

AFGHANISTAN ECONOMIC MONITOR

JANUARY 14, 2022

HIGHLIGHTS:

Summary: Gradual deterioration in economic conditions continues. Overall inflation is being driven by increasing prices for basic household goods, reflecting depressed demand for non-essential items. Wages and demand for labor continue to decline. The exchange rate continues to gradually depreciate, despite substantial inflows of USD through humanitarian channels in December. Money changers report frequent shortage of foreign currency, while households and firms are unable to withdraw bank deposits even up to regulated limits. The Taliban Interim Administration is raising substantial revenue and recently enacted an interim budget for the three months to the beginning of the next solar year (21st March).

Prices continue to increase, especially for basic household goods. The National Statistics and Information Agency resumed publication of price and inflation data. This data shows that headline Y-o-Y inflation reached 12.7 percent in December 2021 from 9.2 percent in November 2021. This increase is driven by food prices. Non-food Y-o-Y inflation reached 7.5 percent, increasing by two percentage points between November and December 2021. The World Bank has continued to calculate a price index for basic household goods. This shows continued price increases for this narrower basket of items, with Y-o-Y inflation for basic household goods reaching 40.7 percent in December.

Labor demand and wages continue to fall. Wages continued to fall gradually in nominal terms. Adjusting for changes in prices, real wages for both skilled and unskilled workers fell by around 4 percent in the month to December. Real wages have fallen by 18 percent and 14 percent over the past year for skilled and unskilled workers respectively.

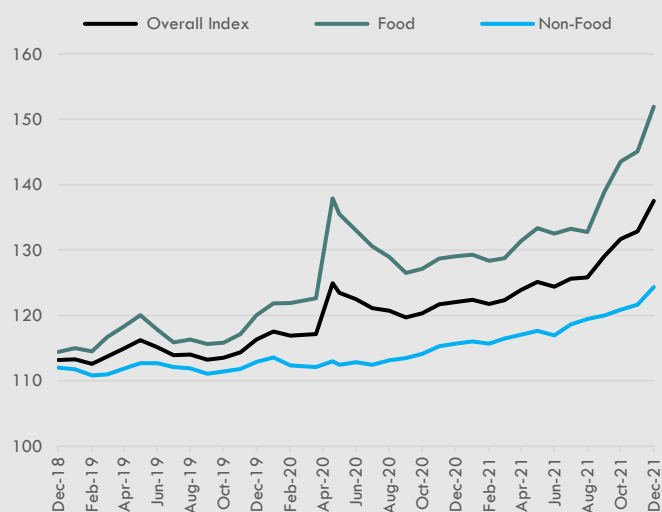
The exchange rate continued to gradually depreciate against main trading currencies. Exchange rate movements remain challenging to track in the absence of auctions or a consistent reporting system. Da Afghanistan Bank (DAB) data indicate that the Afghani depreciated by around 1.5 percent against the USD during December. The Afghani has now depreciated 18.4 percent against the USD, 15.5 percent against the Euro, 13.5 percent against the Iranian Toman, and 9.7 percent against the Pakistani Rupee since mid-August 2021. Money traders report frequent shortages of foreign exchange in the market.

End-year data shows improving recent revenue performance. The total revenue collections in 2021 amounted to AFN139.9 billion, 24 percent below the 2017-2020 average. Between September and December 2021, the Taliban Interim Administration (TIA) collected a little more than half of the past 4-year average in the same period. On current trends, TIA revenue collections could reach AFN120 to AFN150 billion per year – well below the 2017-2020 average of AFN185 billion. This estimate remains highly sensitive to economic conditions.

