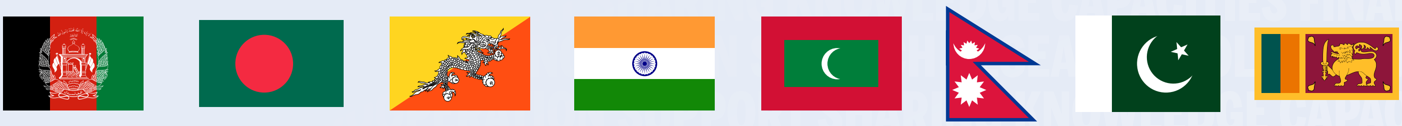
SAARC

SAARC FINANCE

e-Newsletter

Vol 01 | 2021



Published by

Reserve Bank of India

SF Members

The primary objective of establishing SAARCFINANCE Network is to promote cooperation among central banks and finance ministries in SAARCFINANCE member countries and learn from shared experiences among member countries on macroeconomic policy challenges faced by the region.

Da Afghanistan Bank

Bangladesh Bank

Royal Monetary Authority of Bhutan

Reserve Bank of India

Maldives Monetary Authority

Nepal Rastra Bank

State Bank of Pakistan

Central Bank of Sri Lanka

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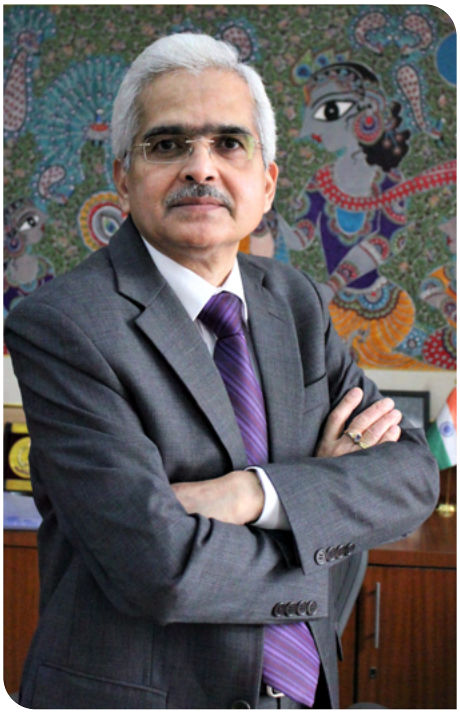
Governor's Message

I am immensely pleased to present the first edition of the SAARCFINANCE Annual Newsletter, which gives a glimpse of the defining moments of the year gone by and the activities undertaken under the Reserve Bank's Chair from October 2019 to March 31, 2021. The latter part of this period was scarred by the COVID-19 pandemic; but in spite of the formidable challenges and hardships, we have been able to achieve several deliverables that had been taken up.



We finalised the SAARC Currency Swap Framework for the period 2019-22 in November 2019. The Reserve Bank also signed bilateral currency swap agreements with Bhutan and Sri Lanka and extended the validity of the extant agreement with Maldives in 2020. The total swap support extended to these neighbours since February 2020 aggregates to USD 1 billion. We hope that these swap facilities have helped in managing external sector obligations so that the focus was on dealing with the health crisis and remaining steadfast on the development goals.

We also organised a SAARCFINANCE Seminar on "Leveraging FinTech for Financial Inclusion" at Udaipur, Rajasthan in February 2020, which was the only in-person meeting held under our Chair before the outbreak of COVID-19 compelled us to shift to a virtual environment for SAARCFINANCE activities. In November 2020, the Reserve Bank hosted the 40th Governors' Group Meeting, under the aegis of which, we launched the SAARCFINANCE Sync – a communication portal amongst SAARC central banks, the Financial Inclusion Platform and the Directory of Retired Resource Persons of SAARC central banks.

The Reserve Bank has initiated a SAARCFINANCE Collaborative Study on "Fintech and Financial Inclusion" and revised the modalities of collaborative studies. Under the capacity building initiative, the SAARCFINANCE scholarship for 2021 was offered to four officials from SAARC central banks and ministries of finance to pursue higher studies in India. We have organised webinars on "Artificial Intelligence and Central Banking" and "The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era", and provided technical assistance on "Data Compilation and Analysis during COVID-19 Pandemic". Concept paper on "Cyber Security, Data Privacy and Consumer Protection" and status papers on "Retail Payments in India" and "Supervisory Technology" have been circulated. The Reserve Bank's SAARCFINANCE Chair will culminate with the 41st Governors' Group meeting and Governor's Symposium held on March 1-2, 2021 covering, *inter alia*, sessions on Sup-Tech and cyber security in the context of central banking.

I would like to express my appreciation to the Nepal Rastra Bank for conducting webinars on policy responses of SAARC countries in the context of COVID-19 and financial inclusion, and to the Central Bank of Sri Lanka for hosting the SAARCFINANCE Database Seminar.

Besides covering SAARCFINANCE activities, this newsletter provides snapshots of macroeconomic conditions in member countries as reflected in the Macroeconomic Surveillance Indicators. It also sets out monetary policy stances and other major policy announcements by SAARC central banks.

In a first, the Newsletter includes three articles of topical interest. The article titled 'The COVID-19 Pandemic in the SAARC Countries: Impact and Policy Responses' takes us through life in the time of the pandemic in the SAARC region and fiscal and monetary policy responses announced in each of our countries. The second article titled 'Role of SMEs in Bangladesh: Opportunities and Challenges' by the Bangladesh Bank describes the nature of SMEs in Bangladesh, which form the backbone of its domestic economy. The third article titled 'Putting Food on the Table: Implications of Food Security Challenges in the COVID-19 Era' by the Central Bank of Sri Lanka throws light on the impact of the pandemic on food security. Bangladesh Bank also provides an insight into the impact of policy rate changes on inflation with a box item on the subject. The second box item gives a narrative of the Reserve Bank's push to digital payments through its successful launch of RTGS 24*7. I commend these articles for your reading.

I express my sincere gratitude to the support and co-operation we received from the teams at our eight central banks as they rose to the occasion, undaunted by the pandemic, and achieved all targets and deliverables amidst lockdowns and work-from-home protocols. I congratulate them for their deep commitment and efficiency which will inspire our multi-faceted engagement with many more innovative initiatives in the period ahead.

My best wishes to the Maldives Monetary Authority for the SAARCFINANCE Chair, starting from April 1, 2021.

Shaktikanta Das
Governor, Reserve Bank of India
Chair, SAARCFINANCE

Timeline of events

RBI taking over SAARCFINACE Chair from RMAB
Oct 2019

Nov 2019
Framework on Currency Swap Arrangement for SAARC Countries, 2019-22

Signing of Swap agreement with RMAB
Jan 2020

A SF Survey on FinTech and Financial Inclusion
Feb 2020

Feb 2020
SF Seminar on 'Leveraging FinTech for Financial Inclusion: Opportunities and Challenges' at Udaipur, Rajasthan

Feb 2020
Commencement of Collaborative study on 'FinTech and Financial Inclusion'

Revision of the SF Scholarship Scheme for Higher Studies
May 2020

High level webinar on 'COVID-19: Policy Sharing by SF Central Banks'
June 2020

June 2020
31st SF Coordinators' Meeting

Database Seminar and Technical Group Meeting hosted by CBSL
July 2020

Signing of Swap agreement with CBSL
July 2020

July 2020
Extension of the validity of the Swap agreement with MMA

Aug 2020
Webinar on 'Artificial Intelligence and Central Banking'

32nd SF Coordinators' Meeting
Sept 2020

under RBI Chair

40th SF Governors' Group Meeting

Nov 2020

Launching of Financial Inclusion Platform

Nov 2020

Revision of SF Collaborative Study Modalities

Nov 2020

SF Webinar on Financial Inclusion hosted by NRB

Dec 2020

Technical Assistance Workshop on 'Data Compilation and Analysis during COVID-19 Pandemic'

Jan 2021

41st SF Governors' Group Meeting

Mar 2021

Release of the maiden Annual SF e-Newsletter

Mar 2021

Handing over the SAARCFINACE Chair to MMA

Mar 2021

Nov 2020

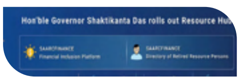
Inauguration of SF Sync Portal

Nov 2020

Webinar on 'The Promise of FinTech: Financial Inclusion in the post COVID-19 Era'

Nov 2020

Rolling out of Directory of Retired Resource Persons



Dec 2020

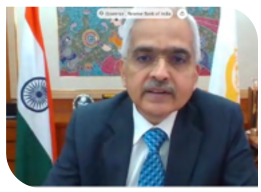
Selection of candidates for SF Scholarship Scheme

Feb 2021

33rd SF Coordinators' Meeting

Feb 2021

Papers on 'Cyber Security, Data Privacy and Consumer Protection'; 'SupTech' and 'Retail Payments in India'



Mar 2021

SF Governors' Symposium


RESERVE BANK OF INDIA

Section: 01

Meetings and Initiatives

Royal Bengal Tiger

Governors

The SAARCFINANCE initiatives are led by the Governor of the Chair Central Bank.

India
Mr. Shaktikanta Das

Afghanistan
Mr. Ajmal Ahmadi

Bangladesh
Mr. Fazle Kabir

Bhutan
Mr. Dasho Penjore

Maldives
Mr. Ali Hashim

Nepal
Mr. Maha Prasad Adhikari

Pakistan
Dr. Reza Baqir

Sri Lanka
Prof. W D Lakshman

Governors' Group Meetings

40th SAARCFINANCE Governors' Group Meeting

Reserve Bank of India organised the 40th SF Governors' Group Meeting (GGM) on November 04, 2020 in a virtual mode. The meeting was chaired by Mr. Shaktikanta Das, Governor, Reserve Bank of India and was attended by the Governors from SAARC central banks — Mr. Fazle Kabir, Bangladesh Bank; Mr. Dasho Penjore, Royal Monetary Authority of Bhutan; Mr. Ali Hashim, Maldives Monetary Authority; Mr. Maha Prasad Adhikari, Nepal Rastra Bank; Dr. Reza Baqir, State Bank of Pakistan; and Prof. W. D. Lakshman, Central Bank of Sri Lanka. Governor, Da Afghanistan Bank (DAB) was represented by a senior official of DAB.

Governor Das reaffirmed India's support to fighting the COVID-19 pandemic which was achieved through the SAARC COVID-19 Fund and the SAARC Swap Facility. The Governor also launched three new initiatives at the meeting — (i) The SAARCFINANCE Sync – a closed user group secure communication network; (ii) Financial Inclusion Platform – a repository of all financial inclusion related activities of member central banks; and (iii) Directory of Retired Resource Persons.

All the participating Governors engaged in a discussion on the prevailing macroeconomic situation in their respective countries and provided an update on how the pandemic has affected each country and the policy measures adopted by the central banks and national authorities to counter it. The Governors also deliberated on the other roadmaps under the SF initiative including collaborative studies, capacity building and SAARCFINANCE database.

Dr. Michael D. Patra, Deputy Governor, RBI in his closing remarks, highlighted the role played by central banks in formulating policies that are inclusive, equitable and sustainable and also lauded the relentless efforts of all the SAARC central banks who continue to carry forward all initiatives and work collectively to emerge stronger together.

41st SAARCFINANCE Governors' Group Meeting and Governors' Symposium

The 41st SAARCFINANCE Governors' Group Meeting and Governors' Symposium is being held on March 01-02, 2021. The two-day event will include a presentation made by the Central Bank of Sri Lanka on the collaborative study on "Comparison of Financial Sector Regulatory Regimes in the SAARC Region", a session on "Sup-Tech and Central Banking" and a panel discussion on the topic "Cyber Security in Central Banks". The meeting of the SAARC Payment Council will be held on the sidelines of the Governors' Meeting.

SAARCFINANCE Coordinators' Meetings

The 31st SAARCFINANCE Coordinators' Meeting was held on June 03, 2020 in virtual mode. The participants discussed agenda items like the SF newsletter and website, SF Collaborative Studies, the framework for recruitment of retired officers and the SF Database.

The 32nd SAARCFINANCE Coordinators' Meeting was held virtually on September 29, 2020. The Reserve Bank informed the extension of its Chair till March 31, 2021 and the members discussed macroeconomic surveillance indicators, SF Collaborative Studies, resources for the financial inclusion platform, list of retired officials to be added to the Directory of Retired Resource Persons and revised format of the newsletter.

The 33rd SAARCFINANCE Coordinators' Meeting was held on February 01, 2021 to review the progress made on the action points of the 40th SF GGM and to discuss the agenda of the 41st SF GGM and Governors' Symposium being held on March 01-02, 2021. The Chair briefed the members about the initiatives carried out by them since the last meeting including conducting a technical assistance workshop, technical sessions for onboarding and familiarising the users of the SF Sync Portal, status of the SF Collaborative Studies and the progress made on the newsletter.

SAARCFINANCE Roadmap and Areas of Cooperation

SAARC Currency Swap Arrangement

The Reserve Bank of India, with the concurrence of the Government of India, put in place the 'Framework on Currency Swap Arrangement for SAARC Countries' for 2019-2022. The arrangement provides a backstop line of funding for short-term foreign exchange liquidity requirements to SAARC central banks, who want to avail swap facility. Under the terms and conditions of the Framework for 2019-22, RBI will continue to offer bilateral swap arrangement within the overall corpus of US$ two billion. The drawals can be made in US Dollar, Euro or Indian Rupee. The framework provides certain concessions for swap drawals in Indian Rupee. Subsequently, the Reserve Bank signed swap agreements with the Royal Monetary Authority of Bhutan (January 2020), the Maldives Monetary Authority (July 2020) and the Central Bank of Sri Lanka (July 2020). The swap facility has helped the countries to overcome liquidity and external sector pressures, especially during the pandemic.

SAARCFINANCE Database

The SAARCFINANCE Database (SFDB) is a comprehensive time-series database on macroeconomic indicators of the SAARC countries. Currently, the database covers more than 225 variables of annual, quarterly and monthly frequencies, from the year 2001 onwards. The SFDB seeks to disseminate information and promote economic research. SF Database can be accessed through the URL https://dbie.rbi.org.in/DBIE/dbie.rbi?site=saarcHome. The Reserve Bank of India is responsible for maintaining the SF Database with data being uploaded directly by the SAARC central banks through an automated portal. The Reserve Bank organised several bilateral meetings during 2020 and 2021, with the technical teams of SAARC central banks to resolve data related issues.

