



Da Afghanistan Bank

Economic & Statistical Bulletin

Quarterly Bulletin, Q3 - FY 1395



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Quarterly Bulletin, Q3 - FY 1395

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Note:

Afghanistan's Fiscal year has been changed effective from 1391 (2012). The new fiscal year begins on December 21 each year. This Quarterly Bulletin analyzes developments in the second quarter of fiscal year 1395, which covers June 21st, 2016 to September 21st, 2016.

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ABBREVIATIONS

DAB	Da Afghanistan Bank
GOA	Government of Afghanistan
FEMA	Foreign Exchange Market in Afghanistan
CPI	Consumer Price Index
NCPI	National Consumer Price Index
KCPI	Kabul Consumer Price Index
TM	Trimmed Mean
MOF	Ministry of Finance
CMEA	Ex-Soviet Trading Block
ARTF	Afghanistan Reconstruction Trust Fund
LOTFA	Law and Order Trust Fund for Afghanistan
MPD	Monetary Policy Department
GDP	Gross Domestic Product
WGP	World Gross Product
CSO	Central Statistics Office
CIS	Commonwealth of Independent States
IMF	International Monetary Fund
IDB	Islamic Development Bank
SDR	Special Drawing Rights
RM	Reserve Money
CiC	Currency in circulation
NIR	Net International Reserves
GIA	Gross International Asset
FX Auction	Foreign Exchange Auction
CNs	Capital Notes
ONDF	Overnight Deposit Facility
ONCF	Overnight Credit Facility
CA	Current Account
FA	Financial Account
FDI	Foreign Direct Investment
FSD	Financial Supervision Department
LCs	Letters of Credit
ODCs	Other Depository Corporations
ROA	Return on Assets
ROE	Return on Equity
NPL	Non-performing Loan

Senior Management



Khalil Sediq

Governor



Muhammad Qaseem Rahimi

Second Deputy Governor



Wahidullah Noshier

First Deputy Governor



Message

From the Governor

“Da Afghanistan Bank (DAB) policies/efforts are geared towards protecting the most vulnerable segments of society by focusing on price stability -DAB’s primary mission- through implementing a sound and effective monetary policy”

EXECUTIVE SUMMARY

Despite persistent economic and political uncertainty the Afghan economy, which was further aggravated by the withdrawal of international troops, is growing faster than anticipated. The third quarter of the fiscal year 2016 witnessed remarkable advances in revenue collections and exports. Domestic revenue more than doubled in the third quarter reaching Af 59.73 billion, up from Q3 2015's Af 28.86 billion. Overall tax revenue including custom duties also increased from Af 21.13 billion to Af 24.49 billion, compared to the same quarter of the FY 2015, which represents an increment of 16 percent or Af 3.36 billion.

Similarly, The current account of the BOP (balance of Payment) posted a deficit of USD 1,097.09 million in the third quarter of the FY 1395, lower from a deficit of USD 1,744.16 million in third quarter of the FY 1394. The deficit shrunk largely due lower expenditure on imports of both goods and services, higher earnings from exports also played a limited role in reducing the trade deficit during the quarter under review. The deficit in trade balance reduced by 35 percent to USD 1,322.18 million in the third quarter of the FY 1395 from USD 2,042.63 million in the third quarter of the FY 1394. Also, financial account of the BOP turned from a net outflow of USD 212.84 million in the third quarter of the FY 1394 to a net inflow of

USD 66 million recorded in the third quarter of the FY 1395

On inflation front, headline inflation averaged 6.86 percent, higher than 5.96 percent in the second quarter, and -1.9 percent recorded in the third quarter of the previous year. Inflation continued to rise owing to some external and internal factors. External factor included rise in global prices of most commodities, albeit there were some decline in price of crude oil and grains

Meanwhile, Actual CIC and RM which were below their target levels during first and second quarter of current fiscal year exceeded their target levels and registered a positive growth of 7.9 and 7.4 percents respectively in third quarter. At the end of this quarter reserve money (RM) which is Da Afghanistan Bank's operational target, stood at AF 239,727million while Currency in circulation (CIC) which is indicative target of DAB reached Af 215022 million.



1

GLOBAL ECONOMIC ENVIRONMENT

1

GLOBAL ECONOMIC ENVIRONMENT

According to the International Monetary Fund (IMF), the global economic growth is expected to be 3.1 percent in 2016 which is down by 0.1 percentage point from the previous forecast (IMF forecast) in April of the current year indicating subdued outlook for advanced economies after the UK vote of exiting the European Union (Brexit) as well as weaker growth in the United States. As a result, the developments had a declining effect on the global interest rates and therefore, accommodative monetary policy is expected for a longer period. Despite, the market reaction to the Brexit was orderly, but still the ultimate impact on the economic relations between the UK and the European Union countries is unclear. Therefore, the economic growth forecast for the advanced economies in 2016 is marked down to 1.6 percent by the IMF.

The economic growth of the emerging markets and developing economies, which indicated a decline over the last five years, would slightly strengthen in 2016 and is expected to be 4.2 percent. The outlook of the mentioned economies is not even and generally weaker

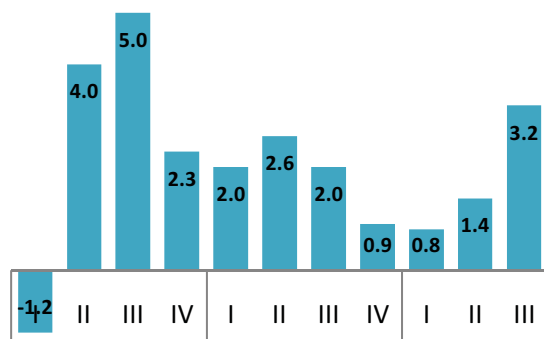
compared to the past. Although the financing conditions have improved with the anticipation of decreasing interest rates in advanced economies, other factors are weighing on activity.

I. ADVANCED ECONOMIES

1.1.1 The United States Economy

The GDP of the United States increased at an annual rate of 3.2 percent in the third quarter of 2016. In the previous quarter, the increase in the GDP was recorded at 1.4 percent. In the third quarter, the personal consumption expenditures (PCE), exports, private inventory investment and federal government spending contributed positively to the increase in the GDP while the residential fixed investment and state and local government spending contributed negatively to the increase in the GDP.

**Figure 1.1 : The U.S. GDP Growth Rate
Percent Change from Preceding Period
Seasonally Adjusted at Annual Rates**



Source: Bureau of Economic Analysis, U.S. Department of Commerce

The consumer price index for all urban consumers was higher by 0.3 percent (seasonally adjusted) in September 2016. In the previous month, the index indicated an increase of 0.2 percent while in the month of July, the index showed no change from the preceding period.

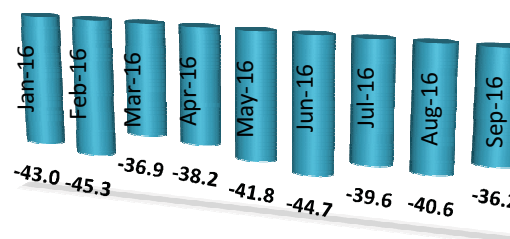
**Figure 1.2: The U.S. CPI for All Urban Consumers
One Month Percent Change
Seasonally Adjusted**



Source: Bureau of Labor Statistics, United States Department of Labor

The U.S. international trade deficit (goods and services) reached USD 36.2 billion in September 2016 down from USD 40.6 billion in the previous month indicating a decrease of 12.2 percent. In September, the exports reached USD 189.8 billion and imports were recorded at USD 225.9 billion while in the previous period, the exports and imports amounted USD 188.0 billion and USD 228.6 billion respectively. In July, the exports stood at USD 186.4 billion and the imports reached USD 226.0 billion which shows a deficit of USD 39.6 billion.

**Figure 1.3: The U.S. International Trade Balance
(goods and services)**

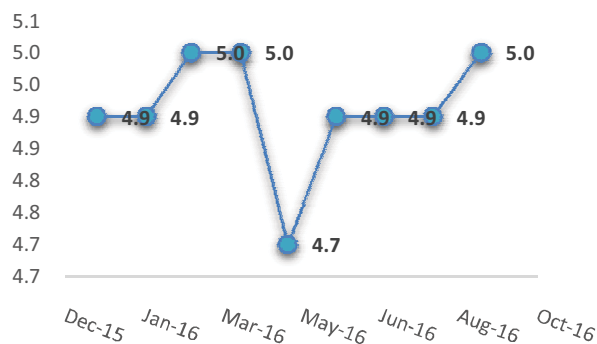


Source: Bureau of Economic Analysis, U.S. Department of Commerce

The U.S. seasonally adjusted unemployment rate was recorded at 5 percent in September, 2016 while the rate was 4.9 percent for the months August and July which indicates a slight increase of 0.1 percentage points. In 2016, the lowest unemployment rate was observed in May which stood at 4.7 percent and the highest unemployment rate was

recorded at 5 percent which was observed in months of March, April and September.

**Figure 1.4: The U.S. Unemployment Rate
(Seasonally adjusted, percent change)**



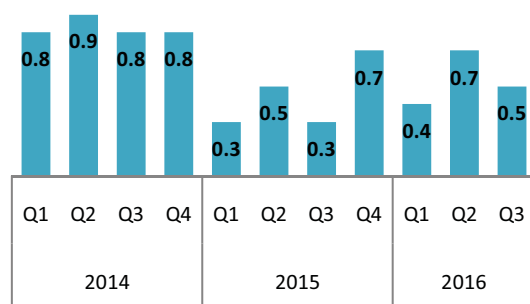
Source: Bureau of Labor Statistics, United States

Department of Labor

1.1.2 The Economy of United Kingdom

The economy of UK grew by 0.5 percent (Q-o-Q) in the third quarter of the current year. In the previous quarter, the economy of UK indicated a growth of 0.7 percent. In the third quarter, the main driver of the UK economic growth was the net external demand while the household expenditure and fixed investment increased at a lower rate.

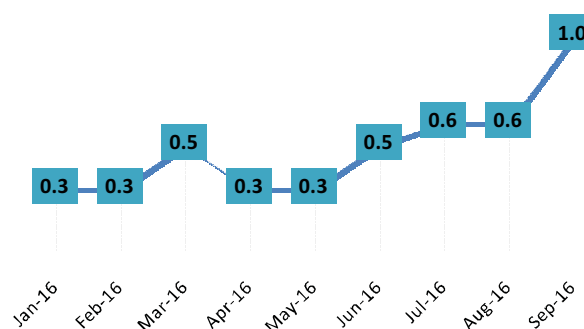
**Figure 1.5: The U.K. GDP Growth Rate (Q-o-Q)
Seasonally adjusted, percent change**



Source: Office for national Statistics, UK

The consumer prices in UK increased at an annual rate of 1 percent in September, 2016 compared to 0.6 percent rise in the previous month. The main contributor for in the increase in the consumer prices were higher prices for clothing, motor fuels and overnight hotel stays. In July, the rate was recorded at 0.6 percent up from 0.5 percent rise in the previous period.

**Figure 1.6: The U.K Inflation Rate Annualized
% Change)**



Source: Office for National Statistics, UK

The UK unemployment rate declined to 4.8 percent in the third quarter 2016 from 4.9 percent in the previous period. The unemployment rate indicates a decrease of 5.3 percent compared to the same period of last year. The UK unemployment rate in the third quarter of the current year is the lowest since the same period of 2005.

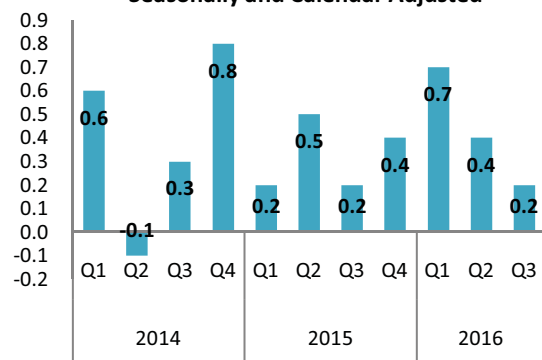
The trade deficit (goods and services, Q-o-Q) of the UK decreased by GBP 1.6 billion in the third quarter standing at GBP 11.0 billion. The exports of goods increased by GBP 4.5 billion (6.1 percent) while the exports of services showed a decline of GBP 0.1 billion (0.1

percent). Meanwhile, the imports of goods increased by GBP 3.1 billion (2.8 percent), but the import of services indicated a decrease of GBP 0.3 billion (0.7 percent).

1.1.3 The Economy of Germany

The GDP of Germany increased by 0.2 percent down from 0.4 percent growth in the previous quarter. The main contributor to the GDP growth was domestic final consumption expenditure in the quarter under review. Both household final consumption expenditure and government final consumption expenditure were up by 0.4 percent and 1.0 percent respectively. Conversely, the growth of the fixed capital formation was stagnated while gross fixed capital formation in construction increased by 0.3 percent and capital formation in machinery and equipment decreased by 0.6 percent. Besides, the balance of trade also had a negative impact of -0.3 percentage points on the GDP growth.

Figure 1.7: The GDP Growth Rate of Germany
Quarter on quarter percent change
Seasonally and Calendar Adjusted



Source: Federal Statistical Office (Destatis)

The annual inflation rate of Germany was recorded 0.7 percent in September 2016. In August, the annual inflation rate stood at 0.4 percent while in the preceding month the annual inflation rate was also 0.4 percent.

The unemployment rate (adjusted for seasonal and irregular effects) of Germany was recorded at 4.1 percent in the month of September while the unemployment rate in the August was recorded at 4.2 percent same as in the preceding month. In September, 1.65 million (1.77 million after adjustments) persons were unemployed while 1.80 million (1.82 million after adjustments) persons were not employed in August. In July, 1.85 million (1.82 million after adjustments) persons were unable to find jobs.

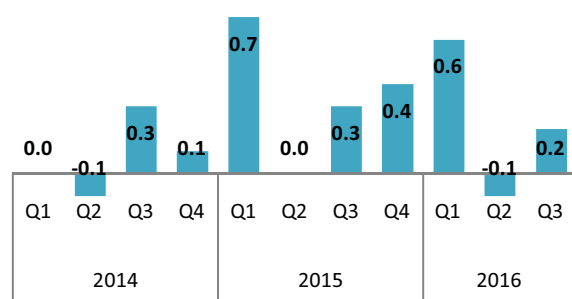
The foreign trade balance of Germany indicated a surplus of 21.3 billion euros on a calendar and seasonally adjusted terms in September 2016 while the foreign trade surplus was recorded at 22.2 billion euros in the previous month indicating a decrease of 4.05 percent in September. The foreign trade surplus is higher by 9.79 percent in September compared to 19.4 billion euros in July.

1.1.4 The Economy of France

The GDP of France increased by 0.2 percent in the third quarter of 2016 after 0.1 percent decrease in the previous quarter. Household consumption remain stable in the third quarter; expenditure in services increased by 0.3 percent in third quarter compared to 0.2

percent decline in the previous quarter while expenditure in goods decreased by 0.5 percent after 0.1 percent increase in the previous period. Household investment increased, but the corporate investment declined again in quarter under review. The inventory changes showed a positive contribution of 0.6 points to the GDP growth in third quarter after a negative contribution of -0.8 points in the previous quarter. The foreign trade balance contributed negatively to the GDP by -0.5 points in third quarter after 0.6 points in the previous quarter.

Figure 1.8: The GDP Growth Rate of France
Percent change from previous period
Working day and seasonally adjusted



Source: National Institute of Statistics and Economic Studies (Insee)

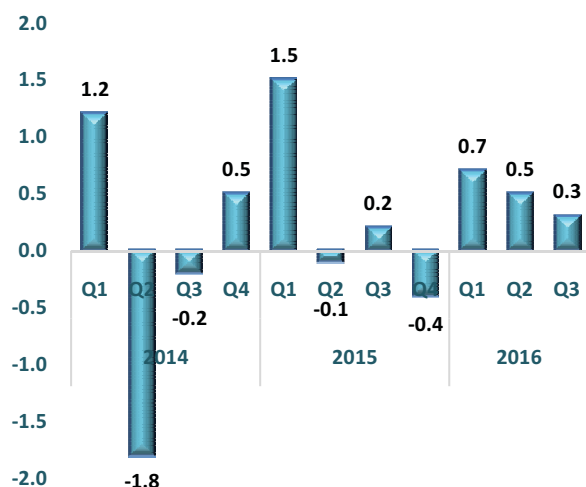
The consumer price index (CPI) of France may have increased by 0.4 percent (Year-on-Year) in September 2016 after 0.2 percent increase in August. In July, the consumer prices also indicated an increase of 0.2 percent. The main reason behind the higher inflation rate in September is considered to be higher prices for services.

The unemployment rate in metropolitan France and overseas department reached 10.0 percent in the third quarter up from 9.9 percent in the previous period indicating an increase of 0.1 percentage points. Only in metropolitan France the unemployment rate increased by 9.7 percent in the quarter under review.

The seasonally adjusted foreign trade deficit (in goods) of France increased to USD 20.83 billion in the third quarter of 2016 from USD 15.72 billion in the previous quarter indicating an increase of USD 5.11 billion (32.51 percent). On monthly basis, the seasonally adjusted foreign trade deficit of France (in goods) in July, August and September amounted USD 6.66 billion, USD 7.14 billion and USD 7.03 billion respectively.

1.1.5 The Economy of Japan

The economy of Japan grew by 0.3 percent (seasonally adjusted, Q-o-Q) in the third quarter of 2016 compared to 0.5 percent growth in the previous quarter. The private consumption increased from 0.2 percent in the second quarter to 0.3 percent in the third quarter. Household consumption also indicated an increase of 0.1 percentage point (increased from 0.2 percent in Q2 to 0.3 percent in Q3) in the third quarter. The government consumption increased from -1.1 percent in the previous quarter to 0.3 percent in the third quarter while the public investment decreased to 0.1 percent in the third quarter from 1.6 percent in the previous period.

**Figure 1.9: The GDP Growth Rate of Japan
Seasonally Adjusted, Q-o-Q % Change**

Source: Cabinet Office, Japan

The annual inflation rate of Japan was -0.5 percent in September 2016 same as the previous month while in July the rate was recorded at -0.4 percent. The main reason behind the decline in the inflation is considered to be lower household spending.

The seasonally adjusted unemployment rate of Japan was 3 percent in July 2016 while the rate increased to 3.1 percent in August and in September the rate declined back to 3 percent. The number of unemployed persons stood at 2.03 million (not seasonally adjusted) in July, but in August the number of unemployed persons reached 2.12 million. However, the number of jobless persons declined to 2.04 million in September.

