

# AFGHANISTAN ECONOMIC MONITOR

MARCH 14, 2022

## HIGHLIGHTS:

**SUMMARY:** *The accelerating humanitarian response is supporting some stabilization of economic conditions. Inflows of USD cash notes have driven appreciation of the AFN. A strengthening AFN and increasing humanitarian distribution of critical household goods have supported declining prices, feeding into stabilization of real wages. Interim Taliban Administration revenue collections remain strong but are likely to fall well short of quarterly budget targets. New official statistics for 2021 show that both imports and exports fell far below 2020 levels over the second half of 2021, but with some recovery in the final quarter. The Russian invasion of Ukraine, war, and associated sanctions may have important impacts on prices and inflation given Afghanistan's heavy reliance on imported food and fuel.*

**Official data show appreciation of the Afghani against main trading currencies since February.** Between February 1 and March 5, the AFN appreciated by 12.9 percent against the US Dollar, 16.7 percent against the Chinese Yuan, 12.5 percent against the Euro, 5.7 percent against the Iranian Toman, and 11.2 percent against the Pakistani Rupee. Following recent appreciation, the AFN is now trading at around 11 percent below its value at the end-July 2021 relative to the USD. Appreciation is thought to have been driven by the large inflows of USD cash through humanitarian channels (averaging around US\$150 million per month). Increased availability of USD within the economy has allowed the central bank to resume USD auctions, with around US\$26 million auctioned since mid-February. Anecdotal reports suggest exchange rate movements may also reflect efforts by the Interim Taliban Administration (ITA) to influence rates in currency markets, including by preventing alleged manipulation of rates and hoarding of USD by currency traders.

**Reflecting appreciation, inflation eased, with slight declines in prices for basic household goods.** Y-o-Y inflation for a basket of basic household goods fell to 32 percent by end-February (compared to 42.5 percent in January). Prices fell for cooking oil (6.7 percent), wheat (6.5 percent), and wheat flour (8.1 percent). Downward pressure on prices may also reflect the increasing supply of basic household goods (especially food) through humanitarian distribution channels. Prices for the basket of basic household goods remain around 20 percent above August 2021 levels.

**Real wages stabilized, reflecting falling prices.** While nominal wages for skilled and unskilled workers continued to slightly decline through February, these declines were offset by falling prices. Accordingly, real wages remained stable. As proxied by the number of available workdays for both skilled and unskilled workers, labor demand in February increased marginally over the past month – from 2.2 days in January to 2.3 days in February for skilled workers and 1.9 to 2.2 days for unskilled workers.

**Firms and households continue to face difficulties in accessing cash.** While firms and households report marginally improved ability to withdraw AFN funds from bank accounts, many can still not access currency even up to regulated limits.

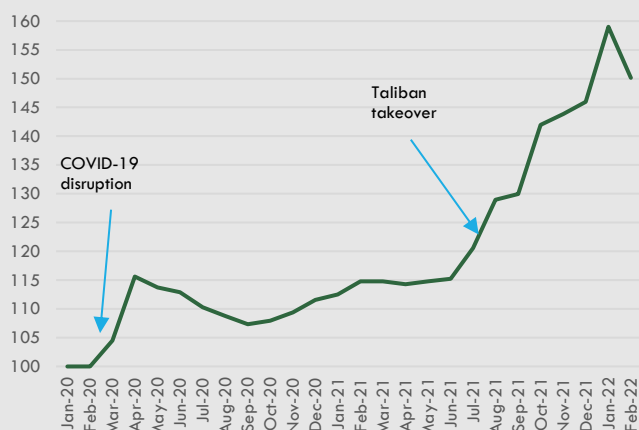
**The ITA average monthly revenue collection during the first two months of 2022 remained strong.** Total collections were roughly equivalent to collections over the same period in 2020 in AFN terms, but significantly lower in USD terms (around 20 percent in USD terms). Most revenues are from taxes at borders and non-tax receipts. Customs collections have been supported by the recent depreciation of the AFN. On current trends, ITA revenues will fall around 20 percent short of interim budget revenue targets for the first quarter of 2022 (AFN 47.5 billion). Without access to deficit financing, further cuts in expenditures against announced plans are likely to be required.

**Newly released official trade statistics confirm a sharp drop in merchandise imports over the second half of 2021.** Imports over the second half of 2021 were 47 percent below 2021 levels, reflecting suppressed economic activity and constrained access to foreign exchange. Exports over the second half of 2021 declined by around five percent compared to the same period in 2020. Both imports and exports over the fourth quarter increased relative to the third quarter (by 60 percent and 160 percent respectively), likely reflecting reopening of border points and adjustment of supply channels to avoid disruptions associated with the breakdown of formal financial sector transactions.

