

**Da Afghanistan Bank**  
**Monetary Policy Department**

**Monthly Report**

**December 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 352,755.78million at the end of Qaws, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 9.68 percent growth under the ceiling since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 293,341.38 million at the end of Qaws month, whereas the actual CiC recorded Af 259,349.98 million in weekly report at the beginning of FY1399 (2020), and shows 13.11 percent growth under the ceiling.

Since the beginning of fiscal year of 1399 (2020) up to end of Qaws, DAB has auctioned a total amount of USD 2,127.42 million through open market operations, and has collected Af 163.42 billion from the market. Besides, Dab sold USD 254 m to DABs through commercial banks, and has collected Af 19.52 billion form the market. These operations have fulfilled 29.15 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation increased in the month of November 2020 year over year basis. The year over year inflation increased to 6.43 percent in November from 5.99 percent observed in the previous month. This increase is caused by higher prices of both food and non-food items.

The balance of payments (BOP's) current account deficit decreased by 13 % to a value of USD 893.51 million in the third quarter of the FY 1399 from a value of USD 1,028.38 million recorded in the third quarter of the FY 1398.

The decline in current account deficit was mainly due to an expansion in official grants, increasing in personal transfers as well as increasing in services account related receipts during the third quarter of the FY 1399.

Total revenue (domestic revenue plus external aids) for the month of December 2020 is AFN 91.73 billion, while in November it was AFN 24.16 billion which shows 279.66% or AFN 67.57 billion increase in December. Total revenue from the start of FY-2020 till end of December reached to AFN 393.37 billion that is combination of AFN 219.68 billion donor contributions and AFN 173.68 billion domestic revenue respectively.

The banking sector performed on average during November, 2020 compared to Aug, 2020. The main financial indicators as Total Assets and deposits decreased while equity capital increased. The impact of decrease in total assets was observed mainly in interbank claims and cash in vault & claims on DAB, however investment in bonds and gross loans increased. The banking sector remained profitable though decreased since last quarter. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. The main points of the Post C 19 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 parties such as ACGF, IFC, USAID etc

Table of content

<b>Monetary Sector</b> .....	<b>5</b>
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report .....	5
1.2 Net International Reserve.....	5
1.3 Foreign Exchange and Capital Notes Auction.....	6
1.5 Exchange Rate.....	10
<b>2. Real Sector</b> .....	<b>14</b>
Headline inflation.....	14
<b>FOOD INFLATION</b> .....	<b>15</b>
Non-Food Inflation.....	16
<b>CORE INFLATION</b> .....	<b>17</b>
<b>3. External sector</b> .....	<b>18</b>
3.1. CURRENT ACCOUNT BALANCE.....	18
3.2. GOODS ACCOUNT .....	18
3.3. SERVICES ACCOUNT.....	19
3.4. PRIMARY INCOM ACCOUNT:.....	19
3.5. SECONDARY INCOME ACCOUNT:.....	19
3.6. CAPITAL ACCOUNT BALANCE:.....	20
3.7. FINANCIAL ACCOUNT BALANCE:.....	20
<b>4. Fiscal Sector</b> .....	<b>22</b>
<b>5. Swift</b> .....	<b>25</b>
<b>6. Banking Sector</b> .....	<b>25</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>25</b>
<b>SECTOR AT A GLANCE</b> .....	<b>26</b>
<b>INTRODUCTION</b> .....	<b>28</b>
<b>6.1: ASSETS OF THE BANKING SECTOR</b> .....	<b>29</b>
6.2: Loan Portfolio.....	31
6.2.1: Quality of Loans.....	32
6.2.2: Type of Loans.....	34
6.2.3: Sector-wise Designation of Loans .....	35
6.2.4: Related Party Exposure .....	35
6.2.5: Repossessed Assets.....	35
<b>6.3: LIQUIDITY OF THE BANKING SECTOR</b> .....	<b>36</b>
6.3.1: Liquid Assets .....	36
6.3.2: Required Reserves .....	37
6.3.3: Interbank Claims.....	37
6.3.4: Foreign Accounts and Placements .....	38
6.3.5: Deposits .....	38
<b>6.4: CAPITAL OF THE BANKING SECTOR</b> .....	<b>41</b>
<b>6.5: PROFITABILITY OF THE BANKING SECTOR</b> .....	<b>42</b>
<b>6.6: OFF-BALANCE SHEET ITEMS</b> .....	<b>46</b>

## Monetary Sector

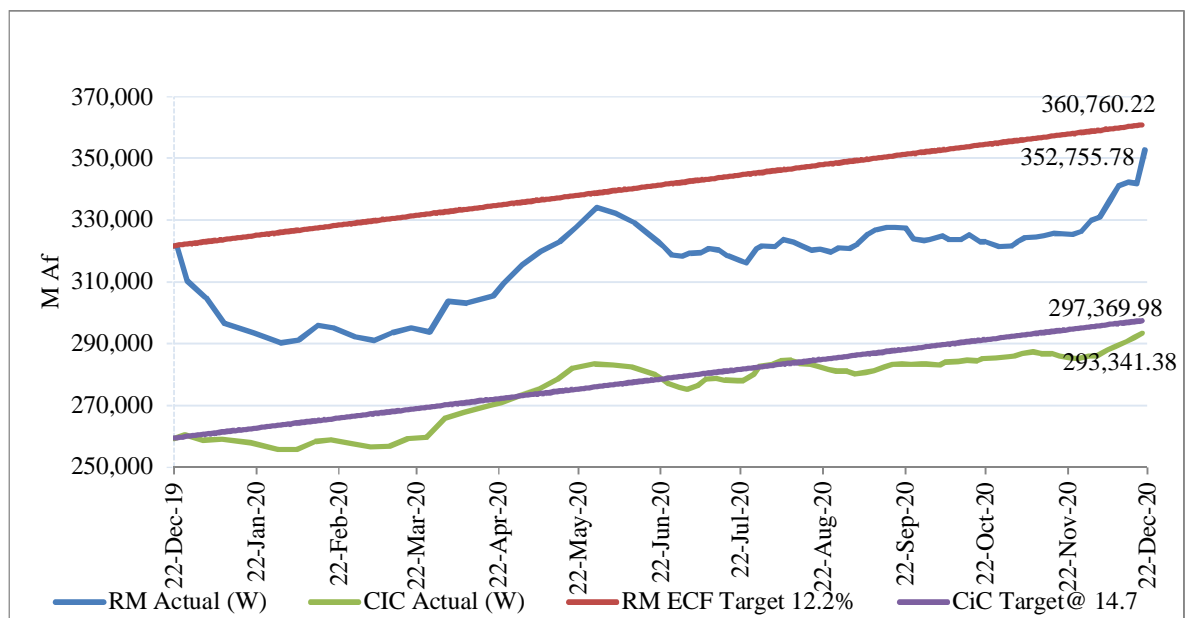
### 1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

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 352,755.78million at the end of Qaws, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 9.68 percent growth under the ceiling since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 293,341.38 million at the end of Qaws month, whereas the actual CiC recorded Af 259,349.98 million in weekly report at the beginning of FY1399 (2020), and shows 13.11 percent growth under the ceiling.

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



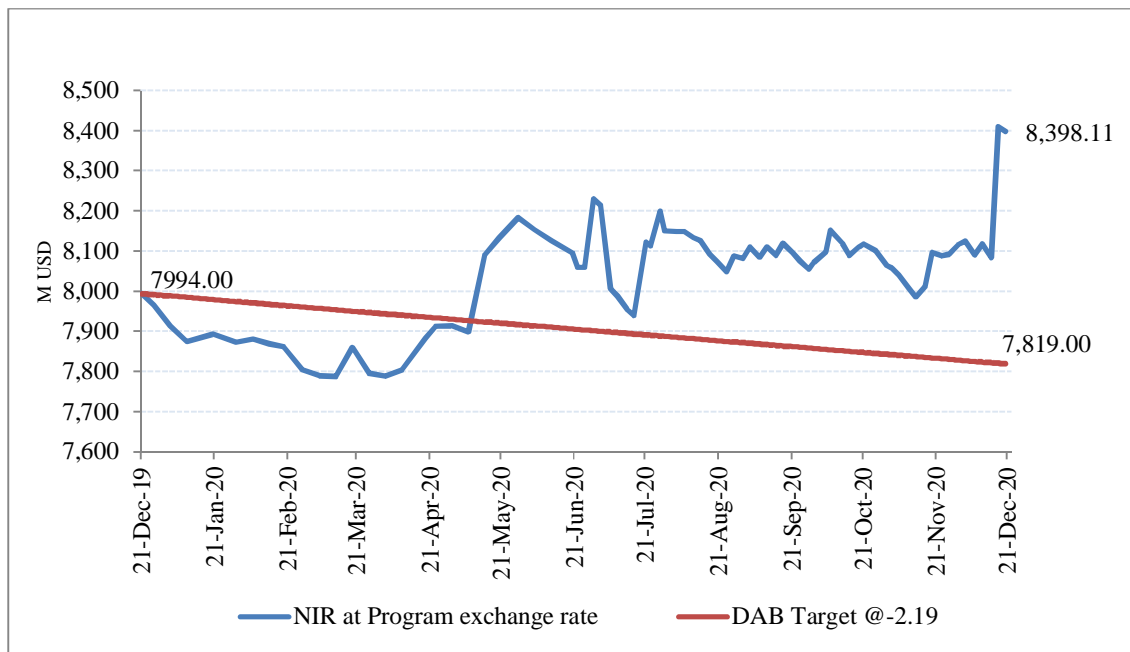
Source: Open Market Operations/Monetary Policy Departments

### 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 in program exchange rate was set USD 7,994.00 million, but actual amount reached to USD 8,398.11 million at the end of Qaws month, which shows USD 403.85 million accumulation.

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



Source: Open Market Operations/Monetary Policy Departments

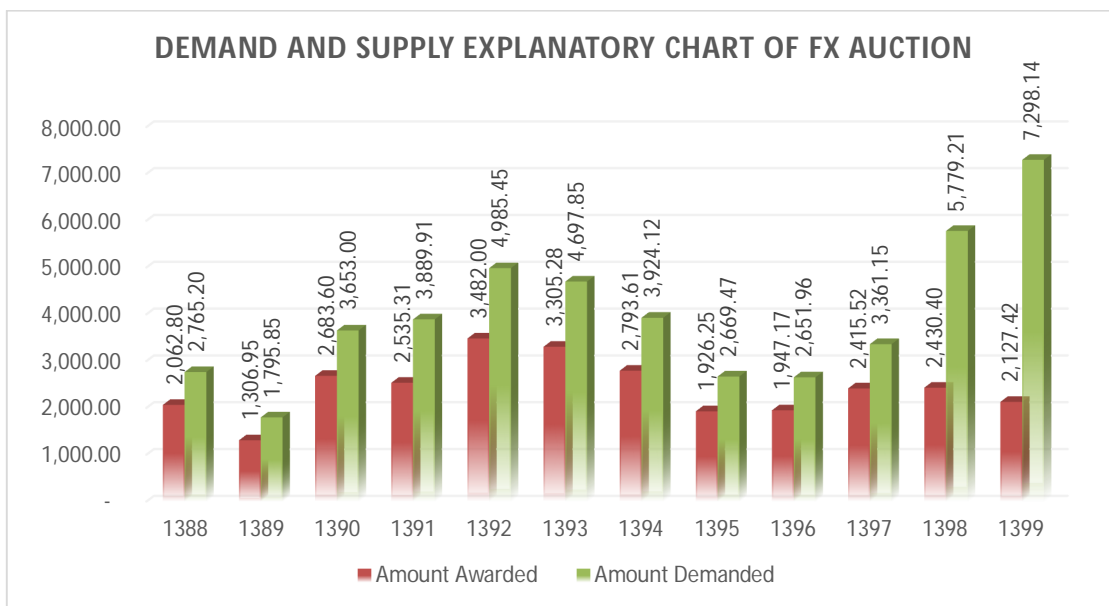
### 1.3 Foreign Exchange and Capital Notes Auction

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 Qaws, DAB has auctioned a total amount of USD 2,127.42 million through open market operations, and has collected Af 163.42 billion from the market. Besides, Dab sold USD 254 m to DABs through commercial banks, and has collected Af 19.52 billion form the market. These operations have fulfilled 29.15 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.**



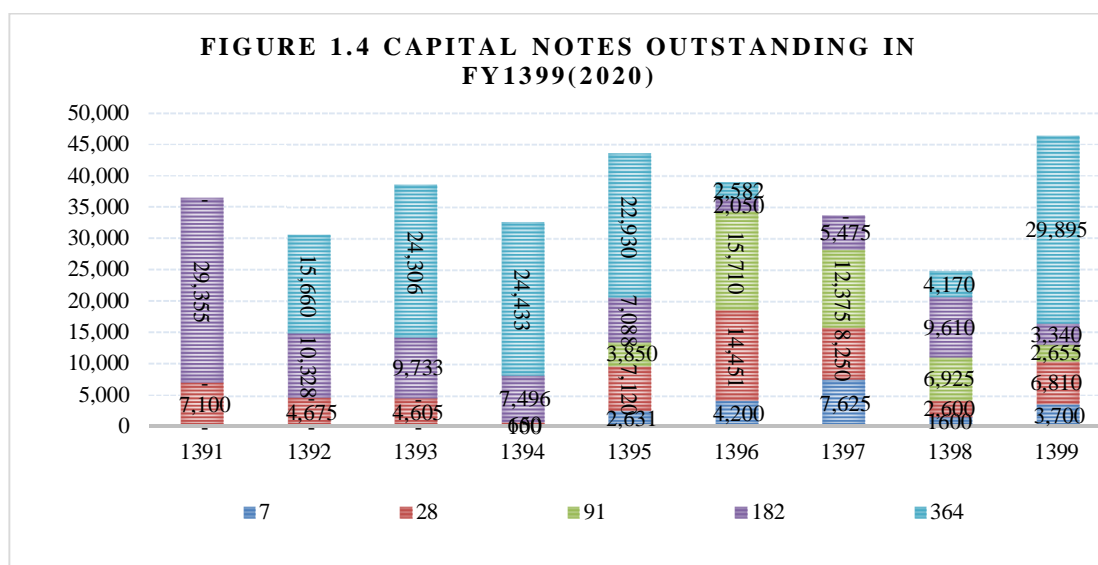
Source: Market Operations/Monetary Policy Departments

### 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 Qaws, the total outstanding of capital notes reached Af 46.40 billion and meanwhile the total interest paid for the mentioned notes reached Af 655.17 million at the end of this month.

