Asian Clearing Union

# Administrative Organization, 2017

## Indrajit Coomaraswamy

Chairman of the Board of Directors
Governor of Central Bank of Sri Lanka

## Lida Borhan-Azad

Secretary General

## Secretariat Office

Address: No. 47, 7th Negarestan Alley, Pasdaran Ave., P.O. Box 15875/7177
Tehran, Islamic Republic of Iran
Phone: (+98 21) 22842076, 22854509
Fax: (+98 21) 22847677
Swift: BMJIIRTHACU
E-mail: acusecret@cbi.ir
Website: www.asianclearingunion.org

## Agent Bank

Central Bank of Islamic Republic of Iran

Asian Clearing Union

# Board of Directors, 2017

## Bangladesh Bank

**Mr. Fazle Kabir** Governor, (Director)

**Mr. Shitangshu Kumar Sur Chowdhury** Deputy Governor, (Alternate)

## Royal Monetary Authority of Bhutan

**Mr. Dasho Penjore** Governor, (Director)

**Ms. Yangchen Tshogyel** Deputy Governor, (Alternate)

## Reserve Bank of India

**Dr. Urjit R. Patel** Governor, (Director)

**Mr. T K Rajan*** General Manager-in-Charge, (Alternate)

* From 01.07.2017

## Central Bank of Islamic Republic of Iran

**Dr. Valiollah Seif** Governor, (Director)

**Mr. S. Ahmad Araghchi*** Vice Governor, (Alternate)

* From 07.08.2017

## Maldives Monetary Authority

**Mr. Ahmed Naseer*** Governor, (Director)

* From 24.08.2017

**Ms. Mariyam Hussain Didi** Assistant Governor, (Alternate)

## Central Bank of Myanmar

**Mr. Kyaw Kyaw Maung** Governor, (Director)

**Mr. Bo Bo Nge*** Deputy Governor, (Alternate)

* From 01.08.2017

## Nepal Rastra Bank

**Dr. Chiranjibi Nepal** Governor, (Director)

**Mr. Ramesh Kumar Pokharel*** Executive Director, (Alternate)

* From 01.08.2017

## State Bank of Pakistan

**Mr. Tariq Bajwa*** Governor, (Director)

* From 07.07.2017

**Mr. Jameel Ahmad*** Deputy Governor, (Alternate)

* From 11.04.2017

## Central Bank of Sri Lanka

**Dr. Indrajit Coomaraswamy** Governor, (Director)

**Mr. D. Kumaratunge** Director, (Alternate)

**Asian Clearing Union**

# Officers-in-Charge, 2017

## Bangladesh Bank

**Mr. Md Azizur Rahman**

General Manager, Forex Reserve and Treasury Management Dept.

## Royal Monetary Authority of Bhutan

**Ms. Rinzin Lhamu**

Director, Payment and Settlement Systems Dept.

## Reserve Bank of India

**Mr. K Vijayakumar**

Deputy General Manager, External Investments and Operations Dept.

## Central Bank of Islamic Republic of Iran

**Dr. Rasoul Sajjad**

Director, International Dept.

## Maldives Monetary Authority

**Ms. Aishath Nadhiya**

Manager, Foreign Exchange Section

## Central Bank of Myanmar

**Ms. Myint Myint Kyi***

Director General, Accounts Dept.

* From 27.12.2017

## Nepal Rastra Bank

**Mr. Ramesh Sharma**

Assistant Director, Foreign Exchange Management Dept.

## State Bank of Pakistan

**Mr. Saleem Ullah**

Director, Finance Dept.

## Central Bank of Sri Lanka

**Mr. A M Gunathilake**

Additional Director, Payments and Settlements Dept.

# Letter of Transmittal to the Board of Directors

June 28, 2018

The Honorable Dr. Chiranjibi Nepal
Chairman of the Board,
Governor, Nepal Rastra Bank,
Kathmandu, Nepal

**Dear Mr. Chairman,**

I have the honor to present to the Board of Directors, the Annual Report of the Asian Clearing Union (ACU) for the year 2017, duly signed by me, in accordance with Chapter III, Article VIII, Section 3(c) of the Agreement Establishing the Asian Clearing Union.

Yours sincerely,

Lida Borhan-Azad
Secretary General, ACU

# Global Economic Prospects and Challenges[1]

## An overview

The upward trend in global investment and trade continued in the second half of 2017. Global growth reached at 3.80 percent in 2017. In advanced economies, financial conditions remain supportive, despite the recent volatility in equity markets and increases in bond yields following signs of firming inflation. The output growth is expected to rise to a 3.90 percent rate in both 2018 and 2019. Advanced economies will grow faster than potential this year. In euro area economies, excess capacity is anticipated to narrow. Output growth in emerging market and developing economies is projected to remain robust, with continued strong growth in emerging Asia and Europe and a modest pickup in commodity exporters after three years of weak performance.

Global growth is a forecast to diminish beyond the next couple of years. Risks are expected to lean to the downside, due to a likely sharp tightening of financial conditions, declining support for global economic integration, growing trade tensions and a shift toward protectionist policies, and geopolitical strains.

In the United States (US), financial conditions could tighten faster than expected. Tighter financial conditions in the US would affect other economies, mainly by a reduction in capital flows to emerging markets. Expansionary fiscal policy in the US, when the Current Account Deficit (CAD) is larger than justified by fundamentals, combined with persistent excess current account surpluses in other countries, is anticipated to broaden global imbalances. Increasing desire for technological change and globalization along with wider trade imbalances could foster a shift toward inward-looking policies, disrupting trade and investment. Import restrictions announced by the US, retaliatory actions announced by China and potential retaliation by other countries would threaten global and domestic activity. Changes in the US tax policies, climate change, geopolitical tensions, and cyber-security breaches pose additional threats to the subdued medium-term global outlook.

[1] This summary report is based on World Economic Outlook (WEO-April 2018), International Monetary Fund.

# Global Prospects and Challenges

**World output growth** strengthened in 2017 reaching at 3.80 percent, with a remarkable rebound in global trade. It was led by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable improvement in emerging Europe, and signs of recovery in several commodity exporters. Global growth is projected to pick up to 3.90 percent over 2018-19, driven by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international effects of expansionary fiscal policy in the US. The modest recovery in commodity prices should improve conditions in commodity exporters. However, global growth is projected to drop to about 3.70 percent over the medium-term.

In 2018, growth will remain at 4.90 percent in emerging market and developing economies, due to a projected increase in India's growth which partially offsets China's gradual slowdown and emerging Europe's return to its lower-trend growth rate.

Recovery in investment spending in advanced and in some commodity exporting emerging market and developing economies were important drivers of the uptick in global Gross Domestic Product (GDP) growth and manufacturing activity.

Advanced economies are projected to grow at 2.50 percent in 2018—0.20 percentage point higher than last year—and 2.20 percent in 2019. The prospects are stronger for the euro area and Japan. In the US, growth is expected to rise from 2.30 percent in 2017 to 2.90 percent next year, before moderating slightly to 2.70 percent. The upward revision stems from strong activity, firmer external demand, and the impact of the tax reform.

The growth rates of the euro area and Japan are expected to continue during 2018-19. In the euro area, output is expected to rise from 2.30 percent in 2017 to 2.40 percent this year, before declining to 2.00 percent in 2019, due to stronger domestic demand, supportive monetary policy, and improved external demand.

Japan's growth is projected to drop to 1.20 percent in 2018 from 1.70 percent last year before slowing further to 0.90 percent in 2019.

In emerging market and developing economies, growth is expected to increase from 4.80 percent in 2017 to 4.90 percent in 2018 and 5.10 percent in the year after. High growth rate depicts strong economic performance in emerging Asia and improved prospects for commodity exporters. Beyond 2019, growth in emerging market and developing economies is projected to stabilize at about 5.00 percent over the medium-term. A steady decline in China's growth rate, a gradual surge in India's growth rate as structural reforms raise potential output; and continued strong growth in other commodity importers are expected.

Emerging Asia, which is projected to grow at 6.50 and 6.60 percent during 2018-19, remains the most important engine of global growth. In China, growth is projected to moderate from 6.90 percent in 2017 to 6.60 percent in 2018 and 6.40 percent in 2019.

Growth in India is forecast to increase from 6.70 percent in 2017 to 7.40 percent in 2018 and 7.80 percent in 2019, driven by firm private consumption, fading effects of the currency exchange initiative and implementation of the national goods and services tax. Over the medium-term, growth is expected to surge with ongoing structural reforms that raise productivity and incentivize private investment.

In emerging and developing Europe, growth is estimated at 5.80 percent in 2017, is projected to soften to 4.30 percent in 2018 and 3.70 percent next year, supported by a favorable external environment with easy financial conditions and stronger export demand from the euro area and, for Turkey, an accommodative policy stance.

Growth continues to reclaim in Latin America and the Caribbean (LAC), as it is forecast to rise to 2.00 percent in 2018 and 2.80 percent the year after. Following a deep recession in 2015-16, Brazil's economy got back to growth in 2017 (1.00 percent) and is expected to rise to 2.30 and 2.50 percent in 2018-19, due to stronger private consumption and investment.

In 2017, improved oil export revenue, stronger business confidence, and looser monetary policy helped Russia's economy to boost. Growth in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region is also expected to pick up in 2018-19, but remains subtle at 3.40 and 3.70 percent. Although stronger oil prices improve domestic demand in oil exporters, including Saudi Arabia, but the ongoing fiscal adjustment is projected to weigh on growth prospects.

Growth in Sub-Saharan Africa (SSA) is forecast to rise over 2018-19 to 3.40 and 3.70 percent, respectively. In commodity exporters, the challenging outlook gradually improves. Growth in South Africa is expected to pick up from 1.30 percent in 2017 to 1.50 percent this year and 1.70 percent in 2019.

**Global trade**—which tends to be highly correlated with global investment—recovered strongly in 2017 after two years of flaw, to an estimated real growth rate of 4.90 percent. The surge was more noticeable in emerging market and developing economies (with trade growth rising from 1.80 percent in 2016 to 6.40 percent in 2017), reflecting improved investment growth rates in formerly stressed commodity exporters as well as the recovery in advanced economy investment and domestic demand more generally.

Among advanced economies, large exporters, such as Germany, Japan, the United Kingdom (UK), and the US contributed strongly to the recovery in exports, while the recovery in imports was broad based, except in the UK. Among emerging market and developing economies, the rebound in export growth was particularly strong in emerging Asia, especially China. In contrast, the recovery in imports largely comes from commodity exporters—countries that had earlier experienced sharp investment and import contractions during the 2015–16 commodity price downturn.

**Primary Commodities Price Index** increased by 16.90 percent between August 2017 and February 2018, stemming from rising oil and natural gas prices. Metals and agricultural commodity prices also rose, although less rapidly than energy prices. Oil prices increased to more than USD 65.00 a barrel in January which was the highest level since 2015. The surge was led by disruptions on the US Gulf Coast and in Libya, the North Sea, and Venezuela; an extension to the end of 2018 of the Organization of the Petroleum Exporting Countries (OPEC) agreement on production targets; and stronger global economic growth. Prices moderated to USD 63.00 a barrel in February. The natural gas price index—an average for Europe, Japan, and the US—rose sharply, reflecting seasonal factors.

The commodity price index is expected to rise about 11.90 percent in 2018 relative to its 2017 average and then to fall about 3.70 percent in 2019. Oil prices are forecast to average USD 62.30 a barrel in 2018. As supply recovers, oil prices are expected to decline to USD 58.20 a barrel in 2019.

Core inflation—inflation rates when fuel and food prices are excluded—generally remains soft. It showed signs of recovery in advanced economies and seems to have bottomed out in emerging market and developing economies. The downturn of inflation in advanced economies relative to pre-crisis years reflects primarily non-traded consumer services, such as medical services and education. Traded goods inflation has remained low but has not declined. In most advanced economies, core inflation remains below target but is expected to increase due to stronger demand. In the US, where unemployment is close to its lowest level since the late 1960s, core personal consumer expenditure inflation has begun to firm. In February, it stood at about 1.60 percent on a 12-month basis. Twelve-month core inflation rose to 1.10 percent in the euro area in February, while in Japan it has remained on a gentle upward trend in recent months, reaching 0.40 percent in January. At 2.40 percent in February, the UK core inflation is below the peak it reached in 2017 in the aftermath of the June 2016 Brexit referendum pound depreciation, but remains above the Bank of England's target of 2.00 percent. In many emerging market and developing economies, recent currency stability or appreciations against the US Dollar have curbed core inflation. Core inflation is around historical lows in Brazil and Russia, where demand has been recovering from the deep contractions of 2015-16. It has picked up in India after falling sharply in the second quarter of 2017. In China, core inflation remains stable at about 2.00 percent. Other countries—in SSA; the Commonwealth of Independent States (CIS); and MENAP region—continue to cope with high inflation driven by the earlier exchange rate depreciations.

Financial conditions remain accommodative and supportive of the global outlook. In the US, removal of monetary support, increase in short-term interest rates amid a firmer labor market and strengthening inflation has continued. In 2018, the European Central Bank (ECB) reduced the monthly pace of its asset purchase program from EUR 60.00 billion to EUR 30.00 billion, with purchases intended to continue until the end of September 2018, or beyond if necessary. In the UK, bank rate rose to 50.00 basis points in November and Canada raised its policy rate to 1.25 percent in January. The US Dollar weakened moderately in real effective terms, by about 1.50 percent between August 2017 and the end of March 2018, and is about 4.50 percent weaker than its 2017 average. The Euro has appreciated by around 1.00 percent and stands about 4.00 percent stronger than its 2017 average. The Japanese Yen has remained stable, while the British Pound appreciated 5.50 percent. Among emerging market currencies, the Chinese Renminbi appreciated 3.50 percent in real effective terms.

In emerging market economies, financial conditions continued to support a pickup in economic activity. Monetary policy was eased further in Brazil and Russia, while it was tightened in Mexico. The South African Rand picked up by 10.00 percent due to lessened political uncertainty and the Malaysian Ringgit by over 8.00 percent on an improved growth outlook and stronger commodity prices. In contrast, the Turkish Lira depreciated by more than 10.00 percent due to higher inflation. Financial flows to emerging market economies moderated in the second half of 2017 but remained robust.

Headline inflation rates in advanced economies are projected to increase to 2.00 percent in 2018-19 from 1.70 percent last year. In the US, CPI is projected to increase from 2.10 percent in 2017 to 2.50 percent in 2018 and 2.40 percent in the year ahead.

In the euro area, CPI is expected to remain at 1.50 percent in 2017-18, and a mild increase to 1.60 percent in 2019. In the UK, CPI is expected to be unchanged during 2017-18 (2.70 percent) before diminishing to 2.20 percent in 2019 due to interest rate hikes and the removal of monetary support continues.

Excluding Venezuela (where inflation this year and next is expected to exceed 10,000 percent), headline inflation in emerging market and developing economies is estimated to increase to 4.60 percent this year, from 4.00 percent in the preceding year. The forecast for the current year is stronger, but in 2019 and beyond, inflation is expected to soften to about 4.00 percent as energy prices stabilize and output gaps close.

**Unemployment rates** reduced across advanced economies, owing to the pickup in activity. In most advanced economies, however, nominal wage growth and core inflation remain subtle, and market expectations of future inflation reflect a shift toward central bank targets.

The unemployment rate in the UK is near to historic lows; further declines could add to inflation pressure by triggering faster wage growth in a context of inflation that is already above target following currency depreciation after the June 2016 Brexit referendum.

In 2017, unemployment rate in the US has approached lows last seen in the 1990s, and there are growing signs of a surge in wages. With the economy already likely at potential, the December 2017 tax code overhaul and the February 2018 budget agreement could significantly stimulate activity and stoke wage and price pressures.

The recently legislated tax code overhaul and bipartisan agreement on the federal budget in the US will further increase fiscal deficits and unsustainable debt dynamics over the next five years.

**The economic performance** of commodity-importing and exporting emerging market and developing economies differed on decline in metal prices since 2011 and the plunge in oil prices in 2014. Since 2014, importers continued to grow fast and exporters seeing their growth slow. Some larger exporters—such as Brazil and Russia—faced with deep recessions in 2015-16, while Venezuela has suffered an intensifying economic and humanitarian crisis since 2014. Saudi Arabia and some other oil exporters in the Middle East and SSA have experienced recessions and/or substantial growth slowdowns in recent years. Output and domestic demand decelerated sharply in oil exporters in the aftermath of terms-of-trade losses. For oil importers, when oil prices fall, the windfall gains.

Over the next five years, 40 of emerging market and developing economies are not expected to lessen their per-capita income gaps relative to advanced economies. Income convergence is projected to continue in China, India, and east Asia more broadly, as well as in emerging Europe and parts of the CIS. By contrast, per-capita growth in SSA, LAC, and MENAP region is projected to fall short of or barely exceed that in advanced economies over the next few years, reflecting the weak performance of the many commodity exporters in these regions.

**On monetary policy**, expected normalization of the policy interest rate in the US, depicts stronger demand and inflation pressure under more expansionary fiscal policy. Policy interest rate target in the US is projected to rise to 2.50 percent in 2018 and 3.50 percent next year. In the euro area and Japan, it is anticipated that monetary policy will remain accommodative. Short-term rates are projected to remain negative in the euro area until middle of 2019 and close to zero in Japan over the five-year forecast horizon. The monetary policy stances differ across emerging market economies. Most emerging markets are expected to face accommodative financial conditions, with higher policy rates but sustained risk appetite.

**Fiscal policy stance** for advanced economies is projected to remain expansionary over 2018-19, while it is a forecast to turn broadly neutral in emerging market and developing economies. The estimate assumes a looser fiscal policy over the period, which reflects a weaker US structural fiscal balance in light of the recently legislated overhaul of the tax code.

**Current Account Balances** in 2017, have remained broadly stable relative to their 2016 levels. The current account balance of oil exporters (3.00 percent of GDP), has improved, owing to a partial pickup in export prices. Forecasts for 2018-19 reflect further improvement in the current account balance of oil exporters as average oil prices are projected to exceed those in 2017.

The US CAD is expected to broaden, as a result of expansionary fiscal policy. Over the medium-term, current account balance are projected to remain stable, with some reduction of the US CAD as the expansionary effects of fiscal policy soften, mirrored by some narrowing of surpluses in China and to a lesser extent in Europe. The forecast reflects a mild cutback of imbalances (for example, Germany) or some expansion (for example, the US).

Changes in macro-economic fundamentals since 2016 have affected not only real exchange rates and current account balance, but also their equilibrium value. An example is the strengthening of the terms of trade for most commodity exporters, which is reflected in their real appreciations.

**Net external contribution to growth** was positive for creditors, driven by positive contributions from China, creditor Europe, and Japan. In contrast to the two previous years, the net external contribution to growth in oil exporters was negative, reflecting subtle export volumes and a recovery in imports after two years of severe reduction. Among debtor countries, the net external contribution to growth was strong and positive for euro area debtor countries but remained slightly negative for the US in 2017 and is forecast to become more negative this year because of expansionary fiscal policy.

Stronger reliance on demand growth in some creditor countries, especially those with policy space to support it, such as Germany, would help facilitate domestic and global rebalancing while sustaining world growth over the medium-term. In the US economy, which is already close to full employment, a medium-term plan to reverse the rising ratio of public debt, accompanied by fiscal measures to gradually boost domestic capacity along with demand, would ensure more sustainable growth dynamics while curbing external imbalances.

**Upside and downside risks** are balanced over the next several quarters, but beyond that risks are lean to the downside. Risks arising from inward-looking policies and geopolitical tensions would adversely affect international trade.

The potential for upside growth remains. Business and consumer confidence stayed strong, and growth is likely to maintain a solid pace in the months ahead. The ongoing recovery in investment could enhance productivity, leading to higher growth. Acceleration in potential output would expand demand before it hits capacity constraints and causes inflation pressure.

On the downside, market turbulence and the equity market correction in response to the US tariff announcement on steel, aluminum and a range of Chinese products, as well as the announcement by China of retaliatory tariffs on imports from the US, can lead to correction of asset prices and disruptive portfolio adjustments.

Depending on the extent of the re-pricing, this could soften the surge in global demand. Trade tensions and the imposition of broader barriers to cross-border trade would deteriorate economic activity and reduce confidence. Beyond the next few quarters, risks to the growth outlook are skewed to the downside. Financial vulnerabilities, faded support for global economic integration, geopolitical strains, political dispute, and climate shocks would be area of concerns.

**Financial conditions** are broadly unchanged, even as the US Federal Reserve has raised the policy interest rate and continued to allow a gradual reduction of its bond holdings. Investors have moved into riskier asset classes to neutralize the low returns of more traditional securities. The share of companies with low investment-grade ratings in advanced economy bond indices has increased notably. Corporate debt remains high in some emerging markets. Credit risk may be contained while global growth momentum is strong and borrowing rates are low, but it could come to the fore over the medium-term, exposing financial fragility. An eventual global re-pricing of risk could be triggered by various shifts, including a broad-based pickup in inflation. Tightening of US monetary policy, could lead to a rise in term premiums and debt service costs.

Cyber-security breaches and cyber-attacks on financial architecture could undermine international payment systems and disrupt the flow of goods and services.

**On non-economic factors**, the medium-term global outlook can be hampered by geopolitical tensions (notably in east Asia and the Middle East), political uncertainty (including upcoming elections in several countries such as Brazil, Colombia, Italy, and Mexico), weak governance, and large-scale corruption.

Severe climate events also impose devastating humanitarian costs and economic losses on the affected regions, leading to migration flows that could destabilize recipient countries.

| World Economic Outlook (Percent change unless noted otherwise) | | | | |
|---|---|---|---|---|
| Item / Year | 2016 | 2017 | Projections | |
| | | | 2018 | 2019 |
| **World Output** | **3.20** | **3.80** | **3.90** | **3.90** |
| **Advanced Economies** | 1.70 | 2.30 | 2.50 | 2.20 |
| United States | 1.50 | 2.30 | 2.90 | 2.70 |
| Euro area | 1.80 | 2.30 | 2.40 | 2.00 |
| Japan | 0.90 | 1.70 | 1.20 | 0.90 |
| United Kingdom | 1.90 | 1.80 | 1.60 | 1.50 |
| Canada | 1.40 | 3.00 | 2.10 | 2.00 |
| Other Advanced Economies (excl. G7 and euro area countries) | 2.30 | 2.70 | 2.70 | 2.60 |
| **Emerging Market and Developing Economies** | 4.40 | 4.80 | 4.90 | 5.10 |
| Commonwealth of Independent States | 0.40 | 2.10 | 2.20 | 2.10 |
| Emerging and developing Asia | 6.50 | 6.50 | 6.50 | 6.60 |
| Emerging and developing Europe | 3.20 | 5.80 | 4.30 | 3.70 |
| Latin America and the Caribbean | -0.60 | 1.30 | 2.00 | 2.80 |
| Middle East, North Africa, Afghanistan, and Pakistan | 4.90 | 2.60 | 3.40 | 3.70 |
| Sub-Saharan Africa | 1.40 | 2.80 | 3.40 | 3.70 |
| South Africa | 0.60 | 1.30 | 1.50 | 1.70 |
| European Union | 2.00 | 2.70 | 2.50 | 2.10 |
| **World Trade Volume (goods and services)** | **2.30** | **4.90** | **5.10** | **4.70** |
| **Imports** | | | | |
| Advanced economies | 2.70 | 4.00 | 5.10 | 4.50 |
| Emerging market and developing economies | 1.80 | 6.40 | 6.00 | 5.60 |
| **Exports** | | | | |
| Advanced economies | 2.00 | 4.20 | 4.50 | 3.90 |
| Emerging market and developing economies | 2.60 | 6.40 | 5.10 | 5.30 |
| **Commodity prices (USD)** | | | | |
| Oil | -15.70 | 23.30 | 18.00 | -6.50 |
| Non-fuel (average based on world commodity export weights) | -1.50 | 6.80 | 5.60 | 0.50 |
| **Consumer prices** | | | | |
| Advanced economies | 0.80 | 1.70 | 2.00 | 1.90 |
| Emerging market and developing economies (excl. Argentina and Venezuela) | 4.30 | 4.00 | 4.60 | 4.30 |
| **London Interbank Offered Rate (percent)** | | | | |
| On US Dollar deposits (six month) | 1.10 | 1.50 | 2.40 | 3.40 |
| On Euro deposits (three month) | -0.30 | -0.30 | -0.30 | 0.00 |
| On Japanese Yen deposits (six month) | 0.00 | 0.00 | 0.00 | 0.10 |
| **Source:** World Economic Outlook, IMF, April 2018, Page 15 | | | | |

**Source:** World Economic Outlook, IMF, April 2018, Pages xvi-xviii and 1-68

# Economic Highlights of ACU Member Countries

## Bangladesh

Bangladesh has experienced a high and steady economic growth for more than a decade. Real Gross Domestic Product (GDP) growth has accelerated to 7.28 percent in 2016/17, which was 7.11 percent in 2015/16.

Annual average Consumer Price Index (CPI) inflation (base: 2005/06=100) declined to 5.44 percent in 2016/17 from 5.92 percent in 2015/16.

Bangladesh Bank (BB) has pursued a cautious but growth supportive, inclusive and investment friendly monetary policy stances in 2016/17 with a view to achieving desired economic growth, maintaining inflation at a moderate level. Broad Money (M2) grew by 10.88 percent in 2016/17 against 15.49 percent targeted under the program and 16.35 percent growth in 2015/16.

The budget deficit increased by 50.69 percent to Tk. 986.70 billion (5.00 percent of GDP) in 2016/17 from Tk. 654.80 billion in 2015/16. The domestic borrowing of the deficit financing in 2016/17 was Tk. 699.00 billion (3.54 percent of GDP). Foreign financing component of the budget deficit was Tk. 240.80 billion (1.23 percent of GDP) during 2016/17.

Total export earnings recorded a 1.73 percent growth in 2016/17 compared to 8.94 percent growth in 2015/16 while import payments recorded a growth of 9.00 percent during 2016/17 compared to 5.94 percent growth in 2015/16. The overall balance registered a surplus of USD 3,169.00 million during 2016/17 compared to a surplus of USD 5,036.00 million in 2015/16.

The workers' remittance inflows decreased by 14.48 percent from USD 14,931.16 million in 2015/16 to USD 12,769.45 million in 2016/17.

The nominal exchange rate depreciated by 2.81 percent and stood at Tk. 80.59 as of the end of June 2017 compared to Tk. 78.40 as of the end of June 2016. The Nominal Effective Exchange Rate (NEER) of Taka, calculated against a trade weighted 15 currency basket (base: 2015/16=100) depreciated by 1.69 percent in 2016/17. However, the Real Effective Exchange Rate (REER) of Taka appreciated by 1.81 percent in 2016/17.

The gross Foreign Exchange (FX) reserves of BB stood at USD 33,407.00 million at the end of 2016/17 which is 10.74 percent higher than USD 30,168.00 million of the preceding year. The FX reserve is sufficient to meet around 8 months of prospective imports of goods and services.

Total transactions of Bangladesh under Asian Clearing Union (ACU) decreased in terms of net volume during 2016/17 compared to the preceding year. Receipts significantly increased from USD 127.79 million (Tk. 10.02 billion) to USD 183.60 million (Tk. 14.80 billion) and import payments increased from USD 5,579.88 million (Tk. 437.46 billion) to USD 5,996.92 million (Tk. 483.34 billion) with the ACU member countries during 2016/17.

The near and medium-term outlook for Bangladesh's economy remains broadly positive. Overall Balance of Payments (BOP) remains in surplus despite weaker export performances and remittance inflows. Looking ahead, in 2017/18, domestic credit is projected to grow by 15.80 percent; imports (fob) are projected to grow by 13.00 percent, exports (fob) by 8.20 percent and remittances 7.00 percent. The FX reserves are projected to reach USD 34.22 billion or higher in 2017/18. Based on the recent economic indicators and econometric analysis, BB projects real GDP growth in the range of 7.10-7.40 percent for 2017/18. The monetary program for the second half of 2017/18 will target a monetary growth path aiming at keeping average inflation in the range of 5.70-6.00 percent. In 2014/15, Bangladesh reached the lower middle income country status and expects to reach upper middle-income countries by 2030 or earlier. Moreover, Bangladesh's target is building Bangladesh as a knowledge-based and technology-oriented middle-income country by 2021, poverty alleviation, overall development of living standard of people and graduation of the country to a developed one by 2041.

# Bhutan

Bhutan maintained real GDP to its upward trajectory, expanding by 7.99 percent during 2016/17 as compared to 6.60 percent in 2015/16 which was highest during the last five years. The growth was mainly driven by the tertiary sector, recording 10.48 percent against 5.45 percent growth in 2015/16. This rebound was enabled by an impressive recovery in the transport and finance sub-sectors, which grew by 11.20 percent and 10.70 percent, respectively. In nominal terms, GDP increased by 12.57 percent to Nu. 148.67 billion in 2016/17 from Nu. 132.08 billion in 2015/16.

Bhutan's annual inflation has grown

significantly in 2016/17 following the price movements in India and the world market. Bhutan's prices broadly follow movements in India, as most of the goods are imported from India and the Bhutanese Ngultrum is pegged one-to-one to the Indian Rupee. The overall CPI inflation rose to 5.45 percent in second quarter of 2017 Year-on-Year (YoY) from 3.31 percent during the same quarter last year. Higher inflation was an outcome of both an increase in domestic demand and temporary issues in the supply chain which led to higher food inflation.

The annual growth of M2 averaged 31.52 percent in June 2017 compared to 15.83 percent in the same period last year mainly on account of Narrow Money (M1) which was increased by 35.14 percent. The growth in M1 was mainly contributed by higher growth in current deposits with 42.01 percent and saving deposits with 26.91 percent. Despite the Royal Monetary Authority's (RMA's) initiatives on digitalization of payment system, the currency in circulation outside the banks increased to Nu. 8.79 billion in June 2017 from Nu. 6.10 billion in June 2016. Assets of banking sector totaled Nu. 121.05 billion in June 2017 up by 24.34 percent or Nu. 23.69 billion from the previous year.

The Current Account Deficit (CAD) decreased from 33.13 percent of GDP in 2015/16 to 24.44 percent of GDP in 2016/17, mainly on account of the trade deficit which improved to Nu. 31.14 billion from Nu. 37.48 billion in the previous year, driven by higher electricity exports to India, and minerals and base metals to countries other than India. Bhutan's total outstanding external debt increased to an equivalent of USD 2.51 billion as of June 2017. Of this, an equivalent of USD 663.22 million was outstanding on convertible currency loans and the remaining 118.77 billion were outstanding Indian Rupee loans. The Government of India remains Bhutan's largest creditor with 73.53 percent of overall external debt at Nu. 118.77 billion or 100.00 percent of total Rupee outstanding debt. This is followed by the Asian Development Bank (ADB) with USD 274.55 million, the World Bank with USD 209.02 million and the Government of Austria with USD 66.94 million. In the exchange rate developments, the Ngultrum averaged Nu. 66.43 per US Dollar in the fiscal year, depreciating by 0.17 percent from the previous year.

In recent years, Bhutan's fiscal performance has been more expansionary, mainly reflected by the expenditure dynamics of Bhutan's five year plans although, domestic revenue has been increasing in nominal terms, its share to GDP has been declining. The revised budget for the 2016/17 was Nu. 56.28 billion against resources of Nu. 47.89 billion with a fiscal deficit of Nu. 6.49 billion (4.06 percent of GDP) and resource gap of Nu. 5.48 billion.

## India

On the expenditure side, growth in real

GDP at market prices decelerated to 6.60 percent in 2017/18 (7.10 percent in 2016/17), largely due to slowdown in consumption, both private and government, and net exports outweighing the acceleration witnessed in investment.

On the production side, growth in real Gross Value Added (GVA) at basic prices moderated to 6.40 percent in 2017/18 (7.10 percent in 2016/17), largely due to slowdown in agriculture and industrial sector, while growth in services sector picked up.

In 2017/18, the Revised Estimates (RE) for the key deficit indicators indicate that they deviated from their budgeted levels. While Revenue Deficit (RD) at 2.60 percent of GDP was higher than the budgeted target of 1.90 percent, the Gross Fiscal Deficit (GFD) exceeded the budgeted target of 3.20 percent by 0.30 percent.

The consolidated balance sheet of the banking system witnessed further deceleration. Persistent deterioration in asset quality of banks adversely impacted their lending capacity resulting in historically low credit growth. Worsening asset quality led to sharp increase in provisioning requirement which dented banks' profitability.

Headline CPI inflation reached a peak of 5.20 percent in December 2017 reflecting an unseasonal spike in the prices of vegetables and the full impact of the central government implementing the seventh Central Pay Commission's (CPC's) House Rent Allowance (HRA) award. The delayed setting in of the seasonal food prices moderation took down headline inflation to 4.40 percent in February and 4.30 percent in March.

# Iran

After the implementation of the Joint Comprehensive Plan of Action (JCPOA), the economy was positively affected by a sharp increase in oil income which led to GDP growth of 12.50 percent in 2016/17 compared to a negative outturn of 1.60 percent in 2015/16, at constant 2011/12 prices. This positive growth continued through 1396 (2017/18)[1].

Based on preliminary estimates, GDP at basic and current prices in the first nine months of 1396 (April-December 2017) has 15.60 percent nominal growth rate compared with the same period of 1395 (April-December 2016). Based on the same set of data, the real GDP (at constant 2011/12 prices) indicated 3.40 percent increase, in the first nine months of 1396 (2017/18). Contrary to 2016/17 in which oil was the major force and had a remarkable contribution to GDP growth, non-oil sectors of the economy were the major contributors to growth (by 4.10 percent) in the first nine months of 1396 (2017/18).

[1] The year 1396 corresponds to 2017/18 (starting March 21, 2017 and ending March 20, 2018). The first nine months of 1396 cover April-December 2017.

Iran’s average crude oil production grew by 3.90 percent in the first nine months of 1396 (2017/18) compared with the respective period in the previous year. Average of Iran’s crude oil exports increased by 2.40 percent in the same period and the exports of oil products increased 77.20 percent. Meanwhile, the estimated average of Iran’s spot price of crude oil increased by 20.10 percent to USD 50.70 per barrel compared with the first nine months of 1395 (2016/17).

A review of the developments of agriculture sector indicates a growth rate of 2.10 percent in agricultural products in 2017/18. The value-added growth of this sector showed an increase of 4.10 percent in the first nine months of 1396 (2017/18), at constant 2011/12 prices.

After a continuous slowdown in manufacturing and mining sector during 2015/16, this sector indicated a favorable performance in 2016/17 and the first nine months of 1396 (2017/18). The manufacturing and mining sectors showed 6.60 and 4.60 percent growth in 2016/17 and the first nine months of 2017/18 respectively.

The performance indicators of construction and housing sector point to the gradual recovery in terms of construction and investment activities. The value-added growth of construction sector, which was on a downward trend over the 2012-2017 period, experienced a positive trend as of 1396, in second quarter (July-September 2017). The overall value-added growth of this sector was 0.80 percent in the first nine months of 1396 (2017/18).

According to the estimates of the Statistical Center of Iran (SCI), unemployment rate reached 12.10 percent in 2017/18, indicating 0.30 percentage point fall compared with the year before. The higher increase in the demand for labor (employed population) at 3.50 percent compared with the rise in labor supply (economically active population) at 3.10 percent led to a decline in unemployment rate in 2017/18.

Based on preliminary data released by the Islamic Republic of Iran Customs Administration (IRICA), total value of trade[1] through Customs increased by 17.10 percent to USD 94,154.00 million in 2017/18. The shares of exports and imports in the total value of trade were respectively 42.30 and 57.70 percent in this year. The value of exports (through Customs) amounted to USD 39,852.00 million, indicating 8.50 percent growth compared with 2016/17. The value of imports (through Customs) increased by 24.30 percent compared with the preceding year and reached USD 54,302.00 million in 2017/18.

Based on preliminary estimates, current account surplus decreased by 8.40 percent to USD 10,914.00 million in the first nine months of 1396 (2017/18). Among the major

[1] Excludes value and volume of crude oil exports.

components of the current account, the goods account posted a surplus of USD 16,369.00 million, up by 2.10 percent. Moreover, the deficit of non-oil goods account increased by 26.00 percent to USD 28,560.00 million.

The Free on Board (FOB) value of exports went up by 14.60 percent to USD 69,078.00 million in the first nine months of 1396 (2017/18), mainly due to 16.30 percent growth in oil exports.

Liquidity amounted to Rls. 15,299.80 trillion at the end of March 2018, showing 22.10 percent growth compared with the previous year-end (March 2017). Comparing the liquidity growth in 2017/18 with the growth figure of the previous year (23.20 percent) is indicative of 1.10 percentage points decrease.

Monetary base surged by 19.10 percent in March 2018 and reached Rls. 2,141.60 trillion, showing 1.80 percentage points increase compared with the growth figure of 2016/17 (17.30 percent). The major reason behind the growth of monetary base was the sharp rise in Central Bank of Islamic Republic of Iran (CBI) claims on banks, which occurred due to liquidity shortages and balance sheet difficulties of banks.

Reviewing the key indicators of Tehran Stock Exchange (TSE) shows that Tehran Stock Exchange Price Index (TEPIX) increased by 24.70 percent from the end of March 2017 to the end of March 2018. Financial and industrial indices showed -9.60 and 30.20 percent growth compared with the previous year-end.

Due to the high share of export-oriented industries which are reliant on and sensitive to world market prices, market capitalization increased by 18.80 percent from March 2018 to March 2017.

As a result of policies adopted by the eleventh government such as disciplinary fiscal and monetary policies and appropriate management of inflation expectations, inflation rate declined to 9.00 percent in March 2017, which was a remarkable achievement in attaining a single-digit inflation rate. The rate of inflation continued its stable trend through 2017/18 and registered another single-digit rate for the second consecutive year at 9.60 percent.

The twelve-month developments for the price index of exportable goods increased by 23.30 percentage points and reached 20.60 percent in March 2018.

# Maldives

Real GDP growth is estimated to have accelerated at a remarkable pace of 6.90 percent in 2017, up from 6.20 percent in 2016. The growth was largely driven by a robust tourism sector and continued expansion in construction sector.

Tourism sector gained further momentum in 2017, after a strong performance during the latter half of 2016, as exhibited by the remarkable improvements in the key indicators. As such, the number of tourist arrivals increased in annual terms, mainly due to an upswing in the European source markets. Moreover, a marked upturn in tourist bednights was observed over period. Meanwhile, key indicators of fisheries sector showed further strengthening of the sector, following a positive turnaround in 2016. This was evidenced by the strong growth in fish exports and fish purchases during the period. Additionally, with the continued expansion of several public sector infrastructure projects, the construction sector remained robust during the year.

The domestic rate of inflation (as measured by the annual percentage change in the CPI at the national level) accelerated to 2.83 percent in 2017. Inflationary pressure in the domestic economy rose mainly from prices of food and non-alcoholic beverages, on the back of the temporary base effects from a number of domestic policy changes. Meanwhile, domestic inflationary pressure was curbed owing to the significant drop in electricity prices with the reduction in the import duty on petrol and diesel followed by electricity fuel surcharge removal, despite an upsurge in global oil prices.

With regard to public finance, the budget deficit is estimated to have declined significantly in 2017. The total revenue (excluding grants) increased by USD 114.90 million in annual terms due to growth in both tax and non-tax revenue. Meanwhile, total expenditure (excluding net lending) decreased by USD 199.62 million in annual terms, reflecting the decline in both capital and current expenditure.

As for the monetary developments, both monetary policy and monetary framework remained unchanged in 2017. Looking at the main monetary aggregates, broad money accelerated in annual terms primarily due to growth in the Net Foreign Assets (NFA) of the banking sector, while Net Domestic Assets (NDA) posted a decline during the year. Turning to the banking sector performance, a healthy growth was observed with profitability ratios remaining at strong levels.

On the external front, the current account is estimated to have narrowed in 2017, largely owing to increase in tourism receipts amid a strong tourism sector, in addition to the downside base effect of a large outward transfer made in 2016. Meanwhile, Gross International Reserve (GIR[1]) increased by 25.47 percent in annual terms and stood at USD 586.10 million at the end of 2017.

## Myanmar

Myanmar’s macro-economic environment over the course of 2016/17 has remained

[1] GIR comprises of foreign currency deposits of the Maldives Monetary Authority (MMA) and the government, commercial bank’s US Dollar reserve accounts and Maldives’ reserve position in the International Monetary Fund (IMF).

relatively stable though economic growth slowed to 5.90 persent from 7.00 percent the previous year. An improvement in medium-term growth could come largely from increased investments with the implementation of the new Investment Law. Macro-economic imbalances persist, with continuing inflation pressure, an increased fiscal deficit, and a widening external current account deficit.

The CAD narrowed from 6.27 to 5.05 percent of GDP and trade deficit increased from 8.35 percent to 8.91 percent, of GDP between 2015/16 and 2016/17, respectively. In 2016/17, the reserve of Central Bank of Myanmar (CBM) covered about 3 months of prospective import.

During 2016/17, the services sector of 42.00 percent was the major contributor to GDP, following by industry sector with 31.00 percent, and agriculture sector with 27.00 percent, respectively.

Myanmar's comprehensive tax reform program is gradually improving revenue collections. Although Foreign Direct Investment (FDI) flows had declined, external debt disbursements began to pick up. Private investment flows decelerated from annual average real growth in the previous three years to real growth in 2016/17.

With a view to ensuring monetary stability, the CBM is implementing the Reserve Monetary Targeting (RMT) so that inflation or stability of prices can be maintained. Deposit auction was introduced in the year 2012, and there was 20 times of deposit auction in 2016/17. In the 2016/17 fiscal year, Kyat 3,032.00 billion worth government Treasury Bill (T-bill) and Kyat 1,181.00 billion worth government treasury bonds were sold.

To stabilize the banking sector, the CBM is transforming rule-based supervision into risk-based supervision. And also CBM has introduced card payment systems such as Myanmar Payment Union (MPU) cards, VISA, MASTER, Unified Payment Interface (UPI) and Japan Credit Bureau (JCB) card and credit cards to improve payment system and to reduce currency use.

In the 2016/17, the CBM allowed to introduce Interbank lending system which is practiced in international banking market. Moreover, the currency SWAP System and Currency Forward System were allowed by the CBM starting from the financial year 2016/17.

During 2016/17, the value of exports decreased by 0.29 percent, from value of USD 9,498.20 million to USD 9,471.10 million and the value of imports increased by 2.36 percent, from value of USD 13,546.20 million to USD 13,865.30 million compared to the previous year.

Total exports to ACU member countries increased to 9.53 percent. Total imports from ACU countries increased by 23.45 percent during 2016/17. India is the major export and import country for Myanmar with the share of 89.33 and 93.31 percent, among the ACU countries. According to the transaction of trade between ACU countries and Myanmar, trade deficit was about USD 15.00 million, USD 1,056.16 million in exports and USD 1,071.36 million in imports. Myanmar mainly imported consumer goods such as medicine, machinery, vehicle spare parts and electrical products from India during that fiscal year. Share of trade with ACU countries in total trade was 11.00 percent in export and 8.00 percent in import in 2016/17.

## Nepal

Nepal's real GDP at basic price grew at 7.40 percent in 2016/17 compared to a growth of 0.20 percent in the previous year. Agriculture, industrial and services sectors grew by 5.20, 12.40, and 7.40 percent respectively, in the review year.

The ratio of gross consumption to GDP decreased to 88.10 percent in the review year compared to 95.90 percent in the previous year. Consequently, the gross domestic savings increased to 11.90 percent of GDP in the review year.

The annual average consumer price inflation moderated at 4.50 percent in the review year compared to 9.90 percent in 2015/16.

Nepal Stock Exchange (NEPSE) index, only one security market index in the country, decreased to 1,582.70 points from 1,718.20 points in the middle of July 2017 on YoY basis. The annual turnover of the securities increased 24.90 percent to Rs. 204.79 billion in 2016/17 from Rs. 163.96 billion in 2015/16.

M2 was relatively lower at 15.50 percent in 2016/17 compared to 19.50 percent in the previous year.

The government budget deficit, on cash basis, remained at a deficit of Rs. 125.61 billion (USD 1.18 billion) from Rs. 49.83 billion (USD 468.55 million) in 2015/16. The ratio of budget deficit to GDP stood at 4.80 percent in the review year. Government expenditure, on cash basis, increased 36.50 percent to Rs. 793.91 billion (USD 7.47 billion) in 2016/17 compared to an increase of 14.20 percent to Rs. 581.70 billion (USD 5.47 billion) in 2015/16. The government revenue increased 26.40 percent to Rs. 609.16 billion (USD 5.74 billion) in 2016/17. Revenue to GDP ratio increased to 23.40 percent in the review year.

The trade deficit as percentage of GDP jumped to 34.70 percent in the review year from 31.30 percent of the previous year.

The overall BOP recorded a surplus of Rs. 82.15 billion (USD 773.47 million) in the review year compared to a surplus of Rs. 188.95 billion in the previous year.

