

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

October 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 323,039.14 million at the end of Mizan, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 0.44 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 285,277.84 million at the end of Mizan month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020), and shows 10 percent growth.

Since the beginning of fiscal year of 1399 (2020) up to end of Mizan, DAB has auctioned a total amount of USD 1,717.21 million through open market operations, and has collected Af 131.86 billion from the market. These operations have fulfilled 29.22 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of September 2020 on year over year basis. The year over year inflation decreased to 5.70 percent in September from 5.88 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while non-food items increased 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 October 2020 is AFN 30.43 billion, while in September it was AFN 24.47 billion which shows 24.34% or AFN 5.96 billion increase in October. Total revenue from the start of FY-2020 till end of October reached to AFN 277.47 billion that is combination of AFN 141.20 billion donor contributions and AFN 136.27 billion domestic revenue respectively.

The banking sector performed satisfactorily during August, 2020 compared to July, 2020. The main financial indicators as Total Assets, deposits, investments, equity capital and profitability has increased. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital and financial due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope up 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

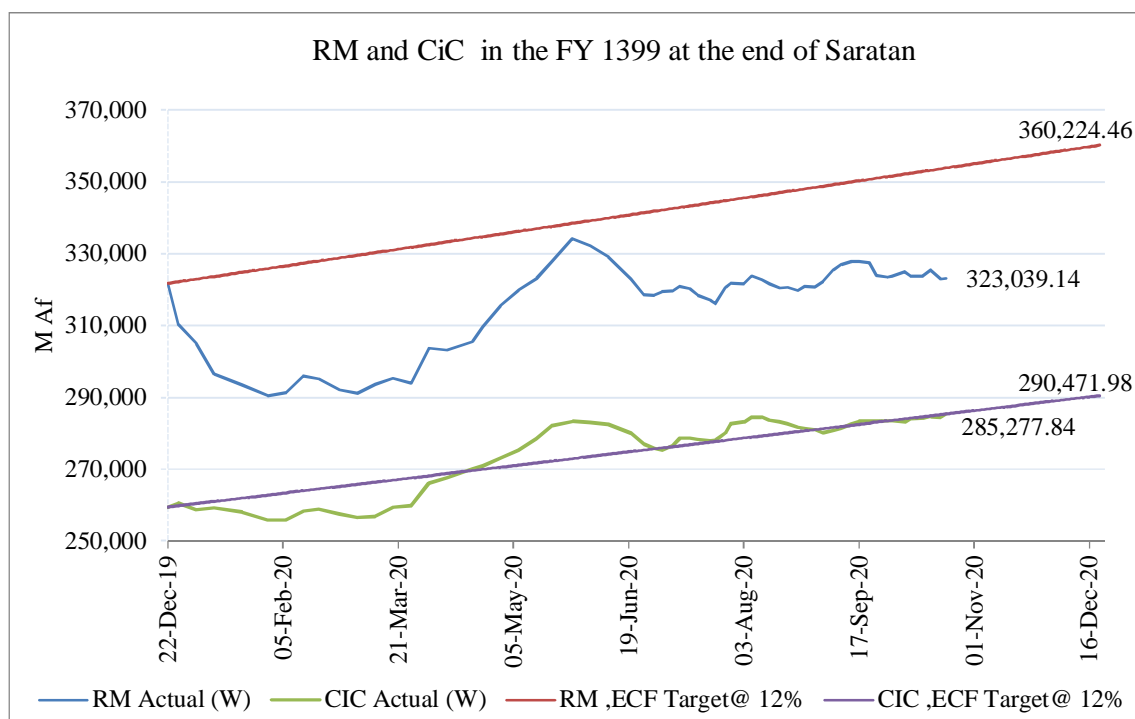
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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 price stability in the country.

Reserve Money (RM) weekly actual amount stood at Af 323,039.14 million at the end of Mizan, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 0.44 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 285,277.84 million at the end of Mizan month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020), and shows 10 percent growth.

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



Source: Open Market Operations/Monetary Policy Departments

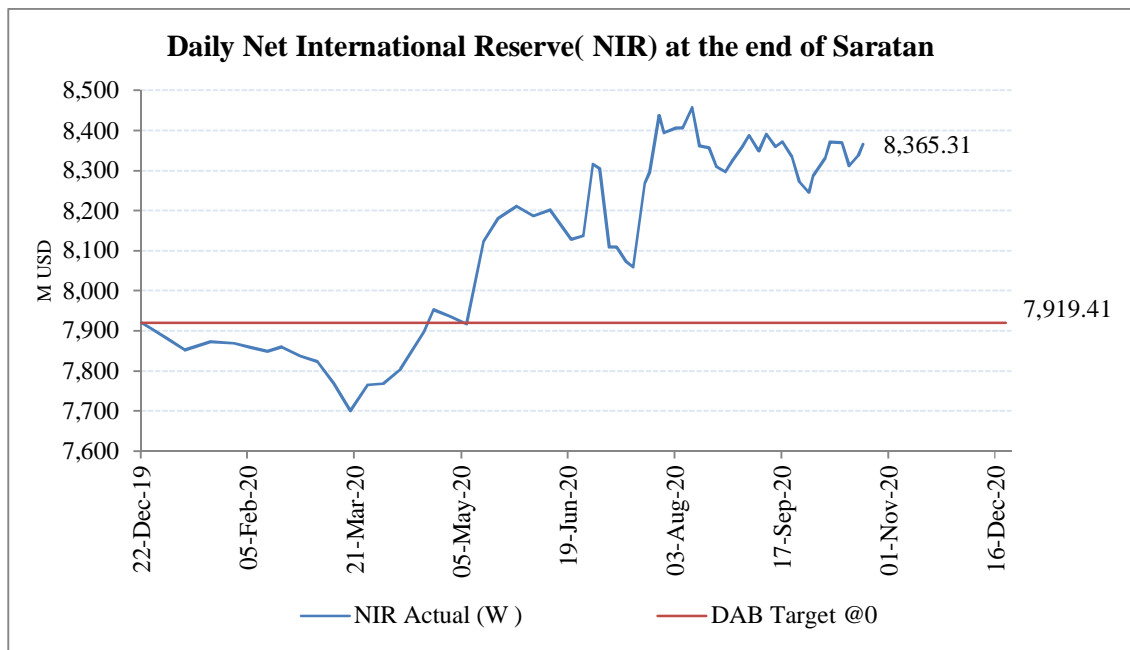
1.2 Net International Reserve

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 8,365.31 million at the end of Mizan month, which shows USD 445.89 million accumulation.

Figure 1.2 shows Net International Reserve (NIR) during FY 1399:



Source: Open Market Operations/Monetary Policy Departments

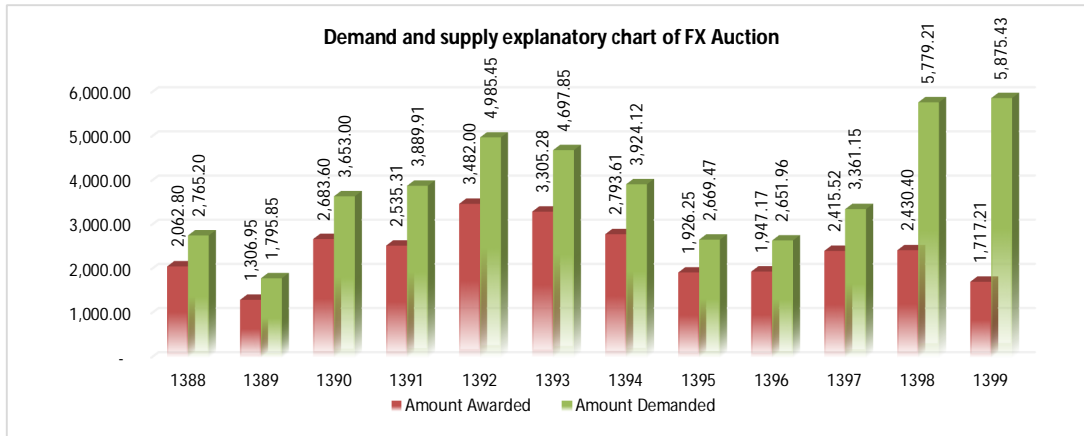
1.3 Foreign Exchange and Capital Notes Auction

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 Mizan, DAB has auctioned a total amount of USD 1,717.21 million through open market operations, and has collected Af 131.86 billion from the market. These operations have fulfilled 29.22 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.



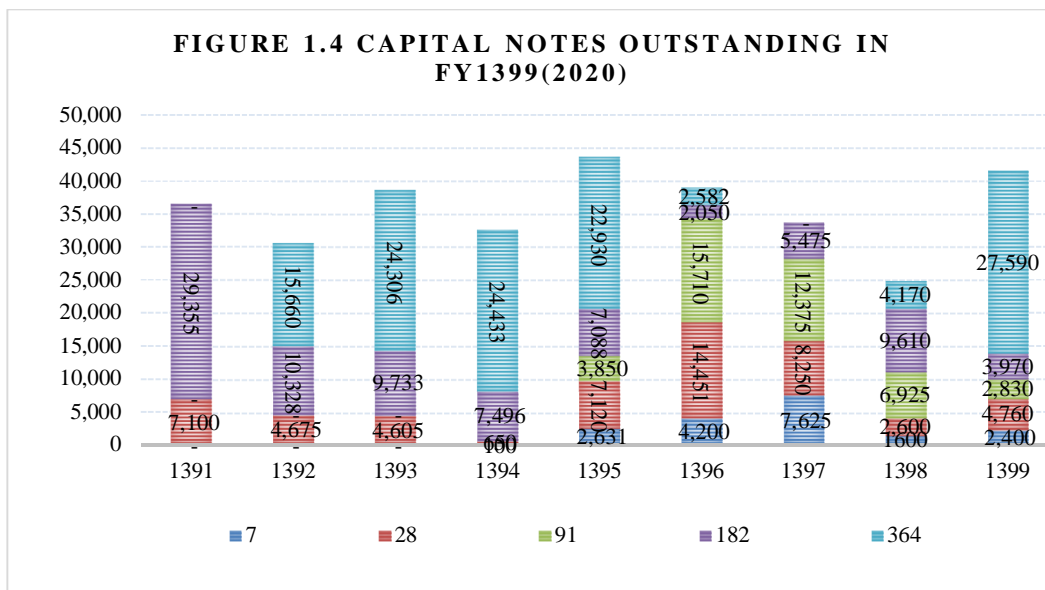
Source: Market Operations/Monetary Policy Departments

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 sectors, 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 Mizan, the total outstanding of capital notes reached Af 41.55 billion and meanwhile the total interest paid for the mentioned notes reached Af 168.29 million at the end of this month.

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

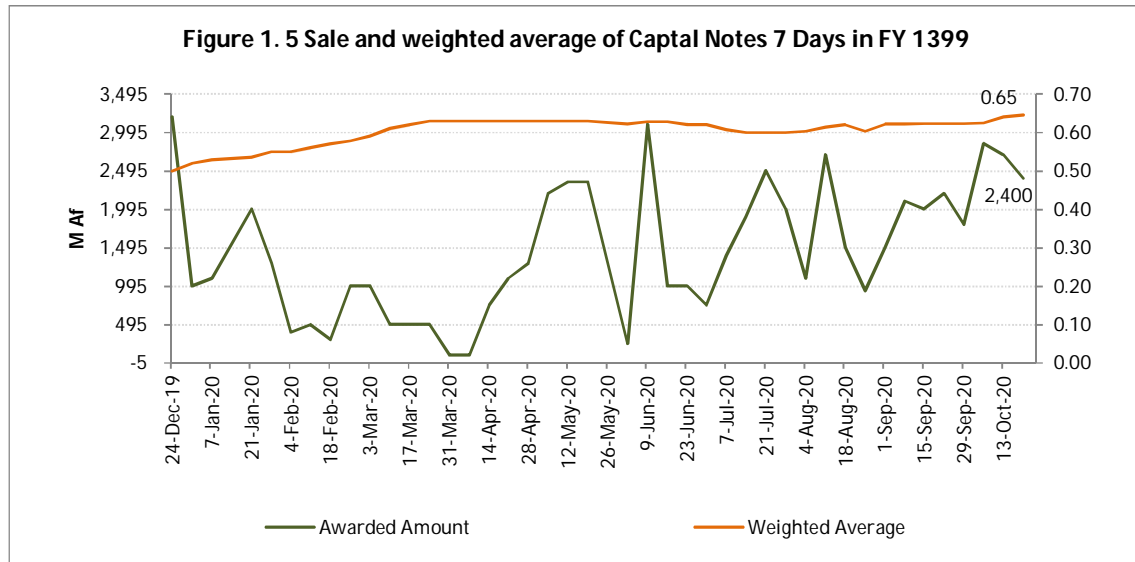


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The awarded amount of 7 days' capital notes auction at the end of Mizan reached Af 2.4 billion with average interest rate of 0.65 percent. The outstanding of these notes is stood Af 2.4 billion for the mentioned period.

