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COUNTRY REPORTS

AFGHANISTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

Continuing on its growth momentum, Afghanistan GDP growth showed upward trend in the end period of 2019 and economic growth was higher as compared to 2018. During the year 2019 agriculture sector significantly increased while services and industry services decreased in compare to previous year. The contribution of GDP shares reached to, Services 57.38%, Industry 12.13% and Agriculture sector 25.52% respectively. Generally economic growth stood at 4.03 percent in 2019, with an increase from the figure 1.58 percent recorded in the previous year. Overall growth was largely driven by agriculture sector, and services and industry sectors growth showed downward trends. In fact, Agriculture sector plays crucial role in national economy, in 2019 its growth rate increased compared to previous year. The agriculture sector was able to achieve sound growth rate of 20.79 percent with a broad-based improvement in cereals and fruits due to favorable snow fall in 2018. The growth rate of services sector decreased to -1.00 compared to 2.05 %, industry sector growth rate decreased to -4.39 compared to 19.44 observed in 2019. Technically industry and services sectors showed negative growth, while as in comparison, agriculture showed boosting trend.

External sector Developments:

1. Current Account

The balance of payments (BOP's) current account deficit decreased by 7% to a value of USD 1743.32 million in the second half of the FY 2019 indicated a decrease of USD 138.75 million, as compared to a value of USD 1882.08 million recorded in the second half of the FY 2018, (table; 1). The decrease in current account deficit was mainly due to a 7 % decline in merchandise trade deficit 23%, decline in services account deficit a notable increase 120 % in net inflows to the primary income account and modest increases in inflow of official grants to the country during the second half of the FY 2019.

1.1: GOODS ACCOUNT

Earnings from exports of goods slightly decreased 3.2 % to a value of USD 537million in the second half of the FY 2019 from a value of 555.97 million recorded in the second half of the FY 2018.

Expenditure on imports of goods decreased by almost 7% to a value of USD 3050.51 million in the second half of the FY 2019 from a value of USD 3267.22 million recorded in the second half of the FY 2018.

1.2: SERVICES ACCOUNT

Deficit of the services account decreased by 23 % to a value of USD 301.12 million in the second half of the FY 2019 from a value of USD 389.41 million recorded in the same period of the previous year which followed by marginal decreases in payments of transportation, travel and construction services.

1.3: PRIMARY INCOME ACCOUNT:

compensation of employees related inflows decreased by 71% to a value of USD 17.92 million in the second half of the FY 2019 from a value of USD 62.88 million in the second half of the FY 2018, while investment income inflows increased by 120% to a value of USD 111.76 million in the second half of the FY 2019 from a value of USD 50.84 million recorded in the similar period of the last year.

1.4: SECONDARY INCOME ACCOUNT:

Official grants to the government sector declined by 18 % to a value of USD 730.87 million in the second half of the FY 2019 from a value of USD 890.91 million recorded in the second half of the FY 2018. While worker personal home remittances from foreign countries increased by 16% and stood at a value of USD 232.84 million in the second half of the FY 2019 from a value of USD 200.26 million recorded in the similar period of the last year.

2: CAPITAL ACCOUNT

Inflows to the capital account decreased by 17 % to a value of USD 896.25 million in the second half of the FY 2019 from a value of USD 1076.78 million recorded in the second half of the year 2018, significantly on account of inflows to the government sector in the form of official grants.

3: FINANCIAL ACCOUNT

- Sustained security and political concerns hit the level net FDI inflows in the country. Considering the statistics, FID inflow stood at USD 7.49 million in the second half of the FY 2019 from a value of USD 12.43 million recorded in the second half of the FY 2018.
- Portfolio investment exhibits USD -13.59 million which reflects withdrawal of Afghanistan investment from foreign countries in the second half of the FY 2019 from the value of USD 109.87 million registered in the second half of the FY 2018.
- Other investment (Net): significantly declined by 79 % to a value of USD 41.13 million in the second half of the FY 2019 from USD 194.57 million in the same period of the last year.
- In terms of BOP the official reserve assets decreased significantly by 87% to USD 25.60 million in the second half of the FY 2019 compared to USD 196.91 million recorded 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, Afghanistan usually faces budget deficit, however due to COVID-19 it is getting more sever, the total core expenditure exceeded total revenue (including grants) and $ 114945 government deficit is being observed in the second half of the FY-2019.
- The total core budget (revenue including grants) is mildly decreased from $3226.73 million of second half of the FY 2018 to $3226 million of the second half FY 2019 indicating a decrease of $ 0.5 million equal to 0.02% slight decrease in total core budget on annual basis.
- It is worth mentioning that budget execution rate indicated 77 % in the second half 2018 compared to 89% of second half FY 2019 and this is as a result of timely processing of the budget and overall improved performance in first half 2019.
- In addition, total grants received during the second half of 2019 indicated amount $1699.071 million represented significant decrease of $60.80 million from $1759.91 million of second half of 2018 resulted 3.46% 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 second half of FY 2019 represented amount $3,341.16 million and it is comprised of $ 2,145.22 million operating expenditure and $1,195.95 million development expenditure indicating momentous increase of amount $100.61 million from $3,240.55 million of the second half 2018 showing 3.10% 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.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

Key Macroeconomic Indicators (in million USD)	**Second half 2019**	**First Half 2019**	**Second Half/2018**	**First half/2018**	**Second half/2017**	**First half/ 2017**	**2016**
A-Real sector							
Inflation	5.32	2.11	2.51	0.5	0.82	3.9	6.09%
Real GDP	NA	197,02.06 (2019)	NA	NA	189,39.29 (2018)	NA	186,44.57 (2017)
Nominal GDP	NA	17862.29 (2019)	NA	NA	17602.42(2018)	NA	18481.62 (2017)
Per Capita income		611.87	NA	NA	599.34	NA	627.76
B-External Sector							
1.Current Account	-1743.32	First Half 2019	-1946.31	-2354.1	-2000.63	-2613.95	-4614.57
Goods and services	-2813.66	-1,983.00	-3144.62	-3533.76	-3416.48	-3588.21	-7004.69
Primary income	129.69	-3,042.50	142.86	65.01	44.04	52.08	96.12
Secondary income	940.65	186.5	1055.45	1114.65	1371.81	922.18	2293.99
2. capital Account	896.25	873.1	1120.25	257.47	1087.05	627.8	1714.85
3.Fianancial Account	60.77	270	372.39	60.97	455.71	-30.75	424.96
Direct investment	7.49	-27.8	-66.59	-72.48	-30.7	-31.62	-62.33
Portfolio investment	-13.59	-6.1	59.31	-35.8	-35.57	6.47	-29.11
Other investment	41.13	-2.6	194.61	214.23	-69.36	37.97	-31.43
Net errors and omissions	907.85	-11	1198.45	2157.61	1369.28	1955.4	3324.68
Reserves assets	25.6	1,685.20	185.06	-45.08	591.08	-43.34	547.75
C- Monetary Sector							
Currency in circulation (USD)	3,307.69	2,866.96	3,044.40	3,165.50	3,290.17	3,206.60	3,345.47
Net international reserves	**7,846.07**	7679.55	7,704.90	7,491.80	7,345.36	6,834.37	6,777.87
Reserve assets	**8,502.15**	8337.53	8,362.40	8,227.60	8,159.01	7,406.44	7,581.98
Reserve liabilities	**656.08**	657.98	657.5	735.76	813.65	572.08	804.11
Commercial banks deposits in foreign	600.32	604.01	598.11	675.38	750.66	506.58	732.66
Nonresident deposits in foreign currency	0.14	0.5	0.17	0.14	0.14	0.14	0.14
Use of fund resources	55.62	53.46	59.22	60.24	62.85	65.36	71.31
D-Fiscal Sector							
Overall balance	-114.95	-2,685.84	181.52	214.25	-41.56	-2,007	79
Total revenue including Grants	3226.219	1,60,767.33	3226.73	2,286.50	3,213.28	1,36,553	5,347
Total Grants	1699.071	65,971.51	1759.91	1,117.43	1,793.93	62,269	3,042
Total Expenditure	3341.164	1,63,453.17	3045.21	2,072.26	3,254.84	1,38,559	5,268
Total Operating Expenditures	2145.216	1,13,267.28	1988.86	1,594.22	2,172.40	1,07,540	3,867
Total Development Expenditure	1195.948	50,185.88	1251.69	214.25	1,082.44	31,020	

MACROECONOMIC SURVEILLANCE INDICATORS

Core Indicators	Unit	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current Account Balance	**% of GDP**			-9%	-7%	-10%	-15%	-21%	-27%	-19%	-24%	-18%	-22%	-24.91	-20.83
Public External Debt to GDP	**%**				17.67%	14.11%	12.77%	11.52%	11.49%	10.70%	10.87%	10.37%	11.74%	12.03%	10.95%
Reserves to Import	**%**				101%	94%	85%	94%	70%	89%	81%	101%	103%	104%	
National Debt to GDP	**%**				17.67%	14.11%	16.89%	14.29%	14.02%	13.22%	13.03%	12.06%	12.91%	12.57%	10.95%
Domestic credit	**% of GDP**	1.8	2	5.9	4.7	4.6	2.4	1.9	2	0.6	0.4	1.1	4.4		
Fiscal Deficit	**% of GDP**			2%	0%	2%	0%	0%	2%	-1%	-1%	0%	-0.33	1%	0.80%
Inflation(12 month average)	**%**	7.09	9.99	34.55	-9.58	0.63	12.17	6.51	7.4	4.67	-1.55	5.03	4.98	0.65	2.31
Gross External Debt to GPD	**%**				22.94%	17.38%	15.78%	13.73%	13.88%	12.53%	12.77%	12.29%	14.36%	14.39%	13.02%

BANGLADESH

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Overview

Bangladesh's economy continues to sustain strong growth in recent years. Real GDP grew robustly by 8.15 percent in FY2018-19, outperforming the global economic growth 3.3 percent in 2018 and average economic growth 4.5 percent of developing countries (world Bank data). Economic activity remains strong in FY2019-2020 (up to December), supported by export earnings and remittance boost along with its improved macroeconomic fundamentals and structural reforms. Bangladesh's economy is projected to maintain its GDP growth at 8.2 percent for FY2019-20. CPI inflation in the first half of the FY2020 has so far remained stable. The movement of monetary indicators broadly followed the program path set for the first half of FY2020. As before, budget deficit was projected to be within 5 percent of GDP for the FY2020. The sector-wise brief analyses on Bangladesh economy during July-December 2019 (H1FY20) are given below:

Economic Growth

Although quarterly or half yearly data of GDP is not available, several proxy indicators signaled a strong growth impulse in first half of FY2020. Quantum index of industrial production, credit growth to private sector, remittances, improved balance of payment etc. indicate that economic activities were robust in H1FY20. During July-December 2019, exports and imports decreased by 5.84 and 2.73 percent respectively compared to July- December 2018. On the other hand, remittances during July-December 2019 increased by 25.46 percent from the previous first half of FY2019. Credit to the private sector recorded a growth of 9.83 percent in December 2019 as compared to the same month of the previous year which was sufficient to attain the projected growth of 8.2 percent in FY 2019-20. However, due to COVID-19, it is estimated that at the end of FY20 Bangladesh's economy will not be able to achieve its previously targeted 8.2 percent growth rate, rather the growth rate may plummet to as low as 5.0-5.2 percent.

Price Developments

The 12-month average inflation has been gradually edging up during July –December 2019, reaching 5.59 percent in December 2019 from 5.48 percent in June 2019, reflecting rising non-food prices. Food inflation decreased to 5.56 percent, non-food inflation increased to 5.64 percent in December 2019 compared to previous fiscal year. Point-to-point CPI inflation, on the other hand, increased to 5.75 percent in December 2019 from 5.52 percent in June 2019.

Headline inflation is likely to face upside risks in the near term arising from crop loss resulted from recent cyclone "Bulbul'. The high price of onion led to a change in the terms of trades within the agricultural sector, which might have an impact on the composition of crop cultivation in rural areas. Besides, from global front, persistent trade tensions pose an upside risk on the price of some imported commodities. However, declining global energy prices is expected to reduce some inflation risks in near future.

Money and Credit Developments

The key monetary aggregates remained broadly in line with the program path outlined for the first half of FY2020. A rising flow in government borrowings pushed broad money (M2) growth to 12.0 percent (y/y) in the first half of FY20, keeping above the target of 11.3 percent for the first half of FY20 and higher than 9.41 percent of the same month of the previous year. Reserve money (RM) growth was 1.92 percent in December 2019 which was 6.92 percent more than the same month of the previous year.

A surge in government borrowings pushed broad money (M2) growth to 12.0 percent in Q1FY20, keeping above the target of 11.3 percent for the first half of FY20, while private credit growth continued to moderate. The domestic credit growth recorded 14.1 percent and private sector credit growth was 9.83 percent in December 2019 compared to the same month of the previous year. Net domestic assets and net foreign assets increased by 14.56 percent and 3.56 percent respectively in December 2019. The sources of reserve money, net foreign assets of Bangladesh Bank also increased by Taka 11421.70 crore or 4.61 percent and net domestic assets of Bangladesh Bank increased by Taka 4832.30 crore or 37.08 percent at the end of December 2019 as compared to

December 2018. The moderating growth pace of broad money and domestic credit will not be the impediments to attain the projected 8.2 percent of real GDP growth.

External Sector Developments

Total merchandise commodity export during July-December 2019 decreased by 5.84 percent to USD 19.30 billion and remittances during July-December 2019 increased by 25.46 percent compared to July-December 2018. However, the negative import growth (-2.73) was ascribable mainly to a decline in imports of consumer & intermediate goods and capital goods. Current account balance recorded a smaller deficit of USD 1.35 billion during July-December 2019 as compared to a deficit of USD 3.39 billion of July-December 2018. The current account balance deficit improved mainly due to a higher inflow of workers' remittances. The financial account recorded USD 1794 million during July-December 2019 which is 39.6 percent lower than the same period of the previous year. Despite the increase in foreign direct investment (FDI), a decrease in medium- to long-term-loans (MLTs) and portfolio investment incurred a decrease in the financial account. Continuous deficits in current account exerted upward pressures on the foreign exchange rate (BDT in terms of USD) during July-December and consequently, the nominal exchange rate depreciated by 1.2 percent during this period. Domestic economic activities will remain buoyant due to strong remittance inflow despite the slowdown in export and import growth. Moreover, strong growth of remittance inflows is expected to moderate the current account deficit in the near term. However, sluggish GDP growth in major advanced and emerging market economies coupled with continued trade and geopolitical tensions and the global public health emergencies relating to the Corona virus are likely to create some downside risks in the external sector.

Fiscal Policy Activities and Outcomes for the FY2019-20 up to December 2019

For fiscal year 2019-20 (FY20), the target for revenue collection has been set at TK. 3,77,811 crore which is 13.1 percent of estimated GDP and 19.3 percent higher than the revised target of previous year. On the other hand, total expenditure for FY20 is budgeted as TK. 5,23,190 crore which is 18.1 percent of estimated GDP and 18.2 percent higher than the revised target of previous year. Budget allocation for Annual Development Program is TK. 2,02,721 crore. The deficit (excluding grant) for FY20 has been estimated to be 5.0 percent of annual GDP. In financing this deficit, 54.8

percent is estimated to come from domestic sources, whereas 45.2 percent to come from foreign sources.

During the July-December period of FY20, actual revenue collection amounted to TK 1,21,793 crore which is 32.2 percent of the annual target and 5.6 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. 1,47,530 crore which is 28.2 percent of the annual target and 16.5 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 25,736 crore.

Fiscal Outlook for the rest of the FY 2019-20 up to June 2020

The second half of FY20 (January-June 2020) is very likely to remain overshadowed by the Covid-19 pandemic. The pandemic has brought the global economy to a stalemate. Giving health concern of the people a priority, Bangladesh has taken a bunch of preventive and curative measures. Prolonged public holidays have been declared, economic activities got halted, transportation systems have been suspended, and partial lockdowns have been implemented throughout the country in various stages. All these initiatives have affected the economy to the core, and thus it is estimated that at the end of FY20 Bangladesh's economy will not be able to achieve its previously targeted 8.2 percent growth rate, rather the growth rate may plummet to as low as 5.2 percent.

The pandemic has manifold fiscal implications. As the economic activities have fallen-off, the revenue collection has also been on a decline. On the contrary, the Government has to incur additional expenditures to manage the pandemic crisis. It has already declared a fiscal support package of TK. 99,109 crore, which is 3.5 percent of the estimated GDP of FY20, to support the health sector, to run humanitarian relief works, and to recover the economy. The support package includes- special fund for the export oriented industries, working capital facilities for industry and service sector institutions that are affected by Covid-19, working capital for small and medium size industries, expansion of export development fund and pre-shipment credit refinance scheme, special allowances and compensation packages for doctors, nurses, health workers, and other officials engaged in the management of pandemic crisis, expansion of safety net program especially with one time cash support and continued food supports, expansion of food procurement, and expanded supports to the agriculture sector. The support packages will increase the government expenditure during January-December period of FY20 and as well as next three fiscal years.

Latest Development of Some Macroeconomic Indicators

The latest developments of some key macroeconomic indicators of Bangladesh economy are given below. Moreover, data on key macro-economic indicators of Bangladesh economy in July-December 2019 are also given at **Annex-1** and data on Macroeconomic Surveillance Indicators of Bangladesh for the same period is given at **Annex-2**.

- As per Bangladesh Bureau of Statistics (BBS), real GDP growth has recorded 8.15 % in FY 2018-19 which was 7.86 % in FY 2017-18.
- Overall inflation (base: 2005-06=100) is 5.60% on yearly average basis (5.48% on point-to-point basis) at the end of March 2020.
- Export during July-February of FY 2019-20 decreased by USD 1.32 billion or 4.79 percent to USD 26.24 billion compared to USD 27.56 billion during July-February, 2018-19.
- Import during July-January 2019-20 fell by USD 1.61 billion or 4.44 percent and stood at USD 34.58 billion against USD 36.19 billion of July-January 2018- 19.
- Remittances during July-February, 2019-20 increased by USD 2.09 billion or 20.06 percent and stood at 12.50 billion against 10.41 billion of July-February, 2018-19.
- The overall balance of country’ BOP incurred a surplus of USD 0.13 billion during July-January, 2019-20 as compared to the deficit of USD 0.98 billion during July-January, 2018-19
- The country's foreign exchange reserve stood at USD 32567.46 million as of 24 March 2020.
- The nominal exchange rate of Taka against US$ remained stable at Tk. 84.95 per USD as of24 March 2020.

