Da Afghanistan Bank

Central Bank of Afghanistan

Annual Economic and Statistical Report

1386

2007 - 2008

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Ibn-e-Sina Watt

Kabul

Afghanistan

Telephone: +93-20-2100293

Internet: www.centralbank.gov.af

Email: mp@centralbank.gov.af

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Data Notes

Afghanistan uses the Persian calendar also known as the Jalali calendar, which was introduced on March 15, 1079 by the Seljuk Sultan Jalal-u-ddin Malik Shah I, based on the recommendations of a committee of astronomers, including Omar Khaiyam, at the imperial observatory in his capital city of Isfahan. It is a solar calendar in which each year begins on March 21. This Annual Bulletin covers developments in the year 1386 which is equivalent March 2007 – March, 2008 in the Gregorian calendar.

Afghanistan figures are in current Afghani unless otherwise specified.

Billion means 1,000 million

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DAB	Da Afghanistan Bank
GOA	Government of Afghanistan
FEMA	Foreign Exchange Market in Afghanistan
LCs	Letters of Credit
CPI	Consumer Price Index
MOF	Ministry of Finance
CMEA	Ex-Soviet Trading Block
ARTF	Afghanistan Reconstruction Trust Fund
LOTFA	Law and Order Trust Fund for Afghanis
GDP	Gross Domestic Product
ODCs	Other Depository Corporations
CSO	Central Statistical Office

Governor's Statement

On behalf of the Supreme Council, I am pleased to present the Annual Economic and Statistical Bulletin of Da Afghanistan Bank (DAB) for 1386. This annual bulletin reflects the main results of the Bank's activities aimed at keeping inflation low, maintaining stability of the national currency and developing a robust banking sector in support of sustainable economic growth.

The year 1386 was characterized by turbulence in the global economy which had significant implications for Afghanistan—a small open economy. After several years of rapid growth, the world economy faced serious challenges to maintain its robust growth. The sub-prime credit crisis in the United State, the persistence of large global imbalances and high oil and food prices threatened the sustainability of global economic growth with potentially significant impacts on Afghanistan's macroeconomic stability.

As a result of global developments, Afghanistan experienced its sharpest inflationary surge in years, with price increases in the year 1386 coming in well above expectations. Headline inflation, as measured by year-on-year percentage changes in Kabul CPI, continued its upward trend from the previous year, increasing to 20.7 percent at the end of 1386. The main drivers behind this increase were food, energy and construction materials sub-indexes. The food sub-index rose sharply by 30.6 percent at the end of the year, largely as a result of developments in global commodity markets. Construction materials rose by 17.9 percent at the end of the year under review largely because of a boom in housing and construction projects as a result of excess demand driven by a spike in remittances and a record high opium harvest.

On the fiscal side, government finance remained on track to meet revenue and expenditures targets. Total operating expenditures at the end of the year 1386 rose to AF 50.7 billion (USD 1,013 million) or about 12.3 percent of GDP. Meanwhile, expenditure in development budget rose to AF 45 billion (USD 901 million) or about 10.9 percent of GDP. On the revenue side, total domestic revenue at the end of the year 1386 stood at AF 33.5 billion (USD 670.3 million) or about 8.1 percent of GDP, compared to 1385, total revenues increased about 17 percent.

Reserve Money increased by 14.3 percent in the year 1386, down from 23.2 percent in 1385. Bank deposits with the central bank, which is a component of reserve money, decreased by 1.6 percent in 1386.

Narrow Money (M1) grew by 62 percent in the year under review up from 17 percent in the previous year. Currency Outside Depository Corporations which is the other components of Narrow Money, grew by 24 percent up from 5 percent in 1385. Quasi Money a component of Broad Money grew by 40 percent in the year under review up from -1 percent in 1385. Net Domestic Assets (NDA) which is a determinant of monetary growth, declined by 23 percent in the year under review. Another determinant of monetary growth is Net Foreign Assets (NFA) which increased by 49 percent in the year 1386.

The banking system continued to perform satisfactorily in the year under review. Total assets of the banking system rose to AF 84 billion (USD 1.68 billion) at the end of year 1386, up by 55 percent or AF 30 billion since the beginning of 1386. Loans amounted to AF 40 billion (USD 805 million), an increase of AF 18 billion (USD 366 million) or 84 percent since March 2007. Deposits stood at AF 64 billion (USD 1.28 million) over the period under review; a 58 percent increase since March 2007. Deposits were largely denominated in USD (72 percent) where AF - denominated deposits were lagging at 23 percent. Total capital of the banking system stood at AF 15.8 billion (USD 316 million). Banking sector overall was profitable, earning a net profit of AF 1.23 billion (USD 24.6 million) since the beginning of 1386 for an overall return on assets (ROA) of 1.84 percent which was higher than previous year – 0.28 percent.

On the external sector, the balance of trade is an indication of the difference between exports and imports of goods and services. The surplus in the exports of goods was recorded at USD 1.83 billion in 1386, equals to 11 percent of GDP. This is marginally higher than USD 1.81 billion in 1385 which was almost 3 percent of GDP.

Imports jumped to 16 percent or USD 7.8 billion in 1386. The imports are mainly dominated by industrial supplies and raw materials (USD 450.5 million) for the construction sector which is growing in a very fast pace. Imports of the capital goods and technology USD 951.1 million, and foodstuff or consumer goods were USD 294.2 million in 1386. Domestic export increased by almost 10 percent in 1386 compared to the export data recorded in 1385.

On an overall assessment, economic performance in 1386 was satisfactory notwithstanding concerns about the buildup of inflationary pressures due to high oil prices and surges in the prices of wheat in international markets. The central bank remains vigilant against second-order effects of inflation and will conduct monetary policy consistent with overall economic conditions.

Abdul Qadeer Fitrat

Governor, Da Afghanistan Bank
(Central Bank of Afghanistan)

Senior Management

Abdul Qadeer Fitrat
Governor

Mohibullah Safi
First Deputy Governor

Alhaj M. Issa Turab
Second Deputy

MONETARY AND CAPITAL MARKET DEVELOPMENTS

1

1

MONETARY AND CAPITAL MARKET DEVELOPMENTS

According to the monetary program data, reserve money (RM) increased by 14 percent in 1386 down from 22.3 percent in 1385. Commercial Bank deposits with the central bank, which is a component of reserve money decreased by -7 percent in the 1386.

Based on the monetary survey data, Narrow Money (M1) grew by 29 percent in the year under review down from 47 percent in the previous year. Currency Outside Depository Corporations which is the other components of M1 grew by 16 percent in the year under review up from 12 percent in 1385. Quasi Money a component of Broad Money grew by 165 percent in the year under review from -48 percent in the year 1385. Net Domestic Assets (NDA) which is a determinant of monetary growth declined by 124 percent in the year under review. Another determinant of monetary growth is Net Foreign Assets (NFA) which increased by 47 percent in the year 1386.

1. PRGF MONETARY PROGRAM

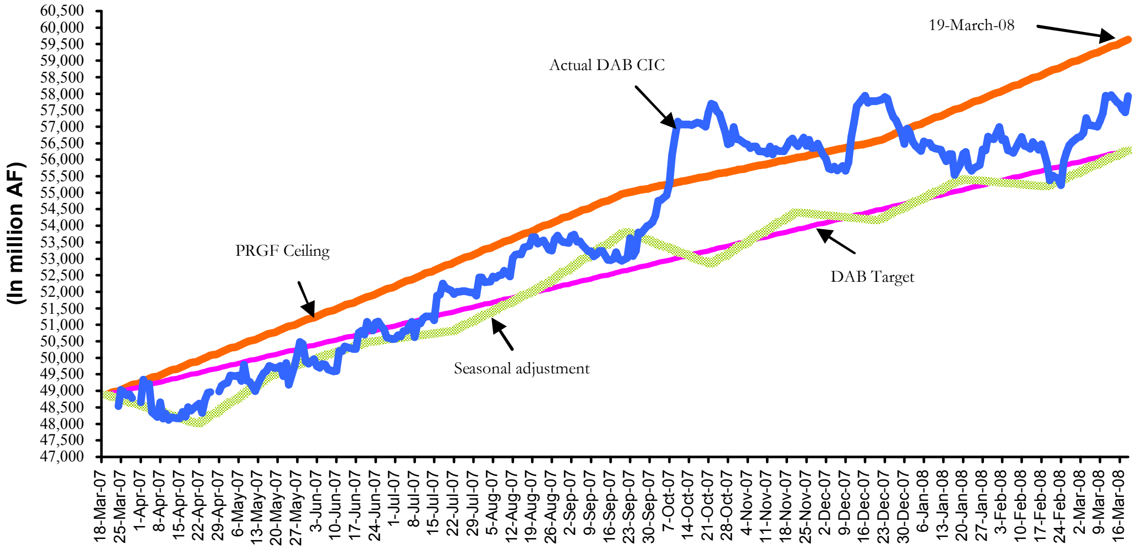
The Daily Currency in Circulation shows that Actual DAB CIC is below the PRGF Ceiling over the period but missed the target in October and December due to a rise in the consumer price index but again pledged down to the below PRGF target and it is mostly affected by the bi-weekly foreign exchange auction in the market.

Reserve money increased by 14 percent in 1386 down from 22.3 percent in the year 1385. This is mostly caused by bank deposits with the central bank which fell to -7 percent in 1386 from 268.6 percent in the previous year.

According to the monetary program data, net domestic assets decreased by 42 percent in the year 1386 from 11.4 percent in the previous year. This represents 20.2 percent deviation from monetary program. This is because of the other items net, which decreased by 66 percent in the year under review from 91.7 percent in the previous year.

Net foreign assets increased by 26 percent in the year 1386 up from 17.3 percent in the previous year. It is driven by other foreign assets which grew by 72 percent less than 76.5 percent in the year 1385.

Figure 1.1: Daily Currency in Circulation (DAB Actual, Target, Seasonal Adjustment and PRGF Ceiling)



Source: Monetary Policy Department

Table 1.1: Performance of Afghanistan Monetary Program 1386

	End 1384 (Mar 20 - 2006)	End 1385 (Mar 20 - 2007)	y-o-y Change (1384-1385)	End 1386 (Mar 19 - 2008)		y-o-y Change (1385-1386)	Deviation From Target
	Actual	Actual		Target	Actual		
1. Net Foreign Assets (a+b)	85123	99831	17.3%	116578	126040	26%	16.8%
(a) Foreign Assets (i+ii)	86300	103297	19.7%	122034	130799	27%	18.1%
i. Foreign exchange reserve	82995	97467	17.4%	116936	120757	24%	20%
ii. Other foreign assets	3304	5831	76.5%	5098	10042	72%	-12.6%
(b) Foreign liabilities	-1177	-3467	194.5%	-5455	-4759	37%	57.4%
2. Net Domestic Assets (a+b)	**-39069**	**-43529**	11.4%	**-52332**	**-61614**	42%	20.2%
(a) Domestic Assets (i+ii)	-33620	-33084	-1.6%	-28310	-44225	34%	-14.4%
i. Net claims on general government	-29574	-27444	-7.2%	-22142	-34941	27%	-19.3%
ii. Capital Notes and other claims	-4046	-5640	39.4%	-6168	-9284	65%	9.4%
(b) Other Items Net	-5449	-10445	91.7%	-24021	-17389	66%	130%
3. Reserve Money (a+b)	**46054**	**56301**	22.3%	**64247**	**64426**	14%	14.1%
(a) Currency in Circulation	44433	50329	13.3%	58319	58899	17%	15.9%
(b) Bank deposits with DAB	1620	5972	268.6%	5928	5526	-7%	-0.7%

Source: IMF, Central Statistics Office and DAB
* y-o-y is year-on-year

According to the Monetary Survey data which is shown in Table 1.2, the supply of broad money (M2) expanded by AF 120,201 million in the year under review from AF 91,317 million in the previous year showing a difference of AF 28,884 million. This shows an increase of 32 percent in 1386 down from 41 percent in the previous year.

The 32 percent increase of broad money is due to quasi money which increased by 165 percent in the year under review from -48 percent in the previous year.

Narrow money (M1) grew by 29 percent in 1386 compared to 47 percent in 1385, showing a difference of AF 25,482 million which is another reason behind increasing broad money. Currency outside depository corporations, which is another component of M1grew by 16 percent in 1386 compared to 12 percent in the previous year. The difference in currency outside depository corporations in 1386 compared to 1385 is AF 7,935 millions.

Table 1.2: Monetary Aggregate 1386 **(in millions of AF)**

	1384 Amount	1385 Amount	y-o-y Change (1384 - 1385)	Difference 1384-1385	1386 Amount	y-o-y Change (1385-386)	Difference (1385 - 1386)
1- Narrow Money(M1)	**60,651**	**89,252**	**47%**	**28,601**	**114,734**	**29%**	**25,482**
Currency outside depository corporations	44,192	*49,566*	**12%**	5,374	*57,501*	**16%**	**7,935**
Demand Deposits	16,459	39,686	**141%**	23,227	57,233	**44%**	**17,547**
Quasi Money	**3,961**	**2,066**	**-48%**	**-1,895**	**5,467**	**165%**	**3,402**
In Afghani	816	754	**-8%**	-62	2,013	**167%**	**1,259**
In Foreign currency	3,145	1,312	**-58%**	-1,833	3,454	**163%**	**2,142**
2- Broad Money(M2)	**64,612**	**91,317**	**41%**	**26,705**	**120,201**	**32%**	**28,884**
			Determinants				
1- Net Foreign Assets	**99,037**	**108,945**	10%	**9,908**	**159,652**	47%	50,707
(a) Foreign Assets	102,287	115,464	**13%**	13,176	167,988	**45%**	**52,524**
DAB Foreign exchange reserves	82,992	103,407	**25%**	20,415	144,435	**40%**	**41,028**
Other foreign assets	19,295	12,057	**-38%**	-7,238	23,553	**95%**	**11,496**
(b) Foreign Liabilities	-3,250	6,518	**-301%**	9,769	8,335	**28%**	**1,817**
3. Net Domestic Assets	**-34,425**	**-17,628**	**-49%**	**16,797**	**-39,451**	**124%**	**-21,823**
(a) Net Claim on General Government	-29,574	-29,600	**-**	-26	-41,478	**40%**	**-11,878**
(b) Claims on other Sectors	8,141	26,497	**225%**	18,356	42,975	**62%**	**16,478**
Capital Account	**-**	**26,354**	**-**	**-**	**51,540**	**96%**	**25,186**
Less							
Other Items Net	**-12,992**	**11,828**	**-191%**	**24,821**	**10,591**	**-10%**	**-1,237**

Source: Monetary Survey Section, Monetary Policy Department DAB

Quasi money, which is another component of M2, grew by 165 percent in the year 1386 from -48 percent in the previous year.

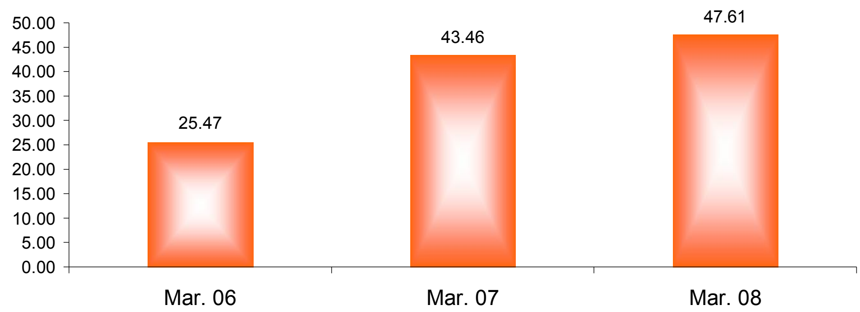
Net domestic assets, which is a determinant of monetary growth, decreased by 124 percent in the year under review from -49 percent in the previous year. This shows a difference of AF -21823 million. This is because of net claim on general government, a key component of net domestic assets decreased by 40 percent in 1386 from 0 percent in the year 1385, showing a difference of AF -11878 million.

Claims on other sectors, which is another component of net domestic assets grew by

62 percent in 1386 down from 225 percent in the previous year, this shows a difference of AF 16,478 million. The less growth of claim on other sectors in 1386 is another reason for decreasing net domestic assets in 1386 compared to the previous year.

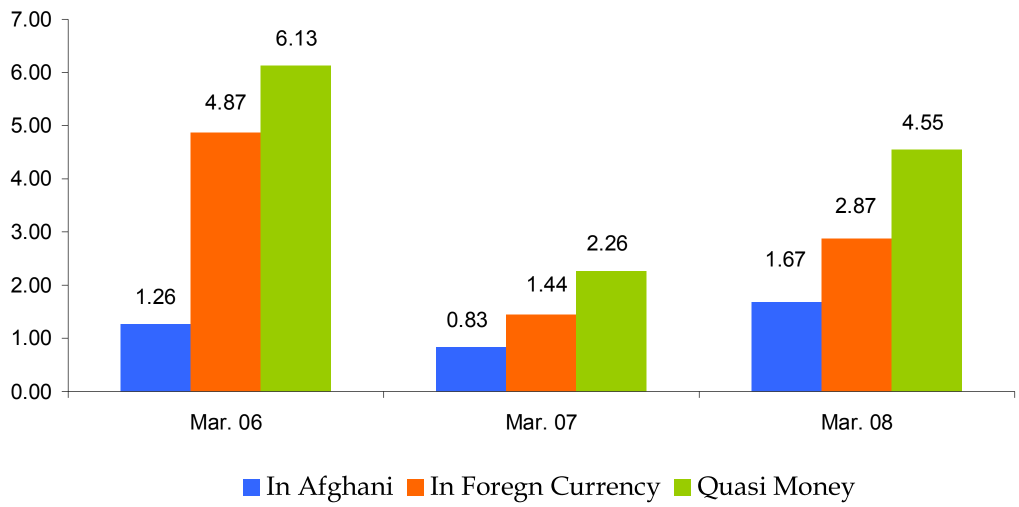
According to Figure 1.2 bank deposits as share of M2 grew by 47.6 percent in 1386 up from 32.68 percent in the previous year.

Figure 1.2: Bank Deposits as share of Broad Money (%)



Quasi money as share of M2, increased by 4.55 percent in the year under review up from 2.26 percent in 1385.

Figure 1.3: Quasi Money as Share of Broad Money (%)



Source: Monetary Policy Department (DAB)

Table 1.3: Income Velocity and Money Multiplier **(in million AF)**

Year	GDP at current Market Price	Reserve Money (Millions of AF)	Broad Money	Income Velocity of Money GDP/RM	Income velocity of Money GDP/BM	Monetary Survey Data
	1	2	3	(1+2)	(1/3)	(2/3)
1386 (2007-08)	478058	46054	120201	10.38	3.98	0.38
1385 (2006-07)	385489	56301	91317	6.85	4.22	0.62
1384 (2005-06)	322231	64426	NA	5.00	NA	NA

Source: IMF/ Central Statistics Office and DAB

Table 1.4: Reserve Money and Its Components **(In million AF)**

Outstanding as on March 21	Currency in circulation		Bankers' deposits with DAB	Reserve Money (2+4)
	Total	Less Cash With Banks		
1	2	3	4	5
2005 - 06	44433	4026	1620	46054
2006 - 07	50329	7254	5972	56301
2007 - 08	58899	7789	5526	64426

Table 1.5: Sources of Reserve Money **(in million AF)**

Outstanding as on March 21	Net Claim On Government	Capital Notes including other claims	Other Items Net	Net Foreign Assets	Reserve Money
2005 - 06	-29574	4,046.29-	-5449	85123	46054
2006 - 07	-27444	5,640.13-	-10445	99831	56301
2006 - 08	-34941	9,283.92-	-17389	126040	64426

Source: IMF/ Central Statistics Office and DAB

2. CAPITAL MARKETS AND LIQUIDITY CONDITIONS

2.1 Capital Note Auctions

Capital notes (CNs) are short-term afghani denominated securities sold by the Central Bank at weekly auctions. An investor buys the CNs at a discount and receives payment of face value on the maturity date. Currently capital notes on offer are for maturity periods of 28 days (1 month), and 182 days (six months).

