The use of Unconventional Monetary Policy Instruments by South Asian Central Banks

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SAARCFINANCE Collaborative Study

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Contents

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Disclaimer: This Report has been prepared on the basis of data available up to June 2021; and it is only meant for general information. The views expressed in the Report are those of the team members, and not of the central banks to which they belong.

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Report

Key Highlights

This SAARCFINANCE collaborative study explores the state of central banks' unconventional monetary policy measures in the SAARC region. Following are the key highlights of the study:

- In SAARC region, main unconventional tool has been refinance schemes, a kind of quantitative easing, which targets underdeveloped sectors such as cottage, small and medium size sectors, agriculture, and poverty alleviations and exports.
- Recently, central banks of the region (such as SBP and RBI) has introduced some unconventional monetary policy tools, including forward guidance and long-term open market operations in order to deal with the situations arising from COVID-19 pandemic.
- Currently, most of the quantitative measures through refinance schemes in the region are introduced due to economic crisis of COVID-19, and are expected to end after specified time.
- However, SBP's schemes of Export Refinance Scheme (EFS) and Long Term Financing Facility (LTFF) were introduced in past, before COVID-19 and these have no termination date yet. In the case of Nepal, the refinance scheme introduced during the COVID-19 pandemic may continue after the pandemic (i.e., when the situation normalizes); however, their terms and conditions may change. For instance, currently, the Nepal Rastra Bank (NRB) can provide refinance amount of five times the available fund through monetary expansion (printing new notes). This provision is likely to be discontinued soon, but the refinance facilities will continue. Thus in a sense, NRB has redefined the refinance schemes to respond to the crisis.
- The refinance schemes are usually the central banks' own initiatives; and interest rates charged on users are generally lower than the market rates.
- There are a few impact evaluation studies, which reveal that refinance schemes generally improve the economic performance of targeted groups/sectors.
- There is hardly any study on implications of these schemes for exchange rate, interest rate, and inflation. However, as the overall size of the refinance operations is very small, they do not seem a threat to the macroeconomic stability of the region.
- Scarcity of data is a major limitation in assessing the effectiveness as well as macroeconomic consequences of unconventional policy measures including refinance schemes. This study recommends the creation of a database for all refinance schemes and other unconventional policy measures in the SAARC region to encourage future research in this area.

1. Introduction

In general monetary policy toolkit of central banks include changes in discount rate, cash reserve requirements and open market operation. However, as the financial crisis of 2007-09 pushed a number of economies into recession, the traditional monetary policy tools became less effective. Therefore, the central banks, especially in advanced economies, turned to alternative policy tools including large-scale purchases of financial assets (quantitative easing), explicit communication about the central bank's outlook and policy plans (forward guidance), and other tools such as negative interest rates and Funding-for-Lending programs.[1]

SAARC central banks, on the other hand, have been using some unconventional monetary policy tools well before 2007-09 crisis, for easing credit conditions for underserved sectors. A most common tool is re-finance schemes through which loans are given at lower than the market rates to targeted sectors and businesses. Some other measures such as credit rationing or credit ceilings were also used in past. Recently some of the SAARC central banks also started Forward Guidance in order to shape the market expectations during COVID-19 pandemic.

While in crisis situation, the use of unconventional monetary policy tools are generally acceptable among economists, these are not encouraged in normal times. Especially, quantitative easing for selected sectors are considered having adverse implications for the effectiveness of monetary policy transmission mechanism. Such interventions are considered as distorting prices and incentive structures, and therefore, hamper the process of economic development. However, many development economists and central bankers, especially in developing economies, consider development-oriented activities as a desirable role of a central bank. They posit that central banks play a pivotal role in economic development through promoting financial deepening, addressing market failures and ensuring the availability of credit to priority sectors. Moreover, central banks have access to institutional infrastructure and policy tools that may respond more swiftly in times of economic crisis.

South Asia is a developing region. Central banks in the region have historically used development finance, at different degrees, to pursue economic development. Recently, central banks in the region led COVID-19 relief efforts to protect priority economic sectors and vulnerable segments of society. Refinance schemes are the most frequently used policy tool for such development finance operations. Realizing the potential for economic policy lessons from this diverse experience, Governor State Bank of Pakistan (SBP) proposed a collaborative study titled "*The use of Unconventional Policy Instruments*

[1] Bernanke, Ben (2020), The New Tools of Monetary Policy, American Economic Association Presidential Address, January 4, 2020 https://www.brookings.edu/wp-content/uploads/2019/12/Bernanke_ASSA_lecture.pdf

by South Asian Central Banks". The study was approved by the SAARCFINANCE Forum which has the basic objective 'to share experiences on macroeconomic policy issues among member countries of the region'. Team members from all central banks of the region except Afghanistan participated in this SBP-led SAARCFINANCE collaborative study.

Although we have discussed recent unconventional measures taken in the wake of COVID-19, including Forward Guidance, we particularly focused on refinance schemes that have been predominantly used even in normal times and remained operational during the past 10 years. For most of the schemes, a subsidy is in the form of a reduced interest rate which is sometimes supplemented with other benefits such as credit guarantee and/or waiver of collateral requirements. The schemes also vary with respect to sources of funding for the subsidy, provision of sunset clauses, and fixation of the interest rate for the end-users. A cross-country review of these schemes will help to learn from each other's experiences as envisioned at the establishment of the SAARCFINANCE Forum.

This study progresses as follows: the next section covers a literature review on unconventional monetary policy tools, especially quantitative easing through refinance schemes and central banks' role in development finance; Section 3 provides salient features of refinance schemes offered by South Asian central banks; Section 4 highlights stylized facts, while Section 5 discusses the impact and effectiveness of refinance schemes. Section 6 focuses on recent introduction of unconventional policy tools during the COVID-19 pandemic; and the last section concludes the study.

2. Literature Review

As the use of unconventional monetary policy tools became common in advanced economies, a number of studies examined these tools and reflected upon their features and usefulness. Recent literature puts a number of measures in the category of unconventional monetary policy toolkit (see for example, Bernanke (2020), and Fratto et al (2021)). Bernanke and Reinhart (2004) divided unconventional monetary policy tools into three main categories: (i) providing assurance to investors that short rates will be kept lower in the future than they currently expect ("commitment effect"); (ii) increasing the size of the central bank's balance sheet beyond the level needed to set the short-term policy rate at zero ("quantitative easing"); and (iii) changing the relative supplies of securities in the marketplace by altering the composition of the central bank's balance sheet ("qualitative easing" or "credit easing"). This commitment could be conditional or unconditional, but normally is conditional because a central bank cannot reasonably be expected to ignore future developments.

Dell'Ariccia et al (2018) discuss how negative interest rate policies, forward guidance, and quantitative easing work in theory and what are their potential side effects. Fratto et al (2021) noted that emerging market and developing economies have unprecedentedly employed unconventional monetary policy through asset purchase programs (APPs) in an attempt to address COVID-19 pandemic. They documented the effect of quantitative easing on bond yields, exchange rates, equities, and debt spreads; and found that such measures successfully helped economies to cope with the crisis.

While the use of unconventional monetary policy tools in crisis situation is generally accepted by economic analysts, yet they have to be convinced for utility of such tool in normal times. In general, neoliberal approach to central banking has emerged as the 'best practice', which is often prescribed by global financial institutions and mainstream economists (Epstein, 2003). This approach is based on three principles: (i) central bank independence (ii) fighting inflation and (iii) reliance on indirect instruments of monetary policy (Bernanke et al, 1999). In fact, before the great financial crisis of 2007-09, monetary policy was essentially reduced to a 'one instrument (real interest rate) – one target (inflation)' world.

These basic principles are based on the premise that *macro-oriented* central banking is the gold standard. It emphasizes macroeconomic stability, including price and financial stability, which is a prerequisite for long run economic growth and development. To achieve price stability, a central bank must be able to resist the pressure to finance government deficits, and therefore, it should be independent. As independence comes with accountability, the performance of a central bank is judged by its ability to stabilize inflation, usually around a pre-announced inflation target. The reliance on indirect methods is required to avoid any distortion in price discovery and incentive structures. A market-based banking system and screening, monitoring and rewarding individuals are much more conducive to economic growth than project financing or targeted lending (Meyers, 1989). In fact, avoidance from credit allocation and direct methods is an essential part of a modern central bank (Fischer, 1995). By following this best practice, central banks can create an enabling environment for markets to flourish that will result in higher investment, lower unemployment and efficient allocation of scarce economic resources.

The mainstream economic literature, especially which is produced by the International Monetary Fund (IMF), lends strong support to the adoption of the neoliberal paradigm of central banking in general. Regarding refinance schemes, which are a kind of quantitative easing by central banks, it is argued that they have a negative impact on governance, central bank's balance sheet and policy effectiveness at least in normal circumstances. Dalton and Dziobek (2005) provide six country studies and conclude that such policies overburden central banks and impair their ability to effectively pursue conventional functions of monetary and exchange rate policies. Sweidan (2011) uses a panel of developing and transition economies and shows that quasi fiscal operations are large, risky and difficult to control. Extended credit arrangements expose central banks to a broader range of commercial risks, especially in cases where loans are extended to state-owned enterprises (SOEs) and when central bank lending is without any guarantee or collateral. These losses often result in monetary expansion; and negatively affect the monetary management and credibility of a central bank. For example, losses from quasi fiscal operations in Zimbabwe reached 75% of GDP and resulted in four-digit inflation (Monoz, 2007). One major problem with such operations is the lack of transparency in fiscal and monetary accounts (Markiewicz, 2001). This results in a misrepresentation of the real size of fiscal activity in the economy and also raises inflationary concerns. Mckenzie and Stella (1996) also argue that standard accounting practice based on the net operating position of a central bank may underestimate the cost of quasi fiscal operations. Moreover, they hamper the development of incentive-based efficient banking systems (Mayer, 1989), promote rent-seeking behavior and result in misallocation of resources (Mckenzie & Stella, 1996; Zia, 2008).

