CHAPTER I

Stronger Headwinds during Recovery

Introduction

South Asian countries are emerging from the shadows of the COVID-19 pandemic, burdened by high inflation, deteriorated fiscal balances, and rising current account deficits. Recoveries have been uneven across sectors, countries, and groups of people. At the same time, the economies face existing and built-up challenges. Externally, global commodity prices are at historical highs, most recently driven by the ongoing war in Ukraine, while supply constraints linger and threaten to limit economic activities. Internally, COVID-era lending support measures prevented further deterioration in asset quality, but as countries withdraw these measures, vulnerabilities in the financial sector, especially among small businesses and in the non-bank and micro-finance sectors, may come to light. Financial sanctions and trade embargoes on Russia could exacerbate these challenges. Facing these headwinds, carefully designed monetary and fiscal policy supports are needed to weather external shocks and sustain recovery.

The chapter is divided as follows. Section 1.1 discusses the current recovery in South Asia from the COVID-19 crisis and the immediate impact from the war in Ukraine. Section 1.2 looks at the potential impacts of rising commodity prices on the region’s domestic inflation. Section 1.3 considers the current supply-side constraints. Section 1.4 discusses the financial sector vulnerabilities and potential risks as forbearance measures are withdrawn. Section 1.5 characterizes the current fiscal and monetary policies and the challenges faced by the governments and monetary authorities in the region.

1.1 An uneven recovery characterized by challenges

South Asian countries are emerging from the shadows of COVID-19. The economic impacts from the most recent COVID-19 Omicron wave were relatively small (Box 1.1) and the populations in most of the countries are well-vaccinated. But the pandemic has left many countries
with rising fiscal deficits, and although countries including India and Maldives have seen their overall fiscal deficit decline in 2021 compared to 2020, deficits are still larger than pre-pandemic levels. High import prices and demand during the recovery have led to deteriorating current account balances in some, while supply constraints and rising commodity prices since the second half of 2021 have added to inflationary pressures (Figure 1.1).

Figure 1.1. Pandemic left countries with high inflation, rising fiscal deficits, and deteriorating current accounts

The economic recovery continues to be highly uneven across countries and sectors (Figure 1.2). Major exporters in the region continue to see export values well above pre-pandemic levels, in part due to rising commodity prices and domestic inflation (Box 1.2). Industrial production in Bangladesh and Pakistan is above pre-pandemic levels and has increased by more than the world average, while in Sri Lanka the level has remained below the pre-pandemic level since the Delta wave last year. Tourist arrivals have continued to recover in Maldives. Despite impacts from the Omicron wave, tourist arrivals in the first two months of 2022 were close to 50 percent above the same months in 2021. Sri Lanka’s tourism had a promising start
of the year, with visitor arrivals in the first two months of 2022 reaching 90 percent of total arrivals in 2021. Tourism in India, Nepal, and Bhutan has yet to recover. Official remittance inflows have declined from their peaks during 2020 and early 2021. But for most countries, the inflows are still above pre-pandemic levels. The exception is Sri Lanka, where broadly fixed exchange rates up to early March created parallel foreign exchange markets with more favorable rates and deterred remittance inflows through official channels.

**Figure 1.2. Economic recovery continues to be uneven across sectors and countries**

**A. Merchandise exports, nominal USD**  
Index, 2019=100

**B. Industrial production**  
Index, 2019=100

**C. Tourist arrival**  
Index, 2019=100

**D. Official remittance inflows**  
Index, 2019=100, 3mma


Note: Merchandise exports are nominal in USD, then indexed to the average 2019 value. Official workers’ remittances are quarterly data for Nepal, placed on the first month of each quarter; smoothed (3-month moving average) monthly data for the other countries.

**Recovery is also uneven across sectors in India.** On the supply side (Figure 1.3.A), the mining sector benefited from rising global commodity prices and expanded in both Q3 and Q4 of 2021 (FY2021/22 Q2 and Q3). Manufacturing expanded in Q3, riding on increasing external demand but remained static in Q4 as the Omicron wave impacted global demand and rising input costs reduced margins. Services expanded in both quarters but remain below the pre-pandemic level. On the demand side (Figure 1.3.B), growth in private consumption was supported by a release of pent-up demand during the Delta wave, while investment was
crowded-in by increased government capital spending. Imports and exports remained the fastest growing sectors in both Q3 and Q4, with higher growth in imports than in exports, contributing to current account deficits.

**Figure 1.3. Uneven sectoral recovery in India**

A. India production side growth rate

B. India demand side growth rate

- Agriculture
- Mining
- Manufacturing
- Construction
- Services
- GDP
- Private consumption
- Investment
- Exports
- Imports
- Government consumption
- GDP

Nowcast of GDP growth in recent quarters shows uneven recovery across countries. The nowcast is based on different high-frequency activity indicators, and a LASSO statistical model is used to select the most relevant economic activity indicators for each country, following World Bank (2020). Using the data available up to this point, the nowcast shows continued strong growth in Maldives (Figure 1.4) for 2021Q4 and 2022Q1, supported by a robust recovery in tourism. It also suggests a relative slowdown of growth in India in 2022Q1 compared to previous quarters, as the low base effects of 2020 wear off. Despite a gradual recovery in tourism, Sri Lanka is facing multiple headwinds to growth, including an ongoing balance of payments crisis and persistently high inflation. Accordingly, the nowcast also finds low growth rates for 2021Q4.

The recovery has been uneven across individuals, exacerbating pre-existing inequalities. While individual-level surveys that cover the latter part of the pandemic are not yet available, the SAR COVID-19 Phone Monitoring Survey paints a picture of a highly unequal recovery during late 2020-early 2021 (Figure 1.5). Across most South Asian countries, job recovery rates were higher among workers with some education than those with no education. In all South Asian countries, the recovery rates were higher among male than female workers who lost their pre-COVID jobs. In Afghanistan, India, and Pakistan, the gender gap in job recovery rates is more than 10 percentage points, indicating that women lag significantly in labor market recovery. These patterns can further worsen inequalities in the region, especially since female labor force participation rates in South Asia were among the lowest before the pandemic (Chapter 3).
Figure 1.4. GDP nowcast shows uneven economic recoveries across countries

Sources: CEIC, Mercer-Blackman et al. (2021).
Note: Data are shown for the calendar year. The nowcasting index uses the set of variables that provide the most accurate in-sample forecast to nowcast the most recent complete quarter.

Figure 1.5. Economic recovery has been uneven across education and gender

Source: SAR COVID-19 Phone Monitoring Survey.
Note: The sample includes individuals who lost their job between March 2020 and the time of the survey. An individual is counted in the job recovery rate if they subsequently found a job during the survey period. Survey time: August-November 2020 for Afghanistan; Bangladesh and Nepal; September-October 2020 for Bhutan; September-December 2020 for Sri Lanka; September 2020-February 2021 for Maldives; December 2020-March 2021 for Pakistan; October 2020-April 2021 for India.
Against this backdrop, the war in Ukraine had immediate impacts on the region’s financial markets (Figure 1.6). Equity markets in India, Pakistan, Bangladesh, and Sri Lanka fell sharply following the February 24 invasion of Ukraine. While most of the initial losses have been recovered, all equity indexes except for India’s are still below their pre-war levels. Interest rate spread for the region’s long-term government bonds increased initially following the invasion. As the US Treasury yields rose following policy tightening by the United States, the spread has either come down (India) or the increase has been contained (Pakistan). In Sri Lanka, a 100-basis point policy rate hike in early March substantially raised the interest rate spread, although the spread has stayed roughly the same since then.

The war has pushed global commodity prices to historical levels. Energy prices have been rising since mid-2021, driven by recovering global demand and supply issues. Following the invasion of Ukraine, price rises for energy and other commodities accelerated. Although most prices have eased from their peaks, many remain much higher than pre-war levels. As of early April, the global price of wheat stood at 20 percent above the level just one week before the war; the price of Brent crude oil rose 15 percent, and the price of coal increased by 30 percent (Haver Analytics). Although South Asian countries have few direct trade linkages with Russia and Ukraine, most are net energy importers, importing close to 100 percent of domestic consumption of petrol, diesel, and liquefied petroleum gas (LPG) and large shares

Footnote:
1 Russia is a major exporter of coal, wheat, and crude oil. Ukraine exports 40 percent of total global exports of seed oil, and 7 percent of global wheat (Section 2.1).
Box 1.1. COVID-19 vaccination and economic activity in South Asia

While the health benefits of COVID vaccines in reducing deaths have been well documented (Dagan et al. 2021; Polack et al. 2020; Voysey et al. 2021), vaccination can also help reduce the economic impacts. With higher vaccination rates, governments can afford to move away from wide-spread mobility restrictions and people may also feel safer moving around during a COVID wave. The most recent Omicron wave had relatively small impacts on most South Asian countries, partly because the populations of more than half of the countries had been well vaccinated.

Using high-frequency Google mobility data, we can look at the relationship between COVID surges and economic activity. Google mobility data has been established as a good proxy for economic activity (Fernández-Villaverde and Jones 2020; Sampi and Jooste 2020). The indexes are constructed to show changes in the level of activities relative to the same type of movements in a country during January-February 2020. For example, a number 10 means the activity level is 10 percent above baseline. We use the retail and workplace activity indexes to capture the levels of economic-related activities. We use the data from early 2021, when vaccination started in the region, to February 2022. To smooth out day-to-day variations within a week, the daily data on mobility, new COVID cases per million population, and vaccination rates are averaged to a weekly frequency.