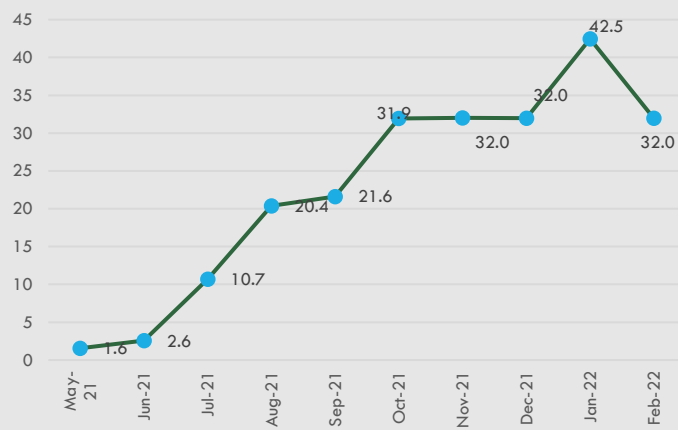
## 1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

A decline in prices for staples and cooking oil drove a ten-percentage point decline in Y-o-Y inflation for basic household goods in February over the previous month.

### 1.1. COUNTRYWIDE BASIC HOUSEHOLD GOODS PRICE INDEX



### 1.2. COUNTRYWIDE BASIC HOUSEHOLD GOODS Y-O-Y INFLATION



Source: Price data from WFP weekly report, Index constructed by the Bank staff.

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.

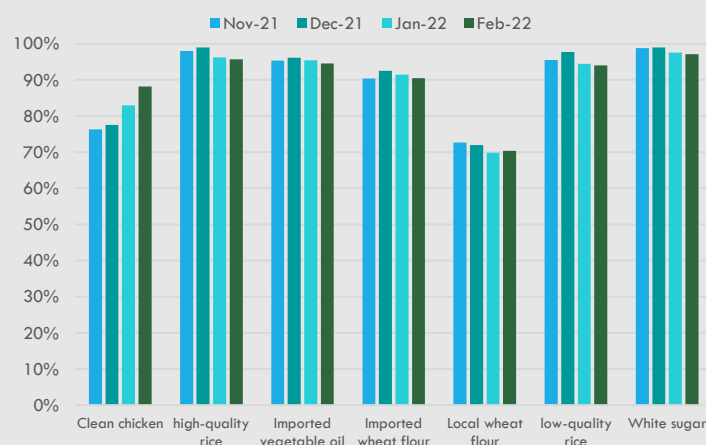
### 1.3. BASIC HOUSEHOLD GOODS – Y-O-Y INFLATION

	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
Bread	2.0	1.7	3.8	7.5	6.2	7.8	8.6	8.7	10.2	11.6
Fuel (diesel)	27.4	32.8	52.3	86.7	48.8	79.4	94.2	97.9	95.1	68.8
Oil (cooking)	28.2	26.8	39.1	51.8	58.5	70.1	64.5	55.5	62.3	47.3
Pulses	-2.2	-1.7	-0.9	4.6	3.8	9.4	13.3	14.8	28.7	27.6
Rice (high quality)	0.6	1.7	3.4	7.2	8.5	6.6	7.6	9.4	18.8	21.9
Rice (low quality)	-3.4	-2.5	3.3	9.6	9.5	5.8	4.8	8.1	14.3	10.1
Salt	-1.8	9.4	11.6	12.5	12.2	8.4	13.4	14.1	30.2	25.2
Sugar	3.1	-0.6	2.1	7.5	12.5	21.2	24.2	25.7	35.3	27.1
Wheat	1.9	3.5	6.6	11.6	14.2	26.6	27.3	26.7	40.2	31.0
Wheat flour (high quality)	-9.6	-8.5	1.1	10.2	15.6	28.3	26.7	27.7	42.2	27.6
Wheat flour (low quality)	-10.1	-8.1	0.9	10.7	14.4	30.2	29.0	29.6	45.1	32.3
<b>Basic Household Goods Price Inflation</b>	<b>1.6</b>	<b>2.6</b>	<b>10.7</b>	<b>20.4</b>	<b>21.6</b>	<b>31.9</b>	<b>32.0</b>	<b>32.0</b>	<b>42.5</b>	<b>32.0</b>

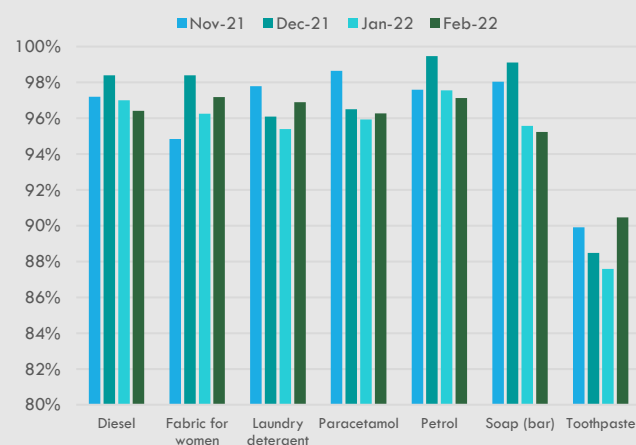
Source: Price data from WFP weekly report, Index constructed by Bank staff.

