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SOUTH ASIA AND THE GLOBAL FINANCIAL CRISIS

Impact and monetary policy responses

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Introduction

While most of the world's attention has been focused on the growth and dynamism of China and the East Asian region, South Asia has quietly been growing at 6.8 per cent per year over the past decade. While people are becoming more aware of the Indian growth story, its South Asian neighbours, Bangladesh in particular, but also Pakistan and Sri Lanka, have also experienced growth spurts. Increased openness to trade particularly in the past decade has no doubt been an important factor behind the region's robust growth.¹ Greater private capital inflows have also played a role in promoting growth, particularly in India.² However, this increased openness also implies that, like its East Asian neighbours, India and some of the other South Asian countries were not immune to the financial crisis, particularly following the collapse of Lehman Brothers in September 2008. This was in sharp contrast to 1997–8 when India and its South Asian neighbours were by and large unaffected by the severe financial crisis that started in Thailand and engulfed most of the rest of East Asia.

The 2008 global financial crisis and the ensuing global economic slowdown hit the South Asia region at a bad time. The region was recovering from the impact of high global fuel and food prices. Before the crisis, while growth in the region was robust, demand management policies in most countries were somewhat problematic, with high fiscal deficits, high inflation, and unsustainable current account deficits (Figure 11.1). Most of these problems were related to the fact that, since 2000, the South Asia region has experienced one of the fastest rates of credit growth in the world, outpacing growth rates in neighbouring East Asia (Figure 11.2). This in turn was due to the fact that South Asian economies, and India in particular, were beneficiaries of a 'virtuous cycle' of large capital inflows, low interest rates and high investments. With the unfolding global financial crisis, domestic credit markets tightened considerably and the 'virtuous cycle' was broken. The cost of funds for banks spiked and they became increasingly risk averse in their credit decisions. As a result, throughout the region, even established corporate sector players were finding it hard to access financing on either domestic or international markets.

As the credit crunch hit the region it constrained private sector investment activities, consequently halting the region's economic growth. Asset prices deflated quite sharply (Figure 11.3). There was a marked rise in the perceived risk as measured by credit default swaps (CDS) (Figure 11.4).³ Balance sheets of the private sector, particularly from the financial sector,

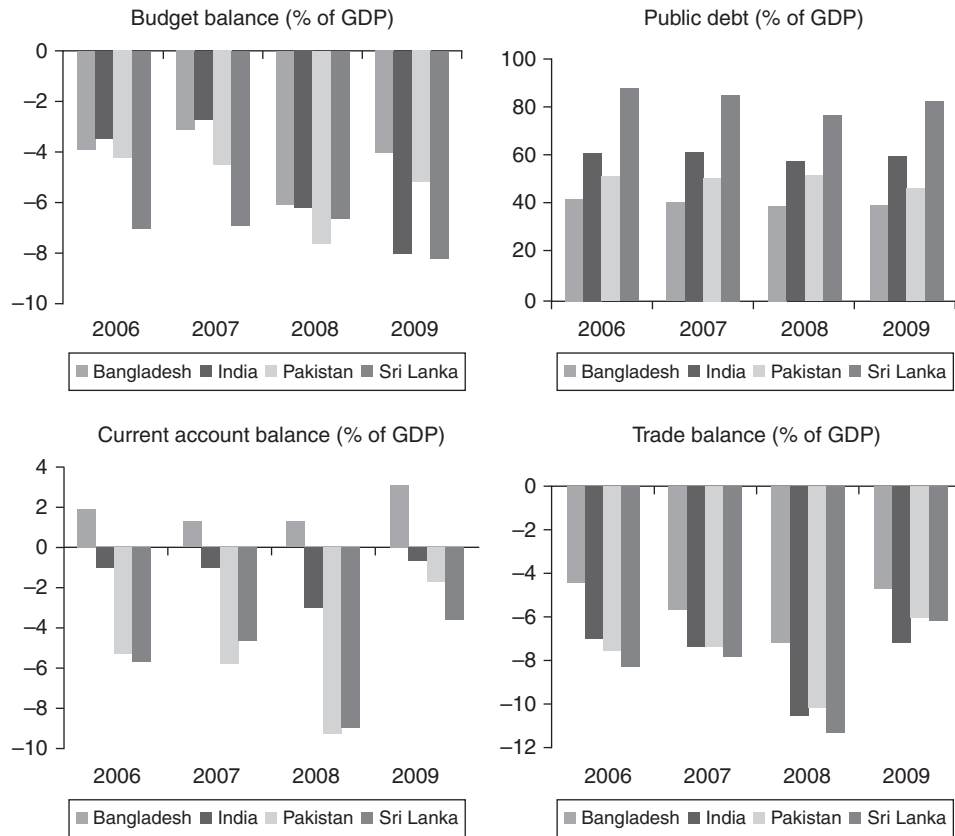


Figure 11.1 South Asia macroeconomic overview, 2006–9
 Source: Based on the Economist Intelligence Unit and International Monetary Fund.

