



**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Report**

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**May 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.

At the beginning of FY1399 (2020), Reserve Money (RM) actual amount has been recorded Af 321,628.98 million and the actual amount on the mentioned date stood at Af 327744.79 million and showing 1.9 percent of positive growth from the beginning of FY year.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) has been recorded Af 259,349.98 million at the beginning of FY1399, The actual amount of currency in circulation (CiC) stood at Af 282137.22 million at the end of Sawr month, and shows positiv growth of 8.8 percent.

Since the beginning of fiscal year of 1399 (2020) up to end of Sawr, DAB has auctioned a total amount of USD 728.81 million through open market operations, and has collected Af 55.79 billion from the market. These operations have fulfilled 28.90 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation increased in the month of April 2020 year over year basis. The year over year inflation increased to 8.67 percent in April from 3.02 percent observed in the previous month. This increase is caused by higher prices of food items while non- food items decreased during the period.

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 April 2020 is AFN 31.29 billion, while in March; it was AFN 23.30 billion which shows 34.27% or AFN 7.99 billion increase in April. Total revenue from the start of FY-2019 till end of April reached to AFN 85.85 billion that is combination of AFN 25.42 billion donor contributions and AFN 60.43 billion domestic revenue respectively.

Total assets of the banking sector declined in the first quarter of 2020, decrease in the total assets was mainly contributed by withdrawals (dominant in customer demand deposits especially in Jan-20), while

other contributing factors include removal of one bank's<sup>1</sup> data from the sector portfolio. The impact of decrease was observed in cash in vault and interbank claims and claims on DAB. However, total assets of sector increased by 4.56% in April compared to March 2020 due to deposits increase amounting AFN 12.97 Billion.

The gross loan portfolio of the banking sector currently stands at AFN 39.77 billion, which shows a 2.10% decrease comparing to the previous month, making 16% of the customer deposits and 13.36% of the sector total assets..

The total deposits of the banking sector have increased since Jan and Mar 2020 by 2% and 5%, respectively.

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<sup>1</sup> Arian Bank figures are not included in the sector reports from Jan, 2020.

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## 1. Monetary Sector

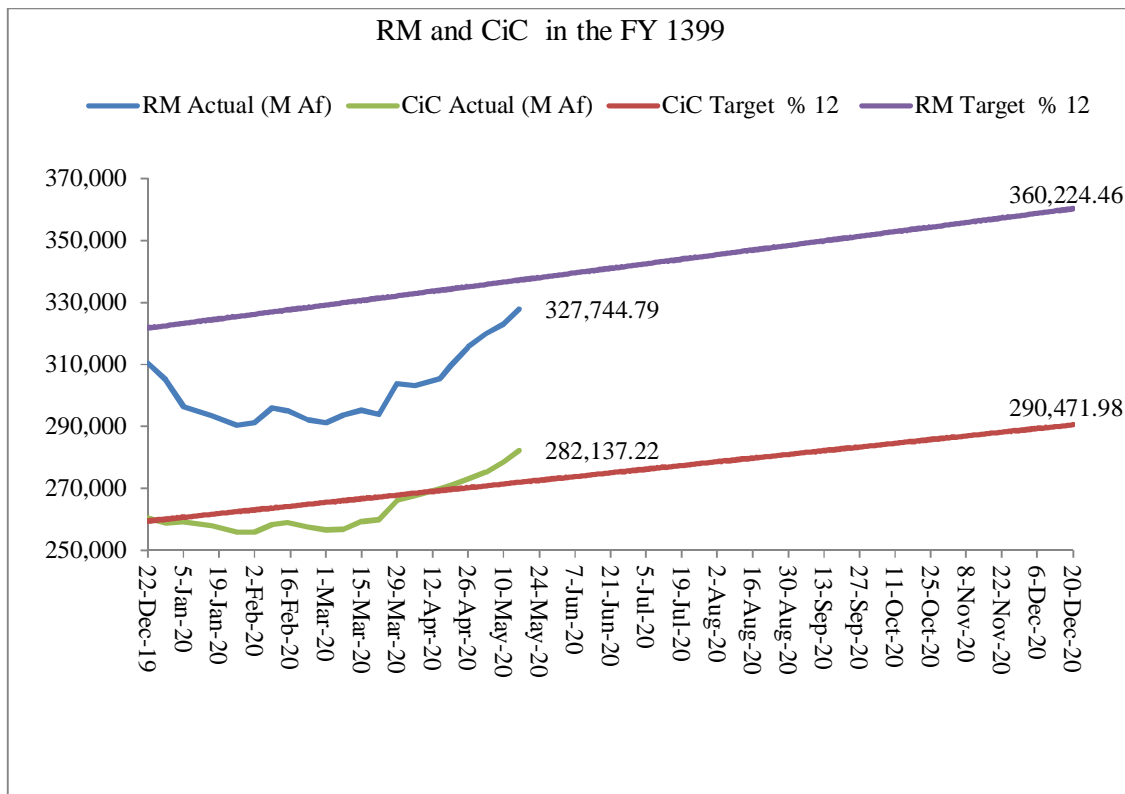
### 1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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.

At the beginning of FY1399 (2020), Reserve Money (RM) actual amount has been recorded Af 321,628.98 million and the actual amount on the mentioned date stood at Af 327744.79 million and showing 1.9 percent of positive growth from the beginning of FY year.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) has been recorded Af 259,349.98 million at the beginning of FY1399, The actual amount of currency in circulation (CiC) stood at Af 282137.22 million at the end of Sawr month, and shows positive growth of 8.8 percent.

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



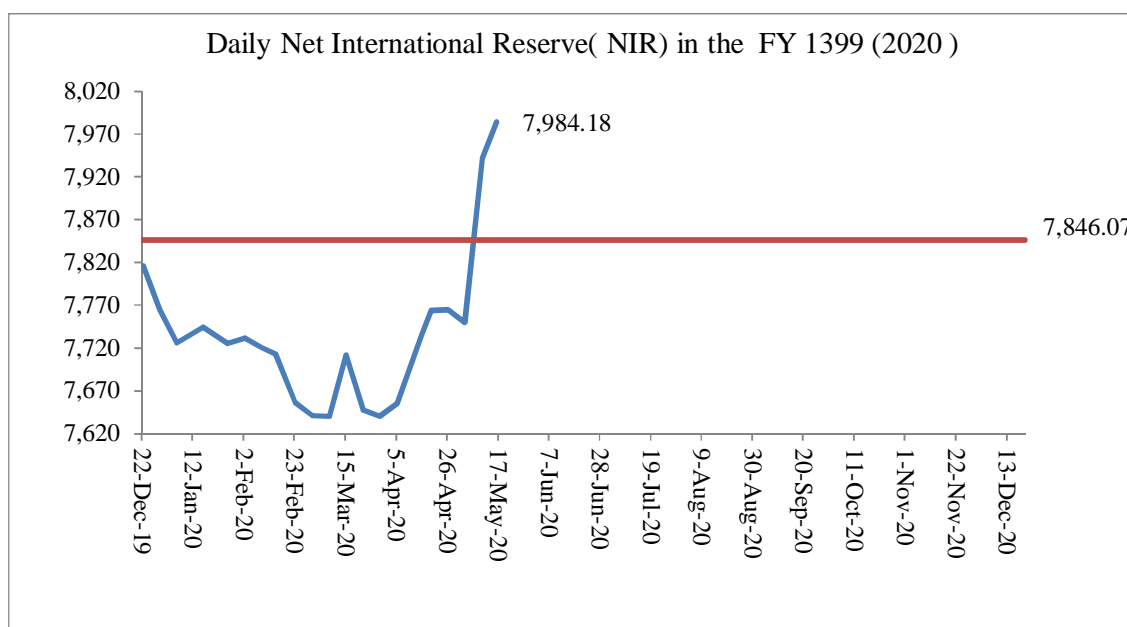
Source: Open Market Operations/Monetary Policy Departments

## 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 7846.06 million, but NIR actual amount reached to USD 7984.18 million at the end of Sawr month, which shows USD 138.11 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

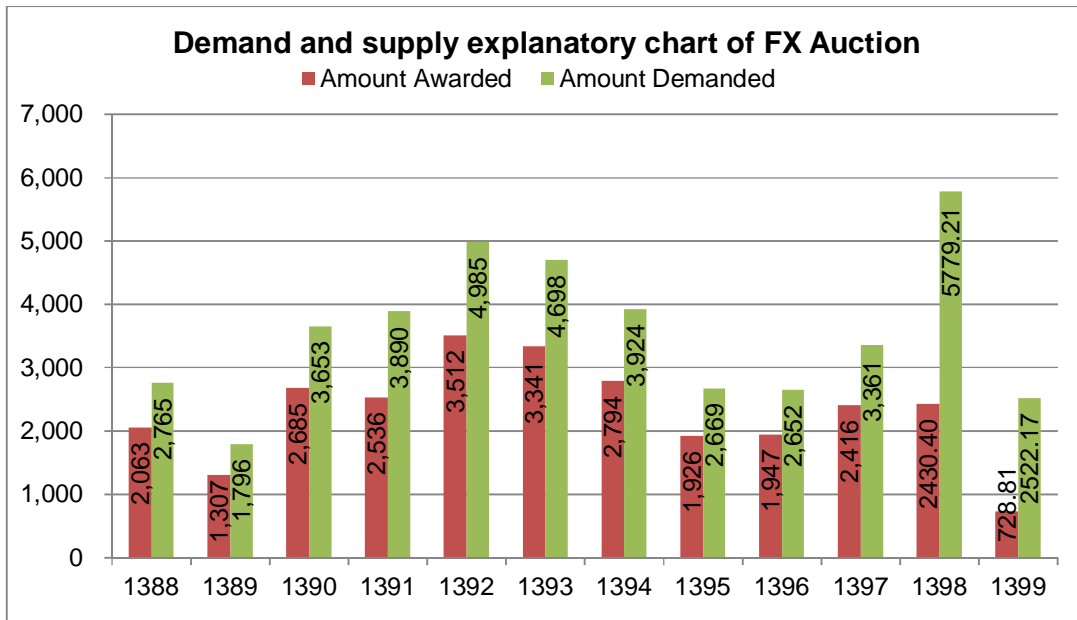
In order to control the liquidity, money supply and mitigate excessive Af exchange rate fluctuations in the economy, DAB manages reserve money growth close to its sited ceiling by conducting USD auctions three times in a week, and weekly capital notes auctions, which are the two instruments used through 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 Sawr, DAB has auctioned a total amount of USD 728.81 million through open market operations, and has collected Af 55.79

billion from the market. These operations have fulfilled 28.90 percent of the total demand for currency (especially the US dollar) in the market.

The Figure of below illustrates the foreign exchange demand and supply during the last 12<sup>th</sup> years.



Source: Market Operations/Monetary Policy Departments

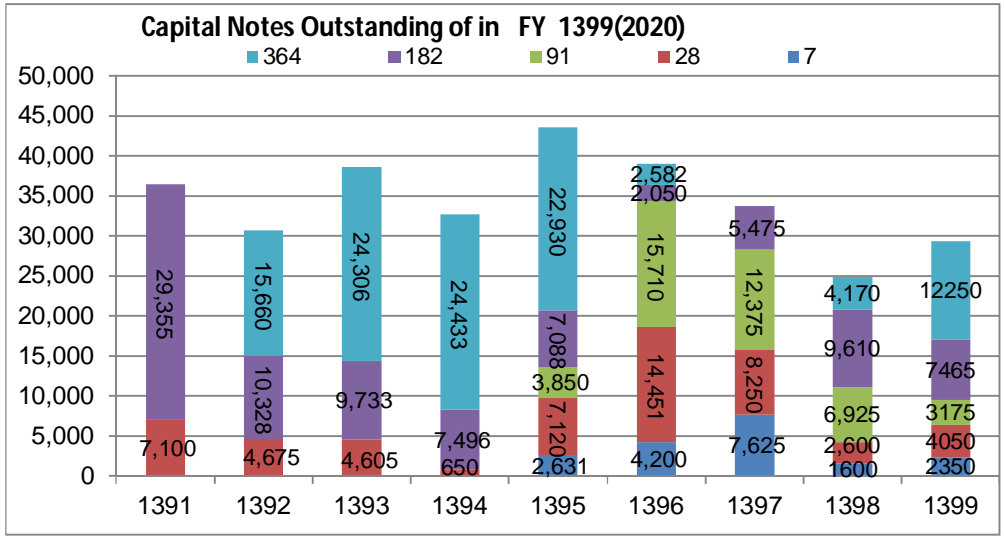
### Capital Notes Auction (Interest rate bidding)

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 Sawr, The total outstanding of capital notes reached Af29.29billion and meanwhile the total interest paid for the mentioned notes reached Af75.59 million at the end of this month.

