



Da Afghanistan Bank

Monetary Policy Department

Monthly Report

July 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) actual amount has been recorded Af 321,628.98 million at the beginning of FY 1399 (2020), and the actual amount at the end of Saratan stood at Af 317,032.32 million and showing 1.43 percent negative growth from the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). Currency in circulation (CiC) was stood at Af 259,349.98 million at the beginning of FY1399 (2020), The actual amount of currency in circulation (CiC) stood at Af 277,966.61 million at the end of Saratan month, The actual amount difference is Af 18,616.64 million which is above the ceiling and shows growth of 7.18 percent.

Since the beginning of fiscal year of 1399 (2020) up to end of Saratan, DAB has auctioned a total amount of USD1,201.86 million through open market operations, and has collected Af 92.24 billion from the market. These operations have fulfilled 30.58 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of May 2020 year over year basis. The year over year inflation decreased to 6.26 percent in May from 8.67 percent observed in the previous month. This decrease is caused by lower prices of food and non food items.

Current account deficit, declined by almost 24 percent to a value of USD 972.10 million in the first quarter of the FY 1399 from a value of USD 1,276.92 million recorded in the first quarter of the FY 1398. This decline was primarily on account of a contraction in merchandise trade deficit as a result of increasing exports of goods and declining imports of goods, a contraction in services account due to decreasing payments to some of services implemented by non-residents to residents, as well as, a rise in inflow of investment income in the first quarter of the FY 1399.

Total revenue (domestic revenue plus external aids) for the month of Jun 2020 is AFN 21.21 billion, while in May; it was AFN 30.76 billion which shows 31.04% or AFN 9.55 billion decrease in Jun. Total revenue from the start of FY-2020 till end of Jun reached to AFN 137.82 billion that is combination of AFN 60.13 billion donor contributions and AFN 77.70 billion domestic revenue respectively.

Overall the banking sector performed well during pandemic rendering necessary operating services to the public and remained well liquid. The liquidity position of all banks is above the set regulatory limits.

69% of the sector assets are liquid, and no liquidity shortfall was observed in any bank during the pandemic. Capital positions remained healthy; the capital adequacy ratio of all banks are above the regulatory threshold. In the last three months, the banking sector remained profitable, but the loan quality remains weak; this is despite the fact that due to the incentive package, the classification of loans was suspended at the end Feb-20 position.

In the coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios. Hence, banks have to opt for precautionary measures to cope with the expected financial downturn. Though BSD has developed a time-bound post-COVID-19 improvement plan. The main points of the plan cover the 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 the third party as ACGF, IFC, USAID, etc.

The report outlines the financial indicators of the banking institutions based on the data submitted by the banking institutions.

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1. Monetary Sector

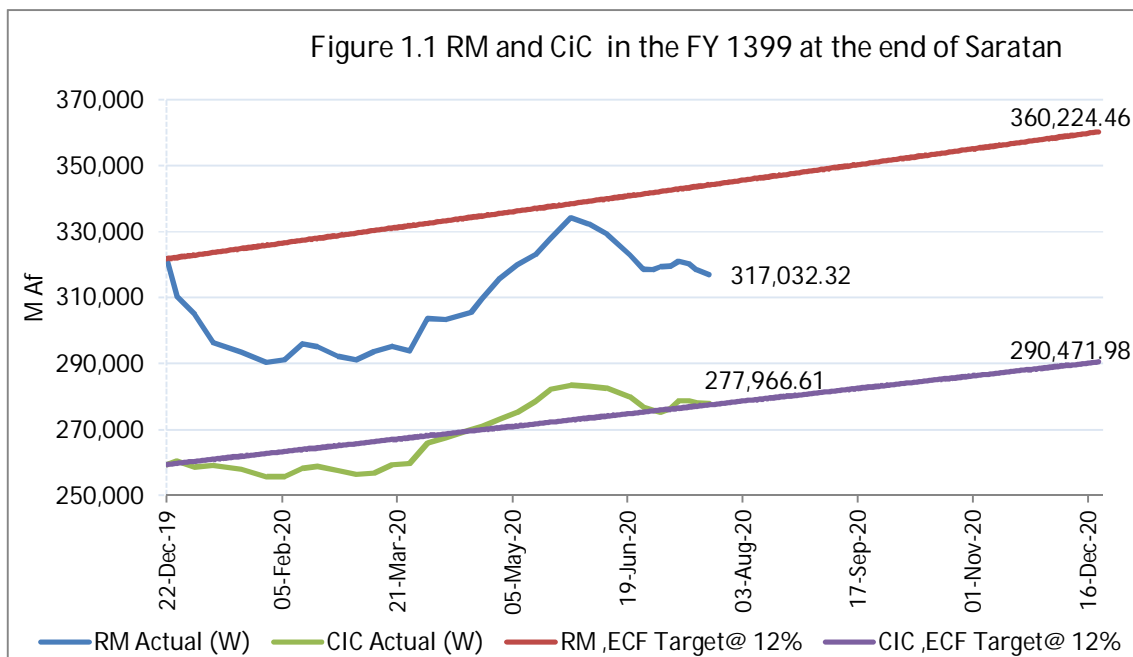
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

Monetary Policy department develops monetary policies of Da Afghanistan Bank in consideration to the country's economic situation, through the main and effective channels of money demand, government's fiscal program (Revenue and expense), economic growth outlook, and general price level in the country.

Reserve Money (RM) actual amount has been recorded Af 321,628.98 million at the beginning of FY 1399 (2020), and the actual amount at the end of Saratan stood at Af 317,032.32 million and showing 1.43 percent negative growth from the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). Currency in circulation (CiC) was stood at Af 259,349.98 million at the beginning of FY1399 (2020), The actual amount of currency in circulation (CiC) stood at Af 277,966.61 million at the end of Saratan month, The actual amount difference is Af 18,616.64 million which is above the ceiling and shows growth of 7.18 percent.

The following chart shows the RM and CiC during FY 1399 (2020)



Source: Open Market Operations/Monetary Policy Departments

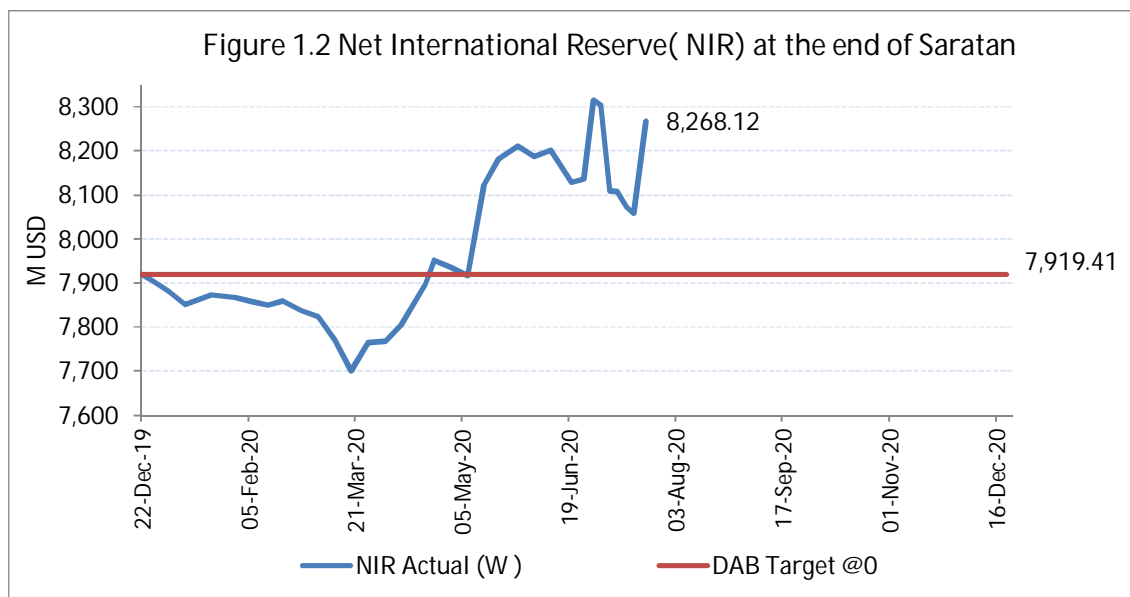
1.2 Net International Reserve

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 8,268.12 million at the end of Saratan month, which shows USD 348.71 million accumulation.

NIR growth is presented in the following chart:



Source: Open Market Operations/Monetary Policy Departments

1.3 Foreign Exchange and Capital Notes Auction

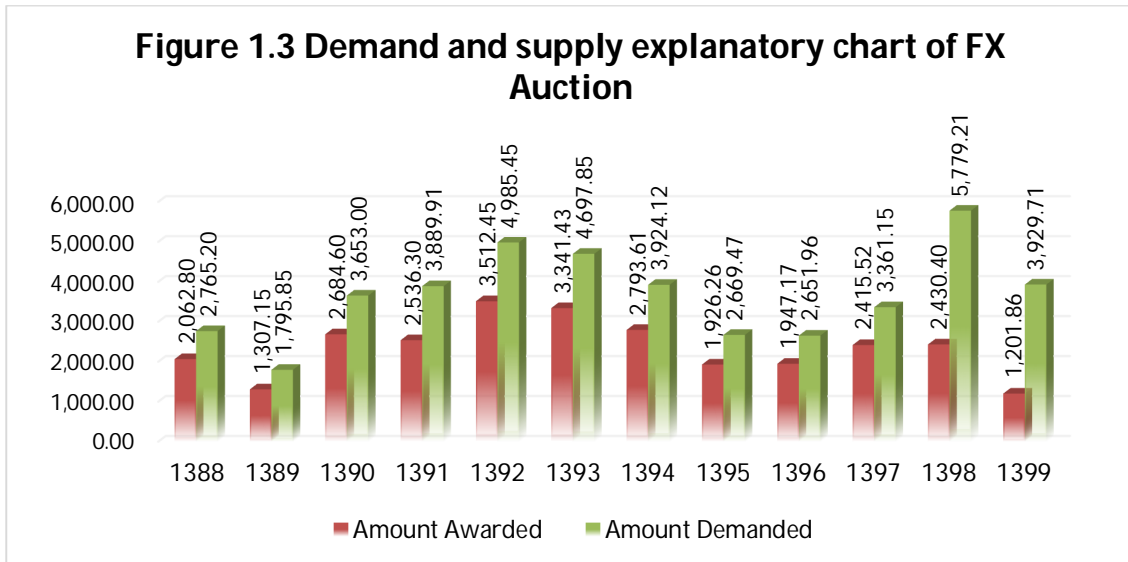
In order to control the liquidity, money supply and mitigate excessive Af exchange rate fluctuations in the economy, DAB manages reserve money growth close to its sited ceiling by conducting USD auctions three times in a week, and weekly capital notes auctions, which are the two instruments used through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

Foreign Exchange Auction

Since the beginning of fiscal year of 1399 (2020) up to end of Saratan, DAB has auctioned a total amount of USD1,201.86 million through open market operations, and has collected Af 92.24

billion from the market. These operations have fulfilled 30.58 percent of the total demand for currency (especially the US dollar) in the market.

The below figure illustrates the foreign exchange demand and supply during the last 12 years.



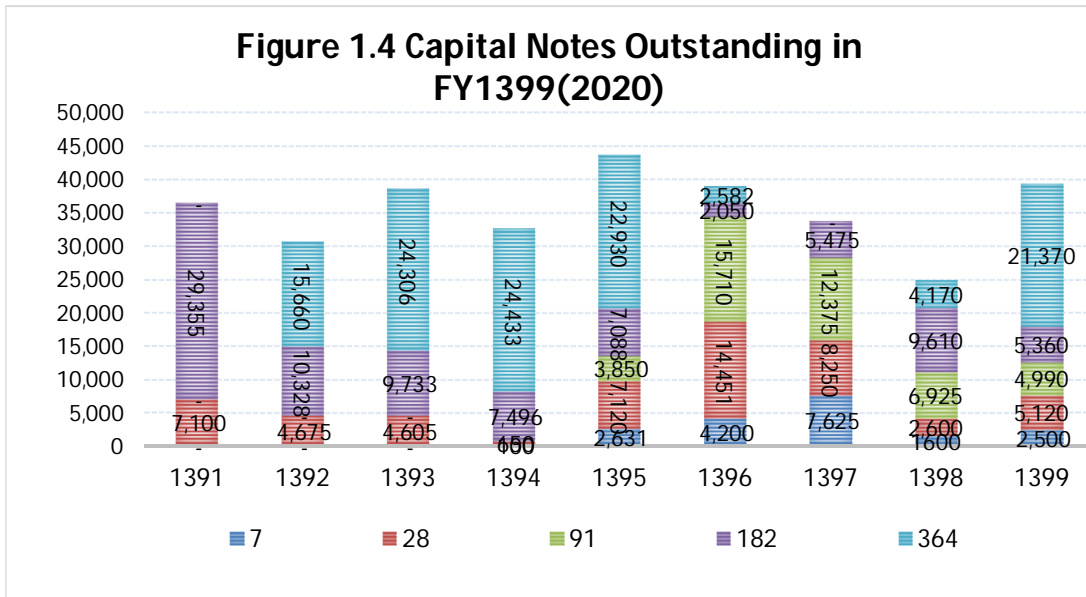
Source: Market Operations/Monetary Policy Departments

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 Saratan, the total outstanding of capital notes reached Af 39.340 billion and meanwhile the total interest paid for the mentioned notes reached Af 105.71 million at the end of this month.

