

AFGHANISTAN ECONOMIC MONITOR

FEBRUARY 15, 2022

HIGHLIGHTS:

SUMMARY: Prices for basic household goods continued to increase through end-January, while wages and demand for labor continued to decline. Money changers report a frequent shortage of foreign currency, while an increasing number of households and firms are unable to withdraw AFN bank deposits even up to regulated limits. Imports fell further, declining by 66 percent relative to 2021 levels. After continued depreciation through January, the exchange rate appreciated in the first days of February due to increased supply of USD notes through humanitarian channels.

Prices have continued to increase. Y-o-Y inflation for basic household goods rose to 41.9 percent in January, an increase of ten percentage points from the previous month, driven by surging prices for wheat, rice, pulses, and cooking oil.

Demand and wages for skilled and unskilled labor continue to fall. Wages continued to decline gradually in nominal terms, translating into significant real deterioration in wages (around 17 percent real declines in wages for both skilled and unskilled labor since August). Labor demand also weakened gradually in January (down by around 14 percent for both skilled and unskilled labor over the past month).

The exchange rate appreciated due to the increased supply of USD notes. Following gradual depreciation through January, the central bank reports that the AFN appreciated against all major trading currencies during the first week of February (13.0 percent against the US Dollar, 14.6 against the Chinese Yuan, 10.0 percent against the Euro, 5.7 against the Iranian Toman, and 10.5 percent against the Pakistani Rupee). The appreciation is thought to have been driven by increasing supply of USD notes through humanitarian channels.

Firms and households lack access to cash. An increasing number of firms and households report the inability to withdraw AFN funds from bank accounts even up to regulated limits.

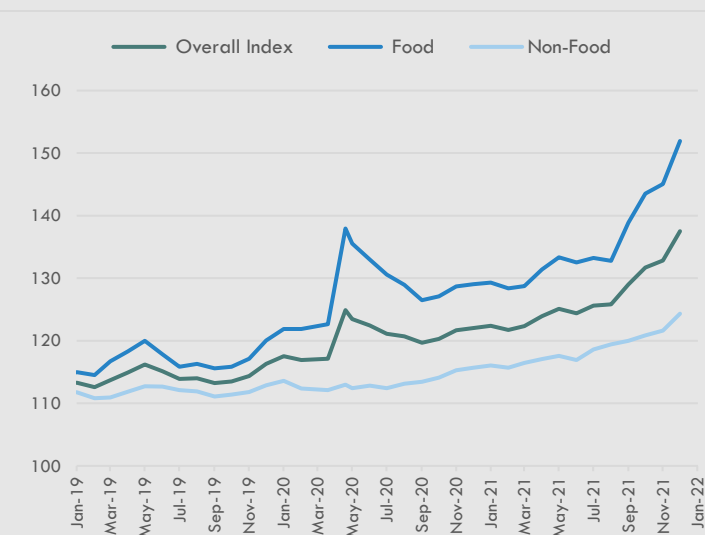
End-year revenue data show significant changes in revenue composition under the Taliban interim administration. Total revenue collections over September-December 2021 reached just over half of the previous four-year average over the same period. Revenue composition shifted significantly towards collections at the border and non-tax revenues, and away from inland tax collections. This reflects both increased efficiency and reduced leakage at customs and difficult economic conditions depressing inland tax collections.

Data from Pakistani authorities suggests that imports have continued to decline in line with contracting domestic demand. Trade data from the Pakistan Bureau of Statistics shows further deterioration in imports, with imports from Pakistan over January declining by 66 percent relative to 2021 levels. Since August, imports from Pakistan have declined by a total of 40 percent relative to the same period in the previous year. Exports, on the other hand, have increased slightly (around eight percent over 2021 levels for the same period).

