SAARCFINANCE
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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

Governors

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Mr. Fazle Kabir

Bhutan
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Mr. Shaktikanta Das

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Governor's Message

It is a great pleasure for me as SAARCFINANCE (SF) Chair to launch the second edition of the SAARCFINANCE Annual e-Newsletter following the successful launch of the first edition in March 1, 2021 by then SF Chair Governor Mr. Shanktikanta Das of Reserve Bank of India (RBI). The second edition of Governor Das of the annual SAARCFINANCE e-Newsletter gives glimpses of all the activities undertaken under the SF Chair of Maldives Monetary Authority (MMA) from March 2, 2021 to November 16, 2021 and SF Chair of NRB from November 16, 2021 till present. The period has witnessed the tough times posed by the COVID 19 pandemic where SF events of seminars, meetings and conferences were held virtually. The last two months were especially difficult due to the resurgence in the COVID 19 cases caused by the new variant, that decelerated the economic activities in the region.

The preceding chair hosted 34th SF Coordinators' Meeting virtually on October 25, 2021 followed by 42nd SF Governors Group Meeting on November 15, 2022 and which had transferred the SF Chair to Nepal Rastra Bank effective from November 16, 2021. Also the final Report of the SAARCFINANCE Collaborative Study on "Reducing the Cost of Cross-border Remittances among SAARC Countries" was also jointly produced by Bangladesh Bank (BB), RBI and State Bank of Pakistan (SBP).

I appreciate BB for hosting the webinar on SAARCFINANCE Database on topic "COVID-19 Pandemic in the SAARC Countries: Policy Responses and its Impact". Similarly, I would appreciate officials at SBP for hosting virtual seminar on "Economic Modeling and Forecasting – Practices in Central Banks". Also continuation of SF collaborative studies on "Prospects of Central Bank Digital Currency (CBDC) in the SAARC Region", "Fintech and Financial Inclusion" , "Unconventional Monetary Policy Approach Taken by Various Central Banks" are also acknowledged.

I would additionally inform that as SF celebrates its silver jubilee, a SAARCFINANCE History Team comprising of a lead official from each Central Banks has been formed for chronicling 25 years of SAARCFINANCE.

I would express my gratitude to preceding SF Chair and Secretary General of SAARC for providing messages for 2nd Edition of SF e-Newsletter. I would appreciate the SF Coordinator, SF Alternate Coordinator and related contributing officials of the SF member central banks whose untiring support and co-operation despite in the challenging period of the surge in the wave of Omicron variant of COVID 19, have made possible to produce this e-Newsletter. I would also acknowledge NRB's Editorial team led by NRB's SF Coordinator, who provided this quality product despite many constraints.

Maha Prasad Adhikari
Governor, Nepal Rastra Bank
Chair, SAARCFINANCE

Governor's Message

The SAARCFINANCE network continues to play an important role in promoting cooperation among SAARC member countries, as demonstrated by the commitment of member countries in carrying forward the key targets mapped out under the SAARCFINANCE roadmap of cooperation, despite the hardships posed during times of crisis. Given the elevated uncertainty surrounding the recovery from the pandemic, it is important that the SAARCFINANCE cooperation continues to support the recovery and the path towards a resilient, sustainable and inclusive economy. Recent initiatives of the SAARCFINANCE network have been commendable and I appreciate member countries for taking up these initiatives. Going forward, as the region emerges from the COVID-19 crisis, I believe future initiatives of SAARCFIANCE will help address challenges ahead—inflation, debt, inequality and digitalisation—and discuss newer routes of cooperation such as exploring the potential to bolster intra-regional trade through the establishment of Central Bank Digital Currencies (CBDCs) and local currency settlement mechanisms in the SAARC region.

It has been an honor for me to be the Chair of the SAARCFINANCE Group from April 1, 2021 to November 15, 2021. I would like to express my deep appreciation to all members for their contribution in carrying out the activities of the SAARCFINANCE, including the timely completion of the SAARCFINANCE studies and seminars planned for the period. I also express my sincere gratitude for the unwavering support extended to us in hosting the 34th SAARCFINANCE Coordinators' and 42nd SAARCFINANCE Governors' Group meetings during MMA's Chairmanship.

I take this opportunity to congratulate the current Chair, the Nepal Rastra Bank (NRB) for the compilation and publication of the second edition of SAARCFINANCE Annual e-Newsletter, and wish the Governor of NRB Mr. Maha Prasad Adhikari and his team all the very best. I also congratulate other governors of SAARCFINANCE and SAARCFINANCE Coordinators, past and present, for their commitment to the SAARCFINANCE network.

Ali Hashim
Governor, Maldives Monetary Authority
SF Chair for March 2, 2021 - November 15, 2021

SAARC Secretary General's Message

SAARC

SECRETARY GENERAL

SOUTH ASIAN ASSOCIATION
FOR REGIONAL COOPERATION
SECRETARIAT

MESSAGE

I am delighted to learn that the Second Volume of the SAARCFINANCE E-newsletter is being published by the Nepal Rastra Bank as the current Chair of the SAARCFINANCE Network, presenting an overview of the annual macroeconomic trends in the Member States and their comparative analysis as well as articles having a bearing on the region's economy and finance.

At successive SAARC Summits, the SAARC Leaders have envisioned to achieve the South Asian Economic Union (SAEU) in a phased and planned manner through a Free Trade Area, a Customs Union, a Common Market and an Economic and Monetary Union.

Noting the importance of cooperation in the macroeconomic and financial sector for attaining the objective of improving wellbeing of the peoples of the region, the SAARC Leaders have given formal recognition to SAARCFINANCE as a regional network of the SAARC Central Bank Governors and Finance Secretaries. SAARCFINANCE has initiated numerous important initiatives, including dialogues on macroeconomic policies of the region, and sharing of mutual experiences in important areas of banking and financial issues, which have significantly improved understanding and cooperation among its members.

Given that the South Asian region has been affected very severely by the COVID-19 pandemic, it is envisaged that SAARCFINANCE will make sustained efforts to build back better through regular exchange of information on loan moratoria and refinancing facilities to Small and Medium Scale Enterprises, digital financial activities and financial inclusion, and new economic challenges and opportunities for the Member States. The goal of SAARCFINANCE to put in place a more efficient regional payment system under the SAARC Payment Council and prepare the spadework for creating a Central Bank Digital Currency (CBDC), is indeed notable.

I warmly congratulate His Excellency Mr. Maha Prasad Adhikari, Governor of the Nepal Rastra Bank, on taking over the Chair of SAARCFINANCE from November 2021. I wish him every success in his important responsibility.

(Esala Ruwan Weerakoon)
Secretary General of SAARC

Kathmandu, 18 February 2022

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Section: 01

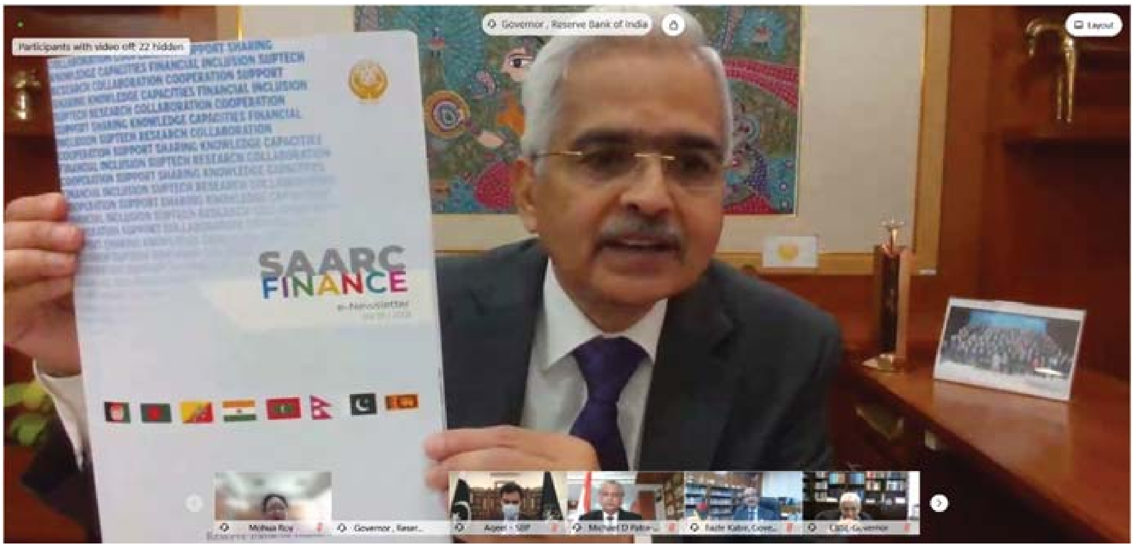
Meetings and Initiatives

Governors' Group Meeting and Symposium

41st SAARCFINANCE Governors' Group Meeting and Symposium

Reserve Bank of India (RBI) organized the 41st SAARCFINANCE Governors' Group Meeting (SFGGM) and Symposium on March 01, 2021 in a virtual medium. The meeting was chaired by Shri Shaktikanta Das, Governor, RBI and was attended by the Governors from SAARC central banks — Mr. Ajmal Ahmadi, Da Bank of Afghanisthan

(DAB); Mr. Fazle Kabir, Bangladesh Bank (BB); Mr. Dasho Penjore, Royal Monetary Authority of Bhutan (RMAB) ; Shri Shaktikanta Das, Reserve Bank of India (RBI); Mr. Ali Hashim, Governor, Maldives Monetary Authority (MMA); Mr. Maha Prasad Adhikari, Nepal Rastra Bank (NRB); Dr. Reza Baqir, State Bank of Pakistan (SBP); and Mr. Ajith Nivard Cabraal, Central Bank of Sri Lanka (CBSL). At the start of the meeting,



Governor Shaktikanta Das discussed on the overall flattening of the COVID 19 curve, the roll-out of the vaccine globally and better growth prospects for the SAARC region as per the IMF projections and offered an optimistic view of the situation but expressed that caution must be exercised on account of localised and regional spike in COVID cases. He expressed his concern on the roadmap of unwinding of monetary measures, which can neither be premature nor delayed. Governor Das recommended to the responses of all central banks in countering the pandemic and complimented all the Governors and officials of the central banks for the initiatives achieved under the SAARCFINANCE umbrella of cooperation.

In the meeting, under SAARCFINANCE Roadmap: Collaborative Studies , NRB suggestion for the topic of the SF Collaborative study, "Prospects of Central Bank Digital Currency (CBDC) in the SAARC Region" was endorsed and SBP proposed a study which would be led by SBP on the unconventional monetary policy approach taken by various countries and sought views of other members. For SF Seminars, SBP communicated a SF Seminar on "Economic Modeling and Forecasting" to be scheduled on April 6, 2021; BB communicated that they would be hosting the SAARCFINANCE Database Seminar and Working Group Meeting on June 22, 2021, with the theme of "COVID 19 Pandemic in SAARC Countries: Policy Responses and its Impact". Governor Shri Shaktikanta Das proposed to conduct a SAARCFINANCE seminar by RBI in early 2022. Governor Das launched the maiden edition of the annual SAARCFINACE e-Newsletter during the meeting.

The SAARCFINANCE Governors' Symposium was inaugurated by Governor Das on March 02, 2021. He emphasized the importance of effective, creative and prudent use of technology by central bankers, especially in the areas of Big Data, Digital Currencies, Reg-Tech, Sup-Tech and cyber security. The Keynote Address was delivered by Mr. Jermy Prenio, Senior Adviser, Financial Stability Institute, BIS on the topic 'Suptech use in central banks'. The Symposium also included a Panel Discussion on 'Cyber Security in Central Banks' and a presentation by the researchers of the SAARCFINANCE Collaborative Study on 'Comparison of Financial Sector Regulatory Regimes in the SAARC Region'.

34th SAARCFINANCE Coordinators' Meeting

The 34th SAARCFINANCE Coordinators' Meeting was held on October 25, 2021 to review the progress made on the action points of the 41st SFGGM and to discuss the agenda of the 42nd SF GGM to be held on November 15, 2021. The Chair briefed the members about the initiatives carried out by them since the last meeting including update on Macroeconomic Surveillance Indicators (MSI) data, annual e-Newsletter 2022, Collaborative research studies, Capacity Building, SAARCFINANCE Symposiums and Seminars, Agenda setting for 42nd SAARCFINANCE Governors' Group Meeting among others.

42nd SAARCFINANCE Governors' Group Meeting

Maldives Monetary Authority organized the 42nd SF Governors' Group Meeting (SFGGM) on November 15, 2021 in a virtual medium. The meeting was chaired by Mr. Ali Hashim, Governor, Maldives Monetary Authority (MMA) and was attended by the Governors from SAARC central banks — Mr. Fazle Kabir, Bangladesh Bank; Mr. Dasho Penjore, Royal Monetary Authority of Bhutan; Shri Shaktikanta Das, Reserve Bank of India; Mr. Maha Prasad Adhikari, Nepal Rastra Bank; Dr. Reza Baqir, State Bank of Pakistan; and Mr. Ajith Nivard Cabraal, Central Bank of Sri Lanka. Governor Hashim expressed his gratitude for the support and cooperation from all members, in making the virtual gathering possible. He highlighted that the SAARC region has been a strong support system to each other during these tough and challenging times, through the provision of food, medical and financial assistance. Given the fragile nature of the recovery, he emphasized the importance of continued cooperation in order to move towards a resilient, sustainable and inclusive recovery. In this regard, he highlighted the significance of accelerating financial inclusion through Fintech, and the potential to enhance cross-border payments intra-regional trade through Central Bank Digital Currencies (CBDCs).

Discussions by the SF Governors were made on the Macroeconomic Surveillance Indicators of their respective economies. Similarly, progress on the areas of SAARCFINANCE Database (SFDB), Financial Inclusion, Capacity Building, SAARCFINANCE Roadmap: Collaborative Studies, SAARCFINANCE Seminars and SAARCFINANCE e-Newsletter were discussed subject to further actions points from the respective SF member countries. CBSL also volunteered to host forth coming SF Governors' Symposium in May/June 2022 if possible in-persons. In the meeting SF Chair was transferred from MMA to NRB and SF Members congratulated and expressed best wishes to the new SAARCFINANCE Chair.

SAARCFINANCE Roadmap and Areas of Cooperation

SAARCFINANCE Database

The SAARCFINANCE Database (SFDB) is a comprehensive time-series database on macroeconomic indicators of the SAARC countries. The SFDB seeks to disseminate information and promote economic research. SFDB can be accessed through the URL https://dbie.rbi.org.in/DBIE/dbie.rbi?site=saarcHome. The RBI is responsible for maintaining the SFDB with data being uploaded directly by the SAARC central banks through an automated portal.

In 2021, RBI had undertaken data audits of the SFDB on a quarterly basis in order to ensure the standardisation of data, identifying data gaps and to improve the quality of the SFDB. Bilateral meetings between technical teams of RBI and member countries were conducted to resolve the data reporting as well as data-gap and definitional issues. The SFDB is being expanded to include new variables. RBI, in coordination with other central banks, has worked on the new templates to include these variables and the templates are now under deployment on the database.

The SFDB Working Group meetings and Seminars are organised to further streamline as well as popularise the database. The Bangladesh Bank (BB) hosted virtually the seventh SFDB Seminar and Working group meeting in June 2021with the theme of "COVID-19 Pandemic in SAARC Countries: Policy Responses and its Impact". Dr. Sayera Younus, SAARCFINANCE Coordinator, Bangladesh Bank welcomed the delegates. The seminar was inaugurated with a speech by special guest Mr. A.K.M. Fazlul Haque Mia, Executive Director (Statistics), Bangladesh Bank. The keynote address was delivered by Dr. Mridul Kumar Saggar, Executive Director, Reserve Bank of India followed by speeches of chief guest Mr. Abu Farah Md. Nasser, Deputy Governor, Bangladesh Bank and Chairperson Mr. Asish Kumar Dasgupta, Executive Director (Research), Bangladesh Bank.

The country papers on the theme of the webinar were presented by the authors of the papers. The session was followed by SAARCFINANCE Database Working Group Meeting. The webinar was attended by distinguished Guests, SAARC central banks officials, Nodal officers, Working Group members, and SAARCFINANCE Coordinators and Alternate Coordinators.

The technical meeting was conducted by the RBI and attended by the SFDB Working Group members, nodal officials and other officers of SAARC central banks. RBI made a presentation on "Implementation of Data Reporting portal in the Centralized Information Management System (CIMS)". The meeting also discussed various issues faced by member countries in the data reporting and other technical issues.

SAARCFINANCE Roadmap and Areas of Cooperation

Technical Assistance

RBI has been on the forefront in providing technical assistance to the member central banks and has ensured its provision in virtual mode amidst the difficulties posed by the pandemic. RBI provided technical assistance on Issuance of Long Term Remittance Bonds to RMAB in April 2021. Information assistance was extended to RMABon the Questionnaire on Data Warehouse implementation and to Nepal Rastra Bank (NRB)for the surveys on Organization and Management as well as Financial Inclusion Structure and Activities. The RBI has agreed to conduct an observation visit of the NRB officials to study the central bank vault management system.

Training Programs

As a part of SAARCFINANCE capacity building, the SAARC central banks share the training programmes conducted by their respective training institution among other members to invite participation of interested candidates. In the 42nd SF Governors' Meeting held on November 15, 2021, RBI announced that it would invite participation of officials from member central banks in the programmes conducted by RBI academy- a training institution set up by the RBI - for imparting trainings on topics of relevance to Central Bankers, Regulators and Supervisors around the globe. Six officers, two each from NRB, BB and RMAB, participated in first of such programme by RBI academy on "Applied Time Series Econometrics for Macroeconomics and Finance"" on January 17-21, 2022.

Officials from BB (12 officers), NRB (7 officers) and CBSL (23 officers) also participated in the various training programmes and conferences on issues related to financing of small farm holders and self-help groups, digitisation and financial inclusion and strengthening of primary urban cooperative banks (UCBs) conducted by College of Agriculture Banking, a training institution of RBI, over the period May-December 2021.

Progress Report on SAARC Payment Council (SPC)

The 20th SAARC Payments Council (SPC) Meeting was held in virtual format on March 1, 2021. Mr. B. P. Kanungo, Chairman, SPC and Deputy Governor, Reserve Bank of India (RBI), chaired the meeting. The meeting was wrapped up with some agreed upon action items that need to be adopted prior to the next SPC meeting in 2022. Among the action items, it was decided that Bangladesh will take over the Secretariat from India from April 01, 2021.

From April 01, 2021, Bangladesh has been performing the responsibilities of the SPC Secretariat. The Honorable Deputy Governor of the Payment Systems Department of Bangladesh Bank (BB), Mr. Ahmed Jamal, has been elected as the Chairperson of the SAARC Payments Council (SPC) for 2021-2023 tenure. In the 20th SPC meeting, decision was taken to form two working groups on:

- Benchmarking exercise for a single harmonized payment system and
- Payment System Matrix up gradation

In this regard, BB requested all member countries to nominate officials for each group. Upon receiving nominations, BB, as the current SPC Secretariat, arranged its 1st virtual working group meeting on Harmonized Payment System on December 14, 2021. Mr. Md. Mezbaul Haque, General Manager, Payment Systems Department chaired the session. The minutes of this meeting has been finalized and shared with the committee members of the member countries.

SAARCFINANCE Roadmap and Areas of Cooperation

Cooperation in Financial Inclusion

The SAARCFINANCE Financial Inclusion (FI) Platform was launched during the 40th SAARCFINANCE Governors' Group Meeting. The FI platform is developed to share resources for financial inclusion initiatives. The FI platform is updated with latest resources related to developments, policy, strategy as well as research papers on FI.

SAARCFINANCE Scholarship Scheme

The SAARCFINANCE Scholarship Scheme for Higher Studies in Economics was introduced by RBI in 2013 to enhance research skills of officials in the central banks and ministries of finance in the SAARC region. The Scheme was expanded by the RBI in 2020 increasing its scope in terms of courses, institutes, scholarship amount and the number of scholarships awarded each year. The expansion has led to wider participation from interested applicants. Three candidates selected for Scholarship for Academic Year (AY) 2021-22, all from the Ministries of Finance of Afghanistan, Bangladesh Bank (BB) and Nepal Rastra Bank (NRB) have secured admissions in recognised universities while one candidate was extended scholarship to AY 2022-23 on account of difficulties faced during admission process amidst the pandemic. In 2021, RBI offered four Scholarships for Academic year 2022- 23 to four candidate, one each from NRB and Royal Monetary Authority of Bhutan and two from BB.

SAARCFINANCE Collaborative Studies

SF Collaborative study led by NRB on the topic, "Prospects of Central Bank Digital Currency (CBDC) in the SAARC Region" was launched. Given the rising interest of Central Banks on Digital Currency, the issue was raised for discussion by Nepal Rastra Bank (NRB) at 41st SAARCFINANCE Governor's Group Meeting (SFGGM) on March 1, 2021. In this regard, the then Chair of SFGGM, who is RBI Governor, highlighted the financial stability risks associated with the private digital currencies and the importance on this topic.

SAARCFINANCE Collaborative Study (SFCS) led by RBI on Fintech and Financial Inclusion has been finalised and will be presented at the next Governors' Symposium in 2022.The study covers the experience of SAARC countries with Fin-Tech and financial inclusion, the macro-financial implications of Fin-Tech and comparison of experience of SAARC countries vis-a-vis other EMEs. The study also tries to capture the impact of Fin-Tech on financial inclusion in SAARC countries, assess various regulatory and other requirements and provides policy recommendations.

Section: 02

Seminars

SAARCFINANCE Webinar on "Economic Modeling and Forecasting Practices in Central Banks", April 6, 2021

State Bank of Pakistan hosted the seminar on "Economic Modeling and Forecasting – Practices in Central Banks", on April 6, 2021, which was held virtually under the SAARCFINANCE forum – the regional network of SAARC central banks and finance ministries. Besides Pakistan, officials from central banks of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka attended the webinar.

