AFGHANISTAN ECONOMIC MONITOR

Afghanistan Futures
ASSESS, ANALYZE, ADVISE

This monthly Afghanistan Economic Monitor is part of **Afghanistan Futures**, the World Bank's program of research, monitoring, and analytical reports on the Afghan economy and society. **Afghanistan Futures** seeks to inform the international policy dialogue as the international community assesses how it can support the people of Afghanistan. This Afghanistan Economic Monitor joins the regular surveys on the private sector, household welfare, and gender, as well as the sectoral reports that inform the Afghanistan Development Update, a biannual flagship report.

HIGHLIGHTS

Afghanistan's weak economy results in deflation and poverty.

The deflationary process that started in April 2023 has continued into December 2023 as the economy adjusts to reduced aggregate demand. Factors contributing to this include the appreciation of the local currency, depletion of household savings, lower public spending, and loss of farmers' income due to the opium cultivation ban. In December 2023, headline inflation in Afghanistan reached -9.7 percent year-on-year (Y-o-Y), primarily driven by negative inflation in the food group (-14.5 percent Y-o-Y) and the non-food segment (-4.2 percent Y-o-Y). Core inflation, excluding food and energy prices, also fell to -6.0 percent Y-o-Y. Economic challenges have resulted in increased unemployment, with half of Afghanistan's population living in poverty and 15 million people facing food insecurity.

Exports in 2023 were comparable to 2022, with Pakistan and India remaining the primary export destinations.

In 2023, Afghanistan's total exports reached $1.9 billion, a modest increase of 0.4 percent from the previous year. Coal exports, a significant contributor in 2022 with $476 million, saw a substantial 46 percent reduction in 2023, bringing the total down to $257 million. On the other hand, food grew by 13 percent to $1.3 billion compared to $1.1 billion in 2022. Textile exports also experienced notable growth, surging by 46 percent in 2023 to reach $281 million, up from $192 million in 2022. Pakistan and India remained the primary export destinations, with 54 percent and 31 percent shares, respectively. However, exports to Pakistan decreased by 15 percent, dropping to $1.0 billion in 2023. Notably, 70 percent of exports to Pakistan comprised food and coal, with coal exports witnessing a substantial 46 percent decline. Food exports to Pakistan contracted by 10 percent, reaching $450 million in 2023, constituting 36 percent of the total food exports. Conversely, food exports to India surged by 43 percent, reaching $578 million in 2023 and accounting for 46 percent of the country's total food exports. This surge in exports to India helped offset the decline in exports to Pakistan.

Imports grew faster than exports in 2023, leading to a wider trade deficit than in 2022.

In 2023, imports surged to $7.8 billion, a significant 23 percent increase from the previous year's imports of $6.3 billion. Food imports, accounting for 22 percent of the total, grew by 9 percent to $1.7 billion. Key food imports included cereal, edible vegetables, malt, starches, inulin, wheat gluten, and tobacco. Minerals (fuel, mineral oils, salt, and sulfur) contributed 20 percent to total imports, rising by 15 percent from $1.3 billion in 2022 to $1.6 billion in 2023. Textile imports increased by 11 percent, from $0.65 billion in 2022 to $0.72 billion in 2023. Food, textiles, and minerals accounted for over half of imports. Notably, chemicals, machinery, and transportation products experienced significant import growth of 37 percent, 63 percent, and 85 percent, respectively, in 2023. Iran was the largest import origin country (23 percent), followed by Pakistan (19 percent), China (15 percent), and the United Arab Emirates (15 percent). The overall merchandise trade deficit for 2023 widened by 34 percent to $5.9 billion, up from $4.4 billion in 2022.

While the Afghani appreciated against major currencies during 2023, the trend changed in January 2024.