The Figure of below illustrates the Capital Notes Outstanding at end of mentioned month of FY 1399.

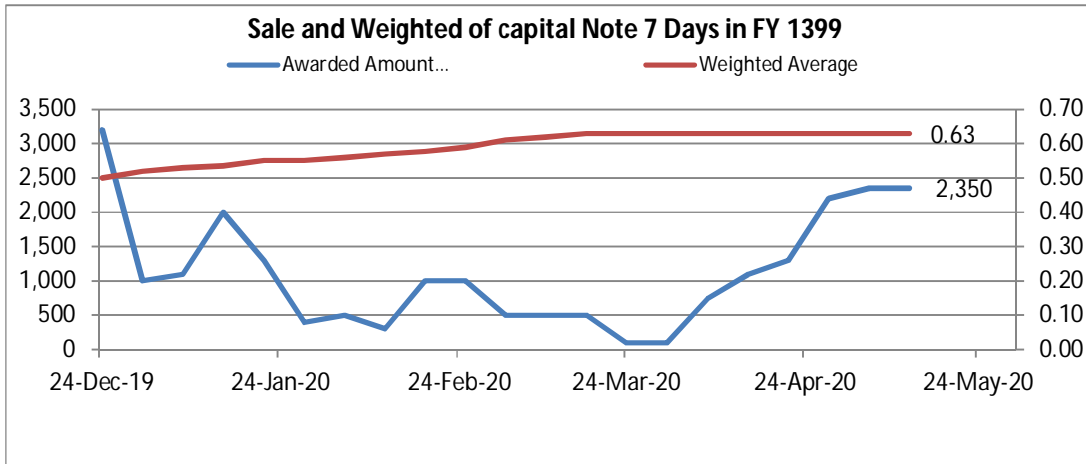




Source: Market Operations/Monetary Policy Departments

### 7 days Capital Notes

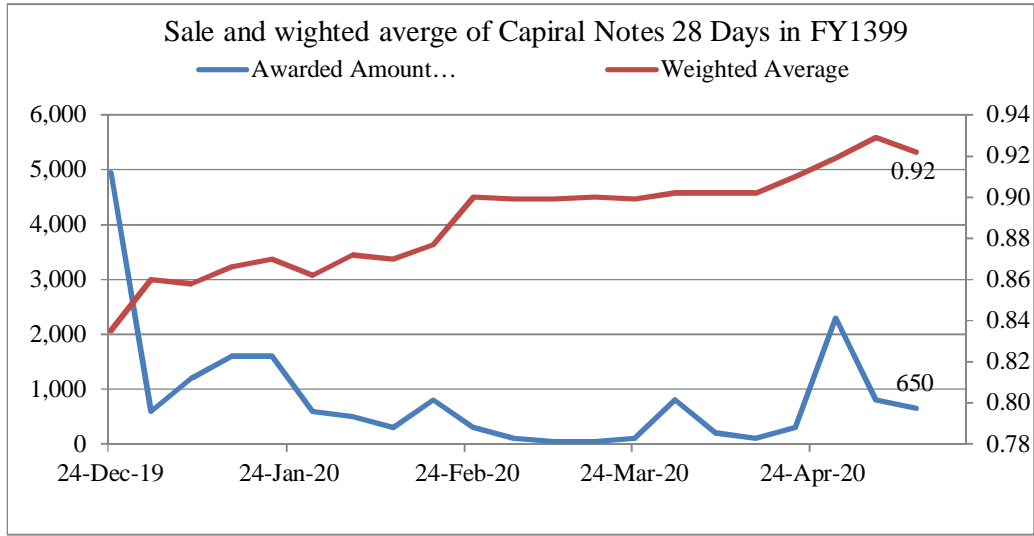
The awarded amount of 7 days capital notes auction at the end of Sawr reached Af 2.35 billion with average interest rate of 0.63 percent. The outstanding of these notes stood at Af 2.35 billion for the mentioned period.



Source: Market Operations/Monetary Policy Departments

### 28 days Capital Notes

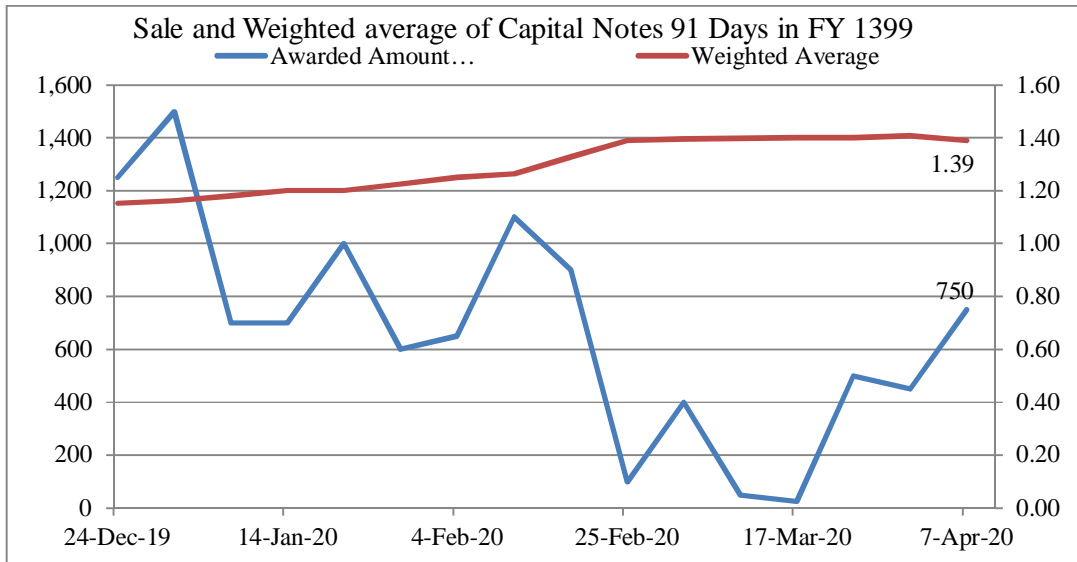
During the reviewed period, awarded amount of 28 days capital notes auction at the end of Sawr is recorded Af 0.65 billion with average interest rate of 0.92 percent and outstanding amount of Af 4.05 billion.



Source: Market Operations/Monetary Policy Departments

### 91 days Capital Notes

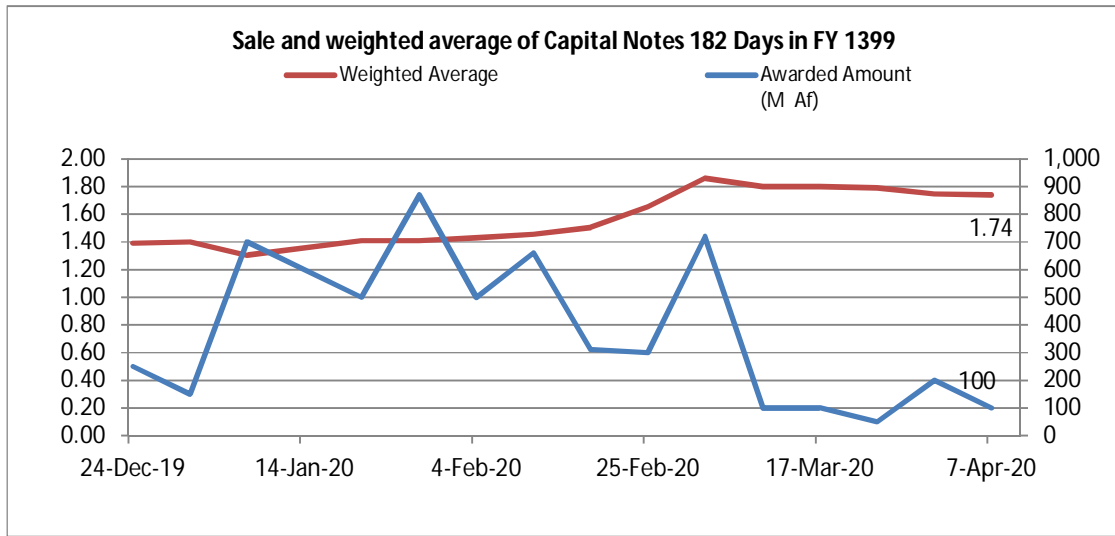
DAB's 91 days capital notes auction during this reporting period stood at Af0.075 billion at the end of Sawr with average interest rate of 1.39 percent and total outstanding of Af 3.17billion.



Source: Market Operations/Monetary Policy Departments

### 182 days Capital Notes

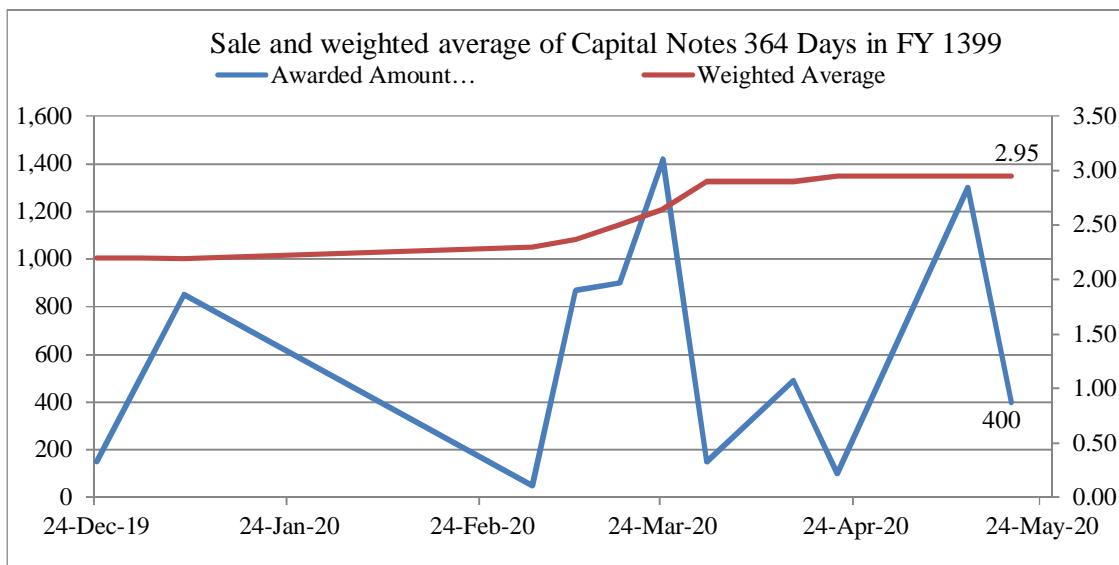
DAB's 182 days capital notes auction during this reporting period stood at Af 0.1 billion at the end of Sawr with average interest rate of 1.74 percent and total outstanding of Af 7.4 billion.



Source: Market Operations/Monetary Policy Departments

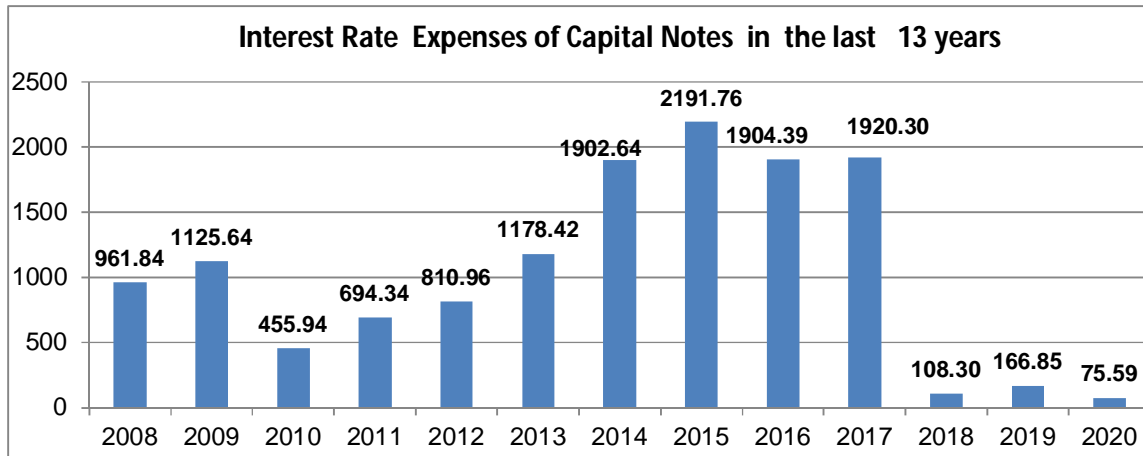
### 364Days Capital Notes

DAB's 364 days capital notes auction during this reporting period stood at Af 0.4 billion at the end of Sawr with average interest rate of 2.95 percent and total outstanding of Af 12.25 billion.



