SAARCFINANCE E-NEWSLETTER

VOLUME NO. 25 **June-December 2018**

Published by: **Royal Monetary Authority of Bhutan**
Central Bank of Bhutan

Table of Content

Country Reports

Message from the Chairperson

SAARCFINANCE Group

Dasho Penjore

Governor and SAARCFINANCE Chairperson
Royal Monetary Authority of Bhutan

As the chair country of 2019 SAARCFINANCE Group, it gives me an immense pleasure to publish the 25th e-Newsletter issue. The e-Newsletter issue is one of important initiatives under aegis of SAARCFIANCE Group that provides a platform to the member countries to reflect, create awareness and share future roadmap about SAARCFINANCE activities through the single platform of publication. The e-Newsletter also resonates an important platform for enhancing future collaboration and cooperation among the SAARCFINACE member countries.

The first Section of the e-Newsletter issue covers the SAARCFINANCE activities update undertaken during the first half of 2018. It includes wide ranges of activities such as Policy discussion, Staff Exchange Program, Seminars organized and Research Studies conducted. Other Section of the issue contains assessment of the key economic vulnerability indicators and policy intervention carry out to address impending risks in the member countries.

I express my sincere gratitude to SAARCFINANCE Coordinators for their support and contribution for the 25th issue of SAARCFIANCE e-Newsletter.

Any comments and suggestion, if any, regarding the issues of e-Newsletter are most welcome in a bid to improve their successive issues.

*********Thank You **********

Objectives of SAARCFINANCE

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

- To promote cooperation among central banks and finance ministries in SAARC member countries through staff visits and regular exchange of information;
- To consider and propose harmonization of banking legislations and practices within the region;
- To work towards a more efficient payment system mechanism within the SAARC region and strive for higher monetary and exchange cooperation;
- To forge closer cooperation on macroeconomic policies of SAARC member states and to share experiences and ideas;
- To 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 for a for mutual benefit, particularly in the context of liberalization of financial services;
- To undertake training of staff of the ministries of finance, central banks and other financial institutions of the SAARC member countries in subjects relating to economics and finance;
- To explore networking of the training institutions within the SAARC region specializing in various aspects of monetary policy, exchange rate reforms, bank supervision and capital market issues;
- To promote research on economic and financial issues for the mutual benefit of SAARC member countries; and,
- To consider any other matter on the direction/request of the SAARCFINANCE, Council of Ministers or other SAARC bodies

Country Reports

Afghanistan

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

Continuing on its growth momentum, Afghanistan GDP growth showed downward trend in the end period of 2018 and economic growth was lower as compared to 2017. This was the unsatisfactory as forecasted in 2017. A downward trend in agriculture sector and also weak performance by services sector and boosting recovery in industry sector that’s somehow recovered the economic growth of the country. The contribution of GDP shares reached to, Services 52.57%, Industry 24.12% and Agriculture sector 18.6% respectively. Generally economic growth stood at 2.7 percent in 2018, with a decrease from the figure 2.9 percent recorded in the previous year. Overall growth was largely driven by industry, services and agriculture sectors respectively. In fact, industry sector plays crucial role in national economy, in 2018 its growth rate increased compared to previous year. The industry sector was able to achieve sound growth rate of 7.6 percent with a broad-based improvement in mining and quarrying due to strong demand and government supportive facilities in industry sector. Both government and non-profit organizations are making efforts to support the sector with more facilities and jointly working on launching new projects. The growth rate of services sector decreased to 1.8% compared to 2.6%, agriculture sector growth rate decreased to -0.9% compared to 3.8% observed in 2018. Technically agriculture and services sectors showed negative growth, while as in comparison, industry showed boosting trend.

External sector Developments:

Current Account

Current account deficit in the second half of the FY 2018 increased by 17 percent to USD 1946.31 million, indicating an increase of deficit USD 286.79 million, compared to USD 1659.52 million in second half of the FY 2017.

The increase in the current account deficit was, mainly due to 35 percent decline in the net receipts of official grants to the government sector and 7 percent increases in the out-payments on respect of services account.

1.1: GOODS ACCOUNT

Earnings from exports of goods slightly increased by 2 percent to USD 555.97 million in the second half of the FY 2018 from 544.73 million recorded in the second half of the FY 2017. Expenditure on imports of goods decreased by 3 percent to USD 3416.30 million in the second half of the FY 2018 from USD 3526.23 million recorded in the second half of the FY 2017.

1.2: SERVICES ACCOUNT

Deficit of the services account decreased by 30 percent to USD 284.29 million in the second half of the FY 2018 from USD 406.23 million recorded in the same period of the previous year, mainly due to more receipts on respect of construction, telecommunication and government goods and services.

1.3: PRIMARY INCOM ACCOUNT:

Primary income account recorded net inflow of USD 142.86 million in the second half of the FY 2018 shows an increase of 45 percent compared to USD 98.19 million recorded in the second half of the FY 2017.

1.4: SECONDARY INCOME ACCOUNT:

Secondary income account recorded net inflow of USD 1055.45 million in the second half of the FY 2018, in contrast to USD 1630.01 million net inflows, observed the same period of the FY 2017, that indicate 35 percent decrease.

2: CAPITAL ACCOUNT

Capital account recorded a net inflow of USD 1120.25 million in the second half of the FY 2018, indicated a slightly decline of 0.14 percent, compared to USD 1125.02 million in the same period of the previous year as a result of shortage in capital transfers to the country during the period under review.

3: FINANCIAL ACCOUNT

Direct investment: (Net inflows) increased to USD 66.59 million in the second half of the FY 2018 as compared to USD 30.70 million recorded in the second half of the FY 2017.

Portfolio Investment (Net outflows): increased to USD 59.31 million in the second half of the FY 2018 from USD – 35.57 million in the same period previous year.

Other Investment (Net): increased to USD 194.61 million in the second half of the FY 2018 from USD – 69.26 million in the same period of the last year.

Reserve Assets decreased to USD 185.06 million in the second half of the 2018 from USD 564.02 million in the second half of the FY 2018.

Monetary Sector Developments

- The primary objective of Da Afghanistan Bank (DAB) is to achieve and maintain the domestic price stability. To achieve its primary goal and to target a moderate inflation rate, Da Afghanistan Bank targets reserve money (RM) as its operational target and currency in circulation as its indicative target. DAB uses the foreign exchange and capital notes auction as the main monetary instruments to conduct sound and prudent monetary policy.
- For evaluating the effectiveness of monetary policy, DAB has assigned the quantitative targets under three-year arrangement with the IMF (Extended Credit Facility).
- In the 2019 reserve money has negative growth by 3.95 percent, down from 7.22 percent in the same period of previous year.

Broad money (M2) recorded increase of 4.06 percent in the FY 2019, while it registered 6.2 percent growth in the fiscal year 2018. Meanwhile, quasi money, the other component of broad money, saw decline of 6.66 percent in the period under review. However, its impact on broad money was modest as quasi money accounts for 7 percent of broad money.

- Net international reserves (NIR) de-accumulation in the fiscal year 2019, which indicates 0.32 percent decrease.
- In the fiscal year 2019, the national currency depreciated against major foreign currencies. It witnessed 7.77 percent depreciation against the U.S. dollars, 7.83 percent against Sterling pound, 6.09 percent against Euro, 8.61 percent against Indian rupee, and 19.74 percent appreciation against Iranian Toman. Main causes to this depreciation are thought to be the uncertain economic environment, insecurity, political tensions, huge trade deficit and low investment.
- It is worth to mention that DAB's performance was satisfactory and could meet all quantitative performance criteria in the respective period.

Fiscal Development:

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

- Resembling other emerging and under developing economies around the world, a budget deficit exists in Afghanistan, total core expenditure exceeded total domestic revenue (excluding grants).
- Total core budget is increased from $5519.318159 million of FY 2018 to $5530.5686 million of FY 2019indicating an increase of $11.2504equal to0.2% mild increase in total core budget on annual basis.
- It is worth mentioning that budget execution rate indicated 36.06% in the first half 2018 compared to 40% of First half FY2019and this is as a result of timely processing of the budget and overall improved performance in first half2019.
- Total revenue (domestic revenue and grants) composed during the first half of FY2019 signified amount $2160.85121 million roughly indicated momentous increase of $60.58715 million compared to first half of FY 2018 that shows 2.9% increase as a result of set of reforms, tax compliance, measures against corruption, momentous improved in business activity during the year and reflecting an improvement in retail activity from the low base last year.
- In addition, total grants received during the first half of 2019 indicated amount $886.71 million represented significant decrease of $230.71 million from $1117.42 million of first half of 2018 resulted20.65%decrease relatively, as result of change in annual pledge, commitment and disbursement in which the main donor contributors are ARTF, LOTFA, (CSTC-Mod, MoI and NATO), ADB and WB compared to same period.
- Meanwhile, total expenditure during the first half of FY 2019 represented amount $2196.96 million and it is comprised of $1522.41 million operating expenditure and $674.55 million development expenditure indicating momentous increase of amount $124.7 million from $2072.26 million of the first half 2018 showing 6.02% rise comparably as a result of increase in expenditure in eight deferent sectors such as security governance ,education ,health, agriculture ,social protection, infrastructure and economic governance.

Annex: I

Performance of Key Macroeconomic Indicators: Afghanistan

Key Macroeconomic Indicators (in million USD)	Second Half/2018	First half/2018	Second half/2017	First half/ 2017	2016
A-Real sector					
Inflation	0.5	0.82	3.90	6.09%	4.55
Real GDP			8126	N/Y	7345.41
Nominal GDP			21,322	N/Y	19730.95
Per Capita income			718	N/Y	695.71
B-External Sector					
1.Current Account	-1946.3	-2354.1	-2000.6	-2613.9	-4614.5
Goods and services	-3144.6	-3533.7	-3416.4	-3588.2	-7004.6
Primary income	142.8	65.0	44.0	52.0	96.1
Secondary income	1055.45	1114.65	1371.81	922.18	2293.99
2. capital Account	1120.2	257.4	1087.0	627.8	1714.8
3.Fiananancial Account	372.3	60.9	455.7	-30.7	424.9
Direct investment	-66.5	-72.4	-30.7	-31.6	-62.3
Portfolio investment	59.31	-35.8	-35.5	6.4	-29.1
Other investment	194.6	214.2	-69.3	37.9	-31.4
Net errors and omissions	1198.4	2157.6	1369.2	1955.4	3324.6
Reserves assets	185.0	-45.0	591.0	-43.3	547.7
C- Monetary Sector					
Currency in circulation (USD)	3,044.4	3,165.5	3,290.1	3,206.6	3,345.4
Net international reserves	7,704.9	7,491.8	7,345.3	6,834.3	6,777.8
Reserve assets	8,362.4	8,227.6	8,159.0	7,406.4	7,581.9
Reserve liabilities	657.5	735.7	813.6	572.0	804.1
Commercial banks deposits in foreign currency	598.1	675.3	750.6	506.5	732.6
Nonresident deposits in foreign currency	0.17	0.14	0.14	0.14	0.14
Use of fund resources	59.22	60.24	62.85	65.36	71.31
D-Fiscal Sector					
Overall balance	181.5	214.2	-41.5	-2,007	79
Total revenue including Grants	3226.7	2,286.5	3,213.28	136,553	5,347
Total Grants	1759	1,117	1,793.93	62,269	3,042
Total Expenditure	3045	2,072	3,254	138,559	5,268
Total Operating Expenditures	1988.86	1,594.22	2,172.40	107,540	3,867
Total Development Expenditure	1251	214	1,082	31,020	