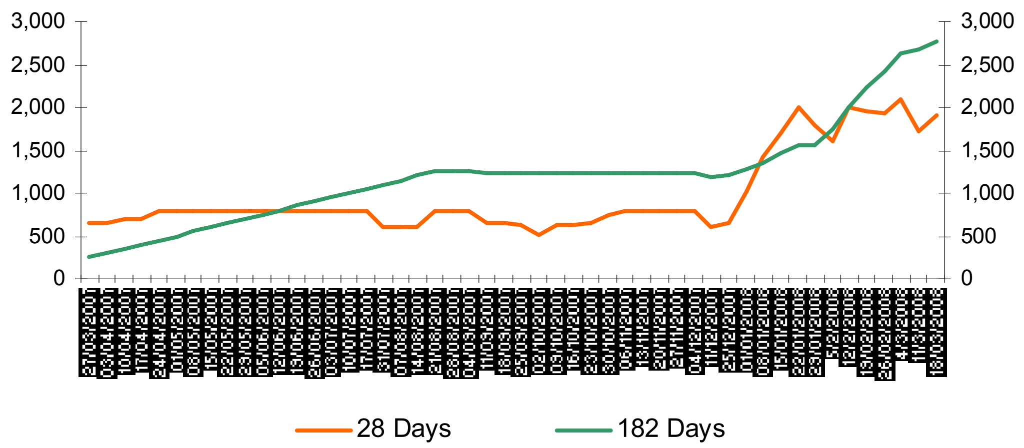
Only licensed commercial banks and money changers can participate in the auctions. Private individuals seeking to purchase capital notes can do so through their commercial bank.

The amount to be auctioned is announced every Monday to the banks electronically. The auction is held on Tuesdays with settlement T+1 except when it coincides with public holidays. In the auction, investors bid to purchase desired values of CNs at different discount prices.

Bids have to be submitted before 11:00 am on the auction day.

182 day notes to maturity were first introduced in the fourth quarter of 1385 since then the outstanding amount for the maturity increased significantly auction by auction during this year and it increased by AF 2.5 billion. However, the outstanding stock for 28 day notes were somehow even during first three quarters of 1386, but during the fourth quarter of 1386 the DAB management decided to remove the ceiling from the capital notes volume which was fixed to AF 200 million for 28 day notes and AF 100 million for 182 day notes prior to the fourth quarter. As a result, both maturities witnessed noticeable changes in their sizes. 28 day notes volume fluctuated between AF 260 million to AF 670 million and for 182 day notes the amounts were between AF 50 million to AF 280 million. The uneven allocation of volume prompted the outstanding stock increased tremendously for both maturities. The stock reached to AF 1,896 million for 28 day notes and AF 2,768 million for 182 day notes. These figures were AF 250 million and AF 150 million respectively, at the end of last year (See Figure 1.4).

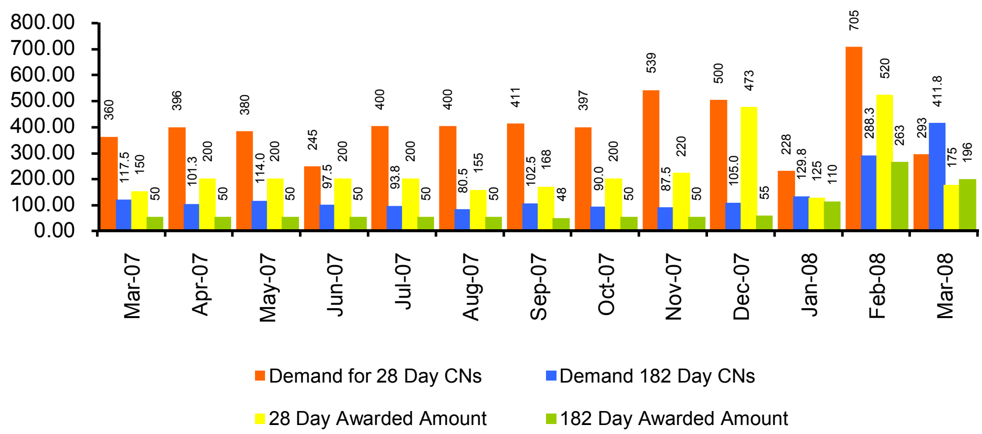
Figure 1.4: Capital Notes Stock Outstanding (million AF)



Source: Market Operations Department, DAB.

The high demand for CNs is reflected in the cover ratio, the ratio of amounts bid to amounts offered. The bid amount for 28 day notes was AF 436 million where awarded amount was AF 260 million. These figures were AF 132 million and AF 79 million for 182 day notes respectively on an average basis. In the preceding year the total bid amounts were AF 195 million, AF 107 million for 28 day notes and AF 86 million, AF 50 million for 182 day notes on average basis. During the fourth quarter of this year awarded amount modestly met the demand for these notes, because of the removal of ceiling on capital notes volume (see Figure 1.5 for CNs demand).

Figur 1.5: Demand for Capital Notes (in million AF)

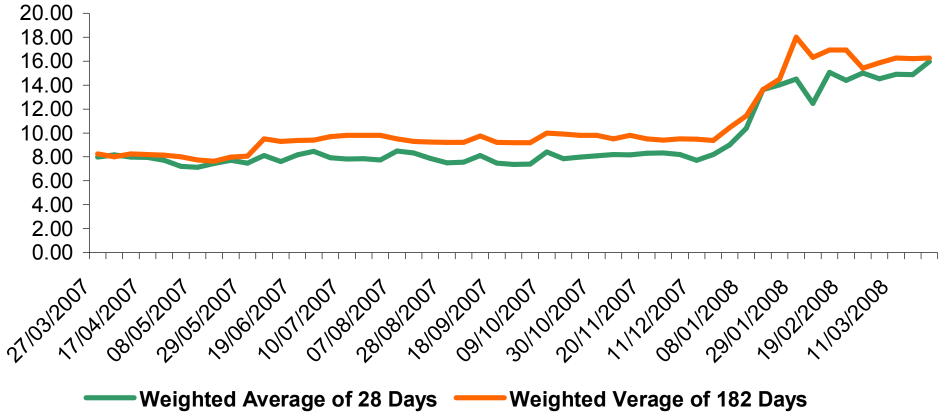


Source: Market Operations Department/DAB

The number of participants during the first three quarters of 1386 was somehow equal as compared to last year, there were 1 to 6 participants for 28 day notes and 1 to 3 banks for 182 day notes, but as supply increased during the last quarter of this year, the participants were 10 and 5 banks for 28 day and 182 day notes respectively. (See Table 2.3)

The increase in CNs volume not only affected the participation but also resulted in high interest rates. The weighted average interest rates ranged between 7.12 percent and 15.06 percent for 28 day maturity and 7.64 percent to 18.00 percent for 182 day notes. These figures were between 4.90 percent to 7.90 percent and 8.00 to 8.30 percent respectively in the preceding year (See Figure 1.6).

Figure 1.6: Weighted Average of 28 Days and 182 Days Capital Notes interest rates



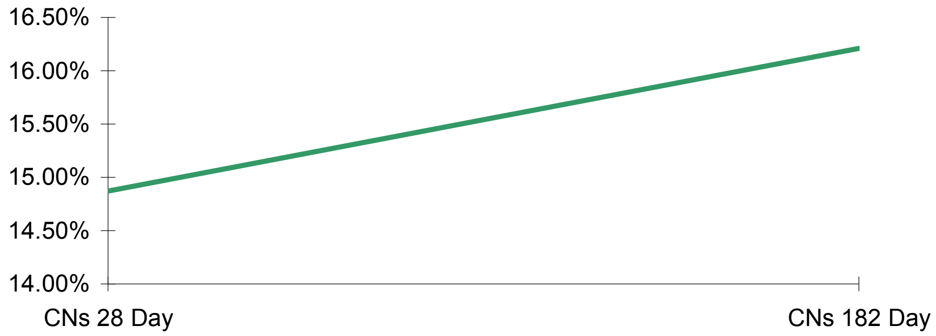
Source: Market Operations Department/DAB

2.2 Term Structure of Interest Rates

The term structure of interest rates, also called the yield curve, is the relation between the interest rate (cost of borrowing) and the time to maturity on a security. The yield of the capital notes is the annualized percentage increase in the value of the CNs.

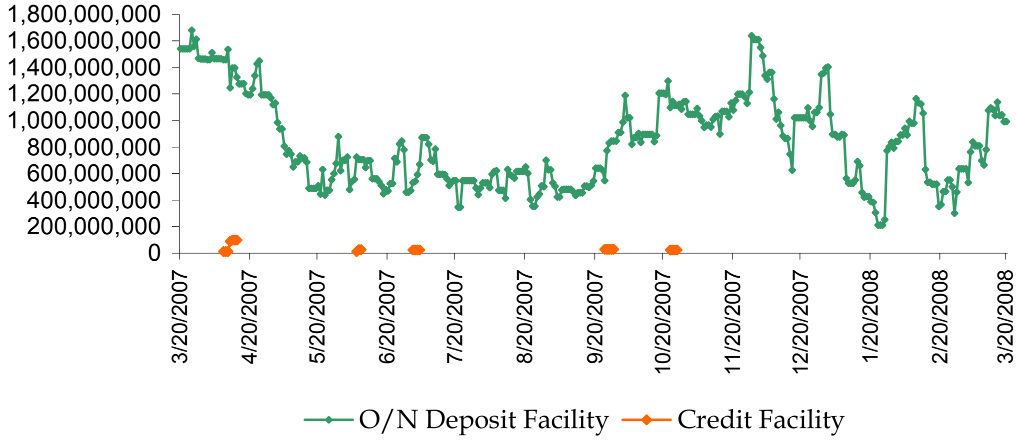
The yield curve for March 17, 2008 is positive and sloping upward.

Figure 1.7: Term Structure of Interest Rates Yield Curve 17 Mar 2008



Source: Market Operations Department/DAB.

Figur 1.8: Overnight Deposit Balances (amount in AF)



Source: Market Operations Department/DAB.

2.3 Required and Excess reserves

Overnight Standing Facilities were first introduced at the beginning of the year 1385 (2006-2007). The purpose of introduction is to provide commercial banks with products to be used as safety net and to provide them with vehicle where they can invest their excess reserves.

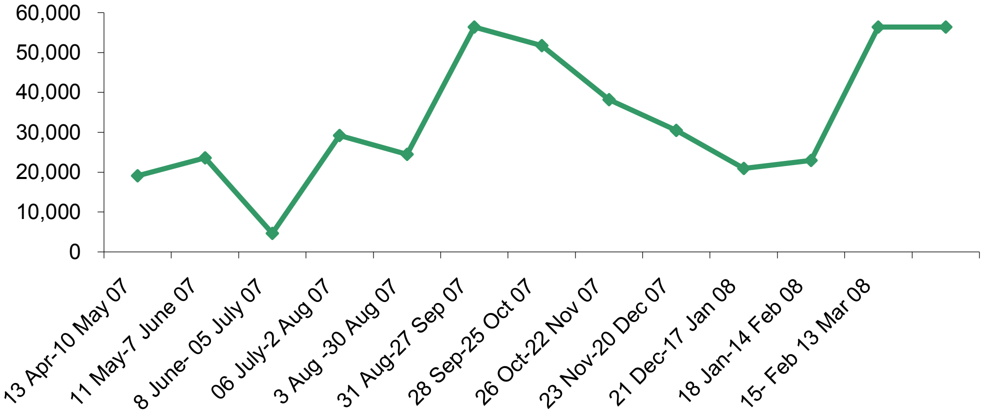
Overnight Standing Deposit Facility: This facility is available for all commercial banks to gain interest on excess balances and provides a floor for rates on capital notes, so it is not counted for required reserves. The interest rate on overnight deposit facility is now 1.5 percent below 28 auction cut off rate, based on a circular to all banks approved by DAB Supreme Counsel on Feb 27, 2007. Based on the commercial banks demand for funds, the outstanding amount of deposit facility balances was subject to fluctuations, it fluctuated between AF 1.7 billion and AF 200 million. The declination of deposit facility during the last quarter of this year was because of huge auctions of CNs. The year ended with stock outstanding amount of AF 1.00 billion (see Figure 1.8).

Overnight Standing Credit Facility: This facility is used by banks for short term cash need. The facility allows commercial banks to borrow afghani from Da Afghanistan Bank on an overnight basis when they face a shortfall in cash flow. The rate that the banks are charged for this facility is 1.5 percent above the last 28 day CNs auction. This borrowing is collateralized with outstanding capital notes only, according to the circular on Feb 27, 2007. During the year 1386, eight times banks benefited from this facility and collateralized AF 191.824 million equivalent of CNs.

During this year required reserves averaged 253,436.08 thousand AF per Bank, while excess reserves (including overnight deposits) averaged 81,372.54 thousand AF per Bank. These figures were 154,585.53 thousand AF and 593,698.76 AF respectively during last year.

Required reserves were remunerated at 1.5 percent below the cut off rate of 28 days Capital Notes Auction rate or equal to deposit facility rate.

Figure 1.9: Excess Reserves (Deposit Facility not included)
(thousand AF)



Source: Market Operations Department/DAB.

Table 1.6: Auctions of 28 Day Capital Motes

Da Afghanistan Bank, Capital Notes 28 Days Auctions Report (million Afs)								
Date	Auction Amount	Amount awarded	Total Bid Amount	No. of Wining bids	Total No. of Bids	Cut off Rate	Low Bid	Weighted Average
20/03/2007	200	200	380		4	8.50%	7.50	7.60
27/03/2007	100	100	340	4	5	8.00%	7.94	7.99
03/04/2007	200	200	325	4	4	8.50%	7.94	8.16
17/04/2007	200	200	430	1	5	7.95%	7.95	7.95
24/04/2007	200	200	420	3	6	7.89%	7.19	7.71
01/05/2007	200	200	550	2	7	7.50%	7.10	7.20
15/05/2007	200	200	295	4	4	7.77%	7.00	7.44
29/05/2007	200	200	350	3	3	7.77%	7.25	7.47
05/06/2007	200	200	280	4	4	8.50%	7.49	8.11
19/06/2007	200	200	265	3	4	8.50%	7.35	8.17
26/06/2007	200	200	220	2	2	8.50%	8.09	8.46
03/07/2007	200	200	360	4	4	9.00%	7.25	7.92
17/07/2007	200	200	420	3	5	8.50%	7.30	7.86
31/07/2007	200	200	430	3	3	8.50%	7.50	7.74
07/08/2007	200	200	345	4	5	8.50%	7.49	8.50
21/08/2007	200	200	400	2	3	7.99%	7.55	7.88
28/08/2007	200	200	460	1	4	7.50%	7.50	7.50
04/09/2007	200	200	450	5	5	7.80%	7.44	7.55
18/09/2007	200	200	510	2	5	7.95%	7.33	7.47
25/09/2007	200	180	380	3	4	8.50%	7.25	7.37
02/10/2007	200	100	310	3	4	8.49%	7.24	7.40
16/10/2007	200	200	440	4	6	8.25%	7.35	7.86
23/10/2007	200	200	530	3	5	8.30%	7.80	7.99
30/10/2007	200	200	434	4	5	8.30%	7.90	8.08
06/11/2007	200	200	435	3	5	8.30%	8.00	8.21
20/11/2007	200	200	340	4	4	8.30%	8.18	8.30
27/11/2007	200	200	402	3	4	8.50%	8.25	8.32
04/12/2007	200	200	480	4	5	8.50%	8.30	8.21
25/12/2007	260	260	615	5	7	8.35%	7.99	8.20
01/01/2008	400	565	565	7	7	10.50%	8.01	9.00
15/01/2008	400	270	270	3	3	15.00%	9.99	13.63
29/01/2008	400	356	471	6	7	15.50%	12.00	14.51
5/2/2008	200	400	630	5	8	15.49%	10.00	12.47
19/02/2008	200	525	595	6	7	15.25%	13.25	14.39
26/02/2008	200	336	366	6	6	15.25%	14.50	15.00
04/03/2008	200	552	854	7	9	15.19%	13.50	14.53
17/03/2008	200	705	705	7	7	15.18%	14.00	14.87
	13,510	15,427	26,242					

Source: Market Operations Department

Table 1.7: Auctions of 182 Day Capital Notes

Da Afghanistan Bank, Capital Notes 182 Days Auctions Report (million Afs)								
Date	Auction Amount	Amount awarded	Total Bid Amount	No. of Wining Bids	Total No. of bids	Cut of Rate	Low Bid	Weighted Average
20/03/2007	50	50	115		1	8.00%	8.00	8.00
27/03/2006	50	50	120	1	3	8.25%	8.25	8.25
03/04/2007	50	50	120	1	3	8.00%	8.00	8.00
17/04/2007	50	50	105	2	3	8.20%	8.19	8.20
24/04/2007	50	50	130	1	3	8.14%	8.14	8.14
01/05/2007	50	50	155	1	3	8.00%	8.00	8.00
15/05/2007	50	50	140	2	4	7.65%	7.59	7.64
29/05/2007	50	50	50	1	1	8.07%	8.07	8.07
05/06/2007	50	50	50	1	1	9.50%	9.50	9.50
19/06/2007	50	50	90	2	2	9.50%	9.35	9.38
26/06/2007	50	50	100	1	2	9.40%	9.40	9.40
03/07/2007	50	50	75	1	2	10.00%	9.40	9.70
17/07/2007	50	50	100	1	2	9.79%	9.79	9.79
31/07/2007	50	50	100	1	2	9.80%	9.80	9.80
07/08/2007	50	50	107	1	3	9.50%	9.50	9.50
21/08/2007	50	50	50	1	1	9.25%	9.25	9.25
28/08/2007	50	50	50	1	2	9.20%	9.20	9.20
04/09/2007	50	50	110	1	3	9.20%	9.20	9.20
19/09/2007	50	50	110	1	2	9.20%	9.20	9.20
25/09/2007	50	50	100	1	2	9.19%	9.19	9.19
02/10/2007	50	50	100	1	2	9.18%	9.18	9.18
16/10/2007	50	50	50	1	2	9.90%	9.90	9.90
23/10/2007	50	50	100	1	2	9.80%	9.80	9.80
06/11/2007	50	50	50	1	1	9.50%	9.50	9.50
11/20/07	50	50	100	1	2	9.50%	9.50	9.50
27/11/2007	50	50	100	1	2	9.40%	9.40	9.40
4/12/2007	50	50	100	1	1	9.50%	9.50	9.50
25/12/2007	65	65	115	1	2	9.38%	9.38	9.38
01/01/2008	100	115	115	2	2	11.00%	10.00	10.43
15/01/2008	100	150	150	2	2	15.00%	12.50	13.63
29/01/2008	200	50	150	1	2	18.00%	18.00	18.00
05/02/2008	50	250	280	2	3	18.00%	9.80	16.31
19/02/2008	100	265	265	3	3	18.00%	13.50	16.94
26/02/2008	100	256	328	3	5	17.50%	14.95	15.42
04/03/2008	100	250	454	2	4	16.95%	15.00	15.85
17/03/2008	100	155	371	3	5	16.90%	15.95	16.21
	3,215	4,033	6,740					

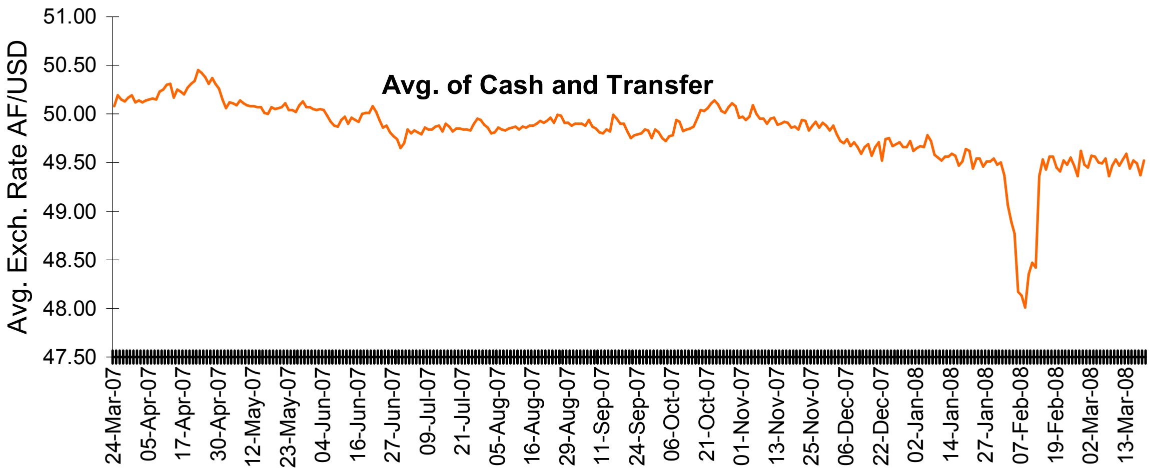
Source: Market Operations Department

3. FOREIGN EXCHANGE MARKE

3.1 Foreign Exchange Rates

The daily historic review of the exchange rate, AF vis a vis USD, for the year 1386 is shown in figure 1.10. As a whole, the exchange rate of afghani moved in a relatively narrow corridor of AF 48.01 to AF 50.45 per USD, throughout the year. On the end year basis afghani against USD appreciated by 1.12 percent from that at the beginning of the year (49.52 per USD). On annual basis, the Afghani appreciated by 1.2 per cent on average in the year under review (AF 49.82 per USD) compared to 1385 (AF 49.93 per USD). Afghani remained largely stable against Pakistani Rupee (Pk.Rs) appreciating by 5.09 percent compared with 1385. This trend however continued with the Pakistani Rupee depreciating by 1.14 percent on average base compared with 1385. Afghani against EURO depreciated by 16.68 percent compared with 1385 and continued its trend depreciating by 10.11 percent on average compared with that in 1385. As can be seen from the figure 1, the wide fluctuations in the exchange rate have been dampened gradually during the year except a short period in February 2008 due to an increase in the amount of FX auctions. (Table 1.6)

Figure 1.10: Daily Average Exchange Rate AF/USD 1386 (2008/09)



Source: Monetary Policy Department/DAB

Table 1.8: Exchange Rates against selected currencies

Period	USD	Pk.Rs	EURO
Average for 1386	49.82	81.46	70.03
Average for 1385	49.93	82.4	63.6
% Appreciation (-) or depreciation(+) of AF against respective currency	-0.22	-1.14	10.11
Closing rate on March 19, 08	49.52	78.35	77.5
Closing rate on March 19, 07	50.08	82.55	66.42
% Appreciation (-) or depreciation(+) of AF against respective currency	-1.12	-5.09	16.68

Source: Monetary Policy/ Market operations Departments/ DAB

3.2 Foreign Exchange Auction

Foreign exchange auctions are a key instrument to smooth fluctuations in the exchange rate and to control the growth of the money supply. Da Afghanistan Bank (DAB) has maintained this bi-weekly sterilization policy, to mop up extra liquidity arising principally from government expenditures and the foreign peace keeping forces. The foreign exchange auction size is determined by a liquidity forecasting framework, which takes in account the money demand on one hand and the currency growth ceiling agreed by the DAB with the IMF on the other.