In 2023, despite a burgeoning trade deficit, the Afghani (AFN) strengthened. The AFN has appreciated significantly against several major currencies. It has appreciated by 27.1 percent against the US dollar, 23.4 percent against the Euro, 23.0 percent against the Chinese Yuan, 25.7 percent against the Indian rupee, and 42.1 percent against the Pakistani rupee. The AFN has also seen a substantial 60.0 percent increase against the Iranian Toman. By December 26, 2023, the AFN traded at 70.13 against the US dollar, an appreciation of 22.8 percent since August 15, 2021. In the absence of monetary statistics, it is hard to ascertain the monetary policy stance of the DAB. Nevertheless, regular news items suggest that the central bank undertakes frequent forex auctions to prop up the value of the local currency. It can be asserted that propping up AFN indicates that the exchange rate is the operational target for monetary policy in Afghanistan. However, binding foreign exchange constraints may have resulted in a trend reversal, as more recently, in January 2024, AFN depreciated against all major currencies. For instance, it depreciated by 4.5 percent against the US dollar and 3.7 percent against the Euro.

In the first ten months of fiscal year 2023-24, revenue fell short of the target due to underperformance in both domestic revenue and border taxes.

Revenue collection for the initial ten months of FY2023-24 (March 22, 2023, to January 21, 2024) reached AFN 171 billion, a 5.7 percent increase compared to the same period in the previous fiscal year. Border taxes collected by the Afghanistan Customs Department (ACD), accounting for 54 percent of total revenue, grew moderately by 4 percent despite a substantial 20 percent increase in imports during the period under discussion. Factors such as the strong AFN appreciation, reduced import value in local currency, lower import tariffs on certain food items, decreased Business Receipt Tax on raw materials for manufacturing companies, and border closures contributed to this sluggish growth. Inland revenues collected by the Afghanistan Revenue Department (ARD) showed better growth at 8.2 percent compared to the same period last year, thanks to the Small Taxpayer Office (STO) and Mostafiat (provinces collection). However, ARD remains 4 percent below the target, and ACD collection lags by 1 percent. While domestic revenue at ~17 percent of 2023-24 GDP[1] also drags an already depressed economy. Implementing rigorous tax collection measures in a context where the scope of budget implications as an economic policy tool and social transfers is limited could potentially hinder economic growth, worsen poverty, and lead to business closures, thereby further limiting the potential for future revenue collection.
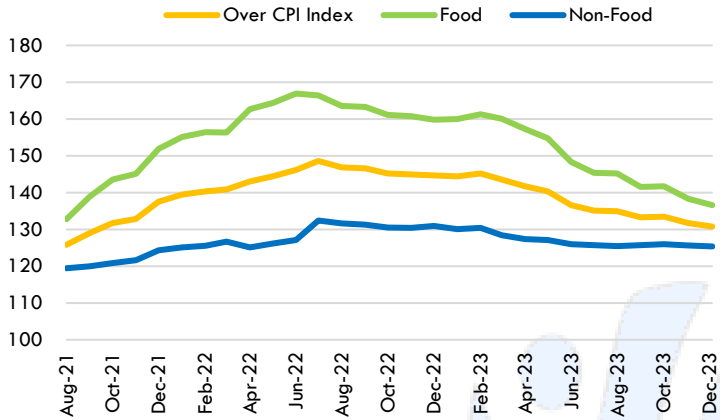

[1] Projected revenues and GDP

1. PRICE TRENDS

The headline inflation fell to a negative 9.7 percent year-on-year in December 2023 due to a drop in food inflation to negative 14.5 percent and non-food inflation to negative 4.2, indicating weak demand.