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

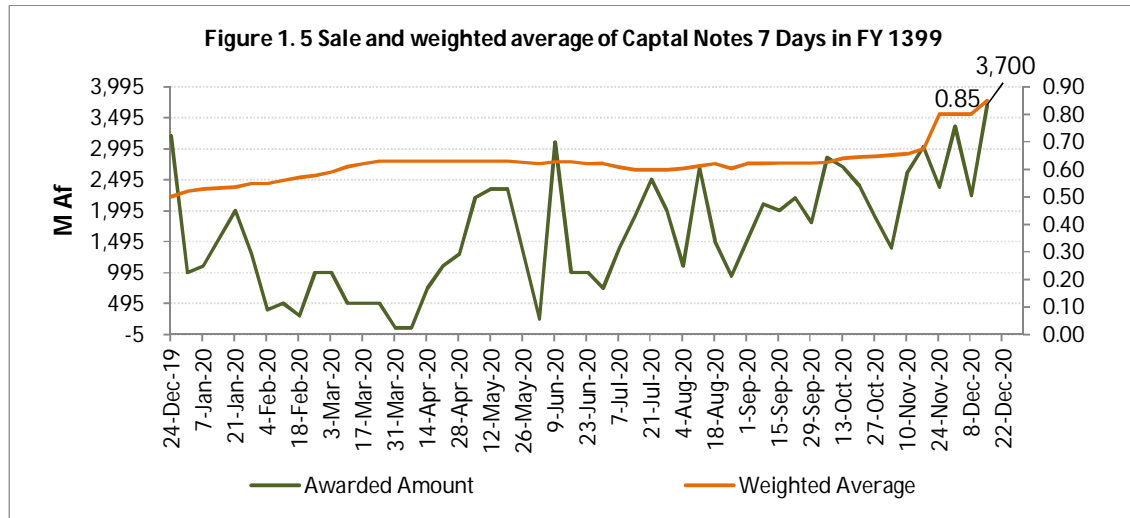


Source: Market Operations/Monetary Policy Departments

## 7 days Capital Notes

The awarded amount of 7 days' capital notes auction at the end of Qaws reached Af 3.70 billion with average interest rate of 0.85 percent. The outstanding of these notes is stood Af 3.70 billion for the mentioned period.

**Figure 1.5 Sale and weighted average of Capital Notes 7 Days in FY 1399**

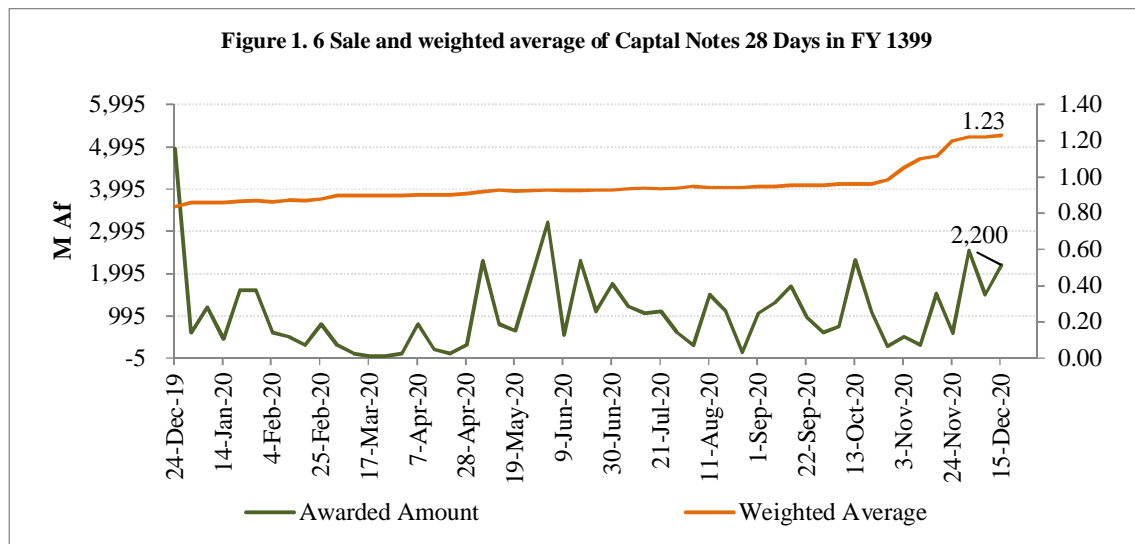


Source: Market Operations/Monetary Policy Departments

## 28 days Capital Notes

During the reviewed period, awarded amount of 28 days' capital notes auction at the end of Qaws is recorded Af 2.20 billion with average interest rate of 1.23 percent and outstanding amount of Af 6.81 billion.

**Figure 1.6 Sale and weighted average of Capital Notes 28 Days in FY 1399**



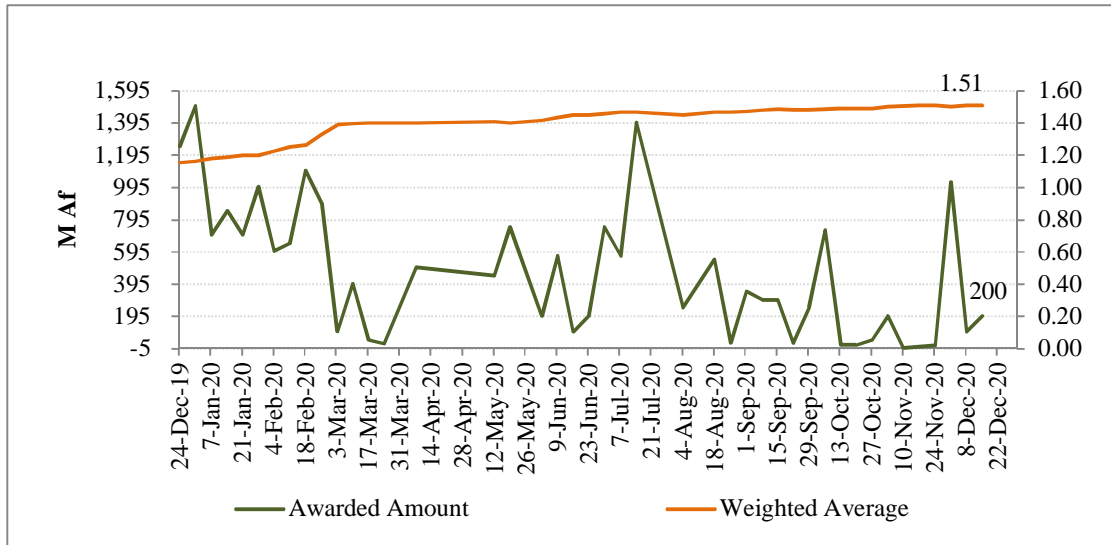
Source: Market Operations/Monetary Policy Departments



## 91 days Capital Notes

DAB's 91 days' capital notes auction awarded amount during this reporting period stood at Af 0.2 billion at the end of Qaws with average interest rate of 1.51 percent and total outstanding of Af 2.65 billion.

**Figure 1.7 Sale and weighted average of Capital Notes 91 Days in FY 1399**

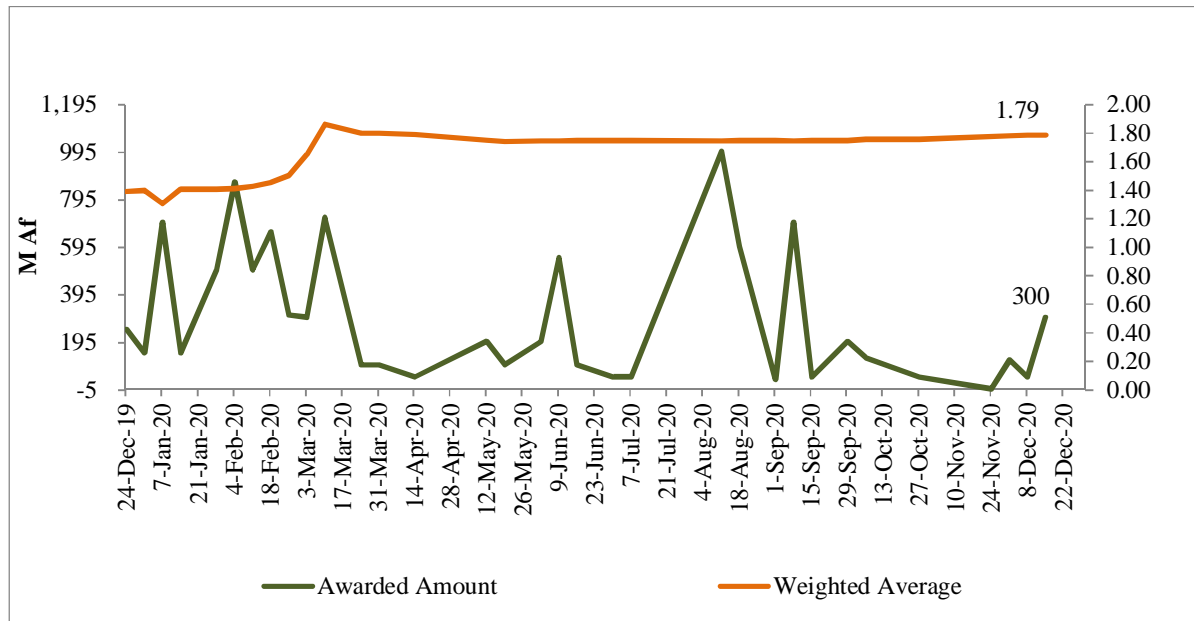


Source: Market Operations/Monetary Policy Departments

## 182 days Capital Notes

DAB's 182 days' capital notes auction awarded amount during this reporting period stood at Af 0.3 billion at the end of Qaws with average interest rate of 1.79 percent and total outstanding of Af 3.34 billion.

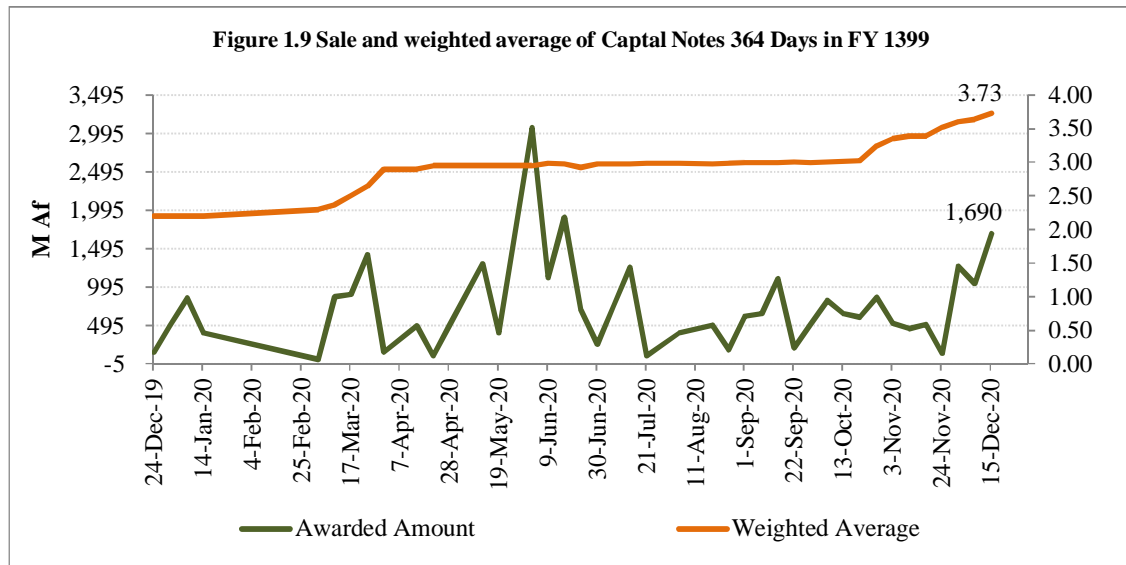
**Figure 1.8 Sale and weighted average of Capital Notes 182 Days in FY 1399**



### 364 Days Capital Notes

DAB's 364 days' capital notes auction awarded amount during this reporting period stood at Af 1.69 billion at the end of Qaws with average interest rate of 3.73 percent and total outstanding of Af 29.89 billion.

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

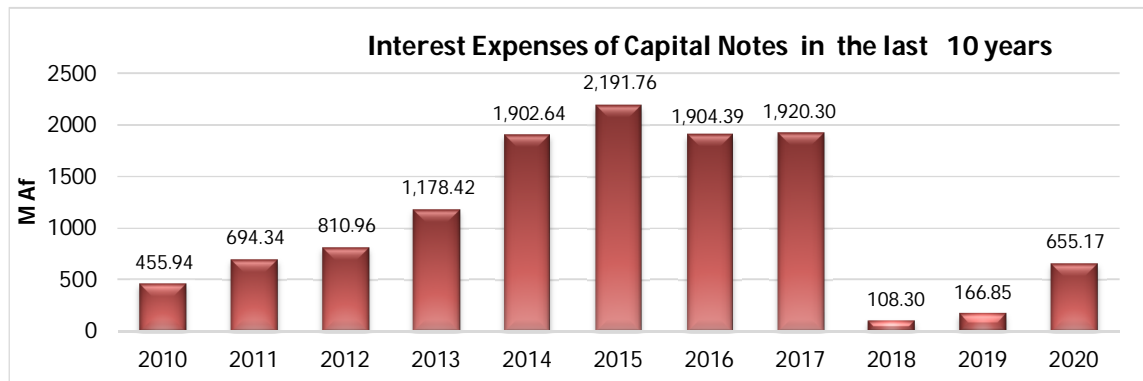


Source: Market Operations/Monetary Policy Departments

### Interest Expenses

DAB interest paid for Capital Notes during of 11 years till the end of Qaws month FY 1399 (2020) the figure of below illustrated.