Highlights of Major Policy Announcements

1. **Guidelines regarding cash incentive to wage earners' remittance**

   For any inward remittance from abroad, remittance collecting bank shall provide 2 (Two) percent cash incentive on the remitted amount converted into Taka by fulfilling proper regulation to the beneficiary or to be transferred to beneficiary's bank account. But the repatriation of the remittance must take place through legal channel like-foreign exchange houses or banks which have an agreement with Bangladesh Bank.

2. **Advance-Deposit Ratio (ADR)/Investment-Deposit Ratio**

   Conventional banks have been allowed to keep the Advance-Deposit Ratio (ADR)/Investment-Deposit Ratio (IDR) at 85 percent and Islami Shariah-based banks at 90 percent

3. **Temporary liquidity support for investment in capital market**

   Scheduled banks have been allowed to invest both in SOLO and consolidated basis in the capital market from their excess liquidity. The upper limit of investment shall be less than 25 percent of bank's capital on SOLO basis and 50 percent on a consolidated basis.

4. **Rate of interest on import financing of onion.**

   All the scheduled banks are instructed to fix the interest rate for financing onion imports at 9 percent to contain the price spiral of onion. The banks are also advised to set a lower margin for opening letters of credit (LCs) for onion import.

5. **Special export subsidy against export of Readymade garments**

   Producers-exporters producing readymade garments at their own workshop for export shall enjoy 1 (one) percent export subsidy on net FOB value. In this regard, the rate of local value addition must be a minimum of 30 percent for these products. The corresponding privilege is also admissible for the Type-C institutions under local ownership located in special zones (EPZ, EZ) for export to the EU, the USA and Canada.

6. **Export subsidy in favor of Economic Zone/High-tech Park**

   Subject to 30 percent local value addition against the export of related products produced in Type-C industries (under indigenous ownership) in Economic Zone/High-tech Park, 4 percent new products/new market expansion assistance, irrespective of country/region, shall be applied in the current FY 2019-20 against their export

7. **Interest rate on borrowing from Export Development Fund**

Interest rates on EDF loans to ADs will be charged by Bangladesh Bank at six-month USD LIBOR + 0.50%, while ADs will charge interest to manufacturer-exporters at six-month USD LIBOR + 1.50%;

8. Regarding Cash Incentive on Wage Earners Remittance

Two (2) percent cash incentive shall be admissible against the inflows of remittance of maximum US dollars $1,500/ equivalent to other foreign currencies/ Tk 150,000 (one lac fifty thousand) without any documents requirements.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

	Unit	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20(July-December)
I. Real Sector										
Per Capita GDP	USD	766	1088	1115	1236	1385	1544	1675	1827	N/A
Real GDP Growth	%	6.3	6.2	6.1	6.6	7.1	7.2	7.86	8.15	N/A
GDP (Market Price)	Billion USD	115.7	129.9	173.8	195.2	221	248.8	274.1	301.8	N/A
Agriculture	% of GDP	17.4	16.8	16.1	15.5	14.8	14.2	13.8	13.3	N/A
Industry	% of GDP	28.1	29	27.6	28.2	28.8	29.3	30.2	31.3	N/A
Services	% of GDP	54.5	54.2	56.3	56.4	56.5	56.5	56	55.4	N/A
Investment	% of GDP	28.2	28.4	28.6	28.9	29.7	30.5	31.2	31.6	N/A
National Savings	% of GDP	29.9	30.5	29.2	29	30.8	29.6	27.4	28.4	N/A
Headline Inflation (12 mthavg)*	%	10.6	6.8*	7.4*	6.4	5.9	5.5	5.8	5.47	5.59
- Food Inflation	%	10.4	5.2*	8.6*	6.7	4.9	4.5	7.1	6.21	5.56
- Non-Food Inflation	%	11.1	9.2*	5.5*	6	7.5	7.1	3.7	4.51	5.56
- Core inflation	%	NA	NA	NA	6.74	7.99	5.89	4.14	6.47	6.75
II. Fiscal Sector										
Revenue Collection (CSR)	Billion USD	15	17.5	18.1	18.8^R	22.1	27.6	31.3	40.4	N/A
Fiscal Deficit (excluding grants)	% of GDP	5	4.8	4.1	3.9^R	3.8	5	5	4.9	N/A
Fiscal Deficit (including grants)	% of GDP	4.6	4.3	3.5	3.7^R	3.7	4.8	4.8	4.7	N/A
Public Debt	% of GDP	31.8	30	29.1	27.3	27.7	27.1	28.01	N/A	N/A
- of which foreign debt	% of GDP	16.6	14.9	14.1	12.1	11.9	11.4	12.1	N/A	N/A
- domestic debt	% of GDP	15.2	15.1	15	15.2	15.8	15.7	15.91	N/A	N/A
- debt servicing	% of total revenue	6.5	6.3	7.2	5.2	4.75	4.14	4.45	N/A	N/A
III. External Sector										
Exports (f.o.b)	Billion USD	24	26.6	30.2	30.7	33.4	34	36.2	40.5	8.2
Imports (f.o.b.)	Billion USD	33.3	33.6	36.6	37.7	39.9	43.5	54.5	56.1	27.07
Trade Deficit	Billion USD	9.3	7	6.8	7	6.5	9.5	18.3	15.6	18.87
Remittances	Billion USD	12.8	14.5	14.2	15.3	14.9	12.8	15	16.2	9.4
Current Account Balance	Billion USD	-0.4	2.4	1.4	3.5^R	4.2	-1.5	-9.8	-5.3	-1.54
Current Account Balance	% of GDP	0.3	1.9	0.9	0.8	1.9	-0.6	-3.6	-1.7	N/A
Total Foreign Investment (for.+port.)	Million USD	1431	2094	2411	1551	1424	2164	1948	2712	1396
- Foreign Direct Investment	Million USD	1191	1726	1474	1172	1285	1706	1583	2540	1359
- Portfolio Investment	Million USD	240	368	937	379	139	458	365	172	37
External Debt and Forex Liabilities	Billion USD	22.8	22.3	23.6	23.5	26.3	28.5	33.11	37.84	N/A
External Debt and Liabilities	As % of Forex earnings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Outstanding Debt	% GDP	19.7	14.9	14.1	12.1	11.9	11.4	12.1	12.5	N/A
External Debt Servicing Ratio	% of outstanding external debt	4.2	4.2	4.2	4.7	3.9	4	4.2	4.2	N/A
Exchange Rate	Per USD	79.1	79.9	77.8	77.7	78.3	79.1	83.7	84.5	84.9
Foreign Exchange Reserve	Billion USD	10.2	15.3	21.5	25	30.2	33.5	32.9	32.7	32.4
IV. Monetary & Capital Market										
Growth Rate of M_1	y-o-y	6.4	10	14.6	14.3	32.1	13	6.2	7.22	8.02
Growth Rate of M_2	y-o-y	17.4	16.7	16.1	12.4	16.3	10.9	9.2	9.9	12.04
Growth Rate of M_3	y-o-y	15.5	15.3	16.5	14.8	18.3	14.6	11.4	11.7	10.64
Weighted Avg. Lending Rate	%	13.8	13.7	13.1	11.7	10.4	9.9	10	9.6	9.7
Credit growth to Private Sector	%	19.7	10.9	12.2	12.9	16.6	15.6	16.9	11.3	4.25
Stock Market (Price Index)		4572.9	4385.8	4480.5	4583.1	4507.6	5656.1	5405.5	5421.6	4452.93
Market Capitalization of DSE#	Billion Taka	2491.6	2530.2	2386.3	2701.9	2614.5	3239.4	3263.1	3436.2	3437
Market Capitalization of DSE#	% of GDP	27.2	24.4	17.7	17.8	15.1	16.6	14.6	13.5	N/A
Market Capitalization of DSE#	Billion USD	31.5	31.7	30.7	34.7	33.4	40.9	39.7	40.7	40.5
V. Banking Sector Indicators										
Capital adequacy ratio	%	10.5	9.1	10.7	10.3	10.8	10.9	10.4	11.7	11.6
Non performing loans	%	10	11.9	10.8	9.7	10.1	10.1	10	11.7	9.3
Profitability (R.O.E)	%	8.2	8.2	8.4	6.6	9.4	4.7	3.9	6.8	N/A
Profitability (R.O.A)	%	0.6	0.6	0.6	0.5	0.68	0.7	0.3	0.4	N/A

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- = Half yearly data are not available, NA= Not available, R= Revised N/A= Not available

MACROECONOMIC SURVEILLANCE INDICATORS

Sl no.	Indicators	Unit	FY2020 (up to December'19)	FY2019	FY2018	FY2017	FY2016	FY2015
1	Current account balance as a percentage of GDP	%	-3.96	-1.7	-3.6	-0.5	1.9	1.8
2	(a)Reserves as a percentage of import	%	120.8	59.4	61.6	76.9	75.2	61.7
	(b)Total Reserves in Months of Import	months	6.5	6.3	6.5	8.2	8.2	7.1
3	National Debt as a percentage of GDP (a+b)*	%	32.1	29.3	31.9	31	31.3	32.3
	(a) Domestic Debt as a percentage of GDP	%	20.4	16.8	19.7	19.6	19.4	18.5
	(b) External Debt as a percentage of GDP	%	11.7	12.5	12.2	11.3	11.9	13.7
4	Domestic Credit as a percentage of GDP	%	42.9	45.2	45.4	45.1	46.2	46.3
5	Fiscal Deficit as a percentage of GDP	%	1.1	4.5	5	3.4	3.8	3.9
6	Inflation Rate**	%	5.59	5.47	5.78	5.44	5.9	6.4

Source: Bangladesh Bank, *Ministry of finance, Government of Bangladesh **Bangladesh Bureau of Statistics

- e=estimates
- Since quarterly GDP is not available, the projected yearly GDP for FY20 is used to calculate the percentage share of variables.
- Reserves as a percentage of import is calculated with 6-months import data

Note:

a. Fiscal year in Bangladesh spans from July to June.
b. Fiscal deficit shows data excluding grants

BHUTAN

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

1. Bhutan's real Gross Domestic Product (GDP) grew by 3.03 percent in 2018, lower from 4.6 percent in the previous year. Slowdown in real GDP was mainly due to negative growth of electricity (-14.9%), construction (-7.9 %) and General Government (-1.5%). Further, sluggish performance of manufacturing, private and recreational sector have also contributed to slowdown in economic growth in 2018.On the demand front, the government final consumption expenditure and private consumption witnessed a growth of 3.05 percent and 18.9 percent respectively.

   Inflation (measured by the year-to-year change of the consumer price index) recorded at 3.1 percent during the December of 2019 compared to 2.6 percent of same month of previous year. Increase in the prices of food contributed to the rise in inflation during the period. On the other hand, the year-to-year change in imported inflation during December 2019 was recorded at 2 percent while domestic inflation rate was recorded at 2.3 percent.

2. The broad money has recorded growth of 13.1 percent as of December 2019 compared to 6.5 percent in December 2018. The higher growth in broad money was contributed by picked-up in growth of net foreign assets from negative 10.1 percent in December 2018 to 17.2 percent in December 2020. On other hand, domestic credit decease to 6 percent in December 2019 from 16.9 percent in 2018. The credit to private sector, which constitutes around 86 percent maintained growth at 17.9 percent in December 2019, which helped to sustained domestic credit growth of 16.9 percent in December 2019. The growth in narrow money stood at 5.2 percent in December 2019 which is contributed largely by growth in other deposits (fixed deposit and foreign currency deposit). Other deposits which constitutes 84.5 percent of M1 grew significantly at 24.1 percent in December 2019 as compared to 5.1 percent in December 2018. The Currency in circulation that reflects preference for cash grew by 19.4 percent in December 2019.

3. As of December 2019, the growth of combined assets of the financial sector grew by 14.1 percent, from Nu.164.2 billion in December 2018 to Nu.187.3 billion in December 2019.

Of the total assets, 88.7 percent of the total share belonged to the commercial banks while 11.3 percent were held by non-bank financial institutions (NBFIs). During the same period, banking sector assets grew by 23.4 percent to Nu.166.2 billion while that of the NBFIs grew by negative 1 percent to Nu. 21.1 billion. The total loans of the financial sector increased from Nu. 120.2 billion in December 2018 to Nu.139.1 billion in December 2019, recording growth of 15.7 per cent. Of the total loans, banking sector provided Nu.116.5 billion which constitute 83.8 percent. While the share of non-banks loan to total loans was 16.2 percent, amounting to Nu.22.6 billion. In terms of sector wise investment, housing sector has the highest exposure with Nu.37.2 billion, followed by service and tourism with Nu.37.1 billion, manufacturing and industry with Nu.16.6 billion, trade and commerce with Nu.16.5 billion, and personal loans with Nu.14.6 billion as December 2019.

4. On the external front both the trade and current account deficits deteriorate in FY 2018/19. The current account deficit increased from 18.6 percent of GDP in FY 2017/18 to 21.4percent of GDP in FY 2018/19, mainly on account of the trade deficit that widen to Nu. 29.9 billion from Nu. 27.9 billion in the previous year, driven by higher imports from Indian and COTI. The export of electricity exports to India, and minerals and base metals to Countries other than India also decreased during the period.
5. At the end of the fiscal year, gross international reserves increased to USD 1,213.4 million from USD 1,184.2 million as of end-December 2019. Reserves were sufficient to finance 15.3 months of merchandise imports while covering 44.17 percent of public external debt.
6. Bhutan’s total outstanding external debt increased to an equivalent of USD 2.7 billion as of December 2018. Of this, an equivalent of USD 763.2 million was outstanding on convertible currency loans and the remaining ₹ 141.3 billion were outstanding Indian Rupee loans.
7. On the fiscal front, total revenue including grants stood at Nu.42.9 billion in 2018/19 from Nu.52.1 billion in preceding year. The decrease by 17.6 percent in 2018/19, compared to the 28.1percent growth in 2017/18. Of the total revenue and grants, domestic revenue collection totaled Nu.34.3 billion (negative growth of 6.9 percent from the previous year) which was more than sufficient to finance current expenditure (Nu. 29.1 billion). On the other hand, total expenditure also decreased significantly by 17.1 percent (from Nu.56.5 billion in FY 2017/18 to Nu.46.7 billion in FY 2018/19) during the year. The decrease was on account of curtail in capital expenditures from 28.8 billion in 2017/18 to 17.6 billion in 2018/19.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

	Unit	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
I. Real Sector										
Per Capita GDP(a)	**US$**	2277.76	2570.94	2532.77	2463.8	2610.45	2719.11	2879.07	3,438.16	3,331.13
Real GDP Growth(a)	**%**	11.73	7.89	5.07	2.14	5.75	6.49	7.99	4.63	3.03
GDP at Market Prices	**Billion US$**	1.75	1.84	1.82	1.8	1.96	3.1	2.31	2.53	2.45
Agriculture	**% of GDP**	16.8	16.33	15.96	16.1	16.77	16.67	16.57	17.37	15.89
Industry	**% of GDP**	42.78	40.98	41.62	42.35	40.55	41.34	41.46	40.57	38.3
Services	**% of GDP**	40.42	42.69	42.42	41.55	42.68	41.99	42.04	37.15	45.81
Investment	**% of GDP**	61.7	67.65	67.91	45.96	51.71	54	55.03	69.2	47.46
National Savings	**% of GDP**	35.16	42.11	44.92	24.62	29.29	22.53	31.7	27.65	25.07
Headline Inflation	**%**	8.33	13.53	5.51	8.55	5.15	3.56	4.93	2.55	2.73
- Food Inflation	**%**	8.96	18.72	2.81	12.33	2.92	4.36	6.53	5.1	3.1
- Non-Food Inflation	**%**	8.17	10.67	7.14	6.11	6.66	3.04	3.89	0.89	2.65
- Core inflation	**%**	-	-	-	-	-	-	-	-	-
II. Fiscal Sector										
Revenue Collection (CSR)	**Billion US$**	0.39	0.4	0.39	0.27	0.39	0.42	0.46	0.54	0.57
Fiscal Balance (excluding grants)	**% of GDP**	-16.78	-20.16	-14.17	-9.43	-11.68	-15.14	-12.33	-9.44	-5.75
Fiscal Balance (including grants)	**% of GDP**	-2.3	-1.23	-4.36	4.08	-2.35	-3	-3.59	-0.33	-2.69
Public Debt	**% of GDP**	80.22	89.69	104.94	100.64	101.34	122.76	104	113.5	108.7
- of which foreign currency	**% of GDP**	79.53	88.4	98.43	100.31	98.91	118.6	100.3	103.16	104.66
- domestic debt	**% of GDP**	0.69	1.29	6.51	0.33	2.44	4.17	6.3	4.88	4.51
- debt servicing	**% of total revenue**	26.08	45.2	88.24	19.94	18.25	24.51	27.63	23.4	34.86
III. External Sector										
Exports (f.o.b)	**Billion US$**	0.67	0.62	0.59	0.55	0.56	0.49	0.57	0.57	0.54
Imports (f.o.b.)	**Billion US$**	1.12	1.01	0.95	0.93	1.1	0.95	1.06	0.98	0.71
Trade Deficit	**Billion US$**	0.46	0.4	-0.35	-0.38	-0.42	-0.57	-0.48	-0.41	-0.18
Remittances	**Billion US$**	0	0.01	0.01	0	0	0.01	0.04	0.04	0.01
Current Account Balance	**Billion US$**	-0.52	-0.39	-0.42	-0.47	-0.56	-0.66	-0.56	-0.45	-0.51
Current Account Balance	**% of GDP**	32.25	22.99	26.43	28.31	29.83	33.13	24.11	-18.62	-21.36
Total Foreign Investment	**Million US$**	31.08	24.06	20.37	29.14	10.36	8.04	9.32	6.52	24.59
- Foreign Direct Investment	**Million US$**	31.08	24.06	20.37	29.14	10.36	8.04	9.32	6.52	24.59
- 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	2.73
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	4.17
External Debt Servicing Ratio (pl see footnote)	*******	30.96	55.8	167.71	21.02	15.98	10.56	24.8	23.4	34.86
Exchange Rate	**Per US$**	45.33	50.27	62	63.33	63.76	66.32	64.43	68.6	70.58
Foreign Exchange Reserves	**Billion US$**	0.8	0.67	0.93	1.2	0.93	1.12	1.1	1.11	1.06
IV. Monetary & Capital Market										
Growth Rate of M_1	**y-o-y**	34.3	5.6	2.1	5.05	4.97	7.81	31.51	9.2	4.39
Growth Rate of M_2	**y-o-y**	21.21	-1.02	3.53	6.62	7.82	15.83	35.14	10.4	5.6
Growth Rate of M_3	**y-o-y**	-	-	-	-	-	-	-	-	-
Weighted Avg Lending Rate	**%**	-	-	-	-	-	-	-	-	-
Credit growth to Private Sector	**%**	29.4	30.07	7.07	6.44	14	14.7	15.39	15.7	20.53
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	23.99	22.74	25.58	35.23
Market Capitalization (as leading stock mkt) (a)	**% of GDP**	13.81	16.80	18.19	17.7	21.08	20.07	15.3	16.03	24.15
Market Capitalization (as leading stock mkt)(a)	**Billion US$**	0.22	0.29	0.32	0.35	0.35	0.36	0.35	0.39	0.5
V. Banking Sector Indicators										
Capital adequacy ratio	**%**	15.90	17.89	19.61	18.51	18.29	18.29	17.24	15.12	12.62
Non performing loans	**%**	5.20	3.92	6.57	6.33	10.21	10.21	12.46	10.43	16.54
Profitability (R.O.E.)	**%**	15.72	16.10	13	13.06	-0.05	-0.05	-4.4	2.29	-7.24
Profitability (R.O.A.)	**%**	1.58	2.24	2.4	2.27	-0.27	-0.27	-0.65	0.3	-0.91

