



**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Report**

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**November 2019**

## Executive Summary

The report provides a brief analysis, evaluation and progress of the current macroeconomic indicators, and updates on the financial stability in Afghanistan during the month under review. This report is prepared based on the compilation of the monetary and financial data collected from major departments of the Da Afghanistan Bank (DAB). The report incorporates macro-data from Monetary Sector, External Sector, Real Sector, Fiscal sector, and financial data from Payments and Financial Supervision Departments.

At the beginning of FY1398 (2019), Reserve Money (RM) actual amount has been recorded at Af 271,804.93 million and growth of RM is below the ceiling. The target ceiling for end of Aqrab month was Af 320,027.82 million, while the actual amount on the mentioned date stood at Af 281,630.81 million. This figure represents Af 39,397.0 million declines from the target ceiling in the same day and showing growth of 3.6 percent from the beginning of FY year.

Since the beginning of fiscal year of 1398 (2019) up to end of Aqrab, DAB has auctioned a total amount of USD 2,181.43 million through open market operations, and has collected Af 169.70 billion from the market. These operations have fulfilled 42.40 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of September 2019. The year over year inflation decreased to 1.85 percent in September from 2.92 percent observed in the previous month. This decrease in monthly inflation caused by lower prices of both foods and non-foods items.

Current account deficit, declined by almost 23 percent to a value of USD 604.74 million in the second quarter of the FY 1398 from a value of USD 784.58 million recorded in the second quarter of the FY 1397.

This outcome was primarily on account of a contraction in the trade deficit as a result of declining merchandise imports by 7 percent, as well as, a rise in the earnings of service account and a rise in the inflows of personal transfers (home worker remittances) in the second quarter of the FY 1398.

Total revenue (domestic revenue plus external aids) for the month of October 2019 is AFN 49.18 billion, while in September; it was AFN 28.52 billion which shows 72.25% or AFN 20.61 billion increase in August. Total revenue from the start of FY-2019 till end of October reached to AFN 301.52 billion that is combination of AFN144.57 billion donor contributions and AFN156.95 billion domestic revenue respectively.

The total assets of the banking sector posted a 6.01 percent YOY decrease, reaching Af 290.29 billion at end of Oct, 2019 as compared to Af 308.88 billion in Oct, 2018. Total assets decreased by 2.67 percent over the previous month, mostly coming from deposit withdrawals. At the mean time major decreasing assets components were overnight deposits, interbank claims mainly USD accounts and net loans.

The gross loans portfolio of the banking sector registered YOY decrease of 5.23 percent and currently stands at Af 41.46 billion. The decrease is mainly as a result of settlement and charge-off of loans. Total gross loans showed a decrease of 2.14 points compared to previous month mainly on account of settlement and charge off of loans and less OD utilization.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 6.98 percent YOY decrease, currently standing at Af 246.45 billion. The decrease in total deposits mainly came from the customer demand deposits and in USD currency. Deposits posted a decrease of 2.94 points over the previous month mainly coming from withdrawals, significant in customer demand deposits.

## Table of content

1. Monetary Sector .....	4
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report .....	4
1.2 Net International Reserve .....	5
1.3 Foreign Exchange and Capital Notes Auction .....	6
1.5 Exchange Rate.....	11
2. Real Sector .....	12
2.1.1 Food Inflation.....	13
2.1.2 Non-Food Inflation.....	14
2.2 Core Inflation .....	14
3 External Sector .....	15
3.1 CURRENT ACCOUNT BALANCE .....	15
3.1.1 GOODS ACCOUNT .....	15
3.1.2 SERVICES ACCOUNT.....	16
3.1.3 PRIMARY INCOM ACCOUNT: .....	16
3.1.4 SECONDARY INCOME ACCOUNT: .....	17
3.2 CAPITAL ACCOUNT BALANCE: .....	17
3.3 FINANCIAL ACCOUNT BALANCE:.....	17
4. Fiscal Sector .....	19
5. Swift and Payments.....	22
6. Banking sector .....	22
Graph No.1.....	25
6.1. Total Asset.....	25
6.1.1 Asset growth .....	27
6.2 Loan portfolio .....	28
6.2.1 Loans growth.....	28
6.3 Total Deposits.....	34
6.3.1 Deposits growth.....	35
6.4 Total Capital .....	36
6.5. Profitability.....	37
6.5.1 Month – to – Month:.....	37
6.5.2 Banking sector Profitability on Cumulative basis: (Jan- Oct, 2019 – Jaddi- Mezaan 1398).....	37
6.6 Liquidity .....	38
6.7 Open FX Position.....	39

## 1. Monetary Sector

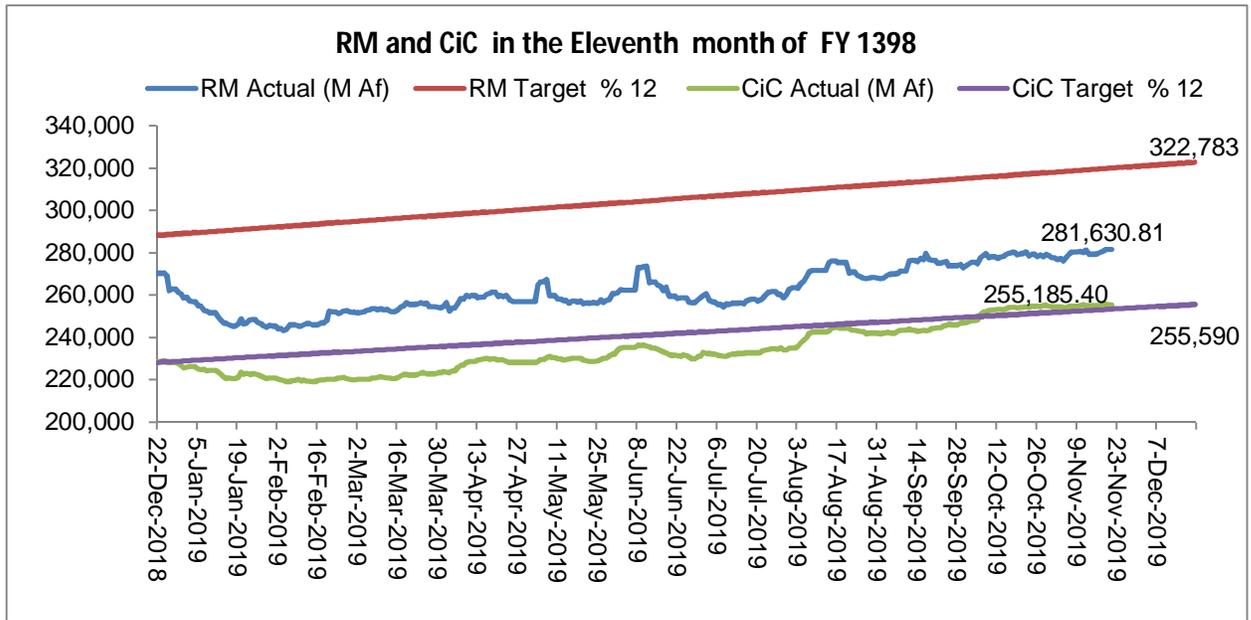
### 1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

Monetary Policy department develops monetary policies of Da Afghanistan Bank in consideration to the country's economic situation, through the main and effective channels of money demand, government's fiscal program (Revenue and expense), economic growth outlook, and general price level in the country. Therefore, Monetary Policy Department of DAB, in official agreements with the IMF, has respectively set the Reserve Money (RM) and Currency in Circulation (CiC) as its operational and indicative targets for 2019, and growth for these indicators is set 12 percent for this year.

At the beginning of FY1398 (2019), Reserve Money (RM) actual amount has been recorded at Af 271,804.93 million and growth of RM is below the ceiling. The target ceiling for end of Aqrab month was Af 320,027.82 million, while the actual amount on the mentioned date stood at Af 281,630.81 million. This figure represents Af 39,397.0 million declines from the target ceiling in the same day and showing growth of 3.6 percent from the beginning of FY year.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) which was stood at Af 228,205.59 million at the beginning of FY1398 (2019), The actual amount of currency in circulation (CiC) stood at Af 255,185.40 million at the end of Aqrab month, while the target for CiC is set at Af 253,403.50 million AF. the actual amount difference is Af 1,776.89 million which is above the ceiling and shows positive growth of 12 percent. The reason for the positive growth of CiC is the issuance of new banknotes in the last month and as well as financial year ends the government expenditure is going to increase which increased CiC actual amount over ceiling.

The following chart shows the RM and CIC during FY 1398 (2019)



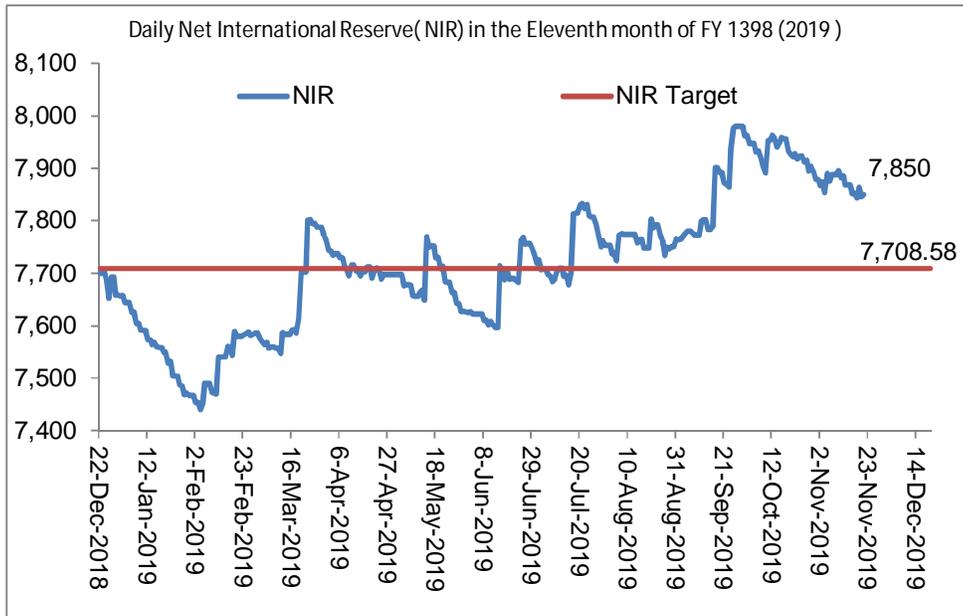
Source: Open Market Operations/Monetary Policy Departments

### 1.2 Net International Reserve

Accumulation of Net International Reserves (NIR), which is known as a main macroeconomic indicator of the national economy, is one of the biggest achievements in the country's financial system. NIR accumulation, without doubt, has significant direct impacts on better implementation of monetary policies as well as on managing macroeconomic indicators such as exchange rate, inflation and balance of payment stability.

At the beginning of FY1398 (2019), Afghanistan's NIR actual amount was set USD 7,708.58 million, but NIR actual amount reached to USD 7,850 million at the end of Aqrab month, which shows USD 141.41 million aggregated.

NIR growth is presented in the following chart.



