

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

September 2020

Executive Summary

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

Reserve Money (RM) weekly actual amount stood at Af 327,473.80 million at the end of Sunbula, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 1.82 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 283,438.22 million at the end of Sunbula month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020), and shows 9.29 percent growth.

Since the beginning of fiscal year of 1399 (2020) up to end of Sunbula, DAB has auctioned a total amount of USD1,512.31million through open market operations, and has collected Af 116.12 billion from the market. These operations have fulfilled 29.26 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation decreased in the month of August 2020 year over year basis. The year over year inflation decreased to 5.88 percent in August from 6.33 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while non-food items increased during the period.

Current account deficit, declined by almost 47% to a value of USD 412.99 million in the second quarter of the FY 1399 from a value of USD 778.30 million recorded in the second quarter of the FY 1398.

This decline was mainly on account of a contraction in merchandise trade deficit as a result of a notable decline in merchandise exports as well as merchandise imports, contraction in services account deficit as a result of service sector activities impression during COVID – 19 pandemics and increasing official grant to the government sector for Supporting critical food supply chains and healthcare for Afghan household during the COVID-19 pandemic.

Total revenue (domestic revenue plus external aids) for the month of September 2020 is AFN 24.47 billion, while in August it was AFN 43.53 billion which shows 43.78% or AFN 19.06 billion decrease in September. Total revenue from the start of FY-2020 till end of September reached to AFN 247.04 billion that is combination of AFN 129.08 billion donor contributions and AFN 117.96 billion domestic revenue respectively.

Overall the banking sector performed moderately during July, 2020 compared to June, 2020. The main financial indicators had decreasing trend. Total Assets, deposits, investments and profitability has decreased, the loan quality still remains weak and the NPLs increased due to deterioration of loans quality in three banking institutions. While capital positions remained stable, capital adequacy ratio of all banks is above the set regulatory threshold.

The banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios in the months ahead due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope with the expected financial downturn. To this end, DAB has developed a time-bound post-COVID-19 improvement plan. The main pillars of the plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification, and risk weighting of loans guaranteed by the third party such as ACGF, IFC, USAID, etc.

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1. Monetary Sector

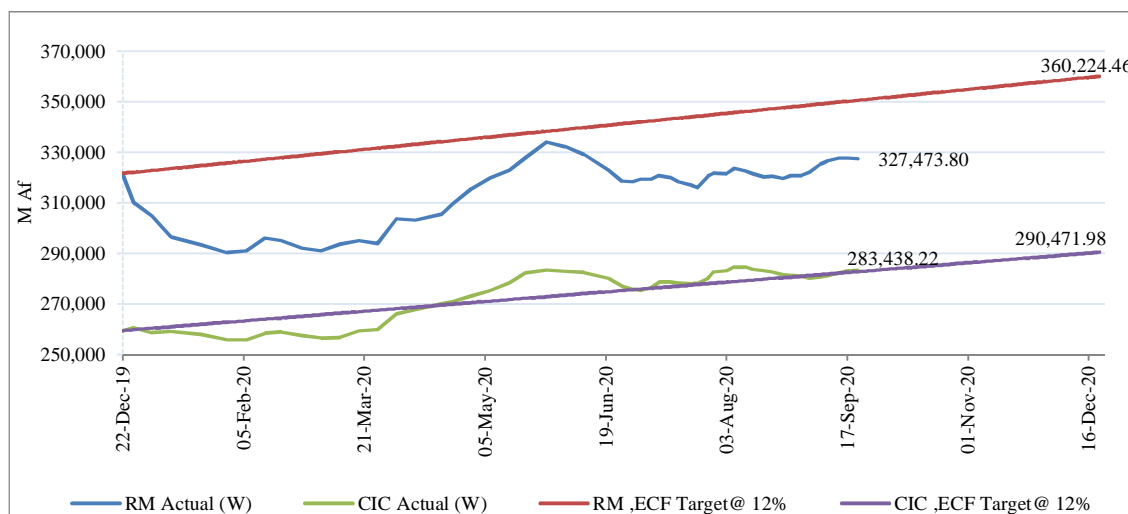
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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

Reserve Money (RM) weekly actual amount stood at Af 327,473.80 million at the end of Sunbula, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 1.82 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 283,438.22 million at the end of Sunbula month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020, and shows 9.29 percent growth.

Figure 1.1 shows the RM and CiC during FY 1399 (2020)



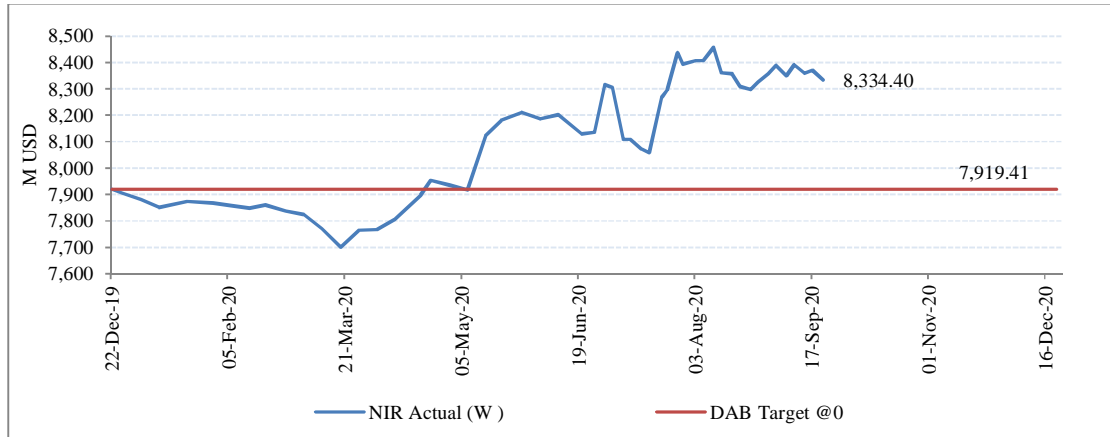
Source: Open Market Operations/Monetary Policy Departments

1.2 Net International Reserve

Accumulation of Net International Reserves (NIR), which is known as a main macroeconomic indicator of the national economy, is one of the biggest achievements in the country's financial system. NIR accumulation, without doubt, has significant direct impacts on better implementation of monetary policies as well as on managing macroeconomic indicators such as exchange rate, inflation and balance of payment stability.

At the beginning of FY1399 (2020), Afghanistan's NIR actual amount was set USD 7,919.41 million, but NIR Market rate actual amount reached to USD 8,334.40 million at the end of Sunbula month, which shows USD 414.99 million accumulation.

Figure 1.2 shows Net International Reserve (NIR) during FY 1399:



Source: Open Market Operations/Monetary Policy Departments

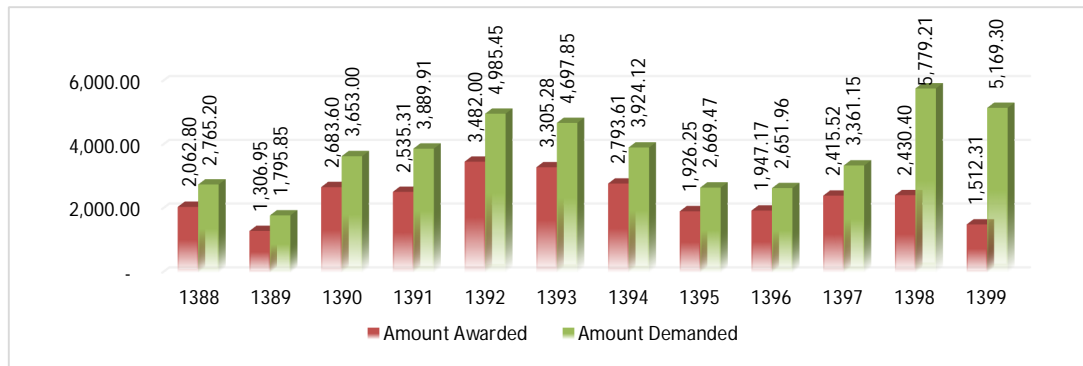
1.3 Foreign Exchange and Capital Notes Auction

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

Foreign Exchange Auction

Since the beginning of fiscal year of 1399 (2020) up to end of Sunbula, DAB has auctioned a total amount of USD1,512.31million through open market operations, and has collected Af 116.12 billion from the market. These operations have fulfilled 29.26 percent of the total demand for currency (especially the US dollar) in the market.

Figure 1.3 illustrates the foreign exchange demand and supply during the last 12 years.



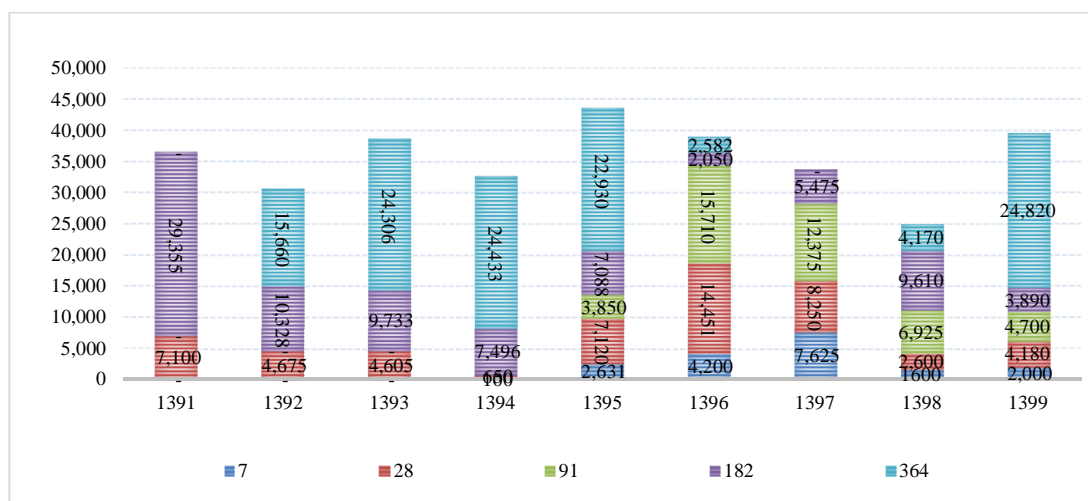
Source: Market Operations/Monetary Policy Departments

Capital Notes Auction (Interest rate bidding)

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

From the beginning of fiscal year of 1399 (2020) up to end of Sunbula, the total outstanding of capital notes reached Af 39.59 billion and meanwhile the total interest paid for the mentioned notes reached Af 151.10 million at the end of this month.

Figure 1.4 figure illustrates the Capital Notes Outstanding during 9 years till the end of Sunbula month of FY 1399 (2020).

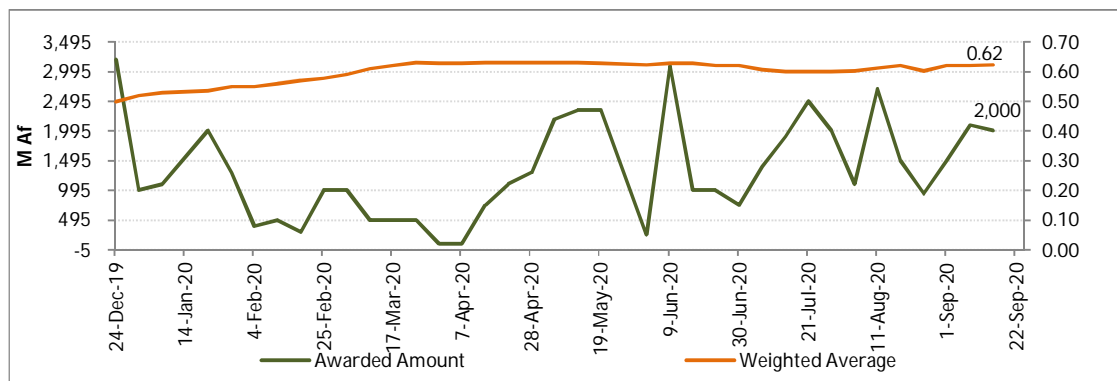


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The awarded amount of 7 days' capital notes auction at the end of Sunbula reached Af 2 billion with average interest rate of 0.62 percent. The outstanding of these notes is stood Af 2 billion for the mentioned period.

Figure 1. 5 Sale and weighted average of Capital Notes 7 Days in FY 1399

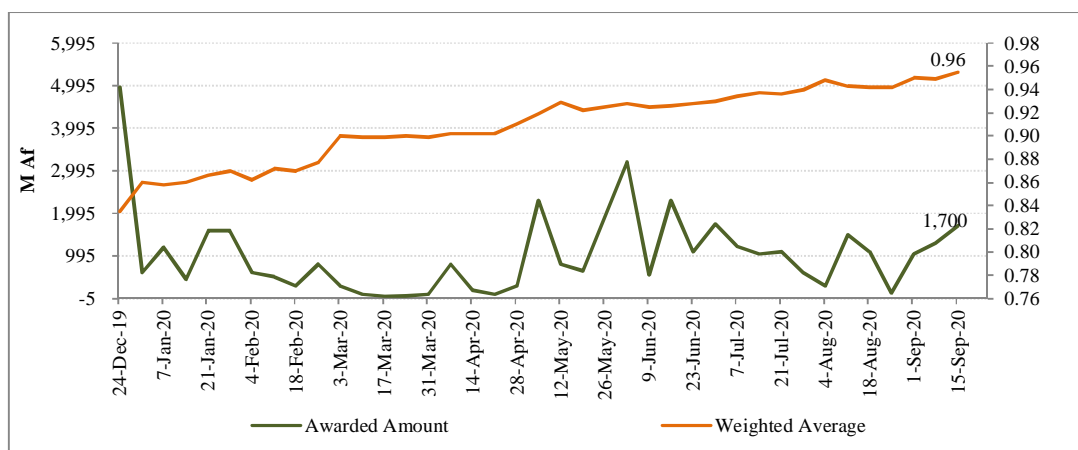


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, awarded amount of 28 days' capital notes auction at the end of Sunbula is recorded Af 1.7 billion with average interest rate of 0.96 percent and outstanding amount of Af 4.18 billion.