1.1. HEADLINE PRICE INDEX

Legend: Over CPI Index — Food — Non-Food

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

Legend: Core Inflation — Headline Inflation
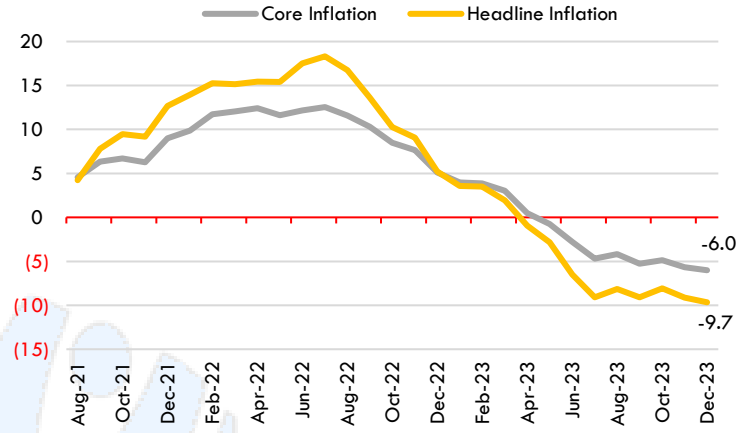
Source: National Statistics and Information Authority (NSIA).

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

|	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Bread	15.2	14.2	13.5	10.7	7.7	0.7	-2.7	-6.1	-4.3	-3.0	-4.9	-5.3
Fuel (diesel)	22.3	14.8	-5.4	-2.2	-11.1	-32.7	-46.8	-38.6	-32.5	-25.2	-29.8	-30.2
Oil (cooking)	-21.7	-17.0	-21.3	-26.3	-38.3	-43.0	-39.6	-36.2	-32.2	-31.0	-35.9	-36.4
Pulses	-2.4	0.0	1.7	0.3	-2.3	-3.1	-1.2	0.5	3.5	3.0	-3.6	-6.1
Rice (high quality)	19.8	17.9	19.1	16.7	9.1	-1.3	-5.0	-5.0	-8.3	-7.8	-12.1	-14.8
Rice (low quality)	18.9	28.3	27.9	26.3	24.7	19.5	19.7	19.9	16.3	16.1	6.0	-0.1
Salt	2.5	-0.1	4.0	8.2	2.9	4.1	4.4	2.5	2.0	1.9	8.9	0.1
Sugar	-7.5	-3.5	0.1	2.3	16.6	13.0	5.9	5.7	10.3	13.4	12.9	10.8
Wheat	-2.7	5.3	0.0	-10.5	-19.5	-33.2	-32.6	-32.9	-32.4	-30.1	-32.1	-32.8
Wheat flour (high quality)	-6.3	-0.6	-7.9	-18.7	-26.3	-37.4	-37.0	-37.6	-35.3	-30.0	-32.8	-32.5
Wheat flour (low quality)	-6.6	-1.4	-6.3	-16.0	-25.0	-37.8	-37.1	-37.5	-36.1	-32.9	-35.4	-34.7
Basic Household Goods Price Inflation	**-3.3**	**0.7**	**-4.1**	**-9.8**	**-16.8**	**-26.2**	**-27.1**	**-25.6**	**-22.9**	**-19.3**	**-23.4**	**-24.0**

Source: Price data from WFP weekly report; index constructed by World Bank staff.
Note: This Index uses WFP price data for 11 critical household goods from all provinces. It applies consumption and population weights from NSIA to provide an aggregate snapshot of basic household inflation trends.
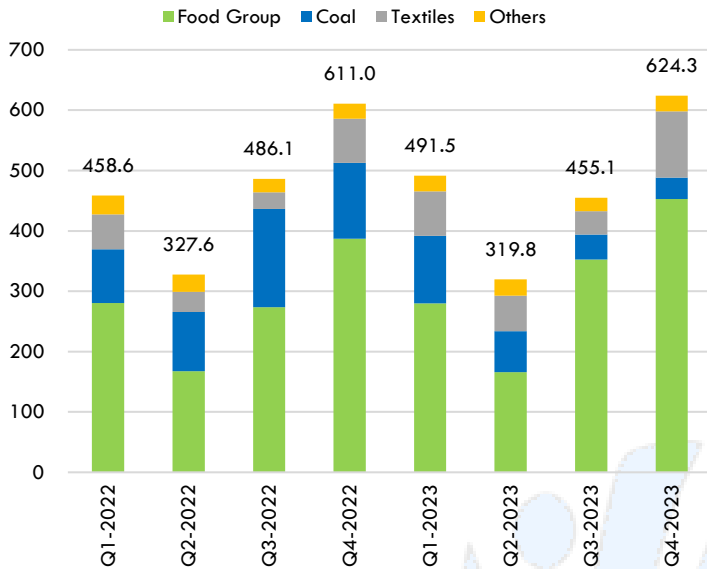
2. TRADE DEVELOPMENTS