### Interest Expenses

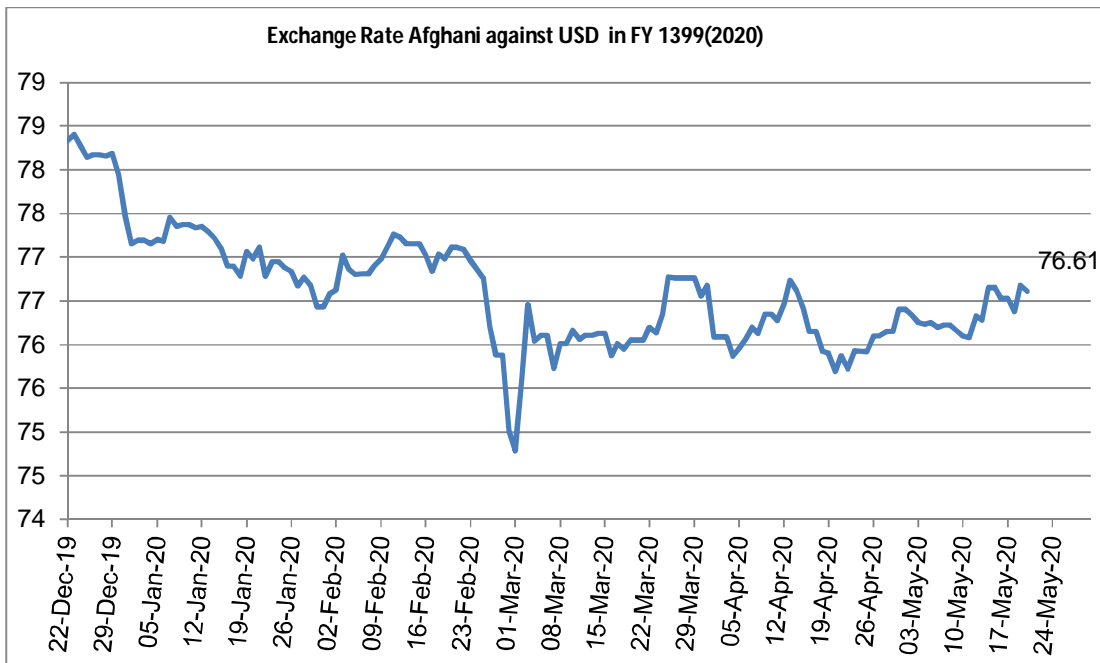
DAB interest paid for Capital Notes during of 13 years till the end of Sawr month FY 1399 (2020) the figure of below illustrated.



### 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 2.3 percent, and has been exchanged at Af 76.61 per USD on average and exchanged 76.61 Af at the end of Sawr month .



The table of Monetary Indicators

|                          | 1398 FY   |           |           |           |           |           | 1399 FY   |           |            |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
|                          | Hoot      | Hamal     | Sawr      | Jawza     | Sunbula   | Qaws      | Hoot      | Hamal     | Sawr       |
| Reserve Money Target (%) | 12        |           |           |           |           |           | 12        |           |            |
| Actual Reserve Money (%) | -5.6      | -5        | -5.4      | -4.5      | 1.19      | 12        | -8        | -5        | 1.9        |
| RM Actual                | 255627.49 | 273698.55 | 272731.64 | 259654.32 | 275042.98 | 304625.71 | 295224.52 | 305563.69 | 327744.794 |
| RM Target                | 280267.14 | 299600.51 | 302545.84 | 305491.17 | 314327.17 | 322878.14 | 331039.94 | 334317.91 | 337595.881 |
| CiC Actual               | 222147.20 | 229230.16 | 228821.97 | 231598.67 | 244489.52 | 259350.77 | 259302.12 | 270012.03 | 282,137.22 |
| CiC Target               | 233785.34 | 237233.49 | 239565.70 | 241897.91 | 248894.55 | 255665.48 | 266938.63 | 269581.87 | 272,225.11 |
| Actual NIR               | 7702.51   | 7689.68   | 7697.04   | 7691.22   | 7868.70   | 7873.60   | 7711.85   | 7896.34   | 7,984.18   |
| NIR Target               | 7684.13   | 7708.58   | 7708.58   | 7708.58   | 7708.58   | 7708.58   | 7846.07   | 7846.07   | 7,846.07   |
| Outstanding Amount       | 26665     | 29655     | 28580     | 27020     | 23920     | 24905     | 30455     | 28060     | 29,840.00  |
| Required Reserve (Afs)   | 5768.54   | 5817.98   | 5907.08   | 10923.40  | 2657.34   | 5734.43   | 5928.75   | 5934.85   | 6,271.67   |

## 2. Real Sector

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

- Headline inflation increased in the month of April 2020 year over year basis. The year over year inflation increased to 8.67 percent in April from 3.02 percent observed in the previous month. This increase is caused by higher prices of food items while non- food items decreased during the period.
- Core inflation when measured based on 30% trimmed mean increased to 6.36 percent from 3.35 percent.

**Table 1.1. Headline Inflation ( March 20- April 20)**

|  | Y-on-Y |       | M-to-M |       |
|--|--------|-------|--------|-------|
|  | March  | April | March  | April |
| <b>National CPI</b>                    |        |       |        |       |
| <b>Headline</b>                        | 3.02   | 8.67  | 0.20   | 6.62  |
| <i>Food</i>                            | 5.07   | 16.56 | 0.63   | 12.45 |
| <i>Non-Food</i>                        | 1.04   | 1.03  | -0.22  | 0.79  |
| <i>CPI ex. B&amp;C, O&amp;F, and T</i> | 3.10   |       | 0.32   | 6.12  |
| <i>Trimmed Mean</i>                    | 3.35   | 6.36  |        |       |
| <b>Kabul CPI</b>                       |        |       |        |       |
| <b>Headline</b>                        | 1.96   | 7.50  | -0.44  | 7.01  |
| <i>Food</i>                            | 2.35   | 16.68 | -0.90  | 15.93 |
| <i>Non-Food</i>                        | 1.71   | 1.40  | -0.13  | 1.06  |

### 2.1.1 Food Inflation

The flow of inflation in food items increased in April 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In April 2020, when measured on year over year basis, increased to 16.56 percent compared to 5.07 percent calculated in previous month. This increase came from higher prices of bread and cereals, meat, milk, cheese and eggs, fresh and dried fruits, vegetables, sugar and sweets, spices and non- alcoholic beverages.

**Table 2.2. Food Inflation(March 20- April 20)**

| Items                          | Weight | Y-on-Y |       | M-to-M |       |
|--------------------------------|--------|--------|-------|--------|-------|
|                                |        | March  | April | March  | April |
| <b>Food and Beverages</b>      | 47.8   | 5.07   | 16.56 | 0.63   | 12.45 |
| <i>Bread and Cereals</i>       | 14.6   | 3.76   | 15.19 | 0.26   | 10.89 |
| <i>Meat</i>                    | 7.5    | 8.67   | 12.03 | 0.04   | 3.45  |
| <i>Milk, cheese and eggs</i>   | 4.7    | -3.27  | 0.02  | -0.65  | 3.40  |
| <i>Oils and fats</i>           | 4.6    | 7.22   | 13.41 | -0.46  | 5.78  |
| <i>Fresh and dried fruits</i>  | 5.0    | 4.50   | 14.32 | 5.17   | 18.99 |
| <i>Vegetables</i>              | 6.0    | 8.17   | 43.46 | 0.79   | 36.93 |
| <i>Sugar and sweets</i>        | 2.7    | 1.08   | 7.40  | -0.65  | 3.66  |
| <i>Spices</i>                  | 1.3    | 18.78  | 30.82 | 1.29   | 15.33 |
| <i>Non-alcoholic beverages</i> | 1.4    | 3.45   | 3.72  | 0.11   | -0.07 |

Source: Afghanistan Bank /NSIA

### 2.1.2 Non-Food Inflation

Inflation in non-food items also exhibited downward trend in the month of April 2020. On the year over year basis, non-food inflation decreased to 1.03 percent from 1.04 percent observed in the previous month. This decrease is come from lower prices of clothing, housing, electricity, gas and water, furnishing and household, information and culture, restaurant and hotels.

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

|  | Weight      | Y-on-Y |       | M-to-M |       |
|--|-------------|--------|-------|--------|-------|
|  |             | March  | April | March  | April |
| <b>Non-Food</b>                            | <b>52.2</b> | 1.04   | 1.03  | -0.22  | 0.79  |
| <i>Tobacco</i>                             | <b>0.3</b>  | 0.04   | 1.11  | 0.77   | 1.17  |
| <i>Clothing</i>                            | <b>4.6</b>  | 7.97   | 7.47  | -0.68  | 0.13  |
| <i>Housing, electricity, gas and water</i> | <b>19.1</b> | -1.63  | -1.78 | -0.42  | 1.15  |
| <i>Furnishing and household goods</i>      | <b>11.9</b> | 1.08   | 0.35  | 0.27   | 0.42  |
| <i>Health</i>                              | <b>6.2</b>  | 5.83   | 6.50  | 0.55   | 0.88  |
| <i>Transportation</i>                      | <b>4.3</b>  | -5.14  | -3.44 | -1.57  | 1.35  |
| <i>Communication</i>                       | <b>1.7</b>  | -4.42  | -3.89 | -1.01  | -0.04 |
| <i>Information and Culture</i>             | <b>1.1</b>  | 2.07   | 0.87  | -1.28  | 0.14  |
| <i>Education</i>                           | <b>0.4</b>  | 0.26   | 6.55  | 0.11   | 0.13  |
| <i>Restaurants and Hotels</i>              | <b>1.1</b>  | 3.09   | 2.03  | -0.45  | 0.04  |
| <i>Miscellaneous</i>                       | <b>1.4</b>  | 12.35  | 13.23 | 1.32   | 1.69  |

## 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 April 2020, trimmed mean (30 % of CPI) increased to 6.36 percent (year over year) from 3.35 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 7.84 percent compared to 3.10 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 6.12 percent from 0.32 percent.



| Core Measures (Year over Year) (Month to Month) |        |       |        |       |
|---|--------|-------|--------|-------|
|   | Y-on-Y |       | M-to-M |       |
|   | march  | April | March  | April |
| 30 % trimmed mean                               | 3.35   | 6.36  |        |       |
| CPI ex B&C, O& F and T                          | 3.10   | 7.84  | 0.32   | 6.12  |

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**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 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 (fresh and dry fruits), increased by 13 percent to a value of USD 94.61 million from a value of USD 83.93 million.
  - ✓ Medical seeds, increased by 15 percent to a value of USD 95 million in the First quarter of the Fy 1399 from a value of USD 82.37 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    |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|
| <b>Current Account</b>                     | <b>-1276.92</b> | <b>-778.34</b>  | <b>-1028.44</b> | <b>-714.90</b>  | <b>-972.10</b>  | <b>-24%</b> |
| <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%        |
| <b>Goods and Services Account</b>          | <b>-1620.48</b> | <b>-1427.23</b> | <b>-1438.49</b> | <b>-1375.16</b> | <b>-1281.22</b> | <b>-21%</b> |
| <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%        |
| <b>Goods Account</b>                       | <b>-1458.59</b> | <b>-1323.05</b> | <b>-1252.91</b> | <b>-1259.63</b> | <b>-1186.23</b> | <b>-19%</b> |
| <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%        |
| <b>Services Account</b>                    | <b>-161.89</b>  | <b>-104.18</b>  | <b>-185.59</b>  | <b>-115.53</b>  | <b>-94.99</b>   | <b>-41%</b> |
| <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%        |
| <b>Primary Income Account</b>              | <b>75.91</b>    | <b>101.07</b>   | <b>68.84</b>    | <b>60.84</b>    | <b>83.52</b>    | <b>10%</b>  |
| <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%        |
| <b>Secondary Income Account</b>            | <b>267.65</b>   | <b>547.83</b>   | <b>341.21</b>   | <b>599.42</b>   | <b>225.60</b>   | <b>-16%</b> |
| <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%         |
| <b>Current transfers (Official grants)</b> | <b>167.4</b>    | <b>432.9</b>    | <b>233.1</b>    | <b>497.7</b>    | <b>162.7</b>    | <b>-3%</b>  |
| <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             |             |
| <b>Personal transfers</b>                  | <b>141.80</b>   | <b>145.36</b>   | <b>142.46</b>   | <b>139.87</b>   | <b>95.96</b>    | <b>-32%</b> |
| <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%         |
| <b>Capital account</b>                     | <b>55.49</b>    | <b>241.03</b>   | <b>22.97</b>    | <b>504.07</b>   | <b>36.06</b>    | <b>-35%</b> |
| <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            |             |
| <b>Capital transfers</b>                   | <b>55.49</b>    | <b>241.03</b>   | <b>22.97</b>    | <b>504.07</b>   | <b>36.06</b>    | <b>-35%</b> |
| <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            |             |
| <b>Financial account</b>                   | <b>-38.3</b>    | <b>40.9</b>     | <b>49.2</b>     | <b>-33.54</b>   | <b>-200.68</b>  | <b>423%</b> |
| <b>Direct investment</b>                   | <b>1.71</b>     | <b>-6.30</b>    | <b>9.04</b>     | <b>-1.55</b>    | <b>0.1</b>      | <b>-95%</b> |
| 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%        |
| <b>Portfolio investment</b>                | <b>-16.46</b>   | <b>15.42</b>    | <b>-33.74</b>   | <b>20.16</b>    | <b>-4.05</b>    | <b>-75%</b> |

