

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

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

HIGHLIGHTS

Economic activity remains sluggish, marked by persistent deflation.

Afghanistan's economy has been grappling with deflation since April 2023. In April 2024, a year-on-year (YoY) decline of 7.5 percent was recorded, which was less severe than the 10.2 percent drop seen in January 2024 when YoY inflation reached its lowest point. The food and non-food sectors contributed to this overall decline, with respective year-on-year decreases of 12.2 percent and 2.2 percent. Core inflation, excluding volatile food and energy prices, also registered a negative 1.5 percent YoY change, indicating a lack of sufficient demand for goods and services from the private and public sectors.

Exports declined in the first quarter of 2024, although the food and textile sectors demonstrated resilience.

In the first quarter of 2024, Afghanistan's exports totaled US\$419.4 million, representing a 14.7 percent decrease from the US\$491.5 million recorded in Q1 2023. The year-over-year decrease was primarily driven by an 84 percent reduction in coal exports to Pakistan during Q1 2024 compared to Q1 2023, which fell from US\$111.7 million in Q1 2023 to US\$17.8 million in Q1 2024. However, food and textile exports increased from US\$354 million in Q1 2023 to US\$370 million in Q1 2024. Notably, food exports to India decreased, while those to Pakistan increased. The primary export destinations for Afghan goods remained Pakistan and India, accounting for 47 percent and 29 percent of exports, respectively.

Import growth has been strong.

The increasing trend of imports from 2023 continued into the first quarter of 2024, with imports growing by a substantial 29 percent, reaching US\$ 2.3 billion compared to US\$ 1.8 billion in Q1 2023. Food imports, accounting for 22 percent of the total, reached US\$ 507 million, showing a 16 percent YoY increase. Meanwhile, minerals, making up 19 percent of total imports, rose by 21 percent YoY, reaching US\$ 433 million. Textile imports increased by 6 percent YoY to US\$ 172 million, representing 7 percent of total imports. However, primary imports observed much less growth than notable growth in secondary imports, such as machinery, transportation, and chemical products, which recorded YoY growth rates of 76 percent, 75 percent, and 29 percent, respectively. The current import trends are contradictory because there have been few development projects, and the domestic industry is significantly affected by the appreciation of the exchange rate (see the Afghanistan Development Update (ADU), April 2024, for more information). As mentioned in the ADU, approximately a quarter of the imports are destined for the Pakistani market and are funded through the UAE. Iran continued to be the largest source of imports, accounting for 30 percent of the total in Q1 2024. Imports from Iran saw a significant 75 percent year-on-year growth. The UAE, Pakistan, and China were also significant sources of imports, accounting for 24 percent, 17 percent, and 6 percent, respectively. The trade deficit widened by 46 percent in Q1 2024, reaching US\$ 1.9 billion, compared to US\$ 1.3 billion in Q1 2023.

In 2024, the Afghani (AFN) experienced a slight depreciation following over two years of appreciation.

Between January and May 2024, the Afghan currency (Afghani) lost value compared to major currencies. It depreciated by 2.7 percent against the US dollar, 3.3 percent against the Euro, 3.9 percent against the Indian rupee, 1.5 percent against the Pakistani rupee, and 1.8 percent against the Chinese yuan. The growing trade deficit, reduced aid inflows, and the central bank's insufficient reserves to balance the deficit all contributed to the currency's depreciation. On May 29, 2024, the AFN was traded at 71.4 against the US dollar, marking a 2.7 percent decrease from January 2024 but a significant 20.7 percent increase from August 15, 2021.

Modest revenue growth was observed in the first two months of FY 2024-25, but it fell short of the target.

After achieving the revenue target of AFN 210 billion in FY 2023-24, the first two months of FY 2024-25 saw a decline in performance primarily due to border taxes. From April to May 2024, Afghanistan's total revenue amounted to AFN 31.2 billion, reflecting a modest year-over-year growth of 0.7 percent but falling 8 percent short of the target. Customs revenue decreased by 13 percent to AFN 16.7 billion, while inland revenue experienced a robust increase of 22 percent, reaching AFN 14.4 billion. The growth in inland revenue can be attributed to consistent mining revenues from auctions of mines and mineral products, including emeralds, nephrite, and oil from the Amu Darya Basin. Despite the strong performance of the Afghanistan Revenue Department (ARD), its collections were still 13 percent below the target.