Figure 1. 6 Sale and weighted average of Capital Notes 28 Days in FY 1399

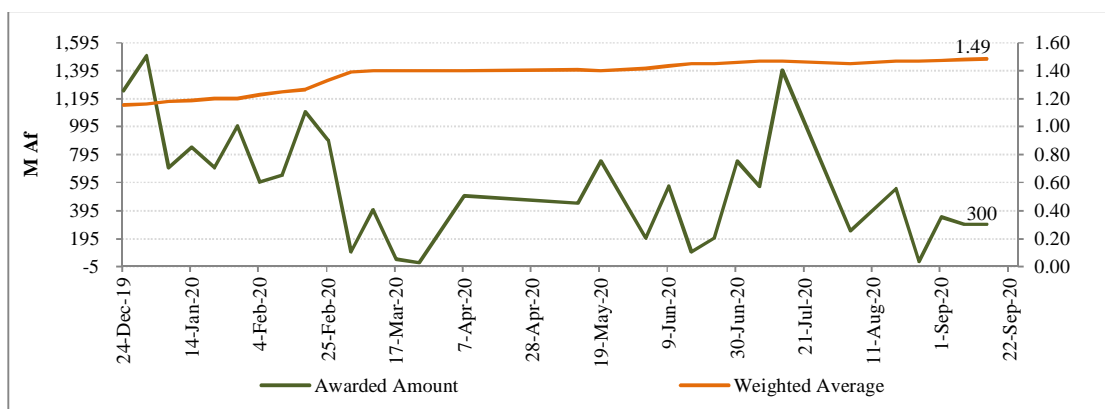


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

DAB's 91 days' capital notes auction during this reporting period stood at Af 0.3 billion at the end of Sunbula with average interest rate of 1.49 percent and total outstanding of Af 4.7 billion.

Figure 1. 7 Sale and weighted average of Capital Notes 91 Days in FY 1399

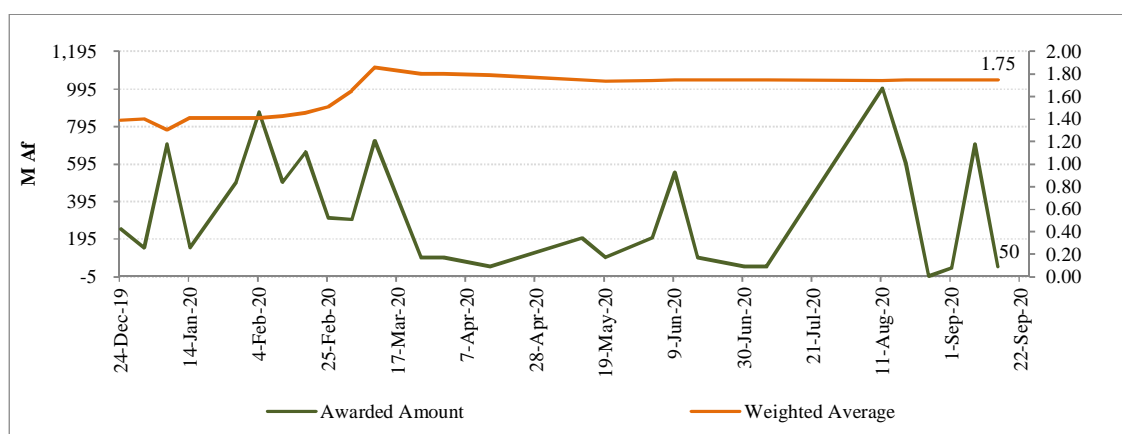


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's 182 days' capital notes auction during this reporting period stood at Af 0.05 billion at the end of Sunbula with average interest rate of 1.75 percent and total outstanding of Af 3.89 billion.

Figure 1.8 Sale and weighted average of Capital Notes 182 Days in FY 1399

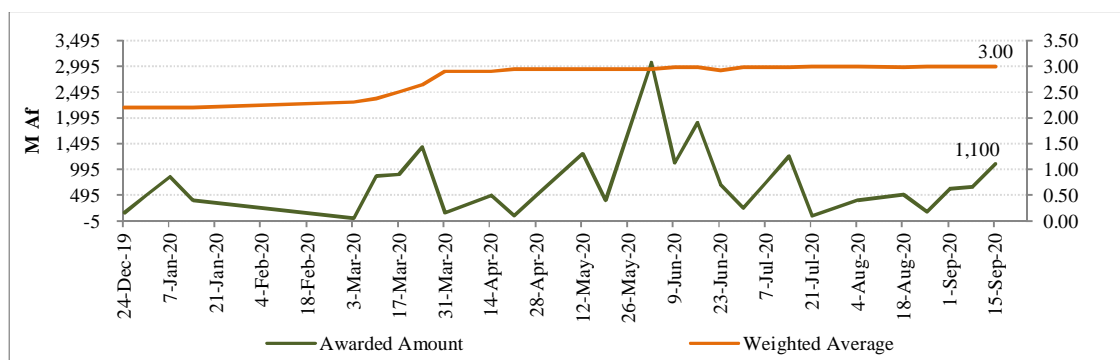


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's 364 days capital notes auction during this reporting period stood at Af 1.1 billion at the end of Sunbula with average interest rate of 3 percent and total outstanding of Af 24.82 billion.

Figure 1.9 Sale and weighted average of Capital Notes 364 Days in FY 1399

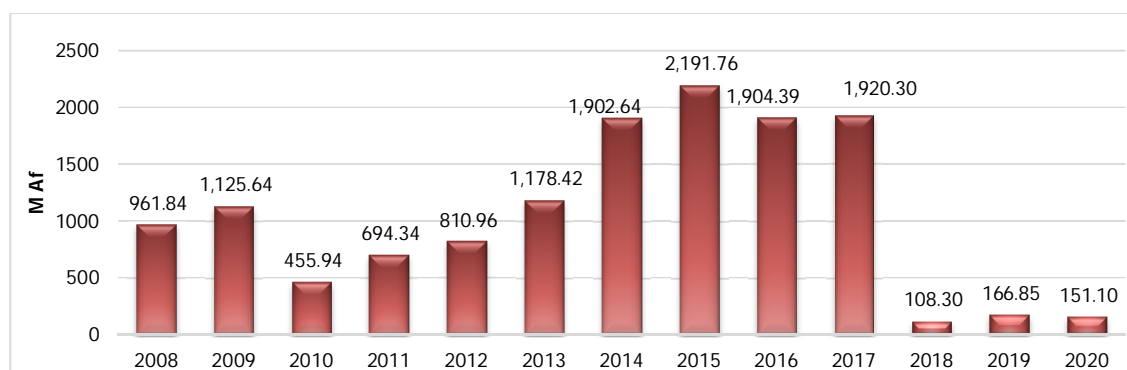


Source: Market Operations/Monetary Policy Departments

Interest Expenses

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

Figure 1.10 Interest Expenses of Capital Notes in the last 13 years



1.5 Exchange Rate

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

From the beginning of FY1399 (2020) Afghani has appreciated by 2.07 percent, and has been exchanged at Af 76.77 per USD on average and recorded at Af 76.82 exchanged at the end of Sunbula month.

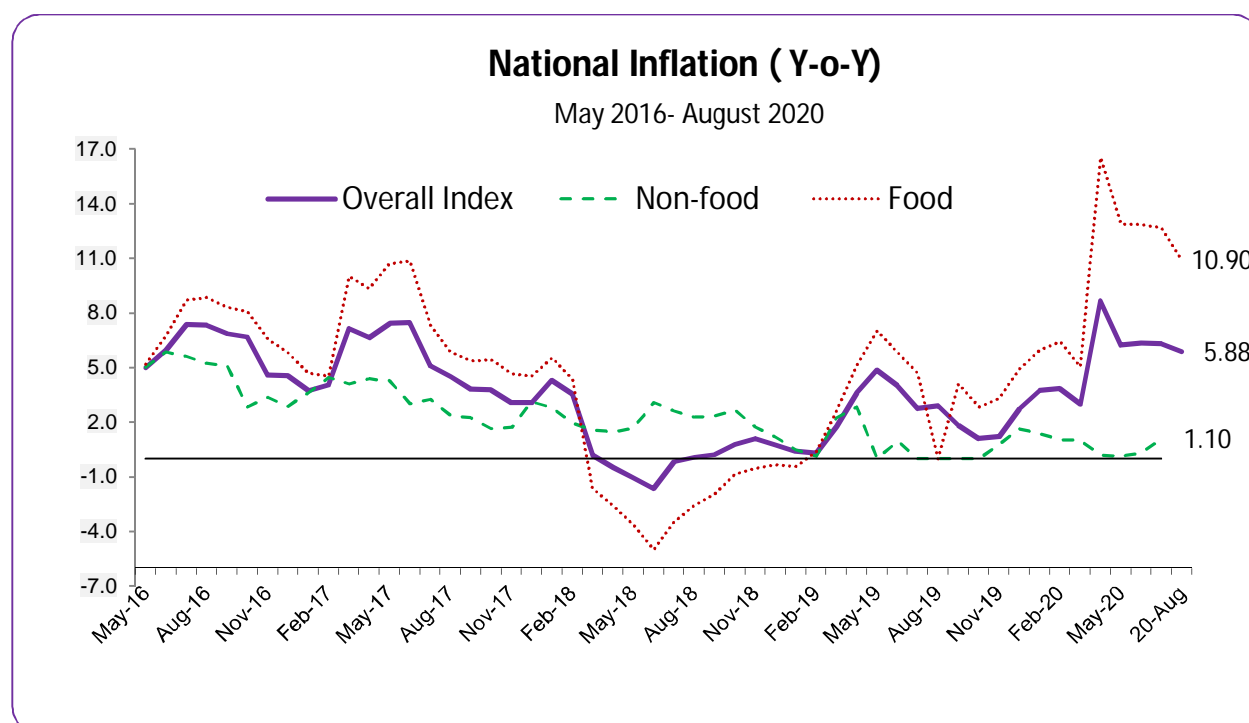
Figure 1. 11 Exchange Rate Afghani against USD in FY 1399(2020)



The table of Monetary Indicators

	FY 1398					FY 1399			
	Hoot	Jawza	Asad	Sunbul a	Qaws	Hoot	Jawza	Asad	Sunbula
Reserve Money Target (%)	12					12			
Actual Reserve Money (%)	-5.6	-4.5	-1.14	1.19	12	-8	0.42	-0.32	1.82
RM Actual	255627.49	259654.32	284915.05	275042.98	304625.71	295224.52	322978.27	320609.97	327473.80
RM Target	280267.14	305491.17	311381.84	314327.17	322878.14	331039.94	340873.85	347324.06	350707.77
CiC Actual	222147.20	231598.67	243568.12	244489.52	259350.77	259302.12	279989.89	282613.90	283438.22
CiC Target	233785.34	241897.91	246562.34	248894.55	255665.48	266938.63	274868.34	280069.56	282798.06
Actual NIR	7702.51	7691.22	8034.34	7868.70	7873.60	7711.85	8128.78	8310.03	8334.4
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7846.07	7919.41	7919.41	7919.41
Outstanding Amount	26665	27020	25350	23920	24905	30455	34495	35160	39590.00
Required Reserve (Afs)	5768.54	10923.40	5,729.57	2657.34	5734.43	5928.75	6271.67	7125.02	6914.36

2. Real Sector



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

Headline inflation

Headline inflation decreased in the month of August 2020 year over year basis. The year over year inflation decreased to 5.88 percent in August from 6.33 percent observed in the previous month. This decrease is caused by lower prices of food and beverages items, while non-food items increased during the period.

Table 1. Headline Inflation (July 20- August 20)

	Y-o-Y		M-to-M	
	July	August	July	August
National CPI				
Headline	6.33	5.88	-1.11	-0.34
<i>Food</i>	12.71	10.90	-1.81	-1.24
<i>Non-Food</i>	0.31	1.10	-0.35	0.61

FOOD INFLATION decreased in month of August 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in August 2020, when measured on year over year basis, decreased to 10.90 percent compared to 12.71 percent calculated in previous month. This decreases come from lower prices of meat, oils and fats, fresh and dried fruits, vegetables, sugar and sweets, spices and non-alcoholic beverages. The month-to-month measure of food inflation shows higher rate in the month of August compared to the previous reporting period. The latest data released by NSIA exhibits an inflation rate of -1.24 percent in the review period higher from -1.81 percent observed in the previous month.