However, there is also an abundance of economic literature, especially by development economists and developing country central banks, which favors such policy measures. The most common argument is that many productive sectors such as agriculture and MSMEs suffer from credit constraints in underdeveloped financial markets – a phenomenon widespread in developing countries. Central bank's allocation of targets and subsidized credit can remove structural bottlenecks and make a significant contribution toward economic development (Dori, 2016; Epstein, 2007). Central bank support conceptually constitutes the second best solution to the problem of market imperfection because credit policies can enhance efficiency where private returns to commercial bank lending are not congruent with the social returns (Stiglitz, 1993). Keynesian – Schumpeterian credit – investment nexus also implies that central banks can use credit expansion to finance investment and help in capital accumulation without capital imports (Dullien, 2009). For example, Lee (2019) shows that credit policy lowers the risk premium for SMEs and boosts the real economy in Korea.

In case of UK, the Funding for Lending Scheme (FLS) improved credit conditions and resulted in higher consumption and investment in the country (Churm et al, 2012). Similarly, the Fed's decision to purchase mortgage-backed securities increased mortgage refinancing operations by $600 billion (Maggio et al, 2016). The Targeted Long-Term Refinancing Operations (TLTROs) of Euro System has both direct and indirect effects, such as an easing impact on margins on loans to relatively safe borrowers, and a positive impact on the loan supply on non-bidders which operates via an easing of credit standards (Desislava et al 2020).

The evidence from developing countries is also encouraging for support measures by central banks. Agricultural Credit Guarantee Scheme in Nigeria has improved the livelihoods of the farmers and entrepreneurs (Olaitan, 2006). Similarly, development finance activities have created a positive impact for targeted sectors, firms and individuals (Habib, 2015).

Recent economic literature increasingly supports central banks' supports to meet challenges related to the economic crisis, sustainable development and adaptation to climate change. Central banks' policy measures are easy to administer and respond to more quickly in times of crisis (Mckenzie & Stella, 1996). That is why central banks have led the efforts in response to the Global Financial Crisis (GFC) as well as economic recovery and relief measures during the COVID-19 pandemic.

The adaptation to climate change demands a fundamental restructuring of economic activities across the globe. However, financing for this much-needed transformation is permeated by asymmetric information, fundamental uncertainty and tragedy of commons cases where markets alone are unlikely to succeed (Volz, 2020, Stiglitz & Stern, 2021). Therefore, central banks as powerful and credible institutions must step up to address this market failure, which also has negative consequences for their core mandate of macroeconomic stability (Volz, 2017).

In fact, central banks around the globe have been performing a developmental role, notwithstanding the prescription of the neoliberal approach. All central banks in today’s developed world have used allocation methods and subsidies to engage in sectoral policy (Epstein, 2006). This is especially true for late developers like Continental Europe and Japan where central banks were actively engaged in sectoral policies (Gerschenkron, 1962). Moreover, financial liberalization in the UK and the USA should also be seen as a sectoral policy where central banks played a pivotal role in developing a sector considered important for the economy as a whole (Epstein, 2003).

This overview shows that central banks in today’s developed world have performed distributive as well as allocative roles, together with a focus on macroeconomic stability, to develop priority sectors. However, a more important insight is that the institutional role of central banks may differ – both in terms of the targeted objective and priority sector – at different stages of economic development. Therefore, when developed countries and the IMF urge developing countries to adopt the ‘best practice’ model of central banking, it is akin to Chang’s (2002) argument to describe similar pressure to adopt free international trade: developed countries deny developing countries access to the ladder, which they themselves have used to develop.

3. Quantitative Easing in SAARC – Development Finance

Traditionally, the SAARC central banks have been using quantitative easing in the form of re-finance schemes, both in normal times as well as crisis situation such as Covid-19. This study has dealt in detail this particular type of unconventional monetary policy measure, i.e., refinance schemes, offered by central banks in SAARC countries. All regional countries except Afghanistan participated in this study. There are more than seventy refinance schemes that were operational at any point during the period covered in this study. Following is the number of schemes in each country:

Number of Measures for Quantitative Easing (2010-2021) *

Central Bank	Total Schemes	Active	Closed
Bangladesh Bank	21	11	10
Royal Monetary Authority of Bhutan	7	7	0
Reserve Bank of India	18	5	13
Maldives Monetary Authority	2	0	2
Nepal Rastra Bank	5	3	2
State Bank of Pakistan	13	9	4
Central Bank of Sri Lanka	8	8	0
Total	**74**	**43**	**31**

* Including measures for COVID-19
Note: Most of these information are as on July 2021; recent numbers may be different.

Central banks in South Asia usually do not require government approval to introduce or terminate a measure aimed at quantitative easing. These measures are introduced through central banks' own initiatives for supporting the economy.

These initiatives can be studied in terms of institutional set up and key features like, targeted sectors, nature and extent of subsidy, and duration of the schemes. A comprehensive account of the measures taken by SAARC central banks are provided in **Appendix-A**.

3.1 Institutional Setup for Development Finance

The central banks of SAARC generally have dedicated departments to introduce quantitative easing for promotion of development finance. Moreover, the legal provisions under which they operate also allow them to engage in such developmental activities. A brief review of institutional setup for development finance in different central banks is given below:

Bangladesh: Since its inception in 1972, Bangladesh Bank's monetary policy objectives are to maintain price stability and achieve higher economic growth. Bangladesh Bank is working with the International Development Agency (IDA), the Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), etc., to facilitate new entrepreneurs, modernize small businesses and women empowerment.

In order to widen and strengthen SMEs, recently Bangladesh Bank has formed SME and Special Programs Department. The main tasks of the SME and Special Programs Department include formulation of policies and guidelines for sustainable development of the CMSME sector; monitoring the loans and advances to this sector; conducting women entrepreneurship development activities; ensuring access to "Institutional Financial System" for the marginal, small and new entrepreneurs; and promoting financial awareness.

Similarly, its Agricultural Credit Department formulates and implements agricultural credit policy. The Bangladesh Bank has also established the Financial Inclusion department, Sustainable Finance Department, Credit Guarantee Unit, as a part of the unconventional monetary policies practices in Bangladesh bank.

Bhutan: The Royal Monetary Authority of Bhutan initiated numerous regulatory reforms, infrastructure development including the establishment of Financial Inclusion Secretariat, and other programs to enhance inclusive access to formal financial services. Moreover, the RMA initiated the development of the National Financial Inclusion Strategy (NFIS) and National Financial Literacy Strategy (NFLS) with the setting up of the NFIS Steering Committee and working groups to implement the strategic activities outlined in the Financial Inclusion National Action Plan (FINAP) 2019-2023.

The NFIS Steering Committee (SC) RMA, functions as the highest decision making body for any interventions related to the formulation and implementation of the FINAP.

India:

In India, development financial institutions (DFIs) were classified as (i) term-lending institutions, (ii) refinancing institutions extending refinance to banking as well as non-banking intermediaries for finance to agriculture, SMEs and housing sector (iii) sector-specific / specialised institutions, and (iv) investment institutions.[2] At present the Reserve Bank of India (RBI) regulates and supervises four All India Finance Institutions (AIFIs) that were set up under the various statutes of the Indian Parliament – the National Bank for Agriculture and Rural Development (NABARD), the National Housing Bank (NHB), the Small Industries Development Bank (SIDBI) and the Export-Import Bank of India (Exim

[2]Report of the Working Group on Development Financial Institutions (Chairman: Sh. N. Sadasivan), May 2004 https://m.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=387

Bank). These AIFIs are apex financial institutions that play an important role in meeting the long-term funding requirements of agriculture and the rural sector, foreign trade, small industries, housing finance companies (HFCs), non-bank finance companies (NBFCs), micro finance institutions (MFIs) and other specialised segments and institutions.[3] In the 1970s and 1980s, given the underdeveloped nature of domestic financial markets, long-term low-cost funds were made available to AIFIs, *inter alia*, through access to long term operation (LTO) funds from RBI at concessional rates. With the structural reforms initiated starting 1990s, and the widening and deepening of financial markets, these AIFIs now raise funds from the market as per the resource raising norms set by the RBI. The Reserve Bank of India Act, 1934 has provisions for short-term liquidity support to these Financial Institutions.

In a recent development, under the National Bank for Financing Infrastructure and Development (NBFID) Act, 2021, the institution NBFID is being set up to support the development of long term non-recourse infrastructure financing in India including development of the bonds and derivatives markets necessary for infrastructure financing and to carry on the business of financing infrastructure. The Act also authorises RBI to give licence to other development financial institutions under the NBFID Act.

The RBI also sets priority sector lending (PSL) targets for banks. The philosophy behind prescribing PSL targets is to enable sections of society, which though credit worthy, are unable to receive credit from the formal system, either in adequate measure or in a timely manner. PSL emphasis is also to help increase employability, create basic infrastructure and improve competitiveness of the economy. Broadly the sectors that have a priority sector status include agriculture, micro, small and medium enterprises (MSMEs), exports, social infrastructure, renewable energy, educational loans and housing.[4]

Maldives: MMA Financial and Consumer Services Division, which is tasked with the implementation and monitoring of SME Credit Guarantee Scheme and Affordable Housing Loan Scheme, to achieve the broader objective of financial inclusion and access to finance. In addition, the Division is also responsible for protecting the rights of financial consumers. To aid the financial sector in making more informed credit decisions, the Division maintains a national credit information registry. Furthermore, the Division is also mandated with establishing a comprehensive framework for Islamic Finance that is conducive to the development and growth of the industry.

[3] Report on Trend and Progress of Banking in India 2019-20
https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India

[4] Report of the Internal Working Group (IWG) to Revisit the Existing Priority Sector Lending Guidelines
file:///C:/Users/ADMIN/Downloads/PSGRE020315.pdf

Nepal: Micro-Finance Promotion & Supervision Department of the Nepal Rastra Bank looks after the regulatory and implementation of financial matters in the area of microfinance in the country.