Similarly, the Afghanistan Customs Department (ACD) performed 3 percent below the target, resulting in an overall revenue shortfall of AFN 2.7 billion.

Expenditures in FY2023-24 were AFN 229.2 billion, which is 10.7 percent higher than the total spending in 2022-23.

Total expenditures in FY 2023-24 were AFN 229.2 billion, which is 10.7 percent higher than the total spending in FY 2022-23. Approximately AFN 211.6 billion was spent on the operating side, which is 7.6 percent higher than last year. This increase was mainly due to higher wages and salaries, as the Interim Taliban Administration approved an increase in Tashkeel (vacancies) last year, with part of the recruitment occurring in FY 2023-24. Around AFN 18 billion was spent on the development side, which is 67 percent higher than last year.

In operating expenditures, approximately AFN 148 billion was spent on wages and salaries, constituting 70 percent of the total. Around AFN 46.7 billion, or 22 percent, was allocated to goods and services. Social benefits, subsidies, and grants accounted for about AFN 12.3 billion, or 6 percent. The remaining AFN 4.5 billion was used for loan repayments and the acquisition of recurrent nature assets.

In development expenditures, around AFN 5.5 billion was allocated to the construction of the Qosh Tepah Canal, AFN 1.8 billion to road maintenance, and AFN 1.2 billion to the construction of residential camps for immigrants. Additionally, AFN 1.7 billion was spent on printing passports and distributing electronic ID cards, while approximately AFN 1.3 billion was used for building the Khaf-Herat and Hairatan-Mazar railway lines. The remaining AFN 6 billion was spent on various small-scale projects across the country.

To examine the spending functionally, most of the expenditure in FY 2023-24 was directed towards security. Around 47 percent of the total spending was allocated to security, with 27 percent spent on defense and an additional 20 percent on public order and safety. The remaining 53 percent was directed towards various civilian purposes. Among civilian sectors, education received the highest allocation, accounting for 18 percent of the total spending, followed by general public services at 9 percent, social protection at approximately 6 percent, economic affairs at about 5 percent, and health at around 2 percent. Comparing this with the previous year, the ITA significantly increased its expenditure across several sectors. Spending on economic affairs rose by 80 percent, health spending increased by 43.7 percent, public order and safety by 41.9 percent, and defense by 7 percent. This indicates a mixed pattern of increased spending across both security and civilian sectors.

In FY 2023-24, total revenues amounted to around AFN 210.8 billion, while spending reached approximately AFN 229.2 billion, resulting in a deficit of AFN 18.4 billion. According to anecdotal information, this gap was financed from the treasury cash reserves left over from the republic era. These reserves are nearing depletion, with portions spent last year and additional amounts utilized this year. This spending pattern places the country on an unsustainable path, as it exceeds the actual revenue-generating capacity, and the ITA lacks other borrowing options to finance its deficits. The only viable strategies are to increase domestic revenues or cut unnecessary spending.

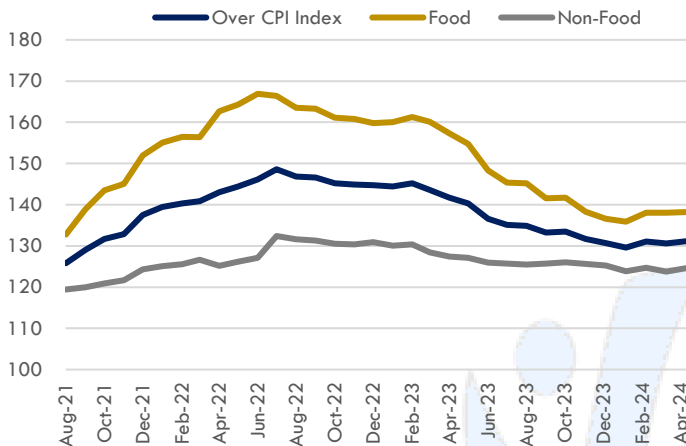
The FY 2024-25 budget is approved in May, but no details are available.

The FY 1403 (FY 2024-25) budget was approved in May, but official reports or documents have not been released yet. Unofficial sources suggest that the budget ceiling is set at AFN 335 billion, with AFN 50 billion allocated for development and AFN 285 billion for operating expenses. Last year, the development budget was AFN 30 billion, but only AFN 17 billion was spent.

