

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

JULY 2024



This monthly Afghanistan Economic Monitor is part of **Afghanistan Futures**, the World Bank's program of research, monitoring, and analytical reports on 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 the private sector, household welfare, and gender, as well as the sectoral reports that inform the Afghanistan Development Update, a biannual flagship report.

HIGHLIGHTS

Year-on-year deflation persists, but signs indicate the pace is slowing.

Afghanistan's consumer prices continued to decline in June 2024, but at a slower pace compared to the previous twelve months. This was due to an improved supply of domestic and imported goods and services in the market combined with still weak domestic demand. Overall, domestic prices decreased by 5.9 percent year-on-year (YoY), with food prices dropping by 9.8 percent and non-food prices reducing by 1.8 percent. Since January, the reduction in prices has been steadily slowing, indicating an easing of deflationary pressures. Several factors, including a base effect, the stabilization of the Afghani, and rising international energy and food prices, contributed to this trend. Data on prices of basic household items collected by the World Food Program (WFP) also confirm a continued easing of deflation in June 2024.

The Afghani (AFN) remained stable in the first seven months of 2024 despite the widening trade deficit.

Despite the continued widening of the trade deficit, the Afghani averaged 70.9 per US Dollar in July, confirming its stability. Afghanistan's foreign exchange market appeared balanced, with remittances and unidentified sources of foreign exchange inflow, particularly in scattered investments across various sectors, notably mining, offsetting the growing trade deficit and reduced aid inflows. Compared to August 2021, the Afghani still maintains an appreciation of 21.3 percent.

Exports declined in the first half of 2024 compared to the same period of 2023, driven by significant drops of export to Pakistan.

Afghanistan's trade deficit widened by 34 percent in the first half of 2024 to US\$3.9 billion (20 percent of GDP), up from US\$2.9 billion in H1 2023 (18.7 percent of GDP). Shifting trade policy in Pakistan, especially for coal imports¹, combined with continued appreciation of the Afghani relative to trading partners is the main driver of the trade deficit.

Unofficial trade data for the first semester of 2024 (H1) revealed that Afghanistan's total exports amounted to US\$700 million, a reduction of 14 percent compared to H1 2023. This decline is mainly due to evolving trade relationships with Pakistan. In April 2024, the Pakistani Government decided to convert all imported coal-fired power plants to local coal to reduce the country's import bill. Additionally, Pakistan withdrew customs duty concessions on fresh and dry fruits and reduced border crossings. Consequently, Afghanistan's coal exports declined from US\$179 million in April 2023 to US\$43 million in June 2024, a staggering 76 percent drop. Food exports also decreased by 5.6 percent, from US\$446 million to US\$421 million, mainly due to a 21 percent drop in food exports to Pakistan, which accounted for 28 percent of total food exports. Nevertheless, Pakistan remains the largest export market for Afghanistan, accounting for 47 percent of total exports, followed by India at 28 percent. Food exports to India remained steady in H1 2024, growing by a certain percentage compared to H1 2023 and accounting for 45 percent of total food exports.

While coal and food remain the main export commodities for Afghanistan, collectively contributing 67 percent to total exports in H1 2024, the exports of other commodities were strong in H1. For example, textile exports grew from US\$133 million in H1 2023 to US\$153 million in H1 2024, showing an increase of 15 percent, benefiting from competitive pricing due to deflation. During the same period, there was also a 47 percent increase in other exports, mainly including base metals, stone/glass, transportation, wood products, animal and vegetable fats and oils, etc. Iran emerged as a new potential export market in H1 2024, with total exports to Iran increasing by 205 percent. Although its share is small, it has increased from 1 percent of total exports in H1 2023 to 4 percent in H1 2024.

¹ The Interim Taliban Administration has also announced increases in customs tariffs on 11 imported goods to support domestic production in July 2024 <https://sw.n.af/en/2024/07/mof-increases-customs-tariffs-on-11-imported-goods-to-support-domestic-production/>.

