

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

February 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 323,986.67 million at the end of Dalw, while it recorded Af 352,255.99 million at the beginning of FY 1400 (2021) and showing 8.03 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 285,639.94 million at the end of Dalw month, whereas the actual CiC recorded Af 293,341.38 million at the beginning of FY1400 (2021), and shows 2.63 percent negative growth under the ceiling.

Since the beginning of fiscal year of 1400 (2021) up to end of Dalw, DAB has auctioned a total amount of USD 337.95 million through open market operations, and has withdrawn Af 26.02 billion from the market. Besides, DAB sold 43 m USD to Da Afghanistan Brishna Shirkat (DABs) through commercial banks, and has withdrawn Af 3.32 billion from the market. These operations have fulfilled 26.65 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of January 2021. Observing the data, headline inflation decreased to 4.11 percent from 4.95 percent (year over year). This decrease is caused by lower prices of both food and non- food items. Core measure of inflation when measured based on 30% trimmed mean decreased to 3.98 percent, while it was calculated 4.23 percent in the previous month.

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.

Total actual revenue (domestic revenue plus external aids) for the month of February 2021 is AFN 20.05 billion, while in January it was AFN 13.14 billion which shows 52.55% or AFN 6.91 billion increase in February. Total revenue from the start of FY-2021 till end of February reached to AFN 33.20 billion that is combination of AFN 9.40 billion donor contributions and AFN 23.80 billion domestic revenues respectively.

The banking sector performed moderate during Jan, 2021 compared to Dec, 2020. The main financial indicators as Total Assets, deposits and equity capital decreased. The impact of decrease in total assets was observed mainly in cash in vault & claims on DAB and in interbank claims, however investment in bonds and gross loans increased. The banking sector remained profitable. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains 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.

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1. Monetary Sector

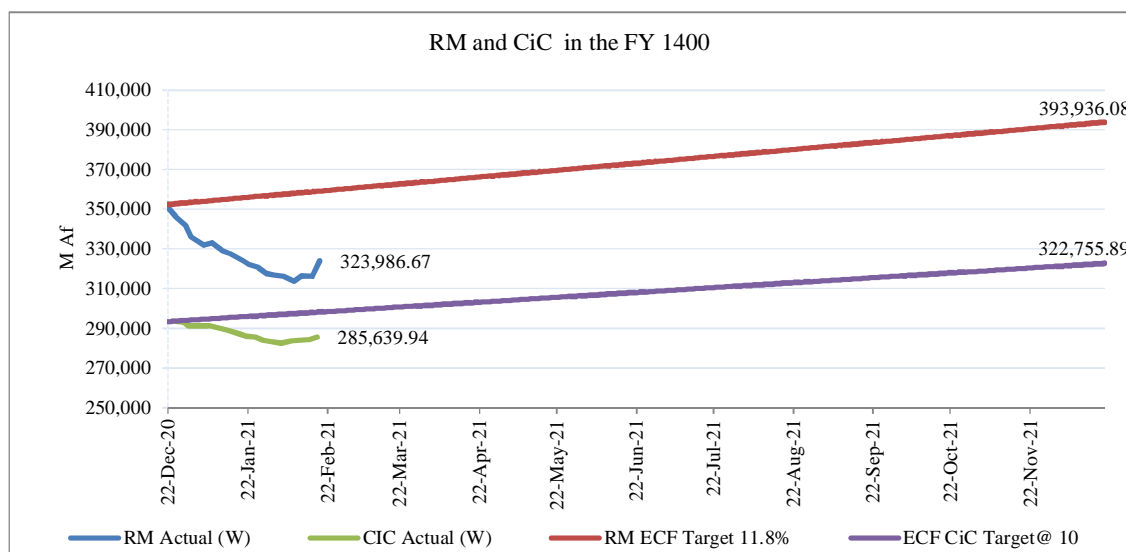
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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

Reserve Money (RM) weekly actual amount stood at Af 323,986.67 million at the end of Dalw, while it recorded Af 352,255.99 million at the beginning of FY 1400 (2021) and showing 8.03 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 285,639.94 million at the end of Dalw month, whereas the actual CiC recorded Af 293,341.38 million at the beginning of FY1400 (2021), and shows 2.63 percent negative growth under the ceiling.

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



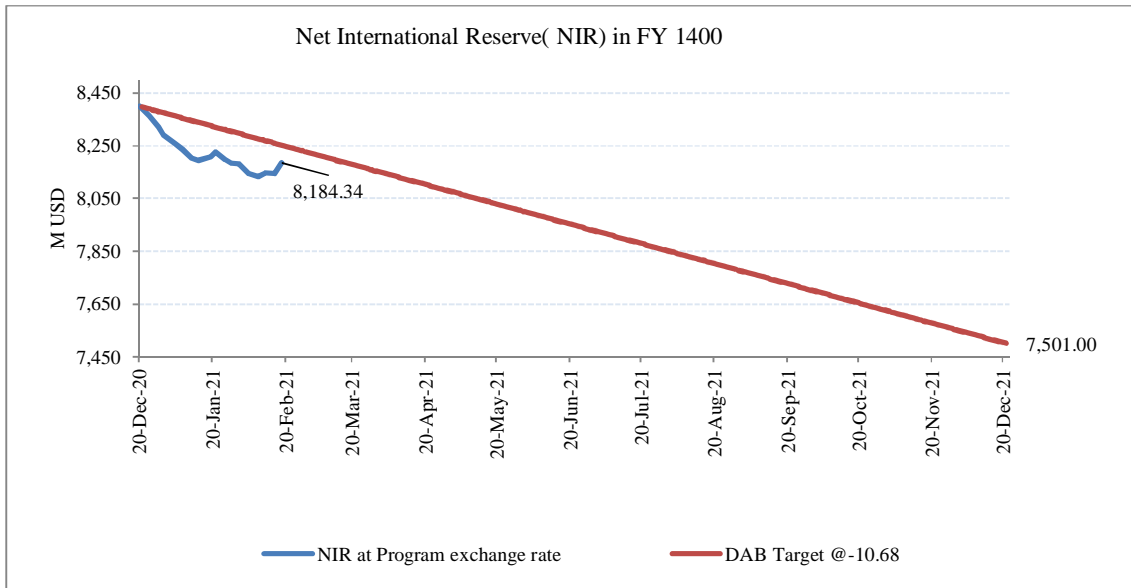
Source: Open Market Operations/Monetary Policy Departments

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 8,184.34 million at the end of Dalw month, which shows USD 214.85 million de-accumulation.

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



Source: Open Market Operations/Monetary Policy Departments

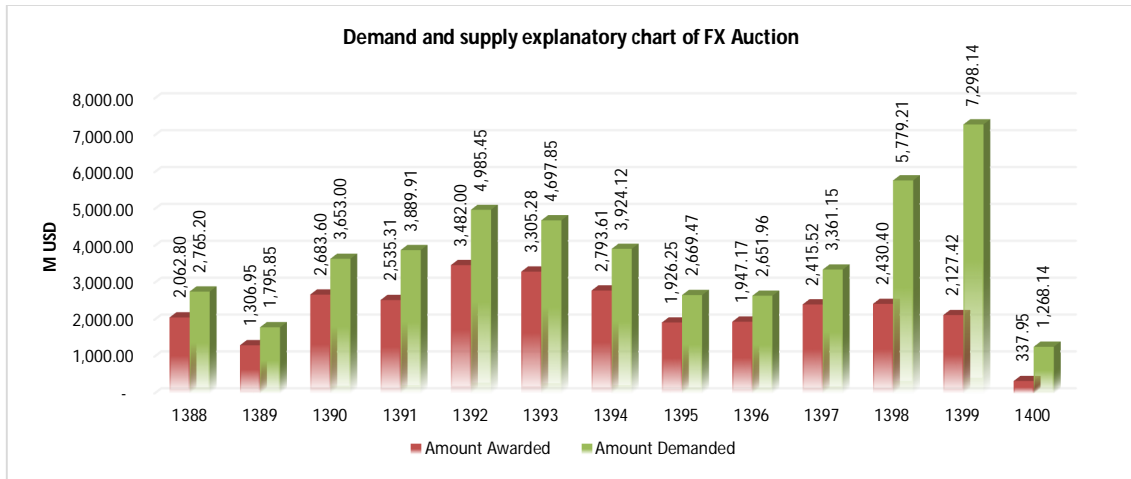
1.3 Foreign Exchange and Capital Notes Auction

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 Dalw, DAB has auctioned a total amount of USD 337.95 million through open market operations, and has withdrawn Af 26.02 billion from the market. Besides, DAB sold 43 m USD to Da Afghanistan Brishna Shirkat (DABs) through commercial banks, and has withdrawn Af 3.32 billion from the market. These operations have fulfilled 26.65 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.



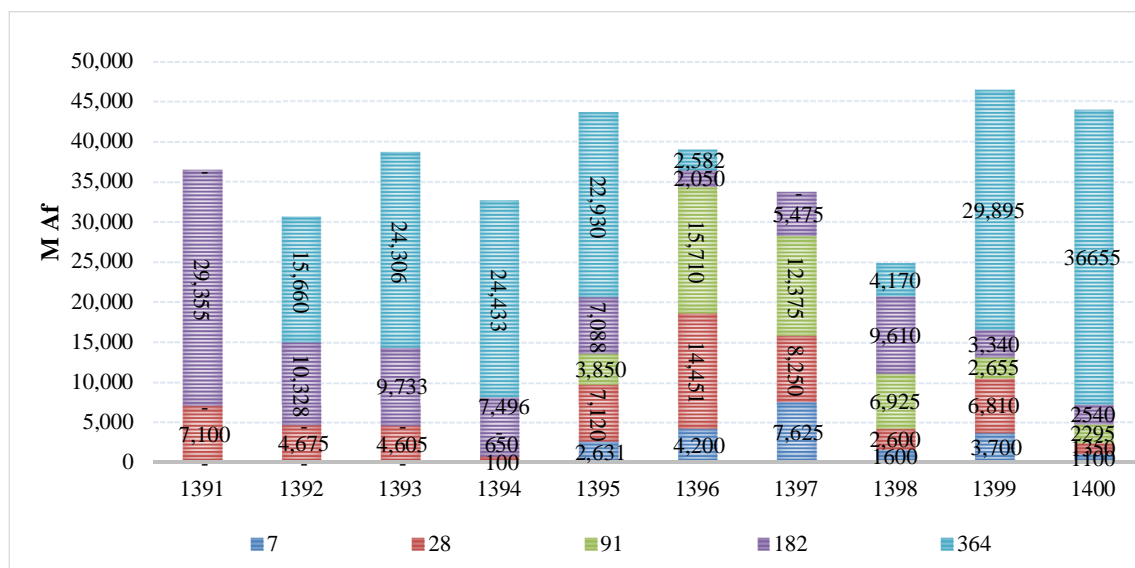
Source: Market Operations/Monetary Policy Departments

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 Dalw, the total outstanding of capital notes reached Af 43.94 billion and meanwhile the total interest paid for the mentioned notes reached Af 21.97 million at the end of this month.

Figure 1.4 figure illustrates the Capital Notes Outstanding during 10 FYs till the end of Dalw month of FY 1400(2021).

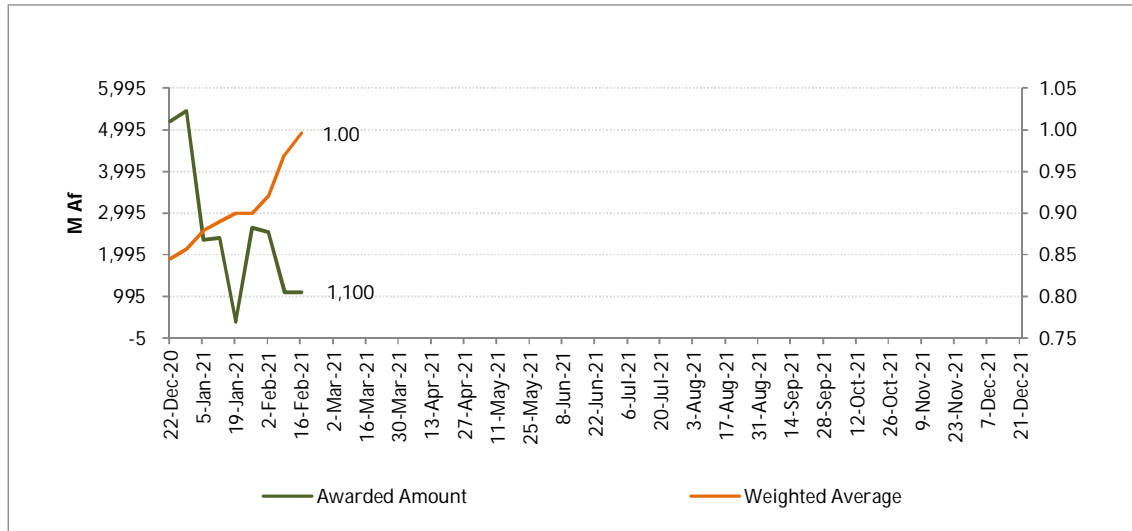


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The last awarded amount of 7 days' capital notes auction at the end of Dalw recorded Af 1.1 billion with average interest rate of 1.0 percent. The CNs outstanding of these notes stood at Af 1.1 billion for the mentioned period.