The gross foreign exchange reserves increased 3.90 percent to Rs. 1,079.52 billion (USD 10.50 billion) as at the middle of July 2017 from Rs. 1,039.21 billion (USD 9.74 billion) in the middle of July 2016. The current level of foreign exchange reserves is sufficient for financing merchandise imports of 13.20 months, and merchandise and services imports of 11.40 months.

The total number of banks and financial institutions licensed by Nepal Rastra Bank (NRB) came down to 149 in the middle of July 2016 from 179 a year ago due to merger and acquisition policy adopted by the bank. The Nepalese financial system constituted 28 commercial banks ("A" class institutions), 40 development banks ("B" class institutions), 28 finance companies ("C" class institutions), 53 micro finance financial institutions ("D" class institutions), 36 insurance companies and one each of the employees provident fund, citizen investment trust and postal saving bank.

The ratio of Non-Performing Loan (NPL) to total loans of Bank and Financial Institutions (BFIs) dropped to 1.70 percent in the middle of April 2017 compared to 2.19 percent in the middle of July 2016.

# Pakistan

The pace of expansion in the economy continued to accelerate in 2016/17 as well. The real GDP grew by 5.30 percent during 2016/17 compared to 4.50 percent in 2015/16. The growth was not only the highest during last ten years but also broad-based. A sharp recovery in agriculture sector, healthy value addition in the services sector, and continued improvement in manufacturing sector contributed to this broad-based growth. From the demand side, the growth was led by a surge in consumption followed by a moderate increase in investment.

Though inflation trended upwards, it continued to be well anchored and remained lower than the target for the third consecutive year in 2016/17. Average CPI inflation rose 4.20 percent during 2016/17, compared with an increase of 2.90 percent in the previous year. Similarly, food and non-food inflation increased by 3.80 and 4.40 percent, respectively during 2016/17, compared with rise of only 2.10 percent and 3.40 percent in 2015/16.

The accommodative monetary policy has played a pivotal role in providing boost to private sector credit demand, which expanded by unprecedented Rs. 747.90 billion during 2016/17. In addition, gradually easing energy constraints, improving business confidence and a steady progress on power and infrastructure projects under China Pakistan Economic Corridor (CPEC) also contributed to increase in demand for private sector credit.

On the supply side, a healthy deposit growth improved the liquidity of the banking system. On an encouraging note, about 40.00 percent of the expansion in credit was meant for fixed investment. The fixed investment loans recorded a net increase of Rs. 250.90 billion during 2016/17, compared to Rs. 179.30 billion in 2015/16.

The fiscal deficit was recorded at 5.80 percent of GDP in 2016/17 against the target of 3.80 percent; and 4.60 percent in 2015/16. The higher deficit in 2016/17 was, nevertheless, due to both a slower growth in revenue collection and a jump in total expenditure led by a surge in development spending. The revenue collection grew by 11.00 percent during 2016/17, down from 13.10 percent in 2015/16.

One of the outcomes of growing economy was a surge in imports, which together with decline in exports and remittances resulted in widening of CAD to USD 12.40 billion (or 4.10 percent of GDP). This has resulted in increased reliance on external borrowing and pressure on FX reserves.

This widening in CAD was primarily driven by trade deficit, which increased by USD 7.20 billion to record high at USD 26.60 billion during 2016/17. Mainly a sharp growth in imports by 17.60 percent (or USD 48.50 billion) contributed to higher trade deficit, while exports also declined by 0.20 percent (or USD 34.00 million).

The latest available data from July to December points to a promising growth outlook with inflation likely to remain with the target in 2017/18 as well. The optimistic growth outlook is supported by pickup in manufacturing activity; increase in production of major crops pointing the agriculture sector to repeat 2016/17 performance; continued encouraging trends in private sector credit; and, development focus of the budget along with ongoing CPEC related investment in power and infrastructure. At the same time, the CAD has widened, which may create some challenges.

## Sri Lanka

Adverse weather conditions and their spillover effects continued to affect real sector economic activity. This contributed to growth surprisingly to the downside by recording 3.10 percent in 2017. There was a tightening bias in the Central Bank's monetary policy from the end of 2015 to April 2018. The upper band of the policy rate corridor was reduced by 25 basis points to signal a move to a neutral monetary policy stance. Headline inflation recorded twin peaks in the second quarter and the forth quarter largely due to weather related supply disruption which led to a sharp increase in food price inflation. Headline inflation has now moderated and recorded 3.80 percent in April 2018. Core inflation remained broadly with the 4.00-6.00 percent target, reflecting subdued demand-side pressure as a consequence of the tight monetary policy stance.

Substantial inflows were recorded to the financial account of the BOP with FDI recording the historically highest level.

Although earnings from exports increased to the highest levels recorded, the increase in imports caused a wider trade deficit. Despite the continued inflows on services exports including tourism, and workers' remittances, which cushion the impact of the widened trade deficit to some extent, the current account recorded a deficit of 2.06 percent of GDP during the year. Gross official reserves increased to USD 8.00 billion by the end of 2017 with an accompanying qualitative improvement. The Sri Lankan Rupee depreciated against the US Dollar by 2.00 percent during the year, while the real effective exchange rate indices also depreciated, raising the competitiveness of the currency.

In relation to public finance, the revenue based fiscal consolidation program continued, resulting in increased tax revenue as a percentage of GDP as well as a surplus in the primary account. Nevertheless, revenue collection was lower than expected, while government spending was affected by the need to provide relief to the people affected by inclement weather conditions, and also by the rising interest payments. This resulted in an expansion in the overall budget deficit to 5.50 percent of GDP.

Meanwhile, with the exception of a few small non-bank financial institutions, the financial sector performed well amidst measures taken by the authorities to ensure the stability of the financial sector and to strengthen financial markets and related infrastructure.

# Country Performance

## Bangladesh

Bangladesh has experienced a high and steady growth for more than a decade with an average growth of over 6.00 percent. Real Gross Domestic Product (GDP) growth has accelerated to 7.28 percent in Financial Year (FY)[1] 2016/17, which was 7.11 percent in 2015/16. This growth was mainly contributed by the higher growth of industry sector along with satisfactory growth of service sector. Average inflation in Bangladesh has declined gradually over the last couple of years. Annual average Consumer Price Index (CPI) inflation (base:2005/06=100) declined to 5.44 percent in 2016/17 from 5.92 percent in 2015/16. Bangladesh Bank (BB) has pursued a cautious but growth-supportive, inclusive and investment friendly monetary policy stance in 2016/17. Broad Money (M2) registered a 10.88 percent growth in 2016/17 against the projected growth of 15.49 percent. M2 grew by 16.35 percent in 2015/16. Domestic credit grew by 11.16 percent against the projected growth of 16.43 percent in 2016/17 and the growth of 14.44 percent in 2015/16. The Current Account Balance (CAB) registered a deficit of USD 1,480.00 million in 2016/17, from a surplus of USD 4,262.00 million in 2015/16 due to large deficit in the services and primary income and decline in the secondary income. The capital and financial account has continued to surplus and stood at USD 314.00 million and USD 4,179.00 million, respectively in 2016/17. During the same period the overall Balance of Payments (BOP) recorded a surplus of USD 3,169.00 million due mainly by financial account. Gross international foreign exchange reserves stood at USD 33,407.00 million at the end of 2016/17 representing around 8 months of prospective imports of goods and services. In order to maintain stability of the exchange rate of Taka (Tk.) with US Dollar by absorbing excess liquidity, BB has purchased USD 1.93 billion from local inter-bank foreign exchange market in 2016/17. To meet the payment obligations of Government and others, BB also sold USD 0.18 billion in the domestic inter-bank market during 2016/17. As a result, the exchange rate of Taka against US Dollar remained almost stable during 2016/17.

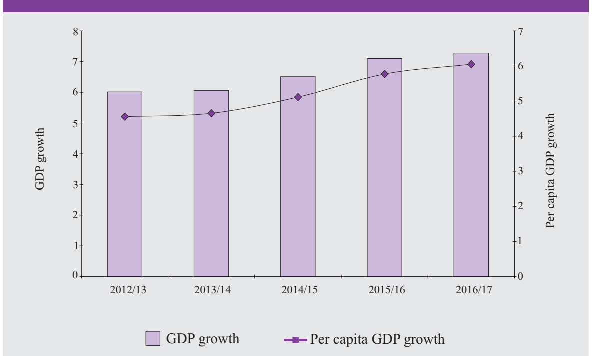
[1] Financial Year stands for beginning of July to the end of June.

## Economic Growth

Bangladesh economy has achieved robust economic growth exceeded 7.00 percent in 2016/17, higher than the average in peer asian economies, making Bangladesh the third best growth performer in Asia. The growth in industry sector stood at 10.23 percent in 2016/17 which was 11.09 percent in 2015/16. This growth was supported by strong growth of construction sub-sector especially small scale industry. Among the industry sub-sectors, growth of small scale and construction sub-sectors increased marginally to 9.84 and 8.77 percent in 2016/17 from 9.07 and 8.55 percent in 2015/16, respectively. The services sector registered a 6.69 percent growth in 2016/17 which was 6.25 percent in 2015/16. The growth in agriculture sector increased to 2.97 percent in 2016/17 from 2.79 percent in 2015/16 mainly supported by the strong growth of all sub-sectors.

**Real GDP Growth**

**(In percent)**




## Savings and Investment

The ratio of gross national savings to GDP declined marginally to 29.64 percent in 2016/17 from 33.77 percent in 2015/16. Investment as a percentage of GDP increased to 30.51 percent in 2016/17 from 29.65 percent in 2015/16. During the same period, private investment increased from 22.99 percent to 23.10 percent of GDP and public investment increased from 6.66 percent to 7.41 percent of GDP. As a result, domestic savings-investment gap as a percentage of GDP increased to 5.18 percent in 2016/17 from 4.67 percent in 2015/16.

## Inflation

Annual average CPI inflation (base: 2005/06=100) in Bangladesh has continued its declining trend in 2016/17. The headline inflation stood at 5.44 percent in June 2017 while it was 5.92 percent in 2015/16. Inflationary pressure kept easing during 2016/17. The declining trend average CPI inflation in 2016/17 mainly driven by non-food inflation, while food inflation witnessed a sharp increase due to flash flood-related crop losses in the northeastern haor regions in 2016/17. In contrast, non-food price component of CPI declined due to subdued global inflation and favorable regional inflation rate. Similarly, the 12-month point-to-point CPI inflation stood at 5.94 percent in 2016/17 from 5.53 percent in 2015/16.

**National CPI Inflation**
**(12-month average: base 2005/06=100)**
**(In percent)**


## Fiscal Developments

Total revenue receipts increased by 26.34 percent and stood at Tk. 2,185.00 billion in 2016/17 compared to Tk. 1,729.50 billion in 2015/16. Total expenditure increased by 33.02 percent to Tk. 3,171.70 billion in 2016/17 compared to Tk. 2,384.30 billion in 2015/16. The Annual Development Program (ADP) in 2016/17 was amounted to Tk. 1,107.00 which was 39.50 percent higher than the actual ADP in 2015/16. The budget deficit increased by 50.69 percent to Tk. 986.70 billion (5.00 percent of GDP) in 2016/17 from Tk. 654.80 billion in 2015/16. The domestic borrowing of the deficit financing in 2016/17 was Tk. 699.00 billion (3.54 percent of GDP). On the other hand, the foreign financing of the budget deficit was Tk. 240.80 billion (1.23 percent of GDP).

## Monetary and Credit Situation

BB pursued a cautious but growth supportive, inclusive and investment friendly Monetary Policy Stances (MPS) in 2016/17 with a view to achieving desired economic growth maintaining inflation at a moderate level. M2 recorded a growth of 10.88 percent in 2016/17 as against 15.49 percent projected and 16.35 percent growth in 2015/16. The Net Foreign Assets (NFA) of the banking system grew by 11.53 percent against the projected 10.05 percent growth in 2016/17 and 22.86 percent growth in 2015/16. The growth in NFA declined due to declining trend in inward remittances and widening of trade gap. On the other hand, the growth rate of Net Domestic Assets (NDA) in the banking system registered a 10.66 percent growth in 2016/17, which was lower than the projected growth of 17.34 percent for 2016/17, while the growth of NDA was 14.25 percent in 2015/16. The credit to public sector declined by 13.03 percent in 2016/17 against the projected 16.05 percent growth in 2016/17, while the credit growth was positive at 3.29 percent in 2015/16. Private sector credit recorded a 15.66 percent growth in 2016/17 as against of 16.78 percent growth in 2015/16. Reserve Money (RM) grew by 16.30 percent in 2016/17 which was lower than the growth of 30.14 percent in 2015/16 due mainly to a subdued growth in NFA and a huge amount of repayment of previous loans of Government to the BB. Money multiplier decreased to 4.53 in 2016/17 as compared to 4.75 in 2015/16. The income velocity of money increased to 1.94 in 2016/17 from 1.89 in 2015/16.

To support growth and mitigating inflation risk, BB continued to pursue a restrained MPS in both the first and the second half of 2016/17. Policy rates namely repo and reverse repo rates were reduced by 50 basis points at 6.75 and 4.75 percent respectively in the second half of 2015/16 which remains unchanged till now. Besides, the Cash Reserve Ratio (CRR) for the scheduled banks with BB remained unchanged at 6.50 percent of their total demand and time liabilities for 2016/17. Regarding Statutory Liquidity Ratio (SLR) it is mentioned that for the conventional banks, the statutory liquid assets inside Bangladesh which also includes excess reserves with BB shall not be less than 13.00 percent of their total demand and time liabilities. For the shariah based Islami banks, this rate shall not be less than 5.50 percent. This has been effective from February, 2014 and is remained unchanged in 2016/17. The bank rate also remained unchanged at 5.00 percent in 2016/17, effective from November, 2003.

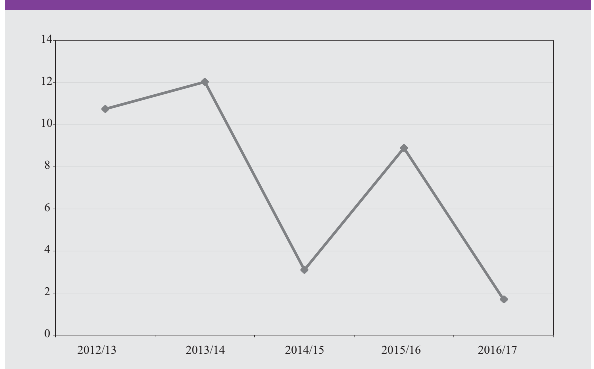
## Exchange Rate Developments

Since the adoption of flexible exchange rate regime in May 2003, BB has allowed sufficient flexibility in the exchange rate movements, which help to keep the nominal exchange rate stable in 2016/17. The nominal exchange rate depreciated by 2.81 percent and stood at Tk. 80.59 as of the end of June 2017 compared to Tk. 78.00 as of the end of June 2016. The Nominal Effective Exchange Rate (NEER) of Taka, calculated against a trade weighted 15 currency basket (base: 2015/16=100) depreciated, by 1.69 percent in 2016/17. However, the Real Effective Exchange Rate (REER) of Taka was appreciated by 1.81 percent in 2016/17.

## Exports (fob)

Total exports earnings increased by 1.73 percent in 2016/17 to USD 34,019.00 million from USD 33,441.00 million in 2015/16. In spite of negative growth of petroleum by-product (17.91 percent), raw jute (3.12 percent), woven garments (2.35 percent), etc., positive growth of engineering products (35.03 percent), chemical products (13.18 percent), knitwear products (3.01 percent), footwear (8.94 percent), etc. contributed to slight increase in the growth of merchandise exports in 2016/17.

**Export Growth**
**(In percent)**

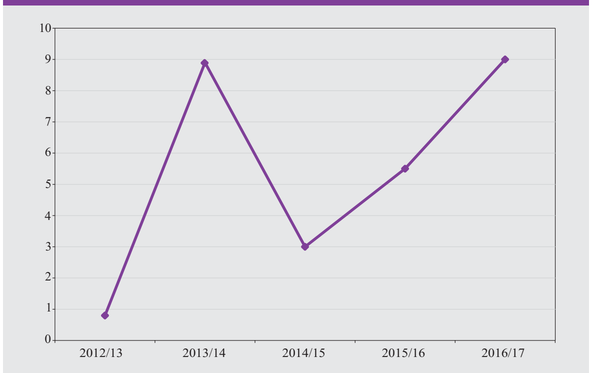



## Imports (fob)

Import payments (fob) in 2016/17 stood at USD 43,419.00 million registering a growth of 9.00 percent compared to USD 39,901.00 million in 2015/16. Increase of import payments for food grains (21.15 percent), other food items (19.92 percent), consumer and intermediate goods (4.54 percent), and capital goods and others (11.19 percent) contributed to increase in import growth in 2016/17.

Import Growth

(In percent)

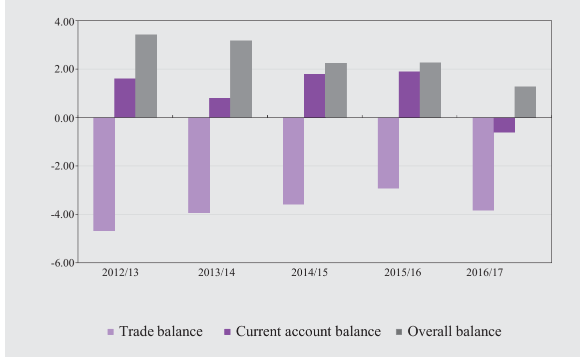



## Balance of Payments (BOP)

CAB showed a deficit of USD 1,480.00 million in 2016/17 which was a surplus of USD 4,262.00 million in 2015/16. Large deficit in the services and primary income and decline in the secondary income led to be significant downfall in the CAB in 2016/17. The financial account surplus increased from USD 944.00 million in 2015/16 to USD 4,179.00 million in 2016/17. The capital account surplus decreased from USD 464.00 million to USD 314.00 million during this period. The overall BOP registered a surplus of USD 3,169.00 million in 2016/17 compared to a surplus of USD 5,036.00 million in 2015/16.

Trade, Current Account and Overall Balance

(In percent of GDP)




## Workers' Remittances

In 2016/17, inflow of remittances decreased by 14.48 percent from USD 14,931.16 million in 2015/16 to USD 12,769.45 million. The shortfall of remittance was mainly due to the decrease of oil revenues and fiscal tightening in the Gulf Cooperation Council (GCC) countries and increase of digital hundi (using apps and software).

## Foreign Exchange Reserves

The gross foreign exchange reserves of BB stood at USD 33,407.00 million at the end of 2016/17 which is 10.74 percent higher than the USD 30,168.00 million during the same period of previous fiscal year. The gross foreign exchange reserve is sufficient to meet around 8 months of prospective imports of goods and services. BB was tried to maintain optimal return from foreign exchange reserve investment by diversifying the foreign asset portfolio in bonds (issued by sovereign, supranational and highly reputed foreign commercial banks), Treasury Bills (T-bills) and Treasury Notes of US Government and in short-term deposits with internationally reputed foreign commercial banks.

## Trade with ACU Member Countries

Total transactions of Bangladesh under Asian Clearing Union (ACU) decreased in terms of net volume during 2016/17 compared to the preceding year. Receipts significantly increased from USD 127.79 million (Tk. 10.02 billion) to USD 183.60 million (Tk. 14.80 billion) and import payments slightly increased from USD 5,579.88 million (Tk. 437.46 billion) to USD 5,996.92 million (Tk. 483.34 billion) with the ACU member countries during 2016/17. As a result, the net debtor position of Bangladesh increased by USD 361.23 million or 6.63 percent to USD 5,813.32 million (Tk. 468.55 billion) in 2016/17 compared to USD 5,452.09 million (Tk. 427.44 billion) in the preceding year.

## Near and Medium-Term Outlook

The near and medium-term outlook for Bangladesh's economy remains broadly positive. Overall balance of BOP remains in surplus despite weaker export performances and remittance inflows. Looking ahead, in 2017/18, domestic credit is projected to grow by 15.80 percent; imports (fob) are projected to grow by 13.00 percent, exports (fob) by 8.20 percent and remittances 7.00 percent. The foreign exchange reserves are projected to reach USD 34.22 billion or higher in 2017/18. Based on the recent economic indicators and econometric analysis, BB projects real GDP growth in the range of 7.10-7.40 percent for 2017/18. The Monetary Program (MP) for the second half of 2017/18 will target a monetary growth path aiming at keeping average inflation in the range of 5.70-6.00 percent. In 2014/15, Bangladesh reached the lower middle-income country status and expects to reach upper middle-income countries by 2030 or earlier. Moreover, Bangladesh's target is building Bangladesh as a knowledge-based and technology-oriented middle-income country by 2021, poverty alleviation, overall development of living standard of people and graduation of the country to a developed one by 2041.

## Bangladesh: Major Economic Indicators During 2012/13-2016/17

| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
|---|---|---|---|---|---|
| **National Income and Prices** | | | | | |
| **Real GDP growth** (2005/06=100) | 6.01 | 6.06 | 6.55 | 7.11 | 7.28 |
| **GDP deflator** (percent change) | 7.17 | 5.67 | 5.87 | 6.73 | 6.28 |
| **CPI inflation** (annual average) (2005/06=100) | 6.78 | 7.35 | 6.40 | 5.92 | 5.44 |
| **GDP growth at current market prices** | 13.62 | 12.07 | 12.81 | 14.32 | 14.02 |
| **GDP at current market prices** (billion Taka) | 11,989.20 | 13,436.70 | 15,158.00 | 17,328.60 | 19,758.20 |
| **GDP at current market prices** (billion US Dollar) | 150.00 | 172.89 | 195.16 | 221.42 | 249.72 |
| **Fiscal Sector (percent of GDP)** | | | | | |
| **Total revenue** | 10.69 | 10.45 | 9.63 | 9.98 | 11.06 |
| **Total expenditure** | 14.51 | 14.01 | 13.48 | 13.76 | 16.05 |
| **Overall budget deficit** (excluding grants) | 3.83 | 3.56 | 3.85 | 3.78 | 4.99 |
| **Financing of overall budget deficit** | 3.25 | 3.09 | 3.70 | 3.67 | 4.76 |
| **Net domestic financing** | 2.77 | 2.84 | 3.38 | 2.93 | 3.54 |
| bank borrowings | 2.29 | 1.35 | 0.03 | 0.61 | 1.21 |
| non-bank borrowings | 0.48 | 1.49 | 3.34 | 2.32 | 2.33 |
| **Net foreign financing** | 0.48 | 0.25 | 0.32 | 0.74 | 1.22 |
| **Money and Credit (percent change)** | | | | | |
| **Private sector credit** | 10.85 | 12.27 | 13.19 | 16.78 | 15.66 |
| **Broad money (M2)** | 16.71 | 16.09 | 12.42 | 16.35 | 10.88 |
| **Balance of Payments (percent change)** | | | | | |
| **Exports** (fob) | 10.75 | 12.08 | 3.09 | 8.94 | 1.73 |
| **Imports** (fob) | 0.80 | 8.92 | 2.98 | 5.94 | 9.00 |
| **Remittances** | 12.60 | -1.61 | 7.65 | -2.52 | -14.48 |
| **Gross official reserve** (million US Dollar) | 15,315.00 | 21,508.00 | 25,025.00 | 30,168.00 | 33,493.00 |
| **Gross official reserve** (months of imports) | 4.60 | 5.90 | 7.00 | 7.90 | 8.00 |

[1] Revised data.

[2] Provisional data.

**Source:** Annual Report 2016/17, Bangladesh Bank, Monthly Economic Trends, Bangladesh Bank, December 2017 and Bangladesh Bank Quarterly, April-June, 2017.

**Bangladesh: Total Exports, Imports and Trade Balance During 2012/13-2016/17**

**(In millions of USDs)**

| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
|---|---|---|---|---|---|
| **Exports** (fob, including EPZ) | 26,567.00<br>(10.75) | 29,777.00<br>(12.08) | 30,697.00<br>(3.09) | 33,441.00<br>(8.94) | 34,019.00<br>(1.73) |
| **Imports** (fob, including EPZ) | 33,576.00<br>(0.80) | 36,571.00<br>(8.92) | 37,662.00<br>(2.98) | 39,901.00<br>(5.94) | 43,491.00<br>(9.00) |
| **Trade Balance** | **-7,009.00** | **-6,794.00** | **-6,965.00** | **-6,460.00** | **-9,472.00** |

[1]Revised data.

[2]Provisional data.

**Note:** Figures in the brackets indicate percentage changes over the previous year.

**Source:** Statistics Department, Bangladesh Bank

| Bangladesh: Exports to ACU Member Countries<br>During January-December, 2017<br>(In millions of USDs) | |
|---|---|
| **Commodity/Country** | **Value** |
| **Bhutan** | **3.80** |
| Agri-products | 2.00 |
| Woven garments | 0.40 |
| Chemical products | 0.50 |
| Plastics and articles thereof | 0.40 |
| Others | 0.50 |
| **India** | **692.90** |
| Jute Goods | 94.80 |
| Raw jute | 43.50 |
| Woven garments | 120.90 |
| Agri-products | 73.20 |
| Knitwear | 53.40 |
| Lead and articles thereof | 31.90 |
| Nuclear reactors, boilers, machinery, etc. | 24.40 |
| Wadding, felt, nonwovens, yarns, twine, cordage, etc. | 11.30 |
| Leather and leather products | 13.60 |
| Home textile | 17.50 |
| Vehicles other than railway, tramway | 6.80 |
| Footware | 8.20 |
| Cotton | 17.50 |
| Inorganic chemicals, precious metal compound, isotopes | 9.90 |
| Frozen food | 17.90 |
| Articles of iron and steel | 8.60 |
| Knitted or crocheted fabric | 9.40 |
| Mineral fuels, oils, distillation products, etc. | 17.10 |
| Iron and steel | 11.30 |
| Plastics and articles thereof | 11.50 |
| Rubber and articles thereof | 4.50 |
| Copper and articles thereof | 15.80 |
| Electrical, electronic equipment | 6.00 |
| Others | 63.90 |
| **Iran** | **36.90** |
| Jute goods | 36.30 |
| Agri-products | 0.20 |
| Woven garments | 0.10 |
| Others | 0.30 |
| **Maldives** | **4.40** |
| Agri-products | 1.60 |
| Knitwear | 1.60 |
| Frozen food | 0.40 |
| Others | 0.80 |

| **Bangladesh: Exports to ACU Member Countries During January-December, 2017** *(Contd.)* **(In millions of USDs)** | |
|---|---|
| **Commodity/Country** | **Value** |
| **Myanmar** | **22.40** |
| Pharmaceutical products | 15.40 |
| Agri-products | 0.80 |
| Knitwear | 1.70 |
| Frozen food | 0.20 |
| Jute Goods | 0.50 |
| Leather and leather products | 0.10 |
| Woven garments | 0.10 |
| Mineral fuels, oils, distillation products, etc. | 0.30 |
| Home textile | 0.10 |
| Others | 3.20 |
| **Nepal** | **40.00** |
| Agri-products | 18.20 |
| Raw jute | 7.30 |
| Electrical, electronic equipment | 4.00 |
| Knitwear | 0.30 |
| Others | 10.20 |
| **Pakistan** | **69.70** |
| Raw jute | 47.90 |
| Jute goods | 2.30 |
| Agri-products | 7.10 |
| Home textile | 3.00 |
| Woven garments | 0.90 |
| Knitwear | 0.40 |
| Leather and leather products | 0.20 |
| Others | 7.90 |
| **Sri Lanka** | **32.00** |
| Pharmaceutical products | 14.40 |
| Electrical, electronic equipment | 1.70 |
| Woven garments | 2.10 |
| Jute goods | 1.70 |
| Iron and steel | 0.10 |
| Cotton | 1.10 |
| Agri-products | 3.00 |
| Knitwear | 0.60 |
| Home textile | 0.70 |
| Others | 6.60 |
| **Source:** Export Promotion Bureau (EPB) | |

| Bangladesh: Import Payments to ACU Member Countries During January-December, 2017 (In millions of USDs) | |
|---|---|
| **Commodity/Country** | **Value** |
| **Bhutan** | **33.40** |
| Vegetable products | 17.40 |
| Mineral products | 14.20 |
| Others | 1.80 |
| **India** | **7,252.30** |
| Live animals; animals products | 36.90 |
| Edible vegetable certain roots and tubers | 254.70 |
| Edible fruits and nuts peel of citrus fruits or melons | 96.70 |
| Coffee, tea, mate and spices | 169.70 |
| Cereals | 711.50 |
| Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes | 427.80 |
| Salt, sulphur, earths and stone, plastering materials | 158.10 |
| Mineral fuels, mineral oils and products of their distillation, bituminous substances; mineral waxes | 154.40 |
| Organic chemicals | 197.90 |
| Tanning or dyeing extracts | 183.80 |
| Plastics and rubber and articles thereof | 201.60 |
| Paper and paperboard and articles thereof | 41.90 |
| Textile and textile articles thereof | 1,881.80 |
| Base metals and article of base metals | 527.80 |
| Machinery and mechanical appliances, electrical machinery and equipment and parts thereof | 713.70 |
| Vehicles other than railway or tramway, rolling stock, parts and accessories thereof | 858.00 |
| Others | 636.00 |
| **Iran** | **0.20** |
| Machinery and mechanical appliances, electrical machinery and equipment and parts thereof | 0.10 |
| Others | 0.10 |
| **Maldives** | **13.30** |
| Plastics and rubber and articles thereof | 0.50 |
| Mineral products | 12.50 |
| Others | 0.30 |

## Bangladesh: Import Payments to ACU Member Countries During January-December, 2017 *(Contd.)*

**(In millions of USDs)**

| Commodity/Country | Value |
|---|---|
| **Myanmar** | **130.6** |
| Vegetable products | 97.10 |
| Wood and articles of woods; wood charcoal | 14.90 |
| Others | 18.60 |
| **Nepal** | **9.20** |
| Vegetable products | 8.30 |
| Others | 0.90 |
| **Pakistan** | **455.40** |
| Vegetable products | 13.50 |
| Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes | 1.10 |
| Mineral products | 4.50 |
| Products of the chemical or allied industries | 9.70 |
| Textiles and textile articles | 386.40 |
| Machinery and mechanical appliances, electrical equipment and parts thereof | 7.10 |
| Vehicles, aircraft, vessels and associated transport equipment | 1.50 |
| Others | 31.60 |
| **Sri Lanka** | **52.90** |
| Base Metals and article of base metals | 4.50 |
| Products of the chemical or allied industries | 11.80 |
| Plastics and rubber and articles thereof | 3.90 |
| Textiles and textile articles | 15.50 |
| Paper and paperboard; articles of paper pulp, of paper or of paperboard | 4.80 |
| Others | 12.40 |

**Source:** Statistics Department, Bangladesh Bank

## Bangladesh: Trade Through EPZ During January-December, 2017

**(In millions of USDs)**

| Item | Export | Import |
|---|---|---|
| ACU countries | 57.51 | 705.75 |
| ACU countries over total trade routed through EPZ (percent) | 8.33 | 10.02 |

**Note:** There is no Free Trade Zone (FTZ) in Bangladesh.

**Source:** Bangladesh Export Processing Zone Authority (BEPZA)

## Bangladesh: Trade in Major Services with ACU Member Countries During January-December, 2017

**(In millions of USDs)**

| Item / Country | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka |
|---|---|---|---|---|---|---|---|---|
| **Net Services (A-B)** | **-10.01** | **-407.75** | **-0.77** | **-1.31** | **-4.30** | **7.03** | **-10.33** | **-20.01** |
| **Receipts (A)** | **0.52** | **284.55** | **0.38** | **2.22** | **0.32** | **11.42** | **3.23** | **7.27** |
| **Transportation** | 0.00 | 24.87 | 0.00 | 0.01 | 0.05 | 0.02 | 0.24 | 2.87 |
| **Travel** | 0.24 | 48.36 | 0.38 | 0.70 | 0.12 | 10.72 | 0.26 | 2.45 |
| commercial | 0.00 | 0.07 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| education | 0.04 | 30.42 | 0.00 | 0.12 | 0.00 | 9.65 | 0.02 | 0.55 |
| tourist | 0.18 | 15.59 | 0.38 | 0.53 | 0.12 | 0.69 | 0.20 | 1.63 |
| other | 0.02 | 2.28 | 0.00 | 0.05 | 0.00 | 0.38 | 0.04 | 0.27 |
| **Tele communication service** | 0.00 | 39.16 | 0.00 | 1.22 | 0.00 | 0.00 | 0.00 | 0.64 |
| **Insurance services** | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Bank commission and charges** | 0.00 | 6.43 | 0.00 | 0.00 | 0.00 | 0.01 | 0.09 | 0.02 |
| **Misc. business, professional and technical services** | 0.02 | 72.87 | 0.00 | 0.05 | 0.00 | 0.44 | 0.79 | 0.72 |
| **Government services n.i.e** | 0.26 | 92.84 | 0.00 | 0.24 | 0.15 | 0.23 | 1.85 | 0.57 |
| **Payments (B)** | **10.53** | **692.30** | **1.15** | **3.53** | **4.62** | **4.39** | **13.56** | **27.28** |
| **Transportation** | 9.65 | 538.25 | 0.01 | 2.96 | 2.40 | 0.35 | 11.05 | 20.35 |
| **Travel** | 0.66 | 109.90 | 0.09 | 0.55 | 0.46 | 2.89 | 0.46 | 2.76 |
| commercial | 0.00 | 2.28 | 0.00 | 0.03 | 0.01 | 0.04 | 0.00 | 0.20 |
| education | 0.00 | 2.44 | 0.00 | 0.00 | 0.01 | 0.04 | 0.01 | 0.18 |
| tourist | 0.41 | 56.57 | 0.08 | 0.11 | 0.27 | 1.81 | 0.18 | 0.73 |
| other | 0.25 | 48.61 | 0.01 | 0.41 | 0.17 | 1.00 | 0.27 | 1.65 |
| **Tele communication service** | 0.00 | 5.25 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.18 |
| **Insurance services** | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Bank commission and charges** | 0.00 | 2.65 | 0.00 | 0.00 | 0.00 | 0.00 | 0.24 | 0.00 |
| **Misc. business, professional and technical services** | 0.00 | 30.25 | 0.00 | 0.01 | 0.01 | 0.45 | 0.18 | 2.82 |
| **Government services n.i.e** | 0.22 | 5.99 | 1.05 | 0.00 | 1.75 | 0.70 | 1.63 | 1.17 |

**Note:** Services data are given according to Balance of Payments Manual-6 (BPM-6).

**Source:** Statistics Department, Bangladesh Bank

**Source:** Bangladesh Bank

# Bhutan

Bhutan's real Gross Domestic Product (GDP) maintained in upward trajectory, expanding by 7.99 percent during 2016/17 Financial Year (FY)[1] as compared to 6.60 percent in 2015/16 which was highest during the last five years. The growth was mainly driven by the tertiary sector recording 10.48 percent against 5.45 percent growth in 2015/16. This rebound was enabled by an impressive recovery in the transport and finance sub-sectors, which grew by 11.20 percent and 10.70 percent, respectively. In nominal terms, GDP increased by 12.57 percent to Ngultrum (Nu.) 148.67 billion in 2016/17 from Nu. 132.08 billion in 2015/16.

The GDP growth at 7.99 percent was also anchored by high domestic demand mainly through government expenditure, in particular, increased capital investment on infrastructure. However, private consumption declined by 2.60 percent as well as private construction owing to winding up of hydropower construction activities. On the supply side, expansion continued to be led by the construction and service sector, driven by government investment and domestic credit. A record increase in tourist arrivals of 35.00 percent in 2016/17, helped to expand the contribution of transports, hotel and restaurant contributing in the service sector. However, growth in agriculture sector slowed at 3.65 percent as compared to 5.07 percent in 2015/16.

The overall Consumer Price Index (CPI) inflation rose to 5.45 percent in the second quarter of 2017 (Year-on-Year (YoY)) from 3.31 percent during the same quarter last year. Bhutan's annual inflation has grown significantly in 2016/17 following the price movements in India and the world market. Bhutan's prices broadly follow movements in India, as most of the goods are imported from India and the Bhutanese Ngultrum is pegged one to one to the Indian Rupee.

At the end of the financial year, gross international reserves slightly decreased to USD 1,106.72 million from USD 1,118.77 million as of the end of June 2016. Reserves were sufficient to finance 12.53 months of merchandise imports while covering 44.17 percent of public external debt. Of the total, USD 716.54 million was convertible currency reserves while 25.16 billion were Indian Rupees. On the reserves front, the Royal Monetary Authority (RMA) is focused on strengthening its role as the "owner, depository and manager" of the country's external reserves, as entrusted by the RMA Act of Bhutan 2010. Maintaining the stability of the exchange rate peg of the Ngultrum to the Indian Rupee (INR)

[1] Financial Year stands for beginning of July to the end of June.

remains one of the cornerstones of RMA's monetary and reserve management policy. Towards this objective, the RMA will ensure the availability of sufficient Indian Rupees on demand for all legitimate purposes, there by maintaining the value and confidence in the Ngultrum.

On our part, the monetary policy stance of the RMA of Bhutan continue to remain accommodative to support growth, complemented by a strong focus on financial inclusion, targeting as a first step activity related to agriculture, Cottage and Small Industries (CSI) and Entrepreneurship amongst the youth.

In addition, the RMA is also taking an important step forward on the credit front through a renewed emphasis on advancing financial inclusion. The financial sector of Bhutan is uniquely positioned to translate His Majesty's vision that our recent example in ensuring a successful democratic transition must be accompanied by successful economic transformation based on the foundations of a just, equal and harmonious society. The financial sector will work collectively to uphold His Majesty's vision for the sector that we must be relevant, dynamic and resilient, and driven by Sincerity, Mindful, Astute, Resilinet and Timeless (SMART) banking principles with the following "core values" of governance and management; (i) ensuring that the financial services are delivered with sincerity, (ii) that the financial sector is mindful of our bigger impact and social responsibility beyond the profit bottom line, (iii) that financial service providers are astute, (iv) that the financial sector is resilient and (v) provide services that are timeless. Policy attention in the 2016/17 shifted to addressing structural constraints in boosting the supply side dynamics. Monetary policy remained accommodative with change in interest rate policy resulting in a general softening interest rate and increase emphasis on financial inclusion. In particular, the Priority Sector Lending (PSL) guidelines aim to stimulate the CSI sector as the engine of economic transformation through improved access to finance. In addition, the licensing of micro-finance institutions, payment service providers and agent banking is expected to contribute towards inclusive growth.

## Real Sector

The real GDP growth maintained its upward trajectory, expanding by 7.99 percent during 2016/17 as compared to 6.60 percent in 2015/16. The major thrust came from the tertiary sector, recording 10.48 percent against 5.45 percent growth in 2015/16. This rebound was enabled by an impressive recovery in the transport and finance sub-sectors, which grew by 11.20 percent, and 10.70 percent, respectively. In nominal terms, GDP increased by 12.57 percent to Nu. 148.67 billion in 2016/17 from Nu. 132.08 billion in 2015/16. Amongst the three broad sectors, tertiary sector continuously recorded the highest share in the economy with 42.02 percent in 2016/17, followed by secondary sector at 41.46 percent and primary sector at 16.52 percent. Similarly, in terms of contribution to real GDP growth, service sector contributed the highest accounting for 4.55 percent followed by secondary sector at 2.98 percent and primary sector at 0.46 percent. Primary sector contribution has been the lowest, mainly affected by forestry and logging sub-sector recording minimal and negative contribution to growth. Its share to nominal GDP also increased marginally to 42.02 percent in 2016/17 from 41.91 percent in 2015/16. The significant contribution to the sector's growth came from transport, storage, communication and financing, insurance, real estate and business service sub-sector in 2016/17 followed by education and health.


Higher inflation was an outcome of both an increase in domestic demand and temporary issues in the supply chain which led to higher food inflation. Food items that largely attributed to the upward trend of inflation over the period were vegetables, fish, fruits and meat items. Among the non-food items, housing, water, electricity, gas and other fuels, clothing and footwear and education contributed to the rise. The contribution to the overall inflation from domestic goods and services and from imported items are 48.01 percent and 51.99 percent, respectively which implies that 48.01 percent of CPI inflation will be controlled by the domestic policies while 51.99 percent will continue to be guided by the Reserve Bank of India (RBI) inflation target and Government of India (GOI) policies.

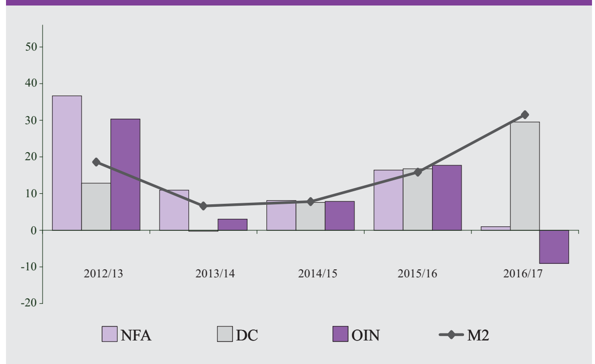
## Monetary Sector

The annual growth of Broad Money (M2) averaged 31.52 percent in June 2017 compared to 15.83 percent in the same period last year mainly on account of Narrow Money (M1) which was increased by 35.14 percent. The growth in M1 was mainly contributed by higher growth in current deposits with 42.01 percent and saving deposits with 26.91 percent. Despite the RMA's initiatives on digitalization of payment system, the currency in circulation outside the banks increased to Nu. 8.79 billion in June 2017 from Nu. 6.10 billion in June 2016. While, the increase in other deposits from Nu. 34.23 billion in June 2016 to Nu. 43.39 billion in June 2017 is mainly driven by time deposits, likely on account of waving off tax on interest income of time deposits by the Government.

On the counterpart side of the M2, the growth in Net Foreign Assets (NFA) increased marginally by 0.55 percent in June 2017. The higher growth in Net Rupee Assets (NRA) was offset by fall in convertible currency. The decline in net convertible currency during the review period was due to shift in reserve currency composition, in line with prudential reserve management strategy. As of June 2017, the domestic credit recorded 29.52 percent growth. The increase in domestic credit was contributed by growth in private sector credit that might have resulted from the revision of interest rate policy from base rate to Minimum Lending Rate (MLR). Concurrently, higher fiscal deficit with 4.06 percent of GDP has also contributed to the expansion of domestic credit. The banking sector in Bhutan comprises State-Owned Commercial Banks (SCBs), State-Owned Development Financial Institution (DFI), Private Commercial Bank (PCB) and Foreign Direct Investment Banks (FDIs). As of June 2017, there are 5 commercial banks in the country, with the outreach of 128 branches. Assets of banking sector totaled Nu. 121.05 billion in June 2017 up by 24.34 percent or Nu. 23.69 billion from the previous year. Reserve of the banking sector is one of the major components accounting for 20.82 percent, followed by foreign assets with 3.02 percent. The remaining 76.17 percent comprised of loans and advances and equity investment with the other resident sectors.

**Growth in M2 and its Counterparts**

**(Annual change, percent)**




While, on the liabilities side, annual growth in total deposits including foreign currency deposits mobilized by the commercial banks have increased to Nu. 95.33 billion in June 2017 from Nu. 73.06 billion in June 2016 recording a growth of 30.50 percent. In the review year, demand deposits rose by 33.74 percent while the time deposits have increased by 26.49 percent. The rapid growth of demand and time deposits were the main factors attributing to the expansion. From the total deposits of Nu. 95.33 billion in June 2017, private sector deposits accounted for 85.60 percent while, public sector (comprising of government and public corporation) accounted 14.40 percent.

The quality of loan portfolio of the financial institution is depicted by the Non-Performing Loan (NPL) ratio. This NPL affect the profitability as well as capital of the lending institution. The NPL in June 2017 got increased to 11.36 percent from 9.10 percent in June 2016. But nevertheless, the trend in asset quality is still manageable since the recovery of the loans begins from the third quarter of the year and the NPL usually stabilizes towards the end of the year. From the total outstanding loan amount of Nu. 76.72 billion of the commercial banks, 12.46 percent was categorized as NPL. Similarly, from the total of Nu. 18.34 billion of the Non-Bank Financial Institution (NBFIs), 6.78 percent was classified as NPL. In terms of the percentage share to total NPL, trade and commerce recorded with highest NPL of 22.66 percent, followed by service and tourism sector with 21.87 percent, housing sector with 13.42 percent, personal Loan with 12.74 percent, manufacturing and industry sector with 12.24 percent, agriculture sector with 10.73 percent and transportation sector with 5.61 percent.

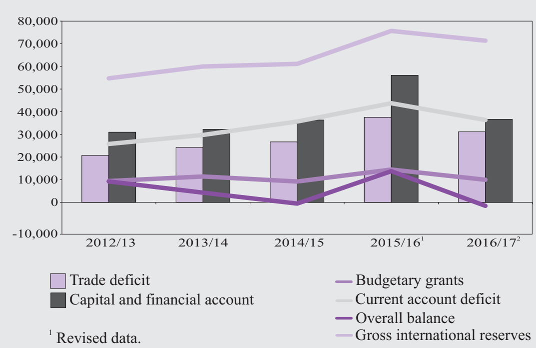
## External Sector

The current account deficit decreased from 33.13 percent of GDP in 2015/16 to 24.44 percent of GDP in 2016/17, mainly on account of the trade deficit which improved to Nu. 31.14 billion from Nu. 37.48 billion in the previous year, driven by higher electricity exports to India, and minerals and base metals to countries other than India. Although deficits continued to persist in the services and primary income accounts, secondary income surplus increased from Nu. 9.55 billion to Nu. 11.63 billion mainly on account of the GOI excise duty refund of Nu. 2.92 billion. The capital and financial account balance decreased by 34.65 percent to Nu. 36.63 billion mainly due to the decrease in the Indian Rupee denominated hydropower loan disbursements which decreased by 44.33 percent to INR 20.68 billion.