Import growth continued to be strong in the first half of 2024 fueled by a strong afghani.

Contrasting with exports, imports to Afghanistan amounted to US\$4.6 billion in H1 2024, showing a significant 23 percent growth compared to H1 2023. Food imports, accounting for 20 percent of the total, reached US\$921 million, marking a 14 percent YoY increase. Minerals, making up another 20 percent of total imports, rose by 20 percent YoY, reaching US\$908 million. Conversely, textile imports declined by 12 percent YoY to US\$332 million, representing 7 percent of total imports. Imports of primary commodities observed much less growth than the notable increase in imports of transportation services, chemical products, and machinery equipment, which recorded YoY growth rates of 68 percent, 48 percent, and 45 percent, respectively.

Iran remained the largest source of imports, contributing 30 percent of the total, with a remarkable 78 percent growth in H1 2024 compared to H1 2023. Sources suggest that the increase in imports from Iran could be attributed to the shift in Afghanistan's transit trade through Iran due to restrictions imposed by Pakistan. The UAE (22 percent), Pakistan (17 percent), and China (7 percent) were other significant countries of origin for imports.

Revenue experienced a strong growth in the first four of FY 2024-25, primarily due to inland taxes.

Revenue collection for the first four months of FY2024-25 (March 22 to July 21, 2024) totaled AFN 69.7 billion (approximately US\$1 billion or 5 percent of GDP), marking an 11 percent increase compared to the same period in the previous fiscal year and exceeding the target by 3 percent. This significant growth is primarily attributed to the strong performance of the Afghanistan Revenue Department (ARD), which saw a 30 percent year-over-year increase. The rise in ARD collections was driven by a 29 percent increase in non-tax sources compared to the same period last year, mainly due to higher passport revenues, vehicle registrations, and income from the auction of mines and mineral products, including emeralds, nephrite, and oil. Additionally, revenues collected by Mustofiats (provincial Ministry of Finance offices) increased by around 40 percent compared to last year.

Conversely, the Afghanistan Customs Department (ACD), which accounts for 52 percent of total revenue, collected 10 percent above the target for the period under review. However, this represents a 2 percent decline compared to the same period last year, primarily due to lower taxes on coal exports and to reduced customs duties on certain goods, such as clothing, areca nuts, and medications. The value of imports increased only slightly in Afghani terms due to the appreciation of the currency compared to last year. Nevertheless, the ACD exceeded its performance target by approximately AFN 1.85 billion over the four-month period.

After experiencing a cumulative contraction of 27 percent in 2021 and 2022, the economy stabilized at a new, lower equilibrium by the end of 2022 and began showing signs of recovery in 2023.

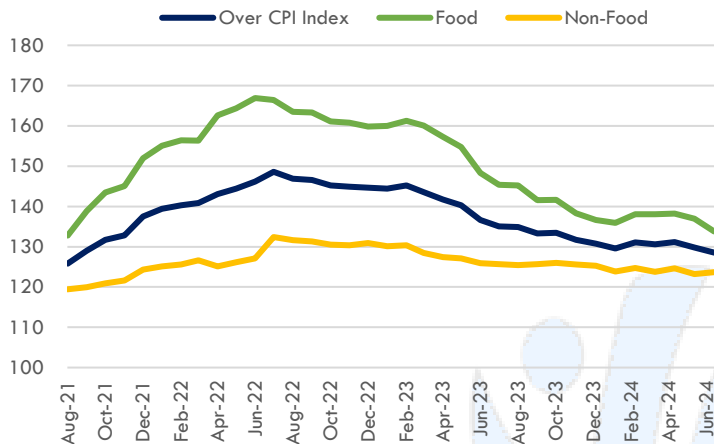
Since the Interim Taliban Administration (ITA) assumed control of Afghanistan in August 2021, the country's economy has faced significant challenges, contracting by 20.7 percent in 2021 and 6.2 percent in 2022. This economic downturn has impacted all sectors. Declines in economic output, international aid, and employment during this period have been exacerbated by climate change, inadequate infrastructure, and widespread food insecurity.