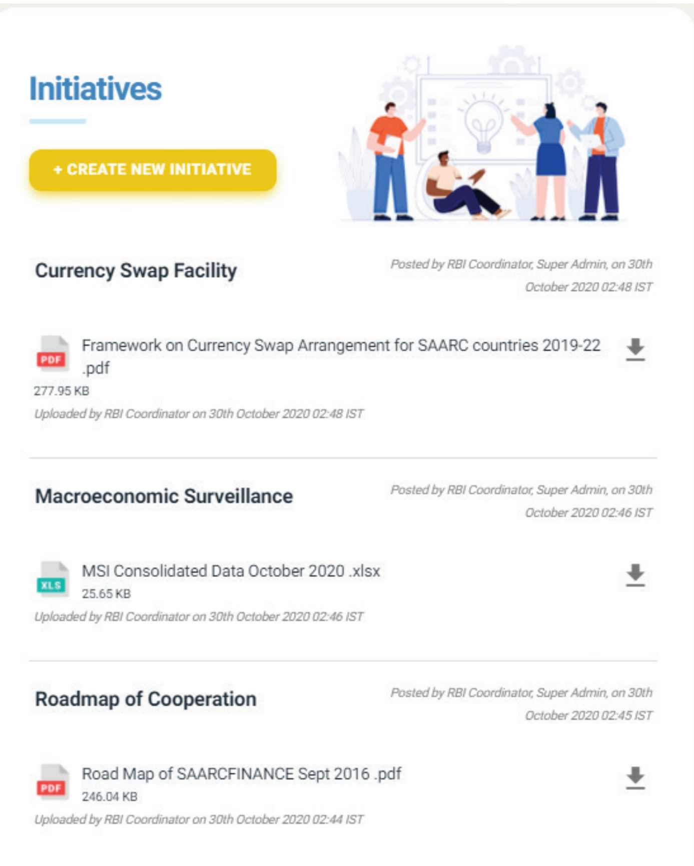
The Central Bank of Sri Lanka (CBSL) hosted the sixth SF Database Seminar and Technical Meeting on July 16, 2020. Three research papers were presented by officers of SAARC central banks, which were based on statistics extracted from the SF database, *viz.*, "Exchange rate elasticity of exports in the presence of trade barriers: Analysing India's exports to

SAARC countries" by Ms. Purna Banerjee, RBI, "Index on Relative Sustainability Impact — a Suggestive Tool for Strengthening Regional Cooperation: Case of SAARC" by Dr. Kazi Arif Uz Zaman, Bangladesh Bank and "Revisiting Key Monetarist Identity for SAARC Countries" by Mr. Janaka Edirisinghe, CBSL. The papers emphasised the importance of data sharing among member countries, which enables productive research opportunities. The technical meeting was conducted by the Reserve Bank and attended by the SFDB Working Group members, nodal officials and other officers of SAARC central banks. The Reserve Bank presented the Centralised Information Management Systems (CIMS). Issues relating to data gap and submission process on the SF database were discussed in detail.

Capacity Building and Technical Assistance

Several activities were undertaken regarding Capacity Building and Technical Assistance including the SAARCFINANCE Scholarship Scheme, Technical Assistance Workshop on “Data Compilation and Analysis during the COVID-19 pandemic” and circulation of concept paper on “Cyber security, Data Privacy and Consumer Protection” and status notes on retail payments and Suptech.

SAARCFINANCE Scholarship Scheme



The Reserve Bank had introduced the SAARCFINANCE Scholarship Scheme for Higher Studies in Economics in 2013 to enhance research skills of officials in the central banks and ministries of finance in the SAARC region. The Scheme has been revised by the Reserve Bank in 2020 and its scope was widened in terms of courses, institutes, scholarship amount and the number of scholarships awarded each year. Four scholarships will be awarded each year under the SAARCFINANCE Scholarship Scheme for Higher Studies, 2020 and candidates may pursue courses in mathematics, statistics, banking, finance and management in addition to economics. The revised scheme and operational guidelines were circulated to all the SAARC central banks and finance ministries in June 2020. The Reserve Bank invited applications for academic year 2021- 2022 and subsequently scholarships were awarded to four candidates – (i) Mr. Abdul Basir Omar Sah Khail, Ministry of Finance, Afghanistan (ii) Mr. Bhaskar Podder, Bangladesh Bank (iii) Ms. Mariyam Jailam Mujuthaba, Maldives Monetary Authority and (iv) Mr. Janak Raj Sapkota, Nepal Rastra Bank.

Technical Assistance Workshop

In order to understand the challenges posed by the lockdown restrictions to data compilation, analysis and policy support, the Reserve Bank organised a technical assistance workshop on “Data

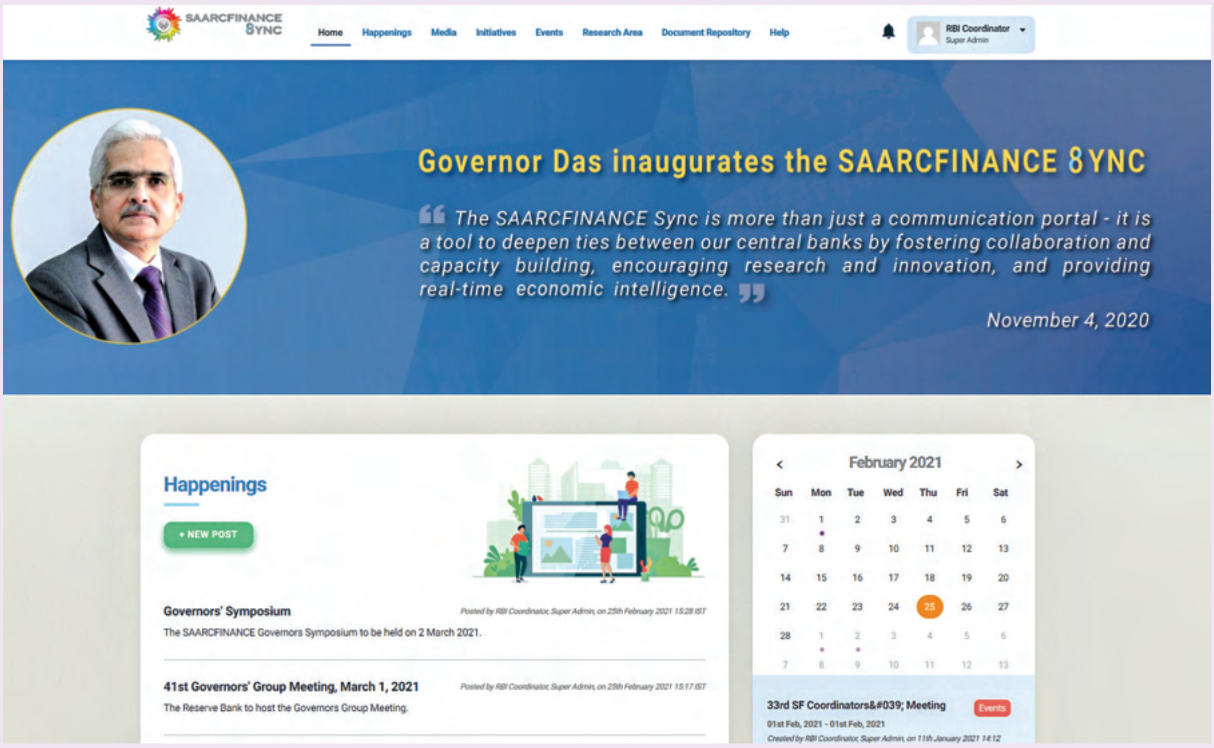
Compilation and Analysis during the COVID-19 Pandemic" on January 18-19, 2021. The workshop was attended by officials from the Royal Monetary Authority of Bhutan, the Nepal Rastra Bank and the Central Bank of Sri Lanka. The workshop was conducted by officials from the Reserve Bank and the Government of India and covered (i) GDP growth analysis; (ii) compilation of National Accounts Statistics in India; and (iii) inflation analysis and projections for monetary policy.

Circulation of Concept Paper and Status Notes

Some of the focus areas identified by the RBI Governor while taking over the Chair, were digitalisation of retail payments, SupTech, cyber security, data privacy and consumer protection. The Reserve Bank prepared and circulated various concept and status notes on these themes. The concept paper on cyber security gave an overview of the cyber security framework, need and approach toward cybersecurity, tools for cyber resilience, the cost of cyber security and also covered aspects of data privacy and consumer protection. The status paper on Suptech covered the use of innovative technology like big data analytics and use of artificial intelligence and discussed the initiatives taken in this space, both globally and by the Reserve Bank. The status paper on 'Retail Payments - Scope and Challenges' gave a background of the country's payments and settlement systems. The paper also focused on operations during the COVID-19 pandemic and the way ahead for payment systems. The challenges associated with weaning

SAARCFINANCE SYNC

The Reserve Bank of India Governor, Mr. Shaktikanta Das, inaugurated the SAARCFINANCE Sync, a closed user group communication portal for SAARC Central Banks, at the 40^{th} SF Governors' Group Meeting held on November 04, 2020.



Background

The SAARCFINANCE Sync portal is envisioned as a tool to be used by SAARC central banks to connect, communicate and collaborate under the SAARCFINANCE workstreams. The International Department of the Reserve Bank has been instrumental in the development of the portal. The structure and format of the portal was conceptualised by working closely with the Reserve Bank Information Technology Pvt. Ltd. (ReBIT) and Indian Financial Technology and Allied Services (IFTAS), in operationalising the portal.

Design of the portal

Governor Das, while inaugurating the portal, remarked that the SAARCFINANCE Sync is more than just a communication portal – it is a tool to deepen ties between central banks by fostering collaboration and capacity building, encouraging research and innovation, and providing real-time economic intelligence. This vision of the Reserve Bank is reflected in the logo which captures the harmony and collaboration between the eight member central banks, symbolising the collective learning around their core public service values. The tag-line for the portal "Where Regional Mission meets Global Vision" echoes the commitment of the group towards making SAARCFINANCE a relevant global forum.

Functionalities

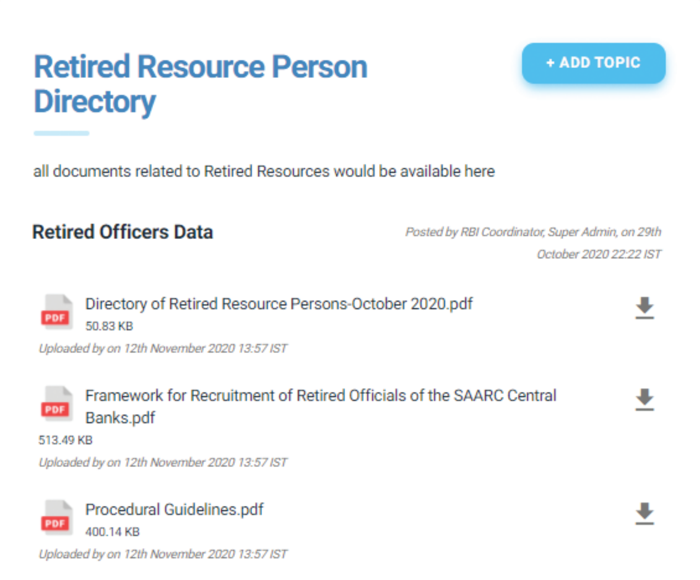
The portal is expected to bring remarkable changes in communication amongst SAARC central banks in terms of speed, effectiveness and institutional memory. The portal sections cover happenings, media gallery, initiatives, events, research area, document repository and the help section. A calendar on the home page will highlight the events and meetings scheduled by each central bank. The sections on events and media will disseminate information on upcoming events and enable easy sharing of documents and media related to these events. The initiatives tab will track the progress made under major initiatives like the swap facility, macroeconomic surveillance, database and the initiatives under the SAARCFINANCE Roadmap of co-operation. The research section of the portal will streamline the communication amongst the researchers doing the collaborative studies. The document repository tab will store all the documents related to all the above sections and build the archives of SAARCFINANCE. The Resource hub hosts the two newly launched initiatives – the Financial Inclusion Platform and the Directory of Retired Resource Persons.

The portal aims at encouraging free and open dialogue between the nodal officers and coordinators and, to ensure this, the greatest emphasis has been placed on security. The login to the portal will be through two-factor authentication to prevent unauthorised access. While the portal is hosted by the Reserve Bank, it is the common intellectual property of all SAARC central banks, with equal right of access and documentation. Since its launch, several rounds of familiarisation sessions have been conducted with the partner central banks.

away from a cash economy to a digital economy are also presented in the paper. It is envisaged that these papers will help set a foundation for capacity building in these areas.

Directory of Retired Resource Persons

The Royal Monetary Authority of Bhutan circulated the 'Framework for Recruitment of Retired Officials of the SAARC Central Banks' with a view to tap into the expertise and experience of retired officials from the SAARC central banks. The Reserve Bank, in its Chair, took this initiative further by preparing the procedural guidelines to operationalise this framework. These helped in identifying the experts, who would provide consultancy support to other central banks, under key areas which include monetary policy, banking and nonbank supervision and regulation, payment systems, IT, internal audits, currency management, macroeconomic and microeconomic research, etc. A directory of these identified experts has been built and this will be updated annually. This 'Directory of Retired Resource Persons' is available on the SAARCFINANCE Sync portal.

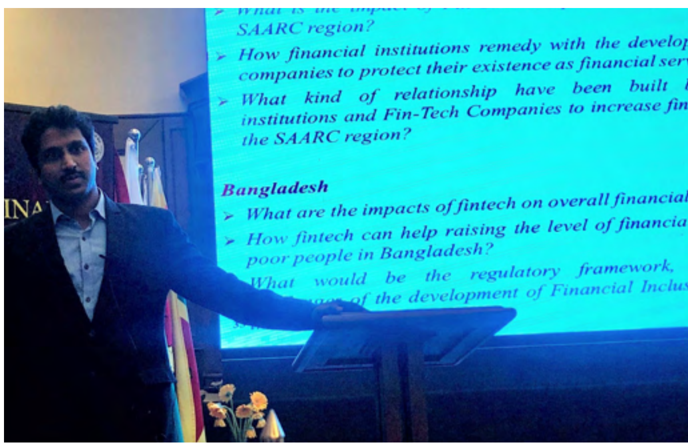


Financial Inclusion Platform

The Financial Inclusion Platform, hosted on the SF Sync Portal, is a repository of initiatives taken by the SAARC central banks to promote financial inclusion and financial literacy. The platform includes strategy papers, policy documents, financial literacy material, SOPs of conducting outreach programs, research papers, etc. These documents will be accessible to the officers of the operational departments of SAARC central banks and will facilitate policymaking through shared experiences and initiatives.