Annex: II

Macroeconomic Surveillance Indicators

	Unit	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Core Indicators												
Current Account Balance as percentage of GDP	**%**	-9%	-7%	-10%	-15%	-21%	-27%	-19%	-24%	- 18%	-22%	
External Debt as a percentage of GDP	**%**		18.4 6%	14.98 %	12.8%	11.7%	12.1%	10.9%	10.9%	10.4%	10.4%	%10.4
Reserves to Import	**%**	%	101 %	94 %	85%	94%	70%	89%	81%	101 %	103%	%104
National Debt to GDP	**%**		18.4 7%	14.98 %	16.99 %	14.48%	14.69%	13.41 %	13.13%	12.14%	11.49%	%10.93
Domestic credit	**% of GDP**	5.9	4.7	4.6	2.4	1.9	2	0.6	0.4	1.1	4.4	
Fiscal Deficit	**% of GDP**	2%	0%	2%	0%	0%	2%	-1%	-1%	0%	-0.33	
Inflation(12 month average)	**%**	34.55	-9.58	0.63	12.17	6.51	7.40	4.67	-1.55	5.03	4.98	0.65

Bangladesh

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Overview

The Bangladesh economy continues to perform well with robust and stable growth. The strong growth comes with stable inflation, moderate public debt, and greater resilience to external shocks. Real GDP growth accelerated to 7.86 percent in FY18. Economic activities also remained buoyant during H1FY19 (July-December 2018), driven by strong domestic and external demand. CPI inflation remained stable in H1FY19. The key monetary aggregates largely followed the program ceiling set for H1FY19. The widened current account deficit of FY18 moderated substantially during the period. Fiscal performances improved and budget deficit contained within 5 percent of GDP. Sector-wise brief analyses on Bangladesh economy during H1FY19 are given below:

Economic Growth and Outlook

According to the Bangladesh Bureau of Statistics, GDP grew by 7.86 percent in FY18, up from 7.28 percent in FY17. A pick-up in economic activities continued in H1FY19, aided by strong domestic and export demand. Moderate private sector credit growth, rebound in export growth, remittance inflows, favorable financing conditions and fiscal policy supported domestic spending. At the same time, buyers' confidence in the RMG industry underpinned by improving workplace safety conditions, strong US growth and re-allocation of RMG orders away from China helped to boost up external demand. On the supply side, the growth momentum was mainly driven by the industry sector. The general index of industrial production (medium & large scale manufacturing) increased by 16.4 percent in H1FY19 over H1FY18. The service and agricultural sector activities also remained buoyant in H1FY19, supported by relative political stability and favorable climate. Based on the recent sectoral trends and econometric estimates, BB projected GDP growth in the range of 7.5-8.2 in FY19, assuming no large domestic or external shocks.

Price Developments and Outlook

Inflationary pressures remained well contained in H1FY19. Prudent monetary policy, favorable domestic and global food and energy prices facilitated to curb the inflation. Headline CPI inflation (point-to-point) continued its declining trend, although non- food inflation, rising since early 2018, reached 4.51 percent in December 2018. Headline CPI inflation declined gradually to 5.35 percent in December 2018 from 5.54 percent in June 2018. Consequently, 12-month average inflation edged down to 5.54 percent in December 2018 from 5.78 percent in June 2018.

Looking ahead, there are mixed forces on the inflation dynamics. Global food and energy prices and favorable domestic production reduce inflation risks over the short to medium term. However, trend of core CPI inflation and BB's inflation expectation survey (one- year ahead average inflation is around 6-7 percent) indicate some inflationary pressures on the path ahead. BB staff projections show that average inflation to be around 5.3-5.6 percent in June 2019.

Money and Credit Developments

Most of the key monetary aggregates remained broadly in line with the programmed paths set for H1FY19. In December 2018, broad money (M2), domestic credit (DC), and reserve money grew by 9.4 percent, 13.3 percent, and 8.2 percent respectively, against program targets of 10.2 percent, 15.9 percent, and 8.0 percent respectively. Although private sector credit growth moderated to 13.3 percent in December 2018 largely due to uncertainties in the run up to national election, credit to the public sector picked-up 13.3 percent in December 2018 (against the target of 8.6 percent), compensated the moderation in private sector credit growth. Repo and reverse repo rates maintained at 6.0 and 4.75

percent respectively in H1FY19, after reducing CRR by 1 percentage point, repo rate by 75 basis points and increasing the repo tenors (7, 14 and 28 days) in April 2018.

Monetary program for H2FY19 aimed at providing adequate supply of quality credit to support the Government's growth and inflation targets (7.8 and 5.6 percent respectively), while promoting domestic and external financial stability. The H2FY19 monetary program targets broad money (M2) and domestic credit (DC) growth ceilings at 12.0 percent and 15.9 percent respectively. Public sector borrowing is projected to grow by 10.9 percent, leaving adequate space for private sector credit to grow within the ceiling of 16.5 percent. Beyond the program targets, monitoring of the banks' adherence to the ALM and foreign risk management guidelines, supporting of adequate credit flows to priority sectors, removing the slowdown in the private sector credit growth and bringing down banking sector NPLs remain the key imperatives of BB in H2FY19.

External Sector Developments

During FY18, current account balance (CAB) recorded a deficit of US $ 9.8 billion, driven by the strong import growth at over 25 percent emanating from higher demand for investment goods and the flood-related food imports in 2017. During H1FY19, CAB moderated to a deficit of US $ 3.1 billion as compared to the deficit of US $ 5.1 billion during the same period of the preceding fiscal year. The improvement in CAB was driven by lower import growth (5.7 percent in December 2018), favorable global commodity prices, and strong export and remittance growth (14.4 percent and 8.0 percent respectively in December 2018). Though capital and financial account partially offset CAB, overall balance posted a deficit of US $ 0.5 billion during H1FY19.

Foreign exchange market faced some pressures in H1FY19. Taka against US dollar depreciated modestly by 0.2 percent and BB sold USD 1.1 billion during H1FY19 to avoid excessive volatilities. Forex reserves stood at USD 32.02 billion at the end of December 2018 from USD 32.94 billion in June 2018, and reserve coverage of imports decreased marginally but remains broadly adequate at around 5 months of import. The depreciation of Taka has helped improve export competitiveness of the country.

According to BoP projections for FY19, robust export growth and moderation of imports are expected to continue, which will improve the CAB further. BB projected export growth to be at around 14 percent, remittance growth at 11 percent, and import growth at 7.5 percent in FY19. Exchange rate of Taka is also expected to remain broadly stable in FY19.

Fiscal Activities and Outcomes

In FY18, revised target for revenue collection was set at TK. 2,59,454 crore which is 11.5 percent of GDP. At the end of the year, the actual revenue collection stood at TK. 2,16,556 crore (9.6 percent of GDP) which is 83.5 percent of the annual revised target and 7.6 percent higher than the actual collection in FY17. On the other hand, the revised estimate for annual expenditure for FY18 was set at TK. 3,71,495 crore which is 16.5 percent of GDP of the year. The actual expenditure in the year stood at TK. 3,22,050 crore (14.3 percent of GDP) which is 86.7 percent of the annual revised budget marking a 19.5 percent growth over FY17.

The tax revenue target for FY18 was set at TK. 2,32,202 crore, against which the actual collection stood at TK 1,94,327 crore which is 83.7 percent of annual revised target marking a growth of 9.1 percent over the previous fiscal year. In FY18, the non-tax revenue collection was TK. 22,229 crore which is 81.6 percent of the annual target. Government expenditure is shown under two broad categories, namely, Non-Development Expenditure and Development Expenditure. Annual Development Program (ADP) holds the fundamental portion of the development expenditure. In FY18, revised budget allocation for ADP was TK.1,48,381 crore among which 80.6 percent was spent during the year.

Overall balance of the budget is calculated either by including grants or by excluding grants. The deficit (excluding grant) for FY 18 was estimated to be 4.9 percent of annual GDP. In financing this deficit, 61.4 percent was estimated to come from domestic sources, whereas 38.6 percent from foreign sources. At the end of the year, there was a deficit amounting to 4.6 percent of GDP.

Fiscal Outlook for the FY 2018-19:

For fiscal year 2018-19, the target for revenue collection has been set at TK. 3,39,280 crore which is 13.4 percent of estimated GDP and 30.8 percent higher than the revised target of previous year. On the other hand, total expenditure for 2018-19 is budgeted as TK. 4,64,573 crore which is 18.3 percent of estimated GDP and 25.1 percent higher than the revised target of previous year. Budget allocation for Annual Development Program is TK. 1,73,000 crore. The deficit (excluding grant) for FY19 has been estimated to be 5.0 percent of annual GDP. In financing this deficit, 58.7 percent was estimated to come from domestic sources, whereas 41.3 percent from foreign sources.

During July-December period of FY19 actual revenue collection amounted to TK 1,15,26 crore which is 34.0 percent of the annual target and 11.2 percent higher than the actual revenue collection during the same period of the previous fiscal year. On the other hand, the actual expenditure stood at TK. 1,27,784 crore which is 27.5 percent of the annual target and 21.4 percent higher than the actual expenditure during the same period of the previous fiscal year. At the end of the period the budget deficit has stood at TK 12,527 crore.

The fiscal policy adopted by the Government of the People's Republic of Bangladesh is focusing on both growth stimulation and equity across the society in the medium to long term. With an aim of achieving sustained higher growth, the fiscal policy focuses on creating essential physical and institutional infrastructures alongside building strong social and human capital bases. Thus, it is among the Government's priority to reduce physical and socio-economic infrastructure gaps, promote private investments from both home and abroad, develop knowledge base and skill of the citizens, generate employment opportunities, and ensure effective redistribution of wealth through pro-poor and inclusive policies and programs etc. At present, Bangladesh is enjoying the population dividend. Reasonably, human capital development has been at the core of the Government agenda and sectors such as health, education and skill development have been made top priorities.

The Public Money and Budget Management Act, 2009 of Bangladesh requires that the outstanding public debt to GDP ratio decreases gradually over the years. The Government is firmly committed to this legal provision and in this regard budget deficit is kept within 5.0 percent of the GDP each year. To make the revenue collection and public expenditure management systems more efficient and transparent, the Government has been consistently undertaking various reform initiatives especially through structural reforms and wide application of information technologies which are, apparently, improving the performance of the public financial system. For example, very recently the Government has abolished the requirement of obtaining fund release approval from the line ministries and Finance Division before spending any tranche of GoB money allocated in the budget in favor of a development project. As a result, there has been an added pace in the project implementation activities.

Latest Development of Some Macroeconomic Indicators

The latest developments of some key macroeconomic indicators of Bangladesh economy are given below. Moreover, 9 years' data on key macro-economic indicators of Bangladesh economy are also given at Annex-1.

- As per the preliminary estimate of Bangladesh Bureau of Statistics (BBS), real GDP growth has registered 8.13 % in FY 2018-19 which was 7.86 % in FY2017-18.
- As per latest available data overall inflation (base: 2005-06=100) is 5.47% on yearly average basis (5.58% on point-to-point basis also) at the end of March, 2019.

- Export growth has increased to 11.92% compared to the same period of the previous fiscal year amounting USD 37.75 billion during July-May, FY19.
- Imports have increased by 3.87% compared to the same period of the previous fiscal year amounting USD 50.91 billion during July-April, FY19.
- Remittance growth has decreased by 10.75% compared to the same period of the previous fiscal year amounting USD 15.06 billion during July-May, FY19.
- The overall deficit in the country's BOP stood at USD 0.59 billion during July-April of FY19.
- The country's foreign exchange reserve on 25 June 2019 stood at USD 32.31 billion.
- The nominal exchange rate of Taka against US$ remained stable at Tk.84.50 per USD as on 23 June 2019.

Highlights of Major Policy Announcements

1. **Issuance of bid bonds on behalf of residents in favor of non-residents.**

   Authorized Dealers (ADs) are allowed to issue bid bonds on behalf of residents favoring foreign organizations or entities inviting tenders for supply of goods/services in Bangladesh or from Bangladesh to foreign countries.

2. **Regarding Schedule of Charges.**

   Banks may realize maximum commission equal to the amount of one quarter by self-consideration if the bank guarantee provided for less than or equal to one quarter period. In case of guarantee for more than one quarter, banks may realize commission for the period up to the maturity date of the guarantee.