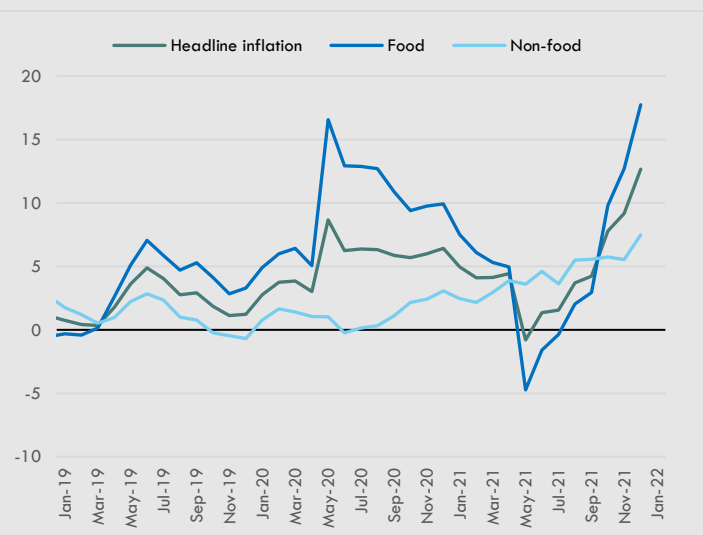
1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

A significant increase in food prices is driving the upward trend in headline inflation.

1.1. OVERALL CONSUMER PRICE INDEX



1.2. INFLATION Y-O-Y

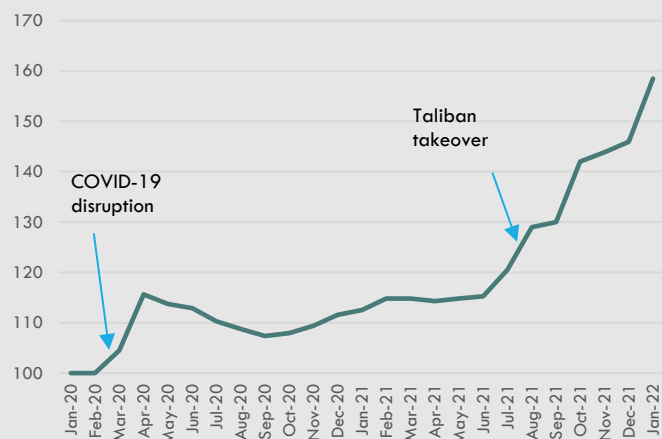


Source: National Statistic and Information Authority (NSIA).

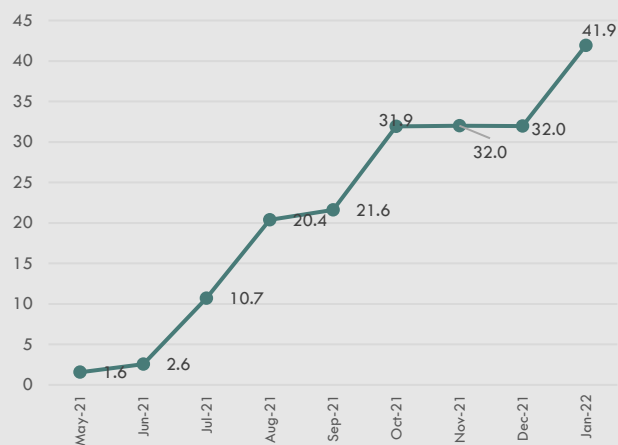
Note: NSIA is yet to publish the CPI index beyond December 2021.

Rising prices for staples and cooking oil have driven a ten-percentage point increase in the YoY inflation rate for basic household goods over the previous month.

1.3. COUNTRYWIDE BASIC HOUSEHOLD GOODS PRICE INDEX



1.4. 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.