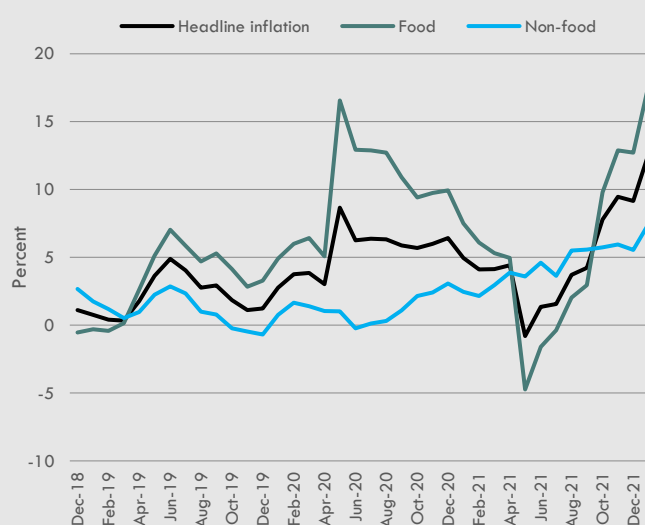
The TIA recently enacted an interim budget for the first quarter of the 1401 fiscal year. The budget covers the period to March 21, by which point a full annual budget is expected. The quarterly budget projects revenue collections of AFN47.5 billion (US\$0.45 billion) and expenditures of AFN53.9 billion (US\$0.51 billion), with an unfinanced budget deficit of AFN6.4 billion (US\$60 million). In the absence of on-budget grants, expenditures are budgeted to decline by around one-half. Budgeted recurrent expenditures constitute 91 percent of the total spending. Budgeted development expenditures of AFN4.7 billion (compared to the quarterly average of AFN31.8 billion in 1398) remain entirely unfinanced.

PRICES AND INFLATION:

OVERALL CONSUMER PRICE INDEX

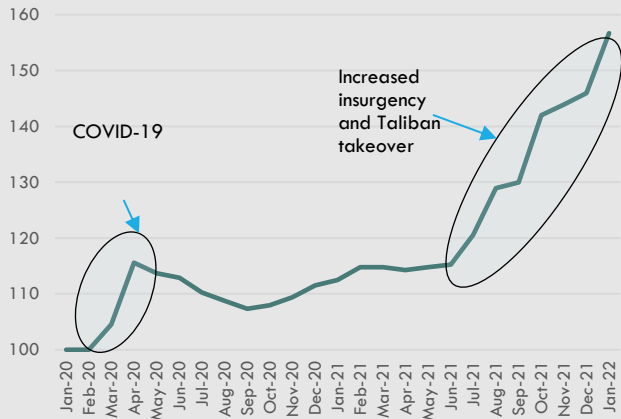


INFLATION Y-O-Y

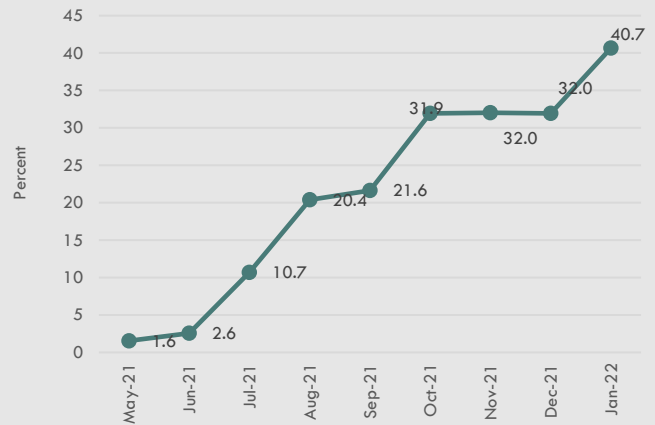


Source: National Statistic and Information Authority (NSIA)

COUNTRYWIDE BASIC HOUSEHOLD GOODS INDEX



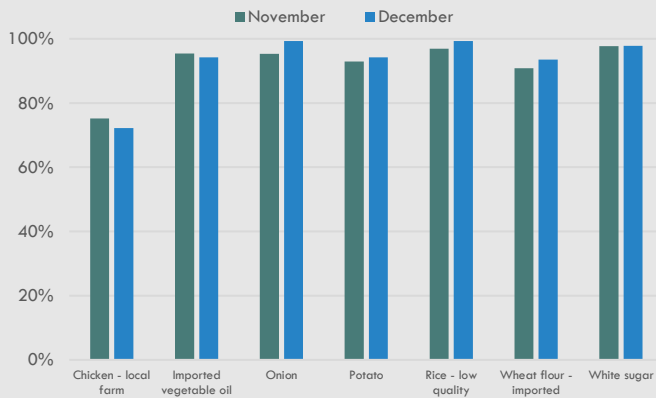
COUNTRYWIDE BASIC HOUSEHOLD GOODS Y-O-Y INFLATION