Figure 1. 5 Sale and weighted average of Capital Notes 7 Days in FY 1400

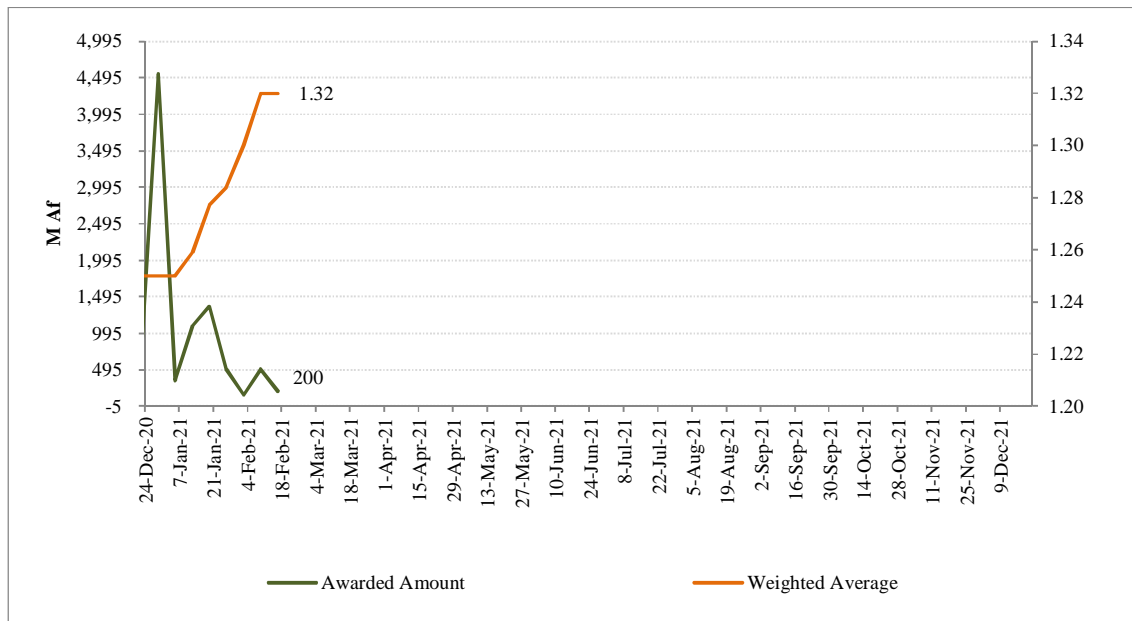


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, last awarded amount of 28 days' capital notes auction at the end of Dalw is recorded Af 0.2 billion with average interest rate of 1.32 percent and total CNs outstanding amount of Af 1.35 billion.

Figure 1. 6 Sale and weighted average of Capital Notes 28 Days in FY 1400

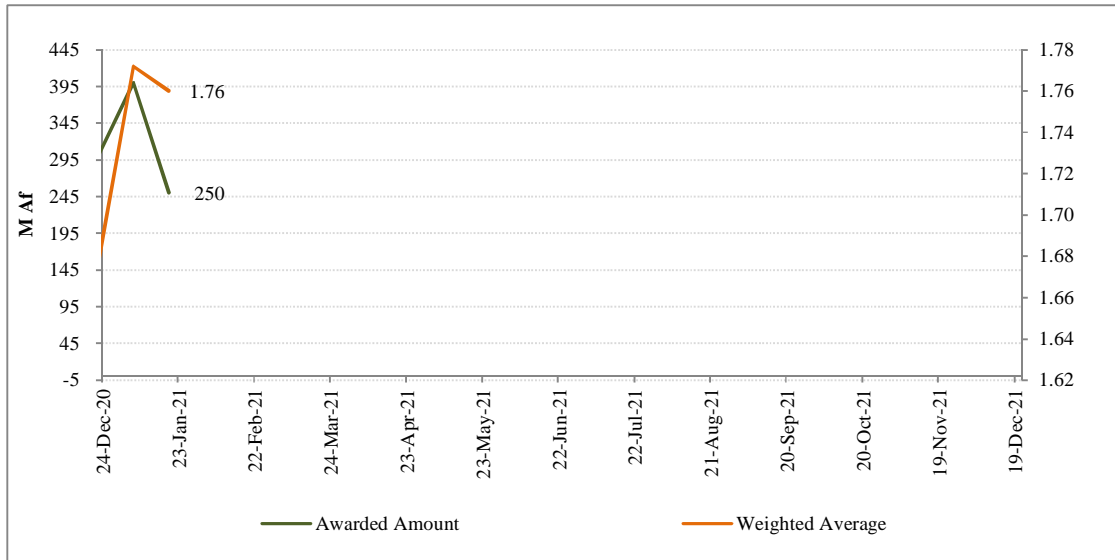


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

There was not any CNs auction during Dalw month, last 91 days' capital notes auction awarded amount during Jadi month was recorded Af 0.25 billion with average interest rate of 1.76 percent and total CNs outstanding for Dalw month stood at Af 2.29 billion.

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

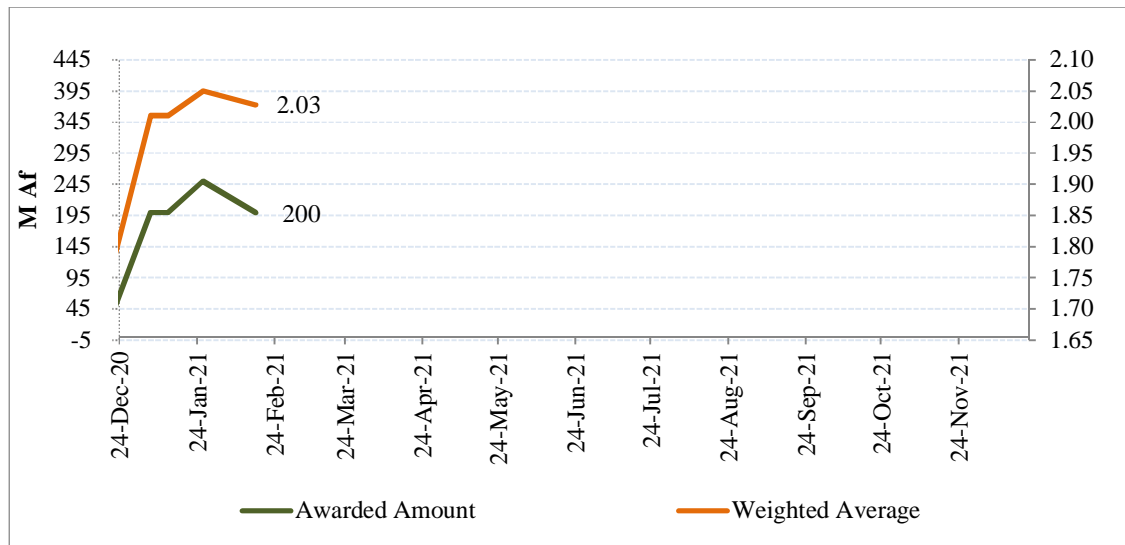


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's last 182 days' capital notes auction awarded amount during Dalw month stood at Af 0.2 billion with average interest rate of 2.03 percent and total CNs outstanding of Af 2.54 billion.

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

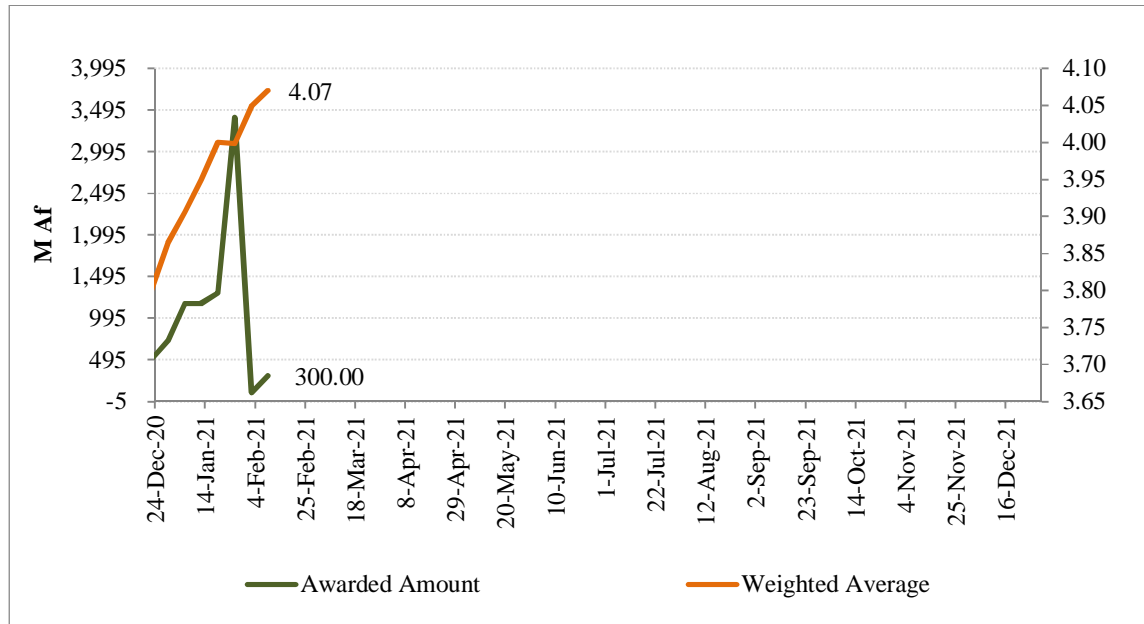


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's last 364 days' capital notes auction awarded amount in Dalw month stood at Af 0.3 billion with average interest rate of 4.07 percent and total CNs outstanding of Af 36.66 billion.

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

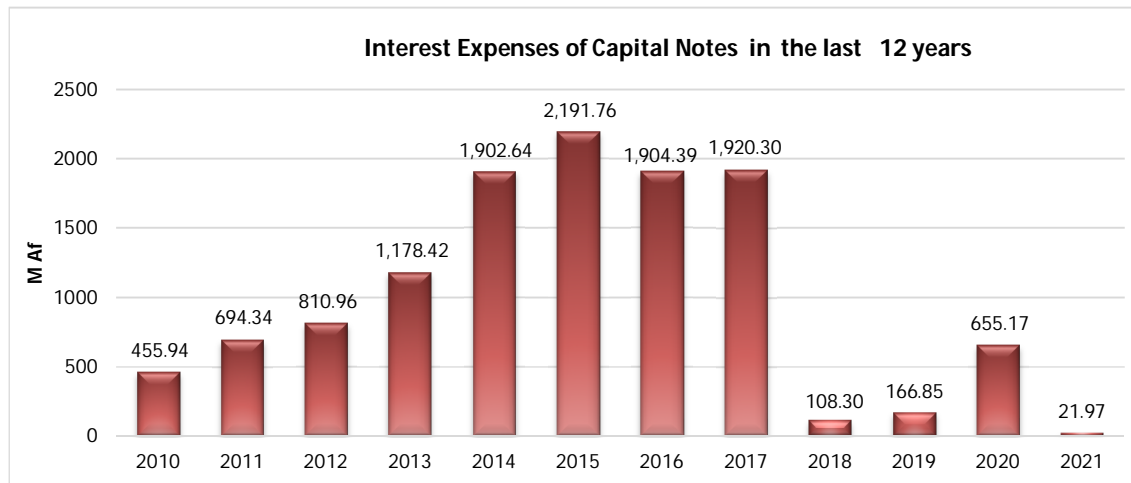


Source: Market Operations/Monetary Policy Departments

Interest Expenses

DAB interest paid for Capital Notes during of 12 fiscal years till the end of Dalw month FY 1400 (2021) which is illustrated in the figure of below.

