

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

February 24, 2023



This monthly Afghanistan Economic Monitor is part of **Afghanistan Futures** – the World Bank’s program of research, monitoring, and analytical reports on the state of the Afghan economy and society. **Afghanistan Futures** seeks to inform the international policy dialogue as the international community assesses how it can support the people of Afghanistan. This Afghanistan Economic Monitor joins the regular surveys on Private Sector, Household Welfare and Gender, and Sectoral reports that inform the biannual Afghanistan Development Update – a bi-annual flagship report.

The headline inflation decelerated substantially during the last months of 2022. The effects of AFN depreciation on domestic prices fully played out during the last quarter of 2022, as reflected in the official statistics: the headline year-over-year (YoY) inflation reached 5.2 percent in December 2022, a significant drop vis-à-vis 9.1 percent in November. The considerable drop in headline inflation was also driven by falling global prices of imported fuel and cereals, a winter-induced further weakening of domestic demand, and a relatively contained money supply as the central bank primarily focuses on maintaining the AFN/US\$ parity. Similar trends are confirmed by the basic household goods inflation index calculated by the World Bank using the data collected by the WFP: in January 2023, prices show a deflationary trend vis-à-vis those in January 2022.

The exchange rate remained stable against major currencies as the country continued to receive monthly US\$ cash shipments (~ US\$ 200 million in January 2023). During January 2023, AFN depreciated against the US\$ (by 0.5 percent), Euro (by 2.6 percent), Chinese yuan (by 1.4 percent), and Indian rupee (by 0.6 percent). However, AFN appreciated against the Pakistani rupee (1.4 percent) and the Irian toman (9.1 percent). UN cash shipments reached US\$ 1.8 billion in 2022 and continued in January 2023 (US\$ 200 million). Since the central bank (DAB) provides the conversion into AFN for those payments requiring local currency, the cash shipments provide DAB with US\$ liquidity which is occasionally auctioned in the foreign exchange market. However, the frequency and amount of the auction are not confirmed by any official data on the central bank website. In addition, the ITA continues to tightly regulate the foreign exchange market, including Money Service Providers (MSP), prohibiting foreign currency-denominated domestic transactions and controlling the export of foreign currency.

Pre-August 2021 bank deposit withdrawal limits remained. No statutory withdrawal limit is imposed on deposits made after August 28, 2021. However, withdrawals of previous deposits continue to be regulated: in January 2023, individual depositors reported being able to access their deposits within the allowed limits, and all banks appeared to be able to cater to their individual customers, an improvement vis-à-vis the recent months. Firms, however, indicated that access to their deposit is lower than permitted limits. Nonetheless, even in this case, the situation in January appears to have slightly improved.

Civil servants' salaries continue to be paid on time. According to data collected by TPMA (through telephonic interviews with ~250 individuals), most civil officials receive regular salary payments (as reported by 97 percent of the respondents, men, and women). Crowding in the bank branches and provision of damaged notes¹ by the bank are reported as significant challenges by recipients.

Employment for skilled and unskilled labor has marginally declined in winter, in line with expected seasonal trends. Snowing and extreme cold weather resulted in declining agriculture, construction, and allied activities in most of the country. The parallel decline in household incomes may have further suppressed already low aggregate demand and, in turn, economic recovery.

The fiscal year 2022-23's first ten months were at par with 2020. Between March 22, 2022, and January 21, 2023 (first ten months of the fiscal year), total revenue collection was AFN149.6 billion (US\$ 1.68 billion), in line with 2020 figures. This collection is around 75 percent of the revised budget target of AFN 198 billion for the fiscal year 2022-23. Considering the trajectory of revenue collection, the revised budgetary target appears unlikely to be met, and a revenue shortfall could be expected. Collection continues to rely on regressive indirect taxes collected at borders: border taxes accounted for 58 percent of overall revenue, driven by strong imports. The latest available data² show that revenue from inland sources was AFN 68.6 billion (US\$ 0.8 billion), with non-tax sources contributing the most. Non-tax sources, primarily from royalties and administration fees collected by ministries, contribute 52 percent of total inland revenues. Anecdotal evidence suggests that a significant amount of non-tax revenue receipts is through the collection of arrears—a one-off in nature and may not be available in the future. Coal mining royalties and fees are a likely driver of the increase in ministries' revenue and, as such, going forward, will depend on future export performances.

Afghanistan exports in 2022 reached US\$ 1.9 billion, more than twice the US\$ 0.85 billion exported in 2021 and US\$ 0.78 billion in 2020. Data from customs authorities show that the export growth was mainly driven by a surge in exports of vegetable and fruit products (57 percent share in overall exports), mineral products (27 percent share), and textiles (10 percent share) – collectively contributing 94 of total exports. Pakistan is the largest export destination for Afghanistan (63 percent of total exports), followed by India (22 percent). Food exports to Pakistan reached US\$ 0.5 billion in 2022 (against US\$ 0.16 billion in 2021), as the devastating floods in Pakistan created additional demand. Exports of coal to Pakistan (US\$476 million) represented a new, major source of export for Afghanistan as Pakistani importers switched to Afghan coal due to competitive pricing. The sustainability of coal export revenues is, however, to be assessed: recent data

¹ The DAB has started the process of issuing new currency notes and collected the old banknotes from the market in January 2023. <https://dab.gov.af/node/9480?s=08>

² From March 21 to February 9, 2023

and anecdotal evidence suggest that the price differential between international and Afghan coal is diminishing and, given the choice, Pakistani importers are returning to long-standing international suppliers.

Trade data also confirms the heavy dependence of the economy on imports. According to customs data, Afghanistan's merchandise imports in 2022 reached US\$ 6.3 billion (compared to US\$ 5.3 billion in 2021 and US\$ 6.5 in 2020). While the increase in imports could be partially explained by improved reporting and a reduction of leakages, the resilience of imports amid the economic contraction requires further investigation. Imports were sustained in basic sectors such as fuel/mineral products (21 percent) and food (18 percent). Still, surprisingly, data show increased imports for chemicals, machinery, and transportation groups, which are linked to industrial/manufacturing activity. Iran remains the largest import origin country (22 percent), followed by Pakistan (17 percent), China (17 percent), and UAE (13 percent), the latter being the country showing the largest increase over the past 4 years.

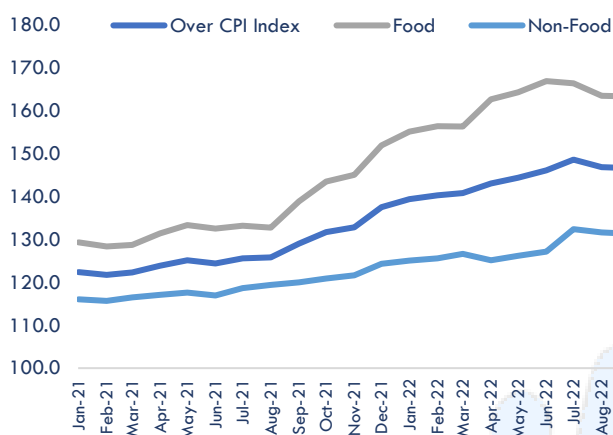
The ARTF financed Health Emergency Response project provided critical mother & child related health services. The data collected by the TPMA shows that the twenty-three hundred supported facilities received around 3.6 million antenatal care visits (ANC) in CY2022. The ANC visits in January 2023 were 8 percent lower than in December 2022, showing a 5% decline vis-à-vis January 2022. In addition, close to 750,000 births have been assisted from January 2022 to January 2023.



