



Da Afghanistan Bank

Monetary Policy Department

Monthly Report

March 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 and growth of RM is below the ceiling. The target ceiling for end of Hoot month was Af 296,655.18 million, while the actual amount on the mentioned date stood at Af 255,627.49 million. This figure represents Af 41,027.69 million declines from the target ceiling and showing a negative growth of 5.95 percent from the beginning of the fiscal year.

From the beginning of fiscal year of 1398 (2019) up to end of Hoot, DAB has auctioned a total amount of USD 541.94 million through open market operations, and has collected Af 40.714 billion from the market. These operations have fulfilled 66.30 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation declined in the month of February 2019. Observing the data, headline inflation decreased to 0.34 percent from 0.41 percent (year over year).

Current account deficit, narrowed sharply by 2 percent to USD 4055.78 million in the FY 1397 from USD 4145.23 million in the FY 1396. This outcome was primarily on account of a contraction in the trade deficit by both a rise in merchandize exports (12 percent), and a decline in merchandize imports (2 percent).

Total revenue (domestic revenue plus external aids) for the month of March2019 was AFN 25.63 billion, while in February, it was AFN17.34 billion which shows 47.81% or AFN 8.29 billion increase in March. Total revenue at the end of March FY–2019 reached to AFN 57.63 billion, which consist of AFN 42.88 billion and AFN 14.75 billion domestic revenue and donor contributions respectively.

The total assets of the banking sector posted a 1.56 percent YOY increase, reaching Af 299.70 billion at end of Mar, 2019 as compared to Af 295.08 billion in Mar, 2018. Total assets increased by 0.72 percent over the previous month, mostly coming from increase in USD rate against the Af currency, while breakdown of total assets show that part of interbank and capital notes shifted to overnight deposits and invested in bonds.

The gross loan portfolio of the banking sector registered YOY increase of 9.88 percent and currently stands at Af 41.93 billion. The increase is mainly as a result of issuance of new loans, increase in USD rate and OD utilization. Total gross loans showed a decrease of 0.17 points

compared to previous month mainly on account of less OD utilization, repayments and settlement of loans, while new loans have been disbursed as well.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 3.01 percent YOY increase, currently standing at Af 257.77 billion. . The increase in total deposits mainly came from the increase in USD rate against the AF currency and interbank deposits, which was mostly obvious in time deposits, whereas customer deposits decreased over the mentioned period.

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1. Monetary Sector

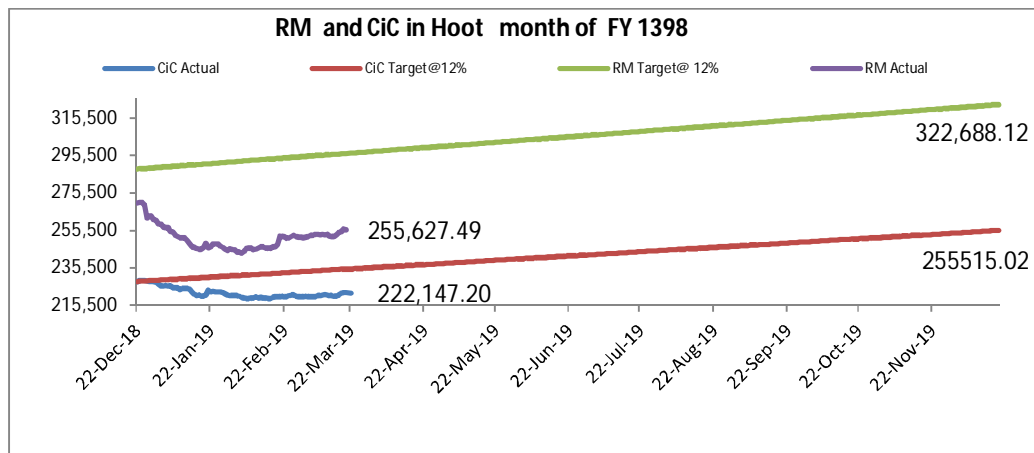
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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 and growth of RM is below the ceiling. The target ceiling for end of Hoot month was Af 296,655.18 million, while the actual amount on the mentioned date stood at Af 255,627.49 million. This figure represents Af 41,027.69 million declines from the target ceiling and showing a negative growth of 5.95 percent from the beginning of the fiscal year.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) which was Af 228,205.59 million At the beginning of FY1398 (2019), amounted to Af 222,147.20 million for end of Hoot month, while the target for CiC is 234,901.28 million AF. Thus, real amount of CiC is Af 12,754.08 million less than ceiling and showing a negative growth of 2.65 percent since the beginning of the fiscal year.

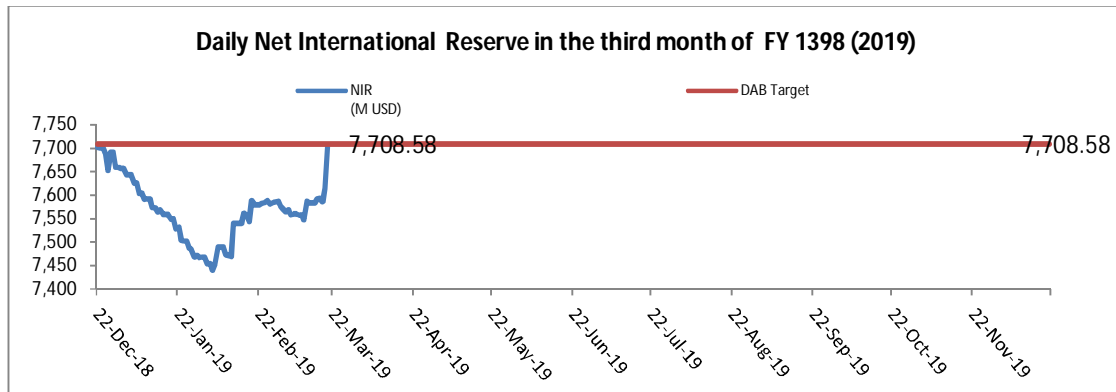
The following chart shows the RM and CiC during FY 1398 (2019)



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 7,702.51 million by end of Hoot month, which shows USD 6.07 million decrease difference from the beginning of the fiscal year 1397 to end of Hoot month. NIR growth is presented in the following chart.



Source: Open Market Operations/Monetary Policy Departments

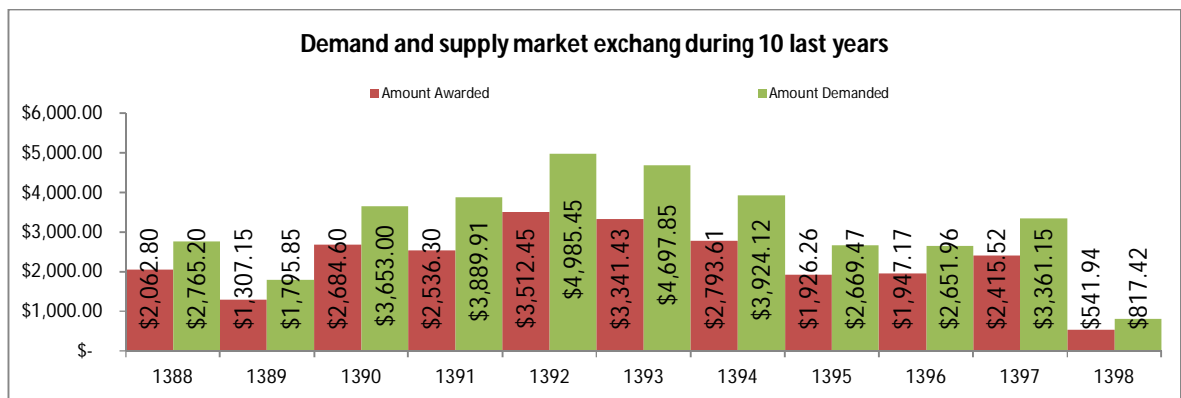
1.3 Foreign Exchange and Capital Notes Auction

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 Hoot, DAB has auctioned a total amount of USD 541.94 million through open market operations, and has collected Af 40.714 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

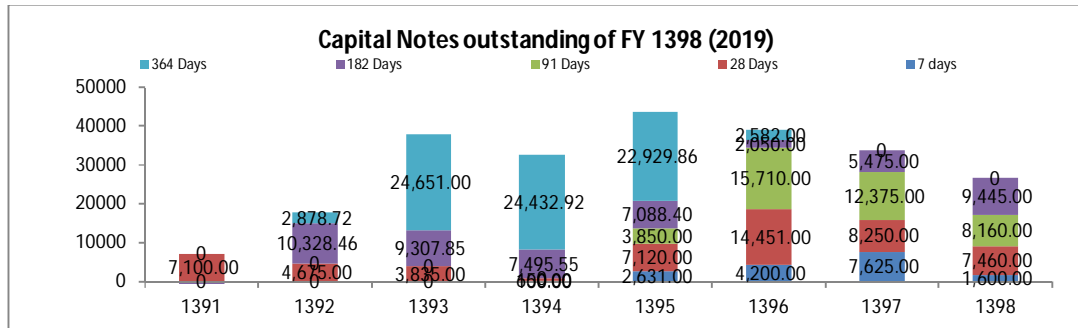
Capital Notes Auction (Interest rate bidding)

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 Hoot, The total outstanding of capital notes reached Af 26.665 billion and meanwhile the total interest paid for the mentioned notes reached Af 18.77 million at the end of Hoot.

