

ABA E-Newsletter

Letter from the Chairman

Dear Readers,

ABA is pleased to share the first issue of the ABA E-Newsletter, which marks the launch of a new chapter in ABA's commitment to advancing Afghanistan's banking sector. This monthly e-newsletter series was initiated with the intent of highlighting the banking sector and disseminating practical information to industry stakeholders. In the coming months, please stay tuned as ABA prepares to deliver a broad range of activities in support of its member banks, their customers, and the Afghan banking industry as a whole.

Best regards,
Khalil Sediq
ABA Chairman

Banking Sector Role in the Economy

Afghanistan has witnessed momentous economic growth since last decade at an average rate of 13 percent, (WEO, 2013). Foreign exchange influx in the form of grants, foreign direct investment (FDI), export earnings and remittances have considerably contributed to the economic growth and development. Huge donor assistance coupled with banking sector lending created widespread business opportunities, helped businesses expand their operations, provided job opportunities, improved living standard of working-class with a trickledown effect on the poor.

Banks over the last decade became an important aspect of economy and of a special importance for the economic growth of the country. Banking sector has remained major sector of the economy by playing intermediary role in funding businesses in trading and commercial areas, manufacturing, and agriculture sector. On fiscal fronts, Afghan government revenues amplified manifold. Improved macroeconomic

management through macroeconomic policies of government, Afghan government has been able to demonstrate tangible improvements on its macroeconomic indicators specifically economic growth through relatively stable exchange rate and controlled monetary inflation. Moreover, the banking sector growth expanded financial inclusion by extending banking sector services to many provinces. Afghanistan economy is characterized by the existence of large non monetized and informal sector, particularly in the backward and remote areas of the country. The existence of this informal sector is an obstacle in the economic development of the country. Banks through their presence in many provinces promoted the process of monetization in the economy.

Da Afghanistan Bank (DAB) had provided strong basis for sound banking system through implementations of Basel II and other standard international banking practices. Afghan local banks adhere to strong rules and regulation while choosing the potential customers. Similarly, innovative products and services on part of banks provided basis for economic growth. Although in a country like Afghanistan where country risk is high, banking sector has significantly involved itself in microfinance and more importantly agriculture sector which is the priority sector of the country. Banks have focused more on trade and commercial sectors because of the less risk involve there in. Over the course of last decades, the interest rate charged on banking lending has been gradually reducing on part to promote economic growth and ease terms for business financing and encouraging inclusive economic growth. On regulatory side, Afghan banking sector demonstrated sizeable progress by implementing international standards. Corporate governance has demonstrated improvements and banking sector has played vital role in uplifting of economic growth as major source of credit to businesses.

On the other hand, the introduction of treasury bills jointly by DAB and Ministry of Finance can play an important role by attracting excess liquidity from the banking sector. Similarly, it can also be utilized as an active tool of monetary policy to curb inflation. Strong banking sector and its contributions sector-wise played vital role in keeping the momentum of Afghan economy. Definitely, Afghanistan is a virgin market with huge potential, better incentives and lower taxes for foreign investors. Afghanistan has strong potential for growth. Strong banking sector growth in the country has been playing vital role in intermediating funds to better productive opportunities in conformity with national priorities.

Access to finance is vital factor in reviving business and industrial sector of the country. In many countries, bank financing plays central role in helping businesses with their liquidity shortages and supply funds for their expansion. It can speed up import substitution industrialization in the country by intermediating funds to the growing industrial sector. Banking sector financing along with relaxed government policies can assist in reviving and making industrial and services sectors more competitive. Overall, the role of banking sector remained crucial in uplift of inclusive economic growth.

Macroeconomic and Banking Sector Developments

Afghan economy expanded by an annual rate of 10.18 percent in 2012. The strong increase in the economy is mainly driven by agriculture and services sectors as shown in figure 1.1. On the other hand, inflationary pressures remained low both for imported and domestically produced commodities and services for 2012. In 2012, Inflation stood at 5.7 percent because of stable and robust monetary policy response to price stability in the country. Moreover, inflation in the imported goods and services remained contained as depicted in figure 1.2.

Figure 1.1: Gross domestic product current prices

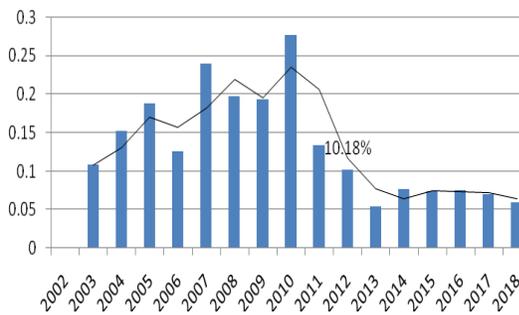
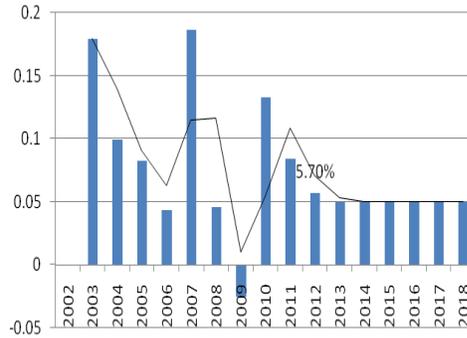


