Annual Bulletin

Da Afghanistan Bank
Central Bank of Afghanistan

1385
(2006-07)

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Data Notes

Data reported in this bulletin is valid as of August 1, 2007 (1386). Afghanistan uses the Persian calendar also known as the Jalali calendar which was introduced on March 15, 1079 by the Seljuk Sultan Jalal al-Din Malik Shah I, based on the recommendations of a committee of astronomers, including Omar Khayyam, 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 Report covers developments in 1385 which is equivalent to March 21 2006-March 20 2007 in the Gregorian calendar.

Afghani figures are in current Afghani unless otherwise specified. Billion means 1,000 million.

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Abbreviations

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 Afghanistan
GDP	Gross Domestic Product
ODCs	Other Depository Corporations

Governor's Statement

On behalf of the Supreme Council, I am pleased to present the first Annual Report of Da Afghanistan Bank (DAB). The Annual Report for 1385 reflects the main results of the Bank's activities aimed at keeping inflation low, maintaining the stability of the national currency and developing a robust banking sector in support of sustainable economic growth.

The year 2006 was not an easy one for the Afghan economy. On the one hand, economic growth fell short of expectations, dropping to 7.5 percent from 14 percent in 1384. The steep drop in economic growth was exacerbated by a dramatic 49 percent increase in the opium harvest in the country which led to a new record in the world production of opium. Afghanistan now accounts for 92 percent of global opium production.

On the other hand, monetary developments point to increased confidence in the national currency: consumer price inflation dropped to a historical low of 4.8 percent, the exchange rate remained broadly stable at about AF 50 per dollar, net international reserves surged to close to USD 2 billion, commercial bank deposits and lending more than doubled.

The sharp loss of pace in economic growth in 1385 was due to the precipitous drop in rain-fed agriculture as a result of drought. Agriculture, which accounted for 32 percent of GDP in 1385, dominated the economy. Cereal production registered the largest decrease in output dropping from 5.3 million tons in 1384 to 4.5 million tons in 1385. Within cereals, wheat production plummeted by a staggering 1 million tons from 4.3 million tons in 1384 to 3.4 million tons in 1385.

Government finances in 1385 were generally sound. The operating budget deficit (excluding grants) was 3.6 percent of GDP, compared to a target of 4.1 percent. Revenue collection reached 7.0 percent of GDP in 1385, or about 6.6 percent above the targeted level. Operating expenditure was 10.5 percent of GDP, which was in line with the fiscal target. However, over 40 percent of the operating budget was spent on defense, public order, and safety. Development budget expenditure, at 7.9 percent of GDP, was approximately half of the budgeted amount—an increase of over 50 percent compared to the previous year.

Monetary developments in 1385 were in line with our monetary program under the Poverty Reduction and Growth Facility (PRGF) which we are jointly monitoring with the International Monetary Fund (IMF). Currency in circulation growth was in line with nominal GDP growth of 11.3 percent and well below the 16.6 percent PRGF monetary ceiling. Reserve money grew by 23.2 percent in the year under review which was consistent with the 23.4 percent ceiling. Bank deposits with the central bank accounted for much of the 342 percent increase in reserve money up from -27.5 percent in 1384 but considerably higher than the 206.5 percent targeted under the monetary program.

International trade is an important engine of growth for a small landlocked country like Afghanistan. However Afghanistan's trade performance was mixed in 1385. The current account balance, the broadest measure of trade in goods and services, registered a deficit of USD 175 million or 44 percent of GDP. The trade deficit, the difference between exports and imports of goods, stood at USD 2.3 billion in 1385, or 28 percent of GDP. Imports rose by almost 8 percent in 1385 to USD 2.7 billion. Imports were dominated by capital goods (USD 1390 million) and industrial supplies and materials (USD 623 million). Domestic exports were up by 5.4 percent from the previous year with carpets and rugs (USD 187 million) and food items (USD 165 million) dominating the export sector. Pakistan remained Afghanistan's major export destination followed by India.

Going forward, the outlook for the economy is broadly favorable. Economic growth is projected to rebound to 13 percent in 1386, primarily due to a rebound in agricultural output. Foreign exchange reserves are expected to reach approximately USD 2.4 billion (about 5.2 months of imports) by end-1386 and the current account deficit (excluding grants) is expected to decline to 40¼ percent of GDP.

Consumer price inflation is projected to increase slightly to about 8 percent, owing to higher food prices and transportation costs, Moderate demand conditions, easing supply side pressures and well anchored inflation expectations lend further support to the benign inflation outlook. Nevertheless, foreseeable risks to future inflation remain and the DAB will remain vigilant. These risks include an oil price shock and a prolonged liquidity surge driven by strong foreign exchange inflows from remittances, the illegal opium trade and donor funds. Liquidity concerns arising from credit growth by the banking sector will also need to be monitored carefully. In light of these downside risks the Bank's monetary policy stance will require careful calibration to prevailing economic conditions.

In the medium term the policies pursued by the DAB will be geared towards sustaining and strengthening the growth of the economy, which will make it possible to raise the overall economic well-being of Afghanis, and to tackle poverty and social problems. For the DAB to do its part, government finances will need to continue its path of fiscal consolidation to support DAB's goal of maintaining price and financial stability. In addition, government-wide reforms are needed to improve the functioning of the education and health system and restart the drive for structural reforms that are intended to improve the infrastructure and enhance private sector participation in the economy. In this regard, the Afghanistan National Development Strategy will provide a sharper focus on reducing poverty, with an emphasis on raising agricultural incomes and expanding employment opportunities for all.

However, a stable macroeconomic environment, with low inflation, stable exchange rate, prudent fiscal policies and a well articulated national development strategy will not by itself generate high levels of economic growth. Finance is the handmaiden of economic growth. A well-developed banking system promotes investment by identifying and funding good business opportunities; mobilizes savings; monitors the performance of managers; enables the trading and diversification of risk; and facilitates the exchange of goods and services. These functions result in a more efficient allocation of resources, a more rapid accumulation of physical and human capital, and faster technological progress, which in turn feed economic growth.

The DAB, as the guardian of the banking system, is committed to strengthening the regulatory and supervisory framework in Afghanistan. We are determined to promote strong risk management at banking organizations including putting in place regulations on credit risk management and limits on loan concentration in a single sector of the economy. Indeed, identifying, assessing, and promoting sound risk-management practices have become central elements of good bank supervisory practice. Bringing global best practices in bank supervision to Afghanistan is a key priority in the years to come.

This report could not have been written without the tireless efforts and generous support of numerous individuals from several departments of the Bank. The work was coordinated by the Monetary Policy Department. A team under the overall guidance of Patrick Asea, Senior Macroeconomic Advisor prepared this report. The team comprised the following members of the Monetary Policy Department: Ahmad Feroz Rasekh (Acting Director), Mohibullah Safi (Deputy Director), Mohammad Riaz Masoud (Statistical Specialist), Sher Agha (Monetary Analyst), Mamoon Chakansuri (External Analyst), Abdul Basir Abbasi (Fiscal Analyst), Rahmatullah Haidari (Inflation Analyst) . Other members of the team include Allah Jan Hamdard (Capital Notes Manager) from the Market Operations Department and Abul Raheem (Deputy Director) from the Banking Supervision Department. Special thanks to Rahmatullah Haidari for superb desktop publishing work. Encouragement and support from John Ewald (BearingPoint Team Leader) is greatly appreciated. The work was carried out under the general direction of the First Deputy Governor, Samiullah Ibrahimi.

Noorullah Delawari

Governor

September 30, 2007

Supreme Council

From left to right:

Dr. M. Zakhelwal, member

Dr. Ghulam Mohammad Yailaqi, member

H.E. Noorullah Delawari, Chairman

Dr. Abdul Ghanie Ghaussy, member

Dr. Shah M. Mehrabi, member

Mr. Samiullah Ibrahimi, Deputy Chairman

Senior Management

Noorullah Delawari
Governor

Samiullah Ibrahimi
First Deputy Governor

Alhaj M. Issa Turab
Second Deputy Governor

1

THE INTERNATIONAL ECONOMIC ENVIRONMENT

1

THE INTERNATIONAL ECONOMIC ENVIRONMENT

SUMMARY

Global economic growth was sustained in 2006 with a gradual re-balancing in the composition of global growth. The pace of growth in Japan and emerging Asia continued to pick up while the upturn in the Euro area had become more broad-based. Likewise, the US economy recovered late in the year as the weakness in the housing market showed some signs of leveling off. Firm domestic demand, buoyant labor market conditions and benign financial conditions supported global economic expansion. Major central banks decided to maintain their policy interest rates but noted that inflation risks remain.

However, a number of downside risks to the global economy remain, notably a sharper than expected slowdown in the US economy, a disorderly unwinding of global imbalances and a potential increase in market volatility as risk appetite shifts. Global inflation pressures have eased slightly compared to the third quarter of 1385 but the risk from the declining spare capacity remains.

Within the region, resilient external demand and robust industrial production supported overall external activity in neighboring economies, led by China and India. Growth prospects in the region remain favorable but a sharper than expected slow-down in demand for Asian exports in view of an anticipated slow-down in the US economy could undercut growth. Domestic demand meanwhile is projected to firm up in a number of countries as oil prices stabilize and the cycle of monetary tightening nears its peak. Inflationary pressure across the region remains generally well contained though there are some concerns about inflationary pressure building up in several Central Asian economies.

Downside risks to regional growth prospects include geopolitical tensions in the gulf that could lead to a rise in oil prices, the impact of adverse climatic conditions on rain-fed agriculture and surging liquidity

1.1 United States economy rebounds

The world's largest economy rebounded in the last quarter of 2006 with GDP growth of 2.5 percent up from 2.0 percent in the preceding quarter. This reflected improvements in private consumption and nondurable goods along with stronger exports and higher public spending.

On an annual basis, GDP inched up by 3.3 percent in 2006 compared to 3.2 percent in 2005. The major contributors to the output expansion

1 THE GLOBAL ECONOMY *

were personal consumption, exports, equipment and software. The housing sector remains the largest source of downside risk to growth in the near term. However, the country's robust labor market and upbeat consumer sentiment are expected to provide support to economic activity, going forward. In addition, there are signs that the weakness in the manufacturing sector seems to be subsiding.

However recent inflation readings point to renewed inflation pressures. Higher transportation, housing and apparel prices pushed the month-on-month headline inflation to 0.4 percent in February 2007 from 0.2 percent in the previous month. Likewise, recent core inflation readings remain elevated. Other contributor to inflation over the first five months of 2006 was the rise in energy prices, but the drop in energy prices in the latter part of 2006 accounted for the deceleration in inflation. On annual basis, inflation in 2006 was 3.2 percent comparing to 3.4 percent in 2005.

1.2. Japan's economy recovers on back of brisk of investment

Economic growth in Japan accelerated to 2.2 percent in 2006 from 1.9 percent in the previous year. Significant recovery in consumption spending and investment buoyed the expansion of the Japanese economy. Consumption of durable items increased while private investment was supported by strong growth, improved bank lending and rising export growth.

Risks to the growth outlook appear broadly balanced with some cooling in exports expected in view of anticipated moderation in global growth. Near-term growth prospects also depend on whether the Q4 rebound in spending is sustained. The inflation environment continues to be subdued with consumer prices remaining in their previous year's levels in January. However, the inflation rate is projected to follow a positive trend in the coming months as the output gap continues to be positive.

1.3 Euro area growth remains robust

Growth in the Euro area remained robust on the back of strong domestic demand and exports. Real GDP growth rose to 2.8 percent in 2006 from 1.5 percent in 2005 (table 1.1). On a quarterly basis, real GDP increased to 3.3 percent in Q4 from 2.7 percent in the previous quarter.The main drivers of growth were exports especially to the economies of the euro area's main trading partners (United Kingdom, United States, Switzerland, Sweden China, Russia, Japan, Turkey, Czech Republic, and Hungary), and domestic demand. Private and government consumption maintained their momentum while investment remained solid, due to favorable financing conditions, strong corporate earnings and successful corporate restructuring

Recent survey evidences show signs of sustained growth in the early months of 2007 (late 1385), but at a possibly slower pace. Consumer confidence continued its upward trend in February, while the unemployment rate declined further in January. Euro-zone Harmonized Indices of Consumer Prices (HICP) inflation was unchanged at 2.2 percent. However, the medium to longer-term outlook for price stability remains subject to upside risks coming from the stronger than expected wage developments, renewed volatility in oil prices, further increases in administered prices and indirect taxes.

* The information presented in this chapter is drawn from publically available sources including publications of the respective Central Banks, the World Economic Outlook of the International Monetary Fund, the Economic Outlook and Country Surveys of the Organization of Economic Cooperation and Development.

Table 1.1: Euro area real GDP growth

(annual percentage changes)				2006			
	2004	2005	2006	Q1	Q2	Q3	Q4
Czech Republic	4.2	6.1	6.1	6.4	6.2	5.9	5.8
Denmark	2.1	3.1	3.2	3.5	3	3	3.1
Estonia	8.1	10.5	11.4	11.6	11.8	11	11.2
Cyprus	4.2	3.9	3.8	3.5	4.2	3.8	3.6
Latvia	8.7	10.6	11.9	13.1	11.1	11.9	11.7
Lithuania	7.3	7.6	7.5	7.9	8.3	6.9	7
Hungary	4.9	4.2	3.9	4.4	4	3.9	3.4
Malta	1.1	3	2.9	3	2.6	2.7	3.1
Poland	5.3	3.5	5.8	4.8	5.6	5.9	6.6
Slovenia	4.4	4	5.2	4.9	5.2	5.9	5.8
Slovakia	5.4	6	8.3	6.7	6.7	9.8	9.6
Sweden	3.6	2.9	4.7	4.4	5	4.5	4.9
United Kingdom	3.3	1.9	2.7	2.4	2.7	2.9	3
EU10 1)	5.2	4.8	5.9	5.5	5.8	6.1	6.2
EU13 2)	3.6	2.7	3.6	3.3	3.6	3.7	3.8
Euro area	1.8	1.5	2.8	2.2	2.8	2.7	3.3

Source: Reuters

Table 1.2: HICP inflation

(annual percentage changes)				2006			
	2004	2005	2006	Q1	Q2	Q3	Q4
Czech Republic	2.6	1.6	2.1	2.4	2.5	2.4	1.1
Denmark	0.9	1.7	1.9	2	2	1.8	1.6
Estonia	3	4.1	4.4	4.4	4.5	4.4	4.5
Cyprus	1.9	2	2.2	2.3	2.6	2.6	1.5
Latvia	6.2	6.9	6.6	7	6.5	6.6	6.2
Lithuania	1.2	2.7	3.8	3.3	3.6	4	4.2
Hungary	6.8	3.5	4	2.4	2.7	4.6	6.4
Malta	2.7	2.5	2.6	2.6	3.4	3.2	1.1
Poland	3.6	2.2	1.3	0.9	1.4	1.5	1.3
Slovenia	3.7	2.5	2.5	2.3	3.1	2.5	2.3
Slovakia	7.5	2.8	4.3	4.2	4.6	4.8	3.5
Sweden	1	0.8	1.5	1.2	1.9	1.5	1.4
United Kingdom	1.3	2	2.3	2	2.2	2.4	2.7
EU10	4.1	2.5	2.4	2	2.4	2.7	2.5
EU13	2.2	2.1	2.3	1.9	2.2	2.4	2.5
Euro area	2.1	2.2	2.2	2.3	2.5	2.2	1.8

Source: Reuters

1.4. Dollar continues to depreciate on global markets

The U.S. dollar (USD) has seen some remarkable swings against major currencies recently. For example, over most of 2005, it gained nearly 18 percent against the yen and 13 percent against the euro, while between March and May 2006, it depreciated sharply against these currencies, losing almost 10 percent of its value. These swings can partly be explained by to what is known as the carry trade. This is a strategy widely used by investors in international financial markets that is based on exploiting the existence of interest rate differentials across countries.

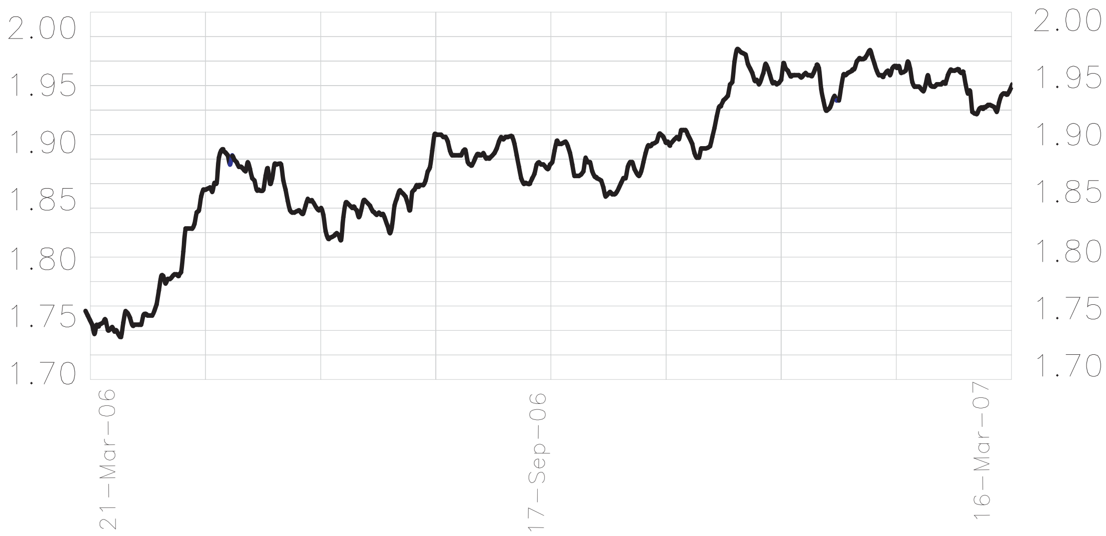
The USD depreciated against the euro by 9.2 percent in 1385 compared to an appreciation of 8.55 percent in 1384. Volatility, as measured by the standard deviation, was down slightly to 0.029 percent in 1385 from 0.036 percent in 1384.

Figure 1.1 : Nominal Exchange Rate - Euro/USD

Source: Reuters

Short-term sterling interest rates in the United Kingdom (UK) increased strongly over the year with the Bank of England Monetary Policy Committee increasing the Bank Rate by 25 basis points to 5 percent in November, 2006. The net result of the interest rate increases and market perceptions that the outlook for the UK economy remained robust prompted a steep depreciation of the USD against sterling by 11.14 percent in 1385. The volatility of USD was 0.062 percent in 1385 comparing to 0.053 percent in 1384. (Figure 1.2)

Figure 1.2 : Nominal Exchange Rate - Sterling/USD



Source: Reuters

Table 1.3: Exchange Rates of selected currencies against the USD

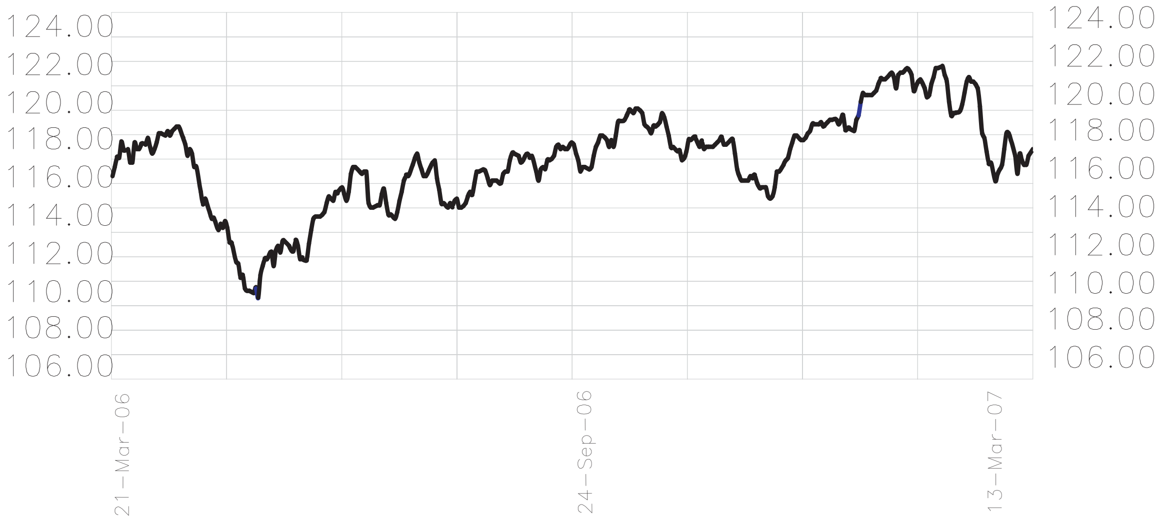
	Euro/$	GBP/$	$/JPY
Average for Q1	1.25	1.82	114.65
Average for Q2	1.27	1.87	116.03
Average for Q3	1.28	1.91	117.59
Average for Q4	1.31	1.95	119.59
Average for 1385	1.28	1.89	116.94
Lowest Exchange Rate vs. USD in 1385	1.2	1.7248	108.98
Highest Exchange Rate vs. USD in 1385	1.3364	1.9915	122.1844
% Appreciation (+)			1.2327
% Depreciation (-)	9.2	11.14	

Source: Reuters

Note: As a matter of convention, the dollar-yen exchange rate is expressed in yen per dollar. Hence, an increase in this rate indicates an increase in the value of the dollar versus the yen. In contrast, the euro-dollar exchange rate is expressed in dollars per euro. Thus an increase in this rate indicates a decline in the value of the dollar versus the euro.

The Japanese Yen was slightly weaker against the US dollar in 1385 depreciating by 1.23 percent compared to a staggering 10.9 percent depreciation in 1384. One reason for the weak Yen is that at 0.25percent, Japanese interest rates are still unattractive. Furthermore, inflation has gone up by more than the quarter-point rise in Japanese interest rates, leaving real rates close to zero and even lower than last year. Volatility, as measured by standard deviation was 2.54 percent in 1385 compared to 4.47 percent in 1384. (Figure1.3)

Figure 1.3 : Nominal Exchange Rate - USD/JPY



Source: Reuters

1.5. Monetary policy unchanged around the world

Major central banks decided to maintain their policy rate but noted that inflation risks remain. The US federal funds rate was kept at 5.25 percent for the sixth consecutive time at the March 20-21 Federal Open Market Committee (FOMC). This decision was based on indications of ongoing adjustments in the housing market coupled with the level of resource utilization in the country.

Similarly, the Bank of England (BOE) Monetary Policy Committee voted to maintain the official Bank rate paid on commercial bank reserves at 5.25 percent, during its 4-5 April 2007 meeting given evidence of a more subdued inflation profile.

The Bank of Japan likewise voted to keep its uncollateralized overnight call rate steady at 0.5 percent during its 4-5 April 2007 monetary policy meeting. It maintained that the monetary environment will be kept accommodative to ensure price stability, while achieving sustainable growth in the medium to long-term.

The European Central Bank Governing Council decided to raise its key interest rates by 25 basis points during its 8 March 2007 policy meeting. The Governing Council's decision was taken in view of the upside risks to price stability over the medium term. The said policy action will help to ensure that medium to longer-term inflation expectations in the euro are solidly anchored at levels consistent with price stability.

2 .THE REGIONAL ECONOMY

2.1 Regional economic growth supported by strong external demand

Regional economies continued to show significant growth over the last year, supported by strong aggregate demand and rising exports. Growth in regional economies---Afghanistan, Pakistan, Iran, Tajikistan, Turkmenistan, Uzbekistan, India and China--- ranged from 5.3 percent in Iran to 10.7 percent in China (Table 1.1). Inflation performance was mixed with China exhibiting the lowest inflation a 1.5 percent and Uzbekistan the highest at 19.5 percent.

2.2 China one of the fastest growing economies in the world

China's GDP grew by a remarkable 10.7 percent in 2006 compared to 10.4 percent in 2005, driven by solid investment and export growth. Faster growth in exports boosted the trade surplus from $60 billion to $194 billion in 2006. This is consistent with the growth of supply chains, where manufacturing plants in China import intermediate inputs from the rest of Asia. Processing trade, which involves the assembly and export of imported intermediate items, is the largest contributor to the trade surplus.

The surge in the trade surplus, coupled with higher tourism receipts and interest income on the large official foreign reserves, boosted the current account surplus to around $227 billion, equivalent to 8.6 percent of GDP.

Inflation was marginally lower at 1.5 percent in 2006 compared to 1.8 percent in 2005 though this masked acceleration in food prices, reflecting a sharp rise in global grain prices. In addition, housing prices in several big cities grew rapidly because of excessive liquidity, speculation, and some structural imbalances in housing supply. However, the acceleration in food prices is not expected to continue through 2007, in part because the push on rural development is encouraging the planting of grain.

2.3 Pakistan recovers well from exogenous shocks

In 2006 the Pakistan economy was under pressure to obtain strong growth for the third successive year. However, the unexpected weak harvest of some key crops (cotton, sugarcane and wheat), the impact of the October 2005 earthquake, and an unexpected rise in oil prices resulted in real GDP growth of 6.6 percent down from 8.6 percent in 2005. The Pakistan Consumer Price Index witnessed a decrease from a peak of 9.3 percent in 2005 to 7.9 percent during 2006, mainly due to monetary tightening to soften demand pressures as well as administrative measure to counter supply shocks.

Pakistan's trade deficit almost doubled to USD 12.1 billion during 2006 relative to the 2005 level.The exceptionally high deficit was the outcome of an increase of 38.8 percent in imports as compared to a moderate increase of 14.4 percent in exports during the period. The unexpected high oil prices in the international marked along with increased demand for machinery and raw material were the contributory factors behind the strong import growth.

2.4 Iranian economy exhibits mixed performance

The performance of the Iran economy was mixed with real GDP growth of 5.3 percent up from 4.5 percent in 2005 some concerns about inflationary pressures. GDP growth was attributed to an acceleration of agricultural activities following the improvement in climate conditions, and the rise in the price of oil as well as an increase in construction activities. However, inflation ticked up slightly from 12.1 percent to 14.6 percent largely as a result of changes in administered prices of oil and food staples.

Table 1.4: World Economy: Key Economic Indicators

	Real GDP Growth (%)		Inflation (%)	
	2005	2006	2005	2006
World Economic Growth	4.9	5		
Major Industrial Countries	2.6	2.9	2.3	2.3
United States	3.2	3.3	3.4	3.2
Japan	1.9	2.2	-0.3	0.3
Euro Area	1.5	2.8	2.2	2.2
United Kingdom	1.9	2.7	2	2.3
Regional Economies				
Pakistan	8.6	6.6	9.3	7.9
Iran	4.5	5.3	12.1	14.6
Turkmenistan	9	9	10.7	8.2
Uzbekistan	7	7.2	21	19.5
Tajikistan	6.7	7	7.3	10.1
China	10.4	10.7	1.8	1.5
India	9.2	9.2	4.2	6.2
Asian NIEs*				
Korea	4	5	2.7	2.2
Singapore	6.6	7.9	0.5	1
Hong Kong SAR	7.5	6.8	1	2
Chinese Taipei	4.1	4.6	2.3	0.6

* Newly Industrialized Economics
Source: Bank Negara Malaysia and Da Afghanistan Bank staff calculations.

2.5 Indian economy expands at break-neck speed raising inflation worries

The Indian economy expanded by 9.2 percent in 2006 with increased growth in mining and manufacturing offsetting the significant contraction in agricultural production, strength of consumption and increase in exports. Booming industry and construction raised gross domestic investment to 33.8 percent of GDP in 2005 maintaining the upward trend of recent years. However, slow agricultural productivity growth remains a concern as the majority of India's population still depends on agriculture for their livelihoods.

Inflationary pressures appear to be building up in the economy with the CPI rising by 6.2 percent in 2006 up from 4.2 percent in 2005 largely due to rising food prices. The wholesale inflation rate also began rising in May 2006, reaching 6.0 percent in the January 2007.

Going forward, inflationary pressures are likely to weaken due to four factors. First, tighter monetary policy by the Reserve Bank of India will limit demand expansion. Second, as a result of rising agricultural prices, the acreage under cultivation has increased and good spring harvests are expected. Third, already-high agricultural prices in 2006 will sap some of their upward momentum in 2007. And finally, cuts in import duties on key commodities, including edible oils, will help mitigate inflationary pressures.

Growth prospects in the region remain favorable but a sharper than expected slow-down in demand for Asian exports in view of an anticipated slow-down in the US economy could undercut growth. Domestic demand meanwhile is projected to firm up in a number of countries as oil prices stabilize and the cycle of monetary tightening nears its peak, Inflationary pressure across the region remain generally well contained. This could be traced to the general easing of world oil prices along with previous episodes of monetary tightening and currency appreciation, in most regional economies.

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3. COMMODITY PRICES

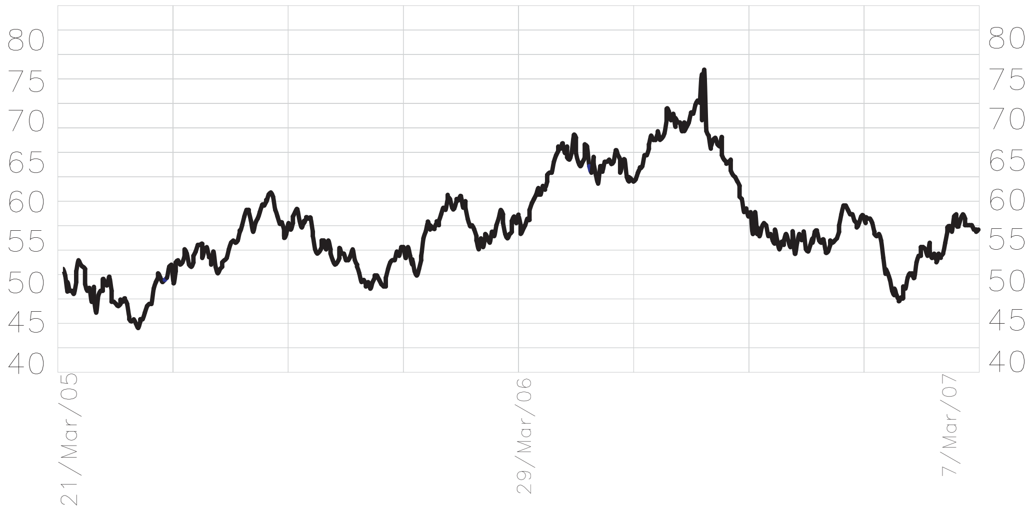
3.1 Oil prices reach record heights

Crude oil price reached an all time high in 2006. After shooting up to a historical high of USD 78.46 per barrel in early August, crude oil prices declined to a low of USD 55.18 at the end of October, 2006 before recovering to around USD 60 per barrel in December 2006.

The volatility of oil prices, as measured by standard deviation, was down slightly to 5.43 percent in 2006 from 5.51 percent in 2005.

