



SAARCFINANCE

e-Newsletter

Silver Jubilee Edition (2023)



25 Years of Collaboration



STATE BANK OF PAKISTAN

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Chair's Message

As SAARCFINANCE Chair, I feel privileged to launch this Special Silver Jubilee Edition of the SAARCFINANCE annual e-Newsletter. The Newsletter, in its cover story, delineates from the prolific history of the forum and refers to some memorable events and hallmark decisions taken over the 25 years. It also embeds some historic images from the Network's Group meetings and other notable events. This also offers rich tribute to our predecessor central bank governors and officials by presenting a rich collection of historic photographs of Chair Governors. Besides these added features, the Newsletter displays traditional content with reports on the meetings and initiatives of the Network, country reports on macroeconomic indicators and data sheets, progress in areas under the Roadmap, and summaries of a few well-researched articles.

To commemorate this cherished occasion – Silver Jubilee of the Forum, State Bank of Pakistan being the current Chair also takes pleasure to present two more publications: 25 Years History - Chronicles of SAARCFINANCE and a pocket size Directory of the Important Dates and Events over the 25 years. Both these documents would prove valuable future references as the former records achievements of the Network over these years and the latter is a quick reference guide.

Since its inception in 1998, SAARCFINANCE Network has anchored the South Asian Economies in areas of macroeconomic policymaking, sharing of country experiences and mutual learning. After the adoption of Roadmap in Areas of Cooperation in 2016, this remarkable journey towards shared prosperity got further traction culminating in worthwhile initiatives like database, SYNC Portal for financial inclusion, working group on climate change, and collaborative studies on emerging economic and financial issues.

Notwithstanding these remarkable achievements, the region is facing some formidable challenges like restrained growth, slower progress against poverty alleviation and increased geopolitical & economic fragmentation. The regional growth prospects have been subdued amidst multiple shocks like Covid-19, the commodity super-cycle, global monetary tightening, and Russia-Ukraine conflict. In addition, we have another common problem to deal with that is the ever increasing costs of climate change as losses emanating from extreme weather episodes are further aggravating our



economic woes. However, these challenges also provide us a window of opportunities.

Certainly, SAARCFINANCE has the right potential to become the cornerstone of economic and financial integration given that we successfully leverage the technological developments taking place around the financial landscape like digitalization, payment systems integration and CBDCs. We also need to take concrete steps for the promotion of cross-border flows, trade and investment that is mutually beneficial. In this regard, the member central banks need to enhance collaboration with SAARC Chambers of Commerce and Industry to explore ways facilitating the intra-regional trade and investment flows. With this, I wish all the very best to SAARCFINANCE for achieving new heights in the years to come.

Once again, I feel honored to be the Chair of the SAARCFINANCE for the period coinciding with the Silver Jubilee of the Network. I would like to express my gratitude to fellow Governors, and Secretary General of SAARC for their special messages for this special edition of SAARCFINANCE e-Newsletter. Moreover, I would also like to take this opportunity to acknowledge and appreciate the SBP team for facilitating me in taking forward the agenda of SAARCFINANCE as well as publishing three valuable publications. Likewise, colleagues from other SAARCFINANCE central banks including Coordinators, Alternate Coordinators and staff members also deserve my sincere gratitude and appreciation for their invaluable contributions to the publications and relentless support extended in accomplishing the planned activities of SAARCFINANCE over the last one year.

Jameel Ahmad

Governor, State Bank of Pakistan
SAARCFINANCE Chair

SAARC Secretary General's Message

I am pleased to learn that SAARCFINANCE - the regional network of Governors of Central Banks and Finance Secretaries of the Member States of SAARC - is bringing out a Special Silver Jubilee Edition of its annual e-Newsletter to mark its silver jubilee anniversary.

I felicitate the State Bank of Pakistan as the current Chair of SAARCFINANCE for this laudable initiative.

The Tenth SAARC Summit (Colombo, 1998) had agreed, in principle, to establish a "Network of Central Bank Governors and Finance Secretaries of the SAARC Region (SAARCFINANCE)" with a view to opening dialogues on macroeconomic policies of the region and sharing mutual experiences and ideas. Accordingly, SAARCFINANCE was established on 09 September 1998 as a regional network of the SAARC Central Bank Governors and Finance Secretaries.

On the silver jubilee anniversary of SAARCFINANCE, I warmly congratulate the distinguished Governors of Central Banks and the Finance Secretaries on a long journey successfully traversed with many achievements to its credit.

Esal Ruwan Weerakoon
Secretary General, SAARC



Governor's Message

On behalf of Da Afghanistan Bank, I take this opportunity to congratulate all the member countries for their prolonged cooperation in the economic integration of the region. SAARCFINANCE has had a profound impact on coordinating regional policymaking and capacity building. It has always been a reliable platform for the exchange of information and ideas. I strongly believe in the economic potential of the region and that SAARCFINANCE has a key role to play in the economic prosperity of the region, particularly in the economic prosperity of Afghanistan.

Hedayatullah Badri

Governor, Da Afghanistan Bank



Governor's Message

I am delighted to learn that the SAARCFINANCE Network has entered its 25th year. On this momentous occasion, the Network is poised to release the special Silver Jubilee Edition of the SAARCFINANCE e-Newsletter for 2023. This exceptional edition of the e-Newsletter encompasses recent macroeconomic indicators, insights into the monetary policy stances of central banks, highlights of pivotal central bank policies, research articles, and informative pieces on selected topics. Furthermore, it brings me great pleasure to discover that the Network is preparing to publish a historical book chronicling 25 years of SAARCFINANCE and a pocket-size directory encompassing significant dates, events, and other notable initiatives from SAARCFINANCE's cooperative journey.

The establishment of the SAARCFINANCE Network in 1998 marked a remarkable milestone in regional development. The Network has played an indispensable role in enabling member countries to engage in discussions and address shared economic challenges, exchange best practices concerning central bank policies and initiatives, and collaborate to fortify financial systems. Such achievements would not have been conceivable without the unwavering commitment, dedicated leadership, and collective efforts of all member countries.

Bangladesh Bank (BB) has been actively involved in various SAARCFINANCE initiatives since its inception. Over the years, a considerable number of BB officials have engaged in reciprocal visits to institutions in member countries, fostering collaboration under the SAARCFINANCE staff exchange program. BB has also been instrumental in organizing numerous SAARCFINANCE seminars,



meetings and governors' symposiums. In 2021, BB hosted the SAARCFINANCE database webinar styled "Covid-19 Pandemic in the SAARC Countries: Policy Response and its Impact." Additionally, BB has previously assumed the roles of Chair and Secretariat of the Network in 2005 and 2017. Currently, BB holds the Chair of the SAARC Payment Council (SPC).

I seize this opportunity to extend my heartfelt congratulations to the current Chair, the State Bank of Pakistan (SBP), for their dedication to compiling and publishing the special Silver Jubilee Edition of the SAARCFINANCE e-Newsletter for 2023. Furthermore, I express my profound appreciation to all member countries for their steadfast commitment and invaluable contributions. As we look towards the future, I am optimistic that the SAARCFINANCE Network will continue to succeed in the years to come, further contributing to the progress and prosperity of the region.

Abdur Rouf Talukder
Governor, Bangladesh Bank

Governor's Message

It gives me immense pleasure to congratulate the current Chair, the State Bank of Pakistan for presenting the third SAARCFINANCE Annual Newsletter 2023. The Annual Newsletter offers a valuable glimpse of the defining moments of the year and an important milestone achieved under the Chair. It also provides an insight of macroeconomic conditions in the member countries, highlighting the policy strategies aimed at addressing common macroeconomic and financial issues and challenges in the region.

I am also delighted to learn that this year marks the 25th anniversary of SAARCFINANCE network. Since its inception in 1998, the SAARCFINANCE has played a pivotal role in fostering cooperation and understanding among the member countries, contributing to macroeconomic and financial stability, as well as development of efficient payment system in the region. Through this network, Bhutan has significantly benefitted from various initiatives particularly the currency swap and technical assistance provided by the Reserve Bank of India.

The level of cooperation and support demonstrated by the member countries during the Covid-19 pandemic is a testament of deep commitment and unity within the SAARC central banks.



I strongly believe that the role of SAARCFINANCE will continue to expand further and remain pivotal in strengthening the macroeconomic and financial stability. This will serve as source of inspiration for our multi-faceted engagement with many more innovative initiatives in the period ahead.

Lastly, I extend my best wishes to the central bank of Sri Lanka as they assume the next SAARCFINANCE Chair.

Dasho Penjore

Governor, Monetary Authority of Bhutan

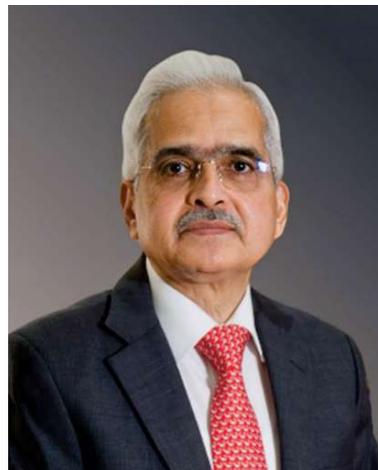
Governor's Message

I am happy to note that the SAARCFINANCE network has completed 25 years since its establishment in 1998. Over the years, the Reserve Bank of India has been a key partner in taking forward various initiatives under this network. These initiatives include providing financial backstops to countries under SAARC currency swap arrangement; capacity building of member central banks through various technical assistance, training, internship, and knowledge exchange program; the SAARCFINANCE scholarships; collaborative research studies, and hosting of the SAARCFINANCE Database.

We, at the Reserve Bank of India, remain committed to expanding our collaboration with our partner SAARC central banks in the future.

Shaktikanta Das

Governor, Reserve Bank of India



Governor's Message

Over the past 25 years, the SAARCFINANCE network has played a pivotal role in fostering cooperation among SAARC member nations. The network remains committed to advancing the goals outlined in the SAARCFINANCE roadmap even during times of crisis. Looking ahead, as the region navigates the post-Covid-19 landscape, it is imperative that SAARCFINANCE continues to support efforts aimed at building a resilient, sustainable, and inclusive economy. In light of the current global recessionary concerns and geopolitical uncertainties, I believe future endeavours by SAARCFINANCE will be vital in addressing emerging challenges to the SAARC nations such as inflation, debt, income inequality, and digitalization of the economy. Moreover, exploring avenues for bolstering intra-regional trade through Central Bank Digital Currencies (CBDCs) and local currency settlement mechanisms within the SAARC region presents exciting possibilities. In this regard, the Maldives Instant Payment System – FAVARA was launched by the MMA on August 26, 2023, which offers convenient and efficient access to digital finance across the country, enabling instant payment transfers and allowing intra-regional use of the system is one of the goals of this project.

I want to extend my heartfelt appreciation to all member nations for their contributions and unwavering support to SAARCFINANCE's activities, including the successful completion of planned studies and seminars. It was an honour for the MMA to host the SAARCFINANCE Database Seminar on "Utilizing High-



Frequency Indicators by Central Banks: Experience and Future Plans" as well as the Database Working Group Meeting on November 2, 2022.

I wish to express my sincere gratitude to the current Chair, State Bank of Pakistan (SBP) for their outstanding work during their tenure. I also take this opportunity to congratulate and extend my best wishes to Governor Jameel Ahmad and his team at SBP on their efforts in compiling and publishing the special edition of the SAARCFINANCE Annual e-Newsletter to mark 25 years of SAARCFINANCE. Lastly, I extend my congratulations to other SAARCFINANCE Governors and Coordinators, both past and present, for their dedication to the SAARCFINANCE network.

Ali Hashim

Governor, Maldives Monetary Authority

Governor's Message

It gives me immense pleasure to recall the 25 years of SAARCFINANCE. It has been a quite successful journey in realizing the broad objectives of its establishment. During these years of meaningful existence, significant progress has been made in the areas of cooperation on macroeconomic policies, harmonization of legislations and practices, facilitating payments, capacity building, and collaborative studies. I take this opportunity to express my sincere gratitude to the past leaders and congratulate all of us for the milestones of notable achievements realized from our joint efforts.

Our initiatives have been reflected in policy discussions, joint research works, macroeconomic databases, and regional collaborations such as the SAARC Payment Council. The joint research studies, meetings, and symposiums have been very effective in fostering teamwork, strengthening cooperation, discussing regional policy issues, and learning from each other's experiences to tackle macroeconomic challenges. The initiatives for capacity building in the form of scholarships, staff exchange and technical assistance have been our core strength.



I hope this network will be able to nurture further coordination and cooperation on various issues such as digitization, payment system integration and financial inclusion. Nepal Rastra Bank is committed to taking this initiative forward and providing full support to SAARCFINANCE for its future endeavors. Let's work together to deal with the common challenges, leverage the potentialities to achieve our aspirations, and build a better future for all of us.

Maha Prasad Adhikari
Governor, Nepal Rastra Bank

Governor's Message

It gives me great pleasure to send this message on the occasion of the Silver Jubilee of the SAARCFINANCE Network. Since its inception in 1998, the SAARCFINANCE forum has provided an excellent platform for cooperation, initiatives while also enabling several productive policy dialogues on macroeconomic developments and practices within the region.

Over the course of the last two and a half decades, the SAARC region has evolved dramatically and several strides have been made in cooperation among members. However, as highlighted in several policy circles, there is immense potential for further integration within the bloc which can be beneficial for all member countries. This is not only in terms of trade but also in terms of sharing of financial and nonfinancial resources, including technical know-how in all areas of the economy spanning from agriculture to central banking. Going forward, this will be essential so that member countries can reap the strategic benefits of the innate potential of our bloc in terms of its geographical positioning, skilled populations, vast natural resource base in addition to other unique advantages that each of our individual nations possesses. In this context, SAARCFINANCE, as an effective component of the SAARC institutional architecture, has considerable potential to pave the way for regional cooperation in economic affairs.

Initiatives such as the SAARCFINANCE Governor's group meeting and the SAARCFINANCE Coordinators' meeting have paved the way for formal discussions of key developments and several high-level negotiations. Other technical level sessions such as the Governors' symposium, annual database seminar have facilitated the presentation of several highly relevant and contemporary researches and analyses which has enabled national discussions along the same lines. Sri Lanka has also had such opportunities to lead some



of these technical assistance and capacity building initiatives which we believe has not only benefitted us but has also been of value to other member central banks. In this regard, I wish to extend my gratitude to the Reserve Bank of India for their generous SAARCFINANCE Scholarship scheme extended to higher education aspirants. Such long-term capacity building initiatives are imperative and timely and enable member central banks to benefit from the expertise of one another. The Reserve Bank of India's introduction of the SAARCFINANCE Swap arrangement facility is also to be commended and appreciated.

I would also like to take this opportunity to extend my appreciation to the State Bank of Pakistan, the current Chair, for overseeing the Silver Jubilee celebrations of SAARCFINANCE, including the publication of the special edition of the SAARCFINANCE newsletter. In the past, the newsletter has proven to be a valuable record of developments within the region and a means of showcasing some excellent researches and policy papers. I am sure this Silver Jubilee edition will also be an informative publication.

Lastly, I wish to thank all the members for their active participation and involvement over the last two and a half decades and sincerely hope that all members will continue to persevere towards continued collaboration thereby ensuring the success and prosperity of each of our nation and the region.

Dr. Nandalal Weerasinghe

Governor, the Central Bank of Sri Lanka

SAARCFINANCE

25 years at a Glance

The South Asian Association for Regional Cooperation (SAARC) represents a platform for collaboration of eight diverse nations; each unique in its culture, economics, and political dynamics, yet also have resembling festivals and overlapping languages, swayed by the shared historical roots, and facing similar modern days challenges in achieving sustainable economic growth and development.

To respond adequately to the international economic changes affecting the region, the SAARC members needed a platform to tap into the ongoing changing environment. In this backdrop, the 10th Summit of SAARC Heads of States, in July 1998, reviewed the role of SAARC in changing global economic scenario, and conceived the idea of setting up a regional Network in order to identify, analyze and prepare SAARC countries for global, financial and economic developments affecting the region. Sri Lanka - being the SAARC Chair - conducted consultations with the member states for convening a meeting of SAARC governments' representatives to setup the Network.

Emergence and Significance of SAARCFINANCE:

The SAARCFINANCE Network, founded in 1998, serves as a vital segment connecting the central banks and finance ministries of SAARC nations. Recognizing its importance, it was designated as a permanent entity within SAARC during the 11th SAARC Summit in 2002.

Purpose of SAARCFINANCE:

SAARCFINANCE aims to foster cooperation among member nations in various areas, including banking policy harmonization, efficient payment systems, and global financial surveillance. It promotes the sharing of experiences, monitors international financial reforms, encourages research, and builds institutional networks. Additionally, it remains flexible enough to consider adhoc directives from related SAARC bodies.

SAARCFINANCE's Collaborative Governance Model:

SAARCFINANCE operates within a well-defined governance structure that emphasizes collaboration and the rotation of responsibilities among its members. The SAARCFINANCE Group convenes biannually to make strategic decisions, while day-to-day activities and planning are managed by SAARCFINANCE coordinators nominated by member central banks. To ensure continuous coordination and inclusivity, provisions are made for alternate coordinators and focal points from the ministries of finance. The Network Secretariat's responsibilities rotate annually in an alphabetic order among SAARC member central banks, ensuring each member can lead and shape the forum's agenda. Dedicated SAARCFINANCE cells have been established at SAARC central banks to streamline operations, primarily under

the Research Department. Additionally, nodal officers have been nominated by each member bank to facilitate the SAARCFINANCE Database.

Achievements of SAARCFINANCE:

SAARCFINANCE has played a pivotal role in the economic ecosystem of SAARC, with a focus on capacity building and information sharing through collaborative research, staff training, and technical cooperation in central banking and finance. It has organized numerous initiatives, workshops, symposiums, and collaborative studies, fostering mutual understanding among member nations. Notably, it has explored topics ranging from workers' remittances to intricate subjects like 'Off-site Surveillance' and 'Monetary Policy Framework.' SAARCFINANCE has also proactively addressed emerging challenges, such as Central Bank Digital Currency (CBDC) viability and the multifaceted implications of fintech and financial inclusion.

One notable achievement is the Currency Swap Arrangement, aimed at mitigating short-term liquidity challenges and enhancing intra-regional trade. The SAARCFINANCE Scholarship Scheme, initiated in 2013, has significantly contributed to human capital development across the SAARC region, offering full-time Ph.D. scholarships in Economics and expanding its offerings in 2020.

SAARCFINANCE's Future Endeavors:

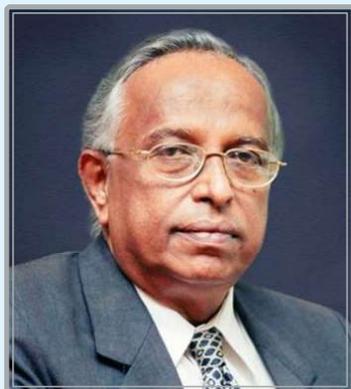
As SAARCFINANCE celebrates its 25th anniversary, it aspires to foster a unified financial future beyond borders. The consortium recognizes the potential in pooling the unique strengths of its diverse members, envisioning future collaborations in financial technology, green financing, and crisis management strategies. There are discussions about expanding SAARCFINANCE's reach by including

more countries as observers, although this would require a well-defined framework for harmonization.

An exciting prospect is the potential to catalyze intra-regional trade through an integrated banking system, facilitating business operations, reducing trade barriers, and fostering economic interdependence among SAARC nations. Moreover, SAARCFINANCE acknowledges its role in addressing climate change challenges, harnessing green financing opportunities while mitigating environmental risks.

In the digital age, SAARCFINANCE perceives the rising significance of Central Bank Digital Currency (CBDC) and aims to lead in formulating a regional strategy that harmonizes digital frameworks with CBDC developments for the collective benefit of the SAARC region.

SAARCFINANCE Chair Governors



A.S. Jayawardena
Central Bank of Sri Lanka (Oct 98 - Jan 02)



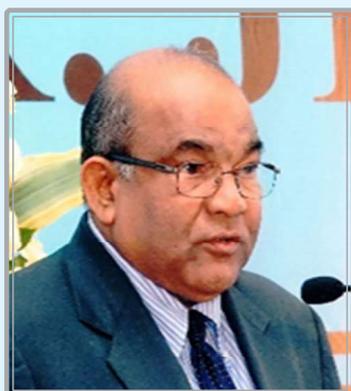
Dr. Tilak Rawal
Nepal Rastra Bank (Jan 02 - Apr 04)



Dr. Ishrat Husain
State Bank of Pakistan (Apr 04 - Sep 06)



Dr. Salehuddin Ahmed
Bangladesh Bank (Sep 06 - Oct 07)



Dr. Y.V. Reddy
Reserve Bank of India (Oct 07 - Sep 08)



Dr. D. Subbarao
Reserve Bank of India (Oct 08 - Apr 09)

SAARCFINANCE Chair Governors



Mr. Ajith Nivard Cabbral
Central Bank of Sri Lanka (Apr 09 - Oct 10)



Mr. Daw Tenzin
Royal Monetary Authority of Bhutan
(Oct 10 - Sep 11)



Dr. Fazeel Najeem
Maldives Monetary Authority
(Sep 12 - Oct 13)



Dr. Yuba Raj Khatiwada
Nepal Rastra Bank (Oct 13 - Oct 14)

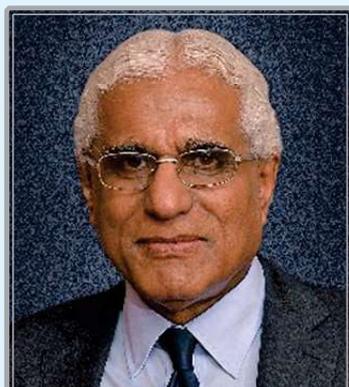


Mr. Ashraf Mahmood Wathra
State Bank of Pakistan
(Oct 14 - Oct 15)

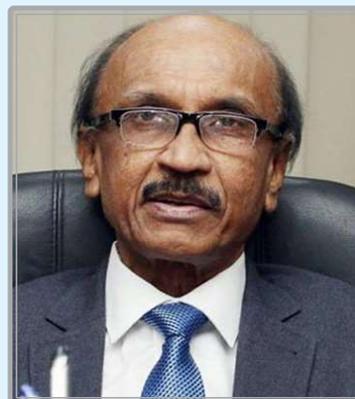


Mr. Arjuna Mahendran
Central Bank of Sri Lanka (Oct 15 - May 16)

SAARCFINANCE Chair Governors



Dr. Indrajit Coomaraswamy
Central Bank of Sri Lanka (May 16 - Oct 16)



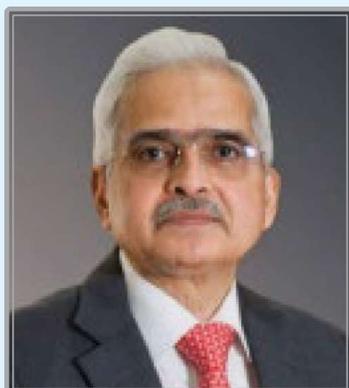
Mr. Fazle Kabir
Bangladesh Bank (Oct 16 - Oct 17)



Mr. Khalilullah Sediq
Da Afghanistan Bank (Oct 17 - Oct 18)



Mr. Dasho Penjore
Royal Monetary Authority of Bhutan (Oct 18 - Oct 19)



Mr. Shaktikanta Das
Reserve Bank of India (Oct 19 - Mar 21)



Mr. Ali Hashim
Maldives Monetary Authority (Mar 21 - Nov 21)

SAARCFINANCE Chair Governors



Mr. Maha Prasad Adhikari
Nepal Rastra Bank (Nov 21- Oct 22)



Mr. Jameel Ahmad
State Bank of Pakistan (Oct 22 - Oct 23)

25 years of SAARCFINANCE Through Lens





SAARCFINANCE
Symposium
May 3, 2023
Country Paper
Presenters →



Dr. Mian Farooq Haq (SBP)



Dawood Niazi (DAB)



Luthfe Ara Begum (BB)



Kelzang Jurney (RMAB)