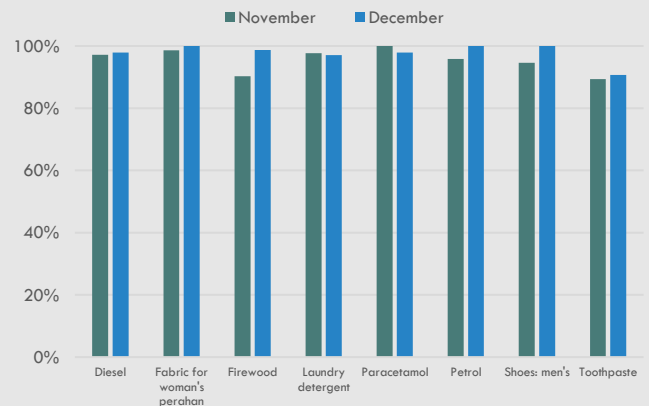
Source: Price data from WFP weekly report, Index constructed by the Bank staff. * Data to 1st week of January, 2022.

Note: This Index uses World Food Program (WFP) price data for ten critical household goods from all provinces. It applies consumption and population weights from NSIA to provide an aggregate snapshot of overall price trends.

REPORTED FOOD ITEMS AVAILABILITY



REPORTED NON-FOOD ITEMS AVAILABILITY



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

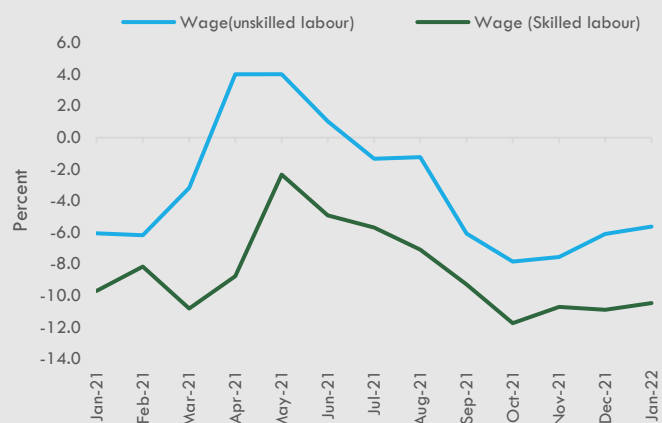
BASIC HOUSEHOLD GOODS – YOY INFLATION

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Headline Inflation	1.6	3.7	4.2	7.8	9.5	9.2	12.7
Food	-0.4	2.0	2.9	9.8	12.9	12.7	17.7
Bread and Cereals	-4.9	-1.9	-1.4	10.4	18.0	17.6	24.0
Meat	5.0	6.3	6.6	7.0	6.6	4.3	2.4
Milk, cheese, and eggs	-2.4	1.1	0.8	4.8	5.2	5.2	8.4
Oils and fats	15.8	17.3	23.2	39.5	51.2	55.9	63.4
Fresh and dried fruits	3.6	-2.0	-3.6	-2.9	0.1	0.2	6.4
Vegetables	-9.7	-0.4	3.2	6.7	-1.3	-2.4	6.0
Sugar and sweets	2.4	3.7	2.1	9.2	15.2	15.6	20.6
Spices	-12.7	-5.7	-2.7	1.6	0.4	5.7	10.3
Non-alcoholic beverages	2.2	1.6	0.8	1.9	1.8	3.2	6.2
Non-Food	3.6	5.5	5.6	5.7	5.9	5.5	7.5
Clothing	6.5	9.2	8.2	7.2	6.0	6.0	8.0
Housing	3.0	4.9	3.9	2.6	2.2	0.1	0.4
Furnishing and household goods	6.0	6.7	6.5	6.5	6.8	6.7	7.5
Health	-0.8	-1.2	-0.5	0.8	1.4	1.5	6.9
Transportation	6.5	17.0	23.1	29.4	34.3	39.6	47.2
Communication	0.0	0.6	0.4	0.8	1.1	0.3	1.3
Information and Culture	-0.2	2.2	2.1	1.2	0.8	-0.3	1.0
Education	5.7	5.5	4.3	3.5	1.2	2.0	10.2
Restaurants and Hotels	0.4	2.8	1.7	2.3	2.2	2.9	2.1