Most basic food and non-food items remain available.

### 1.4. REPORTED FOOD ITEMS AVAILABILITY



### 1.5. REPORTED NON-FOOD ITEMS AVAILABILITY

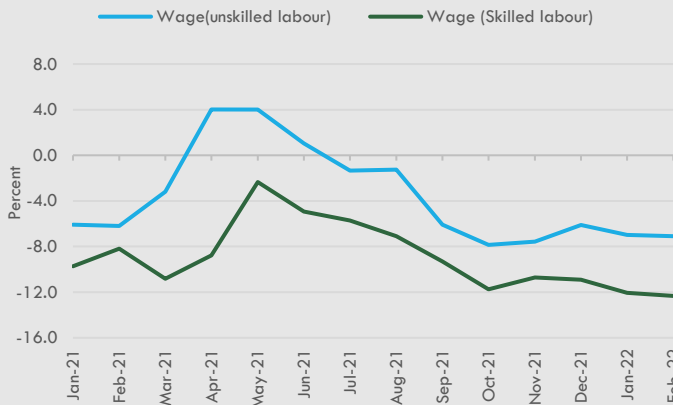


Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

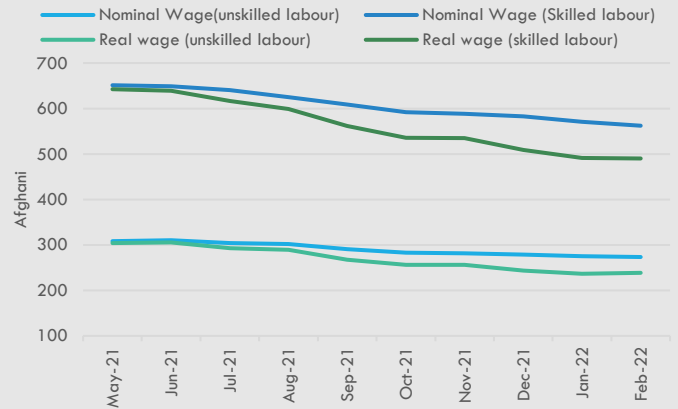
## 2. LABOR MARKET CONDITIONS:

Nominal wages continue to gradually decline, but real wages have stabilized given declining prices.

### 2.1. WAGES (YEARLY CHANGE)



### 2.2. NOMINAL AND REAL WAGES (IN AFN)

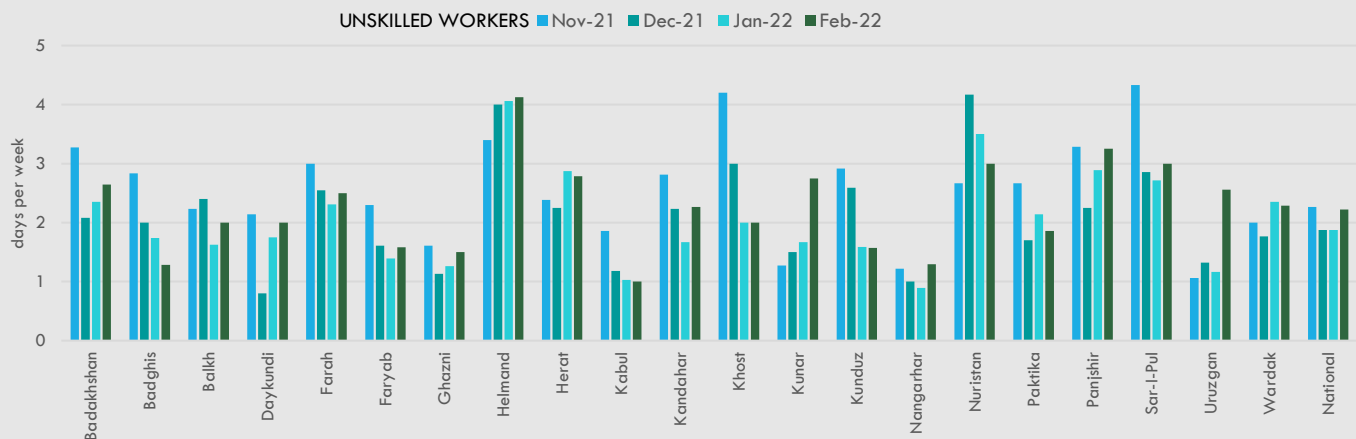
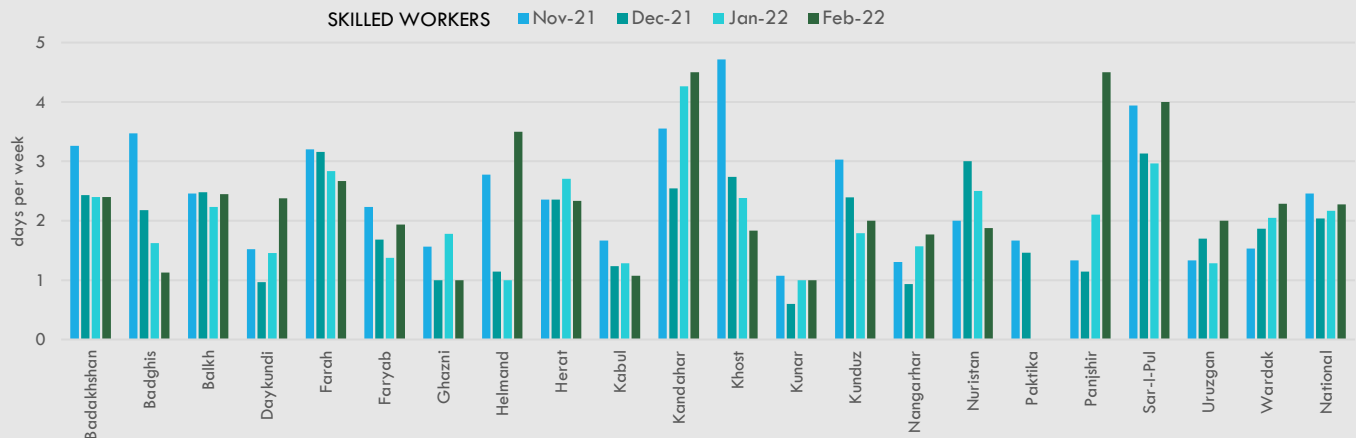


