

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

August 2020

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.

Reserve Money (RM) weekly actual amount stood at Af 320,609.97million at the end of Asad, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 0.32 percent negative growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 282,613.90 million at the end of Asad month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020). The CiC actual amount difference is Af 23,263.92 million and shows 8.97percent growth.

Since the beginning of fiscal year of 1399 (2020) up to end of Asad, DAB has auctioned a total amount of USD1,344.30million through open market operations, and has collected Af 103.21 billion from the market. These operations have fulfilled 30.34 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation increased in the month of June2020 year over year basis. The year over year inflation increased to 6.36 percent in June from 6.26 percent observed in the previous month. This increase is caused by higher prices of non-food items, while food items decreased during the period.

Current account deficit, declined by almost 47% to a value of USD 412.99 million in the second quarter of the FY 1399 from a value of USD 778.30 million recorded in the second quarter of the FY 1398.

This decline was mainly on account of a contraction in merchandise trade deficit as a result of a notable decline in merchandise exports as well as merchandise imports, contraction in services account deficit as a result of service sector activities impression during COVID – 19 pandemics and increasing official grant to the government sector for Supporting critical food supply chains and healthcare for Afghan household during the COVID-19 pandemic.

Total revenue (domestic revenue plus external aids) for the month of August 2020 is AFN 43.53 billion, while in July it was AFN 41.21 billion which shows 5.63% or AFN 2.32 billion increase in August. Total revenue from the start of FY-2020 till end of August reached to AFN 222.57 billion that is combination of AFN 119.16 billion donor contributions and AFN 103.41 billion domestic revenue respectively.

Overall the banking sector performed satisfactorily during pandemic rendering necessary service to the public and remained well liquid; no liquidity shortfall was observed in any of the banks during the pandemic. The main financial indicators had an increasing trend during the current quarter. Total Assets increased due to increase in deposits; capital positions remained stable, capital adequacy ratio of all banks is above the set regulatory threshold. Profitability has recently increased, but the loan quality still remains weak, and NPLs increased significantly due to the implementation of IFRS9 in one of the banking institutions.

Despite the developments mentioned above, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios in the months ahead due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope with the expected financial downturn. To this end, DAB has developed a time-bound post-COVID-19 improvement plan. The main pillars of the plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification, and risk weighting of loans guaranteed by the third party such as ACGF, IFC, USAID etc.

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1. Monetary Sector

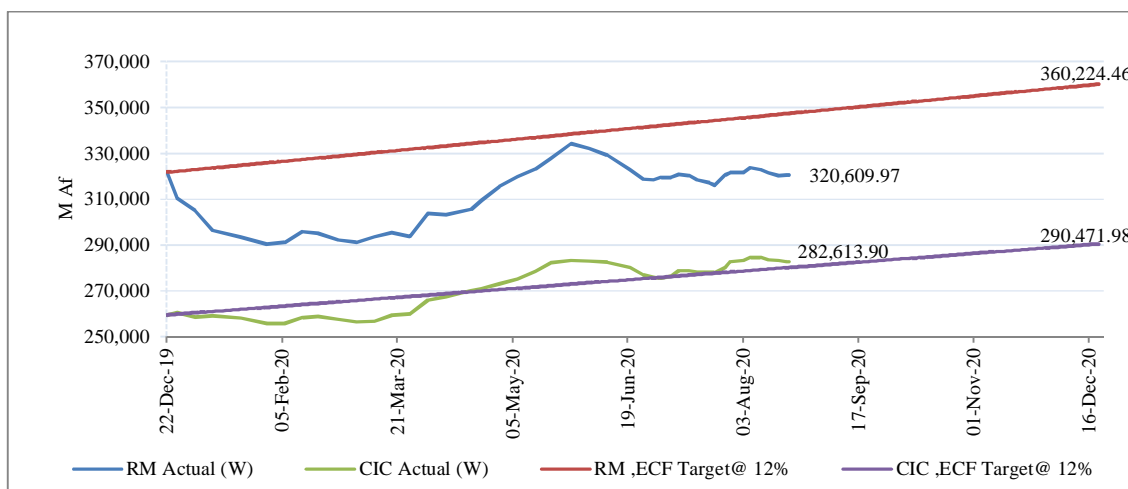
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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 expenditure), economic growth outlook, and general price level in the country.

Reserve Money (RM) weekly actual amount stood at Af 320,609.97million at the end of Asad, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 0.32 percent negative growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 282,613.90 million at the end of Asad month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020).The CiC actual amount difference is Af 23,263.92 million and shows 8.97percent growth.

Figure 1.1 shows the RM and CiC during FY 1399 (2020)



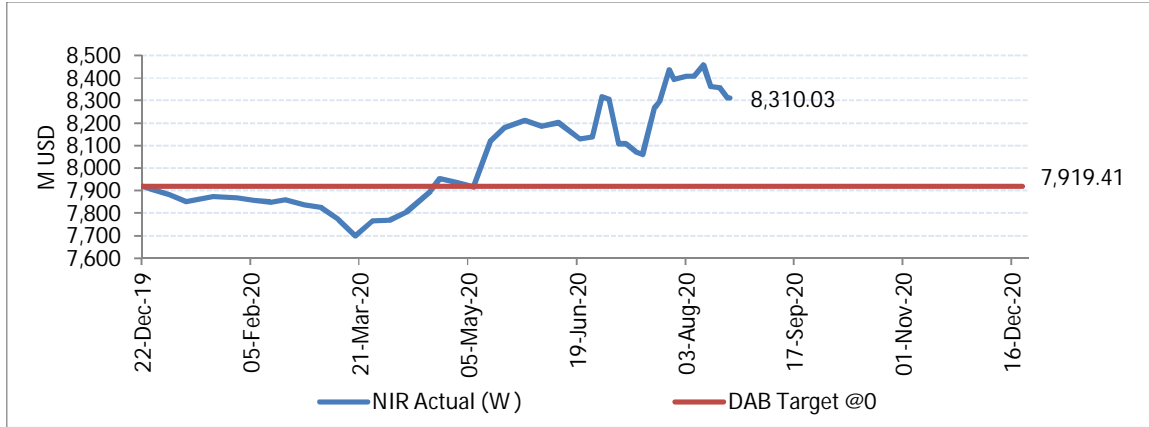
Source: Open Market Operations/Monetary Policy Departments

1.2 Net International Reserve

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

At the beginning of FY1399 (2020), Afghanistan's NIR actual amount was set USD 7,919.41 million, but NIR Market rate actual amount reached to USD 8,310.03million at the end of Asad month, which shows USD 390.62 million accumulation.

Figure 1.2 shows Net International Reserve (NIR) at the end of Asad:



Source: Open Market Operations/Monetary Policy Departments

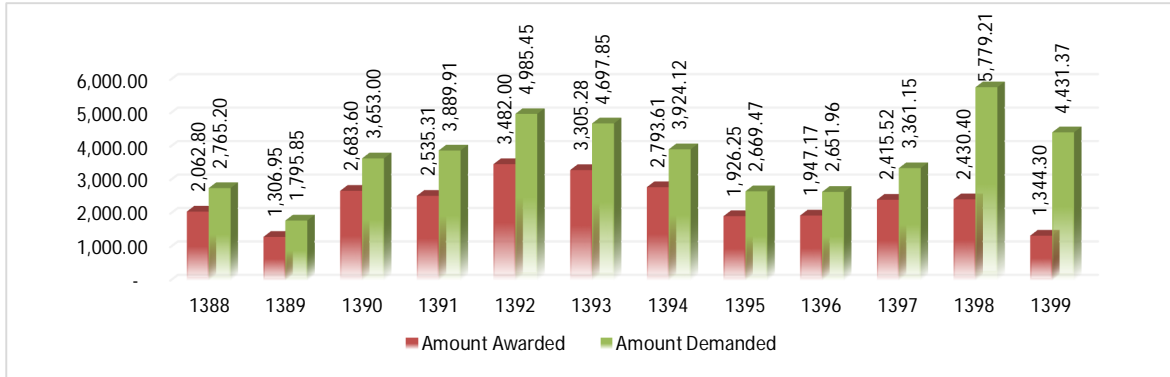
1.3 Foreign Exchange and Capital Notes Auction

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

Foreign Exchange Auction

Since the beginning of fiscal year of 1399 (2020) up to end of Asad, DAB has auctioned a total amount of USD1,344.30million through open market operations, and has collected Af 103.21 billion from the market. These operations have fulfilled 30.34 percent of the total demand for currency (especially the US dollar) in the market.

Figure 1.3 illustrates the foreign exchange demand and supply during the last 12 years.



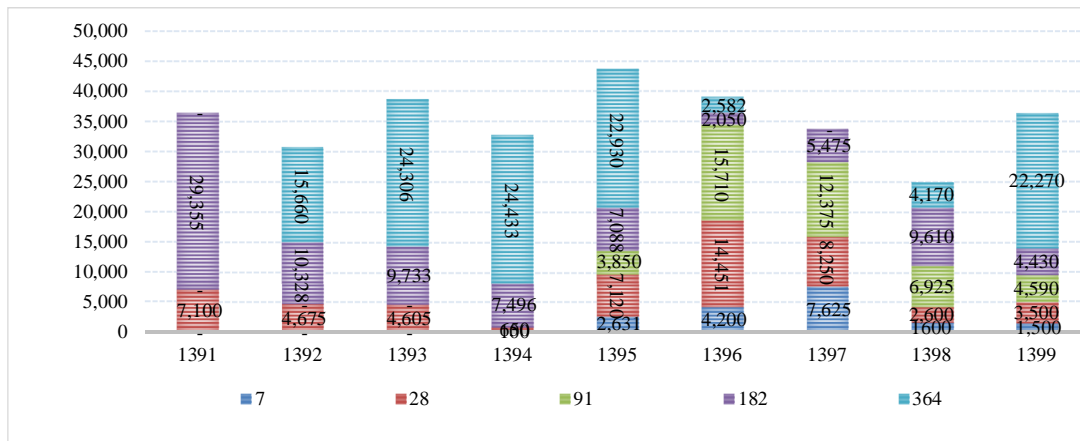
Source: Market Operations/Monetary Policy Departments

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.

From the beginning of fiscal year of 1399 (2020) up to end of Asad, the total outstanding of capital notes reached Af 36.29 billion and meanwhile the total interest paid for the mentioned notes reached Af 133.77 million at the end of this month.

Figure 1.4 figure illustrates the Capital Notes Outstanding during 9 years till the end of Asad month of FY 1399 (2020).

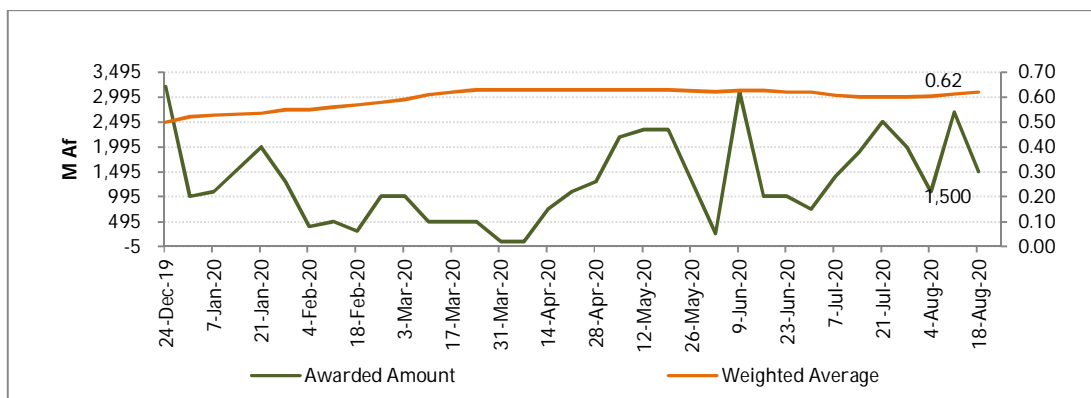


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The awarded amount of 7 days capital notes auction at the end of Asad reached Af 1.5 billion with average interest rate of 0.62 percent. The outstanding of these notes is stood Af 1.5 billion for the mentioned period.

Figure 1.5 Sale and weighted average of Capital Notes 7 Days in FY 1399

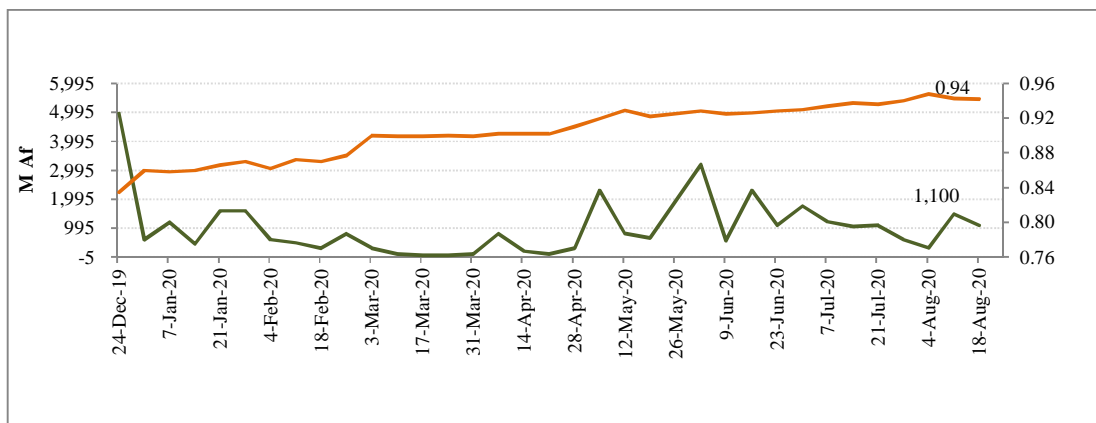


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, awarded amount of 28 days capital notes auction at the end of Asad is recorded Af 1.1 billion with average interest rate of 0.94 percent and outstanding amount of Af 3.5 billion.