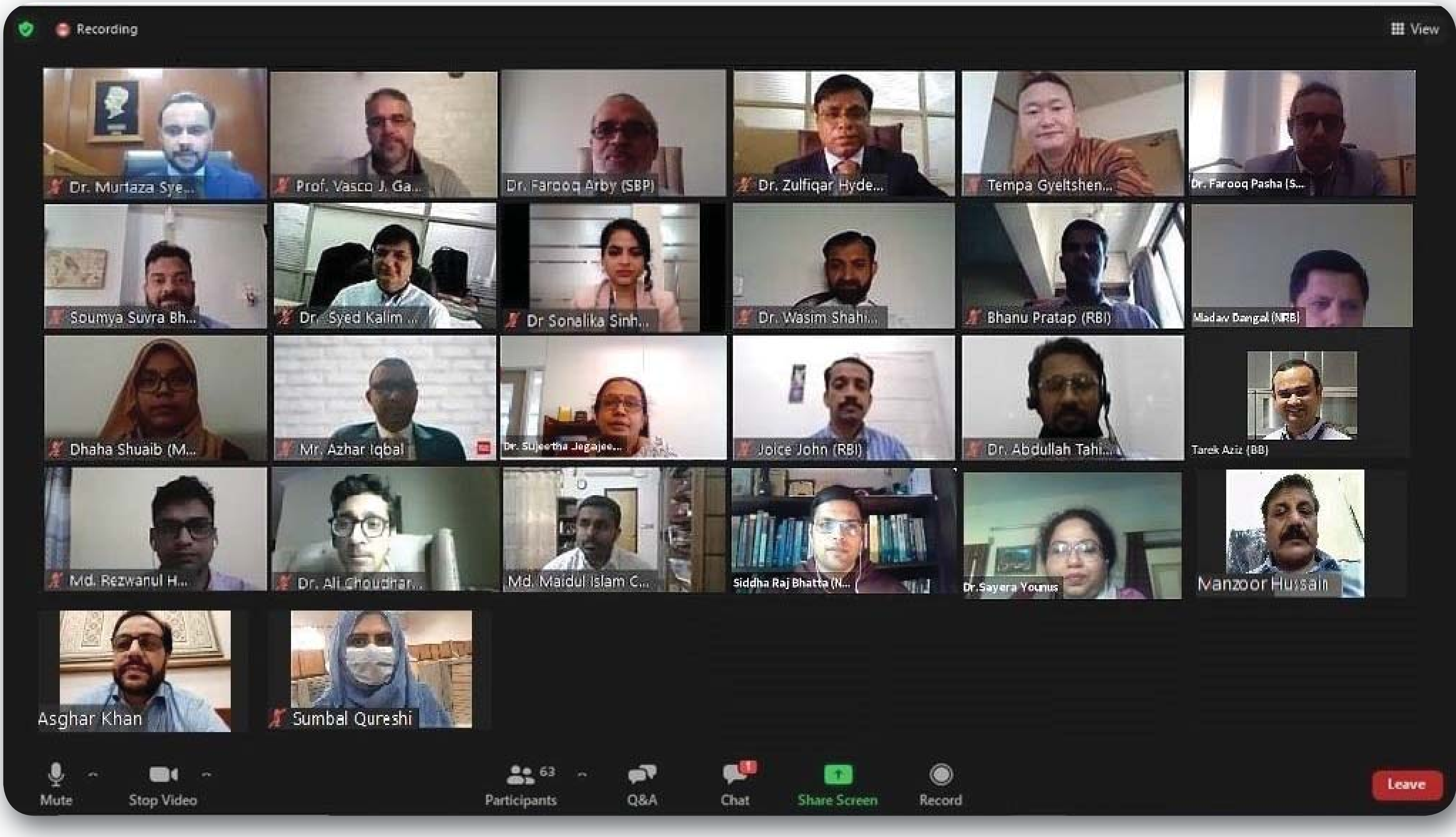
Dr. Murtaza Syed, Deputy Governor, SBP, inaugurated the webinar. In his opening remarks, Dr. Syed highlighted the importance of macroeconomic modeling for efficient application of policy instruments in the face of uncertainties and lags in transmission. He stressed the need to continuously update the technology by incorporating latest modeling techniques and emerging challenges, like the Covid–19 pandemic and climate change.

Seminar

The speakers presented their insightful research on different areas of macroeconomic modeling and forecasting. Professor Vasco J. Gabriel, Reader in Economics, University of Surrey, shared a framework to implement money growth rules in a medium-sized emerging open economy. He showed that applying this model to actual data yields insightful results. Dr. Wasim Shahid Malik, SBP Chair, University of Peshawar drew the attention of researchers and policy makers towards the long-term gains associated with disinflationary policies. The third speaker, Mr. Azhar Iqbal, from Wells Fargo Securities, USA, shared interesting and innovative developments in modeling and forecasting of macroeconomic variables, including in the context of heightened uncertainty stemming from the Covid-19 pandemic. His proposals to construct an Animal Spirits Index as well as studying the asymmetric effects of Covid-19 on growth and inflation in SAARC economies is likely to be extremely relevant for policymaking.

Officials from SAARC central banks shared the evolution and current state of economic modeling at their respective institutions. The seminar provided researchers from SAARC countries a valuable and unique opportunity for knowledge sharing and learning from each other's experiences.

Dr. Farooq Arby, Director Research, SBP, summed-up the discussion and appreciated the guest lecturers and presenters from the SAARC central banks. He expressed his hope that this seminar would contribute towards capacity building and enriching the frameworks used by SAARC central banks.



Section: 02

Macro-Economic Trends

Policy Measures in SAARC Region in Purview of COVID -19 Pandemic

Bangladesh Bank's adoption to the expansionary monetary policy in line with the expansionary fiscal policy of the government has already given a lot of impetus to the domestic economic activities. It may be mentioned that a total of 28 incentive packages of Taka 1919.19 billion have been announced by the government till December 2021 to address the impact of Corona, which is 5.44 per cent of GDP of FY21. Moreover, Bangladesh Bank has taken various steps which includes among others lending at concessional interest rate and adoption of refinancing schemes for priority sectors of the economy. Despite being hit by multiple waves of the COVID-19 pandemic, quick and decisive actions by the government along with expansionary monetary policy by BB, led to a much quicker rebound than initially expected.

Royal Monetary of Bhutan, in continuation to the Monetary Measures Phase I (April-June 2020) and Monetary Measures Phase II (July 2020 - June 2020), implemented the Monetary Measures Phase III (July 2021 - June 2022) that includes: Deferment of loan repayment; Incentive for regular repayments during the deferment period; Treatment of bridging loans/ soft term Loans, Loan-to-Value (LTV) limits and land valuation among others. All loans sanctioned as of 30th June 2020 were eligible for the deferment for another one year until June 2022. Continuation of one per cent interest rate reduction (rebate) on term loans for another one year (July 2021 to June 2022) was provided. These are to borrowers who service their loan installments regularly and fully as per the agreed repayment schedule (after adjustment of 50 per cent interest payment support). Gestation provided for another one year until June 2022 for the Bridging Loans/ Soft Term Loans granted to the business entities under the Phase II Monetary Measures. These loans shall also include those concessional loans granted under Phase I Monetary Measures and are still being continued under Phase II Monetary Measures. Interests accrued during the deferment period are not capitalized. At the end of the deferment period, the total accumulated interest from April 2020 to June 2022 (after the adjustment of 50 per cent interest payment support) shall be converted into Fixed Equated Installment Facility (FEIF) payable in equal installments within a period of up to five years. In case of project financing/ business loans, the Financial Service Providers (FSPs) may provide loans up to the LTV limit of 100 per cent of the collateral value.

The Governmentt of India and the Reserve Bank of India, provided a special economic package of INR 29.87 lakh crore (15.1 per cent of GDP) in 2020 under **Aatma Nirbhar Bharat** (ANB) to combat the impact of the COVID-19 pandemic, to revive economic growth and to bolster employment.

The conventional and unconventional monetary policy and liquidity measures by the Reserve Bank have been aimed at restoring market confidence, alleviating liquidity stress, easing financial conditions, unfreezing credit markets and augmenting the flow of financial resources to those in need for productive purposes. The deteriorating outlook for growth, with the outbreak of the pandemic, necessitated off-cycle meetings of the Monetary Policy Committee (MPC). The RBI has continued with an accommodative monetary policy stance and policy repo rate was reduced by 115 bps two phases; The interest rate on the fixed rate reverse repo rate under the Liquidity Adjustment Facility (LAF) was reduced cumulatively by 155 bps and it became the effective anchor for the evolution of money market rates and even longer-term interest rates. Liquidity measures inter alia include Cash Reserve Ratio cut, Long term and Targeted Long-term Repo Operations, open market operations including G-sec Acquisition Programme (G-SAP). The G-Sap involved an upfront commitment on amounts to be purchased and impacted yields directly. RBI also launched a suite of regulatory measures that included a loan moratorium, asset classification standstill, easing of working capital financing and deferment of interest, increasing of group exposure norms, restructuring of advances to micro, small, and medium enterprises (MSMEs) and reduction of the liquidity coverage ratio (LCR) requirements.

Forward guidance (FG) gained prominence in the RBI's strategy. In every statement of the monetary policy committee (MPC), it was reiterated that the policy stance would remain accommodative, including with explicit time-contingent and state-contingent guidance. Financial markets were assured that the Reserve Bank will maintain congenial financial conditions for sustaining the recovery.

Some of the policy measures initiated by the Reserve Bank in the wake of the pandemic reached their pre-announced sunset dates in 2021-22. While certain liquidity measures have been wound down as a result, other regulatory measures have been realigned to avoid extended forbearance and risks to financial stability while providing targeted support to needy sectors.

As a consequence of these measures undertaken by the RBI, borrowing costs fell to their lowest levels in decades and spreads narrowed across rating cohorts. Record levels of government securities, corporate bonds and debentures were issued. Corporate entities have been able to deleverage seamlessly and reduce high-cost debt while improving profitability and retained earnings for future CAPEX. Overall, the financial sector has remained fully functional and has anchored the process of recovery.

In 2021, the **Maldives Monetary Authority** continued to support the banking system by maintaining some of the measures initially undertaken in response to the COVID-19 pandemic, while other measures were reverted in light of the macroeconomic developments during the year. As such, in June 2021, the MRR for local currency deposits was reverted to 10 per cent after being lowered temporarily to 7.5 per cent in April 2020 to mitigate potential liquidity shortages. However, the MRR for foreign currency deposits which was also lowered in April 2020 from 10 per cent to 7.5 per cent and further lowered to 5 per cent in July 2020, remained unchanged in 2021 due to the persistent dollar liquidity issues faced by the banks. Additional US$ liquidity support was also provided through fixed deposit investments at the commercial banks.

To address the foreign currency shortages in the economy, the MMA also increased the foreign exchange intervention to commercial banks in the first three quarters of 2021, to accommodate for essential imports such as food and medicine. Further, the MMA repaid the US$400 million withdrawn in 2020 under the foreign currency swap agreement with the RBI, with separate payments in January and December 2021 amounting to US$150 million and US$250 million, respectively.

No further operational reforms were made to open market operations, standing facilities, or any other monetary policy instrument during 2021. The open market operations have remained suspended since May 2014, and excess liquidity in the banking system continues to be absorbed through the overnight deposit facility which is remunerated at 1.5 per cent per annum. The overnight Lombard facility also remained open for all commercial banks, to borrow from the MMA on an overnight basis at 10 per cent per annum.

Macro-Economic Trends

Nepal Rastra Bank via its policy measures have targeted to supported smooth economic activities through uninterrupted flow of financial services. In the early days of the lockdown cash reserve ratio (CRR) was reduced by 100 basis points (4 per cent to 3 per cent). Similarly, the bank rate was reduced by 100 basis points (from 6 per cent to 5 per cent). While, upper bound of interest rate corridor i.e. SLF rate was reduced by 100 basis points and lower bound i.e. deposit rate was also reduced by 100 basis points. Similarly, a provision was made for COVID-19 affected business whereby an additional 10 per cent working capital limits can be sanctioned, if the borrower can justify the needs of borrowers and which need to be repaid within a year at most. Banks and financial institutions were allowed to restructure/reschedule loans for the projects which are highly affected, provided that the borrower pays 10 per cent (which was later lowered to 5 per cent) of the payable amount. The timeline for this Restructure/Reschedule was given till mid Jan 2021. Conscious efforts were undertaken to promote the cashless banking habits and make payments digitally. In the initial days of the pandemic, a notice was issued by NRB to make all the electronic transactions, including ATMs, free of charge, till mid-July 2020. Similarly, BFIs' were mandated to entertain the requests of customers received via email and telephone to enable their electronic banking services and easing or helping out with other banking services.

State Bank of Pakistan has undertaken some crucial policy measures some of which includes:

Digital banks regulatory framework: SBP has launched licensing and regulatory framework for setting up digital banks in Pakistan as a separate and distinct category in the banking business. Digital bank will offer all kinds of financial products and services primarily through digital platforms or electronic channels instead of physical branches. The objective of digital banking framework is to promote financial inclusion, provide credit access to unserved and underserved, provide affordable/cost effective digital financial services, encourage application of financial technology and innovation in banking, foster new set of customer experience, and further develop digital eco-system in the country. Under this framework, SBP may grant two types of digital bank licenses: digital retail bank (DRB); and digital full bank (DFB). DRBs will primarily focus on retail customers and DFBs can deal with retail customers as well as business and corporate entities. Moreover, a DRB will be able to graduate to receive license of a DFB subject to fulfillment of applicable minimum capital requirement and completion of a two-year progression phase.

SBP Increases the Number of Monetary Policy Committee (MPC) Meetings from Six to Eight: On November 19, 2021, the State Bank of Pakistan (SBP) has decided to increase the frequency of monetary policy reviews from six (6) to eight (8) times a year. In continuation of efforts to make the process of monetary policy formulation more predictable and transparent in line with international best practices. This action will bring the frequency of meetings in line with that in comparable emerging markets. It will also help to enhance the predictability of monetary policy actions.

SBP Raises Banks' Cash Reserve Requirement: On November 13, 2021, SBP has decided to increase the average Cash Reserve Requirement (CRR), to be maintained during a period of two weeks by scheduled banks, from 5 per cent to 6 per cent and minimum CRR to be maintained each day from 3 per cent to 4 per cent. With the economy recovering briskly from last year's acute Covid shock, there is a need to gradually normalize policy settings, including the growth of monetary aggregates. This measure is likely to have positive impact on deposit mobilization by incentivizing banks to offer better returns on deposits, thus serving the SBP objective of encouraging savings.

Shariah Compliant Liquidity Facilities for Islamic

Banking Institutions: On December 29, 2021, the SBP introduced the Shariah Compliant Liquidity Facilities for Islamic Banking Institutions in line with State Bank's strategic plan to improve Liquidity Management Framework for Islamic Banking Industry and enhance the effectiveness of monetary policy implementation. Under this policy, the SBP has introduced Shariah Compliant Standing Ceiling Facility and Open Market Operations (injections) for Islamic Banking Institutions (IBIs). As the size of the Islamic banking industry is increasing, SBP recognizes the need to introduce Shariah compliant liquidity facilities for IBIs. With a view to bring IBIs at par visà-vis their conventional counterparts in terms of liquidity management avenues, and to enhance SBP's tools for managing market's liquidity as part of its monetary policy objective, SBP has introduced the aforementioned facilities.

SBP to launch Asaan Mobile Account: The State Bank of Pakistan (SBP) has recently launched a new initiative, Asaan Mobile Account (AMA), which has been developed under the National Financial Inclusion Strategy with objective to bring further ease in remote account opening under branchless banking. With this facility, the customers would be able to open and operate their accounts in the comfort of their homes, without having to visit the branches, with any of the participating branchless banking providers. The solution has been developed through collaboration of SBP, Pakistan Telecommunication Authority (PTA), National Database and Registration Authority (NADRA), 13 Branchless Banking (BB) Providers, all Cellular Mobile Operators (CMOs) and Virtual Remittance Gateway (VRG). For AMA, the branchless banking providers and cellular mobile operators are collaborating to deliver an interoperable platform, allowing any Pakistani to open account with a bank. AMA will play a crucial role in reaching out to the low-income segments that do not have access to internet. Moreover, AMA will be a perfect conduit to onboard women customer segments as well.

Deposit Protection Corporation enhances the Guarantee Amount: Deposit Protection Corporation (DPC) increased guarantee amount w.e.f. September 24, 2021, for all eligible depositors of banks from Rs 250,000 to Rs 500,000. This enhanced guarantee amount now provides full protection up to 95per cent of the eligible depositors. The main objective of the deposit protection scheme is to safeguard depositors' interest and further enhance their trust in the country's banking sector. Deposit protection facility is applicable to all the eligible depositors and does not require any further subscription or registration of depositors. The guarantee amount or protected deposit becomes payable to eligible depositors only if State Bank of Pakistan declares a bank as a failed bank and is not payable under any other circumstances.

SBP introduces innovative SME Asian Finance scheme (SAAF): The State Bank has introduced an innovative initiative to improve access to finance for Small and Medium Enterprises (SMEs) in collaboration with the Government of Pakistan with the express aim of enabling businesses who cannot offer security / collateral to access bank finance. The SBP will provide refinance to banks while the Government of Pakistan will support via partial credit guarantees to the participating banks. This support is being provided initially for three years to facilitate investments by banks in technology, infrastructure and team building specialized in SME lending, after which SME financing by banks is expected to be sustainable without SBP or Government support.

SBP Amends Capital Adequacy Regulations To Facilitate Banks/DFIs Investment: In order to provide further support to the development of real estate sector, State Bank of Pakistan (SBP) has amended its capital adequacy regulations by significantly lowering the applicable risk weight (from 200 per cent to 100 per cent) on banks/ DFIs' investments in the units of Real Estate Investment Trusts (REITs). REITs are companies that raise funding from general public and institutions and deploy these funds through investment in real estate properties. With the aforesaid changes in capital adequacy regulations, banks/DFIs will now be able to increase their investments in REITs without the need to allocate relatively large amount of capital. This will, in turn help banks to promote development of real estate sector in the country.

The recent monetary and other policy measures by **Central Bank of Sri Lanka (CBSL)** were taken with the view of curtailing the possible build-up of underlying demand pressures in the economy and to ease the pressure on the external sector promoting greater macroeconomic stability. During the first eight months of 2021, Central Bank of Sri Lanka (CBSL) continued to follow an accommodative monetary policy stance with reduced policy rates. Since August 2021, CBSL opted to move towards a proactive monetary policy stance by increasing the policy rates, Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank of Sri Lanka to 5.50 per cent and 6.5 per cent, respectively.

Increased policy rates resulted in an upward adjustment in the Bank Rate, which is the lender of last resort rate to 9.00 per cent. Further, Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks was also increased to 4 per cent to better facilitate the market response to policy rate adjustments.

In addition to the above, the following measures such as (i) Distributing the financing of essential import bills for fuel purchases among the licensed banks in proportion to their foreign exchange inflows (ii) Mandating all registered tourist establishments to accept foreign exchange only in respect of services rendered to persons resident outside Sri Lanka (iii) Implementation of the Incentive Scheme on Inward Workers' 'Remittances" facilitating to provide an additional Rs 10.0 per US dollar for workers 'remittances and reimbursement of transaction cost which were borne by Sri Lankan migrant workers when remitting money via formal channels and to introduce higher interest rates for deposits of migrant workers (iv) Introducing requirements for licensed banks to sell in US dollars a portion of inward workers' remittances, residual of export proceeds which is mandatory to convert to Sri Lankan rupees (LKR) and foreign currency held in hand by general public converted into LKR (Currently the per centage stands at 25 per cent) (v) Implementing several schemes to assist borrowers affected by the pandemic through the financial institutions supervised by the CBSL by allowing for extended repayment periods, concessionary rates of interest, working capital loans, debt moratoriums and restructuring and rescheduling were implemented by the Bank.

Table 1: Changes in Policy Interest Rates made during 2021

Date	SDF Rate (per cent)	SLF Rate (per cent)	Bank Rate (per cent)	SRR (per cent)
09.07.2020	4.50	5.50	8.50	2.00
19.08.2021	5.00	6.00	9.00	2.00
01.09.2021	5.00	6.00	9.00	4.00
20.01.2022	5.50	6.50	9.50	4.00

Trends in Macroeconomic Surveillance Indicators in SAARC Countries

Afghanistan

Afghanistan

Current Account Balance (CAB) as percentage of GDP recorded a deficit of 16.33 per cent in FY 2020 compared to a deficit of 20.83 per cent in FY 2019. Reserves as a percentage of import increased to 139 per cent in FY 2020 compared to 116 per cent in FY 2019. National Debt as a percentage of GDP increased to 13 per cent in the FY 2020 compared to 12 per cent in the FY 2019. Meanwhile, domestic credit as a percentage of GDP increased to 5.9 per cent in FY 2020 from 5.1 per cent in FY 2019 and gross external debt as a percentage of GDP increased to 14 per cent in FY 2020 from 12 per cent in FY 2019. Public external debt as a percentage of GDP increased to 13 per cent in FY 2020 compared to 11 per cent in FY 2019. Fiscal Deficit as a percentage of GDP decreased to 0.21 per cent in FY 2020 compared to 1.02 per cent in FY 2019. Inflation Rate (12-month average) increased to 5.6 per cent in FY 2020 from 2.31 per cent in FY 2019.

Bangladesh

Bangladesh

GDP growth slowed to 3.45 per cent in FY20, but increased sharply to 6.94 per cent in FY21. The economic momentum is expected to gain further traction in FY22. The quantum index of large and medium scale manufacturing industry edged up by 17.83 per cent to 497.37 during July-October of FY22 compared to that of FY21. The Government has set 7.2 per cent GDP growth target for the ongoing FY22.

Despite the unprecedented expansionary and accommodative monetary and fiscal policy stances to support the COVID-19 affected economy, the 12-month average inflation declined to 5.56 per cent in FY21 from 5.65 per cent in FY20. According to the latest data, at the end of December 2021, the 12-month average inflation moderated to 5.55 per cent which was 5.69 per cent at the end of December 2020. On the other hand, point to point food inflation and non food inflation increased to 5.46 per cent and 7.00 per cent respectively in December 2021 from 5.45 per cent and 5.94 per cent in June 2021. As a result, point to point general inflation increased to 6.05 per cent in December 2021 from 5.64 per cent in June 2021. The rise in inflation (p-o-p) originated mainly from soaring prices of most of the commodities in the global markets in the face of supply chain disturbance as well as increased domestic consumer demand. Considering the recent oil price adjustment in domestic economy and overall macroeconomic performance, inflation is expected to peak up in the coming months of the ongoing fiscal year.

An increase in non-tax revenue by 33.99 per cent and an increase in tax revenue by 21.54 per cent resulted in total revenue to grow by 23.59 per cent in FY21. Total tax revenue (NBR & Non-NBR) during July-September 2021 stood at Taka 59202.54 crore which was higher by Taka 8316.08 crore or 16.34 per cent against the collection of Taka 50886.45 crore during July-September 2020.

Fiscal deficit including grants was Taka 1279.83 billion at end June 2021 which was Taka 1538.64 billion at end of June 2020. Total deficit financing of the government stood higher at Taka 50458.84 crore during July-November 2021 against Taka 45207.47 crore during July-November 2020. The fiscal deficit as excluding grants decreased to 3.7 per cent for FY21 compared to 4.9 per cent in the previous year. On the other hand, the fiscal deficit as including grants declined to 3.6 per cent for FY21 compared to 4.9 per cent in FY20.

Current Account (CA) balance incurred deficit of USD 3.81 billion in FY21 which was USD 4.72 billion in FY20. During July-December of FY22, CA balance recorded a deficit of USD 8.18 billion compared to a surplus of USD 3.51 billion in July-December FY21, due mainly to a dip in remittance inflows and a faster rise in import payments than export receipts. The deficit in CA led to a deficit of USD 1.79 billion in the overall balance (BOP) in July-December of FY22 despite a surplus of USD 6.81 billion in the capital and financial account.

Total value of merchandise export in FY21 increased by USD 5.08419 billion or 15.10 per cent to USD 38.75831 billion compared to USD 33.67412 billion in FY20. Total value of custom based import during FY21 remarkably increased by USD 10.81billion or 19.73 per cent and stood at USD 65.5947 billion against USD 54.7847 billion during FY20. According to the latest data, import expenditure and export earnings increased by 54.47 per cent and 28.41 per cent respectively during July-December of the FY22 compared to the same period of the previous year. However, inward remittances declined by 20.56 per cent in July-December of FY22. This put some depreciation pressures on BDT against USD. The exchange rate of Taka depreciated to 85.80 at the end of December 2021, from 84.81 at the end of June 2021. The foreign exchange reserves stood at 46.15 billion at the end of December 2021, compared to 46.39 billion at the end of June 2021.