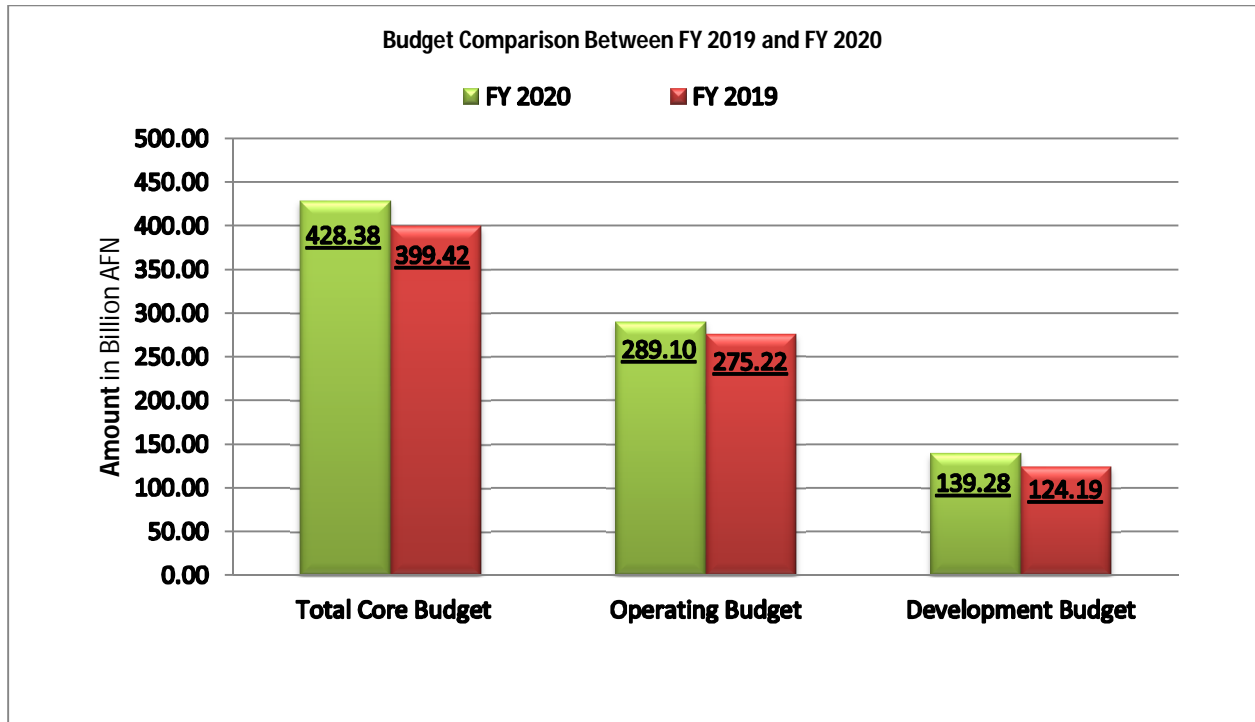
|  |               |               |               |                |                |              |
|--|---------------|---------------|---------------|----------------|----------------|--------------|
| Net acquisition of financial <b>assets</b> | -16.46        | 15.42         | -33.74        | 20.16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

#### 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.



Total revenue (domestic revenue plus external aids) for the month of April 2020 is AFN 31.29 billion, while in March; it was AFN 23.30 billion which shows 34.27% or AFN 7.99 billion increase in April. Total revenue from the start of FY-2019 till end of April reached to AFN 85.85 billion that is combination of AFN 25.42 billion donor contributions and AFN 60.43 billion domestic revenue respectively.

Likewise, domestic Revenue for the month April is AFN 21.78 billion while it was amount AFN 13.98 billion in the month of March, showing an increase of AFN 7.80 billion 55.80% in the month of April. On the other hand, donor contributions (including loans) amounted to AFN 9.51 billion in April, where donor contributions in March was AFN 9.32 billion, which indicates AFN 0.19 billion 2% increase in donor contributions for the month of April.

Additionally, total Expenditure at the end of April 2020 reached to AFN 96.83 billion, from which operating expenditures and development expenditures were individually, AFN 76.65 billion and AFN 20.18 billion. Likewise, operating expenditures for the month of April is AFN 27.94 billion, where in March it was AFN 26.71 billion. This signifies that, there is AFN 1.24 billion or 4.63 % increase in operating expenditures in the month of April FY 2020. On the other hand, development expenditures for the month of March was AFN 7.85 billion, while in April increased by AFN 3.22

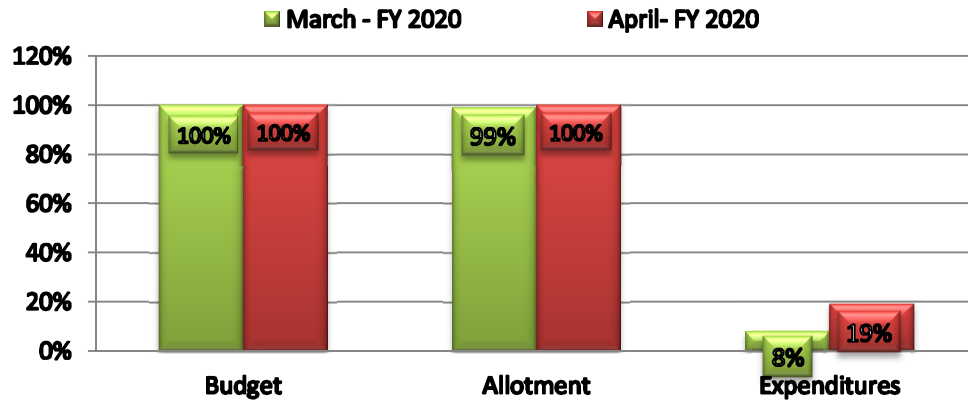
billion or 40.99% resulted total expenditure for the month of April FY 2020 amount AFN 11.07 billion.

| Description               | FY, March<br>2020     | FY, April<br>2020 | From Jan to<br>April<br>FY 2020 | Difference<br>Between<br>March and April | Monthly<br>Growth<br>(%) |
|---------------------------|-----------------------|-------------------|---------------------------------|--|--------------------------|
|                           | Amount in Billion AFN |                   |                                 |  |                          |
| <b>Total Revenue</b>      | 23.30                 | 31.29             | 85.85                           | 7.99                                     | 34.27%                   |
| Domestic Revenue          | 13.98                 | 21.78             | 60.43                           | 7.80                                     | 55.80%                   |
| Donor Contribution        | 9.32                  | 9.51              | 25.42                           | 0.19                                     | 2.00%                    |
| <b>Total Expenditures</b> | 34.56                 | 39.02             | 96.83                           | 4.46                                     | 12.89%                   |
| Operating<br>Expenditure  | 26.71                 | 27.94             | 76.65                           | 1.24                                     | 4.63%                    |
| Developing<br>Expenditure | <b>7.85</b>           | <b>11.07</b>      | 20.18                           | 3.22                                     | 40.99%                   |

**Source: MoF Financial Reports/MPD Staffs Calculations**

Execution rate of core budget at the end of April 2020 reached to 19%, and allotment is 100%. Compared to March 2019 where 8% of the budget were allotted and 99% expenditure were took place.

### Monthly Analysis of Budget Execution For FY 2019





## 5. Swift and Payments

| Report of( Outward) Transactions from 1/02/ 1399 to 31/02/1399  |                     |                   |                |               |              |              |           |
|---|---------------------|-------------------|----------------|---------------|--------------|--------------|-----------|
| Categories  | Remmitter Parties   | Massage Type      | USD            | EUR           | KWD          | INR          | CHF       |
| A   | Ministries          | MT 103 ,700 & 910 | 27,345,801.83  | 7,889,724.00  | 17,215.00    | 1,396,800.00 | 12,100.00 |
| B   | Commercial Banks    | 202               | 79,161,000.00  | 500,000.00    |              |              |           |
| C   | Da Afghanistan Bank | 200               | 778,132,560.82 | 22,300,000.00 |              |              |           |
| Report of( Inward )Transactions fromfrom 1/02/ 1399 to 31/02/1399   |                     |                   |                |               |              |              |           |
| Categories  | Beneficiary Parties | Massage Type      | USD            | EUR           | AED          | GBP          |           |
| A   | Ministries          | MT 103 ,700 & 910 | 273,852,995.39 | 1,072,160.45  | 4,492,208.00 | 0            |           |
| B   | Commercial Banks    | 202               | 71,219,264.71  |               |              |              |           |
| C   | Da Afghanistan bank | 200               |                |               |              |              |           |
| <p>بر علاوه به تعداد 33 معامله تبادلوی FX Deal به ارزش مجموعی (89207033.26) دالر امریکانی و همچنان به تعداد 4 معامله بانک جهانی به ارزش مجموعی مبلغ 19550227.18 دالر امریکانی نیز اجرا گردیده است</p> |                     |                   |                |               |              |              |           |

## 6. Banking sector

### SECTOR AT A GLANCE

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

| Category (in million AFN)                     | Annual Change |         |            | Quarterly Change |         |         |         |            | Remarks on Quarterly Changes                  |
|---|---------------|---------|------------|------------------|---------|---------|---------|------------|---|
|   | 19-Apr        | 20-Apr  | Percentile | 20-Jan           | 20-Feb  | 20-Mar  | 20-Apr  | Percentile |   |
| <b>Total Assets</b>                           | 302,294       | 297,654 | -1.53%     | 292,823          | 285,095 | 284,680 | 297,654 | 1.65%      | Increased by Af 4.83 bn                       |
| <b>Total Loans (Gross)</b>                    | 42,809        | 39,772  | -7.10%     | 41,040           | 40,582  | 40,624  | 39,772  | -3.09%     | Decreased by 1.26 bn                          |
| <b>Total Interbank Claims (Gross)</b>         | 91,317        | 76,897  | -15.79%    | 84,977           | 80,987  | 78,967  | 76,897  | -9.51%     | Decreased by Af 8.08 bn                       |
| <b>Investment in Bonds</b>                    | 21,159        | 31,187  | 47.40%     | 30,533           | 30,421  | 30,325  | 31,187  | 2.14%      | Increased by Af 0.64 bn                       |
| <b>Criticized Loans<sup>2</sup></b>           | 11,122        | 12,510  | 12.48%     | 14,366           | 13,847  | 12,492  | 12,510  | -12.92%    | Decreased by Af 1.85 bn                       |
| <b>Adversely Classified Loans<sup>3</sup></b> | 6,601         | 8,066   | 22.19%     | 8,181            | 7,682   | 8,009   | 8,066   | -1.40%     | Decreased by Af 0.11 bn                       |
| <b>NPLs<sup>4</sup></b>                       | 4,773         | 6,168   | 29.21%     | 6,556            | 6,520   | 6,095   | 6,168   | -5.93%     | Decreased by Af 0.38 bn                       |
| <b>Total Deposits</b>                         | 260,558       | 250,966 | -3.68%     | 246,970          | 239,386 | 238,937 | 250,966 | 1.62%      | Increased by Af 3.99 bn                       |
| <b>Total Liabilities</b>                      | 267,925       | 263,023 | -1.83%     | 258,553          | 250,888 | 250,789 | 263,023 | 1.73%      | Increased by Af 4.47 bn                       |
| <b>Financial Capital</b>                      | 34,369        | 34,632  | 0.76%      | 34,270           | 34,207  | 33,890  | 34,632  | 1.06%      | Increased by Af 0.36 bn                       |
| <b>Regulatory Capital</b>                     | 30,479        | 30,686  | 0.68%      | 29,995           | 29,993  | 30,116  | 30,686  | 2.30%      | Increased by Af 0.69 bn                       |
| <b>Risk Weighted Asset</b>                    | 114,964       | 119,819 | 4.22%      | 120,605          | 116,117 | 115,947 | 119,819 | -0.65%     | Decreased by Af 0.78 bn                       |
| <b>Net Profit/Loss</b>                        | 354           | 87      | -75.47%    | (344)            | (35)    | 307     | 87      | -125.22%   | Profitability improved in the last two months |

Table 1: Major Financial Indicators of the Sector

<sup>2</sup> Loans which are classified in watch, sub-standard, doubtful and loss categories.