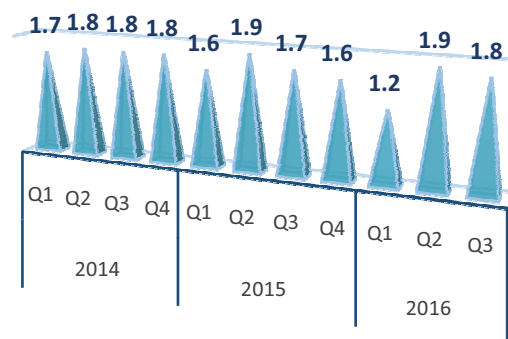
The trade balance of Japan indicated a surplus of 493.2 billion yen in September 2016; exports amounted 5,968.65 billion yen and imports amounted 5,475.45 billion yen. In August,

exports were recorded at 5,316.64 billion yen while the imports reached 5,339.56 billion yen indicating a trade deficit of 22.9 billion yen. In July, the exports amounted 5,729.16 billion yen and imports reached 5,218.76 billion yen which shows a trade surplus of 510.4 billion yen.

II. EMERGING MARKET ECONOMIES

1.2.1 The Economy of China

The economy of China expanded by 1.8 percent (Q-o-Q) in the third quarter of 2016 down from 1.9 percent in the previous quarter. The GDP of China indicates a 0.1 percentage point increase in the third quarter of the current year compared to the same period of last year. At an annual rate, the GDP of China increased by 6.7 percent in the third quarter which is a similar growth rate to previous two quarters of the current year.

**Figure 1.10: The GDP Growth Rate of
China
(Q-o-Q, % Change)**

Source: National Bureau of Statistics of China

The inflation rate of China increased at an annual rate of 1.9 percent in September 2016. In August the rate was recorded at 1.3 percent while in July, the inflation rate stood at 1.8 percent. On monthly basis, the inflation increased by 0.7 percent in September while in August and July, the prices were higher by 0.1 and 0.2 percent respectively.

The unemployment rate of China slightly decreased to 4.04 percent in the third quarter from 4.05 percent in the previous quarter. China has created 10.67 million new jobs during the nine months of the current year.

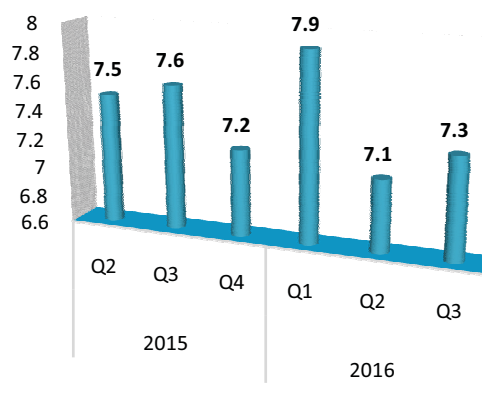
In September, the exports of China reached USD 184.51 billion and the Imports amounted USD 142.52 billion indicating a trade surplus of USD 41.99 billion (down 29.6 percent year on year). In August, the exports were recorded at USD 190.59 billion and the imports stood at USD 138.54 billion showing a trade surplus of USD 52.05 billion (down 12.8 percent year on year) while in July, the trade surplus amounted USD 52.31 billion (up 24.9 percent year on year); the exports were USD 184.73 billion and the imports were USD 132.43 billion.

1.2.2 The Economy of India

The GDP of India is estimated to have increased by 7.3 (Y-o-Y) percent in the third quarter of 2016 while in the previous quarter the GDP growth rate was recorded at 7.1 percent. In the third quarter, based on year on year comparison, the agriculture, forestry and fishing grew by 3.3 percent, construction

increased by 3.5 percent, and electricity, gas water supply and other services were higher by 3.5 percent while mining and quarrying declined by 1.5 percent.

**Figure 1.11: The GDP Growth Rate of India
Y-o-Y, % Change**



*Source: Ministry of Statistics and Program Implementation,
India*

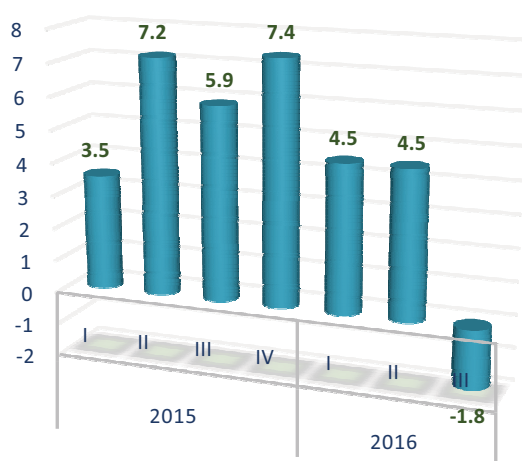
The inflation rate of India was recorded at 4.39 percent in September 2016 while in the previous month the rate was recorded at 5.05 percent. During the course two months (July-September) the inflation rate indicated a decline of 1.68 percentage points.

The exports of India was amounted USD 22.6 billion and the imports were recorded at USD 30.0 billion in September 2016 indicating a trade deficit of USD 7.4 billion. In August, the exports and imports amounted USD 21.5 billion and USD 28.6 billion respectively showing a trade deficit of USD 7.1 billion. In July, the trade deficit stood at USD 7.3 billion (exports amounted USD 21.5 billion and Imports amounted USD 28.8 billion).

1.2.3 The Economy of Turkey

The GDP of Turkey decreased by 1.8 percent in the third quarter of 2016 compared to the same period of previous year. The calendar adjusted GDP indicates a decrease of 0.2 percent in the third quarter of the current year compared to the same quarter of last year while the seasonally and calendar adjusted GDP shows a decrease of 2.7 percent in the third quarter of 2016 compared to the previous quarter.

**Figure 1.12: The GDP Growth Rate of Turkey
Y-o-Y, % Change**



Source: Turkish Statistical Institute, Turkey

The consumer prices in Turkey increased by 7.28 percent at an annual rate in September 2016. In July and August, the inflation rate was recorded at 8.79 percent and 8.05 percent respectively. On monthly basis, the inflation rate stood at 0.18 percent in September 2016 while in July and August the rates were

recorded at 1.16 percent and -0.29 percent respectively.

The seasonally adjusted unemployment rate of Turkey was 11.3 percent in the month of September 2016 while in August; the rate was recorded at 11.4 people which indicate a decrease of 0.1 percentage point in September. The unemployment rate indicates an increase of 0.1 percentage points compared to 11.2 percent in the month of July.

The trade deficit of Turkey was USD 4.36 billion in September which indicates an increase of 14.1 percent in compared to the same period of previous year. In August 2016, the trade deficit was USD 4.69 billion which shows a decrease of 5.3 percent compared to the same month of last year. Similarly, in July 2016, the trade deficit was USD 4.79 billion indicating a remarkable decrease of 32.5 percent compared to the same period of previous year.




2

**MONETARY AND CAPITAL MARKET
DEVELOPMENT**

2

MONETARY AND CAPITAL MARKET
DEVELOPMENT

 Monetary development chapter provides succinct analysis of the developments in monetary sector under Extended Credit Facility (ECF) program, monetary aggregates, net international reserves, foreign exchange rates, open market operation and liquidity condition in the country in the third quarter of fiscal year 2016.

Actual CIC and RM were below their target levels during first and second quarter of current fiscal year while during the third quarter actual CIC exceeded the target and registered a positive growth of 7.9 and 7.4 percent respectively. At the end of this quarter reserve money (RM) which is Da Afghanistan Bank's operational target, stood at AF 239,727 million while Currency in circulation (CIC) which is indicative target of DAB reached Af 215022 million.

Narrow money (M1), stood at Af 392,116 million at the end of the quarter under review, registering a growth of 3.11 percent (Q-o-Q). Broad money (M2) demonstrated similar behavior and grew by 3.72 percent (Q-o-Q)

standing at Af 424,311 million at the end of the Q3, FY 1395.

At the end of Q3 DAB's net international reserve (NIR) recorded an increase of 7 percent, reaching USD 6,868.65 million.

Afghani exchange rate experienced an appreciation of 3.35 percent during the third quarter of fiscal year 2016.

DAB auctioned a total amount of USD 418.04 million to manage the liquidity in the market as well as to mitigate the severe fluctuations in exchange rate of Afghani against the foreign currencies. The total outstanding amount of CNs stood at AF31.107 billion at the end of period under review.

I. MONETARY PROGRAM

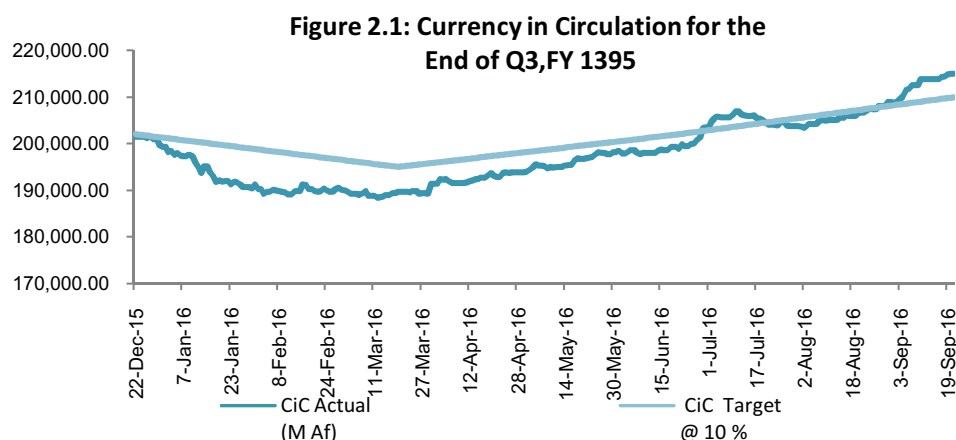
To determine the amount of RM for purpose of supporting domestic price stability, DAB's primary objective, DAB uses quantitative theory of money. Hence, the assigned targets for RM and (CIC) are based on expected economic growth and expected inflation during the concerned period.

Figure 2.1 and 2.2 show trend in CIC and RM relative to the DAB target. CIC and RM were below from the target over first and second quarter, however, in the third quarter CIC and RM displayed a positive growth and exceeded the target level by quite some margin.

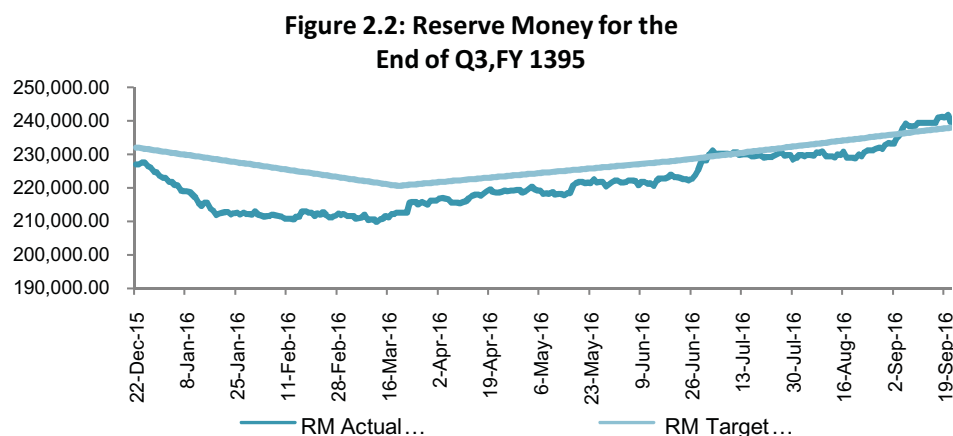
During the quarter under review CIC and RM recorded growth of 7.9 and 7.4 percent respectively. CIC stood at Af 215,022.85 million at 21 September 2016 which is Af 5,022.85 million more than the target. RM also stood at

Af 239,727.34 million which is also higher than the target level at the end of the third quarter. DAB continued sterilizing domestic currency the third quarter to absorb excess liquidity as well as to prevent severe volatilities in the nominal exchange rate of Afghani against foreign currencies.

The Figure 2.1 and 2.2 present the ceiling and actual figures for CIC and RM during three quarter quarters of FY1395.



Source: Monetary Policy Department/DAB



Source: Monetary Policy Department/DAB

II. MONETARY AGGREGATES

According to monetary survey data which is shown in table 2.1, the supply of broad money or M2 increased by Af 15,206 million in the quarter under review from Af 14,814 million recorded in previous quarter. This shows an increase of 3.72 percent in third quarter from 3.8 percent in the second quarter of FY 1395.

The increase in broad money is largely due to increase of 11.72 percent in quasi- money in the quarter under review, in the previous quasi registered a growth of mere 4.4%.

Narrow Money (M1) grew by 3.11 percent, standing at Af 11,832 million at the end of quarter under review compared to growth of 3.7 percent in the second quarter. Currency outside depository corporations or CIC, a major component of M1 (50%), grew by 7.07 percent in current quarter, up from 4.74 percent recorded in previous quarter. Demand deposit which is the other component of M1 experienced a negative growth of 0.95 percent during Q3, FY1395, while in the previous quarter it registered a growth of 2.7 percent.

As you can see in the Figure 2.3, CIC as share of broad money or M2 increased by 48.59 percent in third quarter of FY 1395 from 47.07 percent in second quarter.

Bank deposits as share of broad money decreased by 43.82 percent in third quarter 1395 from 45.89 percent in the previous quarter

(figure 2.4). As shown in figure 2.5 Quasi Money as share of broad money increased by 7.59 percent in the quarter under review, up from 7.04 percent at the end of previous quarter. The increase in Quasi Money is due to increase of long term Af deposits which recorded 2.97 percent at the end of current quarter from 2.19 percent at the end of second quarter of FY 1395.

Figure 2.3, 2.4 and 2.5 indicate some facts about money aggregates and its components

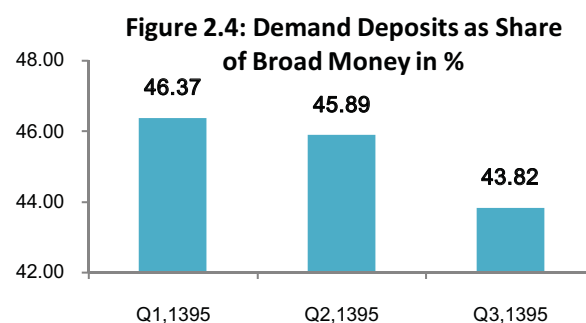
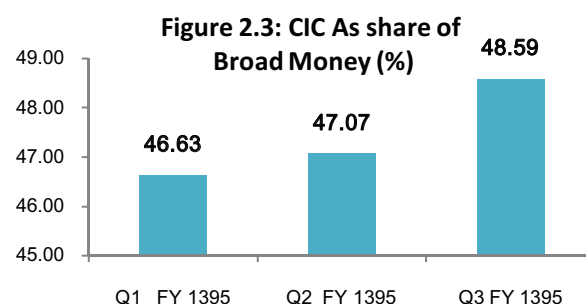
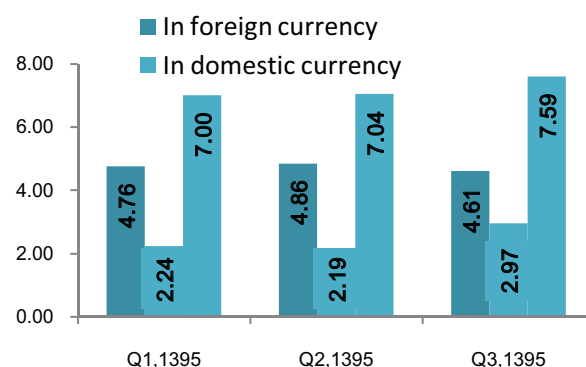


Figure 2.5: Quasi Money As share of Broad Money (%)



Source: Monetary Policy Department/DAB

Table 2.1: Monetary Aggregate for the Q3 1395

In Million Af	Q1,1395	Q2, 1395	Q-o-QΔ	Difference	Q3 1395	Q-o-Q Δ	Difference
	Amount	Amount	%		Amount	%	
1- Net Foreign Assets	548,969	580,358	5.7%	31,389	572,447	-1.36%	-7,912
(a) Foreign Assets	581,123	612,311	5.4%	31,189	603,065	-1.51%	-9,246
DAB Foreign exchange reserves	477,665	512,160	7.2%	34,494	500,916	-2.20%	-11,244
Gold	51,513	51,513	0.0%	0	62,246	20.84%	10,733
Other	426,152	460,647	8.1%	34,494	438,670	-4.77%	-21,977
Other foreign assets	103,457	100,152	-3.2%	-3,306	102,149	1.99%	1,998
(b) Foreign Liabilities	32,153	31,953	-0.6%	-200	30,618	-4.18%	-1,335
2. Net Domestic Assets	-154,485	-170,947	10.7%	-16,462	-147,791	-13.55%	23,156
(a) Net Domestic Credit	-24,097	-56,357	133.9%	-32,261	-41,156	-26.97%	15,202
Net Credit to Nonfinancial Public Sector	-72,640	-106,225	46.2%	-33,584	-86,999	-18.10%	19,225
Net Credit to Central Government	-72,735	-106,336	46.2%	-33,602	-87,110	-18.08%	19,226
Credit to Central Government	61,164	74,700	22.1%	13,536	72,658	-2.73%	-2,042
Liabilities to Central Government	133,898	181,036	35.2%	47,138	159,768	-11.75%	-21,268
Net Credit to State & Local Government	0.000	0.000	0.0%	0	0.000	0.00%	0
Net Credit to Public Nonfinancial Corporations	94	112	18.4%	17	111.048	-0.59%	-1
					47,162.84		
Credit to Private Sector	49,975	51,250.50	2.6%	1,276	9	-7.98%	-4,088
Net Credit to Other Financial Corporations	-1,431	-1,383.33	-3.3%	47	-1,319.38	-4.62%	64
(b) Capital Accounts	142,574	138,931	-2.6%	-3,643	133,963	-3.58%	-4,968
(c) Other Items Net	12,185	24,342	99.8%	12,156	27,328	12.27%	2,987
3- Broad Money(M2)	394,290	409,104	3.8%	14,814	424,311	3.72%	15,206
Narrow Money(M1)	366,679	380,284	3.7%	13,605	392,116	3.11%	11,832
CiC (Currency outside depository corporations)	183,848	192,565	4.7%	8,716	206,175	7.07%	13,610
Demand Deposits	182,831	187,720	2.7%	4,889	185,941	-0.95%	-1,779
Other Deposits (Quasi Money)	27,611	28,820	4.4%	1,209	32,195	11.71%	3,375
In Afghani	8,827	8,957	1.5%	130	12,614	40.82%	3,656
In Foreign currency	18,784	19,863	5.7%	1,079	19,581	-1.42%	-282

*Source: Monetary Survey, Monetary Policy Department/
DAB*

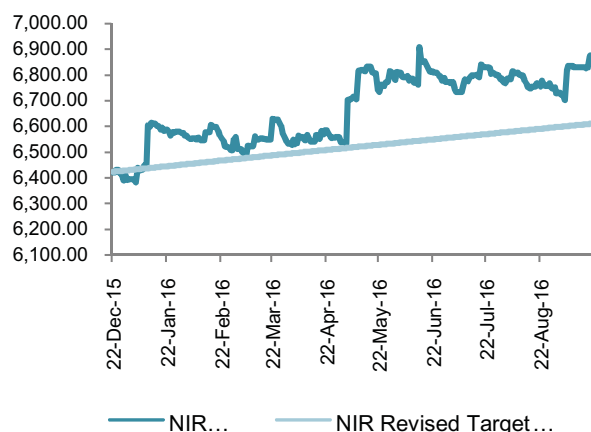
III. NET INTERNATIONAL RESERVE

NIR increased by USD 448.85 million during the course of three quarters in the current fiscal year. It shows 7 percent increase of accumulation during the first three quarters of FY1395. The target of NIR for the third quarter of fiscal year 1395 was set at USD 6,611.12 million while the actual figure of NIR is recorded

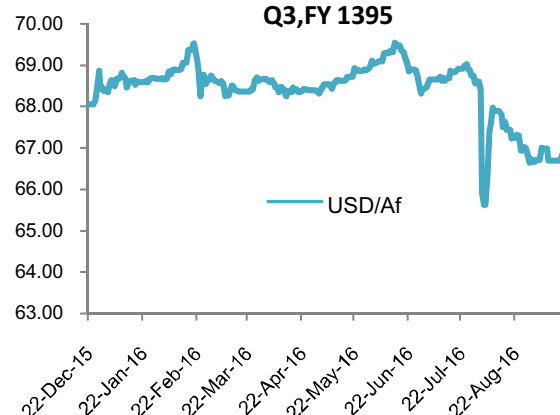
at USD 6868.65 million which is well above from the targeted amount.