An analysis shows that COVID surges are associated with lower economic activities in South Asia, but less so when vaccination rates are higher. A simple correlation exercise shows that economic activity, as proxied by mobility at both retail and workplace locations, is strongly negatively correlated with new COVID cases. In addition, in places where the vaccination rates are above 50 percent, the correlation is much weaker compared to where vaccination rates are below 50 percent (Figure 1.7).

Results from fixed-effects regressions support this pattern. To control for other factors that may also affect economic activity, the following equation is estimated using country ($i$) and time ($t$) fixed effects:

$$ Mobility \ index_{it} = \beta * \text{lagged new COVID cases}_{it} + \epsilon_i + \delta_t + e_{it} \quad (1) $$

where $t$ indexes time and $i$ indexes country. The time fixed effects control for trends common across countries, such as COVID-19 surges that hit the region around the same time. The country fixed effects control for time-invariant across-country
differences such as institution, structure of the economy, and age distribution among the population. The analysis is performed for different ranges of vaccination rates. For robustness, alternative choices of ranges and lags for new COVID cases are used and yield similar results.

Figure 1.7. COVID surges dampen economic activities in South Asia, but less so with higher vaccination rates

The regression results summarized in Figure 1.8.A-B suggest that new COVID cases are indeed negatively correlated with economic activities, controlling for country characteristics and trends common across countries. This is especially so when and where vaccination rates are low. For example, at vaccination rates below 20 percent, one additional new COVID case per million population is associated with a 0.25-percent reduction in retail activity and a 0.16-percent drop in activity at workplaces, relative to the country baseline. As vaccination rates go up, the correlation effect is weaker, both in scale and significance. The same pattern holds if we instead consider vaccination rates at different lags.

Regressions using state-level data from India also show that the correlation between COVID surges and economic activity goes down when states have higher vaccination rates. Using data on economic activities (Google mobility indexes), new COVID cases,
and vaccination rates for 33 states in India, we ran regression (1). As shown in Figure 1.8.C-D, and similar to the cross-country evidence, as vaccination rates go up, the correlation between new COVID cases per million population and economic activity indicators go down.

Figure 1.8. Regressions show smaller impact of COVID on economic activities when vaccination rates are high

Source: Google mobility report, Our World in Data (database), CEIC, and staff calculations.
Note: Figure shows the results from fixed-effects panel regressions of new COVID cases per million population on weekly Google mobility index, for different vaccination rate ranges, controlling for country (or Indian state) and time fixed effects, on a sample of six South Asian countries (Panels A and B) and 33 India states (Panels C and D). Solid blocks indicate that the coefficient is significant at 1 percent level.

While the results here cannot establish a causal relationship between vaccination and the economic impacts of COVID-19 (such as Deb, Furceri, Jimenez, et al. 2021; Hansen and Mano 2021), they show a clear correlation. The findings here are also not without caveats. First, behavior toward COVID has shifted during the more recent COVID waves. Governments adopted targeted lockdowns with smaller economic impacts; better relief measures were in place to help individuals and businesses in need; and the private sector also learned to adapt to lockdown measures without completely
of coal consumption. Additionally, Bangladesh and Sri Lanka also import large shares of the wheat they consume. The rapidly increasing energy and agricultural prices can contribute to inflationary and external sector pressures, which can lead to a slowing of the recovery momentum for the rest of 2022 (Chapter 2).

The region faces headwinds from pre-existing supply constraints and financial sector vulnerabilities. COVID waves disrupted supply chains, and the lingering disruptions constrain countries’ ability to increase capacity and contribute to cost-push inflation. Deterioration in asset quality previously masked by COVID-era lending support measures including loan forbearance can resurface as these measures are phased out. Pre-existing vulnerabilities among micro, small, and medium enterprises (MSMEs) and in the non-bank/microfinance sectors can worsen after supports are phased out. The ongoing war further adds to supply constraints and financial sector uncertainties, as trade embargoes and financial sanctions on Russia reverberate through the global goods and financial markets.

In the following sections we analyze the impact of each of these challenges and policy responses.

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2 Bangladesh imports over 80 percent of the wheat it consumes. Although Pakistan is not a large wheat importer, about 40 percent of its wheat imports come from Russia in recent years.
Box 1.2. Where do South Asia’s exports stand in 2022?

Exports are important drivers of South Asia’s economic growth. While many South Asian countries saw rapid recovery in goods exports after the initial negative COVID shocks (Figure 1.2.A), countries’ experiences differed, depending on their economic structure, COVID and economic policies, and the external market condition. This box takes a close look at the region’s exports recovery and where it stands against the backdrop of the war in Ukraine.

Bangladesh experienced the largest contraction in exports in the region in 2020, but exports have rebounded with the reinstatement of canceled orders of ready-made garments and an overall strong exports performance. With garments exports accounting for more than 80 percent of exports, Bangladesh suffered a severe contraction when major export destinations canceled or delayed their orders in April-May 2020, and exports fell up to 71 percent of the 2019 level in the same months. Growth in the industry in 2021 increased as quickly as it had contracted. By the end of the year, Bangladesh received most of the cancelled orders. Other commodities, like leather and leather goods, fish, shrimp, and prawns, also experienced a strong exports performance in the second half of 2021. The country’s goods exports closed 2021 at 33 percent above the pre-pandemic level.

Goods exports in Bhutan have been resilient to the COVID shock thanks to the steady flow of hydropower exports to India. Bhutan’s hydro exports had a
strong performance in 2020 (Figure 1.10.B), thanks to the coming onstream of the Mangdechhu hydro plant, which raised hydropower generation capacity. This compensated for the contraction of non-hydro exports in April-June 2020. The available data until the end of 2021 shows total goods exports well above the pre-pandemic level. Preliminary data suggests that electricity exports, which constituted almost 50 percent of total goods exports in fiscal year 2020/21, fell 11 percent in 2021 due to hydropower maintenance.

India experienced a broad-based exports growth in 2021, and despite some weakening in momentum, exports in 2022 stand 31 percent above the 2019 level. India’s merchandise exports in March 2022 increased by 14.5 percent year-over-year to almost $40 billion. Total merchandise exports for the fiscal year ending March 2022 stand at $414.5 billion, surpassing the government’s target of $400 billion. Engineering goods, chemicals, petroleum products, pharmaceuticals, cotton yarn/fabrics, and rice were the best-performing goods categories, but the strong exports performance was broad-based. Goods exports started 2022 with a slight decline but still at 31 percent above January 2019. The 2022-23 budget envisages that exports will continue to be the growth engine and the government plans to promote electronic manufacturing and increase India’s global value chain participation through the Production Linked Incentive (PLI) scheme.

Thanks to successful vaccination campaigns, Maldives saw a robust recovery in the tourism sector despite repeated COVID waves. The tourism sector is key for the
country’s economy, representing around 85 percent of total exports. Although tourist arrivals were catching up to pre-pandemic levels in the second half of 2021, they were still 22 percent below 2019 levels at year-end. By contrast, tourism receipts had almost reached pre-pandemic levels (Figure 1.10.A), as tourists booked longer stays during the pandemic (Li and Mercer-Blackman 2022). Tourists from the two countries together accounted for almost 20 percent of total tourist arrivals in Maldives in 2021. Already, visitor arrivals from the two countries dropped in March, with arrivals from Ukraine falling immediately after the invasion, and arrivals from Russia down after March 8, when Russia’s Aeroflot suspended international flights. However, due to rising numbers from traditional (UK) and new (Saudi Arabia) markets, total tourist arrivals in March were close to the level in February.

**Pakistan experienced the mildest exports contraction in the region in 2020, and the recovery led by the textile sector was also the most rapid.** Pakistani goods exports fell 54 percent year-over-year in April 2020 at the height of the pandemic. Since late 2020, the textile sector, which makes up more than 60 percent of total goods exports, has led the recovery. Pakistan loosened COVID restrictions earlier than other Asian countries. This helped Pakistan divert orders from competitors and keep goods exports 40 percent above January 2019 levels. Knitwear, cotton fabrics, and bed-wear are some of the commodity groups enjoying export subsidies, in addition to a sharp reduction in import tariffs on intermediates for the textile sector, and a favorable exchange rate in the past years. The government is also providing subsidies and incentives to other sectors to diversify exports and reduce the dependence on textiles. Additional policies were put in place to incentivize industries to open to new markets, especially in areas such as pharmaceuticals, engineering products, and chemicals. Going forward, the country faces the challenges of diversifying exports and boosting its low exports-to-GDP ratio (currently around 10 percent), for example, through a tariff rationalization to encourage manufacturers to export and compete in global markets.

**Similar to Bangladesh, Sri Lanka also suffered large decline in exports in 2020, but goods exports are back to the pre-pandemic level now, driven by rising prices and currency depreciation.** Goods exports in Sri Lanka grew by 20 percent y-o-y in December 2021 to stand at 11 percent above the pre-pandemic level, boosted by a strong performance in industrial products, textiles and garments, agricultural products, and minerals. Textiles, garments, and tea comprise most of Sri Lanka’s total exports, with textiles and garments making up 42 percent and tea accounting for 11 percent. The depreciation of the country’s currency could help make its exports cheaper and boost exports demand. But the depreciation and a lack of foreign
currency threaten to delay the import of raw materials required for export production. The war in Ukraine can also reduce its tea exports, as Russia is the second largest buyer of Ceylon Tea.

