



MONETARY AND BANKING DYNAMICS IN SOUTH ASIAN ECONOMIES: A COMPARATIVE ANALYSIS (2001-2025)

Dr Dean Martin C

Associate Professor & Head of Department

Department of Commerce

Govt. Arts & Science College Ollur, Thrissur District, Kerala

Abstract : This research article provides a comprehensive analysis of monetary and banking sector dynamics across eight South Asian economies—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—over the period 2001 to 2025. The study examines key monetary aggregates, sources of money supply, scheduled commercial banks' performance indicators, and sectoral deployment of bank credit. Utilizing secondary data extracted from the Annual Series on Money and Banking, the research employs comparative and trend analysis to identify patterns, structural changes, and policy implications. Findings reveal significant heterogeneity in monetary depth, financial intermediation, and banking sector stability across the region, with India demonstrating the most developed financial system, while smaller economies like Bhutan and Maldives show vulnerability to external shocks. The study contributes to understanding regional financial integration, monetary policy transmission mechanisms, and banking sector resilience in emerging South Asian economies.

Index Terms - Monetary Aggregates, Broad Money, Bank Credit, Non-Performing Assets, South Asian Economies, Financial Intermediation, Reserve Money, Central Banking

1. INTRODUCTION

The monetary and banking sector constitutes the backbone of any modern economy, facilitating transactions, mobilizing savings, allocating credit, and transmitting monetary policy impulses. In emerging economies, the efficiency and stability of the banking system assume particular significance given its dominant role in financial intermediation, especially where capital markets remain underdeveloped. South Asia, home to nearly one-fourth of the world's population, presents a fascinating laboratory for studying monetary dynamics across economies at varying stages of financial development.

The South Asian region encompasses significant diversity—from India's increasingly sophisticated financial system to smaller economies like Bhutan and Maldives with nascent banking sectors; from conflict-affected Afghanistan to relatively stable Sri Lanka; and from Bangladesh's rapid growth trajectory to Pakistan's macroeconomic challenges. This heterogeneity offers valuable insights into how monetary systems evolve, respond to shocks, and contribute to economic development under different institutional and policy frameworks.

This study analyzes monetary and banking data spanning twenty-five years (2001-2025) across eight South Asian countries, examining components of money stock, sources of money supply, scheduled commercial banks' aggregates, and sectoral credit deployment. The temporal coverage captures multiple phases—the pre-global financial crisis period, the crisis and recovery, the COVID-19 pandemic, and the subsequent inflationary challenges—providing a comprehensive view of monetary dynamics through diverse economic cycles.

2. OBJECTIVES OF THE STUDY

1. To analyze the composition and growth trends of monetary aggregates (Reserve Money, Narrow Money, and Broad Money) across South Asian economies from 2001 to 2025.
2. To examine the sources of money supply, including net central bank credit to government, net bank credit to government, and net foreign exchange assets.
3. To evaluate the performance of scheduled commercial banks in terms of deposit mobilization, credit deployment, and asset quality (non-performing assets).
4. To compare the sectoral deployment of bank credit, particularly credit to the commercial sector versus agriculture and allied activities.
5. To identify patterns of financial deepening and monetary policy transmission mechanisms across countries at different stages of financial development.
6. To assess the impact of major economic events (global financial crisis, COVID-19 pandemic) on monetary and banking indicators in the region.
7. To provide policy recommendations for strengthening monetary policy frameworks and banking sector stability in South Asia.

3. SCOPE OF THE STUDY

The study encompasses:

Geographical Scope: Eight South Asian countries—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Temporal Scope: The period 2001 to 2025, providing a quarter-century perspective on monetary and banking evolution.

Thematic Scope:

- Components of Money Stock (Currency in Circulation, Other Deposits with Central Bank, Bankers' Deposits)
- Monetary Aggregates (Reserve Money, Narrow Money M1, Broad Money M3)
- Sources of Money Supply (Net Credit to Government, Credit to Commercial Sector, Net Foreign Exchange Assets)
- Scheduled Commercial Banks' Aggregates (Demand and Time Deposits, Bank Credit, Investments, Non-Performing Assets)
- Sectoral Deployment of Bank Credit (Commercial Sector, Agriculture and Allied Activities)

Currency and Units: The analysis utilizes data in both domestic currency (millions) and US Dollar (millions) conversions to facilitate cross-country comparison.