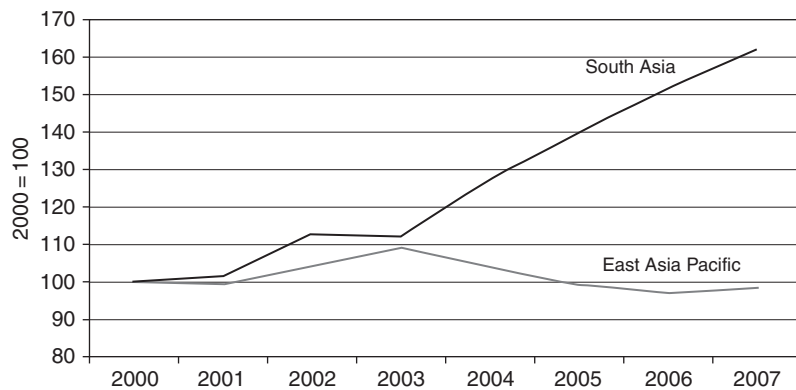


Figure 11.2 Domestic credit in South Asia and East Asia Pacific, 2000–2007
 Source: World Bank's World Development Indicators' database.

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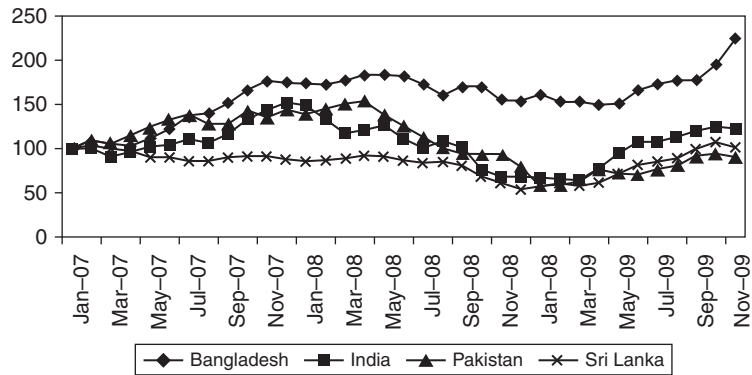


Figure 11.3 Stock price indices in selected South Asian economies: M1:2007–M11:2009
 Source: Based on Asia Regional Integration Center (ARIC), Asian Development Bank.

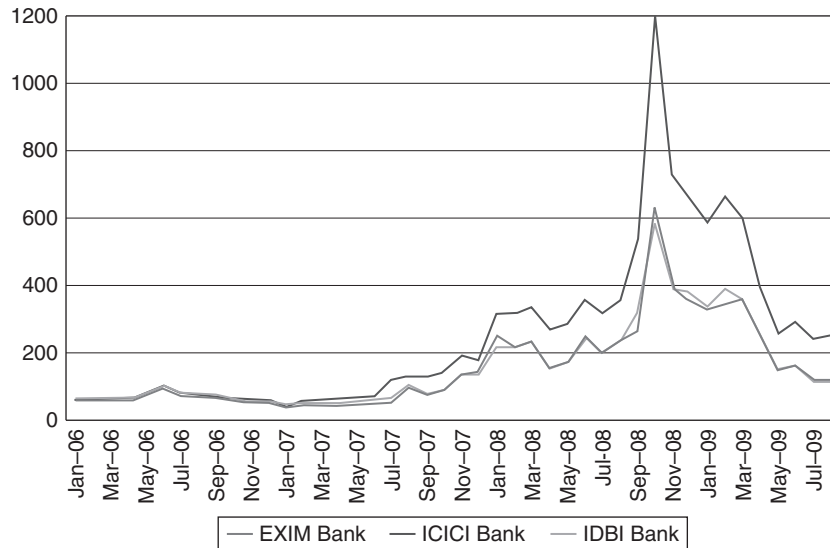


Figure 11.4 Five-year credit default swap of Indian private banks
 Source: Bloomberg.

deteriorated as non-performing loans (NPLs) rose.⁴ The South Asian policy makers tried to counter the impact of the crisis using a combination of fiscal and monetary policy responses. From the monetary policy side, the drop in global commodity prices and reduced inflationary pressure created room for accommodative monetary policies to thaw the tight credit markets and try and revive bank lending to firms and households.

From the fiscal side, the only South Asian government that provided an economy-wide fiscal stimulus was India, which amounted to 0.5 per cent of its GDP (i.e. average per cent of GDP in 2009/10). Bangladesh also provided a fiscal stimulus, though its fiscal stimulus was more targeted to help the non-apparel export industry in the amount of a modest US\$500 million.⁵ As apparent from Figure 11.1, the fiscal balance and public debt in India increased in 2009 vis-à-vis 2008. Pakistan and Sri Lanka, on the other hand, were constrained somewhat — at least in principle — as they had both approached the International Monetary Fund (IMF)

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for assistance and their fiscal stances were more limited by the IMF conditionalities they had agreed to. To be sure, Sri Lanka missed its fiscal target (attempting to stimulate the economy following the economic and political crisis/civil war) but the IMF still approved the loan disbursements under the Stand-by agreement in late 2009.⁶ Pakistan has faced a much harder budget constraint. Thus, as Figure 11.1 shows, while Pakistan’s fiscal balance was curbed in 2009, that for Sri Lanka rose sharply from 2008.

It is fair to say that, given the limited fiscal space that was available for policy makers in South Asia, monetary policy was the most aggressive line of defence in South Asia to combat the negative fallout from the global financial crisis. Given this fact, the rest of this chapter concentrates on the monetary policy responses of the major South Asian countries, India, Pakistan, Sri Lanka and Bangladesh, and revisits the monetary policy transmission mechanism and, in particular, the role of the banking system in this process.