1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

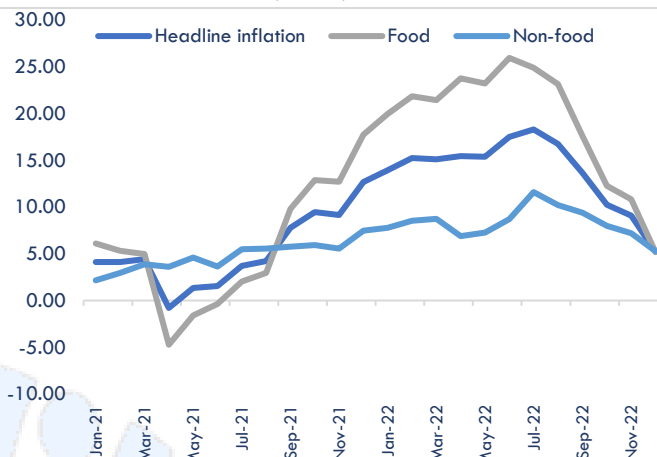
The headline inflation continued to decelerate primarily due to a decline in global prices, further weakening in domestic demand in winter and a relatively stable exchange rate.

1.1. HEADLINE PRICE INDEX



Source: NSIA.

1.2. HEADLINE INFLATION (Y-O-Y)



Source: NSIA.

1.3. BASIC HOUSEHOLD GOODS – Y-O-Y INFLATION

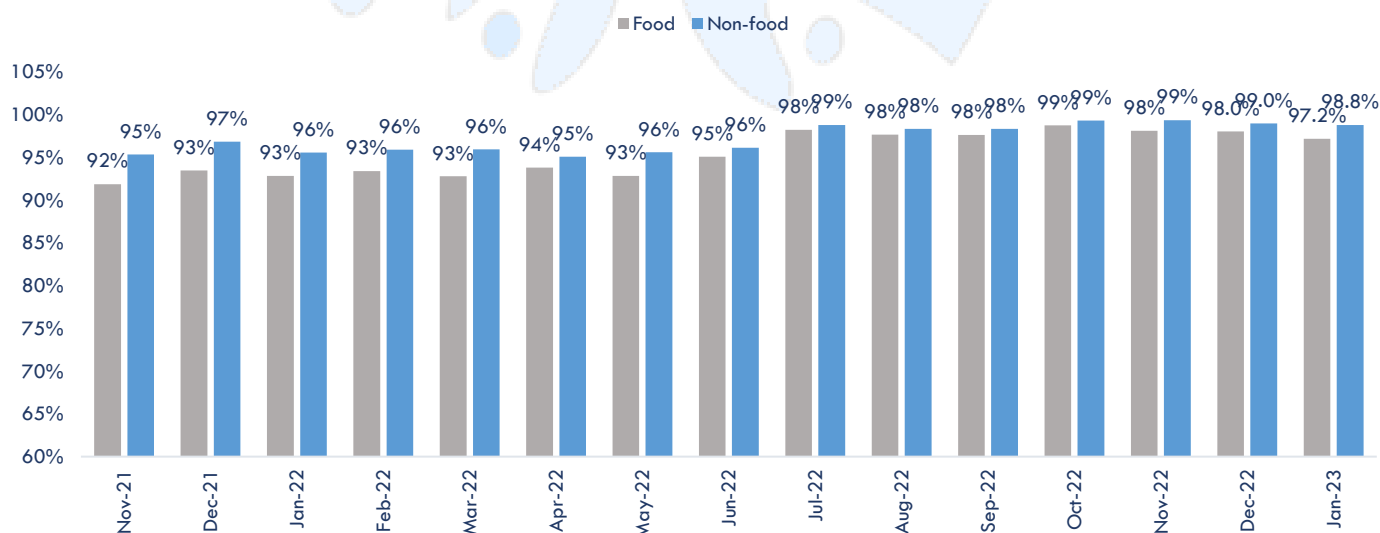
	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Bread	11.6	12.0	14.9	18.1	22.0	23.2	23.3	21.6	19.1	18.1	16.6	15.2
Fuel (diesel)	68.8	73.2	57.3	66.3	95.3	112.5	54.5	87.4	49.1	34.1	26.3	22.3
Oil (cooking)	47.3	43.9	46.4	50.3	51.3	32.3	16.1	0.8	-13.3	-12.2	-14.4	-21.7
Pulses	27.6	24.1	23.8	22.9	23.7	23.3	17.7	16.1	11.6	10.6	10.6	-2.4
Rice (high quality)	21.9	19.8	19.3	24.0	34.2	37.8	32.9	32.0	28.9	27.2	26.4	19.8
Rice (low quality)	10.1	9.6	7.9	9.6	14.6	13.1	10.9	14.1	12.5	18.5	21.9	18.9
Salt	25.2	23.4	18.9	21.3	22.9	19.0	18.0	16.0	17.8	10.8	20.0	2.5
Sugar	27.1	24.7	24.4	26.0	33.9	37.0	30.9	20.5	8.7	3.9	1.2	-7.5
Wheat	31.0	27.8	35.5	40.3	58.1	49.8	43.5	37.9	19.1	16.8	11.8	-2.7
Wheat flour (high quality)	27.6	31.6	44.0	50.5	65.1	49.4	41.7	31.9	12.3	12.1	5.8	-6.3
Wheat flour (low quality)	32.3	32.1	44.7	52.7	68.2	50.8	41.5	36.0	14.3	13.4	6.5	-6.6
Basic Household Goods Price Inflation	32.0	32.2	36.6	41.6	51.7	43.4	31.5	26.4	11.1	9.9	6.1	-3.3

Source: Price data from WFP weekly report; index constructed by World Bank staff.

Note: This Index uses WFP price data for 11 critical household goods from all provinces. It applies consumption and population weights from NSIA to provide an aggregate snapshot of basic household inflation trends.

The majority of basic food and non-food items remained available.