Although many factors have contributed to higher crude oil prices, a combination of strong (and somewhat unexpected) global demand for oil since 2003 and expectations of continuing future tightness is the major cause. These demand/supply imbalances reflect robust global activity, an apparent shift in the demand for oil by China and other emerging economies, and limited investment in the oil sector in the past two decades. Naturally, given the tightness in the oil market and uncertainties about demand and supply, factors such as geopolitical developments, fears of potential supply disruptions, and speculation have also all played a part in price movements, but largely through their impact on expectations regarding future fundamentals. Refinery bottlenecks have put additional pressures on petroleum product prices-as demonstrated by the significant rise in gasoline prices following the 10 percent reduction in U.S. refinery capacity caused by Hurricane Katrina.

Figure 1.4 : OPEC Basket Price -USD per Barrel



*OPEC collects prices data on a 'basket' of crude oils of eleven oil rich countries, and uses average prices for these oil streams to develop an OPEC reference price to monitor world oil market conditions.
Source: Organization of Petroleum Exporting Countries

Table 1.5: OPEC basket oil prices

1385 (March 2006 - March 2007)	
	USD per barrel
Average for Q1	63.88107692
Average for Q2	67.08863636
Average for Q3	56.32461538
Average for Q4	54.04467742
Average for 1385	60.43
Lowest Price	47.92
Highest Price	76.54
% Change	1.104

Source: Organization of Petroleum Exporting Countries

3.2.Gold and precious metal prices increase

Gold prices increased by 20.37 percent in 1385 compared to 28.43 percent in 1384. Gold price closed the year at USD 624.91 up from USD 472.02 USD at the beginning of 1385. Demand for the metal was driven by hedge fund selling and the impact of lower energy prices on investors who purchased gold for its safe haven attributes. Precious metals are often seen as a shelter when currencies weaken and inflation accelerates because investors are worried about the value of their stocks and bonds being cheapen.

In addition, a spike in demand for jewelry, and speculation that Asian and European central banks may cut US dollar holdings in favor of gold, have also contributed to increased demand for the precious metal.

Despite the high price, the volatility for gold prices, as measured by standard deviation, in 1385 was down to 32.4 percent from 49.81 percent in 1384. (Figure 1.5)

Figure 1.5 Gold Prices in USD-(1384 -1385)

Source: Reuters

Table 1.6: Gold price in USD

1385 (21/03/2006 - 21/03/2007)	
	1Ounce Gold
Average for Q1	622.45
Average for Q2	620.68
Average for Q3	610.29
Average for Q4	646.6
Average for 1385	624.91
Lowest Price	546.5
Highest Price	725
% Change in 1385	20.37

Source: Reuters

THE REAL ECONOMY

2

2

THE REAL ECONOMY

The Afghan economy lost momentum in 1385 with growth declining to 7.5 percent from 14.5 percent in 1384. The sharp loss of pace in economic activity is attributed to the precipitous drop in rain-fed agriculture as a result of drought. Overall, agriculture continued to dominate the economy; accounting for 32 percent of GDP in 1385 down slightly from 38.2 percent in 1384. Within the agriculture sector, cereal production suffered the largest drop in output from 5.3 million tons in 1384 to 4.5 million tons in 1385. The main contributing factor for the decrease in cereal production was the output of wheat which plummeted from 4.3 million tons in 1384 to 3.4 million tons in 1385. However, other crops such as fruits showed a moderate increase in 1385.

Despite the sharp decline in overall economic performance the industrial sector was buoyant in 1385 growing by an impressive 20.4 percent in the year under review. The value of production in the industrial sector was AF. 99,067 million or 26.9 percent of GDP in 1385. Textiles was the fastest growing sub-sector of industry posting 14.5 percent growth over the year while the food, beverage, & tobacco sub-sector increased by a respectable 12.0 percent in 1385.

The service sector continued its upward trajectory increasing its share of the economy from 35 percent of GDP in 1382 to 38 percent of GDP in 1385 .The performance of the service sector was boosted by the influx of expatriates in support of the reconstruction of the country and returning Afghani citizens.

Gross Domestic Product (GDP)

The Afghan economy slowed in 1385. According to the Central Statistical Office (CSO), the economy recorded real Gross Domestic Product (GDP) growth of 7.5 percent in 1385 down from 14.5 percent in 1384.

The sharp loss of pace in economic activity is attributed to a precipitous drop in rain-fed agriculture as a result of drought. Cereal production decreased from 5.3 million tons in 1384 to 4.5 million tons in 1385. The main driver for the decrease in cereal production was wheat production which plummeted from 4.3 million tons in 1384 to 3.4 million tons in 1385. Other crops such as fruits showed a moderate increase in 1385. The overall value of agricultural production stood at AF. 117,741 million or about 32 percent of GDP in 1385.

The value of production in the industrial sector in 1385 stood at AF. 99.067 million or 26.9 percent of the GDP. Industrial output was buoyant in 1385 growing by a staggering 20.4 percent. Textiles were the fastest growing sub-sector at 14.5 percent. Food, beverage, & tobacco increased by 12.0 percent in 1385.

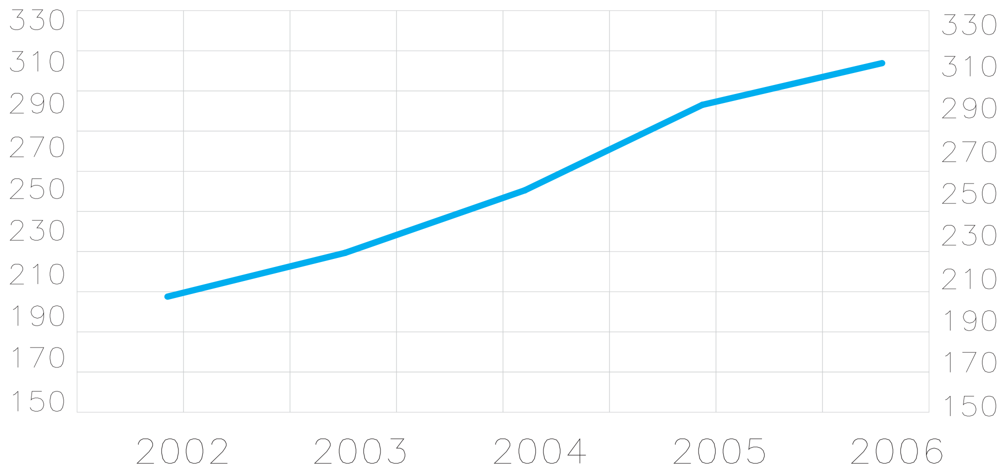
GDP per capita increased by 53 percent over the last four years growing form USD 201 to USD 306.

Table 2.1: Growth rate of GDP by origin at constant price (Annual percent change)

Solar year	1382	1383	1384	1385 est.
Calendar year	2003	2004	2005	2006est
Agriculture	**17.1**	**-4.9**	**6.7**	**-12.4**
Cereals and others	20.9	-7.5	9.5	-15.3
Fruits	2.1	2.6	0.4	5.7
Livestock	1.3	10.3	-7.3	-1
Industry	**6.1**	**32.1**	**23.9**	**20.4**
Mining and quarrying	-2.9	92.4	17.7	10
Manufacturing	-2.9	21.7	19.5	12
Electricity, gas, and water	43.2	-5.9	20	8.6
Construction	36.1	56.2	32.2	35
Services	**13.7**	**16.2**	**14.6**	**18.5**
Wholesale & retail trade, restaurants & hotels	-6.7	5.4	6.7	11.3
Wholesale & retail trade	-7.3	4.1	6	10
Restaurants & hotels	1.9	23.4	14.3	25
Transport, storage and communication	45.4	12.9	10.5	26.6
Transport & storage	56.9	12.4	10.4	22
Post and telecommunications	7.3	30.9	13.1	162
Finance, insurance, real estate and business	60.6	27.6	20.6	12
Ownership of dwellings	8	4.3	1.2	10
Community, social and personal service	-0.7	17.5	10.1	20
Producers of Government Services	-3	17.1	59.9	23
Other services	2.2	103.3	7.1	7
GDP at Market Prices	**14.3**	**9.4**	**14.5**	**7.4**

Source: Central Statistical Office

Figure 2.1: GDP per capita (USD)

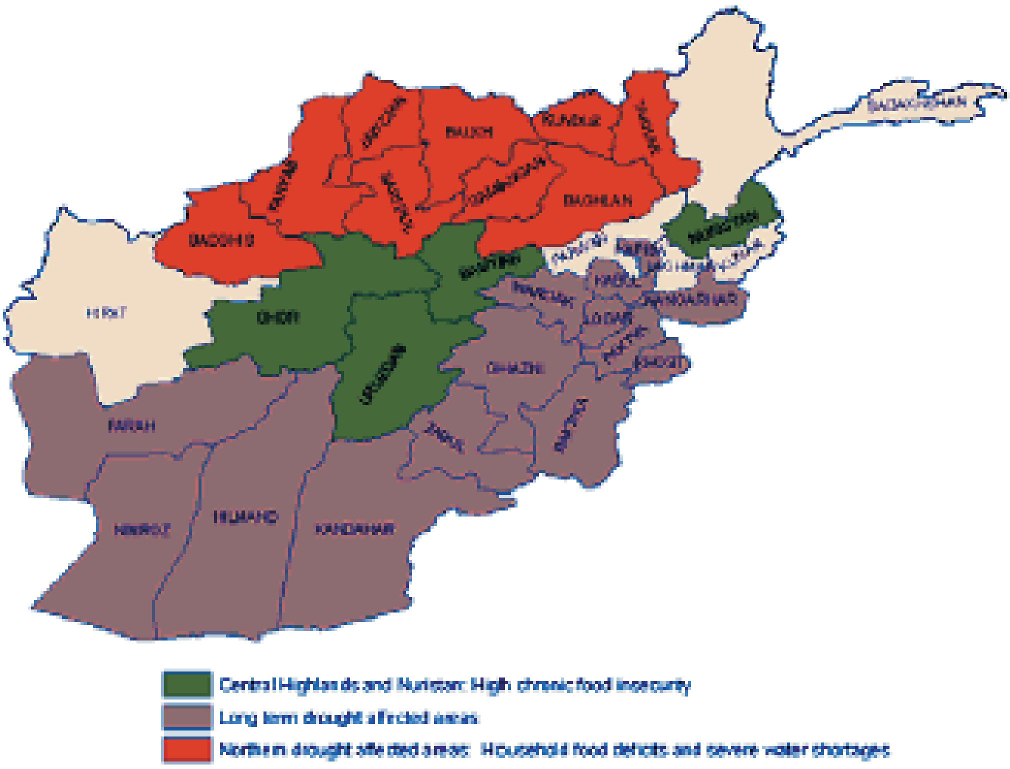


Source: Central Statistical Office

Agricultural sector

The agriculture sector dominates the economy with participation in GDP around 32 percent in 1385 down slightly from 38.2 percent in 1384. However, inadequate and poorly distributed rainfall during the 1384 winter resulted in a 50 to 80 percent loss of rain-fed cereal production in northern Afghanistan (see Figure 1). Crop losses were most acute in the northwest (i.e., Badgish, Faryab, Jawzjan, and Sari Pul provinces) and Samangan Province (in the north), due to the reliance on rainfed agriculture and lack of off-farm economic opportunities to offset production shortfalls in these areas.

Figure 2.2: Drought-affected areas



Source: Famine Early Warning Systems Network

In the chronically food insecure Central Highlands, the direct impact of the drought on agricultural production was minimal, but food security deteriorated as a result of increasing cereal prices during the winter. Although below-normal snow cover and precipitation in southern, southeastern, southwestern, and the central highlands during the 1384 winter led to shortages of irrigation water, households in these areas have diversified their livelihood activities during the past eight years of drought.

Box 1. Seasonal Planting and Harvesting Calender

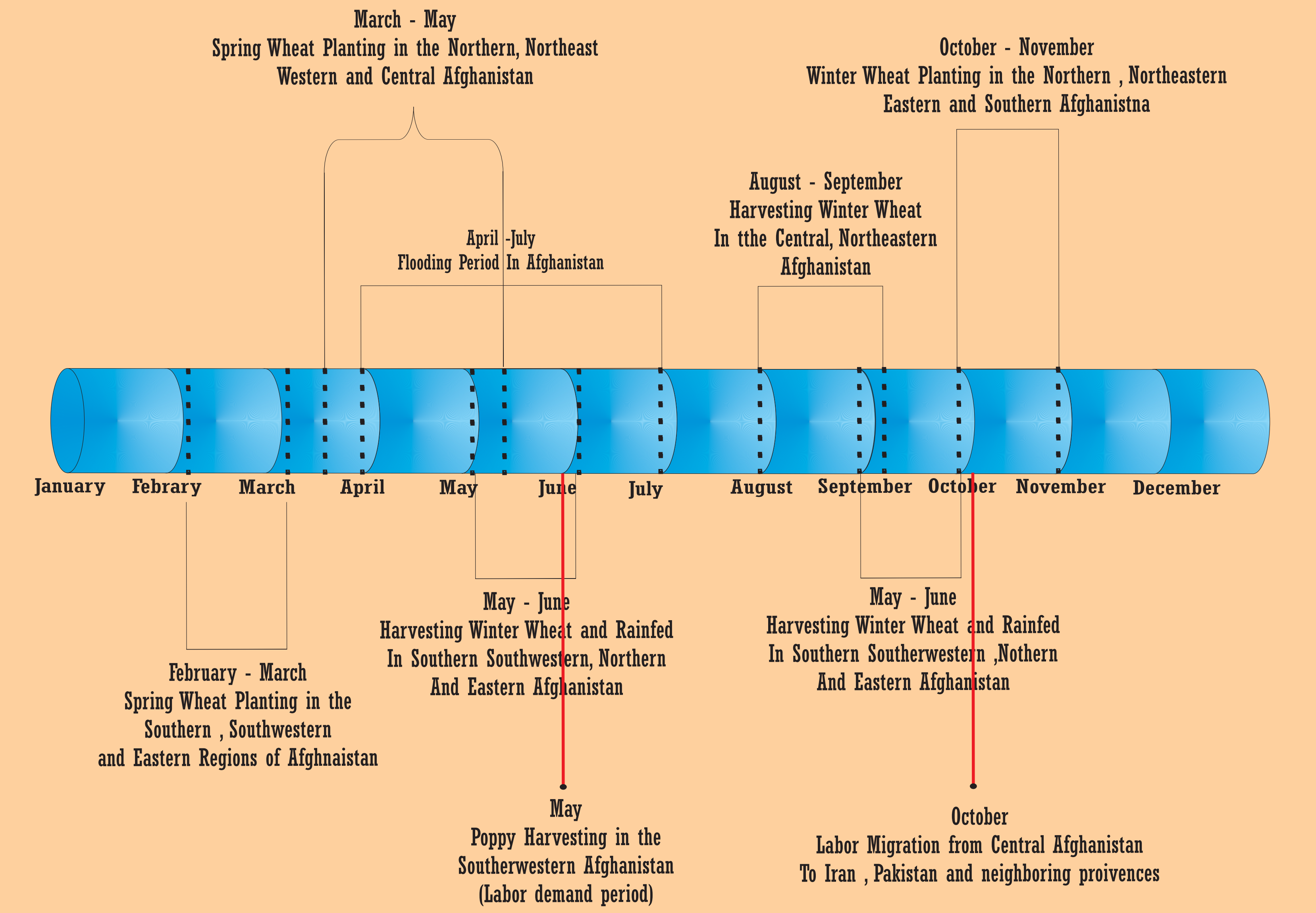
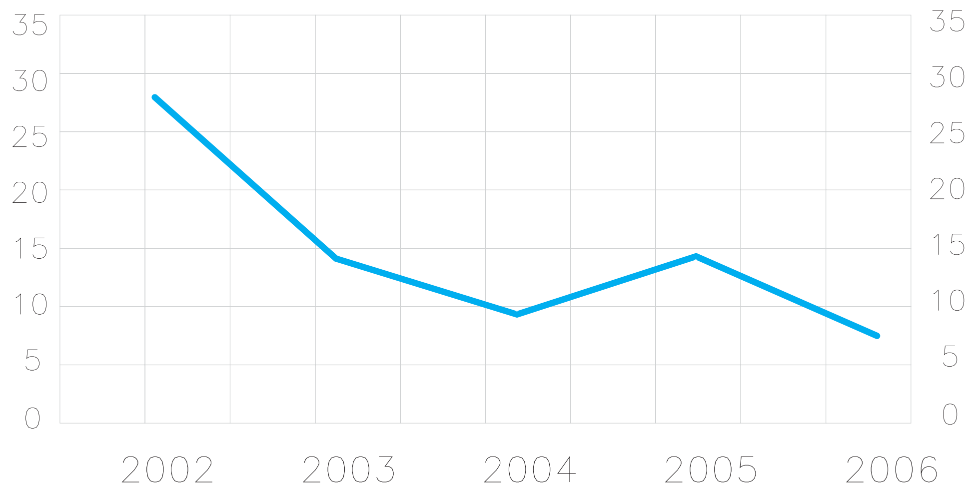


Figure 2.3: GDP Growth Rate (%)



Source: Central Statistical Office

Industrial performance loses momentum

Industrial production was mixed in the year under review with all sub-sectors posting lower growth rate compared to the previous year. As a result, industrial production lost momentum with growth performance of 21.3 percent slightly down from 23.9 per cent a year ago. The main driver of industrial production was the construction sector which grew by 30 percent slightly down from 32.2 percent in the previous year. This was largely a result of post-conflict reconstruction efforts across the country. The manufacturing sub-sector grew by 16.4 per cent down from 19.5 percent the previous year; while the mining sub-sector grew by 10 percent down from 17.7 percent the year before. The electricity gas and water sub-sector dropped to single-digits growth of 8.6 percent down from 20 percent in 1384.

Service sector is buoyant

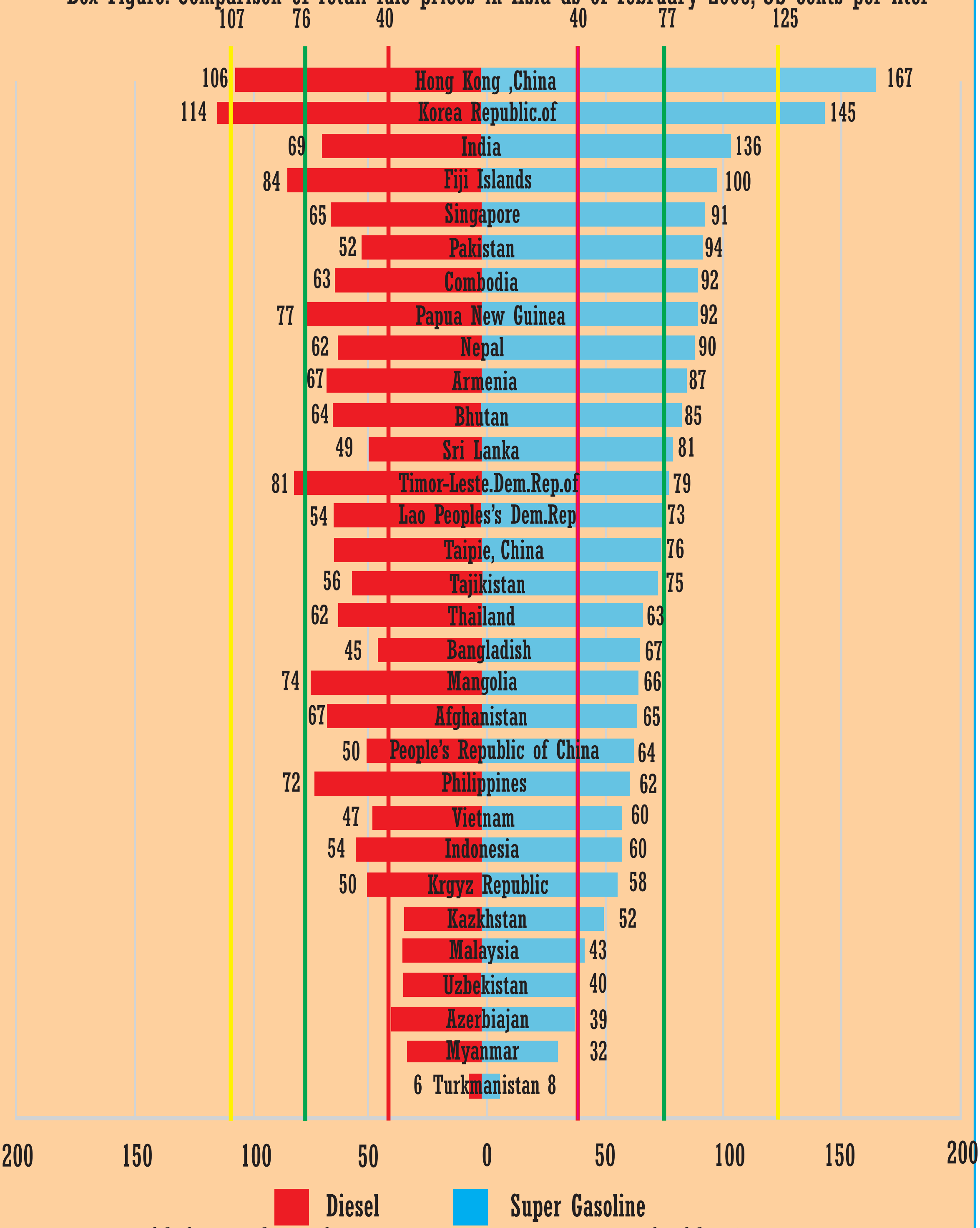
The services sector, with a growth rate of 18.5 per cent during the year under review compared with 14.6 per cent a year ago, continued to be the key driver of economic activity.

All sub-sectors in the services category except 'ownership of dwellings' and 'other services" registered double-digit growth rates, offsetting the deceleration in agriculture. The sub-sector 'restaurants, hotels, wholesale and retail trade' grew by 14.1 percent up from 6.7 percent the year before. The sub-sector 'restaurant and hotels' was the star performer with a growth rate of 25 percent up from 14.3 percent the year before. Hotels and restaurants benefited from buoyancy in expatriate and tourist arrivals. The sub-sector 'financing, insurance, real estate and business services'

BOX 2: How Much Does Afghanistan Subsidize the price of Fuel?

The box figure below, which provides an indication of the extent of government subsidies, shows retail prices of transportation fuels-super gasoline and diesel-during the first 2 weeks of February 2006 for selected developing Asian economies. Following the methodology adopted by the German Technical Cooperation (GTZ), the box figure shows three sets of colored vertical lines defining benchmark prices. The red lines (40 US cents per liter) indicate the cost per liter of crude oil, which was $63 per barrel at that time.

Box Figure: Comparison of retail fule prices in Asia as of February 2006, US cents per liter



Retail fuel prices of Luxembourg =approximate minimum entrance level for 10 European Union accession countries

Retail fuel prices in the United States=average cost=covering retail prices including industry margin, VAT, and approximately 10 US cents for the two road funds {federal and state}. This fuel price s, as it has no other specific fuel taxes, may be considered the international minimum benchmark for a non subsidized road transport policy

Crude oil prices on the world market (Brent at Rotterdam)

Sources : National press reports ; surveys by ADB resident missions; Fuel Price Report , February 2006,available:

http://www.theaa.com/onlinenews/allaboutcars/fuel/2006/February2006.doc;

http://www.eia.doe.gov,downloaded 22 March 2006.

The green lines are the US retail prices plus 10 US cents per liter of taxation for road infrastructure (77 US cents per liter for gasoline and 76 US cents per liter for diesel). The yellow lines represent Luxembourg product prices (125 US cents for gasoline and 107 US cents for diesel). Only Hong Kong, China and the Republic of Korea priced their gasoline and diesel close to the yellow benchmark lines of Luxembourg.

For gasoline, a large number of economies (14) in developing Asia charged the US retail price benchmark or more, while a smaller number (5) charged the US retail price benchmark net of the 10 US cents allowance for taxation. This does not necessarily indicate that full cost recovery was practiced in these countries' pricing mechanisms, as cost recovery depends on refining and distribution efficiency as well as on infrastructure maintenance costs. Economies pricing up to the green benchmark line likely recovered at least their crude and refining costs.

Afghanistan with a diesel price of 67 US cents per liter did not recover its crude and refining costs in 2006. In Afghanistan, the petrol price has increased since February 2006 to approximately 36 AF per liter by March 2007 which shows an increase of 7.4 percent. With US 72 cents above the green benchmark line it is likely that Afghanistan is now able to recover its crude and refining costs in petroleum.

Indonesia used to cover only crude costs, but even as gasoline prices were put up by 149% since February 2005, retail prices remained below the green benchmark line. In Turkmenistan, which is one of the net oil and gas exporters of Central Asia, retail prices covered a very small fraction of crude costs. Azerbaijan priced almost up to the red benchmark line. Malaysia and Uzbekistan covered crude oil costs, but retail prices remained heavily subsidized. In late February 2006, gasoline prices were raised by 19% in Malaysia, but the Government estimates that the new prices would be 28% higher still if subsidies were removed. Retail prices in Myanmar fell short of crude oil costs, even as gasoline prices were raised more than eightfold in October 2005 to curb a thriving trade in the black market.

For diesel, several countries—Azerbaijan, Kazakhstan, Malaysia, Myanmar, Turkmenistan, and Uzbekistan—charged less than the indicative crude costs. As with gasoline, most of the countries that did not charge up to the red benchmark line are oil producers and net oil exporters. Myanmar, despite having lifted diesel prices more than ninefold in the last quarter of 2005, still has heavily subsidized retail prices. Malaysia estimates that domestic retail prices of diesel would be 25% higher if government subsidies were removed. Still, another 19 countries did not price up to the US retail price benchmark.

More economies provided greater subsidies for diesel than for gasoline. This is because diesel is commonly used by public utility vehicles, and the poor stand to benefit from the subsidy by way of lower transport fares. However, an unintended effect is that private car owners who use diesel-run vehicles also benefit from the government subsidy.

Since 15 February 2006, crude oil prices have risen further, but these increases have not been fully reflected in domestic retail prices of most developing Asian economies. Instead, subsidy bills continue to grow, fuel tax revenues are generally on the slide, and losses of state owned and controlled petroleum distribution companies continue to rise.

Sources: Surveys by ADB resident missions; Fuel Price Report, February 2006, available: http://www.theaa.com/onlinenews/allaboutcars/fuel/2006/February2006.doc; DataStream; Energy Information Administration, available: http://www.eia.doe.gov; national press reports

BOX 3: The likely impact of an oil price shock on the Afghan economy.

The sharp upward spike in the price of crude oil in 1385 to USD76.54 per barrel, a nominal all-time high, has raised concerns about its macroeconomic implications and the appropriate policy response by the authorities.

Afghanistan has unique set of circumstances that complicates the appropriate policy response: it is a land-locked oil importer, has a very low per capita income (USD 330), high level of oil imports relative to GDP (21%), large current account deficit relative to GDP (45%), high external debt (HIPC eligible), and no access to borrow on international capital markets.

When analyzing the expected macroeconomic impacts of an oil shock it is important to distinguish between short term and long-run impacts and whether the shock is transitory or permanent. In addition, the vulnerability to an oil price shock will depend on its various dimensions: the degree of oil import dependence (the proportion of oil consumption that is imported), the degree of oil resource dependence (the ratio of oil to total energy use); and the energy intensity of the economy (the ratio of energy use to real gross domestic product). The first two are likely to be quite high in Afghanistan making the country more vulnerable to the oil shock than most agricultural-based economies.

The most immediate direct effect of an oil shock will be the rise in the price levels of fuels for transport. Second, there will be an indirect price effect via transported commodities especially food as well as higher import prices due to increased prices in trading partner countries. Third and perhaps most importantly are the second round effects on inflation expectations which have the potential to extend the price effect beyond the initial once-off rise.

The immediate negative effect on the current account of a higher import bill may be compounded by lower export revenues (for oil-intensive goods and services such as tourism and manufacturing) if the shock induces an international economic slowdown or global recession.

The impact of the oil shock on the terms of trade depends on the magnitude of the oil price change relative to the change in the price of Afghanistan's key export (carpets and dry fruits). The net impact on the terms of trade is likely to be negative.

National income, measured by gross domestic product will suffer a negative income effect as the oil bill rises and to the extent that general exports are depressed. In the absence of international assistance, the lack of access to international capital markets will likely make the impact of higher oil prices on output relatively large, as it will have to be met primarily through a reduction in domestic demand.

Therefore the major policy issue for Afghanistan is its inability to cushion the impact of the terms-of-trade shock. This implies that, in the absence of additional concessional official finance, the adjustment to the oil price hike would need to come from a reduction in domestic demand relative to output. Such an adjustment would most probably require a combination of fiscal tightening and depreciation in the real exchange rate. As long as an adequate policy response is implemented, there would be a strong case for additional international assistance to help cushion the short-term disruptions caused by an oil price hike that appear likely to be temporary.

Key lessons for Afghanistan from past oil shocks are:

Monetary policy should not accommodate impacts of oil price shocks. The only way for relative prices to adjust to reflect the increasing scarcity of oil is for the general price level to rise. Indeed, it is important to take action to pre-empt the effects of the consequent inflationary pressures. If the monetary authorities accommodate an oil price shock, the resulting increase in inflation tends to get incorporated into inflationary expectations, which become persistent and significantly raise the costs of the subsequent disinflation.