Figure 1. 5 Sale and weighted average of Capital Notes 7 Days in FY 1399

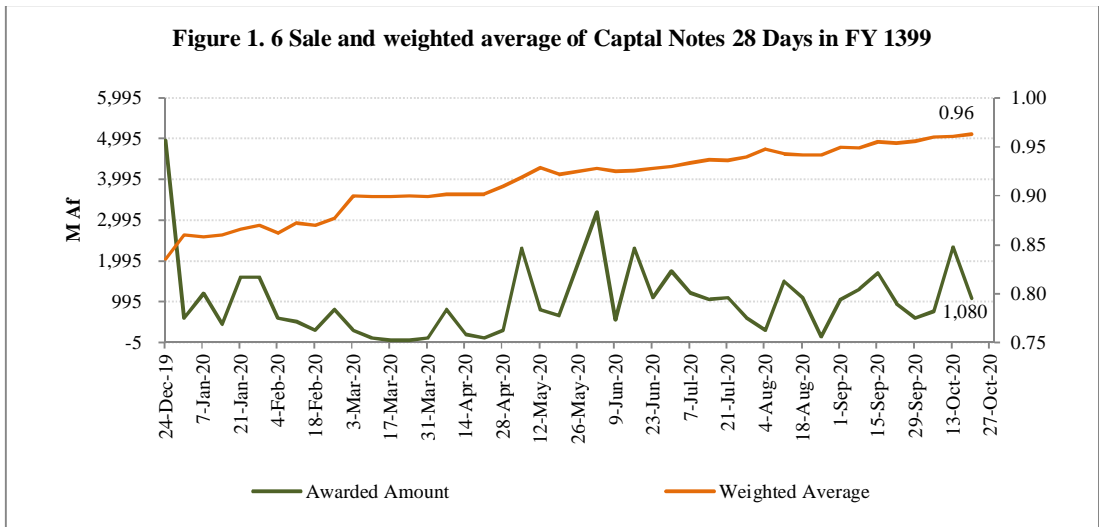


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, awarded amount of 28 days' capital notes auction at the end of Mizan is recorded Af 1.08 billion with average interest rate of 0.96 percent and outstanding amount of Af 4.76 billion.

Figure 1. 6 Sale and weighted average of Capital Notes 28 Days in FY 1399

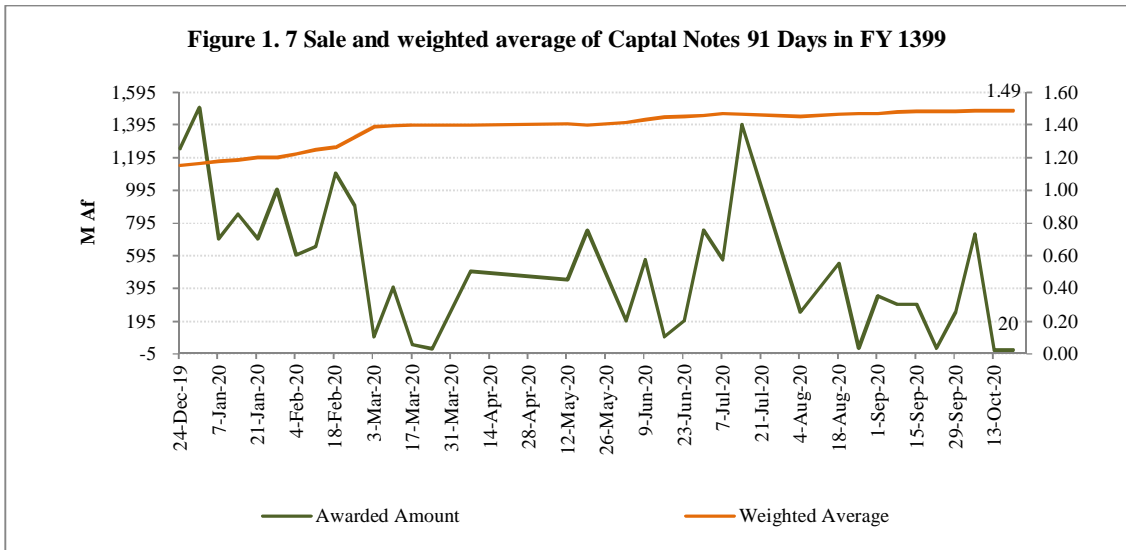


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

DAB's 91 days' capital notes auction during this reporting period stood at Af 0.02 billion at the end of Mizan with average interest rate of 1.49 percent and total outstanding of Af 2.83 billion.

Figure 1. 7 Sale and weighted average of Capital Notes 91 Days in FY 1399

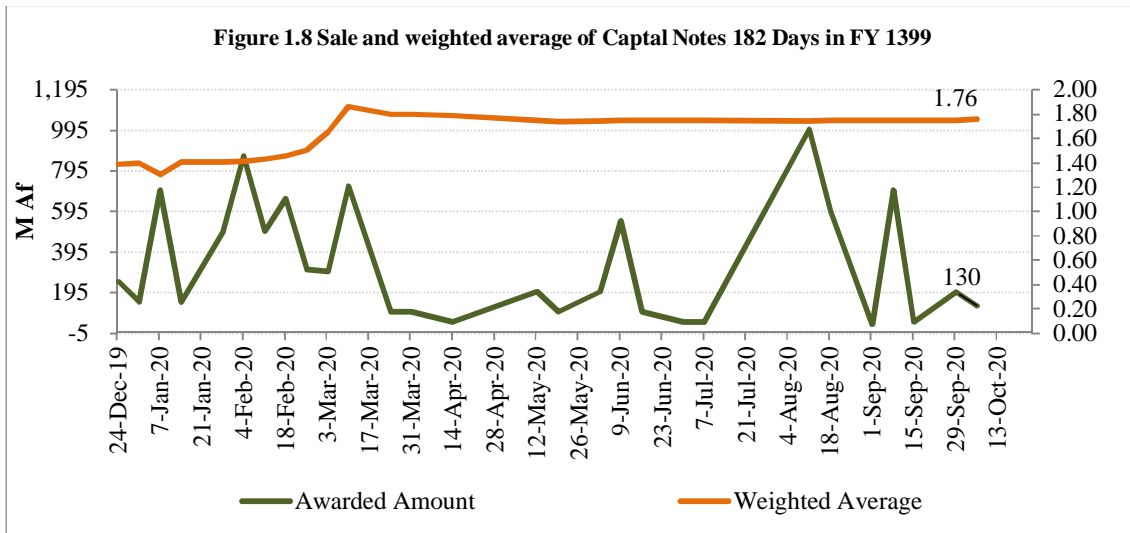


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's 182 days' capital notes auction during this reporting period stood at Af 0.13 billion at the end of Mizan with average interest rate of 1.76 percent and total outstanding of Af 3.97 billion.

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

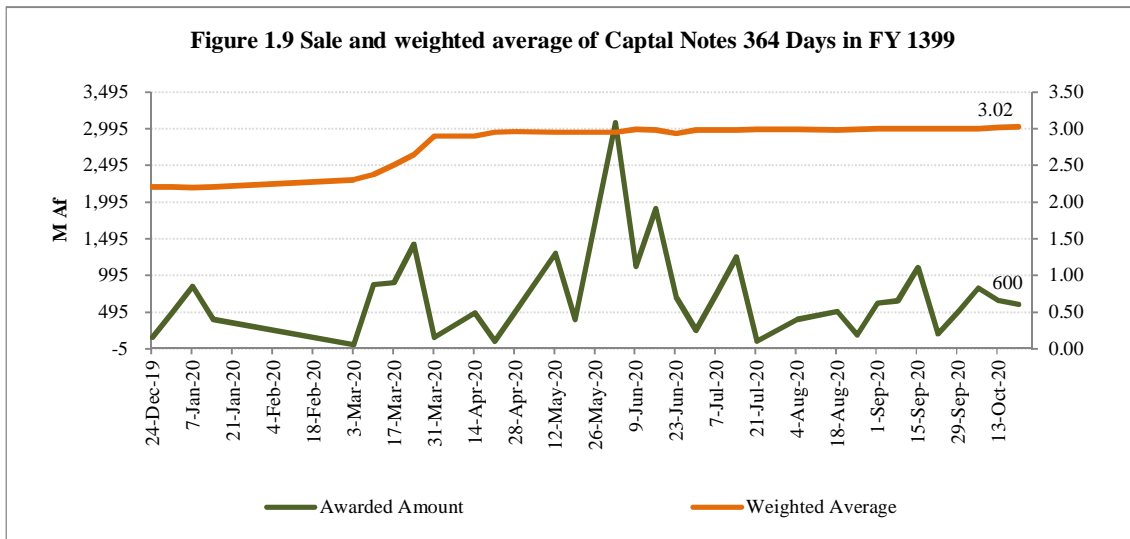


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's 364 days capital notes auction during this reporting period stood at Af 0.6 billion at the end of Mizan with average interest rate of 3.02 percent and total outstanding of Af 27.59 billion.

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

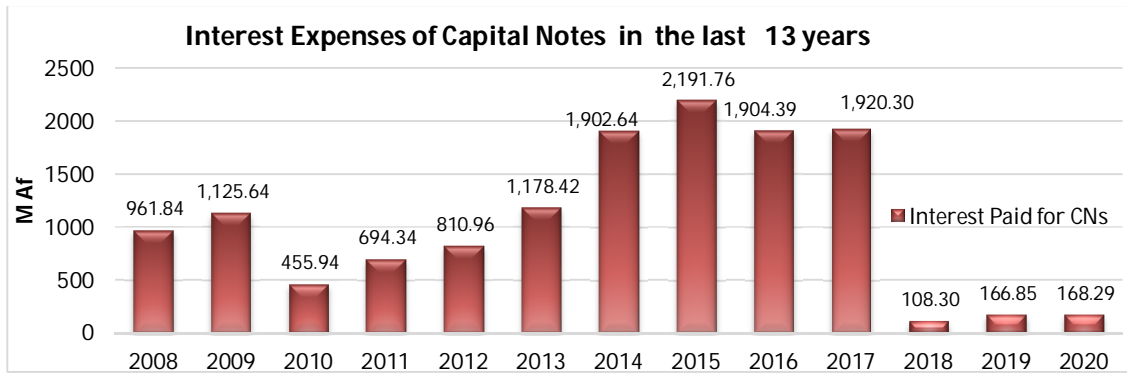


Source: Market Operations/Monetary Policy Departments

Interest Expenses

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

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

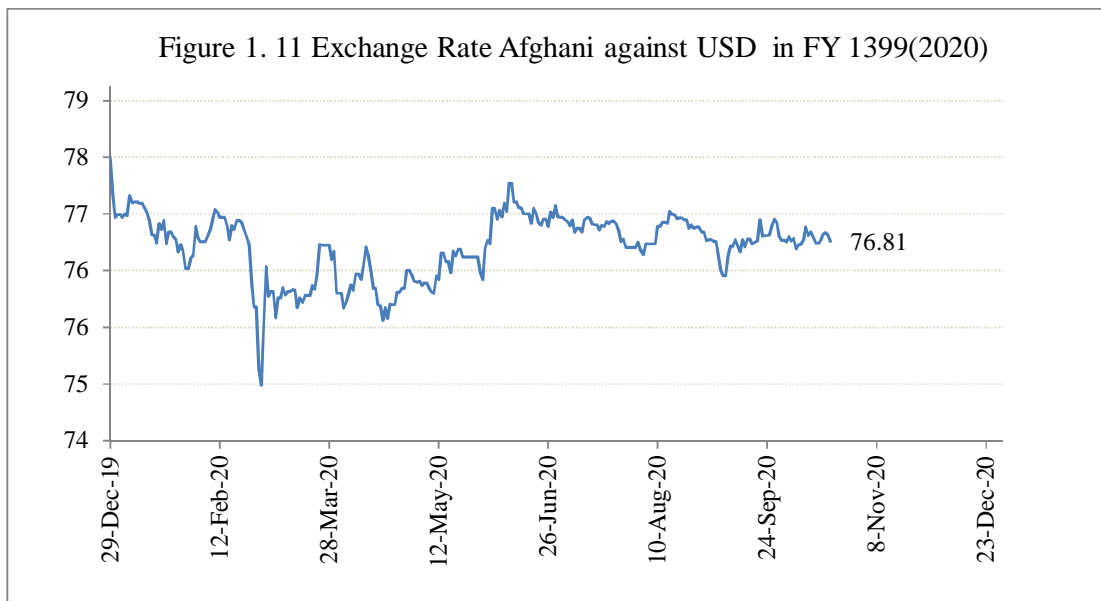


1.5 Exchange Rate

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 2.08 percent, and has been exchanged at Af 76.78 per USD on average and recorded at Af 76.81 exchanged at the end of Mizan month.