<sup>3</sup> Loans which are classified as sub-standard, doubtful and loss.

<sup>4</sup> Loans which are classified in doubtful and loss categories.

## INTRODUCTION

The banking sector in Afghanistan constitutes 19.99% of the GDP and 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 are as follows:

| Provided Banking Facilities   | April 20  | April 19  | Change  | %age change |
|---|-----------|-----------|---------|-------------|
| <b>Full-Service Branches</b>  | 207       | 209       | -1      | -0.96%      |
| <b>Limited Service Branches</b>   | 203       | 206       | -3      | -1.46%      |
| <b>Automated Teller Machines (ATM)</b>  | 363       | 349       | 14      | 4.01%       |
| <b>Point of Sale (POS)</b>  | 132       | 101       | 31      | 30.69%      |
| <b>Type (21,24,25) Facility<sup>5</sup></b>                                       | 104       | 87        | 17      | 19.54%      |
| <b>Credit Cards</b>   | 1,229     | 1,910     | -681    | -35.65%     |
| <b>Debit Cards</b>  | 610,213   | 578,959   | 31,254  | 5.40%       |
| <b>ATM Cards</b>  | 257,682   | 233,648   | 24,034  | 10.29%      |
| <b>Master Cards</b>   | 17,830    | 3,223     | 14,607  | 453.21%     |
| <b>Prepaid Cards</b>  | 37,208    | 5,480     | 31,728  | 578.98%     |
| <b>Web Surfer Cards</b>   | 4,819     | 13,667    | -8,848  | -64.74%     |
| <b>Number of Accounts (Loans)</b>   | 64,541    | 73,307    | -8,766  | -11.96%     |
| <b>Number of Borrowers<sup>6</sup></b>  | 66,162    | 74,403    | -8,241  | -11.08%     |
| <b>Number of Loan files where borrower president or vice president is a woman</b> | 14,544    | 15,593    | -1,049  | -6.73%      |
| <b>Number of Depositors</b>   | 4,086,240 | 3,676,962 | 409,278 | 11.13%      |
| <b>Number of Deposit Accounts</b>   | 4,213,736 | 3,767,962 | 445,774 | 11.83%      |
| <b>Number of Employees (Local + Foreign)</b>                                      | 9,933     | 9,439     | 494     | 5.23%       |

Table 2: Provided Banking Facilities

<sup>5</sup>Type 21-A loan origination facility, where the proceeds of loan are not disbursed.

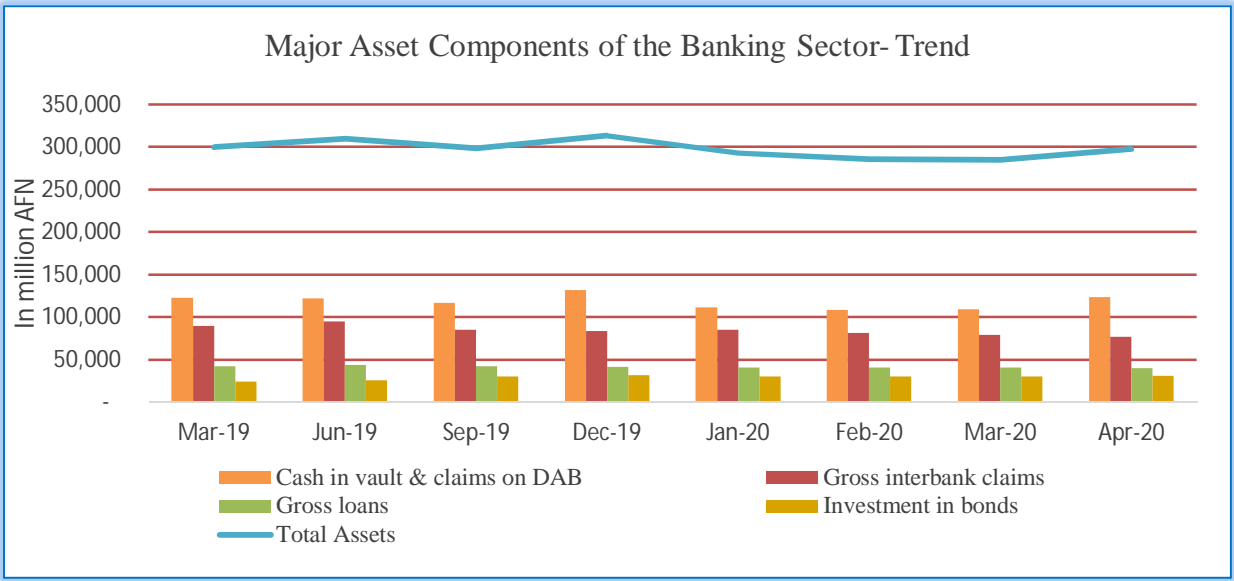
Type – 24 A facility that can only disburse cash.

Type 25- A facility that can only receive or collect cash.

<sup>6</sup> 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 declined in the first quarter of 2020, decrease in the total assets was mainly contributed by withdrawals (dominant in customer demand deposits especially in Jan-20), while other contributing factors include removal of one bank's<sup>7</sup> data from the sector portfolio. The impact of decrease was observed in cash in vault and interbank claims and claims on DAB. However, total assets of sector increased by 4.56% in April compared to March 2020 due to deposits increase amounting AFN 12.97 Billion.



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 (41.49%), followed with the interbank claims (25.83%), gross loans (13.365) and the investment in bonds (10.84%).

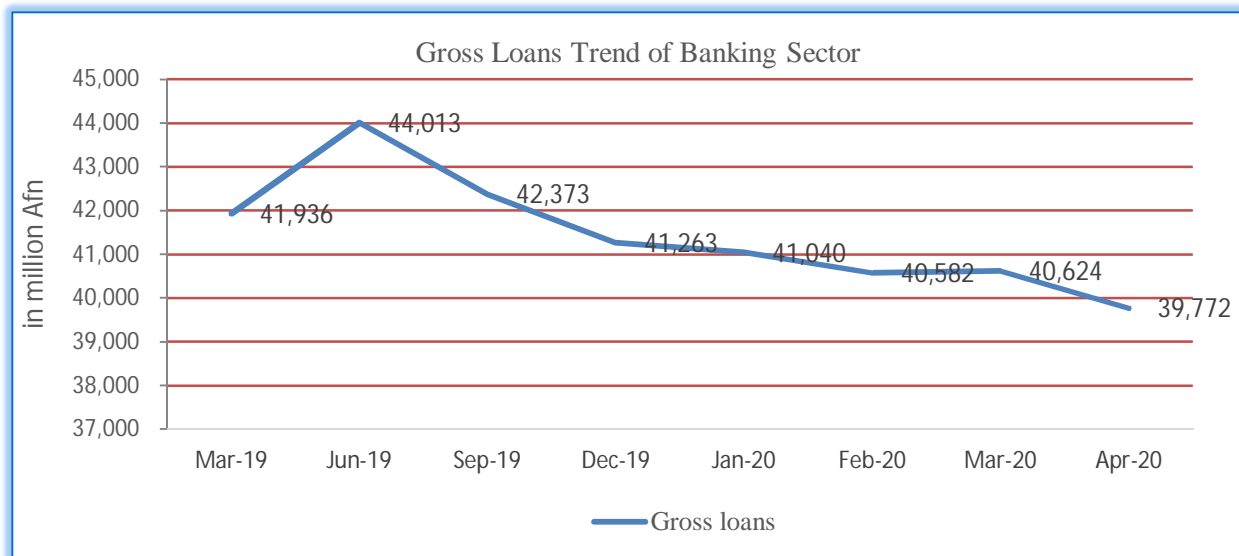
<sup>7</sup> Arian Bank figures are not included in the sector reports from Jan, 2020.

| Asset Quality Indicators  | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Apr-20 |
|---|--------|--------|--------|--------|--------|--------|
| <b>Cash &amp; Balances with DAB (Excluding Capital Notes) to Total Assets</b> | 32.16% | 30.75% | 30.55% | 33.47% | 28.00% | 32.41% |
| <b>Capital Notes to Total Assets</b>  | 8.77%  | 8.61%  | 8.65%  | 8.51%  | 10.30% | 9.08%  |
| <b>Interbank Claims (Domestic) to Total Assets</b>                            | 1.31%  | 1.35%  | 1.76%  | 1.63%  | 2.05%  | 1.75%  |
| <b>Foreign Placements to Total Assets</b>                                     | 28.67% | 29.02% | 26.54% | 25.04% | 25.69% | 24.02% |
| <b>Total Gross Loans to Customer Deposits</b>                                 | 16.62% | 16.99% | 17.02% | 15.77% | 17.31% | 16.13% |
| <b>Loan Loss Reserves to Total Gross Loans</b>                                | 10.67% | 10.93% | 12.25% | 12.24% | 12.59% | 12.86% |
| <b>Loan Loss Reserves to Total Assets</b>                                     | 1.49%  | 1.55%  | 1.74%  | 1.61%  | 1.80%  | 1.72%  |
| <b>Aggregate Related Party Loans to Regulatory Capital</b>                    | 0.53%  | 1.25%  | 1.26%  | 1.27%  | 1.31%  | 1.24%  |
| <b>Repossessed Assets to Total Assets</b>                                     | 0.30%  | 0.30%  | 0.33%  | 0.35%  | 0.36%  | 0.34%  |
| <b>Repossessed Assets to Total Loan Portfolio - Gross</b>                     | 2.14%  | 2.15%  | 2.30%  | 2.64%  | 2.50%  | 2.56%  |
| <b>NPL to Total Assets</b>  | 1.53%  | 1.82%  | 1.87%  | 1.90%  | 2.14%  | 2.07%  |

Table 3: Asset Quality Indicators

### 6.1.1 Loan Portfolio

The total gross loan portfolio of the banking sector followed a declining trend from mid-2019, attributed mainly to settlement, charge-offs, and less OD utilization. Lending in Afghanistan is dominated by private banks constituting 87% of the portfolio, followed by state-owned banks with 12.16% share, while branches of foreign banks are just 0.63% share with the lowest level of contribution in the economy.



Graph 2: Gross Loans Trend

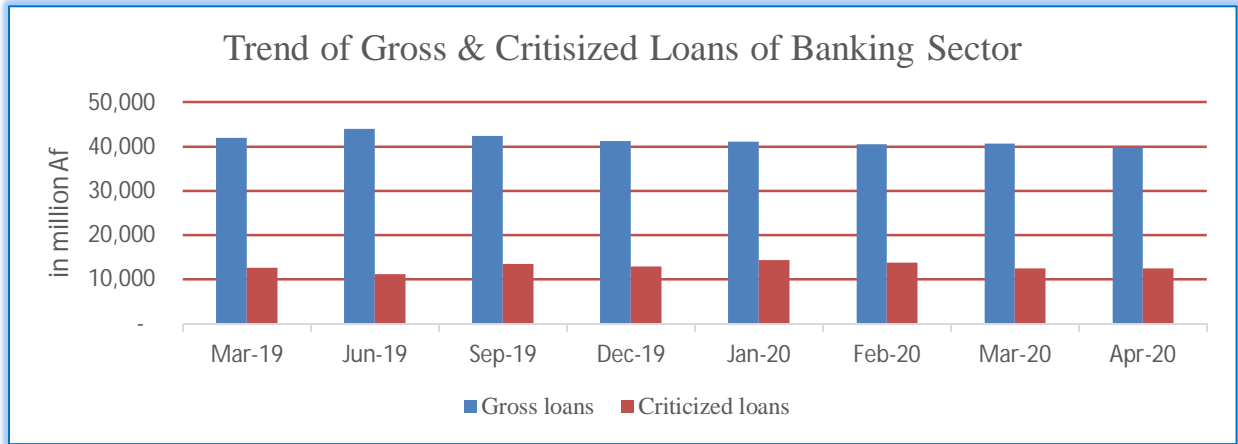
The gross loan portfolio of the banking sector currently stands at AFN 39.77 billion, which shows a 2.10% decrease comparing to the previous month, making 16% of the customer deposits and 13.36% of the sector total assets. See the summary of loan portfolio below:

| Banking Sector- Currency Composition of Gross Loans- Amount in million Af |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|
| Currency  | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Apr-20 |
| <b>Afghani</b>  | 18,864 | 20,227 | 20,439 | 20,912 | 20,980 | 20,881 |
| <b>USD</b>  | 22,955 | 23,685 | 21,851 | 20,171 | 19,598 | 18,844 |
| <b>Other Currencies</b>   | 117    | 101    | 83     | 68     | 47     | 46     |

