



Da Afghanistan Bank

Monetary Policy Department

Monthly Report

April 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), amount of Reserve Money (RM) has been recorded at Af 271,804.93 million. The target ceiling at end of Hamal month was set Af 299600.51 million, while the actual amount on the mentioned date stood at Af 259308.93 million. This figure represents Af 40291.85 million declines from the target ceiling and showing a negative growth of 13 percent from the target at the end of Hamal.

From the beginning of fiscal year of 1398 (2019) up to end of Hamal, DAB has auctioned a total amount of USD 729.38 million through open market operations, and has collected Af 55.11 billion from the market. These operations have fulfilled 66.30 percent of the total demand for currency (especially the US dollar) in the market.

household goods (11.9 percent), transportation (4.3 percent), and health (6.2 percent).

Headline inflation increased in the month of Mar 2019. Observing the data, headline inflation increased to 1.77 percent from 0.34 percent (year over year). This increase is caused by higher prices of both food and non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 2.62 percent, while it was calculated 2.23 percent in the previous month.

Current account deficit, narrowed sharply by 0.2 percent to USD 1226.41 million in the first quarter of the FY 1398 from USD 1228.87 million recorded in the first quarter of the FY 1397.

This outcome was primarily on account of a contraction in the trade deficit by both a rise in merchandise exports (6 percent), and a decline in merchandise imports (7 percent). As well as, a rise in the earnings of service account and a rise in the receipts on respect of primary income account in the first quarter of the FY 1398.

Total revenue (domestic revenue plus external aids) for the month of April 2019 was AFN 31.89 billion, while in March, it was AFN 25.63 billion which shows 24.43% or AFN 6.26 billion increase in April. Total revenue from the start of FY-1398 till end of April FY-2019 reached to

AFN 89.52 billion, which consist of AFN 58.86 billion and AFN 30.66 billion domestic revenue and donor contributions respectively.

The total assets of the banking sector posted a 1.99 percent YOY increase, reaching Af 302.41 billion at end of April, 2019 as compared to Af 296.50 billion in April, 2018. Total assets increased by 0.90 percent over the previous month, mostly coming from increase in USD rate against the Af currency. While breakdown of total assets shows that part of overnight deposits shifted to capital notes and invested in loans.

The gross loan portfolio of the banking sector registered YOY increase of 10 percent and currently stands at Af 42.81 billion. The increase is mainly as a result of issuance of new loans, OD utilization and increase in USD rate. Total gross loans showed an increase of 2.08 points compared to previous month mainly on account of OD utilization and issuance of new loans.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 3.21 percent YOY increase, currently standing at Af 260.55 billion. The increase in total deposits came from the increase in USD rate against the AF currency. Deposits posted an increase of 1.08 points over the previous month mainly coming from increase in USD rate against Af.

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1. Monetary Sector

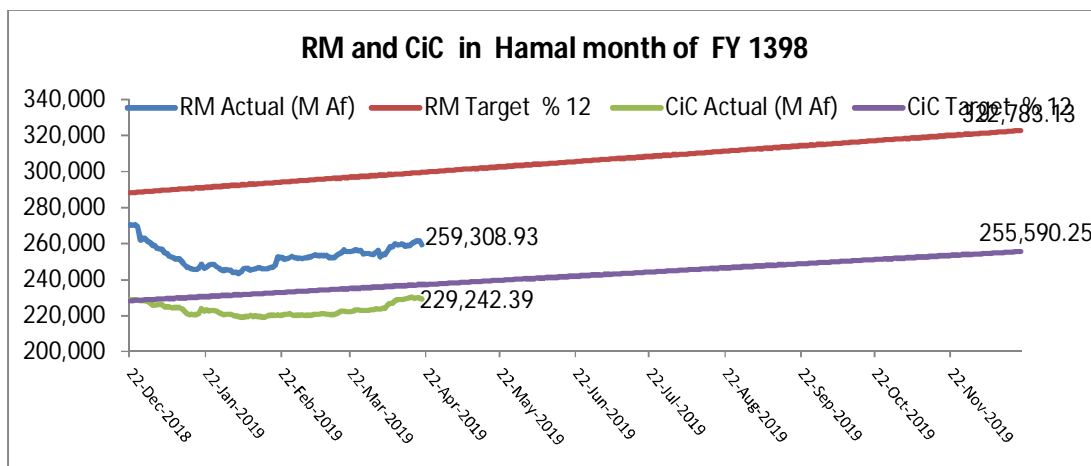
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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, 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), amount of Reserve Money (RM) has been recorded at Af 271,804.93 million. The target ceiling at end of Hamal month was set Af 299600.51 million, while the actual amount on the mentioned date stood at Af 259308.93 million. This figure represents Af 40291.85 million declines from the target ceiling and showing a negative growth of 13 percent from the target at the of Hamal.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) stood at Af 228,205.59 million At the beginning of FY1398 (2019), actual of currency in circulation amounted to Af 229242.39 million at end of Hamal month, while the target for CiC was set 237233.49 million AF. Thus, actual amount of CiC Af 79910.10 million less than ceiling and showing a negative growth of 3.37 percent from target at the the end of Hamal month actual with target .

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

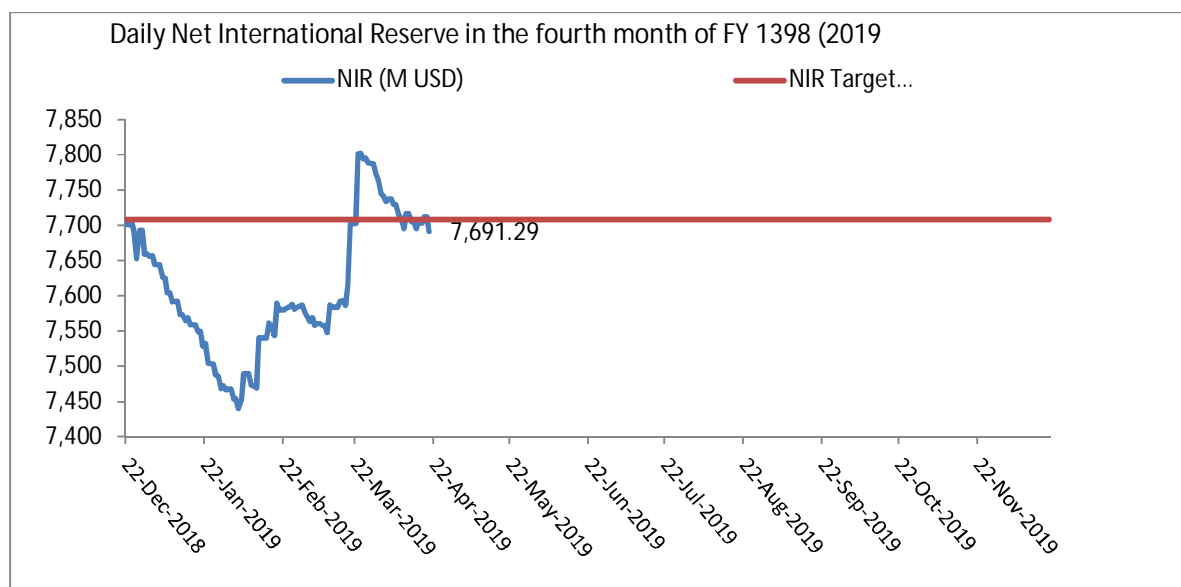


Source: Open Market Operations/Monetary Policy Departments

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, with no 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 was set USD 7,708.58 million, but has decreased to USD 7692.01 million by end of Hamal month, which shows USD 10.51 million decrease difference from the beginning of the fiscal year 1398 to end of Hamal month. NIR growth is presented in the following chart.



Source: Open Market Operations/Monetary Policy Departments

1.3 Foreign Exchange and Capital Notes Auction

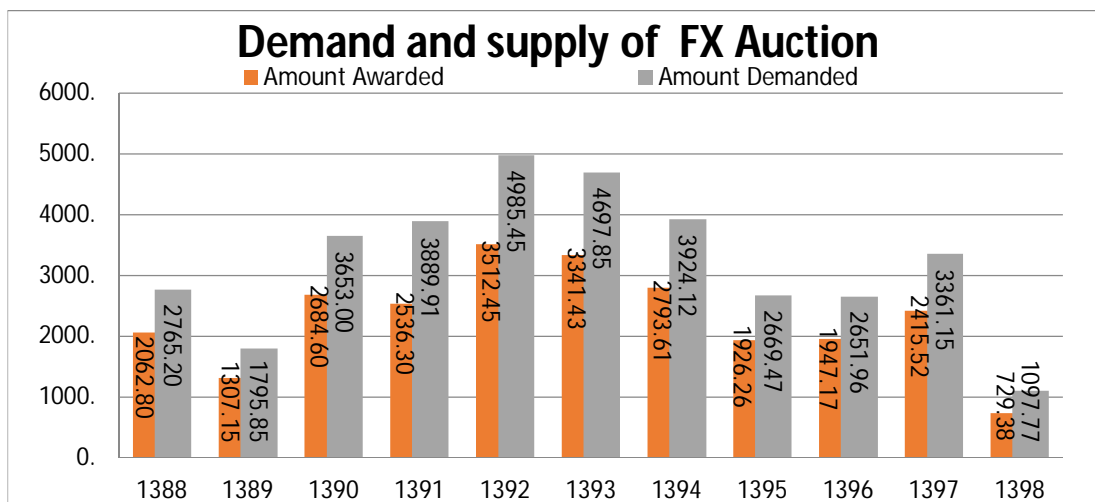
In order to control the liquidity, money supply and mitigate excessive Af exchange rate fluctuations in the economy, DAB manages reserve money growth close to its sited ceiling by conducting USD auctions three times in a week, and weekly capital notes auctions, which are the two instruments used through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

Foreign Exchange Auction

From the beginning of fiscal year of 1398 (2019) up to end of Hamal, DAB has auctioned a total amount of USD 729.38 million through open market operations, and has collected Af

55.11 billion from the market. These operations have fulfilled 66.30 percent of the total demand for currency (especially the US dollar) in the market.