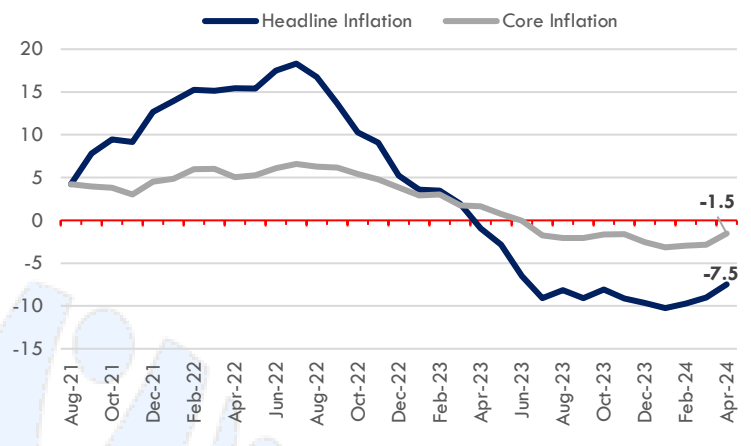
1. PRICE TRENDS

In April 2024, headline inflation fell to -7.5 percent year-on-year (YoY), driven by a drop in food inflation to -12.2 percent and non-food inflation to -2.2 percent.

1.1. HEADLINE PRICE INDEX



1.2. HEADLINE & CORE INFLATION (Y-O-Y)



Source: National Statistics and Information Authority (NSIA).

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

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Bread	7.7	0.7	-2.7	-6.1	-4.3	-3.0	-4.9	-5.3	-6.3	-6.7	-8.0	-8.2
Fuel (diesel)	-11.1	-32.7	-46.8	-38.6	-32.5	-25.2	-29.8	-30.2	-33.1	-28.5	-19.2	-15.1
Oil (cooking)	-38.3	-43.0	-39.6	-36.2	-32.2	-31.0	-35.9	-36.4	-35.6	-34.7	-33.0	-31.2
Pulses	-2.3	-3.1	-1.2	0.5	3.5	3.0	-3.6	-6.1	-5.1	-6.2	-6.0	-5.5
Rice (high quality)	9.1	-1.3	-5.0	-5.0	-8.3	-7.8	-12.1	-14.8	-17.0	-15.8	-16.6	-18.1
Rice (low quality)	24.7	19.5	19.7	19.9	16.3	16.1	6.0	-0.1	-1.8	-5.0	-4.2	-4.3
Salt	2.9	4.1	4.4	2.5	2.0	1.9	8.9	0.1	0.9	0.6	-1.9	-2.3
Sugar	16.6	13.0	5.9	5.7	10.3	13.4	12.9	10.8	8.2	14.1	9.5	7.1
Wheat	-19.5	-33.2	-32.6	-32.9	-32.4	-30.1	-32.1	-32.8	-32.4	-32.9	-28.3	-25.9
Wheat flour (high quality)	-26.3	-37.4	-37.0	-37.6	-35.3	-30.0	-32.8	-32.5	-32.4	-28.6	-24.2	-21.8
Wheat flour (low quality)	-25.0	-37.8	-37.1	-37.5	-36.1	-32.9	-35.4	-34.7	-35.2	-32.2	-29.3	-27.6
Basic Household Goods Price Inflation	-16.8	-26.2	-27.1	-25.6	-22.9	-19.3	-23.4	-24.0	-24.4	-22.2	-19.6	-18.2

