



Da Afghanistan Bank

Monetary Policy Department

Monthly Report

May 2021

## EXECUTIVE SUMMARY

This monthly report provides brief analysis, evaluation, and demonstrating the progress of the current macroeconomic indicators during the month of May 2021. In this report, we will first provide a summary of the key sectors of the Afghan economy, including the monetary, real, external, and fiscal sectors. Let us begin by highlighting the performance of a few key indicators.

Reserve money registered as Af 328,318.57 million at the end of Sawr 1400, while at the end of Sawr 1399 it was recorded Af 327,744.79 million. On the other hand, CiC was Af 293,341.38 million at the end of Sawr 1400, whereas at the end of Sawr 1399, it stood at Af 282,137.22 million. Capital Notes auction at the end of Sawr 1400 reached to Af 95.85, Af 82.52, and Af 66.50 million for total announced, demanded, and awarded amount respectively. Meanwhile, at the end of Sawr 1399, Capital Notes amount announced, demanded, and awarded were Af 93.60, Af 89.43, and Af 67.16 million respectively.

Core inflation excluding Food & Beverages and Transportation increased to 4.56% in the month of May 2021 from 0.67% recorded in the month of May 2020. Headline inflation increased to 1.35% during the month of May 2021, from 6.26% recorded in the month of May 2020. The increase was contributed by food items inflation which accounts for almost 48% weight of the overall index, went down to -1.60% from 12.92% in the month of May 2020. Non-food items inflation accounting for 52% of the overall index weight has risen to 4.60% in the month of May 2021 from -0.24% recorded in May 2020. GDP growth rate was calculated as -1.9% for the year 2020, lower than the growth rate of 3.9% recorded in 2019. Unemployment rate calculated by NSIA for FY 2020, was 18.6%.

In Balance of Payments (BoP), the current account recorded a deficit of USD 1,047.43 million in the first quarter of 2021, where it was USD 959.35 million deficit in the same quarter of 2020. The deficit was contributed by decrease in earnings from merchandise export, investment income, services receipts, and on the other hand; increased payments for merchandise imports.

Total revenue for the month of May 2021 recorded was Af 25.05 billion, while in the month of May 2020 it was registered as Af 30.76 billion. Total revenue from the start of FY till end of May 2021 reached to Af 102.20 billion, which includes Af 63.70 billion of domestic revenue, and Af 38.51 billion of Donor Contributions.

During the month of May 2021, domestic revenue collection was Af 12.12 billion while in the May 2020, it was Af 8.88 billion. Meanwhile, donor contribution registered for the month of May 2021 was Af 12.92 billion, while in May 2020, it was recorded at Af 8.79 billion. Total expenditures from the start of FY till end of May 2021 reached to Af 113.51 billion, consisting operating expenditures of Af 89.36 billion and development expenditures of Af 34.53 billion. Operating expenditures for the month of May 2021 recorded as Af 25.01 billion, while development expenditures recorded as Af 14.35 billion.

In terms of the overall headline fiscal balance, the government experienced a deficit of almost Af 13 billion in the May 2021, while in May 2020, headline fiscal balance recorded about Af 8 billion deficit.

## TABLE OF CONTENTS

### Contents

<b>1. Monetary Sector</b> .....	<b>4</b>
1.1. Reserve Money (RM) and Currency in Circulation (CiC) growth .....	4
1.2. Net International Reserves .....	4
1.3. Monetary Policy Tools .....	6
1.3.1. Foreign Exchange Auction .....	6
1.3.2. Capital Notes Auction .....	6
1.3.3. Wadia Auction .....	10
1.4. Interest Expenses .....	10
1.5. Exchange Rate .....	11
<b>2. Real Sector</b> .....	<b>14</b>
2.1. Headline Inflation .....	14
2.2. Food Inflation .....	14
2.3. Non-Food Inflation .....	15
2.4. Core Inflation .....	16
2.5. GDP and Unemployment Rate .....	17
<b>3. External Sector</b> .....	<b>19</b>
3.1. Current Account Balance .....	19
3.1.1. Goods Account .....	19
3.1.2. Services Account .....	19
3.1.3. Primary Income Account .....	20
3.1.4. Secondary Income Account .....	20
3.2. Capital Account Balance .....	20
3.3. Financial Account Balance .....	20
3.3.1. Direct Investment .....	20
3.3.2. Portfolio Investment .....	20
<b>4. Fiscal Sector</b> .....	<b>21</b>
<b>5. SWIFT Payments</b> .....	<b>26</b>
<b>Annexes</b> .....	<b>27</b>
Annex No. 1 .....	27
Annex No. 2 .....	30

## 1. Monetary Sector

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

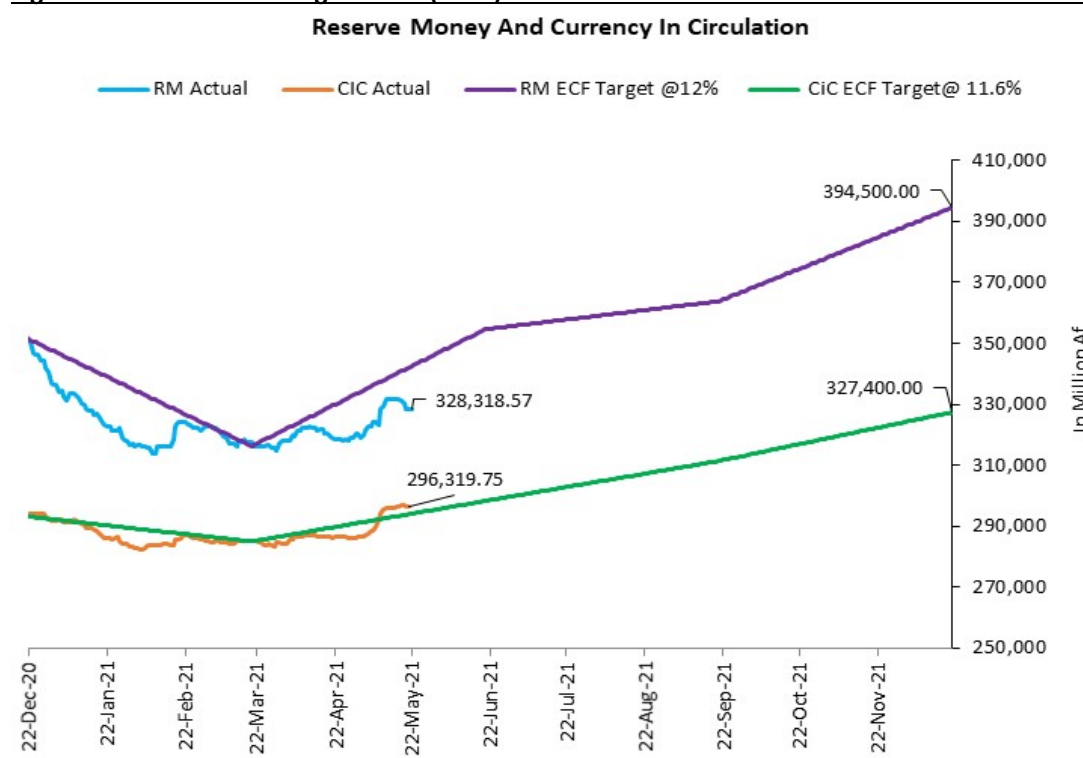
Monetary Policy department formulate and implement monetary policy taking into account the country's economic situation, through the main and effective channels of money demand, government's fiscal program (Revenue and expenditure), economic growth outlook, and price stability in the country.

#### Reserve Money (RM) and Currency in Circulation (CiC):

Reserve Money is Performance Criteria (PC) in ECF program with IMF. RM stood at Af 352,255.99 million at the beginning of FY 1400. At the end of Sawr 1400, it stood at Af 328,318.57 million below the target, indicating around 6.8% negative growth, while at the end of Sawr 1399 RM stood at Af 327,744.79 million with 1.9% growth.

Similarly, CiC stood at Af 293,341.38 million at the beginning of FY 1400, and recorded Af 293,341.38 million at the end of Sawr 1400, indicating 1.02% growth. While at the end of Sawr 1399, CiC was recorded Af 282,137.22 million with 8.8% growth. The reason behind this is DAB sold higher CNs with the longer maturity period besides started Wadiah sales, which kept CiC and RM below the target.

**Figure 1: RM and CiC during FY 1400 (2021)**



Source: Open Market Operations/Monetary Policy Department

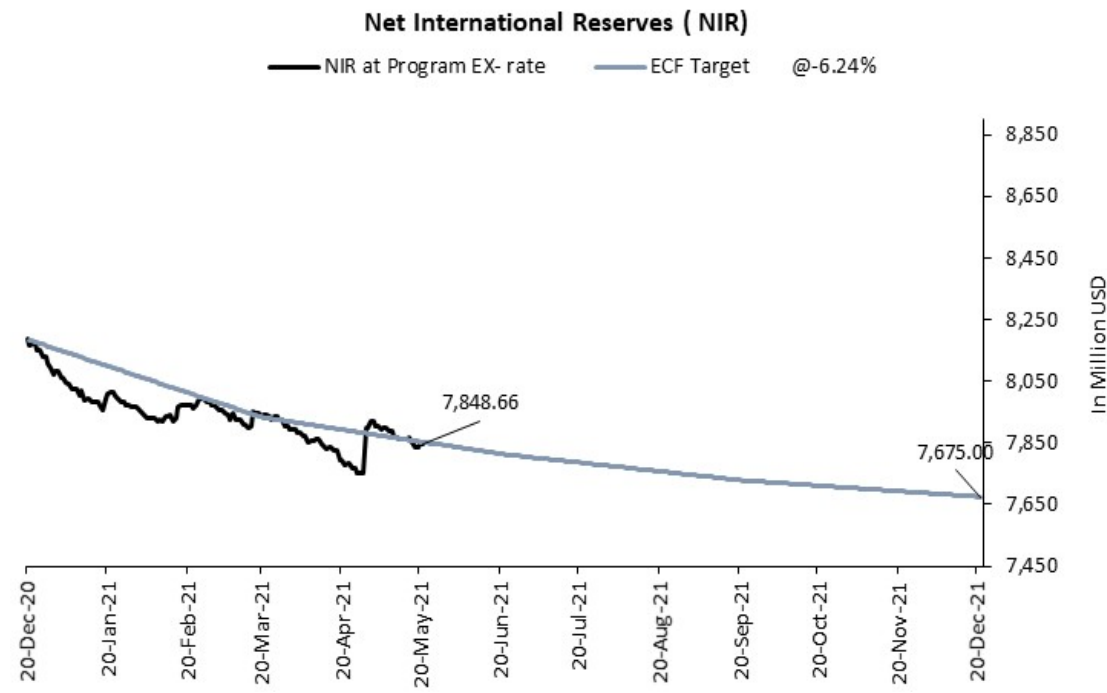
### 1.2. Net International Reserves

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 policy as well as, on managing macroeconomic indicators such as exchange rate, inflation and balance of payment stability.

NIR stood at 8,186.21 million USD at the beginning of FY 1400, and reached to USD 7,848.66 million at the end of Sawr 1400, indicating a de-accumulation of USD 337.56 million higher than 138.11

million USD de-accumulation at the end of Sawr 1399. The reason behind its decline is continuation of FX auction including sale of US dollar to Breshna, and lower inflow of grants than expected.

**Figure 2: Net International Reserve (NIR) during FY 1400**



Source: Open Market Operation/Monetary Policy Department

### Reserves Adequacy Measures<sup>1</sup>

DAB has approximately USD 9.4 billion in Gross Reserves. This is a high level using any reserve adequacy measure. We utilize three common measures of reserves adequacy as follow:

**Table 1: Reserve Adequacy Ratio**

Indicator	Afghanistan	Comments
Percentage of GDP	49.32%	Afghanistan's reserve as a percentage of GDP is in very good position.
Import Coverage	16.8 months	Common Import coverage ratios cite 3 months as the minimum (i.e. we hold almost 5 times as much)
Broad Money Ratio	1.35	Afghanistan has multiples of reserves over our broad money indicator.

