

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

Afghanistan's economy experienced modest recovery in 2023-24, yet substantial challenges persist.

Afghanistan's economy experienced some recovery in 2023-24 following two years of significant decline. Nevertheless, the country continues to grapple with substantial challenges such as inadequate human capital, high unemployment rates, pervasive poverty, and food insecurity. These problems threaten to undermine both the economic stability and social cohesion of the nation in the long term. Additionally, restrictions on women's education and their socio-economic participation, including the recent Morality Law, present significant obstacles to future development.

Domestic prices increased slightly in September compared to August but remain well below their level from a year ago.

Domestic prices rose by 0.5 percent in September 2024 compared to August, driven primarily by a 1 percent increase in food prices, while non-food prices remained largely stable. In the food category, prices increased for bread and cereals (notably wheat), meat, oils and fats, vegetables, and spices, while prices for fresh and dried fruits, non-alcoholic beverages, and sugar and sweets declined. In the non-food category, housing and transportation costs rose by 1.7 percent and 1 percent, respectively, though these increases were balanced by decreases in education, clothing, furniture, and other items. For example, in Kabul, the average rental for a 4-bedroom concrete house or apartment increased by 1.6 percent to AFN 10,930 (USD 156) in September, up from AFN 10,762 (USD 152) in August, while rents for non-concrete apartments rose by 4.4 percent. Energy prices also climbed, with liquid gas up by 1.8 percent and firewood by 17.6 percent.

Despite the recent slight increase, domestic prices remain 5.2 percent lower than their level in September 2023, attributed to a stronger Afghani, improved agricultural supply, and still weak aggregate demand. Food prices dropped by 8.3 percent, and non-food prices declined by 1.9 percent. Core inflation, excluding volatile food and energy prices, fell by 1.4 percent year-on-year, underscoring the persistent weakness in demand. While deflation has somewhat reduced costs, high poverty and unemployment rates persist, highlighting the need to address underlying issues affecting the private sector. Many Afghan households, particularly in urban areas, continue to experience economic hardship.

Despite the nominal appreciation, the Real Effective Exchange Rate (REER) depreciated, though this was insufficient to reduce the trade deficit.

The Afghani appreciated by 14.5 percent against the US dollar in the first ten months of 2024 compared to the previous year's average, reaching an exchange rate of 67 Afghani per US dollar in October 2024. It also appreciated by an average of 15.5 percent against the currencies of major trade partners, with 3 percent of this increase occurring in October alone. The Nominal Effective Exchange Rate (NEER), which reflects trade-weighted exchange rates, appreciated by 14.9 percent during this period. This strengthening of the Afghani has been supported by policy measures such as a ban on foreign currency use in local transactions, tighter controls on capital flight, and regulation of the informal hawala financial market. Additional factors contributing to currency strength include UN cash inflows, regular dollar auctions, efforts to curb illegal dollar outflows, and rising remittances.

With a significant inflation differential between Afghanistan and its trade partners, the Real Effective Exchange Rate (REER) depreciated by 3 percent in the first ten months of 2024 compared to its 2023. However, this depreciation has not been sufficient to offset the sharp REER appreciation observed in the first quarter of 2022 and the latter half of 2023. Consequently, the REER remains elevated relative to levels before the Interim Taliban Authority (ITA) assumed control, limiting the intended competitive advantages of these adjustments. This elevated REER contributes to Afghanistan's persistent trade imbalance, as Afghan exports continue to struggle in achieving competitiveness in international markets, even amid ongoing deflation. These conditions underscore an urgent need for comprehensive policy reforms to address the structural issues underpinning Afghanistan's trade deficit.

Afghanistan's trade deficit narrowed in September 2024 compared to August

Afghanistan's trade deficit narrowed by 5.2 percent to USD 747.6 million in September 2024, down from USD 788.6 million in August, largely due to a strong rebound in food and coal exports. Total exports surged from USD 115.1 million in August to USD 198.2 million in September, a 72 percent increase driven by seasonal demand for Afghan agricultural products in Pakistan and India, which aligned with Afghanistan's harvest period and was supported by

2024; however, the cumulative deficit for the year to date has widened relative to 2023.