The Nepal Financial Inclusion Roadmap (2017–2022) serves as an overarching guideline for the strengthening of financial inclusion in Nepal.

Pakistan: SBP Act (1956) includes fostering growth and fuller utilization of the country's productive resources among its objectives.[5] In order to fulfill this objective, SBP has been actively engaged in development finance since its inception in 1947.

The Development Finance Group (DFG) at the State Bank of Pakistan (SBP), is a specialized group dedicated to formulating strategies, policies and regulations related to agriculture credit, microfinance, housing and SME finance and financial inclusion at broader level. The Agriculture Credit and Microfinance Department and Infrastructure, Housing & SME Finance Department within the DFG are responsible for the implementation of the policies to promote financial inclusion and support priority sectors.

Sri Lanka: In the case of Sri Lanka, the Monetary Law Act (1949) describes the main objective of the Central Bank of Sri Lanka (CBSL) to maintain economic and price stability and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka. Right from its inception, two out of the five objectives of the CBSL were directly related to development purposes, which led to the establishment of two departments, namely the Development Finance Department in 1976 and the Rural Credit Department in 1980 to achieve these objectives. At present, CBSL facilitates and implements various refinance schemes, interest subsidy schemes and credit guarantee schemes while delivering credit supplementary services through the Regional Development Department (RDD) and participating financial institutions (PFIs) to identified sectors of the economy, including Agriculture, Animal Husbandry and Micro, Small and Medium Scale Enterprises (MSMEs).

3.2 Key features of the Development Finance schemes

Most of the measures for quantitative easing support priority sectors that are considered critical for economic growth and equitable development. Agriculture, cottage industries, small businesses,

[5] Recent amendments in SBP Act explicitly mention price stability as primary objective of SBP. However, without prejudice to the primary objective, SBP has also been mandated to support the general economic policies of the Federal Government to foster development and fuller utilization of the country's productive resources (SBP Act 1956 as amended upto 28-01-2022).

housing and rural industry are the most frequent beneficiaries of such refinance schemes. To relax the external constraint on growth, the refinance schemes also target promotion of exports.

In recent years, central banks in South Asia have also introduced specialized schemes for purposes like climate and gender equality. For example, Bangladesh and Pakistan have refinance schemes for financial inclusion and women empowerment. Central banks in Bangladesh, Nepal and Pakistan have introduced schemes for renewable energy to meet sustainable development goals (SDGs). Bhutan is currently in the process of introducing the Green Finance Road Map spearheaded by the Royal Monetary Authority (RMA) in collaboration with the National Environment Commission of Bhutan. Similarly, central banks in India, Maldives and Pakistan have targeted schemes for low-cost housing.

Finally, SAARC central banks have introduced various schemes to give relief to vulnerable sectors of the economy hit by the COVID-19 pandemic. Broadly speaking, refinance schemes are targeted at sectors deemed critical for long-term growth, employment generation and socio-economic development.

Besides being sector-specific, another key feature of these schemes is the provision of subsidized credit. The interest rate charged on lending under a refinance scheme is often considerably lower than the market rate. For example, lending under Pakistan's export refinance scheme (EFS) – the largest and oldest refinance scheme in the country – has been kept at 3 percent per annum since 2016 - significantly lower than the policy rate. It has only recently been revised upward to 5.5 percent in April 2022 – still less than half of the prevailing policy rate. Similarly, many schemes in other countries provide credit at more than 4-5 percentage points below the market rate. However, the interest rate in India is usually the policy repo rate under the liquidity adjustment facility, which is also lower than the usual lending rate for businesses. Some schemes also provide additional benefits such as credit guarantees and full/partial risk coverage.

A related aspect is the fixation of the interest rate for end-users. Most of the schemes impose limits on the spread of participating financial institutions (PFIs) and/or fix the maximum end-user rate. In the case of India, liquidity is provided to PFIs without fixing a rate for end-users subject to the utilization by PFIs being as per their Board-approved policies.

The size of the subsidy also differs across targeted sectors. Generally, the interest rate on refinance schemes for MSMEs is lower than that for other sectors. For example, under the EFS, participating financial institutions (PFIs) get refinance from SBP at 1% for SMEs and 2% for other sectors.

Refinance schemes in SAARC countries also differ across sources of funding. While most of the schemes are funded by respective central banks, there are some schemes that are also partially/fully funded by other sources. For example, out of the total 8 schemes in Sri Lanka, 3 are funded by the government, 2 are jointly funded by the International Fund for Agricultural Development (IFAD) and the government and 1 scheme is funded by the Sri Lanka Tea Board. The remaining two schemes are funded by CBSL.

We also find some differences in the characteristics of quantitative easing introduced in normal times viz-a-viz crisis time. It is interesting to note that about half of the schemes launched by SAARC central banks are in response to a crisis. In the case of India, all schemes during the study period, except Export Credit Refinance (closed in 2015[6]) were introduced in response to a crisis. On the other hand, in the case of Pakistan, 10 schemes were introduced during normal times and 3 new schemes to provide relief during the COVID-19 pandemic. In fact central banks in the SAARC region have been very active during the COVID-19 crisis, and introduced a number of refinance schemes for preventing the possible economic fallout caused by the pandemic. Previously, India also provided liquidity support through refinance schemes to its vulnerable sectors during the Global Financial Crisis in 2007-09.

The refinance schemes introduced in normal times are usually focused on priority sectors (e.g., exports, SMEs) and/or socio-economic development (e.g., women empowerment and renewable energy). On the other hand, refinance schemes introduced in response to a crisis generally aim at employment protection (e.g., SBP Rozgar Scheme) and smooth continuation of economic activities (e.g., RBI's liquidity provision to various sectors during the GFC and the COVID-19 pandemic). SBP introduced a specialized refinance scheme for capacity building of the health sector during the COVID-19 pandemic. It also introduced a Temporary Economic Refinance Facility (TERF) for promoting investment. Similarly, RBI opened an on-tap liquidity window for banks of tenors of up to three years at the repo rate to boost the provision of liquidity for ramping up COVID-19 related healthcare infrastructure and services in the country.

An important feature of most of these schemes is a clear sunset clause. The provision of a sunset clause is an important tool to provide incentives for efficiency gains and avoid rent-seeking at the expense of the public exchequer. It is to be noted that all refinance schemes introduced by SAARC central banks before the COVID-19 pandemic have been closed, with the exception of some schemes in Pakistan and Sri Lanka. In the case of Pakistan, Export Finance Scheme (EFS) is operational since 1973. In general, the continuity of refinance schemes for a long duration reflects the persistence of distortion in the market and/or prevalence of rent-seeking behavior.

[6] Report of the Expert Committee to Revise and Strengthen the Monetary Policy Framework (Chairman: Dr. Urjit R. Patel), January 2014. [https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/ECOMRF210114_F.pdf]

4. Assessment of Development Finance Schemes

The data on refinance schemes offered by SAARC central banks is not readily available in a standard format.[7] A relatively detailed data was available only for Bangladesh, India, Pakistan and Sri Lanka. In the case of Bhutan, a number of other kinds of support were provided during the COVID-19 crisis, including easing of reserve requirement and capital reservation buffer (as given in **Annexure 2**). The Central Bank of Nepal (Nepal Rastra Bank) has an aggregate annual number for three schemes: approved amounts under the general refinance scheme, special refinance scheme and SME refinance scheme for the first nine months of FY20-21 which are 96 billion rupees, 14.4 billion rupees and 25.2 billion rupees, respectively. Given these data limitations, it is not possible to present any stylized facts for the SAARC region as a group. The key data insights regarding refinance schemes in the four countries, Bangladesh, India, Pakistan and Sri Lanka, are provided in the following paragraphs.

Bangladesh

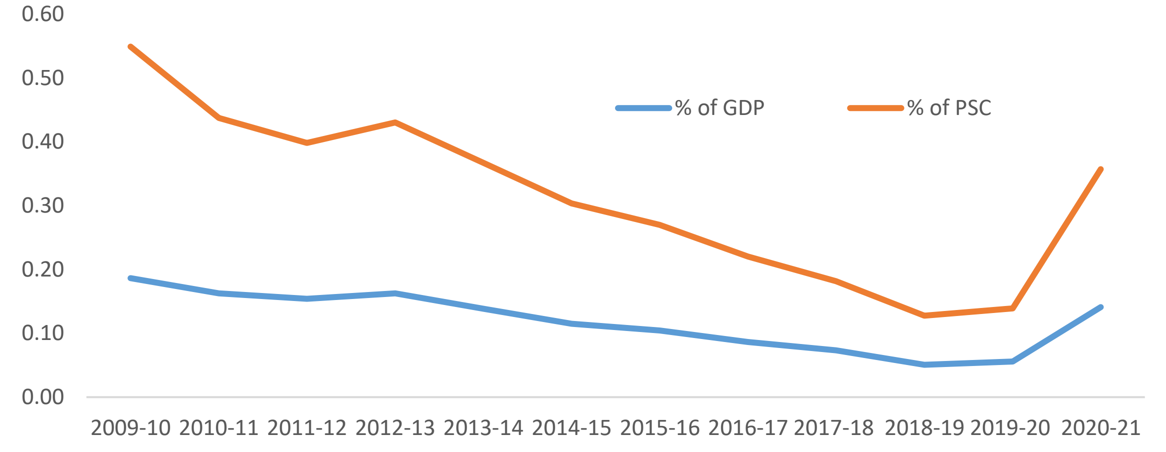
As of June 2021, Bangladesh Bank (BB) has provided refinance of BDT 139,280 million to 167,076 enterprises (including 97,814 enterprises under COVID-19 refinance scheme). This includes both refinance under regular schemes as well as six projects in collaboration with different donor agencies. The outstanding amount of refinance schemes stood at BDT 42,444.72 million at the end of Q2, 2021. Under the refinance schemes of BB, lowest interest rate is one time 2% service charge on the borrowers for Export Development Fund (EDF). However, refinancing facility to Banks and Financial Institutions (FI) at 0.5% interest rate/profit has been introduced by BB for the purpose of disbursement of loan/investment to women entrepreneurs at maximum 5% interest rate/profit(i.e., spread at Bank & FI level will be maximum 4.5%). The highest amount (BDT 49,930 million) is lent under the Small Enterprise Refinance Scheme. The distribution of lending varies with respect to maturity length and major sectors for selected schemes. A large majority of beneficiaries is from industry (35.93%) and trade (49.05%) whereas 15.02% belong to the services sector. The distribution of loans with respect to maturity length is relatively more skewed with 44% for working capital, 36% for mid-term and 20% for long-term loans.