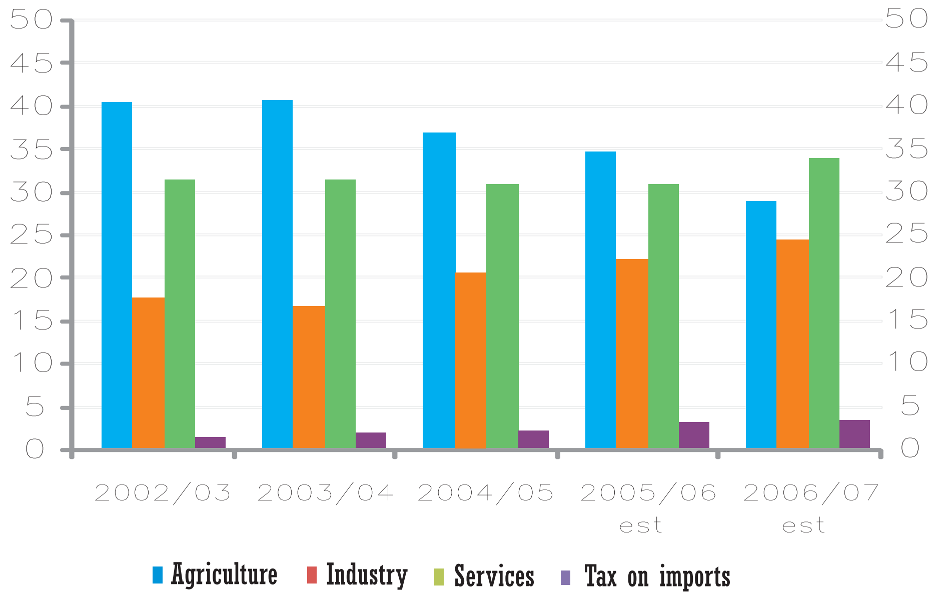
The underlying fiscal stance should remain broadly unchanged. Accommodating an oil price

Table 2.2: Gross Domestic Product by Sector (% share of GDP)

Solar year	1381	1382	1383	1384 est	1385 est
Calendar year	2002/03	2003/04	2004/05	2005/06 est	2006/07 est
Agriculture	**44.6**	**45.1**	**40.7**	**38.2**	**32**
Cereals and others	35.7	34.9	30.6	30.3	24.3
Fruits	3.1	2.9	2.7	2.1	2.1
Livestock	5.8	7.2	7.4	5.9	5.6
Industry	**19.5**	**18.3**	**22.8**	**24.5**	**26.9**
Mining and quarrying	0.1	0.1	0.2	0.2	0.2
Manufacturing	14.8	12.8	14.9	15.2	16.1
Food, beverage, & tobacco	14.1	12	14.1	14.3	15.2
Textile, wearing apparel & leather	0.1	0.2	0.1	0.2	0.2
Wood & wood prod. incl. furniture	0.015	0.016	0.033	0.027	0.028
Paper, paper prod. printing, publishing	0.006	0.005	0.004	0.004	0.004
Chemicals & chem petroleum, coal, rubber, plastic	0.4	0.3	0.4	0.4	0.4
Non-metallic mineral except petroleum & coal	0.2	0.2	0.2	0.2	0.2
Metal basic	0.01	0.02	0.04	0.04	0.04
Electricity, gas, and water	0.1	0.1	0.1	0.1	0.2
Construction	4.4	5.2	7.6	8.9	10.4
Services	34.7	34.6	34.3	34.1	37.5
Wholesale & retail trade, restaurants & hotels	9.8	8.9	8.9	8.4	8.9
Wholesale & retail trade	9.2	8.3	8.2	7.6	8
Restaurants & hotels	0.6	0.6	0.7	0.7	0.9
Transport, storage and communication	10.3	11.4	8.9	9.3	11.5
Transport & storage	9.9	11	8.4	8.8	10.4
Post and telecommunications	0.4	0.4	0.5	0.5	1.1
Finance, insurance, real estate and business	0.7	1	1.2	1.3	1.4
Ownership of dwellings	5.4	5.2	5.1	4.4	3.5
Community, social and personal service	1.1	1	1	0.9	1.1
Producers of Government Services	5.1	5.1	5.2	6.5	7.7
Other services	2.3	2	3.9	3.4	3.5
Total	**98.7**	**98**	**97.8**	**96.7**	**96.4**
Less: Imputed bank service charge					
Taxes on imports	1.3	2	2.2	3.3	3.6
GDP at Market Prices	**100**	**100**	**100**	**100**	**100**

Source: Central Statistical Office

Figure 2.4: Sectoral Composition of GDP



Source: Central Statistical Office

Outlook for the real economy is favorable

Going forward, the outlook for the real economy is broadly favorable. Economic growth is projected to rebound to 13% in 1386, primarily due to a rebound in agricultural output. The services sector is expected to continue to post double-digit growth rates as reconstruction efforts come on stream and the security situation improves. Nevertheless, foreseeable downside risks remain. These risks include an oil price shock that would dampen real economic activity and the opium trade which distorts economic incentives and exacerbates the security situation.

FISCAL DEVELOPMENTS

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FISCAL DEVELOPMENTS

SUMMARY

Fiscal performance exceeded expectations in 1385 despite intense spending pressures to meet public sector wage increases, finance the fuel subsidy, scale up road construction and meet pension payments.

Discipline in the conduct of fiscal policy continued to be the foundation of macroeconomic reforms in Afghanistan. In 1385 revenue collection grew from (AF 21,665 million which excludes GSM License Fees) to AF 28,660 million which represents a 32percent increase from the previous year. Revenue collection exceeded the PRGF (Poverty Reduction and Growth Facility) revenue target by 6.1 percent. Revenue effort as a proportion of GDP was 7 percent up from 5.7 percent in 1384. Furthermore, the operating budget as a ratio of GDP rose to 10.5 percent in 1385 from 8.9 percent in 1384.

The operating budget deficit (excluding grants) was 3.6 percent of GDP, compared to the PRGF target of 4.1 percent.

Operating expenditure reached 10.5 percent of GDP which was in line with fiscal targets. However, over 40 percent of the operating budget was spent on defense, public order, and safety reflecting the difficult security situation prevailing in some parts of the country. The development budget expenditure, at 7.9 percent of GDP, was approximately half of the budgeted amount—an increase of over 50 percent compared to the previous year.

The Medium Term Fiscal Framework (MTFF), which is the cornerstone of governments' fiscal reform efforts, was endorsed by cabinet. Legislation to eliminate nuisance taxes was submitted to parliament. Efforts are continuing to strengthen payroll control by making the certified payroll fully operational.

Going forward, Afghanistan's medium-term fiscal prospects are broadly favorable. Revenue is expected reach AF 35.7 billion or 7.3 percent of GDP in 1386. Operating expenditure is projected to reach AF 53.6 billion or 11 percent of GDP in 1386. AF 77 billion has been budgeted for development expenditures. Higher than expected funding from the Afghanistan Reconstruction Trust Fund will free domestic resources for key priorities in the development budget.

Fiscal performance exceeds expectations

Budget execution in the year under review was commendable 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.

Moreover, revenue performance at the end of the fiscal year was better than expected. In 1385, revenues reached AF 28,660 million compared to 1384 (AF 21,665 million which excludes GSM License Fees). This represents an increase of 32 percent from 1384 as seen from Table 3.1.

Revenues exceeded the PRGF revenue target of AF 27,015 million by 6.1 percent as Table 3.1. Revenue effort (revenue as a percentage of

GDP) was 7 percent up from 5.7 percent in 1384.

The favorable revenue performance was dominated by a surge in customs revenues which ended the year at 40.4 percent of total revenues. This surge in customs revenues reflects Afghanistan's increasingly open economy though some one off changes such as the transfer of funds previously accumulated in provincial accounts to DAB's central accounts also contributed to customs revenue performance. Sales taxes accounted for 18.4 percent of total revenues largely due to intensified efforts by the Large Taxpayer Office to collect the business receipts tax. Administrative fees accounted for 13.4 percent of total revenues and income taxes lagged behind other categories at 12.1 percent of total revenues. (Table 3.1)

Table 3.1: Revenues remains on an upward trend

Particulars	1383 2004/05	1384 2005/06	1385 2006/07
IMF Forecast, m AF	12,780	18,328	27,015
Total Revenue m AF	12,800	21,665	28,660
% of Total Revenue to Forecast	0.20%	12.70%	6.10%
Growth of Revenue		61.30%	32.00%
Revenue Effort	4.50%	5.70%	7.00%

Source: Ministry of Finance and DAB staff calculations

Table 3.2: Sources of revenues

Code	Description	Million AF as of 15 May 2007	Share to Total Revenues
111	Fixed Taxes	414	1.40%
112	Income Taxes	3,459	12.10%
113	Property Taxes	75	0.30%
114	Sales Taxes	5,269	18.40%
116	Other Taxes	976	3.40%
117	Tax Penalties and Fines	196	0.70%
120	Customs Duties and Fee	11,581	40.40%
131	Incomes from Capital Property	123	0.40%
132	Sales of Goods and Services	2,082	7.30%
133	Administrative Fees	3,841	13.40%
134	Royalties	24	0.10%
135	non Tax Fines and Penalties	79	0.30%
140	Miscellaneous Revenues	187	0.70%
171	Social Contributions	354	1.20%
Grand Total		**28,660**	**100%**

Source: Ministry of Finance 1385 AFMIS/Free Balance as of 15 May 2005

Notes: 1385 Actual Revenues excludes GSM License Fee (AF 1.94b), Sale of Kunar Woods (AF 321m), and Sale of Land Buildings (AF 77m).

Following the 1385 public expenditure review, the operating expenditures as a ratio of GDP, rose to 10.5 percent in 1385 up from 8.9 percent in 1384 as seen in Table 3.2. This was largely attributed to various fiscal pressures that emerged during the year under review including security related spending which consumed 40 percent of the operating budget, education which consumed 20 percent of operating expenditures and development expenditures which accounted for 7.8 percent for operating expenditures

Table 3.3: 1385 Expenditure review

Particulars	1384	1385 ER	1386
Domestic Revenue as a % of GDP	6.30%	6.50%	7.20%
Operating Budget as a % of GDP	8.90%	10.50%	10.90%
Compensation as a % of GDP	5.20%	6.30%	6.90%

Source: Ministry of Finance and DAB staff calculations

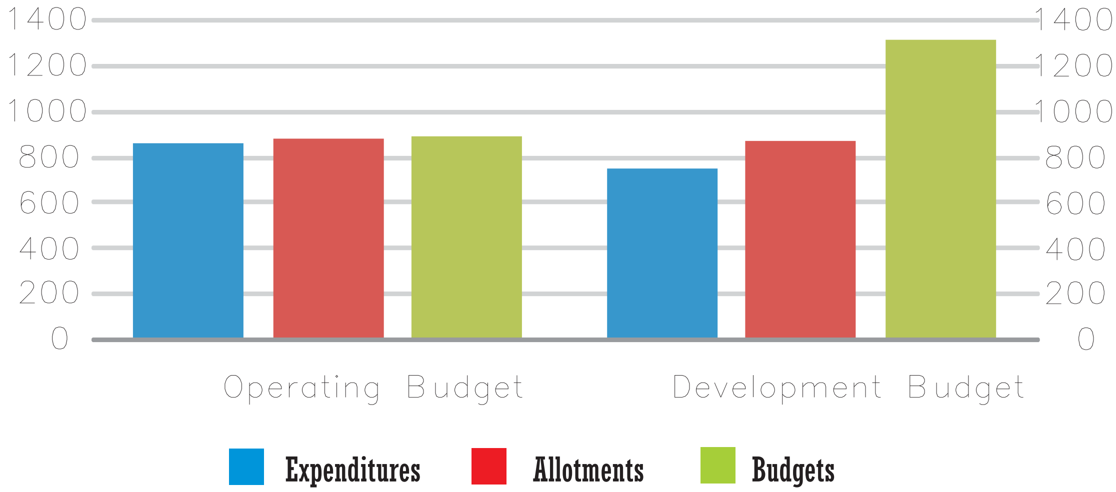
Table 3.4: Afghanistan operating budget
(Execution for 1383 - 1385 (In thousands of AF)

	1383 actual	1384 actual	1385 actual
Domestic Revenue	**12,800**	**20,652**	**28,660**
Tax Revenues	9,546	14,035	21,969
Taxes on Income, profits and capital gains	995	2,621	3,948
Taxes on international trade and transactions	7,247	9,446	11,580
Other taxes	1,304	1,968	6,441
Non Tax Revenues	3,254	6,617	6,691
Donor Assistance Grants (opr. budget)	**14,985**	**16,732**	**18,119**
ARTF (recurrent window)	12,319	12,572	12,775
LOTFA	2,583	4,068	4,800
Other grants	83	92	544
Total Opr. Revenues	**27,785**	**37,384**	**46,779**
Donor Assistance Grants (dev. budget)	**8,250**	**19,251**	**18,064**
Core Revenues	**36,035**	**56,635**	**64,843**
Operating expenditures	**26,605**	**32,348**	**43,161**
Wages and salaries	17,795	20,430	26,518
Goods and services	5,294	7,093	12,354
Capital	1,979	2,383	1,575
Subsidies & Transfers and other expenditures			2,360
Pensions	1,537	2,442	0
Interest			354
Development expenditures [1]	**15,105**	**21,905**	**35,180**

Total Core Budget Expenditure	**41,710**	**54,253**	**78,341**
Integrated budget by ANDS sectors	**41,710**	**54,254**	**78,516**
1.1 Security	13,987	16,161	20,255
2.1 Good governance and the rule of law	2,374	3,715	4,970
3.1 Infrastructure and natural resources	6,414	7,458	17,545
3.2 Education, Culture, Media and Sports	6,437	8,715	10,630
3.3 Health	3,007	2,207	3,385
3.4 Agriculture and rural development	6,024	11,353	13,110
3.5 Social protection	1,844	2,323	3,485
3.6 Private sector development	1,526	1,939	2,536
Others	97	383	2,600
Operating budget by ANDS sectors	**26,605**	**32,348**	**43,161**
1.1 Security			18,845
2.1 Good governance and the rule of law			4,195
3.1 Infrastructure and natural resources			4,230
3.2 Education, Culture, Media and Sports			8,975
3.3 Health			1,325
3.4 Agriculture and rural development			1,040
3.5 Social protection			3,135
3.6 Private sector development			1,416
Others			0
Development budget by ANDS sectors	**15,105**	**21,905**	**35,355**
1.1 Security			1,410
2.1 Good governance and the rule of law			775
3.1 Infrastructure and natural resources			13,315
3.2 Education, Culture, Media and Sports			1,655
3.3 Health			2,060
3.4 Agriculture and rural development			12,070
3.5 Social protection			350
3.6 Private sector development			1,120
Others (LoC)			2,600
Opr. budget balance (excl. grants)	-13,805	-11,696	-14,501
Opr. budget balance (incl. grants)	1,180	5,036	3,618
Dev. budget balance (excl. grants)	-15,105	-21,905	-35,180
Dev. budget balance (incl. grants)	-6,855	-2,654	-17,116
Core Budget Balance (excl. grants)	-28,910	-33,601	-49,681
Core Budget Balance (incl. grants)	-5,675	2,382	-13,498
Financing	**3,157**	**-3,203**	**13,809**
External loans	14,753	5,318	7,811
Domestic	-11,596	-8,521	5,998
Float and adjustment	359	-1,989	0
Sales of non financial assets	0	1,994	1,994
External expenditures	**100,225**	**99,780**	**109,518**

Source: Ministry of Finance and DAB staff calculations

Figure 3.1 Expenditures and Allotments as year ended 1385 (in million USD)



Source: Ministry of Finance and DAB staff calculations

Table 3.5: Expenditures and allotments in 1385 Core Budget

TYPE OF BUDGET	CURRENCY	1385 Budget	1385 Revised Budget	Allotments - Contracts Signed		Expenditure	
				Amount	%Budget	Amount	%Budget
OPERATING BUDGET	AF m	40,346	44,743	44,464	99%	43,161	96%
	$US m	832	895	889		863	
DEVELOPMENT BUDGET	AF m	66,579	66,050	43,903	66%	35,180	53%
	$US m	1,373	1,321	878		703	
	Letter of Credits Opened for 1385 (in US $)					52	3.90%
	Total Development Budget		**1,321**	**878**	**66%**	**755**	**57%**
	Letter of Credits opened , but to be spent in 1386 (in US $) and onwards					**47**	
TOTAL AF		**106,925**	**110,793**	**88,366**	**80%**	**80,941**	**73.00%**

Source: Ministry of Finance

Fiscal challenges remain

Despite the better than expected fiscal performance over the year under review several challenges to maintaining fiscal discipline remain. One serious challenge to fiscal discipline is spending pressures from various constituencies. These need to be carefully managed to avoid ballooning into major fiscal liabilities. Spending pressures that emerged over the year include civil service wage increases, hiring more police officers and increasing the number of teachers. Other sources of spending pressures include the growing need for construction and maintenance of roads, and pension payments to government employees. The second serious challenge encountered in maintaining fiscal discipline is difficulties in tracking public expenditure executed outside the government budget with donors' support. The third challenge is the fact that domestic producers are at a competitive advantage with respect to imports from neighboring countries. As a result of this concern, the customs tariff regime was changed to include a new 40 percent tariff rate on soft drinks and bottled water up from the previous tariff of 25 percent. This change was intended to offset high production costs for domestic producers and restore a level playing field.

Fiscal reforms on track

The Medium Term Fiscal Framework (MTFF) remains the corner stone of government's fiscal reforms. The MTFF is an essential planning tool to assist the authorities to achieve fiscal sustainability over time. The goals of the MTFF are to improve public expenditure management by: (a) laying the foundation for a medium-term approach to budgeting and macro-economic planning; (b) introducing greater stability and predictability into the budget process; (c) improving the quality of investments; (d) using the budget as one of the principal vehicles for the achievement of the goals and objectives articulated in the I-ANDS; (e) building greater confidence in the fiscal policy of the federal government; (f) pursuing a fiscal policy that is supportive of the monetary policy goals of low inflation and low interest rates. The crucial changes caused by the MTFF are as follows:

- o A shift from the "needs based" paradigm to an "availability based" paradigm;
- o Moving away from the "incremental" budget to a 3-year budget cycle (budget year plus two outer years)
- o Introduction of increased predictability of resource flows for development spending.
- o Allocation of resources within a fiscal framework that corresponds with the macroeconomic environment.

Other fiscal reforms include a law to eliminate nuisance taxes that was submitted to parliament for ratification. Efforts are continuing to strengthen payroll control by making the certified payroll fully operational. Movement towards a broad based consumption tax is underway with legislation expected to be submitted to parliament in March 2008.

Fiscal outlook is favorable

Going forward, Afghanistan's medium-term fiscal prospects are broadly favorable. Real GDP growth is projected to rebound to 13 percent in 1386 as agricultural growth returns to its historical trend. Telecommunications, transport, and trade should continue to expand at a strong pace, and construction activity should increase steadily in line with the faster anticipated pace of reconstruction activities. As a result, revenue performance is expected to be robust in 1386 reaching AF 35.7 billion or 7.3 percent of GDP. Operating expenditure is projected to reach AF 53.6 billion or 11 percent of GDP. AF 77 billion has been budgeted for development expenditures though this is unlikely to be fully met therefore the operating deficit (excluding grants) is projected at 3.7 percent of GDP or around 0.8 percent of GDP higher than envisaged under the PRGF fiscal target. It is envisaged that higher than expected funding from the Afghanistan Reconstruction Trust Fund will free domestic resources for key priorities in the development budget.

Downside risks to the favorable outlook include the impact of an oil price shock with the attendant political pressures to subsidize fuel. A further deterioration in security situation that would necessitate an increase in spending over budgeted amounts would also pose a risk to the fiscal outlook.

MONETARY AND CAPITAL MARKET DEVELOPMENTS

4

4

MONETARY AND CAPITAL MARKET DEVELOPMENT

SUMMARY

The monetary program pursued by the DAB in 1385 was predicated on expected real GDP growth of 12 percent and projected inflation of 9 percent. Accordingly, the currency in circulation ceiling was set at 18.4 percent. However, during the course of the year, the forecast for real GDP growth was revised downward to 8 percent because of severe drought which caused a slump in agricultural output. Consequently the ceiling on currency in circulation was revised downward to 16.6 percent.

Monetary developments in the year under review were in line with the monetary program. Currency in circulation growth was 11.3 percent which was one percentage point below nominal GDP growth and well below the 16.6 percent PRGF monetary ceiling. Reserve money grew by 23.2 percent in the year under review which was consistent with the 23.4 percent ceiling. Bank deposits with the central bank accounted for much of the 342 percent increase in reserve money up from -27.5 percent in 1384 but considerably higher than the 206.5 percent targeted under the monetary program.

According to monetary survey data the major determinants of monetary growth, net domestic assets (NDA) and net foreign assets (NFA), had a moderately expansionary impact on monetary aggregates during the year. Net domestic assets edged up by a negligible 0.26 percent or AF 91 million. Net claims by the banking system on the government, a key component of NDA, increased from AF -29.5 billion to AF -30 billion, or 2 percent. Capital notes and other claims, the other component of NDA, registered a sharp increase of 182 percent as the central bank increased the volume and maturity of capital notes issuance on the primary market. The net foreign assets of the banking system increased by 10 percent largely driven by 13 percent increase in foreign exchange reserves of the Central Bank.

According to the monetary survey data the components of broad money, narrow money and quasi-money, followed divergent trends during the year. Narrow money M1 expanded by AF 10.3 billion or a robust 17 percent. Currency in circulation, the other component of M1 expanded by a moderate 5 percent. However, quasi-money, a key component of broad money, edged down by -1 percent compared to an increase of 268 percent in 1384.

Since the introduction of the discounted capital notes (CNs) there has been a gradual buildup of the CNs stock starting with AF 100 million of 28 days notes and AF 50 million of 56 days notes. In the middle of the period under review both maturities were over subscribed peaking at AF 350 million for the 28 day note and AF 250 million for the 56 day notes. As result, the volume of 28 day notes was doubled to AF 200 million per auction and the 56 day maturity was replaced with 182 days notes with the volume of AF 50 million on 27th Feb 2007, so at the end of the year stock outstanding for 28 days reached to 700 million AF, 56 days notes decreased to 250 million and 150 million AF for 182 day notes.

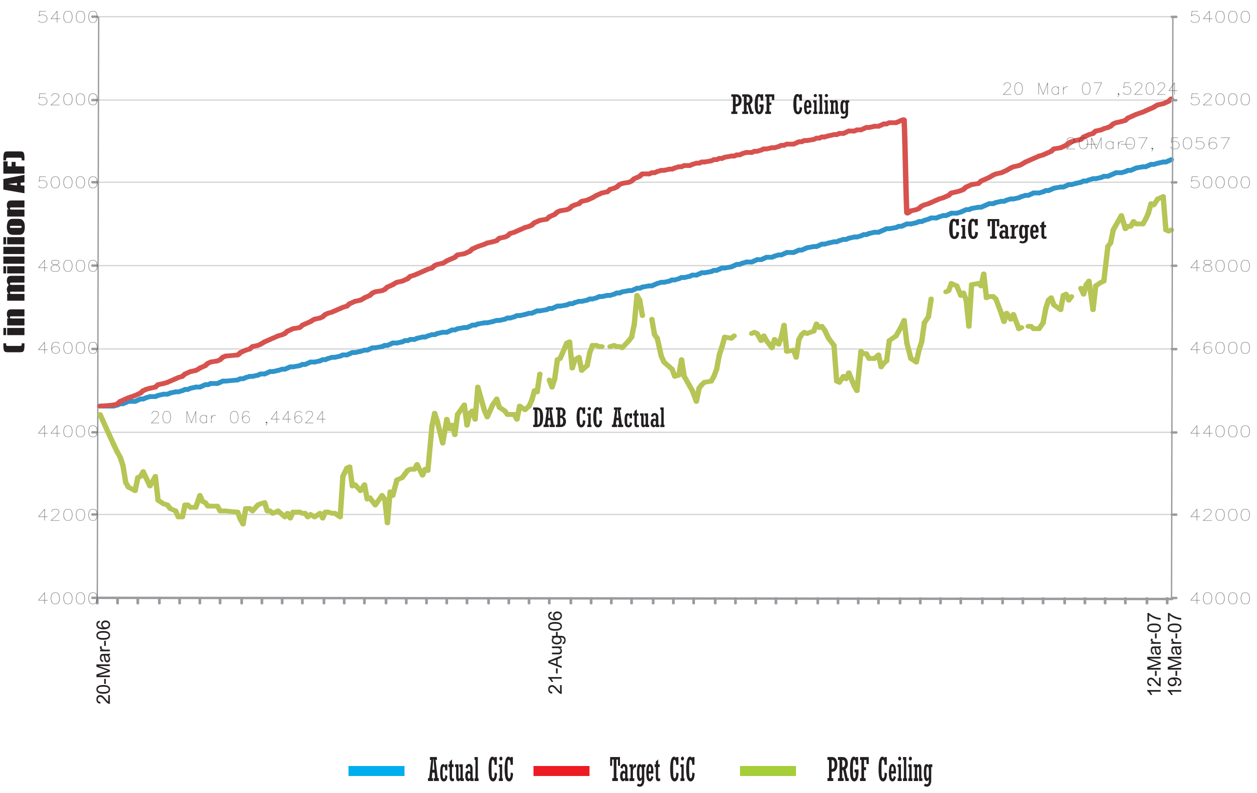
1.THE PRGF MONETARY PROGRAM IS ON TRACK

In the year under review, Da Afghanistan Bank (DAB) continued to pursue a cautious and restrained monetary policy underpinned by the broader objective of maintaining price stability while supporting the highest sustainable real output growth over the course of the year under review.

The monetary program, drawn up in consultation with the International Monetary Fund (IMF), governed the conduct of monetary policy. The monetary program was predicated on expected real GDP growth of 12 percent and CPI inflation of 7.2 percent. Accordingly, currency in circulation ceiling was set at 18.4 percent. However, during the course of the year, expected real GDP growth was revised downward to 8.4 percent because of severe drought which was likely to impact agricultural output. Consequently the currency in circulation ceiling was revised downward to 16.6 percent.

Figure 4.1 depicts trends in currency in circulation over the period under review along with the PRGF ceiling and the DAB target. Currency in circulation was the operating target used to modulate liquidity in the economy consistent with overall monetary targets. The Central Bank withdrew excess liquidity in the market through twice weekly foreign exchange auctions and capital notes issuance. Over the year, currency in circulation grew by 11.3 percent down from 15 percent in 1384 and considerably below the 16.6 percent PRGF ceiling.

Figure 4.1: Daily Currency in Circulation (DAB Actual, Target and PRGF Ceiling) for 1385



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The revised monetary program vis-à-vis actual outcome is presented in Table 4.1. Reserve money grew by 23.2 percent in 1385 considerably higher than the 12.7 percent growth in 1384 but consistent with the 23.4 percent growth targeted under the program.

Bank deposits with the Central Bank accounted for much of the increase in reserve money increasing by 342 percent in 1385 up from a contraction of -27.5 percent in 1384 but still considerably higher than the 206.5 percent envisaged under the program. The increase in banks deposits with the Central Bank is largely attributed to a tightening of regulatory and prudential requirements over the period under review.

Net domestic assets (NDA) declined from AF -39.5 billion in 1384 to AF -49.3 billion in 1385, or by -24.8 percent. This represents a -33.7 percent deviation from monetary program target. The movement in NDA was largely driven by capital notes and other claims that grew from AF -4 billion to AF -5.6 billion, or by 40 percent as the central bank increased the volume of capital notes and introduced a 182 day note. Net foreign assets expanded from AF 85.7 billion in 1384 to AF 106.3 billion in 1385, or by 23.9 percent. This was comfortably above the

Table 4.1: Monetary Aggregates 1385 (in million AF)

	End 1384 (Mar 20, 2005) Actual	Actual y-o-y Change	End 1385 (Mar 20, 2006) Target	End 1385 (Mar 20, 2006) Actual	Actual y-o-y Changes (1384-1385)	Deviation of Actual from Target
1. Net Foreign Assets (a+b)	85790	34.20%	94005	106326	23.90%	13.10%
(a) Foreign Assets (i+ii)	86967	35.10%	96936	109006	25.30%	12.50%
i. Foreign exchange reserve	82995	32.90%	91789	103300	24.50%	12.50%
ii. Other foreign assets	3972	105.10%	5147	5705	43.60%	10.80%
(b) Foreign liabilities	-1177	-167.50%	-2931	-2680	-127.70%	8.60%
2. Net Domestic Assets (a+b)	-39,491	-72.70%	-36,861	-49,278	-24.80%	-33.70%
(a) Domestic Assets (i+ii)	-33,620	-41.60%	-29,195	-34,011	-1.20%	-16.50%
i. Net claims on general government	-29574	-43%	-25350	-28343	4.20%	-11.80%
ii. Capital Notes and other claims	-4046	-32.30%	-3845	-5668	-40.10%	-47.40%
(b) Other Items Net	-5871	-	-	-15266	-	
3. Reserve Money (a+b)	46300	12.70%	57144	57048	23.20%	-0.20%
(a) Currency in Circulation	44629	15.10%	52024	49656	11.30%	-4.60%
(b) Bank deposits with DAB	1670	-27.50%	5120	7392	342.60%	44.40%
4. Time Deposits	16459	69.78%	-	22469	36.50%	-

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1.1 Determinants of monetary growth

The Da Afghanistan Bank started producing a monthly Monetary Survey in March 2007. The Monetary Survey, the analytical accounts of the banking sector, is a consolidation of the balance sheets of deposit taking financial institutions, namely the DAB and commercial banks. In the process of consolidation, inter-bank loans, deposit transactions and intra-system accounts between the DAB and commercial banks are eliminated.

The monetary survey is not being used in the active conduct of monetary policy at this time but is still a useful analytical tool to understand trends in monetary aggregates. According to the monetary survey data (Table 2) the supply of broad money (M2) expanded by AF 10,257 million to AF 74,869 million in the year under review. This represents a 16 percent increase which is down from the 31 percent increase in 1384.

Table 4.2: Monetary Aggregates 1385 (in million AF)

	1383 Amount	1384 Amount	y-o-y change (1383 - 1384)	Difference (1383 - 1384)	1385 Amount	y-o-y change (1384-1385)	Difference (1384-1385)
1- Narrow Money(M1)	48,180	60,651	26%	12,471	70,959	17%	10,309
Currency in Circulation	38,486	44,192	15%	5,705	46,491	5%	2,299
Demand Deposits	9,694	16,459	70%	6,765	24,469	49%	8,010
2- Quasi Money	1,078	3,961	268%	2,883	3,910	-1%	-51
In Afghani	494	816	65%	321	1,000	23%	184
In Foreign currency	583	3,145	439%	2,562	2,910	-7%	-235
3- Broad Money(M2)	49,258	64,612	31%	15,354	74,869	16%	10,257
Determinants							
1- Net Foreign Assets	66,310	99,037	49%	32,727	109,204	10%	10,166
(a) Foreign Assets	72,772	102,287	41%	29,516	113,532	11%	11,245
DAB Foreign exchange reserves	62,861	82,992	32%	20,131	94,176	13%	11,184
Other foreign assets	9,910	19,295	95%	9,385	19,356	0. 32%	61
(b) Foreign Liabilities	-6,462	-3,250	50%	3,211	-4,329	-33%	-1,078
2. Net Domestic Assets	-17,052	-34,425	-102%	-17,373	-34,334	0. 26%	91
(a) Net Claim on General Government	-19,751	-29,574	-50%	-9,823	-30,039	-2%	-465
(b) Claims on other Sectors	2,263	8,141	260%	5,878	22,961	182%	14,821
Less							
Other Items Net	436	-12,992	-3080%	-13,428	-27,257	-110%	-14,265

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The year-on-year increase in broad money supply was largely due to the 17 percent increase in narrow money (M1) while quasi-money recorded a slight decline of -1 percent. The individual components of broad money supply showed conflicting trends. The 49 percent increase in demand deposits was partially offset by a fall in foreign currency time deposits. The volume of currency in circulation increased by 5 percent or AF 2,299 million with the cycle of currency issuance followed an upward trend.

The components of broad money, narrow money and quasi-money, followed divergent trends during the year. Narrow money, M1, expanded by AF 10.3 billion or a robust 17 percent. Currency in circulation, the other component of M1, expanded by a moderate 5 percent. However, quasi money, a key component of broad money, edged down by -1 percent compared to an increase of 268 percent in 1384.

The major determinants of monetary growth, net domestic assets (NFA) and net foreign assets (NFA), had a moderately expansionary impact on monetary aggregates during the year. Net domestic assets edged up from AF -34,425 to AF -34,334 or 0.26 percent. Net claims by the banking system on the government, a key component of NDA, increased from AF -29.5 billion to AF -30 billion, or -2 percent largely because of the no overdraft rule which restricts the central bank from lending to the government. Capital Notes and other claims, the other component of NDA, increased by 182 percent as the central bank increased the volume and maturity of capital notes issuance on the primary market. The net foreign assets of the banking system increased by 10 percent largely driven by 13 percent increase in foreign exchange reserves of the Central Bank.