Source: Open Market Operations/Monetary Policy Departments

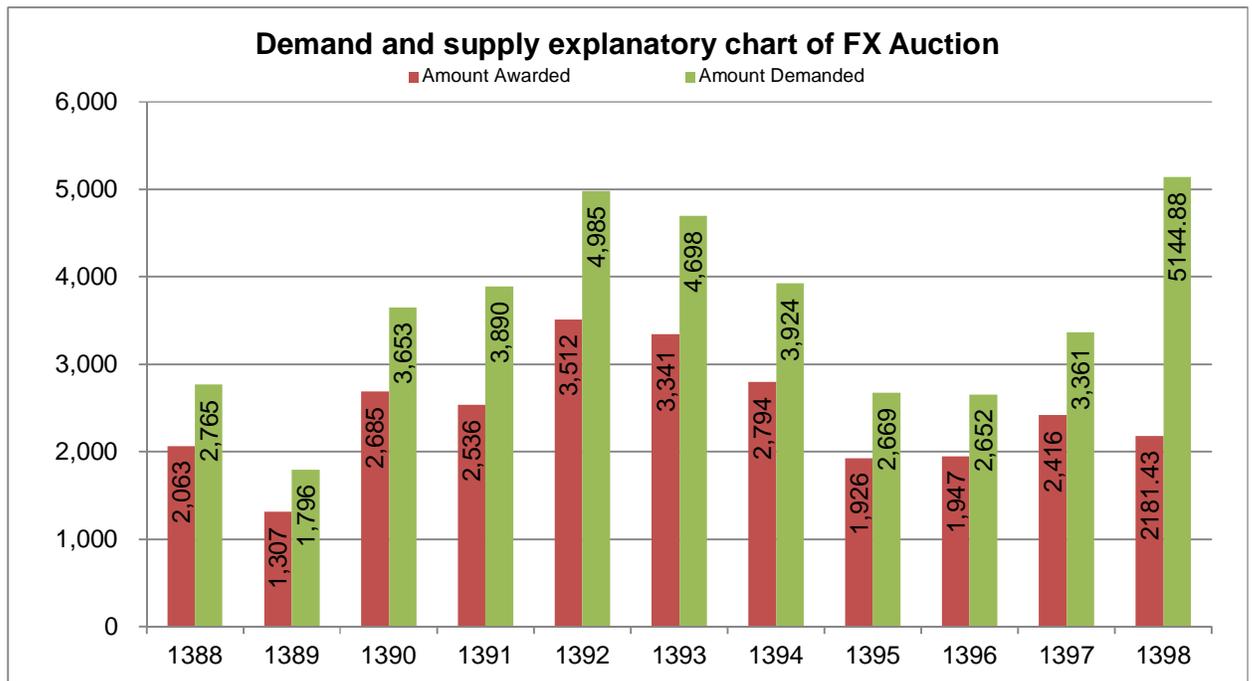
### 1.3 Foreign Exchange and Capital Notes Auction

In order to control the liquidity, money supply and mitigate excessive Af exchange rate fluctuations in the economy, DAB manages reserve money growth close to its sited ceiling by conducting USD auctions three times in a week, and weekly capital notes auctions, which are the two instruments used through open market operations. For detail every one of instruments illustrates in the below.

#### Foreign Exchange Auction

Since the beginning of fiscal year of 1398 (2019) up to end of Aqrab , DAB has auctioned a total amount of USD 2,181.43 million through open market operations, and has collected Af 169.70 billion from the market. These operations have fulfilled 42.40 percent of the total demand for currency (especially the US dollar) in the market.

The Figure of below illustrates the foreign exchange demand and supply during the last 11<sup>th</sup> years.



Source: Market Operations/Monetary Policy Departments

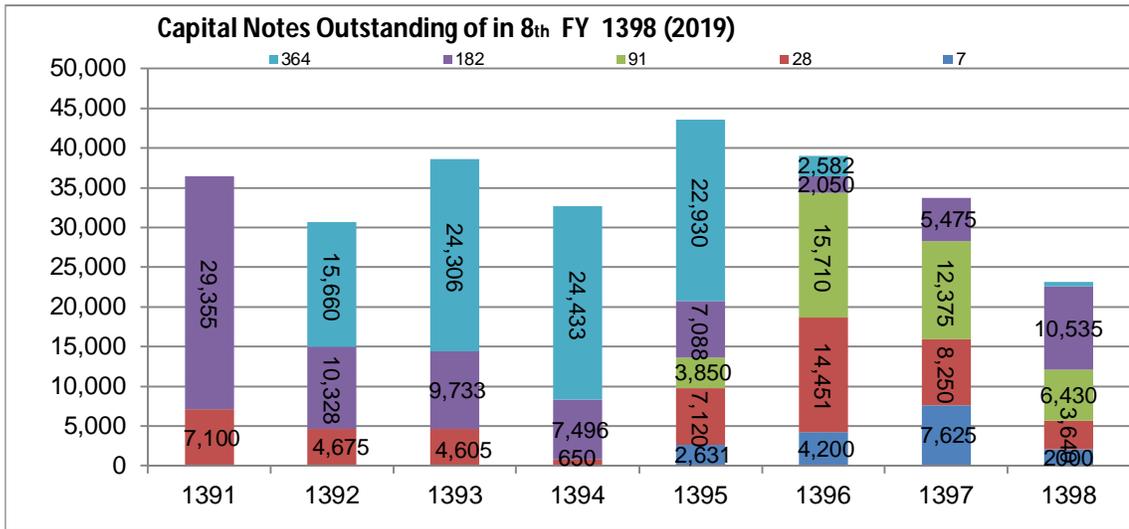
### Capital Notes Auction (Interest rate bidding)

DAB uses capital notes auction as its secondary tool to manage liquidity in the market and mop up the excess liquidity from the banking sector, establish and vindicate secondary markets for securities, maintain price stability, diversify monetary policy instruments, and motivate commercial banks to attract Afghani denominated deposits.

Considering to the current economic situation in the country, Da Afghanistan Bank has gradually reducing auctions of 364 days capital notes as well as their interest rates in order to encourage investment and increase peoples' access to finance. Lower interest rates on these notes will facilitate the issuance of banking credits to the public with simple requirements and low interest.

From the beginning of fiscal year of 1398 (2019) up to end of Aqrab , The total outstanding of capital notes reached Af 23.07 billion and meanwhile the total interest paid for the mentioned notes reached Af 116.46 million at the end of this month.

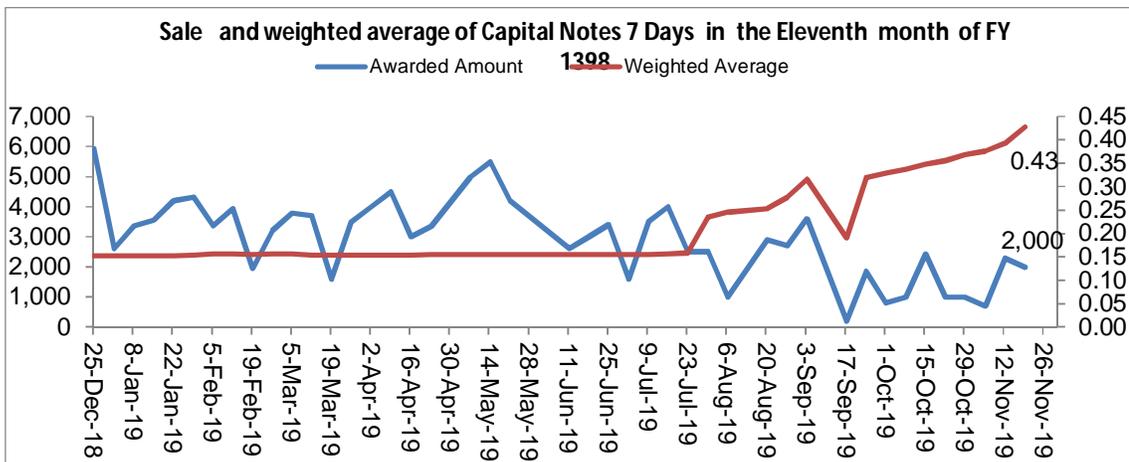
The Figure of below illustrates the Capital Notes Outstanding at end of mention month of FY 1398.



Source: Market Operations/Monetary Policy Departments

### 7 days Capital Notes

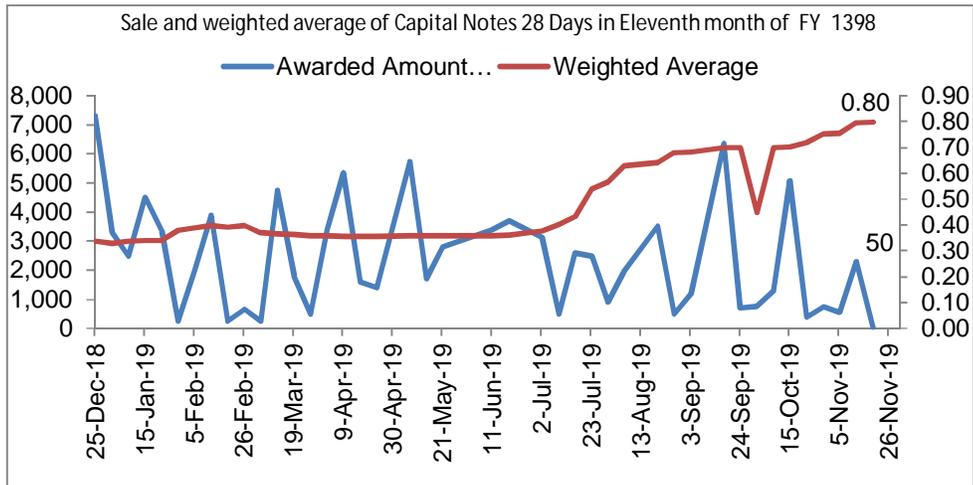
The awarded amount of 7 days capital notes auction at the end of Aqrab reached Af 2 billion with average interest rate of 0.43 percent. The outstanding of these notes is stood Af 2 billion for the mentioned period.



Source: Market Operations/Monetary Policy Departments

### 28 days Capital Notes

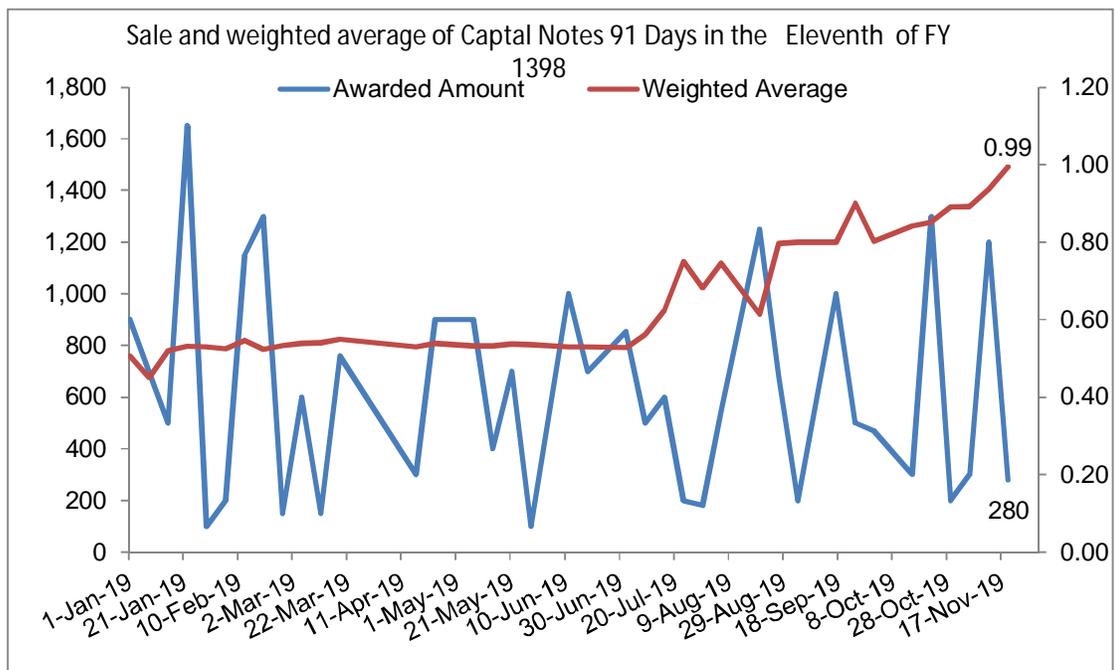
During the reviewed period, awarded amount of 28 days capital notes auction at the end of Aqrab is recorded Af 0.05 billion with average interest rate of 0.80 percent and outstanding amount of Af 3.64 billion.