Monetary policy responses to the crisis

If there was one silver lining it is that that financial crisis in the developed world became truly global only in mid- and late 2008 after the collapse of Lehman Brothers, and by this time the global commodity shock that threatened to lead to spiralling inflation in South Asia and elsewhere had largely abated (Figure 11.5). This in turn allowed most central banks globally to adopt accommodative macro policies without being overly concerned about immediate inflationary consequences, particularly in India and Bangladesh. (Pakistan and Sri Lanka continued to have some inflationary pressures though not nearly as much as if the commodity price spikes had been sustained.) We briefly discuss the monetary policy stances of the four South Asian countries below.⁷

India

In India, the Reserve Bank of India (RBI) aggressively reduced the key policy rates (the repo⁸ and the reverse repo⁹) (see Figure 11.6), while the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR) were both cut sharply.¹⁰ Fresh government bond issuances under the market stabilization scheme (MSS) ceased and the RBI also bought back existing MSS securities in order to inject liquidity into the system.¹¹ Foreign exchange liquidity was eased by loosening restrictions on

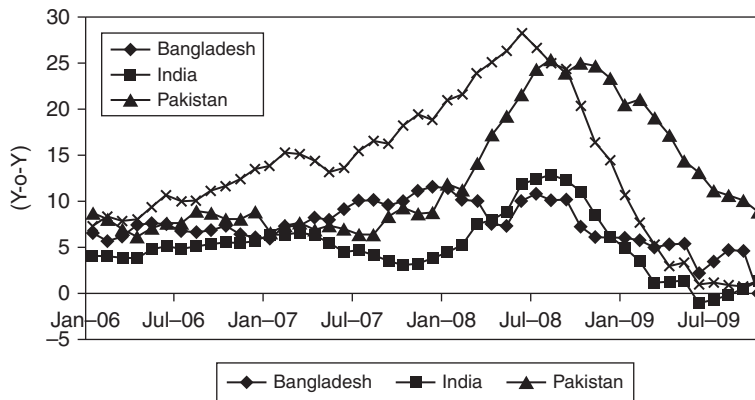


Figure 11.5 Inflation trends in selected South Asian economies: M1:2006–M9:2009
 Source: Based on Asia Regional Integration Center (ARIC), Asian Development Bank.

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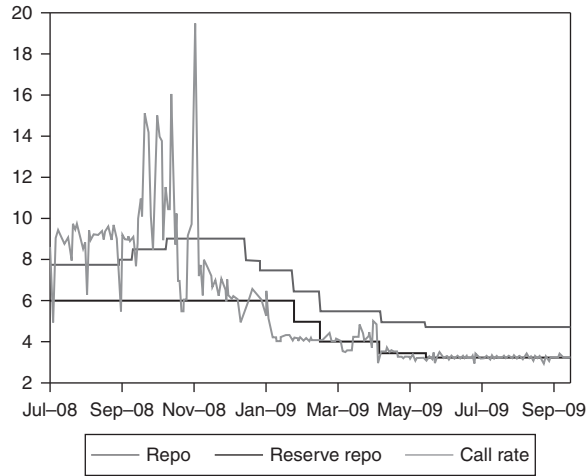


Figure 11.6 India's policy interest rates
 Source: Based on Reserve Bank of India.

external commercial borrowings (ECBs) and short-term trade credits, while interest rate ceilings on non-resident deposits were raised in order to attract more foreign funds into the country. The RBI, which had allowed the rupee to depreciate until September 2008, shifted to currency intervention to manage the rupee decline by leaning-against-the-wind, hence releasing further foreign exchange into the market.¹² The monetary policy operations and the extension of liquidity facilities released liquidity amounting to over Rs 4.9 billion (or about 9 per cent of India's GDP) from mid-September 2008 to March 2009 (Mohan 2009a; 2009b).

For the economy as a whole, credit and broad money continued to grow at a stable and robust rate. The decline in reserve money and increase in broad money (see Figure 11.7) inevitably implied a sharp rise in the money multiplier (Figure 11.8). The liquidity that was infused partly offset the drying-up of non-bank sources of funds. For instance, by December-January of the fiscal year 2008/9 credit from the banking sector accounted for 60 per cent of the total credit, whereas non-banks were the source of 55 per cent of credit in the comparable period of 2007/8.¹³

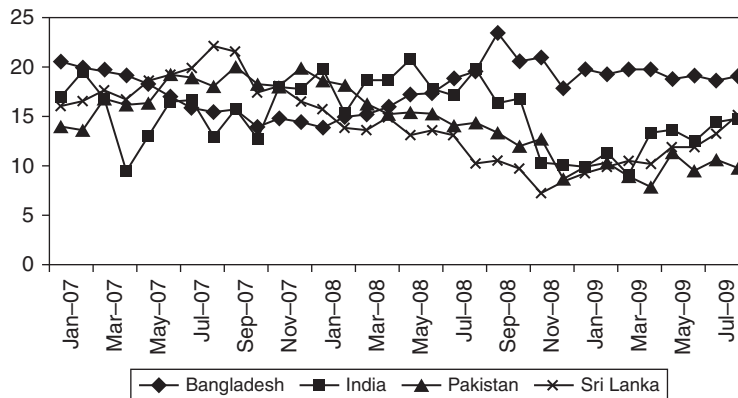


Figure 11.7 Broad money growth in selected South Asian economies: M1:2007–M8:2009
 Source: Based on Asia Regional Integration Center (ARIC), Asian Development Bank.