Meat price index which is weighted for around 7 percent of the CPI, decreased to 10.98 percent from 12.63 percent (year over year). When measured on the month-to- month basis, this index also decreased to 0.43 percent from 1.26 percent. The main reason behind decreased in the price of this index is the notable contribution of poultry forms in the country; especially in the Balkh Province, which reach to 620 poultry forms which caused increase in supply of meat in domestic market.

Oils and Fats index which comprises 4.6 percent of overall index, during the period this index has decreased to 18.13 percent from 19.60 (Y-o-Y). And also, price of this index decreased to -1.96 percent from 0.02 percent on the month-to-month basis.

The reasons behind decrease in the price of this index is the increase in oil imports to the country via railway. During the period almost 8,200 wagons through Hiratan, Mazar, Aqina and Torghondi railways has been imported which carrying 494,381 tons of goods which also oil included.

Fresh and dried Fruits prices decreased in the month of August 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index decreased to 12.03 percent (year over year) from 20.05 percent recorded in the previous month. Measuring month-to-month basis this index also decreased in the month of August to -7.31 percent from 1.79 percent compare to the previews month.

Due to lack of international market demand for agricultural products such as dried and fresh fruits has increased domestic supply which caused decrease in the price of mentioned index. For instance, the production of water melon especially in Kunduz province has reached to 100 metric tons but due to lack of demand in the international markets and increase of supply in domestic market, the price of water melon decreased in domestic market.

Vegetables price index which is dedicated for 6 percent of the overall index, decreased to 6.56 percent (year over year) from 14.60 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to -3.81 percent; however, it was recorded -11.85 percent in the previous month.

The main reason behind decrease of this index is the seasonality effect and improvement in agriculture technologies which lead to 40 percent increase in the harvest of vegetables during the period.

Table 2. Food and Non-alcoholic beverage Inflation(July 20- August 20)					
Items	Weight	Y-o-Y		M-to-M	
		July	August	July	August
Food and Non-alcoholic Beverages	47.8	12.71	10.90	-1.81	-1.24
<i>Bread and Cereals</i>	14.6	14.07	16.13	-1.41	0.37
<i>Meat</i>	7.5	12.63	10.98	1.26	0.43
<i>Milk, cheese and eggs</i>	4.7	3.35	4.05	-0.96	-0.42
<i>Oils and fats</i>	4.6	19.60	18.13	0.02	-1.96
<i>Fresh and dried fruits</i>	5.0	20.05	12.03	1.79	-7.31
<i>Vegetables</i>	6.0	14.60	6.56	-11.85	-3.81
<i>Sugar and sweets</i>	2.7	2.84	0.15	0.10	1.51
<i>Spices</i>	1.3	1.70	-1.26	-9.69	-0.40
<i>Non-alcoholic beverages</i>	1.4	5.15	4.84	0.51	0.14

Source :Da Afghanistan Bank /NSIA

Non-Food Inflation

Inflation in non-food items exhibited upwards trend in the month of August 2020. On the year over year basis, non-food inflation increased to 1.10 percent from 0.31 percent observed in the previous month. This increase mainly comes from higher prices of housing, electricity, water and gas, furnishing and households, transportation, communication, education, restaurants and hotels.

Non-food inflation on the month-to-month basis exhibited higher rate from its previous month's value. Observing the data, it increased to 0.61 percent from -0.35 percent.

Table 3. Non-Food Inflation (July 20 - August 20)

	Weight	Y-on-Y		M-to-M	
		July	August	July	August
Non-Food	52.2	0.31	1.10	-0.35	0.61
<i>Tobacco</i>	0.3	2.73	2.46	0.05	0.06
<i>Clothing</i>	4.6	6.77	5.38	-0.78	0.16
<i>Housing,</i>	19.1	-2.77	-0.75	0.14	1.46
<i>Furnishing and household goods</i>	11.9	1.89	2.38	0.43	0.49
<i>Health</i>	6.2	8.72	8.10	0.19	-0.29
<i>Transportation</i>	4.3	-14.76	-13.76	-5.10	-0.19
<i>Communication</i>	1.7	-2.06	-0.99	-0.07	0.20
<i>Information and Culture</i>	1.1	0.68	-0.45	-1.85	0.07
<i>Education</i>	0.4	1.16	2.56	0.01	1.29
<i>Restaurants and Hotels</i>	1.1	-1.20	3.13	-1.89	0.98
<i>Miscellaneous</i>	1.4	13.37	11.99	0.33	-0.02

Price index of housing, electricity, water and gas increased in August 2020. On year over year basis, this index increased to -0.75 percent from -2.77 percent observed in the previous month. This index is dedicated for more than 19 percent of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Considering the month to month changes, housing index increased to 1.46 percent from 0.14 percent. the reasons behind increase of this index are; the price of natural gas in global markets has increased by 2.69 percent as compare to the same month of the previous year, also with the decrease of covid-19 cases in country, and restarting home constructions, demand for construction materials grew up which lead to increase prices of mentioned index.

Communication price index during August 2020, increased to -0.99 percent (year over year) from -2.06 percent observed one month back. This index also increased on month to month basis turning around to 0.20 percent from -0.07 percent.

with the eased of restriction, reopening full time offices, universities and other institutions demand for the mentioned index has increased which caused increased in the price of this index.

Education price index, increased in the month of August. Observing the data, this index increased to 2.56 percent from 1.16 percent (year over year), this index is increased to 1.29 percent from 0.01 percent (month to month).

Previously in order to prevent covid-19 pandemic, education centers were closed which caused decrease in price of this index, now with reopening of education centers especially schools, price of this index has been increased.

During August 2020 price increased in **Restaurants and hotels** (3.13 percent from -1.20 percent year on year basis), and increased to 0.98 percent from -1.89 percent on month to month basis. During the month of August, the prices of bread and cereals and natural gas has been increased, also with the decrease of Covid- 19 cases demand for holding parties in Restaurants and hotels has increased which has direct effect on this index, therefore the price of this index has increased.

Core inflation

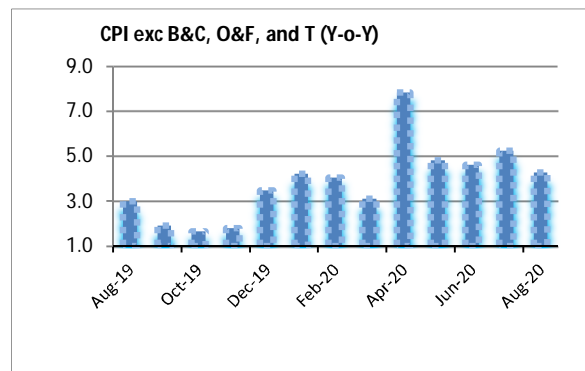
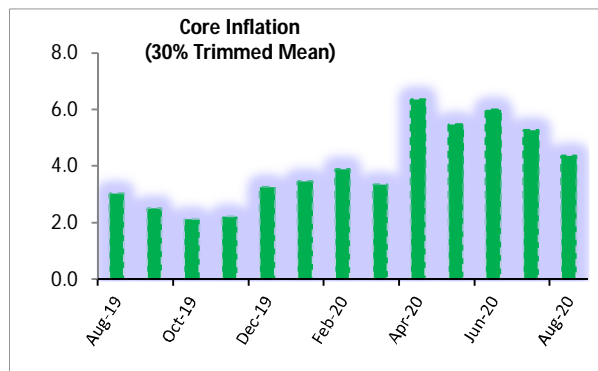
Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which may be seasonal or other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI.

One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During August 2020, trimmed mean (30 % of CPI) decreased to 4.38 percent (year over year) from 5.28 percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which decreased to 4.27 percent compared to 5.23 percent recorded in the previous month. Inflation by this measure increased on month to month basis to -0.39 percent from -0.93 percent.

Core Measures	Y-on-Y		M-to-M	
	July	August	July	August
30 % trimmed mean	5.28	4.38		
CPI ex B&C, O&F and T	5.23	4.27	-0.93	-0.39

Source: Afghanistan Bank and/NSIA



3.External sector

3.1 CURRENT ACCOUNT BALANCE

Current account deficit, declined by almost 47% to a value of USD 412.99 million in the second quarter of the FY 1399 from a value of USD 778.30 million recorded in the second quarter of the FY 1398.

This decline was mainly on account of a contraction in merchandise trade deficit as a result of a notable decline in merchandise exports as well as merchandise imports, contraction in services account deficit as a result of service sector activities impression during COVID – 19 pandemic and increasing official grant to the government sector for Supporting critical food supply chains and healthcare for Afghan household during the COVID-19 pandemic.

3.1.1GOODS ACCOUNT

The value of total export of goods declined by 78 % to a value of USD 32 million in the second quarter of the FY 1399 from a value of USD 143.29 million recorded in the second quarter of the FY1398.

The value of total import of goods declined by 33 % to a value of USD 984.61 million in the second quarter of the FY 1399 from a value of USD 1466.34 million recorded in the second quarter of the FY 1398.

Note: The COVID -19 pandemic and the imposition of a partial lockdown in Afghanistan as well as, the breakdown in supply and demand chains along with the interruption of domestic production processes resulted in a notable decline in all merchandise exports and merchandise imports component in the second quarter of the FY 1399.

3.1.2 SERVICES ACCOUNT

The deficit of services account declined by 25 % to a value of USD 78.20 million in the second quarter of the FY 1399 from a value of USD 104.17 million recorded in the second quarter of the FY 1398.

Note: The services sector activities were severely affected in second quarter of the FY 1399 particularly travel, transportation and construction service largely due to imposition of travel restriction globally and implement lockdown and border control policy.

3.1.3 PRIMARY INCOM ACCOUNT:

Net primary income declined by 71% to a value of USD 29.75 million in the second quarter of the FY 1399 from a value of USD 101.08 million recorded in the second quarter of the FY 1398.

3.1.4 SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account increased by 7% to a value of USD 588.06 million in the second quarter of the FY 1399 from a value of USD 547.83 million recorded in the second quarter of the FY 1398.

- **Official transfers (Net);** to the Afghan government increased by 17% to a value of USD 504.7 million in the second quarter of the FY 1399 from a value of USD 432.9 million recorded in the second quarter of the FY1398.
- **Personal transfers (Net)** declined by 26 % to a value of USD 107.71 million in the second quarter of the FY 1399 from a value of USD 145.36 million recorded in the second quarter of the FY 1398.

3.2 CAPITAL ACCOUNT BALANCE:

Inflow to the capital account decreased by 59% to a value of USD 99.92 million in the second quarter of the FY 1399 from a value of USD 241.57 million recorded in the second quarter of the FY 1398, as a result of lower inward of capital transfers to the government sector.

3.2.1 FINANCIAL ACCOUNT BALANCE:

Financial account of the balance of payments mainly consists of foreign direct investment (FDI), foreign portfolio investment (FPI), other investment and reserve assets.

3.2.2 Direct investment (Net):

- ✓ FDI abroad, decrease to a value of USD 2.59 million in the second quarter of the FY 1399 from a value of USD 5.69 million in the second quarter of the FY 1398.

- ✓ FDI in the country decreased to a value of USD 3.02 million in the second quarter of the FY 1399 from a value of USD 11.97 million recorded in the second quarter of the FY 1398.

3.2.3 Portfolio Investment abroad: increased to a value of USD 41.19 million in the second quarter of the FY 1399 from a value of USD 15.42 million recorded in the second quarter of the FY1398.

3.2.3 Other investment: Other investments consist of currency and deposits, loans, other account Payable and receivable and trade credit and advances.

