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Afghanistan Development Update

UNLOCKING YOUTH POTENTIAL FOR RESILIENCE AND ECONOMIC RECOVERY

April 2025

PREFACE

The Afghanistan Development Update provides a comprehensive report on the state of the Afghan economy. It covers recent economic developments and the medium-term outlook for Afghanistan. Each edition includes Special Focus sections that provide in-depth analysis of specific topics. The Afghanistan Development Update is intended for a wide audience, including policymakers, the donor community, the private sector, and analysts and professionals engaged in Afghanistan's economy.

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The Special Focus on youth employment is based on the brief "Afghanistan Employment Policy Note: A Focus on Youth, Women, and Employment Support Programs" (Bossuroy, Ceretti and Dahmani-Scuitti, 2025).

Notation: Throughout this report, the year N refers to the Afghan fiscal year, which begins on March 21 of Gregorian year N and ends on March 20 of Gregorian year N+1. For example, the fiscal year 2024 covers the period from March 21, 2024, to March 20, 2025. If a different period is referenced, the report specifies the relevant months within the Gregorian calendar year.

TABLE OF CONTENTS

LIST OF FIGURES iv

LIST OF BOXES iv

LIST OF ABBREVIATIONS vi

EXECUTIVE SUMMARY viii

CHAPTER 1. RECENT ECONOMIC DEVELOPMENTS IN AFGHANISTAN 1

RECENT GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS 2

REAL SECTOR DEVELOPMENTS: A MODEST RECOVERY AMID CHALLENGES 4

PRICE TREND: MODERATING DEFLATIONARY PRESSURES 8

HOUSEHOLD WELFARE AND FOOD SECURITY: MODEST IMPROVEMENT AMID PERSISTENT MALNUTRITION 9

FISCAL DEVELOPMENTS: IMPROVEMENT IN DOMESTIC REVENUES NOT ENOUGH TO COMPENSATE FOR THE DECLINE IN AID 12

EXTERNAL SECTOR: PERSITENT STRONG AFGHANI AMID WIDENING TRADE DEFICIT 17

MONETARY POLICY AND FINANCIAL SECTOR: GROWING MONEY SUPPLY AMID DECLINING LENDING 24

OUTLOOK AND MEDIUM-TERM PROSPECTS 28

CHAPTER 2. YOUTH EMPLOYMENT CHALLENGES AND OPPORTINUTIES 36

EMPLOYMENT CHALLENGES FOR WOMEN AND YOUTH 37

POLICY OPTIONS FOR EMPLOYMENT SUPPORT FOR WOMEN AND YOUTH 44

ANNEXES 48

REFERENCES 48

ANNEX TABLES 52

–

LIST OF FIGURES

Figure 1: Contribution to Real GDP Growth (%) 5
Figure 2: Contribution to Growth by demand (%) 5
Figure 3: Quarterly Nighttime Lights Growth (y-o-y) 7
Figure 4: Regional growth in nighttime lights (y-o-y): 7
Figure 5: Real GDP growth in Afghanistan and regional peers (FY2024) 8
Figure 6: Headline and Core inflation (%) 9
Figure 7: Inflation in Afghanistan and peers (%, 2024) 9
Figure 8: Number of Food Insecure in Fall 2024 10
Figure 9: Change in Food Insecurity in Fall 2024 10
Figure 10: Trend of Stunting Rate in Afghanistan 11
Figure 11: Stunting Rate in Selected SAR countries 11
Figure 12: Domestic Revenue by Component 14
Figure 13: External Grant Revenue 14
Figure 14: Total tax revenue shortfalls (% of GDP) 15
Figure 15: Consumption tax revenue shortfalls (% of GDP) 15
Figure 16: Personal income tax revenue shortfalls (% of GDP) 15
Figure 17: Fiscal Expenditure by Component (Percent of GDP) 16
Figure 18: General, Structural, and Cyclical Fiscal Balance (percent of GDP) 17
Figure 19: Monthly Trade Deficit ($Million) 18
Figure 20: Annual Trade Deficit ($Billion) 18
Figure 21: Exports Trend ($Billion) 19
Figure 22: Exports Index (2022=100) 19
Figure 23: Imports Trend ($billion) 21
Figure 24: Imports Index (2022=100) 21
Figure 25: Nominal and Real Effective Exchange Rate – Index (July 2021 = 100) 22
Figure 26: Average Monthly AFN/$Exchange Rate 22
Figure 27: Broad Money (M2) and its components (AFN Billions) 25
Figure 28: Liability to ITA and Credit to Private Sector (AFN Billions) 25
Figure 29: Contribution to growth by production factors 29
Figure 30: Real GDP (constant 2015 US$ million) and real GDP per capita (Constant 2015 US$) 29
Figure 31: Labor Force Status of Youth Age 15–29 Years by Gender, 2016–23 38
Figure 32: Education and Employment Status of Adolescents Age 15-19 Years by Gender 39
Figure 33: Sector of Employment among Youth Age 15-29 Years by Gender 40
Figure 34: Highest Completed Educational Level among Employed Youth Age 15–29 Years by Gender 41
Figure 35: Types of Job among Employed Youth Age 15-29 Years by Gender 41
Figure 36: Employment Outcomes among Age 15–29 Years by Type of Job and Gender 42
Figure 37: Highest Educational Level among Unemployed Youth Age 15–29 Years by Gender 43

LIST OF BOXES

Box 1: Exchange Rate Dynamics and Determinants in Afghanistan 23
Box 2: Afghanistan's Fiscal Multiplier: Insights from a VAR Model 30
Box 3: Afghanistan's Pension Reform: From Fiscal Crisis to Unfair Treatment of Pensioners 33

LIST OF TABLES

Table 1. Labor Market Programs and Impact on Employment for Women and Youth in Afghanistan 45
Table 2. Afghanistan Selected Economic and Financial Indicators, 2018-27 52
Table 3. Afghanistan Real Sector, 2018-2027 53
Table 4. Afghanistan Fiscal Table (2018-2027) 54
Table 5. Afghanistan Balance of Payments, (2018- 2027) 55
Table 6: Afghanistan Monetary Statistics, March 2019 to December 2024 56

LIST OF ABBREVIATIONS

ACH	Automated Clearing House
ADR	Advances to Deposit Ratio
ADU	Afghanistan Development Update
AFG	Afghanistan
AFN	Afghani Currency
AHS	Afghanistan Household Survey
AIC	Akaike's Information Criterion
ALCS	Afghanistan Living condition Survey
APS	Afghanistan Payment System
ASDP	Afghanistan – Skills Development Project
ASYCUDA	Automated System for Customs Data
ATMs	Automated Teller Machines
AWMS	Afghanistan Welfare Monitoring Survey
BGD	Bangladesh
BOP	Balance of Payment
BPHS	Basic Package of Health Services BPHS
BTN	Bhutan
CAR	Capital Adequacy Ratio
CBRs	Correspondent banking relationships
CICRL	Community resilience livelihood
CIT	Corporation Income Tax
DAB	Da Afghanistan Bank (Central Bank)
DHS	Demographic and Health Survey
ECT	Error Correction Terms
EERA	Education Emergency Response in Afghanistan
EI	Economic Inclusion
EMDEs	Economies and emerging market and developing economies
FAO	Nations Food and Agriculture Organization
FCH	Foreign currency Holdings
FSNAU	Food Security and Nutrition Analysis Unit
FY	Fiscal Year
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation
GNFS	Goods and Nonfactor Service
GST	Goods and Services Tax
HQIC	Han-nan and Quinn Information Criterion
IELFS	Income Expenditure and Labor Force Survey
IFC	International Finance Corporation
ILO	International Labor organization
IND	India
IPC	Integrated Food Security Phase Classification
IRF	Impulse Response Function
ITA	Interim Taliban Administration
LKA	Sri Lanka
M1	Narrow Money
M2	Broad Money (M2)
MAM	Moderate Acute Malnutrition
MCBP	Maternal & Child Benefit Programme
MDV	Maldives
MFIs	Microfinance Institutions
MICS	Multiple Indicator Cluster Surveys
MSME	Micro, Small and Medium enterprise
NDA	Net Domestic Asset
NEE	Neither in Education nor Employed
NEER	Nominal Effective Exchange Rate
NFA	Net Foreign Assets
NFHS	National Family Health Survey
NNS	National Nutrition Survey
NPL	Nepal
NPLs	Non- Performing loans
NSIA	National Statistics and Information Authority
NSTP	National Service Training Programme
OCHA	Office for the Coordination of Humanitarian Affairs
PAK	Pakistan

POS	Point of Sale
R2	Round 2
R3	Round 3
REER	Real Effective Exchange Rate
RPIR	Relative Price Index
RTGS	Real-Time Gross Settlement
SAM	Severe Acute Malnutrition
SAR	South Asia Region
SBIC	Schwarz's Bayesian Information Criterion
SMART	Standardized Monitoring and Assessment of Relief and Transitions
SMEs	Small and Medium-size Enterprises
SYIB	Start and Improve Your Business
UAE	United Arab Emirates
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Found
UNITAR	United Nations Institute for Training and Research
UNODC	United Nations Office on Drugs and Crime
US	United States
USD	United States Dollar
VAR	Vector Autoregression
VECM	Vector Error Correction Model
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
Y-o-Y	Year on Year

EXECUTIVE SUMMARY

Recent Economic Developments and Outlook

Afghanistan's economy is gradually recovering, but the outlook remains uncertain due to growing fiscal pressures, a widening trade deficit, and persistent poverty and food insecurity, which continue to strain households and hinder inclusive growth.

Recent Economic Performance

Afghanistan's economy recorded its second consecutive year of growth in 2024, with estimated real GDP expanding by 2.5 percent. The recovery was largely driven by the agriculture sector, while manufacturing and services remained subdued due to an unfavorable business environment, persistent export barriers, and declining foreign aid. Modest gains in private consumption and real estate investment contributed to growth; however, rising imports widened the trade deficit, increasing external vulnerabilities. At the same time, rapid population growth and the return of refugees continue to strain job creation and public service delivery, further deepening the fragility of the economy.

Persistent deflation continued in 2024, though it eased from 9.7 percent in February 2024 to 0.3 percent in February 2025 year-o-year (Y-o-Y). Food prices declined sharply (-8.1 percent on average), while non-food inflation remained stable. Despite the slower pace of deflation, risks to economic stability, wages, and investment persist, requiring urgent policy interventions to prevent long-term stagnation.

Poverty and Food Insecurity

Poverty, food insecurity, and malnutrition remain pressing challenges. Despite modest wage growth, high unemployment and restrictions on women continue to strain livelihoods. In early 2025, 14.8 million people face food shortages, and acute malnutrition—now affecting 4.7 million women and children—is worsening. Without urgent action, human capital development will be further undermined.

Fiscal Challenges

Fiscal pressures remain high as domestic revenue mobilization, though relatively strong, is insufficient to offset the sharp decline in aid. With limited borrowing capacity, the Interim Taliban Administration (ITA) faces challenges in financing long-term development, making improved revenue collection and fiscal discipline essential for economic stability.

Trade, Currency, and Financial Sector Stability

In 2024, exports declined while imports surged, further widening the trade and current account deficits. Increased imports were driven by rising industrial demand and substitution of domestic consumer goods. The Afghani currency, which had appreciated significantly in 2023 due to strong foreign inflows, stabilized with slight depreciation in 2024.

The banking sector remains fragile, facing regulatory uncertainty, rising non-performing loans (NPLs), and constrained lending activity. While broad money grew by 6.6 percent in 2024, lending has stalled, with gross loans down 13.6 percent Y-o-Y and an Advances to Deposit Ratio (ADR) of just 10 percent, reflecting weak financial intermediation.

Economic Outlook and Risks

Economic growth is expected to slow to 2.2 percent in 2025 amid aid disruptions, before gradually recovering to 2.5 percent in 2026–27. Forecasts have been revised downward

due to weaker aid prospects. Strengthening domestic revenue, diversifying the economy, supporting private sector development, and leveraging the potential of the youth—especially young women—will be essential for building a more resilient and self-reliant economy.

Youth Employment Challenges and Opportunities

Despite significant challenges, Afghanistan's youth remain a vital source of resilience and untapped potential. With targeted support and inclusive opportunities, they can drive the country's recovery and long-term stability.

Youth in the Labor Market

Driven by desperation, Afghan families are sending more children, teenagers, and women into the workforce. Yet nearly one in four young Afghans remains unemployed, and those employed face low wages and limited hours—especially women. Without urgent action to expand job opportunities and build skills, the crisis will only worsen.

Women and Youth: Bearing the Brunt

The Interim Taliban Administration's harsh restrictions have pushed women out of public life, crippling their economic prospects. With only 3 percent of teenage girls in secondary school, a generation of young women faces a future of poverty and dependence.

Afghanistan's youthful population, once seen as a key asset, now risks becoming a driver of instability. By 2030, 1.7 million more young job seekers will enter an already saturated market—far beyond what the current, stagnant economy can absorb.

Turning Challenges into Opportunities

Driven by survival, families are sending more members to work. Young women's labor force participation surged by 32 percentage points between 2020 and 2023—fueled by necessity, not opportunity.

Young workers are concentrated in a few low-return sectors. Many young women rely on home-based handicrafts, while young men turn to small-scale trading amid limited opportunities.

Self-employment has surged, especially among women, but often reflects survival rather than true entrepreneurship. An estimated 93 percent of self-employed young women work from home in low-productivity, subsistence-level activities. While the private wage sector has grown, it remains insecure, with about one-third of young men and half of young women lacking sufficient working hours.

Perhaps most concerning, unemployment now disproportionately affects the educated, with young women making up 55 percent of unemployed youth. The higher education levels among the jobless highlight a stark mismatch between skills and available jobs—fueling frustration and potential instability.

A Path Forward in a Complex Environment

The private sector is where opportunities for sustainable jobs are created — through starting and growing microenterprises, securing employment in private firms, enhancing individual and business productivity, and offering apprenticeships.

While Afghanistan's complex context poses significant challenges, international experience offers hope that targeted interventions can help youth access better private sector jobs.

Promising approaches include:

- **Economic Inclusion Programs:** Bundled support—cash transfers, training, mentoring, and assets—to help

vulnerable groups launch micro-enterprises and build sustainable livelihoods.

- **Skills Training:** Practical education in technical, digital, and business skills tailored to what few market opportunities exist.
- **Financial Inclusion:** Micro-lending and savings mechanisms for youth-led enterprises operating on the margins of the formal economy.
- **Apprenticeship Services:** Incentives for businesses to hire and train young workers, creating pathways to employment in a constricted economy.
- **Women's Economic Inclusion:** Support for home-based work and digital access to address mobility constraints and expand income opportunities.

Without meaningful work or hope, a generation could fuel deeper instability. Yet, Afghanistan's youth bulge holds the potential to drive resilience and recovery—if given the opportunity to contribute.

CHAPTER 1.
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK IN AFGHANISTAN

RECENT GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

Global growth remained steady at 2.7 percent in 2024 but is expected to slow in 2025 due to rising trade uncertainty and financial market volatility. After unexpectedly weak growth of 6.0 percent in 2024, growth in South Asia is expected to soften further to 5.8 percent in 2025[1]—0.4 percentage points below October forecasts—before ticking up to 6.1 percent in 2026.

Global growth is showing signs of widespread weakness in 2025. Global economic growth remained steady at 2.7 percent in 2024, maintaining the same pace as in 2023. However, tariffs, policy uncertainty, and financial market strains have increased substantially in 2025, and are weighing on activity. Softening survey indicators in most major economies points to a broad-based weakening of activity. Growth in major economies appears to be providing little support to activity in South Asia. In low-income countries (LICs), economic activity was subdued at an estimated 3.6 percent in 2024, falling short of previous expectations due to escalating conflict and violence.

Global financial markets are increasingly affected by heightened policy uncertainty. Since the start of 2025, new and proposed tariff hikes have created record-high uncertainty, surpassing previous peaks seen in 2019–2020. Rising tariffs, shifting government priorities, and conflicting signals about the state of the economy have led to significant volatility in exchange rates, stock market valuations, and bond yields.

Government policies are contributing to slowing global growth. In recent years, fiscal policies have supported growth, but major economies are expected to tighten their budgets in 2025. Additionally, central banks have slowed the pace of interest rate cuts that were rapid in 2024.

Global headline inflation has been gradually declining, driven by healing supply chains, falling commodity prices, and the lagged effects of monetary tightening by central banks. Inflation is now nearing target levels in many advanced economies and emerging market and developing economies (EMDEs). Commodity prices have softened due to a combination of increased supply alongside worries about lower demand. Brent crude oil averaged $80 per barrel in 2024 but has fallen closer to $60 per barrel more recently. Coal prices dropped by more than 15 percent on average, while wheat prices fell to $250 per metric ton in 2024, down from nearly $300 per metric ton in 2023. This decline in commodity prices has supported further progress in global disinflation, although inflationary pressures persist in the services sector, exerting some upward influence on overall price levels.

Overall, the South Asian economy grew 6.0 percent in 2024, 0.4 percentage points below the rate projected in October. Growth outcomes fell short of forecasts in most countries, particularly in Bangladesh as a result of anti-government protests and the abrupt change in government in August. South Asia remained the fastest-growing EMDE region, but the gap with other EMDEs has narrowed as the region's growth has decelerated. In most of South Asia, as in the median EMDE outside the region, fiscal deficits and monetary policy rates were well above pre-pandemic averages. After several years of balance of payments pressures, current account deficits across the region

[1] World Bank. 2025. *South Asia Development Update: Taxing Times*. April. Washington, DC: World Bank

(except in Maldives) have narrowed or stabilized, reflecting robust remittance inflows, slowing import growth, and a long-awaited rebound in tourism.

Growth forecasts for 2025 have been downgraded for almost all South Asian countries. After several years of large swings in growth caused by the pandemic and the post-pandemic recovery, three countries in the region—Bhutan, India, and Nepal—are now growing at rates broadly consistent with their 2010–19 averages. The other five countries—Afghanistan, Bangladesh, Maldives, Pakistan, and Sri Lanka—are recovering from, or in the midst of, economic stress or political uncertainty. Macroeconomic stability has taken hold in Pakistan and Sri Lanka, but both countries are returning to their pre-debt-crisis growth rate more slowly than other EMDEs affected by debt crises.

Inflation is expected to remain stable and near official targets in most countries, assuming commodity prices and exchange rates stay steady. However, risks include disruptions to global value chains, potential currency depreciations, which could reignite inflation pressures, and challenges in maintaining exchange rate pegs.

REAL SECTOR DEVELOPMENTS: A MODEST RECOVERY AMID CHALLENGES

Afghanistan's economy is estimated to have grown by 2.5 percent in 2024—just enough to keep pace with population growth yet lagging behind regional peers. While agriculture expanded, manufacturing and services struggled due to trade barriers and an unfavorable business climate. An uptick in private consumption and real estate investment was offset by rising imports, which widened the trade deficit. Despite growth across all regions, rapid population growth and returning refugees continue to strain job creation and public services.

Afghanistan's GDP is estimated to have grown modestly by 2.5 percent in 2024, following 2.3 percent growth in 2023 (Figure 1). The agriculture sector expanded by 6 percent in 2024, building on a 2.2 percent recovery in 2023 after a cumulative contraction of 15.7 percent between 2021 and 2023. According to the United Nations Food and Agriculture Organization (FAO), total cereal production in 2024 is estimated at 6 million metric tons, 10 percent above the average. Wheat production, the country's main cereal crop, is expected to increase by 16 percent to 5 million metric tons, exceeding the average by 13 percent, thanks to excellent yields supported by favorable weather. Rice production is also estimated at an above-average 640,000 metric tons, driven by expanded cultivation areas and higher yields.

Thanks to the good harvest, cereal import requirements, primarily wheat and wheat flour, are expected to be below average at 3.5 million metric tons from July 2024 to June 2025, the marketing year. This reduction is largely due to the above-average production achieved in 2024. However, even in years of strong domestic wheat production, Afghanistan continues to import large quantities of wheat flour due to limited milling capacity. Imported wheat flour is commonly blended with locally produced flour to enhance its protein content.

The industrial sector is estimated to have grown by 2.1 percent in 2024, building on a modest recovery of 1.8 percent in 2023. This growth was largely driven by a booming construction sector, which expanded by 15 percent, especially in Kabul, where a growing population has increased demand for homes, businesses, and infrastructure. With few investment opportunities due to the struggling economy and limited access to banking services, many Afghans see real estate and construction as a safe investment, choosing to put their money into property rather than holding cash. At the same time, the Interim Taliban Administration (ITA) has prioritized building roads, bridges, and public offices to improve connectivity and public services.

While the mining and quarrying sector continues to fuel industrial growth through strategic expansions and consistent gains, the manufacturing industry remains sluggish despite improved access to resources. The mining and quarrying sector continues to drive industrial growth and revenue generation, with an estimated 4 percent growth in 2024, following 5.7 percent in 2023. The ITA has actively worked to expand the industry, awarding 183 mining contracts[2], including 13 major projects, to both domestic and foreign companies, though many projects have yet to begin operations. In contrast, the manufacturing sector is struggling despite improved access to raw materials from better agricultural yields.

