SAARCFINANCE e-Newsletter

Vol.14

January - June 2013

Published by
Maldives Monetary Authority

A half-yearly publication of the regional network of SAARC Central Bank Governor's and Finance Secretaries (SAARCFINANCE)

CONTENTS **PAGE**

Message from the Chairperson of SAARCFINANCE Group

I am pleased to publish the 14th issue of SAARCFINANCE e-Newsletter, which is the last edition of Maldives tenure in this round. This issue covers the activities performed by the member countries during the first half of 2013.

It is an honor for me to be the Chairman of SAARCFINANCE for the last two years. During my chairmanship I tried to serve this organization to the best of my ability with the assistance from all my fellow Governors and other personnel involved in the operation of the network.

If I may highlight some of the achievements of SAARCFINANCE during our tenure, I am pleased to mention about the SAARCFINANCE Swap Arrangement facility introduced by the Reserve Bank of India. Some member countries already enjoy this facility while others got some comfort of having a contingency facility if a need arises during the economic crisis of the world. I am also pleased that RBI generously introduced the SAARCFINANCE Scholarship Scheme for the SAARC Central bank and Finance Ministries' staff, to study for master's degree and for Ph.D. in economics. It is also worth to note that SAARCFINANCE History is now available at the SAARCFINANCE Portal established by Maldives Monetary Authority and the portal is a very useful resource for interaction of SAARC Central Banks' staff. Analyzing the past activities, Maldives is now working on a Five-Year Roadmap for the network to achieve its' objectives. Improvements brought to this e-Newsletter initiated by Bangladesh Bank are also worth to note. It now updates the recent macroeconomic developments, major policy announcements and key economic indicators of SAARC member countries. For smooth management of the network, Alternate Coordinators and Focal Points at the Ministry of Finance in member countries are now working together as a team to achieve the objectives of SAARCFINANCE. Staff Exchange Program continued to make progress helping one another and share experiences of member countries.

I take this opportunity to express my sincere appreciation and gratitude to my fellow Governors, Finance Secretaries, Coordinators, Alternate Coordinators and staff members of the SAARC Central Banks who contributed for the activities of SAARCFINANCE during the last two year in our tenure.

I wish SAARCFINANCE to climb to new heights in the years to come and achieve its objectives in making the SAARC region a better place for people to live in prosperity and in peace.

Fazeel Najeeb (Ph.D.)
Governor and Chairman, Maldives Monetary Authority
Chairperson, SAARCFINANCE Group

OBJECTIVES OF SAARCFINANCE

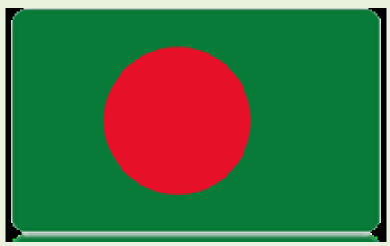
The basic objective of establishing SAARCFINANCE Network is to share experiences on macroeconomic policy issues between member countries of the region. However, the broad objectives of SAARCFINANCE Network are as follows:

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

COUNTRY REPORTS

AFGANISTAN

BANGLADESH



RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Bangladesh achieved overall GDP growth of 6.2% in FY13

In FY12, Bangladesh economy faced the challenges of rising inflation and balance of payments pressures. In order to address these challenges Bangladesh Bank (BB) pursued a restrained monetary policy stance which, along with other policy measures, helped to curb inflationary pressures and significantly strengthened foreign exchange reserves. In FY13, the economy faced a different set of challenges. Robust foreign remittance (10.24%) and export growth (11.22%) along with sluggish import growth led to a sharp growth of Net Foreign Assets (NFA) which needed to be sterilized. Moreover, declining inflation and concerns over a slowdown in growth created space for a 50 basis point rate cut of Repo and Reverse Repo by BB in January 2013 with the aim of influencing bank lending rates downwards. At the same time, the January 2013 Monetary Policy Statement (MPS) set out a monetary program consistent with bringing average inflation down to the targeted 7.5% (base 1995-96) level. In spite of adoption of restrained monetary policy stance by the BB, a strong growth in the industry sector along with robust growth in the agriculture and services sectors, Bangladesh managed to maintain a steady growth of 6.18% (base 2005-06) in FY13 which was consistent with 6.2% historical ten year average.

HIGHLIGHTS ON MAJOR POLICY ANNOUNCEMENTS

BB declares its monetary policy stance for the 1st Half of FY14

The monetary policy stance for the 1st half of fiscal year 2014 (H1FY14) takes the recent economic developments into account and targets a monetary growth path which aims to bring average inflation down to 7%, while ensuring that credit growth is sufficient to stimulate inclusive economic growth. Specifically BB aims to contain reserve money growth to 15.5% and broad money growth to 17.2% by December 2013. The space for private sector credit growth of 15.5% for December 2013 and 16.5% for June 2014 has been kept well in line with economic growth target of 7.2% and higher than the average of 'emerging' Asian economies growth target of 5.4%.

The growing inflationary pressures over the past several months along with the prospects of wage pressures, possible supply-side disruptions and rising regional inflation imply that achieving the FY14 inflation target of 7% will be a challenge. Hence, BB has decided to keep policy rates unchanged in the H1FY14. Moreover, the growing liquidity in the banking system suggests that an easing of reserve requirement ratios is also unnecessary. Effective transmission of monetary policy requires strengthening credit and debt markets and this will remain a key focus for H1FY14. Improving corporate governance in banks as well as using automation and capacity building to strengthen BB supervision will also be the main focus of implementation of monetary policy for H1FY14.

BB has reduced its Repo and Reverse Repo rates

Bangladesh Bank (BB) has revised its rate of interest on Repo and Reverse Repo at 7.25% and 5.25% decreased from 7.75% and 5.75% respectively on 31 January, 2013.

Bangladesh Taka appreciates in the 1st half of FY13

Bangladesh Taka witnessed 2.65% appreciation at the end of June 2013 compared to the end of December 2012.

BB's gross foreign exchange reserves exceeded US$16 billion

The gross foreign exchange reserves of BB reached US$ 15.3 billion in June 2013 from US$ 12.8 billion in December 2012 which is further accelerated to a record high of US dollar 16.76 billion as on 14 November 2013.

BB has withdrawn holding period for issuance of BGTBs

In order to make the purchase of Bangladesh Government Treasury Bonds (BGTBs) more attractive to the non-resident Bangladeshis, BB has withdrawn the condition of prohibition of selling bonds to Bangladesh residents held by the non-resident Bangladeshis within one year. Moreover, BB has also introduced 2 year Treasury Bond, implemented re-issuance system and taken decision to submit bids of BGTBs online.

BB has extended the coverage of Export Development Fund (EDF) loan

In order to make bulk import of raw materials for local deliveries of garment accessories to manufacturer-exporters, BB has decided that EDF loans will also be available to member mills of the Bangladesh Garments Accessories & Packaging Manufacturers & Exporters Association (BGAPMEA) along with authorized dealers (ADs) against inland back to back LCs in foreign exchange. However, an EDF loan to an AD against their foreign currency financing of input imports of BGAPMEA member mills, shall not exceed (i) the value realized in foreign exchange against inland back to back LCs over the past twelve months, or (ii) USD 1.00 (one) million, whichever is lower.

BB has instructed FIs to form Risk Management Forum (RMF) & Risk Analysis Unit (RAU)

With a view to facing the ongoing challenges of increased competition and expansion of diversified financial business of the financial institutions (FIs) in Bangladesh and to managing all the risks in a prudent and organized way, BB has instructed all FIs to form and establish Risk Management Forum (RMF) & Risk Analysis Unit (RAU). BB advised that each FIs have to ensure Risk based Capital Adequacy, conduct Stress Testing and take care of five Core Risks Management through their separate RMF and RAU.

BB has enhanced family remittance facility for foreign nationals

BB has permitted the foreign nationals who are resident in Bangladesh and who have an income in Bangladesh to make monthly remittances to the country of their domicile out of their current savings up to 75% of their net income (from previous 50%) to cover their commitments abroad.

BB has permitted to use of ICCs for online payment up to USD 100

BB has decided that ADs may allow their cardholder customers to use International Credit Cards (ICCs) for online payment not exceeding USD 100 or its equivalent at a single transaction against legitimate purchases of items of goods and services (such as downloadable application software, e-books, etc.) from reputed and reliable sources abroad. Online payments for such purchases shall be limited to the available unused annual travel quotas of the ICC holders plus an additional amount not exceeding USD 1,000.00 (US Dollar one thousand) annually.

KEY ECONOMIC INDICATORS OF BANGLADESH

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13P
I. Real Sector												
Per Capita GDP	US$	389	441	463	476	487	559	620	687	748	766	1088
Real GDP Growth	%	5.3	6.3	6.0	6.6	6.4	6.2	5.7	6.1	6.7	6.3	6.2*
GDP (Market Price)	Billion US$	51.9	56.5	60.4	62.0	68.4	79.6	89.4	100.4	111.9	115.7	129.9
Agriculture	% of GDP	23.5	23.1	22.3	21.9	21.4	20.7	20.5	20.3	19.9	19.4	18.7
Industry	% of GDP	27.2	27.7	28.3	29.0	29.4	29.8	29.8	29.9	30.4	31.1	32.0
Services	% of GDP	49.3	49.2	49.4	49.1	49.2	49.5	49.7	49.8	49.7	49.5	49.3
Investment	% of GDP	23.4	24.0	24.5	24.7	24.5	24.2	24.4	24.4	25.2	26.5	26.8
National Savings	% of GDP	18.6	19.5	25.8	27.7	28.7	30.2	29.6	30.0	28.8	29.2	29.5
Headline Inflation (12 mth avg)	%	4.4	5.8	6.5	7.2	7.2	9.9	6.7	7.3	8.8	10.6	6.8*
- Food Inflation	%	3.5	6.9	7.9	7.8	8.1	12.3	7.2	8.5	11.3	10.4	5.2*
- Non-Food Inflation	%	5.7	4.3	4.3	6.4	5.9	6.3	5.9	5.5	4.2	11.1	9.2*
- Core inflation	%	-	-	-	-	-	-	-	-	-	7.9	-
II. Fiscal Sector												
Revenue Collection (CSR)	Billion US$	5.4	6.0	6.4	6.7	7.2	8.8	10.1	11.5	13.4	15.0	17.5
Fiscal Deficit (excluding grants)	% of GDP	4.2	4.2	4.4	3.9	3.7	6.2	4.1	3.7	4.4	5.0	4.8
Fiscal Deficit (including grants)	% of GDP	3.4	3.4	3.7	3.3	3.2	5.4	3.3	3.3	3.8	4.6	4.3
Public Debt	% of GDP	3.6	4.6	47.0	46.7	44.8	42.9	41.0	37.4	37.4	36.5	35.3
- of which foreign debt	% of GDP	1.3	2.2	30.5	30.1	28.2	25.5	23.3	20.3	19.7	19.0	17.9
- domestic debt	% of GDP	2.3	2.4	16.4	16.6	16.6	17.2	17.7	16.9	17.7	17.5	17.4
- debt servicing	% of total revenue	11.2	10.0	16.6	16.8	18.5	19.8	19.2	18.4	15.3	15.2	19.8
III. External Sector												
Exports (f.o.b)	Billion US$	6.5	7.5	8.7	10.4	12.1	14.2	15.6	16.2	22.6	24.0	26.6
Imports (f.o.b.)	Billion US$	8.7	9.8	13.2	13.3	15.5	19.5	20.3	21.4	30.3	33.3	33.6
Trade Deficit	Billion US$	2.2	2.3	4.5	2.9	3.4	5.3	4.7	5.2	7.7	9.3	7.0
Remittances	Billion US$	3.1	3.4	3.8	4.8	6.0	7.9	9.7	11.0	11.7	12.8	14.5
Current Account Balance	Billion US$	0.2	0.2	-0.6	0.8	0.9	0.7	2.4	3.7	-1.7	-0.4	2.5
Current Account Balance	% of GDP	0.4	0.4	-0.9	1.3	1.4	0.9	2.7	3.7	1.5	0.3	1.9
Total Foreign Investment	Million US$	378	391	800	775	899	795	802	796	740	1193	1587
- Foreign Direct Investment	Million US$	376	385	800	743	793	748	961	913	768	995	1300
- Portfolio Investment	Million US$	2.0	6.0	0.0	32.0	106.0	47.0	-159.0	-117.0	-28.0	198.0	287
External Debt and Forex Liabilities	Billion US$	17.0	18.0	18.4	18.6	19.4	20.3	20.1	20.3	21.5	22.8	23.3
External Debt and Liabilities	As % of Forex earnings	-	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	%	-0.3	0.8	1.0	1.5	0.9	2.0	1.7	1.2	2.3	3.2	2.7
External Debt Servicing Ratio	% of outstanding external debt	3.6	3.1	3.6	3.4	3.6	3.8	4.0	4.3	4.2	4.2	4.7
Exchange Rate	Per US$	57.9	58.9	61.4	67.1	69.0	68.6	68.8	69.2	71.2	79.1	79.9
Foreign Exchange Reserve	Billion US$	2.5	2.7	2.9	3.5	5.1	6.1	7.4	10.8	10.9	10.2	15.3
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	10.9	13.7	17.1	23.4	16.5	22.7	10.3	28.0	18.7	6.4	10
Growth Rate of M_2	y-o-y	15.6	13.8	16.7	19.3	17.1	17.6	19.2	22.4	21.3	17.4	16.7
Growth Rate of M_3	y-o-y	15.6	13.7	15.2	17.8	15.8	15.7	17.7	23.0	18.9	15.5	15.3
Weighted Avg. Lending Rate	%	12.8	11.0	10.9	12.1	12.8	12.3	11.9	11.3	12.4	13.8	13.7
Credit growth to Private Sector	%	15.3	16.7	16.9	18.1	15.0	25.0	14.6	24.2	25.8	19.7	11.0
Stock Market (Price Index)		830.0	1319.0	1713.2	1339.5	1764.2	2588.0	2520.2	5111.6	6117.2	4572.9	4385.8
Market Capitalization of DSE#	Billion Taka	69.2	142.4	224.6	225.3	491.7	931.0	1241.3	2700.7	2853.9	2491.6	2530.2
Market Capitalization of DSE#	% of GDP	2.3	4.3	6.1	5.4	10.4	17.1	20.2	38.9	35.8	27.2	24.4
Market Capitalization of DSE#	Billion US$	1.2	2.4	3.7	3.4	7.1	13.6	18.0	39.0	40.1	31.5	31.7
V. Banking Sector Indicators												
Capital adequacy ratio	%	5.4	5.5	5.6	6.7	9.6	10.1	11.6	9.3	11.4	10.5	9.1
Non performing loans	%	14.3	14.0	13.6	13.2	13.2	10.8	9.2	7.3	6.1	10.0	11.9
Profitability (R.O.E)	%	13.0	12.2	12.4	14.1	13.8	15.6	21.7	21.0	17.0	8.2	8.2
Profitability (R.O.A)	%	0.6	0.7	0.6	0.8	0.9	1.2	1.4	1.8	1.5	0.6	0.6