Source: Monetary Policy Department

<sup>1</sup>\*Note: given that Afghanistan does not hold much external debt, we did not use debt measures of reserve adequacy.

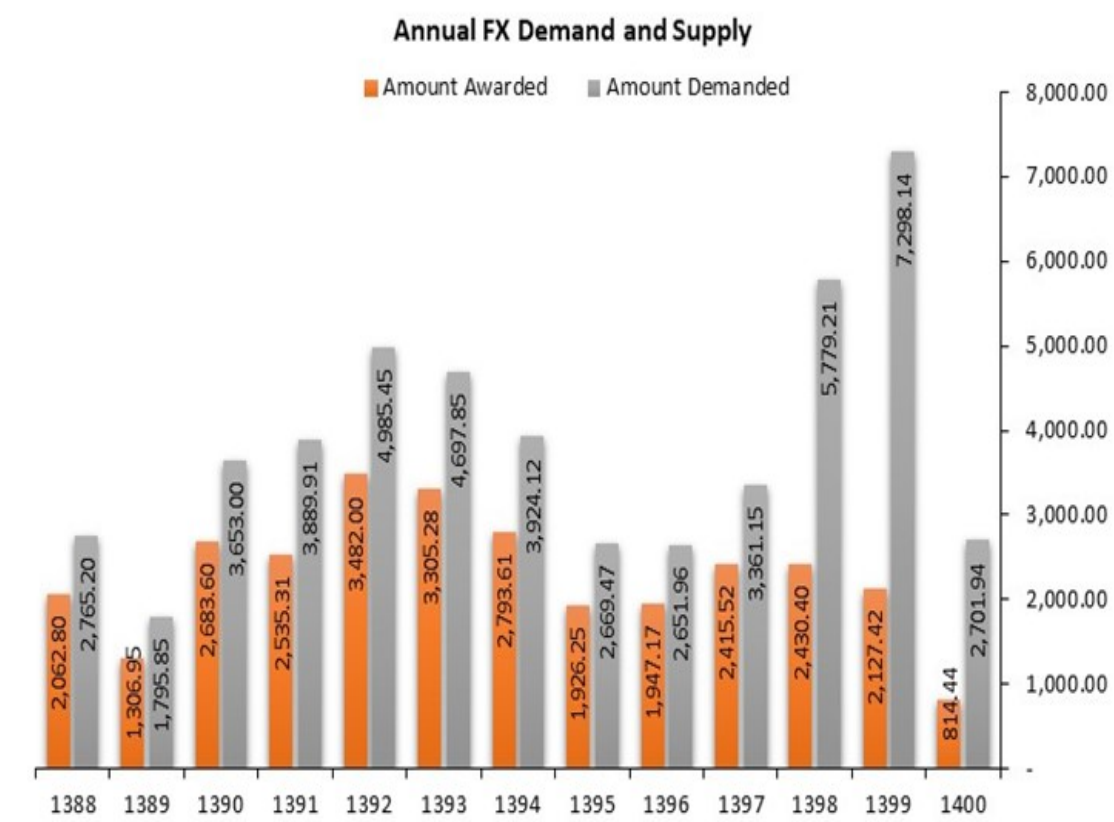
### 1.3. Monetary Policy Tools

In order to smoothen Af exchange rate fluctuations and manage liquidity in the economy, DAB uses FX, Capital Notes (CNs) and Wadia Auctions. FX auction is conducted three times in a week, while CNs and Wadia Auction is conducted once a week, the details of which are discussed below.

#### 1.3.1. Foreign Exchange Auction

Since the beginning of fiscal year of 1400 (2021) till the end of Sawr, DAB has auctioned a total amount of USD 814.44 million through open market operations and withdrawn Af 62.91 billion from the market, on the other hand, at the end of Sawr 1399, 728.81 million USD sold and Afghani withdrawn amount was Af 55.79 billion from the market. Besides, DAB sold 115 million USD to Da Afghanistan Brishna Shirkat (DABs) through commercial banks to pay imported electricity bill, and has withdrawn Af 8.87 billion from the market, meanwhile, 98 million USD sold to Brishna and withdrawn amount of Af 7.52 billion from the market at the end of Sawr of previous year. These operations have fulfilled 30.14% of the total demand for currency (especially the US dollar) in the market.

**Figure 3: Foreign exchange demand and supply during the last 13 years (amount in Million USD)**



Source: Market Operations/Monetary Policy Department

#### 1.3.2. Capital Notes Auction

Capital Notes is one of the monetary policy tools used by DAB 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.

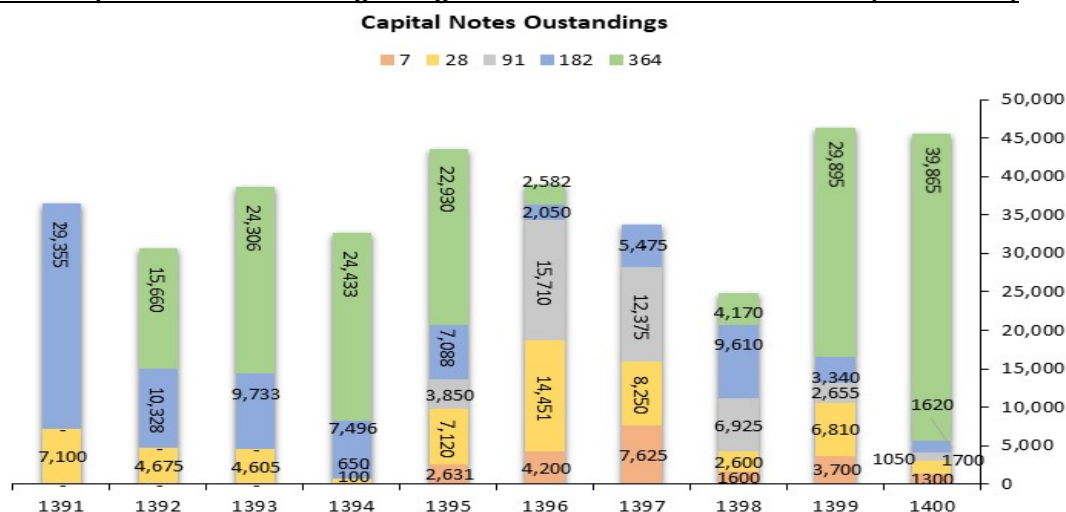
From the beginning of FY 1400 to the end of Sawr, total announced, demanded, and awarded amounts of Capital Notes were Af 95.85, Af 82.52, and Af 66.50 billion respectively, with outstanding amount stood at Af 45.53 billion. At the end of Sawr 1399, total announced, demanded, and

awarded amounts of Capital Notes were Af 93.60, Af 89.43, and Af 67.16 with outstanding amount of Af 30.21 billion.

Total interest paid for CNs in FY 1400 was Af 96.49 million while it was Af 75.59 million in previous year.

DAB started sale of Wadiah in FY 1400, the total announced, demanded and awarded amounts of Wadiah were Af 3.75, Af 0.92, and Af 0.92 billion respectively with outstanding amount of Af 675 million at the end of Sawr 1400

**Figure 4: Capital Notes Outstanding during 10 FYs till the end of Sawr of FY 1400 (in Billion Af)**

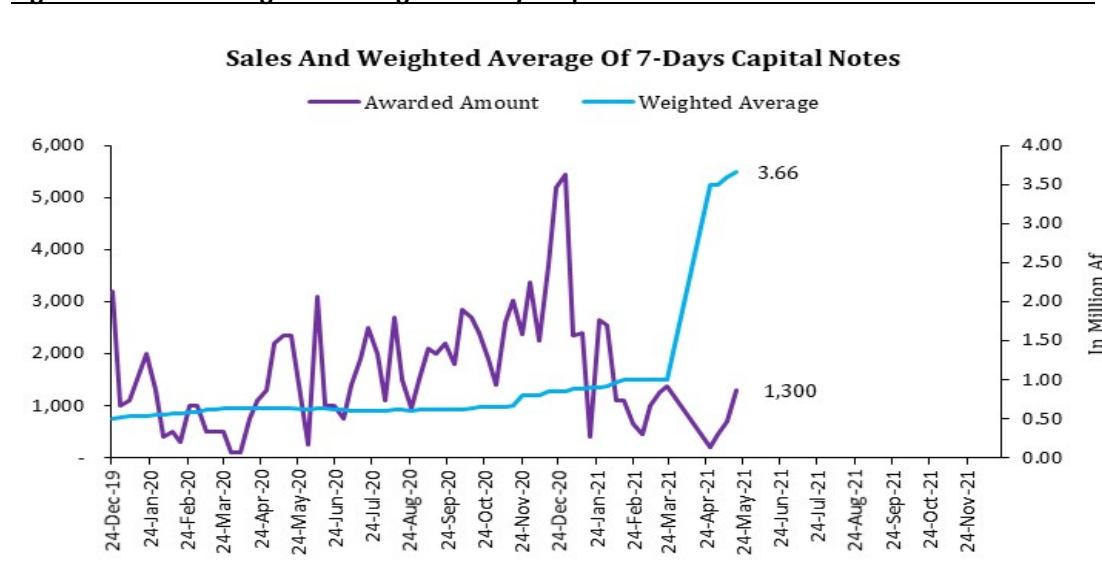


Source: Market Operations/Monetary Policy Departments

### 7-days Capital Notes

The total announced, demanded and awarded amount of 7-days' capital notes auction from the beginning of FY 1400 to the end of Sawr recorded Af 21.20, Af 38.27, and Af 30.57 billion with average interest rate of 1.52% and outstanding amount of Af 1.30 billion. These amounts were Af 22.60, Af 32.60, and Af 23.55 billion with the average interest rate of 0.56% and outstanding amount of Af 2.35 in the same period of previous year.

**Figure 5: Sale and weighted average of 7-Days Capital Notes in FY 1400**



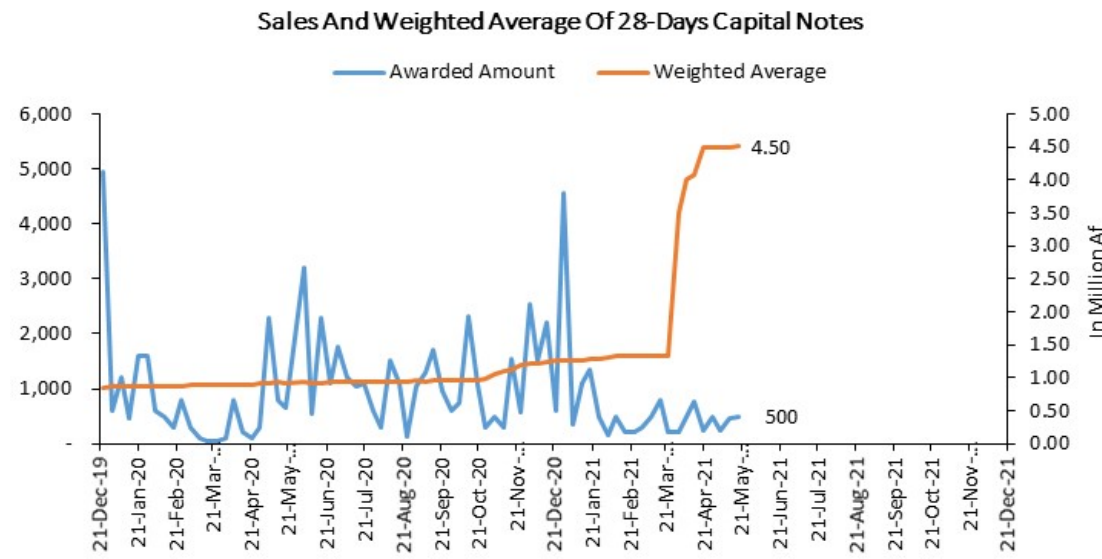


Source: Market Operations/Monetary Policy Departments

### 28- days Capital Notes

The total announced, demanded and awarded amount of 28-days' capital notes auction from the beginning of FY 1400 to the end of Sawr recorded Af 19.25, Af 17.93, and Af 14.73 billion with average interest rate of 2.37%, and outstanding amount of at Af 1.70 billion. These amounts were Af 21.60, Af 32.45, and Af 18.35 billion with the average interest rate of 0.89% and outstanding and amount of Af 4.05 billion at the end of Sawr 1399.