**Figure 1.10 Interest Expenses of Capital Notes in the last 11 years**



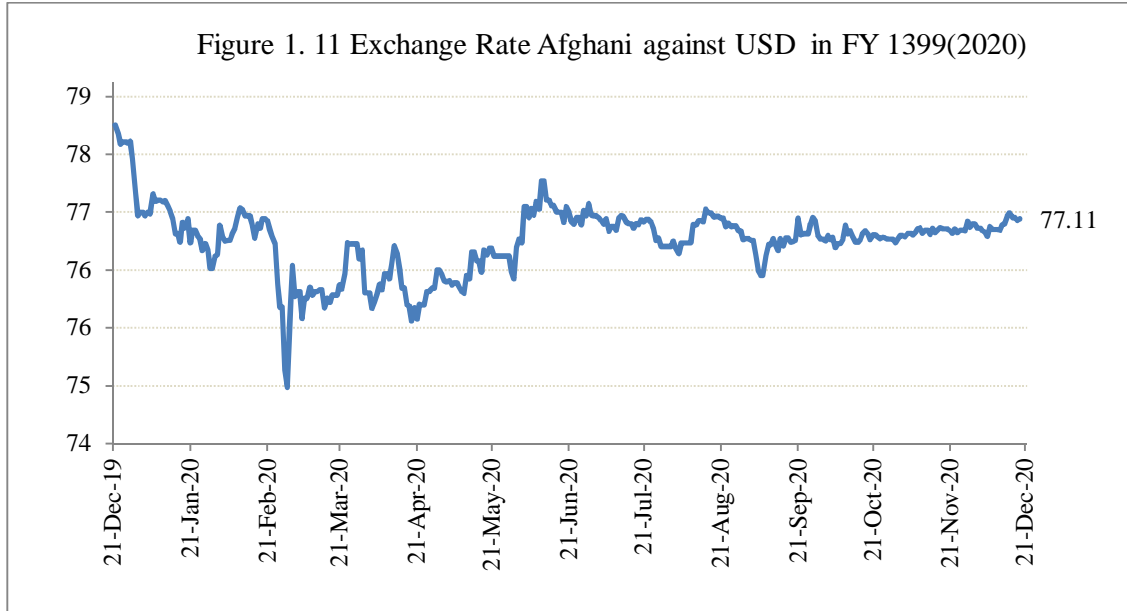
### 1.5 Exchange Rate

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 1.69 percent, and has been exchanged at 76.80 per USD on average and recorded at Af 77.11 exchanged at the end of Qaws month.

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

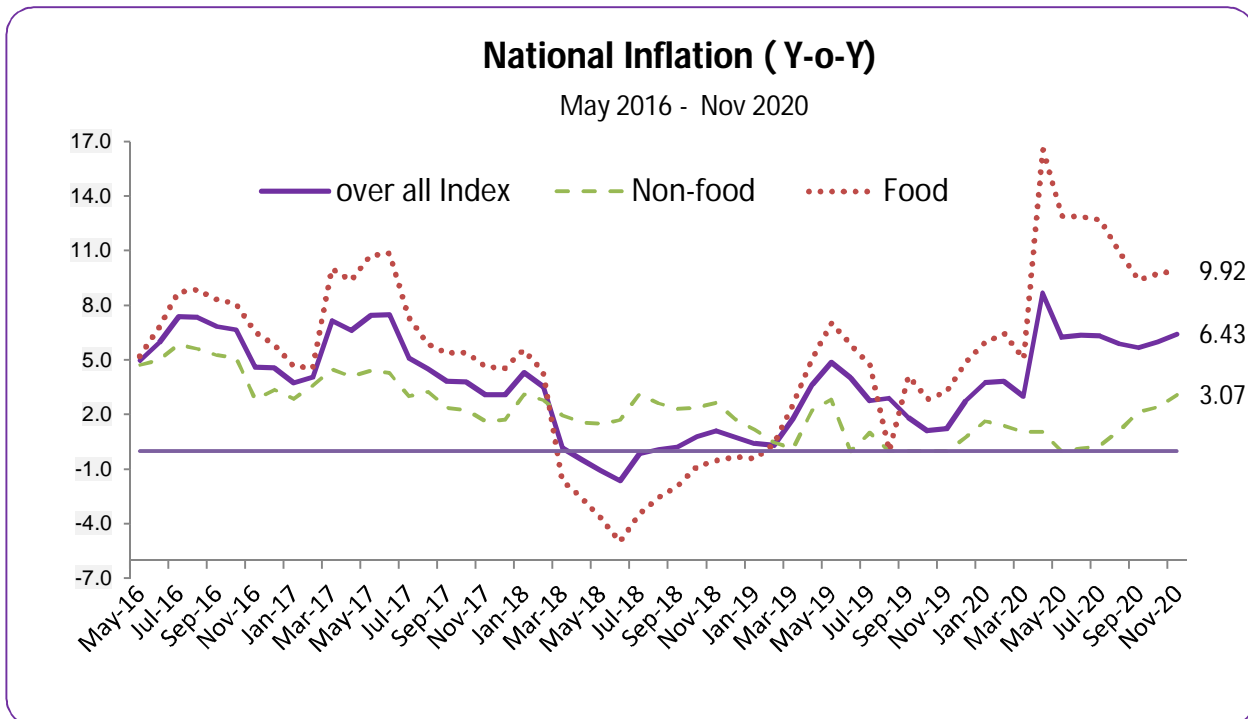


Source: Market Operations/Monetary Policy Departments

The table of Monetary Indicators

itemes	1398 FY					1399 FY				
	Hoot	Jawza	Sunbula	Aqrab	Qaws	Hoot	Jawza	Sunbula	Aqrab	Qaws
Reserve Money Target (%)	12					12				
Actual Reserve Money (%)	-5.6	-4.5	1.19	2.2	12	-8	0.42	1.82	1.23	9.68
RM Actual	255627.49	259654.32	275042.98	294628.03	304625.71	295224.52	322978.27	327473.80	325592.30	352755.78
RM Target	280267.14	305491.17	314327.17	320027.82	322878.14	331039.94	340873.85	350707.77	357535.12	360867.72
CiC Actual	222147.20	231598.67	244489.52	255165.73	259350.77	259302.12	279989.89	283438.22	285992.98	293341.38
CiC Target	233785.34	241897.91	248894.55	253408.50	255665.48	266938.63	274868.34	282798.06	294236.46	297474.43
Actual NIR	7702.51	7691.22	7868.70	7978.50	7873.60	7711.85	8128.78	8334.40	8097.45	8398.11
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7846.07	7919.41	7919.41	7833.74	7819.00
Outstanding Amount	26665	27020	23920	23075	24905	30455	34495	39590	41110	46400
Required Reserve (Af)	5768.54	10923.40	2,657.34	5442.18	5734.43	5928.75	6271.67	6,914.36	7118.90	7314.98

## 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 increased in the month of November 2020 year over year basis. The year over year inflation increased to 6.43 percent in November from 5.99 percent observed in the previous month. This increase is caused by higher prices of both food and non-food items.

Considering price changes in the short-term (month-to-month), headline inflation increased to 1.17 percent from 0.52 percent. Based on this measure, food items increased to 1.30 percent from 0.50 percent and non-food items also increased to 1.03 percent from 0.55 percent.

**Table 1. Headline Inflation ( October 20 - November20)**

	Y-o-Y		M-to-M	
	October	November	October	November
<b>National CPI</b>				
<b>Headline</b>	5.99	6.43	0.52	1.17
<i>Food</i>	9.75	9.92	0.50	1.30
<i>Non-Food</i>	2.42	3.07	0.55	1.03

**FOOD INFLATION** increased in month of November 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in November 2020, when measured year over year basis, increased to 9.92 percent compared to 9.75 percent calculated in previous month. This increases come from higher prices of milk, cheese and eggs, fresh and dried fruits, vegetables, sugar and sweets.

**Fresh and dried Fruits** prices increased in the month of November 2020. Observing the data, during the review period, this index which comprises of 5 percent of the whole index increased to 14.25 percent (year over year) from 10.52 percent recorded in the previous month. Measuring month-to-month basis this index is also increased in the month of November to 4.25 percent from -1.65 percent compare to the previews month.

the main reasons behind increase in the price of this index are, Afghanistan's exports in past nine months through air- corridor shows 15 percent increase compare to same period of previous year. Also many cold storage has started working, which has the capacity to store fresh fruits and not to be sold at cheaper price during this season in domestic market.

**Vegetables price index** which is dedicated for 6 percent of the overall index, increased to 13.75 percent (year over year) from 11.97 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has decreased to 6.83 percent; however, it was recorded 11.00 percent in the previous month.

one of the main reasons behind increase of this price index is seasonal effect, normally during the autumn season price of this index gets increase. Also many cold storage has started working, which has the capacity to store and not to be sold at cheap price during this season in market.

**Price index of sugar and sweets** increased year over year basis. This index which comprises around 2.7 percent of the consumer price index increased to 5.77 percent (year over year) from 3.74 percent.

On the other hand, when measured month to month basis, this index also increased to 1.06 from -0.98 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

the main reason behind increase of the price in this index is the international sugar prices, price for sugar in international market went up by 3.33% in November 2020.

**Table 2.2. Food and Non-alcoholic beverage Inflation (October 20- November 20)**

Items	Weight	Y-o-Y		M-to-M	
		October	November	October	November
<b>Food and Non-alcoholic Beverages</b>	47.8	9.75	9.92	0.50	1.30
<i>Bread and Cereals</i>	14.6	12.43	10.93	-1.54	-0.05
<i>Meat</i>	7.5	10.96	10.56	0.67	-0.24
<i>Milk, cheese and eggs</i>	4.7	3.30	4.29	1.15	1.05
<i>Oils and fats</i>	4.6	11.98	11.62	-2.39	-0.51
<i>Fresh and dried fruits</i>	5.0	10.52	14.25	-1.65	4.25
<i>Vegetables</i>	6.0	11.97	13.75	11.00	6.83
<i>Sugar and sweets</i>	2.7	3.74	5.77	-0.98	1.06
<i>Spices</i>	1.3	-2.47	-4.98	3.08	1.12
<i>Non-alcoholic beverages</i>	1.4	3.54	2.93	0.25	-0.64

**Source :**Da Afghanistan Bank /NSIA

## Non-Food Inflation

inflation in non-food items exhibited upwards trend in the month of November 2020. Year over year basis, non-food inflation increased to 3.07 percent from 2.42 percent observed in the previous month. This increase mainly comes from higher prices of tobacco, clothing, housing, furnishing and household goods, communication, and miscellaneous.

**Price index of housing, electricity, water and gas** increased in November 2020. On year over year basis, this index increased to 2.26 percent from 0.56 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 also increased to 1.77 percent from 0.87 percent.

due to poor electricity services in country, and cold weather demand for consumption gas, wood and other fuel material has been increased. Also due security situation in rural area most of people from provinces have migrated to capital city Kabul, that has caused increasing rent for houses.

**Price index of furnishing and household goods** increased in the month of November 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 4.92 percent from 4.30 percent. in the meantime, when measured on month to month basis this index increased to 0.61 percent from 0.08.

most of the household goods import from neighbor's countries, particularly from Iran and Pakistan and price of household goods in Iran due to increase in price of raw materials has increased, which led to increase the price of mentioned index. also due to Covid-19 volume of trade with China, India and Iran has been decreased during the period which is considered important factor behind increase of this price index.

**Education price index**, increased in the month of November. Observing the data, this index increased to 7.02 percent from 5.29 percent (year over year), this index is decreased to 0.73 percent from 1.47 percent (month to month).

## 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.

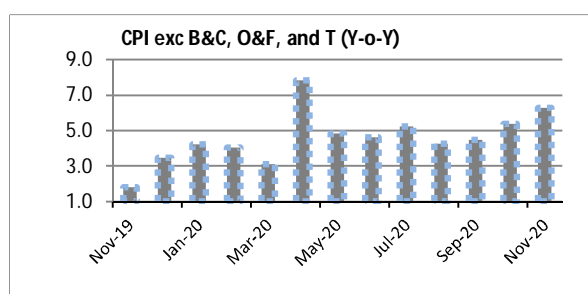
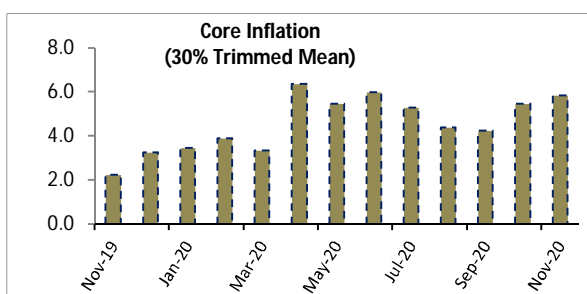
One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During November 2020, trimmed mean (30 % of CPI) increased to 5.85 percent (year over year) from 5.47 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 6.30 percent compared to 5.39 percent recorded in the previous month. Inflation by this measure increased on month to month basis to 1.61 percent from 1.16 percent.



Core Measures	Y-on-Y		M-to-M	
	Oct	Nov	Oct	Nov
	30 % trimmed mean	5.47	5.85	
CPI ex B&C, O&F and T	5.39	6.30	1.16	1.61

**Source:** Afghanistan Bank and/NSIA



### 3.External sector

#### 3.1. CURRENT ACCOUNT BALANCE

The balance of payments (BOP's) current account deficit decreased by 13 % to a value of USD 893.51 million in the third quarter of the FY 1399 from a value of USD 1,028.38 million recorded in the third quarter of the FY 1398.

The decline in current account deficit was mainly due to an expansion in official grants, increasing in personal transfers as well as increasing in services account related receipts during the third quarter of the FY 1399.