SAARCFINANCE Collaborative Studies

The Reserve Bank initiated the SF Collaborative Study on "Fintech and Financial Inclusion" during the year. The zero draft of the study is proposed to be produced by end-March 2021 and the final study is likely to be completed by end-July 2021. Central Bank of Sri Lanka which had taken the lead on the Collaborative Study on "Comparison of Financial Sector Regulatory Regimes in the SAARC Region", has completed the study and presented it at the 41st SAARCFINANCE Governors' Group Meeting in March 2021. The revisions to the modalities of collaborative studies, originally initiated by the State Bank of Pakistan, were accepted at the 40th SF Governors' Group Meeting. Collaborative studies have received a boost with the Research section on the recently launched Sync Portal. The section will enable sharing of documents and data and facilitate discussions amongst the researchers through the chat facility.



Seminar on Leveraging Fintech for Financial Inclusion: Opportunities and Challenges

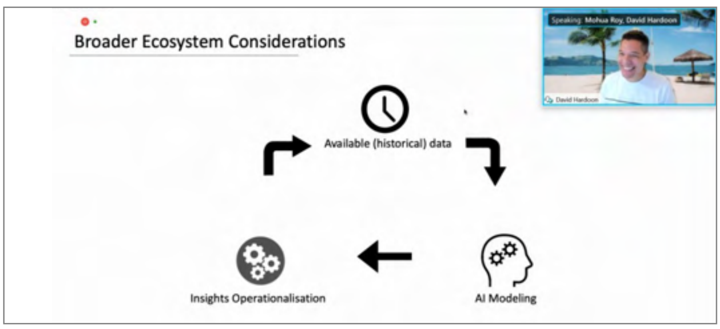
The SAARCFINANCE Seminar on "Leveraging Fintech for Financial Inclusion: Opportunities and Challenges" was organised by the Reserve Bank on February 05-06, 2020 at Udaipur, India. The Seminar was inaugurated by Mr. M Rajeshwar Rao, Deputy Governor (then Executive Director), Reserve Bank who discussed major developments and policy initiatives in Fintech and Financial Inclusion. Mr. Leonardo Gambacorta, Head of Innovation and the Digital Economy Unit, Bank for International Settlements (BIS) delivered the keynote address on "Big Techs and Financial Inclusion". Sessions on various aspects of fintech and financial inclusion – from the point of view of both regulators as well as market participants were arranged. It also included a panel discussion on the subject "Is Fin-Tech the Best Driver of Financial Inclusion in Emerging Markets and Developing Economies?"; SAARCFINANCE survey on Fintech and Financial Inclusion in SAARC countries; and the proposed collaborative study on "Fintech and Financial Inclusion".

High-Level Webinar on COVID-19

Nepal Rastra Bank organised a High-Level Webinar on "COVID-19: Policy Sharing by central banks SAARCFINANCE" on June 25, 2020. Mr. Chinta Mani Siwakoti, Deputy Governor, NRB inaugurated the session and discussed the economic and financial impact of the pandemic in Nepal. This was followed by presentations by the participating central banks on the policy responses implemented by their respective central banks in response to the COVID-19 pandemic.

Virtual Seminar on Artificial Intelligence and Central Banking

The Reserve Bank of India organised a virtual seminar on August 12, 2021 on the topic "Artificial Intelligence and Machine Learning in Central Bank Operations and its Challenges", which was conducted by Dr. David Hardoon, Senior Advisor for Data and Artificial Intelligence at Union Bank, Philippines. Dr. Hardoon emphasised the potential applications of AI for central banks in the field of AML, KYC, etc.



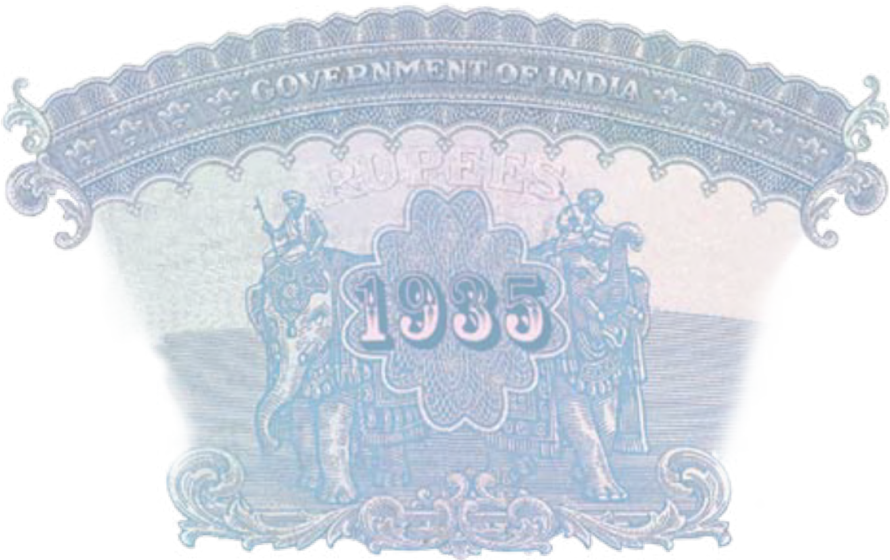
and the various aspects of AI including data collection, algorithmic convergence, Reg-tech, Sup-tech, etc. He also stressed upon the importance of developing guidelines in the use of AI in the financial sector to ensure fairness, ethics, accountability and transparency.

Webinar on "The Promise of Fintech: Financial Inclusion in the Post-COVID Era"

A webinar on the topic "The Promise of Fintech: Financial Inclusion in the Post-COVID Era" was organised by the Reserve Bank on November 23, 2020. The talk was delivered by Dr. Ratna Sahay, Deputy Director, Monetary and Capital Markets Department, IMF. Dr. Sahay talked about the positive impact of financial inclusion on growth and reduction of inequality. She found that fintech played an important role in boosting financial inclusion in areas like payment and lending.

Webinar on Financial Inclusion

SAARCFINANCE Webinar on "Financial Inclusion" was organised virtually by the Nepal Rastra Bank on December 02, 2020. Mr. Maha Prasad Adhikari, Governor, Nepal Rastra Bank delivered the welcome speech to all the delegates and participants of the webinar. This was followed by remarks from the SAARC Secretary General, Mr. Esala Weerakoon, and keynote speech by Mr. Fazle Kabir, Governor, Bangladesh Bank. The webinar, after the inaugural session, was segmented into three business sessions. The first session saw paper presentation by Mr. Robin Newnham, Head of Policy Analysis, AFI; the second session was on country paper presentations by participating countries; and the third session was a panel discussion on the theme of Financial Inclusion. The respective sessions were chaired by Ms. Nangsi Dema, Head, Financial Inclusion Secretariat, Royal Monetary Authority of Bhutan; Mr. Ahmed Imad, Deputy Governor, Maldives Monetary Authority and Mr. Anil Kumar Sharma, Executive Director of Reserve Bank of India.


GOVERNMENT OF INDIA
RUPEES
1935

Section: 02

Macro-Economic Trends

Indian Elephant

COVID-19 Pandemic in the SAARC Countries: Impact and Policy Responses

Outbreak and Persistence

COVID-19 started spreading in the SAARC countries in the beginning of 2020 and persisted throughout the year. The number of COVID-19 cases and the ensuing number of deaths began rising rapidly (**Figure 1a and 1b**). The daily number of confirmed COVID-19 cases and the daily number of confirmed deaths due to COVID-19 in India continued to increase till September 2020. Pakistan and Bangladesh observed a high rate of infections, though at a lower level compared to India. The number of new infections and fatalities have started to fall continuously in India after September 2020 while a few other SAARC countries are facing a mild second wave.

Figure 1a: Daily number of confirmed COVID-19 cases (7-day rolling average)

SAARC Excluding India

India

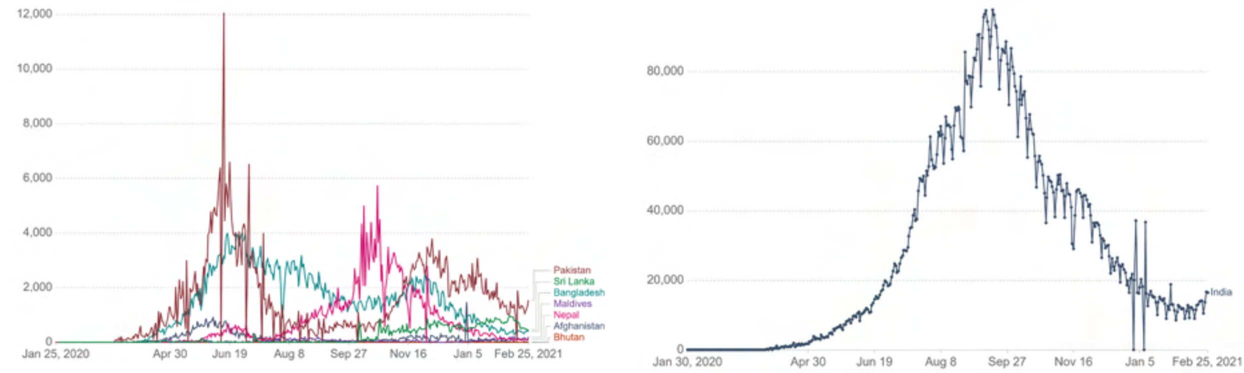
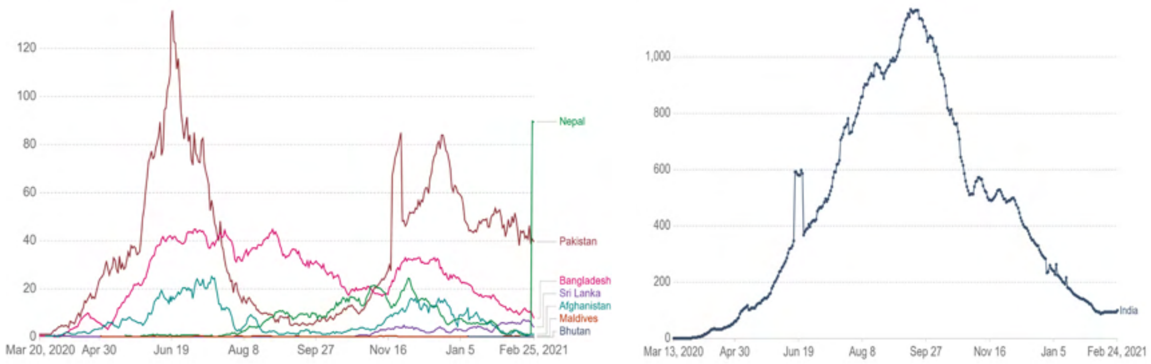


Figure 1b: Daily number of confirmed deaths due to COVID-19 (7-day rolling average)

SAARC Excluding India

India

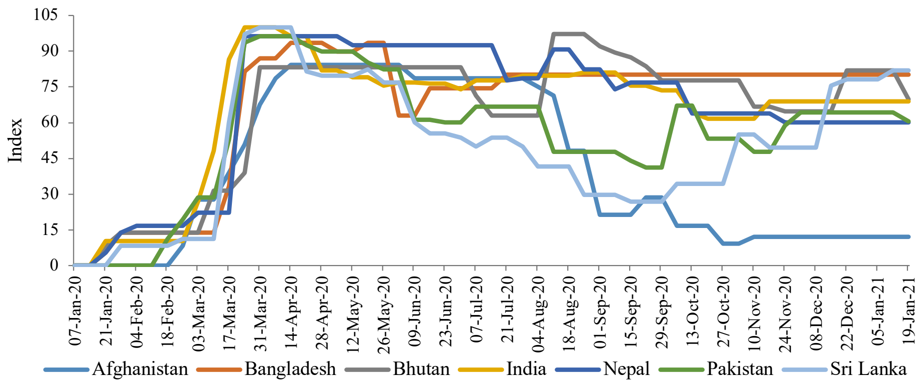


Source Figure 1a and 1b: Johns Hopkins CSSE COVID-19 data accessed through Our World in Data (February 26, 2021)

Contributed by Regional Financial Arrangement Division, International Department, Reserve Bank of India.

The governments and the central banks of SAARC countries responded to the COVID-19 crisis by utilising various policy measures available with them. As an immediate reaction to the increasing number of COVID -19 cases, the SAARC countries' governments started enforcing lockdown and containment measures. In the latter half of 2020, these measures were gradually relaxed in some countries. While the containment measures have been eased across all the SAARC nations, there are still variations in containment stringency, partly reflecting the state of outbreaks in different countries 9 (**Figure 1c**).

Figure 1c: Containment Stringency in SAARC Countries



It excludes Maldives as the index is not available.
Note: The Government Response Stringency index is a composite measure of nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100, with 100 being the strictest response.

Source: University of Oxford (accessed February 08, 2021)

Impact on the SAARC Economies

Impact on GDP

According to the IMF World Economic Outlook (October 2020), all SAARC countries would get a serious hit on their GDP growth in 2020 due to the COVID-19 pandemic. Afghanistan, India, Maldives, Pakistan and Sri Lanka are estimated to witness growth contraction in 2020. Bangladesh and Bhutan would be relatively resilient as they are estimated to record positive growth in 2020. However, a sharp economic growth recovery is predicted for SAARC countries during 2021-22 (**Table 1**).

