at the end of August 2018.
- Export growth has increased to 2.51 percent compared to the same period of the previous fiscal

year amounting USD 6.79 billion during July-August, 2018.

- Imports have increased by 17.42 percent in July 2018 over July 2017 and stood at USD 5.08 billion.
- Remittance growth has increased by 7.7 percent compared to the same period of the previous fiscal year amounting USD 2.73 billion during July-August, 2018.
- The country's foreign exchange reserve on 27 September 2018 stood at USD 32.00 billion.
- The nominal exchange rate of Taka against US$ remained stable at Tk.83.75 per USD on 26 September 2018.

### Highlights of Major Policy Announcements (During January-June 2018)

1. **Payments through Asian Clearing Union (ACU).**

   To facilitate transactions under ACU mechanism, it has been decided that along with 'ACU Dollar', ADs are advised to resume transactions in 'ACU Euro' to settle current account transactions among ACU member countries. Accordingly, 'Japanese Yen (JPY)' has been incorporated as a settlement currency in ACU mechanism.

2. **Opening of bank account for student under school banking scheme.**

   With the consent from account holders, accounts opened under school banking scheme will be converted into general accounts when the students (A/C holder) become more than 18 years old. Besides, scheduled banks providing banking services to students through mobile financial services or collecting government scholarship/ allowances will take initiatives to open accounts for them under school banking scheme.

3. **Export subsidy against exporting software, ITES and hardware.**

   Government decided to provide export subsidy against exporting software, ITES (Information Technology Enabled Services) and hardware to promote country’s export trade. This facility will be applicable for the exports of goods and services on board from FY 2017-18.

4. **Outward remittance facilities for exporters.**

   To facilitate export trade in case of urgency, it has been decided that ADs may allow remittance facilities to exporters for bonafide service payments to beneficiary's bank account abroad up to USD 5,000 or equivalent, subject to observance of some instructions.

5. **About loan Classification and Provisioning.**

   With a view to promoting growth in the Real Estate sector through bank's participation in Housing Finance, banks have to maintain 1% General Provision instead of 2% against all unclassified Housing Finance Loans under consumer financing.

6. **Maintenance of CRR.**

   Maintenance of Cash Reserve Requirement (CRR) of banks (including Shariah based banks) with Bangladesh Bank has been re-fixed at 5.5 percent on bi-weekly average basis from previous 6.5 percent with a provision of minimum 5.0 percent on daily basis from previous 6.0 percent.

7. **Re-fixation of Repo interest rate.**

   The Repo interest rate has been reduced by 75 basis points and re-fixed at 6.00 percent effective from 15 April, 2018.

8. **Enhancement of loan limit from EDF**

   The borrowing limit from Export Development Fund (EDF) has been enhanced to USD 25.00 million from USD 20.00 million against foreign currency financing of input procurement for member mills of BGMEA and BTMA.

## Annex-1

### PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS: BANGLADESH

| | Unit | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|---|---|---|---|---|
| **I. Real Sector** | | | | | | | | | | |
| Per Capita GDP | USD | 687 | 748 | 766 | 1088 | 1115 | 1236 | 1385 | 1544 | 1675 |
| Real GDP Growth | % | 6.1 | 6.7 | 6.3 | 6.2 | 6.1 | 6.6 | 7.1 | 7.2 | 7.86 |
| GDP (Market Price) | Billion USD | 100.4 | 111.9 | 115.7 | 129.9 | 173.8 | 195.2 | 221.0 | 248.8 | 274.1 |
| Agriculture | % of GDP | 20.3 | 18.0 | 17.4 | 16.8 | 16.1 | 15.5 | 14.8 | 14.2 | 13.8 |
| Industry | % of GDP | 29.9 | 27.4 | 28.1 | 29.0 | 27.6 | 28.2 | 28.8 | 29.3 | 30.2 |
| Services | % of GDP | 49.8 | 54.6 | 54.5 | 54.2 | 56.3 | 56.4 | 56.5 | 56.5 | 56.0 |
| Investment | % of GDP | 24.4 | 27.4 | 28.2 | 28.4 | 28.6 | 28.9 | 29.7 | 30.5 | 31.2 |
| National Savings | % of GDP | 30.0 | 29.0 | 29.9 | 30.5 | 29.2 | 29.0 | 30.8 | 29.6 | 27.4 |
| Headline Inflation (12 mth avg)* | % | 7.3 | 8.8 | 10.6 | 6.8* | 7.4* | 6.4 | 5.9 | 5.5 | 5.8 |
| - Food Inflation | % | 8.5 | 11.3 | 10.4 | 5.2* | 8.6* | 6.7 | 4.9 | 4.5 | 7.1 |
| - Non-Food Inflation | % | 5.5 | 4.2 | 11.1 | 9.2* | 5.5* | 6.0 | 7.5 | 7.1 | 3.7 |
| - Core inflation | % | NA | NA | NA | NA | NA | 6.74 | 8.21 | 4.6 | 3.82 |
| **II. Fiscal Sector** | | | | | | | | | | |
| Revenue Collection (CSR) | Billion USD | 11.5 | 13.4 | 15.0 | 17.5 | 18.1 | 18.8[R] | 22.1 | 27.6 | 31.3 |
| Fiscal Deficit (excluding grants) | % of GDP | 3.7 | 4.4 | 5.0 | 4.8 | 4.1 | 3.9[R] | 3.8 | 5.0 | 5.0 |
| Fiscal Deficit (including grants) | % of GDP | 3.3 | 3.8 | 4.6 | 4.3 | 3.5 | 3.7[R] | 3.7 | 4.8 | 4.8 |
| Public Debt | % of GDP | 32.3 | 32.4 | 31.8 | 30.0 | 29.1 | 27.3 | 27.7 | 27.1 | 28.01 |
| - of which foreign debt | % of GDP | 17.6 | 17.2 | 16.6 | 14.9 | 14.1 | 12.1 | 11.9 | 11.4 | 12.1 |
| - domestic debt | % of GDP | 14.7 | 15.2 | 15.2 | 15.1 | 15.0 | 15.2 | 15.8 | 15.7 | 15.91 |
| - debt servicing | % of total revenue | 7.7 | 6.9 | 6.5 | 6.3 | 7.2 | 5.2 | 4.75 | 4.14 | 4.45 |
| **III. External Sector** | | | | | | | | | | |
| Exports (f.o.b) | Billion USD | 16.2 | 22.6 | 24.0 | 26.6 | 30.2 | 30.7 | 33.4 | 34.0 | 36.2 |
| Imports (f.o.b.) | Billion USD | 21.4 | 30.3 | 33.3 | 33.6 | 36.6 | 37.7 | 39.9 | 43.5 | 54.5 |
| Trade Deficit | Billion USD | 5.2 | 7.7 | 9.3 | 7.0 | 6.8 | 7.0 | 6.5 | 9.5 | 18.3 |
| Remittances | Billion USD | 11.0 | 11.7 | 12.8 | 14.5 | 14.2 | 15.3 | 14.9 | 12.8 | 15.0 |
| Current Account Balance | Billion USD | 3.7 | -1.7 | -0.4 | 2.4 | 1.4 | 3.5[R] | 4.2 | -1.5 | -9.8 |
| Current Account Balance | % of GDP | 3.7 | 1.5 | 0.3 | 1.9 | 0.9 | 0.8 | 1.9 | -0.6 | -3.6 |
| Total Foreign Investment | Million USD | 796 | 884 | 1431 | 2094 | 2411 | 1551 | 1424 | 2164 | 1948 |
| - Foreign Direct Investment | Million USD | 913 | 775 | 1191 | 1726 | 1474 | 1172 | 1285 | 1706 | 1583 |
| - Portfolio Investment | Million USD | -117 | 109 | 240 | 368 | 937 | 379 | 139 | 458 | 365 |
| External Debt and Forex Liabilities | Billion USD | 20.3 | 21.5 | 22.8 | 22.3 | 23.6 | 23.5 | 26.3 | 28.5 | 33.11 |
| Outstanding Debt | % GDP | 20.3 | 19.7 | 19.7 | 14.9 | 14.1 | 12.1 | 11.9 | 11.4 | 12.1 |
| External Debt Servicing Ratio | % of outstanding external debt | 4.3 | 4.2 | 4.2 | 4.2 | 4.2 | 4.7 | 3.9 | 4.0 | 4.2 |
| Exchange Rate | Per USD | 69.2 | 71.2 | 79.1 | 79.9 | 77.8 | 77.7 | 78.3 | 79.1 | 82.1 |
| Foreign Exchange Reserve | Billion USD | 10.8 | 10.9 | 10.2 | 15.3 | 21.5 | 25.0 | 30.2 | 33.5 | 32.9 |
| **IV. Monetary & Capital Market** | | | | | | | | | | |
| Growth Rate of $M_1$ | y-o-y | 28.0 | 18.7 | 6.4 | 10 | 14.6 | 14.3 | 32.1 | 13.0 | 6.2 |
| Growth Rate of $M_2$ | y-o-y | 22.4 | 21.3 | 17.4 | 16.7 | 16.1 | 12.4 | 16.3 | 10.9 | 9.2 |
| Growth Rate of $M_3$ | y-o-y | 23.0 | 18.9 | 15.5 | 15.3 | 16.5 | 14.8 | 18.3 | 14.6 | 11.4 |
| Weighted Avg. Lending Rate | % | 11.3 | 12.4 | 13.8 | 13.7 | 13.1 | 11.7 | 10.4 | 9.9 | 10.0 |
| Credit growth to Private Sector | % | 24.2 | 25.8 | 19.7 | 10.9 | 12.2 | 12.9 | 16.6 | 15.6 | 16.9 |
| Stock Market (Price Index) | | 5111.6 | 6117.2 | 4572.9 | 4385.8 | 4480.5 | 4583.1 | 4507.6 | 5656.1 | 5405.5 |
| Market Capitalization of DSE[#] | Billion Taka | 2700.7 | 2853.9 | 2491.6 | 2530.2 | 2386.3 | 2701.9 | 2614.5 | 3239.4 | 3263.1 |
| Market Capitalization of DSE | % of GDP | 38.9 | 35.8 | 27.2 | 24.4 | 17.7 | 17.8 | 15.1 | 16.6 | 14.6 |
| Market Capitalization of DSE | Billion USD | 39.0 | 40.1 | 31.5 | 31.7 | 30.7 | 34.7 | 33.4 | 40.9 | 39.7 |
| **V. Banking Sector Indicators** | | | | | | | | | | |
| Capital adequacy ratio | % | 9.3 | 11.4 | 10.5 | 9.1 | 10.7 | 10.3 | 10.8 | 10.9 | 10.11[#] |
| Non performing loans | % | 7.3 | 6.1 | 10.0 | 11.9 | 10.8 | 9.7 | 10.1 | 10.1 | 10.41 |
| Profitability (R.O.E) | % | 21.0 | 17.0 | 8.2 | 8.2 | 8.4 | 6.6 | 9.4 | 4.7 | 9.6 |
| Profitability (R.O.A) | % | 1.8 | 1.5 | 0.6 | 0.6 | 0.6 | 0.5 | 0.68 | 0.34 | 0.67 |

Note: All data are provided on the basis of Bangladesh Financial Year (July-June). This format is adopted on recommendations of the SAARCFINANCE meeting on Improvement of SAARCFINANCE e-Newsletter and Development of SAARCFINANCE Scholarship Scheme, 9-10 January 2013, Dhaka, Bangladesh.

*=Base 2005-06=100, [#] DSE= Dhaka Stock Exchange

Annex-2

## Macroeconomic Surveillance Indicators for Bangladesh

| Indicators | FY2018 | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 |
|---|---|---|---|---|---|---|
| Current account balance as a percentage of GDP | -3.59 | -0.84 | 1.62 | 0.96 | 0.60 | 1.25 |
| Reserves as a percentage of import (in months) | 6.54 | 8.20 | 8.20 | 7.10 | 6.10 | 5.20 |
| National Debt as a percentage of GDP (a+b) | 28.01 | 29.80 | 30.26 | 30.62 | 32.46 | 32.65 |
| (a) Domestic Debt as a percentage of GDP | 15.91 | 15.67 | 15.78 | 15.50 | 15.45 | 15.48 |
| (b) External Debt as a percentage of GDP | 12.1 | 14.13 | 14.48 | 15.12 | 17.01 | 17.17 |
| Domestic Credit as a percentage of GDP | 45.64 | 45.08 | 46.24 | 46.28 | 47.47 | 47.69 |
| Fiscal Deficit as a percentage of GDP | 4.8 | 4.8 | 4.7 | 3.7 | 3.09 | 3.25 |
| Inflation Rate | 5.78 | 5.44 | 5.9 | 6.4 | 7.4 | 6.8 |

Source: Bangladesh Bank, Ministry of Finance, GoB and Bangladesh Bureau of Statistics.

# Bhutan

## Recent Overall Macroeconomic Developments

1. Bhutan's real GDP continues to grow by7.99 percent in 2016from 6.49 percent in the previous year. Contribution to real GDP was mainly due to growth in tertiary sector by 4.55 percent followed by secondary sector 2.98 percent and primary sector 0.46 percent.

   Meanwhile, Bhutan's inflation (measured by the year-to-year change of the consumer price index) recorded at 2.01 percent during theJuly of 2018compared to 5.28 percent of same month of previous year. Decrease in the prices of non-food mainly contributed to the fall during the period. On the other hand, imported inflation (year-to-year) during July 2018 was recorded 2.8 percent while domestic inflation rate was recorded at 1.2 percent.