- ✓ The total value of other investment abroad (assets): decreased to a value of USD – 143.13 million in the second quarter of the FY 1399 from a value of USD – 23.13 million in the second quarter of the FY 1398.
- ✓ The total value of other investment in the country (liabilities), increased to a value of USD 213.79 million in the second quarter of the FY 1399 from a value of USD – 13.71 million in the first quarter of the FY 1398.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q1 - 98	Q2 - 98	Q3 - 98	Q4 - 98	Q1 - 99	Q2 - 99	% change
Current Account	-1276.90	-778.30	-1028.38	-714.89	-980.95	-412.99	-47%
<i>Credit</i>	807.14	1013.86	851.64	1273.71	801.82	842.32	-17%
<i>Debit</i>	2084.04	1792.16	1880.02	1988.60	1782.77	1255.30	-30%
Goods and Services Account	-1620.47	-1427.22	-1438.50	-1375.16	-1274.39	-1030.80	-28%
<i>Credit</i>	370.50	283.90	344.64	510.21	396.32	141.23	-50%
<i>Debit</i>	1990.96	1711.12	1783.14	1885.36	1670.72	1172.03	-32%
Goods Account	-1458.59	-1323.05	-1252.91	-1259.63	-1185.43	-952.61	-28%
<i>Credit</i>	182.57	143.29	208.77	329.21	203.64	32.00	-78%
<i>Debit</i>	1641.16	1466.34	1461.67	1588.84	1389.07	984.61	-33%
Services Account	-161.88	-104.17	-185.59	-115.53	-88.96	-78.20	-25%
<i>Credit</i>	187.93	140.61	135.87	181.00	192.69	109.22	-22%
<i>Debit</i>	349.81	244.78	321.47	296.53	281.65	187.42	-23%
Primary Income Account	75.91	101.08	68.84	60.84	62.56	29.75	-71%
<i>Credit</i>	93.56	111.98	75.79	71.25	74.36	41.67	-63%
<i>Debit</i>	17.66	10.89	6.95	10.40	11.80	11.92	9%
Secondary Income Account	267.66	547.83	341.27	599.43	230.89	588.06	7%
<i>Credit</i>	343.08	617.99	431.21	692.26	331.13	659.42	7%
<i>Debit</i>	75.42	70.15	89.93	92.83	100.25	71.36	2%

Current transfers (Official grants)	167.4	432.9	233.1	497.7	167.7	504.7	17%
<i>Credit</i>	167.40	432.91	233.1	497.7	167.7	504.7	17%
<i>Debit</i>	0.00	0.00	0.0	0.0	0.0	0.0	
Personal transfers	141.80	145.36	142.51	139.87	95.89	107.71	-26%
<i>Credit</i>	175.68	185.08	198.08	194.51	163.47	154.75	-16%
<i>Debit</i>	33.88	39.72	55.57	54.64	67.58	47.04	18%
Capital account	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Credit</i>	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Capital transfers	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Credit</i>	56.13	241.57	391.57	504.68	40.49	99.92	-59%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Financial account	-37.8	27.9	59.0	10.92	-147.66	280.06	906%
Direct investment	1.71	-6.28	9.04	-1.55	2.7	-0.4	-93%
Net acquisition of financial assets	10.52	5.69	4.86	5.26	5.94	2.59	-54%
Net incurrence of liabilities	8.81	11.97	-4.18	6.81	3.19	3.02	-75%
Portfolio investment	-16.46	15.42	-33.74	20.16	-18.20	41.19	167%
Net acquisition of financial assets	-16.46	15.42	-33.74	20.16	-18.20	41.19	167%
<i>Net incurrence of liabilities</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Other investment	-70.88	-9.42	-72.99	124.26	-22.54	-356.92	3690%
<i>Assets</i>	-85.46	-23.13	-17.86	89.24	-38.22	-143.13	519%
<i>Liabilities</i>	-14.58	-13.71	55.14	-35.02	-15.67	213.79	-1659%
Reserve Assets	47.81	28.13	156.66	-131.94	-109.67	596.22	2019%
Net errors and omissions	1183	565	696	221	793	593	5%

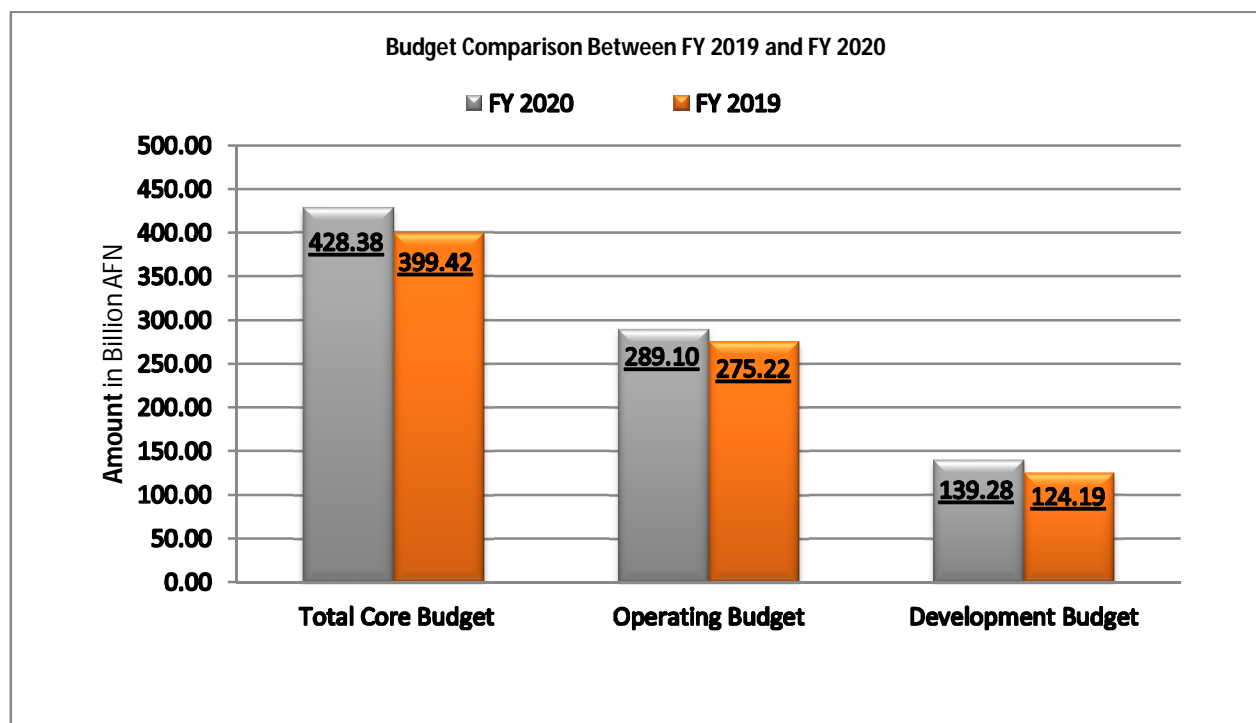
4. Fiscal Sector

The key objective in the fiscal area is to achieve sustained increase in revenue collection to permit gradual takeover of externally financed operating & development spending to ensure an expenditure allocation consistent with Afghanistan National Peace and Development Framework (ANPDF). Furthermore, other goals include improvements in public expenditure management, fiscal policy formulation and reformation, efficiency in public enterprises, tax and customs administration.

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

At the start of fiscal year 2020 total core budget has been estimated AFN 428.38 billion from AFN 399.38 billion in FY 2019, showing 7.25% or AFN 28.96 billion increase in annual budget. From the

total of AFN 428.38 billion, operating and development budgets are estimated each AFN 289.10 billion and AFN 139.28 billion respectively.



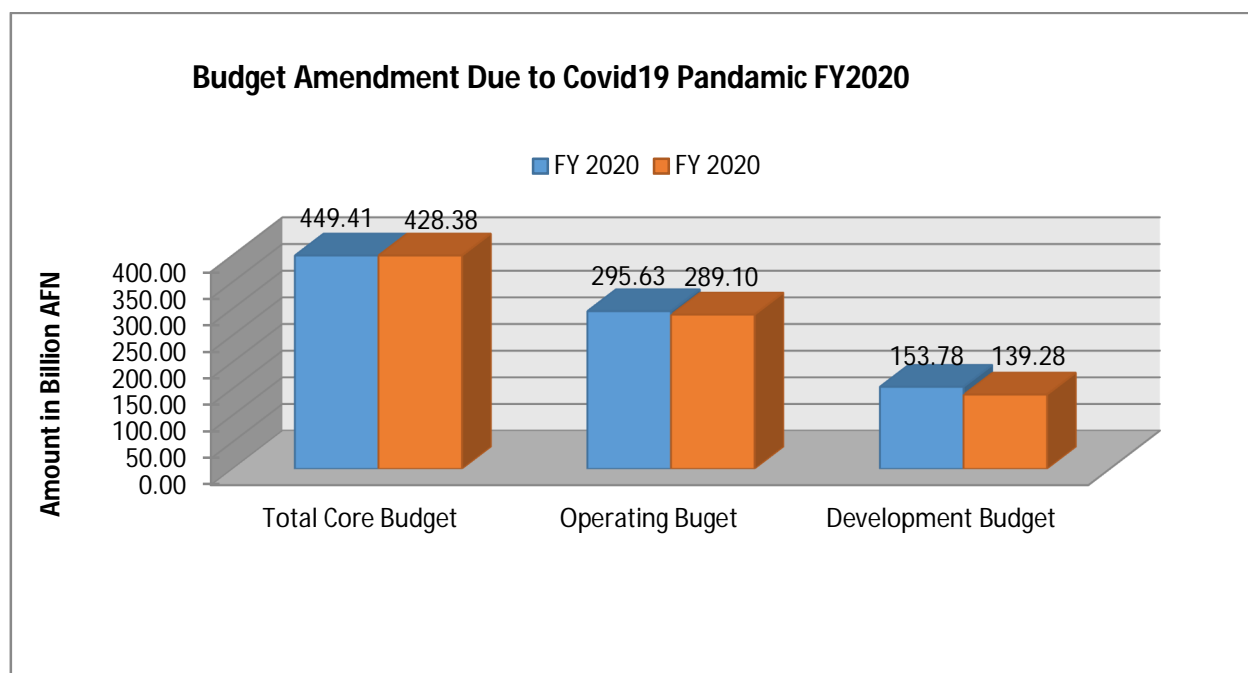
Resembling the other emerging and under developing economies around the world, Afghanistan continuously faces budget deficit that means the total core expenditure exceeded total domestic revenue. But due COVID- 19 pandemic the deficit amount exposed more severity, however government policy changes resulted to review budget for the current Fiscal year. The World Bank has recently warned that South Asia is facing its worst economic performance in 40 years due to the corona virus pandemic.

Afghanistan government has allocated about \$25 million to ministry of public health to deal with the pandemic. World Bank has approved \$200 million grants to support the country to run economy as smooth as possible.

National Food Program (NFP) was designed to reduce poverty and hunger around the all provinces, while in first glance it is being rejected by the parliament.

About AFN 18 billion changes in the budget has been approved by the parliament.

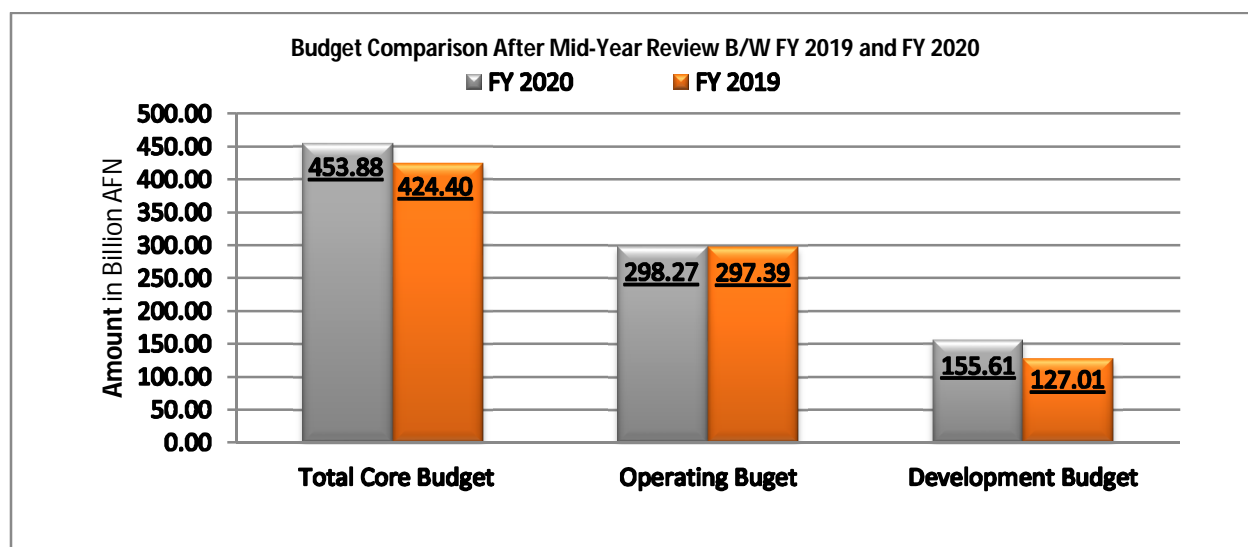
Following chart shows the updated figure till August 2020.



Total core budget estimation is increased to AFN 449.41 billion including operating budget and development budget of AFN 295.63 billion and AFN 153 billion respectively due to Covid19 Pandemic. This shows an increase of 4.91% in total core budget from the start of FY 2020 indicating increase of amount AFN 21.03 billion and more over it shows AFN 25.01 billion increments compared to the FY 2019 budget at the same date.

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

Following chart shows the updated figures for FY 2020 budget, up to August that is changed due to non-discretionary expenses, while the mid-year review is being approved by parliament.



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

Total revenue (domestic revenue plus external aids) for the month of September 2020 is AFN 24.47 billion, while in August it was AFN 43.53 billion which shows 43.78% or AFN 19.06 billion decrease in September. Total revenue from the start of FY-2020 till end of September reached to AFN 247.04 billion that is combination of AFN 129.08 billion donor contributions and AFN 117.96 billion domestic revenue respectively.

Likewise, domestic Revenue for the month September is AFN 14.55 billion while it was amount AFN 10.38 billion in the month of August, showing an increase of AFN 4.17 billion 40.19% in the month of September. On the other hand, donor contributions (including loans) amounted to AFN 9.92 billion in September, where donor contributions in August was AFN 33.15 billion, which indicates AFN 23.23 billion 70.07% decrease in donor contributions for the month of September.