However, the grant component for the hydropower increased from INR 6.55 billion to INR 8.86 billion. After accounting for other financial flows and the negative net errors and omissions, the overall balance was negative at Nu. 1.57 billion. With the increase in electricity export by 22.42 percent and with the simultaneous fall in hydro related merchandise imports, the trade deficit with India improved from Nu. 28.88 billion to Nu. 24.30 billion in 2016/17. Total exports in 2016/17 amounted to Nu. 35.26 billion with hydropower being the highest export with a total percentage share of 36.96 percent.

**Overall BOP**

**(In millions of Nus.)**




[1] Revised data.
[2] Provisional data.

Imports for 2016/17 amounted to Nu. 67.36 billion. Imports of fuel increased in 2016/17 with the import of diesel accounting for 8.58 percent of the total imports at Nu. 5.78 billion. Imports related to hydropower projects and industries along with motor spirit (gasoline including aviation spirit petrol), motor vehicle, food imports such as rice, cooking oil and milk products continue to feature in the top twenty commodity list. The export of ferro alloys accounted for 74.50 percent of base metals and products in 2016/17, while major items within the category of mineral products that were exported were, cement, dolomite, gypsum and limestone. Cardamoms, potatoes, oranges, alcohol and minerals, together accounted for 68.53 percent of the export value under the category of agro and forestry products. The export of calcium and silicon carbide together accounted for over 70.00 percent of the total under the products of chemicals/allied industries category. In terms of direction of trade, India continues to remain Bhutan's largest trading partner, accounting for 91.00 percent share in exports and 81.30 percent share in imports in 2016/17. Bangladesh continues to remain the second highest export destination for Bhutan followed by the United States.

## Exchange Rate Developments

In the exchange rate developments, the Ngultrum averaged Nu. 66.43 per US Dollar in the fiscal year, depreciating by 0.17 percent from the previous year. In June-to-June comparisons, the Ngultrum appreciated by 4.44 percent from averaging Nu. 67.30 against the US Dollar in June 2016 to Nu. 64.44 in June 2017.

## External Debt and Servicing

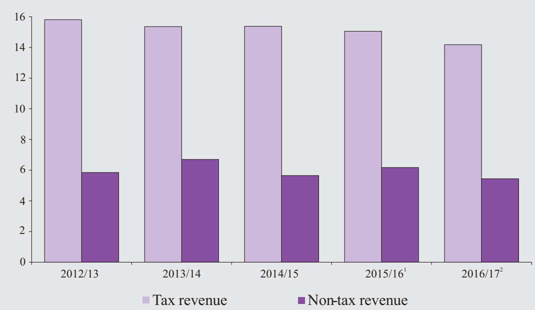
Bhutan's total outstanding external debt increased to an equivalent of USD 2.51 billion as of June 2017. Of this, an equivalent of USD 663.22 million was outstanding on convertible currency loans and the remaining 118.77 billion were outstanding Indian Rupee loans. Of the total Rupee debt, 94.11 percent were outstanding public debt on hydropower projects while 5.89 percent represented debt taken to finance Balance of Payment (BOP) transactions with India (the GOI line of credit). Within the convertible currency loan portfolio, concessional public and publicly guaranteed debt accounted for 95.48 percent while the remaining 4.52 percent represented outstanding external debt of the private sector. The GOI remains Bhutan's largest creditor with 73.53 percent of overall external debt at Nu. 118.77 billion or 100.00 percent of total Rupee outstanding debt. This is followed by the Asian Development Bank (ADB) with USD 274.55 million, the World Bank with USD 209.02 million and the Government of Austria with USD 66.94 million. As of June 2017, Bhutan's total debt outstanding stood at 108.64 percent of GDP.

## Fiscal Sector

In recent years, Bhutan's fiscal performance has been more expansionary, mainly reflected by the expenditure dynamics of Bhutan's five year plans. Although, domestic revenue has been increasing in nominal terms, its share to GDP has been declining. The revised budget for the 2016/17 was Nu. 56.28 billion against resources of Nu. 47.89 billion with a fiscal deficit of Nu. 6.49 billion (4.06 percent of GDP) and resource gap of Nu. 5.48 billion. On the revenue performance, the Government achieved revenue target with net revenue collection of Nu. 29.71 billion recording a growth of 6.00 percent exceeding the target by 2.00 percent. Net revenue represents 18.70 percent of GDP fully covering recurrent expenditure and 21.60 percent of the capital expenditure. Total Revenue and Grants continue to increase from Nu. 42.04 billion to Nu. 47.89 billion, an increase of Nu. 5.85 billion from 2015/16 recording a growth of 13.92 percent.

Domestic revenue has been revised to Nu. 29.17 billion from Nu. 28.03 billion. The increase is on the account of excise duty refund from GOI by Nu. 896.20 million, Nu. 131.00 million from revision of royalty rates of mines and minerals, Nu. 1.18 billion on account of increase in green tax on Petroleum, Oil and Lubricant (POL) and Nu. 374.07 million on account of increase in transfer of surplus from the RMA. In addition, an amount of Nu. 164.77 million is expected from Druk Holding and Investment (DHI) as dividends. As stipulated under the Public Finance Act 2007, recurrent expenditure is fully met from the domestic revenue and was able to cover about 6.21 percent of the capital expenditure of the Government. Tax revenue increased to Nu. 21.71 billion from Nu. 20.09 billion constituting 73.00 percent of the total net revenue whilst 27.00 percent (Nu. 8.00 billion) comes from non-tax-revenue.

**Composition of Domestic Revenue**
**(In percent of GDP)**




[1] Revised data.
[2] Provisional data.

External grants in 2016/17 (Nu. 17.89 billion) financed 32.91 percent of the total budget outlay, an increase from 20.20 percent in the previous year and still continued to meet a large portion of the capital expenditure. In terms of composition, external grants constituted 37.37 percent of total revenue (including grants) in 2016/17, compared to 35.42 percent last year. Of which, total 90.50 percent (Nu. 16.19 billion) were in the form of project-tied grants and the remaining Nu. 1.70 billion were in the form of program grants. Total expenditure grew by 25.95 percent in 2016/17 to Nu. 56.28 billion, compared to 30.16 percent in the previous year. An increase of Nu. 11.59 billion from Nu. 44.68 billion in 2015/16 due to incorporation of external funds and adjustment of prior year's advances. Although, growth in both the current and development expenditure was high during

2016/17, capital expenditure contributed the most due to incorporation of external grant and loan funded projects besides incorporation of Nu. 165.17 million for employment facilitation program and Nu. 10.00 million for Wangdiphodrang Dzong reconstruction project.

| Bhutan: Major Economic Indicators During 2012/13-2016/17 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| **GDP Growth and Prices (percent change)** | | | | | |
| Real GDP at market prices | 5.07 | 2.14 | 5.75 | 6.60 | 7.99 |
| Consumer prices | 5.50 | 8.55 | 5.15 | 3.31 | 5.45 |
| Wholesale prices (India) | 4.88 | 5.61 | -2.20 | -0.69 | 2.33 |
| **Government Budget (in millions of USDs)** | | | | | |
| Total revenue and grants | 558.81 | 539.64 | 583.90 | 659.45 | 720.91 |
| of which: foreign grants | 174.31 | 231.60 | 160.44 | 256.15 | 269.41 |
| Total expenditure and net lending | 636.18 | 545.35 | 553.33 | 723.07 | 818.61 |
| Current balance | 54.63 | 91.78 | 84.51 | 42.78 | 65.07 |
| Overall balance | -77.37 | -69.89 | 30.57 | -63.62 | -97.70 |
| **Money and Credit (percent change, end of period)** | | | | | |
| Broad money (M2) | 18.60 | 6.62 | 7.82 | 15.83 | 31.52 |
| Credit to private sector | 7.10 | 6.44 | 14.00 | 14.67 | 15.39 |
| **Interest Rates (end of period)** | | | | | |
| One-year deposits | 5.00-6.50 | 5.00-6.50 | 4.00-7.00 | 4.00-6.50 | 5.00-6.00 |
| Lending rate | 11.70-16.00 | 10.00-16.00 | 11.70-17.00 | 11.70-15.00 | 8.00-14.00 |
| 91-day RMA bills | 3.00 | 2.30 | 0.13 | 5.50 | 0.65 |
| **Balance of Payments (in millions of USDs)** | | | | | |
| Trade balance | -354.39 | -393.21 | -429.70 | -540.24 | -468.71 |
| with India | -314.72 | -282.45 | -305.61 | -434.15 | -365.86 |
| Current account balance | -469.73 | -483.07 | -574.45 | -621.41 | -547.06 |
| (in percent of GDP) | -26.44 | -28.45 | -29.82 | -31.22 | -24.44 |
| with India | -485.34 | -418.92 | -486.34 | -593.12 | -524.79 |
| (in percent of GDP) | -27.32 | -24.67 | -25.24 | -29.97 | -23.40 |
| foreign aid (concessional loans net) | 326.90 | 304.38 | 390.29 | 533.44 | 348.63 |
| of which: India | 269.75 | 265.94 | 368.90 | 526.45 | 311.36 |
| Errors and omissions | 19.67 | 51.37 | -20.39 | 13.86 | -27.88 |
| Overall balance | 167.92 | 69.64 | -9.20 | 189.49 | -23.56 |
| (in percent of GDP) | 9.50 | 4.10 | 0.48 | 9.52 | -1.10 |

| Bhutan: Major Economic Indicators During 2012/13-2016/17 *(Contd.)* | | | | | |
|---|---|---|---|---|---|
| **Item** / **Year** | **2012/13** | **2013/14** | **2014/15** | **2015/16** | **2016/17** |
| **External Indicators (end of period)** | | | | | |
| Gross official reserves (in millions of USDs) | 916.86 | 997.91 | 958.45 | 1,118.77 | 1,106.70 |
| (in months of merchandise imports) | 12.97 | 12.61 | 11.71 | 13.25 | 12.53 |
| External debt (percent of GDP) | 98.40 | 100.31 | 98.91 | 118.60 | 108.64 |
| Debt to service ratio | 229.20 | 27.14 | 19.82 | 14.46 | 24.87 |
| **Memorandum Items** | | | | | |
| Nominal GDP (in millions of USDs) | 1,776.40 | 1,714.31 | 1,926.60 | 1,990.67 | 2,238.13 |
| Ngultrum per US Dollar (fiscal year period average) | 54.86 | 61.47 | 62.05 | 66.32 | 66.43 |
| Money supply (M2, end of period) | 1,083.69 | 1,031.19 | 1,101.44 | 1,193.62 | 1,567.27 |
| Money supply (M1, end of period) | 688.92 | 645.87 | 671.64 | 677.50 | 914.09 |
| Counterparts | | | | | |
| Foreign assets (net) | 885.28 | 876.63 | 938.74 | 1,123.80 | 1,030.80 |
| Domestic credit | 955.75 | 850.81 | 906.61 | 990.54 | 1,280.82 |
| Claims on private sector | 853.53 | 810.78 | 915.72 | 982.47 | 1,131.79 |
| Components | | | | | |
| Currency outside banks | 103.56 | 92.80 | 95.83 | 91.98 | 132.28 |
| Demand deposits/transferable deposit | 585.36 | 553.07 | 575.82 | 585.52 | 781.81 |
| Quasi-money/other deposit | 394.77 | 385.33 | 429.80 | 516.12 | 653.17 |
| Reserve money (M0) | 437.43 | 433.35 | 423.03 | 419.22 | 516.75 |
| of which: bank deposits | 302.73 | 301.67 | 272.63 | 273.40 | 343.20 |
| Money multiplier (M2/M0) | 2.50 | 2.40 | 2.60 | 2.85 | 3.03 |
| Income velocity (GDP/M2) | 1.70 | 1.60 | 1.75 | 1.67 | 1.43 |
| Population growth rate | 1.90 | 1.50 | 1.31 | 1.50 | 1.30 |
| Unemployment rate | 2.10 | 2.90 | 2.60 | 2.50 | 2.50 |

**Notes:** Figures are on a calendar year basis. Real sector data source: National Statistics Bureau, Bhutan.

BOP, fiscal and money and banking statistics are on a fiscal year basis (July-June).

CPI for Bhutan is as of the last quarter of the fiscal year. Indian Wholesale Price Index (WPI) is as of the end of the period.

**Source:** Royal Monetary Authority of Bhutan

| Bhutan: Real GDP Growth by Sector During 2012/13-2016/17 (Year-on-Year, change in percent) | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| Gross Domestic Product (GDP) | 5.07 | 2.14 | 5.75 | 6.60 | 7.99 |
| Primary sector | 2.25 | 2.40 | 2.37 | 5.07 | 3.65 |
| Secondary sector | 6.77 | 3.90 | 3.71 | 8.22 | 6.79 |
| Tertiary sector | 4.29 | 0.30 | 8.91 | 5.45 | 10.48 |
| **Source:** National Accounts Statistics | | | | | |

| Bhutan: Composition of Domestic Revenue During 2012/13-2016/17 (In millions of USDs) | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
| Total Revenue | 30,656.12 | 37,819.12 | 36,231.05 | 42,039.30 | 47,890.08 |
| Domestic revenue | 21,093.48 | 23,582.77 | 26,276.03 | 27,149.69 | 29,993.03 |
| tax revenue | 15,403.12 | 16,182.77 | 18,387.34 | 19,884.63 | 21,078.49 |
| non-tax revenue | 5,698.57 | 7,061.84 | 6,753.69 | 8,149.19 | 8,089.44 |
| Grants | 9,562.64 | 14,236.35 | 9,955.02 | 14,889.61 | 17,897.05 |
| In percent of GDP | | | | | |
| Total Revenue | 31.46 | 35.89 | 30.31 | 31.83 | 32.21 |
| Domestic revenue | 21.64 | 22.38 | 21.98 | 20.56 | 20.17 |
| tax revenue | 15.81 | 15.36 | 15.38 | 15.05 | 14.18 |
| non-tax revenue | 5.85 | 6.70 | 5.65 | 6.17 | 5.44 |
| Grants | 9.81 | 13.51 | 8.33 | 11.27 | 12.04 |
| [1]Revised data. | | | | | |
| [2]Provisional data. | | | | | |
| **Source:** Royal Monetary Authority of Bhutan | | | | | |

**Bhutan: Overall Balance of Payments During 2012/13-2016/17**

**(In millions of USDs)**

| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
|---|---|---|---|---|---|
| **Trade Deficit** | 20,708.52 | 24,220.00 | 26,693.29 | 37,481.34 | 31,136.35 |
| **Budgetary Grants** | 9,414.78 | 11,398.07 | 9,193.05 | 14,487.90 | 9,948.17 |
| **Current Account Deficit** | 25,758.76 | 29,741.96 | 35,655.56 | 43,758.84 | 36,341.51 |
| **Capital and Financial Account** | 31,688.54 | 32,249.23 | 36,338.76 | 56,052.09 | 36,628.41 |
| **Overall Balance** | 9,212.16 | 4,280.49 | -570.83 | 13,746.12 | -1,565.30 |
| **Gross International Reserves** | 54,736.35 | 59,966.26 | 61,105.92 | 75,647.38 | 71,351.95 |

[1]Revised data.

[2]Provisional data.

**Source:** Royal Monetary Authority of Bhutan

| Bhutan: Main Items of Goods and Services Exported to ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Goods** | Citrus fruit (oranges, apples, pears etc.), fruit juices, mineral products (granite, basalt, sandstone and other monumental or building stone, limestone and other calcareous stone, dolomite, not calcined or sintered, powdered, gypsum, anhydrite, calcium carbonate, ferro-alloys, etc.) |
| **India** | |
| **Goods** | Hydropower, base metal and base metal product (wires, cables, rods and copper product, ferro-alloys, iron and non-allot steel), mineral products (cement, dolomite, gypsum, coal), carbides, processed foods, vegetable products (potato, carrot, beans, etc.) |
| **Services** | Transportation (passenger air transport), travel |
| **Nepal** | |
| **Goods** | Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored, gypsum, anhydrite, coke and semi-coke, cordyceps sinensis (yertsha gein bhup), dolomite, limestone and other calcareous stone. |
| **Source:** Department of Revenue and Customs, Ministry of Finance | |

| Bhutan: Main Items of Goods and Services Imported from ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Goods** | Tea, foodstuff and beverages (sugar confectionery, fruit juices), vaccines for human medicine, soap, rosin and resin acids, tubes, pipes and hoses, and kitchen wares and table wares, garments, aluminium alloys parts and accessories of the motor vehicles |
| **India** | |
| **Goods** | Mineral product (high speed diesel, petrol, kerosene), textile (silk, cotton, paper yarn, carpets, knitted or crocheted fabrics), ceramic products, base metal and articles of base metals (iron, steel, copper, zinc, tools, implements, cutlery, spoons and forks, of base metal), vehicles and parts, aircraft parts, vessels and associated transport equipment, arms and ammunition with parts and accessories |
| **Services** | Construction, education, health, business service (telecommunication, information technology, etc.) |
| **Nepal** | |
| **Goods** | Garment and textile (woven fabrics of cotton), table and kitchen ware, aluminum rods, aluminum wire, copper alloys, electrical transformer, static converter and inductors |
| **Source:** Department of Revenue and Customs, Ministry of Finance | |

**Source:** Royal Monetary Authority of Bhutan

# India

## Real Sector

As per the Second Advance Estimates (SAE) released by the Central Statistics Office (CSO), growth in real Gross Domestic Product (GDP) at market prices decelerated to 6.60 percent in 2017/18 (7.10 percent in Financial Year (FY)[1] 2016/17), largely due to slowdown in consumption growth, both private and government, and net exports. Private consumption was affected due to slowdown evident in the agriculture sector. There is a marginal deceleration witnessed in government expenditure due to the waning effects of implementation of seventh pay commission recommendations and One Rank One Pension (OROP). Green shoots of investment revival are visible in the economy, more pronounced in the second half of 2017/18. Net exports growth declined sharply in 2017/18 on the back of a surge in imports while exports recorded a lower growth.

Growth in real Gross Value Added (GVA) at basic prices moderated to 6.40 percent in 2017/18 (7.10 percent in 2016/17), largely due to slowdown in agriculture and industrial sector, while growth in services sector picked up.

Within industrial sector, there was a decline in all the sub-sectors, more pronounced in mining and quarrying. Manufacturing recovered from the low growth witnessed in the first quarter of 2017/18 due to the transient effects of implementation of Goods and Services Tax (GST). In services sector, deceleration in public administration, defence and other services sub-sector has been outweighed by increase in the growth of construction, trade, hotels, transport, communication and services relating to broadcasting and financial, real estate and professional services sub-sectors.

## Infrastructure

The infrastructure sector, which is a key growth driver, has witnessed many notable developments during 2017/18. The Government has given infrastructure status to the logistics sector to speed up growth. The development of the logistic sector is likely to improve efficiency of production while reducing cost, which is important for the success of the 'Make in India' initiative. In another important reform, the Government has allowed commercial mining of coal without any restrictions on sale or end-use to ensure regular supply of coal and affordable energy to the people. Multi-modal terminals

[1] Financial Year stands for beginning of April to the end of March.

along with inland waterways are planned to facilitate seamless movement of people from one mode to another with minimum use of automobiles. Urban development measures, like Smart Cities, Atal Mission for Rejuvenation and Urban Transformation and affordable housing gained momentum during the year. In order to create employment and aid growth, the government's budgetary and extra budgetary expenditure on infrastructure in 2018/19 is estimated higher at Rs. 5.97 lakh crore as against Rs. 4.94 lakh crore in 2017/18.

## Employment

According to the labour bureau's new quarterly employment survey, which covers units with 10 or more persons in eight select sectors, net addition of jobs increased from 109.00 thousand in the first half of 2016/17 to 200.00 thousand in the first half of 2017/18, primarily due to job expansion in education and manufacturing sector.

In continuance of the Government's effort to simplify labour laws, the code on wages bill 2017 was introduced to rationalise and consolidate several labour laws related to wages. Improving the employability of youth remained the focus of skill development programs of the Government. In order to address declining female labour force participation in the country, the Government has taken initiatives such as extension of paid maternity leave from 12 to 26 weeks and reduction in women's contribution in Employees Provident Fund.

## Fiscal Developments

The Union Budget (UB) 2018/19, has projected a decline of 0.20 percent in the Gross Fiscal Deficit (GFD) to 3.30 percent in 2018/19. Budget 2018/19 focuses on the rural economy and agriculture, the social sector (education, health and social protection), infrastructure and the financial sector development. The step-up in allocations to these sectors are sought to be financed by augmenting direct tax collections and by sustaining the disinvestment drive.

The Revised Estimates (RE) for 2017/18 indicate that the key deficit indicators deviated from their budgeted levels. While Revenue Deficit (RD) at 2.60 percent of GDP was higher than the budgeted target of 1.90 percent, the GFD exceeded the budgeted target of 3.20 percent by 0.30 percent.

However, these deviations needs to be seen in the context of the reforms that are underway, especially the GST and its implementation as well as the fact that less than the full year's collections were available.

The fiscal position of the central government deteriorated during April-January 2017/18 as compared to the Corresponding Period of the Previous Year (COPPY). This was reflected in key deficit indicators of the central government, viz., GFD and primary deficit, as percentages to RE, being higher during April-January 2017/18 as compared to the COPPY. The deterioration in fiscal position of the central government owed to the lower non-tax revenue combined with higher capital expenditure, notwithstanding higher tax revenues.

Gross tax revenue (in absolute terms as well as percent of RE) was higher than in the COPPY, with higher collections (in absolute amount) under both direct and indirect taxes. Within direct taxes, corporation tax collections were higher than last year (both in absolute amount as well as proportion of RE). The total revenue under GST so far stood at Rs. 3,550.00 billion (inclusive of an additional levy for compensation). Total expenditure was higher due to rise in both revenue and capital account (in absolute amount). Higher Capital expenditure was witnessed in new and renewable energy, civil aviation, chemicals and petrochemicals, coal, consumer affairs, defense, heavy industries, railways and road transport and highways.

The major subsidy outgo as percent of RE was higher so far vis-à-vis COPPY due to higher payout under food and petroleum subsidy (as percent of RE). During 2017/18 so far (up to January), the GFD was financed mainly by market borrowing and national small savings fund.

## Banking Developments

In an environment characterised by slowing economic activity–mainly located in industry and subdued demand, the growth in consolidated balance sheet of Scheduled Commercial Banks (SCBs) moderated further to 7.80 percent during 2016/17 as compared to 9.10 percent in 2015/16. Credit growth fell to a record low during 2016/17 pulled down by persistent decline in asset quality which adversely impacted their lending capacity. Investments –the other major component in the asset side– also recorded a marginal deceleration. On the liabilities side, deposits increased sharply due to withdrawal of Specified Banknotes (SBNs) within a pre-announced time period. The asset quality of banks deteriorated further during 2016/17 with the gross non-performing assets ratio reaching 9.30 percent of total advances. It necessitated a sharp increase in provisioning requirements. As a consequence, banks' profitability was adversely impacted.

As at the end of March 2017, capital to risk weighted assets ratio of banking system as a whole reported at 13.60 percent which was well above the requirement of 11.50 percent for the end of March 2019 when Basel III will be fully operational. Banks intensified the efforts to strengthen their capital positions by raising capital through various instruments from the market and intermittent capital infusion by the Government.

## Financial Inclusion

SCBs have been devising three-year Financial Inclusion Plans (FIP) since 2010 under the advice of the Reserve Bank congruent with their business strategies and comparative advantages. Currently, the third phase of FIP (2016/19) is being implemented under which granular monitoring is done at the district level to assess the progress in financial inclusion. The period since August 2014 is co-terminus with the implementation of the Pradhan Mantri Jan Dhan Yojana of the Government of India, which has given a big push to financial inclusion from the supply side. The total number of Basic Savings Bank Deposit Accounts (BSBDAs) increased to 533.00 million in March 2017 from 469.00 million in March 2016. During 2016/17, six Small Finance Banks (SFBs) and two payments banks, which are differentiated banks in nature in contrast to universal banks, started operations and are expected to provide further impetus to the financial inclusion agenda.

## Monetary Developments

Reserve Money (RM) witnessed an upward trend during 2017/18 so far, mainly driven by a healthy momentum in Currency in Circulation (CIC) reflecting the process of remonetisation. The lower growth in RM from April to the middle of November, 2017 reflected the impact of demonetization. However, as adverse base effect waned out, RM exhibited acceleration and posted a growth of 33.00 percent as on March 9, 2018 vis-à-vis a contraction of about 16.00 percent during the corresponding date of the previous year. The growth in RM was driven by CIC which increased by Rs. 5.70 trillion on a Year-on-Year (YoY) basis and overshot its pre-demonetisation level. From the sources side the expansion in RM was led by increase in Net Foreign Exchange Assets (NFEA) of the Reserve Bank of India (RBI).

During the first half of 2017/18, the YoY growth in Broad Money (M3) remained much lower and reached a historic low of 5.60 percent (as on September 29, 2017). However, since then, M3 growth started its upward trajectory and stood at 10.40 percent as on March 2, 2018 (6.60 percent during the COPPY). The higher growth in M3 was on account of increase in currency with public Currency with the Public (CWP) by 52.00 percent besides an expansion in deposits although at a decelerated pace. On the sources side M3 growth was mainly driven by expansion in scheduled commercial banks' credit to commercial sector by 11.50 percent, far higher than 3.70 percent witnessed in the corresponding fortnight of the previous year. With the faster expansion in RM than in M3, money multiplier declined to 5.90 as on March 2, 2018 from 7.40 in the COPPY.

## Price Situation

Headline Consumer Price Index (CPI) inflation, after reaching an intra-year (2016/17) low of 3.20 percent during January 2017, witnessed modest uptick in February-March 2017, largely driven by price pressures in fuel and housing components. However, the rise was short-lived. Beginning 2017/18, CPI inflation again started declining and touched an all-time low of 1.50 percent in June 2017 since the introduction of the all India CPI-Combined series. While price pressures remained moderate, inflation was dragged down primarily due to large favourable base effects which were at play during April-June 2017. However, from July 2017 inflation began edging up largely driven by price pressures in food, housing and fuel components and stood at 5.20 percent in December 2017 (17 months high). Post December 2017, inflation eased following a plunge in vegetables prices owing to fresh winter crop arrivals and pro-active supply management measures by the Government. Headline CPI inflation reached a peak of 5.20 percent in December 2017 (4.90 percent, excluding the estimated impact of House Rent Allowance (HRA) for central government employees), reflecting an unseasonal spike in the prices of vegetables and the full impact of the central government implementing the Seventh Central Pay Commission (CPC's VII) HRA award. The delayed setting in of the seasonal food prices moderation took down headline inflation to 4.40 percent in February (4.10 percent, excluding the estimated impact of HRA for central government employees) and 4.30 percent in March.

Inflation in food and beverages (weight: 45.90 percent in CPI) declined significantly during 2017/18 with its contribution to overall inflation down to 29.00 percent from 46.00 percent a year ago. Nonetheless, there was significant intra-year variability. The large decline in food prices, which began as early as in the second half of 2016/17 on the back of bumper crops and distress sales post-demonetisation continued well into the first quarter of 2017/18, driving food inflation into the negative territory during May-June 2017. While deflationary pressures in pulses strengthened since March 2017, the usual seasonal uptick in vegetables prices in the pre-monsoon months remained low and delayed. Consequently, food inflation touched an all-time low of -1.20 percent in June 2017. Despite some build-up of price pressures in vegetables, overall food inflation remained low till September. This was supported by the timely onset of south-west monsoon followed by a normal rainfall during June-July 2017 as well as adequate stock positions from the previous year's harvests. However, during the third quarter of 2017/18 food inflation witnessed a steep rise to reach an intra-year high of 4.90 percent in December 2017. Uptick in vegetables prices, particularly prices of onion and tomato, as well as some intermittent rise in prices of select protein-rich items (egg, meat and fish) in conjunction with unfavourable base effects drove up food inflation during this period. Adverse weather conditions with extended monsoon rainfall in October that led to severe crop loss was a major reason that pushed vegetables prices up. Post November 2017, with the arrival of fresh winter crops supported by supply management measures by the Government, specifically in case of onions like imposition of Minimum Export Price (MEP) along with import of onions, both onion and tomato prices started easing, following which food inflation moderated considerably and stood at 3.40 percent in February 2018.

Inflation in fuel and light, which largely incorporates cooking fuel and electricity, after remaining moderate at around 3.30 percent during 2016/17, increased to 6.20 percent, so far, in 2017/18, largely reflecting the uptick in global crude oil prices and also the calibrated reduction of subsidies on Liquefied Petroleum Gas (LPG) and kerosene. In excluding food and fuel category, inflation dipped beginning 2017/18 due to muted price pressures across services and reached an all-time low of 3.80 percent in June 2017. However, post June 2017, inflation excluding food and fuel picked up driven by upward price pressures across the board to 4.90 percent in November 2017 and thereafter to 5.20 percent during December 2017-February 2018. Within excluding food and fuel components, housing recorded significant price pressures during the year, reflecting the implementation of HRA under the seventh CPC award in July 2017.

Other measures of inflation such as the one based on Wholesale Price Index (WPI) stood at 2.50 percent in February 2018 (provisional). On an annual average basis, WPI inflation increased during 2017/18 to 2.90 percent from 1.80 percent in 2016/17, largely reflecting the uptick in international commodity prices, especially crude oil and metals.

## Stock Market

During 2017/18, the Indian stock market remained buoyant. The Bombay Stock Exchange (BSE) Sensex increased by 11.30 percent on account of a host of factors, such as, positive cues from global markets, good macro-economic performance, improvement in corporate earnings, favourable monsoon, implementation of GST and its continuing rationalisation, measures taken by the Government and the Reserve Bank to tackle bad loans, Government's announcement of measures for recapitalisation of public sector banks and substantial buying by mutual funds. The sentiment was also aided by sharp improvement in India's ranking in the World Bank's Ease of Doing Business Index, sovereign rating upgrade of India by Moody's Investors Service and Gujarat assembly election result.

The market rally was tempered with intermittent corrections on account of geo-political tensions in the Korean peninsula, concerns regarding the announcement of farm loan waivers by various states, anticipation of widening of India's fiscal deficit, and the US Federal Reserve's announcement of its balance sheet normalisation from October 2017. The market also witnessed enhanced volatility during the second half of January 2018 and the first week of February 2018. The market corrected sharply during February-March 2018 on negative cues from global markets triggered by prospects of faster than anticipated monetary policy tightening in the US, possibility of eruption of global trade war, the UB's proposal of levying long-term capital gains tax on equities, which was viewed negatively by the market and disclosure of fraudulent transactions by a nationalized bank.

## Yields in the Government Securities Market

During 2017/18, the 10-year Government Securities (G-Secs) yield hardened by 72 basis points (bps) to close the year at 7.40 percent mainly due to increase in yield in the second half of the year. G-Sec yields generally softened during the most part of the first half of of 2017/18 mainly on account of lower inflation data, sustained demand from foreign portfolio investors and the 25 bps cut in the repo rate by the Monetary Policy Committee (MPC) in August 2017. However, the trend reversed since September and the 10 year G-Sec yield hardened steadily in the wake of concerns on higher fiscal deficit, increase in inflation, higher supply of papers and announcement of additional market borrowings by the central government in December. Global factors such as elevated international crude oil prices, US Federal Reserve rate hikes and surge in US treasury yields also significantly impacted bond yields in India. During the second half of 2017/18, the 10 year G-Sec yield hardened by 74 bps.

## Foreign Portfolio Investment

Foreign portfolio investment in debt and equity recorded a net inflow of USD 22.50 billion during 2017/18 compared with a net inflow of USD 7.60 billion during previous year. Equities recorded a net inflow of USD 4.00 billion during 2017/18 as against a net inflow of USD 8.50 billion during previous year, while debt recorded a net inflow of USD 18.50 billion during 2017/18 as against a net outflow of USD 0.90 billion during previous year.

## External Sector

India's exports witnessed a turnaround of 5.17 percent in 2016/17 after a decline of 15.49 percent in 2015/16. Exports also recorded a significant growth of 10.99 percent in April-January of 2017/18 in comparison to a sluggish growth of 1.51 percent during COPPY. Recent increase in exports largely reflected gradual revival in external demand in developed countries and rising commodity prices. Imports also surged even higher than exports i.e., by 23.51 percent during the same period (as against a decline of 4.94 percent during COPPY). The rise in imports growth was mainly due to sharp rise in oil and gold imports. POL imports rose to USD 87.41 billion during April-January 2017/18 from USD 69.49 billion COPPY due to rise in the international crude oil prices (Indian basket) and also volume. Non-oil imports were valued at USD 295.67 billion during April-January 2017/18 which were 22.85 percent higher than level of COPPY. Higher growth in imports relative to exports lead to widening of India's trade deficit to USD 131.16

billion during April-January 2017/18 from USD 88.34 billion during COPPY.

## Current Account

India's Current Account Deficit (CAD) increased to 1.79 percent of GDP (USD 22.24 billion) in the first half of 2017/18 from 0.35 percent (USD 3.87 billion) during COPPY following a sharp rise in trade deficit (USD 74.79 billion) by around 51.25 percent brought about by larger increase in merchandise imports relative to exports. Net invisible receipts however grew by 15.29 percent, on account of a rise in net services earnings and private transfer receipts despite a higher net outflow of primary income.

## Capital Flows

Net capital inflows (on BOP basis) increased substantially to USD 42.14 billion in the first half of of 2017/18 from USD 20.02 billion in COPPY. The net capital flows dominated by foreign investment and banking capital was, more than sufficient in financing CAD leading to an accretion of Foreign Exchange Reserves (FER) in the first half of 2017/18. Notwithstanding a decline in Foreign Direct Investment (FDI) inflows in the first half of 2017/18, net foreign investment recorded a growth of 17.40 percent owing to a sharp rise in portfolio investment to India. Foreign portfolio investment also increased by a whopping 78.05 percent, a jump from USD 8.15 billion in the first half of 2016/17 to USD 14.52 billion in the first half of 2017/18 reflecting positive outlook about growth potential of domestic economy. Among other forms of capital flows, banking capital recorded net inflow of USD 6.34 billion (as against net outflow of USD 6.75 billion) with increase in overseas borrowing and liquidation of foreign assets by banks, net repayment of external commercial borrowings resulted in an outflow of USD 1.51 billion in the first half of 2017/18. With net capital flows remaining higher than the CAD, there was net accretion to India's FER (on BOP Basis) to the tune of USD 20.90 billion in the first half of 2017/18 as compared with USD 15.48 billion in the first half of 2016/17.

## Foreign Exchange Reserves

Foreign Exchange Reserves in nominal terms increased by USD 51.53 billion as on March 9, 2018 over the end of March 2017 (from USD 369.95 billion to USD 421.49 billion).

## External Debt

India's total external debt stock increased to USD 495.69 billion at the end of September 2017 from USD 471.82 billion at the end of March 2017. The long-term external debt increased by USD 19.15 billion (4.99 percent) over March 2017 to USD 402.99 billion. Short-term debt also registered a rise of 5.36 percent and stood at USD 92.69 billion at the end of September 2017. Out of the total increase in the long-term debt, the largest increase of USD 17.07 billion was on account of commercial borrowing followed by Non-

Resident Indian (NRI) deposits which rose by USD 1.15 billion. The increase in short-term debt at the end of September 2017 over its level at the end of March 2017 was largely on account of increase in trade related credits.

The US dollar continued to dominate the currency composition of India's external debt and accounted for 50.00 percent of the total external debt at the end of September 2017.

## India: Real GDP Growth-at Market Prices of 2016/17-2017/18

**(In percent)**

| Item / Year | 2016/17 | 2017/18[1] | 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| **Private Consumption Expenditure** | **7.30** | **6.10** | **8.30** | **7.50** | **9.30** | **4.20** | **6.60** | **6.60** | **5.60** |
| **Government Consumption Expenditure** | **12.20** | **10.90** | **8.30** | **8.20** | **12.30** | **22.50** | **17.10** | **2.90** | **6.10** |
| **Gross Capital Formation** | **4.70** | **10.00** | **10.00** | **4.60** | **3.50** | **1.10** | **6.00** | **8.90** | **13.00** |
| Gross fixed capital formation | 10.10 | 7.60 | 15.90 | 10.50 | 8.70 | 6.00 | 1.60 | 6.90 | 12.00 |
| Change in stocks | -61.20 | 4.00 | -60.50 | -61.20 | -61.10 | -61.80 | -2.80 | 5.80 | 7.00 |
| Valuables | -13.90 | 70.40 | -10.50 | -18.80 | -17.00 | -9.00 | 125.50 | 56.50 | 40.80 |
| **Net Exports** | **12.00** | **-121.90** | **47.80** | **29.20** | **-66.00** | **73.80** | **-295.30** | **10.80** | **-75.10** |
| Exports | 5.00 | 4.40 | 3.60 | 2.40 | 6.70 | 7.00 | 5.90 | 6.50 | 2.50 |
| Imports | 4.40 | 9.90 | 0.10 | -0.40 | 10.10 | 6.60 | 16.00 | 5.40 | 8.70 |
| **Discrepancies** | **7.30** | **0.90** | **-44.80** | **20.40** | **30.20** | **68.00** | **25.20** | **-25.30** | **-36.60** |
| **GDP at Market Prices** | **7.10** | **6.60** | **8.10** | **7.60** | **6.80** | **6.10** | **5.70** | **6.50** | **7.20** |

[1] Second advanced estimates.

**Source:** Central Statistics Office (CSO)

## India: Sector-Wise Growth in Gross Value Added During 2016/17-2017/18

(In percent)

| Item / Year | 2016/17 | 2017/18[1] | 2016/17 Q1 | 2016/17 Q2 | 2016/17 Q3 | 2016/17 Q4 | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture and Allied Activities** | **6.30** | **3.00** | **4.30** | **5.50** | **7.50** | **7.10** | **2.70** | **2.70** | **4.10** |
| **Industry** | **8.70** | **5.00** | **10.20** | **7.80** | **8.80** | **8.10** | **-0.40** | **7.00** | **6.80** |
| Mining and quarrying | **13.00** | **3.00** | **10.50** | **9.10** | **12.10** | **18.80** | **1.80** | **7.10** | **-0.10** |
| Manufacturing | 7.90 | 5.10 | 9.90 | 7.70 | 8.10 | 6.10 | -1.80 | 6.90 | 8.10 |
| Electricity, gas, water supply and other utility services | 9.20 | 7.30 | 12.40 | 7.10 | 9.50 | 8.10 | 7.10 | 7.70 | 6.10 |
| **Services** | **6.70** | **7.80** | **8.50** | **7.40** | **6.00** | **4.90** | **8.60** | **6.60** | **7.60** |
| Construction | 1.30 | 4.30 | 3.00 | 3.80 | 2.80 | -3.90 | 1.50 | 2.80 | 6.80 |
| Trade, hotels, transportation, communication and services related to broadcasting | 7.20 | 8.30 | 8.90 | 7.20 | 7.50 | 5.50 | 8.40 | 9.30 | 9.00 |
| Financial, insurance, real estate and professional services | 6.00 | 7.20 | 10.50 | 8.30 | 2.80 | 1.00 | 8.90 | 6.40 | 6.70 |
| Public administration, defence and other services | 10.70 | 10.10 | 7.70 | 8.00 | 10.60 | 16.40 | 13.20 | 5.60 | 7.20 |
| **Gross Value Added (at basic prices)** | **7.10** | **6.40** | **8.30** | **7.20** | **6.90** | **6.00** | **5.60** | **6.20** | **6.70** |

[1] Second advanced estimates.

**Source:** Central Statistics Office (CSO)

| India: Foreign Trade During 2015/16-2017/18 (In millions of USDs) | | | | |
|---|---|---|---|---|
| Item \ Year | 2015/16[1] | 2016/17[2] | 2016/17[1] | 2017/18[2] |
| | April-March | | April-January | |
| **Exports** | 262,290.13 (-15.49) | 275,851.72 (5.17) | 221,823.47 (1.51) | 246,198.57 (10.99) |
| **Imports** | 381,006.63 (-15.00) | 384,358.94 (0.88) | 310,163.83 (-4.94) | 383,077.58 (23.51) |
| **Trade Balance** | **-118,716.50** | **-108,507.22** | **-88,337.00** | **-131,155.52** |
| [1] Revised data. | | | | |
| [2] Preliminary data. | | | | |
| **Note:** Figures in brackets are growth rates (YoY). | | | | |
| **Source:** Directorate General of Commercial Intelligence and Statistics (DGCI&S) | | | | |

## India: Trade with ACU Member Countries During 2015/16-2017/18

(In millions of USDs)

| Year / Country | 2015/16 | | 2016/17[1] | | 2016/17[1] | | 2017/18[2] | |
|---|---|---|---|---|---|---|---|---|
| | April-March | | | | April-December | | | |
| | Exports | Imports | Exports | Imports | Exports | Imports | Exports | Imports |
| **Bangladesh** | 6,037.60 | 728.10 | 6,695.80 | 700.90 | 4,754.94 | 557.54 | 5,862.73 | 463.34 |
| **Bhutan** | 468.60 | 279.00 | 489.10 | 134.90 | 386.15 | 265.67 | 371.57 | 244.18 |
| **Iran** | 2,776.40 | 6,235.50 | 2,392.30 | 10,507.70 | 1,775.70 | 7,178.68 | 2,000.74 | 7,726.56 |
| **Maldives** | 178.90 | 4.30 | 198.20 | 9.20 | 137.75 | 5.87 | 153.84 | 4.29 |
| **Myanmar** | 1,081.80 | 974.30 | 1,111.80 | 1,065.40 | 738.05 | 911.82 | 692.29 | 584.04 |
| **Nepal** | 3,929.20 | 468.80 | 5,362.10 | 442.10 | 3,987.57 | 316.42 | 4,388.57 | 314.03 |
| **Pakistan** | 2,182.20 | 440.60 | 1,832.30 | 455.70 | 1,180.48 | 371.23 | 1,156.61 | 387.25 |
| **Sri Lanka** | 5,292.90 | 741.40 | 3,919.10 | 595.90 | 2,814.13 | 451.31 | 3,176.15 | 575.90 |
| **Total of ACU** | **21,947.60** | **9,872.00** | **22,000.70** | **13,911.70** | **15,774.78** | **10,058.53** | **17,802.51** | **10,299.59** |
| **India's Total Trade** | **262,290.13** | **381,006.63** | **276,547.00** | **382,740.94** | **199,467.14** | **277,899.32** | **221,814.60** | **342,395.14** |
| **ACU Share to India's Total Trade (percent)** | **8.37** | **2.59** | **7.96** | **3.63** | **7.91** | **3.62** | **8.03** | **3.01** |

[1] Revised data.

[2] Preliminary data.