2. The broad money has recorded growth of 10.43 percent as of June 2018which has decreased 21.08 percent from 31.51 percent in June 2018. The growth in the broad money was contributed by growth in narrow money (M1) and other deposits. The growth in narrow money (M1) and other deposits grew by9.19 percent and 12.19 percent, respectively as of June 2018.While on other hand, net foreign assets recorded negative growth of 3.61 percent and domestic credit recorded growth of 17.91 percent. The credit to private sector remained at similar level of 15.78 percent in June 2018.

3. As of June 2018, the growth of combined assets of the financial sectorincreased by8.15 percent, from Nu.149.01 billion in June 2017 to Nu.161.15 billion in June 2018. Of the

total assets, 79.55 percentof the total share belonged to the commercial banks while 20.45 percent were held by non-bank financial institutions (NBFIs). During the same period, banking sector assets grew by 8.45 percent to Nu.139.01 billion while that of the NBFIs grew by 6.36percent to Nu.22.25 billion. The total loans of the financial sector increased from Nu.87.76 billion in June 2017 to Nu.100.64 billion in June 2018, recording growth of 14.67 percent. Of the total loans, banking sector provided Nu.82.56 billion which constitute 82.04 percent. While the share of non-banks loan to total loans was 17.96 percent, amounting to Nu.18.07 billion. In terms of sector wise investment, housing sector has the highest exposure with Nu.25.05 billion, followed by service and tourism with Nu.24.84 billion,trade and commerce with Nu.15.04 billion, manufacturing and industry with Nu.13.41 billion and personal loans with Nu.12.81 billion.

4. On the external front both the trade and current account deficits improved from FY 2017/18. The current account deficit slightly decreased from 24.11 percent of GDP in FY 2016/17 to 23.91 percent of GDP in FY 2016/17, mainly on account of the trade deficit which improved to Nu. 26.96 billion from Nu. 31.15 billion in the previous year,driven by higher electricity exports to India, and minerals and base metals to Countries other than India.

5. At the end of the fiscal year, gross international reserves recorded USD 1,110.9 million during end-June 2018. Reserves were sufficient to finance 13.01 months of merchandise imports while covering 44.17 percent of public external debt.

6. Bhutan’s total outstanding external debt increased to an equivalent of USD 2.65 billion as of June 2018. Of this, an equivalent of USD 642.41 million was outstanding on convertible currency loans and the remaining ₹ 125.21 billion were outstanding Indian Rupee loans.

7. On the fiscal front, as of June 2018, total revenue including grants stood at Nu.54.66 billion from Nu.42.67 billion in preceding year.Anincreaseby 28.09 percentin 2017/18, compared to the 0.52 percent negative growth in 2016/17.Of the total revenue and grants, domestic revenue collection totaled Nu.36.18 billion (an increase of 21.78 percent from the previous year) which was more than sufficient to finance current expenditure (Nu.28.62 billion).On the other hand, total expenditure increased significantlyby13.09 percent (from Nu.49.97 billion in FY 2016/17 to Nu.56.51 billion) during the year.The increase was on account of growth in spending for both current and capital expenditures, which grew by 18.61 percent and 16.06 percent, respectively.

### 3.1.1 Highlights of Major Policy Announcements

1. The RMA implemented the ***Priority Sector Lending (PSL) Guidelines*** with effect from January, 2018. The PSL Guidelines is an integrated platform that will coordinate interventions from several Government agencies to stimulate the cottage and small

industries (CSI) sector as an important driver of Bhutan's economic transformation through improved access to finance.

2. In an effort to enhance and promote financial inclusion and literacy, the RMA has initiated the drafting of ***National Financial Inclusion Strategy (NFIS)*** and ***National Financial Literacy Strategy*** (**NFLS)**.The strategy is targeted to strengthen the financial capability and empower all citizens towards attaining a greater financial inclusion to reinforce stable and economic growth.The strategy was implemented from July 2018.

3. To commemorate the 50th anniversary of Indo-Bhutan Friendship in 2018, the RMA will be connecting the ***Bhutan Financial Switch*** with the ***National Financial Switch of India***. The switch connection will enable safe, convenient, and fast financial flows through digital integration.

4. To further deepen and enhance the financial sector, the RMA has implemented regulatory ***Rules and Regulations forMicroloan Institutions and Deposits Taking Microfinance Institutions*** and ***Agent Bankingfrom*** January 03, 2018.

## Bhutan Key Macroeconomic Indicators

| | Unit | 2007-08 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **I. Real Sector** | | | | | | | | | | |
| Per Capita GDP(a) | **US$** | 1814.90 | 2277.76 | 2570.94 | 2532.77 | 2463.80 | 2610.45 | 2719.11 | 2879.07 | |
| Real GDP Growth(a) | **%** | 17.93 | 11.73 | 7.89 | 5.07 | 2.14 | 5.75 | 6.49 | 7.99 | |
| GDP (MP) | **Billion US$** | 1.09 | 1.75 | 1.84 | 1.82 | 1.80 | 1.96 | 3.10 | 2.31 | |
| Agriculture | **% of GDP** | 20.50 | 16.80 | 16.33 | 15.96 | 16.10 | 16.77 | 16.67 | 16.57 | |
| Industry | **% of GDP** | 42.30 | 42.78 | 40.98 | 41.62 | 42.35 | 40.55 | 41.34 | 41.46 | |
| Services | **% of GDP** | 37.30 | 40.42 | 42.69 | 42.42 | 41.55 | 42.68 | 41.99 | 42.04 | |
| Investment | **% of GDP** | 37.70 | 61.70 | 67.65 | 67.91 | 45.96 | 51.71 | 54.00 | 55.03 | |
| National Savings | **% of GDP** | 0.00 | 35.16 | 42.11 | 44.92 | 24.62 | 29.29 | 22.53 | 31.70 | |
| **Headline Inflation** | **%** | 8.85 | 8.33 | 13.53 | 5.51 | 8.55 | 5.15 | 3.56 | 4.93 | 2.01 (July '18) |
| - Food Inflation | **%** | 11.75 | 8.96 | 18.72 | 2.81 | 12.33 | 2.92 | 4.36 | 6.53 | 4.00 (July '18) |
| - Non-Food Inflation | **%** | 7.74 | 8.17 | 10.67 | 7.14 | 6.11 | 6.66 | 3.04 | 3.89 | 0.71 (July '18) |
| - Core inflation | **%** | - | - | - | - | - | - | - | - | - |
| **II. Fiscal Sector** | | **2007-08** | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| Revenue Collection (CSR) | **Billion US$** | 0.31 | 0.39 | 0.40 | 0.39 | 0.27 | 0.39 | 0.42 | 0.46 | 0.53 |
| Fiscal Balance (excluding grants) | **% of GDP** | -11.19 | -16.78 | -20.16 | -14.17 | -9.43 | -11.68 | -15.14 | -12.33 | -30.00 |
| Fiscal Balance (including grants) | **% of GDP** | 0.82 | -2.30 | -1.23 | -4.36 | 4.08 | -2.35 | -3.00 | -3.59 | -2.40 |
| **Public Debt** | **% of GDP** | 27.28 | 80.22 | 89.69 | 104.94 | 100.64 | 101.34 | 122.76 | 104.00 | 99.30 |
| - of which foreign currency | **% of GDP** | 27.28 | 79.53 | 88.40 | 98.43 | 100.31 | 98.91 | 118.60 | 100.30 | 93.30 |
| - domestic debt | **% of GDP** | 0.00 | 0.69 | 1.29 | 6.51 | 0.33 | 2.44 | 4.17 | 6.30 | 7.20 |
| - debt servicing | **% of total revenue** | 30.66 | 26.08 | 45.20 | 88.24 | 19.94 | 18.25 | 24.51 | 27.63 | 41.70 |
| **III. External Sector** | | | | | | | | | | |
| Exports (f.o.b) | **Billion US$** | 0.60 | 0.67 | 0.62 | 0.59 | 0.55 | 0.56 | 0.49 | 0.57 | 0.57 |
| Imports (f.o.b.) | **Billion US$** | 0.67 | 1.12 | 1.01 | 0.95 | 0.93 | 1.10 | 0.95 | 1.06 | 0.94 |
| Trade Deficit | **Billion US$** | 0.08 | 0.46 | 0.40 | -0.35 | -0.38 | -0.42 | -0.57 | -0.48 | -0.37 |
| Remittances | **Billion US$** | 0.00 | 0.00 | 0.01 | 0.01 | 0.00 | 0.00 | 0.01 | 0.04 | 0.02 |
| Current Account Balance | **Billion US$** | -0.11 | -0.52 | -0.39 | -0.42 | -0.47 | -0.56 | -0.66 | -0.56 | -0.52 |
| Current Account Balance | **% of GDP** | 9.10 | 32.25 | 22.99 | 26.43 | 28.31 | 29.83 | 33.13 | 24.11 | 23.91 |
| **Total Foreign Investment** | **Million US$** | 0.00 | 31.08 | 24.06 | 20.37 | 29.14 | 10.36 | 8.04 | -24.85 | 3.17 |
| - Foreign Direct Investment | **Million US$** | 0.00 | 31.08 | 24.06 | 20.37 | 29.14 | 10.36 | 8.04 | -24.85 | 3.17 |
| - Portfolio Investment | **Million US$** | - | - | - | - | - | - | - | - | - |
| External Debt and Forex Liabilities | **Billion US$** | 0.82 | 1.35 | 1.42 | 1.61 | 1.76 | 1.82 | 2.31 | 2.51 | 2.68 |
| External Debt and Forex Liabilities | **% of forex earnings** | - | - | - | - | - | - | - | - | - |
| Short-term debt to GDP | **%** | 3.29 | 10.92 | 12.99 | 15.81 | 9.58 | 6.68 | 0.08 | 0.05 | 9.02 (Dec'17) |
| External Debt Servicing Ratio (pl see footnote) | ***** | 18.27 | 30.96 | 55.80 | 167.71 | 21.02 | 15.98 | 10.56 | 24.80 | 27.80 |
| Exchange Rate | **Per US$** | 40.37 | 45.33 | 50.27 | 62.00 | 63.33 | 63.76 | 66.32 | 64.43 | 67.79 |
| Foreign Exchange Reserves | **Billion US$** | 0.55 | 0.80 | 0.67 | 0.93 | 1.20 | 0.93 | 1.12 | 1.10 | 1.11 |
| **IV. Monetary & Capital Market** | | | | | | | | | | |
| Growth Rate of $M_1$ | **y-o-y** | 6.30 | 34.30 | 5.60 | 2.10 | 5.05 | 4.97 | 7.81 | 31.51 | 10.43 |
| Growth Rate of $M_2$ | **y-o-y** | 2.27 | 21.21 | -1.02 | 3.53 | 6.62 | 7.82 | 15.83 | 35.14 | 9.18 |
| Growth Rate of $M_3$ | **y-o-y** | - | - | - | - | - | - | - | - | - |
| Weighted Avg Lending Rate | **%** | - | - | - | - | - | - | - | - | - |
| Credit growth to Private Sector | **%** | 35.80 | 29.40 | 30.07 | 7.07 | 6.44 | 14.00 | 14.70 | 15.39 | 15.69 |
| Stock Market (Price Index) | **1991=100** | - | - | - | - | - | - | - | - | - |
| Market Capitalization (as leading stock mkt)(a) | **Domestic Currency in Billion** | 5.03 | 10.01 | 14.38 | 17.63 | 20.59 | 22.00 | 23.99 | 22.74 | 25.58 |
| Market Capitalization (as leading stock mkt) (a) | **% of GDP** | 10.17 | 13.81 | 16.80 | 18.19 | 17.70 | 21.08 | 20.07 | 15.30 | 17.21 |
| Market Capitalization (as leading stock mkt)(a) | **Billion US$** | 0.13 | 0.22 | 0.29 | 0.32 | 0.35 | 0.35 | 0.36 | 0.35 | 0.38 |
| **V. Banking Sector Indicators** | | | | | | | | | | |
| Capital adequacy ratio | **%** | 16.12 | 15.90 | 17.89 | 19.61 | 18.51 | 18.29 | 18.29 | 17.24 | 16.40 |
| Non performing loans | **%** | 4.91 | 5.20 | 3.92 | 6.57 | 6.33 | 10.21 | 10.21 | 12.46 | 10.82 |
| Profitability (R.O.E.) | **%** | 18.31 | 15.72 | 16.10 | 13.00 | 13.06 | -0.05 | -0.05 | -4.40 | 3.38 |
| Profitability (R.O.A.) | **%** | 1.54 | 1.58 | 2.24 | 2.40 | 2.27 | -0.27 | -0.27 | -0.65 | 0.44 |

******* 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 June '2016 except for V.Banking Sector Indicators which are for September, 2016 .

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

# India

## Recent Macroeconomic Developments

***Real Growth:***

- Gross domestic product (GDP) growth for Q1:2018-19touched a nine-quarter high of 8.2 per cent. The economy has exhibited sustained revival in each quarter since Q2:2017-18. Private final consumption expenditure (PFCE) strengthened in this quarter due to improved performance of agriculture (particularly allied activities) and manufacturing. Government final consumption expenditure(GFCE) recorded a moderation by growing at 7.6 per cent in Q1:2018-19 due to unfavorable base effect.The turnaround in the overall growth ratecoincided with a revival in gross fixed capital formation (GFCF) since Q2 of 2017-18, which was also significantly supported by government's thrust on national highways and low-cost housing. Thus, acceleration in GFCF to a high growth of 10.0 per cent further supported aggregate demand in Q1:2018-19. Exports of goods and services exhibiteda major turnaround in Q1:2018-19, recording a growth of 12.7 per cent - highest in the last sixteen quarters – and outpacing the robust pace of imports for the first time in the last five quarters.
- Aggregate supply condition, measured by gross value added (GVA) at basic prices, gathered strength and accelerated in Q1:2018-19 to 8.0 per cent (an eight-quarter high), reflecting an

upward trend underway since Q2:2017-18. Agriculture, forestry and fishing sector exhibited a growth rate of 5.3 per cent, supported by allied activities which registered a growth of 8.1 per cent. Underlying this recovery from a low growth of 5.6 per cent in GVA in Q1:2017-18, was the turnaround in industry in the second quarter of 2017-18, particularly in manufacturing activities.Activity in the services sector that had picked up and had become broad-based in Q4:2017-18, however,grew at a slower pace in Q1:2018-19 at 7.5 per cent.