Bank deposits as share of broad money increased from 25.47 percent in 1384 to 32.68 percent in 1385. Much of the increase in demand deposits occurred in the second half of the year. Demand deposits showed little variation in the first and second quarters but increased by 29.02 percent in third quarter and 32.68 percent in the last quarter of 1385. Quasi-money followed the opposite trend of development, when the rate of growth slowed in both time deposits and foreign-currency deposits as the year progressed.

Figure 4.2: Quasi Money as Share of Broad Money (%)

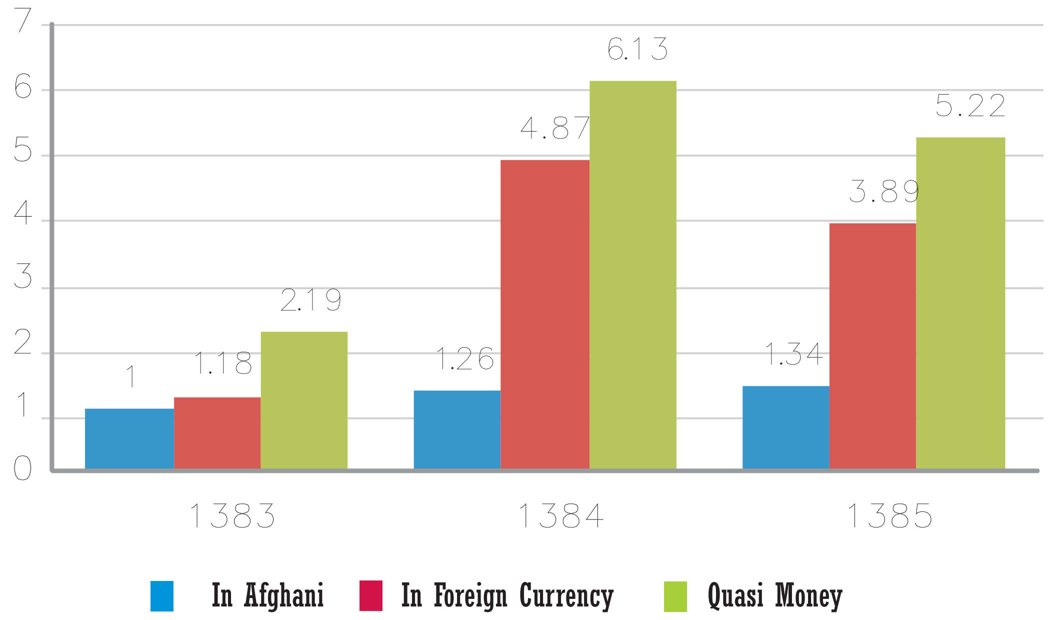

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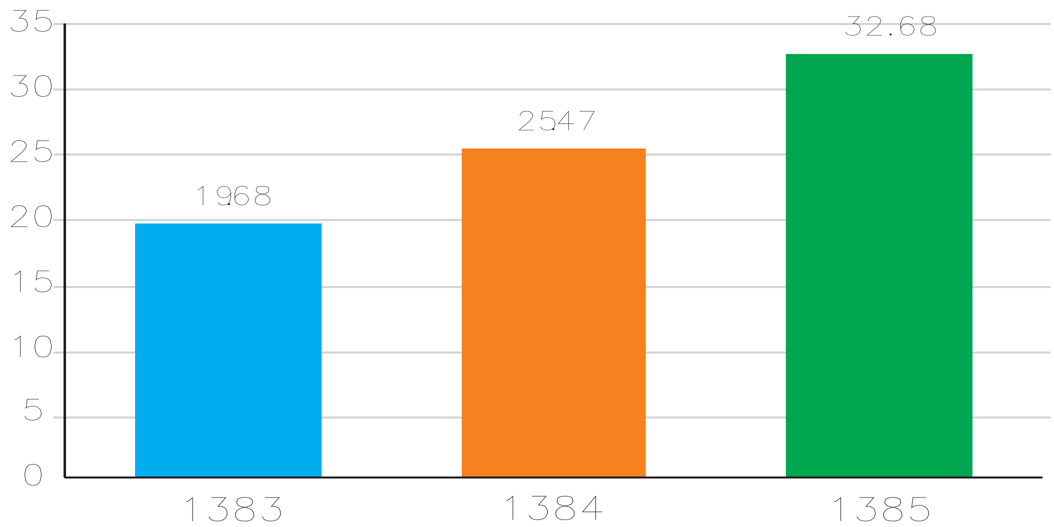
Figure 4.3: Bank Deposit as share of Broad Money (%)



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1.2. Velocity and the demand for money

Table 4.3: Income velocity and money multiplier (in million AF)

Year	GDP at Current Market Prices	Reserve Money (RM)	Broad Money (BM)	Income Velocity of Reserve Money (GDP/RM)	Income Velocity of Broad Money (GDP/BM)	Money Multiplier (BM/RM)
1385	419448	57048	74869	7.35	5.6	1.31
1384	362940	46300	64612	7.84	5.62	1.4
1383	284504	41068	49258	6.93	5.78	1.19

Source: GDP data is from the Central Statistics Office
**The data on Broad Money is from the Monetary Survey database.
***The data on Reserve Money is from the PRGF Monetary program database.

Table 4.3 displays the income velocity for two monetary aggregates: Reserve Money (RM) and Broad Money (BM). The income velocity of a monetary aggregate is defined as the ratio of nominal GDP to the aggregate. The income velocity is interpreted as the number of times each unit of nominal money "turns over" in producing a years final output.

The income velocity of reserve money declined from 7.84 in 1384 to 7.35 in 1385 and the income velocity of broad money declined from 5.62 to 5.6. The decline in velocity reflected a slowdown in demand for Afghani cash and a shift towards increased holding of Afghani deposits. The decline in velocity reflects DAB efforts to enforce compliance with prudential ratios, notably reserve requirements to be met in Afghani and limits on the foreign exchange open position.

Velocity is inversely related to the demand for real balances - the higher the demand for money the lower is velocity money balances, then the stock of money turns over less quickly.

As the demand for money depends primarily on the level of interest rates (opportunity cost of holding money) and GDP, it is clear that changes in either of these two variables will effect the demand for money and hence velocity.

- If interest rates rise the demand for money falls and hence velocity rises - people hold fewer money balances and money therefore turns over faster.
- As GDP is in both the numerator and denominator of the expression for velocity, an increase in GDP will raise velocity only if the demand for money increases proportionately less, as a result of the rise in GDP, than the increase in GDP itself. The percentage increase in the demand for money for a given percentage increase in income is determined by the income elasticity of money demand. Hence, velocity will rise if the income elasticity of money demand is less than one.

The last column of Table 4.3 reports the money multiplier, which is money multiplier decreased from 1.40 in 1384 to 1.39 in 1385 because of higher growth in reserve money compared to broad money. This resulted from the rise in the currency deposit ratio and the reserve-deposit ratio.

2. CAPITAL MARKETS AND LIQUIDITY CONDITIONS

2.1 Capital Note auction

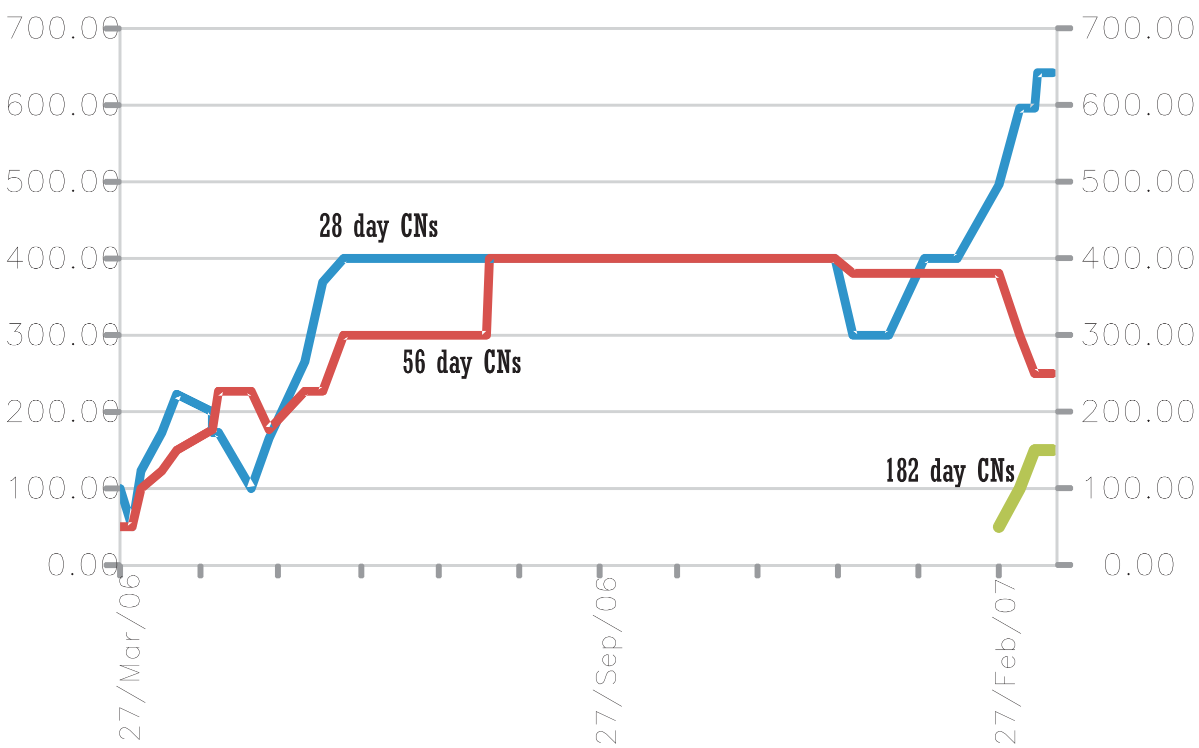
Capital notes are short-term, Afghani denominated securities sold by the Central Bank at weekly auctions. An investor buys the notes at a discount and receives payment of face value on the maturity date. The discounted capital notes

(CNs) were first introduced at the beginning of year 1385 with 28 days Notes to maturity with volume of AF 100 million and 56 days Notes with volume of AF 50 million. Currently the 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 Tuesday with settlement T+1 days later except when it coincides with public holidays. In the auction, investors bid to purchase desired values of capital notes at different discount prices. Bids have to be submitted before 11:00 am on the auction day.

Since the introduction of the discounted capital notes (CNs) there has been a gradual buildup of the CNs stock starting with 100 million 28 days notes and 50 million 56 days notes. In the middle of the period both maturities were over subscribed peaking at AF 350 million 28 days and AF 250 million 56 days notes. As result, the volume for 28 days were doubled to AF 200 million per Auction and 56 day notes to maturity were replaced with 182 days notes with the volume of 50 million AF on 27th Feb 2007, so at the end of the year stock outstanding for 28 days reached to AF 700 million, 56 days notes decreased to 250 million and AF 150 million for 182 day notes (See figure 4.4).

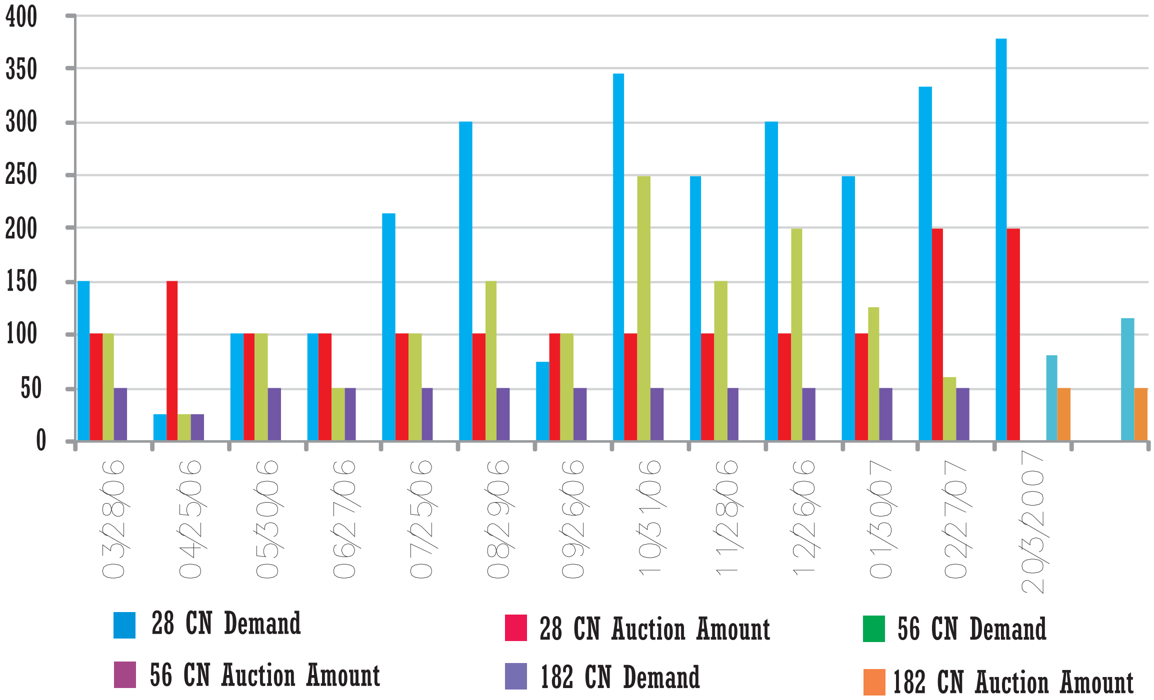
Figure 4.4: Capital Notes: Stock Outstanding (in million AF)



Source: Market Operations Department

The high demand for CNs is reflected in the cover ratio, the ratio of amounts bid to amounts offered. The bid amount for 28 days notes was AF 195 million, AF 117 million for 56 days notes and AF 86 million for 182 on an average basis, while these notes' were offered at amount AF 107 million, AF 48 million and AF 50 million respectively (see figure 4.5 for CNs. demand).

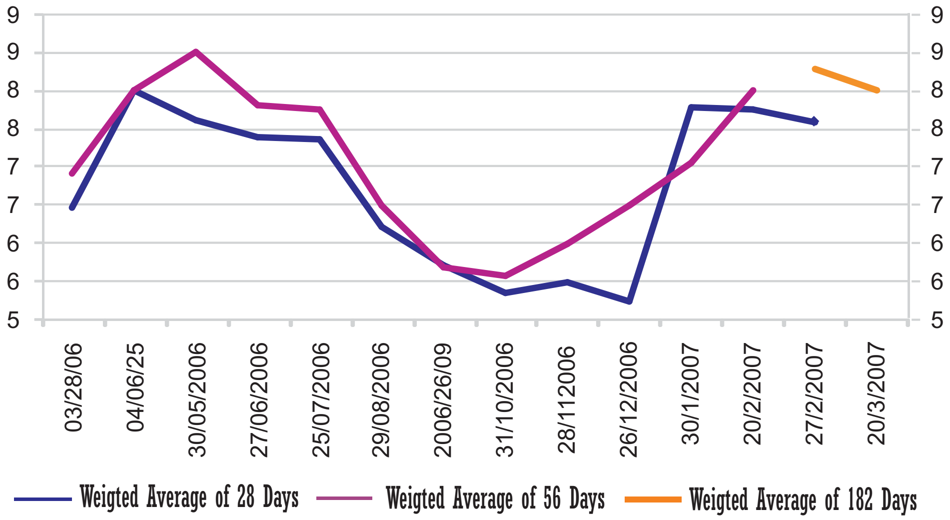
Figure 4.5 : Demand for Capital Notes (in million AF)



Source: Market Operations Department

The number of participants fluctuated between 1 to 6 for 28 days notes and 1 to 3 for 56 days notes. The number increased for some specific auctions in which there was high demand for these notes. It prompted the interest rates decline from 8 percent to 4.9 percent 28 days notes and from 8 percent to 5.1 for 56 days notes at one of point of time during the period, but with the increase of supply for 28 days notes from AF 100 million to AF 200 million and introduction of a new 182 days notes to maturity. The changes prompted to increase the interest rates to 8 percent for both 28 days notes and 182 days notes (see Figure 4.6).

Figure 4.6: Weighted Average of 28 day,56 day and 182 day Capital Notes Interest rates

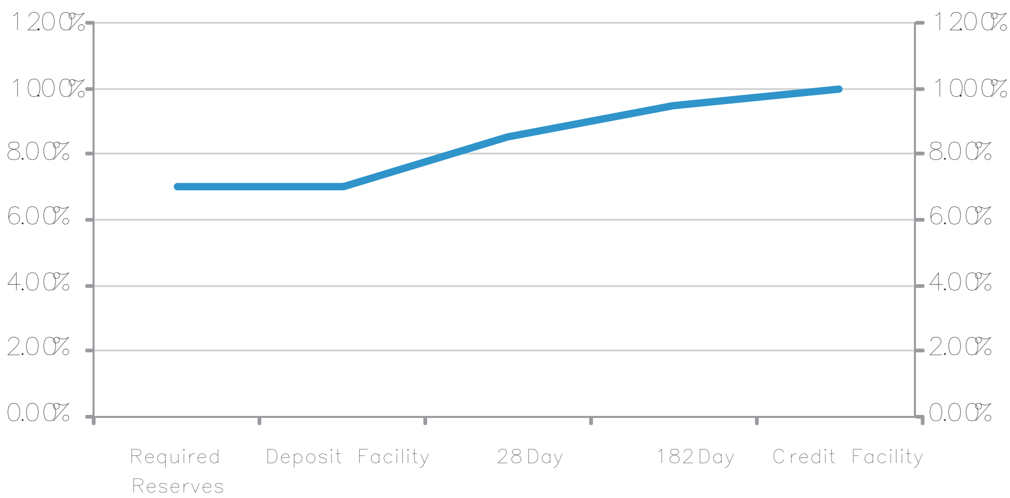


Source: Market Operations Department

2.2 Term structure of interest rates

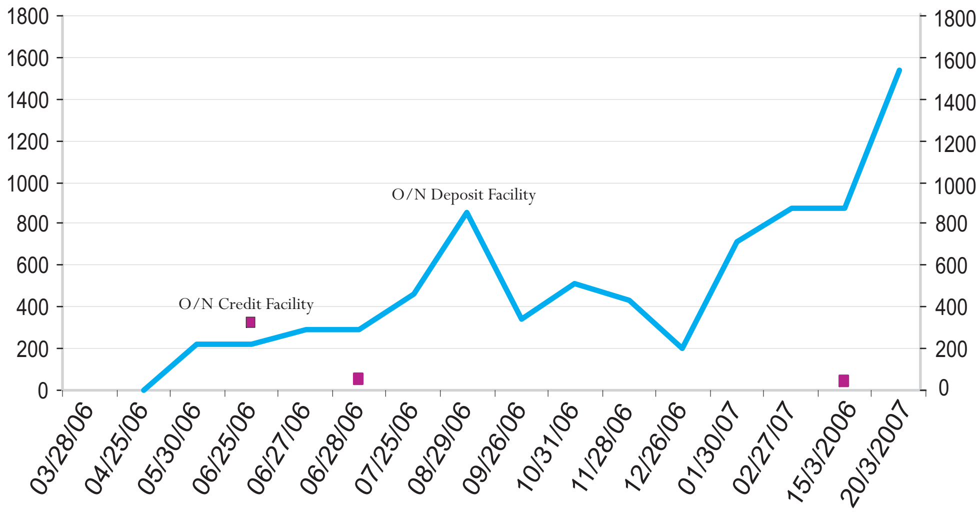
The Term Structure of interest rates, also called the yield curve, is the relation between the interest rate (cost of borrowing) and the time to maturity on a security. The yield of the capital notes is the annualized percentage increase in the value of the CN.

Figure 4.7: Term Structure of Interest Rates



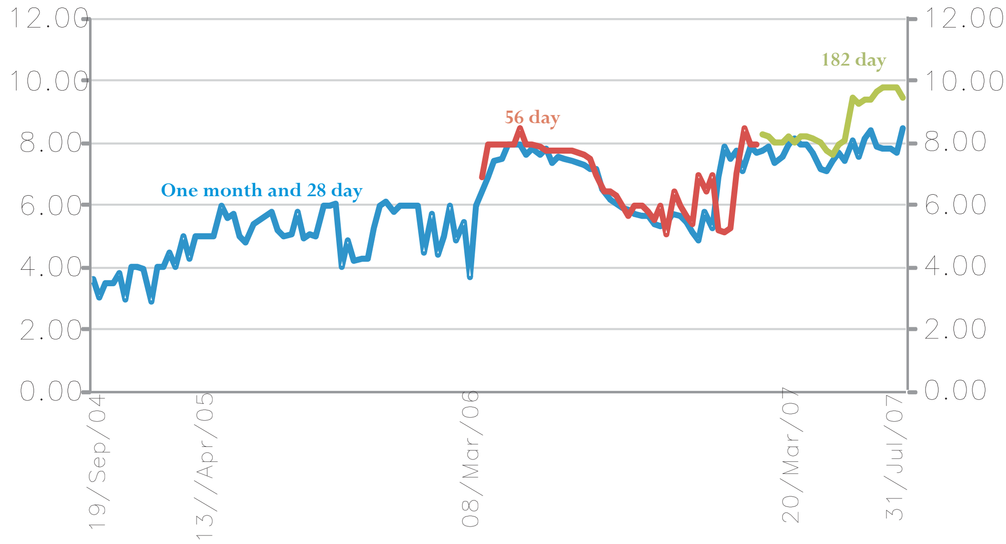
Source: Market Operations Department

Figure 4.8: Overnight Deposit Facility Balances (in million AF)



Source: Market Operations Department

Figure 4.9: Interest Rates



Source: Market Operations Department

2.3. Required and excess reserves

Overnight Standing Facilities (OSF) was first introduced at the beginning of the year 1385 at the initiatives of the banks. The purpose of introducing OSF is to provide commercial banks with financial products that can be used as safety net and to provide them with vehicle where they can invest their excess reserves.

1. 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 27th Feb 2007. During the year there was significant increase in the overnight deposit facility outstanding it rose from zero to AF 1,600 million at the end of the period (see Figure 4.8)

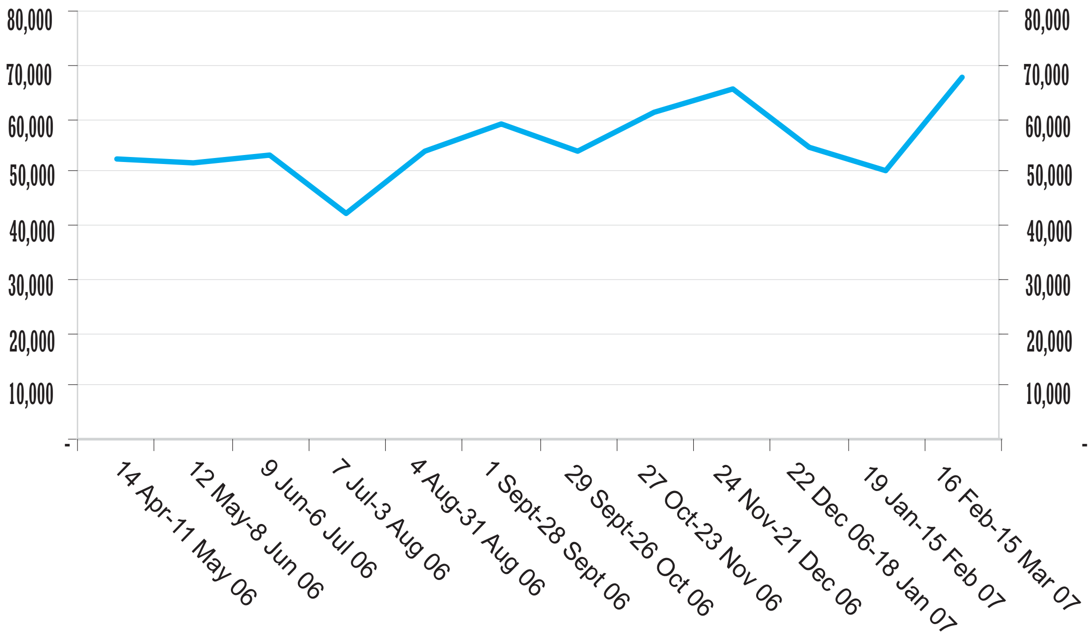
2. Overnight Standing Credit Facility: This facility is used by banks for short term infusion of cash. The facility allows banks to borrow Afghani from Da Afghanistan Bank on an overnight basis

when they face a short fall 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 27th Feb 2007. Three banks have used the credit facility during year 1385 and collateralized AF 326 million, AF 50 million and AF 45 million Capital notes (see figure 4.8).

During the year required reserves averaged AF 154,585.53 thousand, while excess reserves (including overnight deposits) averaged AF 593,698.76 thousand.

Required reserves were remunerated at 1.5 percent annual rate during first three quarters of this year, but it changed to 1.5 percent below the cut off rate of 28 days Capital Notes Auction rate or equal to deposit facility rate.

Figure 4.10 : Excess Reserves
Deposit Facility Balances not included (in thousand AF)



Source: Market Operations Department

Table 4.4: Auctions of 28 Day Capital Notes

Da Afghanistan Bank, Capital Notes 28 Days Auctions Report (in million AF)

Date	Auction Amount	Amount awarded	Total Bid Amount	No. of bids	Cut of Rate	Low Bid	Weighted Average
03/28/06	100	100	150	2	7.00	6.00	6.47
04/04/06	100	100	125	2	7.00	6.00	6.92
12/04/06	50	50	50	1	8.00	8.00	7.46
18/04/06	50	50	50	1	8.00	7.00	7.50
25/04/06	150	25	25	1	8.00	8.00	8.00
02/05/06	75	50	50	2	8.00	8.00	8.00
23/5/2006	100	50	50	2	8.00	8.00	8.00
30/5/2006	100	100	100	3	7.85	7.50	7.63
06/06/06	100	100	100	1	7.95	7.85	7.86
13/06/2006	125	125	146	3	7.95	7.40	7.67
20/06/06	100	100	125	2	7.85	7.75	7.82
27/06/2006	100	100	100	2	7.80	7.50	7.40
04/07/06	100	100	100	2	7.65	7.59	7.58
11/07/06	100	100	205	3	7.75	7.50	7.54
18/7/2006	100	100	215	3	7.59	7.45	7.45
25/7/2006	100	100	215	3	7.50	7.39	7.37
01/08/06	100	100	325	4	7.99	7.30	7.32
08/08/06	100	100	405	5	7.21	7.19	7.21
15/08/2006	100	100	355	5	7.31	7.12	7.16
22/8/2006	100	100	295	6	7.15	6.51	6.51
29/08/2006	100	100	300	6	7.00	6.00	6.21
05/09/2006	100	100	195	4	6.21	5.95	6.04
12/09/06	100	100	150	1	6.21	5.95	5.95
2006/19/09	100	100	150	2	5.85	5.79	5.87
2006/26/09	100	75	75	3	5.79	5.65	5.72
03/10/06	100	100	150	1	5.70	5.70	5.70
10/10/06	100	100	15 0	1	5.70	5.70	5.70
17/10/2006	100	100	300	2	5.40	5.40	5.40
31/10/2006	100	100	346	5	5.50	5.20	5.35
07/11/06	100	100	115	2	5.50	5.30	5.40
14/11/2006	100	100	150	1	5.75	5.75	5.75
21/11/2006	100	100	215	3	5.75	5.60	5.68
28/11/2006	100	100	250	2	5.50	5.50	5.50
05/12/06	100	100	330	3	5.20	5.10	5.15
12/12/06	100	100	255	1	4.90	4.90	4.90
19/12/2006	100	100	195	4	6.50	4.50	5.77
26/12/2006	100	100	300	2	6.00	4.50	5.25
09/01/07	100	100	150	2	8.00	5.90	6.95
16/1/2007	100	100	185	3	8.00	6.50	7.89
23/1/2007	100	100	205	3	7.00	8.00	7.49
30/1/2007	100	100	250	4	7.70	8.00	7.79
06/02/07	100	100	205	3	6.20	8.00	7.09
13/2/2007	100	100	260	4	7.90	6. 10	7.90
20/2/2007	100	100	110	3	7.95	7.50	7.69
27/2/2007	200	200	335	5	7.07	8.00	7.75
06/03/07	200	200	305	4	7.70	8.00	7.90
13/3/2007	200	200	145	3	7.10	7.98	7.38
20/3/2007	200	200	380	4	7.50	8.50	7.60
	5,150	4,925	9,342				

Source: Market Operations Department

Capital Notes 56 day Auctions report (in million AF)

Date	Auction Amount	Amount Awarded	Total Bid Amount	No. of bidders	Cut of Rate	Low Bid	Weighted Average
03/28/06	50	50	100	2	8.00	5.99	6.92
04/04/06	50	50	50	1	8.00	8.00	8.00
12/04/06	25	25	25	1	8.00	8.00	8.00
18/04/06	25	25	25	1	8.00	8.00	8.00
25/04/06	25	25	25	1	8.00	8.00	8.00
02/05/06	25	25	25	2	8.00	8.00	8.00
30/05/2006	50	50	100	2	8.50	8.50	8.50
06/06/06	50	50	125	3	8.00	8.00	8.00
13/06/2006	75	75	125	2	7.98	7.98	7.98
20/06/2006	50	50	150	3	8.00	7.90	7.90
27/06/2006	50	50	50	1	7.81	7.81	7.81
04/07/06	50	50	100	1	7.81	7.81	7.81
11/07/06	50	50	100	1	7.81	7.81	7.81
18/7/2006	50	50	150	2	7.81	7.79	7.79
25/07/2006	50	50	100	2	7.81	7.75	7.75
01/08/06	50	50	150	2	8.00	7.69	7.69
08/08/06	50	50	150	2	7.67	7.64	7.67
15/08/2006	50	50	150	2	7.70	7.49	7.49
22/8/2006	50	50	120	2	7.45	7.00	7.00
29/08/2006	50	50	150	2	7.10	6.50	6.50
05/09/06	50	50	150	2	6.80	6.45	6.45
12/09/06	50	50	140	2	6.40	6.20	6.33
2006/19/09	50	50	190	3	7.00	5.99	5.99
2006/26/09	50	50	100	2	5.89	5.50	5.70
03/10/06	50	50	100	1	6.05	6.00	6.00
10/10/06	50	50	100	1	6.05	6.00	6.00
17/10/2006	50	50	130	2	5.95	5.70	5.83
31/10/2006	50	50	250	3	5.59	5.59	5.59
07/11/06	50	50	50	1	6.00	6.00	6.00
14/11/2006	50	50	150	1	5.10	5.10	5.10
21/11/2006	50	50	100	1	6.50	6.50	6.50
28/112006	50	50	150	2	6.00	6.00	6.00
05/122006	50	50	150	2	5.70	5.70	5.70
12/12/06	50	50	150	1	5.40	5.40	5.40
19/12/2006	50	50	100	1	7.00	7.00	7.00
26/12/2006	50	50	200	2	6.50	6.50	6.50
02/01/07	50	50	30	1	7.00	7.00	7.00
09/01/07	50	50	200	1	5.20	5.20	5.20
16/1/2007	50	50	150	1	5.19	5.19	5.19
23/1/2007	50	50	150	1	5.30	5.30	5.30
30/1/2007	50	50	125	2	5.60	8.50	7.05
06/02/07	50	50	100	1	8.50	8.50	8.50
13/2/2007	50	50	162.5	3	8.00	8.00	8.00
20/2/2007	50	50	60	2	8.00	8.00	8.00
	2,125	**2,125**	**5,158**				

Source: Market Operations Department

Table 4.6: Auctions of 182 Day Capital Notes

Da Afghanistan Bank, Capital Notes 182 Days Auctions Report (in million AF)

Date	Auction Amount	Amount awarded	Total Bid Amount	No. of bids	Cut of Rate	Low Bid	Weighted Average
27/2/2007	50	50	80	2	8.19	8.50	8.30
06/03/07	50	50	100	1	8.25	8.25	8.25
13/3/2007	50	50	50	1	8.00	8.00	8.00
20/3/2007	50	50	115	1	8.00	8.00	8.00
	200	200	345				

Source: Market Operations Department

3.FOREIGN EXCHANGE MARKET

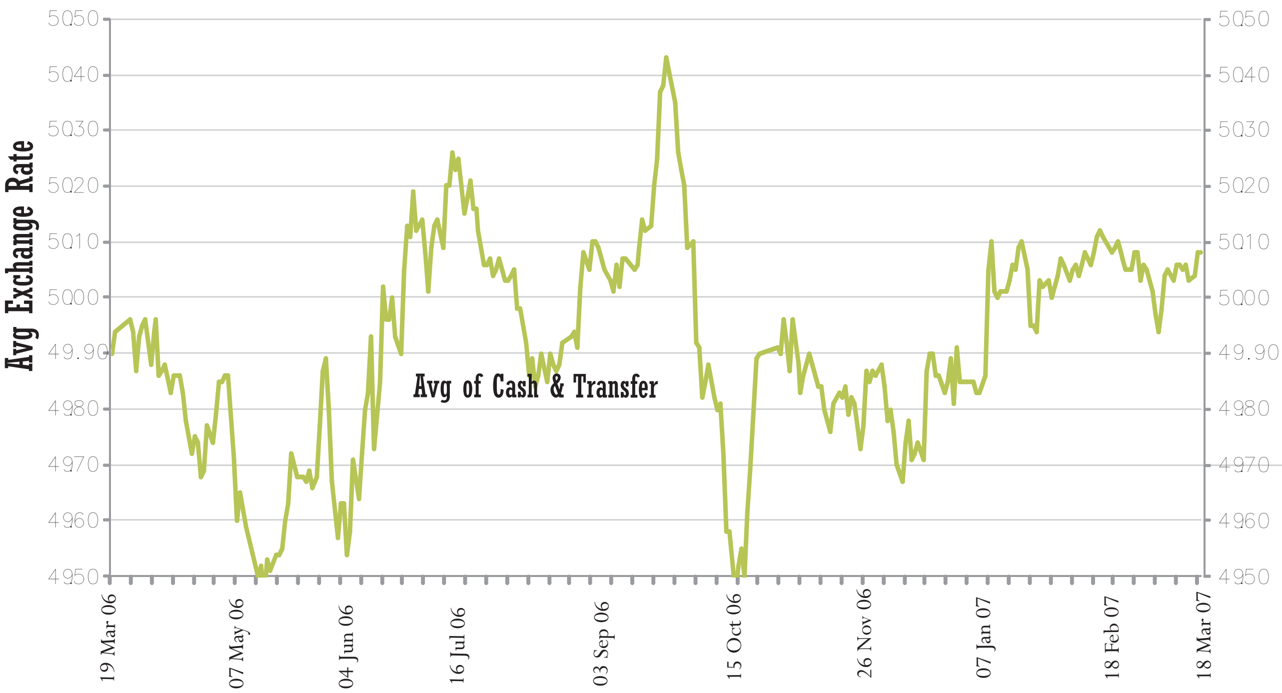
3.1. Foreign exchange rates

During 1385 the Afghani depreciated against the dollar, and the euro. The weakness of the Afghani against the euro reflected the persistent appreciation of the euro in international foreign exchange markets over the past year.