In order to ensure sector-wise distribution of overall CMSME credit portfolio, a target for at least 40.0 percent for manufacturing, 25.0 percent for service and a maximum ceiling of 35.0 percent for trading has been instructed by BB to be achieved by all banks/NBFIs within 2021.

[7] Refinance schemes are usually managed by regional offices and detailed centralized data is not available. Moreover, data also differs in terms of available frequency and total number of observations. Some countries do not maintain a database for refinance schemes.

The total volume of refinance, as a percent of GDP increased from 0.05% in 2018-19 to 0.14% in 2021-21 (Figure 1). Especially the recent resurge in 2019-20 and 2020-21 may be noted, though earlier it was in a declining trend.

Figure 1: BANGLADESH: Amount through Refinance Schemes

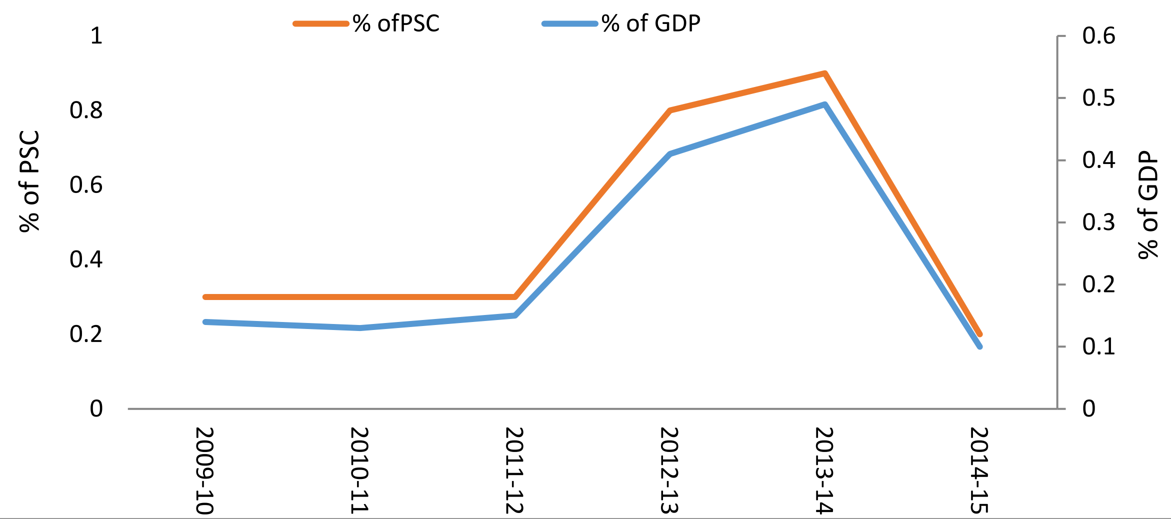


India

The use of refinance schemes in India is now limited to crisis times only in view of a well-developed banking system and financial markets and extensive instruments at RBI's disposal to meet the systemic liquidity needs of the economy. The liquidity is managed through its regular market operations (repos/reverse repos) under the liquidity adjustment facility supported by open market sales/purchase, longer-term repos, forex swaps, etc. Export Credit Refinance (ECR) – which was operational since 1977 – ended in 2015.[8] At its peak in 2014, the total limit and outstanding amount for ECR were INR 548.2 billion and INR 384.7 billion, respectively. The outstanding amount as a percentage of the total limit averaged around 42% from 2010-2015. Total ECR limit as a percentage of total bank credit and GDP averaged 0.5% and 0.24%, respectively. On the other hand, total availed ECR as a percentage of total bank credit and GDP averaged only 0.2% and 0.12%, respectively (See Figure 2).

[8] To move away from sector-specific refinance, the ECR limit has been gradually lowered since June 2014. The facility was merged with system level liquidity provision with effect from February 7, 2015.

Figure 2: INDIA: Amount through Refinance Schemes

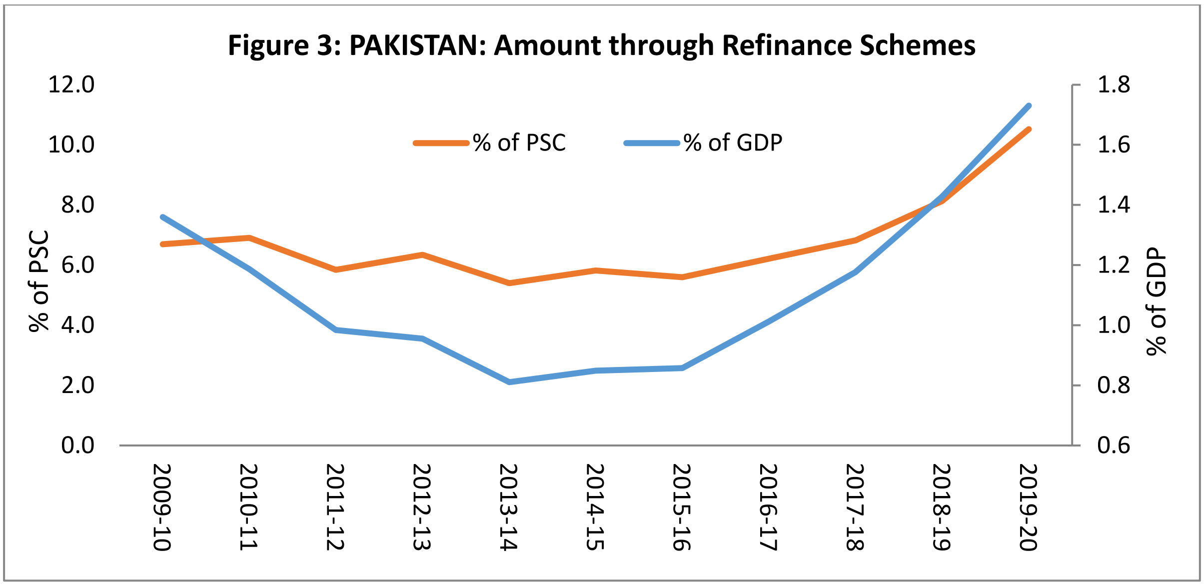


The interest rate on lending under the facility was equal to the repo rate. Although another temporary refinance scheme for exports was introduced in FY12-13, its total limit was only INR 30 billion. The phasing out of ECR suggests a market-oriented shift in RBI's policy framework.

Pakistan

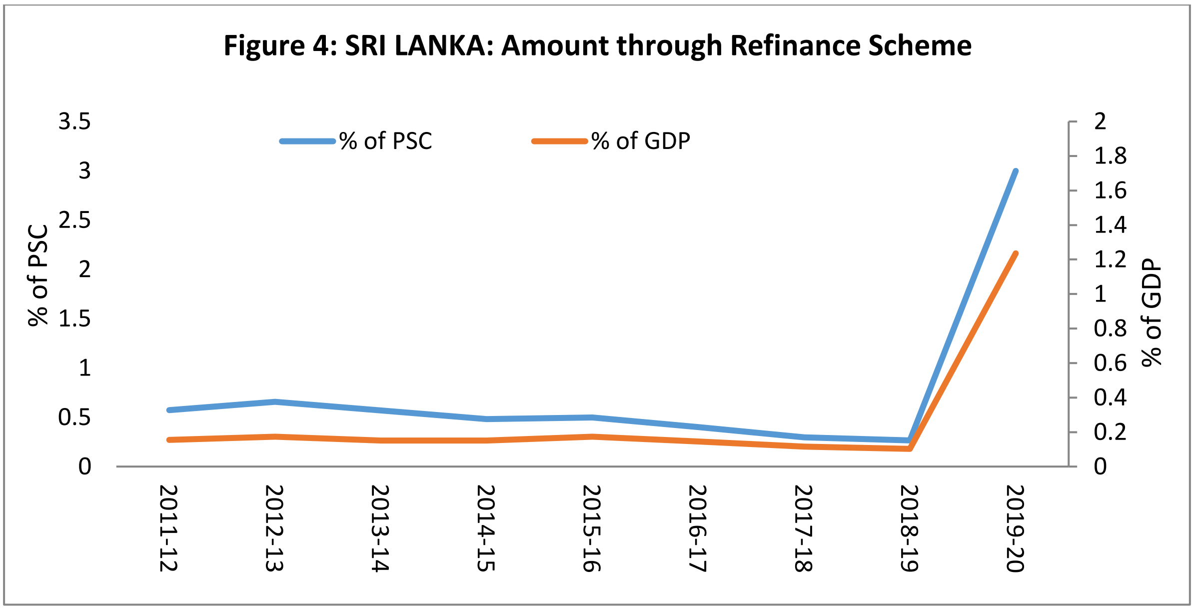
Pakistan has the most number of active schemes. Export Finance Scheme (EFS) is the largest scheme, which is operational since 1973. The second-largest scheme Long Term Financing Facility (LTFF) for Plant & Machinery is also focused on export-oriented sectors. As of Q2-FY21, the outstanding amount and yearly disbursement for EFS were PKR 567.4 billion and PKR 176.2 billion, respectively. In the case of LTFF, the outstanding amount was PKR 239 billion and disbursement at 15.9 billion in the same period. Since 2010, the share of EFS and LTFF in total outstanding amount and disbursement under refinance schemes has averaged 99.4% and 96.6%, respectively.