Additionally, total Expenditure at the end of September 2020 reached to AFN 260.18 billion, from which operating expenditures and development expenditures were individually, AFN 184.03 billion and AFN 76.15 billion. Likewise, operating expenditures for the month of September is AFN 21.75 billion, where in August it was AFN 18.95 billion. This signifies that, there is AFN 2.80 billion or 14.76 % increase in operating expenditures in the month of September FY 2020. On the other hand, development expenditures for the month of August was AFN 8.52 billion, while in September

increased by AFN 4.65 billion or 54.57% resulted total expenditure for the month of September FY 2020 amount AFN 13.17 billion.

Description	FY, August 2020	FY, September 2020	From Jan to September FY 2020	Difference Between August and September	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	43.53	24.47	247.04	(19.06)	-43.78%
Domestic Revenue	10.38	14.55	117.96	4.17	40.19%
Donor Contribution	33.15	9.92	129.08	(23.23)	-70.07%
Total Expenditures	27.47	34.92	260.18	7.45	27.11%
Operating Expenditure	18.95	21.75	184.03	2.80	14.76%
Developing Expenditure	8.52	13.17	76.15	4.65	54.57%

Source: MOF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of September 2020 reached to 62%, Compared to August 2020 where it was 48% which shows 14% increase in budget execution rate for the month of September 2020.

5. Swift

Report of(Outward) Transactions from 1/06/ 1399 to 31/06/1399								
Categories	Remitter Parties	Message Type	USD	EUR	CHF	INR	AUD	GBP
A	Ministries	MT 103 ,700 & 910	14,644,148.69	736,140.40	26,060.00	641,666.00	767.00	-
B	Commercial Banks	202	142,934,745.89	1,000,000.00	0	0		0
C	Da Afghanistan Bank	200	593,780,661.43	15,000,000.00	-	-		29,160,595.21
Report of (Inward) Transactions from 1/06/1399 to 31/06/1399								
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP		
A	Ministries	MT 103 ,700 & 910	51770953.06	3586821.7	-	0		
B	Commercial Banks	202	12160715.58	0	-	0		
C	Da Afghanistan bank	200	0	0	0	0		
بر علاوه به تعداد 33 معامله تبادلوی FX Deal به ارزش مجموعی (109041056.88) دالر امریکائی و همچنان 6 معامله بانک جهانی به ارزش مجموعی مبلغ 12692446.98 دالر امریکائی نیز اجرا گردیده است								

EXECUTIVE SUMMARY

Overall the banking sector performed moderately during July, 2020 compared to June, 2020. The main financial indicators had decreasing trend. Total Assets, deposits, investments and profitability has decreased, the loan quality still remains weak and the NPLs increased due to deterioration of loans quality in three banking institutions. While capital positions remained stable, capital adequacy ratio of all banks is above the set regulatory threshold.

In coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios in the months ahead due to C19 impact on the economic condition. Therefore, banks have to opt for precautionary measures to cope with the expected financial downturn. To this end, DAB has developed a time-bound post-COVID-19 improvement plan. The main pillars of the plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification, and risk weighting of loans guaranteed by the third party such as ACGF, IFC, USAID, etc.

SECTOR AT A GLANCE

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

Category (in million Af)	Annual Change			Quarterly Change					Remarks on Quarterly Changes
	19-Jul	20-Jul	Percentile	20-Apr	20-May	20-Jun	20-Jul	Percentile	
Total Assets	302,462	311,786	3.08%	297,660	306,045	316,156	311,786	4.75%	14,126
Total Loans (Gross)	43,366	39,811	-8.20%	39,772	39,171	39,470	39,811	0.10%	39
Total Interbank Claims (Gross)	86,310	76,230	-11.68%	76,897	77,328	74,154	76,230	-0.87%	-667
Investment in Bonds	27,671	31,654	14.39%	31,187	30,847	33,841	31,654	1.50%	467
Standard Loans	31,949	22,491	-29.61%	27,261	26,235	21,240	22,491	-17.50%	-4,770
Past Due Loans ¹	11,417	17,321	51.71%	12,510	12,936	18,230	17,321	38.45%	4,811
Adversely Classified Loans ²	8,600	13,774	60.15%	8,066	8,205	13,799	13,774	70.76%	5,708
NPLs ³	5,489	12,153	121.40%	6,168	6,162	11,612	12,153	97.04%	5,985
Total Deposits	258,922	263,702	1.85%	250,966	259,770	267,730	263,702	5.07%	12,736
Total Liabilities	268,197	274,716	2.43%	263,009	270,928	279,379	274,716	4.45%	11,707
Financial Capital	34,265	37,070	8.19%	34,651	35,117	36,777	37,070	6.98%	2,419
Regulatory Capital	30,204	32,922	9.00%	30,699	31,028	32,740	32,922	7.24%	2,223
Risk Weighted Asset	116,827	123,860	6.02%	119,838	119,505	122,599	123,860	3.36%	4,022
Net Profit/Loss (Monthly)	(27)	(27)	-2.94%	87	186	519	(27)	-130.62%	-114

Table 1: Major Financial Indicators of the Sector

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

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

³ Loans classified in doubtful and loss categories.

INTRODUCTION

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

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

Provided Banking Facilities	19-Jul	20-Jul	Change	%age change
Number of Branches	410	407	(3)	-0.73%
Automated Teller Machines (ATM)	353	358	5	1.42%
Point of Sale (POS)	107	671	564	527.10%
Cash Deposit Machine (CDM)	-	6	6	0
Type 12 Facility ⁴	94	104	10	10.64%
Credit Cards	1,490	1,183	(307)	-20.60%
Debit Cards	623,140	629,556	6,416	1.03%
ATM Cards	240,974	239,804	(1,170)	-0.49%
Master Cards	6,113	21,235	15,122	247.37%
Prepaid Cards	5,591	57,153	51,562	922.23%
Web Surfer Cards	14,254	5,080	(9,174)	-64.36%
Number of Accounts (Loans)	70,247	59,857	(10,390)	-14.79%
Number of Borrowers ⁵	71,271	60,201	(11,070)	-15.53%
Number of Loan files where borrower president or vice president is a woman	14,837	13,182	(1,655)	-11.15%
Number of Depositors	3,778,237	4,136,299	358,062	9.48%
Number of Deposit Accounts	3,896,512	4,281,977	385,465	9.89%
Number of Employees (Local + Foreign)	9,413	9,917	504	5.35%

Table 2: Provided Banking Facilities

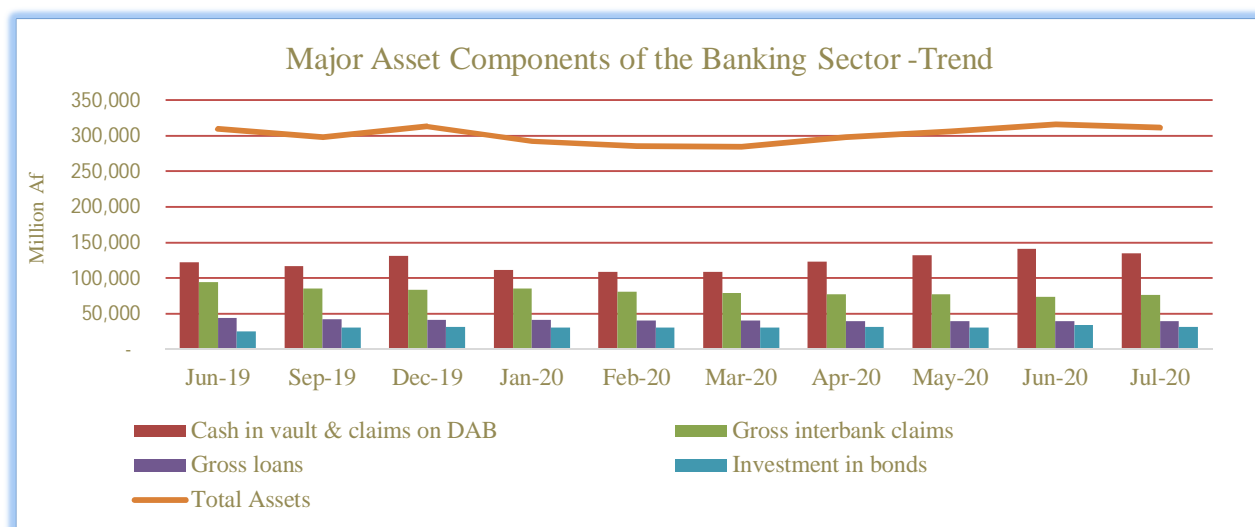
As evident in the above table, the overall provided banking facilities increased, showing an increasing tendency in the usage of banking services, progress in banking culture, and consumer demand for the banking facilities in the country.

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

⁵ Number of borrowers, loan files, depositors, deposit accounts and employees are as on June, 2020 and June, 2019. These data are available on quarterly basis.

6.1 ASSETS OF THE BANKING SECTOR

Total assets of the banking sector followed a declining trend showing 1.4% decrease comparing to the previous month that mainly powered by deposits withdrawal (dominant in customer demand deposits). The impact of the decrease was observed in cash in vault and claims on DAB, mainly in overnight deposits, correspondent accounts with DAB and in investments in bonds. However, interbank claims, other assets and gross loans increased in current month, attributed to increase in demand deposits with foreign banks, investment property (BMA), issuance of new loans and OD utilizations, respectively.



Graph 1: Major Asset components of the Banking Sector

As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (43%), followed with the gross interbank claims (24%), gross loans (13%), and the investment in bonds (10%).

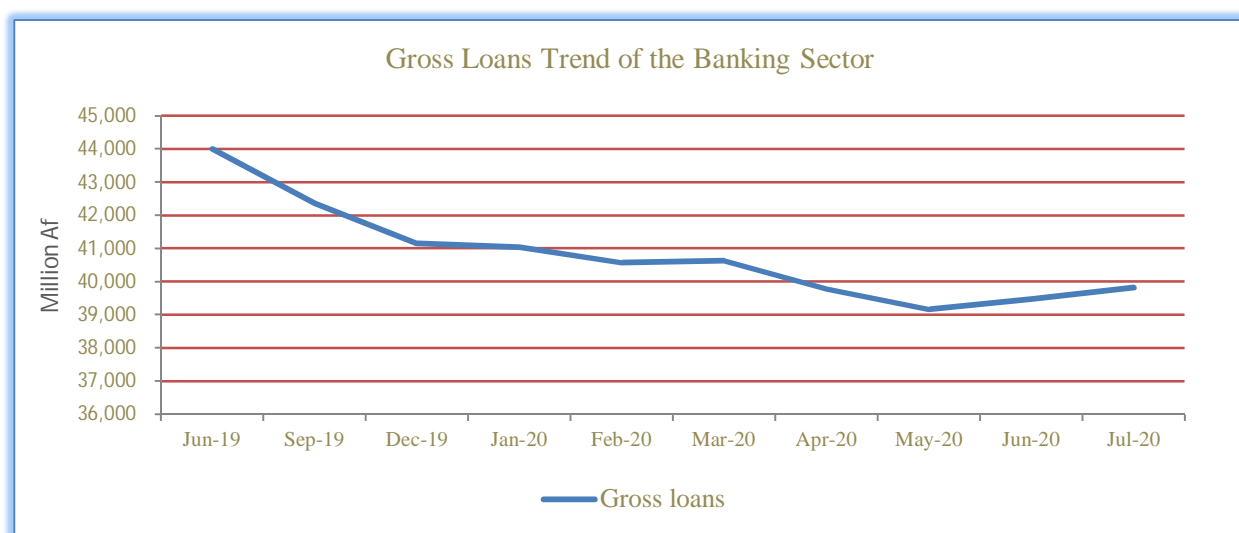
Asset Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Jul
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Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75%	30.55%	33.47%	28.00%	33.88%	30.69%
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.30%	10.74%	12.55%
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%	1.65%
Foreign Claims to Total Assets	29.02%	26.54%	25.04%	25.69%	22.33%	22.80%
Total Gross Loans to Customer Deposits	16.99%	17.02%	15.77%	17.31%	15.00%	15.39%
Loan Loss Reserves to Total Gross Loans	10.93%	12.25%	12.24%	12.59%	11.96%	11.83%
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.61%	1.80%	1.49%	1.51%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	1.31%	1.17%	1.17%
Reposessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%	0.33%
Reposessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%	2.56%
NPL to Total Assets	1.82%	1.87%	1.90%	2.14%	3.67%	3.90%

Table 3: Asset Quality Indicators

6.2: Loan Portfolio

The total gross loan portfolio of the banking sector followed a declining trend from mid-2019, as indicated in the graph below. The decreases in gross loans were attributed mainly to settlement, repayment, charge-off, and less OD utilization. However, in the current month, Af 1,193 million (principal amount) new loans were issued. Lending in the sector is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks with a 12% share. In comparison, branches of foreign banks have just 1% share with the lowest level of contribution in the economy.