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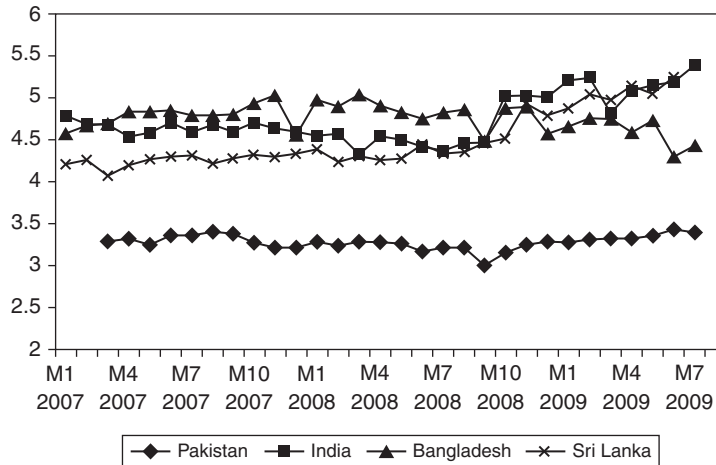


Figure 11.8 Broad money multiplier in selected South Asian economies: 2007:M1–2009:M7
 Source: Based on International Financial Statistics, IMF, Reserve Bank of India, State Bank of Pakistan and Bangladesh Bank.

Sri Lanka

Monetary policy in Sri Lanka has eased significantly in the wake of the global financial crisis. Prior to the crisis, monetary policy was gradually tightened in response to rapidly increasing consumer price inflation, driven in large part by rising commodity prices.¹⁴ Policy easing which commenced in late 2008 continued into 2009. In 2009 to date, the benchmark interest rates of repurchase (REPO) and the reverse repurchase (RREPO) rates were lowered by 225 basis points (bps) and 125bps, while the hitherto applicable ‘penal rate’ on RREPO (applicable to banks which access the Central Bank of Sri Lanka RREPO window more than three times a month) was successively lowered, and eliminated altogether in May (see Figure 11.9). In addition, the statutory reserve requirement of commercial banks was cut twice in the last

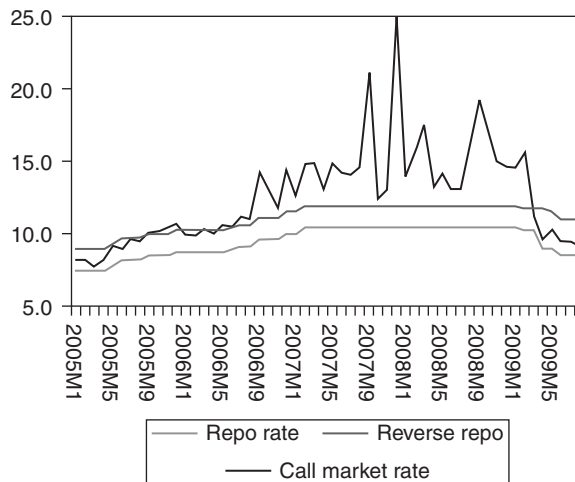


Figure 11.9 Policy rates in Sri Lanka
 Source: Central Bank of Sri Lanka.

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quarter of 2008 and lowered again in February 2009. However, the effectiveness of monetary policy in Sri Lanka has been questionable. Aggressive easing of monetary policy has not led to greater credit expansion.

In the early part of the year, sizable intervention by the Central Bank of Sri Lanka to defend the rupee in the face of considerable foreign exchange outflows drained liquidity in the system, while the banks' cautious attitude in light of rising non-performing advances also limited credit expansion. However, the central bank halted its intervention in mid-March and allowed the rupee to depreciate. The drain in liquidity was arrested, but the banks remained cautious about lending. Total private sector credit recorded its sixth successive month-to-month contraction in June — falling by an annualized 10.3 per cent from December 2008. Post-May 2009, prime lending rates began to fall more rapidly (over 480bps to August) in the face of the rapidly expanding liquidity and falling deposit rates, but credit remains slow to recover.

Pakistan

As in Sri Lanka and India, the monetary stance in Pakistan was eased significantly. However, the differences had to do with timing of policies. The State Bank of Pakistan (SBP) started to reduce its policy rate (discount rate) in March 2009. Since then, the discount rate has been cumulatively reduced by 250bps (see Figure 11.10). The SBP also reduced the cash reserve requirement (CRR) and exempted time deposits from the Statutory Liquidity Requirement (SLR).

Bangladesh

Bangladesh initially appeared to be largely immune from the global financial crisis. Thus, at the beginning of global financial crisis, the Bangladesh (BB) Bank did not see the need to shift its monetary policy stance markedly given the stable liquidity and credit conditions in the domestic financial market. However, as the country experienced a drop in export performance (particularly in readymade garments)¹⁵ and a slowdown in migrant workers abroad, it became clear that Bangladesh too was not completely immune. Against this background, the BB adopted an expansionary monetary policy from July to December 2009.¹⁶

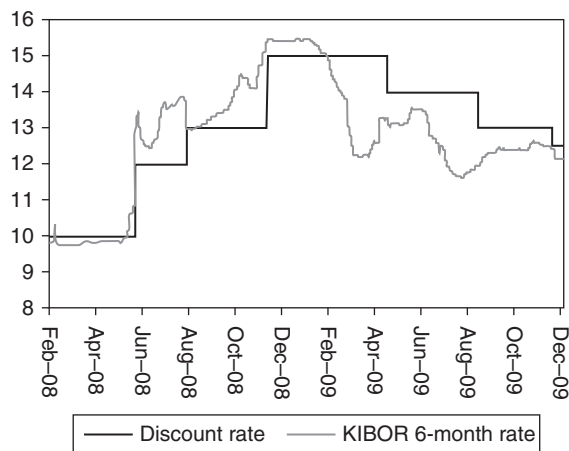


Figure 11.10 Policy rates in Pakistan
Source: State Bank of Pakistan.