#### 3.2. GOODS ACCOUNT

Base on the available data the merchandise trade deficit expanded by 25 % and stood at USD 1,725.37 million in the third quarter of the FY 1399 from a deficit of USD 1,382.43 million recorded in the third quarter of the FY 1398.

The value of total export declined by 5 % to a value of USD 198.42 million in the third quarter of the FY 1399 from a value of USD 208.77 million recorded in the similar quarter of the previous year mainly on account of fresh and dry fruits. But export of medical seeds and other recorded a notable performance in the review period.

The value of total import surged to a value of USD 1,923.79 million in the third quarter of the FY 1399 compared to a value of USD 1,591.20 million in the third quarter of the previous year, owing to improvements in all components of imports as a result of trade acceleration with trading partners (Iran, China, Pakistan, India, Uzbekistan and Tajikistan) after relaxing trade restrictions, except industrial supplies.

### 3.3. SERVICES ACCOUNT

The deficit of services account declined by 30 % to a value of USD 129.61 million in the third quarter of the FY 1399 from a value of USD 185.60 million recorded in the third quarter of the FY 1398.

### 3.4. PRIMARY INCOM ACCOUNT:

The primary income balance includes flows between general government and the rest of the world in the form of (flows from investment income, taxes, subsidies on products and production as well as compensation of employees).

Observing the statistics, the primary income account related inflows declined by 14% to a value of USD 65.35 million in the third quarter of the FY 1399 from a value of USD 75.79 million recorded in the third quarter of the FY 1398.

At the same time, primary income outflows increased by 99% to a value of USD 13.81 million in the third quarter of the FY 1399 from a value of USD6.95 million recorded in the third quarter of the FY 1398.

### 3.5. SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account increased by 110% to a value of USD 717.57 million in the third quarter of the FY 1399 from a value of USD 341.27 million recorded in the third quarter of the FY 1398.

- **Official transfers (Net);** to the Afghan government increased by 151% to a value of USD 585.7 million in the third quarter of the FY 1399 from a value of USD 233.1 million recorded in the third quarter of the FY1398.

- **Personal transfers (Net)** increased by 24 % to a value of USD 176.74 million in the third quarter of the FY 1399 from a value of USD 142.51 million recorded in the third quarter of the FY 1398.

### 3.6. CAPITAL ACCOUNT BALANCE:

Inflow to the capital account significantly decreased by 72% to a value of USD 109.53 million in the third quarter of the FY 1399 from a value of USD 391.57 million recorded in the third quarter of the FY 1398, as a result of lower inward of capital transfers to the government sector.

### 3.7. 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.

- **Direct investment**
  - ✓ FDI abroad, increased to a value of USD 10 million in the third quarter of the FY 1399 from a value of USD 4.86 million in the third quarter of the FY 1398.
  - ✓ FDI in the country also increased to a value of USD 4.78 million in the third quarter of the FY 1399 from a value of USD -4.18 million recorded in the third quarter of the FY 1398.
- **Portfolio Investment abroad:** increased to a value of USD 83.11 million in the third quarter of the FY 1399 from a value of USD -33.74 million recorded in the third quarter of the FY1398.
- **Other investment:** which is consist of currency and deposits, loans, other account Payable and receivable, trade credit and advances
  - ✓ The total value of other investment abroad (assets): recorded USD – 0.24 million in the third quarter of the FY 1399, while this figure was recorded USD – 17.86 million in the third quarter of the FY 1398.
  - ✓ At the same time total value of other investment in the country (liabilities), recorded USD 9.50 million in the third quarter of the FY 1399, while this was recorded USD 55.14 million in the third quarter of the FY 1398.

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

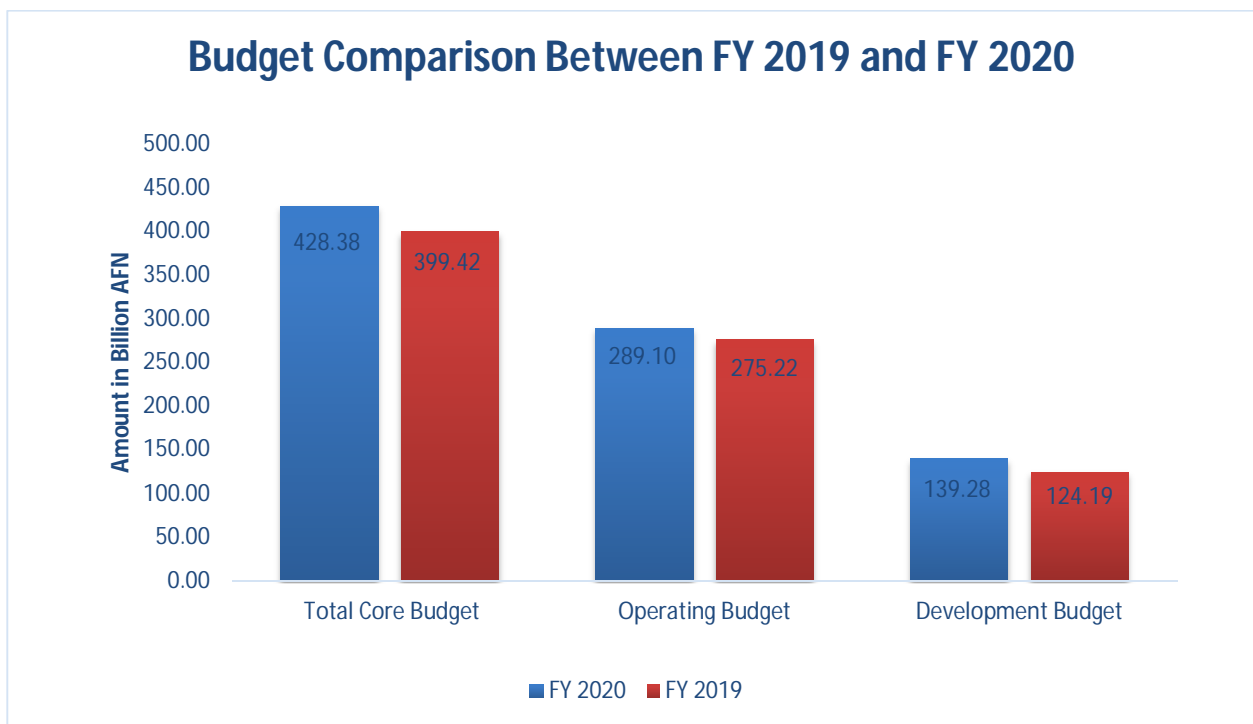
Items / Years	Q2 - 98	Q3 - 98	Q4 - 98	Q1 - 99	Q2 - 99	Q3 - 99	% change
<b>Current Account</b>	<b>-778.30</b>	<b>-1028.38</b>	<b>-708.35</b>	<b>-946.42</b>	<b>-414.33</b>	<b>-893.51</b>	<b>-13%</b>
<i>Credit</i>	1013.86	851.64	1280.46	815.50	857.16	1261.72	48%
<i>Debit</i>	1792.16	1880.02	1988.81	1761.92	1271.50	2155.22	15%
<b>Goods and Services Account</b>	<b>-1427.22</b>	<b>-1438.50</b>	<b>-1368.85</b>	<b>-1250.12</b>	<b>-1041.59</b>	<b>1662.61</b>	<b>16%</b>
<i>Credit</i>	283.90	344.64	516.73	399.73	146.63	380.24	10%
<i>Debit</i>	1711.12	1783.14	1885.57	1649.85	1188.22	2042.85	15%
<b>Goods Account</b>	<b>-1323.05</b>	<b>-1252.91</b>	<b>-1259.63</b>	<b>-1177.43</b>	<b>-960.89</b>	<b>1533.00</b>	<b>22%</b>
<i>Credit</i>	143.29	208.77	329.21	203.64	32.00	198.42	-5%
<i>Debit</i>	1466.34	1461.67	1588.84	1381.07	992.89	1731.42	18%
<b>Services Account</b>	<b>-104.17</b>	<b>-185.59</b>	<b>-109.22</b>	<b>-72.69</b>	<b>-80.70</b>	<b>-129.61</b>	<b>-30%</b>
<i>Credit</i>	140.61	135.87	187.52	196.09	114.63	181.82	34%
<i>Debit</i>	244.78	321.47	296.74	268.78	195.33	311.44	-3%
<b>Primary Income Account</b>	<b>101.08</b>	<b>68.84</b>	<b>61.07</b>	<b>63.08</b>	<b>30.21</b>	<b>51.53</b>	<b>-25%</b>
<i>Credit</i>	111.98	75.79	71.48	74.89	42.13	65.35	-14%
<i>Debit</i>	10.89	6.95	10.40	11.82	11.92	13.81	99%
<b>Secondary Income Account</b>	<b>547.83</b>	<b>341.27</b>	<b>599.43</b>	<b>240.62</b>	<b>597.04</b>	<b>717.57</b>	<b>110%</b>
<i>Credit</i>	617.99	431.21	692.26	340.88	668.40	816.12	89%
<i>Debit</i>	70.15	89.93	92.83	100.26	71.36	98.55	10%
<b>Current transfers (Official grants)</b>	<b>432.9</b>	<b>233.1</b>	<b>497.7</b>	<b>177.4</b>	<b>513.7</b>	<b>585.7</b>	<b>151%</b>
<i>Credit</i>	432.91	233.13	497.7	177.4	513.7	585.7	151%
<i>Debit</i>	0.00	0.00	0.0	0.0	0.0	0.0	
<b>Personal transfers</b>	<b>145.36</b>	<b>142.51</b>	<b>139.87</b>	<b>95.91</b>	<b>107.71</b>	<b>176.74</b>	<b>24%</b>
<i>Credit</i>	185.08	198.08	194.51	163.50	154.75	230.38	16%
<i>Debit</i>	39.72	55.57	54.64	67.59	47.04	53.64	-3%
<b>Capital account</b>	<b>241.57</b>	<b>391.57</b>	<b>504.68</b>	<b>48.21</b>	<b>107.17</b>	<b>109.53</b>	<b>-72%</b>
<i>Credit</i>	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Capital transfers</b>	<b>241.57</b>	<b>391.57</b>	<b>504.68</b>	<b>48.21</b>	<b>107.17</b>	<b>109.53</b>	<b>-72%</b>
<i>Credit</i>	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Financial account</b>	<b>27.9</b>	<b>59.0</b>	<b>10.9</b>	<b>-147.50</b>	<b>346.99</b>	<b>100.42</b>	<b>70%</b>
<b>Direct investment</b>	<b>-6.28</b>	<b>9.04</b>	<b>-1.55</b>	<b>2.91</b>	<b>-0.4</b>	<b>5.2</b>	<b>-42%</b>
Net acquisition of financial assets	5.69	4.86	5.26	6.10	2.59	10.00	106%
Net incurrence of liabilities	11.97	-4.18	6.81	3.19	3.02	4.78	-214%
<b>Portfolio investment</b>	<b>15.42</b>	<b>-33.74</b>	<b>20.16</b>	<b>-18.20</b>	<b>41.19</b>	<b>83.11</b>	<b>-346%</b>
Net acquisition of financial assets	15.42	-33.74	20.16	-18.20	41.19	83.11	-346%
Net incurrence of liabilities	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Other investment</b>	<b>-9.42</b>	<b>-72.99</b>	<b>124.26</b>	<b>-22.54</b>	<b>-290.93</b>	<b>-9.74</b>	<b>-87%</b>
Assets	-23.13	-17.86	89.24	-38.22	-74.09	-0.24	-99%
Liabilities	-13.71	55.14	-35.02	-15.67	216.84	9.50	-83%
<b>Reserve Assets</b>	<b>28.13</b>	<b>156.66</b>	<b>-131.94</b>	<b>-109.67</b>	<b>597.16</b>	<b>21.84</b>	<b>-86%</b>
Net errors and omissions	565	696	215	751	654	884	27%

## 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.

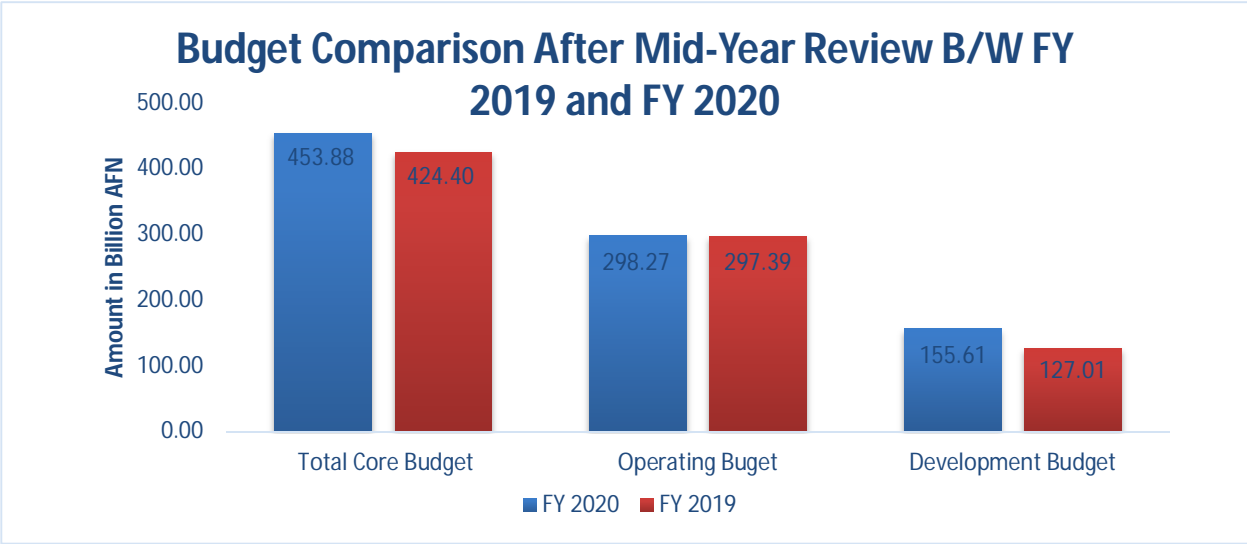
In addition, like other emerging and under developing economies around the world, Afghanistan faces budget imbalance (Budget Deficit), where total core expenditures exceed total revenue (excluding grants).