- ******* 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.
- on a calendar year basis, example, the entry under 2015/16 is for 2015
- Credit to private sector includes credit given by non-bank financial institutions as well.
- Foreign Exchange Reserve comprises of Indian Rupee and USD
- (-) data not available
- (P) Provisional estimates

MACROECONOMIC SURVEILLANCE INDICATORS

SL	Indicators	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1	Current Account Balance as a percentage of GDP*	-25.39	-26.35	-27.51	-30.4	-21.98	-18.06	-21.36
2	External Debt as s percentage of GDP	94.59	93.96	93.98	111.53	101.12	104.51	101.5
3	Reserve as percentage of Import	92.52	95.13	102.52	90.3	95.33	86.4	95.82
4	National Debt as a percentage of GDP	99.9	96.36	95.97	114.38	106.58	106.69	104.4
5	Domestic Credit as a percentage of GDP	55.99	56.19	56.84	61.69	59.51	62.13	67.76
6	Fiscal Deficit as percentage of GDP	4.19	-3.82	-1.51	1.11	3.35	-0.31	-2.69
7	Inflation (12 month average)	8.87	9.31	6.67	3.28	4.31	4.02	2.82

CENTRAL BANK INITIATIVE AND ITS EXPECTED IMPACT

Initiative	Description of the Initiative	Expected Impacts
The 2nd BEFIT 2019 (Bhutan Economic Forum for Innovative Transformation)	Inspired by his Majesty the King's vision on successful economic transformation based on foundations of just, equal and harmonious society for successful democratic transition, the BEFIT was introduced to emphasis on the enhancing and transforming economy by sharing and contributing ideas, experiences and innovative solutions for emerging economic challenges. The 2nd BEFIT themed "Catalyzing CSIs to Drive Bhutan's Economic Diversification" was held from 16-18 July 2019.	Empowered the aspiring entrepreneurs to showcase their innovations, ideas to potential domestic and foreign investors and explore opportunities Through this platform, the *National E-commerce and Crowd funding Portals* was launched, featured business-pitching events and panel discussions on thematic topics and announced key economic reforms.

2.Launching of e-PEMS (Electronic Public Expenditure Management System) and GIFT (Global Interchange for Financial Transaction	E-PEMS is an online accounting and payment system of Royal Government of Bhutan and it was developed by Ministry of Finance in collaboration with Royal Monetary Authority and other corporations. While GIFT is payment system launched by RMA and it is payment platform developed to complement and support the settlement of interbank transactions for e-PEMS and general public. The Honorable Finance Minister, LyonpoNamgayTshering launched the e-PEMS and GIFT payment systems on July 22, 2019 in Thimphu	Enhancing the Public Financial Management and to promote cashless and digital payments in the country. Expected reduction of administrative burden and improve public service delivery through enhanced Public Financial Management system Improve timely consolidation and reporting for informed decision making
3. Launched the RuPay card	RuPay is an initiative of the Indian government to promote financial inclusion through digital technology in India. His Excellency Shri Narendra Modi, Prime Minister of India, and His Excellency Dr. LotayTshering, Prime Minister of Bhutan, jointly launched the RuPay card scheme in Thimphu on August 17, 2019. RuPay card scheme is made possible in Bhutan through the connection of the Bhutan Financial Switch with India's Financial Switch.	This will permit cross-border interoperability of RuPay cards in ATMs and point of sale terminals in Bhutan and India Reduction of burden of carrying cash/ travelling cashless
4. MoU signed with FIU-Malaysia and AMC-Philippines	The RMA signed the MoU on Anti-Money Laundering Council with FIU-Philippines and FIU-Malaysia between 18-23 August 2019 during the APG Annual Meeting 2019 held in Canberra, Australia	The main aim was to facilitate cooperation in the exchange of financial intelligence relating to money laundering, associated predicate offences and terrorist financing

India

RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Real sector

The second advance estimates of national income released by the Government in late February 2020 indicate that real GDP growth declined to 5.0 percent for the full year 2019-20 (April-March) from 6.1 percent in 2018-19. All major components of expenditure decelerated during the year, particularly private consumption which accounts for nearly 60 per cent of GDP. In fact, gross fixed capital formation and exports contracted, the impact of which was partially offset by a decline in imports. From the supply side, real gross value added (GVA) decelerated from 6.0 per cent to 4.9 per cent over the same period; the slackening was particularly evident in the manufacturing, electricity, and construction sectors, though agriculture, mining and the financial and real estate sectors showed improvement. The sequential decline in year-on-year (y-o-y) growth rates of real GDP and real GVA, extended to the third quarter (October-December) of 2019-20. Implicit y-o-y growth rates for Q4 of 2019-20 (i.e. January-March 2020), however, show a slight uptick, particularly from the supply side.

A number of measures were taken by the Government in the recent past to stimulate economic growth, such as the cut in corporate tax rate, a package to address the distress in the auto sector and upfront infusion of ₹ 700 billion to public sector banks. In end-December 2019, the Government launched the National Infrastructure Pipeline comprising a large number of projects relating to housing, transport, education, energy, etc. amounting to ₹103 trillion, that will be implemented by the central and state governments and the private sector over the next five years. Carrying forward this process, the Union Budget for 2020-21 that was presented in early February 2020, provided about ₹220 billion towards equity support to select infrastructure finance companies that are, in turn, expected to leverage the support to create a financing pipeline of a multiple amount. The Budget also proposed to (i) increase capital expenditure across a number of sectors, (ii) remove tax on dividend paid by companies to shareholders (with the dividend to be henceforth taxed only in the hands of the recipients at their applicable rates), (iii) extend the concessional corporate tax rate to new domestic manufacturing companies engaged in the generation of electricity, (iv) provide specific incentives for affordable housing, real estate transactions, start-ups and foreign investments, (v) introduce an optional simplified personal income tax scheme and a simplified GST return.

The **Reserve Bank of India,** on its part**,** reduced the policy repo rate by 135 basis points over the period February to October 2019, keeping in view the inflation outlook. The policy repo rate was kept unchanged in the December 2019 and the February 2020 statements, even as it was decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring inflation remains within the target.

While monetary transmission to various money and corporate debt market segments has been sizable, transmission to the credit market is gradually improving. The 1-year median marginal cost of funds-based lending rate (MCLR) declined by 55 bps during February 2019 and January 2020. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 69 bps and the WALR on outstanding rupee loans by 13 bps during February-December 2019.

Since June 2019, the Reserve Bank has ensured that comfortable liquidity is available in the system in order to facilitate the transmission of monetary policy actions and flow of credit to the economy. These efforts are being carried forward with a view to assuring banks about the availability of durable liquidity at reasonable cost relative to prevailing market conditions. This should encourage banks to undertake maturity transformation smoothly and seamlessly so as to augment credit flows to productive sectors. Accordingly, it has been decided that from mid-February, 2020, the Reserve Bank shall conduct longer term repos of one-year and three-year tenors of appropriate sizes for up to a total amount of ₹ 1 trillion at the policy repo rate.

The Reserve Bank also conducted four auctions involving the simultaneous purchase of long-term and sale of short-term government securities under open market operations (OMOs) for a notified amount of ₹ 100 billion each during December 2019 and January 2020. (Reflecting these operations, the 10-year G-sec yield softened cumulatively by 15 bps between December 19, 2019 and January 31, 2020. During the intervening period, however, the yields fell by as much as 25 bps).

Alongside sustained efforts to improve monetary transmission, the Reserve Bank is actively engaged in revitalizing the flow of bank credit to productive sectors having multiplier effects to support impulses of growth. As a part of this, it was decided in early February 2020 to provide exemption to scheduled commercial banks for maintenance of cash reserve ratio, equivalent to the incremental credit (from end-January to end-July, 2020) disbursed by them as retail loans for automobiles, residential housing and loans to micro, small and medium enterprises (MSMEs).

Subsequent to the introduction of an external benchmark system, monetary transmission has improved to the sectors where new floating rate loans have been linked to the external benchmark. With a view to further strengthening monetary transmission, it has been decided to link pricing of loans by scheduled commercial banks for the medium enterprises also to an external benchmark effective April 1, 2020.

According to the monetary policy statement issued by the Reserve Bank on February 6, 2020, the growth outlook for 2020 will be influenced by several factors. First, private consumption, particularly in rural areas, is expected to recover on the back of improved winter crop prospects. The recent rise in food prices has shifted the terms of trade in favour of agriculture, which will support rural incomes. Second, the easing of global trade uncertainties should encourage exports and spur investment activity. The breakout of the coronavirus may, however, impact tourist arrivals and global trade. Third, monetary transmission in terms of a reduction in lending rates and financial flows to the commercial sector has progressed vis-à-vis the last policy, and this could spur both consumption and investment demand. Fourth, the rationalisation of personal income tax rates in the Union Budget 2020-21 should support domestic demand along with measures to boost rural and infrastructure spending. In this backdrop, the Reserve Bank projects GDP growth for 2020-21 at 6.0 per cent.

Inflation

Retail inflation has surged above the upper tolerance band (4 plus/minus 2) target in December 2019 - January 2020, primarily on the back of the unusual spike in food prices. Inflation surged from 5.5 per cent in November to 7.4 per cent in December 2019 and further to 7.6 per cent in January 2020, the highest reading since July 2014. While food group inflation rose to double digits, the fuel group moved out of deflation. CPI food inflation increased from 6.9 per cent in October to 12.2 per cent in December, primarily caused by a spike in onion prices due to unseasonal rains in October-November. Excluding onions, food inflation would have been lower by 4.7 percentage points and headline inflation by 2.1 percentage points in December 2019. In addition, inflation in several other food sub-groups such as milk, pulses, cereals, edible oils, eggs, meat and fish also firmed up. CPI inflation excluding food and fuel rose from a low of 3.4 per cent in October to 3.8 per cent by December 2019, driven by an increase in inflation in mobile phone charges, petrol, diesel, transportation fares and clothing. Housing inflation moderated further in December 2019 reflecting subdued demand.

Going forward, the inflation outlook is likely to be influenced by several factors. First, food inflation is likely to soften from the high levels of December and the decline is expected to become more pronounced during Q4 of 2019-20 as onion prices fall rapidly in response to arrivals of late summer and winter harvests. Higher vegetables production, despite the early loss due to unseasonal rain, is also likely to have a salutary impact on food inflation. On the other hand, the recent pick-up in prices of non-vegetable food items, specifically in milk due to a rise in input costs, and in pulses due to a shortfall in the summer crop production, are all likely to sustain. These factors could impart some upward bias to overall food prices. Second, crude prices are likely to remain volatile due to unabating geo-political tensions in the Middle East on the one hand, and the uncertain global economic outlook on the other. Third, there has been an increase in input costs for services, in recent months. However, subdued demand conditions, muted pricing power of corporates and the correction in energy prices since the last week of January may limit the pass-through to selling prices. Fourth, domestic financial markets remain volatile reflecting both global and domestic factors, which may have an influence on the inflation outlook. Fifth, base effects would turn favourable during Q3 of 2020-21. Sixth, the increase in customs duties on items of retail consumption in the union budget may result in only a marginal one-time uptick in inflation. As such, the path of inflation is elevated and on a rising trajectory through Q4 of 2019-20, but the outlook for inflation is highly uncertain at this juncture.

In this backdrop, the Reserve Bank has kept the policy repo rate unchanged since October 2019.

Fiscal Sector

The fiscal deficit of the Central Government for 2019-20 is placed at 3.8 per cent of GDP in the revised estimates as against 3.3 per cent of GDP in the budget estimates. The fiscal deficit is budgeted to decline to 3.5 per cent of GDP in 2020-21. According to the Government, the deviation in 2019-20 from the fiscal deficit target was necessitated on account of structural reforms such as reductions in corporation tax. The fiscal expansion is within the provisions of the Fiscal Responsibility and Budget Management Act, 2003. A similar variation from the 2020-21 target of 3 per cent of GDP is anticipated on account of the spill over impact of the reforms. It is expected that government will return to the path of fiscal consolidation in the medium term (3.3 per cent in 2021-22 and 3.1 per cent in 2022-23).

External sector

The Current account deficit (CAD) narrowed to 0.9 per cent of GDP in Q2 2019-20 (as compared to 2.0 per cent in the preceding quarter and 2.9 per cent of GDP during Q2 of 2018-19) primarily on account of lower trade deficit. Export growth continued to contract in November-December 2019, reflecting the slowdown in global trade. Import growth slumped in November-December 2019, with contraction in both oil and non-oil non-gold imports. While the latter reflected the underlying weakness in domestic demand and was spread across categories such as transport equipment, coal, iron and steel and chemicals, outgoes on account of oil imports were lower due to a cut back in oil import volume. On the financing side, net foreign direct investment rose to US$ 24.4 billion in April-November 2019 from US$ 21.2 billion a year ago. Net foreign portfolio investment was of the order of US$ 8.6 billion in 2019-20 (up to February 4, 2020) as against net outflows of US$ 14.2 billion in the same period last year. India's foreign exchange reserves were at US$ 476.1 billion on February 21, 2020, up by over US$63 billion over end-March 2019.

Financial sector

According to the latest half-yearly Financial Stability Report released by the Reserve Bank of India towards the end of December 2019, India's financial system remains stable notwithstanding weakening domestic growth; the resilience of the banking sector has improved following recapitalisation of Public Sector Banks (PSBs) by the Government. While the outlook for capital inflows remains positive, India's exports could face headwinds in the event of sustained global slowdown, but current account deficit is likely to be under control reflecting muted energy price outlook. In September 2019, the Scheduled commercial banks' (SCBs) credit growth remained subdued at 8.7 percent year-on-year (y-o-y), despite double digit credit growth of 16.5 per cent among private sector banks. The SCBs' gross non-performing assets (GNPA) ratio remained unchanged at 9.3 percent between March and September 2019. Provision Coverage Ratio (PCR) of all SCBs rose to 61.5 per cent in September 2019 from 60.5 per cent in March 2019 implying increased resilience of the banking sector. Macro-stress tests for credit risk show that under the baseline scenario, SCBs' GNPA ratio may increase from 9.3 per cent in September 2019 to 9.9 per cent by September 2020 primarily due to change in macroeconomic scenario, marginal increase in slippages and the denominator effect of declining credit growth.

In the regulatory regime, Reserve Bank Reserve Bank has initiated policy measures; to introduce a liquidity management regime for NBFCs; to improve the banks' governance culture; for resolution of stressed assets and for the development of payment infrastructure. Also, the RBI has issued directions for permitting Rupee derivatives (with settlement in foreign currency) to be traded in International Financial Services Centres (IFSCs).

Highlights of Major Monetary Measures taken by the Reserve Bank

December 05, 2019	Fifth Bi-monthly Monetary Policy Statement, 2019-20 decided to • keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.15 per cent. • Consequently, the reverse repo rate under the LAF remained unchanged at 4.90 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 per cent. • The MPC also decided to continue with the accommodative stance as long as it was necessary to revive growth while ensuring that inflation remains within the target. 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.
October 04, 2019	Fourth 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 5.15 per cent from 5.40 per cent with immediate effect. • Consequently, the reverse repo rate under the LAF stands adjusted to 4.90 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 5.40 per cent. • The MPC also decided to continue with the accommodative stance as long as it was necessary to revive growth while ensuring that inflation remains within the target. 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.
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.

Training Programs/Staff Exchange programs Organized by the RBI

The Reserve Bank of India arranged an exposure visit for four officials from Nepal Rastra Bank (NRB) under the Joint Technical Coordination Committee. The visit was held on September 04-05, 2019 and sessions were conducted by operational departments of RBI like FED, DCM, FIDD amongst others. RBI also arranged for an exposure visit to RMD and Inspection Department for a team of five officials from NRB from September 18-20, 2019. This visit helped them understand the risk management framework and the risk based internal audit practices being adopted by the RBI. Following the positive response to this session, another session on risk based internal audit for three NRB officials was arranged on December 26-27, 2019.