The Figure 1.3 illustrates the foreign exchange demand and supply during the last 10 years.



Source: Market Operations/Monetary Policy Departments

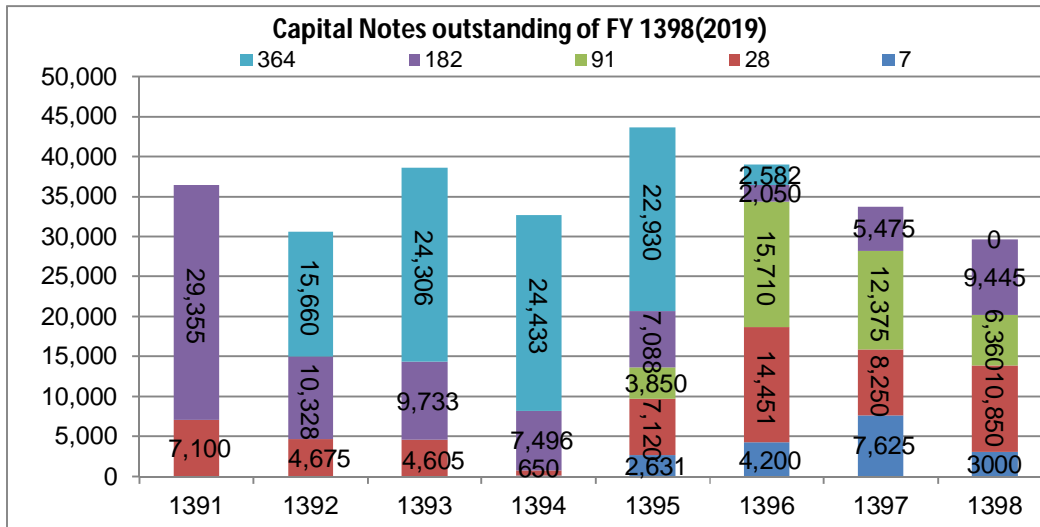
Capital Notes Auction (Interest rate bidding)

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 182 and 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 Hamal, The total outstanding of capital notes reached Af 29.65 billion and meanwhile the total interest paid for the mentioned notes reached Af 23.92 million at the end of Hamal.

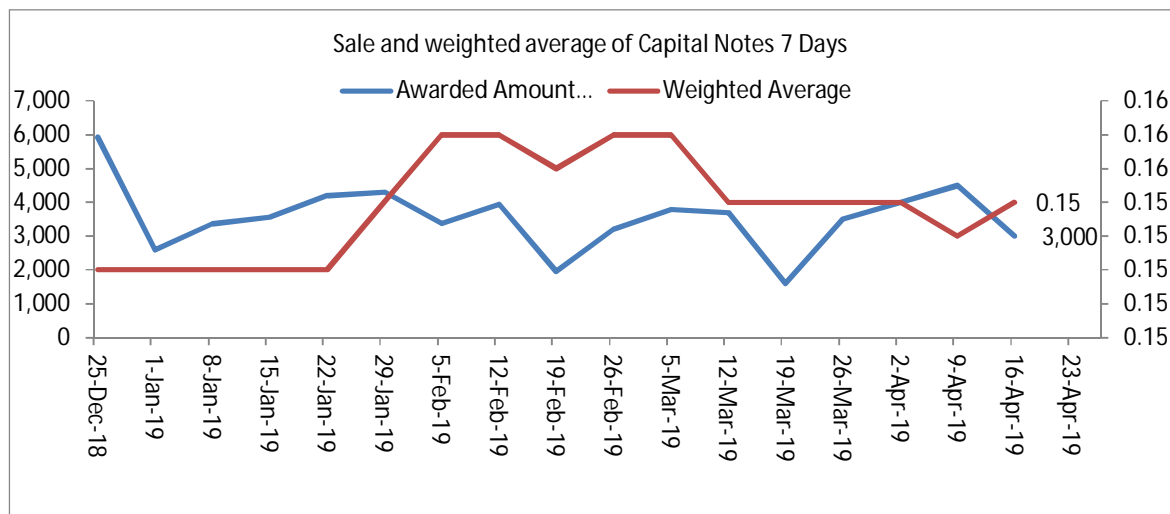
The Figure 1.4 illustrates the Capital Notes Outstanding at end of Hoot month of FY 1398.



Source: Market Operations/Monetary Policy Departments

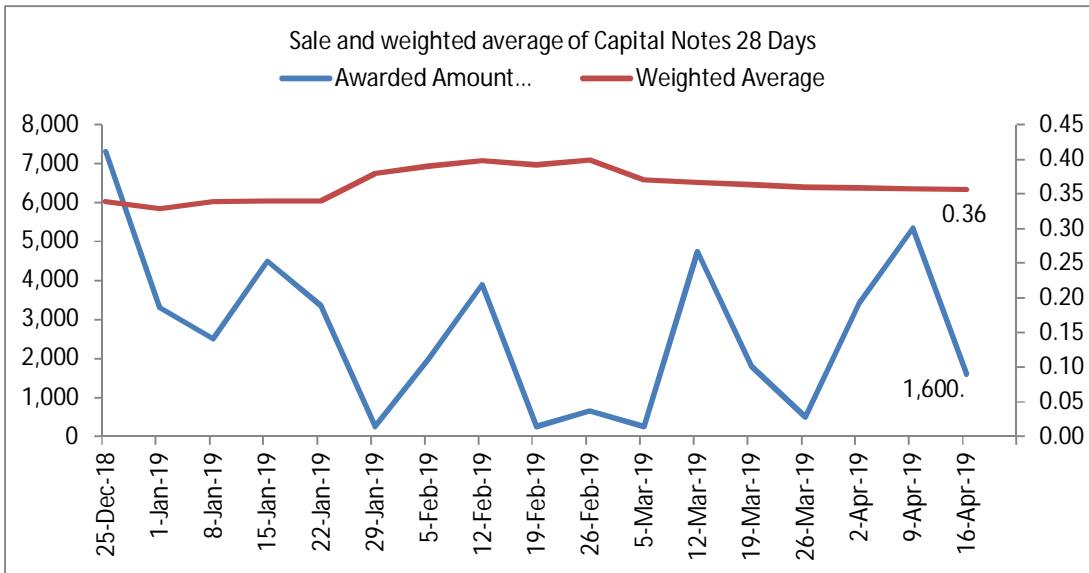
7 days Capital Notes

The awarded amount of 7 days capital notes auction at the end of Hamal reached Af 3 billion with average interest rate of 0.16 percent. The outstanding of these notes was Af 3 billion for the mentioned period.



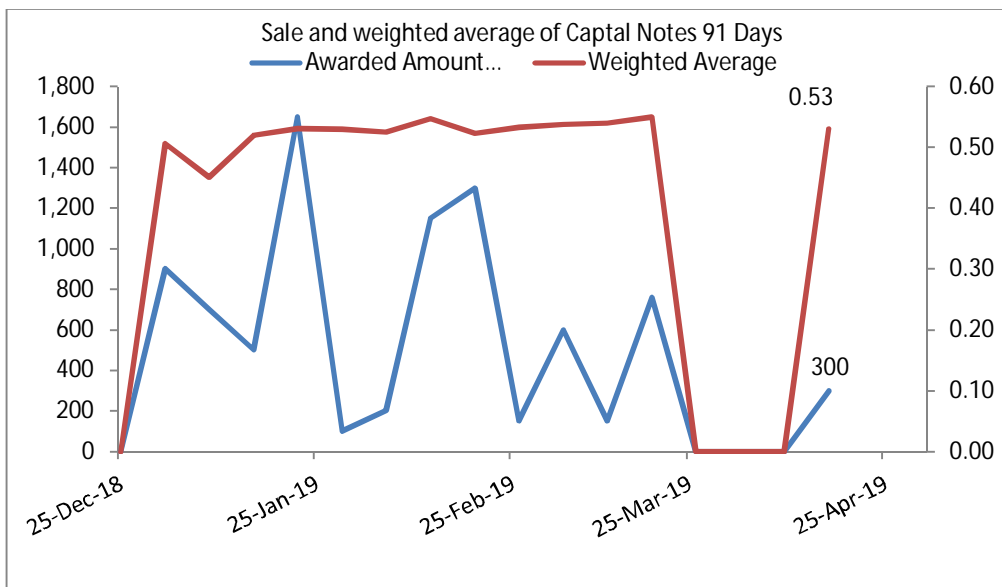
28 days Capital Notes

During the reviewed period, awarded amount of 28 days capital notes auction at the end of Hamal is recorded Af 1.6 billion with average interest rate of 0.36 percent and outstanding amount of Af 10.85 billion.