While countries’ goods exports have increased above the pre-pandemic level in recent months (Figure 1.2.A), exports as a share of global exports have stayed around pre-pandemic levels. As global commodity prices rise in 2021, goods exports have been fueled by rising prices. As a result, the rise in global merchandise exports value has far surpassed the rise in exports volume (Figure 1.9.A). By the end of 2021, the nominal global goods exports reached 20 percent above its level in January 2019, while the volume is only 5 percent above the pre-pandemic level. The same is true for South Asian countries as a whole. In the absence of reliable high-frequency trade volume data for most countries, we normalize countries’ goods exports using the global level. Figure 1.9.B shows that the normalized goods exports have stagnated in recent months, with the shares out of global goods exports hovering around their pre-pandemic levels. This suggests that the recent stellar performance in goods exports is mostly driven by rising prices worldwide, and much needs to be done to secure the region’s growth in exports volume, especially facing external headwinds including the war.

1.2 Rising global commodity prices pushing up inflation

Even before the war, domestic prices of food and energy-related items increased rapidly. Driven by rising global energy prices since the second half of 2021, inflation rates in most energy-related goods (for example, fuel for utilities, transport) are much higher than the headline inflation in Bangladesh, India, Nepal, and Pakistan for the months from November 2021 to January 2022 (Figure 1.11). Base effect contributes in part to the higher energy inflation, as energy prices were relatively low around the same time a year ago due to the COVID shock. But even the two-year compound annual growth rates (CAGRs) in energy prices are at double digits. Food prices have remained elevated. In particular, the prices of edible oils have been rising sharply. In Bangladesh, India, Nepal, and Pakistan, inflation in edible oils reached over 20 percent in late 2021.3 Although targeted policy interventions in Bangladesh and India have helped reduce edible oil inflation a bit in recent months (Section 1.5), it remains in the double digits. Even in Maldives, where headline inflation has been below 1 percent since

3 To capture inflation in edible oils, the CPI category “edible oils & fats” is used for Bangladesh, India and Maldives; categories “mustard oil,” “cooking oil,” and “vegetable ghee” are used for Pakistan; and category “ghee & oil” is used for Nepal, which includes ghee, mustard oil, soybean oil, and sunflower oil.
mid-2021, inflation in edible oils reached 10 percent in January 2022, compared to 2.9 percent a year ago. The high inflation is driven by a combination of rising prices of edible oil imports, rising demand, and in some countries pre-existing import duties that discourage domestic refinery (Jadhav 2022).

**Figure 1.11. Consumer inflation in energy-related items and edible oil high even before the war**

![Diagram showing consumer inflation in energy-related items and edible oil high even before the war](image)

*Source: Haver Analytics, Bangladesh Bureau of Statistics, and staff calculations.*

*Note: Energy categories include energy utilities used in household and energy used in transportation. Food items include food and non-alcoholic beverages.*

The war in Ukraine has raised commodity prices even higher, further contributing to inflationary pressures on energy and food. Both Russia and Ukraine are agricultural exporters, and Russia is also among the top exporters of energy (see Figure 2.5). Embargoes on Russian exports and the ongoing war in Ukraine have already led prices of wheat, oil, and coal to
historical levels. The inflation in edible oils was already high before the war. As Ukraine is a major exporter of sunflower oil, India's average retail price of sunflower oil increased by 12 percent in the first three weeks after the war started (Aggarwal 2022). Prices of other cereals and edible oils also rose as they are considered substitutes: compared to the beginning of the year, global prices of rice rose 10 percent in the first week of the war, and India's average retail price of palm oil rose 14 percent in the first three weeks (Aggarwal 2022). The increase in energy and food prices will hit the poor households hardest, exacerbating already rising inequalities.

Countries in the region have ways to cushion the impact of higher commodity prices. India has so far been able to purchase Ural oil at a discount from Russia (Dempsey and Cornish 2022), and Pakistan announced that it will continue importing wheat and natural gas from Russia (Agency 2022; Parkin and Bokhari 2022). These arrangements may help reduce the impact of soaring global prices on domestic inflation. Bhutan imports fixed quantities of LPG from India at subsidized prices (Table 1.1), which can help soften the blow of higher energy prices. Wheat is also not a major food staple for South Asian households, which means the impact of rising wheat prices on domestic food prices is likely limited. Higher wheat prices can also be an opportunity for wheat exporting countries in the region. India signed new wheat forward contracts after the war started and is set to export 7 million tons of wheat this year (Bhardwaj 2022).

The overall impacts of higher commodity prices on domestic prices are uncertain and depend on pass-throughs to the local economy. In March, which is the first whole month since the war started, inflation in Pakistan continues previous trends, with elevated inflation in edible oils and fuel-related categories, while inflation in wheat is subdued at 5 percent. The other countries in the region have not reported March inflation by the publication date of this report. The impacts can also be delayed as countries can rely on national reserves and existing forward contracts before paying higher prices in the global markets. The likely effects will largely depend on the degree of global price pass-through. This is especially the case for energy, which is used widely in all sectors of the economy, from power generation to industrial production and residential usage. Higher energy prices also raise fertilizer prices, worsening food inflation.

Pass-throughs of global oil prices are weak for consumers and stronger for producers. Vector autoregression (VAR) analysis, using data going back to 2000, shows that in response to a 10-percent increase in global oil prices, consumer price (CPI) inflation increases by 0.3-0.6

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Bangladesh has the weakest pass-through to consumer prices. The price pass-through to producers is much stronger, with an increase of 0.75-0.8 percentage point in the wholesale prices (WPI) in the three countries. To better understand these results, we next look at the historical correlation of global oil prices with major goods categories for consumers and producers.

**Figure 1.12. Pass-through of a 10 percent increase in global oil prices to consumer and wholesale prices**

Source: Haver Analytics, staff calculations using the model in Ruch and Taskin (2022) adapted to South Asia.

Note: Results come from a structural Bayesian vector autoregression model with stochastic volatility. The model includes four lags on data from 2000Q1 to 2021Q4, or where available. The model includes real GDP, the respective inflation measure, the real exchange rate, policy interest rates, and oil prices (average of Brent, West Texas Intermediate, and Dubai Fateh). In the India model, oil is endogenous, and numbers shown are from the impulse response function. For the other countries, the numbers are VAR coefficients on the exogenous global oil price variable.

On the consumer side, the pass-throughs of global oil prices are weak for most major categories, except for transportation (Figure 1.13). In India, Pakistan, Sri Lanka, and Bangladesh, the prices of food and fuel for utilities correlate only weakly with global oil prices. Many factors contribute to this weak correlation, including subsidies or price caps on domestic fuel prices, as we discuss below. The correlations with transportation are much stronger in most countries. In India, for example, transportation prices, and in particular the prices of petrol and diesel for vehicles, correlate strongly with global oil prices. By contrast, the correlation of oil prices with transportation is much weaker in Bangladesh, because the country uses natural gas and not gasoline or diesel as the main fuel for transportation (Ullah 2012).

On the producer side, the pass-throughs of global oil prices are strong for many categories (Figure 1.14). In India, Pakistan, and Sri Lanka, the prices of crude petroleum and petroleum products are highly correlated with global oil prices. In Pakistan, the prices of raw agricultural

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5 Reserve Bank of India found in 2019 that for every 10 US-dollar/barrel increase in crude oil prices, India’s headline inflation increases by 0.4 percentage point.
products such as edible oils, grains, and animal-based products are also positively correlated with oil prices, suggesting pass-throughs of oil prices through the prices of fertilizers and feed. The pass-throughs to manufactured products such as textiles and apparels, metal products and electrical appliances are also strong, reflecting pass-throughs of higher operating (energy use) and transportation costs along the production chain.

**Government subsidies on fuel-related goods dampen the pass-through of global oil prices.** Many South Asian countries have subsidies on fuel, electricity, and public transport (Table 1.1). These subsidies take many forms, from proportional subsidies on retail prices, to regulated price caps to subsidized import energy prices. In most cases, the subsidies are adjusted on a discretionary basis, and often driven by public pressures to lower consumer prices. Subsidies as a share of GDP had been falling in South Asia before the pandemic, and subdued oil prices in 2020 and early 2021 also alleviated political pressures on governments. But the recent surges in energy prices reversed that trend. India cut fuel taxes in late 2021 to cushion the effects of rising global prices. Pakistan announced fuel and electricity price relief in February 2022. While these measures can help reduce fluctuations in domestic prices, they...
also constitute a direct burden or hidden liability on the government’s budget, which could increase fiscal vulnerabilities going forward. Price subsidies also tend to be larger on the consumer side than on the producer side. For example, in 2019, India spent US$11.43 billion on explicit petroleum subsidies for consumers, and none on producers (International Monetary Fund energy subsidy database). That helps explain the larger pass-through of global oil prices to producers than to consumers.

**Market forces can also lower the pass-through effect to consumer prices.** Producers may be unable to pass higher input costs to consumers (Jongwanich et al. 2016). Alternative sources of energy also matter. In India, crude oil-based sources (LPG, kerosene, diesel, petrol) take up less than half of energy usage in the consumer’s basket, whereas on the producer side, the proportion is close to two-thirds (Figure 1.15). In Pakistan, between 20-30 percent of consumer’s energy usage consists of crude oil-based sources, compared to close to half of the producers’ usage. In Bangladesh, only 25-30 percent of energy used by consumers comes from crude oil, and the majority of the rest is natural gas. In Bhutan and Nepal, hydropower provides a natural hedge against increases in crude oil-based energy prices, while biofuels, such as fuel wood and waste, provide over 70 percent of Nepal’s energy supply (International Energy Agency).
Table 1.1. Fuel subsidies in South Asian countries

<table>
<thead>
<tr>
<th>Subsidy on fuels</th>
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<tbody>
<tr>
<td></td>
<td>Electricity</td>
<td>Public transport</td>
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<tr>
<td>Bangladesh</td>
<td>Domestic fuel prices fixed and subsidized, adjusted on discretionary basis</td>
<td>Subsidized through SOE</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Fixed quantity of LPG imported at subsidized prices from India, consumer prices for LPG regulated</td>
<td>Subsidized through SOE</td>
</tr>
<tr>
<td>India</td>
<td>LPG, kerosene subsidized; petrol and diesel duties adjusted on discretionary basis</td>
<td>Subsidized through SOE</td>
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<tr>
<td>Maldives</td>
<td>Diesel subsidy to electricity providers through SOEs</td>
<td>Subsidized</td>
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<tr>
<td>Nepal</td>
<td>Consumer prices regulated, and for some (such as LPG), adjusted on discretionary basis</td>
<td>Subsidized for certain segments by usage</td>
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<td>Pakistan</td>
<td>Imported gas subsidized; fuel levies adjusted mostly on discretionary basis (an additional subsidy may apply depending on the price differential in producer and consumer prices, net of taxes/levies)</td>
<td>Subsidized</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Diesel, petrol, kerosene, LPG subsidized; prices set on discretionary basis since Nov 2019</td>
<td>Subsidized through SOE</td>
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Source: Viswanathan et al. (2021) and World Bank country economists.