Source: Data from WFP and World Bank Staff elaboration; Real wages are calculated using price data from the NSIA.

Note: Real wages to December are calculated on the basis of CPI inflation reported by NSIA. Real wages for January are calculated on the basis of CPI estimates prepared by the World Bank.

Demand for skilled and unskilled work during February improved marginally.

### 2.1. CHANGE IN LABOUR DEMAND FOR SKILLED AND NON-SKILLED WORKERS BETWEEN NOVEMBER 2021 TO FEBRUARY 2022



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

Note: Data reflects the number of workdays available reported by skilled and unskilled casual workers seeking work. Skilled workers are: i) carpenters; ii) electrician; iii) mason; iv) painter; v) plumber; and vi) tile worker.

### 3. TRADE DEVELOPMENTS:

Official Trade data for 2021 shows a significant decline in imports and exports during the Q3-2021, coinciding with the transition. However, exports recovered in Q4-2021, while imports continue to decline.

#### 3.1. AFGHANISTAN IMPORTS (IN MILLION US\$)

	Q3-2020	Q4-2020	H2-2020	Q3-2021	Q4-2021	H2-2021
Food Stuff	656.5	654.3	1310.8	276.7	404.6	681.3
Minerals and Fuels	304.5	246.6	551.1	132.0	330.5	462.5
Others	372.7	455.2	827.9	112.7	195.6	308.2
Chemicals and Plastics	186.4	199.9	386.3	82.1	125.7	207.8
Textiles and Footwear	155.9	181.9	337.8	94.0	95.0	189.0
Machinery	95.0	90.9	185.9	48.9	46.4	95.3
Animal products	38.1	39.6	77.7	21.4	36.3	57.7
Base Metal	114.8	122.1	236.9	31.1	24.8	55.8
<b>Total</b>	<b>1923.8</b>	<b>1990.6</b>	<b>3914.4</b>	<b>798.9</b>	<b>1258.8</b>	<b>2057.6</b>
Growth	21%	13%	17%	-58%	-37%	-47%