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

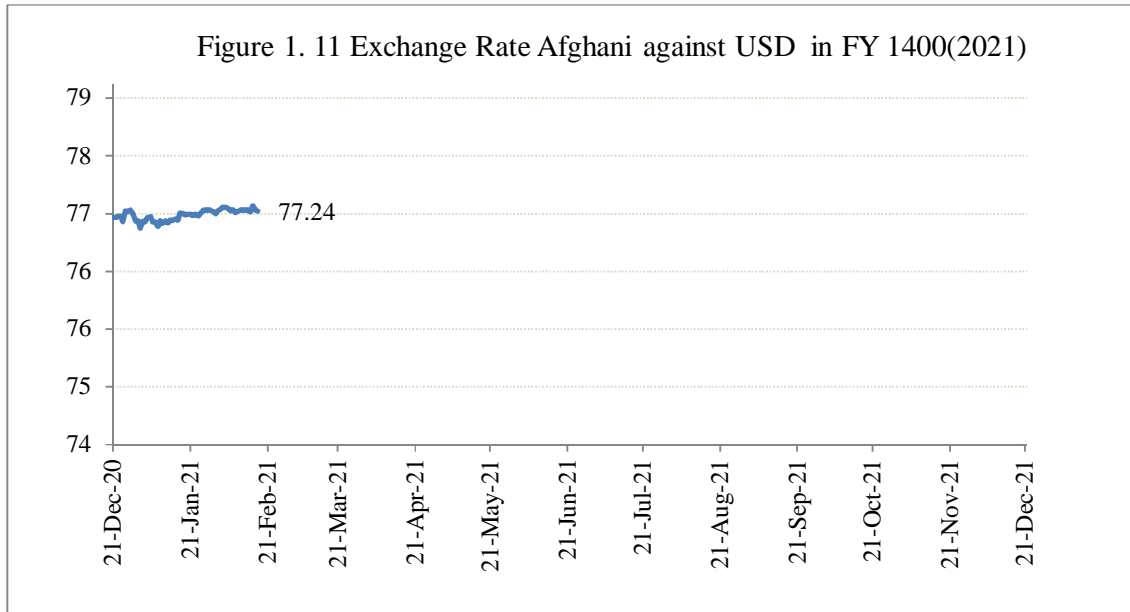


1.5 Exchange Rate

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 0.17 percent, and has been exchanged at 77.18 per USD on average and recorded at Af 77.24 exchanged at the end of Dalw month.

Figure 1. 11 Exchange Rate Afghani against USD in FY 1400(2021)

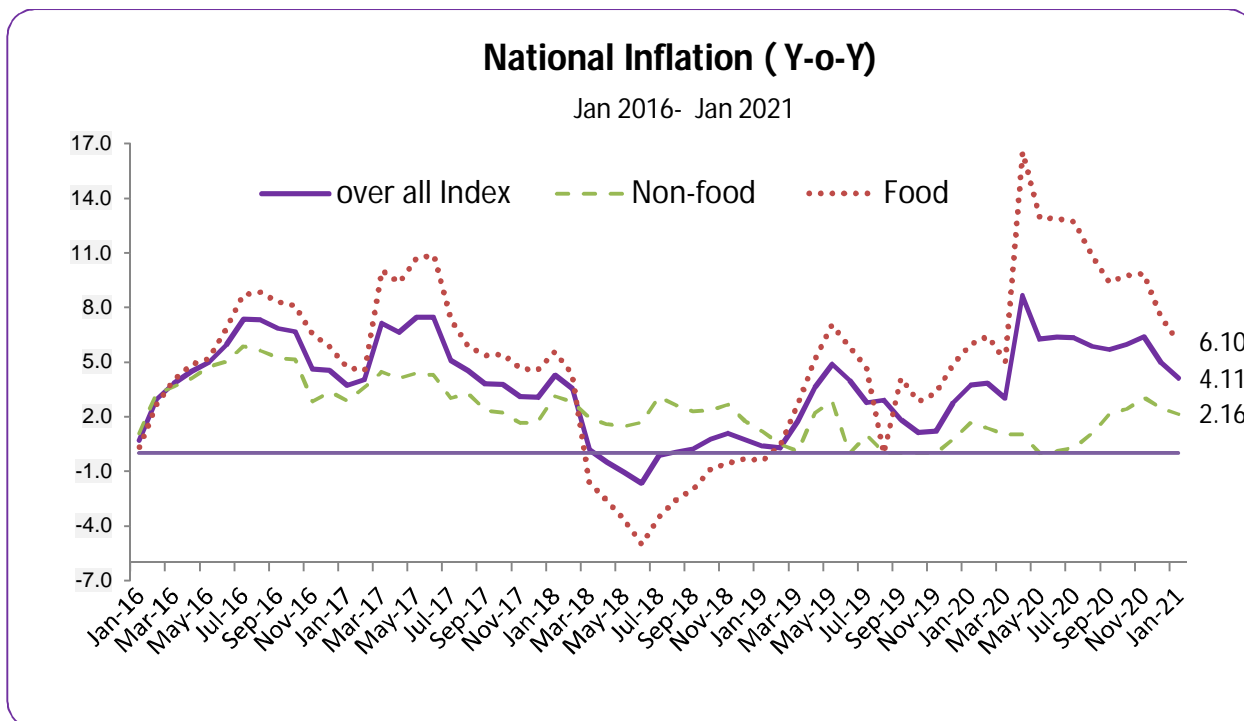


Source: Market Operations/Monetary Policy Departments

The table of Monetary Indicators

items	FY 1399						FY 1400	
	Jaddi	Dalw	Hoot	Jawza	Sunbula	Qaws	Jaddi	Dalw
Reserve Money Target (%)	12						11.8	
Actual Reserve Money (%)	-8.8	-8.25	-8	0.42	1.82	9.68	-7.96	-8.03
RM Actual	293385.94	295096.97	295224.52	322978.27	327473.80	352755.78	324212.19	323986.67
RM Target	324854.09	328079.19	331039.94	340873.85	350707.77	360867.72	355672.39	359088.79
CiC Actual	257923.21	258845.87	259302.12	279989.89	283438.22	293341.38	287153.10	286934.59
CiC Target	262483.49	265617.01	266938.63	274868.34	282798.06	297474.43	295752.41	298163.43
Actual NIR	7892.59	7860.80	7711.85	8128.78	8334.40	8398.11	8206.94	8184.34
NIR Target	7979.25	7964.51	7846.07	7919.41	7919.41	7819.00	8325.57	8251.95
Outstanding Amount	30870	30670	30455	34495	39590	46400	46860	44975
Required Reserve (Afs)	6527.20	6027.53	5928.75	6271.67	6,914.36	7314.98	8140.85	8260.64

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), Fresh and dried fruits (5.0), 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 January 2021. Observing the data, headline inflation decreased to 4.11 percent in month of January 2021 from 4.95 percent observed in previous month (year over year). This decrease is caused by lower prices of both food and non- food items. Core measure of inflation when measured based on 30% trimmed mean decreased to 3.98 percent, while it was calculated 4.23 percent in the previous month.

Table 1. Headline Inflation (December20- January 21)

	Y-o-Y		M-to-M	
	December	January	December	January
National CPI				
Headline	4.95	4.11	0.31	0.26
<i>Food</i>	7.50	6.10	0.25	0.20
<i>Non-Food</i>	2.47	2.16	0.36	0.32

FOOD INFLATION decreased in month of January 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in January 2021, when measured year over year basis, decreased to 6.10 percent compared to 7.50 percent calculated in previous month. This decrease comes from lower prices of bread and cereals, meat, sugar, fresh and dried fruits, vegetables, spices, and non- alcoholic drinks.

The month-to-month measure of food inflation also shows lower rate in the month of January 2021 compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of 0.20 percent in the review period lower from 0.25 percent observed in the previous month.

Price index of bread and cereals which accounts for about 15 percent of the consumer price index decreased to 8.69 percent in the month of January 2021 from 10.69 percent in previous month (year over year). also when measured on the month-to-month basis, this index is decreased to -0.51 percent from 0.56 percent.

The main contributions behind the price decrease of this index are; rice yield has been increased by 15 percent in current year compared to the previous year, and also corn yield and production of corn increased throughout the country which led to decrease the prices of mentioned index in the period under review.

Fresh and dried Fruits prices decreased in the month of January 2021. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 2.64 percent (year over year) in the month of February from 5.03 percent recorded in the previous month. While measuring month-to-month basis this index increased in the month of January to -1.33 percent from -5.13 percent compare to the previous month.

the main reasons behind increase in the prices of this index are, increased in production of Dried Plum in Kandahar and Ghazni provinces and also production of citrus in Ningarhar and pomegranate yield in Farah and Pistachio production increased by 64 percent in Badakhshan province during the period.

Table 2.2. Food and Non-alcoholic beverage Inflation (December 20- January 21)

Items	Weight	Y-o-Y		M-to-M	
		December	January	December	January
Food and Non-alcoholic Beverages	47.8	7.50	6.10	0.25	0.20
<i>Bread and Cereals</i>	14.6	10.69	8.69	0.56	-0.51
<i>Meat</i>	7.5	10.13	9.76	0.09	0.32
<i>Milk, cheese and eggs</i>	4.7	3.81	5.95	0.51	0.90
<i>Oils and fats</i>	4.6	12.61	14.87	2.92	4.82
<i>Fresh and dried fruits</i>	5.0	5.03	2.64	-5.13	-1.33
<i>Vegetables</i>	6.0	2.20	-3.73	1.65	-0.30
<i>Sugar and sweets</i>	2.7	5.92	5.60	0.79	-0.49
<i>Spices</i>	1.3	-3.64	-5.02	1.21	-1.06
<i>Non-alcoholic beverages</i>	1.4	3.40	3.05	0.61	-0.18

Source :Da Afghanistan Bank /NSIA

NON-FOOD INFLATION

Inflation in non-food items exhibited downwards trend in the month of January 2021. Year over year basis, non-food inflation decreased to 2.16 percent from 2.47 percent observed in the previous month. This decrease mainly comes from lower prices of clothing, housing, information and culture.

Non-food inflation on the month-to-month basis exhibited lower rate from its previous month's value. Observing the data, it decreased to 0.32 percent from 0.36 percent.

Table 2.3. Non-Food Inflation (December 20 - January 21)

	Weight	Y-on-Y		M-to-M	
		December	January	December	January
Non-Food	52.2	2.47	2.16	0.36	0.32
<i>Tobacco</i>	0.3	4.60	4.97	0.34	0.47
<i>Clothing</i>	4.6	7.61	6.93	1.32	-0.03
<i>Housing,</i>	19.1	1.34	-0.28	0.18	-0.14
<i>Furnishing and household goods</i>	11.9	5.03	6.08	0.49	0.94
<i>Health</i>	6.2	5.98	6.08	-0.24	-0.13
<i>Transportation</i>	4.3	-12.35	-11.81	0.86	1.32
<i>Communication</i>	1.7	-0.77	-0.66	-0.66	-0.06
<i>Information and Culture</i>	1.1	2.55	1.30	0.30	-0.71
<i>Education</i>	0.4	4.43	5.48	-0.97	1.14
<i>Restaurants and Hotels</i>	1.1	-0.32	-0.14	0.72	-0.08
<i>Miscellaneous</i>	1.4	7.61	9.05	0.37	2.08

Price index of housing, electricity, water and gas decreased in January 2021. When measure year over year basis, this index decreased to -0.28 percent from 1.34 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, it decreased to -0.14 percent from 0.18 percent.

Afghanistan has imported non-oil items worth 1.2 billion USD from neighboring country Iran, in the Past eight months. These items include iron, steel bars and Cement. Also earlier at month of December Afghanistan received the first Cargo of Iranian export (mainly cement) through the newly-constructed Khaf- Herat railway. And also five solar electricity production company has started operation in Herat province during the period. Reduction of house rent and decrease in the demand for construction of house due to cold weather are considered as the main reasons behind decrease in the prices of index during the period.

In addition, **price index of information and culture** recorded a rate of 1.30 percent (year over year) in month of January from its previous value of 2.55 percent. On the month to month basis, this index decreased to -0.71 percent from 0.30 percent recorded in previews month.