Fathimath Sadiq (MMA)



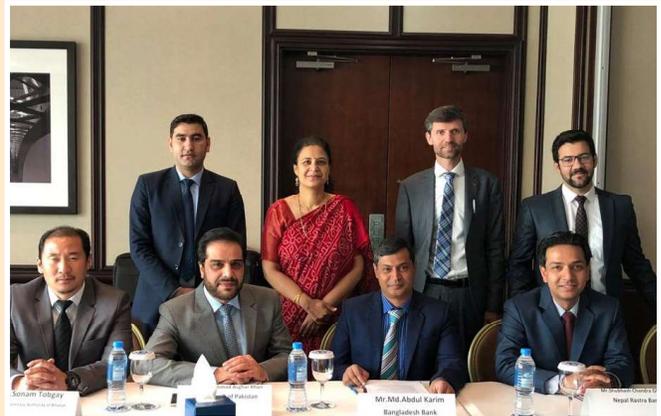
Narayan P. Pokhrel (NRB)



W A Dirukshiri (CBSL)









Silver Jubilee Edition



SAARCFINANCE Governors' Symposium

12 JULY 2017 | COLOMBO, SRI LANKA







Governors and Deputy Governors of the 30th SAARCFINANCE Group Meeting held in Dhaka on 12 June, 2015



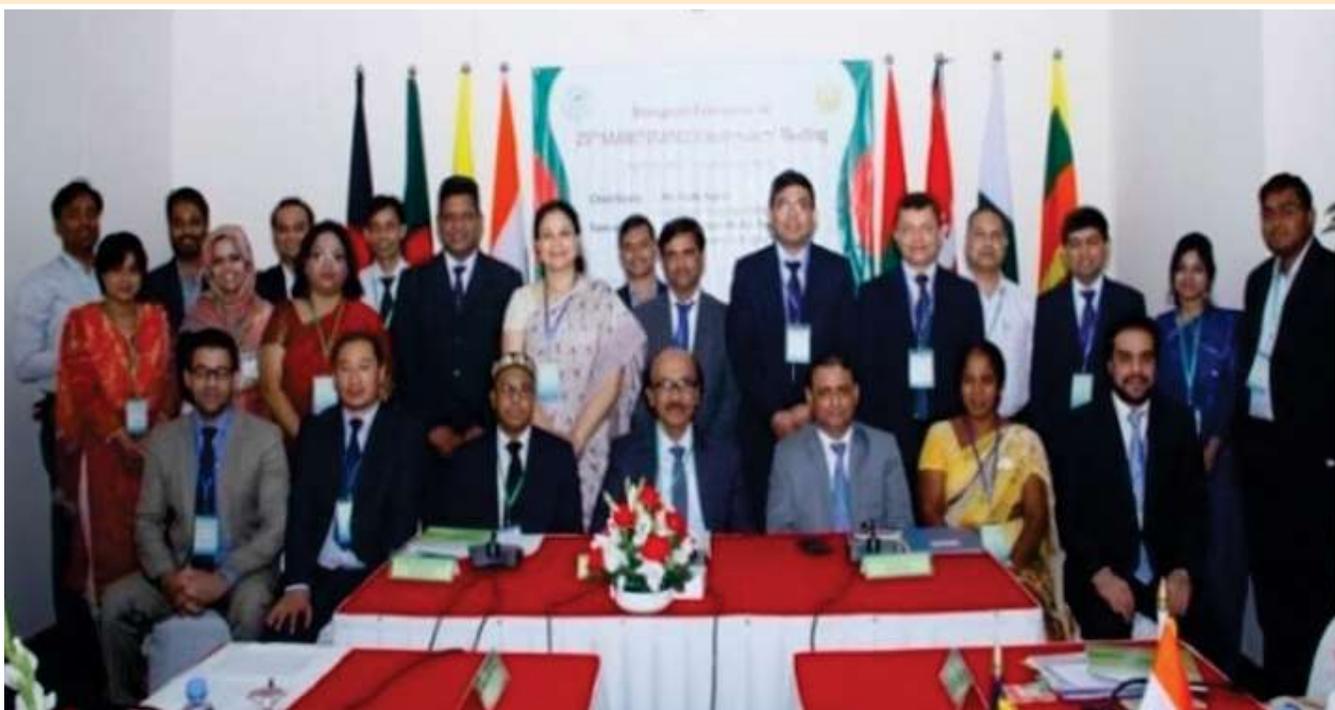
The Officials of the SAARCFINANCE Seminar on "Management of External Sector Openness: South Asian Country Experiences" held in Dhaka on 29 April 2014



Delegates of 30th SAARCFINANCE Group Meeting held in Dhaka on 12 June, 2015.



The Delegates and Organizers of the SAARCFINANCE Seminar on 'Impact of Mobile Financial Services in the SAARC Region' held in Dhaka on 19 December, 2016.



The Coordinators, Alternate Coordinators and Organizer of the 25th SAARCFINANCE Coordinators Meeting held at Pan Pacific Sonargaon, Dhaka on 09 April, 2017.



The Coordinators, Alternate Coordinators and Organizer of the 26th SAARCFINANCE Coordinators Meeting held in Cox's Bazar, Bangladesh on 26 August, 2017.



Officials of Bangladesh Bank in the SAARCFINANCE Database Webinar on: "Covid-19 Pandemic in the SAARC Countries: Policy Responses and its Impact" along with the Database Working Group Meeting held in Dhaka on 22 June, 2021.

Governors' Gallery



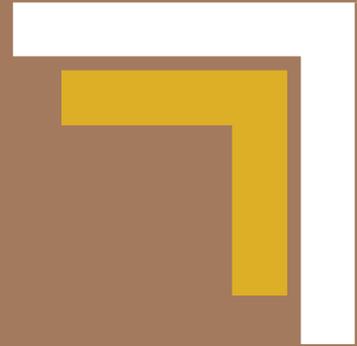


Silver Jubilee Edition



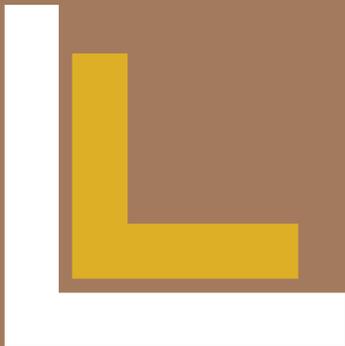






Section 1

Meetings and Initiatives



SAARCFINANCE

Meetings and Symposium

43rd SAARCFINANCE Group Meeting

As SAARCFINANCE Chair, State Bank of Pakistan (SBP) organized the 43rd Group Meeting and Symposium on May 2-3, 2023. The meeting was held physically in Islamabad while allowing for virtual participation as well. The meeting was chaired by Jameel Ahmad, Governor, SBP and was attended in person by the Governors from SAARC central banks — Mr. Maha Prasad Adhikari, Nepal Rastra Bank and Dr. Nandalal Weerasinghe, Central Bank of Sri Lanka, whereas Mr. Ali Hashim, Maldives Monetary Authority participated virtually. The delegates from Afghanistan, Bhutan, Nepal, and Sri Lanka attended the meeting in-person whereas delegates from Bangladesh and Maldives joined the meeting virtually.

At the start of the meeting, Governor SBP highlighted the importance of the regional networking and the pivotal role played by SAARCFINANCE in providing opportunities for shared growth and prosperity in the region. The Chair also applauded the forum's role in providing a platform to learn from each other's experiences on relevant macroeconomic policies and the need to further fortify cooperation among SAARC economies on the face of challenging external environment being faced by the region.

The Chair acknowledged the importance of SAARCFINANCE Roadmap in setting the direction of regional cooperation across the member countries. He hoped that the SAARCFINANCE database with consistent definitions across SAARC countries and high frequency data on important indicators would enhance the capacity of regional researchers and support evidence based policy formulation. The Chair also highlighted the importance of Sync Portal that is

fully functional for sharing resources and updates on financial inclusion initiatives by member countries. The Chair noted the importance of collaborative research studies in enhancing understanding of economic issues in an intra-regional setting. In the meeting, two research studies were discussed. The SBP presented findings of the study on “The Use of Unconventional Monetary Policy Instruments by South Asian Central Banks”, while the NRB presented findings of the study on “Central Bank Digital Currency (CBDC) in the SAARC region”, respectively. The forum agreed to add the CBDC as a regular agenda item of regional Group Meetings. Further, as proposed by the Chair, the forum supported the idea to follow the new rule for hosting the Database Working Group meeting and the seminar. The Chair announced that SBP – being the current Chair – would follow the



new mechanism, and would accordingly hold the SAARCFINANCE Database Working Group meeting and a Seminar next year i.e. 2024.

Towards the end of the meeting, the Chair underlined that the proposal of preparing a 25-year SAARCFINANCE chronological history was floated

by RBI in the 41st Group Meeting. He also informed the participants that SBP being the current Chair, would consolidate the SAARCFINANCE history and present the same in the Group meeting scheduled in October 2023. The Chair sought cooperation from all members in this effort; especially sharing with SBP, the most notable contributions and achievements related to SAARCFINANCE, during their respective tenures.

The SBP also invited the participating guests from SAARC countries to attend Zahid Husain Memorial Lecture (ZHML) that is the SBP's flagship lecture to pay tribute to Zahid Husain (Late) - the first Governor of SBP. Over the years, eminent economists, Nobel laureates, finance experts and renowned central bankers from all over the world have been invited by the SBP to deliver the ZHM lectures. The 24th lecture in the series was delivered by Professor Dr. Asim Ijaz Khwaja on "Democratizing Lending: The Challenges and Opportunities for Financial Inclusion in Emerging Economies". Dr. Khwaja is a well-known economist, and serving as Director of the Center for International Development (CID), the Sumitomo-Foundation for Advanced Studies on International Development Professor of International Finance and Development at the Harvard Kennedy School, and the co-founder of the Center for Economic Research in Pakistan (CERP).

In his lecture, Dr. Khwaja talked about several issues pertaining to financial intermediation including its design and implications. While mentioning the current macroeconomic challenges faced by both developed and developing economies alike, he underscored that countries/ individuals must use their debt more productively. Dr. Khwaja emphasized that the current challenges also provide a window of opportunities for the policymakers to rethink and improve the design of financial instruments and policies to bring efficiency in the financial system. In addition, he highlighted the need for increased openness and transparency for central banks to willingly collaborate with the researchers through data and information sharing to improve the design of financial products and facilitate the financial

intermediation process.



In addition to SAARCFINANCE events, the SBP also arranged an excursion trip to hilly areas nearby Islamabad, a special city tour of shopping markets in Islamabad and a dedicated culture show for SAARC



delegates at Pakistan National Council of the Arts (PNCA), Islamabad. Excursion trip and city tour were absolutely enjoyed by the delegates. The culture show portrayed the richness and diversity of various geographic and ethnic communities in Pakistan in particular and in South Asia in general. The delegates appreciated the superb performances by renowned folk artists who represented the beautiful shades of Pakistani culture.

SAARCFINANCE Governors' Symposium

The SAARCFINANCE Governor's Symposium on "Climate Change and Green Financing Initiatives & Outlook in South Asia" was inaugurated on May 03, 2023, by the SAARCFINANCE Chair, Jameel Ahmad, Governor, SBP. The Chair emphasized the importance of effective, creative and prudent use of technology by central bankers, especially in the areas of Climate Change and Green Financing. The keynote speakers of the event included Mr. Virender Kumar Duggal – Principal Climate Change Specialist in the Sustainable Development and Climate Change Department at the Asian Development Bank (ADB) and Mr. Farhan Fasihuddin – Corporation Principal Investment Officer at the International Finance Corporation (IFC).

After the keynote address by speakers, a panel discussion featuring renowned experts on climate agenda & green financing was organized on "The Role of Financial Sector in Advancing Climate Change Agenda and Green Financing in SAARC Countries". During the detailed deliberations, a consensus emerged that SAARC region is one of the most affected areas due to climate change, and the central banks are required to safeguard the financial sector against climate change and environmental risks by undertaking various green/sustainable initiatives. A proposal was put forth by the forum for setting up a Working Group in the area of "Sustainable Finance". This proposal was also supported by the SAARC central bank governors attending the symposium recommending that the Working Group should broadly serve as a collaborative platform to develop approaches and recommend actions to safeguard the financial sector against climate change and environmental challenges in the region.



35th SAARCFINANCE Coordinators' Meeting

The 35th Coordinators' Meeting was held in a virtual mode on February 16, 2023 by the State Bank of Pakistan to review the progress made on the action points of the 42nd Group Meeting and to discuss the agenda of the 43rd Group Meeting to be held in a hybrid mode on May 02-03, 2023 at Islamabad. Dr. Muhammad Farooq Arby, SAARCFINANCE Coordinator and Director of Research, SBP, chaired the meeting.

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 2023, Collaborative Research Studies, Capacity Building, SAARCFINANCE Symposiums and Seminars, Agenda setting for 43rd SAARCFINANCE Group Meeting.

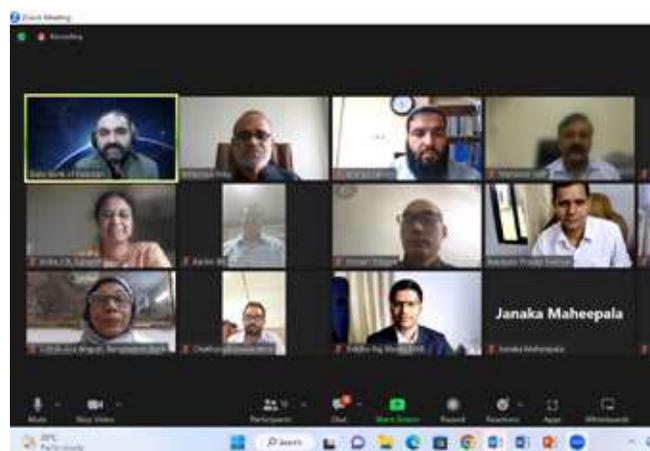
The Coordinators finalized the agenda for the 43rd Group Meeting. The Chair also sought cooperation of member in making the upcoming SAARCFINANCE events a real success.

36th SAARCFINANCE Coordinators' Meeting

The 36th Coordinators' Meeting was held by the State Bank of Pakistan in a virtual mode on July 25, 2023. Dr. Muhammad Farooq Arby, SF Coordinator and Director Research SBP Chaired the meeting.

The Meeting reviewed the progress made on the action points of the 43rd Group Meeting and discussed the agenda of 44th Group Meeting scheduled alongside the IMF - World Bank Annual Meetings at Morocco in October 2023.

The Chair updated the members about the developments and initiatives taken in the 43rd Group Meeting, including the SAARCFINANCE Working Group on Sustainable Finance', the Directory of Retired Officials in the SAARC Central Banks, publication of annual e-Newsletter 2023, and 25 Years History of the SAARCFINANCE Network. Since the 44th Group Meeting also coincides with the silver jubilee year of the Network, the e-Newsletter will be published as a Special Silver Jubilee Edition. The Chair informed



that SBP intended to publish a pocket size Directory of key events of SAARCFINANCE over the last 25 years as a reference guide. The members ensured SBP of their maximum support, and sharing of requisite information regarding SAARCFINANCE 25-Year History, e-Newsletter and the SAARCFINANCE Directory of events and dates.

44th SAARCFINANCE Group Meeting

In its capacity as SAARCFINANCE Chair, State Bank of Pakistan hosted the 44th Group Meeting on October 12, 2023 in Marrakesh, Morocco, alongside the IMF-World Bank Group Meetings. The Meeting was chaired by Mr. Jameel Ahmad, the Chairperson of SAARCFINANCE and Governor, SBP. The Chair welcomed all the SAARC central bank governors, finance secretaries, and the accompanying delegates who participated in the meeting, and congratulated them on the Silver Jubilee occasion of the Network. He thanked all the members for their support to the Chair in carrying out annual planned activities,



and publications commemorating Silver Jubilee. He emphasized the importance of SAARCFINANCE and the pivotal role played by the Network over the last 25 years.

After opening remarks by the Chair, the forum took stock of the macroeconomic situation in the region, progress on different initiatives under the SAARCFINANCE forum, including database, financial inclusion, collaborative studies and capacity building. In particular, the forum identified a few research studies to complete under its collaborative arrangement, and announced training programs on issues of regional significance. The forum agreed to conduct three collaborative studies during 2023-24: i) the SBP will lead in the study on “The Efficacy of Monetary Policy in the SAARC region”, while NRB will be a co-lead; ii) the MMA to lead in the study on “Trade Settlement by SAARC Countries in Local Currencies”, while RBI will be the co-lead; and iii) the RBI will lead in the study on “The Implications of Climate Change and Environmental Sustainability for Monetary Policy



and Financial Stability in SAARC countries”, while the BB will be co-lead in the study. Further, three seminars were announced: the SBP to hold a seminar, alongside the database working group meeting, on the “the Role of Big data in Economic Policy” in the first half of 2024; the BB announced to hold a seminar on “Trading in Local Currencies”, in view of their country experience in local currency with India, and the RBI to organize a seminar on any topic significant for member central banks, either in later part of 2023, or in first quarter of 2024.

In view of completion of Silver Jubilee of SAARCFINANCE Network, Mr. Jameel Ahmad launched the 3rd annual publication of SAARCFINANCE e-Newsletter with additional features containing special messages and snapshots of events held under the aegis of this regional Network. Further, he also presented 25 years History Book, and a Pocket size directory of important Dates and Events. The member congratulated SBP for publishing the e-Newsletter as special Silver Jubilee Edition, and the other two publications. Earlier, as part of the Silver Jubilee celebration, the SAARC governors participated in the cake-cutting ceremony.

In the meeting, the SAARCFINANCE Chair was passed from State Bank of Pakistan to Central Bank of Sri Lanka. All the members assured Governor CBSL of their full cooperation during their tenure.

Bilateral Signing of Currency Swap

The Royal Monetary Authority of Bhutan (RMA) hosted the Reserve Bank of India (RBI) for signing Bilateral Currency Swap Agreement on July 17, 2023 at Paro, Bhutan under the SAARCFINANCE Currency Swap Framework. The ceremony was graced by the Hon'ble Governor Dasho Penjore of the RMA, and was signed by Deputy Governor, Mr. Phajo Dorjee of the RMA and Deputy Governor Dr. Michael D. Patra of the RBI.

The Reserve Bank of India, with the concurrence of the Government of India, introduced the 'Framework

on Currency Swap Arrangement for SAARC Countries' in 2012 to provide a backstop line of funding for short-term foreign exchange liquidity requirements to SAARC central banks.

Under the terms and conditions of the Framework for 2019-22, RBI will continue to offer bilateral swap arrangement within the overall corpus of US\$ two billion. The drawals can be made in US Dollar, Euro or Indian Rupee. The swap facility has helped the countries to overcome liquidity and external sector pressures, especially during the pandemic.

SAARCFINANCE Roadmap and Areas of Cooperation

SAARCFINANCE Database Working Group Meeting

SAARCFINANCE Database Working Group Meeting was hosted by Maldives Monetary Authority on November 2, 2022 while the Reserve Bank of India led the agenda and issues for discussion. The participants discussed various items including data gaps, technical issues in accessing database, addition of new variables, revamp of database. The RBI team presented the revamped database with new user-friendly interface,

updated templates with newly added variables, interactive dash board reflecting latest movements in the given variables, new features to view/download customized data and upload metadata and advanced release calendar, link of data reporting portal on database, etc. It was also highlighted that, with this update, the automated data reporting portal would now also include metadata and advance release calendar.



SAARCFINANCE database working group

Technical Assistance

Strengthening the RBI's efforts for capacity building in the SAARC region, a first of its kind internship opportunity with RBI was provided to ten officers from the MMA on data analytics for six weeks, as part of their Data Science Professional Programme (DSPP) introduced by the MMA. The RBI provided technical assistance to Royal Monetary Authority

of Bhutan (RMAB) for developing monetary policy framework and human resource policies. RBI also provided information assistance to MMA on instant payment systems and to Nepal Rastra Bank (NRB) on working of accounts division of currency management department. The RBI organized a half-day workshop for RMAB on central bank digital currency (CBDC), oversight of NPCI and government securities.



Meeting between RBI and MMA for SAARC Swap



SF Dialogue on Monetary Policy between RBI and BB, JULY 2023

Training Programmes

As the world embraced normalcy with the easing of restrictions for international travels post pandemic, the RBI, through its training establishments, offered a variety of training programs for SAARCFINANCE participants. Fifty officers from the Nepal Rastra Bank (NRB) participated in the "Customised Program on Cash management, Payment System and Branch operations for Assistant Level Employees of Nepal Rashtra Bank".

RBI started inviting participation in 2021 from member central banks to the training programs conducted by the RBI Academy- a training institution set up by the RBI for imparting training on topics of relevance to central bankers, regulators and supervisors around the globe. The RBI Academy saw good response from SAARCFINANCE central banks with a total of 257 Officers (179 from BB, 41 from RMAB, 26 from NRB, 9 from CBSL and 1 from MMA) participating in virtual training programs conducted on various topics.

SAARC Payment Council

As per the decision of the 20th meeting of the SAARC Payment Council (SPC), Bangladesh Bank (BB) has taken the responsibility of being the secretariat of SAARC Payment Initiative from April 2021. Afterwards, BB conducted several meetings of SPC on different issues. BB arranged the first working group meeting of SPC virtually on the harmonized payment system on December 14, 2021. Further, a separate working group meeting was organized virtually by BB on the risk mitigation matrix for the payment systems of SAARC countries on March 14, 2022. Both meetings were chaired by Mr. Md. Mezbaul Haque, the General Manager (currently Executive Director), Payment Systems Department, Bangladesh Bank, and Chair of the Working Group. Apart from these regular working group meetings of SPC, BB also arranged a few one to one meetings with other member countries based on their adhoc requirements.

The challenges and possible ways for harmonized payment system were discussed in the first working group meeting. The prevailing frictions in cross-border payment had been discussed, and a benchmarking report for the existing payment platforms of the SAARC countries had been prepared. It had also been decided to arrange a workshop in this regard, but due to the pandemic situation, the workshop could not be held.

During the second meeting regarding the risk mitigation matrix, a working group was constituted to examine each country's payment initiatives comprehensively. It had been decided that each member country will choose which platform they prefer to use to perform the risk measurement and mitigation exercise. Besides, BB as the secretariat of SPC will share their risk matrix questionnaire, and based on the responses from all member countries, a final risk matrix questionnaire will be prepared. It is worth mentioning that both the benchmarking report and the risk matrix are at final stage. Responses from most of the member countries have been received, and the final document will be published soon after receiving responses from rest of the member countries.

BB has also taken the initiative to update the website of SAARC Payment Initiative with correct and updated information. A separate team is formed within the Payment Systems Department to complete the task.

SAARCFINANCE Scholarship Scheme

The SAARCFINANCE scholarship scheme for higher studies in Economics was introduced by the RBI in 2013 which later expanded its scope in terms of courses, institutions, no. of scholarships, etc. to cater to the demands from the members.

The scholarship was awarded to three officers from the Bangladesh Bank and one officer from the Ministry of Finance, Sri Lanka for the academic year 2023-24, of which two candidates from the BB has secured admission in recognized universities in India for higher studies. Moreover, two candidates, from Bangladesh Bank and Nepal Rastra Bank respectively, selected under the scheme for the academic year 2022-23, secured admission in prominent academic institutions in India during the current academic year.

SAARCFINANCE Collaborative Studies

Following collaborative research studies were presented

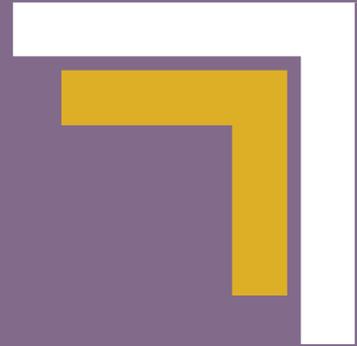
1. The SAARCFINANCE Collaborative Study on Fintech and Financial Inclusion, led by the Reserve Bank of India (RBI), was successfully completed in 2021. This comprehensive study highlighted a significant shift in focus toward fintech-driven financial inclusion across all SAARC countries in recent years. Notably, several member countries have made commendable progress in this area. Fintech in the SAARC region primarily revolves around payment and credit services. SAARC central banks have played a pivotal role in promoting financial inclusion through fintech by fostering innovation, developing new products and infrastructure, prioritizing customer protection, and enhancing regulatory and supervisory oversight. However, the study identified notable heterogeneity among SAARC countries concerning the coverage, penetration, and efficiency

of fintech. It conducted an in-depth assessment of these fintech-driven financial inclusion developments in the SAARC region and provided valuable policy recommendations.

