

3.0 The Monetary and Financial Sector

3.1 Financial Deepening

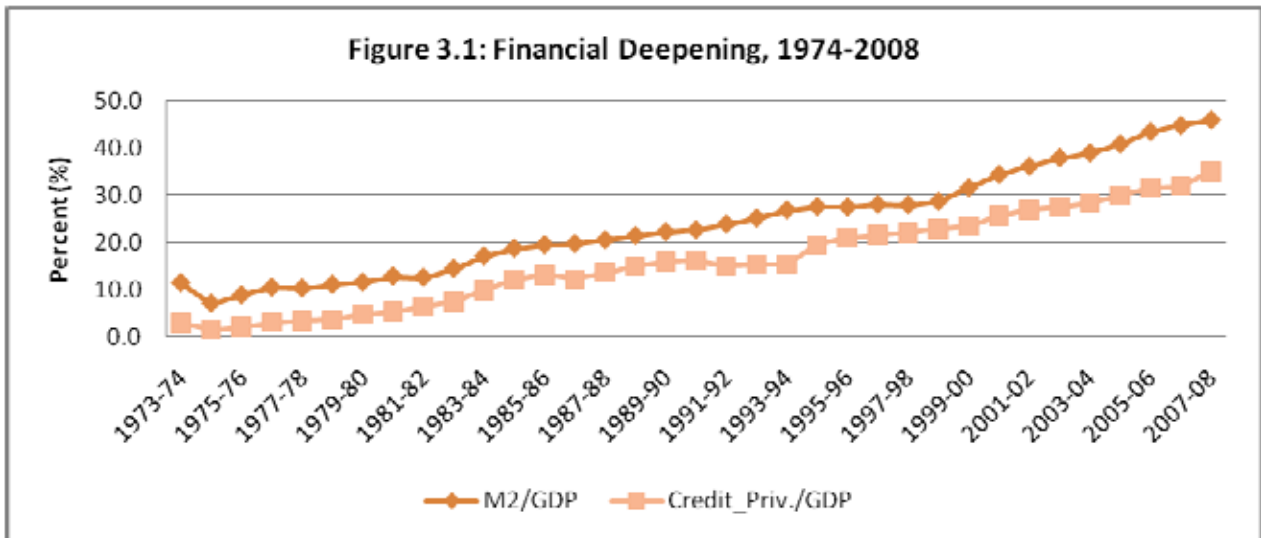


Figure 3.1 shows the financial deepening measured by the ratio of broad money to GDP and the ratio between the volume of domestic credit to private sector and GDP. The key findings are:

- Financial deepening increased steadily from 12.5% in 1973-74 to 46% in 2007-08. Therefore the economy is becoming more monetized.
- There has been significant increase in the private sector credit growth as percent of GDP (from 3% in 1973-74 to 35% in 2007-08).