- Real GDP growth is expected to increase to 7.4 per cent in 2018-19 from 6.7 per cent in the previous year, on the back of a steady expansion in aggregate demand supported by consumption (both urban and rural), investment and exports[1]. The supply side too is expected to gain strengthacross major sectors, as suggested by more recent trends.

***Price Situation:***

- Consumer price inflation, after remaining moderate at an average of 3.8 per cent during July-December 2017, increased to 4.7 per cent during January-June 2018. As per the latest available data, inflation declinedfrom4.2 per cent in July 2018 to 3.7 per cent in August 2018 (3.3 per cent in August2017). Excluding food and fuel, inflation increased sharply in April 2018 surpassing 6 per cent (first time since July 2014). For most of the current financial year thus far, inflation in this category has remained above 6 per cent (6.0 per cent in August2018). The RBI raised its policy rate by 25 bps each during June 2018 and August 2018 policy rounds, guided by the objective to achieve the medium-term target of CPI inflation of 4 per cent +/- 2 per cent. A rise in global crude oil prices, uptick in input cost pressures, closing output gap and increase in household's inflation expectations, as reflected in the March 2018 and June 2018 rounds of inflation expectations of households survey (IESH) conducted by the RBI, were some of the key considerations.

- Going forward, a number of factors would shape the inflation outlook. The upside risks to the inflation trajectory could primarily emanate from the volatility in global crude oil prices, firming up of input cost pressures, rise in inflation expectations and the staggered impact of increases in House Rent Allowance by the state governments. On the downside, much will depend on the

[1] As stated in the RBI's Annual Report for 2017-18, placed in the public domain on August 29, 2018.

dynamics of food inflation and on the supply management strategies adopted by the government.

***External Sector Developments:***

- The Current Account deficit (CAD) had widened in 2017-18 to 1.9 per cent of GDP from 0.6 per cent in 2016-17 per cent on a year-on-year (y-o-y) basis. During Q1 of 2018-19, the CADstood at 2.4 per cent of GDP as compared with 2.5 per cent of GDP in Q1 of 2017-18, reflecting an absolute increase of around US$ 800 million, primarily on account of a higher trade deficit. While net foreign direct investment Q1 of 2018-19 was higher than in Q1 of 2017-18, portfolio investment recorded net outflow inQ1 2018-19 as compared with a net inflow in Q1 of the previous year. India's foreign exchange reserves were at US$ 400.5 billion as on September 14, 2018.
- Looking ahead, even though exports have gathered momentum in Q1 of 2018- 19, the worsening global trade environment as a result of protectionist policies may impinge upon external demand. Elevated crude oil prices and the strengthening of domestic demand may push up the import bill. With India being a net energy importer, the changing demand-supply dynamics in the international crude oil market may impact heavily on India's trade deficit. With domestic information technology (IT) companies gradually adapting to the global business environment, software exports are expected to remain strong. The increase in limits for foreign portfolio investment in both government and corporate bonds augurs well for the prospects for external financial flows adjusted for downside risks. The current account deficit is expected to be largely financed by FDI flows[2].

***Monetary Developments:***

- On a year-on-year basis, Reserve Money (RM) recorded a growth of 19.0per cent (as on September 14, 2018) as against a decline of 4.5 per cent during the corresponding period of the previous year. During the financial year 2018-19 so far (upto September 14, 2018), RM increased by 3.1 per cent *vis-à-vis* an increase of 10.3 per cent in the corresponding period of the previous year. Broad money (M3) growth as on August 31, 2018 at 10.3 per cent, was higher than that of 6.1 per cent in the corresponding period of the previous year due to higher growth in both currency with the public as well as aggregate deposits. The y-o-y growth of Scheduled

[2] Please see previous footnote.

Commercial Banks (SCBs) credit as on August 31, 2018 was higher at 13.5 per cent than that of 6.1 per cent in the corresponding fortnight of the previous year.

***Fiscal Developments:***

- In 2017-18, as per provisional accounts, there was a deterioration in the fiscal position of the central government as evident fromtheincrease in key deficit indicators *viz*., revenue deficit (RD) and gross fiscal deficit (GFD) as ratios to GDP from their 2016-17 levels. Both gross and net tax collections were marginally higher than their budgeted levels, mainly on account of buoyant direct tax revenues under corporation tax. The indirect tax (including GST) to GDP ratio dipped marginally in 2017-18, even though collections were higher than the previous year. Non-tax revenues, however, fell short of the budget target by 33.3 per cent due to lower receipts from dividends and profits as well as deferment of spectrum auctions;this coupled with higher revenue expenditure, largely contributed to the increase in fiscal imbalances.
- For 2018-19, the central government's GFD is budgeted at 3.3 per cent of GDP, 0.2 percentage points below the 2017-18 level. The fiscal position of central government, improved in the first quarter of 2018-19 (April-June) as key deficit indicators (both in absolute termsas well as proportion of Budget Estimates) were lower than their respective levels in the corresponding period of the previous year (COPPY). On the receipts side, taxrevenueaccelerated on account of upturn in income tax collections and GST. Non-tax revenue also surged over theprevious year.
- The consolidated GFD to GDP ratio for states slipped to 3.1 per cent in the revised estimates for 2017-18 asagainst the budgeted level of 2.7 per cent of GDP, largely due to shortfall in revenue receipts and higher revenue expenditure on account offarm loan waivers and implementation of the pay commission recommendations on salaries and pensions. The consolidated fiscal deficit of states is budgeted to decline to2.6 per cent of GDP in 2018-19 through higher revenue collection and lower revenue expenditure.Going forward, fiscal risks may emanate for many states going for elections during the year, additional burden of farm loan waivers announced outside budgeted outlays as well as the implementation of the pay commission awards by some states.

**Highlights of Major Monetary Measures taken by the Reserve Bank since January 2018**

| | |
|---|---|
| August 1,2018 | Third Bi-monthly Monetary Policy Statement, 2018-19 decided to<br>• Increase the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.5 per cent.<br>• Consequently, the reverse repo rate under the LAF stands adjusted to 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent.<br>• The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. The main considerations underlying the decision are set out in the statement below. |
| June 06, 2018 | Second Bi-monthly Monetary Policy Statement, 2018-19 decided to<br>• Increase the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.25 per cent.<br>• Consequently, the reverse repo rate under the LAF stands adjusted at 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.50 per cent.<br>• The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent with a band of +/- 2 per cent, while supporting growth. |
| April 05, 2018 | First Bi-monthly Monetary Policy Statement, 2018-19 decided to<br>• Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent.<br>• Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 per cent.<br>• The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent with a band of +/- 2 per cent, while supporting growth. |
| Feb 07, 2018 | Sixth Bi-monthly Monetary Policy Statement, 2017-18 decided to<br>• Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 per cent.<br>• Consequently, the reverse repo rate under the LAF remains at 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank |

| | |
|---|---|
| | Rate at 6.25 per cent.<br>• The decision of the MPC is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent with a band of +/- 2 per cent, while supporting growth. |

**<u>Training Programmes/Staff Exchange Programmes Organized by the RBI</u>**

- Officialsof the Reserve Bank of Indiamade a visit to Central Bank of Sri Lanka to conduct a training programme on 'Supervision of Non-Banking Financial Institutions' during January 10-12, 2018.
- Officials from Central Bank of Sri Lanka made an exposure visit to various departments of the RBI such as, Internal Debt Management Department (IDMD) & Department of Payment and Settlement Systems (DPSS) during January 10-12, 2018. They also visited Clearing Corporation of IndiaLtd. (CCIL)during this visit.
- Fifteen officials from Nepal Rastra Bank and eleven officials from Central Bank of Sri Lanka attended an exposure training programme on 'understanding Self Help Group, Joint Liability Group and Farmers' Club' at College of Agriculture Banking, Pune during January 29- February 02, 2018.
- Reserve Bank of India officialsvisited Central Bank of Sri Lanka to conduct a training programme on 'Regulations and BASEL II' during February 07-09, 2018.
- Eighteen newly recruited officers from Royal Monetary Authority of Bhutan attended training on 'Central Banking' at Reserve Bank Staff College, Chennai during March 12-16, 2018.
- Two officials from Nepal Rastra Bank attended a training programme on 'Understanding Derivative Better: Beyond Basics' during March 26-28, 2018.
- Officials from Bangladesh Bank made an exposure visit to Reserve Bank of India Library and Archives of College of Agricultural Banking Pune during March 26-28, 2018.
- The Reserve Bank of India conducted a training programme on banking supervision at Central Bank of Sri Lanka during March 26-28, 2018.
- Officials from Royal Monetary Authority of Bhutan made an exposure visitto various departments of the Reserve Bank of India during May 17-18, 2018

