

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

July 31, 2023



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, and the sectoral reports that inform the Afghanistan Development Update, a biannual flagship report.

HIGHLIGHTS

For the past two months, the year-on-year inflation has been negative. The supply of goods has been sufficient, but demand is low. Over 50 percent of Afghan households struggle to maintain their livelihoods and consumption.

The Afghani (AFN) has appreciated against major currencies during Jan – July 2023, despite the widening of the merchandise trade deficit in 2023.

Firms reported an improvement in withdrawing cash from banks in June 2023.

Telephonic interviews indicate that the public servants (female and male) continue to receive their salaries.

According to the unofficial data from the National Statistics and Information Authority (NSIA), the year-on-year headline inflation is now at negative 2.83 percent as of May 2023—primarily driven by a year-on-year decline of 5.85 percent in food inflation. This overall decrease can partly be attributed to the base effect, which saw domestic inflation spike in H1-2022 due to a global commodity price shock and supply-side disruption. However, international commodity prices have eased in H1-2023, and a strong Afghani (AFN) has helped to lower domestic prices, particularly for food and fuel.¹ Furthermore, authorities have significantly reduced import tariffs on key food imports in March 2023, and favorable weather conditions have improved food production, contributing to this positive trend.² The Bank's Third-Party Monitoring Agent (TPMA) survey reveals that major markets nationwide continue to have sufficient essential food and non-food commodities, but demand remains suppressed compared to the past, thus exerting downward pressure on prices. The preliminary results from the recently conducted 3rd round of the Afghanistan Welfare Monitoring Survey (AWMS) show that over half of Afghan families continue to face significant challenges in maintaining their livelihoods and increasingly rely on international assistance and remittances to meet their needs.

Between the end of December 2022 and July 24, 2023, the AFN gained against major trading currencies. During this time frame, the AFN appreciated in value by 41.2 percent against the Iranian toman, 19.5 percent against the Pakistani rupee, 3.9 percent against the US dollar, 3.3 percent against the Chinese yuan, and 0.5 percent against the Indian rupee. However, it depreciated by 0.1 percent against the Euro. On July 24, 2023, the AFN exchange rate against the US dollar was 85.8—a 0.4% appreciation compared to its value on August 15, 2021. The AFN has benefited from tight currency export controls, restrained domestic money supply, significant personal remittances, and UN cash shipments of US dollars. From January to July 2023, approximately US\$ 1.04 billion was brought into the country, in addition to a cumulative total of US\$ 1.8 billion in 2022. The foreign exchange market seems balanced as there is no parallel exchange rate. Interestingly, the trade deficit from January to May 2023 has widened by a billion US dollars compared to the same period in 2022; the strengthening of AFN suggests that there may be other unidentified sources of financing besides US dollar cash shipments and personal remittances to support the current account deficit.

As of May 2023, the central bank has increased the maximum amount that customers can withdraw from their individual deposits made before August 2021. This means that customers can now withdraw up to AFN 50K per week. Although there has been some increase compared to April 2023, overall withdrawals are still lower than the legal limit. Additionally, since May 2023, the monthly withdrawal limit for companies has been raised to AFN 4.0M. Data collected by the TPMA indicate that firms have experienced better access to their deposits during June 2023. While the exact reasons for this improvement are unclear due to a lack of data, there are anecdotes suggesting that an improved liquidity situation with commercial banks may have played a role.

Based on phone interviews with approximately 1200 males and 350 females, it was found that nearly all civil servants were paid their salaries in June 2023. Among public servants, about 90 percent received their salaries through bank accounts during the same month. However, out of those who received their salaries through banks, 51 percent experienced difficulties when trying to withdraw their payments. This is a higher percentage than in previous months. Respondents commonly complained about crowded bank branches and low-

¹ Based on data from the World Bank Global Commodity Prices, it was observed that energy prices decreased by 11.3 percent in May 2023. This was primarily due to a decline in natural gas in Europe by 25.2 percent and coal by 17.4 percent. Non-energy prices decreased by 3.6 percent, while food prices dropped by 3.1 percent. Beverage and raw materials experienced a slight decrease of 1.4 percent and 0.5 percent, respectively. Additionally, fertilizer prices decreased by 2.2 percent.

² The ITA has reduced customs duties on several food items. Specifically, there has been a 67 percent reduction in flour, a 79 percent reduction in wheat, a 64 percent reduction in sugar, a 58 percent reduction in edible oil, and a 48 percent reduction in rice.

Availability of work for skilled and unskilled laborers has improved since March 2023.

quality banknotes. Some also expressed dissatisfaction at the limited availability of funds during salary withdrawals.

From March 2023, there has been an increase in job opportunities for both skilled and unskilled workers, following a seasonal drop during the winter months. The availability of work for both categories has been better during May and June 2023 compared to the same months in 2022.³ The favorable weather conditions in 2023 have led to better harvests and incomes, positively affecting labor demand for both categories in agriculture and non-agricultural sectors. Consequently, there has been an improvement in the availability of work, particularly for unskilled labor. There has been a slight decrease in the demand for skilled labor in June 2023. These increased labor demands have resulted in a slight rise in nominal and real wages. On the supply side, Afghan households have responded to economic hardship by mobilizing work by women and youth.

Revenue collection remained healthy during the first four months of fiscal year 2023.

Revenue collection for the first four months of fiscal year 2023 has been healthy, totaling AFN 63 billion, which is a 16 percent increase compared to the same period in the previous fiscal year. The primary reason for this growth is border taxes such as Customs Duties and Business Receipt tax, which saw a 23 percent increase compared to the first four months of fiscal year 2022. The increased merchandise import has played a significant role in the higher collection at borders. During this period, the Afghanistan Customs Department (ACD) collected approximately 60 percent of the overall revenues, mostly from border crossings with Iran and Pakistan. Inland revenue collection has also improved, with a 7 percent increase compared to last year. This improvement is due to the contributions from mining royalties and passport fees.

During the first five months of 2023, the merchandise trade deficit has widened compared to the same period of 2022.