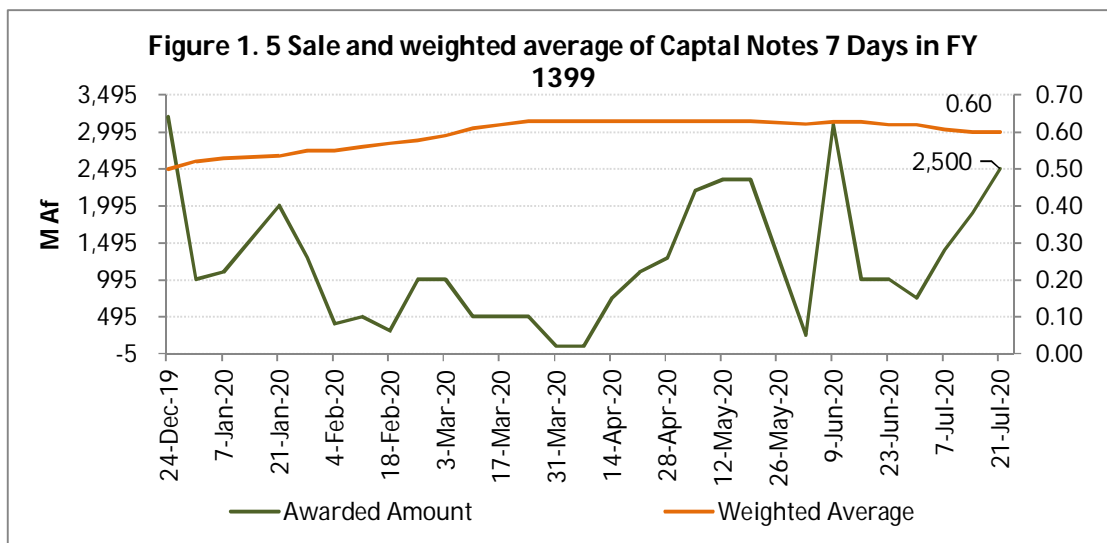
The belowfigure illustrates the Capital Notes Outstanding during 9 years till the end of Saratan month of FY 1399 (2020).



Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

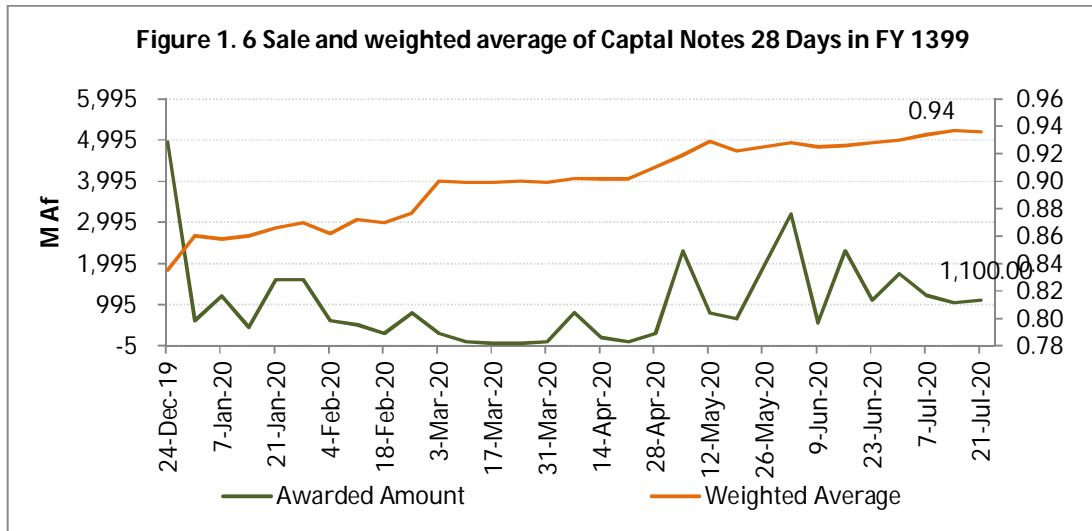
The awarded amount of 7 days capital notes auction at the end of Saratan reached Af 2.5 billion with average interest rate of 0.60 percent. The outstanding of these notes is stood Af 2.5 billion for the mentioned period.



Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

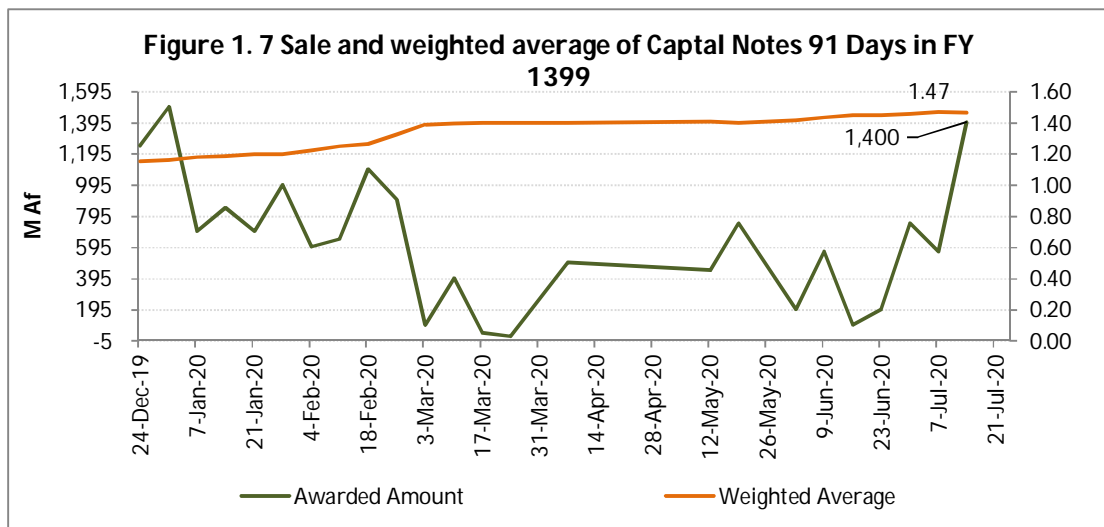
During the reviewed period, awarded amount of 28 days capital notes auction at the end of Saratan is recorded Af 1.1 billion with average interest rate of 0.94 percent and outstanding amount of Af 5.12 billion.



Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

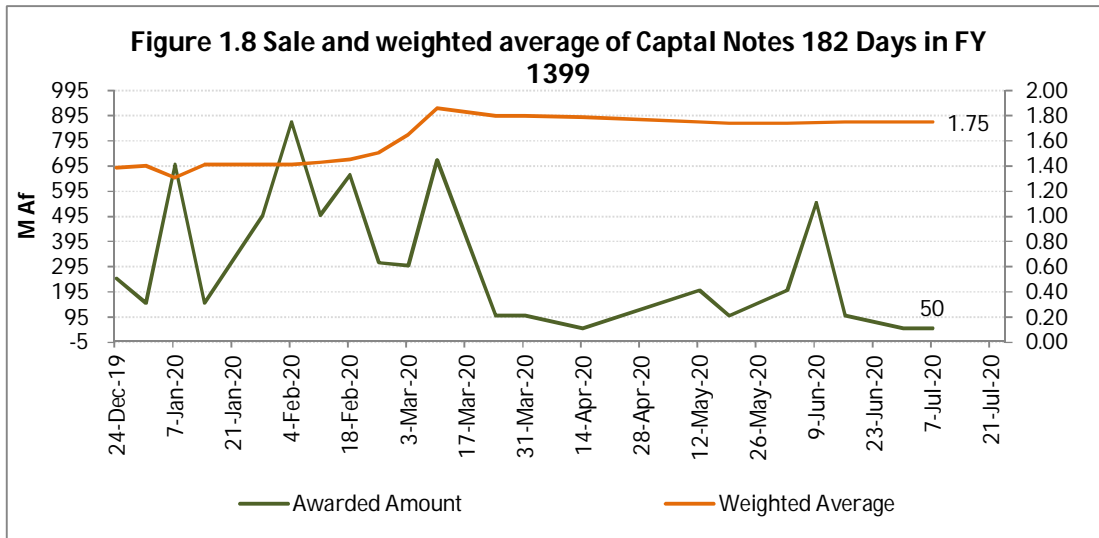
DAB's 91 days capital notes auction during this reporting period stood at Af1.4 billion at the end of Saratan with average interest rate of 1.475 percent and total outstanding of Af4.99 billion.



Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

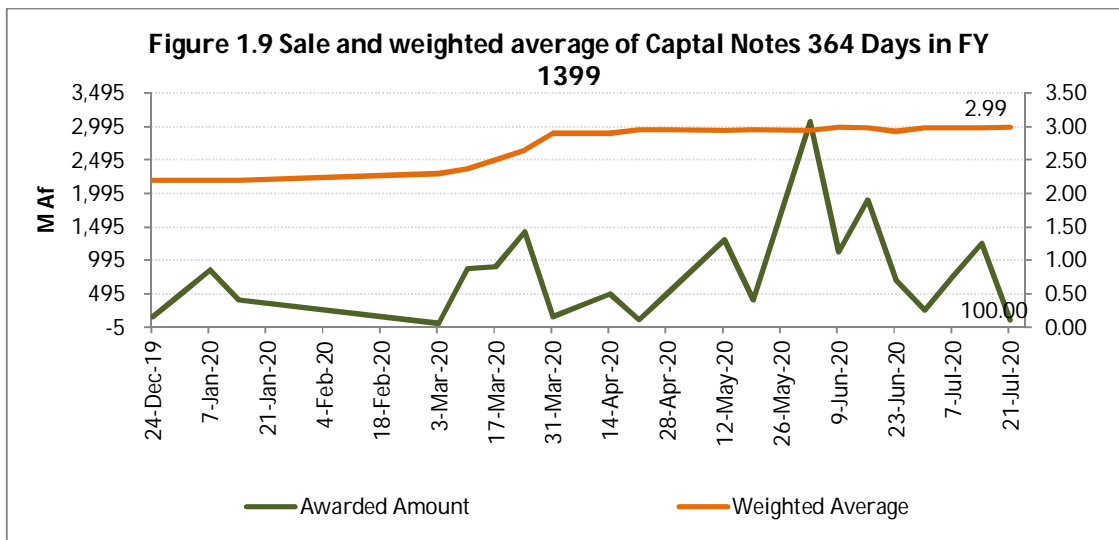
DAB's 182 days capital notes auction during this reporting period stood at Af 0.05 billion at the end of Saratan with average interest rate of 1.75 percent and total outstanding of Af5.36 billion.



Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

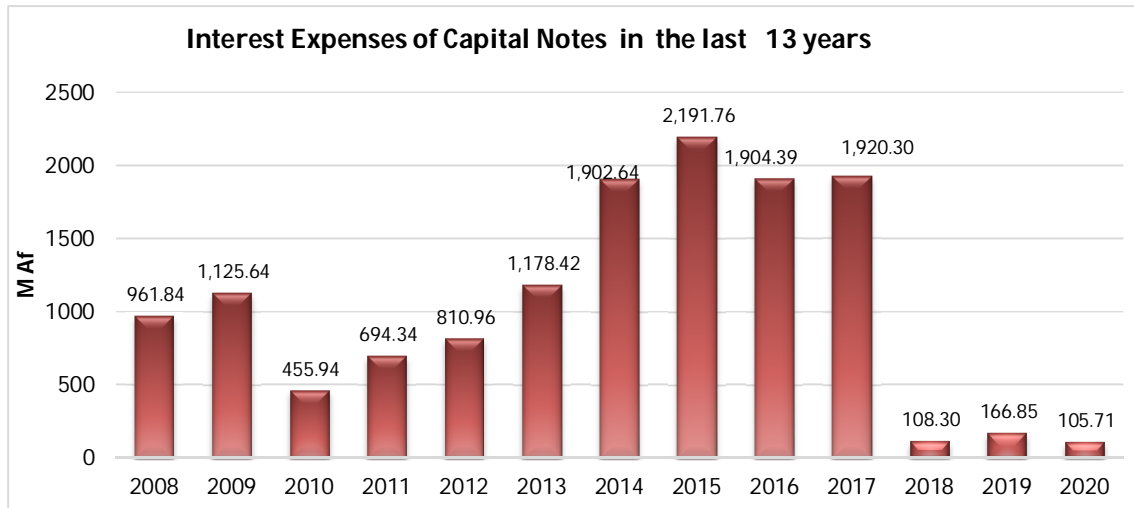
DAB's 364 days capital notes auction during this reporting period stood at Af 0.1 billion at the end of Saratan with average interest rate of 2.99 percent and total outstanding of Af21.37 billion.