During 2023, Afghanistan's merchandise import growth outpaced the export growth, resulting in a widening trade deficit compared to 2022.
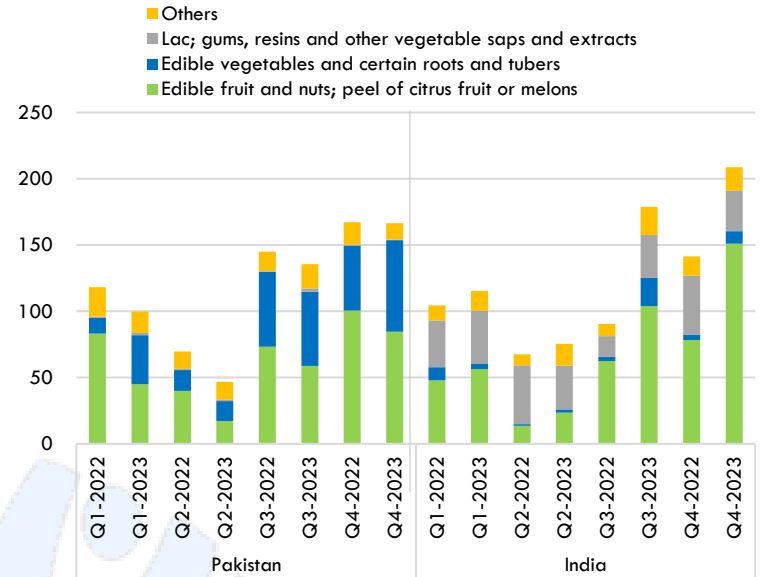
2.1. AFGHANISTAN TRADE DEFICIT ($ BILLIONS)

Legend: Trade Deficit — Total Exports — Total Imports

Data labels: 0.9, 1.1, 1.1, 1.3, 1.3, 1.6, 1.5, 1.5
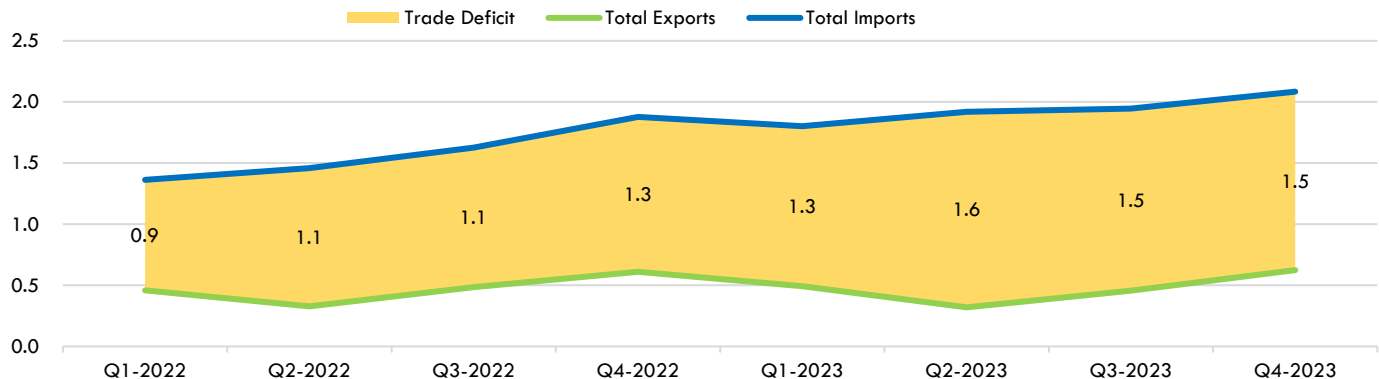
Source: ASYCUDA