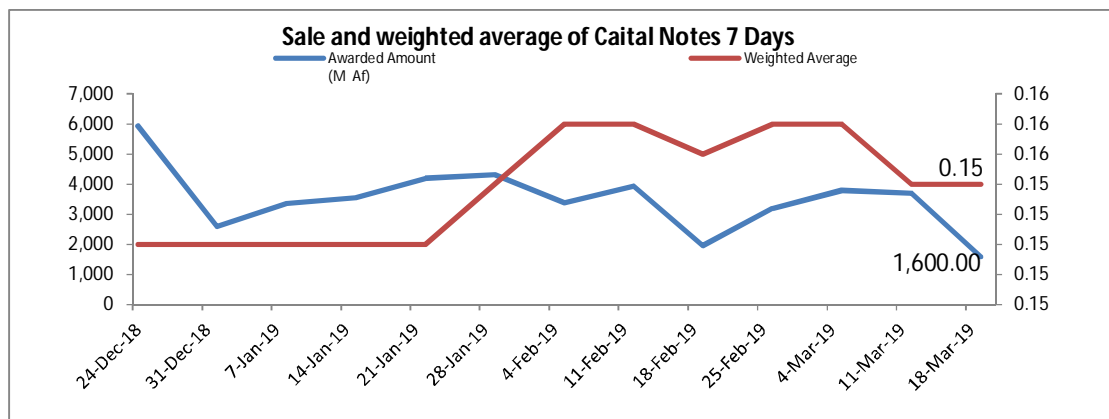
The Figure 1.4 illustrates the Capital Notes Outstanding at end of Hoot month of FY 1398.



Source: Market Operations/Monetary Policy Departments

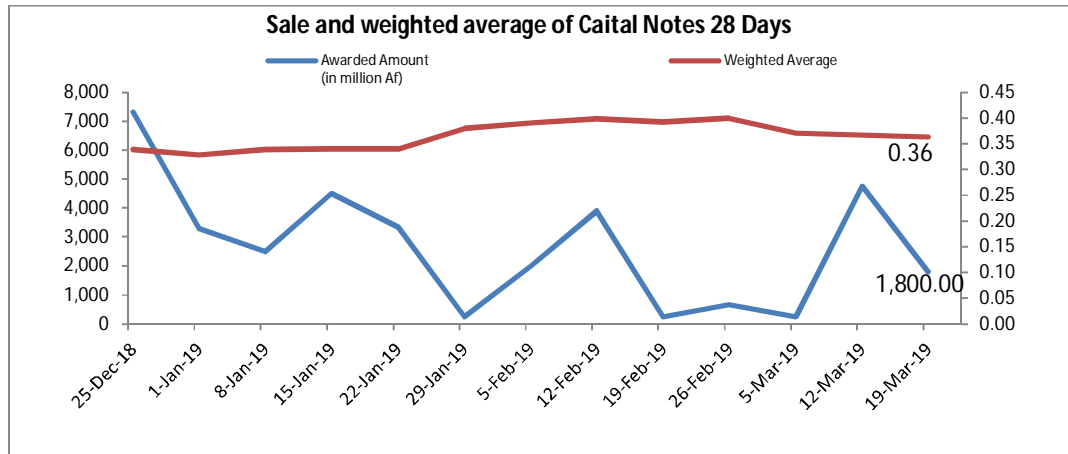
7 days Capital Notes

The awarded amount of 7 days capital notes auction at the end of Hoot reached Af 1.6 billion with average interest rate of 0.15 percent. The outstanding of these notes was Af 1.6 billion for the mentioned period.



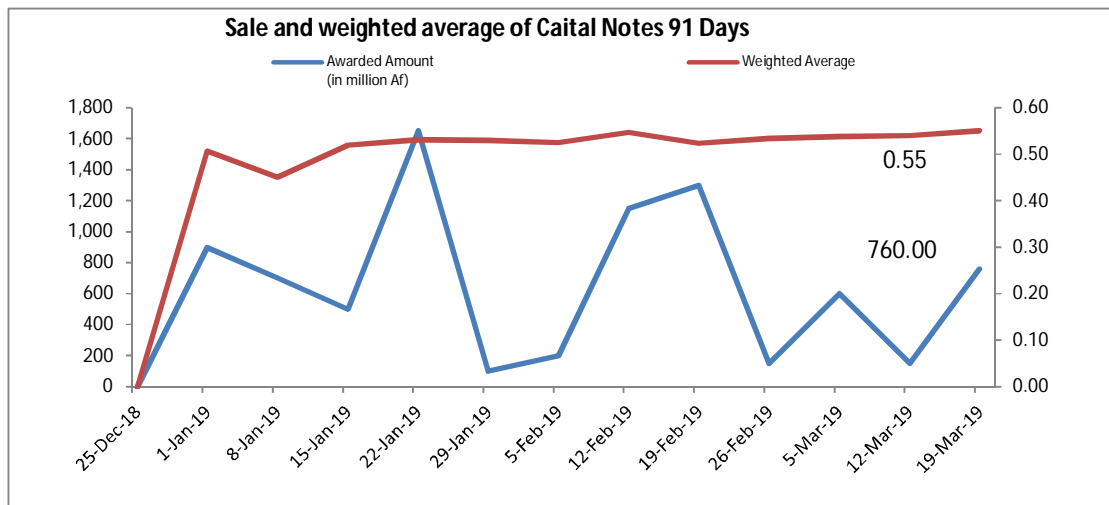
28 days Capital Notes

During the reviewed period, awarded amount of 28 days capital notes auction at the end of Hoot is recorded Af 1.8 billion with average interest rate of 0.36 percent and outstanding amount of Af 7.46 billion.



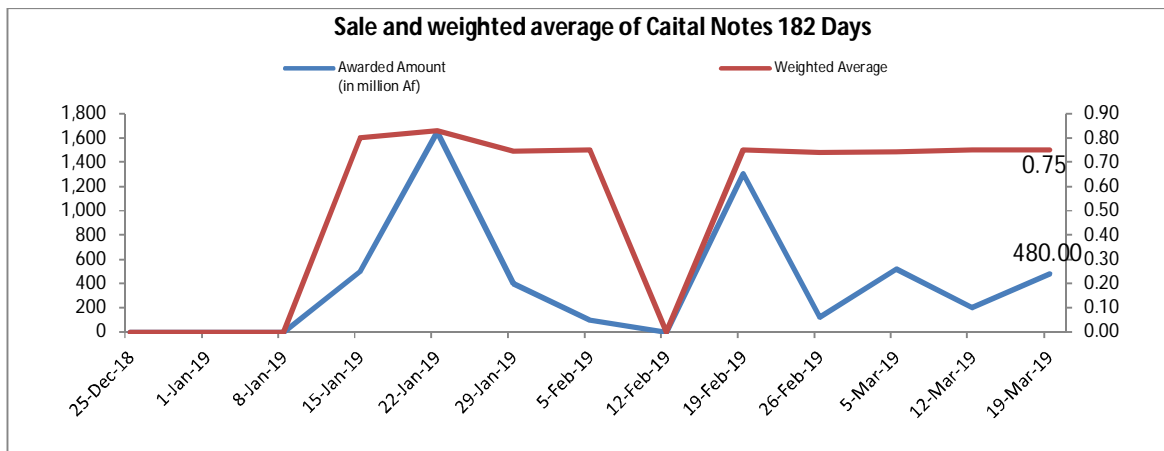
91 days Capital Notes

DAB's 91 days capital notes auction during this reporting period stood at Af 0.76 billion at the end of Hoot with average interest rate of 0.55 percent and total outstanding of Af 8.16 billion.