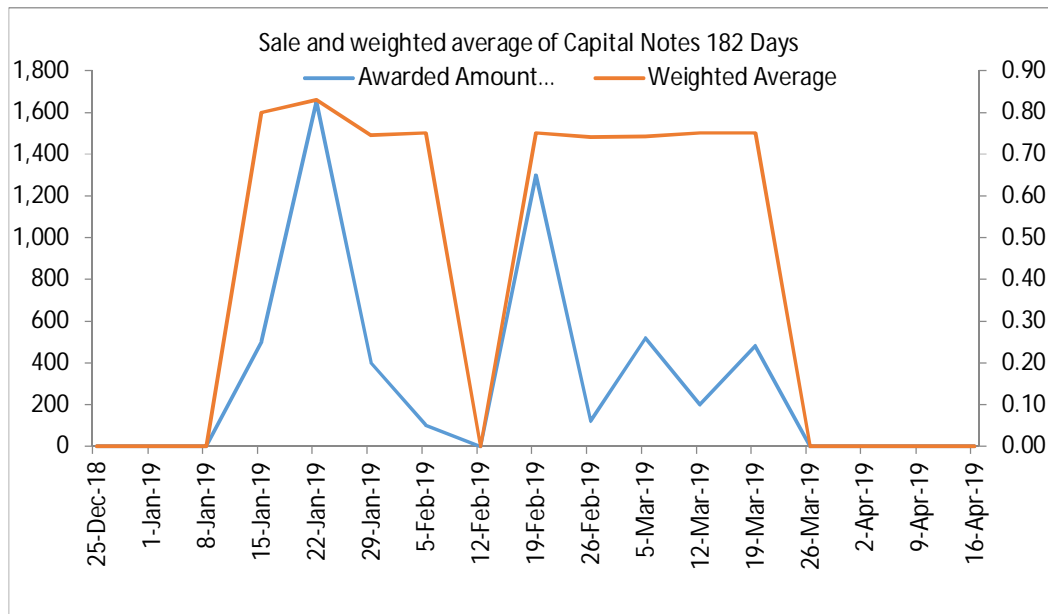
91 days Capital Notes

DAB's 91 days capital notes auction during this reporting period stood at Af 0.3 billion at the end of Hamal with average interest rate of 0.55 percent and total outstanding of Af 6.36 billion.



182 days Capital Notes

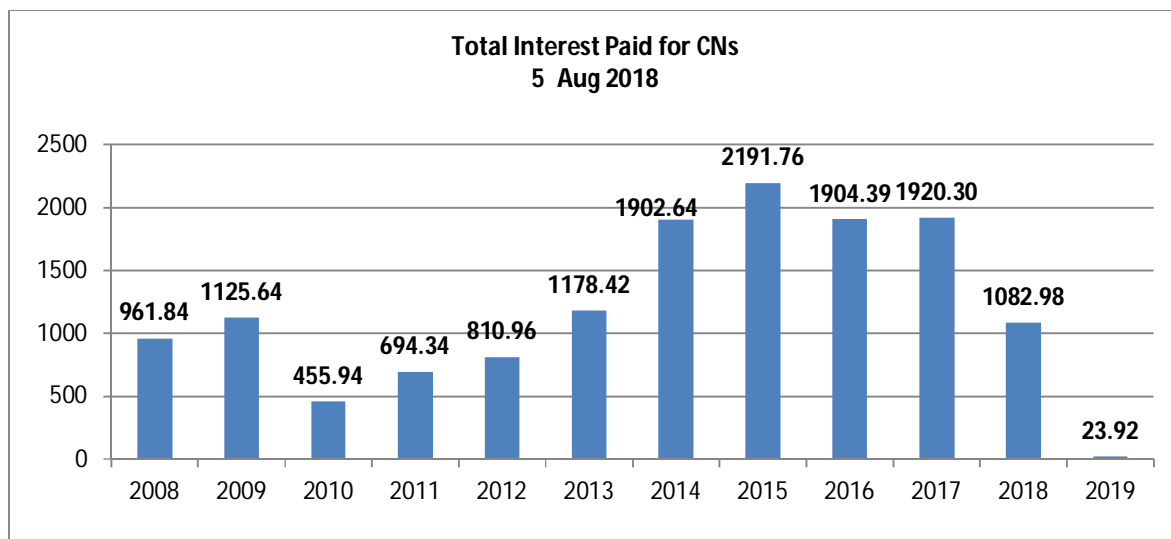
DAB's didn't have 182 days capital notes auction at the Hamal months, but total outstanding from the last month was Af 9.44 billion.



Note: Capital Notes 364 days have not been auctioned during the reporting period.

Interest Expenses

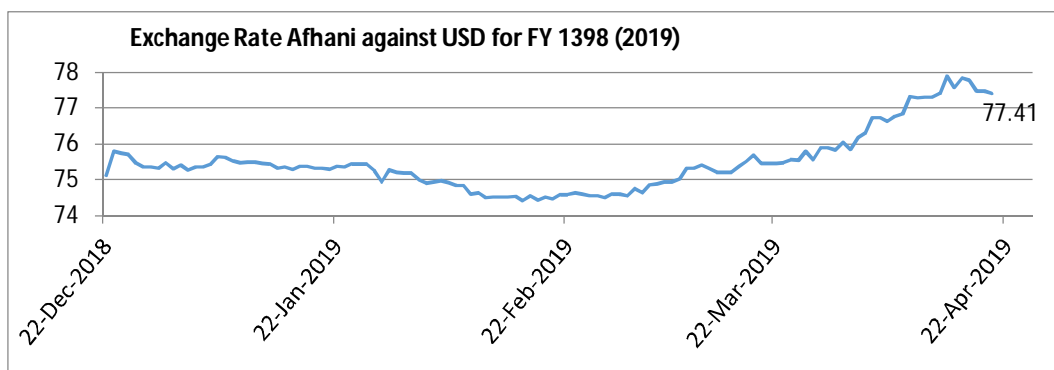
DAB paid interest for Capital Notes during of 12 years till the end of Hamal month FY 1398 (2019) the figure of below illustrated.



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 during of Hamal, Afghani has depreciated by 3.16 percent from beginning of FY , and has been exchanged at Af 76.67 per USD

on average from beginning to the end of Hamal (April) and it was recorded Af 77.41 at the last day of Hamal.



	FY 1397					FY 1398	
	Hoot	Hamal	Jawza	Sunbula	Qaws	Hoot	Hamal
Reserve Money Target (%)	-1	3		4	4	10	
Actual Reserve Money (%)	-6	-8		-10	-10	-8.74	-13
RM Actual	260389.7	266808.98	253771.8	293168.93	293168.93	255627.49	259308.93
RM Target	276318.1	276318.05	276318.1	290360.45	290360.45	280267.14	299600.51
CiC Actual	215734.3	218544.79	226589.3	225276.63	225276.63	222147.2	229242.39
CiC Target	222685.2	228685.19	228685.2	242631.24	242631.24	233785.34	237233.49
Actual NIR	7349.43	7293.12	7499.33	7549.36	7549.36	7702.51	7692
NIR Target	7301.44	7284.4	7250.34	7402.8	7402.8	79684.13	7708.58
Outstanding Amount	1944.3	15390	37960	39515	39515	26665	29655
Required Reserve (Afs)	6148.91	6148.9	6140.47	6136.46	6136.46	5768.54	5817.98

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 increased in the month of Mar 2019. Observing the data, headline inflation increased to 1.77 percent from 0.34 percent (year over year). This increase is caused by higher prices of both food and non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 2.62 percent, while it was calculated 2.23 percent in the previous month.

Table 1.1. Headline Inflation (Feb 19-Mar 19)

	Y-on-Y		M-to-M	
	Feb	Mar	Feb	Mar
National CPI				
Headline	0.34	1.77	-0.62	1.00
<i>Food</i>	0.14	2.62	-0.40	1.93
<i>Non-Food</i>	0.53	0.97	-0.83	0.13
<i>CPI ex. B&C, O&F, and T</i>	-0.60	1.06	-0.30	1.25
<i>Trimmed Mean</i>	2.23	2.62		
Kabul CPI				
Headline	0.35	1.77	-1.16	1.26
<i>Food</i>	1.14	3.93	-1.38	2.69
<i>Non-Food</i>	-0.16	0.39	-1.02	0.33

2.1.1 Food Inflation

The flow of inflation in food items turned upward in March 2019. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In March 2019, when measured on year over year basis, increased to 2.62 percent compared to 0.14 percent calculated in previous month. This increase is in line with higher prices of bread and cereals,

milk cheese and butter, fresh and dried fruits vegetables, sugar and sweets, spices and non alcoholic beverages. Price of the remaining items decreased from the previous month's values.