Indeed, as can be seen from Table 4.7, the Afghani depreciated by 0.36 percent against the dollar compared with t1384 and depreciated by 0.34 percent on average when compared with the 1384. The Afghani also depreciated by 11.11 percent against the euro compared with 1384 and depreciated by a sharp 5.48 percent on average compared with the 1384.

The Afghani remained largely stable against the Pakistan Rupee over the year under review, appreciating by 0.50 percent compared with1384. This trend however continued with the Pakistan Rupee depreciating by 0.31 percent on average when compared with the 1384.

Figure 4.11: Daily Average Exchange Rate



Source: Monetary Policy Department

In local foreign exchange markets the Afghani traded in a relatively narrow range between AF 49.4 and AF 50.4 against the dollar over the year. The wide fluctuations in the exchange rate were greatly dampened during the year as can be seen in Figure 4.11.

Table 4.8: Foreign Exchange Auction

Auction Date	Avg No of Bidders	High Price	Low Price	Avg Cut off Price	Amount Announced	Amount Awarded	No of Awarded Bidders
Total 1384		**50.7**	**48.1**	**49.6**		**451.7**	**1189**
23-Dec-06	32	49.8	49.68	49.77	7.5	6.1	16
26-Dec-06	15	49.82	49.7	49.76	7.5	4.05	11
6-Jan-07	31	49.94	49.81	49.88	6	7.05	19
9-Jan-07	32	50	49.8	49.95	6	6.85	21
13-Jan-07	32	50	49.91	49.98	6.5	7.85	16
16-Jan-07	41	50.05	49.9	50.03	6.5	6.1	17
20-Jan-07	34	50.06	49.96	49.99	7	8.45	28
23-Jan-07	45	49.95	49.85	49.93	7	6.05	17
27-Jan-07	34	50.05	49.8	50.02	7.5	7.35	19
30-Jan-07	36	50.07	49.92	50.04	7.5	7.45	18
3-Feb-07	39	50.04	49.94	50.01	7.5	7.85	22
6-Feb-07	35	50.07	49.97	50.05	7.5	8.3	20
10-Feb-07	43	50.08	50	50.06	7	6.9	19
13-Feb-07	35	50.14	50.01	50.13	7	8.25	18
17-Feb-07	34	50.08	49.97	50.05	7.5	8.25	20
20-Feb-07	41	50.1	50.03	50.09	7.5	8.05	20
24-Feb-07	34	50.08	50	50.06	7.5	7	18
27-Feb-07	41	50.06	49.98	50.04	7.5	7.95	22
3-Mar-07	28	50.04	49.95	50	7.5	8.25	25
6-Mar-07	34	49.99	49.88	49.96	7.5	7.1	15
10-Mar-07	35	50.04	49.97	50.03	7.5	7.75	17
13-Mar-07	38	50.09	50	50.07	7.5	8.4	19
17-Mar-07	32	50.03	49.91	49.98	10	8.25	25
Total 1385		**50.43**	**49**	**49.87**	**565**	**555.41**	**1701**
Grand Total		**50.7**	**48.1**	**49.74**		**1007.11**	**21.24**

Source: Market Operations Department

Table 4.7: Exchange Rates against selected currencies

Period		USD	Pak Rs	EURO
Average for 1385		50.02	82.8	63.87
Average for 1384		49.85	83.06	60.55
% Appreciation (-) or Depreciation (+) of		0.34	-0.31	5.48
AF against respective currency				
Closing rate on	20-Mar-07	50.22	82.94	66.72
Closing rate on	20-Mar-06	50.04	83.36	60.05
% Appreciation (-) or Depreciation (+) of		0.36	-0.5	11.11
AF against respective currency				

Source: Market Operations Department

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 money supply. The Da Afghanistan Bank 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 4.8 summarizes the results of DAB foreign exchange auctions during the period from 20 March, 2005 to 17 March, 2007, which covers the last two years. In the year under review, intervention reached a total of USD 555.41 million. The weighted average of the entire 96 awarded auctions rate (sale price of the USD) was 49.88 and the total number of awarded bidders were 1701. This can be compared with 1384 in which there were also 96 auctions but the total auction amount was only USD 451.7 million. The weighted average of all 96 awarded auctions in 1384 was 49.65 with 1189 bidders.

5

INFLATION TRENDS AND OUTLOOK

5

INFLATION TRENDS AND OUTLOOK

SUMMARY

Headline inflation, the broadest measure of the rise in the general level of prices, remained subdued in the year 1385. The headline Consumer Price Index (CPI) for Kabul stood at 131.8 at the end of the year representing an inflation rate of 4.8 percent in 1385 down from 9.5 percent in 1384.The increase in the CPI was mainly attributed to increases in the prices of fuel and electricity.

The electricity price index rose dramatically by 51.4 percent because of a 300 percent increase in administered prices by Ministry of Water and Energy. The increase in electricity prices was offset by a steep 27.1 percent drop in rents as the housing market adjusted to the changing demand for housing in Kabul. Diesel and petrol prices -- the main components of the fuel index--rose by 8.5 and 5.7 percent respectively compared to the same period one year ago. The increase in fuel prices largely reflected developments in the international markets where crude oil hit all times highs. Core inflation, defined as headline CPI excluding rents, fuel and construction materials, remained in single digits at 6.4 percent in1385 down from 7.71 percent in 1384.The analysis shows that Kabul and national headline CPI are remarkably similar over the period, especially during 1384 and 1385.

1. INFLATION HITS SINGLE DIGITS

1.1.Annual changes in Kabul headline inflation

The Central Statistics Office (CSO) provides two CPI indices on a monthly basis. The first index is for Kabul City and the second is a national index comprising six cities (Kabul, Kandahar, Herat, Jalalabad, Mazar-e-Sharif and Khost).This section analyzes trends in Kabul CPI which is the index used for monetary policy implementation. Headline inflation, as measured by year-on-year percentage changes in Kabul CPI, declined to 4.8 percent in 1385 from 9.5 percent in 1384.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 5.1: Breakdown of Kabul Headline CPI
(percent changes year on year) Consumer Price Index (March 2004 = 100)

	Weight	1383 (2004-05)	1384(2005-06)	1385(2006-07)
Headline	**100**	**14.9**	**9.5**	**4.8**
Food	**61.3**	**11.6**	**6.2**	**6.3**
Bread and Cereal	28	13.5	7	3.6
Meat	6	10.6	9.2	4.2
Non- Food	**38.7**	**20.2**	**14.4**	**2.5**
Housing	17.2	33.8	22.6	-1
Rents	7.1	75.3	24.9	-27.1
Fuel and Electricity	6.8	0.1	25.1	51.4
Core Inflation (Headline Excluding Housing)		**11**	**6.2**	**6.4**

Source :Central Statistical Office & DAB staff calculations

The breakdown of Kabul headline CPI inflation is presented in Table 5.1 and illustrated in Figure 5.2. The decline in the Kabul headline CPI to 4.8 percent in 1385 from 9.5 percent in 1384 was largely due to the following factors:

Fuel and electricity: this price index rose by 51.4 percent because of a 300 percent increase in administered prices by Ministry of Water and Energy in September 2006. The increase in fuel prices largely reflected developments in international crude oil prices over this period.

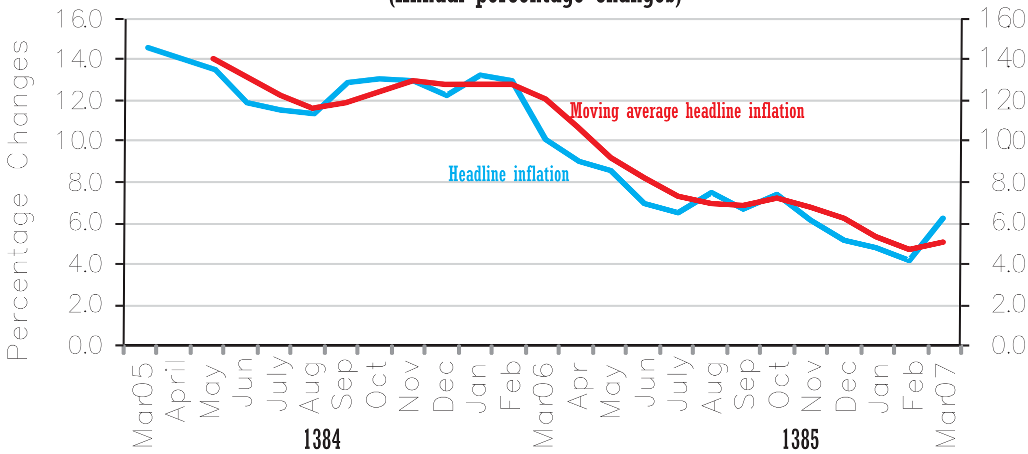
Food: this price index rose slightly by 6.3 percent due to a shortage in the food supply, from the neighbouring countries which occurred in the last months of the year 1385.

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

Rents: this price index fell dramatically by 27.1 percent in the year 1385 compared to a year ago. It is mainly due to decrease in demand for housing by NGOs and moving of most of United Nations agencies outside the city (in the new built United Nations compound), as well as construction of new buildings and small towns in both inside and outside of Kabul.

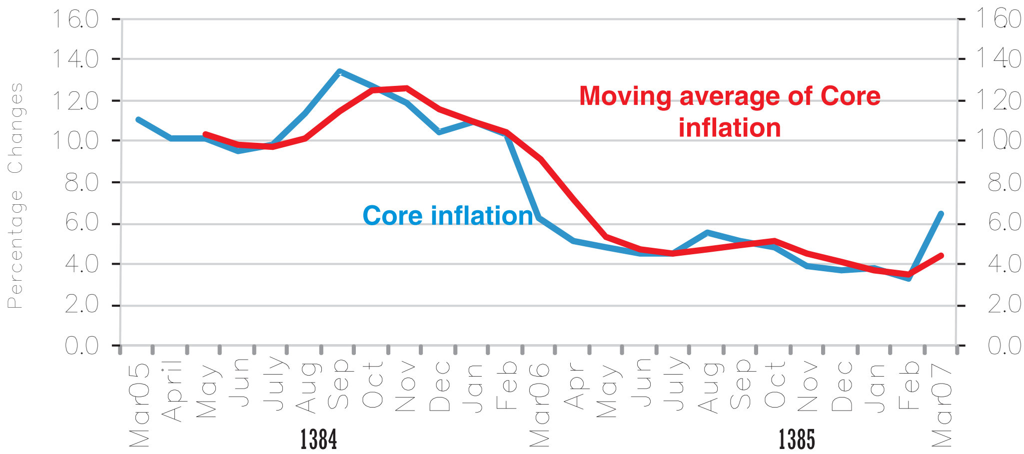
Housing: this price index fell by 1 percent in the year 1385. It is mainly because of the expansion of the cement supply from neighbouring countries after a shortage occurred at the mid year, secondly, the domestic production of cement which was stopped due to civil war during the 1990s (Ghori cement) was resumed by private sector.

Figure 5.1: Headline Inflation- Kabul CPI
(Annual percentage changes)



Source :Central Statistical Office & DAB staff calculations

Figure 5.2: Core Inflation- Kabul CPI
(Annual percentage changes)

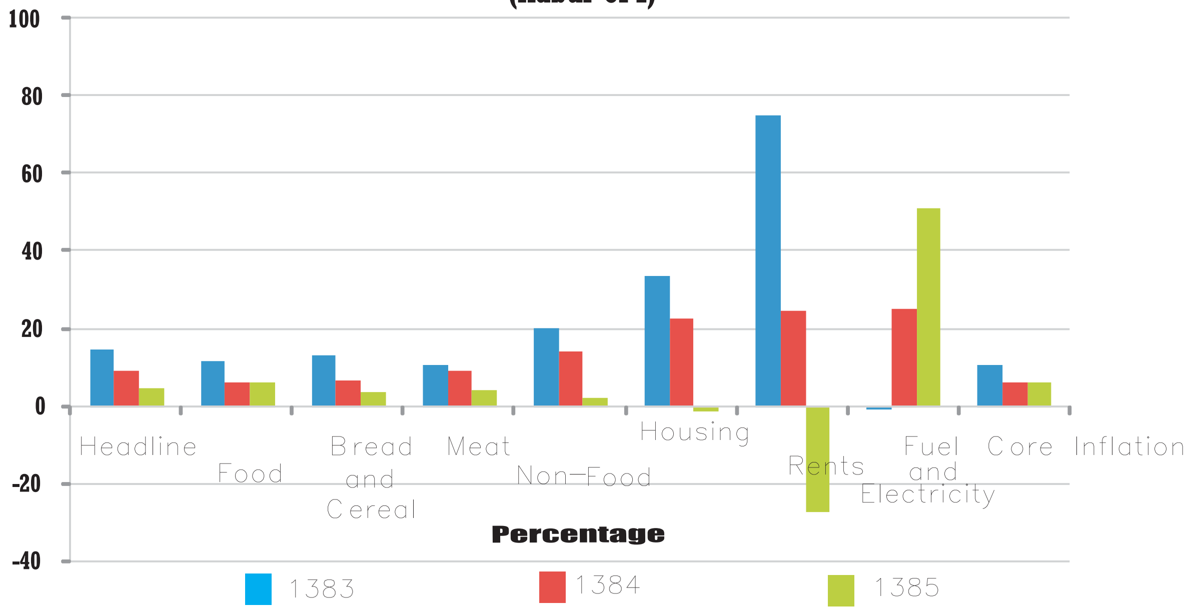


Source :Central Statistical Office & DAB staff calculations

The volatility of Kabul inflation as measured by the standard deviation was 2 percent in 1385, slightly up from 1.5 percent in 1384.

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 6.4 percent over the year 1385.

Figure 5.3: Contribution to CPI Inflation 1383 , 1384 & 1385
(Kabul CPI)



Source :Central Statistical Office & 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 declined by 3.8 percent in year 1385 from 9.8 percent in 1384. The breakdown of national CPI into its respective components is presented in Table 5.2 and illustrated in Figure 5.4.

Table 5.2: Breakdown of national CPI

(percent changes year on year) consumer price index (March 2004 = 100)

	Weight	1383	1384	1385
Headline	**100**	**10.3**	**9.8**	**3.8**
Food	**61.3**	**8.9**	**9.1**	**4.9**
Bread and Cereal	28	15.2	10.9	3
Meat	6	10.1	3.5	2.7
Non- Food	**38.7**	**12.5**	**10.9**	**2.2**
Housing	17.2	24.3	16.4	-1.5
Rents	7.1	50	14.8	-20
Fuel and Electricity	6.8	6	22.7	25.3
Core Inflation (Headline excluding Housing)		**7.4**	**8.2**	**5.2**

Source :Central Statistical Office & DAB staff calculations

The decline in the national CPI to 3.8 percent in 1385 from 9.8 percent in 1384 was mainly because of the following factors:

Fuel and electricity: this price index rose by 25.3 percent due to an increase in electricity prices by the Ministry of Energy and Water.

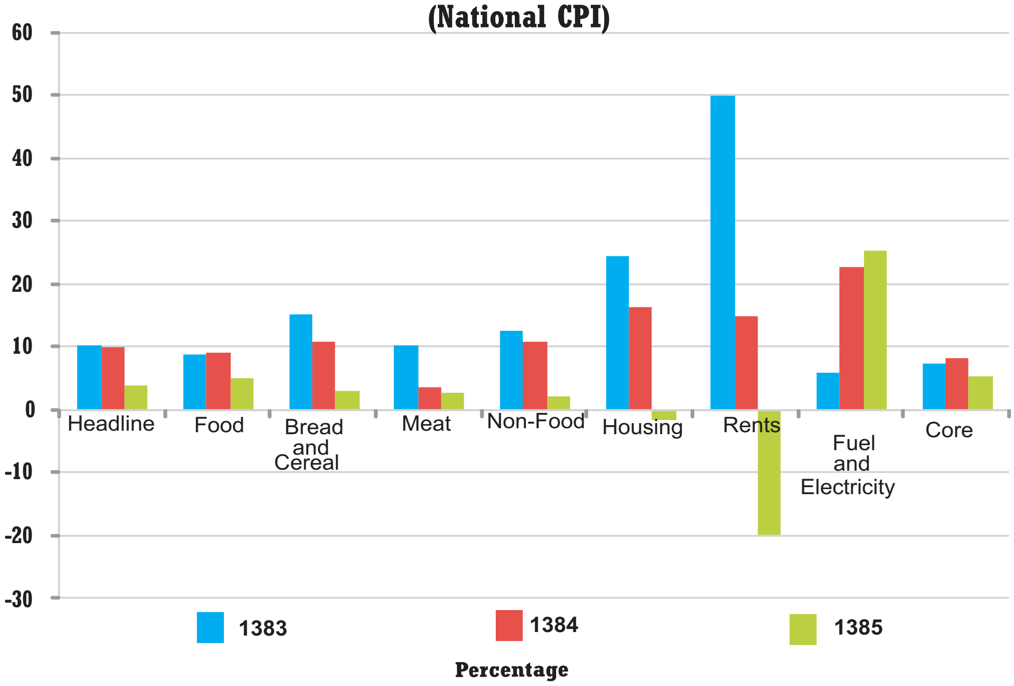
Meat: This index rose moderately by 2.7 percent. The reason is decrease in the domestic livestock due to draught in the past years.

On the other hand the following categories of the national headline CPI Posted declines Bread and Cereals: this price index declined to 3 percent in 1385 from 10.9 percent in 1384. This is because of an increase in the domestic agriculture productions contributed by positive changes in the weather conditions.

Housing: this price index fell by 1.5 percent in 1385. It is mainly because of the expansion of the cement supply from neighbouring countries after a shortage occurred at the mid year. Secondly, the increase in the level of domestic construction materials production such as cement, which was stopped due to civil war during the 1990s. Ghori cement, resumed its productions through the private sector.

Rents: this price index fell dramatically by 20 percent in the year under review compared to a year ago reflecting decline in rental prices in Kabul. The reason is expansion of new built resident towns all over the country and rebuilding programs carried by International community.

Figure 5.4: Contribution to CPI Inflation 1383 , 1384 & 1385
(National CPI)

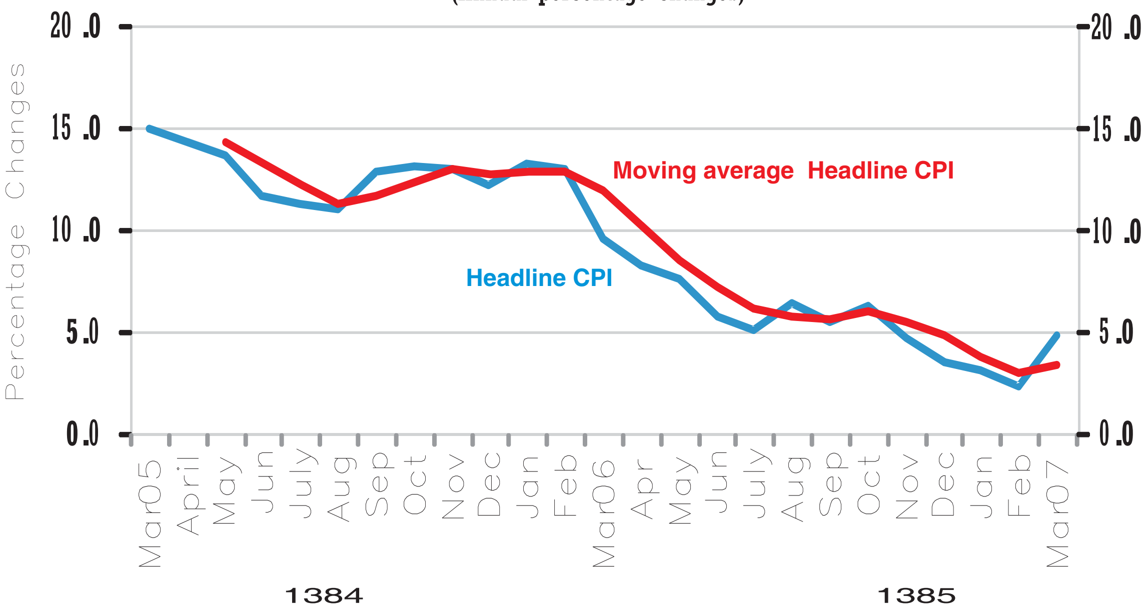


Source :Central Statistical Office & DAB staff calculations

The volatility of inflation for national CPI as measured by the standard deviation in 1385 was 1.9 percent, up from 1 percent in 1384. The volatility of inflation remains a concern for monetary policy.

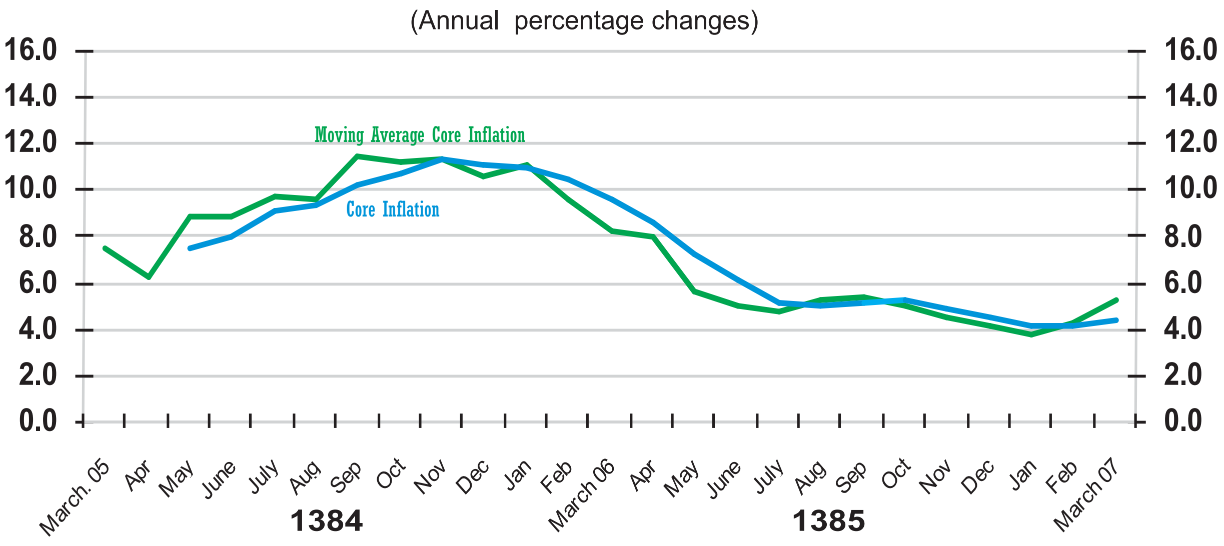
A comparison of the headline inflation of Kabul CPI and national CPI is shown in Figure 1.7. The headline CPI for Kabul and national showed a remarkable similarity over the period.

Figure 5.5: Headline Inflation: National CPI
(Annual percentage changes)



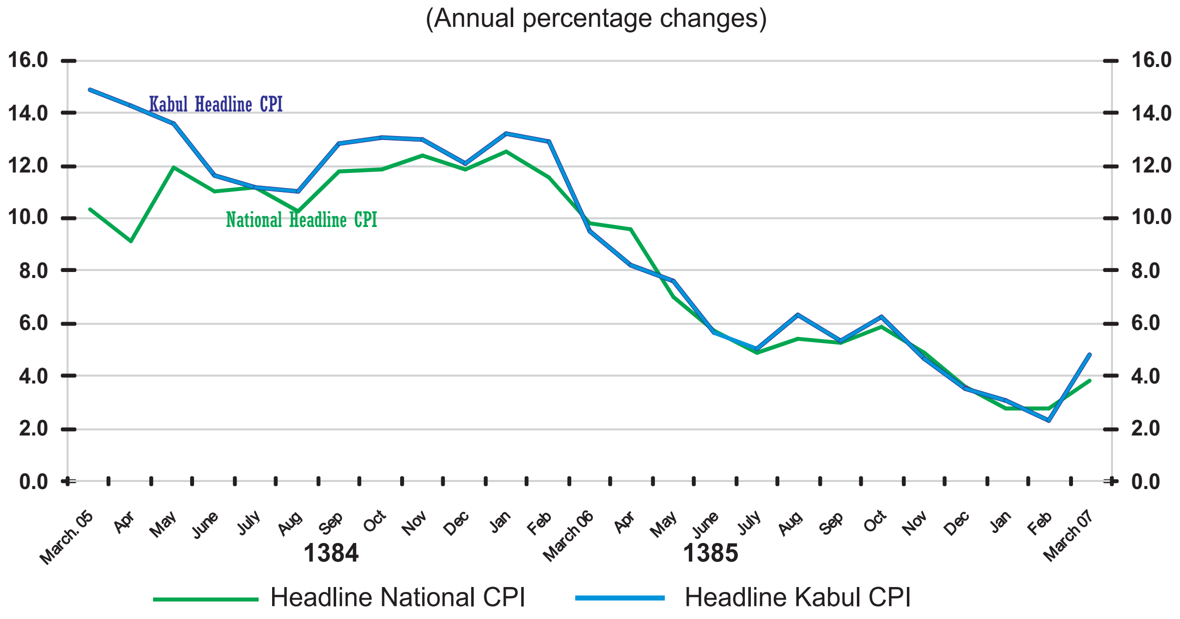
Source :Central Statistical Office & DAB staff calculations

Figure 5.6 : Core Inflation: National CPI



Source :Central Statistical Office & DAB staff calculations

Figure 5.7 : Headline Inflation: Kabul CPI compared to national CPI



Source :Central Statistical Office & DAB staff calculations

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 increased by 1.7 percent from 1.57 percent in the third quarter. The increase in quarter-on-quarter inflation can be traced to the following major categories:

Housing: fell by 3.3 percent driven by 4.1 percent decrease in rents and

3.7 percent decrease in Fuel and Electricity, as a whole all these components caused the non-food index to decline.

Food and Beverages: this index rose by 4.2 percent in fourth quarter of 1385 from 0.83 percent in third quarter with a contribution of 6.4 percent by Bread and Cereals and 1.5 percent by Meat respectively.

Tables 5.3 and 5.4 present price indicators for quarter-on-quarter changes in both Kabul and national CPI.

