

AFGHANISTAN ECONOMIC MONITOR: DECEMBER 17, 2021

HEADLINES:

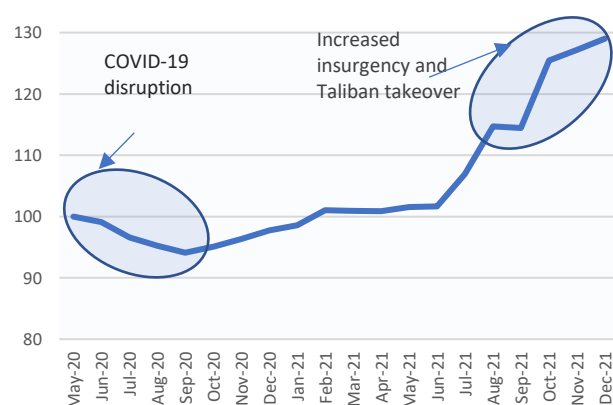
The exchange rate experienced substantial volatility reflecting weakening confidence. In the context of depressed aggregate demand, inflation has slowed. Revenue performance has further strengthened, while new trade data suggests that exports in 2021 will exceed 2020 levels, partly reflecting improved security conditions. The Taliban interim administration has responded to mounting economic challenges with a series of interventionist and sometimes inconsistent measures intended to restore confidence or limit price movements.

- **The exchange rate showed significant volatility.** Exchange rate movements remain difficult to track in the absence of auctions or a consistent reporting system. The exchange rate is reported to have depreciated rapidly to a new low of AFN130/USD on Dec 14, 2021, before recovering to around 102AFN/USD at the time of writing. Underlying structural factors are likely generating depreciation pressures, given the large trade deficit and net outflows of hard currency. Rapid depreciation also reflected: i) weakening confidence amid rumors of bank collapses and an alleged infusion of counterfeit currency; ii) reported collusion between money traders to manipulate rates; and iii) an infusion of Afghani liquidity with the partial payment of civil servant salaries. The recent recovery in the value of the AFN has reflected several measures taken by the interim administration, including: i) direct engagement with money traders to deter collusion and encourage reduction of rates; ii) public announcements to restore confidence, including in relation to the removal of counterfeit currency notes and new inflows of foreign humanitarian funds; and iii) [new measures to stamp out the use of foreign currency for transaction purposes](#).
- **Prices are stabilizing at an elevated level, reflecting suppressed aggregate demand and reduced household purchasing power.** Monthly inflation for basic household goods slowed to 1.4 percent in the first two weeks of December, well below the October peak of 9.6 percent. Year-on-year (YoY) inflation for basic household goods has remained around 32 percent. There are anecdotal reports of the Taliban administration enforcing price controls for certain basic items in some areas. Despite higher prices, basic household food and non-food items are generally easily available.
- **Wages continue to gradually decline.** Wages for both qualified and non-qualified workers declined by around one percent over the month to mid-December. On a year-on-year basis, wages for qualified and non-qualified workers have declined by around 9.4 percent and 5.3 percent, respectively. On a cumulative basis, wages of skilled and non-qualified workers have declined by 7.69 and 7.65 percent, respectively, since August 2021.
- **Some civil servant salaries have been paid.** While most civil servants have still not received any salary payments since August, some in selected ministries received partial payments based on the [new downward revised salary scales](#) and without allowances (which often comprised the majority of take-home pay under the previous administration).
- **Revenue collections have gathered pace since September.** In November 2021, total collections exceeded 2020 levels in AFN terms. Considering depressed trade volumes, this suggests an improved collection efficiency. As a result, the Taliban administration could collect between US\$1.2 to US\$1.5 billion per year on current trends, and dependent on future exchange rate movements. This remains well below the US\$2.3 billion collected in 2020.
- **Exports continued to grow.** Merchandise exports in November reached US\$144 million, increasing significantly from US\$114 million in October. Exports in November significantly exceeded exports in November 2020 (US\$114 million). Stronger export performance reflects both improvements in security conditions and weak export performance in 2020 due to the COVID-19 crisis.