By applying market exchange rate at the end of the current quarter, NIR is standing by AF457.063 billion equivalent to 190.66 percent of broad money.

Figure 2.6 explains the trend of NIR actual and target during Q3, FY1395.

Figure 2.6: Net International Reserve
Q3,FY 1395

Source: Monetary Survey, Monetary Policy Department/ DAB

Figure 2.7: USD/Af Exchange Rate
Q3,FY 1395

Source: Monetary Survey, Monetary Policy Department/ DAB

IV. FOREIGN EXCHANGE MARKET

The national currency (Af) experienced a considerable amount of appreciation, 3.35 percent at the end of Q3 compared to the end of Q2. During the period under review Af/USD exchange rate shows a downward trend with a minimum figure of 65.62 and maximum amount of 69.01 Afghani for each USD. The maximum and minimum values have a small deviation from the mean which is 67.77.

Afghani traded at 66.54 per USD at the end of Q3, FY1395.

Daily historic exchange rate of Af against the U.S. dollar for the Q3, FY, 1395 is shown by the following figure.

V. OPEN MARKET OPERATION & LIQUIDITY CONDITIONS

2.5.1 Foreign Exchange Auction

During the third quarter of fiscal year 1395, DAB auctioned a total amount of USD 418.04 million; while the total demand was USD 608.99 million. On average, 47 bidders participated in each auction and 31 bidders were the winners with the average amount of USD 11.61 million; while the data for the previous quarter, recorded total awarded amount at USD 464.20 million, with a total demand of USD 653.45 million. On average, 48 bidders participated in each auction and 33 bids were awarded with an average amount of USD 12.89 million.

2.5.2 Capital Note Auction

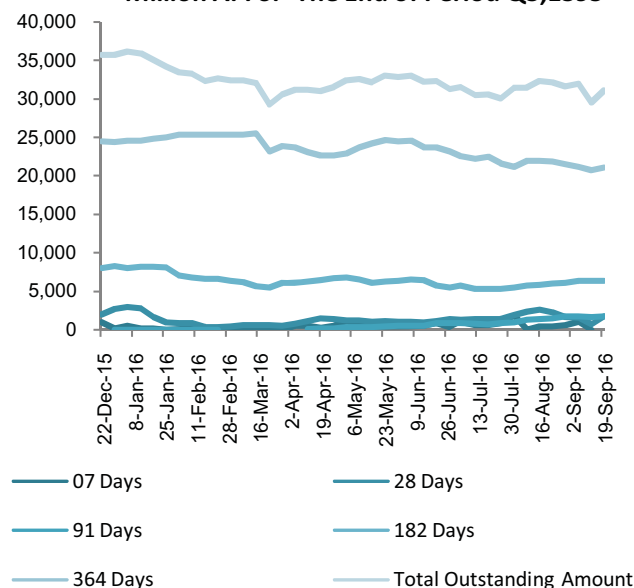
Total outstanding stock of capital notes reached AF31.107 billion at the end of the Q3, FY 1395 which shows a decrease of 3.57 percent compared to AF32.261 billion the end of Q2, FY 1395. The increase in the level of CNs reflects a slight increase of Afghani demand by banking sector.

The outstanding stock of 7 day note, stood at zero. 28 day CN outstanding amount stood at 1.8 billion while the outstanding amount of 91 days CN which recently published stood at 1.7 billion. The stock outstanding for 182 day notes stood at AF6.434 billion and the amount of outstanding of 364 days capital notes was standing at 21.073 billion at the period under review.

In addition the weighted average interest rate for 7 day capital note was 1.8 percent and for 28 day security it is recorded 3.53 percent, while for 91 day capital note it was 4.33 and for 182 day bill, it ended at 5.15 percent and for 364 days capital notes it recorded 6.66 at the end of this reporting period.

Figure 2.07 exhibits breakdown of the total outstanding stock for all maturities during the Q3, FY1395.

Figure 2.8: Capital Notes Outstanding in Million Af For The End of Period Q3,1395



Source: Market Operations Department/DAB

2.5.3 Required and Excess Reserves

Commercial banks are required to hold 8 percent of their total deposits as obligatory reserves with the DAB, in recent development from 28 June 2015 onward DAB has stopped paying interest rate for required reserve.

In order to provide commercial banks with facilities to better manage their liquidity and to provide them with a proper opportunity to invest their excess reserves apart from capital notes, DAB introduced Overnight Deposit Facilities in 1385 (2006-2007). During FY 1395 the interest paid to the mentioned facilities reached to Afs 1.077 million.

Overnight Credit Facility: This facility allows commercial banks to borrow local currency from Da Afghanistan Bank on an overnight basis, whenever they face a shortfall in their short term liquidity position. The rate that banks are charged for this facility is 350 basis points above the last 28 day CNs auction rate. This borrowing is collateralized with the outstanding of capital notes. The reason behind such high rate of interest is to encourage the inter-bank lending among the commercial bank. During the period under review no bank faced shortfalls to their liquidity positions.



3

INFLATION TREND AND OUTLOOK

3

INFLATION TREND AND OUTLOOK

Global commodity price increased in the third quarter of 2016. The recent price gains are seen in both, energy and non-energy commodities. Energy price strengthened by more than 3.0 percent in third quarter of 2016, resulting from strong import demand, and supply restrictions by China aimed to reduce pollutions. However, crude oil price lowered mainly because of OPEC production surplus, and higher supply by Iran and Saudi Arabia, albeit it slightly jumped up in the late September after OPEC's announcement for production cuts.

Increase in price of non-energy commodities is mainly because of supply side reasons. In this category, price of metals lifted up by around 4 percent. Price of coffee trended higher due mainly to decrease in outputs caused by relatively lower level of rainfalls in coffee producing countries. Grains, on the other hand, represented lower prices mainly as a result of higher production.

In South Asia, overall price level represented a resurgence hovering up at 5 percent. In the

first two quarters, South Asia had the world's lowest rate of inflation, however coming to the third quarter inflation gained momentum. The pickup in inflation in the third quarter was mainly driven by higher inflation in India and Bangladesh. In India, higher inflation was mainly fueled by higher food prices and partly by higher global commodity prices. In Bangladesh, inflationary pressures came from public sector wages, and new value added tax.¹

I. CONSUMER PRICE IN AFGHANISTAN

The latest data on national inflation in Afghanistan as released by the central statistics organization depicts higher ended September 2016. Observing the data, headline inflation averaged 6.86 percent, higher than 5.96 percent in the second quarter, and -1.9 percent recorded in the third quarter of the previous year. Prices began to decline in the first month of the third quarter,

World Bank Quarterly Report, October 2016.

World Bank, South Asia Economic Focus, Fall 2016.

but still stronger than the average inflation in the previous quarter. Inflation continued to rise owing to some external and internal factors. First; during the third quarter, global price of most commodities continued to rise, albeit there were some decline in price of crude oil and grains. Second; returning of refugees also played important role in rising inflation in the third quarter. About 540,000 refugees repatriated this year from Pakistan and Iran most of which have been returning since July. Finally saying, the ongoing border conflicts with Pakistan are also factored in as important contributors of inflation in Afghanistan. These problems have caused to huge decline in trade volume between two countries, which led to increasing price of importing goods from Pakistan.

Evaluating the quarter-to-quarter developments, headline inflation increased to 1.6 percent from 0.9 percent.

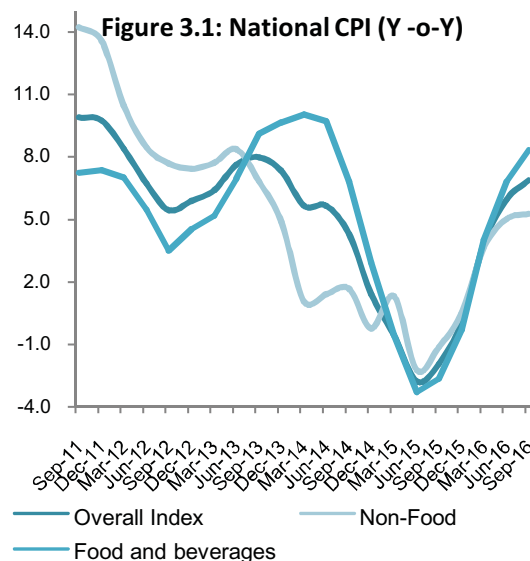
Headline CPI, based on Kabul CPI, reached to 6.3 percent in the third quarter lower than 6.4 percent observed in the previous quarter, but higher from a deflation rate of 2.5 percent recorded in the same period of the previous year.

3.1.1 Developments in National Headline CPI

3.1.1.1 Annual Developments

National headline CPI increased in September 2016. Observing the data, overall inflation measured on a year-over-year basis

increased to 6.9 percent in the third quarter, while it was recorded 5.96 percent in the previous quarter, and -1.9 percent in the third quarter of the previous year.



Source: Central Statistics Office/Monetary Policy Department,
DAB staff calculation.

The third quarter price increase prevailed for both, food and non-food items. Food inflation soared to its highest level (8.3 percent) in four years in September 2016, up from 6.8 percent recorded in July 2016 and -2.6 percent observed in the same quarter of the previous year. In this index, inflationary effects came from higher indices of meat (11.3 percent), oils and fats (9.8 percent), fruits (10.0 percent), and vegetables (13.3 percent).

The non-food sub-index was up modestly (5.2 percent) in September from 5.0 percent in July, but significantly higher from a deflation rate of 1.2 percent seen in the third quarter of 2015. This increase is mainly due to upward changes in indices of housing (3.4 percent), and health (9.3 percent).

Table 3.1: Breakdown of National Headline CPI

(Percent changes year on year)

(March 2011=100)

	Weight	1393				1394				1395		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Overall Index	100.0	5.6	5.6	4.2	1.3	-0.6	-2.8	-1.9	0.1	3.8	5.96	6.9
Food and beverages	52.0	10.0	9.7	6.8	2.9	-0.6	-3.3	-2.6	-0.3	4.0	6.8	8.3
Bread and Cereals	17.7	9.5	11.4	11.0	8.0	2.1	-3.4	-2.3	0.5	5.0	7.6	4.0
Meat	7.2	2.6	3.4	3.7	3.4	2.4	-0.2	-1.5	0.8	3.2	6.7	11.3
Milk, cheese and eggs	4.8	6.5	6.1	2.1	3.4	1.4	1.0	1.5	1.3	2.4	3.1	2.2
Oils and fats	4.0	1.8	1.7	0.9	-1.7	-6.2	-7.2	-6.5	-6.6	-1.9	3.9	9.8
Fresh and dried fruits	4.8	8.5	9.9	9.2	11.5	6.6	7.9	2.0	0.5	3.6	4.9	10.0
Vegetables	7.9	30.3	24.3	7.1	-9.6	-11.7	-15.9	-12.4	-6.3	1.9	4.2	13.3
Sugar and sweets	2.9	2.5	-1.6	-0.2	-1.0	-1.1	0.5	0.4	6.0	11.1	19.9	24.1
Spices	0.9	10.5	9.4	12.0	5.9	1.0	-1.0	0.3	6.6	13.3	16.9	20.0
Non-alcoholic beverages	1.8	7.4	3.7	4.0	2.1	1.3	3.1	4.6	5.3	7.9	7.3	6.1
Non-Food	48.0	1.1	1.4	1.4	-0.5	-0.5	-2.2	-1.2	0.5	3.7	5.0	5.2
Tobacco	0.4	8.4	3.0	0.6	6.7	7.2	12.8	25.0	22.4	21.8	12.8	13.3
Clothing	7.0	8.3	8.1	6.9	4.2	2.9	2.0	6.6	8.6	9.9	9.1	7.8
Housing,	20.7	-8.5	-9.1	-8.8	-9.7	-4.6	-7.0	-7.4	-6.6	-2.7	1.6	3.4
Furnishing and household goods	7.0	8.5	10.4	10.3	8.4	4.9	2.1	3.3	5.7	9.7	8.9	8.6
Health	3.3	8.8	9.0	10.3	8.5	7.7	7.4	6.9	9.4	9.4	8.7	9.3
Transportation	4.7	16.6	20.1	19.5	11.3	-6.9	-10.0	-7.8	-3.4	2.0	3.0	-0.5
Communication	1.1	-1.5	-1.4	-2.0	-3.4	-4.7	-3.3	-2.2	-1.3	-0.1	1.5	-0.4
Education	0.7	1.9	5.0	4.0	2.8	2.0	-2.7	-3.7	-5.1	-7.6	9.2	23.2
Information and Culture	0.1	6.5	5.4	7.1	7.0	1.2	3.8	5.2	6.3	6.5	5.2	1.6
Restaurants and Hotels	1.0	2.6	2.4	4.6	3.2	2.2	4.2	-0.8	-0.3	0.7	-3.6	2.0
Miscellaneous	1.8	7.6	10.2	8.2	7.6	7.3	7.2	10.6	9.5	9.1	7.4	7.4
Core inflation (30% TM)		6.4	6.3	5.6	4.3	0.9	0.5	0.5	2.2	5.1	6.4	7.8
Core inflation (Headline excl. B&C, O&F and T)		4.3	3.6	1.7	-0.8	-0.4	-1.9	-1.2	0.5	3.9	5.8	8.0

Source: Central Statistics Organization/Monetary Policy Department, DAB staff calculation.

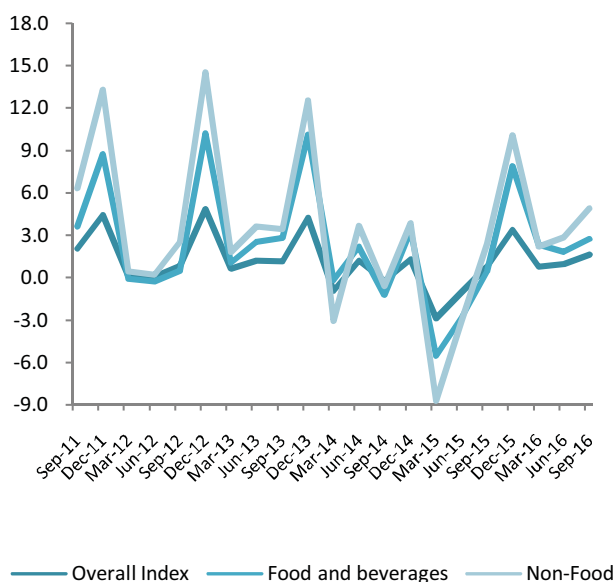
Core measures of inflation also recorded higher rates compared to the previous quarter. Trimmed mean reached to 7.8 percent, up from 6.4 percent, and CPI excluding bread and cereals, oils and fats, and transportation stood at 8.0 percent higher from its previous quarter's rate of 5.8 percent.

3.1.1.2 Quarterly Developments in national CPI

In the short-term, CPI inflation when measured on quarter-to-quarter basis was a little higher in September compared to the previous quarter. Headline inflation started its

upward incline at the beginning of the year. Going forward, it stood at 1.6 percent in September higher from 0.9 percent calculated in the previous quarter.

Figure 3.2: National CPI (quarter-to-quarter)



lowered to 0.5 percent from 1.0 percent, and fresh and dried fruits dropped to -2.5 percent from 5.9 percent.

Inflation also increased in non-food sub-index. Observing the data, non-food inflation rose to 2.2 percent from its previous quarter's value of 1.0 percent. This increase reflects higher indices of clothing (increased to 3.0 percent than 0.3 percent), housing, electricity, water and gas (up to 1.7 percent from 1.5 percent), furnishing and household goods (rose to 2.1 percent from 1.0 percent), and transportation (up to 1.2 percent than 0.2 percent).

Source: Central Statistics Office/Monetary Policy

Department, DAB staff calculation.

Based on the latest data released by CSO, food index was higher 1.1 percent in the third quarter from 0.9 percent recorded in the second quarter. This increase is attributed to higher indices of meat (up to 5.1 percent from 1.4 percent), milk, cheese and eggs (increased to 0.3 percent from -1.4 percent), oils and fats (reached to 6.3 percent from 4.6 percent), and vegetables (rose to -3.4 percent from -5.5 percent). In the meantime, price index of some other components declined during the third quarter. Bread and cereals

Table 3.2: Breakdown of National Headline CPI

(Percent changes quarter-on-quarter)

(March 2011 = 100)

	FY1393				FY 1394				FY1395		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Overall Index	-1.0	1.2	-0.2	1.3	-2.9	-1.1	0.8	3.4	0.8	0.9	1.6
Food and beverages	0.8	1.0	-1.0	2.0	-2.6	-1.7	-0.3	4.5	1.6	0.9	1.1
Bread and Cereals	0.6	4.1	2.7	0.4	-5.0	-1.4	4.0	3.2	-0.7	1.0	0.5
Meat	0.3	0.7	2.1	0.3	-0.7	-1.9	0.8	2.7	1.7	1.4	5.1
Milk, cheese and eggs	1.9	-1.8	0.8	2.5	-0.1	-2.1	1.2	2.4	0.9	-1.4	0.3
Oils and fats	-0.9	-0.2	-0.1	-0.5	-5.4	-1.3	0.6	-0.5	-0.7	4.6	6.3
Fresh and dried fruits	6.5	3.4	-1.7	3.1	1.8	4.6	-7.1	1.5	4.9	5.9	-2.5
Vegetables	-0.3	-3.0	-14.7	9.7	-2.7	-7.6	-11.2	17.4	5.8	-5.5	-3.4
Sugar and sweets	-2.1	-2.8	3.3	0.7	-2.3	-1.2	3.3	6.3	2.4	6.7	6.8
Spices	3.3	2.7	0.3	-0.5	-1.5	0.7	1.7	5.7	4.7	3.9	4.3
Non-alcoholic beverages	0.5	-0.6	1.9	0.3	-0.3	1.1	3.4	1.0	2.1	0.6	2.3
Non-Food	-2.9	1.4	0.6	0.5	-3.2	-0.3	1.9	2.2	-0.2	1.0	2.2
Tobacco	-0.2	2.2	-2.8	7.6	0.3	7.5	7.8	5.4	-0.2	-0.4	8.2
Clothing	1.2	1.9	-0.2	1.3	-0.1	1.1	4.3	3.2	1.1	0.3	3.0
Housing,	-10.3	-0.3	-0.1	1.1	-5.7	-2.8	0.0	1.9	-1.7	1.5	1.7
Furnishing and household goods	1.8	4.6	1.1	0.7	-1.5	1.7	2.4	3.0	2.3	1.0	2.1
Health	4.2	2.0	2.5	-0.4	3.4	1.8	2.0	1.9	3.4	1.1	2.5
Transportation	9.1	3.2	2.4	-3.5	-8.7	-0.2	4.9	1.1	-3.6	0.8	1.2
Communication	-0.1	-1.3	-1.3	-0.7	-1.4	0.1	-0.3	0.3	-0.3	1.7	-2.1
Education	1.8	2.4	-0.2	-1.2	1.0	-2.2	-1.3	-2.6	-1.7	15.6	11.3
Information and Culture	5.5	-1.0	1.6	0.8	-0.2	1.5	2.9	1.9	0.1	0.2	-0.6
Restaurants and Hotels	0.9	0.4	3.3	-1.5	0.0	2.3	-1.6	-1.0	1.0	-2.1	4.2
Miscellaneous	1.2	2.8	0.1	3.3	1.0	2.6	3.3	2.2	0.6	1.0	3.4

Source: Central Statistics Office/Monetary Policy Department, DAB staff calculation.