Figure 1.15. Consumers use relatively smaller shares of crude oil-based energy sources

A. Energy composition in consumer’s basket
Share of CPI weight of all fuels

B. Energy composition in producer’s basket
Share of WPI weight of all fuels

Source: Haver Analytics, Bangladesh Bureau of Statistics, and staff calculations.
Note: Numbers computed based on CPI and WPI index weight shares. “Only crude oil-based” includes LPG, kerosene, diesel, petroleum, motor oil, and fuel. Natural gas includes liquefied hydrocarbons where available. Solid fuel includes coal, firewood, candle, and matches where available.
The pass-through of coal prices to domestic inflation tends to be weaker than with oil prices (Figure 1.16). Coal is also by far the most subsidized energy in South Asia (Figure 2.12), which dampens the pass-through to domestic coal prices. Unlike petroleum, diesel, and other crude oil-based energy, coal is widely used in power generation, and so the pass-throughs to other sectors of the economy are weak. Electricity is often subject to price controls in South Asia, for example in Bangladesh and Sri Lanka, thus reducing the pass-through one channel of price pass-through. The share of import in energy consumption also matters. Over 2011-2019, India imported over 95 percent of its consumption of oil, compared to just 25 percent for coal (US Energy Information Administration). A smaller share of import for consumption means that domestic prices are less exposed to fluctuations in global prices, thus reducing the extent of the price pass-through.

Despite rising energy prices, inflation-adjusted real oil prices have not yet reached the historical high (Figure 1.17). Over the long-run, improvement in mining techniques tends to lower oil prices, but the need to mine deeper tends to increase prices. With a broader shift to renewable and alternative energy sources, real oil prices could also decline in the long run. That is why, even with the recent surge in commodity prices, real prices of oil are still below recent historical levels. If non-renewable prices remain high for a long period of time and governments resist the temptation to subsidize fuels, the current surge may accelerate the shift toward alternative energy (Chapter 2).
1.3 Continued supply-side constraints

In addition to rising energy prices, producers also face lingering supply chain disruptions. Globally, demand for computer chips increased during the COVID-19 pandemic, and demand for durable goods rose during the recovery. As production and transportation capacities could not expand quickly enough, and lockdowns further limited capacities, the increased demands led to supply bottlenecks. The Baltic Dry Index, which measures the cost of shipping raw materials worldwide, peaked in September 2021. More recently, COVID-related lockdowns in East Asia and the war in Ukraine further added to supply chain disruptions. Accordingly, the global Purchasing Managers’ Index (PMI) shows a continued rise in backlogs in both manufacturing and services and worsening delays in suppliers’ delivery times, month-over-month (Figure 1.18).

South Asian countries are also experiencing lingering supply constraints. In India, both backlogs and delivery times in the manufacturing sector have barely improved month to month since April 2021. In Sri Lanka, backlogs in the services sector eased starting in October 2021, as restrictions during COVID-19’s Delta wave were relaxed. Delivery time in the manufacturing sector continues to lengthen in Sri Lanka, reportedly due to delays in receiving imports (Central Bank of Sri Lanka 2022a; 2022b). However, the rate of increase has been slowing down since mid-2021, signaling gradually improving supply bottlenecks in manufacturing. Data on the number of vessel arrivals show that maritime traffic at the port of Colombo has not recovered to pre-pandemic levels, which are consistent with the reported delays in imports, as the balance of payments crisis has led to import restrictions and reduced the availability of foreign currency for import payments. The war in Ukraine and rising energy prices will likely increase transportation time and costs, further adding to backlogs and delivery time (Chapter 2).
Recovery in employment continues to be slow (Figure 1.19). PMI employment indexes for India show that employment in both manufacturing and services contracted month to month between December 2021 and February 2022, with a marginal expansion in manufacturing employment in March 2022. In Sri Lanka, services employment improved month-over-month between November 2021 and January 2022, while manufacturing employment has improved since October with a break in December. But more recently in February, employment in both sectors contracted. The overall lackluster performance in employment is still very much driven by a slow recovery in labor demand. In India, the manufacturing sector has been affected by sluggish domestic demand for goods, the global Omicron wave, and higher input costs, which have squeezed the price margins of the manufacturers. Sri Lanka’s recent setback in employment reflected a broader slowdown of economic recovery in the country. At the same time, labor squeezes in certain sectors limit production. In Sri Lanka, employment in the textile and garment sector has declined since September, as the sector experiences difficulty in hiring and employers in the sector report constrained production levels due to labor shortages (Central Bank of Sri Lanka 2021a; 2022a).

With supply constraints and rising commodity prices, input cost inflation remains elevated. WPI inflation, which covers primary articles, manufactured products and fuel and power, has been elevated since early 2021 in India and Pakistan (Figure 1.20). Part of the higher inflation reflects base effects of relatively low input costs in 2021, as the two-year CAGR of WPI remains much lower. The WPI inflation has also been higher than CPI inflation for these countries since January 2021. The gap between the two may capture a difference in the index composition. While CPI includes services items such as health care and education, WPI includes primary goods such as crude petroleum and manufactured products such as恢.
chemicals and mineral oils, which are not purchased directly by consumers. But even looking at items that are in both indexes, the WPI inflation is also higher than the CPI inflation. For India in February 2022, for example, the WPI inflation for electricity stood at 15 percent, compared to CPI inflation for electricity at -1.5 percent, which likely reflects heavier subsidies on the consumer side (Section 1.2). In addition, relatively muted pass-throughs of input prices to consumer prices can also contribute to the gap, but recovery in consumer demand can reduce this effect going forward.

Figure 1.20. Wholesale price inflation remains elevated and higher than consumer price inflation

Source: CEIC.
1.4 Financial sector vulnerabilities

Financial sectors in South Asia were in relatively weakened positions even before COVID-19 (Figure 1.21). Non-performing loan (NPL) ratios for most countries were higher than the average of emerging markets and developing economies (EMDEs). Banks’ capital adequacy ratios in all except Maldives were below the average level of EMDEs. India faced stress in the non-bank financial institutions (NBFI) sector and among public sector banks, stemming from the Twin Balance Sheet Problem of 2016-17\(^6\) and the default by two large NBFIIs in 2018, which exacerbated liquidity issues and stress in the sector. But the country was on the path toward improvement between 2018 and 2020, and NPL ratios also came down.

Figure 1.21. Non-performing loan ratios were high and bank capital levels were low pre-COVID, but reported asset quality did not deteriorate in most countries during COVID

At the onset of the COVID-19 pandemic, countries introduced lending support measures, including regulatory forbearance, which were extended during subsequent COVID waves. Many of these policies focused on supporting borrowers, including loan repayment moratoriums, NPL moratoriums (or relaxation of NPL treatment), loan restructurings and rescheduling, and interest caps or waivers (Table 1.2). These lending support measures, together with government credit guarantee and capital injection programs, provided breathing space to distressed borrowers and helped preserve the functioning of the financial sector. Moratorium

\(^6\) India’s Twin Balance Sheet Problem was characterized by over-leveraged companies and bad loan-burdened public sector banks. During the boom of the mid-2000s, public sector banks fueled lending growth, while companies saw robust growth fueled by easy credit. But as credit conditions turned and economic growth slowed down, corporates were left with high levels of debt, and state-run banks accumulated large amounts of NPLs on their balance sheets (*The Economist* 2017).
policies helped reduce payment defaults, which would have hit banks’ capital and worsened their lending capability. Loan restructuring with public guarantees alleviated banks’ burden to cover potential loan losses and gave banks incentives to provide much-needed liquidity to firms during the pandemic.

Table 1.2. Lending support measures in SAR during the COVID-19 pandemic

<table>
<thead>
<tr>
<th></th>
<th>Loan repayment moratorium</th>
<th>NPL moratorium or relaxation of NPL treatment</th>
<th>Encourage restructuring (e.g., with public guarantee)</th>
<th>Interest cap or waiver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Bhutan</td>
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<td>India</td>
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<tr>
<td>Maldives</td>
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<tr>
<td>Nepal</td>
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<td>Pakistan</td>
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<tr>
<td>Sri Lanka</td>
<td>✓</td>
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</tbody>
</table>


Note: NPL moratorium and relaxation of NPL treatment allow banks to delay or pause recognition of NPL. In India, NPL moratorium meant no loans were classified as NPLs between March 2020 and March 2021. Relaxations of NPL rules were implemented in Bangladesh, Pakistan, and Sri Lanka. In Bangladesh, borrowers were not considered in default if they paid 15 percent (instead of the previous 25 percent) of the total instalment of loans payable in 2021. Pakistan increased the number of days past due, after which loan is considered as non-performing. Sri Lanka withdrew the requirement to classify all credit facilities extended to a borrower as non-performing when the aggregate amount of all outstanding NPLs granted to such borrower exceeded 30 percent of total credit facilities.