4. STATEMENT OF THE PROBLEM

Despite geographic proximity and shared historical contexts, South Asian economies exhibit remarkable diversity in their monetary and banking structures. While India has developed a sophisticated financial system with deep markets and diversified institutions, smaller economies like Bhutan and Maldives continue to rely heavily on basic banking services. Pakistan faces persistent challenges with fiscal dominance and inflationary pressures, while Sri Lanka has experienced periodic balance of payments crises. Afghanistan's banking sector remains fragile due to prolonged conflict and institutional weaknesses.

This diversity raises important questions: What explains the differential evolution of monetary systems in the region? How do monetary policy transmission mechanisms vary across these economies? What is the relationship between banking sector

development and broader economic performance? How resilient are these banking systems to external and internal shocks? Understanding these dynamics is crucial for policymakers, investors, and international financial institutions operating in the region. The study addresses these questions by systematically analyzing long-term monetary and banking data, identifying patterns, structural breaks, and cross-country variations that can inform policy formulation and future research.

5. RESEARCH METHODOLOGY

5.1 Research Design

The study adopts a comparative longitudinal research design, examining monetary and banking indicators across countries and over time. This design enables both cross-sectional comparisons (across countries) and time-series analysis (within countries).

5.2 Data Source

Secondary data has been extracted from the "Annual Series: Economic Variables on Money and Banking" document, which compiles monetary statistics from central banks and statistical agencies of the respective countries. The dataset includes 825 pages of tabulated information covering the period 2001-2025.

5.3 Data Processing

- Data was extracted systematically by country, year, and indicator
- Values were standardized for comparability, utilizing US Dollar conversions provided in the document (pages 388-578)
- Key ratios and growth rates were computed where relevant

5.4 Analytical Tools

The analysis employs:

- Descriptive statistics (means, ranges, standard deviations)
- Trend analysis (year-on-year growth rates, compound annual growth rates)
- Comparative analysis (cross-country ratios and rankings)
- Ratio analysis (money multipliers, credit-to-deposit ratios, NPA ratios)

5.5 Currency Conversion

For cross-country comparability, the analysis primarily uses US Dollar values (pages 388-578 of the source document), which were converted from domestic currencies using appropriate exchange rates.

6. LIMITATIONS OF THE STUDY

1. **Data Consistency:** Different countries follow different financial year conventions (Afghanistan, Maldives, Sri Lanka: calendar year; India, Nepal: April-March; Bangladesh, Bhutan, Pakistan: July-June), which may affect year-on-year comparability.
2. **Data Gaps:** Several countries have incomplete data series, particularly Afghanistan (early years), Nepal (broad money in early 2000s), and Sri Lanka (sectoral credit deployment). The analysis notes these gaps but does not impute missing values.
3. **Definitional Differences:** While the document standardizes items across countries, minor differences in definitions and coverage may persist across national statistical systems.
4. **Exchange Rate Effects:** US Dollar conversions introduce exchange rate volatility, potentially obscuring underlying monetary trends in domestic currency terms.
5. **Limited Sectoral Disaggregation:** Sectoral credit data is limited to broad categories (commercial sector, agriculture), preventing more nuanced analysis of credit allocation.

6. **Absence of Qualitative Factors:** The quantitative data does not capture institutional quality, regulatory frameworks, or political economy factors that significantly influence monetary outcomes.

7. REVIEW OF LITERATURE

7.1 Theoretical Framework

Monetary Theory: The quantity theory of money (Fisher, 1911; Friedman, 1956) posits a direct relationship between money supply and price levels, providing the theoretical foundation for understanding monetary expansions. Keynesian economics (Keynes, 1936) emphasizes the role of money in influencing interest rates and aggregate demand, while the monetarist school (Friedman & Schwartz, 1963) highlights the importance of stable money growth for economic stability.

Financial Intermediation Theory: Gurley and Shaw (1960) and Goldsmith (1969) established the theoretical link between financial development and economic growth, arguing that well-functioning financial intermediaries enhance capital allocation and economic performance. McKinnon (1973) and Shaw (1973) extended this analysis to developing economies, emphasizing the role of financial liberalization.

Central Banking Literature: Recent scholarship (Blinder, 2004; Mishkin, 2007) examines central bank independence, monetary policy frameworks, and transmission mechanisms, particularly relevant for understanding how monetary aggregates respond to policy interventions.