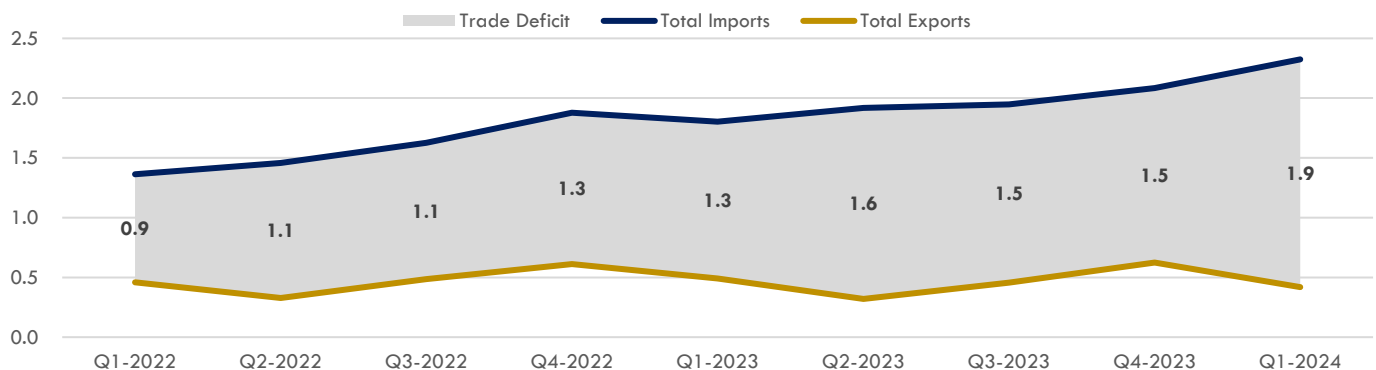
Source: Price data from WFP weekly report; index constructed by World Bank staff.

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.

2. TRADE DEVELOPMENTS

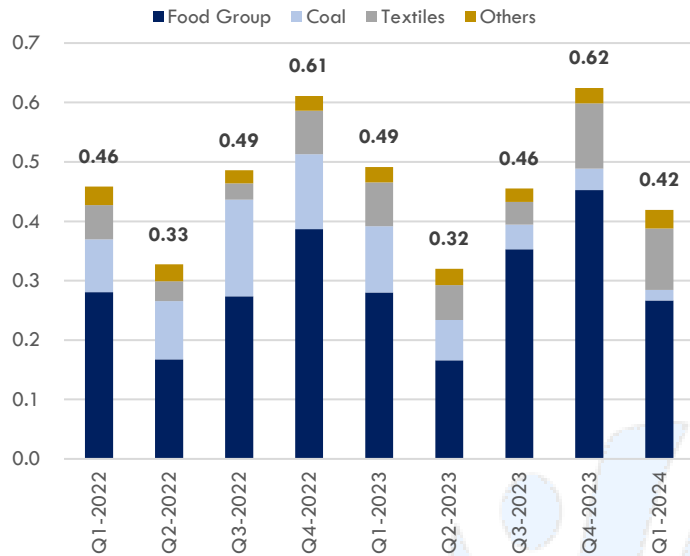
Imports sustained their upward trajectory from 2023 and outpaced the export growth, leading to a wider trade deficit in Q1 2024 compared to the same period last year.