The policy measures prevented further deterioration in NPL ratios, and private sector credit growth has been sustained. As a result of the support measures, reported NPL ratios declined during COVID in Bangladesh, India, Maldives, and Nepal (Figure 1.21.A). With low interest rates and functioning financial sectors, credit to the private sector sustained healthy growth (Figure 1.22). In Bangladesh and India, private sector credit growth has been subdued at an annual rate of 5-10 percent. In Nepal and Pakistan, private sector credit growth has picked up since early 2021 and has reached the 30 and 20 percent range, respectively, although growth is from a relatively low base in both countries. Fast credit growth signals ample demand for credit in the private sector and attests to the lending capability of the financial sector. But the fast growth of credit could also lead to rapid deterioration of bank asset quality if lender screening is not adequate. In Pakistan, banks have focused on lending to the most creditworthy borrowers, with almost 70 percent of the loan book pivoted towards the corporate segment, but microfinance banks (MFBs) that lend to individuals and MSMEs have seen declines in asset quality (Box 1.3).
As lending support measures are phased out in most countries, the financial sector faces renewed challenges. As of the end of 2021, most South Asian countries have ended their moratorium programs, except for Bhutan, Sri Lanka, and special programs for the tourism sector in Nepal (Figure 1.23, see more details in the appendix). Some worry that the moratorium and restructuring programs have delayed recognition of NPLs as banks stopped classifying delinquent loans that are under deferral, restructuring or rescheduling, as “non-performing” (Fitch Ratings 2022; IMF 2022). The programs may have also created a lack of transparency about the health of bank balance sheets (World Bank 2022), especially if there lacks strong regulatory frameworks and bank supervision. In the event of a surge in defaults of existing loans, banks will need to replenish capital to ensure that they have enough for a full recognition of credit losses, which can be a drag on capital resources. The impact can be especially severe for banks with low profitability and thin capital buffers and in countries or sectors with slower economic recovery. Box 1.3 looks at what happens after the support measures are phased out.
**Box 1.3. Financial markets post-lending support measures**

Lending support measures were widely used in South Asian countries during the pandemic. It is said that these programs mask the true extent of deterioration in asset quality during COVID. Loans that took advantage of moratorium or restructuring policies amounted to 5 to 10 percent of total gross credit or loans in Nepal (as of 2021Q3) and Pakistan (as of 2021Q1). In India, loans that took advantage of loan moratoriums accounted for more than 40 percent of total loans, with an additional 1 to 2 percent under restructuring as of mid-2021. In Sri Lanka, around 25 percent of loans were under moratorium in the first half of 2020, which subsequently fell to below 10 percent in 2021Q3 (Central Bank of Sri Lanka). An additional 6 to 7 percent of loans went under restructuring in Sri Lanka as of 2021Q3. Given the large size of these programs, their phaseout can lead to deterioration in the overall asset quality. While the full extent of the impact will take time to materialize, this box assesses the likely scenarios and discusses early signs when lending supports were withdrawn in some countries.

The phaseout of moratoriums and other relief measures can drive defaults higher on existing loans. NPL ratios can shoot up as previously unclassified loans are reclassified as NPLs and some loans under repayment moratoriums and restructuring become non-payment. As a result, banks will be required to increase loan-loss provisioning to absorb the losses on the delinquent loans. The capital impact from the phaseout will vary across countries, larger in countries with larger shares of loans under moratorium. It will also depend on the provisioning ratio, which is the percentage of funds that banks set aside for loan losses. In the worst scenarios, where 100 percent of the loans on moratoriums are classified as NPLs and the required provisioning rate is 100 percent, the capital adequacy ratio could drop by 5 to 12 percentage points in Nepal, Pakistan, and Sri Lanka (Figure 1.24). These drops would represent sizable impacts on the countries’ capital adequacy ratio. In Sri Lanka, for example, where the current capital adequacy ratio stands at 16.2 percent, a 11.9-percentage point drop would reduce it to 4.3 percent. Because of a higher initial capital adequacy ratio and relatively low capital impact, Pakistan would have the highest capital adequacy ratio after the impact. In India, where blanket loan moratoriums ended in August 2020, stress tests by the Reserve Bank of India suggest an impact of

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7 Total outstanding credit, which is computed as the sum of all sectors’ outstanding credit of banks and financial institutions, is used to calculate the share in Nepal.
1.7 to 3.5 percent on the system-level capital adequacy ratio from deteriorations in asset quality, depending on the severity of the stress (Reserve Bank of India 2021).

**Figure 1.24. Simple stress analysis: capital impact of moratorium phaseout**


Note: Sri Lanka: By end of 2021Q3 loans under moratorium were 10 percent of gross loans which was 10.3 million Sri Lankan rupees. Pakistan: Data is as of 2021Q1. Nepal: Loan amount on moratorium is as of August 2021, and regulatory capital and risk-weighted assets are as of mid-Oct 2021. For this exercise, it is assumed that 100 percent of the loans on moratoriums at the time the data are taken are subsequently classified as NPLs, which is the worst case scenario.

\[
\text{capital impact} = \frac{\text{Total Regulatory Capital} - \text{Increase in NPLs} \times \text{Provisioning rate for new NPLs}}{\text{Risk-weighted Assets} - \text{Increase in NPLs} \times \text{Provisioning rate for new NPLs}} - \frac{\text{Total Regulatory Capital}}{\text{Risk-weighted Assets}}
\]

In India, the NPL moratorium, which was in effect between March 2020 and end-March 2021, applied to all loans in the financial system. Under the program, no loans were classified as NPL. As the program expired in the first quarter of 2021, the non-performing assets (NPAs) for large borrowers registered a positive change (6 percent) from the previous quarter, while NPA growth was always negative in all other quarters since 2019 (Figure 1.25.A).\(^8\) In the same quarter, loans 61-90 days past due (SMA-2) dropped by over 50 percent. This pattern suggests that delinquent loans that previously had been classified as SMA-2 despite being 90+ days delinquent were reclassified as NPA after the NPL moratorium expired. At the same time, while fresh delinquencies declined for large borrowers, performance among SMEs and retail borrowers has deteriorated. According to recent data from the European Banking Authority (EBA), the median default rate for retail obligors increased to 3.54 percent in 2021Q1 from 0.82 percent in 2019Q1. The median probabilities of default for the credit portfolio of

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\(^8\) NPA ratio fell in 2021Q1 despite rising NPA amount, because of an even larger increase in gross loan amount.
SMEs and other retail borrowers are also much higher in 2021Q3 compared to 2020Q3, suggesting a rising default probability in these sectors (Figure 1.25.B).

Figure 1.25. Immediate impacts on India’s NPLs and defaults from program phaseout

In Pakistan, microfinance borrowers represented approximately 94 percent of the approved applications for the loan deferral and restructuring programs. Close to 50 percent of the net-loan portfolio of microfinance banks (MFBs) in the country participated in the programs. It is thus not surprising that gross NPLs of MFBs rose sharply by 4.3 billion rupee or 42.7 percent year-over-year in 2021Q2 when loan moratoriums expired (Figure 1.26.A). This surge was partly driven by non-repayment of borrowers who took advantage of loan deferment or restructuring facilities a year earlier. Data on the Youth Entrepreneurship Scheme,9 which accounts for 23 percent of total loan disbursements by the microfinance sector, shows a sharp increase in both NPL amount and the number of NPL accounts since 2021Q2 (Figure 1.26.B), consistent with the deterioration in asset quality post-support measures. But given the relatively small size of the microfinance sector in Pakistan, which takes up just 3.6 percent of total loans as of 2021Q4, any stress is likely going to be localized.

9 Prime Minister’s Kamyab Jawan Youth Entrepreneurship Scheme was launched by the Government of Pakistan in July 2019 (initially called “SME Lending Program” and renamed in July 2020). It aims to provide lending support to self-employed enterprises and individuals.
In Sri Lanka, since most moratoriums just expired at end-March 2022, and the tourism-related moratorium will continue to end-June 2022, it will take some time for any deterioration of asset quality to materialize. As of September 2021, about 10 percent
of gross loans were still under moratorium and 6 percent under restructuring (Figure 1.27.A), which are sizable numbers compared to the country’s NPL ratio, which hovers around 4 to 5.5 percent since the pandemic. If all remaining loans in the program become delinquent, they could contribute significantly to declines in loan quality. Banks’ holdings of government securities also expose the financial sector to sovereign risks. According to Bloomberg, Sri Lanka’s one-year default probability reached 27.9 percent as of July 2021, the highest in Asia, up from around 13 percent in January 2021 (Figure 1.27.B).

Because of delayed recognition of NPLs and ongoing support measures in some countries, the full impact of the pandemic on asset quality is yet to be fully recognized. The impact will also depend on countries’ economic and global financial conditions going forward. As an increasing number of advanced economies raise monetary policy rates, global financial conditions have tightened. The war in Ukraine further increased volatility in global financial markets. As relief measures expire and easy-liquidity conditions disappear, countries’ financial sectors could see higher impaired loans and credit costs, especially in countries that experienced larger macroeconomic impacts during the pandemic and whose banks have relatively low capital buffers. Policymakers will need to re-orient policy to strengthen the resilience of banking systems.

