



**Da Afghanistan Bank**

**Monetary Policy Department**

**Monthly Report**

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**May 2019**

## 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.

At the beginning of FY1398 (2019), amount of Reserve Money (RM) has been recorded at Af 271,804.93 million and growth of RM is below the ceiling. The target ceiling for end of Sawr month was Af 302545.84 million, while the actual amount on the mentioned date stood at Af 256580.40 million. This figure represents Af 45965.44 million declines from the target ceiling in the same day and showing negative growth of 5.6 percent from the beginning of FY year.

From the beginning of fiscal year of 1398 (2019) up to end of Sawr, DAB has auctioned a total amount of USD 942.98 million through open market operations, and has collected Af 71.84 billion from the market. These operations have fulfilled 41.54 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation increased in the month of April 2019. Observing the data, headline inflation increased to 3.63 percent from 1.77 percent (year over year). This increase is caused by higher prices of both food and non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 3.54 percent, while it was calculated 2.62 percent in the previous month.

Current account deficit, narrowed sharply by 0.2 percent to USD 1226.41 million in the first quarter of the FY 1398 from USD 1228.87 million recorded in the first quarter of the FY 1397.

This outcome was primarily on account of a contraction in the trade deficit by both a rise in merchandize exports (6 percent), and a decline in merchandize imports (7 percent). As well as, a rise in the earnings of service account and a rise in the receipts on respect of primary income account in the first quarter of the FY 1398.

Total revenue (domestic revenue plus external aids) for the month of May2019is AFN 43.85 billion, while in April, it was AFN31.89 billion which shows 37.51% or AFN 11.96 billion increase in May.Total revenue from the start of FY-1398 till end of May FY-2019 reached to AFN 133.37 billion, which consist of AFN 81.20 billion and AFN 52.17 billion domestic revenue and donor contributions respectively.

The total assets of the banking sector posted a 2.68 percent YOY increase, reaching Af 306.70 billion at end of May, 2019 as compared to Af 298.69 billion in May, 2018.Total assets increased by 1.48 percent over the previous month. The increase in the total assets mostly came from increase in USD rate against the Af currency. The breakdown of total assets shows that part of capital notes and overnight deposits invested in bonds and loans.

The gross loan portfolio of the banking sector registered YOY increase of 5.75 percent and currently stands at Af 43.83 billion. The increase is mainly as a result of issuance of new loans and increase in USD rate. Total gross loans showed an increase of 2.39 points compared to previous month mainly on account of issuance of new loans.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 4.09 percent YOY increase, currently standing at Af 264.59 billion. The increase in total deposits came from the increase in USD rate against the AF currency. Deposits posted an increase of 1.54 points over the previous month mainly coming from increase in USD rate against Af.

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## 1. Monetary Sector

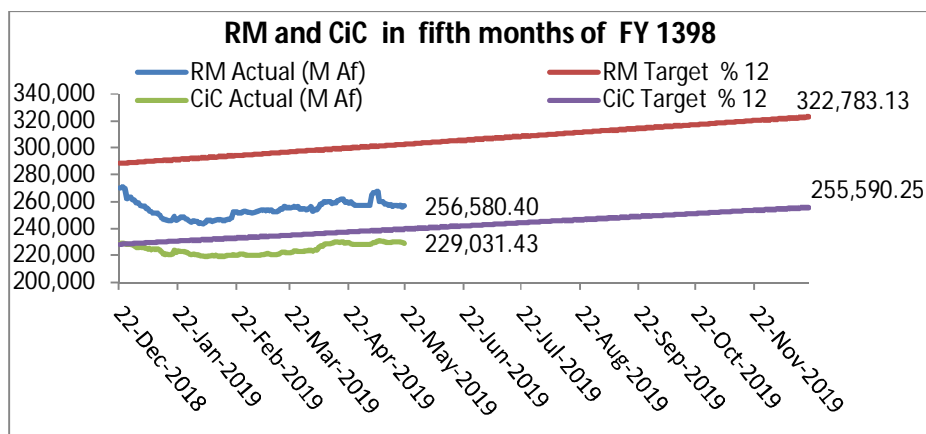
### 1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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 expense), economic growth outlook, and general price level in the country. Therefore, Monetary Policy Department of DAB, in official agreements with the IMF, has respectively set the Reserve Money (RM) and Currency in Circulation (CiC) as its operational and indicative targets for 2019, and growth for these indicators is set 12 percent for this year.

At the beginning of FY1398 (2019), amount of Reserve Money (RM) has been recorded at Af 271,804.93 million and growth of RM is below the ceiling. The target ceiling for end of Sawr month was Af 302545.84 million, while the actual amount on the mentioned date stood at Af 256580.40 million. This figure represents Af 45965.44 million declines from the target ceiling in the same day and showing negative growth of 5.6 percent from the beginning of FY year.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC). The amount of currency in circulation (CiC) which was stood at Af 228,205.59 million At the beginning of FY1398 (2019), The actual amount of currency in circulation (CiC) stood at Af 229031.43 million at the end of Sawr month, while the target for CiC is set at Af 239565.70 million AF. Thus, real amount of CiC is Af 10534.27 million less than ceiling in the same day and showing growth of 0.36percent from the beginning of FY year.

The following chart shows the RM and CIC during FY 1398 (2019).



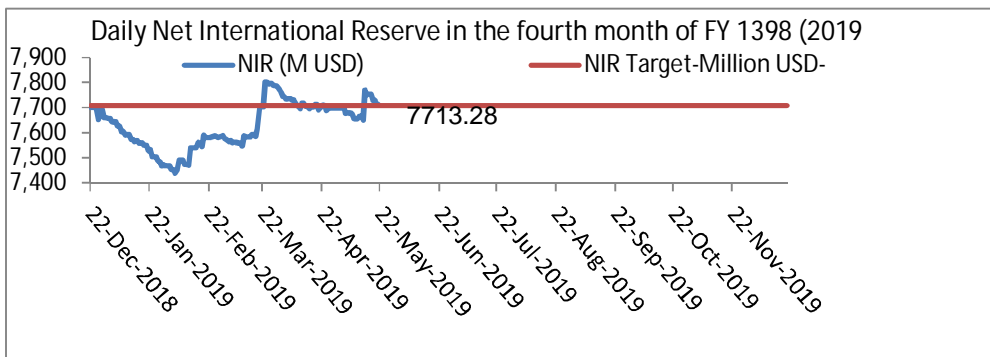
### 1.2 Net International Reserve

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, with no 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 FY1398 (2019), Afghanistan’s NIR actual was set USD 7,708.58 million, but NIR actual USD 7713.28 million by end of Sawr month, which shows USD 4.70 million increase difference from the beginning of the fiscal year 1398 to end of Sawr month.

NIR growth is presented in the following chart.



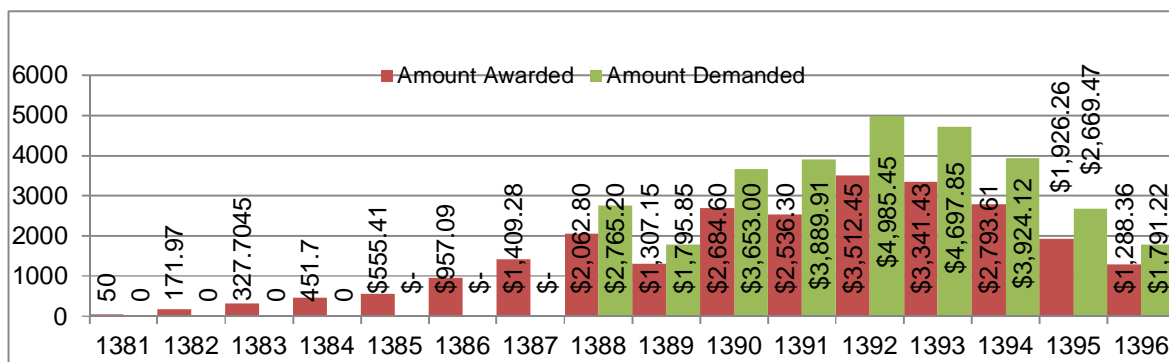
### 1.3 Foreign Exchange and Capital Notes Auction

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.

#### Foreign Exchange Auction

From the beginning of fiscal year of 1398 (2019) up to end of Sawr , DAB has auctioned a total amount of USD 942.98 million through open market operations, and has collected Af 71.84 billion from the market. These operations have fulfilled 41.54 percent of the total demand for currency (especially the US dollar) in the market.

The Figure 1.3 illustrates the foreign exchange demand and supply during the last 10 years.



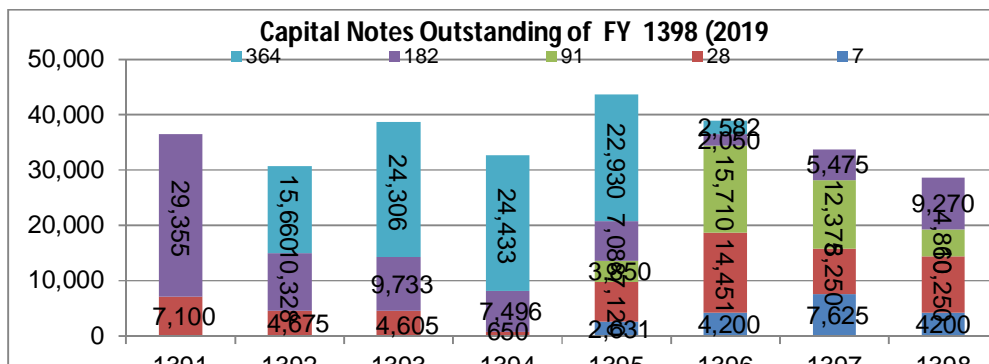
### Capital Notes Auction (Interest rate bidding)

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

Considering to the current economic situation in the country, Da Afghanistan Bank has gradually reducing auctions of 182 and 364 days capital notes as well as their interest rates in order to encourage investment and increase peoples' access to finance. Lower interest rates on these notes will facilitate the issuance of banking credits to the public with simple requirements and low interest.