The average interest rate subsidy (calculated as the difference between the weighted average lending rate and refinance rate) on lending under EFS and LTFF stood at 4.7% and 2.3%, respectively. Although lending through refinance scheme has averaged 6.9% of private sector credit (PSC), in recent times it has skyrocketed to 11.2%. Lending under refinance schemes as a percentage of GDP has also jumped from a historical average of 1.12% to 1.73% (See Figure 3). Finally, it is to be noted that a Shariah compliant version is also available for all refinance schemes.



Sri Lanka

CBSL is one of the most development-oriented central banks in the region. In the year 2020 alone, it has nearly 130,000 loans amounting to around LKR 180 billion under its various refinance schemes. The interest rate subsidy on refinance operations averages at 3.94%, with the maximum and minimum rate of subsidy at 7% and 3%, respectively.[9] Historically, the size of refinance schemes has averaged around 0.15% of GDP and 0.5% of Private sector credit (see Figure 4).



[9] This is the interest rate subsidy provided to banks by the Central Bank of Sri Lanka. However, the interest rate subsidy/ subsidized interest rate for the end-customer is different.

While we have some idea about the size of refinance schemes in some of the SAARC countries, there is not much scholarly literature on impact assessment and effectiveness of these schemes. There are some studies that discuss the role and functioning of DFIs in India. One study on the role of refinance schemes of RBI shows that sector-specific refinance facilities interfere with monetary policy transmission because of the assurance such facilities provide on additional access to liquidity at rates not determined by the market forces (The Expert Committee to Revise and Strengthen the Monetary Policy Framework, 2014). Similarly, a few studies examine the case of Pakistan and Bangladesh in terms of impact evaluation and effectiveness of the schemes.

Such studies shows that these sectoral policy initiatives have beneficial effects on employment, income and productivity growth. For example, Uddin et al. (2015) surveyed 128 bank branches to assess the impact of BB's refinance scheme for agricultural and rural credit on the farmers' comparative well-being. About 98% of the target group reported a positive impact of the scheme as compared to only 47% in the controlled group (who took credit through other sources). It also has a beneficial impact on income equality and more than 97% of farmers opined that BB should continue operating refinance schemes.

Habib (2015) also found that development finance initiatives have created a positive impact on targeted sectors, firms and individuals. A survey of women entrepreneurs by Younus et al. (2014) found that shares of loans, capital, sales, manpower and profits of those who took loans under the dedicated scheme of BB have increased whereas they have declined for those women entrepreneurs who received credit under other schemes. Similarly, Younus (2015) reports a positive impact of BB's initiatives to increase financial inclusion of unserved and underserved poor segments of the society. From 2010-2015, BB brought 13.5 million people into the banking system and economic indicators, suggesting a widespread benefit. Rehman et al. (2019) examined the effectiveness of special credit schemes and founded that almost all survey respondents have experienced some positive changes in their personal or family life in terms of better food intake, wearing quality clothes and schooling for their children. Finally, a special work by BB (2017) reports improved financial conditions for sharecroppers who benefited from the Agricultural Credit Program under a refinance scheme of BB. This initiative also decreased farmers' reliance on non-institutional credit sources.

In the case of Sri Lanka, Karunaratne (2010) states that due to the active role of CBSL, financial sector capability in respect of development finance has remarkably improved. More than 600,000 low-income families were brought into the formal financial sector under the microfinance poverty alleviation programs by 2010 and 65% of the beneficiaries crossed the poverty line in 3-5 years. CBSL initiatives also helped in post-Tsunami recovery and balanced regional development. Wickramanayake (2004) uses regression analysis on time-series data and concludes that formal institutional arrangements like rural credit schemes should be continually reinforced to improve conditions in the informal sector. Similarly, Badullahewage (2020) uses secondary data sources for evaluating microfinance institutions and poverty alleviation programs in Sri Lanka. It concludes that the poor and the marginalized segments in Sri Lanka have benefitted from the microfinance institutions and programmers to gain access to development finance. Further, it has contributed to motivating rural people towards savings, group formation and social development.

There are some studies that evaluate refinance schemes by SBP. Zia (2008) uses micro-level exports loans data and concludes that subsidized credit significantly lowers exports by privately owned firms while it does not affect exports by publicly listed and group network firms. Publicly listed firms are also financially unconstrained and subsidized credit results in misallocation of resources and output loss to privately owned firms equal to 0.75% of GDP.

Haque & Kemal (2009) use ARDL regression analysis and find that EFS had a negative effect on exports while the impact of rebate/refund schemes is insignificant. Despite failures, these policies remain operational for decades which suggests rent-seeking and/or policy inertia. However, Shabbir et al. (2013) use log-linear panel data models and report that EFS results in higher export sales and LTFF leads to higher capital formation. They also find that during periods of high interest rate differential, firms replace short-term loans with subsidized loans through EFS.

However, no such substitution exists from long-term loans and loans through LTFF. Similarly, Defever et al. (2020) use firm-level data to evaluate the impact of EFS on export performance. They find that EFS and LTFF increased firms' exports by 7% and 8-11%, respectively. A cost-benefit analysis also shows that both schemes deliver net benefits.

Finally, recently SBP has conducted an internal study using firm-level data from 2015-17. Firms that received EFS have an annual growth rate of exports higher by 20% relative to what they would have perceived had they not participated in the scheme. However, the use of EFS is concentrated among large firms and the total number of Exports Finance Scheme users is also decreasing.

5. Forward Guidance and other Unconventional Measures

Besides quantitative easing in the form of refinance schemes, some of the SAARC central banks also introduced Forward Guidance (FG) and other unconventional measures during the Covid-19 pandemic.

Reserve Bank of India introduced long term repo operations (LTROs) in February 2020 to support credit and monetary policy transmission. It conducted five LTRO auctions, of 1-year and 3-year tenors, within two months, which improved the liquidity in the system by a sizable amount (Talwar, et al, 2021). RBI also announced special OMOs (OTs) with a concurrent purchase of long-term and sale of short-term securities in December 2019. These operations helped reducing the yield curve steepness.

RBI also provided Forward Guidance (FG) in its monetary policy statements, which gained prominence during the pandemic. As an important ingredient of its communication strategy, the RBI used FG to ensure the market that policy stance would remain accommodative till the revival of growth. At times, it used both state-dependent and time-dependent FGs.

Forward Guidance provided in different monetary policy statements by RBI are given below:

- **MPS May 22, 2020:** The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.
- **MPS August 06, 2020:** The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
- **MPS December 04, 2020:** The MPC also decided to continue with the accommodative stance as long as necessary – *at least during the current financial year and into the next financial year* – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
- **MPS February 05, 2021:** The MPC also decided to continue with the accommodative stance as long as necessary – *at least during the current financial year and into the next financial year* – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
- **MPS April 7, 2021:** The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

As can be seem from the above statements, the MPC not only assured that future action will remain accommodative to revive and sustain growth, but also managed inflation expectations.

State Bank of Pakistan also started giving Forward Guidance in January 2021 in order to facilitate policy predictability in an uncertain environment. Wordings of forwarded guidance given by SBP in monetary policy statements is given below.

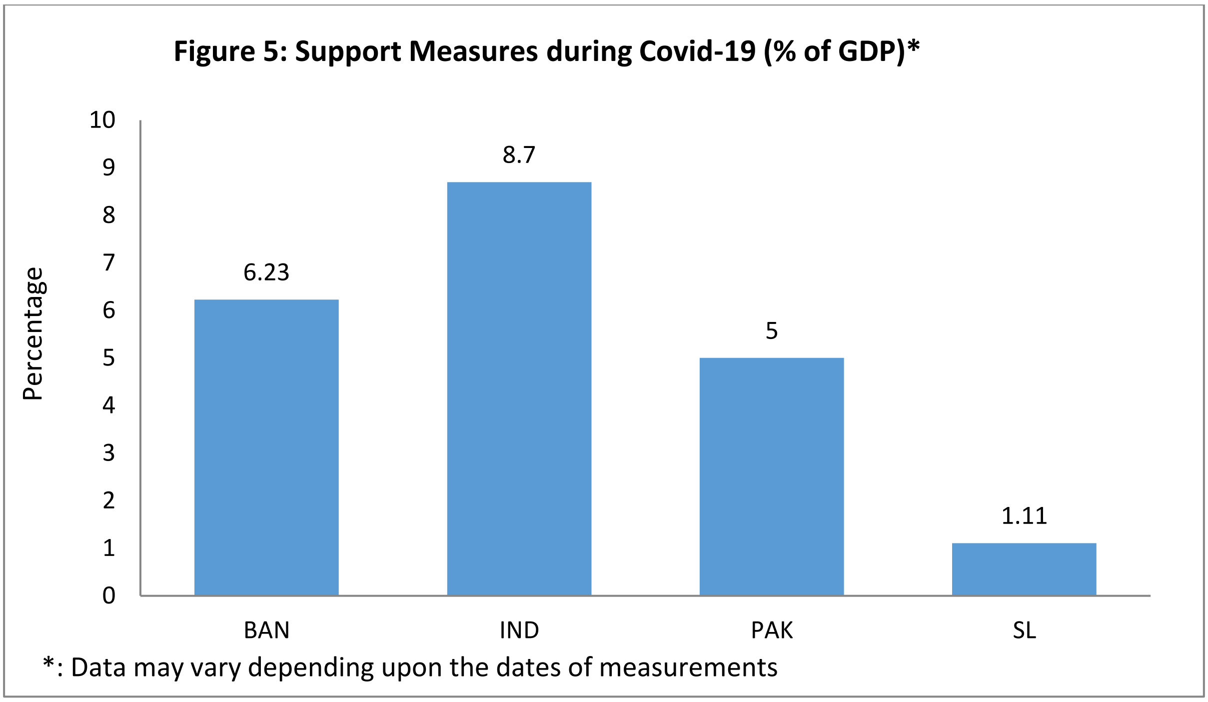
- **MPS January 22, 2021**: In light of such Covid-related uncertainties, the MPC considered it appropriate to provide some forward guidance on monetary policy to facilitate policy predictability and decision-making by economic agents. In the absence of unforeseen developments, the MPC expects monetary policy settings to remain unchanged in the near term. As the recovery becomes more durable and the economy returns to full capacity, the MPC expects any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates.
- **MPS March 19, 2021:** In the absence of unforeseen developments, the MPC expects monetary policy settings to remain broadly unchanged in the near term. As the recovery becomes more durable and the economy returns to full capacity, the MPC expects any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates.
- **MPS May 28, 2021:** Looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates over time. If demand side pressures emerge as the recovery becomes more durable and the economy returns to full capacity, the MPC noted that it would be prudent for monetary policy to begin to normalize through a gradual reduction in the degree of accommodation. This would help ensure that inflation does not become entrenched at a high level and financial conditions remain orderly, thereby supporting sustainable growth.
- **MPS June 27, 2021:** Looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates over time. If signs emerge of demand-led pressures on inflation or of vulnerabilities in the current account, the MPC noted that it would be prudent for monetary policy to begin to normalize through a gradual reduction in the degree of accommodation. This would help ensure that inflation does not become entrenched at a high level and financial conditions remain orderly, thereby supporting sustainable growth.
- **MPS September 20, 2021:** Looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, with possible further gradual tapering of stimulus to achieve mildly positive real interest rates over time. The pace of this possible further gradual tapering would be informed by updated information on the continued strength of demand growth and the stance of fiscal policy, amongst other factors.