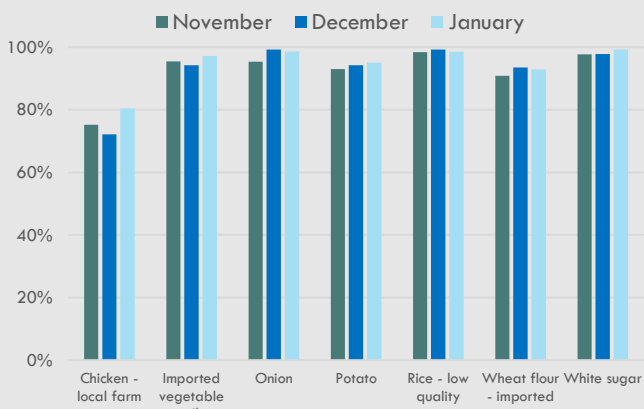
1.5. BASIC HOUSEHOLD GOODS – Y-O-Y INFLATION

	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Bread	2.0	1.7	3.8	7.5	6.2	7.8	8.6	8.7	9.9
Fuel (diesel)	27.4	32.8	52.3	86.7	48.8	79.4	94.2	97.9	93.9
Oil (cooking)	28.2	26.8	39.1	51.8	58.5	70.1	64.5	55.5	61.9
Pulses	-2.2	-1.7	-0.9	4.6	3.8	9.4	13.3	14.8	28.1
Rice (high quality)	0.6	1.7	3.4	7.2	8.5	6.6	7.6	9.4	17.6
Rice (low quality)	-3.4	-2.5	3.3	9.6	9.5	5.8	4.8	8.1	14.2
Salt	-1.8	9.4	11.6	12.5	12.2	8.4	13.4	14.1	30.1
Sugar	3.1	-0.6	2.1	7.5	12.5	21.2	24.2	25.7	35.0
Wheat	1.9	3.5	6.6	11.6	14.2	26.6	27.3	26.7	39.8
Wheat flour (high quality)	-9.6	-8.5	1.1	10.2	15.6	28.3	26.7	27.7	41.6
Wheat flour (low quality)	-10.1	-8.1	0.9	10.7	14.4	30.2	29.0	29.6	44.6
Basic Household Goods Price Inflation	4.6	6.7	13.6	24.2	21.9	31.9	32.0	32.0	41.9

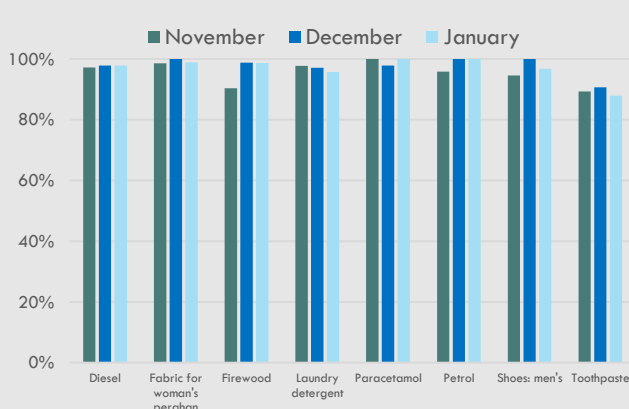
Source: Price data from WFP weekly report, index constructed by Bank staff.

Most basic food and non-food items remain easily available.