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.



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 cabinet following the justification and documentation provided the ministry of finance.

Following chart shows the updated figures for FY 2020 budget, up to December.



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 December 2020 is AFN 91.73 billion, while in November it was AFN 24.16 billion which shows 279.66% or AFN 67.57 billion increase in December. Total revenue from the start of FY-2020 till end of December reached to AFN 393.37 billion that is combination of AFN 219.68 billion donor contributions and AFN 173.68 billion domestic revenue respectively.

Likewise, domestic Revenue for the month December is AFN 25.58 billion while it was amount AFN 11.84 billion in the month of November, showing an increase of AFN 13.74 billion 116.08% in the month of December. On the other hand, donor contributions (including loans) amounted to AFN 66.16 billion in December, where donor contributions in November was AFN 12.32 billion, which indicates AFN 53.83 billion 436.77% increase in donor contributions for the month of December.

Additionally, total Expenditure at the end of December 2020 reached to AFN 433.84 billion, from which operating expenditures and development expenditures were individually, AFN 273.52 billion and AFN 160.32 billion. Likewise, operating expenditures for the month of December is AFN 43.41 billion, where in November it was AFN 21.61 billion. This signifies that, there is AFN 21.80 billion or 100.90 % increase in operating expenditures in the month of December FY 2020. On the other hand, development expenditures for the month of November was AFN 13.84 billion, while in December

increase by AFN 40.49 billion or 292.61% resulted total expenditure for the month of December FY 2020 amount AFN 54.33 billion.

Description	FY, November 2020	FY, December 2020	From Jan to December FY 2020	Difference Between November and December	Monthly Growth (%)
	Amount in Billion AFN				
<b>Total Revenue</b>	24.16	91.73	393.37	67.57	279.66%
Domestic Revenue	11.84	25.58	173.68	13.74	116.08%
Donor Contribution	12.32	66.16	219.68	53.83	436.77%
<b>Total Expenditures</b>	35.45	97.74	433.84	62.29	175.73%
Operating Expenditure	21.61	43.41	273.52	21.80	100.90%
Developing Expenditure	13.84	54.33	160.32	40.49	292.61%

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

Execution rate of core budget at the end of December 2020 reached to 86%, Compared to October 2020 where it was 70% which shows 16% increase in budget execution rate for the month of December 2020.

## 5. Swift

Report of( Outward) Transactions from 1/09/ 1399 to 30/09/1399							
Categories	Remitter Parties	Message Type	USD	EUR	INR	CHF	JPY
A	Ministries	MT 103 ,700 & 910	42,820,177.30	1,419,509.00	695591	67,842.00	66,925.00
B	Commercial Banks	202	72,043,730.43	2,096,704.00			
C	Da Afghanistan Bank	200	401,000,000.00	161,000,000.00			
Report of( Inward )Transactions from 1/09/ 1399 to 30/09/1399							
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP	
A	Ministries	MT 103 ,700 & 910	638,306,289.73	2,779,625.80	2,796,957.00	93,682.83	
B	Commercial Banks	202	1,875,505.73				
C	Da Afghanistan bank	200					
بر علاوه به تعداد 19 معامله تبادلوی FX Deal به ارزش مجموعی ( 176887878.91 ) دالر امریکائی و همچنان 7 معامله بانک جهانی به ارزش مجموعی مبلغ 7669654.23 دالر امریکائی نیز اجرا گردیده است							

## 6. Banking Sector

### EXECUTIVE SUMMARY

The banking sector performed on average during Nov, 2020 compared to Aug, 2020. The main financial indicators as Total Assets and deposits decreased while equity capital increased. The impact of decrease in total assets was observed mainly in interbank claims and cash in vault & claims on DAB, however investment in bonds and gross loans increased. The banking sector remained profitable though decreased since last quarter. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. The main points of the Post C 19 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 parties such as ACGF, IFC, USAID etc



## SECTOR AT A GLANCE

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

Category (in million Af)	Annual Change			Quarterly Change					Quarterly Changes (Amount)
	19-Nov	20-Nov	Percentile	20-Jun	20-Aug	20-Sep	20-Nov	Percentile	
Total Assets	293,526	309,535	5.45%	314,981	313,235	317,626	309,535	-1.18%	-3,700
Total Loans (Gross)	41,963	40,138	-4.35%	39,470	39,481	39,368	40,138	1.66%	657
Total Interbank Claims (Gross)	82,654	67,835	-17.93%	74,154	76,145	73,111	67,835	-10.91%	-8,310
Investment in Bonds	32,771	37,373	14.04%	33,798	32,059	36,024	37,373	16.58%	5,314
Standard Loans	28,484	27,320	-4.09%	26,297	26,396	26,450	27,320	3.50%	924
Past Due Loans <sup>1</sup>	13,479	12,819	-4.90%	13,173	13,085	12,918	12,819	-2.04%	-267
Adversely Classified Loans <sup>2</sup>	9,203	9,315	1.22%	8,834	8,791	8,833	9,315	5.96%	524
NPLs <sup>3</sup>	6,343	6,807	7.32%	6,748	7,199	6,958	6,807	-5.44%	-392
Total Deposits	250,005	260,819	4.33%	267,730	265,309	269,417	260,819	-1.69%	-4,490
Total Liabilities	259,024	272,900	5.36%	279,192	276,990	281,452	272,900	-1.48%	-4,090
Financial Capital	34,502	36,635	6.18%	35,789	36,245	36,174	36,635	1.08%	390
Regulatory Capital	30,441	32,406	6.46%	31,689	32,014	31,996	32,406	1.23%	392
Risk Weighted Asset	121,830	119,264	-2.11%	121,333	120,386	122,367	119,264	-0.93%	-1,122

<sup>1</sup>Loans classified in watch, sub-standard, doubtful and loss categories.

<sup>2</sup>Loans classified as sub-standard, doubtful and loss.

<sup>3</sup>Loans classified in doubtful and loss categories.

Net Profit/Loss	1,408	1,625	15.39%	645	205	325	95	-53.73%	-110
-----------------	-------	-------	--------	-----	-----	-----	----	---------	------

Table 1: Major Financial Indicators of the Sector

## INTRODUCTION

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

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

Provided Banking Facilities	19-Nov	20-Nov	Change	%age change
Number of Branches	410	413	3	0.73%
Automated Teller Machines (ATM)	359	377	18	5.01%
Point of Sale (POS)	107	672	565	528.04%
Cash Deposit Machine (CDM)	0	6	6	-
Type 12 Facility <sup>4</sup>	99	115	16	16.16%
Credit Cards	1,294	1,185	(109)	-8.42%
Debit Cards	671,133	659,138	(11,995)	-1.79%
ATM Cards	250,236	249,341	(895)	-0.36%
Master Cards	10,132	24,334	14,202	140.17%
Prepaid Cards	20,492	107,368	86,876	423.95%
Web Surfer Cards	4,517	5,120	603	13.35%
Number of Accounts (Loans)	66,260	57,932	(8,328)	-12.57%
Number of Borrowers <sup>5</sup>	67,376	58,476	(8,900)	-13.21%
Number of Loan files where borrower president or vice president is a woman	14,200	13,008	(1,192)	-8.39%
Number of Depositors	3,837,216	4,212,554	375,338	9.78%
Number of Deposit Accounts	3,996,501	4,361,357	364,856	9.13%
Number of Employees (Local + Foreign)	9,465	9,942	477	5.04%

Table 2: Provided Banking Facilities

As demonstrated in the above table, overall the provided banking facilities increased, showing an increasing tendency in the usage of banking services, progressing banking culture and consumer demand for the banking facilities in the country. The most obvious increases were noticed in prepaid

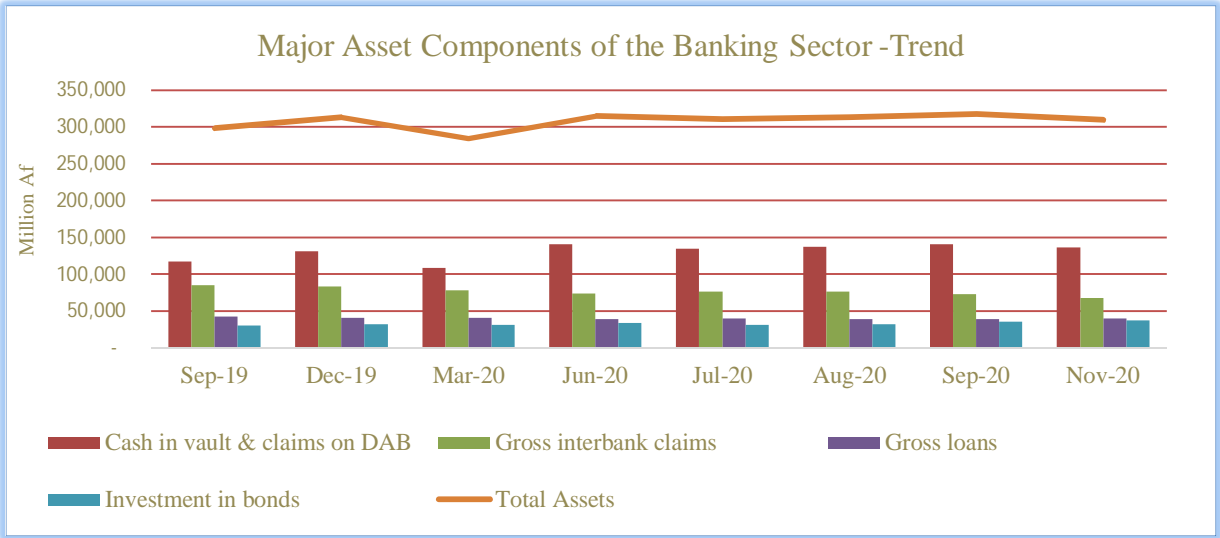
<sup>4</sup>Type 12: type 21, 24 & 25 Counters merged to Type 12 Extension Counter.

<sup>5</sup> Number of borrowers, loan files, depositors, deposit accounts and employees are taken as of Sep-20 as these data are available on quarterly basis.

cards and depositors that mainly reported by five banking institutions respectively. Increases in branches reported by three banks, while POS increased mainly in one banking institutions.

**6.1: ASSETS OF THE BANKING SECTOR**

Total assets of the banking sector had a decreasing trend showing 1% decrease comparing to the previous quarter (Aug-20) that mainly attributed to deposits withdrawal (dominant in customer demand deposits USD accounts). The impact of the decrease was observed mainly in interbank claims and cash in vault & claims on DAB. However, investment in bonds and gross loans increased owing to increase mainly in two banks investments, issuance of new loans and OD utilizations.



Graph 1: Major Asset components of the Banking Sector

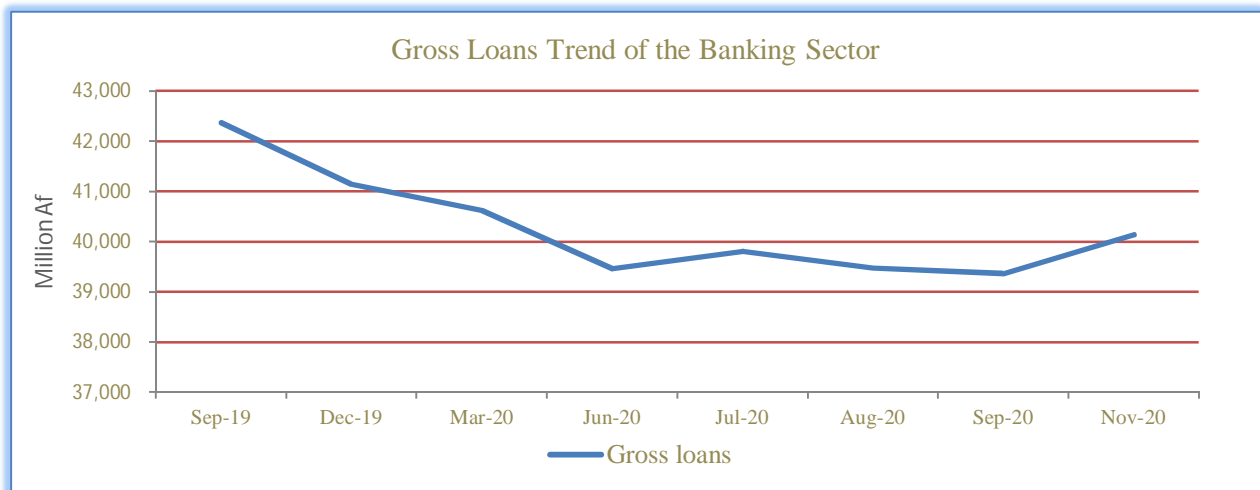
As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (44%), followed with the gross interbank claims (22%), gross loans (13%), and the investment in bonds (12%).

Asset Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Nov
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75%	30.55%	33.45%	28.00%	34.01%	32.14%	31.19%
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.30%	10.78%	12.05%	12.77%
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%	1.13%	1.20%
Foreign Claims to Total Assets	29.02%	26.54%	25.04%	25.69%	22.33%	21.88%	20.68%
Total Gross Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	14.88%	15.63%
Loan Loss Reserves to Total Gross Loans	10.93%	12.25%	13.27%	12.59%	14.39%	14.24%	14.25%
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.74%	1.80%	1.80%	1.77%	1.85%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	0.86%	1.21%	1.17%	1.25%
Repossessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%	0.32%	0.33%
Repossessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%	2.58%	2.53%
NPL to Total Assets	1.82%	1.87%	2.06%	2.34%	2.14%	2.19%	2.20%

Table 3: Asset Quality Indicators

## 6.2: Loan Portfolio

Total gross loan portfolio of the banking sector has been following 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 of loans. However, in the current month Af748 million (principal amount) new loans were issued as well (corporate + MSME). 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 0.4% share with the lowest level of contribution in the economy.