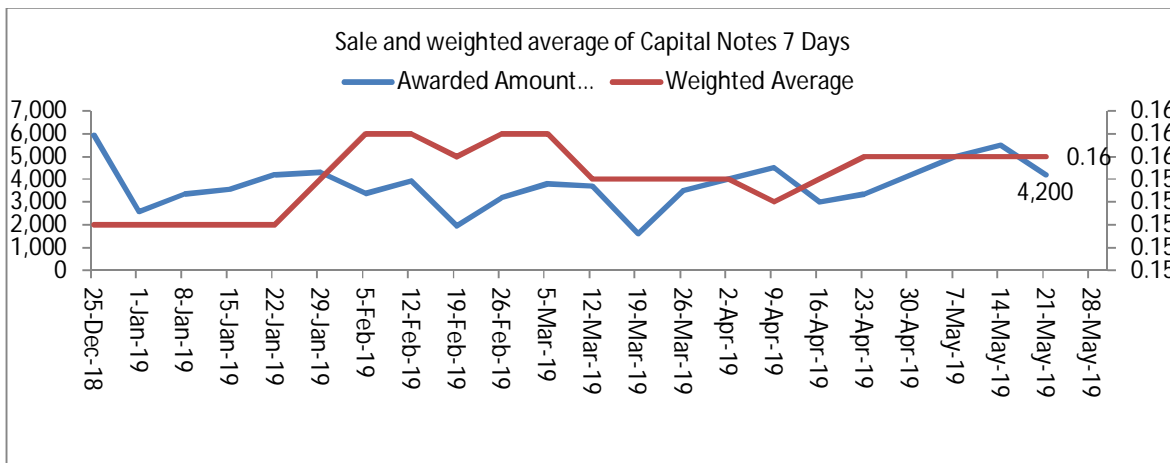
From the beginning of fiscal year of 1398 (2019) up to end of Sawr , The total outstanding of capital notes reached Af 28.58 billion and meanwhile the total interest paid for the mentioned notes reached Af 34.52 million at the end of Hoot.

The Figure 1.4 illustrates the Capital Notes Outstanding at end of Hoot month of FY 1398.



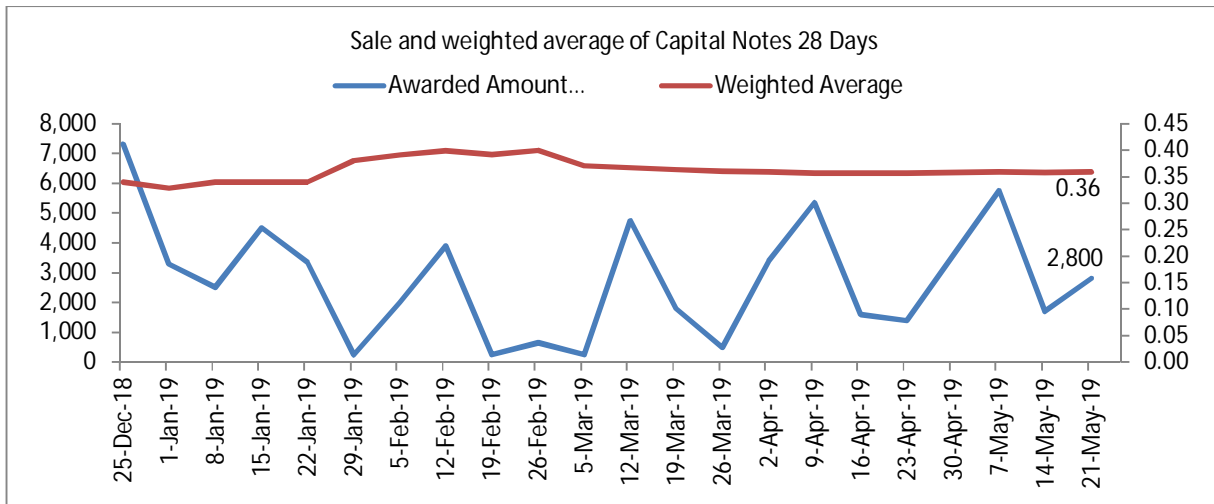
### 7 days Capital Notes

The awarded amount of 7 days capital notes auction at the end of Sawr reached Af 4.2 billion with average interest rate of 0.16 percent. The outstanding of these notes was Af 4.2 billion for the mentioned period.



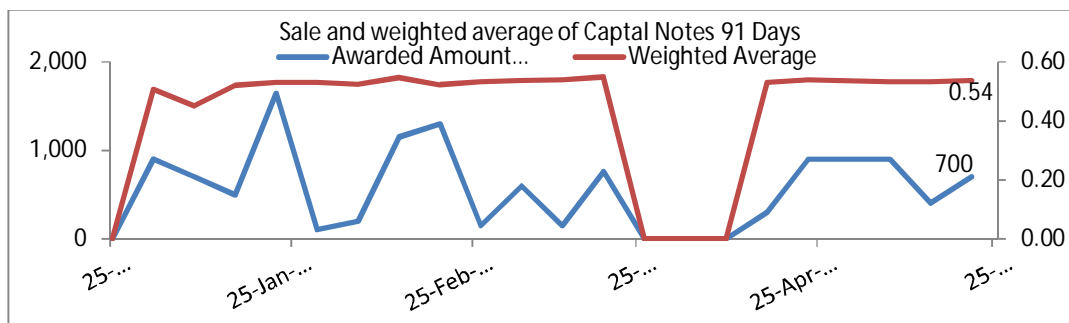
### 28 days Capital Notes

During the reviewed period, awarded amount of 28 days capital notes auction at the end of Sawr is recorded Af 2.8 billion with average interest rate of 0.36 percent and outstanding amount of Af 10.25 billion.



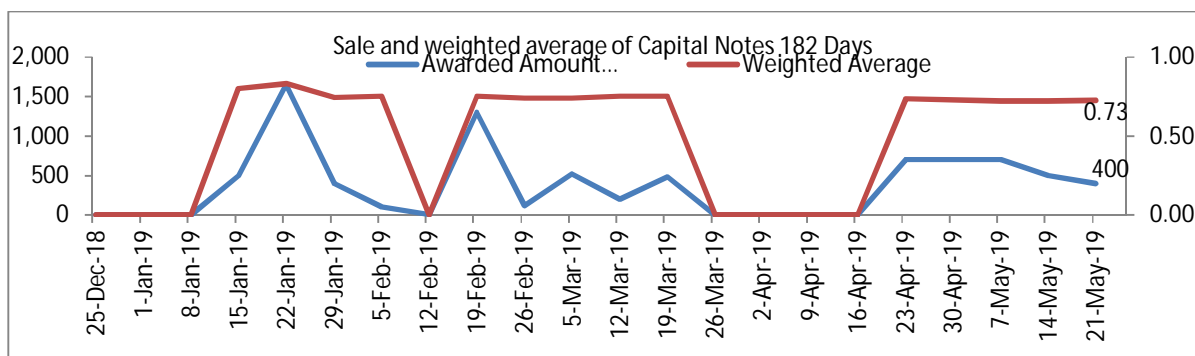
### 91 days Capital Notes

DAB's 91 days capital notes auction during this reporting period stood at Af 0.7 billion at the end of Sawr with average interest rate of 0.54 percent and total outstanding of Af 4.86 billion.



### 182 days Capital Notes

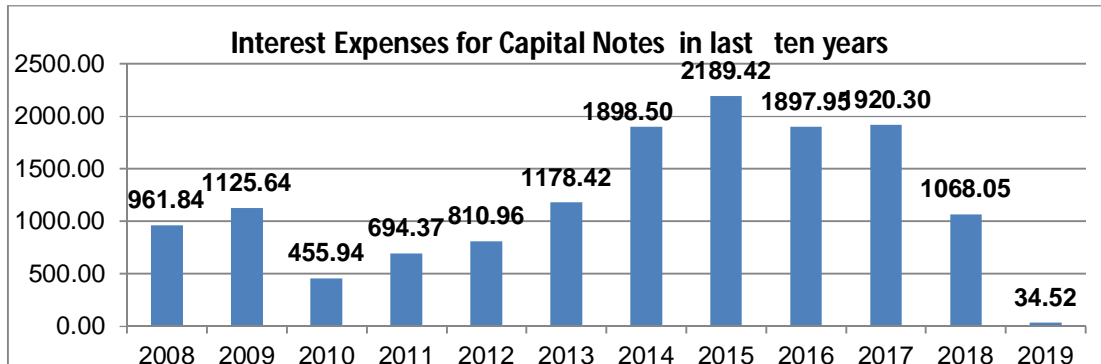
DAB's 182 days capital notes auction at the end of Sawr stood at Af 0.4 billion.