1.4. REPORTED AVAILABILITY OF FOOD & NON-FOOD ITEMS

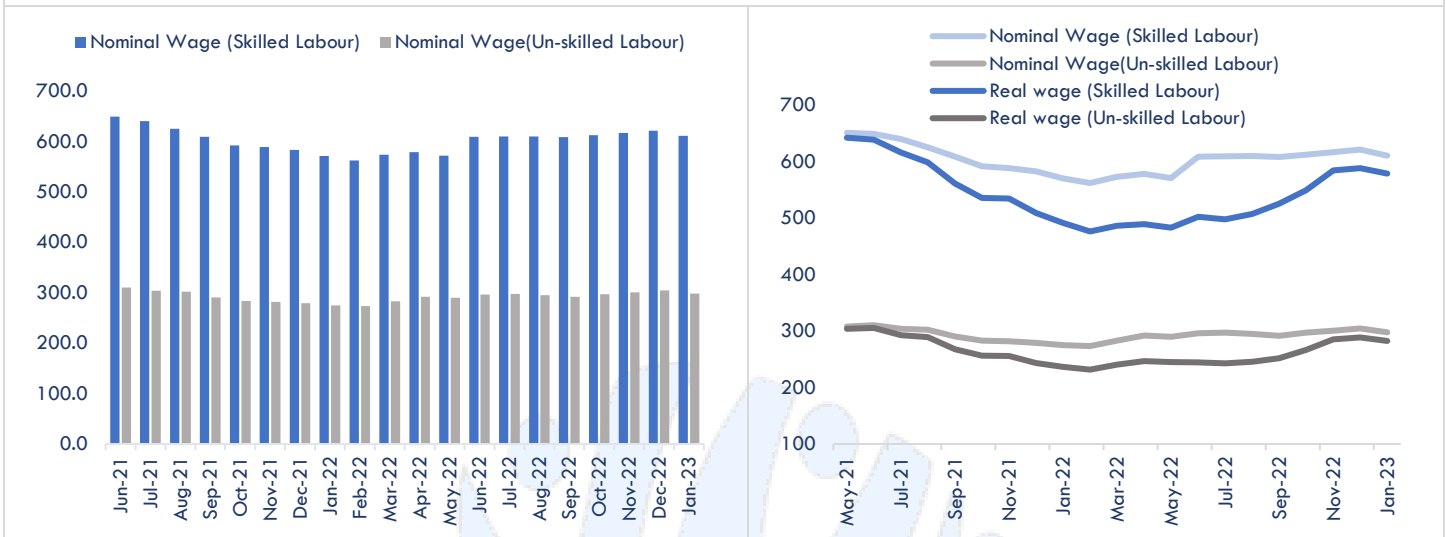


Source: Data collected by the World Bank's Third-Party Monitoring Agent based on a survey of 48 markets across 21 provinces.

2. LABOR MARKET CONDITIONS

Nominal and real wages slightly decreased in January 2023 in line with seasonal trends.

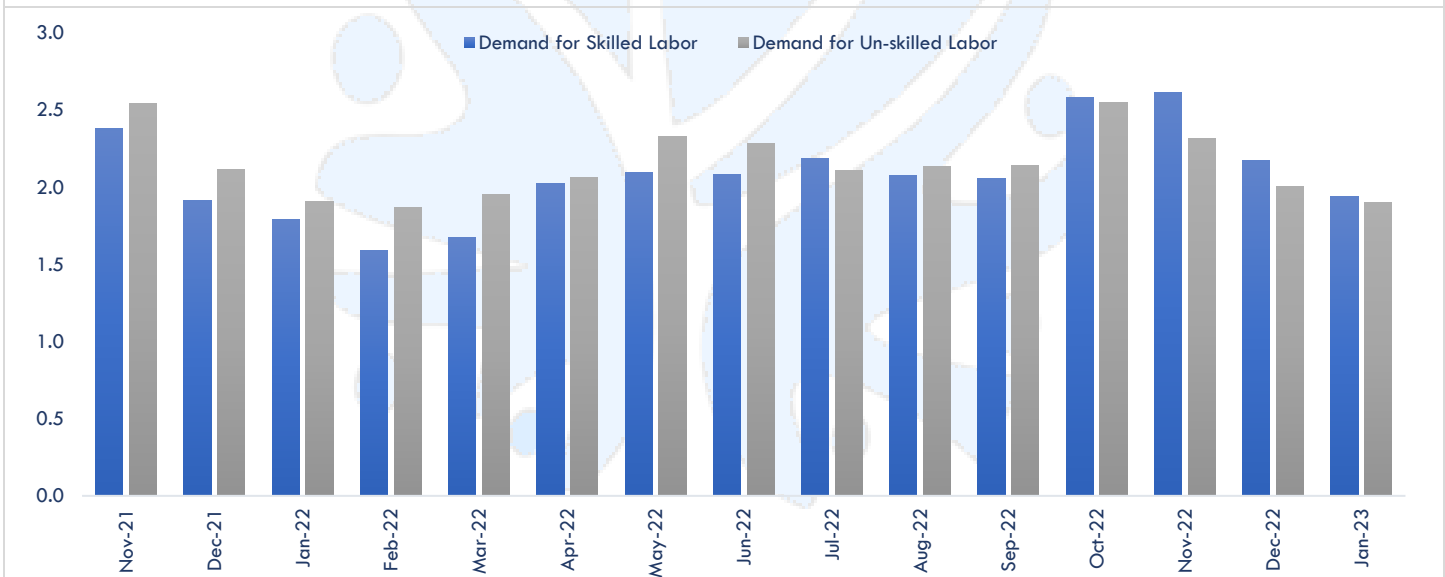
2.1. NOMINAL AND REAL WAGES (AFN) FOR SKILLED AND UNSKILLED WORKERS



Source: Wage data from WFP, World Bank staff elaboration. Real wages are calculated using price data from the NSIA. Inflation data for January 2023 is projected. Note: Real wages to January 2022 are calculated based on CPI inflation reported by NSIA.

With the winter-induced slowdown in agriculture, construction, and associated activities, demand for skilled and unskilled labor declined.

2.2. EMPLOYMENT FOR SKILLED AND NON-SKILLED WORKERS BETWEEN NOVEMBER 2021 AND JANUARY 2023



Source: Survey data collected by the World Bank's Third-Party Monitoring Agent. Data for June 2022 was not collected.

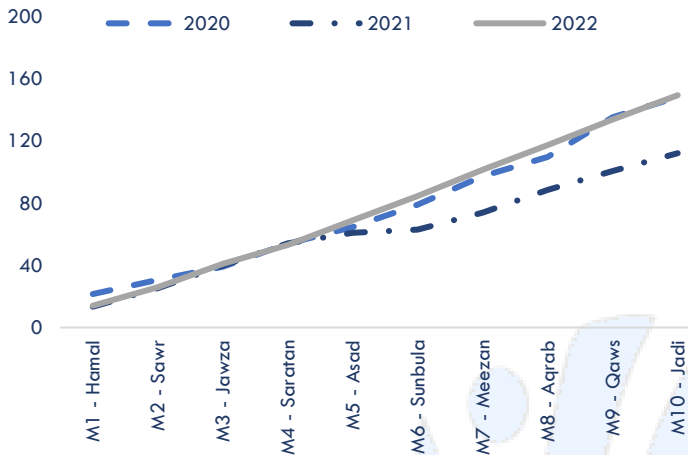
Note: Data for June 22 is not available.