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Bank lending and monetary policy pass-through

What was the impact of the monetary policy actions on market interest rates and thus the real economy? Most of the literature on the transmission mechanism (e.g. Bernanke and Gertler, 1995; Bernanke and Gilchrist, 1999) implicitly assumes that, once the monetary authority target is changed, short-term market interest and retail banking rates will follow suit (i.e. that there will be immediate and complete ‘pass-through’ to retail banking rates). It is evident that if the pass-through to banking interest rates were sluggish and/or incomplete, those specific channels of the transmission mechanism of monetary policy that operate through banking rates would also be affected.

For the South Asian countries, empirical evidence shows that there is a great degree of stickiness on the lending rate (see Figure 11.11), except for Sri Lanka, where the lending rate follows the overnight interbank rate or call rate. Cottarelli and Kourelis (1994) suggested that the stickiness in developing countries could be due to a less-developed short-term debt market and structural rigidities. This section examines the state of the monetary transmission mechanism at the four largest economies in South Asia (Bangladesh, India, Pakistan, and Sri Lanka), looking at the pass-through from policy rates to lending rates compared to selected Southeast Asian economies.

The average pass-through — simply measured as the ratio of the change in the short-term lending rate to the change in the policy rate since the beginning of the current easing cycle — of the four largest South Asian economies has been 74 per cent, but there are striking differences

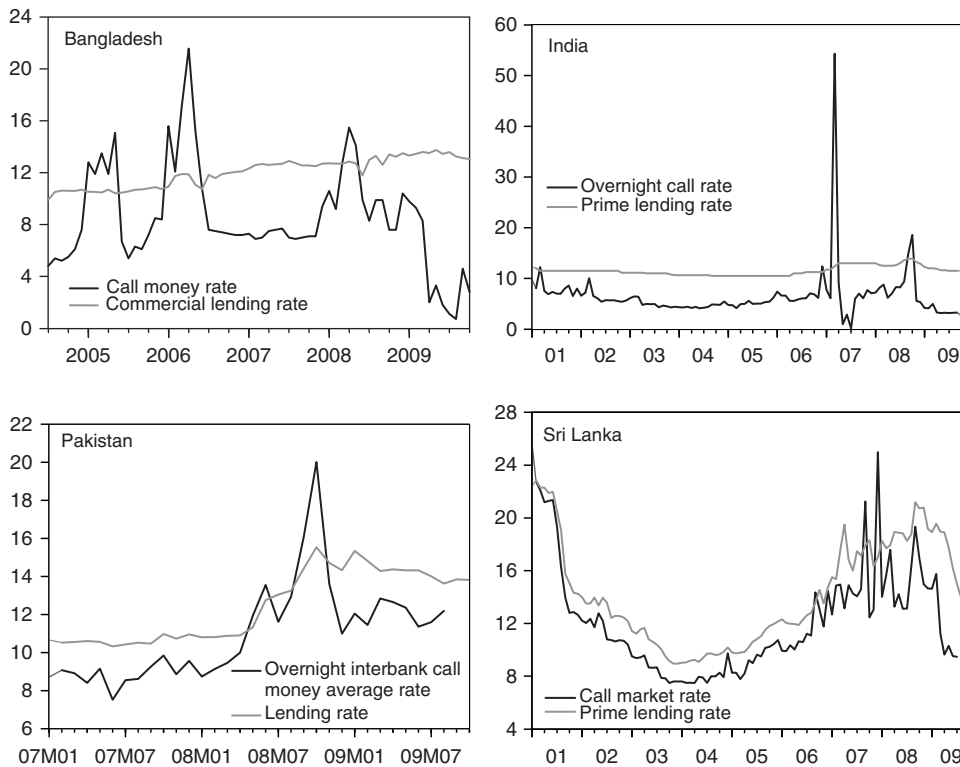


Figure 11.11 Call market rate and lending rate in South Asia
 Source: CEIC data Ltd.

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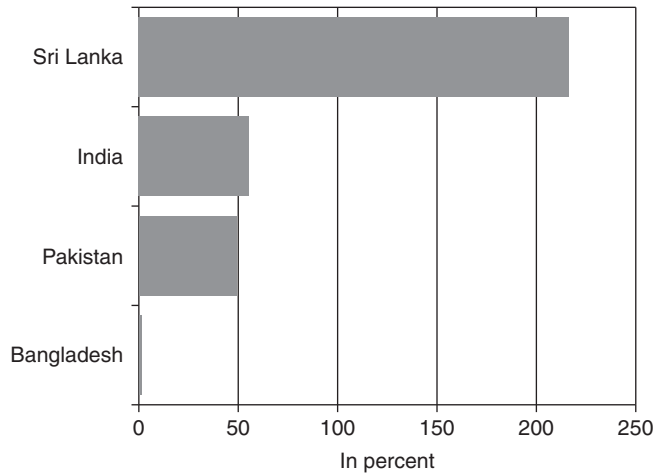


Figure 11.12 Interest rate pass-through in South Asian countries*

Note: *Pass-through is defined as the ratio between the change in the lending rate and the change in the policy rate since the beginning of the easing cycle.

Source: Authors estimates.

across them (see Figure 11.12). In India and Pakistan, lending rates have declined by nearly the same amount as the policy rate, while in Bangladesh, lending rates have remained relatively sticky compared to policy rates. In Sri Lanka, it has been the opposite of the three countries — lending rates have fallen more than the policy rates (although this could be due to the excessive moral suasion that the Central Bank of Sri Lanka had requested the banking sector in June 2009 after the government’s war victory against the Liberation Tigers of Tamil Eelam or LTTE).