**Figure 6: Sale and weighted average of 28-Days Capital Notes in FY 1400**

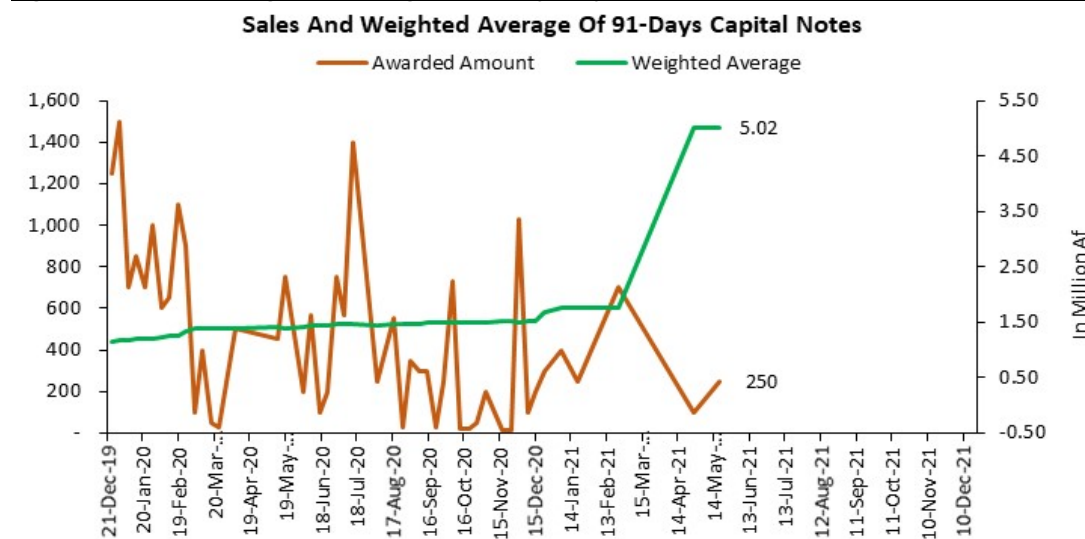


Source: Market Operations/Monetary Policy Departments

### 91- days Capital Notes

The total announced, demanded and awarded amount of 91-days' capital notes auction from the beginning of FY 1400 to the end of Sawr recorded Af 16.35, Af 2.20, and Af 2.00 billion with average interest rate of 2.83% and outstanding amount of Af 1.05 billion from the beginning of FY 1400 till end of Sawr. Meanwhile, these amounts were Af 18.70, Af 14.30, and Af 11.52 billion with the average interest rate of 1.00% and outstanding amount of Af 3.17 billion at the end of Sawr 1399.

**Figure 7: Sale and Weighted Average of 91-Days Capital Notes in FY 1400**

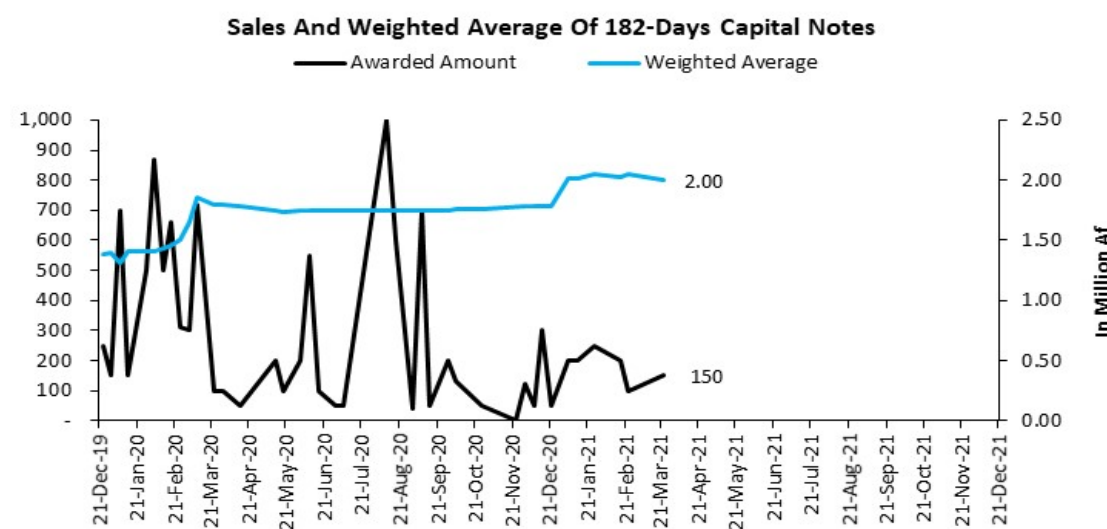




### 182-days Capital Notes

The total announced, demanded and awarded amount of 182-days' capital notes auction from the beginning of FY 1400 to the end of Sawr recorded Af 17.75, Af 1.15, and Af 1.15 billion with average interest rate of 1.99% and outstanding amount of Af 1.62 billion. These amounts were Af 19.20, 35.86, and 5.66 billion with the average interest rate of 1.14%, and outstanding amount of Af 8.38 billion at the end of Sawr 1399.

**Figure 8: Sale and weighted average of 182-Days Capital Notes in FY 1400**

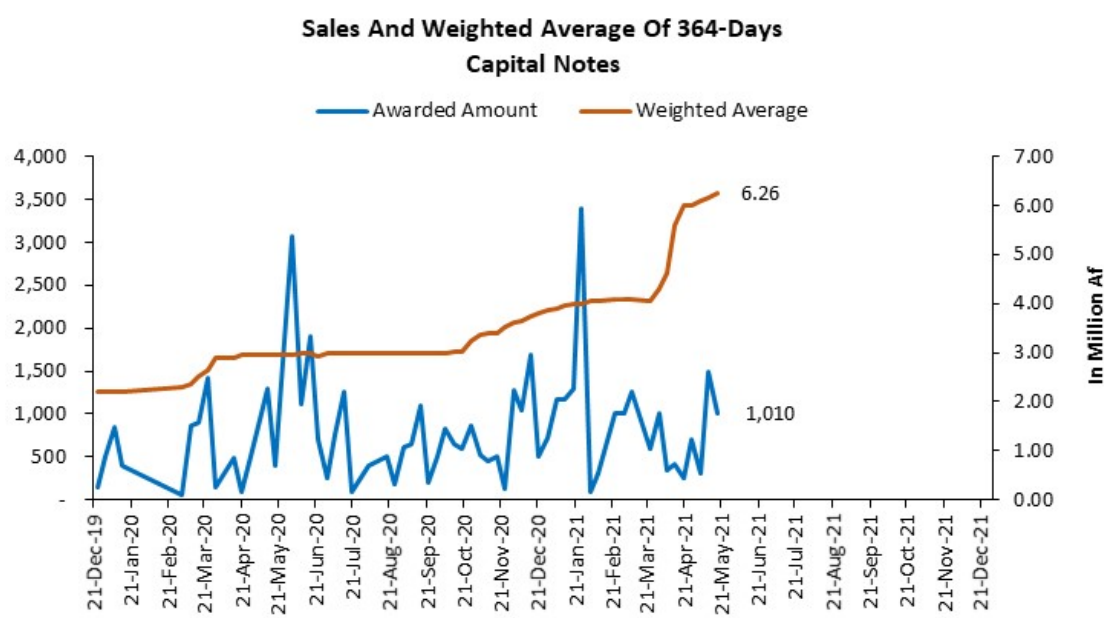


Source: Market Operations/Monetary Policy Departments

### 364-Days Capital Notes

The total announced, demanded and awarded amount of 364-days' capital notes auction from the beginning of FY 1400 to the end of Sawr recorded Af 21.30, Af 22.97, and Af 18.05 billion with average interest rate of 4.65% and outstanding amount of Af 39.86 billion. These amounts were Af 11.50, Af 13.22, and Af 8.08 billion with the average interest rate of 1.65% and outstanding amount of Af 12.25 billion at the end of Sawr 1399.

**Figure 9: Sale and weighted average of 364-Days Capital Notes in FY 1400**



Source: Market Operations/Monetary Policy Departments

### 1.3.3. Wadia Auction

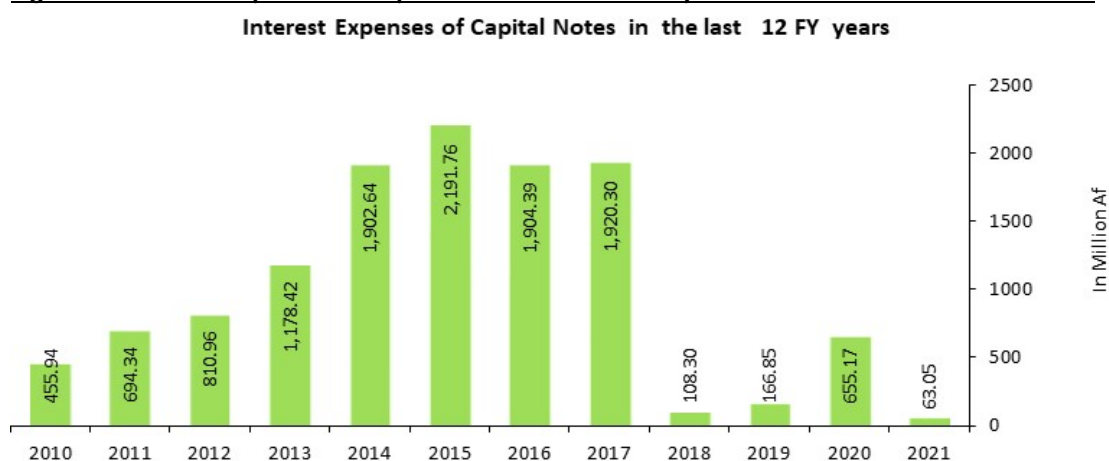
It is one of the Monetary Policy tools which is used to by DAB through Islamic Banking Window. This allows the banks to sell surplus liquidity of their Islamic Banking window which they can't invest in the Capital Notes Auction.

Wadia auction is started from 4<sup>th</sup> of May 2021. Outstanding Wadia recorded more than Af 675 million, and the expenses occurred for the same was reported as Af 0.15 million.

### 1.4. Interest Expenses

Interest paid by DAB for Capital Notes during 12 fiscal years till the end of SawrFY 1400 (2021) is illustrated in the figure of below.

**Figure 10: Interest Expenses of Capital Notes in the last 12 years**



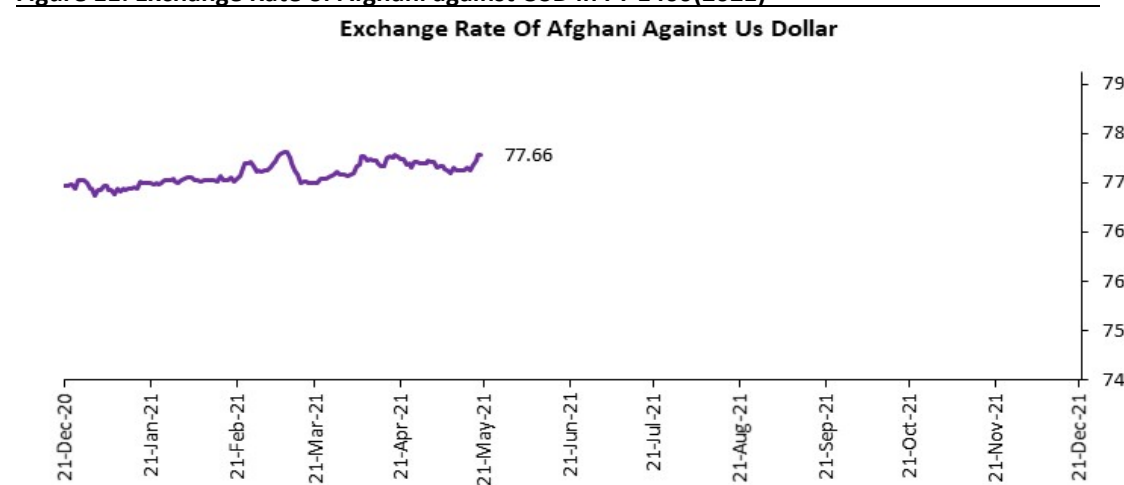
Source: Market Operations/Monetary Policy Departments

### 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 smoothen its severe fluctuations. Observing the data, the Afghani exchange rate has recorded some fluctuations against major currencies of the world.