The broad money (M2) grew by 13.62 per cent (y-o-y) at the end of FY21, contributed by both net foreign assets (NFA) and net domestic assets (NDA). According to the latest data of FY22, M2 growth stood lower at 9.60 per cent (y-o-y) at the end of December 2021 as compared with 14.23 per cent growth at the end of the same month of the previous year due to substantially lower growth in net foreign assets (NFA), which stood at 3.41 per cent at the end of December 2021 compared to its level of 30.22 per cent at the end of December 2020.Domestic credit recorded an increase of 12.37 per cent at the end of December 2021 against the increase of 9.91 per cent at the end of December 2020. Of which credit to the public sector and private sector grew by 21.00 per cent and 10.68 per cent respectively at the end of December 2021 as compared to the same month of the previous year. Another way, the public sector and the private sector credit during July-December of FY22 increased by 50.31 per cent and 68.94 per cent respectively compared to the same period of the previous fiscal year. As a result, domestic credit during July-December of FY22 increased by 64.97 per cent. Reserve money (RM) recorded a lower growth of 6.45 per cent at the end of December 2021 compared to 21.18 per cent at the end of December of 2020.

It is observed, the weighted average call money rate was 2.25 per cent at end of FY21 which was 5.01 at the end of the previous fiscal year. The call money rate increased to 2.66 per cent in December 2021 compared to 1.79 per cent in December 2020. The weighted-average interest rate on lending declined to 7.18 per cent in December 2021 from 7.61 per cent in December 2020. Likewise, the weighted-average interest rate on deposit also declined to 3.99 per cent in December 2021 from 4.54 per cent in December 2020.

The capital market's strong performance continued in 2021, as demonstrated by strong price indices, high turnover, and increased market capitalization. The capital market's vigorous activity in 2021 was bolstered by the expectation of company activity returning to normal as the COVID-19 situation improved. The DSE Broad Index (DSEX) at the end of December 2021 increased to 6756.66 compared to 5402.07 at the end of December 2020. Market capitalization also increased to Taka 542196.40 crore at the end of December 2021 from Taka 448230.10 crore at the end of December 2020.

Bhutan

Bhutan

The real GDP growth slumped to an all-time low of -10.1 per cent in the year 2020 compared to a growth of 5.8 per cent in the previous year. With the onset of the pandemic and the urgency to adopt various containment measures, including implementation of national and district lockdowns, closure of borders, restriction on entry of foreigners, social distancing standards, business curfews, among others, caused disruptions in economic activities. The downward growth was largely contributed by the mining and quarrying sector which witnessed a record low growth of -81.8 per cent in 2020 from 33.1 per cent in 2019. Similarly, other sectors such as construction, hotels & restaurants, manufacturing and transportation & communication were severely affected. The contraction of economic activities has also caused a large displacement in employment, bringing disruption in the labor market. The unemployment rate increased to 5.0 per cent in 2020 from 2.7 per cent in 2019.

The inflation rate (12-month average) recorded at 8.21 per cent in June 2021 from 3.04 per cent in 2020.The annual headline inflation stood at 7.4 per cent in June 2021 compared to 4.5 per cent in June 2020, an increase by 2.9 percentage points, largely on account of rising food inflation. With the prolonged Covid-19 pandemic, food inflation rose to 10.1 per cent in June 2021. During the period, the non-food prices increased to 5.2 per cent against 0.9 per cent increase in the previous year.

The fiscal deficit recorded at 7.7 per cent of GDP in the FY 2020/21 as compared to 6.8 per cent in the FY 2019/20. The higher deficit was attributed to the increase in capital expenditure by 71.3 per cent from the previous period, due to incorporation of external grants for projects and COVID-19 related containments activities.

The current account deficit contracted to 11.8 per cent of GDP in FY 2020/21 from 15.8 per cent in FY 2019/20. This development was attributed to improvement in trade balance due to decrease in imports of non-essential items, followed by a slight decrease in net primary payments. Further, the positive inflows in the financial account increased by Nu 3 billion from the FY 2019/20 to Nu 33 billion during the review period. Consequently, the overall international reserves were adequate to finance 28 months of essential imports (Goods & Services), thereby fulfilling the constitutional requirements of 12 months import coverage.

The external debt position as a percentage of GDP in 2020/21 stood at 134.8 per cent from 123.9 per cent in the previous period. This was mainly contributed by the government's borrowing from multilateral agencies, and an increase in bilateral borrowings from the Government of India for hydropower projects. The increase in outstanding rupee debt from India is largely attributed to capitalization of interest during construction (Nu 12.256 billion) for the Mangdechhu hydropower project. While the external debt position of 134.8 per cent of GDP in FY 2020/21 remains a major concern and challenge, more than 62 per cent of the external debt constitutes hydro-power project debt, which is a contractual basis and has the capacity to liquidate its own debt.

The domestic credit continues to grow amidst COVID-19 supported by monetary and fiscal measures, accounting for 80.8 per cent of GDP in FY 2020/21.During the FY 2020/21, the short-term liquidity surplus (excess reserves) stood at Nu 35,225.75 million, an increase by 74.5 per cent from the previous year, which is adequate to support the short-term liquidity demand of the economy. Thus, the banks in particular remain well-placed to play a catalytic role in supporting the process of economic recovery.

India

India

The Indian economy in 2021 witnessed recovery with the ebbing of the second wave of the pandemic and has demonstrated resilience in the face of the third wave marked by the rapid transmissibility of the Omicron variant. As per the first advance estimates by the National Statistical Office (NSO), the Indian economy surpassed its pre-pandemic level in 2021-22. All the constituents of aggregate demand entered into expansion, with investment, exports and imports exceeding their pre-COVID levels. Government final consumption expenditure (GFCE) accelerated in 2021-22, providing an upward thrust to aggregate demand. Further, to pump-prime private investment and demand in 2022-23, the Government has sharply increased the 2022-23 Budget outlay for capital expenditure by 35.4 per cent to ₹ 7.50 lakh crorefrom ₹ 5.54 lakh crore Budget outlay in 2021-22. However, 'effective capital expenditure' of Central Government is estimated at ₹ 10.68 lakh crore in 2022-23, which is about 4.1 per cent of GDP. On the supply side, with an uneven recovery gaining traction, the farm sector remained upbeat on the back of record summer crop production. Industrial and services activity exhibited a halting recovery, while services are yet to catch up with their 2019-20 levels.

At the same time, the recurrence of COVID-19 waves in many parts of the world, inflation and continuing supply bottlenecks has cast a shadow on the growth outlook. Taking all these factors into consideration, India's real GDP is estimated to grow at 9.5 per cent in 2021-22.

Aggregate demand conditions have stayed resilient. The issuance of E-way bills - an indicator of freight movement - surged to 7.2 crore in December 2021, the second highest in its history. With a strong pick-up in manufacturing and construction, highway toll collections soared by 16 per cent month-on-month (m-o-m) in December 2021. The headline manufacturing PMI remained in expansion territory at 55.5 in December 2021. It moderated, however, from the level of 57.6 in November due to a dip in output, stock of purchases and new orders. India's coal production surged to 74.8 million tonnes in December, marking an increase of 6.8 per cent over its pre-pandemic level. The services PMI stood at 55.5 in December, recording an expansion for the fifth consecutive month. The business expectations index (BEI) for services expanded to 54.0 in December 2021, up from 53.8 in November 2021.

Headline CPI inflation edged up in December 2021 to 5.59 per cent from 4.91 per cent in November 2021, after falling sharply between June and September 2021. This uptick primarily resulted from food inflation that spiked during December to 4.05 per cent, from 1.87 per cent in November 2021. Hardening international energy prices have kept domestic LPG and kerosene prices elevated for nearly three quarters. The price pressures may persist in the near term though supply side interventions by the Government have limited the fallout of continuing high international edible oil prices on domestic prices. Cost-push pressures continue to impinge on core inflation, though their pass-through may remain muted due to the slack in the economy. CPI inflation is projected at 5.3 per cent for 2021-22: with risks broadly balanced. Taking various factors into consideration, the Monetary Policy Committee (December 2021) continued with the accommodative stance to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.

On the external front, India recorded a current account deficit of 0.2 per cent of GDP in H1:2021-22 as against a surplus of 3.0 per cent in H1:2020-21 on the back of a sharp increase in the trade deficit. However, the all-time high monthly trade deficit of US$ 22.9 billion in November 2021narrowed somewhat to US$ 21.7 billion in

December 2021, despite merchandise imports rising to their highest level of US$ 59.5 billion in December 2021 indicating a strong underlying momentum of domestic demand. Net invisible receipts were higher in H1:2021-22, on account of higher net receipts of services and private transfers. Net FDI inflows at US$ 21.2 billion in H1:2021-22 were lower than US$ 23.9 billion in H1:2020-21. Portfolio investment recorded a net inflow of US$ 4.3 billion in H1:2021-22 as compared with US$ 7.6 billion a year ago. Foreign exchange reserves stood at US$ 634.97 billion on January 14, 2022, providing a cover equivalent to 13 months of imports projected for 2021-22.

On the vaccination front, India has made commendable progress, administering 163.49 crore jabs as on January 25, 2022. In January 2022, the inoculation has been extended to the age group 15-18 years and an option of precautionary dose has also been made available for senior citizens.

Maldives

Maldives

According to the revised estimates of October 2021, the Maldivian economy is projected to expand by 31.65 per cent in 2021, well above the initial growth projection of 13.50 per cent made in October 2020, and much higher than the -33.50 per cent growth recorded in 2020. The significant expansion in GDP largely reflects low base from 2020 and the revival of the tourism sector, which had ripple effects on growth of related sectors, such as transport and communication and wholesale and retail trade.

As for the price developments, after remaining negative in 2020, the rate of inflation, as measured by the annual percentage change in the 12-month average of the Consumer Price Index, increased from -1.37 per cent in 2020 to 0.54 per cent in 2021. The pickup in inflation mainly reflected lower base effects and higher import prices stemming from foreign exchange shortages in the domestic economy as well as higher global food and oil prices compared to a year ago.

With regard to government finances, the overall fiscal deficit is projected to narrow to 16.65 per cent of GDP in 2021, down from both the initial projection of 18.54 per cent and 23.51per cent deficit recorded during 2020. Mirroring these developments, public external debt as a percentage of GDP is estimated to fall and reach 50.96 per cent in 2021, while national debt level (excluding guaranteed debt) is expected to decline to 103.46 per cent of the GDP, primarily due to the improvement in economic activity during the year. The expansion in national debt to MVR 79.68 billion during 2021 from MVR 66.56 billion at the end of 2020, was contributed by the rise in both external and domestic debt of the government. The growth in the external borrowing of the government during the year mainly reflected the issuance of Sukuk in the international market in May and September 2021.

On the external front, as per estimates made in October 2021, the current account deficit is projected to narrow by more than half from 35.56 per cent to 18.05 per cent of GDP in 2021. The improvement in current account deficit largely stemmed from the pickup in GDP due to the rebound in tourism sector performance and the consequent increment in tourism receipts. Meanwhile, gross international reserves as a percentage of imports declined considerably in 2021 owing to both the increase in the value and volume of merchandise imports, and the fall in gross international reserves (primarily due to the settlement of the US$ 250 million swap facility obtained from the Reserve Bank of India in 2020).

Nepal

Nepal

As per the annual estimates released by the Central Bureau of Statistics (CBS) on April 30 2021, real GDP grew by 4.01 per cent in FY 2020–21 compared to a contraction of 2.09 per cent in FY 2019–20. Among various industrial classification, manufacturing, construction, wholesale & retail trade, transportation and accommodation activities showed positive expansion in FY 2020–21 after contracting in the previous fiscal year on the backdrop of COVID-19 pandemic. Annual average consumer price inflation decreased from 6.2 per cent in FY 2019–20 to 3.6 per cent in FY 2020–21. Inflation remained within 7.0 per cent, the target set by the monetary policy. In FY 2021–22, consumer price inflation rose to 7.1 per cent y-o-y in mid-December 2021 (monetary policy target of 6.5 per cent). Annual average wholesale price inflation increased to 7.6 per cent in FY 2020–21 from 6.9 per cent in the previous fiscal year. Meanwhile, national wholesale price inflation was 7.2 per cent y-o-y in mid-December 2021. Controlling inflationary pressure remains challenging in the face of increasing raw material and fuel prices in the international market.

Broad money (M2) increased 21.8 per cent in 2020–21 compared to 18.1 per cent in 2019–20. Reserve money increased by 5.2 per cent in 2020–21 compared to an increase of 26.7 per cent in the previous year. Domestic credit expanded 26.8 per cent in 2020–21 compared to a growth of 13.6 per cent in 2019–20. Deposits at BFIs increased 21.4 per cent in 2020–21 as compared to an increase of 18.7 per cent in 2019–20. Private sector credit from BFIs increased 27.3 per cent in 2020–21 compared to a growth of 12.0 per cent in the previous year.

In FY 2021–22, growth of M2 stood at 14.9 per cent y-o-y in mid-December, 2021 compared to growth of 22.5 per cent a year ago. The deposits at BFIs increased 15.9 per cent on y-o-y basis in mid-December, 2021 as compared to an increase of 21.6 per cent in the same period a year ago whereas the private sector credit growth stood at 31.2 per cent in mid-December, 2021 compared to 12.9 per cent a year ago.

Current account deficit stood at 7.8 per cent of GDP in FY 2020–21 compared to 0.9 per cent in FY 2019–20 as a result of increasing trade deficit. Net FDI inflows remained USD 165.6 million in FY 2020–21 which was USD 169.0 million in FY 2019–20. Nepal's foreign exchange reserves totaled USD 11.8 billion on mid-July 2021, as compared to USD 11.7 billion on mid-July 2020. Based on the imports of 2020/21, foreign exchange reserves are sufficient to cover prospective merchandise imports for 11.2 months and merchandise and service imports for 10.2 months.

During the first five months of FY 2021–22, remittance inflows stood at USD 3.7 billion while foreign exchange reserves stood at USD 10.0 billion. In fiscal year 2020–21, domestic debt and external debt stood at 18.8 and 21.8 per cent of GDP respectively. Such ratios were 15.7 per cent and 20.8 per cent of GDP in FY 2019–20. On the other hand, government expenditure rose 8.2 per cent in FY 2020–21 compared to a decline of 1.7 per cent in FY 2020–21 mainly due to increase in capital expenditure. Government revenue increased 16.3 per cent in FY 2020–21 compared to a minimal increase of 0.2 per cent in FY 2019–20.

Pakistan

Pakistan

Relatively successful containment of COVID-19 along with timely and well calibrated monetary and fiscal responses helped the economy to exhibit sustained recovery. After recording a notable growth of 5.6 per cent in the previous year, Pakistan's economy is expected to keep its growth momentum in FY22 as well. Significant improvement in the domestic demand indicators such as domestic sales of petroleum products, automobiles and cement dispatches and expectations of revival of economic activity in manufacturing and agriculture sectors give credence to this view. China Pakistan Economic Corridor (CPEC) projects also continue to provide strong support to growth in Pakistan. CEPEC entered into its second Phase with particular focus on agriculture cooperation, socio-economic development and industrialization. Looking at the sectoral performance, the large-scale manufacturing output grew by 3.3 per cent during Jul-Nov FY22 over the same period last year. In agriculture, the initial estimates for Kharif FY22 suggest that major crops recorded growth in production compared to last year.

After decreasing to 8.9 per cent in FY21 from 10.7 per cent in FY20, the national CPI inflation increased to 9.8 per cent in H1-FY22. Significant rise in energy inflation on account of sharp rise in prices of global crude oil, buoyed domestic demand and pass-through of recent exchange rate depreciation mainly contributed to an increase in inflation. On sequential basis, however, momentum of inflation fell significantly in December-2021.Food group, which has large weight in the overall consumer price index, registered slight deceleration amid adequate supply of perishable food. Barring short term volatility due to transitory supply shocks, recent tightening of monetary and fiscal policies are likely to bring average inflation to its medium term range of 5-7 per cent in FY23.

As a result of the government's fiscal consolidation measures, fiscal deficit narrowed to 7.1 per cent of GDP during FY21 from 8.1 per cent of GDP in FY20. Furthermore, primary deficit declined to 1.4 per cent of GDP during FY21 against the deficit of 1.8 per cent reported in FY20. Likewise, in Jul-Sep FY22, fiscal deficit declined to 0.8 per cent of GDP as compared to 1.1 per cent in the corresponding period last year, while primary balance recorded a surplus of 0.3 per cent of GDP during this period.

FBR tax revenues grew by 32.5 per cent during H1-FY22, compared to a growth of 5.3 per cent growth last year, which came from the growth in both direct and indirect sources. On the expenditure side, current spending increased by 8.6 per cent and development expenditure with a strong growth of 59.4 per cent in Q-FY22. The overall growth in total expenditure was 14.5 per cent in this period.

Public debt reached Rs 42.2 trillion at end-November 2021 as compared to Rs 37.0 trillion at end-November 2020. In terms of growth, the pace of debt accumulation increased by 5.9 per cent during Jul- Nov FY22 as compared to 1.8 per cent during Jul-Nov FY21. This rise is largely attributed to PKR depreciation against the US dollar.

The move to market-based flexible exchange rate regime led to marked improvement in current account balance in FY21. In recent months, however, current account deficit has increased with the pickup in economic growth, rise in international commodity prices and import of vaccines. During Jul-Dec FY22, the current account recorded a deficit of US$ 9.1 billion, against a surplus of US$ 1.2 billion in Jul-Dec FY21. Export receipts rose by 29.0 per cent amidst strong performance by the textile and rice sectors, whereas, workers' remittances recorded a year on year growth of 11.3 per cent. On the external financing side, net financial inflows amounted to US$ 10.1 billion in July-Dec FY22, more than sufficient to finance the current account deficit. As a result, the country's liquid FX reserves stood at US$ 23.3 billion on January 14, out of which the SBP's reserves amounted to US$ 17.0 billion.

The money supply (M2) increased by 2.3 per cent during Jul 01 to Jan 07, 2022 compared to 4.1 per cent last year. On the asset-side, the NFA fell to Rs 219.9 billion while NDA posted an expansion of Rs 767.5 billion during Jul 01 to Jan 07, 2022.

The currency to deposit ratio stood at 40.4 per cent as on Jan 07, 2022, compared to the 41.7 per cent level as of Jan 08, 2021. In overall terms, the government borrowed Rs 52.2 billion to the banking system during Jul 01 to Jan 07, 2022 compared to borrowings of Rs 357.1 billion during the same period last year. Credit to private sector increased by Rs 772.8 billion during Jul 01 to Jan 07, 2022 compared to Rs 215.5 billion during the same period last year.

Since September 20, 2021 until December 14, 2021, the SBP policy rate cumulatively increased by 275 basis points to 9.75 per cent. On January 24, 2022, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 9.75 per cent, in line with the forward guidance provided in the last monetary policy statement. The SBP Overnight Reverse Repo Rate and the Overnight Repo Rate lies 100 basis points above and below the policy rate at 10.75 and 8.75 per cent respectively.

Sri Lanka

Sri Lanka

Sri Lankan economy showed signs of significant recovery in 2021 with the economy growing at a healthy rate of 4.4 per cent, in real terms, during the nine months ending September 2021, compared to the contraction of 5.4 per cent recorded in the corresponding period of 2020, despite the COVID-19 pandemic related disruptions. Supported by the relaxation in mobility restrictions and the steady return of normalcy to the economy throughout the first half of 2021, the economy registered growth rates of 4.3 per cent and 12.3 per cent, respectively, in the first and second quarters of the year. Although the economy recorded a negative growth of 1.5 per cent during the third quarter due to an outbreak of COVID-19, with the rapid rollout of the vaccine from end July 2021 onwards and swift imposition of mobility restrictions the economy was able to regain its growth momentum by early October 2021. Accordingly, high frequency indicators point to a notable recovery of the economy during the fourth quarter of 2021. Therefore, the Sri Lankan economy is expected to record a growth of around 4 per cent in 2021 compared to the contraction of 3.6 per cent in 2020 and is expected to register a growth of over 5 per cent in the medium term.

Following a 12-year period of single digit level, inflation followed an increasing trend in 2021 mainly driven by supply-side disturbances experienced during the pandemic and rise in global prices of oil and certain other commodities leading to several upward revisions to domestic administrative prices and some other prices of goods and services. Such supply driven price pressures caused food inflation to accelerate significantly to double digit levels. Year-on-year headline inflation based on the Colombo Consumer Price Index (CCPI, 2013=100), a measure of cost of living in urban area, accelerated to 12.1 per cent by end 2021, compared to 4.2 per cent at end 2020. Following the similar trend, headline inflation based on the National Consumer Price Index (NCPI, 2013=100), a measure of nationwide inflation, also accelerated to 14.0 per cent by end 2021 compared to 4.6 at end 2020. A possible pickup in demand driven inflationary pressures, as measured by core inflation, was also observed during this period. The Central Bank proactively commenced tightening monetary policy since August 2021 to preempt the buildup of any excessive inflationary pressures over the medium term.

Fiscal operations of the Government continued to be affected by the pandemic in 2021, resulting in key fiscal balances deteriorating during the year amidst the unprecedented fiscal responses of the Government to the crisis. As a result, the overall budget deficit for the first ten months of 2021 widened. The deficit was mainly driven by the increase in government expenditure that had offset the modest increase in government revenue. Government revenue for the first ten months of 2021 recorded a marginal year-on-year increase of 1.9 per cent while the total expenditure has increased by 11.3 per cent. While the outstanding central government debt increased, the relative share of the foreign debt has declined in line with the Government's financing strategies that are inclined more towards domestic borrowings. The expected economic revival coupled with the impending government revenue enhancement and the rationalization of spending policy measures are expected to improve the budget deficit and the debt position and enhance the fiscal space in the medium term.

Export of goods recorded healthy earnings in 2021 amidst the pandemic, while helping to cushion the impact of current account deficit on economy. In fact, export earnings in 2021 is the highest recorded in Sri Lanka's history. Both industrial exports and agricultural exports performed well in 2021, showcasing success of efforts of authorities to ensure continuation of economic activities during the pandemic and the resilience of the private sector. Despite the healthy growth in exports, the impact of the pandemic on the external sector of the economy was substantial. And the external sector experienced pressures amidst increased outflows on account of foreign currency debt servicing obligations and historically high levels of imports. Increased expenditure on imports, outpacing the growth in exports, reflected the recovery of economic activity and the surge in global commodity prices. Hence, the merchandise trade deficit widened further during the eleven months period ending November 2021. Trade in services, particularly earnings from tourism, was significantly affected by the pandemic. A notable revival of tourist arrivals were witnessed during the latter part of 2021, especially in December, and indicate that growth momentum in tourism will continue into 2022 as well. Tourist arrivals were originated from many regions of the world, primarily Asia Pacific, including South Asia, and Europe. Workers' remittances, which recorded a healthy growth during January to May 2021, year-on-year, moderated thereafter. Nevertheless, earnings from workers' remittances recovered to a certain extent in December 2021 recording a month-on-month increase. The deficit in the external current account widened during the nine months ending September 2021, reflecting the expansion of merchandise trade deficit, moderation of workers' remittances, despite year-on-year improvements in trade in services and the primary income accounts. The official reserves position stood at around US dollars 3.1 billion, by end of 2021. The weighted average spot exchange rate in the interbank market continued to remain broadly stable during 2021 and so far during 2022. With the ongoing efforts of the Government and the Central Bank, some sizeable foreign inflows are expected in the near term, including proceeds from bilateral swap arrangements, syndicated loans, Government to Government financing and Foreign Direct Investment (FDI) inflows.