3. **Policy on Unclaimed Deposit and Valuables.**

Any deposit and valuables which are not claimed by the owner for a period of ten years or more shall be treated as Public Funds and the same are required to be transferred to Bangladesh Bank. However, before declaring as Public Funds, banks are directed to issue a-three-month acknowledgement notice to the latest address of the owner or anyone on behalf of the owner by registered mail.

4. **Repayment of external borrowings by public and private sector entities.**

   ADs are permitted to repay installments of interest and principal against the suppliers' credit/loans from abroad availed of in terms of general/specific authorization of the Bangladesh Investment Development Authority (BIDA) without prior reference to Bangladesh Bank (BB) subject to approval from Standing Committee on Non-Concessional Loans (SCNCL).

5. **Holding collateral on behalf of nonresident lenders.**

   ADs are allowed to hold collaterals on behalf of overseas bank branches or correspondents or lenders against external loans as approved by SCNCL.

6. **Forward sale and purchase of foreign exchange-flexibility.**

   With a view to bringing operational flexibility in forward transactions, it has been decided that forward contracts under the purview of the regulatory instructions may be renewed/rolled over/extended for the new delivery period at the prevailing market rate, provided ADs are satisfied that customers are unable to perform the contracts due to valid exigencies.

7. **Transformation of school banking account into general savings account.**

   School banking accounts can be converted to general savings accounts immediately with the consent of the account holder of aged above 18.

Highlights of Activities related to SAARC Payments Council (SPC)

18h SPC Meeting held in Male, Maldives on August 13, 2018

As per the decision of the 17th SAARC Payments Council (SPC) meeting Maldives Monetary Authority hosted the 18th meeting of SPC on August 13, 2018 at Male, Maldives. All member countries except Afghanistan were present in the meeting. Mr. Ahmed Naseer, Governor, Maldives Monetary Authority (MMA) welcomed all the delegates to Maldives and inaugurated the meeting which was chaired by Mr. S. Ganesh Kumar, Executive Director, Reserve Bank of India. The meeting was followed by a half day-long seminar on 14th August 2018 on "Trends and Implications of Cyber Security in Financial Services" conducted by Mr. Deepak Kumar, Chief General Manager in-Charge, Department of Information Technology, Reserve Bank of India.

It was discussed in the meeting that SPC secretariat prepared a roadmap for the overall development of the SAARC region's payment systems where emphasis was given on issues like RTGS, Retail Payment, Risk Management, Legal and Regulatory framework. SPC Secretariat will take initiative to make this roadmap up to date by including issues like oversight, cashless activities, card business and other issues comes in country presentations of members. Moreover, for developing 'Single Harmonized Payment Mechanism' within the SAARC region, it was decided that SPC Technical committee should review whether the payment systems of member countries are in a state to be integrated along with in which sector the integration could be done (like card payment network, E-commerce etc.), whether any change is required in the legal and regulatory framework of the member counties.

Annex-I

Performances of Some Key Macro Economic Indicators

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

Market Capitalization of DSE#	% of GDP	35.8	27.2	24.4	17.7	17.8	15.1	16.6	14.6
Market Capitalization of DSE#	Billion USD	40.1	31.5	31.7	30.7	34.7	33.4	40.9	39.7
V. Banking Sector Indicators									
Capital adequacy ratio	%	11.4	10.5	9.1	10.7	10.3	10.8	10.9	10.11
Non-performing loans	%	6.1	10.0	11.9	10.8	9.7	10.1	10.1	10.41
Profitability (R.O.E)	%	17.0	8.2	8.2	8.4	6.6	9.4	4.7	9.6
Profitability (R.O.A)	%	1.5	0.6	0.6	0.6	0.5	0.68	0.34	0.67

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

Annex-II

Macroeconomic Surveillance Indicators For Bangladesh

Sl no.	Indicators	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
1	Current account balance as a percentage of GDP*	-3.59	-0.50	1.90	1.80	0.80	1.25
2	Reserves as a percentage of import (in months)**	6.54	8.20	8.20	7.10	6.10	5.20
3	National Debt as a percentage of GDP (a+b)***	31.9	31.0	31.3	32.3	35.0	34.7
	(a) Domestic Debt as a percentage of GDP	19.7	19.6	19.4	18.5	19.4	18.1
	(b) External Debt as a percentage of GDP	12.2	11.3	11.9	13.7	15.6	16.6
4	Domestic Credit as a percentage of GDP*	45.40	45.08	46.24	46.28	47.47	47.69
5	Fiscal Deficit as a percentage of GDP**	5.00	3.4	3.8	3.9	3.6	3.8
6	Inflation Rate#	5.78	5.44	5.9	6.4	7.4	6.8

Source: *Statistics Department, Bangladesh Bank. **Monetary Policy Department, BB
***Ministry of finance, Government of Bangladesh
#Bangladesh Bureau of Statistics
Note: Since quarterly GDP is not available, the projected yearly GDP for FY19 is used to calculate the percentage share of variables.

Bhutan

Recent Overall Macroeconomic Developments

Bhutan's real Gross Domestic Product(GDP) grew by 4.6 percent in 2017, lower from 8 percent in the previous year. Slowdown in real GDP was mainly due to negative growth of electricity (-3.8%), forestry (-5.6 %) and education and health (-2.8 %). Further, sluggish performance of construction, general government and finance sectors have also contributed to slowdown in economic growth in 2017.On the demand front, the government final consumption expenditure and private consumption witnessed a growth of 4.8 percent and 5.1 percent respectively.

Inflation (measured by the year-to-year change of the consumer price index) recorded at 3.1 percent during the December of 2018 compared to 4 percent of same month of previous year. Decrease in the prices of food mainly contributed to the fall during the period. On the other hand, the year-to-year change in imported inflation, during December 2018 was recorded at 3 percent while domestic inflation rate was recorded at 3.1 percent.

The broad money has recorded growth of 6.5 percent as of December 2018 compared to 17.4 percent in December 2017. The lower growth in broad money was contributed by negative growth of net foreign assets (-10.1 %). Further, domestic credit decease to 16.9 percent in December 2018 from 27.1 percent in 2017. The credit to private sector, which constitutes around 90 percent remained at similar level of 17.7 percent in December 2018. Similarly, narrow money (M1) and other deposits also decreases. The growth in narrow money and other deposits fell to 7.6 percent and 5.1 percent, in December 2018 as compared to 21.9 percent and 11.8 percent in December 2017.

As of December 2017, the growth of combined assets of the financial sector increased by 4 percent, from Nu.157.3 billion in December 2017 to Nu.164.2 billion in December 2018. Of the total assets, 86 percent of the total share belonged to the commercial banks while 14 percent were held by non-bank financial institutions (NBFIs). During the same period, banking sector assets grew by 6.4 percent to Nu.134.6 billion while that of the NBFIs grew by 7.3 percent to Nu. 21.1 billion. The total loans of the financial sector increased from Nu. 103.3 billion in December 2017 to Nu.120.2 billion in December 2018, recording growth of 16 percent. Of the total loans, banking sector provided Nu.99.5 billion which constitute 83 percent. While the share of non-banks loan to total loans was 17 percent, amounting to Nu.20.7 billion. In terms of sector wise investment, housing sector has the highest exposure with Nu.28.9 billion, followed by service and tourism with Nu.28.8 billion, trade and commerce with Nu.16.5 billion, manufacturing and industry with Nu.13.9 billion and personal loans with Nu.13.5 billion as December 2018.

On the external front both the trade and current account deficits improved from FY 2017/18. The current account deficit decreased from 24.1 percent of GDP in FY 2016/17 to 19 percent of GDP in FY 2017/18, mainly on account of the trade deficit which improved to Nu. 31.2 billion from Nu. 26.9 billion in the previous year, driven by higher electricity exports to India, and minerals and base metals to Countries other than India.

At the end of the fiscal year, gross international reserves decreased to USD 972.5 million from USD 1,184.2 million as of end-December 2018. Reserves were sufficient to finance 12.4 months of merchandise imports while covering 44.17 percent of public external debt.

Bhutan's total outstanding external debt increased to an equivalent of USD 2.5 billion as of December 2018. Of this, an equivalent of USD 682.5 million was outstanding on convertible currency loans and the remaining ₹ 127.5 billion were outstanding Indian Rupee loans.

On the fiscal front, total revenue including grants stood at Nu.54.7 billion in 2017/18 from Nu.42.7 billion in preceding year. An increase by 28.1 percent in 20157/18, compared to the 1.5 percent growth in 2016/17. Of the total revenue and grants, domestic revenue collection totaled Nu.35.8 billion (negative growth of 0.9 percent from the previous year) which was more than sufficient to finance current expenditure (Nu. 29.1 billion). On the other hand, total expenditure decreased significantly by 32.2 percent (from Nu.56.5 billion in FY 2017/18 from Nu.56.5 billion) during the year. The decrease was on account of curtail in capital expenditures from 29.9 billion in 2016/17 to 10.7 billion in 2017/18.

Highlights of Major Policy Announcements

1. Given the immense potential of the CSI sector for economic diversification- domestic production and employment generation, the Rules and Regulations for Cottage and Small Industries (CSI) Bank was issued in July 2018, to enhance access to finance.

2. Issued license for deposit taking Micro-Finance Institution to Respect, Educate, Nurture and Empower Women (ERENEW)ENEW in August 2018.

3. Issued revised rules and regulation on Credit Information Bureau (CIB) to enhance the credit worthiness. To strengthen corporate governance, the revised corporate governance rules and regulations for financial sectors.

4. The National Financial Inclusion Strategy (NFIS) and National Financial Literacy Strategy (NFLS), 2018-2023 was launched on August 30, 2018. Initiated the Students Business Seedling (SBS) Program at the Desi High School, Thimphu

on the command from His Majesty the King to promote entrepreneurship and encourage creativity and Innovation among students in March 2018

Highlights of Major Activities

29th SAARCFIANCE Coordinators' Meeting

The Royal Monetary Authority of Bhutan (RMAB) hosted the 29th SAARCFINANCE Coordinators' Meeting during from 22 – 23 March 2019 in Paro, Bhutan. The wide range of following issues were discussed during the meeting.

1. Ways to improve SAARCFINANCE Database, areas of collaboration to conduct research studies and capacity building.
2. Discussion on revised framework on the currency Swap Arrangement for SAARC member countries.
3. Discussion of developing standard reporting format on Macroeconomic Surveillance Indicators (MSIs)

The issues related to the above agenda were later presented at the 38th SAARCFINANCE Governors' Meeting held in Paro, Bhutan further discussion.

38th SAARCFINANCE Governors' Meeting

The 38th SAARCFINANCE Governors' Meeting was held on 14 July 2019 in Paro, Bhutan under the Chair of Royal Monetary Authority of Bhutan (RMAB).

Some of certain important decisions taken at the 38th SAARCFINANCE Governors' Meeting are as follows:

1. **Macroeconomic Surveillance Indicators (MSIs):** The member countries agreed to keep close monitoring on the development of MSIs and watchful on the major sources of risks affecting the economies in the SAARC region.

2. **SAARCFINANCE Database:** The member countries agreed to make an extra effort to fill the data gaps and work closely with the RBI to make Database more vibrant and reliable sources of information. The Nepal Rastra Bank (NRB) conducted SAARCFINANCE Database seminar and next country to host the seminar is scheduled to discuss during 39th Group meeting at IMM/WB Annual Meeting.

3. **Collaborative Research studies:** During the Group meeting, the two research papers on Infrastructure Financing in SAARC region and Reducing the cost of Cross-border Remittance among the SAARC countries were presented by Reserve Bank of India (RBI) and Bangladesh Bank (BB) respectively. The research topic on the Impact of dollarization on the monetary policy operation in SAARC region and Use of digitalization (Fintech) towards promoting the financial inclusion in SAARC region were also proposed.

4. **Capacity Building:** In an effort to enhance human capacity within SAARC countries, the member countries discussed and agreed to draw up a framework to tap the expertise and experience of retired officials to assists small and developing central banks.

5. **Framework on Currency Swap Arrangement for SAARC Countries:** The member countries extended appreciation for the RBI for providing Currency Swift facility to the member countries to meet temporary liquidity shortages. The framework will be expiring December 2019, and member countries was asked to review and provide comments on the new framework.