Source: Market Operations/Monetary Policy Departments

Interest Expenses

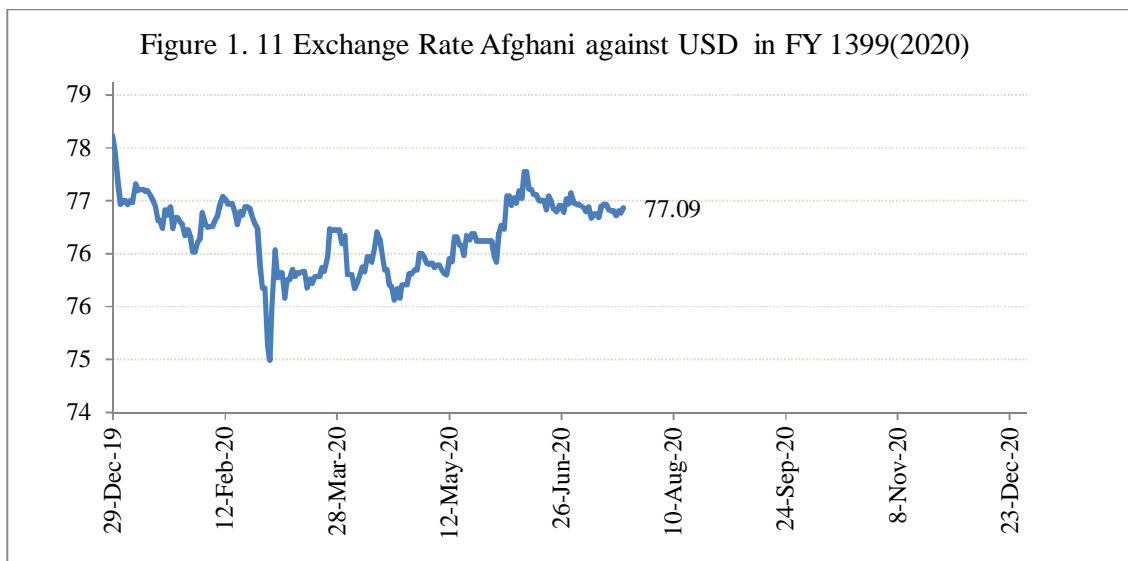
DAB interest paid for Capital Notes during of 13 years till the end of Saratan month FY 1399 (2020) the figure of below illustrated.



1.5 Exchange Rate

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

From the beginning of FY1399 (2020) Afghani has appreciated by 1.71 percent, and has been exchanged at Af 76.73 per USD on average and recorded at Af 77.09 exchanged at the end of Saratan month.



The table of Monetary Indicators

	FY 1399							FY 1399				
	Hoot	Hamal	Sawr	Jawza	Saratan	Sunbula	Qaws	Hoot	Hamal	Sawr	Jawza	Saratan
Reserve Money Target (%)	12							12				
Actual Reserve Money (%)	-5.6	-5	-5.4	-4.5	-3.7	1.19	12	-8	-5	1.9	0.42	-1.43
RM Actual	255627.49	273698.55	272731.64	259654.32	277425.51	275042.98	304625.71	295224.52	305563.69	327744.79	322978.27	317032.32
RM Target	280267.14	299600.51	302545.84	305491.17	308341.50	314327.17	322878.14	331039.94	334317.91	337595.88	340873.85	344151.83
CiC Actual	222147.20	229230.16	228821.97	231598.67	233781.48	244489.52	259350.77	259302.12	270012.03	282137.22	279989.89	277966.61
CiC Target	233785.34	237233.49	239565.70	241897.91	244154.89	248894.55	255665.48	266938.63	269581.87	272225.11	274868.34	277511.58
Actual NIR	7702.51	7689.68	7697.04	7691.22	7830.97	7868.70	7873.60	7711.85	7896.34	7984.18	8128.78	8268.12
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7708.58	7708.58	7846.07	7846.07	7846.07	7919.41	7919.41
Outstanding Amount	26665	29655	28580	27020	28665	23920	24905	30455	28060	29840	34495	39340
Required Reserve (Afs)	5768.54	5817.98	5907.08	10923.40	5672.74	2657.34	5734.43	5928.75	5934.85	6271.67	6271.67	7084.69

2. Real Sector

2. Real Sector

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

- Headline inflation decreased in the month of May 2020 year over year basis. The year over year inflation decreased to 6.26 percent in May from 8.67 percent observed in the previous month. This decrease is caused by lower prices of food and non food items.
- Core inflation when measured based on 30% trimmed mean decreased to 5.47 percent from 6.36 percent.

Table 1.1. Headline Inflation (April 20- May20)

	Y-on-Y		M-to-M	
	April	May	April	May
National CPI				
Headline	8.67	6.26	6.62	-1.15
<i>Food</i>	16.56	12.92	12.45	-1.74
<i>Non-Food</i>	1.03	-0.24	0.79	-0.49
<i>CPI ex. B&C, O&F, and T</i>	7.84	4.82	6.12	-1.79
<i>Trimmed Mean</i>	6.36	5.47		
Kabul CPI				
Headline	7.50	2.88	7.01	-2.75
<i>Food</i>	16.68	6.78	15.93	-6.71
<i>Non-Food</i>	1.40	0.28	1.06	0.27

2.1.1 Food Inflation

The flow of inflation in food items decreased in May2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In May2020, when measured on year over year basis, decreased to 12.92 percent compared to 16.56 percent calculated in previous month. This decrease came from lower prices of bread and cereals, meat, fresh and dried fruits, vegetables, sugar and sweets and spices.

Table 2.2. Food Inflation(April 20- May20)

Items	Weight	Y-on-Y		M-to-M	
		April	May	April	May
Food and Beverages	47.8	16.56	12.92	12.45	-1.74
<i>Bread and Cereals</i>	14.6	15.19	14.76	10.89	1.22
<i>Meat</i>	7.5	12.03	10.70	3.45	2.22
<i>Milk, cheese and eggs</i>	4.7	0.02	4.04	3.40	3.12
<i>Oils and fats</i>	4.6	13.41	19.15	5.78	5.86
<i>Fresh and dried fruits</i>	5.0	14.32	10.35	18.99	1.05
<i>Vegetables</i>	6.0	43.46	23.02	36.93	-17.96
<i>Sugar and sweets</i>	2.7	7.40	3.66	3.66	0.65
<i>Spices</i>	1.3	30.82	9.59	15.33	-10.22
<i>Non-alcoholic beverages</i>	1.4	3.72	4.13	-0.07	1.15

Source: Afghanistan Bank /NSIA

Price index of bread and cereals which accounts for about 15percent of the consumer price index decreased to14.76percent from 15.19 percent (year over year). When measured on the month-to-month basis, this sub-index also decreased to 1.22percent from 10.89 percent.

the main reason behind decrease of this index are, the donation of 75000 tons of wheat from India to the Afghan government which has increased supply side of bread and cereals and also increase of domestic production of wheat inside the country.

Meat price index which is weighted for around 7 percent of the CPI, decreased to 10.70 percent from 12.03 percent (year over year). When measured on the month to month basis, Price of this index also decreased to 2.22percent from 3.45percent.

In the previous month due to wide spread of covid-19, import of chicken from neighboring countries were restricted, which caused unprecedented increase in price of chicken meat in domestic market, thus government released import of chicken from neighboring countries especially from Iran. Also with the opening of poultry farms in Kabul and other provinces which has increased supply side, the price of chicken meat has decreased to 2.52 percent compare to previous month.

Oils and Fats index which comprises 4.6 percent of overall index, during the period increased to 19.15 percent from 13.41 (Y-o-Y). This index also increased to 5.86 percent from 5.78 percent on the month-to-month basis.

Fresh and dried Fruit prices decreased in the month of May2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 10.35 percent (year over year) from 14.32 percent recorded in the previous month. On the other hand, month-to-month basis, it also significantly decreased to 1.05 percent from 18.99 percent. The main reason behind decrease of this index is the seasonality effect.

Vegetables price index which is dedicated for 6 percent of the overall index, decreased to 23.02 percent (year over year) from 43.46 percent observed in the previous month. When measured on the month to month basis this index is also decreased to -17.96percent; however, it was recorded 36.93 percent in the previous month. Reason behind decrease of this index is the summer season which has increase domestic supply of the mentioned index.

2.1.2 Non-Food Inflation

Inflation in non-food items also exhibited downward trend in the month of May 2020. On the year over year basis, non-food inflation decreased to -0.24 percent from 1.03 percent observed in the previous month. This decrease is mainly come from lower prices of housing, health, transportation, communication, education, restaurants and hotels and miscellaneous.

Table 2.3. Non-Food Inflation (April 20 –May 20)

	Weight	Y-on-Y		M-to-M	
		April	May	April	May
Non-Food	52.2	1.03	-0.24	0.79	-0.49
<i>Tobacco</i>	0.3	1.11	1.12	1.17	0.39
Clothing	4.6	7.47	10.08	0.13	3.34
Housing, electricity, gas and water	19.1	-1.78	-4.38	1.15	-2.44
Furnishing and household goods	11.9	0.35	1.39	0.42	1.68
Health	6.2	6.50	4.36	0.88	0.47
Transportation	4.3	-3.44	-10.14	1.35	-6.37
Communication	1.7	-3.89	-4.22	-0.04	0.32
Information and Culture	1.1	0.87	1.77	0.14	0.90
Education	0.4	6.55	1.24	0.13	-0.01
<i>Restaurants and Hotels</i>	1.1	2.03	1.76	0.04	0.29
<i>Miscellaneous</i>	1.4	13.23	12.40	1.69	0.71

Price index of housing, electricity, water and gas decreased in May2020. On year over year basis, this index decreased to -4.38 percent from -1.78 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 -2.44 percent from 1.15percent.Natural gas price decreased by -33 percent in global market.

Price index of Health decreased in the month of May2020. Health index which comprises more than 6 percent of the overall CPI decreased to 4.36percent from 6.50 percent (year over year). While, measured on the month to month basis, it decreased to 0.47 percent from 0.88 percent observed in the previous month.

One of the main reasons behind decrease of this index is, the donation of medicines from India to Afghanistan which caused decrease in price of this index.

Transportation price index accounts for 4.3 percent of the whole index. Observing the data, transportation index year on year basis decreased to -10.14percent from -3.44 percent recorded in the previous month. Inflation rate on month to month basis also decreased to -6.37 percent from 1.35 percent. Diesel oil and crude oil price decreased by -56 percent and -54 percent respectively in global markets.

2.2 Core Inflation

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

One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During May2020, trimmed mean (30 % of CPI) decreased to 5.47 percent (year over year) from 6.36 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 4.82 percent compared to 7.84 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to -1.79 percent from 6.12 percent.

Core Measures (Year over Year) (Month to Month)	Y-on-Y		M-to-M	
	April	May	April	May
	<i>30 % trimmed mean</i>	6.36	5.47	
<i>CPI ex B&C, O& F and T</i>	7.84	4.82	6.12	-1.79

Source : *Afghanistan Bank and/NSIA*

3. External Sector

3.1 CURRENT ACCOUNT BALANCE

Current account deficit, declined by almost 24 percent to a value of USD 972.10 million in the first quarter of the FY 1399 from a value of USD 1,276.92 million recorded in the first quarter of the FY 1398.

This decline was primarily on account of a contraction in merchandise trade deficit as a result of increasing exports of goods and declining imports of goods, a contraction in services account deficit due to decreasing payments to some of services implemented by non-residents to residents, as well as, a rise in inflow of investment income in the first quarter of the FY 1399.

3.1.1 GOODS ACCOUNT

The value of total export of goods increased by 12 percent to a value of USD 203.64 million in the first quarter of the FY 1399 from a value of USD 182.57 million recorded in the first quarter of the FY1398.

The value of total import of goods declined by 15 percent to a value of USD 1,389.86 million in the first quarter of the FY 1399 from a value of USD 1,641.16 million recorded in the first quarter of the FY 1398.

- **Main drivers of increasing exports during the first quarter of the FY 1399 are:**
 - ✓ Food items (only dry fruits), increased by 28 percent to a value of USD 83.08 million from a value of USD 64.79 million.
 - ✓ Medical seeds, increased by 14 percent to a value of USD 44.84 million in the First quarter of the FY 1399 from a value of USD 39.26 million recorded in the first quarter of the FY 1398.

- **Main drivers of declining Imports in the first quarter of the FY 1399 are:**
 - ✓ Consumer goods, declined by 31 percent to a value of USD 510.61 million in the first quarter of the FY 1399 from a value of USD 741.35 million in the first quarter of the FY 1398.
 - ✓ Fuel and lubricant, declined by 13 percent to a value of USD 261.60 million in the first quarter of the FY 1399 from a value of USD 302.34 million in the first quarter of the FY 1398.

- ✓ Industrial supplies, declined by 9 percent to a value of USD 158.35 million in the first quarter of the FY 1399 from a value of USD 173.92 million in the first quarter of the FY 1398.

3.1.2 SERVICES ACCOUNT

The deficit of services account declined by 41 percent to a value of USD 94.99 million in the first quarter of the FY 1399 from a value of USD 161.89 million recorded in the first quarter of the FY 1398, mainly due to decreasing payments to some of services implemented by non-residents to residents such as:

- **Transportation, services payments**, decreased to a value of USD 222.47 million in the first quarter of the FY 1399 from a value of USD 265.29 million recorded in the first quarter of the FY 1398.
- **Travel services payments**, declined to a value of USD 27.49 million in the first quarter of the FY 1399 from a value of USD 32.53 million in the first quarter of the FY 1398.
- **Construction services payments**, decreased to a value of USD 7.7 million in the first quarter of the FY 1399 from a value of USD 17.3 million recorded in the first quarter of the FY 1398.