Resilient import growth surpasses sluggish economic activity.

Revenue accelerated in the first seven months of FY 2024-25, underpinned by inland taxes.

the reopening of key trade routes. Food exports rose by 86.2 percent in September compared to August, while coal exports increased by 26 percent, reflecting the resilience of Afghanistan's export sector. However, imports also remained strong, rising by 4.7 percent to USD 945.8 million, which kept the monthly trade deficit at a considerable level. This data underscores the export sector's growth, especially in agriculture, but also highlights Afghanistan's continued reliance on imports and the need for a more diversified export base to enhance the trade balance further.

Despite the improvement in September, Afghanistan's trade deficit grew by 43 percent cumulatively in the first nine months of 2024, reaching US\$6.3 billion (36 percent of GDP), up from US\$4.4 billion (30 percent of GDP) in the same period of 2023. This increase was primarily driven by rising imports, a strong Afghani currency, and Pakistan's trade policy shifts, including frequent border closures.

Afghanistan's overall exports in the first 9 months of 2024 dropped by 12 percent to USD 1.1 billion, with food exports declining by 6 percent to USD 749 million and coal exports plummeting by 69 percent to USD 69 million, reflecting shifts in trade relations with Pakistan. Pakistan's increased reliance on local coal and the introduction of a Temporary Admission Document (TAD) in March impacted Afghanistan's food exports. Nevertheless, food and coal continue to be Afghanistan's primary exports, accounting for 73 percent of total exports, down from 81 percent during January–September 2023. Pakistan remains Afghanistan's largest export market at 47 percent, followed by India at 30 percent. Iran, Kazakhstan, and Uzbekistan, each representing around 3 percent, have emerged as growing markets since September 2023, driven partly by shifting trade routes and frequent border closures with Pakistan.

Afghanistan's imports reached USD 7.4 billion from January to September 2024, marking a 31 percent increase compared to the same period in 2023. Mineral imports, accounting for 22 percent of the total, rose by 38 percent year-on-year to USD 1.6 billion, while food imports, representing 19 percent, increased by 21 percent to USD 1.4 billion. In contrast, textile imports, which made up 7 percent of the total, declined by 11 percent to USD 505 million. Although primary commodity imports grew moderately, imports of transportation-related goods surged by 80 percent, machinery and equipment by 45 percent, and chemical products by 44 percent year-on-year. Iran emerged as Afghanistan's largest source of imports, making up 30 percent of the total and registering an 83 percent year-on-year increase, largely due to Afghanistan's shift in transit trade routes through Iran. Other major import sources included the UAE at 21 percent, Pakistan at 15 percent, and China at 7 percent.

Revenue collection for the first seven months of FY2024-25 (March 22 to October 21, 2024) reached AFN 131.6 billion (US\$2.0 billion), or about 10 percent of annual GDP, marking a 10 percent YoY increase. This exceeded the seven-month target by 4 percent, primarily driven by a 19 percent rise in inland revenue collections, which totaled AFN 64.1 billion (US\$0.96 billion).

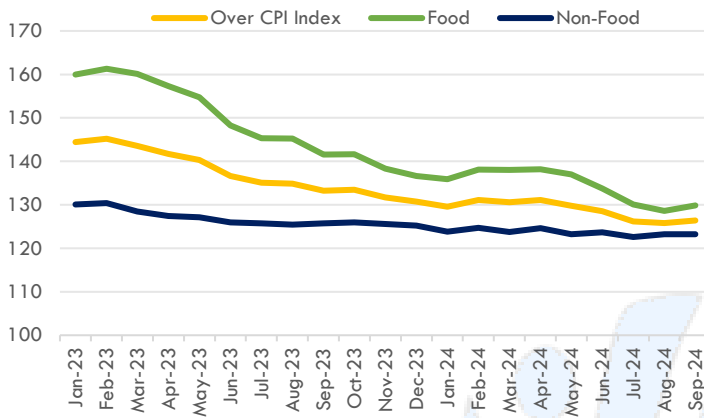
Collection by the Afghanistan Revenue Department (ARD) surpassed its seven-month target by 3 percent, driven largely by a 24 percent increase in non-tax revenue, which exceeded its target by 13 percent. Key drivers included income from mining, vehicle registrations, passport issuance, transport services, railway operations, and telecommunications fees. Mustofiat reported a 30 percent increase in revenue, exceeding their target by 7 percent, while the Small Taxpayers Office (STO) saw a 16 percent rise in collections.