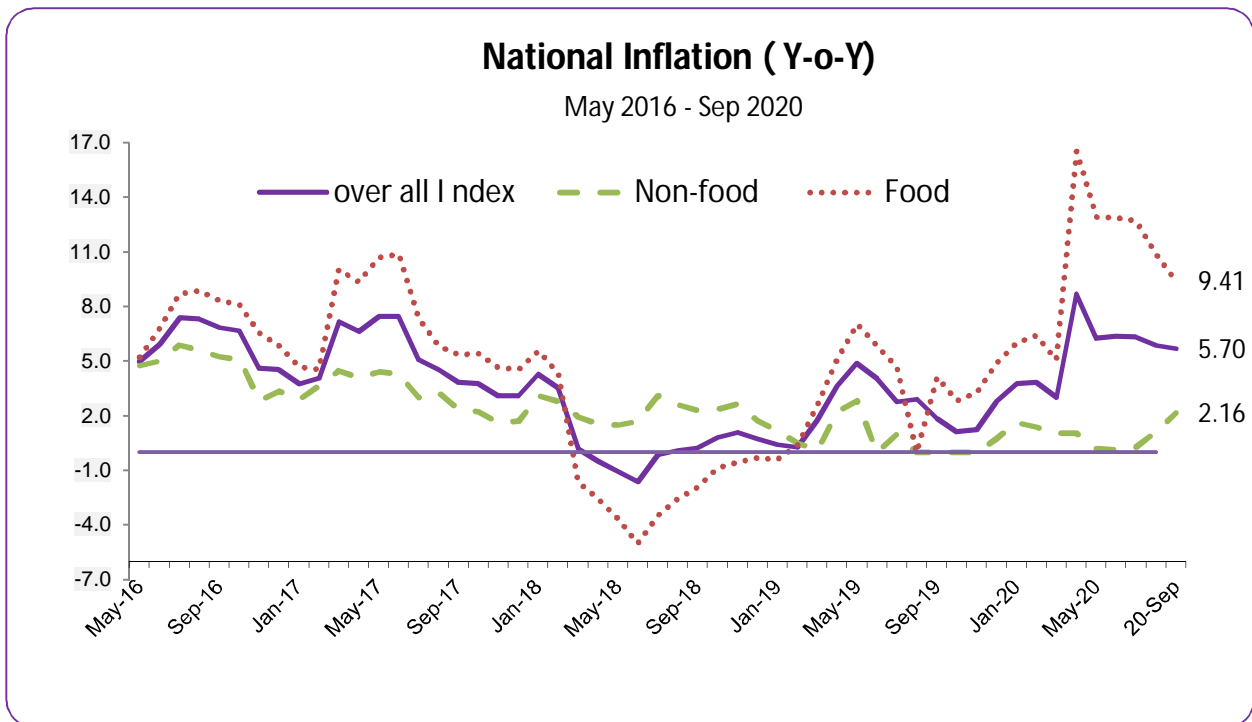
Figure 1. 11 Exchange Rate Afghani against USD in FY 1399(2020)



The table of Monetary Indicators

	FY 1398					FY 1399			
	Hoot	Jawza	Sunbula	Meezan	Qaws	Hoot	Jawza	Sunbula	Meezan
Reserve Money Target (%)	12					12			
Actual Reserve Money (%)	-5.6	-4.5	1.19	1.9	12	-8	0.42	1.82	0.44
RM Actual	255627.5	259654.3	275043	293532	304625.7	295224.5	322978.3	327473.8	323039.1
RM Target	280267.1	305491.2	314327.2	317177.5	322878.1	331039.9	340873.9	350707.8	353880
CiC Actual	222147.2	231598.7	244489.5	254320.1	259350.8	259302.1	279989.9	283438.2	285277.8
CiC Target	233785.3	241897.9	248894.6	251151.5	255665.5	266938.6	274868.3	282798.1	285356
Actual NIR	7702.51	7691.22	7868.7	8365.31	7873.6	7711.85	8128.78	8334.4	8365.306
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7846.07	7919.41	7919.41	7919.41
Outstanding Amount	26665	27020	23920	25000	24905	30455	34495	39590	41550
Required Reserve (Afs)	5768.54	10923.4	2,657.34	5895.74	5734.43	5928.75	6271.67	6914.36	6914.36

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

Headline inflation decreased in the month of September 2020 on year over year basis. The year over year inflation decreased to 5.70 percent in September from 5.88 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while non-food items increased during the period.

The short-term (month-to-month) change in inflation shows downward trends in the period under review.

When measured on the month-to-month basis, headline inflation decreased in September 2020. Observing the data, overall inflation decreased to a rate of -0.83 percent from -0.34 percent recorded in the previous month.

Table 1. Headline Inflation (August 20- September 20)

	Y-o-Y		M-to-M	
	August	September	August	September
National CPI				
Headline	5.88	5.70	-0.34	-0.83
<i>Food</i>	10.90	9.41	-1.24	-1.92
<i>Non-Food</i>	1.10	2.16	0.61	0.30

FOOD INFLATION decreased in month of September 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in September 2020, when measured year over year basis, decreased to 9.41 percent compared to 10.90 percent calculated in previous month. This decrease comes from lower prices of bread and cereals, meat, milk, cheese and eggs, oils and fats, and vegetables.

Price index of bread and cereals which accounts for about 15 percent of the consumer price index decreased to 14.49 percent from 16.13 percent (year over year). On the other hand, when measured on the month-to-month basis, this sub-indexes also decreased to -1.62 percent from 0.37 percent.

The main reason behind decrease of this index is increase of rice harvest in the country, particularly in Hirat Province which shows 25 percent increase in rice production, and wheat yield reached to 5.1 million metric tons during the period. Also 290,000 tons of goods including food items imported via Chabahar port railway line to the country which has increase the food supply and decreased the mentioned index prices.

In September 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 2.16 percent (year over year) from 4.05 percent observed in previous month. When measured on the month-to-month basis, also decreased to -1.52 percent from -0.42 percent recorded in previous month.

One of the main reason behind the decrease of this index is the increased of poultry farms and dairy processing packages to 1,500 poor families in Bamyan Province in order to improve living and economic conditions.

Oils and Fats index which comprises 4.6 percent of overall index, during the period this index has decreased to 15.44 percent from 18.13 (Y-o-Y). In addition, price of this index increased to -1.04 percent from -1.96 percent on the month-to-month basis.

The vegetable oil and cotton seed oil production factories restarted their operation during the year in Balkh province after lockdown due to Covid-19. which increased supply to the domestic market and increase in the production of oils which has caused decreased in the price of mentioned index in domestic market. and also reopening of Spinboldak border caused increase in import of goods in domestic market.

Vegetables price index which is dedicated for 6.56 percent of the overall index, decreased to 2.06 percent (year over year) from 6.56 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to -3.06 percent; however, it was recorded -3.81 percent in the previous month.

The main reasons behind decreased of this index are sufficient rainfall, distribution and utilization of highly modified seeds and fertilizers to 10 thousand farmers and technical and professional assistance on how to grow and harvest crops. The above factors caused increased in the harvest of vegetable in the country especially in Saripul province which shows 40 percent increase during the period. Also the domestic production of vegetables, particularly onions, potatoes are increase which has increased domestic supply.

Items	Weight	Y-o-Y		M-to-M	
		August	September	August	September
Food and Non-alcoholic Beverages	47.8	10.90	9.41	-1.24	-1.92
<i>Bread and Cereals</i>	14.6	16.13	14.49	0.37	-1.62
<i>Meat</i>	7.5	10.98	9.72	0.43	-0.76
<i>Milk, cheese and eggs</i>	4.7	4.05	2.16	-0.42	-1.52
<i>Oils and fats</i>	4.6	18.13	15.44	-1.96	-1.04
<i>Fresh and dried fruits</i>	5.0	12.03	13.15	-7.31	-6.38
<i>Vegetables</i>	6.0	6.56	2.06	-3.81	-3.06
<i>Sugar and sweets</i>	2.7	0.15	0.67	1.51	-0.52
<i>Spices</i>	1.3	-1.26	-1.18	-0.40	0.56
<i>Non-alcoholic beverages</i>	1.4	4.84	4.89	0.14	0.20

Source :Da Afghanistan Bank /NSIA

Non-Food Inflation

Inflation in non-food items exhibited upwards trend in the month of September 2020. On Year over year basis, non-food inflation increased to 2.16 percent from 1.10 percent observed in the previous month. This increase mainly comes from higher prices of clothing, housing, furnishing and household goods, transportation, communication, information and culture, and education.

Table 3. Non-Food Inflation (August 20 - September 20)

	Weight	Y-on-Y		M-to-M	
		August	September	August	September
Non-Food	52.2	1.10	2.16	0.61	0.30
<i>Tobacco</i>	0.3	2.46	2.73	0.06	0.02
<i>Clothing</i>	4.6	5.38	7.84	0.16	1.21
<i>Housing,</i>	19.1	-0.75	1.03	1.46	0.29
<i>Furnishing and household goods</i>	11.9	2.38	3.40	0.49	0.65
<i>Health</i>	6.2	8.10	7.82	-0.29	-0.83
<i>Transportation</i>	4.3	-13.76	-13.38	-0.19	0.01
<i>Communication</i>	1.7	-0.99	-0.58	0.20	-0.14
<i>Information and Culture</i>	1.1	-0.45	0.72	0.07	0.77
<i>Education</i>	0.4	2.56	4.35	1.29	1.39
<i>Restaurants and Hotels</i>	1.1	3.13	2.31	0.98	0.53

Clothing price index which comprises around 4.6 percent of the overall index, increased in September 2020 to 7.84 percent (year over year), while it was calculated 5.38 percent in the previous month. On the other hand, this index increased on month to month basis turning to 1.21 percent from 0.16 percent.

most of the clothing index are importing from Pakistan, and the cotton production has decreased in Pakistan by 35 percent this year, also a comparison of first six months of 2020 in compare with first six months of 2019 shows Afghanistan import have decreased by 23 percent which has led to increase the price of this index.

Price index of housing, electricity, water and gas increased in September 2020. On year over year basis, this index increased to 1.03 percent from -0.75 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 0.29 percent from 1.46 percent.

Education price index, increased in the month of September. Observing the data, this index increased to 4.35 percent from 2.56 percent (year over year), this index is also increased to 1.39 percent from 1.29 percent (month to month).

With the reduction of covid-19 cases in country, and reopening of education centers demand for this index has increased.

CORE INFLATION

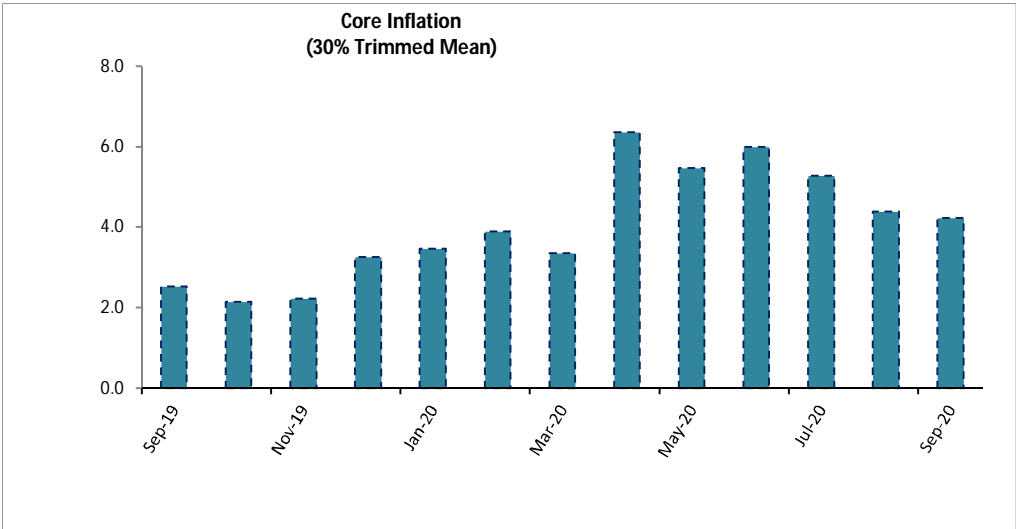
Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which may be seasonal or other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI.