## India: Exports of Major Commodities to ACU Member Countries During 2015/16-2016/17

(In millions of USDs)

| Item / Year | April-March | |
|---|---|---|
| | 2015/16 | 2016/17 |
| Engineering goods | 7,090.80 | 6,913.50 |
| Cotton yarn/fabrics/made-ups, handloom products, etc. | 1,819.50 | 1,928.00 |
| Petroleum products | 1,433.40 | 1,691.00 |
| Cotton raw including waste | 1,346.80 | 920.00 |
| Organic and inorganic chemicals | 1,022.80 | 1,237.80 |
| Drugs and pharmaceuticals | 970.40 | 1,075.60 |
| Rice | 947.50 | 898.20 |
| Man-made yarn/fabrics/made-ups, etc. | 669.70 | 657.50 |
| Plastic and linoleum | 657.90 | 730.80 |
| Sugar | 651.10 | 535.30 |
| Fruits and vegetables | 554.50 | 559.30 |
| Mica, coal and other ores, minerals including processed minerals | 393.50 | 458.20 |
| Electronic goods | 370.20 | 359.10 |
| Spices | 280.10 | 336.80 |
| Paper, paper board and product | 277.80 | 288.40 |
| Others | 3,461.60 | 3,411.20 |
| **Total Export to ACU** | **21,947.60** | **22,000.70** |
| **Total Export** | **262,168.60** | **276,433.60** |
| **Share to Total Export (percent)** | **8.37** | **7.96** |

| India: Imports of Major Commodities from ACU Member Countries During 2015/16-2016/17 (In millions of USDs) | | |
|---|---|---|
| Item / Year | April-March | |
| | 2015/16 | 2016/17 |
| Petroleum, crude and products | 4,611.60 | 9,127.90 |
| Pulses | 809.40 | 806.10 |
| Organic and inorganic chemicals | 609.90 | 490.10 |
| Fertilisers, crude and manufactured | 505.60 | 316.10 |
| Fruits and vegetables | 370.10 | 327.10 |
| Dyeing/tanning/colouring materials | 347.60 | 308.00 |
| Artificial resins, plastic materials, etc. | 247.00 | 173.50 |
| Wood and wood products | 203.20 | 237.80 |
| Spices | 192.90 | 170.10 |
| Iron and steel | 152.50 | 174.60 |
| Misc processed items | 126.20 | 149.10 |
| Ready made garments cotton including accessories | 119.40 | 133.20 |
| Metaliferrous ores and other minerals | 101.10 | 112.60 |
| Textile yarn fabric, made-up articles | 96.20 | 83.40 |
| Other jute manufactures | 80.90 | 50.30 |
| Others | 1,298.40 | 1,251.80 |
| **Total Import from ACU** | **9,872.00** | **13,911.70** |
| **Total Import** | **380,381.20** | **382,696.00** |
| **Share to Total Import (percent)** | **2.60** | **3.64** |
| **Source:** Directorate General of Commercial Intelligence and Statistics (DGCI&S) | | |

| India: Exports from Special Economic Zones During 2012/13-2016/17 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| **Export** (In millions of USDs) | 87,450.00 | 81,670.00 | 75,840.00 | 71,380.00 | 78,070.00 |
| **Growth** (In percent) | 15.05 | -6.61 | -7.14 | -5.88 | 9.37 |
| **Source:** Ministry of Commerce and Industry, Government of India | | | | | |

| India: Exports from Central Government Special Economic Zones During 2012/13-2016/17 (In millions of USDs) | | | | | | |
|---|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2015/16 | 2016/17 |
| **Kandla Special Economic Zone** | 549.50 | 599.29 | 625.23 | 637.82 | 649.82 | 746.16 |
| **Santacruz Electronics Export Processing Zone Special Economic Zone** | 2,267.23 | 2,461.91 | 2,333.39 | 2,463.16 | 2,428.58 | 2,285.42 |
| **Nodia Special Economic Zone** | 1,229.75 | 1,405.15 | 1,084.26 | 1,194.41 | 1,344.16 | 1,107.48 |
| **Cochin Special Economic Zone** | 5,808.65 | 701.77 | 251.66 | 803.28 | 1,174.31 | 3,201.78 |
| **Falta Export Processing Zone** | 144.56 | 240.69 | 191.45 | 158.15 | 146.56 | 165.86 |
| **Visakhapatnam Special Economic Zone** | 459.93 | 358.62 | 327.40 | 150.75 | 139.08 | 194.36 |
| **Total** | **10,459.62** | **5,767.43** | **4,813.39** | **5,407.57** | **5,882.51** | **7,701.06** |
| **Source:** Directorate General of Commercial Intelligence and Statistics (DGCI&S) | | | | | | |

| India: Main Items of Goods and Services Exported to ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Cotton yarn/fabrics/made-ups, handloom products, cotton raw including waste, man-made yarn/fabrics/made-ups, fruits and vegetables, rice, wheat, oil meals, etc. |
| **Industry** | Engineering goods, organic and inorganic chemicals, mica, coal and other ores, mineral including processed minerals, plastic and linoleum, drugs and pharmaceuticals, dyes, electronic goods, petroleum products |
| **Bhutan** | |
| **Agriculture** | Rice, meat, dairy and poultry products |
| **Industry** | Engineering goods, petroleum products, mica, coal and other ores, mineral including processed minerals, cereal preparations and miscellaneous processed items, electronic goods, organic and inorganic chemicals, plastic and linoleum, ceramic products and glassware, drugs and pharmaceuticals, cement, clinkers and asbestos cement, paper, paper board and product, graphite, explosives and accessory, alcoholic beverages |
| **Iran** | |
| **Agriculture** | Rice, tea, cotton yarn/fabrics/made-ups, handloom products, man-made yarn/fabrics/ made-ups, natural rubber, spices, fruits and vegetables, oil seeds, etc. |
| **Industry** | Engineering goods, organic and inorganic chemicals, drugs and pharmaceuticals, plastic and linoleum, paper, paper board and product, mica, coal and other ores, mineral including processed minerals, electronic goods |
| **Maldives** | |
| **Agriculture** | Fruits and vegetables, meat, dairy and poultry products, rice |
| **Industry** | Engineering goods, mica, coal and other ores, mineral including processed minerals, drugs and pharmaceuticals, plastic and linoleum, cement, clinkers and asbestos cement, marine products, organic and inorganic chemicals, electronic goods, cereal preparations and miscellaneous processed items, books, publishing and printing, ready made garments of all textiles, paper, paper board and product |
| **Myanmar** | |
| **Agriculture** | Sugar, cotton yarn/fabrics/made-ups, handloom products, oil meals, tobacco, man-made yarn/fabrics/made-ups, etc. |
| **Industry** | Engineering goods, drugs and pharmaceuticals, electronic goods, human hair, products thereof, plastic and linoleum, organic and inorganic chemicals, ready made garments of all textiles, handicrafts excluding handmade carpet, agro chemicals, cereal preparations and miscellaneous processed items |

| India: Main Items of Goods and Services Exported to ACU Member Countries in 2016/17 *(Contd.)* | |
|---|---|
| **Sector/Country** | |
| **Nepal** | |
| **Agriculture** | Rice, fruits and vegetables, cotton yarn/fabrics/made-ups, handloom products, other cereals, etc. |
| **Industry** | Engineering goods, petroleum products, drugs and pharmaceuticals, plastic and linoleum, organic and inorganic chemicals, mica, coal and other ores, mineral including processed minerals, paper, paper board and product, cereal preparations and miscellaneous processed items, electronic goods, ceramic products and glassware, clinkers and asbestos cement |
| **Pakistan** | |
| **Agriculture** | Cotton raw including waste, cotton yarn/fabrics/made-ups, handloom products, man-made yarn/fabrics/made-ups, fruits and vegetables, pulses, sugar, spices, oil seeds, tea, etc. |
| **Industry** | Organic and inorganic chemicals, engineering goods, plastic and linoleum, drugs and pharmaceuticals, dyes, handicrafts excluding handmade carpet |
| **Sri Lanka** | |
| **Agriculture** | Cotton yarn/fabrics/made-ups, handloom products, man-made yarn/fabrics/made-ups, spices, fruits and vegetables, sugar, etc. |
| **Industry** | Engineering goods, petroleum products, drugs and pharmaceuticals, cement clinkers and asbestos cement, organic and inorganic chemicals, plastic and linoleum, paper, paper board and product, ready made garments of all textiles, electronic goods, ceramic products and glassware |
| **Source:** Directorate General of Commercial Intelligence and Statistics (DGCI&S) | |

| India: Main Items of Goods and Services Imported from ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Jute yarn, fruits and vegetables, jute raw |
| **Industry** | Ready made garments cotton including accessories, other jute manufactures, non-ferrous metals, ready made garments manmade fibers, leather and leather products, textile yarn fabric, made-up articles, transport equipment, marine products, organic and inorganic chemicals, cement clinkers and asbestos cement, ready made garments of other textile material, miscellaneous processed items |
| **Bhutan** | |
| **Agriculture** | Fruits and vegetables, spices |
| **Industry** | Iron and steel, organic and inorganic chemicals, artificial resins, plastic materials, alcoholic beverages, non-ferrous metals, wood and wood products, metaliferrous ores and other minerals, miscellaneous processed items, chemical material and products, packaging materials, coal, coke and briquettes, cement clinkers and asbestos cement, dyeing/tanning/colouring materials |
| **Iran** | |
| **Agriculture** | Fruits and vegetables |
| **Industry** | Petroleum, crude and products, organic and inorganic chemicals, fertilisers, crude and manufactured, dyeing/tanning/colouring materials, artificial resins, plastic materials, etc., chemical material and products, metaliferrous ores and other minerals, glass and glassware, leather and leather products, iron and steel, medical and pharmaceutical products, other precious and base metals, raw hides and skins, transport equipment |
| **Maldives** | |
| **Industry** | Iron and steel, non-ferrous metals, machinery and electrical and non-electrical, petroleum, crude and products, transport equipment |
| **Myanmar** | |
| **Agriculture** | Pulses, fruits and vegetables, spices, natural rubber, fruits/vegetable seeds |
| **Industry** | Wood and wood products, marine products, human hair, products thereof, raw hides and skins, metaliferrous ores and other minerals, handcrafts (excluding handmade carpets), non-ferrous metals, electronic goods, iron and steel |
| **Nepal** | |
| **Agriculture** | Spices, tea, fruits and vegetables |
| **Industry** | Miscellaneous processed items, iron and steel, artificial resins, plastic materials, etc., manmade yarn, fabrics, made-ups, leather and leather products, other jute manufactures, jute hessian, dyeing/tanning/colouring materials, organic and inorganic chemicals, non-ferrous metals, medical and pharmaceutical products, packaging materials |

| India: Main Items of Goods and Services Imported from ACU Member Countries in 2016/17 *(Contd.)* | |
|---|---|
| **Sector/Country** | |
| **Pakistan** | |
| **Agriculture** | Fruits and vegetables, cotton raw and waste, textile yarn fabric, made-up articles, wool, raw, spices. |
| **Industry** | Petroleum, crude and products, cement clinkers and asbestos cement, metaliferrous ores and other minerals, organic and inorganic chemicals, leather and leather products, artificial resins, plastic materials, glass and glassware, alcoholic beverages, medical and pharmaceutical products, transport equipment |
| **Sri Lanka** | |
| **Agriculture** | Spices, fruits and vegetables, textile yarn fabric, made-up articles, tea |
| **Industry** | Wood and wood products, machinery and electrical and non-electrical, petroleum, crude and products, transport equipment, miscellaneous processed items, non-ferrous metals, metaliferrous ores and other minerals, electronic goods, ready made garments cotton including accessories, manmade yarn, fabrics made-ups, packaging materials |
| **Source:** Directorate General of Commercial Intelligence and Statistics (DGCI&S) | |

**Source:** Reserve Bank of India

# Iran

## Introduction

After four years of disciplinary fiscal and appropriate monetary policies, the Iranian economy rebounded and recovered its growing trend, in the first quarter of 2016 (January-March 2016); and this trend continued all through 2016/17 and the first nine months of 1396 (2017/18)[1].

## Economic Growth

After the implementation of the Joint Comprehensive Plan of Action (JCPOA), the economy was positively affected by a sharp increase in oil income which led to Gross Domestic Product (GDP) growth of 12.50 percent in 2016/17 compared to a negative outturn of 1.60 percent in 2015/16, at constant 2011/12 prices. This positive growth continued through 2017/18.

Based on preliminary estimates, GDP at basic and current prices increased from Rls. 9,504.00 trillion during April-December 2016 to Rls. 10,986.00 trillion in the first nine months of 1396 (2017/18), indicating 15.60 percent nominal growth. Based on the same set of data, the real GDP (at constant 2011/12 prices) indicated 3.40 percent increase, in the first nine months of 1396 (2017/18). In the same period, services and manufacturing and mining groups, with respectively 1.80 and 1.10 percentage points contribution to growth, had the highest shares in the 3.40 percent GDP growth at constant prices. Oil and agriculture sectors, each had 0.30 percentage point share in the growth of GDP. Therefore, contrary to 2016/17 in which oil was the major force and had a remarkable contribution to GDP growth, the non-oil sectors of the economy were the major contributors to growth (by 4.10 percent) in the first nine months of 1396 (2017/18).

## Real Sector

Iran's average crude oil production grew by 3.90 percent to 3.90 Million Barels per Day (mb/d) in the first nine months of 1396 (2017/18) compared with the respective period in the previous year. Iran's crude oil exports increased by 2.40 percent on average and reached 2.20 mb/d in the same period and the exports of oil products amounted to 256.20 thousand b/d, indicating 77.20 percent rise. Meanwhile, the estimated average of Iran's spot price of crude oil increased by 20.10 percent to USD 50.70 per barrel compared with the first nine months of 1395 (2016/17).

[1] The year 1396 corresponds to 2017/18 (starting March 21, 2017 and ending March 20, 2018). The first nine months of 1396 cover April-December 2017.

Iran's natural gas exports reached 10.10 billion cubic meters in the reference period, indicating 60.50 percent increase compared with the first nine month of 1395 (2016/17). Imports of natural gas, on the other hand, decreased by 21.90 percent to 3.80 billion cubic meters. Therefore, net exports of natural gas reached 1.10 billion cubic meters in the first nine months of 1396 (2017/18).

A review of the developments of the agriculture sector indicates a growth rate of 2.10 percent in agricultural products in 2017/18. The value-added growth of this sector showed an increase of 4.10 percent in the first nine months of 1396 (2017/18), at constant 2011/12 prices. This is against the backdrop of 4.60 percent decline in total precipitation in 2016/17 farming year compared with the respective period of the previous year.

After a continuous slowdown in manufacturing and mining sector during 2015/16, this sector indicated a favorable performance in 2016/17 and the first nine months of 1396 (2017/18), mainly due to the sanctions relief which led to a reduction in credit constraints of various manufacturing establishments and plants. As a result, manufacturing and mining sectors showed 6.60 and 4.60 percent growth in 2016/17 and the first nine months of 1396 (2017/18). Reviewing the performance indicators of this sector, including issued establishment and operation permits as well as selected products indicates improved conditions in the first nine months of 1396 (2017/18). The automotive and petrochemical industries, crude steel and steel products had the highest performance compared with other selected products' indicators. Data on operation permits, as an indicator of private sector willingness to invest in manufacturing and mining sector, indicated 7.10, 26.70, and 19.50 percent increase in terms of the number of operation permits, investment, and employment, respectively.

The performance indicators of construction and housing sector point to the gradual recovery in terms of construction and investment activities. The value-added growth of construction sector, which was on a downward trend over the 2012-2017 period as a result of negative GDP performance and general economic downturn, experienced a positive trend as of 1396, second quarter (July-September 2017). This was mostly due to favorable financing conditions of housing sector and the rise in government revenues from sales of crude oil and oil products. Therefore, the value-added growth of this sector increased by respectively 3.10 and 1.40 percent in the second quarter (July-September 2017) and in the third quarter (October-December 2017) of 1396. The overall value-added growth of this sector was 0.80 percent in the first nine months of 1396 (2017/18). Data on the number of construction permits issued by municipalities in all urban areas indicate positive trends after almost 4 years of weak performance, showing positive growth as of 1395, first quarter (April-

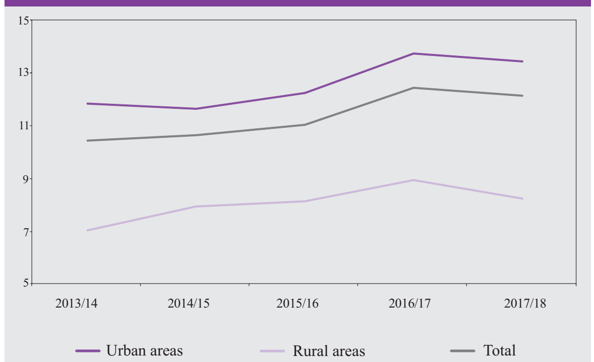
June 2016) until 1396, third quarter (October-December 2017). The number of construction permits issued in 2016/17 and the first nine months of 1396 (2017/18), surged by 12.20 and 8.10 percent, respectively.

## Population and Employment

According to the estimates of the Statistical Center of Iran (SCI), unemployment rate reached 12.10 percent in 2017/18, indicating 0.30 percentage point fall compared with the year before. The unemployment rate in urban areas was 13.40 percent and in rural areas, 8.20 percent, indicating 0.30 and 0.70 percentage points decrease, respectively. The unemployment rate for the female population reached 19.80 percent, showing 0.90 percentage point decrease compared with the year before. Unemployment rate for men fell by 0.30 percentage point to 10.20 percent. In 2017/18, the participation rate increased by 0.90 percentage point to 40.30 percent. The number of available jobs increased by about 790.60 thousand, with the highest increase by 452.50 thousand related to the services sector. In this year, 287.60 thousand and 48.90 thousand job opportunities were created in the industry and agriculture sectors, respectively. Of total 790.60 thousand jobs created in 2017/18, the number of available job opportunities for men was raised by 476.20 thousand and those for women increased by 314.30 thousand. The higher increase in the demand for labor (employed population) at 3.50 percent compared with the rise in labor supply (economically active population) at 3.10 percent led to a decline in unemployment rate in 2017/18.

**Unemployment Rate**

**(In percent)**




## Government Budget and Finance

A review of the performance of government budget in the first 11 months of 1396 (2017/18)[1] indicates that total sources and uses of government general budget reached Rls. 2,703.80 trillion, indicating 29.20 percent increase compared with the respective period of the previous year. Government general revenues increased by 6.70 percent and reached Rls. 1,256.00 trillion in the same period. Moreover, sources from disposal of non-financial assets amounted to Rls. 827.40 trillion, constituting 30.60 percent of government general sources. Meanwhile, disposal of financial assets experienced remarkable growth in the mentioned period, mainly due to the high reliance of Government on market for debt instruments and the issuance of Islamic financial instruments.

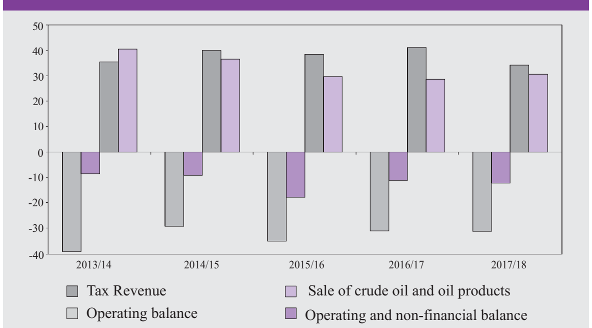
[1] The first eleven months of 1396 cover April 2017-February 2018.

Expenses (current expenditures) went up by 15.60 percent to Rls. 2,064.20 trillion in the first 11 months of 1396 (2017/18). Payments for the acquisition of non-financial assets (development expenditures) increased by 70.10 percent to Rls. 316.30 trillion. The remarkable growth in the acquisition of financial assets in the mentioned period was partly due to the repayment of financial commitments arising from sales of Islamic financial instruments.

Considering the performance figures of revenues and expenses, government operating balance ran Rls. 842.40 trillion deficit in the first 11 months of 1396 (2017/18). Moreover, net disposal of non-financial assets recorded a surplus of Rls. 511.10 trillion due to increase in oil revenues. Therefore, the government operating and non-financial balance posted Rls. 331.30 trillion deficit in the mentioned period.

**Government Budget[1]**

**(In percent)**




[1]Based on 11-month performance of 1392-1396 (2013/14 -2017/18)

## External Sector

Based on preliminary data released by the Islamic Republic of Iran Customs Administration (IRICA), total value of trade[1] through Customs increased by 17.10 percent to USD 94,154.00 million in 2017/18. The shares of exports and imports in the total value of trade were respectively 42.30 and 57.70 percent in this year.

The value of exports (through Customs) amounted to USD 39,852.00 million, indicating 8.50 percent growth compared with 2016/17. This was mainly attributable to 7.40 percent increase in the value of exports of industrial goods, which accounted for the highest share in the total value of exports in this year by 80.80 percent.

The value of imports (through Customs) increased by 24.30 percent compared with the preceding year and reached USD 54,302.00 million in 2017/18. A review of imported goods indicates that machinery and transportation vehicles constituted the highest share in the value of imports by 40.20 percent. The unit value of exports and imports of goods increased by 4.90 and 7.20 percent, respectively, in 2017/18. Therefore, the terms of trade (the ratio of the unit value of exports to unit value of imports) decreased by 0.01 percentage point.

## Balance of Payments

Based on preliminary estimates, current account surplus decreased by 8.40 percent to USD 10,914.00 million in the first nine

[1] Excludes value and volume of crude oil exports.

months of 1396 (2017/18). Among the major components of the current account, the goods account posted a surplus of USD 16,369.00 million, up by 2.10 percent. Moreover, the deficit of non-oil goods account increased by 26.00 percent to USD 28,560.00 million.

The Free on Board (FOB) value of exports went up by 14.60 percent to USD 69,078.00 million in the first nine months of 1396 (2017/18), mainly due to 16.30 percent growth in oil exports.

## Money and Banking

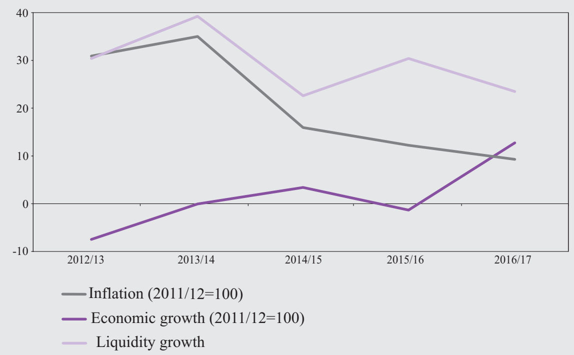
In 2017/18, the CBI successfully contained the growth of major monetary aggregates, which contributed greatly to maintaining stable monetary condition in the economy. Therefore, the economy attained a single-digit inflation rate after two consecutive years for the first time since the Islamic revolution.

Liquidity amounted to Rls. 15,299.80 trillion at the end of 1396 (March 2018), showing 22.10 percent growth compared with the previous year-end (March 2017). Comparing the liquidity growth in 2017/18 with the growth figure of the previous year (23.20 percent) is indicative of 1.10 percentage points decrease.

Monetary base surged by 19.10 percent in March 2018 and reached Rls. 2,141.60 trillion, showing 1.80 percentage points increase compared with the growth figure of 2016/17 (17.30 percent). The major reason behind the growth of monetary base was the sharp rise in CBI claims on banks, which occurred due to liquidity shortages and balance sheet difficulties of banks.

**Major Economic Variables**

**(In percent)**




## Capital Market

Reviewing the key indicators of Tehran Stock Exchange (TSE) shows that Tehran Stock Exchange Price Index (TEPIX) increased by 24.70 percent from 77,230.00 points at the end of March 2017 to 96,290.00 points at the end of March 2018. The highest growth rate of TEPIX by 7.60 percent was related to December 2017, mainly attributable to the continued rise in the exchange rate and crude oil and base metals prices as well as the decline in banks' deposit rates.[1] Financial and industrial indices showed -9.60 and 30.20 percent growth compared with the previous year-end and reached 119,176.00 and 86,082.00 points in March 2018. Due to the high share of export-oriented industries which are reliant on and sensitive to world market prices, market capitalization increased by

[1] CBI Circular No. 96/173793 dated August 27, 2017.

18.80 percent compared with March 2017 and reached Rls. 3,824.00 trillion in March 2018.

**Changes in Stock Exchange Indices**

**(Percentage change over respective month of previous year)**


# Price Trends

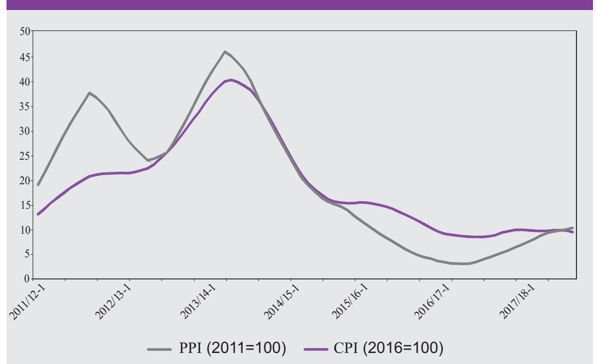
As a result of policies adopted by the eleventh government such as disciplinary fiscal and monetary policies, improved stable and calm foreign exchange markets, and appropriate management of inflation expectations, inflation rate declined to 9.00 percent in March 2017, which was a remarkable achievement in attaining a single-digit inflation rate after 26 years. The rate of inflation continued its stable trend through 2017/18 and, by 0.60 percentage point increase compared with 2016/17, registered another single-digit rate for the second consecutive year at 9.60 percent.

The twelve-month changes of the Producer Price Index (PPI) started an increasing trend from the middle of 1395 (October 2016) and, with 0.10 percentage point increase compared with 2015/16, reached 5.00 percent in March 2017. In 2017/18, the PPI took an upward trend from the beginning of the year until the end of the year when it stood at 10.50 percent, showing 5.50 percentage points increase compared with the previous year.

The twelve-month developments for the price index of exportable goods increased by 23.30 percentage points and reached 20.60 percent in March 2018.

**Growth in Price Indices**

**(Year-on-Year (YoY), Percent)**



| Iran: Major Economic Indicators During 2013/14-2017/18 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| **Percent Change (2011/12=100)** | | | | | |
| **Real Gross Domestic Product (GDP)** (at basic prices) | -0.30 | 3.20 | -1.60 | 12.50 | na. |
| **Non-Oil Real GDP** | 0.50 | 3.00 | -3.10 | 3.30 | na. |
| **Gross Fixed Capital Formation** | -7.80 | 7.80 | -12.00 | -3.70 | na. |
| **Consumer Price Index (CPI)** | 34.70 | 15.60 | 11.90 | 9.00 | 9.60 |
| **Broad Money** | 38.80[1] | 22.30 | 30.00 | 23.20 | 22.10[2] |
| **In percent of GDP** | | | | | |
| **Gross Fixed Capital Formation** | 25.40 | 26.00 | 22.70 | 20.30 | na. |
| Public | 5.50 | 6.50 | 6.10 | 6.04 | na. |
| Private | 19.90 | 19.60 | 16.70 | 13.90 | na. |
| **Gross National Saving** | 42.80 | 41.90 | 34.80 | 35.10 | na. |
| **Current Account Balance** | 5.40 | 2.90 | 0.30 | 3.50 | na. |
| **Total Government Revenue** | 13.50 | 14.30 | 16.10 | 17.30 | na. |
| o/w: oil | 6.20 | 5.60 | 6.00 | 5.80 | na. |
| **Total Government Expenditures** | 14.40 | 15.40 | 17.90 | 19.30 | na. |
| **Overall Budget Balance** | -0.90 | -1.10 | -1.70 | -2.00 | na. |
| **In millions of USDs** | | | | | |
| **Total Debt[3]** | 6,655.00 | 5,108.00 | 7,476.00 | 8,481.00 | 10,910.00 |
| Medium and long-term | 5,878.00 | 4,676.00 | 5,456.00 | 5,170.00 | 4,197.00 |
| Short-term | 777.00 | 432.00 | 2,019.00 | 3,312.00 | 6,713.00 |
| **Inter-bank Market Exchange Rate** (USD/Rls.) | 21,253.00 | 26,509.00 | 29,580.00 | 31,389.00 | 34,214.00 |

[1] It is important to note that part of the growth in the rate of liquidity in 2013/14 was attributable to higher coverage of finacial data of new banks and institutions. In fact, 12.90 percentage points of the 38.80 percent liquidity expansion in 2013/14 was due to the higher scope of statistical coverage, unrelated to economic factors. Excluding the data related to the six banks and four institutions, the liquidity growth for the year 2013/14, comparable to fixed statistical framework of 2012/13, would be 25.90 percent.

[2] Provisional data.

[3] It excludes arrears.

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Government Per-Capita Revenues and Expenses During 2013/14-2017/18 (at Constant 2016/17 Prices)

(In USDs)

| Item / Year | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18[1] |
|---|---|---|---|---|---|
| **Revenues** | 618.20 | 577.50 | 524.80 | 582.20 | 413.90 |
| Tax revenues | 425.90 | 419.20 | 369.80 | 404.50 | 303.70 |
| **Expenses** | 1,032.00 | 849.70 | 797.10 | 826.00 | 680.20 |

[1] Including the first eleven months of 1396 (April 2017-February 2018).

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Ratio of Selected Budget Items to GDP During 2013/14-2017/18

(In percent)

| Item / Year | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|
| **Revenues** | 7.29 | 8.68 | 10.10 | 11.48 | na. |
| **Expenses** | 12.17 | 12.77 | 15.34 | 16.29 | na. |
| **Acquisition of Non-Financial Assets** | 2.20 | 2.70 | 2.40 | 3.00 | na. |
| **Net Disposal of Non-Financial Assets** | 3.98 | 2.95 | 3.61 | 2.80 | na. |
| **Operating Balance** | -4.88 | -4.09 | -5.24 | -4.81 | na. |

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

| Iran: Government General Budget Revenues[1] During 2014/15-2017/18 (In millions of USDs) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Item / Year | 2014/15 | 2015/16 | 2016/17 | 2017/18[2] | Share (percent) | | | |
| | | | | | 2014/15 | 2015/16 | 2016/17 | 2017/18[2] |
| **Revenues** | 36,877.80 | 37,990.00 | 46,534.00 | 36,710.20 | 100.00 | 100.00 | 100.00 | 100.00 |
| Tax revenues | 26,770.20 | 26,771.10 | 32,326.70 | 26,941.20 | 72.60 | 70.50 | 69.50 | 73.40 |
| Other revenues | 10,107.60 | 11,218.90 | 14,207.20 | 9,769.00 | 27.40 | 29.50 | 30.50 | 26.60 |

[1] Excluding earmarked revenues and expenditures.

[2] Including the first eleven months of 1396 (April 2017-February 2018).

**Source:** Treasury General, Ministry of Economic Affairs and Finance

| Iran: Government General Budget Performance During 2015/16-2017/18 (In trillion Rials) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Item / Year | 2015/16 | 2016/17 | 2017/18 | Percentage change | | Share (percent) | |
| | | | | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| **Revenues** | 894.60 | 1,177.60 | 1,256.00 | 31.60 | 6.70 | 56.30 | 46.50 |
| **Expenses (current)** | 1,485.40 | 1,785.80 | 2,064.20 | 20.20 | 15.60 | 85.30 | 76.30 |
| **Operating Balance** | -597.40 | -647.70 | -842.40 | 8.40 | 30.10 | – | – |
| Disposal of non-financial assets | 506.60 | 600.80 | 827.40 | 18.60 | 37.70 | 28.70 | 30.60 |
| Acquisition of non-financial assets (development expenditures) | 211.70 | 185.90 | 316.30 | -12.20 | 70.10 | 8.90 | 11.70 |
| **Operating and Non-financial Balance** | -302.80 | -232.90 | -331.30 | -23.10 | 42.20 | – | – |
| Disposal of financial assets | 304.50 | 314.00 | 620.40 | 3.10 | 97.60 | 15.00 | 22.90 |
| Acquisition of financial assets | 1.70 | 81.10 | 289.10 | 4,555.00 | 256.70 | 3.90 | 10.70 |

**Source:** Treasury General, Ministry of Economic Affairs and Finance

## Iran: Price Indices Growth During 2013/14-2017/18
(2016/17=100)

| Item / Year | Percentage Change Over Previous Year | | | | |
|---|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| **Consumer Price Index (CPI) of Goods and Services** | 34.70 | 15.60 | 11.90 | 9.00 | 9.60 |
| **Producer Price Index (PPI)** | 34.50 | 14.80 | 4.90 | 5.00 | 10.50 |
| **Exportable Goods Price Index** | 21.80 | -0.50 | -16.00 | -2.70 | 20.60 |

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Current Account Balance During 2014/15-2017/18

| Item / Year | In millions of USDs | | | | Percentage Change | | |
|---|---|---|---|---|---|---|---|
| | 2014/15 | 2015/16 | 2016/17 | 2017[1] | 2015/16 | 2016/17 | 2017[2] |
| **Current Account Balance** | 13,571.00 | 1,237.00 | 16,388.00 | 10,914.00 | -33.60 | ▣[3] | -8.40 |
| Goods | 18,060.00 | 5,354.00 | 20,843.00 | 16,369.00 | -32.60 | 289.30 | 2.10 |
| Services | -6,877.00 | -4,785.00 | -5,941.00 | -6,567.00 | -35.00 | 24.20 | 25.80 |
| Income | 1,845.00 | 241.00 | 928.00 | 771.00 | -58.60 | 285.10 | 12.50 |
| Current transfers | 543.00 | 427.00 | 558.00 | 341.00 | 0.80 | 30.60 | -18.00 |
| **Current Account Balance** (non-oil) | -39,239.00 | -28,972.00 | -37,976.00 | -34,015.00 | -43.10 | 31.10 | 27.00 |

[1] Including the first nine months of 1396 (April-December 2017).

[2] The percentage change calculation is based on the first nine months of 1396 (April-December 2017) compared with the same period in 1395 (April-December 2016).

[3] Growth is more than 500 percent.

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Value of Exports During 2014/15-2017/18

**(In millions of USDs)**

| Item / Year | 2014/15 | 2015/16 | 2016/17[1] | Nine Months[1] | | Percentage Change |
|---|---|---|---|---|---|---|
| | | | | 2016/17 | 2017/18 | |
| **Exports of Goods (fob)** | 88,976.00 | 62,995.00 | 83,978.00 | 60,292.00 | 69,078.00 | 14.60 |
| **Oil Exports** | 55,406.00 | 31,848.00 | 55,752.00 | 39,877.00 | 46,370.00 | 16.30 |
| **Non-Oil Exports** | 33,569.00 | 31,147.00 | 28,226.00 | 20,415.00 | 22,708.00 | 11.20 |

[1] Figures are preliminary.

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Ratio of Imports, Exports, Current Account Balance and Non-Oil Exports to GDP During 2013/14-2017/18

**(In percent)**

| Item / Year | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017[1] |
|---|---|---|---|---|---|
| **Imports** | 13.60 | 15.20 | 12.40 | 13.50 | 11.30 |
| **Exports** | 19.90 | 19.10 | 13.50 | 18.00 | 14.80 |
| **Current Account Balance** | 5.40 | 2.90 | 0.30 | 3.50 | 2.30 |
| **Non-Oil Exports** | 6.10 | 7.20 | 6.70 | 6.10 | 4.90 |

[1] Including the first nine months of 1396 (April-December 2017).

**Source:** Economic Research and Policy Department, Central Bank of the Islamic Republic of Iran

## Iran: Exports to ACU Member Countries in 2017/18[1]

| Country / Item | Weight in Kg | Value in USDs |
|---|---|---|
| **Bangladesh** | 1,442,905,403.00 | 81,775,803.00 |
| **India** | 9,793,017,851.00 | 2,734,892,726.00 |
| **Maldives** | 148,936.00 | 46,365.00 |
| **Myanmar** | 229,087,418.00 | 60,069,418.00 |
| **Nepal** | 2,122,110.00 | 397,293.00 |
| **Pakistan** | 2,186,071,057.00 | 930,164,592.00 |
| **Sri Lanka** | 135,662,673.00 | 40,054,293.00 |

[1] Including natural gas condensate.

**Source:** Islamic Republic of Iran Customs Administration (IRICA)

## Iran: Imports from ACU Member Countries in 2017/18

| Country / Item | Weight in Kg | Value in USDs |
|---|---|---|
| **Bangladesh** | 40,659,008.00 | 52,775,102.00 |
| **India** | 1,783,580,525.00 | 2,254,604,803.00 |
| **Myanmar** | 356,537.00 | 525,386.00 |
| **Pakistan** | 363,851,333.00 | 392,825,457.00 |
| **Sri Lanka** | 29,249,672.00 | 114,523,102.00 |

**Source:** Islamic Republic of Iran Customs Administration (IRICA)

| Iran: Main Items of Goods and Services Exported to ACU Member Countries in 2017/18 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Nuts and fruits |
| **Industry** | Cement clinkers, petroleum bitumen, white cement |
| **India** | |
| **Agriculture** | Pistachio, dates, apple |
| **Industry** | Urea, methanol, anhydrous ammonia, ethylene glycol, petroleum bitumen, plastic materials, refined lead, petroleum gases, organic and inorganic chemicals |
| **Maldives** | |
| **Industry** | Petroleum bitumen |
| **Myanmar** | |
| **Industry** | Petroleum bitumen, paraffin wax, urea, whether or not in aqueous solution, petroleum greases and lubricating greases |
| **Nepal** | |
| **Industry** | Petroleum bitumen, organic composite solvents and thinners, prepared paint or varnish removers, white cement, plasters, carpets and other textile floor coverings, kelem, schumacks, karamanie and similar hand-woven rugs |
| **Pakistan** | |
| **Agriculture** | Pistachios in shell, apples, milk in powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.50 percent |
| **Industry** | Petroleum bitumen, light oils and preparations, chocolate ice cream mix or ice milk mix, petroleum gases and other gaseous hydrocarbons, juice of any other single fruit or vegetable |
| **Sri Lanka** | |
| **Agriculture** | Fish, frozen, excluding fish fillets and other fish meat of heading, dried grapes |
| **Industry** | Petroleum bitumen, iron and non-alloy steel in ingots or other primary forms, ingots, urea, whether or not in aqueous solution, refined lead |

| Iran: Main Items of Goods and Services Imported from ACU Member Countries in 2017/18 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Industry** | Yarn and woven fabrics of jute or other textile |
| **India** | |
| **Agriculture** | Semi-milled or wholly milled rice, black tea, fermented black tea, sesame seeds |
| **Industry** | Aluminum oxide, ferro-alloys, rails, ferro-silicon-manganese, carbon electrodes for furnaces, synthetic staple fibers of acrylic or mod-acrylic, artificial staple fibers of viscose rayon, medicaments, uncoated paper and paperboard |
| **Myanmar** | |
| **Agriculture** | Turmeric (curcuma) |
| **Industry** | Trunks, suit-cases, camera accessories like lantern slide attachments, lens hoods, stands, sleeping bags |
| **Pakistan** | |
| **Agriculture** | Semi-milled or wholly milled rice, sesame seeds, live bovine animals, guavas, mangoes and mangos teens, camels and other camellias, chickpeas |
| **Industry** | Paper, paperboard, cellulose wadding and webs of cellulose fibers, unbleached woven fabrics of jute or of other textile |
| **Sri Lanka** | |
| **Agriculture** | Black tea (fermented), desiccated coconut, vegetable products |
| **Industry** | Aluminum casks, cans and similar containers, folding cartons for sanitary food or beverage as containers, preparations for use on the hair |
| **Source:** Islamic Republic of Iran Customs Administration (IRICA) | |

**Source:** Central Bank of the Islamic Republic of Iran

# Maldives

## Macro-Economic Developments

According to the latest estimates released by the Ministry of Finance and Treasury in November 2017, real Gross Domestic Product (GDP) growth for Financial Year (FY)[1] 2017 is estimated at 6.90 percent, an upward revision from a forecast of 4.70 percent made in November 2016. Moreover, growth accelerated when compared with the 6.20 percent recorded during the previous year, largely driven by the remarkable performance of the tourism sector, along with buoyant domestic demand due to continued expansion of the construction sector.

The remarkable performance of tourism sector was primarily attributed to favourable economic conditions in the source markets as well as successful promotional activities carried out in different parts of the globe. The sector also benefited from lower global airfares over recent years, coupled with increased flight movement by international carriers. In 2017, the number of tourist arrivals reached 1.39 million, depicting an annual growth of 8.04 percent when compared with a 4.20 percent annual increase during the previous year. The growth in tourist arrivals was mainly due to the large increase in arrivals from the European market, which offset the decline in arrivals from China.

Looking at other key indicators of tourism sector, total tourist bednights gained further momentum and registered a double-digit growth of 10.62 percent during 2017–a significant improvement from a 6.12 percent growth recorded during 2016. Meanwhile, the average duration of stay also increased slightly from 6.03 days in 2016 to 6.18 days in 2017. Mirroring these positive development, tourism receipts posted an annual growth of 9.43 percent and totalled USD 2.74 billion during the year. On the supply side, the average operational bed capacity of the industry recorded an annual increase of 14.17 percent reflecting this, the occupancy rate of the industry declined from 62.90 percent in 2016 to 61.12 percent in 2017, despite the growth in tourist bednights.

Following a positive turnaround in 2016, the fisheries sector performance strengthened further as exhibited by the key indicators of the sector. As such, fish purchases made by collector vessels from local fisherman increased by 42.22 percent in annual terms and amounted to 76.62 thousand metric tonnes, after recording a growth of 19.10

[1] Financial Year stands for beginning of January to the end of December.

percent in 2016. Meanwhile, volume of fish exports increased by 54.84 percent due to a growth in the volume of frozen tuna and canned or pouched tuna exports.

With regard to performance of the construction sector, it remained robust throughout the year, as reflected by the key indicators used to gauge the performance of the sector—commercial bank credit and construction related imports. While commercial bank credit to the sector increased by 22.21 percent in annual terms, construction-related imports such as wood, metal cement and aggregates increased annually by 23.90 percent during 2017. The buoyant growth of the sector was primarily due to continued public sector infrastructure projects carried out by the Government. The key public sector infrastructure projects carried out in 2017 include work on China-Maldives Friendship Bridge, Dharumavantha Hospital; Male' redevelopment project; Male' road upgradation project and Male' industrial village project. Moreover, the boom in residential housing construction, guest house and new resort development also contributed significantly to the growth of the sector.

Following three consecutive years of relatively low and stable inflation, the rate of inflation (as measured by the annual change in Consumer Price Index (CPI)) accelerated to 2.83 percent in 2017 on the back of the temporary base effects from a number of policy changes implemented in the latter half of 2016 and the first half of 2017. As such, reflecting the impact of the removal of the blanket subsidy on staples and the hike in import duties for cigarettes and selected drinks, inflation accelerated markedly during the first half of the year. This was followed by a significant deceleration of inflation during the latter part of the year, owing to the reduction in the import duty on petrol and diesel, along with the dissipation of the base effect from policy changes from the latter part of 2016. Despite the broadly stable global food prices experienced during the year, inflationary pressure in the domestic economy rose mainly from prices of food and non-alcoholic beverages. In addition, the surge in fish prices observed during the second and third quarter, exacerbated the growth in food prices. As for the recovery in global oil prices, this had a minimal impact on domestic oil prices due to the reduction in the import duty on petrol and diesel during the middle of 2017, which led to the removal of the fuel surcharge on electricity. This drop in electricity prices was significant enough to curb the upward inflationary pressure from petrol and diesel prices which reflected the upsurge in global oil prices. Moreover, home rental prices continued its upward momentum and recorded a notable growth during the year, which contributed to the inflationary pressure during the year.

With regard to public finance, the overall fiscal deficit is depicted to have significantly decreased from 10.36 percent of GDP in 2016 to 1.97 percent in 2017. The total revenue (excluding grants) increased by

USD 114.90 million and totalled USD 1.30 billion in 2017, largely reflecting the upsurge in tax revenue coupled with a considerable increase in non-tax revenue. Tax revenue, the largest component of total revenue, was mainly driven by a remarkable growth in general goods and services tax, followed by receipts from import duties and Tourism Goods And Services Tax (T-GST). The increase in non-tax revenue predominantly reflected the growth in profit transfers from Special Operation Executives (SOEs) due to changes brought to the dividend policy of state-owned enterprises. Additionally, the opening of nine new resorts during 2017 facilitated the growth of non-tax revenue from resort lease rent.

On the expenditure front, the total expenditure (excluding net lending) in 2017 amounted to USD 1.44 billion, a decrease of USD 199.62 million from 2016. This decline in total expenditure was contributed by the decline in both current and capital expenditure during the year. The drop in current expenditure broadly stemmed from the fall in expenditure on the national insurance scheme (Aasandha), followed by the fall in expenditure on subsidies due to the removal of electricity subsidies and the transition from a uniform subsidy on staple food to a more targeted subsidy, coupled with the changes brought to fuel subsidies. The fall in capital expenditure largely mirrored the decline in spending on Public Sector Investment Program (PSIP) project. This was because major development projects under the PSIP were initiated in 2016 and the expenditure on these projects has declined as they reach completion. In 2017, the deficit was mainly financed through foreign borrowings, while domestic financing also recorded a net borrowing during the year.

On the monetary front, the objectives of monetary policy continued to be maintaining price stability in the domestic market and ensuring the maintenance of international reserves at an adequate level. Also, no changes were brought to the monetary policy framework within the year; hence the Minimum Reserve Requirement (MRR) remained unchanged at 10.00 percent while the Maldives Monetary Authority's (MMA's) interest rate corridor and Indicative Policy Rate (IPR) were maintained at the same levels as that of 2016.

As for the developments in monetary aggregates, Reserve Money (M0) registered an annual growth of 19.00 percent at the end of December 2017 after registering a decline of 12.62 percent at the end of December 2016. The growth in reserve money was entirely driven by the annual increase in the Net Foreign Assets (NFA) of the MMA, largely on the back of the growth in the MMA's foreign currency reserves held abroad. However, Net Domestic Assets (NDA) of the MMA registered an annual decline, primarily due to significant growth in government deposits with the MMA. The increase in government deposits reflected the proceeds from the Government's first international bond issued in June 2017.

Meanwhile Broad Money (M2) registered a growth of 5.16 percent at the end of 2017—a noticeable improvement when compared with the marginal decline of less than 1.00 percent at the end of 2016. The acceleration in the growth of M2 was entirely caused by the annual growth in the NFA of the banking sector. However, the increment in the NFA of the MMA was partially offset by a 35.58 percent decline in the NFA of commercial banks, which stemmed from both a drawdown in the foreign currency deposits of commercial banks in overseas and an increase in foreign currency borrowing from non-resident banks. The expansion in M2 was partially offset by a 3.78 percent decline in the NDA of the banking sector. The decline in the NDA was largely attributable to the annual drawdown in the NDA of the MMA.