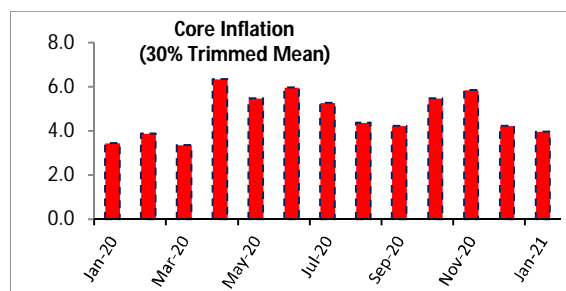
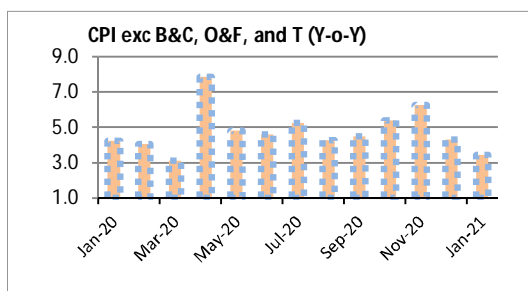
one of the main reason behind decrease of this index is the first ever paper factory has started operation in Kabul, this factory has the capacity to produce 120 tons of paper daily.

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 January 2021, trimmed mean (30 % of CPI) decreased to 3.98 percent (year over year) from 4.23 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 3.43 percent compared to 4.32 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 0.08 percent from 0.07 percent



Core Measures	Y-on-Y		M-to-M	
	Dec	Jan	Dec	Jan
30 % trimmed mean	4.23	3.98		
CPI ex B&C, O& F and T	4.32	3.43	0.07	0.08

Source: Afghanistan Bank and/NSIA

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	

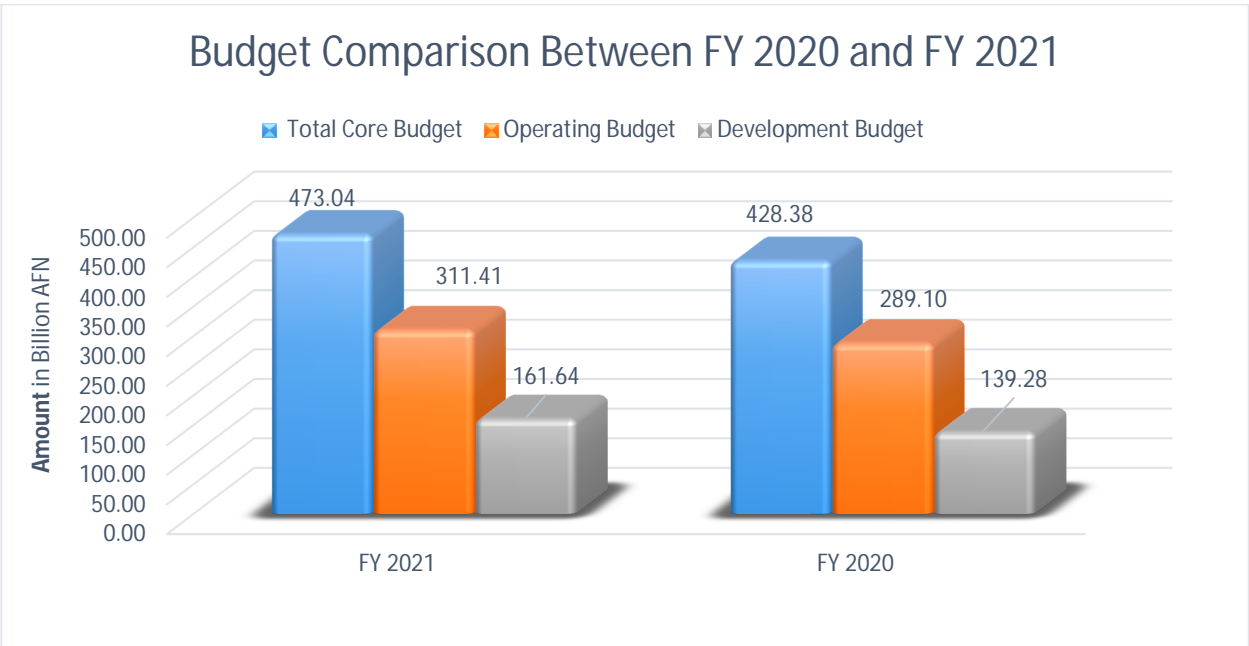
Other investment	30.02	-50.12	254.09	-29.03	-334.16	1051%
Assets	35.73	17.65	158.76	-37.21	-34.89	-6%
Liabilities	5.72	67.77	-95.33	-8.18	299.27	-3760%
Reserve Assets	642.58	592.37	204.00	100.66	830.23	725%
Net errors and omissions	2108	2722	3103	2658	2967	12%

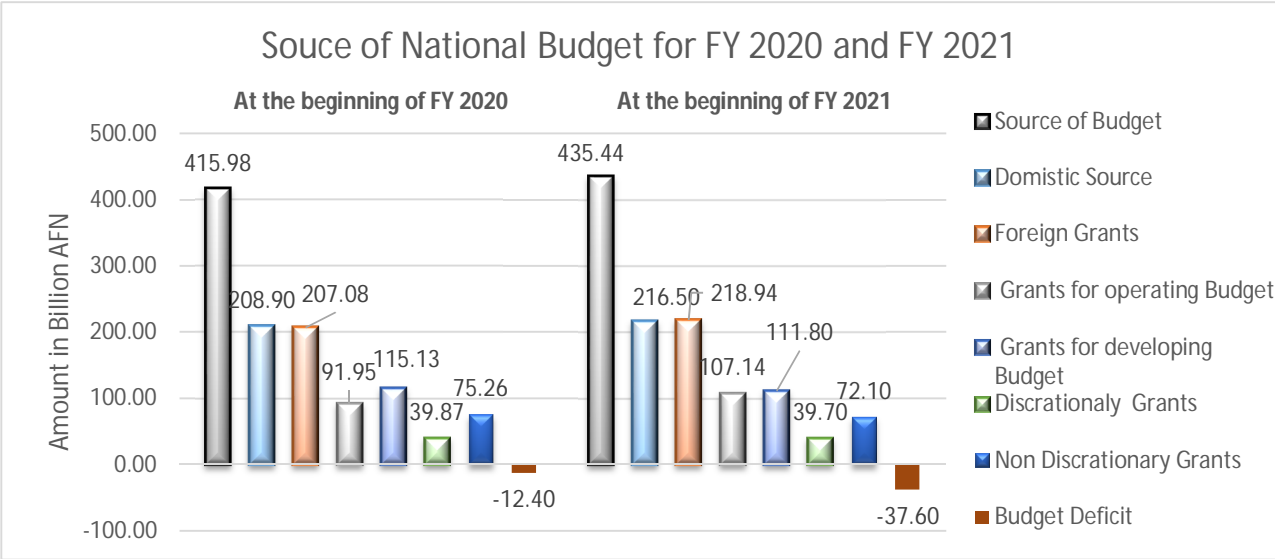
4. Fiscal Sector

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 2021 total core budget has been estimated AFN 473.04 billion from AFN 428.38 billion in FY 2020, showing 10.43% or AFN 44.66 billion increase in annual budget. From the total of AFN 473.04 billion, operating and development budgets are estimated each AFN 311.41 billion and AFN 161.64 billion respectively.





At the start of Fiscal year 2021 total revenue has been estimated AF435.44 billion from AF 415.98 billion in FY 2020, showing 4.68% or AF19.46 billion increase in projected revenue.

From the total of AF435.44 billion, domestic revenue and foreign grants are estimated each AF216.50 billion and AF208.90 billion respectively. Total estimated domestic revenue at the start of FY 2021 is 216.50 billion while at start of FY 2021 it was 208.90 billion which shows 3.64% or AF 7.60 increase in FY2021, same as total projected grants at start of FY2021 is AF 218.94 billion while total estimated grants at the beginning of FY2020 was 207.08 billion which indicates 5.73% or AF11.86 billion increase in FY 2021.

Foreign estimated grants are the combination of operating grants and developing grants, at the start of FY 2021 total estimated operating budget grants is AF107.14 billion while total estimated grants at the beginning of FY2020 was AF 91.95 billion which shows 16.52% or 15.19 billion increase in FY2021.

Discretionary grants and non-discretionary grants are decreased by 0.43% and 4.20% each respectively in the FY2021 as a result, total estimated grants for developing budget is decreased to AF111.80 billion in the FY2021 from AF115.13 billion in the FY2020 which shows a decrease of 2.90% or AF3.33 billion in FY2021. Total core estimated expenditures exceed total revenue which shows 12.40 billion and 37 billion budget deficit in FY 2020 and FY 2021 respectively.

Total actual revenue (domestic revenue plus external aids) for the month of February 2021 is AFN 20.05 billion, while in January it was AFN 13.14 billion which shows 52.55% or AFN 6.91 billion increase in February. Total revenue from the start of FY-2021 till end of February reached to AFN 33.20 billion that is combination of AFN 9.40 billion donor contributions and AFN 23.80 billion domestic revenues respectively.

Likewise, domestic Revenue for the month February is AFN 10.81 billion while it was amount AFN 12.99 billion in the month of January, showing a decrease of AFN 2.18 billion 16.81% in the month of February. On the other hand, donor contributions (including loans) amounted to AFN 9.25 billion in February, where donor contributions in January was AFN 0.15 billion, which indicates AFN 9.09 billion increase in donor contributions for the month of February.

Additionally, total Expenditure at the end of February 2021 reached to AFN 18.23 billion, from which operating expenditures and development expenditures were individually, AFN 16.23 billion and AFN 2.007 billion. Likewise, operating expenditures for the month of February is AFN 13.62 billion, where in January it was AFN 2.60 billion. This signifies that, there is AFN 11.02 billion or 423.27 % increase in operating expenditures in the month of February FY 2021. On the other hand, development expenditures for the month of January was AFN 0.003 billion, while in February increase by AFN 2.00 billion or 60092.08% resulted total expenditure for the month of February FY 2021 amount AFN 2.004 billion.

Description	FY, January 2021	FY, February 2021	From Jan to February FY 2021	Difference Between January and February	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	13.14	20.05	33.20	6.91	52.55%
Domestic Revenue	12.99	10.81	23.80	(2.18)	-16.81%
Donor Contribution	0.15	9.25	9.40	9.09	5895.40%
Total Expenditures	2.61	15.63	18.23	13.02	499.46%
Operating Expenditure	2.60	13.62	16.23	11.02	423.27%
Developing Expenditure	0.003	2.004	2.007	2.00	60092.08%

Source: MOF Financial Reports/MPD Staffs Calculations

5. Swift

Report of(Outward) Transactions from 1/11/ 1399 to 30/11/1399							
Categories	Remmitter Parties	Message Type	USD	EUR	INR	CHF	GBP
A	Ministries	MT 103 ,700 & 910	1,885,772.68	382,087.00	0	3,931.00	150
B	Commercial Banks	202	58,300,716.89	214,110.00	0	0	
C	Da Afghanistan Bank	200	539,254,000.00	90,450,000.00	0	0	62,000,000.00
Report of(Inward)Transactions fromfrom 1/11/ 1399 to 30/11/1399							
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP	
A	Ministries	MT 103 ,700 & 910	69,189,006.10	899,328.92	266,222.00	0	
B	Commercial Banks	202	2,082,585.31	0	0	0	
C	Da Afghanistan bank	200		0	0	0	
بر علاوه به تعداد 4 معامله تبادلوی FX Deal به ارزش مجموعی (38434786) دالر امریکائی نیز اجرا گردیده است.							

6. Banking Sector

EXECUTIVE SUMMARY

The banking sector performed moderate during Jan, 2021 compared to Dec, 2020. The main financial indicators as Total Assets, deposits and equity capital decreased. The impact of decrease in total assets was observed mainly in cash in vault & claims on DAB and in interbank claims, however investment in bonds and gross loans increased. The banking sector remained profitable. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains 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:

Table 1: Major Financial Indicators of the Sector

Category (in million Af)	Annual Change			Monthly Change				Monthly Changes (Amount)
	20-Jan	21-Jan	Δ%	20-Sep	20-Dec	21-Jan	Δ%	
Total Assets	292,891	309,115	5.54%	317,632	327,012	309,115	-5.47%	-17,897
Total Loans (Gross)	41,040	39,735	-3.18%	39,368	39,559	39,735	0.44%	175
Total Interbank Claims (Gross)	84,977	67,635	-20.41%	73,111	74,134	67,635	-8.77%	-6,499
Investment in Bonds	30,533	37,758	23.66%	36,024	35,223	37,758	7.20%	2,535
Standard Loans	26,167	26,121	-0.18%	26,450	26,351	26,121	-0.88%	-231
Past Due Loans ¹	14,873	13,614	-8.47%	12,918	13,208	13,614	3.07%	406
Adversely Classified Loans ²	8,688	9,108	4.83%	8,833	8,989	9,108	1.33%	120
NPLs ³	7,064	8,646	22.40%	6,958	8,659	8,646	-0.14%	-12
Total Deposits	246,970	262,715	6.38%	269,417	280,468	262,715	-6.33%	-17,753

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

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

³ Loans classified in doubtful and loss categories.