From the beginning of FY 1400 (2021), Afghani has depreciated by 0.71% and has been exchanged at 77.33 per USD on average, and the exchange rate recorded at Af 77.66 at the end of Sawr 1400. While Afghani had appreciated by 2.3% from the beginning of FY 1399 till end of Sawr and has been exchanged at Af 76.61 per USD on average, while Af exchanged with USD at 76.61 Af at the end of Sawr of the previous year.

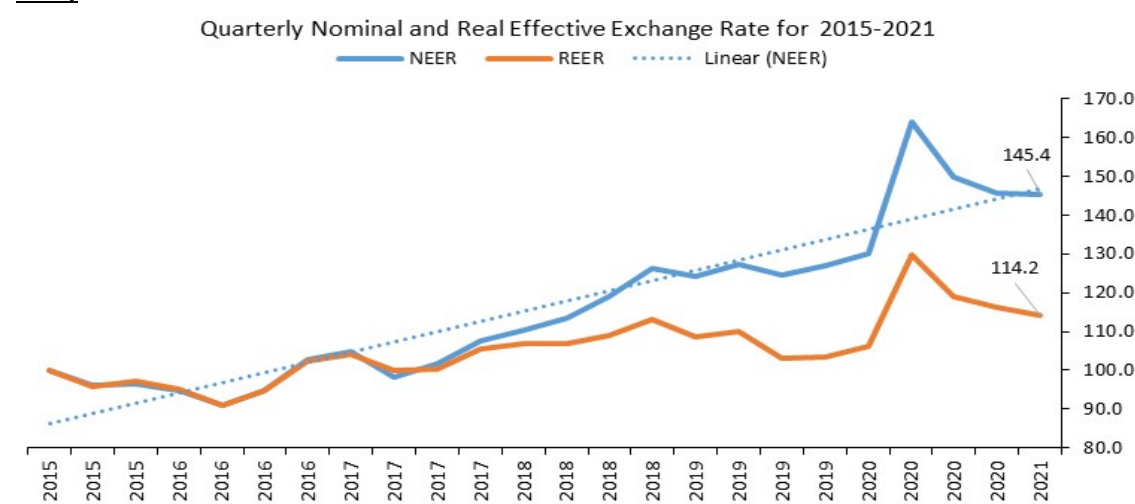
**Figure 11: Exchange Rate of Afghani against USD in FY 1400(2021)**



Source: Market Operations/Monetary Policy Departments

### **NOMINAL AND REAL EFFECTIVE EXCHANGE RATE FOR 2015-2021 (QUARTERLY BASIS):**

**Figure 12: Quarterly NEER (Nominal Effective Exchange Rate) and REER (Real Effective Exchange Rate)**



Source: Monetary Policy Department

### **Explanation of the above graph:**

For the calculation of Monthly, Weekly and Daily NEER and REER, the following challenges and limitations are perceived:

- 1) first and foremost trade data is compiled quarter to quarter and this is the shortest period for data compilation.
- 2) Inflation data of the home country and as well as our trading partners is published on monthly basis, at most and consequently leaving no scope for the calculations of Real Effective Exchange Rate on weekly or on daily basis.
- 3) Taking assumptions in the calculations for these indices would hinder the productivity that these tools possess.

**Interpretation of NEER and REER numerals:**

**NEER=145.4**

NEER Value of 145.4 speaks about the appreciation of Afghani against the currencies in the basket of major trading partners over past few years (April 2015 being base period and 100 being the base value). This figure suggests Afghani's strong position with respect to imports and weak position in relation to exports.

**REER=114.2**

REER is one step deep as it accounts for the inflation of our major trading partners with respect to the inflation in Afghanistan. A drag from 116.4 to 114.2 illustrates that Afghanistan has had a stable run of inflation with respect to its major trading partners. In absolute sense REER over 100 suggests that Afghanistan is less competitive in terms of exports and is more viable to imports from rest of the world and a value below 100 speaks of export competitiveness.

Note: Quarterly Inflation data for UAE and Iran has been revised for the year 2020. The reason behind revision is the updates by the IMF for the respective countries

**Note:**

Exchange rate of some important countries and trading partners of Afghanistan are presented in graphs and are attached in Annex No.1.

Quarterly Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) table is also presented in Annex No.1.

**Table 2: Monetary Indicators**

items	FY 1399						FY 1400		
	Hoot	Hamal	Sawr	Jawza	Sunbula	Qaws	Hoot	Hamal	Sawr
Reserve Money Target (%)	12						11.8		
Actual Reserve Money (%)	-8	-5	1.9	0.42	1.82	9.68	-10.19	-9.4	-6.8
RM Actual	295224.52	305563.69	327744.79	322978.27	327473.80	352755.78	316348.29	319148.54	328318.57
RM Target	331039.94	334529.39	337862.00	340873.85	350707.77	360867.72	362505.19	366230.74	369976.06
CiC Actual	259302.12	270012.03	282137.22	279989.89	283438.22	293341.38	285003.02	286463.25	296319.75
CiC Target	266938.63	271884.04	275122.01	274868.34	282798.06	297474.43	300574.46	304590.94	296319.75
Actual NIR	7711.85	7670.82	7919.73	8128.78	8334.40	8398.11	8147.68	7796.19	8115.82
NIR Target	7846.07	7935.51	7920.77	7919.41	7919.41	7819.00	8178.33	8017.21	7975.30
Outstanding Amount	30455	28060	30210	34495	39590	46400	44635	42635	45535
Required Reserve (Afs)	5928.75	5934.85	6271.67	6271.67	6914.36	7314.98	8056.05	7394.30	7334.30

Source:

Monetary

Sector/Monetary

Policy

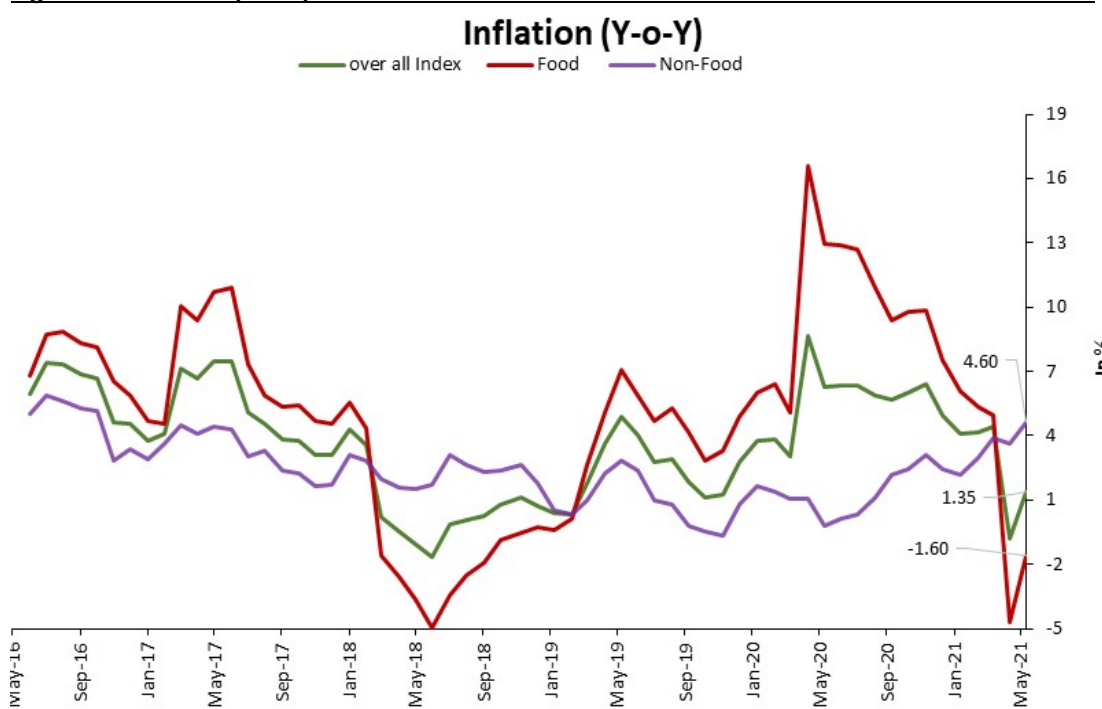
Departments

## 2. Real Sector

### 2.1. Headline Inflation

Headline inflation on Y-o-Y basis decreased to 1.35% in the month of May 2021 from 6.26% observed in the month of May 2020. The decrease in the headline inflation was contributed by lower prices of food items.

**Figure 13: Inflation (Y-o-Y)**



Source: National Statistics and Information Authority/Da Afghanistan Bank

**Table 3: National Headline Inflation (Y-o-Y, in %)**

	May-20	Feb-21	Mar-21	Apr-21	May-21
National Headline CPI	6	4	4	-1	1
Food	13	5	5	-5	-2
Non-Food	-0.2	3	4	4	5

Source: National Statistics and Information Authority/Da Afghanistan Bank

### 2.2. Food Inflation

Food inflation decreased in the month of May 2021. Food and beverages items are weighted for 47.8% of the overall index, on year over year basis, decreased to -1.60% in the month of May 2021 from 12.92% calculated in the month of May 2020. This decrease comes from lower prices of bread and cereals, meat, milk, cheese and eggs, oil and fats, fresh and dried fruits, vegetables, sugar and sweets, spices, and nonalcoholic beverages.

#### BREAD AND CEREALS

Bread and Cereals which accounts for about 15% of the consumer price index, decreased to -3.70% in the month of May 2021 compared to 14.75% in the same month of previous year (year over year). The main reason behind decrease in the prices of mentioned index is the ease of restriction and measurement due to Covid-19 pandemic compare to the same month of previous year.

### MILK, CHEESE AND EGGS

Milk, Cheese and Eggs which comprises 4.7% of the overall index, showed lower prices during the reviewed period. This index has decreased to -2.78% (year over year) in the month of May 2021 from 4.04% observed in the same month of previous year. Reason behind decrease in the prices of this index is the increase in the domestic production of the mentioned index. Afghanistan consume about two billion eggs yearly and 30% is produced domestically. Increase in number of poultry and dairy production farms during the year 2021, and ease of lock down and borders compare to the same month of previous year, both have resulted in the decreased prices of this index in country during May 2021.

### FRESH AND DRIED FRUITS

This index decreased in the month of May 2021. Observing the data, during the reviewed period, this index which comprises 5% of the whole index decreased to 0.36% (year over year) from 10.35% recorded in the same month of previous year.