Source: Market Operations/Monetary Policy Departments

### 91 days Capital Notes

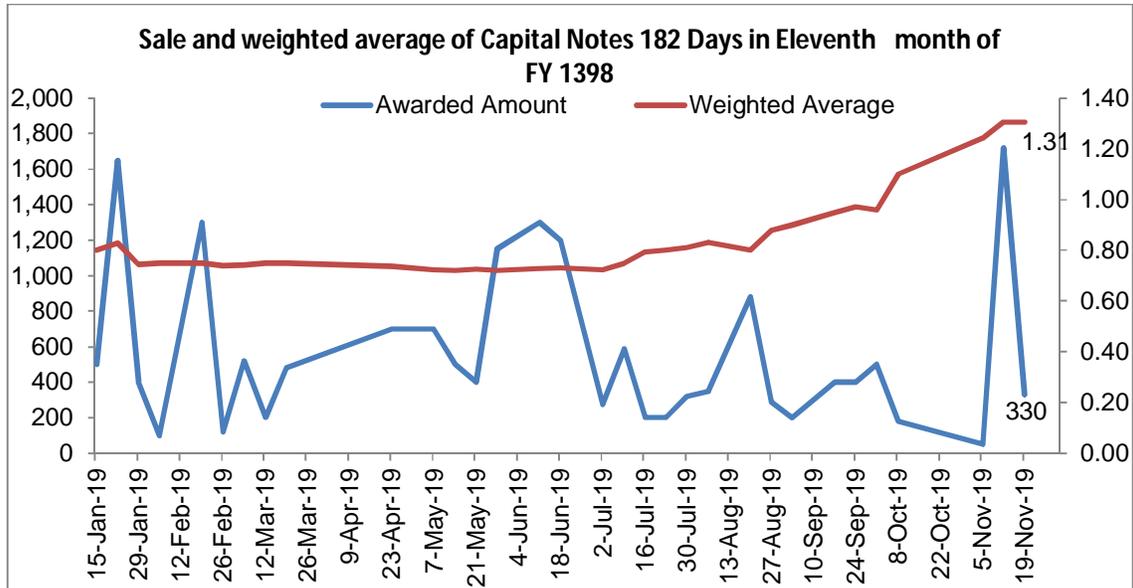
DAB's 91 days capital notes auction during this reporting period stood at Af 0.28 billion at the end of Aqrab with average interest rate of 0.99 percent and total outstanding of Af 6.43 billion.



Source: Market Operations/Monetary Policy Departments

## 182 days Capital Notes

DAB's 182 days capital notes auction during this reporting period stood at Af 0.33 billion at the end of Aqrab with average interest rate of 1.31 percent and total outstanding of Af 10.53 billion.

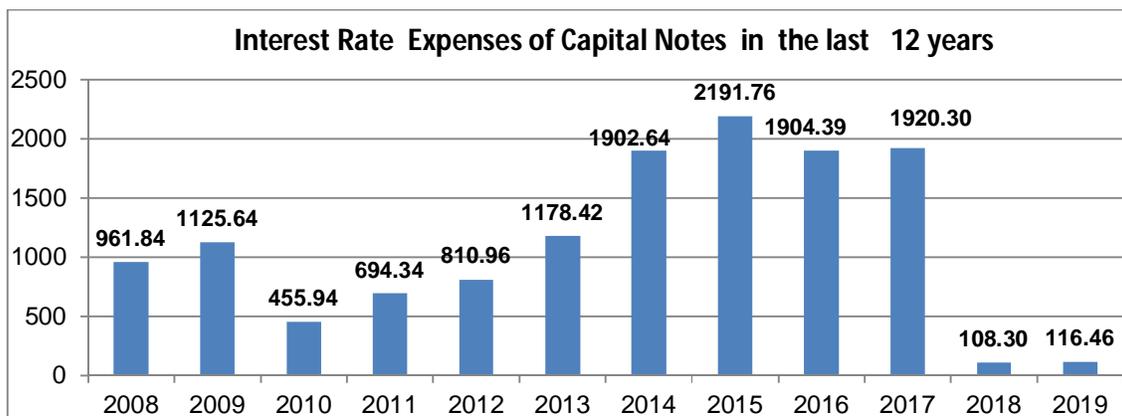


Source: Market Operations/Monetary Policy Departments

Note: Capital Notes 364 days sales has been again started recently it will be included in the next month report.

## Interest Expenses

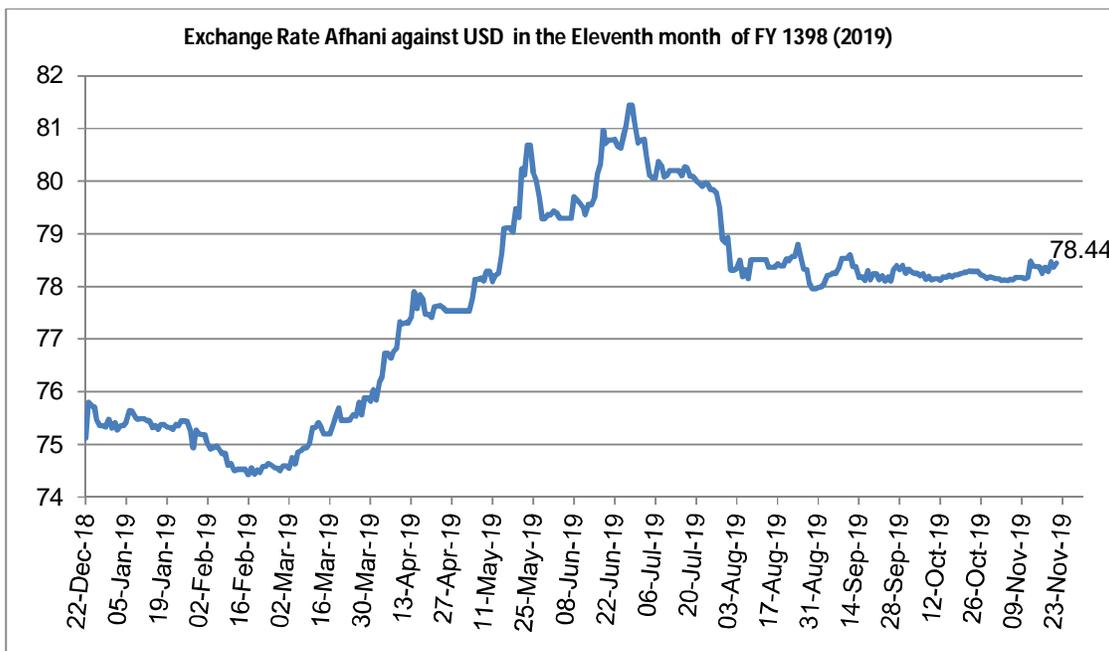
DAB interest paid for Capital Notes during of 12 years till the end of Aqrab month FY 1398 (2019) the figure of below illustrated.



### 1.5 Exchange Rate

Central bank does not target the exchange rate in the market. However, considering its significant effects on other macroeconomic indicators, DAB closely monitors exchange rate behavior to prevent its severe fluctuations. Observing the data, the Afghani exchange rate has recorded some fluctuations against major currencies of the world.

From the beginning of FY1398 (2019) Afghani has depreciated by 4.4 percent, and has been exchanged at Af 78.24 per USD on average and recorded at 78.44 Af exchanged at the end of Aqrab month.



## The table of Monetary Indicators

	FY 1397						1398 FY					
	Hoot	Jawza	Sunbula	Meezan	Aqrab	Oaws	Hoot	Jawza	Saratan	Sunbula	Mizan	Aqrab
Reserve Money Target (%)	-1	3	4	6	6	6	12					
Actual Reserve Money (%)	-6.00	-8.00	-10.00	-8.30	7.80	-2.00	-5.60	-4.5	4.82	1.19	3.2	3.6
RM Actual	260,389.70	253,771.80	293,168.93	253,466.11	250,923.54	309,476.20	255,627.49	259,654.32	258,700.66	275,042.98	280,499.98	281,630.81
RM Target	276,318.10	276,318.10	290,360.45	294,890.25	299,420.06	271,804.90	280,267.14	305,491.17	308,436.51	314,327.17	317,177.49	320,027.82
CiC Actual	215,734.30	226,589.30	225,276.63	229,041.42	227,324.22	256,127.40	222,147.20	231,598.67	233,781.48	244,489.52	254,339.07	255,185.40
CiC Target	228,685.20	228,685.20	242,631.24	244,055.84	247,804.77	228,205.60	233,785.34	241,897.91	244,230.13	248,894.55	251,151.53	253,408.50
Actual NIR	7,349.43	7,499.33	7,549.36	7,514.63	7,439.81	7,550.34	7,702.51	7,691.22	7,823.57	7,868.70	7,927.98	7,850.00
NIR Target	7,301.44	7,250.34	7,402.80	7,451.98	7,501.16	7,708.59	7,684.13	7,708.58	7,708.58	7,708.58	7,708.58	7,708.58
Outstanding Amount	19,443.00	37,960.00	39,515.00	34,820.00	32,450.00	33,725.00	26,665.00	27,020.00	28,665.00	23,920	7,708.58	23,075
Required Reserve (Afs)	6,148.91	6,140.47	6,136.46	5,884.87	5,933.98	4,625.81	5,768.54	10,923.40	5,672.74	2,657.34	7,708.58	5,442.18

## 2. Real Sector

Consumer Price Index (CPI) in Afghanistan is divided into two main groups: Food Items, accounting for 47.8 percent of total CPI and Non-Food Item making up the remaining 52.2 percent. The most important components in food item, which may put significant impacts on the overall inflation, are: bread and cereals (14.6 percent), meat (7.5 percent), milk, cheese and eggs (4.7percent) and oil and fats (4.6 percent). The non-food item is mainly composed of: housing (19.1 percent), clothing (4.6 percent), household goods (11.9 percent), transportation (4.3 percent), and health (6.2 percent).

Headline inflation decreased in the month of September 2019. The year over year inflation decreased to 1.85 percent in September from 2.92 percent observed in the previous month. This decrease in monthly inflation caused by lower prices of both foods and non-foods items.

Core inflation when measured based on 30% trimmed mean decreased to 2.53 percent from 3.04 percent.