## Interest Expenses

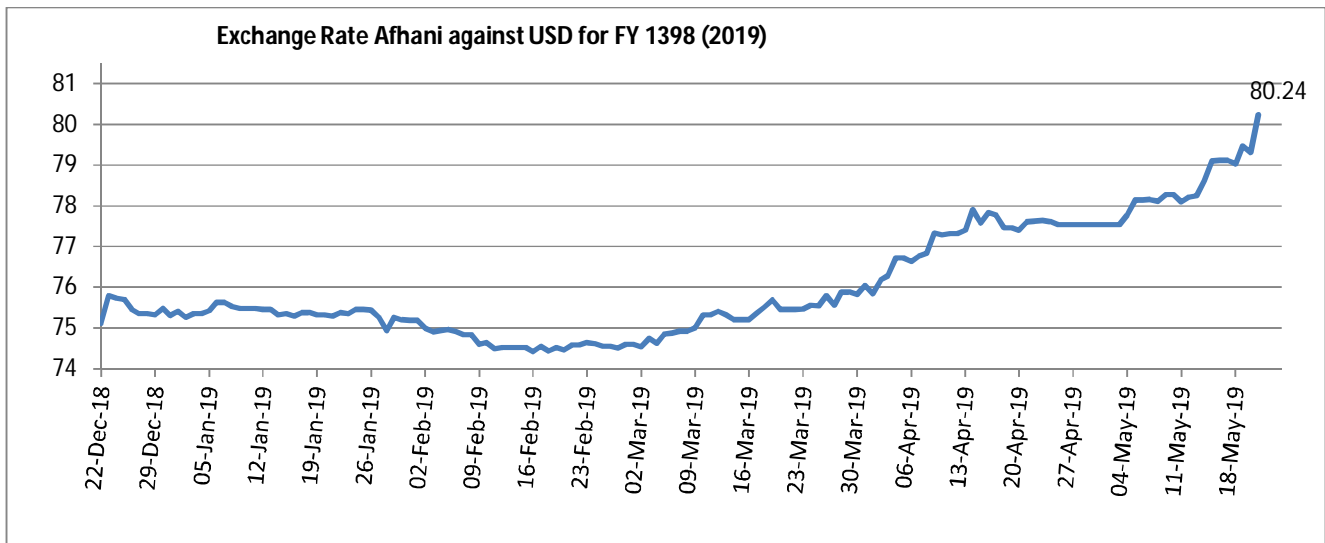
DAB paid interest for Capital Notes during of 12 years till the end of Sawr month FY 1398 (2019) the figure of below illustrated.



## 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 FY1398 (2019) Afghani has depreciated by 6.6 percent, and has been exchanged at Af 78.20 per USD on average and recorded at 80.24 Af exchanged at the end day of Sawr.



## Monetary indicators table

	FY 1397					FY 1398	
	Hamal	Sawr	Jawza	Sunbula	Qaws	Hamal	Sawr
<b>Reserve Money Target (%)</b>	3			4	6	12	
<b>Actual Reserve Money (%)</b>	-8.00	-7.00	-8.00	-10.00	-10.00	-13.00	-5.60
<b>RM Actual</b>	266808.9 8	257098.4 5	253771.8 0	293168.9 3	293168.9 3	259308.9 0	256580.4 0
<b>RM Target</b>	276318.0 5	276318.0 5	276318.1 0	290360.4 5	290360.4 5	299600.5 1	302545.8 4
<b>CiC Actual</b>	218544.7 9	219159.9 7	226589.3 0	225276.6 3	225276.6 3	229242.3 9	229031.4 3
<b>CiC Target</b>	228685.1 9	228685.1 9	228685.2 0	242631.2 4	242631.2 4	237233.4 9	239565.7 0
<b>Actual NIR</b>	7293.12	7285.74	7499.33	7549.36	7549.36	7692.50	7713.28
<b>NIR Target</b>	7284.40	7267.37	7250.34	7402.80	7402.80	7708.58	7708.58
<b>Outstanding Amount</b>	15390.00	27640.00	37960.00	39515.00	39515.00	29655.00	28580.00
<b>Required Reserve (Afs)</b>	6148.90	5959.69	6140.47	6136.46	6136.46	5817.98	4264.45

## 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 increased in the month of April 2019. Observing the data, headline inflation increased to 3.63 percent from 1.77 percent (year over year). This increase is caused by higher prices of both food and non-food items. Core measure of inflation when measured based on 30% trimmed mean increased to 3.54 percent, while it was calculated 2.62 percent in the previous month.

**Table 1.1. Headline Inflation (Mar 19-Apr 19)**

	Y-on-Y		M-to-M	
	Mar	Apr	Mar	Apr
<b>National CPI</b>				
<b>Headline</b>	1.77	3.63	1.00	1.08
<i>Food</i>	2.62	5.12	1.93	1.37
<i>Non-Food</i>	0.97	2.24	0.13	0.80
<i>CPI ex. B&amp;C, O&amp;F, and T</i>	1.06	3.17	1.25	1.45
<i>Trimmed Mean</i>	2.62	3.54		
<b>Kabul CPI</b>				
<b>Headline</b>	1.77	3.68	1.26	1.50
<i>Food</i>	3.93	6.38	2.69	1.68
<i>Non-Food</i>	0.39	1.97	0.33	1.37

### 2.1.1 Food Inflation

The flow of inflation in food items turned upward in April 2019. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation In April 2019, when measured on year over year basis, increased to 5.12 percent compared to 2.62 percent calculated in previous month. This increase is in line with higher prices of bread and cereals, meat, oil and fats, milk cheese and butter, fresh and dried fruits vegetables, and spices. Price of the remaining items decreased from the previous month's values.

**Table 2.2. Food Inflation (Mar 19-Apr 19)**

Items	Weight	Y-on-Y		M-to-M	
		Mar	Apr	Mar	Apr
<b>Food and Beverages</b>	47.8	2.62	5.12	1.93	1.37
<i>Bread and Cereals</i>	14.6	6.88	8.19	0.77	-0.11
<i>Meat</i>	7.5	1.16	1.43	0.59	0.35
<i>Milk, cheese and eggs</i>	4.7	1.92	3.06	0.01	0.00
<i>Oils and fats</i>	4.6	-5.46	-4.32	-1.33	0.00
<i>Fresh and dried fruits</i>	5.0	5.47	9.70	3.72	8.76
<i>Vegetables</i>	6.0	-2.40	6.84	7.99	3.24
<i>Sugar and sweets</i>	2.7	4.14	3.11	4.49	-2.44
<i>Spices</i>	1.3	4.21	11.15	0.35	4.72
<i>Non-alcoholic beverages</i>	1.4	6.40	5.45	0.81	-0.33

**Sourced:** Da Afghanistan Bank /NSIA

### 2.1.2 Non-Food Inflation

Inflation in non-food item exhibited upward trend in the month of April 2019. On the year over year basis, non-food inflation inclined to 2.24 percent from 0.97 percent observed in the previous month. The inflationary pressure on this index came from higher price of tobacco, clothing, housing, furnishing

and household goods, health, information, education, restaurant and hotels and miscellaneous. In the meantime, price of transportation and communication decreased during the review period.

**Table 2.3. Non-Food Inflation (Mar 19-Apr 19)**

	Weight	Y-on-Y		M-to-M	
		Mar	Apr	Mar	Apr
<b>Non-Food</b>	<b>52.2</b>	0.97	2.24	0.13	0.80
<i>Tobacco</i>	<b>0.3</b>	4.04	4.12	0.00	0.10
<i>Clothing</i>	<b>4.6</b>	3.25	4.78	-	0.59
<i>Housing,</i>	<b>19.1</b>	-2.31	-0.21	0.00	1.30
<i>Furnishing and household goods</i>	<b>11.9</b>	3.20	4.37	0.61	1.16
<i>Health</i>	<b>6.2</b>	1.89	2.57	0.33	0.24
<i>Transportation</i>	<b>4.3</b>	5.77	5.68	-	-
<i>Communication</i>	<b>1.7</b>	-2.83	-3.32	0.17	0.59
<i>Information and Culture</i>	<b>1.1</b>	0.35	2.67	0.26	1.32
<i>Education</i>	<b>0.4</b>	6.24	-4.50	0.65	-
<i>Restaurants and Hotels</i>	<b>1.1</b>	3.20	3.58	0.43	1.08
<i>Miscellaneous</i>	<b>1.4</b>	0.35	2.15	-	0.90

## 2.2 Core Inflation

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 April 2019, trimmed mean (30 % of CPI) slightly increased to 3.54 percent (year over year) from 2.62 percent observed in the previous month.

Another core measure of inflation is the CPI excluding bread and cereals, oils and fats, and transportation, which increased to 3.17 percent compared to 1.06 percent recorded in the previous month. Inflation by this measure also increased on month to month basis to 1.45 percent from 1.25 percent.

Core Measures (Year over Year)		
Indicators	March	April
30% Trimmed Mean	2.62	3.54
<b>CPI ex. B&amp;C,O&amp;F and T</b>	1.06	3.17

**Source:** *Da Afghanistan Bank and/NSIA*

### 3. EXTERNAL SECTOR REPORT

#### 3.1 CURRENT ACCOUNT BALANCE

Current account deficit, narrowed sharply by 0.2 percent to USD 1226.41 million in the first quarter of the FY 1398 from USD 1228.87 million recorded in the first quarter of the FY 1397.

This outcome was primarily on account of a contraction in the trade deficit by both a rise in merchandise exports (6 percent), and a decline in merchandise imports (7 percent). As well as, a rise in the earnings of service account and a rise in the receipts on respect of primary income account in the first quarter of the FY 1398.

#### 3.1.1 GOODS ACCOUNT

The value of total export of goods increased by 6 percent to a value of USD 182.57 million in the first quarter of the FY 1398 from a value of USD 172.45 million in the first quarter of the FY 1397.

The value of total import of goods declined by 7 percent to a value of USD 1710.47 million in the first quarter of the FY 1398 from a value of USD 1836.94 million recorded in the first quarter of the FY 1396.

- **Main drivers of increasing exports in the first quarter of the FY 1398 are:**

- ✓ Cotton                                      Increased to USD 7 m from USD 3 m.
- ✓ Saffron                                      Increased to USD 8 m from USD 5m.
- ✓ Fresh fruits                                Increased to USD 18m from USD 15m
- ✓ Dry fruits.                                    Increased to USD 65 m from USD 56 m.

- **Main drivers of declining Imports in the first quarter of the FY 1398 are:**

- ❖ Industrial supplies such as:

- ✓ Fertilizer                                    declined by 46 % to USD 25.55 from USD 47.13m.
- ✓ Cement:                                      declined by 12 % to USD 60.19m from USD 68.17m.