In order to undertake a more rigorous exercise to ascertain the extent of interest rate pass-through, following Espinosa-Vega and Rebucci (2003), we estimate a dynamic reduced-form relationship between market interbank interest rates (overnight call rates) and lending rates in autoregressive distributed lag (ADL) model using monthly data over the period January 2001 to October 2009.

The standard error correction econometric specification is as follows:

$$lending_t = \alpha_0 + \alpha_1 trend + \alpha_2 market_t + \alpha_3 lending_{t-1} + \alpha_4 market_{t-1} + \varepsilon_t \quad (11.1)$$

where $lending_t$ is the bank lending rate, $market_t$ is the call overnight rate and $trend$ is intended to capture the other factors that change only slowly over time (such as financial market liberalization and other structural reforms). For the South Asian countries, the above equation is specified including one lag of both the retail and the policy interest rates, here assumed to be exogenous — a reasonable assumption within the month.

Figure 11.13 shows the ‘spread’ between the overnight call rate with the lending rates of the four countries in our sample. The spreads in India, Pakistan and Sri Lanka do not appear to have a trend, which could indicate they are cointegrated. On the other hand, the spreads in Bangladesh look to follow a trend, especially from mid-2007 to October 2009 and from January 2007 to November 2008 for Pakistan. To reconfirm the cointegration process, we test it for all the series using Engle–Granger Augmented Dickey–Fuller (EG-ADF). The result confirms that Bangladesh and Pakistan are the only countries that have no cointegration relation between the policy rates and lending rates.

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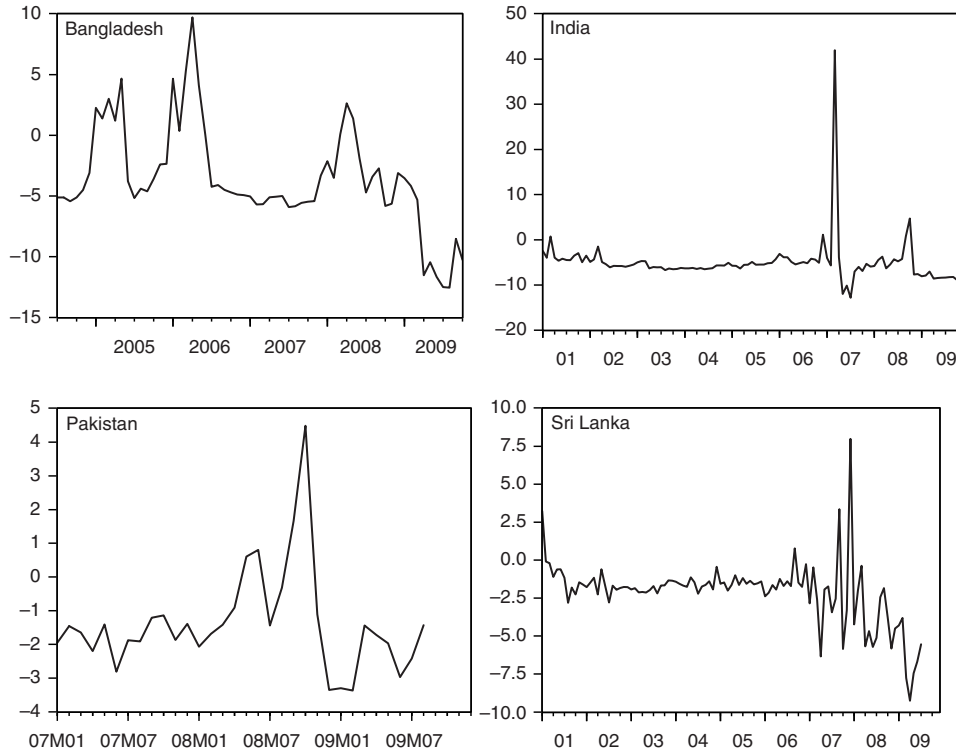


Figure 11.13 The spreads between call market rate and lending rate in South Asia
 Source: Authors calculation.

We then follow Hendry (1995) by reparameterizing and re-estimating the ADL equation (11.1) for India and Sri Lanka as the following error correction:

$$\Delta lending_t = \mu_1 + \mu_2 \Delta market_{t-1} + \mu_3 \Delta lending_{t-1} + \beta_3 (lending_{t-1} - \beta_0 - \beta_1 trend - \beta_2 market_{t-1}) + \varepsilon_t \quad (11.2)$$

where

$$\beta_0 = \frac{\alpha_0}{(1 - \alpha_3)}, \beta_1 = \frac{\alpha_1}{(1 - \alpha_3)}, \beta_2 = \frac{\alpha_2 + \alpha_4}{(1 - \alpha_3)}, \beta_3 = (\alpha_3 - 1) \quad (11.3)$$

The parameters of equation (11.2) are linked to the parameters of equation (1) by equation (11.3). Hence, estimating the former equation allows all the parameters of the latter to be recovered and vice versa without altering the estimated residuals. From a statistical point of view, however, the two representations are not equivalent: if the series is stationary, or non-stationary but co-integrated, then the parameters of (2) may be estimated more efficiently because of the error correction term and individual series represented in first differences are less likely to be collinear. If the series are integrated but do not co-integrate, then neither representation is statistically satisfactory.