**Table 1.1. Headline Inflation (August 19-September 19)**

	Y-on-Y		M-to-M	
	August	September	August	September
<b>National CPI</b>				
<b>Headline</b>	2.92	1.85	0.09	-0.66
<i>Food</i>	5.28	4.13	0.38	-0.58
<i>Non-Food</i>	0.78	-0.24	-0.18	-0.74
<i>CPI ex. B&amp;C, O&amp;F, and T</i>	2.98	1.93	0.52	-0.88
<i>Trimmed Mean</i>	3.04	2.53		
<b>Kabul CPI</b>				
<b>Headline</b>	2.76	0.84	0.31	-1.98
<i>Food</i>	5.81	1.92	0.30	-2.90
<i>Non-Food</i>	0.90	-1.03	0.33	-1.39

### 2.1.1 Food Inflation

The flow of inflation in food items turned down in September 2019. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In September 2019, when measured on year over year basis, decreased to 4.13 percent compared to 5.28 percent calculated in previous month. This decrease came from lower prices of bread and cereal, meat, milk, cheese and butter, oil and fats, fresh and dried fruits, sugar and sweets. Price of the remaining items increased from the previous month's values

**Table 2.2. Food Inflation(August 19-September 19)**

Items	Weight	Y-on-Y		M-to-M	
		Aug	Sep	Aug	Sep
<b>Food and Beverages</b>	47.8	5.28	4.13	0.38	-0.58
<i>Bread and Cereals</i>	14.6	6.05	4.08	-1.41	-0.21
<i>Meat</i>	7.5	9.23	8.79	1.93	0.38
<i>Milk, cheese and eggs</i>	4.7	0.95	0.27	-1.10	0.29
<i>Oils and fats</i>	4.6	-2.70	-0.91	-0.74	1.27
<i>Fresh and dried fruits</i>	5.0	5.32	-0.30	-0.67	-7.31
<i>Vegetables</i>	6.0	0.17	1.60	3.44	1.22
<i>Sugar and sweets</i>	2.7	13.05	10.28	4.24	-1.04
<i>Spices</i>	1.3	23.03	23.59	2.59	0.47
<i>Non-alcoholic beverages</i>	1.4	4.22	4.28	0.44	0.15

**Source** : Da Afghanistan Bank /NSIA

## 2.1.2 Non-Food Inflation

Inflation in non-food items exhibited downward trend in the month of September 2019. On the year over year basis, non-food inflation decreased to -0.24 percent from 0.78 percent observed in the previous month. The deflationary pressure on this index came from lower price of tobacco, clothing, housing, information and culture, furnishing and household goods, transportation, communication.

**Table 2.3. Non-Food Inflation (August 19-September 19)**

	Weight	Y-on-Y		M-to-M	
		Aug	Sep	Aug	Sep
<b>Non-Food</b>	<b>52.2</b>	0.78	-0.24	-0.18	-0.74
<i>Tobacco</i>	<b>0.3</b>	1.53	0.28	0.33	-0.25
<i>Clothing</i>	<b>4.6</b>	6.30	5.36	1.48	-1.10
<i>Housing,</i>	<b>19.1</b>	-3.25	-5.00	-0.60	-1.48
<i>Furnishing and household goods</i>	<b>11.9</b>	3.47	2.97	0.01	-0.34
<i>Health</i>	<b>6.2</b>	6.02	5.47	0.28	-0.57
<i>Transportation</i>	<b>4.3</b>	-2.27	-3.86	-1.36	-0.43
<i>Communication</i>	<b>1.7</b>	-5.84	-6.63	-0.87	-0.55
<i>Information and Culture</i>	<b>1.1</b>	3.44	2.98	1.21	-0.41
<i>Education</i>	<b>0.4</b>	3.07	1.84	-0.09	-0.36
<i>Restaurants and Hotels</i>	<b>1.1</b>	0.27	1.36	-3.26	1.34
<i>Miscellaneous</i>	<b>1.4</b>	4.06	6.15	1.21	2.03

## 2.2 Core Inflation

Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which may be seasonal or other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI. One of the most common methods of core inflation is trimmed mean. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During September 2019, trimmed mean (30 % of CPI) decreased to 2.53 percent (year over year) from 3.04 percent observed in the previous month. Another core measure of inflation is the CPI excluding bread and cereals, oils and fats, and transportation, which decreased to 1.93 percent compared to 2.98 percent recorded in the previous month. Inflation by this measure also decreased on month to month basis to -0.88 percent from 0.52 percent.

Core Measures(Year over Year)		
Indicators	August	September
30% Trimmed Mean	3.04	2.53
<b>CPI ex. B&amp;C,O&amp;F and T</b>	2.98	1.93

**Source:** Da Afghanistan Bank and/NSIA

## 3 External Sector

### 3.1 CURRENT ACCOUNT BALANCE

Current account deficit, declined by almost 23 percent to a value of USD 604.74 million in the second quarter of the FY 1398 from a value of USD 784.58 million recorded in the second quarter of the FY 1397.

This outcome was primarily on account of a contraction in the trade deficit as a result of declining merchandize imports by 7 percent, as well as, a rise in the earnings of service account and a rise in the inflows of personal transfers (home worker remittances) in the second quarter of the FY 1398.

#### 3.1.1 GOODS ACCOUNT

The value of total export of goods decreased by 2 percent to a value of USD 143.60 million in the second quarter of the FY 1398 from a value of USD 146.81 million recorded in the second quarter of the FY1397.

The value of total import of goods declined by 6.3 percent to a value of USD 1,466.34 million in the second quarter of the FY 1398 from a value of USD 1,565.29 million recorded in the second quarter of the FY 1397.

- **Main drivers of decreasing exports during the Q2 of the FY 1398 are:**

- ✓ Saffron slightly decreased to USD 5.60 m from USD 5.96.
- ✓ Oil seeds decreased to USD 2.78m from USD 3.58m
- ✓ Intestine decreased to USD 1.09 m from USD 1.22 m.

- **Main drivers of declining Imports in the Q2 of the FY 1398 are:**

- ❖ Industrial supplies such as:

- ✓ Metal production declined by 11% to USD 83.33m from a value of USD 93.68m.
- ✓ Chemical: declined by 82 % to USD 1.42m from a value of USD 7.96m.

**Note:** as a total Industrial supplies slightly declined by 1 percent to a value of USD 194.14 million in the second quarter of the FY 1398 from a value of USD 196.47 million in the second quarter of the FY 1397.

- ❖ Consumer goods such as:

- ✓ Flour and wheat flour declined by 30% to USD 168.69 million from USD 240.22 million.
- ✓ Veg. oil declined by 13% to USD 76.62 million from USD 87.69 million.
- ✓ Electricity imports declined by 41 % to USD 41.64 million from USD 70.59 million.
- ✓ Footwear declined by 10% to USD 7.56 million from USD 8.40 million.
- ✓ Soaps declined by 50 % to USD 4.76 million from USD 9.50 million.
- ✓ T.V declined by 90 % to USD 0.11 million from USD 1.09 million
- ✓ Stationary declined by 59 % to USD 7.61 million from USD 18.66 million.
- ✓ Bicycles declined by 8% to USD 2.09 million from USD 2.28 million.

**Note:** as a total Imports of Consumer goods decreased by 10 percent to a value of USD 622.05 million in the second quarter of the FY 1398 from a value of USD 687.54 million recorded in the second quarter of the FY 1397.

❖ Capital goods such as:

- ✓ Spare parts and machinery declined by 48% to USD 9358 million from USD 179.40 million.

### 3.1.2 SERVICES ACCOUNT

In the Services account we turned from a deficit of USD 77.74 million in the second quarter of the FY 1397 to a surplus of USD 95.72 million recorded in the second quarter of the FY 1398, mainly due to increasing receipts from some of services implemented by residents to non-residents such as:

- Receipts from **government goods and services**, increased to a value of USD 223.89 million in the second quarter of the FY 1398 from a value of USD 31.92 million recorded in the second quarter of the FY 1397.
- Receipts from **Travel, services** increased to a value of USD 26.72 million in the second quarter of the FY 1398 from a value of USD 2.40 million recorded in the second quarter of the FY 1397.
- Receipt from **construction services** slightly increased to a value of USD 24.36 million in the second quarter of the FY 1398 from a value of USD 23.29 million recorded in the second quarter of the FY 1397.

### 3.1.3 PRIMARY INCOM ACCOUNT:

Net primary income decreased by 11.2 percent to a value of USD 53.85 million in the second quarter of the FY 1398 from a value of USD 60.60 million recorded in the second quarter of the FY 1397.

### 3.1.4 SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account decreased by 12.7 percent to a value of USD 568.43 million in the second quarter of the FY 1398 from a value of USD 651.03 million recorded in the second quarter of the FY 1397.

- **Official transfers (Net); to** the Afghan government decreased by 19.6 percent to a value of USD 426.7 million in the second quarter of the FY 1398 from a value of USD 530.6 million recorded in the second quarter of the FY1397.
- **Personal transfers (Net)** increase by 17.7 percent to a value of USD 141.70 million in the second quarter of the FY 1398 from a value of USD 120.42 million recorded in the second quarter of the FY 1397.

### 3.2 CAPITAL ACCOUNT BALANCE:

Shows a significantly increase of 32.9 percent to a value of USD 228.51 million in the second quarter of the FY 1398 from a value of USD 171.93 million recorded in the second quarter of the FY 1397, as a result of higher inward of capital transfers to the government sector.

### 3.3 FINANCIAL ACCOUNT BALANCE:

- **Direct investment (Net):**
  - ✓ Outflows (assets abroad), decreased to a value of USD 11.89 million in the second quarter of the FY 1398 from a value of USD 45.67 million in the second quarter of the FY 1397.
  - ✓ Inflows (liabilities) increased to a value of USD 5.84 million in the second quarter of the FY 1398 from a value of USD -4.08 million recorded in the second quarter of the FY 1397.

**Note:** as a sector-wise; Services sector is the first which captured more FDI. Construction, mining and Industry/Manufacture are ranked the second third and fourth respectively.