**Note:** as a total Industrial supplies declined by 13 percent to a value of USD 173.92 million in the first quarter of the FY 1398 from a value of USD 200.38 million in the first quarter of the FY 1397.

❖ Consumer goods such as:

- ✓ Flour and wheat flour declined by 24% to USD 200.16 million from USD 263.60 million.
- ✓ Sugar: declined by 55 % to USD 44.87 million from USD 99.45 million.
- ✓ Tea: declined by 31 % to USD 28.94 million from 41.47 million.
- ✓ Medicines declined by 21 % to USD 20.51 million from USD 26.12 million.
- ✓ Electricity imports declined by 22 % to USD 70.66 million from USD 91 million.

❖ Capital goods such as:

- ✓ Spare parts and machinery declined by 43% to USD 128.19 million from USD 225 million.

**Note:** as a total consumer goods declined by 11 % to a value of USD741.35 million in the first quarter of the FY 1398 from a value of USD 828.96 million recorded in the first quarter of the FY 1397.

### 3.1.2 SERVICES ACCOUNT

Services account deficit decreased by 61 percent to a value of USD 45.17 million in the first quarter of the FY 1398 from USD 115.75 million recorded in the first quarter of the FY 1397, mainly due to increasing receipts from some of services implemented by residents to non-residents such as:

- Receipts from **Construction services**, which increased to a value of USD 19 million in the first quarter of the FY 1398 from a value of USD 12.60.29 million recorded in the first quarter of the FY 1397.
- Receipts from **Telecommunication, services** increased slightly to a value of USD 18.85 million in the first quarter of the FY 1398 from a value of USD 14.56 million recorded in the first quarter of the FY 1397.
- **In transportation**, our receipts increased to a value of USD 18.96 million in the first quarter of the FY 1398 from a value of USD 11.88 million in the first quarter of the FY 1397.
- Receipt from **travel services** increased to a value of USD 14.24 million in the first quarter of the FY 1398 from a value of USD 2.90 million recorded in the first quarter of the FY 1397.
- Receipt from other business services increased to a value of USD 92.53 million in the first quarter of the FY 1398 from a value of USD 66.27 million recorded in the first quarter of the FY 1397.

### 31.3PRIMARY INCOM ACCOUNT:

Net primary income increased by 81 percent to a value of USD 44.92 million in the first quarter of the FY 1398 from a value of USD 24.83 million recorded in the first quarter of the FY 1397.

### 3.1.4 SECONDARY INCOME ACCOUNT:

Secondary income decreased by 43 percent to a value of USD 301.73 million in the first quarter of the FY 1398 from a value of USD 526.55 million recorded in the first quarter of the FY 1397.

- **Official transfers (Net); to** the Afghan government decreased by 60 percent to a value of USD 162.8 million in the first quarter of the FY 1398 from a value of USD 408 million recorded in the first quarter of the FY1397.
- **Personal transfers (Net)** show an increase of 17 percent to a value of USD 138.94 million in the first quarter of the FY 1398 from a value of USD 118.59 million recorded in the first quarter of the FY 1397.

### 3.2 CAPITAL ACCOUNT BALANCE:

Shows a significantly increase of 714 percent to a value of USD 39.42 million in the first quarter of the FY 1398 from a value of USD 4.84 million recorded in the first quarter of the FY 1397, as a result of higher inward of capital transfers to the government sector.

### 3.3 FINANCIAL ACCOUNT BALANCE:

Financial account (net) decreased to a value of USD – 95.16 million in the first quarter of the FY 1398 from a value of USD 46.8 million in the first quarter of the FY 1397.

- **Direct investment (Net):**

Outflows (assets abroad), decreased to a value of USD -10.52 million in the first quarter of the FY 1398 from a value of USD 3.78 million in the first quarter of the FY 1397.

Inflows (liabilities) declined to a value of USD 7.06 million in the first quarter of the FY 1398 from a value of USD 35.36 million recorded in the first quarter of the FY 1397.

**Note:** as a sector-wise; Services sector is the first which captured more FDI. Construction, mining and Industry/Manufacture are ranked the second third and fourth respectively.

- **Portfolio Investment (net):** increased to a value of USD 19.96 million in the first quarter of the FY 1398 from a value of USD -54 million recorded in the first quarter of the FY1397.

**AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)**

Items / Years	Q1- 97	Q2- 97	Q3 - 97	Q4 - 97	Q1- 98	%change
<b>Current Account</b>	<b>-1228.87</b>	<b>-829.74</b>	<b>-895.81</b>	<b>-1119.14</b>	<b>-1226.41</b>	<b>-0.2%</b>
<i>Credit</i>	924.80	1120.01	1162.74	995.34	798.13	-14%
<i>Debit</i>	2153.66	1949.75	2058.56	2114.48	2024.55	-6%
<b>Goods and Services Account</b>	<b>-1780.24</b>	<b>-1534.46</b>	<b>1494.92</b>	<b>-1591.78</b>	<b>-1573.07</b>	<b>-12%</b>
<i>Credit</i>	340.42	364.21	461.39	459.30	398.32	17%
<i>Debit</i>	2120.66	1898.68	1956.31	2051.08	1971.39	-7%
<b>Goods Account</b>	<b>-1664.49</b>	<b>-1499.75</b>	<b>1386.93</b>	<b>-1473.41</b>	<b>-1527.90</b>	<b>-8%</b>
<i>Credit</i>	172.45	146.81	261.88	294.09	182.57	6%
<i>Debit</i>	1836.94	1646.56	1648.81	1767.50	1710.47	-7%
<b>Services Account</b>	<b>-115.75</b>	<b>-34.72</b>	<b>-108.00</b>	<b>-118.37</b>	<b>-45.17</b>	<b>-61%</b>
<i>Credit</i>	167.96	217.40	199.51	165.21	215.75	28%
<i>Debit</i>	283.72	252.12	307.50	283.58	260.92	-8%
<b>Primary Income Account</b>	<b>24.83</b>	<b>54.00</b>	<b>58.70</b>	<b>44.32</b>	<b>44.92</b>	<b>81%</b>
<i>Credit</i>	35.27	65.53	109.23	67.45	61.34	74%
<i>Debit</i>	10.45	11.52	50.52	23.12	16.42	57%
<b>Secondary Income Account</b>	<b>526.55</b>	<b>650.72</b>	<b>540.40</b>	<b>428.32</b>	<b>301.73</b>	<b>-43%</b>
<i>Credit</i>	549.11	690.27	592.13	468.60	338.47	-38%
<i>Debit</i>	22.56	39.55	51.72	40.28	36.74	63%
<b>Current transfers (Official grants)</b>	<b>408.0</b>	<b>530.6</b>	<b>404.4</b>	<b>365.5</b>	<b>162.8</b>	<b>-60%</b>
<b>Personal transfers</b>	<b>118.59</b>	<b>120.11</b>	<b>135.97</b>	<b>62.80</b>	<b>138.94</b>	<b>17%</b>
<i>Credit</i>	141.15	159.65	187.70	103.08	175.68	24%
<i>Debit</i>	22.56	39.55	51.72	40.28	36.74	63%
<b>Capital account</b>	<b>4.84</b>	<b>171.93</b>	<b>427.13</b>	<b>588.81</b>	<b>39.42</b>	<b>714%</b>
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	714%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
<b>Capital transfers</b>	<b>4.84</b>	<b>171.93</b>	<b>427.13</b>	<b>588.81</b>	<b>39.42</b>	<b>714%</b>
<i>Credit</i>	4.84	171.93	427.13	588.81	39.42	714%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	
<b>Financial account</b>	<b>46.8</b>	<b>74.8</b>	<b>184.8</b>	<b>167.23</b>	<b>-95.16</b>	<b>-303%</b>
<b>Direct investment</b>	<b>-31.58</b>	<b>-40.85</b>	<b>-55.28</b>	<b>-29.85</b>	<b>-17.58</b>	<b>-44%</b>
Net acquisition of financial assets	3.78	3.78	-30.90	-19.11	-10.52	-378%
Net incurrence of liabilities	35.36	44.63	24.38	10.75	7.06	-80%
<b>Portfolio investment</b>	<b>-54.02</b>	<b>18.22</b>	<b>24.37</b>	<b>34.94</b>	<b>20.0</b>	<b>-137%</b>
Net acquisition of financial assets	-54.02	18.22	24.37	34.94	19.96	-137%
<i>Net incurrence of liabilities</i>	0.00	0.00	0.00	0.00	0.00	
<b>Other investment</b>	<b>109.58</b>	<b>57.53</b>	<b>103.07</b>	<b>89.54</b>	<b>-126.85</b>	<b>-216%</b>
<i>Assets</i>	80.47	44.96	79.32	73.59	-131.36	-263%



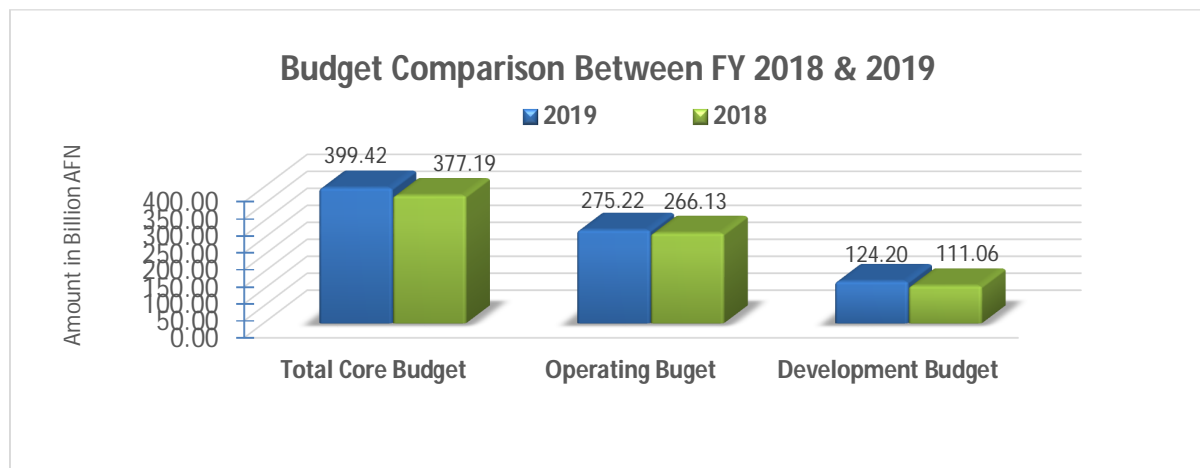
<i>Liabilities</i>	-29.11	-12.57	-23.75	-15.95	-4.51	<b>-85%</b>
<b>Reserve Assets</b>	<b>22.79</b>	<b>39.85</b>	<b>112.68</b>	<b>72.60</b>	<b>29.31</b>	<b>29%</b>
<b>Net errors and omissions</b>	<b>1270.79</b>	<b>732.56</b>	<b>653.53</b>	<b>697.56</b>	<b>1091.83</b>	<b>-14%</b>

#### 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).

In fiscal year 2019 total core budget is raised to AFN 399.42 billion from AFN 377.19 billion in FY 2018, showing 5.89% or AFN 22.23 billion increase in annual budget. From the total of AFN 399.42 billion, operating and development budgets are estimated each AFN 275.22 billion and AFN 124.20 billion respectively.