Table 1.9 summarizes the results of DAB foreign exchange auctions during the period from March 24, 2007 to March 18, 2008.

In the year under review the DAB intervention reached a total of USD 960.25 million. The weighted average of the entire 99 awarded auctions rate (sale price of the USD) was 49.7, covering March 24, 2007 to March 18, 2008 in which the total number of awarded bidders were 2418, compared with the previous year in which there were 96 auctions of USD 555.41 million. The weighted average was 49.88 with the participation of 1701 bidders.

Table 1.9: Auction summary

Auction Date	No of Bidders	High price	Low price	Cut-off price	Amount announced	Amount awarded	No of awarded bidders
Mar 24-07	35	50.11	50.00	50.09	8.00	7.25	13
Mar 27-07	34	50.21	50.10	50.17	8.00	7.80	17
Apr 01-07	24	50.19	50.14	50.17	2.50	3.55	15
Apr 03-07	32	50.18	50.12	50.15	2.50	4.85	23
Apr 07-07	29	50.19	50.15	50.17	2.25	4.80	22
Apr 10-07	28	50.30	50.23	50.28	2.25	4.13	20
Apr 14-07	31	50.27	50.20	50.26	4.50	5.35	16
Apr 17-07	31	50.25	50.17	50.22	4.50	3.80	10
Apr 21-07	34	50.42	50.25	50.39	5.00	4.45	10
Apr 24-07	31	50.43	50.30	50.38	5.00	7.95	26
Apr 29-07	23	50.26	50.10	50.22	8.50	4.55	14
May 01-07	21	50.08	50.02	50.06	8.50	6.10	14
May 05-07	34	50.14	50.05	50.10	6.50	8.30	24
May 08-07	30	50.11	49.95	50.05	6.50	5.65	22
May 12-07	33	50.07	49.90	50.00	8.50	8.15	30
May 15-07	31	50.00	49.80	49.95	6.50	7.05	26
May 19-07	38	50.06	49.90	50.00	9.00	9.95	30
May 22-07	35	50.12	49.90	50.07	7.00	9.05	29
May 26-07	35	49.98	49.80	49.95	7.00	5.85	20
May 29-07	35	50.05	49.90	50.00	7.00	9.05	39
Jun 02-07	33	50.02	49.92	49.97	7.00	7.15	23
Jun 05-07	37	49.95	49.84	49.92	7.00	7.95	26
Jun 09-07	33	49.84	49.00	49.80	7.00	7.10	21
Jun 12-07	34	49.90	49.75	49.88	7.50	3.90	11

Jun 16-07	34	49.94	49.82	49.91	7.50	6.05	13
Jun 19-07	35	50.08	50.00	50.04	7.50	8.85	22
Jun 23-07	34	49.92	49.82	49.88	7.00	8.75	25
Jun 26-07	38	49.80	49.68	49.77	9.00	5.90	16
Jun 30-07	34	49.65	49.40	49.63	7.50	3.85	12
Jul 03-07	38	49.83	49.55	49.79	7.50	6.80	22
Jul 07-07	42	49.85	49.67	49.82	7.50	8.20	17
Jul 10-07	41	49.87	49.70	49.86	7.50	8.00	19
Jul 14-07	39	49.85	49.70	49.84	7.50	7.15	15
Jul 17-07	39	49.84	49.70	49.82	7.50	7.00	19
Jul 21-07	38	49.83	49.70	49.82	7.50	9.00	22
Jul 28-07	37	49.96	49.35	49.92	7.00	10.10	24
Jul 31-07	34	49.92	49.80	49.87	9.00	10.60	37
Aug 04-07	39	49.82	49.75	49.80	7.50	8.75	21
Aug 07-07	39	49.82	49.72	49.81	7.50	7.55	19
Aug 11-07	38	49.90	49.84	49.86	7.50	9.95	31
Aug 14-07	37	49.90	49.78	49.86	7.50	10.20	28
Aug 18-07	34	49.92	49.85	49.88	10.00	9.00	26
Aug 21-07	38	49.94	49.82	49.90	10.00	10.35	30
Aug 25-07	36	49.98	49.90	49.93	10.00	9.35	31
Aug 28-07	41	49.94	49.80	49.85	8.00	9.05	30
Sep 01-07	40	49.92	49.80	49.84	10.00	9.35	33
Sep 04-07	36	49.90	49.80	49.88	7.00	8.85	22
Sep 08-07	27	49.86	49.70	49.77	5.00	6.75	25
Sep 15-07	32	49.82	49.72	49.80	7.50	4.80	11
Sep 18-07	31	49.92	49.80	49.89	7.50	6.30	22
Sep 22-07	27	49.77	49.60	49.74	5.00	3.55	9
Sep 25-07	28	49.77	49.68	49.77	5.00	1.45	3
Sep 29-07	30	49.77	49.70	49.75	5.00	4.20	15
Oct 02-07	35	49.79	49.66	49.77	5.00	4.30	12
Oct 06-07	32	49.80	49.70	49.78	5.50	2.85	8
Oct 09-07	20	49.92	49.82	49.90	7.00	3.30	11
Oct 16-07	35	49.91	49.75	49.88	8.00	4.35	13
Oct 20-07	32	50.05	49.90	50.02	10.00	5.45	14
Oct 23-07	31	50.24	50.00	50.00	10.00	9.10	31
Oct 27-07	33	50.06	49.90	49.94	9.00	8.20	32
Oct 30-07	41	50.15	50.00	50.01	10.00	11.70	39
Nov 03-07	34	50.05	49.75	49.80	15.00	10.22	33
Nov 06-07	47	50.10	49.81	49.93	10.00	15.85	45
Nov 10-07	38	49.92	49.76	49.79	10.00	11.90	36
Nov 13-07	45	49.93	49.70	49.80	10.00	16.95	39
Nov 17-07	36	49.90	49.73	49.81	15.00	16.00	32
Nov 20-07	44	49.88	49.70	49.81	15.00	15.75	32
Nov 24-07	38	49.86	49.71	49.81	15.00	14.95	32
Nov 27-07	42	49.86	49.76	49.82	15.00	16.45	37
Dec 01-07	39	49.84	49.77	49.81	15.00	16.00	28
Dec 04-07	44	49.73	49.65	49.66	10.00	15.85	40
Dec 08-07	39	49.68	49.60	49.63	10.00	15.55	36
Dec 11-07	34	49.63	49.50	49.58	15.00	13.55	32
Dec 15-07	33	49.61	49.50	49.50	32.00	13.35	33
Dec 17-07	8	49.50	49.38	49.38	15.00	2.45	8
Dec 25-07	42	49.71	49.58	49.63	20.00	22.45	36
Dec 29-07	47	49.67	49.51	49.57	10.00	18.15	40
Jan 01-08	48	49.67	49.53	49.59	15.00	18.95	37

Jan 05-08	47	49.65	49.57	49.62	15.00	14.75	27
Jan 08-08	39	49.56	49.40	49.48	15.00	13.05	26
Jan 12-08	44	49.53	49.33	49.50	15.00	12.75	26
Jan 15-08	44	49.54	49.41	49.49	15.00	15.25	28
Jan 22-08	48	49.52	49.42	49.47	15.00	21.05	38
Jan 26-08	41	49.50	49.37	49.46	10.00	16.50	28
Jan 29-08	41	49.54	49.45	49.47	10.00	19.20	39
Feb 02-08	19	49.28	49.05	49.05	10.00	12.15	19
Feb 05-08	46	48.70	48.30	48.60	17.50	13.35	33
Feb 09-08	41	48.02	47.50	47.90	10.00	8.95	23
Feb 12-08	47	48.50	48.46	48.25	10.00	10.05	17
Feb 16-08	41	49.48	49.08	49.38	15.00	14.85	30
Feb 19-08	46	49.47	49.21	49.37	15.00	15.40	34
Feb 23-08	42	49.58	49.38	49.51	10.00	13.45	24
Feb 26-08	28	49.40	49.13	49.36	10.00	4.80	9
Mar 01-08	44	49.54	49.35	49.50	10.00	5.20	15
Mar 04-08	45	49.54	49.32	49.41	15.00	11.20	33
Mar 08-08	44	49.45	49.32	49.39	15.00	15.10	28
Mar 11-08	47	49.51	49.41	49.47	15.00	14.60	28
Mar 15-08	44	49.60	49.30	49.44	20.00	21.70	39
Mar 18-08	44	49.43	49.30	49.40	10.00	9.85	18
Total amount sold in US Dollar					956.5	960.25	2,418

Source: Market Operations Department (DAB)

FISCAL DEVELOPMENTS

2

2

FISCAL DEVELOPMENTS

Total operating and development budget for the year 1386 is AF 130.6 billion (USD 2.6 billion). However, total development budget stood at AF 77 billion (USD 1.5 billion), and total operating budget stood at AF 53 billion (USD 1.1 billion). Moreover, total operating expenditures at the end of 1386 rose to AF 50.7 billion (USD 1,013 million) or about 12.3 percent of GDP as shown in Table 2.1. Meanwhile, in development budget, the expenditures tool raised to AF 45 billion (USD 901 million) or about 10.9 percent of GDP. Looking forward to the revenue side, total domestic revenue at the end of 1386 stood at AF 33.5 billion (USD 670.3 million) or about 8.1 percent of GDP.

The implementation of the 1386 budget as year ended showed some positive developments with continuing devotion to fiscal discipline and the establishment of a certified monthly payroll system. A corner stone of fiscal discipline: the no "overdraft" policy (expenditures fully financed by domestic revenues and external assistance with no borrowing from the central bank), continued to be respected and fully implemented.

1. GOVERNMENT REVENUE

Revenue collections at the end of the fiscal year were almost on the track. In 1386, revenues reached AF 33,513 million. Expenditures grew by 17 percent compared to 1385. However there was a shortfall of 7.0 percent compared to the original target of AF 35,722 million under the IMF /PRGF revenue target. Revenue effort (revenue as a percent of GDP) was 8.1 percent compared to 7 percent in 1385.

The favorable revenue performance was observed in tax revenues, it has increased about 37 percent compared to 1385 and only a shortfall of 10 percent to the IMF target as shown in Table 2.1. Furthermore, there was a sharp decline in non-tax revenues, almost about 37 percent compared to the last year. Measurements are being considered to compare IMF target revenue collection which was 8.7 percent of GDP, while government have only met 8.1 percent revenues as percent of GDP at the end of fiscal year.

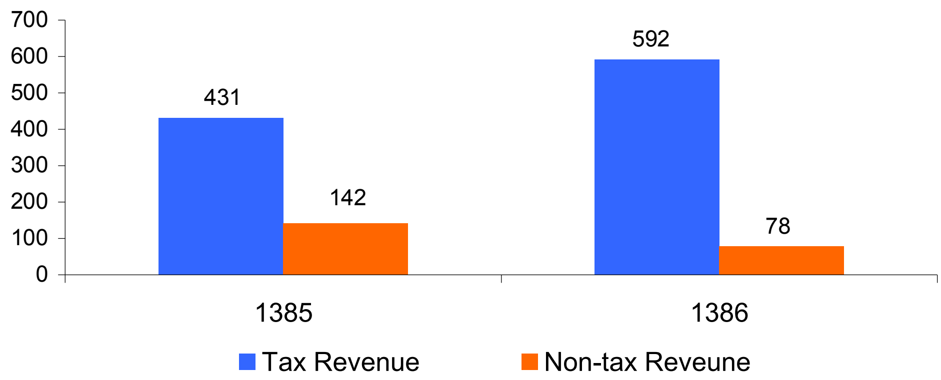
A significant factor behind the failure to reach the revenue target was the lower than expected revenue collection in Herat which is a major source of customs tax. Year-to-date in 1386 the provinces only generated around 55 percent of the original target. Part of this shortfall may be attributed to the extreme winter conditions that reduced economic activity and also the temporary closure of the Afghan-Iranian border. However, part of the explanation may also be the fact that significant levels of trade were diverted away from Herat province to neighboring provinces where customs enforcement were not as strong due to the local security situation. The revenue shortfall has emphasized the need for introducing stronger revenue enhancing measures to move Afghanistan closer toward fiscal sustainability. With respect to this, the Government needs to take corrective measures to ensure higher revenue collection and to keep the IMF PRGF program on track.

Table 2.1: Revenue Collection for 1386 (million AF)

Particulars	1385 Revenue Actual	1386 Revenue Actual	1386 Annual Target	% Δ from 1385 to 1386	% Δ from Actual to Target
Total Domestic Revenues (Tax and Non Tax)	28,659	33,513	35,722	17%	7%
Total Tax Revenues	21,555	29,593	32,407	37%	10%
Non Tax Revenues	7,104	3,920	3,315	-45%	-15%

Source: Ministry of Finance Website

Figure 2.1: Revenue Collection for 1386 (2007- 08)
(million USD)



Source: Ministry of Finance website

2. PUBLIC EXPENDITURE

Total gross expenditures in the year 1386 within the integrated core budget reached AF 95.7 billion, an increase of 19.8 billion from the previous fiscal year. This nominal increase of just over 26 percent is roughly in line with the growth of nominal GDP[1]. Consequently, the expenditures to GDP ratio remained fairly constant, only increasing from 18.4 to 23.2 percent between 1385 and 1386.

Following the 1386 Expenditure review, operating budget as a ratio of GDP rises to 12.3 percent in 1386 from 10.5 percent in 1385. This is largely due to various fiscal pressures that emerged during the review including payment of arrears, absorption of fuel subsidy, compensation of employees, use of goods and services and acquisition of nonfinancial asset.

Looking forward to development budget which is mainly grants from the donor partners in which the ARTF (Afghanistan Reconstruction Fund) and

LOTFA (Law and Order Trust Fund) has played a vital role for the infrastructure and development projects.

Total development budget for the year 1386 approved by Ministry of Finance was AF 77 billion (USD 1.5 billion) shown in (Table 2.2).

However, at the end of the year 1386, total development expenditures stood at AF 45 billion`(10.9 percent of GDP) was spent on the current and capital expenditures like acquisition of fixed assets, followed by wages, allowances, goods and services. The expenditure tool raised by 4 percentage points in the year 1386 compared to 1385.

There is number of trust funds continued to play an important role in providing donor assistant to the country, such as, Afghanistan Reconstruction Trust Fund (ARTF), and the law and Order Trust Fund for Afghanistan (LOTFA), these trust funds help strengthen the budget process and provide stability and predictability to Afghanistan Public Finance.

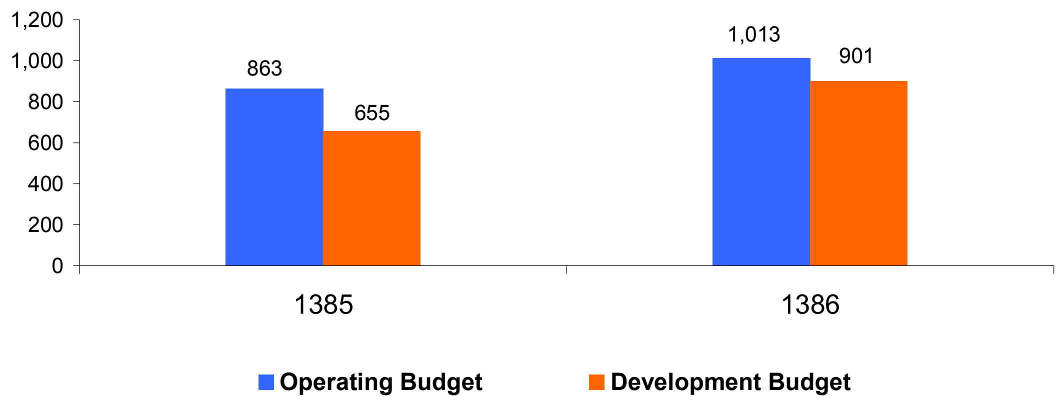
The uncertainty of recurrent expenditures and the dependency on donor grants underscore the importance of focusing on revenue measures. Additional revenue would provide the budget with the fiscal space needed to respond to unforeseen pressures related to climatic conditions and/or some crucial security issues.

Table 2.2: Progress of Expenditures in Core Budget for 1386 (million AF)

Type of Budget	Currency	1385 Budget	Expenditures		1386 Budget	Expenditures		% ∆ from 1385 to 1386
			Amount	%Budget		Amount	% Budget	
Operating Budget	AF	44,744	43,139	96%	53,600	50,667	95%	17%
	USD	895	863		1,072	1,013		
Development Budget	AF	66,050	32,756	50%	77,008	45,043	58%	38%
	USD	1,321	655		1,540	901		
Total AFS		110,794	75,895	69%	130,608	95,710	73%	26%
Total USD		2,216	1,518		2,612	1,914		

Source: Ministry of Finance website

Figure 2.2: Progress of Expenditures in Core Budget for 1386
(million USD)



Source: Ministry of Finance website

The spending pressures include the need to increase civil service salaries, overcome security risks and hiring more national police for securities and teachers for education improvement.

Another source of spending pressure is the growing need for operations and maintenance of roads. A third source of fiscal pressure is pensions of government employees which will need to be carefully managed to avoid their ballooning into major fiscal liabilities.

There are significant difficulties in tracking public expenditure executed outside the government budget with donors' support.