Graph 2: Banking Sector Gross Loans

The gross loan portfolio of the banking sector currently stands at AF 40.1 billion, showing 1.7% increase compared to the previous quarter (Aug-20) mainly 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 Nov, 2020 the total coverage ratio is 14% of the total gross loans. As indicated in the table below, loans are mostly concentrated in Af denomination making 52% of the total portfolio followed with USD denominated loans at 48% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.1% of portfolio). See the summary of loan portfolio below:

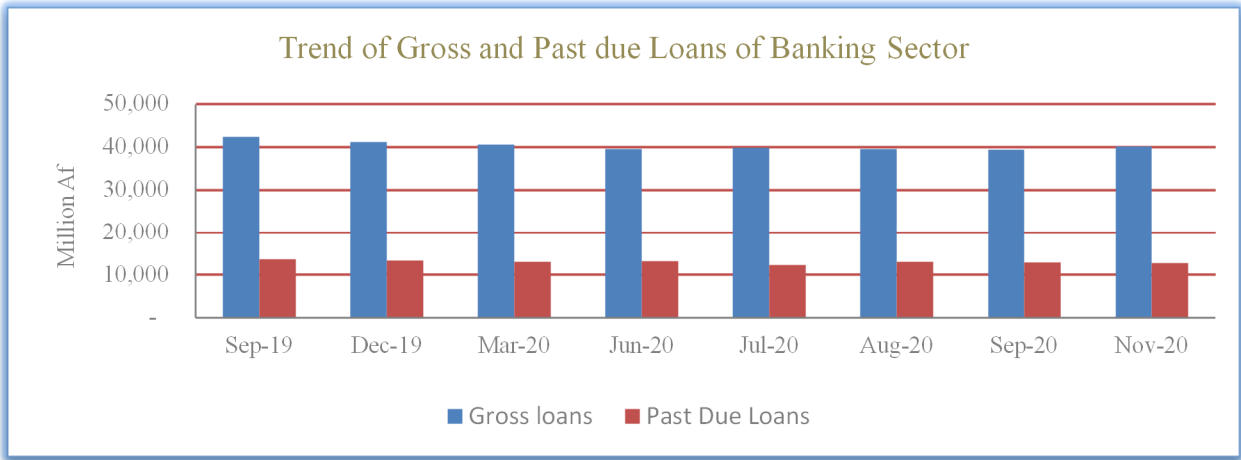
Banking Sector Loans by Currency – amount in million Af							
Currency	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Nov	%age of Loans
Afghani	20,439	20,912	20,980	20,172	20,124	20,746	51.69%
USD	21,851	20,171	19,598	19,251	19,193	19,337	48.18%
Other Currencies	83	68	47	48	51	55	0.14%

Table 4: Gross Loans Currency Composition

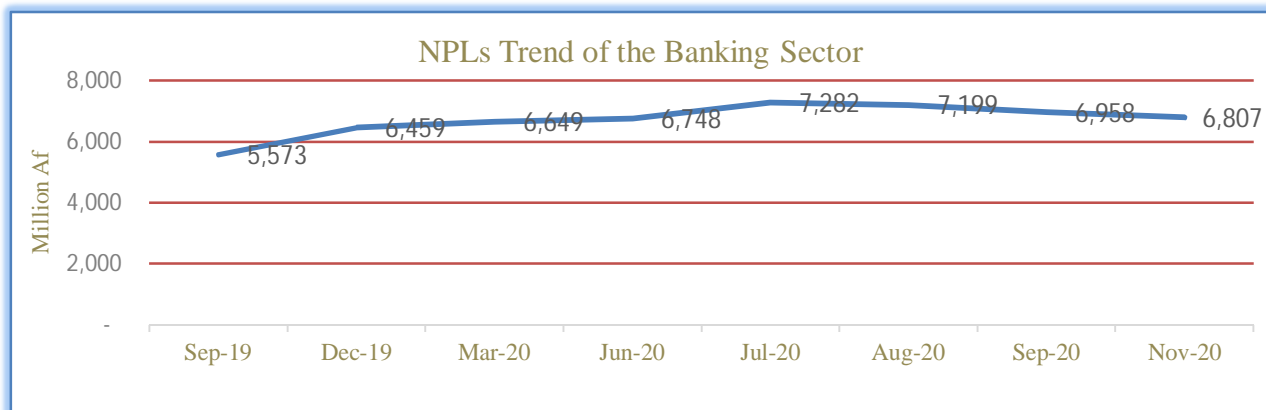
- ✓ Total loan portfolio followed a decreasing trend from mid-2019. However; recorded 1.7% increase since previous quarter, attributed to issuance of new loans, limit enhanced and OD utilizations.
- ✓ In the current month 3,817 loan accounts amounting to Af 748 million (corporate + MSME) newly disbursed, 9 loan accounts amount 63 million Af restructured and one loan account

**6.2.1: Quality of Loans**

The overall quality of loans remains a concern as the NPLs are making 17% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 17% NPLs, 15% is attributed to four banks the top lenders in the sector. These banks hold 67% of the sector’s gross loans and 51% of the sector’s regulatory capital. Hence, further deterioration in the loan quality of 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

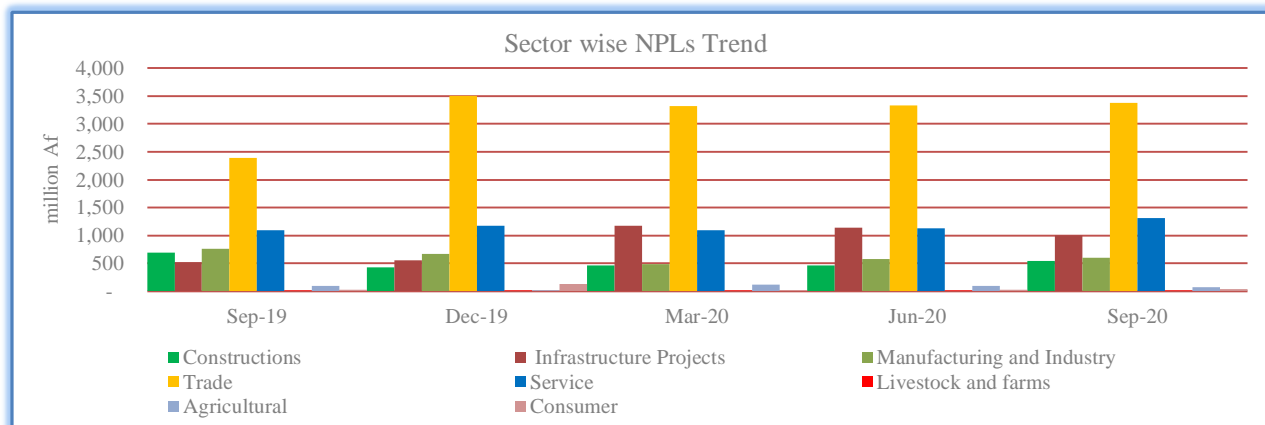
Group-wise analysis of the banking institutions shows that 88% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 12% and 0% share in the total NPL portfolio respectively.

Loan Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Nov
Criticized Loans to Total Gross Loans	25.41%	32.05 %	32.59 %	32.11%	33.38 %	32.81 %	31.94 %
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32 %	19.12 %	21.08%	22.38 %	22.44 %	23.21 %
Non-Performing Loans to Total Gross Loans	12.80%	13.15 %	15.70 %	16.37%	17.10 %	17.67 %	16.96 %
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23 %	20.53 %	22.04%	21.29 %	21.75 %	21.01 %
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80 %	37.30 %	38.87%	40.53 %	40.55 %	41.68 %
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24 %	67.71 %	65.70%	68.18 %	65.61 %	66.71 %
General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.65%	1.63%	1.29%	1.39%	1.38%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	7.02%	7.36%	6.87%	7.73%	7.31%
Net NPLs to Total Net Loans	5.00%	4.76%	5.84%	6.50%	6.35%	7.09%	6.58%
Net NPLs to Total Gross Loans	4.45%	4.18%	5.07%	5.61%	5.44%	6.08%	5.65%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (49%) dominant in cement & other construction material (10%) and food items (9%), followed by Services Sector (19%) mostly recorded in ground transportation (11%), Infrastructure Projects (14%) and Manufacturing and Industry (9%). Increases were observed mainly in Services Sector, Construction & Building and in Trade Sector.





Graph 5: Sector Wise NPLs

- ✓ Currently 17% of the banking sectors gross loans and 21% of the regulatory capital is at risk. Decreases in NPLs (5% or Af392 million) compared to the previous quarter (Aug-20) is mainly observed in four banks attributed to charge-off, settlements of NPLs and turnover created by customers depositing in their current accounts.
- ✓ The NPL ratio with accelerating trend, could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.

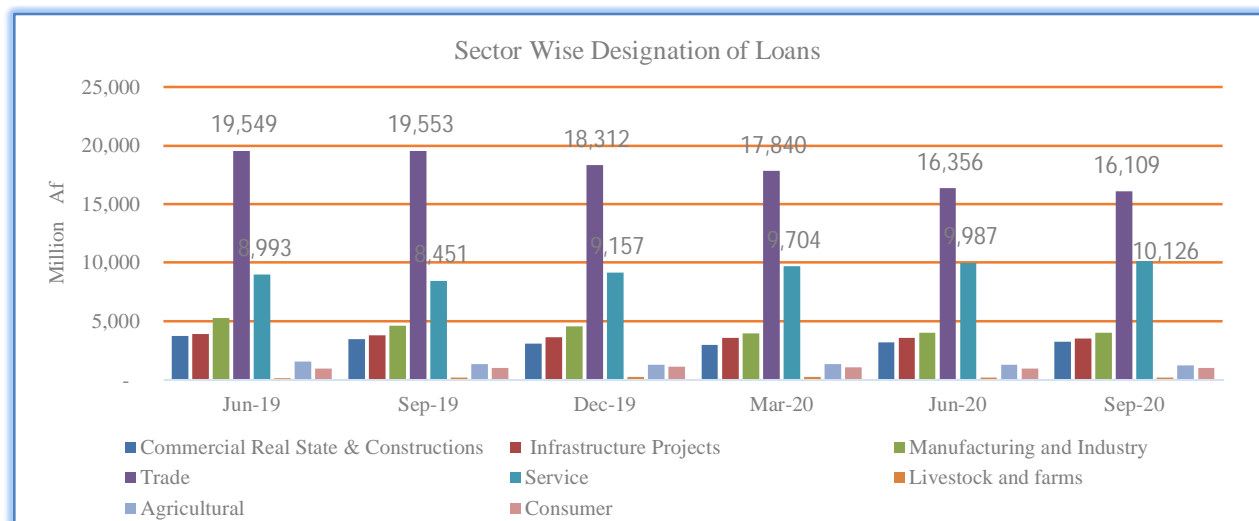
- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (24%), while the share of Islamic loans is limited to (12%).

## 6.2.2: Type of Loans

More than 60% of the banking sector total loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector, followed by Term Loans at 24% and Islamic Loans at 12% of the total portfolio. In comparison, Credit Cards are negligible at 0.1%.

### 6.2.3: Sector-wise Designation of Loans

The trend for the sector-wise designation of loans show 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 26% with telecommunication (8%) as a leading sub-sector. The most COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 3% of the total sector portfolio. Manufacturing and Industry and Infrastructure Projects are subsequently on 3<sup>rd</sup> and 4<sup>th</sup> 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

As per the banks reports, total related party exposure of the sector is Af404 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital of the sector. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

### 6.2.5: Repossessed Assets

Total repossessed assets of the banking sector amount to Af 1.01 billion, decreased by Af0.1 million compared to the previous quarter attributed to FX rate. Total repossessed assets constitute 0.3% of the banking sector total assets reported by three banking institutions.

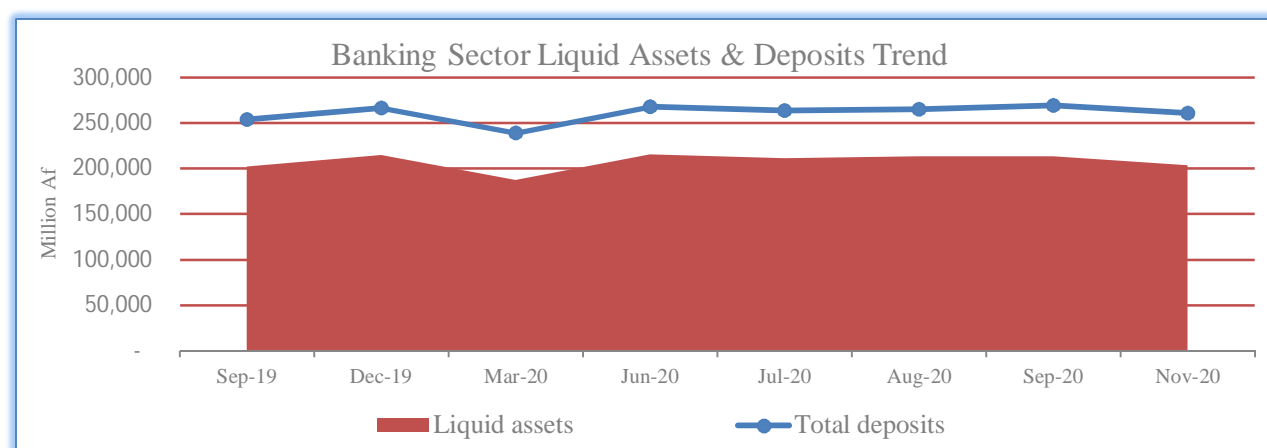
- ✓ The percentage share of all banks repossessed assets and period to retain on the balance sheet are within the regulatory limits (4% of total assets and 4-year period).