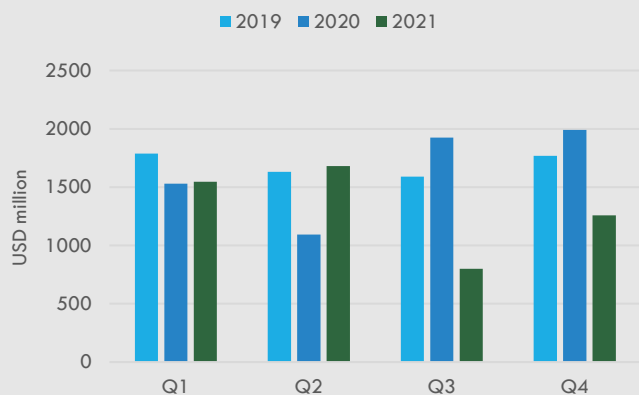
Source: Data from NSIA

#### 3.2. AFGHANISTAN EXPORTS (IN MILLION US\$)

	Q3-2020	Q4-2020	H2-2020	Q3-2021	Q4-2021	H2-2021
Food Stuff	174.6	300.0	474.6	118.0	260.7	378.6
Minerals and Fuels	3.2	6.5	9.7	3.8	51.4	55.3
Textiles and Footwear	15.9	30.1	46.0	14.2	38.6	52.8
Others	1.3	1.0	2.3	5.1	12.3	17.4
Base Metal	2.8	3.4	6.2	1.8	6.2	8.1
Chemicals and Plastics	0.1	0.2	0.3	0.3	1.5	1.8
Machinery	0.0	0.2	0.2	0.0	1.1	1.2
Animal products	0.6	1.2	1.8	0.6	0.2	0.8
<b>Total</b>	<b>198.4</b>	<b>342.7</b>	<b>541.1</b>	<b>143.8</b>	<b>372.1</b>	<b>515.9</b>
Growth	-5.0%	4.1%	0.6%	-28%	9%	-5%

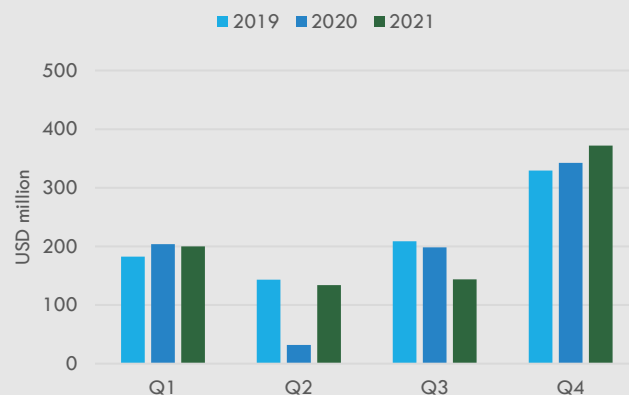
Source: Data from NSIA

#### 3.1. QUARTERLY IMPORTS



Source: Data from NSIA

#### 3.2. QUARTERLY EXPORTS

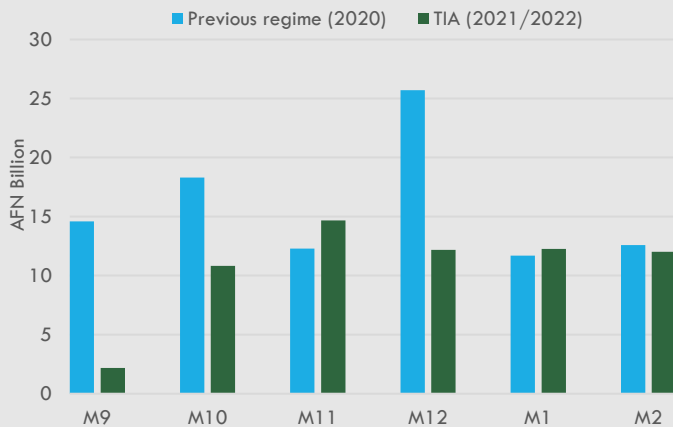


Source: Data from NSIA

#### 4. REVENUES:

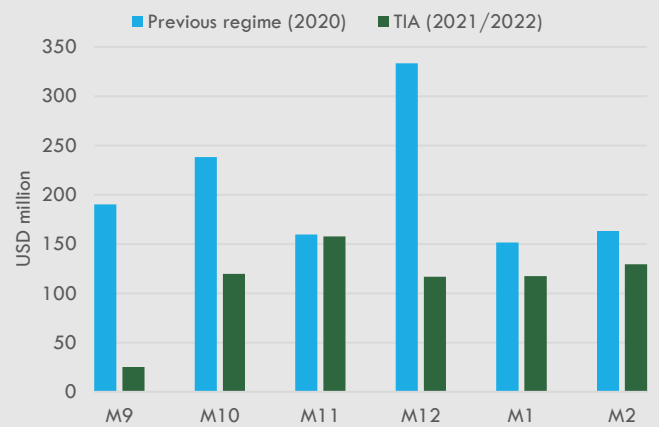
Revenue collections during the first two months of 2022 were equal to collections over the same period in 2020 in AFN terms.