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

BHUTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real GDP growth for Bhutan while robust declined to 8.5% during 2011 as compared to 11.7% in 2010. While all components of the GDP recorded positive growth, the electricity and water sector, and the public administration subsector recorded a negative growth of 5.5% and 3.3%, respectively. The tertiary sector recorded the highest growth of 15.7% with a 6.5% contribution to real GDP growth. The construction subsector remained the highest contributor to nominal GDP.

Inflationary conditions remained consistently high during the year, largely carried over from across the border in India. As of the second quarter of 2013, food commodities now constitute 39.9% of Bhutan's CPI's basket weights, and over 90% of all food and processed foods and beverages imports are derived from India. Price levels in India as featured by their WPI (RBI) grew by 4.9% during the second quarter of 2013, the lowest in more than three years. Annual inflation in Bhutan after peaking at 13.5% during the second quarter of 2012 started easing recently and declined to 5.5% during the second quarter of 2013, with improvements in both food and non-food price levels. As of June 2013, food inflation decreased to 2.8% from 18.7% as of the second quarter of 2012.

Growth in broad money supply (M2) picked up as of June 2013 growing to 18.6% up from -1% (*year-on-year growth*) as of June 2012. Higher growth in M2 can be explained by the sharp increase in the growth of net foreign assets (NFA) which grew from 0.1% to 38.1% as of June 2013. Growth in other items (OIN) also grew, albeit lower at 31.8% as of June 2013. These expansions resulted in expanding the growth of other monetary aggregates including demand deposits which grew by 25.6% and quasi money by 19.2% as of June 2013.

As of the second quarter of 2013, the growth of combined assets of the financial sector increased to 19.6% (Nu.79.9 billion). Of the total assets, 89.6% belonged to the commercial banks and the residual to the NBFIs. During the same period, banking sector assets alone grew by 20.1% to Nu.71.6 billion while that of the NBFIs grew by 15.4% to Nu.8.3 billion. The NPL ratio increased to 9.7% at the end of June 2013 from 7.8% in the same period last year. In particular, high NPLs were recorded in the trade and commerce, housing, personal loans, and manufacturing and industry sectors. Apart from seasonal factors in loan recovery, lack of access for ever greening of loans due to tighter credit conditions may also have contributed to the increase in the NPL.

Challenges associated with acute liquidity constraints of the banking sector and enduring pressure of Rupee outflows remained remarkably significant throughout 2012. In response to this, the RMA formulated several policy measures to safeguard the financial sector from unwarranted risk and vulnerabilities. Coupled with the problem of tight liquidity, the RMA lowered the CRR in a consecutive manner during 2012 and continued to restrain credit flows channeled through import oriented sectors including the transport and housing sectors.

In Bhutan's balance of payments, with a 20.3% increase in the net surplus in the current transfers account from Nu.10.2 billion in FY 2010/11 to Nu.12.2 billion in FY2011/12, Bhutan's current account deficit improved slightly to 20.5% of GDP from 25.7% in the previous year. The increase in the overall trade deficit was minimal during the fiscal year (1.9% growth) because of a slight improvement in the trade deficit with India. Hydropower, Bhutan's largest export declined to Nu.9.8 billion in 2011 from Nu.10.4 billion in 2010 due to a 3.5% fall in production levels; however, at 31.8% of total exports in 2011 hydropower remains Bhutan's largest export, followed by ferro alloys (21% of total exports).

With a fall in convertible currency loan disbursements and an increase in the principal repayments towards Rupee debt, Bhutan's capital and financial account surplus decreased by 38.7% during FY 2011/12. As a result, the capital and financial account surplus stood at Nu.13.1 billion, against a current account deficit of Nu.17.6 billion which resulted in a drawdown of reserves and a corresponding negative overall BOP of Nu.5.5 billion. Bhutan's official international reserves as of June 2012, corresponding to the decrease in the overall balance, stood at USD 770 million, a 15% decrease from the previous year. Gross international reserve levels were sufficient to meet 9.6 months of merchandise imports, 9.3 months of imports of both goods and services and 20.6 months of essential imports. As of June-end 2013 Bhutan's gross international reserves totaled USD 938.4 million, of which CC reserves totaled USD 743.8 million (following the sale of USD 200 million). As of the same period, reserves are sufficient to finance 12.2 months of total merchandise imports and 25.1 months of essential imports.

Bhutan's external debt obligations as of June 2013 totaled USD 1.5 billion, increasing by 13.7% from June 2012. Of the total, 34.2% were outstanding convertible currency loans and the remaining 65.8%, Indian Rupee denominated debt (mostly for hydropower development). As of June-end 2013, the overdraft facility from India was liquidated. Overall debt servicing for the FY 2012/13 amounted to USD 21.2 million on convertible currency debt and ₹ 83.6 billion on Rupee denominated debt (which includes a cumulative amount of ₹ 76.9 billion liquidated on overdraft availed throughout the year with a corresponding interest cost of ₹ 806.7 million). Consequently, as of June 2013 Bhutan's total debt outstanding stood at 107.7% of GDP (2011 levels); the debt service ratio (excluding ODF) has increased to 20.2%.

Meanwhile, on the fiscal front, as of June 2013, total revenue including grants, increased from 35.8% of GDP to 36.9% of GDP in FY 2012/13. Total expenditure also increased from 36.9% of GDP in 2011/12 to 37.8% of GDP during 2012/13. As a result, the national budget deficit was

0.9% of GDP for the FY 2012/13 from 1.1% of GDP in the previous year. At Nu.20.4 billion, domestic revenue was more than sufficient to finance all current expenditures totaling Nu.16.7 billion. Capital expenditure during the year increased to 19.6% of GDP from 18.6% of GDP in the previous year. Grant support helped finance 37.1% of total expenditure.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

During the year 2012-2013, the central bank, the Royal Monetary Authority (RMA), undertook the following key policy measures:

1. The RMA enhanced monetary policy transmission through the introduction of new policy tools, including the base rate system and the policy rate.

2. Demand side management of pressure on Rupee reserves was carried out through controls on new housing and transport loans by temporarily suspending access to Indian Rupees for related imports (and the issuance of streamlined Indian Rupee Guidelines).

3. Regulatory/prudential measures included tightening in asset classification and provisioning requirements and raising of prudential risk weights of financial institutions to reduce credit exposure of financial institutions to over-exposed sectors exceeding 20% of total loans and advances.

4. The RMA revised the CRR from 17% to 10% in March 2012 and from 10% further to 5% (May 2012) to ease liquidity constraints.

5. Similarly, the gestation period for construction and manufacturing sector related lending was revised to ease liquidity stress on commercial banks. And the RMA introduced the Short Term Liquidity Adjustment Window Facility (May 2012) to provide short-term liquidity to liquidity deficient banks to meet daily operational requirements and short term outstanding liabilities.Reclassification and Assignment of Risk Weights to the sectoral loans of the financial institutions.

6. Following from the March 8, 2012 RMA “Circular on Foreign Currency,” with effect from March 2013, the RMA has (i) lowered the international credit card limit from USD 3,000 p.a. to USD 1,000 p.a., and (ii) lowered the transaction limit on point-of-sale (POS) machines in India *(through debit cards)* from ₹ 1 lakh per month to ₹ 15,000, to ease pressures on Rupee reserves since INR outflows from these channels were escalating.

7. On March 8, 2013, the RMA in collaboration with the Royal Government, entered in a Rupee Currency SWAP agreement with the RBI for a total of ₹ 5.4 billion at 5.5% p.a. for the duration of 6 months (3 month period with an additional 3 months rollover). Such

financing provides short-term relief to meet immediate BOP transactions. The SWAP will fall due at the end of September 2013.

8. Keeping in view of development in the economy, the RMA amended the Foreign Exchange Regulations (FER) of Bhutan. This new FER became effective from March 30, 2013.

KEY ECONOMIC INDICATORS OF BHUTAN

Bhutan Key Macroeconomic Indicators

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
I. Real Sector												
Per Capita GDP(a)	**US$**	940.62	1082.20	1214.20	1366.40	1387.40	1814.90	1874.50	1851.70	2277.80	2590.00	2782.90
Real GDP Growth (a)	**%**	10.76	3.98	7.96	8.78	6.85	17.93	4.67	6.7 3	11.68	8.51	7.64
GDP (MP)(a)	**Billion US$**	0.49	0.56	0.60	0.65	0.70	0.90	0.80	0.87	1.00	0.98	0.97
Agriculture(a)	**% of GDP**	25.52	24.39	23.98	22.34	21.41	18.67	18.42	18.23	16.80	15.73	15.27
Industry(a)	**% of GDP**	37.40	38.11	36.31	35.93	37.70	44.05	43.17	41.97	42.78	40.68	40.36
Services(a)	**% of GDP**	33.96	34.32	35.91	38.08	37.60	34.36	35.47	37.02	36.43	39.01	37.83
Investment(a)	**% of GDP**	59.96	56.78	61.95	51.22	47.95	37.70	41.39	43.03	52.09	61.01	59.20
National Savings(a)	**% of GDP**	34.40	44.21	43.12	37.10	57.59	45.47	41.21	35.56	41.53	46.14	17.56
Headline Inflation	**%**	1.85	-	5.46	6.17	5.94	8.85	2.96	6.14	8.33	13.53	5.51
/';- Food Inflation	**%**	1.43	-	6.23	6.76	9.50	12.32	6.67	6.90	10.56	18.72	2.81
- Non-Food Inflation	**%**	2.00	-	5.13	5.90	4.31	7.19	1.11	5.73	7.12	10.67	7.14
- Core inflation	**%**	-	-	-	-	-	-	-	-	-	-	-
II. Fiscal Sector												
Revenue Collection (CSR)	**Billion US$**	0.10	0.13	0.14	0.16	0.23	0.31	0.35	0.43	0.39	0.40	0.39
Fiscal Deficit (excluding grants)	**% of GDP**	-19.85	-16.82	-21.63	-18.67	-14.05	-11.19	-10.02	-16.36	-16.78	-20.16	-13.04
Fiscal Deficit (including grants)	**% of GDP**	-11.12	2.04	-7.65	-0.88	0.71	0.82	2.00	1.80	-2.30	-4.38	-1.69
Public Debt	**% of GDP**	86.93	94.79	100.38	93.44	76.28	61.94	66.73	61.21	73.34	80.42	-
- of which foreign currency	**% of GDP**	85.97	95.67	94.72	94.48	76.72	62.30	66.50	63.15	71.42	80.63	-
- domestic debt	**% of GDP**	0.01	-0.01	0.057	-0.010	-0.004	-0.004	0.002	-0.019	0.019	-0.002	-0.002
- debt servicing	**% of total revenue**	5.38	3.72	7.42	6.67	6.30	26.31	35.61	27.46	62.10	137.83	-
III. External Sector												
Exports (f.o.b)	**Billion US$**	0.11	0.16	0.212	0.312	0.573	0.599	0.516	0.544	0.665	0.595	0.57
Imports (f.o.b.)	**Billion US$**	0.21	0.26	0.46	0.435	0.53	0.67	0.61	0.843	1.185	1.072	1.17
Trade Deficit	**Billion US$**	-0.09	-0.11	-0.25	-0.12	0.47	-0.08	-0.09	-0.34	-0.52	-0.46	-0.53
Remittances	**Billion US$**	-	0.001	0.001	0.002	0.002	0.002	0.003	0.004	0.005	0.011	0.007
Current Account Balance	**Billion US$**	-0.14	-0.12	-0.24	-0.04	0.15	-0.03	-0.01	-0.14	-0.41	-0.35	-0.44
Current Account Balance	**% of GDP**	-15.30	-11.30	-32.40	-4.70	15.80	-2.20	-1.20	-10.80	-25.70	-20.50	-17.10
Total Foreign Investment	**Million US$**	2.46	3.46	8.99	6.12	73.99	3.10	6.54	18.99	26.06	89.31	-
- Foreign Direct Investment	**Million US$**	2.46	3.46	8.99	6.12	73.99	3.10	152.96	53.33	66.52	263.50	136.26
- Portfolio Investment	**Million US$**	-	-	-	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	**Billion US$**	0.47	0.61	0.67	0.78	0.72	0.82	0.80	0.87	1.31	1.36	1.62
External Debt and Forex Liabilities	**% of forex earnings**	-	-	-	-	-	-	-	-	-	-	-
Short-term debt to GDP	**%**	-	-	-	-	-	3.30	1.70	2.50	6.80	6.00	-
External Debt Servicing Ratio (pl see footnote)	*****	7.28	7.20	12.20	7.91	3.68	18.27	30.51	29.75	51.70	131.20	241.90
Exchange Rate	**Per US$**	47.93	45.41	44.61	44.74	44.19	40.37	47.78	46.65	45.33	50.27	54.86
Foreign Exchange Reserves	**Billion US$**	0.37	0.38	0.363	0.486	0. 608	0.589	0.70	0.79	0.91	0.77	0.94
IV. Monetary & Capital Market												
Growth Rate of M_1	**y-o-y**	44.77	-5.23	18.97	11.37	39.95	39.34	-7.18	39.33	28.38	14.31	18.3
Growth Rate of M_2	**y-o-y**	28.45	-0.21	19.89	11.87	32.86	12. 22	13.37	39.75	16.53	4.14	18.6
Growth Rate of M_3	**y-o-y**	-	-	-	-	-	-	-	-	-	-	-
Weighted Avg Lending Rate	**%**	-	-	-	-	-	-	-	-	-	-	-
Credit growth to Private Sector	**%**	29.8	27.58	28.42	30.45	35.89	31.72	39.64	21.00	51.35	31.31	7.1
Stock Market (Price Index)	**1991=100**											
Market Capitalization (as leading stock mkt)(a)	**Domestic Currency in Billion**	3.44	3.53	4.3	4.47	4.64	5.03	7.37	8.07	10.01	14.38	17.63
Market Capitalization (as leading stock mkt) (a)	**% of GDP**	14	12.4	14.0	12.4	11.4	10.17	13.47	13.18	13.81	16.80	18.19
Market Capitalization (as leading stock mkt)(a)	**Billion US$**	0.07	0.08	0.10	0.10	0.11	0.13	0.15	0.17	0.22	0.29	0.32
V. Banking Sector Indicators												
Capital adequacy ratio (a)	**%**	-	-	17.72	20.81	17.05	16.12	14.94	14.78	15.90	17.89	18.18
Non performing loans(a)	**%**	-	-	-	6.57	4.92	4.91	7.53	6.83	5.20	3.92	9.46
Profitability (R.O.E.)(a)	**%**	-	-	14.19	15.02	18.37	18.31	17.08	22.54	15.72	16.10	17.21
Profitability (R.O.A.)(a)	**%**	-	-	1.30	1.42	1.58	1.54	1.50	1.86	1.58	2.24	2.55