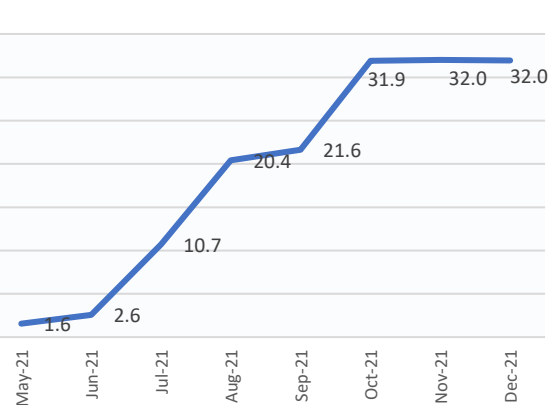
KEY INDICATORS:

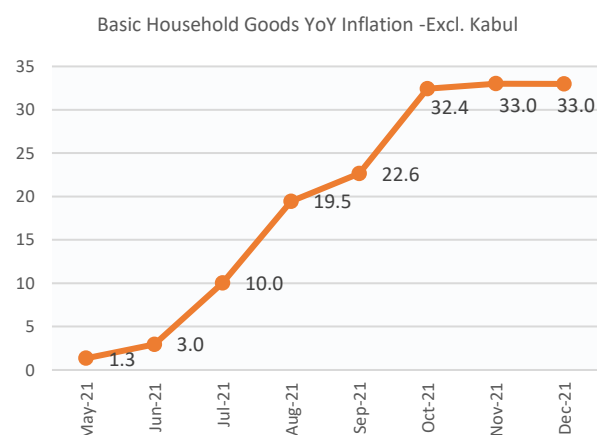
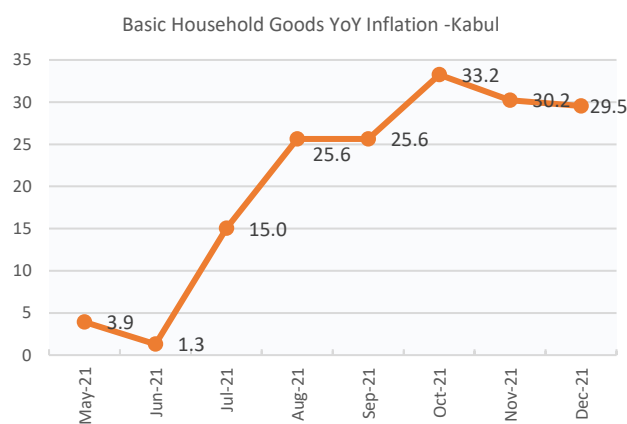
BASIC HOUSEHOLD GOODS PRICE INFLATION

Countrywide Basic Household Goods Price Index



Countrywide Basic Household Goods YoY Inflation





BASIC HOUSEHOLD GOODS – YOY INFLATION

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

Source: Price data from WFP weekly report, Index constructed by the Bank staff. * Data till 1st week of December 2021.

Note: In the absence of formal price statistics, the World Bank has created a new index to assess trends in prices for essential household goods. 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.

WAGES (year on year percent change)	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Wage (non-qualified, non-agricultural)	8.4	3.9	0.1	0.4	-2.5	-7.5	-7.3	-5.3
Wage (qualified)	-0.8	-3.8	-4.3	-6.1	-6.6	-10.4	-9.7	-9.4

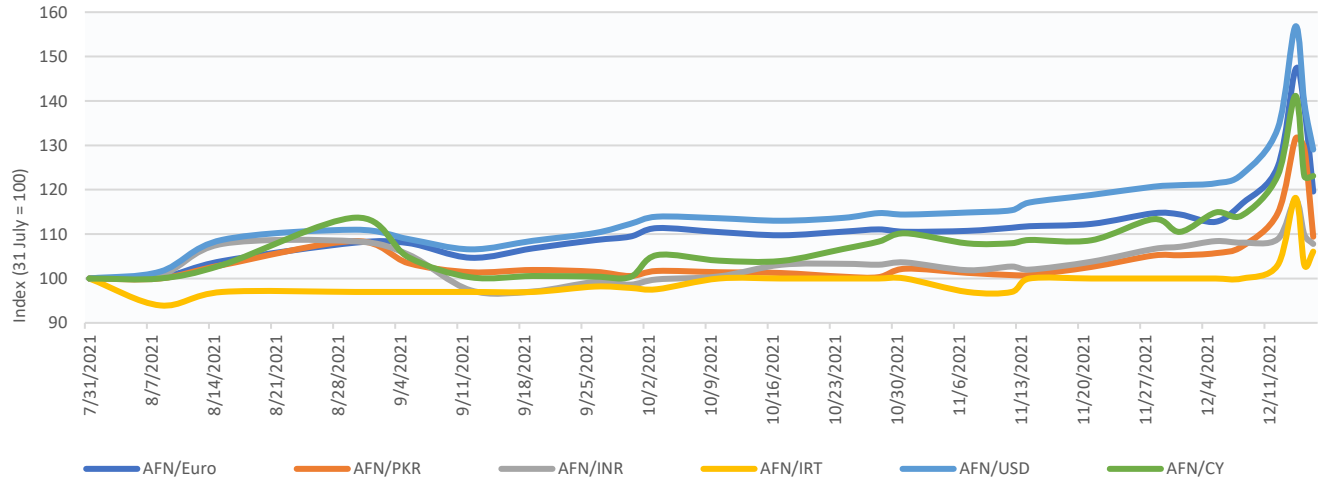
Source: Data from WFP weekly report

EXCHANGE RATE DEPRECIATION (FROM END-JULY 2021)