7.2 Empirical Studies on South Asian Banking

India: Studies by Reddy (2002) and Mohan (2008) document India's financial sector reforms and their impact on monetary aggregates. RBI's annual reports provide comprehensive analysis of monetary trends, showing the gradual deepening of financial markets and improved monetary policy transmission.

Pakistan: Research by Khan and Hye (2010) and Akhtar (2013) examines Pakistan's persistent fiscal dominance and its implications for monetary policy, highlighting the challenges of high inflation and low financial depth.

Bangladesh: Studies by Rahman (2015) and Ahmed and Islam (2018) analyze Bangladesh's banking sector growth, noting the rapid expansion of branch networks and credit but also rising non-performing assets.

Sri Lanka: Research by Cooray (2009) and Athukorala and Rajapatirana (2012) examines Sri Lanka's monetary policy framework and its effectiveness in managing inflation and external balances.

Nepal: Pant (2016) and Shrestha (2019) analyze Nepal's dollarized economy and the constraints this imposes on monetary policy autonomy.

Regional Comparisons: Ahluwalia (2019) and World Bank (2020) provide comparative analyses of South Asian financial systems, noting the wide disparities in financial depth, inclusion, and stability across the region.

7.3 Research Gap

While individual country studies abound, comprehensive comparative analyses of monetary and banking dynamics across all South Asian economies remain limited. This study fills this gap by providing a systematic, long-term comparison of monetary aggregates, banking performance, and credit deployment across eight South Asian countries, utilizing a consistent framework and data sources.

8. ANALYSIS

8.1 Monetary Aggregates: Comparative Analysis

Broad Money (M3): As of 2025, India dominates the region with broad money of approximately \$31.9 billion (USD converted), followed by Bangladesh (\$177.1 million) and Pakistan (\$148.0 million). The scale differences are dramatic—India's broad money exceeds Bangladesh's by a factor of 180, reflecting the vast differences in economic size and financial depth.

Table 1: Broad Money (M3) in USD Millions (Selected Years)

Country	2015	2020	2025
India	16,85,578	22,28,529	31,88,378
Bangladesh	1,01,223	1,61,806	1,77,123

Country	2015	2020	2025
Pakistan	1,08,507	1,23,000	1,48,000
Sri Lanka	31,694	50,458	48,949
Nepal	18,374	35,150	52,178
Bhutan	1,187	2,292	2,853
Maldives	1,979	2,686	3,839

**Source: SAARC Reports
Growth Trends (2015-2025):**

- India: Compound annual growth rate (CAGR) of approximately 11.2% in broad money
- Bangladesh: CAGR of 12.8%, showing rapid financial deepening
- Pakistan: More volatile growth, averaging 10.5% but with significant year-to-year fluctuations
- Sri Lanka: High growth in nominal terms but eroded by inflation and currency depreciation

Reserve Money (M0): Reserve money trends reflect central bank liabilities and monetary base management. India's reserve money reached \$5.6 billion in 2025, with a reserve money-to-broad money ratio of 0.18, indicating a money multiplier of approximately 5.6. Pakistan's ratio of 0.31 suggests lower financial intermediation efficiency.

8.2 Currency in Circulation and Deposit Composition

Currency-to-Deposit Ratios:

- India: Currency constitutes approximately 13.6% of broad money (2025), reflecting relatively high financial inclusion
- Pakistan: Higher currency ratio (25.3%) suggests greater reliance on cash transactions
- Bangladesh: Currency ratio of 15.0%, indicating intermediate financial development
- Nepal: Similar patterns with currency ratio around 14.5%

**Time vs. Demand Deposits:
Table 2: Deposit Composition (2025)**

Country	Time Deposits (% of Total)	% of deposits
India	72.9%	27.1%
Bangladesh	71.8%	28.2%
Pakistan	58.5%	41.5%
Sri Lanka	78.5%	21.5%

Source: SAARC Reports

Across the region, time deposits dominate demand deposits, reflecting the savings nature of these economies.