2.2 AFGHANISTAN'S EXPORTS ($ MILLIONS): 2022 – 2023

Legend: Food Group, Coal, Textiles, Others

Source: ASYCUDA

2.3 AFGHANISTAN'S FOOD EXPORTS ($ MILLIONS): 2022 – 2023

Legend: Others; Lac; gums, resins and other vegetable saps and extracts; Edible vegetables and certain roots and tubers; Edible fruit and nuts; peel of citrus fruit or melons

Source: ASYCUDA

2.4 AFGHANISTAN'S IMPORTS ($ BILLIONS): 2022 – 2023

Legend: Others; Mineral & Chemical; Textile, Plastic/Rubber & Machinery; Food & Transportation
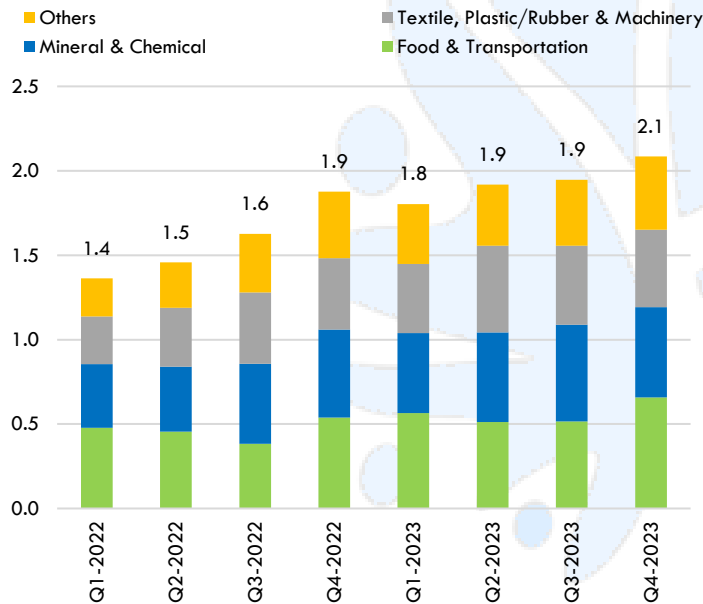
Source: ASYCUDA