Table 1: Gross domestic product, constant prices (per cent change)

	2019	2020	2021	2022
Afghanistan	3.9	-5.0	4.0	4.5
Bangladesh	8.2	3.8	4.4	7.9
Bhutan	3.8	0.6	-0.5	5.8
India	4.2	-10.3	8.8	8.0
Maldives	5.7	-18.5	12.7	11.0
Nepal	7.1	0.0	2.5	6.0
Pakistan	1.9	-0.4	1.0	4.1
Sri Lanka	2.3	-4.6	5.3	5.0

Shaded blue cells indicate IMF staff estimates

Source: International Monetary Fund,
World Economic Outlook Database, October 2020

The agriculture and allied activities provided a silver lining to most of the SAARC countries during the pandemic time with a relatively higher growth in comparison to industry and service sectors. While manufacturing was also adversely affected, service sector was the worst hit in all countries. While the economic structure varies widely among the SAARC countries, the sectors which have been severly impacted in all SAARC countries are examined below.

Impact on Travel and Tourism

The sector which was immediately and directly impacted due to imposition of travel restrictions was the travel and tourism sector. Contribution of travel and tourism sector to GDP (per cent) in the SAARC countries are reported in **Table 2** below.

Table 2: International Tourist Arrivals into SAARC Countries (percentage change y-o-y)

	Contribution to GDP (2016-18 average, in per cent)	2017-18	2018-19	2020 Q1	2020 Q2	2020 Q3
Afghanistan	-	-	-	-	-	-
Bangladesh	4.36	12.5	21.0	-	-	-
Bhutan	-	7.6	15.1	-37.3	-	-
India	9.43	12.1	2.8	-22.6	-100	-100
Maldives	75.49	6.8	14.7	-20.8	-100	-95.1
Nepal	7.69	24.8	2.1	-30.8	-99.9	-99.6
Pakistan	7.33	-	-	-	-	-
Sri Lanka	11.66	10.3	-18	-31.5	-100	-100

(-) Data not available

Source: World Tourism Barometer (Vol. 18, December 2020), UNWTO

Tourist inflows dried up in almost all the SAARC economies by the second quarter of 2020 (**Table 2**).

Impact on Trade and Current Account Balance

With the spread of COVID-19 and ensuing health measures taken globally, the demand and supply channels of international trade were adversely affected. The disruptions in global demand and supply was reflected in the sharp decline in exports and imports of the SAARC countries. IMF projections for the exports and imports of goods and services in the SAARC countries for 2020 and 2021 are presented in the figures below (**Figure 2a and 2b**) together with the actual data for the years before that. IMF projects a V-shaped recovery in the exports and imports as the SAARC countries come out of the COVID-19 slowdown in 2021.

Current account deficit (per cent of GDP) has improved for Bangladesh, Bhutan, Nepal and Pakistan in 2020 in comparison to the preceding year. India has recorded a surplus in 2020 on account of a sharp contraction in the trade deficit due to steeper decline in merchandise imports relative to exports. The deficit has widened for Maldives and Sri Lanka in 2020 (**Table 3**).

Figure 2a: Volume of Exports of Goods and Services

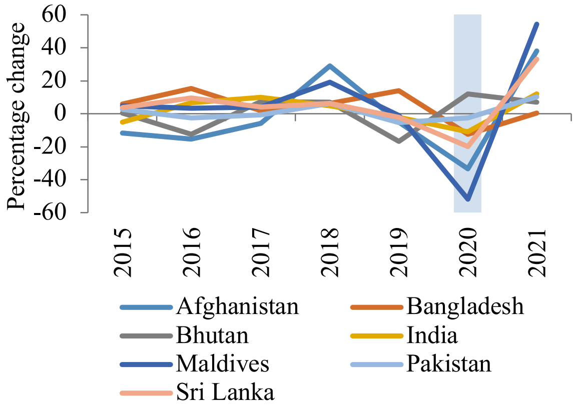
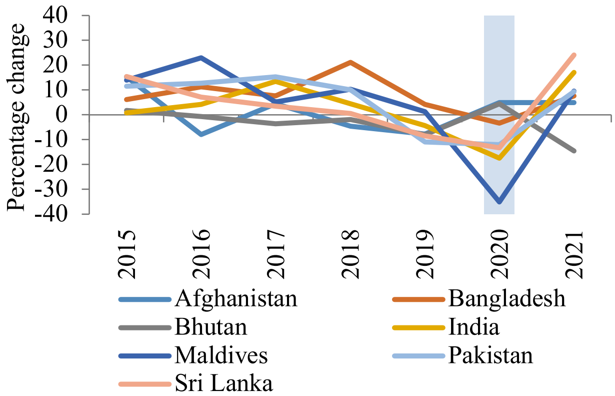


Figure 2b: Volume of Imports of Goods and Services



Data not available for Nepal. Figures for all the SAARC nations except Pakistan are projections after 2019. For Pakistan the 2020 figure is actual.

Source: WEO Database, October 2020

Table 3: Current account balance (Per cent of GDP)

	2019	2020	2021	2022
Afghanistan	11.7	9.5	7.8	7.9
Bangladesh	-1.7	-1.5	-2.8	-1.4
Bhutan	-22.5	-21.4	-13.5	-12.4
India	-0.9	0.3	-0.9	-1.6
Maldives	-26.0	-31.8	-17.0	-9.8
Nepal	-7.7	-2.5	-6.9	-5.7
Pakistan	-4.9	-1.1	-2.6	-2.5
Sri Lanka	-2.2	-3.6	-3.2	-2.6

Shaded blue cells indicate IMF staff estimates

Source: International Monetary Fund, World Economic Outlook Database, October 2020

COVID-19 Related Policy Responses in SAARC Countries

This section covers the policy measures undertaken by the Governments and central banks of SAARC countries in order to alleviate the disruptions from the COVID-19 pandemic. It provides a broad summary of policy responses without specifying the details of the policies.

Measures taken by the Governments of SAARC countries

The governments of SAARC countries have responded to the COVID-19 crisis by deploying various policy measures to address three primary concerns: limiting the spread of infections, providing support to people at the margin, and reviving the economy. To arrest the speed of spread of infections, SAARC countries have initiated lockdowns, quarantines, social distancing measures and wide-ranging support to the health infrastructure. Support has been extended to daily wage earners and people at the margin. For reviving the economy, financial support and relief have been provided through several measures to the industries affected by closures and supply chain disruptions.

Fiscal support measures can be broadly divided into direct spending, foregone or deferred revenue and below-the-line measures designed to support businesses and shore up credit provision to several sectors. The key fiscal measures include, transfers in cash and kind (food, cooking gas) to lower-income households, insurance coverage for health workers, fund allocation on health infrastructure, concessional credit to farmers, credit support to poor households and businesses, wage support and employment provision to low-wage workers. Measures to support agriculture, export-oriented industries, and cottage, micro, small and medium enterprises were announced. Subsidies for payment of interest on working capital loans, credit guarantee, extension of dates for filing of various taxes and relaxation to tourism-related sectors were other policy measures.

The Government of Afghanistan allocated funds towards emergency pandemic response out of its contingency funds. The Government of Bangladesh, with the collaboration of Bangladesh Bank (BB) has announced a series of stimulus packages and refinances schemes to recover from the COVID-19 related economic losses, which are 4.4 per cent of GDP amounting to USD 14.4 billion. The Bhutanese government provided support through National Relief Fund and provided fiscal stimulus in the budget. The Government of Bhutan has been mobilising additional resources to support capital spending, including the first sovereign offering of a 3-year domestic bond. In India, in addition to relief in cash and kind, the economic fallout was addressed by the national authorities with measures being undertaken under the *Atmanirbhar Bharat Abhiyan* (ABA). The measures, covering the announcements by both the Government of India and the Reserve Bank of India, would aggregate around 27 lakh crore or 13 per cent of GDP. Government of Maldives implemented an Economic Recovery Plan (ERP) of 2.5 billion Rufiyaa (3.5 per cent of GDP). A 'COVID-19 Recovery Loan Scheme' for SMEs and financial aid for students abroad were also implemented. The Nepal Government has announced various measures in health care, SMEs, and tourism sector. The Government of Pakistan announced a package worth PKR 1.2 trillion directed at health, agriculture, exports, SMEs and to vulnerable sections including daily wage workers and low-income families. The Sri Lankan Government established a Task Force for Economic Revival and Poverty Eradication and a special fund for containment, mitigation and social welfare spending, inviting local and tax-free foreign donations.

In order to combat COVID-19 in the region, the Prime Minister of India proposed the creation of a COVID-19 Emergency Fund based on voluntary contributions from all the SAARC member countries. The Fund can be used by any of the partner countries to meet the cost of immediate actions. This fund has till date received a contribution of US$ 10 million from India, US$ 5 million from Sri Lanka, US$ 3 million from Pakistan, US$ 1.5 million from Bangladesh, US$ 1 million from Afghanistan and US$ 0.83 million from Nepal, US$ 0.2 million by Maldives and US$ 0.1 million by Bhutan.

Measures by the SAARC central banks

The central banks in SAARC countries have used conventional and unconventional policies to shield the economies from the adverse impact of COVID-19 pandemic. Majority of them have slashed the policy rates and cash reserve ratios (**Figure 3a and 3b**) with an accommodative monetary policy stance. There were off-cycle meetings of the monetary policy committees to respond to the pandemic. The central banks have injected liquidity into the financial markets through measures which, illustratively, include long-term repo operations, targeted long-term repo operations, liquidity adjustment facility and open market operations. The central banks provided many regulatory forbearance measures during the pandemic. Some countries have provided support to the borrowers through interest payment and debt repayment moratorium. Most of the central banks have announced refinancing facilities, credit guarantee, credit relaxation measures like delay in the classification of non-performing loans, relaxed rescheduling policy, waiver of credit card fees and interests, suspension of loan interest payments, deferred interest on working capital repayments, restrictions on the payment of dividend by banks, greater intervention in the foreign exchange market, conversion of working capital loans to term loans for selective sectors, increasing the credit limit for select sectors and relaxing regulatory criteria for restructured loans.

Figure 3a. Policy rate cut by SAARC central banks since March 2020 (in bps)

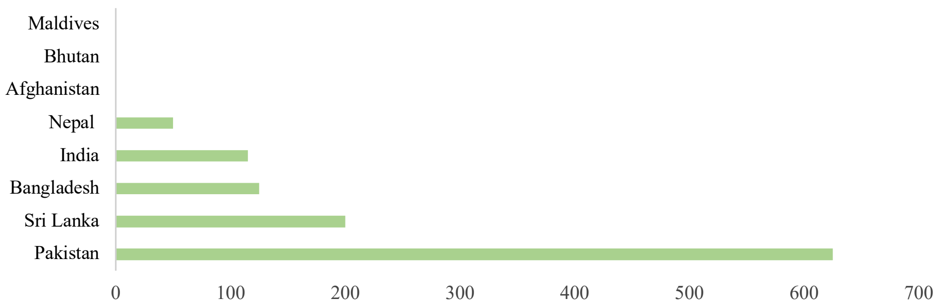
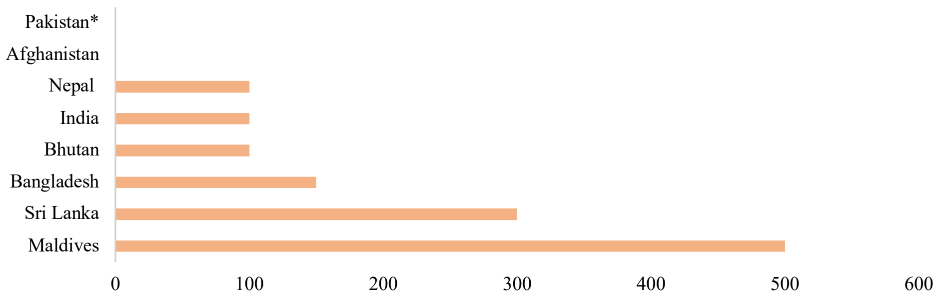


Figure 3b: Cut in Reserve Requirement by SAARC central banks since March 2020 (in bps)



* Pakistan reduced CRR on its foreign currency deposits by 500 bps

Source: SAARC central banks;

Most of the SAARC central banks have activated an elaborate business continuity plan for its own operations and for the smooth functioning of banking, financial markets and payment systems. They have undertaken measures to strengthen off-site surveillance mechanism. A few of the SAARC central banks availed IMF loans and currency swap facilities to manage their external sector pressures. A snapshot of policy responses is provided in Policy Matrix **(Table 4)**.

Table 4: Policy Matrix in SAARC Central Banks

Policies	AFG	BAN	BHU	IND	MAL	NEP	PAK	SL
Monetary Policies								
Policy rate cuts		Y		Y		Y	Y	Y
Central bank liquidity support	Y			Y	Y	Y	Y	Y
Central bank swap lines			Y		Y			Y
Central bank asset purchase schemes*		Y		Y				
Reserve requirement			Y	Y				
External Policies								
Foreign currency intervention		Y		Y		Y	Y	Y
Capital flow measures		Y					Y	Y
Financial Policies for Banks								
Easing of countercyclical capital buffer						Y		Y
Easing of systemic risk or domestic capital buffer							Y	
Use of capital buffers			Y	Y			Y	
Use of liquidity buffers				Y				
Adjustments to provisioning requirements		Y		Y	Y	Y		Y
Financial Policies for Non-Banks/ Financial Institutions								
Liquidity support		Y		Y				Y
Support for borrowers								
State loans or credit guarantees		Y	Y	Y	Y		Y	Y
Restructuring of loan terms/ moratorium on payments	Y	Y	Y	Y	Y	Y	Y	Y
Liquidity support as a per cent of GDP		4.0	4.9	6.3**			4.0	

*Direct/Indirect asset purchase

**From February 2020 to February 2021

Trends in Macroeconomic Surveillance Indicators in SAARC Countries

Afghanistan

The year 2020 posed economic challenges of enormous proportions to the struggling Afghan economy. COVID-19 outbreak and the subsequent restriction measures pushed the economy of Afghanistan into a deep recession. Intermittent border closures and subdued demand in domestic and international markets left a substantial negative impact on businesses. Overall growth was largely driven by agricultural sector while services and industrial sector showed downward trend. The declining trend of economic activity persisted throughout the second quarter with the worst impact on the livelihoods of the vulnerable and poor population of the country, resulting in unprecedented increases in unemployment and poverty. The Afghan government relaxed restrictions in the start of the third quarter which triggered the normalisation of economic activities in the country.