- **Portfolio Investment (net):** increased to a value of USD 2045 million in the second quarter of the FY 1398 from a value of USD 11.25 million recorded in the second quarter of the FY1397.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q1- 97	Q2- 97	Q3 - 97	Q4 - 97	Q1- 98	Q2- 98	%change
<b>Current Account</b>	<b>-1232.36</b>	<b>-784.58</b>	<b>-686.89</b>	<b>-884.88</b>	<b>-1093.83</b>	<b>-604.74</b>	<b>-22.9%</b>
<i>Credit</i>	942.35	1139.46	1356.95	1244.66	944.47	1162.36	2.0%
<i>Debit</i>	2174.71	1924.04	2043.83	2129.54	2038.30	1767.10	-8.2%
<b>Goods and Services Account</b>	<b>-1756.54</b>	<b>-1496.22</b>	<b>-1295.88</b>	<b>-1462.44</b>	<b>-1452.39</b>	<b>-1227.01</b>	<b>-18.0%</b>
<i>Credit</i>	355.20	378.07	649.44	591.07	536.12	489.63	29.5%
<i>Debit</i>	2111.75	1874.29	1945.32	2053.51	1988.51	1716.64	-8.4%
<b>Goods Account</b>	<b>-1590.89</b>	<b>-1418.48</b>	<b>-1313.65</b>	<b>-1397.62</b>	<b>-1458.59</b>	<b>-1322.73</b>	<b>-6.7%</b>
<i>Credit</i>	172.45	146.81	261.88	294.09	182.57	143.60	-2.2%
<i>Debit</i>	1763.35	1565.29	1575.53	1691.71	1641.16	1466.34	-6.3%
<b>Services Account</b>	<b>-165.65</b>	<b>-77.74</b>	<b>17.77</b>	<b>-64.82</b>	<b>6.19</b>	<b>95.72</b>	<b>-223.1%</b>
<i>Credit</i>	182.75	231.26	387.56	296.98	353.55	346.03	49.6%
<i>Debit</i>	348.40	309.00	369.79	361.81	347.36	250.31	-19.0%
<b>Primary Income Account</b>	<b>29.87</b>	<b>60.60</b>	<b>66.34</b>	<b>55.60</b>	<b>53.97</b>	<b>53.85</b>	<b>-11.2%</b>
<i>Credit</i>	40.31	71.72	116.44	78.32	69.88	64.66	-9.8%
<i>Debit</i>	10.45	11.11	50.11	22.72	15.91	10.81	-2.7%
<b>Secondary Income Account</b>	<b>494.32</b>	<b>651.03</b>	<b>542.65</b>	<b>521.96</b>	<b>304.59</b>	<b>568.43</b>	<b>-12.7%</b>
<i>Credit</i>	546.84	689.67	591.06	575.27	338.47	608.08	-11.8%
<i>Debit</i>	52.52	38.64	48.41	53.31	33.88	39.64	2.6%
<b>Current transfers (Official grants)</b>	<b>408.0</b>	<b>530.6</b>	<b>404.4</b>	<b>365.5</b>	<b>162.8</b>	<b>426.7</b>	<b>-19.6%</b>
<i>Credit</i>	408.0	530.6	404.4	365.5	162.8	426.7	-19.6%
<i>Debit</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
<b>Personal transfers</b>	<b>86.36</b>	<b>120.42</b>	<b>138.22</b>	<b>156.44</b>	<b>141.80</b>	<b>141.70</b>	<b>17.7%</b>
<i>Credit</i>	138.88	159.06	186.63	209.75	175.68	181.34	14.0%
<i>Debit</i>	52.52	38.64	48.41	53.31	33.88	39.64	2.6%
<b>Capital account</b>	<b>4.84</b>	<b>171.93</b>	<b>427.13</b>	<b>588.81</b>	<b>39.42</b>	<b>228.51</b>	<b>32.9%</b>
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	228.51	32.9%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Capital transfers</b>	<b>4.84</b>	<b>171.93</b>	<b>427.13</b>	<b>588.81</b>	<b>39.42</b>	<b>228.51</b>	<b>32.9%</b>
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	228.51	32.9%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Financial account</b>	<b>56.2</b>	<b>-6.3</b>	<b>311.3</b>	<b>196.34</b>	<b>-15.70</b>	<b>140.90</b>	<b>2322.4%</b>
<b>Direct investment</b>	<b>-43.45</b>	<b>-49.75</b>	<b>6.22</b>	<b>8.07</b>	<b>0.02</b>	<b>-6.05</b>	<b>-87.8%</b>
Net acquisition of financial assets	-3.78	-4.08	31.18	17.21	8.83	5.84	-242.9%
Net incurrence of liabilities	39.67	45.67	24.96	9.14	8.81	11.89	-74.0%
<b>Portfolio investment</b>	<b>44.21</b>	<b>11.25</b>	<b>107.08</b>	<b>1.18</b>	<b>-18.62</b>	<b>20.45</b>	<b>81.8%</b>
Net acquisition of financial assets	44.21	11.25	107.08	1.18	-18.62	20.45	81.8%
Net incurrence of liabilities	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Other investment</b>	<b>32.63</b>	<b>72.01</b>	<b>85.33</b>	<b>114.49</b>	<b>-26.41</b>	<b>97.19</b>	<b>35.0%</b>

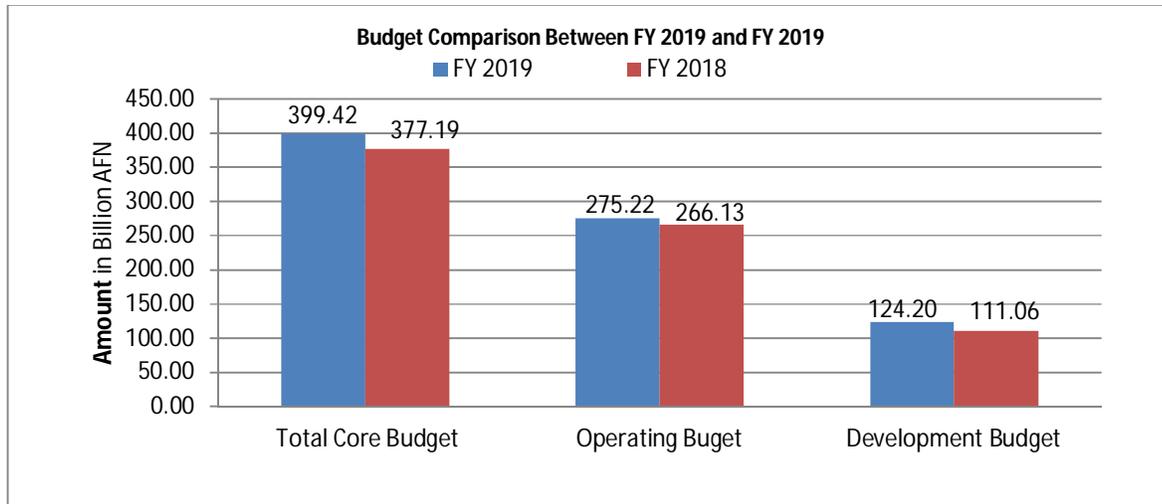
Assets	-2.23	49.57	59.54	107.09	-40.94	90.76	83.1%
Liabilities	-34.86	-22.44	-25.79	-7.39	-14.54	-6.43	-71.4%
Reserve Assets	22.79	-39.85	112.68	72.60	29.31	29.31	-173.5%
Net errors and omissions	1283.69	606.31	571.07	492.41	1038.70	517.12	-14.7%

#### 4. Fiscal Sector

The key objective in the fiscal area is to achieve sustained increase in revenue collection to permit gradual takeover of externally financed operating & development spending to ensure an expenditure allocation consistent with Afghanistan National Peace and Development Framework (ANPDF). Furthermore, other goals include improvements in public expenditure management, fiscal policy formulation and reformation, efficiency in public enterprises, tax and customs administration.

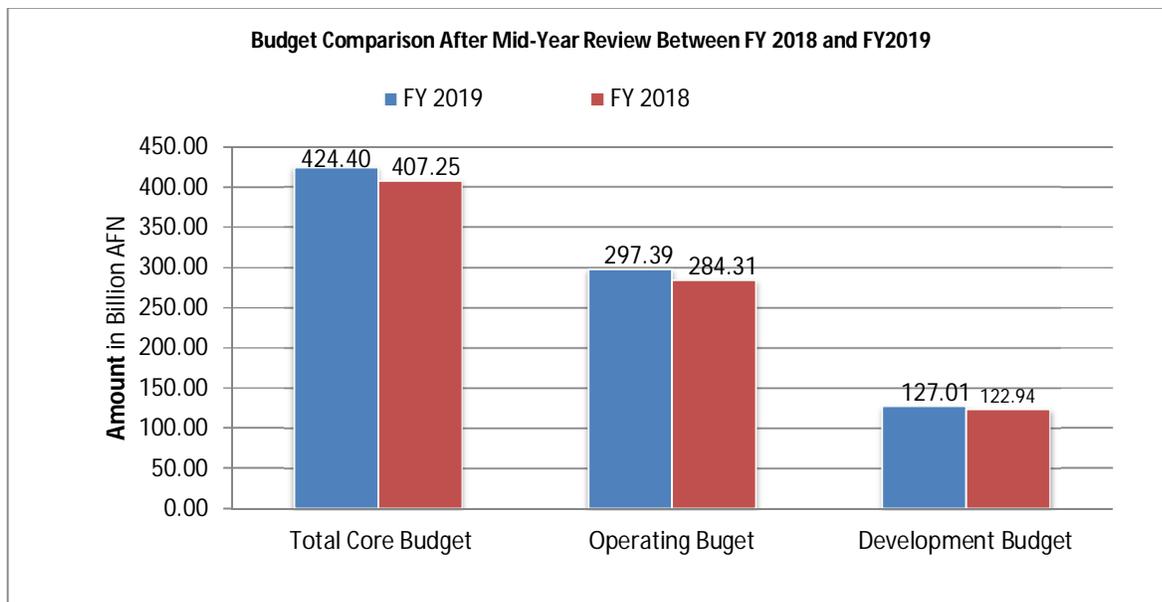
In addition, like other emerging and under developing economies around the world, Afghanistan faces budget imbalance (Budget Deficit), where total core expenditures exceed total revenue (excluding grants).

At the start of fiscal year 2019 total core budget was estimated AFN 399.42 billion from AFN 377.19 billion in FY 2018, showing 5.89% or AFN 22.23 billion increase in annual budget. From the total of AFN 399.42 billion, operating and development budgets are estimated each AFN 275.22 billion and AFN 124.20 billion respectively.



It has to be mentioned that the budget is always subject to change during the year at any time either due to non-discretionary expenses incurred by the donors, or by Ministry of Finance (MoF) through mid-year review of budget which has to be approved by parliament following the justification and documentation provided the MoF.

Following chart shows the updated figures for FY 2019 budget, up to August that is changed due to non-discretionary expenses, while the mid-year review is being approved by parliament.



Total core budget estimation is increased to AFN 424.40 billion including operating budget and development budget of AFN 297.39 billion and AFN 127.01 billion respectively. This shows an increase of 4.21% in total core budget from the start of FY 2019 indicating increase of amount AFN 24.98 billion and more over it shows AFN17.14 billion increments compared to the FY 2018 budget at the same date.

Total revenue (domestic revenue plus external aids) for the month of October 2019 is AFN 49.18 billion, while in September; it was AFN 28.52 billion which shows 72.25% or AFN 20.61 billion increase in August. Total revenue from the start of FY-2019 till end of October reached to AFN 301.52 billion that is combination of AFN144.57 billion donor contributions and AFN156.95billion domestic revenue respectively.

Likewise, domestic Revenue for the month October is AFN 20.00 billion while it was amount AFN 14.89 billion in the month of September, showing an increase of AFN 5.11 billion 34.34% in the month of October. On the other hand, donor contributions (including loans) amounted to AFN 29.13 billion in October, where donor contributions in September was AFN 13.63 billion, which indicates AFN 15.49 billion 113.64 % increase in donor contributions for the month of October.

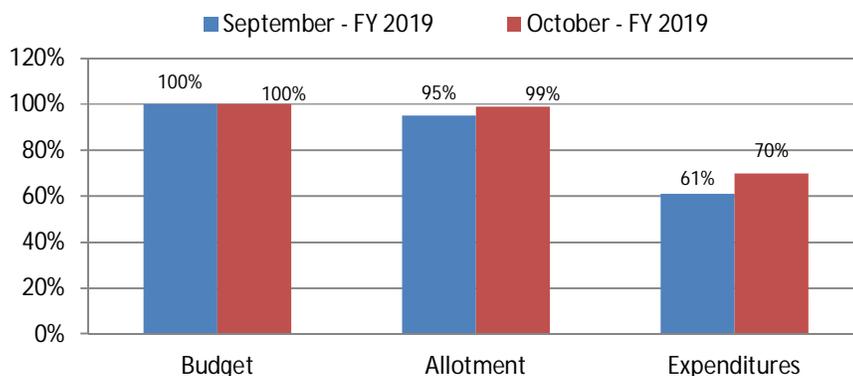
Additionally, total Expenditure at the end of October 2019 reached to AFN 301.56 billion, from which operating expenditures and development expenditures were individually, AFN 213.61 billion and AFN 87.95 billion. Likewise, operating expenditures for the month of October is AFN 29.33 billion, where in September it was AFN 24.38 billion. This signifies that, there is AFN 4.95 billion or 20.29 % increase in operating expenditures in the month of October FY 2019. On the other hand, development expenditures for the month of September was AFN 24.38 billion, while in October increased by AFN 3.09 or 39.56% resulted total expenditure in October FY 2019 amount AFN 10.89 billion.