[2] Taliban awards contracts for 183 mining projects to local, foreign companies in one year | Amu TV

Unlike the agriculture and industry sectors, the services sector contracted by an estimated 0.3 percent in 2024 due to declining foreign aid, financial sector struggles, and restrictive policies affecting women's education, employment, and mobility. While commerce and transportation remained strong, amid increasing imports, other service industries faced significant challenges. Sanctions and financial restrictions have made it difficult for Afghan banks to conduct international transactions, affecting trade and remittances. Many banks are experiencing liquidity shortages, as customers prefer to hold cash or invest in real estate rather than deposit their money. Additionally, the education and health sectors continue to struggle due to the ban on female secondary education, while growth in hotels, restaurants, and telecommunications has remained sluggish.

Figure 1: Contribution to Real GDP Growth (%)

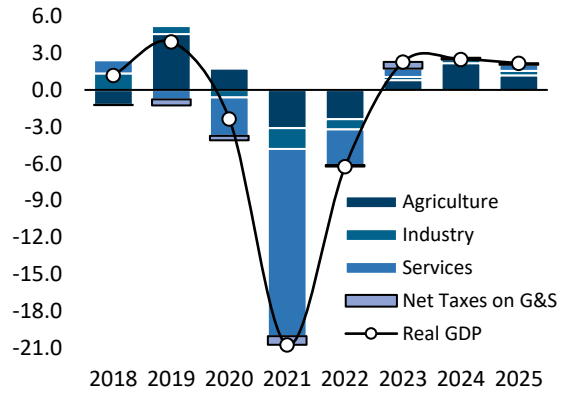
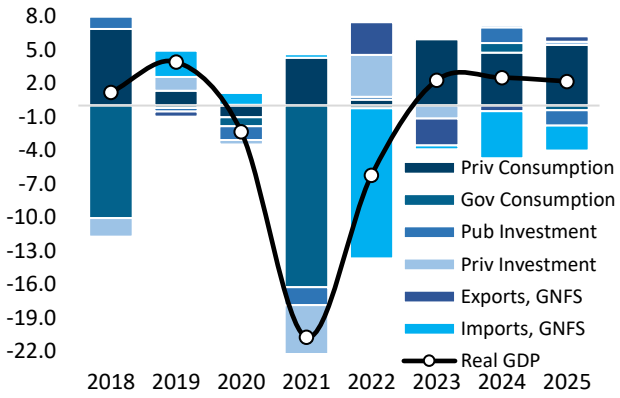


Figure 2: Contribution to Growth by demand (%)



Source: National Statistics and Information Authority (NSIA).

On the demand side, Afghanistan's estimated economic recovery in 2024 was primarily driven by private consumption, supported by lower domestic prices, high remittances, and a strong agricultural harvest. Private consumption grew by an estimated 5 percent, fueled by better agricultural yields and lower prices, which improved household purchasing power (Figure 2). Additionally, remittances from Afghans abroad, particularly from Iran, Pakistan, and the Gulf countries, continued to play a crucial role in sustaining household.

Investment activity in 2024 showed modest improvement, driven by public infrastructure projects and a resilient real estate sector, but broader growth remained constrained by economic uncertainty and financing challenges. Investment rose to 16 percent of GDP, up from 15.2 percent in 2023, though still 2 percentage points below pre-2021 levels, reflecting continued economic uncertainty. Public investment, which accounted for 7 percent of total investment, was largely directed toward infrastructure projects such as the Qush-Tepa Canal, as well as the maintenance and reconstruction of highways and railway infrastructure. Meanwhile, private investment stabilized at 9 percent of GDP, mainly due to growth in the real estate sector, as property remained one of the few reliable assets for investors seeking

stability in an uncertain economic environment. However, investment in other sectors remained weak due to reduced funding availability, capital flight, and concerns over long-term stability. Business sentiment surveys suggest that uncertainty about future policies and lack of access to financing continue to deter broader private-sector growth.

Afghanistan's strengthening currency has deepened import reliance, exacerbating trade imbalances amid persistent barriers to export growth. This import reliance was further reinforced by the strong Afghani currency, making foreign goods more affordable. However, the increased dependence on imports contributed to a worsening trade balance, with exports declining by 3 percent in real terms, while imports grew by 8 percent. The decline in exports was driven by reduced external demand for Afghan coal and textile products, logistical challenges, and restricted access to key markets. Although some regional trade agreements have helped sustain export activity, barriers such as high tariffs, payment processing restrictions, and limited banking access continue to pose challenges.

Nighttime luminosity [3] data suggests a general increase in economic activity across all administrative regions during the first two quarters of the fiscal year 2024, albeit at different rates (Figure 3). The East, South, and Southwest experienced the most significant growth, reflecting accelerated economic expansion in these areas. They were followed by the Central Kabul, North, Northeast, and West regions, which saw moderate but steady increases. In contrast, the West-central exhibited the slowest growth, indicating relatively sluggish economic activity (Figure 4). Additionally, luminosity in the Kabul region has now returned to its 2020 levels, suggesting a recovery to pre-pandemic or pre-crisis economic conditions in the area.

[3] See Afghanistan's New Economic Landscape : Using Nighttime Lights to Understand the Civilian Economy after 2021. World Bank 2024.

Figure 3: Quarterly Nighttime Lights Growth (y-o-y)

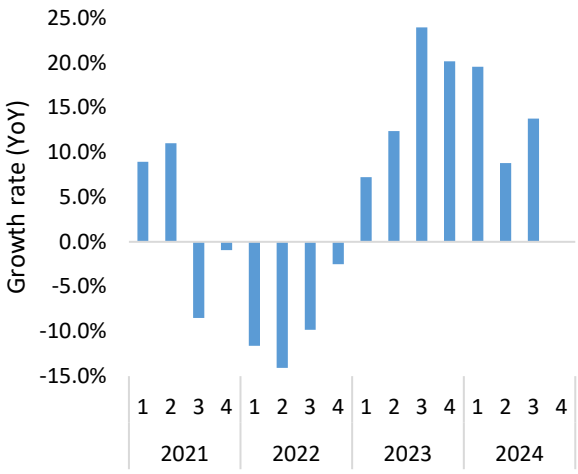
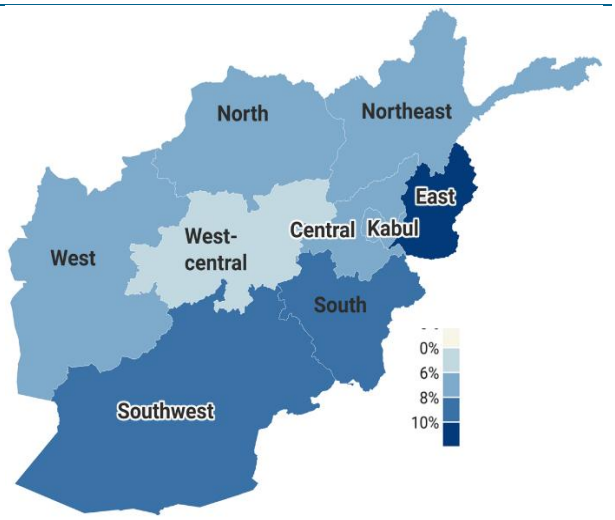


Figure 4: Regional growth in nighttime lights (y-o-y):



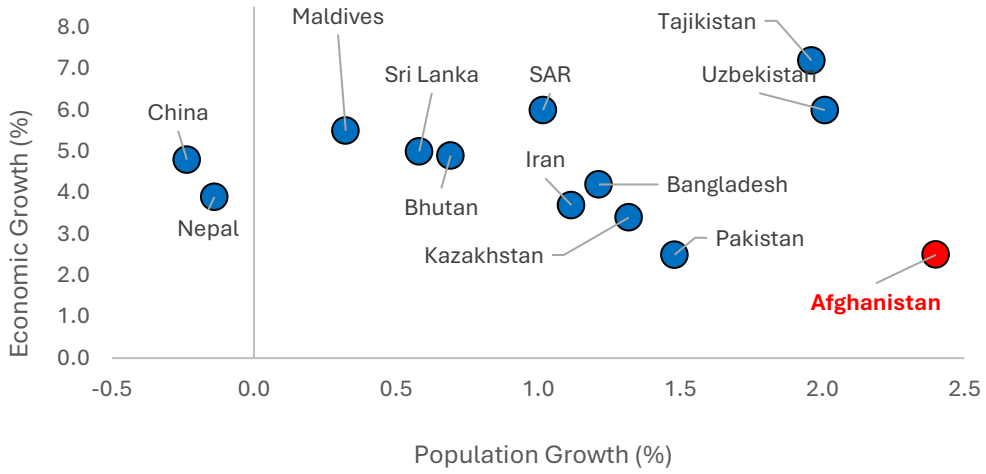
Source: Barriga-Cabanillas et al. (2024).

Notes: 2024 data include the first and second quarters of the Afghan fiscal year. Regions are defined as Central (Kapisa, Logar, Maydanwardag, Panjsher, Parwan); East (Kunarha, Laghman, Nangarhar, Noristan); Kabul (Kabul), North (Balkh, Faryab, Jawzjan, Samangan, Sar-e-Pul); Northeast (Badakhshan, Baghlan, Kunduz, Takhar); South (Ghazni, Khost, Pakteka, Paktya); Southwest (Hilmand, Kandahar, Nemroz, Uruzgan, Zabul); West (Badghes, Farah, Hirat); West-central (Bamyan, Daykundi, Ghor).

Afghanistan's economic recovery remains modest and continues to lag behind its South Asian peers. In 2024, the country's growth is estimated at 2.5 percent, less than half the regional average of 6.0 percent. Most South Asian countries grew by over 5 percent, except for Pakistan (2.5 percent) Nepal (3.9 percent), Bangladesh (4.2 percent), and Bhutan (4.9 percent). Afghanistan also trailed behind its neighbors and key trading partners, including Kazakhstan (3.4 percent), Iran (3.7 percent), Uzbekistan (6 percent), Tajikistan (7.2 percent), and India (9.2 percent) (Figure 5). While regional economies benefited from improved macroeconomic policy, stronger domestic demand, trade partnerships, and industrial expansion, Afghanistan's growth remained subdued, reflecting weak investment, limited economic diversification, and continued challenges in trade and financial access.

Moreover, Afghanistan's population is growing rapidly, while its economy struggles to expand at a pace sufficient to support rising demands for jobs, education, and healthcare. The country's population is increasing at an annual rate of 2.4 percent, more than double the South Asian average of 1 percent. A high fertility rate of 5.3 births per woman, compared to the regional average of 2.2, further intensifies demographic pressures. Additionally, the return of refugees—accounting for nearly 2 percent of the total population—places additional strain on economic resources. These factors collectively heighten the need for job creation, the expansion of public services, and sustainable livelihood opportunities, posing significant challenges to Afghanistan's economic stability and long-term development.

Figure 5: Real GDP growth in Afghanistan and regional peers (FY2024)



Source: South Asia Region Development Update, World Bank Macro-Poverty Outlook, UN Population Prospects

PRICE TREND: MODERATING DEFLATIONARY PRESSURES

Afghanistan faced persistent deflation in 2024, but the deflationary pressures moderated from 9.7 percent in February 2024 to 0.3 percent by February 2025. Food prices fell sharply, by 8.1 percent on average, while non-food prices remained relatively stable.

Afghanistan has experienced a prolonged period of deflation from mid-2023 to early 2025, largely driven by falling food prices and weak consumer demand. After reaching 3.6 percent in January 2023, headline inflation declined sharply, entering negative territory by April 2023 and remaining negative throughout most of 2024. By February 2024, inflation hit its lowest point at negative 9.7 percent, before gradually recovering to negative 0.3 percent in February 2025 (Figure 6).

Afghanistan was the only country in the region to experience deflation, highlighting persistently weak aggregate demand. In contrast, most regional peers saw moderate inflation, ranging from 0.4 percent in China to 23.4 percent in Pakistan, with India (4.5 percent) and Nepal (5.4 percent) maintaining relative stability. Iran recorded the highest inflation (31.9 percent), likely driven by economic sanctions (Figure 7). While some countries effectively managed inflation, others faced mounting price pressures.

The food sector has been the primary driver of deflation, averaging 8.1 percent over 2024. The sharpest decline occurred in January 2024, when food prices dropped by 15.1 percent Y-o-Y, driven by improved agricultural supply and weak consumer purchasing power. In contrast, non-food inflation remained more stable, averaging negative 1.5 percent, indicating that deflation was largely concentrated in food prices. Core inflation, which excludes volatile items like food and energy, stood at 1.9 percent Y-o-Y, suggesting a modest recovery in aggregate demand.

Figure 6: Headline and Core inflation (%)

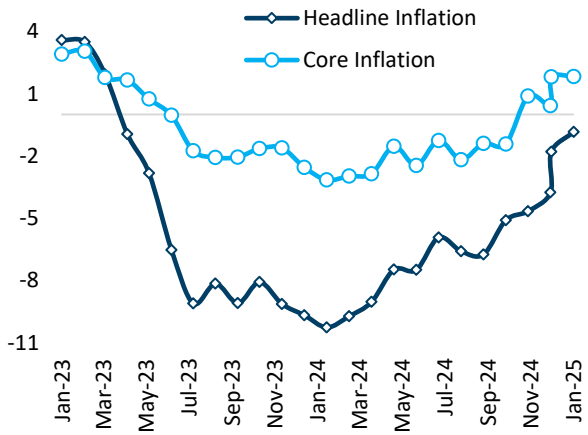
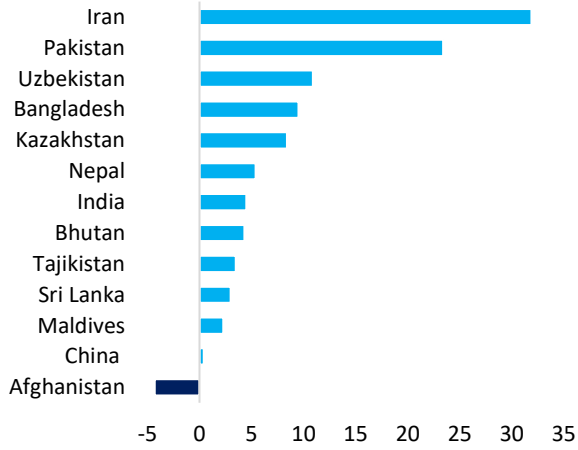


Figure 7: Inflation in Afghanistan and peers (%, 2024)



Source: National Statistics and Information Authority (NSIA) and World Bank Macro-Poverty Outlook (October 2024).

HOUSEHOLD WELFARE AND FOOD SECURITY: MODEST IMPROVEMENT AMID PERSISTENT MALNUTRITION

Despite modest economic gains, poverty, food insecurity, and malnutrition remain severe in Afghanistan. Wages have slightly increased, but high unemployment and restrictions on women persist. About 14.8 million people still face food shortages, and malnutrition has worsened, affecting 4.7 million women and children, with little progress on chronic malnutrition or stunting.

Despite persistent deflation, rising wages, and a modest recovery in private consumption, a significant number of Afghan households continue to struggle to meet their basic needs. Wages for both skilled and unskilled workers have increased in both nominal and real terms, despite high unemployment levels. This may indicate human capital constraints and a geographic mismatch between labor supply and demand. Restrictive policies limiting women's education, employment, and mobility exacerbate labor market challenges. The unemployment rate doubled between 2020 and 2023, with women and youth being the most affected.

International assistance, remittances, and deflationary trends have helped stabilize poverty rates at around 48 percent as of Spring 2023, a 4-percentage point decline compared to the same period in 2020. However, poverty remains high, with widespread vulnerability to economic and environmental shocks. In urban areas, poverty continues to rise due to a lack of job opportunities, while in rural areas, improved security and better market access have contributed to a decline in poverty. However, these rural gains remain highly vulnerable to agricultural volatility and climate-related shocks.

Afghanistan has seen slight improvements in food security, but millions still face severe shortages. By the fall of 2024, an estimated 11.6 million people—one in four Afghans—were experiencing crisis-level or higher food insecurity, classified in Phase 3 and 4 of the Integrated Food Security Phase

Classification (IPC)[4]. Among them, 1.8 million people (4 percent) were in an emergency (Phase 4), while 9.8 million (21 percent) were in crisis (Phase 3). Compared to the same period in 2023, the number of severely food-insecure people declined by 11 percent, driven by a 25 percent reduction in those in emergency conditions (Phase 4) and a 7 percent decrease in those in crisis (Phase 3) (Figure 8 and 9). These modest improvements are attributed to better agricultural production, large-scale humanitarian food aid, emergency farming support, and increased household purchasing power.

However, food security remains fragile, and conditions are expected to have worsened during the lean season from November 2024 to March 2025, when food supplies shrunk, and access to essential goods became more challenging. During this period, 14.8 million people (32 percent of the population) are estimated to have experienced food shortages, a sharp increase from 11.2 million a year earlier. This anticipated deterioration highlights ongoing vulnerabilities in Afghanistan's food system and underscores the need for sustained humanitarian assistance and long-term strategies to strengthen food security.

Figure 8: Number of Food Insecure in Fall 2024

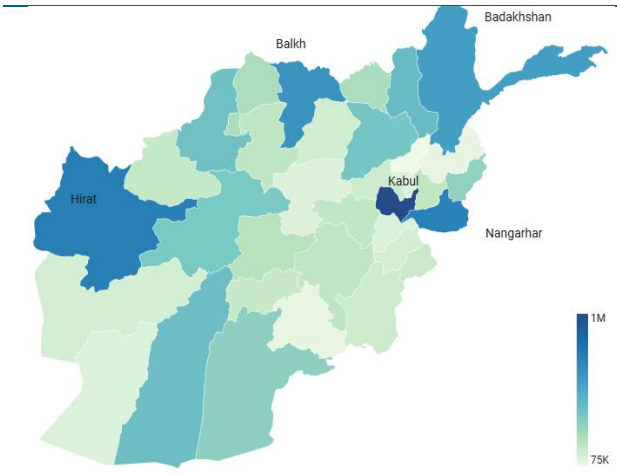
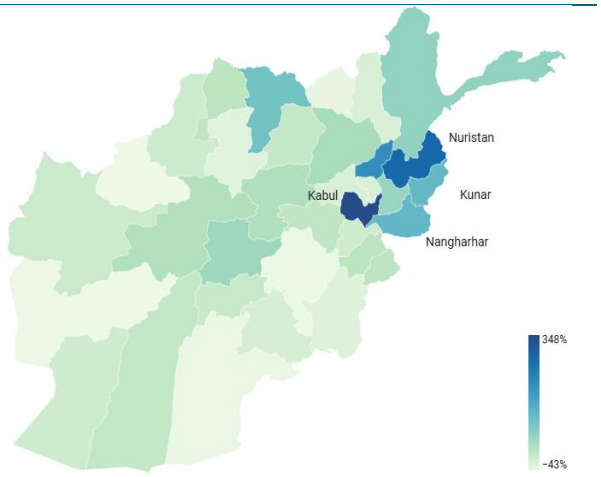


Figure 9: Change in Food Insecurity in Fall 2024



Source: Afghanistan: Acute Food Insecurity Situation for September - October 2024 and Projection for November 2024 - March 2025; Integrated Food Security Phase Classification (IPC)

At the same time, progress has been made in addressing child malnutrition in Afghanistan. The stunting rate among children aged 0 to 59 months has shown a remarkable improvement, decreasing from 52 percent in 2008 to 33 percent in 2022, according to the Standardized Monitoring and Assessment of Relief and Transitions (SMART) survey (Figure 10). This positive trend underscores the effectiveness of efforts to combat child malnutrition and improve children's health outcomes.

At the same time, progress has been made in addressing child malnutrition in Afghanistan. The stunting rate among children aged 0 to 59 months has shown a remarkable improvement, decreasing from 52

[4] The main goal of the IPC is to provide decision-makers with a rigorous, evidence- and consensus-based analysis of food insecurity and acute malnutrition situations, to inform emergency responses as well as medium- and long-term policy and programming. https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1159434/?iso3=AFG

percent in 2008 to 33 percent in 2022, according to the SMART survey (Figure 10). This positive trend underscores the effectiveness of efforts to combat child malnutrition and improve children's health outcomes.

However, significant challenges remain. In 2024, more than one in three Afghan children under age five are stunted—a condition that not only increases the risk of child mortality due to malnutrition but also leads to lifelong consequences, including poorer health, reduced educational attainment, lower adult earnings, and higher risk of cardiovascular disease. Afghanistan continues to have one of the highest stunting rates in South Asia, following only Pakistan (34 percent) and India (35.5 percent), and exceeding Bangladesh (24 percent) (Figure 11). Beyond individual impacts, stunting imposes substantial economic costs—up to 13 percent of GDP in high-burden countries—and is intergenerational, as mothers who were stunted in childhood are more likely to give birth to stunted children.