Annex: I

Macroeconomic Vulnerability Indicators

SL	Indicators	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1	Current Account Balance as a percentage of GDP*	-21.41	-25.39	-26.35	-27.51	-30.40	-21.98	-18.06
2	External Debt as s percentage of GDP	82.34	94.59	93.96	93.98	111.53	101.12	104.51
3	Reserve as percentage of Import	134.00	92.52	95.13	102.52	90.30	95.33	86.40
4	National Debt as a percentage of GDP	77.48	99.90	96.36	95.97	114.38	106.58	106.69
5	Domestic Credit as a percentage of GDP	56.25	55.99	56.19	56.84	61.69	59.51	62.13
6	Fiscal Deficit as percentage of GDP	1.14	4.19	-3.82	-1.51	1.11	3.35	-0.31
6	Inflation (12 month average)	10.12	8.87	9.31	6.67	3.28	4.31	4.02

Source: Macroeconomic Research and Statistics Department, RMA, Bhutan
* All ratios to the GDP use fiscal year GDP, which are derived by averaging two calendar year GDPs. For calculating latest percentage share of variable, the year 2017/18 GDP has been used.

Performances of Some Key Macroeconomic indicators *Annex: II*

	Unit	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
I. Real Sector									
Per Capita GDP(a)	US$	2277.76	2570.94	2532.77	2463.80	2610.45	2719.11	2879.07	3,438.16
Real GDP Growth(a)	%	11.73	7.89	5.07	2.14	5.75	6.49	7.99	4.63
GDP (MP)	Billion US$	1.75	1.84	1.82	1.80	1.96	3.10	2.31	2.53
Agriculture	% of GDP	16.80	16.33	15.96	16.10	16.77	16.67	16.57	17.37
Industry	% of GDP	42.78	40.98	41.62	42.35	40.55	41.34	41.46	40.57
Services	% of GDP	40.42	42.69	42.42	41.55	42.68	41.99	42.04	37.15
Investment	% of GDP	61.70	67.65	67.91	45.96	51.71	54.00	55.03	69.20
National Savings	% of GDP	35.16	42.11	44.92	24.62	29.29	22.53	31.70	27.65
Headline Inflation	%	8.33	13.53	5.51	8.55	5.15	3.56	4.93	2.55
- Food Inflation	%	8.96	18.72	2.81	12.33	2.92	4.36	6.53	5.10
- Non-Food Inflation	%	8.17	10.67	7.14	6.11	6.66	3.04	3.89	0.89
- Core inflation	%	-	-	-	-	-	-	-	-
II. Fiscal Sector		**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Revenue Collection (CSR)	Billion US$	0.39	0.40	0.39	0.27	0.39	0.42	0.46	0.54
Fiscal Balance (excluding grants)	% of GDP	-16.78	-20.16	-14.17	-9.43	-11.68	-15.14	-12.33	-9.44
Fiscal Balance (including grants)	% of GDP	-2.30	-1.23	-4.36	4.08	-2.35	-3.00	-3.59	-0.33
Public Debt	% of GDP	80.22	89.69	104.94	100.64	101.34	122.76	104.00	113.50
- of which foreign currency	% of GDP	79.53	88.40	98.43	100.31	98.91	118.60	100.30	103.16
- domestic debt	% of GDP	0.69	1.29	6.51	0.33	2.44	4.17	6.30	4.88
- debt servicing	% of total revenue	26.08	45.20	88.24	19.94	18.25	24.51	27.63	23.40
III. External Sector									
Exports (f.o.b)	Billion US$	0.67	0.62	0.59	0.55	0.56	0.49	0.57	0.57
Imports (f.o.b.)	Billion US$	1.12	1.01	0.95	0.93	1.10	0.95	1.06	0.98
Trade Deficit	Billion US$	0.46	0.40	-0.35	-0.38	-0.42	-0.57	-0.48	-0.41
Remittances	Billion US$	0.00	0.01	0.01	0.00	0.00	0.01	0.04	0.04
Current Account Balance	Billion US$	-0.52	-0.39	-0.42	-0.47	-0.56	-0.66	-0.56	-0.45
Current Account Balance	% of GDP	32.25	22.99	26.43	28.31	29.83	33.13	24.11	-18.62
Total Foreign Investment	Million US$	31.08	24.06	20.37	29.14	10.36	8.04	-24.85	3.99
- Foreign Direct Investment	Million US$	31.08	24.06	20.37	29.14	10.36	8.04	-24.85	3.99
- Portfolio Investment	Million US$	-	-	-	-	-	-	-	-
External Debt and Forex Liabilities	Billion US$	1.35	1.42	1.61	1.76	1.82	2.31	2.51	2.64
External Debt and Forex Liabilities	% of forex earnings	-	-	-	-	-	-	-	-
Short-term debt to GDP	%	10.92	12.99	15.81	9.58	6.68	0.08	0.05	0.00
External Debt Servicing Ratio (pl see footnote)	***	30.96	55.80	167.71	21.02	15.98	10.56	24.80	23.40
Exchange Rate	Per US$	45.33	50.27	62.00	63.33	63.76	66.32	64.43	68.60
Foreign Exchange Reserves	Billion US$	0.80	0.67	0.93	1.20	0.93	1.12	1.10	1.11
IV. Monetary & Capital Market									
Growth Rate of M_1	y-o-y	34.30	5.60	2.10	5.05	4.97	7.81	31.51	9.20
Growth Rate of M_2	y-o-y	21.21	-1.02	3.53	6.62	7.82	15.83	35.14	10.40
Growth Rate of M_3	y-o-y	-	-	-	-	-	-	-	-
Weighted Avg Lending Rate	%	-	-	-	-	-	-	-	-
Credit growth to Private Sector	%	29.40	30.07	7.07	6.44	14.00	14.70	15.39	15.70
Stock Market (Price Index)	1991=100	-	-	-	-	-	-	-	-
Market Capitalization (as leading stock mkt)(a)	Domestic Currency in Billion	10.01	14.38	17.63	20.59	22.00	23.99	22.74	
Market Capitalization (as leading stock mkt) (a)	% of GDP	13.81	16.80	18.19	17.70	21.08	20.07	15.30	
Market Capitalization (as leading stock mkt)(a)	Billion US$	0.22	0.29	0.32	0.35	0.35	0.36	0.35	
V. Banking Sector Indicators									
Capital adequacy ratio	%	15.90	17.89	19.61	18.51	18.29	18.29	17.24	15.12
Non performing loans	%	5.20	3.92	6.57	6.33	10.21	10.21	12.46	10.43
Profitability (R.O.E.)	%	15.72	16.10	13.00	13.06	-0.05	-0.05	-4.40	2.29
Profitability (R.O.A.)	%	1.58	2.24	2.40	2.27	-0.27	-0.27	-0.65	0.30

*** The ratio of debt service (interest and principal payments due) during a year, expressed as a percentage of current receipts minus official transfers. (This is the formula used while computing DSR in India). Data for FY 2015-16 is as of June '2016 except for V.Banking Sector Indicators which are for September, 2016 .

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

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

3.Foreign Exchange Reserve comprises of Indian Rupee and USD

4. (-) data not available

5.(P) Provisional estimates

India

Recent Macroeconomic Developments

Real Growth:

As per the quarterly estimates released by the National Statistical Office (NSO) on August 30, 2019, growth in real gross domestic product (GDP) at market prices touched a twenty-five-quarter low of 5.0 per cent in Q1:2019-20 (8.0 per cent and 5.8 per cent in Q1:2018-19 and Q4:2018-19, respectively) which on sequential basis is a decline for the fifth quarter in a row. A sharp slowdown in private final consumption expenditure (PFCE) and languishing gross fixed capital formation (GFCF) were the main components which arrested overall GDP growth. Government final consumption expenditure (GFCE) accelerated to 8.8 per cent in Q1:2019-20 (6.6 per cent in Q1:2018-19). Excluding GFCE the slowdown turns out to be more pronounced. Private final consumption expenditure (PFCE) decelerated to 3.1 per cent in Q1:2019-20 (7.3 per cent in Q1:2018-19) engulfing both rural and urban sector constituents in its embrace. Gross fixed capital formation registered a growth of 4.0 per cent in Q1:2019-20, a sub five per cent growth for the second consecutive quarter as compared to 13.3 per cent in Q1:2018-19, owing to the continued uncertainty which set in previous quarter in the wake of general elections. Exports went up by 5.7 per cent in Q1:2019-20 outpacing imports growth of 4.2 per cent which led to a positive contribution from net exports to overall growth for the first time in the last nine quarters. The growth rates for both exports and imports are however, significantly lower than their respective levels in Q1:2018-19.

The growth of gross value added (GVA) at basic prices decelerated to a twenty-one-quarter low of 4.9 per cent in Q1:2019-20 (7.7 per cent and 5.7 per cent in Q1:2018-19 and Q4:2018-19, respectively). The deceleration of GVA growth was underpinned by plunging of manufacturing activity which registered the lowest growth in the 2011-12 series of 0.6 per cent in Q1:2019-20, notwithstanding Q1:2017-18 which suffered due to the transient impact of the implementation of the goods and services tax (GST). There was a pause in the sequential deceleration evident in the agriculture sector since Q1:2018-19 where it recovered from contraction in Q4:2018-19 to register a growth of 2.0 per cent in Q1:2019-20. There was moderation in services sector activity with slowdown in construction and financial, real estate and professional services, while trade, hotels, transport, communication and services related to broadcasting registered an uptick. Public administration, defense and other services accelerated at a robust pace providing support to overall growth; excluding which growth would have slumped to 5.0 per cent and 4.5 per cent in Q4:2018-19 and Q1:2019-20, respectively.

Price Situation:

Consumer price inflation moderated further from 3.2 per cent during July-December 2018 to 2.8 per cent during January-June 2019. However, after declining to nineteen months' low of 2.0 per cent in January 2019, headline inflation ascended gradually to 3.2 per cent in June 2019. This uptick during January-June 2019 was primarily driven by an uptick in prices of food. Subsequently, headline inflation eased marginally in July 2019 to 3.1 per cent only to pick up again to 3.2 per cent in August. In case of CPI excluding food and fuel group, inflation eased significantly from an average of 5.9 per cent during July-December 2018 to an average of 4.7 per cent during January-June 2019. In the latest print of August 2019, inflation excluding food and fuel stood at 4.2 per cent, down from 4.5 per cent in July 2019, largely reflecting easing in price pressures in household goods and services, transport and communication, recreation and amusement and education along with a favorable base effect. RBI reduced its policy rate by 35 bps during August 2019 policy round in consonance with its objective to achieve the medium-term target for CPI inflation of 4 per cent +/- 2 per cent, while supporting growth. Negative output gap, weak domestic and external demand conditions, sluggish private consumption and investment, muted expansion in demand conditions as per the Banks's surveys, moderation in inflation expectations of households for one year ahead horizon coupled with benign inflation outlook in the near term were some of the major considerations.

Going forward, headline inflation is projected to remain soft reflecting current low level of inflation and the benign food inflation outlook aided by the substantial catch up in monsoon and kharif sowing. However, the path for next four quarters will be shaped by several factors: uneven spatial and temporal distribution of monsoon particularly in northwest and northeast parts of the country albeit with significant recent catch-up in monsoon, volatility in crude oil prices due to geo-political tensions in the Middle-East, soft outlook for CPI inflation excluding food and fuel as well as easing in manufacturing firms' output price expectations and households' inflation expectations over 1-year ahead horizon. The impact of recent policy rate cuts, however, needs to be carefully weighed. Taking into account all these factors, the path of CPI inflation in the third bi-monthly monetary policy resolution of August 2019 was projected at 3.1 per cent for Q2:2019-20 and 3.5-3.7 per cent for H2:2019-20, with risks evenly balanced. CPI inflation for Q1:2020-21 was projected at 3.6 per cent.