2. Another collaborative study, titled "The Use of Unconventional Monetary Policy Instruments by South Asian Central Banks," led by the State Bank of Pakistan (SBP), was successfully completed in 2022 and presented during the 43rd Group Meeting. The study revealed that SAARC countries have been employing unconventional monetary policy measures, particularly quantitative easing, over the past few decades. Refinance schemes, a form of quantitative easing, have been a popular choice, predating even the Global Financial Crisis of 2007-09 and the COVID-19 pandemic in 2020. During the COVID-19 pandemic, these refinance schemes were extensively utilized to support vulnerable sectors. The available evidence suggests that subsidized loans provided through refinance schemes have had an overall positive impact on the targeted sectors, contributing to development goals. Furthermore, some SAARC central banks, including the RBI and SBP, introduced Forward Guidance (FG) in their Monetary Policy Statements as a significant unconventional monetary policy tool. The study documented the experiences of central banks in the SAARC region with unconventional monetary policy and recommended that all central banks establish a regular database for such measures. This database would facilitate further studies to evaluate the impact and effectiveness of monetary policy tools.

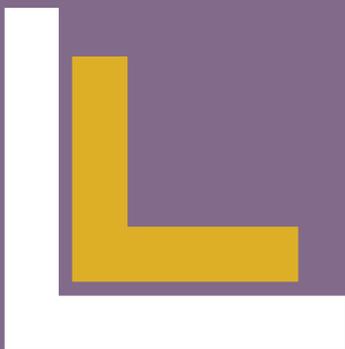
3. Similarly, the collaborative study on "Central Bank Digital Currency (CBDC) in the SAARC region," led by the Nepal Rastra Bank (NRB), was presented during the 43rd Group Meeting. This study delved into the emerging interest of central banks in CBDC, a digital form of legal tender money issued by central banks for payments and value storage. CBDCs are highly secure digital instruments with unique features, backed by the state. The study revealed that the majority of central banks in the SAARC region are either conducting pilot

projects or actively researching CBDCs. Notably, the RBI has launched pilot programs for both wholesale and retail CBDCs, the Royal Monetary Authority of Bhutan is conducting a comprehensive feasibility study, and the NRB and the Bangladesh Bank have similar plans. The SBP intends to introduce CBDC within the next three years. The study highlighted three key areas where CBDC usage can be particularly beneficial: a) facilitating retail payments, which holds significant promise for the region; b) improving payment system efficiency and digital payments; c) enhancing the monetary transmission mechanism, reducing the informal economy, and strengthening financial stability. However, many central banks in the region currently lack the necessary legal and regulatory frameworks and quality infrastructure required for CBDCs. The study also emphasized the need for regional collaboration to establish a mechanism for cross-border settlements of CBDCs. Recognizing the significance of CBDC for the region, the 43rd Group Meeting decided to incorporate it into the SAARCFINANCE roadmap and make it a regular agenda item for future Group Meetings held within the region.



Section 2

SAARCFINANCE Seminars



SAARCFINANCE Seminar

Reserve Bank of India (RBI) hosted a seminar on 'Dynamics of Inflation and its Control in South Asia', on August 24, 2022, at New Delhi. Dr. Michael D. Patra, Deputy Governor, Reserve Bank of India delivered a keynote address stating that the theme of the seminar assumes significance in the present milieu, with inflation broadening across national jurisdictions, and repeated shocks stemming from the outbreak of the pandemic and global spill overs. Dr. Patra further underlined that even though the present is clouded with uncertainties, the SAARC holds great potential for economic expansion with abundant natural resources, human capital and market access. He stressed that the promotion of economic and social

development through increased trade and investment and through deeper regional economic integration holds considerable promise in South Asia.

Mr. Yan Carriere-Swallow, International Monetary Fund gave a presentation on 'Inflation Dynamics in the Region' and Mr. James Yetman, Bank for International Settlements presented on 'What Determines Inflation in Emerging Market Economies?'

Country papers on the Seminar theme were presented by delegates from the Bangladesh Bank; Royal Monetary Authority of Bhutan; Maldives Monetary Authority; Nepal Rastra Bank; State Bank of Pakistan; and Central Bank of Sri Lanka, besides papers by delegates from the RBI.



SAARCFINANCE seminar on "Dynamics of inflation and its control in South Asia"- August 24, 2022

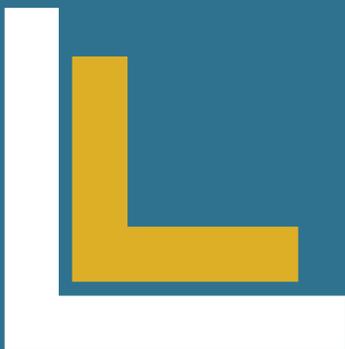


City Trip of the seminar participants



Section 3

Macro-Economic Trends



Policy Measures in SAARC Region

Bangladesh

Monetary Policy Stance

Bangladesh Bank (BB) usually announces monetary policy on a half yearly basis with the objectives of achieving price stability and supporting output and employment growth. BB announced two issues of its Monetary Policy Statement (MPS) during H2-FY23 and H1-FY24.

The BB's monetary policy for the H2-FY23 pursued a cautiously accommodative policy stance to contain inflationary and exchange rate pressures, while supporting output and employment growth by ensuring flow of funds to productive purposes. The BB raised its policy rates namely repo and reverse repo by 25 basis points to 6.00 percent and 4.25 percent respectively in FY23. In addition, the lending rate cap for consumers' credit was relaxed up to 3 percentage points, along with the complete removal of the deposit floor rate.

The BB's current MPS for the H1-FY24 has been adopted a contractionary monetary policy stance for combating inflationary pressure accompanied by some new policy initiatives, which are highlighted below:

- The BB announced a paradigm shift from a monetary aggregate based targeting regime to an interest rate targeting regime. Accordingly, an interest rate corridor system has initially been introduced for steering call money rate. The policy interest has been set at 6.50 percent, which accompanied by a ± 200 basis point symmetric corridor consisting of a standing lending facility (SLF) as special repo and a standing deposit facility (SDF) as reverse repo.
- Following the contractionary mode, the BB adjusted policy rates upward by 50 basis points to

6.50 percent, while the SDF rate adjusted upward by 25 basis points to 4.5 percent effective from 1 July 2023.

- The BB intended to introduce a market-driven reference lending rate for bank loans, replacing the previously imposed lending rate cap. The BB declared to introduce a reference lending rate, known as the 'SMART' (six-month moving average rate of Treasury bill), with a margin applied for banks and non-bank financial institutions (NBFIs).
- The BB has taken steps towards aligning the exchange rates with the market forces and move towards a unified exchange rate, effective from 3 September 2023.
- BB has already started to calculate and publish gross international reserves (GIR) in line with the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

Major Policy Announcements

Followings are the highlights of major policies/measures taken by BB since October 2022:

- The BB has launched the Interoperable Digital Transactions Platform (IDTP) called 'Binimoy' as on 13 November 2022. This platform serves as a transactions bridge between various payment system partners, providing customers access to multiple digital payment services through a single application processing interface.
- The banks are allowed to show their highest capital market exposure limit based on the stock-like instruments' purchasing price instead of their market value.
- Mobile Financial Service Providers (MFSPs) in Bangladesh are allowed to repatriate wage earners'

remittance in association with internationally recognized online payment gateway service providers.

- The BB has issued a guideline on cloud computing for the financial sector to facilitate data-sharing in a secure manner, avoid risks and build a strong information technology infrastructure in financial sector.

Bhutan

Monetary Policy Stance

The Royal Monetary Authority (RMA) of Bhutan has intensified its efforts to enhance the management of foreign exchange reserves in 2023 towards achieving exchange rate stability and support economic growth in the country. Safeguarding the foreign exchange reserves to maintain stability of peg exchange rate of the Ngultrum with Indian Rupee (INR) and also to meet the constitutional requirements of twelve months of essential import coverages continue to remain fundamental goal of RMA's monetary policy and reserve management policies. For Bhutan, the peg exchange rate serves as nominal anchor for achieving a low and stable price, thereby maintaining the value and confidence in the Ngultrum. To sustain pegged exchange rate and support sustainable economic growth, the RMA continues to rely on the Cash Reserve Ratio (CRR) and macro prudential policy measures to regulate the domestic liquidity and credit growth.

The recent pressure on foreign exchange reserves were attributed to growing internal and external imbalances. The increased government expenditure and rapid expansion of domestic credit from the Financial Institutes (FIs) over the period were identified as the key factors driving Bhutan's external imbalances and vulnerability. The spillover impacts of expansion of domestic credit and government expenditure have been causing large and persistent current account deficits, leading to an unsustainable external sector imbalance.

In response, to mitigate the rising external sector imbalances and minimize the impact of external reserves, the RMA has implemented monetary and

macro prudential policy measures. In October 2022 the RMA revised CRR upward from 7 percent to 8 percent to moderate aggregate demand in the economy through management of liquidity in the banking sector and credit growth. Additionally, the RMA reviewed regulations related to debt-to-equity ratio, loan to value and loan to income, minimum ceiling on leverage ratio and capital provisioning. A moratorium was imposed on housing and hotel construction, complimenting the vehicle moratorium imposed by the Government, and given that, this sector has high loan concentration and Non-Performance Loans (NPL) risks in the financial sector.

Major Policy Announcements

Followings are the highlights of major polices/ measures taken by RMA since October 2022:

- The Monetary Measures Phase IV has been announced to further support targeted sector in terms of extension of loan term in vulnerable sector, treatment of interest accrued during the deferment period and resolution of non-performing loans. Targeted sector loans have been deferred till June 2024.
- In recognition of the significant contributions of the incentive scheme in boosting the remittance inflow and the foreign currency reserves, the Royal Monetary Authority of Bhutan has revamped and enhanced the inward remittance Scheme from 2 percent to 10 percent in December 31, 2022.
- Accorded conditional approval to eTeeru (Tashi Infocomm limited) for introducing Merchant Payment through National Quick Response (NQR) code using sponsor bank model in the eTeeru mobile wallet service, with an observatory period of six months to assess the viability and functionality of QR code payments through eTeeru.
- RMA also provided conditional approval to increase transaction limit for Tourist in the goBoB (BoBL) mobile wallet service with an observatory period of six months to assess the viability and consequences of increasing the transaction limits for the tourists.
- The following guidelines, regulations, and policies were issued during 2022-23:
- Prompt Corrective Action framework 2022

- Framework for Charge-off and Transfer of NPLs to Off-Balance sheet
- Rules & Regulations on loan origination and monitoring 2022
- Directive on treatment of Non-Performing Loans
- Directive on the reinstatement of Capital Conservation Buffer (CCB) of 2.5% by December 2022
- Guidelines on Auction of seized properties 2022 Directives on requirements related to CIB.

India

Monetary Policy Stance

Spillovers from high global food, energy and other commodity prices and volatile international financial market movements exerted upward pressures on domestic inflation during 2022-23. Monetary policy remained focused on containing inflation and anchoring inflation expectations. The policy repo rate was raised by a cumulative 250 basis points since May 2022, with the stance shifting to withdrawal of accommodation to ensure that inflation progressively aligns with the target (4+/- 2 percent).

In liquidity management operations in support of the monetary policy stance, the Reserve Bank activated the standing deposit facility (SDF) in April 2022 at 25 bps below the repo rate as the new floor of the liquidity adjustment facility (LAF) corridor. The width of the corridor was thus restored to its pre-pandemic configuration of 50 bps. Surplus liquidity moderated during the year and the Reserve Bank conducted variable rate repo (VRR) auctions on occasions to mitigate frictional liquidity pressures. Banks' deposit and lending rates as well as other market rates increased in tandem with the policy repo rate.

Major Policy Announcements

Followings are the highlights of major policies/ measures taken by RBI during 2022-23:

- Modified interest subvention scheme for short- term loans for agriculture and allied activi-

ties availed through Kisan Credit Card (KCC) was extended to farmers during the financial years 2022-23 and 2023-24, with the applicable lending rate of 7 percent and rate of interest subvention of 1.5 percent.

- All new issuances of central government securities (G-secs) of 7-year and 14-year tenors (including the current issuances) were designated as 'specified securities' under the fully accessible route (FAR). All Sovereign Green Bonds issued by the government in the fiscal year 2022-23 were designated as 'specified securities' under the FAR.

- It was decided to fully restore the liquidity management framework instituted in February 2020, albeit with some refinements to enhance its effectiveness.

- To facilitate global trade with emphasis on promoting exports from India and to support the increasing interest of the global trading community in INR, an additional arrangement for invoicing, payment, and settlement of exports/imports in INR was provided. Under this arrangement, settlement of trade transactions with any country can be done in INR through Special Rupee Vostro Accounts of correspondent bank/s of the partner trading country maintained with AD banks.

- Guidelines on establishment of Digital Banking Units (DBUs) were issued to all domestic scheduled commercial banks (excluding regional rural banks, payments banks and local area banks).

- Operationalization of CBDC Wholesale and Retail (₹-W) pilot.

- Certain principles, standards and procedures for compliance function in NBFC-Upper Layer (NBFC-UL) and NBFC-Middle Layer (NBFC-ML), keeping in view the principles of proportionality, were introduced.

- Payments Vision 2025 was released outlining the roadmap for payment ecosystem in India over the period till December 2025.

- The UPI-PayNow linkage between fast payment systems of India and Singapore was operationalized.

- The Reserve Bank announced enhancement to UPI by facilitating linking of RuPay credit cards.

Maldives

Monetary Policy Stance

In 2022, the MMA continued to support the banking system by carrying out foreign exchange market intervention, to alleviate the heightened exchange rate pressures within the economy, while fully reverting the measures taken in response to the Covid-19 pandemic. As such, in October 2022, the MRR for foreign currency deposits was reverted to 10% after being lowered temporarily to 7.5% in April 2020 and further lowered to 5% in July 2020. However, the MRR for local currency deposits which was reverted from 7.5% to 10% in 2021, remained unchanged in 2022.

Major Policy Announcements

Followings are the highlights of major policies/measures taken by MMA since October 2022:

- With the rise in global inflationary pressures and a significant surge in oil prices during 2022, foreign currency shortages persisted in the domestic economy. To address the issue, the MMA increased foreign exchange intervention to commercial banks and state owned enterprises (SOEs) to accommodate for essential imports such as fuel, staples and medicine.

- To maintain an adequate level of gross international reserves and bolster market confidence, in December 2022, the MMA availed US\$100 million through a foreign currency swap agreement between RBI and MMA.

- Effective 1 December 2022, the MMA commenced the Commodity Murabahah Facility (CMF) Overnight Deposit Facility under the Shariah concept of Commodity Murabahah, which allows Islamic commercial banks and Islamic commercial banking windows to place their excess funds at the MMA overnight. No further operational reforms were made to open market operations, standing facilities, or any other monetary policy instruments during 2022. Excess liquidity in the banking system continues to be absorbed through the overnight deposit facility which is remunerated at 1.5% 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 annum.

Nepal

Monetary Policy Stance

The stance of monetary policy for 2023/24 has been kept cautiously accommodative to support economic activities while maintaining price and external sector stability. For this, the policy rate (repo rate) has been reduced by 50 basis points to 6.5 percent and the lower band of the interest rate corridor has been reduced by 100 basis points to 4.5 percent. The policy focuses on channelizing resources to productive sector and support domestic production. In addition, the policy aims to strengthen financial stability by enhancing the effectiveness of the monitoring, regulation and supervision of large borrowers, reducing the over-concentration of credit, prioritizing SME loans and enhancing the quality as well as access to credit.

The monetary policy for 2023/24 has been cautiously loosened to facilitate the expansion of economic activities. Under this, the policy repo rate under the interest rate corridor has been reduced by 50 basis points to 6.5 percent and the deposit collection rate under the corridor has been also reduced by 100 basis points to 4.5 percent. Earlier, the bank rate, which also works as the upper band of the corridor, was reduced from 8 percent to 7.5 percent.

The target of the monetary policy is to keep inflation within 6.5 percent and maintain foreign exchange reserves sufficient to cover the imports of goods and services for at least 7 months.

For strengthening monetary management and improving liquidity management, overnight liquidity facility (OLF) has been made available to the banks and financial institutions (BFIs) from December 2022. Similarly, open market operations (OMOs) have been made more rule-based whereby OMO interventions will take place if the weighted average interbank rate deviates by the specified percentage point away from the policy rate. In addition, lender of the last resort facility has been introduced

with clear provisions regarding the qualification of the related institutions, instruments, and procedures to follow while using the facility.

The statutory liquidity ratio has been increased to 12 percent for the commercial banks and 10 percent for development banks as well as finance companies effective from mid-January 2023.

Since 2022/23, a monetary policy rule has been introduced which takes inflation target and the import capacity of foreign exchange reserves as the basis for setting the policy rate. Recently, natural rate of interest rate has also been taken as reference for determining the policy rate. It has made the process of setting the monetary policy stance more transparent and data driven.

Major Policy Announcements

Followings are the highlights of major policies/measures taken by NRB since October 2022:

- Working capital guideline has been implemented in order to enhance the utilization of financial resources being provided by the BFIs and promote financial stability. Similarly, 'Digital Lending Guidelines' have been put into action to simplify the process of lending from the BFIs through digital channels, reduce the cost of lending and increase access to credit.

Pakistan

Monetary Policy Stance

The SBP's monetary policy stance is signaled through announcement of policy rate by its Monetary Policy Committee. This entails managing the day-to-day liquidity in the money market with the objective to maintain the short-term interest rates stable and close to the policy rate. The SBP issues Monetary Policy Statements eight times a year, which communicate the policy rate along with analysis of the current economic conditions.

To respond to emerging developments and to pursue its objective of price stability, the SBP increased the policy rate by a cumulative 600 basis points (to 22%) since the start of CY23.

Major Policy Announcements

Followings are the highlights of major policies/measures taken by SBP since October 2022:

- The SBP has launched Easy Data Portal to ensure efficient, timely and reliable data. The Portal currently hosts economic and financial time series data on more than 7,000 variables neatly grouped into around 100 datasets. Easy Data offers an intuitive and user-friendly interface with a dashboard of key economic and financial indicators covering different areas. Easy Data also helps users visualize data through interactive charts, and allows users to create a personal basket of indicators that they would like to frequently use for later retrieval.

- The SBP has launched a series of videos in national and regional languages about agriculture financing products and procedures to create awareness among the farming communities across the country, especially in the underserved areas. These videos will be disseminated through social media and digital platforms of SBP and all agriculture lending banks.

- The SBP has adopted four more Shariah Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards on: i) Salam and Parallel Salam, ii) Istisna'a and Parallel Istisna'a, iii) Combination of Contracts, and iv) Irrigation Partnership (Musaqat), with certain clarifications and amendments. Strengthening Shariah compliance of Islamic banking industry in line with the best international practices is one of the key pillars of SBP's 3rd Strategic Plan for Islamic Banking Industry 2021-25. With adoption of these four standards, the total number of AAOIFI Shariah standards adopted by SBP has reached twenty while work on remaining standards is underway.

- In order to promote digitalization and encourage eco-friendly practices, the SBP has developed an online portal called SBP Regulatory Approval System (RAS) to enable regulated entities (i.e. banks, Electronic Money Institutions, Payment System Operators, Payment Service Providers etc.) to submit cases/proposals and receive regulatory decisions digitally. Moreover, the RAS for Payment Systems Policy & Oversight is also being rolled out for industry-wide implementation. RAS will make

submission of requests and proposals by regulated entities efficient, easy to track and paperless. Moreover, it will also allow the dissemination of regulatory decisions to regulated entities electronically through RAS Portal.

- The SBP, in collaboration with Pakistan Telecommunication Authority (PTA) and UK's Foreign, Commonwealth and Development Office (FCDO), unveiled the mass media campaign for Asaan Mobile Account (AMA) a flagship initiative under the National Financial Inclusion Strategy, to mark its formal launch. The AMA aims to address financial exclusion challenges faced by the unbanked segments by providing them an easy, affordable and digital access to financial services.

- In continuation of steps taken for ease of doing business, The SBP has automated the verification of refinance claims under Export Finance Scheme (EFS). This automated mechanism will significantly enhance the efficiency of refinance operations and improve exporters' access to liquidity. The automated verification of refinance claims is expected to conserve resources and enhance efficiency by reducing turnaround time and change of hands.

- The SBP and Peoples Bank of China (PBoC) have signed an MOU on establishing Chinese renminbi (RMB) based clearing arrangements in Pakistan. The establishment of the RMB clearing arrangement in Pakistan will further boost usage of RMB for cross-border transactions among Chinese and Pakistani enterprises and financial institutions. This will also promote bilateral trade and investment between the two countries.

- The SBP has launched the ESRM manual which is a procedural guide for the banks/DFIs to establish their environmental & social risk management systems, as advised in SBP's Green Banking Guidelines (GBGs). The SBP will also keep on providing necessary support and guidance at every stage of ESRM implementation.

- The SBP has advised the Exchange Companies that all foreign currency sale transactions of USD 2,000/- or above (equivalent in other currencies) against PKR should only be conducted through payment modes, such as bank transfer/cheques from the personal bank account of the customer.

This step aims to further enhance transparency and promote documentation in the foreign exchange transactions. Also, it focuses on encouraging the general public to use various banking channels, which are generally more secure, to fulfill their genuine foreign exchange needs.

- In a major policy directive for combating the menace of social engineering and other digital banking frauds, the SBP has directed commercial banks and Microfinance Banks to improve their digital fraud protection controls and processes by taking timely remedial and control preventive measures failing which they shall be held responsible for loss of any customer funds due to delay on their part. These new measures are part of wider SBP objective to enhance digital financial inclusion and promote digital financial services by creating and enhancing customer trust in the safety, security & soundness of the digital banking ecosystem.

Sri Lanka

Monetary Policy Stance

The CBSL, which followed tight monetary policy since August 2021, commenced easing its monetary policy stance in early June 2023 considering the moderation of inflation, benign inflation expectations and the easing of the balance of payments pressures. The Central Bank reduced its policy interest rates i.e., the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by a total of 450 basis points in June and July 2023, while the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of licensed commercial banks was also reduced by 2 percentage points to 2.00 percent from mid-August 2023, to ease liquidity strains in the banking system. Moreover, interest rate caps were imposed on selected lending products in late August 2023 and directed banks to expedite the pass through of the easy monetary policy stance to market lending interest rates

Major Policy Announcements

Followings are the highlights of major policies/measures taken by CBSL in 2023:

Table 2: Changes in Policy Interest Rates made since August 2021

Date	SDF Rate (%)	SLF Rate (%)	SRR (%)
19.08.2021	5.00	6.00	2.00
01.09.2021	5.00	6.00	4.00
20.01.2022	5.50	6.50	4.00
04.03.2022	6.50	7.50	4.00
08.04.2022*	13.50	14.50	4.00
07.07.2022	14.50	15.50	4.00
03.03.2023*	15.50	16.50	4.00
01.06.2023	13.00	14.00	4.00
06.07.2023	11.00	12.00	4.00
16.08.2023	11.00	12.00	2.00

*Close of Business

Note: SDF- Standing Deposit Facility, SLF- Standing Lending Facility

- A Circular was issued with effect from 03 January 2023 adjusting the Central Bank's Rate of Interest on Advance (Bank Rate) in line with the latest available Average Weighted New Deposit Rates (AWNDR) published by the Central Bank with a margin of +300 basis points.