Banking sector continued to show healthy growth. Profitability and capital adequacy ratios remained strong, with asset quality maintained at the same level as the previous year. Total risk-based capital ratio stood at 44.64 percent owing to the large share of low-risk assets in the banks' portfolio. The loan portfolio increased by 14.97 percent while the share of Non-Performing Loans (NPLs) in total loans remained at 10.45 percent. In terms of asset composition, net loans and advances accounted for 45.70 percent, and liquid assets accounted for 44.57 percent of the net asset portfolio.

Looking at the developments in other financial institutions, insurance sector grew steadily in the year 2017 as indicated by the key variables used to measure the growth of the industry—insurance penetration and density. In annual terms, the insurance penetration increased slightly to 1.16 percent in 2017 after registering 1.08 percent in 2016. Meanwhile, insurance density increased to USD 103.54[1] in 2017 from USD 91.50 in the previous year. The growth in both indicators reflected an increase in the gross written premium during the year.

With regard to the external sector[2], the current account deficit is estimated to have narrowed markedly from USD 1.03 billion (24.52 percent of GDP) in 2016 to USD 876.42 million (18.85 percent of GDP) in 2017. The significant improvement was attributable to the remarkable performance of tourism sector despite an upsurge in imports. The downside base effect of a large outward transfer made in 2016 also contributed to this improvement. Meanwhile, the merchandise[3] trade deficit further deteriorated by 3.59 percent and totalled USD 1.90 billion in 2017. This was due to a significant increase of 11.06 percent in the value of merchandise imports in 2017, largely reflecting the buoyancy in construction sector as well as

[1] Figures for 2017 are derived from unaudited returns submitted to MMA.

[2] Balance of payments data was last revised in April 2018.

[3] In the compilation of balance of payment statistics, Customs' statistics on merchandise trade are adjusted for coverage, classification and valuation.

higher global oil prices. On the other hand, total merchandise exports which grew by 24.26 percent, eased further deterioration in the merchandise trade deficit. The growth in merchandise export was largely driven by the rise in fish exports on the back of a strong fisheries sector performance during the year. As for services, the surplus on the service account balance is estimated to have improved to USD 1.85 billion, registering a growth of 3.50 percent from the preceding year. This was attributed to a turnaround in travel receipts amid a strong tourism sector during the year.

The financial account registered a net inflow of USD 877.99 million in 2017, up from a net inflow of USD 673.23 million in 2016. The upsurge in the net inflows broadly reflected higher inflows from Foreign Direct Investment (FDIs) in the form of new equity investments and reinvestment earnings on the back of the robust performance of the tourism sector. FDIs inflows—one of the main components of the financial account—are estimated to have increased by 13.33 percent in annual terms and totalled USD 517.49 million in 2017. Meanwhile, increased net inflows in the form of portfolio investments, primarily due to the issuance of a government bond in the international market, also contributed to the higher inflows during the year. An inflow of USD 279.22 million was recorded in the portfolio account in 2017 after an outflow of USD 132.12 million in 2016.

Gross International Reserve (GIR[1]) increased by 25.47 percent in annual terms and stood at USD 586.10 million at the end of December 2017. The annual growth in GIR was due to the increase in proceeds from the government issued bond as well as the rise in commercial banks' foreign currency reserve account balances held at the MMA. Higher foreign currency receipts, reflecting the positive performance of tourism sector, also contributed to the growth in GIR during the year.

Effective from 11 April 2011, the Maldivian Rufiyaa (Rf.) was allowed to fluctuate within a horizontal band of 20.00 percent on either side of a central parity of Rf. 12.85 per US Dollar. With the introduction of the exchange rate band, the exchange rate of the Rufiyaa per US Dollar moved towards the upper limit of the band, owing to the persistent foreign exchange pressure in the economy. At the end of December 2017, the reference rate of MMA stood at Rf. 15.41 per US Dollar, a marginal deprecation from Rf. 15.35 recorded at the end of 2016. This movement is mirrored in the bilateral exchange rates of the Rufiyaa, which depreciated in annual terms against currencies of the country's major trading partner such as the Euro, the Singapore Dollar, the Pound Sterling, the Chinese Yuan, the Indian Rupee and the Sri Lankan Rupee.

[1] GIR comprises of foreign currency deposits of the MMA and the Government, commercial bank's US Dollar reserve accounts and Maldives' reserve position in the IMF.

| Maldives: Major Economic Indicators During 2013-2017 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2013 | 2014 | 2015 | 2016 | 2017 |
| | In millions of USDs | | | | |
| **Real Gross Domestic Product (GDP, at basic price)**[1] | 3,436.01 | 3,687.86 | 3,770.68 | 4,003.08 | 4,280.68 |
| **Consumer Price Index (CPI)**[2] | 103.19 | 105.38 | 106.38 | 106.92 | 109.93 |
| **Broad Money** | 1,536.45 | 1,766.04 | 1,978.71 | 1,982.82 | 2,077.04 |
| | In percent of GDP | | | | |
| **Current Account Balance** | -3.88 | -3.19 | -7.56 | -24.52 | -18.85 |
| **Total Government Revenue**[3] | 23.52 | 26.70 | 28.13 | 28.75 | 29.06 |
| **Total Government Expenditure**[4] | 27.01 | 29.12 | 34.85 | 39.16 | 31.00 |
| **Overall Budget Balance**[5] | -3.49 | -2.42 | -6.72 | -10.41 | -1.97 |
| [1] GDP series has been rebased from base year 2003 to 2014 in November 2017. | | | | | |
| [2] Refers to CPI National data. | | | | | |
| [3] Total government revenue includes total revenue and grants. | | | | | |
| [4] Total government expenditure as a percentage of GDP from 2013 to 2016 is calculated excluding net lending. | | | | | |
| [5] Overall balance from 2013 to 2016 is calculated excluding net lending. | | | | | |
| **Source:** Maldives Monetary Authority, National Bureau of Statistics, Ministry of Finance and Treasury | | | | | |

| Maldives: Foreign Trade During 2013-2017[1] (In millions of USDs) | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2013 | 2014 | 2015 | 2016 | 2017 |
| **Exports**[2] | 2,907.89 | 3,299.20 | 3,145.10 | 3,147.55 | 3,467.98 |
| **Imports**[2] | 2,399.56 | 2,754.15 | 2,769.18 | 3,198.22 | 3,521.96 |
| **Trade Balance** | 508.34 | 545.05 | 375.92 | -50.67 | -53.99 |

[1] These are revised data based on information available as at 11th April 2018.

[2] Exports and imports include goods and services.

**Source:** Maldives Monetary Authority

| Maldives: Main Items of Goods and Services Exported to ACU Member Countries in 2017[1] | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Goods** | Flours, meals and pellets of fish (unfit for human consumption) |
| **India** | |
| **Goods** | Waste and scrap of alloy steel (excluding stainless), copper waste and scrap, aluminum waste and scrap, battery (used) |
| **Sri Lanka** | |
| **Goods** | Fresh or chilled yellowfin tuna, fresh, chilled or frozen fish (excluding tuna), processed fish |

[1] Data is available for import and export of goods by country. Import and exports of services segregated by country is not compiled.

**Source:** Maldives Customs Service

## Maldives: Main Items of Goods and Services Imported from ACU Member Countries in 2017[1]

| Sector/Country | |
|---|---|
| **Bangladesh** | |
| **Goods** | Meat, fish and seafood, vegetables, root crops and spices, clothing, footwear and fashion accessories, beverages and confectionaries, pharmaceuticals, tobacco and tobacco accessories |
| **India** | |
| **Goods** | Wood, metal, cement and aggregates, construction related items, price administered staples, vegetables, root crops and spices, electrical and electronic machinery and equipments and parts, meat, fish and seafood, machinery and mechanical appliances and parts, pharmaceuticals |
| **Iran** | |
| **Goods** | Clothing, footwear and fashion accessories, fruit, nuts and seeds, beverages and confectionaries, machinery and mechanical appliances and parts |
| **Myanmar** | |
| **Goods** | Meat, fish and seafood, beverages and confectionaries |
| **Nepal** | |
| **Goods** | Pharmaceuticals, furniture, fixtures and fittings |
| **Pakistan** | |
| **Goods** | Fruit, nuts and seeds, cereal and grain products, pharmaceuticals, wood, metal, cement and aggregates |
| **Sri Lanka** | |
| **Goods** | Electrical and electronic machinery and equipment and parts, beverages and confectionaries, machinery and mechanical appliances and parts, vegetables, root crops and spices, wood, metal, cement and aggregates, construction related items, fruit, nuts and seeds |

[1] Data is available for import and export of goods by country. Import and exports of services segregated by country is not compiled.

**Source:** Maldives Customs Service

**Source:** Maldives Monetary Authority

# Myanmar

## Introduction

Myanmar's macro-economic environment over the course of 2016/17 has remained relatively stable though economic growth slowed to 5.90 percent from 7.00 percent the previous year mainly due to weak agriculture production and exports, temporary suspension of some construction projects, low gas prices which have dragged down investments in the oil and gas sector and lower Foreign Direct Investment (FDI) inflows.

However, agriculture sector will play a significant role in future growth, as the sector continues to recover from adverse weather. And then, an improvement in medium-term growth could come largely from increased investments with the implementation of the new investment law and the development of Special Economic Zones.

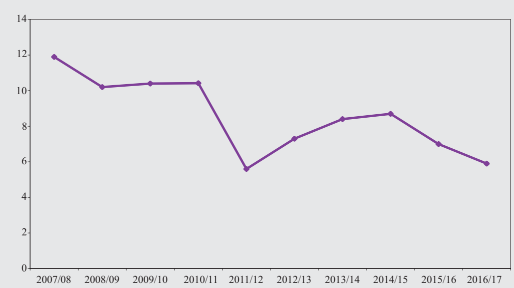
Macro-economic imbalances persist, with continuing inflation pressure, an increased fiscal deficit, and a widening external Current Account Deficit (CAD).

## Recent Economic Developments

The Gross Domestic Product (GDP) was lower than expected growth with 5.90 percent in 2016/17 due to slowing agriculture, construction and low gas prices. Inflation reached at 7.00 percent in March 2017, led by rising food and transport prices with average inflation in Financial Year (FY)[1] 2016/17 declining to 6.80 percent from 10.00 percent in previous year 2015/16.

**Real GDP Growth Rate**

**(In percent)**




**Source:** Statistical Year Book, Myanmar

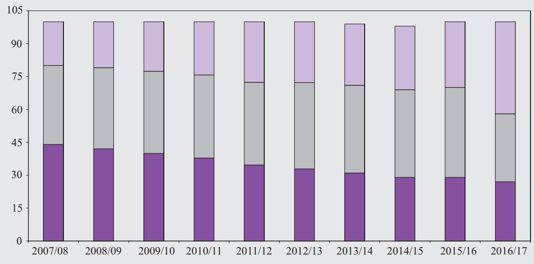
The CAD narrowed from 6.27 to 5.05 percent of GDP and trade deficit increased from 8.35 to 8.91 percent of GDP between 2015/16 and 2016/17, respectively. In 2016/17, the reserve of Central Bank of Myanmar (CBM) covered about 3 months of prospective import.

During 2016/17, services sector of 42.00 percent was the major contributor to GDP, following by industry sector with 31.00 percent and agriculture sector with 27.00 percent, respectively.

[1] Financial Year stands for beginning of April to the end of March.

Contribution to GDP (Sector-Wise)

(In percent)




**Source:** Statistical Year Book, Myanmar

## Macro-Economic Outlook

Myanmar's macro-economic environment remains stable, though economic growth have slowed to 5.90 percent in 2016/17 compared to 7.00 percent in 2015/16, weighed down by slower investment demand.

Myanmar's comprehensive tax reform program is gradually improving revenue collections, which have helped to partially offset external factors (e.g. gas prices) that have weighed on overall revenue collections. The 2016/17 budget expenditure out-turns indicate continued efforts to protect priority spending on health, education and agriculture, despite growing fiscal constraints.

Although FDI flows had declined, external debt disbursements began to pick up. This helped to finance a narrowing CAD supported by a stable trade deficit, service exports and incoming transfers, including grant aid.

Private investment flows decelerated from annual average real growth in the previous three years to real growth in 2016/17. This is partly a base effect given the rapid rise in telecommunications and gas sector investments between 2013 and 2015.

## Monetary and Interest Rate Policy

The CBM is extensively engaged in interest rate policy, reserve money requirement, exchange rate policy and free market activities. With a view to ensuring monetary stability, the CBM is implementing the reserve monetary targeting so that inflation or stability of prices can be maintained.

Deposit auction was introduced in the year 2012, and there was 20 times of deposit auction in 2016/17. The term of deposit is two weeks, four weeks, and 12 weeks. The deposit auction online system is being carried out through the CBM-NET.

With the aim of reducing in the financing amount of the CBM for the state's budget deficit, government Treasury Bill (T-bill) and Treasury Bond (T-bond) auction were launched in January, 2015 and September, 2016 for financial institutions. In the 2016/17, Kyat 3,032.00 billion worth government T-bill's with an interest rate ranging from 8.60 to 9.60 percent were sold and Kyat 1,181.00 billion worth government T-bond's with an interest rate ranging from 7.00 to 9.00 percent were sold.

The CBM is trying to ensure increasing of public savings, interest rate which cover inflation and reasonable interest rate for investors. It is also making arrangements for the easing of interest rate so that it could reflect market instead of prescribing the interest rate as a policy.

## Financial Sector Developments

To stabilize the banking sector, the CBM is transforming rule-based supervision into risk-based supervision in order to check whether the private banks abide by the rules and regulations or not. Financial soundness indicator was issued for the first time.

And also the CBM has introduced card payment systems such as MPU cards, VISA, MASTER, Unified Payment Interface (UPI) and Japan Credit Bureau (JCB) card and credit cards to improve payment system and to reduce currency use. The CBM-Net that connects with electronics technology was launched in January 2016 for all banks in Myanmar to be able to materialize an effective and advanced cash payment systems.

In order to reduce currency in circulation and pay card system with the use of electronic technology, the CBM has already allowed the public to use Visa Card, Master Card, JCB Card and UPI Card not only at home but also abroad. Moreover, the local banks have been allowed to issue the prepaid cards. The local banks in Myanmar were permitted to issue International Cards (Master/Visa/JIC/UPI) and International Credit Card (Clean Card) that can be used at home and abroad in January 2017. Local banks were also allowed to issue "MPU-JIC, MPU-UPI" Co-branded Cards so that Myanmar Payment Union (MPU) Cards issued by the local banks can be used in the international network.

In 2016/17, the CBM allowed to introduce Interbank Lending System which is practiced in international banking market. Under the new instruction, all local banks will have a chance to carry out their banking activities through the Central Securities Depository System. Moreover, the currency SWAP System and Currency Forward System were allowed by the CBM starting from the financial year 2016/17 to be able to prevent the losses that occur from exchange of foreign currency between the local banks and their clients or among the local banks.

## External Sector

In the reporting period, an overall Balance of Payments (BOP) position recorded negative performance, mainly due to increase in imports. During 2016/17, the value of exports decreased by 0.29 percent from value of USD 9,498.20 million to USD 9,471.10 million compared to the previous year mainly due to weak agriculture production and exports, and temporary suspension of some construction projects in Yangon. The main export items were agro products, animal products, fisheries, forest products, minerals, finished industrial goods.

The value of imports increased by 2.36 percent from value of USD 13,546.20 million to USD 13,865.30 million compared to the previous year. The main import items were fuel, vegetable oil, vehicles, pharmaceutical products, construction equipment and machinery.

**Exports, Imports and Trade Balance**
**(In millions of USDs)**


**Source:** Statistical Year Book, Myanmar

## Trade with ACU Member Countries

During 2016/17, total exports to ACU member countries increased to 9.53 percent. India is the major export country from Myanmar with the share of 89.33 percent among the ACU countries while Pakistan, Sri Lanka, Bangladesh, Iran and Nepal accounted for 5.84, 2.32, 2.27, 0.16, and 0.07 percent, respectively. The major export items to India included agricultural products and fishery products.

Total imports from ACU countries increased by 23.45 percent during 2016/17. India is the major import country to Myanmar with the share of 93.31 percent among ACU countries while Iran, Bangladesh, Pakistan and Sri Lanka accounted for 3.13, 1.86, 1.68, and 0.02 percent, respectively. The main imports items from India consisted of bicycle spare parts, machinery, stationary, cosmetics, medicine, medical equipment, tire, tube and flap, mild steel, vehicle spare parts, foodstuff and personal goods.

According to the transaction of trade between ACU countries and Myanmar, trade deficit was about USD 15.00 million, USD 1,056.16 million in exports and USD 1,071.36 million in imports. Myanmar mainly imported consumer goods such as medicine, machinery, vehicle spare parts and electrical products from India during that fiscal year. Share of trade with ACU countries in total trade was 11.00 percent in export and 8.00 percent in import in 2016/17.

| Myanmar: Major Economic Indicators During 2012/13-2016/17 (In millions of Kyats) | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
| **Gross Domestic Product (GDP)** | **45,080,103.10** | **48,879,914.30** | **52,758,050.80** | **59,803,800.80** | **63,895,309.60** |
| Agriculture, livestock, fishery and forestry | 14,806,493.80 | 15,346,115.20 | 15,768,771.30 | 16,247,297.60 | 16,579,128.30 |
| Industry (energy, mining, processing and manufacturing electric power and construction) | 12,533,395.10 | 13,964,076.00 | 15,659,182.30 | 18,477,059.00 | 20,140,873.70 |
| Service (services and trade) | 17,740,214.20 | 19,569,723.10 | 21,357,097.20 | 25,079,444.20 | 27,175,307.60 |
| Growth rate of GDP (percent) | 7.30 | 8.40 | 8.00 | 5.90 | 6.80 |
| **Inflation Rate** (percent) | **4.70** | **5.72** | **5.90** | **10.00** | **6.80** |
| **Balance of Payments (BOP)** | | | | | |
| Exports of goods | 7,446,420.40 | 9,915,960.50 | 10,355,449.60 | 11,543,014.30 | 11,928,243.60 |
| Imports of goods | -6,655,327.70 | -11,265,724.30 | -12,213,057.20 | -16,535,937.70 | -17,623,138.70 |
| Trade balance | 791,092.70 | -1,349,763.80 | -1,857,607.60 | -4,992,923.40 | -5,694,895.10 |
| Services and primary income (net) | -2,019,294.60 | -1,025,056.90 | -1,918,617.50 | -1,744,538.20 | -1,006,046.20 |
| Secondary income (net) | na | na | na | 2,990,596.90 | 3,474,535.50 |
| Current account (net) | -774,510.30 | -1,022,048.60 | -1,387,846.00 | -3,746,864.60 | -3,226,405.80 |
| Capital account (net) | - | - | -4,972.10 | - | 1,294.00 |
| Financial account (net) | -3,966,121.80 | 3,037,045.50 | 3,066,870.10 | -4,628,494.30 | -5,568,231.30 |
| Errors and omissions | 10,579,130.30 | 2,008,255.10 | -569,606.80 | -1,427,213.20 | -1,852,347.30 |
| Overall balance | 5,838,498.20 | 3,435,486.70 | 1,104,445.10 | -545,583.60 | 490,772.10 |
| [1] Provisional actual data. | | | | | |
| [2] Provisional data. | | | | | |
| **Source:** Central Bank of Myanmar and Planning Department | | | | | |

## Myanmar: Balance of Payments
## Goods and Services Account During 2012/13-2016/17

**(In millions of USDs)**

| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16[1] | 2016/17[2] |
|---|---|---|---|---|---|
| **Trade Balance** | **935.60** | **-1,395.00** | **-1,858.70** | **-4,048.00** | **-4,394.20** |
| Exports | 8,748.90 | 10,269.60 | 10,384.90 | 9,498.20 | 9,471.10 |
| Imports | -7,813.30 | -11,664.60 | -12,243.60 | -13,546.20 | -13,865.30 |
| **Services Balance** | **-2,371.20** | **-890.90** | **-1,945.30** | **1,077.50** | **1,314.80** |
| Receipts | 1,531.30 | 2,799.40 | 3,766.80 | 3,678.20 | 3,759.30 |
| Payments | -3,902.50 | -3,690.30 | -5,712.10 | -2,600.70 | -2,444.50 |

[1] Provisional actual data.

[2] Provisional data.

**Source:** Central Bank of Myanmar

## Myanmar: Trade with ACU Member Countries in 2016/17[1]

**(In millions of USDs)**

| Country / Item | Exports | Imports |
|---|---|---|
| **Bangladesh** | 24.00 | 19.96 |
| **Bhutan** | 0.00 | 0.01 |
| **India** | 943.48 | 999.69 |
| **Iran** | 1.67 | 33.51 |
| **Maldives** | 0.01 | 0.00 |
| **Nepal** | 0.75 | 0.01 |
| **Pakistan** | 61.72 | 17.96 |
| **Sri Lanka** | 24.53 | 0.22 |
| **Total** | **1,056.16** | **1,071.36** |
| **Share of Trade with ACU Member Countries in Total Trade** (percent) | **11.00** | **8.00** |

[1] Provisional data.

**Source:** Central Statistical Organization

| Myanmar: Main Items of Goods and Services Exported to ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Various beans, aquatic products |
| **India** | |
| **Agriculture** | Various beans, forest products, sugar, teak |
| **Nepal** | |
| **Agriculture** | Various beans |
| **Pakistan** | |
| **Agriculture** | Various beans, forestry products, ginger, turmeric, rubber |
| **Sri Lanka** | |
| **Agriculture** | Rice, various beans, cane |

| Myanmar: Main Items of Goods and Services Imported from ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Industry** | Medicine, food |
| **India** | |
| **Industry** | Medicine, machinery, electrical, construction materials, cosmetics, tyre, tube and flap, mild steel, vehicle spare parts, stationary, agriculture use, steel sheet |
| **Pakistan** | |
| **Industry** | Medicine |
| **Sri Lanka** | |
| **Industry** | Chicken |
| **Source:** Myanma Foreign Trade Bank and Myanma Investment and Commercial Bank | |

**Source:** Central Bank of Myanmar

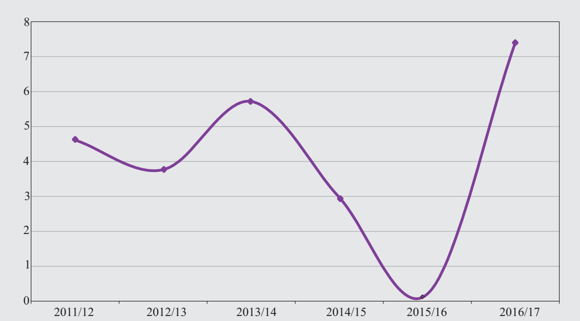
# Nepal

## Real Sector

Nepal's real Gross Domestic Product (GDP) at basic price grew at 7.40 percent in Financial Year (FY)[1] 2016/17 compared to a growth of 0.20 percent in the previous year. The agriculture sector, which contributes about a one-third to real GDP grew by 5.20 percent in the review year compared to the growth of 0.20 percent in the previous year. The growth in agricultural sector could be attributed to the favorable monsoon, reform in energy sector and improvement in overall supply.

**GDP Growth Rate (at basic prices)**

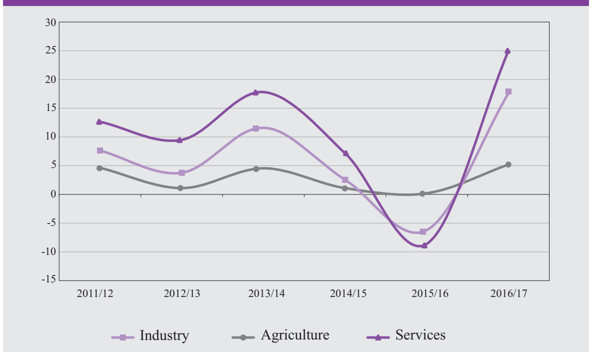
**(In percent)**




The industrial sector increased by 12.40 percent in the review year compared to a negative growth of 6.40 percent in the previous year whereas service sector grew by 7.40 percent compared to a growth of 2.40 percent in the previous year. Ease in energy supply, favorable labour relations were attributed to the rise in industrial sector. Increased tourists inflow, expansion of trade and communication sector accounted for the rise in service sector.

**Sectoral GDP Growth Rate**

**(In percent)**




The ratio of gross consumption to GDP decreased to 88.10 percent in the review year compared to 95.90 percent in the previous year. Consequently, the gross domestic savings increased marginally to 11.90 percent of the GDP compared to 4.10 percent in the previous year.

## Inflation

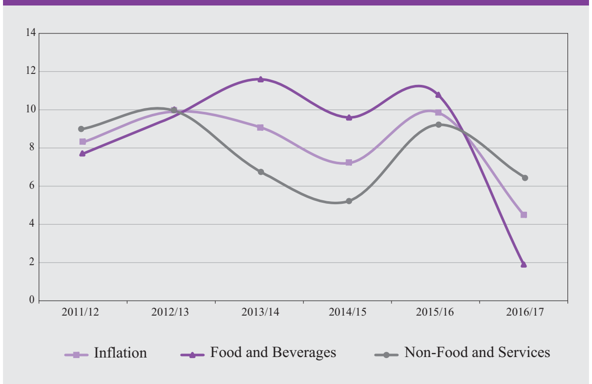
Nepalese economy experienced moderate inflationary pressure in 2016/17. The annual average consumer price inflation moderated

[1] Financial Year stands for the middle of July to the middle of July.

at 4.50 percent in the review year compared to 9.90 percent in 2015/16.

**Annual Average Consumer Inflation**

**(In percent)**




The annual average wholesale price inflation eased to 2.70 percent in 2016/17 from 6.30 percent in the previous year. A significant deceleration in prices of agricultural commodities and the decline in prices of imported commodities eased overall wholesale prices.

## Securities Market

The performance of securities market remained high in 2016/17. Nepal Stock Exchange (NEPSE) index, only one security market index in the country decreased to 1,582.70 points from 1,718.20 points in the middle of July 2017 on Year-on-Year (YoY) basis. The ratio of market capitalization to GDP stood at 71.40 percent in the middle of July 2017. The fall in NEPSE index could be attributed to the tightened margin lending policy, market correction, etc..

The annual turnover of the securities increased 24.90 percent to Rs. 204.79 billion (USD 1.93 billion) in 2016/17 from Rs. 163.96 billion (USD 1.54 billion) in the previous year.

## Monetary Sector

Broad Money supply (M2) was relatively lower at 15.50 percent in the review year compared to 19.50 percent in the previous year. The growth in M2 had nearly matched with the growth in nominal GDP of 17.30 percent in 2016/17.

The Net Foreign Assets (NFA, after adjusting foreign exchange valuation gain/loss) increased by 8.60 percent to Rs. 82.15 billion (USD 773.47 million) in the review year compared to an increase of 25.30 percent to Rs.188.95 billion (USD 1.78 billion) in the previous year.

Domestic credit expanded 19.40 percent in the review year compared to a growth of 18.20 percent in the previous year. Claims of monetary sector on the private sector increased 18.00 percent in the review year compared to a growth of 23.20 percent in the previous year.

Deposits at Banks and Financial Institutions (BFIs) increased 13.90 percent in the review year compared to an increase of 19.40 percent in the previous year. Credit to the private sector from BFIs increased 18.20 percent in the review year compared to a rise of 23.70 percent in the previous year.

## Fiscal Sector

In the review period, budget deficit on cash basis increased to Rs. 125.61 billion (USD 1.18 billion) from Rs. 49.83 billion (USD 468.55 million) in 2015/16. The ratio of budget deficit to GDP stood at 4.80 percent in the review year. The increase in government expenditure accounted for such increase in budget deficit during the review year.

Government expenditure, on cash basis, increased by 36.50 percent to Rs. 793.91 billion (USD 7.47 billion) in 2016/17 compared to an increase of 14.20 percent to Rs. 581.70 billion (USD 5.47 billion) in 2015/16. The recurrent expenditure increased by 37.60 percent to Rs. 501.62 billion (USD 4.72 billion) compared to a growth of 8.80 percent in the preceding year while capital expenditure increased by 63.80 percent to Rs. 189.46 billion (USD 1.78 billion) compared to its growth of 42.80 percent in the previous year.

The government revenue increased by 26.40 percent to Rs. 609.17 billion (USD 5.74 billion) in 2016/17. The revenue had risen by 18.80 percent to Rs. 481.98 billion (USD 4.53 billion) in 2015/16. Revenue to GDP ratio increased to 23.40 percent in the review year from 21.40 percent in 2015/16.

Among the components of revenue in 2016/17, Value Added Tax (VAT) revenue registered a share of 26.30 percent, income tax revenue 24.30 percent, customs revenue 18.60 percent and excise revenue 13.90 percent. In the previous year, such compositions were 25.40, 24.40, 17.00, and 14.40 percent, respectively.

The Government of Nepal (GON) mobilized gross domestic borrowings of Rs. 88.34 billion (USD 831.75 million) in 2016/17. This is 3.30 percent of GDP. Gross domestic borrowing of Rs. 87.77 billion (USD 825.29 million) was mobilized in the previous year.

## External Sector

Nepal is primarily an import-based economy. Trade with its major trading partner India stood at 63.50 percent in the review year compared to 61.20 percent in the previous year.

The trade deficit as percentage of GDP jumped to 34.70 percent in the review year from 31.30 percent of the previous year. The trade deficit widened during current year on account of the increase in imports and the fall in exports.

Merchandise exports witnessed a growth of 4.20 percent to Rs. 73.05 billion (USD 687.79 million) in 2016/17 as against a decline of 17.80 percent in 2015/16. Merchandise imports increased 28.00 percent to Rs. 990.11 billion (USD 9.32 billion) in the review year as against a drop of 0.10 percent in the previous year.

The current account slipped into a deficit of Rs. 10.13 billion (USD 95.38 million) in 2016/17 as against a significant level of surplus of Rs. 140.42 billion (USD 1.32 billion) in the previous year. The surge in imports relative to exports accounted for a deficit in the current account. The overall Balance of Payment (BOP) recorded a surplus of Rs. 82.15 billion (USD 773.47 million) in the review year compared to a surplus of Rs. 188.95 billion (USD 1.78 billion) in the previous year.

The gross foreign exchange reserves increased 3.90 percent to Rs. 1,079.52 billion (USD 10.50 billion) as at the middle of July 2017 from Rs. 1,039.21 billion (USD 9.74 billion) in the middle of July 2016. Based on the total imports of the current fiscal year, the current level of foreign exchange reserves is sufficient for financing merchandise imports of 13.20 months, and merchandise and services imports of 11.40 months.

The ratio of reserves to GDP, reserves to imports and reserves to M2 stood at 41.50, 95.30, and 41.70 percent, respectively as at the middle of July 2017. Such ratios were 46.20, 117.40, and 46.30 percent, respectively as at the middle of July 2016.

## Financial System

The Nepalese financial system comprises of banking sector and non-bank financial sector. Financial sector comprises commercial banks, development banks, finance companies and micro finance institution, while non-bank financial sector comprises contractual saving institutions, insurance companies and postal saving banks. As of the middle of July 2017, the financial system constituted 28 commercial banks (“A” class institutions), 40 development banks (“B” class institutions), 28 finance companies (“C” class institutions), 53 micro finance financial institutions (“D” class institutions), 25 insurance companies and one each of the Employees Provident Fund, Citizen Investment Trust and Postal Saving Bank.

The total number of banks and financial institutions licensed by Nepal Rastra Bank (NRB) came down to 149 in the middle of July 2017 from 179 a year ago. Despite the decline in the number of BFIs due to merger and acquisition, financial access has widened because of expansion in number of BFIs branches to 5,068 in the middle of July 2017 from 4,272 a year ago together with the expansion of some products such as mobile banking and branchless banking.

The ratio of Non-Performing Loan (NPL) to total loans of BFIs dropped to 1.70 percent in the middle of April 2017 compared to 2.19 percent in the middle of July 2016.

Note: The annual average mid rate has been applied to derive the figures in terms of USD (except forex reserves where year end buying rate has been applied).

| Nepal: Key Macro-Economic Indicators During 2012/13-2016/17 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| **Percent Change** | | | | | |
| Real Gross Domestic Product (GDP) Growth | 3.80 | 5.70 | 3.00 | 0.20 | 7.40 |
| Consumer Price Index (CPI) | 9.90 | 9.10 | 7.20 | 9.90 | 4.50 |
| Total Exports | 3.60 | 19.60 | -7.30 | -17.80 | 4.20 |
| Total Imports | 20.60 | 28.30 | 8.40 | -0.10 | 28.00 |
| Trade Balance | -23.90 | -29.70 | -10.80 | -2.00 | -30.40 |
| Gross Foreign Exchange Reserve | 21.40 | 24.80 | 23.80 | 26.10 | 3.90 |
| Nepal Stock Exchange (NEPSE) Index | 33.00 | 99.90 | -7.20 | 78.70 | -7.90 |
| Market Capitalization of Stock Market | 39.70 | 105.50 | -6.40 | 91.00 | -1.80 |
| Government Revenue | 21.10 | 20.50 | 13.70 | 18.80 | 26.40 |
| Government Expenditure | 12.30 | 16.30 | 22.00 | 14.20 | 55.70 |
| Government Budgetary Deficit | 39.70 | -55.90 | -233.70 | 18.30 | 152.10 |
| Gross Domestic Borrowing | -47.70 | 4.90 | 112.30 | 106.90 | 0.60 |
| Money Supply (M1) | 14.40 | 17.70 | 19.70 | 18.50 | 13.10 |
| Broad Money (M2) | 16.40 | 19.10 | 19.90 | 19.50 | 15.50 |
| Domestic Credit | 17.20 | 12.70 | 16.20 | 18.20 | 19.40 |
| **In percent of GDP** | | | | | |
| Gross Consumption | 89.40 | 88.10 | 90.80 | 95.90 | 88.10 |
| Gross Domestic Savings | 10.60 | 11.90 | 9.20 | 4.10 | 11.90 |
| Gross Fixed Capital Formation | 37.30 | 23.50 | 28.00 | 28.70 | 31.80 |
| Market Capitalization of Stock Market | 30.40 | 53.80 | 46.70 | 84.10 | 71.40 |

## Nepal: Budget Performance in 2016/17

(In millions of Rs.)

| Item / Heads | Budget Estimates | Annual Outturns[1] | As percent of Budget Estimates |
|---|---|---|---|
| **Total Expenditure** | **1,048,921.35** | **793,912.70** | **75.70** |
| Recurrent Expenditure | 617,164.10 | 501,619.60 | 81.30 |
| Capital Expenditure | 311,946.30 | 189,456.60 | 60.70 |
| Financial Expenditure | 119,810.90 | 102,836.50 | 85.80 |
| **Revenue** | **565,896.50** | **609,163.80** | **107.60** |

[1] Cash Basis

## Nepal: Reserve Adequacy Ratios During 2012/13-2016/17

(In percent)

| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|
| **Reserve to GDP Ratio** | 31.50 | 34.30 | 38.90 | 46.20 | 41.50 |
| **Reserve to Imports[1] Ratio** | 84.00 | 83.10 | 93.30 | 117.40 | 95.30 |
| **Reserve to M2 Ratio** | 40.50 | 42.50 | 43.90 | 46.30 | 41.70 |

[1] Goods and services imports

## Nepal: Number of Banks and Financial Institutions During 2016-2017

| Item / Year | Number of BFIs | | Branches of BFIs | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| | Middle of July | | | |
| **Commercial Banks** | 28 | 28 | 1,869 | 2,274 |
| **Development Banks** | 67 | 40 | 852 | 769 |
| **Finance Companies** | 42 | 28 | 175 | 130 |
| **Micro-Finance Development Banks** | 42 | 53 | 1376 | 1,895 |
| **Total** | **179** | **149** | **4,272** | **5,068** |

| Nepal: Trade with ACU Member Countries During 2015/16-2016/17 (In millions of USDs) | | | | |
|---|---|---|---|---|
| **Country / Year** | **Exports of Commodities** | | **Imports of Commodities** | |
| | **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| **Bangladesh** | 10.51 | 12.08 | 35.71 | 46.00 |
| **Bhutan** | 1.42 | 0.78 | 4.86 | 6.32 |
| **Iran** | 0.27 | 0.08 | 0.07 | 0.09 |
| **Maldives** | 0.00 | 0.00 | 0.00 | 0.00 |
| **Myanmar** | 0.04 | 0.09 | 12.78 | 28.13 |
| **Pakistan** | 0.42 | 1.52 | 2.39 | 4.70 |
| **Sri Lanka** | 0.06 | 0.11 | 1.47 | 1.75 |
| **Total** | **12.72** | **14.66** | **57.28** | **86.99** |
| **Share of Total Trade with ACU Countries to Total Trade** (percent) | **1.93** | **1.80** | **0.79** | **0.81** |
| **Source:** Trade and Export Promotion Center, Export Import Data Bank, Nepal | | | | |

## Nepal: Main Items of Goods and Services Exported to ACU Member Countries in 2016/17

| **Sector/Country** | |
|---|---|
| **Bangladesh** | |
| **Agriculture** | Edible vegetables, lentils, dried vegetables, roots and tubers, residues and waste from food industries, raw hides and skins, leather, dairy produce |
| **Industry** | Prepared animal fodder, tanning or dry extracts, etc. |
| **Bhutan** | |
| **Industry** | Articles of iron and steel, electrical machineries and equipments, sound recorders, reproducers, television image, aluminum and article thereof, apparels, clothing, accessories man made filaments, soap, lubricating preparations, prepared animal fodder, optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus: parts and accessories thereof, works of arts, collectors' pieces and antiques, organic surface active agents, waxing preparation miscellaneous edible preparations |
| **Iran** | |
| **Industry** | W and G cotton suits and dresses, woolen shawls, scarves, mufflers, mantillas, veils and the like, twine, ropes, cables, etc. |
| **Maldives** | |
| **Industry** | Used or new rags, scrap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables of textile materials, rags |
| **Myanmar** | |
| **Industry** | Used or new rags, scrap twine, cordage, rope and cables and worn out articles of twine, cordage, rope or cables of textile materials, furniture and furnishings, etc. |
| **Pakistan** | |
| **Agriculture** | Organic chemicals, raw hides and skins, leather, coffee, tea, mate, spices |
| **Industry** | Pharmaceutical products, medicaments containing antibiotics for therapeutic or prophylatic uses, chloramphenicol and its derivative, entraocular lences, articles of apparels and clothing accessories, optical photographic, cinematographic, measuring, checking, precision, medical and surgical instruments, printed books, newspaper, pictures, tanning and dying extracts, miscellaneous edible preparation, etc. |
| **Sri Lanka** | |
| **Agriculture** | Raw hides and skins, leather, preparations of vegetables, fruits, nuts, other parts of plant, coffee, tea, mate and spices, etc. |
| **Industry** | Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparels, textile articles, copper and articles thereof |

| Nepal: Main Items of Goods and Services Imported from ACU Member Countries in 2016/17 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Edible vegetables and certain roots and tubers, dried vegetables, juices |
| **Industry** | Electrical machineries and equipments, parts thereof, sound recorder and reproducers, paper yarn, woven fabrics, cotton, pharmaceuticals products, beverages, spirits and vinegar, mineral fuels, mineral oils, bitumen substance, wax, special woven fabrics, tufted textile fabrics, furniture, etc. |
| **Bhutan** | |
| **Agriculture** | Preparation of vegetables, fruits, ruts, other parts of plants, edible vegetables and certain roots, etc. |
| **Industry** | Salts, sulphur, plastering materials, lime and cements, mineral fuels, mineral oils and products of other distillation, bituminous substances |
| **Iran** | |
| **Industry** | Salt, sulphur, earth and stone, plastering materials, lime and cement, electrical machinery and equipment and parts thereof, inorganic chemicals, mineral fuels, mineral oils, products of their distillation, bituminous substances, mineral waxes, beverages, spirits and vinegar, paintings, drawing and pastels |
| **Maldives** | |
| **Industry** | Textile articles, carpets, sets, worn clothing, worn textile articles, rags, and miscellaneous edible preparations |
| **Myanmar** | |
| **Agriculture** | Edible vegetables, certain roots and tubers, wood and articles of wood, furniture |
| **Pakistan** | |
| **Agriculture** | Edible fruits and nuts, milk and cream, peel of fruits, citrus fruits or melons |
| **Industry** | Plastic and articles thereof, glass and glassware, cotton, carpets, other textile floor coverings, residues and waste of food industries, prepared animal fodder, article of apparels, clothing accessories, optical, photographic instruments, article of stones, plaster, cement, mica or similar materials, cosmetics waving machines, power looms, artificial parts of body, etc. |
| **Sri Lanka** | |
| **Agriculture** | Live animals, coffee, tea, mate, spices, tobacco and manufactured tobacco, etc. |
| **Industry** | Chemical products, aluminium, electrical machineries, equipments and parts thereof, printed books, newspaper, pictures, other products of printing industries, manuscripts, typescripts, mineral oils, mineral fuels, products of other distillation, bituminous substance, mineral wax, paper and paper boards, rubber and articles thereof, lead and articles thereof, sound recorders, reproducers, TV image, vehicles and parts thereof |
| **Source:** Trade and Export Promotion Center, Countrywise all product export, Nepal | |

**Source:** Nepal Rastra Bank

# Pakistan

## Economic Developments

The pace of expansion in the economy continued to accelerate in Financial Year (FY)[1] 2016/17 as well. The real Gross Domestic Product (GDP) grew by 5.30 percent, the highest growth recorded during the last decade. Moreover, the growth in 2016/17 was fairly broad-based as all three sectors–agriculture, industry, and services–contributed to this acceleration. The impetus to sustained acceleration in GDP growth during the last few years has come from supportive macro-economic policies–an accommodative monetary policy and the consequent increase in private sector credit, especially for fixed investment, and a steady increase in development spending and tax incentives for exporting industries and agriculture sector. Improved energy supplies and security conditions coupled with progress on infrastructure and energy projects under China Pakistan Economic Corridor (CPEC) are other favorable factors that helped in boosting consumer and business confidence.

## GDP growth

The real GDP growth maintained its upward trajectory, expanding by 5.30 percent during 2016/17 compared to 4.50 percent in 2015/16. Though the target of 5.70 percent for 2016/17 was missed, the growth was the highest recorded during the last decade. All the favorable factors including record low interest rate, increase in development spending, work on infrastructure projects under CPEC gaining further traction, improving security situation and easing energy supply continued to support expansion in real economic activity.

The real GDP growth in 2016/17 was not only the highest during the last decade but also broad-based. The major thrust, nevertheless, came from the agriculture sector which recorded 3.50 percent growth during 2016/17 against a marginal increase of 0.30 percent in 2015/16. This rebound was enabled by an impressive recovery in the production of important crops, which grew by 4.10 percent after recording a sharp decline of 5.50 percent in 2015/16. The turnaround in crop production was supported by increased access to finance and favorable government policies, especially the incentives announced under the Kissan Package and continued support prices for sugarcane and wheat.

Despite improved performance of Large-Scale Manufacturing (LSM) and steady

[1] Financial Year stands for beginning of July to the end of June.

construction activity, however, the pace of increase in industrial value addition slowed down slightly compared to last year. It grew by 5.00 percent during 2016/17 compared to 5.80 percent in 2015/16 and lower than the 7.70 percent target set for the year. This was mainly because mining and quarrying and electricity generation and distribution and gas distribution could not maintain their last year performance. LSM grew by 5.70 percent during 2016/17, up from 3.10 percent last year. The construction-allied and consumer durable industries, such as automobile, steel, cement, chemical, etc. – particularly benefiting from low interest rate, increase in development spending, private investment in housing sector, and work on CPEC projects – also continued to lend support to LSM growth.

The services sector maintained its growth momentum, growing by 6.00 percent as compared to 5.50 percent in last year. With this, the share of services sector steadily increased to almost 60.00 percent in real GDP. In line with the recovery in agriculture as well as improved manufacturing activity and rise in trade, the major contribution to services came from wholesale and retail trade. In case of finance and insurance, a significant increase in banking sector credit as well as deposits contributed to the higher growth; whereas an increase in teledensity, broadband and 3G/4G mobile internet subscriptions supported the higher contribution from the transport, storage, and communication sub-sector.

From the expenditures side, the major impetus to growth came from domestic consumption, which grew by 8.90 percent (and accounted for 94.00 percent of nominal GDP). Despite a significant increase in import of machinery and private sector credit (especially for fixed investment) in 2016/17, the investment as percent of GDP (in nominal terms) increased only marginally to 15.80 percent from 15.60 percent in 2015/16. This uptick was primarily due to an increase in public investment as private investment (as percent of GDP) declined in 2016/17. The contribution from net exports also remained negative. These developments may add to the challenges in sustaining growth at higher level.

## Inflation

While inflation remained lower than the target for the third consecutive year, it trended upward. The average Consumer Price Index (CPI) inflation rose to 4.20 percent during 2016/17 compared to 2.90 percent in 2015/16. The increase in inflation during 2016/17 was fairly broad-based as the number of items recording: (i) an increase in prices of more than 5.00 percent rose to 147.00 in 2016/17 from 135.00 in 2015/16; (ii) a moderate increase between 0.00 and 5.00 percent was 272.00 in 2016/17 against 248.00 in 2015/16; and (iii) a decline in prices was only 68.00 in 2016/17 against 104.00 in 2015/16.