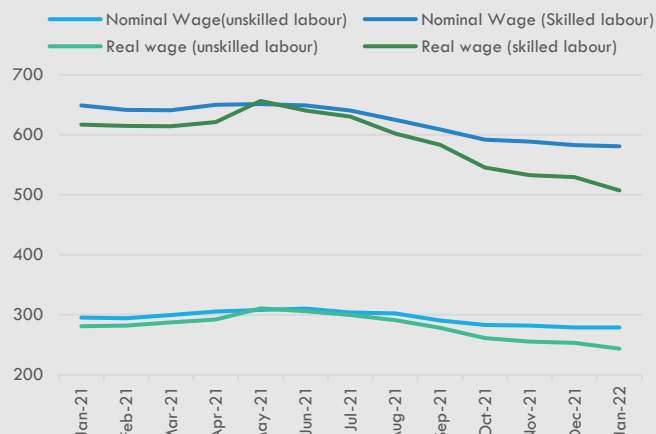
Source: NSIA

LABOR MARKET CONDITIONS:

WAGES (YEARLY CHANGE)

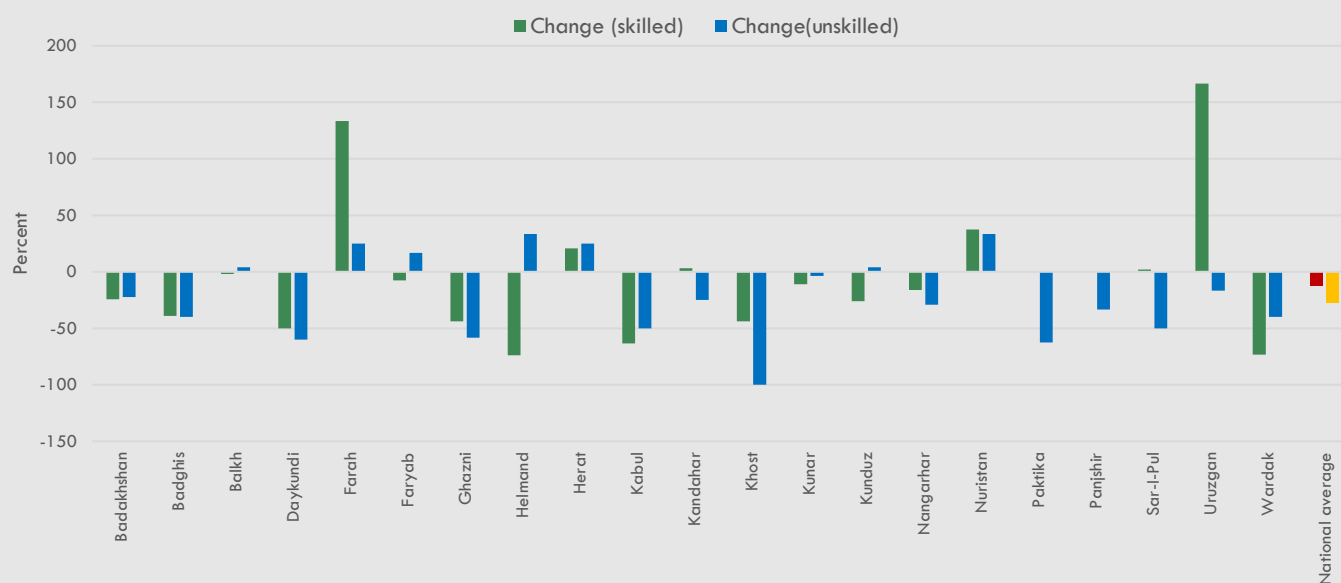


NOMINAL AND REAL WAGES (IN AFS)



Source: Data from WFP, and World Bank Staff calculations. Real wages are calculated using price data from the NSIA.