Table 5.3: Quarter-on- quarter changes in Kabul CPI

(Percent changes quarter on quarter)consumer price index (March 2004

	1383				1384				1385			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline	**5.9**	**1.3**	**4.1**	**2.87**	**2.87**	**2.45**	**3.38**	**0.5**	**-0.9**	**2.33**	**1.57**	**1.7**
Food and Beverages	**3.9**	**-3.18**	**2.26**	**4.4**	**2.5**	**0.96**	**1.82**	**0.77**	**-0.7**	**1.87**	**0.83**	**4.2**
Bread and Cereal	4.5	-8.3	8.2	9.5	2.9	1.6	2.7	-0.4	-3.1	0.7	-0.3	6.4
Meat	5.3	-4	6.5	2.7	6.2	-0.6	0.9	2.5	0.5	2.6	-0.3	1.5
Non – Food	**9.3**	**9.06**	**1.6**	**-0.74**	**3.24**	**4.75**	**5.7**	**0.07**	**-1.2**	**3.02**	**2.5**	**-1.7**
Housing	16.5	15.88	1.55	-2.4	5.23	6.46	8.47	0.86	-5.12	2.76	5.1	-3.3
Rents	41.2	26.1	-1.7	0.17	8.1	6.43	5.65	2.67	-5.9	-1	-18	-4.1
Fuel and Electricity	-6.9	8.16	8.4	-8.33	-0.4	7.5	18.58	-1.5	-4.87	12.25	47.19	-3.7

Source :Central Statistical Office & DAB staff calculations

Table 5.4: Quarter-on-quarter changes in national headline CPI

(Percent changes quarter-on-quarter) consumer price index (March 2004=100)

	1383				1384				1385			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Headline	**1.5**	**1.97**	**3.48**	**2.99**	**2.18**	**2.66**	**3.54**	**1.09**	**-1.7**	**2.27**	**1.9**	**1.3**
Food and Beverages	**1.3**	**-1.09**	**3.8**	**4.7**	**2.85**	**2.32**	**1.66**	**1.97**	**-1.9**	**2.32**	**1.1**	**3.3**
Bread and Cereal	2.9	-1.5	5.4	7.8	4	4.1	1.6	0.8	-4	2.9	-0.7	4.9
Meat	1.3	-0.8	3.4	6	-2.9	1.1	1.7	3.7	-2.2	1.6	2.2	1.1
Non - Food	1.9	6.77	2.94	0.45	1.24	3.16	6.47	-0.24	-1.4	2.2	3.1	-1.5
Housing	**4**	**13.2**	**5.35**	**0.24**	**1.69**	**5.54**	**8.85**	**-0.3**	**-4.8**	**1.82**	**5.14**	**-3.3**
Rents	13.8	19.77	7.63	2.25	4.07	6.21	3.92	-0.06	-6.33	-1.55	-7.43	-6.3
Fuel and Electricity	-6.5	11.02	5.2	-2.93	-1.7	5.09	20	-0.99	-5.53	8.54	24.2	-1.6

Source :Central Statistical Office & DAB staff calculations

1.4. Quarterly changes in national headline CPI

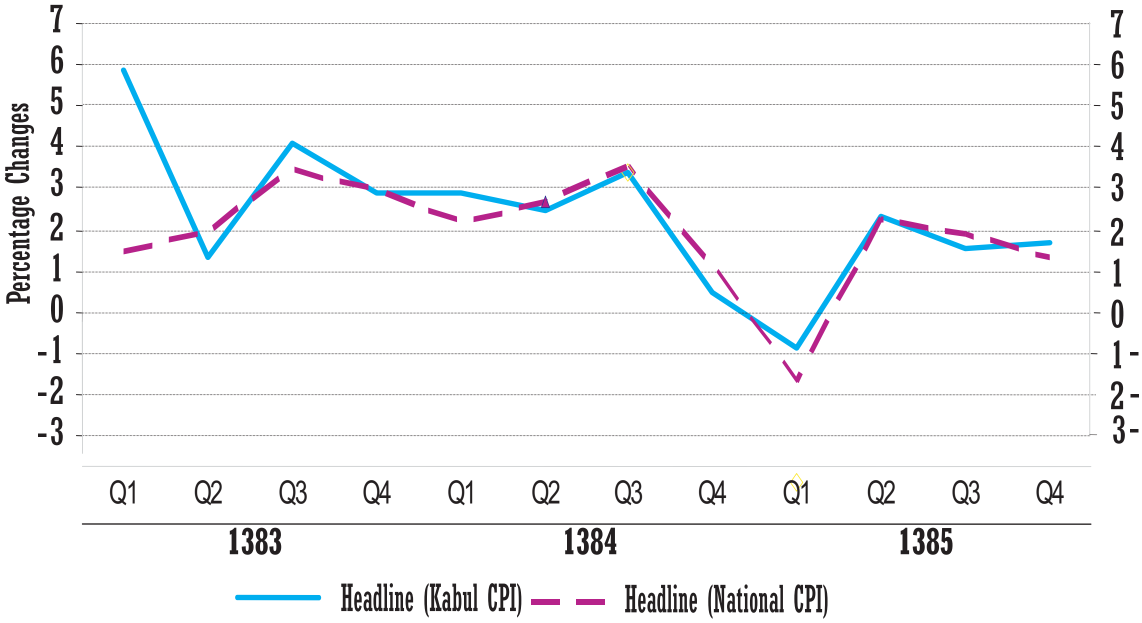
This section analyzes quarter-on-quarter changes in national headline CPI.

The national headline CPI in the fourth quarter 1385 decreased to 1.3 percent compared to 1.9 percent in the third quarter. The slight decrease in quarter-on-quarter inflation can be traced to the following major categories:

Food and Beverages: this price index increased by 3.3 percent with the bread and cereals sub-index increasing by 4.9 percent and meat 1.1 percent respectively.

Non Food: fell by 1.5 percent with the housing sub-index decreasing by 3.3 percent, rents 6.3 percent and Fuel and Electricity 1.6 percent respectively.

Figure 5.8 : Headline Inflation Kabul CPI compared to National CPI
(Quarterly Percentage Changes)



Source :Central Statistical Office & DAB staff calculations

2.THE DYNAMICS OF INFLATION

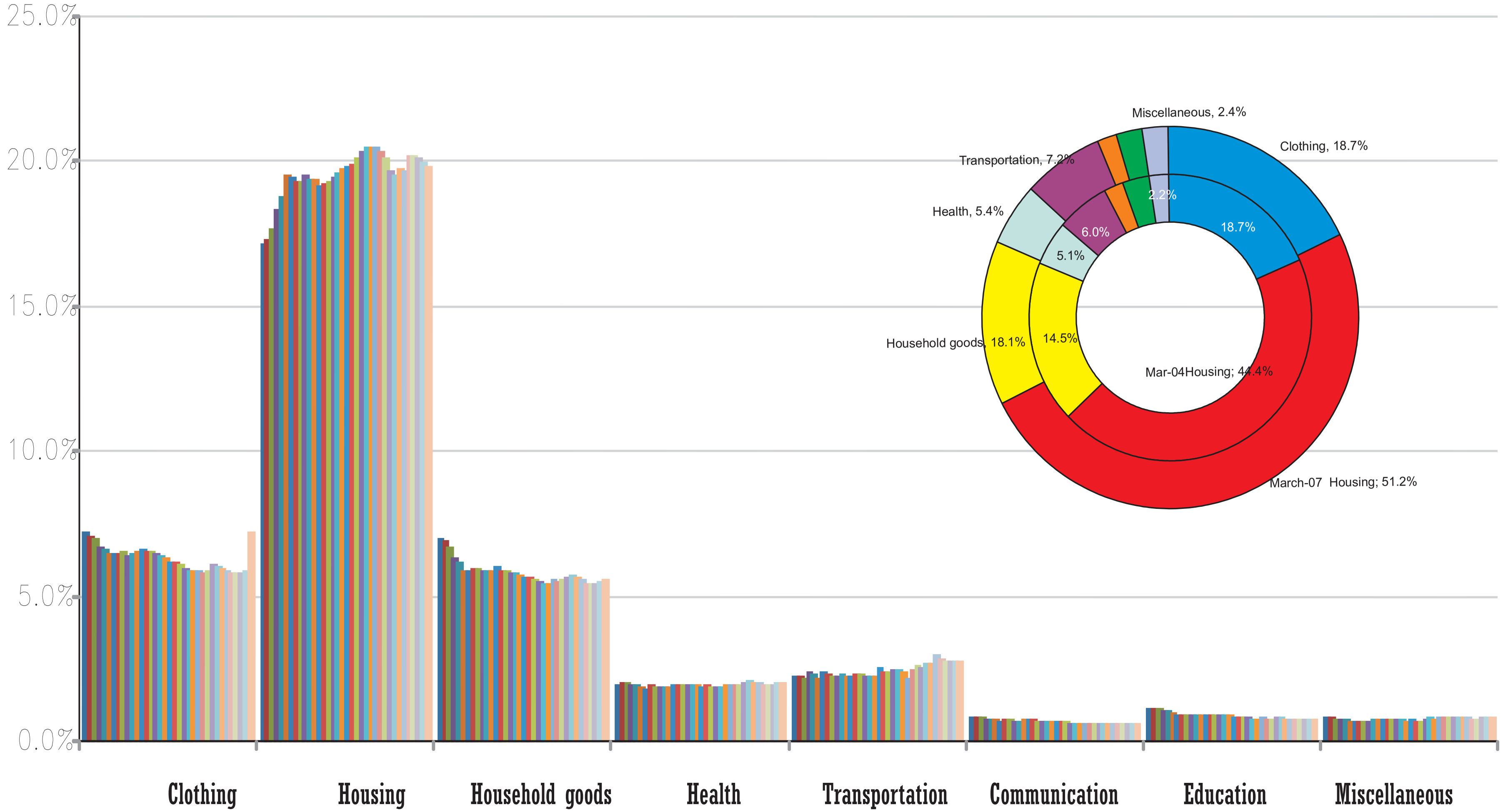
To better understand the dynamics of CPI it is useful to look beyond nominal Laspyere-based fixed weighting in which food has an overall weight in the index of about 61 percent and non-food 39 percent and analyze trends in the effective weights. These are based on the relative share of point's contribution 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 between March 2004 and March 2007, the effective weight of food has decreased from 61 percent down to 58.6 percent. An increase/decrease 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. Within the non-food items, housing appears to be the major contributor to the movement in the non-food index. Its effective weight within the total CPI has risen from 17 percent to 19.7 percent between March 2004 and March 2007 and is virtually driving the entire movement (in this case, downwards) in the non-food price index. While that movement may not appear to be large, when you look at the relative effective weight of housing within the non-food index, its share has risen from 45 percent to 51 percent.

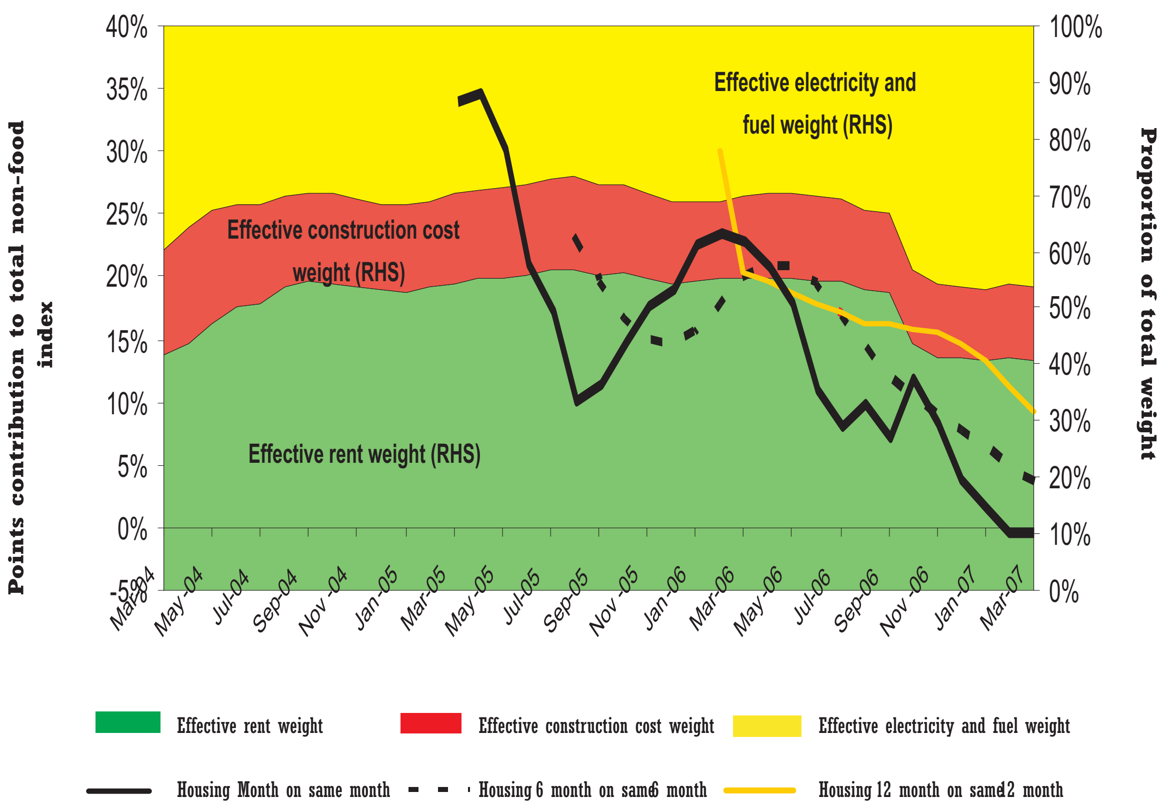
Figure 5.9: Effective weighting within the Kabul Non-Food Price Index



Source :Central Statistical Office & DAB staff calculations

The relative effective weight for electricity has increased shown by the increased area shaded yellow in Figure 1.8 below. Electricity has nearly doubled in price since March 2004 and the recent surge in prices as seen in October 2006 had an immediate affect on the overall CPI. Offsetting this increase has been a slowing inflation in rents since February 2006.

Figure 5.10: Analysis of Change -Housing by sub-items



Source :Central Statistical Office & DAB staff calculations

3. INFLATIONARY OUTLOOK

Inflation in 1385 eased to its lowest level in recent history and the outlook for inflation going forward is benign. Moderate demand conditions, easing supply side pressures and well anchored inflation expectations lend further support to the benign inflation outlook. Nevertheless, foreseeable risks to future inflation remain and the DAB must remain vigilant. These risks include continued volatility in oil prices and prolonged liquidity surge given expectations of steady foreign exchange inflows from remittances, the illegal opium trade and donor funds.

3.1. Demand conditions are subdued

Demand side pressures remain subdued as various economic indicators exhibited mixed trends. On the one hand, recent data indicate improvements in demand conditions such as increases in vehicle sales, rise in property and rental prices and tightness in the demand for skilled employment.

On the other hand, full-year output growth for 1385 was well below the government target. In addition, core inflation—an indicator of the long-term trend of inflation –sustained its decline. On the wage front, while the government has proposed a salary increase for the military and police, prospects for further wage hikes for private sector workers remain uncertain.

3.2 Supply conditions remain mixed

Supply side conditions remain mixed with positive developments on the supply side expected to help keep price pressures at bay. These include the fact that food prices are expected to trend downwards amid favourable winter rains. However, while international oil prices eased slightly in the first quarter of 1386 relative to the previous quarter, world crude prices remain susceptible to short term volatilities in the global oil market arising from geopolitical and production concerns. Nonetheless the general strength of the Afghani currency may help keep the domestic prices of oil and non-oil imports steady.

On the supply side, a key source of possible negative developments is the disruption in imports of staples (wheat, rice) from Central Asian trading partners. Any interruption in supply either due to poor trade facilitation at border points or drought is likely to be passed through to higher prices.

3.3. Risks to inflation remain

The main risks to the inflation outlook relate to continued volatility of oil prices, sustained growth in liquidity and uncertain incidence of weather disturbance. World oil prices remain vulnerable to short-term volatilities particularly those relating to weather changes and geopolitical tensions. In particular oil prices could increase if weather or security disruptions continue to threaten production in OPEC and the rest of the world, or if delays in non-OPEC supply growth continue. Meanwhile, prices could increase if demand oil demand growth slows or if Saudi Arabia decides to abandon production cuts. The effect of these cuts in oil prices could bost world oil demand growth in the short term.

Growth in domestic liquidity has strengthened further in the first months of 1386 and may persist given the prospect for sustained foreign exchange inflows from remittances, illegal opium trade and donor funds. The strong growth in liquidity has not triggered a rise in inflationary pressures, in part due to the increasing absorptive capacity of the economy and concerted mopping-up through the foreign exchange auction. In this regard the DAB will continue to closely monitor liquidity growth due to its potential implications on inflation over the medium term.

3.4. Monetary policy stance to remain vigilant

Going forward, the monetary policy stance requires careful consideration of the risks to inflation. Strong foreign exchange inflows and the resulting expansion in liquidity in the financial system arising from both the licit and illicit sectors is a growing challenge for monetary policy. Liquidity concerns arising from credit growth by the banking sector will also need to be monitored carefully. Finally, expectations of public sector wage adjustments, alongside steady improvements in domestic demand need to be monitored carefully to ensure internal balance is maintained.

6

BANKING SYSTEM PERFORMANCE

6

BANKING SYSTEM PERFORMANCE

SUMMARY

Total assets of the banking system rose to AF 54.1 billion (USD 1.1 billion) at the end of 1385, up by 76 percent from March 2006 (end of 1384). Loans amounted to AF 22 billion (USD 439 million) an increase of AF 13.8 billion (USD 277 million) or 171 percent over the year. Deposits stood at AF 41 billion (USD 812 million) over the period under review; a 106 percent increase over the year. Deposits were largely denominated in USD (76 percent) with AF -denominated deposits were lagging n cvcx cvgxfdv19.5 percent. Total capital of the banking system stood at AF 11.4 billion (USD 228 million).

Banking sector overall was not profitable incurring a loss of AF 107 million (USD 2.1 million) over 1385, for an overall return on assets (ROA) of -0.26 percent which was lower than previous year's 1.80 percent. The main causes for the dip in ROA are significant increases in overhead expenses, accrued provisions for loan losses, and taxes on profits which more than more than completely offset notable hikes in net interest income and moderate rise in other non-interest incomes. Three new full-fledged commercial banks –Azizi Bank, BRAC Afghanistan Bank and Development Bank of Afghanistan (DBA)—were registered in the period under review.

1. ASSETS OF THE BANKING SYSTEM

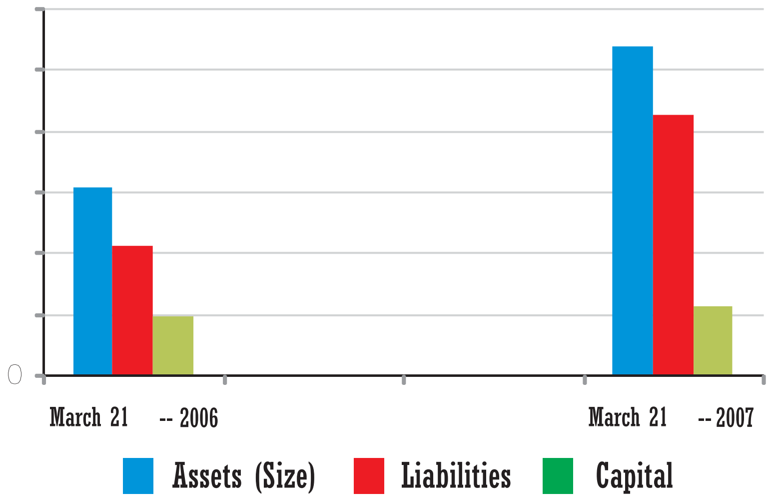
The banking system continues to grow at a brisk rate. Total assets (size) of the banking system at the end of 1385 was AF 54.1 billion (USD 1.1 billion), up by 76 percent or AF 23 billion (USD 467 million) from last year, Figures 6.1 and 6.2.

The major components of this increase were increases in loans (up AF 13.8 billion) and cash in vault/claims on DAB (up AF 5.7 billion). Moreover, the remaining part is made up of other asset categories such as claims on financial institutions, fixed assets and NDF.

The most important components of the banking system's total asset portfolio are loans (40.6 percent), claims on financial institutions (20.3 percent), cash in vault/claims on DAB (19.5 percent), and Net Due From (9.4 percent). Other components of total assets are negligible. The rapid increase in the relative importance of loans can be traced to immediate deployment of major portion of attracted funds into new loans, while a small part has been retained as liquid assets. Moreover, some placements also were substituted for loans.

Figure 6.1: Banking System's Growth Rate

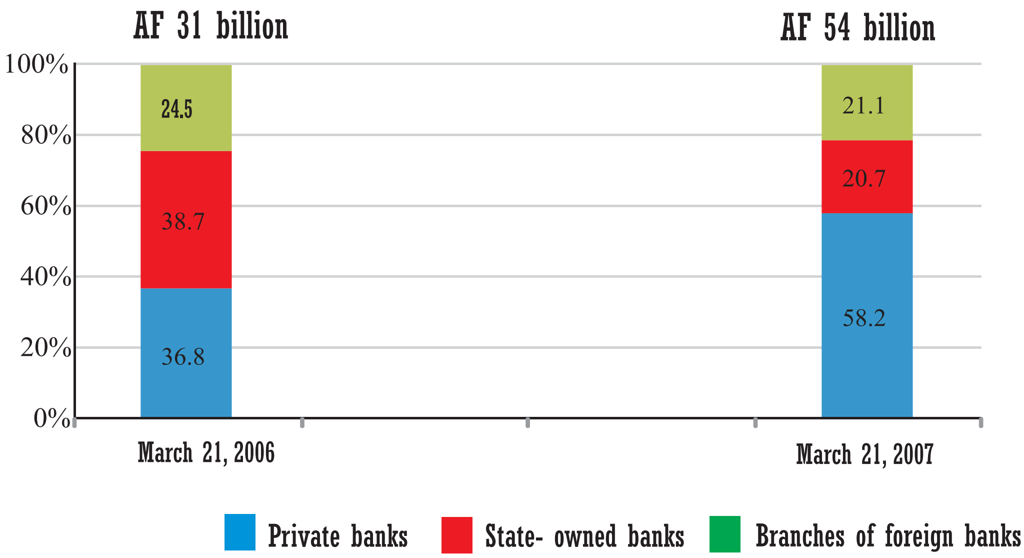
Increased by 76 percent or AF 23 billion



Source: Banking Supervision Department

Figure 6.2: Size of Banking Sector (total assets)

Increased by 76 percent or AF 23 billion



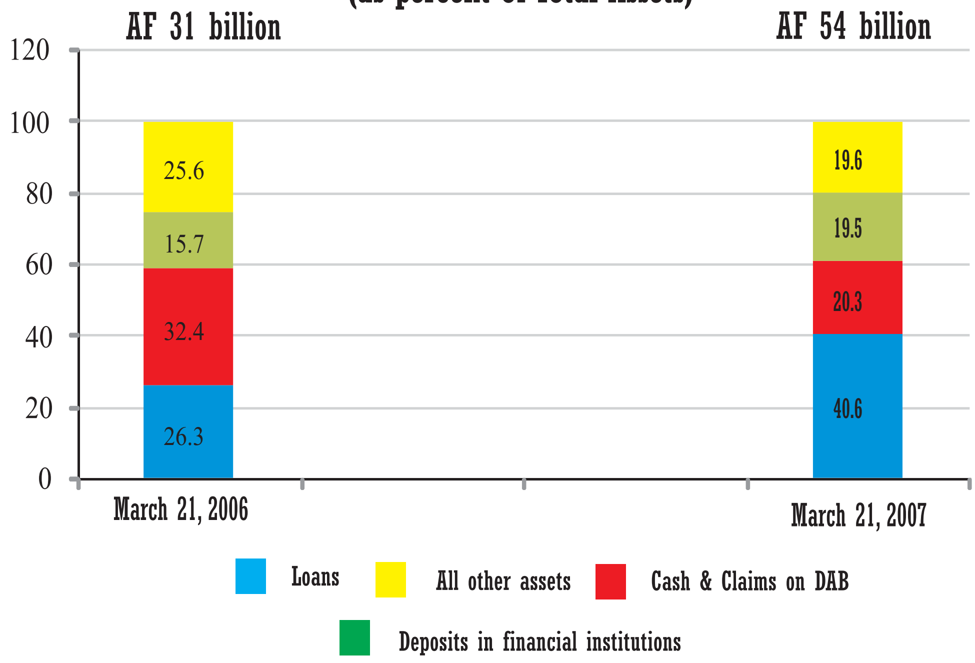
Source: Banking Supervision Department

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

1.1. Claims on financial institutions

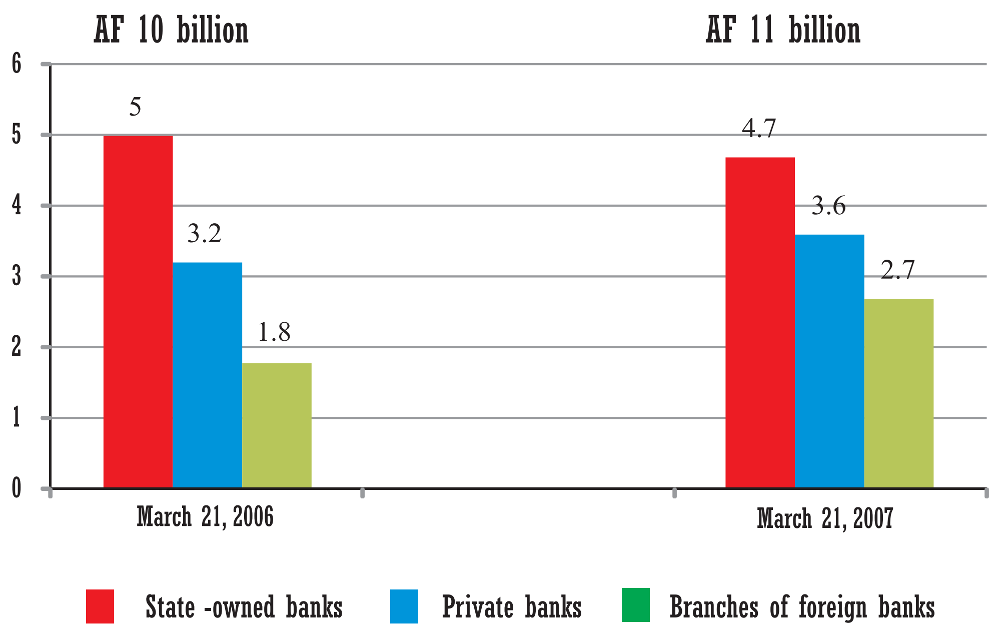
Claims on financial institutions are the second largest among various asset categories, currently comprising AF 11 billion - an 11 percent increase over previous year's total - 20.3 percent of total assets, perhaps indicating that the banking sector is keeping part of its attracted funds as deposits 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 6.3: Major Asset Categories (as percent of Total Assets)



Source: Banking Supervision Department

Figure 6.4: Claims on Financial Institutions



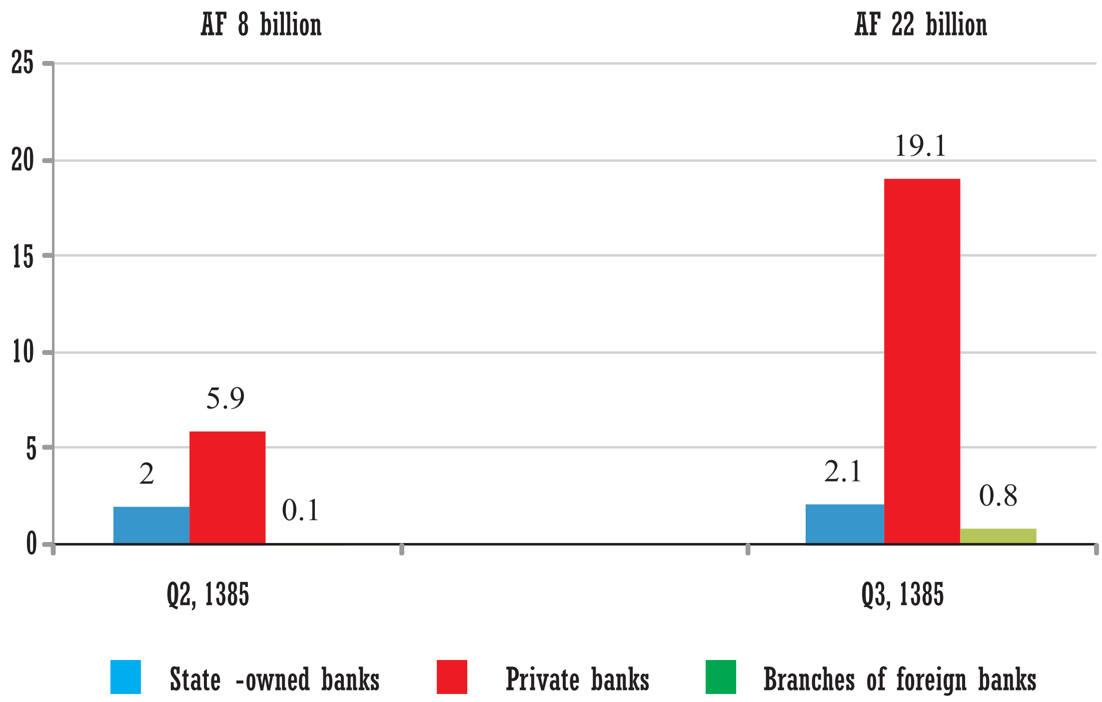
Source: Banking Supervision Department

1.2. Net loans

The loan portfolio continues to grow, totaling AF 22 billion (USD 459 million) as of March 21, 2007 – a 171 percent increase over the previous year – or 40.6 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 increased insignificantly. Increases in lending were observed at all but one of the banking organizations, however obvious in a couple of banking institutions.

By far, the major component of loan portfolio is "other commercial loans (89 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.

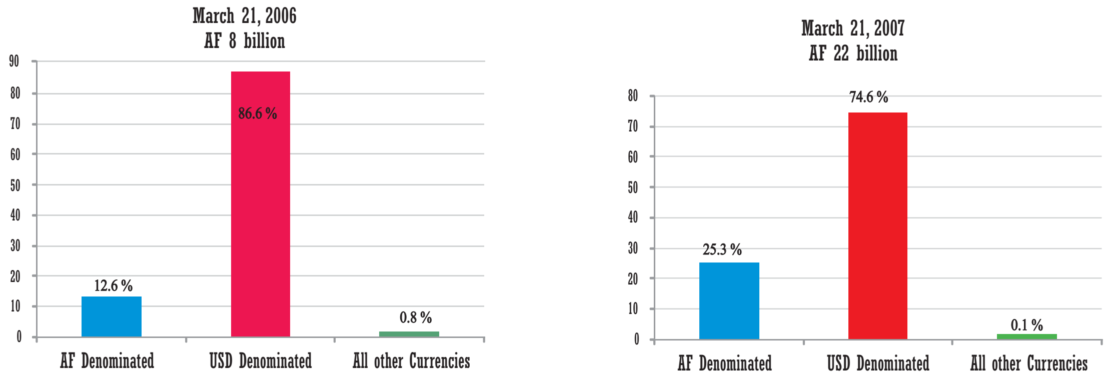
Figure 6.5: Loans Portfolio Increased 171 percent or AF 14 billion



Source: Banking Supervision Department

Private Banks are the leading creditors, increasing their portfolio both in absolute terms as well as percentage of total loans, currently at AF 19.1 billion or 87 percent of total loans. Changes in State-owned banks and branches of foreign banks' share and amount were insignificant.