1.6. REPORTED FOOD ITEMS AVAILABILITY



1.7. REPORTED NON-FOOD ITEMS AVAILABILITY

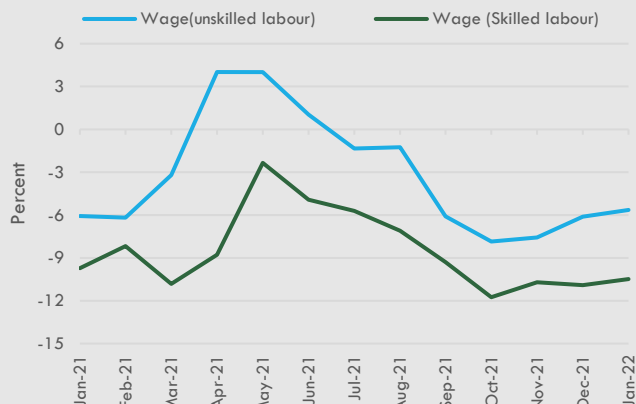


Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

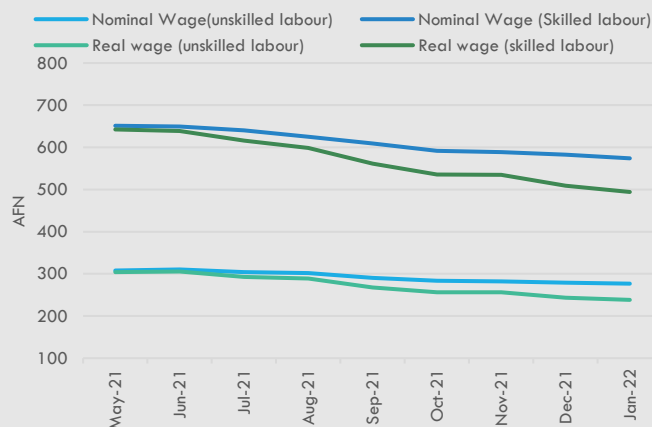
2. LABOR MARKET CONDITIONS:

Nominal wages continue to fall. Real wages are sinking faster due to high inflation.

2.1. WAGES (YEARLY CHANGE)



2.2. NOMINAL AND REAL WAGES (IN AFN)

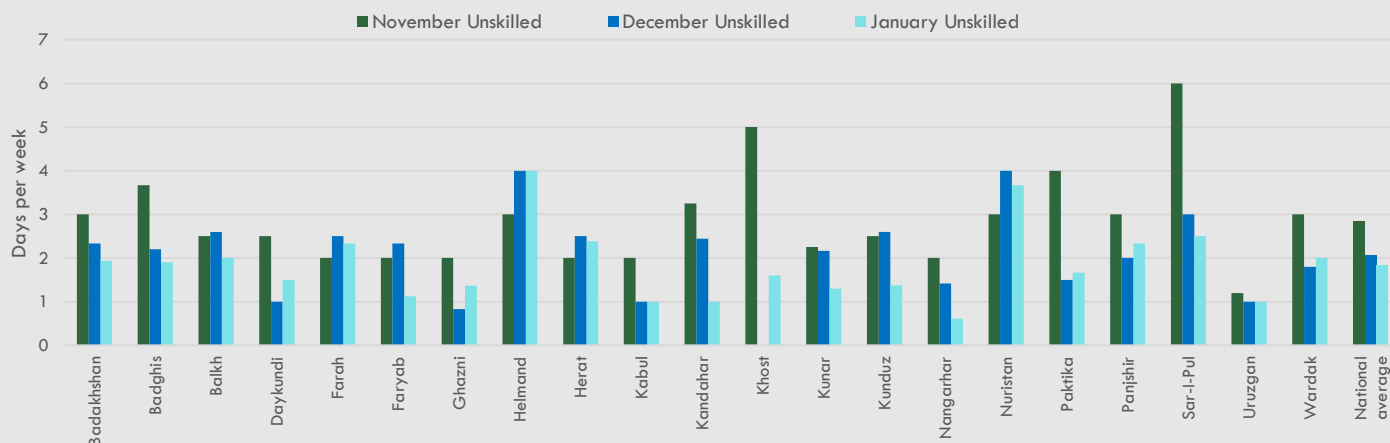
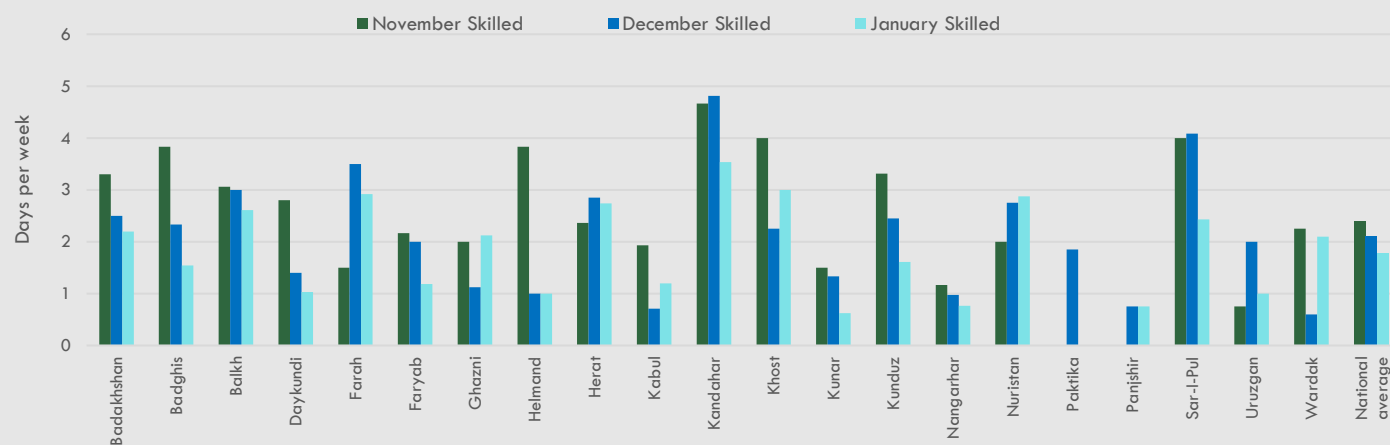