For details please see Appendix 3.1

3.2 Broad Money and Its Components (Percent Share)

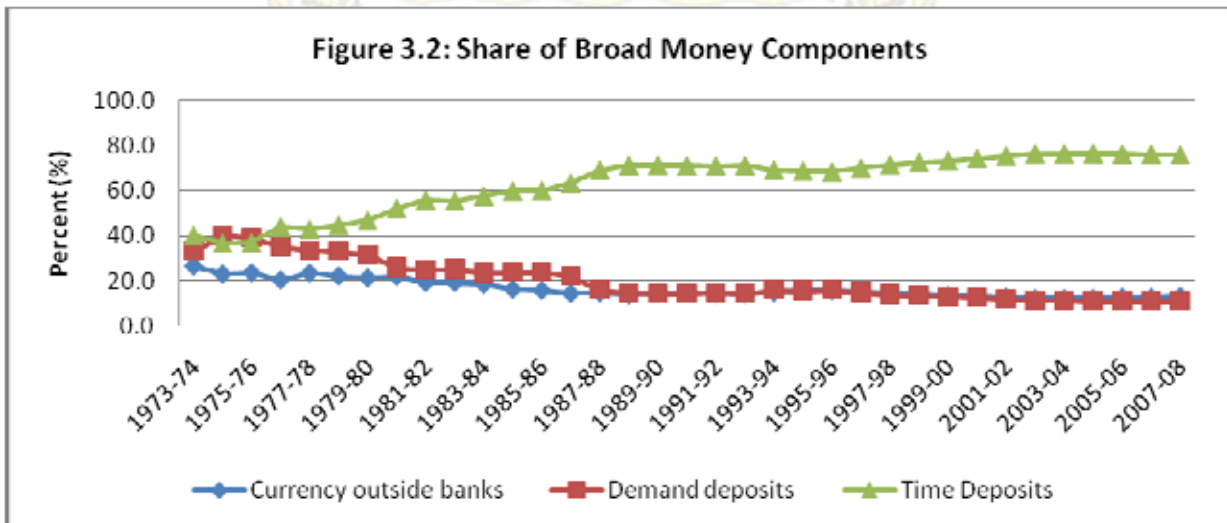


Figure 3.2 shows that:

- Both currency outside banks and demand deposit fell during the period of 1973-74 to 2007-08, whereas the time deposit increased almost by 36 percentage points (from 40% to 76% of total broad money).
- The above figure indicates the increasing trend of investment in the economy (Appendix 3.2).

3.3 Percentage Share of Domestic Credit Components (Year-on-Year)

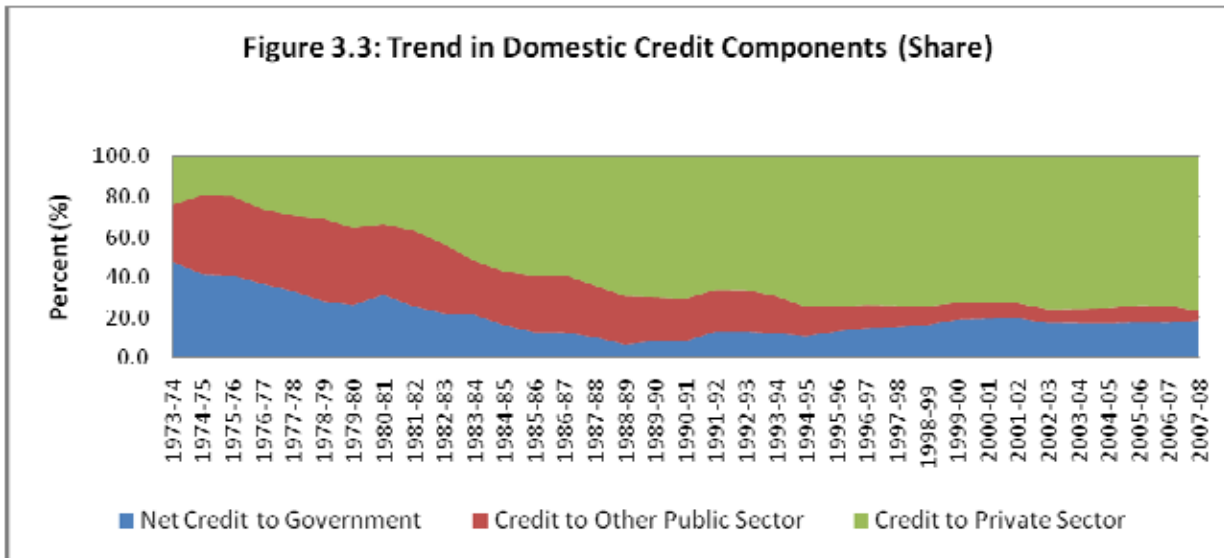


Figure 3.3 shows that:

- The share of the government credit (net) started to decline since 1973-74 and continued to decline to 1990-91 (8.6% of total domestic credit from 50% in 1973-74). It then started to increase and accounted for 19% of the total credit in 2007-08.
- On the other hand, credit to other public sector increased from 28% to 41% until 1978-79 and then fell gradually to 4.7% in 2007-08.
- In contrast, private sector credit rose almost continuously throughout the period, reaching 76.4% in 2007-08 up from 24% in 1973-74, reflecting the growth in the private sector.