Figure 10: Trend of Stunting Rate in Afghanistan

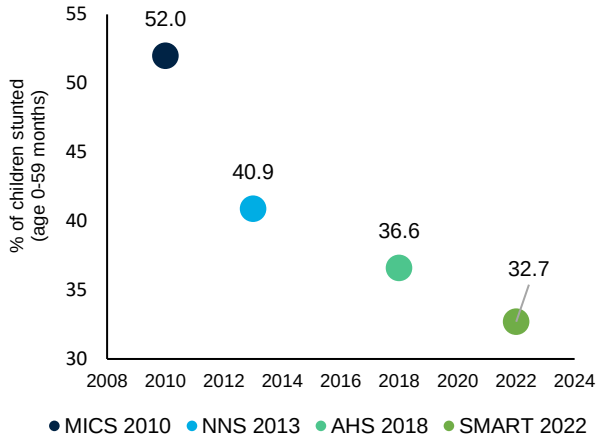
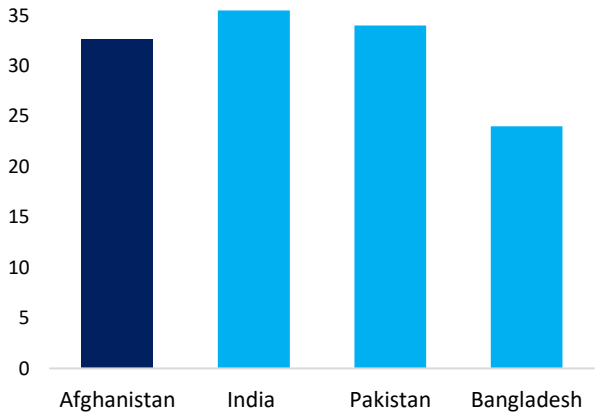


Figure 11: Stunting Rate in Selected SAR countries



Source: Afghanistan: MICS (2010), NNS (2013), AHS (2018), SMART (2022), Bangladesh: DHS (2022), Pakistan: UNICEF-WHO-WB joint malnutrition estimate (2023), India: NFHS-5 (2021)

Acute malnutrition also remains a critical concern, particularly for young children and mothers. In late 2024, an estimated 3.5 million children (ages 6 to 59 months) were expected to suffer from acute malnutrition, requiring immediate medical and nutritional interventions. This includes 867,300 children with Severe Acute Malnutrition (SAM) and 2.6 million children with Moderate Acute Malnutrition (MAM)[5]. Additionally, 1.2 million pregnant and breastfeeding women were projected to experience acute malnutrition, putting both maternal and infant health at serious risk. Without adequate support, these conditions could lead to long-term health and developmental issues, further worsening Afghanistan's already fragile humanitarian situation. It is important to note that the

5 Afghanistan: Acute Malnutrition Situation for June - October 2024 and Projection for November 2024 - May 2025 https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1159436/?iso3=AFG

prevalence of SAM in Afghanistan is lower (1.5 percent) compared to neighboring countries such as Bangladesh (3.5 percent), India (7.5 percent), and Pakistan (7.4 percent).

Between 2023 and 2024, acute malnutrition in Afghanistan has worsened, with the total number of affected children and women rising from 4 million to 4.7 million—a 17.5 percent increase. While SAM saw a slight decline (-0.9 percent), MAM increased by 10.6 percent, signaling persistent food insecurity. The situation is particularly concerning for pregnant and breastfeeding women, with cases surging by 49 percent to 1.2 million, increasing risks to maternal and infant health. Geographically, the crisis has deepened, with two additional provinces (Helmand and Kandahar) reaching Critical (Phase 4) levels, while Balkh is expected to worsen from Phase 2 to 3 by mid-2025.

Acute and chronic malnutrition in Afghanistan is driven by persistent food insecurity, high disease prevalence (such as diarrhea, malaria, and respiratory infections), limited healthcare access, poor sanitation, and climate shocks. Despite humanitarian efforts and donor support for the Basic Package of Health Services (BPHS), which prioritizes maternal and child nutrition, only 16 percent of children receive a minimum acceptable diet, and malnutrition rates are expected to remain high, particularly during the lean season (November 2024 – March 2025). Without sustained, multi-sectoral interventions addressing the root causes—spanning food security, WASH (Water, Sanitation, and Hygiene), livelihoods, education, healthcare, and nutrition—Afghanistan faces a prolonged malnutrition crisis, posing serious risks to public health, human capital development, and economic stability.

FISCAL DEVELOPMENTS: IMPROVEMENT IN DOMESTIC REVENUES NOT ENOUGH TO COMPENSATE FOR THE DECLINE IN AID

Domestic revenue mobilization in Afghanistan has remained strong; however, the gains are insufficient to offset the sharp decline in external aid. With borrowing capacity severely constrained, the ITA faces significant challenges in financing long-term growth initiatives, making it increasingly reliant on improved revenue collection to maintain fiscal stability.

FISCAL REVENUES AND GRANTS

Despite improvements in domestic revenue mobilization, Afghanistan faced fiscal challenges in 2024 due to a continued decline in external grants. Revenue collection remained strong, exceeding the 2024 target, driven by enhanced compliance and enforcement measures by the ITA. Total revenue is estimated at AFN 241 billion (16.6 percent of GDP), a 14.4 percent increase from the previous year, with AFN 157billion (10.8 percent of GDP) from tax revenues and AFN 85 billion (5.8 percent of GDP) from non-tax and other unclassified revenues. However, grants—mainly channeled off-budget—declined to AFN 204 billion (US$2.9 billion or 14 percent of GDP), a 17.5 percent drop in nominal terms in 2024 following a 24.4 percent contraction in 2023, as donors scaled back their engagement (Figure 12). The continued reduction in external assistance poses significant fiscal risks, reinforcing the need to strengthen domestic revenue generation and enhance fiscal sustainability.

Afghanistan's revenue mobilization remains largely regressive, with direct tax

revenue exceptionally low compared to similar countries. The country heavily relies on indirect taxes—such as customs duties and sales taxes—which disproportionately burden lower-income groups by consuming a larger share of their income. Indirect taxes dominate the tax structure, with the goods and services tax (GST) generating AFN 43 billion (3 percent of GDP) and taxes on international trade amounting to AFN 64 billion (4.4 percent of GDP). These two components grew by 28.5 percent and 29.3 percent, respectively, compared to fiscal year 2023, driven by economic recovery, rising imports, and improved enforcement. However, export taxes declined sharply, reflecting a significant drop in coal exports.

In contrast, direct tax revenue remains low, totaling AFN 28 billion (1.9 percent of GDP). This includes AFN 10.9 billion (0.8 percent of GDP) from personal income taxes, AFN 8.2 billion (0.6 percent of GDP) from corporate income taxes, AFN 1.2 billion (0.1 percent of GDP) from property taxes, and AFN 7.4 billion (0.5 percent of GDP) from other direct taxes. Afghanistan applies a flat 20 percent corporate income tax (CIT) on all businesses, while traders are subject to fixed taxes of 2 to 3 percent at the import stage instead of income taxes. Although the personal income tax system follows a marginally progressive structure, its impact remains limited due to a narrow tax base, as the majority of workers operate in the informal sector and do not pay income tax. Enhancing tax compliance and expanding the tax base could help strengthen revenue mobilization and improve fiscal sustainability.

The heavy reliance on indirect taxes underscores the need for tax policy measures to enhance progressivity and improve equity in the tax system. In response, the ITA has introduced several tax policy measures aimed at stimulating aggregate demand and supporting economic recovery. These measures include exempting businesses with turnovers below AFN 2 million from income tax, halving the Business Receipt Tax (BRT) for industries, reducing small taxpayer rates from 1.5 percent to 0.5 percent, pardoning pre-2016 tax arrears, and offering scaled exemptions and amnesty for post-2016 arrears. Additionally, small businesses with annual sales exceeding AFN 2 million now pay a reduced tax rate of 0.3 percent, down from the previous 0.5 percent. These actions aim to reduce the tax burden on small enterprises, encourage formalization, and revitalize economic growth.

However, tax policy measures remain largely ad hoc, creating uncertainty and sending mixed signals. In summer 2024, the ITA's Revenue and Customs Administration introduced selective tax cuts, reducing restaurant and hotel profit taxes (for earnings below AFN 750,000 per quarter) from 5 percent to 2 percent, lowering the petrol tax at pump stations to 0.3 percent per liter, and cutting tariffs on refined coal exports and machinery parts from 5 percent to 1 percent. Meanwhile, tariffs on several imported goods increased, including chocolate, biscuits, cake, and cookies (30 percent); bran flour (8 percent); jelly (12 percent); fans (6.5 percent); and milk, pasta, and eggs (30 percent, 20 percent, and 16 percent, respectively). Additionally, construction materials like Isogam and Alkoban, along with notebooks, chips, cleaning paper, and coolers, saw tariff hikes ranging from 10 percent to 60 percent. These inconsistent adjustments reflect a lack of a cohesive tax strategy, potentially creating uncertainty for businesses and consumers.

Non-tax revenue recorded robust growth in 2024, though a sharp decline in miscellaneous receipts moderated the overall increase. Non-tax revenue performed strongly in 2024, rising by 31.2 percent to AFN 83.7 billion (5.8 percent of GDP). This growth was primarily driven by increased collections

from the mining sector, toll roads, vehicle registrations, passport issuance, transportation services, overflight fees, railways, and telecommunications. However, miscellaneous revenue declined sharply—from AFN 25 billion in 2023 (1.9 percent of GDP) to just AFN 0.9 billion in 2024 (0.1 percent of GDP)—dampening the overall pace of revenue growth.

Grant disbursements have been on a declining trend for over a decade, with the pace of reduction accelerating since 2021. In 2024, total grants are estimated at AFN 204 billion (US$2.9 billion), representing 14 percent of GDP, marking a 17.5 percent decline from the previous year, following an even steeper 24.4 percent drop in 2023 (Figure 135). Since the ITA takeover, donors have adjusted their aid strategies, discontinuing development projects and technical assistance while scaling up humanitarian aid and gradually reintroducing support for basic services. Although humanitarian needs remain significant, they have moderately declined, while basic needs projects face longer implementation timelines. Additionally, restrictive policies affecting women and girls, along with growing operational challenges for donors, have further contributed to the decline in external assistance.

Figure 12: Domestic Revenue by Component (Percent of GDP)

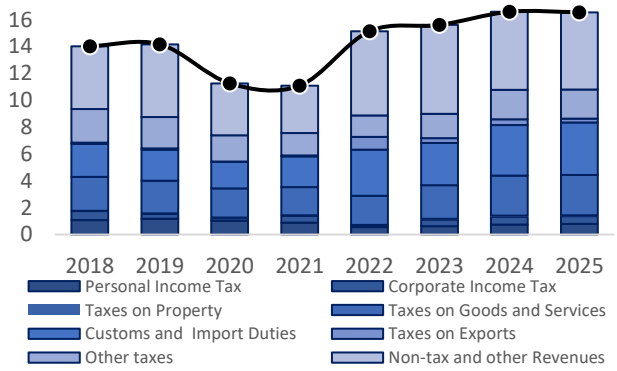
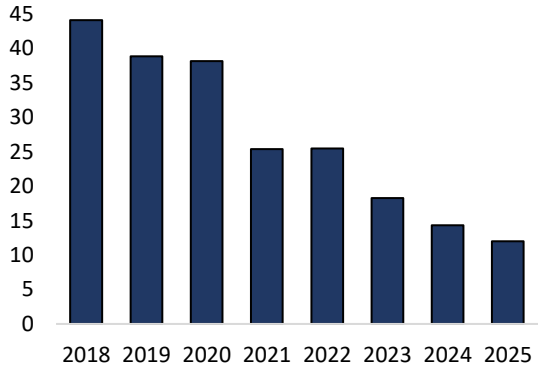


Figure 13: External Grant Revenue (Percent of GDP)



Source: Ministry of Finance, UN, and World Bank Staff.

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

Afghanistan has made notable progress in domestic revenue mobilization, though tax collection efficiency remains below potential. Compared to its peer countries in the South Asian region, Afghanistan performs well in domestic revenue mobilization, with a domestic revenue-to-GDP ratio of 16.5 percent. However, when non-tax revenue is excluded, Afghanistan's tax-to-GDP ratio is 9.3 percent, aligning with that of its regional peers. Despite recent improvements, there is still room to enhance both direct and indirect tax collection. According to the April 2025 issue of the SARU, the total tax revenue shortfall, measured as the gap between potential and actual tax revenues, is estimated at nearly 5 percent of GDP. This includes a 4.2 percentage point shortfall in consumption tax and a 0.8 percentage point shortfall in personal income tax (Figures 14, 15, and 16).

Figure 14: Total tax revenue shortfalls (% of GDP)

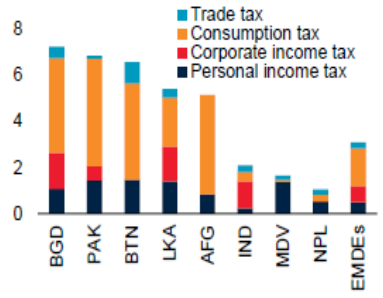


Figure 15: Consumption tax revenue shortfalls (% of GDP)

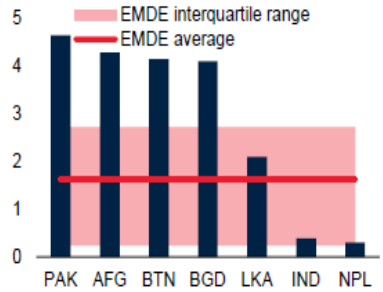
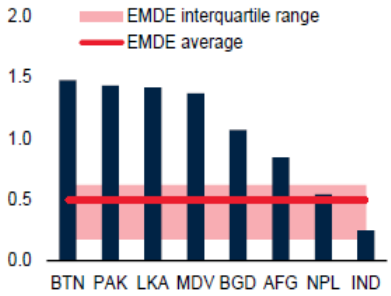


Figure 16: Personal income tax revenue shortfalls (% of GDP)



Source: South Asia Development Update (April 2025).
Note: AFG = Afghanistan. BGD = Bangladesh. BTN = Bhutan. IND = India. LKA = Sri Lanka. MDV = Maldives. NPL = Nepal. PAK = Pakistan. EMDE = emerging market and developing economy. Tax revenue shortfall is the difference between potential and actual tax revenues. Potential tax revenues are obtained as the ratio of actual tax revenue and the efficiency score derived from stochastic frontier analysis with tax rate and potential tax base, for each tax type. Sample comprises 158 EMDEs during 2000–23. Values shown are the average of 2020 to the most recent period.

FISCAL EXPENDITURES:

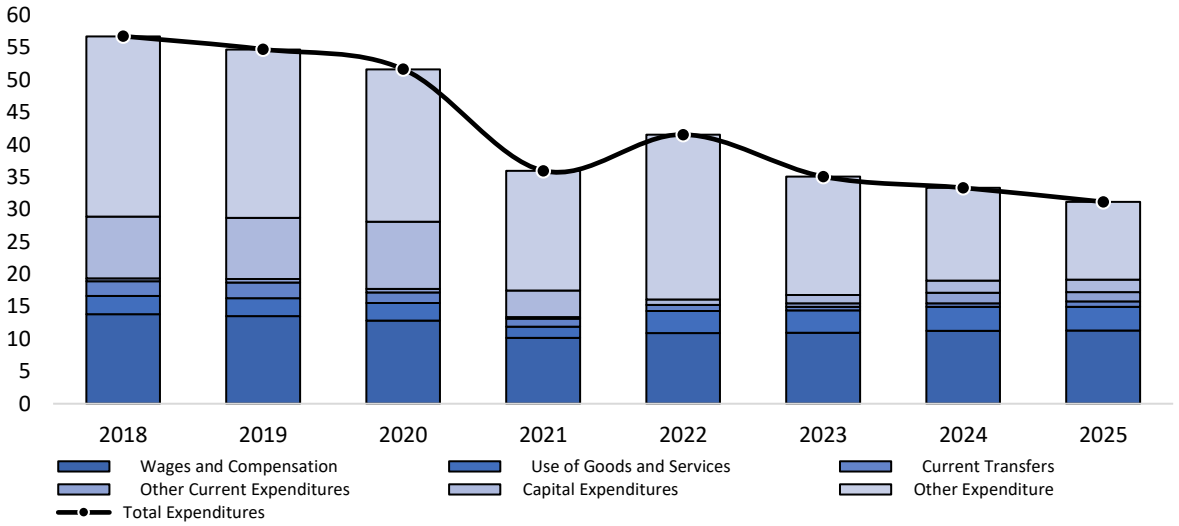
With expenditure data for 2024 not publicly available, the ITA's spending pattern is expected to align with revenue collection trends, which remain its primary funding source. The ITA's ability to secure on-budget external financing or borrow funds is significantly constrained, yet it continues to hold net claims on the central bank, the Da Afghanistan Bank (DAB), estimated at approximately USD 1.5 billion by end December 2024. If these resources are utilized, they could offer a temporary buffer for sustaining expenditures. However, liquidity constraints at the DAB may limit the ability to leverage these funds in large amounts. A gradual and measured approach could enable strategic allocation over multiple years until replenishment occurs.

Taking these factors into account, the ITA is estimated to have spent approximately AFN 271 billion in 2024—about 18.6 percent of GDP, marking a 19.4 percent increase from 2023. Recurrent spending is expected to make up 16.8 percent of GDP, with two-thirds allocated to wages and salaries (11.1 percent), followed by goods and services (3.6 percent), and transfers (0.6 percent). Additional spending pressures in 2024, including partial pension payments, led to delays in salary disbursements. Development spending is estimated at 1.9 percent of GDP, with priority investments in the Qush-Tepa Canal and the maintenance and reconstruction of key highways and railway infrastructure (Figure 17).

In parallel, donor expenditures, channeled off-budget, are estimated at approximately AFN 204 billion, representing 14 percent of GDP in 2024—a significant decline of AFN 42.8 billion (4,3 percentage points of GDP) compared to 2023. This reduction poses a serious risk to the continuity of essential service delivery programs, particularly those implemented through the UN and funded via humanitarian channels. The decline in donor assistance is expected to exacerbate existing vulnerabilities, as the ITA lacks the fiscal capacity to fully offset the reduction in off-budget support. Key sectors such as healthcare, education, and social protection,

which have historically relied on international aid, may face severe disruptions, disproportionately affecting marginalized populations, including women, children, and displaced communities. The contraction in aid may also limit emergency response capabilities, further straining public services and slowing economic recovery efforts.

Figure 17: Fiscal Expenditure by Component (Percent of GDP)[6]



Source: Ministry of Finance for data up to 2023 and World Bank estimates for 2024 and projections for 2025.
Note: The Afghan fiscal calendar month, Hamal, runs from March 22–April 21.

Mounting fiscal pressures in Afghanistan have been compounded by the ITA's decision to reinstate pension payments amid ongoing liquidity constraints. Expenditure pressures in Afghanistan appear to be rising, particularly following the recent directive from the Supreme Leader to resume pension payments after a three-year suspension. Although detailed public expenditure data is not yet available, the ITA has authorized the payment of pension benefits to both retirees and active employees whose pension contributions had previously been deducted from their salaries. Notably, Afghanistan's pension system was abolished by the ITA in April 2024, and the exact number of eligible beneficiaries remains unknown. However, reports indicate that over 150,000 retirees have not received pensions since the Taliban's return to power in 2021. In addition, delays in the payment of wages and salaries point to persistent liquidity constraints and broader challenges in ensuring timely government expenditures.

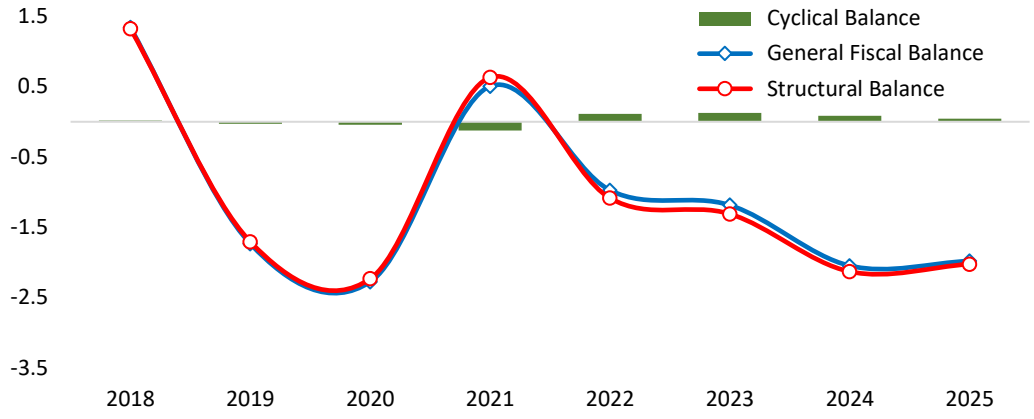
Fiscal Deficit and its Financing

Afghanistan's fiscal deficit is projected to rise to 2 percent of GDP in 2024, up from 1.2 percent in 2023, driven by mounting expenditure pressures. With limited options for domestic and external borrowing, the deficit is expected to be financed through

[6] Fiscal expenditure includes both ITA expenditure and donors' funded projects, classified as other expenditure.

withdrawals from the ITA's Central Bank deposits. Structurally, the fiscal balance has fluctuated—occasionally showing surpluses (e.g., in 2012 and 2018), but largely remaining in deficit, including -1.3 percent in 2023 and -2.1 percent in 2024. In the short to medium term, the cyclical balance has been mostly neutral, turning slightly negative in 2021 (-0.1) before gradually improving (Figure 18).

Figure 18: General, Structural, and Cyclical Fiscal Balance (percent of GDP)



Source: Ministry of Finance and World Bank estimates.
Note: The Afghan fiscal calendar month, Hamal, runs from March 22–April 21.

EXTERNAL SECTOR: PERSITENT STRONG AFGHANI AMID WIDENING TRADE DEFICIT.