- Reduction of weekly mandatory foreign exchange sales to the Central Bank by licensed banks on account of converted inward workers' remittances, converted service sector related exports proceeds/receipts, and the residual value of mandatorily converted export proceeds of goods from 25 percent to 15 percent, effective from 27 February 2023, in order to encourage market driven foreign exchange activities in the domestic foreign exchange market. Subsequently, the operating instructions on the "Incentive Scheme on Inward Worker Remittances" and "Repatriation of Export Proceeds into Sri Lanka" was revoked on 03 March 2023.

- Directions No. 01 of 2023 were issued in February 2023 permitting Authorized Dealers to open and maintain Special Foreign Currency Accounts (SFCA) - Investee, out of proceeds received into the share capital of the company from a non-resident investor, provided investee has future requirements to meet payments for current transactions and repayments of foreign currency loans accommodations obtained under the provisions of Foreign Exchange

Act No. 12 of 2017.

- Revocation of the Operating Instructions were issued by the Central Bank to Licensed Banks on "Managing Intraday Volatility of the Exchange Rate" on 12 May 2022 with effect from 07 March 2023.

- In May 2023, Banking Act Directions were issued, revoking the Banking Act Directions No. 03 of 2022 and the Banking Act Directions No. 02 of 2023 on Margin Requirements Against Imports.

- On August 2023, Monetary Board issued an order on the interest rates by fixing a maximum rate for certain applicable on Sri Lanka Rupee (LKR) denominated lending products of licensed commercial banks (LCBs) and license specialized banks (LSBs)

- The CBSL has granted approval for LankaPay (Pvt.) Ltd. (LPPL) to join with regional and country payment networks authorized and regulated by the respective country/authority and revised the multi-tiered Liability Manager Limit structure for Common ATM Switch (CAS) and Common Electronic Fund Transfer Switch (CEFTS) to support the growth of volume and value of transactions conducted through CAS and CEFTS.

Trends in Macroeconomic surveillance indicators in SAARC Countries

Afghanistan

Lately, Macroeconomic indicators are showing signs of improvement. Afghanistan experienced a substantial change in the economic sphere, as a consequence of the political transition, foreign assets of Da Afghanistan Bank were frozen, and banking channels were damaged resulting in a drop in the economic activities of the country. The current government with its commitment to stimulating economic activities, has had quite a few successes. Da Afghanistan Bank can implement a balancing monetary policy resulting in stabilizing the exchange rate and controlling inflation. Afghani is the best performing currency against USD in the region of South Asia and inflation has been controlled promptly. Humanitarian Assistance has also played a key role in the stabilization of macroeconomic indicators.

The annual inflation rate in 2022 was recorded at 13.82% which left the common man with a big gap in purchasing power, since then Da Afghanistan Bank and the current government have managed to tame the inflation. The average headline inflation in the first quarter of 2023 stands at 3%, Inflation is now in the single digits and expected to remain so.

Afghanistan heavily relies on imported goods, currency depreciation comes with a multiplier effect on the prices of goods. After a substantial drop in the value of the national currency, fortunately, the central bank has been able to stabilize the value of Afghani by implementing prudent monetary policy. The average exchange rate against USD for August is estimated at 83.33 which shows an appreciation of 7% when compared to the same period in 2022.

Economic activities have been on a declining tra-

jectory, especially after the political change in the country. The restrictions on the banking sector and the freeze on international reserves of Afghanistan are the main factors affecting the economic growth of the country, Despite the challenges, economic growth is expected to improve for the current fiscal year.

Reduced Trade deficit is one of many positives in current macroeconomic indicators, Afghanistan's exports almost doubled last year (2022), and the total exports accounted for 22% of the total trade. In the year 2021, the total exports were a mere 13% of the total trade.

Bangladesh

The Bangladesh economy demonstrated strong resilience against the Covid-19 shocks and rebounded sharply. The economy witnessed a real GDP growth of 6.94 percent in FY21 and 7.10 percent in FY22. However, provisional estimates from the Bangladesh Bureau of Statistics (BBS) indicate a slight deceleration to 6.03 percent in FY23, attributed to the disruptive global supply chain effects stemming from the Russia-Ukraine conflict. For FY24, the growth target has been set at 7.50 percent, bolstered by resilient domestic demand, robust export performance, and anticipated favorable external developments.

On the inflation front, Bangladesh has witnessed an upward trajectory, notably following fuel and energy price adjustments during the initial quarter of FY23. The 12-month average inflation rate climbed to 9 percent by the end of FY23, up from 6.15 percent in FY22. This inflationary pressure is driven by elevated prices of imported goods and services,

supply chain disruptions due to the Russia-Ukraine conflict, currency depreciation, and fuel & energy price hikes. Encouragingly, recent data suggests a 12-month average inflation rate of 9.20 percent in July 2023, with expectations of a gradual decrease in the coming months due to coordinated efforts by the government and the Bangladesh Bank.

Fiscal indicators reveal noteworthy developments. Total tax revenue surged by 8.48 percent, reaching Taka 2312.65 billion during the July-March period of FY23 compared to the corresponding period in FY22. The national debt, as a percentage of GDP, rose to 35.28 percent in FY23, up from 33.63 percent in FY22. Domestic debt accounted for 22.33 percent of GDP in FY23, a slight increase from 21.35 percent in FY22, while external debt also inched up to 12.95 percent in FY23, compared to 12.28 percent in FY22. The fiscal deficit (including grants) widened to 5.05 percent of GDP in FY23, up from 4.55 percent in FY22.

Moving to monetary indicators, the broad money supply (M2) exhibited year-on-year growth of 10.48 percent as of June 2023, surpassing the 9.43 percent recorded in June 2022. Meanwhile, domestic credit expanded by 15.25 percent in June 2023, compared to 16.10 percent in June 2022. Private sector credit, on the other hand, increased by 10.57 percent in June 2023 compared with a 13.66 percent increase in the same period last year. Reflecting this, the weighted average interest rate on lending and deposits rose to 7.31 percent and 4.38 percent, respectively, in FY23, from 7.09 percent and 3.97 percent recorded in FY22. Furthermore, the weighted average call money rate stood at 6.32 percent as of August 30, 2023, indicating ample liquidity in the money market despite being lower than the policy rate.

The current account deficit in the Balance of Payments (BOP) has steadily narrowed to USD 3.33 billion in FY23 from a huge deficit of USD 18.64 billion in FY22. This is primarily due to a reduction in the trade deficit, resulting from a significant decline in import payments (-15.8 percent on fob basis) amid healthy export growth (6.3 percent on fob basis), along with a moderate rise in remittances (2.75 per-

cent). Nevertheless, the overall balance still posted a substantial deficit of USD 8.22 billion in FY23, largely attributed to a deficit in the financial account. Recent data indicates a 15.26 percent growth in commodity exports in July FY24, while remittances and LCs opening for imports dipped by 5.88 percent and 31.19 percent, respectively, in July FY24. The Bangladeshi Taka depreciated by 15.05 percent against the US dollar in FY23, closing at 108.34 from 92.03 in FY22. The foreign exchange reserves, as of end June 2023, stood at USD 31.2 billion, a sufficient cover for at least 5 months' worth of import payment obligations.

Bhutan

Bhutan's real GDP growth was recorded at 5.2 percent in 2022, largely contributed by revival of performance in the service and industry sectors. The service sector which includes hotel and restaurant experienced a growth of 31.6 percent indicating steep recovery from the contraction during the Covid-19. The electricity sector which constitutes around 15 percent of GDP and also main drivers of the economic growth experienced a negative growth of -1.14 percent in 2022. With easing of complete restriction and normalization of economic activities, private consumption picked to 5.5 percent in 2022 as compared to negative 2.4 percent. With the ongoing geopolitical tension, spillover effect of tightening of monetary policy in advance economies and adverse impact of global climate change, the economic growth is estimated to grow slower at 4.2 percent in 2023. With gradual pick-up in economic activities, the over-all unemployment rate increased from 3.4 percent in 2021 to 5.9 percent in 2022.

Headline inflation recorded average of 3.8 percent in June 2023. The inflation was largely influenced by rise in prices of food (3.7percent) compared to non-food (3.1 percent). Supply chain disruptions in the food sector are expected to continue, pushing up food prices over the medium-term. Nevertheless, a sizeable drop in aggregate demand will offset potential cost-

push inflation; thereby, overall inflation is expected to remain at around 5 percent in the medium-term.

Fiscal deficit was recorded at 4.8 percent of GDP in 2022-23 as compared to 7.9 percent in 2021-22. The lower deficit was attributed to a substantial increase in resources by 10.18 percent, on account of a significant increase of domestic revenue in the form of business taxes in 2022-23. With the rising demand for resources to boost the economic activities and also increased proposals for the capital budget to accelerate the Plan activities, the fiscal deficit is expected to remain elevated at 9.90 percent of GDP in the medium-term.

Current account deficit widens in FY 2023 to 34.5 percent of GDP from 33.2 percent in FY 2021/22. The higher current account deficit was attributed to deterioration of trade balance due to increase in imports of non-essential items, followed by growth in secondary income receipts. However, the positive flows in financial and capital accounts turned the overall balance of payment positive and sufficient to finance more than 12 months of merchandise and service payments. While external position remained vulnerable due to the pandemic, the overall balance of payment was expected to improve further with a decrease in the import of non-essential goods and services and continued uninterrupted export of electricity.

While the external debt position at 119 percent of GDP in 2022-23 was a major concern and a challenge, however, more than 60 percent of the external debt constitute hydro-power project debt, which is on a contractual basis and is self-liquidating. With the increasing need to fill up the government resources gap, public debt was expected to increase by 136.1 percent of GDP in 2022-23 from Nu. 256.87 billion in 2021-22, both contributed by domestic and external borrowing. The domestic borrowing is largely influenced by the government borrowing through issuance of long-term bonds to finance the containment measures for the Covid-19 pandemic.

In the absence of a vibrant capital market, the financial institutions remain the main source of investment and lending avenue for private credit. The total domestic credit outstanding was recorded at 10.2 percent in FY 2022-23.

India

The Indian economy exhibited robust resilience in 2022-23 amidst the global turmoil and India's real GDP recorded a growth of 7.2 percent in 2022-23 as compared to 9.1 percent in 2021-22. While both consumption and investment demand gained traction, adverse external demand conditions and the resultant larger deficit in net exports dragged down growth in 2022-23. Contact-intensive activity gradually resuscitated during the year and the release of pent-up demand bolstered domestic activity. Quarter wise, encouragingly, growth accelerated from a pace of 6.1 percent (year-over-year) in January-March 2023, to 7.8 percent in April-June quarter 2023. Gross fixed capital formation stood at 34.7 percent of GDP in April- June 2023 quarter on the back of rising capital expenditure of both central and state governments, adding resilience to the economy.

CPI headline inflation in India remained above the upper tolerance level of 6 percent for 10 successive months since January 2022, before moderating during November-December on seasonal easing in food prices. Inflation picked up again in January-February 2023 to more than 6 percent before easing in March-June 2023. In July 2023, inflation surged to 7.4 percent primarily driven by spike in food prices. Core inflation remained persistently elevated at around 6 percent during the year. The pick-up in headline inflation during the year 2022 was broad-based resulting from pass-through of higher global commodity prices (crude oil, metals and food prices) and adverse domestic weather conditions. The Monetary Policy Committee (MPC) raised the policy repo rate by 250 basis points during May 2022- August 2023, in view of containing price pressures.

Even as domestic economic recovery kept import demand high, a slowdown in global demand weighed on India's exports. Notwithstanding a robust growth in services exports and higher remittance receipts, the widening of merchandise trade deficit and a higher outgo on the primary income (mainly reflect-

ing payments of investment income) account led the current account deficit (CAD) to widen during the year from 1.5 percent in January-March quarter to 3.7 percent in July-September 2022 quarter. Current account deficit, narrowed down to 2.2 percent of GDP in October-December 2022 and further to 0.2 percent in January-March 2023 quarter. Despite this, India saw record-breaking exports at US\$ 450.4 billion which grew by 6.7 percent in 2022-23. Petroleum products were the major driver of this export growth, and among non-oil products, electronic goods, rice, organic and inorganic chemicals, and drugs and pharmaceuticals were major contributors to exports. While the foreign direct investment (FDI) remained strong with US\$ 28 billion this year, net Foreign Portfolio Investment (FPI) to India demonstrated significant volatility. India's forex reserves stood at USD 594.9 billion as on August 25, 2023.

The gross fiscal deficit (GFD) of the Union Government declined from 6.75 percent of GDP in 2021-22 to 6.45 percent of GDP in 2022-23. Reiterating its commitment to fiscal consolidation, the Government has budgeted GFD at 5.9 percent of GDP in 2023-24. In nutshell, several shocks tested the resilience of the Indian economy in 2022-23. On the back of sound macroeconomic policies, India's growth momentum is likely to be sustained in 2023-24.

Maldives

According to the revised estimates of June 2023, the Maldivian economy is estimated to have expanded by 13.85% in 2022, well above the initial growth projection of 13.50% made in October 2020, and much lower than the 41.75% growth recorded in 2021. In 2022, the robust growth in economic activity was primarily driven by the ongoing revival of the tourism industry—the backbone of the country's economy despite challenges posed by geopolitical and economic uncertainties. Additionally, sectors closely linked to tourism, including transportation,

communication, and wholesale and retail trade, also witnessed substantial growth throughout the year.

After a year of low and stable inflation in 2021, the rate of inflation averaged 2.33% for 2022, according to the rebased Consumer Price Index (CPI) data released by the Maldives Bureau of Statistics in April 2023. The increase in domestic inflation was driven mostly by high global commodity prices during the year, which were brought on by global supply chain disruptions caused by the conflict in Ukraine.

With regard to government finances, the overall fiscal deficit is estimated to widen to 14.18% of GDP in 2022, up from both the 13.85% recorded in 2021 and the initial projection of 11.14% for 2022. Meanwhile, public external debt as a percentage of GDP is estimated to fall and reach 37.17% in 2022 from 38.30% in 2021, while public debt level (excluding guaranteed debt) is estimated to increase to 95.81% of GDP during 2022, from 93.78% in 2021. The expansion in national debt to MVR105.73 billion during 2022 from MVR94.40 billion at the end of 2021 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 external financing acquired as buyer's credit and through the issuance of bonds.

On the external front, as per revised estimates made in March 2023, the current account deficit is estimated to widen from 8.44% to 16.73% of GDP in 2022. The widening of the current account deficit was mainly due to the expansion of merchandise trade deficit, which was driven by an increase in import expenditures amid high global commodity prices as well as the ongoing recovery of domestic demand following the pandemic. Meanwhile, gross international reserves as a percentage of imports declined in 2022 owing to both the increase in the value and the volume of merchandise imports, and the decline in gross international reserves—primarily due to the increase in short term foreign liabilities.

Nepal

Economic activities have been affected in Nepal from the decline in domestic demand, global economic slowdown and increase in prices at international market. As per the preliminary estimates of National Statistics Office, economic growth is estimated to be 1.9 percent in 2022/23 compared to 5.6 percent a year ago. Growth rate has been dragged downwards by the contraction in construction, manufacturing and trade-related activities. However, increase in hydro- power production, rebound in tourist arrival and an uptick in remittances are likely to support economic activities.

Consumer inflation has moderated in the recent months. Average consumer inflation stood at 7.74 percent in 2022/23 which is higher than the target of Monetary Policy for 2022/23. Inflation was 6.32 percent a year ago. Inflation has been mainly driven by the rise in prices of energy and food items in the international market and devaluation of Nepalese Rupee vis-à-vis US dollar. Inflation is likely to decline further in 2023/24 supported by lower energy and food prices in the international market and remain within the target of monetary policy.

External sector pressure has largely subsided due to the timely and appropriate policy response from Nepal Rastra Bank and increase in remittances. In 2021/22, Nepal faced huge current account deficit and decline in international reserves. In that year, current account deficit stood 12.6 percent of GDP and BoP deficit stood 5.2 percent of GDP. However, in 2022/23, increase in remittances by 21.2 percent and decline in imports by 16.1 percent have helped in improving the external sector deficit. The current account deficit has been contained at 557 million USD and BOP has registered a surplus of 2.21 billion USD.

Foreign exchange reserve has increased to 11.74 billion USD in mid-July 2023 compared to 9.54 billion in mid-July 2022. It is sufficient to cover the prospective imports of goods and services for 10 months.

Tourist inflow in 2022/23 increased by 130.6 percent to 862,992 compared to an inflow of 374,147 in

2021/22. In addition, the number of outbound workers has increased by 40.3 percent in 2022/23. These developments are likely to further support the external sector stability.

Resource mobilization of the government has been affected due to decline in imports which provides almost a half of the basis of revenue collection. Slow-down in domestic demand has also led to the decline in revenues. In 2022/23, revenue mobilization declined by 9.3 percent whereas expenditure increased by 9.1 percent. This has resulted into a higher budget deficit of 7.4 percent of GDP compared to 3.4 percent a year ago.

Nepal's external debt is relatively lower. As of mid-July 2023, the ratio of external debt to GDP stood 20.3 percent and the ratio of general government debt to GDP stood 41.2 percent.

On the monetary and financial front, liquidity constraints have relaxed, supported by increase in remittances and contained imports. In 2021/22, liquidity drained from the banking system due to large outflow of resources through imports, creating an upward pressure in interest rates. Interest rates are now declining which is likely to boost private investment.

In 2022/23, deposits increased by 12.3 percent on y-o-y basis compared 9.0 percent a year ago. Private sector credit increased by 4.6 percent on y-o-y basis compared to 13.3 percent a year ago.

Lending rate has slightly declined to 12.30 percent in July 2023 from 13.03 percent in March 2023. Given the ease in liquidity in the banking system during the recent months, interest rate is likely to decline further.

Pakistan

Macroeconomic stabilization in Pakistan continued to be the top policy priority during the FY23. The fall-out of flash floods, adverse global economic conditions, uncertainty surrounding the completion of IMF program's 9th review, the foreign exchange constraints, and political instability exacerbated the underlying domestic structural issues posing challenges

to macroeconomic stability. The SBP raised the policy rate by a further 825 bps in FY23, on top of the 675 bps increase during FY22. On the fiscal side, the government resorted to curtail federal expenditures on grants, subsidies and development. The policy measures introduced by the government and the central bank were successful in addressing the macroeconomic imbalances.

After a sharp rebound of 6.1% in FY22, the GDP growth dropped to 0.3% in FY23. This slowdown was broad based with growth in agriculture, industry and services sectors slowing down to 1.6 percent, -2.9 percent and 0.9 percent respectively in FY23 from 4.3 percent, 6.8 percent and 6.6 percent respectively in FY22. However, the Large Scale Manufacturing activity slightly improved to -1.1 percent in FY23 from -2.7 percent in FY22. The major contribution to this contraction came from the sectors which were affected by the measures aimed at stabilizing the external account. Agriculture sector's performance was largely affected by continued impact of flash floods as headwinds to the restoration of supply chain infrastructure remain significant due to less than expected materialization of resources required for reconstruction efforts. The industrial performance was affected by the import rationalization measures due to significant dependence of industry on imported raw materials and intermediate goods. As a result, the output of electronics, pharmaceuticals, automobiles, etc. saw a significant contraction. The performance of services sector also remained lackluster due to sharp demand contraction amid consolidative economic policies.

The fiscal deficit stood at 7.7 percent of GDP in FY23 compared to 7.9 percent in the corresponding period last year, as the government expenditure outpaced the tax collection. The FBR tax collection stood at Rs 7169 billion (net of rebates and refunds) during FY23, posting an increase of 16.6 percent over the same period last year. Key contributors to high tax collection includes high income and sales tax collections, and the new revenue measures introduced in the budget for FY23.

The current account deficit improved significant-

ly to US\$ 2.6 billion (0.7% of GDP) in FY23 from US\$ 17.2 billion (4.6% of GDP) in FY22. The major contribution to this improvement came from reduction in imports to US\$ 52 billion in FY23 from US\$ 72 billion in FY22. Nevertheless, the exports also witnessed a contraction to US\$27.9 billion in FY23 from US\$ 32.5 billion in FY22. The contraction in exports was partly due to the imports rationalization owing to dependency of exports on the imported raw materials, intermediate goods, and machinery. In addition, the slowdown in advanced economies due to aggressive policy stances of central banks meant lesser demand for the exports. Moreover, the global uncertainties, high inflation in developed economies and strong demand for US dollar liquidity from Afghanistan, also affected the remittances, which fell from US\$ 31.2 billion in FY22 to US\$ 27.0 billion in FY23. The country's liquid FX reserves stood at US\$ 9.2 billion as of June 30, 2023, including SBP's reserves of US\$ 4.5 billion. After depreciating by 28.4 percent against the US dollar during FY23, the PKR has appreciated by 2.87 percent during FY24 (as of Oct 12th, 2023).

The national CPI inflation clocked in at 29.4 percent in June FY23 against 21.3 percent in the same period last year. The CPI inflation has moderated considerably from its peak of 38 percent YoY in May 2023. This decline was broad-based. However, the inflationary pressures continued to persist due to a range of domestic supply side factors, including reduced supply of food and essential commodities amid floods, depreciation of PKR, imports rationalization measures, administrative increase in electricity and fuel prices and second round effects of food and energy prices.

The gross public debt increased to Rs. 62.88 Trillion (74.3% of GDP) by June FY23, from Rs. 49.24 Trillion (73.9% of GDP) in June FY22. This increase was largely driven by the dependence of Government on domestic debt amid reduced external debt flows and the translation effect of exchange rate depreciation on the government external debt. Nevertheless, the government's continued drive for fiscal consolidation in IMF program kept the overall increase rela-

tively contained.

Broad money (M2) growth increased to 14.2 percent in FY23 from 13.5 percent in FY22. This higher M2 growth was mainly driven by an increase in public sector borrowings, especially the budgetary borrowings from commercial banks amidst reduced foreign inflows. Growth in private sector credit decelerate substantially to 0.79 percent compared to 21.1 percent growth in FY22. This deceleration was in line with the slowdown in economic activity and tight monetary policy stance.

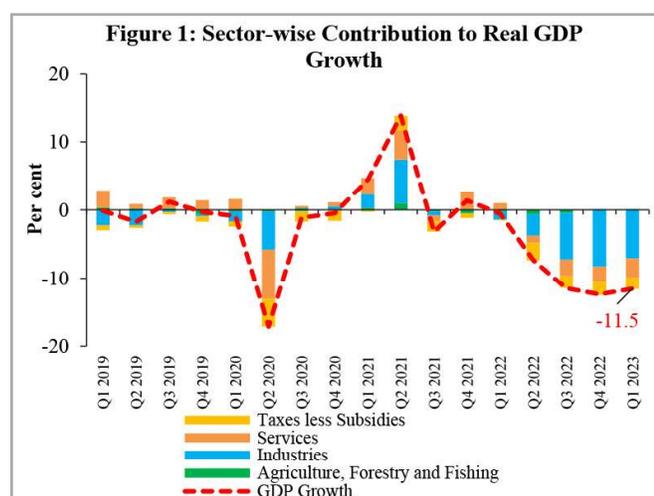
Sri Lanka

The economy experienced a substantial economic contraction in 2022 due to heightened macroeconomic instabilities, particularly on the fiscal and external fronts. Lingering effects of the economic disturbances associated with the unprecedented economic crisis in 2022 led to a further contraction in the economy during the first quarter of 2023, resulting in an 11.5 percent, year-on-year, contraction in the first quarter of 2023. Based on the high frequency indicators pertaining to economic activity, it is projected that the economy will experience only a modest contraction in the second quarter of 2023. This will be on the back of the Services sector which has shown steady progress with the pickup in tourism, and the Industry sector which is also expected to recover during the

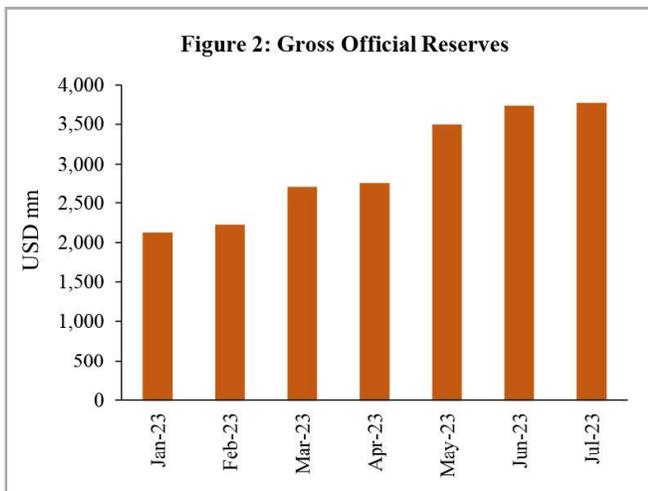
second half of the year, driven by the relaxation of import restrictions and the moderation in inflation and easing of monetary conditions. Although the current prolonged period of dry weather may have some adverse effects on the Agriculture sector's performance in the third quarter, these are not expected to be a significant impediment to the overall growth momentum. With these developments, the economy is expected to gather momentum from the latter part of 2023, supported by the relaxation of monetary conditions and improved supply chains.