The Central Bank of Sri Lanka, which implemented unprecedented monetary stimulus measures since the onset of the COVID-19 pandemic to help the revival of economic activity and support the Government amidst disruptions to government cash flows, commenced tightening the monetary policy stance since mid-August 2021. This was with the aim of addressing imbalances in the external sector and financial markets, while preempting any build-up of excessive inflationary pressures over the medium term, amidst improved growth prospects. Accordingly, the key policy rates Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank were increased to 5.5 per cent and 6.5 per cent, respectively, by a total of 100 basis points, in two occasions since August 2021 from its historically low levels. Further, the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of licensed commercial banks was also increased by 2.0 percentage points to 4.0 per cent, in September 2021. The relatively low interest rate regime, which led to the notable expansion of domestic credit, caused monetary expansion to remain elevated during 2021, although the decline in net foreign assets (NFA) of the banking system led the growth of broad money supply to moderate towards latter part of 2021. Accordingly, year-on-year growth of broad money supply (M2b) slowed to 15.4 per cent by end November 2021, compared to the growth of 23.4 per cent at end 2020

Reflecting the impact of tightening monetary policy since August 2021 and other regulatory measures, market interest rates that declined to their historic lows. However, with the monetary tightening, interest rate structure commenced adjusting upwards. With a view to reflecting prevailing market conditions, maximum interest rates imposed on certain deposit and lending products during the monetary easing cycle prior to August 2021, were also revised. Yields on government securities, which declined notably with the imposition of caps on yields to guide the market and to induce a swift decline in other market interest rates, increased subsequently with the removal of such caps in September 2021.

All share price Index (ASPI) and S&P SL 20 index recorded growth of 80.5 per cent and 60.5 per centre respectively, during the year 2021 while

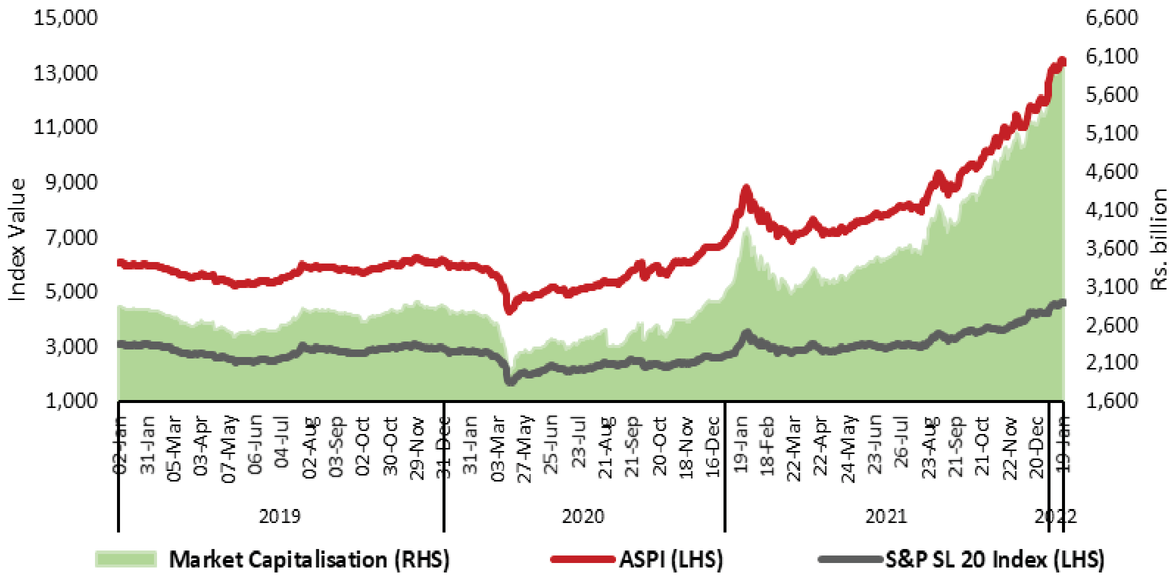


Chart 1: Movement in Price Indices and Market Capitalization

The interest rate caps introduced on foreign currency deposits of licensed banks to eliminate the buildup of interest rate anomalies between domestic currency and foreign currency financial instruments were also revised in December 2021 to better reflect the movements in market interest rates.

The Colombo Stock Exchange recorded a significant performance in terms of price indices, market capitalisation and daily turnover in 2021.

market capitalisation grew by 85.4 per cent.

The historically low yield rates observed across Government securities market since mid-2020 continued into early 2021 but started adjusting upward there onwards. Accordingly, secondary market yield rates of 91-day, 364-day T-bills, 2-year and 5-year T-bond increased by 314, 324, 302 and 401 bps respectively at end 2021 compared to end 2020.

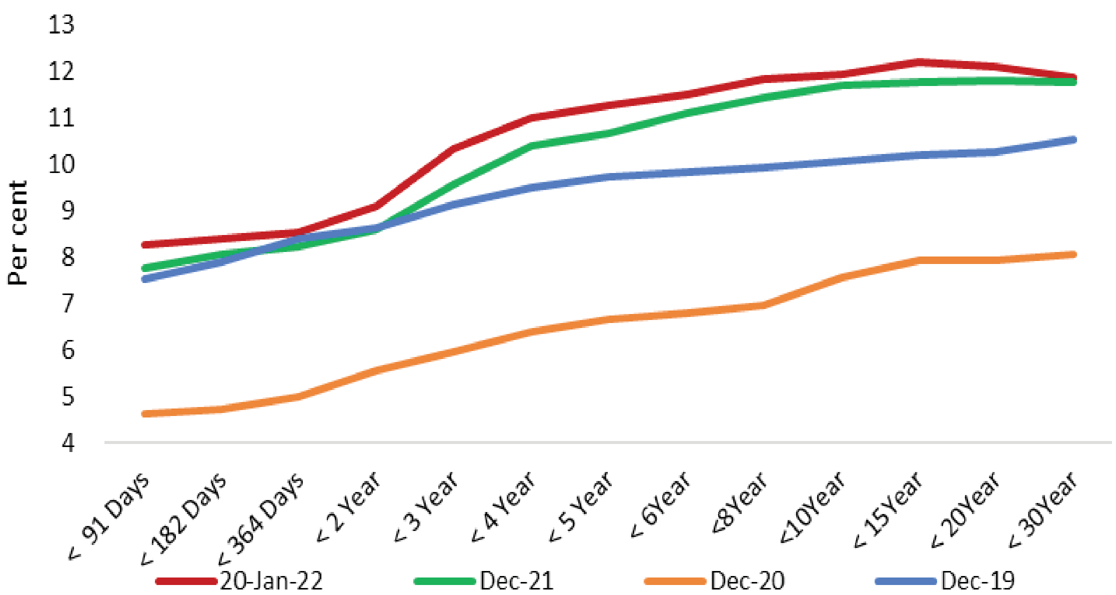
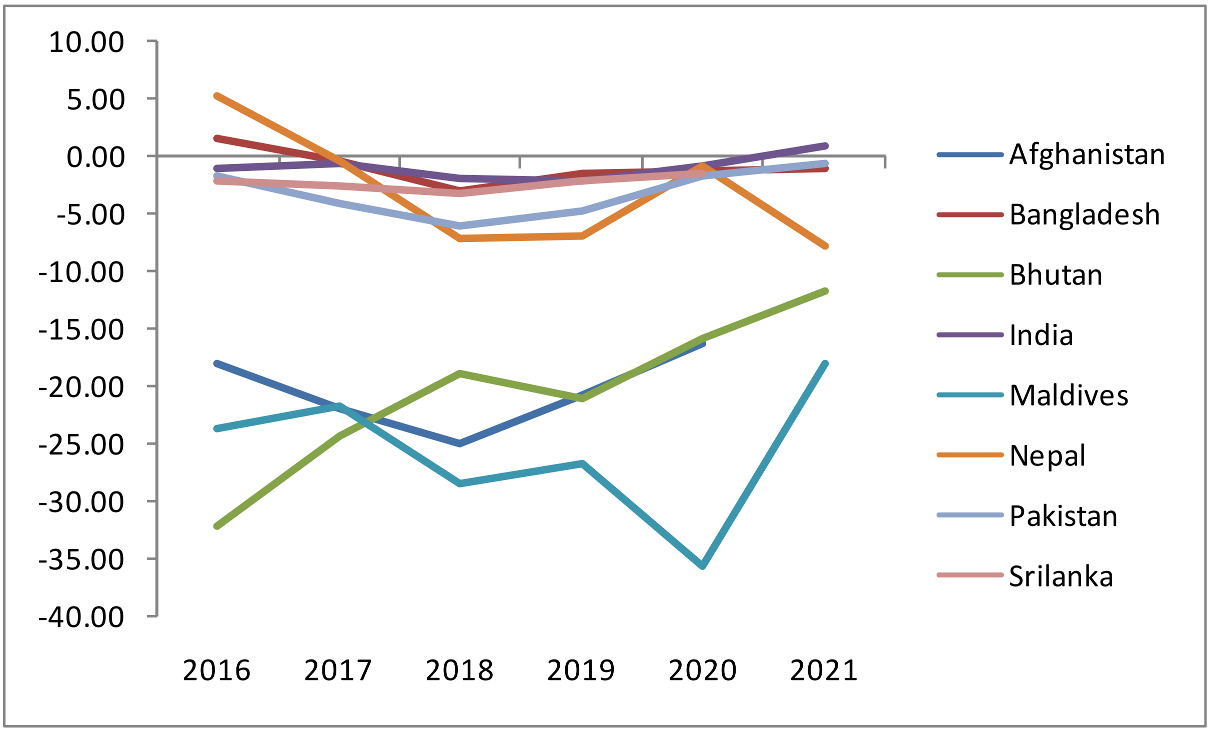


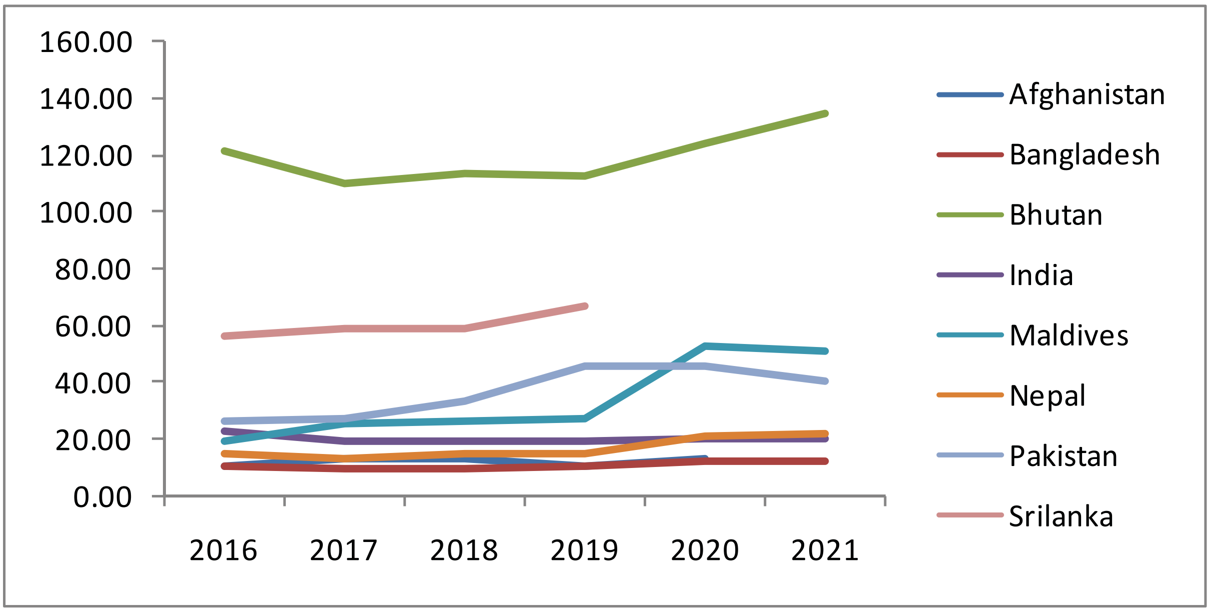
Chart 2: Secondary Market Yield Curve of Government T-bills and T- bonds

Macroeconomic Surveillance Indicators Charts for SAARC Countries

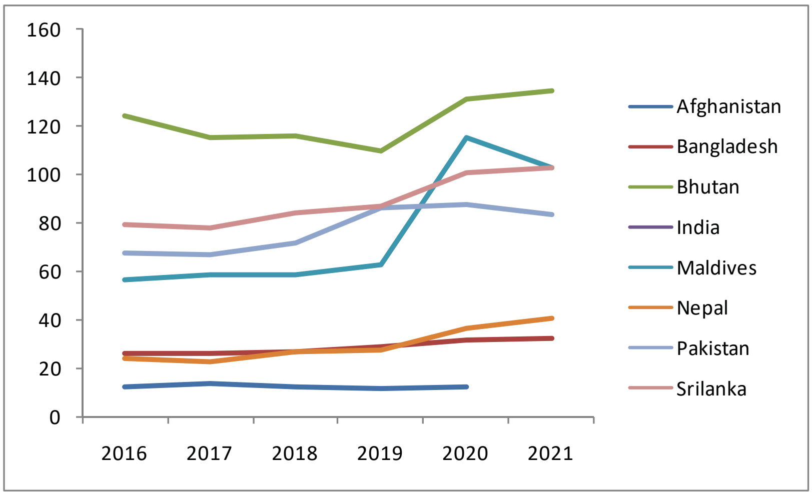
Current account balance as percentage of GDP



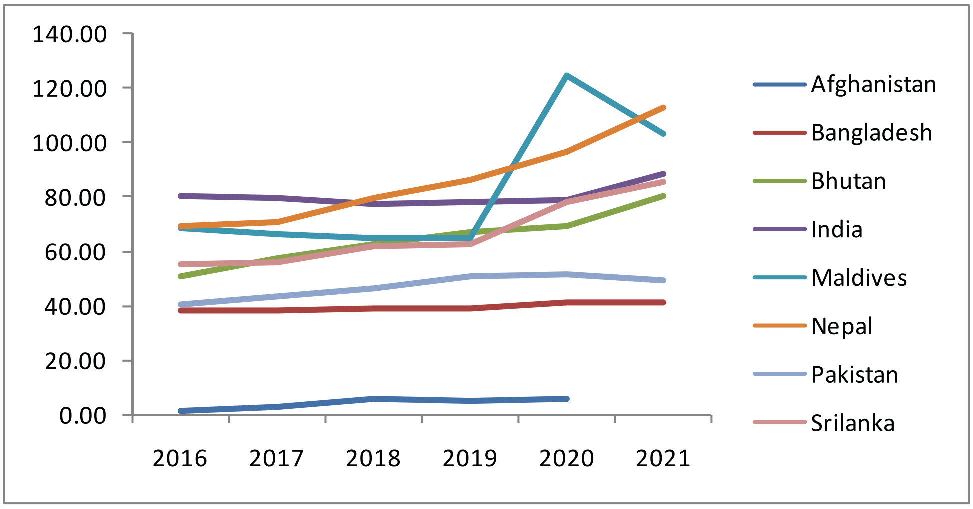
External Debt as a percentage of GDP



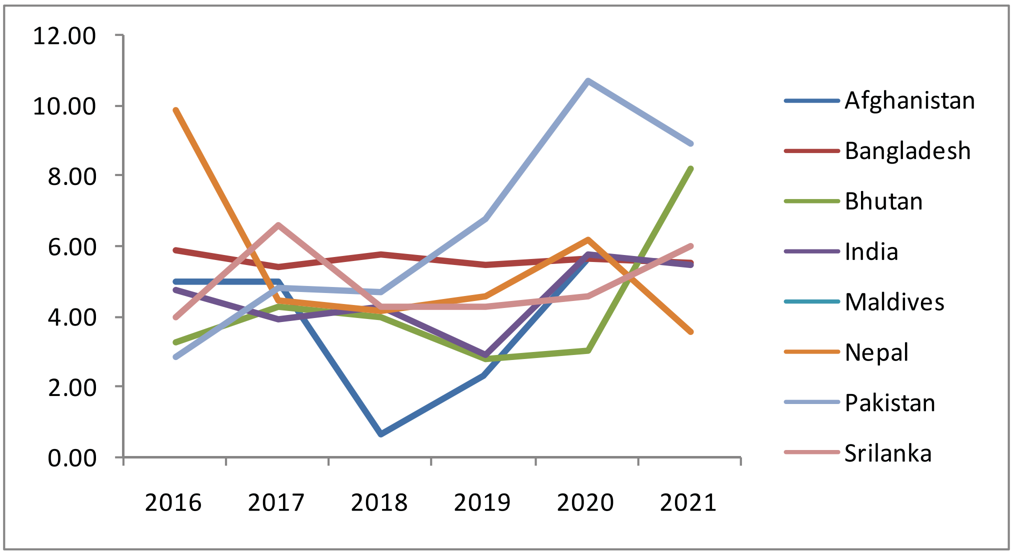
National Debt as percentage of GDP



Domestic Credit as percentage of GDP



Inflation (12-month average)



Section: 04

Articles

The Impact of Recent Oil Price Hike on CPI Inflation in Bangladesh

Like other countries oil is used as a vital component of nearly all services and goods, and it has a significant impact on people's lives in Bangladesh as well. It has a broad scope of applications, supplying various sectors of economies including agriculture, transportation, industry, as well as households. Therefore, when the price of oil is imbalanced and unreasonable, people's quality of living fluctuates. As a result, changes in oil prices may have an impact on the prices of other goods. Oil price is one of the critical determinants of inflation of our country because it may influence macroeconomic activities. As the cost of production rises, it may contribute to increase inflation with influencing the different channels of the economy. This study pursued to find out recent national oil price adjustment with the global oil price and how it affects CPI inflation in Bangladesh.

A Brief Overview of oil price and CPI inflation:

It is widely accepted that changes in oil prices partially passed through inflation. Hence, oil price is an important factor in determining inflation. World oil prices continued to increase in 2021, while Bangladesh's government kept domestic oil prices steady since 2016. World oil prices have been erratic recently due to the Covid-19 pandemic, with the world oil price peaking at 82.10 \$/bbl (US dollar per barrel) in October 2021.The Bangladesh government has adjusted the domestic oil price with the global oil prices on a regular basis, and this year the government chose to adjust the domestic oil price with the global oil price for the first time. As a result, Bangladesh Petroleum Corporation (BPC) re-fixed the diesel price to 80.00 BDT per litre after five years, and the price of Kerosene oil to 80.00 BDT per litre on November 4, 2021.

Table 1:An Overview of oil price and CPI inflation in 2021

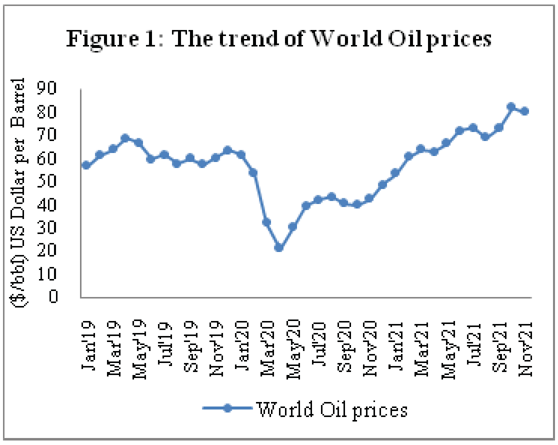
Months	Price Petroleum Products				CPI Inflation
	Kerosene Price(tk per litre)	Diesel Price (tk per litre)	Petrol Price (tk per litre)	World Oil price (US dollar per barrel)	
January, 2021	65.00	65.00	86.00	53.60	5.02
February, 2021	65.00	65.00	86.00	60.46	5.32
March, 2021	65.00	65.00	86.00	63.83	5.47
April, 2021	65.00	65.00	86.00	62.95	5.56
May, 2021	65.00	65.00	86.00	66.40	5.26
June, 2021	65.00	65.00	86.00	71.80	5.64
July, 2021	65.00	65.00	86.00	73.28	5.36
August, 2021	65.00	65.00	86.00	68.87	5.54
September, 2021	65.00	65.00	86.00	72.80	5.59
October, 2021	65.00	65.00	86.00	82.10	5.70
November, 2021	80.00	80.00	86.00	79.90	5.98
December, 2021	80.00	80.00	86.00	-	6.05

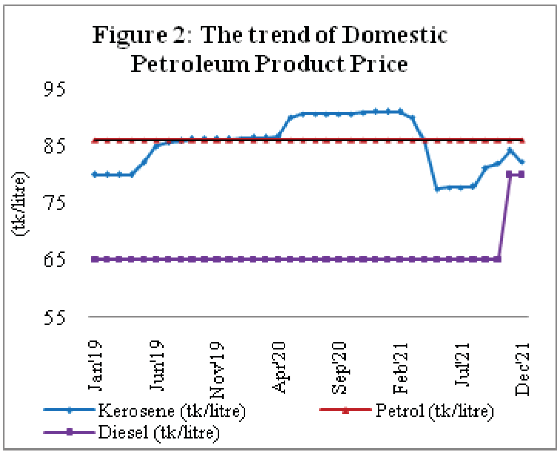
Source: Bangladesh Bureau of Statistics & Bangladesh petroleum

Bangladesh's economy is facing inflationary pressure as a result of recent oil price hikes and the challenges of pandemic-related recovery. During the ongoing pandemic, Bangladesh economy has already lost the acquiring GDP growth in FY21 which is 5.43 per cent. At the same time, the rate of inflation was 5.55 per cent on a 12-month average basis and 6.05 per cent on a point-to-point basis in December 2021, which is higher than the target inflation rate of 5.3 per cent. The following **Table-1** shows that the worldwide oil price fluctuates every month, but the domestic oil price remains stable until October 2021. Diesel and kerosene prices were re-fixed in November 2021.

Recent scenario of global oil price and domestic oil price:

Bangladesh meets up its oil demand by importing petroleum products. We have seen that, rising oil prices affect inflation through two ways. First, the oil prices increases have a direct effect on the prices of refined oil products which increases the domestic price level. Secondly, the rising oil price has an indirect impact on consumer prices through production costs.





Source: World Bank and Bangladesh Bureau of Statistics

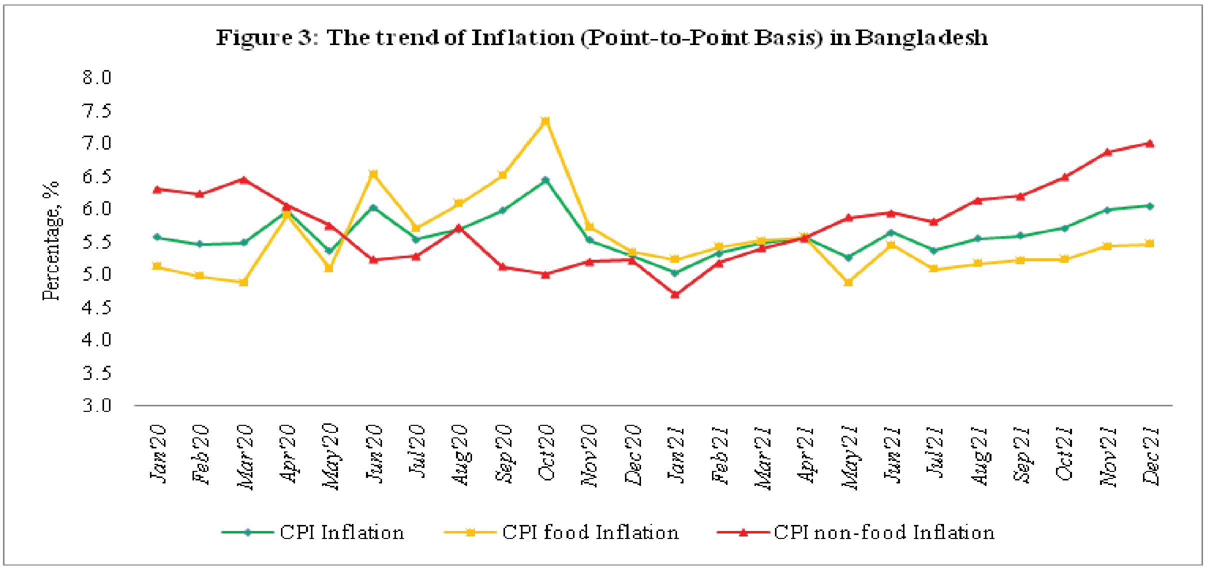
Figure 1 showed the trends in global oil prices from January 2019 to November 2021. In 2019, the global oil price was around 55$/bbl to 65$/bbl. Later, there was a downward trend in oil prices in 2020 due to Covid-19 Pandemic. The global oil price reached its lowest point in April 2020, and it was only 21.04 $/bbl (US dollar per barrel). Oil prices steadily rose with a rebound thereafter due to global economic recovery which helped to boost global petroleum product demand. Moreover, the OPEC and its ally countries reduced their oil production, creating a supply shortage. As a result, increasing demand and supply shortage pushes the price of world oil up. In November 2021, the oil price stood at 79.90$/bbl.

