

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

January 2021

Executive Summary

The report provides a brief analysis, evaluation and progress of the current macroeconomic indicators, and updates on the financial stability in Afghanistan during the month under review. This report is prepared based on the compilation of the monetary and financial data collected from major departments of the Da Afghanistan Bank (DAB). The report incorporates macro-data from Monetary Sector, External Sector, Real Sector, Fiscal sector, and financial data from Payments and Financial Supervision Departments.

Reserve Money (RM) weekly actual amount stood at Af 324,212.19 million at the end of Jadi, while it recorded Af 352,255.99 million at the beginning of FY 1400 (2021) and showing 7.96 percent negative growth under the ceiling since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 287,153.10 million at the end of Jadi month, whereas the actual CiC recorded Af 293,341.38 million in weekly report at the beginning of FY1400 (2021), and shows 2.11 percent negative growth under the ceiling.

Since the beginning of fiscal year of 1400 (2021) up to end of Jadi, DAB has auctioned a total amount of USD 218.25 million through open market operations, and has collected Af 16.80 billion from the market. Besides, DAB sold USD 18 m to DABs through commercial banks, and has collected Af 1.39 billion from the market. These operations have fulfilled 25.90 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of December 2020 year over year basis. The year over year inflation decreased to 4.95 percent in December from 6.40 percent observed in the previous month. This decrease is caused by lower prices of both food and non-food items.

The balance of payments (BOP's) current account deficit decreased by 13 % to a value of USD 893.51 million in the third quarter of the FY 1399 from a value of USD 1,028.38 million recorded in the third quarter of the FY 1398.

The current account recorded a deficit of USD 846.55 million in the Q4 of the FY 139; decreasing by almost 20% higher than a deficit of USD 708.35 million in the same quarter a year earlier.

But, in annual term, the deficit of the current account narrowed by 17% and stood at a value of USD 3,136.12 million in the FY 1399 from USD 3,791.94 million recorded in the FY 1398.

The reduction of the deficit in annual terms is mainly determined by the sub-accounts of secondary income (current transfers) and services account receipts.

Total revenue (domestic revenue plus external aids) for the month of December 2020 is AFN 91.73 billion, while in November it was AFN 24.16 billion which shows 279.66% or AFN 67.57 billion increase in December. Total revenue from the start of FY-2020 till end of December

reached to AFN 393.37 billion that is combination of AFN 219.68 billion donor contributions and AFN 173.68 billion domestic revenue respectively.

Overall the banking sector performed well during 2020 despite the COVID-19 pandemic, rendering necessary services to the public. No liquidity short fall was noticed in any of the banks and their capital positions remained within the regulatory threshold. Main financial indicators such as total assets including cash in vault and claims on DAB, investments in bonds, deposits and financial capital increased while loans and interbank claims had a decreasing trend. The banking sector was profitable though the profit decreased since Dec, 2019 and loan quality remained weak.

Given the spread of the pandemic, in coming months, the banking sector may experience more Non-Performing Loans (NPLs), high provisions which will lead to lower profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. DAB has issued an incentive package (the Post C19 Plan) that covers the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting option, renewal of loans, relaxation in loan classification and risk weighting of loans guaranteed by the third parties such as ACGF, IFC, USAID etc.

Table of content

1. Monetary Sector	5
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report	5
1.2 Net International Reserve	5
1.3 Foreign Exchange and Capital Notes Auction	6
1.5 Exchange Rate	10
2. Real Sector	12
3. External sector	4
3.1. CURRENT ACCOUNT BALANCE	4
3.1.1 GOODS ACCOUNT	4
3.1.2 SERVICES ACCOUNT	4
3.1.3 PRIMARY INCOM ACCOUNT:	5
3.1.4 SECONDARY INCOME ACCOUNT:	5
3.2 CAPITAL ACCOUNT BALANCE:	5
3.3 FINANCIAL ACCOUNT BALANCE:	5
4. Fiscal Sector	7
5. Swift	10
6. Banking Sector	11
EXECUTIVE SUMMARY	11
SECTOR AT A GLANCE	12
INTRODUCTION	13
6.1: ASSETS OF THE BANKING SECTOR	14
6.2: Loan Portfolio	16
6.2.1: Quality of Loans	17
6.2.2: Type of Loans	20
6.2.3: Sector-wise Designation of Loans	20
6.2.4: Related Party Exposure	21
6.2.5: Repossessed Assets	21
6.3: LIQUIDITY OF THE BANKING SECTOR	21
6.3.1: Liquid Assets	21
6.3.2: Required Reserves	22
6.3.3: Interbank Claims	23
6.3.4: Foreign Accounts and Placements	23
6.3.5: Deposits	24
6.4: CAPITAL OF THE BANKING SECTOR	27
6.5: PROFITABILITY OF THE BANKING SECTOR	28
6.6: OFF-BALANCE SHEET ITEMS	32

1. Monetary Sector

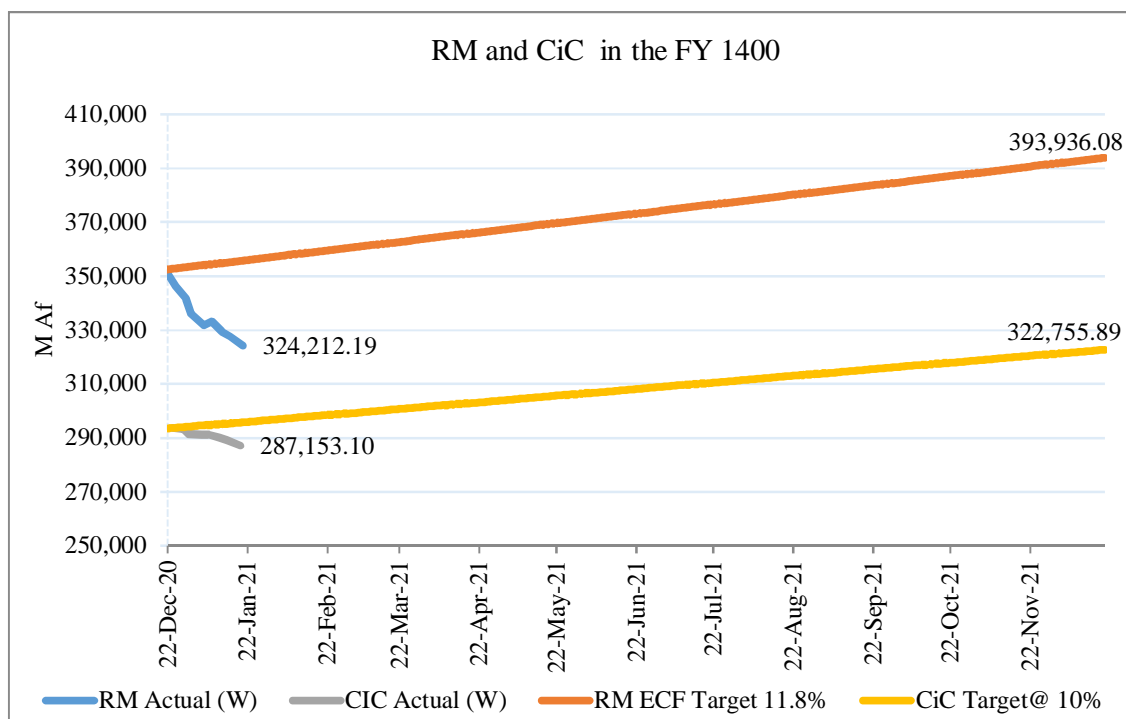
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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

Reserve Money (RM) weekly actual amount stood at Af 324,212.19 million at the end of Jadi, while it recorded Af 352,255.99 million at the beginning of FY 1400 (2021) and showing 7.96 percent negative growth under the ceiling since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 287,153.10 million at the end of Jadi month, whereas the actual CiC recorded Af 293,341.38 million in weekly report at the beginning of FY1400 (2021), and shows 2.11 percent negative growth under the ceiling.

Figure 1.1 shows the RM and CiC during FY 1400 (2021)



Source: Open Market Operations/Monetary Policy Departments

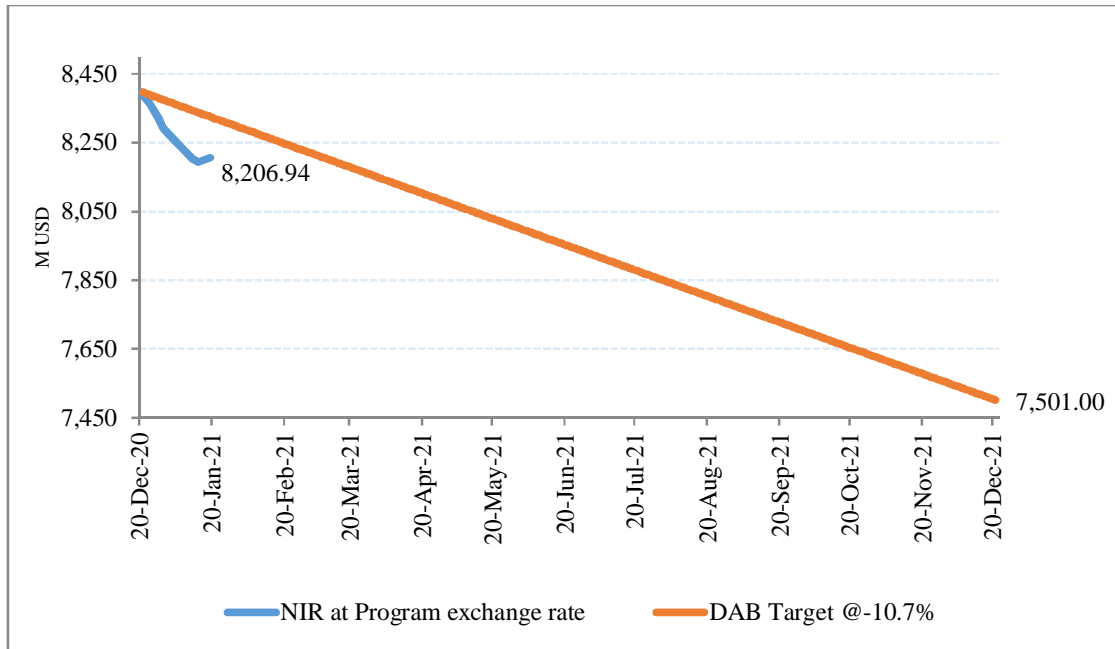
1.2 Net International Reserve

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 FY1400 (2021), Afghanistan’s NIR actual amount in program exchange rate was set USD 8,399.20 million, but actual amount reached to USD 8,206.94 million at the end of Jadi month, which shows USD 192.26 million de-accumulation.

Figure 1.2 shows Net International Reserve (NIR) during FY 1400:



Source: Open Market Operations/Monetary Policy Departments

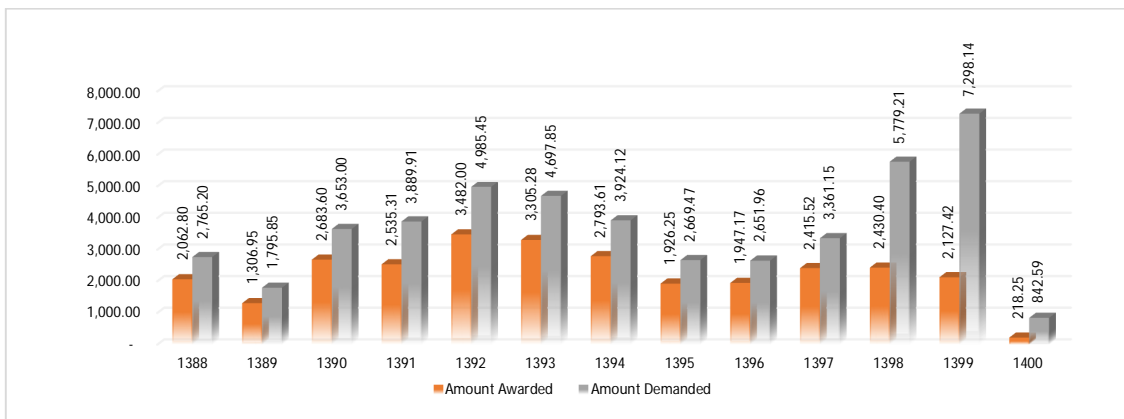
1.3 Foreign Exchange and Capital Notes Auction

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

Foreign Exchange Auction

Since the beginning of fiscal year of 1400 (2021) up to end of Jadi, DAB has auctioned a total amount of USD 218.25 million through open market operations, and has collected Af 16.80 billion from the market. Besides, DAB sold USD 18 m to DABs through commercial banks, and has collected Af 1.39 billion form the market. These operations have fulfilled 25.90 percent of the total demand for currency (especially the US dollar) in the market.

Figure 1.3 illustrates the foreign exchange demand and supply during the last 13 years.