Following the recent high inflation episode stemming from both domestic and global supply factors, currency depreciation, as well as demand-side factors owing to large monetary accommodation in the past, inflation has moderated. Accordingly, as reflected by two official consumer price indices, year-on-year headline inflation has decelerated to single-digit levels by July 2023, driven by the impact of tight monetary as well as fiscal policy measures, softening of food and energy prices and the favourable statistical base effect. Accordingly, year-on-year headline inflation based on the Colombo Consumer Price Index (CCPI), decelerated to 6.3 percent in July 2023 (CCPI, 2021=100) from its peak level of 69.8 percent recorded in September 2022 (CCPI, 2013=100) and 57.2 percent by end 2022 (CCPI, 2013=100). Following a similar trend, year-on-year headline inflation based on the National Consumer Price Index (NCPI) decelerated to 4.6 percent in July 2023 (NCPI, 2021=100) from a peak level of 73.7 percent in September 2022 (NCPI, 2013=100) and 59.2 percent by end 2022 (NCPI, 2013=100). Year-on-year core inflation, which reflects underlying demand pressures of the economy, also decelerated to single-digit levels. As indicated by the latest projections, inflation will continue its disinflation path, and is expected to stabilize at mid-single-digit level over the medium term.

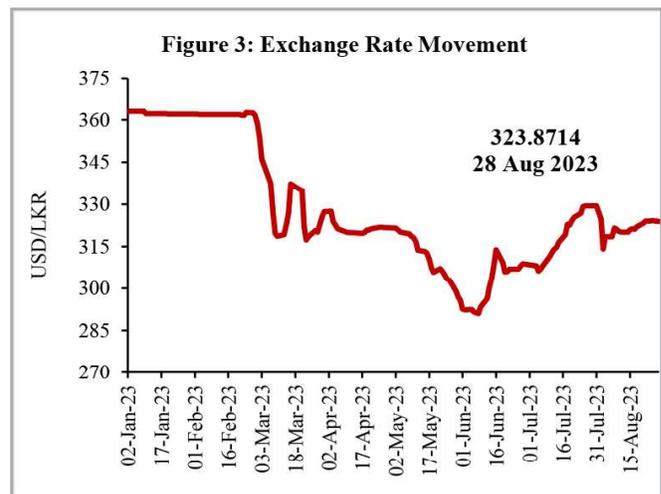
Persistent structural budget deficits have been a longstanding issue in the fiscal sector of Sri Lanka. Since the recent economic crisis, the Government embarked on a fiscal consolidation path alongside the Extended Fund Facility (EFF) arrangement of the In-



ternational Monetary Fund (IMF), with the aim of restoring fiscal sector sustainability, thereby macroeconomic stability. Accordingly, Government embarked on a comprehensive reform programme through the implementation of array of revenue enhancement policy measures to increase both tax and non-tax revenue, while continuing its drive to further rationalize expenditure while taking measures to restructure public debt aimed at ensuring debt sustainability over the medium term. As result of such efforts, for the first half 2023, Government recorded a primary balance surplus owing to the increased revenue collection. However, with rising domestic interest expenses, the total growth in government expenditure negated the increased government revenue during the first half of 2023, leading to an expansion of overall budget deficit. As per the Ministry of Finance, Economic Stabilization and National Policies, budget deficit is expected to narrow down to 8.0 percent of GDP in 2023, in comparison to 10.2 percent of GDP recorded in 2022, while the Government revenue and grants is expected to rise above 15 percent of GDP by 2026 and a surplus in the primary balance is to be maintained from 2024 onwards to ensure fiscal sector sustainability in the medium term. Meantime, government has engaged with the external debtors seeking for a debt relief and have announced the Domestic Debt Optimisation (DDO) program with the objective of transforming the debt stock to a sustainable level as per the targets envisaged in the IMF-EFF program.



After a tumultuous 2022, the external sector is showing some notable improvements so far in 2023. Export earnings remained above US dollars 1.0 billion for the second consecutive month in June 2023, while import expenditure declined compared to the previous month. Export earnings and import expenditure declined for the January to June period of 2023 by US dollars 651 million and US dollars 1,868 million, respectively. The merchandise trade deficit in this period of 2023 contracted to US dollars 2.3 billion from US dollars 3.5 billion compared to the deficit recorded in the same period of 2022, owing to the lower import expenditure in the first six months of 2023 in total. Although a significant share of import restrictions has already been relaxed, demand for imports continued



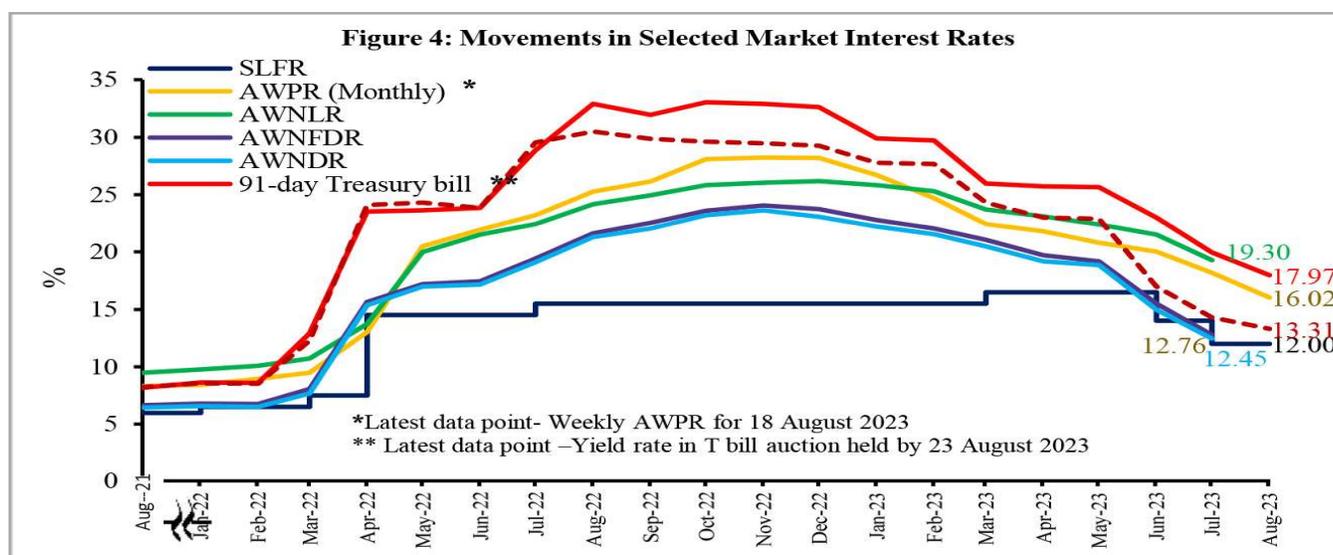
to remain subdued, reflecting the tight financial conditions. Workers' remittances and earnings from tourism grew significantly so far during the year. In the financial account of the Balance of Payments (BOP), net foreign investment inflows were recorded in the government securities market so far during the year. The rupee has recorded an appreciation of over 12.0 percent so far during 2023 despite showing some volatility in recent periods. The gross official reserve level improved gradually to around US dollars 3.8 billion by end July 2023, supported by some foreign inflows along with sizable net foreign exchange purchases by the Central Bank. Further improvements are likely in the BOP in the remainder of the year mainly due to

the projected reduction of the trade deficit with an expected decline in merchandise imports despite a slowdown in exports. Meanwhile, both tourist arrivals and workers' remittances are expected to record notable improvements during 2023. Consequently, the external current account deficit is expected to reduce in 2023 in comparison to 2022. The outlook of the financial account will be primarily dependent on the outcome of the debt restructuring process and the continuation of the IMF programme. A significant improvement in financial flows may be possible with the successful debt restructuring and continuation of the IMF programme, particularly in terms of additional loans from bilateral and multilateral partners.

A notable slowing down in the expansion of broad money supply was observed in 2023 led by significant contraction in credit to the private sector. Due to the lagged effect of tight monetary policy, monetary conditions remained significantly tight causing outstanding credit to the private sector to contract notably by around Rs. 410 billion during the period from January-May 2023. However, an expansion in outstanding credit to the private sector was observed thereafter amounting to a total of around Rs. 90 billion in June and July 2023, mainly due to the valuation effects arising from the exchange rate depreciation and the overall easing of monetary conditions. However, a sustained recovery in credit to the private sector is yet to be observed. Meanwhile, credit to the State Owned Business Enterprises

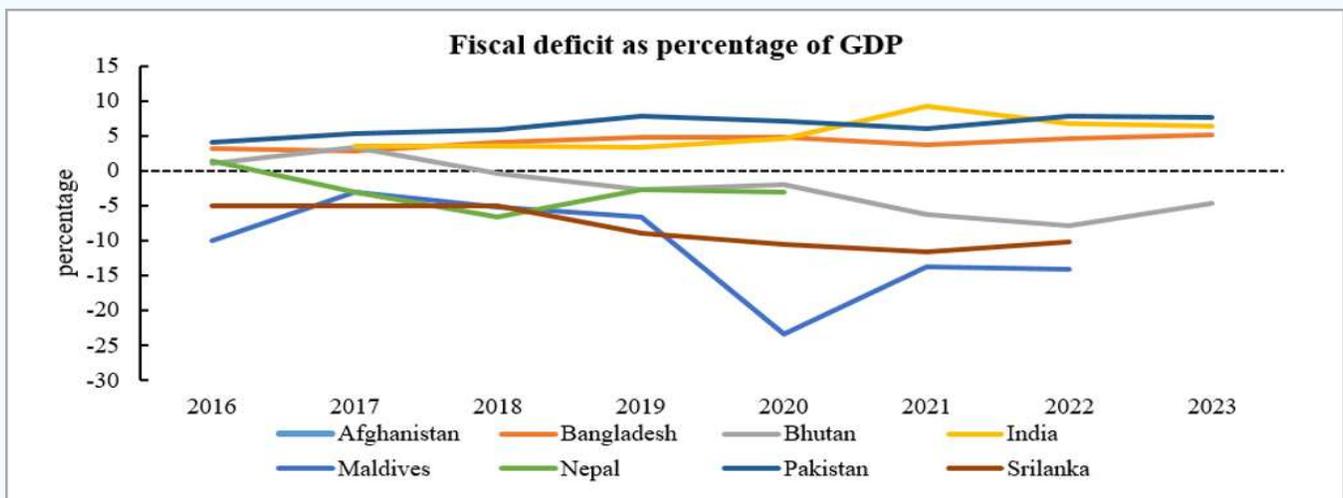
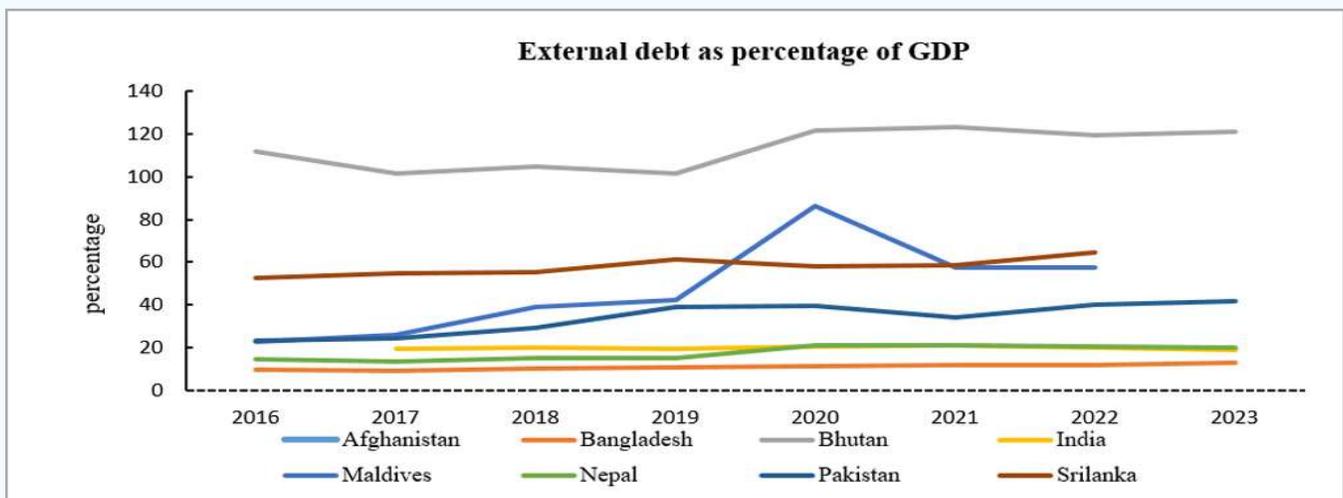
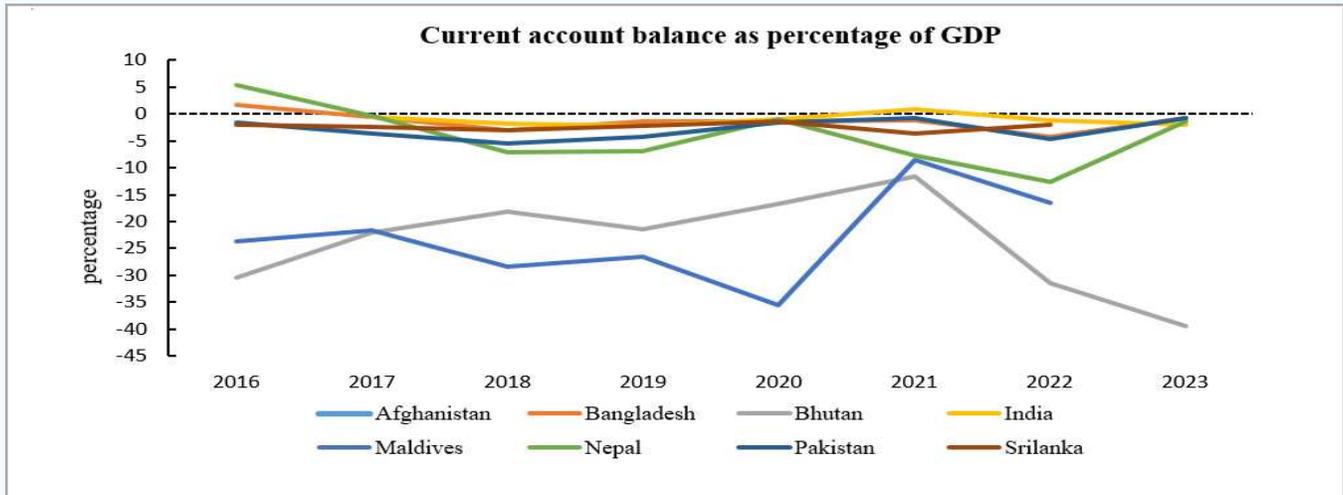
(SOBEs) by the banking system also contracted during the seven months ending July 2023. However, net credit to the Government (NCG) by the banking system continued to expand thus far during 2023, while net foreign assets (NFA) of the banking system also witnessed a notable expansion during this period. Driven by these developments, the year-on-year growth of broad money (M2b) remains moderated at 6.4 percent by end July 2023.

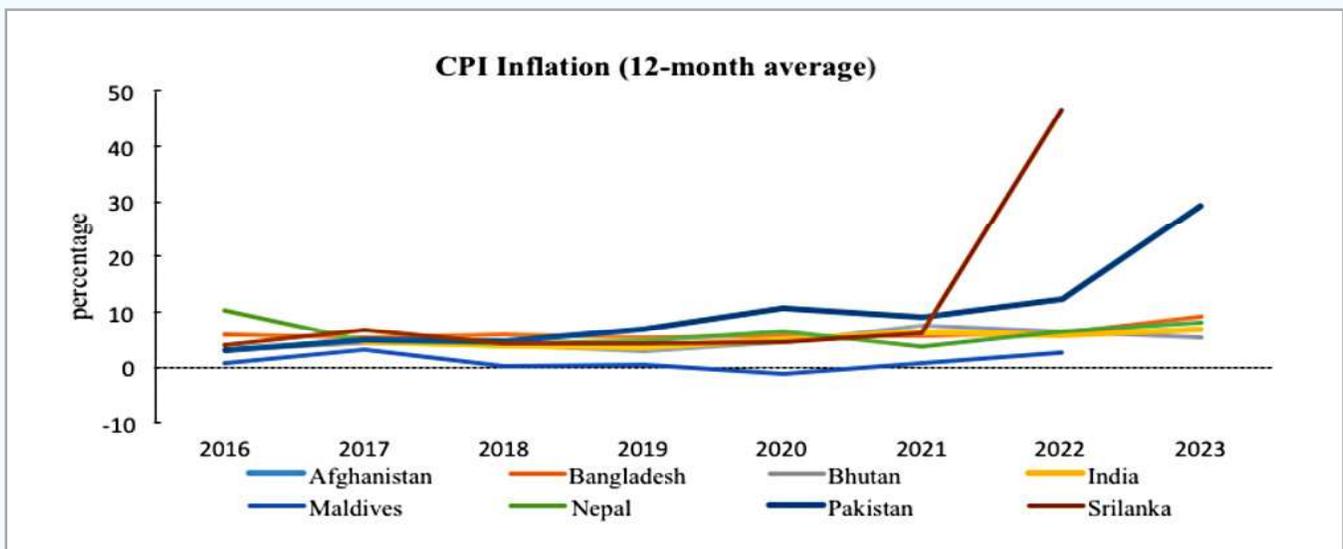
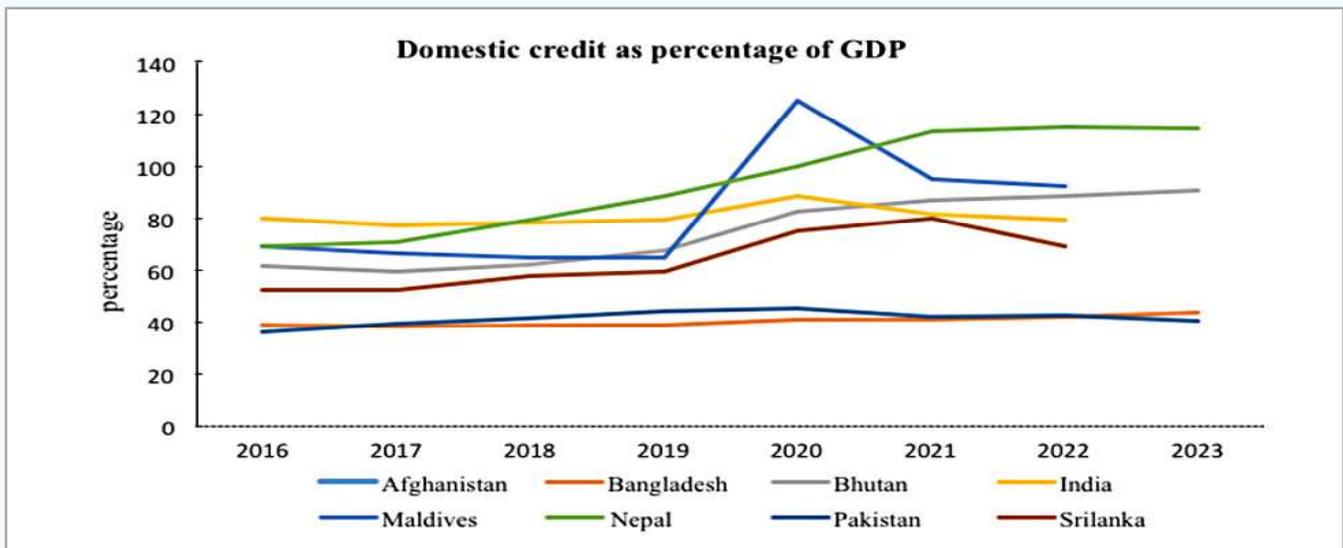
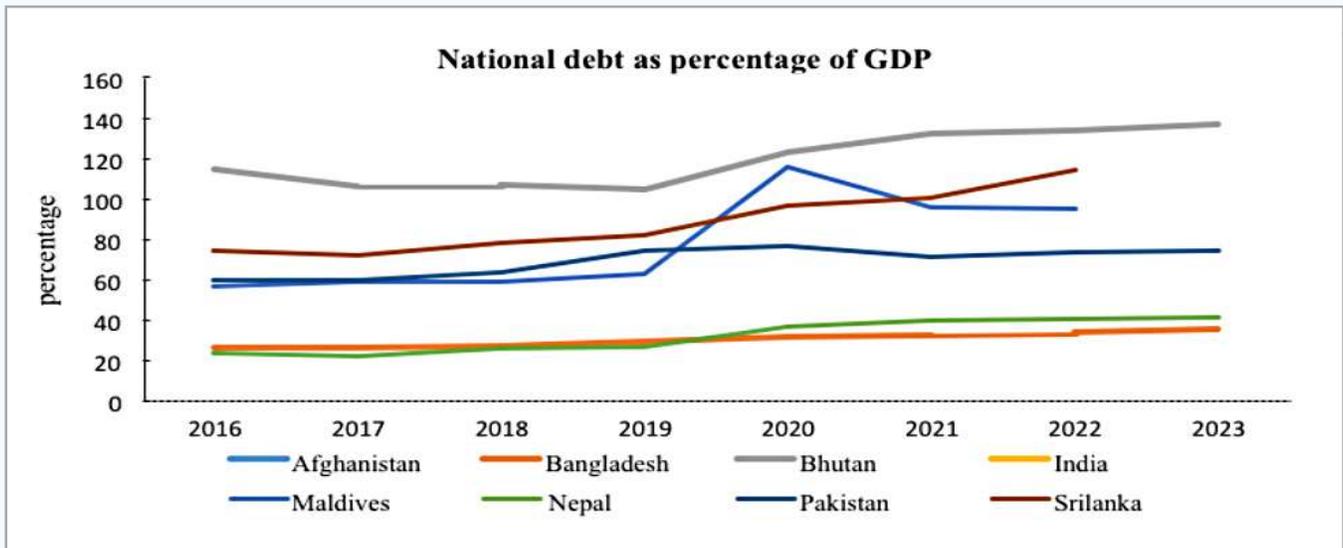
Market interest rates, which recorded their highest levels in 2022, started to decline gradually in 2023. The downward adjustment in market interest rates, despite the tight monetary policy stance that prevailed till mid-2023, was mainly due to the improved liquidity conditions, reduction in risk premia of government securities with more clarity on domestic debt optimisation, deceleration in inflation and the guidance provided to the market by the Central Bank. Further, following the policy interest rate reductions on two occasions market interest rates continued to decline at a faster pace. However, some downward rigidity in market lending interest rates was observed as against the reduction in deposit interest rates. Accordingly, to induce a swift reduction in overall market interest rates, particularly lending interest rates, the Central Bank announced targeted administrative measures in August 2023, to reduce specific lending interest rates that are considered to be excessive as well as other lending interest rates in line with the easy monetary policy stance.