Headline inflation increased to 5.78 per cent on average in the fourth quarter of 2020 from 1.70 per cent in the same period of the previous year. The external sector data shows deficit in current account and it has decreased by 26 per cent to a value of US$ 2,254.26 million in the first nine months of the FY 2020. The decrease in current account deficit was mainly due to a 10 per cent decline in merchandise trade deficit, 37.34 per cent decline in services account deficit and increase of 53.19 per cent in official grants inflow to the government sector. Capital inflows stood at a value of US$ 264.90 million in the first nine months of the FY 2020 from a value of US$ 689.26 million recorded in the same period of the year 2019. In terms of BoP, the official reserve assets increased significantly by almost 118 per cent in the first nine months of the FY 2020 compared to similar period last year.

Headline inflation increased to 5.78 per cent on average in the fourth quarter of 2020 from 1.70 per cent in the same period of the previous year.

According to fiscal data, the budget deficit in 2020 reached the vicinity of AF 40.0 billion at the end of current fiscal as expenditure raced up to AF 433.0 billion and the revenue collection reached AF 393 billion. The total core budget (revenue including grants) marginally decreased from US$ 5.21 billion in FY 2019 to US$ 5.11 million in FY 2020 indicating a decrease of US$ 97 million, equal to 2 per cent of decrease in total core budget on an annual basis. In 2020, reserve money has grown by 9.52 per cent, lower than 11.6 per cent in the same period of previous year. Broad money (M2) recorded increase of 12.07 per cent in the FY 2020, while it registered 5.7 per cent growth in the fiscal year 2019. Net international reserves (NIR) witnessed an accumulation in the fiscal year 2020, reflecting an increase of 5.0 per cent.

Bangladesh

Bangladesh's economy had to bear substantial economic losses due to the Covid-19 pandemic, resulting in significantly lower real GDP growth rate of 5.24 per cent in FY20, as compared with the actual growth rate of 8.15 per cent recorded in FY19. Annual average CPI-based general inflation rate stood at 5.65 per cent in FY20, slightly up from the target ceiling rate of 5.50 per cent as well as the actual inflation rate of 5.47 per cent in FY19. The annual average non-food inflation, particularly related to medical care and health expenses, and disruption of supply chains due to coronavirus pandemic were largely responsible for the higher inflation rate.

The current account balance (CAB) as a per cent of GDP improved in FY20. CAB as a per cent of GDP improved to -1.47 per cent in FY20 compared to -1.70 per cent registered in FY19. This improvement was primarily from the increase in secondary income, *i.e.*, inflow of workers' remittances. The foreign exchange reserves were sufficient to pay the import liability of 8.1 months as on end-June 2020, as compared to 6.3 months in the corresponding period of FY19. National debt as a per cent of GDP stood at 35.90 per cent in FY20, of which domestic debt was 22.50 per cent of GDP and external debt was at 13.40 per cent in FY20. Domestic credit, comprising both private and public-sector credit, as a per cent of GDP, increased to 46.60 per cent in FY20, as compared to 45.20 per cent in FY19.

The foreign exchange reserves were sufficient to pay the import liability of 8.1 months as on end-June 2020, as compared to 6.3 months in the corresponding period of FY19.

Fiscal deficit was also maintained at a sustainable level. Fiscal deficit, as a per cent of GDP, stood at 5.50 per cent, against the target of 5.00 per cent in FY20. The rise in fiscal deficit was on account of lower-than-expected revenue income and higher health-related government expenditure resulting from Covid-19 pandemic.

To reduce the cost of fund for scheduled banks as well as ensure liquidity in the market during the pandemic, Bangladesh Bank reduced its repo rate to 5.25 per cent in FY20 compared to 6.00 per cent in FY19. The reverse repo rate stood at 4.75 per cent in FY20. Effective from July 30, 2020 the repo rate was reduced by 50 basis points to 4.75 per cent and the reverse repo rate was reduced by 75 basis points to 4.00 per cent.

The gross and net NPL decreased significantly in 2020 due to the loan moratorium facility announced by the Bangladesh Bank during the Covid-19 pandemic. The gross NPL stood at 9.16 per cent in FY20, compared to 11.7 per cent in FY19. Besides, net NPL was 0.15 per cent in FY20 as compared to 2.5 per cent in FY19.

Bhutan

Bhutan's GDP growth was recorded at 5.50 per cent in 2019. The growth was largely contributed by hydropower, education, and health sectors. However, the growth momentum is expected to turn negative in 2020 as a result of severe economic disruption caused by the COVID-19 pandemic and repeated lockdowns. With the spread of COVID-19 globally, GDP is estimated to fall by 2.8 per cent in 2020, due to negative growth in services and manufacturing sector. The contraction of economic activities caused a large displacement in employment, bringing disruption in the labor market. In the medium- term, the overall unemployment rate is anticipated to have increased from 2.70 per cent in 2019 to 12.00 per cent in 2020.

Headline inflation recorded average of 2.50 per cent in January 2020. The inflation was largely influenced by rise in prices of food (3.90 per cent) compared to non-food (1.20 per cent). Supply chain disruptions in the food sector are expected to continue, pushing up food prices over the medium-term. Nevertheless, a sizeable drop in aggregate demand will offset potential cost-push inflation; thereby, overall inflation is expected to remain at around 6.00 per cent in the medium-term.

Fiscal deficit was recorded at 6.20 per cent of GDP in 2019-20 as compared to 1.60 per cent in 2018-19. The higher deficit was attributed to a substantial increase in budget outlay by 28.00 per cent, on account of a significant increase of capital budget (31.00 per cent) in 2019-20. With the rising demand for resources to contain the COVID-19 pandemic and also increased proposals for the capital budget to accelerate the Plan activities, the fiscal deficit is expected to remain elevated at 7.50 per cent of GDP in the medium-term.

The domestic borrowing is largely influenced by the government borrowing through issuance of long-term bonds to finance the containment measures for the COVID-19 pandemic.

Current account deficit contracted in FY 2019-20 to 12.20 per cent of GDP from 21.20 per cent in FY 2018-19. The change in current account deficit was attributed to improvement in trade balance due to decrease in imports of non-essential items, followed by growth in secondary income receipts. However, the positive flows in financial and capital accounts turned the overall balance of payment positive and sufficient to finance 18 months of merchandise and service payments. While external position remained vulnerable due to the pandemic, the overall balance of payment was expected to improve further with a decrease in the import of non-essential goods and services and continued undisrupted export of electricity.

While the external debt position at 121.80 per cent of GDP in 2019-20 was a major concern and a challenge, however, more than 60.00 per cent of the external debt constitute hydro-power project debt, which is on a contractual basis and is self-liquidating. With the increasing need to fill up the government resources gap, public debt was expected to increase by 8.20 per cent in the medium term from Nu. 215.4 billion in 2019-20, both contributed by domestic and external borrowing. The domestic borrowing is largely influenced by the government borrowing through issuance of long-term bonds to finance the containment measures for the COVID-19 pandemic.

In the absence of a vibrant capital market, the financial institutions remain the main source of investment and lending avenue for private sector development. Domestic credit continues to grow amidst COVID-19, supported by monetary and fiscal measures, accounting for 81.20 per cent of GDP in 2019-20 and amounting to Nu. 146.4 billion. Of the total credit, more than 40.00 per cent of the credit is concentrated in the service and construction sector, exposing larger risk for credit and financial stability. With economic activities decelerating due to the COVID-19 pandemic, domestic credit was expected to moderate in the medium-term as credit risks increased.

India

The Indian economy was hit hard by the COVID-19 outbreak. Economic activity declined sharply during April-May 2020 due to the COVID-induced lockdown. High frequency indicators pointed to a collapse in demand beginning in March-April 2020 across both urban and rural segments. Investment demand has been virtually halted during this period. Private consumption, which accounts for about 60 per cent of domestic demand, has suffered the most. PMI manufacturing for April recorded its sharpest deterioration to 27.4, spread across all sectors, and the services PMI plunged to an all-time low of 5.4 in April 2020. Reflecting this, the Indian economy recorded a contraction of 24.4 per cent in Q1 of 2020-21 and 7.3 per cent in Q2 of 2020-21. The central government's revenue receipts were impacted during April-August 2020 by large declines in both direct and indirect tax collections while expenditure increased significantly. However, the agricultural sector has emerged as a bright spot on the back of good spatial and temporal progress of the south-west monsoon. For the entire year 2020-21, the GDP growth is estimated to be -7.7 per cent which is projected to recover to 10.5 per cent in 2021-22.

A series of conventional and unconventional monetary, liquidity, regulatory and fiscal measures implemented by the authorities along with consistent decline in the number of COVID-19 cases since September 2020 have helped the economy to recover in the second half of 2020. The consumption of petrol and diesel also emerged out of contraction. Sales of consumer durables have surged across categories such as smartphones, consumer electronics and automobiles. E-commerce platforms recorded a huge acceleration in sales. Mirroring these indicators of the revival in domestic spending, tax collections have improved as well.

India's foreign exchange reserves were at US$ 590.2 billion on January 29, 2021 – an increase of US$ 112.4 billion over end-March 2020.

The inflationary pressures were evident throughout the year 2020 with breaching of the upper tolerance threshold since June 2020 due to the upward pressure emanating from supply chain disruptions and spiking food inflation. However, CPI inflation moved below 6 per cent in December for the first time in the post-lockdown period and remained there in January 2021, supported by favourable base effects and a sharp fall in key vegetable prices.

India's current account recorded surplus for all the quarters in 2020 on account of a sharp contraction in the trade deficit due to steeper decline in merchandise imports relative to exports. However, India's merchandise exports have reached pre-COVID-19 levels and exhibited a growth of 0.1 per cent in December 2020. The merchandise imports finally emerged out of contraction over nine consecutive months and grew by 7.6 per cent (y-o-y) in December 2020. Net foreign direct investment (FDI) flows surged through August-November 2020, driven by fresh equity investments. Net foreign portfolio investment (FPI), which had suffered a sharp outflow in March 2020, has staged a comeback, especially in the equity segment. India's foreign exchange reserves were at US$ 590.2 billion on January 29, 2021 – an increase of US$ 112.4 billion over end-March 2020.

The rolling out of the world's largest vaccination drive, the accommodative monetary policy stance of the RBI, the fiscal stimulus under Atmanirbhar 2.0 and 3.0 and thrust on health and infrastructure sectors in the Union Budget 2021-22 are expected to accelerate the recovery of Indian economy, going ahead.

Maldives

On the back of coronavirus pandemic-led sharp declines in tourism and related sectors, real GDP is projected to contract severely by 29.32 per cent in 2020. The growth of tourism and related sectors were affected deeply by the stringent lockdown and travel restrictions imposed globally. The tourism sector is expected to decline significantly by 68.22 per cent, while the wholesale and retail trade sector is expected to fall by 27.64 per cent. Construction & real estate sector and transportation & communications sector are also expected to contract by 11.38 per cent and 11.08 per cent, respectively.

With regard to government finances, the overall fiscal deficit is projected to worsen significantly to 27.50 per cent of GDP, reflecting the precipitous fall in both tax and non-tax revenues owing to the virus-led economic distress, as well as the rise in capital expenditure of the government. Mirroring these developments, public external debt as a per cent of GDP is estimated to reach 61.25 per cent, while national debt level is expected to reach over 121.45 per cent of the GDP in 2020. The growth in national debt level—which increased to MVR70.37 billion during 2020 from MVR54.25 billion at the end of 2019—stemmed from the rise in both domestic and external debt of the government. The growth in domestic borrowing during the year mainly reflected the net issuance of government securities and monetisation of the fiscal deficit as a result of the ongoing pandemic.

Public external debt as a per cent of GDP is estimated to reach 61.25 per cent, while national debt level is expected to reach over 121.45 per cent of the GDP in 2020.

On the external front, as per estimates made in October 2020, the current account deficit is predicted to widen to 29.25 per cent of GDP in 2020. This reflects the significant fall in tourism receipts and the deep economic contraction, which outweighed the decline in imports caused by the pandemic-led slowdown in economic activity, suppressed demand and lower global oil prices. Owing to both the decline in imports and the increase in gross international reserves (primarily due to the US$400 million swap facility obtained from the RBI), reserves as a per cent of imports is projected to improve for the year.

Nepal

The Nepalese GDP is estimated to record a growth of 2.30 per cent in FY 2019-20 as against the target of 8.50 per cent. This implies that growth rate declined by more than 6 percentage points as compared to the target, and by nearly 5.00 percentage points as compared to the average growth rate of past three years. The effect of the outbreak of the pandemic and subsequent lockdown adversely affected the growth in real sectors. Economic growth further slowed down on account of supply disruptions and reduction in domestic demand. Likewise, service sector also got affected due to slowdown in tourist arrivals.

The effect of the outbreak of the pandemic and subsequent lockdown adversely affected the growth in real sectors.

Current account deficit, as a per cent of GDP, improved substantially from 7.60 per cent in 2018-19 to 0.90 per cent in 2019-20. The import cover of the reserves increased from 7.80 months in 2018-19 to 12.70 months in 2019-20. The national debt, increased to 37.70 per cent in 2019-20, of which external debt was 21.40 per cent and domestic debt was 16.30 per cent. Credit off-take has been steady in the last few years. Domestic credit, as a percentage of GDP, increased from 96.70 per cent in 2018-19 to 100.70 per cent in 2019-20. The twelve-month average inflation rate continued its uptrend, moving from 4.60 per cent in 2018-19 to 6.20 per cent in 2019-20. On the fiscal side, a consolidation was evident in the form of lower budget deficit — as a per cent of GDP— falling from 7.20 per cent in 2018-19 to 6.20 per cent in 2019-20.

Pakistan

Pakistan's economy has been showing visible signs of recovery by February 2020 following the stabilisation program and the consequent decline in twin deficits. However, the onset of Covid-19 at the beginning of Q4 FY20 and a countrywide lockdown put almost a halt to economic activity, overshadowing the signs of recovery that had emerged in earlier three quarters. By end-June 2020, the government relaxed some of the restrictions and opted for a smart lockdown mainly to revive activity. Nonetheless, by then, economic growth had already been hit and contracted by 0.4 per cent in FY20 compared to 1.9 per cent growth in FY19. This is the lowest growth rate recorded since 1952.