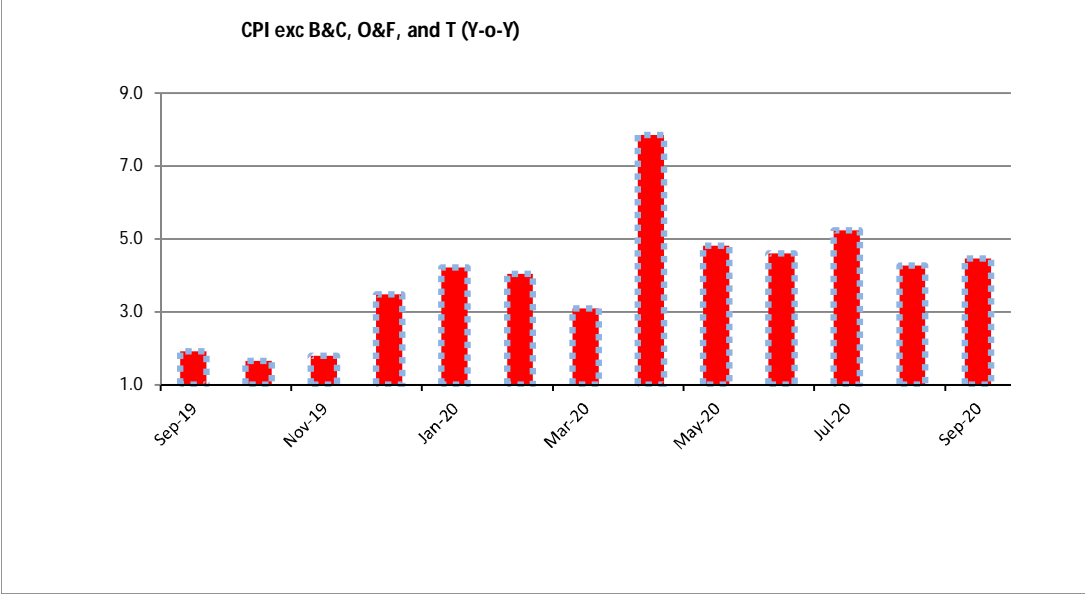
One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During September 2020, trimmed mean (30 % of CPI) decreased to 4.23 percent (year over year) from 4.38 percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which increased to 4.47 percent compared to 4.27 percent recorded in the previous month. Inflation by this measure decreased on the month-to-month basis to -0.69 percent from -0.39 percent.

Core Measures	Y-on-Y		M-to-M	
	August	September	August	September
<i>30 % trimmed mean</i>	4.38	4.23		
<i>CPI ex B&C, O& F and T</i>	4.27	4.47	-0.39	-0.69

Source: Da 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 INCOME 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%

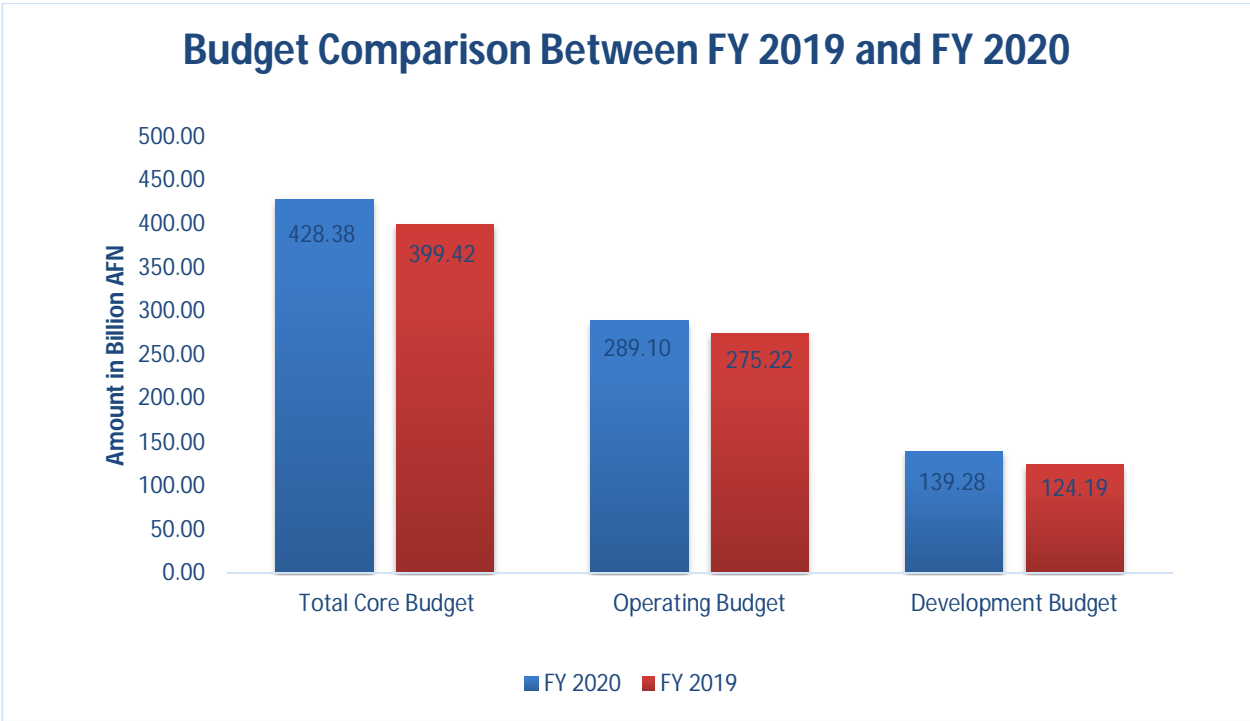
Secondary Income Account	267.66	547.83	341.27	599.43	230.89	588.06	7%
<i>Credit</i>	343.08	617.99	431.21	692.26	331.13	659.42	7%
<i>Debit</i>	75.42	70.15	89.93	92.83	100.25	71.36	2%
Current transfers (Official grants)	167.4	432.9	233.1	497.7	167.7	504.7	17%
<i>Credit</i>	167.40	432.91	233.1	497.7	167.7	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.

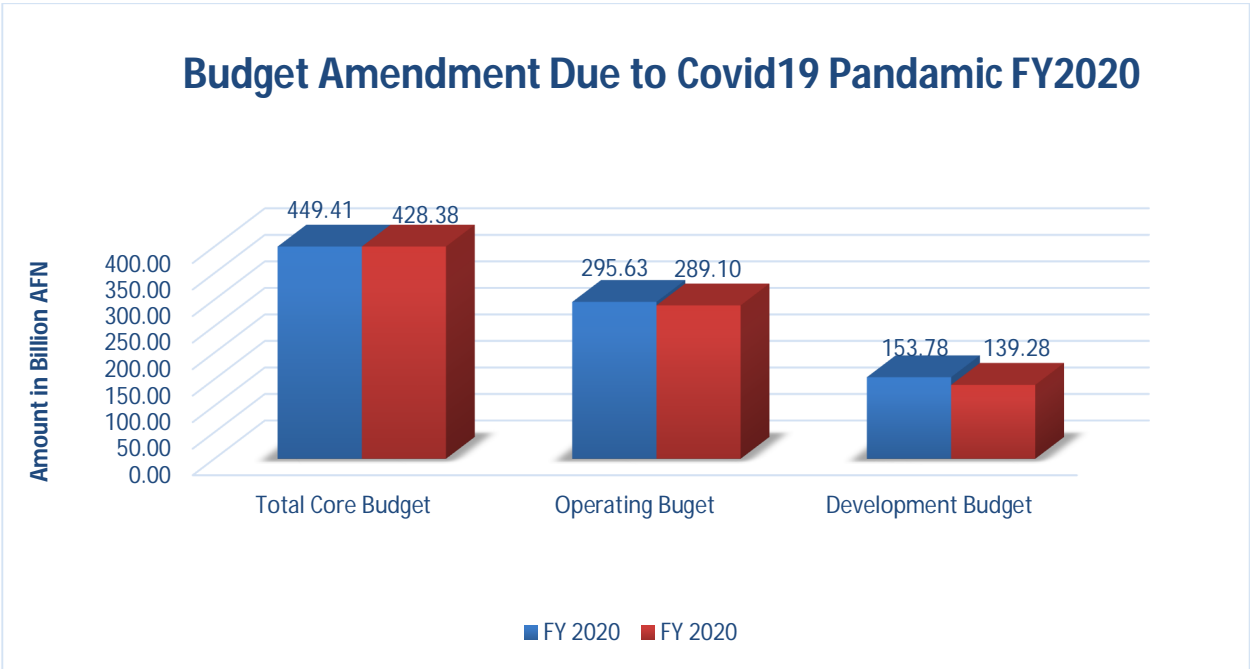
Afghanistan government has allocated about \$25 million to ministry of public health to deal with the pandemic. World Bank has approved \$200 million grants to support the country to run economy as smooth as possible.

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 October 2020.

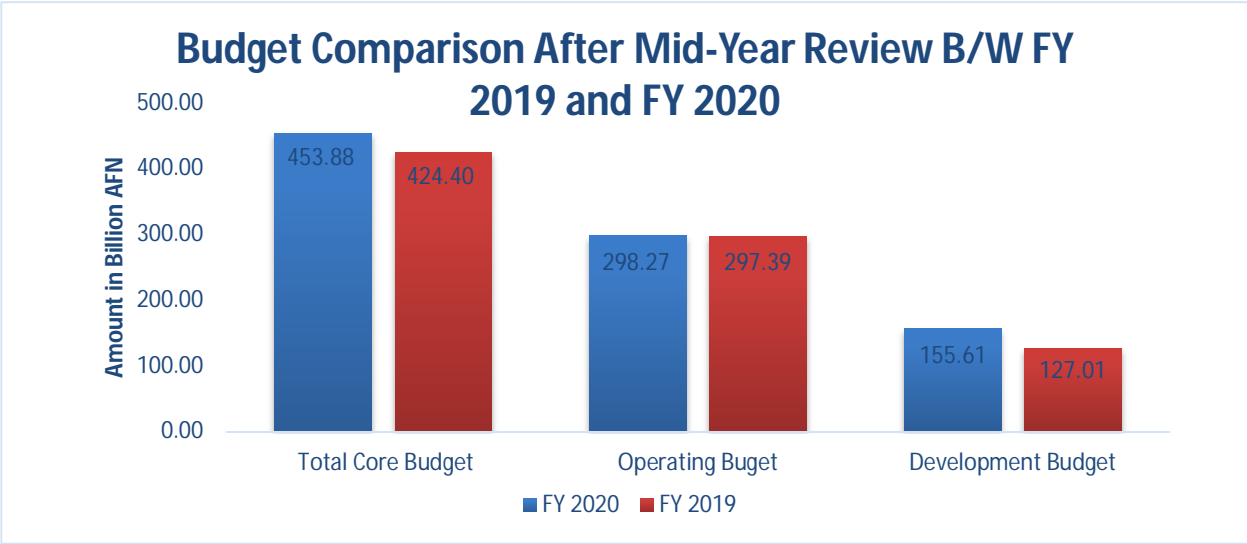
Following chart shows the updated figures for FY 2020 budget, up to October.



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 cabinet following the justification and documentation provided the ministry of finance.

Following chart shows the updated figures for FY 2020 budget, up to October.



Total core budget estimation is increased to AFN 453.88 billion including operating budget and development budget of AFN 298.27 billion and AFN 155.61 billion respectively. This shows an increase of 5.95% in total core budget from the start of FY 2020 indicating increase of amount AFN 25.50 billion and more over it shows AFN 29.48 billion increments or 6.95% compared to the FY 2019 budget at the same date.

Total revenue (domestic revenue plus external aids) for the month of October 2020 is AFN 30.43 billion, while in September it was AFN 24.47 billion which shows 24.34% or AFN 5.96 billion increase in October. Total revenue from the start of FY-2020 till end of October reached to AFN 277.47 billion that is combination of AFN 141.20 billion donor contributions and AFN 136.27 billion domestic revenue respectively.

Likewise, domestic Revenue for the month October is AFN 18.30 billion while it was amount AFN 14.55 billion in the month of September, showing an increase of AFN 3.75 billion 25.77% in the month of October. On the other hand, donor contributions (including loans) amounted to AFN 12.13 billion in October, where donor contributions in September was AFN 9.92 billion, which indicates AFN 2.21 billion 22.23% increase in donor contributions for the month of October.