The Afghanistan Customs Department (ACD) recorded a 3 percent revenue increase, totaling AFN 67.4 billion (USD 1.01 billion), and surpassed its target by 5 percent. This robust performance came despite significant challenges, including periodic border closures with Pakistan, a reduction in coal exports, and the appreciation of the Afghani, which diminished customs duty values when converted to the local currency. ACD's resilience was supported by strengthened trade ties with Iran and Central Asia, which helped offset the decline in trade with Pakistan. Additionally, enhanced border management practices and recent tariff adjustments on various imported goods played a key role in sustaining revenue growth. However, even with these positive developments, the share of customs revenue in the nation's total revenue mix fell by 4 percentage points, now accounting for just 51 percent in FY2024/25. This decline highlights structural shifts in Afghanistan's revenue composition, underscoring the growing need to diversify and strengthen domestic revenue sources amid shifting economic conditions.

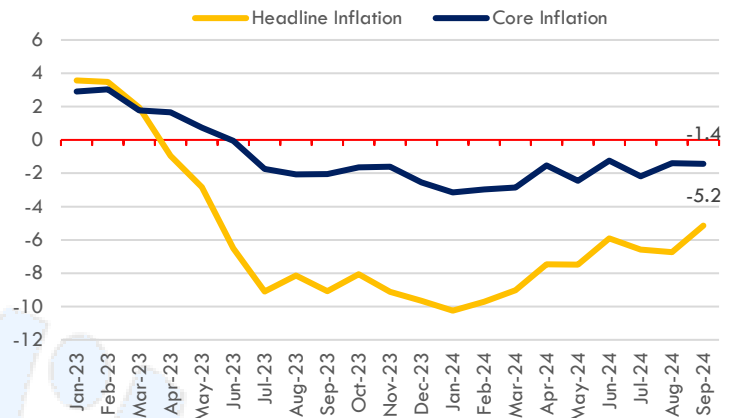
1. PRICE TRENDS

Inflation in Afghanistan was recorded at negative 5.2 percent YoY in September 2024, driven by declining food (8.3 percent) and non-food prices (1.9 percent) amid supply improvements and trade disruptions.

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

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Sep-24
Bread	-3.0	-4.9	-5.3	-6.3	-6.7	-8.0	-8.2	-8.2	-6.5	-6.7	-8.0	-8.3	-8.3
Fuel (diesel)	-25.2	-29.8	-30.2	-33.1	-28.5	-19.2	-15.1	-13.2	-8.2	-5.9	-2.8	-6.9	-3.0
Oil (cooking)	-31.0	-35.9	-36.4	-35.6	-34.7	-33.0	-31.2	-26.4	-22.7	-18.3	-17.0	-11.0	-3.0
Pulses	3.0	-3.6	-6.1	-5.1	-6.2	-6.0	-5.5	-5.2	-4.8	-7.0	-8.1	-9.1	3.0
Rice (high quality)	-7.8	-12.1	-14.8	-17.0	-15.8	-16.6	-18.1	-19.3	-19.7	-19.3	-18.5	-16.5	-8.0
Rice (low quality)	16.1	6.0	-0.1	-1.8	-5.0	-4.2	-4.3	-7.0	-8.7	-10.2	-11.0	-11.5	10.0
Salt	1.9	8.9	0.1	0.9	0.6	-1.9	-2.3	2.6	1.5	4.2	10.5	12.9	2.0
Sugar	13.4	12.9	10.8	8.2	14.1	9.5	7.1	-9.9	-15.0	-13.5	-16.2	-19.6	10.0
Wheat	-30.1	-32.1	-32.8	-32.4	-32.9	-28.3	-25.9	-24.0	-22.8	-20.5	-20.7	-19.4	-3.0
Wheat flour (high quality)	-30.0	-32.8	-32.5	-32.4	-28.6	-24.2	-21.8	-19.5	-13.0	-9.4	-9.2	-7.7	-3.0
Wheat flour (low quality)	-32.9	-35.4	-34.7	-35.2	-32.2	-29.3	-27.6	-24.3	-18.8	-14.2	-13.5	-11.9	-3.0
Basic Household Goods Price Inflation	-19.3	-23.4	-24.0	-24.4	-22.2	-19.6	-18.2	-17.2	-14.3	-12.0	-11.7	-10.8	-2.0