For details please see Appendix 3.3

3.4 Lending and Deposit Interest Rate

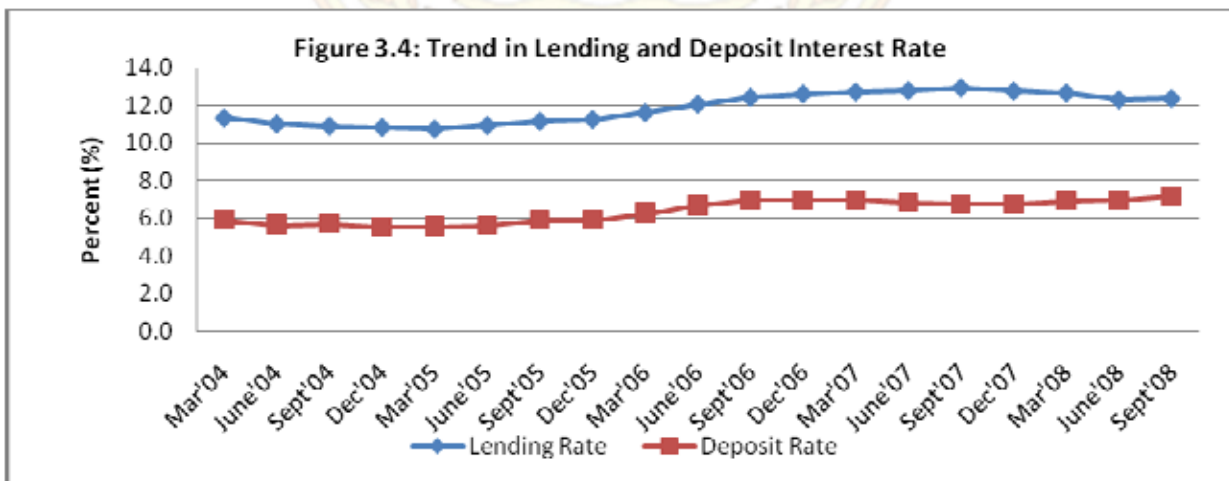
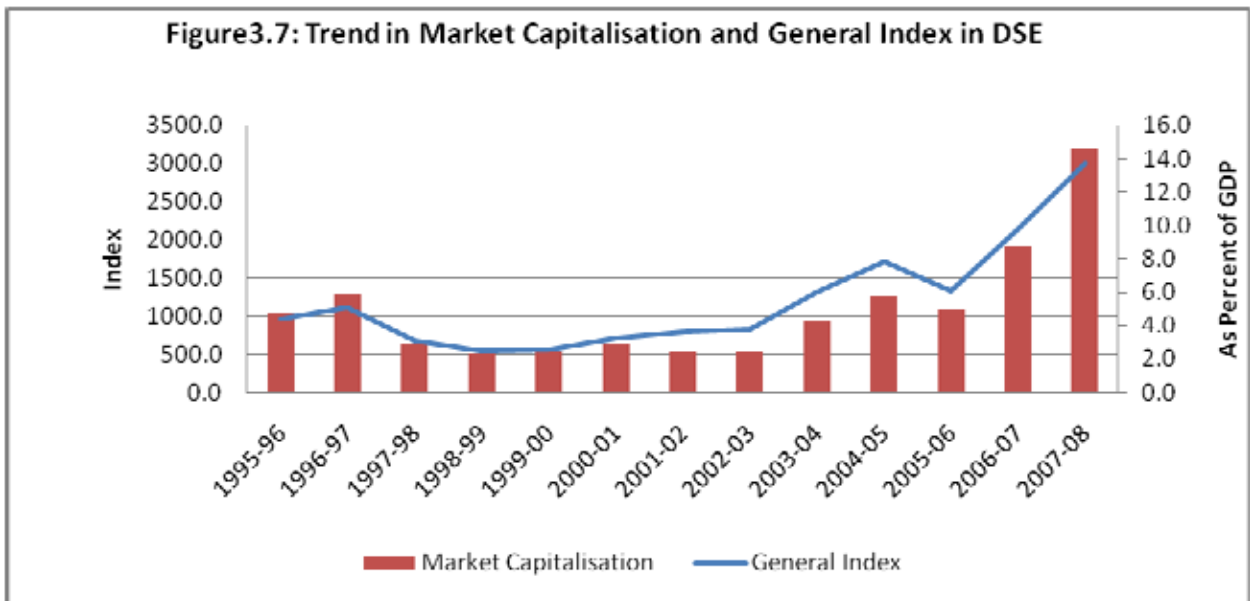