3.1.3 PRIMARY INCOM ACCOUNT:

Net primary income increased by 10 percent to a value of USD 83.52 million in the first quarter of the FY 1399 from a value of USD 75.91 million recorded in the first quarter of the FY 1398.

3.1.4 SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account decreased by 16 percent to a value of USD 225.60 million in the first quarter of the FY 1399 from a value of USD 267.65 million recorded in the first quarter of the FY 1398.

- **Official transfers (Net)**; to the Afghan government decreased by 3 percent to a value of USD 162.7 million in the first quarter of the FY 1399 from a value of USD 167.4 million recorded in the first quarter of the FY1398.
- **Personal transfers (Net)** declined by 32 percent to a value of USD 95.96 million in the first quarter of the FY 1399 from a value of USD 141.80 million recorded in the first quarter of the FY 1398.

3.2 CAPITAL ACCOUNT BALANCE:

Shows a decrease of 35 percent from a value of USD 55.49 million in the first quarter of the FY 1398 to a value of USD 36.06 million recorded in the first quarter of the FY 1399, as a result of lower inward of capital transfers to the government sector.

3.3 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.

- **Direct investment (Net):**
 - ✓ FDI abroad, decrease to a value of USD 5.94 million in the first quarter of the FY 1399 from a value of USD 10.52 million in the first quarter of the FY 1398.
 - ✓ FDI in the country decreased to a value of USD 5.85 million in the first quarter of the FY 1399 from a value of USD 8.81 million recorded in the first quarter of the FY 1398.
- **Portfolio Investment (net):** decreased to a value of USD 4.05 million in the first quarter of the FY 1399 from a value of USD 16.46 million recorded in the first quarter of the FY1398.
- **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 USD 28.25 million in the first quarter of the FY 1399 from USD 86.19 million in the first quarter of the FY 1398.
 - ✓ The total value of other investment in the country (liabilities), increased to USD 31.75 million in the first quarter of the FY 1399 from USD – 14.19 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	% change
Current Account	-1276.92	-778.34	-1028.44	-714.90	-972.10	-24%
<i>Credit</i>	807.12	1013.84	851.58	1273.70	813.71	1%
<i>Debit</i>	2084.04	1792.18	1880.02	1988.60	1785.81	-14%
Goods and Services Account	-1620.48	-1427.23	-1438.49	-1375.16	-1281.22	-21%
<i>Credit</i>	370.49	283.89	344.64	510.20	395.10	7%
<i>Debit</i>	1990.96	1711.12	1783.13	1885.36	1676.32	-16%
Goods Account	-1458.59	-1323.05	-1252.91	-1259.63	-1186.23	-19%
<i>Credit</i>	182.57	143.29	208.77	329.21	203.64	12%
<i>Debit</i>	1641.16	1466.34	1461.67	1588.84	1389.86	-15%
Services Account	-161.89	-104.18	-185.59	-115.53	-94.99	-41%
<i>Credit</i>	187.92	140.60	135.87	180.99	191.46	2%
<i>Debit</i>	349.81	244.78	321.46	296.53	286.45	-18%
Primary Income Account	75.91	101.07	68.84	60.84	83.52	10%
<i>Credit</i>	93.56	111.98	75.79	71.25	92.48	-1%
<i>Debit</i>	17.66	10.91	6.95	10.40	8.96	-49%
Secondary Income Account	267.65	547.83	341.21	599.42	225.60	-16%
<i>Credit</i>	343.07	617.98	431.14	692.25	326.14	-5%
<i>Debit</i>	75.42	70.15	89.93	92.83	100.54	33%
Current transfers (Official grants)	167.4	432.9	233.1	497.7	162.7	-3%
<i>Credit</i>	167.39	432.90	233.1	497.7	162.7	-3%
<i>Debit</i>	0.00	0.00	0.0	0.0	0.0	
Personal transfers	141.80	145.36	142.46	139.87	95.96	-32%
<i>Credit</i>	175.68	185.08	198.03	194.51	163.47	-7%
<i>Debit</i>	33.88	39.72	55.57	54.64	67.52	99%
Capital account	55.49	241.03	22.97	504.07	36.06	-35%
<i>Credit</i>	55.49	241.03	22.97	504.07	36.06	-35%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
Capital transfers	55.49	241.03	22.97	504.07	36.06	-35%
<i>Credit</i>	55.49	241.03	22.97	504.07	36.06	-35%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
Financial account	-38.3	40.9	49.2	-33.54	-200.68	423%
Direct investment	1.71	-6.30	9.04	-1.55	0.1	-95%
Net acquisition of financial assets	10.52	5.69	4.86	5.26	5.94	-44%
Net incurrence of liabilities	8.81	11.98	-4.18	6.81	5.85	-34%
Portfolio investment	-16.46	15.42	-33.74	20.16	-4.05	-75%

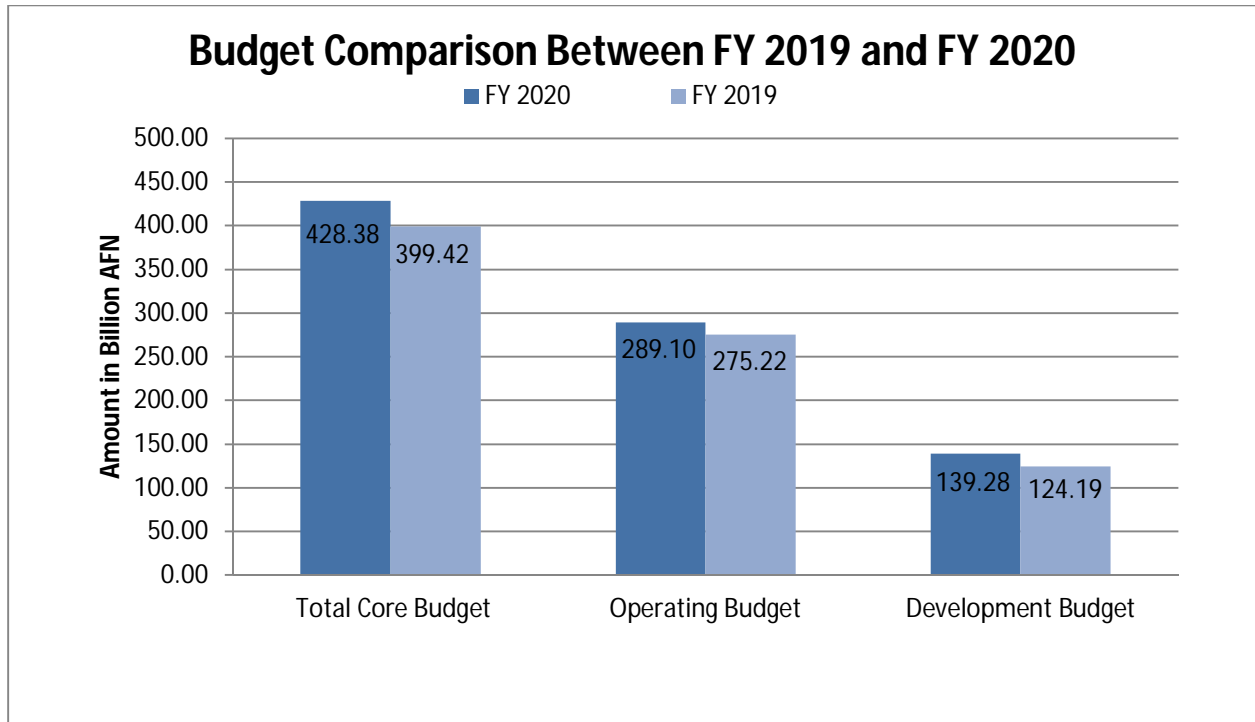
Net acquisition of financial assets	-16.46	15.42	-33.74	20.16	-4.05	-75%
<i>Net incurrence of liabilities</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	0.00	0.00	
Other investment	-71.61	1.35	-82.58	78.72	-60.00	-16%
<i>Assets</i>	<i>-86.19</i>	<i>-12.36</i>	<i>-27.20</i>	84.70	-28.25	-67%
<i>Liabilities</i>	<i>-14.58</i>	<i>-13.71</i>	55.39	5.98	31.75	-318%
Reserve Assets	48.03	30.40	156.46	-130.87	-136.72	-385%
Net errors and omissions	1183	578	1055	177	735	-38%

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.



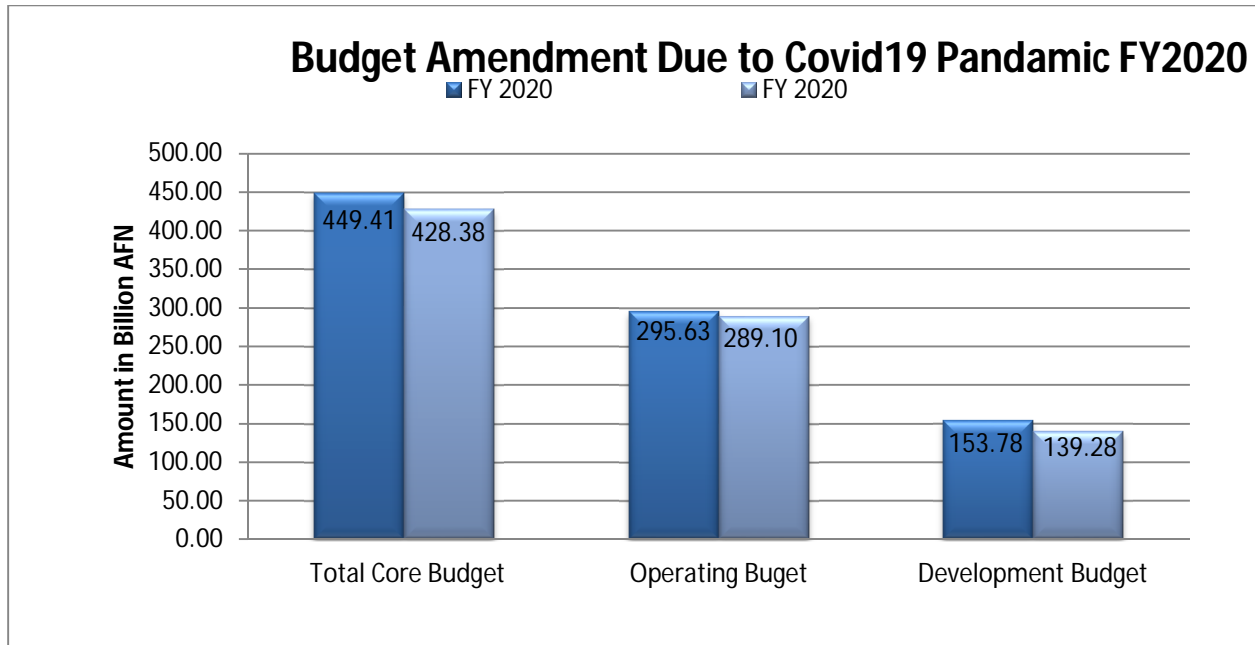
Resembling the other emerging and under developing economies around the world, Afghanistan continuously faces budget deficit that means the total core expenditure exceeded total domestic revenue. But due COVID- 19 pandemic the deficit amount exposed more severity, however government policy changes resulted 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 June 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 5.89% in total core budget from the start of FY 2020 indicating increase of amount AFN 25.01 billion and more over it shows AFN 21.03 billion increments compared to the FY 2019 budget at the same date.

Total revenue (domestic revenue plus external aids) for the month of Jun 2020 is AFN 21.21 billion, while in May; it was AFN 30.76 billion which shows 31.04% or AFN 9.55 billion decrease in Jun. Total revenue from the start of FY-2020 till end of Jun reached to AFN 137.82 billion that is combination of AFN 60.13 billion donor contributions and AFN 77.70 billion domestic revenue respectively.

Likewise, domestic Revenue for the month Jun is AFN 8.39 billion while it was amount AFN 8.88 billion in the month of May, showing a decrease of AFN 0.49 billion 5.50% in the month of Jun. On the other hand, donor contributions (including loans) amounted to AFN 12.82 billion in Jun, where donor contributions in May was AFN 21.88 billion, which indicates AFN 9.06 billion 41.40% decrease in donor contributions for the month of Jun.