**Table 4: Food and Non-Alcoholic Beverages (Y-o-Y, in %)**

Items	Weight	May-20	Feb-21	Mar-21	Apr-21	May-21
Food and Non-Alcoholic Beverages	48	13	5	5	-5	-2
Bread and Cereals	15	15	9	9	-2	-4
Meat	7	11	9	9	7	7
Milk, cheese and eggs	5	4	3	4	1	-3
Oils and fats	5	19	16	19	16	14
Fresh and dried fruits	5	10	2	-0.3	-9	0.4
Vegetables	6	23	-7	-10	-31	-17
Sugar and sweets	3	4	6	7	4	3
Spices	1	10	-7	-9	-21	-15
Non-alcoholic beverages	1	4	2	2	2	2

Source: National Statistics and Information Authority/Da Afghanistan Bank

### 2.3. Non-Food Inflation

Inflation in non-food items exhibited upward trend in the month of May 2021. On year over year basis, non-food inflation increased to 4.60% from -0.24% observed in the month of May 2020. This increase comes from higher prices of tobacco, education, housing, clothing, transportation, and communication.

### HOUSING, ELECTRICITY, WATER AND GAS

On the basis of Y-o-Y measure, this index has increased to 4.78% in the month of May 2021 from -4.38% observed in the same month of previous year. This index constituted more than 19% of the whole index; therefore, any changes in its price may significantly affect the overall CPI. Natural gas prices have increased by 65% in international market. also Brishna Sherkat has increased electricity prices since past few months which caused increase in price of this index during May 2021.

### TRANSPORTATION PRICE INDEX

This index accounts for 4.32% of the whole index. Observing the data, transportation index on year over year basis increased to 5.08% in the month of May 2021 from -10.14% recorded in the same month of previous year. The Main reason behind increase in the prices of this index is the increase in the oil prices in international market, during May 2021 gasoline prices are almost doubled in international market.



**Table5: Non- Food Inflation(Y-o-Y, in %)**

Items	Weight	May-20	Feb-21	Mar-21	Apr-21	May-21
	52	-0.21	3	4	4	5
Tobacco	0.3	1	5	6	5	5
Clothing	5	10	6	6	7	6
Housing,	19	-4	2	3	3	5
Furnishing and household goods	12	1	5	7	6	5
Health	6	4	6	5	4	3
Transportation	4	-10	-8	-2	-2	5
Communication	2	-4	-1	1	1	0.4
Information and Culture	1	2	1	2	1	1
Education	0.4	1	5	5	6	6
Restaurants and Hotels	1	2	-0.4	0.3	-0.1	0.2
Miscellaneous	1	12	8	6	4	5

Source: National Statistics and Information Authority/Da Afghanistan Bank

## 2.4. 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 May 2021, trimmed mean (30% of CPI) increased to 2.68% (year over year) from 5.47% observed in the month of May 2020.

**CPI ex. FOOD & BEVERAGES AND TRANSPORATION** increased to 4.56% in the month of May 2021 compared to 0.67% in the same month of previous year.

**CPI ex.BREAD AND CEREALS, OILS AND FATS AND TRANSPORATION** decreased to 1.45% compared to 4.8% recorded in the same month of previous year.

**CPI ex. HOUSING AND TRANSPORATION** decreased to 0.5% in May 2021, compared to 9.58% observed in May 2020 (year over year).

**CPI ex. FOOD AND BEVERAGES** increased to 4.60% in the month of May 2021 compared to -0.24% in the same month of previous year.

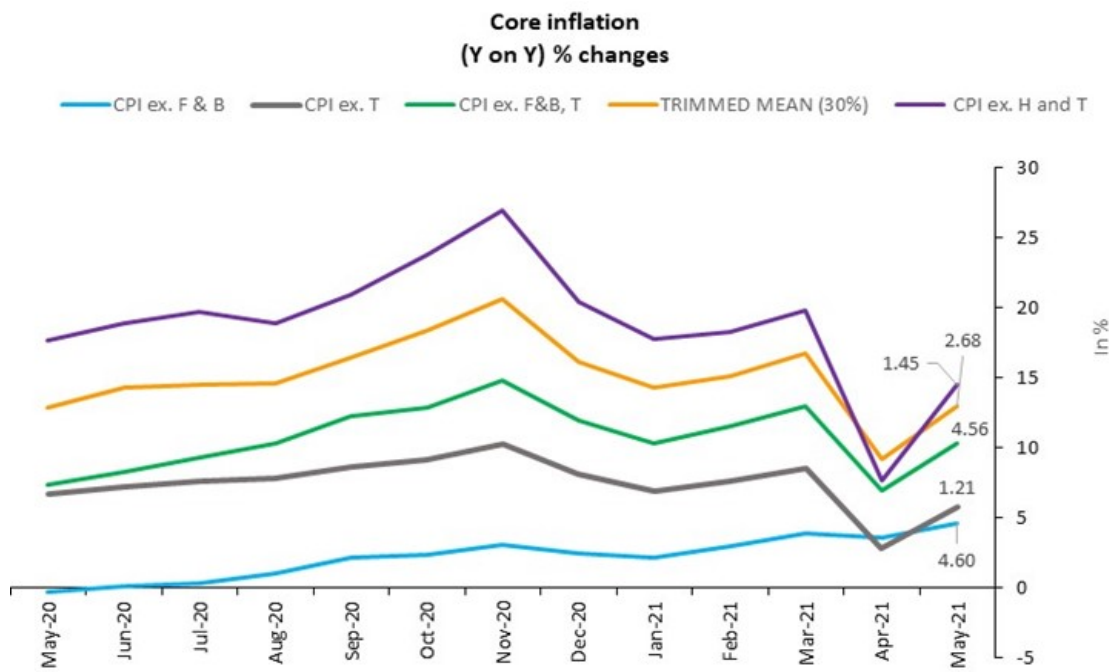
**CPI ex. TRANSPORATION** decreased to 1.21% in the month of May 2021 compared to 6.98% in the same month of previous year.

**Table6: Core Inflation (Y-o-Y, in %)**

Items	May-20	Feb-21	Mar-21	Apr-21	May-21
Trimmed Mean	5	4	4	2	3
CPI ex. Food, Beverages & Transportation	1	4	4	4	5
CPI ex. B&C, O&F, and T	5	3	3	-1	1
CPI ex. H and T	10	5	5	-1	0.5
CPI ex. Food & Beverages	-0.2	3	4	4	5
CPI ex. Transportation	7	5	5	-1	1

Source: National Statistics and Information Authority/Da Afghanistan Bank

**Figure 14: Core Inflation (Y-o-Y, % changes)**



Source: National Statistics and Information Authority/Da Afghanistan Bank

## 2.5. GDP and Unemployment Rate

GDP growth showed downward trend in 2020 and economic growth was lower as compared to 2019. A downward trend in agriculture sector and also weak performances by services and industry sectors caused the economic growth to turn down to -1.9% in 2020 which shows significant decrease from 3.9% in 2019. The contribution of GDP sectors shares reached to, Agriculture 27.01%, Industry 12.47%, and Services 56.07%.

**Based on NSIA survey (2020), unemployment rate was calculated at 18.6%.**

**Table 7: GDP Growth (in %)**

sectors	2017	2018	2019	2020
Agriculture sector	6	-4	17	5
industry sector	9	11	5	-4
services sector	-1	2	-1	-5
GDP	3	1	4	-2

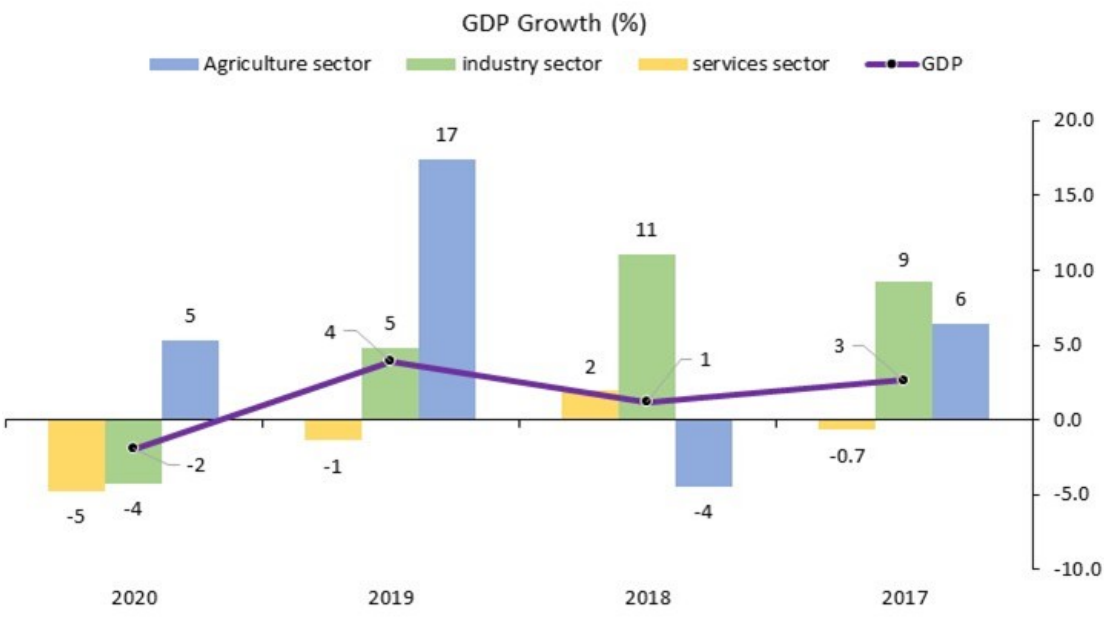
Source: National Statistics and Information Authority/Da Afghanistan Bank

**Table 8: GDP Shares (in %)**

sectors	2017	2018	2019	2020
Agriculture sector	26	22	26	27
industry sector	10	13	14	12
services sector	58	59	55	56

Source: National Statistics and Information Authority/Da Afghanistan Bank

Figure 15: GDP Growth rate



Source: National Statistics and Information Authority/Da Afghanistan Bank

### 3. External Sector

#### 3.1. Current Account Balance

Current account deficit (including official transfers) expanded by 9% and reached at a value of USD 1,047.43 million in the first quarter of the FY 1400 from a value of USD 959.35 million recorded in the first quarter of the FY 1399. This development was attributed to lower earnings from merchandise export, lower receipts in the form of services and investment income as well higher out-payments of merchandise imports during the quarter under review.

##### 3.1.1. Goods Account

The deficit of goods sub-account on BoP basis raised slightly by 3% and stood at a value of USD 1,213.43 million in the first quarter of the FY 1400 compared with a value of USD 1175.43 million recorded in the first quarter of the FY 1399.

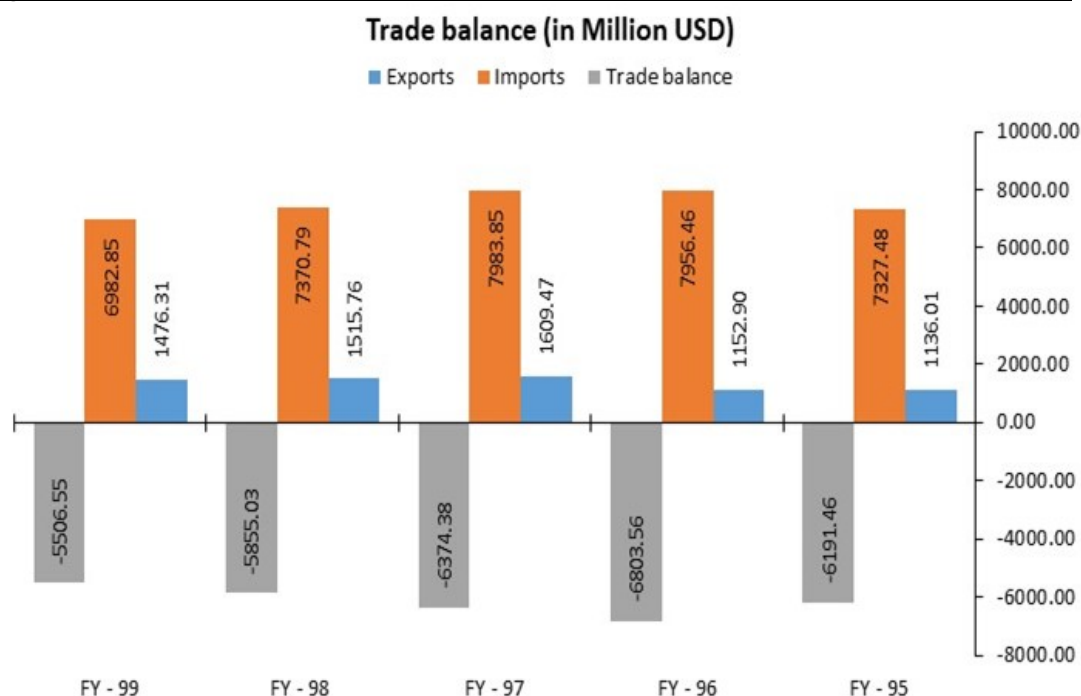
Aggregate merchandise exports declined slightly by 2% and reached at a value of USD 200.10 million in the first quarter of the FY 1400 compared with a value of USD 203.64 million recorded in the similar quarter of the FY 1399 mainly on account of medical seeds components during the first quarter of the FY 1400. While, Aggregate merchandise imports (fob) grew by 3% and reached at a value of USD 1,413.62 million in the first quarter of the FY 1400 above the level USD 1,379.07 million recorded in the preceding and corresponding quarter in FY 1399. The rise was accounted for imports of consumer goods components.