2.1. AFGHANISTAN TRADE DEFICIT (US\$ BILLIONS)



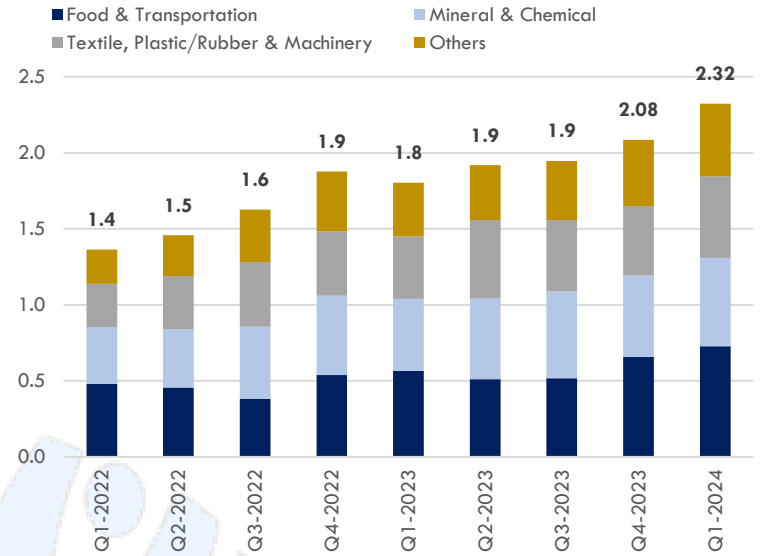
Source: ASYCUDA

2.2 AFGHANISTAN'S EXPORTS (US\$ BILLIONS): 2022 - 2024



Source: ASYCUDA

2.3 AFGHANISTAN'S IMPORTS (US\$ BILLIONS): 2022 - 2024

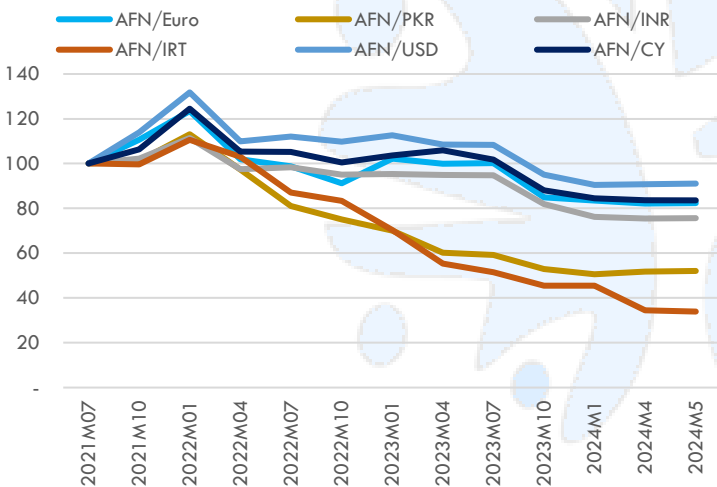


Source: ASYCUDA

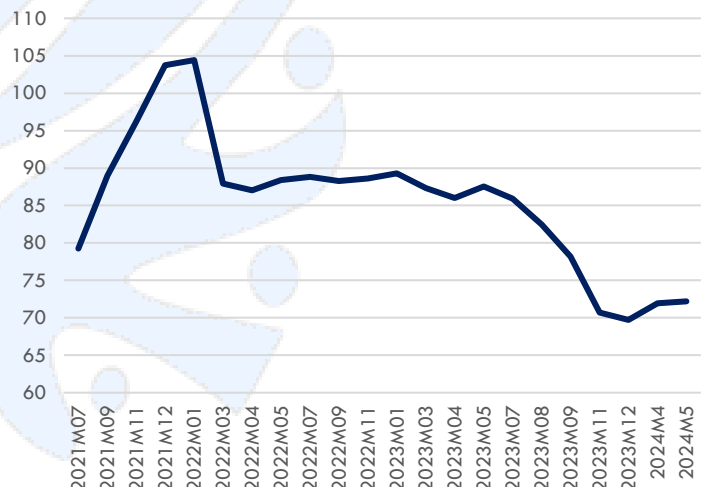
3. FOREIGN EXCHANGE

The Afghan currency appreciated against major currencies throughout 2023, but its trend slightly reversed in early 2024, indicating possible depreciation due to trade imbalances and forex constraints.

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



3.2. AVERAGE MONTHLY AFN/\$ EXCHANGE RATE



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

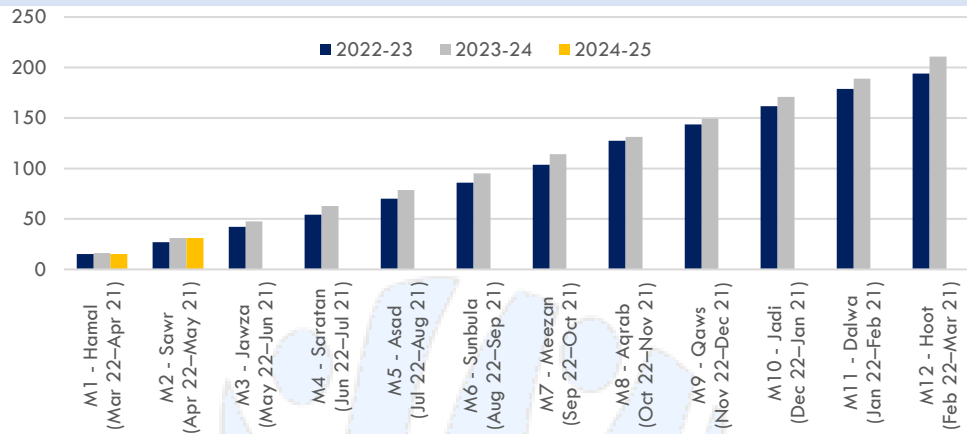
	26-Jun-23	24-Jul-23	24-Aug-23	25-Sep-23	25-Oct-23	27-Nov-23	26-Dec-23	25-Jan-24	28-Feb-24	28-Mar-24	30-Apr-24	29-May-24
AFN/Euro	4.99	2.81	8.01	16.69	23.37	26.05	27.02	22.38	23.66	26.54	25.87	27.05
AFN/PKR	78.76	77.02	91.54	98.25	98.71	114.17	110.54	99.73	101.15	100.83	96.79	100.91
AFN/INR	14.01	13.92	13.45	25.45	32.02	46.21	42.57	39.62	41.05	42.56	42.00	42.57
AFN/IRT	88.24	88.24	88.24	88.24	113.33	128.57	113.33	113.33	146.15	166.67	190.91	166.67
AFN/\$D	0.31	0.44	3.67	10.10	16.17	23.51	22.82	17.34	18.20	20.38	18.88	20.68
AFN/CY	-1.24	2.76	5.47	12.64	17.81	23.14	22.36	20.36	21.64	21.99	22.85	23.92