4.1. MONTHLY DOMESTIC REVENUE COLLECTION (IN AFN BILLION)



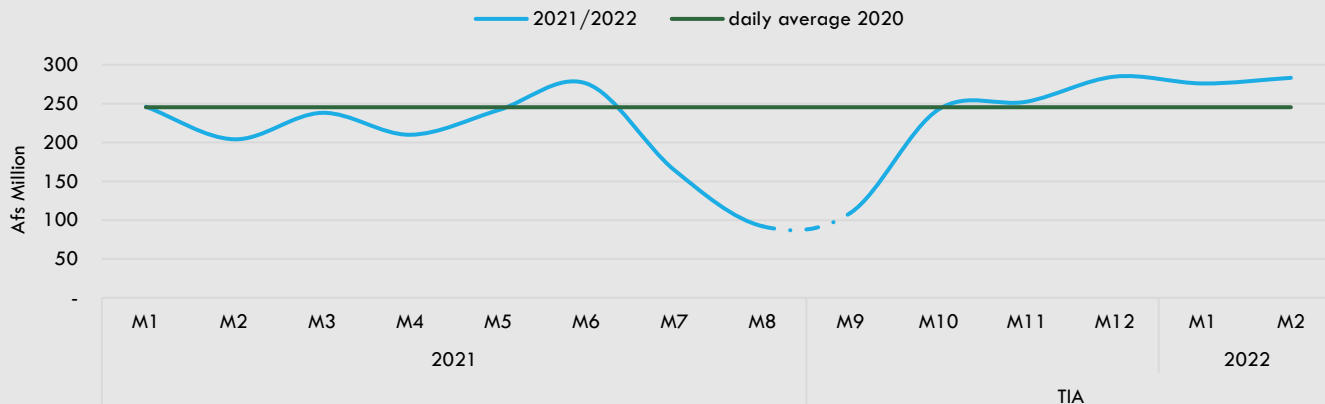
Source: World Bank staff estimates

4.2. MONTHLY DOMESTIC REVENUE COLLECTION (IN USD MILLION)



Source: World Bank staff estimates

4.3. AVERAGE DAILY ACD REVENUE COLLECTION

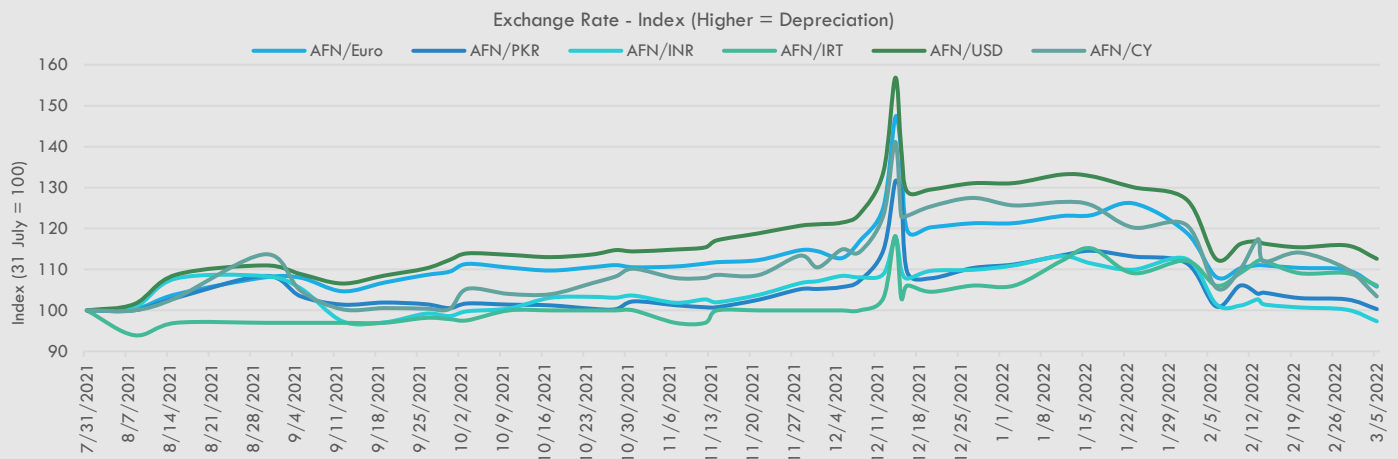


Source: World Bank staff estimates

#### 5. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS:

The exchange rate has been appreciating since end-January due to an increased supply of USD notes through humanitarian channels.

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



Source: Data from DAB and World Bank Staff elaboration.