182 days Capital Notes

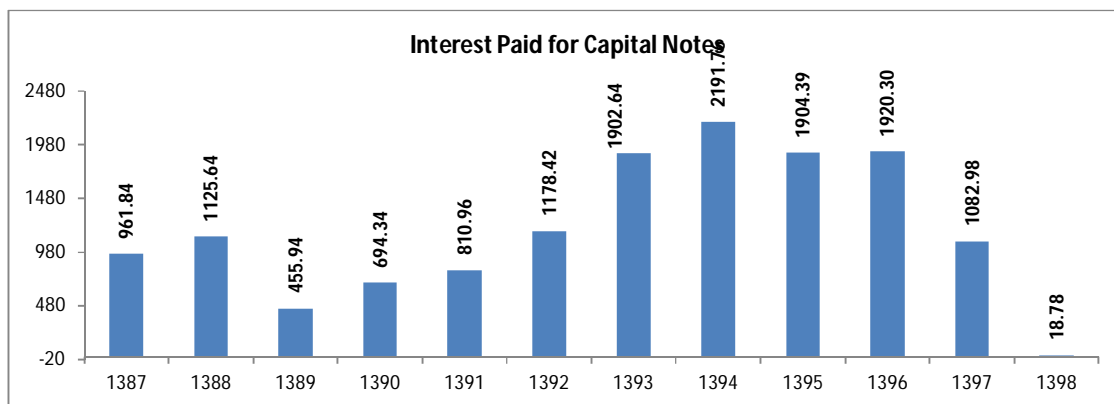
DAB's 182 days capital notes auction at the end of Hoot stood at Af 0.48 billion with average interest rate of 0.75 percent and total outstanding of Af 9.44 billion.



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

Interest Expenses

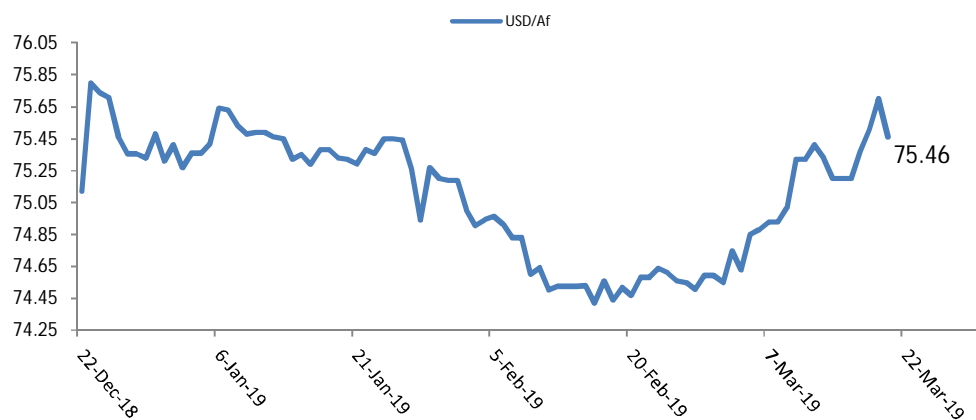
DAB paid interest for Capital Notes during of 12 years till the end of Hoot month FY 1398 (2019) the figure of below illustrated.



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 Hoot, Afghani has depreciated by 0.7 percent, and has been exchanged at Af 75.10 per USD on average from beginning of FY 1398 (2019) to the end of Hoot (March) and recorded at 75.46 Af at the end of Hoot.

Exchange Rate Afhani against USD for FY 1398 (2019)



	FY 1396					FY 1398	
	Dalwa	Hoot	Jawza	Sunbula	Qaws	Dalwa	Hoot
Reserve Money Target (%)	-0.03		0.01	0.045	0.065	10	9.44
Actual Reserve Money (%)	-6		-1	0.47	10	8.74	-5.95
RM Actual	234,862 .05	236,238.9 0	250,743.1 0	253,258. 80	276,318 .10	248,042. 60	255,627 .49
RM Target	246,715 .38	244,281.0 0	254,354.4 0	265,687. 00	282,056 .40	278,087. 54	280,267 .14
CiC Actual	208,850 .25	210,051.9 0	218,245.9 0	222,635. 80	228,685 .20	220,295. 23	222,147 .20
CiC Target	219,052 .94	216,987.6 0	225,931.6 0	235,897. 40	250,431 .40	231,967. 22	233,785 .34
Actual NIR	6,890.8 0	6,818.26 6,818.26	6,834.16 6,834.16	7,237.26 7,237.26	7,350.3 4	7,589.22 7,589.22	7,702.5 1
NIR Target	6,841.6 0	6,849.66 6,849.66	6,874.66 6,874.66	6,899.66 6,899.66	6,924.6 6	7,692.10 7,692.10	7,684.1 3
Outstanding Amount	39,212. 30	41,292.30 41,292.30	39,802.50 39,802.50	41,570.0 0	38,993. 00	25,185.0 0	26,665. 00
Required Reserve (Afs)	19,027. 53	18,846.76 18,846.76	18,718.50 18,718.50	8,045.30 8,045.30	7,357.4 8	5,771.59 5,771.59	5,768.5 4

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 declined in the month of February 2019. Observing the data, headline inflation decreased to 0.34 percent from 0.41 percent (year over year). This decrease is caused by lower prices of non-food items. Core measure of inflation when measured based on 30% trimmed mean stepped up to 2.23 percent, while it was calculated 2.02 percent in the previous month.

Table 1.1. Headline Inflation (Jan19-Feb 19)

	Y-on-Y		M-to-M	
	Jan	Feb	Jan	Feb
National CPI				
Headline	0.41	0.34	0.11	-0.62
<i>Food</i>	-0.41	0.14	0.50	-0.40
<i>Non-Food</i>	1.19	0.53	-0.25	-0.83
<i>CPI ex. B&C, O&F, and T</i>	-0.85	-0.60	0.21	-0.30
<i>Trimmed Mean</i>	2.02	2.23		
Kabul CPI				
Headline	0.64	0.35	0.06	-1.16
<i>Food</i>	0.88	1.14	1.11	-1.38
<i>Non-Food</i>	0.49	-0.16	-0.62	-1.02

2.1.1 Food Inflation

Inflation showed an upward trend in food and beverages items in the month of February 2019. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In February 2019, when measured on year over year basis, increased to 0.14 percent compared to -0.41 percent calculated in the previous month. This increase is in line with higher prices of fresh and dried fruits,

vegetables, sugar and sweets, spices and non-alcoholic beverages. Price of the remaining items declined from the previous month's values.

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

Items	Weight	Y-on-Y		M-to-M	
		Jan	Feb	Jan	Feb
Food and Beverages	47.8	-0.41	0.14	0.50	-0.40
<i>Bread and Cereals</i>	14.6	6.14	5.65	-0.03	-1.20
<i>Meat</i>	7.5	1.39	1.37	0.08	-0.33
<i>Milk, cheese and eggs</i>	4.7	1.38	1.35	0.37	-0.38
<i>Oils and fats</i>	4.6	-2.81	4.19	-0.10	-2.00
<i>Fresh and dried fruits</i>	5.0	2.45	3.34	1.12	0.43
<i>Vegetables</i>	6.0	-17.44	-13.67	2.95	1.75
<i>Sugar and sweets</i>	2.7	-0.85	-0.33	-0.56	-1.90
<i>Spices</i>	1.3	0.42	3.92	0.84	3.43
<i>Non-alcoholic beverages</i>	1.4	5.15	5.39	0.25	0.21

Sourced: Afghanistan Bank and/NSIA

2.1.2 Non-Food Inflation

Non-food item exhibited disinflation trend in the month of February 2019. On year over year basis, non-food inflation decreased to 0.53 percent from 1.19 percent recorded in the previous month. The deflationary pressure on this item came from lower price of tobacco, clothing, housing electricity and gas, health, communication and education. On the other hand, price of furnishing and household goods, information and culture as well as restaurant and hotels increased during the review period. Overall headline inflation dropped down due to non-food prices decreased in the reporting period and the main reasons are subject to course of factors.

Clothing price index which comprises around 5 percent of the overall index, declined in February to 4.05 percent (year over year), while it was calculated 5.22 percent in the previous month. In addition, it also decreased on month to month basis turning around to -1.26 percent from 1.19 percent. The main reason of decrease in clothing index comes from low local demand and additionally Chinese market decreased its clothing export by 21 percent in period under review.