INDIA

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Growth Outlook

GDP growth in India continued to be moderate, even as real GDP growth improved marginally to 4.8 per cent in Q4 2012-13 from 4.5 per cent in the previous quarter, implying a growth of 5.0 per cent for the full year 2012-13. Domestic economic activity weakened in Q1 of 2013-14 (April-June 2013), with real GDP growth slowing down to 4.4 per cent, as compared with 5.4 per cent in the first quarter of previous year. Industrial production remained weak and declined by 1.1 per cent during the quarter, caused by negative growth in mining and manufacturing. However, in agriculture, *kharif* sowing, aided by excess rainfall, has been higher with total sown area at 97.4 million hectares as on August 23, 2013 as against 90.3 million hectares recorded by the same time last year. Nevertheless, lead indicators point to continuing headwinds facing manufacturing and services sector activity. Given the weak global economic outlook and domestic performance, the growth projection for 2013-14 was revised downwards by the RBI from 5.7 per cent to 5.5 per cent.

Inflation Outlook

Headline WPI inflation moderated to an average of 7.3 per cent in 2012-13 from 8.9 per cent in the previous year. The easing was significant in Q4 of 2012-13 on account of easing in non-food manufacturing index. In the Annual Policy Statement announced in May 2013, the Reserve Bank projected the WPI inflation to be around 5.5 per cent in 2013-14. During Q1 of 2013-14, the inflation trajectory has moved largely in line with these expectations, although some risks to the path of inflation have surfaced in June on account of international crude oil prices firming up and the rupee depreciation in the recent months. This is reflected in an upward adjustment of domestic prices of petroleum products, in addition to the programmed revisions in diesel prices, while the benefits from falling global non-oil commodity prices are largely offset by the impact of depreciation.

External Sector Outlook

India's external sector imbalances have persisted as the current account deficit (CAD) stood at 4.8 per cent for 2012-13, which brought the rupee under further pressure, despite some moderation in the CAD in Q4 of 2012-13 to 3.6 per cent of GDP. Merchandise exports (BoP basis) increased by 5.9 per cent, while imports recorded a marginal decline of 1.0 per cent in Q4 of 2012-13, on account of a decline in non-oil non-gold imports, reflecting a slowdown in domestic economic activity. The trend in exports and imports in the Q1 of 2013-14 suggests further widening of the trade deficit and hence, CAD. India's exports contracted by 1.7 per cent while imports grew by 2.8 per cent during April-July 2013, leading to an increase in trade deficit by US$ 12.3 billion as compared with the comparable period in the previous year. This widening of trade deficit coupled with the May 22nd announcement of US Fed's intention to exit from unconventional monetary policy, and the hardening of US yields have caused significant net FII funds' outflow, leading the rupee to depreciate sharply against the US dollar. During 2013-14 (upto end-August) there was a net FII outflow of US$ 15.7 billion, leading to concerns about financing of the CAD. During 2013-14, rupee traded range-bound till mid-may 2013; however, after the May 22nd announcement of FED, rupee depreciated sharply by about 16.6 per cent against the US dollar till end-August 2013.

Money and Credit Developments

During 2012-13, the M_3 growth (13.3 per cent y-o-y) remained on the indicative trajectory of the Reserve Bank, even as there was stagnation in aggregate deposits growth and some deceleration in credit growth. However, in Q4 of 2012-13, there was an increase in reserve money leading to some improvement in liquidity conditions, while broad money growth (12.2 per cent y-o-y as on August 9, 2013) remained in line with the indicative trajectory. The aggregate deposit growth, which generally decelerated during 2012-13 on account of near zero real interest rates, continued to decelerate in Q1 of 2013-14 even with the increase in WPI-adjusted real interest rates on deposits. Credit growth decelerated with the slack in economic activity and deterioration in asset quality. The deceleration in domestic growth affected the credit growth adversely from the demand side, while the deterioration in credit quality has dragged credit growth down from the supply side. However, it picked up slightly in the recent past due to comfortable liquidity situation and a marginal decline in Weighted Average Lending Rates, as Scheduled Commercial Banks' non-food credit growth (16.8 per cent y-o-y as on August 9, 2013) was a little above the Reserve Bank's indicative trajectory of 15.0 per cent.

Fiscal Policy

The Union Budget 2013-14 focuses on infrastructure investment in sectors like roads, ports, coal, power and waterways through such measures as encouraging Infrastructure Debt Funds; credit enhancement through access of infrastructure companies to bond market; increase in the aggregate ceiling of issuance of tax-free bonds; and setting up a regulatory authority for the road sector. Further, an investment allowance of 15 per cent of the investment made during 2013-14 and 2014-15 will be allowed. The recently passed (on July 5, 2013) the National Food Security Ordinance proposes to cover up to 75 per cent of rural population and up to 50 per cent of urban population, with uniform entitlement of 5 kg foodgrains per month at highly subsidized prices of Rs. 3, Rs. 2, Re. 1 per kg. for rice, wheat, coarse grains respectively. It is estimated that about two thirds of the 1.2 billion population of India is entitled to subsidised foodgrains under the Targeted

Public Distribution System (TPDS). Total annual requirement of foodgrains including the requirement for other schemes is estimated at 61.2 million tones. However, the Ordinance is likely to increase India's food subsidy bill by about Rs.238 billion to Rs.1.25 trillion.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

In view of slowdown in growth, the Reserve Bank signalled a shift in the policy stance towards addressing risks to growth by reversing the tightening cycle in January 2012. The CRR was reduced cumulatively by 125 bps during January-March 2012 to prepare liquidity conditions for a front-loaded 50 bps reduction in the policy repo rate in April. Cumulatively, during the full year 2012-13, the policy repo rate was reduced by 100 basis points, the Statutory Liquidity Ratio (SLR) by 100 basis points and the Cash Reserve Ratio by 75 basis points, which was supported by liquidity injection through Open Market Operations to the tune of Rs. 1.5 trillion.

In the Annual Policy Statement for 2013-14, the announced stance was, first, to continue to address the accentuated risks to growth; second, to guard against the risks of inflation pressures re-emerging and adversely impacting inflation expectations, even as corrections in administered prices release suppressed inflation; and third, to appropriately manage liquidity to ensure adequate credit flow to the productive sectors of the economy. Accordingly, it was decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.5 per cent to 7.25 per cent with immediate effect.

Subsequently, in its Mid-Quarter Review of June, the Reserve Bank paused its policy easing. By the time of First Quarter Review (FQR) of the Annual Policy in July 2013, pressures emerged on the exchange rate front. With upside risks to inflation significant in the near term, the Reserve Bank indicated that it saw little space for further policy easing and warned that risks on account of the CAD could warrant a swift reversal of the policy stance. Keeping in view global and domestic macroeconomic conditions, outlook and risks, the policy stance in the FQR was guided by the need for continuous vigil and preparedness to pro-actively respond to risks to the economy from external developments, especially those stemming from global financial markets, while managing the trade-off posed by increased downside risks to growth and continuing risks to inflation and inflation expectations. Against this backdrop, the emphasis of monetary policy shifted to addressing the risks to macroeconomic stability from external shocks while continuing to address the heightened risks to growth and guarding against inflationary pressures.

With a view to restoring stability in the foreign exchange market, RBI announced a recalibration of the Marginal Standing Facility (MSF) rate to 300 basis points above the policy repo rate under the LAF on July 15, 2013. RBI also limited the overall limit for access to LAF by each individual bank and stipulated that banks have to maintain a minimum daily CRR balance of 99 per cent of the requirement. Further measures announced by RBI and Securities and Exchange Board of India (SEBI) included tightening the exposure norms and doubling of margins for currency derivatives to check large-scale speculations in the market and stipulation that transactions of authorised banks in currency futures/options markets must be necessarily on behalf of clients. To check rupee depreciation, RBI on August 14, 2013, reduced the limits for Overseas Direct Investment of Indian corporate and remittances by resident Indians; and disallowed the acquisition of immovable property by Indians outside India. RBI also opened a forex swap window to meet the entire daily requirements of oil marketing companies on August 30, 2013.