- Officials from Nepal Rastra Bank attended training programme on ‘Monetary Theory and Policy’ during June 18-21, 2018 at Reserve Bank Staff College, Chennai.
- The Reserve Bank of India conducted a training programme on ‘Code of Ethics’ at Central Bank of Sri Lanka during June 23-26, 2018.
- **Annex: Data for SAARCFINACNE e-newsletter**
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| | 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 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Real Sector** | | | | | | | | | | | | | | | |
| Per Capita GDP (Real)& | **US$** | 664 | 701 | 851 | 785 | 814 | 909 | 1495 | 1371 | 1295 | 1360 | 1355 | 1399 | 1533 | |
| Real GDP Growth $ | **%** | 9.3 | 9.3 | 9.8 | 3.9 | 8.5 | 10.3 | 6.6 | 5.5 | 6.4 | 7.4 | 8.2 | 7.1 | 6.7 | |
| GDP (MP at Current Prices) & | **Billion US$** | 834 | 948 | 1241 | 1227 | 1367 | 1707 | 1824 | 1828 | 1857 | 2041 | 2101 | 2273 | 2600 | |
| Agriculture Growth $ | **%** | 5.1 | 4.2 | 5.8 | 0.1 | 0.8 | 8.6 | 5.0 | 1.5 | 5.6 | -0.2 | 0.6 | 6.3 | 3.4 | |
| Industry Growth $ | **%** | 8.5 | 12.9 | 9.2 | 4.1 | 10.2 | 8.3 | 6.7 | 4.5 | 4.2 | 8.1 | 12.1 | 8.7 | 5.5 | |
| Services Growth $ | **%** | 11.1 | 10.1 | 10.3 | 9.4 | 10.0 | 9.2 | 7.1 | 7.0 | 6.9 | 9.0 | 8.7 | 6.7 | 7.6 | |
| Investment & | **% of GDP(MP)** | 34.7 | 35.7 | 38.1 | 34.3 | 36.5 | 36.5 | 39.0 | 38.7 | 33.8 | 33.5 | 32.3 | 30.6 | | |
| Domestic Savings $$ | **% of GNDI** | 32.7 | 33.8 | 35.8 | 31.1 | 32.6 | 33.0 | 33.8 | 33.1 | 31.4 | 31.6 | 30.7 | 29.6 | | |
| **Headline Inflation (WPI) ****** | **%** | 4.5 | 6.6 | 4.7 | 8.1 | 3.8 | 9.6 | 8.9 | 7.4 | 5.2 | 1.3 | -3.7 | 1.7 | 2.9 | |
| - Food Inflation | **%** | 3.7 | 7.9 | 5.6 | 8.9 | 14.6 | 11.1 | 7.2 | 9.3 | 9.6 | 4.3 | 1.2 | 5.9 | 1.9 | |
| - Non-Food Inflation | **%** | 4.7 | 6.2 | 4.4 | 7.8 | 0.2 | 9 | 9.6 | 6.6 | 3.7 | 0.2 | -5.4 | 0.1 | 3.3 | |
| - Excl. Food and Fuel inflation | **%** | 2.6 | 6.1 | 5.7 | 6.8 | 0.9 | 8.1 | 8.4 | 5.6 | 3 | 1.6 | -2.5 | 0.2 | 2.5 | |
| **Headline Inflation (CPI)***** | **%** | 4.4 | 6.7 | 6.2 | 9.1 | 12.4 | 10.4 | 8.4 | 10 | 9.4 | 5.8 | 4.9 | 4.5 | 3.6 | |
| - Food Inflation | **%** | 4.1 | 9.2 | 8.4 | 12.3 | 15.2 | 9.9 | 6.3 | 11.2 | 11.9 | 6.5 | 5.1 | 4.4 | 2.2 | |
| - 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 | 3.3 | 6.2 | |
| - Excl. Food and | **%** | 6.6 | 3. | 4.6 | 6 | 10 | 11 | 9. | 9 | 7.2 | 5.4 | 4.6 | 4.8 | 4.6 | |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fuel inflation | | | 2 | | | .5 | .2 | 8 | | | | | | | |
| **II. Fiscal Sector** | | | | | | | | | | | | | | | |
| Revenue Collection (CSR) | **Billion INR** | 3470.77 | 4343.87 | 5418.64 | 5402.59 | 5728.11 | 7884.71 | 7514.37 | 8792.32 | 10147.24 | 11013.81 | 11950.25 | 13742.03 | 15054.28$$$ | 17257.38@ |
| Fiscal Deficit (excluding grants) | **% of GDP** | | | | | | | | | | | | | | |
| Fiscal Deficit (including grants) | **% of GDP** | 4 .0 | 3.3 | 2.5 | 6.0 | 6.5 | 4.8 | 5.9 | 4.9 | 4.5 | 4.1 | 3.9 | 3.5 | 3.5$$$ | 3.3@ |
| **Public Debt** | **% of GDP** | 40.2 | 38.4 | 38.5 | 38.1 | 38 | 37.8 | 40.7 | 41.1 | 41.1 | 41.0 | 41.7 | 40.7 | 39.2 | |
| - of which external debt | **% of GDP** | 2.6 | 2.4 | 2.2 | 2.2 | 2.1 | 3.6 | 3.7 | 3.3 | 3.3 | 2.9 | 3.0 | 2.7 | 2.5 | |
| - domestic debt ^^ | **% of GDP** | 37.6 | 36 | 36.3 | 35.9 | 35.9 | 34.3 | 37 | 37.9 | 37.8 | 38.1 | 38.8 | 37.8 | 36.7 | |
| - debt servicing | **% of total Revenue** | 38.2 | 34.2 | 31.6 | 35.6 | 37.2 | 29.7 | 36.4 | 35.6 | 36.9 | 36.5 | 37 | 33.9 | 34.5 | |
| **III. External Sector** | | | | | | | | | | | | | | | |
| Exports (f.o.b) | **Billion US$** | 105.2 | 128.9 | 166.2 | 189 | 182.4 | 256.2 | 309.8 | 306.6 | 318.6 | 316.5 | 266.4 | 280.1 | 309.0 | |
| Imports (c.i.f) | **Billion US$** | 157.1 | 190.7 | 257.6 | 308.5 | 300.6 | 383.5 | 499.5 | 502.2 | 466.2 | 461.5 | 396.4 | 392.6 | 469.0 | |
| Trade Deficit | **Billion US$** | -51.9 | -61.8 | -91.5 | -119.5 | -118.2 | -127.3 | -189.8 | -195.7 | -147.6 | -144.9 | -130.1 | -112.4 | -160.0 | |
| Remittances | **Billion US$** | 24.5 | 29.8 | 41.7 | 44.6 | 51.8 | 53.1 | 63.5 | 64.3 | 65.5 | 66.3 | 63.1 | 56.0 | 62.9 | |
| Current Account Balance | **Billion US$** | -9.9 | -9.6 | -15.7 | -27.9 | -38.2 | -48.1 | -78.2 | -88.2 | -32.3 | -26.8 | -22.2 | -14.4 | -48.7 | |
| Current Account Balance | **% of GDP** | -1.2 | -1 | -1.3 | -2.3 | -2.8 | -2.8 | -4.2 | -4.8 | -1.7 | -1.3 | -1.1 | -0.6 | -1.9 | |
| **Total Foreign Investment** | **Million US$** | 15528 | 14753 | 43326 | 8342 | 50363 | 42127 | 39231 | 46711 | 26386 | 73456 | 31891 | 43224 | 52401 | |
| - Foreign Direct Investment | **Million US$** | 3034 | 7693 | 15893 | 22372 | 17966 | 11834 | 22061 | 19819 | 21564 | 31251 | 36021 | 35612 | 30286 | |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - Portfolio Investment | **Million US$** | 12494 | 7060 | 27433 | -14031 | 32396 | 30293 | 17170 | 26891 | 4822 | 42205 | -4130 | 7612 | 22115 | |
| External Debt and Forex Liabilities | **Billion US$** | 139.1 | 172.4 | 224.4 | 224.5 | 260.9 | 317.9 | 360.8 | 409.4 | 446.2 | 474.7 | 484.8 | 471.3 | 529.7 | |
| External Debt and Forex Liabilities | **% of forex earnings** | 109 | 115.6 | 138 | 112.2 | 106.9 | 95.9 | 81.6 | 71.3 | 68.2 | 72 | 74.3 | 78.5 | 80.2 | |
| 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 | 3.8 | 4.0 | |
| External Debt Service Ratio | | 10.1 | 4.7 | 4.8 | 4.4 | 5.8 | 4.4 | 6.0 | 5.9 | 5.9 | 7.6 | 8.8 | 8.3 | 7.5 | |
| Exchange Rate | **Per US$** | 44.3 | 45.3 | 40.3 | 46 | 47.4 | 45.6 | 47.9 | 54.4 | 60.5 | 61.1 | 65.5 | 67.1 | 64.5 | |
| Foreign Exchange Reserves | **Billion US$** | 152 | 199 | 310 | 252 | 279 | 305 | 294 | 292 | 304 | 342 | 360 | 370 | 425 | 400+ |
| **IV. Monetary & Capital Market** | | | | | | | | | | | | | | | |
| Growth Rate of $M_1$ | y-o-y | 20.7## | 17.1 | 19.4 | 9 | 18.2 | 10 | 6 | 9.2 | 8.5 | 11.3 | 13.5 | -3.9### | 21.8 | 18.0* |
| Growth Rate of $M_2$ | y-o-y | | | | | | | | | | | | | | |
| Growth Rate of $M_3$ | 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 | 6.9### | 9.2 | 10.3* |
| 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 | 11.34 | 10.9 | | |
| Bank Credit to commercial sector (%) | **%** | 27.3## | 26.1 | 21.1 | 16.9 | 15.8 | 21.3 | 17.8 | 13.5 | 13.7 | 9.4 | 10.7 | 4.2### | 9.5 | 12.8* |
| Stock Market (Price Index) (BSE) | **March 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 | 2536.1 | 2822.8 | 3229.4^^^ |
| 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 | 121545.3 | 142250.0 | 154264.4^^^ |
| Market Capitalization (as leading stock mkt) | **% of GDP** | 81.8 | 82.5 | 103 | 54.8 | 95.2 | 87.9 | 70.4 | 64 | 65.8 | 81.6 | 68.8 | 79.7 | 84.8** | |
| Market | **Billion** | 679 | 80 | 12 | 60 | 13 | 15 | 12 | 120 | 121 | 162 | 141 | 1874. | 2187 | 2120 |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capitalization (as leading stock mkt)@@ | **US$** | .4 | 5.2 | 73.2 | 2.4 | 55.2 | 20.1 | 35.1 | 9.6 | 5.4 | 5.2 | 3.8 | 6@@ | @@ | .5^^^@@ |
| **V. Banking Sector Indicators** | | | | | | | | | | | | | | | |
| Capital adequacy ratio# | % | 12.3 | 12.3 | 13 | 14 | 14.5 | 14.19 | 14.24^ | 13.9 | 13.0 | 13.0 | 13.3 | 13.6 | 13.5 | |
| Non-performing loans# | % | 3.3 | 2.5 | 2.3 | 2.3 | 2.4 | 2.5 | 3.1 | 3.2 | 3.8 | 4.3 | 7.5 | 9.3 | 11.6 | |
| Profitability (R.O.E.)# | % | 14.8 | 15.5 | 16 | 15.4 | 14.3 | 15 | 14.6 | 13.8 | 10.7 | 10.4 | 3.6 | 4.2 | -1.9 | |
| Profitability (R.O.A.)# | % | 1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.03 | 0.8 | 0.8 | 0.4 | 0.35 | -0.2 | |

- P: Provisional Data
- ***: Figures for 2005-06 to 2011-12 correspond to CPI-IW (Annual Average Indices) with base 2001=100 and thereafter CPI-Combined with base 2012=100.
- ****: Figures from 2005-06 to 2012-13 correspond to old base year 2004-05=100 and thereafter new base year 2011-12=100.
- ^^: Pertains to internal debt.
- ______________________________________________________________________________________________________________________________________
- ^: CRAR figures for 2008-09, 2009-10, 2010-11 and 2011-12 are as per the Basel II framework
- #: CRAR figures 2012-13 onwards are as per the Basel III framework. All Banking Sector Indicator data for March 2018 are sourced from Financial Stability Report, June 2018. Earlier data are sourced from various issues of Report on Trend and Progress of Banking in India.
- ^^^: As on September 12, 2018
- @@: Figures have been arrived at by using RBI's reference rate for the US Dollar
- **: GDP for 2017-18 is Provisional estimates
- ##: March 31, 2006 over April 1, 2005
- ###: March 31, 2017 over April 1, 2016
- *: Data as on August 31, 2018 over September 01, 2017.
- $: The data from the year 2012-13 onwards is in new GDP series (with base 2011-12).
- $$: Domestic saving is a ratio of gross saving to Gross National Disposable Income (GNDI).
- &: The data from the year 2011-12 onwards is in new GDP series (with base 2011-12).
- $$$: pertains to provisional estimates
- @: Budget Estimate
- +: Data as on August 31, 2018.

# Maldives

## Recent overall macroeconomic developments

Recent indicators showed that the tourism sector (the single largest contributor to GDP) continued to strengthen and remained resilient during H1-2018. The growth in tourist arrivals observed the highest growth in four years when compared with the corresponding period of the previousyears.The buoyant growth in arrivals was largely underpinned by the striking increase in arrivals from Europe, especially from its key source markets—Italy, Russia, United Kingdom, France and Germany. Meanwhile, arrivals from the Asia and Pacific region also contributed positively to the overall arrival growth. This was due to an upsurge in arrivals from Thailand, Australia and India,which curbed theprotracted decline in arrivals from China. The positive performance of the tourism sector was also evidenced by a marked annual growth of 14% in tourist bednights during the period. This reflected both the growth in tourist arrivals as well as a slightincrease in the average duration of stay. As for the other main sectors of the economy, the fisheries sector showed a weak performance during H1-2018 as indicated by the decline in fish purchases by fish processing companies and the fallin volume of fish exports. In contrast, the construction sector continued to perform robustly as depicted by theincrease in construction-related imports and commercial bank credit. The sector was bolstered by strong credit growth coupled with the rising demand.

Looking at the price developments, the inflation rate declined to -0.4% in H1-2018 from 3.8% in H1-2017. The rate of inflation entered into deflation territorylargely on the back of a number of policy changes that became effective in H2-2017 as well as in H1-2018, despite a substantial rise in global oil prices over the period. During the period, major downward contributions came from prices of electricity and food items. As such, electricity prices were dampened by the base effect of the downward revision in the import duties on petrol and diesel in June 2017, together with the upward revision to the fuel surcharge cap rate by the State Electricity Company Limited and Fenaka Corporation Limited. Further, a reduction in electricity and water tariffs in the atolls to equalise utility rates across the country also pushed electricity prices down during the period. Meanwhile, prices of food items decreased because of the reinstatement of the subsidy for staple food items in April 2018. In contrast, these declineswere partially curbed by the continued increase in the rental prices of housing.

As for the public finance situation, both total revenue and total expenditure observed a marked increase in H1-2018. As such, the increase in total revenue was due to a growth in both tax and non-tax revenues during the period.Looking into tax revenues, the major increase was observed in tourism goods and services tax, while general goods and services tax and import duties also contributed to the growth.As for the increase in non-tax revenues, this was largely on account of anincrease in revenues from airport development fees, combined with an annual growth in profits from state-owned enterprises. Meanwhile, the growth in total expenditure reflected anequally large increase in both capital expenditure and recurrent expenditure.The pickup in recurrent expenditure was mostly contributed by a turnaroundin administrative and operational expenses of the government, mainly the spending for national insurance scheme (Aasandha) and subsidies. Likewise, the increase in capital expenditure largely mirrored the upturn in spending on Public Sector Investment Program (PSIP). During the period, the budget deficit wasmainly financed through foreign sources.

Considering the developments in monetary aggregates, broad money (M2) expandedthroughoutthe first half of 2018. This acceleration in broad money growth wasprimarily due to the growth in the net foreign assets(NFA) of the banking sector. The increase in NFA of the banking system mainly reflected the increase in the NFA of the MMA, whereas NFA of the commercial banksdeclined during the period. However, the expansion in broad money was partially offset by a decline in the net domestic assets (NDA)of the banking sector. The decline in the NDA was largely attributable to a fall in net claims on the central government as a result of a decrease in commercial banks' investment in government securities.

Delving into the developments in the external sector, merchandise exports decreased considerably driven by a significant decline indomestic exports,while re-exports increased slightly. The fallin domestic exports was largely due to a fall in earnings from frozen skipjack tuna, together with a fall in earnings fromfrozen yellowfin tuna and fresh or chilled yellowfin tuna.Meanwhile, the growth in re-exports can be attributed to the increase in earnings from sale of jet fuel, partly reflecting the upsurge in global oil prices. As for merchandise imports, a substantial increase was recorded during H1-2018, mainlystemmed from construction sector-related items mirroringthe ongoing infrastructure projects as well as the pickup in global commodity prices. The growthin imports was also contributed by the increase in petroleum productsas well as machinery and mechanical appliances and parts.

With regard to gross international reserves[3] (GIR), it posted a marked annual growth at the end of H1-2018. As such, an increasing trend was observed in the first five months of the year before registering a decline in June 2018. The monthly decline in June reflected fall in the commercial banks' foreign currency deposits held at the MMA.

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

Highlights of the major policy announcements during Jan-June 2018

The monetary policy framework broadly remained unchanged during H1-2018. The MRR remained unchanged at 10% for both local and foreign currency deposits, following the last downward revision from 20% on 20th August 2015. No operational reforms were announced for Open Market Operations (OMO) and the standing facilities of the MMA during the review period. OMO remained suspended since May 2014, and excess liquidity in the banking system continued to be absorbed entirely through placements in the Overnight Deposit Facility (ODF) of the MMA. The Overnight Lombard Facility (OLF), which is the facility for overnight borrowings, remained opened for all commercial banks. The interest rate for the ODF and the OLF remained unchanged during the review period, with 1.5% p.a. and 10% p.a., respectively.