Figure 1.6 Sale and weighted average of Capital Notes 28 Days in FY 1399

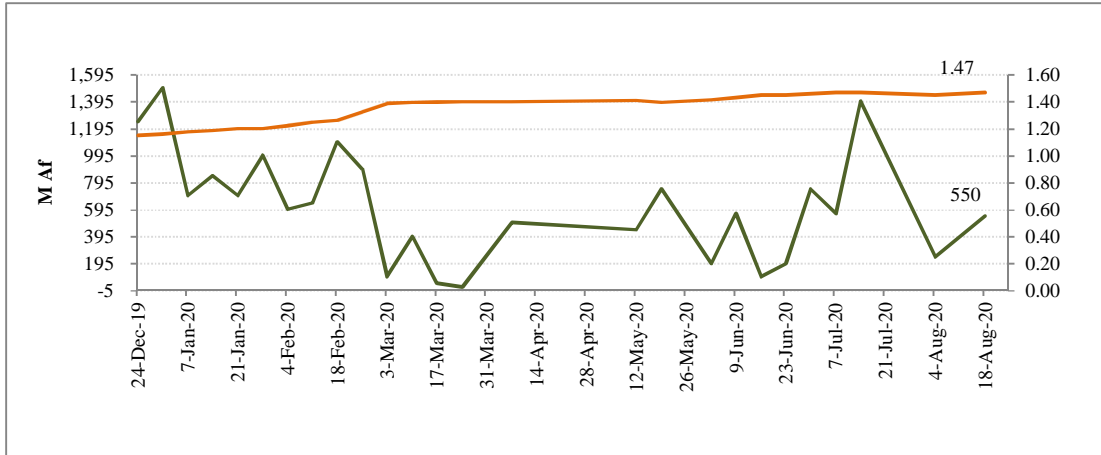


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

DAB's 91 days capital notes auction during this reporting period stood at Af 0.55 billion at the end of Asad with average interest rate of 1.47 percent and total outstanding of Af 4.59 billion.

Figure 1.7 Sale and weighted average of Capital Notes 91 Days in FY 1399

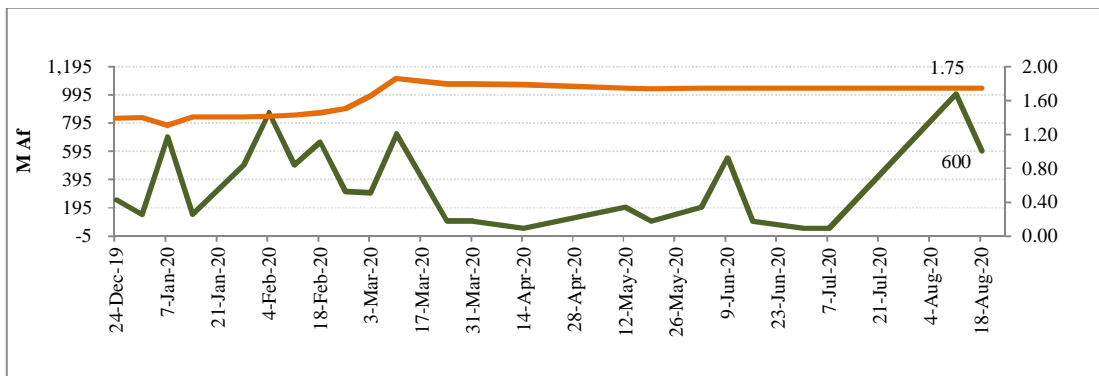


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's 182 days capital notes auction during this reporting period stood at Af 0.6 billion at the end of Asad with average interest rate of 1.75 percent and total outstanding of Af 4.43 billion.

Figure 1.8 Sale and weighted average of Capital Notes 182 Days in FY 1399

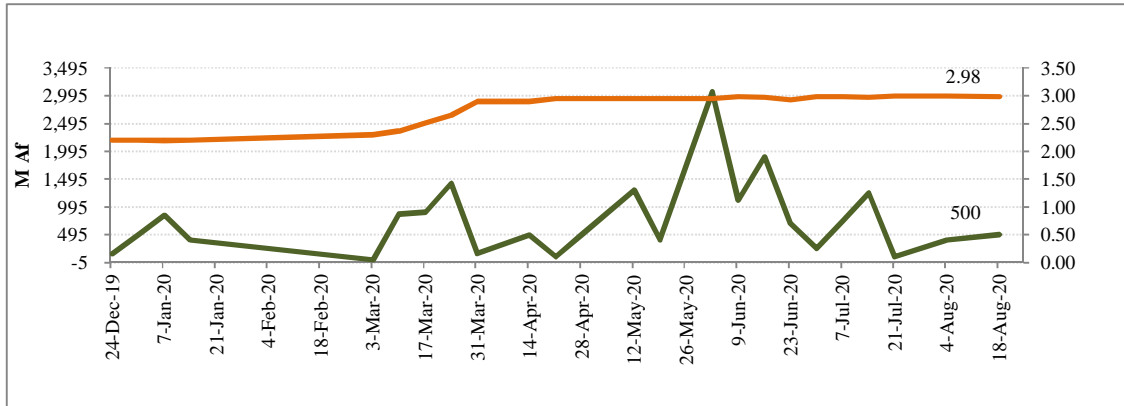


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's 364 days capital notes auction during this reporting period stood at Af 0.5 billion at the end of Asad with average interest rate of 2.98 percent and total outstanding of Af 22.27 billion.

Figure 1.9 Sale and weighted average of Capital Notes 364 Days in FY 1399

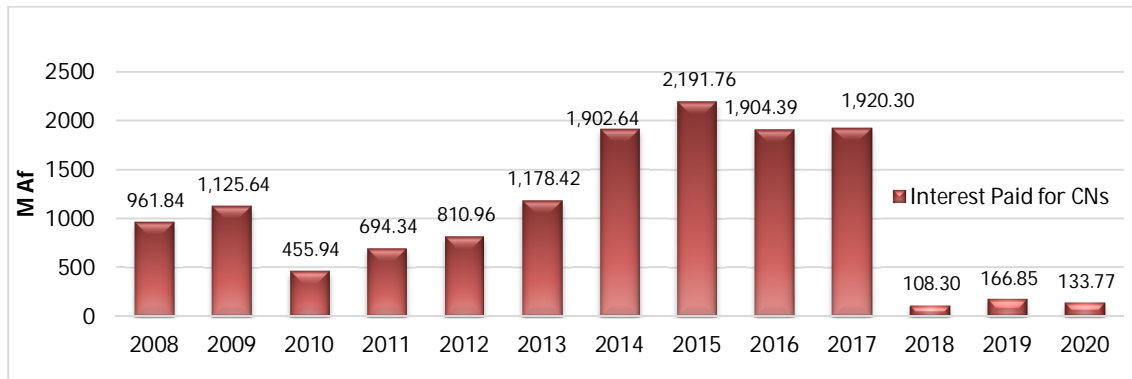


Source: Market Operations/Monetary Policy Departments

Interest Expenses

DAB interest paid for Capital Notes during of 13 years till the end of Asad month FY 1399 (2020) the figure of below illustrated.

Figure 1.10 Interest Expenses of Capital Notes in the last 13 years

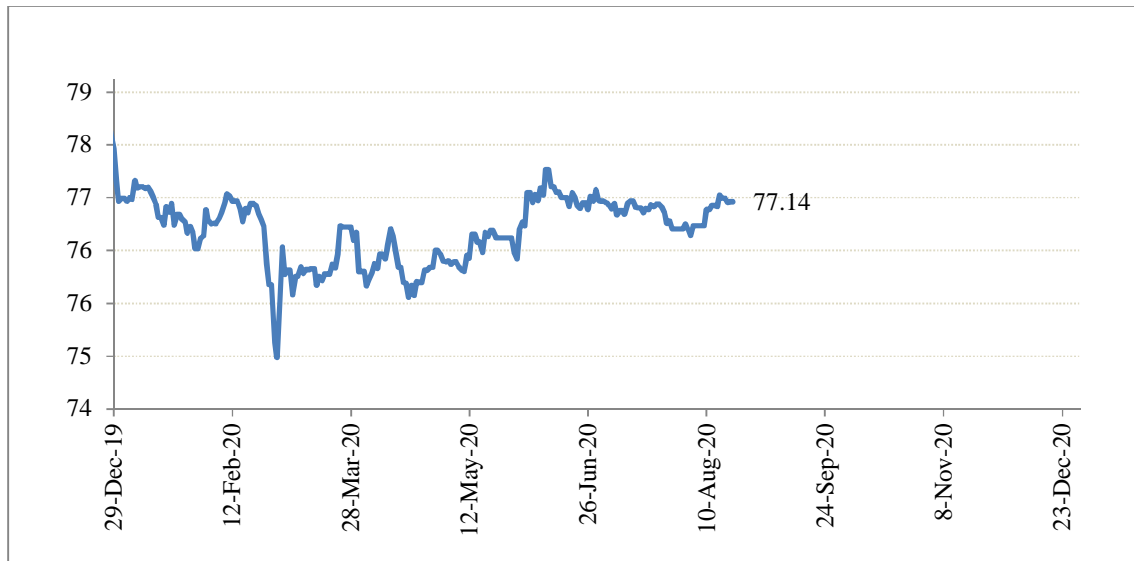


1.5 Exchange Rate

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

From the beginning of FY1399 (2020) Afghani has appreciated by 1.64 percent, and has been exchanged at Af 76.77 per USD on average and recorded at Af 77.14 exchanged at the end of Asad month.

Figure 1. 11 Exchange Rate Afghani against USD in FY 1399(2020)



The table of Monetary Indicators

	1398 FY						1399 FY			
	Hoot	Jawza	Saratan	Asad	Sunbula	Qaws	Hoot	Jawza	Saratan	Asad
Reserve Money Target (%)	12						12			
Actual Reserve Money (%)	-5.6	-4.5	-3.7	-1.14	1.19	12	-8	0.42	-1.43	-0.32
RM Actual	255627.49	259654.32	277425.51	284915.05	275042.98	304625.71	295224.52	322978.27	317032.32	320609.97
RM Target	280267.14	305491.17	308341.50	311381.84	314327.17	322878.14	331039.94	340873.85	344151.83	347324.06
CiC Actual	222147.20	231598.67	233781.48	243568.12	244489.52	259350.77	259302.12	279989.89	277966.61	282613.90
CiC Target	233785.34	241897.91	244154.89	246562.34	248894.55	255665.48	266938.63	274868.34	277511.58	280069.56
Actual NIR	7702.51	7691.22	7830.97	8034.34	7868.70	7873.60	7711.85	8128.78	8268.12	8310.03
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7708.58	7846.07	7919.41	7919.41	7919.41
Outstanding Amount	26665	27020	28665	25350	23920	24905	30455	34495	39340	35160
Required Reserve (Afs)	5768.54	10923.40	5672.74	5,729.57	2657.34	5734.43	5928.75	6271.67	7084.69	7125.02

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 June2020 year over year basis. The year over year inflation increased to 6.36 percent in June from 6.26 percent observed in the previous month. This increase is caused by higher prices of non-food items, while food items decreased during the period.

Table 1.1. Headline Inflation (May 20- June20)

	Y-on-Y		M-to-M	
	May	June	May	June
National CPI				
Headline	6.26	6.36	-1.15	-0.81
<i>Food</i>	12.92	12.88	-1.74	-1.87
<i>Non-Food</i>	-0.24	0.13	-0.49	0.35

2.1.1 Food Inflation

The flow of inflation in food items decreased in June 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in June 2020, when measured on year over year basis, decreased to 12.88 percent compared to 12.92 percent calculated in previous month. This decrease came from lower prices of milk, cheese and eggs, vegetables, sugar and sweets and non-alcoholic beverages.

The month-to-month measure of food inflation shows lower rate in the month of June compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.87 percent in the review period lower from -1.74 percent observed in the previous month. In this

category bread and cereals, meat, milk, cheese and eggs, oils and fats, fresh and dried fruits, and nonalcoholic beverage have decreased compared to the previous month.

In June 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed lower prices. During the review period, this index decreased to 3.58 percent (year over year) from 4.04 percent observed in previous month. When measured on the month-to-month basis, also decreased to -0.86 percent from 3.12 percent recorded in previous month. In the previous month the price of milk, cheese and eggs in the country had increased due to city lockdown and inadequacy supply chain from poultry farms to domestic market now eased of restrictions and smooth supply chain helped to bring back the price of mentioned index to the normal level.