KEY ECONOMIC INDICATORS OF INDIA

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
I. Real Sector												
Per Capita GDP (Real)	US$	503	564	607	664	702	851	785	814	913	910	832
Real GDP Growth	%	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.6	9.3	6.2	5.0
GDP (MP at Current Prices)	Billion US$	523	618	722	834	948	1239	226	1366	1710	1873	1842
Agriculture Growth	%	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.9
Industry Growth	%	6.9	5.6	7.5	8.5	12.9	9.2	4.1	10.2	8.7	2.7	1.2
Services Growth	%	7.1	8.6	9.1	11.1	10.1	10.3	9.4	10.0	9.8	7.9	6.8
Investment	% of GDP(MP)	24.8	26.9	32.8	34.7	35.7	38.1	34.3	36.5	36.8	35.0	
Domestic Savings	% of GDP(MP)	25.9	29.0	32.4	33.4	34.6	36.8	32.0	33.7	34.0	30.8	
Headline Inflation (WPI)	%	3.4	5.5	6.5	4.5	6.6	4.7	8.1	3.8	9.6	8.9	7.4
- Food Inflation	%	3.1	4.3	3.6	3.7	7.9	5.6	8.9	14.6	11.1	7.2	9.3
- Non-Food Inflation	%	3.5	5.9	7.5	4.7	6.2	4.5	7.8	0.2	9.0	9.6	6.6
- Excl. Food and Fuel inflation	%	2.8	5.7	6.5	2.6	6.1	5.7	6.8	0.9	8.1	8.4	5.6
II. Fiscal Sector												
Revenue Collection (CSR) *	Billion Rs.	2308.3	2638.1	3059.9	470.8	4343.9	5418.6	5402.6	5728.1	7884.7	7514.4	8718.3@
Fiscal Deficit (excluding grants)	% of GDP											
Fiscal Deficit (including grants)	% of GDP	5.7	4.3	3.9	4.0	3.3	2.5	6.0	6.5	4.8	5.7	5.2@
Public Debt	% of GDP	42.7	41.9	41.2	40.2	38.4	38.5	38.1	38.0	36.2	37.7	39.0@
- of which external debt***	% of GDP	2.4	1.6	1.9	2.6	2.4	2.2	2.2	2.1	2.0	1.9	1.7@
- domestic debt ****	% of GDP	40.3	40.2	39.4	37.6	36.0	36.3	35.9	35.9	34.2	35.8	37.3@
- debt servicing	% of total Revenue											
III. External Sector												
Exports (f.o.b)	Billion US$	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	256.2	309.8	306.6
Imports (c.i.f)	Billion US$	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	383.5	499.5	502.2
Trade Deficit	Billion US$	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-127.3	-189.8	-195.7
Remittances	Billion US$	16.8	22.2	20.8	24.7	30.1	41.9	44.8	52.0	53.1	63.5	64.0
Current Account Balance	Billion US$	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-48.1	-78.2	-88.2
Current Account Balance	% of GDP	1.2	2.3	-0.4	-1.2	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.8
Total Foreign Investment	Million US$	4161	13744	13000	15528	14753	43326	8342	50363	42127	39231	46711
- Foreign Direct Investment	Million US$	3217	2388	3713	3034	7693	15893	22372	17966	11834	22061	19819
- Portfolio Investment	Million US$	944	11356	9287	12494	7060	27433	-14031	32396	30293	17170	26891
External Debt and Forex Liabilities	Billion US$	104.9	112.6	134.0	139.1	172.4	224.4	224.5	260.9	305.9	345.5	390.0
External Debt and Forex Liabilities	% of forex earnings	72.5	100.3	105.6	109.0	115.6	138.0	112.2	106.9	99.7	85.2	74.9
Short-term debt to GDP	%	0.9	0.7	2.4	2.4	2.9	3.7	3.9	3.6	3.7	4.5	5.2
External Debt Servicing Ratio (pl see footnote)		16.0[&]	16.1[&&]	5.9^	10.1#	4.7	4.8	4.4	5.8	4.4	6.0	5.9
Exchange Rate	Per US$	48.4	46.0	44.9	44.3	45.3	40.3	46.0	47.4	45.6	47.9	54.4
Foreign Exchange Reserves	Billion US$	76	113	142	152	199	310	252	279	305	294	292
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	12.0	22.2	12.3	20.7	17.1	19.4	9.0	18.2	10.0	6.0	9.1
Growth Rate of M_2	y-o-y											
Growth Rate of M_3	y-o-y	14.7	16.7	12.0	16.9	21.7	21.4	19.3	16.9	16.1	13.2	13.8
Weighted Avg Lending Rate of SCBs	% (as on 31st March)	13.3	13.2	12.6	12.0	11.9	12.3	11.5	10.5	11.4	12.6	12.1 (P)
Bank Credit to commercial sector(%)	%	18.3	13.0	30.6	27.3	26.1	21.1	16.9	15.8	21.3	17.0	14.2
Stock Market (Price Index) (BSE)	End 1991=100	261.0	478.7	555.9	965.8	1119.2	1339.5	831.2	1500.7	1664.9	1490.1	1612.7
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	5722.0	15396.0	16984.3	30221.9	35450.4	51380.2	30860.8	61656.2	68390.8	62149.1	63878.9
Market Capitalization (as leading stock mkt)	% of GDP	22.6	54.3	52.4	81.8	82.5	103.0	54.8	95.2	87.7	69.3	63.8
Market Capitalization (as leading stock mkt)	Billion US$	120.1	341.2	388.7	679.4	805.2	1273.2	602.4	1355.2	1520.1	1235.1	-
V. Banking Sector Indicators												
Capital adequacy ratio	%	12.7	12.9	12.8	12.3	12.3	13.0	13.2	13.6	13.0	12.9	13.8@@
Non-performing loans	%	8.8	7.2	5.2	3.3	2.5	2.3	2.3	2.4	2.5	3.1	3.4
Profitability (R.O.E.)	%	18.8	20.6	15.8	14.8	15.5	16.0	15.4	14.3	15.0	14.6	-
Profitability (R.O.A.)	%	1.1	1.2	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	-

*: Pertains to revenue receipts of the central government.
**: Pertains to Gross Fiscal Deficit of the Central Government.
***: External debt at historical exchange rate.
****: Pertains to internal debt.
@: pertains to revised estimates.
[&] works out to 12.4 per cent with the exclusion of prepayment of external debt of US $ 3,430 million
[&&] works out to 8.2 per cent with the exclusion of pre payment of external debt of US $ 3,797 million & redemption of Resurgent India Bonds (RIBs) of US $ 5,549 million.
^ works out to 5.7 per cent with the exclusion of pre payment of external debt of US $ 381 million
# works out to 6.3 per cent with the exclusion of India Millennium Deposits (IMDs)
P: Provisional Data
@@CRAR under Basel II

MALDIVES

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Reflecting the strong performance of the tourism sector, the real GDP growth is expected to accelerate to 3.7% in 2013 from 1.3% in the preceding year. The robust growth in the tourism sector has been driven by stronger arrivals from the Chinese market, despite slower growth in the European market. As for the other key sectors of the economy, fisheries and whole and retail trade sectors also showed positive developments during the first six months of 2013. However, the construction sector remained sluggish during the first half of 2013 due to the severe shortage in the supply of aggregates which caused significant price increases and project delays.

With regard to the developments in prices, consumer price inflation fell to 2.4% at the end of June 2013 from 10.3% the previous year. This reflects the dissipation of one off factors such as the devaluation of the Maldivian rufiyaa in April 2011 and the introduction of the goods and services tax (GST) in October 2011 and also the moderation in global food and oil prices. As for public finances, fiscal conditions further deteriorated in the first six months of 2013 due to the sizable shortfalls in expected revenue owing to significant delays in the implementation of the planned new revenue measures for 2013. On the spending side, total expenditure of the government also increased markedly during the first half of 2013 in contrast to the 2% reduction in total expenditure envisaged under the 2013 budget. These developments resulted in a widening of the budget deficit as indicated by the sizeable large financing requirement of the government during the first six months of 2013. The budget deficit was almost entirely financed from domestic sources in the first half of 2013, mainly through T-bills subscriptions and borrowings from MMA.

On the monetary front, the monetary aggregates showed significant increases in the first six months of 2013. As such, both reserve money and broad money registered annual increases at the end of June 2013. Meanwhile, due to the strong economic recovery and improving asset quality of the banking system, the annual growth in private sector credit registered a turnaround in June 2013 after having declined since April 2012.

The external trade deficit widened in the first half of 2013 compared to the same period last year. This was mainly due to a larger increase in imports despite the rise in exports. The strength in imports reflects the increase in domestic demand driven by economic recovery and the increase in government expenditure. Gross international reserves[1] rose in the first six months of 2013 which was mainly contributed by the accumulation of foreign assets by the commercial banks. However, gross reserves in terms of months of imports remained unchanged at 2.5 months in June 2013 reflecting the acceleration in import growth

HIGHLIGHTS ON MAJOR POLICY ANNOUNCEMENTS

The core objectives of the MMA's monetary policy remain as attaining price stability and managing an adequate level of external reserves, while maintaining the exchange rate of Maldivian rufiyaa continues to be the intermediate target. On 14th April 2013, MMA amended the monetary policy framework to increase the effectiveness of the monetary policy implementation and to improve the development of the domestic interbank market. In this regard, the MMA adjusted the operational target from managing the level of reserve money to excess liquidity in the banking system. The policy instruments employed to conduct the monetary policy operations are Minimum Reserve Requirement (MRR), Open Market Operations (OMOs), MMA's standing facilities: Overnight Lombard Facility (OLF), Overnight Deposit Facility (ODF) and foreign exchange SWAP facility.

As part of stabilizing the exchange rate, the MMA continued to conduct weekly OMO auctions with the commercial banks to absorb the excess liquidity in the banking system. Apart from the operational target adjustment, the MMA re-defined the main policy rate i.e. the Indicative Policy Rate (IPR), as an indicative rate for OMO and announced that it will remain at 7% per annum but would be no longer used as a floor rate for repurchase facilities (repos) and ceiling rate for reverse repurchase facilities (reverse repos). The changes also include an internal band around the IPR within which the OMO auctions were conducted, effective from 14th April 2013.

Alongside the changes introduced on 14th April 2013, the MMA also narrowed the corridor width by raising the ODF rate from 0.25% to 3% per annum and reducing the OLF rate from 16% to 12% per annum to foster the development of interbank market in the Maldives. Meanwhile, the conditions and terms of these facilities remained unchanged as described in the Monetary Operations Manual of the MMA. [1] Gross international reserves comprises Maldives' reserve

As in the past year, to ease the dollar shortages in the market, the foreign exchange swap facility was made readily available to the commercial banks throughout the period, Jan- Jun 2013. Despite this, none of the banks have applied for this facility. The MRR also remained at 25% for both local currency and foreign currency deposits of the commercial banks since 2006. Correspondingly, MRR remuneration rate remained unchanged As such, the remuneration rate for local and foreign currency MRR balances is 1% and 0.01% per annum, respectively. Similarly, all banks are required to maintain its MRR balances for a 14-day period.

---

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

KEY ECONOMIC INDICATORS OF MALDIVES

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13*
I. Real Sector												
Per Capita GDP	**US$**	2661.3	2979.2	3280.4	2931.2	3678.0	4112.6	4845.2	5157.6	5422.3	5246.7	5272.6
Real GDP Growth	**%**	6.1	14.2	12.5	-8.7	19.6	10.6	12.2	-3.6	7.1	7.0	3.4
GDP (MP)	**Million US$**	828.2	949.9	1075.6	992.5	1303.4	1542.0	1891.6	1984.6	2134.1	2132.0	2214.5
Agriculture/[1]	**% of GDP**	6.6	6.0	5.4	6.3	5.5	4.4	3.8	3.8	3.5	3.3	3.4
Industry/[1]	**% of GDP**	13.7	13.8	16.1	19.5	17.9	19.9	19.4	14.9	14.5	15.5	17.1
Services/[1]	**% of GDP**	81.8	82.3	80.4	75.9	78.1	77.1	78.0	82.3	83.0	82.2	80.6
Investment	**% of GDP**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
National Savings	**% of GDP**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Headline Inflation/[2]	**%**	0.05	-2.83	0.96	1.78	3.99	8.89	8.94	5.41	6.94	16.66	5.43
- Food Inflation/[2]	**%**	-10.07	-3.79	24.92	5.74	5.93	21.80	9.46	0.78	14.32	23.87	12.03
- Non-Food Inflation/[3]	**%**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
- Core inflation	**%**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
II. Fiscal Sector												
Revenue Collection (CSR)/[4]	**Million US$**	212.1	241.2	267.6	360.4	480.8	591.5	582.5	448.0	511.5	642.7	639.9
Fiscal Deficit (excluding grants)	**% of GDP**	-5.0	-3.5	-1.7	-14.7	-10.0	-8.9	-13.4	-22.2	-16.2	-9.8	-14.0
Fiscal Deficit (including grants)	**% of GDP**	-3.8	-2.5	-1.1	-8.2	-4.8	-3.6	-11.2	-20.5	-15.6	-7.5	-12.6
Public Debt/[5]	**% of GDP**	36.4	33.6	31.1	39.8	35.8	35.8	36.4	NA	NA	NA	NA
- of which foreign currency(debt)	**% of GDP**	20.8	21.6	22.0	25.7	22.8	22.8	21.3	NA	NA	NA	NA
- domestic debt	**% of GDP**	15.6	12.0	9.1	14.1	13.0	13.0	15.1	NA	NA	NA	NA
- debt servicing	**% of total revenue**	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
III. External Sector												
Exports (f.o.b)/[6]	**Million US$**	133.5	151.9	180.8	161.8	224.2	227.5	331.4	169.0	197.5	346.4	314.4
Imports (f.o.b.)/[6]	**Million US$**	343.4	412.7	562.6	682.6	849.2	999.1	1271.8	877.7	999.3	1353.4	1436.4
Trade Deficit	**Million US$**	-209.8	-260.8	-381.8	-520.8	-624.9	-771.6	-940.4	-708.7	-801.8	-1007.0	-1122.0
Remittances/[7]	**Million US$**	NA	NA	NA	NA	NA	-188.4	-218.3	-189.7	-188.9	-216.5	-253.1
Current Account Balance/[8]	**Million US$**	NA	NA	NA	NA	NA	-227.5	-611.7	-220.8	-196.1	-436.8	-600.5
Current Account Balance	**% of GDP**	NA	NA	NA	NA	NA	-14.8	-32.3	-11.1	-9.2	-20.5	-27.1
Total Foreign Investment	**Million US$**											
- Foreign Direct Investment/[9]	**Million US$**	NA	NA	NA	NA	NA	132.4	181.3	158.0	216.5	256.5	284.0
- Portfolio Investment/[9]	**Million US$**	NA	NA	NA	NA	NA	3.3	11.4	-12.0	-12.2	0.1	0.1
External Debt and Forex Liabilities/[10]	**Million US$**	251.7	279.2	315.7	379.3	557.6	828.3	878.7	933.7	961.7	959.1	846.2
External Debt and Forex Liabilities	**% of forex earnings**	NA	NA	NA	NA	NA	45.9	44.6	54.5	47.9	40.8	36.1
Short-term debt to GDP	**%**											
External Debt Servicing Ratio (pl see footnote)/[11]	***	NA	NA	NA	NA	NA	2.2	2.6	2.9	2.5	2.8	3.4
Exchange Rate	**Per US$**	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	15.4	15.4
Foreign Exchange Reserves	**Million US$**	133.1	159.5	203.6	186.4	231.6	308.4	240.6	261.0	350.2	334.9	304.6
IV. Monetary & Capital Market												
Growth Rate of M_1/[12]	y-o-y	14.3	11.5	19.7	22.5	22.2	20.0	37.1	22.3	1.1	8.7	3.0
Growth Rate of M_2/[13]	y-o-y	21.6	17.2	31.4	10.6	18.9	24.1	21.8	14.4	14.6	20.0	5.0
Growth Rate of M_3/[14]	y-o-y											
Weighted Avg Lending Rate/[15]	**%**	NA	NA	NA	NA	NA	NA	NA	NA	10.4	10.2	10.5
Credit growth to Private Sector	**%**	15.1	6.9	58.1	59.6	48.6	49.4	29.7	-4.1	-2.3	5.9	-9.1
Stock Market (Price Index)/[16]	**2002=100**	122.0	154.4	239.6	199.8	137.6	342.7	287.1	229.6	211.2	157.4	149.7
Market Capitalisation (as leading stock mkt)	**Domestic Currency in million**	NA	NA	NA	1113.25	766.82	11450.16	2246.08	1862.01	1726.06	1286.89	7528.13
Market Capitalisation (as leading stock mkt)	**% of GDP**	NA	NA	NA	8.76	4.60	58.01	9.28	7.33	6.32	4.09	22.05
Market Capitalisation (as leading stock mkt)	**million US$**	NA	NA	NA	86.97	59.91	894.54	175.48	145.47	134.85	83.51	489.95
V. Banking Sector Indicators (information provided are annual figures)												
Capital adequacy ratio	**%**	24.59%	19.81%	16.73%	17.21%	17.47%	20.97%	24.71%	28.85%	28.17%	35.74%	36.10%
Non performing loans	**%**	10.26%	6.37%	6.59%	2.36%	1.59%	8.90%	12.84%	17.02%	19.37%	20.87%	19.00%
Profitability (R.O.E.)	**%**	30.60%	37.00%	40.80%	53.50%	30.75%	19.04%	25.11%	15.59%	14.74%	13.18%	49.96%
Profitability (R.O.A.)	**%**	3.70%	4.50%	4.80%	6.40%	4.09%	3.13%	3.51%	2.66%	2.56%	2.45%	10.23%