Afghanistan's total exports from Jan-May 2023 rose by 9 percent to reach US\$ 0.73 billion, with coal exports being the main contributor. Vegetable exports saw a slight 1 percent increase during the period. Pakistan remains Afghanistan's largest export market, followed by India. Imports during Jan-May 2023 stood at US\$ 3.1 billion, reflecting a substantial 36 percent growth compared to the same period in 2022, with the major components being food and minerals. The trade deficit for Jan-May 2023 widened to US\$ 2.4 billion.

The Health Emergency Response Project, financed by the Afghanistan Reconstruction Trust Fund, continues to support critical health services for mothers and children.

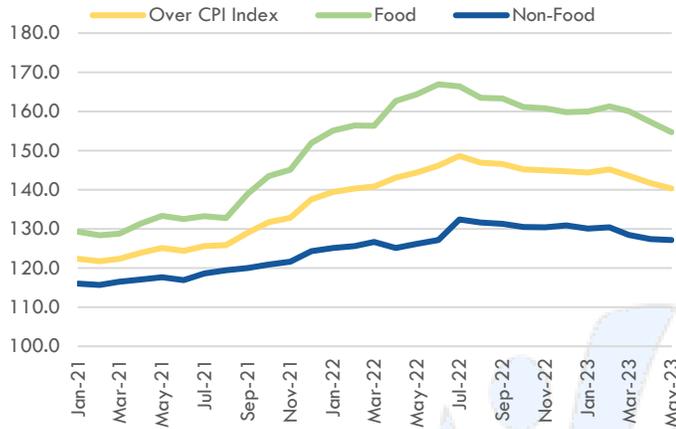
The Health Management Information System (HMIS) data shows that around 5.1 million antenatal care (ANC) visits were recorded at 2,300 Health Emergency Response (HER) supported facilities between January 2022 and June 2023. Based on the data, the Health Emergency Response (HER) Project has improved ANC visits since February 2023 by 13 percent. June 2023 saw an increase in ANC visits of 3 percent. Moreover, around 1.0 million births have been assisted in the HER-supported facilities since January 2022.

³ For June 2023, the assessment was made after interviewing around 350 skilled and 400 unskilled laborers in 48 markets located in 21 provinces.

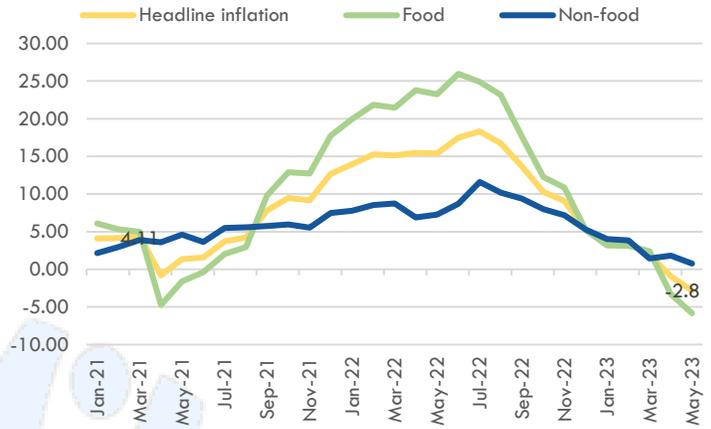
1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

The year-on-year food inflation dropped to a negative 5.85 percent in June 2023, resulting in headline inflation falling to a negative 2.83 percent.

1.1. HEADLINE PRICE INDEX



1.2. HEADLINE INFLATION (Y-O-Y)



Source: National Statistics and Information Authority (NSIA).

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

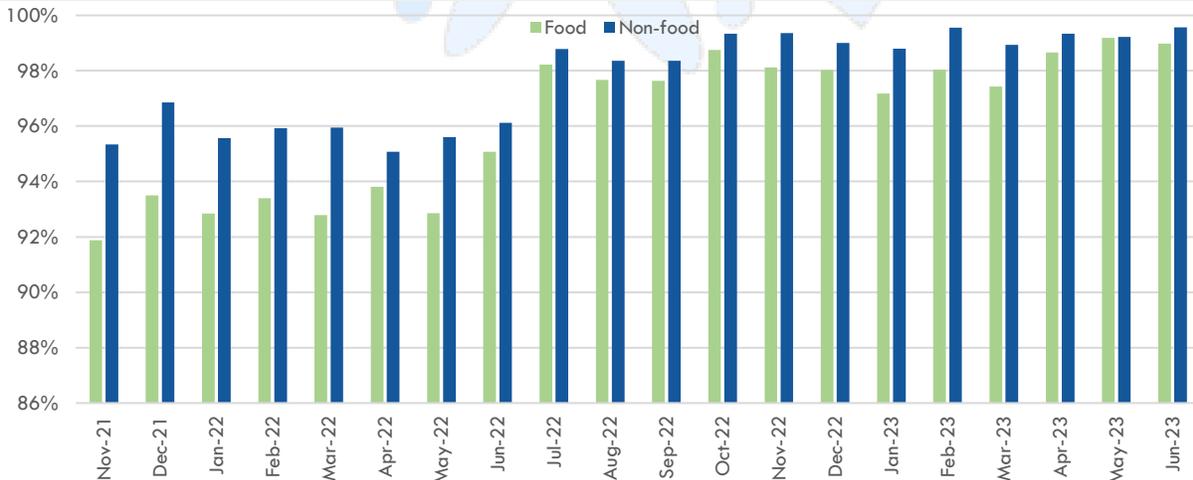
	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Bread	23.2	23.3	21.6	19.1	18.1	16.6	15.2	14.2	13.5	10.7	7.7	0.7
Fuel (diesel)	112.5	54.5	87.4	49.1	34.1	26.3	22.3	14.8	-5.4	-2.2	-11.1	-32.7
Oil (cooking)	32.3	16.1	0.8	-13.3	-12.2	-14.4	-21.7	-17.0	-21.3	-26.3	-38.3	-43.0
Pulses	23.3	17.7	16.1	11.6	10.6	10.6	-2.4	0.0	1.7	0.3	-2.3	-3.1
Rice (high quality)	37.8	32.9	32.0	28.9	27.2	26.4	19.8	17.9	19.1	16.7	9.1	-1.3
Rice (low quality)	13.1	10.9	14.1	12.5	18.5	21.9	18.9	28.3	27.9	26.3	24.7	19.5
Salt	19.0	18.0	16.0	17.8	10.8	20.0	2.5	-0.1	4.0	8.2	2.9	4.1
Sugar	37.0	30.9	20.5	8.7	3.9	1.2	-7.5	-3.5	0.1	2.3	16.6	13.0
Wheat	49.8	43.5	37.9	19.1	16.8	11.8	-2.7	5.3	0.0	-10.5	-19.5	-33.2
Wheat flour (high quality)	49.4	41.7	31.9	12.3	12.1	5.8	-6.3	-0.6	-7.9	-18.7	-26.3	-37.4
Wheat flour (low quality)	50.8	41.5	36.0	14.3	13.4	6.5	-6.6	-1.4	-6.3	-16.0	-25.0	-37.8
Basic Household Goods Price Inflation	43.4	31.5	26.4	11.1	9.9	6.1	-3.3	0.7	-4.1	-9.8	-16.8	-26.2