- **MPS November 19, 2021:** Looking ahead, the MPC re-iterated that the end goal of mildly positive real interest rates remains unchanged and, given today's move, expects to take measured steps to that end.
- **MPS December 14, 2021:** Looking ahead, the MPC expects monetary policy settings to remain broadly unchanged in the near-term.
- **MPS January 24, 2022:** Looking ahead, and against the backdrop of these developments that have improved the inflation outlook, the MPC was of the view that current real interest rates on a forward-looking basis are appropriate to guide inflation to the medium-term range of 5-7 percent, support growth, and maintain external stability. If future data outturns require a fine-tuning of monetary policy settings, the MPC expected that any change would be relatively modest.
- **MPS March 8, 2022:** Looking ahead, the MPC noted that while current real interest rates on a forward-looking basis are appropriate to guide inflation to the medium-term range of 5-7 percent, support growth, and maintain external stability, the Russia-Ukraine conflict has introduced a high degree of uncertainty in the outlook for international commodity prices and global financial conditions. Continued adverse conditions on these fronts could pose challenges to the outlook for the current account deficit and inflation expectations, which could necessitate changes in the policy rate. Since the Russia-Ukraine situation remains fluid, the MPC noted that it was prepared to meet earlier than the next scheduled MPC meeting in late April, if necessary, to take any needed timely and calibrated action to safeguard external and price stability.

The SBP's forward guidance has helped the market sentiments remain tranquil amidst uncertainty due to Covid-19 pandemic.

6. Central Banks' Support during COVID-19 Pandemic

Central banks in the SAARC region undertook a number of conventional and unconventional policy measures in order to address the economic fallout of the COVID-19 pandemic. Most common measure was to introduce refinance schemes for protecting priority and vulnerable economic sectors. This large-scale direct engagement validates the point that quasi-fiscal operations are an important part of a central banks' toolkit for crisis management. **Figure 5** below shows the size of COVID-19 related refinance schemes by some of the SAARC central banks.



Bangladesh Bank's COVID-19 related refinance scheme has the highest number of beneficiaries (97814 enterprises) which is further divided into sub-schemes because of its much wider scope (See **Annexure- 1**). Almost all of the sub-schemes have a defined sunset clause. The overall size of the stimulus package was more than BDT 1876.79 billion which is roughly 6.23% of the nominal GDP of FY21.

RBI also introduced conventional and unconventional policy measures during April-August 2020, including Special Liquidity Facility (SLF) and Additional Special Liquidity Facility (ASLF), to provide liquidity to vulnerable sectors of the economy (see **Annexure-1**). This support comprised of: (i) INR 300 billion to the National Bank for Agriculture and Rural Development (NABARD); (ii) INR 150 billion to the Small Industries Development Bank of India (SIDBI); (iii) INR 150 billion to the National Housing Bank (NHB); and (iv) INR 150 billion to the Export Import Bank of India (EXIM Bank). These facilities were available for a period of one year. Subsequently, in April-June 2021, to nurture the still nascent growth impulses, the RBI provided further refinance to the AIFIs through fresh special liquidity facilities of INR 660 billion – INR 250 billion to NABARD, INR 310 billion to SIDBI and INR 100 billion to NHB to support the stressed sectors. The liquidity is provided at the repo (policy) rate. The total sanctioned amount under the refinance schemes is INR 750 billion and INR 660 billion, respectively in 2020-21 and 2021-22. As of June 2021, the total availed amount under the SLF/ASLF is INR 485 billion.

A large part of liquidity support for COVID-19 was given by the RBI to banks, not in the nature of refinance, but through a reduction in cash reserve ratio (CRR), open market operations (OMOs), targeted long-term repo operations (TLTRO), and other schemes. The liquidity support was provided at repo rate and the total support under various conventional and unconventional measures, inclusive of the refinance schemes, was 8.7 per cent of 2020-21 GDP as of June 2021.

SBP has led COVID-19 relief efforts in Pakistan. It has introduced a number of measures to support health sector, employment, investment and general economic conditions. SBP's scheme of Temporary Economic Refinance Facility (TERF) was instrumental in boosting investment during an uncertain period. From Apr-20 to Mar-21, the total requested amount under TERF exceeded PKR 690 billion while total disbursement is 435.7 billion. Under the TERF, SBP provides refinance at 1% and the end-user rate is 5% which is 2% lower than the policy rate. SBP's total support to the economy is over PKR 2 trillion which includes benefits on the interest rate (PKR 470 billion), loan deferment (PKR 757 billion), loan rescheduling (PKR 254 billion) and rozgar (employment) scheme (PKR 238 billion), support for hospitals (PKR 18 billion) and other measures.

In case of policy rate, SBP cut the rate by a cumulative 625 basis points to 7 percent in a very short span of time (during Mar – June 2020). A combined effect of these support measures (refinance schemes plus policy rate cut) was equal to 5% of GDP.

The Central Bank of Sri Lanka (CBSL) also introduced a series of monetary policy easing measures since early 2020 besides extending its support to businesses and individuals affected by the pandemic through its Saubagya COVID-19 Renaissance Facility (SCRF) schemes - Phase I, II, and III. Under SCRF, total loans amounting to LKR 165.5 billion have been provided to around 58,000 individuals/enterprises as of end 2020. The refinancing under the scheme is provided at 1% to banks and the end-user rate is only 4%. The overall size of SCRF relative to GDP and PSC is 1.11% and 2.68%, respectively.

Similarly, the central banks of Bhutan and Nepal have also taken support measures for COVID-19. Nepal's central bank reduced the cash reserve ratio and interest rate on top of a series of other relief measures in the financial industry. NRB eased regulatory provisions, including reduction of cash reserve ratio from 4 percent to 3 percent, bank rate from 6 percent to 5 percent, repo rate from 4.5

percent to 3.5 percent and deposit collection rate from 3.0 percent to 2.0 percent. It also increased the limit of the refinance fund and relaxed the repayment period with no penal charge.[10]

The Royal Monetary Authority of Bhutan reduced the Reserve Requirement, which benefited to the extent of 2.33 percent of GDP; and it also eased Capital Conservation Buffer, which released an amount equivalent to 13.82 percent of GDP. In addition to this support from Bhutan's central bank, the economy also got support through loans sanctioned by financial institutions (2% of GDP), and National Cottage and Small Industries Development Bank Ltd (NCSIDBL) (0.41% of GDP); and interest payment support from Druk Gyalpo's Kidu Relief Fund (5.15% of GDP).

7. Concluding remarks

This collaborative study shows that SAARC countries have been using unconventional monetary policy measure of quantitative easing for a long time period. Most popular form of quantitative easing is refinance scheme in these countries, which has been in vogue even before Global Financial Crisis of 2007-09 and COVID-19 pandemic in 2020. However, during the COVID-19 period, these refinance schemes have been used extensively in order to protect the vulnerable sectors.

Key features of the refinance schemes include: (i) they target underserved sectors like agriculture, small businesses, agro-based and cottage industries; vulnerable segments of the society like labor, women, and low income households; and priority sectors like export and climate change; (ii) offer interest rate for end users well below the market rate; (iii) more often have some sunset clause, i.e., some end period for the scheme; and (iv) usually offered in crisis time.

Although not enough literature is available on impact evaluation of such schemes, some research work and anecdotal evidence show that such refinance schemes are not a threat to the macroeconomic stability of SAARC countries mainly because the size of these schemes relative to GDP or private sector borrowings is too small. In fact, the available evidence suggests that subsidized loans provided through refinance schemes have an overall positive effect on the targeted sector and help in achieving development goals.

Besides, quantitative easing through refinance schemes, some of the SAARC central banks (RBI and SBP) also introduced Forward Guidance (FG) in their Monetary Policy Statements as an important

[10] Reference: Shrestha, P. K.; NRB Working Paper 51; https://www.nrb.org.np/contents/uploads/2020/10/NRB_Working_Paper-NRB-WP-51-Impact_of_Covid_19_on_Microfinance_Institutions_of_Nepal-Prakash_Kumar_Shrestha_PhD.pdf

Unconventional monetary policy tool. The experience so far shows that FG has been able to guide the market expectations.

While this study has documented the experience of unconventional monetary policy by central banks in SAARC region, it recommends that all central banks should develop a database for all such measures on a regular basis. This will help in conducting more studies on the impact evaluation and effectiveness of monetary policy tools.