External Sector Developments:

The Current Account deficit (CAD) widened to 2.1 per cent of GDP in 2018-19 from 1.8 per cent in 2017-18 per cent on a year-on-year (y-o-y) basis. In Q4, however, the CAD narrowed to 0.7 per cent of GDP from 1.8 per cent in Q4 of 2017-18, reflecting an absolute decrease of around US$ 8.4 billion, primarily on account of a lower trade deficit. Robust capital flows, primarily in the form of foreign direct investment and portfolio investment could finance the CAD and led to accretion of foreign exchange reserves by US$ 14.2 billion in Q4 of 2018-19.

Net FDI inflows were strong and stood at US$ 18.3 billion during April-July 2019-20. During FY 2019-20 so far (up to September 13, 2019), net foreign portfolio investment inflows were of US$ 2.6 billion. India's foreign exchange reserves were at US$ 429.6 billion on September 6, 2019, as compared with US$ 412.9 billion on March 31, 2019.

Monetary Developments:

Reserve Money (RM) increased by 14.5 per cent in 2018-19 lower than 27.3 per cent last year. The expansion in RM was mainly driven by its largest component, viz., currency in circulation (CiC), though its contribution declined vis-à-vis last year. From the sources side, expansion in RM was driven mainly by net domestic assets. In 2019-20 so far (up to September 6, 2019), on a y-o-y basis, RM recorded a growth of 13.4 per cent (19.1 per cent a year ago) while CiC growth stood at 13.0 per cent (22.7 per cent in the previous year). On a financial year basis (up to September 6, 2019), RM grew by 0.6 per cent (1.6 per cent in the corresponding period of the previous year).

During 2018-19, Money Supply (M3) grew at 10.5 per cent, higher than 9.2 per cent during 2017-18. The annual growth in M3 was led by aggregate deposits on the component side and bank credit to the commercial sector on the sources side. Aggregate deposits grew higher by 9.6 per cent (5.8 per cent last year) during the year. Both demand and time deposits grew at a rate faster than the previous year. The SCBs' credit growth increased to 13.3 per cent during the year from that of 10 per cent a year ago. In 2019-20 (up to August 30, 2019), the y-o-y growth of M3 stood at 9.9 per cent when compared to the corresponding fortnight last year (10.3 per cent a year ago). During the same period, the SCBs' credit growth stood at 10.2 per cent (13.4 per cent in the corresponding fortnight of the previous year).

Fiscal Developments:

In 2018-19, the gross fiscal deficit (GFD), at 3.4 per cent, has marginally deviated from the budget target of 3.3 per cent of GDP. This deviation was largely on account of higher outgo for the income transfer scheme for farmer families and shortfall in Goods and Service Tax (GST) and income tax collections. On the other hand, non-tax revenue and disinvestment targets were over-achieved in 2018-19 vis-à-vis budget estimates, which helped to partially make up for the shortfall in tax collection. On the expenditure front, while the capital expenditure was higher than budgeted, there was a huge cut in revenue expenditure, which helped restrict the deviation in fiscal deficit to 0.1 per cent of GDP.

For 2019-20, fiscal deficit has been pegged at 3.3 per cent of GDP, marking a consolidation over 2018-19. This fiscal consolidation is supported by non-tax revenues which have gone up from 1.3 per cent in 2018-19 (RE) to 1.5 per cent of GDP in 2019-20 (BE), which are further slated to rise due to the higher than budgeted surplus transfer by the Reserve Bank. The Government has shown commitment towards fiscal rectitude as per the glide path set under the revised FRBM. In the ensuing years, therefore, the Government intends to achieve the targeted fiscal deficit of 3 per cent of GDP by end March 2021.

For states the consolidated gross fiscal deficit is budgeted to improve to 2.6 per cent of GDP in 2019-20 (against 2.9 per cent in 2018-19), largely through expenditure compression. Revenue receipts is expected to decline due to lower tax devolution and grants.

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

August 07, 2019	Third Bi-monthly Monetary Policy Statement, 2019-20 decided to

	• reduce the policy repo rate under the liquidity adjustment facility (LAF) by 35 basis points (bps) from 5.75 per cent to 5.40 per cent with immediate effect. • Consequently, the reverse repo rate under the LAF stands revised to 5.15 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 5.65 per cent. • The MPC also decided to maintain the accommodative stance of monetary policy. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
June 06, 2019	Second Bi-monthly Monetary Policy Statement, 2019-20 decided to • reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 5.75 per cent from 6.0 per cent with immediate effect. • Consequently, the reverse repo rate under the LAF stands adjusted to 5.50 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.0 per cent. • The MPC also decided to change the stance of monetary policy from neutral to accommodative. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
April 04, 2019	First Bi-monthly Monetary Policy Statement, 2019-20 decided to • Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6.0 per cent from 6.25 per cent with immediate effect. • Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal

	standing facility (MSF) rate and the Bank Rate to 6.25 per cent. • The MPC also decided to maintain the neutral monetary policy stance. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
Feb 07, 2019	Sixth Bi-monthly Monetary Policy Statement for 2018-19 decided to • Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.5 per cent to 6.25 per cent with immediate effect. • Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.5 per cent. • The MPC also decided to change the monetary policy stance from calibrated tightening to neutral. These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
Dec 05, 2018	Fifth Bi-monthly Monetary Policy Statement, 2018-19 decided to • Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent. • Consequently, the reverse repo rate under the LAF remains at 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. • The decision of the MPC is consistent with the stance of calibrated tightening of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI)

	inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.
October 05, 2018	Fourth Bi-monthly Monetary Policy Statement, 2018-19 decided to • Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent. • Consequently, the reverse repo rate under the LAF remains at 6.25 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent. • The decision of the MPC is consistent with the stance of calibrated tightening of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Training Programmes/Staff Exchange Programmes Organized by the RBI

The group officials from Bangladesh Bank (BB) and Da Afghanistan Bank (DAB), along with other overseas participants, made an exposure cum training visit to various departments of RBI including departments of Banking Regulation & Supervision and Non-Banking Regulation & Supervision on Supervisor's Perspective on Basel II, III and Liquidity Ratios on January 17, 2019. The group of officials from Nepal Rastra Bank (NRB) made a visit for an exposure programme on Self Help Group, Joint Liability Group, Farmers' Club, etc on January 28- February 01, 2019

Two groups of officials from Central Bank of Sri Lanka attended training programme conducted at Reserve Bank Staff College (RBSC) on Code of Ethics during February 12-15, 2019. The Official of Maldives Monetary Authority (MMA), along with other overseas participants, attended a training programme at RBSC on Regulation and Supervision of NBFCs: Issues and Challenges during February 25 - March 1, 2019.

Reserve Bank of India officials made a visit to CBSL to conduct a training programme on Capital Market and Government Securities Market during March 06-08, 2019. The other set of RBI officials visited CBSL to conduct a training programme on Domestic, Forex and Money Market Operations during March 25-

27, 2019. A group six official from NRB attended a training programme on Financial Stability and Macro-Prudential Regulation during March 05-08, 2019.

Royal Monetary Authority of Bhutan (RMAB) Board Members and officials from Monetary Policy Department had an exposure attachment on various aspects of monetary policy implementation including day-to-day liquidity management, liquidity forecasting, conduct of monetary operations, inflation forecasting and monetary policy communication strategy, etc.

Annex: I

Performances of some key Macroeconomic indicators

	Unit	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
I. Real Sector										
Per Capita GDP (Real) $	US$	1378	1536	1494	1371	1295	1359	1354	1412	1554
Real GDP Growth $	%	7.9	8.5	5.2	5.5	6.4	7.4	8.0	8.2	7.2
GDP (MP at Current Prices) $	Billion US$	1342	1676	1823	1828	1857	2039	2104	2290	2652
Agriculture Growth $	%	-0.9	8.8	6.4	1.5	5.6	-0.2	0.6	6.3	5.0
Industry Growth $	%	9.6	8.6	0.1	4.5	4.2	8.1	11.9	8.3	6.1
Services Growth $	%	8.4	7.6	7.0	7.0	6.9	9.0	8.6	8.1	7.8
Investment $	% of GDP(MP)	38.9	39.8	39.0	38.7	33.8	33.5	32.1	30.9	32.3
Domestic Savings $$	% of GNDI	34.9	36.2	33.8	33.1	31.4	31.6	30.5	29.9	30.1
Headline Inflation (WPI) ****	%	3.8	9.6	8.9	7.4	5.2	1.3	-3.7	1.7	2.9
- Food Inflation	%	14.6	11.1	7.2	9.3	9.6	4.3	1.2	5.9	1.9
- Non-Food Inflation	%	0.2	9	9.6	6.6	3.7	0.2	-5.4	0.1	3.3
- Excl. Food and Fuel inflation	%	0.9	8.1	8.4	5.6	3	1.6	-2.5	0.2	2.5
Headline Inflation (CPI)***	%	12.4	10.4	8.4	10	9.4	5.8	4.9	4.5	3.6
- Food Inflation	%	15.2	9.9	6.3	11.2	11.9	6.5	5.1	4.4	2.2
- Fuel & Light Group Inflation	%	3.6	9.8	15.3	9.7	7.7	4.2	5.3	3.3	6.2
- Excl. Food and Fuel inflation	%	10.5	11.2	9.8	9	7.2	5.4	4.6	4.8	4.6
II. Fiscal Sector										
Revenue Collection (CSR)	Billion INR	5728.11	7884.71	7514.37	8792.32	10147.24	11013.81	11950.25	13742.03	14352.33
Fiscal Deficit (excluding grants)	% of GDP									
Fiscal Deficit (including grants)	% of GDP	6.5	4.8	5.9	4.9	4.5	4.1	3.9	3.5	3.5
Public Debt	% of GDP	38	37.8	40.7	41.1	41.1	41.0	41.7	40.7	39.2
- of which external debt	% of GDP	2.1	3.6	3.7	3.3	3.3	2.9	3.0	2.7	2.5
- domestic debt ^^	% of GDP	35.9	34.3	37	37.9	37.8	38.1	38.8	37.8	36.7

- debt servicing	% of total Revenue	37.2	29.7	36.4	35.6	36.9	36.5	37	33.9	34.5
Exports (f.o.b)	Billion US$	182.4	256.2	309.8	306.6	318.6	316.5	266.4	280.1	309.0
Imports (c.i.f)	Billion US$	300.6	383.5	499.5	502.2	466.2	461.5	396.4	392.6	469.0
Trade Deficit	Billion US$	-118.2	-127.3	-189.8	-195.7	-147.6	-144.9	-130.1	-112.4	-160.0
Remittances	Billion US$	51.8	53.1	63.5	64.3	65.5	66.3	63.1	56.6	62.9
Current Account Balance	Billion US$	-38.2	-48.1	-78.2	-88.2	-32.3	-26.9	-22.2	-14.4	-48.7
Current Account Balance	% of GDP	-2.8	-2.9	-4.3	-4.8	-1.7	-1.3	-1.1	-0.6	-1.8
Total Foreign Investment	Million US$	50363	42127	39231	46711	26386	73456	31891	43224	52401
- Foreign Direct Investment	Million US$	17966	11834	22061	19819	21564	31251	36021	35612	30286
- Portfolio Investment	Million US$	32396	30293	17170	26891	4822	42205	-4130	7612	22115
External Debt and Forex Liabilities	Billion US$	260.9	317.9	360.8	409.4	446.2	474.7	484.8	471.0	529.3
External Debt and Forex Liabilities	% of forex earnings	106.9	95.9	81.6	71.3	68.2	72	74.3	78.5	80.2
Short-term debt to GDP	%	3.7	3.8	4.6	5.3	4.9	4.3	4	3.7	3.9
External Debt Service Ratio	%	5.8	4.4	6.0	5.9	5.9	7.6	8.8	8.3	7.5
Exchange Rate	Per US$	47.4	45.6	47.9	54.4	60.5	61.1	65.5	67.1	64.5
Foreign Exchange Reserves	Billion US$	279	305	294	292	304	342	360	370	425
IV. Monetary & Capital Market										
Growth Rate of M_1	y-o-y	18.2	10.0	6.0	9.2	8.5	11.3	13.5	-3.9*	21.8
Growth Rate of M_2	y-o-y									
Growth Rate of M_3	y-o-y	16.9	16.1	13.5	13.6	13.4	10.9	10.1	6.9*	9.2
Weighted Avg Lending Rate of SCBs	% (as on 31st March)	10.5	11.4	12.6	12	12	11.8	11.3	10.9	10.2
Bank Credit to commercial sector (%)	y-o-y	15.8	21.3	17.8	13.5	13.7	9.4	10.7	4.2*	9.5
Stock Market (Price Index) (BSE)	March End 1991=100	1500.7	1664.9	1490.1	1612.7	1916.7	2393.7	2169.7	2536.1	2822.8
Market Capitalization (as leading stock mkt)	Domestic Currency in Billion	61656.2	68390.8	62149.1	63878.9	74153	101492.9	94753.3	121545.3	142250.0
Market Capitalization (as leading stock mkt)	% of GDP	96.8	89.6	71.1	64.2	66.0	81.4	68.8	79.1	83.2
Market Capitalization (as leading stock mkt)	Billion US$	1355.2	1520.1	1235.1	1209.6	1215.4	1625.2	1413.8	1874.6	2187.0
V. Banking Sector Indicators										