Our results focus on the degree of pass-through in the short-term with α_2 measures the degree of the pass-through from market to lending rates in the short-term (one month), β_2 is the size of pass-through in the long run, and β_3 is the speed of adjustment to the long-run,

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Table 11.1 Estimated interest rate pass-through from dynamic regression model for selected South Asian countries

	<i>Short run pass-through</i>	<i>Long run pass-through</i>	<i>Mean lag (in months)</i>
Bangladesh	0.0	0.0	1.0
India	0.0	0.3	1.2
Pakistan	0.2	0.7	2.1
Sri Lanka	0.1	0.9	1.4

Source: Author's calculation.

which together with α_2 determine the average number of months needed to reach the long-run of the pass-through ($1-\alpha_2/\beta_2$, sometimes called the mean lag).

The extent of pass-through in the short run (one month) is generally low, consistent with the fact that lending rates do not adjust instantly because of various rigidities. The short-run pass-through estimate ranges from 0.05 (for Bangladesh) to close to 0.7 (for Sri Lanka). In South Asia, Sri Lanka has the highest long-run interest rate pass-through with 0.9, while India, Pakistan and Bangladesh come second, third and fourth. As for the time to reach full pass-through, Pakistan takes longer to reach full pass-through (2.0 months) compared with Bangladesh (1 month), India (1.2 months) and Sri Lanka (4.0 months) (see Table 11.1).

In the specific case of India, for instance, adjustments in the benchmark prime lending rates (BPLR) are directly linked to the rate of inflation and deposit rates. The wholesale price index (WPI) inflation in India, for instance, declined in the last quarter of 2008 but the consumer price inflation (CPI) inflation was still high as it tends to react with a lag. The deposit rates in commercial banks are generally 2 per cent higher than the CPI inflation rate to ensure that savers get positive returns. The inability of banks to reduce deposit rates may have limited their scope somewhat to lower lending rates despite the lower repo rates. In addition, the maturity period of deposits may be another consideration when banks cut lending rates. Indian banks raised the savings deposit rates (those with higher maturity periods of 1 to 3 years) during high inflation periods. These rates cannot automatically be adjusted downward even if inflation rate comes down. The bulk of banks' time deposits continue to be at fixed interest rates. Banks may, therefore, need some time to reprice their loans. Further complicating things is the interest rates on small savings, which are not market-determined and cannot be reduced easily.

Has the transmission mechanism become less effective since August 2008? To answer it, we follow IMF (2009) by adding an interaction dummy to equation (1) and the pass-through is recalculated. Table 11.2 shows no strong empirical evidence that the spike in risk aversion and tightening in lending standards associated with the current crisis has impacted the pass-through process, making lending rates stickier.

Table 11.2 Estimated interest rate pass-through from dynamic regression model for pre- and post-global financial crisis for selected South Asian countries

	<i>Long run pass-through before crisis</i>	<i>Long run pass-through after crisis</i>
Bangladesh	0.0	0.1
India	0.3	0.1
Pakistan	0.7	0.5
Sri Lanka	0.9	0.9

Source: Author's calculation.

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Conclusion

It is not easy to offer a blanket statement on the impact of the global financial crisis on South Asia. The crisis started to spread to South Asia when the region had barely recovered from the severe terms of trade shock resulting from the global commodity boom (World Bank, 2009a, 2009b). The terms of trade shock that was partly absorbed by the respective governments put severe pressure on their fiscal and current account balances. The global financial crisis along with internal political problems added to the structural woes of Pakistan and Sri Lanka, both of which had to seek IMF bailouts as their macroeconomic vulnerabilities became unsustainable. At the other end of the spectrum, with an autarkic financial system, Bangladesh was largely insulated from the first round of the shock. Its low-value-added exports sector, particularly textiles and apparels, and steady increases of remittances helped the country largely avert the crisis. South Asia's largest country, India, was also hit badly because of the global credit crunch and sharp capital account reversals. However, the decline in economic activity appears to have been more cyclical in nature as the country has bounced back smartly and the country is back to its pre-crisis growth trajectory.

Consistent with the different sets of concerns faced by the four South Asian countries, it is not surprising, therefore, that monetary policy responses also varied between the countries. In India, once the gravity of the financial crisis became apparent by mid- to late 2008 the RBI took a series of steps to ease domestic and foreign exchange liquidity as far as possible. Sri Lanka and Pakistan both faced various tradeoffs and constraints — cyclical slowdown due to the crisis, unsustainable macroeconomic policies that were more structural in nature, and ongoing inflationary concerns. Not surprising, therefore, the policies taken by their respective central banks appeared to be pensive and contradictory compared with India. Bangladesh, which was relatively unimpacted by the crisis, did not feel the need to alter its policy stance much.

By and large the central banks in India and Bangladesh have been successful as far as liquidity management in a quantitative sense is concerned. For instance, with regard to the growth of the monetary aggregates — the high-powered money, monetary base and credit — were maintained at their pre-crisis growth rates. The RBI has been able to influence public sector banks — that accounted for over 70 per cent of loan growth in 2008/9¹⁷ — to reduce the BPLR and increase credit flows, but private and foreign commercial banks have been rather reluctant or slow to respond to such calls. As shown in Tables 11.3 and 11.4, both the private

Table 11.3 Credit flows from scheduled commercial banks (% , year-on-year changes)

	<i>4 January 2008</i>	<i>4 January 2009</i>	<i>28 March 2008</i>	<i>28 March 2009</i>
Public sector banks	19.8	28.6	22.5	20.4
Private banks	24.2	11.8	19.9	10.9
Foreign banks	30.7	16.9	28.5	4.0

Source: RBI (2008).