Inflationary situation remained encouraging despite Covid related uncertainty and supply chain disruptions. Fall in global crude oil prices, easing of food prices and the government's decision to postpone further upward adjustments in power tariffs, led to a fall in both headline and core inflation. On the other hand, following the monetary and fiscal relief measures, a significant amount of liquidity was injected into the system. However, domestic demand remained weak due to limited work opportunities and subdued sales growth, which put businesses and households under severe financial constraints. All the available high frequency indicators such as petroleum sales, cement dispatches, and automobile sales, pointed towards weak retail activity.

On the external front, the current account deficit (CAD) fell to a five-year low during FY20, mainly on the back of decline in import payments and high remittance inflows. Especially non-energy import demand declined significantly due to the stabilisation measures in the recent past and a shift towards indigenous sources. The lower CAD level significantly reduced the country's need to arrange external financing. Though the Covid-19 pandemic brought some disruption in Q4 FY20 – as export receipts declined sharply after growing in the first three quarters and as outflows were recorded from portfolio investments – the cumulative impact was offset by a steep fall in import payments due to, *inter alia*, a drop in international oil prices and increased financing from International Financial Institutions (IFIs). The contraction in the current account deficit, along with financial support from IFIs and foreign inflows to local debt market led to almost US$ 5 billion increase in the SBP's liquid reserves and US $ 2.3 billion decrease in the central bank's net forward liabilities. Nevertheless, the Pak Rupee depreciated 4.80 per cent *vis-à-vis* the US dollar in FY20, mainly because of portfolio outflows in March, and retirement of foreign obligations in Q4 FY20.

On the fiscal side, the outbreak of Covid-19 led to a doubling of the fiscal deficit in Q4 FY20 undermining the gains of the first three quarters. The government stimulus package for households, businesses and health care together with lockdown exerted a pressure on both expenditure and revenue. Although higher from a sustainability standpoint, the full-year budget deficit (8.1 per cent) was still lower than the last year's level (8.90 per cent). This was achieved on the back of earlier gains which had created enough fiscal space to tackle the Covid-19 shock and kept the fiscal deficit low.

Inflationary situation remained encouraging despite Covid related uncertainty and supply chain disruptions.

The pace of public debt accumulation slowed considerably during FY20, due to utilisation of accumulated government deposits, lower revaluation losses, and higher debt servicing which helped control the speed of debt build-up during the year. More than two-third of the rise in public debt during FY20 emanated from government domestic debt. Importantly, the government adhered to its commitment of zero fresh borrowing from the central bank and relied on scheduled banks and non-banks for its financing needs. The year also saw a record surge in foreign investment in domestic debt instruments, though most of this capital reverted during the Covid-driven global sell-off. In dollar terms, the rise in external debt was relatively modest compared to last year. External debt sustainability indicators broadly improved during FY20 due to lower debt accumulation and the rise in the country's FX reserves. Pakistan also applied for the G-20 Debt Service Suspension Initiative (DSSI) in the last quarter of FY20, which eased the pressure on debt servicing and provided fiscal space to spend on social and health sectors.

Sri Lanka

As per the GDP estimates published by the Department of Census and Statistics (DCS), the Sri Lankan economy contracted by 1.70 per cent and 16.30 per cent in the first and second quarters of 2020, respectively. This was followed by a rebound in the third quarter of 2020, recording a growth of 1.50 per cent. However, the onset of the second wave of COVID-19 is expected to have dampened the momentum in the fourth quarter of 2020. Accordingly, the economy is expected to have contracted by around 3.9 per cent in 2020. Nevertheless, the economy is well-poised to rebound in 2021, supported by the unprecedented policy stimulus measures introduced by the Government and the Central Bank, improved domestic economic sentiments, alongside the improving prospects of the global economy.

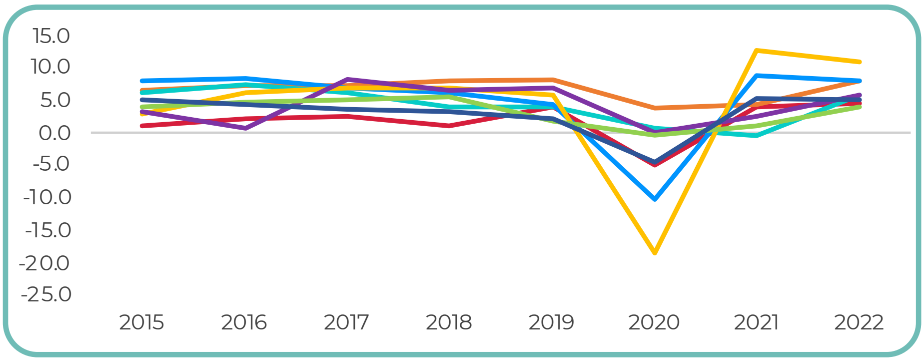
Current account deficit, as a per cent of GDP, improved from 2.2 per cent in 2019 to 1.5 per cent in 2020.

Reflecting the impact of appropriate policy measures to contain the demand pressures on inflation and anchor inflation expectations, the annual average inflation rate continued to remain around mid-single digit levels in 2020, despite some supply-side driven transitory increases in monthly inflation rate.

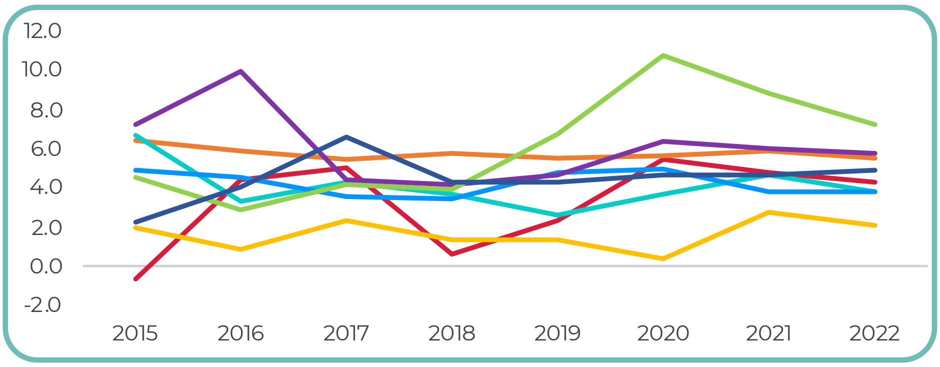
Current account deficit, as a per cent of GDP, improved from 2.2 per cent in 2019 to 1.5 per cent in 2020. This was mainly on account of significant contraction in trade deficit during the year. External debt as a per cent of GDP continued to increase, reflecting the notable rise in external debt of the general government during the past few years. Although the external reserves as a per cent of GDP improved in 2019, a decline in overall reserve position was observed in 2020 with the foreign currency debt service payment made during 2020 and adverse impact caused by the Covid-19 pandemic on external sector stability.

Reflecting the impact of increased budget deficit and the relatively modest growth in nominal GDP, national debt to GDP ratio continued to increase from 86.8 per cent in 2019 to 95.1 per cent in 2020. Fiscal deficit as a per cent of GDP increased from 6.80 per cent in 2019 to 7.90 per cent in 2020. The progress in fiscal consolidation measures adopted was hindered by the pandemic. Supported by the ongoing accommodative monetary policy measures to boost credit flows in the economy in view of reviving economic activity, domestic credit to GDP ratio has risen further to 77.7 per cent in 2020 from 62.5 per cent in 2019.

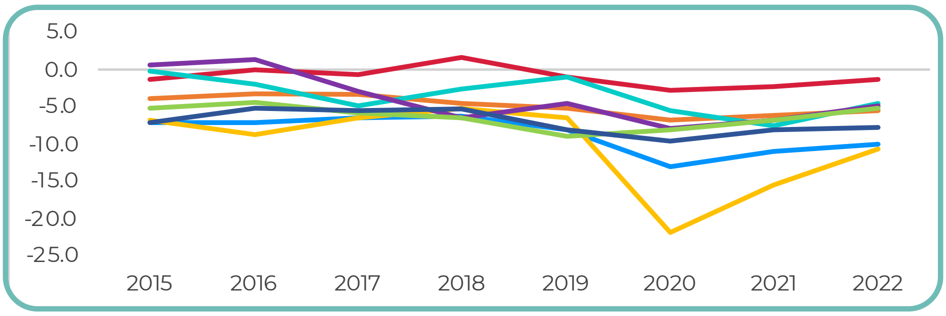
Macroeconomic trends



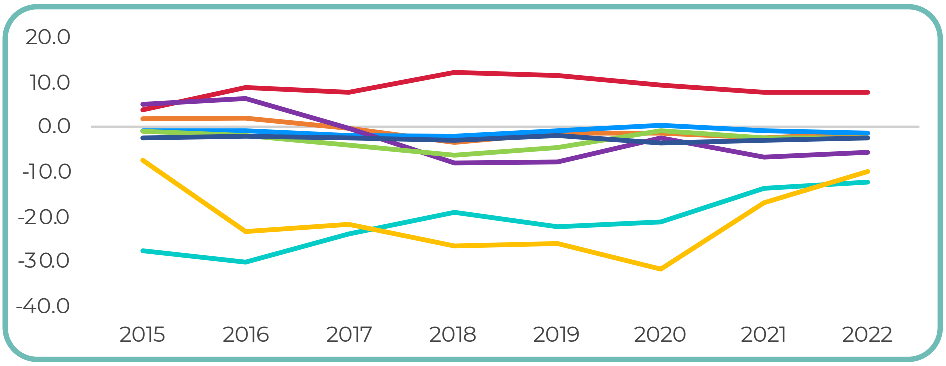
Gross domestic product, constant prices (per cent change)



Inflation, average consumer prices (per cent change)

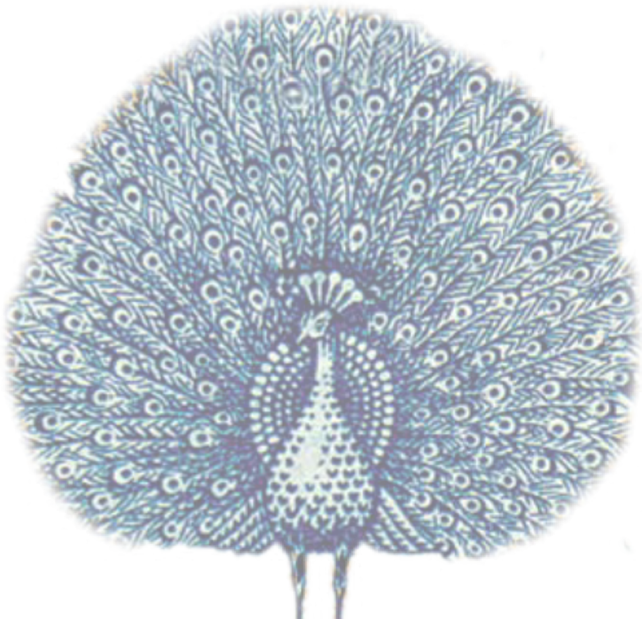


General government net lending/ borrowing (per cent of GDP)



Current account balance (per cent of GDP)

Afghanistan Bangladesh Bhutan India
Maldives Nepal Pakistan Sri Lanka



Section: 03

Feature Articles

Peacock

Role of SMEs in Bangladesh: Opportunities and Challenges

Small and Medium Enterprises (SMEs) have always been an important sector for Bangladesh's economic development due to their labor-intensive nature. SMEs require minimum capital, meet local demands as well as contribute to export earnings, reduce urban migration, increase cash flow in rural areas and contribute towards inclusive growth.

Measures to Encourage SME Lending

The sector has been declared a priority sector by the Government of Bangladesh and the Industrial Policy – 2016 has identified 13 strategies to support SMEs and eliminate existing constraints faced by the sector. In line with government policies, Bangladesh Bank (BB) has already initiated target-based lending for SMEs since 2010. Also, BB is operating various refinance schemes with the help of the government and different development partners for encouraging SME financing.

To accelerate SME activities, BB established a new department, the "SME and Special Programs Department (SMESPD)". It also adopted the SME Credit Policies and Programs (2010), Master Circular on SME financing (2016), and other SME related circulars and circular letters from time to time. The significant steps, regulatory guidelines, and policies taken by BB for SME financing are as follows:

Bank/ financial institution loans to SMEs	20 per cent (which will be increased to 25 per cent by 2021 with a minimum 1.0 per cent increment each year)
Target for sector-wise distribution of overall SME credit portfolio by all Banks/FIs within 2021	40 per cent for manufacturing, 25 per cent for service, and a maximum ceiling of 35 per cent for trading
Requirement for Cottage, Micro, and Small Enterprises in total SME disbursement	50 per cent
Minimum limit of Cottage, Micro, Small and Medium Enterprises (CMSME) loans for Cottage, Micro and Small Enterprises	Tk 10,000, 20,000, and 50,000 respectively
Grace period	Three months for one-year term loan
	Three to six months for medium to long-term loans
Functioning SME monitoring cell	In every bank and FIs including all BB branches
Opportunity for getting a loan at a concessional rate to all disabled SME entrepreneurs under Small Enterprise Refinance Scheme of BB.	Bank rate + 4 per cent
Collateral security under New Entrepreneurs Refinance Scheme in Cottage, Micro and Small Enterprises (CMSE) Sector	More than BDT 1 million for case to case basis
	Up to BDT 2.5 million for new entrepreneurs

Article Contributed by Bangladesh Bank

Intermediation spread between the lending and average deposit rates for all loans, including SME (except credit card and consumer loan)	Within 4.0 per cent (for banks and FIs)
Newly introduced differential loan provisioning	0.25 per cent, which is lower than 1 per cent for general unclassified loans
Risk weight	75 per cent for unrated assets less than Tk 3 million
	100 per cent of above Tk 3 million
	125 per cent for any large unrated group
Specialised credit rating agency	Credit Rating Methodology for Small and Medium Enterprises
Establishment of 'Credit Guarantee Scheme'	The scheme is announced to provide loans for CMSME industries to combat covid-19, and can avail a collateral free loan between Tk 0.2-0.5 million.