In 2024, exports of goods and services declined, while imports surged, widening the trade deficit. The growth in imports was partly driven by rising industrial demand and partly by the substitution of domestic consumer goods.

Imports expanded fast in 2024, while exports declined, leading to a widening trade deficit, a continuation of the trend observed in 2023. The deficit grew significantly, by 48.4 percent, rising from $6.3 billion in 2023 to $9.4 billion in 2024 (Figures 19 and 20). This sharp increase is primarily attributed to the strengthening of the Afghani, which reduced the competitiveness of domestic production, unidentified foreign currency inflows that fueled higher import demand, and sporadic deteriorations in trade relations with Pakistan, which negatively impacted export performance. These factors collectively underscore Afghanistan's ongoing external sector vulnerabilities and the challenges in achieving trade balance stability.

The real appreciation of the Afghani in 2024, driven by nominal gains, exacerbated the trade deficit. While Afghanistan experienced 4.3 percent deflation, its trading partners had an average inflation rate of 5.3 percent, creating a negative 9.6 percent inflation differential. This, coupled with an 11.9 percent appreciation in the Nominal Effective Exchange Rate (NEER), led to an increase in the Real Effective Exchange Rate (REER). The unexplained appreciation of the Afghani further exacerbated the trade imbalance, reducing the competitiveness of Afghan exports in global markets despite domestic deflation, making it harder for local producers to compete internationally.

Figure 19: Monthly Trade Deficit ($Million)

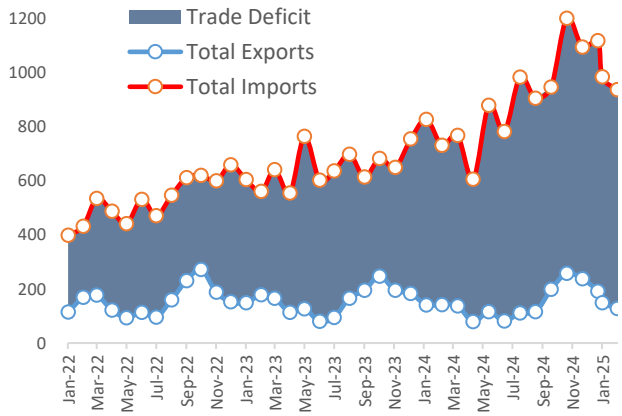
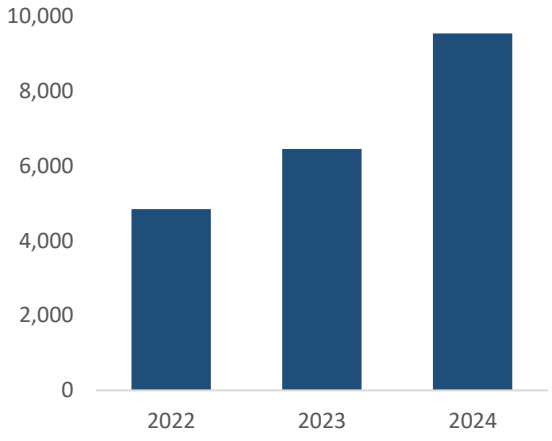


Figure 20: Annual Trade Deficit ($Billion)



Source: WB Staff calculations based on Automated System for Customs Data (ASYCUDA), and Ministry Of Commerce and Industry (MOCI).

Exports:

In 2024, exports of goods and services declined to 10.1 percent of GDP, down from 12 percent of GDP in 2023 (Figure 19). Monthly fluctuations in merchandize exports were significant, with exports peaking at $263.2 million in October 2024, driven by successful harvests, while experiencing sharp contractions in June ($86.4 million), April ($87.9 million), and early 20225 contributing to overall decline in the year. Sector-wise, coal and textile exports declined significantly, reflecting weaker demand and external trade constraints, while food exports remained resilient, posting modest growth despite broader trade challenges. This uneven performance underscores Afghanistan's export sector volatility, highlighting its vulnerability to external shocks, seasonal factors, and shifting regional trade dynamics.

The coal sector experienced the most significant decline, with exports plummeting by 40 percent to $105 million in 2024 (Figures 21 and 22). This downturn was driven by Pakistani buyers reverting to traditional suppliers as price differences narrowed, exacerbating a trend that began in 2023, when coal exports dropped by 65 percent, falling from $498 million to $174 million. Given coal's historical importance to Afghanistan's export earnings, this decline has had a substantial impact on overall trade figures.

The textile sector contracted by 31.7 percent in 2024, declining to $212 million after experiencing 49.1 percent growth to $310 million in 2023. This downturn was driven by several factors, including the appreciation of the Afghani, which reduced the price competitiveness of Afghan textiles, and weaker global demand. Additionally, higher tariffs imposed by Pakistan on Afghan textile exports, particularly in the first half of the year, further dampened demand. Despite this decline, textiles remain a key non-food export, highlighting Afghanistan's heavy reliance on agriculture-based industries, which remain highly vulnerable to climate shocks and trade restrictions.

Food exports demonstrated resilience, growing by 9.6 percent from $1.2 billion in 2023 to $1.4 billion in 2024. This growth was supported by improved trade conditions, including tariff exemptions from China and the reopening of key trade routes with Pakistan in the second half of the year. Additionally, favorable weather conditions ensured a steady supply of essential agricultural commodities, such as fruits, vegetables, and grains. The stability of food exports highlights their critical role in Afghanistan's economy, as staple goods are less vulnerable to currency fluctuations compared to manufactured products, providing a more reliable source of export revenue amid broader trade uncertainties.

Figure 21: Exports Trend ($Billion)

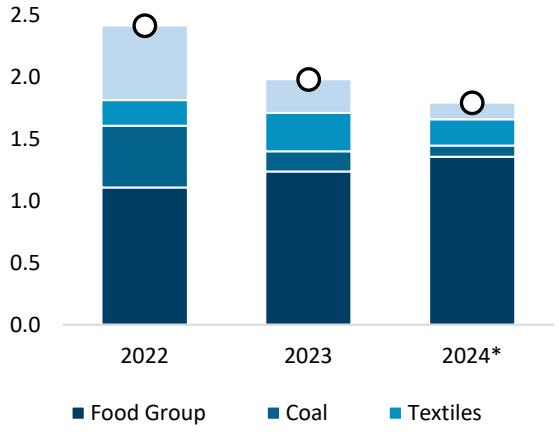
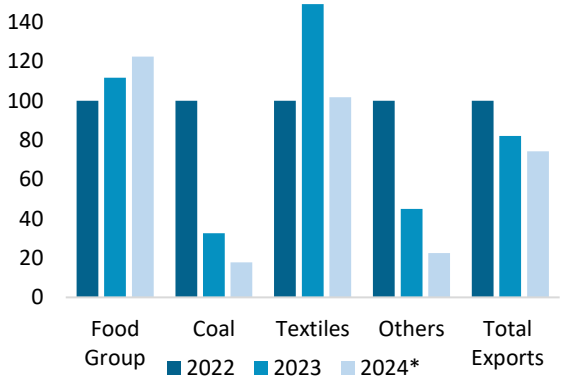


Figure 22: Exports Index (2022=100)



Source: WB Staff calculations based on Automated System for Customs Data (ASYCUDA)
*Ministry Of Commerce and Industry (MOCI) data.

Export composition has shifted in 2024. The sharp decline in textiles and coal exports was partially offset by the growth in food exports, resulting in a higher share of the latter, which increased from 62 percent of total exports in 2023 to 71 percent in 2024. Meanwhile, the combined share of coal and textiles fell from 24 percent to 16 percent. Exports of items other than food, textiles, and coal remained highly volatile, with their overall contribution to export growth remaining negligible due to their relatively small share in total exports. Among them, transportation exports made the largest positive contribution, followed by natural or cultured pearls, base metals, precision instruments, and stone & glass. These exports surged by 108 percent, increasing from $44.7 million in 2023 to $92.8 million in 2024, driven by rising demand from key trading partners, including the UAE, Pakistan, Iran, and China. However, mineral products recorded the largest decline in exports, followed by plastics and rubbers, and miscellaneous manufactured articles.

Afghanistan's export destinations have also shifted in 2024. Exports to Pakistan declined by 18.5 percent, falling from $1.1 billion in 2023 to $887 million in 2024, primarily due to the collapse of coal and textile exports and stagnant food exports. Despite this downturn, Pakistan remained Afghanistan's largest export destination, accounting for 45 percent of total exports, although its share dropped

from 54 percent in 2023. The decline was largely driven by policy changes in Pakistan affecting coal imports, higher tariffs on Afghan goods, and logistical disruptions, including border closures and transit issues. Food and coal exports, which together constituted 63 percent of Afghanistan's total exports to Pakistan, declined. In contrast, the share of India—Afghanistan's second-largest export destination—increased by 2 percentage points (pp) to 35 percent in 2024. Food exports to India increased by 5 percent, driven by higher demand for fresh and dried fruits. Additionally, fragile trade relations with Pakistan have pushed Afghanistan to diversify its export destinations, with Iran, Kazakhstan, and Uzbekistan contributing each about 3 percent of total exports in 2024.

Imports:

Afghanistan's imports of goods and services maintained strong growth. Merchandise imports grew by 37 percent, reaching 54 percent of GDP in 2024, compared to 51.7 percent in 2023, while service imports remained at around 4.5 percent of GDP, as in 2023. Imports recorded year-on-year growth every month in 2024, except for the last quarter of the fiscal year, with the most significant expansion in the third quarter of the year, averaging 64 percent, year-on-year, driven by strong demand for essential goods, industrial inputs, and rising trade activity (Figures 23 and 24).

Imports increased across nearly all categories in 2024, with food and mineral products leading the surge. Food imports, which accounted for 20 percent of total imports, rose by 28 percent to $2.3 billion, up from $1.8 billion in 2023. Similarly, mineral imports—primarily petroleum, gas, and cement—jumped by 64.7 percent to $2.7 billion, compared to $1.6 billion in 2023, signaling growing demand in the transportation and construction sectors. In contrast, textile imports declined by 5.3 percent to $692 million, following an 11 percent increase in 2023, when imports stood at $731 million.

Despite overall growth, the share of food, minerals, and textiles in total imports slightly declined in 2024. These categories accounted for half of total imports in 2023, but their share fell to 48 percent in early 2024 as Afghanistan diversified its import portfolio by increasing industrial and intermediate goods imports. Intermediate goods imports surged to $4 billion in 2024, up from close to $3 billion in 2023, with notable increases in transportation equipment, chemicals, base metals, machinery, plastics, rubber, and stone/glass products.

A notable shift also occurred in the composition of imports, as machinery, transportation equipment, and chemicals experienced substantial growth compared to primary commodities. In 2023, these imported goods grew at a faster rate than primary commodities, and this trend accelerated in 2024. Transportation equipment imports surged by 86 percent, chemicals and allied industries by 51 percent, and machinery by about 30 percent. As a result, the share of secondary imports in total imports increased from 24 percent in 2023 to 27 percent in 2024, reflecting a continued shift toward industrial and manufacturing-related imports, which may support long-term economic development but also highlights increasing reliance on foreign industrial inputs.

Shifting regional trade dynamics in 2024 significantly reshaped Afghanistan's import landscape, with Iran and the UAE gaining prominence as key trading partners. Iran remained Afghanistan's largest source of imports during in 2024, accounting for 30 percent of total imports—up from 23 percent during the same period in 2023. Imports from

Iran surged by more than 60 percent driven by Afghanistan's shift in transit trade routes away from Pakistan, due to trade restrictions and higher tariffs on select goods. As a result, Iran has strengthened its strategic role as a key supplier of essential goods, energy, and industrial inputs. The UAE also expanded its role, with its share of Afghan imports rising from 16 percent in 2023 to 18 percent in 2024, supported by its function as a re-export hub, particularly for machinery and transportation equipment. In contrast, Pakistan's share declined from 19 percent to 14 percent, reflecting a move toward alternative trade routes amid ongoing tensions, regulatory shifts, and periodic border closures. China supplied 8 percent of Afghanistan's imports, mainly consisting of industrial goods and raw materials that support the country's expanding manufacturing sector.

Figure 23: Imports Trend ($billion)

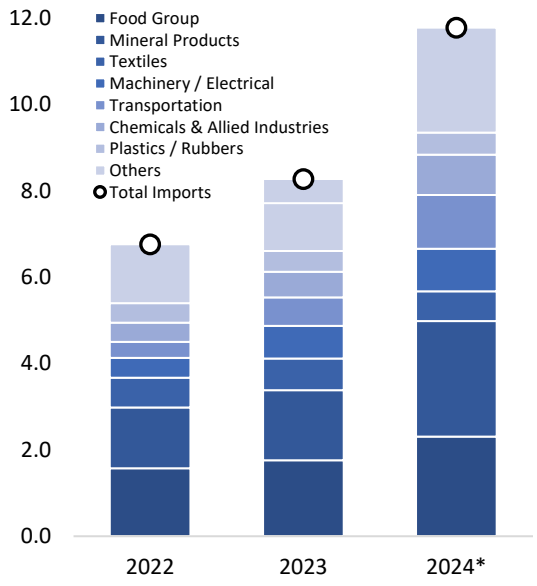
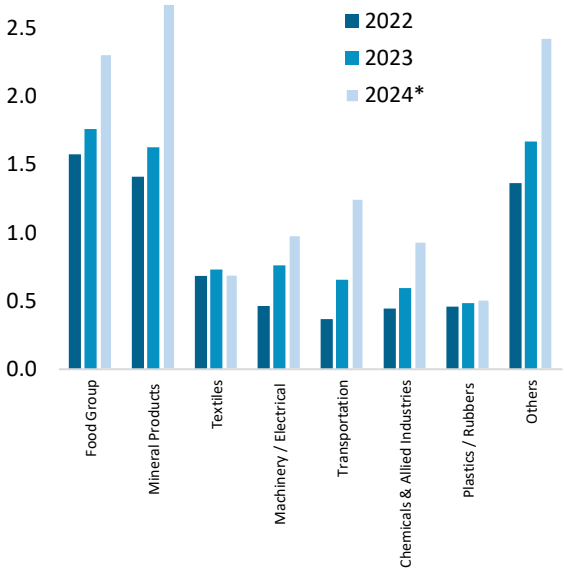


Figure 24: Imports Index (2022=100)



Source: WB Staff calculations based on Automated System for Customs Data (ASYCUDA)
*Ministry Of Commerce and Industry (MOCI) data

Exchange rate:

The Afghani experienced significant volatility in late 2024 and early 2025, shifting from strong appreciation to sharp depreciation before stabilizing with renewed central bank interventions. After a period of sustained appreciation, the Afghani (AFN) came under mounting depreciation pressure in late 2024 amid shifting external and monetary dynamics. The currency had strengthened steadily through most of 2023 and 2024, appreciating by an average of 17.9 percent against the US dollar during the first seven months of 2024 and reaching 67 AFN per US dollar by October. The Nominal Effective Exchange Rate (NEER) also rose by 17.3 percent between April and October, reflecting broad-based gains against major trading partners.

However, beginning in November 2024, the Afghani weakened due to a decline in foreign exchange inflows, a widening trade deficit, and the suspension of US dollar auctions by Da Afghanistan Bank (DAB)

from September to December. As a result, the currency depreciated by 12 percent between November 2024 and January 2025, falling to 74.8 AFN per US dollar. The NEER, which had previously strengthened, declined by 5 percent year-on-year by January 2025 (Figures 25 and 26).

In early 2025, however, the Afghani began to recover amid renewed DAB interventions. The currency appreciated by 5 percent against the US dollar, reaching 71.1 AFN per dollar in March, compared to 73.1 in February and 74.8 in January. It also gained against the currencies of major trading partners, with the NEER appreciating by 1.6 percent month-over-month in February 2025.

Figure 25: Nominal and Real Effective Exchange Rate – Index (July 2021 = 100)

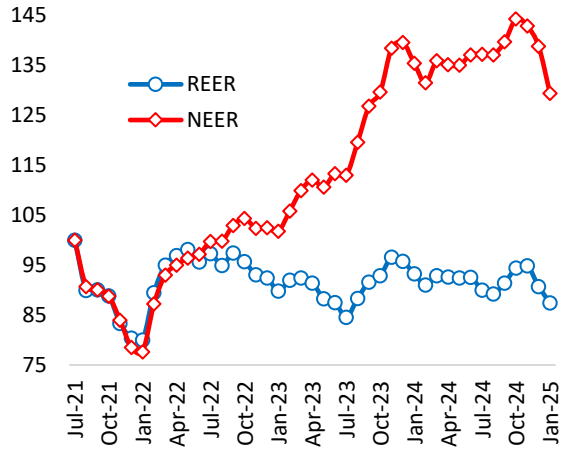
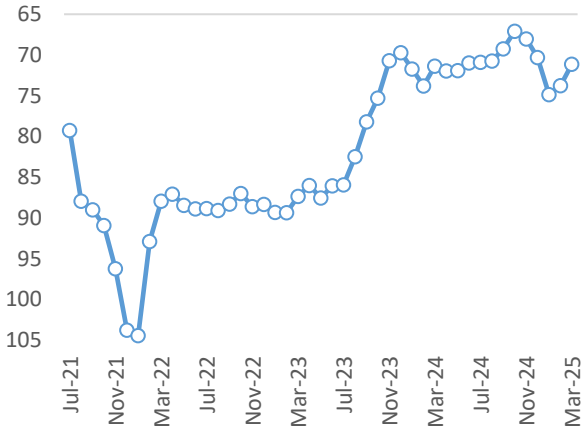


Figure 26: Average Monthly AFN/$Exchange Rate



Source: Da Bank of Afghanistan (DAB) and World Bank Staff calculations.

Despite a significant inflation differential between Afghanistan and its trade partners, the REER experienced slight appreciation in 2024. Afghanistan saw deflation throughout the fiscal year, while its trade partners experienced inflation. The trade-weighted relative price index (RPI) recorded 9.6 percent deflation in the first ten months of 2024, consisting of 12.1 percent deflation in the first seven months, followed by 3.8 percent inflation in the final three months. Consequently, the REER appreciated by 3.0 percent year-on-year in the first seven months of 2024 but depreciated by 4.5 percent year-on-year from November 2024 to January 2025. By January 2025, the REER had returned to its June 2023 level, slightly below the rate observed at the time of the ITA's takeover. **Despite recent depreciation, Afghanistan's trade competitiveness has not improved, as evidenced by a 48 percent increase in the trade deficit in 2024.** This suggests that the initial appreciation of the R EER following the Taliban's takeover has been largely offset by recent depreciations. As of January 2025, despite the persistently large trade deficit, the REER remains only 2.8 percent lower than in September 2021, indicating that Afghanistan's exports remain relatively uncompetitive.

Box 1: Exchange Rate Dynamics and Determinants in Afghanistan

Since the Taliban's return to power in August 2021, Afghanistan's exchange rate policy has faced significant challenges. The abrupt political transition led to the reduction of international aid, and the imposition of financial sanctions[7].These developments created severe liquidity shortages and exerted downward pressure on the Afghani (AFN). However, since January 2022, the Afghani has appreciated against the US Dollar, reaching a level in 2024 that is 9 percent higher than pre-Taliban levels. A similar pattern was observed with the Nominal Effective Exchange Rate (NEER), which rose 32 percent above its pre-Taliban level. In contrast, the Real Effective Exchange Rate (REER) depreciated initially but later stabilized, returning to 2021 levels by 2024.

A Vector Error Correction Model (VECM) with a constant trend captures both short-run and long-run dynamics of the exchange rate in Afghanistan. This approach is suitable given the potential endogeneity among the variables and the presence of cointegration. Several information criteria, including the AIC, HQIC, and SBIC, were used to determine the model's lag specification, while the results of diagnostic tests confirm the robustness of the chosen specification.

The cointegrating equation suggests that the exchange rate depreciates with rising inflation and trade deficit, while the Central Bank's foreign currency holdings (FCH) have a stabilizing effect:

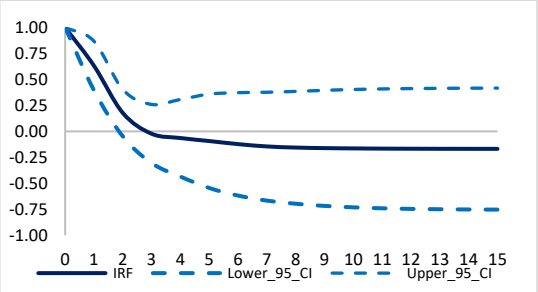
LogER = 1.578LogCPI + 0.161LogTD - 0.117LogFCH - 3.689

The ECT coefficient for the exchange rate equation is -0.5418 ($p < 0.01$), indicating a significant adjustment towards equilibrium when deviations occur. The speed of adjustment is relatively high, suggesting that the DAB actively intervenes to stabilize the currency.

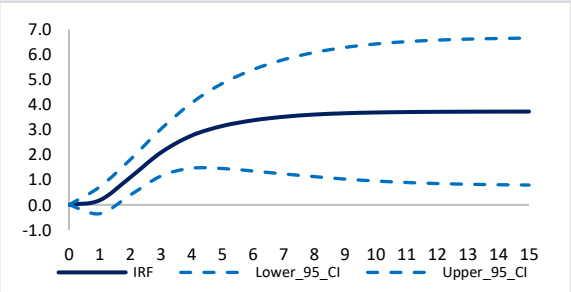
Short term dynamics suggest that the exchange rate is negatively influenced by changes in consumer prices and trade deficit, while changes in FCH have a positive but marginally significant effect. It suggests also price stickiness, with lagged values being positively significant, implying that inflationary shocks persist over time. The trade deficit is significantly affected by its lag, indicating the structural challenges in Afghanistan's trade sector, while DAB's FCH are weakly influenced by changes in the exchange rate, reflecting the limited flexibility in foreign reserve management under sanctions.