3.1.2 Developments in Kabul CPI

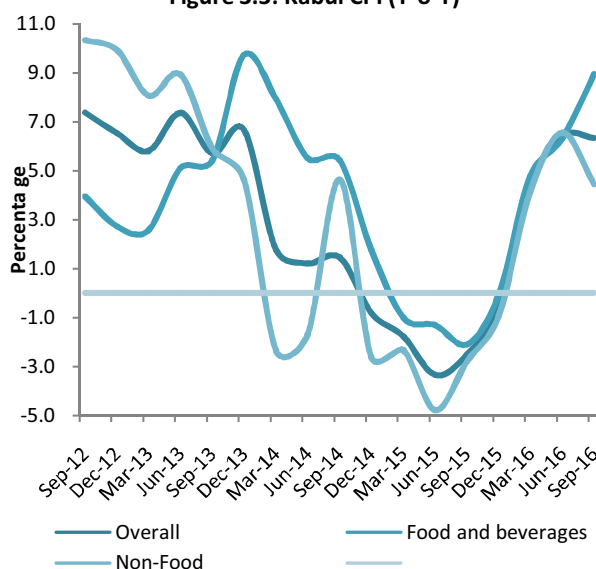
3.1.2.1 Annual Developments

The trend of movement in Kabul CPI in the third quarter of 2016 was different to that of the national index. When measured on year-over-year basis, inflation in the capital slightly declined to 6.3 percent from 6.4 percent recorded in the previous quarter, but significantly higher than a deflation rate of 2.5

percent observed in the same quarter of the previous year.

While inflation in food item increased, non-food category represented lower rate, which contributed to lower headline inflation.

Figure 3.3: Kabul CPI (Y-o-Y)



Food index exhibited a four-quarter string of increasing trend and reached to 8.9 percent in September higher from 6.3 percent in the second quarter and -2.1 percent calculated in the third quarter of 2015. Inflationary effects in this item particularly came from meat price index (up to 16.6 percent from 12.1 percent), oils and fats price index (up to 4.7 percent from -4.7 percent), price index of fresh and dried fruits (increased to 13.7 percent from 9.1 percent), and vegetables index (rose to 14.8 percent from 3.2 percent).

Source: Central Statistics Office/DAB staff calculation.

Table 3.3: Breakdown of Kabul Headline CPI

(Percent changes year-on-year)

(March 2011=100)

	Weight	1393				1394				1395		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Overall Index	100.0	1.8	1.2	1.2	-1.1	-1.8	-3.3	-2.5	-0.6	4.4	6.4	6.3
Food and beverages	52.0	7.9	5.5	5.4	1.8	-1.0	-1.3	-2.1	0.0	4.8	6.3	8.9
Bread and Cereals	17.7	7.7	4.8	6.6	3.0	-1.9	-2.9	-3.2	-0.7	1.1	-0.2	-2.9
Meat	7.2	-1.4	-1.4	3.8	2.6	0.5	1.1	0.7	4.3	8.7	12.1	16.6
Milk, cheese and eggs	4.8	6.1	9.9	8.7	5.9	2.7	6.1	8.5		7.1	8.1	4.4
Oils and fats	4.0	-0.9	-3.1	-5.1	-5.5	-12.6	-7.7	-7.5	-5.5	-3.1	-4.7	4.7
Fresh and dried fruits	4.8	6.5	8.8	7.4	12.9	5.1	8.3	3.0	3.1	9.7	9.1	13.7
Vegetables	7.9	24.7	15.8	8.9	-5.6	-2.3	-10.2	-12.6	-11.5	-3.0	3.2	14.8
Sugar and sweets	2.9	-0.5	-6.9	-3.5	-5.1	-2.8	1.4	2.6	13.9	26.9	39.3	40.4
Spices	0.9	8.3	7.0	9.2	7.2	1.4	3.6	9.3	19.8	30.0	35.1	33.3
Non-alcoholic beverages	1.8	7.8	2.1	2.6	3.2	-0.8	3.0	5.3	9.5	11.6	13.6	12.0
Non-Food	48.0	-2.4	-1.7	-1.6	-3.1	-2.3	-4.8	-2.8	-0.9	4.2	6.5	4.5
Tobacco	0.4	11.2	13.3	11.5	15.5	12.9	9.1	22.6	20.1	20.8	17.1	9.1
Clothing	7.0	7.8	11.5	11.3	10.3	5.6	0.8	9.8	13.8	17.8	16.7	11.4

Housing, electricity, water and gas	20.7	-12.2	-13.2	-13.1	-13.4	-5.5	-8.8	-9.9	-9.6	-4.7	1.7	1.0
Furnishing and household goods	7.0	6.2	13.4	13.2	12.5	7.2	3.9	8.5	14.0	19.8	15.4	9.9
Health	3.3	7.8	7.3	8.7	4.1	4.1	3.5	0.2	0.3	1.7	0.9	1.4
Transportation	4.7	33.3	33.2	32.1	19.4	-14.7	-15.4	-7.4	-3.4	8.2	9.2	-0.5
Communication	1.1	-0.8	-2.2	-4.0	-5.0	-5.7	-3.6	-1.6	-0.2	0.3	0.0	0.1
Education	0.7	-0.1	2.8	1.9	2.1	1.6	-3.8	-5.8	-7.3	-9.7	11.4	29.7
Information and Culture	0.1	14.0	14.6	19.1	18.3	1.8	5.6	6.8	9.8	11.7	8.1	1.9
Restaurants and Hotels	1.0	1.5	2.3	5.2	3.1	1.7	5.5	-0.6	0.0	2.2	-7.4	0.8
Miscellaneous	1.8	4.3	7.9	3.8	5.0	4.5	8.3	17.8	17.9	19.1	12.5	14.9
Core inflation (28% TM)		5.3	5.7	6.2	4.4	0.7	1.2	1.9	4.7	8.4	8.5	8.2
Core inflation (Headline excl. B&C, O&F and T)		-1.3	-1.3	-3.8	-3.1	-1.0	-2.3	-1.6	-0.1	5.4	8.5	9.4

Source: Central Statistics Office/Monetary Policy Department, DAB staff calculation.

* Afghanistan's Financial Year (December to January) began from 1391, therefore includes 3 quarters

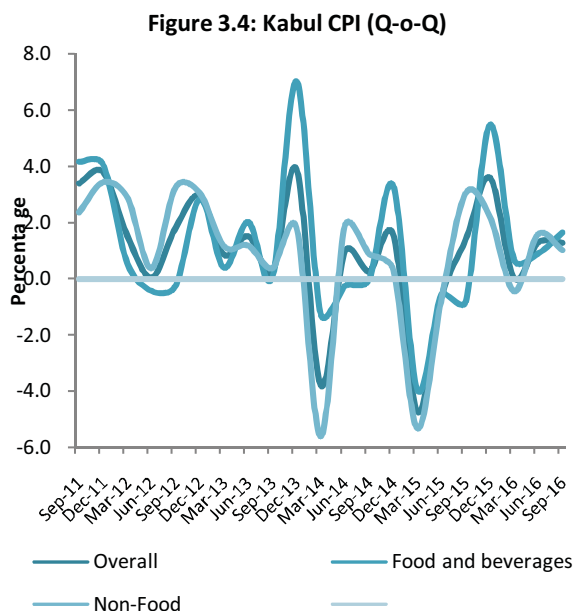
Non-food inflation declined to 4.5 percent from 6.5 percent. The effective factors in this sub-index are related particularly to lower clothing price index (down to 11.4 percent from 16.7 percent), price index of housing, electricity, water and gas (lowered to 1.0 percent from 1.7 percent), index furnishing and household goods (eased to 9.9 percent from 15.4 percent), and transportation price index (fell to -0.3 percent from 9.2 percent). During the reporting period, tobacco, and information and culture also showed lower prices.

Core inflation by different measures during the third quarter showed different changes. One of the common methods of calculating core inflation is trimmed mean, which is defined for a particular part of the CPI, and is calculated by taking the simple average of

the index after excluding the specific components from the index. Inflation based on this measure declined modestly to 8.2 percent from 8.5 percent. In the meantime, CPI excluding bread and cereals, oils and fats, and transportation rose to 9.4 percent from 8.5 percent

3.1.2.2 Quarterly Developments, Kabul CPI

Evaluating the short-term movements (quarter-to-quarter changes), headline inflation based on Kabul consumer price index remained unchanged. Based on the latest data, overall inflation stood at 1.3 percent the same as the previous quarter's value. However, there were some changes in food and non-food sub-indices.



Source: Central Statistics Organization/ DAB staff calculation.

In the third quarter, inflation in food item modestly picked up and stood at 1.6 percent, while it was calculated 0.9 percent in the previous quarter. This increase is attributed to higher indices of bread and cereals (up to 1.9 percent from -0.3 percent), meat (rose to 8.1 percent from 1.2 percent), milk, cheese and eggs (increased to 3.4 percent from -1.8 percent), oils and fats (rose to 9.3 percent from 2.2 percent), and vegetables (bumped to -3.6 percent from -6.0 percent). In the mean time, price of fresh and dried fruits dropped sharply to -5.3 percent in September from 7.7 percent recorded in the previous quarter. The changes in other sub-components were not significant enough to affect the overall index.

Non-food category on the other hand showed lower inflation rate. During the third quarter,

non-food inflation weakened to 1.0 percent from 1.6 percent observed in the previous quarter, which reflects lower prices in the most significant components. Price of housing, electricity, water and gas which holds the highest weight in the CPI, fell to -1.1 percent from 3.1 percent. In addition, price of furnishing and household goods slightly lessened to 0.8 percent from 0.9 percent. On the other hand, clothing, health, and transportations recorded higher price from their previous month's value.

**Table 3.4: Quarter-on-Quarter Changes in Kabul Headline
CPI**(Percent changes quarter-on-quarter)
(March 2001=100)

	1393				1394				1395		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Overall Index	-3.8	1.0	0.3	1.6	-4.7	-0.6	1.4	3.6	0.0	1.3	1.3
Food and beverages	-1.2	-0.2	0.0	3.3	-3.9	-0.5	-0.8	5.5	0.7	0.9	1.6
Bread and Cereals	-2.8	2.0	5.1	-1.1	-7.4	1.0	4.8	1.4	-5.8	-0.3	1.9
Meat	-0.5	-2.5	4.4	1.3	-2.6	-1.9	3.9	4.9	1.5	1.2	8.1
Milk, cheese and eggs	2.0	-1.5	2.5	3.0	-1.1	1.7	4.7	1.6	-0.1	-1.8	3.4
Oils and fats	-2.6	-1.6	-0.8	-0.6	-9.9	3.9	-0.5	1.5	-7.7	2.2	9.3
Fresh and dried fruits	9.9	5.1	-4.5	2.3	2.3	8.3	-9.2	2.4	8.9	7.7	-5.3
Vegetables	-6.6	-3.9	-11.0	18.2	-3.4	-11.7	-13.4	19.8	5.9	-6.0	-3.6
Sugar and sweets	-5.2	-5.6	6.0	0.0	-3.0	-1.5	7.3	11.1	8.1	8.1	8.1
Spices	3.1	0.9	1.8	1.1	-2.4	3.2	7.4	10.8	5.8	7.2	6.0
Non-alcoholic beverages	2.0	-2.6	2.3	1.5	-2.0	1.2	4.6	5.5	-0.1	3.0	3.2
Non-Food	-5.6	1.9	0.5	0.3	-5.3	-0.7	3.1	2.2	-0.4	1.6	1.0
Tobacco	1.9	7.4	0.5	5.0	-0.4	3.8	12.9	2.8	0.2	0.7	5.1
Clothing	2.2	5.2	-0.1	2.6	-2.2	0.5	8.8	6.4	1.2	-0.4	3.9
Housing	-14.0	0.1	-0.1	0.6	-6.9	-3.4	-0.4	0.9	-1.9	3.1	-1.1
Furnishing and household goods	1.4	8.2	1.3	1.3	-3.3	4.8	5.8	6.4	1.6	0.9	0.8
Health	1.6	0.8	3.7	-2.0	1.7	0.2	0.4	-2.0	3.1	-0.6	0.9
Transportation	21.9	0.5	1.7	-4.1	-12.9	-0.4	11.4	0.0	-2.4	0.5	1.5
Communication	-0.1	-2.1	-1.9	-1.0	-0.8	0.1	0.1	0.4	-0.3	-0.2	0.2
Education	1.0	2.0	0.1	-1.1	0.5	-3.3	-1.9	-2.8	-2.0	19.2	14.2
Information and Culture	14.0	-0.3	3.6	0.5	-1.9	3.4	4.8	3.2	-0.2	0.1	-1.2
Restaurants and Hotels	1.5	0.8	2.9	-2.0	0.0	4.6	-3.1	-1.3	2.2	-5.2	5.4
Miscellaneous	0.4	3.2	-1.9	3.3	-0.1	7.0	6.8	3.4	0.9	1.0	9.0

Source: Central Statistics Office/Monetary Policy Department, DAB staff calculations**Afghanistan's financial year (Dec to January) began from 1391, therefore includes 3 quarters.*

II. NEAR TERM INFLATION OUTLOOK

Afghanistan's inflation rate is expected to decrease over the last quarter of 2016. Da Afghanistan Bank takes on board various internal and external factors such as the level of agricultural crops, in its inflationary analysis and expectations. One reason behind claiming lower inflation expectation is lower price of agricultural products. Abundant supply of agriculture commodities over the previous

quarters is expected to put downward pressure on prices of agriculture products in last quarter of 2016. Also, in the most areas in Afghanistan, farmers harvests their agricultural crops during the third and fourth quarters of the year, which definitely affects the price of this commodity in national markets.

In addition, lower price level in international markets is another reason for downside

estimation of national inflation in Afghanistan.

Global prices of most commodities are projected to fall by the end of 2016 and 2017.

Among other commodities, these decreases are more significantly projected in prices of crude oil and natural gas.



4

EXTERNAL SECTOR DEVELOPMENT

4

EXTERNAL SECTOR DEVELOPMENTS

This chapter provides a brief analysis of the country's external sector performance in the third quarter of the FY 1395 in comparison with the corresponding quarters of the FY 1394.

I. BALANCE OF PAYMENTS

4.1.1 Current Account Balance

Current account of the BOP posted a deficit of USD 1,097.09 million in the third quarter of the FY 1395 lower from a deficit of USD 1,744.16 million in third quarter of the FY 1394.

The deficit dissuaded by a significantly lower expenditure on imports of both goods and services, and higher earnings from exports of goods items during the quarter under review. The deficit in trade balance reduced by 35 percent to USD 1,322.18 million in the third quarter of the FY 1395 from USD 2,042.63 million in the third quarter of the FY 1394.

Further analysis revealed that Aggregate imports of goods declined by 32 percent to USD 1,494.64 million in the third quarter of the FY 1395 from USD 2,205.53 million in the third quarter of the FY 1394. Aggregate exports grew

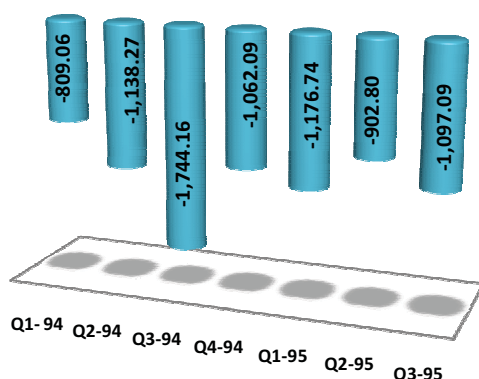
by 6 percent to USD 172.46 million in the third quarter of the FY 1395 from USD 162.90 million in the third quarter of the FY 1394.

The deficit in the services account widened by 9 percent to USD 218.94 million in the third quarter of the FY 1395 from USD 200.80 million recorded in the same quarter of the preceding year. This could be attributed to reduction in inflows from transportation services which declined by 97 percent and increase on out-payments in respect of personal travel services, which increased by 137 percent to USD 38.31 million in the third quarter of the FY 1395 from USD 16.14 million in the third quarter of the FY 1394.

The surplus in income account declined by 53 percent to USD 17.50 million in the third quarter of the FY 1395 from USD 37.34 million in the third quarter of the FY 1394. This development was due to out-payment of distributed profits to foreign investor. The surplus in the current transfers account declined by 8 percent when compared with its level in the third quarter of the FY 1394, the decline was largely due to 23 percent decrease

in intergovernmental grants during the quarter under review.

Figure 4.1: Balance of Payments Current Account (million USD)



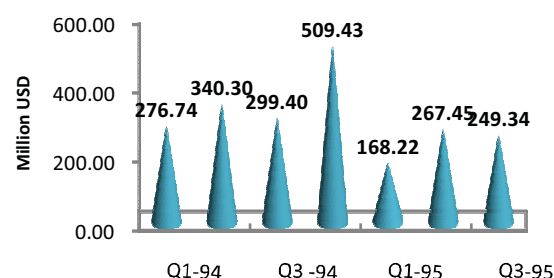
Source: CSO/DAB staff calculations

4.1.2 Capital Account

The capital account of the balance of payments illustrated a decline of 17 percent based on quarter–quarter comparison in the third quarter of the FY 1395 (Table 4.1, Figure 4.2).