3

THE INFLATION TREND AND OUTLOOK

3

THE INFLATION TRENDS AND OUTLOOK

Headline inflation, the broadest measure of the rise in the general level of prices, increased again from a low level of 4.8 percent at the beginning of the year 1386 to a high of 20.7 percent at the end of the year. The headline Consumer Price Index (CPI) for Kabul stood at 159.1 at the end of the year representing an inflation rate of 20.7 percent in 1386 up from 4.8 percent in 1385.

The increase in the CPI was mainly attributed to increases in the prices of food and oil. The food price-index rose dramatically by 30.6 percent (Y-o-Y) because of an increase in demand in the international markets and a shortage in the worldwide supply side. The increase in oil prices was mainly attributed by the recent developments in the international oil markets.

Core inflation, defined as headline CPI excluding rents, fuel, and construction materials, increased significantly by 24.5 percent in 1386 up from 6.4 percent in 1385. Core inflation which was calculated through Trimmed Mean (another method of calculating core inflation), shows a different level of 7.6 percent at the end of the year under review.

The analysis shows that Kabul and national headline CPIs are remarkably similar over the period, especially during 1385 and 1386.

1. INFLATION HITS DOUBLE DIGITS

1.1 Annual Changes in Kabul Headline Inflation

Headline inflation, as measured by year-on-year percentage changes in Kabul CPI, increased to 20.7 percent in 1386 up from 4.8 percent in 1385. The CPI measures the average price of a fixed set (or basket) of goods. The basket of goods is intended to reflect all of the items a typical family buys to achieve some minimum standard of living in some base period (currently 2004). The CPI does not count the price of each item equally but weights each according to its share of total household expenditures in the base period, so that changes in the index from one period to the next are broadly reflective of changes in a representative household's current cost of living.

Table 3.1: Breakdown of Kabul Headline CPI
(percent changes year on year)
Consumer Price Index
(March 2004 = 100)

	Weight	1384 (2005 – 06)	1385 (2006 – 07)	1386 (2007 – 08)
Headline	100	9.5	4.8	20.7
Food and Beverages	61.3	6.2	6.3	30.6
Bread and Cereal	28	7	3.6	51.8
Milk and cheese	5.6	2.4	6.8	21.7
Oil and Fat	5.3	-4.1	17	45.2
Non – Food	38.7	14.4	2.5	6.9
Housing	17.2	22.6	-1	6.5
Rents	7.1	24.9	-27.1	1.8
Construction materials	3.2	10.4	-11.3	17.9
Fuel and Electricity	6.8	25.1	51.4	7.5
Core (Headline Excl Housing)		6.2	6.4	24.5

Source: Central Statistics Office and DAB staff calculations.

The breakdown of Kabul headline CPI inflation is presented in Table 3.1 and illustrated in Figure 3.1. The increase in Kabul headline CPI to 20.7 percent in 1386 from 4.8 percent in 1385 was largely due to the following factors:

First, the food sub-index accounts for 61.3 percent of the CPI basket: This sub-index rose sharply by 30.6 percent at the end of year under review, compared to 6.3 percent at the end of 1385. It is well known that an increase in prices can be generated from either the supply or demand side. On the supply side, there has been a shortage in food production, especially wheat and other grains, in the major food producing countries such as USA, Australia and Canada, which pushed up the demand from major importing countries such as China, India, Taiwan and Japan. On the other hand, some countries have banned food exports e.g. Tajikistan, Pakistan, India. Drought is another factor having direct affect on decreasing the food production.

On the demand side, the increase in population and income in some emerging market economies, mainly China and India helped pushed inflation up. Another factor on the demand side is the use of some grains (i.e. corn) for producing bio-fuels.

Second, bread and cereals, Milk and cheese, Oils and fats: These price indexes rose by 51.8, 21.7 and 45.2 percent respectively as a result of increase in the food sub-index.

Third, the non-food sub-index accounts for 38.7 percent for the CPI basket. This sub-index rose by 6.9 percent in the year 1386, compared to 2.5 percent in 1385. The main drivers of the increase are housing, construction materials and rents sub-indexes.

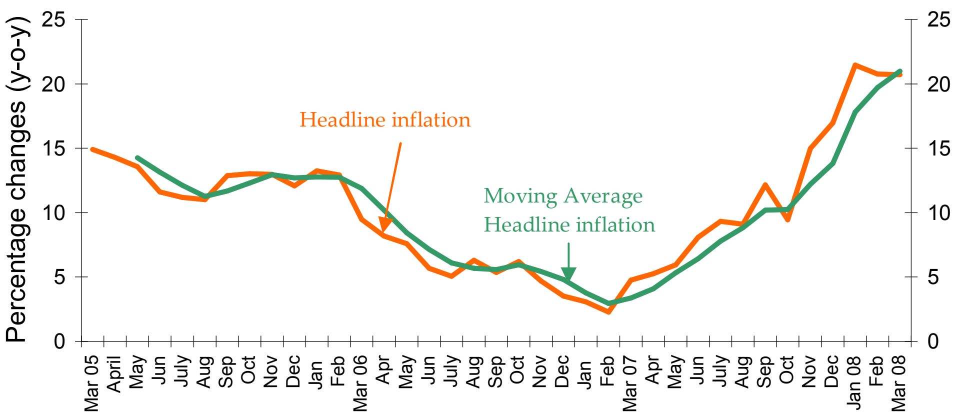
Fourth, the construction materials sub-index accounts for 3.2 percent for the CPI basket. This sub-index rose by 17.9 percent in the year under review, compared to (-11.3) percent in 1385 as result of boom in building new construction projects, resident buildings as well as developments in the oil prices, which has affected the transportation cost to go up. Repatriation of the Afghan refugees from neighboring countries such as Iran and Pakistan has increased demand for housing and has pushed rent sub-index go up.

Fifth, the housing sub-index accounts for 17.2 percent of the CPI basket. This sub-index rose by 6.5 percent in the year under review from (-1) percent in the year 1385. It is mainly because of the increase in the prices of the sub-indexes such as construction materials and rents.

On the other hand the following categories of the Kabul headline CPI posted decline:

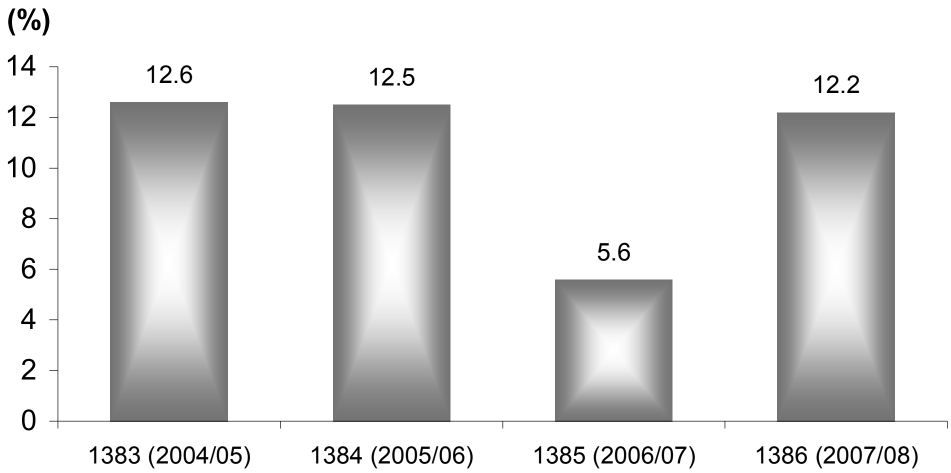
The fuel and electricity sub-index accounts for 6.8 percent of the CPI basket. This sub-index declined by 7.5 percent in 1386, compared to 51.4 percent a year ago.

Figure 3.1: Headline inflation: Kabul CPI



Source: Central Statistics Office and DAB staff calculations.

Figure 3.2 : Period Average of Kabul Headline Inflation



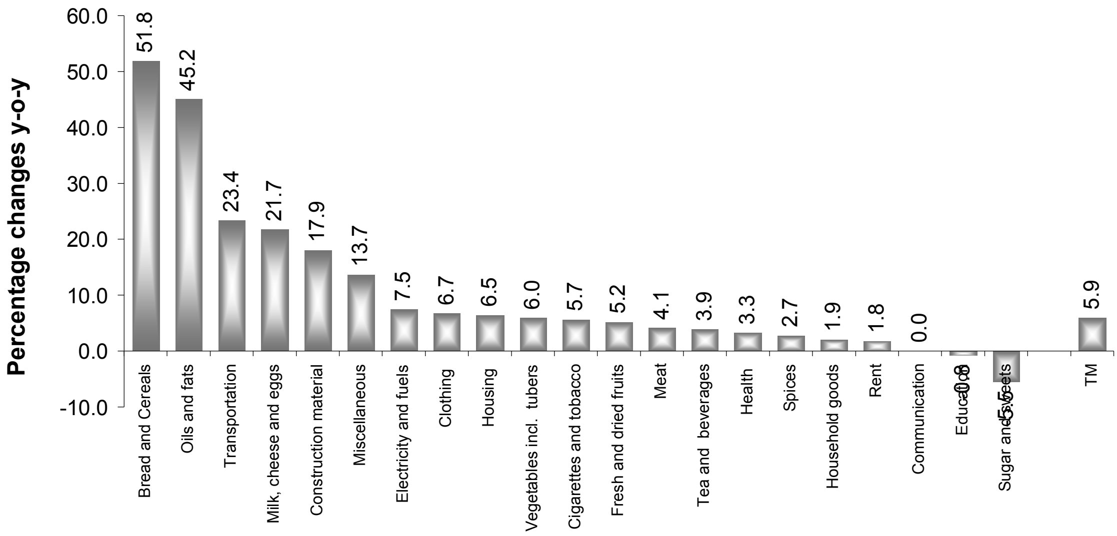
Source: Central Statistics Office and DAB staff calculations.

The volatility of Kabul inflation as measured by the standard deviation was 5.9 percent in 1386, up from 1.7 percent in 1385. The high volatility in inflation remains concerns for monetary policy.

The breakdown includes a measure of core inflation because comparing one period's price statistics with some other periods gives a crude measure of inflation (if the general level of prices has risen). But such a measure does not discriminate between relative price changes and inflation, so an increase in the price of a single item, such as rent, may cause a price index to rise. For this reason, a measure of core inflation, which is CPI excluding rents, construction materials and fuel has been calculated. Core inflation is also often interpreted as measuring the long run or persistent component of the index at 24.5 percent over the year 1386.

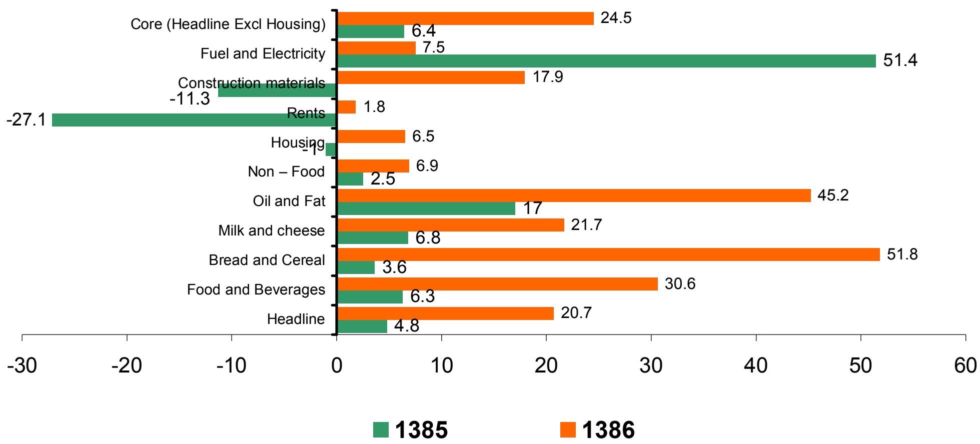
Another method of calculating core inflation is the Trimmed Mean. Considering the number of existing components in the CPI basket, 25 percent of the most extreme components has been trimmed, as a result of which the core inflation over the year of 1386 is 7.6 percent, which is much lower than 24.5 percent obtained by the first method.

Figure 3.3: 25%Trimmed Mean Inflation (March 2008)



Source: Central Statistics Office and DAB Staff calculations

Figure 3.4: Contribution to Kabul CPI inflation



Source: Central Statistics Office and DAB Staff calculations

1.2 Annual Changes in National Headline Inflation

This section analyzes trends in national CPI on a year-on-year basis.

Headline inflation, as measured by year-on-year percentage changes in national CPI increased by 24.3 percent in the year 1386 from 3.8 percent in 1385. The breakdown of national CPI into its respective components is presented in Table 3.2 and illustrated in Figure 3.6

Table 3.2: Breakdown of national CPI

(Percentage changes y-o-y)
Consumer Price Index
(March 2004=100)

	Weight	1384 (2005 – 06)	1385 (2006 – 07)	1386 (2007 – 08)
Headline	100	9.8	3.8	24.3
Food and Beverages	61.3	9.1	4.9	31.9
Bread and Cereal	28	10.8	3	50
Milk and cheese	5.6	9.5	6.6	15.6
Oil and Fat	5.3	2.4	3.2	52.3
Non – Food	38.7	10.9	2.2	12.2
Housing	17.2	16.4	-1.5	13.3
Rents	7.1	14.9	-20	11.7
Construction materials	3.2	8.2	-4.5	13.4
Fuel and Electricity	6.8	22.7	25.3	14.8
Core (Headline Excl Housing)		8.2	5.2	26.9

Source: Central Statistics Office and DAB Staff calculations

The increase in the national CPI to 24.3 percent in 1386 from 3.8 percent in 1385 was mainly because of the following factors:

First, the bread and Cereals sub-index accounts for 28 percent of the CPI basket: This price index rose sharply by 50 percent at the end of quarter under review from 3 percent at the end of the same quarter a year ago. The main reasons behind this increase a decrease in the worldwide food productions in the major food producing countries due to bad weather condition, as well as using the some grains for the bio-fuel is another reason contributes in this decline. On the demand side, population growth and increasing income levels in some emerging countries, such as China and India is another major contributor to increase this sub-index.

In addition, recent political developments in the region, especially in the Afghanistan neighboring countries have also caused a shortage in the supply of food items, especially flour, rice and other grains.

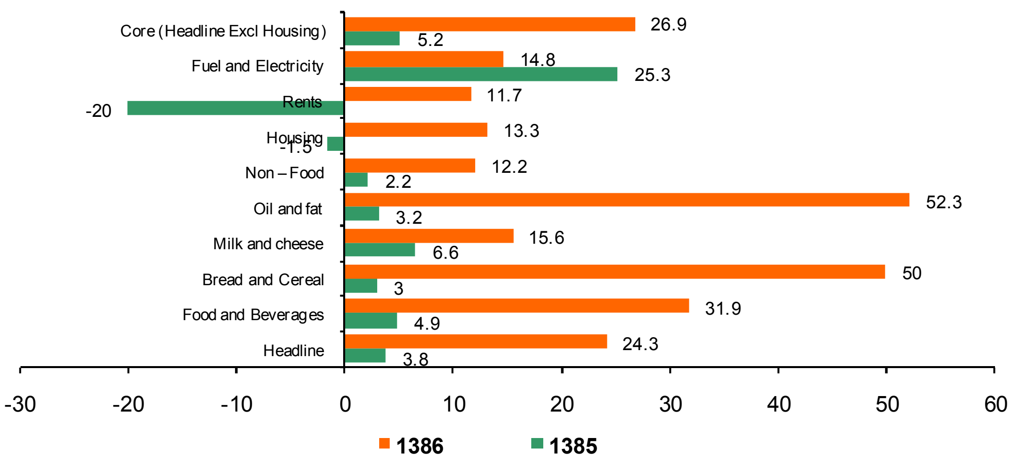
Second, the housing sub-index accounts for 17.2 percent of the CPI basket: This sub-index rose by 13.3 percent at the end of the fourth quarter of 1386 from -1.5 percent at the end of the same quarter a year ago. The main reason is thought to be an increase in demand for construction materials, as a result of boom in construction activities all over the country.

Third, the rents sub-index accounts for 7.1 percent of the CPI basket: This sub-index rose by 11.7 percent at the end of fourth quarter of 1386 from (-20) percent at the end of the same quarter a year ago.

On the other hand some categories of the national CPI posted decline:

The fuel and electricity sub-index accounts for 6.8 percent of the CPI basket: This sub-index shows a decline by 14.8 percent at the end of the quarter under review from 25.3 percent at the end of the same quarter a year ago.

Figure 3.5: Contribution to national CPI inflation

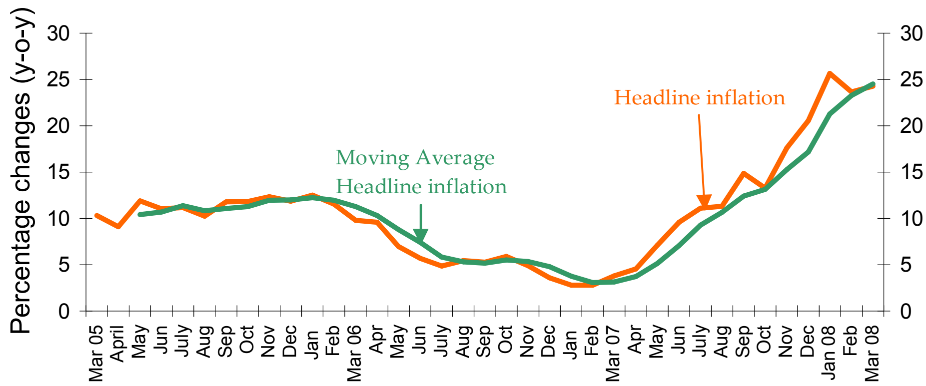


Source: Central Statistics Office and DAB staff calculations.

The volatility of inflation for national CPI as measured by the standard deviation in 1386 was 7 percent, up from 1 percent in 1385. The volatility of inflation remains a concern for monetary policy.

The inflation trend for both Kabul and national shows a remarkable similarity over the period.

Figure 3.6: Headline inflation: National CPI



Source: Central Statistics Office and DAB Staff calculations

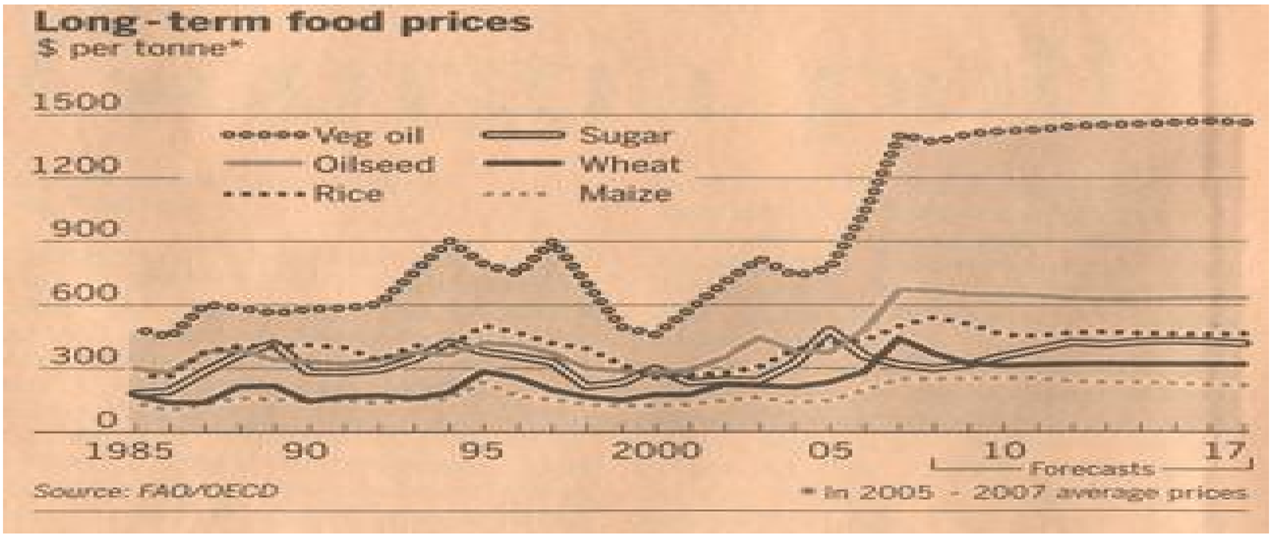
Box 1: Food prices forecast to stay high for 10 years

Food pries have undergone a paradigm shift and will not drop back to pre-crisis levels for at least the next 10 years, putting long-term pressure on governments facing the food crisis, according to a forthcoming report.