Table 2.2. Food Inflation (Feb 19-Mar 19)

Items	Weight	Y-on-Y		M-to-M	
		Feb	Mar	Feb	Mar
Food and Beverages	47.8	0.14	2.62	-0.40	1.93
<i>Bread and Cereals</i>	14.6	5.65	6.88	-1.20	0.77
<i>Meat</i>	7.5	1.37	1.16	-0.33	0.59
<i>Milk, cheese and eggs</i>	4.7	1.35	1.92	-0.38	0.01
<i>Oils and fats</i>	4.6	4.19	-5.46	-2.00	-1.33
<i>Fresh and dried fruits</i>	5.0	3.34	5.47	0.43	3.72
<i>Vegetables</i>	6.0	-13.67	-2.40	1.75	7.99
<i>Sugar and sweets</i>	2.7	-0.33	4.14	-1.90	4.49
<i>Spices</i>	1.3	3.92	4.21	3.43	0.35
<i>Non-alcoholic beverages</i>	1.4	5.39	6.40	0.21	0.81

Sourced: Afghanistan Bank and/NSIA

2.1.2 Non-Food Inflation

Inflation in non-food item exhibited upward trend in the month of March 2019. On the year over year basis, non-food inflation inclined to 0.97 percent from 0.53 percent observed in the previous month. The inflationary pressure on this index came from higher price of housing, furnishing and household goods, education and transportation. In the meantime, price of tobacco, clothing, health, communication, information and culture, restaurant and hotels and miscellaneous decreased during the review period.

Table 2.3. Non-Food Inflation (Feb 19-Mar 19)

	Weight	Y-on-Y		M-to-M	
		Feb	Mar	Feb	Mar
Non-Food	52.2	0.53	0.97	- 0.83	0.13
<i>Tobacco</i>	0.3	4.96	4.04	- 0.30	0.00
<i>Clothing</i>	4.6	4.05	3.25	- 1.26	- 0.27
<i>Housing,</i>	19.1	-	-2.31	-	0.00
<i>Furnishing and household goods</i>	11.9	3.36	3.20	1.10	0.61
<i>Health</i>	6.2	2.14	1.89	- 0.65	0.33
<i>Transportation</i>	4.3	4.80	5.77	- 2.84	- 0.24
<i>Communication</i>	1.7	-	-2.83	-	-
<i>Information and Culture</i>	1.1	2.39	0.35	0.11	0.17
<i>Education</i>	0.4	0.95	6.24	1.20	0.26
<i>Restaurants and Hotels</i>	1.1	5.32	3.20	- 1.60	0.65
<i>Miscellaneous</i>	1.4	3.62	0.35	0.32	- 0.43
		0.69		- 0.81	- 0.06

2.2 Core Inflation

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 March 2019, trimmed mean (30 % of CPI) slightly increased to 2.62 percent (year over year) from 2.23 percent observed in the previous month.

Another core measure of inflation is the CPI excluding bread and cereals, oils and fats, and transportation, which increased to 1.06 percent compared to -0.60 percent recorded in the

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

- ❖ Industrial supplies such as:

- ✓ Fertilizer declined by 46 % to USD 25.55 from USD 47.13m.
- ✓ Cement: declined by 12 % to USD 60.19m from USD 68.17m.

Note: as a total Industrial supplies declined by 13 percent to a value of USD 173.92 million in the first quarter of the FY 1398 from a value of USD 200.38 million in the first quarter of the FY 1397.

- ❖ Consumer goods such as:

- ✓ Flour and wheat flour declined by 24% to USD 200.16 million from USD 263.60 million.
- ✓ Sugar: declined by 55 % to USD 44.87 million from USD 99.45 million.
- ✓ Tea: declined by 31 % to USD 28.94 million from 41.47 million.
- ✓ Medicines declined by 21 % to USD 20.51 million from USD 26.12 million.
- ✓ Electricity imports declined by 22 % to USD 70.66 million from USD 91 million.

- ❖ Capital goods such as:

- ✓ Spare parts and machinery declined by 43% to USD 128.19 million from USD 225 million.

Note: as a total consumer goods declined by 11 % to a value of USD741.35 million in the first quarter of the FY 1398 from a value of USD 828.96 million recorded in the first quarter of the FY 1397.

3.1.2 SERVICES ACCOUNT

Services account deficit decreased by 61 percent to a value of USD 45.17 million in the first quarter of the FY 1398 from USD 115.75 million recorded in the first quarter of the FY 1397, mainly due to increasing receipts from some of services implemented by residents to non-residents such as:

- Receipts from **Construction services**, which increased to a value of USD 19 million in the first quarter of the FY 1398 from a value of USD 12.60.29 million recorded in the first quarter of the FY 1397.

- Receipts from **Telecommunication, services** increased slightly to a value of USD 18.85 million in the first quarter of the FY 1398 from a value of USD 14.56 million recorded in the first quarter of the FY 1397.
- **In transportation**, our receipts increased to a value of USD 18.96 million in the first quarter of the FY 1398 from a value of USD 11.88 million in the first quarter of the FY 1397.
- Receipt from **travel services** increased to a value of USD 14.24 million in the first quarter of the FY 1398 from a value of USD 2.90 million recorded in the first quarter of the FY 1397.
- Receipt from other business services increased to a value of USD 92.53 million in the first quarter of the FY 1398 from a value of USD 66.27 million recorded in the first quarter of the FY 1397.

31.3 PRIMARY INCOM ACCOUNT:

Net primary income increased by 81 percent to a value of USD 44.92 million in the first quarter of the FY 1398 from a value of USD 24.83 million recorded in the first quarter of the FY 1397.

3.1.4 SECONDARY INCOME ACCOUNT:

Secondary income decreased by 43 percent to a value of USD 301.73 million in the first quarter of the FY 1398 from a value of USD 526.55 million recorded in the first quarter of the FY 1397.

- **Official transfers (Net); to** the Afghan government decreased by 60 percent to a value of USD 162.8 million in the first quarter of the FY 1398 from a value of USD 408 million recorded in the first quarter of the FY1397.
- **Personal transfers (Net)** show an increase of 17 percent to a value of USD 138.94 million in the first quarter of the FY 1398 from a value of USD 118.59 million recorded in the first quarter of the FY 1397.

3.2 CAPITAL ACCOUNT BALANCE:

Shows a significantly increase of 714 percent to a value of USD 39.42 million in the first quarter of the FY 1398 from a value of USD 4.84 million recorded in the first quarter of the FY 1397, as a result of higher inward of capital transfers to the government sector.

3.3 FINANCIAL ACCOUNT BALANCE:

Financial account (net) decreased to a value of USD – 95.16 million in the first quarter of the FY 1398 from a value of USD 46.8 million in the first quarter of the FY 1397.

- **Direct investment (Net):**

Outflows (assets abroad), decreased to a value of USD -10.52 million in the first quarter of the FY 1398 from a value of USD 3.78 million in the first quarter of the FY 1397.

Inflows (liabilities) declined to a value of USD 7.06 million in the first quarter of the FY 1398 from a value of USD 35.36 million recorded in the first 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 19.96 million in the first quarter of the FY 1398 from a value of USD -54 million recorded in the first quarter of the FY1397.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q1- 97	Q2- 97	Q3 - 97	Q4 - 97	Q1- 98	%change
Current Account	-1228.87	-829.74	-895.81	1119.14	1226.41	-0.2%
<i>Credit</i>	924.80	1120.01	1162.74	995.34	798.13	-14%
<i>Debit</i>	2153.66	1949.75	2058.56	2114.48	2024.55	-6%
Goods and Services Account	-1780.24	1534.46	1494.92	1591.78	1573.07	-12%
<i>Credit</i>	340.42	364.21	461.39	459.30	398.32	17%
<i>Debit</i>	2120.66	1898.68	1956.31	2051.08	1971.39	-7%
Goods Account	-1664.49	1499.75	1386.93	1473.41	1527.90	-8%
<i>Credit</i>	172.45	146.81	261.88	294.09	182.57	6%
<i>Debit</i>	1836.94	1646.56	1648.81	1767.50	1710.47	-7%
Services Account	-115.75	-34.72	-108.00	-118.37	-45.17	-61%
<i>Credit</i>	167.96	217.40	199.51	165.21	215.75	28%
<i>Debit</i>	283.72	252.12	307.50	283.58	260.92	-8%
Primary Income Account	24.83	54.00	58.70	44.32	44.92	81%
<i>Credit</i>	35.27	65.53	109.23	67.45	61.34	74%
<i>Debit</i>	10.45	11.52	50.52	23.12	16.42	57%
Secondary Income Account	526.55	650.72	540.40	428.32	301.73	-43%
<i>Credit</i>	549.11	690.27	592.13	468.60	338.47	-38%