Source: Data from DAB, World Bank staff elaboration.

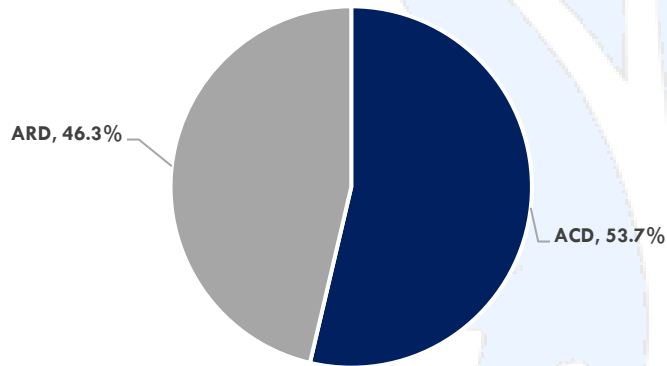
4. REVENUES

In FY 2023-24, the ITA met its revenue goal of AFN 210 billion, driven by robust import growth and non-tax revenues. The commencement of FY 2024-25 witnessed a moderate revenue collection (AFN 31 billion in the first two months of FY 2024-25).

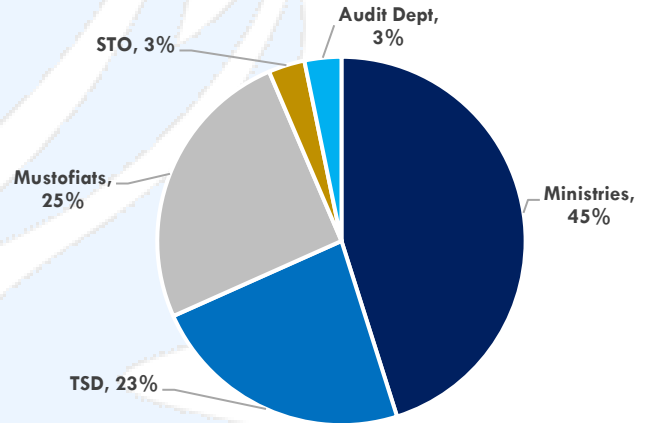
4.1. TOTAL REVENUE (AFN BILLIONS; FY 2024-25)



4.2. SHARE OF INLAND & CUSTOMS REVENUES IN TOTAL COLLECTIONS (MARCH 22 - MAY 21, FY2024-25)



4.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (MARCH 22 - MAY 21, FY2024-25)



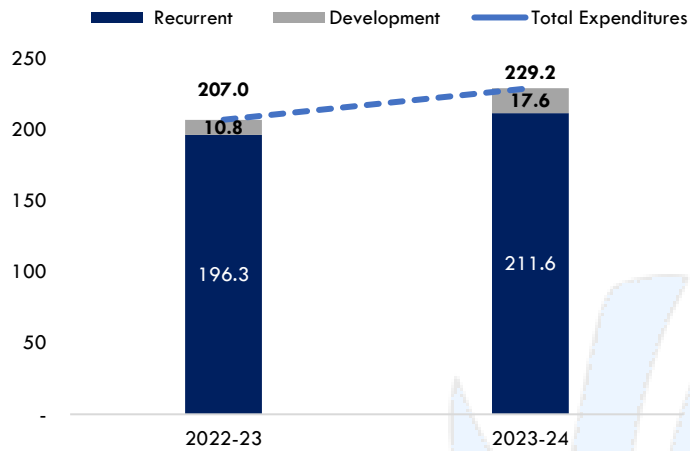
Source: Ministry of Finance.