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

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

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

In real sector GDP by sectors as a % of GDP, agriculture refer to primary sector, industry refer to secondary sector and services refer to tertiary sector.

1. Maldives Male' series End of period is taken for Headline Inflation and Food Inflation

2. Since CPI basket was rebased in June 2012, nonfood inflation series is not available as data is not available for the period before June 2012.

3. Revenue collection (CSR) is the total revenue including grants

4. Public Debt refers to Public and publicly guaranteed (medium and long term)debt of Total external debt outstanding and disbursed

5. Source: Maldives Customs Service

6. Worker's Remittances outflow

7. As part of MMA's efforts to improve the coverage of the balance of payments statistics, the methodology and assumptions of BOP data from 2007 onwards have been revised. This new series is therefore not comparable with BOP data published prior to November 2012.

8. Annual Flows Government and Commercial Banks' External Debt stock

9. Debt service (Principle and Interest Payment) divided by Export of Goods and Services (XGS)

10. This refers to the narrow money

11. This refers to the broad money or total liquidity

12. M3 is not calculated in Maldives
13. This refers to the Weighted average lending rate to the private sector in national currency which is available from 2010 onwards

14. Stock market index (2002=100) represents the end of period
15. NA refers to not available

NEPAL

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

The economy is estimated to grow by 3.6 percent in 2012/13. While the growth of agricultural sector is estimated at 1.3 percent, the growth rate of industrial sector and service sector are estimated at 1.6 percent and 6.0 percent respectively.

Monetary Situation

Broad money supply (M2) increased by 16.4 percent during 2012/13 compared to an increase of 22.7 percent in the corresponding period of the previous year. Narrow money supply (M1) increased by 14.4 percent during the review period compared to an increase of 18.6 percent in the previous year.

Net foreign assets (after adjusting foreign exchange valuation gain/loss) increased by 18.0 percent during the review period compared to an increase of 59.5 percent in the corresponding period of the previous year. A significant rise in imports and relatively lower growth of remittances led to a slower growth in net foreign assets of the monetary sector during the review period compared to the previous year.

Price Situation

The annual average consumer price inflation increased by 9.9 percent in 2012/13 compared to an increase of 8.3 percent in 2011/12. The price index of food and beverages group increased by 9.6 percent whereas the index of non-food and services group increased by 10.0 percent in 2012/13.

Interest Rate Structure

The weighted average 91-day Treasury bill rate stood at 1.74 percent at the end of 2012/13 compared to 1.31 percent in the same period of the previous year. The inter-bank rate of commercial banks remained at 0.86 percent at the end of the fiscal year due to excess liquidity in the market. The weighted average deposit and lending rates of commercial banks remained at 5.25 percent and 12.09 percent respectively in 2012/13.

Fiscal Situation

During 2012/13, government budget deficit reached Rs. 18.19 billion (USD 206.8 million). In 2011/12 government budget deficit was Rs. 22.34 billion (USD 253.9 million). The total expenditure of the government grew by 8.7 percent to Rs. 347.43 billion. Likewise, the government revenue grew by 21.1 percent to Rs. 296.01 billion in 2012/13.

External Sector Situation

The merchandise exports went up by 3.6 percent to Rs. 76.91 billion during the fiscal year 2012/13. Such exports had increased by 15.4 percent during the same period of the previous year. In the same period, imports surged by 20.6 percent to Rs. 556.74 billion compared to a rise of 16.5 percent during the previous year. Due to high growth of imports compared to exports, the ratio of export to import declined to 13.8 percent in the review period from 16.1 percent a year ago.

The overall BOP recorded a surplus of Rs. 68.94 billion (USD 768.0 million) during the fiscal year 2012/13 compared to a surplus of Rs. 131.63 billion (USD 1.62 billion) during the previous year. The current account posted a surplus of Rs. 57.10 billion (USD 634.6 million) in the review period compared to a surplus of Rs. 75.98 billion (USD 909.0 million) in the previous year. Workers' remittances, one of the important components of transfer credit, grew by 20.9 percent to Rs. 434.58 billion (USD 4.93 billion) in 2012/13 compared to a growth of 41.8 percent in the previous year.

The gross foreign exchange reserves increased by 21.4 percent and reached Rs. 533.30 billion (USD 5.61 billion) in 2012/13. It was Rs. 439.46 billion (USD 4.96 billion a year ago). The reserve was sufficient for financing of merchandise and services imports of 10.1 months.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Monetary policy of 2012-13 has adopted cautious and balanced policy stance and has vowed to remain vigilant on possible inflationary pressure from expansionary monetary policy and contraction in economic growth from contractionary monetary policy.

Monetary policy was focused on qualitative improvement in balance sheet and governance of bank and financial institutions (BFIs) through necessary revision and effective implementation of macro prudential regulation along with early warning system, prompt corrective action, risk based supervision, stress testing, and contingency planning.

In the context of fixed exchange rate of Nepalese rupee with Indian currency, exchange rate has been taken as an intermediate target of monetary policy to achieve monetary policy objectives.

The monetary policy has set the target of attaining economic growth of 5.5 percent, limiting inflation at 7.5 percent and maintaining foreign exchange reserves sufficient to cover imports of goods and services of at least eight months. In addition, to ensure adequate credit flow, broad money growth has been targeted to be maintained at 15.0 percent.

Based on the first six months' data, some targets have been revised in the mid-term review of the monetary policy that was published on 21 February 2013. The targets of economic growth and inflation were revised to 4.1 percent and 9.5 percent respectively. The foreign exchange reserves target was revised to cover imports of goods and services of at least eight and half months.

The provision of statutory liquidity ratio (SLR), cash reserve ratio (CRR), bank rate and refinance rate, among others, has remained the same. Prudent regulation and supervision adopted by Nepal Rastra Bank has resulted in the comfortable level of liquidity and moderate non-performing loans. Nonperforming loans ratio (NPL) of the banking industry remained at 2.6 percent and return on equity (profitability) of the commercial banks was 26.3 percent in 2012/13.

KEY ECONOMIC INDICATORS OF NEPAL

Indicator	Unit	Fiscal Year				
		2008-09	2009-10	2010-11	2011-12	2012-13
I. Real Sector						
Per Capita GDP	US$	497	610	718	706	717
Real GDP Growth	%	4.53	4.82	3.43	4.85	3.65
GDP (MP)	Billion US$	12.85	16.01	18.95	19.23	19.34
Agriculture	% of GDP	32.97	35.38	36.89	35.12	34.38
Industry	% of GDP	15.86	15.14	14.83	14.57	15.01
Services	% of GDP	51.17	49.48	48.28	50.31	50.61
Investment	% of GDP	31.67	38.32	32.52	32.77	37.79
National Savings	% of GDP	35.87	35.96	31.65	36.65	38.41
Headline Inflation	%	12.6	9.6	9.6	8.3	9.9
- Food Inflation	%	17.3	15.1	14.6	7.7	9.6
- Non-Food Inflation	%	8.9	4.9	5.4	9.0	10.0
- Core inflation	%					NA
II. Fiscal Sector						
Revenue Collection (CSR)	Billion US$	1.87	2.39	2.75	3.02	3.37
Fiscal Deficit (excluding grants)	% of GDP	-7.7	-4.1	-4.3	-3.3	-0.9
Fiscal Deficit (including grants)	% of GDP	-5.0	-0.9	-1.0	-0.6	1.5
Public Debt*	% of GDP	4.7	6.0	7.1	5.5	2.0
- of which foreign currency	% of GDP					-
- domestic debt#	% of GDP	1.9	2.5	3.1	2.4	1.1
- debt servicing^	% of total revenue	18.8	16.0	15.1	14.5	16.8
III. External Sector						
Exports (f.o.b)	Billion US$	9.09	8.54	9.50	10.08	9.77
Imports (f.o.b.)	Billion US$	36.32	49.48	53.71	56.13	62.24
Trade Deficit	Billion US$	-27.23	-40.94	-44.21	-46.05	-52.47
Remittances	Billion US$	2.73	3.13	3.51	4.41	4.93
Current Account Balance	Billion US$	5.39	-0.37	-0.18	0.91	0.63
Current Account Balance	% of GDP	4.19	-2.36	-0.94	4.88	3.40
Total Foreign Investment	Million US$	23.79	38.99	89.96	112.46	102.00
- Foreign Direct Investment	Million US$	23.79	38.99	89.96	112.46	102.00
- Portfolio Investment	Million US$	-	-	-	-	NA
External Debt and Forex Liabilities	Billion US$	-	-	-	-	NA
External Debt and Forex Liabilities	% of forex earnings					
Short-term debt to GDP	%	-	-	-	-	NA
External Debt Servicing Ratio		-	-	-	-	NA
Exchange Rate@	Per US$	78.05	74.44	70.95	88.6	95.00
Foreign Exchange Reserves	Billion US$	3.67	3.61	3.83	4.96	5.61
IV. Monetary & Capital Market						
Growth Rate of M_1	y-o-y	27.3	11.0	5.2	18.6	14.4
Growth Rate of M_2	y-o-y	27.3	14.1	12.3	22.7	16.4
Growth Rate of M_3	y-o-y	29.4	12.5	11.7	22.3	16.7
Weighted Avg Lending Rate	%	NA	NA	NA	12.4	12.1
Credit growth to Private Sector	%	29.0	14.2	13.9	11.3	20.2
Stock Market (Price Index)	1991=100	749.1	477.7	362.9	389.7	518.3
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion				368.2	514.5
Market Capitalization (as leading stock mkt)	% of GDP	51.9	32.1	23.5	24.0	30.2
Market Capitalization (as leading stock mkt)	Billion US$	6.698	5.077	4.489	4.561	5.420
V. Banking Sector Indicators						
Capital adequacy ratio	%	7.2	9.6	10.6	11.5	13.2
Non performing loans	%	3.6	2.5	3.2	2.6	2.6
Profitability (R.O.E.)	%	34.7	33.9	25.3	22.5	26.3
Profitability (R.O.A.)	%	4.9	1.9	1.7	1.5	1.8

1 Fiscal year in Nepal starts at mid - July

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

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

[4] Foot Notes:

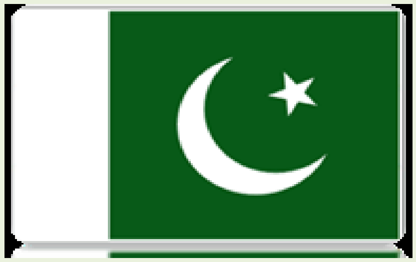
* = Includes both gross domestic and external borrowing

= Gross domestic debt .

^ = Includes both domestc and external debt servicing.

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

PAKISTAN



RECENT OVERALL MACROECONMIC DEVELOPMENTS

Pakistan's economy experienced bouts of growth and stable inflation but a sustainable performance remained largely elusive during FY13. The provisional estimate for GDP growth is 3.6 percent for FY13, which is lower than the 4.3 percent target for the year. Among others, the power shortages and security conditions remained strong impediments to growth. However, there has been a discernible positive change in sentiments post May 2013 elections.

In line with overall economic trends, agriculture and services sector of the economy also performed below their capacity during FY13. However, the growth in industrial sector have increased on the back of recovery in large scale manufacturing, construction and mining and quarrying. If this trend continues it may help in overall improvement in GDP.