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.

Most of the basic food and non-food items remained available.

1.4. REPORTED AVAILABILITY OF FOOD & NON-FOOD ITEMS

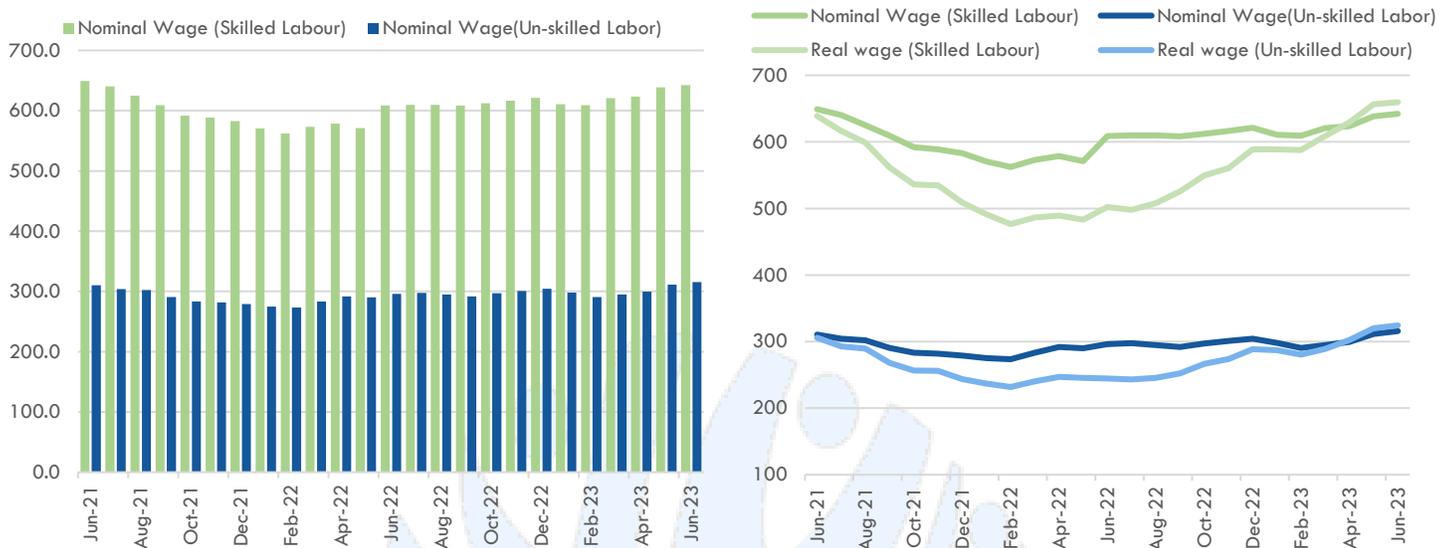


Source: Data collected by the World Bank's TPMA, based on a survey of 48 markets across 21 provinces.

2. LABOR MARKET CONDITIONS

Nominal and real wages have shown a slight improvement in June 2023.

2.1. NOMINAL AND REAL WAGES (AFN) FOR SKILLED AND UNSKILLED WORKERS

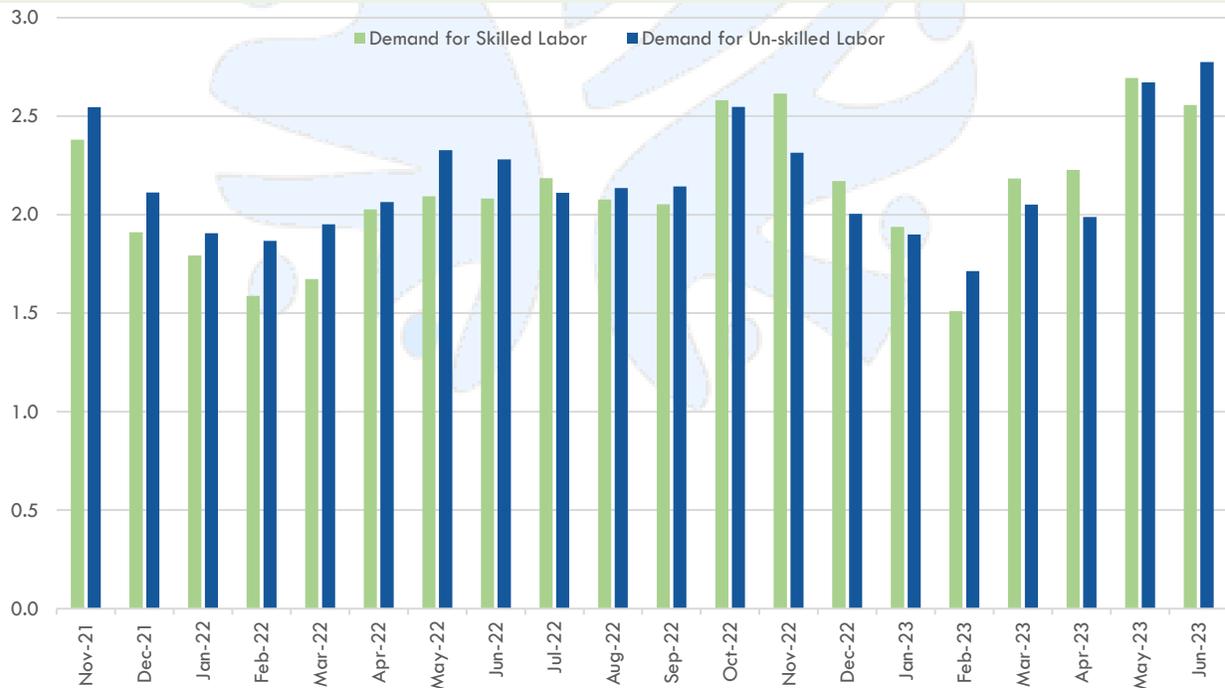


Source: Wage data from WFP, World Bank staff elaboration.