Price index of sugar and sweets decreased on year over year basis. This index which comprises around 2.7 percent of the consumer price index decreased to 3.59 percent (year over year) from 3.66 percent. When measured on month to month basis, this index increased to 1.15 from 0.65 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index. One of the main reasons behind decrease of this index is bee keeping and honey production has significantly increased in recent years, honey production in country increased by 50 percent. Also corona virus crisis has weakened the consumption of sugar during the period.

Table 2.2. Food Inflation(May 20 - June 20)

Items	Weight	Y-o-Y		M-to-M	
		May	June	May	June
Food and Beverages	47.8	12.92	12.88	-1.74	-1.87
<i>Bread and Cereals</i>	14.6	14.76	15.78	1.22	1.17
<i>Meat</i>	7.5	10.70	12.49	2.22	1.67
<i>Milk, cheese and eggs</i>	4.7	4.04	3.58	3.12	-0.86
<i>Oils and fats</i>	4.6	19.15	21.62	5.86	2.30
<i>Fresh and dried fruits</i>	5.0	10.35	10.88	1.05	-3.76
<i>Vegetables</i>	6.0	23.02	16.15	-17.96	-15.03
<i>Sugar and sweets</i>	2.7	3.66	3.59	0.65	1.15
<i>Spices</i>	1.3	9.59	11.57	-10.22	-4.80
<i>Non-alcoholic beverages</i>	1.4	4.13	4.08	1.15	0.58

Source: *Afghanistan Bank and/NSIA*

2.1.2 Non-Food Inflation

Inflation in non-food items exhibited upward trend in the month of June2020. On the year over year basis, non-food inflation increased to 0.13 percent from -0.24 percent observed in the previous month. This increase is mainly come from higher prices of housing, electricity, water and gas, health, information and culture and miscellaneous.

Non-food inflation on the month-to-month basis exhibited higher rate from its previous month's value. Observing the data, it increased to 0.35 percent from -0.49 percent. During the period under review, the prices of housing, health, transportation, education and miscellaneous increased.

Price index of Health increased in the month of June 2020. Health index which comprises more than 6 percent of the overall CPI increased to 8.86 percent from 4.36 percent (year over year). While, measured on the month to month basis, it also increased to 4.60 percent from 0.47 percent observed in the previous month. Covid-19 pandemic, in Afghanistan has led to unprecedented rise in price of medicines in country. Even some of medicines are not available in market specially medicines which works for corona virus which has increased the demand for the medicines.

Communication price index during June 2020, increased to -2.40 percent (year over year) from -4.22 percent observed one month back. On the other hand, this index decreased on month to month basis turning around to -0.20 percent from 0.32 percent. With closure of education centers and focus on online education demand for purchasing mobile phones, tablets, laptops and other mobile accessories increased.

In addition, **price index of information and culture** recorded a rate of 3.15 percent (year over year) in June from its previous value of 1.77 percent. On the month to month basis, this index decreased to 0.70 percent from 0.90 percent.

Table 2.3. Non-Food Inflation (May 20-June 20)

	Weight	Y-on-Y		M-to-M	
		May	June	May	June
Non-Food	52.2	-0.24	0.13	-0.49	0.35
<i>Tobacco</i>	0.3	1.12	1.40	0.39	0.29
<i>Clothing</i>	4.6	10.08	7.54	3.34	-1.59
<i>Housing,</i>	19.1	-4.38	-4.02	-2.44	0.16
<i>Furnishing and household goods</i>	11.9	1.39	0.78	1.68	-0.60
<i>Health</i>	6.2	4.36	8.86	0.47	4.60
<i>Transportation</i>	4.3	-10.14	-10.44	-6.37	-0.12
<i>Communication</i>	1.7	-4.22	-2.40	0.32	-0.20
<i>Information and Culture</i>	1.1	1.77	3.15	0.90	0.70
<i>Education</i>	0.4	1.24	0.83	-0.01	0.07
<i>Restaurants and Hotels</i>	1.1	1.76	0.97	0.29	0.09
<i>Miscellaneous</i>	1.4	12.40	14.17	0.71	1.14

Source : Afghanistan Bank and/NSIA

2.2 Core Inflation

Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which June be seasonal or

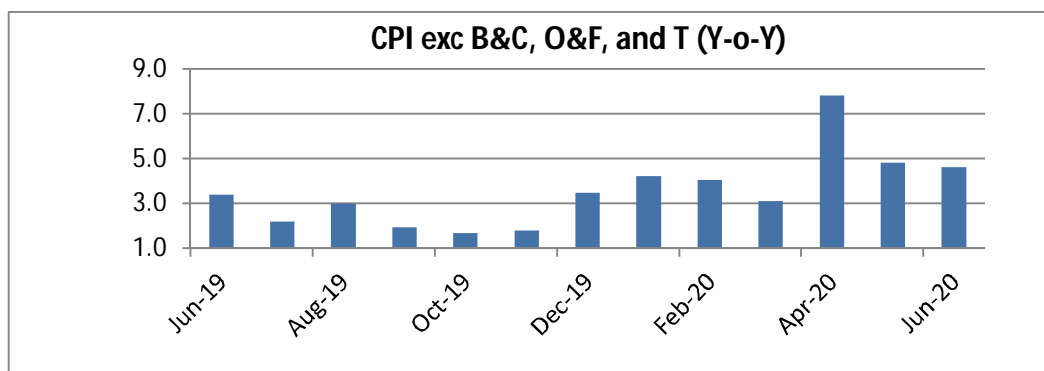
other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI.

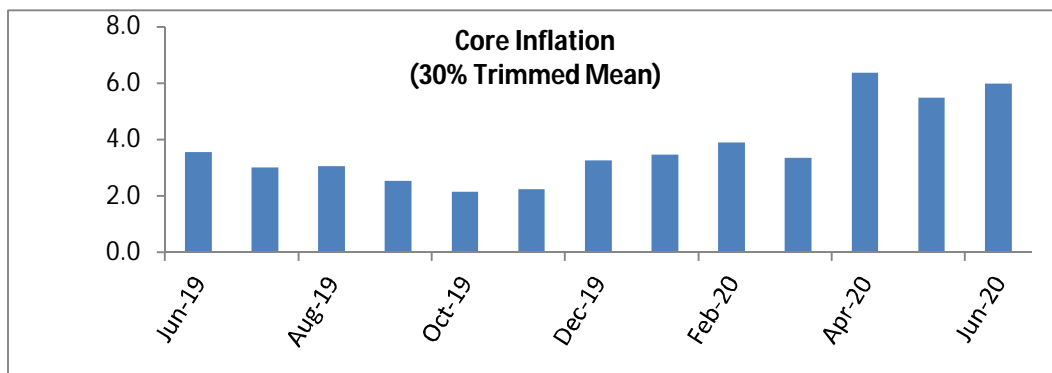
One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During May2020, trimmed mean (30 % of CPI) increased to 5.99 percent (year over year) from 5.47 percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which decreased to 4.61 percent compared to 4.82 percent recorded in the previous month. Inflation by this measure increased on month to month basis to -1.45 percent from -1.79 percent.

Core Measures (Year over Year) (Month to Month)				
	Y-on-Y		M-to-M	
	May	June	May	June
30 % trimmed mean	5.47	5.99		
CPI ex B&C, O& F and T	4.82	4.61	-1.79	-1.45

Source : Afghanistan Bank and/NSIA





3.External sector

3.1 CURRENT ACCOUNT BALANCE

Current account deficit, declined by almost 47% to a value of USD 412.99 million in the second quarter of the FY 1399 from a value of USD 778.30 million recorded in the second quarter of the FY 1398.

This decline was mainly on account of a contraction in merchandise trade deficit as a result of a notable decline in merchandise exports as well as merchandise imports, contraction in services account deficit as a result of service sector activities impression during COVID – 19 pandemic and increasing official grant to the government sector for Supporting critical food supply chains and healthcare for Afghan household during the COVID-19 pandemic.

3.1.1GOODS ACCOUNT

The value of total export of goods declined by 78 % to a value of USD 32 million in the second quarter of the FY 1399 from a value of USD 143.29 million recorded in the second quarter of the FY1398.

The value of total import of goods declined by 33 % to a value of USD 984.61 million in the second quarter of the FY 1399 from a value of USD 1466.34 million recorded in the second quarter of the FY 1398.

Note: The COVID -19 pandemic and the imposition of a partial lockdown in Afghanistan as well as, the breakdown in supply and demand chains along with the interruption of domestic production processes resulted in a notable decline in all merchandise exports and merchandise imports component in the second quarter of the FY 1399.

3.1.2 SERVICES ACCOUNT

The deficit of services account declined by 25 % to a value of USD 78.20 million in the second quarter of the FY 1399 from a value of USD 104.17 million recorded in the second quarter of the FY 1398.

Note: The services sector activities were severely affected in second quarter of the FY 1399 particularly travel, transportation and construction service largely due to imposition of travel restriction globally and implement lockdown and border control policy.

3.1.3 PRIMARY INCOM ACCOUNT:

Net primary income declined by 71% to a value of USD 29.75 million in the second quarter of the FY 1399 from a value of USD 101.08 million recorded in the second quarter of the FY 1398.

3.1.4 SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account increased by 7% to a value of USD 588.06 million in the second quarter of the FY 1399 from a value of USD 547.83 million recorded in the second quarter of the FY 1398.

- **Official transfers (Net);** to the Afghan government increased by 17% to a value of USD 504.7 million in the second quarter of the FY 1399 from a value of USD 432.9 million recorded in the second quarter of the FY1398.
- **Personal transfers (Net)** declined by 26 % to a value of USD 107.71 million in the second quarter of the FY 1399 from a value of USD 145.36 million recorded in the second quarter of the FY 1398.

3.2 CAPITAL ACCOUNT BALANCE:

Inflow to the capital account decreased by 59% to a value of USD 99.92 million in the second quarter of the FY 1399 from a value of USD 241.57 million recorded in the second quarter of the FY 1398, as a result of lower inward of capital transfers to the government sector.

3.2.1 FINANCIAL ACCOUNT BALANCE:

Financial account of the balance of payments mainly consists of foreign direct investment (FDI), foreign portfolio investment (FPI), other investment and reserve assets.

3.2.2 Direct investment (Net):

- ✓ FDI abroad, decrease to a value of USD 2.59 million in the second quarter of the FY 1399 from a value of USD 5.69 million in the second quarter of the FY 1398.

- ✓ FDI in the country decreased to a value of USD 3.02 million in the second quarter of the FY 1399 from a value of USD 11.97 million recorded in the second quarter of the FY 1398.

3.2.3 Portfolio Investment abroad: increased to a value of USD 41.19 million in the second quarter of the FY 1399 from a value of USD 15.42 million recorded in the second quarter of the FY1398.

3.2.3 Other investment: Other investments consist of currency and deposits, loans, other account Payable and receivable and trade credit and advances.

- ✓ The total value of other investment abroad (assets): decreased to a value of USD – 143.13 million in the second quarter of the FY 1399 from a value of USD – 23.13 million in the second quarter of the FY 1398.
- ✓ The total value of other investment in the country (liabilities), increased to a value of USD 213.79 million in the second quarter of the FY 1399 from a value of USD – 13.71 million in the first quarter of the FY 1398.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q1 - 98	Q2 - 98	Q3 - 98	Q4 - 98	Q1 - 99	Q2 - 99	% change
Current Account	-1276.90	-778.30	-1028.38	-714.89	-980.95	-412.99	-47%
<i>Credit</i>	807.14	1013.86	851.64	1273.71	801.82	842.32	-17%
<i>Debit</i>	2084.04	1792.16	1880.02	1988.60	1782.77	1255.30	-30%
Goods and Services Account	-1620.47	-1427.22	-1438.50	-1375.16	-1274.39	-1030.80	-28%
<i>Credit</i>	370.50	283.90	344.64	510.21	396.32	141.23	-50%
<i>Debit</i>	1990.96	1711.12	1783.14	1885.36	1670.72	1172.03	-32%
Goods Account	-1458.59	-1323.05	-1252.91	-1259.63	-1185.43	-952.61	-28%
<i>Credit</i>	182.57	143.29	208.77	329.21	203.64	32.00	-78%
<i>Debit</i>	1641.16	1466.34	1461.67	1588.84	1389.07	984.61	-33%
Services Account	-161.88	-104.17	-185.59	-115.53	-88.96	-78.20	-25%
<i>Credit</i>	187.93	140.61	135.87	181.00	192.69	109.22	-22%
<i>Debit</i>	349.81	244.78	321.47	296.53	281.65	187.42	-23%
Primary Income Account	75.91	101.08	68.84	60.84	62.56	29.75	-71%
<i>Credit</i>	93.56	111.98	75.79	71.25	74.36	41.67	-63%
<i>Debit</i>	17.66	10.89	6.95	10.40	11.80	11.92	9%
Secondary Income Account	267.66	547.83	341.27	599.43	230.89	588.06	7%
<i>Credit</i>	343.08	617.99	431.21	692.26	331.13	659.42	7%
<i>Debit</i>	75.42	70.15	89.93	92.83	100.25	71.36	2%