The exchange rate policy under the ITA appears to rely heavily on foreign currency interventions to maintain stability. Inflation and trade deficits pose risks to exchange rate stability, highlighting the need for broader macroeconomic reforms. Enhancing foreign reserves through remittances, informal trade channels, and regional partnerships could reduce exchange rate volatility. Additionally, promoting trade diversification and reducing import dependency may alleviate pressure on the currency. Monetary policy tools, although constrained, could be adapted to address inflationary expectations and improve public confidence in the currency.

Response of Exchange Rate to Shock on Exchange Rate



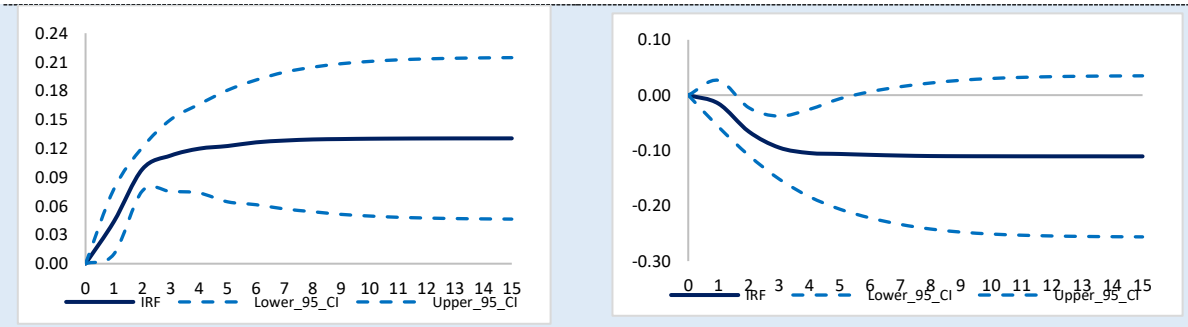
Response of Exchange Rate to Inflationary Pressures



Response of Exchange Rate to Widening Trade Deficit

Response of Exchange Rate to change in DAB Foreign Currency Holding

[7] Following the Taliban's takeover in August 2021, Afghanistan faced significant financial sanctions, including the freezing of approximately $9 billion in central bank assets held abroad. The sanctions severely restricted Afghanistan's external liquidity, disrupted banking operations, and limited the central bank's ability to manage monetary policy and stabilize the currency.



Source: World Bank Staff

MONETARY POLICY AND FINANCIAL SECTOR: GROWING MONEY SUPPLY AMID DECLINING LENDING

Afghanistan's banking sector remains fragile, facing regulatory uncertainty, rising non-performing loans (NPLs), and limited lending activity. While broad money grew by 6.6 percent in 2024, lending has stalled, with credit to private sector down by 12.4 percent Y-o-Y and an Advances to Deposit Ratio (ADR) of just 10 percent.

Liquidity and Monetary Sector Developments

Despite structural weaknesses, Afghanistan's banking sector saw marginal liquidity improvement in 2024, following a sharp decline in2022 and stagnation in 2023. Broad money (M2) grew by 6.6 percent in 2024, up from 0.8 percent in 2023 and a 4.7 percent decline in 2022 (Figure 27). This recovery was primarily driven by a 6.7 percent increase in Net Foreign Assets (NFA)—the first rise since 2021—boosted by workers' remittances, international aid, and UN cash shipments. Previously, NFA fell by a cumulative 28 percent under the ITA, declining 14.3 percent in 2022 and 16.1 percent in 2023. Meanwhile, Net Domestic Assets (NDA) remained negative, as the banking sector's liabilities to the ITA still exceeded private sector credit, which continued its downward trend, falling to just 2 percent of GDP in December 2024, from 2.4 percent of GDP in December 2023 (Figure 28).

Aggregate deposits in local currency equivalent increased by 1.9 percent Y-o-Y in December 2024. However, over half of these deposits remained in U.S. dollars, making fluctuations partly driven by exchange rate movements. A shift in deposit composition is evident, with medium-sized banks gaining deposits, while larger banks saw declines throughout 2024, likely due to diversification of banking partners for humanitarian and aid-related financial flows.

Although withdrawal limits on pre-August 2021 deposits remain, recent relaxations have aimed to restore confidence in the banking system. The total number of deposit accounts rose by 4.4 percent Y-o-Y in December 2024, signaling gradual depositor confidence recovery. However, fully lifting withdrawal limits could elevate liquidity risks for the sector.

Currency in circulation expanded by 10.7 percent in December 2024, building on a 6.4

percent increase in December 2023, bringing the cumulative growth since the August 2021 takeover to 20 percent. This rise reflects increased cash demand amid limited banking sector trust and a preference for cash transactions in the absence of a fully functioning digital payments system. While increased circulation may temporarily ease liquidity pressures, it raises concerns over inflationary risks and financial stability, particularly if economic activity remains weak and confidence in the banking sector does not fully recover.

Figure 27: Broad Money (M2) and its components (AFN Billions)

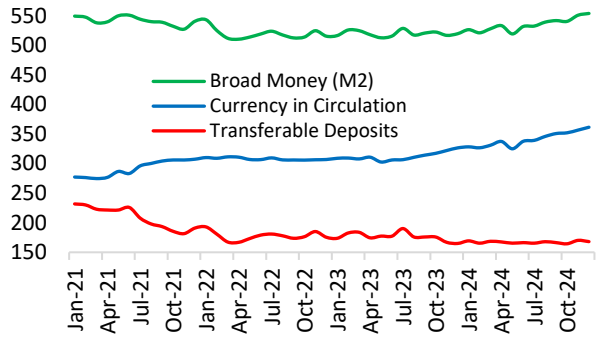
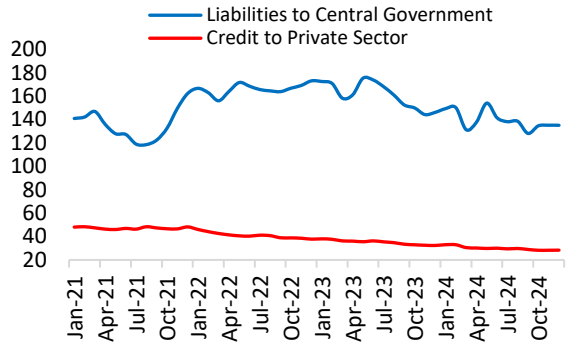


Figure 28: Liability to ITA and Credit to Private Sector (AFN Billions)



Source: Da Bank of Afghanistan (DAB) and World Bank staff estimates.

Banking Sector Indicators

Afghanistan's banking sector remains under stress as it navigates an uncertain policy and regulatory environment. The asset quality of the sector remains murky due to forbearance measures introduced by Da Afghanistan Bank (DAB) in 2021, which allow banks to defer provisioning for non-performing loans (NPLs). While this temporarily shields banks from provisioning costs, once these expenses are recognized, the sector will likely experience a sharp decline in profitability.

NPLs have continued to rise, increasing from 24 percent in December 2023 to 26 percent in December 2024. The erosion of capital buffers will become evident once loan losses are properly accounted for. The lack of a credit recovery mechanism and uncertainty surrounding the treatment of interest from legacy loans (before the transition to Islamic Finance) further hinder banks' ability to resolve distressed assets.

The Capital Adequacy Ratio (CAR) of the sector currently stands at 34.1 percent Y-o-Y (up from 31.3 percent), but this presents a misleadingly strong position due to ongoing forbearance measures. Once these measures are lifted, many banks will face severe undercapitalization, raising the risk of a financial stability crisis if the transition is not carefully managed. The absence of an interbank money market further exacerbates the sector's fragility.

Nevertheless, the total assets of the banking sector increased marginally by 1.2 percent Y-o-Y in December 2024, mainly due to higher cash holdings. However, banks remain unable to generate income from lending or cash deposits with the central

bank, leaving financial intermediation extremely constrained. The mandatory transition to Islamic Finance is ongoing, but uncertainty over the full transition timeline has left banks with limited operational flexibility.

Lending activity has declined sharply. Total gross loans decreased by 13.6 percent Y-o-Y in December 2024, while the number of borrowers fell by 38 percent to 16,642. The Advances to Deposit Ratio (ADR) stands at just 10 percent, indicating that lending has virtually stalled—a major concern for economic recovery and job creation.

Despite these constraints, the banking sector reported a strong rebound in profitability. Accumulated profits reached AFN 1.14 billion by the end of 2024, a partial recovery from AFN 4.04 billion in accumulated losses at the same time in 2023. This improvement was largely driven by a 57 percent reduction in total expenses and a 62 percent increase in accumulated investments. The sector's Return on Assets (ROA) (0.00038) and Return on Equity (ROE) (0.0027) turned positive by the end of 2024. However, the continuation of forbearance measures raises questions about the true financial health of banks, as provisioning expenses remain unaccounted for.

International Payments, Financial Connectivity, Digital Payments Infrastructure

International payments through banking channels, especially in U.S. dollars, remain highly problematic. USD settlement banks continue to de-risk, marginalizing Afghanistan from global payment systems. Some banks have established new correspondent banking relationships (CBRs) with regional banks, though the scale and sustainability of these arrangements remain unclear. UN cash shipments continue to be the primary source of international liquidity, highlighting the sector's ongoing vulnerabilities.

Concerns over the central bank's ability to monitor and manage AML/CTF risks further complicate financial sector stability. The increasing reliance on hawala networks for international payments reinforces perceptions of escalating financial integrity risks, further deterring potential banking partners.

On the digital side, the number of bank branches, ATMs, and point-of-sale (POS) terminals has increased, suggesting improved access to financial services. The number of operational bank branches rose from 369 in 2022 to 446 in 2024, while ATMs surged by 198 percent Y-o-Y to 274. POS machines also increased by 93 percent over the same period.

However, digital payments remain highly constrained. Key systems, such as Real-Time Gross Settlement (RTGS) and Automated Clearing House (ACH), remain non-operational. Instead, the Afghanistan Clearing and Settlement System (ACSS) has been reinstated, but its manual processing limitations hinder efficiency. While ACSS maintains some connections to Ministry of Finance systems, such as SIGTAS (for tax collection) and ASYCUDA (for customs payments), its lack of straight-through processing (STP) limits broader adoption.

The Afghanistan Payment System (APS), which operates the AfPay domestic card scheme, is partially functional, allowing ATM withdrawals within DAB-imposed limits. However, interbank ATM interoperability remains limited, as some banks hesitate to reintroduce these services due to counterparty risk concerns. Mobile money services remain active, but they are primarily used for humanitarian cash transfers, leading to high wallet dormancy rates, with estimates of only 20,000 to 50,000 active wallets. Many humanitarian agencies

still prefer hawala networks for disbursements, underscoring the ongoing challenges in establishing a functional digital payments ecosystem.

Islamic Finance and Microfinance Sector Developments

The Murabaha lending product, approved by DAB in September 2022, is now deployed by both microfinance institutions and select banks. Under this model, lenders purchase goods and sell them to clients at a markup, with repayments made in installments. It remains the only Islamic lending instrument currently in use in Afghanistan. As of December 2024, microfinance institutions had issued 41,699 Murabaha contracts, with 47 percent going to women borrowers. Loans are primarily allocated to trade and services, handicrafts and manufacturing, agriculture, and livestock—with a reported 100 percent repayment rate.

Recognizing the importance of microfinance in Afghanistan's economy, DAB introduced new Microfinance Sector Regulations in late 2024 to bring previously unregulated institutions under its oversight. Since then, five new microfinance institutions (MFIs) have received licenses, joining the existing Oxus and Mujtahid MFIs.

OUTLOOK AND MEDIUM-TERM PROSPECTS

Afghanistan's economic prospects are highly uncertain, as the main engines of growth—investment in infrastructure, education and skills, and overall productivity—remain underdeveloped. Without significant actions to enhance the business climate, economic growth is likely to track population increases, resulting in minimal or no improvement in per capita income.

Afghanistan's economy remains fragile, with a slow recovery following sharp contractions in 2021 and 2022. Foreign aid, once a key driver, has declined significantly since the Interim Taliban Administration (ITA) took power. While trade with neighboring countries and agricultural revival provide some stability, high unemployment and low household incomes persist. The banking sector faces liquidity shortages, international restrictions, and forced transition to Islamic finance, limiting credit access. Although inflation has eased, food insecurity remains widespread due to climate shocks and weak infrastructure.

In the medium term, structural challenges hinder sustainable growth. Financial isolation restricts foreign investment and access to global markets, while reliance on a cash-based informal economy creates inefficiencies. Policy uncertainty and restrictive social measures, particularly on female education and workforce participation, weaken human capital. Rapid population growth and limited job opportunities contribute to persistent poverty and expanding informal employment. Weak energy and transport infrastructure further stifles industrial and commercial activity. Without meaningful actions, Afghanistan risks prolonged stagnation, deeper poverty, and continued dependence on humanitarian aid.

Economic growth is projected to slow to 2.2 percent in 2025 due to aid disruptions before recovering to 2.5 percent in 2026-27 (Figures 29 and 30). Growth projections have been revised downward due to weaker aid disbursement prospects. Agriculture will remain the primary driver, followed by industry, while the service sector continues to struggle. Given sustained population growth, per capita GDP is expected to stagnate, making poverty reduction unlikely. Economic vulnerability, driven by external shocks and declining aid, remains a major concern.

On the demand side, private consumption will remain the primary driver of economic growth, supported by self-consumption of agricultural produce and increased remittances. However, public consumption[8] is expected to decline in 2025 as foreign aid contracts, before experiencing a modest recovery in 2026 and 2027 (Box 2). While consumption may sustain short-term economic activity, it is inherently limited in driving long-term development, as it does not foster investment or productivity growth. Without stronger investment and industrial expansion, the economy will remain vulnerable to external shocks and cyclical downturns.

Investment and exports are projected to remain weak over the medium term, though showing slight improvement compared to 2021-2023. Afghanistan's challenging business environment, lack of foreign direct investment, and declining foreign aid continue

[8] This is an accounting concept defined in the SNA 2008 and the IMF Government Finance Statistics (GFS) Manual, which combines expenditure from domestic revenue and donor-funded projects to create a comprehensive macroeconomic aggregate for fiscal analysis. Donors funding continues to be channeled off-budget.

to constrain capital formation and industrial output. Limited access to financial services, policy uncertainty, and infrastructure deficiencies further dampen investor confidence. While consumption may provide a temporary boost to GDP, the absence of substantial investment in key sectors—such as manufacturing, infrastructure, and energy—will limit sustainable growth prospects. The slow recovery of investment, coupled with persistent trade barriers and weak export performance, risks trapping the economy in a cycle of low productivity, stagnant incomes, and high unemployment.

To achieve more resilient and broad-based growth, Afghanistan will need structural reforms that enhance the investment climate, improve financial accessibility, and strengthen export competitiveness. Without these measures, the economy will continue to rely on volatile consumption patterns and external aid, leaving it susceptible to prolonged stagnation and deepening poverty.

Figure 29: Contribution to growth by production factors

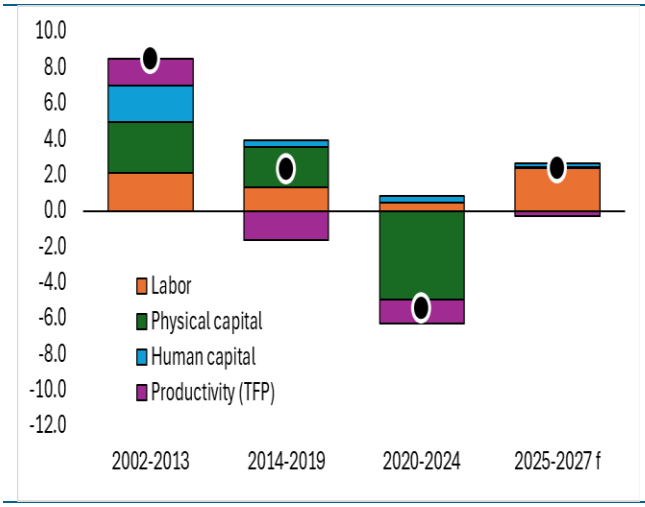
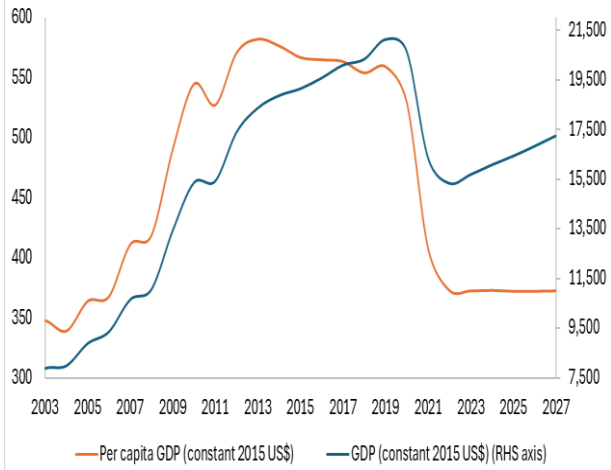


Figure 30: Real GDP (constant 2015 US$ million) and real GDP per capita (Constant 2015 US$)



Source: Da Bank of Afghanistan (DAB).

With the gradual recovery in aggregate demand, inflation is projected to turn positive in 2025, averaging 2 percent for the year. This shift reflects the progressive closing of the significant output gap created by the severe economic contractions of 2021 (16 percent) and 2022 (19 percent), alongside the stabilization of exchange rate fluctuations. As economic activity slowly rebounds, price levels are expected to adjust accordingly, reversing the deflationary trends observed in previous years.

Box 2: Afghanistan's Fiscal Multiplier: Insights from a VAR Model

Fiscal policy plays a pivotal role in shaping economic growth, particularly in fragile and developing economies like Afghanistan. The effectiveness of fiscal interventions is often measured using the **fiscal multiplier**, which quantifies the impact of public spending on GDP. Given Afghanistan's fragile economic structure, heavy reliance on foreign aid, and security challenges, understanding how public spending translates into economic growth is essential for designing effective fiscal policies.

Methodology

This analysis employs a Vector Autoregression (VAR) model using data from Afghanistan's 2002–2023 fiscal period. The model includes public spending, foreign aid, and GDP, with impulse response functions (IRFs) estimated over 15 periods to assess the cumulative GDP response to public spending and foreign aid shocks.

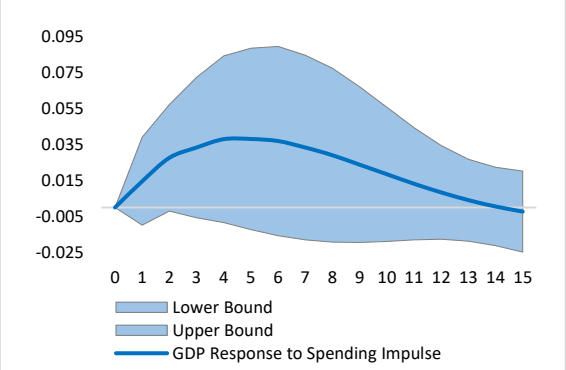
Impulse Response Function (IRF) and Fiscal Multiplier Analysis

The IRF results reveal a delayed GDP response to public spending, with the peak effect occurring in period 4, rather than immediately after the shock. This suggests that fiscal stimulus in Afghanistan takes time to influence economic activity, likely due to slow fund disbursement, structural rigidities, lagged private sector adjustments, and high import dependence, which may initially divert spending toward foreign goods rather than stimulating domestic production. Following period 4, the GDP response gradually declines, highlighting the short-lived effects of fiscal spending and the need for sustained, well-targeted public intervention rather than short-term stimulus measures.

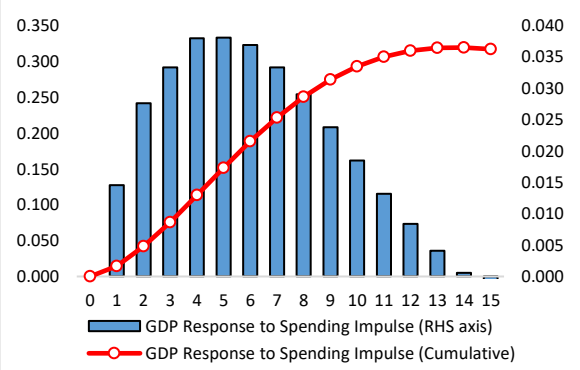
Comparative Analysis and Policy Implications

Afghanistan's fiscal multiplier of 0.31 is notably lower than in other regions, such as Sub-Saharan Africa (0.4–0.7), the Middle East and North Africa (0.5–1.0), Pakistan (0.6–0.8), Bangladesh (0.7–1.1), and advanced economies (1.0–1.8). This weaker fiscal transmission suggests that public spending has a relatively muted effect on GDP, likely due to slow budget disbursement, economic inefficiencies, delayed private sector responses, and high import dependence. Addressing these challenges through improved public spending efficiency, structural reforms, and private sector development is crucial to enhancing fiscal policy effectiveness and stimulating sustainable economic growth.