Figure 2 represented the domestic price of petroleum products from January 2019 to December 2021. Even if the world oil price fluctuates year to year owing to global demand and supply, the Bangladesh government keeps the price of petroleum products unchanged to keep domestic oil prices consistent. It can be noted that the price of petrol remained unchanged during the periods given, and it was set at 86 BDT/litre. The price of diesel was low at 65 BDT/litre, until November 2021, before government raised price to 80 BDT/litre. To represent the actual scenario, we used the market price of kerosene rather than the administrative price. The price of kerosene was around 80 to 86 BDT/litre in 2019, which increased to around 90 BDT/litre in 2020.

Government set the price of kerosene at 80 BDT/litre in November 2021, whereas the market price was 84.34 BDT/litre. Oil is not only the primary source of energy, but it also plays a role in the production of other forms of energy, such as electricity and refinery products, which are used in the manufacturing of various items or have an impact on transportation.

Recent inflation scenario of Bangladesh:

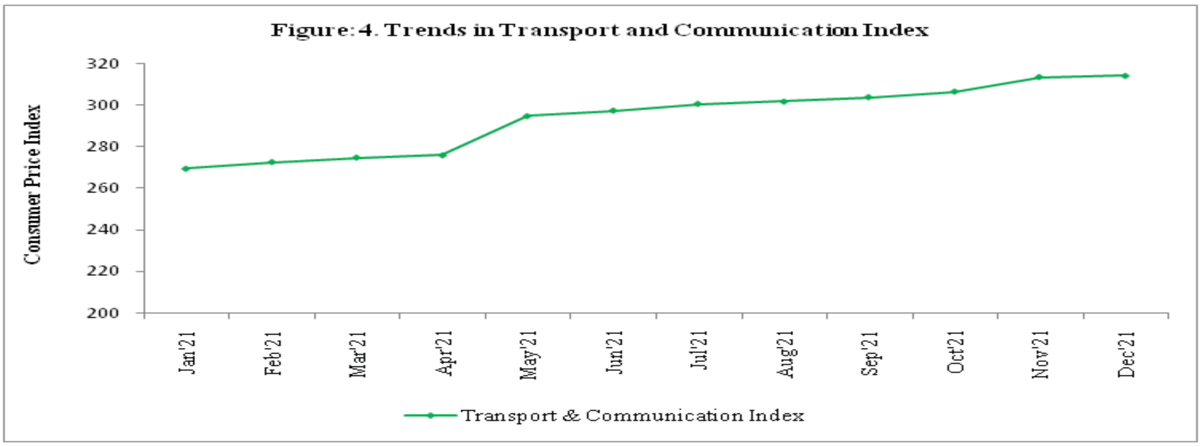
In the recent month of 2021, the point-to-point inflation rate has fueled up in Bangladesh due to the current recovery from the Covid-19 outbreak, supply disruptions in the worldwide commodity markets and fluctuating global oil price.



Source: Bangladesh Bureau of Statistics

The **Figure 3** showed the current scenario of Bangladesh's inflation from January 2020 to December 2021. As it can be seen from the figure-3, after the covid-19 outbreak in March 2020 in Bangladesh, inflation rate has seen a lot of turmoil from April to September 2020. The inflation rate stood its peak at 6.44 per cent in October 2020. However, during October-December 2021 the rate of inflation showed an upward tendency. In addition, food and non-food inflation drives the general rate of inflation upward. In November 2021, the rate of food and non-food inflation stood respectively at 5.43 per cent and 6.87 per cent where the general inflation rate stood at 5.98 per cent. Moreover, in December 2021, the rate of food and non-food inflation increased respectively at 5.46 per cent and 7.00 per cent as well as rate of inflation recorded at 6.05 per cent.

The **Figure 4** showed the impact of increasing oil price on transportation and communication index. In November 2021, after adjusting the oil prices by Bangladesh Petroleum Corporation, the impact of oil price hike is immediately transmitted to the transportation and communication segment of the non-food inflation.

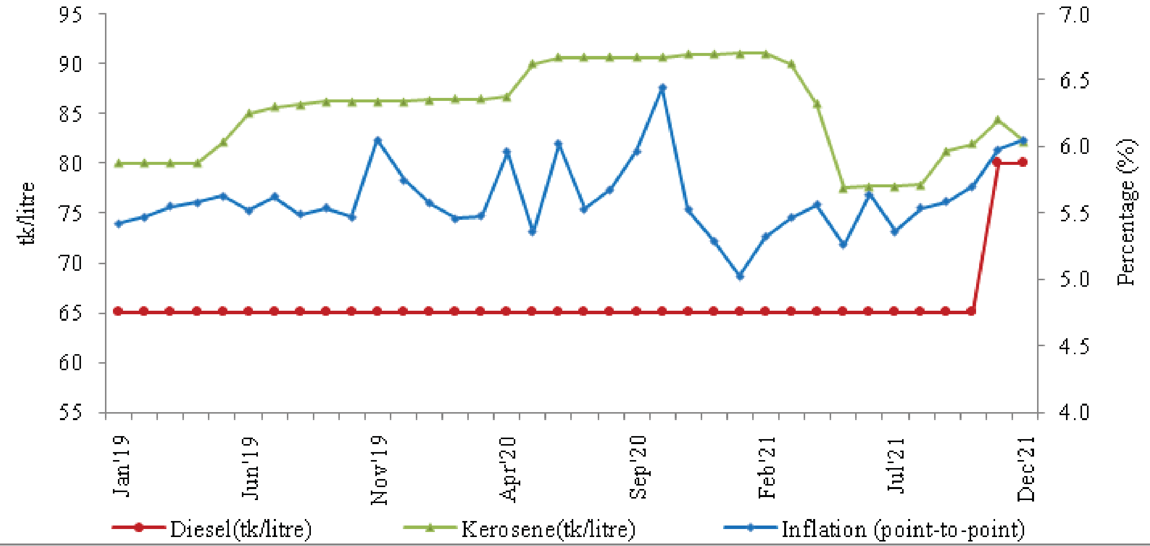


Source: Bangladesh Bureau of Statistics

Inflation and domestic diesel price:

Figure 5 plotted the recent situation of oil price adjustment with point-to-point inflation. After the increasing price of diesel and kerosene in November 2021, point-to-point inflation showed a increasing trend. An increase in diesel price from 65 BDT/litre in October 2021 to 80 BDT/litre in November 2021 caused an increase in inflation rate from 6.48 to 6.87 per cent in the same period. Inflation rate further increased to 7.0 per cent in December 2021.

Figure 5: Point-to-point inflation and Domestic Oil Price



Source: Bangladesh Bureau of Statistics

Import of the crude oil:

Bangladesh economy is growing day by day and with the rising economic activities, the demand for petroleum product is also enhancing. As a result, Bangladesh government expenses a bulk amount for importing petroleum product. The quantity of crude oil/petroleum products import has grown over the last five years, as shown in the accompanying **Table-2**. In 2020-2021, the total import of crude oil was 15,05,710.47 metric ton and Bangladesh government paid around 5,169.27 BDT crore for import.

Table: 2 Crude Oil import (Imported Price)

Financial Year	Quantity (Metric Ton)	USD Million	Taka Core
2016-17	13,87,966	514.10	4,132.35
2017-18	11,72,175	565.99	4,603.81
2018-19	13,58,159	721.28	6,080.39
2019-20	11,51,814.22	455.91	3,854.64
2020-21	15,05,710.47	608.51	5,169.27

Source: Bangladesh petroleum Corporation

Yearly Sales of Diesel and Kerosene:

The following **Table-3** represented the sales of diesel and kerosene and the share/percentage of total petroleum product sales. The quantity of diesel and its share of sales have increased over the five years. It is because diesel is the fundamental energy component in the transportation sector. In 2020-21 the total sales of diesel has slightly reduced than previous year due to Covid-19 pandemic. The sales of diesel were 4597585 metric ton and the share of diesel in total sales of petroleum was at 72.98 per cent in 2020-21. Besides, the sales of kerosene decreased over the year because this is the essential energy component of lower-income people and is used as a lightning component in rural areas. But over the year in rural areas of Bangladesh, electricity consumption has been increasing significantly. It can be a possible reason for the falling of the kerosene sales in recent years.

Table: 3 Sales of Diesel and Kerosene (Quantity in M. Ton)

Years	Kerosene	Percentage (share of Kerosene in total sales of Petroleum, per cent)	Diesel	Percentage (share of Diesel in total sales of Petroleum, per cent)
2016-17	170993	2.90	4000044	67.93
2017-18	138403	1.99	4835712	69.60
2018-19	121497	1.86	4593486	70.13
2019-20	105851	1.92	4023409	73.11
2020-21	101783	1.62	4597585	72.98

Source: Bangladesh petroleum Corporation

To determine whether the relationship between oil prices and inflation has truly changed over time, this study conducted economic analysis such as OLS regression model and vector error correction model.

Data and Methodology:

In this analysis, our target variable is inflation because we want to investigate how the recent oil price hike may influence the inflation in Bangladesh. As a result, the inflation is our dependent variable. The estimation method in this work is carried out utilizing two separate models: the OLS regression model and the VECM. We employed the repressors of diesel price growth, kerosene price growth, world oil price growth, and m2 price growth in the OLS estimation method. However, a simple vector error correction model is also included in this study for calculating the nominal value of inflation with oil prices in the long term. We used monthly data from July 2013 through December 2021 for both the estimations. A correlation matrix was also done to highlight the relationship between the estimated variables.

Result and Statistical Analysis:

Table 4: Correlation of CPI inflation among the domestic oil prices and world oil price

	INFL	DISP	PETP	KERPADMIN	WRLDOILP
INFL	1				
DISP	0.62	1			
PETP	0.73	0.80	1		
KERPADMIN	0.54	0.94	0.59	1	
WRLDOILP	0.59	0.28	0.27	0.31	1

It is observed from Table-4 that, diesel price, kerosene price, petrol price and world oil price positively correlated with inflation. The positive correlation of inflation with the oil prices indicates that the inflation has upward trend with the oil prices increases. In other words, the domestic oil prices along with world oil price have a positive impact on inflation in Bangladesh.

In the following table 5 represented the findings of OLS estimation.

Estimated equation: $Infl = \alpha + \beta 1gdisp + \beta 2gkerp + wrldoilp + \beta 3gM2 + Zt$

Here, Infl = CPI Inflation; gdisp= growth of domestic diesel price; gkerp= growth of domestic kerosene price; wrldoilp= World Oil Price; gM2= growth of Broad Money (M2); β's = Coefficent of regreesors; α= intercept; Z= error term;

Table 5: OLS Regression analysis (CPI inflation is Dependent Variables)	
Independent Variables	**Coefficients, t-stat and P-values are given**
Growth of Domestic diesel price	0.04*** (3.755) (0.000)
Growth of Domestic kerosene price	0.02*** (2.622) (0.010)
World Oil Price	0.008*** (3.365940) (0.001)
Growth of M2 (Currency outside banks+ Demand deposits+ Time deposits)	0.11*** (5.089) (0.00)
Constant	3.888631*** (11.80681) (0.00)
R^2	0.36
***Significant at 1per cent ** Significant at 5per cent * Significant at 10per cent	

According to OLS estimates, domestic oil price has a positive impact on CPI inflation. It implies that if diesel prices rise, inflation may rise as well. Inflation may rise 0.04 per cent in response to 1 per cent growth of domestic diesel price and this is also statistically significance at 1 per cent level. The result of this study represented that growth in diesel price may have significant influence on inflation in Bangladesh.

At this stage, it is estimated that 1 per cent growth of domestic kerosene price will cause inflation to rise by 0.02 per cent; it is also statistically significant at the 1 per cent level. Its pricing also has a mentionable impact on inflation in Bangladesh. Furthermore, the price of global oil has a statistically significant impact on inflation and the results showed a percentage increase in World Oil price may raise the inflation 0.008 per cent in Bangladesh. Though the influence of global oil prices on inflation is minimal, it may be unavoidable. In addition, as a monetary targeting country, M2 (Broad Money) has a great impact on inflation. Thus, we included M2 in our model to observe the actual impact on inflation. However, M2 also has a positive and statistically significant impact on inflation, according to the findings. That means 1 per cent increase in M2 will raise inflation to 0.11 per cent, and the value is likewise statistically significant at 1 per cent level.

VECM test:

In the following table 6 represented the findings of VECM model:

Table 6: (Dependent Variable is CPI index)	
Variables	Co-efficient Value (t-Value)
LNDIESEL(-1)	0.064481 (-1.06751)
LNKEROSENE(-1)	0.095932 (-3.50052)***
LNWRLDOILPRC(-1)	0.008133 (-2.30562)***
LNM2(-1)	0.470084 (-40.6795)***
*** is for statistically significance.	

Here, LNCPI(−1)= −2.81 + 0.064LNDIESEL(−1)+ 0.096 LNKEROSENE(−1)+ 0.008LNWRLDOILPRC(−1)+ 0.470 LNM2(−1)+ $_{t-1}$

Therefore, LNCPI= log of CPI index; LNDIESEL= log of diesel price; LNKEROSENE= log of kerosene price; LNWRLDOILPRC= log of world oil price; LNM2= log of M2;

The VECM is appropriate in this study to show the long-term relationship between the variables. In this case, 1 per cent increases in domestic diesel prices may result in a 0.0645 per cent increase in inflation, although which is not statistically significant. On the other hand, 0.096 per cent increase in the inflation rate due to a change in 1 per cent kerosene price in the domestic market is statistically significant. Furthermore, 0.008 per cent increases in domestic inflation, which has a very small impact but is statistically significant, could be caused by a increase in global oil prices. Likewise, broad money M2 is also statistically significant. Again, 1 per cent increase in M2 (broad money supply) will increase the inflation by 0.47 per cent.

The Error Correction Term:

The coefficient of the error correction term (ECT) is (−) 0.526638, which is statistically significant. The negative sign of the coefficient indicates the existence of a short-run adjustment mechanism in the pace that brings the long-run relationship back to equilibrium once the system gets out of equilibrium. However, the magnitude of the coefficient indicates that it takes about five years to get back to equilibrium.

Table 7: The error correction term

Test	coefficient	Standard error	t-statistics
Error-correction term	−0.53	(0.097)	−5.40

The following are some other possible effects of an increase in oil prices in Bangladesh:

- The rise in oil prices may have exacerbated cost-push inflation by rising production costs. Diesel is mostly utilized for transportation and irrigation in agriculture. Transportation expenses have already risen as a result of this. Furthermore, increased irrigation costs may increase the agricultural food product inherently rice, which is the people of Bangladesh's regular food component. As a result, it may aggravate public suffering.
- Increasing transportation costs may have an influence on the RMG (Readymade Garments) industry, forcing production costs to grow more quickly. This is one of Bangladesh's most important export sectors. As a result, increased oil prices may reduce Bangladesh's export revenues.
- Any change in oil prices has a significant impact on economic growth, commodity demand, government revenue, price stability, and overall national well-being.

Policy recommendation and conclusion:

- When the rise of oil prices, the cost-push inflation rises or the supply side adjusts.
- The Bangladesh government recently adjusted the oil price to match the world market, and the new price was passed on to the general public. As a result, the government may make changes to its tax-subsidy policy in order to reduce or control cost-push inflation during oil price hike.
- The increase in oil prices may have an impact on the broader economy, both directly and indirectly, by causing food and non-food inflation. As a result, the monetary authority may declare proactive policy aimed at controlling the future impact of inflation rather than the current situation.

Provision of Formal Finance and Progress in India's Financial Inclusion: Evidence from All India Debt and Investment Survey

Narayan Chandra Pradhan[1*]

Abstract

The latest round of All India Debt and Investment Survey(AIDIS) indicates significant improvement in institutional finance in India from 56.0 per cent in 2012 to 66.1 per cent in 2019.State-wise data on deposit accounts in banks culled from AIDIS shows that adult population hold accounts in the range of 80 to 90 per cent with an all-India average of 85 per cent in 2019.To supplement this, annual Financial Inclusion Index of the Reserve Bank of India (RBI) computed for 2021 improved significantly to 53.9 as against 43.4 for 2017—registering a compound annual growth rate of 5.5 per cent. With policy efforts from both the Government of India and the RBI, substantial progress has been achieved in financial inclusion ecosystem in the last decade that augurs well for the future of Indian economy.

I. Introduction

An earlier paper[2] based on All India Debt and Investment Survey(AIDIS) and other contemporary Reports had examined the rural credit scenario in Indian economy (including State-wise) since 1950s and up to first decade of the 21st century.It had been observed that rural credit market in India is characterized by the coexistence of both formal and informal sources of finance and the market is fragmented. An important finding was that, more than two-fifths of the rural households' dependence on informal credit in 2012 indicates further scope for financial inclusion (Pradhan, 2013). However, the findings, based on AIDIS, also corroborate to the fact that the share of rural informal credit in total outstanding debt (percentage of the indebted households) has been decreasing over the period, in response to various financial inclusion initiatives of the RBI, National Bank for Agriculture and Rural Development (NABARD), as well as the Government of India (including legislation by State governments to regulate moneylenders).Subsequently, a household survey by NABARD also assessed the spread of various aspects of rural financial inclusion in India with disaggregation for 29 major states which indicates improvement in financial inclusion (NABARD, 2017).

Similarly, the World Bank's Global Findex data for 2017 revealed that globally 69 per cent adults have access to a bank account or an account through a mobile money provider (Demirguc-Kunt, et al., 2018).The World Bank has highlighted that 55 per cent of the new bank accounts opened globally were from India alone, which can be directly attributed to the initiatives taken by the Central Government under the Pradhan Mantri Jan DhanYojana (PMJDY).In August 2014, the Government of India launched the PMJDY to facilitate access to all kinds of financial services to the excluded sections of society. The scheme aimed at ensuring universal access to bank facilities, increasing the level of financial literacy, and providing access to credit, insurance, and pension services. The RBI also undertook several measures in 2014 to augment financial inclusion, such as granting approval to the largest microfinance institution (MFI) in India to commence banking operations, permitting non-banking financial companies to act as business correspondents (BCs) for banks, and issuing guidelines on differentiated banking licenses for

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2 https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/05WS080513_F.PDF

small finance banks and payments banks.

To measure the extent of financial inclusion in the country, the RBI has recently constructed and released Financial Inclusion Index (FI-Index) in September 2021. The annual FI-Index computed for 2021 stood at 53.9 as against 43.4 for 2017, registering a compound annual growth rate (CAGR) of 5.5 per cent (Table 1).This assumes importance from the point of view of the ambitious agenda set up by the 'National Strategy for Financial Inclusion 2019-24' and 'National Strategy for Financial Education 2020-25'.

Table 1: Financial Inclusion Index and Sub-indices

Year/Month	Access	Usage	Quality	FI-Index
March 2017	61.7	30.8	48.5	43.4
March 2018	63.9	33.7	51.4	46.0
March 2019	67.5	38.7	52.6	49.9
March 2020	71.6	42.0	53.8	53.1
March 2021	73.3	43.0	50.7	53.9
Source: RBI.				

In the above context, the latest All-India Debt and Investment Survey 2019 (NSS 77th Round) released by National Statistical Office (NSO), Government of India sheds light on various aspects of financial inclusion in recent years (GoI, 2021). For the first time in the AIDIS of 77th round, NSO has provided data on financial inclusion of the members of the households—the information on deposit account in banksand post offices. It depicts percentage of adult population (18 years & above) having deposit account across the major states for rural and urban areas as an initial point for access to financial inclusion. As a matter of fact, opening a bank account is viewed as an entrance to the wider world of formal financial services such as savings, insurance and credit. In this regard, the latest AIDIS has additional data components with respect to financial inclusion and Sustainable Development Goals (SDG) agenda of 2030, which is analyzed subsequently. It may be mentioned here that, because of the nature of the survey data, the results interpreted here should be taken as indications of directions rather than as strict causal relationships.

From a financial inclusion perspective, the overarching philosophy of the RBI behind prescribing the priority sector lending (PSL) target for banks post-nationalization was to enable sections of society, which though creditworthy, were unable to access the formal banking system for adequate and timely credit[3]. The PSL guidelines bring sharper focus on inclusive development through instructions issued to commercial banks, small finance banks, regional rural banks, urban cooperative banks, and local area banks (RBI, 2021a; 2021b). RBI also undertook bank branch expansion especially in unbanked areas to encourage financial inclusion. Other initiatives of the RBI included inter alia launch of the Lead Bank Scheme, promotion of Self Help Groups (SHGs), Joint Liability Groups (JLGs), implementation of Business Correspondents (BC) model and three-yearly Financial Inclusion Plans. The brick-and-mortar branches, complemented by the BC model, have improved the reach of the banking system across the country. From this beginning, further initiatives taken in this regard are detailed in the next section.

Over the last decade, the evolution and adoption of financial technology has led to massive improvement in deepening of digital financial services. Thus, Jan Dhan, Aadhar and Mobile (JAM Trinity) environment has brought about a major shift in the provision of formal financial inclusion. In many instances, microfinance institutions (MFIs) have been converted into non-banking financial institutions (NBFIs) and small finance banks (SFBs) for providing credit to households, small business and MSMEs (Pradhan and Jadav, 2015).

3 'Priority Sector Lending - Status, Issues and Future Agenda', Speech delivered by Mr. S. S.Mundra, Deputy Governor, RBI, June 27, 2017.

In this article, following the introductory Section, in Section II, the background of 'All India Debt and Investment Survey', both from the RBI and Government of India, as well as major findings (agency-wise) relating to formal/informal finance in rural India has been discussed. The extent of adult population having deposit account in banks across rural and urban India, as evidenced by the latest AIDIS and having implication for financial inclusion, have been discussed in Section III. Section IV concludes with major observations.

II. AIDIS: Background and Major Findings on Credit in Financial Inclusion

Before India's First Plan began in 1951, almost all the financial needs of rural sector for agriculture were provided by relatives, friends and moneylenders. At that time, the RBI was active in pursuing financial inclusion through a variety of initiatives, especially through encouraging the cooperative movement. Despite all those efforts, the provision of credit through cooperatives and commercial banks amounted to about only 4 per cent of the total outstanding debt as at end-June 1951 (Table 2). The All-India Debt and Investment Survey (AIDIS) has its origin in the All-India Rural Credit Survey conducted by the RBI during November 1951 to August 1952 in 75 selected districts spread across all over the country. The survey aimed to study: (i) the demand for credit from rural families, and (ii) the supply of credit by its agencies—both institutional and non-institutional – in order to formulate banking policies. The first Rural Credit Survey was followed by a similar survey in 1961-62 by the RBI and the scope of the survey was extended to include capital expenditure in the household sector and other associated indicators of the rural economy. The second survey thus, came to be known as the 'All-India Rural Debt and Investment Survey' and the results were published in 1965. Both the surveys by the RBI were conducted for rural areas only. The debt analysed by AIDIS covers cash debt (including loans on hire purchase) as opposed to debt taken in kind. This is regardlessof whether the loan is settled in cash or kind.