# NEPAL

## RECENT OVERALL MACROECONOMIC DEVELOPMENTS

***Real Sector***

The Nepalese economy is expected to grow by 8 percent in the year 2018/19. The successful conclusion of elections, formation of governments and the formulation of budget at all the three levels of governments are expected to create a conducive environment for economic activities. Favorable and timely monsoon has resulted in almost 95 percent of paddy plantation and the production is expected to result in a good summer harvest. Hence the overall economic growth is expected to increase in 2018/19. The inflation outlook is likely to be pressured by the increase in overall demand due to the increment in the expenditure by federal, provincial and local governments as well as the increase in the prices of petroleum in the international market. This demand led pressure is expected to be controlled by limiting monetary aggregates to a targeted inflation of 6.5 percent.

***Price Situation***

The consumer price inflation on y-o-y basis increased to 4.6 percent in mid-July 2018 compared to 2.7 percent in the previous year. This is indicative of recent developments including exchange rate volatility that risks exerting inflationary pressures. The annual average consumer price inflation moderated to 4.2 percent compared to 4.5 percent in the previous year. This lower level of inflation, the lowest since 2004/05, is attributed to improvement in the supply-chain management and lower level of inflation in India.

***Fiscal Situation***

Government of Nepal's (GoN) budget on cash basis remained at a deficit of USD 2.58 billion in the year 2017/18 compared to USD 1.78 billion in 2016/17 in the year 2016/17. Fiscal deficit in the year 2017/18 is 8.9 percent of GDP which was 13.3 percent of GDP in the year 2016/17.

There has been increment in revenue mobilization along with the increment in expenditure of GoN in the year 2017/18. The government revenue increased by 19.2 percent to USD 6.96 billion compared to a respective increase of 26.4 percent in the year 2016/17. The government recurrent expenditure increased by 32.4 percent to USD 6.52 billion compared to 40.9 percent increment in the previous year.

Similarly government capital expenditure increased 20.4 percent to USD 2.30 billion compared to 72.2 percent increment in the previous year.

### *External Sector Situation*

In the year 2017/18 merchandise export increased 11.1 percent to USD 0.78 billion compared to an increase of 4.2 percent in the same period of previous year. Exports to India, China and other countries increased 12.4 percent, 43.3 percent and 7.5 percent respectively in the review period. Commodity wise, exports of cardamom, polyester yarn, sackings, zinc sheet, threads, among others increased while export of G.I. pipes, twines, juice, woolen carpet, pashmina, among others decreased in the year 2017/18. The export-import ratio declined to 6.5 percent from 7.4 percent of the previous year.

The workers' remittances increased 8.6 percent to USD 7.23 billion in the year 2017/18 in contrast to a decline of 4.6 percent in the previous year. The net transfer receipt increased 1.5 percent to USD 8.28 billion in the review year. Such receipt had increased 9.5 percent in the previous year.

In the annual year of 2017/18, the current account deficit showed an expansion to USD 2.34 billion. The current account was in deficit of USD 0.10 billion in the previous year. The surge in current account deficits was on account of the elevated level of petroleum products, transport equipments and parts, and industrial goods. Similarly, the overall BOP recorded a surplus of USD 9.20 million in contrast to a surplus of USD 0.77 billion in the same period of the previous year. In the year 2017/18, Nepal received capital transfer of USD 0.13 billion and Foreign Direct Investment (FDI) inflow of USD 0.17 billion. In 2016/17, capital transfer and FDI inflow were USD 0.17 billion and USD 0.13 billion respectively.

### *Monetary Situation*

In the year 2017/18, broad money supply (M2) increased by 19.4 percent compared to a rise of 15.5 percent in the year 2016/17.

Net Foreign Assets (after adjusting foreign exchange valuation gain/loss) increased by USD 9.20 million (0.1 percent) in the year 2017/18 compared to an increase of USD 773.05 million (8.6 percent) in the previous year. Reserve Money growth moderated to 8.1 percent compared to a rise of 20.1 percent increment in the previous year. Domestic credit expanded 24.9 percent compared to a growth of 20.6 percent in the previous year.

In the year 2017/18, deposits in the banks and financial institutions (BFIs) increased by 19.2 percent. Out of the total deposits at the BFIs, the share of saving deposits fell to 34.5 percent from 35.4 percent, demand deposits increased to 9.3 percent from 8.7 percent and fixed deposits increased to 44.8 percent in mid-July 2018 from 43.2 percent a year ago.

Similarly, the credit to the private sector from BFIs increased 22.5 percent in the year 2017/18 compared to a rise of 18.2 percent in the previous year. The private sector credit from commercial banks, development banks and finance companies increased 22.3, 25.6 and 16.1 percent respectively in 2017/18.

In the year 2017/18, while NRB mopped up liquidity amounting to USD1.87 billion through open market operations; USD 1.03 billion liquidity was injected through repo auction under the interest rate corridor and outright purchase auction; it injected net liquidity of USD 4.05 billion through the purchase of USD from foreign exchange market. In the year 2016/17, the amount of mopped up liquidity, injected liquidity and injected net liquidity were USD 1.19 billion, USD 0.58 billion and USD 4.18 billion respectively.

***Interest Rate Structure***

Both weighted average 91-day Treasury bill rate and inter-bank transaction rates among commercial banks have increased in the year 2017/18 compared to the previous year. The weighted average 91-days Treasury bill rate increased to 3.74 percent in the last month of 2017/18 from 0.71 percent a year ago. Likewise, in the review period, the weighted average inter-bank transaction rate among commercial banks went up to 2.96 percent from 0.64 percent a year ago; the average base rate of commercial banks increased to 10.47 percent from 9.89 percent a year ago.

***Capital Market***

The NEPSE index on y-o-y basis decreased 23.4 percent to 1212.4 points in mid-July 2018. This index had decreased 7.9 percent to 1582.7 points in mid-July 2017. The stock market capitalization on y-o-y basis decreased 22.7 percent to USD.13.75 billion in mid July 2018. This had increased 1.8 percent a year ago. The ratio of market capitalization to GDP stood at 47.7 percent in mid-July 2018. This ratio was 70.3 percent a year ago.

**Nepal Rastra Bank hosted the 36th SAARCFINANCE Group Meeting and 14th SAARCFINANCE Governors' Symposium**

Nepal Rastra Bank hosted the 36th SAARCFINANCE Group Meeting on 27 June 2018 in Kathmandu. Governor of Nepal Rastra Bank Dr. Chiranjibi Nepal hosted the meeting with current chair of SAARCFINANCE Mr. Khalilullah Sediq, Governor of Da Afghanistan Bank, central bank of Afghanistan. Mr. Amjad Hussain B. Sial, Secretary General of SAARC attended the meeting as a special invitee. Matters relating to enhancing coordination and cooperation between SAARCFINANCE members were discussed in the meeting.

Also, Nepal Rastra Bank hosted the 14th SAARCFINANCE Governors' Symposium on the same day in Kathmandu, Nepal. The theme of the symposium was "Developing a Common Platform for Strengthening Digital Payment System in the SAARC Region". The Chief Guest Honorable Finance Minister Dr. Yuba Raj Khatiwada, Government of Nepal inaugurated the Symposium.

The keynote address for the Symposium was delivered by Mr. Harish Natarajan, Lead Financial Sector Specialist of the World Bank. The special address was provided by H.E. Mr. Amjad Hussain B. Sial, the Secretary General of SAARC. The welcome address was delivered by Dr. Chiranjibi Nepal, Governor of Nepal Rastra Bank, the central bank of Nepal. The inaugural session chair Mr. Fazle Kabir, Governor, Bangladesh Bank delivered the concluding remarks in the symposium. Along with the inaugural session, the Symposium included three sessions. In the first two sessions, the representatives of each of the eight member central banks delivered country paper presentation. The last session was a round table discussion on the Symposium Theme. The session was chaired by Governor Dr. Nepal with four panelists. Mr. Dasho Penjore, Governor, Royal Monetary Authority of Bhutan; Mr. Shamshul Hasan, Deputy Governor, State Bank of Pakistan; Dr. Alfred Hannig, Executive Director of Alliance for Financial Inclusion; and Key Note Speaker Mr. Harish Natarajan of the World Bank were the panelists.

## HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENT

The Monetary Policy for the fiscal year 2018/19 was formulated on the backdrop of the implementation of federalism into local, provincial and federal structure, budgetary allocation in the newly formed federal structures and rising imports. The monetary policy for FY 2018/19 focused on price stability, financial stability through interest rate stability, credit funneling in productive sector and expansion of bank branches in all local levels. The major targets for the year ahead is to contain the inflation at 6.5 percent maintaining required liquidity to facilitate economic growth rate at 8.0 percent.

The Monetary Policy 2018/19 has reduced the cash reserve ratio (CRR) for commercial banks, development banks and finance companies to 4 percent from 6 percent of commercial banks, 5 percent of development banks and 4 percent of finance companies. The lowering of the CRR is likely to add up the liquidity mobilization as well as lessen the base rate of BFIs. Similarly the Statutory Liquidity Ratio has been reduced from 12 percent to 10 percent for commercial banks, 9 percent to 8 percent for development banks and 8 percent to 7 percent for finance companies. The bank rate as a regulatory rate under the lender of last resort provision has been lowered to 6.5 percent from 7 percent.

To meet the increasing demand of loanable fund for productive sector, the Monetary Policy 2018/19 has provisioned for borrowing of funds from offshore banks and financial institutions up to 25 percent of their core capital in convertible currencies as well as in Indian currency. Similarly, Microfinance Financial Institutions can also borrow up to 25 percent of their core capital in the convertible currency from foreign banks.

To encourage the loan towards the productive sector, the ceiling in overdraft loan has been decreased from NPR 7.5 million to NPR 5 million. Deprived sector lending has been provisioned at 5 per cent of the total loan portfolio for commercial banks, development banks and finance companies from earlier 5 per cent for commercial banks, 4.5 per cent development banks and 4 per cent for finance companies. To build up more funds for productive sector lending, the provision for margin lending has been reduced from 40 percent to 25 percent of core capital.

To stabilize interest rate the Monetary Policy 2018/19 has proposed several provisions. The cap on institutional deposit for BFIs for single institutional depositor has been narrowed down to 15 per cent from 20 percent while the cap for institutional deposit remains unchanged at 45 percent for commercial banks, development banks and finance companies. When competing for institutional deposits, BFIs are allowed to add maximum one percentage point in published fixed deposit interest rate for institutional deposits. These provisions are expected to be supportive for keeping lending rates at the desired level.

The Monetary Policy 2018/19 has aimed at the financial stability by introducing several provisions as well as amending current ones. The credit rating of borrower utilizing credit of NPR 500 million and above has been made mandatory from this fiscal year while the provision of deposit insurance has been increased from NPR 0.2 million to NPR 0.3 million. To assist in capital market development, provision for banks to perform stock brokerage through separate subsidiary company has been introduced.

As a transition towards interest rate targeting framework, the Monetary Policy 2018/19 has revised the interest rate corridor. The upper limit of the interest rate corridor of taking the standing liquidity facility has been decreased to 6.5 percent from 7 percent while the lower limit of taking two weeks deposit collection rate is increased to 3.5 percent from 3 percent previously. The provision of taking two weeks' repo rate as a policy rate has been continued at 5 percent. The improvement in the interest corridor arrangement is expected to minimize short term market interest rate volatility.