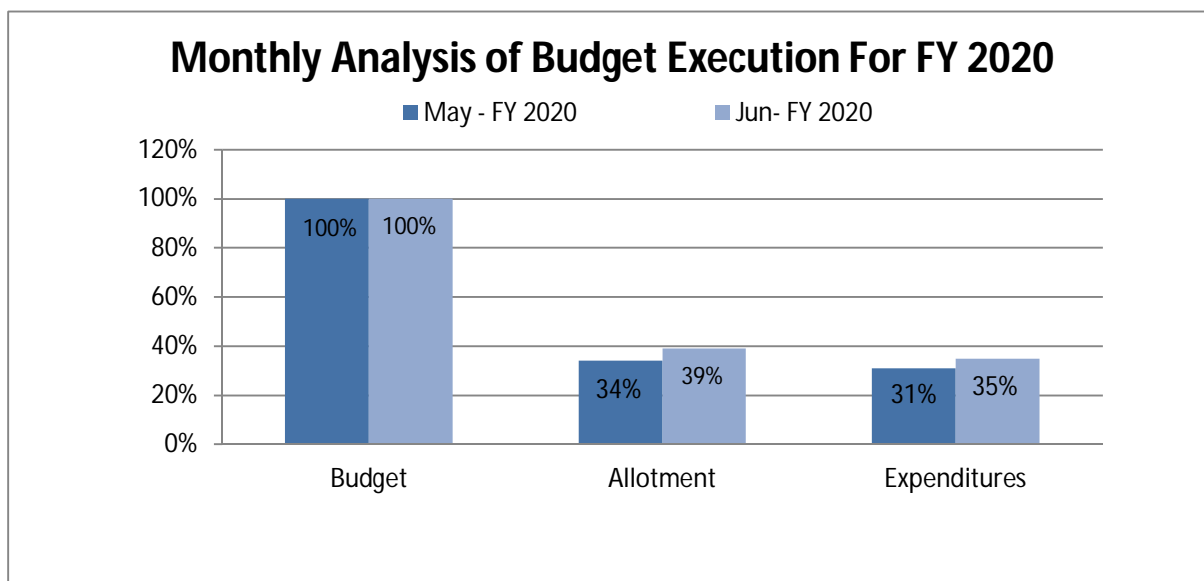
Additionally, total Expenditure at the end of Jun 2020 reached to AFN 161.53 billion, from which operating expenditures and development expenditures were individually, AFN 118.06 billion and AFN 43.47 billion. Likewise, operating expenditures for the month of Jun is AFN 17.02 billion,

where in May it was AFN 24.39 billion. This signifies that, there is AFN 7.37 billion or 30.22 % decrease in operating expenditures in the month of Jun FY 2020. On the other hand, development expenditures for the month of May was AFN 14.35 billion, while in Jun decreased by AFN 5.41 billion or 37.68% resulted total expenditure for the month of Jun FY 2020 amount AFN 8.94 billion.

Description	FY, May 2020	FY, Jun 2020	From Jan to Jun FY 2020	Difference Between May and Jun	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	30.76	21.21	137.82	(9.55)	-31.04%
Domestic Revenue	8.88	8.39	77.70	(0.49)	-5.50%
Donor Contribution	21.88	12.82	60.13	(9.06)	-41.40%
Total Expenditures	38.74	25.96	161.53	(12.78)	-32.99%
Operating Expenditure	24.39	17.02	118.06	(7.37)	-30.22%
Developing Expenditure	14.35	8.94	43.47	(5.41)	-37.68%

Source: MoF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of Jun 2020 reached to 35%, and allotment is 39%. Compared to May 2020 where 31% of the budgets were allotted and 34% expenditure were took place which shows indicate 4% increase in budget execution rate for the month of Jun 2020.



5. Swift and Payments

Report of(Outward) Transactions from 1/04/ 1399 to 31/04/1399							
Categories	Remmitter Parties	Message Type	USD	EUR	JPY	INR	CHF
A	Ministries	MT 103 ,700 & 910	17,777,422.97	2,581,547.00	4,000.00	-	-
B	Commercial Banks	202	231,970,902.13				
C	Da Afghanistan Bank	200	305,000,000.00				
Report of(Inward)Transactions fromfrom 1/04/ 1399 to 31/04/1399							
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP	
A	Ministries	MT 103 ,700 & 910	514,007,860.16	1,444,779.92	1,020,933.00	0	
B	Commercial Banks	202	3,587,093.65				
C	Da Afghanistan bank	200					
به ارزش مجموعی (60975360.15) دالر امریکائی و همچنان 1 معامله بانک جهانی به ارزش مجموعی مبلغ 135198.39 دالر FX Deal بر علاوه به تعداد 2 معامله تبادلوی امریکائی نیز اجرا گردیده است							

6. Banking sector

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				Percentile	Remarks on Quarterly Changes
	May-19	May-20	Percentile	20-Feb	20-Mar	20-Apr	20-May		
Total Assets	306,769	306,045	-0.24%	285,095	284,655	297,660	306,045	7.35%	20,950
Total Loans (Gross)	43,835	39,171	-10.64%	40,582	40,624	39,772	39,171	-3.48%	(1,411)
Total Interbank Claims (Gross)	92,257	77,328	-16.18%	80,987	78,967	76,897	77,328	-4.52%	(3,659)
Investment in Bonds	24,876	30,847	24.01%	30,421	30,325	31,187	30,847	1.40%	426
Standard Loans	33,608	26,235	-21.94%	26,735	28,132	27,261	26,235	-1.87%	(500)
Past Due Loans ¹	10,227	12,936	26.50%	13,847	12,492	12,510	12,936	-6.57%	(910)
Adversely Classified Loans ²	6,780	8,205	21.03%	7,682	8,009	8,066	8,205	6.81%	523
NPLs ³	5,651	6,162	9.04%	6,520	6,095	6,168	6,162	-5.49%	(358)

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.

Total Deposits	264,593	259,770	-1.82%	239,386	238,937	250,966	259,770	8.51%	20,384
Total Liabilities	271,922	270,928	-0.37%	250,888	250,786	263,009	270,928	7.99%	20,041
Financial Capital	34,847	35,117	0.77%	34,207	33,870	34,651	35,117	2.66%	909
Regulatory Capital	30,875	31,028	0.49%	29,993	30,116	30,699	31,028	3.45%	1,035
Risk Weighted Asset	119,071	119,505	0.36%	116,117	115,967	119,838	119,505	2.92%	3,389
Net Profit/Loss	929	202	-78.29%	(35)	308	87	186		221

Table 1: Major Financial Indicators of the Sector

INTRODUCTION

The banking sector in Afghanistan constitutes 22.02% of the GDP. It consists of 12 duly licensed banking institutions: Three licensed 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	May 20	May 19	Change	%age change
Number of Branches	410	415	-5	-1.20%
Automated Teller Machines (ATM)	358	350	8	2.29%
Point of Sale (POS)	193	105	88	83.81%
Cash Deposit Machine (CDM)	6	-	6	-
Type 12 Facility ⁴	104	88	16	18.18%
Credit Cards	1,207	1,885	-678	-35.97%
Debit Cards	615,352	594,248	21,104	3.55%
ATM Cards	258,920	235,693	23,227	9.85%
Master Cards	18,729	4,113	14,616	355.36%
Prepaid Cards	40,249	5,490	34,759	633.13%
Web Surfer Cards	4,880	13,853	-8,973	-64.77%
Number of Accounts (Loans)	62,288	72,961	-10,673	-14.63%
Number of Borrowers ⁵	66,162	74,403	-8,241	-11.08%
Number of Loan files where borrower president or vice president is a woman	14,544	15,593	-1,049	-6.73%
Number of Depositors	4,086,240	3,676,962	409,278	11.13%
Number of Deposit Accounts	4,213,736	3,767,962	445,774	11.83%
Number of Employees (Local + Foreign)	9,933	9,439	494	5.23%

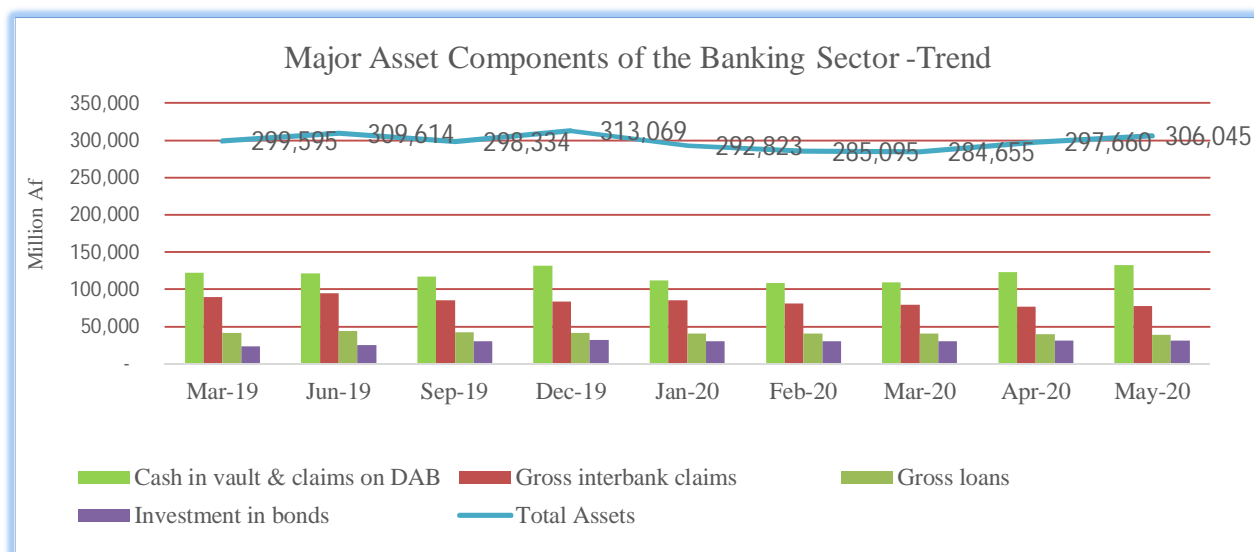
Table 2: Provided Banking Facilities

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

⁵ Number of borrowers, loan files, depositors, deposit accounts and employees are as on Mar, 20 and Mar, 19. These data are available on quarterly basis.

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector followed a declining trend in the first quarter of 2020 but picked up in April and May by 3% and 5% respectively, increases in the last two months was mainly contributed by deposits inflow (dominant in customer demand deposits). The impact of the increase was observed in Cash in Vault and Claims on DAB and Interbank Claims. However, gross loans and other assets witnessed a decline over the last month.



Graph 1: Major Asset components of the Banking Sector

As stated above, the main asset components are the cash in vault and claim on DAB (43.30%), followed with the interbank claims (25.27%), gross loans (12.80%), and the investment in bonds (10.08%).

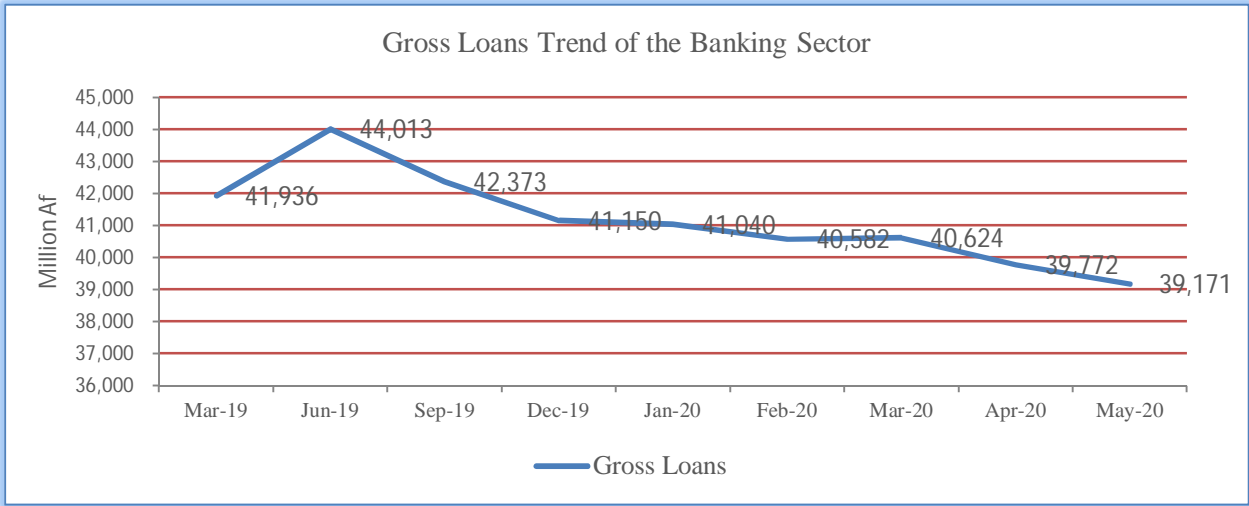
Asset Quality Indicators	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	May-20
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	32.16%	30.75%	30.55%	33.47%	28.00%	33.72%
Capital Notes to Total Assets	8.77%	8.61%	8.65%	8.51%	10.30%	9.59%
Domestic Claims on Total Assets	1.31%	1.35%	1.76%	1.63%	2.05%	1.52%
Foreign Claims to Total Assets	28.67%	29.02%	26.54%	25.04%	25.69%	23.74%
Total Gross Loans to Customer Deposits	16.62%	16.99%	17.02%	15.77%	17.31%	15.32%
Loan Loss Reserves to Total Gross Loans	10.67%	10.93%	12.25%	12.24%	12.59%	13.01%
Loan Loss Reserves to Total Assets	1.49%	1.55%	1.74%	1.61%	1.80%	1.66%
Aggregate Related Party Loans to Regulatory Capital	0.53%	1.25%	1.26%	1.27%	1.31%	1.23%

Reposessed Assets to Total Assets	0.30%	0.30%	0.33%	0.35%	0.36%	0.33%
Reposessed Assets to Total Loan Portfolio - Gross	2.14%	2.15%	2.30%	2.64%	2.50%	2.58%
NPL to Total Assets	1.53%	1.82%	1.87%	1.90%	2.14%	2.01%

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 are attributed mainly to settlement, repayment, charge-off, and less OD utilization. However, in the current month, Af 581 million (principal amount) new loans were designated. Lending in Afghanistan is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks with 12.16% share. In comparison, branches of foreign banks have a 0.79% share with the lowest level of contribution to the economy.