As regards investment, it has been hard hit by internal and external factors during the last few years and is considered as a key concern. Total investment has decreased from 22.1 percent of GDP in FY08 to 14.2 percent of GDP in FY13. However, some signs of improvements have been seen in March and April suggesting improvement in investor's confidence and the investment is likely to pick up. As is evident that post 2013 election, the capital market crossed 21,000 plus points emitting positive signals to the investor's confidence. Similarly, the National savings remained almost unchanged at 13.5 percent of GDP in FY13 compared to 13.6 percent in FY08.

The fiscal performance continued the pattern of recent years as expenditure continued to outstrip revenue by a wide margin, substantially reflecting the continuation of excessive subsidies and low tax effort. Overruns on subsidy outlays - largely reflecting failure to adjust electricity tariffs and the settlement in June of much of the power sector's arrears - pushed the fiscal deficit to 8.0% of GDP. With the decline in external financing, the government has relied more on domestic banking system to finance its fiscal deficit. Therefore, the budgetary

borrowings from the banking system have increased substantially during FY13. Accordingly, the composition of public debt has also witnessed major changes with increasing reliance on domestic debt. Moreover, Pakistan external debt has reduced due to external debt repayments to IMF.

A slight improvement in trade sector has also been witnessed due to rise in export and decline in import. During FY13, exports stood at $24.7 billion as recorded the same in the comparable period of FY12, while imports amounted to $39.8 billion against $40.5 billion during the same period of FY12. Trade deficit has also reduced to US$ 15.1 billion during FY13 as compared to US$15.7 billion in the comparable period of FY12. Similarly, the current account deficit has narrowed to $2.3 billion in FY2013 (equal to 0.1% of GDP) due to shrinking of net capital & financial flows and high loan repayments to the IMF. As a consequence, the foreign exchange reserves have depleted which put a pressure on the value of Pak rupee.

The inflationary trend in the economy remained subdued during FY13. The CPI headline inflation on year on year (YoY) basis dropped to 5.1 percent in June 2013 as compared to 11.0 percent last year, as food and other prices eased and higher administered prices for electricity were delayed until after national elections. Food inflation down to 7.1 percent on year on year (YoY) basis and that of non food 7.5 percent while core inflation stood at 9.6 percent as compared to 11.0, 11.0 and 10.6 percent, respectively last year.

During FY13, money supply (M2) increased by 16.6 percent (Rs.1235.3 billion) on the back of sharp rise in the budgetary borrowings as against the M2 growth of 13.4 percent (Rs.877.7 billion) in the comparable period last year. Increase in budgetary borrowings kept an upward pressure on the system's liquidity and the short term market interest rates. Further, it also restrained growth in the private sector credit and led to a sharp increase in domestic debt. Nevertheless, the weighted average lending rate (including zero mark-up) on outstanding loans stood at 10.56 percent.

There are two developments that are worth highlighting during FY13. First, there has been a noticeable change in sentiments, which can potentially have a favorable influence on private financial inflows. Second, the declining inflation has increased the relative real return on rupee denominated assets. This could provide some room for downward adjustment in nominal returns to cater to broad macroeconomic considerations despite external account concerns.

HIGHLIGHTS ON MAJOR POLICY ANNOUNCEMENTS

Latest Monetary Policy Statement

The State Bank of Pakistan (SBP) decided to reduce the policy rate by 50 basis points to bring it down to 9 percent with effect from 24th June, 2013. While reducing the policy rate, SBP placed a higher weight to declining inflation and low private sector credit relative to risks to the balance of payments position. Moreover, a continuous and broad based deceleration in inflation over the last year was also a key consideration in the recent monetary policy decision.

Other Policy Changes

The SBP has issued the revised guidelines on 'Stress Testing' in order to further strengthen the risk management capacity of banks and Development Finance Institutions (DFIs).

The revised guidelines, which are in conformity with international standards, are aimed at improving the capacity of banks/DFIs to perform such analysis.

The SBP has made Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations more comprehensive by revising the existing regulations M-1 to M-5 of Prudential Regulations on Corporate/ Commercial Banking. The AML/CFT Regulations provide a system of Risk Based Approach under which customers will be profiled as per risk involved. The revised system will ensure clean and transparent banking transactions on the one hand and will enable the country to meet international standards on the other. The provisions of Regulations introduce a system of comprehensive list of "Red Alerts" in the context of Pakistan, which will trigger scrutiny of accounts and transactions to ensure that proceeds of crime are not processed through the banking channels. The new Regulations now require banks/DFIs to keep record for a minimum period of 10 years.

The SBP has issued detailed instructions for Profit & Loss Distribution and Pool Management in Islamic Banking Institutions (IBIs) in order to improve transparency and disclosures and bring standardization in IBIs' profit and loss distribution policies and practices.

The SBP has issued branchless banking regulations as a strategy to develop a road map for financial inclusion through the use of mobile phone banking. With these regulations, SBP enabled a diverse set of players including banks, microfinance banks, mobile network operators (MNOs), retailers, and technology firms to develop partnerships and business models, while safeguarding stability of the banking and payment system, and interest of customers. Since the regulations, several branchless banking models have been deployed. UBL's Omni and Tameer bank's EasyPaisa have already gained substantial ground and have established themselves as market leaders. Two new services (MobiCash and Timepey) have just launched while two are running live pilots.

In order to overcome the challenges faced by SME sector, a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises (SREs) was issued by SBP which allows banks to develop portfolio of fresh borrowers who are creditworthy, but cannot fit into the usual credit parameters of banks, especially when collaterals are required. The SBP is working on Secured Transaction Framework that calls for existence of a modern Secured Transaction Law to allow establishment of Secured Transaction Registry Office in the country to register charge on moveable assets of SME and Agri borrowers to facilitate them in accessing finance from Banks.

The SBP has decided to introduce the Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) with a view to promoting the export of Locally Manufactured Plant & Machinery. This new financing Facility is effective from January 03, 2013 and will remain valid till further instructions. The exporters can avail long term financing facilities through banks for export of eligible Plant & Machinery and Engineering Goods under the Facility. Financing facilities shall be available both at pre-shipment and post-shipment stages for a maximum period of five years.

The SBP has increased the rate of refinance under the Export Finance Scheme effective from April 1, 2013. The refinance rate was increased to 8.4 percent from 8.2 percent. However, the commercial banks will ensure that where financing facilities are extended by them to the exporters for availing refinance facilities under the EFS, their maximum margin or spread does not exceed one percent per annum. The revised markup rate is not applicable on currently outstanding loans availed under the EFS. The reimbursement of mark-up rate benefit to exporters, on excess performance under Part-II of the scheme will be adjusted accordingly keeping in view the revised mark-up rates.

The SBP has imposed a maximum limit on the spread between the buying and selling rates of foreign currencies in open foreign exchange market. It has now been decided that the maximum spread allowed between the buying and selling rates of foreign currencies must not exceed twenty-five (25) paisas, at any given time. It is reiterated that notice/display board accurately declaring the prevailing exchange rates applicable for respective currency sale/purchase/transfer must be displayed at a prominent place in each branch/CEB/franchise.

KEY ECONOMIC INDICATORS OF PAKISTAN

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 [P]
I. Real Sector												
Per Capita GDP	US$	582	663	724	823	904	1015	990	1068	1258	1372	1402
Real GDP Growth	%	4.7	7.5	9.0	5.8	6.8	3.7	1.7	3.1	3.0	4.4 [R]	3.6
Nominal GDP (MP)	Billion US$	83.3	98.0	109.5	127.3	143.0	163.5	161.8	176.5	214 [R]	225 [R]	237
Agriculture	% of GDP	24.0	22.9	22.4	22.5	21.9	21.3	21.8	21.3	21.2	21.1	21.2
Industry	% of GDP	23.6	25.5	26.3	25.9	26.3	25.8	25.3	26.0	25.5	25.4	20.9
Services	% of GDP	52.4	51.6	51.3	51.7	51.8	52.9	52.9	52.6	53.4	53.5	57.7
Investment	% of GDP	18.0	17.8	20.3	23.6	22.5	22.1	18.2	15.6	13.1	14.9 [R]	14.2
National Savings	% of GDP	20.8	17.9	17.5	18.2	17.4	13.6	12.5	13.1	13.2	12.8 [R]	13.5
Headline Inflation (yoy)	%	3.10	4.57	9.27	7.92	7.77	12.00	17.0	10.10	13.66	11.00	7.4
- Food Inflation (yoy)	%	2.80	6.00	12.50	6.90	10.30	17.60	23.70	12.9	18.00	11.00	7.1
- Non-Food Inflation (yoy)	%	3.30	3.60	7.10	8.60	6.00	7.90	18.40	8.2	10.70	11.00	7.5
- Core inflation (yoy)	%	2.50	3.80	7.20	7.50	5.90	8.40	17.60	7.6	9.40	10.60	9.6
II. Fiscal Sector												
Revenue Collection	Billion US$	12.3	13.8	15.2	18.0	21.4	23.9	23.5	24.8	26.3	27.8	30.78
Fiscal Deficit	% of GDP	3.70	2.30	3.34	4.27	4.35	7.59	5.35	6.28	6.62	8.8 [$]	8.0 [$a]
Public Debt	% of GDP	75.0	67.2	62.5	57.7	57.2	60.7	61.5	61.4	60.1	64.3	63.2
- of which foreign currency	% of GDP	39.5	34.3	31.3	28.7	27.5	29.7	32.3	33.0	31.2	30.8	25.8
- domestic debt	% of GDP	36.6	35.7	33.5	30.6	30.1	31.9	29.2	31.3	32.9	38.0 [R]	41.6
- debt servicing	% of total revenue	58.6	59.8	38.5	36.6	36.7	42.41	49.20	47.1	45.0	49.3	51.7
III. External Sector												
Exports (f.o.b)	Billion US$	11.2	12.3	14.4	16.5	17.0	19.1	17.7	19.3	24.8	24.7	24.7
Imports (c.i.f)	Billion US$	12.2	15.6	20.6	28.6	30.5	40.0	34.8	34.7	40.4	40.5	39.8
Trade Deficit	Billion US$	-1.1	-3.3	-6.2	-12.1	-13.6	-20.9	-17.1	-15.4	-15.6	-15.7	-15.1
Remittances	Billion US$	4.2	3.9	4.2	4.6	5.5	6.5	7.8	8.9	11.2	13.2	13.9
Current Account Balance	Billion US$	4.1	1.8	-1.5	-5.0	-6.9	-13.9	-9.3	-3.9	0.2	-4.7	-2.3
Current Account Balance	% of GDP	4.9	1.8	-1.4	-3.9	-4.8	-8.5	-5.7	-2.2	0.1	-2.1	-0.1
Total Foreign Investment	Million US$	747	1461	2508	6047	8688.6	5574.8	2646.8	2086	1979	600	1264
- Foreign Direct Investment	Million US$	798	949	1525	3521	5140	5410	3720	2151	1635	744	1239
- Portfolio Investment	Million US$	-239	314	620	986	3283	32	-1073	-65	344	-144	27
External Debt and Forex Liabilities	Billion US$	34.8	34.7	35.4	37.2	40.3	46.2	52.3	61.6	66.4	65.5	59.6
EDL/FEE	Percent	178.5	163.2	134.6	123.0	127.9	131.3	152.7	166.5	143.8	140.8	160.0
Short-term external debt	% of GDP	0.22	0.02	0.25	0.13	0.05	0.44	0.40	0.48	0.30	0.36	0.1
External Debt Servicing Ratio	***	20.3	23.4	10.4	9.3	8.8	8.7	13.5	12.3	8.4	9.5	-
Exchange Rate (average)	Per US$	58.50	57.58	59.36	59.88	60.64	62.63	78.62	83.89	85.56	89.27	96.85
Foreign Exchange Reserves	Billion US$	10.0	11.1	12.6	13.2	16.6	11.6	12.8	16.7	18.2	15.3	11.01
IV. Monetary & Capital Market												
Growth Rate of M_1	y-o-y	26.16	23.99	18.00	13.13	16.0	4.6	9.8	14.1	17.5	13.9	20.7
Growth Rate of M_2	y-o-y	18.0	19.6	19.1	15.1	18.9	11.9	9.5	13.0	16.7	13.4	16.6
Growth Rate of M_3	y-o-y					16.3	10.9	12.5	13.7	16.3	12.7	17.1
Weighted Avg Lending Rate	%	7.58	5.05	8.21	9.93	10.32	12.75	14.32	13.22	14.25	13.13	10.56
Credit growth to Private Sector	%	20.9	33.5	34.4	23.5	17.3	16.5	0.7	3.9	4.0	7.5	-0.56
Stock Market (Price Index)	1991=1000	3402.5	5279.2	7450.1	9989.4	17772.5	12289	7162.2	9721.9	12496.6	13801.4	21005.7
Market Capitalization (as leading stock mkt)	PKR Billion	746.0	1402.7	2036.7	2766.4	4019.4	3777.7	2120.7	2732.4	3288.7	3518.1	5154.7
Market Capitalization (as leading stock mkt)	% of GDP	15.3	24.9	31.3	36.3	46.3	36.9	16.7	18.5	18.2	17.0	22.5
Market Capitalization (as leading stock mkt)	Billion US$	12.9	24.1	34.1	45.9	66.5	55.3	26.1	32.0	38.2	37.2	53.2
V. Banking Sector Indicators												
Capital adequacy ratio	%	8.5	10.5	11.3	12.7	12.3	12.2	14.0	13.9	14.1	15.1	15.5
Non performing loans	%	17.0	11.6	8.3	6.9	7.6	10.5	12.6	14.9	15.3	15.9	14.8
Before Tax Profitability (R.O.E.)	%	35.4	30.5	38.2	35.2	22.6	11.4	13.2	15.5	21.8	25.9	18.5
Before Tax Profitability (R.O.A.)	%	1.8	1.9	2.8	3.1	2.2	1.2	1.3	1.5	2.1	2.4	1.7

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

Note: P= Provisional; $Fiscal deficit includes PSEs debt adjustment;@: SBP projected GDP for full year has been used in the calculation of current account balance; a: GDP(mp) on new basis (2005-2006) has been used to calculate fiscal deficit to GDP ratios; GDP in dollar terms is calculated using average exchange rate during the year; '-': Data not available:

<u>Definitions</u>:
M1= Notes in Circulation outside Depository Corporation + Transferable Deposits with ODCs + Transferable Deposits with SBP other than Reserve Deposits
M2= M1 + Other Deposits with ODCs + Short Term Securities Issued by ODCs + Coin in Circulation; M3 = M2 + Deposits held wit Post Office + National Saving Schemes (CDNS)

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

SRI LANKA

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

The Sri Lankan economy grew at a healthy rate of 6.3 per cent during the first half of 2013 amidst a number of challenges including the lagged effect of tight policy measures introduced in the first half of 2012, the impact of unfavourable weather conditions and the continued dampened demand from the external sector. The Industry sector continued to post strong growth of 10.4 per cent, largely driven by construction and construction related activities. The Services sector grew by 5.5 per cent, despite the continuing slowdown of wholesale and retail activity, as transport activities, financial services and government and private services continued to expand. Meanwhile, the Agriculture sector recorded a marginal growth of 0.5 per cent due to adverse weather conditions that prevailed at the beginning of the year, which affected the cultivation of paddy and other food crops, and the high base in the previous year.