Price index of housing, electricity, water and gas also decreased in February 2019. On year over year basis, this index decreased to -3.36 percent from -2.73 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index decreased to -1.10 percent from -0.91 percent. Housing prices decreased due to lower property rents and lower gas prices.

Price index of health dropped in the month of February 2019. Health index which comprises more than 6 percent of the overall CPI decreased to 2.14 percent from 3.04 percent (year over year). Similarly, when measured on the month to month basis, it also declined to -0.65 percent from 1.37 percent observed in the previous month. Health prices decreased due to illegal imports of medicines from Pakistan and India.

Price index of furnishing and household goods decreased in the month of February 2019. This index which holds a healthy weight of 12 percent in the CPI, slightly increased to 2.71 percent from 2.59 percent. Similarly, it also increased on the month to month basis to 0.05 percent from -0.65 percent. The main reason of price decrease in this item came from depreciation of Afghani against U.S dollar.

In February 2019, **transportation price index** which accounts for 4.3 percent of the whole index decreased. Observing the data, transportation index decreased to 4.80 percent from 7.79 percent recorded in the previous month. Similarly, inflation rate on month to month basis also decreased to -2.84 percent from -0.86 percent. The main reason of decrease in this index came from lower crude oil prices observed in international oil market.

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

	Weight	Y-on-Y		M-to-M	
		Jan	Feb	Jan	Feb
Non-Food	52.2	1.19	0.53	-0.25	-0.83
<i>Tobacco</i>	0.3	5.56	4.96	-0.43	-0.30
<i>Clothing</i>	4.6	5.22	4.05	1.19	-1.26
<i>Housing,</i>	19.1	-2.73	-3.36	-0.91	-1.10
<i>Furnishing and household goods</i>	11.9	2.59	2.71	-0.65	0.05
<i>Health</i>	6.2	3.04	2.14	1.37	-0.65
<i>Transportation</i>	4.3	7.79	4.80	-0.86	-2.84
<i>Communication</i>	1.7	-2.63	-2.39	-0.70	-0.11
<i>Information and Culture</i>	1.1	-0.24	0.95	0.51	1.20
<i>Education</i>	0.4	7.88	5.32	2.58	-1.60
<i>Restaurants and Hotels</i>	1.1	3.06	3.62	0.37	0.32
<i>Miscellaneous</i>	1.4	1.74	0.69	0.78	-0.81

Sourced: Afghanistan Bank and/NSIA

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 February 2019, trimmed mean (30 % of CPI) increased to 2.23 percent (year over year) from 2.02 percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, increased to -0.60 percent compared to -0.85 percent recorded in the previous month. On Contrary, inflation by this measure decreased on month to month basis to -0.30 percent from 0.21 percent.

Core Measures (Year over Year)		
Indicators	January	February
30% Trimmed Mean	2.02	2.23
CPI ex. B&C,O&F and T	-0.85	-0.60

Source: *Da Afghanistan Bank and/NSIA*

3. EXTERNAL SECTOR REPORT

3.1 CURRENT ACCOUNT BALANCE

Current account deficit, narrowed sharply by 2 percent to USD 4055.78 million in the FY 1397 from USD 4145.23 million in the FY 1396.

This outcome was primarily on account of a contraction in the trade deficit by both a rise in merchandize exports (12 percent), and a decline in merchandize imports (2 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 FY 1397.

3.1.1 GOODS ACCOUNT

The value of total export of goods increased by 12 percent to USD 875.24 million in the FY 1397 from USD 783.96 million in the FY1396.

The value of total import of goods slightly declined by 2 percent to USD 6899.80 million in the FY 1397 from USD 7023.80 million recorded in the FY 1396.

- **Main drivers of increasing exports in the FY 1397 are:**

- ✓ Cotton Increased to USD 16.87m from USD 7.51m.
- ✓ Karakul Skin Increased to USD 14.84 from almost 9.55m.
- ✓ Wool and Animal Hair Increased to USD 6.25m from 1.20m.
- ✓ Saffron Increased to USD 21.22m from USD 6.49m.

- ✓ Medical seeds increased to USD 146.14m from USD 142.07m.
- ✓ Unspecified Increased to USD 225.52m from USD 146.99m.

- **Main drivers of declining Imports in the FY 1397 are:**

- ❖ Industrial supplies such as:

- ✓ Metal production: declined by 6 percent to USD 383m from USD 406m.
- ✓ Fertilizer declined by 6 percent to USD 118m from USD 125m.
- ✓ Cement: declined by 1 percent to USD 303m from USD 305m.

Note: as a total Industrial supplies declined by 7 percent to USD 826m in the FY 1397 from. USD 883m in the FY 1396.

- ❖ Consumer goods such as:

- ✓ veg.oil: declined by 19 percent to USD 394m from USD 486m
- ✓ Sugar: declined by 33 percent to USD 203m from USD 301m.
- ✓ Cigarettes: declined by 44 percent to USD 51.10m from 91.63m.
- ✓ Cloths: declined by 21 percent to USD 48.55m from USD 61.40m.
- ✓ Soaps: declined by 24 percent to USD 26.67m from USD 34.90m.
- ✓ Threads: declined by 53 percent to USD 8.65m from USD 18.48m.
- ✓ Bicycles: declined by 13 percent to USD 8.16m from USD 9.38m.
- ✓ TV: declined by 38 percent to USD 3.56m from USD 5.73m

Note: as a total consumer goods declined by 3 percent to USD 2904m in the FY 1397 from USD 2981 million recorded in the FY 1396.

3.1.2 SERVICES ACCOUNT

Services account deficit decreased by 30 percent to USD 515.48 million in the FY 1397 from USD 737.28 million recorded in the FY 1396, mainly due to increasing receipts from some of services implemented by residents to non-residents such as:

- Receipts from **Construction services**, which increased to USD 91.54 million in the FY 1397 from USD 39.22 million recorded in the FY 1396.
- Receipts from **Telecommunication, services** increased to USD 70 million in the FY 1397 from USD 57 million recorded in the FY 1396.
- **In transportation**, our receipts increased to USD 56 million in the FY 1397 from USD 38 million in the FY 1396. But in the same time payments to such services declined to USD 717 million from USD 732 million.

3.1.3 PRIMARY INCOME ACCOUNT:

Net primary income increased by 44 percent to USD 221.69 million in the FY 1397 from USD 153.45 million recorded in the FY 1396.

3.1.3 SECONDARY INCOME ACCOUNT:

Secondary income decreased by 16 percent to USD 2262 million in the FY 1397 from USD 2678 million recorded in the FY 1396.

- **Current transfers Net;** to the Afghan government decreased by 16 percent to USD 1768 million in the FY 1397 from USD 2105 million recorded in the FY 1396.
- **Worker remittances (Net)** show an increase of 42 percent to USD 381 million in the FY 1397 from USD 268 million recorded in the FY 1396.

3.2 CAPITAL ACCOUNT BALANCE:

Decline by of 22 percent to USD 1404 million in the FY 1397 from USD 1790 million recorded in the FY 1396, as a result of lower inward of capital transfers to the government sector.

3.3 FINANCIAL ACCOUNT BALANCE:

Financial account (net) decreased by 9 percent to USD 413 million in the FY 1397 from USD 453 million in the FY 1396.

- **Direct investment (Net):**
 - ✓ Outflows (assets abroad), decrease to USD - 23 million in the FY 1397 from USD -10 million in the FY 1396.
 - ✓ Inflows (liabilities) increased to USD 115 million in the FY 1397 from USD 51 million recorded in the FY 1396.