Afghanistan Impulse Response Function and 95% confidence bound



Afghanistan Impulse Response Function and cumulative overtimed



Source: World Bank Staff

Inflationary pressures are expected to build gradually as the output gap narrows with the recovery in real GDP. Potential GDP is projected to continue contracting due to declining productivity, structural inefficiencies, and constraints in key sectors. This persistent weakness in productivity, coupled with supply-side limitations such as infrastructure deficiencies and trade restrictions, will contribute to a gradual rise in

inflation. Inflation is projected to increase to 5 percent in 2026 and 6 percent in 2027, driven by recovering domestic demand, rising production costs, and continued structural challenges in the economy. While moderate inflation can signal improving economic conditions, its trajectory will depend on the pace of investment, policy measures to enhance productivity, and exchange rate and global commodity price movements.

Afghanistan's current account deficit is projected to slightly narrow to 24.1 percent of GDP in 2025 reflecting lower oil prices, before stabilizing at 25.3 percent 2026-2027, driven primarily by a persistently high trade deficit projected at 45.6 percent of GDP in 2025-2027. While exports of goods and services are expected to recover modestly, they are forecasted to stabilize around 12.2 percent of GDP, far below import levels, which are projected to average 57.8 percent of GDP. This persistent imbalance underscores Afghanistan's continued reliance on imports, reflecting structural constraints in domestic production and export capacity.

Remittances, a key source of foreign exchange, have increased in recent years, with the bulk entering Afghanistan in the form of goods rather than cash. However, they remain insufficient to offset the sharp decline in foreign aid. As reliance on external grants continues to diminish, total income from abroad is projected to decline to approximately 20.7 percent of GDP, further constraining Afghanistan's external financing capacity.

The reduction in foreign aid exacerbates challenges in managing the widening trade deficit, as alternative sources of external funding remain scarce. Limited access to international credit markets and absence of foreign direct investment further restrict Afghanistan's ability to bridge the external financing gap. In this context, sustaining external balance will require targeted policy measures to enhance export competitiveness, diversify trade partnerships, and rebuild foreign exchange reserves. Strengthening domestic production, improving regional trade ties, and fostering a more stable investment environment will be critical to mitigating long-term economic vulnerabilities.

Afghanistan's fiscal deficit is expected to remain around 2 percent of GDP in 2025 - 2027, with revenue collection projected to surpass 16.5 percent of GDP as the ITA intensifies efforts to offset declining foreign aid. Enhanced revenue mobilization will likely stem from improved tax administration, increased levies on trade, and stricter enforcement of domestic revenue collection.

However, borrowing constraints limit fiscal flexibility, meaning any revenue gains are expected to be matched by corresponding increases in expenditures. Rising costs for public services, infrastructure maintenance, and administrative functions will likely absorb additional fiscal space, restricting the ITA's ability to implement countercyclical policies or invest in long-term development initiatives. Without access to external financing, sustaining fiscal stability will depend on broadening the tax base, optimizing expenditure efficiency, and fostering alternative revenue sources to reduce reliance on external aid.

Fiscal policy will face additional challenges following a recent decree approved by the ITA regarding the country's pension system. According to the pension department, approximately 150,000 individuals are registered as pensioners, about 14 percent of the population aged 65 or above. However, under the new decree, only 25,000 to 30,000 pensioners will remain eligible to receive a

portion of their unpaid contributions, significantly reducing the number of beneficiaries.

The fiscal impact of this policy change is substantial. If both employee contributions and the ITA's contributions as an employer are reimbursed to beneficiaries, the fiscal cost is estimated to reach 5 percent of GDP (Box 3). However, if the ITA limits payments strictly to employee contributions, the financial burden will reduce to 2 percent of GDP. This shift in pension obligations not only affects fiscal sustainability but also raises concerns about social protection, potentially leaving many former pensioners without adequate financial support. Managing these fiscal pressures while ensuring social stability will require careful policy planning and transparent implementation.

Afghanistan's economic outlook remains fraught with significant risks, with the balance tilted toward downside pressures, particularly due to political instability and aid uncertainty. The primary risk is the continued lack of international recognition of the ITA, which weakens investor confidence, hampers long-term planning, and limits access to foreign aid and investment. Without stable governance and diplomatic engagement, Afghanistan's economy is unlikely to recover robustly, as foreign investors remain reluctant to engage, and international financial institutions restrict access to critical funding.

The country's economic isolation further exacerbates these challenges. Limited diplomatic recognition impairs Afghanistan's ability to negotiate trade deals, attract foreign direct investment, and integrate into global financial markets. Without external support, economic recovery remains constrained by trade barriers, financial restrictions, and the absence of development assistance.

The agriculture sector, a key driver of economic activity, faces significant risks from climate change, drought, and conflict. These factors threaten food security, disrupt supply chains, and undermine long-term sustainability. Additionally, persistent challenges in infrastructure, water management, and rural development continue to limit agricultural productivity, making the sector highly vulnerable to external shocks.

Afghanistan's broader economic outlook is further weakened by fiscal and external imbalances. The country's dependence on foreign aid remains high, yet future disbursements are uncertain. According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), nearly half of Afghanistan's population will require humanitarian assistance in 2025. Further declines in aid could severely impact economic activity, deepen fiscal constraints, and strain the external sector, potentially worsening inflation and exchange rate volatility.

Box 3: Afghanistan's Pension Reform: From Fiscal Crisis to Unfair Treatment of Pensioners

Afghanistan's pension system has long faced significant financial sustainability challenges. Originally reformed in 2010 as part of a broader civil service overhaul, the pension scheme was later revised to expand benefits for pensioners without adequately considering its fiscal consequences. Key issues included the delayed implementation of independent pension fund contributions and the incomplete execution of pension regulations.

Structural Issues and Financial Unsustainability

Afghanistan operated two defined-benefit pension schemes—one for civil servants and another for security personnel. These schemes covered only 7.5 percent of the labor force, primarily stable public sector employees, while most of the population remained excluded. The system was financially unsustainable, with pension costs rising at an annual rate of 14 to 16 percent and projections indicating that expenditures would double within five years and quadruple in ten years if left unreformed.

Pension Crisis and Policy Response Under the ITA

When the ITA assumed power in 2021, it became evident that pension accounts lacked funds, with no surplus contributions deposited to sustain the system. The newly established pension fund was insufficient to cover existing pension expenditures. Meanwhile, obligations continued to rise as more individuals reached retirement age and enrolled in the system. Facing mounting financial liabilities and limited resources, the ITA suspended pension payments.

In December 2024, the ITA decided to resume pension payments. However, under the new policy, only contributions made by employees and employers during their civil service tenure would be reimbursed. This effectively replaced the previous pension system with a more restrictive structure, significantly reducing benefits and raising concerns about fairness, as pensioners had earned these entitlements over their working lives.

New Pension Decree and Categorization of Pensioners

The ITA's new pension decree introduced distinct categories for pensioners:

1. **Registered Pensioners** – This group includes individuals already recorded in the pension department's system. Only 25,000 to 30,000 of the approximately 150,000 registered pensioners will be eligible to receive a portion of their unpaid contributions.
2. **Recently Dismissed Employees** – This category consists of individuals, primarily security personnel, who lost their jobs following the change in administration but had not yet joined the pension system. The financial burden of this group is expected to be higher for the ITA.
3. **Current Employees with Previous Contributions** – This group includes employees who contributed to the pension system until the order was issued to halt pension programs. The ITA has decided to honor contributions made following the political transition, covering a total of 31 months. Payments for this period have already begun or are planned for the coming year. Employees who contributed for more than 31 months, including those employed under the previous administration, will be identified for potential compensation.

Additionally, the ITA has established a special court to review pension-related cases, particularly for individuals who were receiving pensions under the previous law, to determine whether they remain eligible for further benefits.

Fiscal Implications of the New Pension Policy

The fiscal cost of the new pension decree is estimated at approximately 5 percent of GDP if both employee and employer contributions are reimbursed. However, if payments are limited to employee contributions only, the financial burden will be reduced to 2 percent of GDP.

To navigate these challenges, Afghanistan's policymakers must prioritize key economic actions to improve the business environment, diversify exports, and strengthen the agricultural sector. Reducing regulatory barriers, enhancing property rights, and expanding access to finance will be critical in fostering private sector growth and attracting investment. A stable and transparent regulatory framework can help rebuild confidence among businesses and international stakeholders, ensuring long-term economic resilience.

Afghanistan's export base remains heavily reliant on traditional commodities such as coal and agricultural products. Expanding into sectors like textiles, mining, and manufacturing could help reduce the trade deficit and create more sustainable growth opportunities. Strengthening trade partnerships and enhancing logistical infrastructure would further improve market access, facilitating a more dynamic trade environment. Given agriculture's central role in the Afghan economy, targeted investments in irrigation, modern farming techniques, and climate adaptation strategies will be essential. Improving productivity and ensuring food security should remain top priorities, particularly in mitigating risks posed by environmental shocks and climate change.

For Afghanistan to achieve long-term economic recovery and stability, investments in human capital and social protection are crucial. The country's youthful population, widespread poverty, and vulnerability to shocks necessitate comprehensive policies in education, health, and social protection. Afghanistan has one of the lowest literacy and education attainment rates in the world, particularly for women and girls. Restrictions on girls' education, especially at secondary and tertiary levels, pose severe economic consequences, limiting workforce participation and productivity. Studies indicate that improving female education leads to stronger economic growth, better health outcomes, and increased household incomes. Policies aimed at reopening schools for girls and expanding access to education for all are essential for unlocking Afghanistan's economic potential.

A healthy workforce is fundamental to economic growth and productivity. However, Afghanistan faces high levels of malnutrition, maternal and child mortality, and inadequate healthcare infrastructure. Chronic malnutrition, particularly among children, impairs cognitive development and long-term productivity. Addressing food insecurity through improved agricultural productivity, efficient food distribution systems, and targeted nutrition programs should be prioritized to enhance human capital development.

With widespread poverty, food insecurity, and exposure to natural disasters, a robust social protection system is essential for mitigating risks and preventing extreme poverty. Cash transfer programs—whether conditional (linked to education or health outcomes) or unconditional (for vulnerable groups such as widows, the elderly, and persons with disabilities)—can provide immediate relief and improve household resilience.

Afghanistan's economic trajectory remains highly uncertain, with persistent risks in governance, trade, and aid dependency. Without urgent actions to stabilize the business environment, expand economic opportunities, and invest in human capital, the country risks prolonged stagnation, deepening poverty, and continued reliance on humanitarian aid. Strengthening domestic revenue mobilization, enhancing social protection, fostering economic diversification, and harnessing the potential of its young and rapidly growing population

will be critical to building a more resilient and self-sustaining economy.

Youth employment in Afghanistan presents both a significant opportunity and a pressing challenge (see Chapter 2). With a majority of the population under the age of 30, Afghanistan has a young and potentially productive workforce that, if effectively harnessed, can drive economic growth and development. Compared to previous generations, Afghan youth today are better educated and healthier, making them valuable assets for sectors such as technology, entrepreneurship, and skilled labor markets. Expanding employment opportunities for young people could foster innovation, enhance productivity, and contribute to long-term economic stability.

However, this potential is accompanied by substantial risks. Youth unemployment remains alarmingly high, and if it continues to rise, it may contribute to social unrest, increased migration, and heightened security risks. A large, frustrated, and underemployed youth population can be vulnerable to radicalization, criminal activities, and illicit economies. The lack of stable employment opportunities threatens not only individual livelihoods but also the broader stability of the country.

To address these challenges, policymakers must implement targeted interventions that foster youth employment. This includes investing in vocational training programs aligned with market demands, expanding access to microfinance for young entrepreneurs, and creating incentives for private sector job creation. Public works programs and digital economy initiatives can also serve as viable pathways to employment. Additionally, integrating women into the workforce through skills training and workplace inclusion policies will be crucial for ensuring gender-equitable economic participation.

Addressing youth unemployment is not only an economic necessity but also a fundamental component of Afghanistan's long-term stability. Without meaningful employment opportunities, the country risks exacerbating existing socio-economic vulnerabilities. A proactive approach—combining education, skills development, and job creation—will be essential in turning Afghanistan's youthful population into a driving force for prosperity and resilience.

CHAPTER 2. YOUTH EMPLOYMENT CHALLENGES AND OPPORTINUTIES

Driven by necessity during the economic crisis, workforce participation has increased, particularly among women and youth; however, their situation remains precarious. In the aftermath of the Taliban's takeover, Afghan households have been forced to mobilize additional labor to survive, reducing inactivity rates. But unemployment among women and youth has soared, and those who do work are often confined to informal, low-productivity jobs with unstable earnings.

Youth employment remains severely constrained, especially for women. Limited labor demand has exacerbated unemployment, with young women facing particularly steep barriers. Unemployment rates doubled and by 2023 nearly a quarter of the young population (ages 15–29) was unemployed. While overall employment has also grown—both in self-employment and in the private wage sector—earnings and working hours remain insufficient. Gender disparities persist, leaving women at a significant disadvantage in the labor market.

This context calls for urgent support to youth employment. Well-designed employment programs can help young Afghans develop skills and gain greater economic agency, particularly for women and youth. Comprehensive economic inclusion initiatives and targeted skills training programs hold the greatest potential for fostering sustainable, long-term impact.

EMPLOYMENT CHALLENGES FOR WOMEN AND YOUTH

Afghan women and girls face severe challenges, with recent restrictions threatening their long-term economic inclusion and resilience. Waves of ITA restrictions on women's education, mobility, and engagement in the public space continue to challenge women's socioeconomic inclusion and the country's development prospects. With half of the population deprived of the opportunity to pursue secondary and higher levels of education, vulnerability challenges are likely to be aggravated for the next generation. As of April-June 2023, the share of girls aged 13–18 attending secondary schooling was abysmally low at 3 percent (World Bank 2023). Women have also been banned from qualified jobs in large segments of the tertiary sectors. [9] Compounded by households' financial strains, such restrictions may put women at higher risks of physical violence, discrimination, and early marriage (UN Human Rights Council 2024; Sawas and Bose 2021), exacerbating their need for essential facilities, such as safe spaces to meet, learn, socialize, and be productive.

Tensions in the labor market will continue to rise due to structural demographic and economic challenges. With an average of 5.4 children per woman, Afghanistan has the highest total fertility rate in South Asia (UNICEF Afghanistan 2023). As of 2023, two-thirds of unemployed Afghans were youth aged 15 to 29. By 2030, based on current economic activity and demographic dynamics, it is expected that the Afghan labor market will have to accommodate an additional 1.7 million Afghans in this age category. More could add to the count due to the recent increase in the number of Afghans being repatriated from neighboring countries. With no demographic transition in sight,

[9] This includes working (i) in government offices; (ii) as lawyers and judges, or in the judicial system; (iii) in international organizations; (iv) in nongovernmental organizations; (v) in managerial/decision-making positions; (vi) in the running of certain businesses; and (vii) in women's empowerment projects.

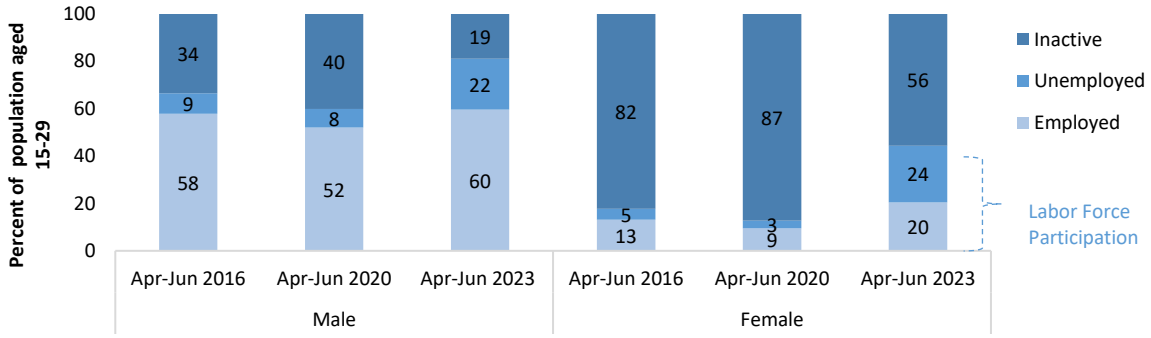
Afghan youth will continue to represent the largest demographic group in the labor force.

Although the Afghan economy has stabilized from the initial shock of the Taliban takeover, its current growth rate remains barely sufficient to keep pace with rapid population expansion. Without significant policy interventions, labor market pressures will intensify, exacerbating unemployment and underemployment, particularly among young people. Addressing youth employment challenges is not only an economic necessity but also a critical factor for Afghanistan's long-term social and political stability. Expanding job opportunities, enhancing skills development, and fostering entrepreneurship will be essential to ensuring that the country's growing workforce becomes an asset rather than a source of instability.

Labor Force Participation

In response to the economic crisis that accompanied the Taliban takeover, Afghan households mobilized extra labor among youths to make ends meet.[10] In 2023, more Afghans were active in the labor market (employed or unemployed) compared to 2020 and 2016, a pattern more pronounced for the 15-29 years old (Figure 31).[11] The increase in labor force participation has been particularly sizeable among young women, whose participation rates were very low but who needed to support their families' livelihood amid the economic downturn. Between 2020 and 2023, labor force participation among women in the 15 to 29 age group increased by 32 percentage points, while participation by male youths increased by 22 percentage points. Despite this significant increase, most women are still out of the labor force and the rates of inactivity may rise back to historical levels if the economy recovers from the crisis.

Figure 31: Labor Force Status of Youth Age 15–29 Years by Gender, 2016–23



Source: Original calculations using the Afghanistan Living Condition Survey (ALCS) 2016, and Afghanistan Income, Expenditure and Labor Force Survey (IELFS) 2019-20, conducted by the National Statistics and Information Authority (NSIA), and the Afghanistan Welfare Monitoring Survey (AWMS) R3 carried out by the World Bank. *Note*: To account for seasonality, all statistics are plotted over the same months as for AWMS R3 (April to June).

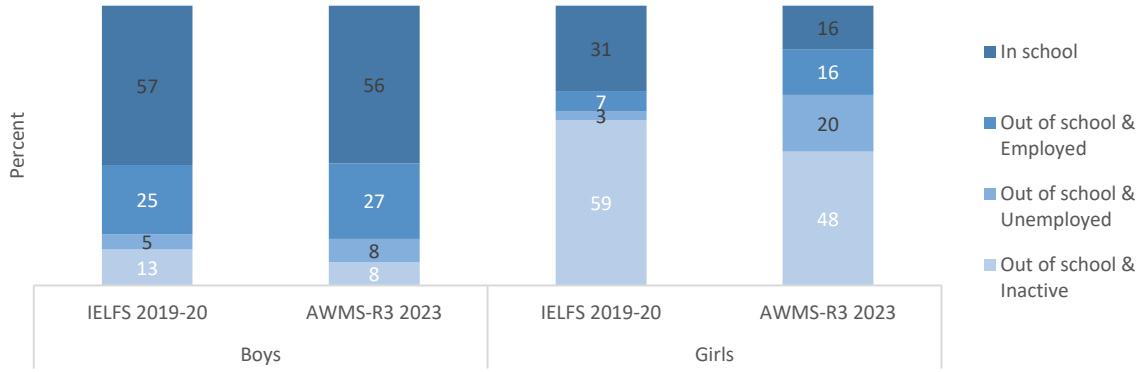
[10] For detailed evidence on the evolution of welfare in Afghanistan post-2021, see World Bank. 2023. *Afghanistan Welfare Monitoring Survey (AWMS) – Round 3.*

[11] To contextualize, the share of employed and unemployed (labor force participation) among working-age (15-65) males increased from 69 percent in April–June 2020 to 86 percent during the same months in 2023. This increase was even stronger among working-age women, as the labor force participation jumped threefold, reaching 43 percent in April–June 2023.

For adolescent girls, the increase in labor force participation was compounded by the dramatic decline in school participation resulting from education bans. Between 2020 and 2023, the proportion of girls aged 15–19 enrolled in school was slashed by half due to severe restrictions on education access (Figure 32). This drastic reduction in educational opportunities has left many girls with limited prospects for their future and forced them into low-paying and vulnerable jobs. The proportion of out-of-school girls either employed or actively seeking work more than tripled, rising from 11 percent to 36 percent, resulting in a decrease in the share of girls who were Neither in Education nor Employed (NEE) to 48 percent—a nearly 10 percentage-point decline compared to 2020—entirely driven by increased labor force participation.

Boys age 15–19 also saw a reduction in the NEE rate, though to a lesser extent. Their NEE rate declined by five percentage points, reaching 8 percent, primarily due to higher labor force participation, while school enrollment remained unchanged.

Figure 32: Education and Employment Status of Adolescents Age 15-19 Years by Gender



Source: Original calculations using IELFS 2019–20 and AWMS R3 (April–June 2023).

The rise in youth labor force participation faced constraints on labor demand that weakened employment outcomes. Overall employment has increased but mostly in low-productivity occupations, especially for women who are restricted to home-based work. In parallel, unemployment has surged as labor demand has been insufficient to absorb all new workforce entrants.