Total revenue (domestic revenue plus external aids) for the month of May 2019 is AFN 43.85 billion, while in April, it was AFN 31.89 billion which shows 37.51% or AFN 11.96 billion increase in May. Total revenue from the start of FY-1398 till end of May FY-2019 reached to AFN 133.37 billion, which consist of AFN 81.20 billion and AFN 52.17 billion domestic revenue and donor contributions respectively.

Likewise, domestic Revenue for the month May was AFN 22.34 billion more than AFN 15.98 billion in the month of April, which shows AFN 6.36 billion (39.82%) Increase in the month of May. On the other hand, donor contributions (including loans) amounted to AFN 21.51 billion in May, where donor

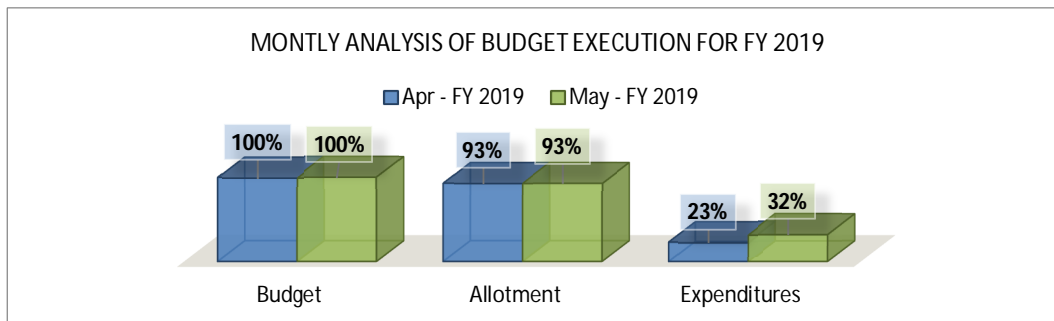
contributions in April was AFN 15.91 billion, which indicates AFN 5.60 billion (35.18 %) increase in donor contributions for the month of May.

Additionally, total Expenditure at the end of May 2019 reached to AFN 126.04 billion, from which operating expenditures and development expenditures were individually, AFN 91.43 billion and AFN 34.61 billion. Likewise, operating expenditures for May is AFN 22.07 billion, where in April it was AFN 27.29 billion. This signifies that, there is AFN 5.22 billion or 19.13 % decrease in operating expenditures for the month of May FY 2019. On the other hand, development expenditures for the month of April was AFN 14.96 billion, which is decreased to AFN 9.92 billion in the month of May showing a decrease of 33.68 % (AFN 5.04 billion).

Description	Apr - FY 2019	May - FY 2019	From the start till end of May, FY 2019	Difference (between Apr & May)	Monthly Growth (%)
	Amount in Billion AFN				
<b>Total Revenue</b>	<b>31.89</b>	<b>43.85</b>	<b>133.37</b>	<b>11.96</b>	<b>37.51</b>
Domestic Revenue	15.98	22.34	81.20	6.36	39.82
Donor Contributions	15.91	21.51	52.17	5.60	35.18
<b>Total Expenditures</b>	<b>42.25</b>	<b>31.99</b>	<b>126.04</b>	<b>(10.26)</b>	<b>- 24.29</b>
Operating Expenditures	27.29	22.07	91.43	(5.22)	- 19.13
Development Expenditures	14.96	9.92	34.61	(5.04)	- 33.68

**Source: MoF Financial Reports/MPD Staffs Calculations**

Execution rate of core budget at the end of May 2019 reached to 32%, and allotment was 93%. It has to be said that budgeted development expenditures was estimated AFN 124.20 billion, from which 93% allotment is made and only 27 % actual expenditures incurred. Likewise, budgeted operating expenditures was estimated AFN 275.22 billion, of which 93% is allotted and actual expenditures reached to 34%.



## 5. Swift and Payments

### Report of ( Outward) Transactions from 1/2/ 1398 up to 31/2/1398

Categories	Remmitter Parties	Message Type	USD	EUR	CHF	KWD	JPY	INR
A	Ministries	MT 103 ,700 & 910	9,341,905.45	1,209,305.00	128,707.00	17,215.00	20,956.00	1,848,000.00
B	Commercial Banks	202	70632464	1,500,000.00				
C	Da Afghanistan Bank	200	355,000,000.00					

### Report of ( Inward )Transactions from 1/2/ 1398 up to 31/2/139

Categories	Beneficiary Parties	Message Type	USD	EUR	AED			
A	Ministries	MT 103 ,700 & 910	48,418,651.10	702,840.46				
B	Commercial Banks	202	49,416,481.11					
C	Da Afghanistan bank	200						

به ارزش مجموعی (151596811.13) دالر و به تعداد 4 معامله تبادلی بانک جهانی به ارزش مجموعی 1134150.14 دالر امریکائی نیز اجرا گردیده است FX Deal بر علاوه به تعداد 52 معامله تبادلی

## 6. Banking sector

As of end of May, 2019 (Sawr 1398) the main banking sector data demonstrated an increasing trend as compared with the same month of the previous year (YOY). Total assets, gross loan, deposits and profitability showed increases, which mostly apart from the exchange rate fluctuations (USD) are attributed to issuance of loans and profitability, Liquidity remained adequate. However equity capital on account of dividend payments and getting in a receivership of a private bank decreased and the loan quality further deteriorated.

The total assets of the banking sector posted a 2.68 percent YOY increase, reaching Af 306.70 billion at end of May, 2019 as compared to Af 298.69 billion in May, 2018. Total assets increased by 1.48 percent over the previous month. The increase in the total assets mostly came from increase in USD rate against the Af currency. The breakdown of total assets shows that part of capital notes and overnight deposits invested in bonds and loans.

The gross loan portfolio of the banking sector registered YOY increase of 5.75 percent and currently stands at Af 43.83 billion. The increase is mainly as a result of issuance of new loans and increase in USD rate. Total gross loans showed an increase of 2.39 points compared to previous month mainly on account of issuance of new loans.

Total Deposits comprising of customer and interbank deposits, the main source of funding in the banking sector presented 4.09 percent YOY increase, currently standing at Af 264.59 billion. The increase in total deposits came from the increase in USD rate against the AF currency. Deposits posted an increase of 1.54 points over the previous month mainly coming from increase in USD rate against Af.

The net equity position of the banking sector remained strong, though it decreased by 2.26 percent yoy basis and represents 11.37 percent of total assets. The decrease is mainly attributed to payment of dividends and getting in a receivership of a private bank.

The banking sector for the first five months of fiscal year 1398 ( May, 2019) earned Af 927 million net-profits against Af 368 million net-profits in the same preceding period (May, 2018). Resulting in ROA of 0.64 percent annualized compared to that of 0.29 percent annualized in May, 2018.

Liquidity and FX positions are in accordance with the ratios set by the central bank, except five banks that have violated the limits ( $\pm 40$  percent for over all FX position and  $\pm 20$  percent on individual currency position) on overall and individual currency basis (USD and EURO long position).

The regulatory capital ratios of all banks except one bank are above the regulatory threshold (12% of RWA).

CAR (capital adequacy ratio) of the sector recorded at 25.95 percent against 27.92 percent in May, 2018 showing 1.97 percent decrease over the year.

#### Introduction

The banking sector in Afghanistan consists of 14 duly-licensed and permitted banking organizations: 3 relicensed state-owned banks, 7 private full-fledged banks Commercial banks, 1 private full-fledged Islamic Bank and 3 branches of foreign banks.

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

<b>Provided banking Facilities</b>	<b>No</b>
Full Service Branches	209
Limited Service Branches	206
Automated Teller Machines (Type 22 Facility)	350
*Others (Type 21, 24, 25 Facility)	88
**Point of Sale (Type 23)	105
<b>Total</b>	<b>958</b>

<b>Cards</b>	<b>No</b>
Debit Card	594,248
Credit Card	1,885
ATM Card	235,693
Web surfer Cards	13,853
Pre-Paid Card	5,490
Master Card	4,113
<b>Total</b>	<b>855,282</b>

The above-mentioned branch facilities are available in thirty three (33) provinces including the capital city Kabul. ATM services are available in 28 and Debit cards are available in 31 provinces, while credit cards are available in 6 provinces of the country.