Table 2: Percentage distribution of households' cash loans outstanding by credit agency in Rural Areas

(Per cent)

Year	1951	1961	1971	1981	1991	2002	2012	2019
(I) Institutional Agencies	7.2	14.8	29.2	61.2	64.0	57.1	56.0	66.1
1. Government	3.3	5.3	6.7	4.0	5.7	2.3	1.2	0.2
2. Co-op. Society/bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8	9.9
3. Commercial bank incl. RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1	47.6
4. Insurance	--	--	0.1	0.3	0.5	0.3	0.2	0.1
5. Provident Fund	--	--	0.1	0.3	0.9	0.3	0.1	0.0
6. Others institutional agencies*	--	--	--	--	9.3	2.4	4.6	8.3
(II) Non-Institutional Agencies	92.8	85.2	70.8	38.8	36.0	42.9	44.0	33.9
1. Landlord	1.5	0.9	8.6	4.1	4.0	1.0	0.7	1.1
2. Agricultural Moneylender	24.9	45.9	23.1	8.6	6.3	10.0	5.0	6.3
3. Professional Moneylender	44.8	14.9	13.8	8.3	9.4	19.6	28.2	16.5
4. Traders and Commission Agents	5.5	7.7	8.7	3.4	7.1	2.6	0.2	0.6
5. Relatives and Friends	14.2	6.8	13.8	9.0	6.7	7.1	8.0	6.8
6. Others	1.9	8.9	2.8	4.9	2.5	2.6	1.9	2.6
Total	100	100	100	100	100	100	100	100

*: includes financial corporation/institution, financial company and other institutional agencies.
Note: Percentage share of different credit agencies to the outstanding cash loans of the households as on 30th June.
-- denotes not available.
Source: All India Rural Credit Survey (1954); All India Debt and Investment Survey, Various Issues.

The subsequent formation of 'Agricultural Refinance Corporation' in 1963,nationalization of major commercial banks in 1969 and 1980, setting up of Regional Rural Banks in 1975, and formation of National Bank for Agriculture and Rural Development (NABARD) in 1982 – all these efforts by the RBI were to institutionalize the credit channel for rural sector. In the 1990s and 2000s, the concept of micro-credit along with MFI- and SHG-Bank linkage models have evolved with the institutional support of the RBI and NABARD in order to help the poor by providing credit without collaterals. For further description of recent financial inclusion scenario and implication for monetary policy, reference may be drawn to Das (2021) and Patra (2021).

Theres ponsibility of conducting the third survey was given to National Sample Survey Organization (NSSO) and it undertook the AIDIS covering both rural and urban areas. The National Statistical Office (NSO) conducts nationwide Socioeconomic Surveys in the form of different rounds, each round being normally of one-year duration. Data were obtained through household interviews from a random sample of households covering the entire geographical area of the country. Results of the latest AIDIS conducted in the 77th round (2019) was published in September 2021.

The AIDIS prior to the latest round focused on the sources of provision of credit to households. Often, a financially sound household resorts to borrowing for adding assets to the household, for fueling the growth of its business, or for serving the educational or health needs that often require huge expenses which the household is unable to arrange otherwise. From Table 2, it can be assessed that the informal/non-institutional finance was gradually declining during the 1960s, and in the 1970s a major push was witnessed with the institutional agencies making steady inroads into the rural financing scene. The share of institutional credit agencies in the outstanding cash debt of the rural households at the all-India level increased from 29 per cent in 1971 to 61 per cent in 1981 and then the pace decelerated, rising marginally to 64 per cent in 1991. During the following decade, the share declined by about 7 percentage points and reached 57 per cent in 2002 and further to 56.0 per cent in 2012, implying an increase in reliance on non-institutional credit agencies by rural households of 43 per cent in 2002 which went up to 44 per cent in 2012.As of 2019, presence of institutional agencies in providing credit has risen to 66 per cent, driven by the government and financial regulatory initiatives. Thus, there has been substantial progress during the past decade in terms of financial inclusion indicators.

Sound financial inclusion policies have a multiplier effect on economic growth while reducing poverty and income inequality. The availability and access to affordable credit is the major driver to lift the rural household to higher levels of income. With a strong government push to increase bank accounts among unbanked adults, noticeable progress has been made in terms of digital payments. In order to systematically accelerate the level of financial inclusion in the country in a sustainable manner, the 'National Strategy for Financial Inclusion 2019-24' was released in January 2020 by RBI. The Financial Inclusion Plan template has been revised by the RBI and rechristened as 'Monitoring Progress of Financial Inclusion' to capture more granular data and qualitative aspects at the ground level.

III. Further Indicators of Financial Inclusion in the Latest AIDIS

In keeping with developments over the last decade, Small Finance Banks (SFBs) were set up in 2016 to provide basic banking services such as accepting deposits and lending to the unserved and the under-served sections of society including small business, marginal farmers, micro and small industries and the unorganized sector. Similarly, Payment Banks (PBs) were set up to leverage technology for financial inclusion and are aimed at small business and low-income households. In this regard, the 77th round has compiled following four additional data components mainly to track Financial Inclusion and Sustainable Development Goals (SDGs) agenda through following indicators:

(1) There is information pertaining to percentage of persons holding accounts in banks and post

offices by gender and social groups.

(2) Information on deposit accounts in financial and non-financial institutions, contribution to Co-operative Credit Society/SHG/JLG.

(3) Possession of credit/debit cards, e-wallets and their use status during last 365 days for each household member.

Table 3 depicts percentage of adult population (18 years & above) having deposit account in banks across the major states for rural and urban India, separately for male and female. It can be seen from the Table that 80 to 90 per cent of adult population hold deposit accounts in almost all the states with all-India average of 84 per cent in rural areas and 85 per cent in urban areas.

Table 3: Percentage of adult population having depositaccount in Banks in 2019

State/All-India	Rural			Urban		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Andhra Pradesh	91.1	91.4	91.2	88.7	85.2	86.9
Assam	81.1	76.7	78.9	88.7	77.3	82.9
Bihar	82.7	72.2	77.7	86.1	71.9	79.6
Chhattisgarh	94.2	86.4	90.2	91.5	82.7	86.9
Gujarat	83.0	64.6	73.8	90.2	76.4	83.5
Haryana	89.8	78.9	84.6	83.4	83.3	83.4
Jharkhand	86.6	79.6	83.2	88.9	81.5	85.3
Karnataka	93.3	86.2	89.7	92.9	84.6	88.7
Kerala	93.0	88.4	90.6	91.3	89.9	90.5
Madhya Pradesh	90.1	76.8	83.6	90.1	82.6	86.3
Maharashtra	89.7	75.7	82.8	91.2	78.1	84.7
Odisha	87.2	80.9	84.0	89.4	80.5	85.0
Punjab	91.1	76.8	84.3	91.2	80.3	86.0
Rajasthan	91.2	90.5	90.8	90.0	86.5	88.3
Tamil Nādu	90.2	90.9	90.5	89.8	86.4	88.1
Telangana	93.7	86.6	90.0	87.2	79.2	83.3
Uttar Pradesh	86.1	79.9	83.0	84.2	77.0	80.7
West Bengal	85.9	81.8	83.9	87.7	79.1	83.3
All-India	**88.1**	**80.7**	**84.4**	**89.0**	**81.3**	**85.2**

Source: All India Debt and Investment Survey, Report No. 588, NSS 77th Round.

Note: 1. All-India estimates are based on all the States/Union Territories.

2. Bank includes Schedule Commercial Bank, Co-operative banks, and Regional Rural banks.

Although, the bank account-holder density for female has increased in last decade, there is gender gap in account ownership in almost all states and it stood at around 7 per cent. While gender gap is an important aspect of financial inclusion, in rural areas of Andhra Pradesh, Tamil Nadu and Rajasthan more than 90 per cent females are account holders, in some cases exceeding the percentage of male account holders.

In 2019, out of 1000 adult persons in rural areas 34 hold accounts in post offices and 3 in NBFCs, while in urban areas these numbers are 46 and 3, respectively. It is worth noting that 392 rural males and 638 urban males per 1000 hold credit cards. The e-wallet holders are 41 for rural males and 201 for urban males. The ownership of credit cards for females is lagging (185 rural females and 413 urban females per 1000) and the same is true for e-wallets (8 rural females and 84 urban females per

1000). What is noteworthy is that the female participation with 128 females per 1000 in Co-operative Credit Society/SHG/JLG especially in rural areas is much higher than the 21 rural males per 1000.

IV. Concluding Observations

The key finding from the above analysis is that informal credit has certainly declined as a percentage of total outstanding debt by 2019. Overall, institutional financing has emerged as a more preferred source with 66 per cent outstanding loans reported to have been sourced there from. The most important reason for continuation of informal rural credit market is that the existing financial institutions tend to restrict their lending activities to less riskier field of lending. Informal sources are willing to lend money more freely without collateral and on the borrower's mere promise to repay. This saves the households from undue paperwork and providing collaterals and sometimes loans are free from any interest rates mainly from relatives and friends. Going ahead, with the current wide-ranging policy measures underway, it is expected that loans from non-institutional sources would come down further.

With sustained efforts of the Government of India and RBI, there has been substantial progress during the past decade in terms of financial inclusion. Kisan Credit Card (KCC) now also cover small consumption loans. Mobile telephony as a low-cost vehicle of communication and Aadhaar as unique biometric identifier have expanded rapidly. The AIDIS findings suggest adoption of digital means of transactions such as e-wallets stood at 143 per 1000 adult population in urban areas whereas the same is 24 for rural areas in 2019. This augurs well for the future of financial inclusion provision in India from formal sector perspective.

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COVID-19 and Resiliency of Nepalese Banking System

Chop Kanta Subedi[1]

1. Introduction

Global economy faced a historical downfall in aggregate demand and disruption in supply chain since 2020 due to the Covid-19.Travel restrictions and lockdown measures imposed to control the spread of the virus impacted economic activity severely and also brought financial distress and economic slowdown all over the world. Hotels and tourism, aviation and transportation, recreation and construction related businesses were mostly badly affected. Each country and sectors of the economy, though in various magnitude and scale, have borne the brunt of this pandemic.

Amidst widespread pandemic and delay in innovation and production of vaccine, the global economy was dominated by extreme uncertainty. In this discomposure, the global economy was projected to contract by 3 per cent in 2020, which was much worse than during the 2008-09 global financial crisis (IMF, 2020). However, the world economy contracted by 3.5 per cent in 2020(IMF, 2021).After the development of vaccine against Covid-19 in the beginning of 2021, the global economy started to recover gradually.

2. Effect of Covid-19 in the Nepalese Banking System

The pandemic affected Nepalese economy also severely. Hotels and restaurants, education, real estate and transportation sectors were extremely suffered from the pandemic (NRB, 2020). Because of the adverse impact of Covid-19, the Nepalese economy contracted by 2.1 per cent in 2019/20 for the first time in last two decades (CBS, 2021). Along with the slowdown in virus spread and beginning the vaccination process, economic activities have started to resume to some extent and some mild recovery is expected in 2020/21. As a consequence, economy is estimated to grow 4 per cent in 2020/21(CBS, 2021) and 5.9 per cent in 2021/22 (MoF, 2021). However, new variants with new wave of infections have created the uncertainties in economic recovery.

Along with the whole economy, banking sector also felt distress in operation and its resilience owing to its severe impact on the real side of the economy.In a response to the shock and minimize distress in the economy and overall financial system, NRB eased monetary, regulatory as well as macro prudential policy measures. NRB cut CRR, lowered policy rates, increased the size of refinance facility and also broadened eligible sectors for refinance. NRB also eased other regulatory provisions,such as rescheduling and restructuring of loans, moratorium etc.

2.1 Credit Expansion, Loan Loss Provision and NPL

Due to lockdown and ensuing business closures, the demand for new loans plunged significantly. As a consequence, the growth of private sector credit remained substantially subduedup to mid-Jul 2020 and the loan flow started to surge only after January 2021 (Chart-1).

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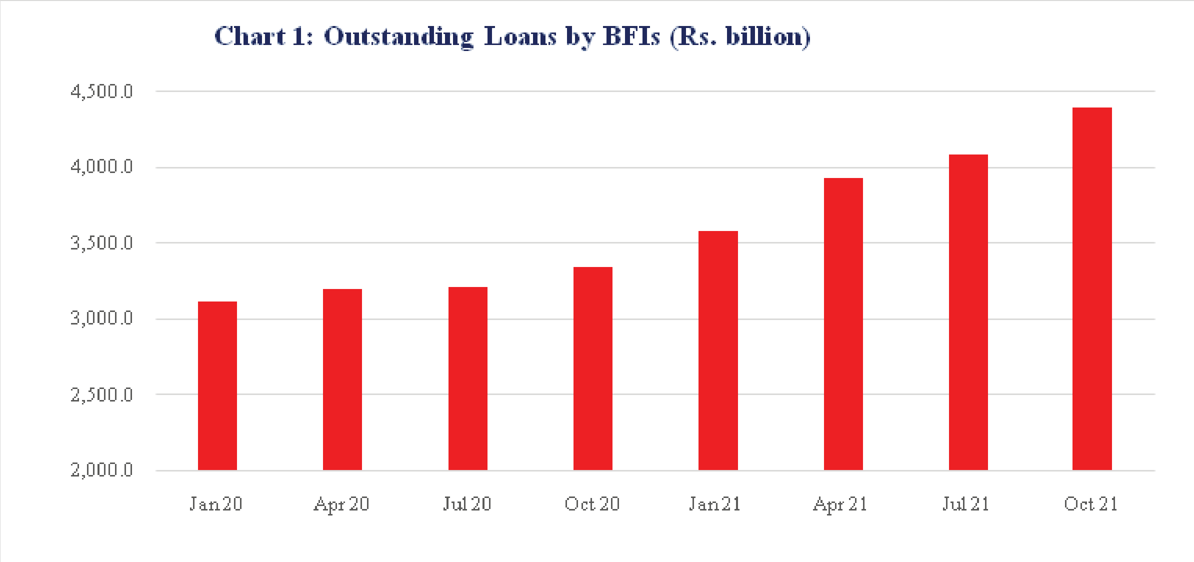
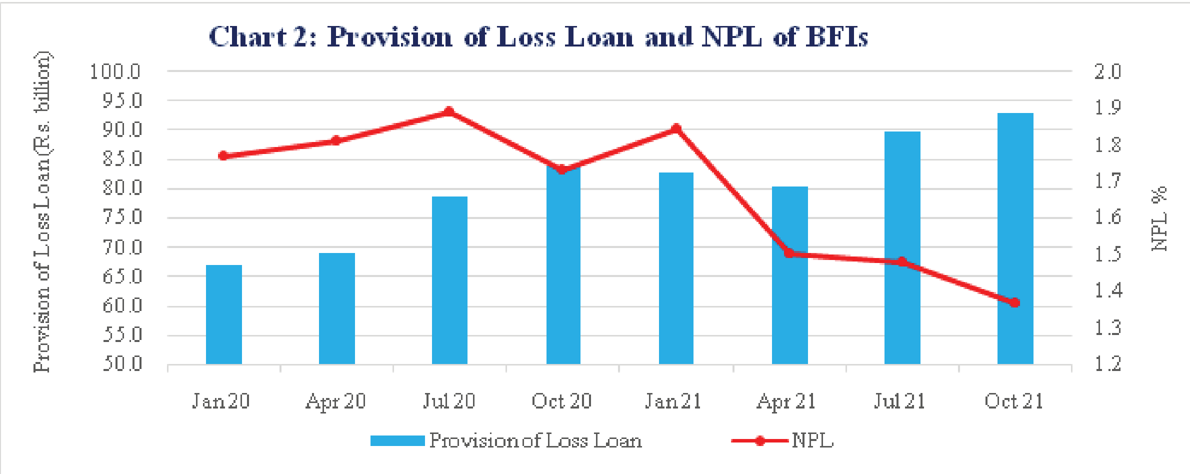


Source: Nepal Rastra Bank, mid-month.

Initially, banking sector witnessed a significant increase of provision of loan loss despite regulatory easing including loan rescheduling and moratorium of loans. But non-performing loan (NPL) started to decrease along with the beginning of the recovery and increase in loan disbursement (Chart-2).

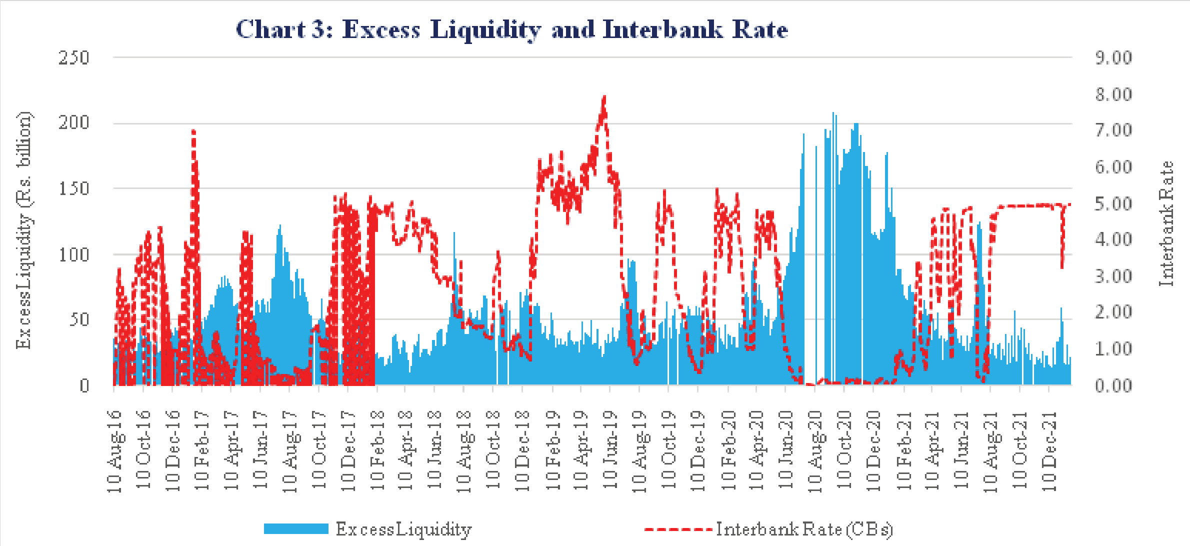


Source: Nepal Rastra Bank, mid-month.

2.2 Excess Liquidity, Short Term Interest Rate and Asset Prices

With the emergence of health crisis and following economic distress, NRB firstly lowered its policy rate, postponed the requirement for countercyclical buffer and the repayment of principal and interest of loans. In order to avail adequate liquidity in the system, NRB lowered CRR and increased the limit of refinance five times than that of the existing limit. Likewise, imports also significantly declined owing to business closures and break in global supply chain. As a result, liquidity in the system built up significantly and interest rate declined. Interbank rate decreased to the lowest level. The excess liquidity in the financial system supported capital market and real estate sector most favorably. As a consequence, NEPSE Index recorded all-time highest point and real estate sector showed strong momentum.

However, along with a gradual resumption of economic activities since 2021, demand for new loans and imports increased significantly which absorbed liquidity from the systemand pushed interbank rate to the upper ceiling of the corridor.



Source: Nepal Rastra Bank, mid-month.

2.3 Branch Expansion and Deposit Mobilization

Despite huge distress, branch expansion and deposit mobilization of BFIs were seen as in normal periodin the first wave of the pandemic in 2020/21. Significant decline in imports and increase in remittances had contributed to a rise of deposit in 2020/21. However, with increase in import growth and stagnant remittance inflow, deposit started decelerating especially after April 2021 (Table-1).

Table 1: Branch Expansion and Mobilization of Deposit

Headings	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21	Jul-21	Oct-21
BFIs Branches*	9,394	9,692	9,765	9,903	10,187	10,546	10,683	11,039
Deposit Mobilization (Rs. billion)	3,435.0	3,547.7	3,839.7	4,027.4	4,191.9	4,364.4	4,662.7	4,718.8
Deposit Growth per cent (YoY)	16.3	16.9	18.7	20.9	22.0	23.0	21.4	17.2

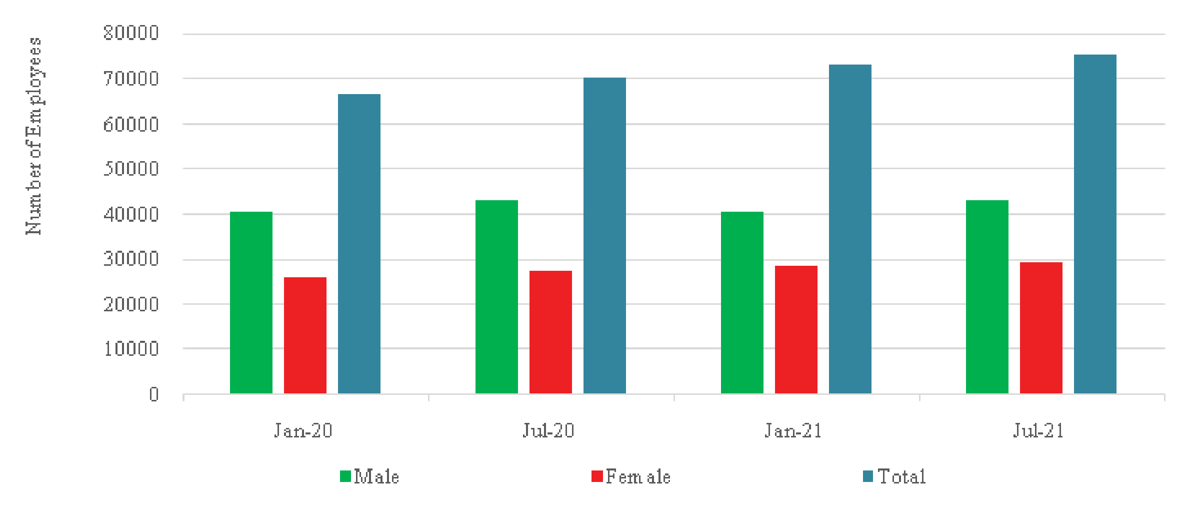
Source: Nepal Rastra Bank; mid-month.

* Including Microfinance Financial Institutions.

2.4 Employee Turnover

Due to the pandemic, most of the business were in trouble and still are not fully recovered. In order to reduce the cost of business, employee downsize was the first strategy of every business around the world. But, in case of Nepalese BFIs, employees' turnover was minimal and number of employees increased marginally. Most employees of the banking sector were infected causing difficulty in banking operation andeffective service delivery, though the banking operation continued even during the lockdown period (Chart-4).