### 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 59% decreased from 63% in August 2020.

#### 6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 66% of the total assets and 85% of the short-term liabilities.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

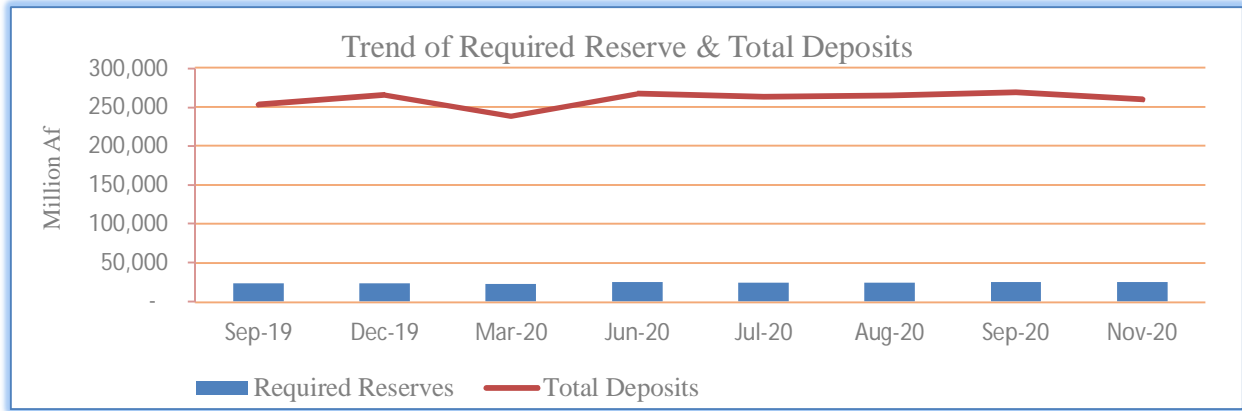
#### Liquidity Ratio Analysis

Liquidity Ratios	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Nov
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%	14.61%	15.39%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.53%	12.39%	12.97%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.33%	86.61%	85.90%	84.75%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.08%	41.16%	39.89%	37.76%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	65.55%	68.33%	67.20%	65.88%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%	65.08%	64.29%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	14.88%	15.63%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.72%	0.93%	0.96%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.90%	13.00%	12.88%	13.49%

Table 6: Liquidity Ratios

### 6.3.2: Required Reserves

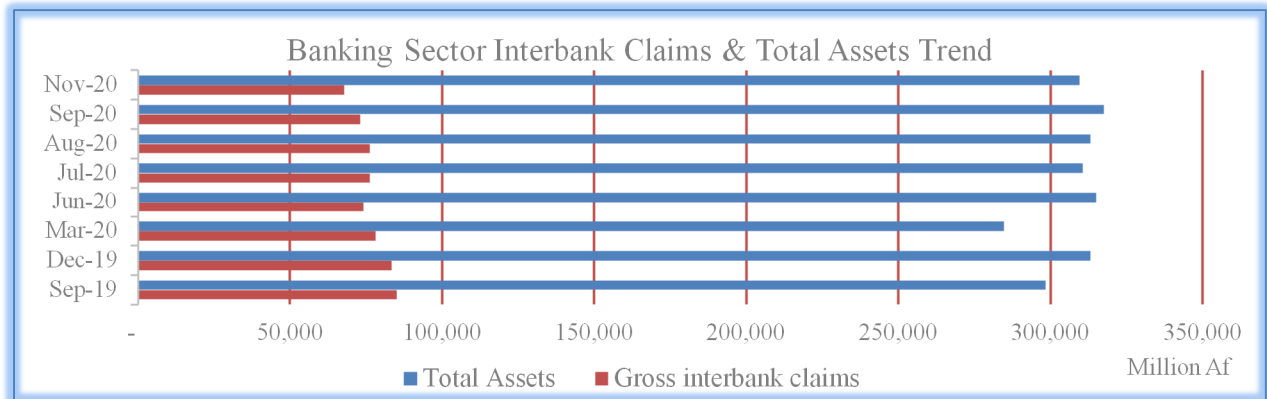
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



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 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.



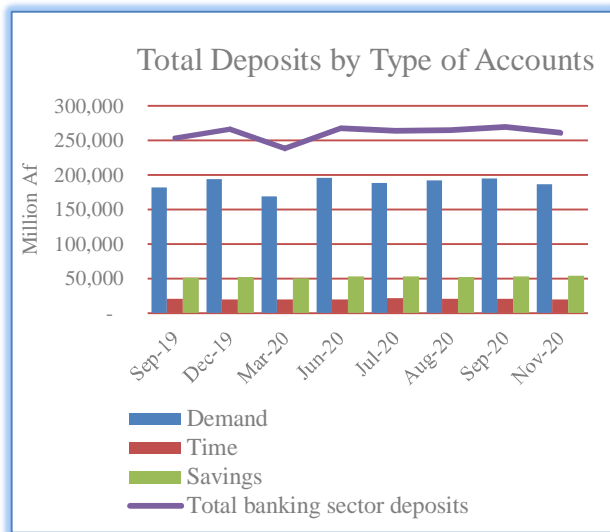
Graph 9: Banking Sector Interbank Claims & Total Assets Trend

### 6.3.4: Foreign Accounts and Placements

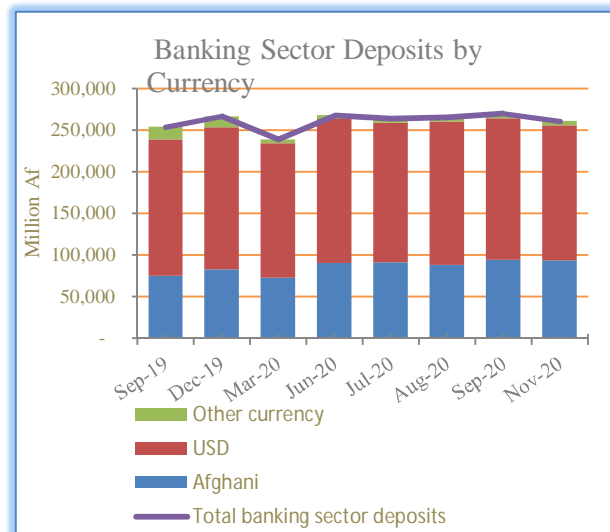
Total Foreign Interbank Claims constitute 21% of the sector total assets and 25% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 33% of the sector total assets and 39% of the total deposits, showing that a significant part of funds attracted 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

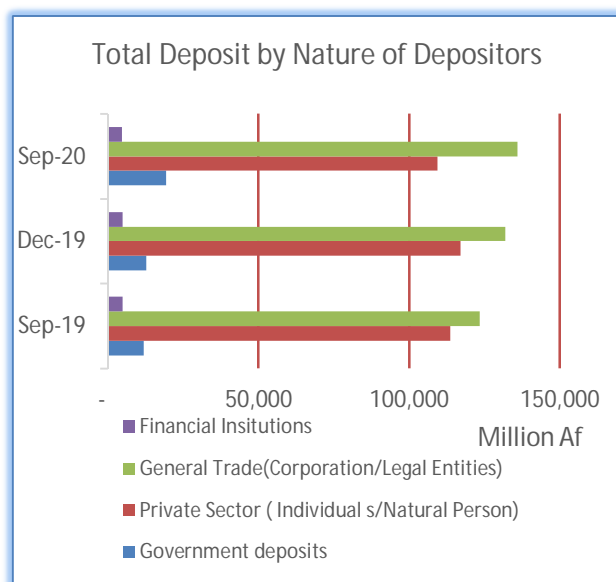
Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020, but followed an increasing trend in June and Sep, 2020. However; posted 1.7% decrease since last quarter (Aug-20) attributed to decrease in demand and time accounts mainly posted by three banking institutions. Currency wise analysis show that Af denominated deposits increased by 5%, accounted for 36% of total deposits, while USD denominated deposits were down by 5%, making 62% of the total deposits and other currency deposits decreased by 2%, comprising 2% of the total banking sector deposits.



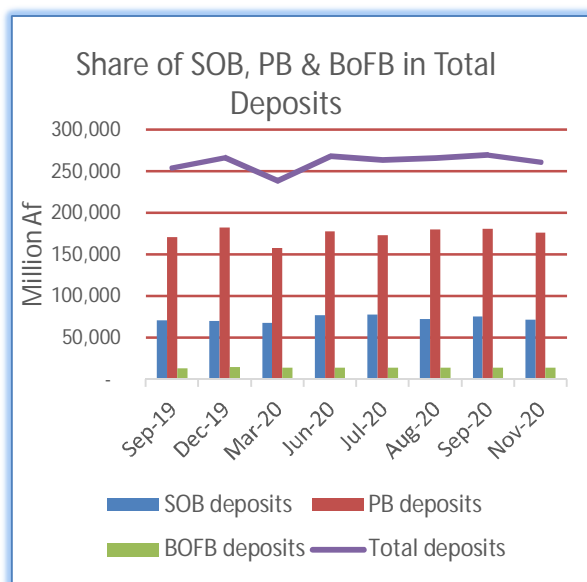
Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency



Graph 12: Total Deposits by Nature of Depositors



Graph 13: Share of SOBs, PBs & BOFBs in TD

As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector with 50%, followed by individual/natural person deposits with 41%, government deposits are at 7%, and financial institutions constitute 2% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 67.5%, state-owned banks are at the second place with 27.4% share, while the branches of foreign banks have only 5% share in the sector total deposit bucket.

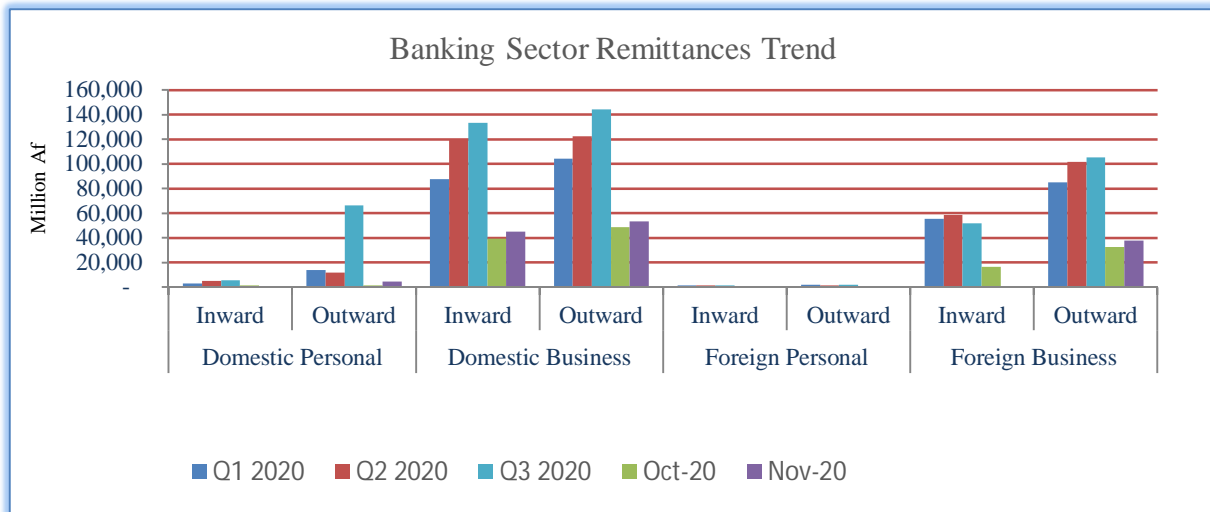
Banking Sector Deposits Trend By Type & Currency -in million Af								
Items	20-Jan	20-Feb	20-Mar	20-Jun	20-Aug	20-Sep	20-Nov	Quarterly Change
Demand	175,599	168,479	169,068	195,857	192,562	195,132	186,890	-2.95%
Time	19,558	19,400	20,243	19,228	20,720	20,920	19,719	-4.83%
Savings	51,813	51,507	49,626	52,645	52,027	53,365	54,209	4.20%
<b>Total</b>	<b>246,970</b>	<b>239,386</b>	<b>238,937</b>	<b>267,730</b>	<b>265,309</b>	<b>269,417</b>	<b>260,819</b>	<b>-1.69%</b>
AF	75,988	74,773	72,916	90,025	88,323	94,084	93,141	5.46%
USD	166,612	160,240	161,437	172,957	171,641	169,780	162,441	-5.36%
All Other Currencies	4,370	4,373	4,583	4,748	5,345	5,553	5,236	-2.04%
<b>Total</b>	<b>246,970</b>	<b>239,386</b>	<b>238,937</b>	<b>267,730</b>	<b>265,309</b>	<b>269,417</b>	<b>260,819</b>	<b>-1.69%</b>

Table 7: Banking Sector Deposits Trend by Type & Currency

<sup>6</sup> SOBs (State Owned Banks), PBs (Private Banks), BoFBs (Branches of Foreign Banks)

## Remittances details

Remittances trend for the three quarters of 2020, Oct and Nov, 2020 is illustrated in the below graph.

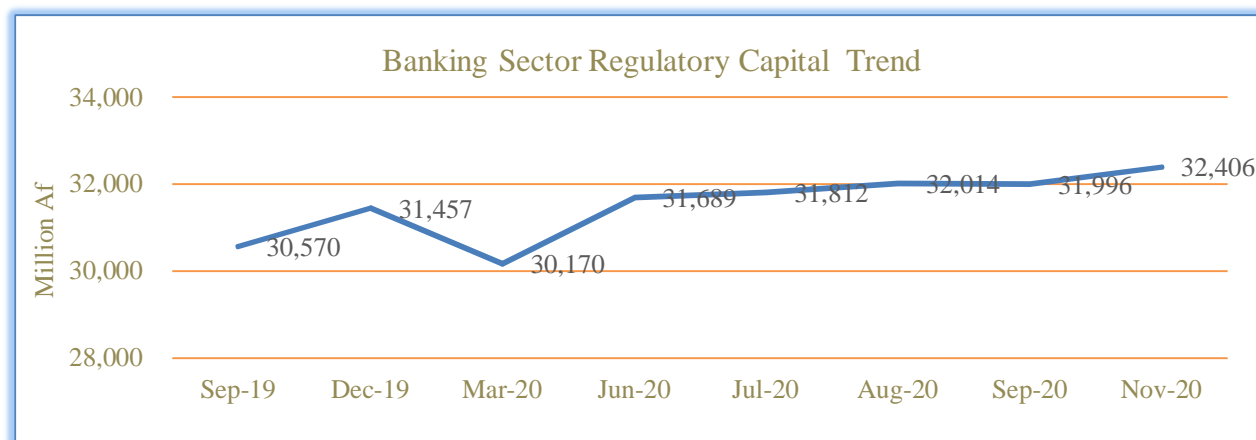


Graph 14: Banking Sector Remittances Trend

## 6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 12% of the total assets of the sector. The net equity position of the sector recorded at Af36.6 billion increased by 1% over the quarter, attributed to gain on Revaluation-Available for Sale Investments and reintegration mainly in three banking institutions. The regulatory capital of the sector stands at AF 32.4 billion, showing 1% increase over the quarter. CAR of the sector is at 27%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.