Graph 2: Gross Loans Trend

The gross loan portfolio of the banking sector currently stands at AF 39.17 billion, which shows a 1.51% decrease comparing to the previous month, making 15% of the customer deposits and 13% of the sector total assets. 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 sector total loans. In comparison, the loans designated in other currencies remain negligible (0.12% of the portfolio). See the summary of loan portfolio below:

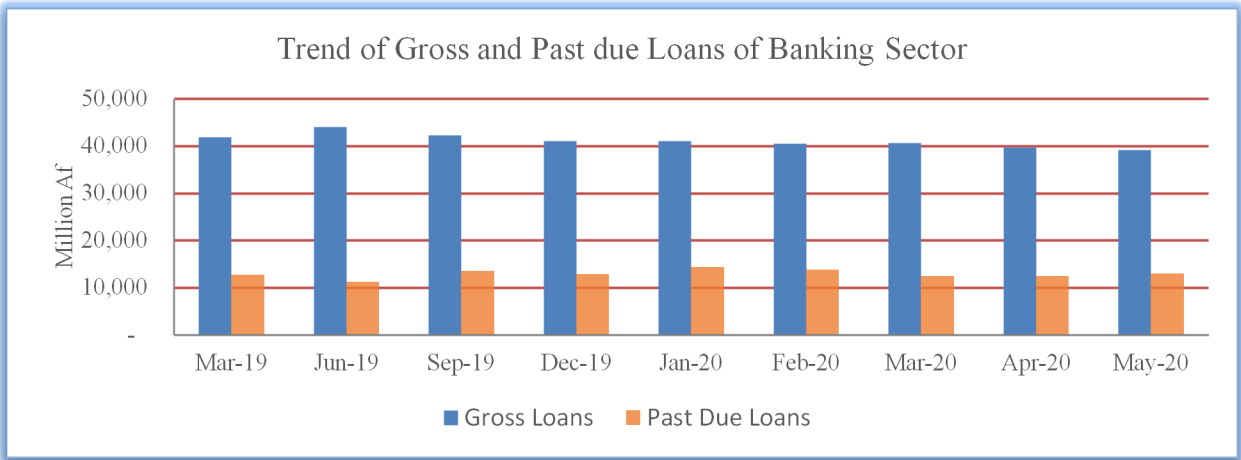
Banking Sector- Currency Composition of Gross Loans- Amount in million Af						
Currency	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	May-20
Afghani	18,864	20,227	20,439	20,912	20,980	20,297
USD	22,955	23,685	21,851	20,171	19,598	18,827
Other Currencies	117	101	83	68	47	47

Table 4: Gross Loans Currency Composition

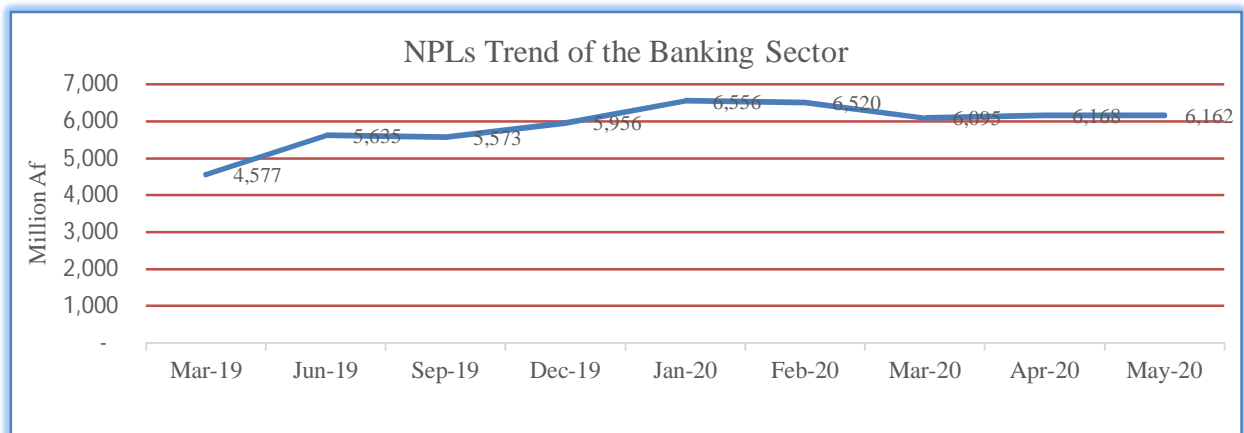
- ✓ Total loan portfolio followed a decreasing trend since mid-2019, posted 4.5% decrease since beginning of 2020 and 1.5% since last month, attributed to settlement, repayments, charge-offs and less OD utilization.
- ✓ Though in the current month 1,009 loan accounts amounting to Af 481 million (corporate + MSME) disbursed, one loan account restructured (Af 73 million) and for one loan account Af 100 million limit enhanced.

6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 15.73% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 15.73% NPLs, 13.53% is attributed to four banks the top lenders in the sector. These banks hold 67.76% of the sector’s gross loans and 51.26% of the sector’s regulatory capital. Hence, further deterioration of quality of loans in the above mentioned 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 and equity capital.



Graph 3: Trend of Gross & Criticized Loans of Banking Sector



Graph 4: NPLs Trend of Banking Sector

Group-wise analysis of the banking institutions shows that 89% of the total NPLs are coming from Private Banks, while State-Owned Banks have an 11% share in the total NPL portfolio.

Loan Quality Indicators	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	May-20
Criticized Loans to Total Gross Loans	30.18%	25.41%	32.05%	31.37%	30.75%	33.03%
Adversely-Classified Loans to Total Gross Loans	15.29%	16.88%	19.32%	17.90%	19.71%	20.95%
Non-Performing Loans to Total Gross Loans	10.91%	12.80%	13.15%	14.47%	15.00%	15.73%
Non-Performing Loans to Total Regulatory Capital	15.06%	17.91%	18.23%	18.95%	20.24%	19.86%
Specific Loan-Loss Reserves to Criticized Loans	31.18%	38.56%	34.80%	35.50%	37.35%	36.40%
Loan Provisions(Specific Provisions) to NPLs	69.39%	65.24%	68.24%	66.37%	65.02%	64.29%
General Loan-Loss Reserves to Standard Loans	1.80%	1.52%	1.62%	1.56%	1.60%	1.47%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	4.53%	6.33%	5.92%	6.75%	6.89%	7.07%
Net NPLs to Total Net Loans	3.74%	5.00%	4.76%	5.54%	6.01%	6.46%
Net NPLs to Total Gross Loans	3.34%	4.45%	4.18%	4.87%	5.25%	5.62%

Table 5: Loan Quality Indicators

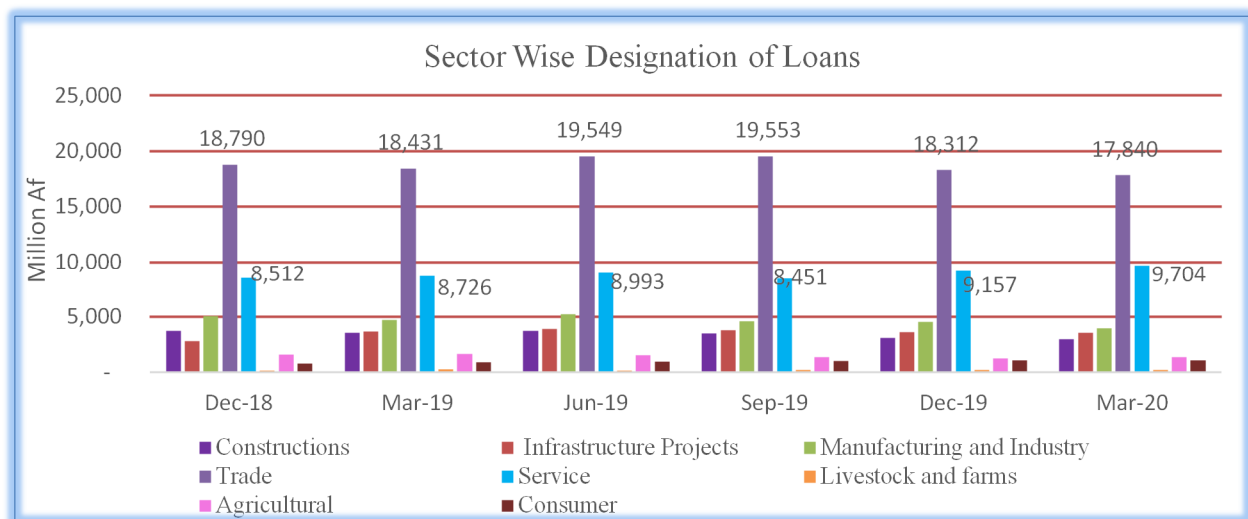
6.2.2: Type of Loans

More than 50% of the sector's loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector.

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (65%) following with TLs at (22%), while the share of Islamic loans is limited to (12%).

6.2.3: Sector-wise Designation of Loans

The trend for the sector-wide designation of loans shows that the trade sector is on a lead with 44% of the portfolio in which the petroleum and lubricants with 11% is dominant; Services sector falls second in a row with 24% with telecommunication (7%) as a leading sub-sector. The most COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 3% of the total sector portfolio. Manufacturing and Industry and Infrastructure Projects are subsequently on 3rd and 4th places with 10% and 8% share in the sector's loan portfolio, respectively.



Graph 5: Sector-Wise Designation of Loans

6.2.4: Related Party Exposure

Total related party exposure of the sector stands at Af385 million coming from five banking institutions, making 0.98% of the sector gross loans and 1.24% of the regulatory capital. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

6.2.5: Repossessed Assets

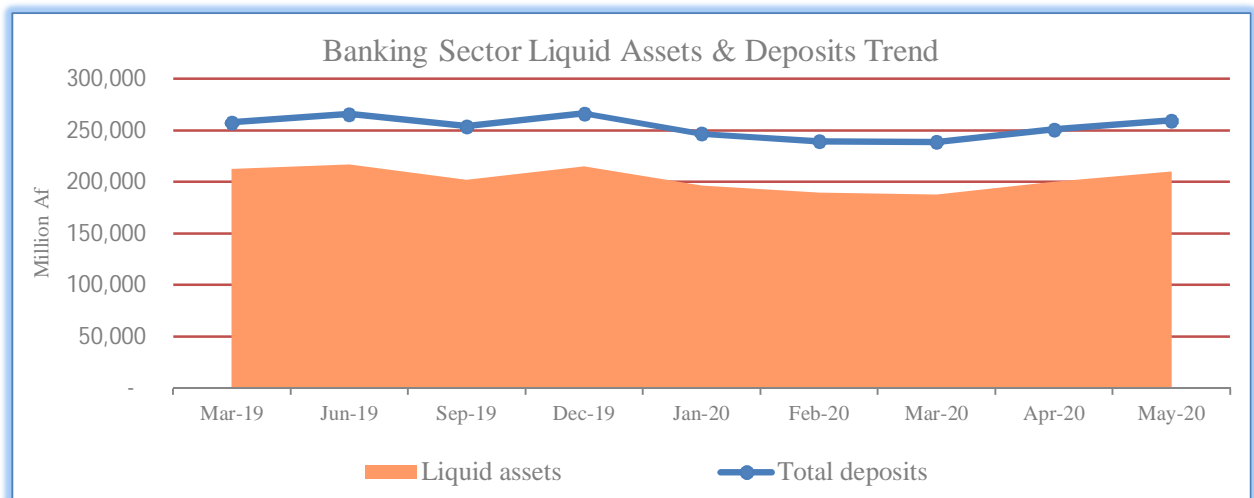
Total repossessed assets of the banking sector amount to Af 1.01 billion decreased by Af 7 million, compared to previous month due to charge off of repossessed asset. Total repossessed assets constitute 0.33% of the banking sector total assets reported by three banking institutions.

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 medium stand at 60.13% increased from 54.33 % in April 2020.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 68.57% of the total assets and 87.50% of the short-term liabilities. However, it had a declining trend due to deposit withdrawals during the first quarter of 2020 but picked up again in April and May due to the rise in deposits.