Note: Data reflects the number of available workdays reported by skilled and unskilled casual workers seeking work. Skilled workers include (i) carpenters, (ii) electricians, (iii) masons, (iv) painters, (v) plumbers, and (vi) tile workers. Data for June 2022 was not collected.

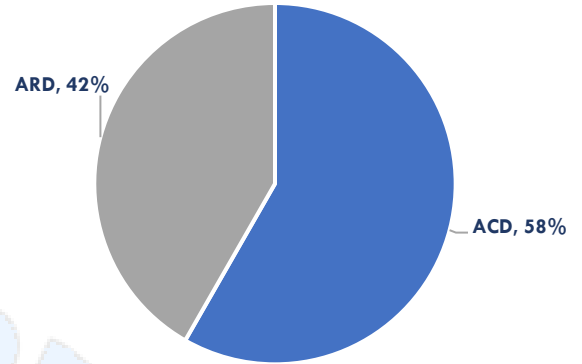
3. REVENUES

The total ITA collection for the first ten months of the fiscal year 2022-23 totaled AFN 149.6 billion – largely from border taxes and non-tax sources.

3.1. TOTAL REVENUE COLLECTION—CUMULATIVE (AFN BILLIONS)

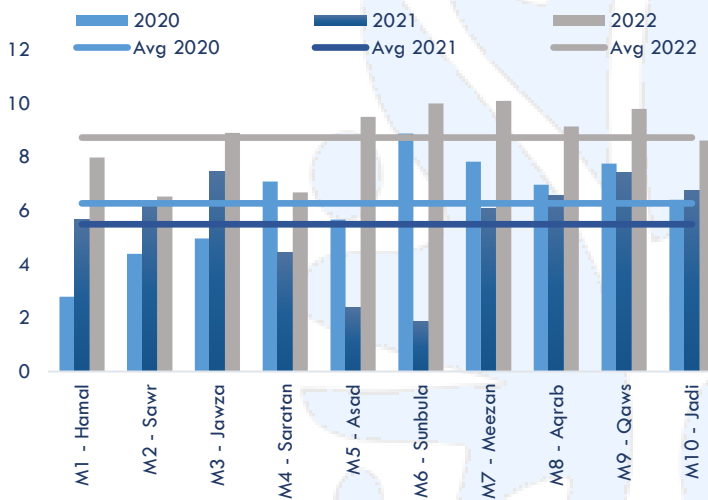


3.2 SHARE OF INLAND & CUSTOMS REVENUES IN TOTAL COLLECTIONS

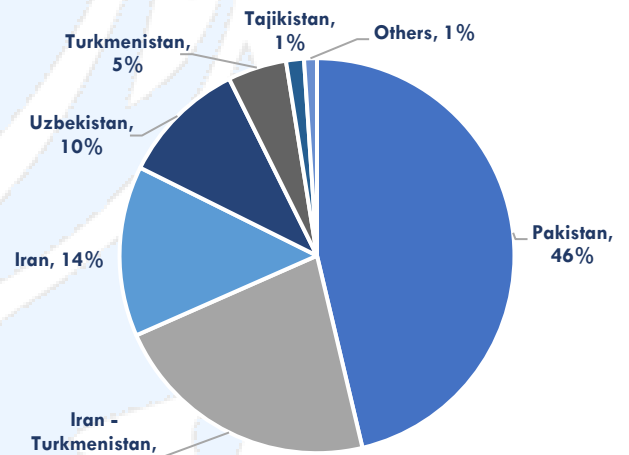


Source: Ministry of Finance., Note: The Afghan fiscal calendar month, Hamal, runs from March 21-April 20.

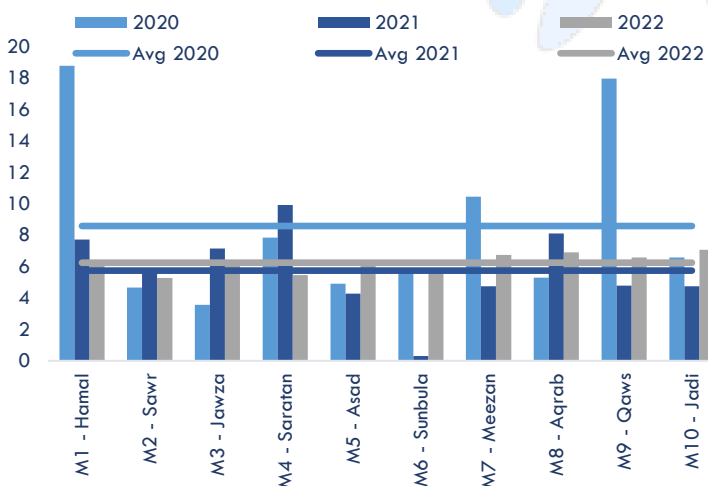
3.2. REVENUE COLLECTED AT THE BORDER (AFN BILLION)



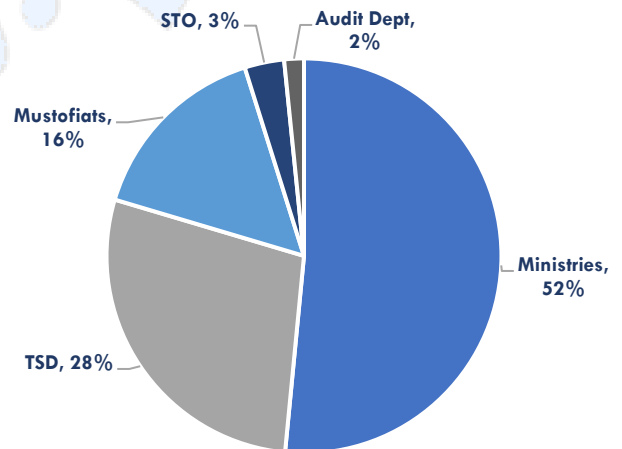
3.3 PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS