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Annexure -1: Key Features of SAARC Central Banks Refinance Schemes

Sr. No.	Scheme name	Date of introduction	Target sector	Interest rate for banks (%)	Interest rate for borrowers (%)	Sunset Clause (Yes/No)	Status (Active/Closed) [as on 30-Jun-2021]	Remarks
BANGLADESH								
1	Export-oriented Industries Fund	2-Apr-20	Export	Scheduled banks can avail of the interest free fund from Bangladesh Bank	2 % Service Charge (one time)	Yes	Active	for workers' wages
2	Working Capital for Industrial and Service Sector	5-Apr-20	Industry and services	4%	9% (To lessen the interest burden at client level, the government will subsidize 4.5% of interest)	Yes	Active	Government to pay subsidy of 4.5% (out of prevailing 9% interest rate)
3	Special Working Capital Facility for CMSMEs Sector	5-Apr-20	Cottage, Micro, Small, and Medium Enterprise	4%	9% (5 % subsidize by the Government)	Yes	Ended on 31-Mar-2021	Government to pay subsidy of 5% (out of prevailing 9% interest rate)
4	Credit Guarantee Scheme	27-Jul-20	Cottage, Micro, Small, and Medium Enterprise	4%	9% + 1 %	Yes	Active	Guaranteed by government
5	Revolving Refinancing Fund	13-Apr-20	Export	3%	6%	Yes	validity = 3 years	A fund for pre-shipment credit facility to export-oriented industries

6	Refinance scheme for working capital loan/investment facilities	23-Apr-20	Large Industry and services	4%	9% (4.5% subsidize by the Government)	Yes	validity = 3 years	
7	Refinance scheme for working capital loan	13-Apr-20	Agriculture	1%	4%	Yes		
8	Refinance Scheme for Professionals, Farmers and Marginal/Small Businessman of Low Income, 2020	20-Apr-20		BB to bank 1% and bank to MFIs 3.5%	9%	Yes	validity = 3 years	
9	Revolving refinance scheme	26-Apr-20	Cottage, Micro, Small, and Medium Enterprise	4%	9% (5% subsidize by the Government)	Yes	validity = 3 years	
10	Small Enterprise Refinance scheme	2-May-04	Small Enterprises	3%	7%	Yes		
11	Refinance Scheme for Setting up Agro Based Product Processing Industries in Rural Areas	4-Nov-01	Agriculture, Rural Industry	3%	7%	Yes		
12	Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small Enterprise Sector	14-Jul-15	Cottage, Micro and Small Enterprises	3%	7%	Yes		
13	Refinance Scheme for Shariah Based Financing in 'Agro-	18-Sep-14	Agro industry, women empowerment,	Bank Rate (4%)	Bank Rate (4%)+4%	Yes		

	Based Industry', Small Entrepreneurs (including Women Entrepreneur) and New Entrepreneur in Cottage, Micro and Small Enterprise Sector		cottage and small industry					
14	Refinance Scheme for BB Housing Fund	18-Jul-07	Housing	Bank Rate (4%)	Not more than 10%	Yes		
15	BB Refinance Scheme for renewable energy and green products	3-Aug-09	Renewable energy and green products	Bank Rate (4%)	Bank Rate (4%)+4%			
16	Refinance Scheme for Brick Kiln Efficiency Improvement	16-Sep-12	Reducing Green House Gas (GHG) and Suspended Particulate Matter (SPM)	Bank Rate (4%)	Bank Rate (4%)+ (4 to 5)%			
17	Green Transformation Fund (GTF)	14-Jan-16	Sustainable export growth	Interest shall be charged to ADs against the financing @ six-month USD LIBOR (IIBR for Shariah Based Isalmic Bank) plus 2.25 percent	Banks determine their own loan interest rates to the borrowers covering their cost of borrowing from the Fund and operational expenses, plus			

					a reasonable risk-adjusted spread and profit margin (typically expected to be in the range of 1.00 ~ 2.50 percent above the cost of borrowing)			
18	Refinance Fund for Islamic Shariah-based Financing to Renewable Energy & Environment-friendly Ventures	18-Sep-14	Green Products and Initiatives	5%	5%+3% (if lending tenure less than 5 years); 5%+3.5% (if lending tenure greater than 5 years but less than 8 years); and 5%+4% (if lending tenure greater than 8 years)			
19	Tk. 500 Crore Refinance Scheme for 10/50/100 Tk. Account Holders	5-Sep-21	Income generating activities of the Marginal people	1%	7%		Validity= 5 years, if needed duration of the scheme would be increased	
20	Refinance scheme of Taka 3000 crore for agriculture	Announce	Agriculture	BB to bank 0.5 % and bank to MFIs 3.0%	Scheduled bank to small entrepreneurs		14 September,	

	sector to combat financial crisis due to COVID-19 pandemic	date: 14-Sep-21 Amendment On 28 October, 2021			7 % (Reduced balanced method) MFI to credit receivers 9% (Reduced balanced method)		2021 to 30 June, 2023	
21	50 % Refinance scheme of Taka 1000 Crore for working capital in tourism sector under stimulus package	15-July-21	Tourism Sector	4%	8% (4% subsidize by the Government)	Yes	01 November, 2021 to 31 October , 2022	Government to pay subsidy of 4% (out of prevailing 8% interest rate)
BHUTAN (annexure 2)								
1	Priority Sector Lending	13-Dec-17	Cottage and Small Industries	NA	8	No	Active	For exclusively priority sectors; Collateral is not required
2	Loan Scheme for Cottage and Small Industries	2019	Cottage, Micro and Small Industries	NA	8	No	Active	Assets and guarantor are required as collateral; Rate is 5% for micro loans.
3	National Credit Scheme for Cottage and Small Industries Loan	5-Oct-20	Cottage and Small Industries	NA	7 - 9.75	No	Active	Government provides different levels of coverage for different size projects. Interest rate is determined by the banks.
4	Working Capital to Wholesalers and Retailers	?	Procure, Stock and Supply Essential Commodities	NA	5	Yes	Active	The scheme was initiated by the RMAB to combat COVID-19.
5	Working Capital to Tourism Sectors	?	Tourism and Allied Sectors	NA	5	Yes	Active	The scheme was initiated by the RMAB to combat COVID-19.

6	Working Capital to Industries	?	Operating Costs and Import Raw Materials	NA	6.85	Yes	Active	The scheme was initiated by the RMAB to combat COVID-19.
7	Working Capital to Micro and Cottage and Small Industries	?	Import Substitution and Renewable Energy	NA	4	Yes	Active	The scheme was initiated by the RMAB to combat COVID-19; Rate is 2% for micro loans.
INDIA								
1	Export Credit Refinance	May-1977	Exports	Repo (policy) rate		Yes	Ended on 7-Feb-2015	Historically, interest rate and percentage of outstanding credit eligible for refinancing has varied.
2	Temporary Liquidity Support to Scheduled Banks and National Bank for Agriculture and Rural Development (NABARD)	Oct-08	Agriculture, Banks	Repo (LAF) rate		Yes	Ended on 16-Dec-2008.	A total sum of INR 25,000 crore was provided under the scheme.
3	Special Refinance Facility	Nov-08	Banks	7.5 per cent		Yes	Ended on 31-Mar-2010.	The facility was provided by RBI to inject liquidity during global financial crisis.
4	Refinance Facility to Small Industries Development Bank of India (SIDBI)	Dec-08	Financial Sector, Small and Medium Enterprises	Repo (LAF) rate		Yes	Ended on 31-Mar-2010.	The facility was provided by RBI to inject liquidity during global financial crisis.
5	Refinance Facility to Export-Import Bank of India (EXIM)	Dec-08	Exports	Repo (LAF) rate		Yes	Ended on 31-Mar-2010.	The facility was provided by RBI to inject liquidity during global financial crisis.
6	Refinance Facility to National Housing Bank (NHB)	Dec-08	Banks, Housing Finance Companies	Repo (LAF) rate		Yes	Ended on 31-Mar-2010.	The facility was provided by RBI to inject liquidity during global financial crisis.
7	Refinance facility to EXIM Bank	Dec-11	Exports	Repo (LAF) rate		Yes	Closed	
8	Refinance Facility to SIDBI	Nov-13	Micro and Small Enterprises, Financial Sector	Repo (14 day auction cut-off) rate		Yes	Ended on 13-Nov-2014.	The facility was provided to ease liquidity stress to Micro and Small Enterprises.

9	Special Refinance Facility to NABARD	Apr-20	Cooperative/Rural/ Microfinance Banks	Repo (policy) rate		Yes	Ended on 5-May-2021	The facility was provided by RBI as part of COVID-19 relief measures.
10	Special Refinance Facility to SIDBI	Apr-20	Micro Finance Institutions, Micro, Small and Medium Enterprises	Repo (policy) rate		Yes	Ended on 28-Apr-2021	The facility was provided by RBI as part of COVID-19 relief measures.
11	Special Refinance Facility to NHB	Apr-20	Housing, Banking & Finance	Repo (policy) rate		Yes	Ended on 06-May-2021	The facility was provided by RBI as part of COVID-19 relief measures.
12	Special Refinance Facility to EXIM bank	May-20	Exports	Repo (policy) rate		Yes	Ended on 06-May-2021	The facility was provided by RBI as part of COVID-19 relief measures; Available for a period of 90 days (with rollover up to one year).
13	Additional Special Refinance Facility to NHB	Aug-20	Housing, Banking & Finance	Repo (policy) rate		Yes	Ended on 20-May-2021	The facility was provided by RBI as part of COVID-19 relief measures.
14	Additional Special Refinance Facility to NABARD	Aug-20	Cooperative/Rural/ Microfinance Banks	Repo (policy) rate		Yes	Active	The facility was provided by RBI as part of COVID-19 relief measures.
15	Special Refinance Facility to NABARD-2	Apr-21	Cooperative/Rural/ Microfinance Banks	Repo (policy) rate		Yes	Active	The facility was provided by RBI as part of COVID-19 relief measures.
16	Special Refinance Facility to SIDBI-2	May-21	Micro Finance Institutions, Micro, Small and Medium Enterprises	Repo (policy) rate		Yes	Active	The facility was provided by RBI as part of COVID-19 relief measures.
17	Special Refinance Facility to NHB-2	Jun-21	Housing, Banking & Finance	Repo (policy) rate		Yes	Active	The facility was provided by RBI as part of COVID-19 relief measures.
18	Special Refinance Facility to SIDBI-3	4-Jun-2021	Micro Finance Institutions, Micro, Small and Medium Enterprises	Repo (policy) rate		Yes	Active	The facility was provided by RBI as part of COVID-19 relief measures.
MALDIVES								
1	Credit Guarantee Scheme	2016	Micro, Small and Medium Enterprises, Financial Inclusion		Up to 9	Yes	Ended on 28-Feb-2021	Credit guarantee cover of up to 90% for commercially viable SMEs