2.5 AFGHANISTAN'S IMPORTS BY ORIGIN (% SHARE): 2022 – 2023

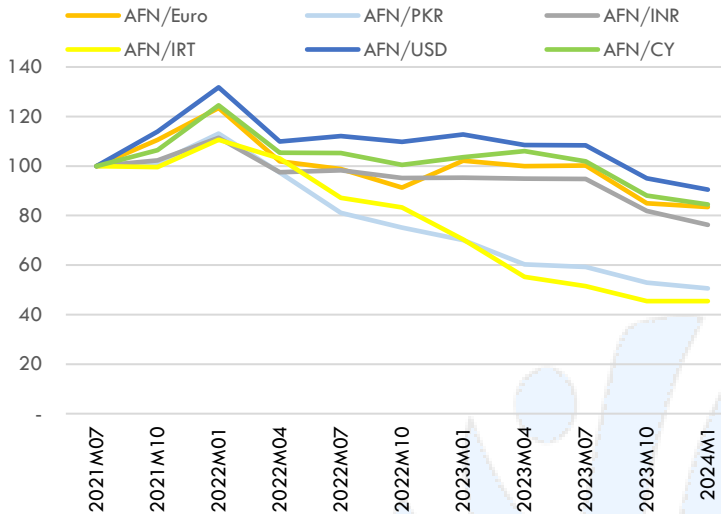Legend: Iran, Pakistan, China, United Arab Emirates, Others
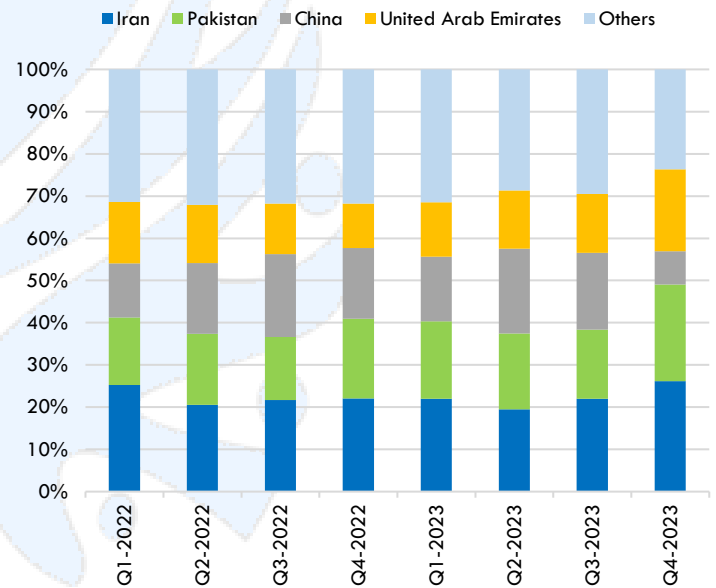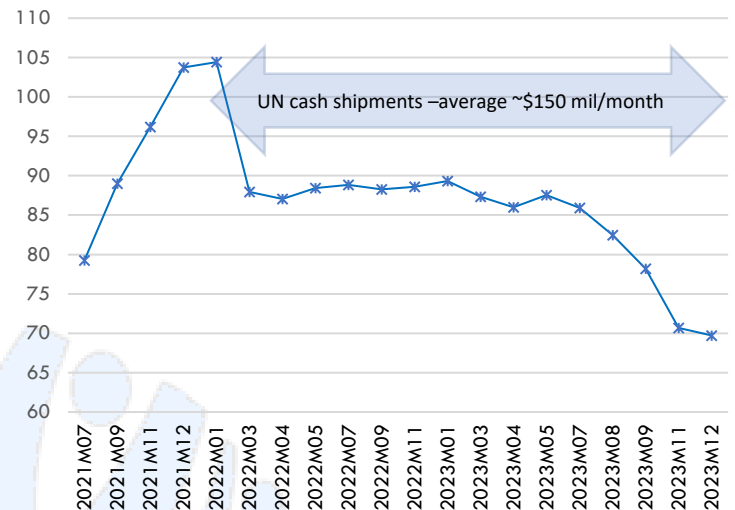
Source: ASYCUDA

3. FOREIGN EXCHANGE

Continued humanitarian cash shipments and the central bank's $ auctions, with a resultant monetary contraction, caused the appreciation of Afghani against major trading currencies during 2023.

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

3.2. AVERAGE MONTHLY AFN/$ EXCHANGE RATE

UN cash shipments –average ~$150 mil/month

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

	28-Feb-23	28-Mar-23	25-Apr-23	29-May-23	26-Jun-23	24-Jul-23	24-Aug-23	25-Sep-23	25-Oct-23	27-Nov-23	26-Dec-23	25-Jan-24
AFN/Euro	4.28	4.56	3.30	4.20	4.99	2.81	8.01	16.69	23.37	26.05	27.02	22.38
AFN/PKR	67.42	68.53	70.85	82.02	78.76	77.02	91.54	98.25	98.71	114.17	110.54	99.73
AFN/INR	11.73	13.04	13.62	13.59	14.01	13.92	13.45	25.45	32.02	46.21	42.57	39.62
AFN/IRT	88.24	68.42	77.78	88.24	88.24	88.24	88.24	88.24	113.33	128.57	113.33	113.33
AFN/$D	-3.14	-0.74	-0.22	-1.32	0.31	0.44	3.67	10.10	16.17	23.51	22.82	17.34
AFN/CY	-3.30	-2.86	-2.96	-3.48	-1.24	2.76	5.47	12.64	17.81	23.14	22.36	20.36