## KEY ECONOMIC INDICATORS

### Nepal Rastra Bank

| 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 | 2016-17 | 2017-18¤ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Real Sector** | | | | | | | | | | | | | | | |
| Per Capita GDP | US$ | 328 | 350 | 410 | 491 | 497 | 610 | 714 | 702 | 708 | 725 | 766 | 748 | 866 | 1004.00 |
| 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 | 3.3 | 0.6 | 7.9 | 6.30 |
| 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 | 21.16 | 24.88 | 28.81 |
| 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 | 29.4 | 28.21 |
| 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 | 14.1 | 14.18 |
| 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 | 56.6 | 57.61 |
| Investment | % of GDP | 26.5 | 26.9 | 28.7 | 30.3 | 31.7 | 38.3 | 38.0 | 34.5 | 37.0 | 41 | 39.1 | 33.9 | 45.7 | 51.80 |
| National Savings | % of GDP | 28.4 | 29.0 | 28.6 | 33.2 | 35.9 | 35.9 | 37.0 | 39.5 | 40.7 | 45.7 | 44.1 | 40.1 | 45.4 | 43.90 |
| 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 | 4.5 | 4.20 |
| - 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 | 1.9 | 2.70 |
| - 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 | 6.5 | 5.30 |
| **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 | 4.53 | 5.75 | 6.96 |
| 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 | -2.18 | -4.28 | -7.69 | -9.89 |
| 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 | -2.52 | -7.14 | -8.94 |
| Public Debt* | % of GDP | 53.3 | 51.6 | 45.7 | 46.10 | 40.80 | 33.90 | 32.50 | 34.30 | 32.20 | 28.20 | 25.4 | 27.4 | 26.4 | 29.70 |
| - 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 | 16.10 | 17.3 | 15.7 | 16.70 |
| - domestic debt# | % of GDP | 16.1 | 15.9 | 15.9 | 15.40 | 15.00 | 12.40 | 13.50 | 14.00 | 12.50 | 10.50 | 9.2 | 10.40 | 10.7 | 13.00 |
| - debt servicing^ | % of total | 28.2 | 28.3 | 26.1 | 21.15 | 18.81 | 15.96 | 15.10 | 14.45 | 16.51 | 15.12 | 18.20 | 15.9 | 11.7 | 9.90 |
| **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 | 0.66 | 0.69 | 0.78 |
| 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 | 7.76 | 9.34 | 11.91 |
| 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 | -8.66 | -11.13 |
| 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 | 6.56 | 7.23 |
| 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 | -0.10 | -2.34 |
| 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 | -0.4 | -8.20 |
| 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 | 127.45 | 167.80 |
| - 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 | 127.45 | 167.80 |
| - Portfolio Investment | Million US$ | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| External Debt and Forex Liabilities | Billion US$ | NA | NA | 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 | NA | NA |
| Short-term debt to GDP | % | NA | NA | 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 | 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 | 103.28 | 109.45 |
| 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 | 10.18 | 10.56 |
| **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 | 13.1 | 17.60 |
| 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 | 15.5 | 19.40 |
| 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 | 13.9 | 18.30 |
| Weighted Avg Lending Rate | % | NA | NA | NA | NA | NA | NA | NA | 12.4 | 12.1 | 10.55 | 9.62 | 8.86 | 11.33 | 12.47 |
| Credit growth to Private Sector | y-o-y | 14.2 | 14.4 | 12.3 | 24.3 | 29.0 | 17.9 | 13.9 | 11.3 | 20.2 | 18.7 | 19.8 | 23.7 | 18.2 | 22.50 |
| **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 | 1582.7 | 1212.40 |
| 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 | 1890.13 | 1856.8 | 1435.10 |
| 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 | 83.9 | 70.3 | 47.70 |
| 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 | 16.05 | 17.48 | 13.75 |
| **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 | 14.07 | 13.89 |
| Non performing loans | % | NA | NA | NA | NA | 3.6 | 2.5 | 3.2 | 2.6 | 2.6 | 3.8 | 3.33 | 2.19 | 1.81 | 1.60 |
| Profitability (R.O.E.) | % | NA | NA | NA | NA | NA | NA | NA | 11.4 | 13.2 | 20.11 | 22.72 | 22.8 | 17.71 | 16.58 |
| Profitability (R.O.A.) | % | NA | NA | NA | NA | NA | NA | NA | 1.24 | 1.44 | 1.59 | 1.70 | 1.86 | 1.82 | 1.72 |

Fiscal year in Nepal starts at mid - July

Amount in Nepalese Rs. has been converted into US$ with the fiscal year's annual average exchange rate

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

Foot Notes:

* = Includes both gross domestic and external borrowing

# = Gross domestic debt .

^ = Includes both domestc and external debt servicing.

@ = Represents the exchange rate of the last day of the fiscal year( middle of buying and selling)

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

P= Provisional Figures

¤ = Mid-July 2018

# Pakistan

## RECENT OVERALL MACROECONOMIC DEVELOPMENTS

The real GDP growth reached a 13-year level of 5.8 percent in FY18, on the back of vibrant performances by all the three sectors of the economy – agriculture, industry and services. This momentum owed primarily to a growth-oriented policy mix over the past 3 years: historic low interest rates; higher development spending by the government; smooth energy supplies; and a continued support to the farm sector. On the flip side, the twin deficits have grown to unsustainable levels and inflationary pressures have resurfaced, whereas inflation expectations have also picked up. In overall terms, maintaining the virtuous equilibrium of low inflation and higher growth has become challenging.

The high current account deficit, coupled with insufficient financial inflows, has significantly drained the country's FX reserves by a combined US$ 8.3 billion during FY17 and FY18. This pressure was also felt in the currency market, where the PKR posted a depreciation of 13.7 percent against the USD during FY18. The fiscal account is not showing a comfortable picture either: a subdued growth in revenues (especially non-tax) and a sharp increase in current expenditures led to a 5-year high fiscal deficit during FY18. The widening of the twin deficits doubled the pace of debt accumulation in FY18 compared to a year earlier.

Agriculture sector experienced an encouraging turnaround, with a growth rate of 3.8 percent in FY18, which is higher than both the target of 3.5 percent and 2.1 percent in FY17. The crop subsector, rising by 3.8 percent in FY18 compared to a marginal growth of 0.9 percent last year, served as a major stimulant. Overall, strong production of major crops on the back of support prices and assistance programs such as the Kissan package helped revive the sector.

The industrial sector managed to grow by 5.8 percent against the target of 7.3 percent. Overall manufacturing grew by 6.2 percent compared to 5.8 percent last year, while construction sector also managed to maintain its momentum by growing by 9.1 percent on top of 9.8 percent during FY17. The LSM sector witnessed a growth of 5.4 percent on top of the 5.8 percent growth observed during FY17. Major push came from the construction allied and consumer durable segments, while sugar, fertilizer, and leather industries observed a decline in production on a YoY basis.

The services sectors continued to consolidate its share in the overall GDP, posting a growth of 6.4 percent in FY18 - in line with the target. The performance builds upon the 6.5 percent improvement that was realized last year. Major contributors were general government services (11.4 percent), wholesale and retail trade (7.5 percent), and finance & insurance (6.1 percent). The sector also benefited from growth shown by the commodity producing sectors–two heavyweights of the services sector, i.e., wholesale and retail trade and transport, storage and communication were the main beneficiaries.

The 5.8 percent economic growth surpassed the World Bank's earlier forecast of 5.5 percent (then revised to 5.8 percent) and of IMF's 5.6 percent in FY18 for Pakistan. However, the tightening of monetary and fiscal policies underway would result in the economy slowing down to 4.0 percent during FY19, according to the World Bank. The IMF on the other hand expects even more moderation, putting the forecast figure at 4.0 percent for 2019, and 3.0 percent overall in the medium term – till 2023.

**Inflation**

Average CPI inflation rose by 3.9 percent during FY18, as compared with an increase of 4.2 percent during FY18. Within overall CPI, food and non-food inflation increased by 1.8 and 5.4 percent, respectively, during FY18, compared with a rise of 3.8 percent and 4.4 percent during the same period of FY17.

Wholesale Price index (WPI) rose by 3.5 percent in FY18 compared with an increase of 4.0 percent during FY17, on average YoY basis. WPI rose by 9.2 percent in September 2018, compared to only 1.6 percent in September 2017.

## HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

### Monetary Policy Statement

Rising pressures on foreign exchange reserves, along with the projected trajectory of external account and medium-term inflation, led the MPC to increase the policy rate by a cumulative 275 basis points (bps) since January 2018, after keeping it unchanged for the last two years. The main factors that led to this reversal in policy rate included: (i) growing macroeconomic imbalances; (ii) potential impact of exchange rate deprecation on inflation; (iii) less than sufficient financial inflows; (iv) sharp increase in global oil prices in H2-FY18; and, (v) higher-than-expected fiscal expansion.

### State Bank's efforts lauded globally – Voted as the Best Central Bank for Promoting Islamic Finance*

State Bank of Pakistan has been voted as the Best Central Bank in Promoting Islamic Finance by a poll conducted by Islamic Finance News (IFN) under REDmoney Group, Malaysia. State Bank of Pakistan has also won this award in 2015. It is also important mentioning that in 2016, Pakistan was awarded Global Islamic Finance Award (Advocacy Award) by Edbiz Consulting Limited, UK. This recognizes the dedication and commitment of State Bank of Pakistan over the years for laying sound foundations for sustainable growth of Islamic finance industry in the country.

"The SBP has demonstrated impressive dedication toward rebuilding Pakistan's Islamic banking sector, providing strong support and building deep foundations on which the industry can now stand", stated IFN while announcing the poll results. Further, significant measures to support Islamic banking and finance during 2017 including issuance of detailed guidelines on conversion from a conventional to an Islamic bank, amendments in the Shariah Governance Framework to require external auditing, implementing tax neutrality for Islamic transactions and launching of a new SME finance policy to support entrepreneurship have also been quoted as main reasons for the award.

**Deposit Protection Mechanism for Banking Companies**

Deposit Protection Corporation (DPC), a wholly owned subsidiary of State Bank ofPakistan (SBP) haslaunched deposit protection mechanism under its Circular dated June 22, 2018. As envisaged in the Deposit Protection Corporation Act, 2016, the protected amount has been determined to be Rs. 250,000 per depositor per bank. All commercial banks are members of this scheme and will be paying the required premium.

The establishment of DPC was envisaged as one of the important objectives in SBP's strategic plan 2016-2020 under the strategic goal of "strengthen the financial system stability regime". DPC has been established as a wholly owned subsidiary of SBP under the Deposit Protection Corporation Act, 2016. The objective of DPC is to compensate the small and financially unsophisticated depositors to the extent of protected deposits in the unlikely event of a bank failure.

Stability of their financial systems is of paramount concern for policymakers around the world. State Bank of Pakistan (SBP) has a comprehensive framework to ensure safety and soundness of the banking system of Pakistan. While key pillars of this framework, namely strong banking laws and regulations, and effective supervision have been in place for a long time; the introduction of Deposit Protection is a recent addition, which will reinforce the bank resolution regime of SBP.

**SAARCFINANCE Seminar on "Digital Financial Services and Financial Inclusion in SAARC Countries"**

The State Bank of Pakistan (SBP) organized a seminar on "Digital Financial Services and Financial Inclusion in SAARC Countries" at National Institute of Banking and Finance (NIBAF) Islamabad during March 19-21, 2018.

This was the 13th seminar organized by SBP since 2002 under the banner of SAARCFINANCE. Delegates from Afghanistan, Bangladesh, Nepal and Sri Lanka presented country papers to share their country experience in the subject area. Experts and practitioners in the area of digital financial services shared their views on recent developments, best practices and policy options and the role of central banks and financial institutions.

"SBP Deputy Governor Riaz Riazuddin inaugurated seminar by outlining the objectives of SBP's financial inclusion. He highlighted economic benefits of including unbanked into the network of financial services and opportunities relating to digital financial services ecosystem. He emphasized on digital financial services and financial inclusion as a new paradigm of economic growth that plays a crucial role to drive away poverty from the country. Former Governor of SBP, Syed Salim Raza shared his views on evolution of financial services through technological innovations".

## Current Economic Issues and Performance of our Economy

**Key Highlights**

- The economy achieved its 13-year highest real GDP growth of 5.8 percent in FY18. The growth was also broad-based, as all the three sectors – agriculture, industry and services – contributed positively to this acceleration.
- The growth drivers include: (i) accommodative monetary policy that encouraged businesses to undertake capex; (ii) progress on China Pakistan Economic Corridor (CPEC)-related projects; (iii) higher public spending; (iv) improved energy situation; (v) favorable business sentiments; (vi) fiscal incentives through subsidies; and (vii) increased access to credit.
- On the flipside, this resulted in the widening of the twin deficits with a 5-year high fiscal deficit (6.6 percent of GDP) and a record high current account deficit (5.8 percent of GDP) in FY18.
- The increase in fiscal deficit was triggered by a subdued growth in revenues, particularly the non-tax revenues, and increase in current expenditures. Whereas the current account deficit was mainly driven by strong imports growth—as a result of the increase in international commodity prices — outweighing an otherwise healthy growth in exports.
- With heavy reliance on short-term commercial loans to finance this large current account deficit,the gross public debt increased to 72.5 percent of GDP as of end-June 2018 from 67.2 percent at end-June 2017.
- On the other hand, a few positive developments on the external front includes an uptick in worker remittances that reached US$ 19.6 billion in FY18, up 1.4 percent from inflows of US$ 19.4 billion recorded last year. Alongside, net FDI improved to US$ 2.8 billion in FY18, from US$ 2.7 billion last year. Meanwhile, portfolio investment saw a net inflow of US$ 2.2 billion, against an outflow of US$ 251.0 million during FY17.
- PKR further slid by 2.3 percent between 1st July, 2018 to 19th September, 2018, after depreciating by 13.7 percent against USD in FY18,
- Average CPI inflation during the first two months of FY19 increased to 5.8 percent compared to 3.2 percent during the same period last year. Similarly, core inflation indicators such as NFNE also rose by 7.6 percent in Jul-Aug FY19, compared to 5.6 percent in the same period last year.

- To counter aggregate demand pressures and ensure near-term stability, SBP has raised policy rate by 100 basis points (to 7.5 percent) in July 2018. This was the third raise in the policy rate after the increase of 25 and 50 basis points in January and May 2018, respectively.

**Key Challenges**

Restoration of macroeconomic stability is the most important challenge for the policy makers besides the need to address structural issues. Therefore, the near to medium term sustainable economic growth requires:

- Reduction in current account and fiscal deficit to manageable levels that is consistent with macroeconomic fundamentals.
- Enhance the revenue collection by revoking exemptions on direct taxes and bringing the untaxed segments into the tax net.
- Managing the inflationary pressures that have resurfaced particularly in H2-FY18 along with an uptick in inflation expectations.
- Both public and private savings should be encouraged by introducing new financial products and by promoting a savings culture.