##### 3.1.2. Services Account

In the first quarter of the FY 1400, the deficit of services account increased significantly by 90% and reached at a value of USD 141.74 million from a record of USD 74.46 million in the first quarter of the FY 1399.

In general, the deficit of trade account (goods and services), expanded by about 8%, mainly due to a remarkable decrease in total receipts on respect of services account and a normal increase in out-payments goods during the quarter under review.

**Figure 16: Trade Balance**



Source: NSIA/Monetary Policy Department, DAB staff calculation

### 3.1.3. Primary Income Account

Considering the statistics, the surplus of the primary income account which reflected USD 63.23 million in the first quarter of the FY 1399, reached at a value of USD 24.39 million with sign of 61% decline in the first quarter of the FY 1400 largely due to contraction in investment income inflows associated with foreign investment.

### 3.1.4. Secondary Income Account

Inflows to the secondary income account expanded by 5% and reached at a value of USD 345.70 million in the first quarter of the FY 1400 from a value of USD 327.87 million recorded in the first quarter of the FY 1399. The main impact is related to the net official transfer to the government sector which is increased by 14% and stood at USD 187.7 million in the first quarter of the FY 1400 from a value of USD 164.38 million in the similar quarter of the last year.

Total inflows in the form of personal transfers dropped by 3% and reached at a value of USD 158 million in the first quarter of the FY 1400 from a value of USD 163.50 million recorded in the same quarter of the last year.

### 3.2. Capital Account Balance

Inflows in the form of capital transfers was USD 38.49 million in the first quarter of the FY 1400 which shows 4% reduction from the level USD 40.30 million recorded in the same quarter of the last year, as a result of lower net capital transfers for the account of “general government”, While those in the financial and non-financial corporations, household and non-profit institution serving household were nil during the first quarter of the FY 1400.

### 3.3. Financial Account Balance

Under financial account of the Balance of Payments (BOPs), foreign investment is an important component which consisted of foreign direct investment (FDI), foreign portfolio investment (FPI) and Other Investments.

#### 3.3.1. Direct Investment

The record shows that USD 2.55 million reported as net assets during the first quarter of the FY 1400, while this figure was recorded USD 2.91 in the similar quarter of the last year. Foreign Direct Investment (FDI) abroad increased by 26% and reached to a value of USD 7.70 million in the first quarter of the FY 1400, compared with a value of USD 6.10 million recorded in the level a year ago. While FDI in the country reached at a value of USD 5.15 million in the first quarter of the FY 1400 from a value of USD 3.19 million recorded in the first quarter of the FY 1399.

#### 3.3.2. Portfolio Investment

Outward portfolio investment swung from a value of USD -18.20 million in the first quarter of the FY 1400, when compared with a value of USD -28.98 million recorded in the similar quarter of the last year. On the other hands other aggregated financial assets abroad increased at a value of USD 104.31 million in the first quarter of the FY 1400 from a value of USD 38.22 million recorded in the first quarter of the FY 1399. While Other aggregated financial liabilities, followed downward trend and stood at a value of USD 9.60 million in the first quarter of the FY 1400 from a value of USD -15.67 million recorded in the first quarter of the previous year.

#### **Note:**

Balance of Payments (BoP) table is provided in Annex No. 2.

#### 4. Fiscal Sector

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

Like other emerging and under developing economies around the world, Afghanistan faces budget deficit, where total core expenditures exceed total revenue (excluding grants). At the beginning of fiscal year 2021, total core budget has been estimated Af 473.04 billion, showing 10% or Af 44.66 billion increase from Af 428.38 billion in FY 2020, in annual budget. The total budget Af 473.04 billion is combination of both operating and development budgets, that are estimated each Af 311.41 billion and Af 161.64 billion respectively.

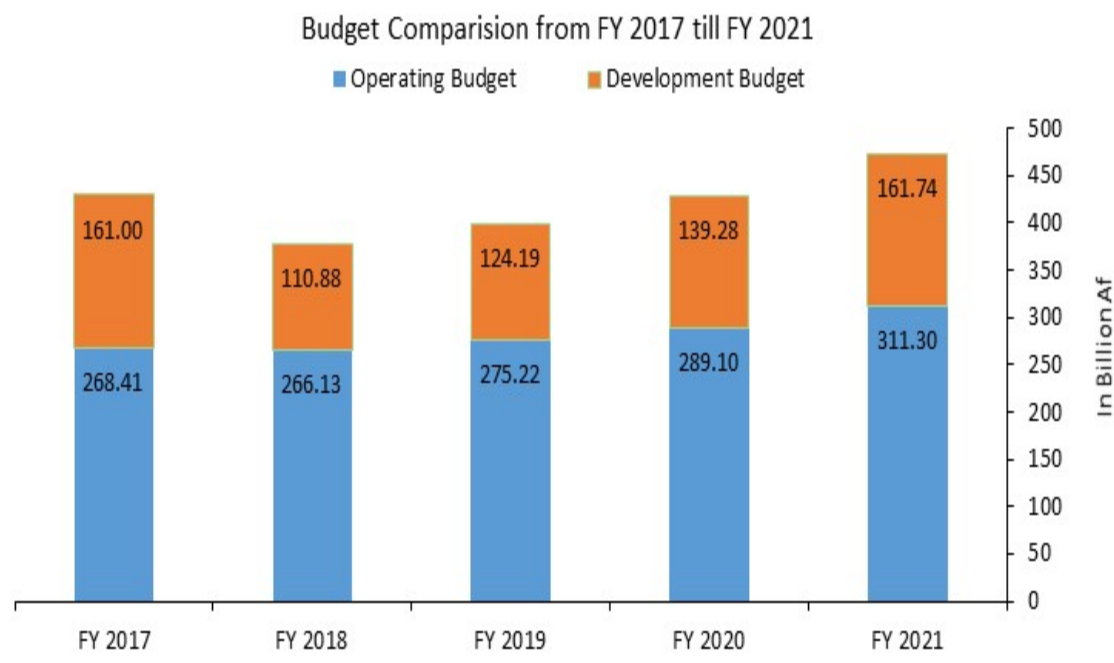
As below table shows, both operating and development budget is increasing since fiscal year 2017 and it was foreseen as a result of increase in domestic revenue collection and donor's contribution.

**Table 9: Budget comparison from FY 2017 till FY 2021 (in Billion Af)**

Date	Operating	Development	Total
FY 2021	311.30	161.74	473.04
FY 2020	289.10	139.28	428.38
FY 2019	275.22	124.19	399.42
FY 2018	266.13	110.88	377.01
FY 2017	268.41	161.00	429.41

Source: MoF Financial Reports/MPD Staffs Calculations

**Figure17: Budget Comparison from FY 2017 till FY 2021**



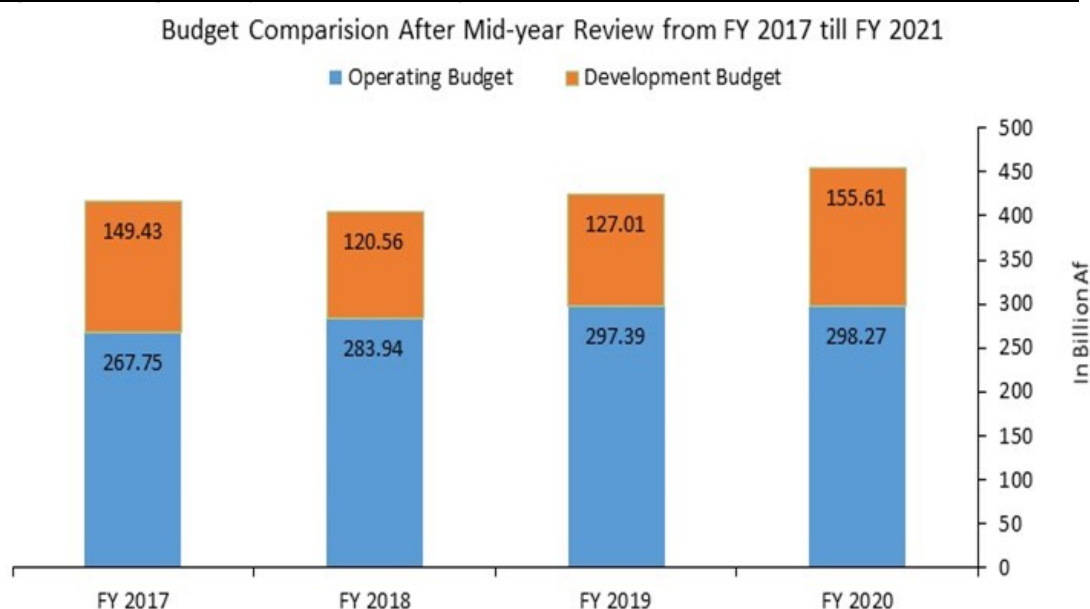
Source: MoF Financial Reports/MPD Staffs Calculations

**Table 10: Growth in Budget from FY 2018 till FY 2021 (in %)**

Date	Operating	Development	Total Core
FY 2021	8%	16%	10%
FY 2020	5%	12%	7%
FY 2019	3%	12%	6%
FY 2018	-1%	-31%	-12%

Source: MoF Financial Reports/MPD Staffs Calculations

**Figure18: Budget Comparison after Mid-year review from FY 2017 till FY 2020**



Source: MoF Financial Reports/MPD Staffs Calculations

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.

Total core budget estimation is increased to Af 453.88 billion after mid-year review including operating budget and development budget of Af 298.27 billion and Af 155.61 billion respectively. This shows an increase of 6% in total core budget from the start of FY 2020 indicating increase of amount Af 25.50 billion.