Economic activity is expected to accelerate during the second half of the year. The recovery in advanced economies is expected to raise external demand, while the high growth momentum in the construction industry is expected to be sustained with the continuation of the country-wide infrastructure development programme and the commencement of some new real estate developments. Favourable weather conditions are expected to contribute towards a bumper harvest of paddy and other food crops during the Yala season. The Services sector is expected to improve further reflecting the improvement in external trade and continuing growth in transportation, financial services and tourism related activities. Taking into consideration the expected developments during the year and the supportive policy environment, the economy is projected to grow well above 7 per cent in 2013.

Inflation continued to remain at single digit levels during the first nine months of 2013. The tight monetary policy stance adopted in 2012 as well as a negative output gap, with the economy growing below potential, helped contain inflation within single digit levels. This was further supported by moderating international commodity prices and favourable domestic weather conditions. During the first few months of the year, although inflation remained elevated, with year on year headline inflation rising to 9.8 per cent in January and February due to agriculture supply shortages, the revision to several administered prices in 2012 and the low base in the previous year, it gradually declined to 6.2 per cent in September with supply conditions improving and international commodity prices moderating. Inflation during the rest of the year is expected to remain at benign levels supported by favourable domestic and external conditions.

Fiscal management remained challenging in 2013 with revenue continuing to fall below the targeted level, although expenditure has been maintained in line with the budgetary targets. During the first half of 2013, the overall fiscal deficit was 4.3 per cent of estimated GDP compared to the annual budget deficit target of 5.8 per cent of GDP. The higher fiscal deficit in the first half was mainly a result of a decline in revenue both as a percentage of GDP and in nominal terms. The reduction in import related taxes with the slowdown in imports and the general slowdown in economic activity mainly contributed to the decline in tax revenue collection, while lower profit and dividend transfers from government institutions contributed to the decline in non-tax revenue collection. During the first half of 2013, total expenditure and net lending as a percentage of GDP has declined to 9.9 per cent of GDP from 11.1 per cent of GDP in the corresponding period of 2012. A large part of the resource gap in the fiscal sector was mainly financed through the banking system.

The external sector strengthened as a result of the policy measures adopted in 2012 to address the imbalances in the sector. The trade deficit narrowed during the first half of 2013 as import expenditure declined, although exports did not pick up as expected due to the slow recovery in the global economy. Inflows to the capital and financial account increased with inflows to the government as well as to the private sector. Reflecting these developments in the balance of payment, the overall balance recorded a deficit of US Dollars 169 million during the first half of 2013, compared to the lower deficit of US Dollars 320 million recorded in the corresponding period of 2012. Gross official reserves declined to US dollars 6.3 billion (equivalent to 4 months of imports) at end July 2013 from US dollars 6.9 billion (equivalent to 4.3 months of imports) at end 2012. Sri Lanka's external sector outlook is expected to improve with the improvement in the trade account, continued increase in workers' remittances, earnings from tourism and capital inflows to the government and private sector, including FDIs and portfolio investments.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

The moderation in inflation in 2013 as a result of the strong demand management policies introduced in early 2012 and indications that growth was falling below potential, prompted the Central Bank to loosen its monetary policy stance. Thus the Central Bank reduced its policy interest rates, the Repurchase rate and the Reverse Repurchase rate, by 25 basis points each, while allowing the ceiling on the growth of rupee lending by commercial banks to expire in December 2012. The slower than expected pick-up in economic activity as well as the continued moderation in headline inflation and subdued demand pressures in the economy, enabled the Central Bank to further reduce its policy interest rates by 50 basis points each in May 2013. However, the slow transmission of the Central Bank's monetary policy stance to market interest rates and the widening spread between lending and deposit rates prompted the Central Bank to reduce the Statutory

Reserve Requirement (SRR) by 2 percentage points in July 2013. The policy stance adopted is expected to provide the required monetary stimulus to move the economy towards its potential, while containing inflationary pressures.

KEY ECONOMIC INDICATORS OF SRI LANKA

	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 H1
I. Real Sector													
Per Capita GDP	US$	900	981	1,062	1,241	1,421	1,617	2,014	2,057	2,400	2,836	2,923	-
Real GDP Growth	%	4.0 (a)	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.2	6.4	6.3
GDP (MP)	Billion US$	17.1	18.9	20.7	24.4	28.3	32.4	40.7	42.1	49.6	59.2	59.4	31.9
Agriculture	% of GDP	14.3	13.2	12.5	11.8	11.3	11.7	13.4	12.7	12.8	12.1	11.1	12.2
Industry	% of GDP	28.0	28.4	28.6	30.2	30.6	29.9	29.4	29.7	29.4	29.9	31.5	32.0
Services	% of GDP	57.7	58.3	58.8	58	58	58.4	57.2	57.6	57.8	58.0	57.5	55.8
Investment	% of GDP	21.2 (a)	22	25.3	26.8	28	28	27.6	24.4	27.6	30	30.6	-
National Savings	% of GDP	19.5 (a)	21.5	22	23.8	22.3	23.3	17.8	23.7	25.3	22	24	-
Headline Inflation (b)	%	9.6	6.3	9.0	11.0	10.0	15.8	22.6	3.5	6.2	6.7	7.6	8.6
- Food Inflation	%			9.0	11.4	8.9	20.3	30.5	3.1	6.9	8.8	4.7	9.7
- Non-Food Inflation	%			9.0	10.6	10.9	12.1	15.6	3.7	5.6	5.0	10.0	7.7
- Core inflation	%			9.1	10.3	8.5	7.7	13.6	6.9	7.0	6.9	5.8	6.4
II. Fiscal Sector													
Revenue Collection (CSR)	Billion US$	2.7	2.9	3.1	3.8	4.6	5.1	6	6.1	7.2	8.8	8.2	3.8
Fiscal Deficit (excluding grants)	% of GDP	-4.4	-3.2	-3.7	-2.6	-2.4	-1.6	-2	-3.7	-8.3	-7.1	-6.7	-4.4
Fiscal Deficit (including grants)	% of GDP	-8.5	-7.3	-7.5	-7	-7	-6.9	-7	-9.9	-8	-6.9	-6.4	-4.3
Public Debt	% of GDP	105.6	102.3	102.3	90.6	87.9	85	81.4	86.2	81.9	78.5	79.1	75.0
- of which foreign debt	% of GDP	45.6	46.3	47.6	39	37.5	37.1	32.8	36.5	36.1	35.6	36.5	33.1
- domestic debt	% of GDP	60	56	54.7	51.6	50.3	47.9	48.5	49.7	45.8	42.9	42.6	41.8
- debt servicing	% of total revenue	108.6	124.6	96.5	91	93	88.6	90.5	118	100.4	92.5	96.8	111.4
III. External Sector													
Exports (f.o.b)	Billion US$	4.7	5.1	5.8	6.3	6.9	7.6	8.1	7.1	8.6	10.6	9.8	4.7
Imports (f.o.b.)	Billion US$	6.1	6.7	8	8.9	10.3	11.3	14.1	10.2	13.5	20.3	19.2	9.2
Trade Deficit	Billion US$	-1.4	-1.5	-2.2	-2.5	-3.4	-3.7	-6	-3.1	-4.8	-9.7	-9.4	-4.6
Remittances	Billion US$	1.3	1.4	1.6	2	2.2	2.5	2.9	3.3	4.1	5.1	6.0	3.2
Current Account Balance	Billion US$	-0.2	-0.1	-0.6	-0.7	-1.5	-1.4	-3.9	-0.2	-1.1	-4.6	-3.9	-1.6
Current Account Balance	% of GDP	-1.4	-0.4	-3.1	-2.7	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8	-6.6	-
Total Foreign Investment	Billion US$	2	2.4	2.8	3	3.3	4.7	5.9	7	8.2	9.8	12.9	4.6
- Foreign Direct Investment	Billion US$	0.2	0.2	0.2	0.2	0.5	0.5	0.7	0.4	0.4	0.9	0.8	0.3
- Portfolio Investment	Million US$	25	2	11	60	51	101	60	-6	-230	-171	305	120.2
External Debt and Forex Liabilities	Billion US$	10.3	11.7	12.8	13	14	16.5	17.8	20.9	24.8	29.4	33.7	-
External Debt and Forex Liabilities	% of forex earnings	1.4	1.4	1.4	1.3	1.3	1.3	1.4	1.7	1.6	1.5	1.7	-
Short-term debt to GDP	%	3.6	3.4	3.1	2.7	2.2	3.4	3.6	7.4	5.3	6.7	8.1	-
External Debt Servicing Ratio (pl see footnote)	***	10.8	9.4	9.4	6.3	9.8	10	13.9	16.1	11.9	9	14.5	17.2
Exchange Rate	Per US$	95.7	96.5	101.2	100.5	104	110.6	108.3	114.9	113.1	110.6	127.6	126.8
Foreign Exchange Reserves	Billion US$	2.5	3.2	3.4	4.2	4	5	3.6	7	8.6	8	8.6	7.5
IV. Monetary & Capital Market													
Growth Rate of M_1	y-o-y	14	16	16.6	22.4	12.6	2.7	4	21.4	20.9	7.7	2.6	2.6
Growth Rate of M_2	y-o-y	13.2	13.8	18.5	19.6	20.7	15.6	11.7	19.9	18	20.9	18.3	19.4
Growth Rate of M_{2b}	y-o-y	13.4	15.3	19.6	19.1	17.8	16.6	8.5	18.6	15.8	19.1	17.6	15.8
Weighted Avg Lending Rate	%	18.2	15.7	14.8	15.4	16.6	18.1	20.1	17.4	14.8	13.4	15.98	16.14
Credit growth to Private Sector(As per M2b)	%	12	16.9	22.1	26.3	24	19.3	7	-5.8	24.9	34.5	17.6	8.9
Stock Market (Price Index)	1991=100	97.3	126.8	179.8	229.4	324.9	303.3	179.4	404.1	792	725	673.5	*
Market Capitalisation (as leading stock mkt)	Domestic Currency in Billion	162.6	262.8	382.1	584	834.8	820.7	488.8	1092.1	2210.5	2213.9	2167.6	2350.74
Market Capitalisation (as leading stock mkt)	% of GDP	10.3	14.4	18.3	23.8	28.4	22.9	11.1	22.6	39.4	33.9	28.6	-
Market Capitalisation (as leading stock mkt)	Billion US$	1.7	2.7	3.8	5.8	8	7.4	4.5	9.5	19.6	20	17	18.1
V. Banking Sector Indicators													
Capital adequacy ratio	%	11.7	11.3	11.4	13.3	12.1	12.6	12.5	14.1	14.3	16.0	16.2	16.1
Non performing loans ratio (Net IIS)	%										3.8	3.7	4.7
Profitability (R.O.E.) (After Tax)	%	19.1	21.8	18.1	16.4	15.2	14	13.4	11.8	22.4	19.8	20.3	18.0
Profitability (R.O.A.) (Before Tax)	%										2.4	2.4	2.1

*

All Share Price Index (ASPI)	(1985=100)									6,635.9	6,074.4	5,643.0	6,121.0
Milanka Price Index (MPI)	(1998 Dec=1000)									7,061.5	5,229.2	5,119.1	n.a.
S&P SL 20 Index	(2004 Dec=1000)									n.a.	n.a.	3,085.3	3,431.7

(a) Data based on CBSL Estimates

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

HIGHLIGHTS OF SAARCFINANCE, SPC AND IGEG RELATED ACTIVITIES

Meeting on the Improvement of SAARCFINANCE e-Newsletter and Development of SAARCFINANCE Scholarship Scheme

The Meeting on Improvement of SAARCFINANCE e-Newsletter and Development of SAARCFINANCE Scholarship Scheme was held in Dhaka, Bangladesh, on January 9-10, 2013. The SAARCFINANCE Coordinator and a technical staff from each member countries of SAARC except Afghanistan participated in the meeting.