Note: Real wages to January 2022 are calculated based on consumer price inflation as reported by NSIA.

The availability of work for skilled and unskilled labor is recovering following a seasonal decline during the winter season.

2.2. EMPLOYMENT FOR SKILLED AND UNSKILLED WORKERS BETWEEN NOVEMBER 2021 AND JUNE 2023



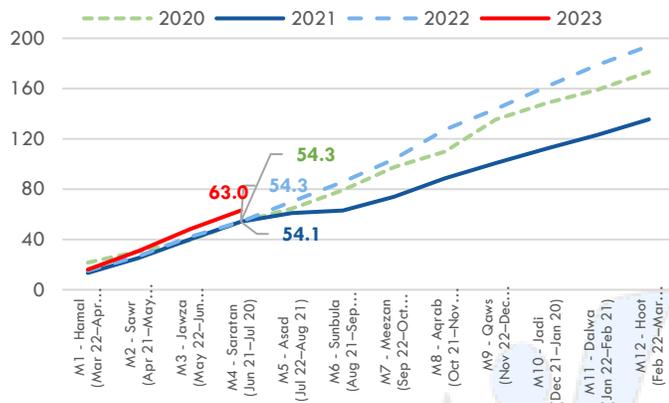
Source: Survey data collected by the World Bank's TPMA.

Note: Data reflect the number of available workdays reported by skilled and unskilled casual workers seeking work. Skilled workers include (i) carpenters, (ii) electricians, (iii) masons, (iv) painters, (v) plumbers, and (vi) tile workers.

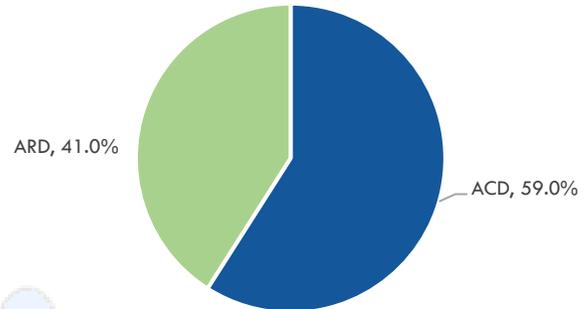
3. REVENUES

The revenue collection during the first four months of the fiscal year 2023 reached AFN 63 billion. The revenue collection remained heavily dependent on the taxes collected at the border.

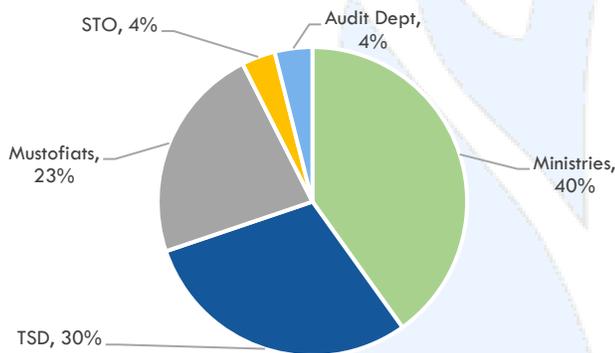
3.1. TOTAL REVENUE COLLECTION – CUMULATIVE (AFN BILLIONS)



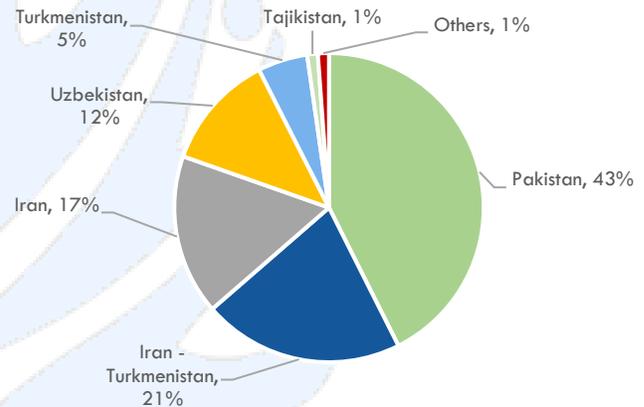
3.2. SHARE OF INLAND (ARD) AND CUSTOMS (ACD) REVENUES IN TOTAL COLLECTIONS (March 22 – July 21, FY2023)



3.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (March 22 – July 21, FY2023)



3.4. PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS (March 22 – July 21, FY2023)



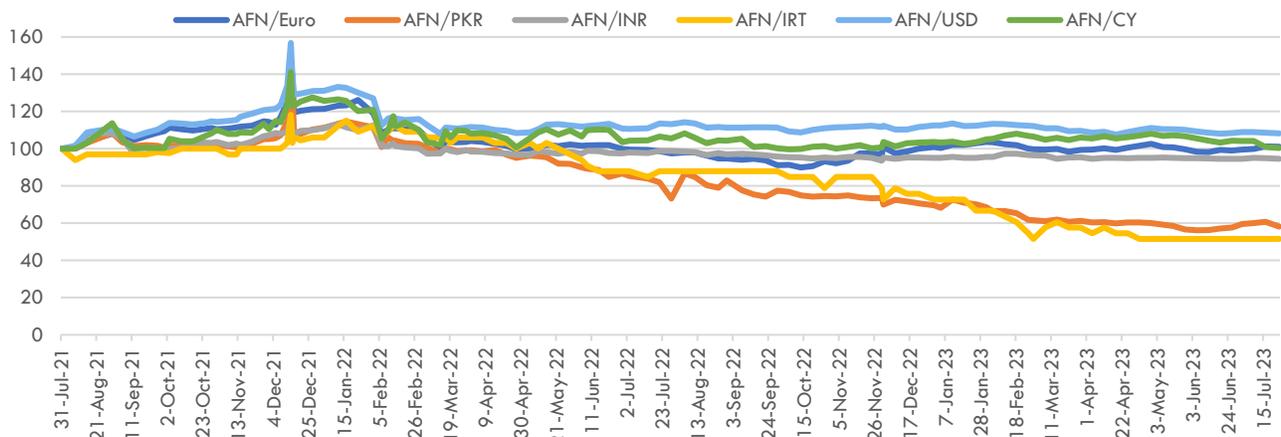
Source: Ministry of Finance.