The report for the organization for Economic Co-operation and Development and the UN Food and Agriculture Organization, says food prices have moved to a "higher plateau" because of a rising demand from the bio-fuels industry and developing countries such as China and India. But the Agricultural Outlook 2008 – 2017, due to be published soon, does offer a respite in the short term, forecasting prices will ease from this year's record levels, according to a summary seen by the Financial Times.

"Food prices would be considerably higher in nominal terms than in the past but below the current records," said an official familiar with the report. Compare with average prices for 2005-07, the report forecasts that in 2017 the price of wheat, adjusted for inflation, will be 2 percent higher, rice 1 percent and corn 15 percent higher. Oilseed prices are expected to be up 33 percent.

The price projections imply falls form the current records, but suggest that the food inflation will continue to be a long-term problem, particularly for poor countries.



"Without expectation, average real prices are likely to remain above those observed during 1985-2007," said the report summary. The OECD said the projections were preliminary numbers.

Alexander Muller, an assistant director – general at the FAO in Rome said the world needed to get used to higher food prices. "in the near future, we with higher prices for agricultural commodities."

The new estimate of elevated prices in the long term come as the cost of food shows the first tentative signs of stabilizing after surging more than 50 percent in the past 12 months. In April the FAO's food index registered its first drop in 15 months and officials said prices appeared to be "reaching a peak"

Wheat prices have fallen by 40 percent since their February record, soya bean prices have also dropped, and corn and rice prices have stabilized at around their recent record levels.

However, the report summary dashed hopes for a rapid and sustained fall, saying: "As opposed to other instances of sharp increases in agricultural commodity prices that have rapidly dissipated, we could be facing higher prices for some time." In previous spikes, such as the food crisis of the 1970s or the corn crisis of 1996, prices have returned to their previous level quickly. The report will warn that with many agricultural commodity supplies continuing to be tight, low stock levels are not likely to be replenished quickly, so "the possibility of further sharp prices hikes …. seems to be likely for the next few seasons"

The OECD/FAO report is based on the assumption that conditions remain favorable for further growth in bio-fuels production.

Source: *Financial Times*

1.3. Quarterly changes in Kabul headline CPI

This section analyzes trends in quarter-on-quarter changes in Kabul headline CPI.

The Kabul headline CPI in the fourth quarter of 1385 fell by 5 percent from 5.9 percent in the third quarter. The decrease in quarter-on-quarter inflation can be traced to the following major categories:

Food and Beverages: This index fell by 8.3 percent in fourth quarter of 1386 from 9.4 percent in third quarter with a contribution of 13.4 percent by Bread and Cereals and 0.5 percent by Milk and cheese respectively.

Non-food: This price index fell by (-0.3) percent in the fourth quarter 1386 form 0.8 percent in the third quarter, with a contribution of (-2.3) percent by housing and (-5.4) percent by fuel and electricity respectively.

Table 3.3 presents price indicators for quarter-on-quarter changes in Kabul CPI.

Table 3.3: Quarter-on-Quarter Changes in Kabul Headline CPI
(percent changes quarter on quarter)
Consumer Price Index, (March 2004 = 100)

	1384				1385				1386			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline	2.87	2.45	3.38	0.5	-0.87	2.33	1.57	1.7	2.4	6	5.9	5
Food and Beverages	2.5	0.96	1.82	0.77	-0.68	1.87	0.83	4.2	4.7	5.3	9.4	8.3
Bread and Cereal	2.9	1.6	2.7	-0.4	-3.1	0.7	-0.3	6.4	5.7	8.2	17	13.4
Milk and Cheese	-1.3	2.1	1.2	0.4	-1.3	4.5	1.1	2.5	9.8	7.2	2.9	0.5
Meat	6.2	-0.6	0.9	2.5	0.5	2.6	-0.3	1.5	-2.6	-4.6	5.1	6.6
Non – Food	3.24	4.75	5.7	0.07	-1.24	3.02	2.5	-1.7	-0.7	7.1	0.8	-0.3
Housing	5.23	6.46	8.47	0.86	-5.12	2.76	5.1	-3.3	-2.9	11.5	0.6	-2.3
Rents	8.1	6.43	5.65	2.67	-5.9	-1	-18	-4.1	-3.6	6.1	-0.9	0.4
Fuel and electricity	-0.4	7.5	18.58	-1.5	-4.87	12.25	47.19	-3.7	-4	16.4	1.7	-5.4

Source: Central Statistics Office and DAB staff calculations

1.4. Quarterly changes in national headline CPI

This section analyzes quarter-on-quarter changes in national headline CPI.

The national headline CPI in the fourth quarter 1386 decreased to 4.4 percent compared to 7 percent in the third quarter. The decrease in quarter-on-quarter inflation can be traced to the following major categories:

Food and Beverages: This price index decreased by 7.2 percent at the fourth quarter of 1386 to compared with 10 percent in the third quarter. Bread and cereals sub-index decreased by 11 percent and Milk and cheese decreased by 1.9 percent respectively, while meat rose by 6.5 percent to compare with 4.7 percent in third quarter. The reason behind this decrease is thought to be the ease in the total demand for meat, which was increased during the third quarter due to Eid ul Adha.

Non Food, this price index fell by (-0.4) percent with the housing sub-index decreasing by (-2.3) percent, rents 0 percent and Fuel and Electricity (-4.8) percent respectively.

Table 3.4 presents price indicators for quarter-on-quarter changes in national CPI.

Table 3.4: Quarter on Quarter Changes in national Headline CPI

(percent changes quarter-on-quarter)

Consumer Price Index

(March 2004 = 100)

	1384				1385				1386			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline	2.18	2.66	3.54	1.09	-1.7	2.27	1.89	1.3	3.8	7.2	7	4.4
Food and Beverages	2.85	2.32	1.66	1.97	-1.9	2.32	1.09	3.3	5.8	5.8	10	7.2
Bread and Cereal	4	4.1	1.6	0.8	-4	2.9	-0.7	4.9	8.3	6.9	16.7	11
Milk and Cheese	1.3	2.8	3.4	1.6	-0.2	1.6	4	1.6	3.9	5.4	3.6	1.9
Meat	-2.9	1.1	1.7	3.7	-2.2	1.6	2.2	1.1	-1.9	0.2	4.7	6.5
Non – Food	1.24	3.16	6.47	-0.24	-1.4	2.2	3.1	-1.5	0.6	9.5	2.3	-0.4
Housing	1.69	5.54	8.85	-0.34	-4.84	1.82	5.14	-3.3	0.2	13	2.5	-2.3
Rents	4.07	6.21	3.92	-0.06	-6.33	-1.55	-7.43	-6.3	2.1	8.7	0.6	0
Fuel and Electricity	-1.7	5.09	20	-0.99	-5.53	8.54	24.2	-1.6	-3.1	18.6	5	-4.8

Source: Central Statistics Office and DAB staff calculations.

2. GDP PRICE DEFLATOR

Another way to calculate the price levels is GDP deflator. GDP deflator is an economic metric that accounts for inflation by covering output measured at current prices into constant GDP. It shows how much a change in the base year's GDP relies upon changes in the price level. Because it is not based on a fixed basket of goods and services, the GDP deflator has an advantage over the Consumer Price Index (CPI). Changes in consumption patterns or the introduction of new goods and services are automatically reflected in the deflator. The GDP deflator has been calculated for the past three years and has been shown in Table 3.5.

Table 3.5: Percentage changes in price levels: GDP deflator

Years	NGDP (m AF)	RGDP (m AF)	GDP Deflator	GDP Defl. Percentage changes	CPI Percentage changes
1381	19, 6576	19, 6576	100		
1382	23, 3363	22, 4723	104	3.8	10.1
1383	27, 2707	24, 5934	111	6.8	14.9
1384	33, 8541	28, 1633	120	8.4	9.6
1385	40, 7673	31, 3139	130	8.3	4.8
1386	50, 5630	36, 3798	139	6.8	20.7

Source: Central Statistics Office and DAB staff calculations

3. THE DYNAMICS OF INFLATION

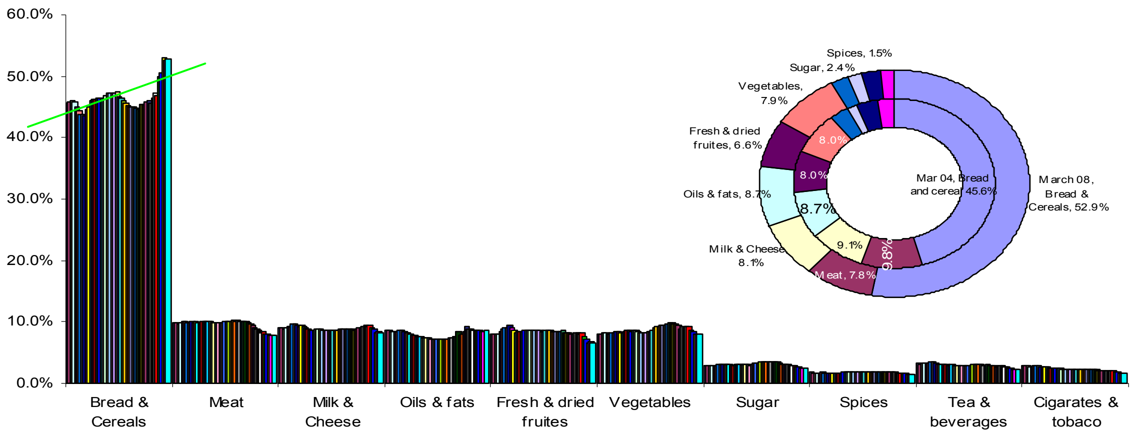
This section takes a closer look at trends in inflation by relaxing the assumption of fixed weights in the CPI basket. To understand better the dynamics of CPI it is useful to look beyond nominal Laspyere-based fixed weighting in which food has an overall weight in the index of about 61 percent and non-food 39 percent and analyze trends in the effective weights. These are based on the relative share of point's contribution of each sub index to the total Kabul index.

Effective weights are calculated as the proportion of point's contribution to the all groups index. If prices are changing more significantly within one sub-index than in the other, then the effective weights will shift over time. In simple terms, stronger price movements in a sub-item will exert more influence on the overall index than what its basic weighting would suggest. This is important because prices react to shifts in demand and supply in the market and it gives an early indication of a move away from the basic Laspyere-based fixed weight regimen that underlies the CPI index.

An analysis of the effective weight shows that following a decrease occurred in effective weight of food between March 2004 and October 07; the effective weight began to increase again from Nov 07, and has reached to 63.4 percent in March 2008. An increase/de crease in the effective weight can either be affected by upwards or downwards movements in prices, the key is that it shows us the strength of the price movement.

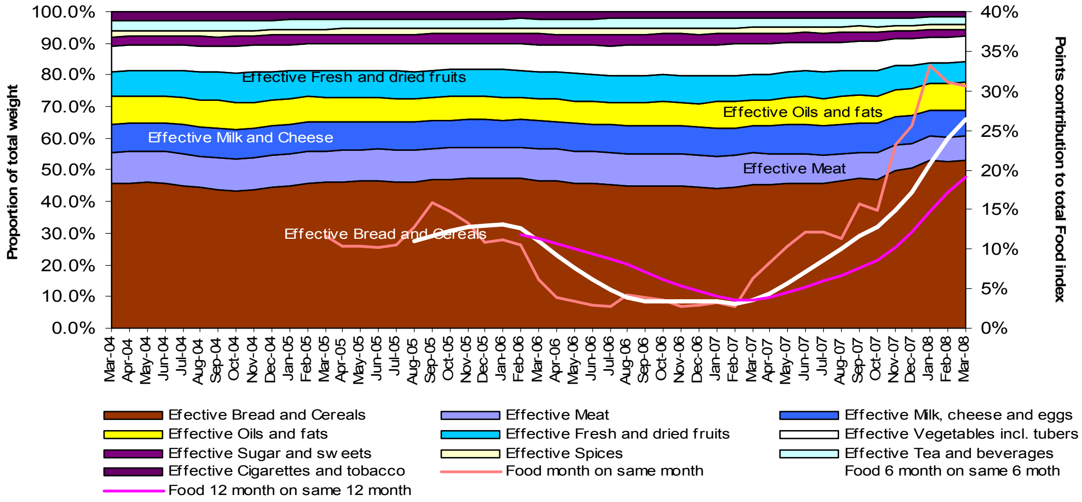
It is clear that non-food items and their price movements are responsible for pushing back the relative weighting of food items. The share of sub-indexes of food has been shown in Figure 3.7.

Figure 3.7: Effective weighting within the Kabul Food Price Index
(Marrch-04 to March 08)



The relative effective weight for food sub-items is shown in Figure 3.8. As can be seen from the figure, the effective weight for bread and cereals has increased to 52.9 percent, shown by the increased area shaded red in Figure 3.8 below.

Figure 3.8: Analysis of change-food index by sub items



Source: Central Statistics Office and DAB staff calculations.

4. INFLATIONARY OUTLOOK

Afghanistan is suffering from imported inflation caused by higher global commodity prices, domestic-demand inflation caused by excess demand driven by the opium trade. The food inflationary pressure should slow next year (1387) assuming good seasonal (spring) rainfalls. However, the overall inflationary outcome will depend on the extent and duration of high oil prices.

4.1 Risks to inflation remain

Foreseeable risks to future inflation remain. These risks include further increase in oil and grain prices and prolonged liquidity surge given expectations of steady foreign exchange inflows from remittances, the illegal opium trade and donor funds. Additional risks include the secondary effects of inflation on asset prices. Inflation will depress real returns to saving, bringing real (inflation-adjusted) deposit rates to negative levels. Negative real interest rates would lead to record high loan growth. A negative interest rates scenario favors barrowers, and risks fuelling asset inflation and sparking a housing property boom.

4

BANKING SYSTEM PERFORMANCE

4

BANKING SYSTEM PERFORMANCE

Total assets of the banking system rose to AF 84 billion (USD 1.68 billion) at the end of 1386, up by 55 percent or AF 30 billion since the beginning of 1386. Loans amounted to AF 40 billion (USD 805 million), an increase of AF 18 billion (USD 366 million) or 84 percent since March 2007. Deposits stood at AF 64 billion (USD 1.28 million) over the period under review; a 58 percent increase since march 2007. Deposits were largely denominated in USD (72 percent) with AF -denominated deposits were lagging at 23 percent. Total capital of the banking system stood at AF 15.8 billion (USD 316 million). Banking sector overall was profitable earning a year-to-date net profit of AF 1.23 billion (USD 24.6 million) since the beginning of 1386, for an overall return on assets (ROA) of 1.84 percent which was higher than previous year – 0.28 percent. The main causes for the hike in ROA are significant increases in interest income and non-interest income, which more than completely offset notable rises in overhead expenses. State-owned banks are among top three profitable banking institutions.

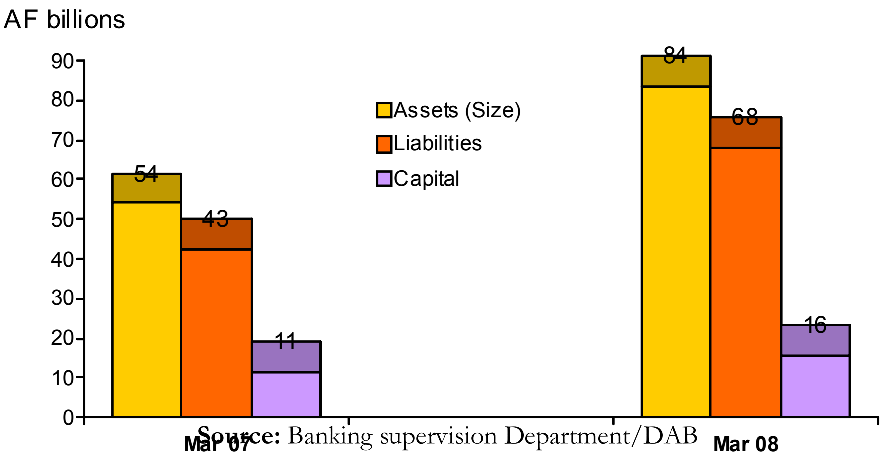
1. ASSETS OF THE BANKING SYSTEM

The banking system continues to grow at a brisk rate. Total assets (size) of the banking system at the end of year-1386 was AF 84 billion (USD 1.68 billion), up by 55 percent or AF 30 billion (USD 578 million) from March 2006, Figures 6.1 and 6.2.

The major components of this increase were increases in loans (up AF 18 billion) and cash in vault/claims on DAB (up AF 7 billion). Moreover, the remaining part is made up of other asset categories such as claims on financial institutions, other assets except interest receivable and Net Due From (NDF).

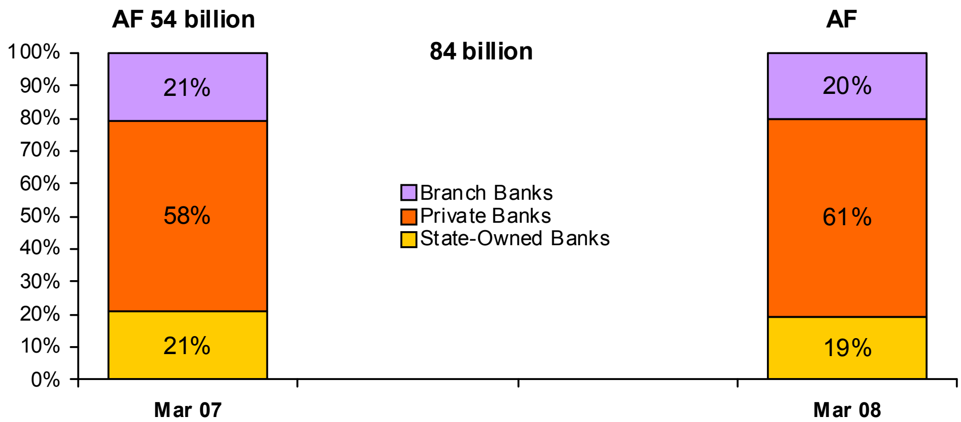
The most important components of the banking system's total asset portfolio are loans (48 percent), claims on financial institutions (15 percent), cash in vault/claims on DAB (21 percent), Net Due From (6 percent), and other assets except interest receivable (5 percent). Other components of total assets are negligible. The rapid increase in the relative importance of loans can be traced to immediate deployment of attracted funds into new loans (79 percent), while the remaining part was mainly retained in the form of liquid assets.

Figure 4.1: Banking System's Growth Rate
Growth Rate = 55 percent or AF 29 billion



Source: Banking supervision Department/DAB

Figure 4.2: Size of Banking Sector (Total assets)
Increased by 55 percent or AF 30 billion



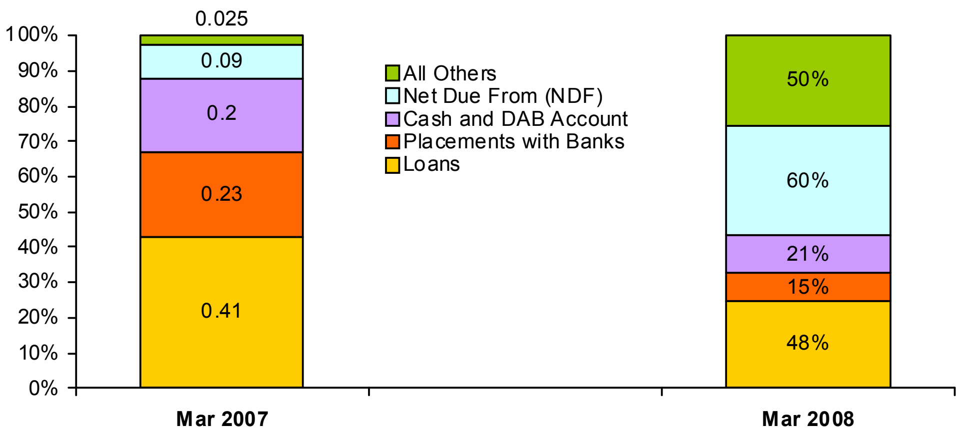
Source: Banking supervision Department/DAB

The major components of assets, as a percentage of total assets, are discussed hereafter:

1.1 Claims on Financial Institutions: Claims on financial institutions is the third largest among various asset categories, currently comprising AF 13 billion – a 16 percent increase since March 2007 total – 15 percent of total assets, indicating that the banking sector channeled a portion of its attracted funds as deposits in other financial institution, if credible borrowers were not found. Later on, if needed for liquidity purposes or after getting loan application from low-risk borrowers, these assets can be substituted to higher income earning assets.