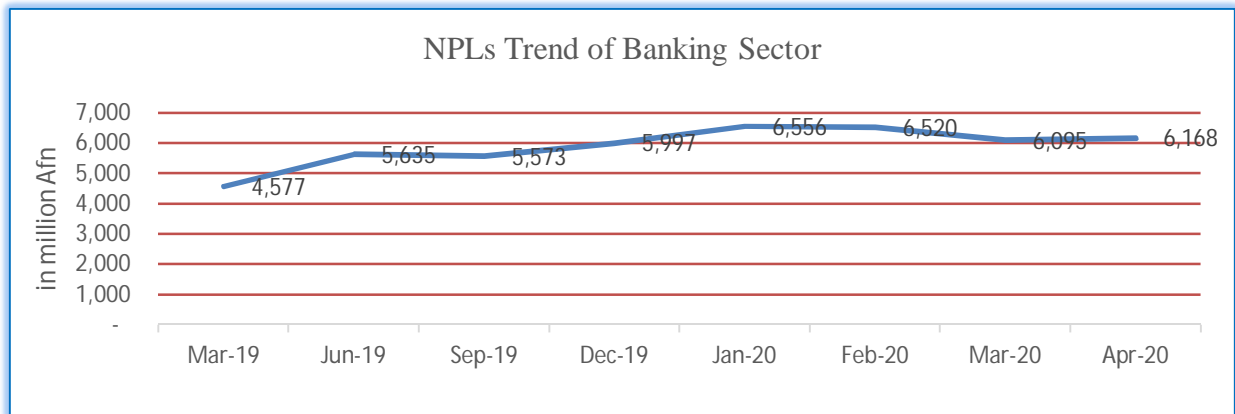
Table 4: Gross Loans Currency Composition

### 6.1.2 Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 15.51% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 15.51% NPLs, 13.41% is attributed to four banks. These banks hold 67.48% of the sector's gross loans and 51.38% of the sector's regulatory 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 | Apr-20 |
|---|--------|--------|--------|--------|--------|--------|
| <b>Criticized Loans to Total Gross Loans</b>                | 30.18% | 25.41% | 32.05% | 31.42% | 30.75% | 31.46% |
| <b>Adversely-Classified Loans to Total Gross Loans</b>      | 15.29% | 16.88% | 19.32% | 17.95% | 19.71% | 20.28% |
| <b>Non-Performing Loans to Total Gross Loans</b>            | 10.91% | 12.80% | 13.15% | 14.53% | 15.00% | 15.51% |
| <b>Non-Performing Loans to Total Regulatory Capital</b>     | 15.06% | 17.91% | 18.23% | 19.07% | 20.24% | 20.10% |
| <b>Specific Loan-Loss Reserves to Criticized Loans</b>      | 31.18% | 38.56% | 34.80% | 35.56% | 37.35% | 37.45% |
| <b>Loan Provisions(Specific Provisions) to NPLs</b>         | 69.39% | 65.24% | 68.24% | 66.37% | 65.02% | 64.66% |
| <b>General Loan-Loss Reserves to Standard Loans</b>         | 1.80%  | 1.52%  | 1.62%  | 1.56%  | 1.60%  | 1.57%  |
| <b>(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital</b> | 4.53%  | 6.33%  | 5.92%  | 6.79%  | 6.89%  | 7.03%  |
| <b>Net NPLs to Total Net Loans</b>                          | 3.74%  | 5.00%  | 4.76%  | 5.57%  | 6.01%  | 6.29%  |
| <b>Net NPLs to Total Gross Loans</b>                        | 3.34%  | 4.45%  | 4.18%  | 4.89%  | 5.25%  | 5.48%  |

Table 5: Loan Quality Indicators

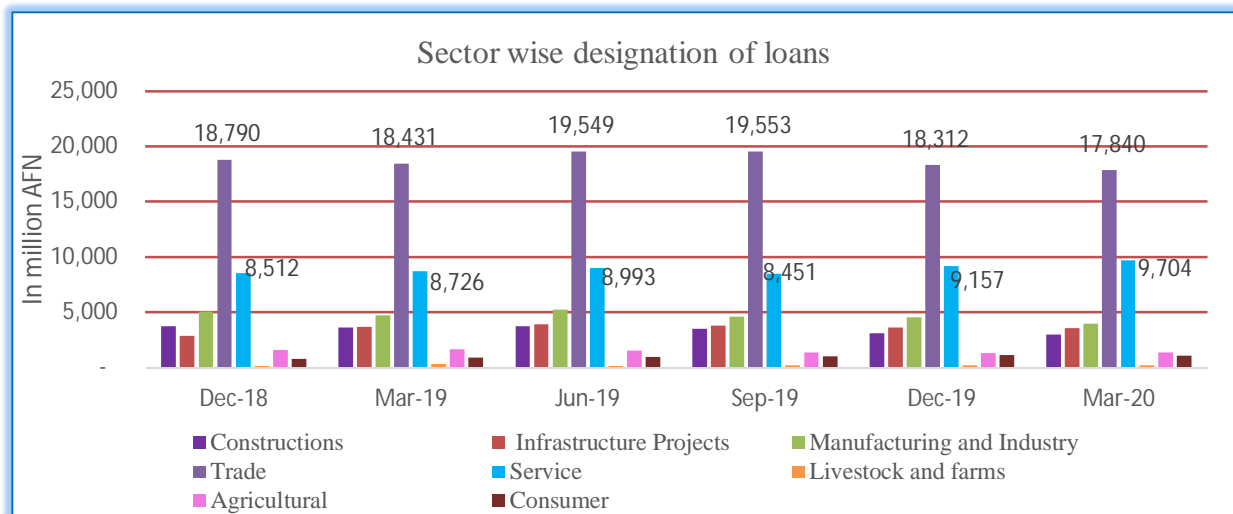
### 6.1.3 Type of Loans

Banking sector provide Overdraft, Term and Islamic loans, more than 50% of the sector's loan portfolio is concentrated in OD loans designated by eight banks.

### 6.1.4 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 3<sup>rd</sup> and 4<sup>th</sup> places with 10% and 8% share in the sector's loan portfolio respectively.





Graph 5: Sector-wise designation of loans

### 6.1.5 Related Party Exposure

Total related party exposure of the sector stands at AFN 381 million coming from five banking institutions, making 0.96% 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).

### 6.1.6 Repossessed Assets

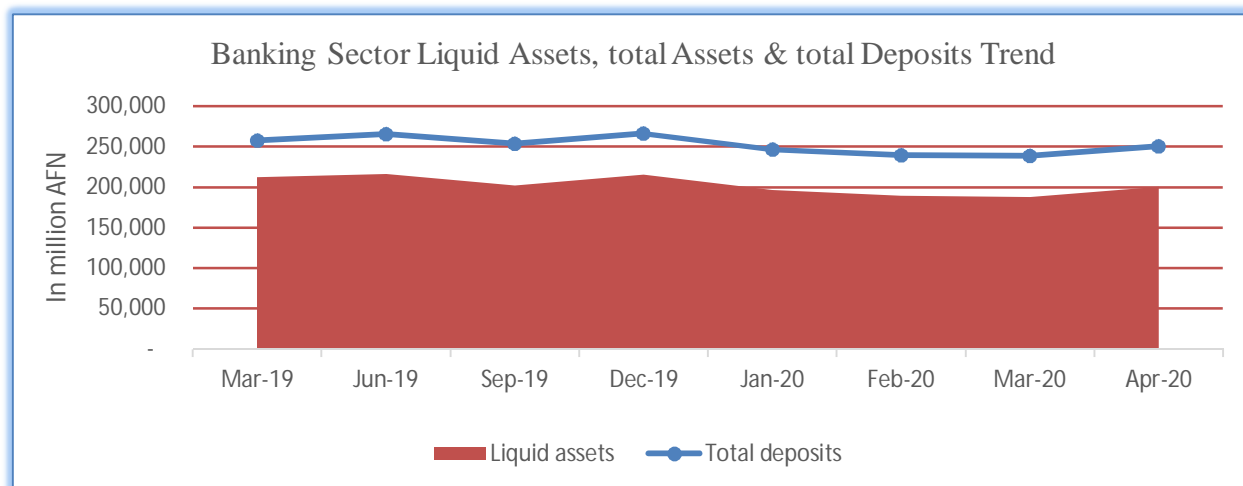
Total repossessed assets of the banking sector amount to AFN 1.01 billion making 0.34% of the total assets reported by five banking institutions.

## 6.2 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 54.33 %.

### 6.2.1 Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 67.32% of the total assets and 86.78% of the short-term liabilities, though it had a declining trend due to deposit withdrawals during the first three months of 2020, but picked up again in April due to rise in deposits.



Graph 6: Banking Sector Liquid Assets & Total Deposits Trend

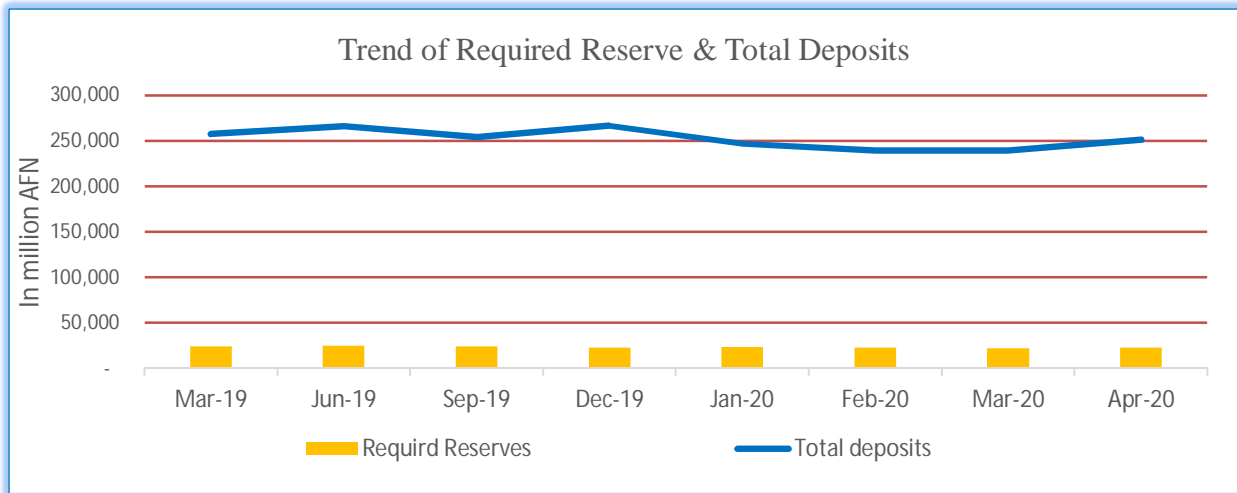
### Liquidity Ratio Analysis

| Liquidity Ratios                                     | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Apr-20 |
|--|--------|--------|--------|--------|--------|--------|
| <b>Loans to Deposits</b>                             | 16.27% | 16.56% | 16.69% | 15.48% | 17.00% | 15.85% |
| <b>Loans to Assets</b>                               | 14.00% | 14.22% | 14.20% | 13.18% | 14.27% | 13.36% |
| <b>Liquid Assets to Short-Term Liabilities</b>       | 89.88% | 89.06% | 86.56% | 87.31% | 85.95% | 86.78% |
| <b>High Liquid Asset to Short-term Liabilities</b>   | 36.35% | 38.19% | 36.89% | 38.55% | 37.46% | 40.75% |
| <b>Liquid Assets to Total Assets</b>                 | 70.92% | 69.97% | 67.73% | 68.78% | 66.03% | 67.32% |
| <b>Foreign Currency Deposits to Total Deposits</b>   | 71.28% | 72.96% | 70.57% | 69.08% | 69.48% | 68.46% |
| <b>Customer Loans to Customer Deposits</b>           | 16.62% | 16.99% | 17.02% | 15.77% | 17.31% | 16.13% |
| <b>Volatile Liabilities to Total Liabilities</b>     | 0.78%  | 1.33%  | 0.98%  | 0.91%  | 0.90%  | 0.92%  |
| <b>Domestic Loans to (Total Deposits and Equity)</b> | 14.36% | 14.60% | 14.68% | 13.65% | 14.89% | 13.93% |