Description	, September FY 2019	FY , October 2019	From Jan to October FY 2019	Difference (between August & September)	Monthly Growth (%)
	Amount in Billion AFN				
<b>Total Revenue</b>	<b>28.52</b>	<b>49.13</b>	<b>301.52</b>	<b>20.61</b>	<b>72.25%</b>
Domestic Revenue	14.89	20.00	156.95	511	34.34%
Donor Contribution	13.63	29.13	144.57	15.49	113.64%
<b>Total Expenditure</b>	<b>32.19</b>	<b>40.22</b>	<b>301.56</b>	<b>8.03</b>	<b>0.25%</b>
Operating Expenditure	24.38	29.33	213.61	4.95	20.29%
Development Expenditure	7.80	10.89	87.95	3.09	39.56%

**Source: MoF Financial Reports/MPD Staffs Calculations**

Execution rate of core budget at the end of October 2019 reached to 70%, and allotment increased to 99%. Compared to September 2019 where 61% of the budget were allotted and 95% expenditure were took place.

## Monthly Analysis of Budget Execution For FY 2019



## 5. Swift and Payments

### Report of (Outward) Transactions from 1/8/ 1398 up to 30/8/1398

Categories	Remmitter Parties	Message Type	USD	EUR	AED	AUD	CHF	JPY
A	Ministries	MT 103 ,700 & 910	24,888,621.07	3,357,528.28	16748	696	19875	2,795,988.00
B	Commercial Banks	202	100,407,423.68	1360901				
C	Da Afghanistan Bank	200	306,000,000.00	56,009,813.88				

### Report of (Inward) Transactions from 1/8/ 1398 up to 30/8/1398

Categories	Beneficiary Parties	Message Type	USD	EUR	AED			
A	Ministries	MT 103 ,700 & 910	32,369,905.39	716,694.74	3,389,777.00			
B	Commercial Banks	202	23,527,864.82					
C	Da Afghanistan bank	200						

بر علاوه به تعداد 40 معامله تبدلوی FX Deal به ارزش مجموعی (30976700.29) دالر و به تعداد 2 معامله تبدلوی بانک جهانی به ارزش مجموعی 1101361.57 دالر امریکائی نیز اجرا گردیده است

## 6. Banking sector

As of end of Oct, 2019 (Mezaan 1398) the main banking sector data demonstrated a decreasing trend as compared with the same period last year. Total assets, gross loans, deposits and equity capital showed decreases, attributed to settlement and charge-off of loans, closure of a branch of a foreign bank, dividend payments and deposit withdrawals. Liquidity remained adequate and profitability increased but the loan quality decreased.

The total assets of the banking sector posted a 6.01 percent YOY decrease, reaching Af 290.29 billion at end of Oct, 2019 as compared to Af 308.88 billion in Oct, 2018. Total assets decreased by 2.67 percent over the previous month, mostly coming from deposit withdrawals. At the mean time major

decreasing assets components were overnight deposits, interbank claims mainly USD accounts and net loans.

The gross loans portfolio of the banking sector registered YOY decrease of 5.23 percent and currently stands at Af 41.46 billion. The decrease is mainly as a result of settlement and charge-off of loans. Total gross loans showed a decrease of 2.14 points compared to previous month mainly on account of settlement and charge off of loans and less OD utilization.

Total Deposits comprising of customer and interbank deposits, the main source

of funding in the banking sector presented 6.98 percent YOY decrease, currently standing at Af 246.45 billion. The decrease in total deposits mainly came from the customer demand deposits and in USD currency. Deposits posted a decrease of 2.94 points over the previous month mainly coming from withdrawals, significant in customer demand deposits.

The net equity position of the banking sector remained strong, though it decreased by 3.25 percent yoy basis and represents 11.99 percent of total assets. The decrease is mainly attributed to payment of dividends and closure of a branch of a foreign bank.

The banking sector for the last ten months of fiscal year 1398 (Jan-Oct, 2019) earned Af 1.69 billion net-profits against Af 1.40 billion net-profits in the comparable period last year . Resulting in ROA of 0.62 percent annualized compared to that of 0.55 percent annualized in Oct, 2018.

Liquidity and FX positions are in accordance with the ratios set by the central bank, except three banks that have violated the limits ( $\pm$  40 percent for over all FX position and  $\pm$  20 percent on individual currency position) on overall and individual currency basis (USD and EURO long position).

The regulatory capital ratios of all banks are above the regulatory threshold (12% of RWA).

CAR (capital adequacy ratio) of the sector recorded at 25.95 percent against 26.71 percent in Oct, 2018 showing 0.76 percent decrease over the year.

## Introduction

The banking sector in Afghanistan consists of 13 duly-licensed and permitted banking organizations: 3 relicensed state-owned banks, 7 private full-fledged banks Commercial banks, 1 private full-fledged Islamic Bank and 2<sup>1</sup> branches of foreign banks.

The number of banking facilities, all across the country is as follows:

Provided banking Facilities	No
Full Service Branches	205
Limited Service Branches	205
Automated Teller Machines (Type 22 Facility)	359
*Others (Type 21, 24, 25 Facility)	96
**Point of Sale (Type 23)	105
<b>Total</b>	<b>970</b>

Table 1

Cards	No
Debit Card	658,169
Credit Card	1,306
ATM Card	248,767
Web surfer Cards	14,691
Pre-Paid Card	14,927
Master Card	8,890
<b>Total</b>	<b>946,650</b>

Table 2

<sup>1</sup> As per the DAB SC resolution No. 53 dated 18/12/1397 HBL license revoked

\* Type 21 Facility: A loan origination facility where the proceeds of the loan are not disbursed

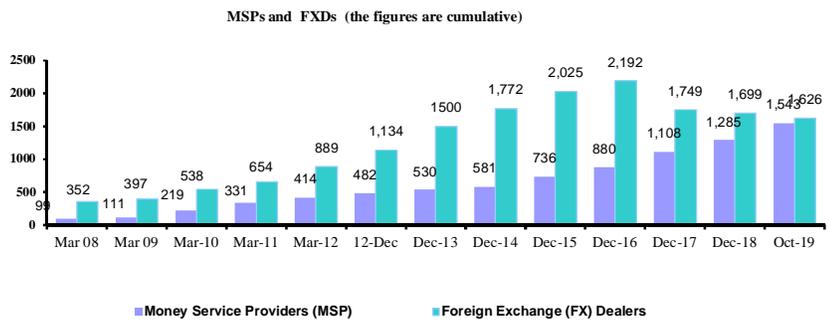
Type 24 Facility: A facility which only disburses cash, such as salaries to government and /or non-government employees, or other cash payments to bank customers

Type 25 Facility: A facility which only receives cash from the public for deposits into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for the cash. this facility could be located on military base, or in a hotel, for example.

\*\* Type 23 Facility: A facility which only receives cash from the public for deposit into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for cash. This facility could be located on the military base, in an embassy, or in a hotel, for example.

The above-mentioned branch facilities are available in thirty three (33) provinces including the capital city Kabul. ATM services are available in 28 and Debit cards are available in 31 provinces, while credit cards are available in 6 provinces of the country.

In addition, on a cumulative basis, 1,543 licensed money service providers (MSP) and 1,626 licensed FX dealers are operating in the country. Of these 1,543 licensed MSPs, 276 are in Kabul, 987 are in provinces while 280 representatives of head offices are in Kabul and provinces. Of 1,626 licensed FX dealers, 342 are in Kabul, 1,278 are operating in provinces, and 6 representatives are active in provinces. Further details are given in the Graph No.1

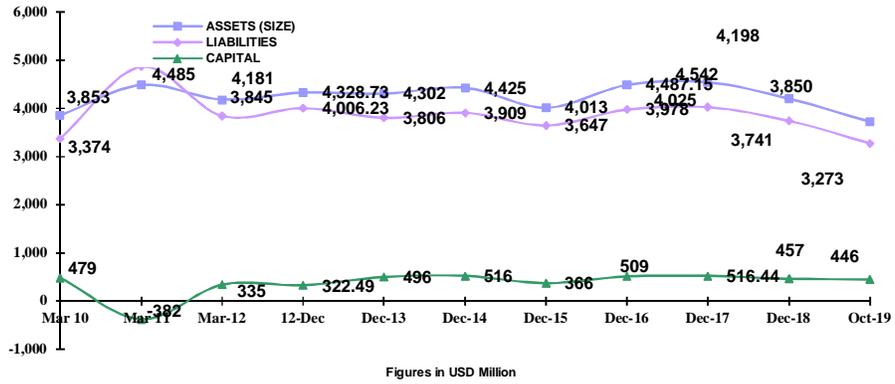


Graph No.1

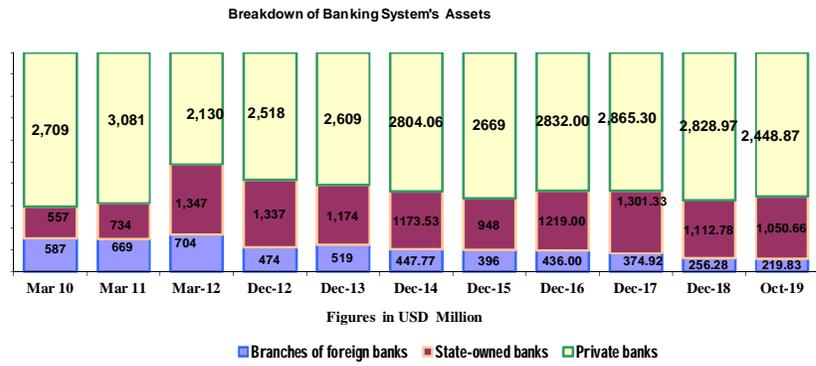
### 6.1. Total Asset

The total assets of the banking sector registered 6.01 percent YOY decline, reaching Af 290.29 billion (USD 3.71 billion), lower than the 2.59 percent increase recorded in the same preceding period (Oct, 2018). The above mentioned decrease in the total assets was mainly contributed by deposit withdrawals (dominant in customer demand deposits and in USD currency), closure of a foreign bank branch and dividend payment. Disaggregated analysis of total assets shows that Cash in vault, DAB capital notes, and Overnight deposits; interbank claims mostly USD accounts and net loans mainly USD loans were the top decreasing items.

Looking at the growth rate in total assets across the banking groups, all the banking groups showed decrease in their assets compared to last year. Private banks, state owned banks and branches of foreign banks witnessed 4.05 percent, 8.01 percent and 16.37 percent decrease respectively. The percentage share of private banks in the system's total asset is reported to be 65.84 percent; state-owned banks with 28.24 points are at the second place while branches of foreign banks have 5.91 percentage shares in the system's total asset. Growth of assets of the banking sector from March 2010 to Oct, 2019 is depicted in graph No.2.