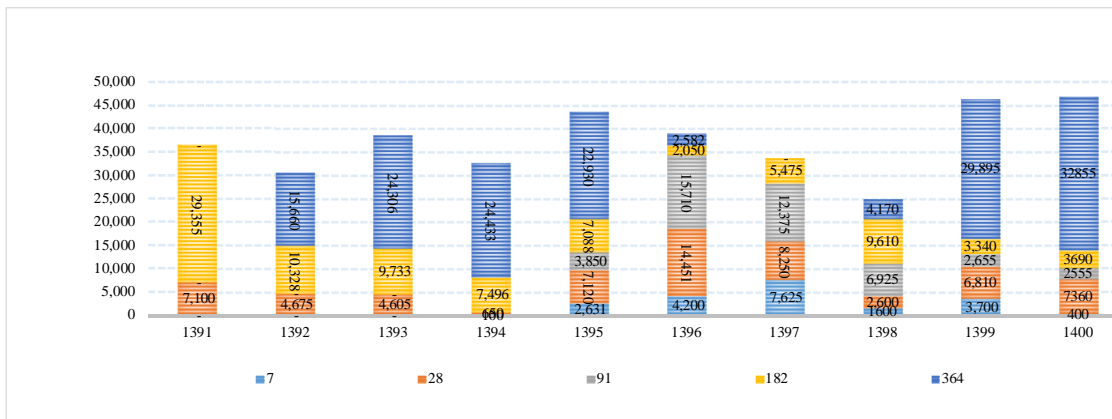
Source: Market Operations/Monetary Policy Departments

Capital Notes Auction (Interest rate bidding)

DAB uses capital notes auction as its secondary tool to manage liquidity in the market and mop up the excess liquidity from the banking sectors, establish and vindicate secondary markets for securities, maintain price stability, diversify monetary policy instruments, and motivate commercial banks to attract Afghani denominated deposits.

From the beginning of fiscal year of 1400 (2021) up to end of Jadi, the total outstanding of capital notes reached Af 46.86 billion and meanwhile the total interest paid for the mentioned notes reached Af 7.97 million at the end of this month.

Figure 1.4 figure illustrates the Capital Notes Outstanding during 9 years till the end of Jadi month of FY 1400(2021).

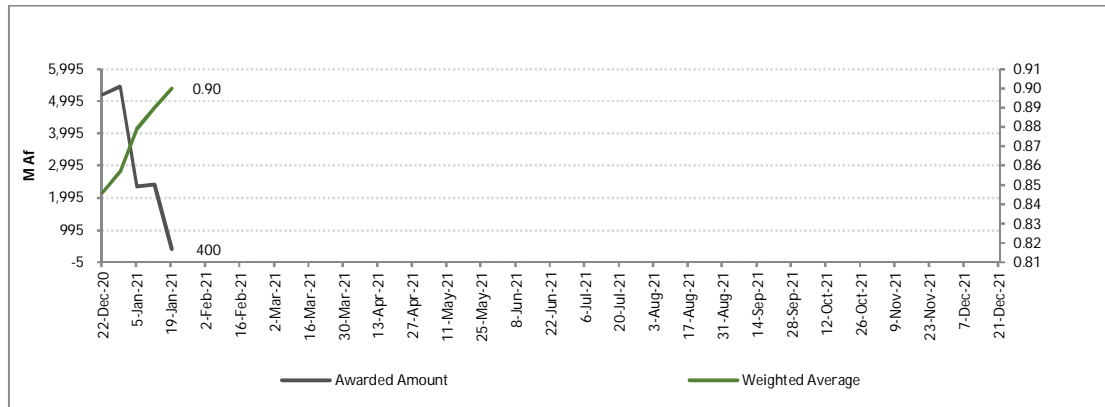


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The awarded amount of 7 days' capital notes auction at the end of Jadi reached Af 0.4 billion with average interest rate of 0.90 percent. The outstanding of these notes is stood Af 0.4 billion for the mentioned period.

Figure 1.5 Sale and weighted average of Capital Notes 7 Days in FY 1400

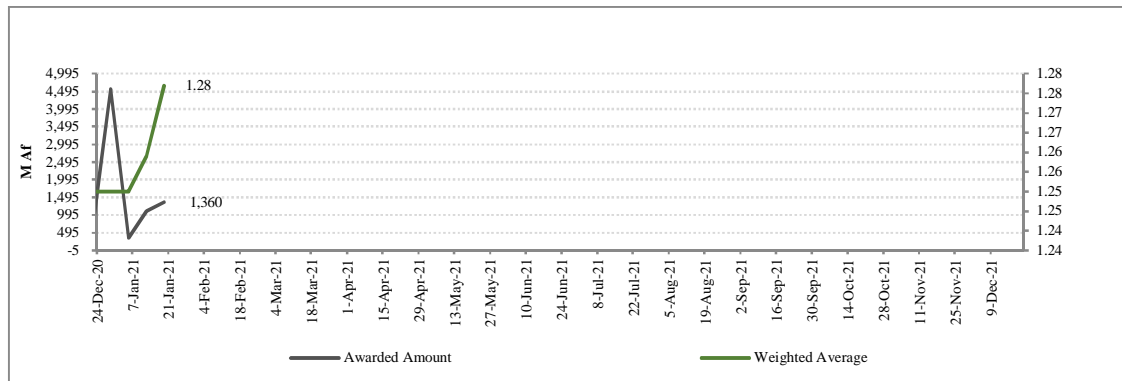


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, awarded amount of 28 days' capital notes auction at the end of Jadi is recorded Af 1.36 billion with average interest rate of 1.28 percent and outstanding amount of Af 7.36 billion.

Figure 1.6 Sale and weighted average of Capital Notes 28 Days in FY 1400

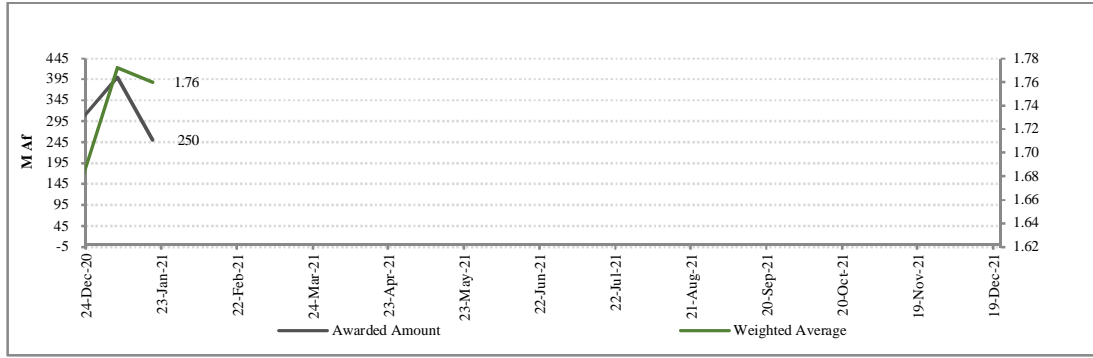


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

DAB's 91 days' capital notes auction awarded amount during this reporting period stood at Af 0.25 billion at the end of Jadi with average interest rate of 1.76 percent and total outstanding of Af 2.55 billion.

Figure 1.7 Sale and weighted average of Capital Notes 91 Days in FY 1400

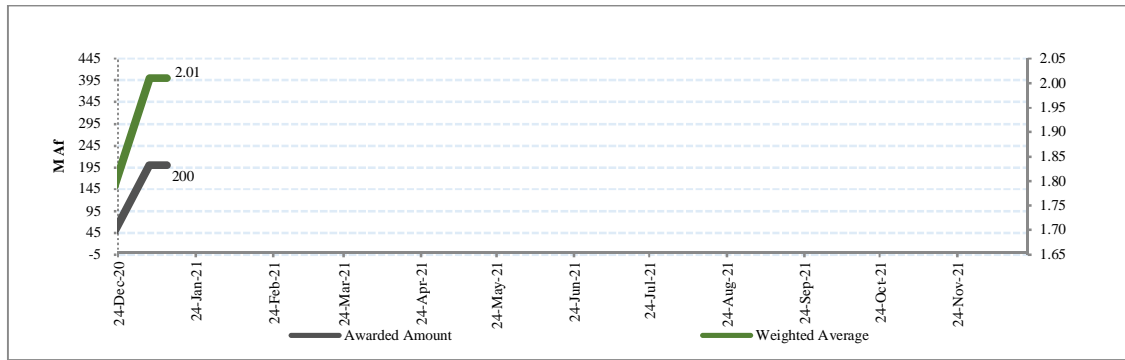


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's 182 days' capital notes auction awarded amount during this reporting period stood at Af 0.2 billion at the end of Jadi with average interest rate of 2.01 percent and total outstanding of Af 3.69 billion.

Figure 1.8 Sale and weighted average of Capital Notes 182 Days in FY 1400

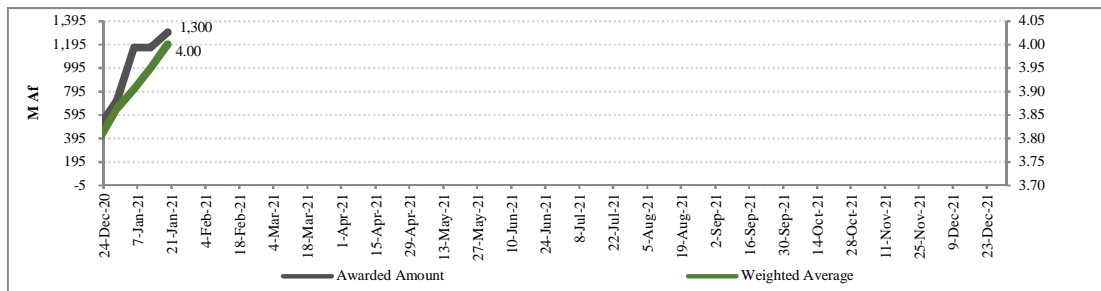


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's 364 days' capital notes auction awarded amount during this reporting period stood at Af 1.3 billion at the end of Jadi with average interest rate of 4 percent and total outstanding of Af 32.85 billion.

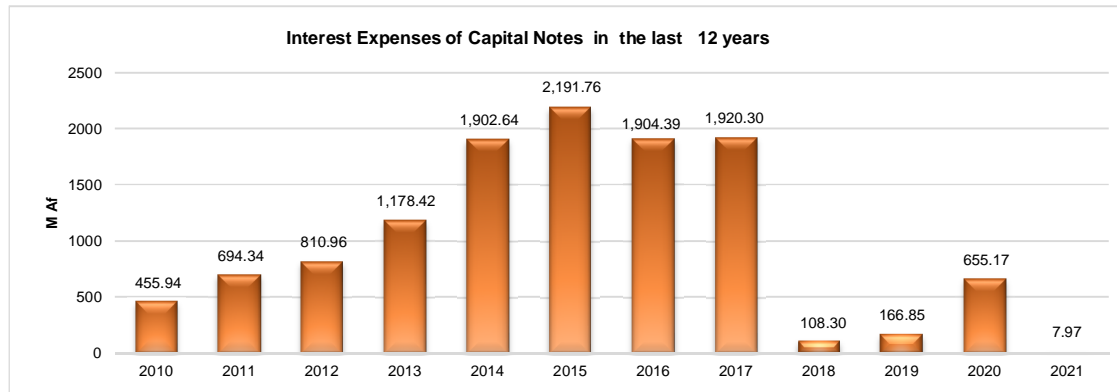
Figure 1.9 Sale and weighted average of Capital Notes 364 Days in FY 1400



Interest Expenses

DAB interest paid for Capital Notes during of 12 years till the end of Jadi month FY 1400 (2021) the figure of below illustrated.

Figure 1.10 Interest Expenses of Capital Notes in the last 12 years

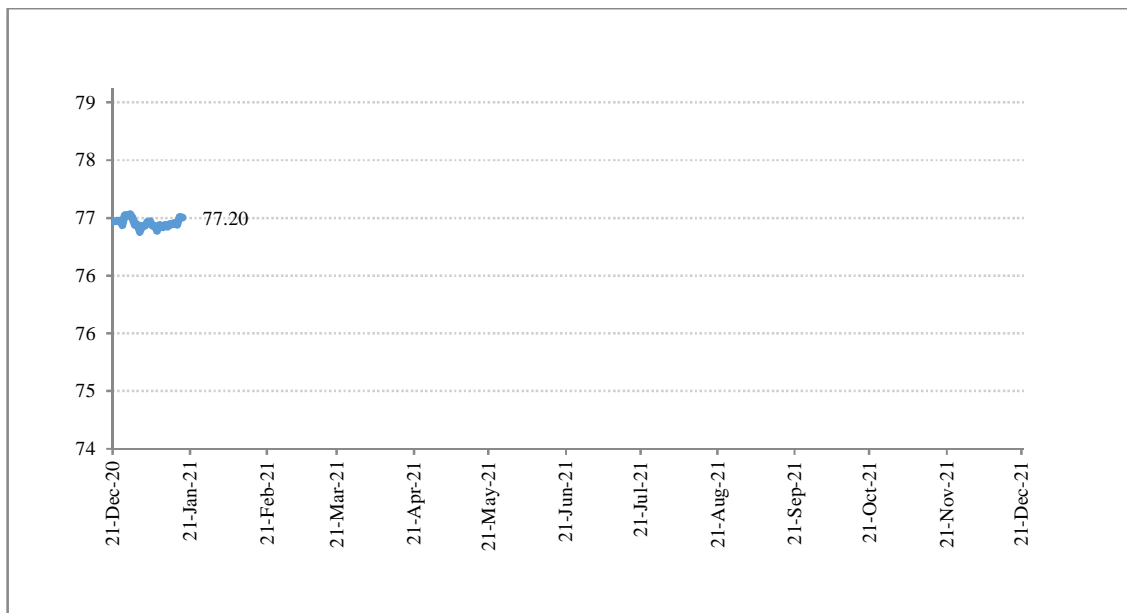


1.5 Exchange Rate

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

From the beginning of FY1400 (2021) Afghani has depreciated by 0.12 percent, and has been exchanged at 77.13 per USD on average and recorded at Af 77.20 exchanged at the end of Jadi month.