The participants agreed on the new format for SAARCFINANCE e-Newsletter which included each member countries' "Recent Overoll Macroeconomic Developments", "Highlights of Major Policy Announcements" , "Key Economic Indicators" and "Highlights of SAARCFINANCE, SPC and IGEG Related Activities" of member countries of SAARC with event's photographs.

They also agreed on the Framework of SAARCFINANCE Scholarship Scheme for Higher Studies in Economics initiated by the Reserve Bank of India. Some of the other member countries also expressed their interest in contributing to Scholarship Scheme in future.

NRB officials visited BB under SAARCFINANCE Staff Exchange Program

As per the request of Nepal Rastra Bank (NRB), Bangladesh Bank Training Academy (BBTA) arranged a 4 day long training program on 'Central Banking Operation: Bangladesh Perspective' under the SAARCFINANCE Staff Exchange Program for 20 NRB officials during 3-6 March 2013.

20 Participants of Nepal Rastra Bank with Governor Dr. Atiur Rahman, Deputy Governor Mr. Shitangshu Kumar Sur Chowdhury, Executive Director Mr. Md. Ataur Rahman and other officials of Bangladesh Bank

The program covered certain issues on HRM, Banking Regulation, Supervision, Reform Initiative, Payment system, Internal Auditing etc. NRB officials also visited different departments of BB, Head office, Dhaka to acquaint with the latest improvements of BB. They also visited the Bangladesh Automated Clearing House (BACH) of BB.

The 41st training programme on Monetary and Fiscal Management in Reserve Bank Staff College

The 41st training programme on Monetary and Fiscal Management in Reserve Bank Staff College was held in Chennai India during 18-22 March 2013. Other than the Indian participants, four staff member of the Royal Monetary Authority of Bhutan attended the training program. The Bhutan participants visited Reserve Bank of India Central Office during March 25-28, 2013, under the Staff Exchange Scheme, and met officials of Department of Economic and Policy Research, Monetary Policy Department, and Department of Statistics and Information Management for topical interactions.

The Seminar on 'RBI's Single Account System and Settlement Procedure of GoI Treasury Bills'

The SAARCFINANCE Seminar on 'RBI's Single Account System and Settlement Procedure of GoI Treasury Bills', organised by Nepal Rastra Bank was held during March 19-20, 2012. Four officials from Reserve Bank of India attended this Seminar.

Seminar on "Regulation and Supervision of Microfinance Institutions in SAARC Region

Nepal Rastra Bank organized a SAARCFINANCE Seminar on "Regulation and Supervision of Microfinance Institutions in SAARC Region from 20 to 22 March 2013 in Kathmandu. The seminar was inaugurated by Honorable Governor of Nepal Rastra Bank Dr. Yuba Raj Khatiwada. Honorable Governor of Bangladesh Bank, Dr. Atiur Rahman was the guest speaker at the opening session of the seminar and delivered a key note speech. Altogether 30 officials from the SAARCFINACE member central banks took part in the seminar.

Training Program on 'Subnational Debt Management Performance Assessment Tool'

The College of Agricultural Banking, Pune, conducted a 'Subnational Debt Management Performance Assessment Tool Training Programme' during April 8-12, 2012. All member countries of SAARC except Pakistan took part in the training.

The 6th Inter-Governmental Expert Group Meeting

After an amendment to the Terms of Reference of Inter-Governmental Expert Group (IGEG), on Financial Issues to invite the SAARCFINANCE Coordinators to participate in their Meetings, all Coordinators except Afghan Coordinator participated in the 6th IGEG on Financial Issues Meeting held at the SAARC Secretariat in Kathmandu, Nepal during 23-24 April 2013. The main items on the agenda were as follows:

- Review of Progress on Public Debt Management

- Review of Progress in the field of Development of Capital Market in South Asia
- Consideration of Study on ‘Regional Economic Integration in SAARC, its current extent and recommendations for further deepening’.

Status of preparation of comprehensive project proposals on following Concept Papers on:

1. Financial Inclusion- Access to financial services and credit to financially excluded sections of the society (India)
2. Experiences of Financing for Infrastructural Development (Pakistan)
3. Combating Money Laundering and Terrorist Financing (Sri Lanka)
4. Consideration of Concept Paper on Harmonisation of fiscal and trade indicators (Bangladesh)
5. Discussion on comparative performance of key economic indicators
6. Discussion on sharing of experience and best practices in the financial sector
7. Discussion on preparing a proposal to allow for greater flow of financial capital and intra-regional long-term investment.

This was the First IGEG meeting with the SAARCFINANCE Coordinators and the Experts Group on Financial Issues and the meeting was found very useful to coordinate the Monetary Policies and Fiscal Policies within individual member states of SAARC as well as among all members atlarge.

The 17th SAARCFINANCE Coordinators’ Meeting

The 17th SAARCFINANCE Coordinators’ Meeting was jointly organized by Maldives Monetary Authority, Nepal Rastra Bank and SAARC Secretariat sidelines of the 6th IGEG Meeting and it was held at the SAARC Secretariat Kathmandu, Nepal on 24th April 2013. All member countries of SAARC except Afghanistan attended the meeting. The meeting was chaired by Maldives Coordinator Mr. Abdul Hameed Mohamed. The participants successfully formulated the agenda for the 26th SAARCFINANCE Group Meeting to be held in Islamabad, Pakistan, on 18th June 2013.

The SAARCFINNACE Staff Exchange Program

Twenty officials from Nepal Rastra Bank attended the SAARCFINNACE Staff Exchange Training Program organized by the Bangladesh Bank at Dhaka, Bangladesh from 21 to 23 April 2013.

Study Tour of Nepal Rastra Bank Staff to the Central Bank of Sri Lanka

A team of officials of Nepal Rastra Bank (NRB) visited Central Bank of Sri Lanka during 20-22 May 2013 under the SAARCFINANCE staff exchange programme to study about the medium-term Human Resource Planning of the Central Bank of Sri Lanka. The team included three senior NRB officers.

The 26th SAARCFINANCE Group Meeting

The State Bank of Pakistan hosted the 26th SAARCFINANCE Group Meeting at Islamabad on 18th June, 2013. The Governors from Bhutan, India, Maldives, Nepal and Pakistan attended the meeting. Rest of the Central Banks and Finance Ministries of SAARC were reperented by Deputy Governors and other officials including Finance Secretaries. SAARC Secretariat was also represented at the meeting.

The Maldives Monetary Authority Governor and Chairman, Dr. Fazeel Najeeb, chaired the Group Meeting. In his opening remarks, Dr. Najeeb welcomed the Governors and other delegates from SAARC member countries who attended the meeting.

Key decisions made during the SAARCFINANCE Group Meeting, included: launching of SAARCFINANCE 10-year history folder at the SAARCFINANCE Portal, which is a systematic collection and compilation of information on SAARCFINANCE activities. Similarly, the SAARCFINANCE scholarship scheme has also been launched. To start off the scholarship scheme, Reserve Bank of India has offered one scholarship per year to an applicant from SAARC central banks. Also, the matters relating to appointment of SAARCFINANCE focal points at the Ministry of Finance, amendment to SAARCFINANCE Terms of Reference (ToR), the seminars and workshops to be held under the aegis of SAARCFIANCE and the development of a Regional Coordination Surveillance Mechanism by ADB were discussed in the meeting.

SAARCFINANCE Governors' Symposium 2013

The State Bank of Pakistan hosted the 9th SAARCFINANCE Governors' Symposium on 18th June, 2013 at Islamabad. The focus of the Governors' Symposium was to gauge the impact of the euro debt crisis on the SAARC region. Besides Pakistan, the delegates from SAARCFINANCE member countries participated in the event. Moreover, in pursuance of the decision of 25th SAARCFINANCE Group meeting held at Tokyo, Japan, on 14th October 2012, the two ACU member countries (viz. Iran and Myanmar) were also invited to attend the Governors' Symposium.

Mr. Yaseen Anwar, Governor State Bank of Pakistan chaired the Governors' Symposium. In his introductory comments, Mr. Anwar gave a comprehensive, yet concise timeline of the series of events that have created the challenging economic conditions in Europe. He highlighted how the loss of risk appetite after the US mortgage crisis in 2007-08 triggered the stresses that heavily indebted peripheral European countries currently face. Although, Mr. Anwar acknowledged some adverse impact on Pakistan via European export demand and foreign investment, he concluded that Pakistan has largely been insulated from the fallout of the euro crisis.

To complement the country specific presentations, two key-note speakers, former SBP Governor Dr. Ishrat Husain and former IMF official and now fellow with the University of Bonn Dr. Ehtisham Ahmad, set the framework for the country specific presentations.

Dr. Husain, echoed Governor SBP's assessment, but extended the view to capture the entire SAARC region. Criticizing the assumption that a common currency would bring ‘endogenous convergence’, Dr Husain said that instead of addressing their fiscal divergence, easy euro financing allowed countries to ignore their fiscal problems and live beyond their means. He concluded that the problems in South Asia are similar and domestic in nature.

Dr. Ahmad built on Dr. Husain’s talk, by highlighting the role of standardized information to gauge whether EU member countries were in fact complying with the spirit of convergence criteria that created the euro. He said that fiscal rules do not work without a credible system of rewards and/or sanctions. He also admitted that the IMF had understated the cost of austerity, and stressed the need for a BRIC Bank that would provide long-term funding to developing countries. He ended with two questions; can currency arrangements be credible without credible reward/sanctions? And, do currency unions have to evolve towards full fiscal federation to operate efficiently?

During country presentations, India, Maldives and Afghanistan explained how the Euro crisis has hurt their economies. While Nepal, Bangladesh and Pakistan claimed their economies were largely insulated, Sri Lanka was in between the two groups. As regards India, the adverse impact varied. The vulnerability was the confidence channel whereby negative news from the Eurozone would make foreign investors in India more cautious. In the Maldives, the reduction in European tourists was much worse than had been anticipated. Similarly, in Afghanistan, the aid flows from Europe were interrupted in the wake of EU debt crisis.

Despite the mixed picture, all countries agreed that common challenges of a domestic nature dominate the SAARC region. Governors and experts agreed that the Euro Zone crisis was not over yet and downside risks prevailed.

Meeting of SAARC Central Banks’ Economists

Bank of Pakistan hosted the first meeting of SAARC central bank’s economists at Islamabad on 19th June, 2013. The idea of holding a meeting of SAARC senior central bankers was discussed in the 24th Group meeting held at Pokhara, Nepal, on 16th May 2012. The main objective of the meeting was to discuss the common challenges/issues being faced by SAARC countries in the backdrop of adverse international economic developments. The participants of the meeting were expected to gain a lot from informal roundtable discussions and to benefit from country experiences on specific economic issues.

To launch the discussion, Pakistan gave a summary of the challenges that it was facing. For other SAARC members, the country discussions focused on the following areas:

The evolution of GDP growth by sectors;

a. FX reserves and exchange rate; flation and M2 growth (NDA, NFA, with key items);
b. Fiscal position and deficit financing;
c. Balance of payment.

Standing (L to R) : Dr. Ali Choudhary, Mr. Gopal Giri, Mr.. Deepak Kumar Mohanty, Mr. Md. Abul Quasem, Dr. Mohammad Akhtaruzzaman, Mrs. D S W Samaratunga, Dr. A. Mushtaq Khan, Mr. Mahmood ul Hasan Khan.

In the context of impact of adverse international development on SAARC economies, the following issues were also discussed in the meeting:

- Commodity prices (oil, cotton, food, raw materials);
- External demand for exports (especially from EU and a slowing China);
- The factors driving domestic inflation and can it be contained using orthodox policy instruments (e.g. interest rates);
- The quantity and quality of financial intermediation by the banking sector (to the private sector);
- The investment (in the home country) from non-residents – the country experience. Should IFI programs be more customized? What are the most common impediments to structural reforms?

The cultural show `Rhythms of Indus' was arranged by State Bank of Pakistan at Pakistan National Council of the Arts (PNCA) in the follow-up of the 26th SAARCFINANCE Group Meeting, 9th SAARCFINANCE Governors' Symposium and 42nd Asian Clearing Union (ACU) Board of Directors' Meeting. The cultural program exhibited colorful glimpses of rich Indus civilization through instrumental music and cultural dances. The performances, including Moenjodaro dance, Kalash dance, Khattak dance, Sindhi Jhoomer dance, Basant Bhangra dance, Cholistan dance and instrumental performances on Violin, Flute, Alghoza, Dhol and Rubab enthralled the audience and received huge applause.

The SBP also organized its annual event, 19th Zahid Husain Memorial Lecture, wherein Cambridge University Prof. Ha-Joon Chang delivered a lecture on 'Rethinking Role of the State in Economic Development'. The governors of SAARC/ACU member central banks and senior government officials from Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, and Sri Lanka were also among the participants of the event.

International Programme on Central Banking

The International Programme on Central Banking conducted by the Reserve Bank Staff College, Chennai, was held during June 26-28, 2013. Two prticipants from Bhutan and four participants from Nepal participated in the program amomg the SAARC member countries. The rest of the participants were from India.

13th SAARC Payments Council (SPC) Meeting

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