Source: Data from DAB, World Bank staff elaboration.
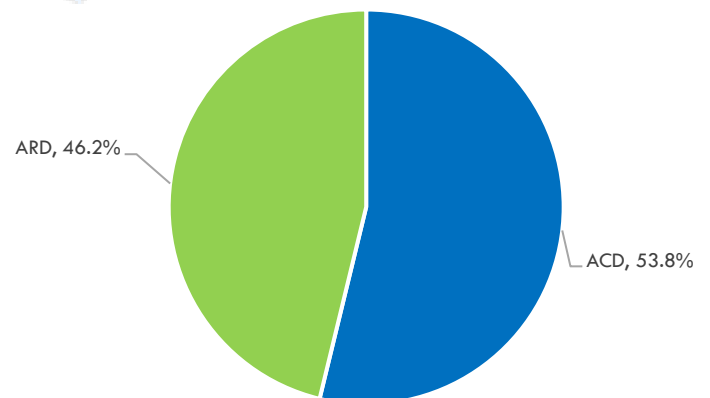
4. REVENUES

The ITA collected AFN 171.0 billion in revenue during the first ten months of the fiscal year 2023-24, which fell short of the target as both inland and border revenues underperformed.
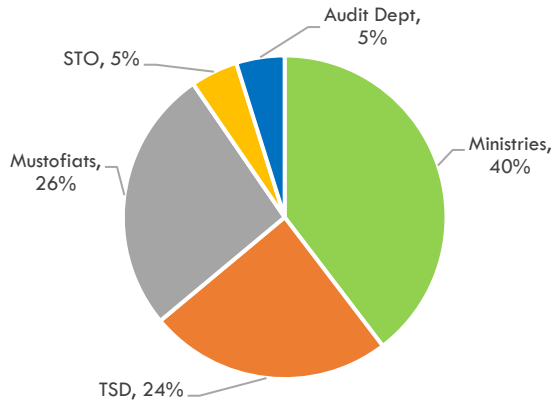
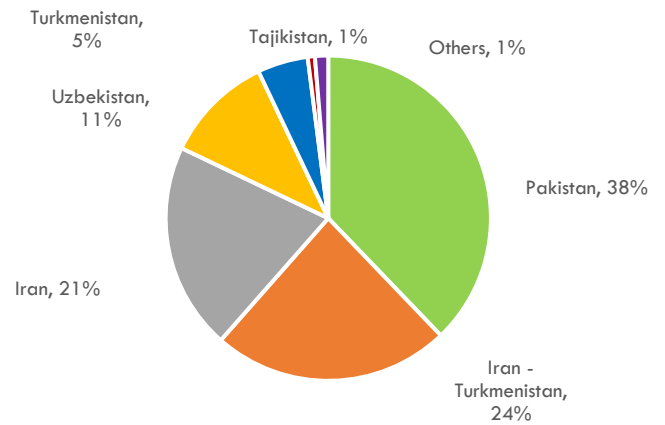### 4.1. TOTAL REVENUE AND EXPENDITURE (AFN BILLIONS; FY 2023-24)
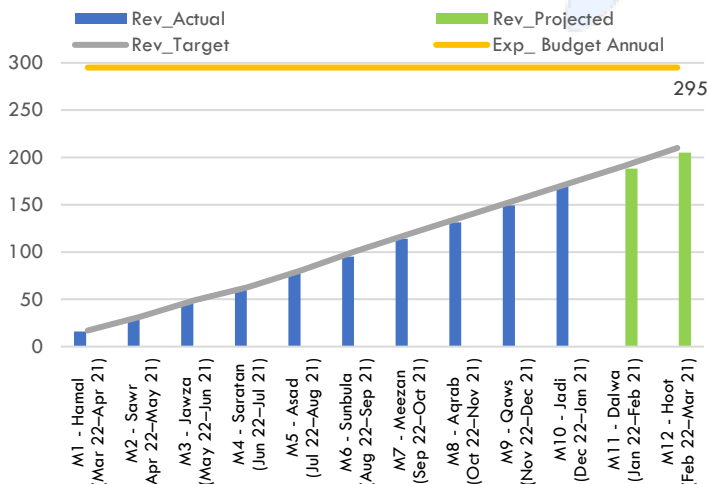
4.2. SHARE OF ARD AND ACD REVENUES IN TOTAL COLLECTIONS (MARCH 22 - JANUARY 21, FY2023-24)