3.4 INLAND REVENUE COLLECTION (AFN BILLIONS)



3.5 PERCENT SHARE OF ARD COLLECTIONS FROM SOURCES

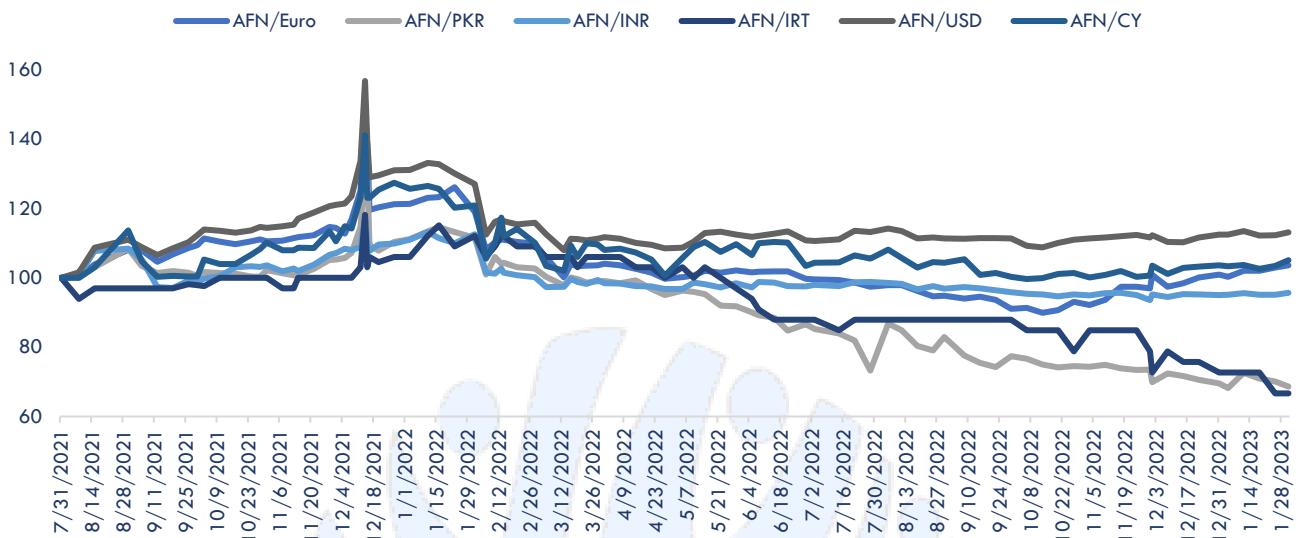


Source: Ministry of Finance.

4. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS

The AFN to US\$ exchange rate remained stable at around 88-90 during the last few months — a slight depreciation of 0.5 percent in January 2023 from December 2022.

4.1. EXCHANGE RATE - INDEX JULY 2021 (HIGHER = DEPRECIATION)



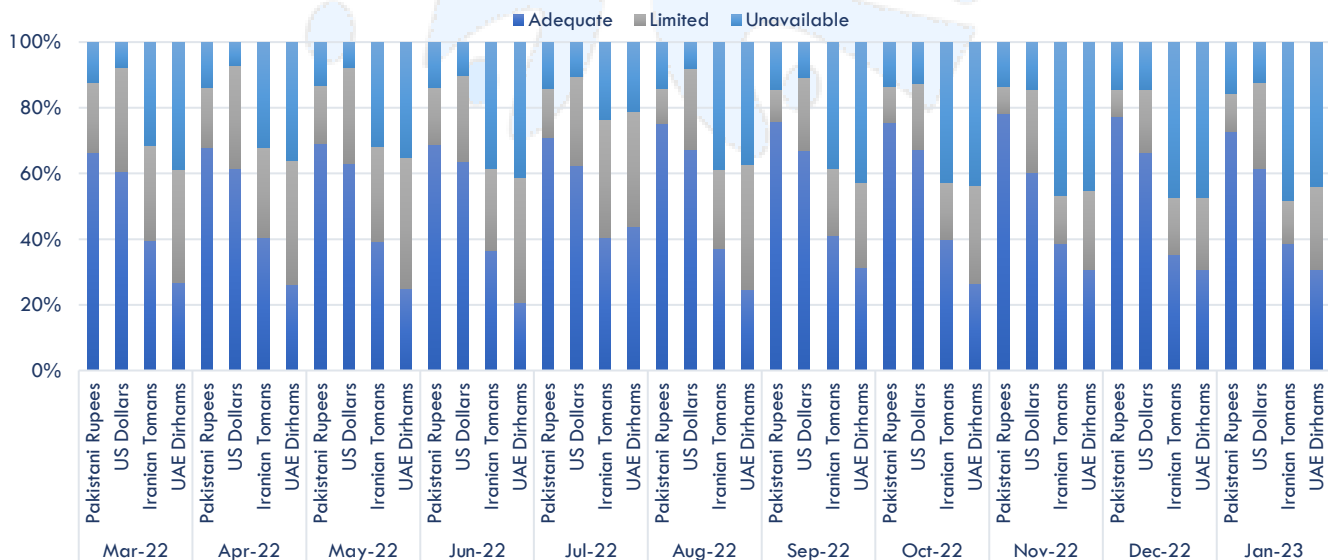
4.2. EXCHANGE RATE – DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

	28-Feb-22	31-Mar-22	27-Apr-22	29-May-22	29-Jun-22	28-Jul-22	30-Aug-22	29-Sep-22	27-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23
AFN/Eur	-5.41	-0.14	4.17	1.71	4.16	6.65	9.62	14.13	11.61	7.22	2.95	0.28
AFN/PKR	0.35	3.98	8.38	12.28	18.88	40.73	24.25	33.15	38.25	40.19	48.18	50.19
AFN/INR	7.63	9.53	11.41	9.55	10.55	9.05	11.23	12.50	13.26	15.18	13.41	12.69
AFN/IRT	-11.11	-8.57	-3.03	0.00	10.34	10.34	10.34	10.34	23.08	23.08	33.33	45.45
AFN/US\$	-6.16	-2.68	0.22	-3.38	-1.87	-3.98	-2.35	-2.36	-2.03	-2.61	-3.37	-3.87
AFN/CY	-6.38	-4.59	2.33	-6.06	-0.32	-2.33	-1.22	2.80	1.65	2.40	-0.50	-1.90

Source: Data from DAB, World Bank staff elaboration.

Foreign currency shortages persisted, particularly in the case of US dollars and Pakistan rupees.

4.3. AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS



Source: Survey data collected by the World Bank's Third-Party Monitoring Agent by visiting 144 MSPs in 48 markets in the country.

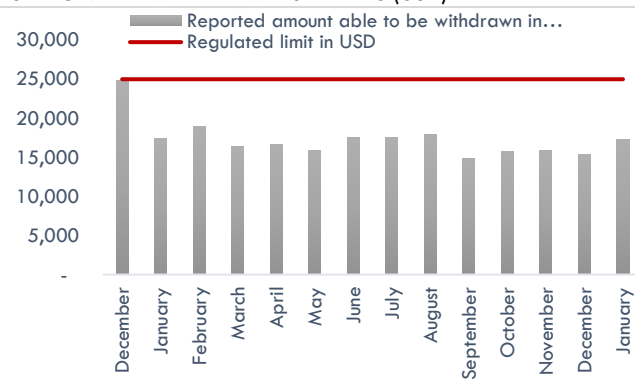
Note: Includes banks, hawala operators, and informal currency exchangers.