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

4. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS

Tighter controls of the MSPs and constrained domestic money supply, together with continued UN cash shipment (total US\$ 1.04 billion shipped during Jan – Jul 2023), have strengthened Afghani.

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



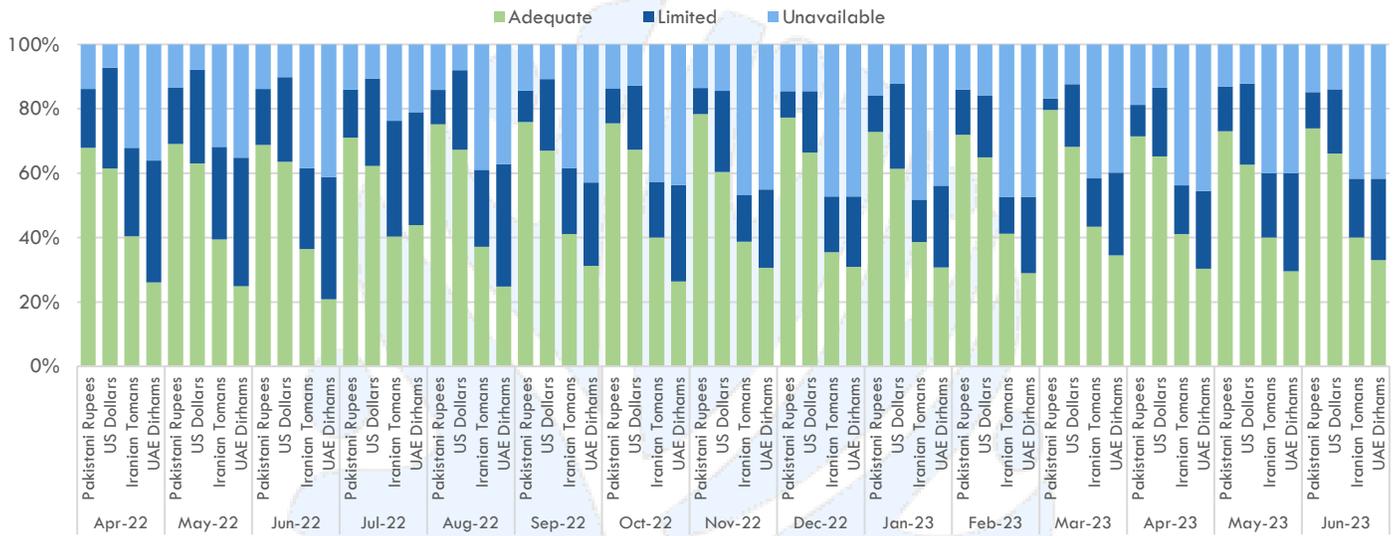
4.2. EXCHANGE RATE – APPRECIATION/DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

	30-Aug-22	29-Sep-22	27-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	28-Mar-23	25-Apr-23	29-May-23	26-Jun-23	24-Jul-23
AFN/Euro	9.62	14.13	11.61	7.22	2.95	0.28	4.28	4.56	3.30	4.20	4.99	2.81
AFN/PKR	24.25	33.15	38.25	40.19	48.18	50.19	67.42	68.53	70.85	82.02	78.76	77.02
AFN/INR	11.23	12.50	13.26	15.18	13.41	12.69	11.73	13.04	13.62	13.59	14.01	13.92
AFN/IRT	10.34	10.34	23.08	23.08	33.33	45.45	88.24	68.42	77.78	88.24	88.24	88.24
AFN/US\$D	-2.35	-2.36	-2.03	-2.61	-3.37	-3.87	-3.14	-0.74	-0.22	-1.32	0.31	0.44
AFN/CY	-1.22	2.80	1.65	2.40	-0.50	-1.90	-3.30	-2.86	-2.96	-3.48	-1.24	2.76

Source: Data from DAB, World Bank staff elaboration.

In June 2023, the availability of different foreign currencies slightly improved.

4.3. AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS

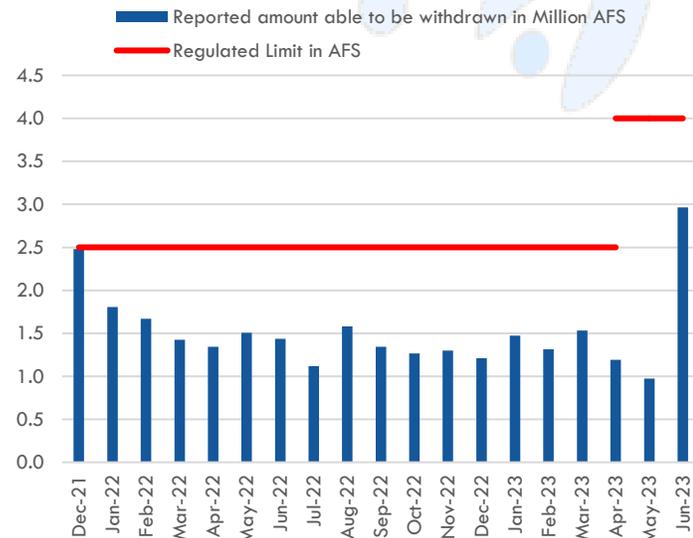


Source: Survey data collected by the World Bank's TPMA by visiting 144 money service providers in 48 markets in the country.