Higher inflation in 2016/17 was an outcome of both an increase in domestic demand and temporary issues in the supply chain which led to higher food inflation. The pick-up in domestic demand was particularly reflected in gradually rising core inflation: the Non Food Non Energy (NFNE) rose by 5.20 percent in 2016/17 compared to 4.20 percent in 2015/16. The increase in food inflation was largely due to higher prices of perishable food items in the beginning of 2016/17. Some disruptions in border trade with Afghanistan and India affected domestic prices of fruits and vegetables. Yet, stable exchange rate and a decline in energy prices (despite an increase in international oil prices) helped to contain inflation well below the target of 6.00 percent.

## Monetary policy and credit conditions

With a view to consolidate gains from reduction in the policy rate, and striking a balance between inflation (remaining below the target) and emerging pressures on external accounts, the monetary policy committee decided to keep the policy rate unchanged at 5.75 percent during 2016/17. The lagged transmission and easing liquidity conditions led to a decline in the weighted average lending rate (incremental) by 57.00 basis points on average during 2016/17 to 7.20 percent.

This low interest rate environment combined with easing energy constraints, improving business confidence, and steady progress on power and infrastructure projects under CPEC led to an unprecedented expansion of Rs. 747.90 billion in private sector credit during 2016/17. More importantly, a little more than one third of this credit expansion was meant for fixed investment purposes. A large portion of fixed loans was availed by textiles under the redefined Long-term Financing Facility (LTFF) for Balancing Modernization and Replacement (BMR). Sugar and fertilizer industries also borrowed for setting up captive power plants, while the cement industry borrowed for capacity expansion in view of growing domestic demand.

Notwithstanding the switch from scheduled banks to State Bank of Pakistan (SBP), the government's budgetary borrowing from the banking system was considerably higher during 2016/17 at Rs. 1,045.80 billion (on cash basis) compared with Rs. 791.30 billion in 2015/16. Moreover, Public Sector Enterprise (PSEs) also borrowed aggressively: Rs. 254.90 billion during 2016/17 against the average borrowing of Rs. 72.00 billion recorded during the last four years. The bulk of this borrowing was meant for financing of energy-related projects including Liquefied Natural Gas (LNG) pipelines, Dasu dam and the Neelum-Jhelum power project.

This expansion in credit was supported by a favorable change on the liability side of the banking system. The growth in currency in circulation decelerated to 17.30 percent during 2016/17 from 30.50 percent increase in 2015/16. On the other hand, total banking system deposits expanded by 12.40 percent during 2016/17 against 8.70 percent increase recorded in 2015/16.

## Fiscal deficit

The fiscal deficit rose to 5.80 percent of GDP during 2016/17 against the target of 3.80 percent, and 4.60 percent deficit recorded in 2015/16. A large primary deficit, 1.60 percent of GDP – the highest during the last four years – indicates that expenditures other than interest payments have increased. As the revenue deficit, 0.80 percent of GDP during 2016/17, was same as in 2015/16, this indicates that current expenditures were managed in line with revenue generation. Together, these reflect a considerable increase in development expenditure, which has been spearheading improvement in real economic activity for the last couple of years.

The higher deficit in 2016/17 was, nevertheless, due to slower growth in revenue collection as well as a sharp increase in total expenditure. The revenue collection grew by 11.00 percent during 2016/17, down from 13.10 percent in 2015/16. This was despite a sharp recovery in non-tax revenue. Bolstered by a considerable increase in mark-up income (on lending to PSEs), proceeds from sale of stakes in the Pakistan security printing corporation and two LNG power plants (acquired under the Pakistan Development Fund (PDF)), non-tax revenue grew by 23.00 percent in 2016/17 against a 13.90 percent decline recorded in 2015/16.

On the other hand, the pace of tax collection slowed down considerably to 8.40 percent, from 21.30 percent growth recorded in 2015/16. Also, this slowdown was broad-based as the growth of Federal Board of Revenue (FBR) and provincial taxes decelerated. Within FBR taxes, the growth in direct and indirect tax collection decelerated to 10.30 percent and 6.50 percent during 2016/17 from their respective growth rates of 17.80 percent and 21.80 percent in 2015/16. The slower growth in tax collection was partly a consequence of tax incentives provided to support exporting industries, agriculture and investment in the economy. It is also worth highlighting that growth in tax collection fell below 9.50 percent growth in the nominal GDP. As a result, the tax to GDP ratio declined to 12.50 percent after rising consistently to 12.60 percent by 2015/16 from the low of 9.30 percent in 2009/10. The tax to GDP ratio in 2016/17 was also significantly lower compared to 12.90 percent target for the year.

In contrast to the slowdown in revenue collection, expenditures grew sharply. The total federal and provincial expenditures jumped by 17.30 percent during 2016/17 compared with 7.60 percent increase in 2015/16. While growth in expenditures was broad-based, development expenditures grew much sharply by 30.10 percent during

2016/17, on top of the 16.90 percent growth recorded in 2015/16. Most of the expansion in development spending was concentrated in the forth quarter of 2016/17 when provinces accelerated their spending in a bid to complete the work on the social and development projects. The total provincial expenditures increased by almost Rs. 1.00 trillion in the forth quarter of 2016/17, about 40.00 percent of the total provincial expenditure during the year.

The resulting higher financing requirement was largely met through bank borrowing, with increased recourse to SBP borrowing. Besides, financing from external sources also remained sizeable, most of which was mobilized towards the end of the fiscal year.

## Domestic and external debt

During 2016/17, the increase in the fiscal and current account deficit created pressure on public debt accumulation. Yet the pace of debt accumulation was moderate during 2016/17 due to revaluation gains of USD 822.40 million (due to appreciation of US Dollar against major currencies). In particular, the pace of increase in public debt was lower as compared to the growth in nominal GDP. As a result, the gross public debt to GDP ratio improved to 67.20 percent by the end of June 2017 from 67.60 percent as of the end of June 2016. Within the gross public debt, government debt to GDP ratio inched up slightly to 61.60 by the end of June 2017 from 61.20 percent as of the end of June 2016[1]. Nonetheless, it was still higher than the 60.00 percent ceiling set for 2017/18 under the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005.

Although gross external borrowing also increased, around 70.00 percent of the increase in public debt was driven by domestic debt during 2016/17. Within the domestic debt, ownership structure shifted disproportionately towards SBP. This was because the Government retired maturing Pakistan Investment Bond (PIBs) of Rs. 1.40 trillion in the year, rejected bids in four out of 12 PIB auctions and met the financing gap through SBP borrowings. As a result, the share of central bank in domestic debt increased to 20.20 percent during 2016/17, from 16.60 percent in 2015/16.

Moreover, the share of short-term debt increased as banks' increasingly shifted their investment to short-term debt instruments. From the Government's perspective, it preferred to borrow in short-term, as banks were demanding higher rates on PIBs. In particular, the Government rejected all bids in PIB auctions held during the second quarter. This combined with retirement of PIBs, led to a fall in the share of long-term debt, thereby shortening the maturity profile of domestic debt. Thus, the re-profiling of domestic debt increased the roll-over and interest rate risk.

[1] As per Fiscal Responsibility and Debt Limitation Act, 2005 (FRDLA) amended in June 2017, total debt of the Government is the public debt less accumulated deposits of the federal and provincial governments with the banking system.

## External Sector

The consistent strengthening of external sector buffers during the last few years, could not be sustained in 2016/17. As growth picked up pace, the imbalance re-emerged in the external sector. Specifically, the current account deficit widened to USD 12.40 billion (4.10 percent of GDP) in 2016/17, from USD 4.90 billion (1.70 percent of GDP) in 2015/16. This widening in the current account deficit was primarily driven by trade deficit, which increased by USD 7.20 billion to a record high USD 26.60 billion during 2016/17. A sharp 17.60 percent growth in imports was mainly responsible while exports also declined by 0.20 percent during 2016/17. Moreover, for the first time since 2003/04, workers' remittances recorded a decline of 2.80 percent during 2016/17.

Within imports, machinery import has been rising for the last two years, which bodes well for the future productive capacity of the country. However, an 18.80 percent growth in imports Free on Board (FOB) excluding machinery indicates that a significant contribution to the overall growth in imports is coming from oil and consumer goods (including food). These trends are in line with the increase in income levels and rising share of consumption in overall GDP. Nevertheless, the situation is less encouraging when looked from the context of achieving and sustaining higher growth and maintaining external sector stability, especially from financing of current account deficit view point.

Exports showed some recovery in the third quarter of 2016/17, partially offsetting the decline observed in the first half of 2016/17. Therefore, the overall exports during the 2016/17 declined marginally by 0.20 percent against a much sharper decline of 8.80 percent in 2015/16. A marginal recovery in the second half of 2016/17 mainly reflects increase in textile exports, as non-textile exports declined during 2016/17.

The trends in trade account were also mirrored in the services account. Higher growth in imports means increased requirement for the import of services like freight, finance, insurance, etc. Moreover, the receipts under Coalition Support Fund (CSF) of USD 550.00 million in 2016/17 were also USD 387.00 million lower compared to that in 2015/16.

Higher official and private financial inflows helped partially finance the current account deficit. In particular, net government external borrowing from various bilateral, multilateral and commercial sources stood at USD 4.90 billion during 2016/17 compared to USD 3.40 billion in 2015/16. In addition, private financial inflows also remained strong. FDI was higher by around USD 400.00 million (driven mainly by CPEC inflows), whereas banks' offshore borrowings rose to USD 1.60 billion during 2016/17, from USD 406.00 million in 2015/16. Similarly, net incurrence of liabilities of the private sector (mainly power companies involved in CPEC projects), doubled to USD 2.30 billion during 2016/17 from USD 1.20 billion in 2015/16. On aggregate, nevertheless, these inflows fell short of financing the current account deficit.

## Recent Developments

The real GDP is targeted to grow by 6.00 percent in 2017/18. The coincident and leading indicators suggest that economy remains well on expansionary path and the real GDP growth in 2017/18 is set to come close to the 6.00 percent target for the year.

The early estimates of major crops and latest data on output of LSM indicate that economy remains on an expansionary path. The LSM grew by robust 7.20 percent during July-November 2017/18 compared to 3.20 percent during same period last year. The major contribution to LSM growth came from construction-allied and consumer durable industries, while fertilizer and leather industries observed a decline in production. In case of agriculture, the production of all the major crops is estimated to have increased substantially compared to last year. Although the expected water shortages would have some unfavorable impact on wheat production, the strong showing by cotton, sugarcane and rice crops would help the crop sector post a healthy growth during 2017/18. This improved performance of manufacturing and agriculture would have its positive spillover effects on services sector.

The underlying dynamics in real economic activity are perhaps best captured by trends in private sector credit. The private sector credit grew by 14.20 percent, Year-on-Year (YoY), in December 2017 compared to 11.90 percent in December 2016. Expansion in both credit for both working capital and fixed investment purposes contributed to this growth in overall credit to private sector.

On the other hand, inflation continues to remain contained. Average CPI inflation during July-January 2017/18 has remained slightly higher at 3.90 percent compared to 3.80 percent during the same period of last year. While non-food inflation has increased, it is the food inflation that dragged down the rise in overall prices. The decline in prices of cigarettes, fresh vegetables, sugar and pulses was offset by the prices of onion, motor fuel, rice, and chicken during the period under consideration. On YoY basis, the CPI inflation rose to 4.40 percent in January 2018 compared with 3.70 percent in January 2017.

Fiscal deficit in the first quarter of 2017/18 was 1.20 percent of GDP, slightly lower from 1.30 percent recorded in the first quarter of 2016/17. Notwithstanding increase in expenditure, strong growth in FBR tax collection in first quarter helped in containing fiscal deficit in the first quarter of 2017/18. FBR taxes, which constitute around 85.00 percent of the total federal and provincial tax collection, grew by 16.90 percent in the first half of 2017/18 compared to 7.40 percent growth observed during in the first half of 2016/17. On the other hand, led by sharp increase in current expenditures, total expenditure grew by 12.80 percent in the first quarter of 2017/18 compared to 2.80 percent witnessed in the same period of last year. Meanwhile, development expenditure is maintaining its last year's momentum, growing by 15.60 percent in the first quarter of 2017/18 compared to 12.40 percent growth registered in the same period of 2016/17.

With robust growth in imports reinforced by improved economic activity and strong domestic demand, the current account deficit widened to USD 7.40 billion in July-December 2017, from USD 4.70 billion in the same period last year. While exports and remittances have also recovered, the combine increase in both was insufficient to finance increase in imports. The import bill surged by 18.80 percent to USD 26.10 billion in the period. A broad-based increase in payments was noted, though the Petroleum, Oil and Lubricants (POL), machinery, metals (particularly iron and steel) and transport groups figured more prominently.

Although the surplus in the capital and financial accounts amounted to USD 5.50 billion in July-December 2017, higher than the USD 4.70 billion surplus recorded in the same period last year, it fell short of financing the enlarged current account deficit. The major contribution to higher surplus in capital and financial accounts came from issuance of Eurobond and Sukuk (USD 2.50 billion), while net external borrowings (excluding mobilization through Eurobond and Sukuk) was lower at USD 1.80 billion during July-December 2017 compared to USD 2.90 billion recorded in last year.

| Pakistan: Major Economic Indicators During 2012/13-2016/17 | | | | | |
|---|---|---|---|---|---|
| Item / Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| | Growth Rate (percent) | | | | |
| **Large scale manufacturing** | 4.09 | 5.68 | 3.30 | 3.10 | 5.60 |
| **Exports (FOB)** | 0.34 | 1.11 | -3.94 | -8.79 | -0.15 |
| **Imports (FOB)** | -0.53 | 3.76 | -0.75 | -2.25 | 17.58 |
| **Total revenue** | 16.20 | 22.00 | 8.10 | 13.10 | 11.00 |
| **Tax revenue (FBR)** | 3.40 | 15.80 | 13.00 | 21.30 | 8.40 |
| **Consumer Price Index (CPI), (12 months moving average)** | 7.40 | 8.60 | 4.53 | 2.90 | 4.20 |
| **Private sector credit** | -0.22 | 12.18 | 5.92 | 11.15 | 16.81 |
| **Money supply (M2)** | 15.89 | 12.54 | 13.20 | 13.67 | 13.69 |
| | In millions of USDs | | | | |
| **Total liquid reserves** | 11,019.60 | 14,141.10 | 18,699.20 | 23,098.60 | 21,402.90 |
| **Home remittances** | 13,921.60 | 15,837.70 | 18,721.00 | 19,916.80 | 19,351.00 |
| **Foreign private investment** | 1,576.00 | 2,321.40 | 1,905.20 | 1,985.60 | 2,218.00 |
| | In millions of USDs | | | | |
| **Fiscal deficit** | 18,959.51 | 13,500.99 | 14,380.81 | 12,944.77 | 17,791.31 |
| **Trade deficit** | 15,354.60 | 16,590.20 | 17,267.00 | 19,283.00 | 26,568.00 |
| **Current account (deficit/surplus)** | -2,496.00 | -3,130.00 | 2,795.00 | 4,867.00 | 12,439.00 |
| **Source:** State Bank of Pakistan, Ministry of Finance (GoP) | | | | | |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17

(In thousands of USDs)

| Bangladesh | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Arms and ammunition, parts and accessories thereof | 179.00 | - |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | 67.00 | - |
| Base metals and articles of base metal | 1,595.00 | 107.00 |
| Footwear, headgear, umbrellas, walking sticks, etc. | 34.00 | 42.00 |
| Live animals and animals products | 1,140.00 | - |
| Machinery and mechanical appliances | 17,291.00 | 151.00 |
| Mineral products | 696.00 | - |
| Miscellaneous manufactured articles | 1,022.00 | 1,245.00 |
| Natural or cultured pearls, precious or semi-precious stones, metals | 1.00 | - |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 1,153.00 | 141.00 |
| Plastics and articles thereof, rubber and articles thereof | 6,105.00 | 387.00 |
| Prepared foodstuffs, beverages, spirits, vinegar and tobacco | 932.00 | 3,034.00 |
| Products of chemical or allied industries | 10,360.00 | 1,973.00 |
| Pulp of wood or of other fibrous cellulosic material | 542.00 | 505.00 |
| Raw hide and skins, leather, fur skins and articles thereof | 21,043.00 | 285.00 |
| Textiles and textile articles | 535,806.00 | 50,660.00 |
| Vegetable products | 16,299.00 | 4,052.00 |
| Vehicles, aircraft, vessels and associated transport equipment | 1,489.00 | - |
| Wood and articles of wood | 32.00 | 20.00 |
| Works of arts, collectors, pieces, antiques and special transactions NES[1] | 1,713.00 | - |
| **Sub-Total** | **617,498.00** | **62,601.00** |
| Services / Item | Exports | Imports |
| Maintenance and repair services n.i.e. | 2.00 | - |
| Transport | - | 2,295.00 |
| Travel | 3.00 | 16.00 |
| Financial services | 41.00 | 341.00 |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Bangladesh | | |
|---|---|---|
| Services / Item | Exports | Imports |
| Charges for the use of intellectual property n.i.e. | - | 9.00 |
| Telecommunications, computer, and information services | 404.00 | 63.00 |
| Other business services | 224.00 | 2,429.00 |
| Personal, cultural, and recreational services | 1.00 | 1.00 |
| Government goods and services n.i.e. | 2,424.00 | 4,202.00 |
| **Sub-Total** | **3,099.00** | **9,356.00** |
| **Total** | **620,597.00** | **71,957.00** |

| Bhutan | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Base metals and articles of base metal | - | 7.00 |
| Machinery and mechanical appliances | - | 28.00 |
| Miscellaneous manufactured articles | 2.00 | - |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | - | 2.00 |
| Plastics and articles thereof; rubber and articles thereof | - | 183.00 |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 38.00 | - |
| Products of chemical or allied industries | 13.00 | - |
| Raw hide and skins, leather, fur skins and articles thereof | 14.00 | - |
| Textiles and textile articles | 85.00 | 96.00 |
| Vegetable products | 21.00 | - |
| **Sub-Total** | **173.00** | **316.00** |
| Services / Item | Exports | Imports |
| Transport | - | 14.00 |
| Telecommunications, computer, and information services | 1.00 | - |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Bhutan | | |
|---|---|---|
| Services / Item | Exports | Imports |
| Other business services | - | 4.00 |
| **Sub-Total** | **1.00** | **19.00** |
| **Total** | **174.00** | **335.00** |

| India | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Animal or vegetable fats, oils and waxes | 9.00 | 18,350.00 |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | 5,190.00 | 5,830.00 |
| Base metals and articles of base metal | 7,374.00 | 75,576.00 |
| Footwear, headgear, umbrellas, walking sticks, etc. | 62.00 | 269.00 |
| Live animals and animals products | 645.00 | 7,889.00 |
| Machinery and mechanical appliances | 911.00 | 71,199.00 |
| Mineral products | 161,480.00 | 15,407.00 |
| Miscellaneous manufactured articles | 1,913.00 | 5,394.00 |
| Natural or cultured pearls, precious or semi-precious stones, metals | 116.00 | 1,680.00 |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 9,039.00 | 4,274.00 |
| Plastics and articles thereof; rubber and articles thereof | 6,975.00 | 152,071.00 |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 13,407.00 | 18,073.00 |
| Products of chemical or allied industries | 18,595.00 | 480,961.00 |
| Pulp of wood or of other fibrous cellulosic material | 691.00 | 5,303.00 |
| Raw hide and skins, leather, fur skins and articles thereof | 28,468.00 | 3,249.00 |
| Textiles and textile articles | 27,856.00 | 791,258.00 |
| Vegetable products | 101,459.00 | 118,524.00 |
| Vehicles, aircraft, vessels and associated transport equipment | 55.00 | 2,211.00 |
| Wood and articles of wood | 2.00 | 372.00 |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Item / Commodities | Exports | Imports |
|---|---|---|
| **India** | | |
| **Commodities** | **Exports** | **Imports** |
| Works of arts, collectors, pieces, antiques and special transactions NES | 1,444.00 | 24.00 |
| **Sub-Total** | **385,695.00** | **1,777,913.00** |
| **India** | | |
| **Services** | **Exports** | **Imports** |
| Maintenance and repair services n.i.e. | 1.00 | - |
| Transport | 62.00 | 63,746.00 |
| Travel | 15.00 | 1,020.00 |
| Construction | - | 19.00 |
| Insurance and pension services | - | - |
| Financial services | 302.00 | 649.00 |
| Charges for the use of intellectual property n.i.e. | 130.00 | 566.00 |
| Telecommunications, computer, and information services | 810.00 | 5,574.00 |
| Other business services | 8,476.00 | 2,661.00 |
| Personal, cultural, and recreational services | 2.00 | 11.00 |
| Government goods and services n.i.e. | 5,767.00 | 31.00 |
| **Sub-Total** | **15,566.00** | **74,275.00** |
| **Total** | **401,261.00** | **1,852,188.00** |
| **Iran** | | |
| **Commodities** | **Exports** | **Imports** |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | - | 5.00 |
| Live animals and animals products | 342.00 | - |
| Machinery and mechanical appliances | 62.00 | - |
| Mineral products | - | 155.00 |
| Miscellaneous manufactured articles | 36.00 | - |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 93.00 | - |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Item | Exports | Imports |
|---|---|---|
| **Iran** | | |
| **Commodities** | **Exports** | **Imports** |
| Plastics and articles thereof; rubber and articles thereof | 2.00 | - |
| Pulp of wood or of other fibrous cellulosic material | 25,472.00 | - |
| Raw hide and skins, leather, fur skins and articles thereof | - | 35.00 |
| Textiles and textile articles | 399.00 | - |
| Vegetable products | 3,951.00 | - |
| **Sub-Total** | **30,358.00** | **195.00** |
| **Iran** | | |
| **Services** | **Exports** | **Imports** |
| Transport | - | 7.00 |
| Travel | - | 1.00 |
| Other business services | 1.00 | - |
| Government goods and services n.i.e. | 58.00 | 64.00 |
| **Sub-Total** | **59.00** | **72.00** |
| **Total** | **30,417.00** | **267.00** |
| **Maldives** | | |
| **Commodities** | **Exports** | **Imports** |
| Base metals and articles of base metal | - | 17.00 |
| Live animals and animals products | 47.00 | - |
| Machinery and mechanical appliances | 3.00 | 34.00 |
| Mineral products | 543.00 | - |
| Miscellaneous manufactured articles | 36.00 | - |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 8.00 | - |
| Plastics and articles thereof; rubber and articles thereof | - | 1.00 |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Maldives | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 515.00 | - |
| Products of chemical or allied industries | 1,329.00 | - |
| Pulp of wood or of other fibrous cellulosic material | 15.00 | - |
| Raw hide and skins, leather, fur skins and articles thereof | 7.00 | - |
| Textiles and textile articles | 51.00 | - |
| Vegetable products | 3,206.00 | - |
| Works of arts, collectors, pieces, antiques and special transactions NES | 29.00 | - |
| **Sub-Total** | **5,789.00** | **51.00** |
| **Maldives** | | |
| Services / Item | Exports | Imports |
| Transport | - | 44.00 |
| Travel | 6.00 | - |
| Insurance and pension services | 1.00 | - |
| Financial services | 1.00 | - |
| Charges for the use of intellectual property n.i.e. | - | 2.00 |
| Telecommunications, computer, and information services | 29.00 | - |
| Other business services | 28.00 | 6.00 |
| Government goods and services n.i.e. | 446.00 | 521.00 |
| **Sub-Total** | **511.00** | **573.00** |
| **Total** | **6,300.00** | **624.00** |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

(In thousands of USDs)

| Myanmar | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Base metals and articles of base metal | 262.00 | - |
| Footwear, headgear, umbrellas, walking sticks, etc. | 58.00 | - |
| Live animals and animals products | 245.00 | - |
| Machinery and mechanical appliances | 112.00 | - |
| Mineral products | 13.00 | - |
| Miscellaneous manufactured articles | 43.00 | - |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 35.00 | - |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 30,443.00 | - |
| Products of chemical or allied industries | 14,751.00 | 7.00 |
| Pulp of wood or of other fibrous cellulosic material | 11.00 | - |
| Raw hide and skins, leather, fur skins and articles thereof | 1,672.00 | - |
| Textiles and textile articles | 3,608.00 | 78.00 |
| Vegetable products | 1,279.00 | 2,401.00 |
| Wood and articles of wood | - | 84.00 |
| **Sub-Total** | **52,532.00** | **2,570.00** |
| **Myanmar** | | |
| Services / Item | Exports | Imports |
| Transport | - | 93.00 |
| Financial services | - | 1.00 |
| Telecommunications, computer, and information services | 41.00 | 9.00 |
| Other business services | 78.00 | - |
| Government goods and services n.i.e. | 120.00 | 187.00 |
| **Sub-Total** | **239.00** | **289.00** |
| **Total** | **55,102.00** | **2,859.00** |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

**(In thousands of USDs)**

| Nepal | | |
|---|---|---|
| Commodities / Item | Exports | Imports |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | 220.00 | - |
| Footwear, headgear, umbrellas, walking sticks, etc. | 3.00 | - |
| Machinery and mechanical appliances | 2.00 | 74.00 |
| Mineral products | 22.00 | - |
| Miscellaneous manufactured articles | 19.00 | 1.00 |
| Natural or cultured pearls, precious or semi-precious stones, metals | - | 4.00 |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 429.00 | 102.00 |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 1,402.00 | 42.00 |
| Products of chemical or allied industries | 50.00 | 18.00 |
| Raw hide and skins, leather, fur skins and articles thereof | 85.00 | 38.00 |
| Textiles and textile articles | 46.00 | 8.00 |
| Vegetable products | 663.00 | 71.00 |
| **Sub-Total** | **2,940.00** | **359.00** |
| **Nepal** | | |
| Services / Item | Exports | Imports |
| Transport | - | 16.00 |
| Financial services | - | 2.00 |
| Telecommunications, computer, and information services | 8.00 | 3.00 |
| Other business services | 421.00 | 93.00 |
| Personal, cultural, and recreational services | 2.00 | - |
| Government goods and services n.i.e. | 517.00 | 360.00 |
| **Sub-Total** | **949.00** | **473.00** |
| **Total** | **3,889.00** | **832.00** |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

**(In thousands of USDs)**

**Sri Lanka**

| Commodities / Item | Exports | Imports |
|---|---|---|
| Animal or vegetable fats, oils and waxes | 16.00 | 837.00 |
| Arms and ammunition, parts and accessories thereof | 2.00 | - |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | 847.00 | 427.00 |
| Base metals and articles of base metal | 13,418.00 | 1,272.00 |
| Footwear, headgear, umbrellas, walking sticks, etc. | 694.00 | 37.00 |
| Live animals and animals products | 3,930.00 | 38.00 |
| Machinery and mechanical appliances | 450.00 | 6,583.00 |
| Mineral products | 30,596.00 | 49.00 |
| Miscellaneous manufactured articles | 871.00 | 72.00 |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 427.00 | 1,328.00 |
| Plastics and articles thereof; rubber and articles thereof | 4,698.00 | 9,367.00 |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 13,278.00 | 459.00 |
| Products of chemical or allied industries | 50,186.00 | 1,673.00 |
| Pulp of wood or of other fibrous cellulosic material | 4,304.00 | 1,860.00 |
| Raw hide and skins, leather, fur skins and articles thereof | 2,162.00 | 472.00 |
| Textiles and textile articles | 111,306.00 | 6,850.00 |
| Vegetable products | 38,856.00 | 24,087.00 |
| Vehicles, aircraft, vessels and associated transport equipment | 574.00 | 2,149.00 |
| Wood and articles of wood | 12.00 | 7,504.00 |
| **Sub-Total** | **276,628.00** | **65,062.00** |

**Sri Lanka**

| Services / Item | Exports | Imports |
|---|---|---|
| Transport | 2,834.00 | 20,674.00 |
| Travel | 9.00 | 20.00 |
| Construction | 1.00 | - |
| Financial services | 613.00 | 79.00 |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

**(In thousands of USDs)**

| Sri Lanka | | |
|---|---|---|
| Services / Item | Exports | Imports |
| Charges for the use of intellectual property n.i.e. | 14.00 | 6.00 |
| Telecommunications, computer, and information services | 1,880.00 | 5,822.00 |
| Other business services | 1,219.00 | 1,538.00 |
| Personal, cultural, and recreational services | - | 4.00 |
| Government goods and services n.i.e. | 3,057.00 | 3,185.00 |
| **Sub-Total** | **9,626.00** | **31,326.00** |
| **Total** | **286,254.00** | **96,388.00** |

| Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)* (In thousands of USDs) | | |
|---|---|---|
| **Overall** | | |
| **Commodities / Item** | **Exports** | **Imports** |
| Animal or vegetable fats, oils and waxes | 25.00 | 19,187.00 |
| Arms and ammunition, parts and accessories thereof | 181.00 | - |
| Articles of stone, plaster, cement, asbestos, mica or similar materials | 6,324.00 | 6,262.00 |
| Base metals and articles of base metal | 22,648.00 | 76,978.00 |
| Footwear, headgear, umbrellas, walking sticks, etc. | 851.00 | 347.00 |
| Live animals and animals products | 6,348.00 | 7,927.00 |
| Machinery and mechanical appliances | 18,830.00 | 78,075.00 |
| Mineral products | 193,350.00 | 15,611.00 |
| Miscellaneous manufactured articles | 3,943.00 | 6,712.00 |
| Natural or cultured pearls, precious or semi-precious stones, metals | 117.00 | 1,685.00 |
| Optical, photographic, cinematographer, measuring, checking, precision apparatus | 11,184.00 | 5,846.00 |
| Plastics and articles thereof; rubber and articles thereof | 17,780.00 | 162,008.00 |
| Prepared foodstuffs; beverages, spirits, vinegar and tobacco | 60,015.00 | 21,608.00 |
| Products of chemical or allied industries | 95,285.00 | 484,633.00 |
| Pulp of wood or of other fibrous cellulosic material | 31,035.00 | 7,668.00 |
| Raw hide and skins, leather, fur skins and articles thereof | 53,451.00 | 4,079.00 |
| Textiles and textile articles | 679,159.00 | 848,937.00 |
| Vegetable products | 165,735.00 | 149,134.00 |
| Vehicles, aircraft, vessels and associated transport equipment | 2,119.00 | 4,360.00 |
| Wood and articles of wood | 45.00 | 7,979.00 |
| Works of arts, collectors, pieces, antiques and special transactions NES | 3,186.00 | 31.00 |
| **Sub-Total** | **1,371,612.00** | **1,909,067.00** |
| **Services / Item** | **Exports** | **Imports** |
| Maintenance and repair services n.i.e. | 3.67 | - |
| Transport | 2,895.82 | 86,888.54 |
| Travel | 33.48 | 1,056.40 |

## Pakistan: Main Items of Goods and Services Traded with ACU Member Countries in 2016/17 *(Contd.)*

**(In thousands of USDs)**

| Overall | | |
|---|---|---|
| **Services** / **Item** | **Exports** | **Imports** |
| **Construction** | 1.15 | 18.60 |
| **Insurance and pension services** | 0.70 | - |
| **Financial services** | 957.51 | 1,071.17 |
| **Charges for the use of intellectual property n.i.e.** | 143.39 | 582.41 |
| **Telecommunications, computer, and information services** | 3,172.64 | 11,470.01 |
| **Other business services** | 10,447.12 | 6,731.16 |
| **Personal, cultural, and recreational services** | 4.80 | 15.42 |
| **Government goods and services n.i.e.** | 12,389.13 | 8,549.49 |
| **Sub-Total** | **30,049.41** | **116,383.19** |
| **Total** | **1,401,661.41** | **2,025,450.19** |

[1]It stands for not elsewhere specified.

## Pakistan: Trade with ACU Member Countries During 2015/16-2016/17

(In thousands of USDs)

| Country \ Item | Exports of Commodities | | Imports of Commodities | |
|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| **Bangladesh** | 682,392.00 | 617,498.00 | 46,933.00 | 62,601.00 |
| **Bhutan** | 652.00 | 173.00 | 710.00 | 316.00 |
| **India** | 426,113.00 | 385,695.00 | 1,540,619.00 | 1,777,913.00 |
| **Iran** | 30,342.00 | 30,358.00 | 221.00 | 195.00 |
| **Maldives** | 6,344.00 | 5,789.00 | 195.00 | 51.00 |
| **Myanmar** | 6,590.00 | 52,532.00 | 934.00 | 2,570.00 |
| **Nepal** | 108,026.00 | 2,940.00 | 166.00 | 359.00 |
| **Sri Lanka** | 241,117.00 | 276,628.00 | 54,101.00 | 65,062.00 |
| **Sub-Total** | **1,501,576.00** | **1,371,612.00** | **1,643,879.00** | **1,909,067.00** |
| **Country \ Item** | **Exports of Services** | | **Imports of Services** | |
| | **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| **Bangladesh** | 1,701.00 | 3,099.00 | 7,167.00 | 9,356.00 |
| **Bhutan** | - | 1.00 | 30.00 | 19.00 |
| **India** | 15,098.00 | 15,566.00 | 73,641.00 | 74,275.00 |
| **Iran** | - | 59.00 | 11.00 | 72.00 |
| **Maldives** | 693.00 | 511.00 | 305.00 | 573.00 |
| **Myanmar** | 138.00 | 239.00 | 71.00 | 289.00 |
| **Nepal** | 419.00 | 948.00 | 626.00 | 473.00 |
| **Sri Lanka** | 3,340.00 | 9,626.00 | 23,916.00 | 31,326.00 |
| **Sub-Total** | **21,389.00** | **30,049.00** | **105,767.00** | **116,383.00** |
| **Total** | **1,522,965.00** | **1,401,661.00** | **1,749,646.00** | **2,025,450.00** |

## Pakistan: Trade with ACU Member Countries During 2012/13-2016/17

(In millions of USDs)

| Item / Country | Exports of Commodities | | | | |
|---|---|---|---|---|---|
| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| **Bangladesh** | 726.91 | 689.15 | 684.73 | 682.39 | 617.50 |
| **Bhutan** | 0.37 | 0.39 | 0.42 | 0.65 | 0.17 |
| **India** | 369.51 | 435.03 | 412.62 | 426.11 | 385.70 |
| **Iran** | 56.09 | 41.82 | 27.84 | 30.34 | 30.36 |
| **Maldives** | 8.25 | 8.31 | 7.97 | 6.34 | 5.79 |
| **Myanmar** | 7.60 | 10.67 | 6.53 | 6.59 | 52.53 |
| **Nepal** | 3.36 | 2.59 | 3.08 | 108.03 | 2.94 |
| **Sri Lanka** | 331.43 | 248.40 | 271.34 | 241.12 | 276.63 |
| **Total** | **1,503.52** | **1,436.35** | **1,414.53** | **1,501.58** | **1,371.61** |
| **Item / Country** | **Imports of Commodities** | | | | |
| | **2012/13** | **2013/14** | **2014/15** | **2015/16** | **2016/17** |
| **Bangladesh** | 55.36 | 53.03 | 51.67 | 46.93 | 62.60 |
| **Bhutan** | 0.36 | 0.28 | 0.53 | 0.71 | 0.32 |
| **India** | 1,744.23 | 1,763.75 | 1,546.44 | 1,540.62 | 1,777.91 |
| **Iran** | 2.70 | 0.38 | 0.02 | 0.22 | 0.19 |
| **Maldives** | 0.09 | 0.82 | 0.24 | 0.20 | 0.05 |
| **Myanmar** | 1.21 | 0.17 | 0.15 | 0.93 | 2.57 |
| **Nepal** | 0.18 | 0.53 | 0.23 | 0.17 | 0.36 |
| **Sri Lanka** | 59.06 | 55.11 | 58.17 | 54.10 | 65.06 |
| **Total** | **1,863.19** | **1,874.06** | **1,657.45** | **1,643.88** | **1,909.07** |

## Pakistan: Trade with ACU Member Countries During 2012/13-2016/17

(In millions of USDs)

| Item / Country | Exports of Services | | | | |
|---|---|---|---|---|---|
| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
| **Bangladesh** | 6.09 | 2.01 | 2.02 | 1.71 | 3.09 |
| **Bhutan** | 0.02 | 0.01 | 0.01 | - | 0.01 |
| **India** | 12.99 | 11.91 | 10.49 | 15.09 | 15.56 |
| **Iran** | 0.26 | 0.95 | 0.11 | - | 0.06 |
| **Maldives** | 0.17 | 0.74 | 0.21 | 0.69 | 0.51 |
| **Myanmar** | 0.16 | 0.09 | 0.39 | 0.14 | 0.24 |
| **Nepal** | 0.49 | 0.63 | 0.39 | 0.42 | 0.95 |
| **Sri Lanka** | 2.18 | 1.26 | 8.63 | 3.34 | 9.63 |
| **Total** | **22.36** | **17.60** | **22.25** | **21.40** | **30.05** |
| **Item / Country** | **Imports of Services** | | | | |
| | **2012/13** | **2013/14** | **2014/15** | **2015/16** | **2016/17** |
| **Bangladesh** | 10.01 | 9.09 | 8.69 | 7.17 | 9.36 |
| **Bhutan** | 9.44 | 0.02 | 4.94 | 0.03 | 0.02 |
| **India** | 118.77 | 120.22 | 81.93 | 73.64 | 74.28 |
| **Iran** | 0.99 | 2.02 | 0.41 | 0.01 | 0.07 |
| **Maldives** | 0.59 | 0.24 | 3.22 | 0.31 | 0.57 |
| **Myanmar** | 0.37 | 0.28 | 0.57 | 0.07 | 0.29 |
| **Nepal** | 0.88 | 0.76 | 1.44 | 0.63 | 0.48 |
| **Sri Lanka** | 9.95 | 10.03 | 13.81 | 23.92 | 31.32 |
| **Total** | **151.01** | **142.67** | **115.03** | **105.77** | **116.38** |

## Pakistan: Trade with ACU Member Countries
## During January-December, 2016-2017

(In thousands of USDs)

| Month \ Item | Exports of Commodities | | Imports of Commodities | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| January | 102,628.00 | 103,612.00 | 231,915.00 | 192,688.00 |
| February | 110,354.00 | 113,443.00 | 178,993.00 | 206,961.00 |
| March | 134,375.00 | 128,771.00 | 191,443.00 | 195,359.00 |
| April | 212,468.00 | 120,4220.00 | 132,874.00 | 160,261.00 |
| May | 115,179.00 | 110,111.00 | 150,889.00 | 316,843.00 |
| June | 130,577.00 | 86,496.00 | 121,422.00 | 97,702.00 |
| July | 113,246.00 | 106,444.00 | 94,422.00 | 117,462.00 |
| August | 123,258.00 | 118,133.00 | 112,080.00 | 116,729.00 |
| September | 126,098.00 | 137,696.00 | 97,869.00 | 104,172.00 |
| October | 108,034.00 | 116,969.00 | 102,378.00 | 130,436.00 |
| November | 112,527.00 | 117,881.00 | 111,883.00 | 137,948.00 |
| December | 112,834.00 | 111,635.00 | 117,712.00 | 132,504.00 |
| **Sub-Total** | **1,501,576.00** | **1,371,612.00** | **1,643,879.00** | **1,909,067.00** |
| **Month \ Item** | **Exports of Services** | | **Imports of Services** | |
| | **2016** | **2017** | **2016** | **2017** |
| January | 1,328.00 | 2,847.00 | 10,600.00 | 11,775.00 |
| February | 1,509.00 | 2,217.00 | 8,023.00 | 9,881.00 |
| March | 2,177.00 | 2,704.00 | 11,179.00 | 9,546.00 |
| April | 1,821.00 | 2,506.00 | 7,166.00 | 9,713.00 |
| May | 1,475.00 | 2,132.00 | 7,707.00 | 14,192.00 |
| June | 1,777.00 | 2,373.00 | 11,026.00 | 7,858.00 |
| July | 1,900.00 | 3,723.00 | 7,495.00 | 7,653.00 |
| August | 1,972.00 | 2,234.00 | 10,385.00 | 10,989.00 |
| September | 1,620.00 | 2,764.00 | 6,629.00 | 6,961.00 |
| October | 2,201.00 | 2,224.00 | 7,492.00 | 8,732.00 |
| November | 1,389.00 | 2,286.00 | 8,709.00 | 9,722.00 |
| December | 2,220.00 | 2,039.00 | 9,355.00 | 9,361.00 |
| **Sub-Total** | **21,389.00** | **30,049.00** | **105,767.00** | **116,383.00** |
| **Total** | **1,522,965.00** | **1,401,661.00** | **1,749,646.00** | **2,025,450.00** |

**Notes:** Data is based on reporting by the banking channel only.
Data for 2017 is provisional.

**Source:** State Bank of Pakistan

# Sri Lanka[1]

## Real Sector Developments

As per official data released by the Department of Census and Statistics (DCS), Sri Lanka's Gross Domestic Product (GDP) growth decelerated during 2017[2] to 3.10 percent in real terms in comparison to a growth of 4.50 percent recorded a year earlier. Agriculture related activities contracted during the year against the backdrop of adverse weather conditions that continued from 2016, while a slowdown in economic activity in both services and industrial sectors was also observed. Industry related activities which accounts for 27.00 percent of real GDP, grew by 3.90 percent in 2017. The growth in industrial activities was primarily supported by manufacturing, construction and mining and quarrying. Services activities, which accounted for 57.00 percent of real GDP, grew by 3.20 percent in 2017, on a Year-on-Year (YoY) basis, driven by the expansion in financial services, wholesale and retail trade, and other personal services.

As per the expenditure approach to GDP estimates, in 2017 economic growth in nominal terms was supported by the expansion of both consumption and investment expenditure. Consumption expenditure, which accounts for the largest share of expenditure of the economy, recorded a growth of 9.00 percent in nominal terms during 2017, in comparison to the modest growth of 3.10 percent in 2016. This expansion was a result of the increase in both public and private expenditure. Meanwhile, investment expenditure expanded by 16.60 percent in nominal terms. Economic growth in 2017 was supported by domestic demand, which grew by 11.50 percent (6.80 percent in real terms), amidst the deterioration of net external demand by 9.60 percent (35.60 percent in real terms). Driven by private savings, domestic savings as a percentage of GDP increased to 29.30 percent in 2017. National savings as a percentage of GDP also increased during the year to 33.90 percent from 32.80 percent in 2016. Accordingly, the domestic savings-investment gap and the national savings-investment gap stood at 7.20 and 2.60 percent, respectively, during 2017, reflecting the dependence of the economy on the external sector. During 2017, the unemployment rate continued to decline to 4.20 percent from 4.40 percent in the preceding year.

[1] This report is based on the Annual Report 2017 of the Central Bank of Sri Lanka.

[2] Financial Year stands for begining of January to the end of December.

## Inflation

Headline inflation recorded two peaks in 2017, largely due to drought related supply disruptions. Core inflation stabilised at desired levels during the latter part of the year. Despite the tight monetary policy stance maintained by the Central Bank, the sharp acceleration in food inflation caused by weather related supply disruptions resulted in unanticipated upward movements in headline inflation. Revisions to Value Added Tax (VAT) and Nation Building Tax (NBT), and higher commodity prices in the global market also contributed to high levels of inflation. Accordingly, headline inflation, as measured by the YoY change in both the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100) experienced twin peaks, initially in the first quarter of 2017 and then in the last quarter. However, the deceleration in food inflation, partly supported by the government's initiatives to address price escalations, helped inflation to decelerate towards the end of the year. YoY headline inflation based on the NCPI, which was at 8.60 percent in March 2017 gradually slowed thereafter, before reaching a peak of 8.80 percent in October 2017 and moderating to 7.30 percent by end 2017.

Following a similar trend, YoY headline inflation, based on the CCPI, also rose to 7.30 percent in March 2017 and peaked at 7.80 percent in October 2017, before declining to 7.10 percent by end 2017. On an annual average basis, NCPI based headline inflation accelerated to 7.70 percent by the end of 2017, compared to 4.00 percent recorded at the end of 2016, while CCPI based annual average inflation accelerated to 6.60 percent by the end of 2017. Meanwhile, core inflation remained subdued in the second half of 2017, reflecting the containment of demand pressures through the tight monetary policy stance of the Central Bank. Accordingly, NCPI based core inflation declined to 2.70 percent, YoY, by the end of 2017 from 6.70 percent at the end of 2016. YoY core inflation based on the CCPI declined to 4.30 percent by the end of 2017, compared to 5.80 percent at the end of 2016.

## External Sector Developments

Despite the setback in the current account, Sri Lanka's external sector improved gradually in 2017 with higher foreign exchange inflows to the financial account. Earnings from the export of merchandise goods recorded notable double-digit growth in 2017, partly supported by the reinstatement of the European Union's Generalised System of Preferences plus (EU GSP+) facility and lifting of the EU fishing ban, and strong institutional and policy support. However, higher than expected expenditure on imports, particularly on fuel and rice imports, as well as imports of gold, caused an expansion in the trade deficit during the year. The deficit in the primary income account also widened during the year, mainly with the increase in interest payments and reinvested earnings by Direct Investment

Enterprises (DIEs). Although the healthy growth in transportation and computer services contributed towards the increase in earnings from exports of services, the moderation in earnings from tourism weighed down on the expected expansion in inflows to the services account. Workers' remittances also declined in 2017. This may be attributed to political instability and the sluggish growth in the Middle Eastern economies. The combined effect of the developments was a widening of the external Current Account Deficit (CAD) to 2.60 percent of GDP in 2017 from 2.10 percent of GDP in 2016.