Figure 1.2: Headline Inflation
End of Period



Source: International Monetary Fund, World Economic Outlook, April 2013

Since early February, 2013, exchange rate remained volatile and depreciated against US dollar mainly due to falling foreign exchange inflow to the country. Moreover, the recent depreciation in Afghani exchange rate against US dollar is mainly attributed to 2014 security transition and upcoming presidential election. On the other hand, total investment witnessed significant growth in 2012. It increased at rate of 24 percent for year 2012 as compare to 25 percent increase in 2011. Afghan economy is having high potential in many sectors and there is an expected sizable growth rate for the upcoming years, Figure 1.4 summarizes investment developments in the country.

Figure 1.3: Exchange Rate
Afghani/ US dollar

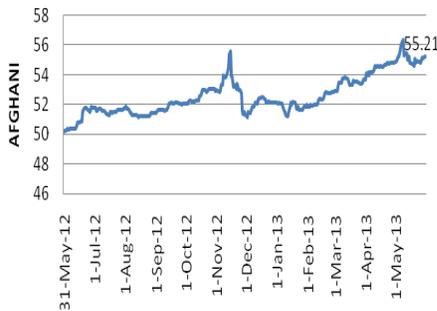
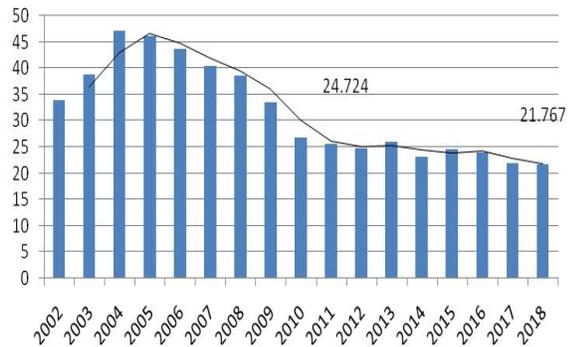


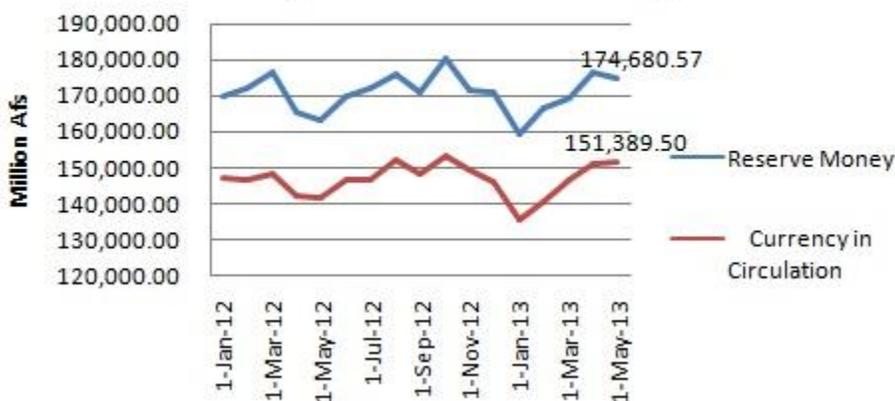
Figure 1.4: Total investment
Percentage Change



Source: International Monetary Fund, World Economic Outlook, April 2013 Source: OANDA.COM

DAB is mainly targeting reserve money, operational target, through its instruments to ensure long run domestic price stability. By the end of May, 2013, Reserve money reached to Afs 174,680 million having a gradual decline since December, 2012 to curb inflation. Major component of reserve money, Currency in Circulation, reached to Afs 151,389 million.

Figure 1.5: DAB Operational Target: Reserve Money



Source: Da Afghanistan Bank

Afghanistan banking sector observed record high growth rate for the course of last decade. In 2012, total assets of the banking sector increased by 13.62 percent to USD 4333 million . Total liabilities declined by 3 percent to USD 3718 by the end of December 2012.

In 2012, the growing confidence of Afghan people is mainly reflected in 11.28 percent increase in total deposits of banking sector. Total deposits reached to Afs 192.24 billion in the same year. Banks contributed by USD 816 million in the form of loans to various sector of the economy to support economic growth and development. The loans were mainly aimed at expanding business in various sectors of the economy specifically in trading, services, manufacturing and residential mortgage to individuals. In order to uplift small and medium size enterprises (SMEs), banking sector has extended 15.47 percent of the total gross loans to SME. Banking sector played vital role in generating employment opportunities mainly through their loan to the growing sectors of the economy. Moreover, over 8000 people are employed in Afghan banking industry by providing employment opportunities in almost all provinces of the country.