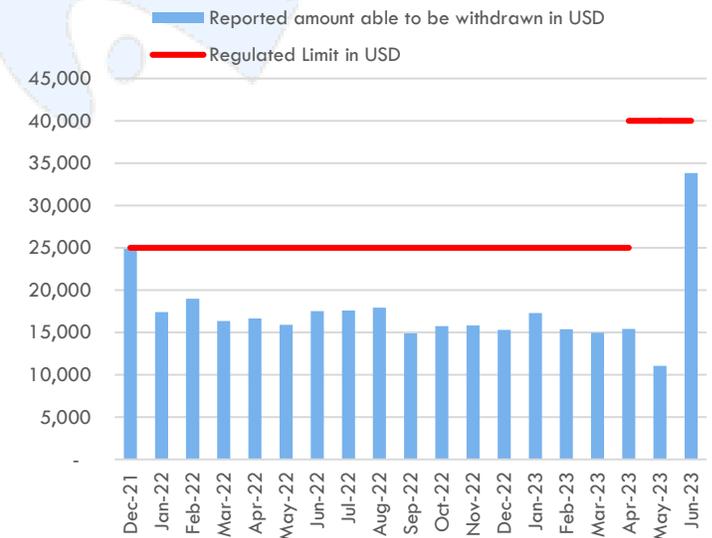
Note: Includes banks, Hawala operators, and informal currency exchangers.

During June 2023, the firms reported an improvement in withdrawing cash from banks.

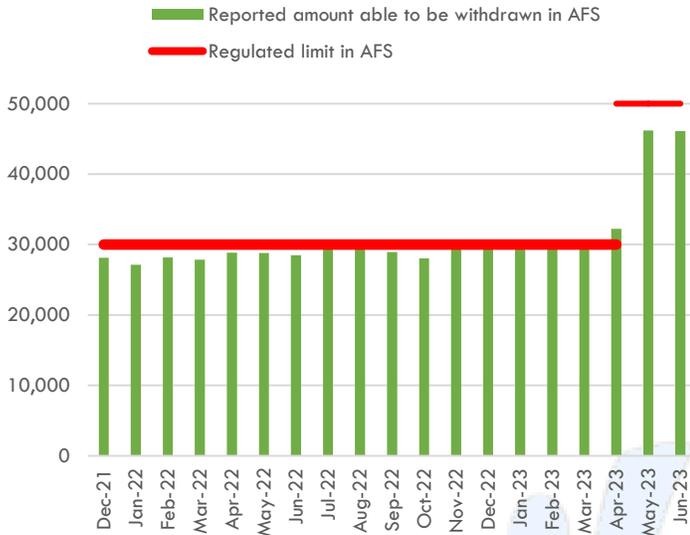
4.4. MONTHLY WITHDRAWALS – FIRMS (AFN MILLIONS)



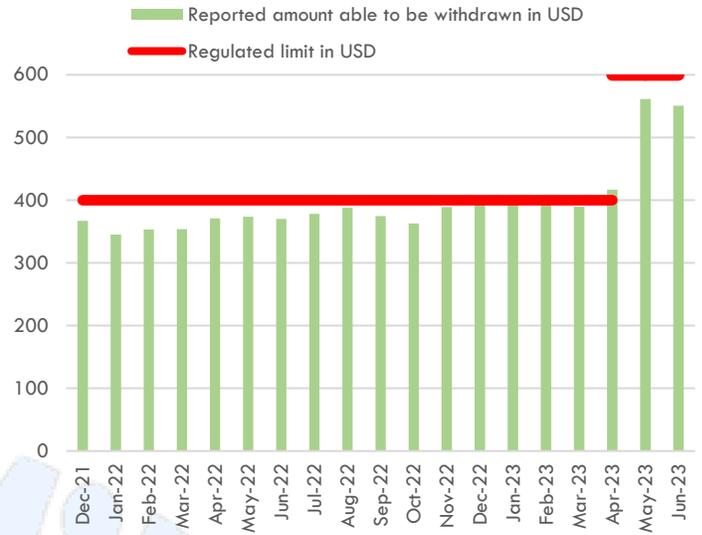
4.5. MONTHLY WITHDRAWALS – FIRMS (US\$)



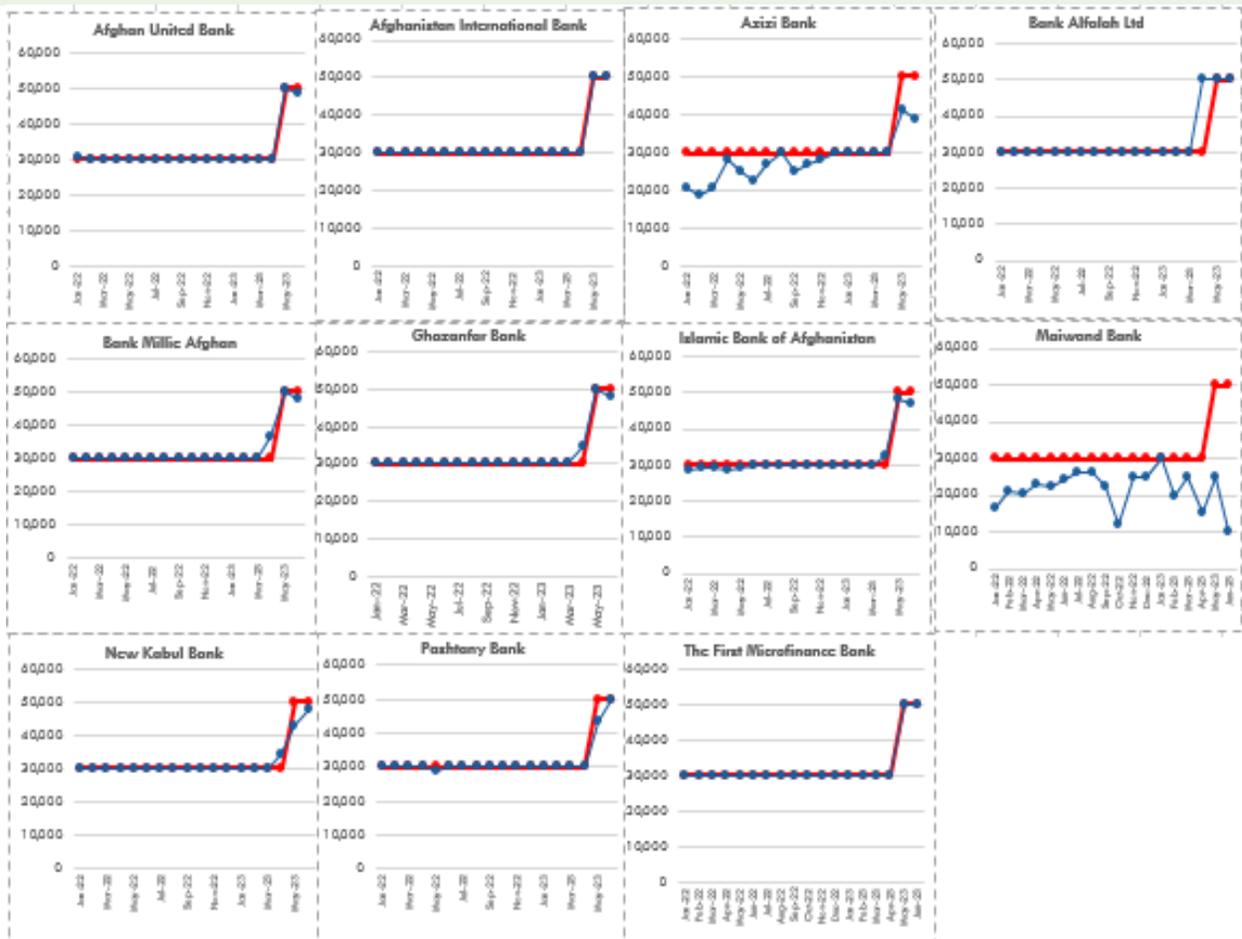
4.6. WEEKLY WITHDRAWALS – INDIVIDUALS (AFN)