Net inflows to the capital account dropped to USD 249.34 million in the third quarter of the FY 1395 from USD 299.40 million recorded in the comparable quarter of the last year. This was mainly due to net capital transfers received by the government, corporations and households which reduced to USD 249.34 million in the third quarter of the FY 1395 from USD 308.37 million recorded in the corresponding quarter of the preceding year.

Figure 4.2: Capital Account



Source: CSO/DAB staff calculations

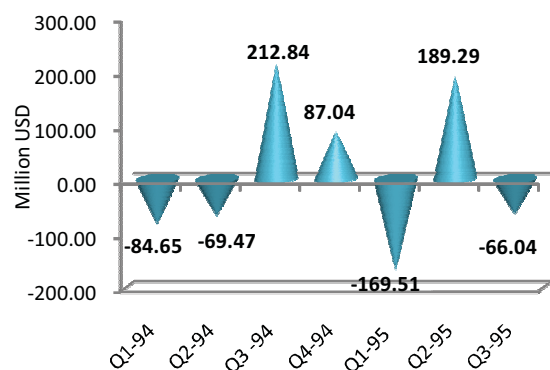
4.1.3 Financial Account

Financial account of the BOP turned from a net outflow of USD 212.84 million in the third quarter of the FY 1394 to a net inflow of USD 66 million recorded in the third quarter of the FY 1395 (Table 4.1 Figure 4.3). Further analysis reveals that the country's aggregate financial assets which represents claims by Afghans declined by 89 percent to USD 11.70 million in the reviewed period compared with USD 108.22 million in the corresponding quarter of previous year. Aggregate financial liabilities were recorded at USD 23.33 million in the third quarter of the FY 1395 compared with USD 16.44 million recorded in the same quarter of the previous year as a result of higher financial inflows to the country.

Further disaggregation of external financial assets revealed that foreign direct investment abroad decreased by 70 percent to USD 23.53 million in the third quarter of the FY 1395 compared to USD 77.98 million in the similar

quarter of the previous year. Inward portfolio investment increased by 28 percent to USD 20.33 million in the third quarter of the FY 1395 in comparison with USD 15.83 million recorded in the similar quarter of the previous year.

Figure 4.3: Financial account



Source: CSO/DAB staff calculations

4.1.4 Merchandise Trade

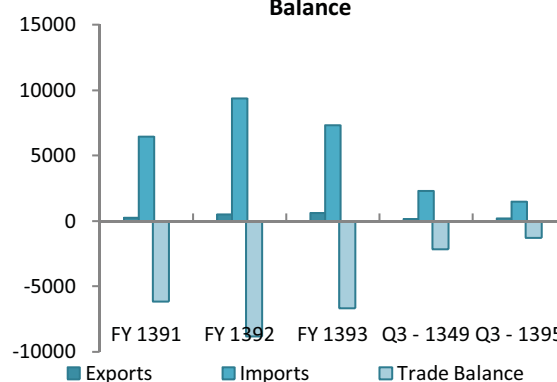
Merchandise trade statistics illustrated that trade deficit narrowed by 40 percent, from USD 2,146.68 million in the third quarter of the FY 1394 to USD 1,281.72 million in the quarter under review (Table 4.2, Figure 4.5) following by a significantly contraction in the imports of fuel and lubricant, capital goods and consumer goods.

Aggregate merchandise imports declined by 37 percent to USD 1,454.17 million in the third quarter of the FY 1395 from USD 2,303.13 million recorded in the third quarter of the FY 1394.

Aggregate, merchandise exports increased by 10 percent to USD 172.45 million in the third

quarter of the FY 1395 from USD 156.45 million recorded in the third quarter of the FY 1394. The rise in exports of fresh and dry fruit and leather and wool components were the main drivers of increase in merchandise exports. As the growth of imports withered and export grew normally, this resulted in decline in trade deficit in the third quarter of the FY 1395.

Figure. 4.4: Trade Performance and Trade Balance



Source: CSO/DAB staff calculations

II. DIRECTION OF TRADE

The main export destinations for Afghanistan are Pakistan, Iran, India, China, and Common Wealth of Independence States (CIS).

According to the available merchandise data Afghanistan's largest exports partner has been Pakistan in the third quarter of the FY 1395. The share of Afghanistan's exports to Pakistan increased to 64.13 percent from 50.43 percent. In terms of value, exports to Pakistan grew by 40 percent to USD 110.60 million in the third quarter of the FY 1395 from USD 78.89 million in the third quarter of the FY 1394.

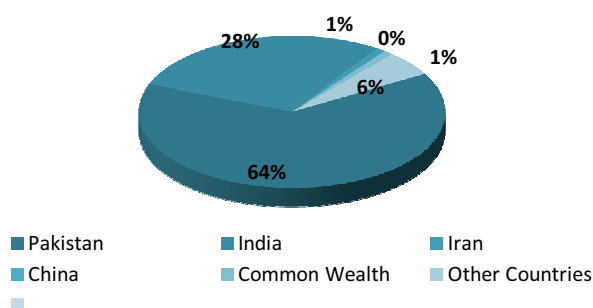
India graded the second largest buyer of Afghanistan's exports in the third quarter of the FY 1395. The share of exports to India increased to 28.27 percent in the third quarter of the FY 1395 from 24.83 percent recorded in the same quarter of the FY 1394.

In terms of value, exports to India also increased by 25 percent to USD 48.75 million in the third quarter of the FY 1395 from USD 38.85 million in the corresponding quarter of the FY 1394.

Commonwealth of Independent State (CIS) countries ranked the third largest buyer of Afghanistan's exports in the quarter under review. The share of Afghanistan's exports to CIS countries descended to almost 1 percent in the third quarter of the FY 1395 from 5 percent that was recorded in the similar quarter of the preceding year.

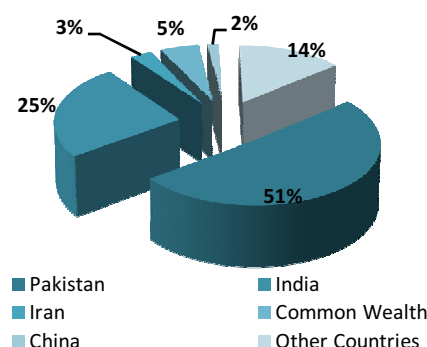
In terms of value Afghanistan's total exports to CIS countries declined significantly by 79 percent to a value of USD 1.73 million in the third quarter of the FY 1395 compared to a value of USD 8.07 million in the third quarter of the FY 1394.

**Figure 4.5: Direction of Exports
(% share) in the Q3 - FY 1395**



Source: CSO/DAB staff calculations

**Figure. 4.6: Direction of Exports
(% share) in the Q3- FY 1394**



Source: CSO/DAB staff calculations

China was the largest import origin to Afghanistan in the third quarter of the FY 1395. The share of imports from China in total imports increased to 23 percent in the third quarter of the FY 1395 from 14.61 percent in the third quarter of the FY 1394.

But in terms of value, the total imports from China declined slightly to USD 335 million in the third quarter of the FY 1395 from USD 336.59 million in the same quarter of preceding year.

CIS countries were the second largest sources of imports for Afghanistan during the third quarter of the FY 1395. Total Imports from CIS countries decreased by 38 percent from USD 514.70 million in the third quarter of the FY 1394 to USD 320.60 million in the third quarter of the FY 1395. But the share of imports from CIS countries almost remained unchanged 22 percent in the quarter under review.

Iran counted the third largest origin of imports for Afghanistan in the third quarter of the FY 1395. The share of imports from Iran decreased

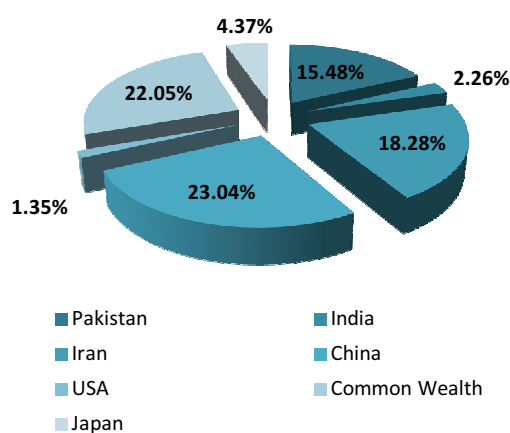
to 18.28 percent in the third quarter of the FY 1395 from 24.37 percent in the corresponding quarter of the preceding year.

In terms of value the total Imports from Iran decreased significantly by 53 percent to USD 265.88 million in third quarter of the FY 1395 from USD 561.32 million in the third quarter of the FY 1394.

Pakistan was ranked fourth largest import origin to Afghanistan in the third quarter of the FY 1395. Total Imports from Pakistan decreased to USD 225.15 million with share of almost 16 percent from USD 307.41 million with share of 13.35 percent, registering a 27 percent reduction in the third quarter of the FY 1395.

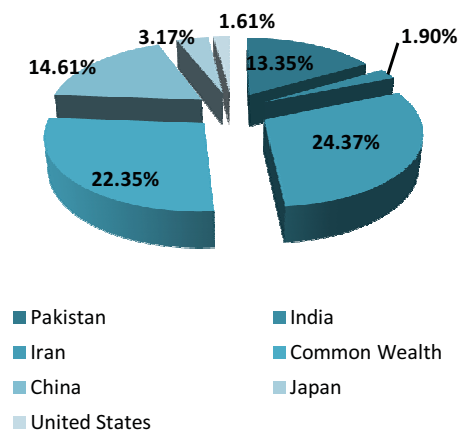
Japan, India and USA were the fifth, sixth and seventh largest import sourcing countries for Afghanistan, accountable for 4.37 percent, 2.26 percent and 1.35 percent of total imports respectively.

Figure 4.7: Direction of Imports (% share) in the Q3 - FY 1395



Source: CSO and DAB staff calculations

Figure 4.8: Direction of Imports (%share) in the Q3 - FY 1394



Source: CSO/DAB staff calculations

III. COMPOSITION OF TRADE

4.3.1. Composition of Imports

The composition of imports in the third quarter of the FY 1395 indicates that;

- ✓ Imports of Capital goods had the largest share of 45.2 percent in the basket of imports. But in terms of value imports of such goods considerably declined by 32 percent to USD 657.39 million in the third quarter of the FY 1395 from USD 962.60 million recorded in the same quarter of the previous year.
- ✓ The second largest share recorded for consumer goods in the basket of imports during the third quarter of the FY 1395, the share of such goods raised from 21.4 to 28.4 percent in the reporting quarter. But In terms of value imports of consumer goods

decreased by 16 percent to USD 413.27 million in the third quarter of the FY 1395 from USD 493.71 million recorded in the third quarter of the FY 1394.

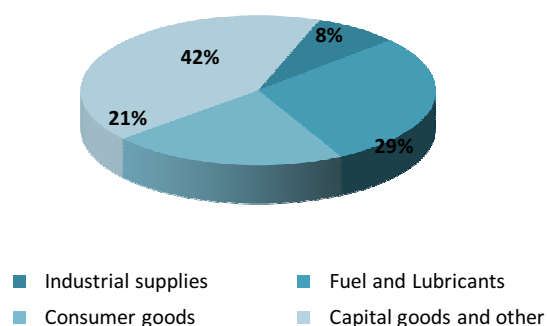
- ✓ Imports of fuel and lubricants (petroleum oil) had the third largest share in the basket of Afghanistan's imports. Its share in the third quarter, however, decreased from 29.1 to 14.7 percent. In terms of value, imports of such goods in total imports decreased significantly by 68 percent to USD 213.85 million in the third quarter of the FY 1395 from USD 669.38 million in the third quarter of the FY 1394.

- ✓ Industrial supplies had the smallest share in the basket of Afghanistan's imports during the reporting quarter which increased to 11.7 percent in the third quarter of the FY 1395 from 7.7 percent in the third quarter of the FY 1394.

In terms of value imports of such goods declined by 4 percent, to USD 169.66 million in the third quarter of the FY 1395 from USD 177.44 million in the third quarter of the FY 1394.

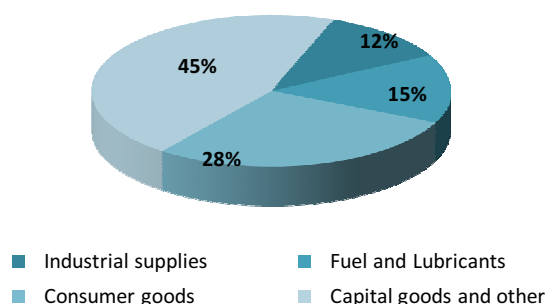
Petroleum oil, capital goods and Industrial supplies such as metals, fertilizer, chemical, and cement, which used in the manufacturing sector pointed a huge decline during the quarter under review due to reduction in the number of development projects all over the country as a result of drop in confidence and macroeconomic instability (Table 4.3- 4.4 and Figure 4.9 - 4.10).

Figure 4.9: Composition of Imports (share%) in the Q3 - FY 1394



Source: CSO and DAB staff calculations

Figure 4.10: Composition of Imports (share%) in the Q3 - FY 1395



Source: CSO and DAB staff calculations

4.3.2. Composition of exports

The composition of exports in the third quarter of the FY 1395 reveals that;

- ✓ Exports of medical seeds had the largest share in the basket of Afghanistan's exports. In the third quarter the share of medical seeds increased to 43.3 percent from 38 percent recorded in the corresponding quarter of the preceding year. Earnings from exports of medical seeds increased by 26 percent to USD 74.66 million in the third

quarter of the FY 1395 from USD 59.48 million in the related quarter of the FY 1394.

- ✓ The second largest share in total exports was recorded for food item (oil seeds, fresh and dry fruits), its share decreased to 37.9 percent in the third quarter of the FY 1395 from 44.7 percent in the preceding and corresponding quarter of the FY 1394.

In term of value exports of food items declined by 7 percent to USD 65.28 million in the third quarter of the FY 1395 from USD 70 million recorded in the related quarter of the FY 1394.

- ✓ Leather and wool had the third largest share in total exports which increased to 16.2 percent in the third quarter of the FY 1395 from 4.6 percent in the similar quarter of the last year.

Earning from exports of leather and wool increased dramatically by 285 percent to USD 27.92 million during the quarter under review from USD 7.26 million in the relative quarter of the FY 1394.

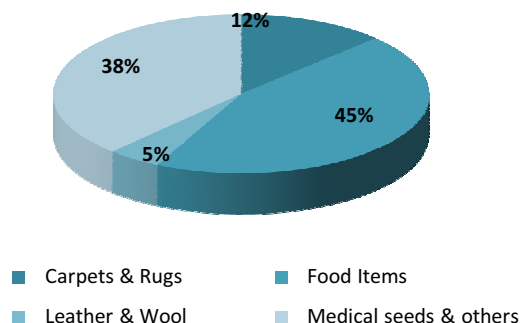
- ✓ The share of carpet and rugs which are considered the main component of Afghanistan's exports in the past decades was smallest in the basket of Afghanistan's exports. Moreover, it declined from 12.6 percent to 2.7 percent during the quarter under review.

Earnings from exports of carpet and rugs dropped significantly by 77 percent to USD 4.59 million in the third quarter of the FY

1395 from USD 19.71 million recorded in the similar quarter of the last year.

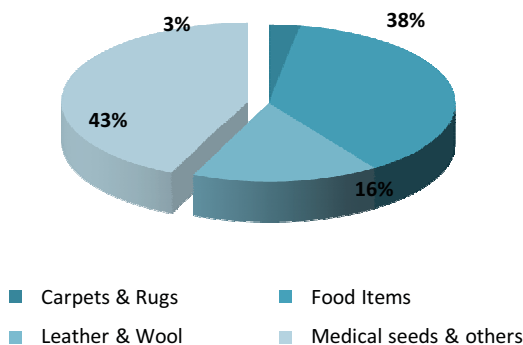
(Figure 4.11 and 4.12) indicated composition of exports in the Q3 FY 1394 with Q3 FY 1395.

Figure 4.11: Composition of Exports (share%) in the Q3 - FY 1394



Source: CSO and DAB staff calculations

Figure 4.12: Composition of Exports (share%) in the Q3 - FY 1395



Source: CSO and DAB staff calculations

IV.EXTERNAL DEBT

As shown in table 4.5 and figure 4.13 Afghanistan's total external debt increased slightly to USD 2147.27 million in the third quarter of the FY 1395 in comparison with USD

2140.33 million in the similar quarter of the FY 1394, indicating an increase of USD 7 million. The increase in total external debt could be attributed to long-term components.

During the period under review, loan principal repayments made to the International Development Association (World Bank), Asian Development Bank, International Monetary Fund (IMF), and OPEC Fund while service charges were paid to the World Bank, Asian Development Bank and Kuwait Fund.

Meanwhile, World Bank as a major multilateral creditor to Afghanistan forgave some principle and services charge and Asian Development Bank made some forgiveness only on services charge during the quarter under review.

Furthermore, total debt from Non-Paris Club members which are including, (Saudi Fund for Development, Bulgaria, and Kuwait fund and Iran) increased slightly by 2 percent to USD 87.23 million in the third quarter of the FY 1395 in comparison with USD 85.90 million recorded in the third quarter of the FY 1394.

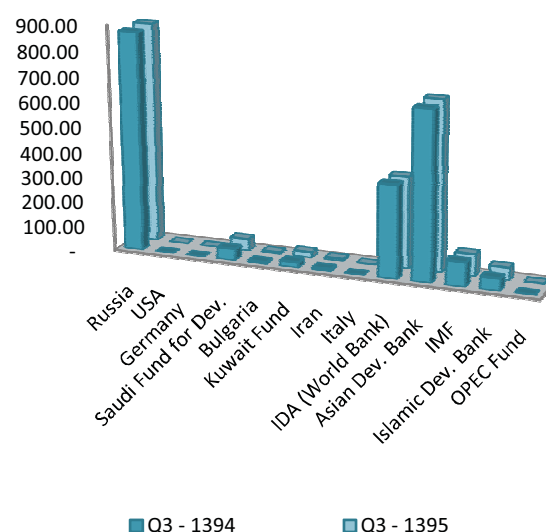
The total loan amounts payable to the Paris Club creditors in the third quarter of the FY 1395 stood at USD 882.32 million which is payable to Russian federation.

In other words, Afghanistan's total debt from the Paris club members stands at about 41.0 percent of total current external debt, which has increased slightly by 1 percent compared with corresponding quarter of the last year.

Total debt from multilateral creditors to Afghanistan decreased to USD 1,177.72 million

from USD 1,182.62 million which shows almost USD 5 million reduction in the total debt during the reporting quarter

**Figure 4.13: External Debt Comparisons;
Q3 -94 & Q3-95**



Source: CSO and DAB staff calculations

V. NET INTERNATIONAL RESERVES

According to the latest available data the Net International Reserves (NIR), increased by about 3 percent, standing at USD 6,767.80 million in the third quarter of the FY 1395, up from USD 6,601.51 million that was recorded in the corresponding quarter of the last year (Table 4.7 and Figure 4.14).