In contrast, the financial account of the Balance of Payment (BOP) improved substantially, especially during the last three quarters of the year, with the highest ever annual inflow of Foreign Direct Investment (FDI), foreign investment in the government securities market and in the Colombo Stock Exchange (CSE), the proceeds of the eleventh International Sovereign Bond (ISB), a foreign currency term financing facility, two tranches of the International Monetary Fund-Extended Fund Facility (IMF-EFF) program and other foreign currency inflows to the Government and the private sector. Reflecting these developments, the overall balance of the BOP recorded a surplus of USD 2.10 billion in 2017. The gross official reserve position improved, both in terms of quantity and quality, reaching a healthy level of USD 8.00 billion by the end of 2017, from USD 6.00 billion at the end of 2016, while short-term liabilities in the form of swaps with banks were reduced by around USD 1.00 billion by the end of 2017. Improved external sector performance, facilitated the Central Bank to follow a more market based exchange rate policy. Accordingly, even with the absorption of USD 1.70 billion from the domestic foreign exchange market on a net basis, the external value of the Sri Lankan Rupee remained relatively stable, depreciating only by 2.00 percent against the US Dollar in 2017.

## Fiscal Sector Developments

Fiscal policy during 2017 was aimed at continuing the fiscal consolidation program, with the objective of reducing the budget deficit and lowering the debt burden of the Government. The government's primary account, which excludes interest payments from the overall balance, recorded a surplus of Rs. 2.10 billion in 2017 for the first time since 1992 and only the second time since 1955. However, the CAD, which reflects government dissaving, increased marginally to 0.70 percent of GDP in 2017 compared to 0.60 percent of GDP in the previous year. Further, the overall budget deficit deviated markedly from the envisaged target of 4.60 percent of GDP and increased to 5.50 percent of GDP in 2017 compared to 5.40 percent of GDP in the previous year due to slippages in revenue collection and unanticipated expenditure on drought and flood relief. During the year, central government debt as a percentage of GDP declined to 77.60 percent in 2017 from 78.80 percent in 2016 due to the deceleration of growth of debt accumulation and the increase in nominal GDP growth.

Government revenue as a percentage of GDP declined to 13.80 percent in 2017 from 14.20 percent in 2016 due to the decline in revenue from non-tax revenue sources. However, tax revenue increased in nominal terms and also as a percentage of GDP, primarily due to amendments made to the VAT Act and other reforms introduced to the Economic Service Charge (ESC) and NBT, in 2017, to enhance the collection of tax revenue. Accordingly, in nominal terms, tax revenue increased to Rs. 1,670.20 billion by 14.10 percent in 2017, while as a percentage of GDP, tax revenue increased to 12.60 percent in 2017. In contrast, non-tax revenue declined in 2017 mainly due to weakened financial performance of major State-Owned Business Enterprises (SOBEs). The combined effect of the performance of tax and non-tax revenue resulted in an increase in total government revenue by 8.60 percent to Rs. 1,831.50 billion in 2017. However, as a percentage of GDP, total revenue decreased to 13.80 percent in 2017 from 14.20 percent in the previous year.

Total expenditure and net lending as a percentage of GDP declined to 19.40 percent in 2017 from 19.60 percent in 2016, reflecting the efforts taken to rationalise government expenditure. Accordingly, recurrent expenditure as a percentage of GDP declined to 14.50 percent in 2017 from 14.80 percent in 2016. However, in nominal terms, recurrent expenditure increased by 9.70 percent to Rs. 1,927.70 billion in 2017 from Rs. 1,757.80 billion in 2016, mainly due to the increase in interest payments and expenditure incurred on disaster relief. The increase in the outstanding stock of debt, especially the outstanding foreign commercial loans obtained in the recent past, caused a rise in interest expenditure during the year. The total interest expenditure, in nominal terms, grew by 20.40 percent to Rs. 735.60 billion in 2017, while expenditure on foreign interest payments increased by 30.20 percent to Rs. 164.90 billion in 2017. Meanwhile, with the prioritisation of public investment progams in line with the fiscal consolidation process, capital expenditure and net lending as a percentage of GDP remained at 4.90 percent in 2017 compared to 4.80 percent in the preceding year. Public investment declined marginally to 4.90 percent of GDP in 2017 from 5.00 percent of GDP in 2016.

The overall budget deficit was largely financed through foreign sources during 2017, for the second consecutive year. Accordingly, 59.90 percent of the total financing need was covered by foreign financing, in 2017, compared to 61.20 percent in the previous year. Financing from foreign sources increased during 2017, mainly due to the issuance of ISBs and obtaining Foreign Currency Term Financing Facilities (FCTFFs). Government financing through domestic sources accounted for 40.10 percent of total financing in 2017, which amounted to Rs. 294.30 billion in nominal terms. This was mainly through provisional advances of Rs. 116.50 billion and Treasury Bonds (T-bonds) of Rs. 109.10 billion, while a net repayment of Rs. 81.70 billion was recorded in Treasury Bills (T-bills). The government financing from the banking sector accounted for 63.80 percent (Rs. 187.70 billion) of net domestic financing in 2017 compared to 56.30 percent (Rs. 140.00 billion) in 2016. As a percentage of GDP, central government debt declined to 77.60 percent by the end of 2017 from 78.80 percent recorded at the end of 2016. The reduction in the debt to GDP ratio in 2017 was mainly attributed to the deceleration in the growth of debt accumulation and the increase in the nominal GDP growth.

## Monetary Policy and Monetary Sector Developments

The Central Bank continued to maintain its tight monetary policy stance in 2017 to curtail adverse inflation expectations and the possible acceleration of demand driven inflationary pressures due to excessive monetary and credit expansion. Following the increase in inflation during early 2017, which could have led to the buildup of adverse inflation expectations amidst high money and credit expansion, the policy interest rates of the Central Bank, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were increased by 25 basis points in March 2017 to 7.25 and 8.75 percent, respectively, in addition to the 100 basis point increase in policy interest rates and 1.50 percentage point increase in the Statutory Reserve Ratio (SRR) in 2016. Macro-prudential measures to contain credit to selected categories of the private sector also complemented the conduct of monetary policy during 2017. Despite such contractionary measures, headline inflation continued to remain above the Central Bank's targeted range mainly due to the disturbances to domestic food supply caused by prolonged adverse weather conditions along with the implementation of changes to the government tax structure. Nevertheless, underlying inflation, as measured by the movements in core inflation, gradually moderated with the transmission of the tight monetary policy stance maintained over the past two years. Effective liquidity management by the Central Bank helped steer the Average Weighted Call Money Rate (AWCMR). Accordingly, until the middle of July 2017, AWCMR increased and hovered around the upper bound of the policy interest rate corridor, reflecting tight liquidity conditions in the domestic money market. Along with surplus liquidity levels since the middle of July 2017, and active Open Market Operations (OMOs) of the Central Bank, AWCMR stabilised at around 8.15 percent. High real and nominal interest rates, resulting from tight monetary policy measures adopted by the Central Bank, caused a moderation in the growth of Broad Money (M2b) supply and the growth of credit extended to the private sector by commercial banks, as expected.

In view of the tight monetary conditions in the economy, market interest rates continued to increase further during 2017, although some market interest rates started to stabilise or adjust downwards towards the end of the year reflecting the improved liquidity conditions in the market. Deposit and lending interest rates of commercial banks continued to increase during the most of 2017. However, some moderation in deposit rates was observed towards the end of the year, while lending rates stabilised at elevated levels. Yields on T-bills in the primary market showed upward movements during the first four months of 2017 reflecting the increased borrowing requirements of the government in a purely auction based system for issuing government securities and the tight monetary conditions. However, yields on T-bills in the primary market adjusted downwards thereafter.

Reserve money growth moderated to 9.80 percent, YoY, by the end of 2017, compared to the high growth of 27.10 percent recorded at the end of 2016, mainly due to the impact of the high base observed in 2016. In absolute terms, reserve money expanded to reach Rs. 939.80 billion by the end of 2017. From the liability side, both currency in circulation and the commercial banks' reserve balances with the Central Bank contributed to the moderate increase in reserve money during 2017. From the assets side, reserve money expansion during 2017 was driven entirely by the increase in Net Foreign Assets (NFA) of the Central Bank along with the increase in reserve assets of the Central Bank, reflecting the accumulation of the foreign reserves and a decline in foreign financial liabilities of the Central Bank during the year. In contrast to the increase in NFA, Net Domestic Assets (NDA) of the Central Bank declined considerably by Rs. 203.90 billion to Rs. 93.60 billion during 2017.

M2b growth, which remained at elevated levels during the most of 2017, decelerated towards the desired levels during the latter part of the year, driven by the moderation in domestic credit. M2b growth decelerated to 16.70 percent, YoY, by the end of 2017 compared to a growth of 18.40 percent at the end of 2016. Both NFA and NDA of the banking system contributed to the expansion in monetary growth during the year. In response to the continued tight monetary policy stance, credit extended to the private sector by the banking system decelerated to desired levels by the end of 2017. Growth of credit to the private sector decelerated to 14.70 percent by the end of 2017 on a YoY basis, compared to the growth of 21.90 percent recorded at the end of 2016. The deceleration of credit extended to the private sector was caused by high market interest rates along with tight monetary conditions in the economy as well as the supportive macro-prudential and fiscal policy measures. Moreover, with the exception of the acceleration observed in Personal Loans and Advances, the growth of credit extended to all major sectors decelerated during 2017.

## Financial Sector Developments

The performance of the financial sector improved, while the stability of the system was maintained in 2017 amidst the challenging economic environment. The improved performance of the financial sector was driven mainly by banks, other deposit taking financial institutions and contractual savings institutions. Banking sector credit, which reported a steady growth during the first half of the year, moderated gradually during the second half of the year in response to the tight monetary policy measures. The banking sector asset base surpassed Rs. 10.00 trillion recording an annual growth of 13.80 percent, with the increase in loans and advances that accounted for 62.50 percent of the total assets by the end of 2017. Meanwhile, the Non-Performing Loan (NPL) ratio declined marginally during the year reflecting the improvement in asset quality of the banking sector. Profitability of the banking sector, as measured by Return on Assets (ROA) and Return on Equity (ROE), improved noticeably with net interest income growing by 12.30 percent during 2017. Capital adequacy ratios of banks were also maintained at comfortable levels under Basel III in order to absorb any adverse shocks, while the Statutory Liquid Assets Ratio (SLAR) of the domestic banking sector continued to be higher than the minimum statutory requirement of 20.00 percent.

The Licensed Finance Company (LFC) and the Specialised Leasing Company (SLC) sector recorded a moderate growth during the year with low credit growth, declining profitability and increasing NPLs. The sector maintained its overall capital and liquidity levels well above the minimum requirement during the year in spite of the weak financial position of a few Licensed Finance Companies (LFCs). A gradual moderation was observed in activities of the Primary Dealer (PD) sector in 2017. The asset base of PDs showed a considerable expansion during the year. The Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF), witnessed a healthy growth in their assets in 2017, while securing reasonable returns to their members. The asset base of the insurance sector also expanded during the year underpinned by the significant growth recorded by the life insurance sector.

Domestic financial markets witnessed some volatility during 2017. The domestic money market operated with excess liquidity, particularly during the second half of the year consequent to net purchases of foreign exchange by the Central Bank in the domestic foreign exchange market. Volatility in domestic money market was closely managed through active OMOs to avoid any undue pressure on short-term interest rates. The rule based and transparent auction mechanism for government securities also helped to reduce the volatility in interest rates. The supervisory and regulatory framework governing the financial sector continued to strengthen during the year to enhance the safety and resilience of the financial sector. Prudential measures taken by the Central Bank were mainly focused on licensed banks, LFCs and SLCs with a view to enhancing their transparency, capital requirements, liquidity and risk management frameworks. Addressing possible regulatory forbearance, particularly in relation to non-bank financial institutions and primary dealers, was prioritised during the year.

## Way Forward

Although Sri Lanka made progress towards greater macro-economic stability through the adoption of appropriate policy measures, growth remained subdued, highlighting the urgent need to implement structural reforms to address impediments to economic expansion. Numerous measures are being implemented to strengthen the growth framework. Policy and structural reforms include aligning objectives of infrastructure development with those of export-oriented industrialization, moving towards more cost reflective pricing strategies for energy, enhancing exports through diversification, sustaining high levels of FDI, enhancing direct tax revenue by strengthening tax administration through Information and Communication Technology (ICT), implementing liability management speedily to manage risks associated with maturing foreign currency debt and maintain the commitment of the Government to fiscal discipline, if the country is to move to a higher growth trajectory on a sustained basis.

## Sri Lanka: Major Economic Indicators During 2013-2017

| Item / Year | 2013 | 2014 | 2015 | 2016 | 2017[1] |
|---|---|---|---|---|---|
| **Output and Inflation** (percent change) | | | | | |
| Real Gross Domestic Product (GDP) | 3.40 | 5.00 | 5.01[2] | 4.47[2] | 3.11 |
| Inflation (annual average) | 6.90[5] | 3.30[5] | 2.20[4] | 4.00[4] | 6.60[4] |
| Inflation (point to point) | 4.70[5] | 2.10[5] | 4.60[4] | 4.50[4] | 7.10[4] |
| Unemployment rate (percent of labor force)[2] | 4.40 | 4.30 | 4.70 | 4.40 | 4.20 |
| **Government Finance** (percent of GDP)[3] | | | | | |
| Total revenue | 12.00 | 11.50 | 13.29 | 14.16 | 13.78 |
| Expenditure and net lending | 17.40 | 17.20 | 20.92 | 19.60 | 19.36 |
| Budget deficit | -5.40 | -5.70 | -7.57 | -5.38 | -5.52 |
| **External Sector** | | | | | |
| Exports (percent change) | 6.34 | 7.08 | -5.24 | -2.24 | 10.19 |
| Imports (percent change) | -6.19 | 7.85 | -2.48 | 1.31[2] | 9.37 |
| Trade balance (million US dollar) | -7,609.00 | -8,287.00 | -8,388.10 | -8,873.10[2] | -9,619.38 |
| Overall balance (million US dollar) | 985.00 | 1,369.00 | -1,488.73 | -499.73 | 2,068.45 |
| Total external assets (million US dollar) | 8,573.69 | 9,884.44 | 9,336.90 | 8,433.00 | 10,436.48 |
| Months of imports coverage-same year | 5.70 | 6.10 | 5.92 | 5.28 | 5.97 |
| **Monetary Aggregates** (percent change) | | | | | |
| Broad money (M2b) | 16.70 | 13.40 | 17.80 | 18.39 | 16.70 |
| Reserve money | 0.90 | 18.30 | 16.53 | 27.13 | 9.77 |
| Narrow money | 7.70 | 26.30 | 16.80 | 8.62 | 2.15 |
| Private sector credit | 7.50 | 8.80 | 25.07 | 21.88 | 14.68 |
| **Interest Rates** (percent) | | | | | |
| Standing deposit facility rate[6] | 6.50 | 6.50 | 6.00 | 7.00 | 7.25 |
| Standing lending facility rate[7] | 8.50 | 8.00 | 7.50 | 8.50 | 8.75 |
| Weighted average prime lending rate (WAPR) | 10.13 | 6.26 | 7.53 | 11.52 | 11.55 |
| Treasury-bill rate (91 days) | 7.54 | 5.74 | 6.45 | 8.72 | 7.69 |
| Treasury-bill rate (364 days) | 8.29 | 6.01 | 7.30 | 10.17 | 8.90 |

[1] Provisional data.

[2] Revised data.

[3] Based on revised GDP estimates for 2015 and 2016 mode available on 20 March 2018 by the Department of Census and Statistics.

[4] Based on Colombo Consumer Price Index (CCPI) (2013=100).

[5] Based on CCPI (2006/07=100).

[6] Repurchase rate was renamed as standing deposit facility rate w.e.f. 02 Jan 2014.

[7] Reverse repurchase rate was renamed as standing lending facility rate w.e.f. 02 Jan 2014.

**Source:** Central Bank of Sri Lanka

## Sri Lanka: Major Indicators During 2013-2017

(In percent)

| Item / Year | 2013 | 2014 | 2015 | 2016 | 2017[1] |
|---|---|---|---|---|---|
| **Licensed Commercial Banks** | | | | | |
| Non-performing loans to gross loans[2] | 5.16 | 3.58 | 2.90 | 2.36 | 2.30 |
| Non-performing loans net of provisions to capital[3] | 24.43 | 13.07 | 9.70 | 7.60 | 7.49 |
| Regulatory capital to risk-weighted assets | 17.50 | 17.03 | 14.14 | 15.63 | 14.98 |
| Return on assets (ROA)-before tax | 2.02 | 2.04 | 1.91 | 2.00 | 2.07 |
| Return on equity (ROE) | 17.35 | 16.72 | 15.71 | 17.23 | 17.47 |
| Interest margin to gross income | 30.94 | 34.84 | 39.04 | 35.87 | 32.00 |
| Non-interest expense to gross income | 21.91 | 25.62 | 27.16 | 23.70 | 19.23 |

[1] Provisional data.

[2] Non-Performing Loans Net of Interest in Suspense (IIS).

[3] Non-Performing Loans Net of IIS and Specific Provisions.

**Source:** Central Bank of Sri Lanka

## Sri Lanka: Trade with ACU Member Countries During 2013-2017

(In millions of USDs)

| Item / Country | Export | | | | | Import | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017[1] | 2013 | 2014 | 2015 | 2016 | 2017[1] |
| **Bangladesh** | 82.15 | 90.16 | 92.82 | 112.46 | 122.39 | 25.06 | 26.06 | 37.75 | 29.37 | 43.59 |
| **Bhutan** | 0.02 | 0.02 | 0.02 | 0.04 | 0.31 | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 |
| **India** | 543.52 | 624.81 | 643.30 | 554.01 | 691.32 | 3,170.75 | 4,023.14 | 4,268.40 | 3,815.24 | 4,527.35 |
| **Iran** | 204.98 | 181.03 | 155.75 | 172.76 | 177.11 | 11.51 | 7.87 | 7.02 | 6.99 | 10.76 |
| **Maldives** | 59.26 | 88.35 | 77.32 | 95.31 | 107.96 | 13.10 | 10.04 | 23.01 | 89.62 | 163.55 |
| **Myanmar** | 1.20 | 2.04 | 1.64 | 1.18 | 2.01 | 8.94 | 29.73 | 21.46 | 31.89 | 80.01 |
| **Nepal** | 5.01 | 3.80 | 3.60 | 0.98 | 1.68 | 0.06 | 0.04 | 0.02 | 0.21 | 0.10 |
| **Pakistan** | 83.08 | 74.29 | 73.18 | 63.84 | 74.03 | 378.33 | 279.60 | 297.28 | 304.33 | 349.05 |
| **Total Trade with ACU Countries** | **979.22** | **1,064.49** | **1,047.63** | **1,000.60** | **1,176.81** | **3,607.75** | **4,376.48** | **4,654.93** | **4,277.66** | **5,174.42** |
| **Total Trade with the World** | **10,394.25** | **11,130.07** | **10,546.50** | **10,309.74** | **11,360.42** | **18,002.75** | **19,416.77** | **18,934.60** | **19,182.84[2]** | **20,979.80** |

[1] Provisional data.

[2] Revised data.

**Sources:** Sri Lanka Customs, National Gem and Jewellery Authority, Ceylon Petroleum Corporation, Lanka IOC PLC, Prima Ceylon Ltd., Serendib Flour Mills (Pvt) Ltd., Central Bank of Sri Lanka

## Sri Lanka: Trade Through Free Trade Zone in 2017

| Item / Country | Export | | Import | |
|---|---|---|---|---|
| | Total Value (FOB) (In millions of USDs) | As a Percentage of Total Exports of the Relevant Country | Total Value (CIF) (In millions of USDs) | As a Percentage of Total Imports of the Relevant Country |
| **Bangladesh** | 87.03 | 71.10 | 19.24 | 44.14 |
| **Bhutan** | 0.31 | 100.00 | - | - |
| **India** | 562.03 | 81.51 | 838.85 | 18.66 |
| **Iran** | 174.27 | 98.39 | 1.41 | 13.15 |
| **Maldives** | 82.44 | 76.63 | 12.79 | 7.82 |
| **Myanmar** | 1.53 | 76.21 | 6.40 | 8.00 |
| **Nepal** | 1.21 | 72.22 | 0.09 | 88.52 |
| **Pakistan** | 68.84 | 93.02 | 129.75 | 37.17 |
| **Total** | **977.65** | - | **1,008.54** | - |

**Source:** Sri Lanka Customs

## Sri Lanka: Main Items of Goods and Services Exported to ACU Member Countries in 2017

| Sector/Country | |
|---|---|
| **Bangladesh** | |
| **Agriculture** | Spices, minor agricultural exports, natural rubber, coconut kernel products, tea |
| **Industry** | Textiles and garments, plastics articles, chemical products, petroleum products, wood and paper products, base metals, machinery and mechanical appliances, rubber products, transport equipment, food beverages and tobacco |
| **India** | |
| **Agriculture** | Spices, minor agricultural exports, natural rubber, tea, vegetables, coconut products, seafood |
| **Industry** | Petroleum products, animal fodder, wood and paper products, base metals, machinery and mechanical appliances, garments and textiles, food beverages and tobacco, transport equipment, rubber products, chemical products, gems, diamonds and jewellery, plastics, ceramics products |

| Sri Lanka: Main Items of Goods and Services Exported to ACU Member Countries in 2017 *(Contd.)* | |
|---|---|
| **Sector/Country** | |
| **Iran** | |
| **Agriculture** | Tea, coconut products, minor agricultural exports, vegetables, spices, natural rubber |
| **Industry** | Animal fodder, base metals, chemical products, wood and paper products, ceramics products, rubber products, textile and garments, plastics and articles thereof, food beverages and tobacco, petroleum products, other industrial exports |
| **Maldives** | |
| **Agriculture** | Vegetables, minor agricultural exports, seafood , tea , spices, coconut products, natural rubber |
| **Industry** | Machinery and mechanical appliances, food beverages and tobacco, transport equipment, base metals, chemical products, plastics articles, petroleum products, wood and paper products, ceramics products, textile and garments, printing industry products, leather, travel goods and footwear, rubber products, gems, diamonds and jewellery |
| **Myanmar** | |
| **Agriculture** | Tea, spices, coconut products |
| **Industry** | Chemical products, petroleum products, machinery and mechanical appliances, base metals and articles, rubber products, food beverages and tobacco, garments, wood and paper products, ceramics products, plastics and articles thereof, leather, travel goods and footwear |
| **Nepal** | |
| **Agriculture** | Tea, natural rubber |
| **Industry** | Machinery and mechanical appliances, chemical products, base metals and articles, wood and paper products, ceramics products, garments, rubber products, food beverages and tobacco, transport equipment, other made up textile articles, leather, travel goods and footwear |
| **Pakistan** | |
| **Agriculture** | Minor agricultural exports, coconut products, natural rubber, spices, tea |
| **Industry** | Wood and paper products, textile and garments, machinery and mechanical appliances, chemical products, rubber products, base metals and articles, plastics and articles thereof, food beverages and tobacco, ceramics products, petroleum products, transport equipment, leather, travel goods and footwear, gems, diamonds and jewellery |
| **Source:** Sri Lanka Customs | |

| Sri Lanka: Main Items of Goods and Services Imported from ACU Member Countries in 2017 | |
|---|---|
| **Sector/Country** | |
| **Bangladesh** | |
| **Agriculture** | Vegetables, spices, agricultural inputs |
| **Industry** | Medical and pharmaceuticals, clothing and accessories, household and furniture, printed materials and stationary, cosmetics and toiletries, rubber products, beverages, vehicles, home appliances, textiles, chemical products, paper and paperboard and articles thereof, rubber and plastic, vehicle and machinery parts, mineral products, base metals, machinery and equipment, building materials |
| **India** | |
| **Agriculture** | Vegetables, spices, seafood, fruits, dairy products, agricultural inputs, wheat and maize |
| **Industry** | Vehicles, cereals and milling industry products, medical and pharmaceuticals, clothing and accessories, home appliances, cosmetics and toiletries, sugar and confectionery, household and furniture items, rubber products, printed materials and stationary, petroleum products, textile and textile articles, chemical products, base metals, plastic, mineral products, building materials, machinery and equipment, transport equipment, arms and ammunition |
| **Iran** | |
| **Agriculture** | Seafood, fruits, dairy products, vegetables, sugar and confectionery, agricultural inputs |
| **Industry** | Medical and pharmaceuticals, printed materials and stationary, rubber products, household and furniture items, clothing and accessories, home appliances, cosmetics and toiletries, plastic and articles thereof, chemical products, mineral products, vehicle and machinery parts, rubber and articles thereof, paper and paperboard and articles thereof, textile and textile articles, petroleum products, base metals, machinery and equipment, building materials, transport equipment |
| **Maldives** | |
| **Agriculture** | Seafood, agricultural inputs |
| **Industry** | Medical and pharmaceuticals, printed materials and stationary, home appliances, household and furniture items, cosmetics and toiletries, vehicles, clothing and accessories, telecommunication devices, cereals and milling industry products, petroleum products, base metals, vehicle and machinery parts, chemical products, paper and paperboard and articles thereof, plastic and articles thereof, rubber and articles thereof, textile and textile articles, mineral products, building materials, machinery and equipment |
| **Myanmar** | |
| **Agriculture** | Vegetables, spices, seafood, fruits, wheat and maize |
| **Industry** | Cereals and milling industry products, clothing and accessories, beverages, household and furniture, printed materials and stationary, other intermediate goods, chemical products, building materials |

| Sri Lanka: Main Items of Goods and Services Imported from ACU Member Countries in 2017 *(Contd.)* | |
|---|---|
| **Sector/Country** | |
| **Nepal** | |
| **Industry** | Medical and pharmaceuticals, clothing and accessories, non- food consumables, base metals, building materials |
| **Pakistan** | |
| **Agriculture** | Vegetables, seafood, fruits, spices, oils and fats, wheat and maize, agricultural inputs |
| **Industry** | Medical and pharmaceuticals, cereals and milling industry products, household and furniture items, beverages, clothing and accessories, sugar and confectionery, cosmetics and toiletries, home appliances, printed materials and stationary, textile and textile articles, fertilizers, paper and paperboard and articles thereof, plastic and articles thereof, unmanufactured tobacco, food preparations, chemical products, base metals, vehicle and machinery parts, mineral products, building materials, machinery and equipment, transport equipment |
| **Source:** Sri Lanka Customs | |

**Source:** Central Bank of Sri Lanka

**Bayat Rayan**
Chartered Accountants

3rd Floor 231 Motahari Ave.
Tehran 1587618413
Iran

P.O.Box: 14155-3739
Tehran
Iran

Telephone: (9821) 88504586/7/8
Telefax: (9821) 88502045
E-mail : BayatRayan@BayatRayan.ir

# REVIEW OF SPECIFIC FINANCIAL DATA IN THE ANNUAL REPORT OF ASIAN CLEARING UNION

We have reviewed the accompanying trade related financial data in tables 1 to 3 and 5 to 20 of Asian Clearing Union's (ACU) 2017 Annual Report. The financial data represents transactions between the ACU's participant countries during the year ended 31 December 2017.

***Management's Responsibility for the Financial Data***

ACU management is responsible for the preparation and fair presentation of the financial data in accordance with the ACU's rules and regulations.

***Our Responsibility***

Our responsibility is to express a conclusion on the financial data based on our review.

We conducted our review in accordance with the International Standard on Review Engagements. This Standard requires us to conclude whether anything has come to our attention that causes us to believe that the financial data are not prepared in accordance with the ACU's rules and regulations. A review is limited primarily to making inquiries of management and others within the entity involved, applying analytical procedures to financial data and evaluating the sufficiency and appropriateness of evidence obtained. We believe that the evidence we have obtained in our review is sufficient and appropriate to provide a basis for our conclusion.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the financial data.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the financial data referred to in the above tables do not give a true and fair view of the transactions between the ACU's participant countries during the year ended 31 December 2017 nor have we noted any instances of non- compliance with the ACU's rules and regulations.

**Tehran: May 20, 2017**

**Bayat Rayan**
**Chartered Accountants**

BAYAT RAYAN
OFFICIAL ACCOUNTANTS

Correspondent Firm of KPMG International

# ACU Operations

## Clearing Operations

In 2017, volume of transactions[1] (one way plus accrued interest) booked at the ACU Secretariat reached to USD 12,124.68 million, reflecting an increase of 18.30 percent compared to the last year. The total transactions (incl. receipts, payments, and accrued interest) channeled through the ACU mechanism amounted USD 24,249.36 million, revealing USD 3,750.86 million increase over the previous year. (Tables 1 and 2)

On average, monthly total transactions credited/debited to the member central banks picked up to USD 1,010.39 million compared with USD 854.10 million a year before. The level of total annual transactions indicates that India was at the top with USD 11,168.61 million, depicting an increase of USD 1,928.99 million over the previous year. It was followed by Bangladesh, Sri Lanka, Pakistan, Maldives, Nepal, Bhutan, Myanmar, and Iran with USD 7,280.85, 3,500.34, 2,142.60, 57.96, 53.89, 42.82, 2.28, and 0.01 million, respectively. (Tables 1 and 2)

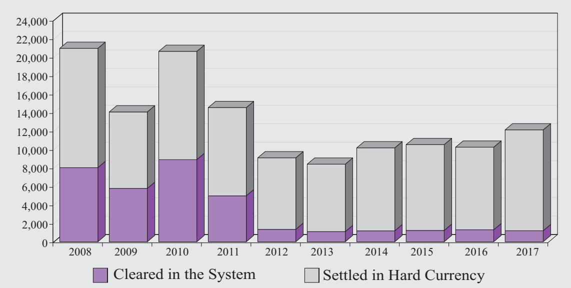
In percentage terms, Bhutan with 50.88 percent increase registered the highest annual growth rate, followed by Bangladesh, India, Maldives, and Sri Lanka with respectively 29.83, 20.88, 15.92, and 6.79 percent. In contrast, Iran, Myanmar, Nepal, and Pakistan booked negative growth of 66.67, 32.14, 17.16, and 3.76 percent, respectively. (Table 2)

Over the year under review, 9.89 percent of total transactions amounting to USD 1,199.49 million were cleared through the ACU mechanism, while the outstanding amount of USD 10,925.19 million was settled in hard currency. Payments in hard currency rose by USD 1,975.65 million, illustrating 22.08 percent growth. Pakistan with 40.46 percent clearing in the system stood at the top, followed by Myanmar, Nepal, Sri Lanka, Bangladesh, India, and Maldives with 28.09, 21.35, 7.44, 2.62, 1.30, and 0.05 percent, respectively. (Tables 1 and 3)

[1] It includes ACU dollar transactions.

**Transactions[1] Cleared/Settled Through the ACU Mechanism During 2008-2017**

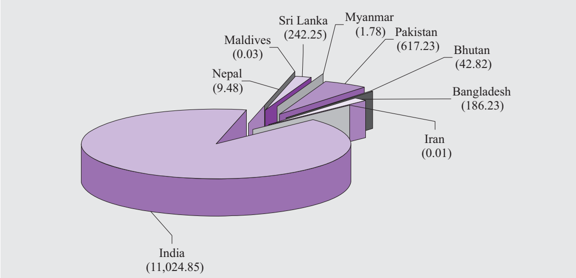
**(In millions of USDs)**




[1] Figures include ACU dollar transactions and accrued interest in 2008 and 2017, while over the remaining years, it includes ACU dollar and ACU euro transactions and accrued interest.

**Transactions[1] Credited to the Member Central Banks in 2017**

**(In millions of USDs)**




[1] Figures include ACU dollar transactions, and accrued interest.

During 2017, the Secretariat has issued a number of accounting vouchers, weekly statements, monthly statements, Allocation tables, monthly Newsletter, Annual Report, Swift messages, MMM[1] messages, faxes, letters, and e-mails. Since May 1, 2010, the Secretariat ceased dispatching accounting vouchers and monthly statements via mail. The Allocation tables and weekly statements were published electronically since February 2012 and May 10, 2012, respectively. (Table 4)

## Credit positions

In 2017, India was the main creditor among the ACU member countries, registering USD 11,024.85 million credit position. The credit positions of Pakistan, Sri Lanka, Bangladesh, Bhutan, Nepal, Myanmar, Maldives, and Iran respectively were USD 617.23, 242.25, 186.23, 42.82, 9.48, 1.78, 0.03, and 0.01 million. (Table 5)

The share of India in the total credit transactions reached 90.93 percent which is 2.35 percentage points more than the previous year. Over the year under survey, share of Bhutan and Bangladesh rose by 0.07 and 0.02 percentage points, approaching 0.35 and 1.54 percent, respectively. (Table 6)

In percentage terms, transactions credited to Maldives grew remarkably by 200.00 percent. It was followed by Bhutan, India, Bangladesh, and Sri Lanka with 51.09, 21.43, 19.23, and 2.87 percent growth. However, Iran, Myanmar, Nepal, and Pakistan, encountered with negative growth rate of 66.67, 37.76, 35.64, and 15.72 percent, respectively. (Table 7)

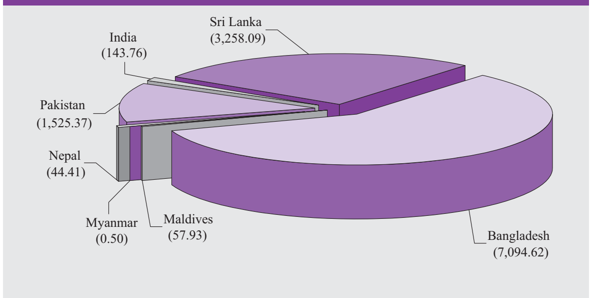
## Debit positions

During the period, Bangladesh with USD 7,094.62 million was the main debtor, followed by Sri Lanka, Pakistan, India, Maldives, Nepal, and Myanmar with USD 3,258.09, 1,525.37, 143.76, 57.93, 44.41, and 0.50 million, respectively. (Table 8)

[1] It stands for Message Management Module.

**Transactions[1] Debited to the Member Central Banks in 2017**

**(In millions of USDs)**




[1] Figures include ACU dollar transactions, and accrued interest.

In percentage terms, Bangladesh was the major contributor to total debit transactions with share of 58.51 percent. Sri Lanka and Pakistan with 26.87 and 12.58 percent respectively, stood the next. India, Maldives, and Nepal totally booked the remaining share of 2.04 percent. (Table 9)

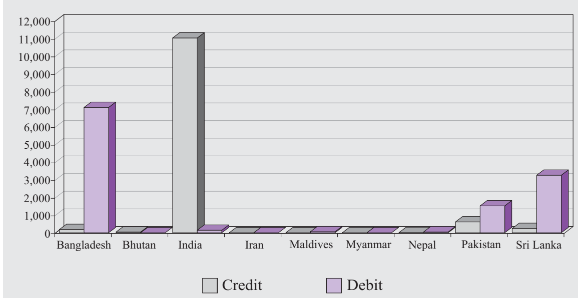
Bangladesh experienced the highest annual payment growth of 30.13 percent, followed by Maldives, Sri Lanka, and Pakistan with 15.88, 7.10, and 2.11 percent, respectively. In contrast, Bhutan, Nepal, and India faced with 100.00, 11.74, and 10.37 percent negative annual payment growth, respectively. (Table 10)

## Net credit/debit positions

In 2017, India was the main net creditor among the ACU member central banks with the amount of USD 10,881.09 million, representing 22.00 percent increase compared to that of a year ago. The second net creditor was Bhutan with USD 42.82 million, followed by Myanmar and Iran. Nevertheless, the main net debtors were Bangladesh, Sri Lanka, and Pakistan with the amounts of USD 6,908.39, 3,015.84, and 908.14 million respectively, followed by Maldives and Nepal. (Tables 3, 11 and 12)

**Credit/Debit Positions[1] of the Member Central Banks in 2017**

**(In millions of USDs)**




[1] Figures include ACU dollar transactions, and accrued interest.

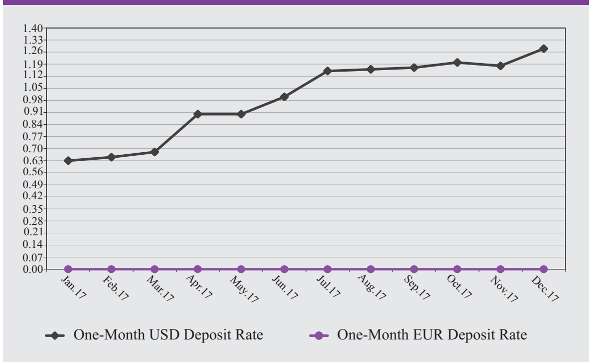
## Interest received/paid

In 2017, the accrued interest credited/debited to the member central banks amounted to USD 10.53 million which was 0.10 percent of central banks' net positions and 0.09 percent of the total transactions routed through the ACU mechanism. In the year under review, total interest received/paid was USD 6.84 million more than that of the preceding year. (Tables 3, 13 and 14)

On average, monthly US Dollar and Euro interest rates applied in the ACU mechanism during 2017, were respectively 0.99 and 0.00 percent. During 2017, the applied US Dollar interest rate has experienced an upward trend. However, the applied Euro interest rate remained unchanged. (Table 15)

**Monthly Interest Rates Applied in the ACU Mechanism in 2017**

**(In percent)**




## Contribution to growth

In 2017, total transactions (incl. accrued interest) increased by 18.30 percent, of which India and Bangladesh registered the highest contributions to the growth (9.41 and 8.16 percentage points respectively) followed by Sri Lanka, Bhutan, and Maldives. In contrast, Pakistan, Nepal, and Myanmar shared negative contributions of 0.41, 0.05, and 0.01 percentage points, respectively. (Tables 17 and 18)

## Swap facility

In accordance with the Article (VIIA) of the Agreement Establishing the ACU, the Currency Swap Arrangement became available to all debtor participants during a settlement period, to avail two-month facility for settling imbalances in clearing.

Every eligible participant shall be entitled to the facility from every other participant up to 20.00 percent of the average gross payment made by it through the ACU mechanism to other participants during the three previous calendar years.

In 2017, the total entitlement of each member central bank to avail Swap facility of other members were allocated as Bangladesh stood at the top with USD 1,142.46 million, followed by Sri Lanka, Pakistan, India, Maldives, Nepal, Myanmar, and Bhutan. (Table 21)

None of the ACU member central banks applied Swap facility in 2017. Since the inception of this arrangement (September 1989-December 2017), the total amount of Swap facility used by the ACU members amounted USD 1,081.83 million. (Table 22)

## Measures and Achievements

The ACU was established in December 1974 when the countries in the region were facing settlement difficulties, mainly due to resource constraints. The ACU started its operations a year later in November 1975. Over the years, the ACU has displayed a sense of true commitment, consolidated and nurtured throughout its operations. By applying sound strategies, it achieved predetermined objectives to facilitate settlement on a multilateral basis, to promote the use of participants' currencies, to improve monetary and banking cooperation, and to expand trade and economic activity among the countries of the Economic and Social Commission for Asia and the Pacific (ESCAP) region.

The results of long-term initiatives to raise the Union achievements are evident from the following facts:

**1)Timely settlement:** Under the ACU Procedure Rules, the debtor members should pay up their dues in convertible currencies within 4 working days of the receipt of the notice of payment from the Secretary General. There has been no default by any member so far in meeting its obligation for the settlement of its net position within the stipulated time.

**2)Establishment of multi-currency settlement system:** Based on the approval of the ACU Board of Directors at the 37th Meeting in Myanmar (June 2008), the accounts of the ACU are held in "Asian Monetary Units" (AMUs), comprising ACU dollar and ACU euro with effect from January 1, 2009. Since then, the participants are authorized to settle transactions either in US Dollar or Euro within the ACU mechanism.

**3)Regulation of the Membership Application Policy and Procedure:** Based on "ACU Membership Application Policy and Procedure" approved by the ACU Board of Directors (BODs) at the 39th Meeting in Bhutan (June 11, 2010), a central bank or monetary authority that is not a member of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) may apply to become a participant and be admitted as a participant if the Board so decides by unanimous vote of all the Directors.

**4) Quality management and information technology:** Believing in the fact that developing an online access to information would be a worldwide requirement; the ACU has developed both the quality and quantity of the system. In order to accelerate the process of presenting services and to make dispersion of information smoother, the participants were enabled to access their ACU accounts on a daily basis through the Internet since May 1, 2010. Accordingly, allocation tables and weekly statements were published on the ACU website since February 2012 and May 10, 2012, respectively.

The ACU website has been furnished with Message Management Module (MMM) since February 19, 2012. The Module is intended to better facilitate communication amongst the participants and the ACU Secretariat.

The ACU Secretariat has developed a web-based accounting system, operating since May 1, 2015. The new system has a number of significant advantages over traditional on-premise ones.

Over the year under scrutiny, the ACU Secretariat has been in the process of developing a web-based application for ACU messaging.

**5) Expansion of the ACU:** Based on a decision made at the 36th Board of Directors Meeting in Bangladesh (May 2006), the expansion of the Union was put at the top of its agenda. In this regard, representatives of target countries were invited to attend the annual meetings of the BODs as observers. Seminars/scheduled meetings were also conducted to introduce the ACU mechanism. Consequently, Maldives Monetary Authority (MMA) was admitted to the Union in 2009 by unanimous vote of all the Directors at the 38th Meeting in Sri Lanka (June 16, 2009). MMA commenced operations within the ACU mechanism since May 2010.

**Nevertheless,** there is still a long way to go. The ACU challenges are to strengthen, smoothen, and streamline the mechanism to cope with fast pacing developments in the international markets.

## Asian Clearing Union
### Transactions[1] Channeled Through the ACU Mechanism During 1975-2017
(In millions of USDs)

Table (1)

| Item / Year | Yearly Transactions | | Cleared in the System | | Settled in Hard Currency | |
|---|---|---|---|---|---|---|
| | Amount [2] | Growth (percent) | Amount | Share in yearly transactions (percent) | Amount | Share in yearly transactions (percent) |
| 1975 | 0.44 | - | 0.09 | 20.00 | 0.35 | 80.00 |
| 1976 | 25.72 | 5,745.45 | 4.12 | 16.00 | 21.60 | 83.98 |
| 1977 | 79.36 | 208.55 | 16.67 | 21.01 | 62.69 | 78.99 |
| 1978 | 137.60 | 73.39 | 39.90 | 29.00 | 97.70 | 71.00 |
| 1979 | 161.31 | 17.23 | 83.88 | 52.00 | 77.43 | 48.00 |
| 1980 | 182.94 | 13.41 | 98.79 | 53.99 | 84.15 | 46.01 |
| 1981 | 269.39 | 47.26 | 166.92 | 61.96 | 102.47 | 38.05 |
| 1982 | 300.41 | 11.51 | 196.63 | 65.45 | 103.78 | 34.55 |
| 1983 | 498.66 | 65.99 | 192.32 | 38.57 | 306.34 | 61.44 |
| 1984 | 662.84 | 32.92 | 322.24 | 48.62 | 340.60 | 51.39 |
| 1985 | 605.20 | -8.70 | 373.50 | 61.72 | 231.70 | 38.28 |
| 1986 | 690.62 | 14.11 | 581.12 | 84.14 | 109.50 | 15.86 |
| 1987 | 625.34 | -9.45 | 396.97 | 63.48 | 228.37 | 36.50 |
| 1988 | 940.84 | 50.45 | 698.52 | 74.24 | 242.32 | 25.76 |
| 1989 | 1,041.78 | 10.73 | 832.39 | 79.90 | 209.39 | 20.10 |
| 1990 | 1,366.54 | 31.17 | 947.79 | 69.36 | 418.75 | 30.64 |
| 1991 | 1,851.44 | 35.48 | 1,424.35 | 76.93 | 427.09 | 23.07 |
| 1992 | 1,928.32 | 4.15 | 1,172.46 | 60.80 | 755.86 | 39.20 |
| 1993 | 1,448.88 | -24.86 | 1,018.00 | 70.26 | 430.88 | 29.74 |
| 1994 | 1,965.38 | 35.65 | 1,110.71 | 56.51 | 854.67 | 43.49 |
| 1995 | 2,702.90 | 37.53 | 1,353.42 | 50.07 | 1,349.48 | 49.93 |
| 1996 | 3,161.10 | 16.95 | 1,448.30 | 45.82 | 1,712.80 | 54.18 |
| 1997 | 2,654.95 | -16.01 | 1,251.60 | 47.14 | 1,403.35 | 52.86 |
| 1998 | 2,842.77 | 7.07 | 1,130.61 | 39.77 | 1,712.16 | 60.23 |

## Asian Clearing Union

### Transactions[1] Channeled Through the ACU Mechanism During 1975-2017 *(Contd.)*

**(In millions of USDs)**

Table (1)

| Year \ Item | Yearly Transactions | | Cleared in the System | | Settled in Hard Currency | |
|---|---|---|---|---|---|---|
| | Amount [2] | Growth (percent) | Amount | Share in yearly transactions (percent) | Amount | Share in yearly transactions (percent) |
| **1999** | 2,630.74 | -7.46 | 1,057.39 | 40.19 | 1,573.35 | 59.81 |
| **2000** | 3,383.54 | 28.62 | 1,634.66 | 48.31 | 1,748.88 | 51.69 |
| **2001** | 3,553.67 | 5.03 | 1,643.56 | 46.25 | 1,910.11 | 53.75 |
| **2002** | 3,448.40 | -2.96 | 1,446.40 | 41.94 | 2,002.00 | 58.06 |
| **2003** | 4,546.30 | 31.84 | 1,877.95 | 41.31 | 2,668.35 | 58.69 |
| **2004** | 6,679.79 | 46.93 | 3,163.25 | 47.36 | 3,516.54 | 52.64 |
| **2005** | 8,199.62 | 22.75 | 4,512.16 | 55.03 | 3,687.46 | 44.97 |
| **2006** | 12,049.84 | 46.96 | 5,864.27 | 48.67 | 6,185.57 | 51.33 |
| **2007** | 15,830.57 | 31.38 | 6,977.33 | 44.08 | 8,853.24 | 55.93 |
| **2008** | 20,966.74 | 32.44 | 8,031.32 | 38.31 | 12,935.42 | 61.69 |
| **2009[3]** | 14,072.42 | -32.88 | 5,780.46 | 41.08 | 8,291.96 | 58.92 |
| **2010[3]** | 20,634.21 | 46.63 | 8,900.70 | 43.14 | 11,733.51 | 56.86 |
| **2011[3]** | 14,542.39 | -29.52 | 4,974.53 | 34.21 | 9,567.86 | 65.79 |
| **2012[3]** | 9,095.79 | -37.45 | 1,344.15 | 14.78 | 7,751.64 | 85.22 |
| **2013[3]** | 8,411.12 | -7.53 | 1,098.81 | 13.06 | 7,312.31 | 86.94 |
| **2014[3]** | 10,178.31 | 21.01 | 1,187.59 | 11.67 | 8,990.72 | 88.33 |
| **2015[3]** | 10,525.80 | 3.41 | 1,229.27 | 11.68 | 9,296.53 | 88.32 |
| **2016[3]** | 10,249.25 | -2.63 | 1,299.71 | 12.68 | 8,949.54 | 87.32 |
| **2017** | 12,124.68 | 18.30 | 1,199.49 | 9.89 | 10,925.19 | 90.11 |
| **Total** | **217,267.91** | **-** | **78,084.30** | **35.94** | **139,183.61** | **64.06** |

[1] Figures indicate one-way transactions, and accrued interest.