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 USD 23 million in the FY 1397 from USD -29 million in the FY 1396.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q1- 96	Q2- 96	Q3- 96	Q4 - 96	FY 1396	Q1- 97	Q2- 97	Q3- 97	Q4- 97	FY 1396	%change
Current Account	-1055.43	-1430.28	-744.20	-915.32	-4145.23	-1267.08	-842.40	-889.89	-1056.42	-4055.78	-2%
<i>Credit</i>	817.97	816.60	1194.05	1297.50	4126.13	920.99	1133.74	1153.73	1060.70	4269.16	3%
<i>Debit</i>	1873.41	2246.88	1938.25	2212.82	8271.36	2188.07	1976.14	2043.62	2117.12	8324.94	1%
Goods and Services Account	-1607.57	-1981.82	-1573.42	-1814.31	-6977.11	-1834.57	-1560.85	-1543.16	-1601.46	-6540.05	-6%
<i>Credit</i>	213.70	230.54	334.67	368.78	1147.70	320.49	364.21	438.04	437.41	1560.16	36%
<i>Debit</i>	1821.27	2212.36	1908.09	2183.09	8124.81	2155.06	1925.07	1981.21	2038.87	8100.20	-0.3%
Goods Account	-1456.11	-1802.22	-1372.09	-1609.40	-6239.83	-1664.49	-1499.75	-1386.93	-1473.41	-6024.57	-3%
<i>Credit</i>	115.06	124.17	251.37	293.36	783.96	172.45	146.81	261.88	294.09	875.24	12%
<i>Debit</i>	1571.17	1926.39	1623.46	1902.77	7023.80	1836.94	1646.56	1648.81	1767.50	6899.80	-2%
Services Account	-151.45	-179.59	-201.33	-204.90	-737.28	-170.09	-61.11	-156.24	-128.05	-515.48	-30%
<i>Credit</i>	98.64	106.37	83.30	75.42	363.74	148.03	217.40	176.16	143.32	684.92	88%
<i>Debit</i>	250.10	285.97	284.63	280.32	1101.02	318.12	278.51	332.40	271.37	1200.40	9%
Primary Income Account	19.02	36.24	21.39	76.80	153.45	24.83	54.00	98.54	44.32	221.69	44%
<i>Credit</i>	33.98	48.50	32.91	89.14	204.53	35.27	65.53	109.23	67.45	277.47	36%
<i>Debit</i>	14.96	12.27	11.52	12.34	51.08	10.45	11.52	10.69	23.12	55.78	9%
Secondary Income Account	533.11	515.30	807.83	822.18	2678.43	542.67	664.46	554.74	500.71	2262.57	-16%
<i>Credit</i>	570.29	537.55	826.47	839.58	2773.89	565.23	704.00	606.46	555.85	2431.53	-12%
<i>Debit</i>	37.18	22.25	18.64	17.40	95.46	22.56	39.55	51.72	55.13	168.96	77%
Current transfers	439.15	428.08	665.51	572.39	2105.12	424.08	544.35	418.76	381.05	1768.24	-16%
<i>Credit</i>	439.15	428.08	665.51	572.39	2105.12	424.08	544.35	418.76	381.05	1768.24	-16%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	#DIV/0!
Workers' remittances	50.40	55.16	76.53	86.79	268.88	91.92	96.60	95.42	97.16	381.10	42%
<i>Credit</i>	58.49	71.81	85.38	97.02	312.70	102.94	114.36	107.55	112.08	436.94	40%
<i>Debit</i>	8.08	16.65	8.84	10.24	43.82	11.02	17.76	12.13	14.92	55.84	27%
Capital and financial account	186.20	454.67	327.92	368.62	1337.41	16.80	226.09	276.57	471.30	990.75	-26%
Capital account	237.56	428.20	555.72	569.29	1790.78	62.89	221.38	478.72	641.53	1404.53	-22%
<i>Credit</i>	237.56	428.20	555.72	569.29	1790.78	62.89	221.38	478.72	644.71	1407.71	-21%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.18	3.18	
Capital transfers	237.56	428.20	555.72	569.29	1790.78	62.89	221.38	478.72	644.71	1407.71	-21%
<i>Credit</i>	237.56	428.20	555.72	569.29	1790.78	62.89	221.38	478.72	644.71	1407.71	-21%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Financial account	51.36	-26.46	227.80	200.68	453.38	46.09	-4.70	202.16	170.23	413.78	-9%
Direct investment	-11.19	-20.44	-16.98	-13.73	-62.33	-31.58	-40.85	-36.74	-29.85	-139.02	123%
Net acquisition of financial assets	-3.09	-3.27	-3.59	-0.84	-10.80	3.78	3.78	-12.36	-19.11	-23.90	121%

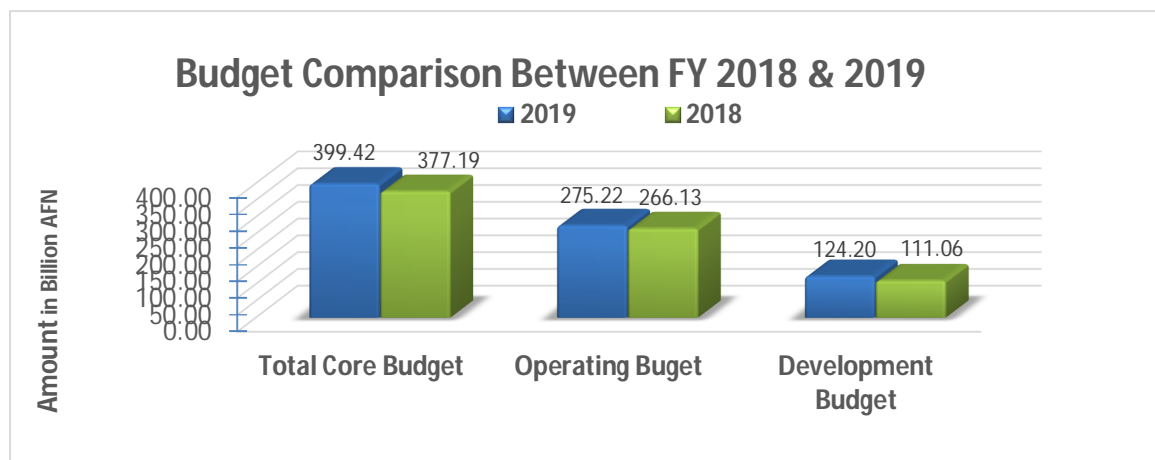
Net incurrence of liabilities	8.10	17.16	13.39	12.89	51.53	35.36	44.63	24.38	10.75	115.12	123%
Portfolio investment	36.62	-30.15	-11.57	-24.01	-29.11	-54.02	18.22	24.37	34.94	23.51	-181%
Net acquisition of financial assets	36.62	-30.15	-11.57	-24.01	-29.11	-54.02	18.22	24.37	34.94	23.51	-181%
Net incurrence of liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Other investment	12.19	25.58	-127.93	58.67	-31.48	109.58	57.53	102.07	92.54	361.73	-1249%
Assets	32.98	5.36	-100.29	97.87	35.92	80.47	44.96	79.32	68.59	273.34	661%
Liabilities	20.79	-20.23	27.64	39.20	67.40	-29.11	-12.57	-22.75	-23.95	-88.39	-231%
Reserve Assets	13.73	-1.45	384.28	179.74	576.29	22.11	-39.61	112.46	72.60	167.56	-71%
Net errors and omissions	869.23	975.61	416.28	546.71	2807.83	1250.27	616.31	613.32	585.13	3065.03	9%

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, 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 March 2019 was AFN 25.63 billion, while in February, it was AFN 17.34 billion which shows 47.81% or AFN 8.29 billion increase in March. Total revenue at the end of March FY–2019 reached to AFN 57.63 billion, which consist of AFN 42.88 billion and AFN 14.75 billion domestic revenue and donor contributions respectively.

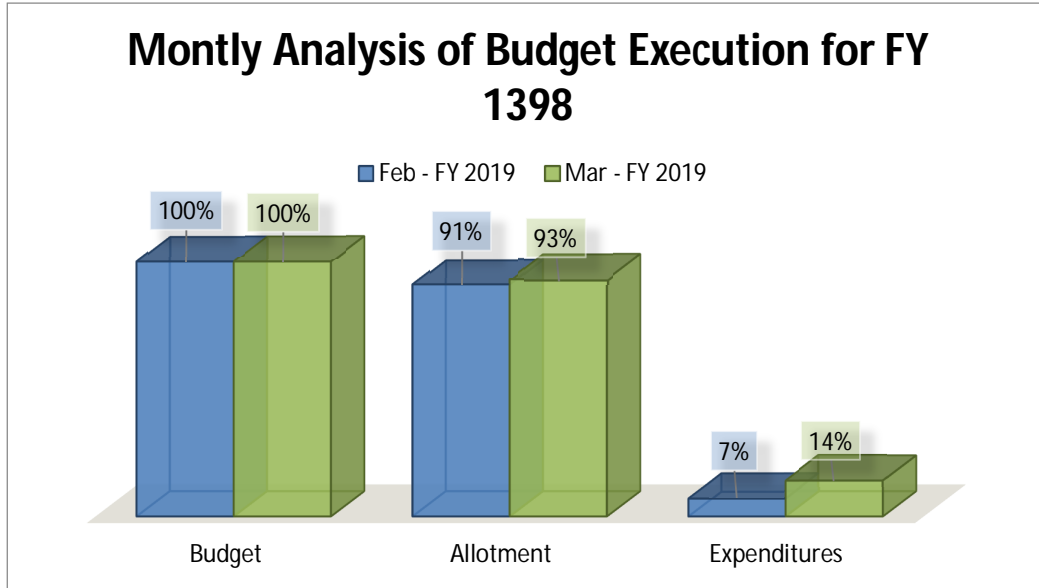
Likewise, domestic Revenue for the month March was AFN 14.27 billion greater than AFN 13.97 billion in the month of February, which shows AFN 0.31 billion (2.19%) Increase in the month of March. On the other hand, donor contributions amounted to AFN 11.35 billion in March, where donor contributions in February was AFN 3.37 billion, which indicates AFN 7.98 billion (236.94 %) increase in donor contributions for the month of March.