	8/15	8/30	9/5	9/12	9/19	9/26	9/30	10/3	10/10	10/17	10/24	10/28	10/31	11/7	11/12	12/16
AFN/Euro	-3.8	-7.5	-7.4	-4.5	-6.3	-8.0	-8.6	-10.2	-9.5	-8.9	-9.5	-10.0	-9.5	-9.7	-10.3	-13.1
AFN/PKR	-2.9	-7.8	-3.3	-1.4	-1.9	-1.5	-0.6	-1.7	-1.4	-1.2	-0.4	-0.3	-2.2	-1.3	-0.8	-5.8
AFN/INR	-7.2	-7.7	-5.1	2.7	3.0	0.8	1.4	0.2	-0.5	-3.0	-3.2	-3.0	-3.5	-1.8	-2.6	0.0
AFN/IRT	3.1	3.1	3.1	3.1	3.1	1.9	2.2	2.5	0.0	0.0	0.0	0.0	0.0	3.1	3.1	-8.6
AFN/USD	-8.0	-9.9	-8.2	-6.2	-7.8	-9.3	-11.0	-12.2	-12.0	-11.5	-12.0	-12.8	-12.6	-12.9	-13.3	-15.8
AFN/CY	-3.0	-12.1	-4.6	-0.3	-0.6	-0.4	-0.3	-5.0	-3.9	-3.8	-6.2	-7.7	-9.2	-7.3	-7.4	-16.3

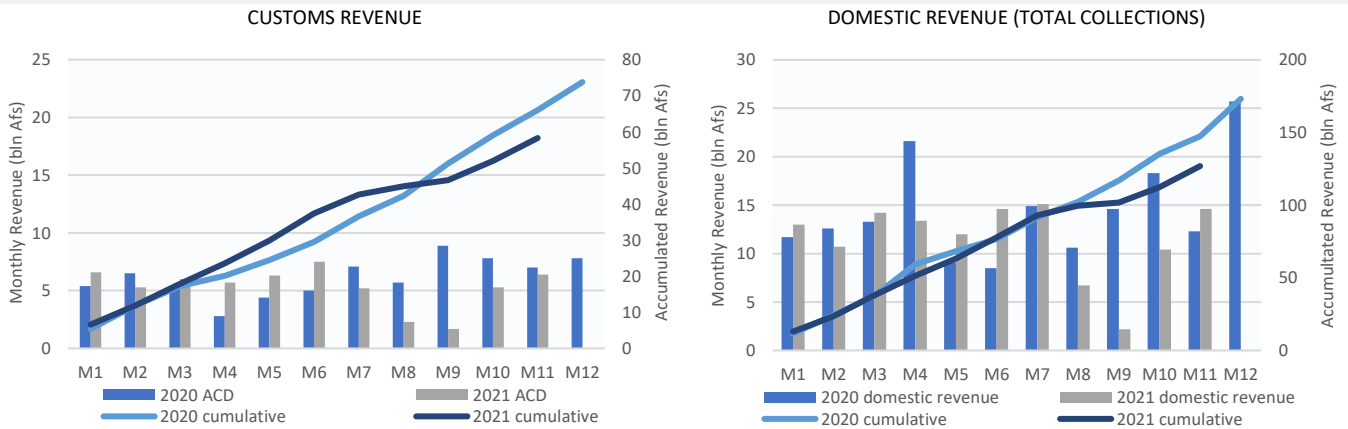
Source: DAB, World Bank

EXCHANGE RATE - INDEX (HIGHER = DEPRECIATION)