In Sri Lanka, difficulties in the macroeconomy and especially in the external sector have spillover effects to the financial sector. The country is facing high inflation, reaching 17.5 percent in February 2022, and a dire lack of foreign currency reserve. With a lack of investor confidence in the broader economy, the Colombo stock market has been in free fall since early 2022. A 100-basis point policy rate hike in March and a more recent 700-basis point rate hike on April 8 to curb inflation raised interest rates and borrowing costs. The country’s banks hold a sizeable portion of dollar-denominated government debt. With a sharp depreciation of the Sri Lanka rupee (Section 1.5) in early March, the cost of debt servicing increased drastically, and threatens to hurt banks’ balance sheets in case of non-payment.

The war in Ukraine has sent most stock indexes in the region lower and raised borrowing costs. The stock markets fell sharply on the day of the invasion. Although most of the losses were recovered over the following days, investor confidence quickly evaporated as the war dragged beyond the first week. Most major indexes in the region trended lower, in line with indexes in other developing countries (Figure 1.6). In response to heightened volatilities globally, foreign investors are exiting emerging markets, which also contributed to the collapse in indexes. But in India, the exit has been partly met by domestic investment in capital market,
which prevented further declines in asset prices. Long-term borrowing costs for South Asian countries also increased following the invasion, as for most EMDEs. In Pakistan, for example, the spread on the 10-year bond vis-à-vis the policy rate has been going up. The collapse in stock indexes can hurt consumer confidence in the short term and generate a chain reaction throughout the financial market.

Financial sanctions on Russia could affect the financial sector in South Asia despite little direct exposure to Russia. Following the initial sanctions, central banks in the region (such as the Reserve Bank of India) started gathering information on the full exposure of the financial sector. Unlike many European banks, most banks in South Asia have small exposures to Russia and Ukraine. Although no Indian banks have subsidiaries in Russia, the country’s largest bank, State Bank of India, reported exposure of less than $10 million through a joint venture in Russia. The Reserve Bank of India is also exploring alternative payment systems with Russia (Srivastava and Beniwal 2022). Banks that support domestic importers and exporters with links to Russia may stop providing trade credits, thus impacting specific domestic companies involved in the trading. Over time, more of the financial sectors can be impacted through creditor-debtor relations in the global financial system (Chapter 2).

1.5 Policy support

Given the uncertainties, coordinated monetary and fiscal policies are much needed. At this juncture, inflation is mostly driven by cost-push factors, while recoveries in private consumption and investment are still fragile and can be deterred by uncertainties related to the war in Ukraine. International capital markets are in flux both because of the war and the anticipated monetary tightening by advanced economies. Monetary policy needs to contain inflation without derailing nascent economic recovery. Fiscal policy needs to provide support to fragile sectors without over-stimulating demand or jeopardizing fiscal sustainability.

Across South Asian countries, monetary authorities have taken very different approaches. At one end, Sri Lanka and Pakistan raised rates to curb inflation (Figure 1.28). Pakistan has raised its policy target rate by a cumulative 525 basis points since August 2021, with the latest hike of 250 basis points on April 7. Sri Lanka hiked policy rate by 100 basis points in early March and another 700 basis points on April 8. At the other end, India and Bangladesh have kept key policy rates unchanged. At the start of the pandemic, the Reserve Bank of India widened the policy corridor between the two key policy rates (the repo and reverse repo rates) to increase liquidity in the banking system. By keeping both policy rates unchanged so far, the central bank also keeps the policy corridor unchanged and maintains an accommodative stance. At the same time, the Reserve Bank of India has also taken steps to remove excess liquidity in the market.
Figure 1.28. Sri Lanka and Pakistan raised rates aggressively, while India and Bangladesh stayed accommodative

In addition to blanket rate changes, countries have also used market policies to curb inflation in certain sectors. Faced with inflation in edible oils over 20 percent, India in February cut the import tax on crude palm oil to encourage domestic edible oil refineries. Bangladesh recently reduced the value-added import tax for edible oil and removed the value-added production tax. With fuel and electricity price inflation over 50 percent year over year, Pakistan announced a price cap on fuel in February and promised no further increases in fuel prices until June 2022. The price cuts have lowered inflation in electricity to below 5 percent in March. In Bangladesh, fuel and electricity prices are fixed, and the supplies are operated by state-owned enterprises and subsidized through the fiscal budget. The rising global energy prices since late 2021 have put a dent in the fiscal budget and drove Bangladesh to raise fuel and transport prices in November. But even with the price hikes, consumer prices are still relatively low at the cost of a fiscal burden for the government.

Despite diverging monetary policy directions, current monetary policies are accommodative in the region. Because of high inflation and low policy rates, countries’ real rates have reached historical lows since 2014 (Figure 1.29). In Pakistan, high inflation has pushed the real lending rate briefly into negative territory in 2021. But a series of monetary tightening measures lowered inflation expectations, and the real lending rate has been positive since the end of 2021. In India, Bangladesh, and Sri Lanka, the real deposit rates are negative, while the real lending rates remain positive. Low or even negative real lending rates indicate low real cost of borrowing and suggest a highly accommodative monetary environment. But negative deposit rates reflect that returns on deposit savings in banks are not catching up with inflation.
Monetary authorities are also confronted with heightened volatilities in the international capital markets. The anticipation of rate hikes in advanced economies had already created outflows of capital from the region. In response to the Russian invasion, capital flight to safety accelerated. For example, selloffs by foreign portfolio investors have led to a total withdrawal of $15 billion from India’s stock market in the first three months of the year (Verma 2022), which represents roughly 0.5 percent of the country’s total market size. The capital outflow puts countries’ foreign exchange reserves to the test, especially for countries that are actively managing their exchange rates using foreign exchanges. Rising energy prices can also raise import bills and erode countries’ foreign reserve buffers (Section 2.2), creating further pressure to raise rates.

Most countries have ample foreign reserve buffers compared to the pre-taper tantrum period. Compared to 2013Q1, India and Bangladesh have boosted import cover (Figure 1.30). India’s gross short-term external debt as a percent of foreign reserves is also lower now compared to the pre-taper tantrum period. The most worrying is Sri Lanka, where foreign reserves were enough to cover only 1.4 months of imports. The country’s short-term external debt stands at over four times its foreign reserves. Shortage of foreign currency reserves has limited and delayed imports of inputs for production (Section 1.3) and has led to widespread shortages of essential items, including medication and milk powder, as well as 10-hour power outages. Government policies to boost official remittances have not been

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10 In May 2013, the U.S. Federal Reserve announced tapering of asset purchases put in place following the Great Financial Crisis. This rollback led to a panic pull out of funds from emerging markets including South Asia.
successful, as parallel markets offer more favorable exchange rates (Section 1.1). To shore up more foreign reserves, the Central Bank of Sri Lanka floated its currency on March 7, leading to a sharp currency depreciation of approximately 31 percent by March 15. Although drastic, it may not be enough as the parallel market rates can adjust accordingly, and at the same time, it will add to imported inflationary pressures. Given the unsustainable debt, mounting balance of payments, and inflationary pressures, the country has announced its intention to seek help from the International Monetary Fund (IMF) to stabilize the economy. But a challenging political situation amid the most recent public protests across the country could make the future even more uncertain.

Figure 1.30. India is in better external position and Sri Lanka in worse position compared to pre-taper tantrum

On the fiscal side, accumulated government debt during COVID may lead to fiscal consolidation measures, which can face political resistance. General government debt has reached over 70 percent of GDP in Pakistan, over 80 percent in India, and over 100 percent of GDP in Sri Lanka and Maldives (World Bank Macro Poverty Outlook). In Bhutan, general government debt was already over 100 percent of GDP in FY2018/19, and it has increased to an estimated 135 percent of GDP for FY2020/21, reflecting higher gross financing needs from the hydropower projects during the pandemic. To reduce the debt burden, India has followed revenue-led consolidation, relying on growth in goods and services tax and fuel-based tax revenues, while trying to rein in current spending in FY2021/22. Pakistan had earlier followed its agreement with the IMF to remove tax exemptions and increase the tax on fuels. But rising energy prices domestically and challenges from political opposition have forced the government to offer electricity and fuel price relief. The financing of the price cuts or subsidies can create an additional burden on the fiscal budget, threaten the ongoing program with the IMF, and limit the use of the fiscal budget on other, more productive projects.
The need for fiscal consolidation notwithstanding, fiscal policy is being reoriented to build capacity. Given the supply constraints that limit production and contribute to inflation, public investment in infrastructure can expand capacity and reduce supply constraints in the medium to long term. Bhutan is focusing on hydropower and other construction projects and the development of industrial parks to attract investment. India’s proposed budget for the upcoming fiscal year focuses on capital spending to reduce supply constraints and crowd in private investment. Capital expenditure is budgeted to rise by 24.5 percent in FY2022/23, with an over 50 percent increase in spending on the transport sector compared to the previous year. The budget also emphasizes enhancing the infrastructure for digital payments, and as part of that effort, the Finance Ministry announced the launch of a Central Bank Digital Currency (Box 1.4).

Policies that support lower-income workers and vulnerable sectors are expanded to provide income support. The pandemic has increased inequality and left small and medium enterprises in dire conditions. While some segments of the economies have stepped out of the shadow of the pandemic, many are left behind and require support from the government for income and livelihood. The central government of India is providing additional funding in late 2021 to the rural work guarantee program (MGNREGA) to accommodate increased demand for participation, although the allocated funds in the union budget have been reduced for the new fiscal year that starts in April 2022. In Sri Lanka and Nepal, while loan forbearance measures are being phased out for most sectors, they have been kept in place for the tourism sector (Box 1.3), as sporadic mobility restrictions stunt tourism recovery.
Box 1.4. Central bank digital currency

Over the last few years, the issuance of central bank digital currency (CBDC) has become a highly relevant financial-sector topic worldwide. The rapidly evolving payments technology and its application to finance—in particular, the issuance of value in digital forms—is making it possible for central banks to issue their nation’s fiat currency in a digital format. Now that South Asian countries are considering issuing their own CBDC, it is worth reviewing its main aspects to clear any confusion and shed light on its potential risks.