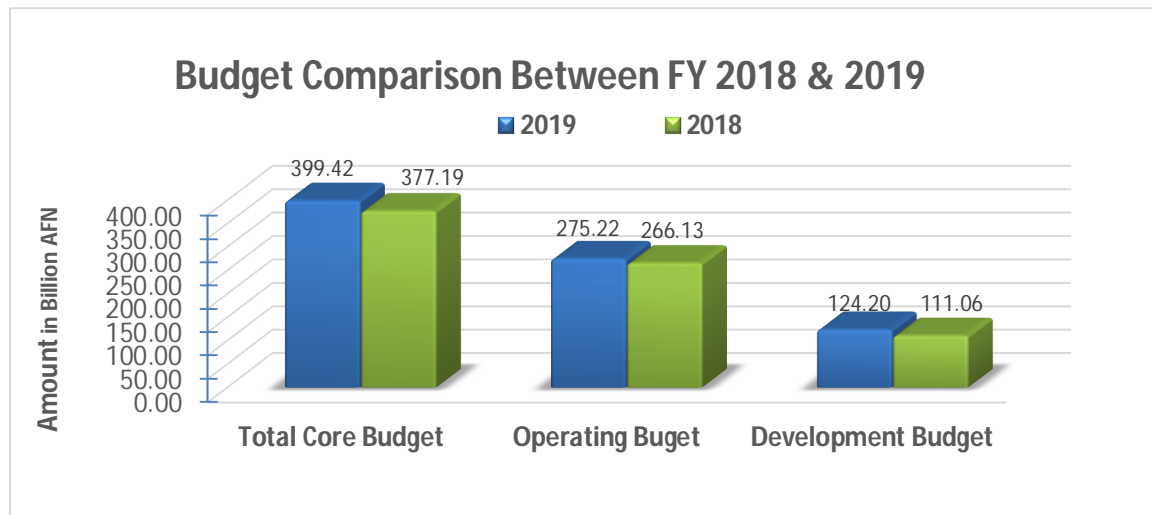
<i>Debit</i>	22.56	39.55	51.72	40.28	36.74	63%
Current transfers (Official grants)	408.0	530.6	404.4	365.5	162.8	-60%
Personal transfers	118.59	120.11	135.97	62.80	138.94	17%
<i>Credit</i>	141.15	159.65	187.70	103.08	175.68	24%
<i>Debit</i>	22.56	39.55	51.72	40.28	36.74	63%
Capital account	4.84	171.93	427.13	588.81	39.42	714%
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	714%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
Capital transfers	4.84	171.93	427.13	588.81	39.42	714%
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	714%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
Financial account	46.8	74.8	184.8	167.23	-95.16	-303%
Direct investment	-31.58	-40.85	-55.28	-29.85	-17.58	-44%
Net acquisition of financial assets	3.78	3.78	-30.90	-19.11	-10.52	-378%
Net incurrence of liabilities	35.36	44.63	24.38	10.75	7.06	-80%
Portfolio investment	-54.02	18.22	24.37	34.94	20.0	-137%
Net acquisition of financial assets	-54.02	18.22	24.37	34.94	19.96	-137%
<i>Net incurrence of liabilities</i>	0.00	0.00	0.00	0.00	0.00	
Other investment	109.58	57.53	103.07	89.54	-126.85	-216%
<i>Assets</i>	80.47	44.96	79.32	73.59	-131.36	-263%
<i>Liabilities</i>	-29.11	-12.57	-23.75	-15.95	-4.51	-85%
Reserve Assets	22.79	39.85	112.68	72.60	29.31	29%
Net errors and omissions	1270.79	732.56	653.53	697.56	1091.83	-14%

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 Development Strategy (ANDS). 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, in Afghanistan also budget imbalance (Budget Deficit) exists, where total core expenditures exceed total revenue (excluding grants).

In fiscal year 2019 total core budget is raised to 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.



Source: MoF Financial Reports/MPD Staffs Calculations

Total revenue (domestic revenue plus external aids) for the month of April 2019 was AFN 31.89 billion, while in March, it was AFN 25.63 billion which shows 24.43% or AFN 6.26 billion increase in April. Total revenue from the start of FY-1398 till end of April FY-2019 reached to AFN 89.52 billion, which consist of AFN 58.86 billion and AFN 30.66 billion domestic revenue and donor contributions respectively.

Likewise, domestic Revenue for the month April was AFN 15.98 billion greater than AFN 14.27 billion in the month of March, which shows AFN 1.70 billion (11.93%) Increase in the month of April. On the other hand, donor contributions amounted to AFN 15.91 billion in April, where donor contributions in March was AFN 11.35 billion, which indicates AFN 4.56 billion (40.15 %) increase in donor contributions for the month of April.

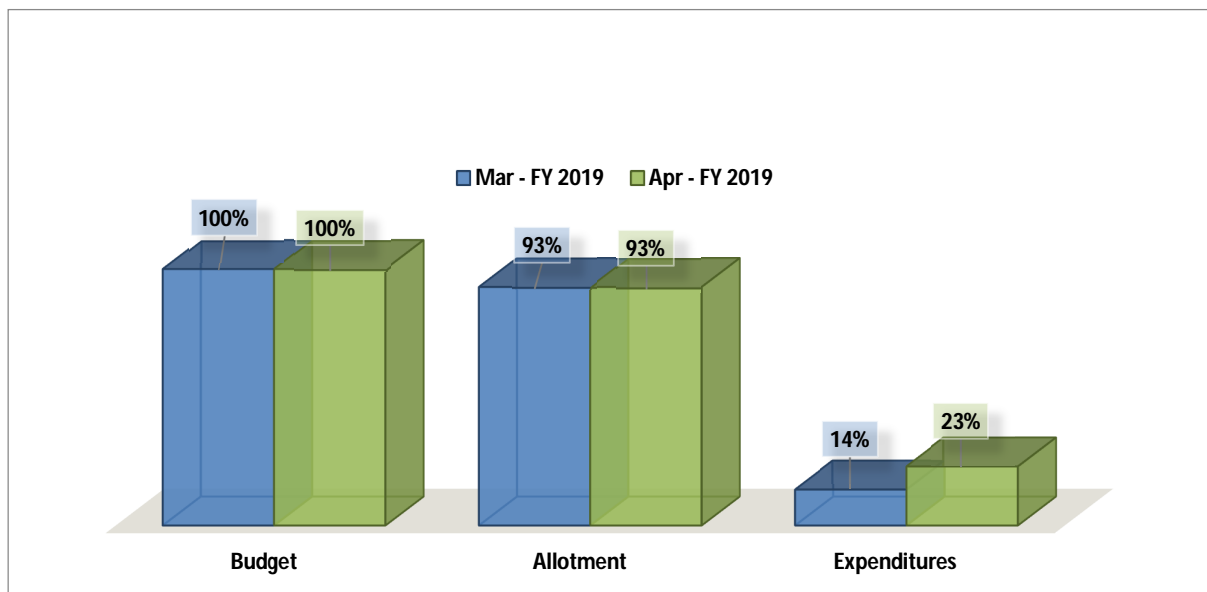
Additionally, total Expenditure at the end of April 2019 reached to AFN 94.06 billion, from which operating expenditures and development expenditures were individually, AFN 69.37 billion and AFN 24.69 billion. Likewise, operating expenditures for April was AFN 27.29 billion, where in March it was AFN 19.50 billion. This signifies that, there is AFN 7.78 billion or 39.92 % increase in operating expenditures for the month of April FY 2019. On the other hand,

development expenditures for the month of March was AFN 7.03 billion, which raised to AFN 14.96 billion in the month of April showing an increase of 112.71 % (AFN 7.93 billion).

Description	Mar – FY 2019	Apr – FY 2019	From the start till end of FY 2019	Difference (between Mar&Apr)	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	25.63	31.89	89.52	6.26	24.43 %
Domestic Revenue	14.27	15.98	58.86	1.70	11.93 %
Donor Contributions	11.35	15.91	30.66	4.56	40.15 %
Total Expenditures	26.53	42.25	94.06	15.71	59.21 %
Operating Expenditures	19.50	27.29	69.37	7.78	39.92 %
Development Expenditures	7.03	14.96	24.69	7.93	112.71 %

Source: MoF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of April 2019 reached to 23% (allotment was 93%), of which, operating and development budgets had 25% and 19% execution rates individually. It has to be said that budget for development expenditures was AFN 124.20 billion, from which 94% allotment is made and only 19% actual expenditures incurred. Likewise, operating expenditures were budgeted AFN 275.22 billion, of which 93% is allotted and actual expenditures reached to 25%.