Current transfers (Official grants)	167.4	432.9	233.1	497.7	167.7	504.7	17%
<i>Credit</i>	167.40	432.91	233.1	497.7	167.7	504.7	17%
<i>Debit</i>	0.00	0.00	0.0	0.0	0.0	0.0	
Personal transfers	141.80	145.36	142.51	139.87	95.89	107.71	-26%
<i>Credit</i>	175.68	185.08	198.08	194.51	163.47	154.75	-16%
<i>Debit</i>	33.88	39.72	55.57	54.64	67.58	47.04	18%
Capital account	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Credit</i>	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Capital transfers	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Credit</i>	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Financial account	-37.8	27.9	59.0	10.92	-147.66	280.06	906%
Direct investment	1.71	-6.28	9.04	-1.55	2.7	-0.4	-93%
Net acquisition of financial assets	10.52	5.69	4.86	5.26	5.94	2.59	-54%
Net incurrence of liabilities	8.81	11.97	-4.18	6.81	3.19	3.02	-75%
Portfolio investment	-16.46	15.42	-33.74	20.16	-18.20	41.19	167%
Net acquisition of financial assets	-16.46	15.42	-33.74	20.16	-18.20	41.19	167%
<i>Net incurrence of liabilities</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Other investment	-70.88	-9.42	-72.99	124.26	-22.54	-356.92	3690%
<i>Assets</i>	-85.46	-23.13	-17.86	89.24	-38.22	-143.13	519%
<i>Liabilities</i>	-14.58	-13.71	55.14	-35.02	-15.67	213.79	-1659%
Reserve Assets	47.81	28.13	156.66	-131.94	-109.67	596.22	2019%
Net errors and omissions	1183	565	696	221	793	593	5%

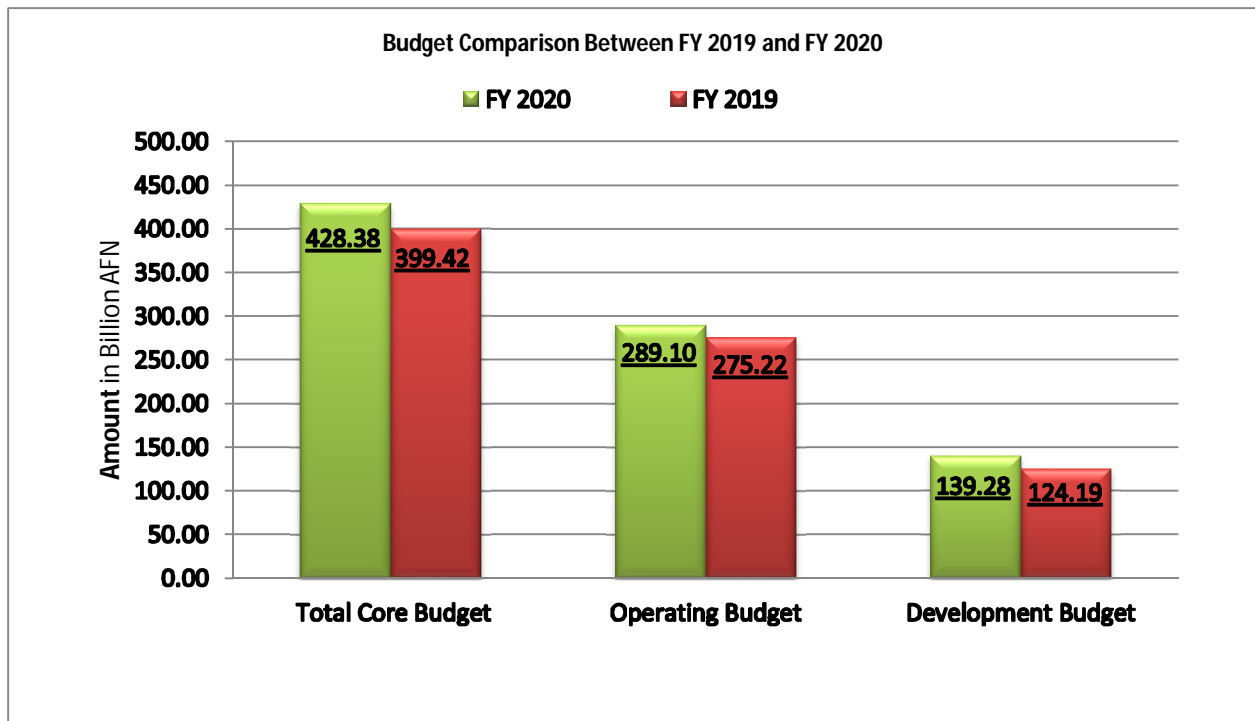
4. Fiscal Sector

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

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

At the start of fiscal year 2020 total core budget has been estimated AFN 428.38 billion from AFN 399.38 billion in FY 2019, showing 7.25% or AFN 28.96 billion increase in annual budget. From the

total of AFN 428.38 billion, operating and development budgets are estimated each AFN 289.10 billion and AFN 139.28 billion respectively.



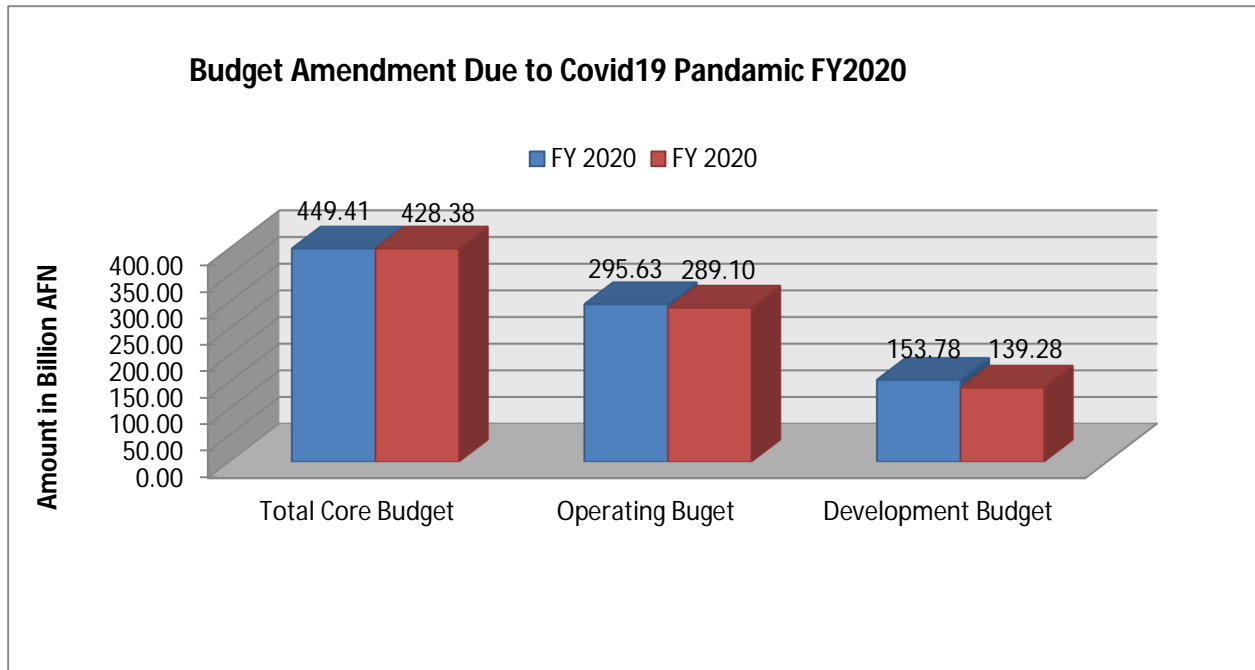
Resembling the other emerging and under developing economies around the world, Afghanistan continuously faces budget deficit that means the total core expenditure exceeded total domestic revenue. But due COVID- 19 pandemic the deficit amount exposed more severity, however government policy changes resulted to review budget for the current Fiscal year. The World Bank has recently warned that South Asia is facing its worst economic performance in 40 years due to the corona virus pandemic.

Afghanistan government has allocated about \$25 million to ministry of public health to deal with the pandemic. World Bank has approved \$200 million grants to support the country to run economy as smooth as possible.

National Food Program (NFP) was designed to reduce poverty and hunger around the all provinces, while in first glance it is being rejected by the parliament.

About AFN 18 billion changes in the budget has been approved by the parliament.

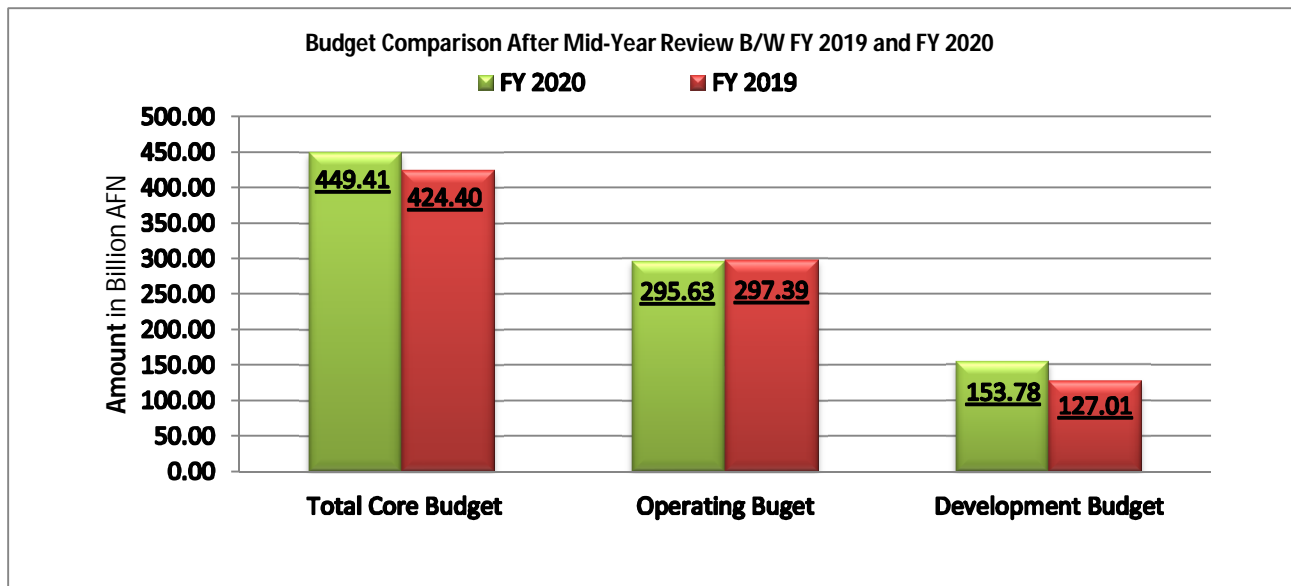
Following chart shows the updated figure till August 2020.



Total core budget estimation is increased to AFN 449.41 billion including operating budget and development budget of AFN 295.63 billion and AFN 153 billion respectively due to Covid19 Pandemic. This shows an increase of 4.91% in total core budget from the start of FY 2020 indicating increase of amount AFN 21.03 billion and more over it shows AFN 25.01 billion increments compared to the FY 2019 budget at the same date.

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

Following chart shows the updated figures for FY 2020 budget, up to August that is changed due to non-discretionary expenses, while the mid-year review is being approved by parliament.



Total core budget estimation is increased to AFN 449.41 billion including operating budget and development budget of AFN 295.63 billion and AFN 153.78 billion respectively. This shows an increase of 4.91% in total core budget from the start of FY 2020 indicating increase of amount AFN 21.03 billion and more over it shows AFN25.01billion increments compared to the FY 2019 budget at the same date.

Total revenue (domestic revenue plus external aids) for the month of August 2020 is AFN 43.53 billion, while in July it was AFN 41.21 billion which shows 5.63% or AFN 2.32 billion increase in August. Total revenue from the start of FY-2020 till end of August reached to AFN 222.57 billion that is combination of AFN 119.16 billion donor contributions and AFN 103.41 billion domestic revenue respectively.

Likewise, domestic Revenue for the month August is AFN 10.38 billion while it was amount AFN 15.33 billion in the month of July, showing a decrease of AFN 4.95 billion 32.29% in the month of August. On the other hand, donor contributions (including loans) amounted to AFN 33.15 billion in August, where donor contributions in July was AFN 25.88 billion, which indicates AFN 7.27 billion 28.09% increase in donor contributions for the month of August.

Additionally, total Expenditure at the end of August 2020 reached to AFN 225.25 billion, from which operating expenditures and development expenditures were individually, AFN 162.28 billion and AFN 62.98 billion. Likewise, operating expenditures for the month of August is AFN 18.95 billion, where in July it was AFN 25.26 billion. This signifies that, there is AFN 6.31 billion or 24.98 % decrease in operating expenditures in the month of August FY 2020. On the other hand, development expenditures for the month of July was AFN 10.99 billion, while in August decreased by AFN 2.47

billion or 22.46% resulted total expenditure for the month of August FY 2020 amount AFN 8.52 billion.