Additionally, total Expenditure at the end of March 2019 reached to AFN 51.81 billion, from which operating expenditures and development expenditures were individually, AFN 42.08 billion and AFN 9.73 billion. Likewise, operating expenditures for March was AFN 19.50 billion, where in February it was AFN 22.58 billion. This signifies that, there is AFN 3.08 billion or 13.63 % decrease in operating expenditures for the month of March FY 2019. On the other hand, development expenditures for the month of February was AFN 2.70 billion, which raised to AFN 7.03 billion in the month of March showing an increase of 160.49 % (AFN 4.33 billion).

Description	Feb – FY 2019	Mar – FY 2019	FY 2019	Difference (between Feb&Mar)	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	17.34	25.63	57.63	8.29	47.81
Domestic Revenue	13.97	14.27	42.88	0.31	2.19
Donor Contributions	3.37	11.35	14.75	7.98	236.94
Total Expenditures	25.28	26.53	51.81	1.26	4.97
Operating Expenditures	22.58	19.50	42.08	(3,08)	-13.63
Development Expenditures	2.70	7.03	9.73	4.33	160.49

Source: MoF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of March 2019 reached to 14% (allotment was 93%), of which, operating and development budgets had 17% and 8% 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 8% actual expenditures incurred. Likewise, operating expenditures were budgeted AFN 275.22 billion, of which 92% is allotted and actual expenditures reached to 17%.



Source: MoF Reports/MPD Staffs Calculations

5. Swift and Payments

Report of (Outward) Transactions from 1/12/ 1397 up to 30/12/1397

Categories	Remitter Parties	Message Type	USD	EUR	AED	CHF
A	Ministries	MT 103,700 & 910	99,864,175.17	1,463,947.00	89,509.00	32,503.00
B	Commercial Banks	202	51,494,773.25	1,767,976.00		
C	Da Afghanistan Bank	200				

Report of (Inward) Transactions from 1/12/ 1397 up to 30/12/1397

Categories	Beneficiary Parties	Message Type	USD	EUR		
A	Ministries	MT 103,700 & 910	188,581,620.66	391,725.17		
B	Commercial Banks	202	47,434,256.73			
C	Da Afghanistan bank	200				

به ارزش مجموعی (76517318.68) دالر و به FX Deal بر علاوه به تعداد 77 معامله تبادلوی تعداد 6 معامله تبادلوی بانک جهانی به ارزش مجموعی 19814616.84 دالر امریکائی نیز اجرا گردیده است

6. Banking Sector

As of end of first quarter of FY 1398 (Mar, 2019), 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, deposits upturn 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 1.56 percent YOY increase, reaching Af 299.70 billion at end of Mar, 2019 as compared to Af 295.08 billion in Mar, 2018. Total assets increased by 0.72 percent over the previous month, mostly coming from increase in USD rate against the Af currency, while breakdown of total assets show that part of interbank and capital notes shifted to overnight deposits and invested in bonds.

The gross loan portfolio of the banking sector registered YOY increase of 9.88 percent and currently stands at Af 41.93 billion. The increase is mainly as a result of issuance of new loans, increase in USD rate and OD utilization. Total gross loans showed a decrease of 0.17 points compared to previous month mainly on account of less OD utilization, repayments and settlement of loans, while new loans have been disbursed as well.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 3.01 percent YOY increase, currently standing at Af 257.77 billion. . The increase in total deposits mainly came from the increase in USD rate against the AF currency and interbank deposits, which was mostly obvious in time deposits, whereas customer deposits decreased over the mentioned period. Deposits posted an increase of 1.15 points over the previous month, which apart from appreciation of USD, came from Af deposits. Moreover the increase can be observed in demand and saving accounts.

The net equity position of the banking sector remained strong, though it decreased by 3.01 percent yoy basis and represents 11.48 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 quarter of fiscal year 1398 (Mar, 2019) earned Af 105 million net-profits against Af 263 million net-losses in the same preceding period (Mar, 2018). Resulting in ROA of 0.11 percent annualized compared to that of negative 0.35 percent annualized in Mar, 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 27.39 percent against 29.84 percent in Mar, 2018 showing 2.45 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
Automated Teller Machines(Type 22 Facility)	348
*Others(Type 21,24,25 Facility)	87
**Point of Sale(Type 23)	104
Total	954

* 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

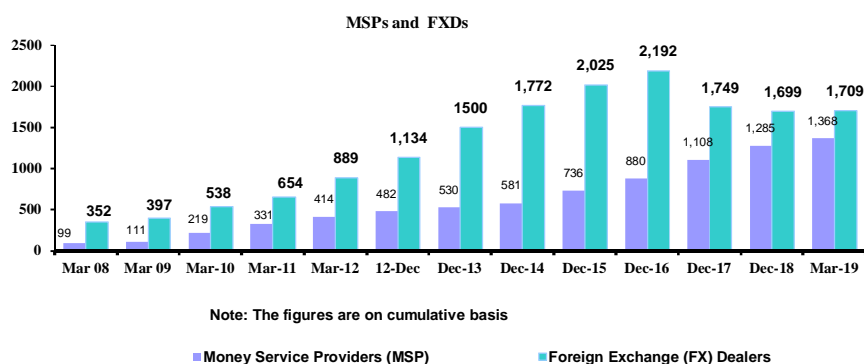
Type 25 Facility: A facility which only receives cash from the public for deposits into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for the cash. this facility could be located on military base, or in a hotel, for example.

** 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	559,039
Credit Card	1,964
ATM Card	231,837
Web surfer Cards	13,480
Pre-Paid Card	5,438
Master Card	2,737
Total	814,495

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, 1,368 licensed money service providers (MSP) and 1,709 licensed FX dealers are operating in the country. Of these 1,368 licensed MSPs, 276 are in Kabul, 807 are in provinces while 285 representatives of head offices are in Kabul and provinces. Of 1,709 licensed FX dealers, 390 are in Kabul, 1,313 are operating in provinces, and 6 representatives are active in provinces. Further details are given in the Graph No.1



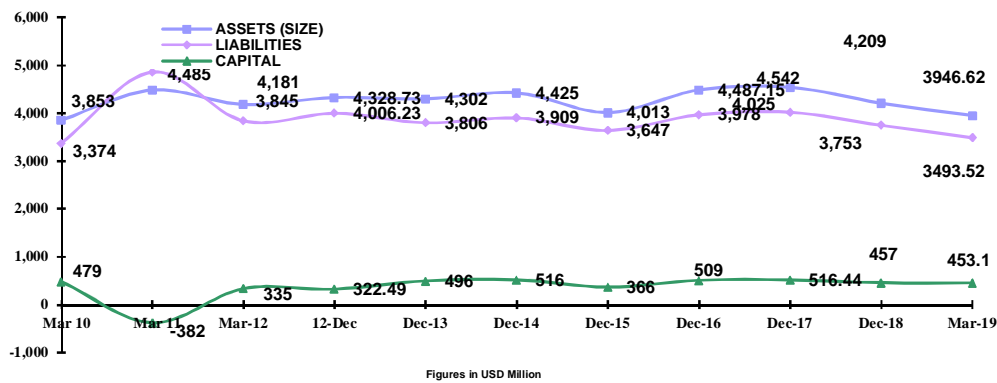
Graph No.1

6.1 Total Assets

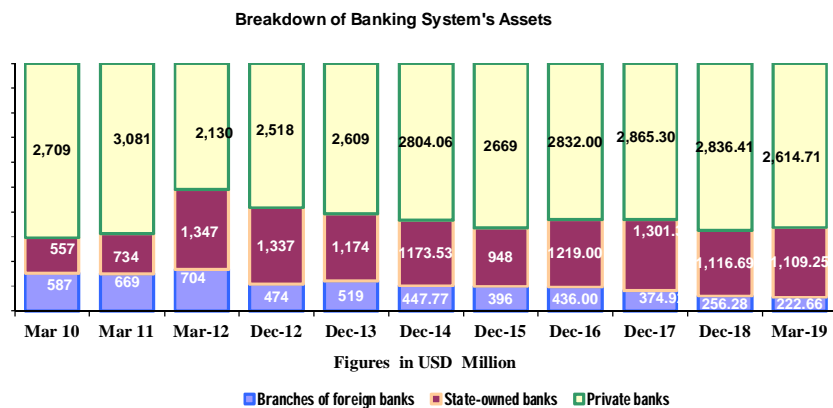
The total assets of the banking sector registered a 1.56 percent YOY increase, reaching Af 299.70 billion (USD 3.94 billion), against 1.69 percent decrease in the same preceding period (Mar, 2018), amounted

to Af 295.08 billion (USD 4.26 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 part of the bank's capital notes and current account with DAB is placed with other banks, invested in loans and bonds.