The increase in the level of NIR was mainly due to the raise in reserve assets which boosted by 4 percent to USD 7,347.42 million in the third quarter of the FY 1395 from USD 7,044.59 million in the corresponding quarter of last year.

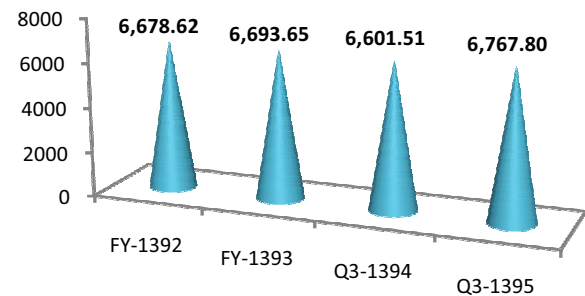
Reserve liabilities increased by about 31 percent to USD 579.61 million in the third quarter of the FY 1395 from USD 443.08 million recorded in the third quarter of the FY 1394; this demonstrates that the reserve assets are higher than the reserve liabilities. The increase in reserve liabilities is mainly attributed to the increase in commercial bank deposits in foreign currency which increased by almost 44 percent to USD 506.58 million in the third quarter of the FY 1395 from USD 352.21 million recorded in the same quarter of the previous year.

The usage of Fund's Resources decreased by almost 20 percent to USD 72.90 million in the third quarter of the FY 1395 from USD 90.74 million in the corresponding quarter of the FY 1394.

The reserve liability of nonresident deposits in foreign currency almost remained unchanged in the reporting quarter.

Currently, Net International Reserves (NIR) supports almost 14 months of imports. Generally, NIR covering 6 months of imports is considered a comfortable reserve position.

Figure 4.14: Net International Reserves during the past period (In Million USD)



Source: CSO and DAB staff calculations

Table 4.1: Merchandise Trade in (Million USD)

Years	FY 1391		FY 1392		FY 1393		Q3 - 1349		Q3 - 1395	
	Total	Share (%)	Total	Share (%)	Total	Share (%)	Total	Share (%)	Total	Share (%)
Imports	6,419.67	100%	9,339.60	100%	7,294.63	100%	2,303.13	100%	1,454.17	100%
Industrial supplies	969.88	15.1%	1,272.14	13.6%	863.19	11.8%	177.44	7.7%	169.66	11.7%
Fuel and Lubricants	1,083.65	16.9%	2,167.37	23.2%	1155.94	15.8%	669.38	29.1%	213.85	14.7%
Consumer goods	1,255.48	19.6%	1,942.85	20.8%	2345.86	32.2%	493.71	21.4%	413.27	28.4%
Capital goods and other	3,110.66	48.5%	3,957.24	42.4%	2,930	40.2%	962.60	41.8%	657.39	45.2%
Exports	261.63	100%	499.81	100.0%	620.88	100%	156.45	100%	172.45	100%
Carpets & Rugs	8.43	3%	85.49	17.1%	87.0	14.0%	19.71	12.6%	4.59	2.7%
Food Items	104.23	40%	175.92	35.2%	272.13	43.8%	70.00	44.7%	65.28	37.9%
Leather & Wool	26.82	10%	59.54	11.9%	49.35	7.9%	7.26	4.6%	27.92	16.2%
Medical seeds & others	122.15	47%	178.86	35.8%	212.36	34.2%	59.48	38.0%	74.66	43.3%
Trade Balance	-6,158.04		-8,839.79		-6,673.75		-2,146.68		-1,281.72	
Trade Balance as % of GDP	-31%		-43%		-31%		-10%			

Source: Monetary Policy Department/DAB

Table 4.2: Afghanistan Balance of Payments in (Million USD)

Items / Years	Q1- 94	Q2-94	Q3-94	Q4-94	Q1-95	Q2-95	Q3-95
Current Account	-809.06	-1138.27	-1744.16	-1062.09	-1176.74	-902.80	-1097.09
<i>Credit</i>	1249.14	1056.66	994.64	817.05	806.48	1121.57	740.07
<i>Debit</i>	-2058.20	-2194.93	-2738.80	-1879.14	-1983.22	-2024.36	-1837.15
Goods Account	-1500.51	-1625.15	-2042.63	-1288.93	-1482.22	-1285.14	-1322.18
<i>Credit</i>	128.89	121.96	162.90	166.24	133.92	116.99	172.46
<i>Debit</i>	-1629.41	-1747.10	-2205.53	-1455.17	-1616.14	-1402.13	-1494.64
Services Account	-102.30	-202.30	-200.80	-224.01	-188.22	-165.87	-218.94
<i>Credit</i>	264.48	190.39	279.20	133.31	127.63	129.97	99.73
<i>Debit</i>	-366.78	-392.69	-480.00	-357.33	-315.85	-295.83	-318.67
Income Account	72.71	48.19	37.34	21.72	-6.82	-229.97	17.50
<i>Credit</i>	107.12	68.88	63.58	47.40	14.08	37.74	28.75
<i>Debit</i>	-34.41	-20.69	-26.24	-25.68	-20.89	-267.71	-11.25
Current transfers	721.05	640.99	461.93	429.13	500.51	778.18	426.53
<i>Credit</i>	748.65	675.43	488.95	470.09	530.85	836.88	439.12
<i>Debit</i>	-27.60	-34.45	-27.03	-40.96	-30.34	-58.70	-12.59
Capital and financial account	192.09	270.82	512.25	596.47	-1.29	456.74	183.31
Capital account	276.74	340.30	299.40	509.43	168.22	267.45	249.34
<i>Credit</i>	284.30	353.82	309.78	509.83	171.13	270.30	249.34
<i>Debit</i>	-7.56	-13.52	-10.38	-0.41	-2.91	-2.85	0.00
Capital transfers	283.36	350.94	308.73	509.43	171.13	270.30	249.34
<i>Credit</i>	284.29	353.49	309.73	509.83	171.13	270.30	249.34
<i>Debit</i>	-0.93	-2.55	-0.99	-0.41	0.00	0.00	0.00
Financial account	-84.65	-69.47	212.84	87.04	-169.51	189.29	-66.04
Direct investment	17.80	33.18	77.98	40.20	17.74	21.54	23.53
Portfolio investment	-14.82	-36.55	-15.83	-14.31	-18.47	-39.15	-20.33
<i>Assets</i>	-14.82	-36.55	-15.83	-14.31	-18.47	-39.15	-20.33
<i>Liabilities</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other investment	52.74	-18.37	-91.79	-4.37	-68.69	513.11	-35.03
<i>Assets</i>	62.87	-5.39	-108.22	-4.38	-89.18	87.17	-11.70
<i>Liabilities</i>	-10.13	-12.98	16.44	0.01	20.49	425.94	-23.33
Reserve Assets	-140.36	-47.73	242.48	65.52	-100.09	-306.21	-34.21
Net errors and omissions	-616.97	-867.44	-1231.91	-465.62	-1178.03	-446.05	-913.78

Source: CSO and DAB staff calculations

Table 4.3: Direction of External Trade: for the third quarter of the FY 1395 in (Million USD)

	Exports	% Shares	Imports	% Share	Trade Balance
Pakistan	110.60	64.13%	225.15	15.48%	-114.55
India	48.75	28.27%	32.90	2.26%	15.85
Iran	1.75	1.01%	265.88	18.28%	-264.13
Germany	0.25	0.14%	7.02	0.48%	-6.77
China	0.06	0.03%	335.09	23.04%	-335.03
England		0.00%	2.21	0.15%	-2.21
Saudi Arabia	0.03	0.02%		0.00%	0.03
USA		0.00%	19.59	1.35%	-19.59
Common Wealth of Independence States (CIS)	1.73	1.00%	320.60	22.05%	-318.87
Japan		0.00%	63.58	4.37%	-63.58
Other Countries	9.28	5.38%	182.19	12.53%	-172.91
Total	172.45	100%	1,454.21	100%	(1,281.76)

Source: CSO and DAB staff calculations

Table 4.4: Direction of External Trade: for the second third of the FY 1394 in (Million USD)

Country Name	Exports	% Shares	Imports	% Share	Trade Balance
Pakistan	78.89	50.43%	307.41	13.35%	-228.52
India	38.85	24.83%	43.68	1.90%	-4.83
Iran	4.50	2.88%	561.32	24.37%	-556.82
Germany	1.69	1.08%	8.17	0.35%	-6.48
Common Wealth	8.07	5.16%	514.70	22.35%	-506.63
China	2.27	1.45%	336.59	14.61%	-334.32
Saudi Arabia	0.00	0.00%		0.00%	0.00
Japan		0.00%	72.94	3.17%	-72.94
England		0.00%	1.67	0.07%	-1.67
United States		0.00%	37.02	1.61%	-37.02
Other Countries	22.18	14.18%	419.59	18.22%	-397.41
Total	156.45	100.00%	2303.09	100.00%	-2146.64

Source: Central Statistics Organization and DAB staff calculations

Table 4.5: External Debt: for the third quarter of the FY 1395 (in units indicated)

	In million USD	Percent of total
Total external debt	2,147.27	100.00
Bilateral	969.54	45.15
Paris Club	882.32	41.09
Russian Federation	882.32	41.09
United States	-	0.00
Germany	-	0.00
Non-Paris Club	87.23	4.06
Multilateral	1,177.72	54.85
of which: IDA (World Bank)	363.28	16.92
Asian Development Bank	674.77	31.42
International Monetary Fund	88.04	4.10
Islamic Development Bank	49.87	2.32
OPEC Fund	1.75	0.08

Source: Debt, Asset Management Unit, Ministry of Finance, Afghanistan

Table 4. 6: Net International Reserves; in the third quarter of the FY 1394 (millions of US dollars)

Changes in the previous quarter	FY-1392	% change	FY-1393	% change	Q3 - 1394	% change	Q3 - 1395	% change
Net International Reserves (million USD)	6,678.62	23.22	6,693.65	0.22	6,601.51	-1.38	6,767.80	2.52
Reserve Assets	7,183.33	22.71	7,247.76	0.90	7,044.59	-2.80	7,347.42	4.30
Reserve Liabilities	504.71	10.91	554.12	9.79	443.08	-20.04	579.61	30.81
Commercial bank deposits in foreign currency	367.65	4.00	443.80	20.71	352.21	-20.64	506.58	43.83
Non-resident deposits in foreign currency	0.14	-89.57	0.14	-0.02	0.14	0.00	0.14	-0.03
Use of Fund resources	136.92	17.53	110.18	-19.53	90.74	-17.65	72.90	-19.66
Gross Intl. Reserves (in months of import)	9.23		11.92		9.18		15.16	
Net Intl. Reserves (in months of import)	8.58		11		9		14	

Source: Monetary Policy Department/DAB




5

FISCAL SECTOR DEVELOPMENT

5

FISCAL DEVELOPMENTS

 During the third quarter of FY 2016, public sector performance in terms of domestic revenue collection was quite vivid. However, Afghanistan's public expenditure remained unbalanced during the third quarter of FY 2016, owing to continued deterioration in security conditions which undermined private investment and delayed budget execution. These factors coupled with pick-ups in operating expenditure particularly increases in wages and salaries of new employed ANP and ANA continued to pose serious challenges to the government to achieve fiscal sustainability.

I. BUDGET EXECUTION RATE

From the beginning of FY 2016 up to the end of the third quarter, government managed to spend only 47 percent of the allocated budget, compared to 46 percent in the previous year. The execution rate of current budget was 56 percent comparing to 54 percent at the end of third quarter FY 2015. Meanwhile, execution rate of development expenditure was only 30.21 percent, compared to 30 percent of execution rate at the end of same quarter

previous year. Comparing to the end of the third quarter FY 2015, execution rate for total budget is presenting a slight increase of only 1 percent.

The lower execution rate of the core budget was attributed to several factors in particular to time consuming procurement process and approval of expenses by the National Procurement Authority, suspension of budget approval and deterioration in security condition in provinces and under performances by the budgetary units.

II. BUDGET DEFICIT

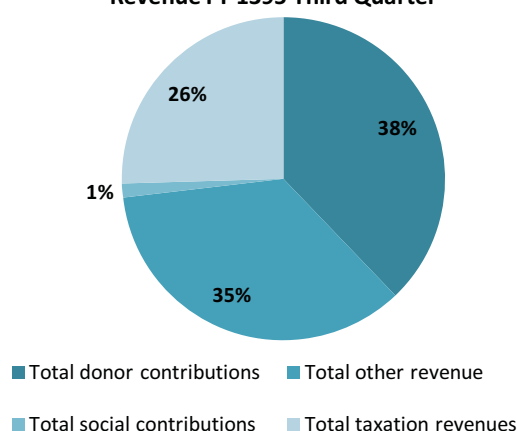
The overall budget prior to donor's contribution had a deficit of Af 29.43 billion in the third quarter of FY 2016. However, external source of finance plus domestic revenues total budget presents a surplus of Af 6.96 billion in the quarter under review.

III. REVENUE COLLECTION

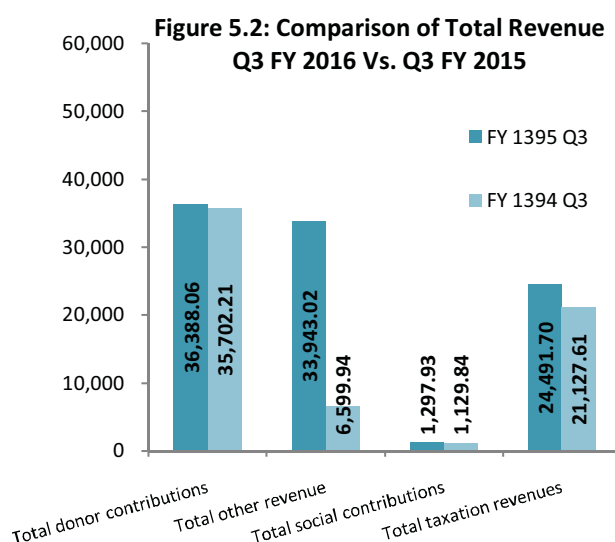
During the third quarter of FY 2016, domestic revenues increase significantly with total collection of Af 59.73 billion, up from the total of Af 28.86 billion in the same quarter FY 2015, presenting a significant increase of 107 percent.

The positive momentum gained in the third quarter was mainly due to the reforms in the revenue collection system, the implementation of new tax measures, increase in taxes components such as taxation on the mobile cards and other important institutional reforms in customs and revenue administration.

Figure 5.1: Composition of Total Revenue FY 1395 Third Quarter



Source: Ministry of Finance/MPD calculation



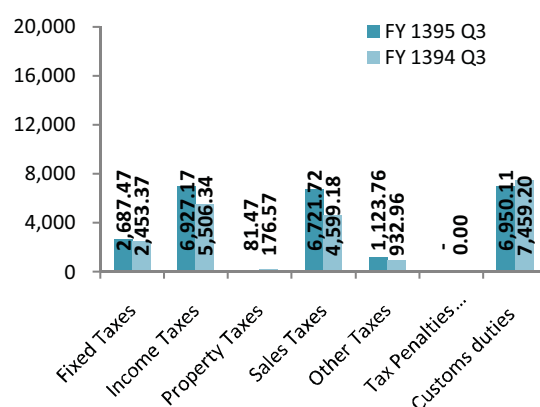
Source: Ministry of Finance/MPD calculation

5.3.1 Tax Revenue

According to available data, overall tax revenue including custom duties increased from Af 21.13 billion to Af 24.49 billion, compared to the same quarter of the FY 2015, which represents an increment of 16 percent or Af 3.36 billion.

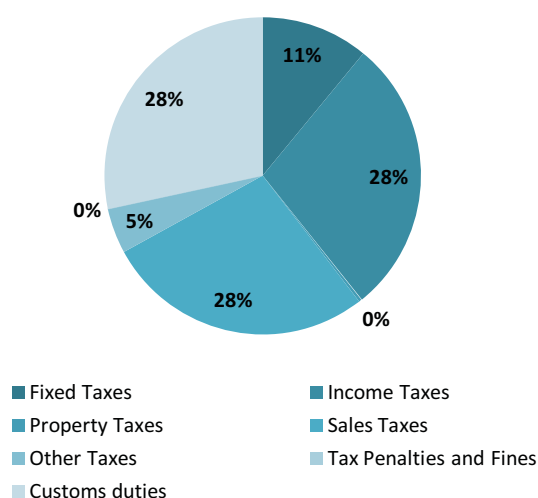
While total tax collection from the custom duties presented 7 percent decline, plummeting from a total of Af 7.46 billion to Af 6.95 billion in the third quarter of FY 2015.

Figure 5.3: Comparison of Tax Revenue



Source: Ministry of Finance/MPD calculation

Figure 5.4: Composition of Tax Revenue



Source: Ministry of Finance/MPD calculation

5.3.2 Non-tax Revenues

The main contributor in domestic revenues was non-tax revenues which presented a very significant increase of 414 percent reaching Af 33.94 billion, compared to Af 6.60 billion in the same quarter of the previous year. The momentous increase was mainly due to high performances in advances and returns of expenditure, extractive industry, administrative fee and miscellaneous revenues.

Revenue from extractive industry, a major component of the non-tax revenue, increased significantly compared to the previous quarters and same quarter of FY 2015 with contribution of Af 0.56 billion, up from Af 0.13 billion same quarter FY 2015 registering a increase of 323 percent.

Similarly, social contribution that constitutes only 2 percent of the total domestic revenue presented an increase of 15 percent. The total amount collected were Af1.30 billion, up from Af 1.13 billion in FY 2015.

IV. GRANTS

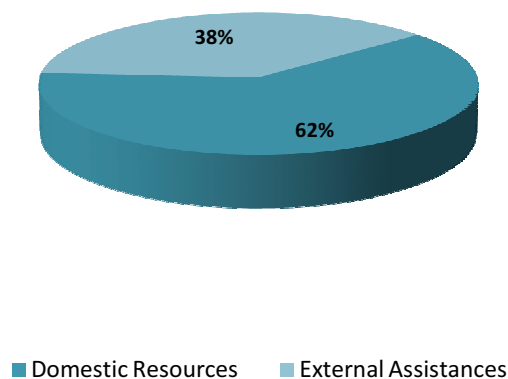
Afghan government receives grants from various donors, trusts and international committees to finance variety of projects in both operating and development expenditures. Integrated grants presented a slight increase in the third quarter of FY2016, compared to FY 2015.