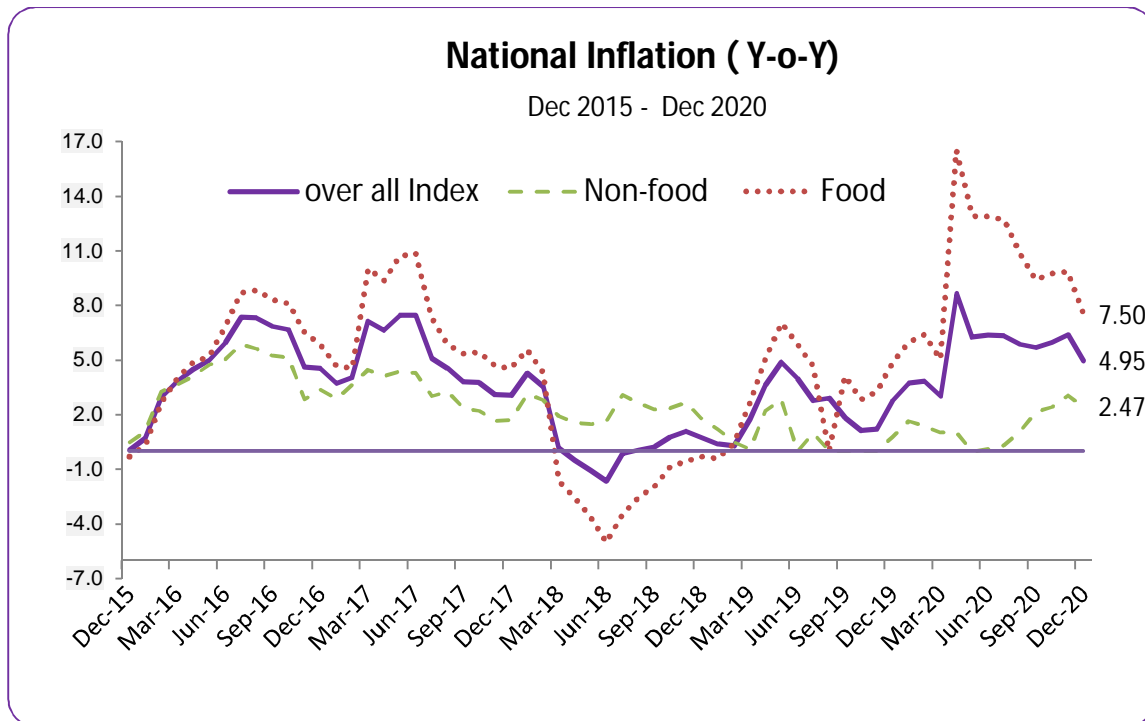
Figure 1.11 Exchange Rate Afghani against USD in FY 1400(2021)



The table of Monetary Indicators

Itemes	FY1398				FY1399					FY 1400
	Hoot	Jawza	Sunbula	Qaws	Jaddi	Hoot	Jawza	Sunbula	Qaws	Jaddi
Reserve Money Target (%)	12				12					11.8
Actual Reserve Money (%)	-5.6	-4.5	1.19	12	-8.8	-8	0.42	1.82	9.68	-7.96
RM Actual	255627.49	259654.32	275042.98	304625.71	293385.94	295224.52	322978.27	327473.80	352755.78	324212.19
RM Target	280267.14	305491.17	314327.17	322878.14	324854.09	331039.94	340873.85	350707.77	360867.72	355672.39
CiC Actual	222147.20	231598.67	244489.52	259350.77	257923.21	259302.12	279989.89	283438.22	293341.38	287153.10
CiC Target	233785.34	241897.91	248894.55	255665.48	262483.49	266938.63	274868.34	282798.06	297474.43	295752.41
Actual NIR	7702.51	7691.22	7868.70	7873.60	7892.59	7711.85	8128.78	8334.40	8398.11	8206.94
NIR Target	7684.13	7708.58	7708.58	7708.58	7979.25	7846.07	7919.41	7919.41	7819.00	8325.57
Outstanding Amount	26665	27020	23920	24905	30870	30455	34495	39590	46400	46860
Required Reserve (Af)	5768.54	10923.40	2,657.34	5734.43	6527.20	5928.75	6271.67	6,914.36	7314.98	8140.85

2. Real Sector



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

Headline inflation

Headline inflation decreased in the month of December 2020 year over year basis. The year over year inflation decreased to 4.95 percent in December from 6.40 percent observed in the previous month. This decrease is caused by lower prices of both food and non-food items.

Considering price changes in the short-term (month-to-month), headline inflation decreased to 0.31 percent from 1.14 percent. Based on this measure, food items decreased to 0.25 percent from 1.26 percent and non-food items also decreased to 0.36 percent from 1.03 percent.

Table 1. Headline Inflation (November 20 - December20)

	Y-o-Y		M-to-M	
	November	December	November	December
National CPI				
Headline	6.40	4.95	1.14	0.31
<i>Food</i>	9.87	7.50	1.26	0.25
<i>Non-Food</i>	3.07	2.47	1.03	0.36

FOOD INFLATION decreased in month of December 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in December 2020, when measured year over year basis, decreased to 7.50 percent compared to 9.87 percent calculated in previous month. This decrease come from lower prices of bread and cereals, meat, milk, cheese and eggs, fresh and dried fruits, and vegetables.

The month-to-month measure of food inflation also shows lower rate in the month of December compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 0.25 percent in the review period lower from 1.26 percent observed in the previous month.

Fresh and dried Fruits prices decreased in the month of December 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 5.03 percent (year over year) from 13.75 percent recorded in the previous month. Measuring month-to-month basis this index is also decreased in the month of December to -5.31 percent from 3.79 percent compare to the previews month.

the main reasons behind decrease of this price index are, 10 percent increase in harvest of orange in Kunar province, 10 percent increase of Apple harvest in Maidan wardak province, 14 percent increase in harvest of green gold in heart province and increase of pomegranate in Kandahar province. on the other hand, 10 percent increase in harvest of dried apricot in Bamyian province and 60 percent increase in harvest of almond in Kunduz province is considered main reason behind decrease of this price index during the period.

Vegetables price index which is dedicated for 6 percent of the overall index, decreased to 2.20 percent (year over year) from 13.75 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has decreased to 1.65 percent; however, it was recorded 6.83 percent in the previous month.

main contribution behind decrease of this index are lemon yield have increased compared to previous year in Ningarhar province, increase in harvest of red pepper in Kandahar province, also onion and potato production is increased throughout the country which is caused increase in price of this index

Table 2.2. Food and Non-alcoholic beverage Inflation (November 20- December 20)

Items	Weight	Y-o-Y		M-to-M	
		November	December	November	December
Food and Non-alcoholic Beverages	47.8	9.87	7.50	1.26	0.25
<i>Bread and Cereals</i>	14.6	10.93	10.69	-0.05	0.56
<i>Meat</i>	7.5	10.56	10.13	-0.24	0.09

<i>Milk, cheese and eggs</i>	4.7	4.29	3.81	1.05	0.51
<i>Oils and fats</i>	4.6	11.62	12.61	-0.51	2.92
<i>Fresh and dried fruits</i>	5.0	13.75	5.03	3.79	-5.13
<i>Vegetables</i>	6.0	13.75	2.20	6.83	1.65
<i>Sugar and sweets</i>	2.7	5.77	5.92	1.06	0.79
<i>Spices</i>	1.3	-4.98	-3.64	1.12	1.21
<i>Non-alcoholic beverages</i>	1.4	2.93	3.40	-0.64	0.61

Source :Da Afghanistan Bank /NSIA

Non-Food Inflation

Inflation in non-food items exhibited downwards trend in the month of December 2020. Year over year basis, non-food inflation decreased to 2.47 percent from 3.07 percent observed in the previous month. This increase mainly comes from lower prices of tobacco, clothing, housing, health, communication, education and miscellaneous.

Price index of housing, electricity, water and gas decreased in December 2020. On year over year basis, this index decreased to 1.34 percent from 2.26 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 also decreased to 0.18 percent from 1.77 percent.

Afghanistan has imported non-oil items worth 1.2 billion USD from neighboring Iran in Past eight months this items includes iron, steel bars and Cement. Also earlier at this month Afghanistan received the first Cargo of Iranian export (mainly cement) through the newly- constructed Khaf-Herat railway. also price of firewood decreased to more seven percent in capital (Kabul). also five solar electricity production company has started operation in Herat province during the period. on the other hand, decrease in house rent and decrease in demand of house painting color is considered another main reason behind decrease of this price index.

Education price index, increased in the month of December. Observing the data, this index decreased to 4.43 percent from 7.02 percent (year over year), this index is decreased to -0.97 percent from 0.73 percent (month to month).

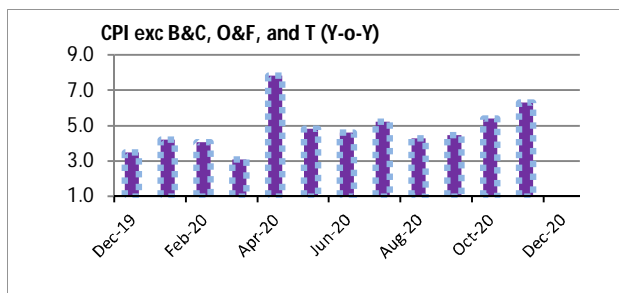
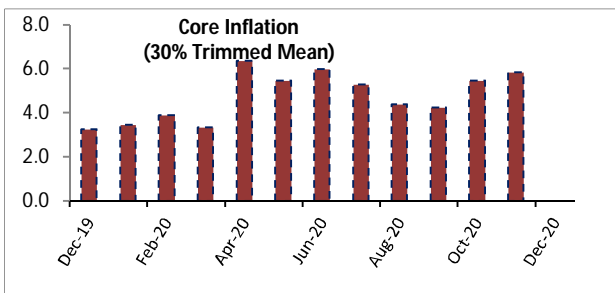
One of the main reason behind decrease of this index is the seasonal effect, most of the education centers such as schools and universities and kindergartens have been closed in this seasons which has decrease the demand for mentioned index.

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 December 2020, trimmed mean (30 % of CPI) decreased to 4.23 percent (year over year) from 5.85 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 4.32 percent compared to 6.27 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to 0.07 percent from 1.58 percent.



Source: *Afghanistan Bank and/NSIA*

Core Measures					
		Y-on-Y		M-to-M	
		Nov	Dec	Nov	Dec
<i>30 % trimmed mean</i>		5.85	4.23		
<i>CPI ex B&C, O& F and T</i>		6.27	4.32	1.58	0.07

3.External sector

3.1. CURRENT ACCOUNT BALANCE

The current account recorded a deficit of USD 846.55 million in the Q4 of the FY 139; decreasing by almost **20%** higher than a deficit of USD 708.35 million in the same quarter a year earlier.

But, in annual term, the deficit of the current account narrowed by 17% and stood at a value of USD 3,136.12 million in the FY 1399 from USD 3,791.94 million recorded in the FY 1398.

The reduction of the deficit in annual terms is mainly determined by the sub-accounts of secondary income (current transfers) and services account receipts.

The deficit of the current account in annual terms (including official transfers) narrowed by 17% and reached at a value of USD 3,136.12 million in the FY 1399 from a value of USD 3,791.94 million recorded in preceding year.

3.1.1 GOODS ACCOUNT

The deficit of goods sub-account increased by 14% and stood at a value of USD 1431.58 million in annual terms (in FY 1399) compared with a value of USD 1259.63 million recorded in the FY 1398.

In annual terms, the goods account recorded a deficit of USD 5102.94 million in the FY 1399 compared with USD 5294.17 million with sign of 4% decline.

This is due to the decrease of imports of goods by 5%. At the same time, there was a decline in exports of goods by 10%.

3.1.2 SERVICES ACCOUNT

In the Q4 of the FY 1399, the deficit of services account increased by 12% and reached to USD 122.12 million from a record of USD 109.22 million in the Q4 of the last year.

In annual term the deficits of services account narrow by 28% in the FY 1399. The performance was determined by the increases in exports of services by 7%, driven by the sub-account of other business services.

In general, the trade deficit in goods and service account in annual terms, narrowed by about 6%, mainly due to the increase in exports of services and more decline in imports of goods especially imports of cement, vegetable oil, capital goods (spare parts) and metal production.

3.1.3 PRIMARY INCOM ACCOUNT:

The net surplus of such account narrowed by 28% and stood at USD 44.05 million in the Q4 of the FY 1399 from USD 61.07 million recorded in the Q4 of the FY 1398.

In annual terms, the net balance in the primary income account reflected a surplus of USD 189.07 million in the FY 1399 from USD 306.90 million a year earlier. The surplus contraction is mainly related to the decrease in investment income inflows associated with foreign investment.

3.1.4 SECONDARY INCOME ACCOUNT:

The surplus of the sub-account of the secondary income grew by 11% and stood at USD 663.10 million in the Q4 of the FY 1399 from USD 599.43 million recorded in the Q4 of the FY 1398.

In annual terms, the surplus of the secondary income expanded by 24% in annual terms, and reached to USD 2,181.66 million in the FY 1399 from USD 1,756.19 million recorded in the FY 1398. The main impact is related to the net official transfer to the government sector which is increased by 35% and stood at USD 1,798.3 million in the FY 1399 from USD 1331.2 million a year earlier. Remittances inflows increased by 13% and reached to USD 571.91 million in the FY 1399 from USD 504.51 million recorded last year.