Graph No. 2



Graph No.3

Assets of the Banking sector in descending order for the month of Oct, 2019			Size of Indv. Banks as % of Total Assets of the sector
S.N	Names of Banks	Assets in million Af	
1	Afghanistan International Bank	65,599.69	22.60
2	Bank-e- Milli Afghan	40,044.32	13.79
3	Azizi Bank	38,430.76	13.24
4	Pashtany Bank	22,518.69	7.76
5	New Kabul Bank	19,441.26	6.70
6	Afghan United Bank	19,408.56	6.69
7	Maiwand Bank	18,707.36	6.44
8	Islamic Bank of Afghanistan	16,287.86	5.61
9	Bank Alfalah Limited	12,375.19	4.26
10	Arian Bank	11,086.60	3.82
11	Ghazanfar Bank	10,925.13	3.76
12	First Micro Finance Bank	10,688.28	3.68
13	National Bank of Pakistan	4,782.64	1.65
<b>Total</b>		<b>290,296.34</b>	<b>100.00</b>

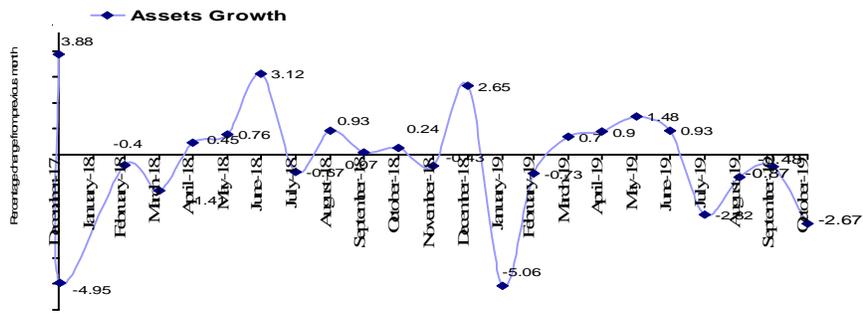
Table 3

### 6.1.1 Asset growth

Total assets of the banking sector depicted a positive trend for the most part of the 2018, being highest in June and December 2018 coming mostly from increase in the interbank claims dominantly in USD, while touched the lowest point in Jan, 2018, which was mainly due to decrease in cash in vault and claims on DAB particularly in overnight deposits and capital notes.

For the month under analysis total assets recorded a decrease of 2.67 percent, mostly coming from deposit withdrawals. While, breakdown of total assets shows that the major decreasing items were overnight deposits, interbank claims mainly USD accounts and net loans.

For further details, the trend is shown in graph No. 4



Graph No.4

## 6.2 Loan portfolio

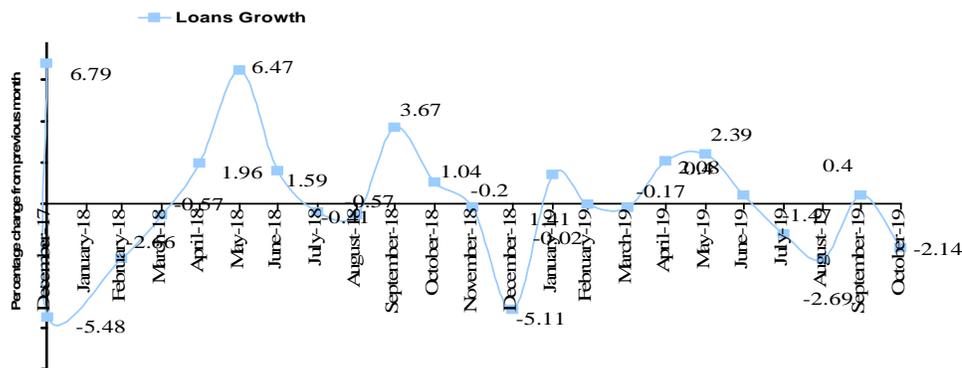
The gross loan portfolio of the banking sector recorded yoy decrease of 5.23 percent, currently standing at Af 41.46 billion (USD 531.23 million), constituting 14.28 percent of the total assets, whereas it was Af 43.75 billion in Oct, 2018 comprising 14.17 percent of the total assets and was up by 8.14 percent on yoy basis. The decrease in total gross loans is mainly come from settlement and charge-off of loans.

Out of this loan portfolio, total Afghani denominated loans recorded at Af 20.51 billion (USD 263 million), 49.48 percent of total Gross loans or 5.98 percent of total assets, showed a yoy increase of 11.11 percent, mostly attributed to issuance of new loans and OD utilization. While the US Dollar denominated loans are Af 20.87 billion (USD 267 million), 50.35 percent of total gross loans or 7.19 percent of total assets decreased by 16.99 percent yoy, mainly attributed to charge off of loans and settlement of loans. Lending in Afghanistan is dominated by private banks, constituting 87.20 percent of total gross loans of the banking sector followed by state-owned banks with 12.03 percent, while the share of the branches of foreign banks is 0.84 percent.

### 6.2.1 Loans growth

Total gross loans over the course of the 2018 mostly had a decreasing trend, mostly significant in Jan, and Dec, 2018 attributed to charge-offs and settlement of loans.

Total gross loans showed a decrease of 2.14 percent over the previous month, mainly on account of settlement of loans, charge-off of loans and less OD utilization. The trend is shown in the graph No. 5



Graph No.5

### Classification of total loan portfolio

Item amount in Af million	Oct, 2019	Sep, 2019	As %age of total gross loans	%age growth
Non-Performing Loans <sup>2</sup>	5,864	5,573	14.14	5.22
Adversely Classified Loans(substandard, doubtful, Loss) <sup>3</sup>	7,510	8,186	18.11	-8.25
Loans classified Watch <sup>4</sup>	5,465	5,395	13.18	1.29
Loans Charged-off <sup>5</sup>	74.94	9.54	0.18	685.53

Table 4

The overall quality of loans in the banking sector is still a concern making 14.14 percent of the total sector gross loan portfolio, increased on absolute terms as well as percentage of total loans. The increase comes from deterioration in loan quality attributed to two banks. The NPLs constitutes 19.10 percent of the regulatory capital. Out of 14.14 percent NPLs, 11.20 percent (79.20 percent of total NPLs and 15.13 percent of total reg. capital) is attributed to three private banks. These three

<sup>2</sup> Defaulted assets and advances for which the principal and/or interest is due and remains outstanding for 121-480 days and more as per the assets classification and provision regulation- (Doubtful and Loss)

<sup>3</sup> An asset for which the principal and /or interest remains outstanding for 61-120 days - (Substandard), <sup>3</sup> Defaulted assets and advances for which the principal and/or interest is due and remains outstanding for 121-480 days - (Doubtful), An asset for which the principal and /or interest remains outstanding for 481 or more days - (Loss) as per the assets classification and provisioning regulation

<sup>4</sup> An assets for which the principal and/or interest remains outstanding due for 31-60 days as per the assets classification and provisioning regulation- (Watch)

<sup>5</sup> Default assets and advances for which the principal and/or interest remains outstanding for 481 days or more days and retained on the books of banks for the period of 12 months (Loss), After 12 months they are immediately charged-off as per the assets classification and provisioning regulation-

banks hold 56.20 percent of the system's gross loans and 27.00 percent of system's regulatory capital. While the net-NPL ratio of the banking sector recorded at 5.52 percent.

Group wise analysis show that out of Af 5.86 billion total NPLs, Af 5.50 billion NPL is coming from private banks making 13.28 percent of the banking sector total gross loans (93.88 percent of banking sector total NPLs) and Af 359 million is attributed to one state-owned bank constituting 0.87 percent of the banking sector total gross loans (6.12 percent of banking sector total NPLs).

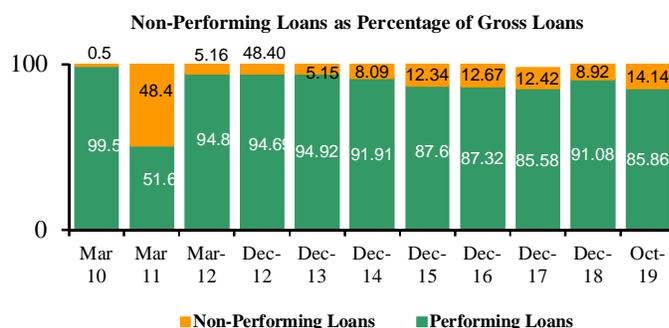
Medium, Small and Micro Loans

Item amount in Af million	Sep, 2019	June, 2019	As %age of total gross loans
Medium Loans	1,191	1,182	2.71
Small Loans	956	1,062	2.17
Micro Loans	4,520	4,855	10.27

Table 5

Breakdown of Gross Loans as Oct, 2019 (million Af)	
State-owned Banks	4,988.53
Private Banks	36,126.27
Branches of foreign Banks	348.08
<b>Total</b>	<b>41,462.88</b>

Table 6



Graph No.6

The Province wide and sector wide distribution of the banking sector's loan portfolio as of Oct, 2019 and Sep, 2019 are given in the tables below.

The designation of Loans geographically and institutionally is not properly diversified, but it is expected that with time the distribution of loans will improve. It is desirable that all banks take active part in lending, so as to diversify lending services in country.

<b>Loans designated inside Afghanistan (Province wide designation of loans) Oct, 2019</b>			
<b>No.</b>	<b>Provinces</b>	<b>Loans in million Af</b>	<b>Expressed as % of Total Loans</b>
1	Kabul	29,499.88	71.15
2	Balkh	3,783.89	9.13
3	Herat	3,483.97	8.40
4	Badghis	1,305.11	3.15
5	Kandahar	921.17	2.22
6	Badakhshan	466.07	1.12
7	Baghlan	389.55	0.94
8	Faryab	262.32	0.63
9	Bamyan	256.67	0.62
10	Jawzjan	239.02	0.58
11	Parwan	172.37	0.42
12	Saripul	168.32	0.41
13	Nangarhar	161.32	0.39
14	Samangan	137.97	0.33
15	Takhar	130.67	0.31
16	Kunduz	76.57	0.18
17	Other	8.01	0.02
	<b>Total</b>	<b>41,462.88</b>	<b>100.00</b>

Table 7

### Sector wide Designation of Loans as of Sep, 2019

	Sectors	As %age of Total Loans
<b>1</b>	<b>Commercial Real Estate and Construction</b>	<b>8.22%</b>
	Construction and Buildings	8.22%
<b>2</b>	<b>Infrastructure Projects</b>	<b>8.90%</b>
	Power	0.08%
	Road and Railway	2.74%
	Dams	0.37%
	Mines	0.49%
	Other infrastructure projects	5.23%
<b>3</b>	<b>Manufacturing and Industry</b>	<b>10.82%</b>
	Manufacturing & Products of Metal wood plastic rubber leather paper	4.43%
	Manufacturing handmade and machine products	4.04%
	Cement and Construction Materials	2.35%
<b>4</b>	<b>Trade</b>	<b>46.15%</b>
	Textile	1.85%
	wholesale	4.66%
	Machineries	0.25%
	Petroleum and Lubricants	12.73%
	Spare parts	1.73%
	Electronics	2.68%
	Comment and other construction Material	3.78%
	Food Items	7.05%
	All other Items	8.48%

	Retail trading	2.95%
<b>5</b>	<b>Service</b>	<b>19.94%</b>
	Education	0.03%
	Hotel and Restaurant	2.49%
	Telecommunication	6.49%
	Ground Transportation	4.00%
	Air Transportation	0.98%
	Health and Hygienic	1.47%
	Media, Advertisements, Printer	1.85%
	All other Services	2.65%
<b>6</b>	<b>Agriculture, Livestock and farms</b>	<b>3.57%</b>
	Agriculture	0.42%
	Livestock and farming	3.15%
<b>7</b>	<b>Consumer Loans</b>	<b>2.40%</b>
<b>8</b>	<b>Residential Mortgage Loans to Individuals</b>	<b>0.00%</b>
	<b>Total</b>	<b>100.00%</b>