Source: Data from WFP and World Bank Staff elaboration; Real wages are calculated using price data from the NSIA.

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 continues to decline.

2.3. CHANGE IN LABOUR DEMAND FOR SKILLED AND NON-SKILLED WORKERS BETWEEN NOVEMBER 2021 TO JANUARY 2022



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

Note: Data reflects number of work days 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:

Trade data produced by the Pakistani authorities show a sharp decline in imports and a slight increase in exports.

3.1. PAKISTAN'S TRADE WITH AFGHANISTAN (JULY 2021-JAN 2022) IN MILLION US\$

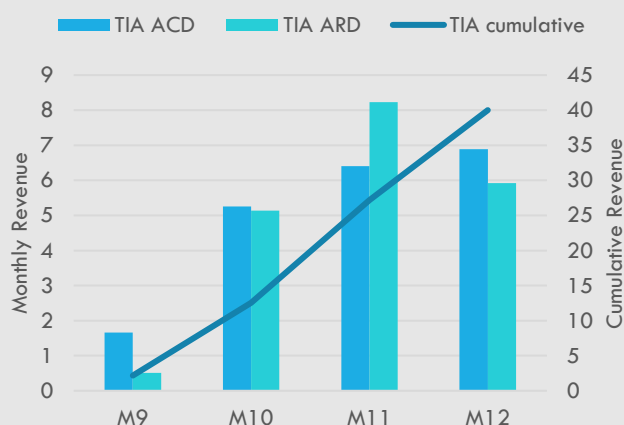
	Imports from AFG			Exports to AFG		
	FY21	FY22	Growth	FY21	FY22	Growth
July	35.6	27.5	-23%	79.9	48.9	-39%
August	41.0	44.6	9%	79.8	49.9	-38%
September	84.3	79.1	-6%	95.3	49.2	-48%
October	91.4	90.8	-1%	93.0	50.6	-46%
November	68.9	123.0	78%	80.1	71.3	-11%
December	66.0	60.3	-9%	89.2	59.1	-34%
January	54.2	53.2	-2%	78.5	26.7	-66%
Total (Jul-Jan)	441.4	478.4	8%	595.7	355.5	-40%