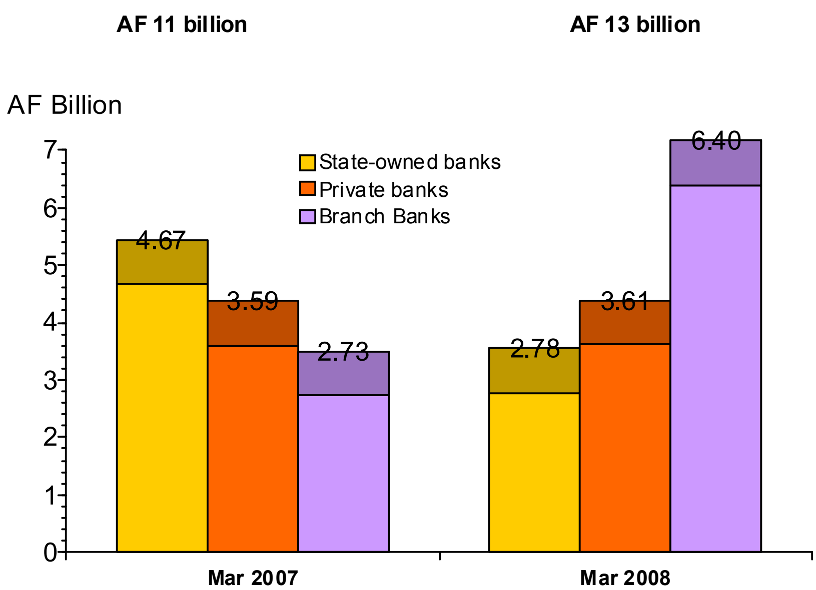
Figure 4.3: Major Asset Categories

(As percentage of Total Assets)



Source: Banking supervision Department/DAB

Figure 4.4: Claims on Financial Institutions



Source: Banking supervision Department/DAB

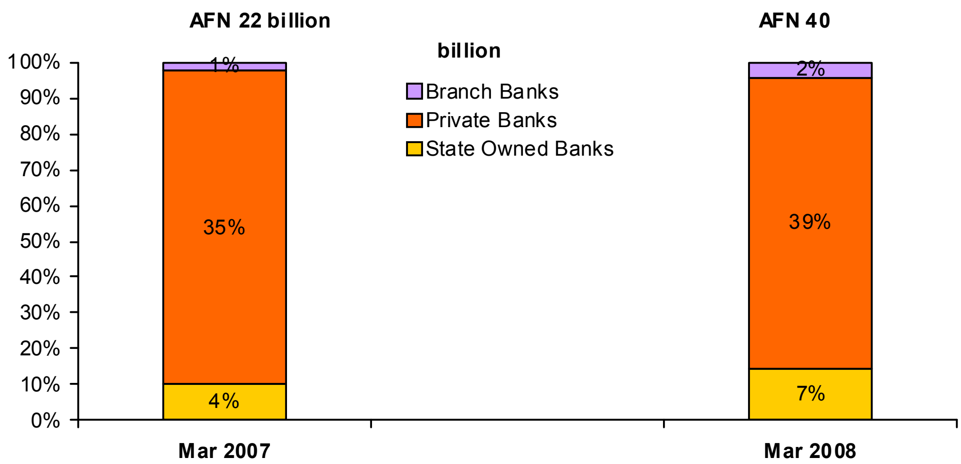
Private Banks are the leading creditors, increasing their portfolio both in absolute terms as well as percentage of total loans, currently at AF 33 billion or 82 percent of total loans. Changes in State-owned banks and branches of foreign banks' share and amount were insignificant.

1.2 Net Loans

The loan portfolio continues to grow, totaling AF 40 billion (USD 805 million) as of March 31, 2008 – a 83 percent increase since March 2007 – or 48 percent of total assets; the highest amount as well as share percentage in total assets among different asset categories. The increase occurred in the gross loan portfolio; loss reserves as percentage of gross loans remained unchanged at around 1 percent. Increases in lending were observed at all but two of the banking organizations; however more than two-third of the growth is still attributable to private bank's group; and more than half to one banking institution.

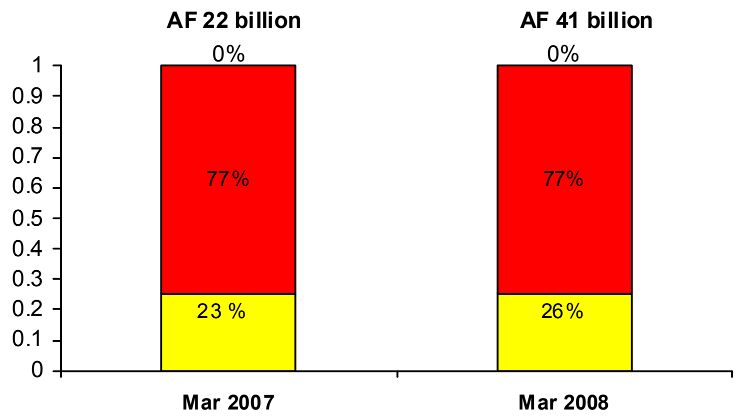
By far, the major component of loan portfolio is "other commercial loans (81 percent). This concentration in other commercial loans, to the exclusion of all other types of lending, has been the dominant trend. Thus, lending is picking up, but still not sufficient enough in some loans categories related to important sectors of the economy, e.g. agriculture.

Figure 4.5: Loans Portfolio Increased 43 percent or AFN 18 billion



Source: Banking supervision Department/DAB

Figure 4.6: Currency Composition of Loans



Source: Banking supervision Department/DAB

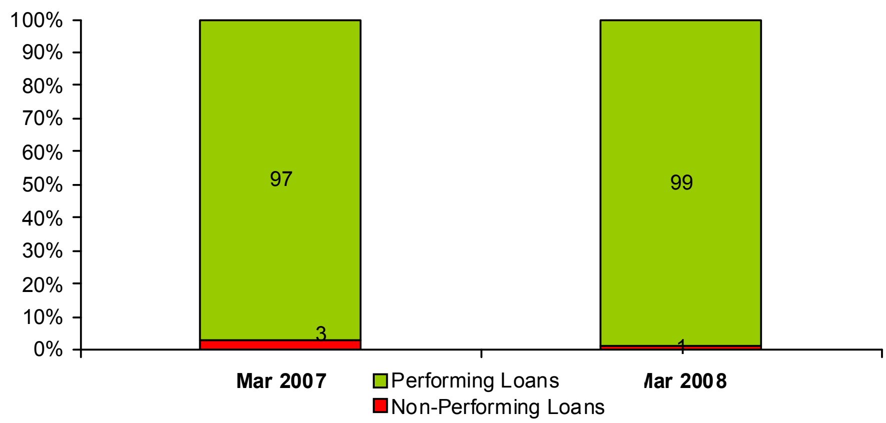
1.3 Non-performing loans

The system's non-performing loans consists 0.67 percent of gross loans and has decreased to AF 280 million, dropping by 304 million since March 2007. This is an improving sign over the year and the sector's loan administration function is still strong, limiting the NPLs percentage at the lowest possible level.

1.4 Adversely-classified loans

Adversely-classified loans increased to AF 644 million from AF 483 million at the end year 2007. However, their share percentage in total loans remained the same and stands at 2 percent. Loans under "Watch" category has doubled and other categories remained the same.. This trend should be monitored closely, to see if it is a leading indicator of future increases in adversely-classified loans, or if it is just an indication that the loan classification becomes more conservative.

Figure 4.7: Quality of Loan Portfolio

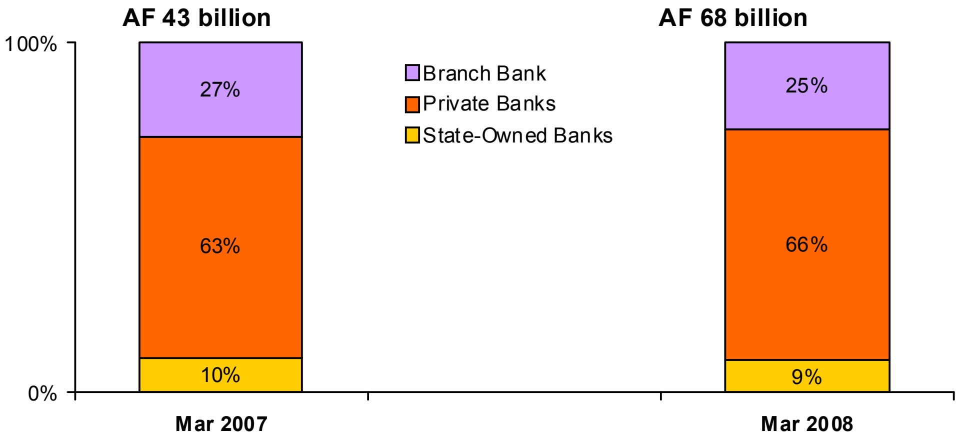


Adversely-classified loans are greater than non-performing loans, which is what one would expect given the definitions of these two indicators of problem assets.

1.5 Cash in Vault and Claims on DAB

Cash in vault and claims on DAB remains the second largest category, increasing both in absolute as well as percentage of total assets. The banking sector is considering compliance with required reserves, or deploying slowly and prudently the attracted funds into other types of assets.

Figure 4.8: Liabilities Increased by AF 25 billion or 59 percent

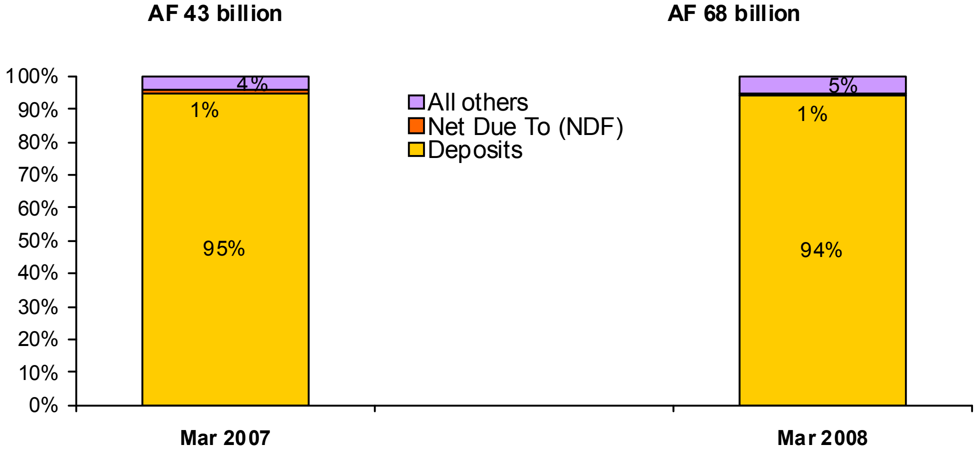


2. LIABILITIES

Total liabilities of the banking sector were AF 68 billion, up by 59 percent from March 2007. This is an indication of growing public confidence and good public relations and marketing policies of the banking sector.

Increases in deposits of branches were reflected as highly comparable increases in total assets with unrelated parties for the period, indicating a shift from a source of funds for the home office towards active engagement in the country.

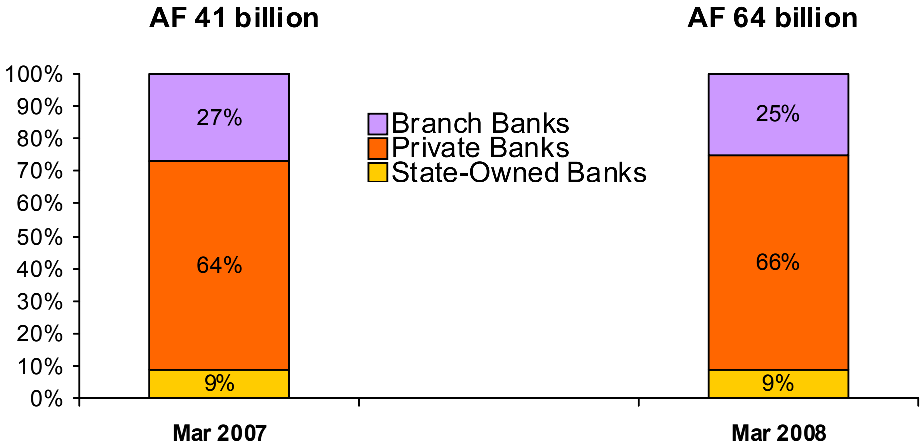
Figure 4.9: Major Liability Categories



2.1 Deposits

Deposits are the major component of liabilities, currently equal to AF 64 billion, a 58 percent or AFN 23 billion increases since March 2007. Private Banks attracted AF 17 billion more deposits, 63 percent of the total increase. Total deposits increased in absolute terms, as well as percent of total liabilities. Total deposits of private banks also increased both ways. Even though deposits of state-owned banks and branches are expanding in absolute terms, their share in total deposits has lost some ground in favor of private banks.

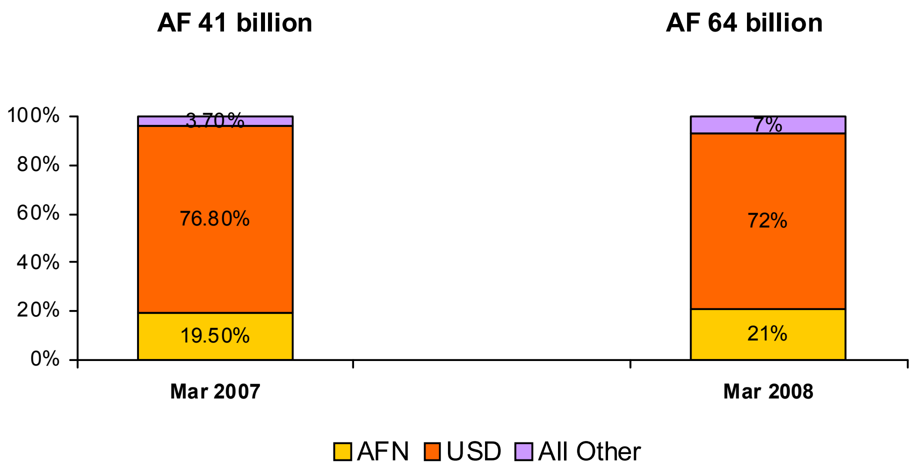
Figure 4.10: Deposits Increased by AF 23 billion or 57 percent



Source: Banking supervision Department/DAB

Other liabilities except Interest Payable remain the second major component of liabilities, up by 69 percent since March 2007, or 3.4 percent of total liabilities.

Figure 4.11: Currency Composition of Deposits



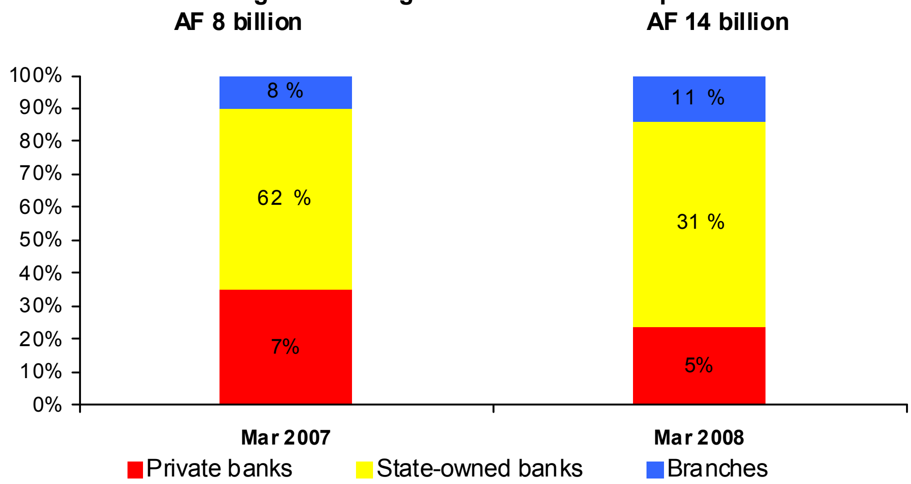
Source: Banking supervision Department/DAB

2.2 Capital

The banking system as a whole was well capitalized. Total financial capital at full-fledged banks is AF 15.8 billion, up by 39 percent since March 2007. If the 20 percent capital/assets ratio or assets support by capital is taken as benchmark which is an internationally applied ratio for the banks, the AF 15.8 billion consists 18.8 percent of AF 84 billion, which is slightly below the benchmark, while total assets of the full-fledged commercial banks are AF 67 billion.

Branches of foreign banks do not have separate capital. The most analogous concept to positive capital is the Net Due to Related Depository Institutions, primarily the home office and other branches of the same bank (NDT), while the closest analogue to negative capital is the Net Due from Related Depository Institutions, primarily the home office and other branches of the same bank (NDF). NDF is probably a normal situation for a foreign branch in the first year or so of existence when the branch is establishing itself and seeking loan customers and other investment opportunities. Supervisory action will only be required if the branch persists for another year or two in a NDF position or the bank's overall worldwide condition and performance is deteriorating. The NDT position has remained unchanged and NDF position has decrease slightly in absolute term as well as in percentage. So, two of them are in a favorable NDT position, much smaller than the relatively large, unfavorable NDF positions for the remaining three. Put differently, only two banks are actively seeking investment outlets for the funds they have attracted. The NDF position of three banks has decreased because of the activeness of one bank out of the three which has covered the high NDF position of the other. While the rest are simply sending their acquired funds to their international networks. The largest NDF position by a branch of foreign bank was AF 4 billion, up by 26 percent over the year.

Figure 4.12: Afghani Denominated Deposits



Source: Banking supervision Department/DAB

2.3 Profitability

The banking sector overall is profitable. Total net profit of the banking sector ended in the year 1386 is AF 1.2 billion, resulting in an overall return on assets (ROA) of 1.84, whereas AF 111 million net losses was incurred during year 1385, resulting in an overall return on assets (ROA) of -0.28

The main causes for the increase in ROA are significant increases in net interest income, non-interest income, and gains on FX revaluation which more than completely offset notable hikes in overhead expenses.

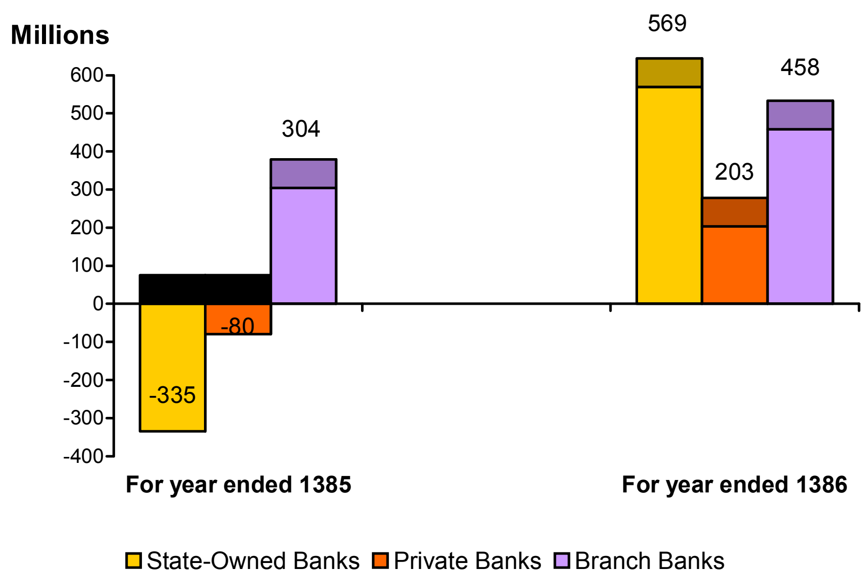
Branches of foreign banks and state-owned banks are the most profitable groups. Private Banks, as a group, is also profitable. But the reason that their profit is lower than the other two groups is mainly due to high overhead expenses of three banks which affected adversely the overall results of the group. The main reasons for profitable operations of the first two peer groups were lower credit provisions and higher net interest income and non-interest income, which more than completely offset hiking overhead expenses.