Table 8

Outreach data of MISFA Partners as of Sep, 2019	
MISFA Partners	4
Provinces	14
Districts	82
Active clients	271,045
Active borrowers	132,029
No. of loans disbursed (cumulative)	1,385,223
Amount of loans disbursed, (cumulative) (AF Billion)	95.99
No. of loans outstanding	132,029
Gross loans outstanding, (AF Billion)	8.39
Client voluntary savings outstanding, (AF Billion)	2.76
Percentage of female clients	29.7
Women borrowers	47,711
Rural (Loans outstanding) (AF Billion)	1.62
Urban (Loans outstanding) (AF Billion)	6.77
Source:	www.misfa.org.af

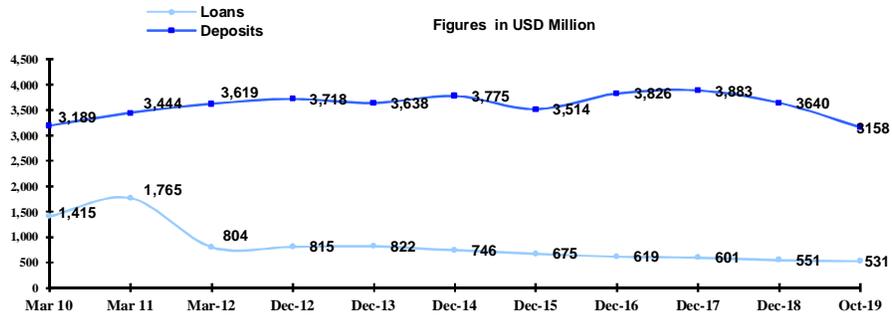
Table 9

### 6.3 Total Deposits

Total deposits comprising of customer and interbank deposits, the main source of funding and the major component of liabilities, stand at Af 246.45 billion (USD 3.15 billion), making 96.46 percent of total liabilities, decreased by 6.98 percent yoy basis, against Af 264.94 billion (USD 3.54 billion )with 4.07 percent growth in Oct, 2018. Out of this, customers deposits stands at Af 240.74 billion (USD 3.08 billion) making 97.68 percent of the total deposits decreased by 7.00 percent YOY basis. The decrease in total deposits mainly came from the customer demand deposits and in USD currency.

Af-denominated customer deposits of the banking sector are Af 67.99 billion (USD 871 million), or 28.24 percent of the total customer deposits, decreased by 8.32 percent, while the USD-denominated customer deposits of the banking sector stands at Af 158.57 billion (USD 2.03 billion), or 65.87 percent of total customer deposits decreased by 4.71 percent attributed to decrease in deposits in the review period. Private Banks have the highest percentage share in

total deposits of the sector, standing at 66.88 percent followed by state-owned banks with 27.43 percent share, while the share of the branches of foreign banks was 5.68 percent. Graph No.7 depicts the trends in deposits and loans.

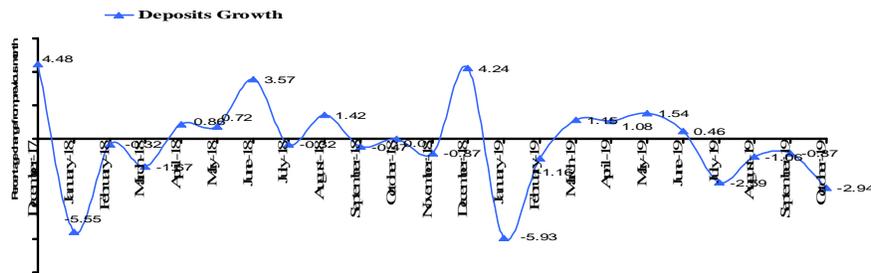


Graph No.7

### 6.3.1 Deposits growth

Deposits of the banking sector mostly had an increasing trend in 2018, touching the highest points in June and Dec, 2018 mainly ascribed to customer demand deposits.

The main source of funding in the banking sector showed a decrease of 2.94 points over the previous month mainly coming from deposit withdrawals, which was significant in customer demand deposits. The monthly trend is shown the graph No.8



Graph No.8

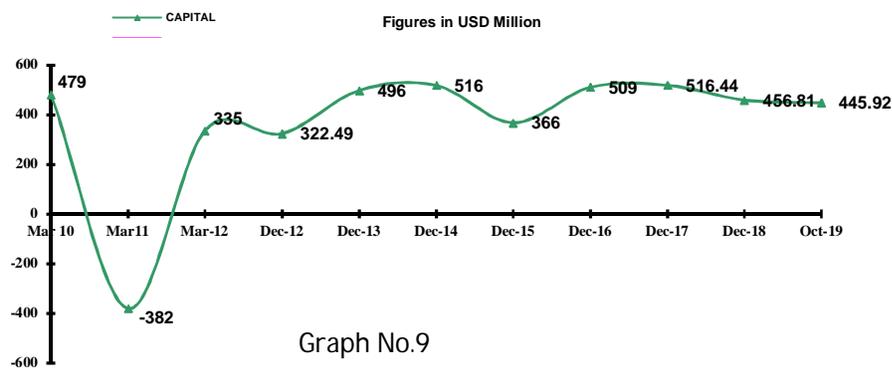
Breakdown of Deposits by Type as Oct, 2019 (million Af)			
Item	Customer deposits	Interbank deposits	Total deposits
Demand	173,928.31	2,230.22	176,158.53
Time	16,405.07	3,476.89	19,881.96
Savings	50,410.89	4.00	50,414.89
<b>Total</b>	<b>240,744.27</b>	<b>5,711.11</b>	<b>245,455.38</b>

Table 10

#### 6.4 Total Capital

The banking sector is well capitalized, making 11.99 percent of total assets. The net equity position of the sector recorded at Af 34.80 billion (USD 445.92 million), decreased by 3.25 percent YOY, mainly attributed to payment of dividends and closure of a branch of a foreign bank. CAR of the sector recorded at 25.95 percent against 26.71 percent in Oct, 2018 showing 0.76 percent decrease over the year.

The regulatory capital ratios of all banks are above the minimum regulatory threshold (12% of RWA). The trend of the banking sector financial capital as described above is given in the graph No.9



## 6.5. Profitability

### 6.5.1 Month – to – Month:

The banking sector earned Af 249 million net profits in the current month ending Oct, 2019, increased by Af 126 million showing improvement over the month. Out of 13 duly-licensed commercial banks, three banks ended with Af 42 million net-losses compared to Af 86 million net-losses incurred by five banks in Sep, 2019. The profitability of the banking sector in the current month is attributed to increase in non-interest income owing to fees and commission on BGs, FX gains coming from FX trading income, gains on investments coming from sale of investments (bonds) and decrease in credit provisions attributed to repayments of loans. Whereas, net-interest income (on account of increase in interest expense attributed to profit distribution in Islamic bank) and tax expenses showed decrease over the previous month.

The median for the spread between returns on loans and cost of funds, a measure of banks' operational efficiency recorded at 9.85 percent lower than 10.27 percent in Sep, 2019. Four banks fall below the median for the current month ending Oct, 2019. While for five banks the spread could not be calculated<sup>6</sup>.

### 6.5.2 Banking sector Profitability on Cumulative basis: (Jan- Oct, 2019 – Jaddi- Mezaan 1398)

In terms of the profitability, on cumulative basis the banking sector recorded Af 1.69 billion (USD 21.68 million) net profit for the last ten months of fiscal year 1398 (Oct, 2019) against Af 1.40 billion net-profits recorded in the comparable period last year, showing an improvement over the year, resulting in ROA<sup>7</sup> of 0.62 percent annualized as compared to 0.55 percent annualized in Oct, 2018.

The factors contributed towards the increase in the profitability of the banking sector in the last ten months of 2019 compared to same period of 2018 was increase in net-interest income owing to increase in interest bearing investments, non-interest income coming from recoveries, fee and commission on BGs and Gov. employee salaries, income from sale of investments (bonds), FX gains on account of increase in FX rates and FX deal and decrease in tax expenses. However, non-interest expenses and provision increased in the review period.

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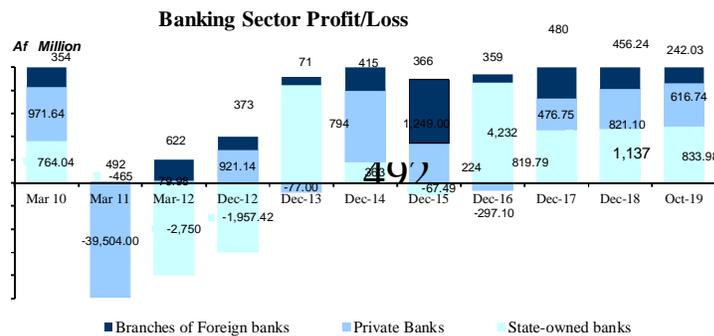
<sup>6</sup> Spread (difference between the weighted average interest on new loans and deposits) is calculated on monthly basis, so for the month if a bank does not have any new loans or new deposits or both, the spread would not be calculated for that bank or banks.

<sup>7</sup> ROA (Return On Assets)

Group wise analysis reveals that State-Owned Banks (SOB), Private Banks (PB) and Branches of foreign banks (BFB) ended with profits. See figure 10.

Profitability of the banking sector is mostly coming from State owned Banks standing at Af 834 million (49 percent of the sector net-profit), with annualized ROA of 1.17 percent, Private Banks earned net-profits amounted to Af 617 million (36 percent of the sector net-profit) with annualized ROA of 0.37 percent, while branches of foreign banks were Af 242 million (14 percent of the sector net-profit) profitable with annualized ROA of 0.65 percent in the review period.

Two banks incurred Af 134 million losses against Af 591 million losses in the previous comparable period with four banks at loss. On core income basis six banks ended with losses against eight banks in the previous period. The trend of the banking sector net profit/loss is given in the graph below.



Graph No.10

## 6.6 Liquidity

Overall all banking institutions are above the set minimum for the broad liquidity ratio (**15 percent**) and the Quick Liquidity Ratio (**20 percent**). Broad liquidity ratio of the banking sector as a median stands at 62.01 percentage points against 77.59 percent in the preceding period (Oct, 2018), showing a decrease of 16.58 points.

According to Sep, 2019 available data, concerning the concentration of the customer deposits the sector as a whole appears to be very concentrated in large deposits (deposits in accounts over Af 5 million) which makes up to 58.77 percent of total customer deposits and consists of 5,242 accounts. This could be judged as quite volatile. Moreover, the average size of these large deposit accounts is high, increased to Af 27.92 million from Af 27.04 million in the previous quarter.

## 6.7 Open FX Position

All banking institutions are within the set regulatory threshold for overall open FX position (**± 40 percent**) and on an individual currency (**± 20 percent**) basis except for three banks, which have violated the limits on overall and on an individual currency basis (USD and EURO long position).

Total number of employees, borrowers, depositors and other-clients of the banking sector as of Sep, 2019 all across the country are as follow:

Particulars	No
Full-time Afghan Employees	9,399
Full-time Foreign Employees	66
Present Borrowers	67,376
Present Depositors	3,837,216
Number of loan file where borrower president or vice president is a woman	14,200
Other clients other than borrowers & depositors <sup>8</sup>	7,651

Table 11

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<sup>8</sup> Customers of the bank who have been issued bank guarantees, letters of credit, or any other types of guarantees and commitments