A team of 19 officials from Da Afghanistan Bank visited for an exposure visit on November 04-06, 2019. Sessions were held by FSU and DPSS on stress testing and payment systems. A Technical Assistance session on Macroeconomic Data and Warehouse system was arranged by Inspection Department for a team of 9 officials from the Royal Monetary Authority of Bhutan during December 09-12, 2019.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

	Unit	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
I. Real Sector									
Per Capita GDP (Real) $	**US$**	1371	1295	1359	1354	1411	1553	1507	1544
Real GDP Growth $	**%**	5.5	6.4	7.4	8	8.3	7	6.1	5
GDP (MP at Current Prices) $	**Billion US$**	1828	1857	2039	2104	2295	2653	2713	2878
Agriculture Growth $	**%**	1.5	5.6	-0.2	0.6	6.3	5	2.4	3.7
Industry Growth $	**%**	4.5	4.2	8.1	11.9	8.4	6.8	4.5	1.5
Services Growth $	**%**	7	6.9	9	8.6	8.1	7.8	7.7	
Investment $	**% of GDP(MP)**	38.7	33.8	33.5	32.1	30.9	32.3		
Domestic Savings $$	% of GNDI	33.1	31.4	31.6	30.5	30.9	32	29.7	
Headline Inflation (WPI) ****	%	7.4	5.2	1.3	-3.7	1.7	2.9	4.3	1.7
- Food Inflation	%	9.3	9.6	4.3	1.2	5.9	1.9	0.6	4.9
- Non-Food Inflation	%	6.6	3.7	0.2	-5.4	0.1	3.3	5.8	1.3
- Excl. Food and Fuel inflation	%	5.6	3	1.6	-2.5	0.2	2.5	4.8	1.5
Headline Inflation (CPI)***	%	10	9.4	5.8	4.9	4.5	3.6	3.4	4.8
- Food Inflation	%	11.2	11.9	6.5	5.1	4.4	2.2	0.7	2.2
- Fuel & Light Group Inflation	%	9.7	7.7	4.2	5.3	3.3	6.2	5.7	1
- Excl. Food and Fuel inflation	%	9	7.2	5.4	4.6	4.8	4.6	5.8	4.1
II. Fiscal Sector									
Revenue Collection (CSR)	**Billion INR**	8792.32	10147.24	11013.81	11950.25	13742.03	14352.33	17296.82 $$$	19627.61 @
Fiscal Deficit (excluding grants)	**% of GDP**								
Fiscal Deficit (including grants)	**% of GDP**	4.9	4.5	4.1	3.9	3.5	3.5	3.4$$$	3.8@
Public Debt	**% of GDP**	41.1	41.1	41	41.7	40.7	39.2		
- of which external debt	**% of GDP**	3.3	3.3	2.9	3	2.7	2.5		
- domestic debt ^^	**% of GDP**	37.9	37.8	38.1	38.8	37.8	36.7		
- debt servicing	**% of total Revenue**	35.6	36.9	36.5	37	33.9	34.5		
III. External Sector									
Exports (f.o.b)	**Billion US$**	306.6	318.6	316.5	266.4	280.1	309	337.2	244
Imports (c.i.f)	**Billion US$**	502.2	466.2	461.5	396.4	392.6	469	517.5	362.9
Trade Deficit	**Billion US$**	-195.7	-147.6	-144.9	-130.1	-112.4	-160	-180.3	-118.9
Remittances	**Billion US$**	64.3	65.5	66.3	63.1	56.6	62.9	70.6	57.3
Current Account Balance	**Billion US$**	-88.2	-32.3	-26.9	-22.2	-14.4	-48.7	-57.3	-22.3
Current Account Balance	**% of GDP**	-4.8	-1.7	-1.3	-1.1	-0.6	-1.8	-2.1	-1
Total Foreign Investment	**Million US$**	46711	26386	73456	31891	43224	52401	30094	44417
- Foreign Direct Investment	**Million US$**	19819	21564	31251	36021	35612	30286	30712	43013
- Portfolio Investment	**Million US$**	26891	4822	42205	-4130	7612	22115	-618	1403
External Debt and Forex Liabilities	**Billion US$**	409.4	446.2	474.7	484.8	471	529.3	543	558.5
External Debt and Forex Liabilities	**% of forex earnings**	71.3	68.2	72	74.3	78.5	80.2	76	
Short-term debt to GDP	**%**	5.3	4.9	4.3	4	3.7	3.9	4	3.7
External Debt Service Ratio	**%**	5.9	5.9	7.6	8.8	8.3	7.5	6.4	6.5
Exchange Rate	**Per US$**	54.4	60.5	61.1	65.5	67.1	64.5	69.9	70.9
Foreign Exchange Reserves	**Billion US$**	292	304	342	360	370	425	413	460
IV. Monetary & Capital Market									
Growth Rate of M_1	y-o-y	9.2	8.5	11.3	13.5	3.1	21.8	13.6	11.2
Growth Rate of M_2	y-o-y								
Growth Rate of M_3	y-o-y	13.6	13.4	10.9	10.1	10.1	9.2	10.52	8.9
Weighted Avg Lending Rate of SCBs	**% (as on 31^{st} March)**	12	12	11.8	11.3	10.9	10.2	10.4	
Bank Credit to commercial sector (%)	y-o-y	13.5	13.7	9.4	10.7	7.8	9.5	12.7	6.3
Stock Market (Price Index) (BSE)	**March End 1991=100**	1612.7	1916.7	2393.7	2169.7	2536.1	2822.8	3311.1	
Market Capitalization (as leading stock mkt)	**Domestic Currency in Billion**	65802.24	73531.7	99299.72	92603.9	125785.7	141061.5	152675.6	106732.9
Market Capitalization (as leading stock mkt)	**% of GDP**	64.2	66	81.4	68.8	79.1	83.2	79.6	55.7
Market Capitalization (as leading stock mkt)	**Billion US$**	1209.6	1215.4	1625.2	1413.8	1874.6	2187	2184.2	1505.4
V. Banking Sector Indicators									
Capital adequacy ratio#^	**%**	13.9	13	13	13.3	13.7	13.8	14.3	
Non-performing loans#	**%**	3.2	3.8	4.3	7.5	9.3	11.2	9.3	
Profitability (R.O.E.)#	**%**	13.8	10.7	10.4	3.6	4.2	-2.8	-1.5	
Profitability (R.O.A.)#	**%**	1.03	0.8	0.8	0.4	0.35	-0.2	-0.1	

$: The data from the year 2004-05 onwards is in new GDP series (with base 2011-12).
***: 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.
$$$: Actuals as given in Union Budget 2020-21
@: Revised Estimates as given in Union Budget 2020-21
$$: Domestic saving is a ratio of gross saving to Gross National Disposable Income (GNDI)
M1 (Narrow Money): Currency with the Public + Demand Deposit.
M3 (Broad Money): M1 + Time Deposit.
^: 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.

MACROECONOMIC VULNERABILITY INDICATORS

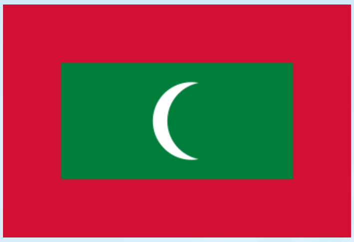
Indicators	Unit	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Current Account Balance as percentage of GDP	%	-4.8	-1.7	-1.3	-1.1	-0.6	-1.8	-2.1	
External Debt as a percentage of GDP	%	22.4	23.9	23.9	23.4	19.9	20.1	19.7	
Reserves to Import	%	58.15	65.25	74.03	90.85	94.24	90.52	79.78	
National Debt to GDP*	%	44.6	45.4	46.6	47.7	47.8	47.6	47	
Corporate Debt to GDP**	%	13	13.1	14	14.7	15.7	16	16.1	
Domestic credit***	% of GDP	84.2	84.5	80.7	80.2	79.9	77.3	77.7	79.0@
National Output Growth****	%	5.5	6.4	7.4	8	8.2	7.2	6.8	
Fiscal Deficit	% of GDP	4.9	4.5	4.1	3.9	3.5	3.5	3.4	3.3

Notes:

* National debt includes outstanding government securities, treasury bills (including MSS Issuances), state development loans and UDAY Bonds
Source: SEBI and CCIL.
**Corporate debt includes outstanding corporate bonds only.
*: Domestic credit data pertains to 'Net Bank Credit to Government' and 'Bank Credit to Commercial Sector'. GDP refers to GDP at Current Market Price at 2011-12 base.
@: As on August 30, 2019.

****National output data from 2005-06 to 2018-19 corresponds to real GDP at market prices (2011-12 base)

MALDIVES



RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Recent indicators used to gauge the performance of the economic sectors, showed that the tourism sector—the single largest contributor to GDP—continued to remain buoyant in H2-2019. The growth in tourist arrivals during H2-2019 was supported by strong demand from both the European; and Asia and Pacific market as well as the growth in flight movements and improved connectivity. Accordingly, the increase in tourist arrivals from Europe stemmed from Italy, Russia, Poland and the United Kingdom. Meanwhile, increase in arrivals from the Asia and Pacific region, predominantly stemmed from the remarkable growth in arrivals from India which somewhat curbed the decline in arrivals from China—the single largest source market. It is worth noting that tourist arrivals from other emerging markets, such as the US, also contributed to the growth in arrivals during the period. The positive performance of the tourism sector was also evidenced by the annual 10.44% growth in tourist bednights during the period which reflected the remarkable growth in tourist arrivals as average stay declined marginally during the period. As for the other main sectors of the economy, the developments in the construction sector were mixed as construction-related imports declined, while commercial bank credit extended to construction-related activities increased. Meanwhile, the fisheries sector contracted as indicated by the decline in fish purchases by fish processing companies and the sizeable decline witnessed in the volume of fish exports during H2-2019.

Looking at the price developments, the annual rate of inflation[1] in H2-2019picked up and recorded 0.41% in H2-2019 from 0.13% in H2-2018. During the period, major upward contributions stemmed from the increase in housing rent, prices in restaurant and cafés; as well as prices of vegetables which reflected the increase in onion prices due to the supply constraints in India. Additionally, prices of items in health and fruit category also contributed positively to the rise in inflation during the period. In contrast, the main contributor to the downward pressure on inflation was the decline in cost of passenger air transport reflecting the fall in domestic air transport prices

[1]The Consumer Price Index was rebased from June 2012 to August 2019 by the National Bureau of Statistics in October 2019.

amid the airfare reductions by the national carrier—Maldivian; and the reduction in price of petrol due to lower global oil prices. Further, decline in prices of fish; and cost of audio and video recording equipment also contributed negatively to the price level.

As for public finance situation, total revenue (excluding grants) grew slightly during H2-2019, reflecting the modest increase in tax revenues while the non-tax revenues declined. The major contributors to tax revenue were import duties; and the receipts from other business and property taxes, while remittance tax and green tax also made significant contributions to this growth. As for the decrease in non-tax revenues, this was largely due to the decline in revenues from land acquisition and conversion fees as well as dividends of state-owned enterprises. Meanwhile, the huge increase in total expenditure reflected the surge in both capital and recurrent expenditure. The growth in capital expenditure mirrored the rise in spending on Public Sector Investment Program (PSIP) and development projects. As for the growth in recurrent expenditure it was contributed by the upturn in the administrative and operational expenditure, losses and writes offs; as well as salaries and wages. During the period, the budget deficit was financed through domestic sources and borrowings from foreign sources.

Considering the developments in monetary aggregates, the stock of broad money (M2) rose to MVR36.25 billion at the end of H2-2019. The acceleration in broad money growth stemmed from the sizeable growth in the net foreign assets (NFA) of the banking system. The increase in NFA of the banking system reflected an increase in the NFA of both the MMA and the commercial banks. Meanwhile, the net domestic assets (NDA) of the banking sector remained broadly unchanged at the end of H2-2019.

Looking at the external sector developments, merchandise export earnings decreased significantly by 13.45% in H2-2019 when compared with H2-2018. The decrease was almost entirely driven by the fall in domestic export earnings which posted a decline of 27.28% in annual terms. The huge decline in domestic export earnings largely reflected the considerable decline in export earnings from fish exports owing to the fall in earnings from skipjack tuna as well as canned or pouched tuna exports. Meanwhile, re-export earnings recorded a marginal growth contributed by a modest growth in jet fuel sold to international carriers. As for merchandise imports, a decline of 2.31% was recorded during H2-2019, mainly owing to the decrease in import value of items under other imports, followed by wood, metal, cement and aggregates; and machinery and mechanical appliances.

With regard to gross international reserves[2] (GIR), a marked annual growth of 5.75% was recorded and stood at US$753.0 million at the end H2-2019, which primarily reflected a significant rise in usable reserves of the MMA. Meanwhile, downward trend witnessed in H1-2019 continued in H2-2019, until the end of September 2019, after which the GIR began to increase and peaked in December 2019.

Highlights of the major policy announcements during H2-2019

In H2-2019, the monetary policy framework of MMA remained broadly unchanged. To achieve the monetary policy objective of price stability, the MMA continued the two main policy operations in H2-2019: foreign exchange market intervention and rufiyaa liquidity management. Since the suspension of open market operations (OMO) in May 2014, the MMA mainly used the standing facilities— Overnight Deposit Facility (ODF) and Overnight Lombard Facility (OLF) — to manage the level of rufiyaa liquidity in the banking system. As such, the excess liquidity in the banking system continued to be absorbed through banks' investments in the ODF, which is remunerated at 1.5% per annum. The OLF remained available to all the commercial banks to manage short-term rufiyaa liquidity shortfalls with an interest cost of 10% per annum. The rates for both ODF and OLF remained unchanged in H2-2019. Additionally, the minimum reserve requirement (MRR) remained unchanged at 10% for both local and foreign currency deposits since the latest downward revision in August 2015. Further, the MMA continued to regularly intervene in the foreign exchange market by selling US dollars through the commercial banks.

[2] 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.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
I. Real Sector													
Per Capita GDP (Real) [1/]	**US$**	7,406.96	6,971.76	7,311.49	7,688.19	7,674.97	8,015.50	8,428.71	8,349.36	8,540.44	8,765.93	8,995.61	9,135.69
Real GDP Growth [1/]	**%**	9.49	-7.23	7.27	8.57	2.52	7.28	7.33	2.88	6.34	6.8	6.89	5.9
GDP (MP at Current Prices) [1/]	**Billion US$**	2.27	2.35	2.59	2.78	2.88	3.28	3.69	4.1	4.36	4.73	5.32	5.76
Agriculture Growth [1/]	**%**	-5.72	-2.36	-3.54	0.07	-0.19	6.88	-0.31	-0.41	1.47	8.26	4.81	--
Industry Growth [1/]	**%**	10.11	-25.22	7.31	15.25	4.08	-5.98	16.16	18.14	8.9	10.67	10.53	--
Services Growth [1/]	**%**	10.94	-3.66	7.3	6.94	2.59	8.78	6.96	2.37	6.69	6.02	6.54	--
Investment	**% of GDP(MP)**	..	..	..	..	..	..	..	..	..	..	..	..
Domestic Savings	**% of GNDI**	..	..	..	..	..	..	..	..	..	..	..	..
Headline Inflation (WPI)	%	..	..	..	..	..	..	..	..	..	..	..	..
Food Inflation	%	..	..	..	..	..	..	..	..	..	..	..	..
Non-Food Inflation	%	..	..	..	..	..	..	..	..	..	..	..	..
Excl. Food and Fuel inflation	%	..	..	..	..	..	..	..	..	..	..	..	..
Headline Inflation (CPI)	%	--	--	--	11.27	10.88	3.81	2.12	0.95	0.5	2.82	-0.13	0.22
Food Inflation	%	--	--	--	--	--	--	0.64	0.44	0.67	5.88	-1.21	-0.87
Fuel & Light Group Inflation	%	..	..	..	..	..	..	..	..	..	..	..	..
Excl. Food and Fuel inflation	%	..	..	..	..	..	..	..	..	..	..	..	..
II. Fiscal Sector													
Revenue Collection (CSR)	**Billion MVR**	--	--	--	--	9.77	11.78	15	16.67	18.32	19.91	21.4	22
Fiscal Deficit (excluding grants)	**% of GDP**	--	--	--	--	-7.53	-3.72	-2.71	-7.56	-10.37	-3.54	-6.24	-7.95
Fiscal Deficit (including grants)	**% of GDP**	--	--	--	--	-6.7	-3.49	-2.42	-6.55	-10	-3.07	-5.24	-5.62
Public Debt [2/]	**% of GDP**	--	--	--	--	56.81	51.44	55.09	52.74	56.82	60.32	58.78	61.05
of which External Debt	**% of GDP**	--	--	--	--	24.98	22.73	18.9	16.17	17.59	23.12	25.04	24.77
Domestic Debt	**% of GDP**	--	--	--	--	31.83	28.71	36.19	36.57	39.23	37.2	33.74	36.28
Debt Servicing	**% of total Revenue**	--	--	--	--	--	--	--	--	--	--	--	--
III. External Sector													
Exports (f.o.b)	**Billion US$**	--	0.17	0.2	0.35	0.31	0.33	0.3	0.24	0.26	0.32	0.34	0.36
Imports (c.i.f)	**Billion US$**	--	0.96	1.09	1.47	1.55	1.73	1.99	1.9	2.13	2.36	2.96	2.89
Trade Surplus/Deficit [3/]	**Billion US$**	--	--	--	--	--	--	--	--	--	--	--	--
Remittances [3/]	**Billion US$**	--	--	--	0.24	0.26	0.27	0.3	0.35	0.38	0.47	0.53	0.59
Current Account Balance [3/]	**Billion US$**	--	--	--	-0.38	-0.18	-0.13	-0.12	-0.3	-1.03	-1.03	-1.5	-1.5
Current Account Balance [3/]	**% of GDP**	--	--	--	-13.79	-6.42	-3.88	-3.19	-7.37	-23.65	-21.72	-28.26	-26.01
Total Foreign Investment [3/]	**Million US$**	--	--	--	-416.45	-187.69	-67.4	-544.27	-480.87	-673.42	-910.32	-1,835.12	-1,217.58
Foreign Direct Investment [3/]	**Million US$**	--	--	--	-423.53	-227.98	-360.82	-333.38	-297.98	-456.64	-457.81	-575.66	-891.14
Portfolio Investment [3/]	**Million US$**	--	--	--	-0.15	-53.07	53.32	17.24	-122.92	132.26	-479.37	-103.38	2.44
External Debt and Forex Liabilities	**Billion US$**	--	--	--	--	--	--	--	--	--	--	--	--
External Debt and Forex Liabilities	**% of forex earnings**	--	--	--	--	--	--	--	--	--	--	--	--
Short-term debt to GDP	**%**	--	--	--	--	--	--	--	--	--	--	--	--
External Debt Service Ratio	**%**	--	--	--	--	2.96	2.1	2.33	2.29	2.46	2.64	2.85	2.66
Exchange Rate	**Per US$**	12.8	12.8	12.8	15.41	15.37	15.41	15.4	15.41	15.35	15.41	15.41	15.38
Foreign Exchange Reserves	**Billion US$**	0.24	0.26	0.35	0.33	0.3	0.37	0.61	0.56	0.47	0.59	0.71	0.75
IV. Monetary & Capital Market													
Growth Rate of M_1	y-o-y	37.06	22.29	1.1	8.67	2.88	23.58	7.84	18.74	0.98	7.43	0.76	-0.15
Growth Rate of M_2	y-o-y	21.85	14.41	14.64	20.01	4.93	18.37	14.87	12.11	-0.18	5.16	3.38	9.56
Growth Rate of M_3	y-o-y	..	..	..	..	..	..	..	..	..	..	..	..
Weighted Avg Lending Rate of SCBs [4/]	**% (as on 31st March)**	--	--	10.45	10.17	10.51	11.42	11.38	10.82	10.62	9.82	11.47	11.6
Bank Credit to commercial sector (%)	y-o-y	29.11	-4.46	-2.01	5.8	-9.81	0.9	2.71	12.27	10.36	13.27	8.8	7.53
Stock Market (Price Index)	**5 May 2002 = 100**	287.07	229.57	211.17	157.44	149.74	114.6	134.13	156.48	155.05	174.97	169.06	199.05
Market Capitalization (as leading stock mkt)	**Domestic Currency in Billion**	2.35	1.89	1.61	1.29	7.79	6.71	6.92	8.12	8.14	14.07	13.68	16.16
Market Capitalization (as leading stock mkt)	**% of GDP**	8.1	6.29	4.87	3.18	17.57	13.26	12.18	12.86	12.09	19.31	16.68	18.2
Market Capitalization (as leading stock mkt)	**Billion US$**	0.18	0.15	0.13	0.08	0.51	0.44	0.45	0.53	0.53	0.91	0.89	1.05
V. Banking Sector Indicators													
Capital adequacy ratio [5/]	**%**	--	--	--	--	35.86	41.06	44.47	37.24	44.48	44.64	44.24	46.82
Non-performing loans	**%**	--	--	--	--	20.92	17.57	17.48	14.06	10.63	10.45	8.9	9.39
Profitability (R.O.E.)	**%**	--	--	--	--	18.91	30.02	19.73	16.45	19.64	15.26	15.49	19.42
Profitability (R.O.A.)	**%**	--	--	--	--	3.61	6.53	4.21	3.37	4.66	3.68	3.7	4.87