CHANGE IN LABOUR DEMAND BETWEEN NOVEMBER TO DECEMBER 2021



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

TRADE DEVELOPMENTS:

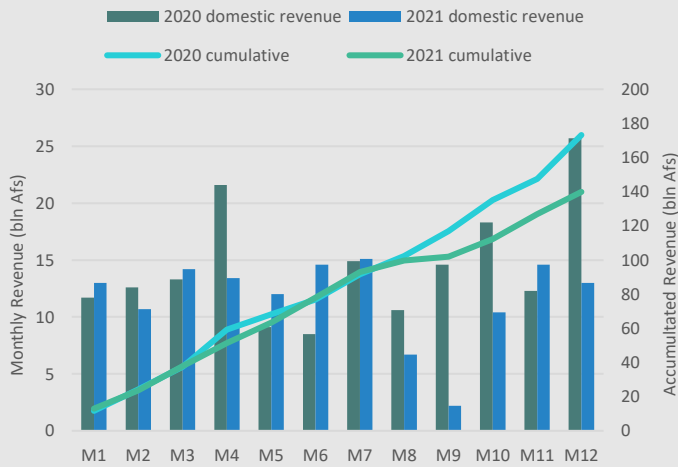
PAKISTAN'S TRADE WITH AFGHANISTAN (JULY-OCTOBER) IN MILLION US\$

	Imports from AFG			Exports to AFG		
	FY21	FY22	Growth	FY21	FY22	Growth
July	35.57	27.5	-23%	79.92	48.87	-39%
August	40.97	44.57	9%	79.81	49.86	-38%
September	84.3	79.12	-6%	95.27	49.16	-48%
October	91.35	90.82	-1%	92.99	50.55	-46%
November	68.93	122.95	78%	80.05	71.27	-11%
Total (Jul-Nov)	321.12	364.96	14%	428.04	269.71	-37%

Source: Pakistan Bureau of Statistics

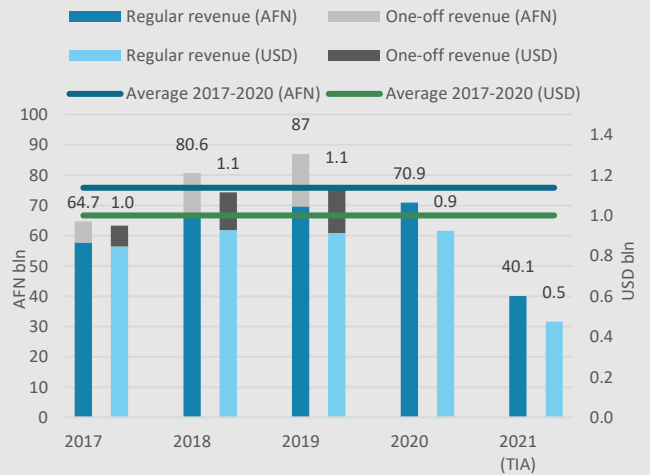
REVENUES:

DOMESTIC REVENUES (TOTAL COLLECTION 2020, 2021)