Source: Pakistan Bureau of Statistics

4. REVENUES:

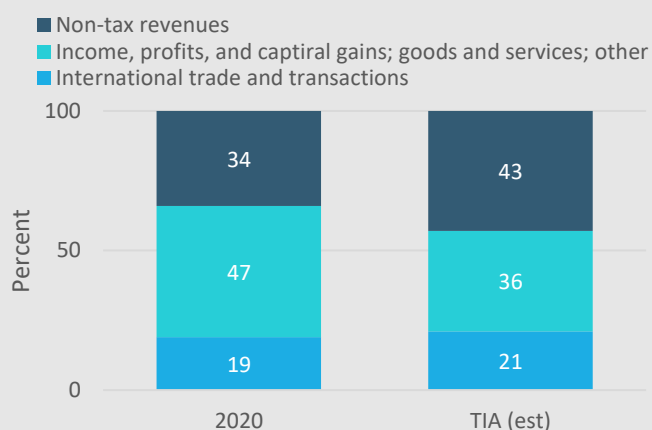
The Taliban Interim Administration is heavily reliant on non-tax revenues and revenues collected at the border.

4.1. TIA DOMESTIC REVENUES BY ACD AND ARD, SEPT-DEC (2021)



Source: World Bank staff estimates

4.2. REVENUE COMPOSITION 2020 VS. TIA

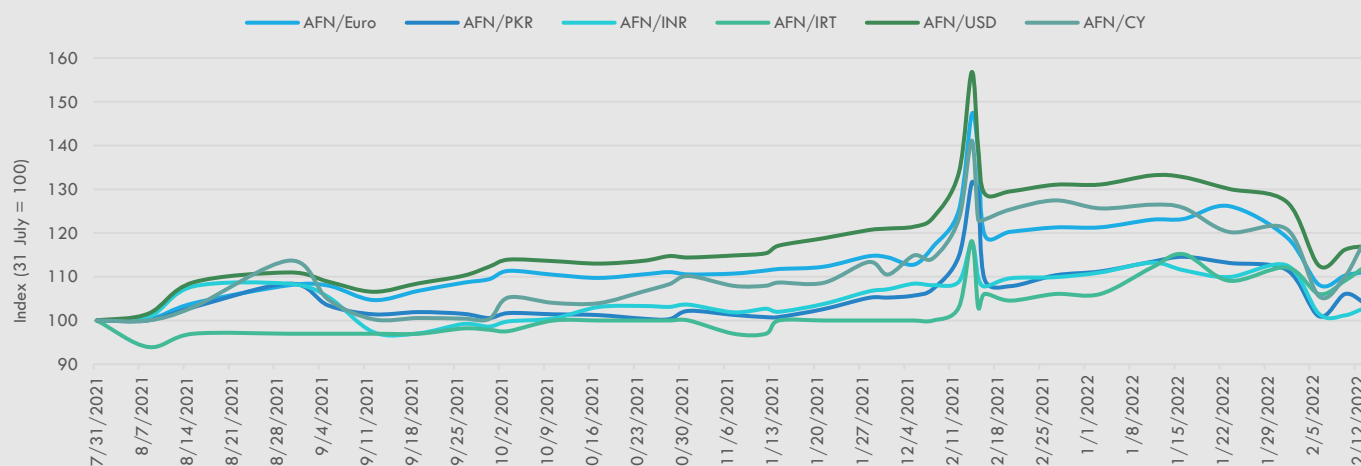


Source: World Bank staff estimates

5. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS:

The increased supply of USD through humanitarian channels led to a strengthening of the Afghani during the first week of February.

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



Source: Data from DAB and World Bank Staff elaboration.