Description	FY, July 2020	FY, August 2020	From Jan to August FY 2020	Difference Between July and August	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	41.21	43.53	222.57	2.32	5.63%
Domestic Revenue	15.33	10.38	103.41	(4.95)	-32.29%
Donor Contribution	25.88	33.15	119.16	7.27	28.09%
Total Expenditures	36.25	27.47	225.25	(8.78)	-24.21%
Operating Expenditure	25.26	18.95	162.28	(6.31)	-24.98%
Developing Expenditure	10.99	8.52	62.98	(2.47)	-22.46%

Source: MOF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of August 2020 reached to 48%, Compared to July 2020 where it was 43% which shows 5% increase in budget execution rate for the month of August 2020.

5. Swift

Report of(Outward) Transactions from 1/05/ 1399 to 31/05/1399

Categories	Remitter Parties	Message Type	USD	EUR	CHF	INR	JPY
A	Ministries	MT 103 ,700 & 910	21,483,001.19	532,702.00	440.00	953,187.00	-
B	Commercial Banks	202	70,939,045.00	-	0	0	0
C	Da Afghanistan Bank	200	415,000,000.00	100,000,000.00	-	-	0
Report of(Inward)Transactions from1/05/ 1399 to 31/05/1399							
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP	

A	Ministries	MT 103 ,700 & 910	12,689,104.38	100,492,044.11	-	0	
B	Commercial Banks	202	3,195,985.53	0	-	0	
C	Da Afghanistan bank	200	0	0	0	0	
بر علاوه به تعداد 8 معامله تبادلوی FX Deal به ارزش مجموعی (11698617) دالر امریکائی و همچنان 2 معامله بانک جهانی به ارزش مجموعی مبلغ 814760.36 دالر امریکائی نیز اجرا گردیده است							

6. Banking Sector

EXECUTIVE SUMMARY

Overall the banking sector performed satisfactorily during pandemic rendering necessary service to the public and remained well liquid; no liquidity shortfall was observed in any of the banks during the pandemic. The main financial indicators had an increasing trend during the current quarter. Total Assets increased due to increase in deposits; capital positions remained stable, capital adequacy ratio of all banks is above the set regulatory threshold. Profitability has recently increased, but the loan quality still remains weak, and NPLs increased significantly due to the implementation of IFRS9 in one of the banking institutions.

Despite the developments mentioned above, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios in the months ahead due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope with the expected financial downturn. To this end, DAB has developed a time-bound post-COVID-19 improvement plan. The main pillars of the plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification, and risk weighting of loans guaranteed by the third party such as ACGF, IFC, USAID etc.

SECTOR AT A GLANCE

Changes in major financial indicators of the banking sector are shown in below table:

Category (in million Af)	Annual Change			Quarterly Change					Remarks on Quarterly Changes
	June-19	June-20	Percentile	Mar- 20	Apr-20	May-20	June-20	Percentile	
Total Assets	309,614	316,222	2.13%	284,655	297,660	306,045	316,222	11.09%	31,567
Total Loans (Gross)	44,013	39,458	-10.35%	40,624	39,772	39,171	39,458	-2.87%	(1,166)
Total Interbank Claims (Gross)	94,785	74,154	-21.77%	78,967	76,897	77,328	74,154	-6.10%	(4,813)
Investment in Bonds	25,571	33,841	32.34%	30,325	31,187	30,847	33,841	11.59%	3,515
Standard Loans	32,829	21,228	-35.34%	28,132	27,261	26,235	21,228	-24.54%	(6,904)
Past Due Loans¹	11,184	18,230	62.99%	12,492	12,510	12,936	18,230	45.93%	5,738
Adversely Classified Loans²	7,427	13,799	85.79%	8,009	8,066	8,205	13,799	72.30%	5,791
NPLs³	5,635	11,612	106.06%	6,095	6,168	6,162	11,612	90.50%	5,516
Total Deposits	265,818	267,730	0.72%	238,937	250,966	259,770	267,730	12.05%	28,794
Total Liabilities	274,052	279,454	1.97%	250,786	263,009	270,928	279,454	11.43%	28,668
Financial Capital	35,562	36,768	3.39%	33,870	34,651	35,117	36,768	8.56%	2,898
Regulatory Capital	31,457	32,741	4.08%	30,116	30,699	31,028	32,741	8.72%	2,625
Risk Weighted Asset	118,648	122,663	3.38%	115,967	119,838	119,505	122,663	5.77%	6,696
Net Profit/Loss	1,279	712	-44.33%	308	87	186	712	131.44%	404

Table 1: Major Financial Indicators of the Sector

¹ Loans classified in watch, sub-standard, doubtful and loss categories.

² Loans classified as sub-standard, doubtful and loss.

³ Loans classified in doubtful and loss categories.

INTRODUCTION

The banking sector in Afghanistan constitutes 23% of the GDP. It consists of 12 duly licensed banking institutions: Three relicensed state-owned banks, six private full-fledged commercial banks, one private full-fledged Islamic bank, and two branches of foreign banks.

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

Provided Banking Facilities	June- 20	June- 19	Change	%age change
Number of Branches	407	410	(3)	-0.7%
Automated Teller Machines (ATM)	358	351	7	2.0%
Point of Sale (POS)	671	105	566	539.0%
Cash Deposit Machine (CDM)	6	-	6	-
Type 12 Facility⁴	104	94	10	10.6%
Credit Cards	1,203	1,531	(328)	-21.4%
Debit Cards	621,605	601,148	20,457	3.4%
ATM Cards	260,222	238,061	22,161	9.3%
Master Cards	19,495	5,011	14,484	289.0%
Prepaid Cards	43,202	5,495	37,707	686.2%
Web Surfer Cards	4,871	14,034	(9,163)	-65.3%
Number of Accounts (Loans)	60,279	71,392	(11,113)	-15.6%
Number of Borrowers	60,201	71,271	(11,070)	-15.5%
Number of Loan files where borrower president or vice president is a woman	13,182	14,937	(1,755)	-11.7%
Number of Depositors	4,136,299	3,778,238	358,061	9.5%
Number of Deposit Accounts	4,281,982	3,896,512	385,470	9.9%
Number of Employees (Local + Foreign)	9,917	9,413	504	5.4%

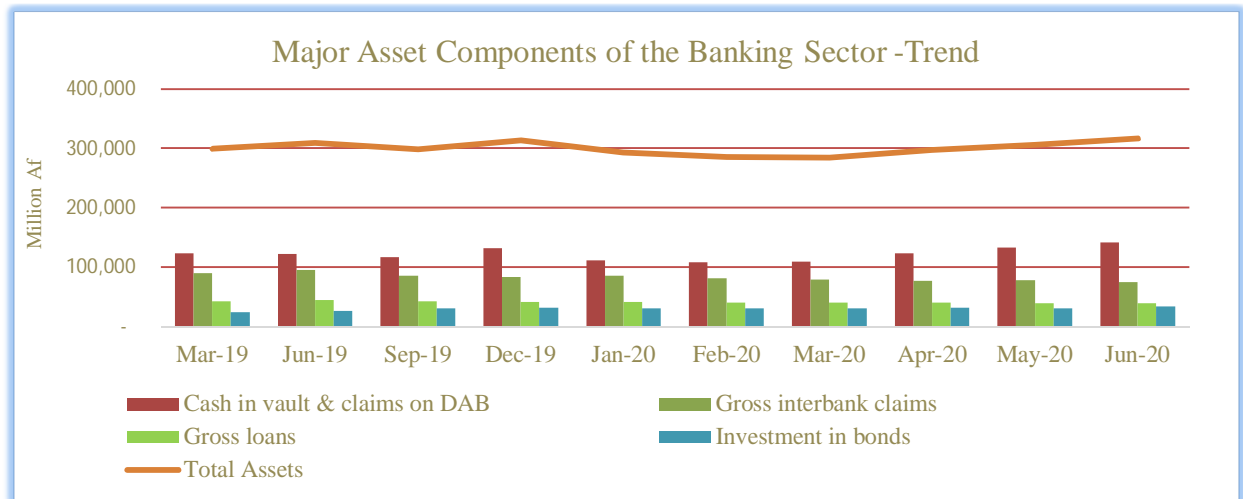
Table 2: Provided Banking Facilities

As evident in the above table, the overall provided banking facilities increased, showing an increasing tendency in the usage of banking services, progressing banking culture, and consumer demand for the banking facilities in the country.

⁴Type 12: type 21,24 & 25 Counters merged to Type 12 Extension Counter

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector following a declining trend in the first quarter of 2020, demonstrated 11% growth during the second quarter, that mainly powered by deposits inflow (dominant in customer demand deposits). The impact of the increase was observed in cash in vault and claims on DAB, mainly in overnight deposits and investments. However, interbank claims and gross loans witnessed a decline in the second quarter, attributed to the maturity of placements and settlement of loans, less OD utilization, and charge-off of loans, respectively.



Graph 1: Major Asset components of the Banking Sector

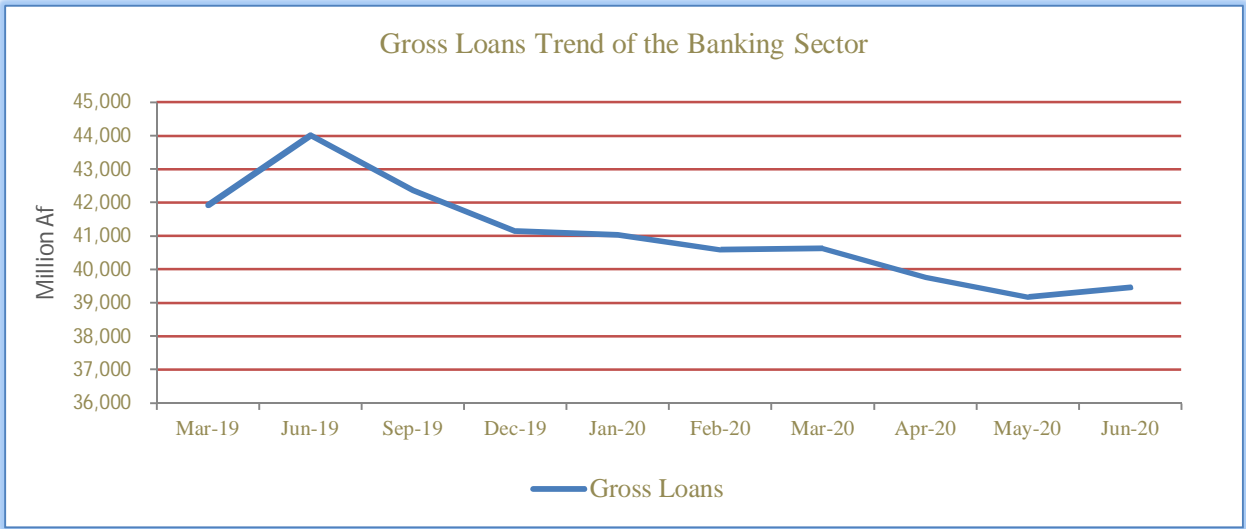
As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (45%), followed with the gross interbank claims (23%), gross loans (12%), and the investment in bonds (11%).

Asset Quality Indicators	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75%	30.55%	33.47%	28.00%	33.87%
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.30%	10.74%
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%
Foreign Claims to Total Assets	29.02%	26.54%	25.04%	25.69%	22.32%
Total Gross Loans to Customer Deposits	16.99%	17.02%	15.77%	17.31%	15.00%
Loan Loss Reserves to Total Gross Loans	10.93%	12.25%	12.24%	12.59%	11.97%
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.61%	1.80%	1.49%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	1.31%	1.17%
Repossessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%
Repossessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%
NPL to Total Assets	1.82%	1.87%	1.90%	2.14%	3.67%

Table 3: Asset Quality Indicator

6.2: Loan Portfolio

The total gross loan portfolio of the banking sector followed a declining trend from mid-2019, as indicated in the graph below. The decreases in gross loans are attributed mainly to settlement, repayment, charge-off, and less OD utilization. However, in the current month, Af994million (principal amount) new loans were issued. Lending in the sector is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks with a 12% share. In comparison, branches of foreign banks have just 1% share with the lowest level of contribution in the economy.