4.7. WEEKLY WITHDRAWALS – INDIVIDUALS (US\$)



4.8. AVERAGE MONTHLY WITHDRAWAL – INDIVIDUAL (AFN)

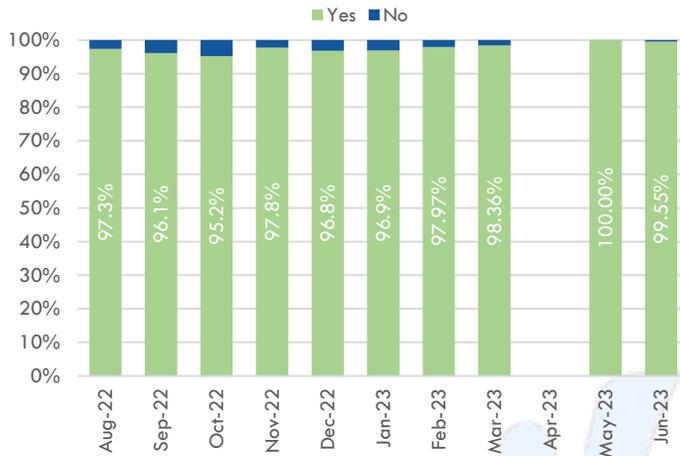


Source: Survey data collected by the World Bank's TPMA.

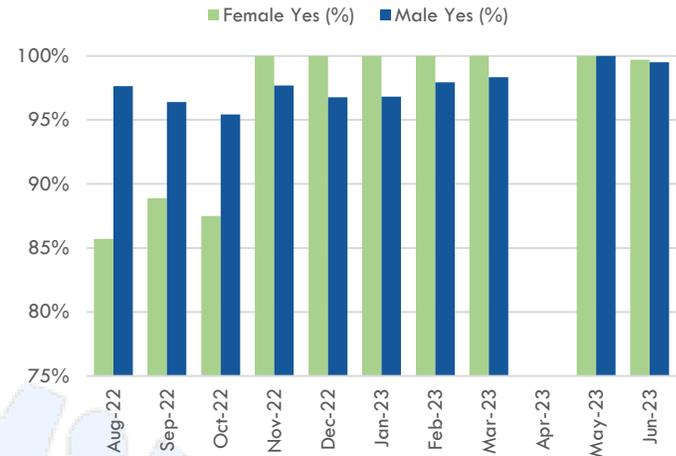
Note: Regulated limit as stipulated by DAB, and amounts depositors could withdraw as reported by individual respondents to the TPMA survey.

Over the past few months, civil servants have regularly received salaries.

4.9. CIVIL SERVANTS RECEIVED SALARIES DURING THE LAST THREE MONTHS



4.10. MALE VS. FEMALE RESPONDENTS RECEIVING SALARIES IN THE LAST THREE MONTHS



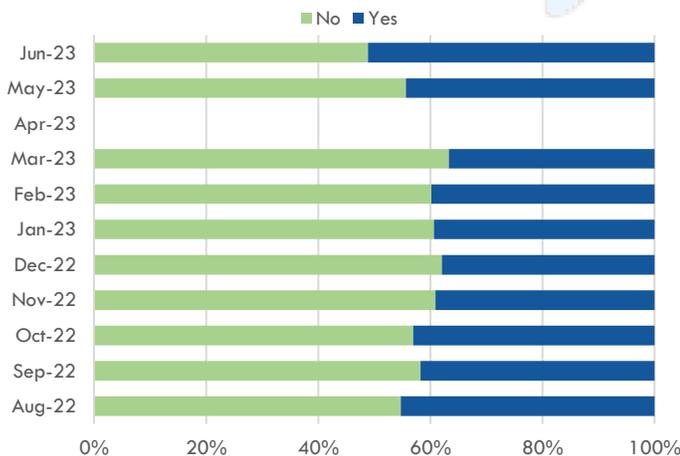
Cash and bank accounts are consistently reported to be the two most common means of receiving salaries.