Additionally, total Expenditure at the end of October 2020 reached to AFN 300.64 billion, from which operating expenditures and development expenditures were individually, AFN 208.49 billion and AFN 92.15 billion. Likewise, operating expenditures for the month of October is AFN 24.46 billion, where in September it was AFN 21.75 billion. This signifies that, there is AFN 2.71 billion or 12.48 % increase in operating expenditures in the month of October FY 2020. On the other hand, development expenditures for the month of September was AFN 13.17 billion, while in September increased by

AFN 2.83 billion or 21.52% resulted total expenditure for the month of October FY 2020 amount AFN 16.01 billion.

Description	FY, September 2020	FY, October 2020	From Jan to October FY 2020	Difference Between September and October	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	24.47	30.43	277.47	5.96	24.34%
Domestic Revenue	14.55	18.30	136.27	3.75	25.77%
Donor Contribution	9.92	12.13	141.20	2.21	22.23%
Total Expenditures	34.92	40.47	300.64	5.55	15.89%
Operating Expenditure	21.75	24.46	208.49	2.71	12.48%
Developing Expenditure	13.17	16.01	92.15	2.83	21.52%

Source: MOF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of October 2020 reached to 63%, Compared to September 2020 where it was 55% which shows 8% increase in budget execution rate for the month of October 2020.

5. Swift

Report of (Outward) Transactions from 1/07/ 1399 to 30/07/1399

Categories	Remitter Parties	Message Type	USD	EUR	CHF	INR	AUD	GBP
A	Ministries	MT 103 ,700 & 910	16,524,039.03	1,108,439.00	27,672.00	8,214,135.00	12,319.00	
B	Commercial Banks	202	112,452,115.00					
C	Da Afghanistan Bank	200	834,067,381.82					166,876,147.64
Report of (Inward) Transactions from 1/07/ 1399 to 30/07/1399								
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP		
A	Ministries	MT 103 ,700 & 910	207,635,692.00	2,693,487.06	2,449,042.00	355,845.00		
B	Commercial Banks	202	28,574,516.00					
C	Da Afghanistan bank	200						
بر علاوه به تعداد 33 معامله تبادلی FX Deal به ارزش مجموعی (64499430.57) دالر امریکائی و همچنان 6 معامله بانک جهانی به ارزش مجموعی مبلغ 41.104394 دالر امریکائی نیز اجرا گردیده است								

6. BANKING SECTOR

EXECUTIVE SUMMARY

The banking sector performed satisfactorily during August, 2020 compared to July, 2020. The main financial indicators as Total Assets, deposits, investments, equity capital and profitability has increased. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital and financial due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope up 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
	19-Aug	20-Aug	Percentile	20-Apr	20-May	20-Jun	20-Aug	Percentile	
Total Assets	299,827	314,360	4.85%	297,660	306,045	316,106	314,360	5.61%	16,701
Total Loans (Gross)	42,201	39,481	-6.44%	39,772	39,171	39,470	39,481	-0.73%	-291
Total Interbank Claims (Gross)	85,870	76,145	-11.33%	76,897	77,328	74,154	76,145	-0.98%	-752
Investment in Bonds	28,355	32,059	13.06%	31,187	30,847	33,798	32,059	2.79%	871
Standard Loans	27,923	21,380	-23.43%	27,261	26,235	21,240	21,380	-21.57%	-5,881
Past Due Loans ¹	14,278	18,100	26.77%	12,510	12,936	18,230	18,100	44.68%	5,590
Adversely Classified Loans ²	8,052	13,713	70.29%	8,066	8,205	13,799	13,713	70.00%	5,646
NPLs ³	5,185	12,017	131.77%	6,168	6,162	11,612	12,017	94.84%	5,850
Total Deposits	256,167	265,309	3.57%	250,966	259,770	267,730	265,309	5.72%	14,343
Total Liabilities	265,260	277,006	4.43%	263,010	270,931	279,207	277,006	5.32%	13,996
Financial Capital	34,567	37,354	8.06%	34,650	35,114	36,899	37,354	7.81%	2,705
Regulatory Capital	30,486	33,124	8.65%	30,699	31,028	32,798	33,124	7.90%	2,424
Risk Weighted Asset	116,215	121,512	4.56%	119,838	119,505	122,450	121,512	1.40%	1,673
Net Profit/Loss (Monthly)	67	205	204.56%	87	186	519	205	137.36%	119

Table 1: Major Financial Indicators of the Sector

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

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

³Loans classified in doubtful and loss categories.

INTRODUCTION

The banking sector in Afghanistan constitutes 21% 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	19-Aug	20-Aug	Change	%age change
Number of Branches	410	408	-2	-0.49%
Automated Teller Machines (ATM)	351	359	8	2.28%
Point of Sale (POS)	104	671	567	545.19%
Cash Deposit Machine (CDM)	-	6	6	-
Type 12 Facility ⁴	94	106	12	12.77%
Credit Cards	1,365	1,161	-204	-14.95%
Debit Cards	631,203	635,792	4589	0.73%
ATM Cards	243,050	241,445	-1605	-0.66%
Master Cards	6,841	21,975	15134	221.22%
Prepaid Cards	7,598	77,778	70180	923.66%
Web Surfer Cards	14,415	4,915	-9500	-65.90%
Number of Accounts (Loans)	68,720	59,095	-9625	-14.01%
Number of Borrowers ⁵	71,271	60,201	-11070	-15.53%
Number of Loan files where borrower president or vice president is a woman	14,837	13,182	-1655	-11.15%
Number of Depositors	3,778,237	4,136,299	358062	9.48%
Number of Deposit Accounts	3,896,512	4,281,977	385465	9.89%
Number of Employees (Local + Foreign)	9,413	9,917	504	5.35%

Table 2: Provided Banking Facilities

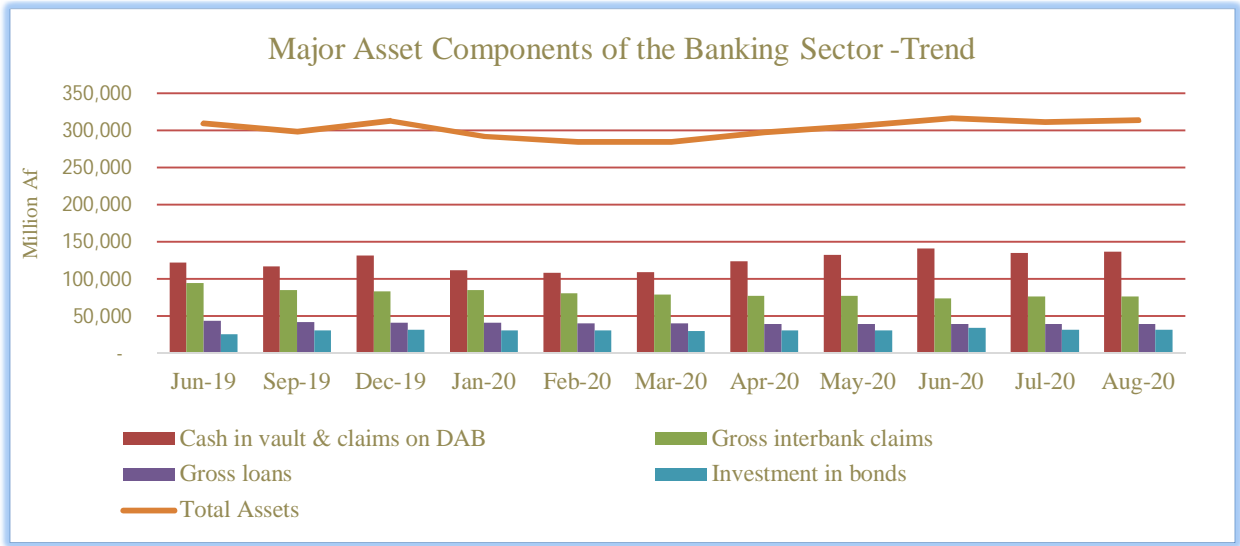
⁴Type 12: type 21, 24 & 25 Counters merged to Type 12 Extension Counter

⁵Number of borrowers, loan files, depositors, deposit accounts and employees are as on June, 2020 and June, 2019. These data are available on quarterly basis.

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

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector had an increasing trend showing 0.8% increase comparing to the previous month and 5.6% since April, 2020 that mainly attributed to 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, correspondent accounts with DAB and other assets. However, interbank claim and gross loans decreased in current month, attributed to decrease in demand and time deposits with foreign banks and charge off of loans, settlement of loans and less OD utilization of loans.



Graph 1: Major Asset components of the Banking Sector

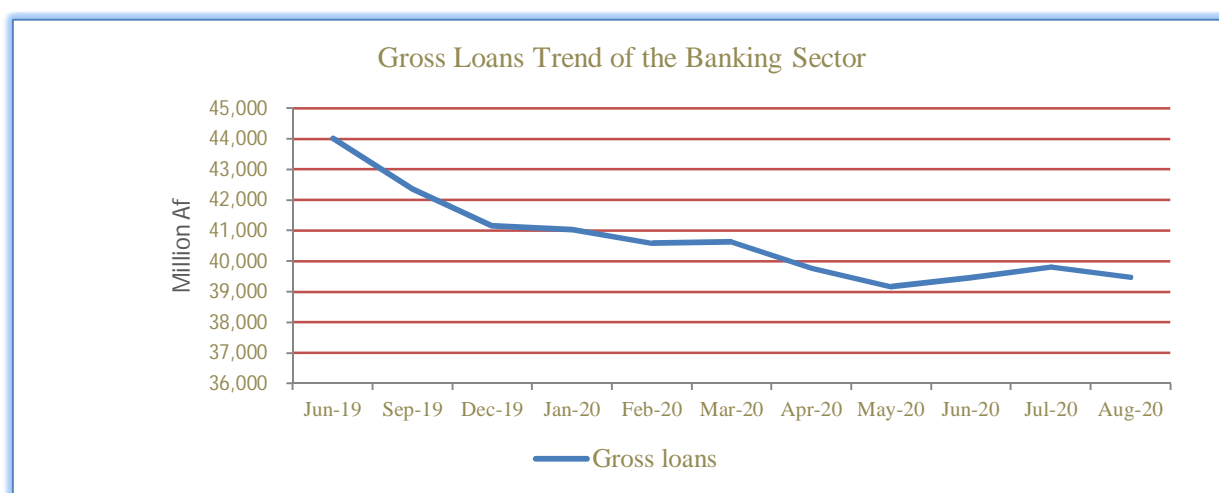
As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (44%), followed with the gross interbank claims (24%), gross loans (13%), and the investment in bonds (10%).

Asset Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Aug
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75 %	30.55 %	33.47 %	28.00 %	33.89 %	32.75 %
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.30 %	10.74 %	10.88 %
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%	1.14%
Foreign Claims to Total Assets	29.02 %	26.54 %	25.04 %	25.69 %	22.33 %	23.17 %
Total Gross Loans to Customer Deposits	16.99 %	17.02 %	15.77 %	17.31 %	15.00 %	15.10 %
Loan Loss Reserves to Total Gross Loans	10.93 %	12.25 %	12.24 %	12.59 %	11.57 %	11.74 %
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.61%	1.80%	1.44%	1.47%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	0.86%	1.17%	1.16%
Reposessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%	0.32%
Reposessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%	2.57%
NPL to Total Assets	1.82%	1.87%	1.90%	2.14%	3.67%	3.82%

Table 3: Asset Quality Indicators

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 were attributed mainly to settlement, repayment, charge-off and less OD utilization of loans. However, in the current month Af 515 million (principal amount) new loans were issued as well (mostly micro loans). 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.