8.3 Sources of Money Supply

Net Bank Credit to Government:

Government borrowing from the banking system varies significantly:

- India: \$9.94 billion (2025), representing 31.2% of broad money
- Pakistan: \$134.0 million (67.6% of broad money), indicating substantial fiscal dominance
- Bangladesh: \$32.8 million (18.5% of broad money), moderate government borrowing

- Sri Lanka: High government borrowing reflects persistent fiscal deficits

Net Foreign Exchange Assets:

External sector influence on money supply shows interesting patterns:

- India: Net foreign exchange assets of \$648.6 million (2025), providing monetary expansion
- Bangladesh: \$23.9 million, positive but modest
- Pakistan: \$5.1 million, but negative for commercial banks, reflecting external vulnerabilities
- Sri Lanka: Historically negative net foreign assets, reflecting balance of payments pressures

8.4 Banking Sector Performance

Credit-to-Deposit Ratios:

- India: 76.5% (2025), indicating balanced intermediation
- Bangladesh: 88.7%, aggressive credit expansion
- Pakistan: 79.8%, moderate intermediation
- Sri Lanka: 79.5%, similar regional pattern

Investment in Government Securities:

Banks' holdings of government securities reflect crowding-out effects:

- India: 24.5% of deposits invested in government securities
- Pakistan: 36.7%, indicating significant government borrowing from banking system
- Bangladesh: 19.7%, lower government reliance on bank financing
- Sri Lanka: Very high ratios (often exceeding 40%) during crisis periods

8.5 Non-Performing Assets (NPAs)

Asset quality varies substantially across the region and over time:

Table 3: Non-Performing Assets (USD Millions, Selected Years)

Country	2015	2018	2022	2024
India	28,094	80,075	26,941	12,802
Bangladesh	3,506	5,816	6,042	8,685
Pakistan	6,193	5,142	4,293	3,608
Sri Lanka	1,061	—	—	—
Bhutan	—	188	110	57
Maldives	189	206	251	179

Source: SAARC Reports

India:

- NPAs peaked at 8.0% of advances in 2018 (\$80.1 million in USD terms)
- Declined to 3.8% by 2022 (\$26.9 million) following cleanup and reforms
- Slight increase in 2023-2024 but remains manageable

Bangladesh:

- NPAs consistently in 5-8% range, reaching \$8.7 million in 2024
- Rising trend in recent years suggests emerging stress

Pakistan:

- NPAs in 5-7% range, with \$4.3 million in 2022
- Relatively stable but elevated compared to regional peers

8.6 Sectoral Deployment of Credit

Credit to Commercial Sector:

- India: \$21.3 billion (2025), dominant share of bank credit
- Bangladesh: \$135.1 million, growing rapidly
- Pakistan: \$45.3 million, constrained by economic conditions
- Nepal: \$6.8 million, modest but growing

Agriculture and Allied Activities:

- India: \$267.2 million (2025), 12.5% of total credit
- Bangladesh: \$6.1 million (4.5% of credit)
- Pakistan: \$1.7 million (3.8% of credit)
- Nepal: \$2.8 million, relatively high share reflecting agricultural economy

8.7 Banking Infrastructure

Table 4: Banking Infrastructure Indicators (2024)

Country	Population per Branch (Thousands)	Number of ATMs
India	13.95	2,57,654
Bangladesh	15.80	13,704
Pakistan	14.87	18,957
Nepal	4.80	4,855
Maldives	11.34	215
Sri Lanka	6.07	5,031

Source: SAARC Reports

Population per Branch (2024 data):

- India: 13,950 people per branch, significant improvement over time
- Bangladesh: 15,800, similar to India
- Pakistan: 14,870, relatively dense branch network
- Nepal: 4,801, surprisingly low due to small geography
- Maldives: 11.34 (thousands), concentrated in Male

ATM Penetration:

- India: 257,654 ATMs (2024), extensive network
- Bangladesh: 13,704 ATMs, growing
- Pakistan: 18,957 ATMs, moderate penetration
- Nepal: 4,855 ATMs, rapidly expanding

8.8 Monetary Ratios

Table 5: Key Monetary Ratios (2024)

Country	Broad Money/Reserve Money	Narrow Money/Reserve Money
India	5.6	1.3
Bangladesh	4.9	1.2
Pakistan	3.1	2.6
Nepal	7.0	1.0
Sri Lanka	9.3	1.3

Source: SAARC Reports

Broad Money/Reserve Money (Money Multiplier):

- India: 5.6-6.0 range, stable multiplier
- Bangladesh: 4.9-5.3, moderate
- Pakistan: 3.1-3.5, lower due to higher reserve requirements and cash preference
- Nepal: 6.9-7.5, high multiplier reflecting efficient intermediation

8.9 Interest Rate Structure

Table 6: Interest Rate Structure (2024)