3.2 CAPITAL ACCOUNT BALANCE:

The capital account's surplus was around USD 510.79 million in the Q4 of the FY 1399, while this figure was recorded USD 504.68 million, around 6 million higher as compared with a similar quarter a year ago. In annual terms, the capital account surplus was USD 752.35 million in the FY 1399 which shows almost USD 441 million reduction as compared with the last year, As a result of lower net capital transfers for the account of "general government", While those in the financial and non-financial corporations, household and non-profit institution serving household were nil during the FY 1399.

3.3 FINANCIAL ACCOUNT BALANCE:

In the Q4 of the FY 1399 the financial account of the balance of payments recorded net assets of USD 307.21 million, while this figure was recorded USD 11.05 million in the Q4 of the FY 1398.

In annual terms, the financial account recorded net assets amounting to USD 583.57 million in the year 1399, Around USD 523.64 million higher than a year ago.

The main source of the increase in net assets is related to the significant increments in the foreign investment (FDI and PI) abroad, as well as notable increases in reserve assets.

- **Direct investment;** reported net assets amounting USD 24.3 million in the FY 1399. While this figure was recorded net assets of USD 2.92 million last year.
 - ✓ FDI abroad (assets): reported USD 37.23 million in the FY 1399, while this figure was recorded USD 26.32 million last year.
 - ✓ FDI in the country (liabilities): reported USD 12.97 million in the FY 1399, while this figure was recorded USD 23.40 million last year.

- **Portfolio Investment:** Portfolio investments reported net assets amounting USD 63.24 million in the FY 1399. The performance is determined by the increment in assets mainly in the form of debt securities. On the other hands, other investment reported net liabilities amounting USD 334.16 million in the FY 1399. The main reason for this has been the increase in liabilities mainly in the form of loan from the IMF.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	FY - 95	FY - 96	FY - 97	FY - 98	FY - 99	% change
Current Account	-2708.46	-3554.90	-3896.84	-3791.94	-3136.12	-17%
Credit	4945.79	4722.47	4543.67	3953.10	4237.09	7%
Debit	7654.25	8277.36	8440.51	7745.04	7373.21	-5%
Goods and Services Account	-6191.46	-6803.56	-6374.38	-5855.03	-5506.86	-6%
Credit	1136.01	1152.90	1609.47	1515.76	1476.31	-3%
Debit	7327.48	7956.46	7983.85	7370.79	6983.16	-5%
Goods Account	-5594.98	-5932.25	-5720.64	-5294.17	-5102.94	-4%
Credit	614.22	783.96	875.24	863.83	776.73	-10%
Debit	6209.19	6716.21	6595.88	6158.00	5879.67	-5%
Services Account	-596.49	-871.31	-653.75	-560.86	-403.92	-28%
Credit	521.80	368.93	734.23	651.92	699.57	7%
Debit	1118.28	1240.24	1387.97	1212.79	1103.49	-9%
Primary Income Account	179.55	248.32	190.73	306.90	189.07	-38%
Credit	239.84	299.54	289.43	352.81	240.25	-32%
Debit	60.29	51.22	98.70	45.90	51.17	11%

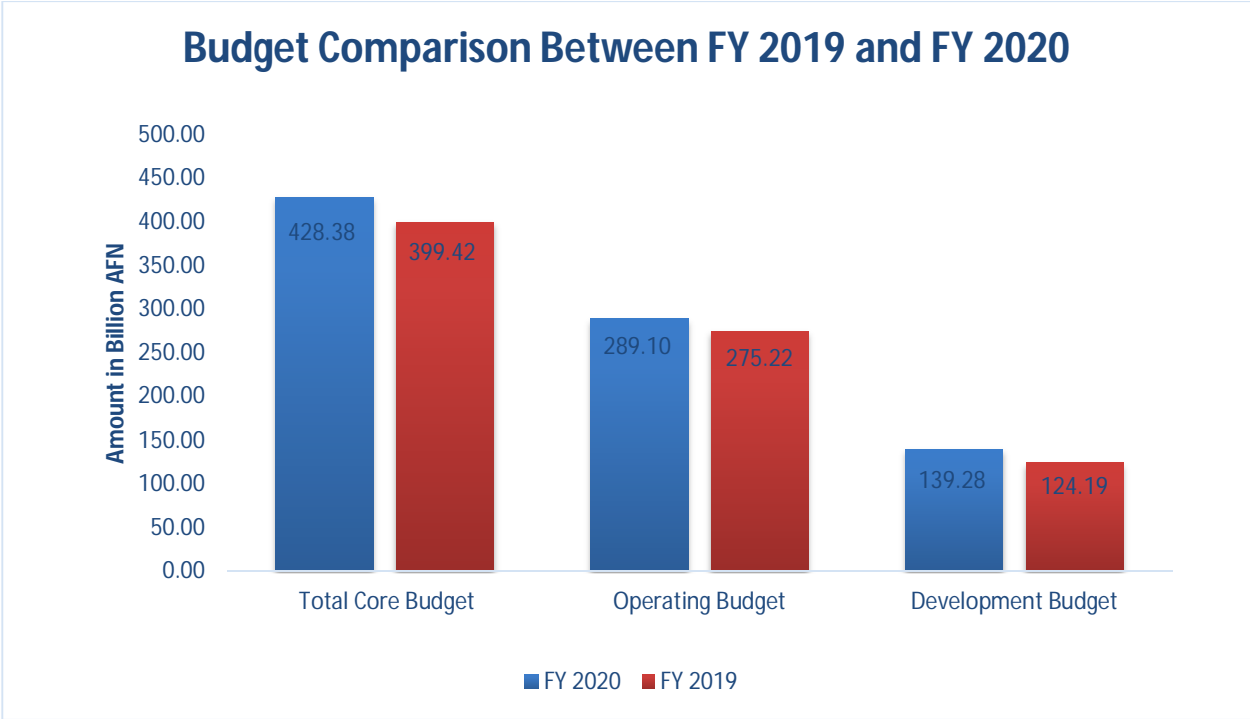
Secondary Income Account	3303.45	3000.34	2286.81	1756.19	2181.66	24%
Credit	3569.94	3270.03	2644.77	2084.53	2520.53	21%
Debit	266.49	269.69	357.95	328.34	338.87	3%
Current transfers (Official grants)	3032.7	2613.9	1950.4	1331.2	1798.3	35%
Credit	3032.75	2613.92	1950.4	1331.2	1798.3	35%
Debit	0.00	0.00	0.0	0.0	0.0	
Personal transfers	422.04	554.81	501.44	569.54	531.44	-7%
Credit	537.19	656.11	694.32	753.35	722.23	-4%
Debit	115.15	101.30	192.88	183.81	190.79	4%
Capital account	1292.84	1305.69	1314.41	1193.94	752.35	-37%
Credit	1292.84	1305.69	1314.41	1193.94	752.35	-37%
Debit	0.00	0.00	0.00	0.00	0.00	
Capital transfers	1292.84	1305.69	1314.41	1193.94	752.35	-37%
Credit	1292.84	1305.69	1314.41	1193.94	752.35	-37%
Debit	0.00	0.00	0.00	0.00	0.00	
Financial account	692.5	472.4	520.2	59.92	583.57	874%
Direct investment	-79.59	-40.27	-80.63	2.92	24.3	732%
Net acquisition of financial assets	14.01	11.26	38.80	26.32	37.23	41%
Net incurrence of liabilities	93.59	51.53	119.44	23.40	12.97	-45%
Portfolio investment	99.47	-29.57	142.70	-14.62	63.24	-532%
Net acquisition of financial assets	99.47	-29.57	142.70	-14.62	63.24	-532%
Net incurrence of liabilities	0.00	0.00	0.00	0.00	0.00	
Other investment	30.02	-50.12	254.09	-29.03	-334.16	1051%
Assets	35.73	17.65	158.76	-37.21	-34.89	-6%
Liabilities	5.72	67.77	-95.33	-8.18	299.27	-3760%
Reserve Assets	642.58	592.37	204.00	100.66	830.23	725%
Net errors and omissions	2108	2722	3103	2658	2967	12%

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.

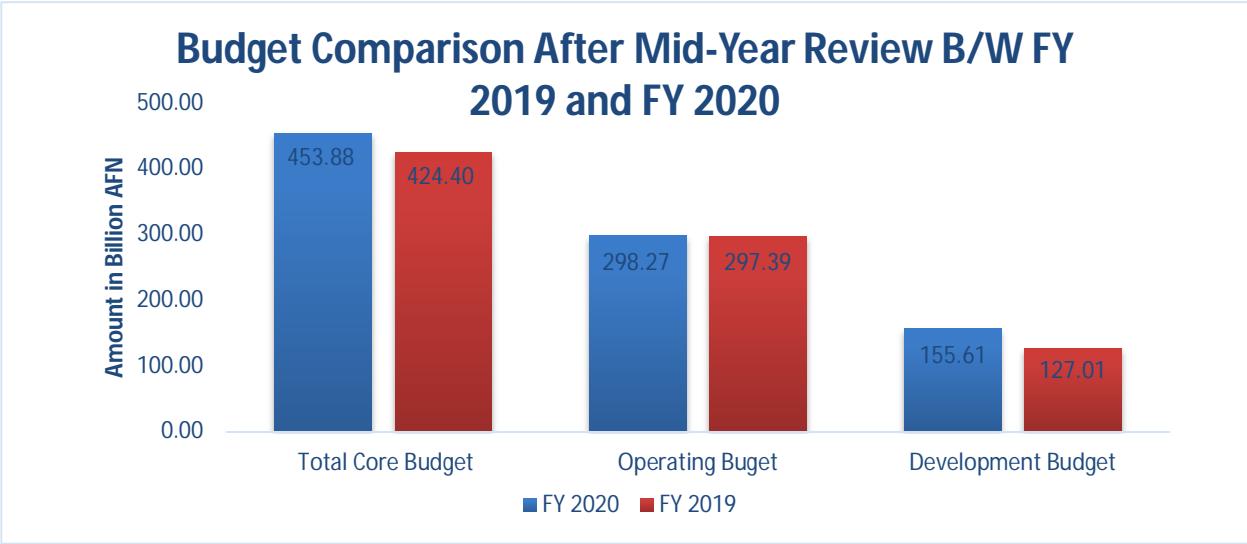
In addition, like other emerging and under developing economies around the world, Afghanistan faces budget imbalance (Budget Deficit), where total core expenditures exceed total revenue (excluding grants).

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.



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

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



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

Total revenue (domestic revenue plus external aids) for the month of December 2020 is AFN 91.73 billion, while in November it was AFN 24.16 billion which shows 279.66% or AFN 67.57 billion increase in December. Total revenue from the start of FY-2020 till end of December reached to AFN 393.37 billion that is combination of AFN 219.68 billion donor contributions and AFN 173.68 billion domestic revenue respectively.

Likewise, domestic Revenue for the month December is AFN 25.58 billion while it was amount AFN 11.84 billion in the month of November, showing an increase of AFN 13.74 billion 116.08% in the month of December. On the other hand, donor contributions (including loans) amounted to AFN 66.16 billion in December, where donor contributions in November was AFN 12.32 billion, which indicates AFN 53.83 billion 436.77% increase in donor contributions for the month of December.

Additionally, total Expenditure at the end of December 2020 reached to AFN 433.84 billion, from which operating expenditures and development expenditures were individually, AFN 273.52 billion and AFN 160.32 billion. Likewise, operating expenditures for the month of December is AFN 43.41 billion, where in November it was AFN 21.61 billion. This signifies that, there is AFN 21.80 billion or 100.90 % increase in operating expenditures in the month of December FY 2020. On the other hand, development expenditures for the month of November was AFN 13.84 billion, while in December

increase by AFN 40.49 billion or 292.61% resulted total expenditure for the month of December FY 2020 amount AFN 54.33 billion.

Description	FY, November 2020	FY, December 2020	From Jan to December FY 2020	Difference Between November and December	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	24.16	91.73	393.37	67.57	279.66%
Domestic Revenue	11.84	25.58	173.68	13.74	116.08%
Donor Contribution	12.32	66.16	219.68	53.83	436.77%
Total Expenditures	35.45	97.74	433.84	62.29	175.73%
Operating Expenditure	21.61	43.41	273.52	21.80	100.90%
Developing Expenditure	13.84	54.33	160.32	40.49	292.61%

Source: MOF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of December 2020 reached to 86%, Compared to October 2020 where it was 70% which shows 16% increase in budget execution rate for the month of December 2020.

5. Swift

Report of(Outward) Transactions from 1/10/ 1399 to 30/10/1399

Categories	Remitter Parties	Message Type	USD	EUR	INR	CHF	JPY
A	Ministries	MT 103 ,700 & 910	22,414,051.09	447,239.00	0	5,738.57	-
B	Commercial Banks	202	77,767,885.77	2,316,997.00			

C	Da Afghanistan Bank	200	998,930,000.00				
Report of(Inward)Transactions from 1/10/ 1399 to 30/10/1399							
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP	
A	Ministries	MT 103 ,700 & 910	18,489,410.28	782,771.75	297,500.00	61,415.00	
B	Commercial Banks	202	2,140,538.87				
C	Da Afghanistan bank	200					
بر علاوه به تعداد 1 معامله تبادلوی FX Deal به ارزش مجموعی (24684.63) دالر امریکائی و همچنان 2 معامله باتک جهانی به ارزش مجموعی مبلغ 1647845.86 دالر امریکائی نیز اجرا گردیده است							

6. Banking Sector

EXECUTIVE SUMMARY

Overall the banking sector performed well during 2020 despite the COVID-19 pandemic, rendering necessary services to the public. No liquidity short fall was noticed in any of the banks and their capital positions remained within the regulatory threshold. Main financial indicators such as total assets including cash in vault and claims on DAB, investments in bonds, deposits and financial capital increased while loans and interbank claims had a decreasing trend. The banking sector was profitable though the profit decreased since Dec, 2019 and loan quality remained weak.