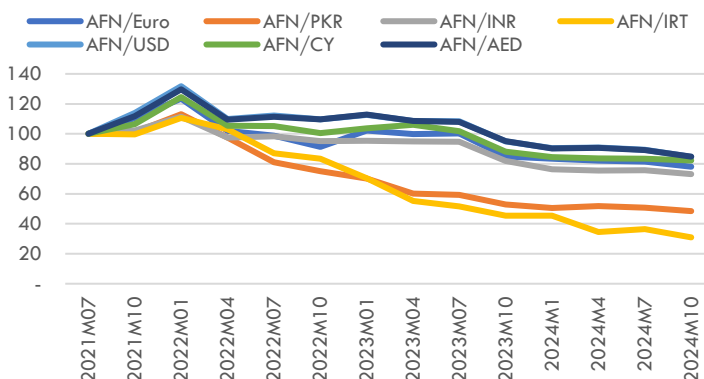
Source: Price data from WFP weekly report; index constructed by World Bank staff.

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.

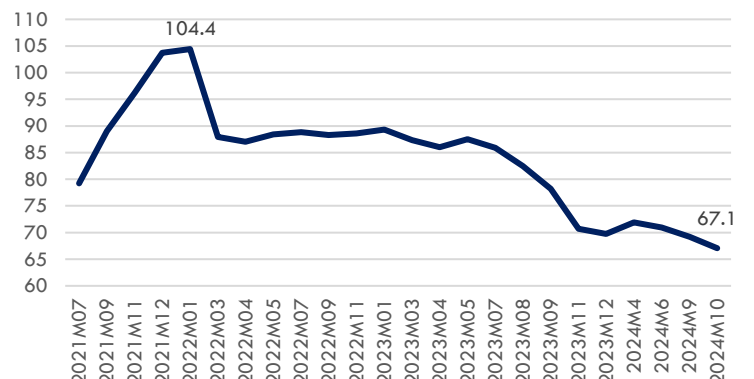
2. FOREIGN EXCHANGE

The Afghan currency experienced a modest appreciation during the first ten months of 2024, while the Real Effective Exchange Rate (REER) declined, driven by lower prices. However, this change was not enough to meaningfully reduce the trade deficit.

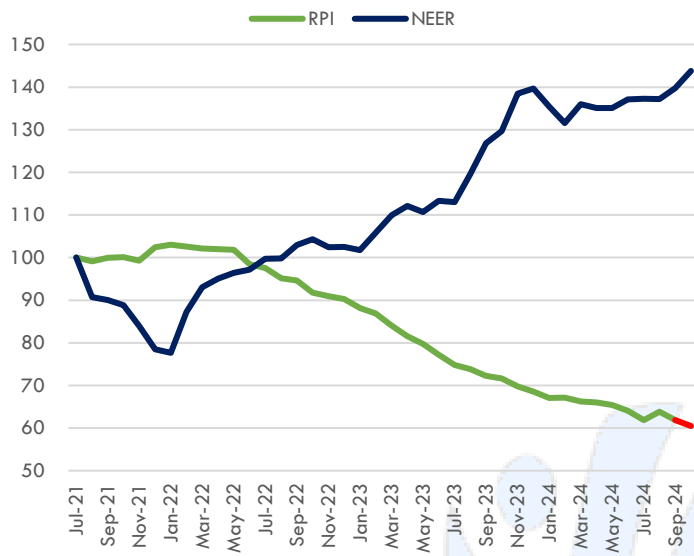
2.1. EXCHANGE RATE – INDEX JULY 2021 (HIGHER = DEPRECIATION)