What is CBDC? To understand the role of CBDC in modern payment systems, it is important to understand first the different forms of money that coexist in modern economies.

- Central bank, or public money, consists of reserves and settlement accounts held at the central bank by the institutions participating in the payment systems, and banknotes in circulation.

- Commercial bank money, a type of private money (used by end users in the form of checks, credit transfers, direct debits, debit cards, and credit cards) is a claim against the issuing commercial banks, rather than legal tender.

- Electronic monies (e-money), also a type of private money (used by end users in the form of mobile money, online money, and prepaid cards), are typically issued by non-banks and are claims on commercial bank deposits.

CBDC is a new form of central bank money and thus shares many commonalities with traditional central bank money. It is a central bank liability, denominated in the existing fiat currency, and, in principle, convertible into physical cash and private money on demand by the holder with authorized entities. CBDC differs from traditional central bank money in that it can be digitally created and recorded on centralized or decentralized ledgers. There are two main types of CBDC: (1) wholesale CBDC, for which access and circulation are restricted to predefined classes of agents (typically banks and other select financial institutions) under specific regulatory and policy requirements, as is the case today with central bank reserves; and (2) retail or general-purpose CBDC, for which access and circulation are open to a wider class of agents, including individuals. Countries of varied economic profiles, population sizes, and geographic

11 For more information on CBDC, please refer to World Bank (2021a).
locations are exploring the issuance of retail CBDC. For instance, the Bahamas and Nigeria have already launched CBDC, while others are in the piloting phase, including Jamaica, Eastern Caribbean, China, Ghana, South Korea, South Africa, Uruguay, and Saudi Arabia. Many more are in the research phase, including India, which has announced that it would launch its CBDC during the 2022-2023 fiscal year.

**How could retail CBDC be distributed?** Retail CBDC could be arranged in one or two tiers, although the countries that have launched and piloted so far have opted for the two-tier model. In a one-tier retail CBDC, the central bank would operate the CBDC infrastructure, distribute CBDC directly to the public, and manage the accounts of all users (individuals and enterprises), keeping records of all balances and updating them with every transaction. In this type of model, the central bank could outsource some operations, such as the user interface, call center, and the handling of user complaints. In a two-tier model, the central bank would distribute CBDC to the public via intermediaries (that is, payment service providers), which could be commercial banks or non-bank entities and would be licensed and overseen by the central bank. The two-tier design tries to balance the credibility of direct claims on the central bank (the equivalent of cash) with the benefits of using payment intermediaries. At the same time, monetary policy effectiveness and financial stability considerations are important for central banks when designing the distribution of CBDCs.

**Figure 1.31. What is CBDC? An illustration**

Source: Auer and Böhme (2020).
How is CBDC different from existing digital payment methods? First, central bank money is considered safer than commercial bank money (bank deposits). CBDC could allow the general public access to the same level of safety but in digital form, similar to bank deposits. Second, unlike other digital payment instruments, CBDC could be designed to have similar anonymity as cash, although so far, no jurisdiction that has fully implemented or is piloting CBDC has chosen to do so. Third, CBDC could be issued as a digital token, and any transfer between users would be like handing over cash, hence avoiding the need for account holding.

How are cryptocurrencies different from CBDC? Technically, cryptocurrencies do not fit the public or private money definitions. Cryptocurrencies such as Bitcoin and Ether are digital representations of value and are not issued by a central bank, deposit-taking institution, or e-money institution. Instead, they rely on algorithms, decentralized systems, and cryptography for issuance and security of transactions. Because they depend on algorithms and decentralized systems with no central decision making, cryptocurrency values tend to exhibit huge fluctuations. Stablecoins, which are a subset of cryptocurrencies, are marketed as a less volatile alternative to other cryptocurrencies. They could be pegged to and/or backed by specific assets such as a fiat currency, commodities, or they could be controlled by employing an algorithm to adjust supply to match demand. Examples of stablecoins include Tether and USD Coin.

What are potential motivations for introducing CBDC? The relative weight and importance of CBDC depend on specific country contexts and the design features. On one end of the spectrum, countries may wish to preserve the role of public money and safeguard financial stability and monetary sovereignty. On the other end of the spectrum, some countries may wish to use CBDC to supplement traditional digital payments and to promote financial inclusion, government payment disbursements and collections, cross-border payments, competition, and interoperability.

What are potential risks/challenges associated with introducing CBDC? The introduction of CBDC could disrupt the existing financial-intermediation structure. In addition, depending on design and country context, CBDC could pose risks to financial stability, financial integrity, data protection and privacy, and cyber resilience. Further, it can have implications for the legal and regulatory framework, increased responsibilities of the central bank, and could also lead potentially to currency substitution, especially in the context of cross-border CBDC.
**CBDC in the context of financial inclusion:** For many developing countries, including some South Asian countries, low access to transaction accounts and low usage of digital payments (Figure 1.32) have been seen as a motivator to introduce CBDC. Although not a panacea, CBDC could potentially help fill the gap in traditional payment systems and promote financial inclusion. To meet the financial inclusion challenge, however, CBDC would have to be designed with that objective in mind. CBDC design aspects that encourage financial inclusion include the affordable cost of onboarding and transaction, off-line capabilities, privacy, and remuneration. A CBDC system needs to be easy to access through a simple user-enrollment process, convenient to use through a large network of agents and service providers, and acceptable for daily-life use cases at merchants, billers, and by the government, on a continuous basis. However, even though CBDC can facilitate financial inclusion, it is not a necessary condition, as other existing payment systems and arrangements, such as well functioning and comprehensive fast payment systems, have also been successfully utilized for the same objective (For example, Brazil).

**Figure 1.32. Access to transaction accounts and usage of digital payments are low in many South Asian countries**

![Chart showing access to transaction accounts and usage of digital payments](chart.png)

Note: Usage of digital payment refers to “made or received digital payments in the past year.”

Overall, given that CBDC is still in its nascent stages, even in countries where it has been fully introduced, it remains to be seen to what extent CBDC can promote financial inclusion, as well as other intended objectives, and the level of risk it would introduce in practice.
Box 1.5. Voices from South Asia

As in the last six editions of this report, we conduct an opinion survey among experts and researchers working in academia, policymaking, and consultancies in South Asia. This year, the survey aims to gain insights into the outlook of economic growth in South Asian countries, especially on the macroeconomic conditions and outlooks and gender norms in the region. We received 54 responses from six countries: 31 percent are from India, and around 20 percent each from Bangladesh, Nepal, and Pakistan; 84 percent are men and 16 percent are women; and 84 percent identify as academics, 80 percent as macroeconomists, 57 percent as policy advisors, and 20 percent as policymakers.

Experts’ views suggest continuing recovery in the region, but views on the future have become less optimistic (Figure 1.33). Forty-four percent of the respondents believe the level of economic activity is above 85 percent of the pre-pandemic level, a moderate increase from 36 percent in the fall of 2021 (World Bank 2021b). On tourism, 39 percent believe it is already coming back to pre-pandemic levels, compared to the 5 percent in fall 2021 who believed tourism would recover “very soon.” At the same time, experts are less optimistic about the future than they were last fall: 51 percent believe GDP growth will increase in the next six months, a drop from 56 percent last fall. This is consistent with the downgrade of growth in the most recent regional forecast compared to January this year and to last fall (Chapter 2).

Experts perceive inflation as the biggest short-term risk to economic recovery and see a relatively small risk from further COVID-19 waves (Figure 1.34). Thirty-eight percent of respondents cite high inflation as the biggest risk to economic recovery within the next six months, compared to only 4 percent in fall 2021. Only 11 percent of respondents see COVID-19 waves as the biggest risk, compared to over 50 percent in the Fall 2021 survey. This is consistent with our findings of a decoupling between COVID waves and the economy (Box 1.1). A widening current account deficit is also perceived to be an increasing risk (13 percent of respondents compared to 4 percent last fall), especially in Nepal and Sri Lanka; current account deficits in the region are rising with the surge in commodity prices. Accordingly, an overwhelming majority of respondents consider supply disruptions and rising commodity prices to be the main drivers of inflation over the past three months, consistent with the discussion in this chapter.
Figure 1.33. Experts’ views suggest continuing recovery in the region but views on the future are less optimistic now

A. Continuing recovery compared to Fall 2021
Where do you think the level of economic activity is compared to pre-COVID?
Percent of respondents

<table>
<thead>
<tr>
<th></th>
<th>Fall 2021 Survey</th>
<th>Spring 2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already at or even above pre-COVID level</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Very close to pre-COVID level, but not there yet</td>
<td>28</td>
<td>31</td>
</tr>
<tr>
<td>Between 50 and 85 percent</td>
<td>64</td>
<td>56</td>
</tr>
</tbody>
</table>

B. Less optimistic views on future than Fall 2021
What do you expect to happen to real GDP growth in your country within the next six months?
Percent of respondents

<table>
<thead>
<tr>
<th></th>
<th>Fall 2021 Survey</th>
<th>Spring 2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>23</td>
<td>56</td>
</tr>
<tr>
<td>Stay the same</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Decrease</td>
<td>26</td>
<td>18</td>
</tr>
</tbody>
</table>