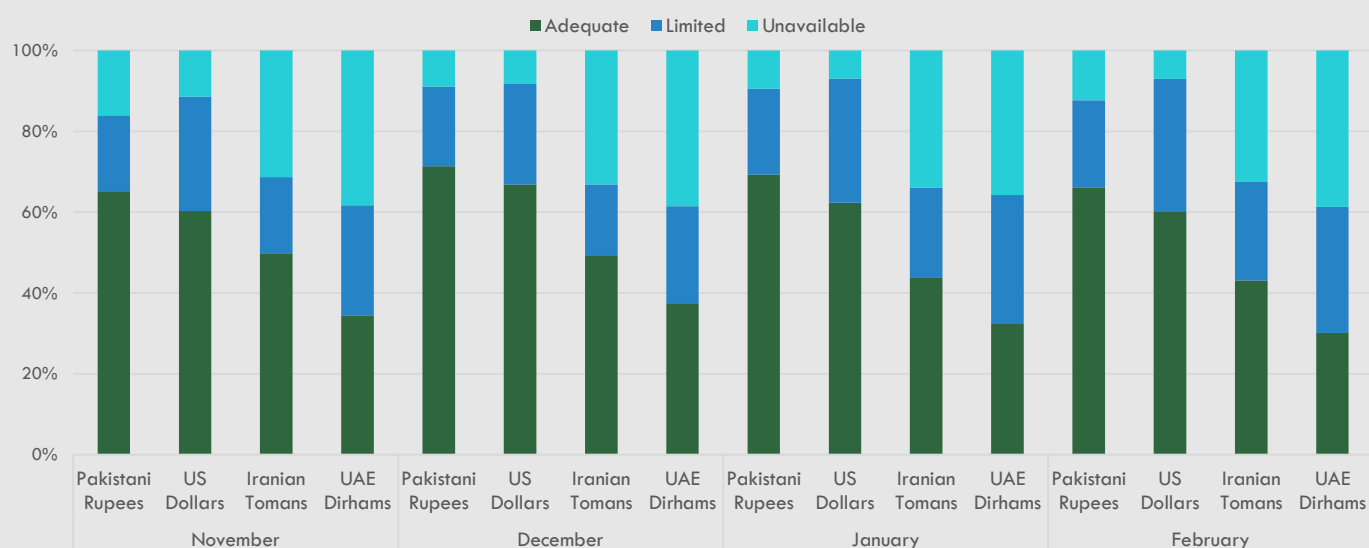
## 5.2. EXCHANGE RATE – DEPRECIATION BY CURRENCY SINCE END-JULY, 2021

	8/15	8/30	9/30	10/28	11/28	12/27	2/1	2/14	2/28	3/5
AFN/Euro	-3.78	-7.48	-8.64	-9.96	-12.82	-17.54	-15.96	-9.91	-8.99	-5.48
AFN/PKR	-2.95	-7.78	-0.56	-0.30	-4.92	-9.37	-10.34	-4.15	-2.60	-0.32
AFN/INR	-7.23	-7.73	1.41	-3.01	-6.24	-9.01	-11.17	-1.46	-0.16	2.73
AFN/IRT	3.13	3.13	2.17	0.00	0.00	-5.71	-10.81	-10.81	-8.33	-5.71
AFN/USD	-8.02	-9.90	-10.96	-12.84	-17.14	-23.69	-21.31	-14.03	-13.68	-11.19
AFN/CY	-2.96	-12.05	-0.34	-7.67	-11.80	-21.55	-17.25	-10.67	-9.15	-3.30

Source: Data from DAB and World Bank Staff calculations.

Despite increasing supply of USD, many traders continue to report shortages of foreign currency.

## 5.3. AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS



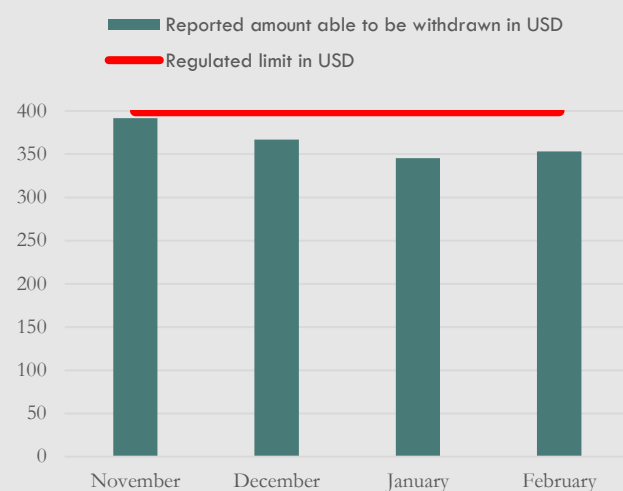
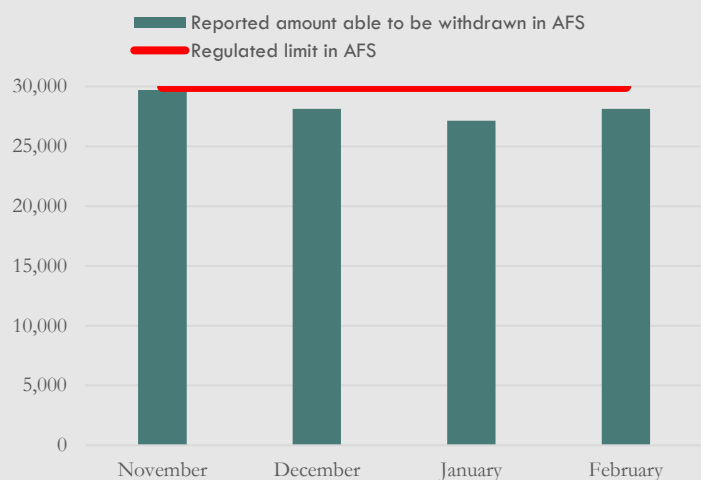
Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

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

## 5.4. MONTHLY WITHDRAWAL - INDIVIDUALS (IN AFN)

Firms and households report marginally increased ability to withdraw AFN and USD funds from bank accounts, but they are still unable to withdraw up to regulated limits.