**KEY ECONOMIC INDICATORS OF PAKISTAN**

| | Unit | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18[P] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I. Real Sector | | | | | | | | | | | | | |
| Per Capita GDP | US$ | 980 | 1,052 | 1,024 | 1,071 | 1,273 | 1,320 | 1,332 | 1,388 | 1,514 | 1,529 | 1,632 | 1,640 |
| Real GDP Growth | % | 5.5 | 5 | 0.4 | 2.6 | 3.6 | 3.8 | 3.7 | 4.1 | 4.1 | 4.5 | 5.37 | 5.8 |
| Nominal GDP (MP) | Billion US$ | 152.4 | 169.9 | 167.9 | 177.2 | 213.6 | 224.6 | 231.1 | 244.6 | 270.5 | 278.8 | 304 | 319.3 |
| Agriculture | % of GDP | 21.8 | 22.5 | 22.7 | 23.3 | 25.1 | 23.7 | 23.8 | 23.7 | 23.8 | 23.2 | 23.1 | 18.86 |
| Industry | % of GDP | 20 | 21.7 | 19.2 | 19.7 | 20.5 | 21.3 | 20.2 | 20 | 19.1 | 18.2 | 17.9 | 20.91 |
| Services | % of GDP | 52.8 | 53.1 | 53.1 | 52.8 | 50.9 | 51.6 | 52 | 51.7 | 52.2 | 52.8 | 52.8 | 60.23 |
| Investment | % of GDP | 22.9 | 21.6 | 19 | 15.4 | 14.1 | 14.9 | 14.6 | 14.6 | 15.5 | 15.6 | 15.8 | 14.8 |
| National Savings | % of GDP | 17.8 | 13.3 | 13.2 | 13.2 | 14.2 | 12.8 | 13.9 | 13.4 | 14.5 | 14.3 | 13.1 | 11.5 |
| Headline Inflation (yoy) | % | 7.8 | 12 | 17 | 10.1 | 13.7 | 11 | 7.4 | 8.6 | 4.5 | 2.9 | 4.2 | 3.9 |
| - Food Inflation (yoy) | % | 10.3 | 17.6 | 23.1 | 12.9 | 18 | 11 | 7.1 | 9 | 3.5 | 2.1 | 3.8 | 1.8 |
| - Non-Food Inflation (yoy) | % | 6 | 7.9 | 13.4 | 8.2 | 10.7 | 11 | 7.5 | 8.3 | 5.3 | 3.4 | 4.4 | 5.4 |
| - Core inflation (yoy) | % | 5.9 | 8.4 | 11.4 | 7.6 | 9.4 | 10.6 | 9.6 | 8.3 | 6.5 | 4.2 | 5.2 | 5.8 |
| II. Fiscal Sector | | | | | | | | | | | | | |
| Revenue Collection | Billion US$ | 21.4 | 23.9 | 23.5 | 24.8 | 26.3 | 28.8 | 30.8 | 35.4 | 38.7 | 42.6 | 47.1 | 48.0 |
| Fiscal Deficit | % of GDP | 4.1 | 7.3 | 5.2 | 6.2 | 6.5 | 8.8 | 8.2 | 5.5 | 5.3 | 4.6 | 5.8 | 6.6 |
| Public Debt | % of GDP | 53 | 58.4 | 58.6 | 60.6 | 58.9 | 63.3 | 63.9 | 63.5 | 63.3 | 67.6 | 67.0 | 72.5 |
| - of which foreign currency | % of GDP | 27.5 | 29.7 | 32.3 | 35.4 | 31.2 | 30.9 | 27 | 25.6 | 24.2 | 26.6 | 27.4 | 33.6 |
| - domestic debt | % of GDP | 28.3 | 30.8 | 29.2 | 31.3 | 32.9 | 38.1 | 42.5 | 43.3 | 44.4 | 46.9 | 46.5 | 47.7 |
| Public Debt Servicing | % of total revenue | 36.7 | 37.2 | 43.9 | 40.5 | 36 | 44.4 | 47.3 | 45 | 39.9 | 33.4 | | |
| III. External Sector | | | | | | | | | | | | | |
| Exports (f.o.b) | Billion US$ | 17 | 19.1 | 17.7 | 19.3 | 24.8 | 24.7 | 24.8 | 25.1 | 24.1 | 22 | 22.003 | 24.772 |
| Imports (c.i.f) | Billion US$ | 30.5 | 40 | 34.8 | 34.7 | 40.4 | 40.4 | 40.2 | 41.7 | 41.4 | 41.3 | 48.683 | 55.846 |
| Trade Balance | Billion US$ | -13.6 | -20.9 | -17.1 | -15.4 | -15.6 | -15.7 | -15.4 | -16.6 | -17.3 | -19.3 | -26.68 | -31.074 |
| Remittances | Billion US$ | 5.5 | 6.5 | 7.8 | 8.9 | 11.2 | 13.2 | 13.9 | 15.8 | 18.7 | 19.9 | 19.351 | 19.625 |
| Current Account Balance | Billion US$ | -6.9 | -13.9 | -9.3 | -3.9 | 0.2 | -4.7 | -2.5 | -3.1 | -2.8 | -4.9 | -12.621 | -18.1301 |
| Current Account Balance | % of GDP | -5 | -9 | -6 | -2 | 0 | -2.1 | -1.1 | -1.3 | -1 | -1.7 | -4.1 | -5.8 |
| Total Foreign Investment | Million US$ | 8,428 | 5,447 | 2,688 | 2,087 | 1,980 | 709 | 1,581 | 4,439 | 2,830 | 1,976 | 2,498 | 4,981 |
| - FDI in Pakistan | Million US$ | 5,140 | 5,410 | 3,720 | 2,151 | 1,635 | 821 | 1,456 | 1,700 | 988 | 2,305 | 2,749 | 2,770 |
| - Portfolio Investment in Pakistan | Million US$ | 3288 | 37 | -1032 | -64 | 345 | -112 | 125 | 2739 | 1842 | -329 | -251 | 2211 |
| External Debt and Forex Liabilities | Billion US$ | 40.3 | 46.2 | 52.3 | 61.6 | 66.4 | 65.5 | 60.9 | 65.3 | 65.2 | 73.9 | 83 | 95.01 |
| EDL/FEE | Percent | 149.8 | 151.7 | 168.6 | 182.3 | 156.9 | 152.6 | 134 | 141.1 | 133.9 | 156.2 | 174.476 | 188.8942 |
| Short-term external debt | % of GDP | 0.1 | 0 | 0.4 | 0.5 | 0.3 | 0.2 | 0.1 | 0.3 | 0.4 | 0.6 | 0.3 | 0.41 |
| External Debt Servicing Ratio | % of GDP | 1.9 | 1.9 | 2.8 | 2.6 | 1.8 | 2 | 2.8 | 2.9 | 2 | 1.9 | 2.7 | 2.6 |
| Exchange Rate (average) | Per US$ | 60.6 | 62.6 | 78.6 | 83.9 | 85.6 | 89.3 | 96.9 | 102.9 | 101.5 | 104.4 | 104.8 | 109.84 |
| Foreign Exchange Reserves | Billion US$ | 16.6 | 11.6 | 12.8 | 16.7 | 18.2 | 15.3 | 11 | 14.1 | 18.7 | 23.1 | 21.4 | 16.4 |
| IV. Monetary & Capital Market | | | | | | | | | | | | | |
| Growth Rate of M1 | y-o-y | 16 | 4.6 | 9.8 | 14.1 | 17.5 | 13.9 | 19.7 | 15.1 | 16.6 | 16.1 | 15.3 | 10.2 |
| Growth Rate of M2 | y-o-y | 18.9 | 11.9 | 9.5 | 13 | 16.7 | 13.4 | 16.9 | 12.6 | 12.8 | 14.5 | 13.9 | 9.5 |
| Growth Rate of M3 | y-o-y | 16.3 | 10.9 | 12.5 | 13.7 | 16.3 | 12.7 | 17.3 | 12.1 | 12.8 | 13.1 | 12.5 | 8.8 |
| Weighted Avg Lending Rate | % | 10.3 | 12.8 | 14.3 | 13.2 | 14.3 | 13.1 | 10.6 | 10.4 | 8.2 | 7.2 | 7.1 | 7.4 |
| Credit growth to Private Sector | % | 17.3 | 16.5 | 0.7 | 3.9 | 4 | 7.5 | -0.2 | 12.2 | 5.9 | 11.2 | 16.8 | 14.9 |
| Stock Market (Price Index) | 1991=1000 | 13,772.50 | 12,289.00 | 7,162.20 | 9,721.90 | 12,496.00 | 13,801.40 | 21,005.70 | 29,652.50 | 34,398.90 | 37,783.50 | 46,711.85 | 41,910.90 |
| Market Capitalization (as leading stock mkt) | PKR Billion | 4,019.40 | 3,777.70 | 2,120.70 | 2,732.40 | 3,288.70 | 3,518.10 | 5,154.70 | 7,022.70 | 7,421.00 | 7,588.50 | 9,505.81 | 8,665.05 |
| Market Capitalization (as leading stock mkt) | % of GDP | 43.5 | 35.5 | 16.1 | 18.4 | 18 | 17.5 | 23 | 27.9 | 27 | 26.1 | 29.7 | 25.2 |
| Market Capitalization (as leading stock mkt) | Billion US$ | 66.3 | 60.3 | 27 | 32.6 | 38.4 | 39.4 | 53.2 | 68.3 | 73.1 | 72.7 | 90.7 | 71.4 |
| V. Banking Sector Indicators | | | | | | | | | | | | | |
| Capital adequacy ratio (CAR) | % | 12.3 | 12.2 | 13.5 | 13.9 | 14.1 | 15.1 | 15.5 | 15.1 | 17.2 | 16.1 | 15.6 | 15.9 |
| Non-performing loans | % Total Loans | 7.6 | 10.5 | 11.5 | 12.9 | 15.3 | 15.9 | 14.8 | 12.8 | 12.4 | 11.1 | 9.3 | 7.9 |
| Before Tax Profitability(R.O.E.) | % | 22.6 | 11.4 | 16 | 17.7 | 21.8 | 25.9 | 18.5 | 23.5 | 27.5 | 24.9 | 21.9 | 18.5 |
| Before Tax Profitability (R.O.A.) | % | 2.2 | 1.2 | 1.7 | 1.8 | 2.1 | 2.4 | 1.7 | 2.1 | 2.7 | 2.2 | 1.8 | 1.4 |

**Source:** Pakistan Bureau of Statistics; State Bank of Pakistan, Ministry of Finance. Note: GDP in dollar terms is calculated using average exchange rate during the year; *National Accounts are provisional estimates for FY18

**Definitions:**

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

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

*** The ratio of debt service (interest and principal payments due, excluding short-term debt servicing of banks) during a year, expressed as a percentage of current receipts minus official transfers.

Fiscal deficit = total revenue - total expenditure: EDL/FEE: External Debt and Liabilities (EDL) as a percentage of Foreign Exchange Earnings (FEE).

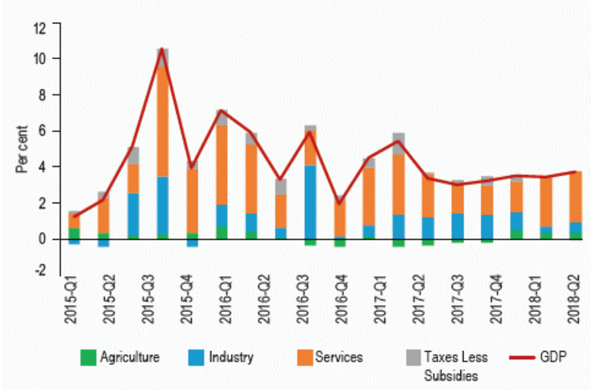
| Macroeconomic Surveillance Indicators Pakistan | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Fiscal Deficit as % of GDP | Inflation- 12 month moving average | Domestic Credit % of GDP | Current Account Balance as a percentage of GDP | External Debt as a percentage of GDP | Reserves as a percentage of Import | National Debt % of GDP |
| 2000 | 5.40 | 3.58 | 34.05 | | | | 73.29 |
| 2001 | 4.30 | 4.41 | 32.36 | 0.41 | 49.56 | 1.99 | 78.55 |
| 2002 | 4.30 | 2.85 | 31.11 | 3.54 | 43.47 | 5.52 | 72.96 |
| 2003 | 3.70 | 3.10 | 28.64 | 4.43 | 37.41 | 10.09 | 68.18 |
| 2004 | 2.30 | 4.57 | 30.68 | 1.68 | 32.54 | 9.24 | 61.57 |
| 2005 | 3.30 | 9.28 | 32.61 | (1.28) | 29.65 | 6.22 | 57.59 |
| 2006 | 4.30 | 7.92 | 33.09 | (3.64) | 27.27 | 5.22 | 53.73 |
| 2007 | 4.40 | 7.77 | 33.45 | (4.51) | 26.38 | 6.40 | 52.45 |
| 2008 | 7.30 | 12.00 | 37.81 | (8.16) | 29.58 | 2.92 | 57.60 |
| 2009 | 5.20 | 17.03 | 35.16 | (5.51) | 32.21 | 3.45 | 58.57 |
| 2010 | 6.20 | 10.10 | 35.19 | (2.22) | 35.34 | 4.99 | 60.61 |
| 2011 | 6.50 | 13.66 | 32.36 | 0.10 | 31.21 | 4.96 | 58.93 |
| 2012 | 8.80 | 11.01 | 35.47 | (2.07) | 30.84 | 3.21 | 63.34 |
| 2013 | 8.20 | 7.36 | 38.39 | (1.08) | 26.91 | 1.80 | 63.84 |
| 2014 | 5.50 | 8.62 | 37.24 | (1.28) | 25.58 | 2.62 | 63.54 |
| 2015 | 5.30 | 4.53 | 38.15 | (1.03) | 24.16 | 3.92 | 63.33 |
| 2016 | 4.60 | 2.86 | 40.64 | (1.74) | 26.61 | 5.28 | 67.67 |
| 2017 | 5.80 | 4.15 | 43.73 | (4.13) | 27.35 | 3.98 | 66.98 |
| 2018[P] | 6.60 | 3.92 | 47.12 | (5.79) | 33.53 | 2.10 | 72.54 |
| P: Provisional | | | | | | | |

# Sri Lanka

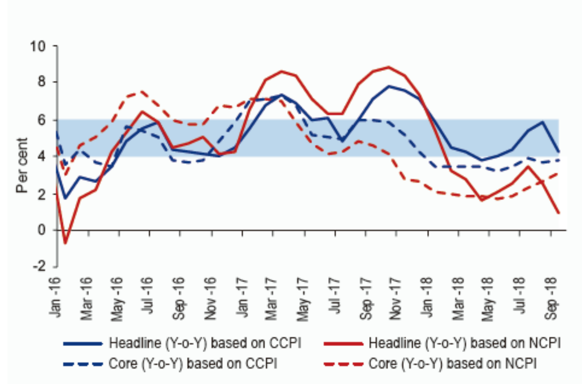
## Recent Economic Developments

The Sri Lankan economy faced renewed challenges emanating from global market developments, which disrupted the steady stabilisation path observed up to the first quarter of the year. The economy grew at a moderate pace of 3.6 per cent in the first half of 2018, following relatively low growth of 3.3 per cent recorded during the year 2017. Agricultural activities continued their rebound in the first half of 2018 supported by favourable weather conditions that prevailed during this period. The growth in industrial activities slowed, mainly due to the subdued performance in the construction and mining and quarrying subsectors. The expansion in services activities was broad-based, driven mainly by the growth of financial services, wholesale and retail trade and other personal services activities. Meanwhile, an increase in the unemployment rate was observed during the first half of 2018. Consumer price inflation has remained subdued thus far in 2018, although temporarily edging up in some months, mainly as a result of movements in volatile food prices and upward adjustments to domestic petroleum and other administered prices.