Employment

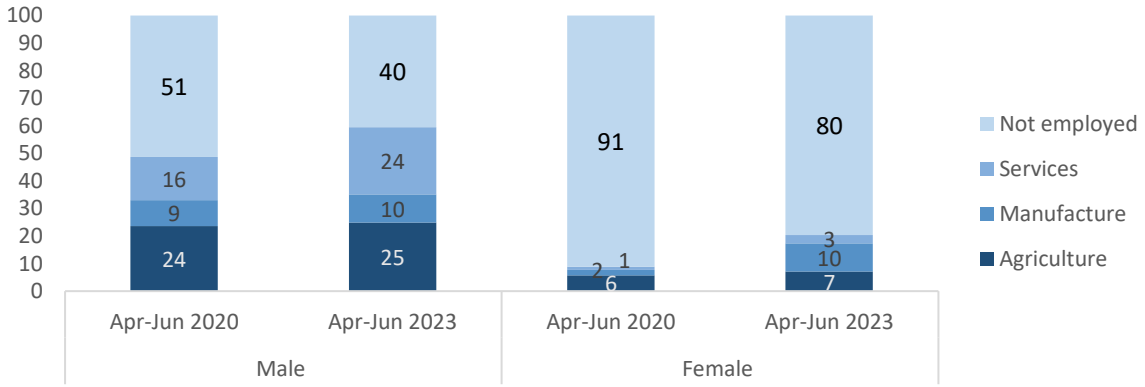
Most newly employed young women are working in small-scale manufacturing. By 2023, 10 percent of women age 15-29, corresponding to more than half of employed young women, were engaged in manufacturing, up from just 2 percent in 2020 (Figure 33). This shift suggests a growth in labor-intensive, home-based, low productivity manufacturing jobs that accommodate restrictions on female workforce participation.

Young men increased their participation in the services sector. Their participation rate rose from 16 percent of men age 15-29 in 2020 to 24 percent in 2023. The services sector mostly corresponds to small trading for young men. Participation in manufacturing

remained stable over the period. While young women in the manufacturing sector entirely focus on small manufacturing, young men engage in a diversity of activities including construction and vehicle repair.

These sectoral transitions reflect the need to young Afghans to make a living, including in low potential occupations. While the larger working age population experienced similar transitions [12], they are more pronounced for the youth and highlight the need for targeted skills development and vocational training programs. Equipping young workers with the skills required in manufacturing and services will be crucial for enhancing their employability, especially as traditional sectors like agriculture continue to shrink as a source of youth employment.

Figure 33: Sector of Employment among Youth Age 15-29 Years by Gender

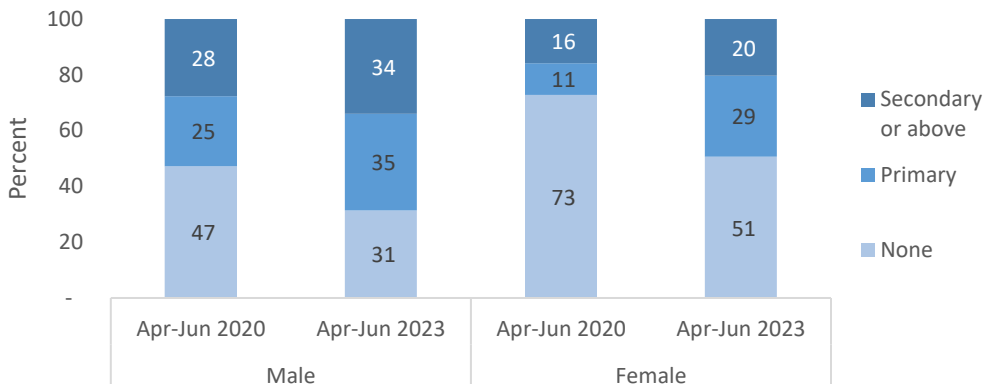


Source: Original calculations using IELFS 2019–20 and AWMS R3. *Note*: To account for seasonality of employment characteristics in Afghanistan, statistics from IELFS 2019–20 were taken from April to June, similar to the AWMS R3 data collection timespan.

The skill composition of employed youth has undergone significant changes in recent years. Employed youth continue to reside primarily in rural areas (79 percent), with no major change compared to the pre-Taliban period. But employed youth are now more educated than they were three years ago, reflecting broader improvements in education attainment (Figure 34). However, despite these gains, the highest levels of education are still observed among the unemployed, suggesting a mismatch between labor market demand and the qualifications of job seekers. This trend underscores the need for targeted skills development and job creation initiatives that align with emerging economic opportunities, ensuring that young people, especially women, can transition effectively into the workforce.

[12] There were no substantial sectorial changes observed for men age 30-65. The share of women 30-65 who remain out of employment went from 87 to 75 percent between April-June 2020 and 2023. While engagement in manufacturing also increased among women age 30-65, the magnitude remained marginal (from 2 to 7 percent), associated with a minor increase in agriculture from 9 to 14 percent. Services represent only 4 percent (up from 2 percent).

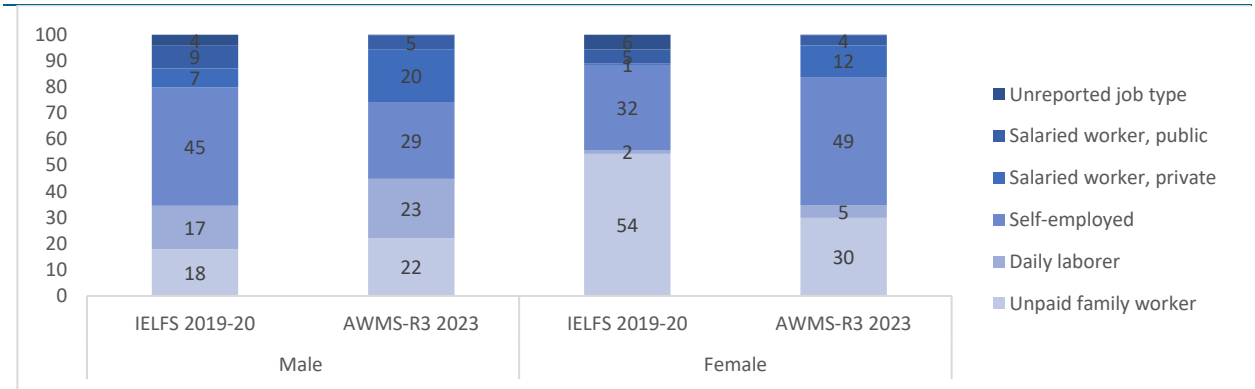
Figure 34: Highest Completed Educational Level among Employed Youth Age 15–29 Years by Gender



Source: Original calculations using IELFS 2019-20 and AWMS R3. *Note*: To account for seasonality of employment characteristics in Afghanistan, statistics from IELFS 2019–20 were taken from April to June, similar to the AWMS R3 data collection timespan.

Young women's employment patterns have shifted significantly, with a rapid rise in self-employment. Currently, half of all employed youth are engaged in either self-employment or daily labor. The most notable change over the past three years has been the transition of young women from unpaid family work to self-employment, reflecting the growing necessity for all household members to contribute to income generation (Figure 35). This shift may be driven by economic pressures, restricted access to formal employment, and the increasing reliance on small-scale, home-based economic activities.

Figure 35: Types of Job among Employed Youth Age 15-29 Years by Gender



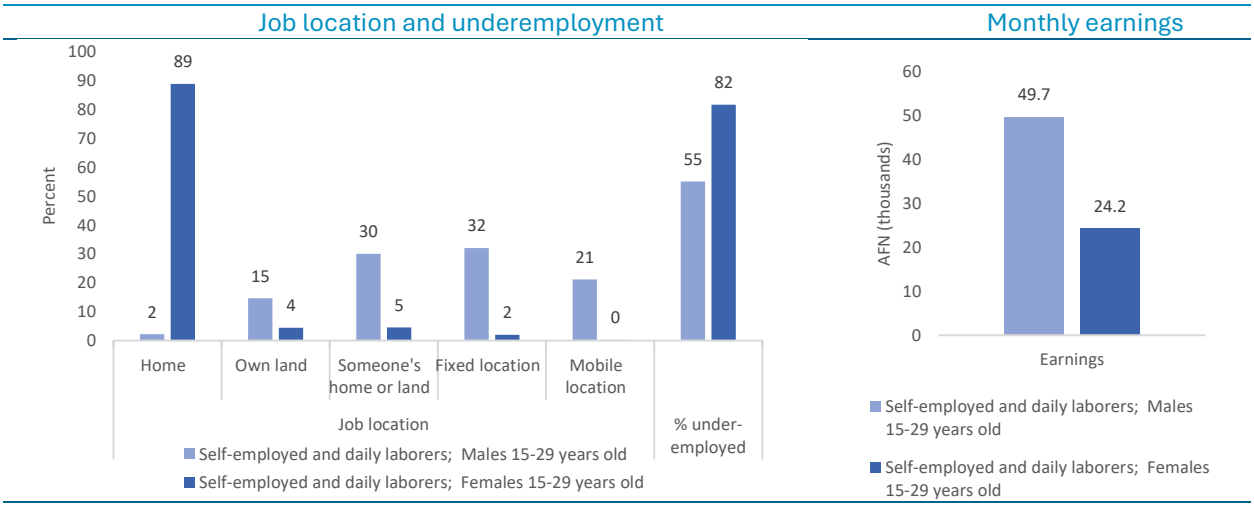
Source: Original calculations using IELFS 2019–20 and AWMS R3. *Note*: To account for seasonality of employment characteristics in Afghanistan, statistics from IELFS 2019–20 were taken from April to June, similar to the AWMS R3 data collection timespan.

Self-employment is highly concentrated in low-productivity activities. Nearly all self-employed young women (93 percent) work from their home or land, primarily engaging in farming or small-scale home-based manufacturing activities such as sewing garments, carpet weaving, or food processing. Self-employed young men operate in a wider

range of settings, including someone else's land, fixed locations, or mobile workplaces such as taxi driving or street vending.

Self-employment yields low work outcomes and very large gender differences. Underemployment is pervasive for the self-employed, with more than 80 percent of self-employed women and over half of self-employed men working fewer than 40 hours per week (Figure 36). This limited work intensity reflects both demand-side constraints and the nature of informal, home-based employment available to women. Additionally, the gender earnings gap in self-employment is striking—self-employed young women earn less than half of what their male counterparts make. This disparity is partly driven by differences in employment opportunities and income-generating potential, with men having greater access to higher-paying, market-oriented activities while women remain confined to lower-value, subsistence-level work.

Figure 36: Employment Outcomes among Age 15–29 Years by Type of Job and Gender



Source: Original calculations using AWMS R3.
Note: Earnings represent the average income perceived by respondents in the month prior to the survey. The variable has been winsorized (0.05 level) to remove outliers.

The private wage sector has expanded in recent years for young men and women. Among the employed population age 15–65, the share of private salaried workers grew from 5 percent in 2020 to 12 percent in 2023. This shift is particularly notable among young workers. For men age 15–29, private wage employment increased from 7 percent to 20 percent of the employed workforce, while for young women, it rose from just 1 percent to 12 percent over the same period (Figure 35).

Private wage jobs generally offer slightly better working conditions compared to self-employment. For instance, 86 percent of young men in private wage jobs work from a fixed location, compared to only 32 percent of young self-employed men. However, underemployment remains a significant issue—about one-third of young men and half of young women in private wage jobs are underemployed, meaning they work fewer hours than desired. Additionally, earnings from private wage employment provide only a modest advantage, with young men in these jobs earning just 20 percent more than their self-employed counterparts.

These trends highlight the need for targeted skills development and training programs

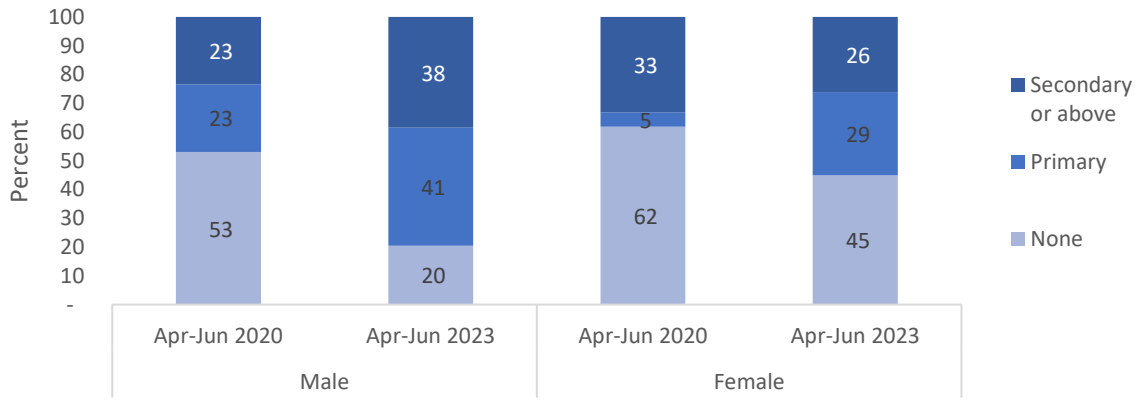
to enable young workers to access higher-paying, more stable private sector jobs. Expanding economic inclusion and skills training programs and improving links between education and labor market needs will be critical in ensuring that youth can fully benefit from the growing private wage sector.

Unemployment

The influx of new workers has led to a sharp rise in unemployment, as labor demand remains weak and restrictions on women's employment have tightened. Among men age 15–29, the unemployment rate nearly tripled from 2020, reaching 22 percent in 2023. For young women, the situation is even more severe: nearly one-quarter are now unemployed—a sevenfold increase compared to 2020. When measured against the active population (i.e., those participating in the labor force), the unemployment rate for young women stands at 54 percent. If it also accounted for women who are out of the labor force due to a lack of employment prospects, this rate rises to 68 percent. As a result, young women now make up more than half of the unemployed youth, increasing from 33 percent in April–June 2020 to 55 percent in April–June 2023.

The profile of the unemployed has also shifted with unemployed youth being more educated. [13] By 2023, nearly 80 percent of unemployed young men (aged 15–29) had at least completed primary education—an increase by 33 percentage points since April–June 2020 (Figure 37). Among unemployed young women, more than half had at least completed primary education in April–June 2023, up from 38 percent in 2020. For young unemployed men, this trend is driven equally by an increase in the share of primary school graduates and a rise in the number of those with secondary education, suggesting that educated young men may be holding out for higher-paying jobs. In contrast, the increase in educational attainment among unemployed women is driven solely by a rise in the share of those with primary education, as the proportion of young women with secondary education has declined over the period.

Figure 37: Highest Educational Level among Unemployed Youth Age 15–29 Years by Gender



Source: Original calculations using IELFS 2019-20 and AWMS R3. *Note:* To account for seasonality of employment characteristics in Afghanistan, statistics from IELFS 2019–20 were taken from April to June, similar to the AWMS R3 data collection timespan.

[13] Among the entire population age 15–29, education rates have increased between IELFS 2019–20 and AWMS R3. The proportion of individuals who had not completed education dropped from 41 to 27 percent among young men and from 69 to 53 percent among young women. This was driven by improvement in primary education for all, as well as improved secondary education among men.

Unemployed youth tend to be more educated than their employed peers, underscoring the scarcity of quality job opportunities. This disparity is primarily driven by a higher proportion of primary school graduates among unemployed youth (both men and women) compared to those who are employed. Notably, around one-quarter of unemployed young women have completed secondary education, although this rate is expected to decline in the coming years due to the recent bans on girls attending secondary school.

Unemployment has also become increasingly concentrated in rural areas compared to 2020. By April–June 2023, nearly three-quarters (73 percent) of unemployed youth lived in rural areas—a 10 percentage-point increase compared to the same period in 2020. These patterns reflect broader labor market trends observed among the unemployed working-age population, underscoring the structural challenges facing Afghanistan's labor market.

POLICY OPTIONS FOR EMPLOYMENT SUPPORT FOR WOMEN AND YOUTH

International experience demonstrates that employment support interventions can facilitate access to better jobs and markets, boost earnings, and strengthen economic resilience. These programs can be vital for young women in Afghanistan, who face restrictions on education while increasingly participating in economic activities. For them, employment initiatives not only provide essential skill-building opportunities but also foster social interaction and enhance economic empowerment, helping to mitigate the constraints imposed by their limited access to formal education and traditional employment pathways.

The private sector is a key source of sustainable job opportunities. For young men and women, it can provide pathways to higher and more stable incomes, greater resilience to shocks, skill development, and enhanced human capital accumulation and utilization. These opportunities may include starting and growing a microenterprise, gaining employment in a private firm, improving individual and organizational productivity, or starting an apprenticeship.

Active labor market interventions, aiming at improving employment outcomes in the private sector, can generally be grouped into four key areas:

- **Supply-side interventions:** Focus on developing human capital through skills training, vocational education, and entrepreneurship support to enhance employability.
- **Demand-side interventions:** Aim to stimulate labor demand through initiatives such as wage subsidies, apprenticeships, and incentives for private sector job creation.
- **Employment services:** Facilitate the connection between jobseekers and employers by providing job matching, career counseling, and labor market information.
- **Economic inclusion programs:** Comprehensive strategies designed to uplift marginalized populations by integrating anti-poverty measures, including financial support, skills training, and asset-building programs, to enhance earnings and resilience.

Expanding employment support for Afghan youth and women requires a multifaceted approach. Combining skills training, financial inclusion, and economic empowerment initiatives will be key to fostering sustainable livelihoods and long-term economic stability. Addressing structural barriers and ensuring

women's participation will be essential to maximizing the impact of these programs.

Table 1 provides an overview of key labor market programs in Afghanistan, highlighting their impact on employment opportunities for women and youth.

Table 1. Labor Market Programs and Impact on Employment for Women and Youth in Afghanistan

Program	Impact on employment	Target population	Examples in Afghanistan
Economic inclusion	Start or expand micro-enterprises to improve self-employment outcomes, high cost-effectiveness	Women with little or no education	MCBP livelihoods pilot; CRL women's livelihoods project; WFP resilience programs
Business skills training	Strong impact on self-employment when contextualized and includes psychosocial modules	Youth with primary education, including women	ILO's SIYB and Get Ahead training
Technical skills training	Improve productivity in self-employment and access to higher-paying wage jobs	Youth of all education levels	EERA skills development
Digital skills training	Open access to markets for the self-employed (e.g., gig work or e-commerce) or to higher-paying wage jobs	Youth with secondary education including women	UNESCO; private tech companies; IFC in collaboration with American University Afghanistan
Financial inclusion	Support to MSMEs, works best if coupled with other interventions	Existing microentrepreneurs with limited access to credit	Emerge Project
Apprenticeship	Promote on-the-job learning and facilitate access to wage jobs	Young men with primary education	GIZ apprentice training program (Ostad Shagerdi)
Employment services	Linking jobseekers and formal sector employers. Limited impact expected in Afghanistan	Educated urban male jobseekers	UNESCO; EERA
Public works	Short-term, non-sustainable impact on employment	Vulnerable workers	CRL public works component

Note: CRL: Community Resilience and Livelihoods Project; EERA: Education Emergency Response in Afghanistan; MCBP: Maternal and Child Benefit Program; MSME: micro, small and medium enterprise; SIYB: Start and Improve Your Business.

Economic Inclusion (EI): Fostering Productive Self-Employment of Vulnerable Populations. EI programs provide a bundle of interventions, including cash transfers, skills training, financial access, and market linkages, to help households engage in productive activities. Globally, over 400 EI programs have been implemented across 88 countries, demonstrating strong impacts on income, consumption, and resilience years (Arévalo-Sánchez et al. 2024). In Afghanistan, an EI program evaluated by the World Bank in Balkh province showed substantial poverty reduction (Bedoya et al. 2023). Participants had 32 percent higher incomes and business revenues than control households after five years, demonstrating resilience to economic shocks. While this program had high costs per beneficiary, more affordable EI models, such as those layered on safety nets, have shown strong cost-effectiveness and scalability (Bossuroy et al., 2022).

Business Skills Training: Enhancing Productivity in Self-Employment. Business skills training is highly effective when tailored to local needs and combined with life skills or psychology-informed curricula (McKenzie, 2020). The ILO's Start and Improve Your Business (SIYB) training has been adapted and

implemented in Afghanistan. Other initiatives, such as EERA, offer entrepreneurship training alongside literacy and numeracy courses, particularly for women.

Technical Skills Training: Preparing Youth for Marketable Trades. Technical training can improve employment prospects by equipping youth with trade-specific skills. In Afghanistan, past programs such as NSTP and ASDP successfully trained thousands of youths, with high post-training employability rates. These models could be revitalized through partnerships with the private sector.

Digital Skills Training: Expanding Market Access. Digital skills are increasingly essential for both self-employment (e.g., e-commerce, gig work) and private-sector jobs. Afghanistan faces challenges such as limited internet access and gender-based restrictions, but organizations like UNESCO, Code to Inspire, and UNITAR are providing remote learning opportunities. Expanding these initiatives could help youth, particularly women, integrate into the digital economy.

Financial Inclusion: Strengthening Micro-Entrepreneurs. Women's access to financial services remains severely limited, with only 5 percent owning a financial account. Programs such as the World Bank's Emerge project aim to enhance financial inclusion by strengthening microfinance institutions. Increasing access to credit and savings opportunities, particularly for women entrepreneurs, is crucial for fostering sustainable employment.