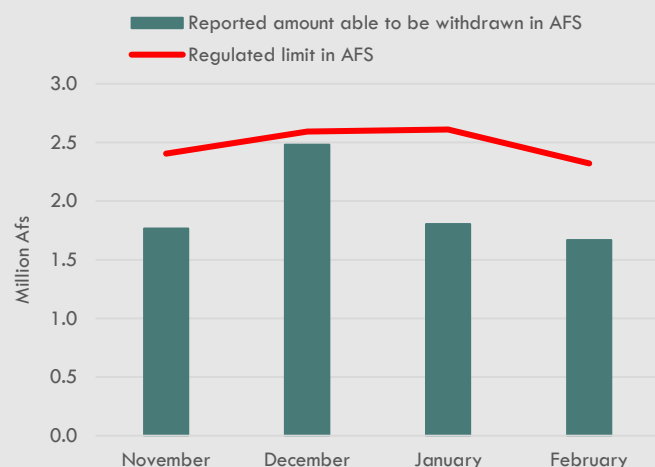
## 5.5. MONTHLY WITHDRAWAL- INDIVIDUALS (IN USD)



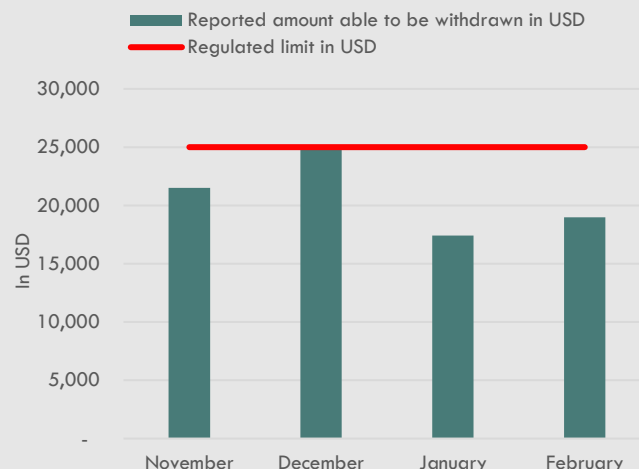
Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

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

### 5.6. MONTHLY WITHDRAWAL - FIRMS (IN AFS)



### 5.7. MONTHLY WITHDRAWAL- FIRMS (IN USD)



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

Note: The regulated limit is stipulated by Da Afghanistan Bank as the lower of US\$25,000 per month (or equivalent in AFS) or five percent of the total account balance. The reported amount able to be withdrawn is reported by firm respondents to the Third Party Monitoring Agent survey.

### BOX: IMPACTS OF THE RUSSIAN INVASION OF UKRAINE

The Russian invasion of Ukraine, war, and associated sanctions are having important regional and global economic impacts. Afghanistan is moderately exposed to these impacts, mostly through increasing prices for wheat, fuel, and fertilizers. Increased prices for these goods are likely flow through into higher prices for a wide range of goods and services. The World Bank is conducting ongoing economic analysis regarding the extent and magnitude of these impacts.

A very simple and unrealistic illustrative analysis may be useful to illustrate Afghanistan's external exposure to changes in relevant commodity prices. Afghanistan imports almost all consumed fuel and between 20-40 percent of consumed wheat. In 2021 fuel and wheat product imports reached US\$631 million and US\$620 million, respectively. Assuming no change in volumes, a 35 percent increase in average oil prices (from US\$74 per barrel in 2021 to US\$100 in 2022) would increase the annual fuel import bill by US\$218 million. A 50 percent increase in global wheat prices would increase the import bill by US\$318 million. Total increases in import values arising from higher prices would reach US\$536 million, equal to more than half of the value of total merchandise exports. Such a scenario would be unlikely to be realized given reduced demand in response to higher prices.

Price increased may also have important impacts on inflation. Wheat products and fuel account for significant shares of the household consumption basket (8.1 percent and 3.2 percent respectively). Assuming no change in the composition of the consumption basket; direct proportional transmission of global price increases into retail prices; and ignoring second round and indirect impacts on prices for other goods and services, a 35 percent increase in fuel prices and a 50 percent increase in wheat product prices would increase headline inflation by around 5.2 percentage points.

*Data notes:* The Afghanistan Economic Monitor is produced by the staff of the World Bank 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 National Statistic and Information Authority (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 Da Afghanistan Bank; v) data on trade from the NSIA.