[2] Figures relevant to years 1975 to 1995 converted from SDRs to US Dollars.

[3] Figures for years 2009 to 2016 include ACU dollar and ACU euro transactions.

## Asian Clearing Union

### Total Transactions Routed Through the ACU During 2016-2017

(In millions of USDs)

Table (2)

| Item / Country | 2016[1] | | 2017[2] | | Change | Growth (percent) |
|---|---|---|---|---|---|---|
| | Amount | Share in Total Transactions (percent) | Amount | Share in Total Transactions (percent) | | |
| **Bangladesh** | 5,608.11 | 27.36 | 7,280.85 | 30.02 | 1,672.74 | 29.83 |
| **Bhutan** | 28.38 | 0.14 | 42.82 | 0.18 | 14.44 | 50.88 |
| **India** | 9,239.62 | 45.07 | 11,168.61 | 46.06 | 1,928.99 | 20.88 |
| **Iran** | 0.03 | 0.00 | 0.01 | 0.00 | -0.02 | -66.67 |
| **Maldives** | 50.00 | 0.24 | 57.96 | 0.24 | 7.96 | 15.92 |
| **Myanmar** | 3.36 | 0.02 | 2.28 | 0.01 | -1.08 | -32.14 |
| **Nepal** | 65.05 | 0.32 | 53.89 | 0.22 | -11.16 | -17.16 |
| **Pakistan** | 2,226.22 | 10.86 | 2,142.60 | 8.84 | -83.62 | -3.76 |
| **Sri Lanka** | 3,277.73 | 15.99 | 3,500.34 | 14.43 | 222.61 | 6.79 |
| **Total** | **20,498.50** | **100.00** | **24,249.36** | **100.00** | **3,750.86** | **18.30** |

[1] Figures include two-way ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include two-way ACU dollar transactions, and accrued interest.

## Asian Clearing Union

### Transactions[1] Cleared/Settled in the ACU Mechanism in 2017

(In millions of USDs)

Table (3)

| Item / Country | Total Credit | Total Debit | Net Balance | Cleared in the System (percent) | Settled in Hard Currency (percent) |
|---|---|---|---|---|---|
| **Bangladesh** | 186.23 | 7,094.62 | -6,908.39 | 2.62 | 97.38 |
| **Bhutan** | 42.82 | 0.00 | 42.82 | 0.00 | 100.00 |
| **India** | 11,024.85 | 143.76 | 10,881.09 | 1.30 | 98.70 |
| **Iran** | 0.01 | 0.00 | 0.01 | 0.00 | 100.00 |
| **Maldives** | 0.03 | 57.93 | -57.90 | 0.05 | 99.95 |
| **Myanmar** | 1.78 | 0.50 | 1.28 | 28.09 | 71.91 |
| **Nepal** | 9.48 | 44.41 | -34.93 | 21.35 | 78.65 |
| **Pakistan** | 617.23 | 1,525.37 | -908.14 | 40.46 | 59.54 |
| **Sri Lanka** | 242.25 | 3,258.09 | -3,015.84 | 7.44 | 92.56 |
| **Total** | **12,124.68** | **12,124.68** | **± 10,925.20 [2]** | **9.89** | **90.11** |

[1] Figures include one-way ACU dollar and ACU euro transactions, and accrued interest.

[2] Figure indicates net credit / net debit position.

# Asian Clearing Union

## Paper Works and Communications of ACU Secretariat During 2013-2017

(Number)

Table (4)

| Item / Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Incoming Messages and Letters via SWIFT | - | - | - | 373 | 389 |
| Outgoing Messages and Letters via SWIFT | - | - | - | 27 | 3 |
| Incoming Messages and Letters via MMM[1] | 3,486 | 3,194 | 3,450 | 3,071 | 3,225 |
| Outgoing Messages and Letters via MMM | 569 | 563 | 552 | 577 | 520 |
| Outgoing UNION Messages | 127 | 147 | 163 | 160 | 73 |
| Incoming Faxes | 63 | 65 | 30 | 39 | 6 |
| Outgoing Faxes | 43 | 90 | 29 | 42 | 13 |
| Incoming E-mails | 294 | 434 | 532 | 682 | 591 |
| Outgoing E-mails | 422 | 572 | 712 | 975 | 823 |
| Accounting Vouchers[2] | 4,152 | 4,609 | 4,676 | 4,653 | 4,748 |
| Weekly Statements[3] | 864 | 1,162 | 1,174 | 1,234 | 1,231 |
| Monthly Statements[2] | 698 | 780 | 526 | 470 | 477 |
| Allocation Table[4] | 12 | 12 | 12 | 12 | 12 |
| Newsletter | 1,524 | 1,524 | 1,680 | 1,680 | 1,680 |
| Annual Report | 260 | 260 | 350 | 350 | 350 |

[1] It stands for Message Management Module.

[2] The ACU Secretariat ceased dispatching accounting vouchers and monthly statements via mail on May 1, 2010.

[3] Since May 10, 2012, the ACU Secretariat commenced publishing the weekly statements.

[4] The allocation table has been published since February 2012 by the ACU Secretariat.

## Asian Clearing Union

### Transactions Credited to the Member Central Banks During 2013-2017

(In millions of USDs)

Table (5)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 112.68 | 99.97 | 116.59 | 156.20 | 186.23 |
| **Bhutan** | 25.01 | 26.99 | 28.57 | 28.34 | 42.82 |
| **India** | 7,401.57 | 9,084.07 | 9,393.85 | 9,079.23 | 11,024.85 |
| **Iran** | 0.04 | 0.03 | 0.03 | 0.03 | 0.01 |
| **Maldives** | 0.43 | 0.05 | 0.00 | 0.01 | 0.03 |
| **Myanmar** | 1.42 | 2.52 | 2.20 | 2.86 | 1.78 |
| **Nepal** | 26.29 | 24.67 | 5.95 | 14.73 | 9.48 |
| **Pakistan** | 670.85 | 724.25 | 707.74 | 732.36 | 617.23 |
| **Sri Lanka** | 172.83 | 215.76 | 270.87 | 235.49 | 242.25 |
| **Total** | **8,411.12** | **10,178.31** | **10,525.80** | **10,249.25** | **12,124.68** |

[1] Figures include one-way ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include one-way ACU dollar transactions, and accrued interest.

## Asian Clearing Union

### Share of the Member Central Banks in Total Credit Transactions During 2013-2017

(In percent)

Table (6)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 1.34 | 0.98 | 1.11 | 1.52 | 1.54 |
| **Bhutan** | 0.30 | 0.27 | 0.27 | 0.28 | 0.35 |
| **India** | 88.00 | 89.25 | 89.25 | 88.58 | 90.93 |
| **Iran** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Maldives** | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Myanmar** | 0.02 | 0.02 | 0.02 | 0.03 | 0.01 |
| **Nepal** | 0.31 | 0.24 | 0.06 | 0.14 | 0.08 |
| **Pakistan** | 7.97 | 7.12 | 6.72 | 7.15 | 5.09 |
| **Sri Lanka** | 2.05 | 2.12 | 2.57 | 2.30 | 2.00 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include ACU dollar transactions, and accrued interest.

# Asian Clearing Union

## Annual Growth of Transactions
## Credited to the Member Central Banks During 2013-2017

**(In percent)**

Table (7)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | -36.08 | -11.28 | 16.62 | 33.97 | 19.23 |
| **Bhutan** | 16.38 | 7.92 | 5.85 | -0.81 | 51.09 |
| **India** | 3.66 | 22.73 | 3.41 | -3.35 | 21.43 |
| **Iran** | -100.00 | -25.00 | 0.00 | 0.00 | -66.67 |
| **Maldives** | 126.32 | -88.37 | -100.00 | θ[3] | 200.00 |
| **Myanmar** | -15.48 | 77.46 | -12.70 | 30.00 | -37.76 |
| **Nepal** | -29.52 | -6.16 | -75.88 | 147.56 | -35.64 |
| **Pakistan** | 7.58 | 7.96 | -2.28 | 3.48 | -15.72 |
| **Sri Lanka** | -25.71 | 24.84 | 25.54 | -13.06 | 2.87 |
| **Total** | **-7.53** | **21.01** | **3.41** | **-2.63** | **18.30** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include ACU dollar transactions, and accrued interest.

[3] Calculation of percentage change is not possible.

## Asian Clearing Union

### Transactions Debited to the Member Central Banks During 2013-2017

(In millions of USDs)

Table (8)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 4,919.93 | 5,917.43 | 5,770.42 | 5,451.92 | 7,094.62 |
| **Bhutan** | 0.00 | 0.38 | 0.40 | 0.03 | 0.00 |
| **India** | 114.93 | 120.98 | 126.59 | 160.39 | 143.76 |
| **Iran** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Maldives** | 2.40 | 31.39 | 50.61 | 49.99 | 57.93 |
| **Myanmar** | 0.80 | 1.53 | 1.13 | 0.50 | 0.50 |
| **Nepal** | 29.04 | 28.52 | 42.90 | 50.32 | 44.41 |
| **Pakistan** | 1,633.89 | 1,661.86 | 1,513.01 | 1,493.86 | 1,525.37 |
| **Sri Lanka** | 1,710.13 | 2,416.22 | 3,020.74 | 3,042.24 | 3,258.09 |
| **Total** | **8,411.12** | **10,178.31** | **10,525.80** | **10,249.25** | **12,124.68** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[1] Figures include ACU dollar transactions, and accrued interest.

## Asian Clearing Union

### Share of the Member Central Banks in Total Debit Transactions[1] During 2013-2017

(In percent)

Table (9)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 58.49 | 58.13 | 54.83 | 53.20 | 58.51 |
| **Bhutan** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **India** | 1.37 | 1.19 | 1.20 | 1.56 | 1.19 |
| **Iran** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Maldives** | 0.03 | 0.31 | 0.48 | 0.49 | 0.48 |
| **Myanmar** | 0.01 | 0.02 | 0.01 | 0.00 | 0.00 |
| **Nepal** | 0.35 | 0.28 | 0.41 | 0.49 | 0.37 |
| **Pakistan** | 19.42 | 16.33 | 14.37 | 14.58 | 12.58 |
| **Sri Lanka** | 20.33 | 23.74 | 28.70 | 29.68 | 26.87 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[1] Figures include ACU dollar transactions, and accrued interest.

# Asian Clearing Union

## Annual Growth of Transactions
## Debited to the Member Central Banks During 2013-2017

(In percent)

Table (10)

| Country \ Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 10.54 | 20.27 | -2.48 | -5.52 | 30.13 |
| **Bhutan** | - | θ[3] | 5.26 | -92.50 | -100.00 |
| **India** | -14.65 | 5.26 | 4.64 | 26.70 | -10.37 |
| **Iran** | -100.00 | - | - | - | - |
| **Maldives** | -22.58 | ▣[4] | 61.23 | -1.23 | 15.88 |
| **Myanmar** | -62.44 | 91.25 | -26.14 | -55.75 | 0.00 |
| **Nepal** | -24.73 | -1.79 | 50.42 | 17.30 | -11.74 |
| **Pakistan** | 31.11 | 1.71 | -8.96 | -1.27 | 2.11 |
| **Sri Lanka** | -44.52 | 41.29 | 25.02 | 0.71 | 7.10 |
| **Total** | **-7.53** | **21.01** | **3.41** | **-2.63** | **18.30** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[3] Calculation of percentage change is not possible.

[4] Growth is more than 500 percent.

# Asian Clearing Union

## Monthly Distribution of Total Transactions[1] Credited to the Member Central Banks in 2017

(In millions of USDs)

Table (11)

| Month / Country | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| January | 16.66 | 6.46 | 969.69 | 0.00 | 0.00 | 0.20 | 1.06 | 55.23 | 25.74 | 1,075.03 |
| February | 16.40 | 4.08 | 883.99 | 0.00 | 0.00 | 0.40 | 0.60 | 58.13 | 21.12 | 984.71 |
| March | 18.92 | 6.63 | 1,022.99 | 0.01 | 0.00 | 0.00 | 0.49 | 56.71 | 21.71 | 1,127.46 |
| April | 14.52 | 3.09 | 863.13 | 0.00 | 0.00 | 0.00 | 0.01 | 46.90 | 22.43 | 950.09 |
| May | 16.52 | 2.35 | 767.27 | 0.00 | 0.00 | 0.10 | 0.01 | 37.84 | 14.31 | 838.40 |
| June | 17.74 | 2.42 | 873.07 | 0.00 | 0.00 | 0.20 | 1.25 | 50.02 | 11.39 | 956.09 |
| July | 11.99 | 3.69 | 864.54 | 0.00 | 0.00 | 0.10 | 1.16 | 52.09 | 25.35 | 958.93 |
| August | 17.07 | 2.20 | 940.93 | 0.00 | 0.03 | 0.55 | 1.32 | 55.88 | 19.77 | 1,037.76 |
| September | 12.33 | 3.11 | 836.31 | 0.00 | 0.00 | 0.05 | 0.62 | 41.40 | 32.40 | 926.23 |
| October | 16.07 | 1.71 | 902.13 | 0.00 | 0.00 | 0.08 | 1.66 | 54.60 | 17.55 | 993.80 |
| November | 15.18 | 3.21 | 1,044.28 | 0.00 | 0.00 | 0.10 | 0.62 | 55.24 | 16.23 | 1,134.86 |
| December | 12.84 | 3.87 | 1,056.48 | 0.00 | 0.00 | 0.00 | 0.69 | 53.18 | 14.25 | 1,141.32 |
| **Total** | **186.23** | **42.82** | **11,024.85** | **0.01** | **0.03** | **1.78** | **9.48** | **617.23** | **242.25** | **12,124.68** |

[1] Figures include ACU dollar transactions, and accrued interest.

# Asian Clearing Union

## Monthly Distribution of Total Transactions[1] Debited to the Member Central Banks in 2017

(In millions of USDs)

Table (12)

| Month / Country | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| January | 597.14 | 0.00 | 17.20 | 0.00 | 3.95 | 0.00 | 3.58 | 160.69 | 292.47 | 1,075.03 |
| February | 526.59 | 0.00 | 12.28 | 0.00 | 2.40 | 0.00 | 2.50 | 189.44 | 251.49 | 984.71 |
| March | 594.59 | 0.00 | 13.36 | 0.00 | 6.55 | 0.00 | 3.52 | 191.82 | 317.61 | 1,127.46 |
| April | 558.41 | 0.00 | 13.07 | 0.00 | 4.11 | 0.00 | 2.69 | 159.81 | 212.00 | 950.09 |
| May | 437.30 | 0.00 | 12.77 | 0.00 | 4.83 | 0.00 | 2.77 | 105.49 | 275.24 | 838.40 |
| June | 617.76 | 0.00 | 5.36 | 0.00 | 5.71 | 0.00 | 5.48 | 88.16 | 233.64 | 956.09 |
| July | 589.62 | 0.00 | 13.85 | 0.00 | 3.40 | 0.00 | 4.28 | 97.68 | 250.11 | 958.93 |
| August | 628.66 | 0.00 | 9.90 | 0.00 | 7.81 | 0.50 | 3.73 | 112.36 | 274.79 | 1,037.76 |
| September | 568.46 | 0.00 | 21.70 | 0.00 | 3.70 | 0.00 | 2.76 | 83.02 | 246.58 | 926.23 |
| October | 592.18 | 0.00 | 4.15 | 0.00 | 4.11 | 0.00 | 3.82 | 111.09 | 278.46 | 993.80 |
| November | 696.03 | 0.00 | 9.87 | 0.00 | 5.90 | 0.00 | 5.43 | 110.69 | 306.94 | 1,134.86 |
| December | 687.87 | 0.00 | 10.26 | 0.00 | 5.46 | 0.00 | 3.86 | 115.11 | 318.76 | 1,141.32 |
| **Total** | **7,094.62** | **0.00** | **143.76** | **0.00** | **57.93** | **0.50** | **44.41** | **1,525.37** | **3,258.09** | **12,124.68** |

[1] Figures include ACU dollar transactions, and accrued interest.

# Asian Clearing Union

## Monthly Distribution of Accrued Interest Credited to the Member Central Banks in 2017[1]

**(In USDs)**

**Table (13)**

| Month \ Country | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **January** | 0.00 | 2,053.77 | 346,170.63 | 0.00 | 0.00 | 11.85 | 0.00 | 0.00 | 0.00 | 348,236.25 |
| **February** | 0.00 | 4,720.97 | 698,009.25 | 0.00 | 0.00 | 198.61 | 0.00 | 0.00 | 0.00 | 702,928.83 |
| **March** | 0.00 | 2,810.73 | 473,383.03 | 6.47 | 0.00 | 55.95 | 0.00 | 0.00 | 0.00 | 476,256.18 |
| **April** | 0.00 | 6,255.99 | 1,083,986.56 | 8.86 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,090,251.41 |
| **May** | 0.00 | 1,441.86 | 450,059.81 | 2.07 | 0.00 | 2.37 | 0.00 | 0.00 | 0.00 | 451,506.11 |
| **June** | 0.00 | 3,025.30 | 1,053,436.87 | 0.00 | 0.00 | 158.33 | 0.00 | 0.00 | 0.00 | 1,056,620.50 |
| **July** | 0.00 | 2,270.19 | 680,908.10 | 0.00 | 0.00 | 47.93 | 0.00 | 0.00 | 0.00 | 683,226.22 |
| **August** | 0.00 | 4,916.78 | 1,297,504.91 | 0.00 | 0.00 | 107.94 | 0.00 | 0.00 | 0.00 | 1,302,529.63 |
| **September** | 0.00 | 2,152.09 | 691,838.13 | 0.00 | 0.00 | 40.65 | 0.00 | 0.00 | 0.00 | 694,030.87 |
| **October** | 0.00 | 4,082.27 | 1,288,364.73 | 0.00 | 0.00 | 83.03 | 0.00 | 0.00 | 0.00 | 1,292,530.03 |
| **November** | 0.00 | 1,817.92 | 692,421.59 | 0.00 | 0.00 | 34.52 | 0.00 | 0.00 | 0.00 | 694,274.03 |
| **December** | 0.00 | 5,603.16 | 1,734,543.38 | 0.00 | 0.00 | 110.22 | 0.00 | 0.00 | 0.00 | 1,740,256.76 |
| **Total** | **0.00** | **41,151.03** | **10,490,626.99** | **17.40** | **0.00** | **851.40** | **0.00** | **0.00** | **0.00** | **10,532,646.82** |

[1] Figures include accrued interests of ACU dollar transactions.

## Asian Clearing Union

### Monthly Distribution of Accrued Interest Debited to the Member Central Banks in 2017[1]

(In USDs)

Table (14)

| Country / Month | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **January** | 203,882.23 | 0.00 | 0.00 | 0.00 | 1,719.76 | 0.00 | 1,033.23 | 31,243.57 | 110,357.46 | 348,236.25 |
| **February** | 419,848.92 | 0.00 | 0.00 | 0.00 | 2,756.61 | 0.00 | 1,719.63 | 84,121.53 | 194,482.14 | 702,928.83 |
| **March** | 276,177.06 | 0.00 | 0.00 | 0.00 | 2,330.30 | 0.00 | 1,210.56 | 65,822.01 | 130,716.25 | 476,256.18 |
| **April** | 645,271.66 | 0.00 | 0.00 | 0.00 | 6,392.56 | 1.01 | 3,349.55 | 141,347.35 | 293,889.28 | 1,090,251.41 |
| **May** | 248,172.18 | 0.00 | 0.00 | 0.00 | 2,313.33 | 0.00 | 1,691.41 | 51,253.04 | 148,076.15 | 451,506.11 |
| **June** | 656,326.61 | 0.00 | 0.00 | 0.00 | 7,309.41 | 0.00 | 4,894.61 | 76,797.89 | 311,291.98 | 1,056,620.50 |
| **July** | 425,294.77 | 0.00 | 0.00 | 0.00 | 3,282.82 | 0.00 | 2,591.54 | 46,068.68 | 205,988.41 | 683,226.22 |
| **August** | 848,565.92 | 0.00 | 0.00 | 0.00 | 8,403.38 | 0.00 | 4,399.90 | 77,939.52 | 363,220.91 | 1,302,529.63 |
| **September** | 439,411.39 | 0.00 | 0.00 | 0.00 | 2,899.79 | 0.00 | 1,995.44 | 41,982.53 | 207,741.72 | 694,030.87 |
| **October** | 861,885.70 | 0.00 | 0.00 | 0.00 | 6,353.33 | 0.00 | 3,276.62 | 68,105.71 | 352,908.67 | 1,292,530.03 |
| **November** | 386,405.69 | 0.00 | 0.00 | 0.00 | 3,202.69 | 0.00 | 3,254.83 | 46,568.44 | 254,842.38 | 694,274.03 |
| **December** | 1,142,913.56 | 0.00 | 0.00 | 0.00 | 10,499.56 | 0.00 | 7,171.97 | 91,636.83 | 488,034.84 | 1,740,256.76 |
| **Total** | **6,554,155.69** | **0.00** | **0.00** | **0.00** | **57,463.54** | **1.01** | **36,589.29** | **822,887.10** | **3,061,550.19** | **10,532,646.82** |

[1] Figures include accrued interests of ACU dollar transactions.

## Asian Clearing Union

### Interest Rates[1] Applied in the ACU Settlement Mechanism During 2013-2017

(In percent)

Table (15)

| Year / Month | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD | EUR | USD | EUR | USD | EUR | USD | EUR | USD | EUR |
| January | 0.17 | 0.00 | 0.07 | 0.04 | 0.03 | 0.00 | 0.34 | 0.00 | 0.63 | 0.00 |
| February | 0.13 | 0.00 | 0.07 | 0.07 | 0.02 | 0.00 | 0.36 | 0.00 | 0.65 | 0.00 |
| March | 0.14 | 0.00 | 0.07 | 0.05 | 0.02 | 0.00 | 0.38 | 0.00 | 0.68 | 0.00 |
| April | 0.12 | 0.00 | 0.07 | 0.08 | 0.07 | 0.00 | 0.37 | 0.00 | 0.90 | 0.00 |
| May | 0.09 | 0.00 | 0.03 | 0.12 | 0.08 | 0.00 | 0.36 | 0.00 | 0.90 | 0.00 |
| June | 0.05 | 0.00 | 0.03 | 0.07 | 0.09 | 0.00 | 0.41 | 0.00 | 1.00 | 0.00 |
| July | 0.09 | 0.00 | 0.05 | 0.00 | 0.09 | 0.00 | 0.38 | 0.00 | 1.15 | 0.00 |
| August | 0.08 | 0.00 | 0.04 | 0.00 | 0.10 | 0.00 | 0.40 | 0.00 | 1.16 | 0.00 |
| September | 0.07 | 0.00 | 0.04 | 0.00 | 0.14 | 0.00 | 0.43 | 0.00 | 1.17 | 0.00 |
| October | 0.06 | 0.00 | 0.04 | 0.00 | 0.12 | 0.00 | 0.42 | 0.00 | 1.20 | 0.00 |
| November | 0.06 | 0.00 | 0.03 | 0.00 | 0.13 | 0.00 | 0.42 | 0.00 | 1.18 | 0.00 |
| December | 0.07 | 0.00 | 0.05 | 0.00 | 0.23 | 0.00 | 0.51 | 0.00 | 1.28 | 0.00 |

[1] The interest rate applicable for a settlement period is the closing rate on the first working day of the last week of the previous calender month offered by the Bank for International Settlements (BIS) for one month US Dollar (USD) and Euro (EUR) deposits.

## Asian Clearing Union

### Transactions Matrix in 2017[1]

(In thousands of USDs)

Table (16)

| Creditor / Debtor | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bangladesh** | 0.00 | 42,447.80 | 6,497,435.76 | 1.13 | 0.00 | 1,780.51 | 8,790.97 | 463,629.94 | 73,982.67 | **7,088,068.78** |
| **Bhutan** | 0.00 | 0.00 | 0.00 | 1.35 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **1.35** |
| **India** | 32,650.13 | 0.00 | 0.00 | 1.91 | 0.00 | 0.00 | 0.00 | 15,963.85 | 95,144.00 | **143,759.89** |
| **Iran** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.00** |
| **Maldives** | 0.00 | 0.00 | 56,725.00 | 1.39 | 0.00 | 0.00 | 0.00 | 0.00 | 1,150.00 | **57,876.39** |
| **Myanmar** | 500.00 | 0.00 | 0.00 | 1.35 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **501.35** |
| **Nepal** | 38,028.86 | 335.11 | 0.00 | 1.51 | 4.95 | 0.00 | 0.00 | 4,088.59 | 1,911.51 | **44,370.53** |
| **Pakistan** | 41,992.16 | 0.00 | 1,412,115.98 | 1.71 | 0.00 | 0.00 | 371.34 | 0.00 | 70,061.64 | **1,524,542.83** |
| **Sri Lanka** | 73,062.00 | 0.00 | 3,048,065.00 | 1.46 | 30.00 | 0.00 | 321.80 | 133,548.99 | 0.00 | **3,255,029.25** |
| **Total** | **186,233.15** | **42,782.91** | **11,014,341.74** | **11.81** | **34.95** | **1,780.51** | **9,484.11** | **617,231.37** | **242,249.82** | **12,114,150.37** |

[1] Figures include ACU dollar transactions, excluding accrued interest.

## Asian Clearing Union

### Total Transactions Routed Cumulatively Through the ACU During 2016-2017

**(In millions of USDs)**

**Table (17)**

| Item / Country | Credit | | | Debit | | | Total Transactions | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 [1] | 2017 [2] | Growth (percent) | 2016 [1] | 2017 [2] | Growth (percent) | 2016 [1] | 2017 [2] | Growth (percent) |
| **Bangladesh** | 156.20 | 186.23 | 19.23 | 5,451.92 | 7,094.62 | 30.13 | 5,608.11 | 7,280.85 | 29.83 |
| **Bhutan** | 28.34 | 42.82 | 51.09 | 0.03 | 0.00 | -100.00 | 28.38 | 42.82 | 50.88 |
| **India** | 9,079.23 | 11,024.85 | 21.43 | 160.39 | 143.76 | -10.37 | 9,239.62 | 11,168.61 | 20.88 |
| **Iran** | 0.03 | 0.01 | -66.67 | 0.00 | 0.00 | - | 0.03 | 0.01 | -66.67 |
| **Maldives** | 0.01 | 0.03 | 200.00 | 49.99 | 57.93 | 15.88 | 50.00 | 57.96 | 15.92 |
| **Myanmar** | 2.86 | 1.78 | -37.76 | 0.50 | 0.50 | 0.00 | 3.36 | 2.28 | -32.14 |
| **Nepal** | 14.73 | 9.48 | -35.64 | 50.32 | 44.41 | -11.74 | 65.05 | 53.89 | -17.16 |
| **Pakistan** | 732.36 | 617.23 | -15.72 | 1,493.86 | 1,525.37 | 2.11 | 2,226.22 | 2,142.60 | -3.76 |
| **Sri Lanka** | 235.49 | 242.25 | 2.87 | 3,042.24 | 3,258.09 | 7.10 | 3,277.73 | 3,500.34 | 6.79 |
| **Total** | **10,249.25** | **12,124.68** | **18.30** | **10,249.25** | **12,124.68** | **18.30** | **20,498.50** | **24,249.36** | **18.30** |

[1] Figures include ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include ACU dollar transactions, and accrued interest.

## Asian Clearing Union

### Contribution to Growth of the Member Central Banks During 2013-2017

(In percentage points)

Table (18)

| Country / Year | 2013[1] | 2014[1] | 2015[1] | 2016[1] | 2017[2] |
|---|---|---|---|---|---|
| **Bangladesh** | 2.23 | 5.85 | -0.64 | -1.32 | 8.16 |
| **Bhutan** | 0.02 | 0.01 | 0.01 | 0.00 | 0.07 |
| **India** | 1.33 | 10.05 | 1.54 | -1.35 | 9.41 |
| **Iran** | -5.50 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Maldives** | 0.00 | 0.17 | 0.09 | 0.00 | 0.04 |
| **Myanmar** | -0.01 | 0.01 | 0.00 | 0.00 | -0.01 |
| **Nepal** | -0.11 | -0.01 | -0.02 | 0.08 | -0.05 |
| **Pakistan** | 2.39 | 0.48 | -0.81 | 0.03 | -0.41 |
| **Sri Lanka** | -7.88 | 4.45 | 3.24 | -0.07 | 1.09 |
| **Total[2]** | **-7.53** | **21.01** | **3.41** | **-2.63** | **18.30** |

[1] Figures include two-way ACU dollar and ACU euro transactions, and accrued interest.

[2] Figures include two-way ACU dollar transactions, and accrued interest.

[3] Figures are in percent.

# Asian Clearing Union

## Net Creditor / Net Debtor Positions[1] at the End of Each Settlement Period in 2017

(In millions of USDs)

Table (19)

| | Country / Month | Bangladesh | Bhutan | India | Iran | Maldives | Myanmar | Nepal | Pakistan | Sri Lanka | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Creditors | February | 0.00 | 10.54 | 1,824.20 | 0.00 | 0.00 | 0.60 | 0.00 | 0.00 | 0.00 | 1,835.34 |
| | April | 0.00 | 9.72 | 1,859.69 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,869.42 |
| | June | 0.00 | 4.77 | 1,622.21 | 0.00 | 0.00 | 0.30 | 0.00 | 0.00 | 0.00 | 1,627.28 |
| | August | 0.00 | 5.89 | 1,781.72 | 0.00 | 0.00 | 0.15 | 0.00 | 0.00 | 0.00 | 1,787.76 |
| | October | 0.00 | 4.82 | 1,712.59 | 0.00 | 0.00 | 0.13 | 0.00 | 0.00 | 0.00 | 1,717.54 |
| | December | 0.00 | 7.08 | 2,080.63 | 0.00 | 0.00 | 0.10 | 0.00 | 0.00 | 0.00 | 2,087.81 |
| **Total (A)** | | **0.00** | **42.82** | **10,881.09** | **0.01** | **0.00** | **1.28** | **0.00** | **0.00** | **0.00** | **10,925.20** |
| Net Debtors | February | 1,090.67 | 0.00 | 0.00 | 0.00 | 6.35 | 0.00 | 4.42 | 236.77 | 497.10 | 1,835.34 |
| | April | 1,119.56 | 0.00 | 0.00 | 0.00 | 10.66 | 0.00 | 5.71 | 248.02 | 485.47 | 1,869.42 |
| | June | 1,020.80 | 0.00 | 0.00 | 0.00 | 10.54 | 0.00 | 6.99 | 105.79 | 483.18 | 1,627.28 |
| | August | 1,189.22 | 0.00 | 0.00 | 0.00 | 11.18 | 0.00 | 5.53 | 102.07 | 479.78 | 1,787.76 |
| | October | 1,132.24 | 0.00 | 0.00 | 0.00 | 7.81 | 0.00 | 4.30 | 98.11 | 475.09 | 1,717.54 |
| | December | 1,355.88 | 0.00 | 0.00 | 0.00 | 11.36 | 0.00 | 7.98 | 117.38 | 595.22 | 2,087.81 |
| **Total (B)** | | **6,908.39** | **0.00** | **0.00** | **0.00** | **57.90** | **0.00** | **34.93** | **908.14** | **3,015.84** | **10,925.20** |
| **Total (A)-Total (B)** | | **-6,908.39** | **42.82** | **10,881.09** | **0.01** | **-57.90** | **1.28** | **-34.93** | **-908.14** | **-3,015.84** | **0.00** |

[1] Figures include ACU dollar transactions, and accrued interest.

## Asian Clearing Union

### Exchange Rates Applied in the ACU Settlement Mechanism During 2013-2017

(US dollar per Euro)

Table (20)

| Month / Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| January | 1.3550 | 1.3516 | 1.1305 | 1.0920 | 1.0755 |
| February | 1.3129 | 1.3813 | 1.1240 | 1.0888 | 1.0597 |
| March | 1.2805 | 1.3788 | 1.0759 | 1.1385 | 1.0691 |
| April | 1.3072 | 1.3850 | 1.1215 | 1.1403 | 1.0930 |
| May | 1.3006 | 1.3607 | 1.0970 | 1.1154 | 1.1221 |
| June | 1.3080 | 1.3658 | 1.1189 | 1.1102 | 1.1412 |
| July | 1.3275 | 1.3379 | 1.0967 | 1.1113 | 1.1727 |
| August | 1.3235 | 1.3188 | 1.1215 | 1.1132 | 1.1825 |
| September | 1.3505 | 1.2583 | 1.1203 | 1.1161 | 1.1806 |
| October | 1.3641 | 1.2524 | 1.1017 | 1.0946 | 1.1638 |
| November | 1.3596 | 1.2475 | 1.0579 | 1.0635 | 1.1849 |
| December | 1.3783 | 1.2141 | 1.0887 | 1.0541 | 1.1993 |

**Source:** International Monetary Fund (IMF).

## Asian Clearing Union

### Entitlement of the ACU Member Central Banks to Swap Facility During 2013-2017

(In millions of USDs)

Table (21)

| Country / Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Bangladesh** | 938.21 | 984.74 | 1,019.12 | 1,107.10 | 1,142.46 |
| **Bhutan** | 0.00 | 0.00 | 0.03 | 0.05 | 0.05 |
| **India** | 864.83 | 228.70 | 24.70 | 24.17 | 27.20 |
| **Iran** | 85.09 | 34.24 | 9.19 | 0.00 | 0.00 |
| **Maldives** | 1.83 | 1.07 | 2.46 | 5.63 | 8.80 |
| **Myanmar** | 0.54 | 0.45 | 0.30 | 0.23 | 0.21 |
| **Nepal** | 6.13 | 7.13 | 6.41 | 6.70 | 8.11 |
| **Pakistan** | 299.20 | 287.48 | 302.78 | 320.57 | 311.22 |
| **Sri Lanka** | 646.61 | 590.48 | 480.57 | 476.44 | 565.18 |
| **Total** | **2,842.44** | **2,134.29** | **1,845.56** | **1,940.89** | **2,063.23** |

## Asian Clearing Union

### Swap Receipts / Payments by the ACU Member Central Banks During 1989-2017[1]

(In millions of USDs)

Table (22)

| Item / Country | 1989-1998 | | 1999 | | 2000 | | 2001 | | 2002-2007 | | 2008 | | 2009-2017 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Receipts | Payments | Receipts | Payments | Receipts | Payments | Receipts | Payments | Receipts | Payments | Receipts | Payments | Receipts | Payments |
| **Bangladesh** | 27.20 | 19.63 | 0.00 | 0.00 | 0.00 | 3.18 | 150.00 | 4.63 | 0.00 | 0.00 | 0.00 | 1.60 | 0.00 | 0.00 |
| **Bhutan** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **India** | 172.09 | 67.52 | 0.00 | 0.00 | 0.00 | 11.24 | 0.00 | 150.99 | 0.00 | 0.00 | 0.00 | 315.80 | 0.00 | 0.00 |
| **Iran** | 0.00 | 210.25 | 0.00 | 0.00 | 0.00 | 10.97 | 0.00 | 16.41 | 0.00 | 0.00 | 0.00 | 124.00 | 0.00 | 0.00 |
| **Maldives** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Myanmar** | 0.00 | 18.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Nepal** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Pakistan** | 179.26 | 23.50 | 0.00 | 0.00 | 28.87 | 0.00 | 42.07 | 12.00 | 0.00 | 0.00 | 0.00 | 9.60 | 0.00 | 0.00 |
| **Sri Lanka** | 31.32 | 70.97 | 0.00 | 0.00 | 0.00 | 3.46 | 0.00 | 6.55 | 0.00 | 0.00 | 451.00 | 0.00 | 0.00 | 0.00 |
| **Total** | **409.88** | **409.88** | **0.00** | **0.00** | **28.87** | **28.87** | **192.08** | **192.08** | **0.00** | **0.00** | **451.00** | **451.00** | **0.00** | **0.00** |

[1] None of the ACU member central banks applied Swap facility during 1999, 2002-2007, and 2009-2017.

**Note:** Since November 2010, financial data and ratios of some countries in the tables include opening balances.

# Acronyms and Abbreviations

| | |
|---|---|
| ACU | Asian Clearing Union |
| ADB | Asian Development Bank |
| ADP | Annual Development Program |
| AMUs | Asian Monetary Units |
| AWCMR | Average Weighted Call Money Rate |
| BB | Bangladesh Bank |
| BFIs | Bank and Financial Institutions |
| BMR | Balancing Modernization and Replacement |
| BODs | Board of Directors |
| BOP | Balance of Payments |
| bps | basis points |
| BSBDAs | Basic Savings Bank Deposit Accounts |
| BSE | Bombay Stock Exchange |
| CAB | Current Account Balance |
| CAD | Current Account Deficit |
| CBI | Central Bank of Islamic Republic of Iran |
| CBM | Central Bank of Myanmar |
| CCPI | Colombo Consumer Price Index |
| CIC | Currency in Circulation |
| CIS | Commonwealth of Independent States |
| COPPY | Corresponding Period of the Previous Year |
| CPC (Sri Lanka) | Ceylon Petroleum Corporation |
| CPC (India) | Central Pay Commission |
| CPEC | China Pakistan Economic Corridor |
| CPI | Consumer Price Index |
| CRR | Cash Reserve Ratio |
| CSE | Colombo Stock Exchange |
| CSF | Coalition Support Fund |
| CSI | Cottage and Small Industries |
| CSO | Central Statistics Office |
| CWP | Currency with the Public |
| DCS | Department of Census and Statistics |
| DFI | Development Financial Institution |

| | |
|---|---|
| DHI | Druk Holding and Investment |
| DIEs | Direct Investment Enterprises |
| ECB | European Central Bank |
| EPF | Employees' Provident Fund |
| ESC | Economic Service Charge |
| ESCAP | Economic and Social Commission for Asia and the Pacific |
| ETF | Employees' Trust Fund |
| EU GSP+ | European Union's Generalized System of Preferences plus |
| FBR | Federal Board of Revenue |
| FCTFFs | Foreign Currency Term Financing Facilities |
| FDI | Foreign Direct Investment |
| FER | Foreign Exchange Reserves |
| FIP | Financial Inclusion Plans |
| FOB | Free on Board |
| FRDL | Fiscal Responsibility and Debt Limitation |
| FX | Foreign Exchange |
| FY | Financial Year |
| GCC | Gulf Co-operation Council |
| GDP | Gross Domestic Product |
| GFD | Gross Fiscal Deficit |
| GIR | Gross International Reserve |
| GOI | Government of India |
| GON | Government of Nepal |
| G-Secs | Government Securities |
| GST | Goods and Services Tax |
| GVA | Gross Value-Added |
| HRA | House Rent Allowance |
| ICT | Information and Communication Technology |
| IMF | International Monetary Fund |
| IMF-EFF | International Monetary Fund-Extended Fund Facility |
| INR | Indian Rupee |
| IPR | Indicative Policy Rate |
| IRICA | Islamic Republic of Iran Customs Administration |
| ISB | International Sovereign Bond |
| JCB | Japan Credit Bureau |
| JCPOA | Joint Comprehensive Plan of Action |
| LAC | Latin America and the Caribbean |
| LFCs | Licensed Finance Companies |
| LNG | Liquefied Natural Gas |
| LPG | Liquefied Petroleum Gas |
| LSM | Large Scale Manufacturing |

| | |
|---|---|
| LTFF | Long-term Financing Facility |
| M0 | Reserve Money |
| M1 | Narrow Money |
| M2 | Broad Money |
| M2b | Broad Money |
| M3 | Broad Money |
| MENAP | Middle East, North Africa, Afghanistan and Pakistan |
| MEP | Minimum Export Price |
| MLR | Minimum Lending Rate |
| MMA | Maldives Monetary Authority |
| MMM | Message Management Module |
| MP | Monetary Program |
| MPC | Monetary Policy Committee |
| MPS | Monetary Policy Stance |
| MPU | Myanmar Payment Union |
| MRR | Minimum Reserve Requirement |
| NBFIs | Non-Bank Financial Institutions |
| NBT | Nation Building Tax |
| NCPI | National Consumer Price Index |
| NDA | Net Domestic Assets |
| NEER | Nominal Effective Exchange Rate |
| NEPSE | Nepal Stock Exchange |
| NFA | Net Foreign Assets |
| NFEA | Net Foreign Exchange Assets |
| NFNE | Non Food Non Energy |
| NPLs | Non-Performing Loans |
| NRA | National Risk Assessment |
| NRB | Nepal Rastra Bank |
| NRI | Non-Resident Indian |
| Nu. | Ngultrum |
| OMOs | Open Market Operations |
| OPEC | Organization of the Petroleum Exporting Countries |
| OROP | One Rank One Pension |
| PCB | Private Commercial Bank |
| PD | Primary Dealer |
| PDF | Pakistan Development Fund |
| PIB | Pakistan Investment Bond |
| POL | Petroleum, Oil and Lubricants |
| PPI | Producer Price Index |
| PSEs | Public Sector Enterprises |
| PSIP | Public Sector Investment Program |

| | |
|---|---|
| PSL | Priority Sector Lending |
| RBI | Reserve Bank of India |
| RD | Revenue Deficit |
| RE | Revised Estimates |
| REER | Real Effective Exchange Rate |
| Rf. | Maldivian Rufiyaa |
| RM | Reserve Money |
| RMA | Royal Monetary Authority |
| RMT | Reserve Monetary Targeting |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SAE | Second Advance Estimates |
| SBNs | Specified Bank Notes |
| SBP | State Bank of Pakistan |
| SCBs | Scheduled Commercial Banks |
| SCI | Statistical Center of Iran |
| SDFR | Standing Deposit Facility Rate |
| SFBs | Small Finance Banks |
| SLAR | Statutory Liquid Assets Ratio |
| SLC | Specialized Leasing Company |
| SLFR | Standing Lending Facility Rate |
| SLR | Statutory Liquidity Ratio |
| SMART | Sincerity, Mindful, Astute, Resilinet and Timeless |
| SOBEs | State-owned Business Enterprises |
| SOEs | Special Operation Executives |
| SRR | Statutory Reserve Requirements |
| SSA | Sub-Saharan Africa |
| T-bill | Treasury Bill |
| T-bond | Treasury Bond |
| TEPIX | Tehran Stock Exchange Index |
| T-GST | Tourism Goods And Services Tax |
| Tk. | Taka |
| TSE | Tehran Stock Exchange |
| UB | Union Budget |
| UK | United Kingdom |
| UPI | Unified Payment Interface |
| US | United States |
| VAT | Value-Added Tax |
| WPI | Wholesale Price Index |
| YoY | Year-on-Year |