Figure 6.6: Currency Composition of Loans



Source: Banking Supervision Department

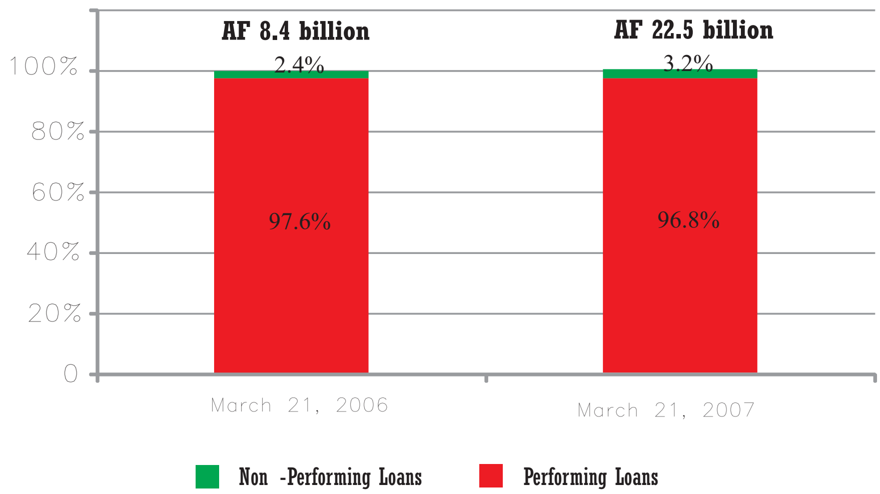
1.3. Non-performing loans

The system's non-performing loans increased over the year, jumping to AF 213 million from AF 201 million at the end of the previous year, and stand at 2.2 percent of the total loan portfolio. This is a slight decrease over the year; however, the banking sector's loan administration function is still strong, limiting the NPLs percentage at the lowest possible level.

1.4. Adversely-classified loans

Contrary to the increase in non-performing loans, adversely-classified loans increased to AF 489 million from AF 252 million at the end of the previous year. These loans represent 13.2 percent of the portfolio, which is also quite respectable. However, loans on the "substandard" and "loss" increased slightly. 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 classification of loans is becoming more conservative.

Figure 6.7: Quality of Loans Portfolio



Source: Banking Supervision Department

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

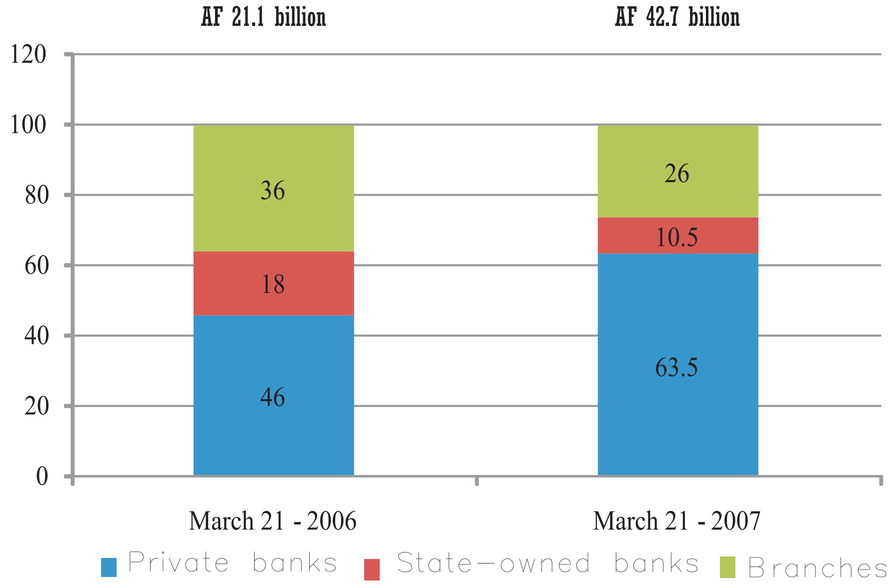
Cash in vault and claims on DAB remains the third largest category, increasing both in absolute as well as percentage of total assets. The banking sector is considering compliance with required reserves, or deploying slowly and prudently the attracted funds into other types of assets.

2. LIABILITIES

Total liabilities of the banking sector at the end fiscal year 1386 were AF 41 billion, up by 19 percent from the last quarter. This is an indication of growing public confidence and

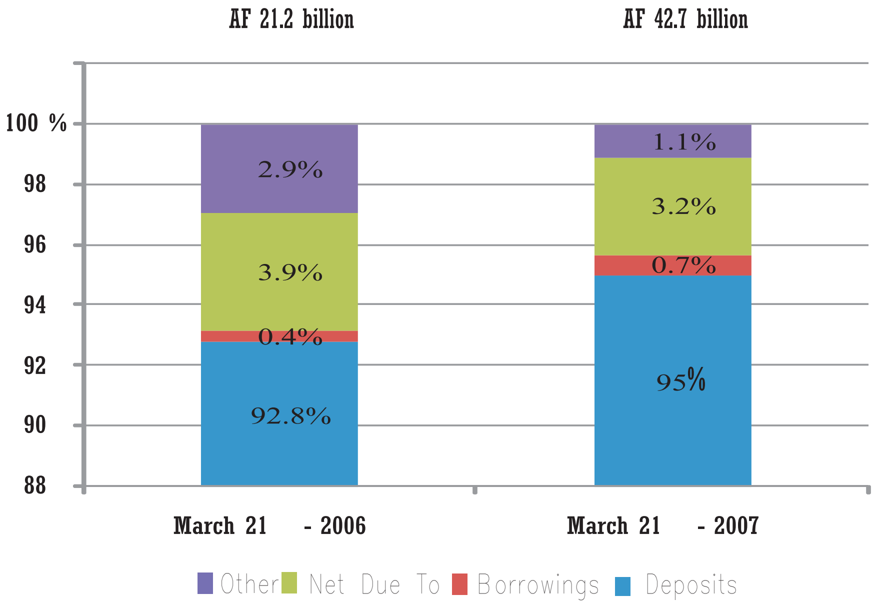
Figure 6.8: Deposits

Increased AF 21.5 billion or 101 Percent



Source: Banking Supervision Department

Figure 6.9: Major Liability Categories



Source: Banking Supervision Department

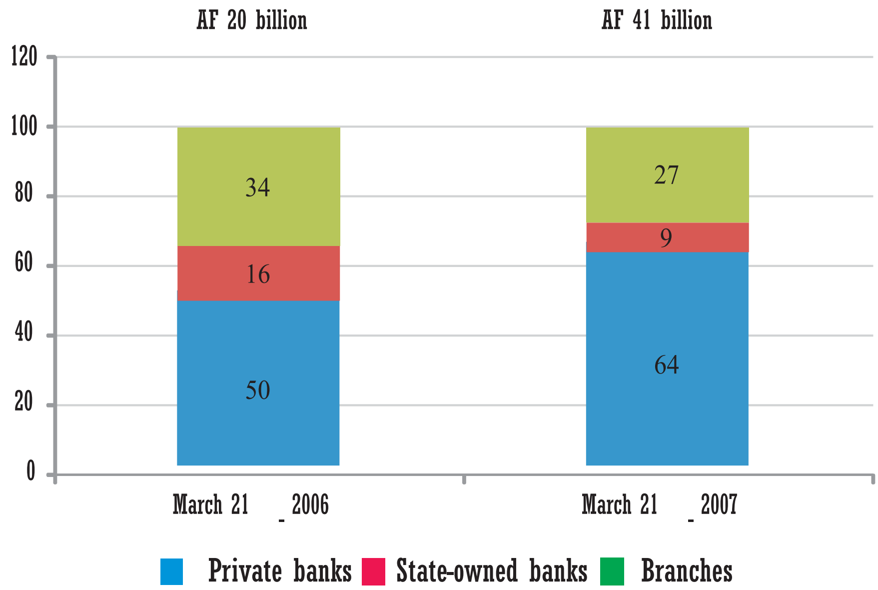
Increases in deposits of branches were reflected as highly comparable increases in total assets with unrelated parties for the period, indicating a shift from a source of funds for the home office towards active engagement in the country, and gradual compliance with DAB's supreme council's resolution on investment of 80 percent of attracted funds inside the country within two years.

2.1. Deposits

Deposits are the major component of liabilities, currently equal to AF 41 billion, a 106 percent increase over the previous year. Private Banks attracted AF 16 billion more deposits, 76 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 is losing ground.

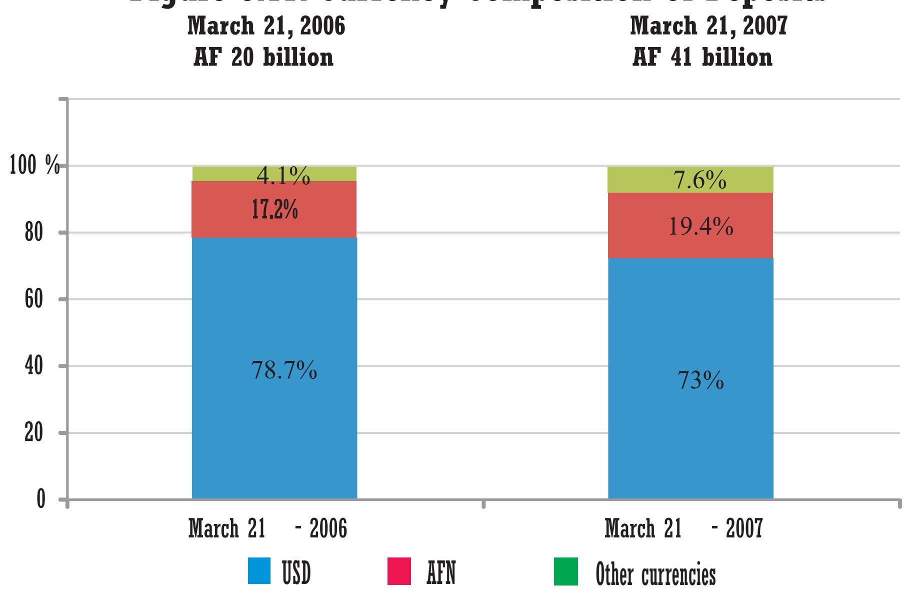
Figure 6.10: Deposits

Increased AF 21 billion or 106 Percent



Source: Banking Supervision Department

Figure 6.11: Currency Composition of Deposits



Source: Banking Supervision Department

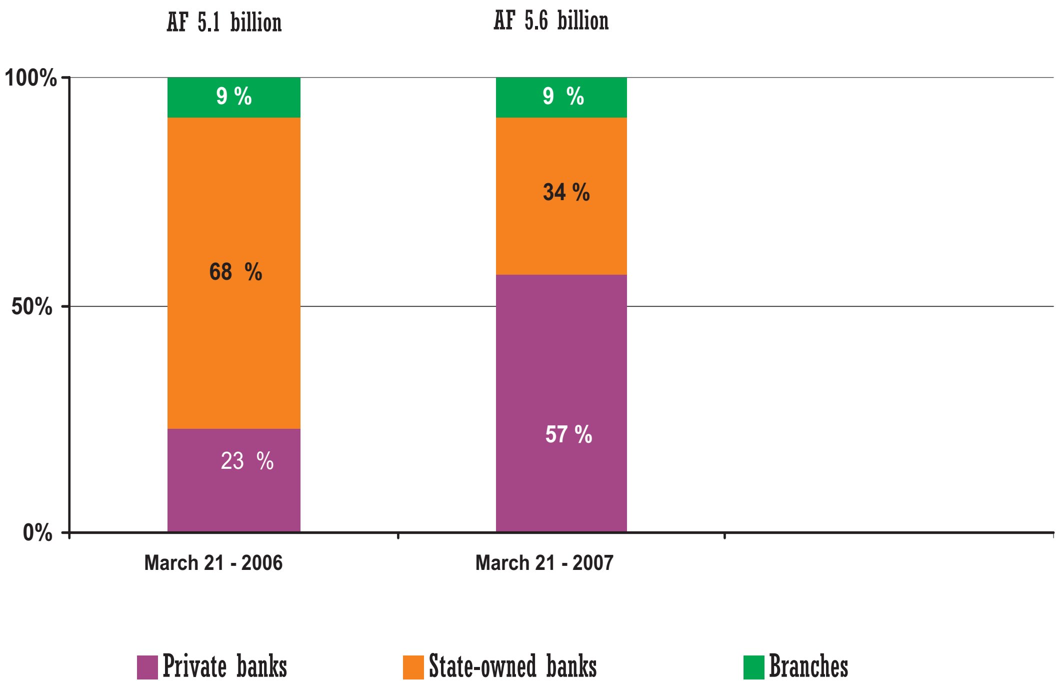
Other liabilities except Interest Payable remain the second major component of liabilities, up by 68 percent, or 3.2 percent of total liabilities.

2.2. Capital

The system, as a whole, is well capitalized. Total financial capital at full-fledged banks is AF 11.4 billion, up by 20 percent from the previous quarter. 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 11.4 billion can support assets of AF 57 billion, while total assets at the end of quarter were AF 54.1 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). The NDT and NDF positions of branches of foreign banks are the same as in the previous quarter. 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, while the others are simply sending their acquired funds to their international networks. The largest NDF position by a commercial bank was AF 2.9 billion, up by 81 percent over the year.

Figure 6.12 :Afghani Denominated Deposits



Source: Banking Supervision Department

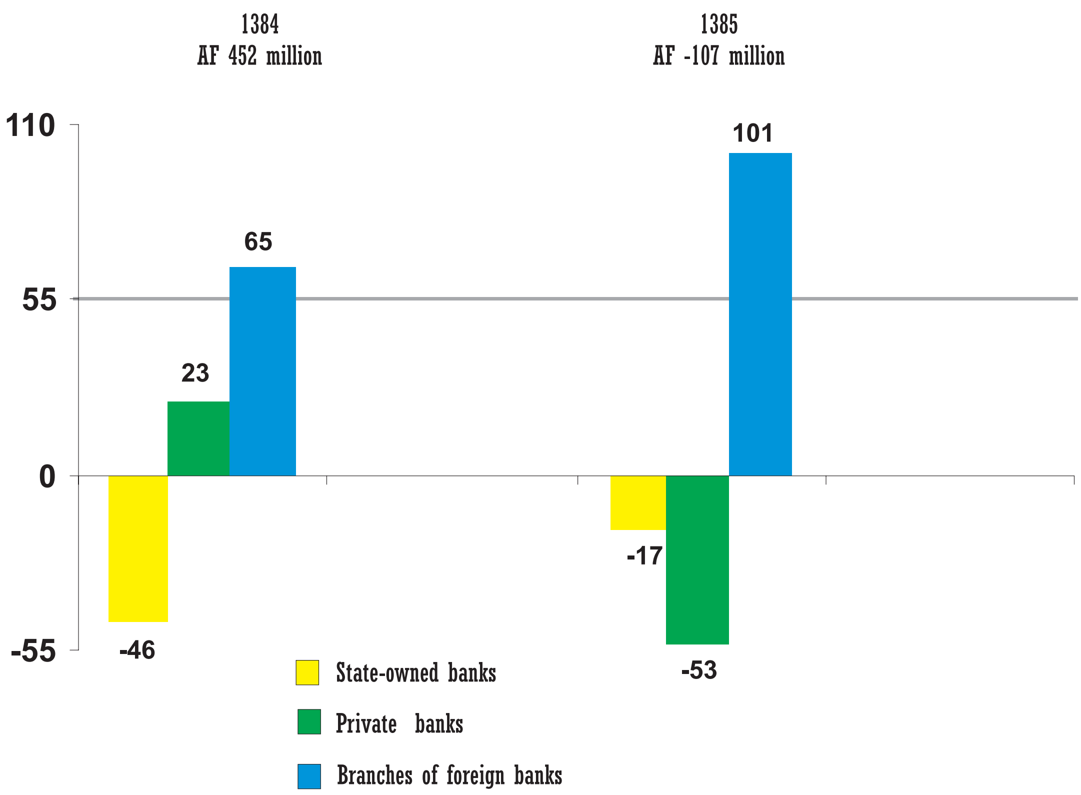
NDF is probably a normal situation for a foreign branch in the first year or so of existence when the branch is establishing itself and seeking loan customers and other investment opportunities. Supervisory action will only be required if the branch persists for another year or two in a NDF position or the bank's overall worldwide condition and performance is deteriorating.

2.3. Profitability

The banking sector overall is unprofitable. Total net loss of the banking sector for the year ended 1385 is AF 107 million, whereas AF 452 million net profit was made during 1384. The combination of declining profits and the 76 percent growth of the banking sector pushed the return of assets down to -0.26 percent, from 1.80 percent for 1384.

The main causes for the dip in ROA are significant increases in overhead expenses, accrued provisions for loan losses, and taxes on profits which more than more than completely offset notable hikes in net interest income and moderate rise in other non-interest incomes.

Figure 6.13: Profitability



Source: Banking Supervision Department

Private Banks are the least profitable peer group, whereas branches of foreign banks were the most profitable group. Hiking operating expenses were the main cause for the former; while higher non-interest income was the main component leading to superior performance for the Branches.

The major component of income was Net Interest Income (NII) with total amount of AF 2.6 billion, up by 130 percent from the previous year.

The second major component of income is

other Non-Interest Income totaling AF 805 million, a 18 percent increase over previous year's balance.

The most important component of expense is the Non-Interest Expense (NIE), currently equal to AF 2.6 billion, a 142 percent increase from the previous year.

The efficiency ratio, (net interest income + trading account gain/loss + other non-interest income divided by operating expenses) of the system declined from 1.65 for 1384 to 1.29 in 1385. Six banking institutions ended up with lower efficiency ratios.

2.4. FOREIGN EXCHANGE RISK

The level of foreign exchange risk being taken by banks has been returning to levels below the maximum threshold set by DAB.

In general, the long open Foreign Exchange (FX) positions of four private banks are way below the thresholds set by DAB and the remaining three, which are formed during 1385, are showing considerable improvement. According to Open Positions in Foreign Currencies' Regulation, the overall open position in all foreign currencies shall not exceed 40 percent of the institution's regulatory capital. (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 supervisory agreements signed with four private banks were totally effective in reducing their position within set limits. Similar options could be considered for the remaining three private banks, however, the level of progress towards full compliance is promising. (The state-owned banks were not subject to enforcement actions; thus issue will be addressed as part of their overall restructuring.)

2.5. INTEREST RATE RISK

Interest rate sensitivity of the banks remained unchanged during the year, and all banks 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.

EXTERNAL SECTOR DEVELOPMENTS

7

7

EXTERNAL SECTOR DEVELOPMENTS

SUMMARY

The balance of payments (BOP) recorded a surplus of USD 63.5 million in 1385 down from USD 362 million in 1384. The large swing in the BOP can be partly traced to movements in the capital account where foreign direct investment (FDI) dropped by 20 percent from the previous year.

Developments in the current account can also shed light on the large swing in the overall BOP. The current account balance, the broadest measure of trade in goods and services, registered a deficit of USD 175 million in 1385 down from a surplus of USD 41 million in 1384. This is consistent with a net foreign asset position driven by volatile capital inflows as the economy undergoes post-conflict reconstruction.

The capital and financial accounts remained in surplus in the year under review although it was marginally lower at USD 328 million in 1385 down from USD 360 million in 1384.

The trade deficit, the difference between exports and imports of goods, stood at USD 2.3 billion in 1385 which was 28 percent of GDP. This was marginally lower than the trade deficit in 1384, which stood at 31.3 percent of GDP .

Imports rose by almost 11 percent in 1385 to USD 2.7 billion. Imports were dominated by capital goods (USD 1.4 billion) and industrial supplies and materials (USD 623 million).

Domestic exports were up by 9 percent from the previous year, with carpets and rugs (USD 187 million) and food items (USD 165 million) dominating the export sector.

Pakistan remained Afghanistan's major export destination followed by India, with exports to these countries growing by a phenomenal 174 percent and 590 percent respectively since 1382.

1. BALANCE OF PAYMENTS

In the fiscal year under review, the balance of payments (BoP) recorded a surplus of USD 63.5 million down a staggering 82 percent from 1384. The current account balance in 1384 moved from a surplus of USD 41 million to a deficit of USD 138 million in 1385. Imports were up by 11 percent from USD 2471 million to USD 2.7 billion, while exports also increased by 9 percent to USD 416 million from USD 384 million. The deficit in services increased by 10 percent from USD 537 million to USD 591 million. This was counterbalanced by a 7.6 percent increase in current transfers from USD 3.1 billion to USD 3.3 billion. The capital and financial account recorded a surplus of USD 329 million though it declined in absolute terms from USD 361 million in 1384.

Developments in the capital and financial account were largely driven by a 19 percent decline in foreign direct investment from USD 271 million to USD 219 million and a decrease of 60 percent in amortization payments due to debt relief.

The widening current account deficit in 1385 should not be unduly alarming because it reflects the change in the economy's net foreign asset position. Afghanistan is at a phase in the post-conflict reconstruction phase where it can expect large net financial inflows. The large swing in the balance of payments in 1385 is indicative of Afghanistan's reintegration into the international community. The dynamics of FDI will continue to be volatile and largely dependent on donor sentiments and security concerns.

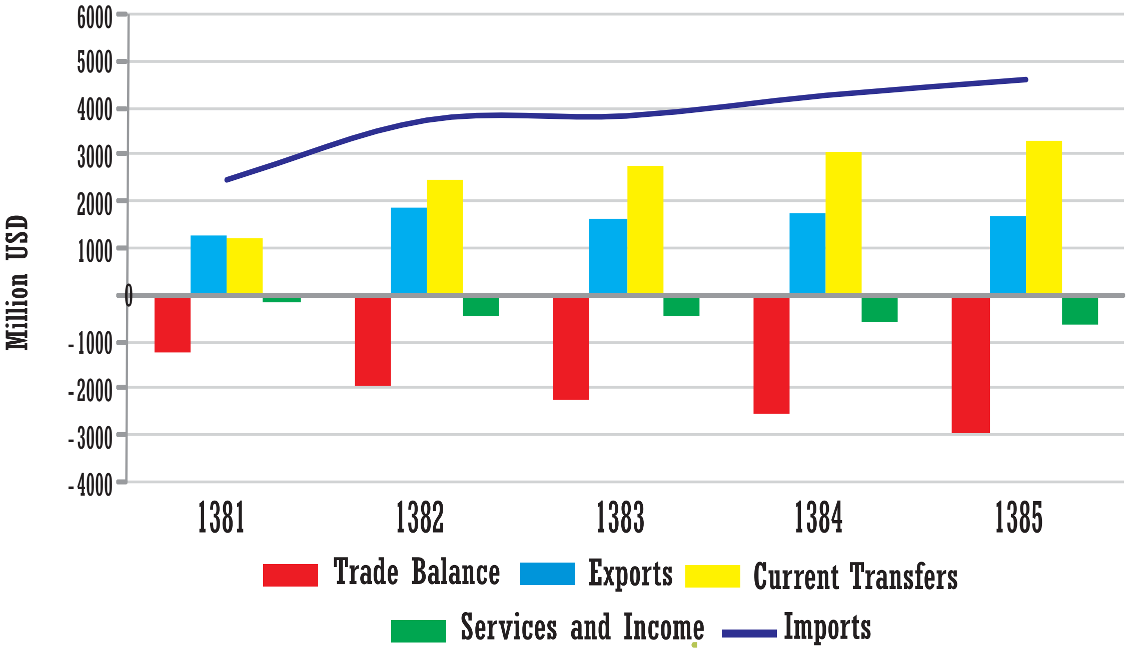
Table 7.1: Afghanistan Balance of payments, (in million USD)

	2002/03	2003/04	%	2004/05	%	2005/06	%	2006/07	%
	1381	1382	Change	1383	Change	1384	Change	1385	Change
Current Account (including grants)	-149.7	137.5	191.9	105.4	-23.3	41.1	-61	-174.8	-525.3
Current Account (excluding grants)	-1,371.50	-2,338.40	70.5	-2,681.80	14.7	-3,062.50	14.2	-3,515.10	14.78
Trade Balance	-1,217.50	-1,892.00	55.4	-2,231.10	17.9	-2,525.40	13.2	-2,923.80	15.78
Exports of goods 1/	1,290.70	1,893.90	46.7	1,642.30	-13.3	1,791.60	9.1	1,725.70	-3.68
Domestic Exports	276.8	376.8	36.1	457.2	21.3	556.4	21.7	586.8	5.46
Re-exports	1,013.90	1,517.10	49.6	1,185.10	-21.9	1,235.20	4.2	1,138.90	-7.8
Imports of goods	2,508.20	3,785.90	50.9	3,873.40	2.3	4,317.00	11.5	4,649.50	7.7
Recorded imports	1,142.30	1,688.50	47.8	1,999.60	18.4	2,223.40	11.2	2,348.70	5.64
Duty imports	840.8	1,001.00	19.1	1,203.30	20.2	1,445.20	20.1	1,620.40	12.12
Of which Commodity food aid	94	40	-57.4	107.8	169.5	78.2	-27.5	60.4	-22.76
Other	525.1	1,096.40	108.8	670.5	-38.8	648.4	-3.3	680.4	4.94
Services and Income (net)	-154	-446.4	189.9	-450.7	1	-537.1	19.2	-591.3	10.09
Of which: interest due 2/	8.9	12	34.8	13	8.3	13.3	2.3	54	306.02
Current Transfers	1,221.80	2,475.90	102.6	2,787.20	12.6	3,103.60	11.4	3,340.30	7.63
Public	1,170.20	2,420.90	106.9	2,477.10	2.3	2,724.00	10	2,857.60	4.9
Of which: Commodity food aid	94	40.9	-56.5	107.8	163.6	78.2	-27.5	60.4	-22.76
Private 3/	51.6	55	6.6	310.1	463.8	379.6	22.4	482.7	27.16
Capital and Financial account	144	149.6	3.9	476.7	218.6	360.8	-24.3	328.7	-8.9
Foreign direct investment	50	57.8	15.6	186.9	223.4	271.4	45.2	218.7	-19.42
Official loans (net)	94	91.8	-2.3	289.8	215.7	89.4	-69.2	110	23.04
Disbursement	100.2	101.6	1.4	299.3	194.6	101.7	-66	115	13.08
Amortization due 2/	6.2	9.8	58.1	9.6	-2	12.4	29.2	5	-59.68
Other capital (incl. errors and omissions)	161	93.3	-42	-133.2	-242.8	-39.8	-70.1	-90.4	-127.14
Overall Balance	155.3	380.4	144.9	448.9	18	362.1	-19.3	63.5	-82.46
Financing	-155.3	-380.4		-448.9		-362		-10,298.00	
Change in reserve assets of DAB	-101	-394.7		-463.7		-378.4		-143	
Use of fund resources (net)	0	0		0		0		0	
Exceptional financing	-54.3	14.3		14.8		16.4		-10,155.00	
Arrears 4/	-54.3	14.3		-2.8		-12.9		-10,155.00	
Debt rescheduling	0	0		0		0		0	
Debt forgiveness	0	0		17.6		29.3		0	
Financing gap								10,233.80	
Identified financing (provisional)	0	0		0		0		35.1	
Of which: IMF PRGF	0	0		0		0		35.1	
Remaining gap 4/	0	0		0		0		10,198.70	

	2002/03	2003/04	%	2004/05	%	2005/06	%	2006/07	%
	1381	1382	Change	1383	Change	1384	Change	1385	Change
Memorandum Items:									
Gross international reserves									
(In USD millions)	425	820		1,283.00		1,662.00		1,804.00	
(In months of imports) 5/	1.8	3.1		4.1		4.6		4.9	
(Related to external Debt service due)	28.1	37.6		57		64.8		30.6	
Exports (goods and non factor services)	1,341.00	1,999.00		1,720.00		1,893.00		1,873.00	
Imports (goods and non factor services)	2,704.00	4,331.00		4,410.00		4,975.00		5,381.00	
Trade Balance (in % of GDP)	-29.8	-41.3		-37.4		-34.6		-33	
Current account balance (in % of GDP) 6/									
Including grants		3		1.8		0.6		-1.5	
Excluding grants		-51		-44.9		-41.9		-39.1	
Total debt service (in % of exports) 6/ 7/	**4.6**	**4.5**		**4.2**		**3.9**		**1.5**	

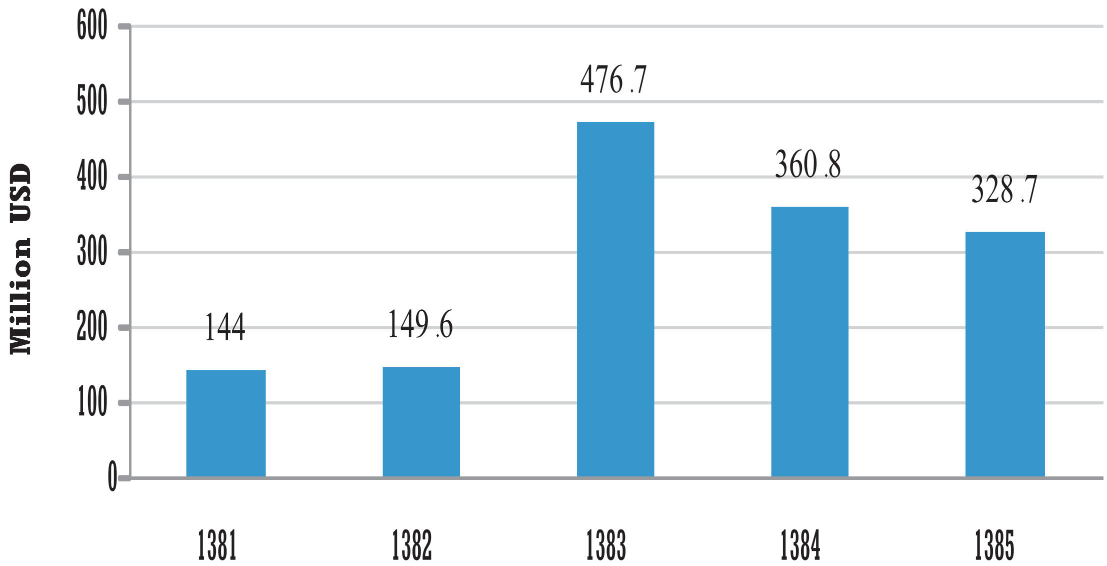
Sources: Afghan authorities; and Fund staff estimates and projections.
1/ Excludes opium exports and due to limited data availability, flows associated with U.S. Army and most ISAF activities.
2/ Debt service projections are based on the total stock of external debt (including estimates of un-verified arrears). Given lack of data on the rate of penalty interest and ongoing bilateral negotiations, interests on overdue obligations represent an estimate by Fund staff.
3/ Includes foreign transactions recently reported by licensed money changers.
4/ Arrears shown for 2002/03 to 2005/06 represent fund staff estimates of debt service due, but not paid, on estimated overdue obligations. The 2006/07 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 Soviet claims consistent with Paris Club practice.
5/ In months of imports of goods and services, excluding imports for re-exports.
6/ After July 2006 Paris Club rescheduling agreement (including capitalization of moratorium interest) and assuming comparable treatment from non-Paris Club bilateral creditors.