Total development and operating grants in the third quarter of FY 2016 amounted to Af 36.39

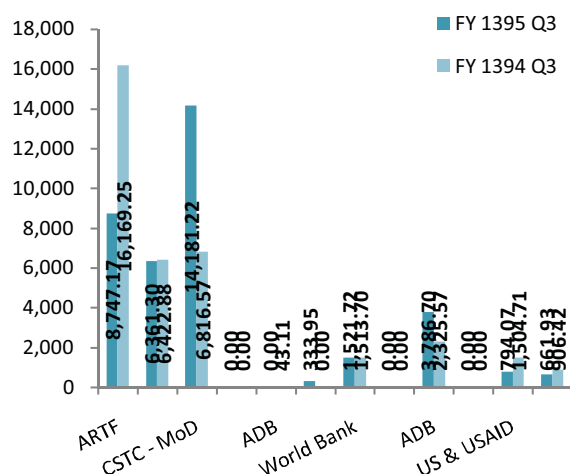
billion up from Af 35.70 billion in the same quarter FY 2015, screening 2 percent of increment. Nonetheless, grants received under the ARTF program over the third of FY 2016 was Af 8.75 billion that represents a significant decrease of 46 percent over the same period of the previous FY 2015. Similarly, grants received from LOTFA scheme decreased to Af 6.36 billion in the quarter under review compared to Af 6.42 billion in the same quarter FY 2015, witnessing a slight decrease of 1 percent.

During the third quarter government was able to finance 62 percent of the total core budget by using domestic revenues and 32percent is financed through external grants.

Figure 5.5: Financing Sources of National Budget Quarter 3, FY 2016



Source: Ministry of Finance/MPD calculation

**Figure 5.6: Comparison of Donors
Contribution**

Source: Ministry of Finance/MPD calculation

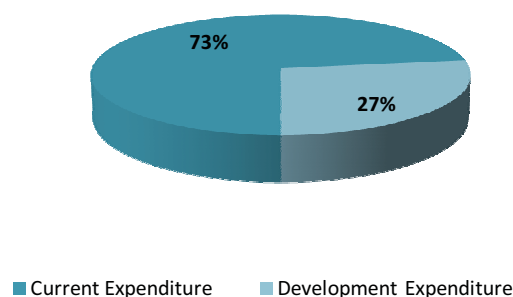
V. EXPENDITURE

During the third of FY 2016, total expenditures were Af 89.16 billion that indicates the augmentation of 8 percent over the total spending of Af 82.49 billion in the same period previous year.

However, the current expenditure presented a slight decrease of 2 percent, from Af 66.57 billion to Af 65.09 billion during the third quarter of FY 2016, declined by Af 1.4 billion.

On the contrary, development expenditure enlarged to Af 24.07 billion from sum of Af 15.91 billion indicating a significant increment of 51 percent.

From total spending, 73 percent were current budget and 27 percent development budget.

**Figure 5.7: Composition of Total
Government Expenditure Quarter 3, FY
2016**

Source: Ministry of Finance/MPD calculation



6

BANKING SYSTEM PERFORMANCE

6

BANKING SYSTEM PERFORMANCE

Asset base of the banking sector grew at a slower pace than the previous quarter, depicting 0.41 percent growth or AF 1.12 billion during the review quarter compared to 2.51 percent increase in the previous quarter ending in June, 2016. The increase in banking system assets in the review quarter was mainly due to increase in profit and capital injection.

Gross loans portfolio of the banking sector declined by 8.57 percent (AF 3.98 billion), over the last quarter, against 2.97 percent growth in June, 2016. The decrease in the loan portfolio over the third quarter was mainly attributed to repossession of assets which amounted AF 1.04 billion, settlement of loans and less customer utilization of OD (Overdraft loans).

Deposits -the main funding source in the banking sector- stood at AF 237.55 billion, comprising 95.74 percent of the total liabilities of the sector. In the third quarter of 2016 deposits decreased by 0.28 percent against 3.06 percent increase in the

previous quarter June 2016. The decrease in total deposit base of the banking sector is attributed to decrease in saving deposits in USD currency. Deposits were largely denominated in USD (65.36 percent) with Afghani denominated deposits lagging at 29.21 percent. AF-denominated deposits indicated increase of 0.82 percent against 14.88 percent increase in June 2016, while USD denominated deposits further decreased by 1.52 percent in the period under review. June 2016.

The capital base of the banking sector remained strong and increased by 4.25 percent, standing at AF 28.96 billion. The increase in total financial capital over the last quarter is attributed mainly to profits and capital injection during the quarter. Capital adequacy ratio (CAR) of the banking sector recorded at 22.02 percent. All the banking institutions are above the set limits for CAR, but one bank has a negative Capital Adequacy Ratio (CAR).

Banking sector earned net profits amounting to AF 593 million for the review quarter, against AF 384million net profits in the previous quarter. Return on Assets (ROA) stand at 1.93 percent annualized, down from 2.48 percent annualized recorded in second quarter. Meanwhile, Annualized Return on Equity (ROE) stood at June 2016 19.09 percent, against 24.70 percent in the previous quarter June 2016. The increase in profitability of the banking sector is mostly ascribed to significant decrease in credit provisions in the quarter under analysis. State-Owned Banks (SOB), Private Banks (PB) and branches of foreign banks (BFB) ended up with profits during the quarter under review.

I. ASSETS OF THE BANKING SYSTEM

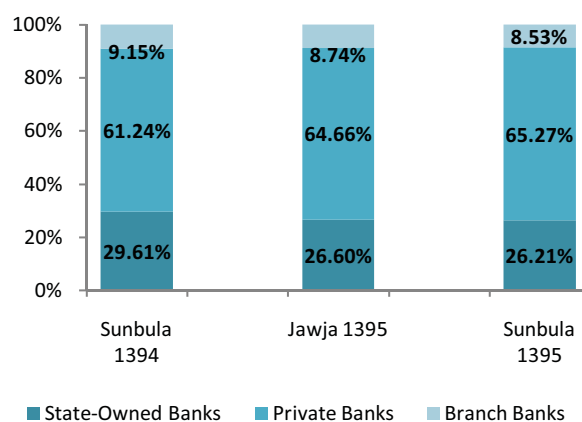
The assets size of the banking sector increased by 0.41 percent in the quarter under analysis against 2.51 percent increase in June 2016. See figure 6.1.

The breakup of total assets reveals that the most apparent increase was registered in cash in vault and claims On DAB which increased by AF 4.66 billion (4.06 percent) followed by investments increased by AF 1.19 billion (5.29 percent) and repossessed assets increased by AF 1.04 billion. Meanwhile gross loans and interbank claims showed decrease of AF 3.98 billion (8.57

percent) and AF 3.49billion (4.61 percent) respectively during the reviewed quarter.

The most important components of the system's total asset portfolio were cash in vault/claims on DAB (43.15 percent), interbank claims (26.10 percent), net loans (13.83 percent), investments (8.54 Percent), "other assets" (5.16 percent) and fixed assets which make 2.64 percent of the total assets. See table 6.1.

Figure 6.1: Share of Banking Sector (Total assets) across the banking group



Source: Financial Supervision Department/ DAB

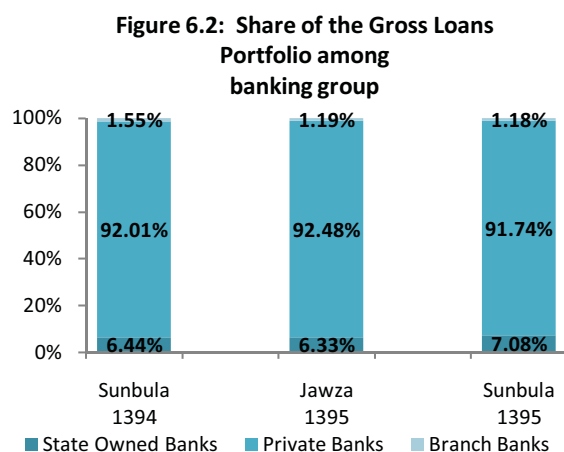
Table 6.1: Composition of Assets and Liabilities

Amount in million AF	Jawza, 1395 June 2016	Sunbula, 1395 Sep, 2016	% of Total Assets/Liability	Q-o-Q Growth
Assets				
Cash in vault and claims on DAB	114,913	119,575	43.15	4.06
Interbank claims	75,827	72,331	26.10	-4.61
Investments	22,483	23,673	8.54	5.29
	41,443	38,332	13.83	-7.51
Loans (Net)	535	526	0.19	-1.73
	0	1,042	0.38	-
Fixed Assets	7,022	7,318	2.64	4.21
Others	13,744	14,292	5.16	3.99
Total	275,967	277,090		0.41
Liabilities				
Deposits	238,228	237,554	95.74	-0.28
Borrowings	3,745	3,357	1.35	-10.38
Other	6,211	7,183	2.90	16.26
Total	248,184	248,126		-0.02
Financial Capital	27,783	28,964		4.25

Source: Financial Supervision Department, DAB

6.1.1 Gross Loans

Total gross loans indicated AF 3.98 billion or 8.57 percent decline since previous quarter, constituting 15.33 percent of the total assets.



Source: Financial Supervision Department/DAB

The decrease in total loan portfolio is mainly attributed to assets repossession of AF 1.04 billion, settlement of loans and less customer utilization of OD (Overdraft loans).

Declines in loan portfolio were observed in ten banking institutions, whereas four banking institutions registered an increase in their loan portfolio, while the remaining one bank (NKB) did not participate in lending;

Gross loan portfolio declined in Private Banks and Branches of foreign banks, whereas in State-owned banks it increased. Private Banks with 91.74 percent share in total portfolio posted 9.30 percent or AF 3.99 billion decrease, branches of foreign banks

with 1.18 percent share depicted 9.72 percent or AF 53.90 million decreases while State-owned banks holding 7.08 percent share of the portfolio increased by 2.29 percent or AF 67 million during the quarter under review.

6.1.2 Loan Loss Reserves

While assessing the level of credit risk, banks must give due attention to credit risk mitigation tools within their risk mitigation framework. Banks are required to make both general reserves (on standard assets) and specific provisions (on non-standard assets) in order to mitigate their credit risk. According to revised Asset classification and provisioning regulations, from Sep 2016 banks are required to set at least 1 percent reserve for their standard assets.

By the end of Sep, 2016 (Sunbula 1395), total provision cover of the system was 9.76 percent of total gross loans, down from 10.80 percent recorded in the previous quarter ending June 2016.

6.1.3 Distribution of Credit

In order to broad-based the loan portfolio and to broaden the risk diversification and financial access, DAB has diversified Other Commercial Loans to thirty sectors². It is worth mentioning that "Other Commercial

Loans" constitute 91.92 percent of loan portfolio and it is diversified in June 2016 "Petroleum and lubricants" (11.21 percent), "all other services" (10.35 percent), "Construction and building" (9.51 percent), "Food Items" (7.85 percent) and "wholesale" sectors (6.92 percent). Significant decreases were observed in loans given to retail trading, services and air transportation sectors both in absolute amount and percentage terms, while wholesale and "cement and construction material" were the sectors with largest increases in loans. Loans designated to Micro Credit sector posted an increase of AF 61 million, standing at AF 3.74 billion provided by one bank and SME sector increased by AF 175 million currently are AF 2.24 billion provided by five banking institutions. About 76.40 percent of the loans were designated in Kabul while Herat and Balkh provinces in the second and third place and Kandahar and Badghis provinces are at fourth and fifth place, respectively. The proportion of loans in other provinces was negligible. The designation of loans by sector, geography and institution is not adequately diversified, but the geographical diversification of loans is expected to improve in the coming years.

² Accounting Circular No. 93/01 dated 26/06/1393

Table 6.2: Sectoral Distribution of Credit

	Hoot, 1388 (Mar, 2010)	Hoot, 1389 (Mar, 2011)	Hoot, 1390 (Mar, 2012)	Qaws, 1391 (Dec, 2012)	Qaws, 1392 (Dec, 2013)	Qaws, 1393 (Dec, 2014)	Qaws, 1394 (Dec, 2015)	Sunbula1395 (Sep, 2016)
Commercial Real Estate and Construction Loans	19.92	25.98	2.85	2.29	2.02%	1.80%	1.90%	1.95%
Other Commercial Loans	-	-	-	-	-			
Mining	-	0.02	0.72	0.11	0.07%			
Manufacturing	1.22	2.72	13.32	11.88	9.36%			
Trade	32.29	34.16	27.84	28.3	29.81%			
Communication	1.04	1.23	0.94	2.35	3.70%			
Service	4.84	6.72	11.95	15.94	22.11%			
Utilities	2.47	0.03	0.3	0.07	0.05%			
<i>Agricultural Loans</i>						0.27%	0.33%	0.11%
<i>Livestock and Farms</i>						0%	0.03%	0.04%
<i>Manufacturing and Industry(product of metal, wood, plastic, rubber)</i>						2%	4.42%	3.62%
<i>Manufacturing, Handmade and Machine products</i>						4%	4.24%	3.59%
<i>Cement and Construction Materials</i>						3%	1.96%	2.32%
<i>Textile</i>						2.59%	0.52%	0.73%
<i>Power</i>						0.35%	0.22%	0.54%
<i>Construction and Building</i>						12.52%	7.54%	9.51%
<i>Services</i>						4.79%	3.80%	1.54%
<i>Hotel and Restaurant</i>						1.20%	1.46%	1.43%
<i>Telecommunication</i>						2.92%	5.70%	6.52%
<i>Ground Transportation</i>						4.87%	5.31%	4.45%
<i>Air Transportation</i>						4.18%	2.66%	2.53%
<i>Health and Hygienic</i>						0.71%	1.16%	1.59%
<i>Median, Advertisements and Printer</i>						0.04%	0.04%	0.04%
<i>All Other Services</i>						1.41%	7.56%	10.35%
<i>Wholesales</i>						4.93%	9.89%	6.92%
<i>Machineries</i>						0.12%	0.25%	0.26%
<i>Petroleum and Lubricants</i>						8.74%	9.80%	11.21%
<i>Spare Parts</i>						0.24%	1.42%	0.26%
<i>Electronics</i>						1.40%	1.58%	1.91%
<i>Cement and other Construction Materials</i>						1.87%	2.73%	2.08%
<i>Food Items</i>						4.52%	8.24%	7.85%
<i>All Other Items</i>						5.72%	3.47%	3.59%
<i>Retail Trading</i>						3.92%	3.28%	4.56%
<i>Road and Railway</i>						2.41%	1.17%	0.72%
<i>Dams</i>						0.61%	0.09%	0.00%
<i>Mines</i>						0.08%	1.48%	0.49%
<i>Other infrastructure Projects</i>						1.81%	2.44%	3.17%
<i>Financial and Lending Institutions</i>						0.00%	0.00%	0.00%

Agricultural Loans	0.88	0.75	2.06	2.66	2.38%	2.34%	2.35%	2.65%
Consumer Loans	1.33	1.01	0.82	0.74	0.24%	0.26%	0.30%	0.52%
Residential Mortgage Loans to Individuals	7.3	8.95	15.65	14.46	10.84%	7.14%	2.68%	2.69%
All Other Loans	3.69	10	12.65	10.71	9.41%	6.68%	0.00%	0.27%

Source: Financial Supervision Department/DAB

II. CLASSIFICATION OF LOANS

6.2.1 Non-performing loans

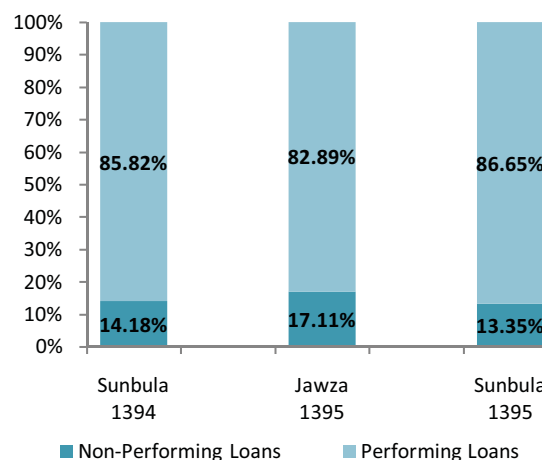
At the end of third quarter 2016, non-performing loans stood at AF 5.67 billion (13.35 percent of total gross loans) and 22.57 percent of the system's regulatory capital against AF 7.95 billion or 17.11 percent of the total gross loans in the preceding quarter. The decrease in non-performing loan is mainly due to repossessions and charge offs. More than 59 percent of the NPLs relates to three Private commercial banks holding 60.08 percent of total gross loans of the banking sector.

Financial Supervision Department (FSD) is closely working with the financial institutions with poor loan performance to design and implement plans to improve their asset quality. This situation requires regulatory oversight and prompt remedial action to improve governance of credit risk to avoid negative impact over the profitability and capital adequacy of the banks with poor credit quality.

The sector wide distribution of NPL reveals that major part of NPL originates from Trade

sector making 36.96 percent of the sector's NPL, with manufacturing sector at the second place having 19.05 percent share of the sector NPL, though the NPL showed decrease in these sectors and services sector.

Figure 6.3: Quality of Loan Portfolio



Source: Financial Supervision Department/DAB

6.2.2 Adversely-classified loans

Adversely classified loans (substandard, doubtful) depicted AF 1.89billion decrease to AF 8.14 billion during the third quarter of fiscal year 2016, constituting 19.17 percent of the total gross loans or 32.42 percent of regulatory capital, though decreased but still requires strong board oversight and

remedial actions by management to reduce the level of Adversely Classified loans to an acceptable level. In addition, more emphasis should be placed on strengthening corporate governance in banks with poor credit quality, enhancing effectiveness and efficiency of internal controls, and adequately managing inherent and unsystematic risk

6.2.3 Loans classified Watch

Loans classified in the “watch” category are AF 2.70 billion, which makes 6.36 percent of total gross loans decreased by 14.43 percent since the previous quarter ending in June, 2016. The decrease is mostly attributed to three private commercial banks and one state owned bank in the system. This category of loans require close monitoring as it may lead to more adversely classified loans (Substandard, Doubtful) and losses in the future.

6.2.4 Loans classified loss³

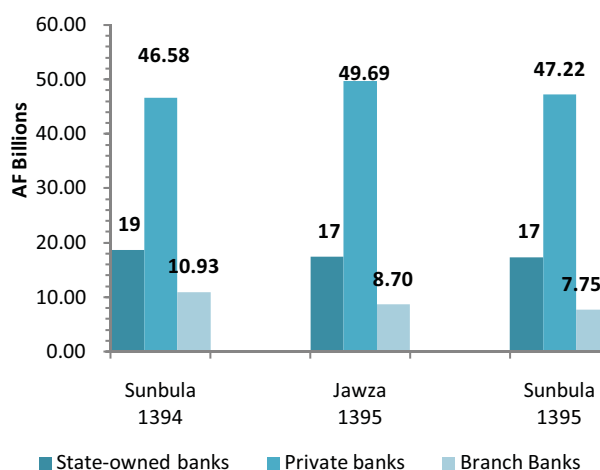
Loans classified loss amounts to AF 719 million or 1.69 percent of total gross loans are up by AF 524 million since previous quarter, attributed to five banks. Banks are required to maintain enough capital at all times to cover losses resulted from loans

classified in this category as it prompts charge-off from balance sheet.

6.2.5 Interbank Claims

Interbank Claims are the second largest category of assets, currently comprising AF 72.35 billion (26.11 percent) of total assets registered AF 3.49 billion (4.60 percent) decrease during the third quarter of 2016. June 2016 The decline in interbank claims is attributed to ten banking institutions. With hindsight, banking sector transferred substantial portion of interbank claims to cash in vault and DAB capital notes accounts to decrease the risk and to strengthen their liquidity positions. .. See figure 6.4.