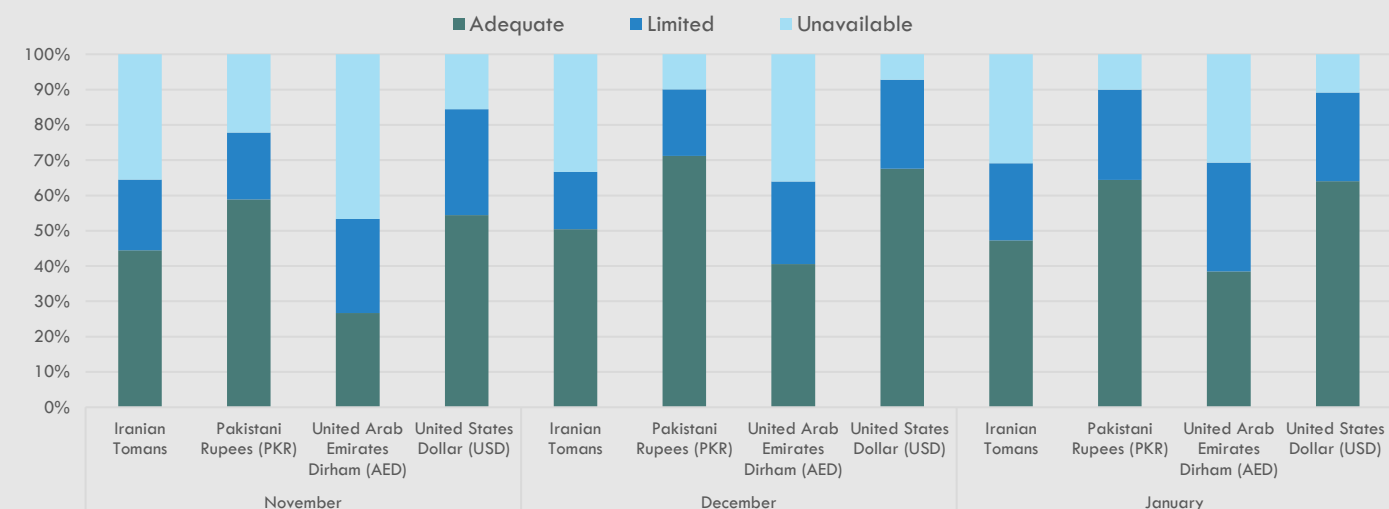
5.2. EXCHANGE RATE – DEPRECIATION BY CURRENCY SINCE END-JULY, 2021

	8/15	8/30	9/30	10/28	11/28	12/27	2/1	2/14
AFN/Euro	-3.780	-7.476	-8.635	-9.960	-12.817	-17.545	-15.957	-9.910
AFN/PKR	-2.945	-7.780	-0.563	-0.303	-4.924	-9.369	-10.339	-4.150
AFN/INR	-7.232	-7.734	1.406	-3.014	-6.237	-9.015	-11.173	-1.458
AFN/IRT	3.125	3.125	2.167	0.000	0.000	-5.714	-10.811	-10.811
AFN/USD	-8.015	-9.898	-10.961	-12.840	-17.139	-23.693	-21.310	-14.030
AFN/CY	-2.962	-12.055	-0.343	-7.674	-11.797	-21.551	-17.249	-10.669

Source: Data from DAB and World Bank Staff calculations.

Most money service providers are able to provide access to major trading currencies.