Total Liabilities	258,608	272,780	5.48%	281,461	290,235	272,780	-6.01%	-17,455
Financial Capital	34,283	36,335	5.99%	36,171	36,777	36,335	-1.20%	-442
Regulatory Capital	30,009	32,131	7.07%	32,015	32,549	32,131	-1.29%	-418
Risk Weighted Asset	120,694	118,407	-1.90%	122,374	116,932	118,407	1.26%	1,474
Net Profit/Loss	(344)	56	-116.18%	376	(42)	56	-231.49%	98

INTRODUCTION

The banking sector in Afghanistan constitutes 21% of the GDP. It consists of 12 duly licensed banking institutions: Three relicensed state-owned banks, six private full-fledged commercial banks, one private full-fledged Islamic bank and two branches of foreign banks.

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

Table 2: Provided Banking Facilities

Provided Banking Facilities	20-Dec	21-Jan	Change	%age change
Number of Branches	411	410	(1)	-0.24%
Automated Teller Machines (ATM)	385	389	4	1.04%
Point of Sale (POS)	672	697	25	3.72%
Cash Deposit Machine (CDM)	6	6	-	0.00%
Type 12 Facility ⁴	86	87	1	1.16%
Credit Cards	1,288	1,221	(67)	-5.20%
Debit Cards	663,204	671,383	8,179	1.23%
ATM Cards	300,042	254,239	(45,803)	-15.27%
Master Cards	25,019	25,493	474	1.89%
Prepaid Cards	115,395	120,858	5,463	4.73%
Web Surfer Cards	5,319	5,428	109	2.05%
Number of Accounts (Loans)	57,293	57,998	705	1.23%
Number of Borrowers ⁵	57,218	57,218	-	0.00%
Number of Loan files where borrower president or vice president is a woman	12,917	12,917	-	0.00%
Number of Depositors	4,328,061	4,328,061	-	0.00%
Number of Deposit Accounts	4,471,936	4,471,936	-	0.00%
Number of Employees (Local + Foreign)	10,038	10,038	-	0.00%

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

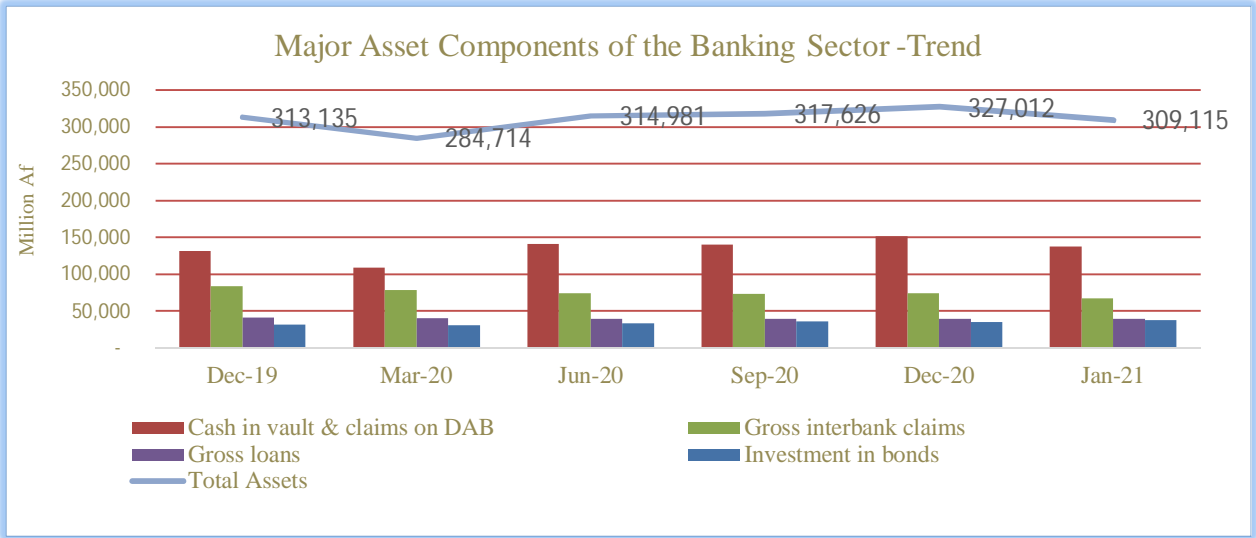
⁵ Number of borrowers, loan files, depositors, deposits accounts and number of employees are taken as of Dec, 2020 as these data are reported on quarterly basis.

As demonstrated in the above table, overall the provided banking facilities increasing showing an increasing tendency in the usage of banking services, progress in banking culture and consumer demand for the banking facilities in the country. The most obvious increases were noticed debit cards and prepaid cards while ATM cards decreased comparing to previous month.

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector significantly decreased during Jan, 2021, indicating 5% decrease compared to Dec, 2020. Deposits withdrawals (mostly customer demand deposits in Af accounts) mainly came from seven banking institutions is the main contributor to the change. The impact of decrease was observed mainly in cash in vault & claims on DAB and in interbank claims. However, investments in bonds and gross loans increased owing to increase in investments of two banking institutions and issuance of new loans and OD utilizations.

Graph 1: Major Asset components of the Banking Sector



As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (44%), followed with the gross interbank claims (22%), gross loans (13%), and the investment in bonds (12%).

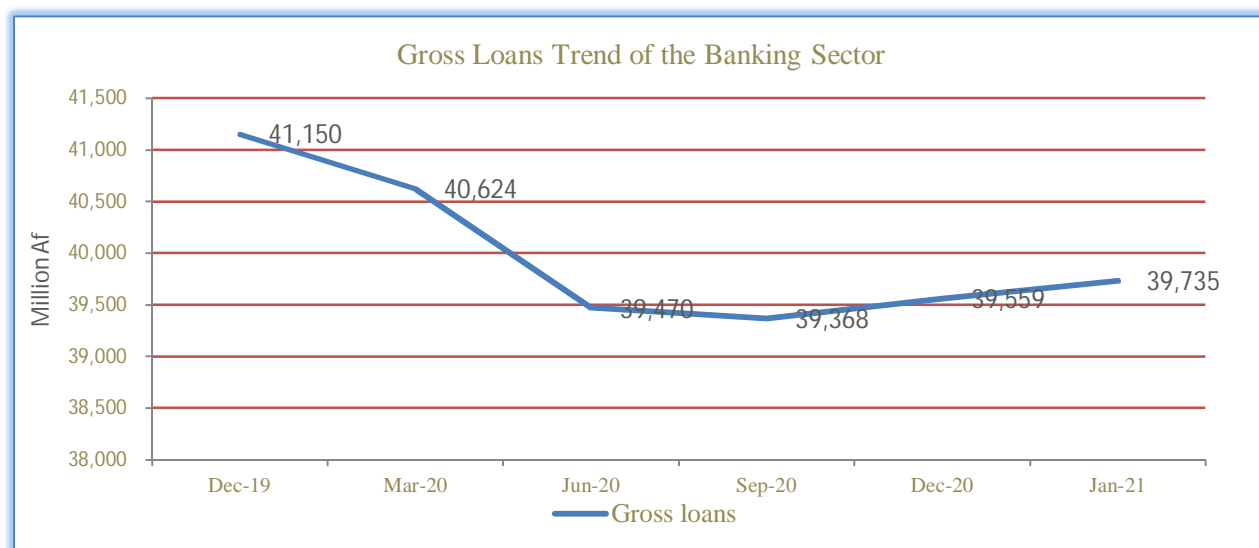
Table 3: Asset Quality Indicators

Quarterly Asset Quality Indicators	Dec,19	Mar,20	Jun,20	Sep,20	Dec,20	Jan,21
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	33.47 %	27.99 %	34.01 %	32.14 %	31.85 %	30.01 %
Capital Notes to Total Assets	8.51%	10.29 %	10.78 %	12.04 %	14.45 %	14.37 %
Domestic Claims to Total Assets	1.63%	2.05%	1.13%	1.13%	1.40%	1.81%
Foreign Claims to Total Assets	25.04 %	25.69 %	22.33 %	21.88 %	21.30 %	20.07 %
Total Gross Loans to Customer Deposits	15.77 %	17.31 %	15.00 %	14.88 %	14.52 %	15.68 %
Loan Loss Reserves to Total Gross Loans	12.24 %	13.59 %	14.39 %	14.24 %	16.97 %	17.10 %
Loan Loss Reserves to Total Assets	1.61%	1.94%	1.80%	1.77%	2.05%	2.20%
Aggregate Related Party Loans to Regulatory Capital	1.27%	0.86%	1.21%	1.17%	1.24%	1.25%
Reposessed Assets to Total Assets	0.35%	0.36%	0.32%	0.32%	0.31%	0.33%
Reposessed Assets to Total Loan Portfolio - Gross	2.64%	2.50%	2.58%	2.58%	2.57%	2.57%
NPL to Total Assets	1.90%	2.30%	3.62%	2.19%	2.65%	2.80%

6.2: Loan Portfolio

Total gross loan portfolio of the banking sector has been following a declining trend from mid-2019 . However; showing an increasing trend from Sep, 2020. The increase in the sector total portfolio in Jan, 2021 compared to Dec, 2020 was 0.4% that mainly attributed to issuance of new loans and OD utilizations coming from two banking institutions. As on Jan, 2021 Af 850 million (principal amount) with outstanding amount of 799 million which include corporate and MSMEs newly issued. Lending in the sector is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks and branches of foreign banks with 13% and 0.4 % of total shares respectively.

Graph 2: Sector Gross Loans Trend



The gross loan portfolio of the banking sector in Jan, 2021 stands at AF 39.7 billion, making 15% of the customer deposits and 13% of the sector total assets, showing 0.4% increase compared to Dec, 2020 mainly attributed to issuance of new loans and OD utilizations mainly observed in two banking institutions. By end of Jan, 2021 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:

Table 4: Gross Loans Currency Composition

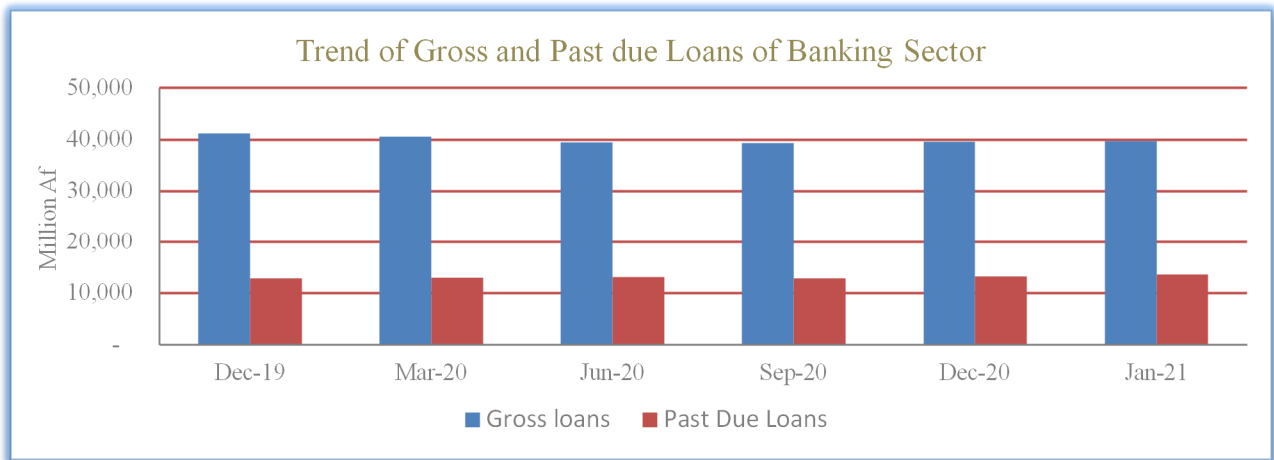
Banking Sector Loans by Currency – amount in million Af							
Currency	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec	21-Jan	% of Loans
Afghani	20,912	20,980	20,172	20,124	20,421	20,474	51.53%
USD	20,171	19,598	19,251	19,193	19,085	19,210	48.35%
Other Currencies	68	47	48	51	53	50	0.13%

- ✓ Total loan portfolio followed a decreasing trend from mid-2019, showing 3.2% decrease since last year attributed to **settlement, repayment, charge-off and less OD utilization of loans.**
- ✓ During Jan, 2021, 4,597 loan accounts with outstanding amount of Af 799 million (corporate + MSMEs) disbursed and 6 loan accounts amounting to Af 349 million (Principle amount) restructured.