In the past year, there have been some signs of recovery: banking operations have partially resumed, more businesses are now functioning, and household welfare has shown slight improvement. Despite these modest gains, the overall economic outlook remains highly uncertain. Afghanistan continues to be isolated from the global economy, with persistently high poverty levels and increasing restrictions on women's economic participation.

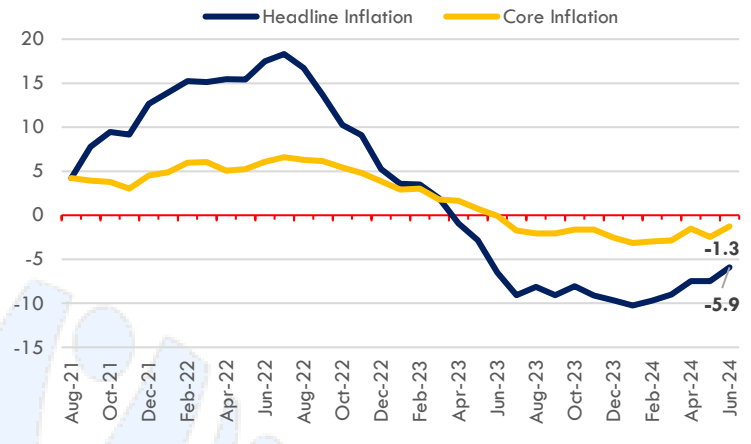
PRICE TRENDS

In June 2024, the deflationary trend improved to negative 5.9 percent YoY, easing from a low of negative 10.2 percent in January. This deflation was driven by a decrease in food inflation to negative 9.8 percent and non-food inflation to negative 1.8 percent. The easing deflationary trend suggest a recovery in demand.

1.1. HEADLINE PRICE INDEX



1.2. HEADLINE & CORE INFLATION (Y-O-Y)



Source: National Statistics and Information Authority (NSIA).

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

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Bread	-2.7	-6.1	-4.3	-3.0	-4.9	-5.3	-6.3	-6.7	-8.0	-8.2	-8.2	-6.5
Fuel (diesel)	-46.8	-38.6	-32.5	-25.2	-29.8	-30.2	-33.1	-28.5	-19.2	-15.1	-13.2	-8.2
Oil (cooking)	-39.6	-36.2	-32.2	-31.0	-35.9	-36.4	-35.6	-34.7	-33.0	-31.2	-26.4	-22.7
Pulses	-1.2	0.5	3.5	3.0	-3.6	-6.1	-5.1	-6.2	-6.0	-5.5	-5.2	-4.8
Rice (high quality)	-5.0	-5.0	-8.3	-7.8	-12.1	-14.8	-17.0	-15.8	-16.6	-18.1	-19.3	-19.7
Rice (low quality)	19.7	19.9	16.3	16.1	6.0	-0.1	-1.8	-5.0	-4.2	-4.3	-7.0	-8.7
Salt	4.4	2.5	2.0	1.9	8.9	0.1	0.9	0.6	-1.9	-2.3	2.6	1.5
Sugar	5.9	5.7	10.3	13.4	12.9	10.8	8.2	14.1	9.5	7.1	-9.9	-15.0
Wheat	-32.6	-32.9	-32.4	-30.1	-32.1	-32.8	-32.4	-32.9	-28.3	-25.9	-24.0	-22.8
Wheat flour (high quality)	-37.0	-37.6	-35.3	-30.0	-32.8	-32.5	-32.4	-28.6	-24.2	-21.8	-19.5	-13.0
Wheat flour (low quality)	-37.1	-37.5	-36.1	-32.9	-35.4	-34.7	-35.2	-32.2	-29.3	-27.6	-24.3	-18.8
Basic Household Goods Price Inflation	-27.1	-25.6	-22.9	-19.3	-23.4	-24.0	-24.4	-22.2	-19.6	-18.2	-17.2	-14.3