Given the spread of the pandemic, in coming months, the banking sector may experience more Non-Performing Loans (NPLs), high provisions which will lead to lower profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. DAB has issued an incentive package (the Post C19 Plan) that covers the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting option, renewal of loans, relaxation in loan classification and risk weighting of loans guaranteed by the third parties such as ACGF, IFC, USAID etc.

SECTOR AT A GLANCE

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

Category (in million Af)	Annual Change			Quarterly Change					Quarterly Changes (Amount)
	Dec-19	Dec-20	Percentile	Mar-20	June-20	Sep-20	Dec-20	Percentile	
Total Assets	313,135	327,012	4.40	284,714	314,981	317,632	327,012	2.95	9,380
Total Loans (Gross)	41,150	39,559	-3.80	40,624	39,470	39,368	39,559	0.48	191
Total Interbank Claims (Gross)	83,466	74,134	-11.10	78,135	74,154	73,111	74,134	1.39	1,023
Investment in Bonds	31,743	35,223	10.90	31,093	33,798	36,024	35,223	-2.22	-801
Standard Loans	27,738	26,407	-4.70	27,578	26,297	26,450	26,407	-0.16	-43
Past Due Loans ¹	13,411	13,208	-1.50	13,046	13,173	12,918	13,208	2.24	290
Adversely Classified Loans ²	7,869	8,989	14.20	8,562	8,834	8,833	8,989	1.76	156
NPLs ³	6,459	8,659	34.00	6,649	6,748	6,958	8,659	24.44	1,701
Total Deposits	266,576	280,468	5.20	238,937	267,730	269,417	280,468	4.10	11,053
Total Liabilities	277,417	290,235	4.60	250,768	279,192	281,461	290,235	3.12	8,774
Financial Capital	35,718	36,777	3.00	33,946	35,789	36,171	36,777	1.68	606
Regulatory Capital	31,457	32,629	3.70	30,170	31,689	32,015	32,629	1.92	614
Risk Weighted Asset	121,277	116,932	-3.60	116,672	121,333	122,374	116,932	-4.45	-5,442
Net Profit/Loss	1,643	1,604	-2.37	-24	889	554	185	-66.61	-369

Table 1: Major Financial Indicators of the Sector

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

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

³Loans classified in doubtful and loss categories.

INTRODUCTION

The banking sector in Afghanistan constitutes 22% of the GDP. It consists of 12 duly licensed banking institutions: Three relicensed state-owned banks, six private full-fledged commercial banks, one private full-fledged Islamic bank and two branches of foreign banks.

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

Provided Banking Facilities	Dec- 19	Dec-20	Change	%age change
Number of Branches	410	411	1	0.24
Automated Teller Machines (ATM)	359	385	26	7.24
Point of Sale (POS)	122	672	550	450.82
Cash Deposit Machine (CDM)	-	6	6	-
Type 12 Facility ⁴	104	86	-18	17.31
Credit Cards	1,294	1,288	-6	-0.46
Debit Cards	688,764	663,204	-25,560	-3.71
ATM Cards	252,261	300,042	47,781	18.94
Master Cards	11,604	25,019	13,415	115.61
Prepaid Cards	25,555	115,395	89,840	351.56
Web Surfer Cards	4,660	5,319	659	14.14
Number of Accounts (Loans)	66,302	57,293	-9,009	-13.59
Number of Borrowers	66,221	57,218	-9,003	-13.60
Number of Loan files where borrower president or vice president is a woman	14,210	12,917	-1,293	-9.10
Number of Depositors	4,012,928	4,328,061	315,133	7.87
Number of Deposit Accounts	4,139,352	4,471,936	332,584	8.03
Number of Employees (Local + Foreign)	9,609	10,038	429	4.46

Table 2: Provided Banking Facilities

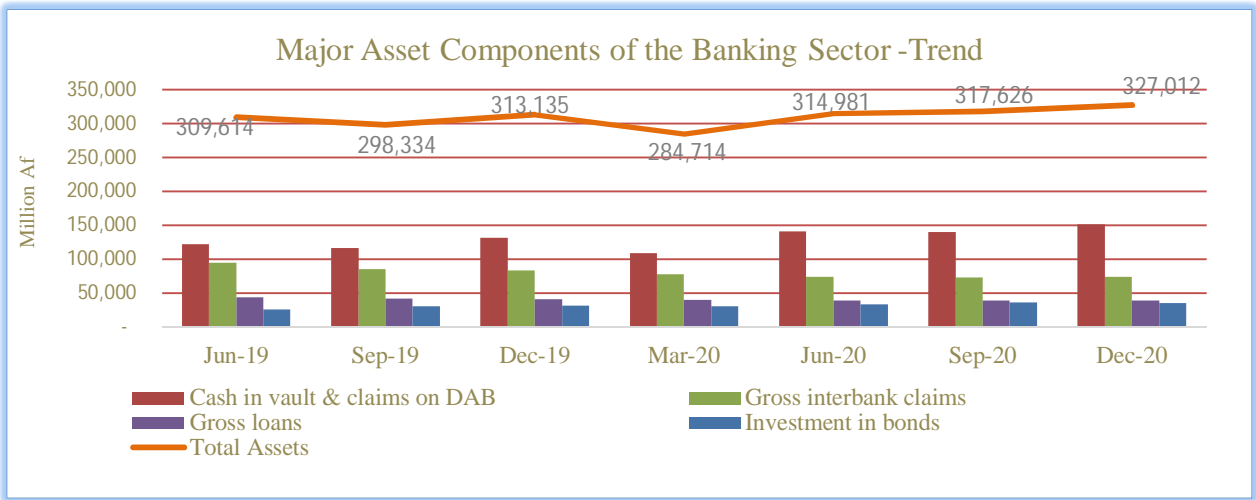
As demonstrated in the above table, overall the provided banking facilities increased, showing an increasing tendency in the usage of banking services, progress in banking culture and consumer

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

demand for the banking facilities in the country. The most obvious increases were noticed in prepaid cards, ATM cards, POS, employees and depositors.

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector show fluctuations during 2020, indicating 4% increase at the end of 2020 compared to the same period of 2019. Deposits inflow (mostly customer demand deposits in Af accounts) mainly came from six banking institutions is the main contributor to the change. The impact of increase was observed mainly in cash in vault & claims on DAB, Investments and other assets. However, gross loans and interbank claims mainly USD accounts decreased owing to maturity of deposits, settlement, repayment and charge-off of loans.



Graph 1: Major Asset components of the Banking Sector

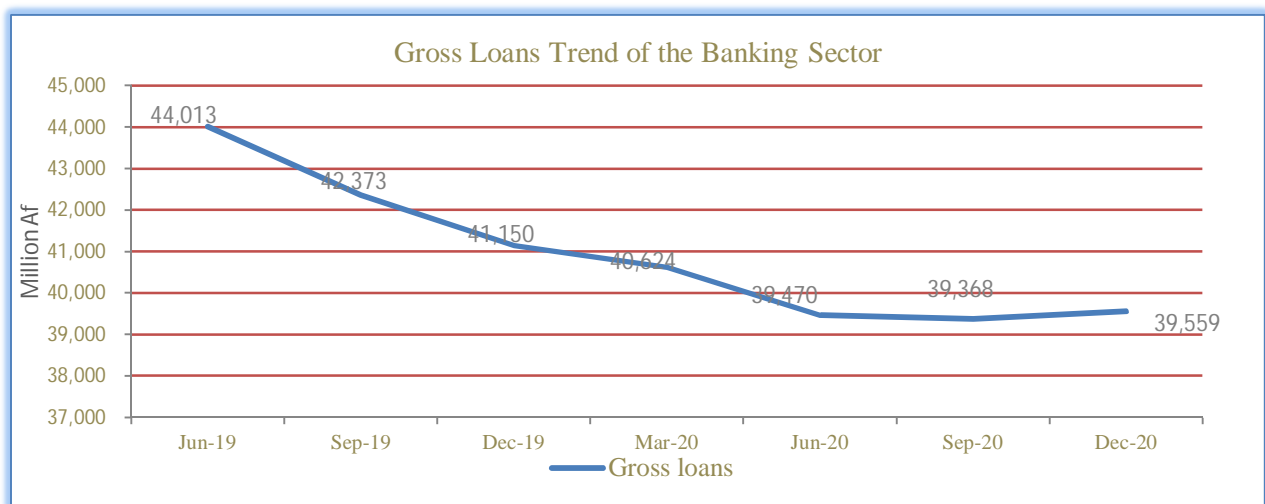
As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (46%), followed with the gross interbank claims (22%), gross loans (12%), and the investment in bonds (11%).

Asset Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	Dec,20
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75%	30.55%	33.47%	27.99%	34.01%	32.14%	31.85%
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.29%	10.78%	12.04%	14.45%
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%	1.13%	1.40%
Foreign Claims to Total Assets	29.02%	26.54%	25.04%	25.69%	22.33%	21.88%	21.30%
Total Gross Loans to Customer Deposits	16.99%	17.02%	15.77%	17.31%	15.00%	14.88%	14.52%
Loan Loss Reserves to Total Gross Loans	10.93%	12.25%	12.24%	13.59%	14.39%	14.24%	16.97%
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.61%	1.94%	1.80%	1.77%	2.05%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	0.86%	1.21%	1.17%	1.24%
Repossessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%	0.32%	0.31%
Repossessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%	2.58%	2.575
NPL to Total Assets	1.82%	1.87%	1.90%	2.30%	3.62%	2.19%	2.65%

Table 3: Asset Quality Indicators

6.2: Loan Portfolio

Total gross loan portfolio of the banking sector has been following a declining trend from mid-2019, as indicated in the graph below. The decrease in the sector total portfolio in Dec, 2020 compared to Dec, 2019 was around 4% that mainly attributed to settlement, repayment, charge-off and less OD utilization of loans. However, during the year 2020 Af 9,188 million (principal amount) with outstanding amount of 7,970 million (as on Dec, 2020) loans were issued as well (corporate + MSME). Lending in the sector is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks with 13% share. In comparison, branches of foreign banks have just 0.4% share with the lowest level of contribution in the economy.



Graph 2: Sector Gross Loans

The gross loan portfolio of the banking sector currently stands at AF 39.5 billion, showing 3.8% decrease compared to the Dec, 2019 mainly attributed to settlement, repayment, charge-off and less OD utilization of loans, making 15% of the customer deposits and 12% of the sector total assets. By end of 2020 the total coverage ratio is 17% of the total gross loans. As indicated in the table below, loans are mostly concentrated in Af denomination making 52% of the total portfolio followed with USD denominated loans at 48% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.1% of portfolio). See the summary of loan portfolio below:

Banking Sector Loans by Currency – amount in million Af							
Currency	Sep-19	Dec-19	Mar-20	June-20	Sep-20	Dec-20	%age of Loans
Afghani	20,439	20,912	20,980	20,172	20,124	20,421	51.62%
USD	21,851	20,171	19,598	19,251	19,193	19,085	48.25%
Other Currencies	83	68	47	48	51	53	0.13%

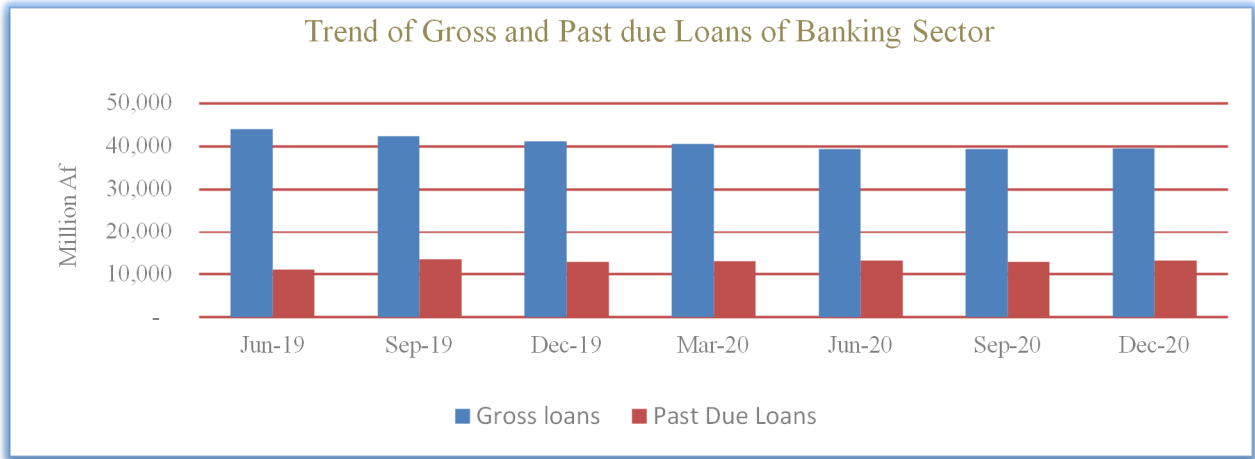
Table 4: Gross Loans Currency Composition

- ✓ Total loan portfolio followed a decreasing trend from mid-2019. However; recorded 3.8% decrease since last year, settlement, repayment, charge-off and less OD utilization of loans.
- ✓ During the year 34,827 loan accounts with outstanding amounting to Af 7,970 million (corporate + MSME) as on Dec, 2020 disbursed, 43 loan accounts amounting to Af 1,619 million restructured and 5 loan accounts amounting Af 932 million (principle amount) limit increased.
- ✓ During 2020 Af 747 million loans charged off by five banking institutions.