In addition, on a cumulative basis, 1,398 licensed money service providers (MSP) and 1,710 licensed FX dealers are operating in the country. Of these 1,398 licensed MSPs, 277 are in Kabul, 841 are in

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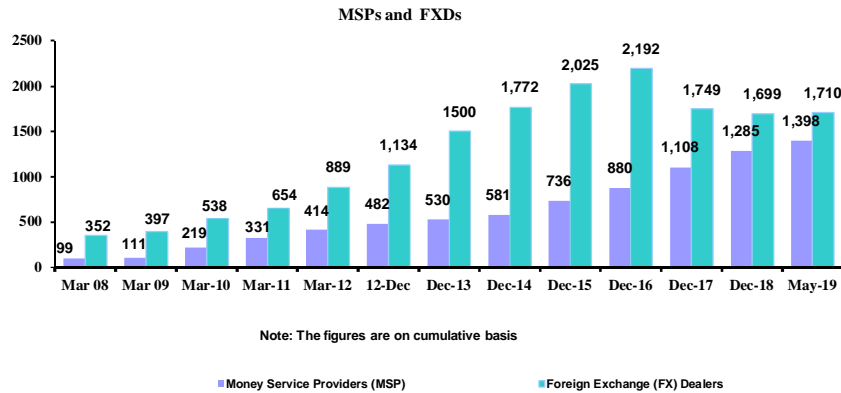
\* Type 21 Facility: A loan origination facility where the proceeds of the loan are not disbursed

Type 24 Facility: A facility which only disburses cash, such as salaries to government and /or non-government employees, or other cash payments to bank customers

Type 25 Facility: A facility which only receives cash from the public for deposits into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for the cash. this facility could be located on military base, or in a hotel, for example.

\*\* Type 23 Facility: A facility which only receives cash from the public for deposit into the account of a different person or legal entity (usually the embassy, hotel, etc.) and issues a receipt for cash. This facility could be located on the military base, in an embassy, or in a hotel, for example.

provinces while 280 representatives of head offices are in Kabul and provinces. Of 1,710 licensed FX dealers, 377 are in Kabul, 1,327 are operating in provinces, and 6 representatives are active in provinces. Further details are given in the Graph No.1

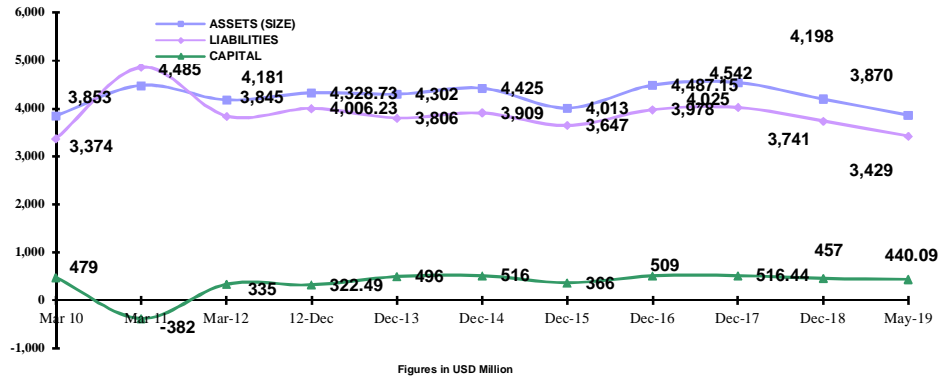


**Graph No.1**

### 6.1 Total Assets

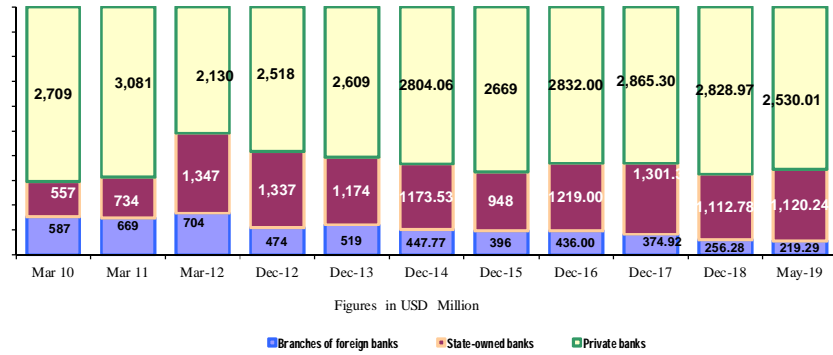
The total assets of the banking sector registered 2.68 percent YOY increase, reaching Af 306.70 billion (USD 3.86 billion), against 1.51 percent increase in the same preceding period (May, 2018), amounted to Af 298.69 billion (USD 4.19 billion). The above mentioned increase in the total assets can mainly be attributed to increase in USD rate. While the breakdown of total assets shows that a significant increase witnessed in interbank claims mostly in USD, net-loans and investments, while major declining items were the overnight deposits, cash in vault and current account with DAB. It seems that major portion of the overnight deposits and current account with DAB shifted to other banks and invested in loans and bonds.

Looking at the increase in total assets across the banking groups, the growth rate for the private banks, as a peer group, was the highest and increased by 6.13 percent and state owned banks recorded 0.53 percent increase, however, branches of foreign banks witnessed 18.88 percent decline in their assets over the year. The percentage share of private banks in the system's total asset is reported to be 65.38 percent; state-owned banks with 28.95 points are at the second place while branches of foreign banks have 5.66 percentage shares in the system's total asset. Growth of assets of the banking sector from March 2010 to May, 2019 is depicted in graph No.2.



Graph No. 2

Breakdown of Banking System's Assets



Graph No.3

Assets of the Banking sector in descending order for the month of May, 2019			Size of Indv. Banks as % of Total Assets of the sector
Serial number	Names of Banks	Assets in million Af	
1	Afghanistan International Bank	65,952.64	21.50
2	Bank-e- Milli Afghan	44,053.85	14.36
3	Azizi Bank	40,945.98	13.35
4	New Kabul Bank	23,227.45	7.57
5	Pashtany Bank	21,509.28	7.01
6	Maiwand Bank	20,984.60	6.84
7	Afghan United Bank	20,416.42	6.66
8	Islamic Bank of Afghanistan	15,563.11	5.07
9	Arian Bank	13,350.48	4.35
10	Ghazanfar Bank	12,173.75	3.97
11	Bank Alfalah Limited	11,340.37	3.71
12	First Micro Finance Bank	11,141.43	3.63
13	National Bank of Pakistan	4,493.31	1.47
14	Habib Bank Limited	1,547.39	0.51
<b>Total</b>		<b>306,700.06</b>	<b>100.00</b>

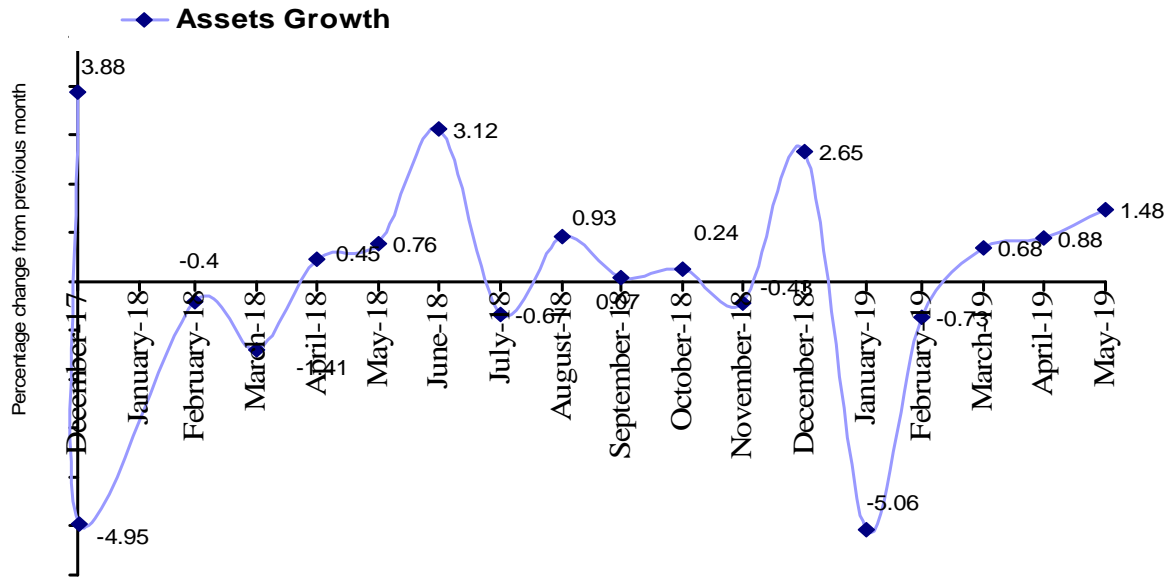
### 1.1.1 Assets growth

Total assets of the banking sector depicted a positive trend for the most part of the 2018, being highest in June and December 2018 coming mostly from increase in the interbank claims dominantly in USD, while touched the lowest point in Jan, 2018, which was mainly due to decrease in cash in vault and claims on DAB particularly in overnight deposits and capital notes.

For the month under analysis total assets recorded an increase of 1.48 percent over the previous month, mostly coming from increase in USD rate against the Af currency. While breakdown of total assets shows that part of capital notes and overnight deposits invested in bonds and loans.

For further details, the trend is shown in graph No. 4





Graph No.4

## 6.2 Loan portfolio

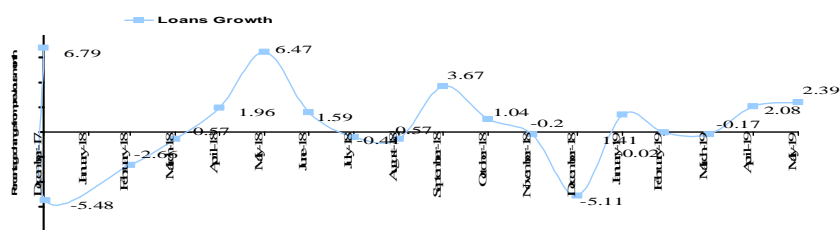
The gross loan portfolio of the banking sector recorded yoy increase of 5.75 percent, currently standing at Af 43.83 billion (USD 553 million), constituting 14.29 percent of the total assets, whereas it was Af 41.44 billion in May, 2018 comprising 13.88 percent of the total assets and was up by 1.51 percent on yoy basis. The increase in total gross loans is mainly attributed to issuance of loans and increase in USD rate.