**Table 11: Budget Comparison after Mid-year review from FY 2017 till FY 2020 (in Billion Af)**

Date	Operating	Development	Total
FY 2020	298.27	155.61	453.88
FY 2019	297.39	127.01	424.40
FY 2018	283.94	120.56	404.51
FY 2017	267.75	149.43	417.18



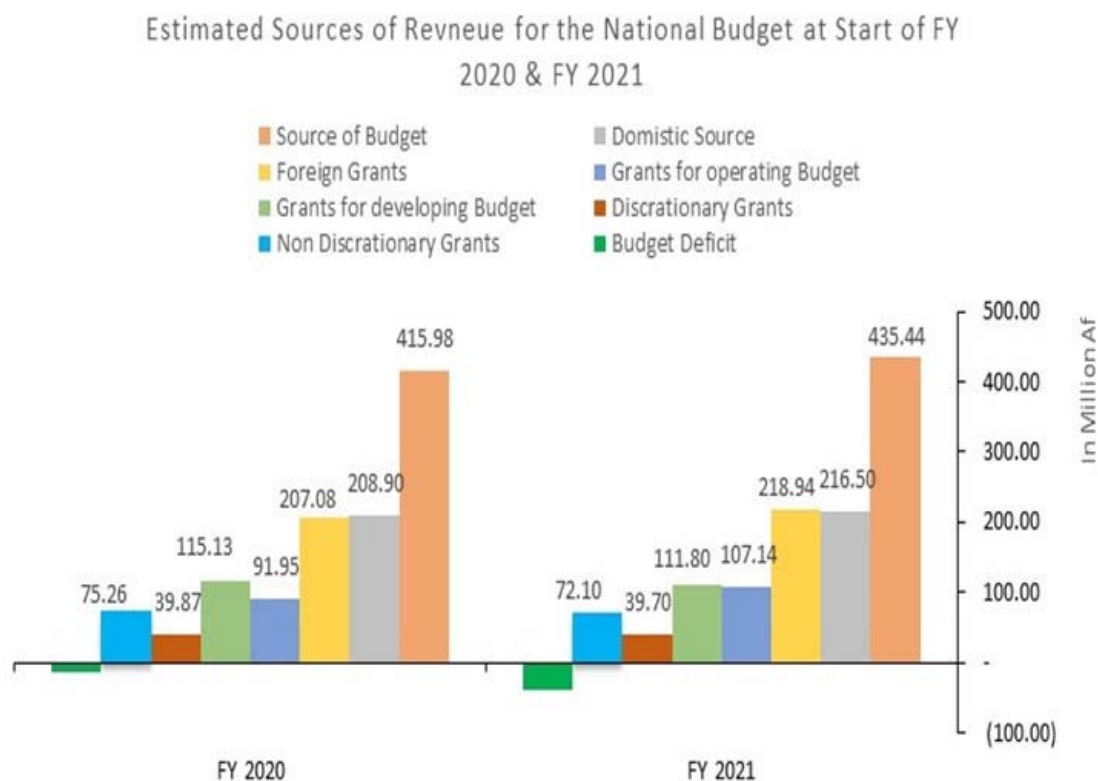
Source: MoF Financial Reports/MPD Staffs Calculations

**Table 12: Growth in Budget after Mid-year review from FY 2017 till FY 2020 (in %)**

Date	Operating	Development	Total
FY 2020	0%	23%	7%
FY 2019	5%	5%	5%
FY 2018	6%	-19%	-3%

Source: MoF Financial Reports/MPD Staffs Calculations

**Figure19: Estimated Sources of Revenue for the National Budget at the start of FY 2020 and FY 2021**



Source: MoF Financial Reports/MPD Staffs Calculations

At the start of Fiscal year 2021, total revenue has been estimated Af 435.44 billion compared to Af 415.98 billion in FY 2020, showing 4.68% or Af 19.46 billion increase in projected revenue. Total estimated domestic revenue at the beginning of FY 2021 was Af 216.50 billion, while at start of FY 2020, it was Af 208.90 billion, which shows 3.64%, or Af 7.60 increase in FY2021. Projected grants at start of FY2021 was Af 218.94 billion while, Projected grants at the beginning of FY2020 was estimated Af 207.08 billion that indicates 5.73% or Af 11.86 billion increase relatively.

Foreign grants are the combination of operating grants and developing grants, at the start of FY 2021 total estimated operating grants was Af 107.14 billion while, total estimated grants at the beginning of FY2020 was Af 91.95 billion which shows 16.52% or 15.19 billion increase in FY2021. Developing budget grants are the combination of discretionary grants and non-discretionary grants which decreased by 0.43% and 4.20% each respectively in the FY2021. The total estimated grants for developing budget is decreased to Af 111.80 billion in FY2021 from Af 115.13 billion in FY2020 while,

total estimated core expenditures exceeded total revenue, which shows Af 12.40 billion and 37 billion budget deficit in FY 2020 and FY 2021 respectively.

**Table 13: Types of Revenue for the month of May FY 2020 and FY 2021 (in Billion Af)**

Types of Revenue	May 2021	May 2020	Increase/Decrease	Growth in %
Monthly Domestic revenues	12.12	8.88	3.25	37%
Monthly donor contributions	12.92	8.79	4.13	47%
Monthly total revenue	25.05	30.76	(5.71)	-19%
Accumulated Domestic Revenue	63.70	69.31	(5.61)	-8%
Accumulated donor contributions	38.51	47.30	(8.79)	-19%
Accumulated total revenue	102.20	116.61	(14.41)	-12%

Source: MoF Financial Reports/MPD Staffs Calculations

**Table 14: Growth in Budget after Mid-year review from FY 2017 till FY 2020 (in Billion Af)**

Types of Expenditure	May2021	May 2020	Increase/Decrease	Growth in %
Monthly Development Expenditure	14.35	12.99	1.36	10%
Monthly Operating Expenditure	25.01	24.39	0.61	3%
Monthly Total Expenditure	38.00	38.74	(0.75)	-2%
Accumulated Development Expenditure	34.53	24.15	10.38	43%
Accumulated Operating Expenditure	89.36	101.04	(11.68)	-12%
Accumulated total expenditure	113.51	135.57	(22.06)	-16%

Source: MoF Financial Reports/MPD Staffs Calculations

Total actual revenue (domestic revenue plus external resources) for the month of May 2021 is Af 25.05

billion, while in May 2020 it was Af 30.76 billion which shows 19% or Af 5.71 billion decrease in May 2021. Total revenue from the start of FY 2021 till end of May reached up to Af 102.20 billion that is combination of Af 38.51 billion donor contributions and Af 63.70 billion domestic revenue respectively. Total revenue from the start of FY 2020 till end of May reached up to Af 116.61 billion that is combination of Af 47.30 billion donor contributions and Af 69.31 billion domestic revenue respectively, this shows a decrease of 12%, 19%, 8% in accumulated revenue, accumulated donor contribution and accumulated domestic revenue respectively.

Likewise, domestic revenue for the month May 2021 is Af 12.12 billion while it was amounted to Af 8.88 billion in the month of May 2020, showing an increase of Af 3.25 billion 37% in the month of May 2021. On the other hand, donor contributions (including loans) amounted to Af 12.92 billion in May 2021, where donor contributions in May 2020 was Af 8.79 billion, which indicates Af 4.13 billion equal to 47% increase in donor contributions for the month of May 2021.

Additionally, total Expenditure at the end of May 2021 reached to Af 113.51 billion, from which operating expenditures and development expenditures are, Af 89.36 billion and Af 34.53billion. likewise, Expenditure at the end of May 2020 reached to Af 135.57 billion, from which operating expenditures and development expenditures were, Af 101.04 billion and Af 24.15billion, so, this

shows a decrease of 16% and 12% in accumulated expenditures and accumulated operating expenditure but at the same it shows 43% increase in accumulated development expenditure.

Also, operating expenditures for the month of May 2021 is Af 25.01 billion, where in May 2020 it was Af 24.39 billion. This signifies that, there is Af 0.61 billion or 3% increase in operating expenditures in the month of May 2021. On the other hand, development expenditures for the month of May 2020 was Af 12.99 billion, while in May 2021 it increased by Af 1.36 or 10% and reached Af 14.35 billion.

**The overall headline fiscal balance was deficit in the month of May 2021**, showing about Af 13 billion of deficit while, it was roughly Af 8 billion deficit in the May 2020 showing increase of Af 5 billion in the budget deficit for May 2020, this is as a result of higher expenditure and low revenue collection in the month of May 2021 while revenue collection was lower compared to the same month in the fiscal year 2020.

## 5.SWIFT Payments

**Table 15: Report of Outward and Inward transactions**

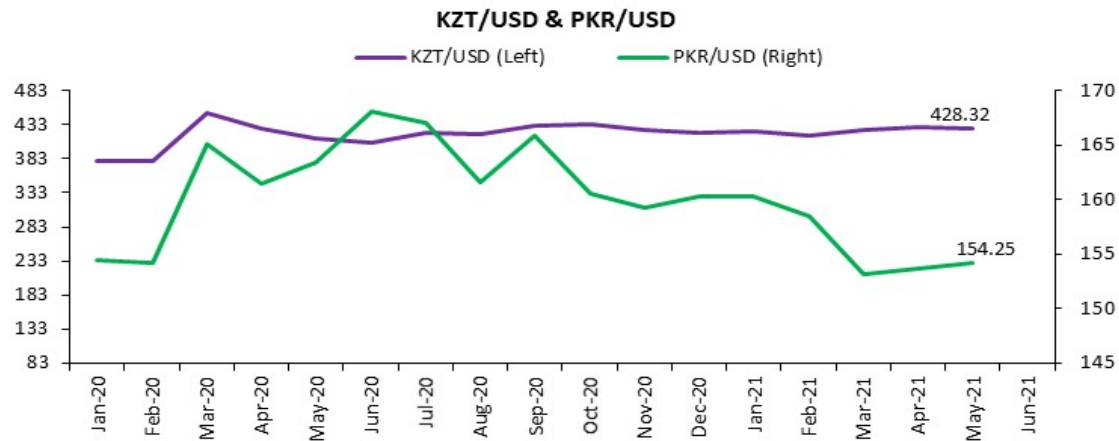
Report of (Outward) Transactions from 1/2/1400 to 31/02/1400						
Categories	Remitter Parties	Message Type	USD	EUR	AED	CHF
A	Ministries	MT 103 ,700	16,379,146.80	2,497,238.00		
B	Commercial Banks	202	76,176,781.77	8,185,257		0
C	Da Afghanistan Bank	200	210,000,000.00	10,000,000	0	0
Report of (Inward )Transactions from 1/2/1400 to 31/02/1400						
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP
A	Ministries	MT 103 , & 910	89,236,631.17	1,707,230.33		0
B	Commercial Banks	202	6,955,644.08	0	0	0
In addition, six exchange transactions executed with a value of USD 2826273 related to the World Bank, and seven exchange transactions executed with a value of USD 159644627.34 related to the FX DEAL.						