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

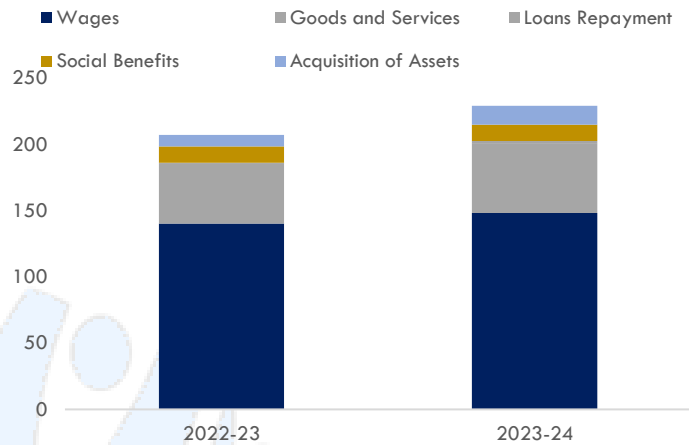
5. EXPENDITURES

Total expenditures in the FY 2023-24 were AFN 229.2 billion, which is 10.7 percent higher than the total spending in FY 2022-23.

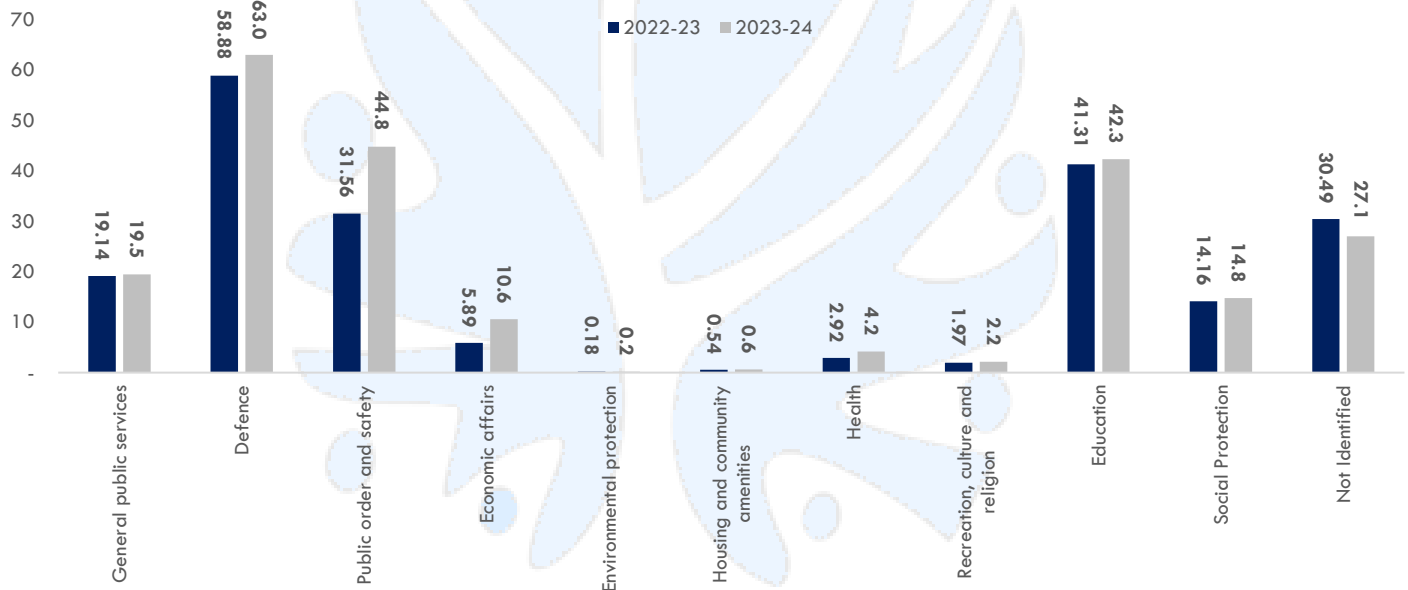
5.1. RECURRENT AND DEVELOPMENT (AFN BILLIONS)