Graph 2: Gross Loans Trend of the Banking Sector

The gross loan portfolio of the banking sector currently stands at AF 39.45 billion, showing 3% decrease comparing to the previous quarter, while 1% growth since last month, making 15% of the customer deposits and 12% of the sector total assets. By end of June, 2020 the total coverage ratio is 12% of the total gross loans as opposed to 13% recorded at the end of Mar, 2020. The decrease comes from the implementation of IFRS 9 considering the collateral marketability in one of the banking institutions. As indicated in the table below, loans are mostly concentrated in Af denomination making 51% of the total portfolio followed with USD denominated loans at 49% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.12% of portfolio). See the summary of loan portfolio below:

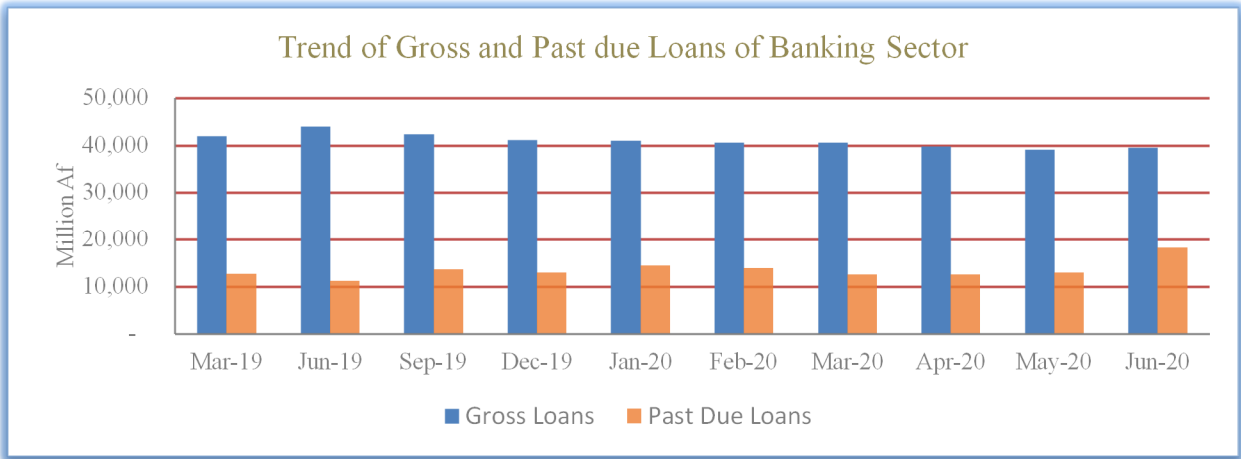
Banking Sector Loans by Currency – amount in million Af						
Currency	Jun-19	Sep-19	Dec-19	Mar-20	June-20	% age of Loans
Afghani	20,227	20,439	20,912	20,980	20,160	51.1%
USD	23,685	21,851	20,171	19,598	19,251	48.8%
Other Currencies	101	83	68	47	48	0.1%

Table 4: Gross Loans Currency Composition

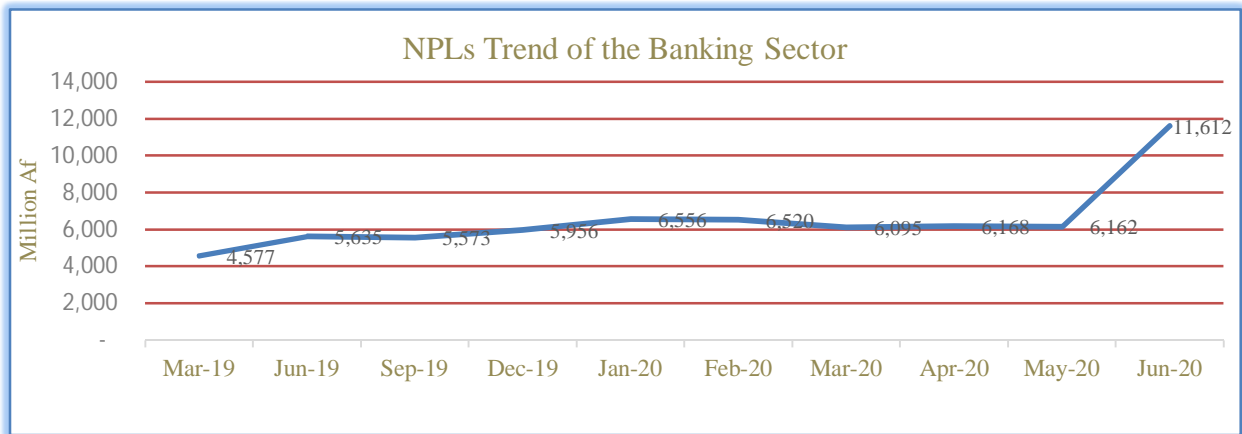
- ✓ Total loan portfolio followed a decreasing trend since mid-2019; posted 3% decrease since Q1, 2020, but increased by 0.7% since last month, attributed to issuance of new loans.
- ✓ In the current month 1,601 loan accounts amounting to Af 994 million (corporate + MSME) disbursed, five loan account restructured (Af 756 million).

6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 29% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 29% NPLs, 27% is attributed to four banks (the top lenders in the sector). These banks hold 68% of the sector's gross loans and 53% of the sector's regulatory capital. Hence, further deterioration of quality of loans in the above mentioned weak banks holding more than 50% of the sector's gross loans and regulatory capital would have a significant impact on the entire sector's NPLs, profitability, equity capital and financial ratios.



Graph 3: Trend of Gross & Past due Loans of Banking Sector



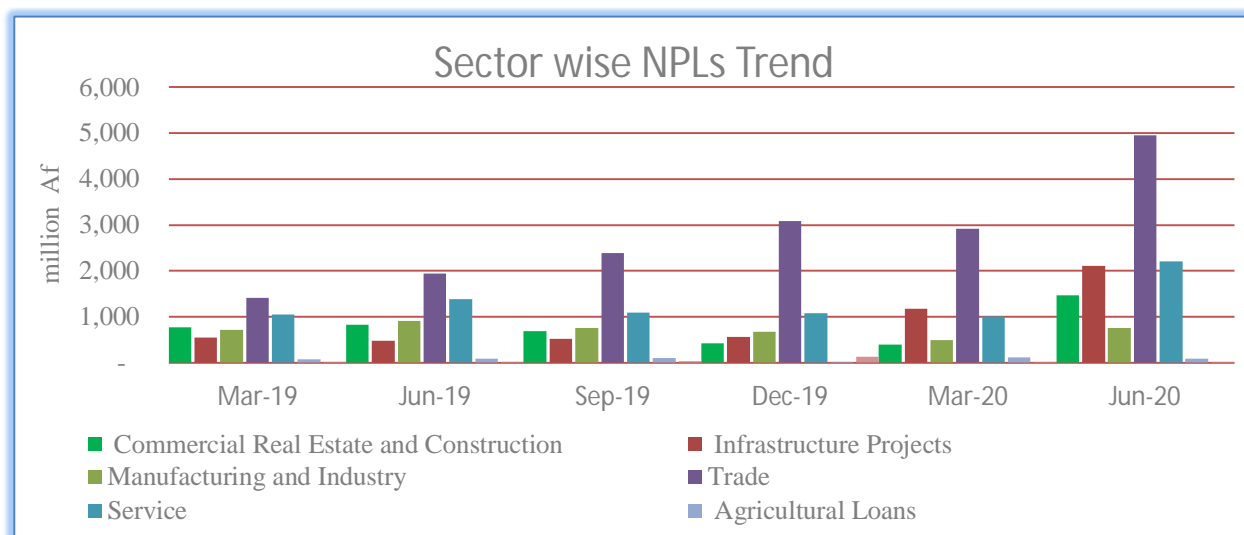
Graph 4: NPLs Trend of Banking Sector

Group-wise analysis of the banking institutions shows that 94% of the total NPLs are coming from Private Banks, while State-Owned Banks have a 6% share in the total NPL portfolio.

Loan Quality Indicators	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Criticized Loans to Total Gross Loans	25.41%	32.05%	31.37%	30.75%	46.20%
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32%	17.90%	19.71%	34.97%
Non-Performing Loans to Total Gross Loans	12.80%	13.15%	14.47%	15.00%	29.43%
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23%	18.95%	20.24%	35.47%
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80%	35.50%	37.35%	23.24%
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24%	66.37%	65.02%	29.87%
General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.56%	1.60%	2.28%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	6.75%	6.89%	25.21%
Net NPLs to Total Net Loans	5.00%	4.76%	5.54%	6.01%	23.44%
Net NPLs to Total Gross Loans	4.45%	4.18%	4.87%	5.25%	20.64%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (43%) dominated in cement & other construction material (9%) and petroleum and lubricants (7%), followed by Services Sector (19%) mostly recorded in ground transportation (9%) and infrastructure projects (18%). Increases were observed in Trade Sector mostly in cement and other construction material, wholesale and petroleum & lubricants, in the Services Sector the main drivers were telecommunication and ground transportation and in Construction and building Sectors.



Graph 5: Sector Wise NPLs

- ✓ The NPL ratio with accelerating trend, at the highest point 29% in June, 2020 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.

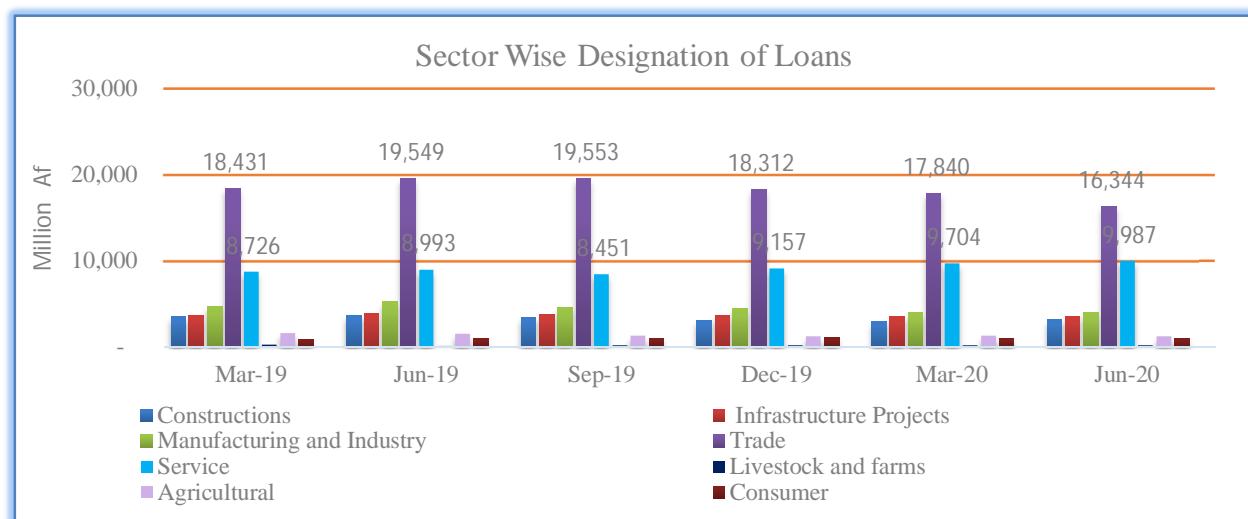
6.2.2: Type of Loans

More than 60% of the sector's total loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector, followed by Term Loans at 23% and Islamic Loans at 13% of the total portfolio. In comparison, Credit Cards are negligible at 0.1%.

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (23%), while the share of Islamic loans is limited to (13%).

6.2.3: Sector-wise Designation of Loans

The trend for the sector-wide designation of loans shows that the Trade Sector is on the lead with 41% of the portfolio in which the petroleum and lubricants with 11% is dominant; Services Sector falls second in a row with 25% with telecommunication (7%) as a leading sub-sector. The most COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 4% of the total sector portfolio. Manufacturing and Industry and Infrastructure Projects are subsequently on 3rd and 4th places with 10% and 9% share in the sector's total loan portfolio, respectively.



Graph 6: Sector-Wise Designation of Loans

6.2.4: Related Party Exposure

Total related party exposure of the sector is Af385 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

3.2.5: Repossessed Assets

Total repossessed assets of the banking sector amount to Af 1.01 billion increased by Af1 million, compared to the previous quarter attributed to an increase in USD rate. Total repossessed assets constitute 0.3% of the banking sector total assets reported by three banking institutions.

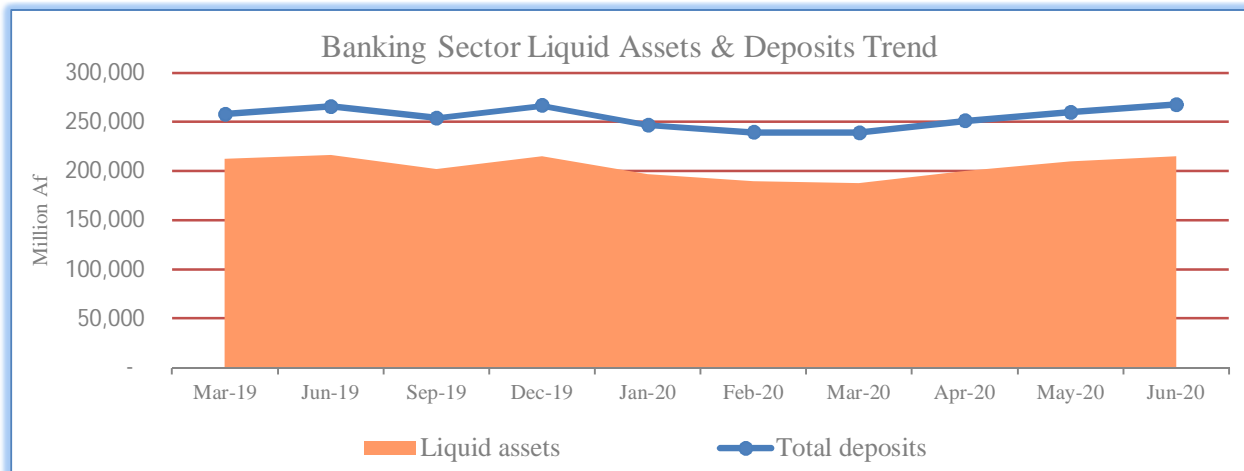
- ✓ The percentage share of all banks repossessed assets and period to retain on the balance sheet are within the regulatory limits (4% of total assets and 4-year period).