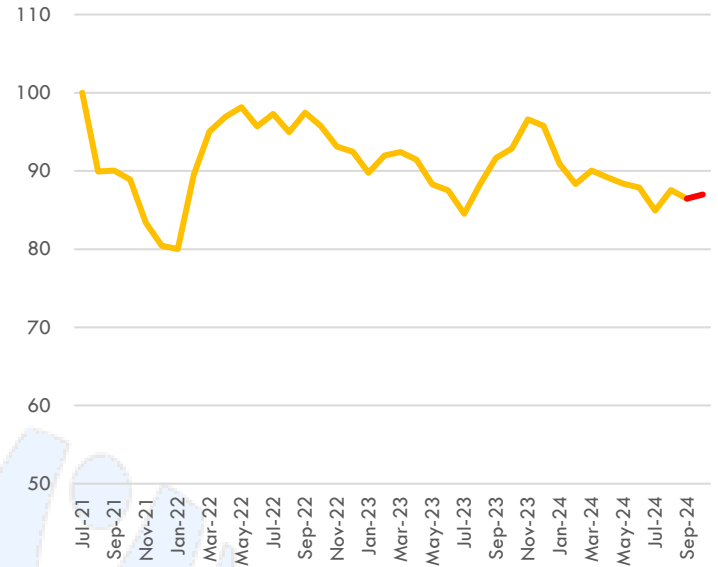
2.2. AVERAGE MONTHLY AFN/\$ EXCHANGE RATE



2.3. NEER AND RPI – INDEX (JULY 2021 =100) (HIGHER = APPRECIATION)



2.4. REER – INDEX (JULY 2021 =100) (HIGHER = APPRECIATION)



Source: Data in Figures and Table is from DAB and IFS, World Bank staff elaboration. Note: RPI and REER for October are projections and highlighted in red.

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

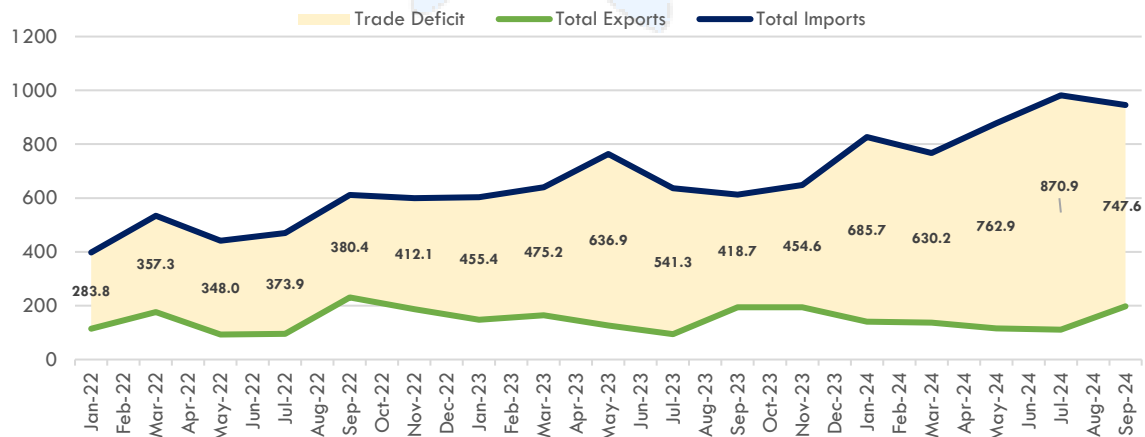
	27-Nov-23	26-Dec-23	25-Jan-24	28-Feb-24	28-Mar-24	30-Apr-24	28-May-24	27-Jun-24	31-Jul-24	31-Aug-24	30-Sep-24	31-Oct-24
AFN/Euro	26.05	27.02	22.38	23.66	26.54	25.87	27.05	28.96	27.04	25.86	28.11	33.46
AFN/PKR	114.17	110.54	99.73	101.15	100.83	96.79	100.91	100.51	103.31	105.53	108.13	112.21
AFN/INR	46.21	42.57	39.62	41.05	42.56	42.00	42.57	42.68	42.75	42.19	47.98	48.15
AFN/IRT	128.57	113.33	113.33	146.15	166.67	190.91	166.67	166.67	166.67	166.67	166.67	220.00
AFN/US\$	23.51	22.82	17.34	18.20	20.38	18.88	20.68	21.23	21.32	22.50	25.72	28.72
AFN/CY	23.14	22.36	20.36	21.64	21.99	22.85	23.92	23.27	23.75	24.46	25.13	22.97