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 6.82 percent; whilst state owned banks and branches of foreign banks registered 3.45 percent and 23.03 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 66.25 percent; state-owned banks with 28.10 points are at the second place while branches of foreign banks have 5.64 percentage shares in the system's total asset. Growth of assets of the banking sector from March 2010 to March, 2019 is depicted in graph No.2.



Graph No. 2



Graph No.3

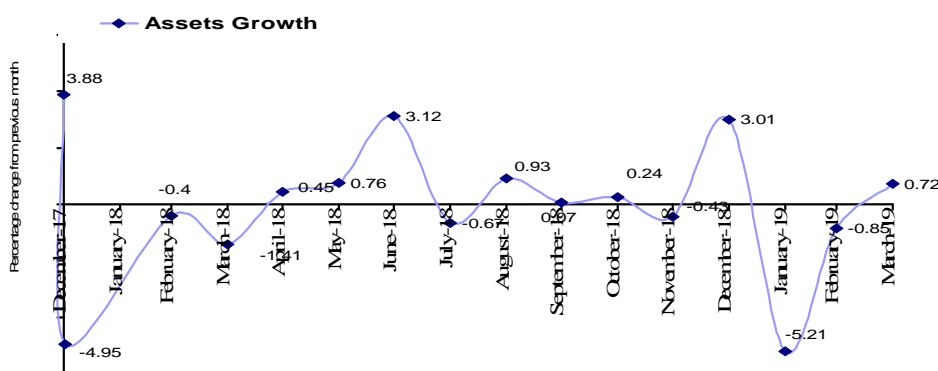
Assets of the Banking sector in descending order for the month of Mar, 2019			Size of Indv. Banks as % of Total Assets of the sector
Serial number	Names of Banks	Assets in million Af	
1	Afghanistan International Bank	67,913.40	22.66
2	Bank-e- Milli Afghan	43,517.39	14.52
3	Azizi Bank	40,785.80	13.61
4	Pashtany Bank	20,820.63	6.95
5	New Kabul Bank	19,898.38	6.64
6	Maiwand Bank	19,745.71	6.59
7	Afghan United Bank	18,537.24	6.18
8	Islamic Bank of Afghanistan	14,850.94	4.96
9	Arian Bank	13,245.40	4.42
10	Ghazanfar Bank	12,195.38	4.07
11	First Micro Finance Bank	11,287.12	3.76
12	Bank Alfalah Limited	11,068.13	3.69
13	National Bank of Pakistan	4,193.71	1.40
14	Habib Bank Limited	1,647.17	0.55
Total		299,706.40	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 0.72 percent over the previous month, mostly coming from increase in USD rate against the Af currency, while breakdown of total assets show that part of interbank and capital notes shifted to overnight deposits and invested in bonds.

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



Graph No.4

6.2 Loan portfolio

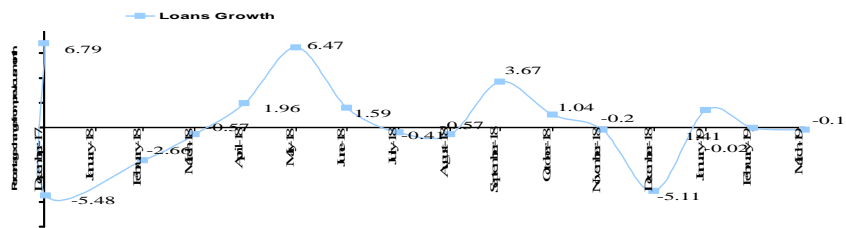
The gross loan portfolio of the banking sector recorded yoy increase of 9.88 percent, currently standing at Af 41.93 billion (USD 552 million), constituting 13.99 percent of the total assets, whereas it was Af 38.16 billion in Mar, 2018 comprising 12.93 percent of the total assets and was down by 6.78 percent on yoy basis. The increase in total gross loans is mainly attributed to issuance of new loans, increase in USD rates and OD utilization.

Out of this loan portfolio, total Afghani denominated loans recorded at Af 18.86 billion (USD 248 million), 44.98 percent of total Gross loans or 6.29 percent of total assets, showed a yoy increase of 38.59 percent, mostly attributed to issuance of new loans and OD utilization. While the US Dollar denominated loans are Af 22.95 billion (USD 302 million), 54.73 percent of total gross loans or 7.66 percent of total assets decreased by 6.15 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 88.43 percent of total gross loans of the banking sector followed by state-owned banks with 10.48 percent, while the share of the branches of foreign banks is 1.07 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 0.17 percent over the previous month, mainly on account of less OD utilization, repayments and settlement of loans, while new loans have been disbursed as well. The trend is shown in the graph No. 5



Graph No.5

Classification of total loan portfolio

Item amount in Af million	Mar, 2019	Feb, 2019	As %age of total gross loans	growth
Non-Performing Loans ¹	4,577	4,344	10.91	5.36
Adversely Classified Loans(substandard, doubtful, Loss) ²	6,413	6,140	15.29	4.44
Loans classified Watch ³	6,245	4,846	14.89	28.86
Loans Charged-off ⁴	2.77	2.59	0.01	6.94

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-

The quality of loan of the banking sector at the end of Mar, 2019 compared to Feb, 2019 deteriorated, making 10.91 percent of total gross loans and 15.04 percent of the regulatory capital, increased by Af 233 million over the last month largely attributed to three private banks in the sector. Out of 10.91 percent NPL, 8.24 percent (75.52 percent of total NPLs) is attributed to two banks. These two banks hold 36.58 percent of the system's gross loans and 10.74 percent of system's regulatory capital. While the net-NPL ratio of the banking sector recorded at 3.67 percent.

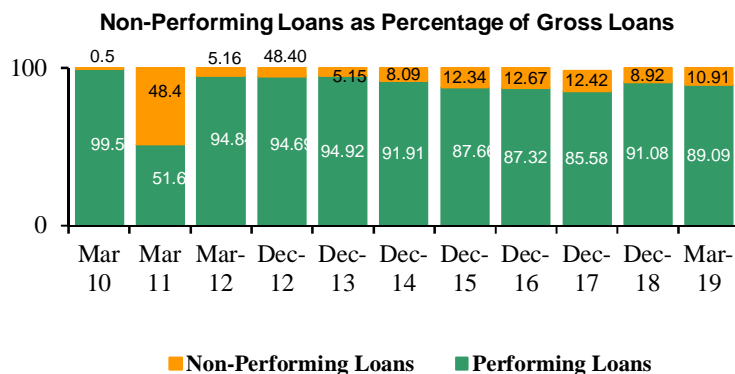
Group wise analysis show that out of Af 4.57 billion total NPLs, Af 4.40 billion NPL is coming from private banks making 10.49 percent of the total gross loans (96.16 percent of total NPLs) and Af 176 million is attributed to one state-owned bank constituting 0.42 percent of the total gross loans (3.84 percent of total NPLs).