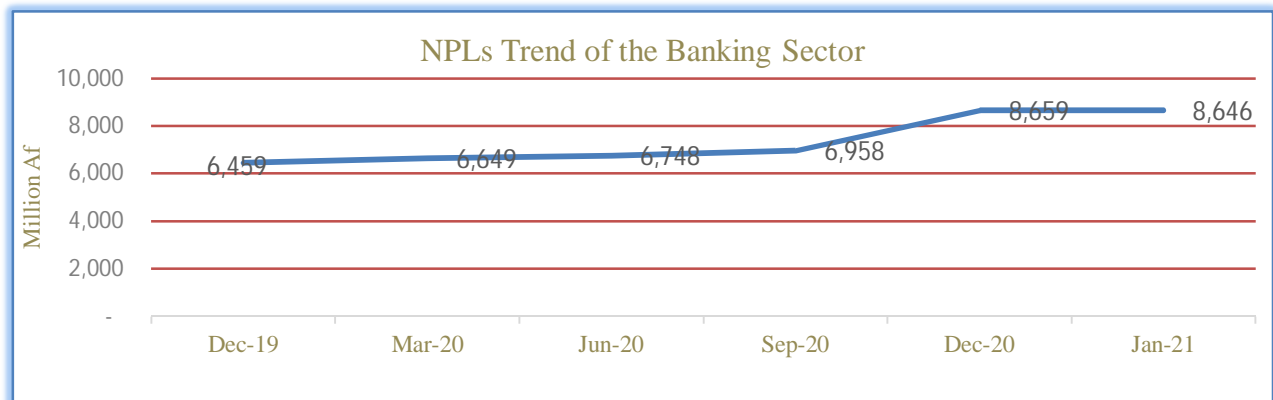
6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 22% of the sector total gross loan, 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 61% of the sector’s regulatory capital. Hence, further deterioration in the loan quality of mentioned banks holding more than 50% of the sector’s gross loans and regulatory capital would have a significant impact on the entire sector’s NPLs, profitability, equity capital and financial ratios. Currently total NPLs stands at AF 8.6 billion showing 0.1% decrease compared to Dec, 2020 attributed to two banks due to recovery.

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



Graph 4: NPLs Trend of Banking Sector



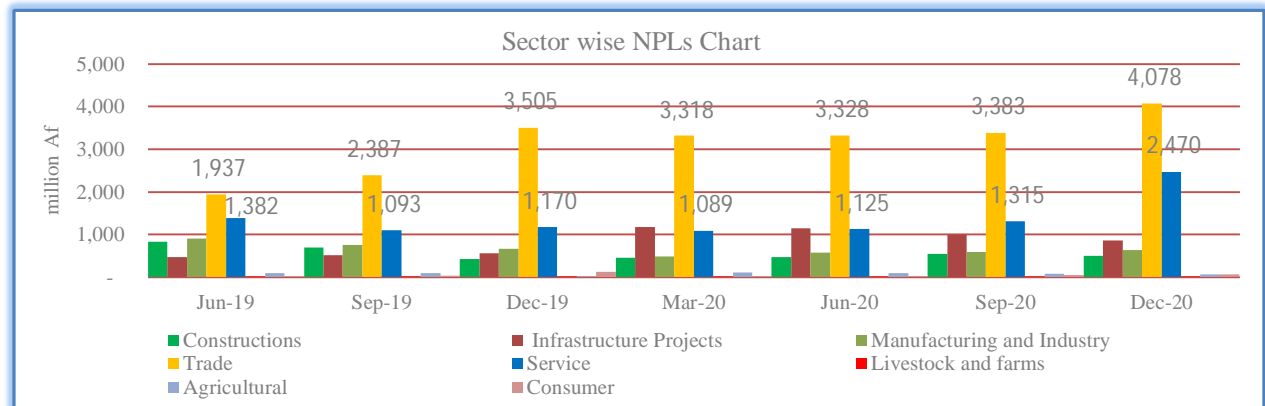
Group-wise analysis of the banking institutions shows that 91% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 9% and 0% shares of total NPLs respectively.

Table 5: Loan Quality Indicators

Loan Quality Indicators	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec	21-Jan
Criticized Loans to Total Gross Loans	32.59%	32.11%	33.38%	32.81%	33.39%	34.26%
Adversely-Classified Loans to Total Gross Loans	19.12%	21.085%	22.38%	22.44%	22.72%	22.92%
Non-Performing Loans to Total Gross Loans	15.70%	16.37%	17.10%	17.67%	21.89%	21.76%
Non-Performing Loans to Total Regulatory Capital	20.53%	22.04%	21.29%	21.73%	26.54%	26.91%
Specific Loan-Loss Reserves to Criticized Loans	37.30%	38.87%	40.53%	40.55%	46.56%	45.72%
Loan Provisions(Specific Provisions) to NPLs	67.71%	67.70%	68.18%	65.61%	67.64%	68.04%
General Loan-Loss Reserves to Standard Loans	1.65%	1.63%	1.29%	1.39%	2.14%	2.19%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	7.02%	7.36%	6.87%	7.73%	8.99%	8.49%
Net NPLs to Total Net Loans	5.84%	6.50%	6.35%	7.09%	8.53%	8.39%
Net NPLs to Total Gross Loans	5.07%	5.61%	5.44%	6.08%	7.08%	6.95%

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%). The increases of NPLs were observed mainly in Services and the Trade Sectors mostly in telecommunication/scratch cards distributors and food items which are related to 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. decrease in NPLs (0.1% or Af 12 million) compared to the Dec, 2020 is mainly due to recovery in two banks.
- ✓ The NPL ratio with accelerating trend, 22% in Jan, 2021 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.
- ✓ Concentration of NPLs by type of loans is a point of concern, out of 22% total sector NPLs, 15% of the gross loans are OD, 3% is TL (Term Loan), 3% is related to Islamic loans and 0.01% is credit cards.

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 23%,

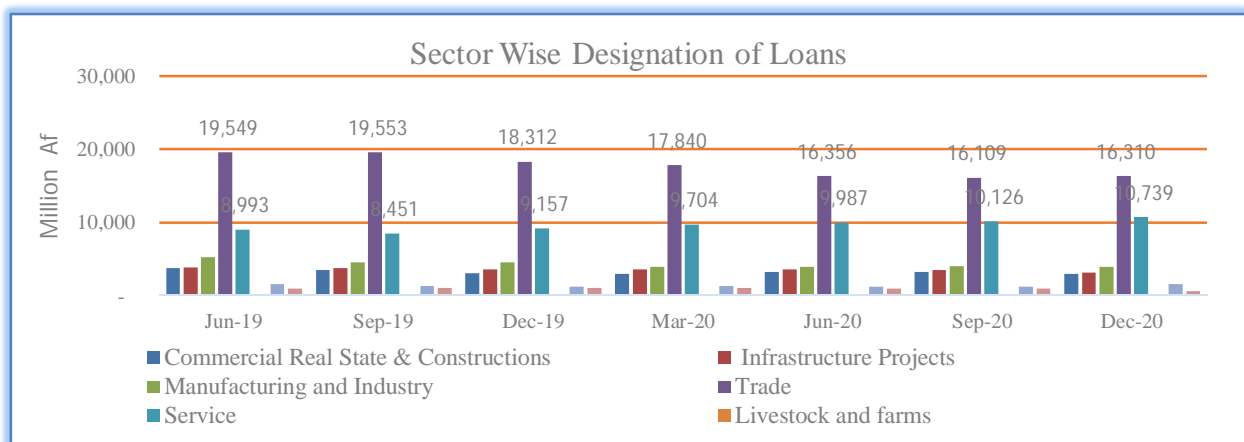
Islamic Loans are at 11% and Consumer Loans are at 2% of the total portfolio. While, credit cards are negligible at 0.1% of the total sector portfolio.

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (63%) following with TLs at (23%) and Islamic loans is limited to (11%), while the share of Consumer loans is (2%).
- ✓ In addition, concerning the quality of OD loans, out of total OD portfolio in the sector, 24% are NPLs that mainly came from four banking institutions.

6.2.3: Sector-wise Designation of Loans

The sector-wise designation of loans show that the trade sector is on a leading position with 41% of the portfolio with petroleum and lubricants with 11% is dominant sub-sector; services sector falls second with 27% with telecommunication/ scratch card distributors (9%) as a leading sub-sector. The mostly COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 3% of the total sector loan portfolio. Manufacturing & industry and infrastructure projects are subsequently on 3rd and 4th places with 10% and 8% shares in the sector's total loan portfolio, respectively.

Graph 6: Sector-wise designation of loans



6.2.4: Related Party Exposure

Based on banks' reports, total related party exposure of the sector is Af 403 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.

- ✓ The percentage share of all banks repossessed assets and period (except one bank) to retain on the balance sheet are within the regulatory limits (5% of total assets and 4-year period).

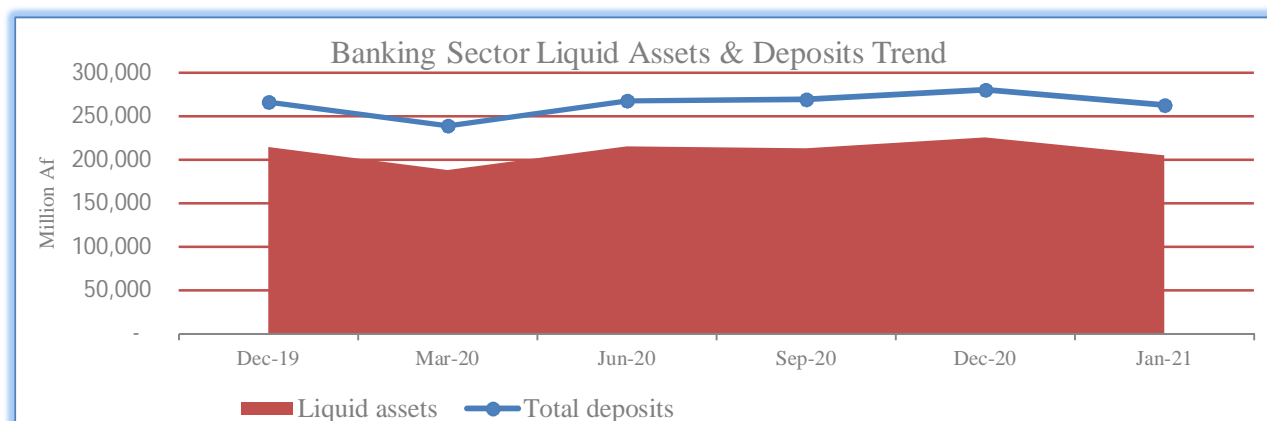
6.3: LIQUIDITY OF THE BANKING SECTOR

The banking sector maintains enough liquid assets (cash & cash equivalent). The liquidity position of all banking institutions is above the set minimum threshold for the Broad Liquidity Ratio (15%) and the Quick Liquidity Ratio (20%). The median of broad liquidity ratio of the banking sector stands at 62% higher from 59% in Dec, 2020.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 66% of the total assets and 84% of the short-term liabilities.