Source: Payments Department/Da Afghanistan Bank

## Annexes

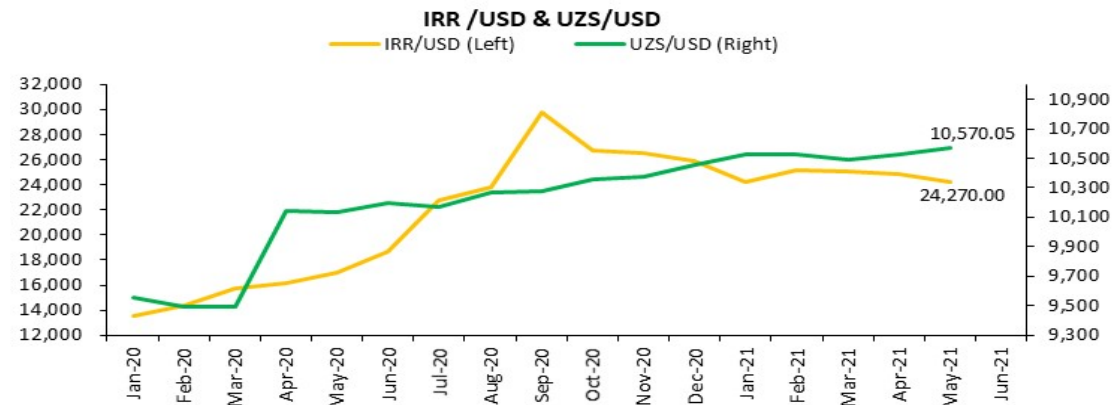
### Annex No. 1

**Figure 20: Exchange Rate of Kazakhstan & Pakistan against USD in FY 1400 (2021)**



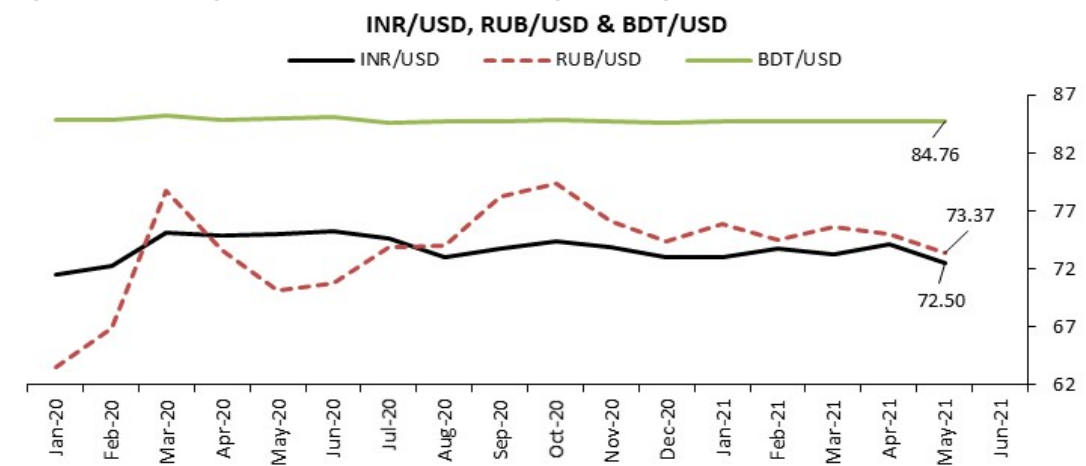
Source: OANDA website

**Figure 21: Exchange Rate of Iran & Uzbekistan against USD in FY 1400 (2021)**



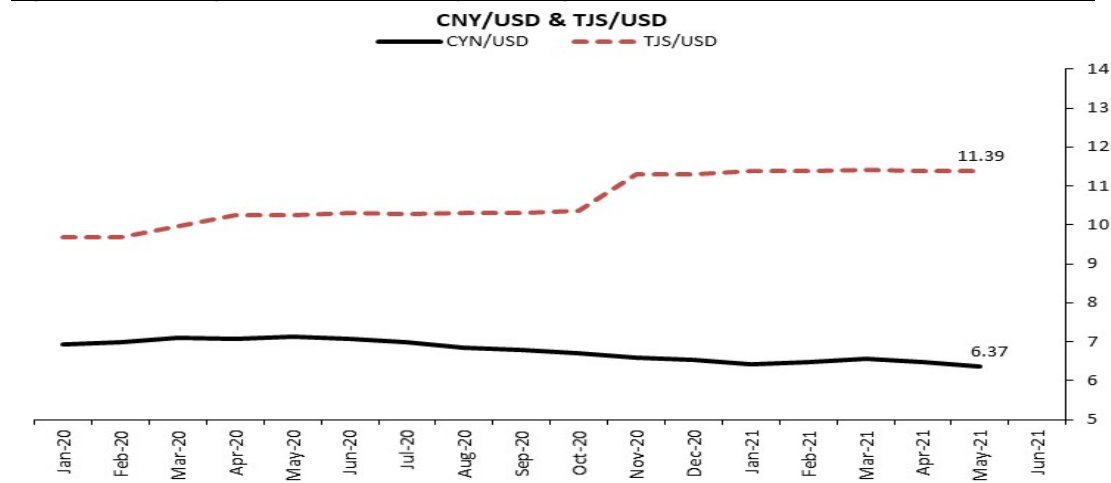
Source: OANDA website

**Figure 22: Exchange Rate of India, Russia & Bangladesh against USD in FY 1400 (2021)**



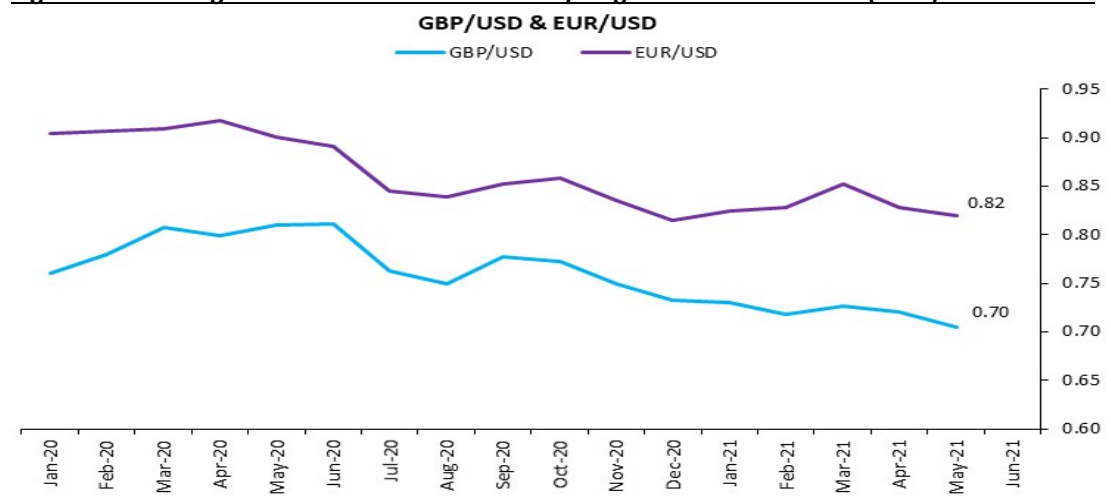
Source: OANDA website

**Figure 23: Exchange Rate of China & Tajikistan against USD in FY 1400 (2021)**



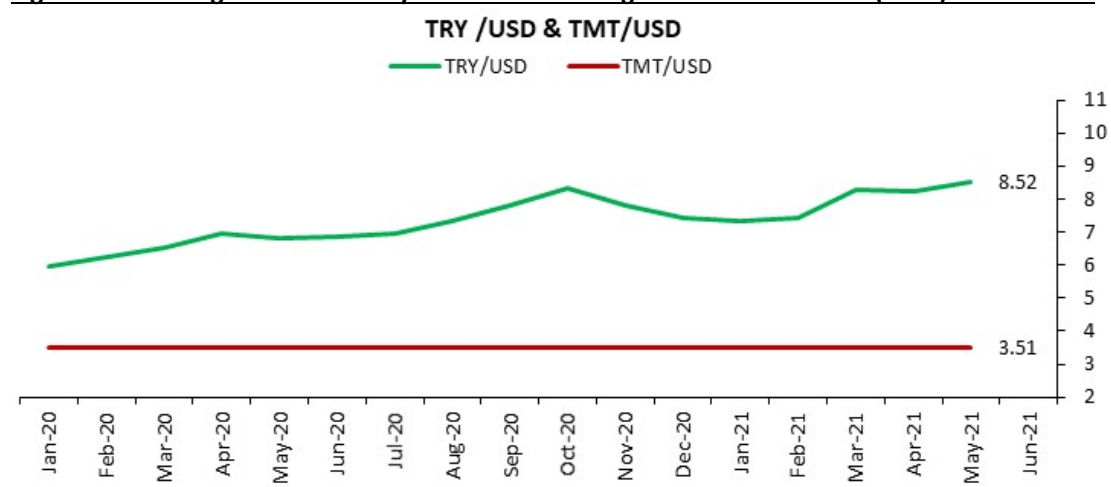
Source: OANDA website

**Figure 24: Exchange Rate of Great Britain & Europe against USD in FY 1400 (2021)**



Source: OANDA website

**Figure 25: Exchange Rate of Turkey & Turkmenistan against USD in FY 1400 (2021)**



Source: OANDA website

**Table16: Quarterly Nominal and Real effective Exchange rate from 2015 to 2021**

S.No.	Year	Quarter	NEER	REER
1	2015	Quarter two	100.0	100.0
2	2015	Quarter three	96.3	95.7
3	2015	Quarter four	96.5	97.0
4	2016	Quarter one	94.7	95.2
5	2016	Quarter two	91.0	91.1
6	2016	Quarter three	94.6	94.9
7	2016	Quarter four	102.7	102.5
8	2017	Quarter one	104.7	104.0
9	2017	Quarter two	98.3	100.0
10	2017	Quarter three	101.6	100.4
11	2017	Quarter four	107.8	105.5
12	2018	Quarter one	110.2	106.7
13	2018	Quarter two	113.7	107.0
14	2018	Quarter three	119.2	109.2
15	2018	Quarter four	126.2	113.1
16	2019	Quarter one	124.1	108.6
17	2019	Quarter two	127.5	109.9
18	2019	Quarter three	124.5	103.0
19	2019	Quarter four	126.9	103.5
20	2020	Quarter one	130.2	106.1
21	2020	Quarter two	164.0	129.8
22	2020	Quarter three	149.9	119.2
23	2020	Quarter four	145.7	116.4
24	2021	Quarter one	145.4	114.2

Source: Monetary Policy Department



## Annex No. 2

**Table 17: Afghanistan's Balance of Payments (In Million USD)**

Items / Years	Q1 1399	Q2 1399	Q3 1399	Q4 1399	Q1 1400	% change
Current Account	-959.35	-426.87	-903.72	-846.80	-1047.43	9%
Credit	802.61	844.63	1253.03	1336.20	706.22	-12%
Debit	1761.96	1271.50	2156.75	2183.00	1753.66	0%
Goods and Services Account	-1249.89	-1041.77	-1661.17	-1553.71	-1355.17	8%
Credit	399.69	146.45	383.20	546.97	322.02	-19%
Debit	1649.58	1188.22	2044.38	2100.67	1677.19	2%
Goods Account	-1175.43	-960.89	-1533.00	-1431.58	-1213.43	3%
Credit	203.64	32.00	198.42	342.67	200.18	-2%
Debit	1379.07	992.89	1731.42	1774.26	1413.62	3%
Services Account	-74.46	-80.88	-128.17	-122.12	-141.74	90%
Credit	196.05	114.45	184.78	204.29	121.83	-38%
Debit	270.51	195.33	312.96	326.41	263.57	-3%
Primary Income Account	63.23	30.22	51.77	44.01	24.39	-61%
Credit	75.05	42.14	65.58	57.63	38.51	-49%
Debit	11.82	11.92	13.81	13.63	14.11	19%
Secondary Income Account	227.31	584.68	705.69	662.90	283.34	25%
Credit	327.87	656.05	804.25	731.60	345.70	5%
Debit	100.57	71.36	98.56	68.70	62.36	-38%
Current transfers	164.4	500.8	573.7	558.7	187.7	14%
Credit	164.38	500.76	573.7	558.7	187.7	14%
Debit	0.00	0.00	0.0	0.0	0.0	
Personal transfers	95.91	108.25	176.93	150.36	131.68	37%
Credit	163.50	155.29	230.57	172.87	158.00	-3%
Debit	67.59	47.04	53.64	22.51	26.32	-61%
Capital account	40.30	99.60	102.23	510.99	38.49	-4%
Credit	40.30	99.60	102.23	510.99	38.49	-4%
Debit	0.00	0.00	0.00	0.00	0.00	
Capital transfers	40.30	99.60	102.23	510.99	38.49	-4%
Credit	40.30	99.60	102.23	510.99	38.49	-4%
Debit	0.00	0.00	0.00	0.00	0.00	
Financial account	-147.5	347.0	78.3	338.79	-305.48	107%
Direct investment	2.91	-0.43	5.34	16.44	2.55	-12%
Net acquisition of financial assets	6.10	2.59	10.12	18.42	7.70	26%
Net incurrence of liabilities	3.19	3.02	4.78	1.98	5.15	61%
Portfolio investment	-18.20	41.19	76.72	-36.46	-28.98	59%
Net acquisition of financial assets	-18.20	41.19	76.72	-36.46	-28.98	59%
Net incurrence of liabilities	0.00	0.00	0.00	0.00	0.00	
Other investment	-22.54	-290.93	-48.50	60.82	-94.71	320%
Assets	-38.22	-74.09	-46.03	158.45	-104.31	173%
Liabilities	-15.67	216.84	2.48	97.63	-9.60	-39%
Reserve Assets	-109.67	597.16	44.74	297.99	-184.33	68%
Net errors and omissions	772	674	880	675	703	-9%

Source: NSIA/Monetary Policy Department, DAB staff calculation