Source: World Bank staff estimates

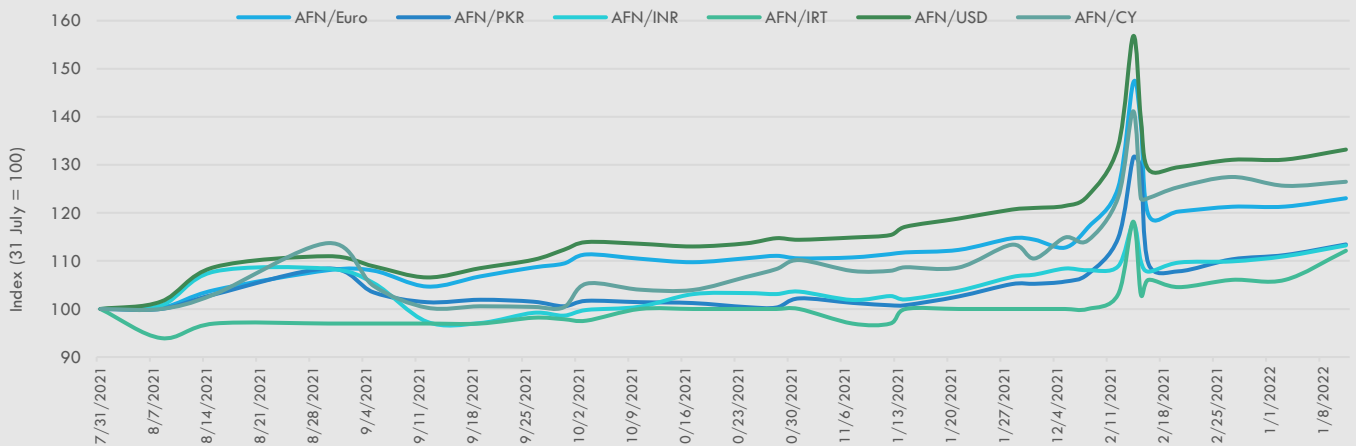
DOMESTIC REVENUES SEPT-DEC (2017-2021)



Source: World Bank staff estimates

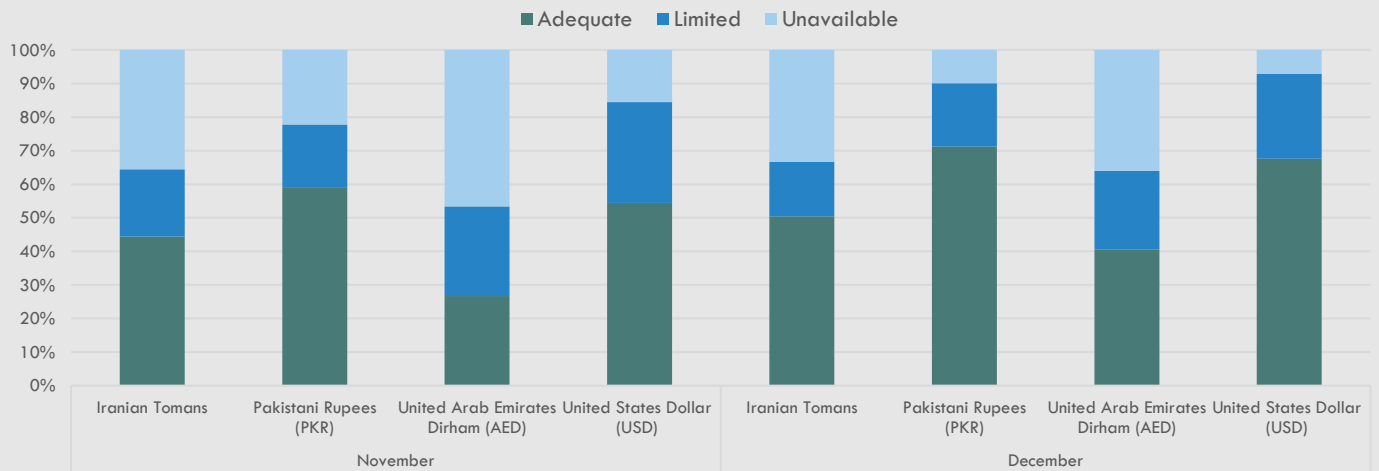
FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS:

EXCHANGE RATE - INDEX JULY 2021 (HIGHER = DEPRECIATION)