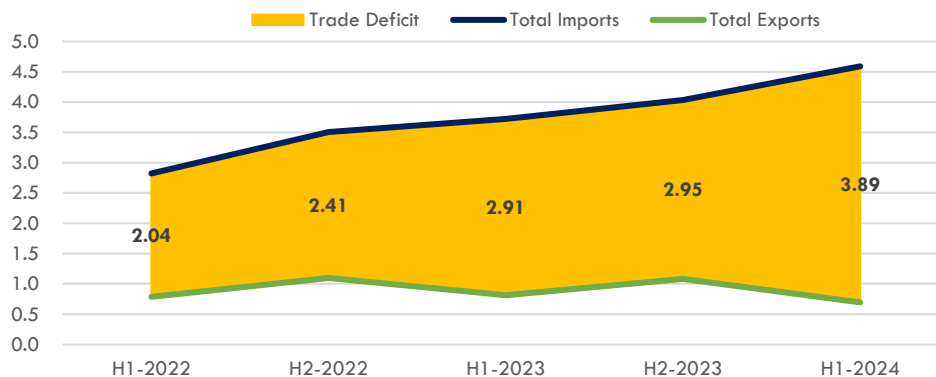
Source: Price data from WFP weekly report; index constructed by World Bank staff.

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.

1. TRADE DEVELOPMENTS

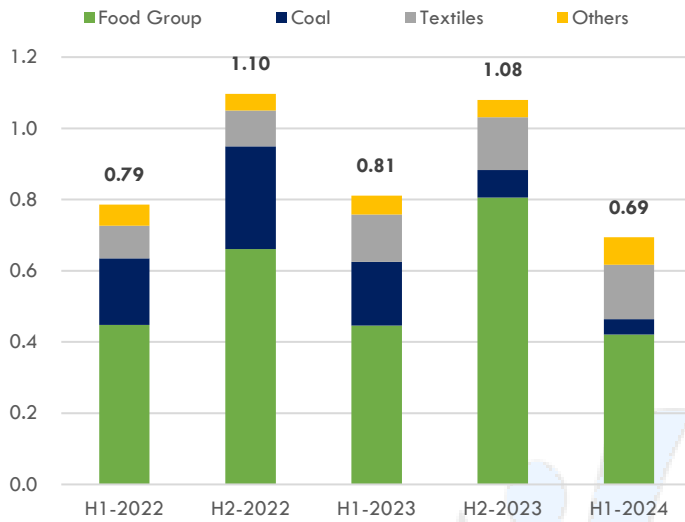
Imports sustained their upward trajectory from 2023 and outpaced the export growth, leading to a wider trade deficit during the first half of 2024 compared to the same period last year.