Graph 7: Banking Sector Liquid Assets & Total Deposits Trend



Liquidity Ratio Analysis

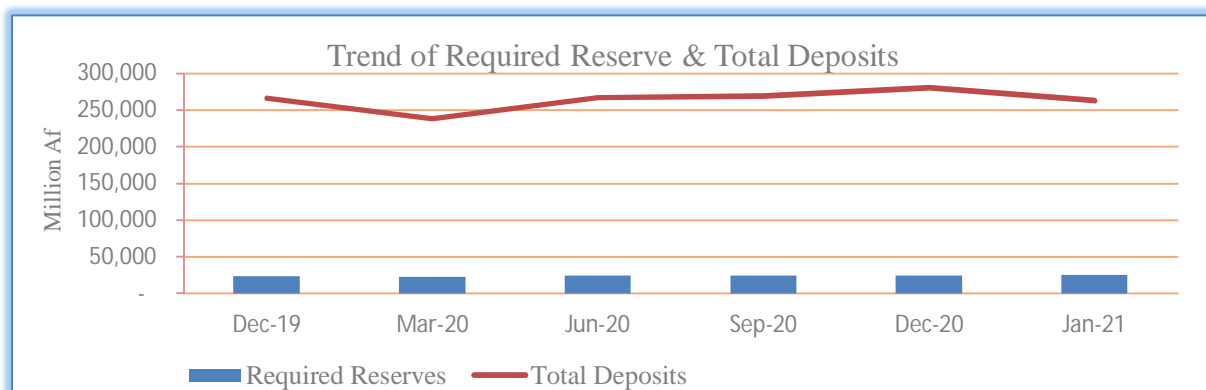
Table 6: Liquidity Ratios

Liquidity Ratios	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec	21-Jan
Loans to Deposits	15.44%	17.00%	14.74%	14.61%	14.10%	15.12%
Loans to Assets	13.14%	14.27%	12.53%	12.39%	12.10%	12.85%
Liquid Assets to Short-Term Liabilities	87.12%	85.33%	86.61%	85.90%	86.45%	84.13%
High Liquid Asset to Short-term Liabilities	38.36%	37.08%	41.16%	39.89%	41.75%	38.24%
Liquid Assets to Total Assets	68.63%	66.55%	68.33%	67.20%	68.96%	66.26%
Foreign Currency Deposits to Total Deposits	69.08%	69.48%	66.37%	65.08%	62.40%	63.76%
Customer Loans to Customer Deposits	15.72%	17.31%	15.00%	14.88%	14.52%	15.68%
Volatile Liabilities to Total Liabilities	0.91%	0.90%	0.72%	0.93%	1.51%	2.04%
Domestic Loans to (Total Deposits and Equity)	13.61%	14.90%	13.00%	12.88%	12.47%	13.29%

6.3.2: Required Reserves

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

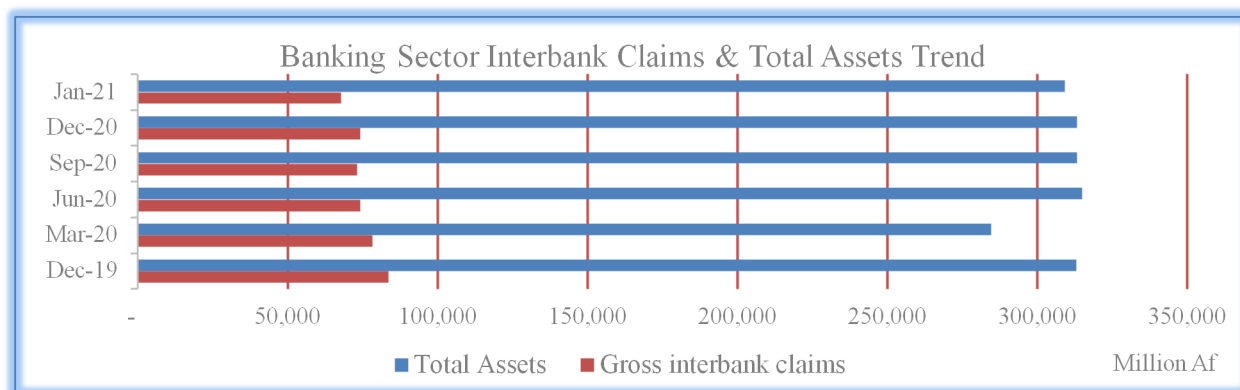
Graph 8: Trend of Required Reserve & Total Deposits



6.3.3: Interbank Claims

The sum of time and demand deposits with banks and other receivables from banks is the second largest amount of 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 20% of the sector total assets and 24% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 32% of the sector total assets and 38% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans designated inside the country is limited to 13% of the sector’s total assets and 15% of the total sector deposits.

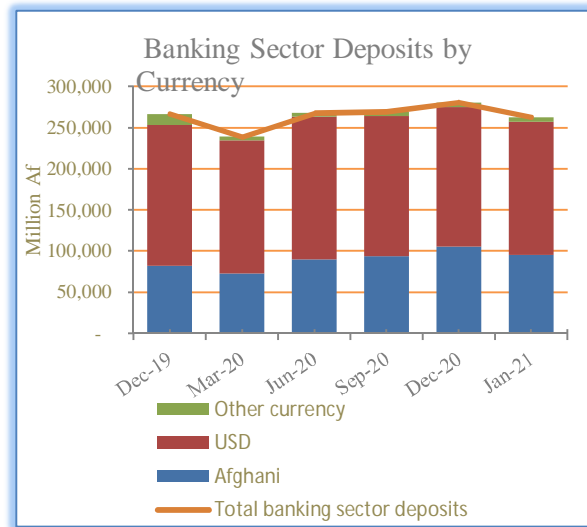
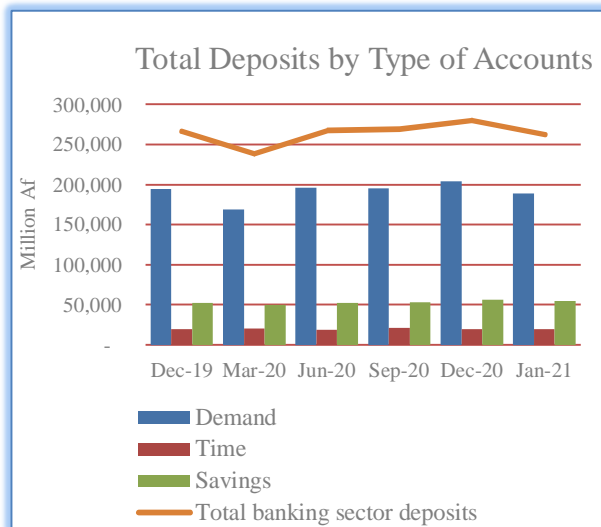
6.3.5: Deposits

Deposits being the main source of funding in the banking sector had an increasing trend at the end of Dec, 2020 but significantly decreased in Jan, 2021 depicting 6% decrease over the month, attributed to decrease in current accounts mainly posted by seven banks, the decrease in total deposits were mainly occurred in corporate accounts⁶.

Currency wise analysis show that Af denominated deposits decreased by 10%, accounted for 36% of total deposits, USD denominated deposits were down by 5%, making 62% of the total deposits while other currency deposits increased by 5%, comprising 2% of the total banking sector deposits.

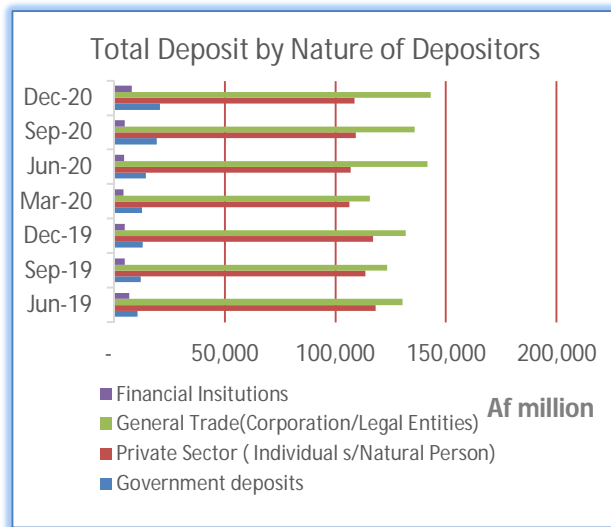
Graph 10: Total Deposits by Type of Accounts

Graph 11: Deposits by Type of Currency

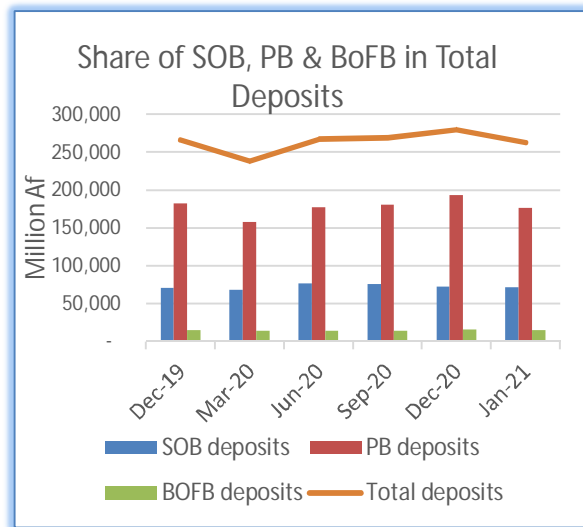


⁶ the funds were utilized mostly for business purposes, the money coming to the business owing to release of budgets, funds received owing from projects completed which were received in Dec, 2020 and remitted in Jan, 2021.

Graph 12: Total Deposits by Nature of Depositors



Graph 13: Share of SOBs, PBs & BoFBs in Total Deposits



TD

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 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 67%, state-owned banks are at the second place with 27% of shares, while the branches of foreign banks have only 6% share in the sector total deposit bucket.

⁷ SOBs (State Owned Banks), PBs (Private Banks), BoFBs (Branches of Foreign Banks)

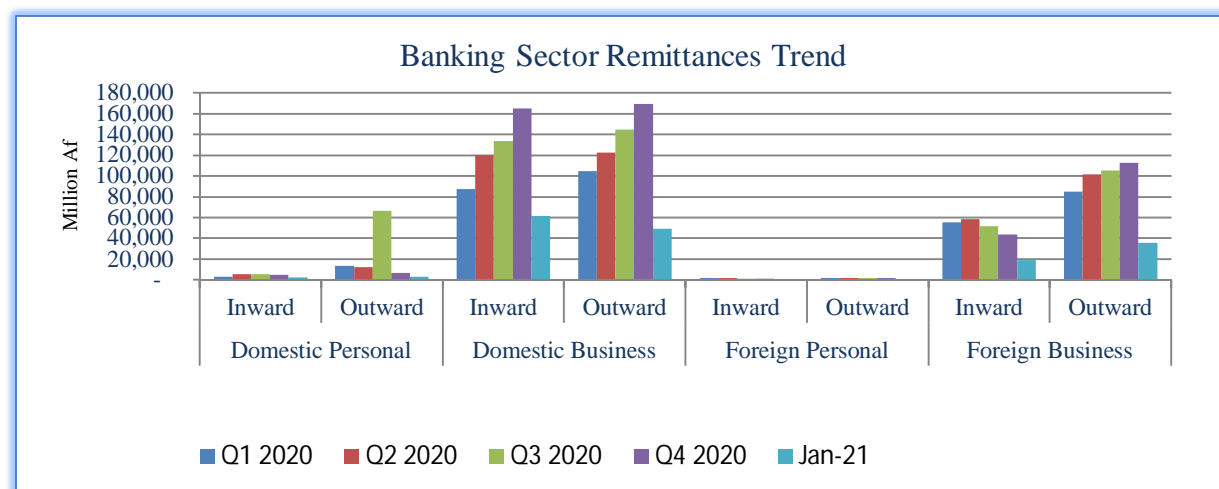
Table 7: Banking Sector Deposits Trend by Type & Currency

Items	19-Dec	20-Mar	20-Jun	20-Sep	20-Dec	21-Jan	Monthly Change
Demand Deposits	194,109	169,068	195,857	195,132	204,201	188,563	-7.66%
Term Deposits	19,961	20,243	19,228	20,920	19,602	19,262	-1.74%
Savings	52,506	49,626	52,645	53,365	56,664	54,890	-3.13%
Total	236,576	238,937	267,730	269,417	280,468	262,715	-6.33%
AF	82,415	72,916	90,025	94,084	105,446	95,211	-9.71%
USD	170,838	161,437	172,957	169,780	169,636	161,854	-4.59%
All Other Currencies	13,323	4,583	4,748	5,553	5,386	5,649	4.89%
Total	266,576	238,937	267,730	269,417	280,468	262,715	-6.33%

6.3.6: Remittances

Remittances transactions of banks during four quarters of the year 2020 and for the month of Jan, 2021 are illustrated in the following graph.