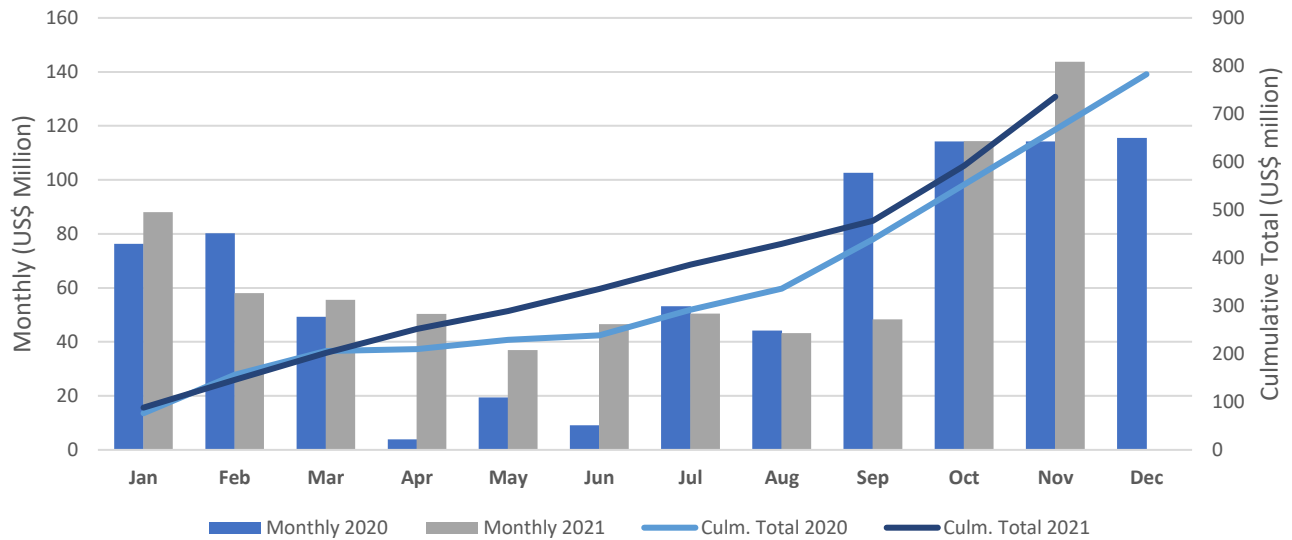
Source: DAB, World Bank

DOMESTIC REVENUE COLLECTION (2020-2021) IN BILLION AFN



Source: World Bank staff estimates

MERCHANDISE EXPORTS 2020-2021 (US\$ MN)



PAKISTAN'S TRADE WITH AFGHANISTAN (JULY-OCTOBER) in Million US\$

	IMPORTS FROM AFGHANISTAN			EXPORTS TO AFGHANISTAN			
	2020	2021	Growth	2020	2021	Growth	
Food Stuff	182.81	155.78	-15%	Animal products	153.4	106.6	-30%
Textiles and Footwear	43.35	32.42	-25%	Base Metal	72.5	37.3	-49%
Minerals and Fuels	12.74	29.06	128%	Chemicals and Plastics	58.9	30.1	-49%
Base Metal	9.11	7.65	-16%	Food Stuff	25.2	9.7	-62%
Animal products	0.23	0.18	-22%	Machinery	10.4	5.6	-46%
Machinery, Chemicals, and Plastics	0.16	0.22	45%	Minerals and Fuels	19.1	5.0	-74%
Others	3.80	16.69	339%	Others	8.5	4.5	-46%
Total	252.19	242.01	-4%		348.0	198.8	-43%

Source: Pakistan Bureau of Statistics

SELECTED ECONOMIC NEWS:

- The World Bank-administered Afghan Reconstruction Trust Fund will give \$180 million to the World Food Program (WFP) to scale up food security and nutrition operations and \$100 million to UNICEF to provide essential health services. [[France 24, December 16, 2021](#)]
- The Taliban bans the use of foreign currencies in a bid to stabilize Afghan currency [[Ariana News, December 14, 2021](#)]
- Afghan central bank moves to stabilize collapsing currency [[Aljazeera, December 14, 2021](#)]
- Nearly 10 billion dollars of Afghanistan's reserves remain out of reach for the Taliban. Meanwhile, half of Afghanistan's population is facing hunger. [[DW, December 14, 2021](#)]
- Afghan currency plunges to record low against the dollar. [[France 24, December 13, 2021](#)]
- UN Aid Chief: Afghan Economy Needs Restart Before Year-End [[VOA, December 13, 2021](#)]
- Heroin and human trafficking are the only two sectors of the economy still thriving [[The Conversation, December 13, 2021](#)]
- International donors cut off all but emergency aid to Afghanistan after the Taliban's takeover in August. Months later, the state is collapsing and a humanitarian disaster is looming. Donors should work with the state to restore basic public services and mitigate the population's suffering. [[International Crisis Group, December 6, 2021](#)]
- The Taliban has issued new downward revised salary scales for civil servants [[Jurist, December 2, 2021](#)]
- Afghanistan's humanitarian crisis urgently demands solutions to a 'liquidity trap,' stifled trade and blocked bank transfers. [[United States Institute of Peace, November 17, 2021](#)]