5.3. AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS

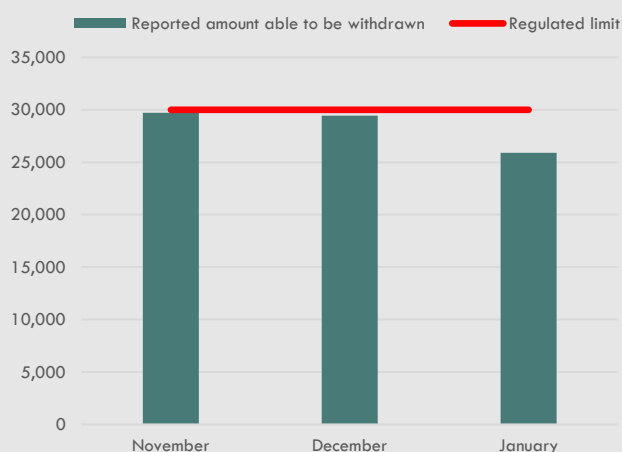


Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

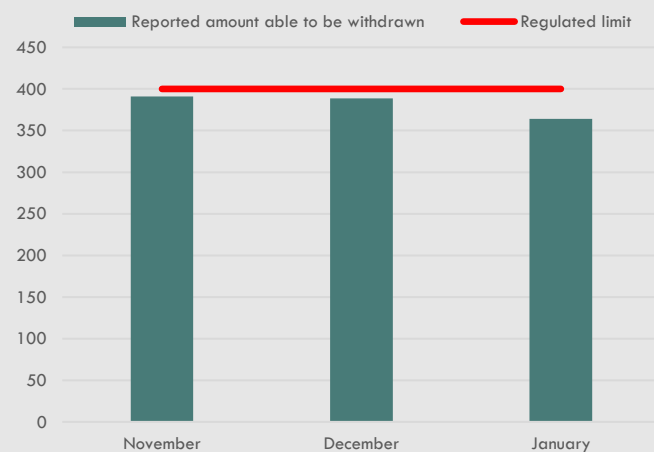
Note: Includes banks, hawala operators, and informal currency exchangers.

An increasing number of firms and households report the inability to withdraw AFN and USD funds from bank accounts even up to regulated limits.

5.4. MONTHLY WITHDRAWAL - INDIVIDUALS (IN AFN)



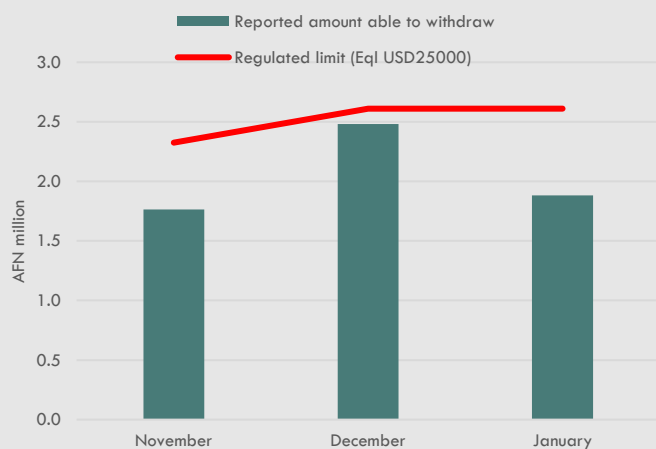
5.5. MONTHLY WITHDRAWAL- INDIVIDUALS (IN USD)



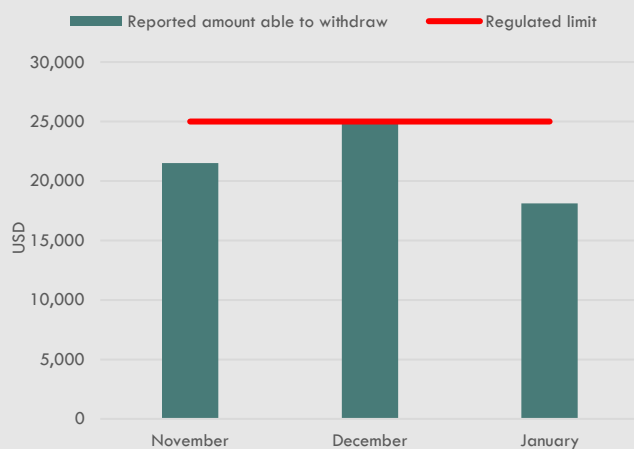
Source: Survey data collected by the World Bank's Third Party Monitoring Agent.

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 AFN)



5.7. MONTHLY WITHDRAWAL- FIRMS (IN USD)



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

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

Data notes: The Afghanistan Economic Monitor is produced by 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 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 Afghanistan imports from and exports to Pakistan provided by the Pakistan Bureau of Statistics.