Out of this loan portfolio, total Afghani denominated loans recorded at Af 20.14 billion (USD 254 million), 45.94 percent of total Gross loans or 6.57 percent of total assets, showed a yoy increase of 39.74 percent, mostly attributed to issuance of new loans. While the US Dollar denominated loans are Af 23.58 billion (USD 298 million), 53.80 percent of total gross loans or 7.69 percent of total assets decreased by 12.36 percent yoy, mainly attributed to charge off of loans, settlement of loans and getting of a private bank in a receivership. Lending in Afghanistan is dominated by private banks, constituting 87.52 percent of total gross loans of the banking sector followed by state-owned banks with 11.76 percent, while the share of the branches of foreign banks is 0.70 percent.

### 6.3.1 Loans Growth

Total gross loans over the course of the 2018 mostly had a decreasing trend, mostly significant in Jan, and Dec, 2018 attributed to charge-offs and settlement of loans.

Total gross loans showed an increase of 2.39 percent over the previous month, mainly on account of issuance of new loans. The trend is shown in the graph No. 5



Graph No.5

### Classification of total loan portfolio

Item amount in Af million	May, 2019	April, 2019	As %age of total gross loans	growth
Non-Performing Loans <sup>1</sup>	5,651	4,773	12.89	18.39
Adversely Classified Loans(substandard, doubtful, Loss) <sup>2</sup>	6,780	6,601	15.47	2.71
Loans classified Watch <sup>3</sup>	3,447	4,521	7.86	-23.75
Loans Charged-off <sup>4</sup>	3.81	3.97	0.01	-4.03

The quality of loans of the banking sector at the end of May, 2019 compared to April, 2019 further deteriorated, making 12.89 percent of total gross loans and 18.30 percent of the regulatory capital, increased by Af 878 million over the last month largely attributed to three banks in the sector. Out of

<sup>1</sup> Defaulted assets and advances for which the principal and/or interest is due and remains outstanding for 121-480 days and more as per the assets classification and provision regulation- (Doubtful and Loss)

<sup>2</sup> An asset for which the principal and /or interest remains outstanding for 61-120 days - (Substandard), <sup>2</sup> Defaulted assets and advances for which the principal and/or interest is due and remains outstanding for 121-480 days - (Doubtful), An asset for which the principal and /or interest remains outstanding for 481 or more days - (Loss) as per the assets classification and provisioning regulation

<sup>3</sup> An assets for which the principal and/or interest remains outstanding due for 31-60 days as per the assets classification and provisioning regulation-(Watch)

<sup>4</sup> Default assets and advances for which the principal and/or interest remains outstanding for 481 days or more days and retained on the books of banks for the period of 12 months (Loss), After 12 months they are immediately charged-off as per the assets classification and provisioning regulation-

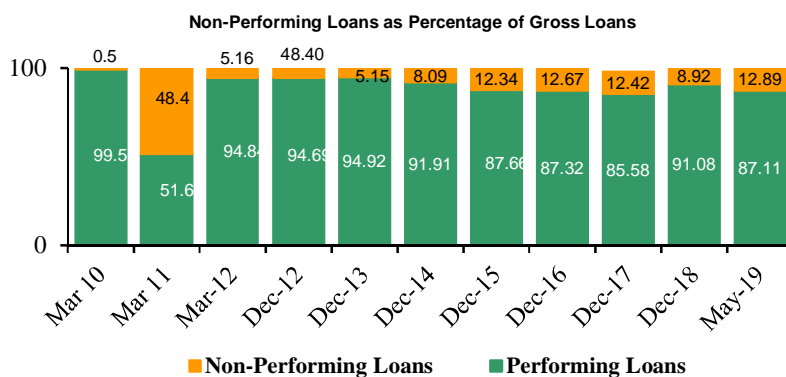
12.98 percent NPL, 10.45 percent (81.03 percent of total NPLs) is attributed to three banks. These three banks hold 55.43 percent of the system's gross loans and 24.24 percent of system's regulatory capital. While the net-NPL ratio of the banking sector recorded at 4.75 percent.

Group wise analysis show that out of Af 5.65 billion total NPLs, Af 5.27 billion NPL is coming from private banks making 12.02 percent of the banking sector total gross loans (93.25 percent of banking sector total NPLs) and Af 262 million is attributed to one state-owned bank constituting 0.60 percent of the banking sector total gross loans (4.64 percent of banking sector total NPLs), and one branch of a foreign bank reported Af 119 million NPL making 0.27 percent of banking sector total gross loans (2.10 percent of banking sector total NPLs).

Eight banking institutions in total provided Medium, Small and Micro Loans.

Item amount in Af million	Mar, 2019	As %age of total gross loans
Medium Loans	1,310	3.12
Small Loans	1,105	24.58
Micro Loans	4,872	13.01

Breakdown of Gross Loans as of May, 2019 (million Af)	
State-owned Banks	5,157.10
Private Banks	38,368.13
Branches of foreign Banks	309.83
<b>Total</b>	<b>43,835.06</b>



Graph No.6

The sector wide and Province wide distribution of the banking sector's loan portfolio as of March 2019 and May, 2019 are given in the tables below.

The designation of Loans geographically and institutionally is not properly diversified, but it is expected that with time the distribution of loans will improve. It is desirable that all banks take active part in lending, so as to diversify lending services in country.

### Sector wide Designation of Loans as of Mar, 2019

	Sectors	As %age of Total Loans
<b>1</b>	<b>Commercial Real Estate and Construction</b>	<b>8.52%</b>
	Construction and Buildings	8.52%
<b>2</b>	<b>Infrastructure Projects</b>	<b>8.72%</b>
	Power	0.09%
	Road and Railway	2.51%
	Dams	0.36%
	Mines	0.51%
	Other infrastructure projects	5.26%
<b>3</b>	<b>Manufacturing and Industry</b>	<b>11.24%</b>
	Manufacturing & Products of Metal wood plastic rubber leather paper	3.73%
	Manufacturing handmade and machine products	3.94%
	Cement and Construction Materials	3.57%
<b>4</b>	<b>Trade</b>	<b>43.95%</b>
	Textile	2.15%
	wholesale	3.40%
	Machineries	0.48%
	Petroleum and Lubricants	13.07%
	Spare parts	1.81%
	Electronics	3.02%

	Comment and other construction Material	3.07%
	Food Items	6.00%
	All other Items	8.15%
	Retail trading	2.80%
<b>5</b>	<b>Service</b>	<b>20.81%</b>
	Education	0.04%
	Hotel and Restaurant	2.57%
	Telecommunication	6.44%
	Ground Transportation	3.52%
	Air Transportation	1.19%
	Health and Hygienic	1.33%
	Media, Advertisements, Printer	1.20%
	All other Services	4.53%
<b>6</b>	<b>Agriculture, Livestock and farms</b>	<b>4.63%</b>
	Agriculture	0.68%
	Livestock and farming	<b>3.95%</b>
<b>7</b>	<b>Consumer Loans</b>	<b>2.13%</b>
<b>8</b>	<b>Residential Mortgage Loans to Individuals</b>	<b>0.00%</b>
<b>9</b>	<b>All Other Loans</b>	<b>0.00%</b>
	<b>Total</b>	<b>100.00</b>

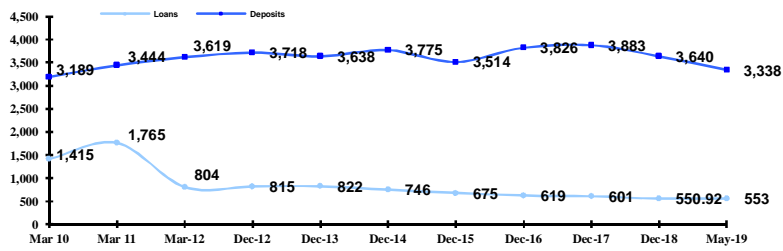
<b>Loans designated inside Afghanistan (Province wide designation of loans) May, 2019</b>			
<b>No.</b>	<b>Provinces</b>	<b>Loans in million Af</b>	<b>Expressed as % of Total Loans</b>
1	Kabul	31,074.38	70.9
2	Balkh	4,441.39	10.13
3	Herat	3,542.22	8.08
4	Badghis	1,255.13	2.86
5	Kandahar	732.58	1.67
6	Badakhshan	516.29	1.18
7	Baghlan	466.8	1.07
8	Bamyan	293.81	0.67
9	Faryab	293	0.67
10	Jawzjan	268.04	0.61
11	Saripul	240.02	0.55
12	Parwan	182.33	0.42
13	Takhar	172	0.39
14	Samangan	154.06	0.35
15	Nangarhar	121.04	0.27
16	Kunduz	75.99	0.17
17	Other	5.98	0.01
	<b>Total</b>	<b>43,835.06</b>	<b>100.00</b>

<b>Outreach data of MISFA Partners as of Mar, 2019</b>	
MISFA Partners	4
Provinces	14
Districts	81
Active clients	261,857
Active borrowers	137,994
No. of loans disbursed (cumulative)	1,333,960
Amount of loans disbursed, (cumulative) (AF Billion)	91.80
No. of loans outstanding	137,994
Gross loans outstanding, (AF Billion)	9.33
Client voluntary savings outstanding, (AF Billion)	2.71
Percentage of female clients	28.9
Women borrowers	47,965
Rural (Loans outstanding) (AF Billion)	1.86
Urban (Loans outstanding) (AF Billion)	7.47
Source:	<a href="http://www.misfa.org.af">www.misfa.org.af</a>

### 6.3 Total Deposits

Total deposits comprising of customer and interbank deposits, the main source of funding and the major component of liabilities, stand at Af 264.59 billion (USD 3.33 billion), making 97.34 percent of total liabilities, increased by 4.09 percent yoy basis, against Af 254.18 billion (USD 3.56 billion) with 6.43 percent growth in May, 2018. Out of this, deposits from customers stands at Af 259.17 billion (USD 3.27 billion) making 95.35 percent of the total deposits increased by 4.16 percent YOY basis. The increase in total deposits came from the increase in USD rate against the AF currency.