Source: Data in Figures and Table is from DAB, World Bank staff elaboration.

3. TRADE DEVELOPMENTS

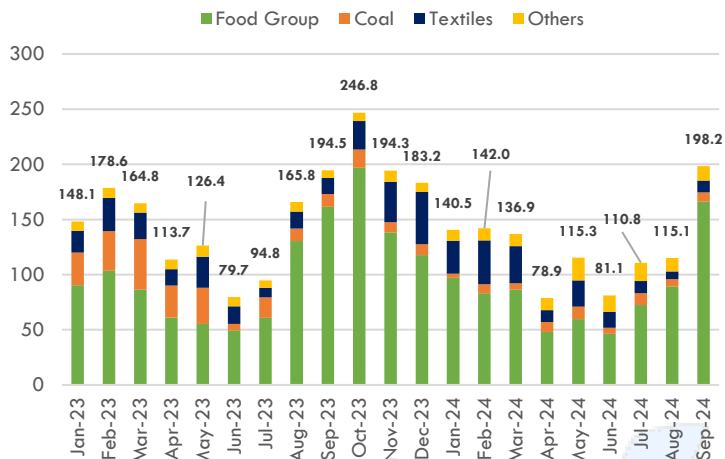
Imports sustained their upward trajectory from 2023 and outpaced the export growth, leading to a wider trade deficit during the first nine months of 2024 compared to the same period last year. However, the deficit saw a modest reduction in September compared to August.