MACROECONOMIC VULNERABILITY INDICATORS

Indicator	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current account balance 1/	% of GDP 5/	--	--	--	-13.79	-6.42	-3.88	-3.19	-7.37	-23.65	-21.72	-28.26	-26.01
External Debt 2/	% of GDP 5/	37.93	39.1	36.7	32.22	28.31	24.11	20.18	17.01	19.61	25.43	26.36	26.65
Reserves to Imports	Ratio	17.41	27.11	32.1	22.85	19.59	21.25	30.85	29.74	21.98	24.88	24.06	26.08
National Debt 3/	% of GDP 5/	--	--	59.09	56.8	56.81	51.44	55.09	52.74	56.82	60.32	58.78	61.05
Corporate Debt	% of GDP 5/	..	..	..	..	..	..	..	..	..	..	..	..
Domestic Credit	% of GDP 5/	64.68	71.66	76.88	70.71	64.58	60.65	58.27	61.25	68.71	66.37	64.4	63.05
National Output Growth	%	9.49	-7.23	7.27	8.57	2.52	7.28	7.33	2.88	6.34	6.8	6.89	5.9
Fiscal Deficit 4/	% of GDP 5/	-9.35	-17.38	-12.88	-5.83	-6.7	-3.49	-2.42	-6.55	-10	-3.07	-5.24	-5.62

Notes:
1) Current account balance is compiled based on information available as at 9 April 2020 in accordance with IMF's BPM6 methodologies. Figures for 2018 and 2019 are revised estimates. Data prior to 2011 is not available.

2) Figures include Central Government disbursed outstanding debt according to data published by Ministry of Finance and commercial bank external debt.
3) National debt (governments debt) includes domestic and foreign debt. Data prior to 2010 is not available. Figures are as per data published by the Ministry of Finance.
4) 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
5) GDP data up to 2018 is based on data published by National Bureau of Statistics on 02 October 2019. GDP for 2019 are projections available as at 31 March 2020 forecasted by the Ministry of Finance and Maldives Monetary Authority.
.. : Data is not compiled by the country for given frequency.
--: Data is not available.

CENTRAL BANK INITIATIVE AND ITS EXPECTED IMPACT

Initiative	Description of the Initiative	Expected Impacts
Innovation Hub	Innovation Hub brings together domain experts and developers in the MMA to create innovative solutions using data sets of different domains. Python programming and data analytics was taught to the participants of the Innovation Hub.	Reduce the gap between business needs and IT requirements and to produce domain experts that have a clear understanding of IT and programming concepts.

Government Securities Market Development Project	Central Securities Depository system was established on September 2019, and initiated user acceptance testing phase of the system.	Expansion of government securities market
Maldives Payment System Development Project	A vendor to provide the technological solution to the infrastructure of the instant payment was selected during the month of December.	The primary objective of the project is to ensure that users are able to make and receive payments instantly, irrespective of the island on which they live or where they bank.
Cyber Security Framework in Banks	Require banks to formulate a cyber-security policy and outlines the minimum requirements to be included in the policy. Banks are also required to inform the MMA through 'Cyber Security Events (CSE) forms' of any cyber-incidents on the following working day, and on a quarterly basis on the status of the corrective actions taken for the incidents during the quarter.	Enhancement of the security of the banks' IT infrastructure and reduce exposure and loss from cyber-attacks or data breaches.

NEPAL

OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector

The Nepalese economy is expected to grow by 8.5 percent in the year 2019/20 (as targeted by the annual budget of Government of Nepal for that fiscal year). This is attributed to readiness in the implementation of national pride projects and expansion in construction and service sector due to the developmental works in the provincial and local levels will aid to continue the trend of targeted economic growth. Hence, the overall economic growth in mid Jan 2020 is expected to increase as targeted in FY 2019/20. The inflation outlook is likely to be increased in the upcoming fiscal year due to the inflationary pressures in neighboring country as well as effect on the vegetable farming due to unfavorable weather. These pressures are expected to be controlled by limiting monetary aggregates to a targeted inflation of 6.0 percent. Slowdown in economy of neighboring countries and world economy, effect of the corona virus pandemic in economies around the world and the decrease in the annual production of paddy is likely to decrease economic growth.

Price Situation

The consumer price inflation on y-o-y increased to 6.82 percent in mid-Jan 2020 compared to 4.58 percent in the previous year. Inflationary pressures built up in neighboring country and impact of unfavorable weather in agricultural production posed the challenges in spike of inflation during this period.

External Sector Situation

In the review period of mid-July 2019to mid-Jan 2020, merchandise export increased by 26.1 percent toNPR57.28 billion compared to an increase of 11.5 percent in the same period of previous year. Exports to India increased by 45.8 percent while export to China and other countries decreased by 8.5 percent and 3.8 percent respectively in the review period. Commodity wise, exports of palm oil, cardamom, jute goods, medicine (ayurvedic), pulses, among others increased while export of zinc sheet, wire, readymade garment, juice, copper wire rod, among others decreased in the review period. The export-import ratio increased to 8.2 percent in the review period from 6.3 percent in the corresponding period of previous year.

Inflow of workers' remittances increased by 0.9percent to NPR 447.26 billion in the review period in comparison to increase of 30.2 percent in the corresponding period of previous year. The net transfer income increased0.1percent to NPR 506.05 billion in the review period. Such income had increased by 28.7percent in the corresponding period of the previous year.

In the review period, the Current Account Deficit (CAD) contracted to NPR84.71 billion (USD743.9 million) compared to NPR 152.16 billion (USD1333.6million) deficit in the corresponding period of the previous year. Similarly, the overall BOP recorded a surplus of USD 235.3million in the review period from a deficit of USD559.5 million in the corresponding period of the previous year. Contractions in merchandise import, effective management of external debt and increase in Foreign Direct Investment (FDI) resulted in surplus in overall BOP.

In the review period, Nepal received capital transfer of NPR7.46 billion and Foreign Direct Investment (FDI) inflow of NPR12.20 billion. Capital transfer and FDI inflow in corresponding period of the FY 2018/19 wereNPR6.89 billion and NPR 4.36 billion respectively.

Fiscal Situation

The fiscal position in the review period remained at a surplus of NPR119.31 billion compared to a surplus of NPR 82.06 billion in the corresponding period FY 2018/19.The government revenue and government expenditure stood atNPR483.72 billion and NPR 378.17 billion respectively in the review period. The government revenue and expenditure stood at NPR 414.27 billion and NPR 339.29 billion in the corresponding period of the previous fiscal year.

Monetary Situation

On the basis of y-o-y, broad money growth remained at 14.5 percent. In the review period of mid-July 2019 to mid-Jan 2020, broad money supply (M2) increased by 5.3 percent compared to a growth of 6.4 percent in the corresponding period of previous year.

Net Foreign Assets (after adjusting foreign exchange valuation gain/loss) increased by NPR 26.65 billion (2.7 percent) in the review period compared to a decrease of NPR 63.68 billion (6.0 percent) in the same period of previous year. Reserve Money growth reduced to 5.6 percent compared to a decrease of 13.1 percent in the corresponding period of previous year. Domestic credit expanded by 2.2 percent in the review period compared to a growth of 8.7 percent in the corresponding period of previous year.

In the review period, deposits in the banks and financial institutions (BFIs) increased by 6.2 percent. Out of the total deposits at the BFIs in mid-Jan 2020, the share of demand, savings, fixed and other deposits was8.5, 31.9, 49.2 and 10.4 percent respectively; these are in comparison to 8.6, 33.3, 47.9and 10.2 percent respectively a year ago.

Similarly, the credit to the private sector from BFIs increased 8.6percent in the review period compared to a growth of 12.7 percent in the corresponding period of previous year.

In the review period, NRB mopped up liquidity amounting to NPR 58 billion through open market operations and NRB had injected NPR 92.07 billion liquidity including NPR 39.52 billion from repo and NPR 52.55 billion through standing liquidity facility (SLF). NRB has injected liquidity of NPR 193.40 billion through the net purchase of USD 1.70 billion from the foreign exchange market.

In the corresponding period of previous year, NRB mopped up liquidity amounting to NPR 100.35 billion through open market operations and NRB had injected NPR 6.72 billion through standing liquidity facility (SLF). NRB has injected liquidity of NPR 160.29 billion through the net purchase of USD 1.40 billion from the foreign exchange market.

Interest Rate Structure

Weighted average 91-day Treasury bill rate has increased while the inter-bank transaction rate among commercial banks has decreased in the review period compared to the corresponding period of previous year. The weighted average 91-day Treasury bills rate increased to 3.17 percent in Mid-Jan 2020 from 0.86 percent a year ago. The weighted average inter-bank transaction rate among commercial banks, which was 2.84 percent a year ago, decreased to 1.76 percent in Mid-Jan 2020. The average base rate of commercial banks decreased to 9.45 percent in the review month from 9.80 percent a year ago.

Capital Market

The NEPSE index stood at1263.40 points in mid-Jan 2020. This index had increased from 1178 points in mid-Jan 2019. The stock market capitalization on y-o-y basis increased12.1 percent to NPR 1610.69 billion in mid Jan 2020. This had increased from NPR 1567.50 billion a year ago.

Note: The monthly average NPR to USD exchange rate as on 31stJan, 2020 is: 114.07

The current NPR to USD middle exchange rate as on 31stJan, 2020 is: 113.38

Highlights of Major Policy Announcements (Up to Mid-Jan 2020)

The Monetary Policy for FY2019/20, aimed to help achieve targeted economic growth rate by maintaining price, external and financial sector stability. Monetary policy focused for boosting aggregate demand, availing liquidity in the banking industry, promoting employment and enhancing productivity, maintaining interest rate stability and increasing financial access. High economic growth rate is anticipated due to the expansion in the overall economic activities.

The major targets for the year ahead are to contain the inflation at 6.0 percent and maintain required liquidity to facilitate economic growth rate at 8.5 percent.

- Broad money (M2) growth has been targeted at 18 percent using Nominal GDP as the basis for monetary projection. In addition, domestic credit and private sector credit growth rates are projected to be 24 percent and 21 percent respectively.
- The Monetary Policy 2019/20 had kept the cash reserve ratio (CRR) for BFIs unchanged. For commercial banks, development banks and finance companies are required to maintain CRR at 4 percent. Similarly, the Statutory Liquidity Ratio has been kept unchanged at 10 percent for commercial banks, 8 percent for development banks and 7 percent for finance companies. The bank rate as a regulatory rate under the lender of last resort facility has been lowered to 6.0 percent from 6.5 percent.
- The upper bound of the Interest Rate Corridor (IRC) which has been reduced to 6 percent, repo rate as the policy rate to 4.5 percent and the deposit collection rate as the lower bound to 3 percent. Under this, a provision will be made to provide repo facility on an overnight basis and deposit collection facility for a week.
- The special refinance rate has been kept unchanged at one percent, while the general refinance rate has been reduced to 3 percent from the existing rate of 4 percent. The provision for the BFIs to charge a maximum of 3 percent interest rate from special refinance beneficiaries has also been kept unchanged. The BFIs will not be allowed to charge more than 7 percent interest from the borrowers using general refinance facility. Refinance rate on small and medium enterprises (SMEs) against the collateral of 'Pass' loan up to NPR one million will be reduced to 3 percent from the existing 5 percent. The maximum interest rate that the BFIs can charge from such borrowers will be reduced to 7 percent from the existing 10 percent. The monetary easing is expected to support the growth momentum that the country has taken in the last few years, manage imports through expanding domestic production frontier and insulate the economy from the possible global slowdown.
- Sources of foreign borrowing for the BFIs will be further expanded. A provision will be made for the BFIs to borrow from foreign pension fund, hedge fund and similar other sources, in

addition from the banks. Also, the areas for the utilization of such fund will be broadened. The maximum interest rate to be paid by the BFIs on the borrowing in convertible currencies will be set at 6-month LIBOR plus 4 percentage points from the existing 6-month LIBOR plus 3 percentage points.

- A provision will be made for the BFIs to mobilize foreign currency fixed deposits with at least 2-year maturity from institutional foreign depositors and Non-Resident Nepalese. BFIs will be allowed to mobilize a hundred percent of such deposits for extending loan in Nepalese currency. The limit for deposit mobilization from a single institution by BFIs will be reduced to 10 percent of their total domestic deposit liabilities. Such limit for total institutional deposit has been kept unchanged at 50 percent.
- Commercial banks will be required to issue debentures of at least 25 percent of their paid-up capital by mid-July 2020. Commercial banks will be allowed to fully utilize the resources raised through the issuance of debentures for extending loans.
- A policy provision will be made for the mobilization of gold held by Nepali citizens as bank deposits. Limit for the Debt Service to Gross Income Ratio (DTI) will be introduced for the installment-based non-business loans such as personal loan, home loan, hire purchase loan and others. The limit for the mandatory requirement for the BFIs to obtain Permanent Account Number (PAN) of the borrower has been lowered to NPR 5 million from the existing limit of NPR 10 million.
- The minimum investment limit for selection of projects by Infrastructure Development Bank will be set at NPR 300 million.
- Operating Guideline will be issued for the Refinance Fund established by this Bank so as to ensure the availability of concessional credit to the priority sectors.
- A provision will be made to bring down the spread between the average lending and deposit rates to 4.4 percent by mid-July 2020.
- For agriculture, enterprise and business promotion loan up to NPR 1.5 million, BFIs will not be allowed to charge interest exceeding 2 percentage points above the base rate and charge any service fee or loan prepayment charges from the borrowers.
- Monetary management will be carried out to maintain foreign exchange reserves sufficient to cover the prospective imports of merchandise goods and services for at least 7 months in 2019/20 for ensuring external sector stability.
- In order to increase the confidence of general public in financial sector by addressing the grievances of depositors and borrowers, 'Financial Consumer Protection Manual' will be introduced. Similarly, a 'Financial Consumer Protection Unit' will be established in the Central Bank in order to protect the interest of financial service consumers.

- The provision of countercyclical buffer as a tool of macro-prudential regulation will be effectively implemented. In addition, standard for Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) will be issued. A regulatory provision will be made for the domestic BFIs to open branches abroad. Additionally, the existing regulation for opening representative offices/branches of foreign banks in Nepal will be reviewed.
- Following additional incentives will be provided to the commercial banks undergoing the merger and acquisition process and commencing joint operation by mid-July 2020:
  - To extend the deadline to meet the credit requirements for agriculture, energy and tourism; deadline to reduce the spread between lending and deposit rate to 4.4 percent; and deadline to issue debentures worth 25 percent of paid-up capital till mid-July 2021.
  - Approval from this Bank is not required to establish new branches of BFIs.
  - The existing provision of cooling period of six months is not applicable for members of board of directors, chief executive officer and deputy chief executive officers while joining other institutions licensed by this Bank.