As demonstrated in the graph below regulatory capital had a fluctuating trend, the decrease in Jan, 2020 is attributed to provisions, the upturn in the month of June, 2020 was due to profitability and increase in Tier II capital in one banking institutions, while increase in the month of Nov, 2020 mainly observed in three banks attributed to reintegration, gain on revaluation of available for sale investments and increase in Tier II capital.



Graph 15: Regulatory Capital Trend of Banking Sector

### Capital Adequacy Ratio Analysis

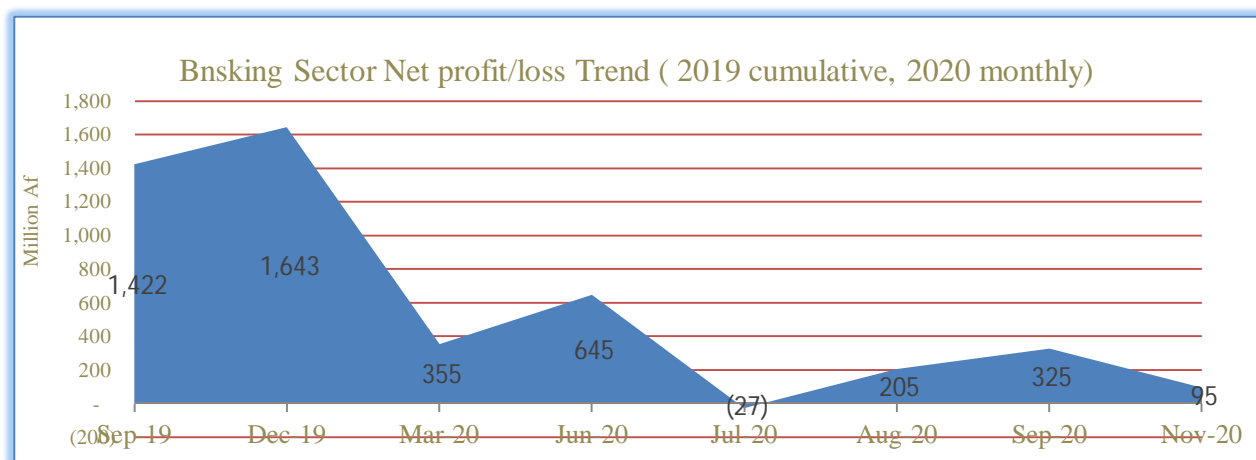
Capital Adequacy Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	20-Nov
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.94%	25.86%	26.12%	26.15%	27.17%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.49%	26.55%	25.76%	25.30%	26.00%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.49%	10.88%	9.92%	9.75%	10.02%
Equity Capital To Total Assets	11.49%	11.63%	11.41%	11.92%	11.36%	11.39%	11.84%

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-Nov 2020) recorded at Af 1.62billion. For the quarter under review the banking sector earned Af553 million net profit showing decrease over the last quarter. The decrease in profitability in the quarter under review is attributed to decrease in non-interest income, decrease in net interest income and decrease in FX gains. Major profitability components are interest and non-interest income, while main expenses cover non-interest expenses and salary expenses. As indicated in the graph below, the banking sector has been mostly profitable during the last 11 months of FY 2020, mainly attributed to reintegration of provisions, FX gains and non-interest income. ROA (annualized) of the sector recorded at 0.58% and ROE (annualized) stands at 5.02% at end Nov, 2020.



Graph 16: Banking Sector Net Profit/Loss Trend

## Quarterly Profitability Trend Analysis

Profitability indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Net-Interest Income to Total Income	150%	1148%	676%	-6272%	153%	269%
Net-Interest Income to Total Assets	0.56%	0.55%	0.48%	0.54%	0.44%	0.43%
Non-Interest Income to Total Assets	0.61%	0.53%	0.84%	0.55%	0.66%	0.53%
Non-Interest Income to Total Income	163%	1113%	1193%	-6458%	225%	336%
Operating Expenses to Total Income	237%	1839%	1291%	-10634%	283%	527%
Salaries to Operating Expense	40.68%	40.59%	38.62%	44.44%	41.45%	40.03%
Efficiency Ratio ( Non-interest Expenses/ sum of Net-interest income & Non-interest income )	75.65%	81.30%	69.07%	83.54%	74.80%	87.09%
Burden (difference between non-interest income and non-interest expense)	-847	-1,036	-217	-1,020	-528	-964
Net Profit/Loss	1,148	143	221	-24	917	504
Return on Asset (Cumulative)	0.84%	0.63%	0.54%	-0.03%	0.60%	0.62%
Return on Equity (Cumulative)	6.54%	5.02%	4.43%	-0.29%	5.15%	5.31%
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)deteriorated compared to June, 2020(An efficiency ratio of 50% or under is considered optimal), attributed to decrease 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	20-Sep
Interest Income	2,033	1,897	1,747	1,764	1,642	1,594
Interest Expense	311	257	253	231	240	236
Net-Interest Income	1,722	1,640	1,494	1,532	1,402	1,358
Credit Provision-net	152	505	1,324	349	79	107
G/L on Investments	24	125	82	-11	-20	66
Other Non-Interest Income	1,872	1,591	2,635	1,578	2,065	1,694
Non-Interest Expense	1,561	1,560	1,750	1,444	1,518	1,595
Salary Expense	1,158	1,066	1,102	1,155	1,075	1,064
Total Operating Expenses	2,719	2,627	2,852	2,598	2,593	2,658
Income or Loss Before FX Revaluation G/L & Taxes	748	225	36	153	775	353
FX Revaluation G/L	582	-87	391	-112	258	263
Tax	181	-5	206	65	116	112
<b>Total Net-Profit/Loss</b>	<b>1,148</b>	<b>143</b>	<b>221</b>	<b>-24</b>	<b>917</b>	<b>504</b>

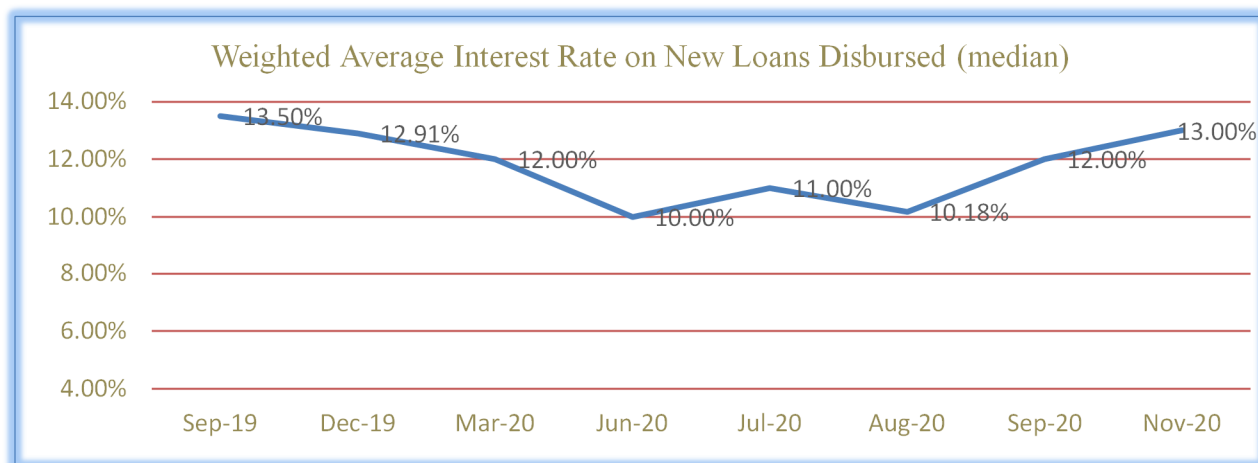
Table 10: Banking Sector P/L Trend

### 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 39%, and the lowest is at 1%. Meanwhile, for the loans designated in the current month, the weighted average is calculated at 13.0% (Median).

Type of Loans- Sector level	Average Interest Rate (Nov-20)
Overdraft	12.8%
Term Loan	13.0%
Consumer Loan	12.4%
Murabaha	9.2% <sup>7</sup>
Credit Cards	26.7%
Highest Interest Rate	39.0%
Lowest Interest Rate	1.0%

Table 11: Average Interest Rate of Loans

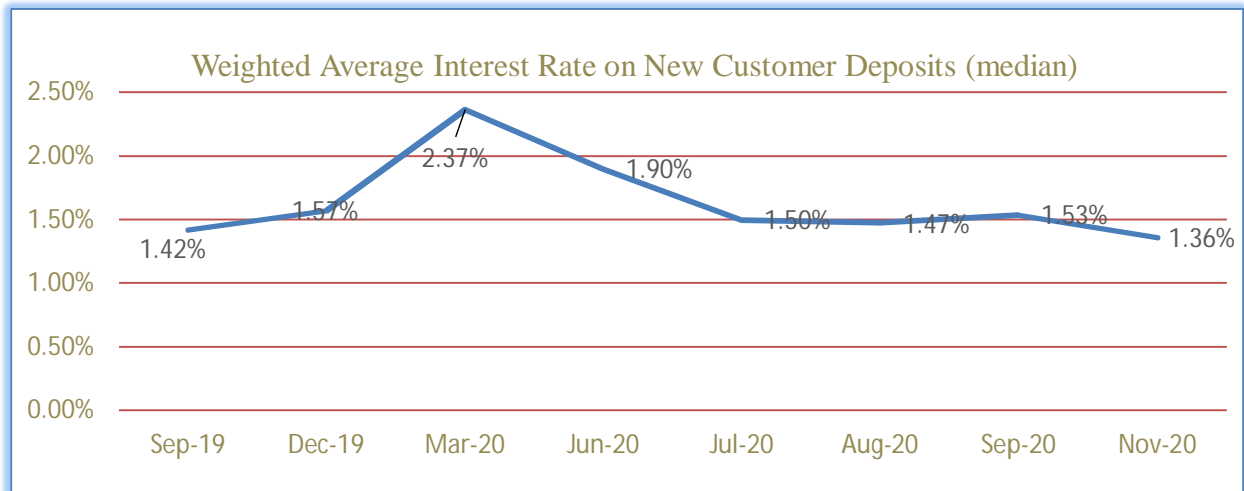


Graph 17: Weighted Average Interest Rate on New Loans disbursed (median)

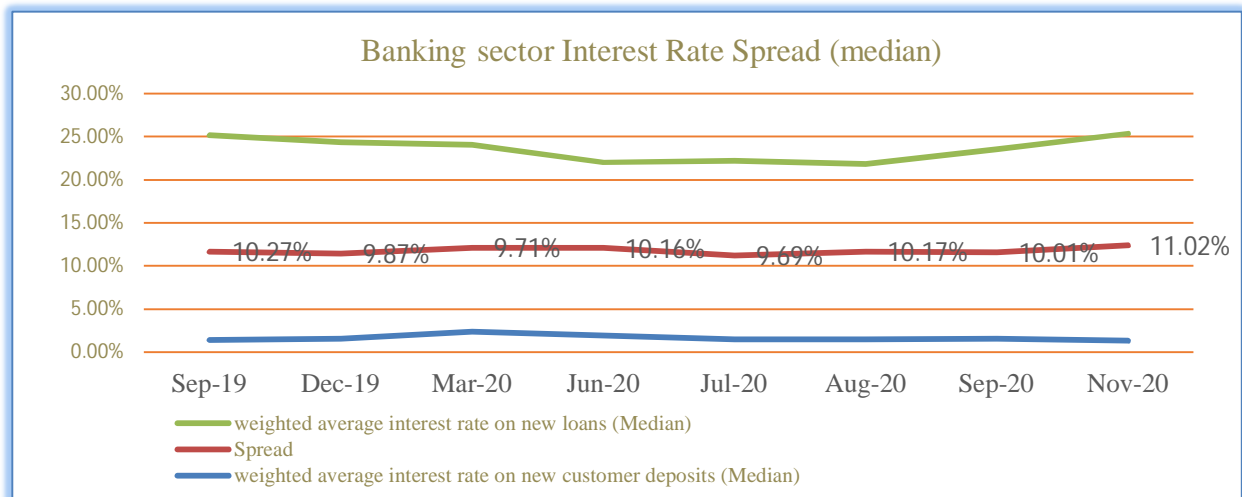
<sup>7</sup>For Islamic Products %age is the profit rate.

## 6.5.2: Interest Rate on Deposits

The interest rate on newly attracted deposits or the cost of fund decreased in Nov, 2020 as compared to Aug, 2020 due to decrease in time deposits.



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



Graph 19: Banking Sector Interest Rate Spread (Average)

## 6.6: OFF-BALANCE SHEET ITEMS

Total off-balance items of the banking sector amount to Af59.8billion, 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 Nov- 2020	
Type Of BGs	
Bid	8,211
Performance	31,165
Advance Payment	11,829
LC	276
Other BG <sup>8</sup>	272
Retention <sup>9</sup>	1,432
<b>Total</b>	<b>53,187</b>

Table 12: Type of BGs Issued by Banking Sector

Banking Sector Bank Guarantees Coverage Ratio in the Form of Cash, Property & Counter Guarantee Nov- 2020		
Security Type	Amount in million AF	% As Total BGs
Cash Margin	13,812	25.97%
Collateral Value (Property)	3,083	5.80%
Counter Guarantee	19,866	37.35%
<b>Total</b>	<b>36,761</b>	<b>69.12%</b>

Table 13: Banking Sector BGs Coverage Ratios

<sup>8</sup>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.

<sup>9</sup>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.