Figure 1.34. Experts perceive inflation as the biggest short-term risk and see a small risk from further COVID waves

What is the biggest risk to the economic recovery in your country within the next six months?
Percent of respondents with choice

<table>
<thead>
<tr>
<th>Risk</th>
<th>Fall 2021 Survey</th>
<th>Spring 2022 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>High inflation</td>
<td>4</td>
<td>38</td>
</tr>
<tr>
<td>Sluggish consumption or investment</td>
<td>15</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Widening current account deficit</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Another COVID wave</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Increasing budget deficit</td>
<td>10</td>
<td>57</td>
</tr>
</tbody>
</table>

Experts express concern about stress in the financial sector and spillovers from rate hikes in advanced economies. Over 70 percent of respondents expect stress in the financial sector to increase over the next six months, compared to 60 percent in the Fall 2021 survey. Relatedly, 46 percent believe that asset quality will deteriorate,
and only 10 percent think it will improve over the next six months (Figure 1.35.A). As Section 1.4 discusses, as COVID-era support measures are phased out, pre-existing vulnerabilities and deterioration in asset quality may resurface; uncertainties due to the war in Ukraine could further add to financial sector volatility. Monetary tightening by advanced economies can also be a source of uncertainty. Fifty-six percent of the respondents believe that rate hikes in advanced economies will lead to currency depreciation in their country, while half of the respondents think they will weaken economic recovery (Figure 1.35.B). Other concerns over rate hikes include capital outflows and volatile exchange rates. Section 2.2 analyzes the potential impacts of monetary policy tightening in advanced economies.

Figure 1.35. Experts express concern about stress in financial sectors and rate hikes in advanced economies

A. Outlook on financial markets
What do you expect to happen in your country within the next six months?
Percent of respondents

B. Anticipated impact from monetary tightening in advanced economies
How do you think monetary tightening in advanced economies will impact your country’s economy and policy response?
Percent of respondents with choice (can choose multiple)

Survey results reveal unequal access to finance, and experts call for continued government support for businesses. Unprecedented support measures for businesses were implemented over the past two years, including subsidies, low-interest loans, and moratoriums. However, financial support might not have been allocated in a way that is consistent with a level playing field for firms. Around 40 percent of respondents
Respondents also support measures to strengthen climate change mitigation and women’s empowerment. One-quarter of respondents believe a carbon tax should have been implemented a long time ago, while 37 percent are in favor of a gradual phase-in now (Figure 1.37). Section 2.3 illustrates the benefits of implementing a carbon tax in the region. On women’s empowerment, 63 percent of female respondents and 50 percent of male respondents strongly agree that reducing gender inequalities will lead to additional economic growth. On average, female respondents rate 10/10 for the statement “men and women should have equal opportunities (for example, in education, jobs, household decision-making),” compared to an average rating of 8/10 among male respondents. By contrast, on average respondents believe that only seven out of ten of their peers would support gender equality, suggesting that there is room for improvement in the perception of gender norms in the society (Chapter 3). Around 60 percent of respondents attribute the region’s low female labor force participation to a lack of good job opportunities. The most effective policies for reducing gender inequality are seen as boosting female education (38 percent of respondents) and improving security for women (around one-third). Twenty-six percent of male respondents and 43 percent of females rank the latter as the top policy. A majority of
respondents believe market-intervention policies, such as affirmative action and subsidies for hiring women, would be the least effective policies (Figure 1.38).

**Figure 1.37. Majority of experts support carbon tax**

What are your views about implementing a carbon tax (imposing a price on carbon) in your country to comply with the Nationally Determined Contribution (NDCs) pledged during the COP26?

<table>
<thead>
<tr>
<th>Percent of respondents</th>
<th>Should have been implemented a long time ago</th>
<th>Now, but with gradual phase-in</th>
<th>Still too soon now, but eventually yes</th>
<th>Not a good idea</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25%</td>
<td>37%</td>
<td>31%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Figure 1.38. Experts support boosting education and improving security for women as effective policies to reduce gender inequalities**

Which policy do you think is the most/least effective to reduce gender inequalities?

<table>
<thead>
<tr>
<th>Percent of respondents with choice</th>
<th>Boost women’s education</th>
<th>Improve security for women</th>
<th>Affirmative action</th>
<th>Support sectors already employing women</th>
<th>Subsidize private sector hiring of women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most effective</td>
<td>38%</td>
<td>32%</td>
<td>15%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Least effective</td>
<td>8%</td>
<td>7%</td>
<td>32%</td>
<td>10%</td>
<td>24%</td>
</tr>
</tbody>
</table>
Appendix A.1. Loan moratorium policies in select South Asian countries during the COVID-19 pandemic

<table>
<thead>
<tr>
<th>Country</th>
<th>Applicable moratoria regimes (announcement date)</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>4/11/2020 (first moratorium); 6/26/2020 (second moratorium); 6/30/2021 (third moratorium)</td>
<td>Apr-Jun 2020 (first moratorium, including full interest payment waiver for all loans); Jul 2020-Jun 2021 (second moratorium, including full interest waiver up to Sep 2020, followed by partial interest for all loans Oct 2020-Mar 2021); Jul 2021-Jun 2022 (third moratorium, including partial interest waiver for all loans)</td>
</tr>
<tr>
<td>India</td>
<td>3/27/2020 (first moratorium); 5/22/2020 (second moratorium)</td>
<td>Mid-May to mid-Jul 2020 (first moratorium); mid-Jul 2020 to mid-Jan 2021 (second moratorium); mid-Jan to mid-Apr 2021 (third moratorium for medium impacted sectors); mid-Jan to mid-Jul 2021 (third moratorium for highly impacted sectors); mid-Jan to mid-Jul 2022 (third moratorium for tourism level hotel)</td>
</tr>
<tr>
<td>Nepal</td>
<td>3/29/2020 (first moratorium); 4/24/2020 (second moratorium); 7/17/2020 (third moratorium)</td>
<td>Mar 2020-Mar 2021 (restructuring); Mar 2020 - Jun 2021 (moratorium); Mar-Sep 2020 (deadline to apply for deferral of principal payments of loans for housing, SME, consumer, agriculture &amp; MF was extended to 9/30/2020 from 6/30/2020).</td>
</tr>
<tr>
<td>Pakistan</td>
<td>3/26/2020 (first moratorium and restructuring); 7/7/2020 (availability of deferment of principal amount of loans facility extended until Sep 2020)</td>
<td>Apr-Sep 2020 (first moratorium); Oct 2020 - Mar 2021 (2nd, 3rd, and 4th moratorium); Apr-Sep 2021 (fifth moratorium); Apr-Dec 2021 by banks and Apr 2021 - Mar 2022 by NBFI; Apr 2021 - Jun 2022 for tourism sector by banks and Apr 2021 - Mar 2022 for tourism sector by NBFI; Sep - Dec 2021 for lease facilities by banks and Sep 2021 - Mar 2022 by NBFI (sixth moratorium)</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>3/24/2020 (first moratorium); 7/16/2020 (second moratorium in respect of capital outstanding of leasing facilities granted to tourism related vehicles); 8/26/2020 (third moratorium to tourist industry); 11/9/2020 (fourth moratorium); 3/19/2021 (fifth moratorium for leasing facilities obtained by engaged in passenger transportation); 9/8/2021 (sixth moratorium)</td>
<td>Apr-Sep 2020 (first moratorium); Oct 2020 - Mar 2021 (2nd, 3rd, and 4th moratorium); Apr-Sep 2021 (fifth moratorium); Apr-Dec 2021 by banks and Apr 2021 - Mar 2022 by NBFI; Apr 2021 - Jun 2022 for tourism sector by banks and Apr 2021 - Mar 2022 for tourism sector by NBFI; Sep - Dec 2021 for lease facilities by banks and Sep 2021 - Mar 2022 by NBFI (sixth moratorium)</td>
</tr>
</tbody>
</table>
### Eligibility criteria of loans

<table>
<thead>
<tr>
<th>Country</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>All loans</td>
</tr>
<tr>
<td>India</td>
<td>All term loans</td>
</tr>
<tr>
<td>Nepal</td>
<td>COVID-19 affected borrowers</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Borrower makes a written request before expiry date of scheme. Loan is performing as of 12/31/2019.</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>COVID-19 affected borrowers, prioritizing the micro, small and medium enterprises, the tourism sector, and lease facilities in the passenger transportation sector</td>
</tr>
</tbody>
</table>

### Amount of loans benefit from moratorium

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>41,996 Bil. Rs as of 8/31/2020, through banks and financial institutions (37.91 percent of total outstanding credit for scheduled commercial banks and 44.94 percent for non-bank financial companies)</td>
</tr>
<tr>
<td>India</td>
<td>Extension of grace period of loans: 52 Bil. Rs; extension of loan repayment time: 93.63 Bil. Rs; loan restructuring and rescheduling: 129.21 Bil. Rs, through banks and financial institutions as of 8/13/2021</td>
</tr>
<tr>
<td>Nepal</td>
<td>910.78 Bil. Rs as of 4/16/2021 through banks, development financial institutions (DFIs), and microfinance banks (MFBs)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>As of 8/11/2021, a total of 4,679 Bil. Rs: 3,560 Bil. Rs given to COVID-19 affected borrowers through banks; 523.8 Bil. Rs given to COVID-19 affected borrowers through NBFIs; 548 Bil. Rs given to the tourism sector through banks; 11 Bil. Rs given to the tourism sector through NBFIs; 3.2 Bil. Rs given to the passenger transportation sector through banks; 33.4 Bil. Rs given to the passenger transportation sector through NBFIs.</td>
</tr>
</tbody>
</table>
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