MACROECONOMIC SURVEILLANCE INDICATORS

S.N.	Core Indicators	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20*
1	CA as a percentage of GDP	5.1	6.2	-0.4	-8.1	-7.7	-5.1
2	Reserve as percentage of Merchandise and Service Import (in months)	11.2	14.1	11.4	9.4	7.8	9.7
3	National debt as percentage of GDP	25.6	27.9	26.3	30.1	30.3	30.3
a.	External debt as percentage of GDP	16.1	17.3	15.5	17.3	17.2	18.6
b.	Domestic Debt as percentage of GDP	9.5	10.6	10.8	12.8	13.1	11.9
4	Domestic credit as percentage of GDP	71.7	80.1	81.4	90.5	96.7	106.9
5	Budget deficit as percentage of GDP#	3.81	3.09	7.1	10.41	9.73	5.7
6	Inflation (12 months average)	7.2	9.9	4.5	4.2	4.6	6.5

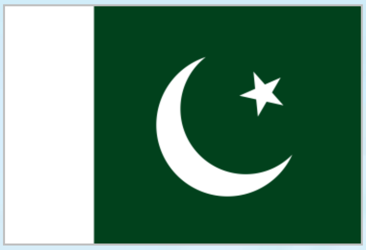
- * As the GDP compilation in Nepal is on fiscal year, the above indicators are based on data till Mid-March 2020 (8 months of fiscal year 2019/2020)
- #Budget deficit as percentage of GDP of Central Government
- Source: Economic Survey 2076/77, Ministry of Finance

CENTRAL BANK INITIATIVE AND ITS EXPECTED IMPACT

Initiative	Description of the Initiative	Expected Impacts
Changes in key policy rates	Cash reserve ratio (CRR) of banks and financial institutions has been decreased from 4% to 3%, bank rate has been decreased from 6% to 5%, and repo rate (the policy rate) has been decreased from 3.5 % to 3%.	This initiative is expected to provide additional liquidity support to financial system, keep interest rate low, increase bank's lending capacity, and to absorb shock of current crisis.
Special programs targeted for Economic Revival from COVID-19 pandemic	a. Enhanced Refinancing facility The existing provision for refinance has been revised to provide refinancing loan up to 5 times of the fund available for such purposes. BFIs are availed special refinance facility at one percent for refinancing on specified sectors including export and sick industry. Likewise, MSME refinance and general refinance will be made available at 2 percent and 3 percent respectively. Provision has been made whereby the BFIs can charge a maximum of 3 percent, 5 percent and 5 percent respectively from borrowers on such refinance facilities.	This initiative is expected to broaden access to credit and liquidity for firms across nation and provide concessional loans to businesses affected by COVID-19 and support the revival of economic activities.
	b. Limit on Working Capital Provision has been made to provide 20 % additional loan based on working capital limit as of mid-April 2020.	This initiative is expected to facilitate operation and continuation of businesses severely affected by COVID-19 such as tourism sector, and cottage, small and medium enterprises.
	c. Loan Restructuring/Rescheduling Provision has been made to extend payment date, restructuring and rescheduling of loans.	This provision is expected to ease financial distress in businesses affected by COVID-19 and measures taken to combat pandemic.

Operation of RGTS System	All commercial banks are included in the RTGS System. The target is to include all development banks and finance companies as well.	Increased customer transactions. Decreased transaction cost and timing. Broaden digital financial service.
Establishing National Payment Switch (NPS)	NPS is under the process of establishment.	Interoperability between e-payment instruments. Saving transaction cost incurred for cross border communication. Ease for overseeing the payment transaction

PAKISTAN



RECENT OVERALL MACROECONOMIC DEVELOPMENTS

Overview

During H1-FY20, Pakistan's economy has shown notable improvements in the wake of stabilization measures. The current account deficit has narrowed significantly, foreign exchange reserves have increased markedly, the primary budget balance has moved into surplus, and core inflation has eased. Moreover, the export-led manufacturing has gained further traction and signs of a pickup in construction activities have emerged, which indicates that the economy has set on path of gradual recovery. Also, performance under the ongoing IMF program remains strong, and international rating agencies maintained a stable outlook for Pakistan. These gains primarily reflect the overall impact of stabilization and regulatory measures taken during the past one year. However, the stabilization process has adversely affected domestic production and retail trade activities. Overall, real economic activity remained somewhat subdued during H1-FY20. In particular, the performance of industrial sector has been affected by stabilization measures. The major drag on manufacturing sector came from the decline in production of the automobile sector. Nonetheless, the cement and textile industries saw an uptick in growth, boosted by exports. In agriculture, the decline in cotton production, and negligible growth in sugarcane and rice output, may affect the sector's growth. Similarly, the activities in services sector also remained subdued due to low performance of commodity- producing sectors.

Real Sector

During H1-FY20, the real economic activity remained relatively subdued. However, the LSM sector showed some positive signs during Q2-FY20. The expansion remained more evident in the construction-allied industry which benefited from an uptick in cement exports and government development expenditures. The sugar production also rose sharply owing to favorable weather conditions and timely start of the crushing season. Textile sector's output also jumped on account of higher exports. On the negative side, performance of the automobile industry remained subdued as petroleum played a role in dragging the growth.

In agriculture sector, the wheat area remained below the target set by the government. Also, despite better input availability in the Rabi season, the expected increase in production may not be enough to compensate for the YoY decline in cotton. The decline in the cotton crop is expected to impact the real GDP growth for FY20 because of its impact on value addition, cotton ginning, agri-based industries and the services sector. However, the direction of growth in the agriculture sector in FY20 would depend on the output of wheat and livestock sector. The services sector was also affected by the developments in the commodity-producing sector, as reflected in the moderation or decline in various indicators related to wholesale and retail trade and transport, storage and communication.

Inflation and Monetary Policy

Inflation

On the inflation front, the YoY National CPI increased by 11.1 percent in December 2019. This uptick in CPI inflation is mainly due to the surge in the prices of food items along with persistently higher inflation in energy items, whereas core inflation remained relatively stable, reflecting the impact of stabilization measures. However, easing of underlying inflationary pressures was not sufficient to arrest the climbing headline inflation. On a YoY basis, food inflation became the major contributor to headline inflation followed by energy and core inflation.

Monetary and Credit Developments

The money supply (M2) expansion stood relatively high at 5.1 percent during H1-FY20, largely owing to an improvement in the country's external accounts. This was reflected in the Net Foreign Assets (NFA) of SBP. Further, the banking system recorded a contraction in the Net Domestic Assets (NDA) mainly owing to reduction in the government borrowing and low credit off-take by the private sector. The modest increase in private sector credit is largely driven by working capital loans, whereas fixed investment loans declined given the economic slowdown and the higher cost of borrowing. Notwithstanding the overall decline in demand for credit, utilization of exports financing (EFS) and Long-term Financing Facility (LTFF) maintained their momentum possibly reflecting business activity of export-oriented industries. Although, SBP has kept its policy rate unchanged in its last two monetary policy meetings, the weighted average lending rate (WALR) continues to rise on account of lagged policy rate transmission and rising credit risk premium.

Monetary Policy

The Monetary Policy Committee of SBP kept the policy rate unchanged at 13.25 percent in its meeting held in November 2019; the prevailing rate seemed appropriate to the committee for bringing inflation down to the target range of 5-7 percent over the medium term.

Fiscal Sector

A significant improvement was seen in the fiscal sector during H1-FY20. Both fiscal and revenue deficits were contained compared to the corresponding period last year. The fiscal deficit as a percent of GDP reduced from 2.7 percent in H1-FY19 to 2.3 percent in H1-FY20. The primary surplus surpassed the target and revenue growth was substantially higher, while expenditures on social sector and development picked up strongly. The rise in revenue collection was attributed to both tax and non-tax revenues. On the expenditure side, both current and development expenditures grew sharply during H1-FY20. In particular, a sharp growth in expenditures was witnessed in the second quarter which more than offset the rise in revenues.

Public debt accumulation was contained partly due to lower financing needs and partly due to an appreciation of PKR against the US dollar. Meanwhile, external debt increased on account of fresh borrowing from multilateral and commercial sources, receipts of IMF tranches, and a rise in foreign investment in government securities. Debt servicing (both principal and interest payments) of public external debt was increased. Within principal payments, Sukuk bonds, bilateral and short-term credit repayments recorded a significant increase.

Balance of Payments

The external account recorded a notable improvement, with the current account deficit (CAD) falling to a six-year low in H1-FY20 due to a broad-based contraction in imports. The reduction in imports resulted from ongoing macroeconomic stabilization measures, lower oil prices and power sector's shift away from furnace oil-based generation. In particular, import demand in the transport sector remained subdued, as automakers faced a sizable drop in car sales. This had a spillover effect on the steel sector, reducing its demand for imported steel scrap and finished products. Moreover, regulatory measures aimed at curbing non-essential imports and dumping by trading partners also played a role in curtailing import payments.

Meanwhile, low global commodity prices continued to suppress export earnings of Pakistan's major export products, i.e. textiles and rice, offsetting decent rises in export volumes. Textile and rice exporters managed to increase their market shares in the EU, US, and Middle East. The currency adjustments allowed exporters to remain competitive in the challenging global environment. At the same time, remittances continued to grow on the back of higher inflows from the US, the UK and Saudi Arabia. The sizeable inflows from IFIs (including the IMF), commercial banks, and portfolio investors, facilitated in debt repayments during the period. These inflows also allowed SBP to re-build its reserves, which reached a twenty month high of [US$ 11.3 billion] by end-December 2019.However, the country's total FX reserved increased to US$17.9 billion. As a result, the Pak Rupee appreciated 3.4 percent against the US dollar during the period.

Economic Outlook

Pakistan's economy had clearly moved out of the crisis-management mode before the Covid-19 infections started to be detected in the country. The current account numbers are getting better every month, and foreign exchange reserves are shoring up steadily. In addition, headline inflation is expected to revert to the medium-term target of 5-7 percent over the next 24 months. However, achieving this year's real GDP growth target of 4.0 percent is unlikely, as the agriculture sector's performance stood lower than expectations, whereas the export-driven growth in LSM is not sufficient to compensate for the subdued domestic market activity. Therefore, the SBP's projection for GDP growth has been revised to 3.0 percent in FY20, down from 3.3 percent last year.

Other Important Policy Measures

SBP facilitates overseas Pakistanis for biometric verification of their bank accounts: The central bankhas issued detailed instructions to facilitate overseas Pakistan in the biometric verification required for operating their bank accounts. As per the instructions, overseas Pakistanis may approach their respective banks through email/surface mail and provide identity documents like valid Passport, Visa, CNIC and NICOP (National Identity Card for Overseas Pakistanis) as an alternative arrangement for biometric verification.

SBP allows Electronic Warehouse Receipt as collateral for bank financing: To provide enhanced financing access to farming community, the central bank has amended its Prudential Regulations for Agri Financing, SME Financing, and Corporate & Commercial Banking which now allow banks to accept Electronic Warehouse Receipts as collateral for lending against storage of agriculture produce and commodities. It may be noted that Warehouse Receipt Financing (WHRF) is a mechanism whereby farmers, traders and processors may avail financing facility from banks while collateralizing their produce and agricultural commodities as a security stored in accredited warehouses. The WHRF is expected to benefit small farmers and help in improving food security and price stability. In this regard, the Securities & Exchange Commission of Pakistan (SECP) has also notified the Collateral Management Companies (CMC) Regulations to promote warehouse receipt financing and electronic trading of agricultural commodities. This development of a collateral management and warehouse receipt system is also expected to improve access to formal credit, reduce the losses arising from wastage of agricultural commodities after harvest, increase farmers' profitability due to better price discovery, and reduce risks of banks by allowing agricultural commodity as alternate collateral.

SBP Launches National Payment Systems Strategy: The National Payment Systems Strategy (NPSS) was launched on November 1, 2019. The key goal of this strategy is to make access to financial services easier for people and help in improving financial inclusion in the country, particularly for women, along with greater documentation of the economy. Further, this will also support the digitization of banking and payments in Pakistan.

SAARCFINANCE Seminar: **SBP hosted SAARCFINANCE Seminar on "Emerging Trends in Good Governance of Banking Sector in SAARC Region" at Islamabad**

The State Bank of Pakistan hosted the SAARCFINANCE on the topic of "Emerging Trends in Good Governance of Banking Sector in SAARC countries"at National Institute of Banking and Finance (NIBAF), Islamabad during December 18-20, 2019. Dr. Reza Baqir,the Honorable Governor SBP, inaugurated the seminar. Besides Pakistan, delegates from Afghanistan, Bangladesh, Bhutan, Sri Lanka and Nepal attended the seminar.

While addressing the participants of the seminar, Dr. Baqir termed corporate governance as a corner stone for the success of any business entity, especially for financial institutions. He said, corporate governance in banks requires a different approach and specific regulatory framework not only because of their leveraged business model but also due to diverse ownership and group structure. To achieve the overall strategic objective, Dr. Baqir underscored the importance of diversity in the composition of banks' boards in terms of gender balance and experts in the field of IT, risk management, and finance. He also highlighted that concentration of banks' shareholding as contrary to good governance practices with implications for the effectiveness of the Board. Dr. Baqir further expressed his views on importance of independent directors, highlighted the potential weaknesses in public sectors banks corporate governance structures and the issue of political interventions. He also cited few of SBP's efforts such as Guidelines on Performance Evaluation of Board of Directors, Enterprise Technology Governance & Risk Management Framework, Governance Framework for Banks' Overseas Operations, Compliance Risk Management and Internal Audit Function Guidelines and Streamlining the existing regulatory requirements on remuneration of Boards and management. In his closing remarks, he suggested that the Terms of Reference (ToRs) of SAARCFINANCE network may be revisited to align the same with emerging challenges being faced by central banks in the region. He further added that expanding business arenas, globalization of financial activities, emergence of new financial products and increased level of competition have not only opened up opportunities but also increased the potential risks

from such developments. The event was also attended by Dr. Ishrat Husain, Adviser to Prime Minister on Institutional reforms and Austerity and Ms. Tania Adruis, Head of Digital Pakistan Initiative. Both the keynote speakers emphasized upon further strengthening the culture of good corporate governance to achieve the desired strategic objectives. The second day of the seminar largely focused on governance practices in the SAARC region wherein foreign delegates and SBP presented their respective country practices in the subject area. On the third day, a daylong an excursion trip to the Murree hills was arranged to make the moment truly memorable.

SAARCFINANCE Collaborative Research Studies: The SBP researchers are contributing as team members/modal officers in all collaborative research studies being conducted under the banner of SAARCFINANCE.

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

	Unit	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18[R]	Jul-Dec FY19
I. Real Sector												
Per Capita GDP	US$	1026.0	1072.0	1274.0	1320.0	1334.0	1389.0	1514.0	1529.0	1630.0	1652.0	
Real GDP Growth	%	0.4	2.6	3.6	3.8	3.7	4.1	4.1	4.6	5.2	5.5	
Nominal GDP (MP)	Billion US$	168.1	177.4	213.8	224.6	231.4	244.7	270.9	278.9	304.9	315.2	
Agriculture	% of GDP	22.6	22.0	21.7	21.6	21.4	21.1	20.7	19.8	19.3	19.0	
Industry	% of GDP	20.9	21.0	21.2	21.0	20.4	20.5	20.7	20.9	20.8	20.7	
Services	% of GDP	56.6	56.9	57.1	57.4	58.2	58.4	58.6	59.3	60.0	60.4	
Investment	% of GDP	19.0	15.4	14.1	14.9	14.6	14.6	15.5	15.6	16.2	16.4	
National Savings	% of GDP	13.2	13.2	14.2	12.8	13.9	13.4	14.5	14.3	12.0	11.5	
Headline Inflation (yoy)	%	17.0	10.1	13.7	11.0	7.4	8.6	4.5	2.9	4.2	3.9	6.0
- Food Inflation (yoy)	%	23.1	12.9	18.0	11.0	7.1	9.0	3.5	2.1	3.8	1.8	2.3
- Non-Food Inflation (yoy)	%	13.4	8.2	10.7	11.0	7.5	8.3	5.3	3.4	4.4	5.4	8.7
- Core inflation (yoy)	%	11.4	7.6	9.4	10.6	9.6	8.3	6.5	4.2	5.2	5.8	8.0
II. Fiscal Sector												
Revenue Collection	Billion US$	23.5	24.8	26.3	28.8	30.8	35.4	38.7	42.6	47.1	47.5	17.9
Fiscal Deficit	% of GDP	5.2	6.3	5.9	6.6	8.0	5.5	5.3	4.6	5.8	6.6	2.7*
Public Debt	% of GDP	58.6	60.6	58.9	63.3	63.8	63.5	63.3	67.7	67.0	72.1	71.2
- of which foreign currency	% of GDP	32.3	35.4	31.2	30.9	27.0	25.6	24.2	26.6	27.4	33.4	35.6
- domestic debt	% of GDP	29.2	31.3	32.9	38.1	42.5	43.3	44.4	46.9	46.5	47.4	45.5
Public Debt Servicing[1]	% of Total Revenue	44.0	41.1	36.5	44.7	47.7	45.2	39.9	33.4	35.1	34.7	39.8
III. External Sector												
Exports (f.o.b)	Billion US$	19.1	19.7	25.4	24.7	24.8	25.1	24.1	22.0	22.0	24.8	11.9
Imports (c.i.f)	Billion US$	31.7	31.1	35.8	40.4	40.2	41.7	41.4	41.3	48.7	56.6	27.8
Trade Balance	Billion US$	-12.5	-11.5	-10.4	-15.7	-15.4	-16.6	-17.3	-19.3	-26.7	-31.8	-16.0
Remittances	Billion US$	7.8	8.9	11.2	13.2	13.9	15.8	18.7	19.9	19.4	19.9	11.0
Current Account Balance	Billion US$	-9.3	-3.9	0.2	-4.7	-2.5	-3.1	-2.8	-4.9	-12.6	-18.1	-8.6
Current Account Balance	% of GDP	-6.0	-2.0	0.1	-2.1	-1.1	-1.3	-1.0	-1.7	-4.1	-6.3	-5.6
Total Foreign Investment	Million US$	2688.0	2087.0	1980.0	709.0	1581.0	4439.0	2830.0	1976.0	2498.0	5680.0	377.0
- FDI in Pakistan	Million US$	3720.0	2151.0	1635.0	821.0	1456.0	1700.0	988.0	2305.0	2749.0	3471.0	796.0
- Portfolio Investment in Pakistan	Million US$	-1032.0	-64.0	345.0	-112.0	125.0	2739.0	1842.0	-329.0	-251.0	2209.0	-419.0
External Debt and Forex Liabilities	Billion US$	52.3	61.6	66.4	65.5	60.9	65.3	65.2	73.9	83.5	95.2	99.1
EDL/FEE[2]	Percent	148.0	161.6	139.2	135.8	121.3	127.7	123.2	144.0	161.0	174.9	362.0
Short-term external debt	% of GDP	0.4	0.5	0.3	0.2	0.1	0.3	0.4	0.6	0.3	0.6	0.4
External Debt Servicing Ratio	% of GDP	2.8	2.6	1.8	2.0	2.8	2.9	2.0	1.9	2.7	2.6	3.5
Exchange Rate (average)	Per US$	78.6	83.9	85.6	89.3	96.9	102.9	101.5	104.4	104.8	110.0	129.7
Foreign Exchange Reserves	Billion US$	12.4	16.8	18.2	15.3	11.0	14.1	18.7	23.1	21.4	16.4	13.8
IV. Monetary & Capital Market												
Growth Rate of M1	y-o-y	9.8	14.1	17.5	13.9	19.7	15.1	16.6	16.1	15.3	10.2	2.8
Growth Rate of M2	y-o-y	9.5	13.0	16.7	13.4	16.9	12.6	12.8	14.5	13.9	9.5	3.7
Growth Rate of M3	y-o-y	12.5	13.7	16.3	12.7	17.3	12.1	12.8	13.1	12.5	8.8	3.4
Weighted Avg Lending Rate	%	14.3	13.2	14.3	13.1	10.6	10.4	8.2	7.2	7.1	7.4	9.7
Credit growth to Private Sector	%	0.7	3.9	4.0	7.5	-0.2	12.2	5.9	11.2	16.8	14.9	9.5
Stock Market (Price Index)	1991=1000	7162.2	9721.9	12496.0	13801.4	21005.7	29652.5	34398.9	37783.5	46711.9	41910.9	37066.7
Market Capitalization (as leading stock mkt)	PKR Billion	2120.7	2732.4	3288.7	3518.1	5154.7	7022.7	7421.0	7588.5	9505.8	8665.0	7692.8
Market Capitalization (as leading stock mkt)	% of GDP	16.1	18.4	18.0	17.5	23.0	27.9	27.0	26.1	29.8	25.0	20.0
Market Capitalization (as leading stock mkt)	Billion US$	27.0	32.6	38.4	39.4	53.2	68.3	73.1	72.7	90.7	78.8	59.3
V. Banking Sector Indicators												
Capital adequacy ratio (CAR)	%	13.5	13.9	14.1	15.1	15.5	15.1	17.2	16.1	15.6	15.9	16.2
Non-performing loans	% Total Loans	11.5	12.9	15.3	15.9	14.8	12.8	12.4	11.1	9.3	7.9	8.0
Before Tax Profitability(R.O.E.)	%	16.0	17.7	21.8	25.9	18.5	23.5	27.5	24.9	21.9	18.5	17.4
Before Tax Profitability (R.O.A.)	%	1.7	1.8	2.1	2.4	1.7	2.1	2.7	2.2	1.8	1.4	1.3

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

*: Fiscal Deficit as percent of GDP is calculated using GDP for complete (fiscal) year.