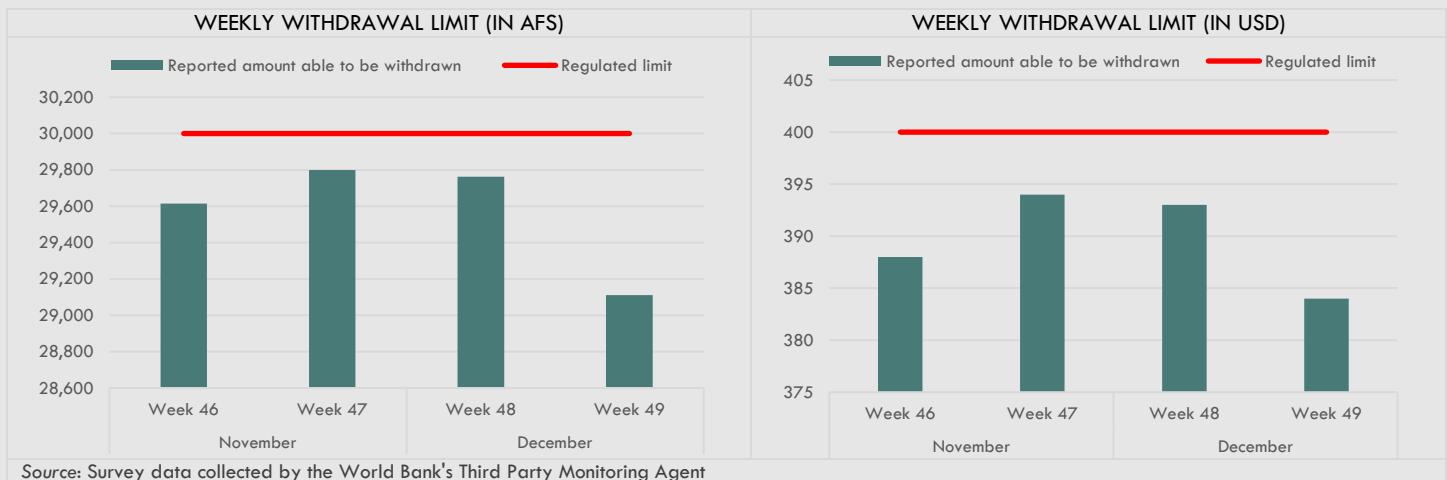


Source: DAB, and World Bank Staff calculations

AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS



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



SELECTED ECONOMIC NEWS:

- Despite unplanned outages, both Tajikistan and Uzbekistan have signed agreements with Afghanistan on energy supplies in 2022. For a short time this week, Uzbekistan's supply of electricity to neighboring Afghanistan was reduced by 60 percent without notice due to a technical problem at the Marjan power station. [[THE DIPLOMAT](#), January 13, 2022]
- The Taliban has said it is expanding its "food for work" program, in which donated wheat is used to pay tens of thousands of public sector workers. The United Nations (UN) has appealed for \$4.4bn in humanitarian aid for Afghanistan. Afghanistan's economic and humanitarian crisis has deepened since the Taliban took control in August. [[BBC NEWS](#), January 12, 2022]
- U.N. agencies on Tuesday asked donors for \$4.4 billion in humanitarian aid for Afghanistan in 2022, calling the funds an "essential stop gap" to ensure the country's future after a period of turmoil marked by the Taliban's seizure of power and a hasty U.S. exit. The United Nations says the appeal, which amounts to nearly a quarter of its GDP, is the largest ever sought for a single country and is triple the figure it received in 2021 when the U.S.-backed government collapsed. [[REUTERS](#), January 12, 2022]
- The Biden administration plans to donate an extra \$308 million in humanitarian aid to Afghanistan, bringing total U.S. aid for the impoverished country and Afghan refugees in the region to nearly \$782 million since October, the White House said on January 11, 2022. The United States is also providing one million additional coronavirus vaccine doses to Afghanistan, bringing the total to 4.3 million doses, the White House added. [[REUTERS](#), January 11, 2022]
- The BBC report from Kabul indicates that the start of a harsh winter is accelerating Afghanistan's humanitarian crisis. Since the Taliban's seizure of power and international sanctions, the economy has gone into freefall, increasing unemployment. Few can afford to feed their families or heat their homes. [[BBC NEWS](#), January 11, 2022]