Capital adequacy ratio#^	%	14.5	14.2	14.24	13.9	13.0	13.0	13.3	13.7	13.8
Non-performing loans#	%	2.4	2.5	3.1	3.2	3.8	4.3	7.5	9.3	11.2
Profitability (R.O.E.)#	%	14.3	15	14.6	13.8	10.7	10.4	3.6	4.2	-2.8
Profitability (R.O.A.)#	%	1.1	1.1	1.1	1.03	0.8	0.8	0.4	0.35	-0.2

^: CRAR figures for 2008-09, 2009-10, 2010-11 and 2011-12 are as per the Basel II framework. CRAR figures 2012-13 onwards are as per the Basel III framework.
#: All Banking Sector Indicator data for 2018-19 are sourced from Financial Stability Report, June 2019. Earlier data are sourced from various issues of Report on Trend and Progress of Banking in India.
M1 (Narrow Money): Currency with the Public + Demand Deposit.
M3 (Broad Money): M1 + Time Deposit.
*: March 31, 2017 over April 1, 2016.
@@: Data as on August 30, 2019 over August 31, 2018.
$: The data from the year 2004-05 onwards is in new GDP series (with base 2011-12).
$$: Domestic saving is a ratio of gross saving to Gross National Disposable Income (GNDI)
***: Figures for 2005-06 to 2011-12 correspond to CPI-IW (Annual Average Indices) with base 2001=100 and thereafter CPI-Combined with base 2012=100.
****: Figures from 2005-06 to 2012-13 correspond to old base year 2004-05=100 and thereafter new base year 2011-12=100. Data for 2019-20 is based on available data from April-July 2019 for WPI and April-August 2019 for CPI.
$$$: Revised Estimates
@: Budget Estimate

Annex: II

Macroeconomic Vulnerability Indicators

Indicator	Unit	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current account balance [1/]	% of GDP	--	--	-13.79	-6.42	-3.88	-3.19	-7.37	-23.47	-21.71	-26.11
External Debt [2/]	% of GDP [7/]	39.1	36.7	32.22	28.31	24.11	20.17	17	19.45	25.19	24.77
Reserves to Imports [3/]	Ratio	27.11	32.1	22.85	19.59	21.25	30.85	29.74	21.98	24.88	24.06
National Debt [4/]	% of GDP [7/]	--	59.09	56.8	56.81	51.44	55.08	52.73	56.65	60.08	58.51
Corporate Debt	% of GDP [7/]	..	..	..	..	..	..	..	..	..	..
Domestic Credit [5/]	% of GDP [7/]	71.66	76.88	70.71	64.58	60.65	58.27	61.25	68.71	66.37	64.40
National Output Growth	%	-7.23	7.27	8.57	2.52	7.28	7.33	2.88	6.34	6.8	6.89
Fiscal Deficit [6/]	% of GDP [7/]	-17.38	-12.88	-5.83	-6.7	-3.49	-2.42	-6.55	-10.00	-3.07	-5.24

Notes:

[1/] Current account balance is compiled based on information available as at 31 October 2019 in accordance with IMF's BPM6 methodologies. Figures for 2017, 2018 and 2019 are revised estimates. Data prior to 2011 is not available.

[2/] Figures for 2018 and 2019 are revised as per approved budget for 2020 by the Ministry of Finance.

[3/] Gross International Reserves as at end of Dec 2019 and provisional imports data for 2019 is used to compute the reserves to imports ratio for 2019.

[4/] National debt (governments debt) includes domestic and foreign debt. Data prior to 2010 is not available. Figures for 2018 and 2019 are as per approved budget for 2020 by the Ministry of Finance.

[5/] Domestic credit as at November 2019 was used to compute the figure for 2019.

[6/] Fiscal deficit is calculated based on the format IMF's GFS manual 1986. Figures for 2018 are actuals, figures for 2019 are revised estimates as per approved budget for 2020 by the Ministry of Finance.

[7/]GDP is based on data published by National Bureau of Statistics on 02 October 2019.

Maldives

Real GDP growth is estimated to have accelerated at a remarkable pace of 7.65% during 2018, up from 6.91% recorded during the preceding year, driven by a robust tourism sector and continued expansion of the construction sector.

Looking at the main indicators used to gauge the performance of the sector, the tourism sector—the single largest contributor to GDP—observed robust growth during H2-2018. This marked the fourth consecutive year of sustained annual growth when compared with the corresponding period of the previous years. The remarkable growth in tourist arrivals during H2-2018 was entirely driven by a striking increase in arrivals from Europe, despite a downfall in arrivals from the Asia and Pacific region. While tourist arrivals from the key source markets such as Italy and United Kingdom posted significant growth, the upsurge in arrivals from Spain, France, Germany and Russia also contributed significantly.

Meanwhile, the arrivals from the Asia and Pacific region contributed negatively to the overall arrivals growth, largely owing to the protracted decline in arrivals from China which fully offset the upsurge in arrivals from Australia and India. The positive performance of the tourism sector was also evidenced by the annual 7.39% growth in tourist bednights during the period, which reflected both the growth in tourist arrivals as well as an increase in the average duration of stay. As for the other main sectors of the economy, the developments in fisheries sector were less remarkable during H2-2018, as indicated by the lower growth in both fish purchases by fish processing companies and volume of fish exports. In contrast, the construction sector continued to perform robustly as depicted by the increase in construction-related imports and commercial bank credit extended for the construction of residential and housing projects over the period.

Looking at the price developments, the annual rate of inflation in H2-2018 marked a slowdown and recorded 0.13% in H2-2018 from 1.86% in H2-2017. During the period, major downward contributions stemmed from the decrease in prices of electricity and staple food items (rice, flour, sugar) during the period. Electricity prices were dampened by the reduction in electricity and water tariffs in the atolls to harmonize utility rates across the country. Meanwhile, prices of food items decreased mainly owing to the reinstatement of the subsidy for staple food items in April 2018. In contrast, major upward contributions during the period came from rental prices as well as prices of tobacco and areca nuts, followed by increase in prices of fish, vegetables–mainly root crops, and dried fruits.

As for the public finance situation, total revenue grew markedly during H2-2018, largely owing to increase in tax revenues despite a decrease in non-tax revenues during the period. The major contributors to tax revenue were business and property tax; and import duties while general goods and services tax; and tourism goods and services tax also made significant contributions to this growth. As for the decrease in non-tax revenues, this was largely due to decline in growth of profit transfers from state-owned enterprises.

Meanwhile, the decline in total expenditure reflected a significant cut down in capital expenditure, mirroring the fall in spending on Public Sector Investment Program (PSIP). In contrast, a significant increase was observed in recurrent expenditure, mostly contributed by an upturn in administrative and operational expenses of the government, mainly the expenditure on subsidies. During the period, the budget deficit was financed through both domestic and foreign sources.

Considering the developments in monetary aggregates, the stock of broad money (M2) rose to MVR33.09 billion at the end of H2- 2018. The acceleration in broad money growth was primarily due to the growth in the net domestic assets (NDA) of the banking sector. The increase in NDA of the banking system reflected an increase in both the NDA of the commercial banks and the NDA of the MMA. However, the expansion in broad money was partially offset by a decline in the net foreign assets (NFA) of the banking sector. This decline can be attributed to a fall in the NFA of commercial banks, despite an annual growth in the NFA of the MMA.

Looking into the external sector developments, merchandise export increased significantly by 22.29% in H2-2018, when compared with the corresponding period of 2017. The increase was driven entirely by the increase in re-export, as domestic export recorded a decline during the period. As such, re-export posted a growth of 70.89%, while domestic export declined by 5.26%. The growth in re-exports stemmed from the increase in earnings from sale of jet fuel, reflecting the both rise in global oil prices and increase in flight movements to the Maldives by international carriers. Meanwhile, fall in domestic export was largely due to a fall in export earnings from fresh or chilled yellowfin tuna, followed by frozen skipjack and yellowfin tuna. As for merchandise imports, a considerable increase of 27.99% was recorded during H2-2018, mainly owing to increase in import expenditure on petroleum products, transport equipment, construction sector-related items followed by furniture, fixtures and fittings.
With regard to gross international reserves[1] (GIR), a marked annual growth of 21.23% was recorded at the end of H2-2018. The growth trajectory during the

[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.

early months of 2018 slowed down in the latter part of the year but increased sharply during December 2018, with GIR closing at US$712.0 million. This sharp increase represented the foreign currency swap facility of US$100.0 million with the RBI.

Highlights of the major policy announcements during H2-2018

The monetary policy framework broadly remained unchanged during H2-2018. The MRR remained unchanged at 10% for both local and foreign currency deposits, following the last downward revision from 20% on 20th August 2015. No operational reforms were announced for Open Market Operations (OMO) and the standing facilities of the MMA during the review period. OMO remained suspended since May 2014, and excess liquidity in the banking system continued to be absorbed entirely through placements in the Overnight Deposit Facility (ODF) of the MMA. The Overnight Lombard Facility (OLF), which is the facility for overnight borrowings, remained opened for all commercial banks. The interest rate for the ODF and the OLF remained unchanged during the review period, with 1.5% p.a. and 10% p.a., respectively.

Annex: I

Macroeconomic Vulnerability Indicators

SL	Items	2018	2017	2016	2015	2014	2013
1	Fiscal Deficit as % of GDP	-5.47	-2.99	-9.92	-6.55	-2.42	-3.49
2	Inflation- 12 month moving average	-0.13	2.82	0.50	0.95	2.12	3.81
3	Domestic Credit % of GDP	64.00	64.60	68.17	61.25	58.27	60.65
4	Current Account Balance as % of GDP	25.01	21.81	23.47	-7.37	-3.19	-3.88
5	External Debt as % of GDP	25.97	24.52	19.30	17.00	20.17	24.11
6	Reserves as % of Import	24.06	24.88	21.98	29.74	30.85	21.25
7	National Debt as % of GDP	58.19	58.48	56.21	52.73	55.08	51.44

Nepal

The current account deficit has been jumped to 8.2 percent of GDP in the review year compared to deficit of 0.4 percent to GDP in the previous year. The surge in current account deficits was on account of the elevated level of import of petroleum products, transport equipment and parts, and industrial goods.

Based on the imports of 2017/18, the foreign exchange holding of the banking sector is sufficient to cover the prospective merchandise and services imports of 9.4 months.

The total government debt is 29.7 percent of GDP. Such ratio was 26.4 percent a year ago. Of the total outstanding public debt, foreign and domestic debt stood at 16.7 and 13.0 percent of GDP respectively. Total public debt of Nepal is relatively low compared to the other SAARCFINANCE members and indicates that there is a sufficient fiscal space for the Government to collect debt for the capital expenditure.

Domestic credit expanded 24.9 percent in the FY 2017/18 compared to a growth of 20.6 percent in the previous year. After the completion of all levels of election and formation of stable government, investment climate in the country has been improved and demand of credit is also increasing.