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)

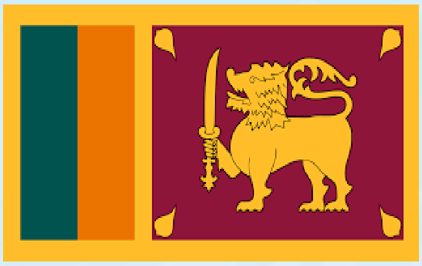
1. The ratio of debt service (interest and principal payments due, excluding short-term debt servicing of banks) during a year, expressed as a percentage of current receipts minus official transfers.

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

MACROECONOMIC SURVEILLANCE INDICATORS

Year	Fiscal Deficit as % of GDP	National Inflation-12 month moving average	Domestic Credit % of GDP	Current Account Balance as a percentage of GDP	External Debt as a percentage of GDP	Reserves 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	32.27	3.45	58.57
2010	6.30	10.10	35.19	-2.22	35.39	4.99	60.61
2011	5.90	13.66	32.36	0.10	31.22	4.96	58.93
2012	6.60	11.01	35.47	-2.07	30.91	3.21	63.34
2013	8.00	7.36	38.39	-1.08	26.96	1.79	63.84
2014	5.50	8.62	37.24	-1.28	25.62	2.61	63.54
2015	5.30	4.53	38.15	-1.03	24.17	3.92	63.33
2016	4.60	2.86	40.64	-1.75	26.64	5.26	67.67
2017	5.80	4.81	43.79	-4.14	27.39	3.97	66.35
2018	6.60	4.69	46.81	-6.32	33.44	2.07	71.21
2019	8.90	6.80	50.07	-4.87	44.97	1.65	84.80

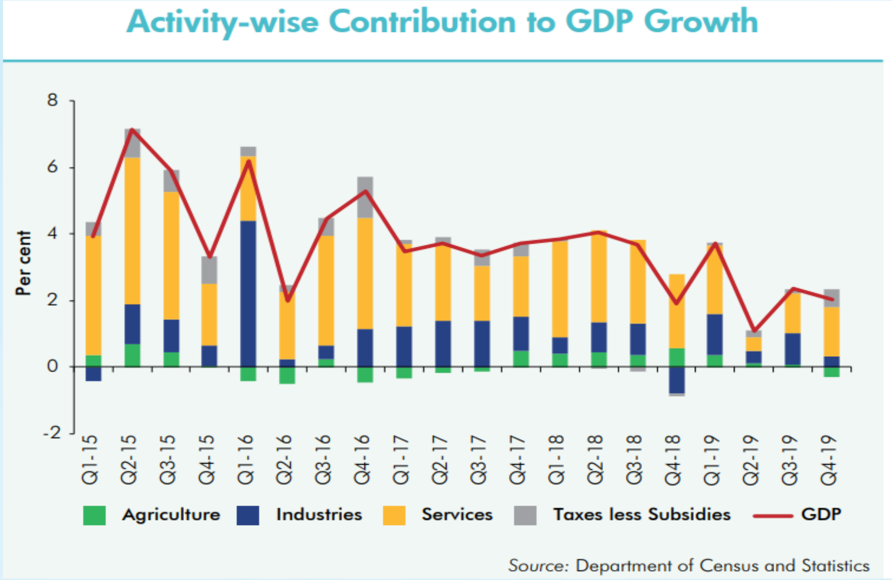
SRI LANKA

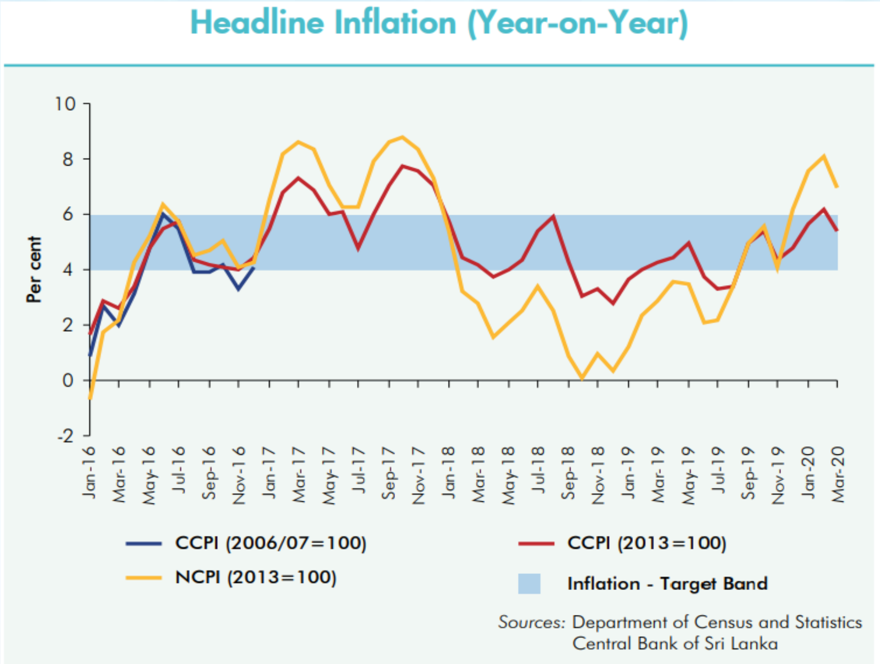


OVERALL MACROECONOMIC DEVELOPMENTS

Real Sector Developments

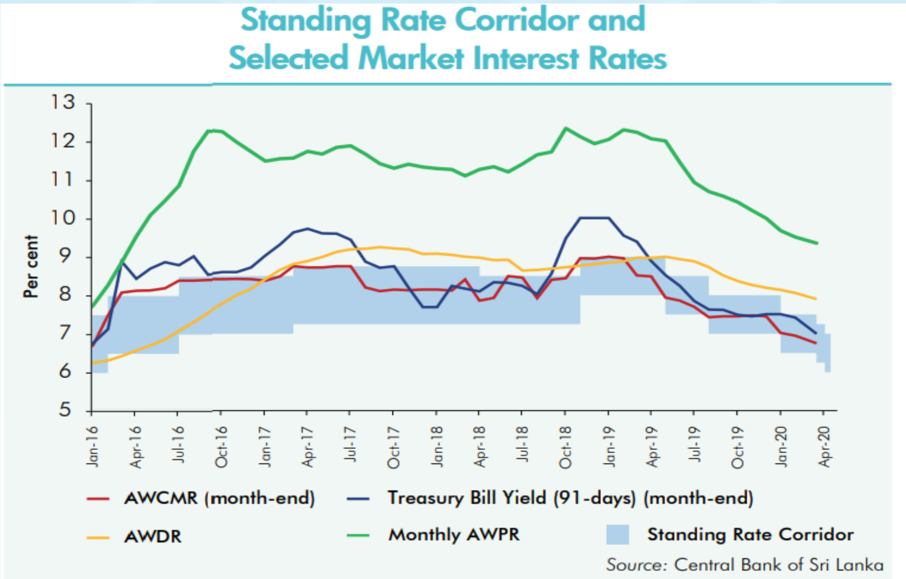
During the year 2019, Sri Lanka's economic performance moderated in terms of real economic growth, although macroeconomic stabilisation measures helped correct the external sector imbalances to some extent, while inflation pressures remained muted on average. The Easter Sunday attacks had a severe impact on the tourism sector, and their adverse spillover effects were felt across the economy, worsening the sluggish growth of the economy and further dampening business confidence even in the second half of the year. Accordingly, the Sri Lankan economy recorded a subdued growth of 2.3 per cent in 2019, compared to the growth of 3.3 per cent in 2018, as per the provisional estimates of GDP, of the Department of Census and Statistics (DCS). All major sectors of the economy recorded positive, but modest growth rates. Meanwhile, reflecting subdued economic activity, the unemployment rate increased to 4.8 per cent in 2019 from 4.4 per cent in 2018. Male and female unemployment rates rose to 3.3 per cent and 7.4 per cent, respectively, during 2019, from 3.0 per cent and 7.1 per cent, respectively, in the previous year. Consumer price inflation continued to remain low during the year supported by the subdued demand conditions, although extreme weather conditions and resultant disruptions to domestic food supplies caused some volatility in consumer prices.

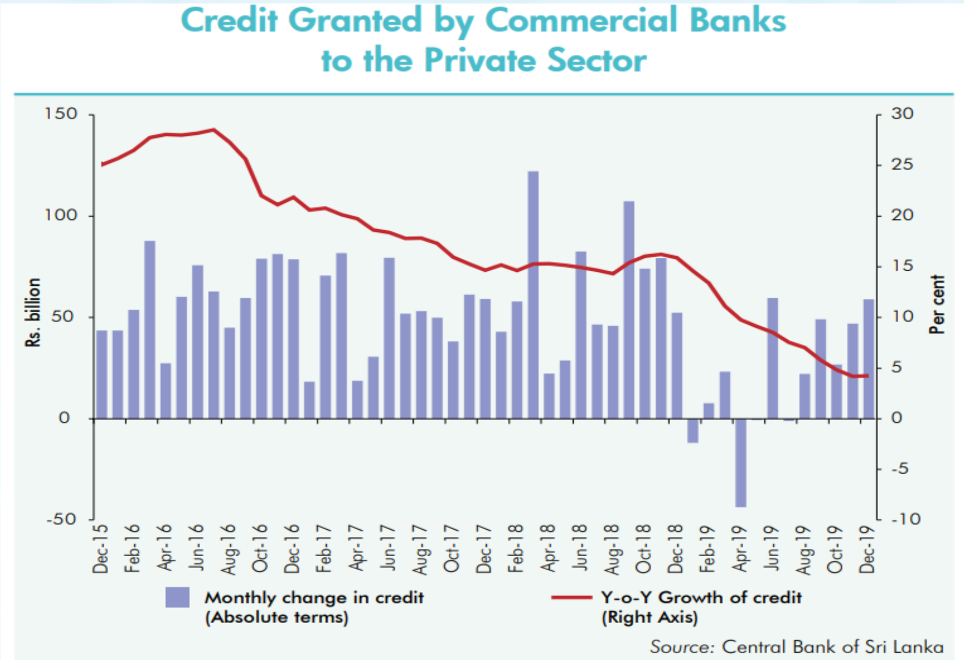




Monetary Sector Developments

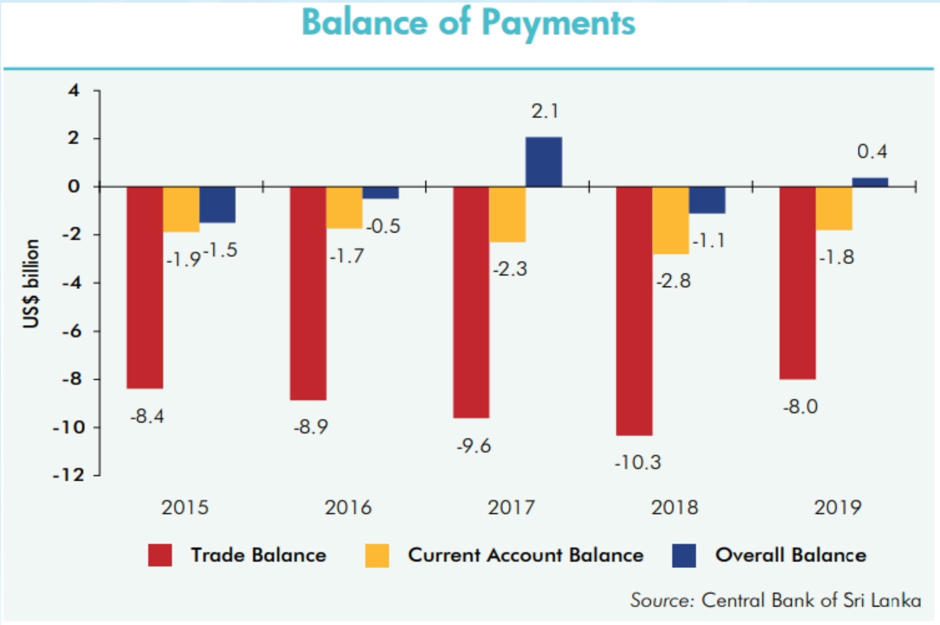
Meanwhile, Broad money growth (M2b) continued to decelerate during 2019, with the moderation of the growth of net domestic assets (NDA) of the banking system. Growth of credit to the private sector recorded a sharp deceleration in 2019 amidst high market interest rates, policy uncertainty, dented business confidence especially after the Easter Sunday attacks, and subdued economic activity during the year. Considering the need to support economic activity amidst muted inflation, well anchored inflation expectations and diminished pressures in the external sector, the Central Bank adopted an accommodative monetary policy stance, and took steps to expedite the transmission of monetary policy measures to the economy through regulatory action aimed at reducing market interest rates.

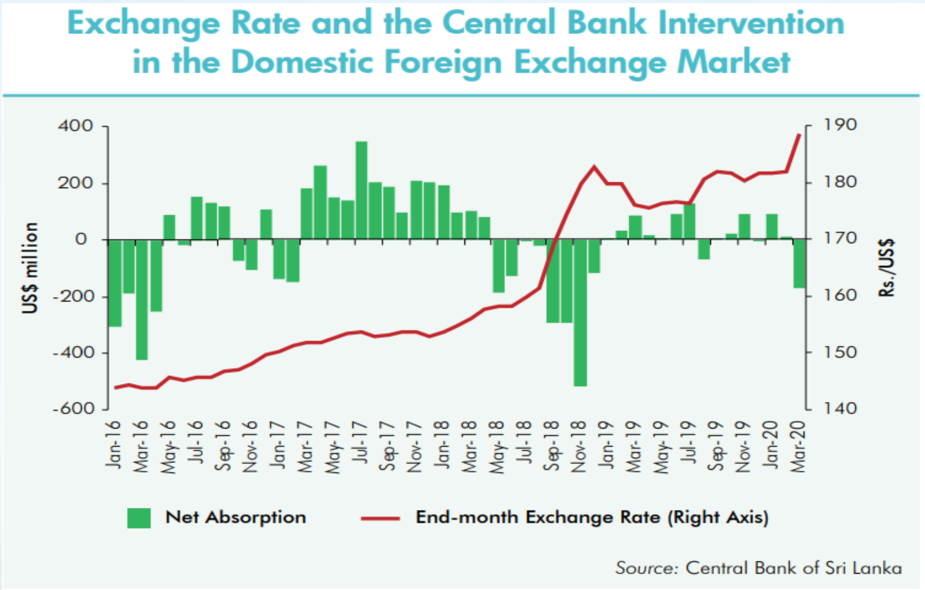




External Sector Developments

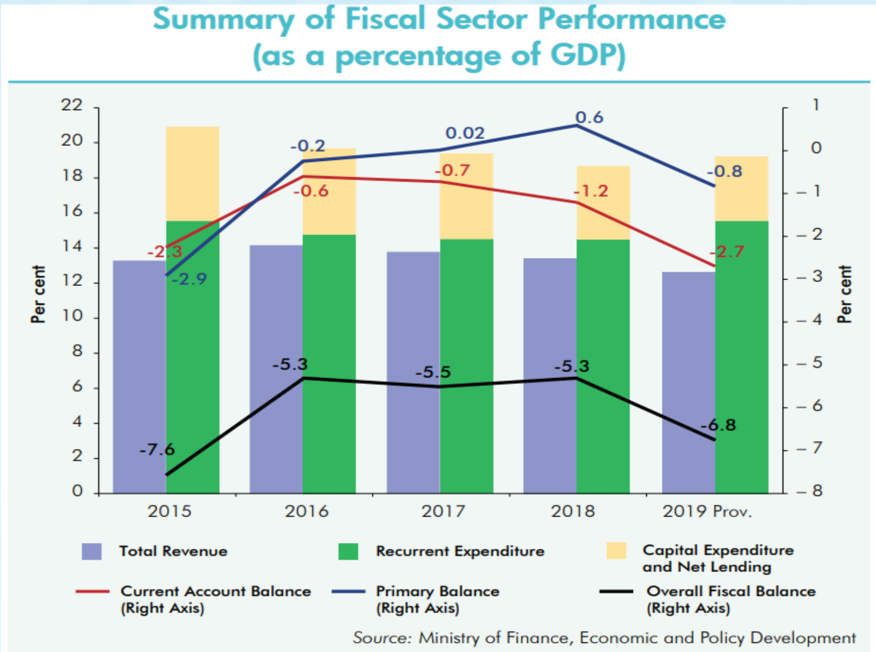
In the external sector, policies to curtail import expenditure resulted in a notable improvement in the trade and current account balances. Gross official reserves improved by end 2019, supported by significant inflows to the government and the Central Bank, despite large foreign currency debt service payments by the government in 2019. The exchange rate remained broadly stable during 2019, supported by a significant improvement in the current account, despite some transient volatility experienced amidst outflows of portfolio investment, responding to domestic and global developments.