Apprenticeships: Bridging the Gap Between Training and Employment. On-the-job training significantly improves employment outcomes. The GiZ-supported Ostad Shagerdi apprenticeship program previously facilitated vocational training for Afghan youth. Similar models, which integrate workplace training with formal instruction, could provide a pathway into skilled labor markets.

Employment Services: Connecting Jobseekers to Employers. Job intermediation services have limited potential in Afghanistan due to the small size of the formal labor market.

Public Works: Providing Short-Term Employment. Public works programs offer temporary employment but have limited long-term benefits (Bagga et al. 2024). While useful in crisis response, these interventions should not be relied upon as a primary employment strategy.services remains severely limited, with only 5 percent owning a financial account. Programs such as the World Bank's Emerge project aim to enhance financial inclusion by strengthening microfinance institutions. Increasing access to credit and savings opportunities, particularly for women entrepreneurs, is crucial for fostering sustainable employment.

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Employment Services: Connecting Jobseekers to Employers. Job intermediation services have limited potential in Afghanistan due to the small size of the formal labor market. While programs such as EERA attempt to link jobseekers with employers, structural constraints reduce their effectiveness.

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ANNEXES

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ANNEX TABLES

Table 2. Afghanistan Selected Economic and Financial Indicators, 2018-27

Fiscal Year	2,018	2,019	2,020	2,021	2,022	2,023 Act.	2,024 Est.	2,025 Proj.	2,026 Proj.	2,027 Proj.
				Change in %						
Supply										
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	6.0	3.2	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	2.1	2.5	2.5	2.5
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	-0.3	1.1	1.5	1.9
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	2.6	2.8	3.1	3.1
Real GDP	1.2	3.9	-2.4	-20.7	-6.2	2.3	2.5	2.2	2.4	2.5
Domestic prices										
Consumer prices (annual average)	0.6	2.3	5.6	7.8	10.6	-7.7	-4.3	2.0	5.0	6.0
Consumer prices (end of period)	1.8	3.0	4.4	15.1	1.9	-9.0	-0.3	4.3	5.7	6.3
Exchange Rate (annual average)	73.5	78.2	76.9	87.7	88.5	77.3	70.3	74.2	77.2	79.5
Exchange Rate (end of period)	75.5	76.1	77.2	87.7	87.1	71.4	70.6	77.8	78.0	81.0
				In % of nominal GDP						
Demand										
Private Consumption	89.2	83.7	88.9	100.5	106.5	107.9	111.2	110.0	110.5	109.8
Government Consumption	34.7	33.2	33.2	21.3	21.8	21.2	21.4	20.8	20.5	20.2
Public Investment	7.4	6.9	6.0	6.4	6.4	6.2	7.0	5.9	5.8	5.6
Private Investment	10.6	11.3	11.0	6.6	10.2	9.1	9.0	9.1	9.3	9.4
Exports, GNFS	9.1	8.2	7.0	10.4	14.6	12.0	10.1	12.2	12.3	12.1
Imports, GNFS	51.1	43.4	46.1	45.2	59.6	56.3	58.7	58.0	58.3	57.1
Fiscal										
Revenue and Grants	58.1	53.0	49.4	36.5	40.6	33.9	30.6	28.1	27.0	25.8
Domestic Revenue	14.4	14.6	11.3	11.1	15.1	15.6	16.6	16.6	16.5	16.4
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.8	10.8	10.9	11.0
Non-tax and other Revenues	4.7	5.4	3.9	3.5	6.3	6.6	5.8	5.7	5.6	5.4
External Grants	44.1	38.8	38.1	25.4	25.5	18.3	14.0	11.6	10.5	9.4
Total Expenditures	56.8	54.7	51.7	36.0	41.6	35.1	32.7	30.1	28.9	27.7
Current Expenditures	19.4	19.3	17.8	13.4	15.3	15.5	16.8	16.7	16.3	15.8
Capital Expenditures	9.5	9.5	10.4	4.1	0.8	1.3	1.9	1.9	2.1	2.5
Externally Financed Expenditure	27.8	26.0	23.5	18.4	25.5	18.3	14.0	11.6	10.5	9.4
General Fiscal Balance	1.3	-1.7	-2.3	0.5	-1.0	-1.2	-2.0	-2.0	-1.9	-1.9
General Public Debt	5.8	7.1	8.2	12.7	13.9	13.6	12.8	12.3	11.7	10.5
Balance of Payments										
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-24.6	-24.1	-25.4	-25.3
Trade Balance (Goods and Services)	-41.9	-35.1	-39.1	-34.8	-45.0	-44.3	-48.6	-45.8	-46.1	-45.0
Primary and Secondary Incomes	20.1	16.5	17.5	19.0	26.2	26.8	23.9	21.7	20.7	19.7
Capital Account Balance	27.8	26.0	23.5	25.4	14.0	9.4	8.2	8.5	8.5	8.5
Financial Account Balance	2.5	-0.3	2.3	-4.4	0.7	1.0	1.7	1.9	1.8	1.9
Stock of Reserves (in months of imports)*	12.1	10.6	17.7	14.4	12.4	8.9	9.1	8.9	8.8	8.8
Memorandum items										
Nominal GDP (AFN billion)	1,328	1,470	1,535	1,251	1,283	1,351	1,454	1,517	1,600	1,707
Nominal GDP (USD million)	18,053	18,799	19,956	14,266	14,502	17,476	20,664	20,436	20,730	21,475
Population (million)	37	38	39	40	41	41	42	43	45	46
GDP per capita (real LCU)	37,273	37,592	35,569	27,536	25,450	25,477	25,500	25,444	25,434	25,469
GDP per capita (real 2015 USD)	553	558	528	409	378	378	378	378	377	378
GDP at market prices (real 2015 USD)	20,323	21,118	20,622	16,345	15,325	15,673	16,063	16,413	16,801	17,227

* Gross reserves includes the frozen assets

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

Table 3. Afghanistan Real Sector, 2018-2027

Fiscal Year	2,018	2,019	2,020	2,021	2,022	2,023 Act.	2,024 Est.	2,025 Proj.	2,026 Proj.	2,027 Proj.
				Change in %						
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	6.0	3.2	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	2.1	2.5	2.5	2.5
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	-0.3	1.1	1.5	1.9
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	2.6	2.8	3.1	3.1
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**2.5**	**2.2**	**2.4**	**2.5**
				Contribution to GDP growth						
Supply										
Agriculture	-1.2	4.5	1.7	-3.1	-2.4	0.8	2.2	1.2	1.2	1.2
Industry	1.3	0.6	-0.6	-1.7	-0.8	0.3	0.3	0.4	0.4	0.4
Services	1.1	-0.8	-3.1	-15.2	-2.9	0.7	-0.1	0.5	0.6	0.8
Net Taxes on Production	0.0	-0.5	-0.4	-0.7	-0.1	0.5	0.1	0.1	0.2	0.2
Demand										
Private Consumption	6.9	1.3	-1.1	4.3	0.5	6.0	4.7	5.4	3.0	3.0
Government Consumption	-10.1	-0.2	-0.8	-16.3	-0.2	0.1	0.9	-0.4	0.2	0.2
Public Investment	1.1	-0.3	-1.2	-1.6	0.3	0.1	1.4	-1.4	0.0	0.0
Private Investment	-1.6	1.2	-0.4	-6.1	3.8	-1.2	0.2	0.3	0.4	0.4
Exports, GNFS	3.2	-0.5	0.1	-1.4	2.9	-2.4	-0.5	0.5	0.3	0.3
Imports, GNFS	1.8	2.4	1.1	0.3	-13.5	-0.4	-4.2	-2.2	-1.6	-1.4
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**2.5**	**2.2**	**2.4**	**2.5**
				In % of nominal GDP						
Supply										
Agriculture	22.0	25.8	30.0	33.6	33.7	34.7	35.6	36.4	36.7	36.9
Industry	13.4	14.1	13.0	14.3	16.1	13.4	13.3	13.5	13.5	13.6
Services	59.5	55.5	52.6	47.2	45.0	46.4	45.7	44.5	44.2	43.9
Net Taxes on Production	5.1	4.7	4.5	5.0	5.2	5.4	5.4	5.5	5.6	5.6
Real GDP (Constant AFN billion)	**1,370**	**1,423**	**1,390**	**1,101**	**1,033**	**1,056**	**1,082**	**1,106**	**1,132**	**1,161**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,454**	**1,517**	**1,600**	**1,707**
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**20,664**	**20,436**	**20,730**	**21,475**
Population (million)	**37**	**38**	**39**	**40**	**41**	**41**	**42**	**43**	**45**	**46**
GDP per capita (real LCU)	**37,273**	**37,592**	**35,569**	**27,536**	**25,450**	**25,477**	**25,500**	**25,444**	**25,434**	**25,469**
GDP per capita (real 2015 USD)	**553**	**558**	**528**	**409**	**378**	**378**	**378**	**378**	**377**	**378**
GDP at market prices (real 2015 USD)	**20,323**	**21,118**	**20,622**	**16,345**	**15,325**	**15,673**	**16,063**	**16,413**	**16,801**	**17,227**

Sources: ITA (NSIA, MOCI); and WBG staff estimates and projections.

Table 4. Afghanistan Fiscal Table (2018-2027)

Fiscal Year	2018	2019	2020	2021	2022	2023 Act.	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.
	In percentage of GDP									
Revenue and Grants	**58.1**	**53.0**	**49.4**	**36.5**	**40.6**	**33.9**	**30.6**	**28.1**	**27.0**	**25.8**
Domestic Revenue	**14.4**	**14.6**	**11.3**	**11.1**	**15.1**	**15.6**	**16.6**	**16.6**	**16.5**	**16.4**
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	10.8	10.8	10.9	11.0
Direct Taxes	2.6	2.2	2.1	1.9	1.1	1.6	1.9	1.9	2.0	2.0
Income Taxes (Corporate and Personal)	1.7	1.5	1.2	1.4	0.7	1.1	1.3	1.4	1.4	1.4
Personal Income Tax	1.1	1.2	1.0	0.9	0.5	0.6	0.8	0.8	0.8	0.8
Corporate Income Tax	0.7	0.4	0.2	0.5	0.1	0.5	0.6	0.6	0.6	0.6
Taxes on Property	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other Direct Taxes	0.9	0.7	0.8	0.5	0.3	0.4	0.5	0.5	0.5	0.5
Taxes on Goods and Services	2.5	2.4	2.2	2.1	2.2	2.5	3.0	3.0	2.8	2.9
General Taxes on Goods and Services	2.5	2.4	2.2	2.1	2.2	2.5	3.0	3.0	2.8	2.9
Taxes on Int Trade and Transactions	2.7	2.5	2.1	2.5	4.6	3.7	4.4	4.4	4.6	4.6
Customs and Other Import Duties	2.5	2.3	2.0	2.3	3.5	3.1	3.8	3.9	4.0	4.0
Taxes on Exports	0.1	0.1	0.0	0.1	0.9	0.4	0.4	0.3	0.4	0.4
Other Int Trade Taxes	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other Taxes	1.1	1.2	1.0	1.1	1.1	1.2	1.5	1.5	1.6	1.6
Social Contributions	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax and other Revenue	4.7	5.4	3.9	3.5	6.3	6.6	5.8	5.7	5.6	5.4
Non-tax Revenue			2.6	2.7	4.3	4.7	5.8	5.7	5.6	5.4
Other Revenue			1.3	0.8	1.9	1.9	0.1	0.1	0.1	0.1
External Grants	**44.1**	**38.8**	**38.1**	**25.4**	**25.5**	**18.3**	**14.0**	**11.6**	**10.5**	**9.4**
					16.1	16.8	18.6	18.5	18.4	18.3
Total Expenditures	**56.8**	**54.7**	**51.7**	**36.0**	**41.6**	**35.1**	**32.7**	**30.1**	**28.9**	**27.7**
Current Expenditures	**19.4**	**19.3**	**17.8**	**13.4**	**15.3**	**15.5**	**16.8**	**16.7**	**16.3**	**15.8**
Wages and Compensation	13.8	13.5	12.8	10.2	10.9	11.0	11.1	10.9	10.7	10.3
Use of Goods and Services	2.8	2.8	2.7	1.7	3.4	3.5	3.6	3.6	3.5	3.3
Interest Payments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Transfers	2.3	2.4	1.6	1.2	1.0	0.6	0.6	0.8	0.8	0.8
Social Assistance	1.2	0.9	0.9	0.9	0.8	0.6	0.6	0.6	0.6	0.6
Pensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Other Current Expenditures	0.5	0.5	0.5	0.3	0.0	0.5	1.6	1.4	1.4	1.4
Capital Expenditures	**9.5**	**9.5**	**10.4**	**4.1**	**0.8**	**1.3**	**1.9**	**1.9**	**2.1**	**2.5**
Externally Financed Expenditure	**27.8**	**26.0**	**23.5**	**18.4**	**25.5**	**18.3**	**14.0**	**11.6**	**10.5**	**9.4**
General Fiscal Balance	**1.3**	**-1.7**	**-2.3**	**0.5**	**-1.0**	**-1.2**	**-2.0**	**-2.0**	**-1.9**	**-1.9**
General Fiscal Balance, excl grants	**-42.7**	**-40.6**	**-40.4**	**-24.9**	**-26.4**	**-19.5**	**-16.1**	**-13.6**	**-12.4**	**-11.2**
Total Financing (External and Domestic)	**-2.9**	**-0.1**	**1.2**	**-0.2**	**-1.1**	**-1.2**	**2.0**	**2.0**	**1.9**	**1.9**
External Financing (Net)	-0.1	0.0	1.6	0.9	0.0	-0.2	-0.1	-0.2	-0.1	-0.1
Ext. Amortization	0.2	0.2	0.1	0.1	0.0	0.2	0.1	0.2	0.1	0.1
Ext. Disbursement	0.1	0.2	1.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Financing (Net)	-2.8	-0.1	-0.5	-1.1	-1.1	-1.0	2.1	2.2	2.0	2.0
Financing Gap/Error and omissions	1.6	1.8	1.1	-0.3	2.1	2.4	0.0	0.0	0.0	0.0
General Public Debt	**5.8**	**7.1**	**8.2**	**12.7**	**13.9**	**13.6**	**12.8**	**12.3**	**11.7**	**10.5**
Nominal GDP, LCU billion	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,454**	**1,517**	**1,600**	**1,707**

Sources: ITA (MOF); and WBG staff estimates and projections.

Table 5. Afghanistan Balance of Payments, (2018- 2027)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.
	In percentage of GDP, unless otherwise indicated									
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-24.6	-24.1	-25.4	-25.3
Trade Balance	-41.9	-35.1	-39.1	-34.8	-45.0	-44.3	-48.6	-45.8	-46.1	-45.0
Exports, GNFS	9.1	8.2	7.0	10.4	14.6	12.0	10.1	12.2	12.3	12.1
Merchandise Exports	4.9	4.7	3.9	7.8	13.2	10.4	8.6	10.6	10.7	10.6
Service Exports	4.2	3.5	3.1	2.6	1.4	1.6	1.5	1.5	1.6	1.5
Imports, GNFS	51.1	43.4	46.1	45.2	59.6	56.3	58.7	58.0	58.3	57.1
Merchandise Imports	43.5	37.4	40.6	39.7	54.1	51.7	54.0	51.3	51.5	50.4
Service Imports	7.5	6.0	5.5	5.5	5.5	4.6	4.6	6.6	6.8	6.8
Primary and Secondary Incomes	20.1	16.5	17.5	19.0	26.2	26.8	23.9	21.7	20.7	19.7
Credits	20.7	16.7	17.7	19.2	26.3	26.8	24.1	21.8	20.9	19.8
Remittance Inflows	4.0	3.9	3.6	9.1	14.5	17.7	17.7	17.5	17.5	17.5
Other Credits	16.7	12.8	14.1	10.1	11.8	9.1	6.4	4.3	3.3	2.3
Debits	0.6	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Remittance Outflows	0.3	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Other Debits	0.3	0.0	0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Financial and Capital Accounts										
Capital Account Balance	27.8	26.0	23.5	25.4	14.0	9.4	8.2	8.5	8.5	8.5
Financial Account Balance (incl reserves)	2.5	-0.3	2.3	-4.4	0.7	1.0	1.7	1.9	1.8	1.9
Financial Account Balance (excl reserves)	1.2	0.0	-1.6	-5.9	0.5	-0.4	1.7	1.9	1.8	1.9
Net Foreign Direct Investment	-0.2	0.0	0.1	0.3	0.0	-0.3	0.0	0.0	0.0	0.0
Net Foreign Direct Investment, Inflow	0.2	0.0	-0.1	-0.3	0.0	0.3	0.0	0.0	0.0	0.0
Net Portfolio Investment	0.5	-0.1	0.2	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0
Net Other Investment	0.9	0.1	-2.0	-3.9	0.8	-0.1	1.7	1.9	1.8	1.9
Net Errors and Omissions	5.8	7.6	-3.6	2.2	-4.6	-10.0	-14.8	-13.8	-15.0	-15.0
Stock of Reserves (in months of imports)*	12.1	10.6	17.7	14.4	12.4	8.9	9.1	8.9	8.8	8.8
Nominal GDP, USD million	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**20,664**	**20,436**	**20,730**	**21,475**

* Gross reserves includes the frozen assets

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

Table 6: Afghanistan Monetary Statistics, March 2019 to December 2024

End of period	Mar-19	Mar-20	Mar-21	Aug-21	Dec-21	Mar-22	Dec-22	Mar-23 Act.	Dec-23 Est.	Mar-24 Est.	Dec-24 Est.
					In AFN billion						
Net Foreign Assets	**739**	**745**	**832**	**869**	**1,051**	**902**	**900**	**898**	**755**	**770**	**806**
Gross Reserves**	626	628	725	782	940	811	812	807	682	695	734
Other Foreign Assets	125	126	117	100	125	98	97	98	79	81	78
Foreign Liabilities	12	9	9	13	14	6	9	7	6	6	6
Net Domestic Assets	**-271**	**-250**	**-291**	**-326**	**-507**	**-387**	**-381**	**-369**	**-231**	**-238**	**-247**
Net Domestic Credit	-97	-79	-99	-70	-114	-113	-135	-121	-113	-100	-106
Net Credit to Nonfinancial Public Sector	-143	-126	-147	-118	-162	-156	-173	-158	-146	-131	-135
Net Credit to Central Government	-143	-126	-147	-118	-162	-156	-173	-158	-146	-131	-135
Credit to Central Government	7	0	0	0	0	0	0	0	0	0	0
Liabilities to Central Government	150	126	147	119	162	156	173	158	146	131	135
Net Credit to State & Local Government	0	0	0	0	0	0	0	0	0	0	0
Net Credit to Public Nonfinancial Corporations	0	0	0	0	0	0	0	0	0	0	0
Credit to Private Sector	47	47	47	48	48	43	38	36	32	31	28
Net Credit to Other Financial Corporations	-1	0	0	0	0	0	0	1	1	1	1
Capital Accounts	200	195	220	285	414	300	289	289	153	166	177
Other Items (net)	26	23	28	29	22	25	43	41	35	28	36
											559
Broad Money (M2)	**465**	**492**	**538**	**540**	**541**	**512**	**515**	**525**	**520**	**528**	**554**
Narrow Money (M1)	**432**	**461**	**497**	**498**	**498**	**479**	**482**	**492**	**491**	**500**	**529**
Currency in Circulation	213	250	275	300	307	311	307	308	326	331	361
Transferable Deposits	218	211	223	198	191	167	175	184	165	169	168
Other Deposits	33	31	41	42	42	33	33	33	28	28	24
Securities Other than Shares	0	0	0	0	0	0	0	0	0	0	0
Nonliquid Liabilities	**3**	**3**	**4**	**4**	**3**	**3**	**4**	**4**	**4**	**5**	**5**
					Change in % y-o-y						
Broad Money (M2)	5.4	5.8	9.4	-0.4	-6.1	-4.9	-4.7	2.5	0.8	0.6	6.6
Narrow Money (M1)	6.1	6.7	8.0	-2.3	-6.9	-3.8	-3.2	2.7	1.9	1.6	7.7
Currency in Circulation	3.8	17.3	9.7	10.9	8.6	13.4	-0.2	-1.1	6.4	7.5	10.7
Credit to Private Sector	4.6	0.7	0.0	0.4	1.5	-10.2	-21.7	-14.9	-14.3	-15.9	-12.4
Liabilities to Central Government	11	-16.1	16.5	-13.7	27.0	6.2	6.6	1.4	-15.6	-17.0	-7.5
					In % of GDP						
Broad Money (M2)	31.6	32.0	43.0	43.2	43.2	39.9	40.2	38.8	38.5	36.3	38.1
Narrow Money (M1)	29.4	30.0	39.8	39.8	39.8	37.3	37.6	36.4	36.4	34.4	36.4
Currency in Circulation	14.5	16.3	21.9	24.0	24.6	24.3	23.9	22.8	24.2	22.8	24.9
Credit to Private Sector	3.2	3.1	3.8	3.9	3.9	3.3	2.9	2.7	2.4	2.1	2.0
Liabilities to Central Government	10.2	8.2	11.7	9.5	13.0	12.2	13.5	11.7	10.8	9.0	9.3

** Include frozen assets

Source: Central Bank - Da Afghanistan Bank and WBG staff estimates