Macroeconomic Surveillance

Indicators Charts for SAARC Countries

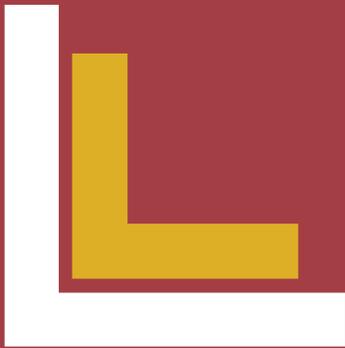






Section 4

Articles



Article 1: Green Banking Initiatives by Bangladesh Bank

Abstract

In the recent years, sustainable development and environmental safeguards have gained significant attention worldwide. Financial institutions, through their financing activities, play a crucial role in protecting environment. In this context, Bangladesh Bank (BB) has taken proactive measures to promote green banking initiatives in the country. The green banking initiatives of BB have yielded positively in terms of promoting sustainable development and environmental conservation. This article briefly reviews the green banking initiatives taken by BB and searches new policies to persuade financial institutions for more environment friendly practices and develop a greener economy. It has been observed that a continued collaboration among regulators is required to further strengthen green banking practices in Bangladesh.

Introduction

Bangladesh is among the fastest growing economies in the world. Economic growth has been accompanied by large gains in poverty reduction and human development. On the other hand, the country is also one of the worst affected vulnerable countries of the world to natural disasters and climate change. The geographical location in a low-lying delta ecosystem makes the country exposed to several climate change-induced disasters. Besides, the country's ecosystem is under major threat as 60 percent of its land mass is barely 5 meters above sea level. There is a prediction that the country will experience about 40cm (15 inches) of sea level rise by 2080. The Global Climate Change Risk Index 2021 ranks Bangladesh seventh among the countries most affected by extreme weather (Germanwatch, 2021).

Financial sector is one of the major sources of financing industrial projects such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., cause maximum carbon emission. Banks and financial institutions (FIs) hold a unique position in an economic system that can affect production, business, and other economic activities through their financing activities. Banks and FIs can play an intermediary role between economic and social development and environmental protection for promoting environmentally sustainable and socially responsible investment. In this context, Bangladesh Bank (BB), the central bank of Bangladesh, has been actively involved in formulating and implementing various green banking initiatives to encourage banks and FIs to integrate environmental considerations into their operations.

This article explores the pioneering green banking initiatives formulated and implemented by BB and suggests policies to adopt environment friendly practices and develop a greener economy. The work is descriptive, based on secondary data from different publications, circulars, and sustainability reports published by other institutions.

1- Green Banking Initiatives of Bangladesh Bank

BB has always been keen to incentivize green banking and sustainable finance. It has issued comprehensive set of guidelines in order to protect environment. BB has also taken initiatives for establishing a dedicated green banking desk, mandatory reporting and disclosure of sustainability rating and green rating for banks and FIs. BB's green banking initiatives are broadly categorized into the following aspects: policy initiatives, monitoring of sustainable/green finance activities, sustainability rating and

green rating for banks and FIs, refinance support from BB in diverse green products/sectors, and BB's initiatives for environmental management. Meanwhile, the government's development plans including the National Sustainable Development Strategy (NSDS) 2010-2021, Perspective Plan of Bangladesh: 2010-2021, 8th Five-year Plan 2021-25, globally adopted Sustainable Development Goals (SDGs) etc. have given emphasis on flourishing green banking

activities.

2- Policies and Regulations on Green Banking

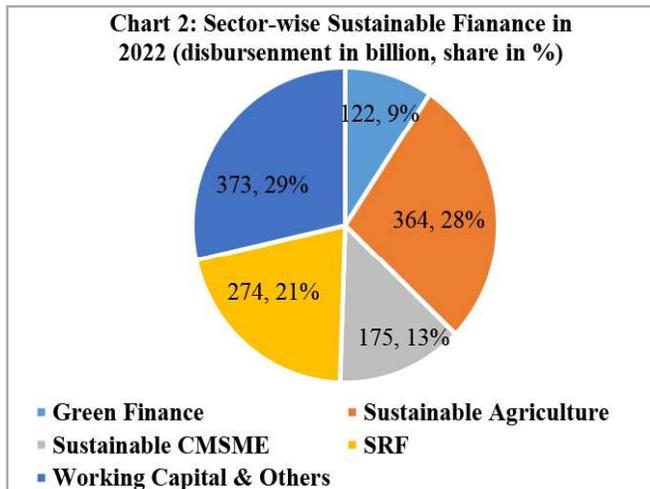
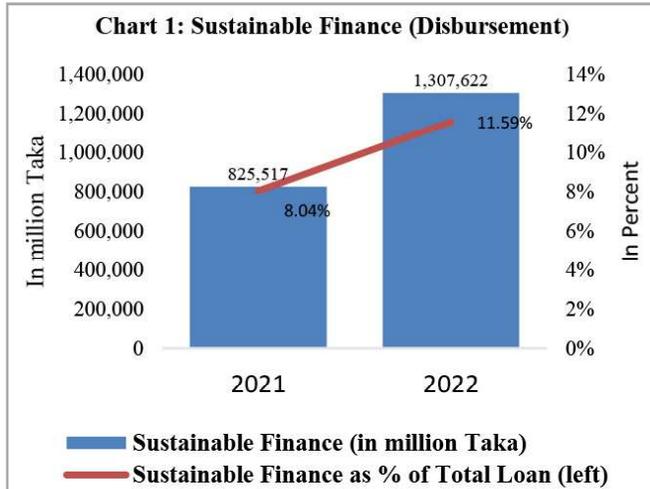
BB formulated environmental risk management (ERM) guidelines for the first time in 2011 and green banking policy guidelines for banks in the same year. In 2013, FIs were brought under green banking activities. In 2020, BB introduced a sustainable finance policy for banks and FIs. The chronological develop-

Table-1: Major Green Banking Policies/Regulations/Guidelines taken by BB	
2011	<ul style="list-style-type: none"> Environmental Risk Management (ERM) guidelines for banks and FIs have been issued. Green Banking Policy Guidelines for banks have also been issued.
2013	<ul style="list-style-type: none"> Policy Guidelines for Green Banking has been issued for FIs in 2013. Through these guidelines all banks and FIs were brought under the structured reporting system. A separate department namely 'Green Banking and CSR Department' (GBCSRD) has been established in BB. Later on, the department is renamed as Sustainable Finance Department (SFD).
2014	<ul style="list-style-type: none"> Minimum target of green finance was set at 5 percent of the total funded loan disbursement/ investment for all banks and FIs.
2015	<ul style="list-style-type: none"> Banks and FIs were instructed to form a 'Climate Risk Fund' allocating at least 10 percent of their corporate social responsibility (CSR) budget.
2016	<ul style="list-style-type: none"> Introduction of Green Transformation Fund (GTF) refinance scheme for export oriented textile & textile products and leather manufacturing industries. Banks and FIs have been instructed to set up solid waste management system, rain water harvesting and solar power panel in their newly constructed or arranged building infrastructures. Banks and FIs have been instructed to establish Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units. Banks and FIs were instructed to ensure the establishment and working of Effluent Treatment Plant (ETP) which financing clients.
2017	<ul style="list-style-type: none"> Guidelines on Environmental and Social Risk Management (ESRM) for banks and FIs along with an Excel-based Risk Rating Model have been issued. A comprehensive list consisting of 55 products/initiatives of green finance for banks and FIs has been circulated. BB instructed all banks and FIs to include of export oriented jute products manufacturing industry in GTF.
2018	<ul style="list-style-type: none"> Master circular for Islamic Refinance Scheme has been issued.
2019	<ul style="list-style-type: none"> Accreditation of all the scheduled banks and FIs' investment in impact fund as green finance has been introduced.
2020	<ul style="list-style-type: none"> Enhanced the size of GTF with Euro 200 million along with USD 200 million. Sustainable finance was clearly defined and lists of green product/projects/ initiatives were enhanced to 68 products /projects /initiatives. BB introduced sustainability rating and green rating for banks and FIs. The name of the top 10 banks and top 5 FIs are now annually being disclosed in the BB website.
2021	<ul style="list-style-type: none"> Banks and FIs have been instructed to set yearly target for green finance to 2 percent and sustainable finance to 15 percent on the basis of net outstanding amount of loans and advances. However, in order for attaining target they have to disburse 5 percent of total term loan disbursement to green finance and 20 percent of total loan disbursement to sustainable finance. Introduction of refinance fund for technology development /up-gradation of export oriented industries. Revised guidelines about component/ parameter of sustainability rating methodology for banks and FIs have been issued.
2022	<ul style="list-style-type: none"> Policy guideline on CSR for banks and FIs has been updated. The ESRM guideline has been updated with 10 sector specific Environmental & Social Due Diligence (ESDD) checklist. Formulation of a policy on green bond financing for banks and FIs. Creation of GTF in Taka component for export and manufacturing-oriented industries.
2023	<ul style="list-style-type: none"> Banks and FIs were all owed to show their expenses related to promotion of Bangla QR in the CSR accounts for facilitating cashless transactions in the country.

ments of green banking and sustainable finance activities by BB are highlighted in the following Table-1.

3- Sustainable Finance and Green Finance by Banks and FIs

Sustainable Finance

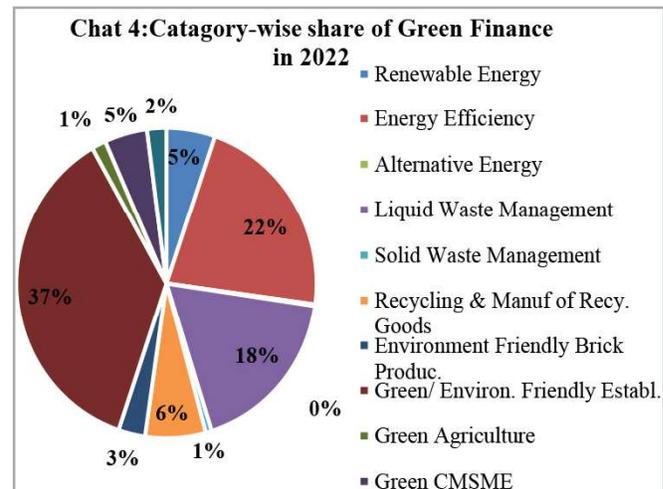
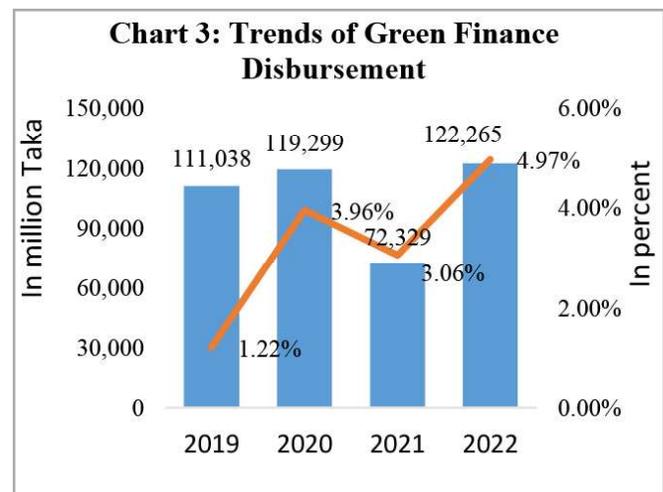


Sustainable finance refers to the business conducted in such areas and in such a manner that helps overall reduction of external carbon emissions and internal carbon footprint. It has a wider scope of definition which includes green finance and sustainable linked finance containing sustainable agriculture, sustainable CMSME, socially responsible finance (SRF), and other sustainable linked finance, etc. Sustainable finance has gained popularity in the country within a short period as both banks and FIs have become keen to embrace the business model that protects the environment from pollution. BB's

several initiatives also contributed to expanding the use of sustainable finance. Total disbursement for sustainable finance was Taka 825 billion in 2021, which increased by 58 percent to Taka 1308 billion in 2022. The percentage of sustainable finance against total loan disbursement also increased from 8.0 percent in 2021 to 11.6 percent in 2022 (Chart 1). The sector-wise amount and share of sustainable financing by banks and FIs in 2022 are given in Chart 2.

Green finance

Green finance is a part of ethical and sustainable financing. It is a means of promoting environment and resource conservation by reducing consump-



tion of resources (e.g., electricity, water, moving away from paper-based transactions, etc.) through its operations. It refers to banks' lending to projects that reduce negative externality or promote posi-

tive externality, thus endorsing or supporting green initiatives. According to the 'green taxonomy' developed by BB, green finance can be classified into different categories such as renewable energy, energy efficiency, alternative energy, liquid waste management, solid waste management, etc. The total amount of disbursement as green finance by banks and FIs increased significantly by 69 percent from Taka 72 billion in 2021 to Taka 122 billion in 2022. The percentage of green finance against total term loan disbursement was 5.0 percent in 2022 which was 3.1 percent in 2021. The year-wise amount of green finance and category-wise share of green finance are given in Chart 3 and Chart 4 respectively.

Other Green Banking Activities by Banks and FIs

Environmental and Social Risk Rating (ESRR) is obligatory for banks and FIs in line with guidelines on environmental and social risk management (ESRM). Following ESRM, banks and FIs disbursed an amount of Taka 4372 billion to 162423 environmental risk rated projects in 2022. Green banking policy has also encouraged banks and FIs to utilize climate risk funds and to follow environmental conservation in business centers. The year-wise information on the utilization of climate risk funds, ESRR, and in-house green banking activities by BB are shown in Table 2.

Table 2: Information on Other Green Banking Activities

Green Banking Activities	2019	2020	2021	2022	2023 (Jan-Mar)
Utilization of Climate Risk Fund (in million Taka)	386	506	1514	911	234
Number of Environmental Risk Rated Projects Financed	57650	62787	118992	164243	460847
Amount of Rated Projects Financed (in million Taka)	2147053	1516643	3005023	4372186	902531
Number of Solar Powered Branches	601	613	687	712	694*
Number of Branches with Rain Water Harvesting	7	7	7	6	6*
Number of Branches with Solid Waste Management System	252	402	18	323	323*
Number of Solar Powered ATM Booths	76	31	138	71	71*
Number of Solar Powered Agent Outlets	5	17	22	4	4*

*Up to March 2023. Source: SFD, BB

Sustainability Rating of Banks and FIs by BB

Banks and FIs are going to be rated according to their performance on environmental, social, and governance attributes. Sustainability rating is defined as the rating of the banks and FIs concerning their performance in five major components namely (i) sustainable finance, (ii) CSR, (iii) green refinance, (iv) core banking sustainability, and (v) banking services coverage. Good performers having higher rating scores are incentivized through BB's year-wise recognition as one of the top ten banks and top five

non-bank financial institutions. The poor performers are disincentivized so that they are compelled to back on track. The sustainability rating is being published once a year since 2021 following the sustainability rating methodology issued on 31 December 2020.

Refinance Schemes by BB for Enhancing Green Finance

BB has introduced four refinance schemes to broaden green finance at a lower cost. These are: 1) Green Transformation Fund (GTF), 2) Refinance

Scheme for Green Products/Projects/Initiatives, 3) Refinance Scheme for Islamic Banks and Financial Institutions for Investment in Green Products/Initiatives, and 4) Refinance Fund for Technology Development / Up gradation of Export Oriented Industries.

Green Transformation Fund (GTF): BB introduced GTF, a long-term refinancing window, of USD 200 million in 2016. The size of the GTF was enhanced by adding Euro 200.0 million in 2020 and another 50 billion in local currency in 2022. The disbursement from GTF up to 31 March 2023 was USD 140.9 million and Euro 71.2 million.

Refinance Scheme for Green Products/Projects/Initiatives: A revolving refinance widow of Taka 2.0 billion was established by BB in 2009 for 55 green products/projects/initiatives under 9 green categories. Subsequently, the size of the fund has been increased to 4.0 billion, and the products line to 68 under 11 categories. Since inception on 31 March 2023, a total of Taka 7423 million has been disbursed from the fund.

Refinance Scheme for Islamic Banks and FIs: The

finance scheme funded by excess liquidity of Shariah-based financial institutions to facilitate Shariah-based banks and FIs was introduced in 2014. The product range under this scheme is 51 which are segregated into 8 categories.

Refinance Fund for Technology Development / Up gradation of Export Oriented Industries: In 2021, BB initiated a new fund of Taka 10 billion, which offers refinance facilities for the modernization and technological development or upgrade of export-oriented industries. This fund facilitates 32 industrial sectors mentioned in the Export Policy of Bangladesh for 2018–2021, under 11 initiatives/categories. The disbursement from the scheme was Taka 865.67 million till 31 March 2023.

BB's In-house Green Practice

BB has taken several significant actions to improve the technological, energy, and environmental sustainability of its internal operational processes. The major steps taken by BB as its in-house green practices are given in table 3.

Table 3: BB's In-house Green Practices

Rooftop Solar Power System & Chiller Based Conditioning	LAN/WAN Computer Network among all BB Officers
Online Documentation & Leave Management System	Bangladesh Automated Cheque Processing System (BACP)
Online Office Order & Electronic Pass for Visitors	Online Credit Information Bureau (CIB)
Enterprise Data Warehouse (EDW) System	Real-Time Gross Settlement (RTGS)
Bangladesh Electronic Fund Transfer Network (BEFTN)	Electronic Performance Management System (e-PMS)
Carbon Footprint Measurement & E-recruitment	e-Library System
Enterprise Resource Planning & Online Statement	Online Meeting Room Booking, etc.

Way forward

The adoption of green banking initiatives by BB is a significant step towards sustainable development and environmental conservation. BB is continuously reviewing and updating green banking policies to keep pace with emerging environmental challenges. The following measures regarding green banking activities can advance Bangladesh even more in the days ahead.

- Developing innovative financial instruments to mobilize additional resources. Green financing products like green bonds and green SUKUK have already been introduced in the country. More focus needs to be given to other globally used green financing products such as venture capital, transition bonds, sustainability-linked bonds, green equity, green securitization, green leasing, etc. to attract green finance in the country.

- Coordinated and sustained efforts among all regulators and stakeholders' i.e. Ministry of Finance, Department of Environment, other line ministries, BB, commercial banks, non-bank FIs, manufacturing industries, and end-user clients are required to reap the full benefits of green finance.

- Investment in capacity building and awareness rising are required to scale up green finance. The academia and research institutions can play a vital role in promoting green finance by developing innovative solutions to a low-carbon economy.

- Strengthening assessment and disclosure of climate and environmental risks in the financial and real sectors; every bank and FI should publish an annual sustainability report; and

- Incorporating agent banking and microfinance institutions in green banking policies, and developing an efficient green finance database.

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Keywords: Sustainable Development, Global climate change, Green policies, Greener Economy

Prepared By SAARCFINANCE Wing, BB.

Article 2: The Currency Demand Paradox in India

Introduction

Efficient payment and settlement systems foster economic development, promote financial stability and support financial inclusion. India has emerged over the years as the front runner of the payment technologies. The Government of India and Reserve Bank has encouraged greater use of electronic payments so as to achieve a 'less-cash' society. Efforts are being directed to produce a robust payment system that combines the attributes of safety, security, enhanced convenience, accessibility, affordability, interoperability, and customer awareness and protection. In recent years, a concerted effort has been made to develop state-of-the-art national payments infrastructure and technology platforms viz. Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), Aadhaar-enabled Payment System (AePS) and Trade Receivables Discounting System (TReDs). Technology has been critical to the resilience of India in the face of the Covid-19 pandemic. It has also been central to India's response to the crisis and in supporting the recovery. Financial technologies particularly robust payment systems have played a key role in safeguarding the financial system by ensuring seamless disbursement of loans, access to financial markets, insurance, MSME credit, pension services and direct benefit transfers.

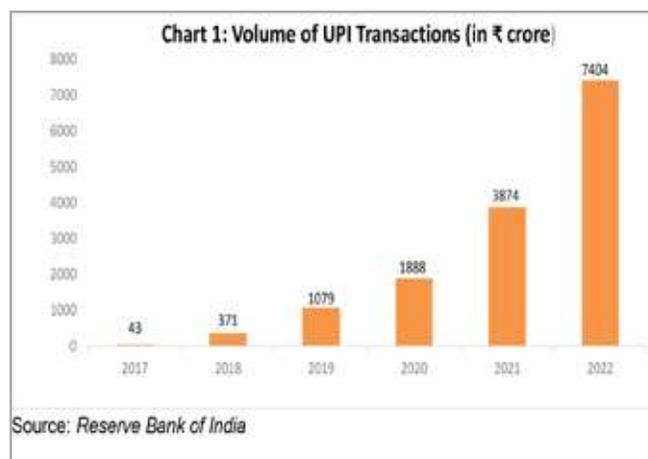
The introduction of UPI has changed the retail payments scenario in the country. The total volume of retail electronic payments witnessed manifold increase over the years. This robust growth of digital payments is expected to reduce the cash transactions and overall cash demand in the economy. However, there is no evidence for this perceived substitutability between currency and digital payment modes for effecting transactions, rather it witnessed a parallel

growth trend in India, which appears to be counter-intuitive, giving rise to a currency paradox (Bailey, 2009). Further, Covid-19 has intensified this paradox as the rising uncertainties increased cash demand, despite accelerated migration to digital modes of payments (Ardizzi et al., 2020). This phenomenon is, however, not new, or unique to India and has been observed for several nations.

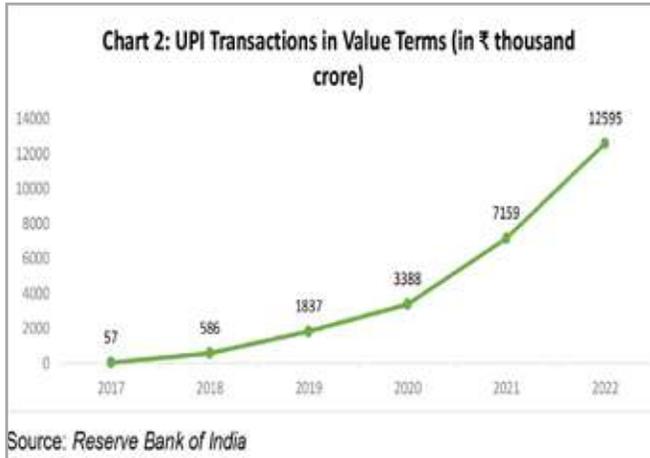
Against above backdrop, this article tries to examine cash paradox of India, which is parallel growth of currency and digital payment modes, witnessed in recent years. The article covers broad trends in the payment landscape, trends in currency demand in India in the recent years and the factors underlying the currency paradox.

Digital Payments: Broad Trends

With the launching of the UPI for retail payments in 2016, the digital transactions have grown markedly in India. Volume of the UPI transactions have increased from around 43 crores to 7404 crores within a span of 6 years from 2017 to 2022, recording a compound annual growth rate (CAGR) of 135.9 percent (Chart 1).



Along with the volume, the value of UPI transactions has also increased from ₹57 thousand crores in 2017 to ₹12,595 thousand crores in 2022 with a CAGR of 145.9 percent (Chart 2).

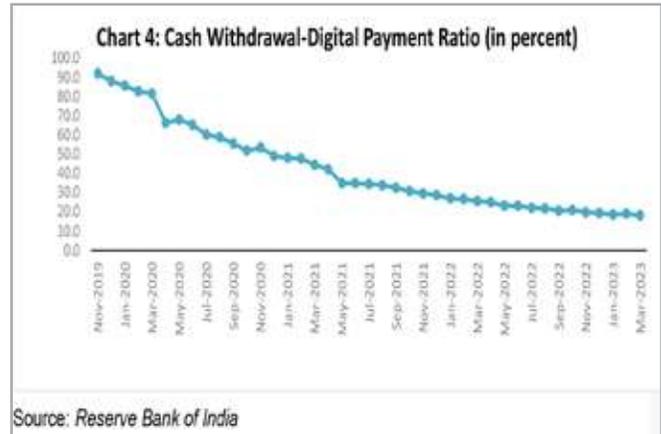


On the wholesale payment side, Reserve Bank of India's Real Time Gross Settlement (RTGS)- a payment system for large value- recorded a significant expansion in the volume of transactions from 1244 lakh in 2017 to 2426 lakh in 2022 with a CAGR of 11.8 percent (Chart 3).