Figure 7.1: Current Account



Source: Central Statistical Office and DAB staff calculations

Figure 7.2: Capital and Financial Account



Source: Central Statistical Office and DAB staff calculations

1.1. Merchandise trade

Over the year under review, the trade deficit stood at USD 2.3 billion or 28 percent of GDP. Table 7.2 shows merchandise trade by its main categories and the trade deficit as a percentage of GDP from 1382 to 1385. Imports of USD 2.7 billion were dominated by capital goods (USD 1.4 billion) and industrial supplies and materials (USD 623 million). Exports of USD 416 million were dominated by carpets and rugs (USD 187 million) and food items (USD 165 million). The trade deficit should be manageable as long as donor support continues and the deficit is declining as a percentage of GDP. In the year under review, the trade deficit appears to be declining as a percentage of GDP; however, continued steady progress is needed in the coming years to improve export performance.

Table 7.2: Merchandise Trade (in million USD)

	1382		1383		1384		1385	
	Total	% share	Total	% share	Total	% share	Total	% share
Imports	**2,118.90**	**100**	**2,150.90**	**100**	**2,470.74**	**100**	**2,744.19**	**100**
Consumer goods	441.2	20.82	383.3	17.82	478.63	19.37	477.28	17.39
Industrial supplies & materials	639.9	30.2	667.4	31.03	541	21.9	622.94	22.7
Capital goods & others	996.5	47.03	1,034.00	48.07	1,206.50	48.83	1,389.76	50.64
Fuel and lubricants	41.3	1.95	66.2	3.08	244.61	9.9	254.21	9.26
Exports	**143.71**	**100**	**303.3**	**100**	**383.72**	**100**	**416.46**	**100**
Carpets & Rugs	21.5	14.96	154.3	50.87	206.94	53.93	186.53	44.79
Food Items	70.9	49.34	95.6	31.52	104.11	27.13	165.15	39.66
Leather & Wool	31	21.57	27.3	9	36.51	9.51	30.94	7.43
Medical Seeds & Others	20.31	14.13	26.1	8.61	36.16	9.42	33.84	8.13
Trade Balance:		**-1,957.29**		**-1,847.60**		**-2,087.02**		**-2,327.73**
Trade Balance as % of GDP:		**39.2**		**33.38**		**31.28**		**28.19**

Source: Central Statistical Office and DAB staff calculations

1.2. Direction of trade

Tables 7.3 and 7.4 compare the direction of trade in 1385 with that of 1382. Pakistan remains Afghanistan's largest export destination with 64 percent of exports in 1385 down from 67 percent in 1382. Exports to Pakistan have increased by 175 percent from USD 96 million in 1382 to USD 265 million in 1385. Pakistan is followed by India, which increased its share of trade by 590 percent from USD 12 million in 1382 to USD 79 million in 1385. The Ex-soviet commonwealth states are also a major export destination for Afghanistan. In 1382 exports with the Ex-soviet commonwealth were USD 13 million compared to USD 33 million in 1385: an increase of 147 percent. European countries are still a major export destination for Afghanistan despite a decline of 41 percent from USD 7 million in 1382 to just USD 4 million in the period under review.

Table. 7.3: Direction of External Trade in 1382 (in million USD)

	Exports		Imports		
Country Name	Millions of USD	%share	Millions of USD	% share	Trade Balance
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 Commonwealth	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	30.05	-616.16
Total	**143.8**	**100**	**2,101.46**	**100**	**-1,957.66**

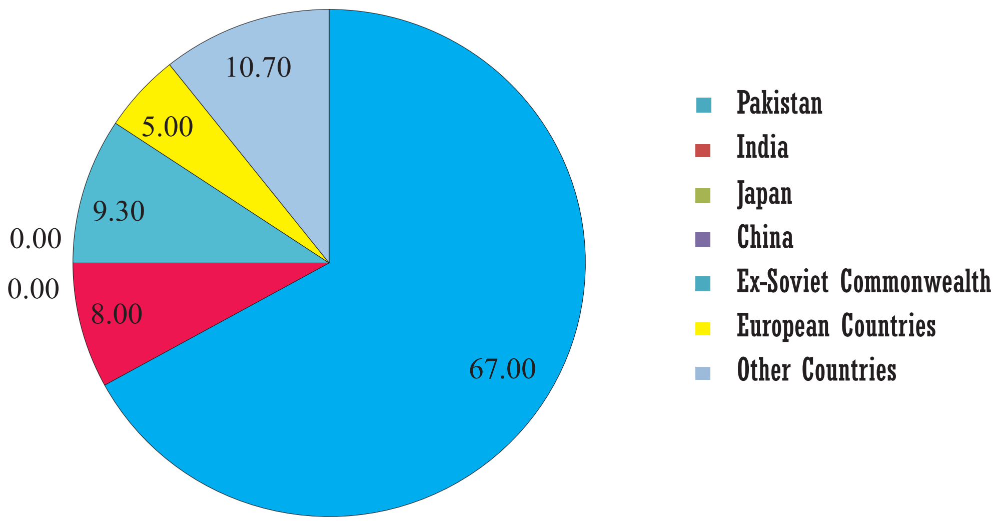
Source: Central Statistical Office and DAB Staff calculations

Table. 7.4: Direction of External Trade in 1385 (in million USD)

	Exports		Imports		
Country Name	Millions of USD	% share	Millions of USD	% share	Trade Balance
Pakistan	264.6	63.54	418.77	15.26	-154.17
India	79.36	19.06	124.7	4.54	-45.34
Japan	0	0	417.98	15.23	-417.98
China	0.24	0.06	474.59	17.29	-474.35
Ex-soviet Commonwealth	33.03	7.93	572.68	20.87	-539.65
European Countries	4.28	1.03	58.22	2.12	-53.94
Other Countries	34.95	8.39	677.25	24.68	-642.3
Total	**416.46**	**100**	**2,744.19**	**100**	**-2,327.73**

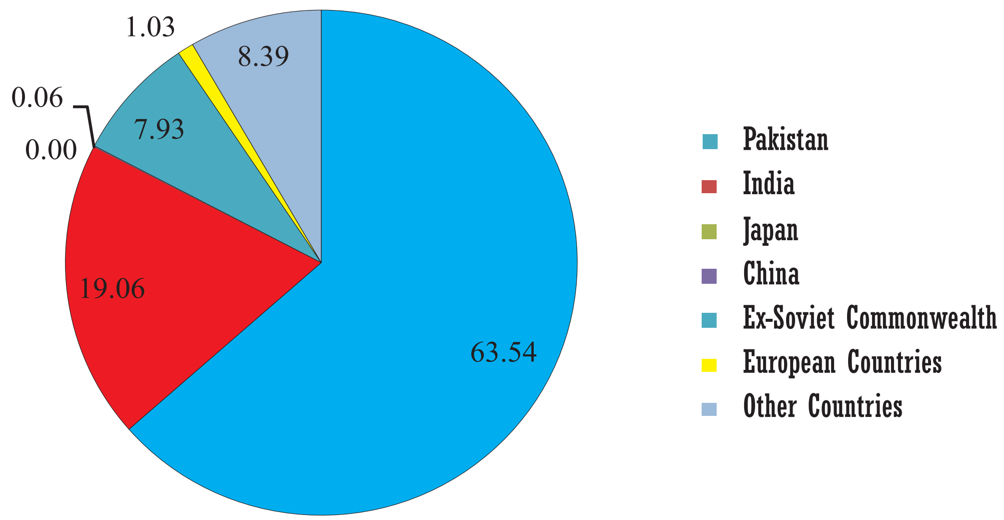
Source: Central Statistical Office and DAB Staff calculations

Figure 7.3 Direction of Exports (% share) 1382



Source: Central Statistical Office and DAB staff calculations

Figure 7.4 Direction of Exports (% share) 1385



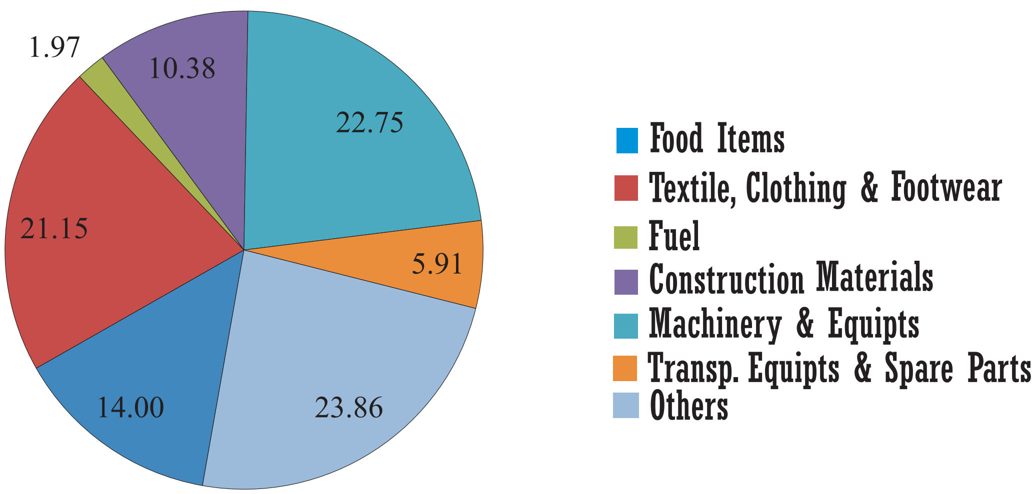
Source: Central Statistical Office and DAB staff calculations

1.3. Composition of trade

Figures 7.5 and 7.6 show the composition of total imports for 1382 and 1385. The composition of imports in 1382 indicates that imports of "Others" had the largest share at 24 percent. This was followed by "Machinery & Equipments" at 23 percent, "Textile Clothing & Footwear" at 21 percent, followed by "Food Items" at 14 percent, "Construction Material" at 10 per cent, "Transportation Equipments & Spare parts" at 6 per cent, and finally "Fuel" at 2 percent.

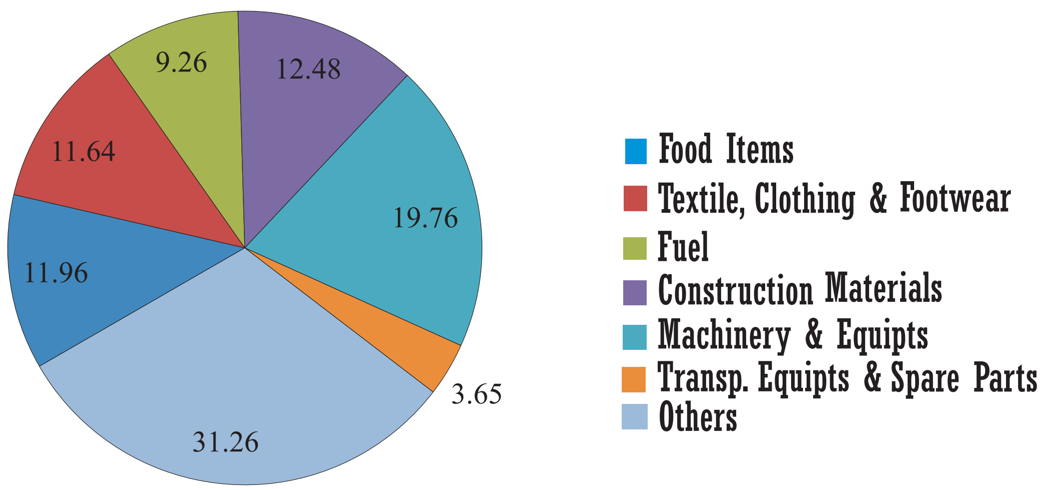
Analysis of the composition of imports in 1385 reveals that imports of "Others" had the largest share at 31 percent. This was followed by "Machinery & Equipments" at 20 percent, "Textile Clothing & Footwear" at 12 per cent followed by "Construction Materials" at 13 percent, "Food Items" at 12 percent, "Fuel" at 9 percent, and finally "Transportation Equipments & Spare Parts" at 4 percent.

Figure 7.5: Composition of Imports (% share) 1382



Source: Central Statistical Office and DAB staff calculations

Figure 7.6: Composition of Imports (% share) 1385



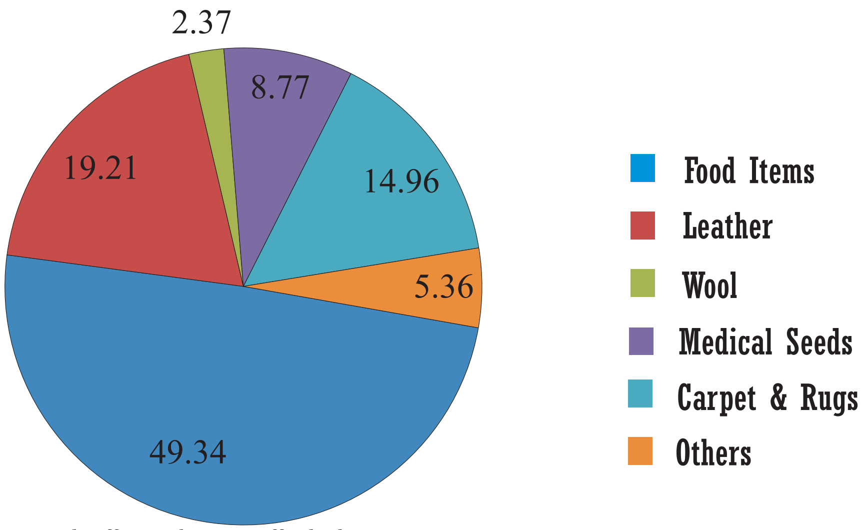
Source: Central Statistical Office and DAB staff calculations

Comparing imports in 1385 with 1382 shows considerable variability. The share of "Others" has increased in 1385 to 31 percent from 24 per cent in 1382 though on the other hand, the share of "Fuel" has also increased to 9 percent during 1385 from 2 percent in 1382. Also a decrease in "Textile Clothing & Footwear" in 1385 to 12 percent from 21 percent in 1382. On the other hand, the share of "Machinery & Equipments" also declined to 20 percent in 1385 from 23 percent in 1382.

Figures 7.7 and 7.8 compares the composition of total exports in 1382 with that of 1385. Figure 7.7 shows the compositions of exports for 1382 broken down by main commodities and products. "Food Items" with 49 percent is the largest export component followed by the "Leather" which constituted some 19 percent of total exports. "Carpet & Rugs" stood at 15 percent, "Medical Seeds" at 9 percent, "Others" at 5 percent, and finally "Wool" exports stood at 2 percent.

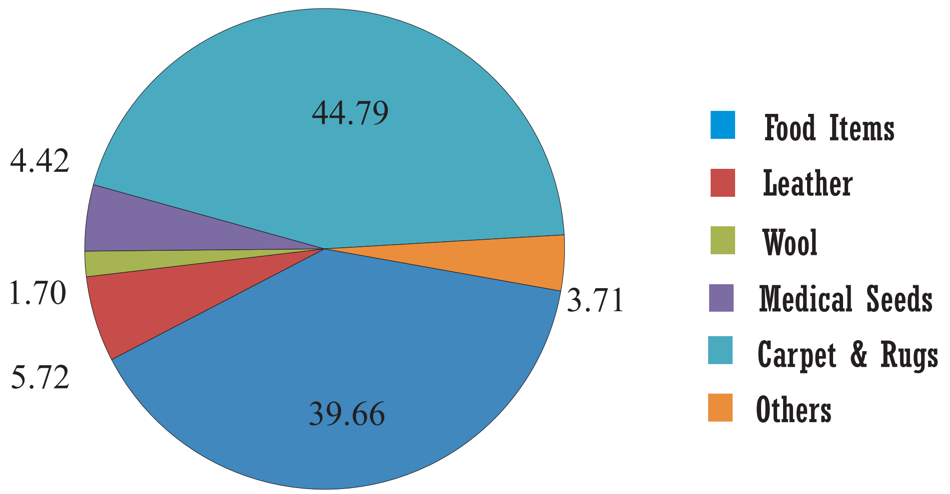
Figure 7.8 shows the composition of total exports in 1385 broken down by main commodities and products. "Carpet & Rugs" at 45 percent is the largest export component followed by "Food Items" which constituted some 40 percent of total exports. This was followed by "Leather" at 6 percent, Medical Seeds at 4 percent, "Others" at 4 percent and finally "Wool" at 2 percent.

Figure 7.7: Composition of Exports (% share) 1382



Source: Central Statistical Office and DAB staff calculations

Figure 7.8: Composition of Exports (% share)



Source: Central Statistical Office and DAB staff calculations

Comparing the composition of exports in 1385 with that of 1382 it is clear that the composition is similar. There is only slight shift in the pattern; notably the share of "Carpet & Rugs" has increased in 1385 to 45 percent from only 15 percent in 1382. On the other hand, the share of "Food Items" has declined to 40 percent in 1385 from 49 percent in 1382 .Also the share of "Leather" decreased to 6 percent in 1385 from 19 percent in 1382. Finally the share of "Medical Seeds" has declined to 4 percent in 1385 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 7.5). 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 sustain ability can best be achieved is under the HIPC (Highly Indebted Poor Country) 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 account for 0.8 percent of total claims respectively. At the time, there was no outstanding debt to the IMF or commercial creditors.

Table 7.5: External Debt as of March 20, 2006.
(in units indicated)

	In million USD	% 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 % of exports)/3	305.8	……..

Source: Data provided by Afghan authorities; and IMF staff estimates.
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.

2.1. Net international reserves

Net International Reserves (NIR) held by Da Afghanistan Bank includes holdings of foreign exchange and gold, IMF Reserve position and holdings of Special Drawing Rights (SDR). As compared the fourth quarter with the third quarter of 1385, net international reserves increased 0.8 percent to USD 1866 million from USD 1852 million. The reserves assets increased 1.8 percent from USD 1886 million to USD 1919 million. While on the other side, the reserves liabilities increased 53 percent from USD 34 million to USD 53 million, because there is a significant increase of 83 percent in commercial bank deposits in foreign currency from USD 25 million to USD 46 million, and a slight decline of 30 percent in non resident deposits in foreign currency from USD 9 million to USD 6 million.

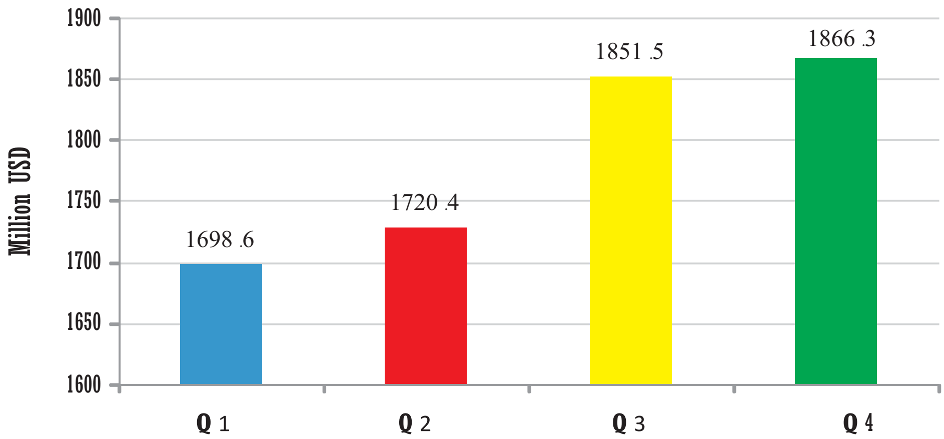
The net increase in the reserves reflected the fundamentals of the economy with foreign exchange inflows generated mainly from export earnings, foreign direct investment and injections of foreign exchange by donors and multi-national forces. The reserves position of the quarter under review is adequate to finance 4.8 months of imports.

Table 7.6: Net International Reserves, 1385
changes on the previous quarter

	Q1	% Change	Q2	% Change	Q3	% Change	Q4	% Change
Net International Reserves	1699	4.2	1728	1.8	1852	7.1	1866	13
Reserves assets	1726	3.9	1770	2.5	1886	6.6	1919	1.75
Reserves liabilities	27.7	-14.2	41.2	48.7	34.3	-16.7	52.6	53.4
Commercial bank deposits in foreign currency	23.3	-17.4	35.6	52.8	25.4	-28.7	46.4	82.7
Non resident deposits in foreign currency	4.3	2.4	5.6	30.2	8.9	58.9	6.2	-30.3
Use of Fund resources	0		0		0			
Memorandum items:								
Gross reserves (in months of imports)	4.6	-2.1	4.8	4.3	5.1	6.3	5	-2
NIRs (in months of imports)	4.6	0	4.7	2.2	5	6.4	4.8	-4

Source: DAB staff calculations

Figure 7.9 :Net International Reserves, 1385



Source: DAB staff calculations

Appendix I: Monetary Base and Monetary Aggregate

(In Millions AF)

End of period	Monetary Base			Narrow Money(M1)		
	Currency Issued	Bank Deposits With Central Bank of Afghanistan	Total	Currency in Circulation	Demand deposits	Total
1384						
April	41754.3	1876.1	43630.4	38120.2		38120.2
May	41756.3	2368.2	44124.5	39584.1		39584.1
June	42758.3	2133.1	44891.5	40084.1		40084.1
July	43788.2	2220.8	46009.1	40497.3		40497.3
August	44790.3	1836.6	46626.8	41499.3		41499.3
September	45822.8	1641	47463.8	42997.4		42997.4
October	45822.8	1971.1	47793.9	42113.6		42113.6
November	46824	1919.5	48743.5	43357.5		43357.5
December	47325.4	1988.4	49313.8	43011.7		43011.7
January	48119.9	1997.3	50117.2	44206.6		44206.6
February	48119.9	2752.2	50872.1	43723.7		43723.7
March	48647.8	3406.2	52054	44621.4		44621.4
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	4506.9	54660.9	45421		45421
August	51654	5248.2	56902.2	46051.8		46051.8
September	53686.7	6369	60055.7	47587		47587
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	63201.2	48344.3		48344.3
March	57258.2	10868.7	68126.9	49655.7		49655.7

Appendix II:

	Total (M0)			Intermediate Money(M2) (in Afghan case this is called broad money) Narrow Money(M1)			
End of period	Currency Issued	OMFI balances with Central bank of Afghanistan	Total (M0)	Currency in circulation	Deposits withdrawal on demand Demand	Savings	Total (M1)
1384							
April	41754.3	0	41754.3	38120.2	0	0	38120.2
May	41756.3	0	41756.3	39584.1	0	0	39584.1
June	42758.3	0	42758.3	40084.1	0	0	40084.1
July	43788.2	0	43788.2	40497.3	0	0	40497.3
August	44790.3	0	44790.3	41499.3	0	0	41499.3
September	45822.8	0	45822.8	42997.4	0	0	42997.4
October	45822.8	0	45822.8	42113.6	0	0	42113.6
November	46824	0	46824	43357.5	0	0	43357.5
December	47325.4	0	47325.4	43011.7	0	0	43011.7
January	48119.9	0	48119.9	44206.6	0	0	44206.6
February	48119.9	0	48119.9	43723.7	0	0	43723.7
March	48647.8	0	48647.8	44621.4	0	0	44621.4
1385							
April	48647.8	0	48647.8	42955.6	0	0	42955.6
May	48651.4	0	48651.4	42783.4	0	0	42783.4
June	48651.4	0	48651.4	43101.1	0	0	43101.1
July	50154	0	50154	45421	0	0	45421
August	51654	0	51654	46051.8	0	0	46051.8
September	53686.7	0	53686.7	47587	0	0	47587
October	53686.7	0	53686.7	47084.8	0	0	47084.8
November	54686.7	0	54686.7	47317.5	0	0	47317.5
December	54753.7	0	54753.7	46542.3	0	0	46542.3
January	55758.2	0	55758.2	47989.7	0	0	47989.7
February	55758.2	0	55758.2	48344.3	0	0	48344.3
March	57258.2	0	57258.2	49655.7	0	0	49655.7

Appendix III: Currency in circulation

End of period	Currency issued and outstanding			Less Currency held by banking system	Currency in circulation
	Notes	Coins	Total		
1384			**41228.03**		
April	500	26.28	41754.31	3634.1	38120.18193
May		2.01	41756.32	2172.2	39584.1
June	1000	2.01	42758.33	2674.2	40084.1
July	1000	29.91	43788.24	3290.9	40497.3
August	1000	2.01	44790.25	3290.9	41499.3
September	1000	0	45790.25	2825.4	42997.4
October		32.55	45822.8	3709.2	42113.6
November	1000	1.17	46823.97	3466.5	43357.5
December	500	1.38	47325.35	4313.7	43011.7
January	700	94.56	48119.91	3913.3	44206.6
February	0.549631	0	48120.4596	4396.2	43723.7
March	500	27.9	48648.3596	4026.4	44621.4
1385					
			48647.81		
April	0	0	48647.81	5692.2	42955.6
May	0	3.54	48651.35	5867.9	42783.4
June	1000	0	49651.35	5550.2	43101.1
July	1500	2.64	51153.99	4733	45421
August	1500	96.27	52750.26	5602.2	46051.8
September	2000	32.7	54782.96	6099.7	47587
October	0	0	54782.96	6601.9	47084.8
November	1000	0	55782.96	7369.2	47317.5
December	0	67.05	55850.01	8211.4	46542.3
January	1000	4.41	56854.42	7768.5	47989.7
February	0	0	56854.42	7413.8	48344.3
March	1500	0	58354.42	7602.4	49655.7

Appendix IV: Central Bank of Afghanistan

End of period	Foreign Assets				Foreign liabilities	Net Foreign Assets (A)
	Gold	IMF-related Assets	Other	Total		
1384						
April	14015.1		51779.7	65794.8	1969.8	63825
May	14015.1		53327.1	67342.2	1969.8	65372.4
June	14015.1		53678.4	67693.4	1969.8	65723.7
July	14015.1		55135.3	69150.4	1969.8	67180.6
August	14015.1		56050.9	70066	1969.8	68096.2
September	14015.1		59788.2	73803.3	1969.8	71833.5
October	14015.1		59938.2	73953.2	1969.8	71983.5
November	14015.1		62748.9	76764	1969.8	74794.2
December	14015.1		63462.4	77477.5	1969.8	75507.7
January	14015.1		64822.7	78837.8	1969.8	76868
February	19230.4		67712.7	86943.1	1385.8	85557.4
March	19230.4		67069.2	86299.6	1177.2	85122.4
1385						
April	19230.4		63,636	82866.8	758.3	82108.5
May	19230.4		66,629	85859.9	571.5	85288.4
June	19230.4		70,095	89325.4	1004	88321.4
July	19230.4		70,371	89601.6	933.7	88667.9
August	19230.4		70,809	90039.7	874.8	89164.8
September	19230.4		73,379	92609.6	1117.2	91492.4
October	19230.4		75,402	94632.1	2043.7	92588.4
November	19230.4		74,237	93467.9	596.3	92871.6
December	19230.4		77,913	97143.8	1076.4	96067.4
January	19230.4	944.3	79,593	99767.3	1124.6	98642.7
February	19230.4	944.3	81,487	101661.9	1819.2	99842.7
March	21622	944.3	82,647	105213.7	2626.4	102587.3

Appendix V: NET FOREIGN ASSETS OF THE MONETARY FINANCIAL INSTITUTIONS

	Central Bank of Afghanistan							
	Foreign Assets							
End of period	Gold	Convertible Currencies	IMF-related Assets	Total foreign assets	Foreign liabilities	Net	Government & parastatal companies	Total (A)
1384								
April	14,015.09	43871.4772	43871.48	101,758.04	1969.791891	99,788.25	4260.818451	104,049.07
May	14015.09	47582.05148	47582.05	109,179.19	1969.791891	107,209.40	2181.976549	109,391.38
June	14015.09	47889.53529	47889.54	109,794.16	1969.791891	107,824.37	3307.462184	111,131.83
July	14015.09	48978.07875	48978.08	111,971.25	1969.791891	110,001.45	2702.848598	112,704.30
August	14015.09	54538.68051	54538.68	123,092.45	1969.791891	121,122.66	-1324.77405	119,797.88
September	14015.09	55271.82939	55271.83	124,558.75	1969.791891	122,588.95	-598.664661	121,990.29
October	14015.09	57368.57162	57368.57	128,752.23	1969.791891	126,782.44	-2544.53657	124,237.90
November	14015.09	60563.11524	60563.12	135,141.32	1969.791891	133,171.53	-2779.45707	130,392.07
December	14015.09	64808.17607	64808.18	143,631.44	1969.791891	141,661.65	-4868.83958	136,792.81
January	14015.09	65623.93087	65623.93	145,262.95	1969.791891	143,293.16	-4992.47943	138,300.68
February	14015.09	65045.70148	65045.7	144,106.49	1969.791891	142,136.70	-3829.99935	138,306.70
March	19230.42	63582.0432	63582.04	146,394.50	1969.791891	144,424.71	-6101.94521	138,322.77
1385								
April	19230.42	82108.52291	82866.8	184205.7391	758.2754813	183447.464	32058.98176	215506.4454
May	19230.42	85288.35821	85859.85	190378.6266	571.4923773	189807.134	34149.58609	223956.7203
June	19230.42	88321.42927	89325.43	196877.2741	1003.997742	195873.276	34374.18171	230247.4581
July	19230.42	88667.89326	89601.58	197499.8952	933.6908515	196566.204	31425.4214	227991.6257
August	19230.42	89164.84507	90039.68	198434.941	874.8330809	197560.108	28672.52718	226232.6351
September	19230.42	91492.43746	92609.6	203332.4543	1117.161569	202215.293	30074.17873	232289.4715
October	19230.42	92588.41178	94632.13	206450.9568	2043.715398	204407.241	30505.38027	234912.6216
November	19230.42	92871.55841	93467.87	205569.8443	596.3096433	204973.535	32716.74084	237690.2755
December	19230.42	96067.41542	97143.79	212441.6269	1076.378205	211365.249	30038.84303	241404.0917
January	19230.42	97698.43344	98823	215751.8536	1124.568853	214627.285	28149.90068	242777.1854
February	19230.42	98898.34898	100717.6	218846.3406	1819.224788	217027.116	29808.68245	246835.7982
March	21622.04	101642.9587	104269.3	227534.3438	2626.390971	224907.953	28284.69807	253192.6509

Appendix VI: Financial Markets

	2005				2006				2007
	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%	2.50%	2.50%	2.50%	2.50%	6.50%
Remuneration on required reserves	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	6.72%

Appendix VII: Treasury Bills issued and outstanding (In million AF)

End of period	Amount maturing during period	Amount outstanding and held by		
		MFIs	Others	Total
1385				
April	50000000	750	0	750
May	325000000	8775	0	8775
June	75000000	12910	0	12910
July	146000000	47382	0	47382
August	115000000	13600	0	13600
September	170000000	28000	0	28000
October	150000000	40800	0	40800
November	230000000	10400	0	10400
December	110000000	18400	0	18400
January	318000000	19040	0	19040
February	200000000	9360	0	9360
March	367000000	31795	0	31795

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