2	Affordable Housing Scheme	2017	Housing, Financial Inclusion		5-to-6	Yes	Ended on 20-Aug-2020.	Guarantees up to 25% cost of flat for all loans under the scheme.
NEPAL								
1	SME Refinance	2006	SMEs, Exports, Agriculture, Power	3	7	Yes	Closed	The scheme was revised multiple times and rate of refinance varied for different sectors.
2	Refinance facility for Earthquake Victims and Priority Sectors	2015	Earthquake Victims, Cottage, SMEs, Exports, etc.	1 - 3	2 - 7	Yes	Closed	The scheme was revised in 2019 and rate of refinance varied for different sectors.
3	Micro, Cottage and Small Scale Industries Refinance	2020	Cottage, Micro and Small Industries	2	5	Yes	Active	The scheme is part of COVID-19 relief efforts.
4	Special Refinance (Export and Sick Industry)	2020	Exports, Sick Industry	1	3	Yes	Active	The scheme is part of COVID-19 relief efforts.
5	General Refinance	2020	Agriculture, Hydropower, Fishery, etc.	3	5	Yes	Active	The scheme is part of COVID-19 relief efforts.
PAKISTAN								
1	Export Refinance Scheme	1973	Exports	2	3	No	Active	For SMEs, bank get refinance from SBP at 1% instead of 2%; The scheme has been revised multiple times. Its Islamic version was introduced in 2004.
2	Long Term Financing Facility (LTFF) for Plant & Machinery	2007	Exports	2-to-3.5	5	No	Active	PFIs can charge maximum spread of 1.5%, 2.5% and 3% for loan tenors of 3, 5 and 10 years, respectively; The Islamic version of the scheme was also introduced in 2007.
3	Refinance Facility for Modernization of SMEs	2009	SMEs		6	No	Active	The scheme was originally to be closed on 31 Dec 2012; however, extended to indefinite period vide IH&SMFED

								CL# 2/2014. The Islamic version of the scheme is also available.
4	Refinance Scheme for Working Capital Financing of Small Enterprises and Low-End Medium Enterprises	2017	Selected SME sectors	2	6	No	Active	PFIs can charge maximum spread of 4%; The Islamic version of the scheme is also available.
5	Financing Facility for Storage of Agricultural Produce	2010	Agriculture		6	No	Active	PFIs' maximum spread is 2.5%, 2.75% and 3.5% for loan tenor of 3, 5 and 7 years, respectively. For SMEs, spread is fixed at 4% for all tenors; The Islamic version of the scheme is also available.
6	SBP Financing for Renewable Energy	2009	Power, Green Banking, Climate Change	3	6	Yes	Active	To be closed on 30 Jun 2022; the Islamic version of the scheme is also available.
7	Refinance and Credit Guarantee Scheme for Women Entrepreneurs (2017)	2017	Women Empowerment, Financial Inclusion	0	5	No	Active	Risk coverage of up to 60% is available to the PFIs.
8	Small Enterprise Financing and Credit Guarantee Scheme for Special Persons		Socio-Economic Development, Financial Inclusion	0	5	No	Active	Risk coverage of up to 60% is available to the PFIs.
9	Financing Facility for Low Cost Housing for Special Segments	2019	Housing, Socio-Economic Development	1	5	No	Active	The Islamic version of the scheme is also available.
10	Loan Extension & Restructuring Package by SBP (Debt Relief Scheme)	2020	Borrowers	-	-	Yes	Closed	Introduced as part of COVID-19 relied measures.
11	Temporary Economic Refinance Facility	17-Mar-20	All sector except power.	1	5	Yes	Closed	
12	Refinance Facility for Combating COVID-19	17-Mar-20	Health Sector	0	3	Yes	Closed	
13	SBP Rozgar Scheme	10-Apr-20	Employment Protection	2	3	Yes	Closed	

SRI LANKA								
1	Poverty Alleviation Microfinance Project - Revolving Fund (PAMP-RF)	Apr-07	Socio-Economic Development, Financial Inclusion	5	12	No	Active	Funded by the government.
2	Swashakthi Loan Scheme	Feb-17	Micro, Small and Medium Enterprises	1	5.5	No	Active	Funded by the government.
3	Self-Employment Promotion Initiative Loan Scheme (SEPI) Ph II	Apr-16	Youth Vocational Training, Entrepreneurship	3	7	No	Active	Funded by the government.
4	SAPP-RF Income Generation Loan Scheme	Mar-18	Poverty Reduction of Small Holders	3	6.5	No	Active	Funded by International Fund for Agriculture Development (IFAD) & GOSL
5	Supply Chain Re-Energizing Loan Scheme (SCRELS)	Feb-20	Tea	0.5	3.5	No	Active	Funded by Sri Lanka Tea Board
6	The Prosperity Loan Scheme ("Saubagya")	Mar-10	Micro, Small and Medium Enterprises	3	6	No	Active	Funded by Central Bank of Sri Lanka.
7	Saubagya COVID-19 Renaissance Facility (SCRF) Phase I, II, and III	Apr-20	Businesses and Individuals Affected by COVID-19	1	4	No	Active	Funded by Central Bank of Sri Lanka.
8	SAPP-4P Agribusiness and Youth Loan Scheme	Mar-18	Poverty Reduction of Small Holders	3	6.5	No	Active	Funded by International Fund for Agriculture Development (IFAD) & GOSL

Annexure 2: Bhutan Covid-19 related Monetary Measures as of December 2020

1. Concessional Loans provided by Financial Institutions

Loans Sanctioned by Financial Institutions

	Sectors	Amount (Nu million)	% GDP	Amount (USD million
1	Production & Manufacturing	1014.07	0.56	13.68
2	Service & Tourism	1786.1	0.99	24.10
3	Trade & Commerce	824.75	0.46	11.13

Loans sanctioned by National CSI Development Limited

	Sectors	Amount (Nu million)	% GDP	Amount(USD In Million
1	Agriculture & Animal Husbandry	688.51	0.38	9.29
2	Production & Manufacturing	51.72	0.03	0.70
3	Service & Tourism	6.26	0.00	0.08

2. Interest Payment Support

	Period	Druk Gyalpo's Kidu Relief Fund (DGKRF)	Financial Service Provider (FSPs)	Total	% GDP
1	April-December, 2020	7442	1882	9324.44	5.15

3. Reduction in Reserve Requirement

	Indicator	Amount released (Nu. Million)	% GDP
1	CRR (10% to 7%)	4217	2.33

4. Easing of Capital Conservation Buffer

	Indicator	Amount released (Nu. Million)	% GDP
1	CAR (12.5% to 10%)	25000	13.82

Memorandum		
Nominal GDP 2020 *(estimates)*		180,958
Exchange rate (period average of 2020)	74.11	

Acronyms

ADB	Asian Development Bank
AIFIs	All India Finance Institutions
ARDL	Autoregressive Distributed Lag
ASLF	Additional Special Liquidity Facility
BB	Bangladesh Bank
BDT	Bangladesh Taka
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CMSME	Cottage, Micro, Small, and Medium Enterprises
COVID-19	CoronaVirus Disease of 2019
CRR	Cash Reserve Ratio
DFG	Development Finance Group
DFIs	Development Financial Institutions
DGKRF	Druk Gyalpo's Kidu Relief Fund
ECR	Export Credit Refinance
EDF	Export Development Fund
EFS	Export Refinance Scheme
Exim Bank	Export-Import Bank of India
FG	Forward Guidance
FINAP	Financial Inclusion National Action Plan
FIs	Financial Institutions
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GHG	Green House Gas
GTF	Green Transformation Fund
HFCs	Housing Finance Companies
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IH&SMEFD	Infrastructure, Housing and Small and Medium Enterprises Finance Department
IMF	International Monetary Fund
INR	Indian Rupee
JICA	Japan International Cooperation Agency
LTFF	Long Term Financing Facility
LTO	Long Term Operation
MFIs	Micro Finance Institutions
MMA	Maldives Monetary Authority
MSMEs	Micro, Small and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NBFCs	Non-bank Finance Companies
NBFID	National Bank for Financing Infrastructure and Development
NCSIDBL	National Cottage and Small Industries Development Bank Ltd.
NFIS	National Financial Inclusion Strategy
NFLS	National Financial Literacy Strategy
NHB	National Housing Bank
NRB	Nepal Rastra Bank

OMOs	Open Market Operations
PAMP-RF	Poverty Alleviation Microfinance Project - Revolving Fund
PFIs	Participating Financial Institutions
PSC	Private Sector Credit
PSL	Priority Sector Lending
QFOs	Quasi-Fiscal Operations
RBI	Reserve Bank of India
RDD	Regional Development Department
RMA	Royal Monetary Authority of Bhutan
SAARC	South Asian Association for Regional Cooperation
SAPP	Smallholder Agribusiness Partnerships Programme
SBP	State Bank of Pakistan
SC	Steering Committee
SCRELS	Supply Chain Re-Energizing Loan Scheme
SCRF	Saubagya COVID-19 Renaissance Facility
SDGs	Sustainable Development Goals
SEPI	Self-Employment Promotion Initiative Loan Scheme
SIDBI	Small Industries Development Bank
SLF	Special Liquidity Facility
SMEs	Small, and Medium Enterprises
SOEs	State-owned Enterprises
SPM	Suspended Particulate Matter
TERF	Temporary Economic Refinance Facility
TLTRO	Targeted Long-Term Repo Operations