5. Swift and Payments

Report of(Outward) Transactions from 1/1/ 1398 up to 31/1/1398

Categories	Remitter Parties	Message Type	USD	EUR	CHF
A	Ministries	MT 103 ,700 & 910	22,427,924.97	2,562,481.00	11,500.00
B	Commercial Banks	202	102,654,128.87	400,000.00	
C	Da Afghanistan Bank	200	51,321,000.00		

Report of(Inward) Transactions from 1/1/ 1398 up to 31/1/139

Categories	Beneficiary Parties	Message Type	USD	EUR	AED
A	Ministries	MT 103 ,700 & 910	121,598,374.41	748,325.62	5,287,553.00
B	Commercial Banks	202	36,789,753.09		
C	Da Afghanistan bank	200			

بر علاوه به تعداد 66 معامله تبادلوی FX Deal به ارزش مجموعی (165559374.72) دالر و به تعداد 5 معامله تبادلوی بانک جهانی به ارزش مجموعی 3707322.16 دالر امریکائی نیز اجرا گردیده است

6. Banking sector

Executive summary

As of end of April, 2019 (Hamal 1398) the main banking sector data demonstrated an increasing trend as compared with the same month of the previous year (YOY). Total assets, gross loan, deposits and profitability showed increases, which apart from the exchange rate fluctuations (USD) are attributed to issuance of loans and profitability. However equity capital on account of dividend payments and getting in a receivership of a private bank decreased. Liquidity remained adequate, but the quality of loans still remains weak.

The total assets of the banking sector posted a 1.99 percent YOY increase, reaching Af 302.41 billion at end of April, 2019 as compared to Af 296.50 billion in April, 2018. Total assets increased by 0.90 percent over the previous month, mostly coming from increase in USD rate against the Af currency. While breakdown of total assets shows that part of overnight deposits shifted to capital notes and invested in loans.

The gross loan portfolio of the banking sector registered YOY increase of 10 percent and currently stands at Af 42.81 billion. The increase is mainly as a result of issuance of new loans, OD utilization and increase in USD rate. Total gross loans showed an increase of 2.08 points compared to previous month mainly on account of OD utilization and issuance of new loans.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 3.21 percent YOY increase, currently standing at Af 260.55 billion. The increase in total deposits came from the increase in USD rate against the AF currency. Deposits posted an increase of 1.08 points over the previous month mainly coming from increase in USD rate against Af.

The net equity position of the banking sector remained strong, though it decreased by 4.04 percent yoy basis and represents 11.40 percent of total assets. The decrease is mainly attributed to payment of dividends and getting in a receivership of a private bank.

The banking sector for the first four months of fiscal year 1398 (April, 2019) earned Af 480 million net-profits against Af 166 million net-profits in the same preceding period (April, 2018). Resulting in ROA of 0.40 percent annualized compared to that of 0.17 percent annualized in April, 2018.

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

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

CAR (capital adequacy ratio) of the sector recorded at 26.55 percent against 29.30 percent in April, 2018 showing 2.76 percent decrease over the year.

Introduction

The banking sector in Afghanistan consists of 14 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 3 branches of foreign banks.

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

Provided banking Facilities	No
Full Service Branches	209
Limited Service Branches	206
AutomatedTeller Machines(Type 22 Facility)	349
*Others(Type Facility)	21,24,25 87
**Point of Sale(Type 23)	101
Total	952

* 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

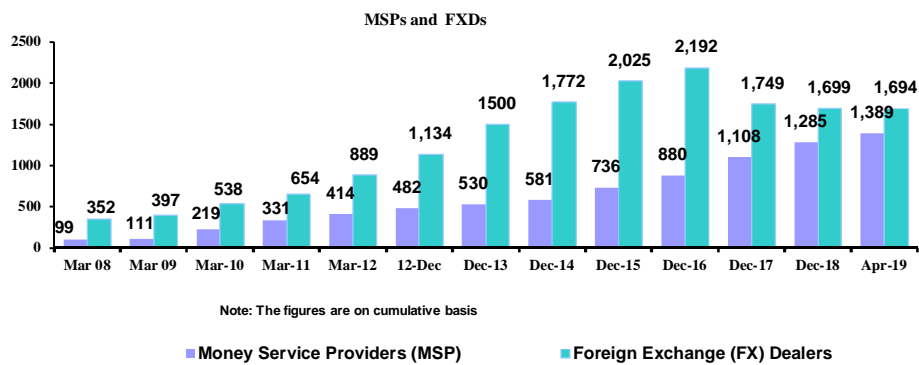
Type 25 Facility: A facility which only receives cash from the public for deposits into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for the cash. this facility could be located on military base, or in a hotel, for example.

** 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.

Cards	No
Debit Card	578,959
Credit Card	1,910
ATM Card	233,648
Web surfer Cards	13,667
Pre-Paid Card	5,480
Master Card	3,223
Total	836,887

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, 1,389 licensed money service providers (MSP) and 1,694 licensed FX dealers are operating in the country. Of these 1,389 licensed MSPs, 288 are in Kabul, 816 are in provinces while 285 representatives of head offices are in Kabul and provinces. Of 1,694 licensed FX dealers, 370 are in Kabul, 1,318 are operating in provinces, and 6 representatives are active in provinces. Further details are given in the Graph No.1

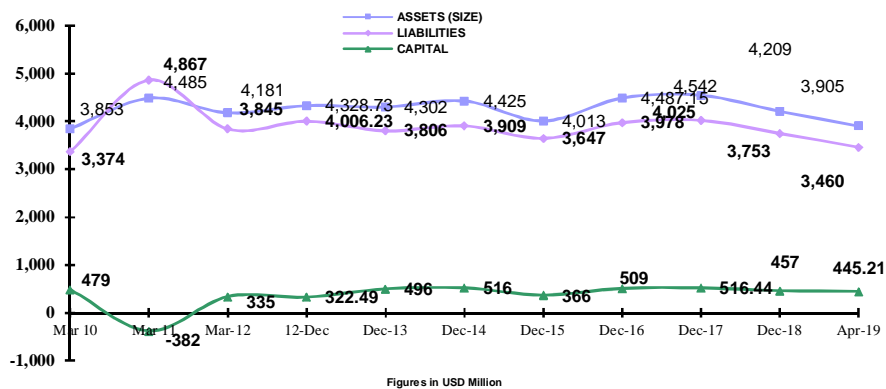


Graph No.1

6.1 Total Assets

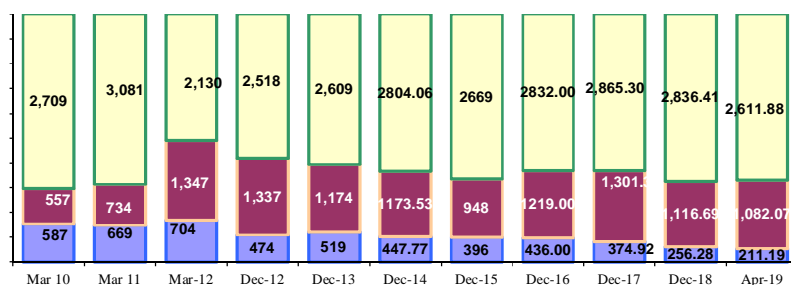
The total assets of the banking sector registered a 1.99 percent YOY increase, reaching Af 302.41 billion (USD 3.90 billion), against 0.56 percent increase in the same preceding period (April, 2018), amounted to Af 296.50 billion (USD 4.22 billion). The above mentioned increase in the total assets can mainly be attributed to increase in USD rate. While the breakdown of total assets shows that a significant increase witnessed in interbank claims mostly in USD, net-loans and other assets, while major declining items were the overnight deposits, cash in vault and current account with DAB.

Looking at the increase in total assets across the banking groups, the growth rate for the private banks, as a peer group, was the highest and increased by 7.30 percent; whilst state owned banks and branches of foreign banks registered 3.10 percent and 24.00 percent decline respectively in their assets over the year. The percentage share of private banks in the system's total asset is reported to be 66.88 percent; state-owned banks with 27.70 points are at the second place while branches of foreign banks have 5.40 percentage shares in the system's total asset. Growth of assets of the banking sector from March 2010 to April, 2019 is depicted in graph No.2.



Graph No.2

Breakdown of Banking System's Assets



Figures in USD Million

Branches of foreign banks State-owned banks Private banks

Graph No.3

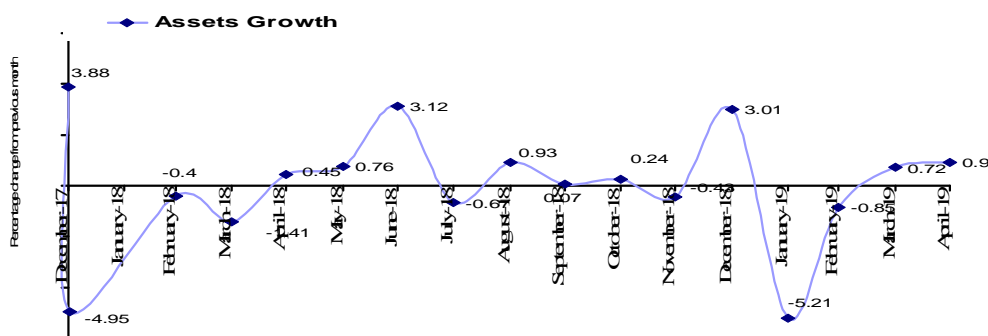
Assets of the Banking sector in descending order for the month of April, 2019			Size of Indv. Banks as % of Total Assets of the sector
Serial number	Names of Banks	Assets in million Af	
1	Afghanistan International	67,431.26	22.30
2	Bank-e- Milli Afghan	43,156.05	14.27
3	Azizi Bank	40,972.49	13.55
4	Maiwand Bank	21,665.42	7.16
5	Pashtany Bank	21,112.16	6.98
6	New Kabul Bank	19,527.22	6.46
7	Afghan United Bank	19,096.44	6.32
8	Islamic Bank of Afghanistan	16,455.98	5.44
9	Arian Bank	13,298.80	4.40
10	Ghazanfar Bank	12,143.81	4.02
11	First Micro Finance Bank	11,200.07	3.70
12	Bank Alfalah Limited	10,487.94	4.47
13	National Bank of Pakistan	4,342.10	1.43
14	Habib Bank Limited	1,524.84	0.50
Total		302,414.58	100.00

6.1.1 Assets 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 an increase of 0.90 percent over the previous month, mostly coming from increase in USD rate against the Af currency. While breakdown of total assets shows that part of overnight deposits shifted to capital notes and invested in loans.