5.2. ECONOMIC CLASSIFICATION OF TOTAL EXPENDITURES (AFN BILLION)



5.3. FUNCTIONAL CLASSIFICATION (AFN BILLIONS)



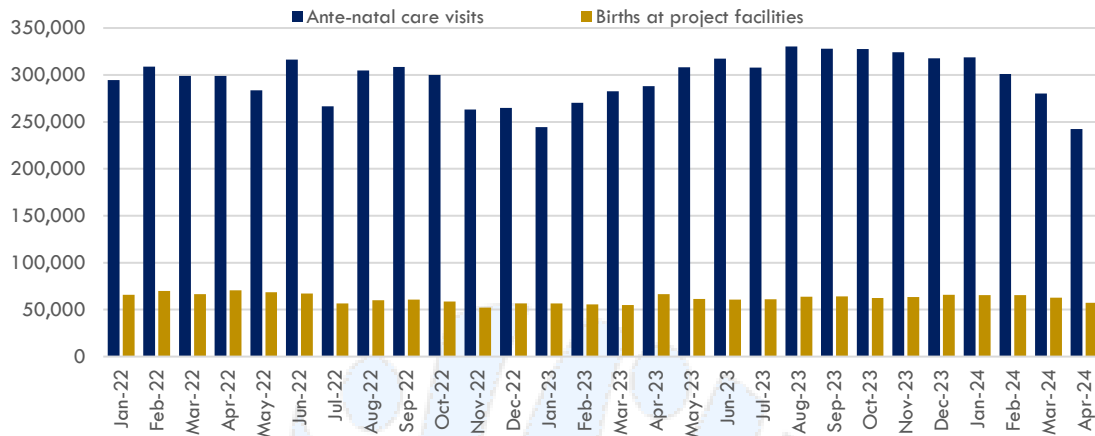
Source: Ministry of Finance.

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

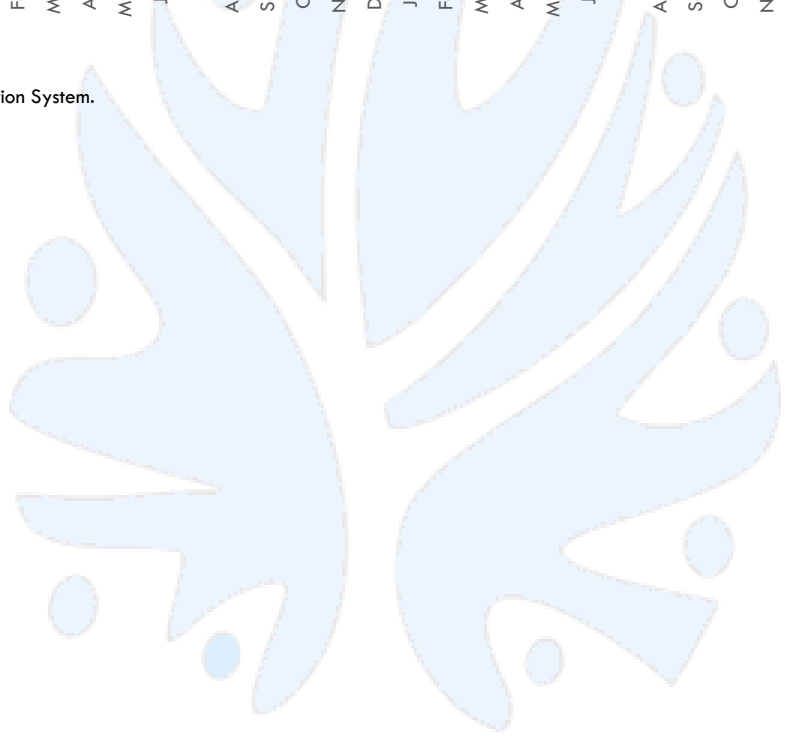
6. PROVISION OF HEALTH SERVICES

ANC visits under the Health Emergency Response (HER) project have declined since August 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 exchange rates collected and reported by DAB; and (iv) data on trade from the ASYCUDA.