Graph 2: Gross Loans Trend

The gross loan portfolio of the banking sector currently stands at AF 39.81 billion, showing 0.9% increase comparing to the previous month attributed to issuance of new loans and OD utilizations, making 15% of the customer deposits and 13% of the sector total assets. By end of July, 2020 the total coverage ratio is 12% of the total gross loans as opposed to 13% recorded at the end of May, 2020. The decrease comes from the implementation of IFRS 09 considering the collateral marketability in one of the banking institutions. As indicated in the table below, loans are mostly concentrated in Af denomination making 52% of the total portfolio followed with USD denominated loans at 48% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.12% of portfolio). See the summary of loan portfolio below:

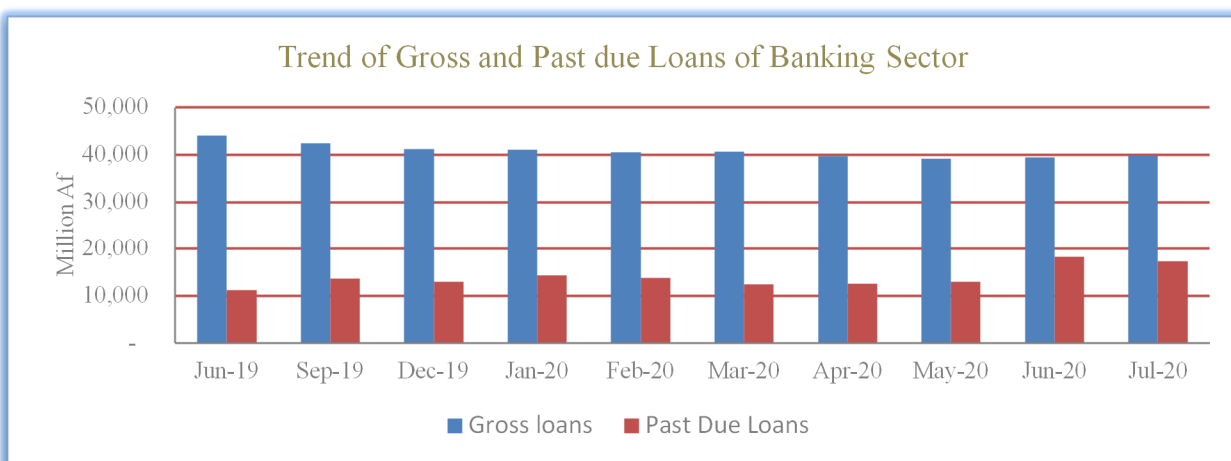
Banking Sector Loans by Currency – amount in million Af							
Currency	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Jul	%age of Loans
Afghani	20,227	20,439	20,912	20,980	20,172	20,552	51.62%
USD	23,685	21,851	20,171	19,598	19,251	19,210	48.25%
Other Currencies	101	83	68	47	48	49	0.12%

Table 4: Gross Loans Currency Composition

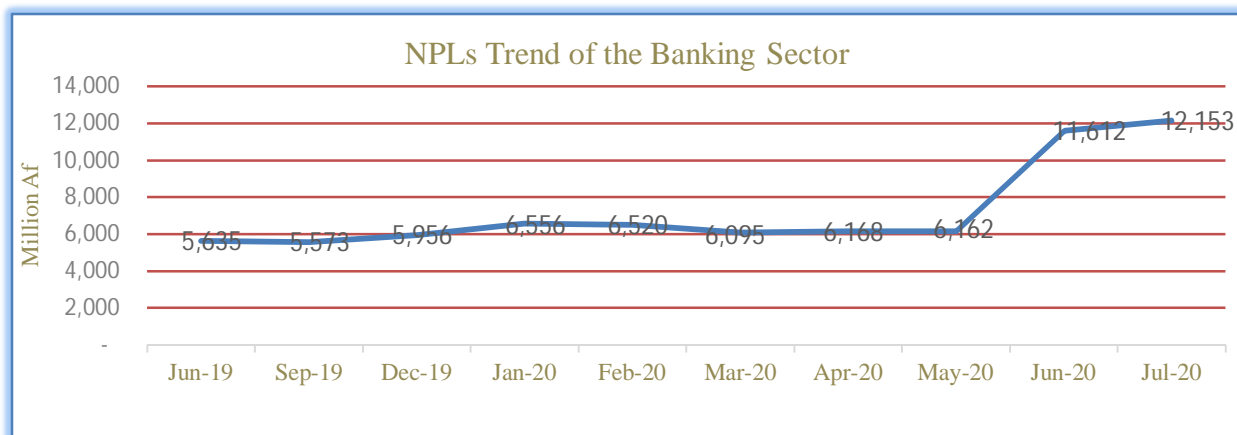
- ✓ **Total loan portfolio followed a decreasing trend since mid-2019. However; posted 0.9% increase since last month, attributed to issuance of new loans and OD utilizations.**
- ✓ **In the current month 3,534 loan accounts amounting to Af 1,193 million (corporate + MSME) newly disbursed.**

6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 31% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 31% NPLs, 28% is attributed to four banks the top lenders in the sector. These banks hold 68% of the sector's gross loans and 52% of the sector's regulatory capital. Hence, further deterioration of quality of loans in the above mentioned weak banks holding more than 50% of the sector's gross loans and regulatory capital would have a significant impact on the entire sector's NPLs, profitability, equity capital and financial ratios.



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



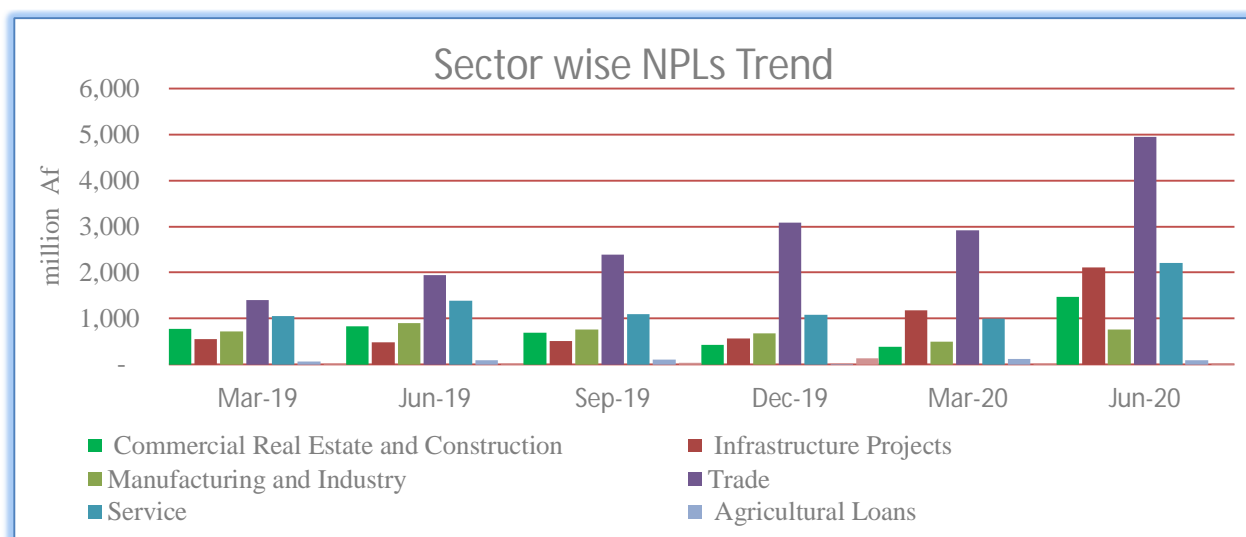
Graph 4: NPLs Trend of Banking Sector

Group-wise analysis of the banking institutions shows that 93% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 6% and 1% share in the total NPL portfolio respectively.

Loan Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Jul
Criticized Loans to Total Gross Loans	25.41%	32.05%	31.37%	30.75%	46.19%	43.51%
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32%	17.90%	19.71%	34.96%	34.60%
Non-Performing Loans to Total Gross Loans	12.80%	13.15%	14.47%	15.00%	29.42%	30.53%
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23%	18.95%	20.24%	35.47%	36.92%
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80%	35.50%	37.35%	23.19%	24.44%
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24%	66.37%	65.02%	29.80%	30.04%
General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.56%	1.60%	2.32%	2.12%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	6.75%	6.89%	25.22%	26.33%
Net NPLs to Total Net Loans	5.00%	4.76%	5.54%	6.01%	23.46%	24.22%
Net NPLs to Total Gross Loans	4.45%	4.18%	4.87%	5.25%	20.65%	21.36%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (43%) dominated in cement & other construction material (9%) and petroleum and lubricants (7%), followed by Services Sector (19%) mostly recorded in ground transportation (9%) and infrastructure projects (18%). Increases were observed in Trade Sector mostly in cement and other construction material, wholesale and petroleum & lubricants, in the Services Sector the main drivers were telecommunication and ground transportation and in Construction and building Sectors.



Graph 5: Sector Wise NPLs

- ✓ **Currently 31% of the banking sector gross loans and 37% of the regulatory capital is at risk. Furthermore; increase in NPLs (4% or Af 541 million) comparing to the previous month is mainly attributed to deteriorations of loans quality in three banking institutions.**
- ✓ **The NPL ratio with accelerating trend, at the highest point 31% in July, 2020 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.**

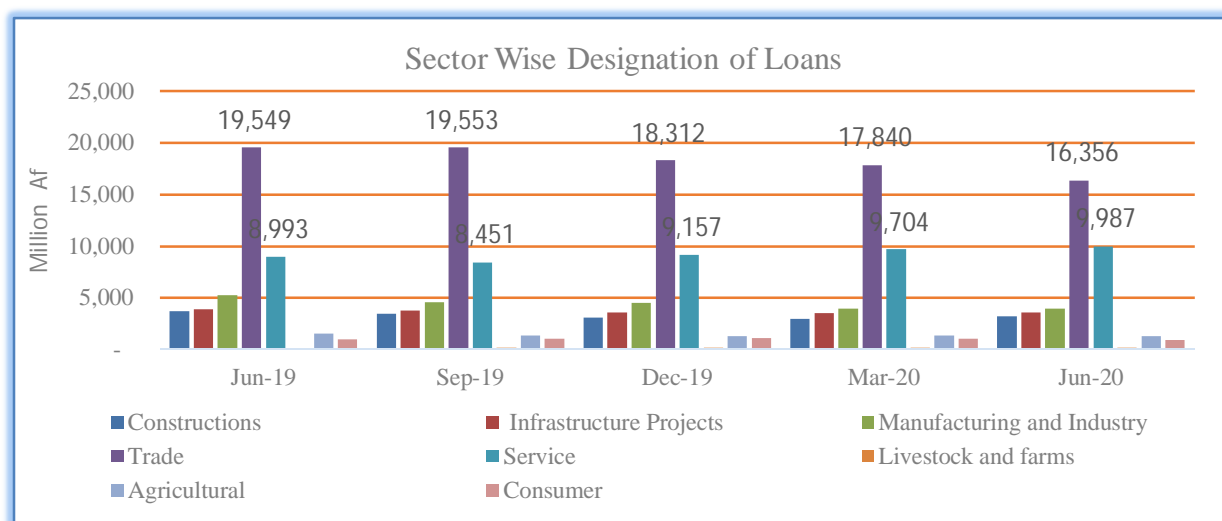
6.2.2: Type of Loans

More than 60% of the sector's total loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector, followed by Term Loans at 23% and Islamic Loans at 13% of the total portfolio. In comparison, Credit Cards are negligible at 0.1%.

- ✓ **More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (23%), while the share of Islamic loans is limited to (13%).**

6.2.3: Sector-wise Designation of Loans

The trend for the sector-wide designation of loans shows that the Trade Sector is on the lead with 41% of the portfolio in which the petroleum and lubricants with 11% is dominant; Services Sector falls second in a row with 25% with telecommunication (7%) as a leading sub-sector. The most COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 4% of the total sector portfolio. Manufacturing and Industry and Infrastructure Projects are subsequently on 3rd and 4th places with 10% and 9% share in the sector's total loan portfolio, respectively.



Graph 6: Sector-wise designation of loans

6.2.4: Related Party Exposure

Total related party exposure of the sector is Af 385 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

6.2.5: Repossessed Assets

Total repossessed assets of the banking sector amount to Af 1.01 billion, decreased by Af 0.8 million compared to the previous month attributed to FX USD rate. Total repossessed assets constitute 0.3% of the banking sector total assets reported by three banking institutions.