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



Graph No.4

6.2 Loan portfolio

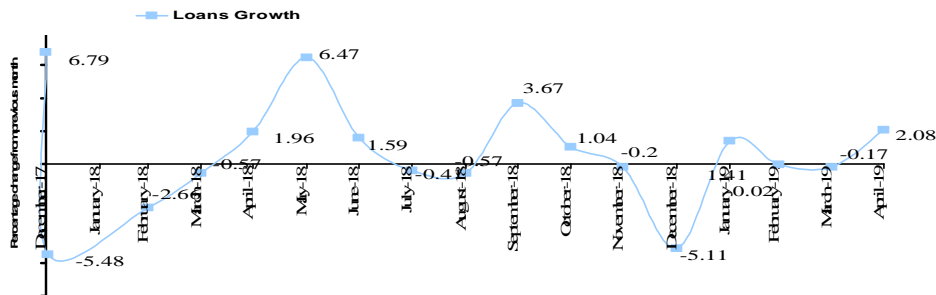
The gross loan portfolio of the banking sector recorded yoy increase of 10.00 percent, currently standing at Af 42.81 billion (USD 553 million), constituting 14.16 percent of the total assets, whereas it was Af 38.91 billion in April, 2018 comprising 13.12 percent of the total assets and was down by 4.50 percent on yoy basis. The increase in total gross loans is mainly attributed to issuance of loans, OD utilization and increase in USD rate.

Out of this loan portfolio, total Afghani denominated loans recorded at Af 19.55 billion (USD 252 million), 45.66 percent of total Gross loans or 6.46 percent of total assets, showed a yoy increase of 40.73 percent, mostly attributed to issuance of new loans and OD utilization. While the US Dollar denominated loans are Af 23.15 billion (USD 299 million), 54.07 percent of total gross loans or 7.66 percent of total assets decreased by 7.10 percent yoy, mainly attributed to charge off of loans, settlement of loans and getting of a private bank in a receivership. Lending in Afghanistan is dominated by private banks, constituting 87.35 percent of total gross loans of the banking sector followed by state-owned banks with 11.56 percent, while the share of the branches of foreign banks is 1.08 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 an increase of 2.08 percent over the previous month, mainly on account of OD utilization and issuance of new loans. The trend is shown in the graph No. 5



Graph No.5

Classification of total loan portfolio

Item amount in Af million	April, 2019	Mar, 2019	As %age of total gross loans	growth
Non-Performing Loans ¹	4,773	4,577	11.14	4.28
Adversely Classified Loans(substandard, doubtful, Loss) ²	6,601	6,413	15.42	2.93
Loans classified Watch ³	4,521	6,245	10.56	-27.60
Loans Charged-off ⁴	3.97	2.77	0.01	43.32

The quality of loan of the banking sector at the end of April, 2019 compared to Mar, 2019 deteriorated, making 11.15 percent of total gross loans and 15.64 percent of the regulatory capital, increased by Af 196 million over the last month largely attributed to one private bank in the sector. Out of 11.15 percent NPL, 8.51 percent (76.32 percent of total NPLs) is attributed to two banks. These two banks hold 36.33 percent of the system's gross loans and 10.92 percent of system's regulatory capital. While the net-NPL ratio of the banking sector recorded at 3.98 percent.

Group wise analysis show that out of Af 4.77 billion total NPLs, Af 4.59 billion NPL is coming from private banks making 10.74 percent of the total gross loans (96.28 percent of total NPLs) and Af 178 million is attributed to one state-owned bank constituting 0.41 percent of the total gross loans (3.72 percent of total NPLs).

¹ 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)

² An asset for which the principal and /or interest remains outstanding for 61-120 days - (Substandard), ² 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

³ 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)

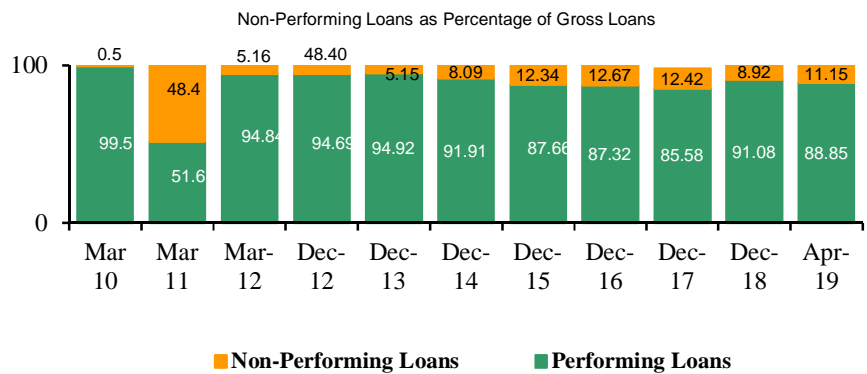
⁴ Default assets and advances for which the principal and/or interest remains outstanding for 481 days or more days and retained on the books of banks for the period of 12 months (Loss), After 12 months they are immediately charged-off as per the assets classification and provisioning regulation-

Eight banking institutions in total provided Medium, Small and Micro Loans.

Item amount in Af million	Mar, 2019	As %age of total gross loans
Medium Loans	1,310	3.12
Small Loans	1,105	24.58
Micro Loans	4,872	13.01

Breakdown of Gross Loans as of April, 2019 (million Af)

State-owned Banks	4,950.89
Private Banks	37,394.94
Branches of foreign Banks	463.07
Total	42,808.90



Graph No.6

The sector wide and Province wide distribution of the banking sector's loan portfolio as of March 2019 and April, 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.

Sector wide Designation of Loans as of Mar, 2019

	Sectors	As %age of Total Loans
1	Commercial Real Estate and Construction	8.52%
	Construction and Buildings	8.52%
2	Infrastructure Projects	8.72%
	Power	0.09%
	Road and Railway	2.51%
	Dams	0.36%
	Mines	0.51%
	Other infrastructure projects	5.26%
3	Manufacturing and Industry	11.24%
	Manufacturing & Products of Metal wood plastic rubber leather paper	3.73%
	Manufacturing handmade and machine products	3.94%
	Cement and Construction Materials	3.57%
4	Trade	43.95%

	Textile	2.15%
	wholesale	3.40%
	Machineries	0.48%
	Petroleum and Lubricants	13.07%
	Spare parts	1.81%
	Electronics	3.02%
	Comment and other construction Material	3.07%
	Food Items	6.00%
	All other Items	8.15%
	Retail trading	2.80%
5	Service	20.81%
	Education	0.04%
	Hotel and Restaurant	2.57%
	Telecommunication	6.44%
	Ground Transportation	3.52%
	Air Transportation	1.19%
	Health and Hygienic	1.33%
	Media, Advertisements, Printer	1.20%
	All other Services	4.53%
6	Agriculture, Livestock and farms	4.63%
	Agriculture	0.68%
	Livestock and farming	3.95%

7	Consumer Loans	2.13%
8	Residential Mortgage Loans to Individuals	0.00%
9	All Other Loans	0.00%
	Total	100.00

Loans designated inside Afghanistan (Province wide designation of loans) April, 2019

No.	Provinces	Loans in million Af	Expressed as % of Total Loans
1	Kabul	30,003.87	70.09
2	Balkh	4,436.64	10.36
3	Herat	3,576.94	8.36
4	Badghis	1,262.14	2.95
5	Kandahar	661.79	1.55
6	Badakhshan	521.72	1.22
7	Baghlan	481.63	1.12
8	Faryab	296.65	0.69
9	Bamyan	286.47	0.67
10	Jawzjan	268.10	0.63
11	Saripul	251.76	0.59
12	Parwan	183.89	0.43
13	Takhar	182.92	0.43
14	Nangarhar	177.37	0.41

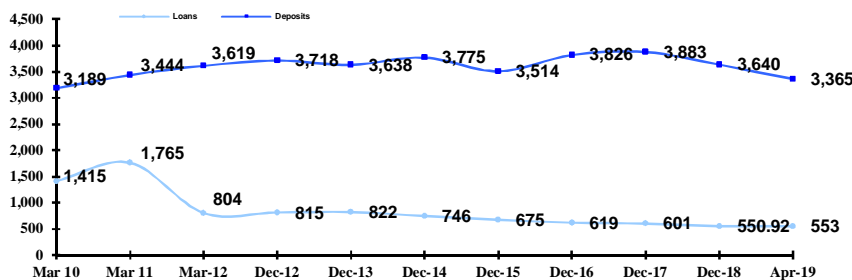
15	Samangan	157.01	0.36
16	Kunduz	54.19	0.13
17	Other	5.81	0.01
	Total	42,808.90	100.00