Table 6: Liquidity Ratios

### 6.2.2 Required Reserves

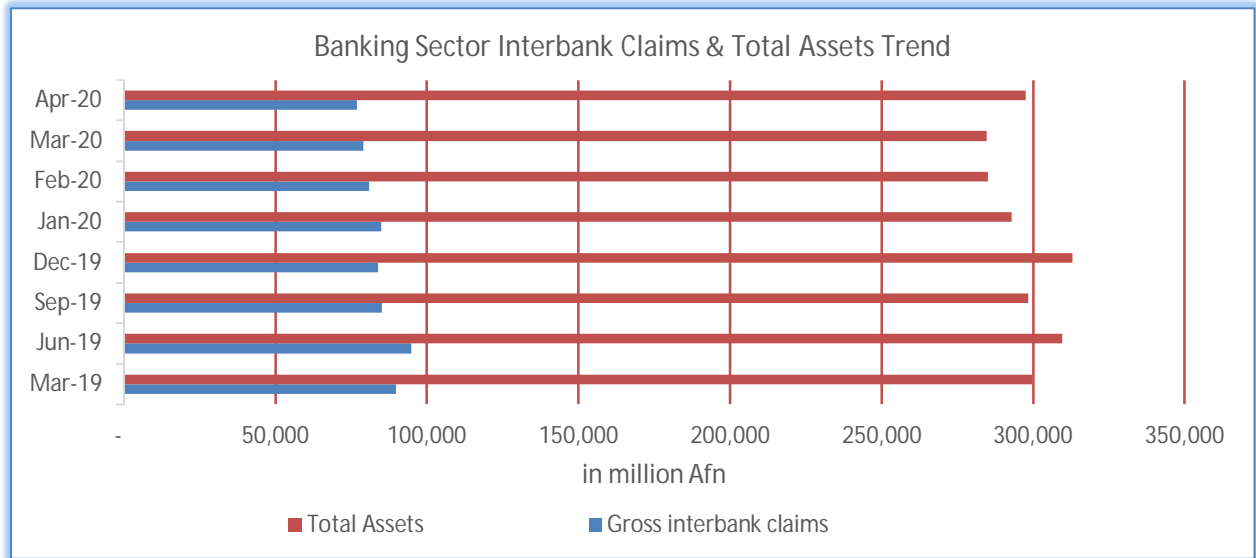
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the AFN base deposits and 10% for the EUR and USD base deposits.



Graph 7: Trend of Required Reserve & Total Deposits

### 6.2.3 Interbank Claims

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



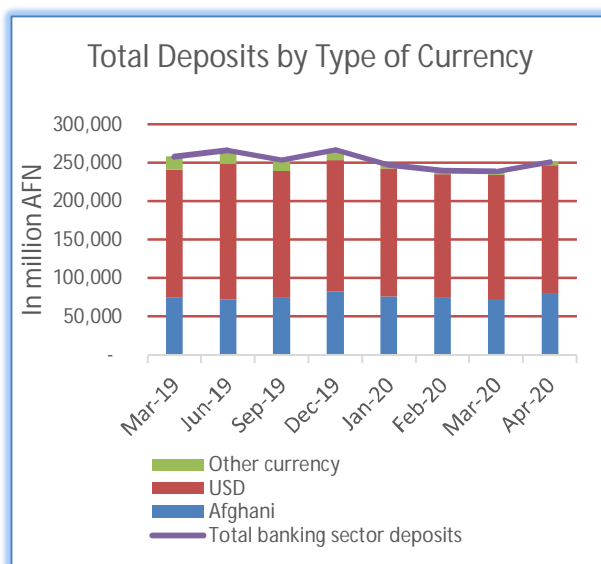
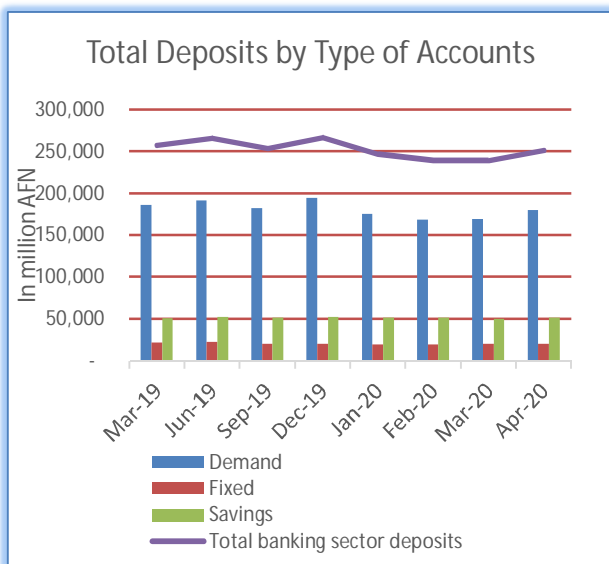
**Graph 8:** Banking Sector Interbank Claims & Total Assets Trend

#### 6.2.4 Foreign Accounts and Placements

Deposits placed with foreign banks 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 35% of the sector total assets and 41% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans is at 13% and 16% of the sector assets and deposits respectively.

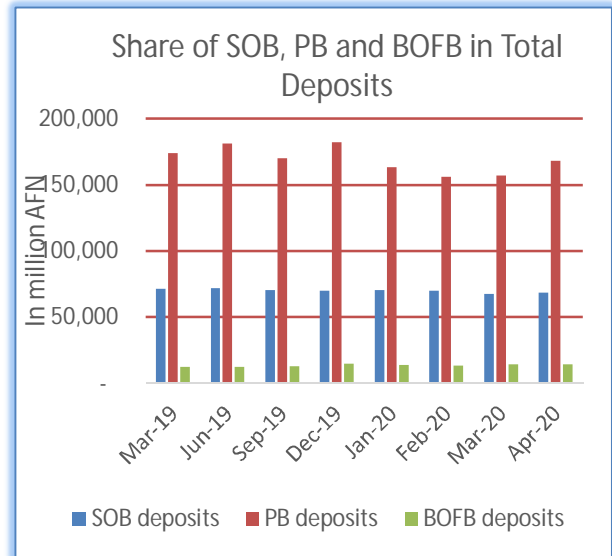
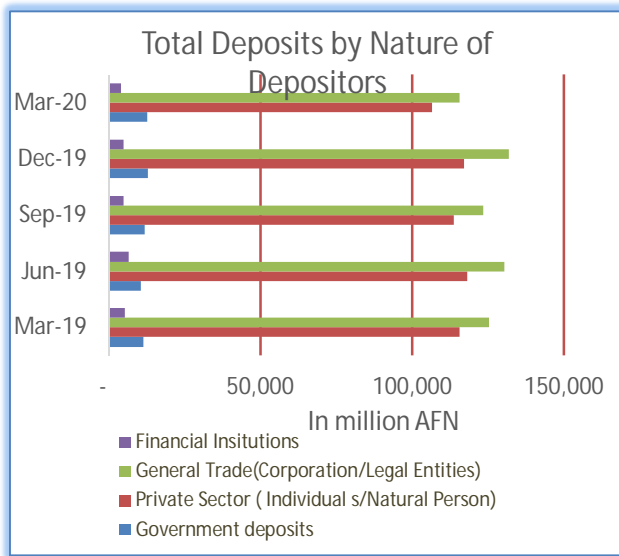
#### 6.2.5 Deposits

The total deposits of the banking sector have increased since Jan and Mar 2020 by 2% and 5%, respectively.



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

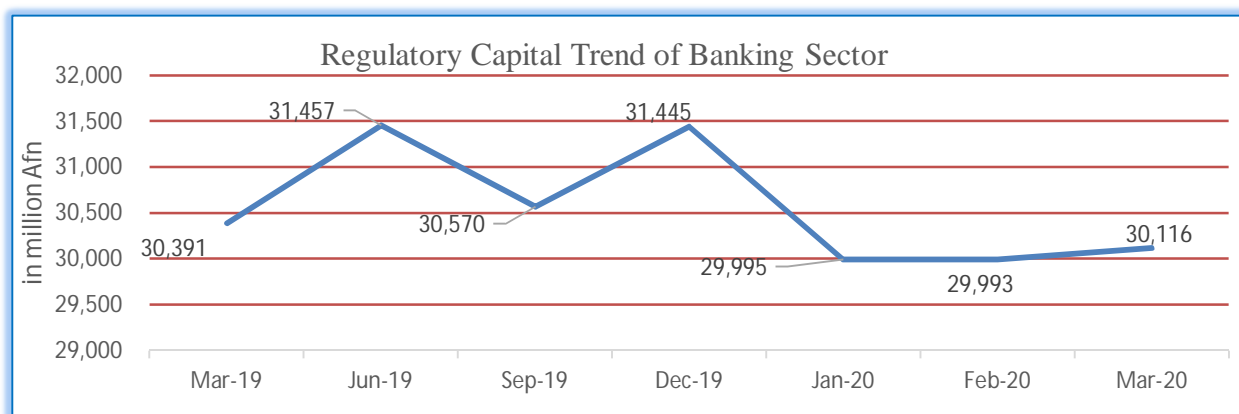
As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector which makes 48.36%, followed by individual/natural person deposits with 44.57%, government deposits 5.33%, and financial institutions constitute 1.75% share in total deposits. The private banks have the highest percentage share in total deposits of the sector, standing at 67.02%, followed by state-owned banks with 27.34% share, while the share of the branches of foreign banks is 5.63%.

| Banking Sector Deposits Trend Jan-April 2020 By Type & Currency -in Million AFN |         |         |         |         |                              |                             |
|---|---------|---------|---------|---------|------------------------------|-----------------------------|
| Items   | Jan-20  | Feb-20  | Mar-20  | Apr-20  | %age change (Jan-April) 2020 | %age change (Mar-April)2020 |
| <b>Demand</b>   | 175,599 | 168,479 | 169,068 | 179,700 | 2.34%                        | 6.29%                       |
| <b>Time</b>   | 19,558  | 19,400  | 20,243  | 20,052  | 2.52%                        | -0.94%                      |
| <b>Savings</b>  | 51,813  | 51,507  | 49,626  | 51,214  | -1.16%                       | 3.20%                       |
| <b>Total</b>  | 246,970 | 239,386 | 238,937 | 250,966 | 1.62%                        | 5.03%                       |
| <b>AF</b>   | 75,988  | 74,773  | 72,916  | 79,148  | 4.16%                        | 8.55%                       |
| <b>USD</b>  | 166,612 | 160,240 | 161,437 | 167,027 | 0.25%                        | 3.46%                       |
| <b>All Other Currencies</b>   | 4,370   | 4,373   | 4,583   | 4,791   | 9.63%                        | 4.54%                       |
| <b>Total</b>  | 246,970 | 239,386 | 238,937 | 250,966 | 1.62%                        | 5.03%                       |

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

### 6.3 CAPITAL OF THE BANKING SECTOR

Based on the reports submitted, the banking sector is well-capitalized, making 11.63% of the total assets of the sector. The net equity position of the sector recorded at AFN 34.63 billion increased by 2.21% over the month, mainly attributed to the revaluation-fixed asset and profit of the sector. The regulatory capital of the sector stands at AFN 30.68 billion, showing a 1.89 % increase over the month.



Graph 13: Regulatory Capital Trend of Banking Sector

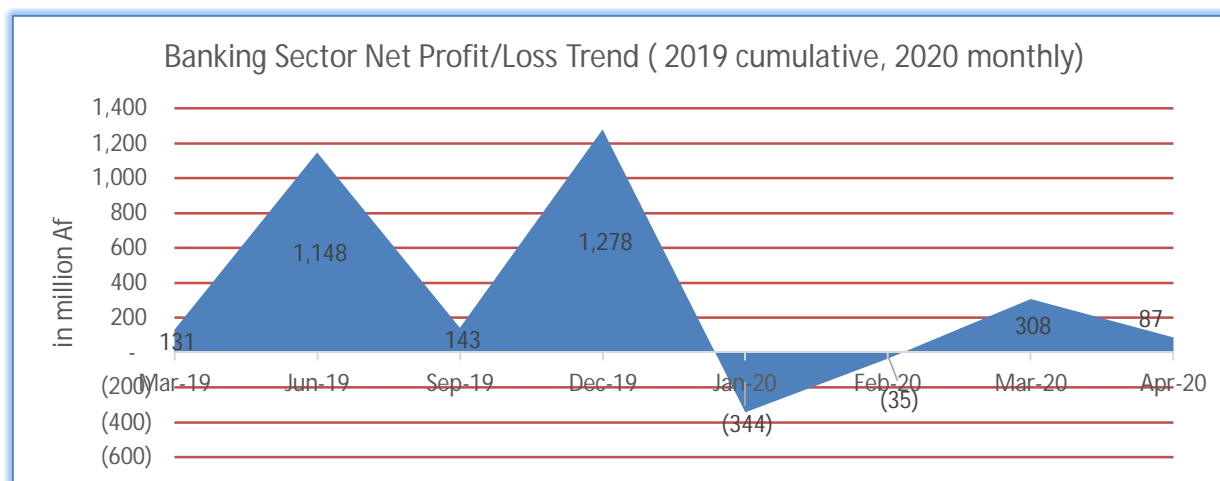
## Capital Adequacy Ratio Analysis

| Capital Adequacy Indicators                       | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Apr-20 |
|---|--------|--------|--------|--------|--------|--------|
| <b>Regulatory Capital to Risk Weighted Assets</b> | 26.99% | 26.51% | 25.81% | 26.02% | 25.97% | 25.61% |
| <b>Tier 1 Capital To Risk Weighted Assets</b>     | 27.45% | 26.09% | 25.24% | 24.58% | 26.69% | 25.89% |
| <b>Tier 1 Capital To Total Assets</b>             | 10.31% | 10.00% | 10.02% | 9.49%  | 10.87% | 10.42% |
| <b>Equity Capital To Total Assets</b>             | 11.44% | 11.49% | 11.63% | 11.41% | 11.90% | 11.63% |

Table 8: Capital adequacy indicators

## 6.4 PROFITABILITY OF THE BANKING SECTOR

The banking sector earned AFN 87 million profits in Apr-20, comparing to the previous month showing a significant decrease coming from the lower reintegrated provision and a reduction in non-interest income. However, operating expenses and tax expenses declined over the month as well.