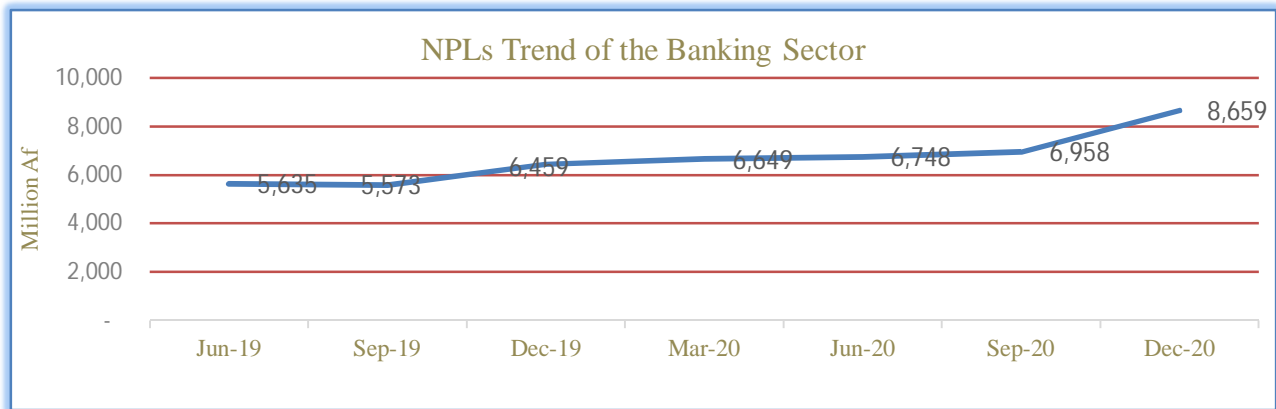
6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 22% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 22% NPLs, 20% is attributed to five banks the top lenders in the sector. These banks hold 75% of the sector's gross loans and 62% of the sector's regulatory capital. Hence, further deterioration in the loan quality of above mentioned weak banks holding more than 50% of the sector's gross loans and regulatory capital would have a significant impact on the entire sector's NPLs, profitability, equity capital and financial ratios. It's worth mentioning that the increase in the sector NPLs compared to Sep, 2020 is attributed to two banks due to deterioration in their loan quality.

With reference to the effects of C19 Pandemic, during 2020 two banks had restructured 28 loan accounts amounting to Af 142 million while the defaulted loans are Af 728 million covering 1,958 accounts, mostly attributed to two banks.



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



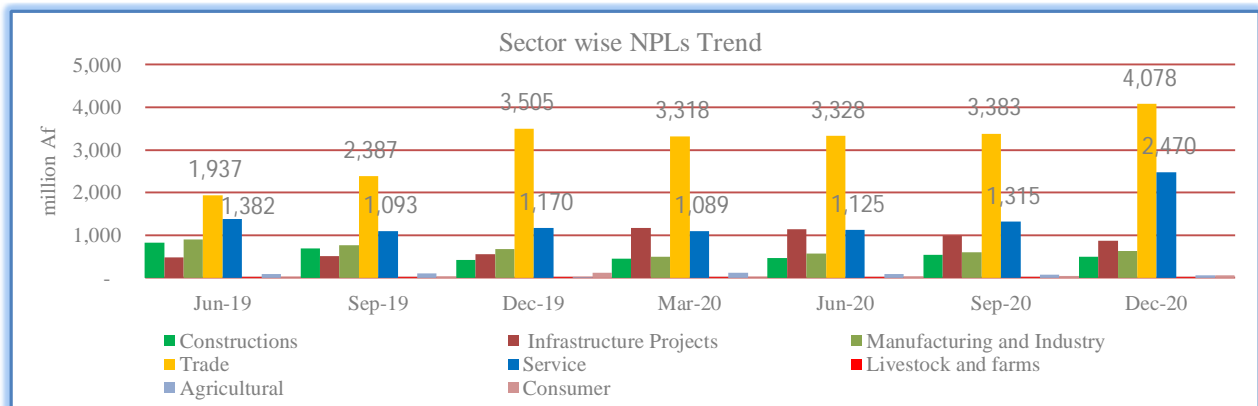
Graph 4: NPLs Trend of Banking Sector

Group-wise analysis of the banking institutions shows that 91% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 9% and 0% share in the total NPL portfolio respectively.

Loan Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	Dec-20
Criticized Loans to Total Gross Loans	25.41%	32.05%	32.59%	32.11%	33.38%	32.81%	33.39%
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32%	19.12%	21.08%	22.38%	22.44%	22.72%
Non-Performing Loans to Total Gross Loans	12.80%	13.15%	15.70%	16.37%	17.10%	17.67%	21.89%
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23%	20.53%	22.04%	21.29%	21.73%	26.54%
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80%	37.30%	38.87%	40.53%	40.55%	46.56%
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24%	67.71%	67.70%	68.18%	65.61%	67.64%
General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.65%	1.63%	1.29%	1.39%	2.14%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	7.02%	7.36%	6.87%	7.73%	8.99%
Net NPLs to Total Net Loans	5.00%	4.76%	5.84%	6.50%	6.35%	7.09%	8.53%
Net NPLs to Total Gross Loans	4.45%	4.18%	5.07%	5.61%	5.44%	6.08%	7.08%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (47%) dominant in food item (18%) and petroleum and lubricants (8%), followed by Services Sector (29%) mostly recorded in telecommunication /scratch cards distributors (11%) & ground transportation (9%), Infrastructure Projects (10%) and Construction& building sector (6%). Increases were observed mainly in Services and the Trade Sectors mostly in telecommunication/ scratch cards distributors and food items came from three banking institutions.



Graph 5: Sector Wise NPLs

- ✓ Currently 22% of the banking sectors gross loans and 27% of the regulatory capital is at risk. Increases in NPLs (24% or Af 1,701 million) compared to the Sep, 2020 is mainly attributed to two banks owing to migration of loan to lower classes.
- ✓ The NPL ratio with accelerating trend, 22% in Dec, 2020 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.
- ✓ Concerning the concentration of NPLs by type of loans, out of 22% total sector NPLs 14.9% is OD, 3.5% is TL and 3.5% is Islamic.

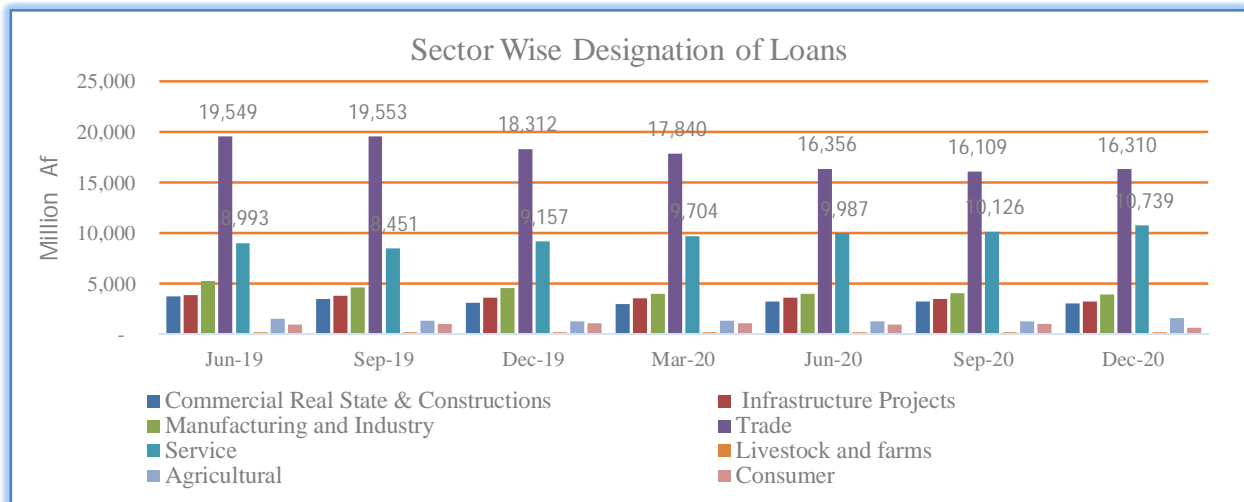
6.2.2: Type of Loans

More than 60% of the banking sector total loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector, followed by Term Loans at 24% and Islamic Loans are at 12% of the total portfolio. In comparison, Credit Cards are negligible at 0.1%.

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (27%), while the share of Islamic loans is limited to (9%).
- ✓ In addition, concerning the quality of OD loans, out of total OD portfolio in the sector, 23% are NPLs that mainly came from three banking institutions.

6.2.3: Sector-wise Designation of Loans

The trend for the sector-wide designation of loans show that the Trade Sector is on the lead with 41% of the portfolio with petroleum and lubricants with 11% is dominant sub-sector; Services Sector falls second in a row with 27% with telecommunication/ scratch card distributors (9%) 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 total loan portfolio, respectively.



Graph 6: Sector-wise designation of loans

6.2.4: Related Party Exposure

As per the banks reports, total related party exposure of the sector is Af 401 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital of the sector. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

6.2.5: Repossessed Assets

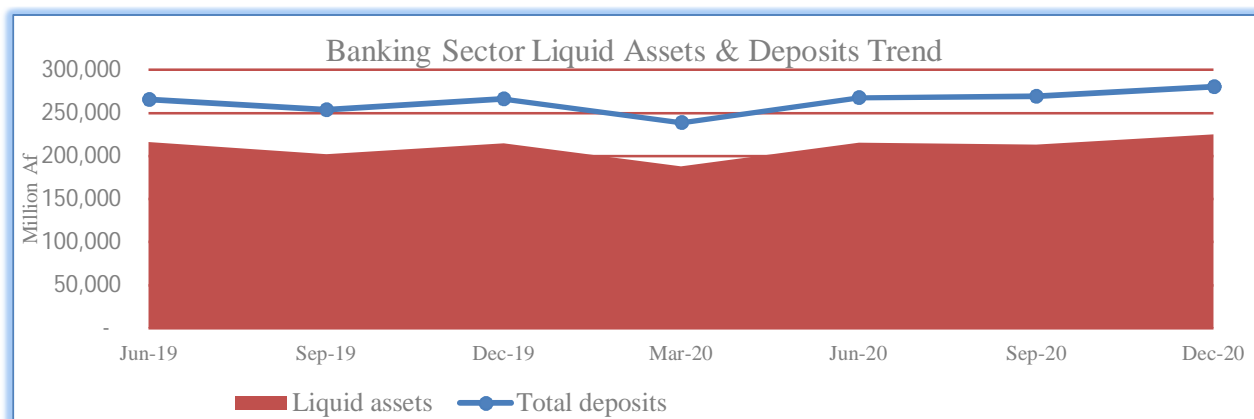
Total repossessed assets of the banking sector amount to Af 1.01 billion, constitutes 0.3% of the banking sector total assets reported by three banking institutions.

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 median stand at 59% increased from 56% in Dec, 2019.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 68% of the total assets and 86% of the short-term liabilities.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

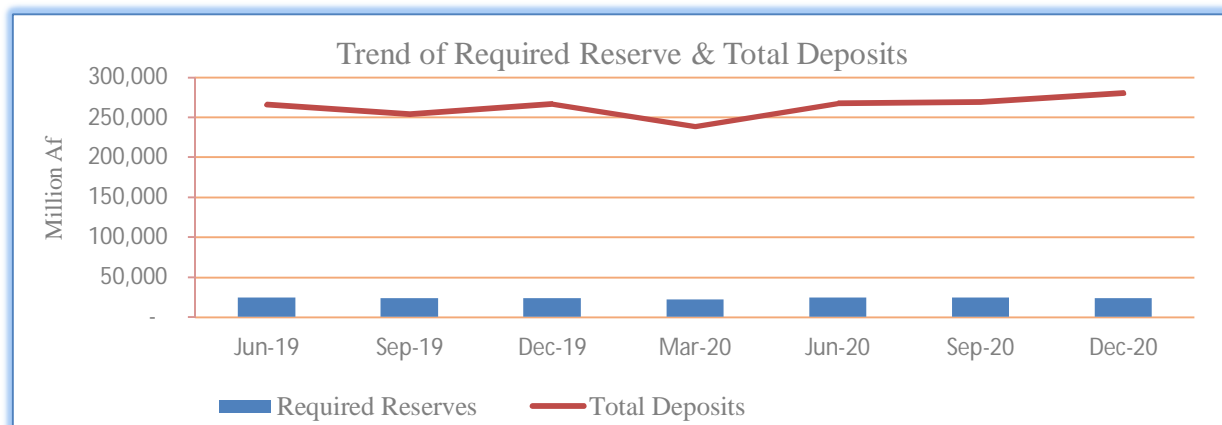
Liquidity Ratio Analysis

Liquidity Ratios	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	Dec-20
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%	14.61%	14.10%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.53%	12.39%	12.10%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.33%	86.61%	85.90%	86.45%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.08%	41.16%	39.89%	41.75%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	66.55%	68.33%	67.20%	68.96%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%	65.08%	62.40%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	14.88%	14.52%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.72%	0.93%	1.51%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.90%	13.00%	12.88%	12.47%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