The ratio of budget deficit-to-GDP stood at 8.9 percent in FY 2017/18. Large expenditure for the completion of all levels of election and the implementation of federalism country has resulted in the increase in budget deficit in FY 2017/18.

The annual average consumer price inflation moderated to 4.2 percent in 2017/18 from 4.5 percent in the previous year. This rate of inflation is the lowest since 2004/05. Improvement in the supply-chain management and the lower rate of inflation in India contributed to the lower level of inflation in the review year.

Annex: I

Macroeconomic Surveillance Indicators

S.N.	Core Indicators	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18*
1	CA as a percentage of GDP	3.4	4.6	5.1	6.2	-0.4	-8.2
2	Reserve as percentage of Merchandise and Service Import (in months)	8.7	10.0	11.2	14.1	11.4	9.4
3	National debt as percentage of GDP	31.9	27.9	25.4	27.6	26.4	29.7
a.	External debt as percentage of GDP	19.7	17.7	16.1	17.0	15.7	16.7
b.	Domestic Debt as percentage of GDP	12.2	10.3	9.2	10.6	10.7	13.0
4	Domestic credit as percentage of GDP	68.8	66.9	71.7	80.1	82.4	90.4
5	Budget deficit as percentage of GDP	1.5	2.0	3.8	3.1	6.5	8.9
6	Inflation (12 months average)	9.9	9.1	7.2	9.9	4.5	4.2

** As the GDP compilation in Nepal is on annual basis, the above indicators are based on annual data (Mid-July 2018).*

Pakistan

Important Economic Developments during FY19

Pakistan's economy has experienced marked adjustments during FY19. The exchange rate was realigned with the market fundamentals; interest rates were sharply increased; public sector development expenditure was significantly curtailed; and energy prices were raised. These policy actions helped contain demand pressures and contributed to import compression, which led to a significant reduction in the current account deficit. However, in the process large-scale manufacturing contracted and inflation rose above its target after four years. Also, the GDP growth decelerated to 3.3 percent in FY19, compared to 5.5 percent registered last year.

Real Sector

Growth in agriculture sector declined to 0.08 percent during FY19 compared to 3.9 percent growth observed in the preceding year. Water shortages along with high input costs undermined the agriculture sector's output, and the drag in the commodity-producing segments spilled over to the services sector as well. The pace of growth in the industrial sector, which registered 4.9 percent growth in FY18, slowed to 1.4 percent in FY19. This was attributed to a slowing down in construction related activities together with lower automobile production and subdued performance in the textile and food industries. On the positive side, healthy growth in electricity generation and electricity and gas distribution moderated decline in the industrial sector.

Monetary Policy and Inflation

Steady increase in headline inflation remained a constant source of concern throughout FY19. The underlying demand pressures from FY18 were further compounded by the government's decision to increase the administered energy prices to contain the fiscal deficit. This further stoked the inflationary pressures through the energy and transport components of CPI, as the impact of PKR depreciation also came into effect.

The headline CPI inflation reached 7.3 percent during FY19, compared to 3.9 percent last year. Keeping in view high inflation and rising inflationary expectations, the SBP's monetary policy committee continued with its monetary tightening stance and increased the policy rate by a cumulative 575 basis points during FY19.

Private credit off-take remained strong during the first half of the fiscal year mainly due to heavy working capital financing availed by the export-oriented industries. Subsequently in H2-FY19, the credit growth decelerated as the economic slowdown deepened. As a result, the private sector credit off-take moderated for FY19. As against this, the government borrowings for budgetary support increased substantially in FY19 compared to last year in the wake of increase in current expenditures and slowdown in the revenue collection. Further, the PSE debt also jumped from 4 percent of GDP a year earlier to 5.3 percent in FY19. Consequently, the growth of money supply (M2) remained skewed towards the public sector.

Fiscal Policy

The overall budget deficit stood high at 8.9 percent of GDP during FY19 due to a sharp decline in revenue collection and a steep rise in current expenditures. Moreover, a steep rise in interest rates; legal constraints on the revenue side; and an overall slowdown in the economy also contributed to the deficit.

Total revenues declined by 6.3 percent during FY19, stemming from reduction in nontax revenues and stagnant non tax revenues. Though Provincial collection improved but its level remained too low to make an impact. A sharp decline in development spending was not enough to control the pace of total spending. The latter grew by 11.3 percent during FY19 as current expenditures recorded a sharp acceleration, mainly due to higher interest payments.

Domestic and External Debt

Pakistan's total debt and liabilities (TDL) reached Rs 40.2 trillion by end FY19 – showing an increase of Rs 10.3 trillion during the year. One third of this increase in TDL was due to financing needs. The rest of the change emerged from revaluation of the external debt stock due to depreciation of PKR, BoP support from friendly countries and lastly a sharp increase in the government borrowing that it has deposited in the banking system.

Within external debt, the share of commercial loans increased further in FY19. Foreign debt servicing is likely to become more challenging in the future as most of the loans had been secured at floating interest rates. Uptick in international benchmark interest rates or changes in credit rating by the rating agencies may pose serious questions particularly when external debt sustainability indicators have shown deterioration.

External Sector

The external imbalances have shown improvement in FY19. Specifically, the current account gap narrowed substantially, after reaching a historic high in FY18. The improvement mainly came from a contraction in both merchandize and services import payments, and a healthy growth in worker remittances. Despite the lower current account gap, the country had to arrange significant external financing to meet the upcoming loan and Eurobond repayments during the year. Financial inflows in the form of FDI, private FX inflows into the local equity market, and IFI financing were insufficient to bridge the CAD gap.

Economic Outlook

For FY20, the macroeconomic stabilization will continue to be the cornerstone of economic policies. Real GDP growth is likely to remain subdued, though the early signs of recovery are already visible. Development spending may play a pivotal role; the government has allocated a greater outlay for PSDP during the year compared to the actual spending in FY19. Other triggers may include an improvement in market sentiments vis-à-vis the IMF program. A better showing by the agriculture sector compared to last year, and further improvement in the current account balance, may also improve the final outcome.

HIGHLIGHTS OF MAJOR POLICY ANNOUNCEMENTS

Policy for Promotion of Low Cost Housing Finance

In an effort to help meet housing deficit in the country, SBP has recently developed a policy for promotion of low cost housing finance in Pakistan. This policy has been developed in consultation with relevant stakeholders besides taking into account the best international practices and local market conditions. To adequately resolve the issues faced by the mortgage industry, the policy focuses on regulatory incentives, risk mitigation mechanism for financial institutions and mechanism to address affordability of low-income borrowers. This is expected resolve key constraints hampering supply of housing units due to unavailability of financing. The draft policy document has also been placed at the official website of SBP mainly to seek comments of public (http://www.sbp.org.pk/smefd/PolicyLowCostHousingFin.pdf).

SBP sets Agriculture Credit Target of Rs 1,250 Billion for FY 19

Keeping in view high credit needs of agriculture sector, SBP sets credit target of Rs 1,250 Billion for FY 19 for commercial banks, DFIs, and microfinance banks. The target is indicative in nature, which induces domestic banks/institutions to adopt innovative techniques for provision of easy and swift credit to small farmers. In this process, the

role of SBP is to provide an enabling regulatory environment and take various developmental initiatives to boost agri. financing at the grass root level. These included holding a number of awareness sessions all over the country and job fairs in collaboration with Agri. Universities in the underserved provinces/regions.

Important Events:

The 23rd Zahid Husain Memorial (ZHM) Lecture held on April 19, 2019.

SBP has a tradition of organizing a lecture series, which is named after its first Governor - Late Zahid Husain. This year's lecture was delivered by Dr. Zhou Xiaochuan on "Lessons from the Role of People's Bank of China in China's Economic Rise".

Dr. Zhou is Ex- Governor of People's Bank of China (PBoC), who served during 2002-2018- the longest-serving governor in China's history. During his tenure, China became the second largest economy in the world, and a consequential player in global financial markets.

In his lecture, Dr. Zhou touched upon several issues pertaining to central banking including objectives of a central bank, the communication strategy, the role of central bank in development of foreign exchange, derivative, stock exchange and corporate bonds markets, and the significance of fiscal discipline in enhancing monetary policy effectiveness. He also highlighted the role of PBoC in the process of re-structuring of financial institutions in China. He argued that reforms in PBoC reflect China's gradualist approach towards globalization for sustainable economic development. He emphasized on gradual liberalization of exchange rate, monetary and capital account regimes to facilitate greater role for market forces without large-scale disturbances. He also elaborated how PBoC provided incentive structures to channelize financial resources toward productive sectors to ensure inclusive growth and financial stability.

In case of Pakistan, Dr. Zhou emphasized to raise the domestic savings rate in order to address most of the macroeconomic imbalances including current and fiscal deficits. Further, he suggested to use regional currencies in order to facilitate trade in the region.

SAARCFINANCE Seminar held in March 27-29, 2019

SBP hosted a seminar on 'Internal Audit: Emerging Challenges and Effective Practices in Central Banks' under the aegis of SAARCFINANCE Forum at National Institute of Banking and Finance, Islamabad during 27-29 March 2019. Besides Pakistan, officials from some SAARC central banks participated in the event.

The seminar was inaugurated by Mr. Qasim Nawaz, Executive Director, SBP. In his welcome speech, he stated that until a few years back, business process reengineering was at the core of innovation in banks. While advancements in technology have further transformed the horizon of financial services, these innovations were also raising challenges of their own. Adding further, he stated that the Board and the senior management of State Bank were cognizant of the need to align its internal operations to the changing environment, and to promote innovation in the financial sector in a regulated environment.

Mr. Horst Simon – an export from South Africa and the keynote speaker of the event - discussed technological risks faced by business around the world and highlighted importance of risk culture inculcated within the organization. He emphasized on the roles and responsibilities of board, senior management and the employees to maintain a robust risk management mechanism.

The other notable speakers included Mr. Zayeem Bin Alam, Senior Manager of PricewaterhouseCoopers and Syed Sohail Javaad, Director Payment Systems Department. A panel discussion was arranged where the ongoing developments about digital payments, its importance, evolution, benefits of disruptive technologies to regulators, emerging risks and appropriate responses were highlighted. Apart from these speakers, the delegates of the central banks also presented their country papers for the information of the audience.

SAARCFINANCE Staff Exchange Program

State Bank of Pakistan has arranged a customized/familiarization training program on "Internal Audit Practices" for a three member delegation from RMA Bhutan under Staff Exchange Program" during June 17-21, 2019.

The program covered all important areas, including the corporate governance, internal audit charter, auditing standards, risk based audit methodology, annual audit planning, IT audit, data analytics, quality assurance & improvement program, compliance function and enterprise risk management. Overall, the program provided an opportunity of mutual learning, experience sharing and improved networking amongst the officials of both the member central banks.