Graph 6: Banking Sector Liquid Assets & Total Deposits Trend

Liquidity Ratio Analysis

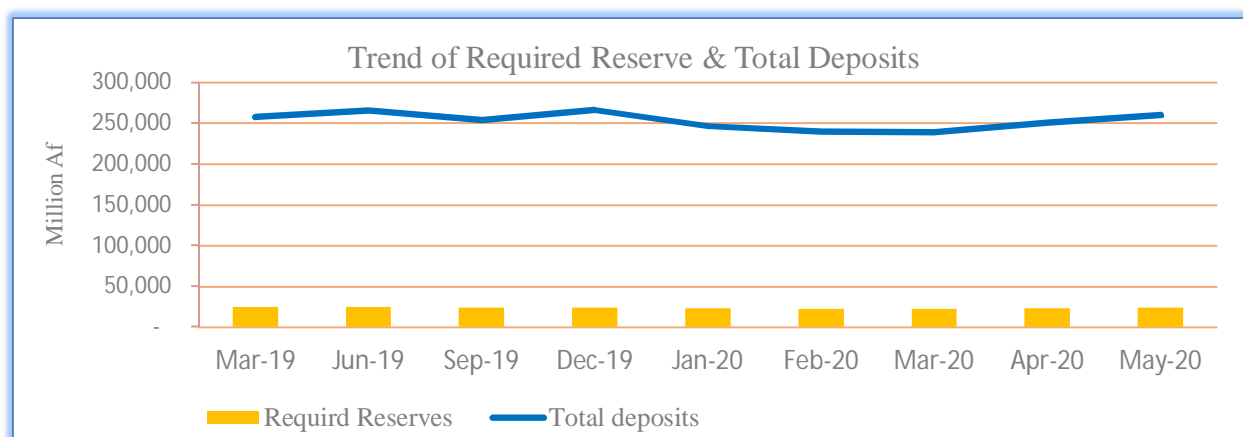
Liquidity Ratios	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	May-20
Loans to Deposits	16.27%	16.56%	16.69%	15.44%	17.00%	15.85%
Loans to Assets	14.00%	14.22%	14.20%	13.14%	14.27%	13.36%
Liquid Assets to Short-Term Liabilities	89.88%	89.06%	86.56%	87.12%	85.95%	86.78%
High Liquid Asset to Short-term Liabilities	36.35%	38.19%	36.89%	38.36%	37.46%	40.75%
Liquid Assets to Total Assets	70.92%	69.97%	67.73%	68.63%	66.04%	67.32%
Foreign Currency Deposits to Total Deposits	71.28%	72.96%	70.57%	69.08%	69.48%	68.46%

Customer Loans to Customer Deposits	16.62%	16.99%	17.02%	15.72%	17.31%	16.13%
Volatile Liabilities to Total Liabilities	0.78%	1.33%	0.98%	0.91%	0.90%	0.92%
Domestic Loans to (Total Deposits and Equity)	14.36%	14.60%	14.68%	13.61%	14.91%	13.93%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

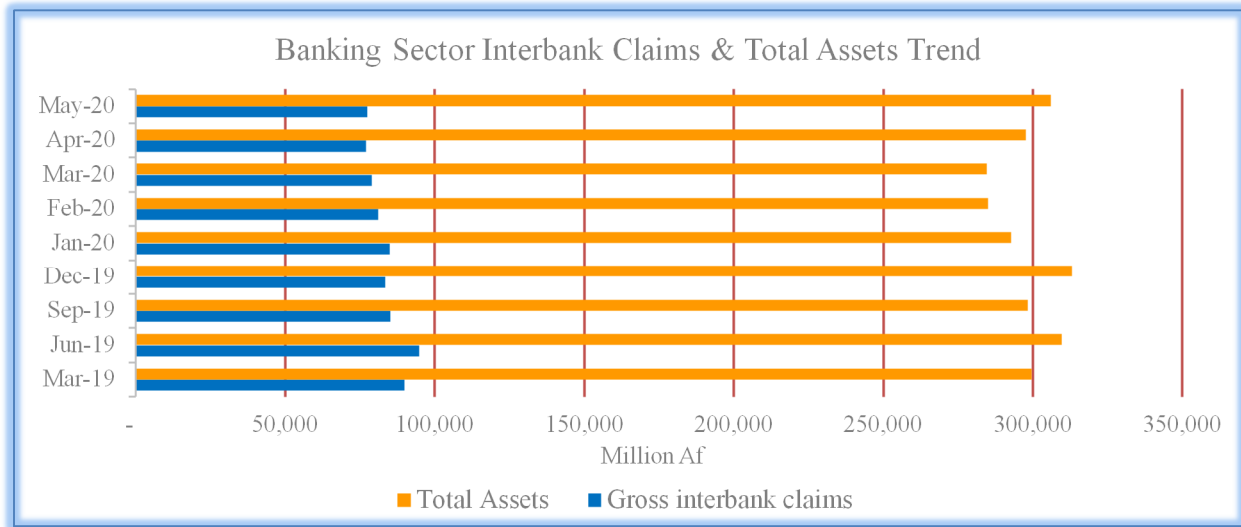
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the AF base deposits and 10% for the EUR and USD base deposits.



Graph 7: 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.



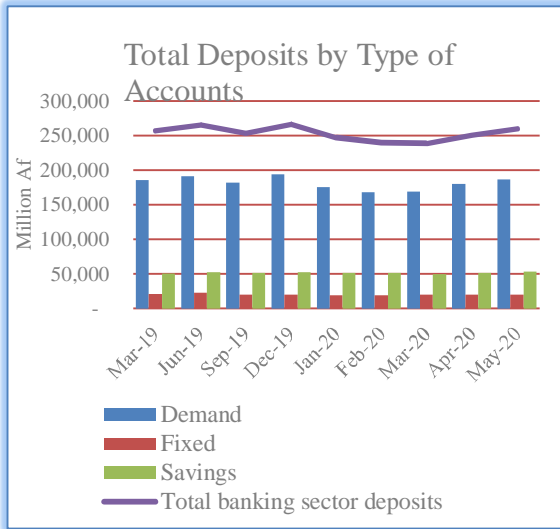
Graph 8:Banking Sector Interbank Claims & Total Assets Trend

6.3.4: Foreign Accounts and Placements

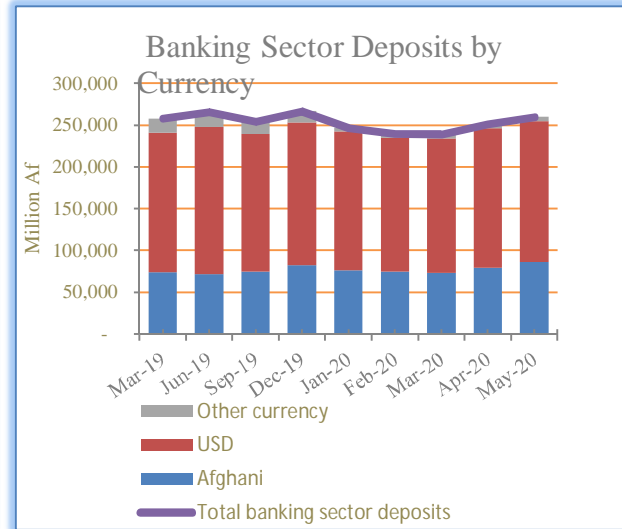
Total Foreign Interbank Claims constitute 24% of the sector total assets and 28% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 34% of the sector total assets and 40% of the total deposits, showing that a significant part of funds attracted placed outside the country. In comparison, the share of loans in the sector total assets and deposits is limited to 13% and 15%, respectively.

6.3.5: Deposits

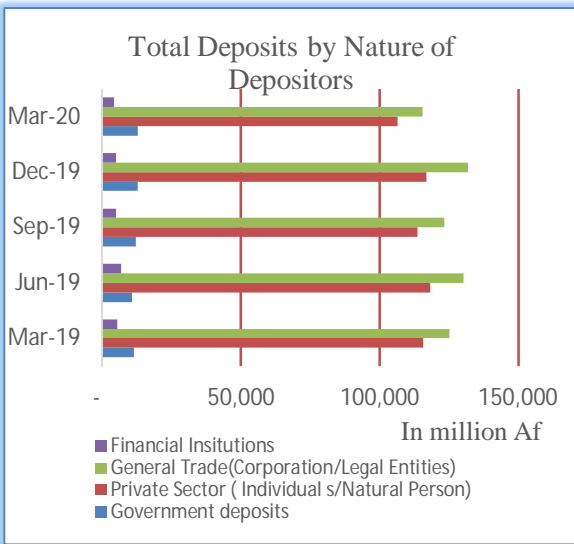
Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020 but picked up in April and May despite the lockdown. Deposits increased by 5% and 9% since Jan and Mar 2020, respectively. The significant increases were observed in Af currency.



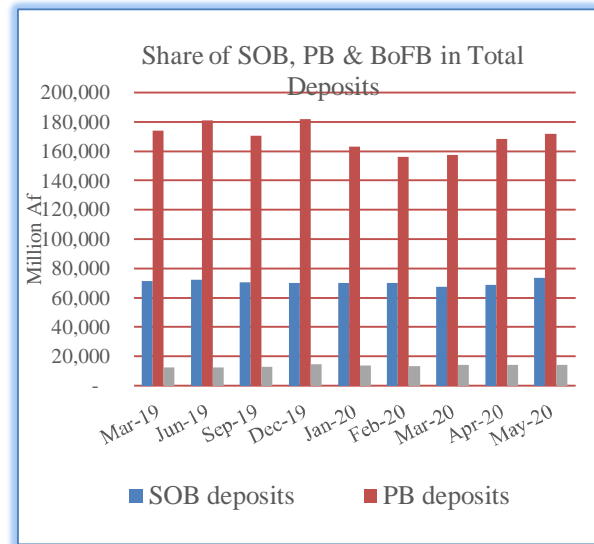
Graph 9: Total Deposits by Type of Accounts



Graph 10: Deposits by Type of Currency



Graph 11: Total Deposits by Nature of Depositors

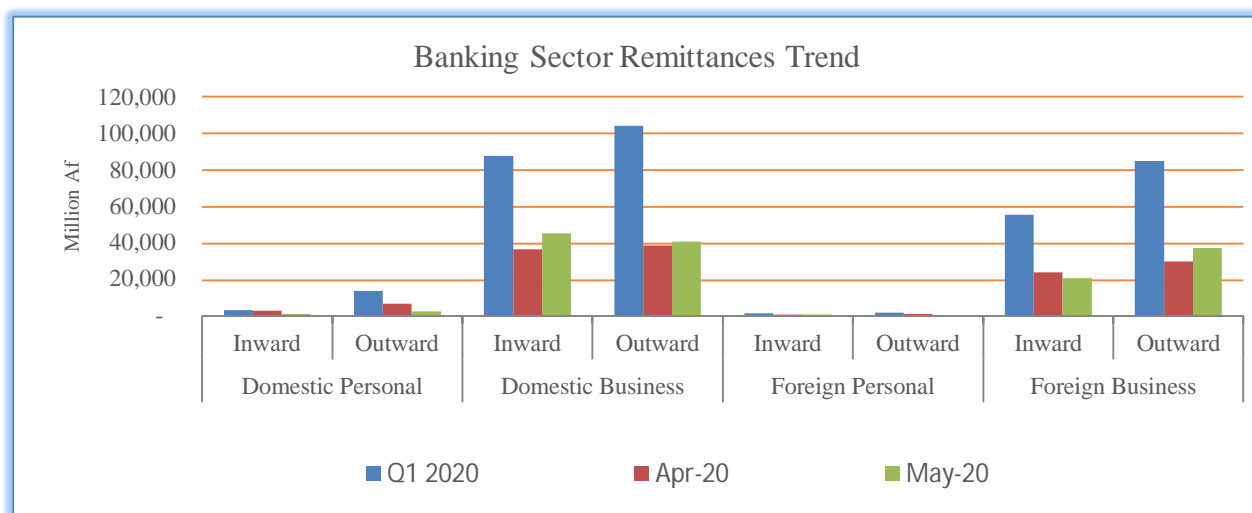


Graph 12: Share of SOB, PB & BOFB in TD

As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector which makes 48.36%, followed by individual/natural person deposits with 44.57%, government deposits 5.33%, and financial institutions constitute 1.75% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 66.15%, followed by state-owned banks with 28.41% share, while the share of the branches of foreign banks is 5.44%.

Banking Sector Deposits Trend Jan-May 2020 By Type & Currency -in Million Af							
Items	Jan-20	Feb-20	Mar-20	Apr-20	May-20	%age change (Jan-May) 2020	%age change (April-May)2020
Demand	175,599	168,479	169,068	179,700	186,542	6.23%	3.81%
Time	19,558	19,400	20,243	20,052	19,931	1.90%	-0.60%
Savings	51,813	51,507	49,626	51,214	53,297	2.86%	4.07%
Total	246,970	239,386	238,937	250,966	259,770	5.18%	3.51%
AF	75,988	74,773	72,916	79,148	85,947	13.10%	8.59%
USD	166,612	160,240	161,437	167,027	168,903	1.38%	1.12%
All Other Currencies	4,370	4,373	4,583	4,791	4,920	12.59%	2.69%
Total	246,970	239,386	238,937	250,966	259,770	5.18%	3.51%

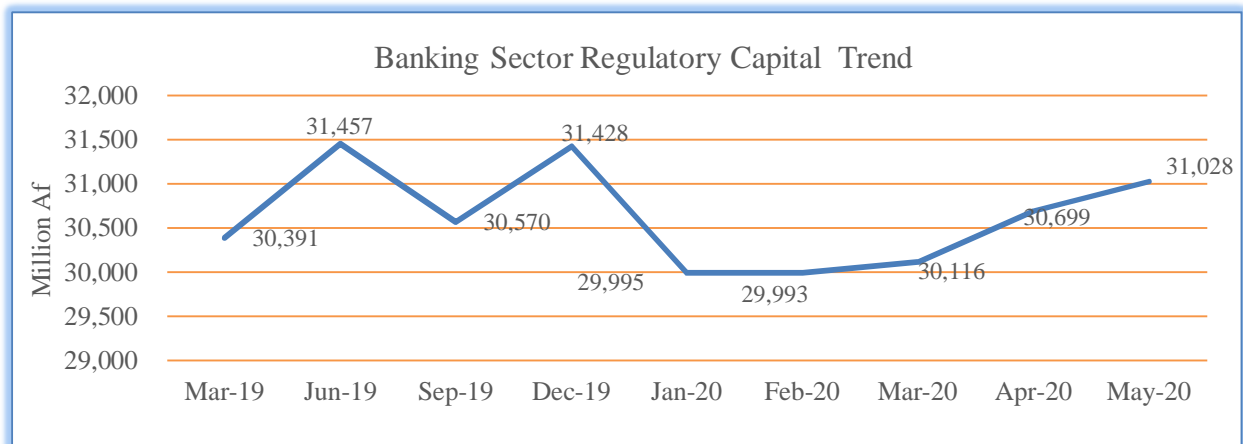
Table 7: Banking Sector Deposits Trend Jan-April 2020 By Type & Currency



Graph 13: Banking Sector Remittances Trend

6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 11.47% of the total assets of the sector. The net equity position of the sector recorded at AF 35.11 billion increased by 1.34% over the month, attributed to the gain in Revaluation-Available for Sale Investments and profit in the current month. The regulatory capital of the sector stands at AF 31.02 billion, showing 1.07% increase over the month. CAR of the sector is at 25.96%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs).