2.1. AFGHANISTAN TRADE DEFICIT (US\$ BILLIONS)



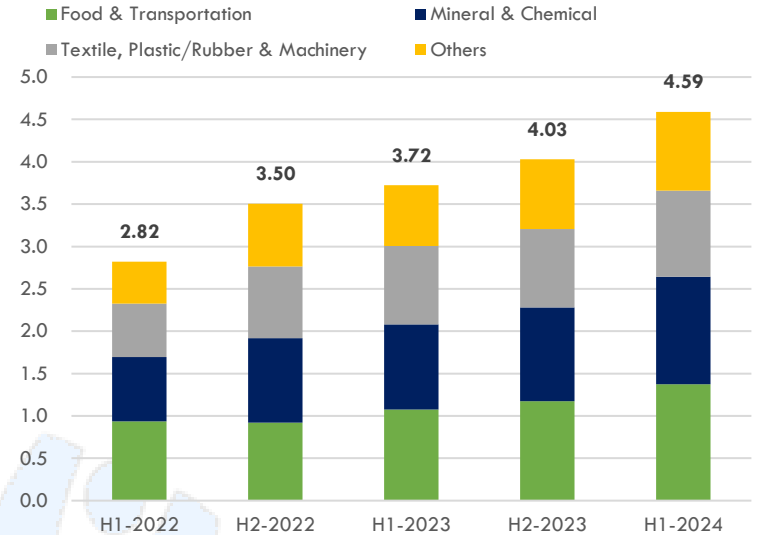
Source: ASYCUDA

2.2 AFGHANISTAN'S EXPORTS (US\$ BILLIONS): 2022 - 2024



Source: ASYCUDA

2.3 AFGHANISTAN'S IMPORTS (US\$ BILLIONS): 2022 - 2024

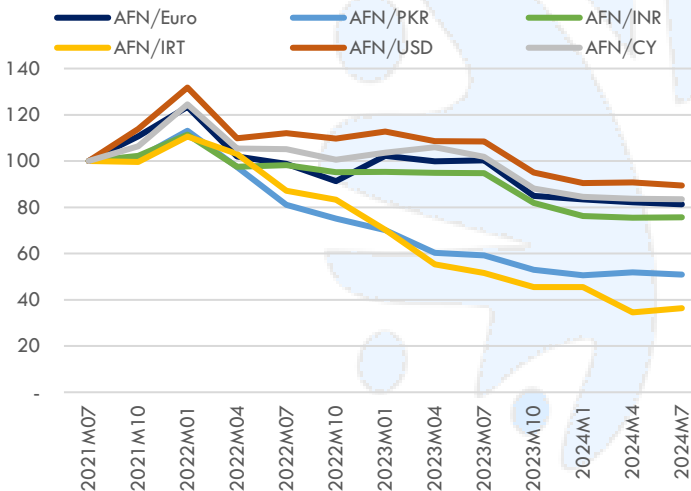


Source: ASYCUDA

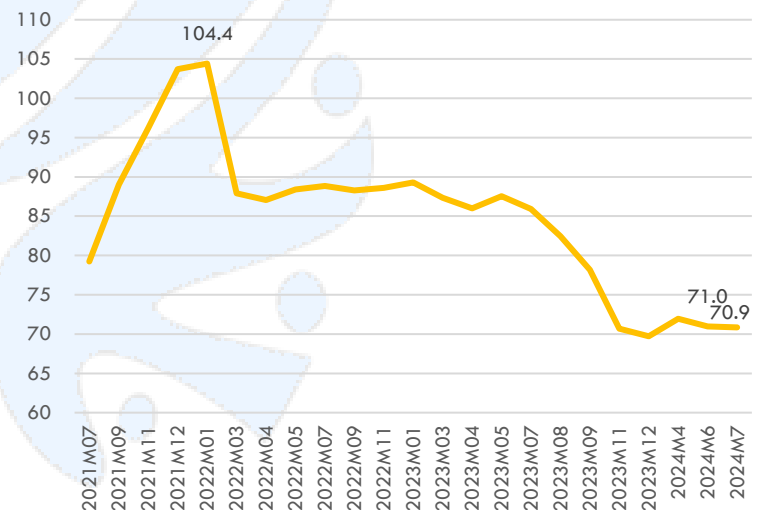
2. FOREIGN EXCHANGE

The Afghan currency appreciated against major currencies throughout 2023 but remained relatively stable during the first seven months of 2024, indicating a balanced foreign exchange market despite a widening trade deficit.