Chart 4: Number of Employees in BFIs

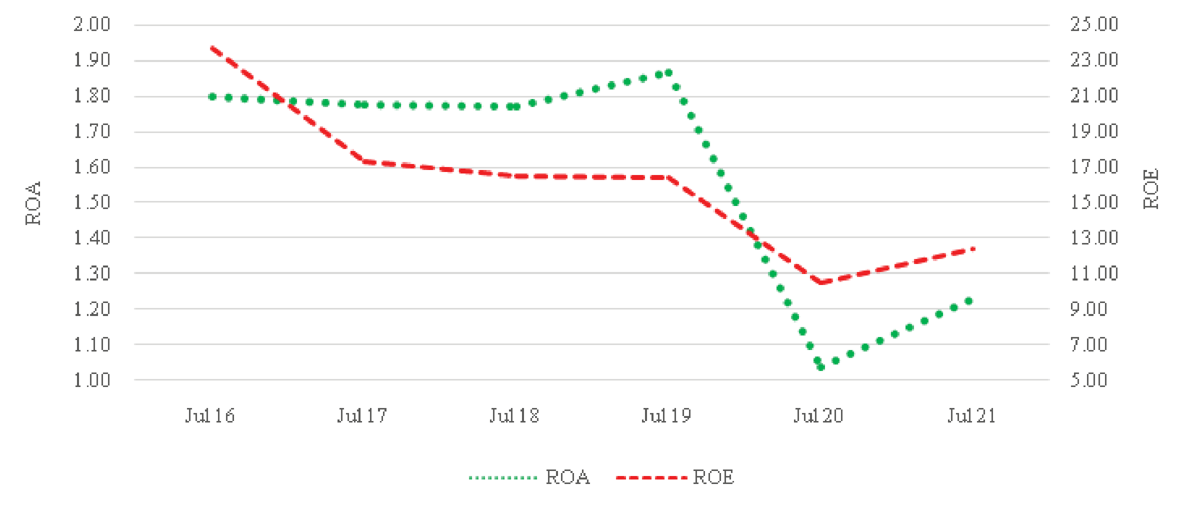


Source: Nepal Rastra Bank, mid-month.

2.5 Profitability

As in other businesses, profit of BFIs also decreased during the pandemic. It was also partly due to the regulation that BFIs were required to reduce all types of fees, commissions and service charges. Furthermore, BFIs were requested to reduce interest on loans by 2 percentage points especially for the Covid-19 affected businesses. Moratorium was given for the significant amount of loans and number of loans were restructured and rescheduled. As a result, repayment of loans significantly decreased at the end of 2019/20. Also, BFIs invested significant amount for the adoption of safety measures and development of digital payment infrastructures. All these factors contributed to contract their profit during the pandemic (Chart-5).

Chart 5: ROA and ROE of Commercial Banks

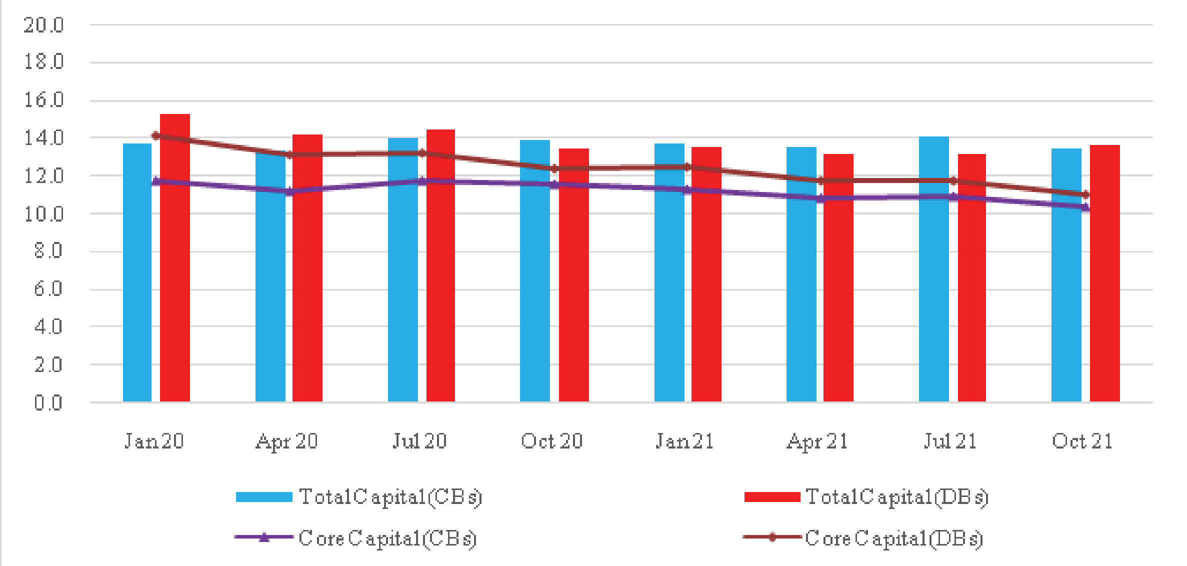


Source: Nepal Rastra Bank, mid-month.

2.6 Capital Adequacy Ratio

As per NRB directives, BFIs (Commercial Banks and National Level Development Banks) are required to maintain minimum 6 per cent of core capital (Tier I) ratio excluding Capital Conservation Buffer (CCB). Also, BFIs have to maintain Minimum Total Capital Ratio (MTCR) of 8.5 per cent excluding CCB. So, the total Capital Adequacy Ratio requirement is 11.0 per cent of risk weighted assets including CCB. Furthermore, BFIs are required to maintain Countercyclical Buffer up to 2.5 per cent of risk weighted exposure, depending on the extent of the buildup of systemic risk in time of excessive credit growth. But, due to the pandemic, the provision of Countercyclical Buffer has been withdrawn up to mid-July 2022. Because of the various regulatory relaxations and NRB's emphasis for BFIs to increase capital through stock dividend, capital adequacy level of BFIs, stands above than the regulatory limit(Chart-6).

Chart 6: Capital Adequacy Ratio of BFIs (percent)



Source: Nepal Rastra Bank, mid-month. CBs-Commercial Banks, DBs-Development Banks.

2.7 Surge in Digital Transaction

Lockdown and travel restriction enforced people to do their work via online as far as possible. Physical financial transaction became almost impossible and difficult during the pandemic. In these circumstances, NRB, BFIs, Nepal Clearing House Limited (NCHL), Payment System Operators (PSOs) and Payment Service Providers (PSPs) developed and strengthened their digital payment infrastructure. General public and businesses also showed their keen interest for digital financial transaction. As a consequence, both the number and amount of digital financial transaction increased significantly (Chart-7 & 8).

Chart 7: Number of Digital Financial Transaction (000)

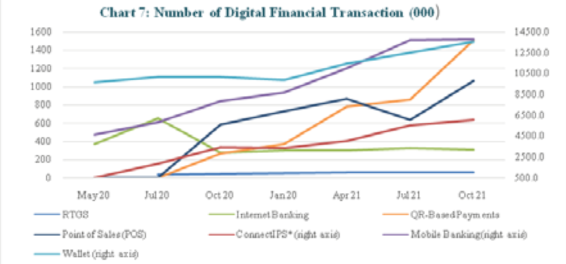
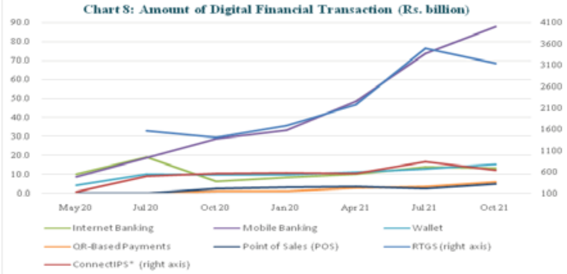


Chart 8: Amount of Digital Financial Transaction (Rs. billion)



Source: Nepal Rastra Bank; mid-month * Including IPS

2.8 Major Policy Initiatives

NRB initiated monetary and financial policy measures since March 2020 to keep confidence in the market during the crisis. Also, the NRB used macro prudential policy tools to revive the economy.

Monetary Policy Initiatives

- NRB adopted an accommodative monetary policy in 2020/21 and has been continuing the same stance. CRR was lowered from 4 per cent to 3 per cent and Bank Rate from 6 per cent to 5 per cent immediately after the outbreak of the Covid-19 in Nepal in May 2020.
- Interest Rate Corridor (IRC) was revised downward by decreasing Repo Rate from 4.5 per cent to 3.5 per cent in May 2020 and 3 per cent in August 2020. Likewise, Deposit Collection Rate which is the lower bound of IRC was decreased from 3 per cent to 1 per cent in August 2020.
- Credit to Capital-Deposit ratio (CCD) ratio was increased from 80 per cent to 85 per cent in August 2020. Furthermore, the existing provision of CCD was replaced by CD ratiofor FY 2021/22. Currently, the BFIs are required to maintain 90 per cent of CD ratio by mid-Jul 2022.
- IRC was revised by increasing Repo Rate from 3 per cent to 3.5 per cent and Deposit Collection Rate from 1 per cent to 2 per cent in August 2021.

Refinance facility

- Refinance Procedure was revised in August 2020 and again in September, 2021. Thereafter, the refinance facilities were provided to Covid-19 affected productive sector, including businesses and SMEs at an interest of 5 per cent. Refinance fund was increased from Rs.50 billion to around Rs.210 billion in August, 2020.The outstanding amount of refinance remained Rs.106.1 billion as of mid-Dec, 2021.

Concessional Loan

- A program of concessional loan has been introduced during the pandemic in order to promote employment generating activities and encourage entrepreneurship. The Government of Nepal provides 5 per cent interest subsidy for selected borrowers under ten different categories of loans. Borrowers under this scheme have reached 136 thousand who have been availed total loan of Rs.211.1 billion as of mid-Dec 2021.

Financial Policy/Macro-prudential Policy Measures

In order to resume economic activities and mitigate potential risks in the financial system, NRB adopted some financial policy measures.

- Countercyclical Buffer was withdrawn up to mid-July, 2022.
- Additional working capital loanwas availed for hard hit borrowers/businesses. Likewise, additional loan was availed for the term loan borrowers.
- Grace period up to mid-Jul, 2021 was provided for the loans for projects under construction.
- Moratorium was approved for most affected borrowers up to mid-Jul, 2021.
- Loans of selected businesses was restructured/ rescheduled for up to mid-January 2021.

3. Conclusion

The Covid-19 pandemic brought not only the health crisis but also enormous economic and financial distresses. The policy measures adopted by the NRB and the Government of Nepal have helped to keep business confidence and resume economic activities quickly. With the help of NRB's monetary and regulatory policy, the Nepalese banking system has shown resiliency, maintained low level of NPL and earned reasonable level of profitability. However, BFIs have to bear much of the brunt of the pandemic in the future as well as it takes time for the businesses to come into full operation and cover their past losses. Since the start of the recovery, private sector credit demand has surged and imports have risen substantially. However, remittances, a major source of liquidity in the system, have been more or less stagnant. Rising imports has widened balance of payment (BoP) deficits historically and thereby, absorbed liquidity from the system. The rising external sector imbalance has posed additional challenge on the road to recovery. NRB and the Government of Nepal are making efforts to strengthen fiscal-monetary coordination to strike internal-external balance and lessen the impact of liquidity crunch on the path of recovery post pandemic.

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Growth and Inflation Nexus in the SAARC Region

While central banks mainly focus on stability in prices, they also have to ensure sustainability in economic growth. Thus, they face a classical dilemma of inflation and growth nexus. The relationship between inflation and economic growth is a much debated topic with a common perception that both are negatively correlated. On theoretical grounds, classical thinking is more on a negative relationship between inflation and growth, while Keynesian model points to a positive relationship at least in the short run. Empirical research also remains unable to give a consensus view about the inflation–growth nexus.

In this short note, we present a simple historical account of how inflation and growth have behaved in the SAARC region. The objective is to get a quick sense of the policy environment in controlling inflation and maintaining growth momentum in these economies. We have used IMF World Economic Outlook annual data for the individual SAARC member countries for the last 41 years starting from 1980 to 2020.

We categories the data into four groups, each with a typical combination of inflation and real GDP growth, as given below:

Table 1: Growth – Inflation Scenarios

Combinations		Description
1	g<g*, p>p*	The years when GDP growth was lower than its average and inflation was higher than its average
2	g>g*, p<p*	The years when GDP growth was higher than its average and inflation was lower than its average
3	g>g*, p>p*	The years when GDP growth was higher than its average and inflation was also higher than its average
4	g<g*, p<p*	The years when GDP growth was lower than its average and inflation was also lower than its average

Where g denotes real GDP growth rate in a particular year and g* stands for the period average of GDP growth. Similarly, p is the rate of CPI inflation in a particular year and p* is the period average of CPI inflation.

A tabulation of all the instances of growth and inflation combinations on the basis of the above four groups in SAARC countries is presented below. It includes 41 years data of each country except Afghanistan for which data is available for 18 years.

Table 2: Distributions of Instances with different combinations of growth and inflation

	Number of instances		Instances in per cent	
	P > P*	P < P*	P > P*	P < P*
g>g*	69	91	23per cent	30per cent
g<g*	69	76	23per cent	25per cent

The distribution of instances shows that 30per cent of the times the SAARC countries have experienced a higher than average growth coupled with low inflation. For perspective of central banks, such a period is welcome time as it does not pose difficult policy challenge. Most difficult time for a central bank is when inflation is high and growth is low. There are 23per cent of the instances in SAARC region where central banks have faced policy dilemma of high inflation and low growth. In such a scenario any attempt to control inflation risks further hit on economic activities. Therefore, central banks pray not to see such a time.

There are another 23 per cent instances in the SAARC region when inflation was high, but growth was also high: in such a scenario policy has some space to sacrifice growth in order to reduce inflation. Similarly, a period when both inflation and growth are low, 25per cent of the instances in SAARC region, the policy has also some space to tolerate rising inflation in order to stimulate economy.

Looking at the country experiences, it appears that Bangladesh has outperformed in terms of favourable combinations of high growth with low inflation that was witnessed during 15 out of 41 years (see **Table 3**). Especially since the year 2000 onward, Bangladesh has been able to maintain higherthan average growth along with lower than average inflation. In case of Maldives and Nepal, the countries witnessed desirable combinatoin of high growth low inflation during 14 and 13 out of 41 years respectively.

On the hand India, Pakistan and Sri Lanka had high growth low inflation combinations during 12 out of 41 years. In case of Bhutan, however, majority of the times the country witnesses low growth and high inflation as compared to their respective averages. In case of Afghanistan, data for only 18 years is available: out of this, only three years were with favorable combination of growth and inflation. For half the period, both growth and inflation remained below their respective averages in Afghanistan.

Overall SAARC region presents a mixed picture regarding periods of high growth and low inflation combination; however, in all countries such outcomes were concentrated in last two decades of 2000s and 2010s with two exceptions: one of Pakistan that witnessed favorable combinations mostly in 1980s and early 1990s, and second Maldives that witnesses such instances in all decades. It is interesting to note that during the Covid-19 period of year 2020 all SAARC countries witnessed low growth coupled with low inflation except Pakistan where growth was lower than the average but inflation was higher the average.

Another notable feature can be seen from the data that Bhutan is the country which had highest average growth of 7.1 per cent in the region during the last four decades, and Nepal has lowest growth of 4.4 per cent. In terms of inflation, highest average inflation has been witnessed in Sri Lanka and lowest inflation in Maldives.

It may be noted that above insights are just observations coming from data of growth and inflation; one cannot assess policy efficacy from this as there are number of other factors that are continuously in play.

Table 3: Distributions on Growth-Inflation Instances by Country

Country	Average growth	Average inflation	Combinations	No. of Years	
Afghanistan	6.1	8.2	g>g* & P>P*	4	2003, 2005, 2007, 2011
			g<g* & P>P*	2	2004, 2008
			g>g* & p<p*	3	2009, 2010, 2012
			g<g* & p<p*	9	2006, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020

Bangladesh	5.2	7.6	g>g* & P>P*	7	1984, 1990, 2005, 2007, 2008, 2011, 2012
			g<g* & P>P*	12	1980, 1981, 1982, 1983, 1985, 1986, 1987, 1988, 1989, 1991, 1995, 2009
			g>g* & p<p*	15	1997, 1998, 2000, 2001, 2003, 2004, 2006, 2010, 2013, 2014, 2015, 2016, 2017, 2018, 2019
			g<g* & p<p*	7	1992, 1993, 1994, 1996, 1999, 2002, 2020
Bhutan	7.1	7.1	g>g* & P>P*	6	1982, 1983, 1984, 1988, 1990, 2011
			g<g* & P>P*	16	1980, 1985, 1989, 1991, 1992, 1993, 1994, 1996, 1997, 1998, 1999, 2000, 2009, 2012, 2013, 2014
			g>g* & p<p*	10	1981, 1986, 1987, 2002, 2003, 2006, 2007, 2008, 2010, 2016
			g<g* & p<p*	9	1995, 2001, 2004, 2005, 2015, 2017, 2018, 2019, 2020
India	6.0	7.7	g>g* & P>P*	10	1981, 1983, 1994, 1995, 1996, 1998, 2009, 2010, 2011, 2013
			g<g* & P>P*	9	1980, 1982, 1986, 1987, 1990, 1991, 1992, 2008, 2012
			g>g* & p<p*	12	1988, 1999, 2003, 2004, 2005, 2006, 2007, 2014, 2015, 2016, 2017, 2018
			g<g* & p<p*	10	1984, 1985, 1989, 1993, 1997, 2000, 2001, 2002, 2019, 2020
Maldives	6.6	5.8	g>g* & P>P*	13	1980, 1981, 1986, 1987, 1988, 1989, 1991, 1996, 1997, 2007, 2008, 2010, 2011
			g<g* & P>P*	6	1983, 1990, 1992, 1993, 2004, 2012
			g>g* & p<p*	14	1982, 1984, 1985, 1994, 1995, 1998, 1999, 2003, 2006, 2013, 2014, 2017, 2018, 2019
			g<g* & p<p*	8	2000, 2001, 2002, 2005, 2009, 2015, 2016, 2020

Nepal	4.4	8.4	g>g* & P>P*	9	1981, 1986, 1988, 1990, 1994, 1999, 2009, 2010, 2014
			g<g* & P>P*	9	1980, 1982, 1983, 1987, 1992, 1993, 2011, 2013, 2016
			g>g* & p<p*	13	1984, 1985, 1991, 1996, 1997, 2000, 2001, 2004, 2008, 2012, 2017, 2018, 2019
			g<g* & p<p*	10	1989, 1995, 1998, 2002, 2003, 2005, 2006, 2007, 2015, 2020
Pakistan	4.7	8.0	g>g* & P>P*	8	1980, 1981, 1988, 1991, 1995, 1996, 2005, 2008
			g<g* & P>P*	10	1990, 1993, 1994, 1997, 2009, 2010, 2011, 2012, 2014, 2020
			g>g* & p<p*	12	1982, 1983, 1985, 1986, 1987, 1989, 1992, 2004, 2006, 2007, 2017, 2018
			g<g* & p<p*	11	1984, 1998, 1999, 2000, 2001, 2002, 2003, 2013, 2015, 2016, 2019
Sri Lanka	4.9	9.6	g>g* & P>P*	12	1980, 1981, 1982, 1984, 1990, 1991, 1993, 1996, 2005, 2006, 2007, 2008
			g<g* & P>P*	5	1983, 1988, 1989, 1992, 2001
			g>g* & p<p*	12	1985, 1994, 1995, 1997, 2000, 2003, 2004, 2010, 2011, 2012, 2014, 2015
			g<g* & p<p*	12	1986, 1987, 1998, 1999, 2002, 2009, 2013, 2016, 2017, 2018, 2019, 2020

Section: 05

Box Items

Introduction of Credit Guarantee Scheme (CGS) in Bangladesh

Credit guarantee can be a useful instrument for attracting lenders to lend to potential Cottage, Micro, and Small Enterprises (CMSEs) with little or no collateral. A credit guarantee scheme provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to CMSEs in case of default. CMSEs have the potential to contribute significantly to the economy's inclusive and long-term growth. Nonetheless, due to a lack of collateral, many CMSEs are unable to access institutional financing. To encourage banks and financial institutions (FIs) to lend to CMSEs, the government of Bangladesh has taken the initiative to give a portfolio guarantee through the Credit Guarantee Scheme (CGS) Unit of Bangladesh Bank (BB). Moreover, the outbreak of COVID-19 has also led to the necessity of introducing 'Credit Guarantee Scheme' for achieving the desired expansion of small scale industries, job creation and economic growth by maintaining the capacity of cottage, micro and small scale entrepreneurs to revive the country's economic activities to deal with the potential economic adverse impact of the novel corona virus and to maintain the manpower engaged in industrial factories from banking system.

As the COVID-19 pandemic spread around the world including Bangladesh, Bangladesh Bank approved a fund for CGS worth Bangladesh Taka (BDT) 20 billion on July 23, 2020, for issuing guarantees against CMSEs' collateral-free loans and investments. This guarantee scheme is included as the stimulus financial package of the government for mitigation of the pandemic situation of COVID-19. CMSEs that do not meet the collateral criteria of banks or FIs to get credit can receive assistance from the CGS. In this regard, on November 3, 2020, BB issued a detailed operational procedure for CGS.

Key Features of CGS:

I. Under the aforementioned stimulus package, any CMSE with no or insufficient collateral can apply for a one-year collateral-free loan or investment of BDT 0.2 million to BDT 5 million. Furthermore, on December 30, 2021, the limit of CGS loan was refixed at BDT 0.025 million to 10 million, to expedite the growth of the CMSE Sector and to utilize the respective fund under the said package.

II. Three limits will be placed on a participating financial institutions (PFI's) portfolio of loans/investments in CMSEs in order to maximize available funds and prevent any moral hazard. The three limits are Portfolio Guarantee Limit (PGL), Guarantee Portfolio Cap, and Loan/Investment Guarantee Coverage Ratio. The PGL is the amount of loans/investments determined by the CGS Unit of Bangladesh Bank each year with each PFIs based on the review of their financial condition, track record, and other considerations. If a loan/investment registered under the CGS goes bad and loses, a PFI will get up to 80 per cent coverage (termed as Loan/Investment

Guarantee Coverage Ratio) of a credit given to a CMSE, while the PFI will have to bear the risk of 20 per cent of the loan/investment amount, provided that the total claim does not exceed 30 per cent of the PFI's portfolio guarantee limit (PGL), which is termed as Guarantee Portfolio Cap.

III. CGS will consider term loans/investments for acquiring fixed assets and working capital loans/investments for the operation of industries/businesses.

IV. The PFIs will have to pay guarantee fees of 1.0 per cent under the participation agreement with CGS Unit on annual basis, which may received from the borrowers.

V. The interest/profit rate of the guaranteed loan must not exceed the limit set by the competent authority from time to time, and any interest/profit rate cap imposed by BB under its refinancing scheme will also apply to CGS guaranteed loans. At present, Banks are allowed to charge borrowers a maximum interest rate of 9 per cent interest rate under the CGS loan.

VI. Women-owned CMSEs will get priority to obtain CGS facilities. In order to improve access to finance for women entrepreneurs, one of the primary policy initiatives implemented by BB is that all PFIs must set aside at least 10 per cent of their PGL for collateral-free loans/investments to women.

VII. On 23 January 2022, BB formed a new credit guarantee scheme titled 'Financial Inclusion Credit Guarantee Scheme (FICGS)' to facilitate lending under the BB's BDT 5 billion refinance scheme to people who have opened bank accounts with BDT 10, BDT 50 and BDT 100 deposits. An individual will be permitted to take a loan from BDT 0.025 million up to BDT 0.5 million under the scheme with 7 per cent interest rate. Banks have to provide a 1.0 per cent guarantee fee for the first year.

Key achievements under CGS of Bangladesh Bank:

VIII. CGS Unit of BB invites banks and FIs to submit an expression of interest to participate in the participation agreement for the first time in December 2020. As a result, under the financial stimulus package, 25 banks and FIs signed the agreement, with a total PGL of BDT 9,615.2 million. In 2021, 37 banks and FIs have fulfilled their participation agreements with PGL, totaling BDT 17,983.5 million, nearly 1.87 times the previous year's PGL.