The changing trend towards the usage of alternative payment methods can be gauged from cash withdrawal to digital payment ratio. Here, the proxy for digital payments which have been taken is aggregate of total value of card transactions (debit and credit cards both) and UPI transactions which are the two dominant digital payment methods being used for transaction purposes. Now, as this ratio goes down,

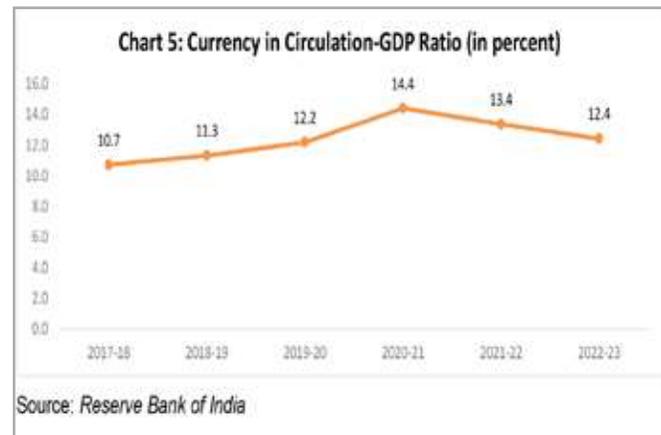
it depicts that the people are more inclined to use digital mode of payments, especially for transaction purposes. As can be seen in Chart 4, there is a marked decrease in the cash withdrawal to digital payments ratio over the last few years.



In nutshell, it is evident that both the volume and value of digital transactions have increased significantly over the recent years in India.

The Currency Demand Paradox

Currency in circulation-GDP (CiC-GDP) ratio has risen steadily since 2017-18. After peaking in 2020-21 at 14.4 percent, CiC-GDP ratio is still higher in 2022-23 at 12.4 percent than the pre-pandemic level of 12.2 percent (Chart 5). Over the six years beginning from 2017-18, CAGR of currency in circulation has been 10.8 percent.

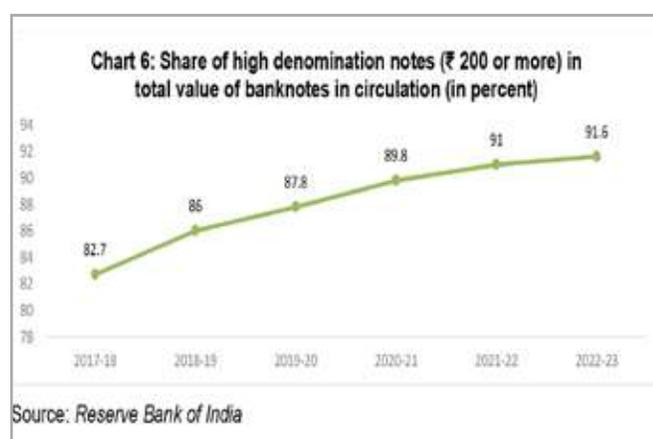


The simultaneous expansion of both traditional and digital currency methods within an economy seems puzzling, defying expectations of substitutabil-

ity of each other, and leading to what can be termed as currency demand paradox. Due to growing uncertainties, this paradox was exacerbated by the Covid-19 pandemic as people demanded cash primarily for precautionary motive while also resorting to digital payment modes (Ardizzi et al., 2020).

The persistent affinity for cash has been attributed to factors such as the decline in opportunity costs of holding currency, i.e., interest rates, precautionary holdings amid uncertainty, presence of a large informal economy and direct benefit transfers (DBTs) by the government, promoting both cash and digital modes, as routing of benefits digitally tends to be followed by cash withdrawals.

Despite increasing overall cash demand, the share of small denomination banknotes (₹100 notes or of less denomination) in the total currency in circulation has gone down and share of high denomination banknotes have gone up steadily from 82.7 percent in 2017-18 to 91.6 percent in 2022-23 (Chart 6). It implies that that the cash is being increasingly used for precautionary motives which is especially true for the Covid-19 pandemic. The decline in the share of low denomination notes, partly due to the substitution of small-value payments by the UPI and mobile wallets, is corroborated by their narrowing ticket sizes.



Lower transactional cash demand was also evident from the sharper decline in the number of cash withdrawals at ATMs than in the withdrawal values, leading to increased withdrawal sizes. Given these factors, the trends in CiC-GDP ratio alone may not be adequate to assess the efficacy of the ongoing digital

transformation. Illustratively, a counterfactual assessment shows that the CiC-GDP ratio would have been 12 percent in 2020-21 and 11.9 percent in 2021-22 relative to the actual ratio of 14.4 percent and 13.4 percent, respectively, had it not been for the pandemic-induced fall in the base (GDP) and uncertainty-driven surge in currency levels.

The empirical analysis conducted by the RBI Staff on the long-run currency demand function using autoregressive distributed lag (ARDL) model, covering the sample period from Q2:2009 to Q2:2022, provides some interesting perspectives. All variables employed for empirical analysis, except interest rates, have been converted to natural logarithm with seasonal adjustment for relevant variables. Appropriate dummies were added to control for demonetisation (Q4: 2016, Q1:2017) and the first Covid-induced nationwide lockdown (Q2:2020). As per the Augmented Dickey-Fuller (ADF) test, all variables are stationary at levels or first differences.

The baseline model indicates that nominal income (LYN) is the dominant driver of cash demand (LCIC) (positive relationship), while short-term interest rates, proxied by deposits rates of major banks (INT), have a negative association with currency usage (Table 1). Further, access to digital modes, proxied by digital payments value (LDIGVAL), tends to dampen currency usage (models 2 and 3). The substitution effect, albeit significant, is lower than the income effect, suggesting that digital transactions can offset the impact of income on currency demand to lower the currency-to-deposit ratio over time. The precautionary effect on currency usage captured through the economic policy uncertainty index (LEPU) [positive] indicates a preference for cash during uncertain periods.

The assessment shows that the sudden uptick in CiC growth during Covid-19 can be attributed to the precautionary and store-of-value motives even as the transactional use of cash has progressively been substituted by digital modes. Recent data suggests a turnaround in the pandemic-induced precautionary demand for cash. Concurrently, digital payment modes continue to maintain strong growth momentum post-Covid.

Table 1: Long Run Coefficients of Currency Modelling Regression²⁰
[Dependent Variable: LCIC (Natural Log of Currency in Circulation)]

	Model (Baseline)	Model 2	Model 3
1	2	3	4
Model Type	ARDL (3,1,0)	ARDL (3,3,0,2)	ARDL (3,2,0,2,1)
Nominal Income (LYN)	0.88*** (0.04)	1.19*** (0.20)	1.26*** (0.18)
Interest Rate (INT)	-0.06*** (0.01)	-0.07*** (0.01)	-0.07*** (0.01)
Digital Payments Value (LDIGVAL)		-0.30** (0.16)	-0.32** (0.15)
Economic Policy Uncertainty (LEPU)			0.06* (0.00)
Intercept	1.53** (0.81)	1.96** (0.84)	0.83 (0.80)
Error Correction	-0.24*** (0.01)	-0.24*** (0.01)	-0.27*** (0.01)
Bounds Test: F statistic	48.52	33.89	33.73
Model Tests			
Adjusted R- squared	0.99	0.99	0.99
Akaike Information Criterion (AIC)	-4.81	-5.06	-5.08
Schwartz Information Criterion (SIC)	-4.46	-4.52	-4.50
Durbin-Watson Stat.	2.18	1.84	2.04

***: Significant at 1 percent level.

**: Significant at 5 percent level

*: Significant at 10 percent level

Note: Figures in parentheses denote standard errors.

Conclusion

The assessment shows that the increase in currency demand, particularly during Covid-19 can be attributed to the precautionary and store-of-value motives even as the transactional use of cash has progressively been substituted by digital modes. Understanding the drivers of banknote circulation vis-à-vis digital modes, is important for central bank core activities such as cash and liquidity management, retail payment strategies and monetary policy (ECB). Central bank cash and liquidity management activities can be improved by a good understanding of the demand for cash. It also throws light on the behavioral aspects of the people in the case of payments. It is important to examine in future whether this paradox will continue in the post pandemic era too!

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Article 3: Sovereign Debt and External Sector Vulnerabilities in South Asia

Dr. S.P.YW. Senadheera Dr. V.D. Wickramarachchi

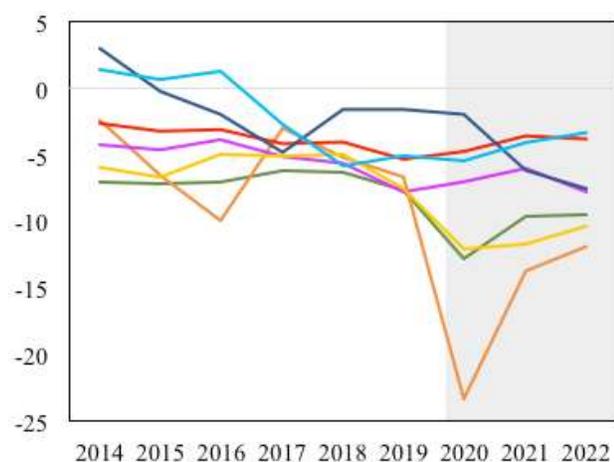
The Covid-19 pandemic resulted in a surge in sovereign debt levels across the world, as many governments were compelled to borrow heavily to scale-up their emergency spending to protect lives and livelihoods, amidst dwindling revenue collection. In the ensuing recovery phase, the lingering effects of larger fiscal support and monetary policy easing have resulted in spillover effects on external sector and a wave of high inflation in most emerging market and less developed economies, heightening their risks related to macroeconomic stability. Currently, the global economy is coping with challenges emanating from multitude of sources such as monetary policy tightening by the major central banks to rein in inflation, elevated commodity prices, weak recovery in Chinese economy, war in Ukraine, and concerns over cross border contagion of financial sector vulnerabilities in the United States. Consequently, emerging and less developed economies are witnessing varied and asymmetric impact on their external and fiscal sectors, manifested by widening current account

imbalances and heightened sovereign debt unsustainability issues. South Asia is no exception, and several SAARC countries which were already ailing from macroeconomic imbalances in the pre-pandemic period are faring worse than others.

Sri Lanka announced a debt standstill for selected foreign debt service payments in April 2022 and sought International Monetary Fund (IMF) assistance through an Extended Fund Facility (EFF) for balance of payment and budgetary support while taking measure for restructuring of the public debt portfolio.

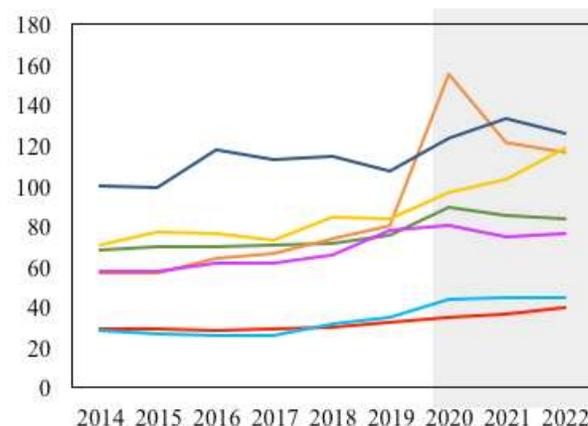
Meanwhile, Pakistan is also on the verge of a debt crisis and has been able to avoid a default thus far with the support of an IMF bailout package. Although the risks of external and overall debt distress remain low in Bangladesh, the country also obtained IMF assistance to address urgent balance of payment and fiscal needs. Moreover, debt levels have soared in Maldives and Bhutan and any delayed economic recovery could hinder stabilisation of their debt to

Figure 1: Fiscal Deficit to GDP (%)



India
Pakistan
Bangladesh
Nepal
Maldives
Sri Lanka
Bhutan

Figure 2: Gross Debt to GDP (%)



India
Pakistan
Bangladesh
Nepal
Maldives
Sri Lanka
Bhutan

GDP ratios at lower levels.

Many South Asian governments have limited fiscal space to maneuver the economy through unanticipated shocks and they have little choice but to finance their widening budget deficits through massive borrowings during periods of economic shocks. Poor revenue collection and rigid government expenditure do not leave much room for such governments to support their economies and people during economic headwinds. Sri Lanka, for example, had introduced a low tax regime in late 2019 with

provide immediate relief for the affected population, adding more pressure on government budget. As the country grappled with consecutive economic shocks, the Pakistan government was compelled to seek assistance from the IMF once again in the form of a stand-by-arrangement, amidst impending large foreign debt service payments, dwindled export earnings and dried up foreign exchange reserves. Recent global and country-specific crises have underscored the importance of maintaining a healthy fiscal space and sustainable debt levels during normal periods

Figure 3: External Debt to GDP (%)

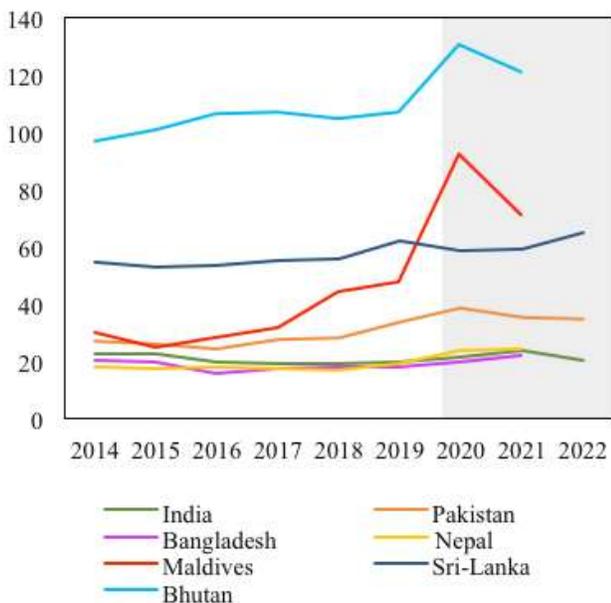
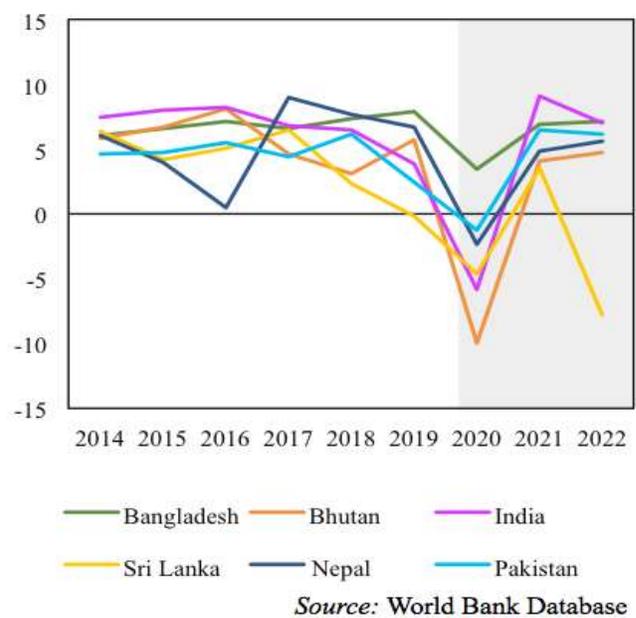


Figure 4: Real GDP Growth (%)



Source: World Bank Database

the aim of boosting economic activities and thereby increasing government revenue, though realised results were far from the expectation due to the deep economic contraction caused by the unanticipated pandemic. The government revenue as a percentage of GDP declined to the historically lowest levels of 8.3 percent and 8.2 percent in 2021 and 2022, respectively. With dwindling foreign financing amidst sovereign credit rating down-grades, the Sri Lankan government resorted to monetary financing, which led to an escalation in inflation to an unprecedented level and a sharp depreciation of exchange rate in the post pandemic period. These developments aggravated the country’s debt vulnerabilities further, spiralling into a debt crisis. In the case of Pakistan, post pandemic recovery was stalled by the devastating floods in 2022, requiring the government to

to build up resilience of the economy to withstand unforeseen economic shocks.

Sovereign debt vulnerabilities of a country could be amplified by the composition of the debt portfolio. The countries which have a substantial share of foreign currency denominated debt, mostly owed to foreign creditors, face massive risks especially in the events of sudden stops and capital flow reversals. Any major setback in foreign currency earnings, such as the limitations on tourism earnings during the pandemic period, decline in remittances and slowdown in the major export destinations, or the intensified outflows due to inflationary spikes in global markets could be detrimental for the highly leveraged countries with sizable foreign exposure. Bunching of large debt service payments amidst a crunch in foreign earnings and meagre external

reserves, could call for painful current account adjustments through currency depreciation or may erode investor confidence barring foreign financing avenues to rollover maturing debt and further borrowings. This was evident in both crises in Sri Lanka and Pakistan in the recent times. Further, in countries with high foreign currency debt exposures, the currency depreciation could substantially increase the total debt valued in terms of domestic currencies, raising the overall debt to GDP ratio. Moreover, sovereign debt vulnerabilities could vary depending on the terms and conditions of the debt obligations. For the countries with higher non-concessional loan exposures, the debt service costs tend to be hefty. With Sri Lanka graduating from low income country to a lower middle income country, the access to concessional funding became limited and the government was compelled to borrow from the global markets at commercial rates to meet the country's desired growth plans. These non-concessional borrowings intensified the debt vulnerabilities in Sri Lanka due to increased debt service costs. On the other hand, debt to GDP ratio of Bhutan has soared in the recent years, but the IMF has assessed the country's debt levels to be less risky since major portion of Bhutan's public and public guaranteed debt are comprising of loans obtained from the Government of India in relation to the construction of hydropower projects. Since the Government of India is taking both financial and construction risks and is committed to purchase all surplus electricity at a price reflecting the cost plus a profit margin, sovereign debt vulnerability of Bhutan is deemed to be lower than what is been reflected by the overall debt to GDP ratio (International Monetary Fund, 2022) Economic growth and real interest rates play a key role in a country's debt dynamics. Countries that do not maintain a healthy growth momentum fail to stabilise their debt at more manageable levels. For example, Sri Lanka's economic growth has slowed down since 2018, due to numerous domestic and global headwinds such as the constitutional crisis in 2018, Easter Sunday attacks in 2019, Covid-19 pandemic in 2020-2021 and the debt crisis in 2022. This led to a rapid growth in central government debt level from 72.2 percent of GDP in 2007 to 100.1 percent of GDP by end 2021 leading to a debt crisis in 2022. At the same time, real interest cost of the debt portfolio tends to raise the overall debt burden and hence both domestic

and foreign market interest rates and inflation rates influence the debt trajectory of a country.

On the external front, South Asian economies largely escaped the reverberations of 1997 East Asian Crisis and 2008 Global Financial Crisis mainly due to their feeble links to the outside regions through trade and investments and lack of integration of their financial sectors with the global financial system. However, trade and financial linkages of the South Asian countries have strengthened over the years increasing their exposures to global headwinds. The 1997 crisis taught many lessons to emerging market economies and prompted the countries to have two main policy responses to the crises stemming from the external sector; to have floating exchange rates and buildup of foreign exchange reserves as buffers. South Asia also responded in similar lines, though the legacy debt issues, weaker economic fundamentals, and less competitive export sectors hampered such efforts. As many other countries in the world, none of the South Asian economies emerged unscathed by the Covid-19 pandemic, but the external sectors of the countries with weak economic fundamentals and structural issues experienced worse economic turmoil than others.

South Asia's poor external sector performance stems mainly from meagre merchandise export performance. However, with the increasing per capita income levels across the region, the demand for imports is persistently on the rise. Higher GDP growth rates, large fiscal deficits, and fast-growing investment have contributed to the imports growth. The resulting trade deficit has contributed to the persistently high current account deficits creating pressure on the exchange rates. This has been worsened by unfavorable and deteriorated terms of trade as a result of less sophistication and diversification of export goods portfolio. This is due to the dominance of predominantly primary goods that are exported instead of industrial goods which invariably have greater value addition. However, South Asian countries possess vibrant service export sectors to showcase their competitiveness. Another common strength of the South Asian Economies is the robust and reliable inflow of worker remittances received from their diaspora living in advanced economies. However, overreliance on such remittances could lead to short term pressures in the forex markets, particularly in the eventuality of global distress such

as Covid-19 pandemic. All in all, countries with larger trade gaps have weak shock absorption capacity and benefit less from technology transfers and Foreign Direct Investment (FDI) (World Bank, 2019). This phenomenon is evident in most of the South Asian economies.

Although current account deficits are not necessarily evil, if left unaddressed, persistence of such deficits could evolve into distress in external debt. Unless the countries with higher levels of external debt bring the burden of debt servicing down to manageable levels, a scenario of global financial distress

IMF multiple times. Portfolio investments, the main contributor to the financial account, are generally highly volatile and responsive to the developments in the global economy. South Asian economies have also been opening up their doors progressively to portfolio investments increasing exposure to global market volatilities. However, capital flows could pose a threat to the external sector stability of economies, especially those under fixed exchange rate regimes.

Exchange rate policy of the country also can exacerbate their external sector vulnerabilities. Although stable exchange rates are generally preferred

Figure 5: Foreign Direct Investment to GDP (%)

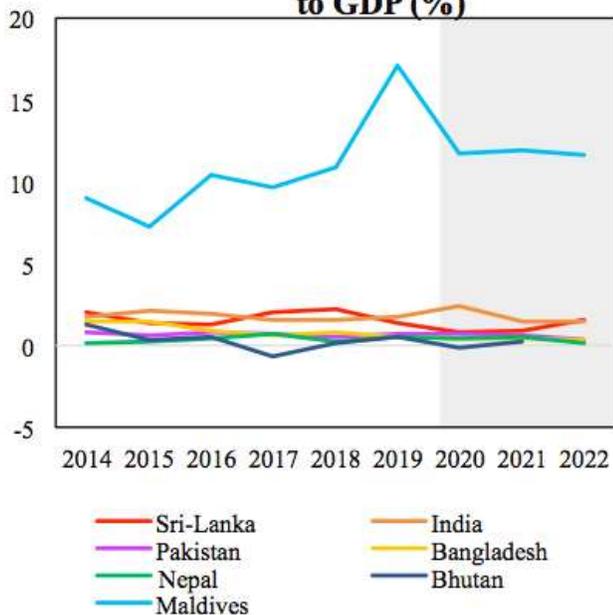
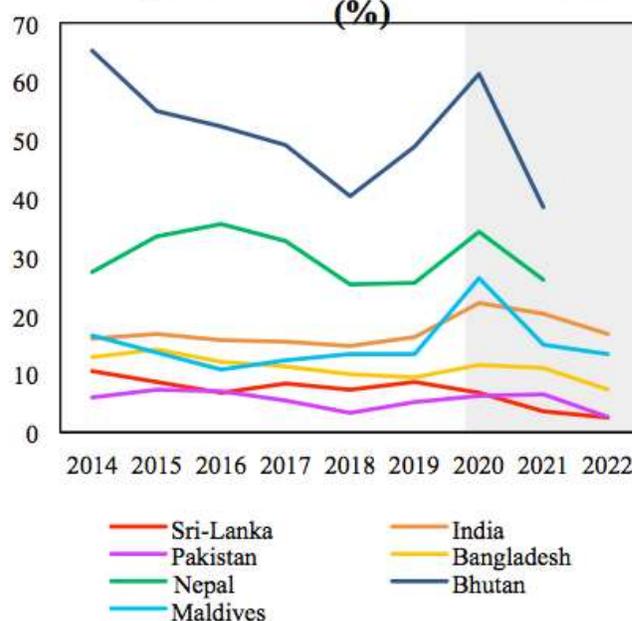


Figure 6: Foreign Reserves to GDP (%)



Source: World Bank Database

that results in capital outflows could aggravate the vulnerabilities arising from sharp currency depreciations. Further, high external debt levels would hamper the access to international capital markets due to higher risk premia involved. On the FDI front, although there had been a better record of FDI inflows in countries such as India and Bangladesh in the recent years, the overall FDI to GDP ratios remain constant over the years for almost all South Asian countries, except Maldives, compelling the governments to rely on debt creating foreign inflows.