All commercial banks were able to provide individual customers with withdrawals up to the withdrawal limits, while firms remain constrained in their withdrawal of AFN and US\$ deposits

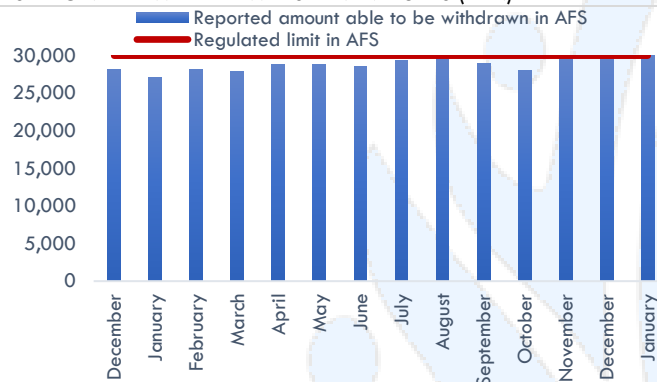
4.4. MONTHLY WITHDRAWALS - FIRMS (AFN MILLIONS)



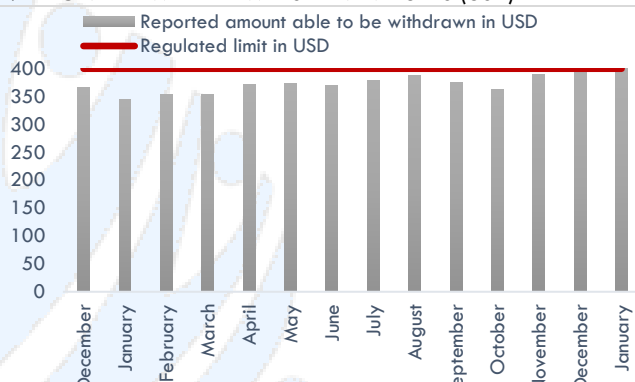
4.5. MONTHLY WITHDRAWALS – FIRMS (USD)



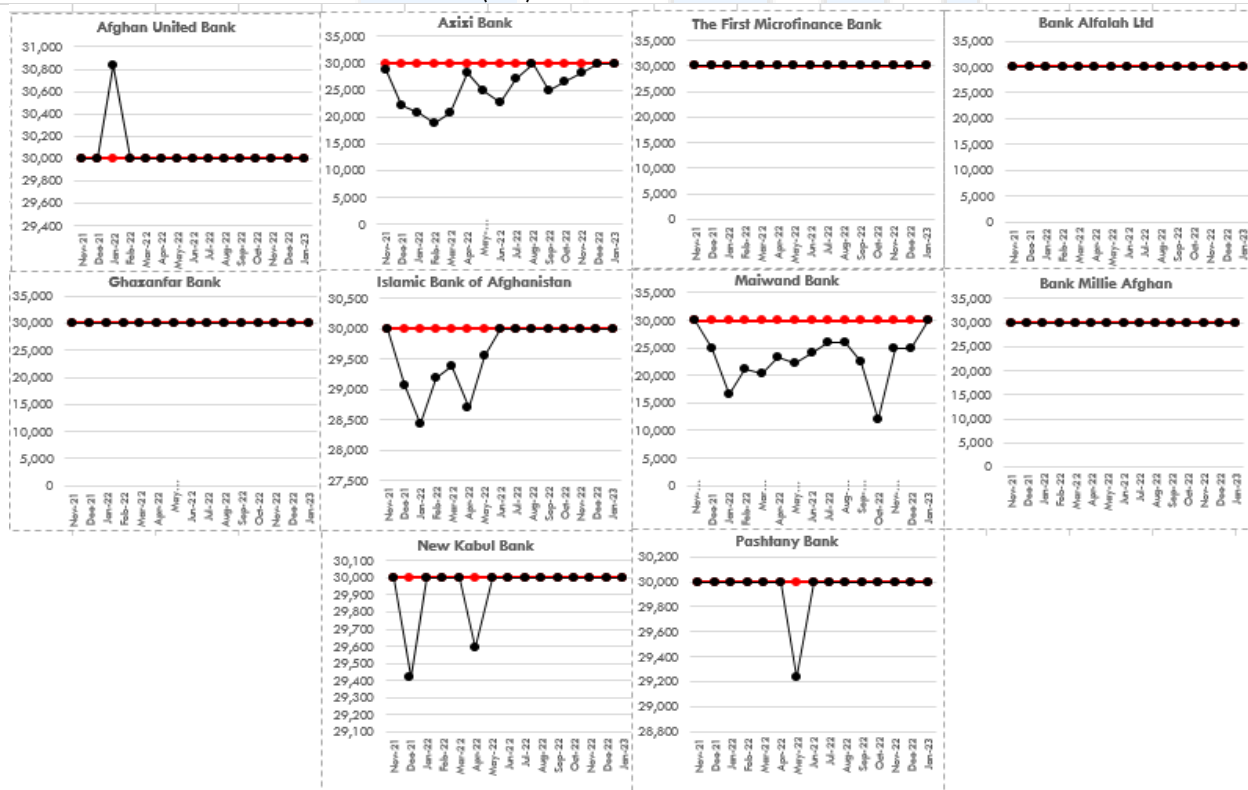
4.6. MONTHLY WITHDRAWALS - INDIVIDUALS (AFN)



4.7. MONTHLY WITHDRAWALS – INDIVIDUALS (USD)



4.8. AVERAGE MONTHLY WITHDRAWAL – INDIVIDUAL (AFN)

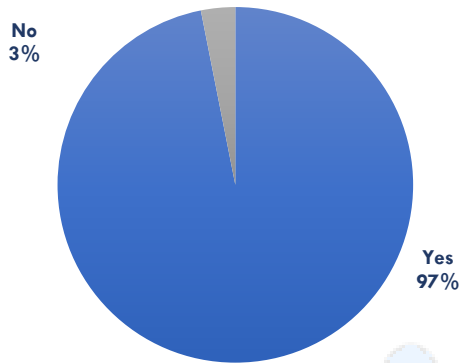


Source: Survey data collected by the World Bank's Third-Party Monitoring Agent.

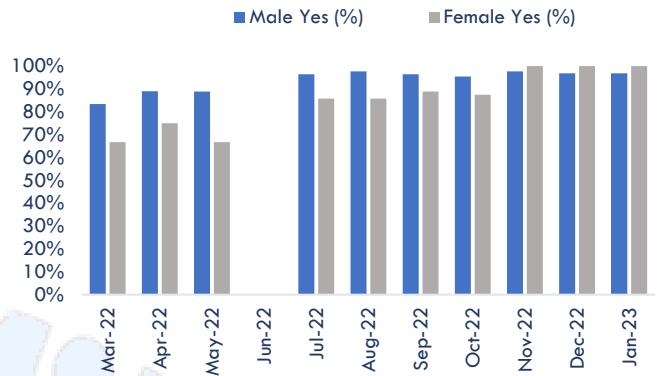
Note: Regulated limit as stipulated by DAB. Reported amount able to be withdrawn as reported by individual respondents to the Third-Party Monitoring Agent survey.