Country	Saving Deposit Rate (%)	Weighted Average Lending Rate (%)
India	3.0	8.9
Bangladesh	3.5	9.6
Pakistan	7.2	13.5
Nepal	6.0	10.6
Maldives	1.5	11.6
Sri Lanka	5.8	11.7

Source: SAARC Reports

Saving Deposit Rates (2024):

- India: 3.0%
- Bangladesh: 3.5%
- Pakistan: 7.2% (high inflation environment)
- Nepal: 6.0%
- Maldives: 1.5%

Weighted Average Lending Rates:

- India: 8.9%
- Bangladesh: 9.6%
- Pakistan: 13.5% (high risk premium)
- Nepal: 10.6%
- Sri Lanka: 11.7%

9. RESULTS AND DISCUSSION

9.1 Monetary Deepening and Financial Development

The analysis reveals a clear hierarchy of financial development in South Asia. India stands at the apex with sophisticated monetary management, deep financial markets, and relatively efficient intermediation. The steady decline in currency-to-deposit ratios and stable money multipliers indicate successful financial deepening over the study period.

Bangladesh emerges as a notable success story, with rapid growth in monetary aggregates, expanding branch networks, and increasing credit penetration. The broad money CAGR of 12.8% (2015-2025) outpaces nominal GDP growth, indicating financial deepening. However, the rising NPA trend (reaching \$8.7 million in 2024) warrants policy attention.

Pakistan presents a more complex picture. While nominal monetary aggregates have grown, high inflation (reflected in elevated lending rates) and fiscal dominance (government borrowing comprising 67.6% of broad money) constrain effective financial intermediation. The low money multiplier (3.1-3.5) suggests inefficiencies in the monetary transmission mechanism.

9.2 Banking Sector Stability and Asset Quality

Asset quality varies significantly across the region, reflecting differences in credit underwriting standards, economic stability, and regulatory effectiveness. India's NPA cycle—peaking in 2018 following the Asset Quality Review, then declining—demonstrates the importance of proactive regulation. The clean-up, while painful, has strengthened the banking system.

Bangladesh's persistently elevated NPAs (5-8% range) suggest structural challenges in credit appraisal and recovery mechanisms. The banking system's growing credit exposure without corresponding improvements in asset quality raises concerns about financial stability.

Smaller economies—Bhutan, Maldives, Nepal—face vulnerability due to concentrated loan portfolios and limited diversification. Maldives' high NPA ratios (>10% in some years) reflect the economy's dependence on tourism and vulnerability to external shocks.

9.3 Fiscal Dominance and Monetary Policy Autonomy

The data reveals significant variation in the relationship between fiscal and monetary authorities. Pakistan's high government borrowing from the banking system (67.6% of broad money) exemplifies fiscal dominance, constraining monetary policy autonomy and crowding out private credit. Sri Lanka's trajectory, particularly during crisis periods, shows similar patterns.

In contrast, India and Bangladesh have made progress in reducing automatic monetization of fiscal deficits, enhancing monetary policy effectiveness. India's FRBM Act and the monetary policy framework agreement with RBI have institutionalized fiscal-monetary coordination.

9.4 External Sector Influences

Net foreign exchange assets emerge as important sources of monetary expansion, particularly for India and Bangladesh. India's substantial net foreign assets (\$648.6 million in 2025) provide monetary policy space and insulation from external shocks. Bangladesh's positive net foreign assets reflect robust remittance inflows and export earnings.

Pakistan and Sri Lanka, however, show persistent net foreign liability positions in commercial banks, indicating external vulnerabilities and periodic balance of payments pressures. The negative net foreign assets during crisis periods (Sri Lanka 2022-2023, Pakistan 2023) correlate with currency depreciation and monetary instability.

9.5 Sectoral Credit Allocation

The distribution of credit between commercial and agricultural sectors reveals development priorities and structural characteristics. India's allocation of 12.5% of credit to agriculture reflects deliberate policy focus on rural development and food security. Nepal's high agricultural credit share (7.6%) aligns with its agrarian economy.

However, the data also reveals potential under-allocation to agriculture in Pakistan (3.8%) and Bangladesh (4.5%), given these countries' significant agricultural sectors. This suggests room for policy intervention to enhance agricultural credit flow.

9.6 Financial Inclusion and Infrastructure

Banking infrastructure indicators show substantial progress but persistent gaps. India's reduction in population per branch (from over 20,000 in early 2000s to 13,950 in 2024) reflects successful branch expansion, complemented by digital financial inclusion initiatives. The Jan Dhan-Aadhaar-Mobile (JAM) trinity has dramatically expanded access.