The gross loan portfolio of the banking sector currently stands at AF 39.4 billion, showing 0.8% decrease comparing to the previous month mainly attributed to settlement, charge-off and less OD utilization of loans, making 15% of the customer deposits and 13% of the sector total assets. By end of Aug, 2020 the total coverage ratio is 11.7% of the total gross loans. As indicated in the table below, loans are mostly concentrated in Af denomination making 52% of the total portfolio followed with USD denominated loans at 48% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.13% of portfolio). See the summary of loan portfolio below:

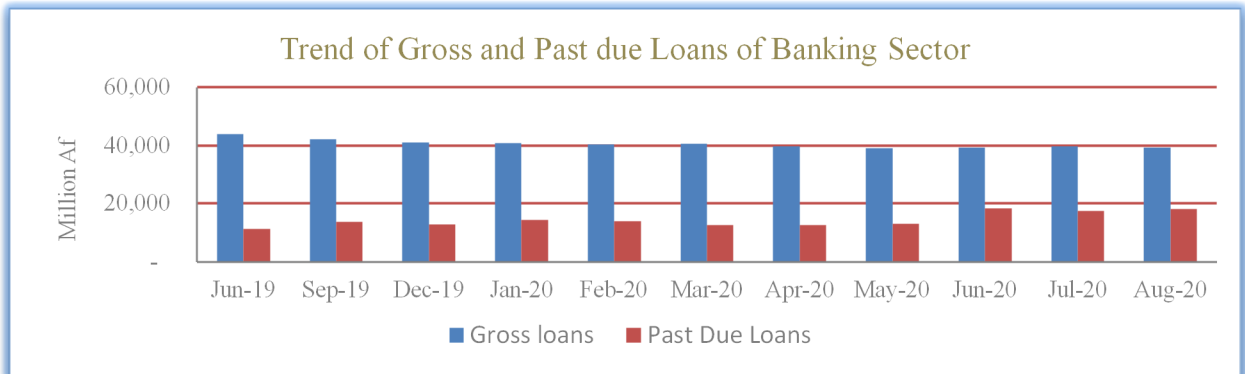
Banking Sector Loans by Currency – amount in million Af							
Currency	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Aug	%age of Loans
Afghani	20,227	20,439	20,912	20,980	20,172	20,400	51.67%
USD	23,685	21,851	20,171	19,598	19,251	19,031	48.20%
Other Currencies	101	83	68	47	48	50	0.13%

Table 4: Gross Loans Currency Composition

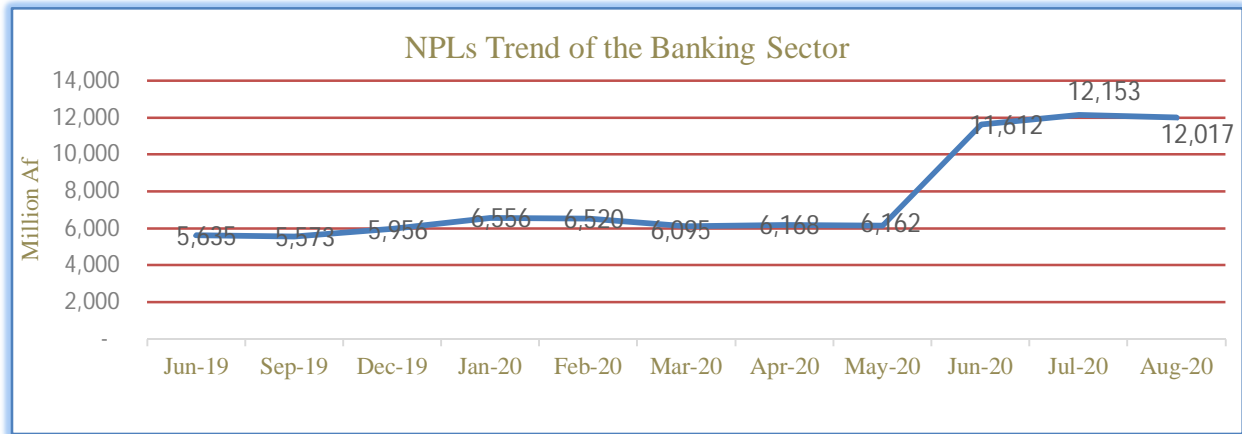
- ✓ Total loan portfolio followed a decreasing trend since mid-2019. Posting 0.8% decrease since last month, attributed to settlement, charge-off and less OD utilization of loans.
- ✓ In the current month 3,108 loan accounts amounting to Af 515 million (corporate + MSME) newly disbursed.

6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 30% of the sector gross loan portfolio. Out of 30% NPLs, 28% is attributed to four banks, the top lenders in the sector. These banks hold 68% of the sector’s gross loans and 52% of the sector’s regulatory capital. Hence, further deterioration in the loan quality of 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

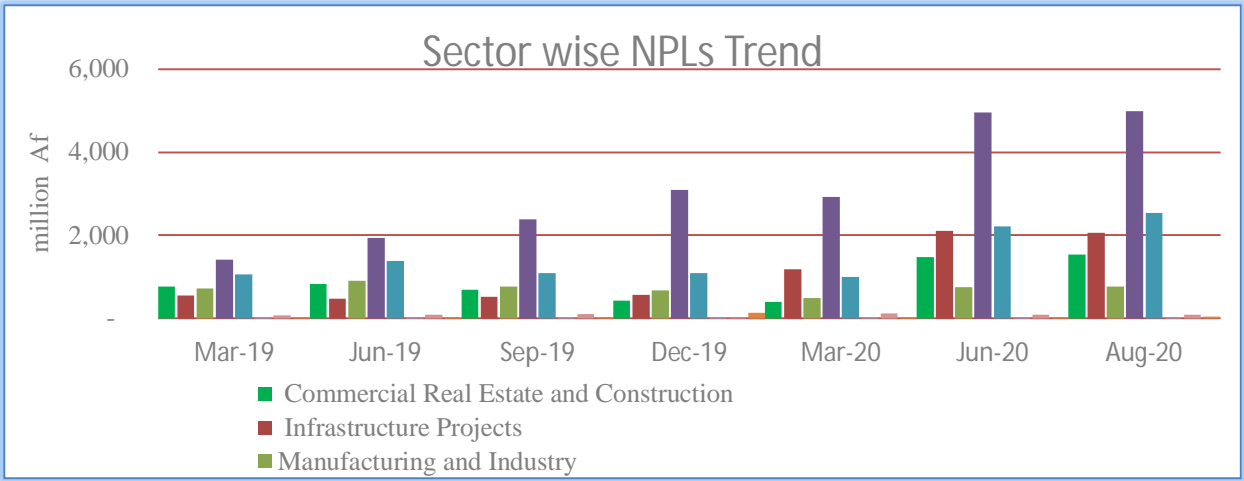
Group-wise analysis of the banking institutions shows that 93% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 6% and 1% share in the total NPL portfolio respectively.

Loan Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Aug
Criticized Loans to Total Gross Loans	25.41%	32.05%	31.37%	30.75%	46.19%	45.85%
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32%	17.90%	19.71%	34.96%	34.73%
Non-Performing Loans to Total Gross Loans	12.80%	13.15%	14.47%	15.00%	29.42%	30.44%
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23%	18.95%	20.23%	35.40%	36.28%
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80%	35.50%	37.35%	23.19%	23.54%
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24%	66.37%	65.02%	29.80%	30.10%

General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.56%	1.60%	1.59%	1.76%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	6.75%	6.89%	25.19%	25.92%
Net NPLs to Total Net Loans	5.00%	4.76%	5.54%	6.01%	23.36%	24.11%
Net NPLs to Total Gross Loans	4.45%	4.18%	4.87%	5.25%	20.65%	21.28%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (41%) dominated in cement & other construction material (8%) and petroleum and lubricants (7%), followed by Services Sector (21%) mostly recorded in ground transportation (6%) and infrastructure projects (17%). Increases were observed in Services Sector mostly in hotels & restaurant and in Trade Sector the main driver was the petroleum & lubricants.



Graph 5: Sector Wise NPLs

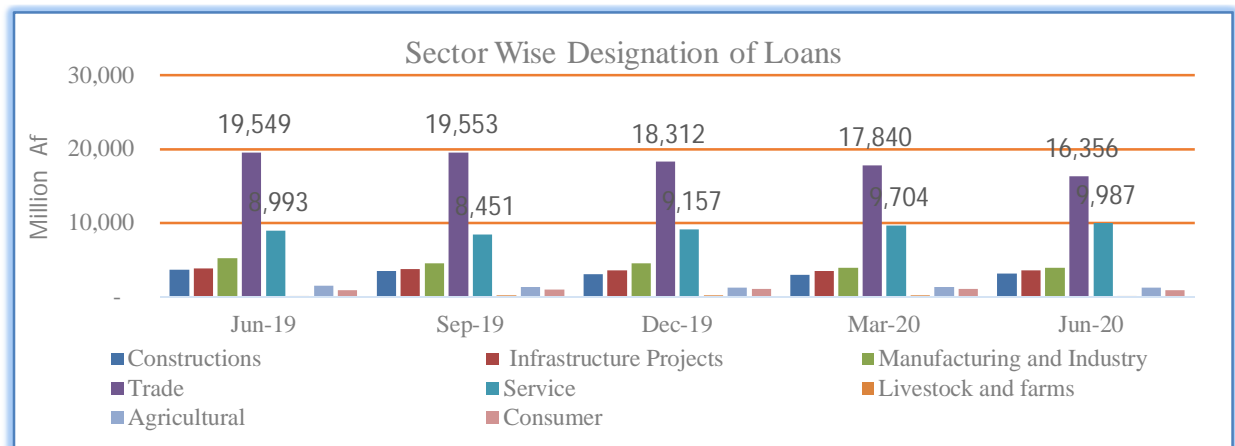
- ✓ Currently 30% of the banking sectors gross loans and 36% of the regulatory capital is at risk. Decrease in NPLs (1.1% or Af 136 million) comparing to the previous month is mainly attributed to repayment and charge-off of loans.
- ✓ The NPL ratio with accelerating trend, 30% in Aug, 2020 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.

6.2.2: Type of Loans

As evident in the graph below, 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 25% and Islamic Loans at 11% of the total portfolio. In comparison, Credit Cards are negligible at 0.1%.

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

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (25%), while the share of Islamic loans is limited to (11%).

Total related party exposure of the sector is Af386 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital of the sector. Related party exposures are under the set regulatory threshold (5% - individual & 25% - total).

6.2.5: Repossessed Assets

Total repossessed assets of the banking sector amount to Af 1.01 billion, decreased by Af0.8 million compared to the previous month attributed to FX rate. Total repossessed assets constitute 0.3% of the banking sector total assets reported by three banking institutions, as demonstrated in the graph below.

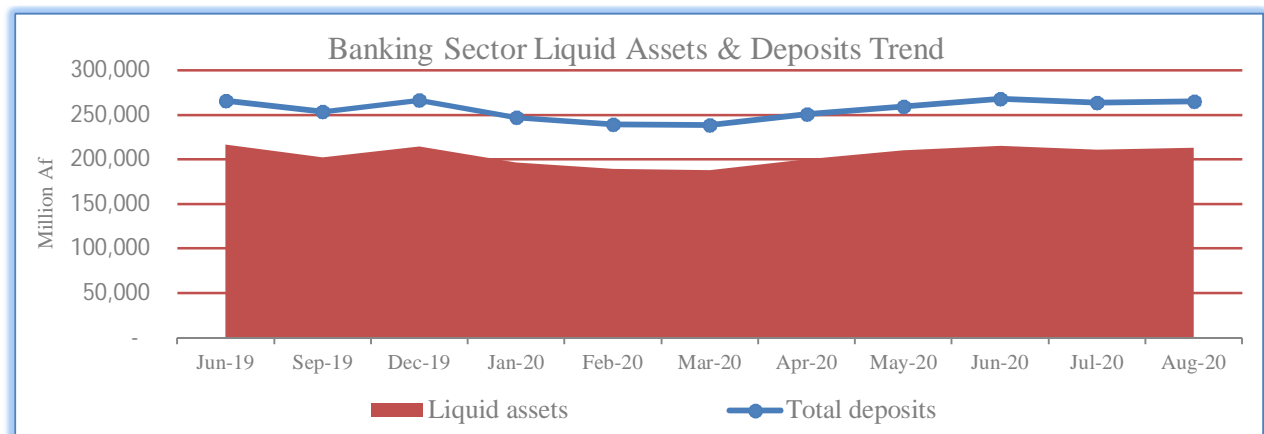
✓ The percentage share of all banks repossessed assets and period to retain on the balance sheet are within the regulatory limits (4% of total assets and 4-year period).

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 media stands at 63% increased from 62% in July 2020, attributed to decrease in off-balance sheet items.