Graph 14: Banking Sector Net Profit/Loss Trend

## Quarterly Profitability Trend Analysis

| Profitability indicators  | Mar-19 | Jun-19 | Sep-19  | Dec-19 | Mar-20  |
|---|--------|--------|---------|--------|---------|
| <b>Net-Interest Income to Total Income</b>                                      | 1183%  | 150%   | 1148%   | 121%   | -2439%  |
| <b>Net-Interest Income to Total Assets</b>                                      | 0.52%  | 0.56%  | 0.55%   | 0.52%  | 0.54%   |
| <b>Non-Interest Income to Total Assets</b>                                      | 0.51%  | 0.61%  | 0.53%   | 0.88%  | 0.56%   |
| <b>Non-Interest Income to Total Income</b>                                      | 1161%  | 163%   | 1113%   | 206%   | -2538%  |
| <b>Operating Expenses to Total Income</b>                                       | 1921%  | 237%   | 1839%   | 223%   | -4206%  |
| <b>Salaries to Non-Interest Expense</b>   | 73.62% | 74.19% | 68.33%  | 63.04% | 80.20%  |
| <b>Efficiency Ratio</b>   | 81.98% | 75.65% | 81.30%  | 68.17% | 84.52%  |
| <b>Burden (difference between non-interest income and non-interest expense)</b> | (994)  | (847)  | (1,036) | (213)  | (1,053) |
| <b>Net Profit/Loss (Cumulative)</b>   | 131    | 1,148  | 143     | 1,278  | (63)    |
| <b>Return on Asset</b>  | 0.04%  | 0.38%  | 0.05%   | 0.43%  | -0.02%  |
| <b>Return on Equity</b>   | 0.38%  | 3.30%  | 0.41%   | 3.67%  | -0.18%  |
| <b>Note: the above table data has taken cumulatively in each quarter.</b>       |        |        |         |        |         |

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 AFN             |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Items   | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
| <b>Interest Income</b>                                      | 627    | 680    | 570    | 567    | 612    | 592    | 565    | 561    |
| <b>Interest Expense</b>                                     | 79     | 106    | 81     | 97     | 77     | 75     | 80     | 86     |
| <b>Net-Interest Income</b>                                  | 547    | 573    | 489    | 469    | 536    | 517    | 485    | 475    |
| <b>Credit Provision-net</b>                                 | 34     | (20)   | 103    | (436)  | 536    | 224    | (383)  | (3)    |
| <b>G/L on Investments</b>                                   | (2)    | 25     | 31     | 75     | 1      | 1      | (13)   | (33)   |
| <b>Other Non-Interest Income</b>                            | 545    | 530    | 536    | 1,320  | 488    | 476    | 636    | 463    |
| <b>Non-Interest Expense</b>                                 | 525    | 548    | 519    | 670    | 435    | 458    | 580    | 460    |
| <b>Salary Expense</b>                                       | 354    | 370    | 345    | 381    | 372    | 357    | 451    | 387    |
| <b>Total Operating Expenses</b>                             | 879    | 918    | 864    | 1,051  | 807    | 815    | 1,032  | 847    |
| <b>Income or Loss Before FX Revaluation G/L &amp; Taxes</b> | 177    | 229    | 89     | 1,248  | (318)  | (43)   | 460    | 62     |
| <b>FX Revaluation G/L</b>                                   | 86     | 209    | 53     | 193    | (32)   | (14)   | (63)   | 34     |
| <b>Tax</b>  | 243    | 88     | 38     | 167    | (6)    | (22)   | 90     | 9      |
| <b>Total Net-Profit/Loss</b>                                | 19     | 350    | 103    | 1,275  | (344)  | (35)   | 308    | 87     |

Table 10: Banking Sector P/L Trend

### 6.4.1 Interest Rate on Loans

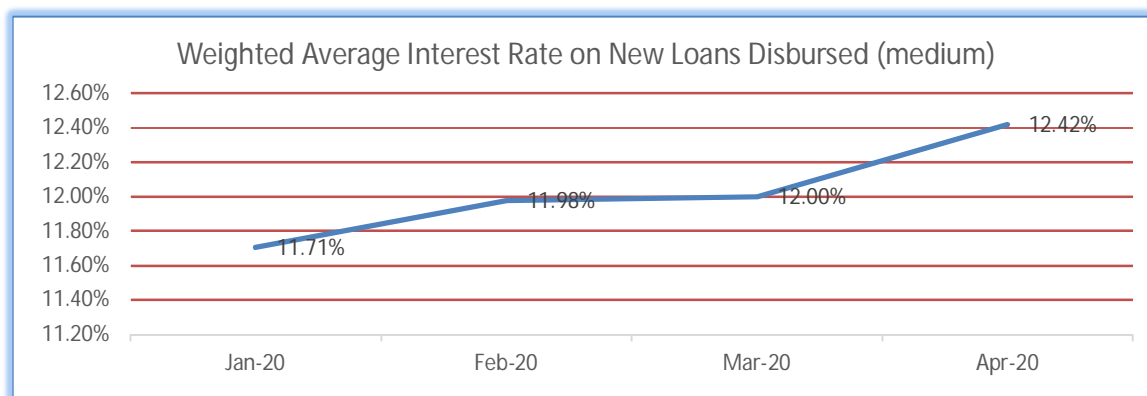
The prevailing interest rate for a designated type of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by SME, OD, and Murabaha loans. The highest prevailing rate is 36%, and the lowest is at 1%. Meanwhile for the loans designated in the current month, the weighted average is calculated at 12.42%.

| Type of Loans- Sector level     | Average Interest Rate(Apr-20) |
|---------------------------------|-------------------------------|
| <b>Overdraft</b>                | 13.15%                        |
| <b>Term Loan</b>                | 11.66%                        |
| <b>Consumer Loan</b>            | 10.91%                        |
| <b>Murabaha</b>                 | 12.03%                        |
| <b>Credit Cards</b>             | 27.36%                        |
| <b>Small &amp; Medium Loans</b> | 15.50%                        |
| <b>Micro Loans</b>              | 11.66%                        |
| <b>Highest Interest Rate</b>    | 32%                           |
| <b>Lowest Interest Rate</b>     | 1%                            |

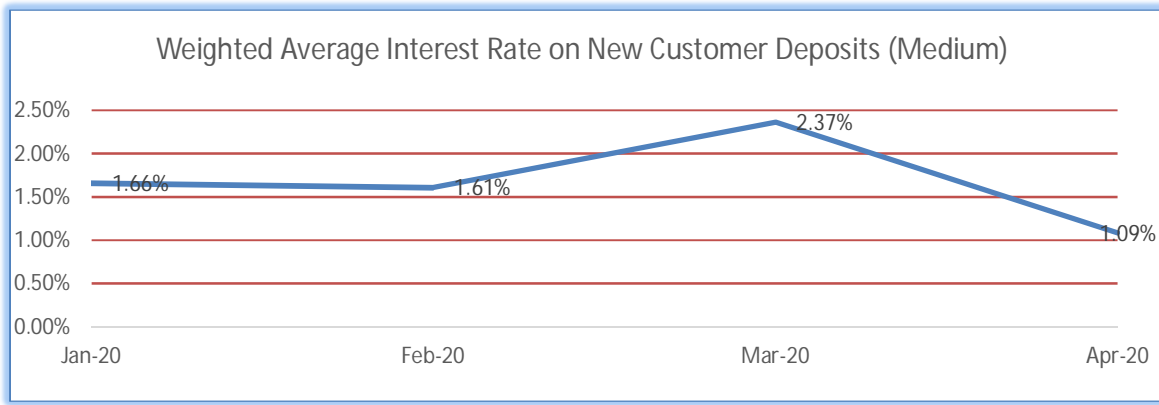
Table 11: Average Interest Rate of Loans

### 6.4.2 Interest Rate on Deposits

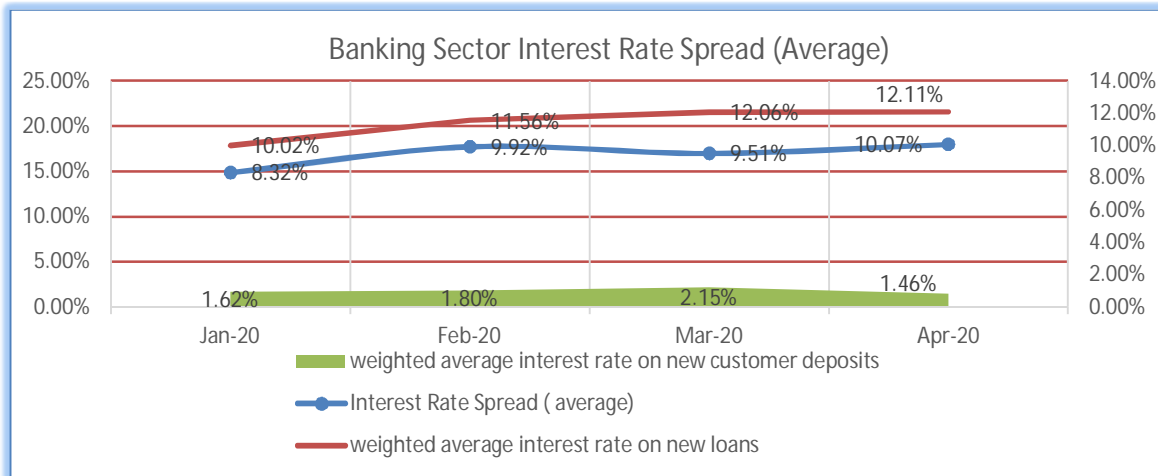
The interest rate on newly attracted deposits or the cost of funds had a declining trend in April 2020, due to a decrease in saving deposits.



Graph 15: Weighted Average Interest Rate on New Loans Disbursed (median)



Graph 16: The Interest Rate on New Deposits attracted (Medium)



Graph 17: Banking Sector Interest Rate Spread (Average)

### 6.5 OFF-BALANCE SHEET ITEMS

Total bank guarantees of the banking sector amount to AFN51.96 billion, mostly comprising of bid, performance, and advance payment guarantees. The total coverage ratio in the form of cash and property is 23.64%, while the remaining portion is either covered by the CGs or lacks any kind of collateral coverage.

| Type and amount of BGs Issued By Banking Sector April 2020 |                       |
|--|-----------------------|
| Type Of BGs  | Amount in Million AFN |
| <b>Bid</b>   | 6,592                 |
| <b>Performance</b>   | 30,228                |
| <b>Advance Payment</b>                                     | 13,214                |
| <b>LC</b>  | 449                   |
| <b>Other BG</b>  | 139                   |
| <b>Retention</b>   | 1,337                 |
| <b>Defect liability</b>                                    | 2                     |
| <b>Total</b>   | 51,962                |

Table 12: Type of BGs Issued by Banking Sector

| Banking Sector Bank Guarantees Coverage Ratio in the form of Cash & Property |                       |                |
|--|-----------------------|----------------|
| Security Type  | Amount in million AFN | % As Total BGs |
| <b>Cash Margin</b>   | 11,729                | 22.57%         |
| <b>Collateral Value</b>  | 553                   | 1.07%          |
| <b>Total</b>   | 12,282                | 23.64%         |

Table 13: Banking Sector BGs Coverage Ratios