Af-denominated customer deposits of the banking sector are Af 75.59 billion (USD 954 million), or 29.16 percent of the total customer deposits, decreased by 2.04 percent, while the USD-denominated customer deposits of the banking sector stands at Af 166.19 billion (USD 2.09 billion), or 64.12 percent of total customer deposits increased by 9.10 percent attributed to increase in USD rate. Private Banks have the highest percentage share in total deposits of the sector, standing at 66.58 percent followed by state-owned banks with 28.55 percent share, while the share of the branches of foreign banks was 4.86 percent. Graph No.7 depicts the trends in deposits and loans.



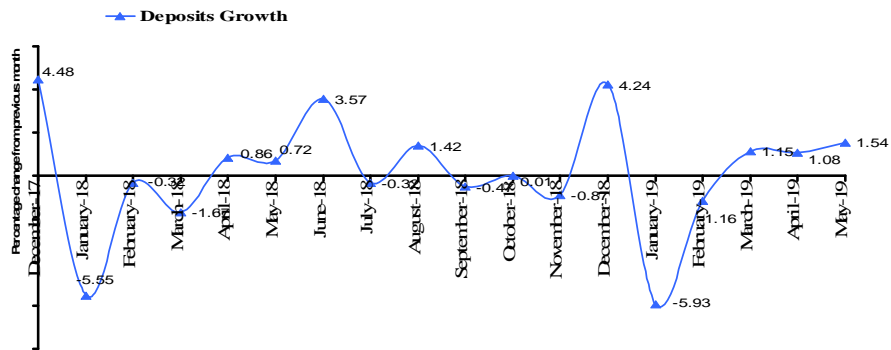
Figures in USD Million

Graph No.7

### 6.3.1 Deposits growth

Deposits of the banking sector mostly had an increasing trend in 2018, touching the highest points in June and Dec, 2018 mainly ascribed to customer demand deposits.

The main source of funding in the banking sector showed an increase of 1.54 points over the previous month mainly coming from increase in USD rate against Af. The monthly trend is shown the graph No.8



Graph No.8

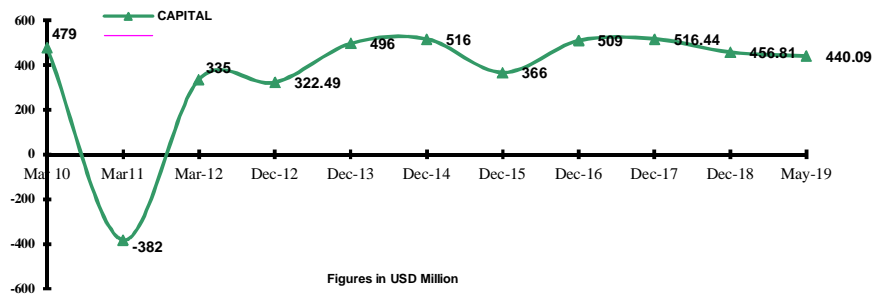
Breakdown of Deposits by Type as May, 2019 (million Af)			
Item	Customer deposits	Interbank deposits	Total deposits
Demand	187,601.64	1,059.36	188,661.00
Time	17,839.65	4,361.53	22,201.18
Savings	53,727.43	3.57	53,731
<b>Total</b>	<b>259,168.72</b>	<b>5,424.46</b>	<b>264,593.18</b>



## 6.4 Total Capital

The banking sector is well capitalized, making 11.37 percent of total assets. The net equity position of the sector recorded at Af 34.88 billion (USD 440.09 million), decreased by 2.26 percent YOY, mainly attributed to payment of dividends and getting in a receivership of a private bank. CAR of the sector recorded at 25.95 percent against 27.92 percent in May, 2018 showing 1.97 percent decrease over the year.

The regulatory capital ratios of all banks except one bank are above the minimum regulatory threshold (12% of RWA). The trend of the banking sector financial capital as described above is given in the graph No.9



Graph No.9

## 6.5 Profitability

### 6.5.1 Month – to – Month:

The banking sector earned Af 445 million net profits in the current month ending May, 2019, against Af 376 million net profits in April, 2019 showing an improvement over the month. Out of 14 duly-licensed commercial banks, four banks ended with Af 184 million net-losses compared to Af 17 million net-losses incurred by three banks in April, 2019. The main contributors to the profitability of the banking sector in the current month are increase in noninterest income, net interest income, FX gains and decrease in salary expenses and tax expenses. However, credit provision and other expenses increased over the month.

The median for the spread between returns on loans and cost of funds, a measure of banks' operational efficiency recorded at 10.84 percent increased from 10.49 percent in April, 2019. Three banks fall

below the median for the current month ending May, 2019. While for eight banks the spread could not be calculated<sup>5</sup>.

### 6.5.2 Banking sector Profitability on Cumulative basis: (Jan- May, 2019 – Jaddi- Sawr 1398)

In terms of the profitability, on cumulative basis the banking sector recorded Af 927 million (USD 11.69 million) net profit for the first five months of fiscal year 1398 (May, 2019) against Af 368 million net-profits recorded in the same period last year, showing an improvement over the year. Resulting in ROA<sup>6</sup> of 0.64 percent annualized against 0.29 percent annualized in May, 2018.

The factors contributed towards the increase in the profitability of the banking sector in May, 2019 on cumulative basis compared to May, 2018 was increase in FX gains, net-interest income and non-interest income, while noninterest expenses, tax expenses and credit provision increased in the period under review.

Group wise analysis reveals that State-Owned Banks (SOB), Private Banks (PB) and Branches of foreign banks (BFB) ended with profits. See figure 10.

Profitability of the banking sector is mostly attributed to State owned Banks standing at Af 515 million, with annualized ROA of 1.45 percent against Af 329 million net-profits in the same preceding period, Private Banks earned net-profits amounted to Af 302 million with annualized ROA of 0.36 percent against Af 348 million net-losses in May, 2018, while branches of foreign banks were Af 110 million profitable with annualized ROA of 0.39 percent in May, 2019 against Af 387 million net-profits in May, 2018.

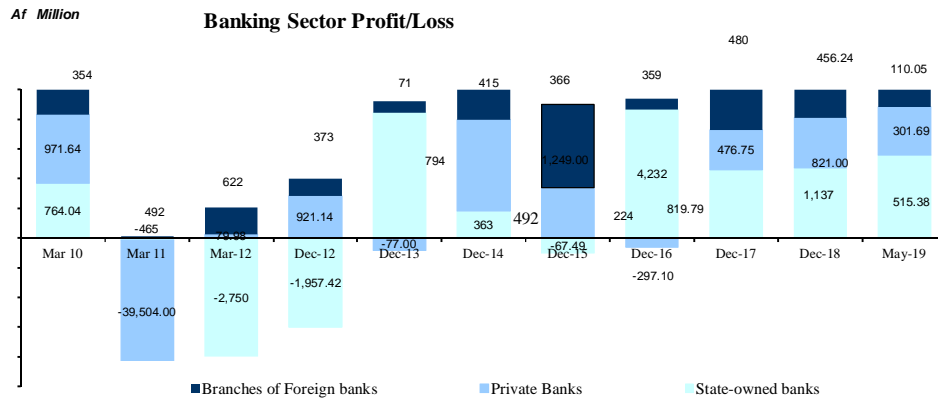
Three banks incurred losses of Af 195 million, against Af 1.04 billion losses in the previous period (May, 2018) with three banks at loss. On core income basis eight

banks ended with losses against seven banks in the previous period. The trend of the banking sector net profit/loss is given in the graph below.

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<sup>5</sup> Spread (difference between the weighted average interest on new loans and deposits) is calculated on monthly basis, so for the month if a bank does not have any new loans or new deposits or both, the spread would not be calculated for that bank or banks.

<sup>6</sup> ROA (Return On Assets)



Graph No.10

## 6.6 Liquidity

Overall all banking institutions are above the set minimum for the broad liquidity ratio (**15 percent**) and the Quick Liquidity Ratio (**20 percent**). Broad liquidity ratio of the banking sector as a median stands at 75.82 percentage points against 60.90 percent in the preceding period (May, 2018), showing an increase of 14.92 points.

According to Mar, 2019 available data, concerning the concentration of the customer deposits the sector as a whole appears to be very concentrated in large deposits (deposits in accounts over Af 5 million) which makes up to 59.24 percent of total customer deposits and consists of 5,552 accounts. This could be judged as quite volatile. Moreover, the average size of these large deposit accounts is high, though increased to Af 26.92 million from Af 26.71 million in the previous quarter.

## 6.7 Open FX Position

All banking institutions are within the set regulatory threshold for overall open FX position (**± 40 percent**) and on an individual currency (**± 20 percent**) basis except for five banks, which have violated the limits on overall and on an individual currency basis (USD and EURO long position).

Total number of employees, borrowers, depositors and other-clients of the banking sector as of Mar, 2019 all across the country are as follow:

<b>Particulars</b>	<b>No</b>
Full-time Afghan Employees	9,370
Full-time Foreign Employees	69
Present Borrowers	74,403
Present Depositors	3,676,962
Number of loan file where borrower president or vice president is a woman	15,593
Other clients other than borrowers & depositors <sup>7</sup>	7,870

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<sup>7</sup> Customers of the bank who have been issued bank guarantees, letters of credit, or any other types of guarantees and commitments