Outreach data of MISFA Partners as of Feb, 2019	
MISFA Partners	4
Provinces	14
Districts	81
Active clients	259,534
Active borrowers	137,611
No. of loans disbursed (cumulative)	1,323,232
Amount of loans disbursed, (cumulative) (AF Billion)	90.88
No. of loans outstanding	137,611
Gross loans outstanding, (AF Billion)	9.29
Client voluntary savings outstanding, (AF Billion)	2.54
Percentage of female clients	29.2
Women borrowers	47.614
Rural (Loans outstanding) (AF Billion)	1.85
Urban (Loans outstanding) (AF Billion)	7.44
Source:	www.misfa.org.af

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 260.55 billion (USD 3.36 billion), making 97.25 percent of total liabilities, increased by 3.21 percent yoy basis, against Af 252.44 billion (USD 3.59 billion) with 1.41 percent growth in April, 2018. Out of this, deposits from customers stands at Af 255.16 billion (USD 3.29 billion) making 95.23 percent of the total deposits increased by 2.59 percent YOY basis. The increase in total deposits came from the increase in USD rate against the AF currency.

Af-denominated customer deposits of the banking sector are Af 74.51 billion (USD 962 million), or 29.20 percent of the total customer deposits, decreased by 0.80 percent, while the USD-denominated customer deposits of the banking sector stands at Af 163.35 billion (USD 2.11 billion), or 64.02 percent of total customer deposits increased by 6.09 percent attributed to increase in USD rate. Private Banks have the highest percentage share in total deposits of the sector, standing at 68.23 percent followed by state-owned banks with 27.17 percent share, while the share of the branches of foreign banks was 4.59 percent. Graph No.7 depicts the trends in deposits and loans.



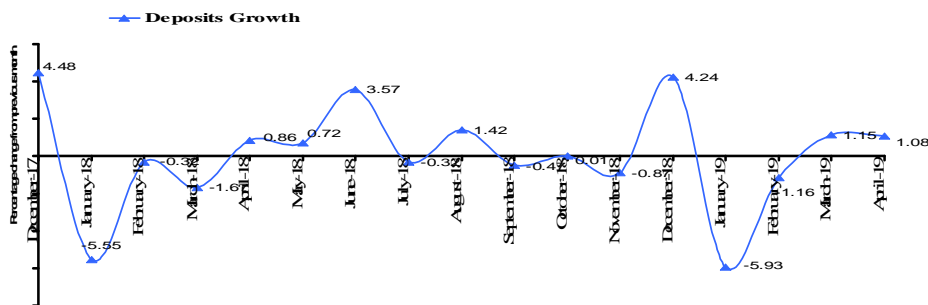
Figures in USD Million

Graph No.7

6.3.1 Deposits growths

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 an increase of 1.08 points over the previous month mainly coming from increase in USD rate against Af. The monthly trend is shown the graph No.8



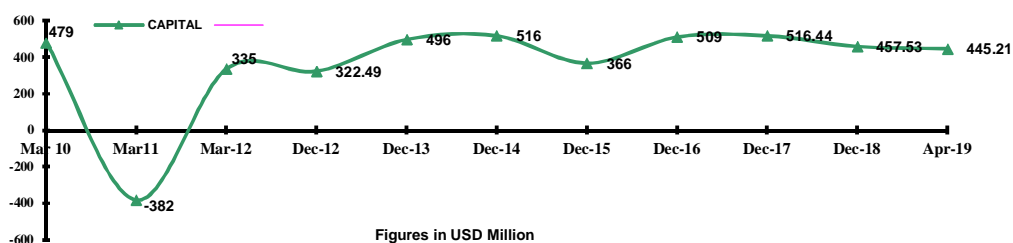
Graph No.8

Breakdown of Deposits by Type as April, 2019 (million Af)			
Item	Customer deposits	Interbank deposits	Total deposits
Demand	184,925.04	1,154.16	186,079.2
Time	17,516.86	4,233.36	21,750.22
Savings	52,723.44	4.73	52,728.17
Total	255,165.34	5,392.25	260,557.59

6.4 Total Capital

The banking sector is well capitalized, making 11.40 percent of total assets. The net equity position of the sector recorded at Af 34.48 billion (USD 445.21 million), decreased by 4.04 percent YOY, attributed to payment of dividends and getting in a receivership of a private bank. CAR of the sector recorded at 26.55 percent against 29.30 percent in April, 2018 showing 2.75 percent decrease over the year.

The regulatory capital ratios of all banks except one bank 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



Graph No.9

6.5 Profitability

6.5.1 Month – to – Month:

The banking sector earned Af 376 million net profits in the current month ending April, 2019, against Af 7 million net losses incurred in Mar, 2019 showing an improvement over the month. Out of 14 duly-licensed commercial banks, three banks ended with Af 17 million net-losses compared to Af 230 million net-losses incurred by six banks in Mar, 2019. The main factor towards the profitability of the banking sector in the current month is mainly attributed to increase in noninterest income, FX gains, reintegration and decrease in tax expenses. However, net-interest income decreased while salary expenses increased over the month.

The median for the spread between returns on loans and cost of funds, a measure of banks' operational efficiency recorded at 10.49 percent decreased from 11.51 percent in Mar, 2019.

Three banks fall below the median for the current month ending April, 2019. While for seven banks the spread could not be calculated⁵.

6.5.2 Banking sector Profitability on Cumulative basis: (Jan- April, 2019 – Jaddi- Hamal 1398)

In terms of the profitability, on cumulative basis the banking sector recorded Af 480 million (USD 6.19 million) net profit for the first four months of fiscal year 1398 (April, 2019) against Af 166 million net-profits recorded in the same period last year, showing an improvement over the year. Resulting in ROA⁶ of 0.40 percent annualized against 0.17 percent annualized in April, 2018.

The factors contributed towards the increase in the profitability of the banking sector in April, 2019 compared to April, 2018 was increase in FX gains, net-interest income and non-interest income, while noninterest expenses, tax expenses and credit provision increased in the period under review.

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

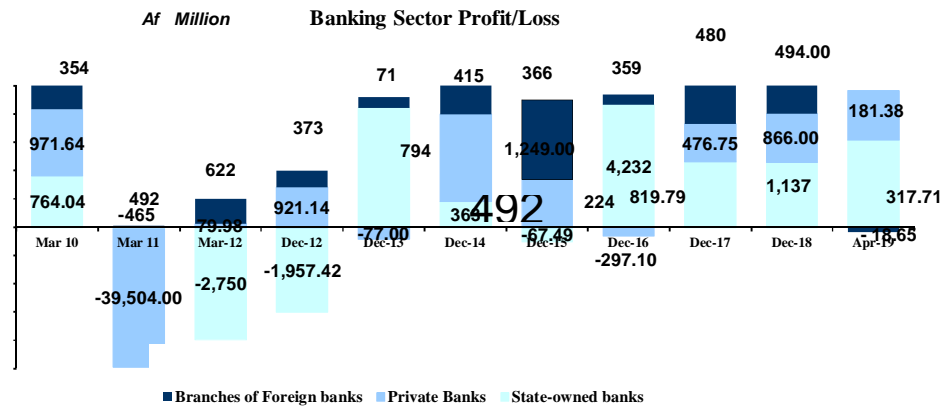
Profitability of the banking sector is mostly attributed to State owned Banks standing at Af 318 million, with annualized ROA of 1.13 percent against Af 236 million net-profits in the same preceding period, Private Banks earned net-profits amounted to Af 181 million with annualized ROA of 0.27 percent against Af 456 million net-losses in April, 2018, while branches of foreign banks incurred Af 19 million net-losses with annualized ROA of negative 0.07 percent in April, 2019 against Af 385 million net-profits in April, 2018.

Four banks incurred losses of Af 150 million, against Af 1.01 billion losses in the previous period (April, 2018) with three banks at loss. On core income basis four

banks ended with losses against seven banks in the previous period. The trend of the banking sector net profit/loss is given in the graph below.

⁵ 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.

⁶ ROA (Return On Assets)



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 77.02 percentage points against 65.08 percent in the preceding period (April, 2018), showing an increase of 11.94 points.

According to Mar, 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 59.24 percent of total customer deposits and consists of 5,552 accounts. This could be judged as quite volatile. Moreover, the average size of these large deposit accounts is very high, though decreased to Af 568 million from Af 616 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 Mar, 2019 all across the country are as follow:

Particulars	No
Full-time Afghan Employees	9,370
Full-time Foreign Employees	69
Present Borrowers	74,403
Present Depositors	3,673,107
Number of loan file where borrower president or vice president is a woman	15,593
Other clients other than borrowers & depositors ⁷	7,870

⁷ Customers of the bank who have been issued bank guarantees, letters of credit, or any other types of guarantees and commitments