The major component of income was Net Interest Income (NII) with total amount of AF 4.75 billion, up by 58 percent since March 2007.

The second major component of income is other Non-Interest Income totaling AF 1.32 billion, a 24 percent increase since March 2007.

The most important component of expense is the Non-Interest Expense (NIE), currently equal to AF 3.99 billion, a 30 percent increase compared to previous year.

The efficiency ratio, (net interest income + trading account gain/loss + other non-interest income divided by operating expenses) of the system as a median stands at 1.34, up by 0.08 percentage point since last year. Four banking institutions ended up with lower efficiency ratios.



2.4 Foreign Exchange Risk

The level of overall open FX position risk being taken by banks is largely within the levels set by DAB, and comparatively lower in case of US dollars as an individual convertible currency.

In general, two banks are non-compliant with limits set for overall open FX position, among them one is slightly above the maximum threshold while the second one is the newest bank in the system. However, six out of ten banks are holding open FX position in USD above the maximum regulatory thresholds. This indicates that the number of banks in violation of regulatory limits are on the rise, which warrants prompt corrective action by DAB. (Branches of foreign banks are not subject to limitations on open FX position, since that risk is managed on a whole-bank basis and not branch-by-branch).

The impact of change in exchange rate upon regulatory capital of the system reveals that a 20 percent change in exchange rate would increase the regulatory capital by 3.96 percent or AFN 606 million and vice versa. Similarly, a 4 percent change would correspond to 0.79 percent or AFN 121 million.

2.5 Interest Rate Risk

Interest rate sensitivity of the banks remained largely unchanged since March 2007 and all but one banking institutions are in an asset sensitive position (benefiting from an increase in the interest rate).

(Branches of foreign banks are not required to file the interest-rate sensitivity schedule, because like FX risk, interest-rate risk is managed on a whole-bank basis).

The major reason for the overwhelming asset-sensitivity of the banks is the large excess of interest-bearing assets over interest-bearing liabilities. Although it may improve the net interest margin and overall profitability of the bank, this situation makes the banks more vulnerable to a sudden decrease in market rates.

5

EXTERNAL SECTOR DEVELOPMENTS

5

EXTERNAL SECTOR DEVELOPMENTS

This annual balance of payments (BOP) report provides breakdown of all BOP accounts. Principally, the BOP compares the external sector developments in the years 1385 and 1386.

The balance of payments' documentation reveals a surplus of USD 607.5 million in 1386 up from USD 367.8 million in 1385. The large swing in the BOP can be partly marked out to actions in the current transfers where remittance from abroad jumped to 29.4 percent in contrast of the previous year.

The current account balance, the broadest measure of the trade in goods and services, recorded a surplus of USD 82.1 million in 1386 much higher from USD -379.2 million in 1385.

This is in consistent with the net foreign asset position driven by volatile capital inflows as the economy undergoes post-conflict reconstruction. Capital and financial account continued to be positive, but with slightly decline of USD 24 million in 1386 and it was registered at USD 194.1 million in 1385.

The balance of trade is an indication of the difference between exports and imports of goods and services. The surplus in the exports of goods was recorded at USD 1.83 billion in 1386 which is 11 as a percent of GDP. This is marginally higher than USD 1.81 billion in 1385 which was almost 3 as a percent of GDP.

Imports jumped by 16 percent in 1386 reaching USD 7.8 billion in. The imports were mainly dominated by industrial supplies and raw materials (USD 450.5 million) for the construction sector which is growing in a very fast pace. Imports of the capital goods and technology (USD 951.1 million), and foodstuff or consumer goods were (USD 294.2 million) in 1386.

Domestic export increased by about 10 percent in 1386 compare to 1385. Medical plants can be credited to a big boost in exports of natural seeds and it has increased by around 108 percent in 1386 from last solar year.

Another item which contributed to the exports is the rugs and carpets (USD 212 million) in 1386.

Afghanistan's export data reveals that Pakistan is still an export destination to Afghan products and remained major trading partner pursued by India and common wealth countries.

1. BALANCE OF PAYMENTS

The balance of payments (BOP) documentation reveals a surplus of USD 607.5 million in 1386 up from USD 367.8 million in 1385. The large swing in the BOP can be partly marked out to actions in the current transfers where remittances from abroad jumped to almost 30 percent in 1386 in contrast of the previous year (1385).

The current account balance, the broadest measure of the trade in goods and services, recorded a surplus of USD 82.1 million in 1386 much higher from USD -379.2 million in 1385.

Imports jumped to 16 percent in 1386 at USD 7.8 billion in 1386. Mainly, the imports are dominated by industrial supplies and raw materials (USD 450.5 million) for the construction sector which is growing in a very fast pace. Imports of the capital goods and technology (USD 951.1 million), and foodstuff or consumer goods were (USD 294.2 million) in 1386.

Exports have been increased by almost 10 percent in 1386 compare to the export data that was recorded in 1385. Medical plants can be credited to a big boost in exports of natural seeds and it has increased by around 108 percent in 1386 from last solar year.

Another item which contributed to the exports is the rugs and carpets (USD 212 million) in 1386.

Table 5.1: Afghanistan Balance of Payments (in million USD)

	2005/06	2006/07	%	2007/08	%
	1384	1385	Change	1386	Change
Current account (including grants)	-182.2	-379.2	108.1	82.1	-121.7
Current account (excluding grants)	-4880.3	-5405.7	10.8	-6424.4	18.8
Trade balance	-4335.3	-4933	13.8	-6001.9	21.7
Exports of goods (f.o.b.) 1/	1794.8	1810.6	0.9	1834.5	1.3
Official exports	385.9	416.5	7.9	482.5	15.8
Unofficial exports	1408.9	1394.2	-1.0	1352	-3.0
Smuggling	173.7	159.3	-8.3	156.9	-1.5
Transit trade	1235.2	1234.9	0.0	1195.2	-3.2
Imports of goods (f.o.b.)	-6130.1	-6743.6	10.0	-7836.4	16.2
Official imports	-5481.7	-6049.2	10.4	-7246.2	19.8
Of which: Duty free	-3258.3	-3579.4	9.9	-4685.1	30.9
Smuggling	-648.4	-694.5	7.1	-590.2	-15.0
Services and income, net	-545	-472.7	-13.3	-422.5	-10.6
Of which: Interest due 2/ 3/	-21.2	-17	-19.8	-60.9	258.2
Current transfers	4698.2	5026.6	7.0	6506.5	29.4
Public	4361.1	4625.4	6.1	6068.4	31.2
Private 4/	337.1	401.2	19.0	438.1	9.2
Capital and financial account	356.8	194.1	-45.6	24	-87.6
Foreign direct investment	271.4	237.6	-12.5	241.8	1.8
Official loans (net)	85.4	154.9	81.4	129.5	-16.4
Disbursement	101.7	163.8	61.1	133.4	-18.6
Amortization due 2/ 3/	-16.3	-8.8	-46.0	-3.9	-55.7
Commercial banks, net	…	-198.4	0.0	-347.3	75.1
Errors and omissions (including short-term capital)	175.6	552.9	214.9	501.4	-9.3
Of which: Valuation Change	0	147.6		274.9	86.2
Overall balance	**350.3**	**367.8**	**5.0**	**607.5**	**65.2**

Financing	-350.3	-367.8	-607.5
Changes in reserve assets of the DAB	-378.5	-402.4	-698.7
Use of Fund resources (net)	0	19.8	51.4
Exceptional financing	28.3	14.8	39.8
Arrears 5/	-1.1	-132	- 11006.9
Debt rescheduling, of which: 6/	0	117.2	776.7
Capitalization of interest	0	3.6	47.4
Multilateral HIPC assistance	0	0	3.3
Debt forgiveness, of which: 3/	29.4	29.5	10270
Financing gap	0	0	0
Identified financing (provisional)	0	0	0
Of which: IMF PRGF	0	0	0
Remaining gap	0	0	0
Memorandum Items:			
Gross international reserves	1,661.80	2,064.20	2,763.00
(In months of imports) 7/	7.7	9.7	11.1
(Relative to external debt service due)	44.3	80	42.6
(Relative to commercial bank foreign currency liabilities)	2.6	2.1	2.1
Trade balance (percent of GDP)	-66.8	-63.9	-62.5
Current account balance (percent of GDP)			
Including grants	-2.8	-4.9	0.9
Excluding grants	-75.2	-70	-66.9
Private sector current account balance (percent of GDP)			
Including grants	-19.8	-18.5	-13.6
Excluding grants	-25	-23.6	-18.1
Total debt service (percent of exports) 8/ 9/	5.7	1.6	1.1
Total debt stock (percent of GDP) 8/	184	155	21

Sources: Afghan authorities; and Fund staff estimates and projections.

1/ Excludes opium exports and, due to limited data availability, flows associated with U.S. rmy and most ISAF activities.

2/ Debt service projections are based on the total stock of external debt (including estimates of unverified arrears). Given lack of data on the rate of penalty interest and ongoing bilateral negotiations, interest on overdue obligations represents an estimate by Fund staff.

3/ Assumes that Afghanistan will reach the completion point under the enhanced HIPC initiative and receive MDRI relief from IDA in 2009/10. Paris Club creditors are assumed to go beyond HIPC and provide 100 percent stock reduction on eligible debts and capitalized interest at completion point. 4/ Includes foreign transactions recently reported by licensed money changers.

5/ Arrears shown represent Fund staff estimates of debt service due, but not paid, on estimated overdue obligations. The 2006/07 and 2007/08 reduction in arrears corresponds principally to the July 2006 rescheduling of Paris Club debt on Naples terms, including the upfront cancellation of the majority of Russian claims consistent with Paris Club practice.

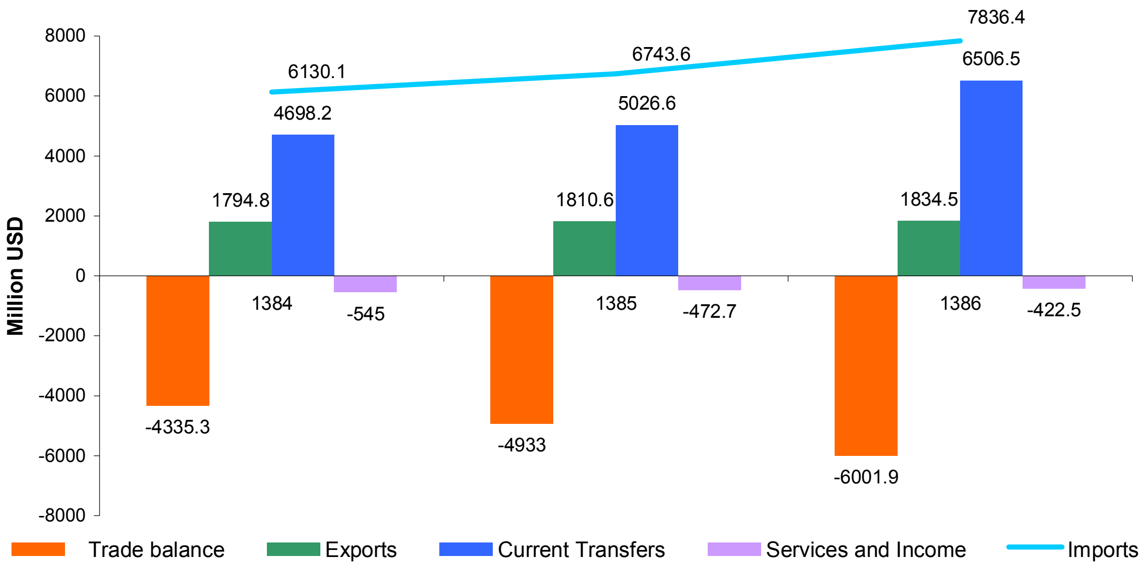
6/ Debt rescheduling includes the capitalization of interest falling due to Paris Club creditors until the completion point of the enhanced HIPC Initiative, interim assistance from multilateral creditors, and HIPC debt relief from multilateral creditors after the completion point.

7/ In months of imports of goods and services, excluding imports for reexports and duty free imports by donors. The definition of imports used for the calculation of reserve coverage has been changed to exclude duty free imports by donors that are fully financed.

8/ After HIPC and MDRI relief, as well as debt relief beyond HIPC from Paris Club creditors Debt includes obligations to the IMF. The debt stock includes the capitalization of interest to Paris Club creditors until completion point of the enhanced HIPC initiative.

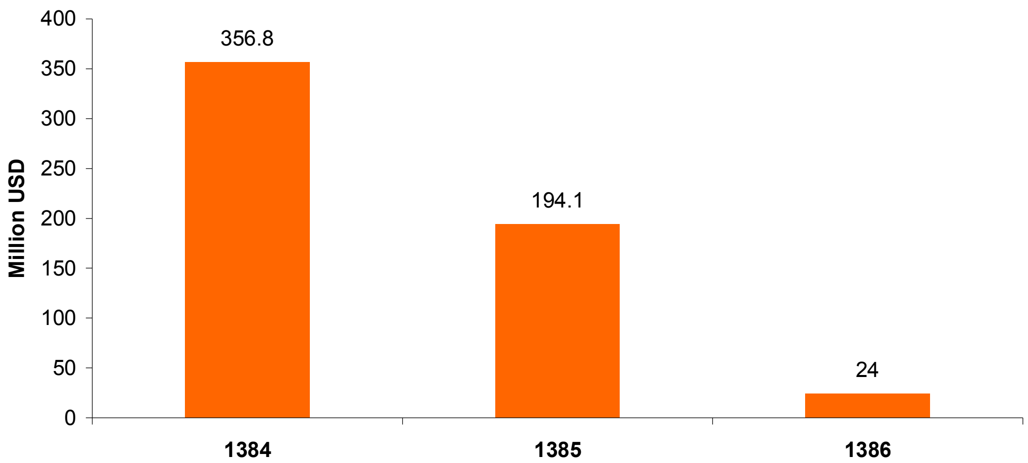
9/ Exports exclude re-exports.

Figure 5.1: Current Account



Source: Central Statistics Office and DAB staff calculations.

Figure 5.2: Capital and Financial Account



1.1. Merchandize Trade

Over the solar year 1386, the trade deficit stood at USD 2.5 billion or 26.3 percent of GDP. Table 5.2 indicates that merchandize trade by its main categories and the trade deficit as a percentage of GDP from 1382 to 1386. Imports of USD 3.02 billion were dominated by capital goods (USD 1.3 billion). Exports of USD 456.9 million were dominated by carpets and rugs (USD 212 million) and food items (USD 158 million). The trade deficit should be manageable as long as donor support continues and the deficit is declining as a percentage of GDP; however, continued steady progress in needed in the coming years to improve export performance.

Table 5.2: Merchandize trade (in million USD)

Years	1384		1385		1386	
	Total	Share (%)	Total	Share (%)	Total	Share (%)
Imports	2,470.74	100	2744.2	100.0	3021.9	100
Consumer goods	478.63	19.37	1189.11	43.33	1,289	42.7
Industrial supplies	541	21.9	68.08	2.48	78	2.6
Capital goods & others	1206.5	48.83	1133.05	41.29	1,235	40.9
Fuel & lubricants	244.61	9.9	353.95	12.90	419	13.9
Exports	383.72	100	416.46	100.00	456.48	100
Carpets & Rugs	206.94	53.93	186.57	44.80	211.76	46.39
Food items	104.11	27.13	165.15	39.66	157.76	34.56
Leather & Wool	36.51	9.51	30.76	7.39	30.42	6.66
Medical seeds & others	36.16	9.42	33.98	8.16	56.54	12.39
Trade Balance	-2,087.02		-2,327.7		-2,565.38	
Trade Balance as % of GDP	31.28		-28.19		-26.38	

Source: Central Statistics Office and DAB staff calculations

1.2. Direction of trade:

Tables 5.3 and 5.4 compare the direction of trade in 1386 with solar year 1384. Pakistan remains Afghanistan's largest export destination with slightly more than 66 percent of exports in 1386 down from 67 percent in 1382. Exports to Pakistan have increased rapidly by 212 percent from USD 96 million in 1382 to USD 383.72 million in 1386. Major trading partner Pakistan is closely followed by India that has increased its share of trade with Afghanistan by 432 percent from USD 12 million in 1382 to around USD 61 million in 1386. The ex-soviet common wealth countries are also a major export destination for Afghanistan. For instance, in 1382 exports with the Ex-soviet common wealth were USD 13 million compared to USD 28 million in 1386 an increase of 106 percent. European countries are still a good market for Afghani products despite the decline of 3 percent from USD 7.2 million in 1382 to just USD 7.01 million in the period under review.

Table 5.3: Direction of External Trade for 1382 (in million USD)

Country Name	Exports		Imports		Trade Balance
	Million of USD	% share	Million of USD	% share	
Pakistan	96.3	66.97	179.6	8.55	-83.3
India	11.5	8	119.7	5.7	-108.2
Japan	0	0	320	15.23	-320
China	0	0	378.8	18.03	-378.8
Ex-soviet common wealth	13.4	9.32	229.2	10.91	-215.8
European Countries	7.2	5.01	242.6	11.54	-235.4
Other Countries	15.4	10.71	631.56		-616.16
Total	**143.8**	**100**	**2,101.46**	**100**	**-1,957.66**

Source: Central Statistics Office and DAB staff calculations

Table 5.4: Direction of External Trade for 1386 (In million USD)

Country Name	Exports		Imports		Trade Balance
	Million (USD)	Share (%)	Million (USD)	Share (%)	
Pakistan	300.08	66.03	444.5	14.71	-144.42
India	61.23	13.47	164.03	5.43	-102.8
Japan	0.46	0.10	494.99	16.38	-494.53
China	7.01	1.54	611.3	20.23	-604.29
Ex Soviet Commonwealth	27.59	6.07	661	21.87	-633.41
Iran	5.32	1.17	138.3	4.58	-132.98
European Countries	7.01	1.54	66.06	2.19	-59.05
Others	45.79	10.08	441.68	14.62	-395.89
Total	454.49	100.00	3,021.86	100.00	2,567.37-

Figure 5.3: Direction of Exports (% share) 1382

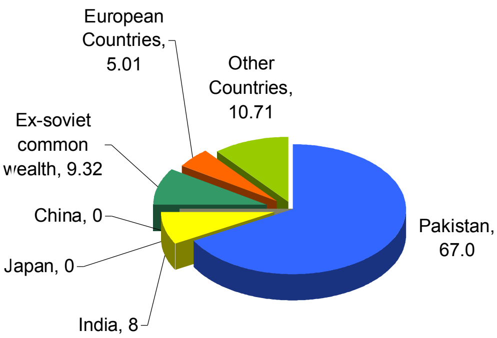
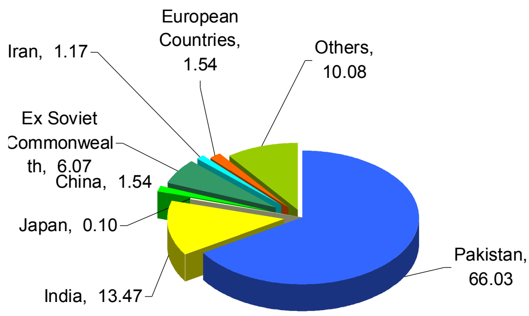


Figure 5.4: Direction of Exports (% share) 1386



Source: Central Statistics Office and DAB staff calculations

1.3. Composition of trade

Figures 5.5 and 5.6 indicate the composition of total imports for 1382 and 1386. The composition of imports in 1382 indicates that imports of "others" had the largest share at 24 percent. This was followed by "Machinery & Equipment" at 23 percent, "Textile clothing & Footwear" at 21 percent, followed by "Food items" at 14 percent, "Construction materials" at 10 percent, "Transportation equipments & Spare parts" at 6 percent, and finally " Fuel" at 2 percent.