6.3: LIQUIDITY OF THE BANKING SECTOR

The banking sector maintains enough liquid assets (cash & cash equivalent). The liquidity position of all banking institutions is above the set minimum threshold for the Broad Liquidity Ratio (15%) and the Quick Liquidity Ratio (20%). The broad liquidity ratio of the banking sector as a median stand at 61% increased from 56% in Mar 2020, attributed to deposits uptake.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 68% of the total assets and 87% of the short-term liabilities, increased in the second quarter due to an increase in liquid assets, whereas it had a declining trend due to deposit withdrawals during the first quarter of 2020.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

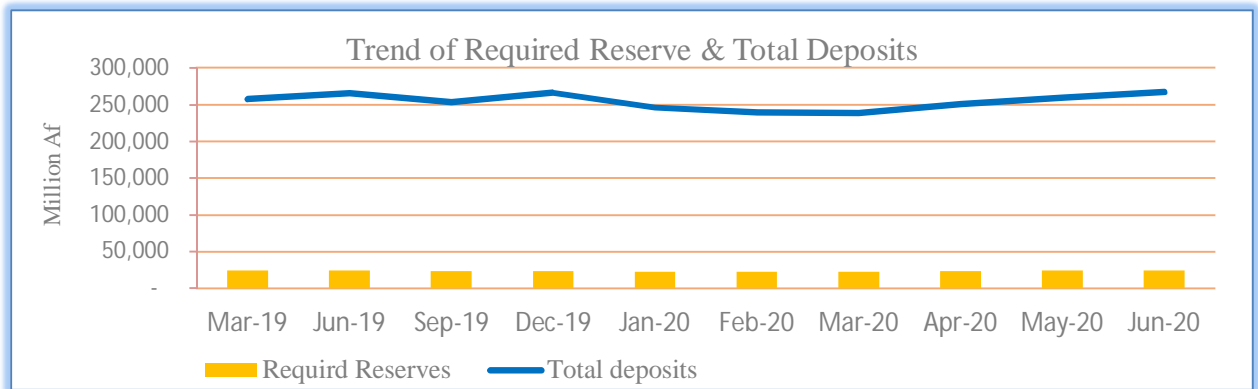
Liquidity Ratio Analysis

Liquidity Ratios	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.48%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.95%	86.61%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.46%	41.16%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	66.04%	68.06%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.71%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.91%	12.96%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

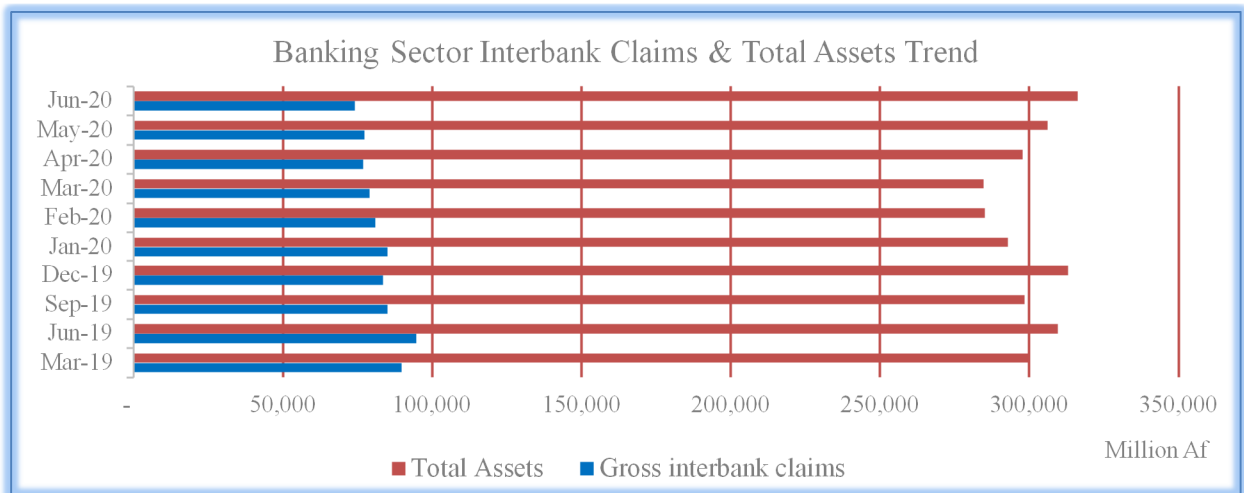
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



Graph 8: Trend of Required Reserve & Total Deposits

6.3.3: Interbank Claims

Gross Interbank Claims– The sum of time and demand deposits with banks, loans to banks and other financial institutions and other receivables from banks is the second largest among various asset categories. They are mostly comprised of demand and time deposits placed mainly in foreign banks.



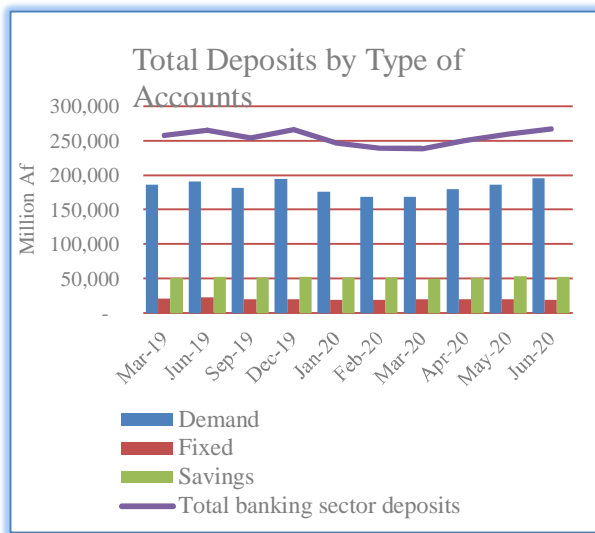
Graph 9: Banking Sector Interbank Claims & Total Assets Trend

6.3.4: Foreign Accounts and Placements

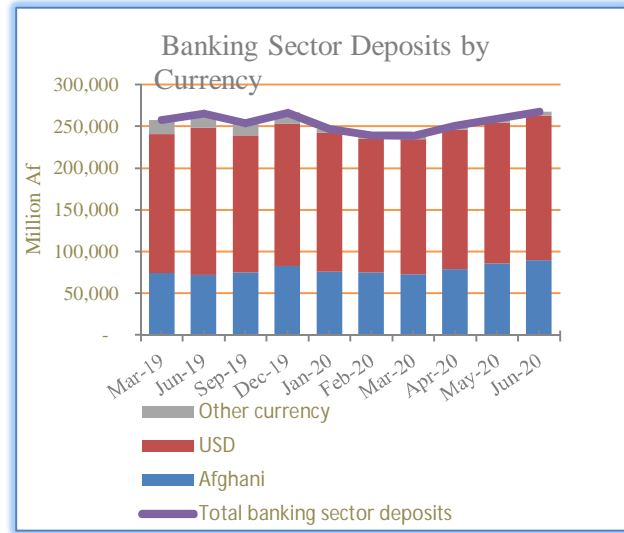
Total Foreign Interbank Claims constitute 22% of the sector total assets and 26% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 33% of the sector total assets and 39% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans designated inside the country is limited to 12% of the sector's total assets and 15% of the total sector deposits.

6.3.5: Deposits

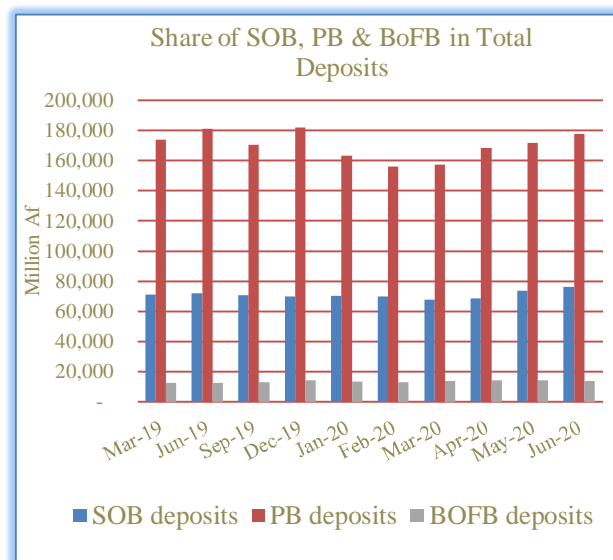
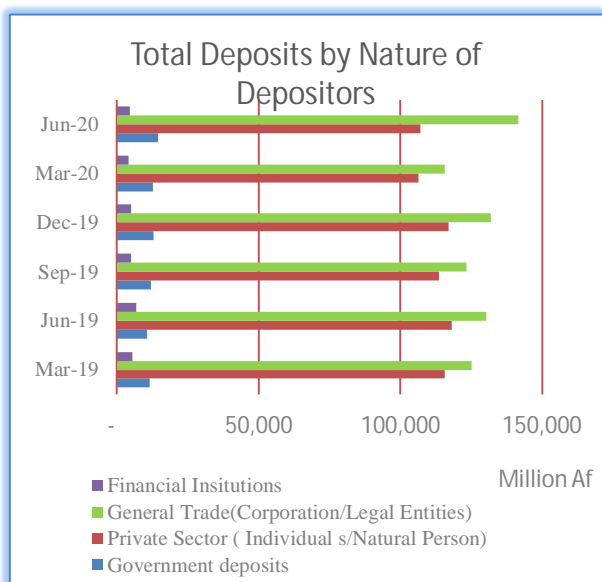
Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020, picked up in during the second quarter, increased by 12% since Mar 2020. The major increases were observed in Af and USD accounts. Currency wise analysis show that Af denominated deposits increased by 23%, accounted for 34% of total deposits, USD denominated deposits were up by 7%, making 65% of the total deposits, while other currency deposits increased by 4%, comprising 2% of the total banking sector deposits.



Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency



Graph 12: Total Deposits by Nature of Depositors

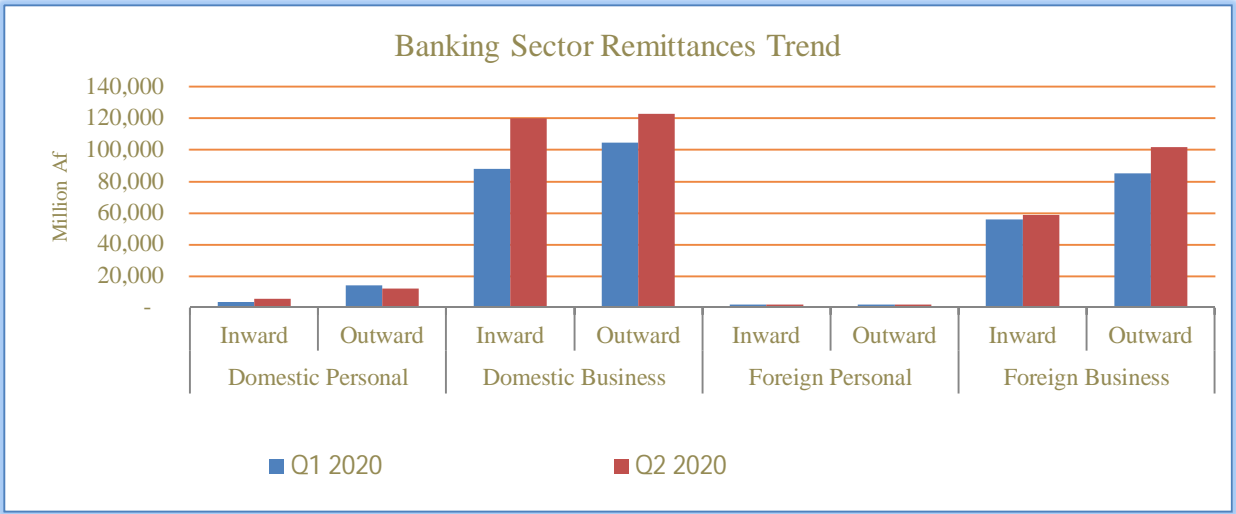
Graph 13: Share of SOB, PB & BOFB in TD

As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector, which makes 53%, followed by individual/natural person deposits with 40%, government deposits 5%, and financial institutions constitute 2% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 66%, followed by state-owned banks with 29% share, while the share of the branches of foreign banks is 5%.

Banking Sector Deposits Trend Jan-June 2020 By Type & Currency -in million Af							
Items	Jan-20	Feb-20	Mar-20	Apr-20	May-20	June-20	Quarterly Change
Demand	175,599	168,479	169,068	179,700	186,542	195,857	15.93%
Time	19,558	19,400	20,243	20,052	19,931	19,228	-4.29%
Savings	51,813	51,507	49,626	51,214	53,297	52,645	5.50%
Total	246,970	239,386	238,937	250,966	259,770	267,730	12.05%
AF	75,988	74,773	72,916	79,148	85,947	90,025	23.46%
USD	166,612	160,240	161,437	167,027	168,903	172,957	7.14%
All Other Currencies	4,370	4,373	4,583	4,791	4,920	4,748	3.61%
Total	246,970	239,386	238,937	250,966	259,770	267,730	12.05%

Table 7: Banking Sector Deposits Trend Jan-May 2020 by Type & Currency

✓ Despite the pandemic and the lockdown, the liquidity position of the banking sector remained healthy; no shortfall was observed in any of the banking institutions, deposits showed 12% (AF 29 billion) increases over the last quarter mostly coming from legal entities deposits



Graph 14: Banking Sector Remittances Trend

6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 12% of the total assets of the sector. The net equity position of the sector recorded at AF36.7 billion increased by 9% over the quarter, attributed to the gain in Revaluation-Available for Sale Investments, capital injection and profit in the current quarter. The regulatory capital of the sector stands at AF 32.7 billion, showing 9% increase over the quarter. CAR of the sector is at 27%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.