3.1. EXCHANGE RATE – INDEX JULY 2021 (HIGHER = DEPRECIATION)



3.2. AVERAGE MONTHLY AFN/\$ EXCHANGE RATE



3.3. EXCHANGE RATE – APPRECIATION/DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

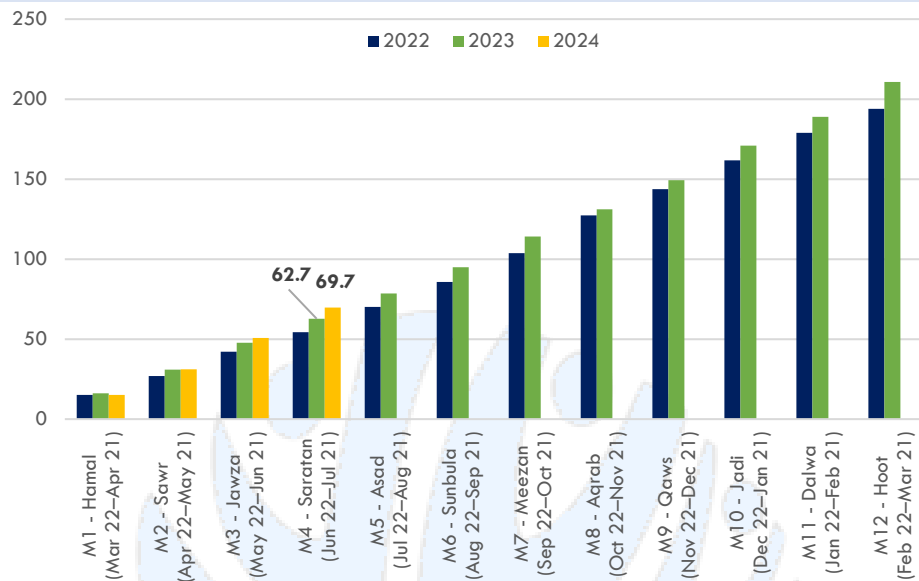
	24-Aug-23	25-Sep-23	25-Oct-23	27-Nov-23	26-Dec-23	25-Jan-24	28-Feb-24	28-Mar-24	30-Apr-24	28-May-24	27-Jun-24	31-Jul-24
AFN/Euro	8.01	16.69	23.37	26.05	27.02	22.38	23.66	26.54	25.87	27.05	28.96	27.04
AFN/PKR	91.54	98.25	98.71	114.17	110.54	99.73	101.15	100.83	96.79	100.91	100.51	103.31
AFN/INR	13.45	25.45	32.02	46.21	42.57	39.62	41.05	42.56	42.00	42.57	42.68	42.75
AFN/IRT	88.24	88.24	113.33	128.57	113.33	113.33	146.15	166.67	190.91	166.67	166.67	166.67
AFN/\$	3.67	10.10	16.17	23.51	22.82	17.34	18.20	20.38	18.88	20.68	21.23	21.32
AFN/CY	5.47	12.64	17.81	23.14	22.36	20.36	21.64	21.99	22.85	23.92	23.27	23.75

Source: Data in Figures and Table is from DAB, World Bank staff elaboration.

3. REVENUES

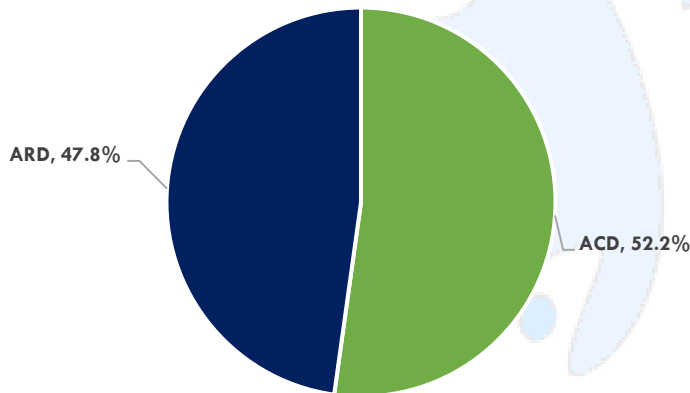
The commencement of FY 2024-25 witnessed a strong revenue collection (AFN 69.7 billion in the first four months of FY 2024-25), thanks to robust ARD collections.