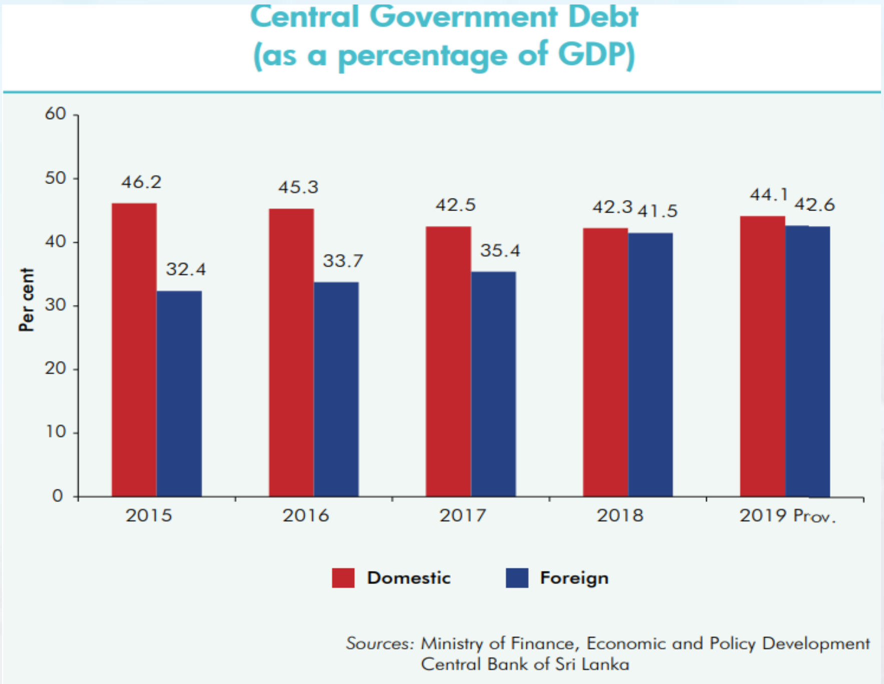




Fiscal Sector Developments

Policy measures aimed at reducing pressures on the balance of payments (BOP) and the exchange rate continued in 2019, which together with steps taken to revive the economy, however, contributed to notable slippages in the fiscal sector. Accordingly, the budget deficit rose to 6.8 per cent of GDP in 2019, from 5.3 per cent of GDP in 2018. The current account deficit, which reflects the government's dissavings, increased to 2.7 per cent of GDP in 2019, from 1.2 per cent in the previous year, and the primary balance, which is the difference between government revenue and non-interest expenditure, recorded a deficit of 0.8 per cent of GDP in 2019, compared to a surplus of 0.6 per cent of GDP in 2018.Central government debt as a percentage of GDP rose to 86.8 per cent by end 2019 from 83.7 per cent at end 2018, reflecting the impact of higher net borrowings to finance the budget deficit and the relatively modest growth in nominal GDP in 2019.





Financial Sector Developments

During 2019, the performance of the financial sector moderated in terms of assets base, credit quality and profitability of financial institutions due to the challenging business environment created by subdued economic growth, policy uncertainty, and the deterioration of investor sentiments stemming from the Easter Sunday attacks. The banking sector, which dominates the financial sector, displayed a moderate expansion during the year, compared to the previous year, reflecting the impact of the low demand for credit and tightened credit screening in an environment of deteriorating credit quality. The performance of Licensed Finance Companies and Specialised Leasing Companies deteriorated, owing to unfavourable market conditions and sector weaknesses. Meanwhile, the Financial Action Task Force (FATF) delisted Sri Lanka from its Grey List in October 2019, recognising the significant progress made by Sri Lanka in improving its Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regime.

Economic Outlook

As domestic economic activity started to show early responses to the policy measures taken to revive the economy and improving business sentiments at the beginning of the year 2020, the outbreak of the COVID-19 pandemic, the containment measures adopted by all countries including Sri Lanka, and the resultant projected contraction in the global economy, triggered further uncertainties regarding the country’s economic performance in 2020. In the near term, the economy is likely to be impacted severely in terms of its growth, fiscal, external, and financial sector performance, while causing hardships to all stakeholders of the economy. The monetary policy space in terms of the low inflation environment, and the banking sector space created by the maintenance of capital and liquidity buffers above industry norms, enabled the Central Bank to support the efforts of the government to ease the burden on businesses as well as individuals. Despite the temporary setback posed by the pandemic, appropriate growth supportive reforms to address longstanding structural issues and enhance domestic production, improve export orientation, attract foreign direct investment (FDI), facilitate innovation, improve factor productivity and efficiency, and improve policy buffers, if implemented without delay, would enable Sri Lanka to realise the desired outcome of achieving sustained and equitable economic growth and becoming a prosperous nation in the period ahead.

Medium Term Macroeconomic Framework (a)

Indicator	Unit	2018 (b)	2019 (c)	Projections				
				2020	2021	2022	2023	2024
Real Sector (d)								
Real GDP Growth	%	3.3 (c)	2.3	1.5	4.5	6.0	6.2	6.5
GDP at Current Market Price	Rs. bn	14,366 (c)	15,016	15,925	17,466	19,443	21,690	24,245
Per Capita GDP	US$	4,079 (c)(e)	3,852	3,940	4,166	4,473	4,813	5,190
Total Investment	% of GDP	30.4 (c)(f)	27.4	26.8	27.3	27.8	28.1	28.4
Domestic Savings	% of GDP	23.0 (c)(f)	21.3	20.7	21.3	22.5	23.6	24.5
National Savings	% of GDP	27.3 (c)(f)	25.3	23.7	24.7	25.6	26.2	26.8
External Sector								
Trade Gap (d)	% of GDP	-11.7	-9.5	-7.7	-9.8	-9.7	-9.5	-9.2
Exports	US$ mn	11,890	11,940	8,740	11,117	12,421	13,594	15,380
Imports	US$ mn	22,233	19,937	15,415	20,135	22,092	23,815	26,135
Current Account Balance (d)	% of GDP	-3.2	-2.2	-3.1	-2.6	-2.2	-1.9	-1.6
External Official Reserves	Months of Imports	3.7	4.6	5.6	4.6	4.6	4.6	4.6
Fiscal Sector (d)								
Total Revenue and Grants	% of GDP	13.5 (g)	12.6	9.8	11.8	13.5	14.1	14.5
Expenditure and Net Lending	% of GDP	18.7 (g)	19.4	17.7	18.6	19.1	19.2	19.4
Current Account Balance	% of GDP	-1.2 (g)	-2.7	-5.1	-3.6	-2.1	-1.5	-1.0
Primary Balance	% of GDP	0.6 (g)	-0.8	-2.8	-1.0	0.5	0.7	1.1
Overall Fiscal Balance	% of GDP	-5.3 (g)	-6.8	-7.9	-6.8	-5.6	-5.2	-4.9
Central Government Debt	% of GDP	83.7 (g)	86.8	92.4	89.4	84.3	80.5	76.3
Monetary Sector and Inflation								
Broad Money Growth (M_{2b}) (h)	%	13.0	7.0	9.3	12.9	12.7	12.5	12.5
Private Sector Credit Growth (in M_{2b}) (h)	%	15.9	4.3	4.0	10.0	12.2	13.0	13.0
Annual Average Inflation (i)	%	4.3	4.3	4.5	5.0	5.0	5.0	5.0

(a) Based on information available up to end March 2020
(b) Revised
(c) Provisional
(d) Based on the GDP estimates (base year 2010) of the Department of Census and Statistics
(e) Estimates are updated with the latest population figures.
(f) Total investment, domestic savings and national savings as a % of GDP in 2018 were revised by the Department of Census and Statistics from 28.6%, 21.2% and 25.4%, respectively.
(g) Based on the revised GDP estimates for 2018 released on 31 March 2020 by the Department of Census and Statistics
(h) Year-on-year growth based on end year values
(i) Based on CCPI (2013=100)

Sources: Department of Census and Statistics
Ministry of Finance, Economic and Policy Development
Central Bank of Sri Lanka

Highlights of Major Monetary and Financial sector Policies in 2019

Monetary Sector

22 February 2019-	The Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) was reduced by 1.00 percentage point to 5.00 per cent from 6.00 per cent with effect from the reserve maintenance period commencing on 01 March 2019.
31 May 2019-	The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were reduced by 50 basis points to 7.50 per cent and 8.50 per cent, respectively.
23 August 2019-	SDFR and SLFR were reduced by 50 basis points to 7.00 per cent and 8.00 per cent, respectively.

Financial Sector

07 March 2019 -	A Circular was issued to withdraw the minimum cash margin requirements imposed on the importation of motor vehicles and non-essential consumer goods
26 April 2019 -	A Monetary Law Act Order was issued to licensed banks imposing maximum interest rates that can be offered or paid by licensed banks on Sri Lanka Rupee deposits where interest rates of savings and other deposits of a tenure of less than three months or maturity is not specified shall be based on SDFR and interest rates of term deposits of three months or more shall be based on 364 days Treasury bill rates.
08 May 2019 -	A Circular was issued to licensed banks enabling them to grant a moratorium to individuals and entities, who are registered with the Sri Lanka Tourism Development Authority (SLTDA) or any other authority/agency to provide services relating to tourism sector, on a case-by-case basis for the performing loans (both capital and interest) till 31 March 2020 in respect of outstanding credit facilities as at 18 April 2019.
05 September 2019 -	A Circular was issued to introduce a Liquidity Support Facility (LSF) by way of reverse repurchase transactions for Standalone Primary Dealers (SPDs) with effect from 06 September 2019.
20 December 2019 -	Banking Act Directions were issued introducing a new framework for dealing with Domestic Systemically Important Banks (D-SIBs), in line with international best practices and determining four licensed banks as D-SIBs in terms of the new framework. Accordingly, licensed banks determined as D-SIBs will be allocated into 3 buckets with varying Higher Loss Absorption requirements in the range of 1-2 per cent, which should be met from Common Equity Tier 1

PERFORMANCES OF SOME KEY MACRO ECONOMIC INDICATORS

KEY ECONOMIC INDICATORS OF SRI LANKA

	Unit	2014	2015	2016	2017	2018	2019 (a)
I. Real Sector							
Per Capita GDP (c) (d)	US$	3,819	3,841	3,886	4,077	4,079	3,852
Real GDP Growth (d)	%	5.0	5.0	4.5	3.6	3.3	2.3
GDP (MP) (d)	Billion US$	79.4	80.6	82.4	87.4	88.4	84.0
Agriculture (d)	% of GDP	8	8.2	7.4	7.8	7.9	7.4
Industry (d)	% of GDP	28.3	27.2	27.8	26.8	26.6	27.4
Services (d)	% of GDP	56.9	57.4	56.4	56.1	57.1	58.2
Taxes less Subsidies on products (d)	% of GDP	6.8	7.3	8.3	9.3	8.4	6.9
Investment (d)	% of GDP	32.3	31.2	27.9	31.6	30.4	27.4
National Savings (d)	% of GDP	29.8	28.8	25.7	29	27.3	25.3
Headline Inflation (f)	%	3.3	0.9	3.7	-	-	-
- Food Inflation	%	3.8	4.9	4.4	-	-	-
- Non-Food Inflation	%	2.8	-2.5	3.1	-	-	-
- Core inflation	%	3.5	3.1	5.1	-	-	-
Headline Inflation (g)	%	-	2.2	4.0	6.6	4.3	4.3
- Food Inflation	%	-	5.5	6.1	9.3	3.4	0.8
- Non-Food Inflation	%	-	1.0	3.1	5.5	4.6	5.8
- Core inflation	%	-	4.9	4.4	5.9	3.5	5.5
II. Fiscal Sector							
Revenue Collection	Billion US$	9.2	10.7	11.6	12.0	11.8	10.6
Fiscal Deficit (excluding grants) (b)	% of GDP	-5.8	-7.6	-5.4	-5.6	-5.4	-6.8
Fiscal Deficit (including grants) (b)	% of GDP	-5.7	-7.6	-5.4	-5.5	-5.3	-6.8
Public Debt (b)	% of GDP	71.3	77.7	78.8	77.4	83.7	86.8
- of which foreign debt (b)	% of GDP	30.0	32.4	34.0	35.4	41.5	42.6
- domestic debt (b)	% of GDP	41.3	45.3	44.9	42.0	42.3	44.1
- debt servicing	% of total revenue	90.0	90.6	80.2	87.5	108.8	107.0
III. External Sector							
Exports (f.o.b)	Billion US$	11.1	10.5	10.3	11.4	11.9	11.9
Imports (c.i.f.)	Billion US$	19.4	18.9	19.2	21.0	22.2	19.9
Trade Deficit	Billion US$	-8.3	-8.4	-8.9	-9.6	-10.3	-8.0
Remittances	Billion US$	7.0	7.0	7.2	7.2	7.0	6.7
Earnings from Tourism	Billion US$	2.4	3.0	3.5	3.9	4.4	3.6
Current Account Balance	Billion US$	-2.0	-1.9	-1.7	-2.3	-2.8	-1.8
Current Account Balance (b)	% of GDP	-2.5	-2.3	-2.1	-2.6	-3.2	-2.2
Major Inflows to the Financial Account							
- Foreign Loans (net)	Billion US$	-1.7	-0.8	-0.8	-1.8	-1.6	0.3
- Foreign Direct Investment (net)	Billion US$	-0.8	-0.6	-0.7	-1.3	-1.5	-0.7
- Portfolio Investment : Equity (net)	Billion US$	-0.2	0.1	0.0	-0.4	0.0	0.0
- Portfolio Investment : Securities (net)	Billion US$	-1.9	-0.7	-1.0	-1.4	-0.1	-2.3
- Trade Credits (net)	Billion US$	0.8	0.5	-0.2	-0.3	-0.1	0.0
External Debt and Forex Liabilities outstanding	Billion US$	42.9	44.8	46.4	51.8	52.4	55.9
External Debt and Forex Liabilities to GDP (b)	%	54.1	55.7	56.8	59.5	58.8	66.6
Short-term debt to GDP (b)	%	9.2	9.5	9.0	8.8	9.0	9.8
External Debt Servicing Ratio	% of forex earnings	14.5	19.2	17.6	17.2	21.3	21.9
Exchange Rate (Annual Average)	Per US$	130.6	135.9	145.6	152.5	162.5	178.8
Total Foreign Assets	Billion US$	9.9	9.3	8.4	10.4	9.6	10.4
IV. Monetary & Capital Market							
Growth Rate of M_1	y-o-y	26.3	16.8	8.6	2.1	4.7	4.2
Growth Rate of M_2	y-o-y	13.1	17.2	18.9	17.5	13.5	7.6
Growth Rate of M_{2b}	y-o-y	13.4	17.8	18.4	16.7	13.0	7.0
Weighted Avg Lending Rate	%	11.9	11.0	13.2	13.88	14.4	13.6
Credit growth to Private Sector (As per M_{2b})	%	8.8	25.1	21.9	14.7	15.9	4.3
All Share Price Index (ASPI)	(1985=100)	7,299.0	6,894.5	6,228.3	6,369.3	6052.4	6129.2
Milanka Price Index (MPI)	(1998 Dec=1,000)	-	-	-	-	-	-
S&P SL 20 Index	(2004 Dec=1,000)	4,089.1	3,625.7	3,496.4	3,671.7	3135.2	2937.0
Market Capitalisation (as leading stock mkt)	Domestic Currency in Billion	3,104.9	2,938.0	2,745.4	2,899.3	2839.5	2851.3
Market Capitalisation (as leading stock mkt)	% of GDP	30.0	26.8	23.1	22.8	19.8	19.0
Market Capitalisation (as leading stock mkt)	Billion US$	23.7	20.4	18.3	19.0	15.5	15.7
V. Banking Sector Indicators							
Capital adequacy ratio	%	16.6	15.4	15.6	16.4	16.2	16.5
Non performing loans ratio (Net IIS)	%	4.2	3.2	2.6	2.5	3.4	4.7
Profitability (R.O.E.) (After Tax)	%	16.6	16.2	17.3	17.6	13.2	10.3
Profitability (R.O.A.) (Before Tax)	%	2.0	1.9	1.9	2.0	1.8	1.4

(a) Provisional
(b) The data is based on the base year 2010 GDP estimates of Department of Census and Statistics
(c) Estimates updated with latest population figures
(d) Revised
(e) Data is under the 2002 base year
(f) Based on CCPI (2006/07=100)
(g) Based on CCPI (2013=100)
n.a. - Not available

MACROECONOMIC SURVEILLANCE INDICATORS

Indicators	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current Account Balance as percentage of GDP	%	-1.9	-7.1	-5.8	-3.4	-2.5	-2.3	-2.1	-2.6	-3.2	-2.2
External Debt as a percentage of GDP	%	37.8	50.2	54.2	53.7	54.1	55.7	56.8	59	59.2	66.6
Reserves as a percentage of GDP	%	12.7	10.3	10.4	10.1	10.3	9.1	7.3	9.1	7.8	9.1
National Debt to GDP*	%	71.6	71.1	69.7	71.8	72.3	78.5	79	77.9	83.7	86.8
Domestic credit as a percentage of GDP	%	35.3	42.1	42.3	43.8	44.8	52.3	56.6	56.3	61.5	62.5
Fiscal deficit as a percentage of GDP	%	-7	-6.2	-5.6	-5.4	-5.7	-7.6	-5.3	-5.5	-5.3	-6.8
Inflation (12-month average)	%	6.2	6.7	7.6	6.9	3.3	2.2	4	6.6	4.3	4.3

Notes: Inflation based on Colombo Consumer Price Index (Base: 2013=100)