Figure 6.4: Share of Inter bank Claims among banking groups



Source: Financial Supervision Department/DAB

³ Assets on which the payment of principal or interest is due and remains unpaid for 540 days or more (Loss) as per Accounting Letter No. 03/92 dated 16/09/1392

6.2.6 Investment

The investment portfolio of the banking sector, which comprises of bonds, Gov. Securities, investment in associated companies; grew by 5.29 percent or AF 1.19 billion over the previous quarter, standing at AF 23.67 billion or 8.54 percent of total assets, the increase came from four banking institutions. Major part of the sector's investment took place outside Afghanistan. The investment portfolio is attributed to two state owned banks, five commercial banks and three branches of foreign banks.

6.2.7 Cash in Vault and Claims on DAB

Cash in vault and claims on DAB- the largest category?making 43.15 percent of the total assets- showed an increase of AF 4.66 billion, both in absolute as well as in percentage of total assets since previous quarter ending in June, 2016.

The banking sector is fully compliant with required reserves regulations and is deploying slowly and prudently the attracted funds into other types of assets.

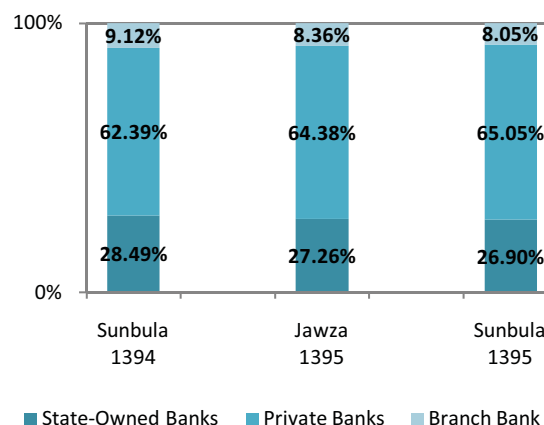
III. LIABILITIES

Total liabilities of the banking sector decreased by AF 58.02 million (0.02 percent), standing at AF 248.13 billion against AF 248.18 billion in

the preceding quarter June 2016. All components of total liabilities except all other liabilities, suspense accounts and accrued interest payable have shown decreased during the third the quarter.

The majority of liabilities are made up of deposits (95.74 percent) followed by “other liabilities” borrowings. See table 6.5

Figure 6.5: Liabilities decreased by AF 58.02 million or 0.02 percent



Source: Financial Supervision Department/DAB

6.3.1 Deposits

Deposits being the main funding source, amounted to AF 237.55 billion for the quarter under review, decreased by 0.28 percent (AF 674.04 million) compared to 3.06 percent increase in the previous quarter. The decrease in deposit base of the

banking sector is attributed to decrease in saving deposits in USD currency. Currency wise analysis shows that Afghani denominated deposits indicated 0.82 percent increase June 2016 accounting for 29.21 percent of total deposits, while US dollar denominated deposits were down by 1.52 percent June 2016 making 65.36 percent of the total deposits of the system.

Deposits in Private Banks reached AF155.74 billion, indicating an increase of 0.83 percent during the quarter under review, making up 65.56 percent of the system's deposits.

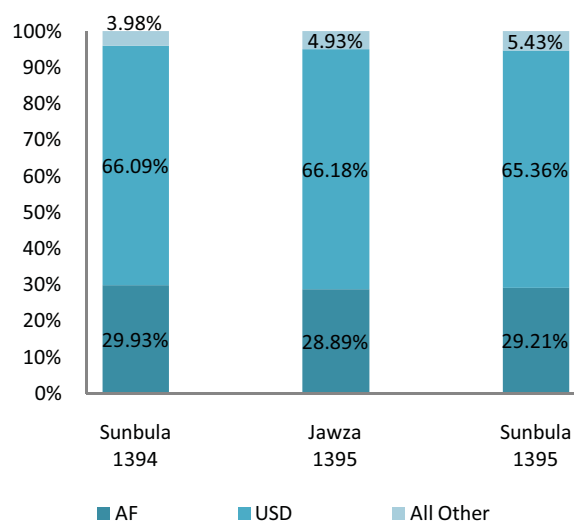
The share of state-owned banks in total deposits amounted to AF 62.99 billion, accounting for 26.52 percent of the total deposits. In the third quarter, deposits in state-owned banks decreased by 2.42 percent. June 2016

Meanwhile, deposits in branches of foreign banks stood at AF 18.82 billion (7.92 percent of total deposits of the system). Deposits in branches of foreign continued to decrease in the third quarter by 2.07 percent during the third quarter. June 2016

In terms of types of deposits, demand deposits accounted for 75.13 percent of the total deposit base, increased by 0.6 percent. Saving deposits constituting 18.35 percent of total deposits were in the second place depicted 5.01 percent decrease, while time deposits making up 6.52 percent of the total

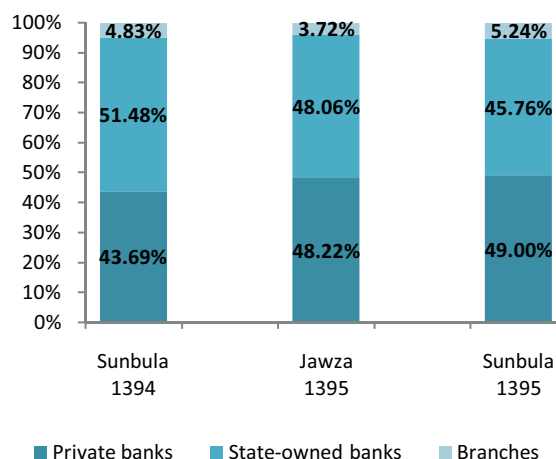
deposit portfolio were up by 3.72 percent since June 2016.

Figure 6.6: Currency Composition of Deposits



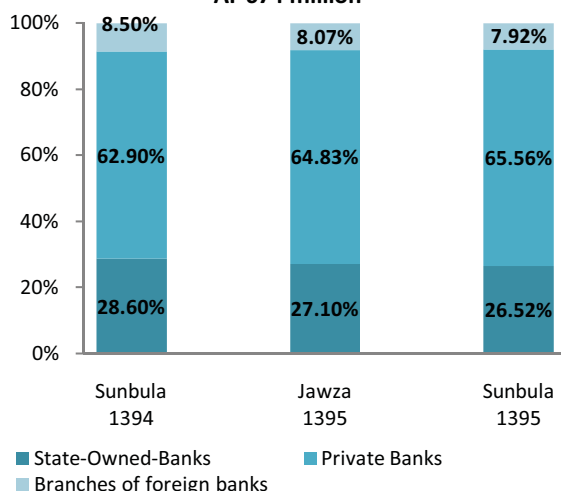
Source: Financial Supervision Department/DAB

Figure 6.7: Afghani Denominated Deposits



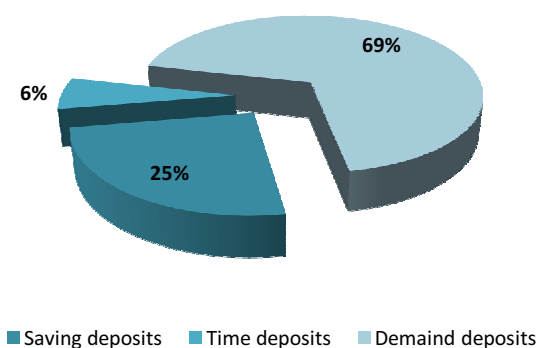
Source: Financial Supervision Department/DAB

Figure 6.8: Deposits decreased by 0.28 percent or AF 674 million



Source: Financial Supervision Department/ DAB

Figure 6.9: Breakdown of Deposits



Source: Financial Supervision Department/ DAB

6.3.2 Borrowings

The share of borrowings in total funding, structure of the system decreased by 10.38 percent, standing at AF 3.36 billion at the end of September 2016. It is worth mentioning that borrowings make up 1.35 percent of total liabilities. 1.39 percent increase in the preceding quarter.

IV. LIQUIDITY

Liquidity risk can be defined as the risk of not having sufficient liquid assets to meet the demand of borrowers and depositors. All banks are required to maintain a reasonable level, in order to avoid any liquidity problem. For this reason, banks should maintain an asset liability committee (ALCO); one of its tasks is the liquidity management of the bank through gap analysis, stress testing, scenario analysis, cash flow analysis, etc. according to policies of the bank.

Table 6.3: Key Financial Soundness Indicators of the banking Sector

Ratio in %	(Mar, 2010)	(Mar, 2011)	(Mar, 2011)*	(Mar, 2011)	(Dec, 2012)	(Dec, 2013)	(Dec, 2014)	(Dec, 2015)	(Sep, 2016)
Total Capital Adequacy Ratio	25.81	-14.46	30.39	23.06	21.84	26.34	26.46	19.94	22.02
Tier 1 Capital Adequacy Ratio	24.19	-14.51	30.29	23.98	19.97	24.65	26.09	19.66	18.48
Non-Performing Loans to Total Gross Loans	0.5	48.4	3.75	5.15	5.31	5.1	8.09	12.34	13.35
Return on Assets (ROA)	1.41	-20.08	0.24	-1.21	-0.54	0.74	0.90	0.20	1.93
Return on Equity (ROE)	10.35	-520.66	1.9	-17.9	-7.17	10.03	7.35	1.69	19.09
liquidity Ratio (Broad Measure Median)	59.19	63.32	63.83	57.37	72.13	67.93	73.6	68.22	68.09
liquidity Assets to Total Assets	0.38	40.58	47.01	55.82	63.75	73.18	73.28	75.05	69.84

*Excluding Kabul Bank

Source: Financial Supervision Department/ DAB

6.4.1 Liquidity Ratio (broad measure)

Banks are required to maintain a liquid asset ratio not less than 15 percent. This should provide a comfortable safeguard against any liquidity shortfall. Generally, a surplus liquidity position was observed in the banking sector during this period. 69.84 percent of the sector's total assets are comprised of liquid assets. Ratio of the broad liquidity as a median for the whole system stood at 68.09 percent. All banking institutions were well above the minimum required level. See table 6.5.

V. CAPITAL

The Banking system is well capitalized. The capital fund of the banking sector stands at AF 28.96 billion; increased by 4.25 percentage points or AF 1.18 billion over the last quarter. The increase in total financial capital is mainly attributed to profits and capital injection.

On an aggregate basis the Capital Adequacy ratio of the banking sector stands at 22.02 percent. See table 6.5.

Disaggregated analysis shows that all banks except one bank in the system registered capital adequacy ratio above the minimum threshold (12 percent of risk-weighted assets). The Basel benchmark for capital to risk weighted is 8 percent.

VI. PROFITABILITY

On a cumulative for the quarter ending Sep, 2016, the banking sector earned AF 593 million net profit as compared to AF 384 million net profits in June 2016, showing increase over the quarter.

The increase in profitability of the banking sector as evident from the table 6.5 P/L mostly ascribed to significant decrease in credit provisions, other contributing factor was decrease in operating cost, while net interest income showed decrease in the quarter under analysis. See table 6.5.

The returns on assets (ROA) stand at 1.93 percent annualized from 2.48 percent annualized and return on equity (ROE) became 19.09 percent annualized from 24.70 percent annualized in the previous quarter.

On a cumulative basis four banking institutions have incurred AF 290 million losses in the quarter under analysis against AF 316 million losses posted by equal number of banks in the quarter ending June 2016.

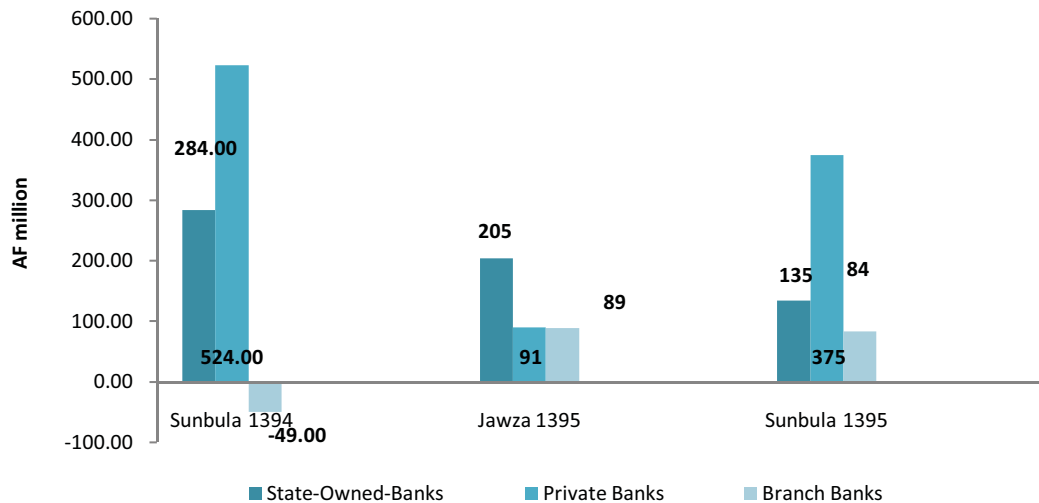
On core income basis, two banks ended with losses against three banks in the previous quarter.

Group wise analysis reveals State-Owned Banks (SOB), Private Banks (PB) and branches of foreign banks (BFB) ended up with profits in the quarter under analysis. See figure 6.10.

Major portion of the profitability of the banking sector is attributed to Private Banks

standing at AF 375 million, state-owned banks and Branches of foreign banks are at second and third place with AF 135 million and AF 84 million profits respectively.

Figure 6.10: Profitability of the Banking Sector



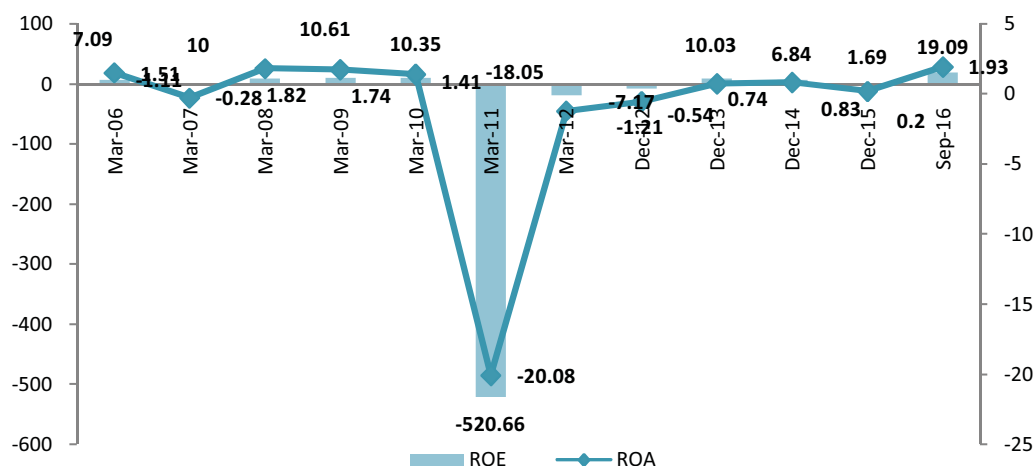
Source: Financial Supervision Department, DAB

Table 6.4: P/L Schedule

	1394 (Sep, 2015)	1395 (June 2016)	1395 (Sep, 2016)	%change Q-o-Q
interest income	2,385	2,361	2,260	-4.30
interest expense	526	433	434	0.06
Net interest income	1,859	1,928	1,826	-5.28
Non-interest income	1,472	2,279	1,217	-46.60
Non-interest expenses	1,288	1,453	1,371	-5.63
Salary cost	959	930	926	-0.44
Credit provisions	264	589	(2)	-100.32
P/L before tax	820	1,235	748	-39.47
P/L after tax	758	384	593	-54.27

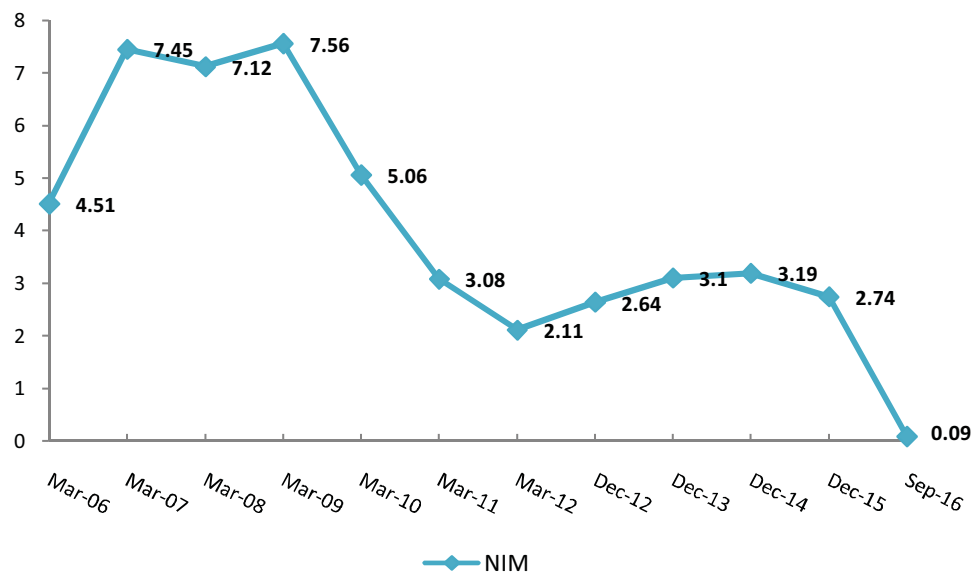
Source: Financial Supervision Department, DAB

Figure 6.11: Return on Equity and Return on Assets



Source: Financial Supervision Department, DAB

Figure 6.12: Net Interest Margin



Source: Financial Supervision Department, DAB

IV. Foreign Exchange Risk

The level of overall open FX position risk taken by banks is largely within the levels set by DAB. In general, all the banking institutions were within the limits set for the overall open FX position, except for three banking institutions holding open FX positions on overall and on an individual currency (USD long and short position) basis violated the limits.

The impact of change in exchange rate upon regulatory capital of the system reveals that a 20 percent appreciation in exchange rate would increase the regulatory capital of the system by AF 8.97 billion and vice versa. Similarly, a 4 percent change would correspond to AF 1.79 billion and vice versa.

percentage points, it will decrease their net interest income over the next 12 months.

The major reason for the extensive asset-sensitivity of the banks is the large excess of interest earning assets over interest bearing liabilities. Although it may improve the net interest margin and overall profitability of banks, this situation makes the banks more vulnerable to a sudden decrease in the market rates.

VII. Interest Rate Risk

Overall the banking system is in an interest-rate sensitive position. However, calculations made from the Interest Rate Sensitivity Schedules of all banks reveal that, the net-interest income of the system over the next 12 months may increase by AF 1.31 billion in the event of increase in the market interest rate by 3 percentage points. Conversely, if the interest rate decreases by 3 percentage points interest income will decline by AF 1.31 billion. For two banking institution, if the interest-rate increases by 3

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