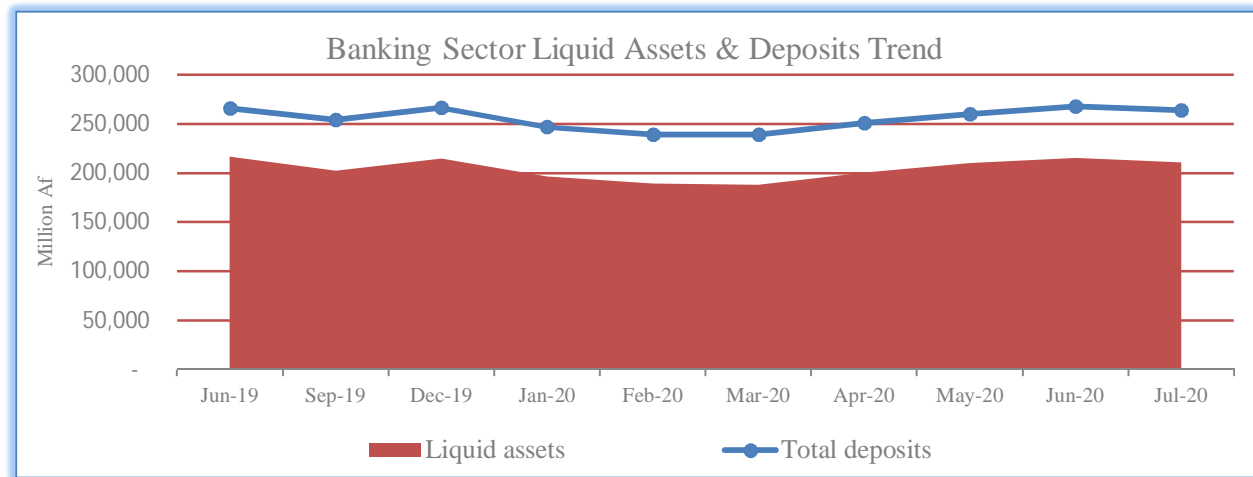
- ✓ **The percentage share of all banks repossessed assets and period to retain on the balance sheet are within the regulatory limits (4% of total assets and 4-year period).**

6.3: LIQUIDITY OF THE BANKING SECTOR

The banking sector maintains enough liquid assets (cash & cash equivalent). The liquidity position of all banking institutions is above the set minimum threshold for the Broad Liquidity Ratio (15%) and the Quick Liquidity Ratio (20%). The broad liquidity ratio of the banking sector as a median stand at 62% increased from 61% in June 2020, attributed to decrease in attracted funds and off-balance sheet items.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 68% of the total assets and 87% of the short-term liabilities, as compared to the previous month, it has not changed significantly.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

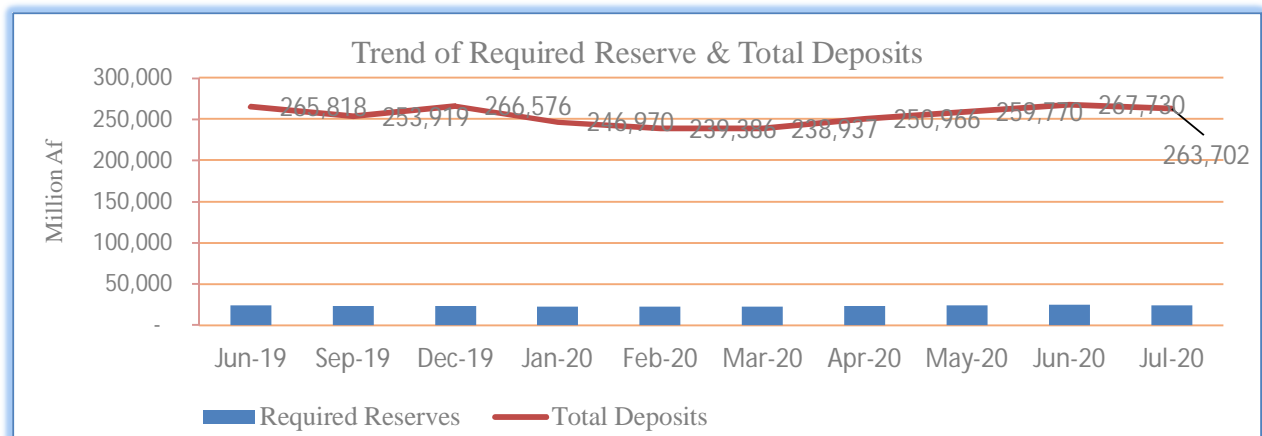
Liquidity Ratio Analysis

Liquidity Ratios	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Jul
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%	15.10%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.48%	12.77%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.95%	86.61%	87.12%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.46%	41.16%	40.22%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	66.04%	68.08%	67.69%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%	65.55%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	15.39%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.71%	0.67%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.91%	12.96%	13.24%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

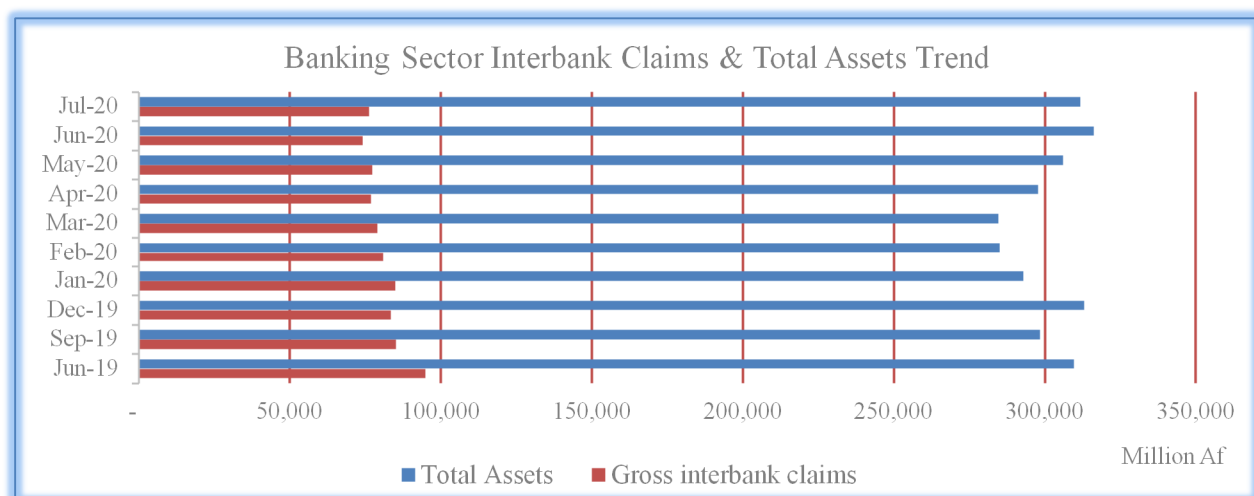
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



Graph 8: Trend of Required Reserve & Total Deposits

6.3.3: Interbank Claims

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



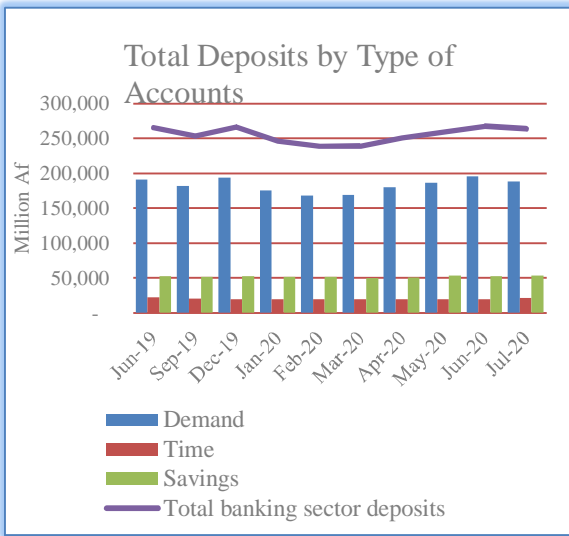
Graph 9: Banking Sector Interbank Claims & Total Assets Trend

6.3.4: Foreign Accounts and Placements

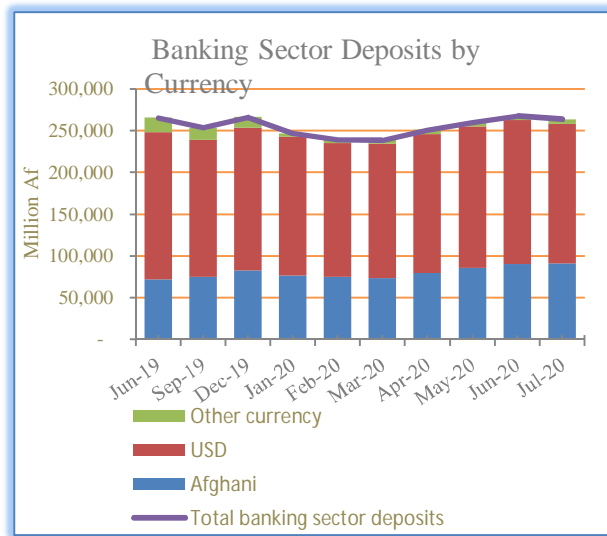
Total Foreign Interbank Claims constitute 23% of the sector total assets and 27% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 33% of the sector total assets and 39% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans designated inside the country is limited to 13% of the sector's total assets and 15% of the total sector deposits.

6.3.5: Deposits

Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020, picked up in during the second quarter, increased by 10% since Mar 2020 but decreased 2% since previous month (June, 2020) attributed to decrease in demand deposit USD accounts mainly from legal entities in three banking institutions. Currency wise analysis show that Af denominated deposits increased by 1%, accounted for 34% of total deposits, USD denominated deposits were decreased by 3%, making 64% of the total deposits, while other currency deposits increased by 13%, comprising 2% of the total banking sector deposits.



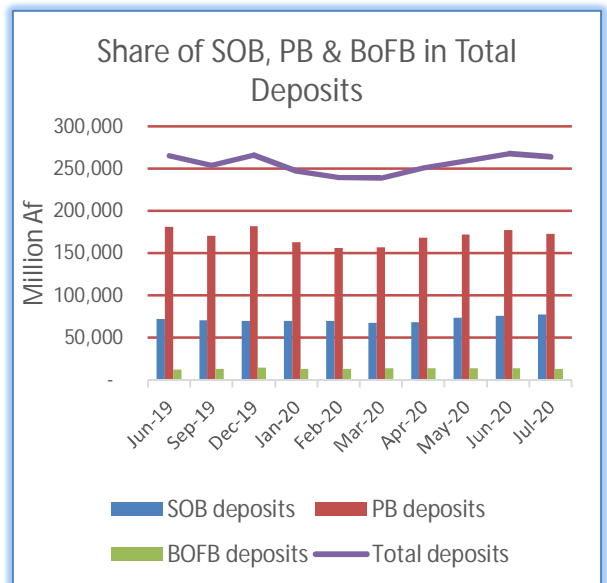
Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency



Graph 12: Total Deposits by Nature of Depositors



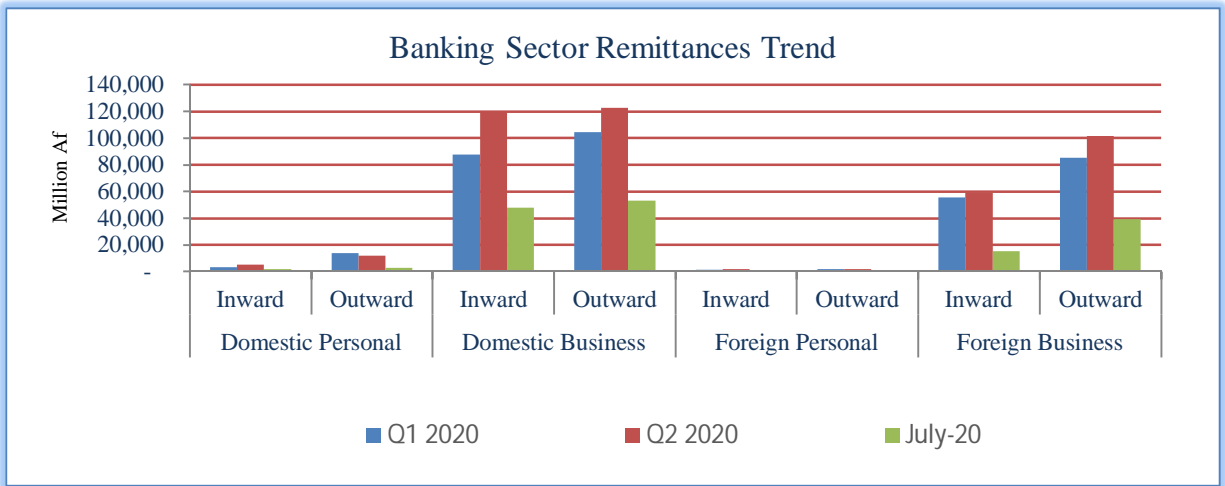
Graph 13: Share of SOB, PB & BOFB in TD

As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector, which makes 53%, followed by individual/natural person deposits with 40%, government deposits 5%, and financial institutions constitute 2% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 66%, followed by state-owned banks with 29% share, while the share of the branches of foreign banks is 5%.

Banking Sector Deposits Trend Jan-July 2020 By Type & Currency -in million Af								
Items	20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Jul	Quarterly Change
Demand	175,599	168,479	169,068	179,700	186,542	195,857	188,753	5.04%
Time	19,558	19,400	20,243	20,052	19,931	19,228	21,444	6.94%
Savings	51,813	51,507	49,626	51,214	53,297	52,645	53,504	4.47%
Total	246,970	239,386	238,937	250,966	259,770	267,730	263,702	5.07%
AF	75,988	74,773	72,916	79,148	85,947	90,025	90,854	14.79%
USD	166,612	160,240	161,437	167,027	168,903	172,957	167,493	0.28%
All Other Currencies	4,370	4,373	4,583	4,791	4,920	4,748	5,355	11.77%
Total	246,970	239,386	238,937	250,966	259,770	267,730	263,702	5.07%

Table 7: Banking Sector Deposits Trend Jan-Jul 2020 by Type & Currency

- ✓ **Despite the pandemic and the lockdown, the liquidity position of the banking sector remained healthy; no shortfall was observed in any of the banking institutions, deposits showed 10% (AF 24.7 billion) increases since March, 2020 mostly coming from legal entities in five banking institutions.**



Graph 14: Banking Sector Remittances Trend

6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 12% of the total assets of the sector. The net equity position of the sector recorded at AF 37.07 billion increased by 1% over the month, attributed to the gain in Revaluation-Available for Sale Investments and Revaluation - Fixed Assets. The regulatory capital of the sector stands at AF 32.9 billion, showing 1% increase over the month. CAR of the sector is at 27%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.