Table 11.4 Deposit and lending rates in India, M10:2008 to M4:2009 (in basis points)

	<i>Deposit Rate</i>	<i>Lending Rate</i>
Public sector banks	125–250	125–225
Private sector banks	75–200	100–125
Top 5 foreign banks	100–200	0–100

Note: A basis point is one-hundredth of one per cent.

Source: *Business Standard*, 27 April 2009.

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sector and foreign commercial banks showed clear conservatism in terms of increasing credit flows to the private sector in March 2008–09. Private and foreign banks appear to have chosen to park some of the excess liquidity at the RBI's reverse repo window and invested in SLR securities (Islam and Rajan, 2009). This explains why there has been a rise in SLR bonds despite the RBI having lowered the SLR rate.

In Pakistan and Sri Lanka the annual growth of both narrow and broad monies slowed substantially mainly due to ongoing inflationary concerns. In all cases, however, the money multiplier remained at or, in some cases, even surpassed the pre-crisis levels, in sharp contrast to the US, for instance, where the money multiplier collapsed as banks held on to excess reserves despite the huge liquidity infusions by the Fed (Islam and Rajan, 2009). While this difference could be explained by the fact that the banks in South Asia were relatively robust and their balance sheets were quite strong, our study of India suggests that the other reason was because of the high concentration of public sector banks in the country. These public banks have been more responsive to the RBI's moral suasion and other credit-easing measures compared with private sector banks — particularly foreign banks — which have shown severe conservatism in terms of bank lending during the crisis period.

While the availability of credit was not as much an issue in India, of some concern has been the cost of credit. The monetary policy pass-through of policy rates into bank lending rates have been quite slow in India and even more lethargic in its South Asian neighbours compared to many of their East Asian counterparts. This downward stickiness may be due to specific policies pursued by banks of their own accord or in response to certain regulatory requirements on the setting of deposit and lending rates, and/or a result of other inherent inefficiencies in the banking system. Given the already high fiscal deficits in the region, going forward, there is a particular need for South Asian policymakers to tackle these distortions so as to ensure that monetary policy is as effective and efficient a counter-cyclical tool as possible. This is among the more critical monetary policy challenges for the region going forward.

Notes

- 1 The trade: GDP ratio, a loose yet often-cited indicator of economic openness, confirms South Asia's increasing integration with the world economy. For instance, in the period 2006–8, the ratios for the four major South Asian countries were 49.1 (Bangladesh), 47.6 (India), 41.5 (Pakistan) and 67 (Sri Lanka), respectively ('Trade Profile', World Trade Organization). These were much higher than a decade ago.
- 2 There is also, no doubt, a strong reverse causation, i.e. high growth pulls in foreign capital.
- 3 A credit default swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) goes into default (fails to pay). Less commonly, the credit event that triggers the payoff can be a company undergoing restructuring, bankruptcy or even just having its credit rating downgraded.
- 4 For example, NPL in India for FY2008/9 rose by 22.2 per cent y/y from last fiscal year and NPL in Pakistan rose by 64.1 per cent y/y from last fiscal year.
- 5 Bangladesh's exports basket is very narrow; the apparel sector contributes approximately 80 per cent of its exports earnings.
- 6 For instance, see <<http://www.lbo.lk/fullstory.php?nid=1066726015>>.
- 7 The information is culled from the various central bank websites and reports.
- 8 The repo rate is the rate at which the RBI injects rupee liquidity into the banking system. The repo rate was reduced by 350 basis points to 5.5 per cent in mid-October 2008 and to 4.75 per cent in April 2009.
- 9 The reverse repo rate is the rate at which the RBI sucks excess rupee liquidity from the market. The reverse repo rate was cut by a cumulative 200 basis points from 6 to 4 percentage points in December 2008 and to 3.25 per cent in April 2009.
- 10 The CRR is the minimum reserve each bank must hold to customer deposits and notes. The CRR was reduced from 9 per cent in September 2008 to 5 per cent by early January 2009 of net demand

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- and time liabilities (NDTL). The SLR is the ratio of total demand and time liability that a bank has to maintain in the form of cash, gold or other approved securities with the RBI.
- 11 MSS balances declined from Rupee 1,75,362 crore at end-May 2008 to around Rupee 88,000 crore by end-March 2009. See Ouyang and Rajan (2008) for a discussion of the MSS and monetary sterilization in pre-crisis India.
 - 12 In addition, further Rupee depreciation could have worsened the balance sheets of corporates that had borrowed in foreign currency on an unhedged basis. While FII outflows had stabilized somewhat by late 2008, the Rupee in turn was under downward pressure primarily because corporates sold funds raised locally to repay external foreign currency loans that were due and not being rolled over.
 - 13 Macroeconomic and Monetary Development, January 2009, RBI.
 - 14 In Sri Lanka, food prices account for nearly 48 per cent of the CPI basket and the representative food basket has high import content. The headline inflation rate reached a high 28.2 per cent in June 2008.
 - 15 Bangladesh's export performance deteriorated in the first four months of FY2010. Overall export earnings experienced a single digit decline of 7.5 per cent. Exports of readymade garments (RMG) turned negative too in FY2010 after showing resilience to the impact of the global economic recession during most of FY2009. The outlook for remittances inflows also remains uncertain with the growth of migrant workers slowing down as the host countries (mostly countries belonging to the Cooperation Council for the Arab States of the Gulf) though they have remained fairly stable to date (World Bank, 2009c).
 - 16 The target growth rate of broad money was 15.5 per cent in FY2010 to accommodate 6.0 per cent real GDP growth and 6.5 per cent inflation.
 - 17 As of March 2009.

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