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, as compared to the previous month, it has not changed significantly.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

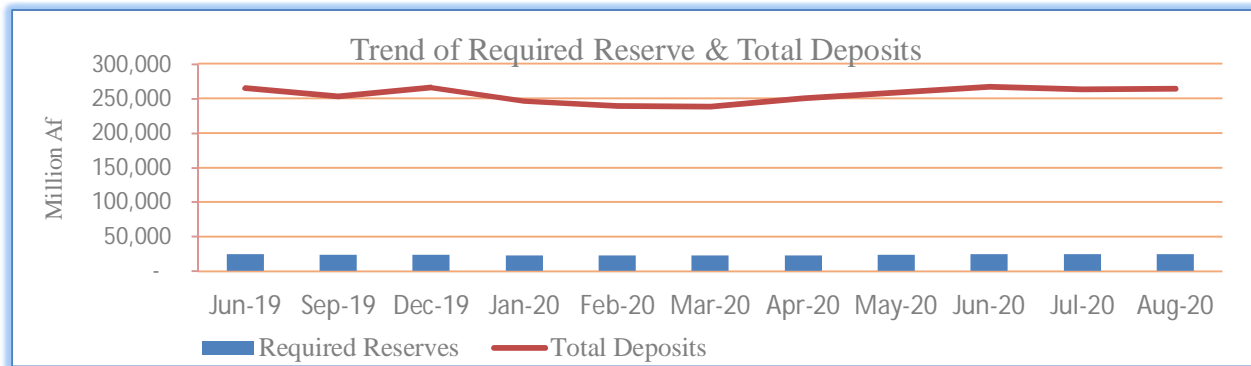
Liquidity Ratio Analysis

Liquidity Ratios	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Aug
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%	14.88%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.49%	12.56%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.33%	86.61%	87.21%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.08%	41.16%	42.84%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	66.57%	68.09%	67.86%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%	66.71%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	15.10%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.72%	0.64%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.90%	12.95%	13.04%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

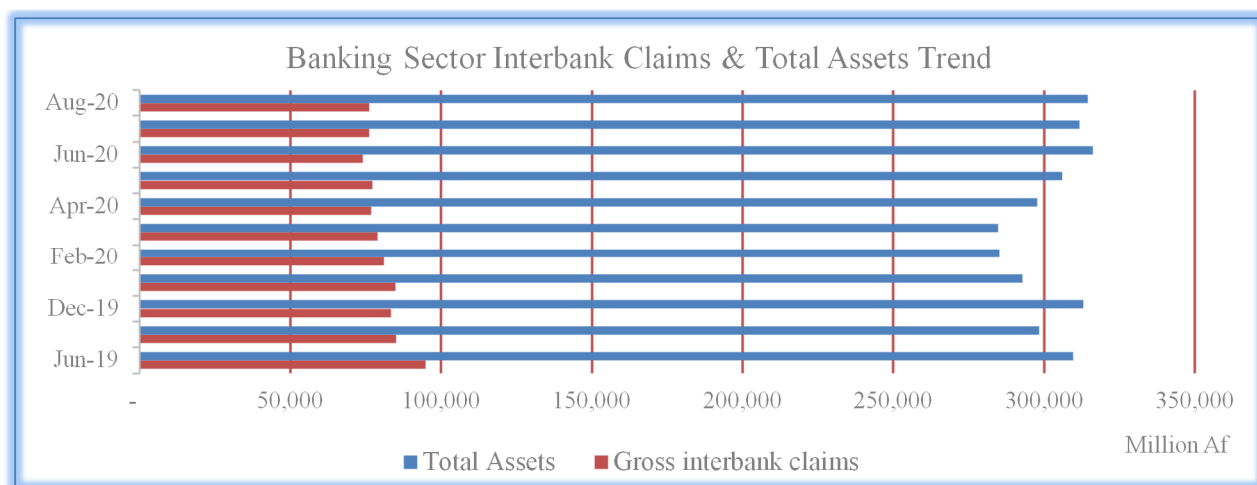
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



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

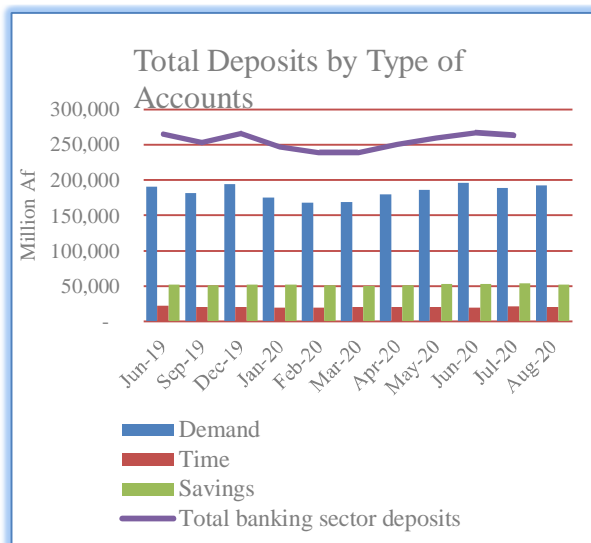
6.3.4: Foreign Accounts and Placements

Total Foreign Interbank Claims constitute 23% of the sector total assets and 27% 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

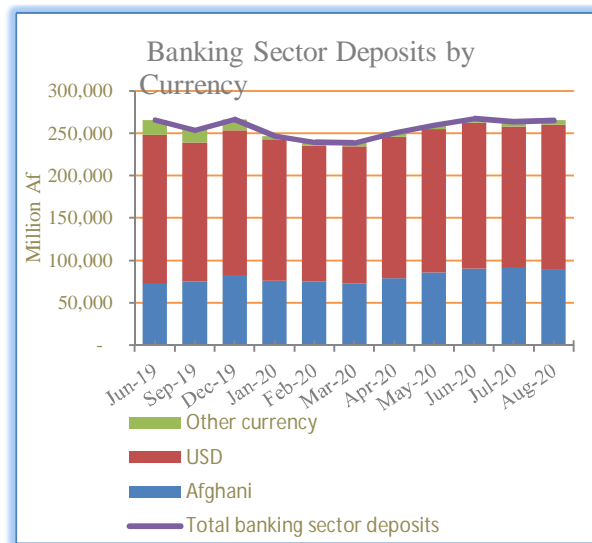
attracted placed outside the country while the share of loans designated inside the country is limited to 13% of the sector's total assets and 15% of the total sector deposits.

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, and increased by 0.6% since previous month (July, 2020) attributed to increase in demand deposit USD accounts. Currency wise analysis show that Af denominated deposits decreased by 3%, accounted for 33% of total deposits, USD denominated deposits were up by 2%, making 65% of the total deposits, while other currency deposits declined by 0.6%, comprising 2% of the total banking sector deposits.

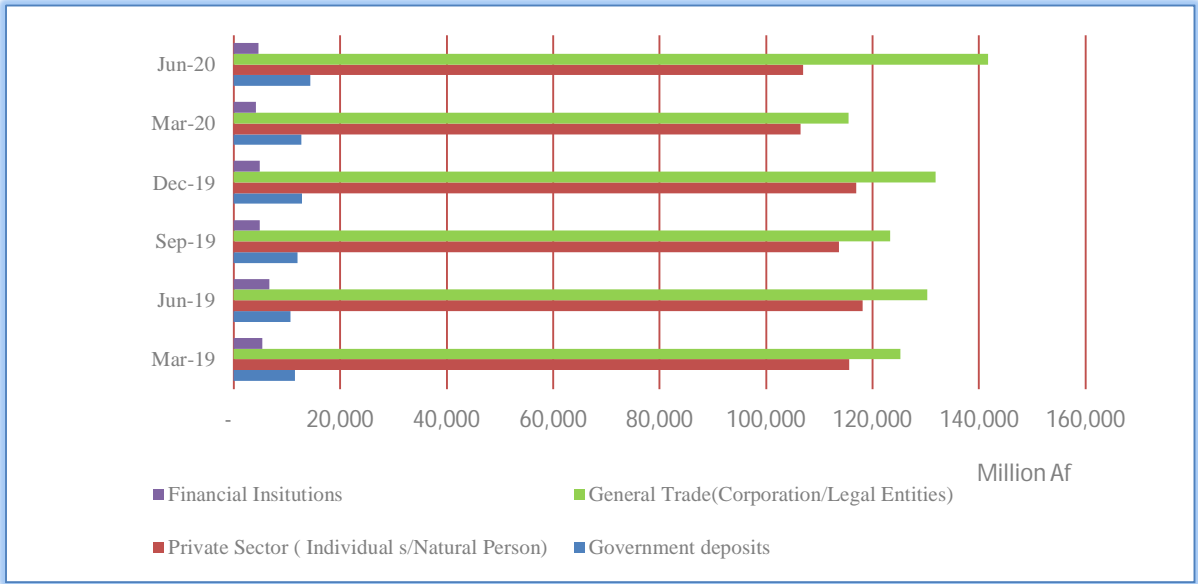


Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency

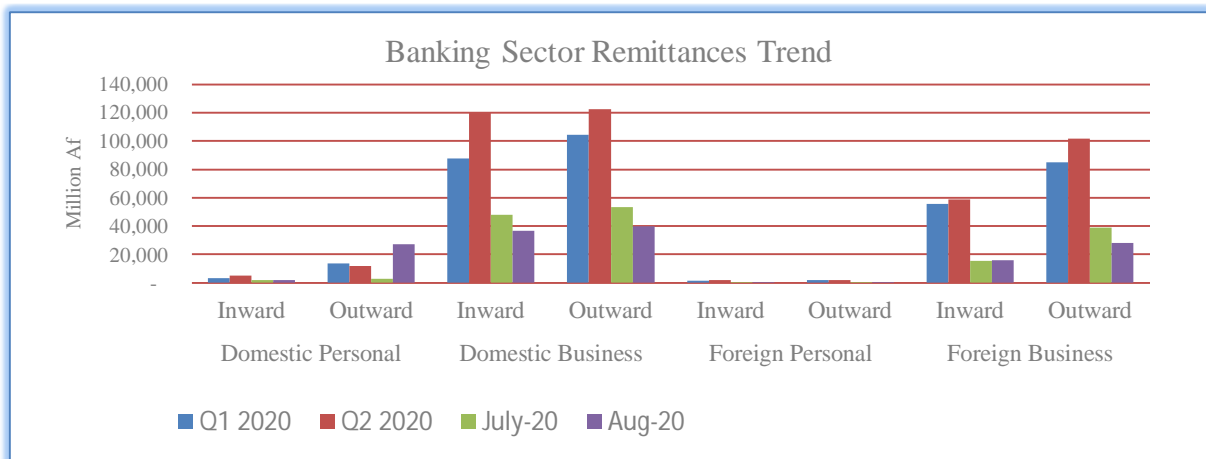
As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector, which makes 53%, followed by individual/natural person deposits with 40%, government deposits 5%, and financial institutions constitute 2% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 68%, followed by state-owned banks with 27% share, while the share of the branches of foreign banks is 5%.



Graph 12: Total Deposits by Nature of Depositors

Banking Sector Deposits Trend Jan-Aug 2020 By Type & Currency -in million Af								
Items	20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Aug	Quarterly Change
Demand	175,599	168,479	169,068	179,700	186,542	195,857	192,562	7.5%
Time	19,558	19,400	20,243	20,052	19,931	19,228	20,720	3.33%
Savings	51,813	51,507	49,626	51,214	53,297	52,645	52,027	1.58%
Total	246,970	239,386	238,937	250,966	259,770	267,730	265,309	5.71%
AF	75,988	74,773	72,916	79,148	85,947	90,025	88,323	11.59%
USD	166,612	160,240	161,437	167,027	168,903	172,957	171,641	2.76%
All Other Currencies	4,370	4,373	4,583	4,791	4,920	4,748	5,345	11.57%
Total	246,970	239,386	238,937	250,966	259,770	267,730	265,309	5.71%

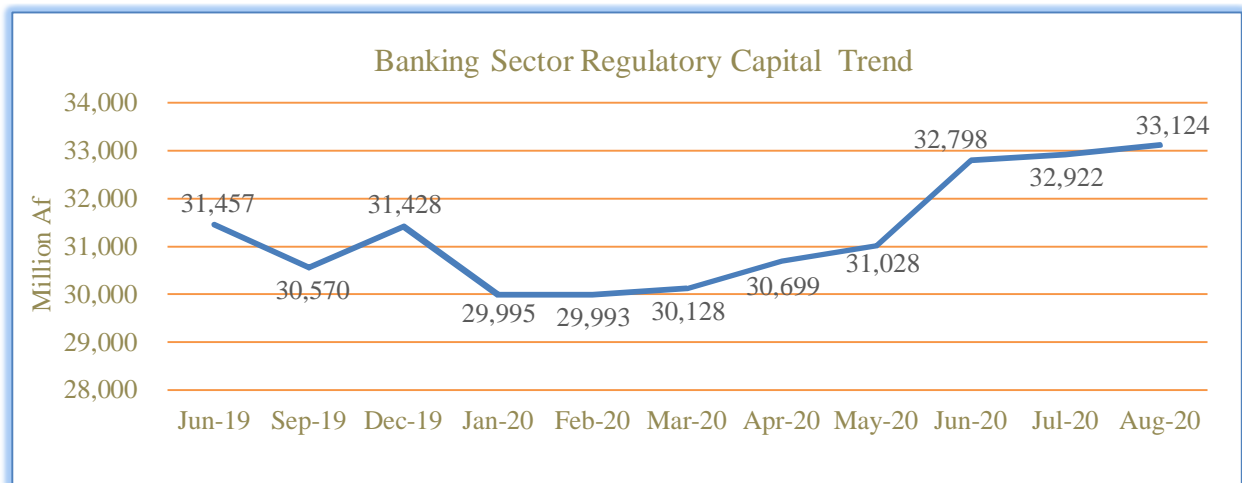
Table 7: Banking Sector Deposits Trend Jan-Aug 2020 by Type & Currency