Trends in SME Sector

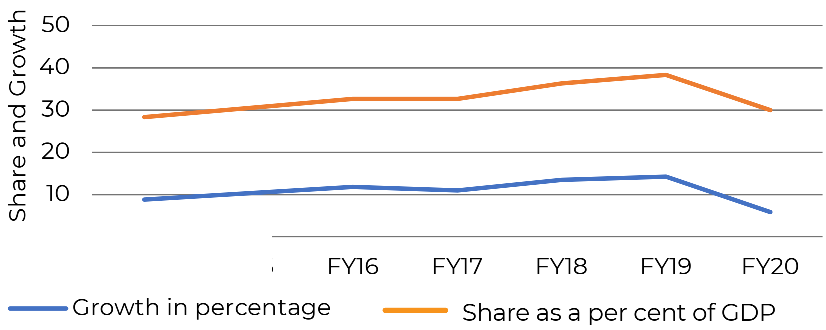
Apart from Bangladesh Bank, several other organisations work for the betterment and development of the SME sector in Bangladesh. These organisations include SME Foundation, Microcredit Regulatory Authority (MRA), Palli Karma-Sahayak Foundation, Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Handloom Board, etc.

Bangladesh Bank is also playing a key role in promoting women entrepreneurship through various policy measures. Bangladesh Bank has taken a number of policy initiatives so as to ensure access of financial facilities to women entrepreneurs on simple terms and conditions. Some of the initiatives of BB are outlined below:

- Instructions have been given to Banks & FIs that expected rate of loan disbursement to women entrepreneurs will be at least 10 per cent of total disbursed loan in CMSME sector and the rate will have to be increased to 15 per cent in 2021.
- To ensure loan facility for CMSME Women Entrepreneurs at a preferential rate, at least 15 per cent of total Small Enterprise Refinance Scheme has been allocated for them at an interest rate cap of bank rate + maximum 4 per cent spread (currently maximum 9 per cent).
- Banks and financial institutions can take the refinance facility from BB for their disbursed collateral free loan up to Tk. 25 lac against personal guarantee, when the borrower is a 'women entrepreneur' or at least 51 per cent share of the borrowing institution is owned by women.
- All Banks and FIs are advised to find out and train at least three (03) prospective CMSME Women entrepreneurs who have not received any financing yet per branch and finance at least one (01) of them.

The growth and share in GDP of both medium and small-scale manufacturing industries have been rising over the last couple of years (Figure 1). However, in FY2019-20, both growth and share of SME declined due to the adverse effect of coronavirus pandemic resulting from lower business activities and lower than expected overall GDP growth.

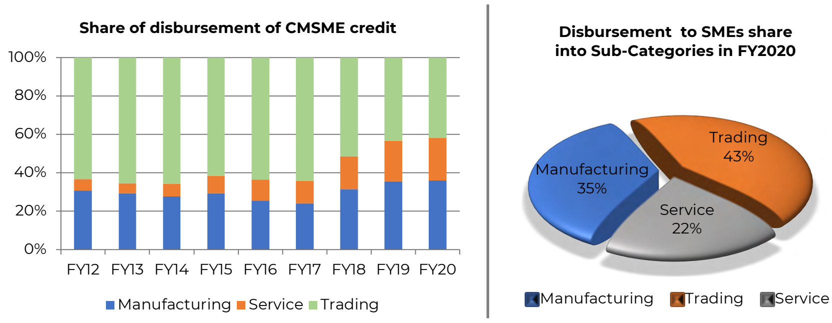
Figure 1: Trend of growth, and Share in GDP of medium and small scale manufacturing industries



Source: Bangladesh Bureau of Statistics

The CMSME credit has gradually been enhanced over time, wherein the share of trade financing has been significant. However, the share of trade in SME financing has declined in the last three years and was replaced with an increased share of manufacturing financing. In 2020, total credit disbursement in the trading sector decreased to 43 per cent, as against 63 per cent in 2012. (Figure 2).

Figure 2: Sectoral share of SMEs



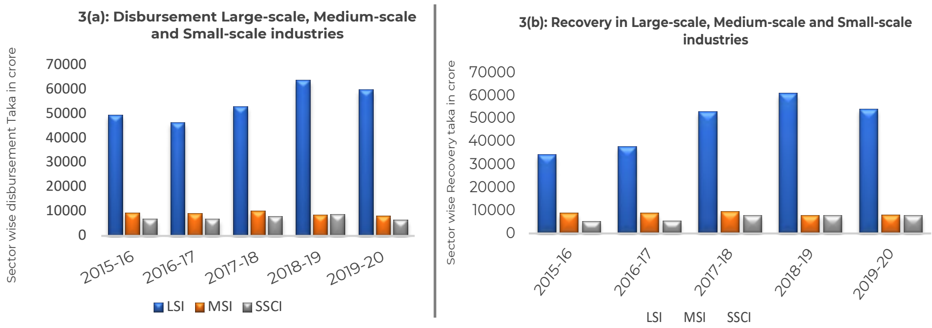
Source: SME&SPD, Bangladesh Bank

In addition to regular financing from their own fund, banks and NBFIs are also making short to long-term financing to CMSMEs through refinance schemes of BB. SMESPD of BB, with the help of government and different development partners, is implementing a total of six pre-finance/refinance schemes for banks and NBFIs currently, against their disbursed CMSME credit. All these funds are revolving in nature. In addition to these, three other refinance schemes have been successfully completed. A total amount of BDT 94.30 billion has been provided to different banks and NBFIs under different refinance/pre-finance schemes up to June 2020 against 65,016 enterprises.

The sector-wise disbursement and recovery of industrial credit in the last 5 years is shown in Figure 3. It is observed that the share of SME industries is lower than that of large industries in terms of both industrial credit disbursement and recovery.

According to the Survey of Manufacturing Industries by Bangladesh Bureau of Statistics in 2019, micro, small and medium enterprises dominate the number of manufacturing industries — consisting of about 93 per cent of Bangladesh's total industries. Moreover, 31 per cent of the manufacturing industries' workers are involved in micro, small and medium industries. On the other hand, the Large and Medium scale manufacturing industry contributed 20.2 per cent of GDP and grew by 5.5 per cent in FY2019-20, down from 14.8 per cent in FY2018-19,

Figure 3: Sector-wise Disbursement and Recovery of Industrial Credit in last 5 years



Source: SME&SPD, Bangladesh Bank

which can be explained by the adverse effect of coronavirus pandemic. Small-scale manufacturing industry contributed 4.0 per cent of GDP and its growth decreased to 7.8 per cent in FY2019-20 as against 11.0 per cent in FY2018-19. Also, data released by BBS shows that the Quantum Index of Industrial Production (QIIP) average index, which measures the production performance of manufacturing industries stood at 393.82 in FY2019-20, which is only 0.25 per cent higher than that of the previous fiscal year.

Prospects and Challenges of SME Sector in Bangladesh

- In Bangladesh, loans are sanctioned through immovable asset-based collateral, but most SMEs do not have such assets to present as collateral.
- BB has made significant advances toward adopting a digitised payment system and has encouraged mobile financial services (MFS).
- BB directives regarding women entrepreneurs (15 per cent of SME lending to be provided to women entrepreneurs) are not met yet.
- The refinancing allowed banks and FIs to avail of the funds at low-interest rates. With decline in deposit rates, the fund cost has declined (reportedly, below 4 per cent), and the lending rates have also declined.

Policy recommendations and Conclusion

- Establishing a Small Claims Court and institutionalisation of Alternative Dispute Resolution (ADR) mechanism would help the dispute resolution process become faster and easier.
- An appropriately designed risk-sharing facility (RSF) provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses in case of default in return for a fee, which could be a catalyst for expanded SME financing in Bangladesh.
- Access to finance can be enhanced through FinTech to improve the efficiency of the lending process, including loan underwriting, disbursements, collections, and monitoring.

Box: 1

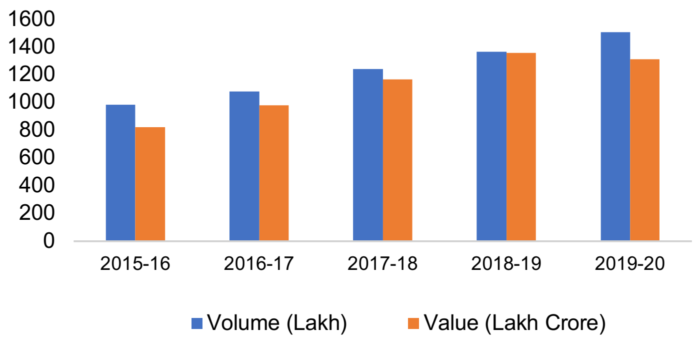
RBI launches RTGS 24x7

The Reserve Bank has taken various initiatives to upgrade the payment systems in India to meet the requirements of the public. Because of these initiatives, there has been a significant enhancement in adoption and reliability of the payment systems in India. The most recent one amongst these initiatives is the launch of Real Time Gross Settlements (RTGS) 24x7.

As a large value payment system, RTGS is a systemically important financial market infrastructure and is vital for smooth functioning of the financial system. Launched in March 2004, by the Reserve Bank, RTGS started with a soft launch involving four banks and expanded its facility to 237 banks today. Presently RTGS handles 6.35 lakh transactions daily for a value of ₹4.17 lakh crore. The average ticket size for RTGS in November 2020 was ₹57.96 lakh.

RTGS has recorded a steady growth in transaction volume since 2015-16. In terms of value, there was a consistent growth, barring the year 2019-20, in which the dip is likely due to the lower transactions of corporates in line with the slowdown in economic activity in India (Chart 1).

Chart 1. RTGS Transfers



Source: RBI

RTGS uses ISO 20022 format which is the best-in-class messaging standard for financial transactions. RTGS transactions have no amount cap and have the feature of positive confirmation for credit to beneficiary accounts. These features make the system robust and have led to its widespread acceptability and usability.

RTGS was earlier available for customer transactions between 7:00 am and 6:00 pm IST and for inter-bank payments from 7:00 am to 7:45 pm IST. To unlock the full potential of the payment system, the Reserve Bank, with effect from December 14, 2020, made the RTGS available round-the-clock on all days of the year. With this, India would be one of the very few countries globally with a 24x7x365 large value real time payment system. This comes within a year of operationalising National Electronic Funds Transfer (NEFT)[1] 24x7 by the Reserve Bank.

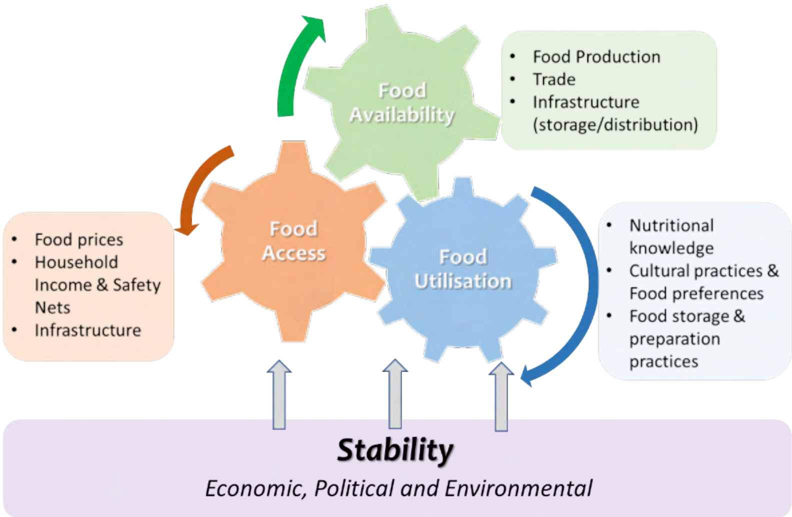
Round-the-clock availability of RTGS would provide extended flexibility to businesses for effecting payments and would enable introduction of additional settlement cycles in ancillary payment systems. This can also be leveraged to enhance operations of Indian financial markets and cross-border payments.

1 NEFT is a retail payment system owned and operated by RBI.

Putting Food on the Table: Implications of Food Security Challenges in the COVID-19 Era

The issue of food security has been on the global development agenda for the past five decades. The term was mooted in the mid-1970s at the World Food Conference where it was defined entirely in terms of availability. The definition was broadened to encompass issues pertaining to access, demand, vulnerability, and nutritional aspects. Accordingly, the Food and Agriculture Organisation (FAO) World Summit on Food Security 2009 defined the existence of *food security* as 'when all people at all times have physical, social and economical access to sufficient, safe and nutritious food which meet their dietary needs and food preferences for an active and healthy life.'

Figure 1. Food Security Framework



Source: Adopted from Institute of Policy Studies(2018). Sri Lanka, State of the Economy 2018

Across the globe, although there had been decades of steady decline in the number of people who suffer from hunger, there was a gradual rise in the prevalence of undernourishment since 2015. Accordingly, Goal 2 of the Sustainable Development Goals (SDG) focuses on 'Zero Hunger' by 2030 through increased access to nutritious and sufficient food, ending malnutrition, doubling agricultural productivity, and the creation of sustainable food production systems, among others.