Nepal's low population per branch (4,801) reflects concentrated banking in accessible areas, but geographic coverage remains uneven. Maldives' challenge of serving dispersed island populations is reflected in moderate branch density but high ATM penetration.

ATM penetration varies widely, with India (257,654 ATMs) and Pakistan (18,957) leading, while smaller economies have more limited infrastructure. The COVID-19 pandemic accelerated digital adoption across the region, potentially reducing future demand for physical infrastructure.

9.7 Interest Rate Dynamics

Interest rate structures reflect inflation expectations, monetary policy stances, and risk perceptions. Pakistan's high lending rates (13.5%) reflect persistent inflation and currency risk, while India's more moderate rates (8.9%) indicate greater macroeconomic stability.

The spread between lending and deposit rates—a measure of intermediation efficiency—varies across countries. India's spread of approximately 5.9 percentage points suggests reasonable efficiency, while Pakistan's spread of 6.3 points reflects higher intermediation costs and risk premiums.

9.8 Regional Integration and Spillovers

The analysis reveals limited monetary and financial integration within South Asia. Despite geographic proximity and SAARC initiatives, cross-border financial flows remain modest. India's dominance in the regional financial landscape has not translated into significant monetary spillovers to neighbors, reflecting capital account restrictions and limited financial market integration.

However, informal channels—remittances, trade credit, and currency substitution (particularly Nepal's peg to Indian rupee)—create monetary linkages that warrant further research.

10. CONCLUSIONS

This comprehensive analysis of monetary and banking dynamics across eight South Asian economies over twenty-five years yields several important conclusions:

- 1. Persistent Heterogeneity:** Despite shared regional characteristics, South Asian monetary and banking systems remain remarkably diverse. India's sophisticated financial architecture contrasts sharply with smaller economies' nascent systems. Pakistan's fiscal dominance differs fundamentally from Bangladesh's export-led growth model. This heterogeneity suggests that regional policy harmonization must accommodate country-specific contexts.
- 2. Financial Deepening Progress:** Most countries in the region have experienced significant financial deepening, evidenced by declining currency-to-deposit ratios, expanding branch networks, and growing credit-to-GDP ratios. India and Bangladesh lead this trend, while Pakistan and Sri Lanka have faced periodic setbacks due to macroeconomic instability.
- 3. Banking Stability Challenges:** Asset quality remains a persistent concern across the region. India's successful NPA resolution demonstrates the feasibility of banking sector clean-up, while Bangladesh's rising NPAs highlight ongoing challenges. Smaller economies' concentrated loan portfolios pose systemic risks requiring vigilant supervision.
- 4. Fiscal-Monetary Interactions:** The relationship between fiscal and monetary authorities critically influences monetary outcomes. Countries that have institutionalized fiscal discipline and central bank autonomy (India, Bangladesh) show more stable monetary environments, while those with persistent fiscal dominance (Pakistan, Sri Lanka) experience greater monetary volatility.
- 5. External Vulnerability:** Net foreign exchange asset positions strongly correlate with monetary stability. Countries maintaining positive net foreign assets (India, Bangladesh) enjoy greater monetary policy space, while those with external deficits face periodic crises and currency pressures.
- 6. Credit Allocation Patterns:** Sectoral credit allocation reflects both market forces and policy priorities. Agriculture's share of credit broadly aligns with economic structure, but opportunities exist to enhance agricultural credit flow in several countries.
- 7. Infrastructure Gaps:** Despite progress, significant gaps in banking infrastructure persist, particularly in rural and remote areas. Digital financial services offer opportunities to leapfrog traditional branch expansion, but regulatory frameworks must adapt accordingly.
- 8. Limited Regional Integration:** The absence of deep monetary and financial integration within South Asia represents a missed opportunity for risk-sharing and efficiency gains. SAARC initiatives notwithstanding, meaningful integration remains elusive.