Graph 13: 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 AF 37.3 billion increased by 1% over the month, attributed to the gain in Revaluation-Available for Sale Investments and profits. The regulatory capital of the sector stands at AF 33.1 billion, showing 1% increase over the month. 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 14: Regulatory Capital Trend of Banking Sector

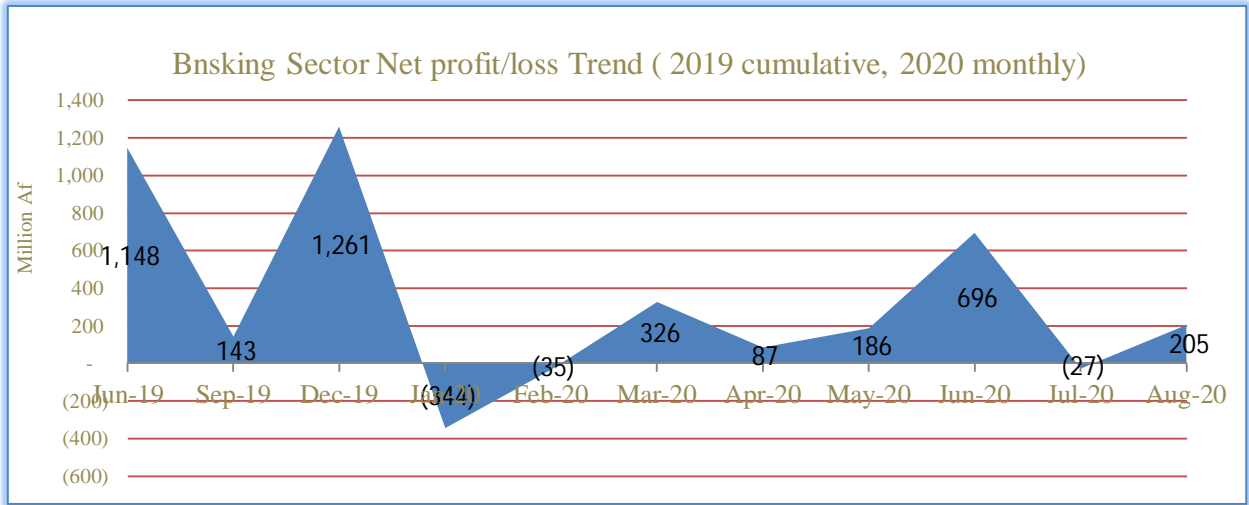
Capital Adequacy Ratio Analysis:

Capital Adequacy Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Aug
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.93%	25.84%	26.78%	27.26%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.50%	26.53%	26.43%	26.68%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.48%	10.87%	10.24%	10.31%
Equity Capital To Total Assets	11.49%	11.63%	11.40%	11.91%	11.67%	11.88%

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-Aug 2020) recorded at Af 1.09billion. For the month under review the banking sector earned Af 205 million net profit showing improvement over the last month. The profitability in the current month is attributed to increase in interest income, reintegrated provisions and increase in FX revaluation gains. However, non-interest income decreased and tax expenses increased in the review period. Major profitability components are interest and non-interest income, while main expenses cover non-interest expenses and salary expenses. As indicated in the graph below, the banking sector has been mostly profitable during the first eight months of current year mainly attributed to reintegration of provisions, FX gains and non-interest income. ROA (annualized) of the sector recorded at 0.54% and ROE (annualized) stands as 4.64% at end August, 2020.



Graph 15: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun
Net-Interest Income to Total Income	150%	1148%	118%	- 2890.50%	144.83%
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%	0.55%	0.65%
Non-Interest Income to Total Income	163%	1113%	209%	- 2977.35%	214.04%
Operating Expenses to Total Income	237%	1839%	226%	-4900.0%	267.97%
Salaries to Operating Expense	40.68%	40.59%	38.67%	44.47%	41.44%
Efficiency Ratio (Operating Expenses/ Core Income)	75.65%	81.30%	68.99%	85.71%	90.71%
Burden (difference between non-interest income and non-interest expense)	-847	-1,036	-213	-1,065	-522
Net Profit/Loss (Cumulative)	1,148	143	1,261	-53	968
Return on Asset	0.38%	0.05%	0.42%	-0.07%	0.64%
Return on Equity	3.30%	0.41%	3.62%	-0.62%	5.51%
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 and the burden (the difference between non-interest income & non-interest expense) improved compared to March, 2020 (An efficiency ratio of 50% or under is considered optimal), attributed to increasing in non-interest income.

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	1,764	1,642
Interest Expense	311	257	253	231	240
Net-Interest Income	1,722	1,640	1,494	1,532	1,402
Credit Provision-net	152	505	287	379	27
G/L on Investments	24	125	82	-11	-27
Other Non-Interest Income	1,872	1,591	2,635	1,578	2,072
Non-Interest Expense	1,561	1,560	1,747	1,442	1,519
Salary Expense	1,158	1,066	1,102	1,155	1,075
Total Operating Expenses	2,719	2,627	2,849	2,597	2,594
Income or Loss Before FX Revaluation G/L & Taxes	748	225	1,076	124	826
FX Revaluation G/L	582	-87	391	-112	258
Tax	181	-5	206	65	116
Total Net-Profit/Loss	1,148	143	1,261	-53	968

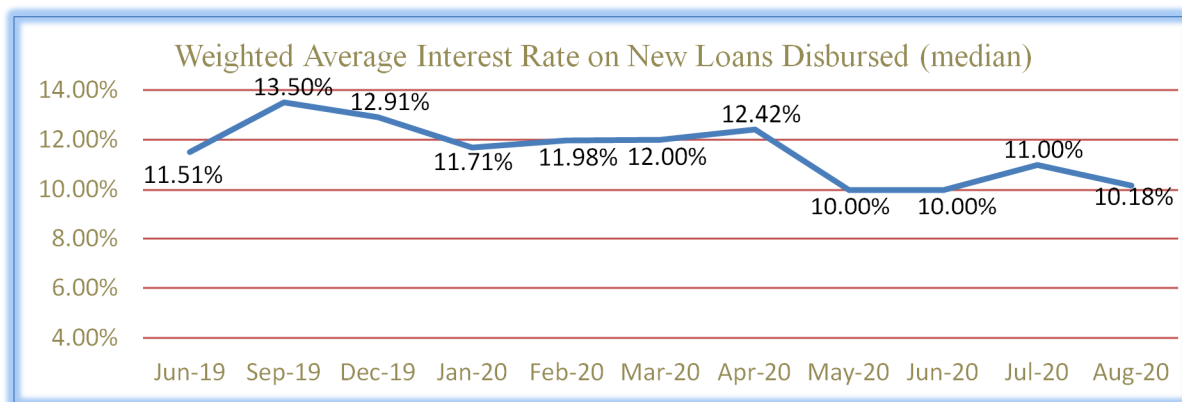
Table 10: Banking Sector P/L Trend

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), OD (Over Draft), Consumer loans and Murabaha loans. The highest prevailing rate is 36%, and the lowest is at 1%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 10.18% (Median).

Type of Loans- Sector level	Average Interest Rate (Aug-20)
Overdraft	12.5%
Term Loan	12.6%
Consumer Loan	11.7%
Murabaha	12.0% ⁶
Credit Cards	27.3%
Highest Interest Rate	36.0%
Lowest Interest Rate	1.0%

Table 11: Average Interest Rate of Loans

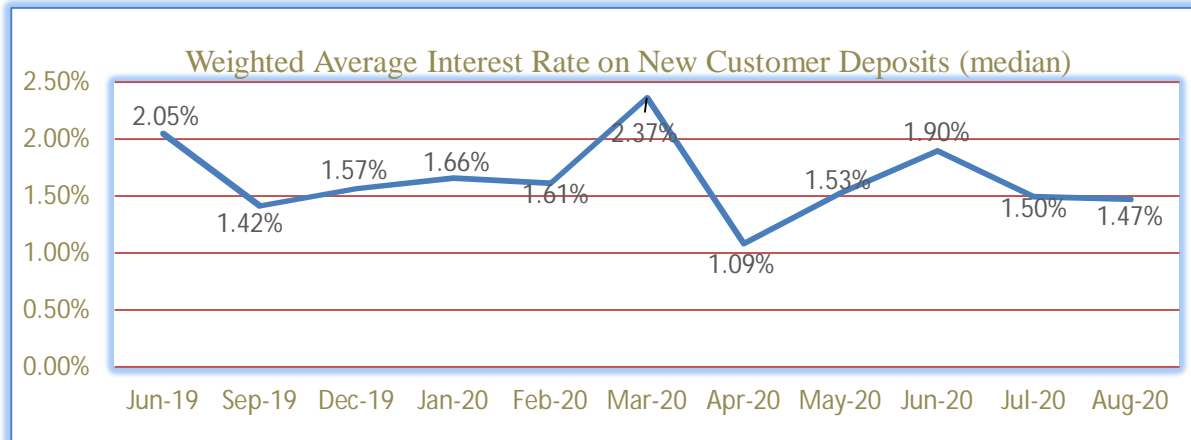


Graph 16: Weighted Average Interest Rate on New Loans disbursed (median)

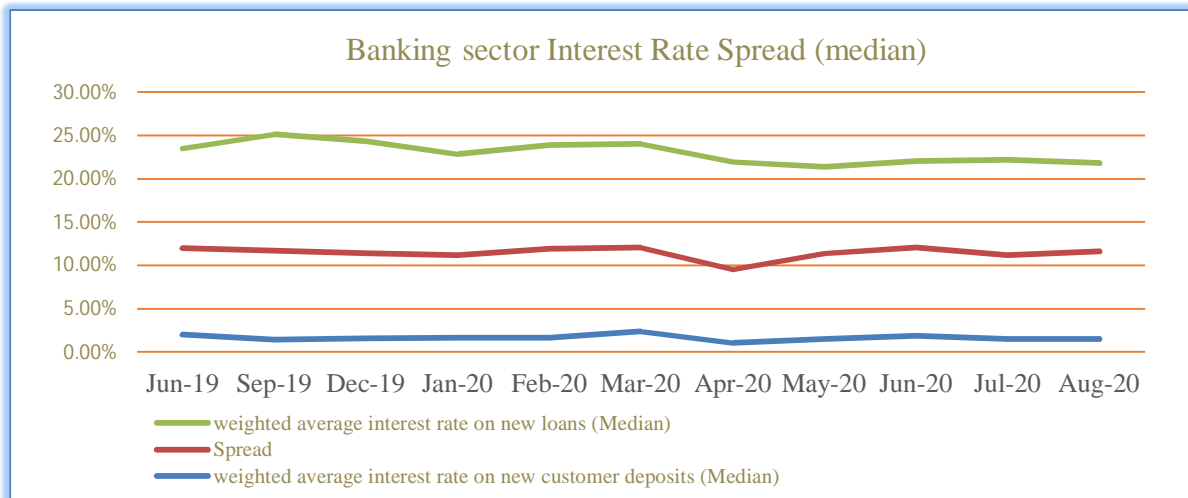
⁶For Islamic Products %age is the profit rate.

6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of funds decreased in Aug, 2020 as compared to July 2020 mainly due to a decrease in saving deposits in one of the banks.



Graph 17: The Interest Rate on New Deposits attracted (median)



Graph 18: Banking Sector Interest Rate Spread (Average)

- ✓ DAB 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 Af 58.1billion, mostly comprising of performance, advance payment, and bid guarantees. The total coverage ratio in the form of cash, property, and counter guarantees is 70%, while the remaining portion lacks any kind of collateral coverage.

Type and amount of BGs Issued By Banking Sector Aug- 2020	
Type Of BGs	Amount in Million Af
Bid	4,728
Performance	28,369
Advance Payment	12,322
LC	324
Other BG ⁷	659
Retention ⁸	1,254
Total	47,657

Table 12: Type of BGs Issued by Banking Sector

⁷Other 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.

⁸It 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.

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash, Property & Counter Guarantee Aug-2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	11,701	24.3%
Collateral Value (Property)	4,475	5.54%
Counter Guarantee	20,003	40.3%
Total	33,462	70.2%

Table 13: Banking Sector BGs Coverage Ratios