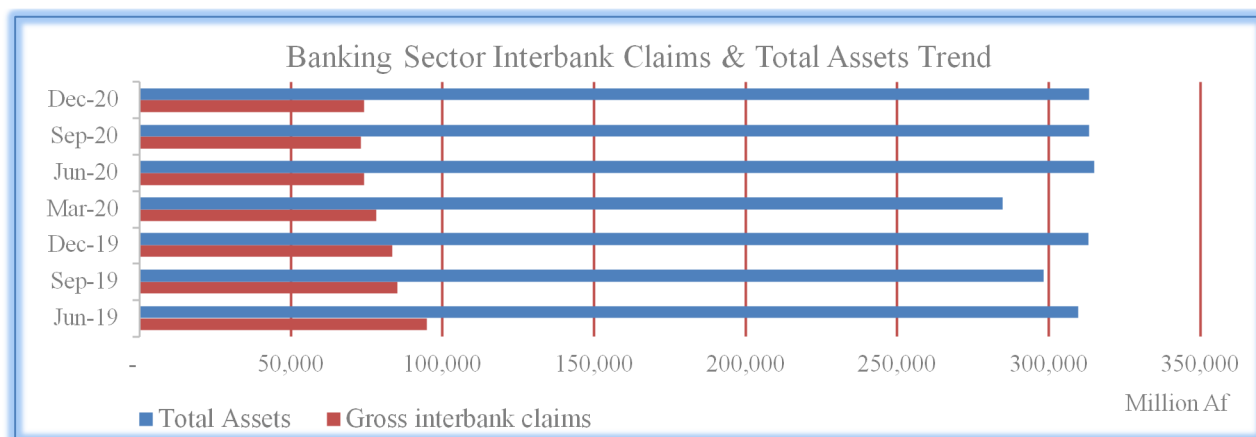
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



Graph 8: Trend of Required Reserve & Total Deposits

6.3.3: Interbank Claims

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



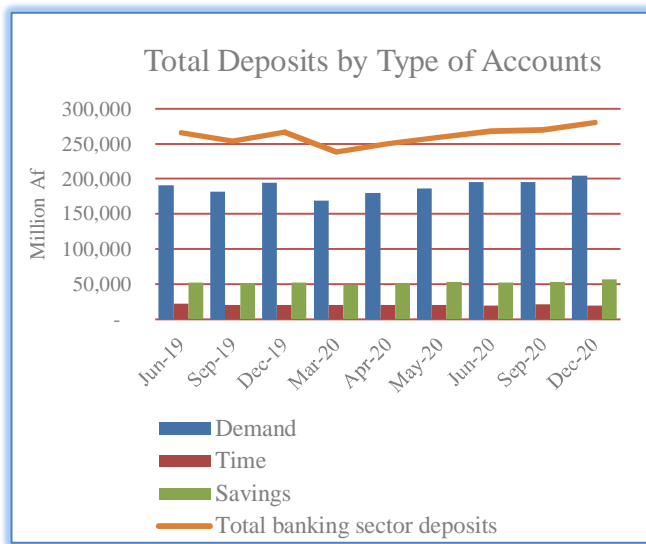
Graph 9: Banking Sector Interbank Claims & Total Assets Trend

6.3.4: Foreign Accounts and Placements

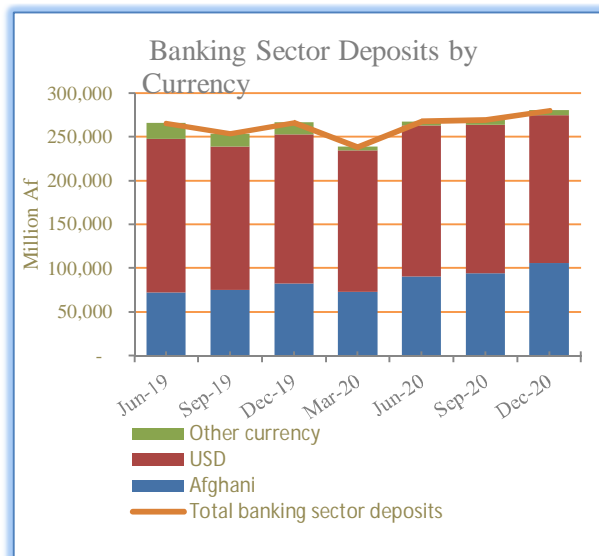
Total Foreign Interbank Claims constitute 21% of the sector total assets and 25% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 32% of the sector total assets and 37% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans designated inside the country is limited to 12% of the sector's total assets and 14% of the total sector deposits.

6.3.5: Deposits

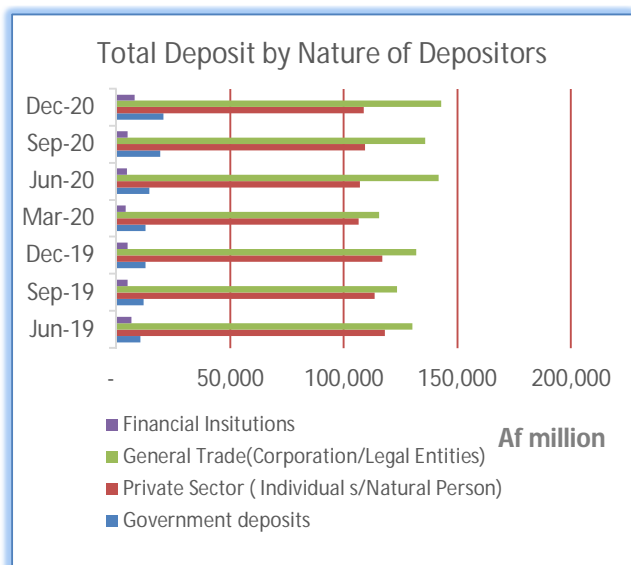
Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020, but followed an increasing trend by end of 2020 depicting 5% increase over the last year and 4% over the previous quarter, attributed to increase in current accounts mainly posted by seven banking institutions. Currency wise analysis show that Af denominated deposits increased by 12% (QoQ), accounted for 38% of total deposits, while USD denominated deposits were down by 0.1% (QoQ), making 60% of the total deposits and other currency deposits decreased by 3% (QoQ), comprising 2% of the total banking sector deposits compared to previous quarter.



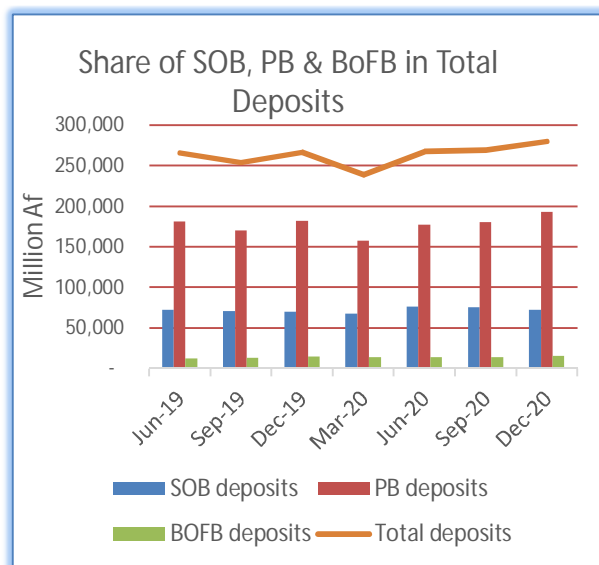
Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency



Graph 12: Total Deposits by Nature of Depositors



Graph 13: Share of SOBs, PBs & BoFBs in TD

As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector with 51%, followed by individual/natural person deposits with 39%, government deposits

⁵ SOBs (State Owned Banks), PBs (Private Banks), BoFBs (Branches of Foreign Banks)

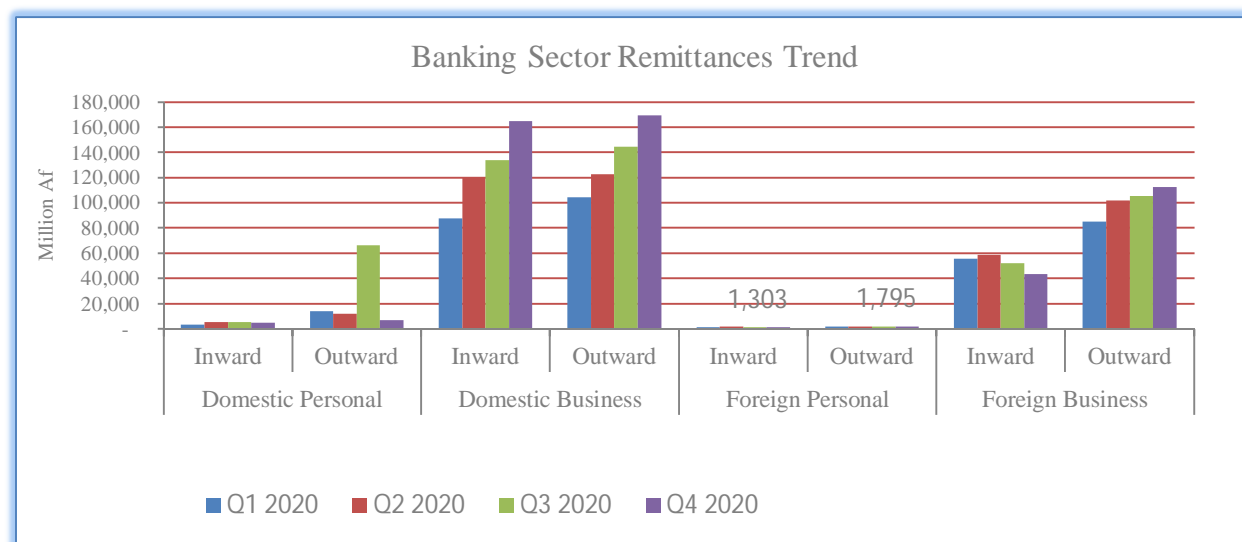
are at 7%, and financial institutions constitute 3% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 69%, state-owned banks are at the second place with 26% share, while the branches of foreign banks have only 5% share in the sector total deposit bucket.

Banking Sector Deposits Trend By Type & Currency -in million Af						
Items	Dec-19	20-Mar	20-Jun	Sep-20	Dec-20	Quarterly Change
Demand	194,109	169,068	195,857	195,132	204,201	4.65
Time	19,961	20,243	19,228	20,920	19,602	-6.30
Savings	52,506	49,626	52,645	53,365	56,664	6.18
Total	236,576	238,937	267,730	269,417	280,467	4.10
AF	82,415	72,916	90,025	94,084	105,445	12.08
USD	170,838	161,437	172,957	169,780	169,636	-0.08
All Other Currencies	13,323	4,583	4,748	5,553	5,386	-3.01
Total	266,576	238,937	267,730	269,417	280,467	4.10

Table 7: Banking Sector Deposits Trend by Type & Currency

Remittances details

Remittances trend for the four quarters of 2020 is illustrated in the below graph.

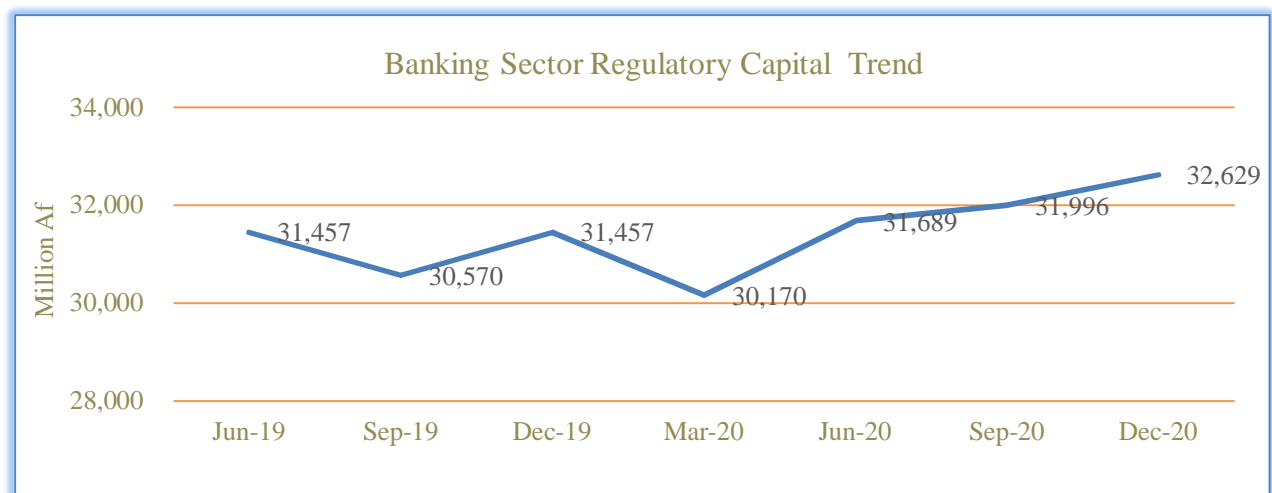


Graph 14: Banking Sector Remittances Trend

6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 11% of the total assets of the sector. The net equity position of the sector recorded at Af 37 billion increased by 3%% over the last year and 2% over the quarter, mainly attributed to profitability and capital injection. The regulatory capital of the sector stands at AF 32.5 billion, showing 3.4% increase over the year and 1.7% over the last quarter. CAR of the sector is at 28%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.