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 Mar, 2019 (million Af)

State-owned Banks	4,396.63
Private Banks	37,086.85
Branches of foreign Banks	452.28
Total	41,935.76



Graph No.6

The sector wide and Province wide distribution of the banking sector's loan portfolio as of March 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) Mar, 2019			
No.	Provinces	Loans in million Af	Expressed as % of Total Loans
1	Kabul	29,486.91	70.31
2	Balkh	3,892.87	9.28
3	Herat	3,828.14	9.13
4	Badghis	1,186.92	2.83
5	Kandahar	594.86	1.42
6	Badakhshan	535.56	1.28
7	Baghlan	497.50	1.19
8	Faryab	303.13	0.72
9	Bamyan	287.09	0.69
10	Jawzjan	272.58	0.65
11	Saripul	263.06	0.63
12	Takhar	195.94	0.47
13	Parwan	187.08	0.45
14	Nangarhar	176.85	0.42
15	Samangan	156.77	0.37
16	Kunduz	64.58	0.15
17	Other	5.92	0.01
	Total	41,935.76	100.00

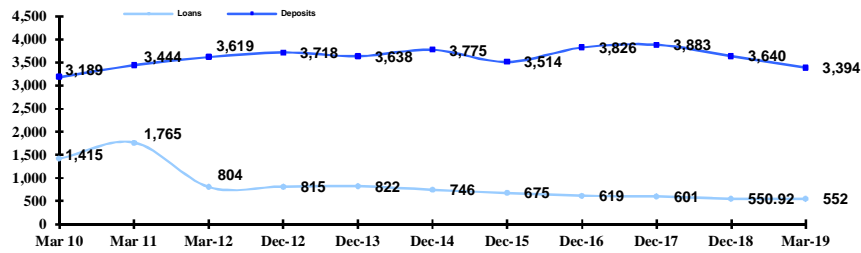
Outreach data of MISFA Partners as of Feb, 2019	
MISFA Partners	4
Provinces	14
Districts	81
Active clients	259,534
Active borrowers	137,611
No. of loans disbursed (cumulative)	1,323,232
Amount of loans disbursed, (cumulative) (AF Billion)	90.88
No. of loans outstanding	137,611
Gross loans outstanding, (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 257.77 billion (USD 3.39 billion), making 97.16 percent of total liabilities, increased by 3.01 percent yoy basis, against Af 250.23 billion (USD 3.61 billion) with 1.61 percent decline in Mar, 2018. Out of this, deposits from customers stands at Af 252.35 billion (USD 3.32 billion) making 97.90 percent of the total deposits increased by 2.19 percent YOY basis. The increase in total deposits mainly came from the increase in USD rate against the AF currency and interbank deposits, which was mostly obvious in time deposits, whereas customer deposits decreased over the mentioned period.

Af-denominated customer deposits of the banking sector are Af 72.72 billion (USD 958 million), or 28.81 percent of the total customer deposits, decreased by 1.12 percent, while the USD-denominated customer deposits of the banking sector stands at Af 162.58 billion (USD 2.14 billion), or 64.42 percent of total customer deposits increased by 5.74 percent, attributed to increase in USD rate. Private Banks have the highest percentage share in total deposits of the sector, standing at 67.46 percent followed by

state-owned banks with 27.69 percent share, while the share of the branches of foreign banks was 4.84 percent. Graph No.7 depicts the trends in deposits and loans.

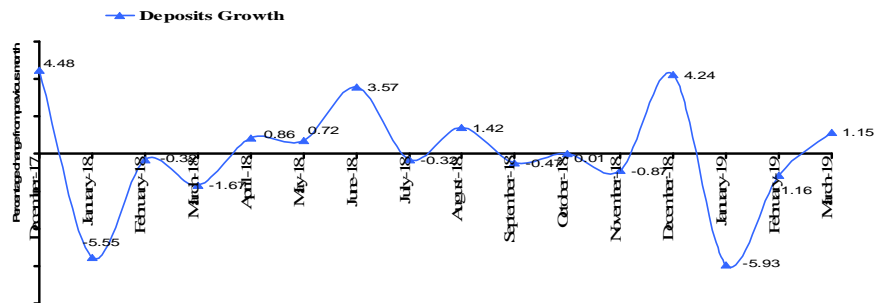


Figures in USD Million
Graph No.7

6.3.1

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 1.15 points over the previous month, which apart from appreciation of USD, came from Af deposits. Moreover the increase can be observed in demand and saving accounts. The monthly trend is shown the graph No.8



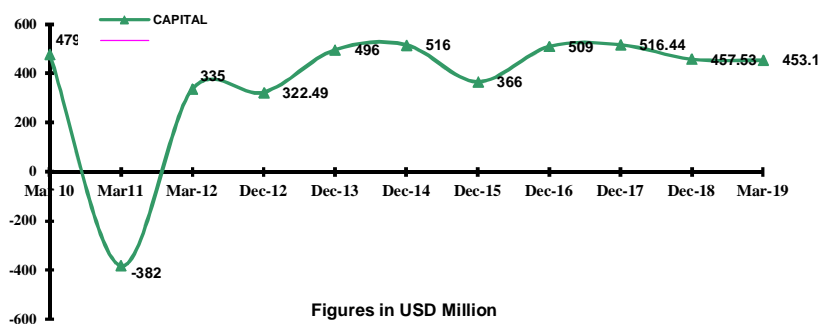
Graph No.8

Breakdown of Deposits by Type as Mar, 2019 (million Af)			
Item	Customer deposits	Interbank deposits	Total deposits
Demand	184,667.73	1,261.62	185,929.35
Time	17,247.52	4,144.78	21,392.30
Savings	50,442.91	6.14	50,449.05
Total	252,358.16	5,412.54	257,770.70

6.4 Total Capital

The banking sector is well capitalized, making 11.48 percent of total assets. The net equity position of the sector recorded at Af 34.40 billion (USD 453.10 million), decreased by 3.01 percent YOY, attributed to payment of dividends and getting in a receivership of a private bank. CAR of the sector recorded at 27.39 percent against 29.84 percent in Mar, 2018 showing 2.45 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 incurred Af 4 million net losses in the current month ending Mar, 2019, against Af 41 million net profits earned in Feb, 2019 showing deterioration over the month. Out of 14 duly-licensed commercial banks, six banks ended with Af 230 million net-losses compared to Af 100 million net-losses incurred by five banks in Feb, 2019. The main factor towards the losses of the banking sector in the current month is mainly attributed to increase in tax expenses coming from one private bank on account of additional tax payment (for the years 2010-2014) to MoF, while non-interest expense increased as well. However, net-interest income, non-interest income and FX gains show increase whilst; credit provision was down in the month under review.

The median for the spread between returns on loans and cost of funds, a measure of banks' operational efficiency recorded at 11.51 percent decreased from 11.74 percent in Feb, 2019. Three banks fall below the median for the current month ending Feb, 2019. While for seven banks the spread could not be calculated⁵.

6.5.2 Banking sector Profitability on Cumulative basis: (Jan- Mar, 2019 – Jaddi- Hoot 1397)

In terms of the profitability, on cumulative basis the banking sector recorded Af 105 million (USD 1.36 million) net profit for the first quarter of fiscal year 1398 (Mar, 2019) against Af 264 million net-losses recorded in the same period last year, showing an improvement over the year. Resulting in ROA⁶ of 0.11 percent annualized against negative 0.35 percent annualized in Mar, 2018.

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

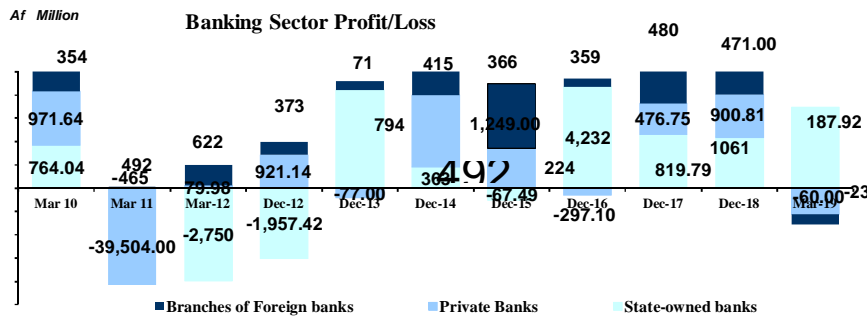
Group wise analysis reveals that State-Owned Banks (SOB) ended first quarter of the fiscal year 1398(2019) with profits, while Private Banks (PB) and Branches of foreign banks (BFB) ended with losses. See figure 10.

Profitability of the banking sector is attributed to State owned Banks standing at Af 188 million, with annualized ROA of 0.89 percent against Af 78 million net-profits in the same preceding period, Private Banks net-losses amounted to Af 60 million with annualized ROA of negative 0.12 percent against Af 728 million net-losses in Mar, 2018, while branches of foreign banks incurred Af 23 million net-losses with annualized ROA of negative 0.10 percent in Mar, 2019 against Af 386 million net profits in Mar, 2018.

Five banks incurred losses of Af 231 million, against Af 1.02 billion losses in the previous period (Mar, 2018) with four banks at loss. On core income basis seven 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 76.55 percentage points against 63.31 percent in the preceding period (Mar, 2018), showing an increase of 13.24 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