4.11. MODE OF SALARY PAYMENT (FOR THOSE WHO HAVE RECEIVED SALARIES DURING THE LAST THREE MONTHS)

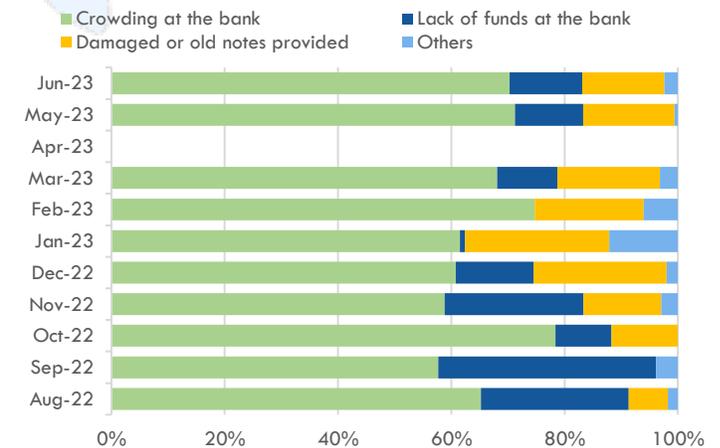


Crowding in bank branches and damaged currency notes are consistently the main problems faced in withdrawing salaries.

4.12. CIVIL SERVANTS FACE CHALLENGES WHEN WITHDRAWING SALARIES THROUGH BANKS



4.13. CHALLENGES FACED BY CIVIL SERVANTS WHEN WITHDRAWING SALARIES THROUGH BANKS



Source: Survey data collected by the World Bank's TPM from 1551 civil servants (Males 1212, Female 339)

Note: Data for civil servants for April 2023 are not available.

5. TRADE DEVELOPMENTS

Merchandise imports in the first five months of 2023 are substantial. Exports grew moderately during the period under review, mainly due to coal and textiles to Pakistan. The trade deficit has widened.

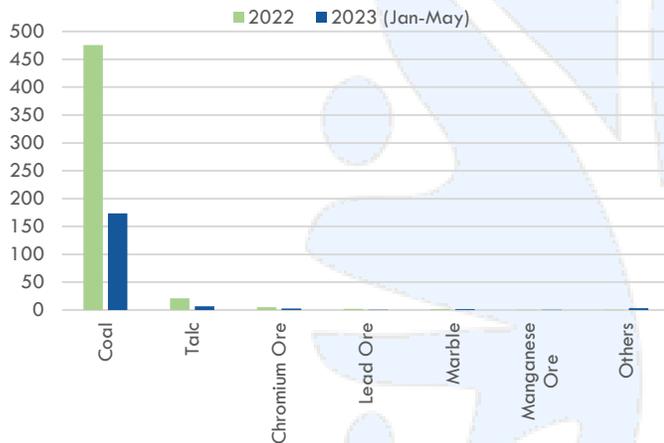
5.1. AFGHANISTAN TRADE (US\$ MILLIONS), JAN 2022 – MAY 2023



Source: ASYCUDA

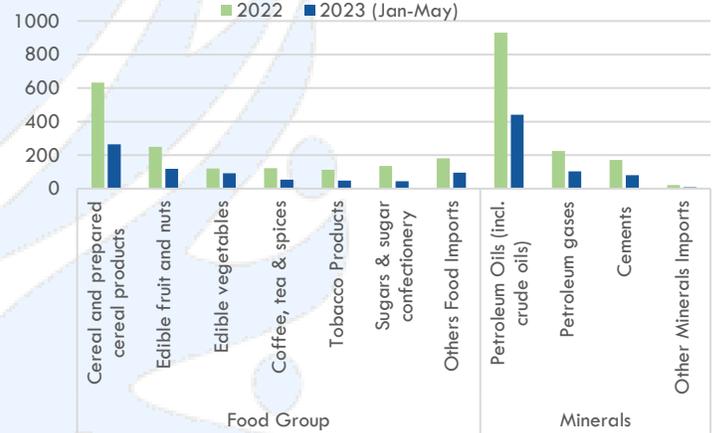
Source: ASYCUDA

5.2 AFGHANISTAN MINERAL EXPORTS (US\$ MILLIONS), 2022 – 2023



Source: ASYCUDA

5.3 AFGHANISTAN FOOD & MINERAL IMPORTS (US\$ MILLIONS), 2022 – 2023

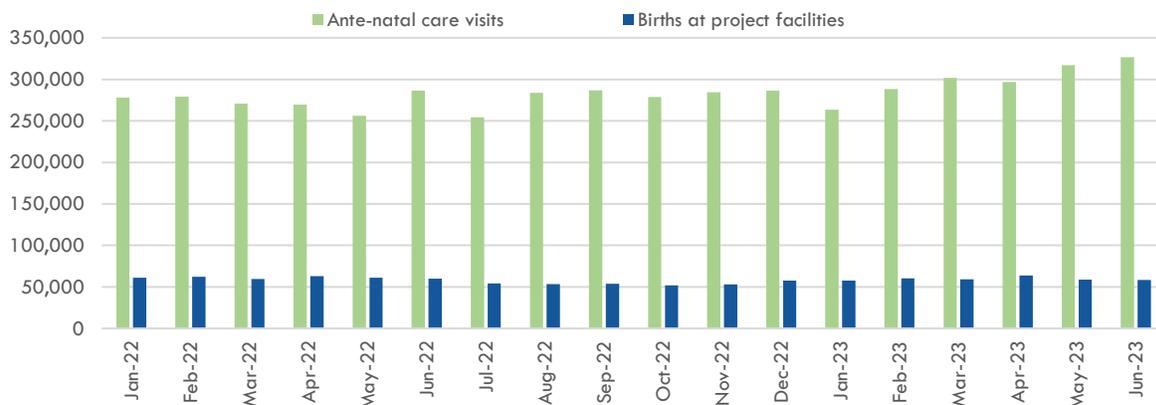


Source: ASYCUDA

6. PROVISION OF HEALTH SERVICES

Health Emergency Response (HER) Project has slightly improved ANC visits since February 2023.

6.1. SERVICES DELIVERED AT HER-FINANCED HEALTH FACILITIES



Source: Health Management Information System.



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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 the availability of foreign exchange and cash collected from 22 provinces by the World Bank's TPMA; (iv) data on exchange rates collected and reported by DAB; and (v) data on trade from the NSIA.