Overall, banking sector of Afghanistan remained profitable and well-capitalized. Similarly, banking sector in the country remained highly liquid to ensure better response to its customers' needs.

Financial Products & Services Spotlight

Branchless Banking: Mobile Banking (part 1)

This article is part one of a two-part article series on branchless banking in Afghanistan.

Mobile money refers to a range of financial services that can be offered across a mobile phone device. In many developing countries, mobile money services have played a key role in expanding financial inclusion to remote rural areas and the unbanked. In Afghanistan, mobile money can be used to pay salaries, conduct transactions, make transfers, pay utility bills, top-up mobile phone minutes, and pay school fees. Many of Afghanistan's commercial banks are already providing these mobile money services.

Mobile money was introduced to Afghanistan in 2009, when Afghan telecom giant Roshan and UK-based Vodafone partnered to offer a mobile money service called "M-Paisa." The service was first used to pay salaries to the Afghan National Police and proved itself as a useful tool to clamp down on corruption. Since the money went directly to the police force, corrupt officers and middlemen could no longer illicitly skim cash to line their pockets. As a result, costs went down 10% and the police thought they received a 30% raise. Mobile salary payments have since expanded to more government employees, including the Afghan National Army and public school teachers.

Mobile money has also proven useful for making wire transfers, such as remittances, which is especially useful for those with families in far-flung regions. With mobile money services, such as M-Paisa, users can make a fast track wire transfer in a snap to fulfill their family needs with safety and confidence. Having said that, mobile banking has played a significant role in overcoming challenges in access to finance in remote areas.

As more users adopt mobile money services for its convenience, safety and transparency, it can play a vital role in promoting the use of formal financial services over the Hawala system, which will be essential to strengthening Afghanistan's banking sector. Moreover, mobile money services have competitive advantages over money service providers as it provides users with cost and time savings.

Given that less than 9% of the population uses formal financial services (World Bank Financial Inclusion Data, 2011) but 65% own mobile phones, the potential for mobile phones to support deeper market penetration of financial services is huge. Banks are striving to align with leaders of the industry and the people of Afghanistan are witnessing a rise in education level and mobile phone dependency – both of which promise a dramatic growth in mobile-based banking.

News Highlights

ABA Prepares for Increased Activities.

In alignment with its Strategic Plan for 2012-2015, ABA has taken major steps towards becoming a professional trade association that will better serve the needs of its member organizations, including hiring new leadership and moving to larger office space.

ABA is pleased to announce that Mr. Ahmad Javed Wafa joined ABA as Director of Economic Research in early April 2013. Under this new role, Mr. Wafa will be responsible for managing ABA's day to day activities aligned with achieving the organization's strategic objectives. An experienced manager and banking professional, Mr. Wafa brings a wealth of experience in the banking industry, having served at the Central Bank as Deputy Director of Monetary Policy and Bank-e-Millie as Chief Risk Officer. He holds a Masters degree in economic policy from the Graduate Research Institute for Policy Studies in Tokyo, Japan.

In March 2013, ABA relocated its offices to Charrahi Haji Yaqub Shar-e-Naw. The new office includes a large conference hall and additional office space, necessary for ABA's growing team and increased activities.

All of this is being made possible with a grant from the USAID/Financial Access for Investing in the Development of Afghanistan (FAIDA) project.

Corporate Governance Training for Afghan Banks- Kabul City.

To support its member banks in adopting best practices in corporate governance through capacity building and the development of a Corporate Governance Code for Afghan banks, ABA organized governance training during June 17-19, 2013. Specifically, the objectives of the training consisted of:



Event: Corporate Governance Training

Date: June 17, 18, 19 2013

Venue: Afghanistan Banks Association ABA



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1. To understand what is current international good practice in governance of companies, especially commercial banks, applied to the Afghan context;

2.

2. To develop and agree on a core set of governance principles that are appropriate for ABA member banks, applicable to the Afghan context and that addresses the concerns of correspondent banks regarding Afghan bank governance; and

3.

3. To draft a Corporate Governance Code for ABA member banks that embodies the agreed governance principles as well as an action plan to implement it in phases.

4.

A2F Business to Bank Round Table Event – Jalalabad City.

5. ABA and USAID FAIDA organized a two-day event in Jalalabad City for regional businesses and banks. The event offered two days of presentations and round table discussions for businesses to learn about the various financial products and services available to the business community. Sixty businesses and 10 representatives from the financial services industry participated in the event. The event resulted in 19 loan requests, including nine concept notes with the remaining to follow.



Event: A2F Business to Banks Roundtable

Date: May 07 & 08 2013

Venue: Afghan Hotel, Jalalabad City



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