Since the beginning of 2022, salaries for all civil servants have been paid regularly and in most cases. Moreover, females are reported to be paid more regularly than males over the last three months.

4.9. CIVIL SERVANTS RECEIVED SALARIES DURING THE LAST THREE MONTHS

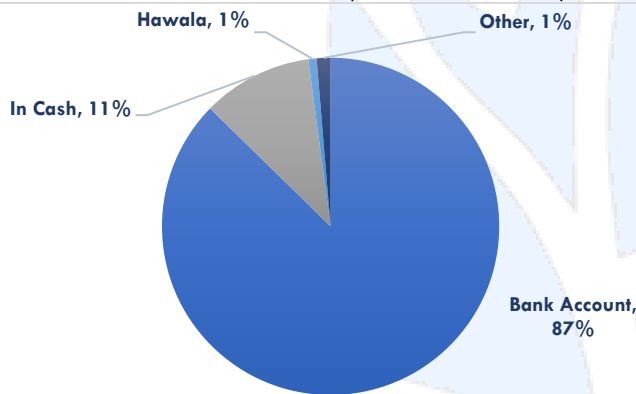


4.10. MALE VS FEMALE RESPONDENTS RECEIVING SALARIES IN THE LAST THREE MONTHS

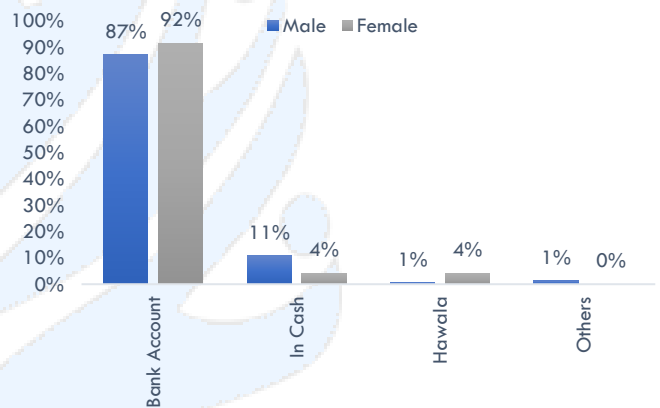


Cash and bank accounts are reported as the two most common means of receiving salary payments. Hawala was also indicated as a major mode of salary payment for female civil servants.

4.11. MODE OF SALARY PAYMENT (2165 RESPONDENTS)

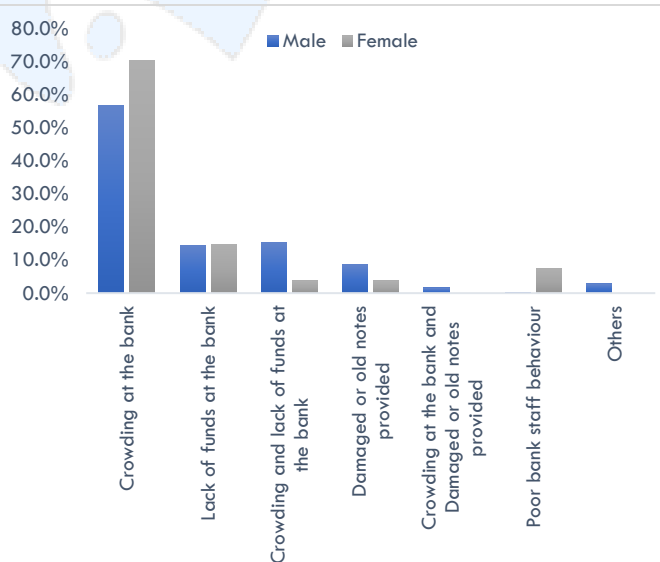
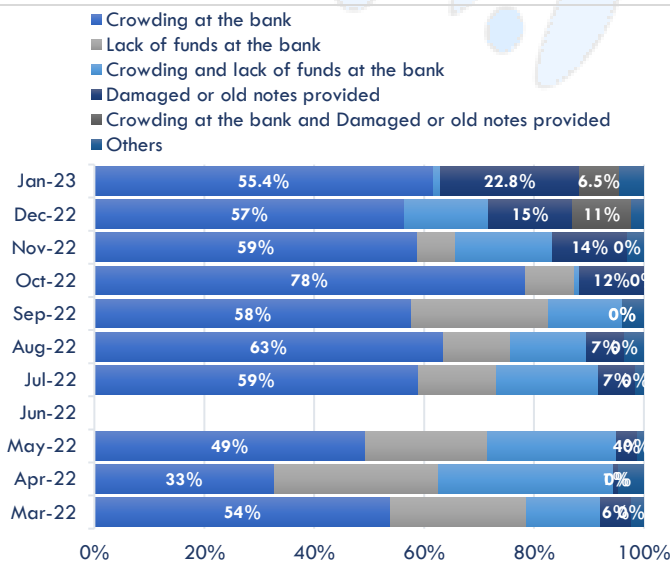


4.12. COMPOSITION OF MODE OF PAYMENT (BY GENDER)



Crowding in the branches and the provision of damaged notes are the main problems while withdrawing salaries.

4.13. CHALLENGES FACED WHEN WITHDRAWING SALARIES

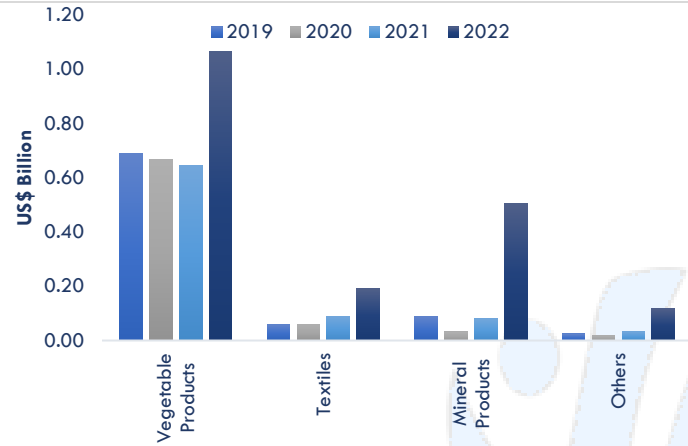


Source: Survey data collected by the World Bank's Third-Party Monitoring Agent.
 Note: Data for civil servants for June 2022 is not available.

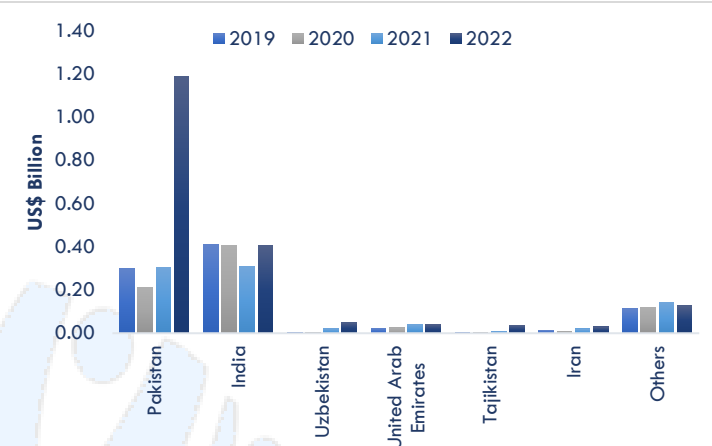
5. TRADE DEVELOPMENTS

Merchandise exports grew substantially during 2022, largely due to impressive growth in vegetable and mineral products. The imports rebounded since Q4-2021 and remained on an upward trajectory in 2022.