Graph 14: Regulatory Capital Trend of Banking Sector

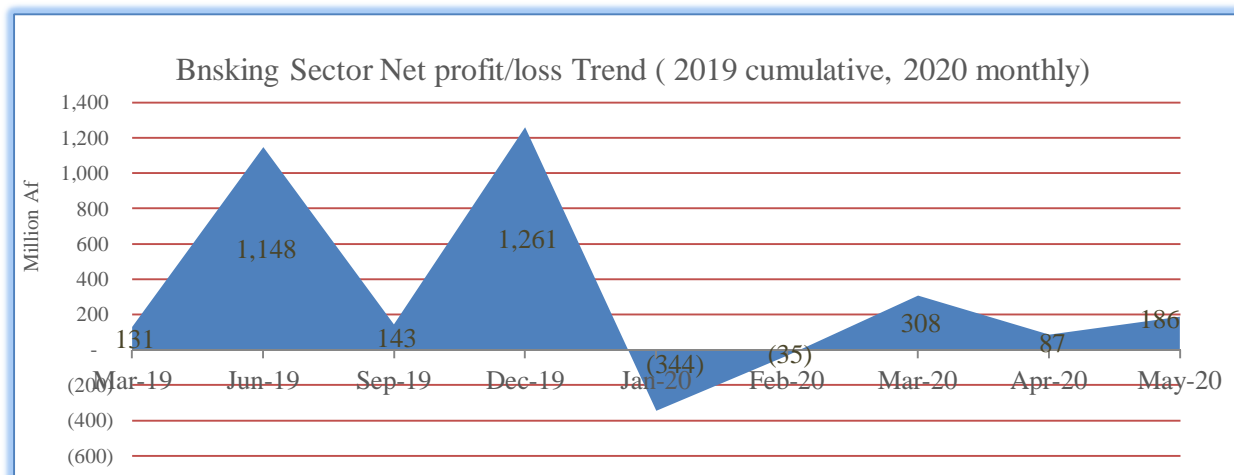
Capital Adequacy Ratio Analysis

Capital Adequacy Indicators	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	May-20
Regulatory Capital to Risk Weighted Assets	26.99%	26.51%	25.81%	25.93%	25.97%	25.96%
Tier 1 Capital To Risk Weighted Assets	27.45%	26.09%	25.24%	24.50%	26.69%	26.04%
Tier 1 Capital To Total Assets	10.31%	10.00%	10.02%	9.48%	10.87%	10.17%
Equity Capital To Total Assets	11.44%	11.49%	11.63%	11.40%	11.90%	11.47%

Table 8: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

On a cumulative basis, the banking sector is profitable; profitability of the sector for the current year (Jan-May 2020) recorded at Af 202 million. Major profitability components are interest and non-interest income, while expenses cover 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 three months the profitability of the sector is attributed to the reintegration of provisions, FX revaluation gains and increase in non-interest income.



Graph 15: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Net-Interest Income to Total Income	1183%	150%	1148%	118%	-2157%
Net-Interest Income to Total Assets	0.52%	0.56%	0.55%	0.48%	0.54%
Non-Interest Income to Total Assets	0.51%	0.61%	0.53%	0.84%	0.56%
Non-Interest Income to Total Income	1161%	163%	1113%	209%	-2244%
Operating Expenses to Total Income	1921%	237%	1839%	226%	-3720%
Salaries to Non-Interest Expense	73.62%	74.19%	68.33%	63.04%	80.20%
Efficiency Ratio (Operating Expenses/ Core Income)	81.98%	75.65%	81.30%	68.99%	84.52%
Burden (difference between non-interest income and non-interest expense)	(994)	(847)	(1,036)	(213)	(1,053)
Net Profit/Loss (Cumulative)	131	1,148	143	1,261	(71)
Return on Asset	0.04%	0.38%	0.05%	0.42%	-0.02%
Return on Equity	0.38%	3.30%	0.41%	3.62%	-0.21%

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), as well as the burden (the difference between non-interest income & non-interest expense), witnessed a considerable difference in Mar-20 which indicate higher

operating expenses, this has a negative impact on profitability and efficiency ratio of the banking sector.

Banking Sector P/L Trend- Amount in Million Af								
Items	Mar-19	Jun-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20	May-20
Interest Income	627	680	570	567	612	592	565	544
Interest Expense	79	106	81	97	77	75	80	75
Net-Interest Income	547	573	489	469	536	517	485	469
Credit Provision-net	34	(20)	103	(436)	536	224	(383)	(10)
G/L on Investments	(2)	25	31	75	1	1	(13)	(1)
Other Non-Interest Income	545	530	536	1,320	488	476	636	508
Non-Interest Expense	525	548	519	670	435	458	580	512
Salary Expense	354	370	345	381	372	357	451	358
Total Operating Expenses	879	918	864	1,051	807	815	1,032	870
Income or Loss Before FX Revaluation G/L & Taxes	177	229	89	1,248	(318)	(43)	460	116
FX Revaluation G/L	86	209	53	193	(32)	(14)	(63)	98
Tax	243	88	38	167	(6)	(22)	90	28
Total Net-Profit/Loss	19	350	103	1,275	(344)	(35)	308	186

Table 10: Banking Sector P/L Trend

6.5.1: Interest Rate on Loans

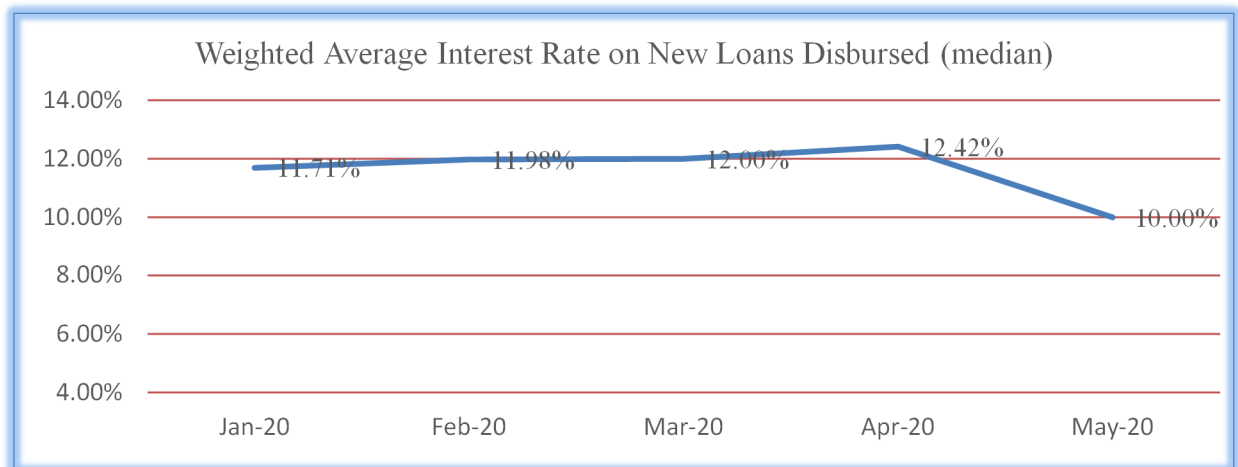
The prevailing interest rate for designated types of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by TL, Consumer loans, OD and Murabaha loans. The highest prevailing rate is 36%, and the lowest is at 1%. Meanwhile for the loans designated in the current month, the weighted average is calculated at 10.00%.

Type of Loans- Sector level	Average Interest Rate (May-20)
Overdraft	12.53%
Term Loan	14.06%
Consumer Loan	12.64%
Murabaha	12.11% ⁶
Credit Cards	27.30%
Highest Interest Rate	36%
Lowest Interest Rate	1%

Table 11: Average Interest Rate of Loans

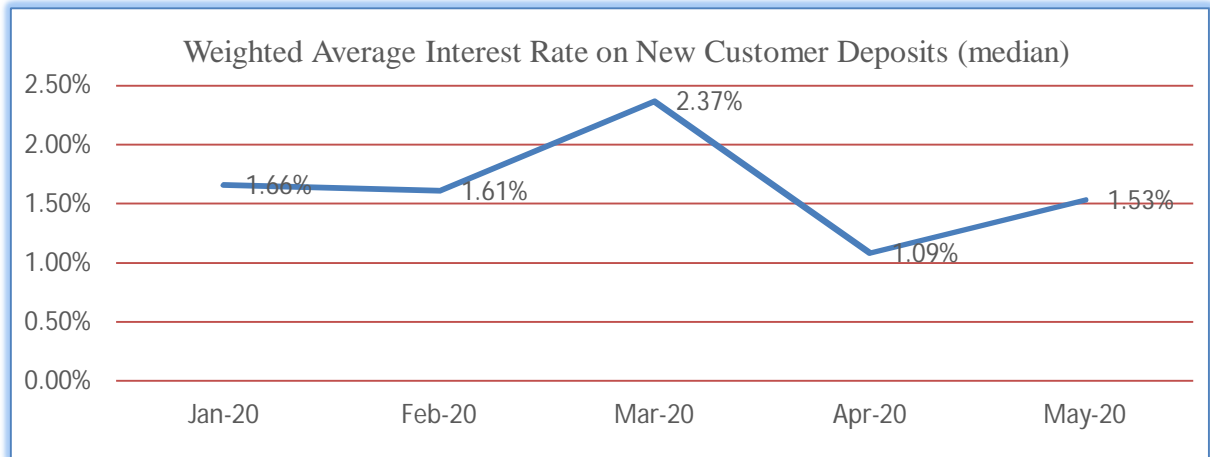
6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of funds increased in May 2020, due to an increase in saving deposits

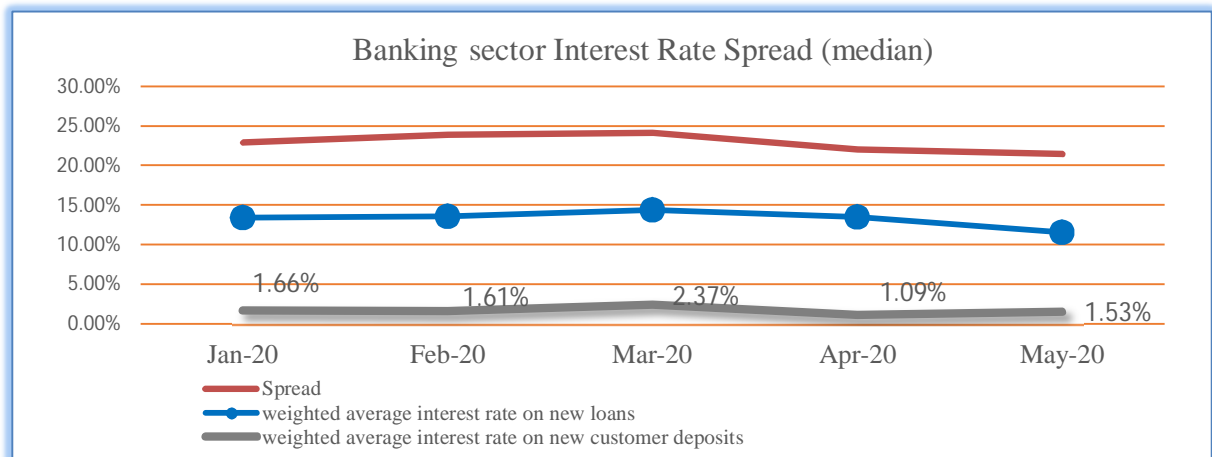


Graph 16: Weighted Average Interest Rate on New Loans Disbursed (median)

⁶ For Islamic Products %age is the profit rate.



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



Graph 18: Banking Sector Interest Rate Spread (Average)

6.6: OFF-BALANCE SHEET ITEMS

Total off balance items of the banking sector amount to Af 60.29 billion, mostly comprising of performance, advance payment and bid guarantees. The total coverage ratio in the form of cash, property and counter guarantees is 39.97 while the remaining portion lacks any kind of collateral coverage.

Type and amount of BGs Issued By Banking Sector May 2020	
Type Of BGs	Amount in Million Af
Bid	5,465
Performance	31,965
Advance Payment	12,983
LC	393
Other BG ⁷	97
Retention ⁸	1,446
Total	52,349

Table 12: Type of BGs Issued by Banking Sector

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash & Property May 2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	8,279	15.82
Collateral Value (Property)	1,915	3.66
Counter Guarantee	10,728	20.49
Total	20,922	39.97

Table 13: Banking Sector BGs Coverage Ratios

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.