Graph 15: Regulatory Capital Trend of Banking Sector

Capital Adequacy Ratio Analysis

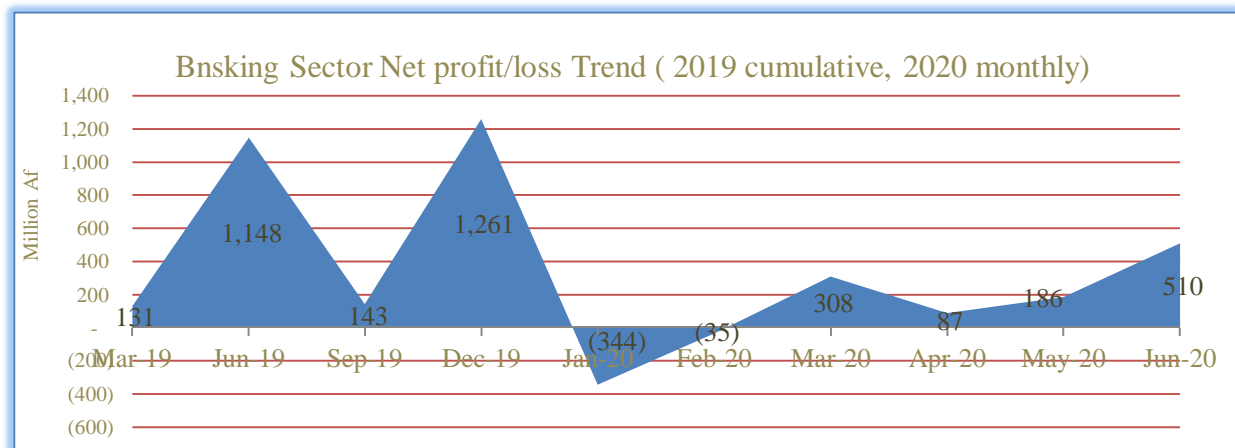
Capital Adequacy Indicators	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.93%	25.97%	26.69%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.50%	26.69%	26.34%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.48%	10.87%	10.22%
Equity Capital To Total Assets	11.49%	11.63%	11.40%	11.90%	11.63%

Table 8: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

On a cumulative basis, the banking sector is profitable; the net profitability of the sector for the current year (Jan-June 2020) recorded at Af712 million. For the review quarter net profitability of the sector recorded at Af 783 million, whereas it was Af 71 million net losses in the previous quarter, showing improvement, attributed to increasing in non-interest income owing to recovery of loans and FX gains. Major profitability components are interest and non-interest income, while main expenses are non-interest expenses and salary expenses. As indicated in the graph below, in the first

two months the banking sector incurred losses that attributed to provisions, while for the last four months the profitability of the sector is attributed to the reintegration of provisions, FX revaluation gains and increase in non-interest income.



Graph 16: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	Jun-19	Sep-19	Dec-19	Mar-20	June-20
Net-Interest Income to Total Income	150%	1148%	118%	-2157%	179.19%
Net-Interest Income to Total Assets	0.56%	0.55%	0.48%	0.54%	0.44%
Non-Interest Income to Total Assets	0.61%	0.53%	0.84%	0.56%	0.66%
Non-Interest Income to Total Income	163%	1113%	209%	-2244%	265.05%
Operating Expenses to Total Income	237%	1839%	226%	-3720%	334.17%
Salaries to Operating Expense	40.68%	40.59%	38.67%	44.50%	41.05%
Efficiency Ratio (Operating Expenses/ Core Income)	75.65%	81.30%	68.99%	84.52%	90.62%
Burden (difference between non-interest income and non-interest expense)	(847)	(1,036)	(213)	(1,053)	(541)
Net Profit/Loss (Cumulative)	1,148	143	1,261	(71)	712
Return on Asset	0.38%	0.05%	0.42%	-0.02%	0.52%
Return on Equity	3.30%	0.41%	3.62%	-0.21%	4.46%

Note: the above table data has taken cumulatively in each quarter

Table 9: Profitability Indicators

As shown in the above table, the efficiency ratio of the sector shows an increasing trend which means banks' expenses are increasing or its revenues are decreasing (An efficiency ratio of 50% or under is considered optimal), whereas the burden (the difference between non-interest income & non-

interest expense) improved compared to Mar 2020 attributed to increasing in non-interest income as detailed above.

Banking Sector P/L Trend (Cumulative in each Quarter)– Amount in million Af					
Items	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun
Interest Income	2,033	1,897	1,747	1,770	1,644
Interest Expense	311	257	253	231	240
Net-Interest Income	1,722	1,640	1,494	1,538	1,404
Credit Provision-net	152	505	287	376	196
G/L on Investments	24	125	82	-11	-27
Other Non-Interest Income	1,872	1,591	2,635	1,601	2,076
Non-Interest Expense	1,561	1,560	1,747	1,472	1,543
Salary Expense	1,158	1,066	1,102	1,181	1,075
Total Operating Expenses	2,719	2,627	2,849	2,653	2,618
Income or Loss Before FX Revaluation G/L & Taxes	748	225	1,076	99	640
FX Revaluation G/L	582	(87)	391	-108	258
Tax	181	(5)	206	62	114
Total Net-Profit/Loss	1,148	143	1,261	-71	783

Table 10: Banking Sector P/L Trend

6.5.1: Interest Rate on Loans

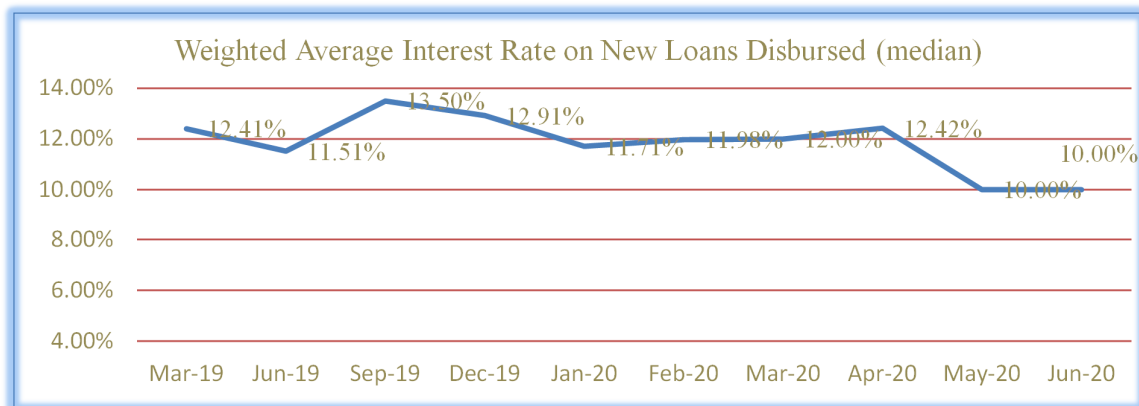
The prevailing interest rate for designated types of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by TL (Term Loans), Consumer loans, OD (Over Draft), and Murabaha loans. The highest prevailing rate is 36%, and the lowest is at 4%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 10.00% (Median).

Type of Loans- Sector level	Average Interest Rate (June-20)
Overdraft	12.58%
Term Loan	13.04%
Consumer Loan	11.77%
Murabaha	11.40% ⁵
Credit Cards	27.26%
Highest Interest Rate	36.00%
Lowest Interest Rate	4.00%

Table 11: Average Interest Rate of Loans

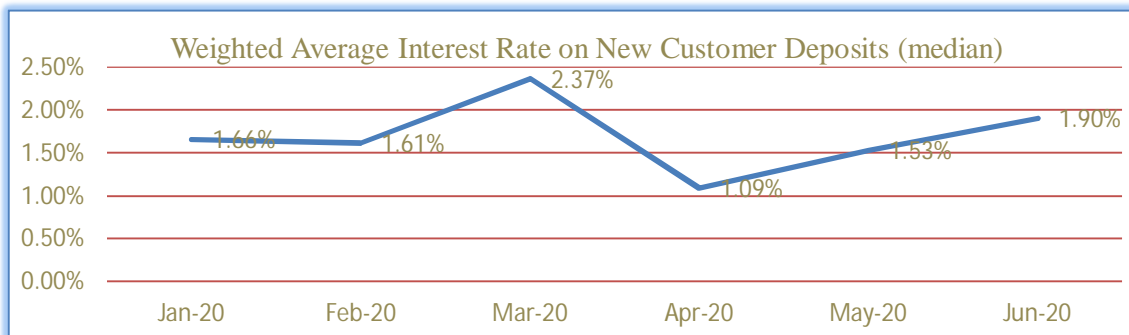
6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of funds decreased in June 2020 as compared to Mar 2020 due to a decrease in time deposits and rates.

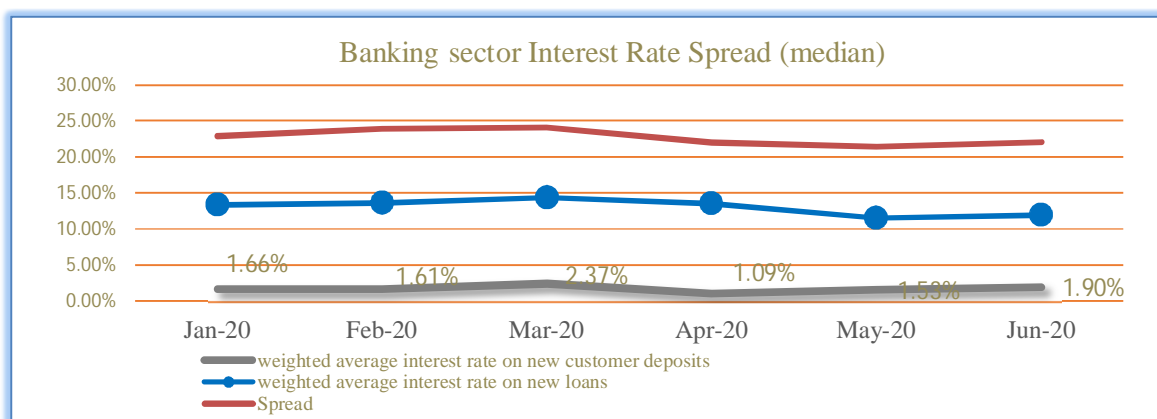


Graph 17: Weighted Average Interest Rate on New Loans disbursed (median)

⁵ For Islamic Products %age is the profit rate.



Graph 18: The Interest Rate on New Deposits attracted (median)



Graph 19: Banking Sector Interest Rate Spread (Average)

- ✓ Based on DAB Circular No. 002 dated 09/Apr/2020, a relaxation package has been considered to reduce the effects of the C19 pandemic on the banking sector, freezing the loans classification until end of June 2020. Therefore, the deterioration of the loan quality due to non-payment of the loan until the end of June 2020 will not have adverse effects on the profit and capital of the banking sector. But the sector may experience accelerating trend of NPLs and provision expense after June 2020.
- ✓ BSD has developed time bound post Covid-19 improvement plan. The main points of the plan cover expansion of activities and Issuance/disbursement of new credit facilities, cost reduction measures and suspension of dividend payments, electronic reporting, renewal of loans and relaxation in classification and risk weighting of loans collateralized by third party as ACGF, IFC, USAID etc.
- ✓

6.6: OFF-BALANCE SHEET ITEMS

Total off-balance items of the banking sector amount to Af60.3 billion, mostly comprising of performance, advance payment, and bid guarantees. The total coverage ratio in the form of cash, property, and counter guarantees is 69%, while the remaining portion lacks any kind of collateral coverage.

Type and amount of BGs Issued By Banking Sector June- 2020	
Type Of BGs	Amount in Million Af
Bid	5,942
Performance	32,889
Advance Payment	12,117
LC	512
Other BG⁶	116
Retention⁷	1,368
Total	52,944

Table 12: Type of BGs Issued by Banking Sector

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash, Property& Counter Guarantee June-2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	11,744	22.18
Collateral Value (Property)	4,803	9.07
Counter Guarantee	19,770	37.34
Total	36,317	68.60

Table 13: Banking Sector BGs Coverage Ratios

⁶Other BGs are those guarantees which are not in standard formats of Bid, Performance and advance payment guarantees i.e. guarantees required for obtaining security company license from the ministry of interior affairs.

⁷It is the written document issued by the Bank to the applicant, the applicant to collect final payment in advance, that applicant will continue to fulfill contract obligation after withdrawing final payment of the contract price in advance, at the request of construction contractor or supplier.