Graph 15: Regulatory Capital Trend of Banking Sector

Capital Adequacy Ratio Analysis

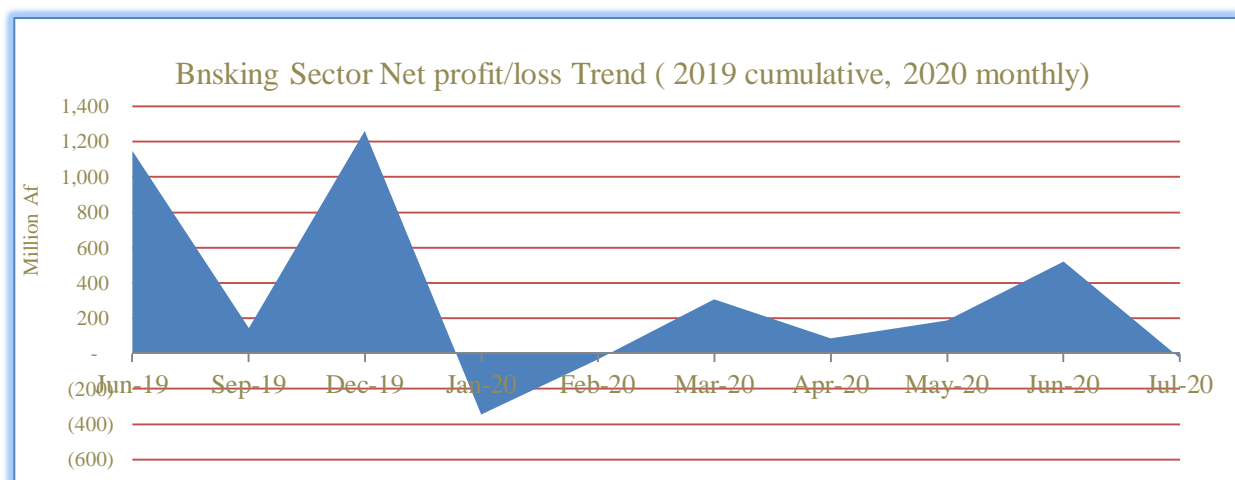
Capital Adequacy Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Jul
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.93%	25.97%	26.71%	26.58%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.50%	26.69%	26.36%	26.07%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.48%	10.87%	10.22%	10.36%
Equity Capital To Total Assets	11.49%	11.63%	11.40%	11.90%	11.63%	11.89%

Table 8: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

On a cumulative basis, the banking sector is profitable; the net profitability of the sector for the current year (Jan-July 2020) recorded at Af 694 million. For the month under review the banking

sector recorded at Af 27 million net losses, whereas it was Af 519 million net profit in the previous month. The net losses in the current month is attributed to decrease in non-interest income, net interest income and FX revaluation and increase in credit provision. Major profitability components are interest and non-interest income, while main expenses are non-interest expenses and salary expenses. As indicated in the graph below, in the first two months the banking sector incurred losses that attributed to provisions, while for the other four months the profitability of the sector is attributed to the reintegration of provisions (settlement of loans), FX revaluation gains and increase in non-interest income.



Graph 16: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun
Net-Interest Income to Total Income	150%	1148%	118%	-2157%	177.16%
Net-Interest Income to Total Assets	0.56%	0.55%	0.48%	0.54%	0.46%
Non-Interest Income to Total Assets	0.61%	0.53%	0.84%	0.56%	0.68%
Non-Interest Income to Total Income	163%	1113%	209%	-2244%	262.04%
Operating Expenses to Total Income	237%	1839%	226%	-3720%	331.37%
Salaries to Operating Expense	40.68%	40.59%	38.67%	44.50%	40.93%
Efficiency Ratio (Operating Expenses/ Core Income)	75.65%	81.30%	68.99%	84.52%	75.45%

Burden (difference between non-interest income and non-interest expense)	-847	-1,036	-213	-1,053	-549
Net Profit/Loss (Cumulative)	1,148	143	1,261	-71	792
Return on Asset	0.38%	0.05%	0.42%	-0.02%	0.26%
Return on Equity	3.30%	0.41%	3.62%	-0.21%	2.26%
Note: the above table data has taken cumulatively in each quarter					

Table 9: Profitability Indicators

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

Banking Sector P/L Trend (Cumulative in each Quarter)– Amount in million Af					
Items	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun
Interest Income	2,033	1,897	1,747	1,770	1,644
Interest Expense	311	257	253	231	240
Net-Interest Income	1,722	1,640	1,494	1,538	1,404
Credit Provision-net	152	505	287	376	179
G/L on Investments	24	125	82	-11	-27
Other Non-Interest Income	1,872	1,591	2,635	1,601	2,076
Non-Interest Expense	1,561	1,560	1,747	1,472	1,551
Salary Expense	1,158	1,066	1,102	1,181	1,075
Total Operating Expenses	2,719	2,627	2,849	2,653	2,626
Income or Loss Before FX Revaluation G/L & Taxes	748	225	1,076	99	649
FX Revaluation G/L	582	-87	391	-108	258
Tax	181	-5	206	62	114
Total Net-Profit/Loss	1,148	143	1,261	-71	792

Table 10: Banking Sector P/L Trend

6.5.1: Interest Rate on Loans

The prevailing interest rate for designated types of loans in the sector reveals that credit cards are the highest interest-earning products. However, they are minor in amount, followed by TL (Term Loans), OD (Over Draft), Consumer loans and Murabaha loans. The highest prevailing rate is 36%, and the lowest is at 4%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 11.00% (Median).

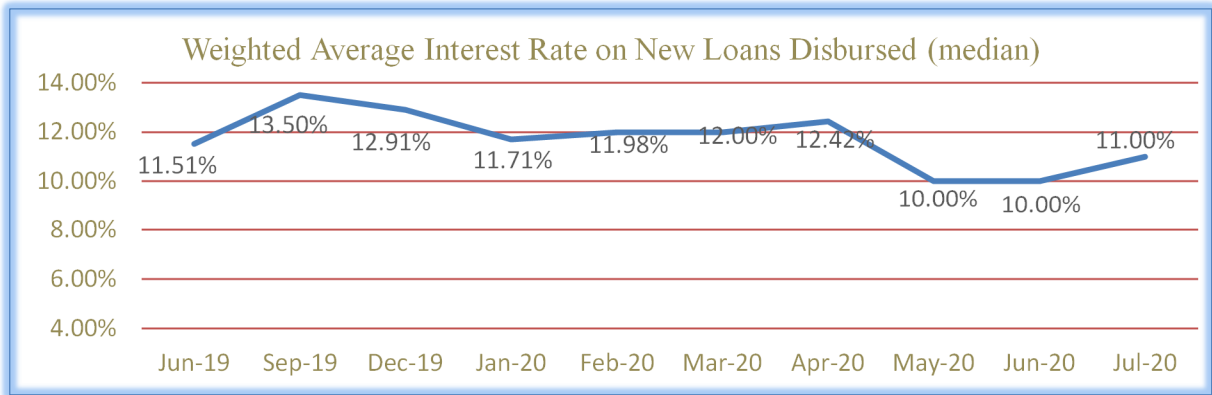
Type of Loans- Sector level	Average Interest Rate (July-20)
Overdraft	12.43%
Term Loan	12.94%
Consumer Loan	11.88%
Murabaha	11.20% ⁶
Credit Cards	26.85%
Highest Interest Rate	36.00%
Lowest Interest Rate	4.00%

Table 11: Average Interest Rate of Loans

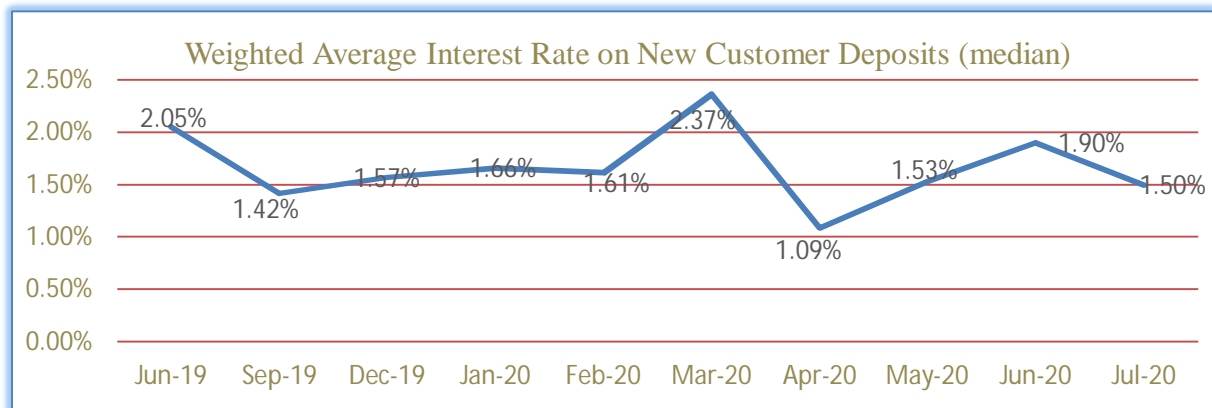
6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of funds decreased in July 2020 as compared to June 2020 due to a decrease in time deposits in two banking institutions.

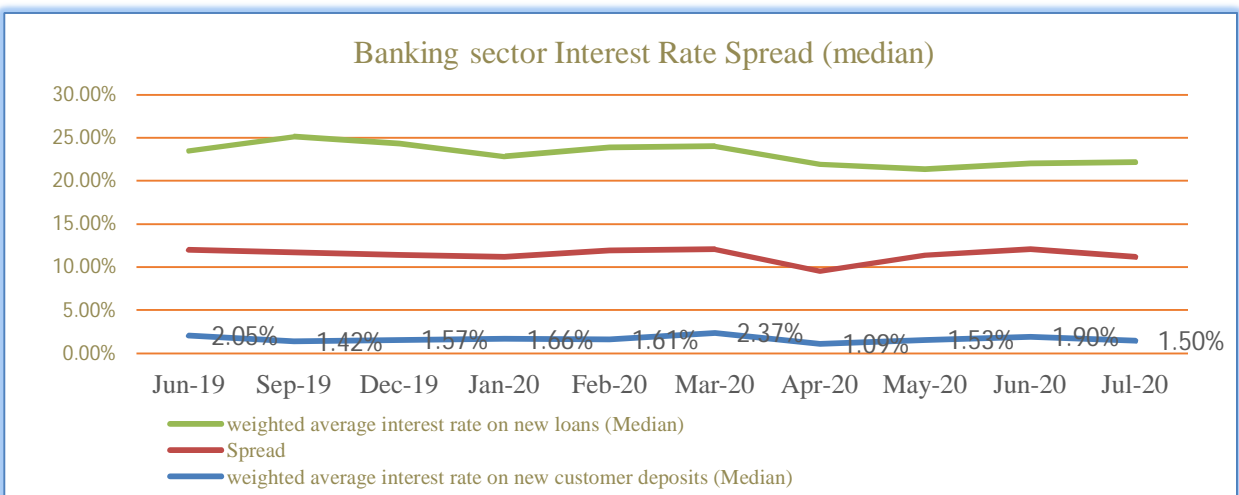
⁶ For Islamic Products %age is the profit rate.



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



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



Graph 19: Banking Sector Interest Rate Spread (Average)

- ✓ DAB has developed time bound post Covid-19 improvement plan. The main points of the plan cover expansion of activities and Issuance/disbursement of new credit facilities, cost reduction measures and suspension of dividend payments, electronic reporting, renewal of loans and relaxation in classification and risk weighting of loans collateralized by third party as ACGE, IFC, USAID etc.

6.6: OFF-BALANCE SHEET ITEMS

Total off-balance items of the banking sector amount to Af 59.7 billion, mostly comprising of performance, advance payment, and bid guarantees. The total coverage ratio in the form of cash, property, and counter guarantees is 69%, while the remaining portion lacks any kind of collateral coverage.

Type and amount of BGs Issued By Banking Sector July- 2020	
Type Of BGs	Amount in Million Af

Bid	5,746
Performance	31,727
Advance Payment	12,803
LC	468
Other BG ⁷	112
Retention ⁸	1,232
Total	52,089

Table 12: Type of BGs Issued by Banking Sector

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash, Property & Counter Guarantee July-2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	11,701	22.46%
Collateral Value (Property)	4,475	8.59%
Counter Guarantee	20,003	38.40%
Total	36,179	69.46%

Table 13: Banking Sector BGs Coverage Ratios

⁷ Other BGs are those guarantees which are not in standard formats of Bid, Performance and advance payment guarantees i.e. guarantees required for obtaining security company license from the ministry of interior affairs.

⁸ It is the written document issued by the Bank to the applicant, the applicant to collect final payment in advance, that applicant will continue to fulfill contract obligation after withdrawing final payment of the contract price in advance, at the request of construction contractor or supplier.