5.1. AFGHANISTAN EXPORTS (US\$ 1.9 BILLION - 2022)
 BY MAJOR COMMODITY GROUPS



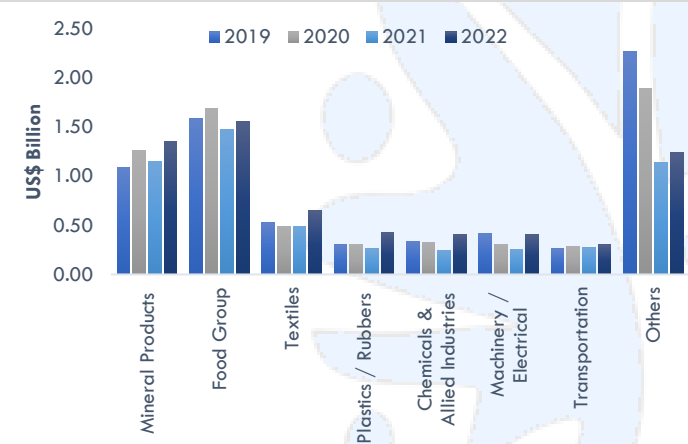
5.2. AFGHANISTAN EXPORTS (US\$ 1.9 BILLION - 2022)
 BY MAJOR EXPORTS DESTINATIONS



Source: NSIA data. The 2022 data is sourced from customs (ASYCUDA).

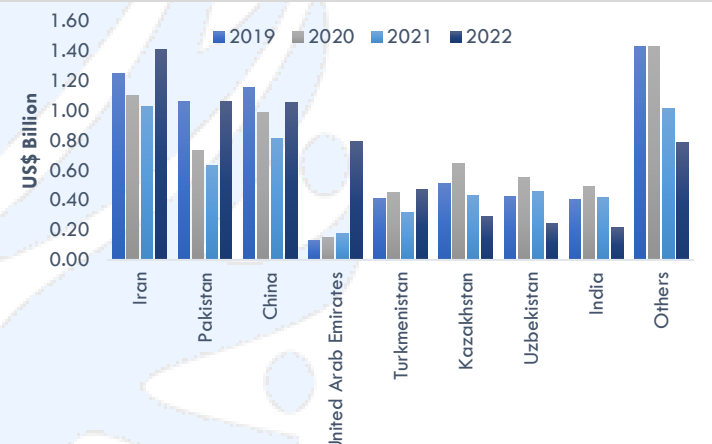
Source: NSIA data. The 2022 data is sourced from customs (ASYCUDA).

5.3. AFGHANISTAN'S IMPORTS (US\$ 6.33 BILLION - 2022)
 BY MAJOR COMMODITY GROUPS



Source: NSIA data. The 2022 data is sourced from customs (ASYCUDA).

5.4. AFGHANISTAN'S IMPORTS (US\$ 6.33 BILLION - 2022)
 BY MAJOR IMPORT ORIGINS

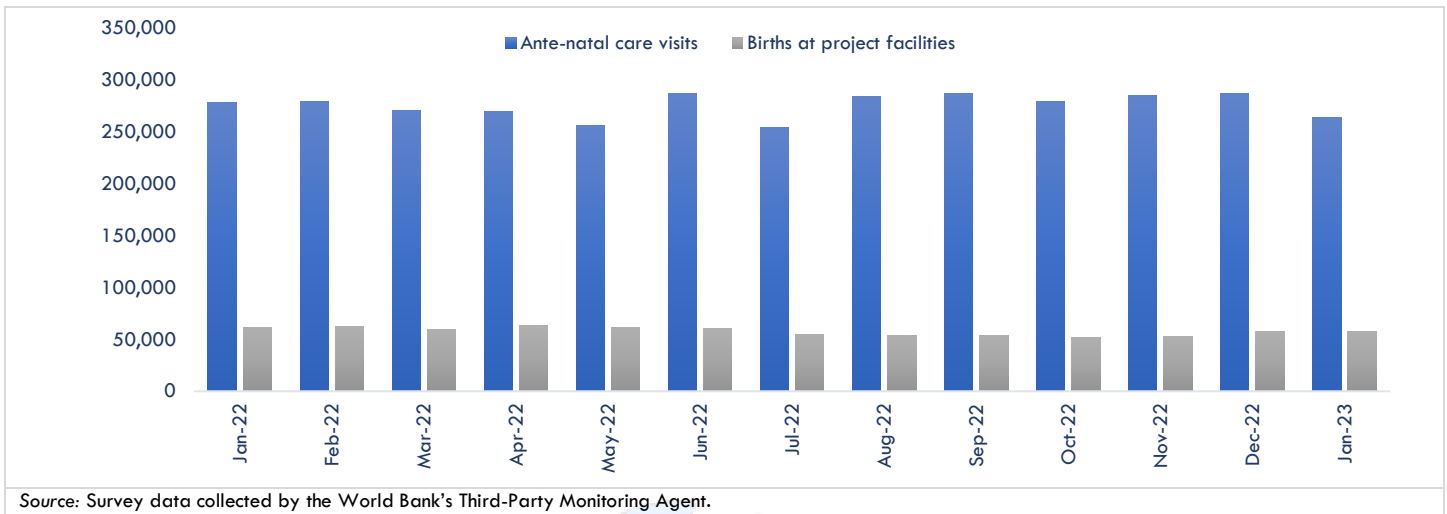


Source: NSIA data. The 2022 data is sourced from customs (ASYCUDA).

6. PROVISION OF HEALTH SERVICES

Health Emergency Response (HER) supported ANC visits slightly declined in January

6.1. SERVICES DELIVERED AT HER FINANCED HEALTH FACILITIES



Data notes: The Afghanistan Economic Monitor is produced by World Bank staff, drawing from a range of data sources. Reflecting limited data availability, data sources and coverage may vary between editions. Data sources are cited for each chart. The Afghanistan Economic Monitor uses data from the following sources: (i) official statistics on prices produced by the NSIA; (ii) data on prices and wages collected from all provinces by the World Food Program; (iii) data on the availability of foreign exchange and cash collected from 22 provinces by the World Bank's Third Party Monitoring Agent; (iv) data on exchange rates collected and reported by DAB; and (v) data on trade from the NSIA.

For analytical products on Afghanistan, kindly visit <https://www.worldbank.org/en/country/afghanistan>.