Figure 3.4 depicts the key findings:

- The weighted average lending rates have fallen slightly since September'07; still the interest rate spread is high. The spread varies within 5.2 to 6.2 during March'04 to September'08.
- Though the weighted average deposit rates rose during the period, the real interest rate is negative because of higher inflation.

For details please see Appendix 3.4

3.5 Trend in Market Capitalisation and General Index in DSE



From Figure 3.5 it is observed that:

- Despite the volatility in the capital market, the general share price index at the end of June 2008 stood 3000 compared to about 2150 at the end of June 2007. Total market capitalization at the end of June 2008 stood at 14.6% of GDP compared to 8.7% of GDP at the end of June 2007.

For details please see Appendix 3.5.

3.6 Premium of General Insurance Sector

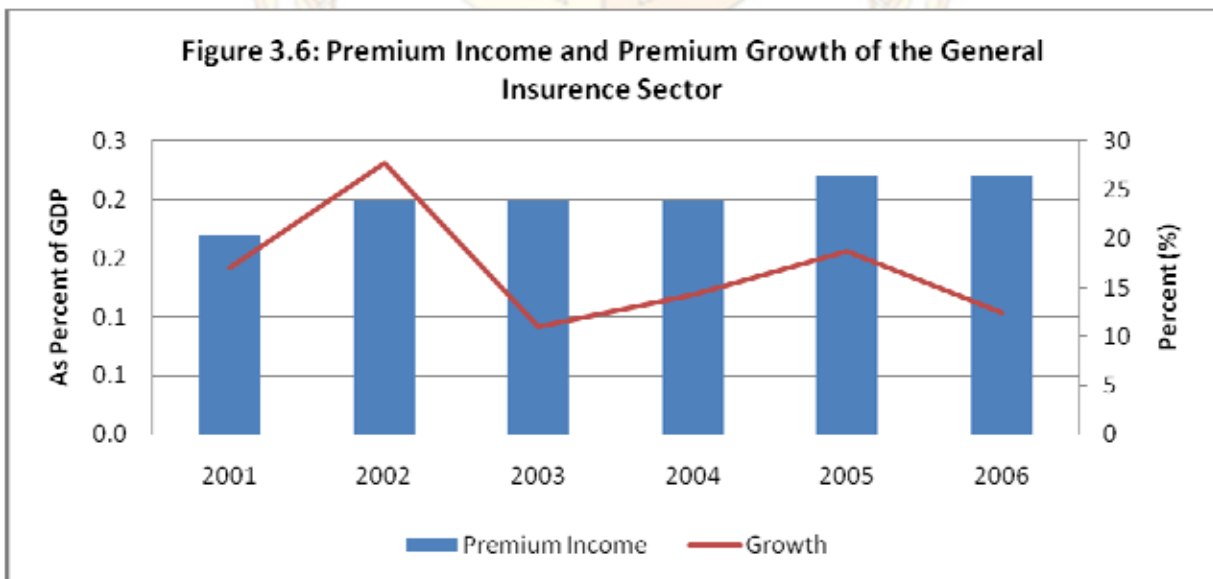


Figure 3.6 shows that:

- The premium income of the general insurance company increased slowly during the period of 2001-2006 (0.2% percent of GDP) and in 2007 it increased to 0.35% of GDP. The growth in the premium earning increased to 59% in 2007.

For details please see Appendix 3.6.