ARD, 46.2%

ACD, 53.8%

4.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (MARCH 22 - JANUARY 21, FY2023-24)

4.4. PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS (MARCH 22 - JANUARY 21, FY2023-24)

Audit Dept, 5%
STO, 5%
Mustofiats, 26%
Ministries, 40%
TSD, 24%

Turkmenistan, 5%
Tajikistan, 1%
Others, 1%
Uzbekistan, 11%
Pakistan, 38%
Iran, 21%
Iran - Turkmenistan, 24%

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

5. PROVISION OF HEALTH SERVICES

ANC visits under the Health Emergency Response (HER) Project have declined since August 2023.

5.1. SERVICES DELIVERED AT HER-FINANCED HEALTH FACILITIES

Ante-natal care visits ■ Births at project facilities
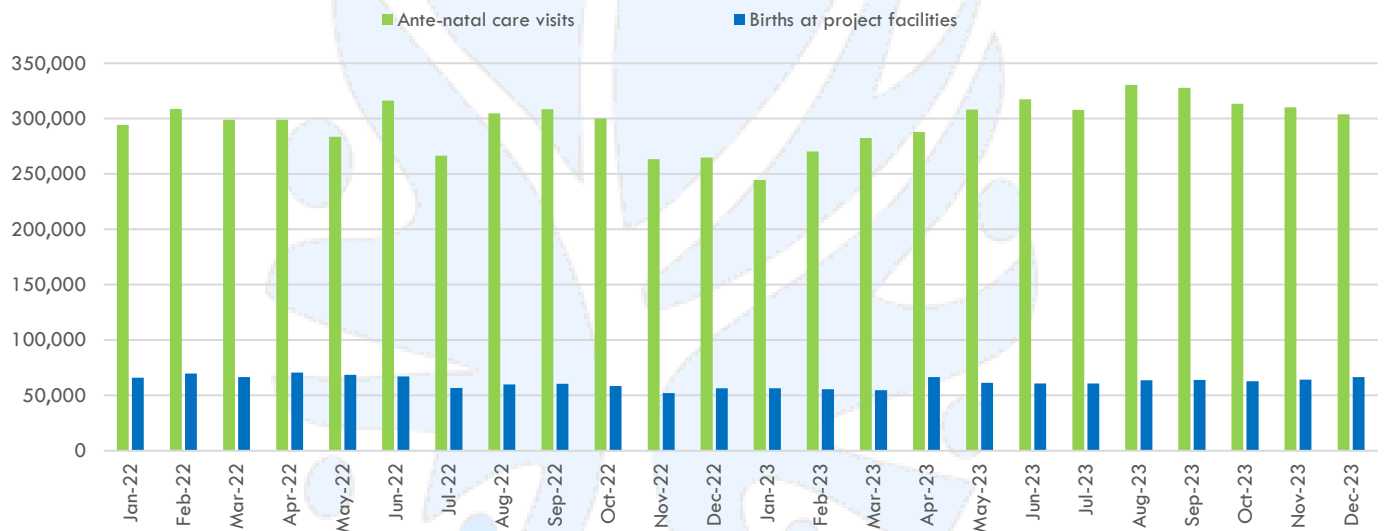
Source: Health Management Information System.

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Data notes: The Afghanistan Economic Monitor is produced by World Bank staff, drawing from various data sources. Reflecting limited data availability, data sources and coverage may vary between editions. Data sources are cited for each chart. The Afghanistan Economic Monitor uses data from the following sources: (i) official statistics on prices produced by the NSIA; (ii) data on prices and wages collected from all provinces by the World Food Program; (iii) data on the availability of foreign exchange and cash collected from 22 provinces by the World Bank's TPMA; (iv) data on exchange rates collected and reported by DAB; and (v) data on trade from the NSIA.