As demonstrated in the graph below regulatory capital had a fluctuating trend, the decrease in Mar, 2020 is attributed to provisions, the upturn in the month of June attributed to profitability and revaluation of fixed assets mainly observed in three banks, while increases in Dec, 2020 compared to last quarter came from profitability, capital injection and revaluation of available for sale investments mainly observed in five banks.



Graph 15: Regulatory Capital Trend of Banking Sector

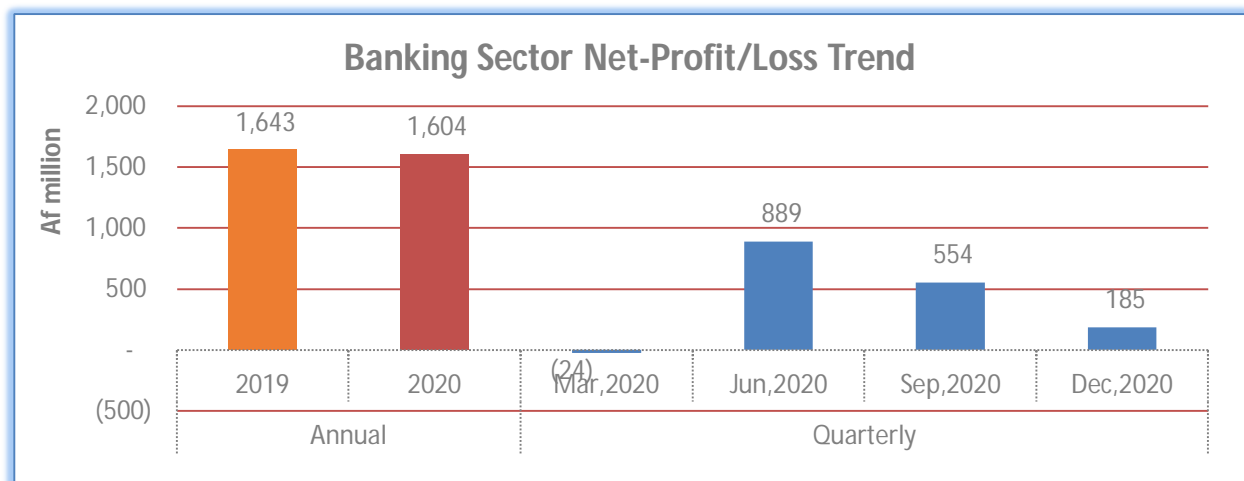
Capital Adequacy Ratio Analysis

Capital Adequacy Indicators	Jun-19	Sep-19	Dec-12	Mar-20	Jun-20	Sep-20	Dec-20
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.94%	25.86%	26.12%	26.16%	27.84%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.49%	26.55%	25.76%	25.29%	26.65%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.49%	10.88%	9.92%	9.75%	9.53%
Equity Capital To Total Assets	11.49%	11.63%	11.41%	11.92%	11.36%	11.39%	11.25%

Table 8: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

On a cumulative basis, the banking sector is profitable; the net profitability of the sector for the current year (Jan-Dec 2020) recorded at Af 1.6 billion, though decreased by 2% as compared to Dec, 19, the decrease mostly observed in interest income owing to time deposit maturity, decrease in interest due to pandemic on placements and decrease in FX revaluation gain mainly observed in five banks. Major profitability components are interest and non-interest income, while main expenses cover non-interest expenses and salary expenses. As indicated in the graph below, the banking sector has been mostly profitable during the FY 2020 except Mar, 2020 that attributed to provisions. ROA (annualized) of the sector recorded at 0.53% and ROE (annualized) stands at 4.5% at end Dec, 2020.



Graph 16: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Net-Interest Income to Total net- Income	150%	1148%	118%	-6271.64%	157.65%	249.14%	725.30%
Net-Interest Income to Total Assets	0.56%	0.55%	0.48%	0.50%	0.40%	0.40%	0.40%
Non-Interest Income to Total Assets	0.61%	0.53%	0.84%	0.60%	0.70%	0.50%	0.70%
Non-Interest Income to Total net- Income	163%	1113%	209%	-6458.10%	232.22%	309.08%	1275.23%
Operating Expenses to Total net- Income	237%	1839%	226%	-10633.97%	291.40%	482.34%	1510.86%
Salaries to Operating Expense	40.68%	40.59%	38.67%	44.44%	41.47%	39.78%	39.49%
Efficiency Ratio (Non-interest Expenses/ sum of Net-interest income & Non-interest income)	75.65%	81.30%	68.99%	83.53%	74.74%	86.41%	75.52%
Burden (difference between non- interest income and non-interest expense)	-847	-1,036	-213	-1,020	-526	-961	-436
Net Profit/Loss (Cumulative)	1,148	143	221	-24	889	554	185
Return on Asset	0.38%	0.05%	0.07%	-0.03%	0.59%	0.24%	0.06%
Return on Equity	3.30%	0.41%	0.63%	-0.29%	5.10%	2.06%	0.51%

Table 9: Profitability Indicators

As shown in the above table, the efficiency ratio of the sector and the burden (the difference between non-interest income & non-interest expense) improved compared to Sep, 2020 (An efficiency ratio of 50% or under is considered optimal), attributed to increase in non-interest income.

Banking Sector P/L Trend (Cumulative in each Quarter)– Amount in million Af							
Items	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Interest Income	2,033	1,897	1,747	1,764	1,642	1,617	1,594
Interest Expense	311	257	253	231	240	236	251
Net-Interest Income	1,722	1,640	1,494	1,533	1,402	1,381	1,343
Credit Provision-net	152	505	1,324	349	109	64	1,422
G/L on Investments	24	125	82	-11	-20	66	252
Other Non-Interest Income	1,872	1,591	2,635	1,578	2,065	1,713	2,362
Non-Interest Expense	1,561	1,560	1,750	1,444	1,516	1,610	1,693
Salary Expense	1,158	1,066	1,101	1,155	1,075	1,064	1,105
Total Operating Expenses	2,719	2,627	2,851	2,598	2,591	2,674	2,798
Income or Loss Before FX Revaluation G/L & Taxes	748	225	36	153	747	422	-263
FX Revaluation G/L	582	-87	391	-112	258	263	338
Tax	181	-5	206	65	116	131	-110
Total Net-Profit/Loss	1,148	143	221	-24	889	554	185

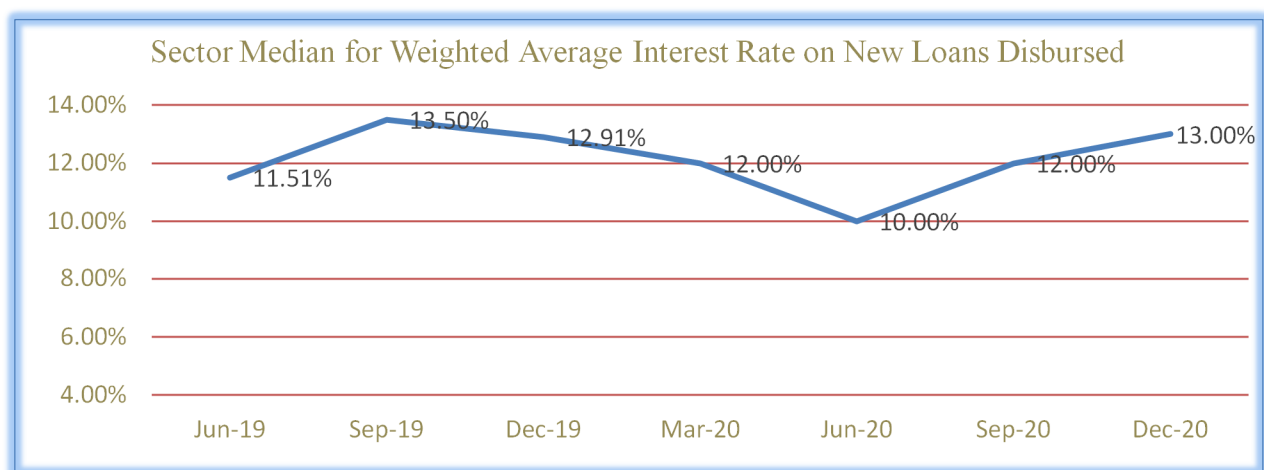
Table 10: Banking Sector P/L Trend

6.5.1: Interest Rate on Loans

The prevailing interest rate for designated types of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by TL (Term Loans), OD (Over Draft), Consumer loans and Murabaha loans. The highest prevailing rate is 39%, and the lowest is at 1%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 13.0% (Median).

Type of Loans- Sector level	Average Interest Rate (Dec-20)
Overdraft	11.9%
Term Loan	13.0%
Consumer Loan	12.1%
Murabaha	11.3% ⁶
Credit Cards	26.7%
Highest Interest Rate	39.0%
Lowest Interest Rate	1.0%

Table 11: Average Interest Rate of Loans

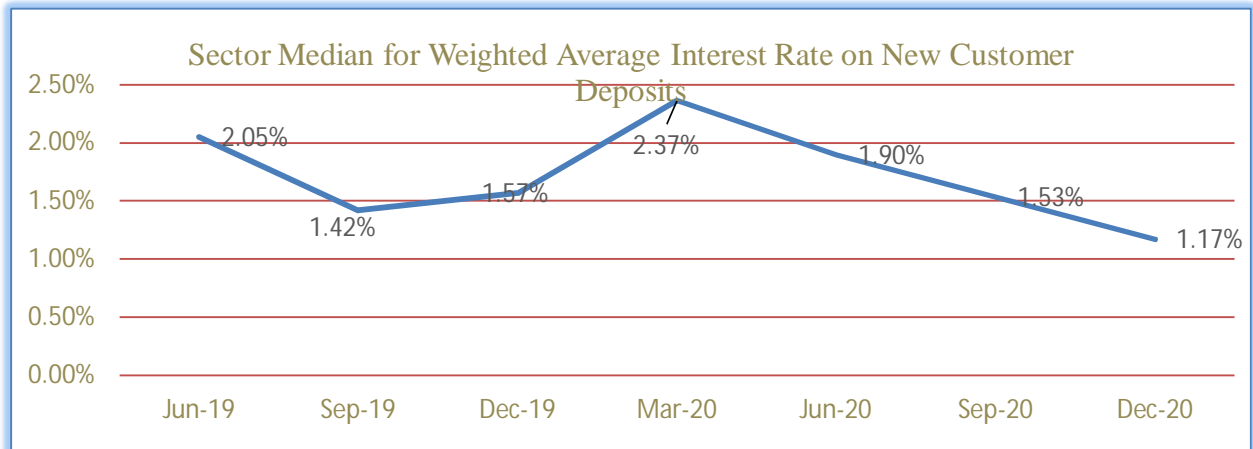


Graph 17: Weighted Average Interest Rate on New Loans disbursed (median)

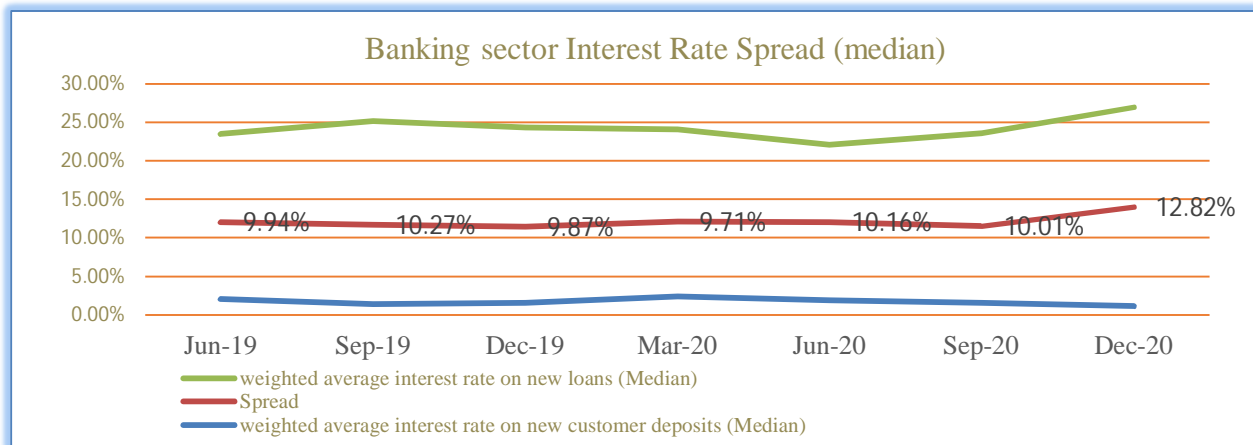
⁶For Islamic Products %age is the profit rate.

6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of fund decreased in Dec, 2020 as compared to Nov, 2020 mainly came from one bank due to less time deposit attracted in Dec, 2020.



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



Graph 19: Banking Sector Interest Rate Spread (Average)

6.6: OFF-BALANCE SHEET ITEMS

Total off-balance items of the banking sector amount to Af 58.9 billion, mostly comprising of performance, advance payment, and bid guarantees. The total coverage ratio in the form of cash, property, and counter guarantees is 70%, while the remaining portion lacks any kind of collateral coverage.

Type and amount of BGs Issued By Banking Sector Dec- 2020	
Type Of BGs	Amount in million Af
Bid	8,456
Performance	29,426
Advance Payment	11,519
LC	1,025
Other BG ⁷	351
Retention ⁸	2,081
Total	52,860

Table 12: Type of BGs Issued by Banking Sector

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash, Property & Counter Guarantee Dec- 2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	11,781	22.29%
Collateral Value (Property)	6,048	11.44%
Counter Guarantee	19,021	35.98%
Total	36,834	69.68%

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.