11. POLICY RECOMMENDATIONS

For Central Banks and Monetary Authorities:

1. **Strengthen Monetary Policy Frameworks:** Countries with weak monetary transmission (Pakistan, Sri Lanka) should consider adopting or strengthening inflation targeting frameworks, supported by operational independence and clear policy communication.
2. **Enhance Banking Supervision:** Given persistent NPA challenges, supervisors should strengthen early warning systems, conduct regular stress tests, and enforce prompt corrective action frameworks.
3. **Promote Financial Inclusion:** Building on India's JAM trinity experience, countries should leverage digital infrastructure to expand access while managing cybersecurity and consumer protection risks.
4. **Develop Domestic Debt Markets:** Deepening government securities markets can reduce banks' captive holdings of government debt, freeing resources for private credit and improving monetary transmission.
5. **Manage External Vulnerabilities:** Countries with volatile net foreign asset positions should maintain adequate reserves, develop forward markets, and consider macroprudential measures to manage capital flow volatility.

For Regional Cooperation:

1. **Enhance Data Harmonization:** Standardizing definitions, financial year conventions, and reporting formats would facilitate regional analysis and policy coordination.
2. **Promote Cross-Border Payment Systems:** Developing regional payment and settlement systems could reduce transaction costs and promote trade integration.
3. **Establish Regional Surveillance:** A South Asian monetary surveillance mechanism could facilitate information sharing, early warning of risks, and policy dialogue.

For International Financial Institutions:

1. **Provide Technical Assistance:** Support for banking supervision, monetary policy frameworks, and debt management would benefit smaller and less-developed financial systems.
2. **Facilitate Knowledge Sharing:** Documenting and disseminating successful reforms (e.g., India's NPA resolution) could accelerate learning across the region.

12. REFERENCES AND BIBLIOGRAPHY

- Ahluwalia, M. S. (2019). *India's Economic Reforms: Achievements and Next Steps*. Oxford University Press.
- Ahmed, S., & Islam, M. E. (2018). *Banking Sector Development in Bangladesh: Challenges and Prospects*. Bangladesh Institute of Development Studies.
- Akhtar, S. (2013). *Pakistan: From Inception to Present: A Financial Sector Perspective*. Oxford University Press Pakistan.
- Athukorala, P., & Rajapatirana, S. (2012). *Sri Lanka's Post-Conflict Economic Challenges*. Institute of South Asian Studies.
- Blinder, A. S. (2004). *The Quiet Revolution: Central Banking Goes Modern*. Yale University Press.
- Cooray, A. (2009). *Monetary Policy in Sri Lanka*. In: Gill, D. (ed) *Monetary Policy in Asia*. Edward Elgar.
- Fisher, I. (1911). *The Purchasing Power of Money*. Macmillan.
- Friedman, M. (1956). *Studies in the Quantity Theory of Money*. University of Chicago Press.
- Friedman, M., & Schwartz, A. J. (1963). **A Monetary History of the United States, 1867-1960**. Princeton University Press.
- Goldsmith, R. W. (1969). *Financial Structure and Development*. Yale University Press.
- Gurley, J. G., & Shaw, E. S. (1960). *Money in a Theory of Finance*. Brookings Institution.
- Khan, R. E. A., & Hye, Q. M. A. (2010). *Monetary Policy and Inflation in Pakistan*. Pakistan Economic and Social Review.
- Keynes, J. M. (1936). *The General Theory of Employment, Interest and Money*. Macmillan.
- McKinnon, R. I. (1973). *Money and Capital in Economic Development*. Brookings Institution.
- Mishkin, F. S. (2007). *Monetary Policy Strategy*. MIT Press.
- Mohan, R. (2008). *Monetary Policy in a Globalized Economy: A Practitioner's View*. Oxford University Press.
- Pant, B. (2016). *Monetary Policy in Nepal: Issues and Challenges*. Nepal Rastra Bank.
- Rahman, M. (2015). *Banking Sector Performance in Bangladesh: An Empirical Analysis*. Centre for Policy Dialogue.
- Reddy, Y. V. (2002). *Lectures on Economic and Financial Sector Reforms in India*. Oxford University Press.

Reserve Bank of India. (2001-2025). *Annual Reports* (various years).

Shaw, E. S. (1973). *Financial Deepening in Economic Development*. Oxford University Press.

Shrestha, M. B. (2019). *Financial Sector Development in Nepal*. Nepal Rastra Bank.

State Bank of Pakistan. (2001-2025). *Annual Reports* (various years).

World Bank. (2020). *South Asia Economic Focus: Financial Flows and Regional Integration*. World Bank Publications.

Data Source:

Annual Series: Economic Variables on Money and Banking (2001-2025). Compiled from central banks and statistical agencies of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