Annex: I

Annex: I

Performances of some key Macroeconomic indicators

	Unit	2010 -11	2011 -12	2012-13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18[R]
I. Real Sector									
Per Capita GDP	US$	1,274	1,320	1,334	1,389	1,514	1,529	1,630	1,652
Real GDP Growth	%	3.6	3.8	3.7	4.1	4.1	4.6	5.2	5.5
Nominal GDP (MP)	Billion US$	214	225	231	245	271	279	305	315
Agriculture	% of GDP	21.7	21.6	21.4	21.1	20.7	19.8	19.3	19.0
Industry	% of GDP	21.2	21.0	20.4	20.5	20.7	20.9	20.8	20.7
Services	% of GDP	57.1	57.4	58.2	58.4	58.6	59.3	60.0	60.4
Investment	% of GDP	14.1	14.9	14.6	14.6	15.5	15.6	16.2	16.4
National Savings	% of GDP	14.2	12.8	13.9	13.4	14.5	14.3	12.0	11.5
Headline Inflation (yoy)	%	13.7	11.0	7.4	8.6	4.5	2.9	4.2	3.9
- Food Inflation (yoy)	%	18.0	11.0	7.1	9.0	3.5	2.1	3.8	1.8
- Non-Food Inflation (yoy)	%	10.7	11.0	7.5	8.3	5.3	3.4	4.4	5.4
- Core inflation (yoy)	%	9.4	10.6	9.6	8.3	6.5	4.2	5.2	5.8
II. Fiscal Sector									
Revenue Collection	Billion US$	26.3	28.8	30.8	35.4	38.7	42.6	47.1	47.5
Fiscal Deficit	% of GDP	5.9	6.6	8.0	5.5	5.3	4.6	5.8	6.6
Public Debt	% of GDP	58.9	63.3	63.8	63.5	63.3	67.7	67.0	72.1
- of which foreign currency	% of GDP	31.2	30.9	27.0	25.6	24.2	26.6	27.4	33.4
- domestic debt	% of GDP	32.9	38.1	42.5	43.3	44.4	46.9	46.5	47.4
Public Debt Servicing[1]	% of Total Revenue	36.5	44.7	47.7	45.2	39.9	33.4	35.1	34.7
III. External Sector									
Exports (f.o.b)	Billion US$	25.4	24.7	24.8	25.1	24.1	22.0	22.0	24.8
Imports (c.i.f)	Billion US$	35.8	40.4	40.2	41.7	41.4	41.3	48.7	56.6
Trade Balance	Billion US$	-10.4	-15.7	-15.4	-16.6	-17.3	-19.3	-26.7	-31.8

Remittances	Billion US$	11.2	13.2	13.9	15.8	18.7	19.9	19.4	19.9
Current Account Balance	Billion US$	0.2	-4.7	-2.5	-3.1	-2.8	-4.9	-12.6	-18.1
Current Account Balance	% of GDP	0.1	-2.1	-1.1	-1.3	-1.0	-1.7	-4.1	-6.3
Total Foreign Investment	Million US$	1,980	709	1,581	4,439	2,830	1,976	2,498	5,680
- FDI in Pakistan	Million US$	1,635	821	1,456	1,700	988	2,305	2,749	3,471
- Portfolio Investment in Pakistan	Million US$	345	-112	125	2739	1842	-329	-251	2209
External Debt and Forex Liabilities	Billion US$	66.4	65.5	60.9	65.3	65.2	73.9	83.5	95.2
EDL/FEE[2]	Percent	139.2	135.8	121.3	127.7	123.2	144.0	161.0	174.9
Short-term external debt	% of GDP	0.3	0.2	0.1	0.3	0.4	0.6	0.3	0.6
External Debt Servicing Ratio	% of GDP	1.8	2.0	2.8	2.9	2.0	1.9	2.7	2.6
Exchange Rate (average)	Per US$	85.6	89.3	96.9	102.9	101.5	104.4	104.8	110.0
Foreign Exchange Reserves	Billion US$	18.2	15.3	11.0	14.1	18.7	23.1	21.4	16.4
IV. Monetary & Capital Market									
Growth Rate of M1	y-o-y	17.5	13.9	19.7	15.1	16.6	16.1	15.3	10.2
Growth Rate of M2	y-o-y	16.7	13.4	16.9	12.6	12.8	14.5	13.9	9.5
Growth Rate of M3	y-o-y	16.3	12.7	17.3	12.1	12.8	13.1	12.5	8.8
Weighted Avg Lending Rate	%	14.3	13.1	10.6	10.4	8.2	7.2	7.1	7.4
Credit growth to Private Sector	%	4.0	7.5	(0.2)	12.2	5.9	11.2	16.8	14.9
Stock Market (Price Index)	1991=1000	12,496	13,801	21,006	29,653	34,399	37,784	46,712	41,911
Market Capitalization (as leading stock mkt)	PKR Billion	3,289	3,518	5,155	7,023	7,421	7,589	9,506	8,665
Market Capitalization (as leading stock mkt)	% of GDP	18.0	17.5	23.0	27.9	27.0	26.1	29.8	25.0
Market Capitalization (as leading stock mkt)	Billion US$	38.4	39.4	53.2	68.3	73.1	72.7	90.7	78.8
V. Banking Sector Indicators									
Capital adequacy ratio (CAR)	%	14.1	15.1	15.5	15.1	17.2	16.1	15.6	15.9
Non-performing loans	% Total Loans	15.3	15.9	14.8	12.8	12.4	11.1	9.3	7.9
Before Tax Profitability(R.O.E.)	%	21.8	25.9	18.5	23.5	27.5	24.9	21.9	18.5
Before Tax Profitability (R.O.A.)	%	2.1	2.4	1.7	2.1	2.7	2.2	1.8	1.4

Source: Pakistan Bureau of Statistics; State Bank of Pakistan, Ministry of Finance. Note: GDP in dollar terms is calculated using average exchange rate during the year, National Accounts are provisional estimates for FY19

Definitions:
M1= Notes in Circulation outside Depository Corporation + Transferable Deposits with ODCs + Transferable Deposits with SBP other than Reserve Deposits
M2= M1 + Other Deposits with ODCs + Short Term Securities Issued by ODCs + Coin in Circulation; M3 = M2 + Deposits held wit Post Office + National Saving Schemes (CDNS)
1. 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.
2. Fiscal deficit = total revenue - total expenditure: EDL/FEE: External Debt and Liabilities (EDL) as a percentage of Foreign Exchange Earnings (FEE).

Annex: II

Macroeconomic Surveillance Indicators

Year	Fiscal Deficit as % of GDP	Inflation- 12 month moving average	Domestic Credit % of GDP	Current Account Balance % of GDP	External Debt as a % GDP	Reserves for Months of Import Payments	National Debt % of GDP
2000	5.40	3.58	34.05				73.29
2001	4.30	4.41	32.36	0.41	49.56	1.99	78.55
2002	4.30	2.85	31.11	3.54	43.47	5.52	72.96
2003	3.70	3.10	28.64	4.43	37.41	10.09	68.18
2004	2.30	4.57	30.68	1.68	32.54	9.24	61.57
2005	3.30	9.28	32.61	-1.28	29.65	6.22	57.59
2006	4.30	7.92	33.09	-3.64	27.27	5.22	53.73
2007	4.40	7.77	33.45	-4.51	26.38	6.40	52.45
2008	7.30	12.00	37.81	-8.16	29.58	2.92	57.60
2009	5.20	17.03	35.16	-5.51	32.21	3.45	58.57
2010	6.20	10.10	35.19	-2.22	35.39	4.99	60.61
2011	6.50	13.66	32.36	0.10	31.22	4.96	58.93
2012	8.80	11.01	35.47	-2.07	30.91	3.21	63.34
2013	8.20	7.36	38.39	-1.08	26.96	1.80	63.84
2014	5.50	8.62	37.24	-1.28	25.62	2.62	63.54
2015	5.30	4.53	38.15	-1.03	24.17	3.92	63.33
2016	4.60	2.86	40.64	-1.74	26.64	5.28	67.67
2017	5.80	4.15	43.79	-4.14	27.43	3.98	66.98
2018	6.50	3.90	46.81	-6.32	33.44	2.07	72.54

Sri Lanka

The vulnerability of the Sri Lankan economy to global and domestic disturbances became increasingly visible in 2018, with a modest expansion in real economic activity amidst a low inflation environment during the year.

- Accordingly, the National Consumer Price Index (NCPI) based annual average inflation reversed its increasing trend observed during 2017 and declined continuously from 7.7 per cent in December 2018 to 2.1 per cent in December 2018.
- The change in the NCPI measured on an annual average basis remained broadly unchanged at a range from 1.7 per cent to 2.0 per cent during January 2019 to August 2019 recording 2.0 per cent in August 2019.

In the meantime, fiscal operations during 2018 demonstrated some improvements with a higher primary surplus and a lower budget deficit, notwithstanding the decline in revenue mobilization.

- The budget deficit (fiscal deficit) as a percentage of GDP improved to 5.26 per cent in 2018 from 5.5 per cent recorded in 2017, supported by the moderation in total expenditure despite a decline in revenue as a percentage of GDP.
    - The budget deficit as a per cent of estimated GDP increased to 4.4 per cent in the first seven months of 2019 from 3.2 per cent of GDP in the corresponding period of 2018 due to the lower revenue collection and higher expenditure.
- However, the primary balance, which mirrors the difference between the government revenue and non-interest expenditure, registered a surplus of 0.6 per cent of GDP in 2018 compared to the surplus of 0.02 per cent of GDP in 2017.

The sharp rise in government (National) debt underscores the importance of the continuation of fiscal consolidation measures.

- The National Debt or the central government debt to GDP ratio increased to 82.9 per cent at end 2018 from 76.9 per cent at end 2017. The increase in the debt to GDP ratio in 2018 was the combined effect of the depreciation of the rupee against major foreign currencies, relatively low nominal GDP and higher net borrowings to finance the budget deficit.
- It is expected to contain the rollover risks through the implementation of the provisions of the Active Liability Management Act (ALMA) and the introduction of the Medium-Term Debt Management Strategy (MTDS), which would help manage the government's debt obligations in the period ahead, with the support of continued commitment towards revenue based fiscal consolidation.

Domestic credit based on M2b is comprised of the credit to private sector, net credit to the Government (NCG) and credit to public corporations. During 2018, private sector credit, net credit to the Government and credit to public corporations increased substantially. These increases contributed domestic credit to increase notably during 2018.

- Accordingly, domestic credit to GDP, which was at 55.9 by end 2017 increased to 61.1 per cent by end 2018.
    - However, growth in domestic credit moderated thus far during 2019 mainly driven by the deceleration in private sector credit growth amidst subdued economic activity.

The external sector of the economy was volatile during 2018 due to both global and domestic factors. Globally, monetary policy normalization, particularly in the United States of America (USA), resulted in global financial conditions tightening, thus causing capital outflows from emerging market economies and increased pressure on exchange rates of twin deficit economies, in particular. Sri Lanka also experienced these headwinds, particularly from mid-April 2018, which were exacerbated following the political uncertainties and the downgrade of the country's Sovereign rating in the fourth quarter of the year.

- The current account deficit widened to 3.2 per cent of GDP during 2018 when compared with 2.6 per cent deficit in 2017, due to the deficit in the merchandise trade balance, stagnant workers' remittances and rising foreign interest payments in 2018 although services exports have grown substantially.
- The total outstanding external debt as a percentage of GDP stood at 58.7 per cent by end 2018, compared to 58.6 per cent by end 2017, as the modest increase in outstanding external debt remained similar to the increase in nominal GDP during 2018.
- Reserves as a percentage of imports (average monthly merchandise imports) amounted to 373.5 per cent in 2018 compared to 455.2 per cent in 2017. In terms on months of merchandise imports, this is equal to 3.7 months of imports at the end of 2018, a reduction from 4.6 months recorded at end of 2017. This reflects the decline in gross official reserves at the end of 2018 compared to the end of 2017 as well as the increase of average monthly merchandise imports in 2018 compared to 2017.

Annex: I

Macroeconomic Surveillance Indicators

Vulnerability Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inflation - 12 month moving average (a)	6.20	6.70	7.60	6.90	3.30	3.8	4.0	7.7	2.1
Fiscal Deficit as % of GDP	-6.95	-6.24	-5.60	-5.38	-5.71	-7.57	-5.34	-5.5	-5.26
Domestic Credit % of GDP	35.28	42.08	42.33	43.79	44.78	52.34	55.62	55.93	61.12
National Debt % of GDP	71.57	71.11	68.71	70.82	71.33	77.65	78.25	76.86	82.89
External Debt as a percentage of GDP	37.80	50.20	54.20	53.70	54.10	55.70	56.80	58.64	58.70
Current Account Balance as a percentage of GDP	-1.90	-7.10	-5.80	-3.40	-2.50	-2.30	-2.10	-2.6	-3.2
Reserves as a percentage of Import (b)	642.0	399.6	444.3	499.6	507.3	462.9	376.5	455.2	373.5

Source: Central Bank of Sri Lanka

a) From 2010-2014 represent the Annual Averages of Colombo Consumer Price Index and from 2015 onwards represent the National Consumer Price Index.
b) Calculated using the average monthly merchandise imports