Graph 14: Banking Sector Remittances Trend

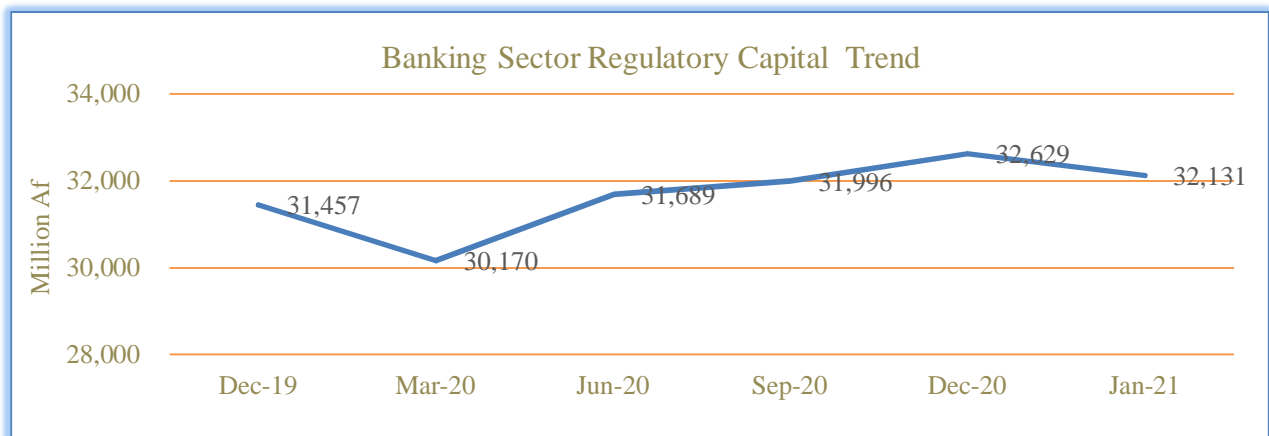


6.4 CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 12% of the total assets of the sector. The net equity position of the sector recorded at Af 36 billion decreased by 1% over the month, mainly attributed to dividend payment in one banking institution. The regulatory capital of the sector stands at AF 32 billion, showing 1% decrease comparing to the previous month. CAR of the sector is at 27%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.

As demonstrated in the graph below regulatory capital has fluctuating trend, the decrease in March, 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 came from profitability, capital injection and revaluation of available for sale investments mainly observed in five banks. The decrease in Jan, 2021 is mainly attributed to one banking institutions due to dividend payment.

Graph 15: Regulatory Capital Trend of Banking Sector



Capital Adequacy Ratio Analysis

Table 8: Capital adequacy indicators

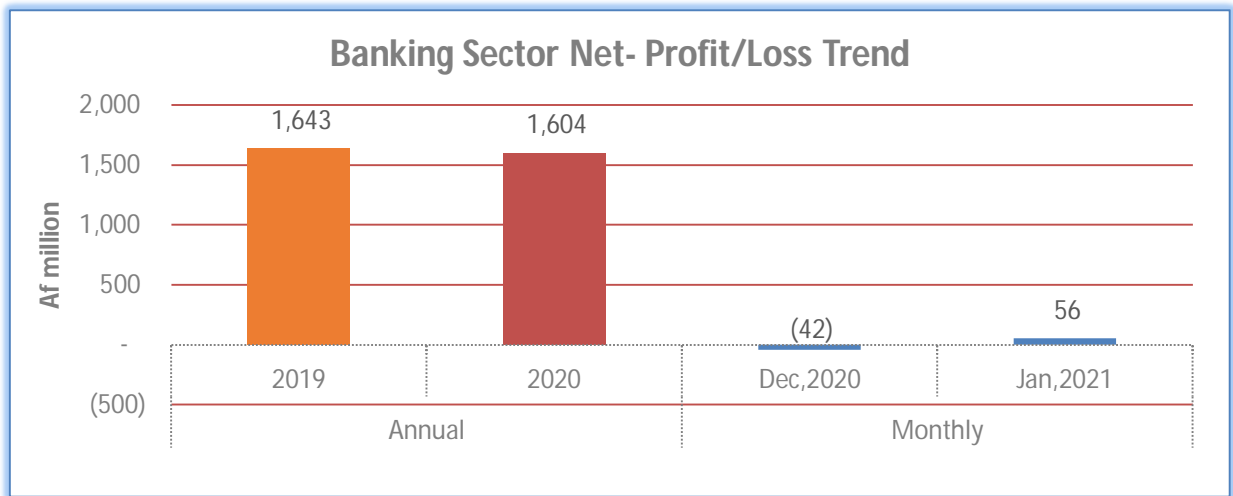
Capital Adequacy Indicators	12-Dec	20-Mar	20-Jun	20-Sep	20-Dec	21-Jan
Regulatory Capital to Risk Weighted Assets	25.94%	25.86%	26.12%	26.16%	27.84%	27.14%
Tier 1 Capital To Risk Weighted Assets	24.49%	26.55%	25.76%	25.29%	26.65%	27.48%
Tier 1 Capital To Total Assets	9.49%	10.88%	9.92%	9.75%	9.53%	10.53%
Equity Capital To Total Assets	11.41%	11.92%	11.36%	11.39%	11.25%	11.75%

Table 15: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

In the current month, the banking sector is profitable; the net profitability of the sector recorded at Af 56 million, though in Dec, 2020 the banking sector was at loss attributed to provision. Net interest income, non-interest income, FX revaluation gains and operating expenses decreased compared to Dec, 2020. Decrease in non-interest income mainly observed in three banks mainly in fees and commissions, fee income on off balance items and all other non-interest income while decrease in operating expenses recorded by two banking institutions mainly in net occupancy expenses and all other non-interest expense, and decrease in FX revaluation gain mainly observed in three banks. Major profitability components are interest and non-interest income, while main expenses cover non-interest expenses and salary expenses. The banking sector has been mostly profitable during the FY 2020 except March, 2020 that attributed to provisions. ROA of the sector recorded at 0.21% and ROE stands at 1.83% at end of Jan, 2021.

Graph 16: Banking Sector Net Profit/Loss Trend



Quarterly Cumulative Profitability Analysis

Table 9: Profitability Indicators

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%

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 Quarterly Cumulative Profit/Loss 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

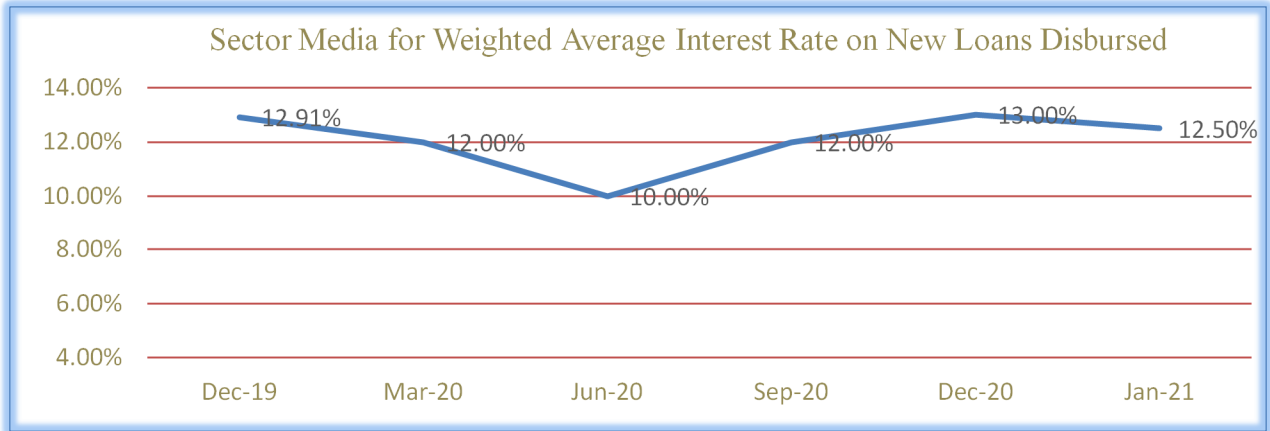
The prevailing interest rate for designated types of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by Term Loans (TL), OD (Over Draft), Consumer loans and Murabaha loans. The highest prevailing rate is 39%, and the lowest is at 1%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 12.5%.

Table 11: Average Interest Rate of Loans

Type of Loans- Sector level	Average Interest Rate (Jan-21)
Overdraft	12.6%
Term Loan	13.7%
Consumer Loan	12.1%
Murabaha	11.4% ⁸
Credit Cards	27.5%
Highest Interest Rate	39.0%
Lowest Interest Rate	1.0%

Graph 17: Sector Median for the Weighted Average Interest Rate on New Loans disbursed

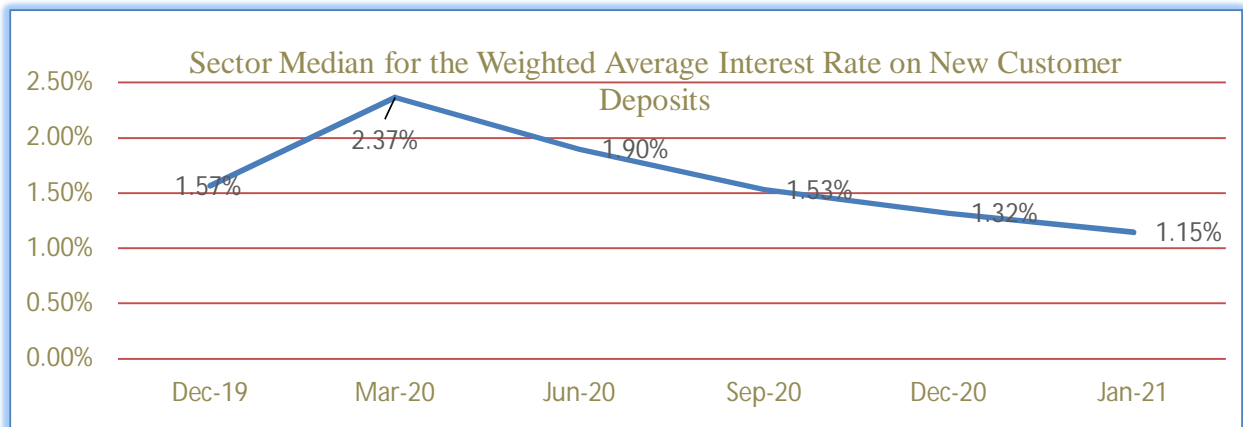
⁸For Islamic Products %age is the profit rate.



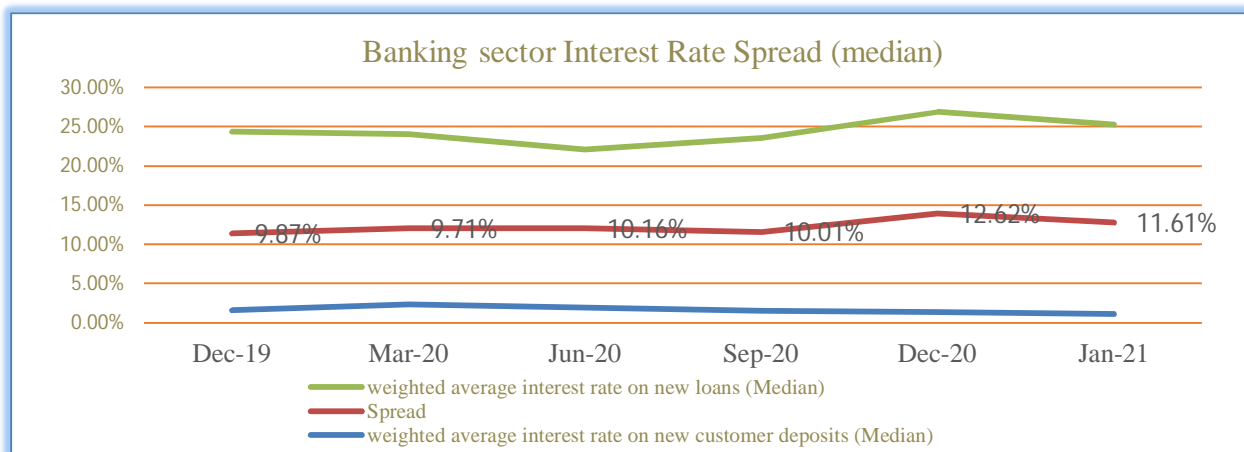
6.5.2: Interest Rate on Deposits

The interest rate on new deposits decreased in Jan, 2021 as compared to Dec, 2020 mainly came from one bank due to less time deposit attracted.

Graph 18: Sector Median for the Weighted Average Interest Rate on New Deposits



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 57.7 billion, mostly comprising of performance, advance payment, and bid guarantees. The total collateral coverage ratio in the form of cash, property, and counter guarantees is 71%, while the remaining portion lacks collateral coverage.

Table 12: Type of BGs Issued by Banking Sector

Type and Amount of Bank Guarantees (BGs) Issued By Banking Sector, Jan- 2021	
Type of BGs	Amount in Million Af
Bid	7,362
Performance	30,597
Advance Payment	11,356
Letter of Credit (LC)	956