Quarterly Real GDP Growth (Y-o-Y)

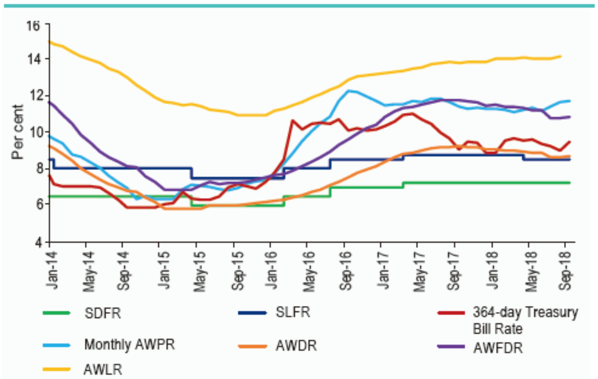



Movements in Headline and Core Inflation (Y-o-Y)

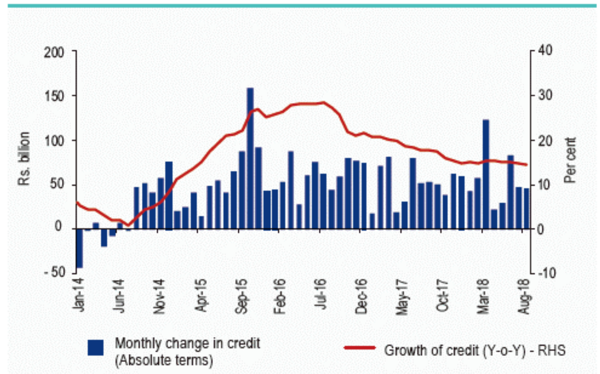



Meanwhile, monetary and credit expansion decelerated gradually, in response to the tight monetary policy stance maintained in the past. The Central Bank maintained a prudent approach in relation to monetary policy and operations, whereby the upper bound of the policy interest rates corridor was revised downwards in April 2018 and the interbank call money market rate was allowed to adjust within the corridor in line with evolving market conditions through appropriate open market operations (OMOs).

Movements in Selected Market Interest Rates



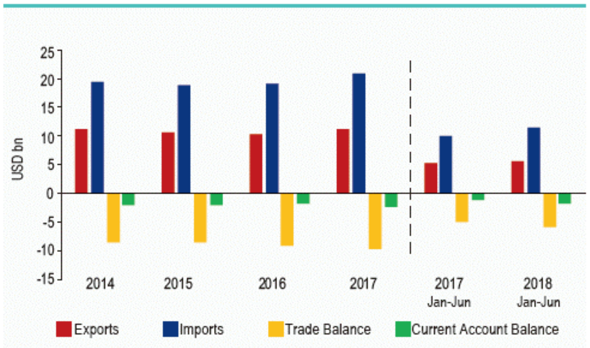

Credit Granted by Commercial Banks to the Private Sector



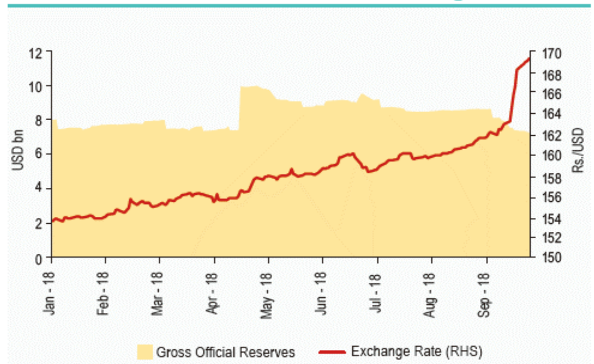

In the external sector, the trade deficit widened further as the growth in import expenditure outpaced the rise in earnings from exports, although earnings from services exports, including tourism, and workers' remittances helped cushion the external current account deficit to some extent. Amidst the widened trade and current account deficits, which was partly due to the increased expenditure on fuel imports and imports of motor vehicles and gold, the balance of payments (BOP) also experienced pressure from the emerging market selloff caused by tightening global financial conditions and the strengthening of the US dollar.

These developments resulted in a sharp depreciation of the Sri Lankan rupee, and the Central Bank intervened in the market at times to prevent disorderly adjustment of the exchange rate while allowing demand and supply conditions to determine its direction.

Trade Balance and Current Account Balance

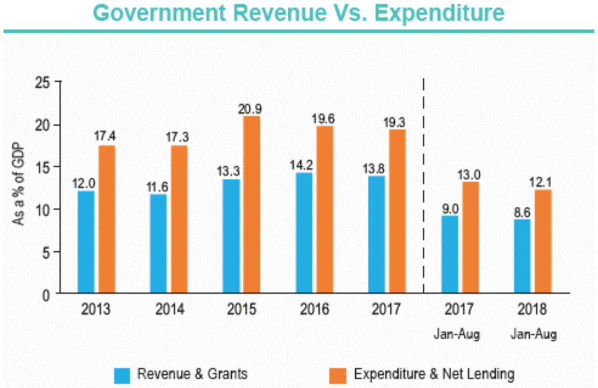



Gross Official Reserves and Exchange Rate

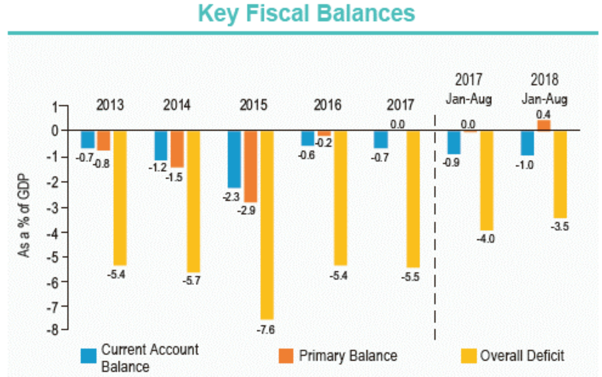



In the meantime, the performance was mixed on the fiscal front, with the overall budget balance and the primary balance improving during the first eight months of the year, while the current account balance deteriorated marginally. Nevertheless, the lower than expected revenue collection is likely to challenge the achievement of the targeted budget deficit for 2018, despite the slowdown observed in expenditure.

Government Revenue Vs. Expenditure




Key Fiscal Balances




In the financial sector, the growth momentum continued during the first half of 2018 without major macroprudential concerns, while measures are being taken to address long standing issues with a few distressed financial institutions.

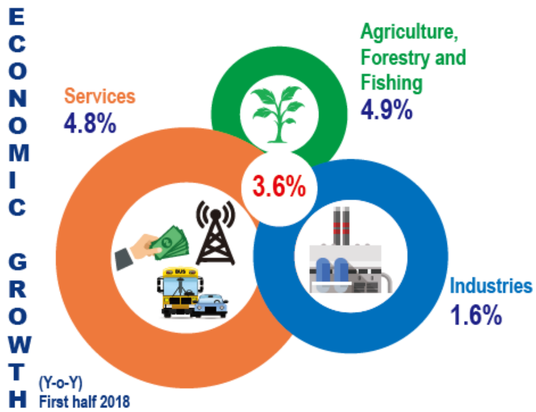
Meanwhile, the programme under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF) continued, with the country achieving the Quantitative

Performance Criteria (QPC) for June 2018 in relation to the primary fiscal balance and inflation, although missing the target on international reserves due to volatile global conditions. Several notable structural benchmarks were also achieved under this programme including the automatic price formula for fuel.

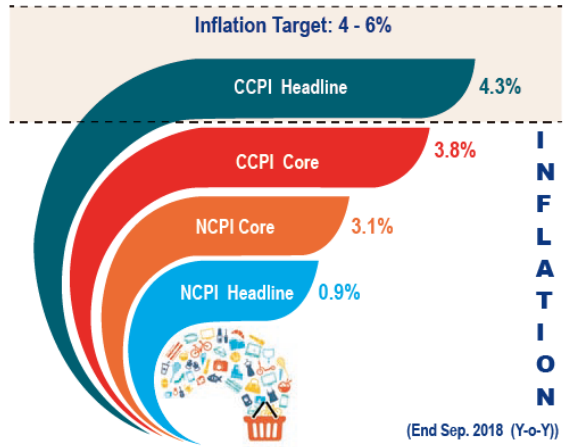
Going forward, the economy is expected to gather steam gradually responding to the measures taken to facilitate domestic production, merchandise and services exports, as well as domestic and foreign investment. At the macro level, the maintenance of low and stable inflation under the envisaged Flexible Inflation Targeting (FIT) framework, the competitive exchange rate, and the continuation of the government's fiscal consolidation efforts are expected to ensure macroeconomic stability in the medium term.In the backdrop of tightening policy spaces in the monetary, fiscal and external fronts amidst subdued economic performance, it is important to facilitate private sector led growth with prudent, consistent and far reaching reforms that support increased productivity in the economy. Recent experience has once again displayed the importance of strengthening the economy through structural transformation, while improving the country's macroeconomic fundamentals. The postponement of much needed structural reforms will only lead to the Sri Lankan economy lagging behind its regional peers, amidst increased vulnerability to internal and external disturbances. Therefore, it is essential that such reforms are expeditiously implemented within a transparent framework for Sri Lanka to progress as an upper middle income economy where its human and physical resources are fully utilised in a more productive manner.

# Snapshot of the Sri Lankan Economy

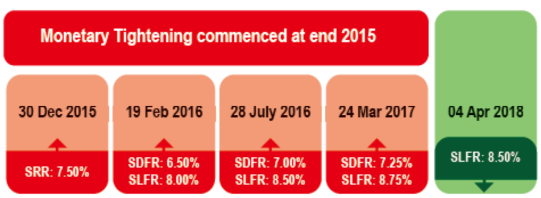
*Sri Lanka's growth performance remained subdued, in spite of positive growth in all three major sectors of the economy…*



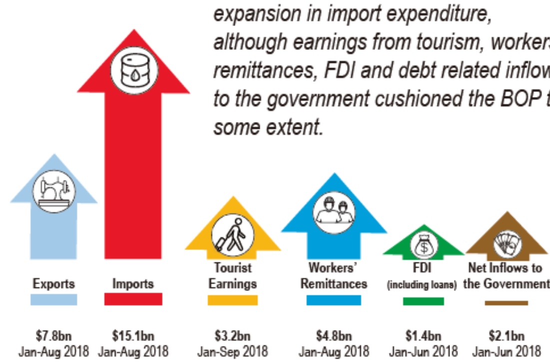

*Inflation remained low in spite of some ups and downs due to volatile food prices and administrative price adjustments…*




*…these conditions, along with favourable inflation expectations, prompted the Central Bank to reduce the Standing Lending Facility Rate (SLFR) on 04 April 2018, after tightening monetary policy from end 2015.*

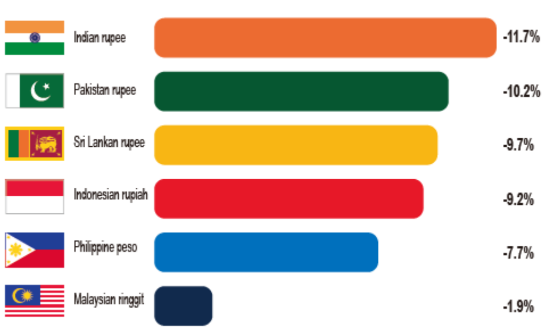



*On the external front, the growth in export earnings was outpaced by the expansion in import expenditure, although earnings from tourism, workers' remittances, FDI and debt related inflows to the government cushioned the BOP to some extent.*




*Increased volatility in global financial markets, higher crude oil prices and rising import expenditure caused a depreciation of the rupee, similar to the pressure observed in other emerging market economies with current account deficits.*

**Depreciation of currencies against the US dollar**
**(2018 - up to end September)**




*The government and the Central Bank took several short term measures to address the external pressure, although this has once again highlighted the need for far reaching structural reforms to boost the production economy and enhance merchandise and services exports…*

*…along with continued fiscal consolidation, where much needs to be done to build on the achievements already observed in the fiscal sector.*