Therefore, persistent current account deficits and resultant buildup of foreign debt portfolio have led the economies to experience recurrent Balance of Payment (BOP) crises, requiring countries such as Sri Lanka and Pakistan to resort to assistance from the

by the economic agents, intervention in the foreign exchange market is not the optimum strategy to stabilize the exchange rate on a sustainable basis, especially in the context of South Asia, in view of lack of sufficient buffers in the form of Gross Official Reserves. Attempts to maintain a relatively stable exchange rate amidst large debt service payments and limited foreign inflows resulted in Sri Lanka's usable reserves plummeting to dismal levels in the first half of 2022 and the foreign currency liquidity crunch led to massive shortages in imported essential goods, fuel and energy.

In the current context, the South Asian economies will have to navigate through a challenging global

economic environment while addressing domestic structural issues that are the root-causes of external sector and sovereign debt vulnerabilities. Volatile global financial conditions, weakening demand in some trading partners and surge in commodity prices could pose external sector challenges for South Asian nations in the period ahead. The advanced economies are envisaged to maintain a tighter monetary policy stance as they fight against the surge in inflation, prior to the expected easing from 2024 onwards. The South Asian economies will have to cope with resulting higher global interest rates in the forthcoming period, which will undermine the efforts to reduce borrowing costs. Nevertheless, more anchored inflation expectations and maintenance of flexible exchange rates would help mitigating negative spillovers to South Asian economies. The growth impact of appreciation in advanced economy currencies will also be a concern, as an appreciation of the US dollar index by 10 percentage points is estimated to be associated with a decline in real output by 1.9 percent in emerging markets, two quarters after the initial appreciation (International Monetary Fund, 2023). A slowdown in economic recovery could be challenging for South Asian countries that are more reliant on high growth to stabilise their debt ratios. Sri Lanka is currently in the process of restructuring its foreign debt portfolio as well as optimising its domestic debt, which is envisaged to bring the overall debt into a sustainable trajectory. Strong commitment of the government and other stakeholders of the economy to forge ahead with the fiscal consolidation measures and economic reforms to resolve the debt distress on a sustainable basis. South Asian countries that are facing some level of debt distress will also have to resort to a fiscal consolidation path, through revenue enhancements measures while curtailing government expenditure through rationalisation and better targeting. However, fiscal consolidation measures should be formulated with due consideration to their impact on growth and equity, to ensure economic revival is not unduly delayed and vulnerable segments are not left behind. On the external front, maintenance of exchange rate flexibility and buildup of reserves will be the main buffers to mitigate external sector vulnerabilities. The South Asian economies will have to continue their efforts on liberalisation, both in capital and trade, with more vigour. Measures will have to be taken to attract non-debt creating flows such as FDI more while nego-

tiating with traditional and non-traditional trading partners for economic and trade cooperation to provide a sustainable boost to exports. Structural predicaments to integrate further with global value chains will have to be addressed through reforms to address persistent trade deficits and resultant external sector vulnerabilities.

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Article 4: Estimation of Growth-Maximizing Inflation for Bhutan: Threshold Inflation

Inflation targeting is increasingly becoming the focus of macroeconomic policy program in developing economies. This is due to price stability being chosen as one of the most important monetary policy objectives. Therefore, understanding the true relationship between economic growth and price level is critical for policy making. Existing literature on inflation and economic growth indicates that there is non-linear relationship between inflation and GDP growth. It is widely recognized that a higher inflation is harmful to economic growth and lower inflation supports growth. Higher price level brings uncertainty in the decision making of economic agents such as household utility maximization and profit maximization for producers.

Empirical studies have found that existence of non-linear relationship between inflation and economic growth varies from country to country and changes over the period. Economic growth is positively correlated when inflation is below a certain level and negatively thereafter, termed as threshold level of inflation for economic growth. The existence of non-linear relationship between growth and inflation was initially explored by Fischer (1993). The Chakarvarty Committee (1985) concluded that 4 percent inflation is an acceptable price range for India. The threshold inflation for the Indian economy was conceptualized by Rangaran (1998) with the acceptable inflation rate estimated at 6 – 7 percent for the Reserve Bank of India (RBI). A recent study by Deepak Mohanty, A B Chakraborty et al. (2011) suggested a 4 - 5.5 percent threshold inflation for India. Given the importance of determining the appropriate range of inflation level even for pegged exchange rate regimes in developing economy, Tara Prasaad Bhusal and Sajana Silpakar (2011) estimated the threshold inflation for Nepal at 6 percent, which is slightly higher than in India.

Similarly, it is also important to examine relation-

ship between inflation and growth in Bhutan. For instance, expansionary monetary and fiscal policy is desirable to boost economic growth but at the same time simultaneous increase in price level may not generate expected welfare gain in the economy. Higher inflation negatively and strongly impact the lower income group, distorts market pricing and financial assets valuation, and degrades policy credibility of central banks on price stability. Given the policy relevance on improving the living standard of the people through enhanced economic growth and price stability, finding the growth-maximizing level of inflation for Bhutan is essential.

Bhutan witnessed an average of 7.62 percent inflation from lowest level at 1.8 percent in 1985 to a of 18.0 percent in 1983. On the other hand, annual GDP growth was at an average of 7.58 percent, ranging from a high of 28.7 percent high in 1987 to a low of 1.4 percent in 1991. Till the mid-1980s, volatility in inflation and economic growth was due to large investment for the first mega hydropower project. In some periods, trends depict episode of higher inflation and lower economic growth. As illustrated in Figure 1, in early 1990s, with the structural shift in development policy in India, higher inflationary pressure in India impacted Bhutan with double digit level of inflation, averaging 11.6 percent and low economic growth at 3.2 percent. On the contrary, there has been co-existence of higher inflation and higher growth in late 1990s and in 2007-2009. In the recent past, despite lower inflation there has been slower economic growth. Given the historical relationship between inflation and growth, it is not straight forward to generalize and conceptualize a suitable threshold inflation for Bhutan. The direct trend and cluster analysis suggest negative effect of inflation on economic growth. However, policymakers are

more interested in knowing the threshold level inflation above which inflation adversely affects growth. Therefore, threshold inflation for Bhutan is estimated using following methodology and models. The gross domestic product (GDP) at constant price, consumer price index (CPI) and real investment annual data from 1980 to 2017 are used for estimating ordinary least square (OLS) and quadratic equation model.

Non-linear OLS Model : Prior to model estimation, all-time series variables are tested for stationarity using augmented Dickey-Fuller Unit Root test. All the growth rates, including inflation are stationary at 1 percent and 5 percent significance level respectively. The Granger Causality test is applied to measure the causation or feedback relationship between inflation and economic growth. The test shows that inflation causes or affects economic growth while there is no causation or feedback from GDP to inflation. Investment does not have significant impact on GDP, however it jointly causes GDP in the model. The test helps in model specification to choose the dependent and independent variables and helps in finding the existence of relationship between inflation and economic growth. The ordinary least square threshold estimation model is represented as follows.

$$Y_t = \beta_0 + \beta_1\pi_t + \beta_2D_t * (\pi_t - \pi^*) + \beta_3I_t + \beta_4z_t + e_t$$

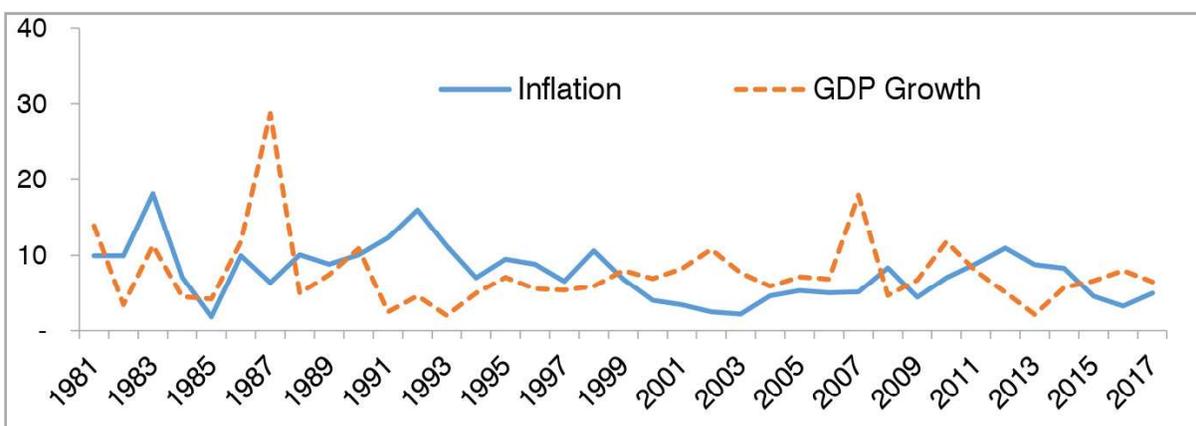
Where Y_t is the GDP growth rate, π_t is inflation, I_t is investment growth rate, z_t is dummy variable for one time high level of GDP growth during hydropower commissioning, π^* is threshold level of inflation, and D_t is the dummy variable defined as:

$$D_t = 1 \text{ if } \pi_t > \pi^*$$

$$D_t = 0 \text{ if } \pi_t \leq \pi^*$$

The parameter π^* represent the threshold inflation level with the property that the relationship between inflation and economic growth is measured by β_1 when inflation is lower than the assumed threshold and is equivalent to $\beta_1 + \beta_2$ when inflation level is higher than assumed threshold.

In order to estimate the growth maximizing inflation, equation (1) is run at threshold values of inflation varying from 2.5-8.5 percent, of ten equations selected results are reported in the output table. The equation with the minimum level of root mean square error (RMSE) is identified as threshold inflation. Except for the threshold value 2.5 percent below and above 8.5 percent, there is significant relationship between inflation and growth. The negative impact of inflation on growth increases largely when inflation level crosses above 7.0 percent level. From the estimates, GDP growth maximizes when



Chhukha hydropower project (CHP) has the electricity generating capacity of 336MW. The construction was initiated in 1975 and completed in 1986.

India is Bhutan's main trading partner; more than 90 percent of total trade was with India till 1990 and currently, three fourth of Bhutan's trade is with India. Moreover, since 1974, the Bhutan currency (the Ngultrum), has been pegged one-to-one with Indian Rupee.

As per the lag selection criteria, optimum lag for GDP is zero, one for inflation, three to four for the investment. The higher lag effects of investment follow the development cycle of hydropower projects which takes a minimum of 2-3 years for construction activities to pick up and takes another 3-5 years to complete for production.

inflation is within the range of 4.5-6.5 percent and based on computed RSME, the threshold level of inflation is 6.3% for Bhutan. The results also show that the both the coefficients of inflation & threshold inflation (β_1 & β_2) is not significant when threshold is 2.5% and below, implying no significant relationship between inflation and output growth. Similarly, when threshold level is 7.0% and above, estimated coefficient of inflation (β_1) on output growth is not significant but threshold inflation has significant effect on growth, entailing an inflation of 7.0% and above is intolerable for growth. Contrary to growth theory, when inflation is used as a determinant of output growth, investment has no impact on output growth even though direction of impact is positive it is statistically insignificant at various time lags. This could be due to higher volatility and limited instantaneous effect on output such as hydropower investment which is lumpy and takes longer to realize investment returns. The dummy GDP was used mainly to adjust the outliers in GDP growth and to fit model.

Quadratic Model

Further to check the robustness of the estimated threshold inflation from OLS method, the quadratic

equation model has been used. The following quadratic equation is specified to estimate the threshold inflation.

$$Y_t = \beta_0 + \beta_1\pi_t + \beta_2\pi_t^2 + \beta_3I_t + \beta_4z_t + e_t \quad (2)$$

The threshold inflation is calculated from the estimated parameters from the model after having fulfilled following two conditions.

$$i. \frac{dy_t}{d\pi_t} = 0 \quad ii. \frac{d^2y_t}{d\pi_t^2} < 0$$

The threshold inflation (π^*) = $-\frac{\beta_1}{2\beta_2}$ which is at a point where GDP growth maximize and deteriorates after that point. The quadratic equation result has determined the threshold inflation of 6.49% as given in the Table. Therefore, as per the quadratic equation model, output maximizes when inflation level is at 6.49% and it negatively affects growth when inflation marks higher than the estimated threshold level.

Although the estimated inflation threshold is 0.2 percentage points higher compared to 6.3% of OLS estimation, the results are within a narrow range from 6.3-6.5 percent without much variation. Both models

Table 5: Non-linear OLS Method for Threshold Inflation Estimation

Sl.No	Threshold Inflation*	GDP growth	Coefficients	Std. Error	t-Statistic	Prob.	RMSE
1	2.5%	Inflation	5.340	5.331	1.000	0.325	3.416
		(Inflation-Inflation*)	-5.601	5.394	-1.040	0.308	
		Investment growth	0.009	0.033	0.270	0.790	
		Dummy GDP	0.000	0.000	0.000	0.000	
		Constant	10.655	1.850	5.760	0.000	
2	6.0%	Inflation	1.017	0.547	1.860	0.074	3.185
		(Inflation-Inflation*)	-1.740	0.746	-2.330	0.027	
		Investment growth	0.007	0.031	0.230	0.823	
		Dummy GDP	10.680	1.717	6.220	0.000	
		Constant	2.314	2.641	0.880	0.388	
3	6.3%	Inflation	0.902	0.492	1.830	0.077	3.175
		(Inflation-Inflation*)	-1.663	0.700	-2.380	0.024	
		Investment growth	0.006	0.031	0.190	0.848	
		Dummy GDP	10.666	1.712	6.230	0.000	
		Constant	2.693	2.471	1.090	0.285	
4	7.0%	Inflation	0.580	0.412	1.410	0.171	3.241
		(Inflation-Inflation*)	-1.353	0.653	-2.070	0.047	
		Investment growth	0.005	0.031	0.160	0.872	
		Dummy GDP	10.827	1.746	6.200	0.000	
		Constant	3.915	2.256	1.740	0.094	

have estimated threshold inflation at a similar level, implying that the estimated results are robust.

The empirical results based on OLS method shows that economic growth maximize at 6.3% inflation, indicating that inflation at 6.3% and below supports growth. On the other hand, when inflation is beyond 6.3%, inflation deteriorates growth prospects. The result also indicates that there is regime switching from positive impact of inflation on growth when inflation is up to 6.3% to negative when inflation marks above 6.3%. Therefore, estimated threshold inflation for growth is at 6.3% for Bhutan. The given result is further tested when quadratic model estimates threshold inflation at 6.5%, very close to OLS estimate, only 0.03 percentage points above. This sensitivity test shows results are robust and concludes threshold inflation for Bhutan is within 6.3-6.5 percent.

The estimations suggest policy makers to cautiously take inflation level at maximum of 6.5% level

plications to steer monetary policy tools to achieve it, while inflation threshold is a level where growth-inflation trade-off starts. Nonetheless, threshold inflation will be valuable inputs for setting inflation target for the monetary policy operations. Considering the time lag of monetary policy transmission assessment and to have adequate buffer to accommodate exogenous shocks, inflation target must be set lower than the inflation threshold. At the same time it is very important to remain cautious in deducing policy implications on basis of this model as there are several other factors that affect growth through different channels. For instance, in the recent years, the accommodative monetary policy program has limited impact on both inflation and growth since inflationary pressure was largely influenced by disinflation in the regional and global market. At the same time, credit expansion only in few sectors was not able to boost investment and growth.

Table: Quadratic Equation Method for Threshold Inflation Estimation

GDP Growth	Coefficient	Standard Error	t-Statistic	Probability
Inflation (β_1)	2.374	1.017	2.330	0.027
Inflation ² (β_2)	-0.183	0.071	-2.560	0.016
Investment growth (β_3)	0.010	0.030	0.330	0.742
Dummy GDP (β_4)	10.812	1.688	6.400	0.000
Constant (β_0)	0.014	3.245	0.000	0.996
Observation	33	Residual Sum of Square (RSS)		274.929
R ²	0.650	Model Sum of Square (MSS)		511.348
Adjusted R ²	0.600	Root Mean Square Deviation (RMSE)		3.134
Threshold Inflation	6.5			

of inflation as red alert for economic growth while formulating macroeconomic policy, especially for monetary policy operation. The empirically estimated threshold inflation has important policy implication for the Royal Monetary Authority of Bhutan for conducting monetary policy while framing medium term-Five Year Plan development for the Government. The Authorities must ensure growth-supportive monetary policy framework by containing inflation below 6.5%, otherwise growth will be costlier.

Although inflation threshold and inflation target are correlated, the latter is more towards policy ap-



Section 5

Box Items



Box 1: The Future of Digital Payments in Bangladesh

The future of digital payments in Bangladesh looks really promising. More and more people are getting access to digital payment platforms because of the increasing rate of internet and smart phone usage. The government's focus on promoting digitization also contributed to increase digital payments. Additionally, the Covid-19 pandemic has accelerated the growth of digital payments in Bangladesh. People are now more inclined towards contactless transactions and prefer using digital payment methods to avoid physical contact.

In order to keeping up with the modern payment system, BB developed various digital platforms like Bangladesh Automated Clearing House (BACH), Bangladesh Automated Cheque Processing Systems (BACPS), Bangladesh Electronic Funds Transfer Network (BEFTN), National Payment Switch Bangladesh (NPSB) and Bangladesh Real Time Gross Settlement (BD-RTGS), which played a significant role in making digital payments more accepted among the population under banking system. On the other hand, mobile financial service (MFS), payment service providers (PSPs) and payment system operators (PSOs) made the electronic payments handy and comfortable for the unbanked population. Fintech based start-ups have been providing support for regulation and the regulatory sandbox. Through all this support, a 360-degree financial ecosystem is ensured. The transaction of digital payments also increased significantly and stood at Taka 108 Trillion in FY23, grew by 156.3 percent in four years during FY20-23.

The government of Bangladesh has a vision namely "Smart Bangladesh" which aims to transform the country into a knowledge-based society by 2041. The government has formulated 'Bangladesh's National Digital Payments Roadmap 2022-2025' to bring the whole nation under the umbrella of digital payments.

One of the ground breaking steps of the government towards digital Bangladesh is the interoperable digital transaction platform (IDTP) called "Binimoy", which enables the instant transfer of money from one platform to another and vice versa within banks and MFS operators. BB, in line with the government, has a vision to make 75 percent of total transaction cashless by 2027 . The introduction of Bangla QR

Digital Payments in Bangladesh					
(Value in Billion BDT)					
Items	FY20	FY21	FY22	FY23	% Change FY23 over FY20
BACPS (Regular Value)	7951	8887	9237	10068	26.6
BACPS (High Value)	13392	15348	16368	15261	14.0
BEFTN Credit	2459	3774	4954	5,569	126.5
BEFTN Debit	230	632	974	1311	469.8
MFS Transaction	4246	6236	8564	12174	186.7
ATM Transactions	1586	2154	2986	3621	128.3
POS Transactions	144	172	227	309	114.4
E-Commerce Transac.	30	78	88	139	364.9
IBFT	23	99	335	880	3727.6
RTGS Transaction	12266	19644	34321	59152	382.2
Total Digital Payment*	42325	57023	78054	108484	156.3

Source: Payment System Department, BB .
*Except Inter-bank transactions. IBFT=Internet Banking Fund Transfer

Code enables small traders to make payments from all banks and MFS accounts by just scanning the Bangla QR apps installed on their mobile devices. BB has taken initiative to issue license for 'digital bank' and developed a guidelines in this regard. This branchless virtual bank can give the banking system a mileage and momentum to reach the banking at the last mile of the country. Digital bank shall offer innovative digital financial products through online end-to-end tech-based digital ecosystem using AI, machine learning, block chain and other advance technologies. It is restricted to issue any physical

instruments for transaction; rather it may issue virtual card, QR Code or any other technology-based products for facilitating its customer transactions. It also can use the agents of conventional banks or MFS providers, network of existing ATM/CDM/CRM and MFS network instead of its own agents. All these initiatives are now contributing to enhance digital payments, reduce costs, increase financial inclusion and improve overall efficiency of financial transactions.

However, there are some challenges of digital payments in Bangladesh such as lack of financial

literacy, financial exclusion, fraud and cyber security risks etc. Hopefully, with the coordinated efforts of banks, FIs and MFS and by using advance technologies Bangladesh will overcome the challenges and will successfully move toward digital payments. Biometric authentication such as fingerprint & facial recognition, machine learning, block chain and other advance technologies of 4th Industrial Revolution (4IR) will likely be widely used for payments in days ahead.

Box 2: Sovereign Green Bonds

Green bonds represent a category of thematic bonds where proceeds are exclusively used to finance or refinance new and/or existing projects that are expected to have a positive impact on the environment and/or climate. The global market for sustainable finance has registered a considerable growth since 2014 mainly led by issuances of green bonds. As per the data published (Climate Bonds Initiative, November, 2022), cumulative green bond issuances as on September 30, 2022 have surpassed US\$ 2.0 trillion, which includes sovereign green bonds (SGrBs) issued by 26 sovereigns aggregating to US\$ 230.9 billion. India joined league of these nations by issuing sovereign green bonds for the first time in the financial year 2022-23.

Consequent to the announcement in the Union Budget 2022-23, the Government of India, in consultation with the Reserve Bank, finalised the sovereign green bond framework on the lines of International Capital Markets Association's (ICMA) green bond principles. The external review conducted by the Centre for International Climate Research (CICERO) has rated India's green bond framework as 'medium green' with 'good' governance. The framework lists nine broad categories of eligible green projects to fulfil various environmental objectives such as reducing green-house gas emissions, encouraging energy efficiency, promoting climate adaptations and improving natural ecosystems. The Government has constituted a 'Green Finance Working Committee' for the evaluation and selection of various

eligible green projects and other relevant works related to the framework. The allocation and utilisation of proceeds from issuance of green bonds would also be subject to audit.

The Reserve Bank of India issued India's maiden Sovereign Green Bonds keeping total issuance at ₹16,000 crore spread equally over two tranches of ₹8,000 crore each in January and February 2023, with each tranche having equal amount of 5-year and 10-year tenor bonds. The auctions of both tranches of SGrB registered robust demand from the market participants with average bid-to-cover ratio of 3.04 for the 5-yr SGrB and 3.93 for the 10-year SGrB. The average cut-off yields for the 5-year and 10-year SGrBs were 4.26 bps and 3.53 bps, respectively, below the prevailing secondary market yields of the conventional government securities of the respective tenors.

The issuance of Sovereign Green Bonds is a part of achieving five nectar elements (Panchamrit) of India's climate action committed at Conference of the Parties (COP26) at Glasgow in November 2021 which includes, achieving net zero emission by 2070, reaching 500GW non-fossil energy capacity by 2030, achieving 50 percent of energy requirements met by renewable energy by 2030, reducing total projected carbon emissions by one billion tonnes from now to 2030 and reducing carbon intensity of economy by 45 percent by 2030 over 2005 levels.

Box 3: Lightweight Payment and Settlement System (LPSS): A Bunker Equivalent in Payment Systems

India has achieved remarkable progress in the adoption and use of payment technologies in recent years. Safety and security of various payment infrastructure is of paramount importance to India. The payment systems currently in place, such as Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS) and Unified Payment Interface (UPI), are designed to handle large volumes while ensuring sustained availability and hence they are dependent on complex wired networks backed by the advanced IT infrastructure. However, catastrophic events like natural calamities and war have the potential to render these payment systems temporarily unavailable by disrupting the underlying information and communication infrastructure.

The Reserve Bank of India has conceptualised a light weight and portable payment system that will be independent of conventional technologies and can be operated from anywhere by a bare minimum staff. It is expected to operate on minimalistic hardware and software and would be made active only on a need basis. It would process transactions that are critical to ensure stability of the economy such as government

and market related transactions. Such a light weight and portable payment system could ensure near zero downtime of payment and settlement system in the country and keep the liquidity pipeline of the economy alive and intact by facilitating uninterrupted functioning of essential payment services like bulk payments, interbank payments and provision of cash to participant institutions. Having such a resilient system is also likely to act as a bunker equivalent in payment systems and thereby enhance public confidence in digital payments and financial market infrastructure even during extreme conditions.

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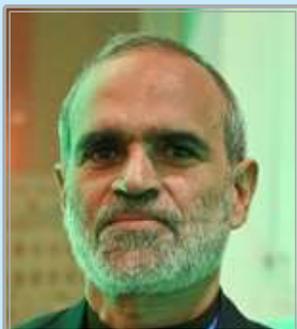


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