IX. In 2020, the CGS Unit approved guarantee registration to 274 CMSEs submitted by various PFIs (total loan/investment amount: BDT 290.39 million). In 2021, the unit received a total of 307 guarantee applications from various CMSEs (for a total loan/investment amount of BDT 326 million) through various PFI.

X. In 2020 and 2021, over 15 per cent and 12 per cent of the total guarantee application's beneficiaries are women-owned CMSEs, respectively.

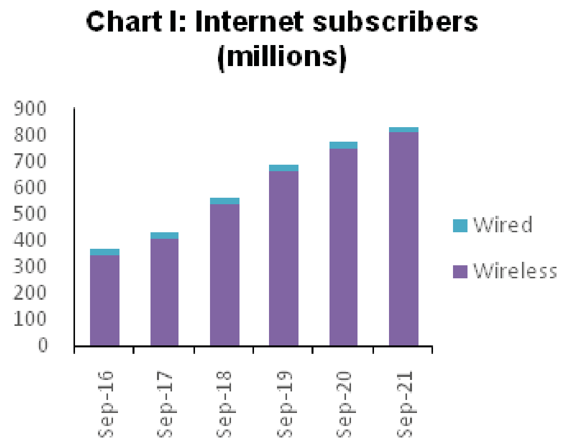
Challenges:

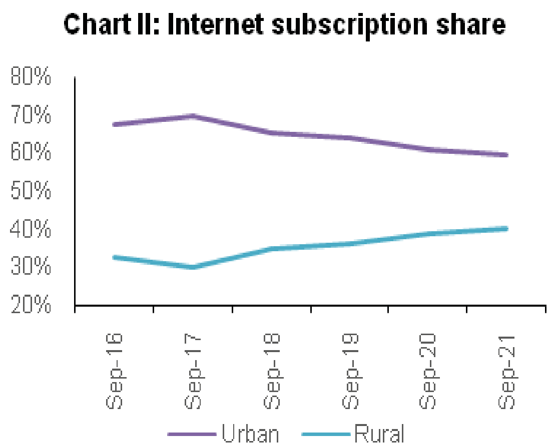
- In Bangladesh, access to credit remains one of the most significant impediments to the expansion of CMSEs. Also, a vast majority of CMSEs are informal, meaning they are not registered with any government agency and do not store financial records. As a result, these CMSEs are unlikely to benefit from the newly implemented CGS, as commercial banks typically do not lend to informal businesses due to higher perceived risks.

E-commerce in India: Recent developments

Recent decades have seen phenomenal growth in digital economy globally, and India has been no exception. This technological leap has been a catalyst for extraordinary growth in the e-commerce segment. The Indian e-commerce market is expected to grow from USD 46.2 billion in 2020, to USD 111.40 billion by 2025, at a CAGR of 19.24per cent, with the potential to reach USD 350 billion by 2030[1]. India's e-commerce penetration is expected to double to about 11per cent by 2024, from 4.7per cent in 2019. Following this upward trajectory, India is expected to surpass the US to become the second-largest e-commerce market globally by 2034.

Diverse factors have been driving the prolific growth in the e-commerce landscape in India. First, rising





smartphone usage and expanding internet subscriber base have been key contributors to this growth. As of September 2021, the number of internet connections in India significantly increased to 834.29 million from 367.48 million in September 2016, with over 97 per cent of them being wireless (Chart I), and with the share of subscribers steadily rising for rural areas(Chart II).Between September 2016 and September 2021, internet penetration more than doubled from 28.77 per cent to almost 61 per cent, with average monthly wireless data usage increasing from0.23 GB to 14.73 GB.

Source: Telecom Regulatory Authority of India

Second, the burgeoning well educated middle-class population, which is innovative, and more demanding of better services, products, and governance has driven e-commerce growth. Industry estimates peg the Indian shopper base to catapult to 500-600 million by 2030, the second largest globally. Third, the pandemic saw higher per capita e-commerce spend, driven by the ease of use and the convenience and safety it provided. The pandemic also accelerated the learning curve for technology adoption and online commerce among the less techsavvy and first-time users. Fourth,

1 https://www.ibef.org/industry/ecommerce.aspx

venture capital (VC) and equity fund investments in e-commerce rose to USD 15 billion in 2021 (5.4 times increase y-o-y from 2020),with number of deals significantly rising from 125 to 176[2]. Among all sectors, investment in e-commerce segment was the recipient of highest VC/start-up investment in 2021, accounting for 31 per cent of the total. Fifth, techceleration in the financial landscape has led to adoption of digi-payment methods such as e-wallets and UPI, which has helped online retail sales. The volume of UPI, card and prepaid instrument payments in total retail payments has increased from around 76 per cent in 2020-21 to 94 per cent so far in FY 2021-22[3].

Other critical enablers have been government policies to allow 100 per cent Foreign Direct Investment (FDI) under automatic route in B2B[4]e-commerce, and in marketplace model of e-commerce. 100 per cent FDI under Government approval route is also allowed fore-commerce by food retail companies, provided products retailed are manufactured and/or produced in India. A Government scheme with an outlay of INR 1,500 crore to promote digital transactions, the implementation of the BharatNet programme[5] to improve rural connectivity, and draft e-commerce policies spelling out comprehensive guidelines for all online transactions are some of the major steps which will drive this sector. It is expected to create regular jobs as well as increase employment in allied industries like logistics and warehousing. The exponential growth of e-commerce is actively contributing to the medium and small enterprises (MSMEs) sector, helping them to achieve efficiencies across their operations and expanding their boundaries and scale. Several initiatives have also been recently announced in the Union budget 2022-23 to support the growth of retail and e-commerce.

Since e-commerce is a continuously evolving ecosystem, some challenges remain. For instance, there has been a growing need for harmonisation of laws and regulations covering the e-commerce ecosystem, giving them a common definition and intent. In this context, the draft e-commerce policy released by the Department for Promotion of Industry and Internal Trade (DPIIT) and e-commerce rules by consumers affairs ministry in India is expected to develop an ecosystem that will support the industry, boost investments as well as protect consumer interest. Cyber security and data privacy is another potential challenge as vast amounts of data are involved in making transactions. In this context, the recent tokenization guidelines by the Reserve Bank is an important step which aims to safeguard consumers. These challenges notwithstanding, e-commerce has revolutionized the retail segment by making the experience consumer-centric, reducing costs, increasing efficiency and reducing time and distances involved. Going forward, trends suggest an expansion in scope and scale of e-commerce, which will help India achieve its aspirations of a 5-trillion-dollar economy.

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4 Business to Business

5 Scheme within the ambit of Digital India with an outlay of approx. INR 61000 crore, aimed at bringing broadband connectivity to India’s 2,50,000 Gram Panchayats.

COVID Response Policies by Nepal Rastra Bank

NRB has been pro-active in terms of response to mitigate the impact of COVID-19. These actions have targeted to supported smooth economic activities through uninterrupted flow of financial services. Some of the steps in thisregardare listed below:

- ## Liquidity Related

Mismatch in borrower's debt with the cash flows had led to heightened stress for borrowers. Short term liquidity is essential to maintaining the confidence in the financial sector and hence, NRB moved swiftly to ensure there is adequate liquidity during the time of pandemic while also enforcing its stance of accommodating financial sector trends. In the early days of the lockdown cash reserve ratio (CRR) was reduced by 100 basis points (4 per cent to 3 per cent). Similarly, the bank rate was reduced by 100 basis points (from 6 per cent to 5 per cent). While, upper bound of interest rate corridor i.e. SLF rate was reduced by 100 basis points and lower bound i.e. deposit rate was also reduced by 100 basis points.

- ## Assets Classification and Provisioning Related

The investment of banks during the time of pandemic has taken a toll and as a result the assets quality has deteriorated. Realizing this would impact the financials of bank unduly, the NRB allowed banks not to classify their portfolio of loans which were in pass category to watch list for not being renewed during the during lockdown period. This only applied to the pass category of loans and all other category of loans was to be downgraded as per the existing provisions.

- ## Credit Flows, Loan Repayments, Restructuring and Rescheduling

The initial phases of the pandemic brought about challenges which were not anticipated in any economies, and the only means to stop the contagion was to restrict the movement of people. Realizing the importance of such, the NRB directed BFIs to allow a moratorium and defer the recovery process of all the installment-based loans till fiscal year end i.e. mid-July 2020 outstanding for the month of March/April 2020 without any penal charges for such deferral. Similarly, the tenure of short-term loans was automatically increased by 60 days.

To decrease the movement and to keep the employees of bank and financial institutions occupied only with the critical functions of the banks, the provision of interest capitalization was relaxed and for those borrowers who have already received approval from NRB, the interest capitalization can be done till the period of mid-Jan 2021.

When the country was reeling under the pressure to upgrade and install new facilities for COVID-19, NRB instructed banks and financial institutions to sanction the loan within 5 working days to the borrowers who want to import medical equipment for the control of COVID-19, medicines, food supplies and other necessary items mainly to ease the situation. Similarly, banks and financial institutions had to sanction loans within 5 working days to the borrowers of Tourism and Transport sector who were in Pass category till mid-Jan 2020 for which the fees should not be more than 0.25 per cent.

Box Items

Similarly, a provision was made for COVID-19 affected business whereby an additional 10per cent working capital limits can be sanctioned, if the borrower can justify the needs of borrowers and which need to be repaid within a year at most.

BFIs were allowed to report the loans under 'priority sector' if lending were made to the hospitals who want to enlarge their facilities for the treatment of COVID-19.

Banks and financial institutions were allowed to restructure/reschedule loans for the projects which are highly affected, provided that the borrower pays 10 per cent (which was later lowered to 5 per cent) of the payable amount. The timeline for this Restructure/ Reschedule was given till mid Jan 2021.

- ### Time Extension for Loan Repayment

  The repayment date of short-term loans (demand loan, cash credit loans) was extended by 6 months (up to mid-January 2021 from mid-July end 2020) considering the impact of COVID-19 in cash flows of businesses. Likewise, the NRB had directed Banks and financial institutions to allow a time extension for the installment-based loans based on the impact the COVID-19. The business which were highly affected had their repayment time extended till 2021 July end, this tenure was extended to Mid-April 2021 and Mid-January 2021 for moderately affected and less affected business respectively. Such extension should be done without any penal charges.

- ### Grace Period Related

  Banks and financial institutions can extend the grace period for the projects which cannot come into operation in the original stipulated grace period. Such grace period was given 1 year for highly affected sector, 9 months for moderately affected and 6 months for least affected sectors. The grace period for hotels was given 2 years.

- ### Additional Loan Facility

  Internalizing that the firms and business were short on cash and funds, NRB allowed Banks and financial institutions increase the limit of working capital loans by 20 per cent of the existing limits. For the firms and business which were not availing working capital loans, the terms loans were extended with an additional 10 per cent of the existing limits. This extension of loans could only be used in activities such as paying staff salaries, procurement of inventories and giving continuity to business.

- ### Interventions on Interest Rates

  A direct market intervention in terms of interest rates was also made by the NRB. In the initial phases of the lockdown, the NRB directed BFI's to provide 10per cent discount on interest amount for those borrowers who want to pay their installments within mid-April 2020.

  Similarly, in the next phase, the NRB directed the BFIs to lower their interest rates for COVID-19 impacted business by 200 basis points for the fourth quarter of FY 2019/20. This was not applicable for business and sectors such food manufacturing and trading business, medical shops, internet, telephone and television service providers, liquor and tobacco related business, soap and chemicals and operating hydropower projects, which were not much impacted by the pandemic.

- ### Promoting Digital Payments

Throughout this pandemic, the thing that has stood up has been the payments system and is believed to the point of departure for a cashless banking habit. Conscious efforts were undertaken to promote the cashless banking habits and make payments digitally. In the initial days of the pandemic, a notice was issued by NRB to make all the electronic transactions, including ATMs, free of charge, till mid-July 2020. Similarly, BFIs' were mandated to entertain the requests of customers received via email and telephone to enable their electronic banking services and easing or helping out with other banking services.

- ### Customer Safety

NRB has emphasized the safety of customer and the employee cannot be compromised and hence directed BFIs to adopt the operational health standards set by GON and WHO. In line with this, various notices were issued warranting banks to maintain health standards such as social distancing, sanitizers, masks and other equipment for the front line workers and disinfecting the notes and office premises daily.

- ### Stringent Dividend Payout

Authorities around the world are unanimous on their suggestion that the dividend payout must be restricted as more and more capital may be needed for absorption of possible damages in the days to come. The NRB also put some restrictions on BFIs for dividend payouts from the profits of fiscal year ending on July, 2020. As per the provisions, cash dividend for FY 2020/21 is restricted at 30 per cent of distributable profit, subject to cap of weighted average interest on deposit.

- ### Income Recognition and Reporting

BFIs were not penalized for not meeting quarterly regulatory ratios and the reporting was also halted for the time being to contain the movement of staffs. This was later scrapped and reporting was resumed as the movements were regulated for BFIs and length of the disease started becoming vaguer.

Similarly, interest amount which is recovered until mid-October 2020 can be calculated in the financial statements for the FY 2019/20. Such tenure was 15 days after the end of respective fiscal year.

Similarly, BFIs were allowed to report the expenses under Corporate Social Responsibility for the donations made to the fund created by Government of Nepal to control COVID-19.

Box Items

- ## Macro Prudential Instruments

  The use of capital and liquidity buffers to accommodate the credit expansion has been suggested by various agencies from the very early days of the pandemic albeit with some caution. The countercyclical buffers, which were modeled to absorb losses, build resilience and sustain financing in tough times, were relaxed in many countries. Moving along with this line, the NRB relaxed the provision of Counter Cyclical Buffer for the time being, which was supposed to come in effect from the FY 2020/21.

- ## Operations, Availability of Service and Business Continuity

  Banking sector has turned out to be the backbone of an economy and the continued operation is a must. Hence, even during the pandemic period, NRB issued various circulars and guidelines to BFIs for continued operations. Notices were issued directing BFIs and customers to use ATMs, electronic transactions. Similarly, BFIs were directed to open least number of branches in coordination with local authorities while continuously providing the vital such as LC, Draft, TT, Guarantees and so on. NRB even continuously encouraged work from home, shift wise work and job rotations among other giving full flexibility for the continued operations of banking services.

- ## Refinancing

  In the initial phase of pandemic, to ensure adequate liquidity in the market and to accommodate market needs, the Refinance fund was increased by Rs.20 billion and the SMEs were prioritized for refinance facility. Similarly, Limit for Refinancing of SME was raised to Rs.1.5 million (from Rs.1 million) and refinance rate for such was maintained at 2 per cent (from 3 per cent) while the interest rate a bank charges for such kind of loans cannot exceed 5 per cent (previously 7 per cent).

  Later, the refinance facility was revamped completely with the issuance of "Nepal Rastra Bank, Refinance manual, 2077" and the scope of the refinance facility was broadened to include the business and sectors affected by COVID-19.

- ## Business continuity loan related

  The pandemic grounded most of the business and industries and the cash flows were affected greatly. Hence, realizing the need of business and firm to pay for the wages and salaries during the time of lockdown, GoN took an innovative approach and introduced business continuity scheme (under business continuity manual, 2077). Under this the business and firms can get funds to cover for their business continuity during the times of pandemic at a lower interest rate. Business and firms of highly affected sectors can avail loans up to 100 million, while such amount was 70 million and 50 million for moderately affected and least affected sectors respectively.

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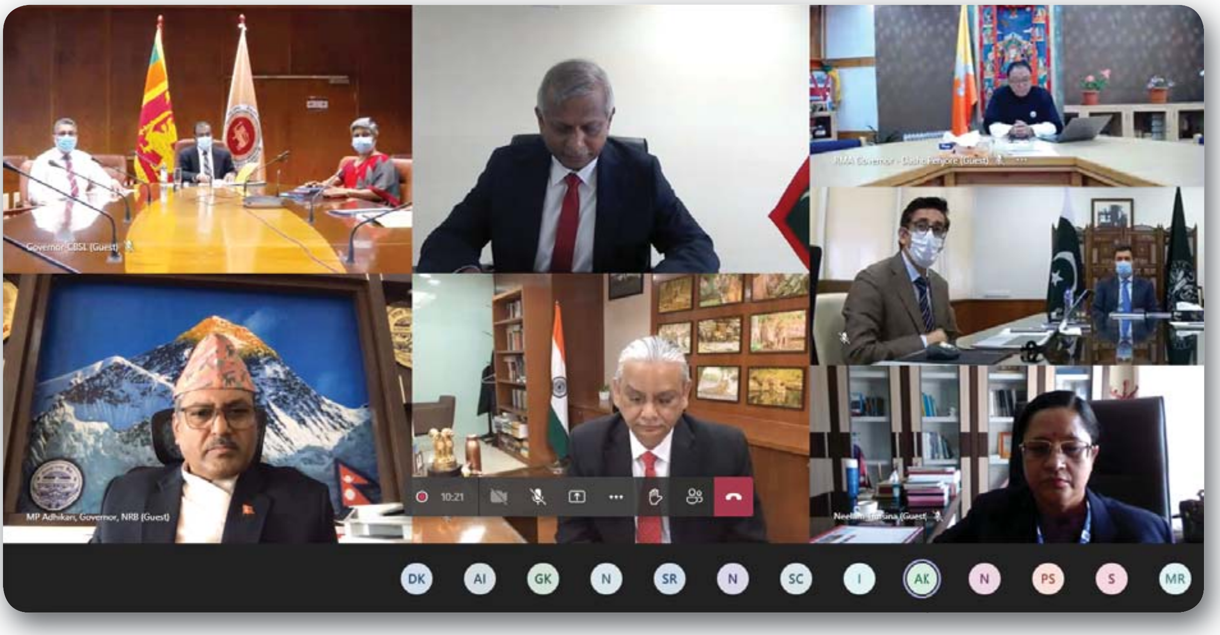

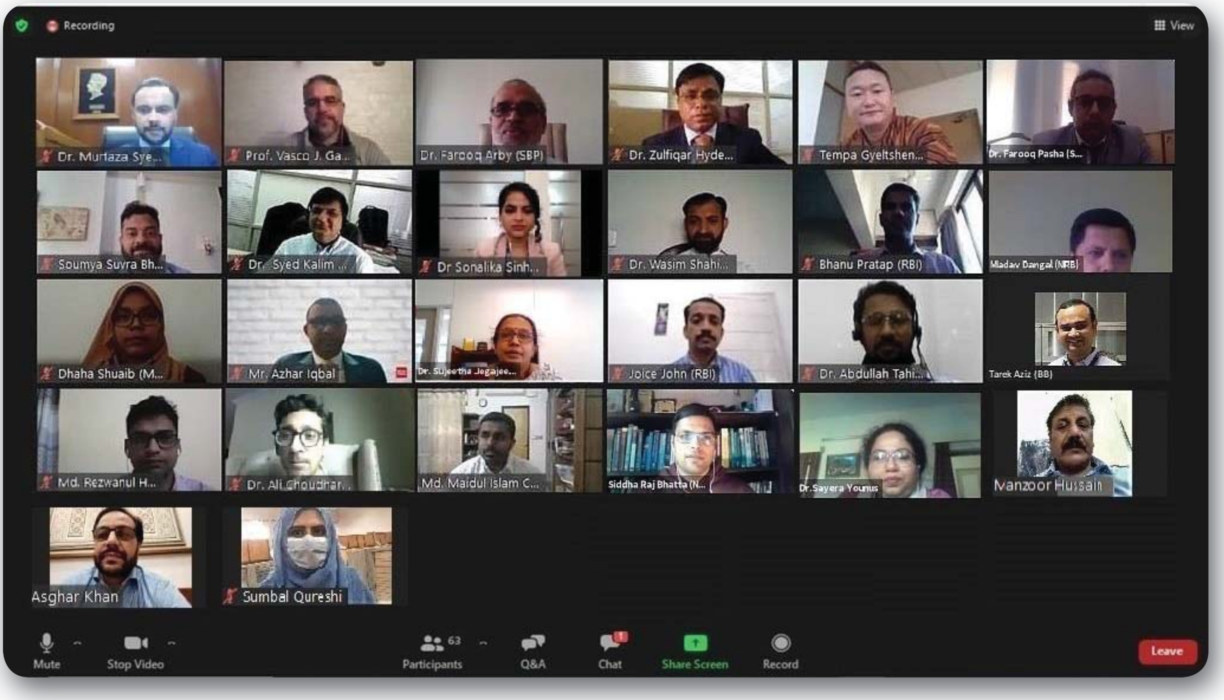

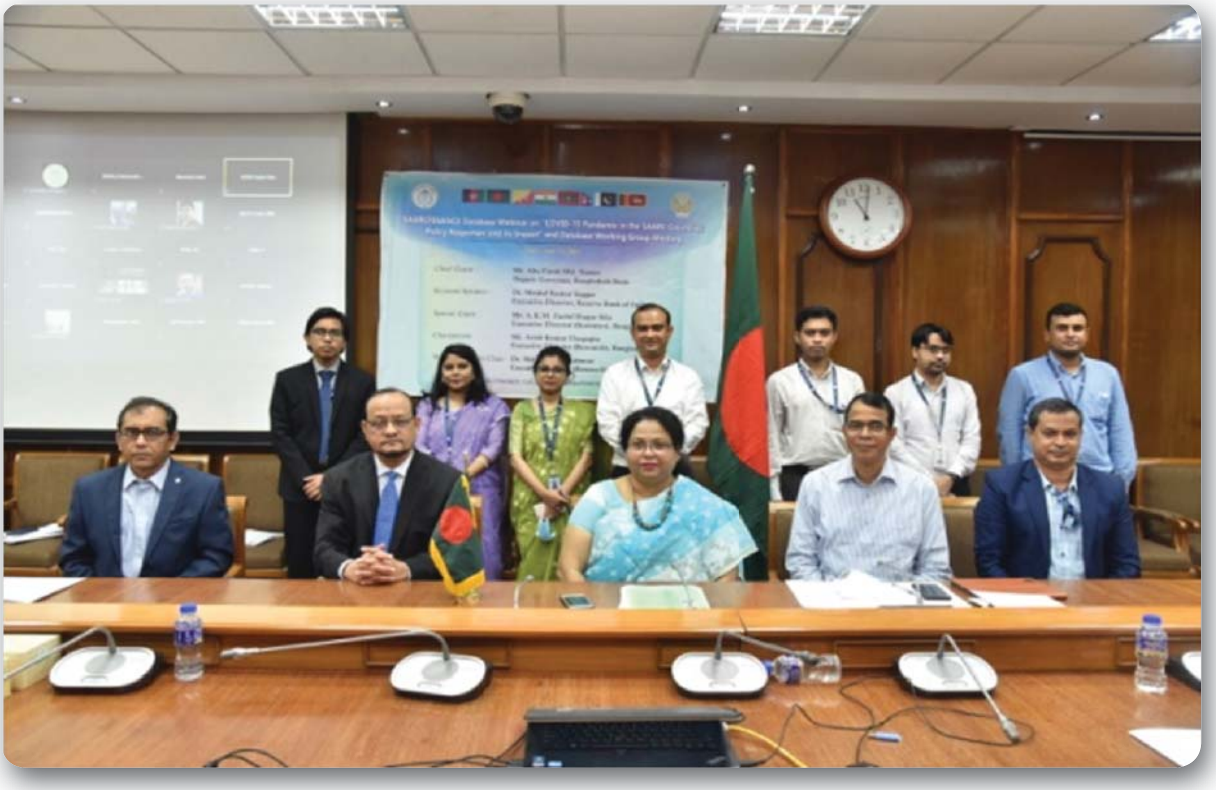

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