3.1. AFGHANISTAN TRADE DEFICIT (US\$ MILLIONS)



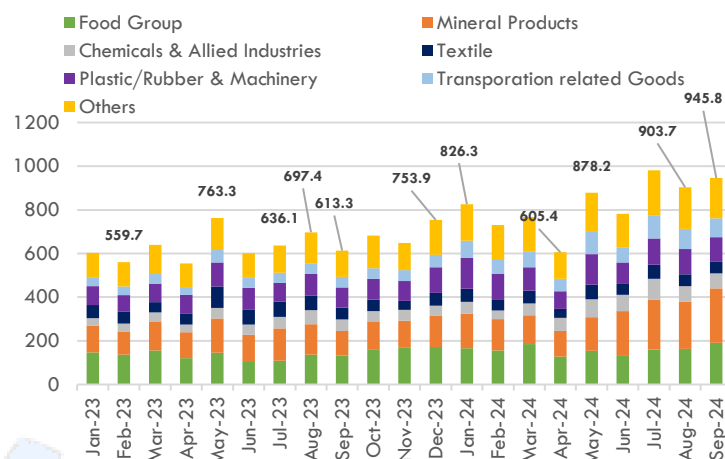
Source: ASYCUDA

3.2 AFGHANISTAN'S EXPORTS (US\$ MILLIONS): 2023 - 2024



Source: ASYCUDA

3.3 AFGHANISTAN'S IMPORTS (US\$ MILLIONS): 2023 - 2024

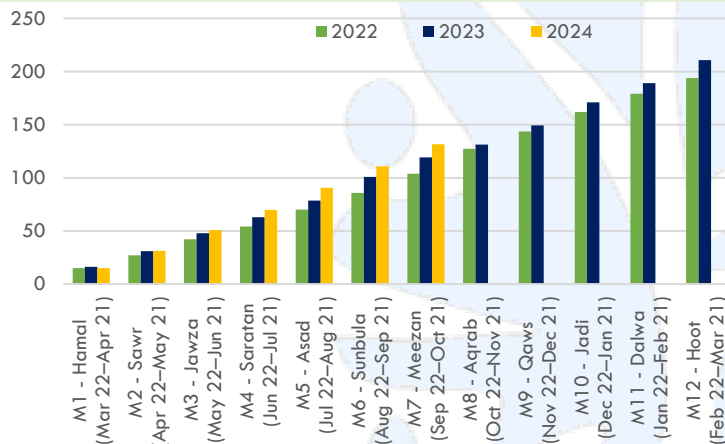


Source: ASYCUDA

4. REVENUES

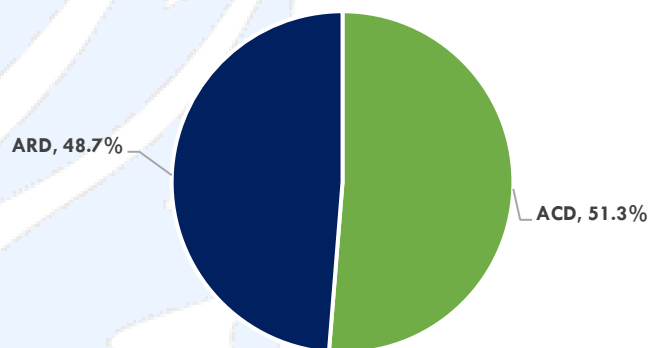
The commencement of FY 2024-25 witnessed a strong revenue collection (AFN 131.6 billion in the first seven months of FY 2024-25) driven by robust inland collections.

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

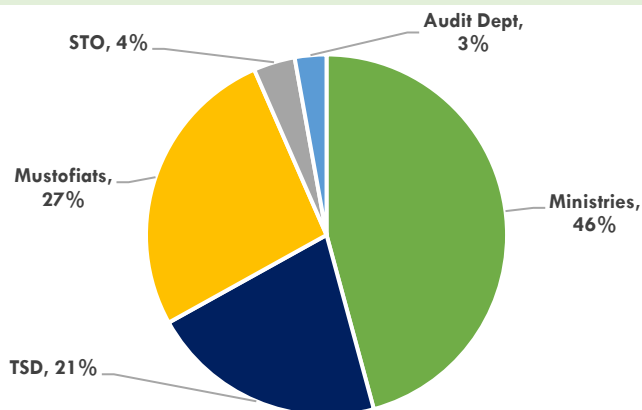


Source: Ministry of Finance

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



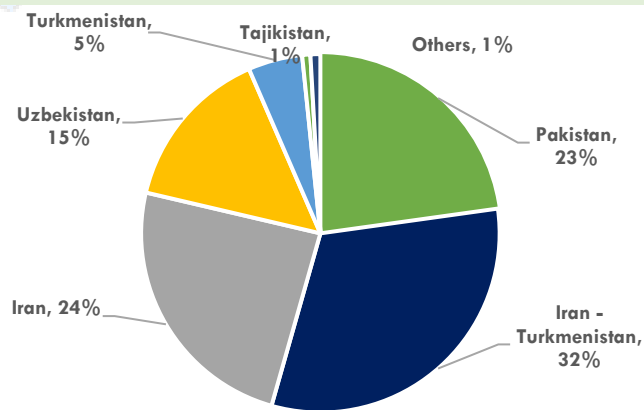
4.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (MARCH 22nd - OCTOBER 21st, FY2024-25)



Source: Ministry of Finance.

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

4.3. PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS (MARCH 22nd - OCTOBER 21st, FY2024-25)





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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.