4.1. TOTAL REVENUE (AFN BILLIONS; FY 2024-25)

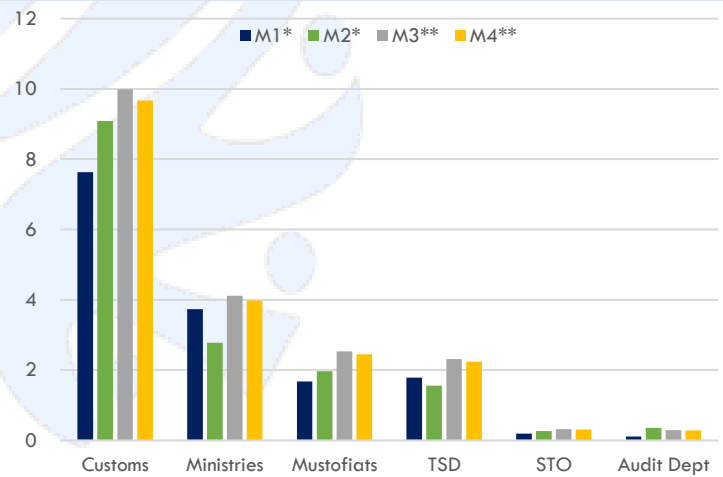


Source: Ministry of Finance

4.2. SHARE OF INLAND & CUSTOMS REVENUES IN TOTAL COLLECTIONS (MARCH 22 - JULY 21, FY2024-25)



4.3. REVENUE COLLECTIONS BY SOURCE (AFN BILLION) (MARCH 22 - JULY 21, FY2024-25)



Source: Ministry of Finance.

Note: The Afghan fiscal calendar month, Hamal, runs from March 22–April 21.

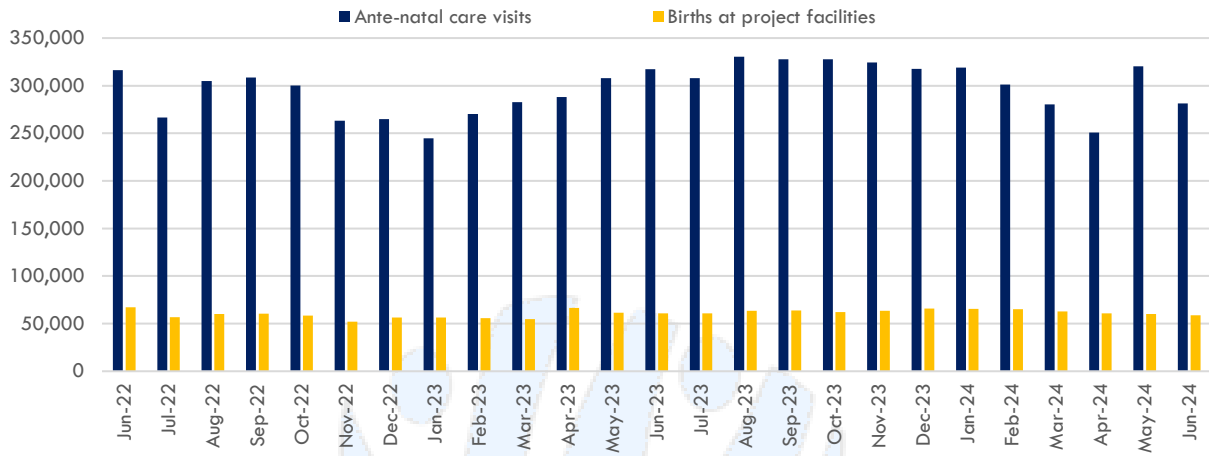
*M1 - Hamal (Mar 22–Apr 21), M2 - Sawr (Apr 22–May 21), M3 - Sawr (May 22–Jun 21)

** M3 & M4 - World Bank staff elaboration.

4. PROVISION OF HEALTH SERVICES

ANC visits under the Health Emergency Response (HER) project experienced a notable increase in May 2024, following a sustained decline since August 2023.

5.1. SERVICES DELIVERED AT HER-FINANCED HEALTH FACILITIES



Source: Health Management Information System.





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

Data notes: The Afghanistan Economic Monitor is produced by World Bank staff, drawing from various 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 exchange rates collected and reported by DAB; and (iv) data on trade from the ASYCUDA.