Analysis of the composition of imports in year 1386 reveals that imports of "others" had the largest share at almost 33 percent. This was followed by "Machinery & equipment" at 21.4 percent, "Fuel" at 12 percent which followed by "Food items" at 11 percent, "Construction materials" at almost 12 percent, "Transportation equipment and spare parts" at 4 percent and finally "Textile, clothing & Footwear" at 10 percent.

Figure 5.5: Composition of imports (% share) 1382

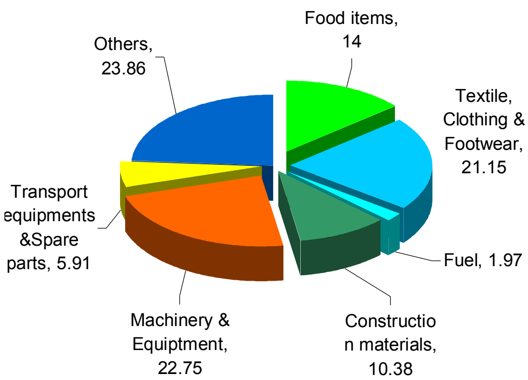
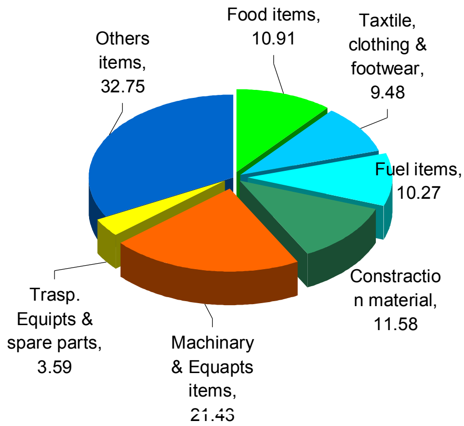


Figure 5.6: Composition of imports (% share) 1386



Source: Central Statistics Office and DAB staff calculations

Comparing imports in 1382 with 1386 indicates significant variability. The share of "others" increased significantly to 33 percent from 24 percent in 1382, on the other hand, share of the fuel also increased to 10 percent during the year under review compared to 2 percent in 1382. On the other hand, textile clothing and footwear in 1386 declined to around 9 percent from 21 percent in 1382. The share of machinery & equipment also declined to 21 percent in 1386 from 23 percent in 1382.

Figures 5.7 and 5.8 compare the composition of total exports in 1382 with that in 1386. Figure 5.7 shows the composition of exports for 1382 and is broken down by main commodities and products, "Food items" by 49 percent is the largest export component followed by the "Leather" which constituted some 19 percent of total exports. "Carpets & rugs" stood at 15 percent, "Medical seeds" at 9 percent, and finally "Wool" exports stood at 2 percent.

Figure 5.8 shows the composition of exports for 1386 and is broken down by main commodities and products, "Carpets & rugs" with 46 percent is the largest export component closely followed by "Food items" which constituted around 35 percent of total exports. "Leather" stood at almost 5 percent, "Medical seeds or plants" with almost 7 percent and finally "others" stood at 5 percent.

Figure 5.7: Composition of exports (% share) 1382

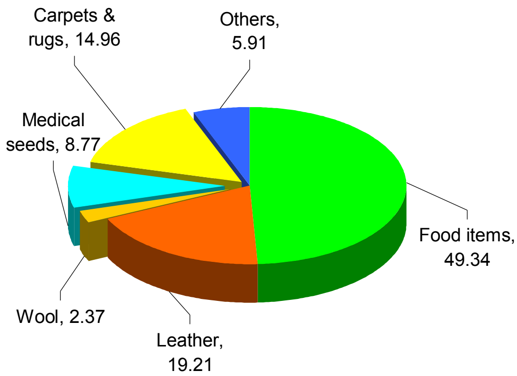
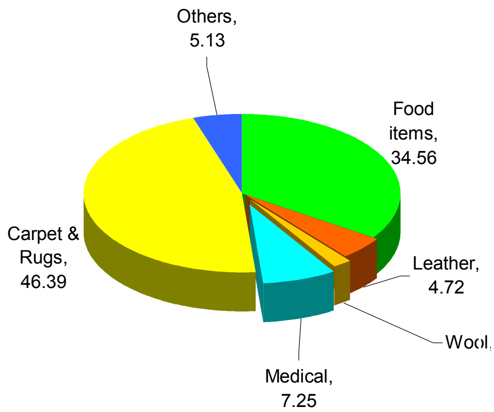


Figure 5.8: Composition of exports (% share) 1386



Source: Central Statistics Office and DAB staff calculations

From the comparison of year 1382 with 1386 of trade in 1382 and 1386 reveal similarity. There is only slight shift in the pattern; notably the share of carpet & rugs increased significantly to about 47 percent in 1386 from only 15 percent in 1382. On the other hand, the share of food items declined from 49 percent in 1382 to 34 percent in 1386. Furthermore, the share of leather decreased to almost 5 percent in 1386 from 19 percent in 1382. Finally, the share of medical seeds declined to 7 percent in 1386 from 9 percent in 1382.

2. EXTERNAL DEBT

Afghanistan's public and publicly guaranteed external debt prior to the application of traditional debt relief mechanisms is estimated at USD 11,939.4 million in nominal terms as of March 20, 2006 (Table 5.5). Afghanistan's external debt strategy continues to focus on providing a stable foundation for sustainable debt environment over the longer term. The mechanism through which external debt sustainability can best be achieved is under the Highly Indebted Poor Country (HIPC) initiative.

The Russian Federation accounts for the vast majority of total external debt (93.4 percent before the application of an up-front discount on its debt). The United States (0.9 percent) and Germany (0.4 percent) are the other Paris Club creditors. Multilateral creditors include IDA and the Asian Development Bank (ADB), representing 2.5 percent and 2.1 percent of Afghanistan's nominal debt, and Non-Paris Club creditors' accounts for 0.8 percent of total claims respectively. At the time, there was no outstanding debt to the IMF or commercial creditors.

Table 5.5: External Debt as of March 20, 2006 (in units indicated)

	In million USD	Percent of total
Total external debt	11,934.40	100
Bilateral	11,382.10	95.4
Paris Club	11,283.50	94.5
Russian Federation/1	11,127.90	93.2
United States	111.7	0.9
Germany	43.9	0.4
Non-Paris Club	98.5	0.8
Multilateral	557.3	4.7
of which: IDA	300.8	2.5
Asian Development Bank	254.6	2.1
Memorandum Items:		
NPV of debt after traditional debt relief/2	1,118.30	……..
(in percent of exports)/3	305.8	……..

1/ Before up-front 80 percent discount on Russian debt

2/After up-front 80 percent discount on Russian debt priority the application of traditional debt relief.
3/Calculated using a backward-looking three year average of exports of goods and services; excluding transit goods.

3. NET INTERNATIONAL RESERVES

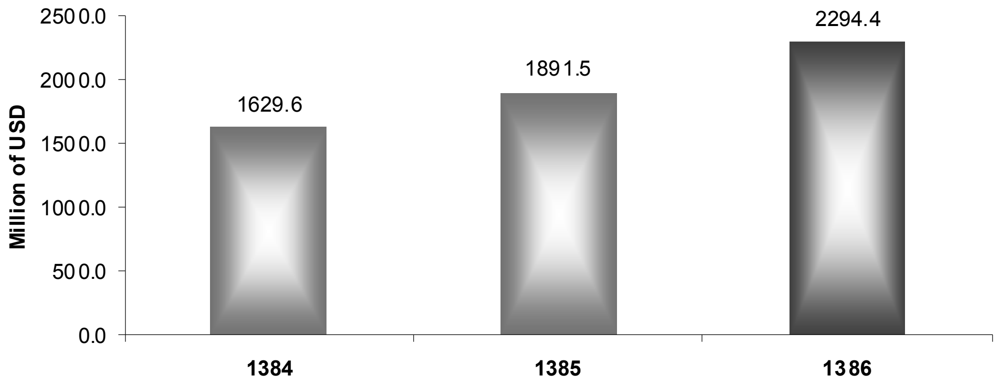
The net international reserves (NIR) held by Da Afghanistan Bank include holdings of foreign exchange and gold, IMF reserve position and holdings of Special Drawing Rights (SDR). As compared to 1385 with the current year 1386, NIR increased significantly to 21 percent (USD 2294.4 million) from USD 1891.5 million. The reserves assets increased 20.4 percent from USD 11,979.9 million to USD 2,383.9 million. While on the other side, the reserves liabilities increased to 1.2 percent from USD 88.4 million to USD 89.5 million.

The net increase in the reserves reflected the fundamentals of the economy with foreign exchange inflows generated mainly from export earnings, foreign direct investment and injections of foreign exchange by donors and multi-national forces. The reserves position of the year under review is adequate to finance 9.3 months of imports.

Table 5.6: Net International Reserves, 1386

	1384	1385	% Changes	1386	% Changes
Net International Reserves	1,629.6	1,891.5	16.1	2,294.4	21.3
Reserves assets	1,661.9	1,979.9	19.1	2,383.9	20.4
Reserves liabilities	32.3	88.4	173.3	89.5	1.2
Commercial bank deposits in foreign currency	28.2	46.6	65.4	34.8	-25.3
Non resident deposits in foreign currency	4.2	6.2	48.0	2.6	-57.8
Use of Fund resources	0.0	35.6		52.1	46.1
Memorandum items:					
Gross Reserves (in months of imports)	6.7	7.7	14.9	9.3	20.8
NIRs (in months of imports)					

Figure 5.9: Net International Reserves



Appendix I: Monetary Base and Monetary Aggregate (in million AF)

End of period	Monetary Base (M0)			Narrow Money(M1)		
	Currency Issued	Bank Deposits With Central Bank of Afghanistan	Total	Currency in Circulation	Demand deposits	Total
1385						
April	48647.8	2779.7	51427.5	42955.6	-	42955.6
May	48651.4	3270.7	51922.1	42783.4	-	42783.4
June	48651.4	3901.3	52552.7	43101.1	-	43101.1
July	50154.0	4506.9	54660.9	45421.0	-	45421.0
August	51654.0	5248.2	56902.2	46051.8	-	46051.8
September	53686.7	6369.0	60055.7	47587.0	-	47587.0
October	53686.7	4045.7	57732.4	47084.8	-	47084.8
November	54686.7	6000.8	60687.5	47317.5	-	47317.5
December	54753.7	5932.3	60686.1	46542.3	-	46542.3
January	55758.2	7064.5	62822.7	47989.7	-	47989.7
February	55758.2	7443.0	63201.2	48344.3	-	48344.3
March	57258.2	10868.7	68126.9	49655.7	-	49655.7
1386						
April	56246.95	7802.8	64049.7	48398.36	-	48398.4
May	57246.95	7342.5	64589.4	49754.57	-	49754.6
June	57646.95	7062.0	64708.9	51093.83	-	51093.8
July	58146.95	7383.0	65530.0	51931.58	-	51931.6
August	58596.95	7770.1	66367.0	53513.36	-	53513.4
September	59946.95	7649.8	67596.7	53021.08	-	53021.1
October	63246.95	8690.2	71937.2	57694.02	-	57694.0
November	63116.65	8205.5	71322.1	56488.58	-	56488.6
December	64216.65	9372.2	73588.8	57721.17	-	57721.2
January	64197.65	8309.2	72506.8	56179.88	-	56179.9
February	64086.00	8911.5	72997.5	55896.73	-	55896.7
March	65610.97	7271.0	72882.0	57931.24	-	57931.2

Appendix II: Broad Money (in million AF)

End of period	Total (M0)			Intermediate Money(M2) (in Afghan case this is called broad money)			
				Narrow Money(M1)			
	Currency Issued	OMFI balances with Central bank of Afghanistan	Total (M0)	Currency in circulation	Deposits withdrawal on demand: Demand	Deposits withdrawal on demand: Savings	Total (M1)
1385							
April	48647.8	-	48647.8	42955.6	-	-	42955.6
May	48651.4	-	48651.4	42783.4	-	-	42783.4
June	48651.4	-	48651.4	43101.1	-	-	43101.1
July	50154.0	-	50154.0	45421.0	-	-	45421.0
August	51654.0	-	51654.0	46051.8	-	-	46051.8
September	53686.7	-	53686.7	47587.0	-	-	47587.0
October	53686.7	-	53686.7	47084.8	-	-	47084.8
November	54686.7	-	54686.7	47317.5	-	-	47317.5
December	54753.7	-	54753.7	46542.3	-	-	46542.3
January	55758.2	-	55758.2	47989.7	-	-	47989.7
February	55758.2	-	55758.2	48344.3	-	-	48344.3
March	57258.2	-	57258.2	49655.7	-	-	49655.7
1386							
April	56246.95	-	56247.0	48398.36	-	-	48398.4
May	57246.95	-	57247.0	49754.57	-	-	49754.6
June	57646.95	-	57647.0	51093.83	-	-	51093.8
July	58146.95	-	58147.0	51931.58	-	-	51931.6
August	58596.95	-	58597.0	53513.36	-	-	53513.4
September	59946.95	-	59947.0	53021.08	-	-	53021.1
October	63246.95	-	63247.0	57694.02	-	-	57694.0
November	63116.65	-	63116.7	56488.58	-	-	56488.6
December	64216.65	-	64216.7	57721.17	-	-	57721.2
January	64197.65	-	64197.7	56179.88	-	-	56179.9
February	64086.00	-	64086.0	55896.73	-	-	55896.7
March	65610.97	-	65611.0	57931.24	-	-	57931.2

Appendix III: Currency in circulation (in million AF)

End of period	Currency issued and outstanding			Less Currency held by banking system	Currency in circulation
	Notes	Coins	Total		
1385			**48647.81**		
April	-	-	48647.81	5692.2	42955.6
May	-	3.54	48651.35	5867.9	42783.4
June	1000	0	49651.35	5550.2	43101.1
July	1500	2.64	51153.99	4733.0	45421.0
August	1500	96.27	52750.26	5602.2	46051.8
September	2000	32.7	54782.96	6099.7	47587.0
October	-	-	54782.96	6601.9	47084.8
November	1000	-	55782.96	7369.2	47317.5
December	-	67.05	55850.01	8211.4	46542.3
January	1000	4.41	56854.42	7768.5	47989.7
February	-	-	56854.42	7413.8	48344.3
March	1500	-	58354.42	7602.4	49655.7
1386					
April	-	-	-	7848.6	48398.36
May	1000	-	1000	7492.4	49754.57
June	400	-	1400	6553.1	51093.83
July	500	-	1900	6215.4	51931.58
August	450	-	2350	5083.6	53513.36
September	1350	-	3700	6925.9	53021.08
October	3300	-	7000	5552.9	57694.02
November	-	-	7000	6628.1	56488.58
December	1100	-	8100	6495.5	57721.17
January	-	-	8100	8017.8	56179.88
February	-	-	8100	8189.3	55896.73
March	1600	-	9700	7679.7	57931.24

Appendix IV: Central Bank of Afghanistan (in million AF)

	Foreign Assets					
	Gold	IMF-related Assets	Other	Total	Foreign liabilities	Net Foreign Assets (A)
1385						
April	19230.4	-	63,636	82866.8	758.3	82109
May	19230.4	-	66,629	85859.9	571.5	85288
June	19230.4	-	70,095	89325.4	1004.0	88321
July	19230.4	-	70,371	89601.6	933.7	88668
August	19230.4	-	70,809	90039.7	874.8	89165
September	19230.4	-	73,379	92609.6	1117.2	91492
October	19230.4	-	75,402	94632.1	2043.7	92588
November	19230.4	-	74,237	93467.9	596.3	92872
December	19230.4	-	77,913	97143.8	1076.4	96067
January	19230.4	944.3	79,593	99767.3	1124.6	98643
February	19230.4	944.3	81,487	101661.9	1819.2	99843
March	21622.0	944.3	82,647	105213.7	2626.4	102587
1386						
April	21622.0	1785	76,675	100082	-2760.0	102842
May	21622.0	1785	79,110	102516	-3297.1	105813
June	21622.0	1785	83,745	107152	-3619.8	110772
July	21622.0	1785	85,811	109217	-3343.9	112561
August	21622.0	2608	89,277	113507	-3642.8	117150
September	21622.0	2608	92,527	116757	-4503.2	121260
October	21622.0	2608	96,077	120307	-4204.4	124511
November	21622.0	2608	99,043	123273	-5218.0	128491
December	21622.0	2608	96,802	121032	-3664.5	124696
January	21622.0	2608	96,139	120369	-4645.1	125014
February	21622.0	2608	96,180	120410	-5521.7	125931
March	21622.0	2608	97,765	121994	-3806.6	125801

Appendix V: NET FOREIGN ASSETS OF THE MONETARY FINANCIAL INSTITUTIONS (in million AF)

End of period	Central Bank of Afghanistan							Total (A)
	Foreign Assets							
	Gold	Convertible Currencies	IMF- related Assets	Total foreign assets	Foreign liabilities	Net	Government & parastatal companies	
1385								
April	19230.42	82109	-	101339	758	100581	32059	132640
May	19230.42	85288	-	104519	571	103947	34150	138097
June	**19230.42**	**88321**	**-**	**107552**	**1004**	**106548**	**34374**	**140922**
July	**19230.42**	**88668**	**-**	**107898**	**934**	**106965**	**31425**	**138390**
August	19230.42	89165	-	108395	875	107520	28673	136193
September	19230.42	91492	-	110723	1117	109606	30074	139680
October	**19230.42**	**92588**	**-**	**111819**	**2044**	**109775**	**30505**	**140280**
November	**19230.42**	**92872**	**-**	**112102**	**596**	**111506**	**32717**	**144222**
December	19230.42	96067	-	115298	1076	114221	30039	144260
January	19230.42	97698	944.32	117873	1125	116749	28150	144898
February	**19230.42**	**98898**	**944.32**	**119073**	**1819**	**117254**	**29809**	**147063**
March	**21622.04**	**101643**	**944.32**	**124209**	**2626**	**121583**	**28285**	**149868**
1386								
April	21,622	100476	103236	225333	-2760	228093	-29264	198829
May	21,622	99642	102939	224203	-3297	227500	-24836	202665
June	**21,622**	**103586**	**107206**	**232414**	**-3620**	**236034**	**-25864**	**210170**
July	**21,622**	**105571**	**108915**	**236108**	**3344**	**239452**	**30019**	**209103**
August	21,622	112688	116330	250640	3643	254283	31232	223051
September	21,622	115342	119845	256810	-4503	261313	-33608	227705
October	**21,622**	**118673**	**122877**	**263172**	**4201**	**267376**	**31794**	**235582**
November	**21,622**	**121337**	**126555**	**269514**	**-5218**	**274732**	**-34230**	**240503**
December	21,622	122168	125832	269622	-3664	273287	-31373	241914
January	21,622	120678	125323	267624	-4645	272269	-36632	235637
February	**21,622**	**119181**	**124702**	**265505**	**-5522**	**271027**	**-28179**	**242848**
March	**21,622**	**125416**	**129223**	**276262**	**-3807**	**280068**	**-35893**	**244175**

Appendix VI: Financial Markets

	2006				2007				2008
	March	June	Sep	Dec	March	June	Sep	Dec	March
Interest rates (%)									
Central Bank of Afghanistan									
Rate on overnight deposits	2.50%	2.50%	2.50%	2.50%	6.61%	6.85%	6.61%	6.95%	13.66%
Remuneration on required reserves	1.50%	1.50%	1.50%	1.50%	6.72%	7.05%	6.85%	9.46%	13.66%

Appendix VII: Capital Notes Issued and Outstanding

(in million AF)

End of period	Amount maturing during period	Amount outstanding and held by		
		MFIs	Others	Total
1386				
April	795	-	-	-
May	1,000,000	-	-	-
June	800	-	-	-
July	1,000,000	-	-	-
August	650	-	-	-
September	1,000,000	-	-	-
October	790	-	-	-
November	940	-	-	-
December	1,000,000	-	-	-
January	1.425	-	-	-
February	2.1	-	-	-
March	2.21	-	-	-