Supply-side Impact of COVID-19

On the whole, COVID-19 has posed an unprecedented set of challenges to food security. Mobility restrictions and lockdown measures have been intermittently implemented globally limiting the movement of both

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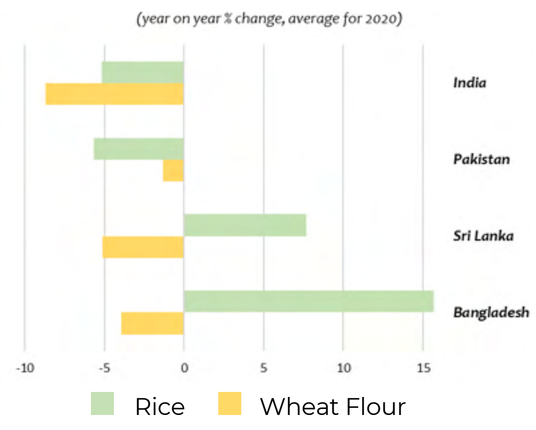
Article contributed by Poongothai Venuganan, Senior Economist, Economic Research Department, Central Bank of Sri Lanka

Figure 2. Domestic Retail Prices



Source: FAQ, Food Price and Monitoring Analysis Tool. https://fpma.apps.fao.org/giews/foodprices/tool/public/#/dataset/domestic

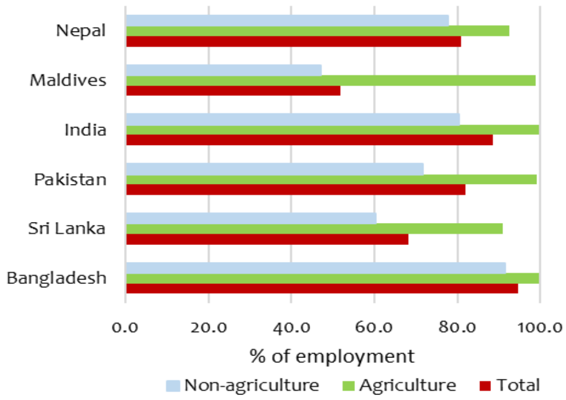
people and goods. Such measures cause large-scale impact across all the stages of food supply chains. On the supply side, although in most countries agricultural activities were allowed to continue, there were labor shortages during the initial stages of the COVID-19 outbreak as workers stayed at home due to fear of infection. Over the years, several studies have shown that storage and distribution facilities across SAARC member countries are poor leading to losses and wastages before agricultural produce arrives in the hands of the consumer. Such issues may have caused some supply-side restrictions in the initial days as farmers had limited capacity to store and distribute their harvest promptly. Access to key farm inputs during the planting season, such as fertilisers, seeds, and crop protection products has also become challenging. The impact of these is likely to be observed during the upcoming harvests in 2021. On the other hand, the essential nature of agricultural activities and the large labour engagement in the agricultural sector has meant that across the SAARC region, the agricultural sector has shown the most resilience. The 'reverse migration' pattern which was widely frowned upon by several policymakers and which was expected to worsen informality in India seems to have had an upside with these informal workers returning to agriculture in their hometowns. On the point of prices of staples such as wheat flour and rice, prices were broadly stable throughout the year with occasional upticks. When compared to 2019, wheat flour prices had declined across the region whereas rice prices both in Sri Lanka and Bangladesh had risen sharply, largely due to speculation by sellers and middle-men, despite ample harvests.

Demand-side Impact of COVID-19

The combined impact of the decline in household income due to the slowdown in economies and the reduced mobility to access food has substantially affected household food consumption. This not only impacts the access to food, in terms of quantity, but also quality, *i.e.*, access to varied sources of nutritious and adequate food. The increase in prices due to hoarding and panic buying is likely to have benefited only a handful of farmers who produce essentials and are in 'short value chains.' Those who were engaged in the farming of perishable crops may face lower demand both due to income losses and due to the closures of food processing industries. The International Labour Organisation estimates that approximately 42 per cent of total employment within South Asia is in agriculture, forestry, and fishing — all of which have been affected by demand-side shocks. Also, considering the high levels of informality prevalent in this sector, the COVID-19 pandemic will have a disproportionately high effect on those engaged in this sector. In addition to agricultural workers, across the SAARC region, a sizable share of employment is informal, again highlighting the precarious nature of their incomes, livelihoods, and overall well-being due to their comparatively low wages and limited access to social protection. In the

FAO's most recent *The State of Food Security and Nutrition in the World Report* (FAO, 2020), it was estimated that by 2019, *i.e.*, even before the pandemic, Southern Asia[1] was home to 68 per cent of the undernourished population in Asia. Also, 1 in 3 people across the globe who were undernourished was residing in Southern Asia. According to the FAO's Food Insecurity Experience Scale[2], the prevalence of severe food insecurity within Asia was highest in the Southern Asia region and the region is relatively better performing only when compared to Sub-Saharan Africa. In absolute terms, Southern Asia had the highest number of severely food insecure people, at around 341.8 million. Unless timely action is undertaken, the most vulnerable cohorts of the population such as young children, pregnant women, and lactating mothers will suffer from micronutrient deficiencies that will have long-lasting effects on the productive capacity of the future labor force.

Figure 3. Share of Informal Employment



Source: ILOStat

Way Forward

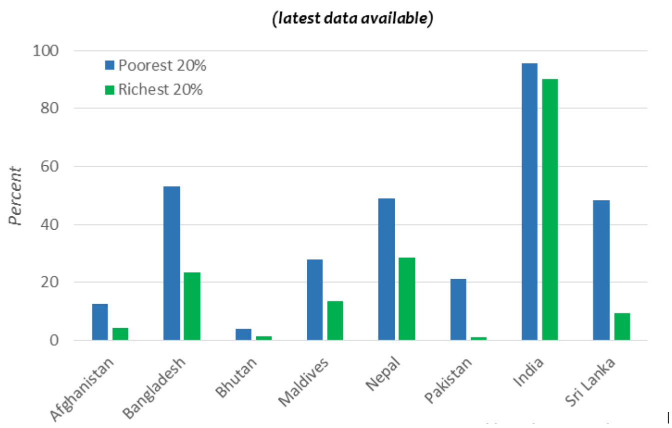
Across the SAARC region, there seem to be no glaring supply issues with governments allowing the continuation of agricultural activities despite lockdown measures, in line with the universal recognition that food supply systems are essential. Hence, a broader focus is required on food value chains to ensure that food security is not compromised. This should entail attention to ensuring the provision of inputs such as fertilisers and pesticides and the provision of transport facilities. Farmers and local authorities need to collaborate and work together to explore new approaches of ensuring that produce reaches consumers in a mutually beneficial manner, *i.e.*, it guarantees incomes for farmers and food supplies for consumers. Governments may consider the promotion and protection of 'short value' chains that comprise regional production centers and markets. Such agricultural activity hubs connect urban centers with rural areas and can greatly contribute to the generation of stable and ample food supplies. The private sector may also participate in such initiatives to provide stability to such production modalities. Such an initiative can play a pivotal role in food security especially in rural areas.

SAARC countries will need to continue to invest in social safety net programs. Already, the region has an extensive system comprising not only cash transfers but also food-based safety net programs and public food distribution systems. However, over the years, concerns have been raised regarding the targeting and coverage of such social protection systems. A sizable share of rich households benefiting from social safety nets poses challenges to the efficacy of such costly interventions. Improved targeting in the near-term and possibly redesigning over the medium to long-term could increase the outreach of such programs to larger shares of the poorest – this is especially warranted in contemporary times.

1. Includes Iran.
2. The Food Insecurity Experience Scale (FIES) measures food insecurity in terms of access to food. Hence, the scale refers to limited access to food, at the level of individuals or households, due to lack of money or other resources.

Central banks will need to take an active role in the provision of financial relief and liquidity support to those engaged in various stages of food value chains, such as farmers, agribusiness, and even food processors who may be facing difficult times. Several SAARC member countries have provided credit relief to small farmers and small and medium-sized enterprises (SMEs), in general. Providing opportunities for debt rescheduling or restructuring of agricultural loans and loans to other stakeholders of the food production and supply chain can ensure the continuity of these businesses and, thereby, their positive contributions to the food security status of the region. Regional organisations such as SAARCFINANCE can also create avenues for regional cooperation on issues pertaining to trade of food and agricultural commodities. The Table 1 shows that Afghanistan, Bhutan and Nepal have the highest trading shares within the SAARC region when compared to their total trade with the world, in relation to food and agricultural commodities. The relatively smaller shares observed across other countries highlight unexploited potential for mutual cooperation in intraregional trade. It has been highlighted by several policy researches that intra-SAARC trade is significantly low when compared to other trade blocs such as the European Union (EU) and Association of South East Asian Nations (ASEAN).

Figure 4. Coverage of Social Safety Nets



Source: World Development Indicators

The relevance of food security at the microlevel is straightforward – it has implications for poverty and the individual well-being and productivity of households. There is a growing recognition that food security is a macro-level issue that needs to be given due consideration by governments and central banks alike. With central banks being concerned with inflation and economic growth, the issue is a particularly pertinent one. A state of food insecurity can entail high and variable food inflation, especially considering that food is a significant component of the consumer basket across the SAARC region. Lack of foresight about food commodity trends and proactive policy measures, on the part of macroeconomic policymakers, can not only lead to rocketing inflation but can also significantly increase the vulnerability of poor households whose incomes do not move in line with inflation. Food insecurity can also have implications on balance of payments and budgets as policymakers grapple with trade in food commodities, amid trade restrictions, and attempt to provide compensatory social safety nets. Persistent issues about the facets of access, availability, and utilisation of food can lead to undernourishment, malnutrition, and micronutrient deficiencies in the short run that can hinder the creation of a healthy and productive labour force, in turn having far-reaching and long-lasting implications on economic growth in the long-term.

Table 1: Import and Export of Food and Agricultural Commodities

2019	SAARC Food Balance (US$'000)	Trade with SAARC Region as % of World Trade	
		IMPORTS	EXPORT
Afghanistan	(278,679)	39	83
Bangladesh	(1,137,938)	14	42
Bhutan	(60,490)	84	94
India	2015415	6	10
Maldives	(82,529)	20	10
Nepal	(876,659)	74	93
Pakistan	2,56,385	9	12
Sri Lanka	(279,717)	25	14

Computed as the difference of total exports to and imorts from SAARC member countries

Source: FAQStat

Amid the COVID-19 pandemic, there is an urgent need for our region to build healthy, sustainable, equitable, and inclusive food systems that will not only cater to the needs of the growing vulnerable population but also safeguard them and build their resilience against future health and economic shocks. The matter is not only about 'putting food on the table' today but every day and for everyone.

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Box: 2

Impact of Bangladesh Bank's Policy Rate Changes on Inflation in Bangladesh

According to the Bangladesh Bank Order of 1972, the aim of monetary policy in Bangladesh is "to support highest sustainable output along with reasonable price stability". Bangladesh Bank (BB) conducts monetary policy by targeting broad money (M2) as an intermediate instrument while reserve money (RM) serves as an operating instrument to achieve the said dual mandate. The RM is influenced by BB through indirect market-based instruments such as Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Repo, Reverse Repo (commonly known as the BB policy rates), open market operation, and moral suasion. This box item tries to identify the impact of BB policy rates on controlling inflation in Bangladesh.

2. The last annual Monetary Policy Statement (MPS) by BB for the ongoing fiscal year 2020-21 (FY21) declared that BB is pursuing a policy interest rate based monetary policy regime in which changes in policy rates exert a direct impact on prices in the financial and real sectors. In this context, monthly time series data of last 14 years (starting from January 2007 to December 2020), *i.e.*, total 168 data points, has been used with 7 variables, *viz.*, annual average inflation, M2 growth (point-to-point basis), monthly average call money rate, CRR, SLR, repo and reverse repo rates. The half-yearly movements of the stated variables in last 5 years are presented in **Graph 1**. Against the backdrop of novel corona virus outbreak, recent major policy initiatives of BB can be seen from the graph namely (i) the reduction of CRR from 5.5 per cent to 4.0 per cent (ii) the reduction of repo interest rate from 6.00 per cent to 4.75 per cent.

Graph 1: Movements of Policy Rates along with Inflation

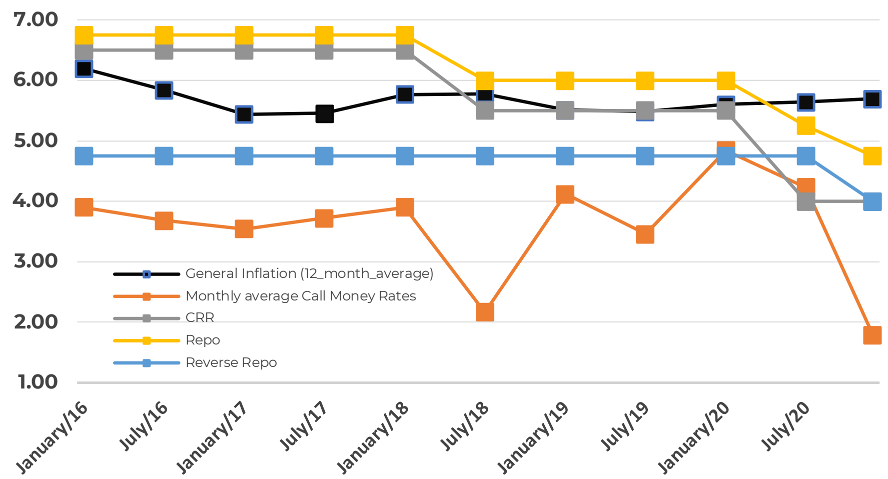

Table 1: Correlation Matrix (t-stat in bracket)

	Inflation Before	Inflation After
M2 Growth	0.52 (6.54)	0.82 (7.32)
Repo	0.51 (3.21)	-0.74 (8.44)
CRR	-0.26 (5.80)	-0.57 (6.78)

Source: Authors' calculation (N=25)

3. To understand the relationship among the variables, a simple correlation matrix is derived, where inflation is sorted depending upon the date of the policy rate changes. The preceding month's inflation before any rate change is set as 'inflation before', which is compared with the following month's inflation after the rate change which is set as 'inflation after'. Now, variable-wise correlation across major policy rates is checked between the two inflation groups **(Table 1)**. The results are in consonance with the theoretical literature. Money supply and inflation are positively correlated as expected. However, inflation is negatively correlated to both repo rate and CRR in 'after policy changing' scenario, which supports the idea that BB policy rates are effective in controlling inflation. In all cases, inflation, post policy rate change, display stronger correlation values, showing greater efficacy as against the correlation values in a pre-policy rate change.

4. OLS regression is also carried out, where annual average of general inflation is kept as a dependent variable. Variables are integrated at level and have no unit root. OLS results over the whole sample period **(Table 2)** illustrate that inflation is positively influenced by M2 growth, and negatively associated with repo having statistically significant coefficients.

Table 2: OLS Regression (dependent var: Inflation)

Independent Variable	***Coefficient (p value)***
M2 Growth	0.08(0.02) **
Repo	-0.96 (0.00) ***
Constant	-4.25 (0.00) ***
R squared	0.75

*(*** 1% and ** 5% level of significance)*

Source: Authors' calculation

5. The econometric analysis carried out on the two models given in Table 1 and 2 show that the change in BB policy rates has an impact in controlling inflation in Bangladesh. However, other phenomena such as supply-side factors and fiscal initiatives also play a certain role in managing inflation. The price of imported commodities, especially oil and capital goods, also play a key role in determining the inflation since Bangladesh is a large importer of these goods, which are used for functioning of its growing economy and implementing the large infrastructure projects. Thus, BB continuously monitors the market conditions to tackle any adverse impact on inflation through specially designed market operations. The production of overall agricultural commodities is also monitored closely and additional facilities are given to safeguard against any supply side disruptions.

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