

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

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

HIGHLIGHTS

Deflation persists amid anemic economic activity.

In January 2024, headline inflation experienced a significant downturn, reaching -10.2 percent on a year-on-year basis. This substantial drop was largely due to a sharp decline in prices across both food (-15.1 percent YoY) and non-food categories (-4.8 percent YoY). Moreover, core inflation, which strips out the typically volatile food and energy sectors, also fell into negative territory, posting a rate of -6.5 percent YoY. This ongoing core deflation reflects a troubling inability of both private and public sectors to stimulate sufficient demand. While this period of falling prices may offer temporary financial relief to the most vulnerable households by reducing the cost of living, it can also harm the broader macroeconomy. Prolonged deflation can lead to a damaging cycle where consumers delay purchases, businesses reduce investment, and economic growth stalls, ultimately impeding more sustainable poverty alleviation and employment opportunities.

Total exports fell relative to last year, limiting their contribution to economic recovery.

Afghanistan's exports contracted by 5 percent YoY to \$140.5 million in January 2024, down from \$148.1 million the previous January. Coal exports took a significant hit, plunging 87 percent to \$3.9 million as Pakistan opted for its cheaper domestic coal. However, this loss was somewhat counterbalanced by a rise in food and textile exports. Food exports saw a 7 percent increase, while textiles surged by 52 percent, propelled by higher exports of fruits, nuts, and cotton. Food exports to India jumped by 22 percent, compared to an 18 percent decline in Pakistan. Pakistan and India continued to be the top export destinations, claiming 45 percent and 34 percent of the total exports in January 2024, respectively.

Imports continue to grow fast, widening the trade deficit.

The 2023 growth trend in imports extended into January 2024, hitting \$830 million, up 37 percent from \$600 million in January 2023. The rise in imports spanned across various sectors, including food, minerals, textiles, machinery, transportation, and chemicals. Food imports, for instance, grew by 14 percent year-on-year to \$170 million in January 2024, with significant contributions from cereals, vegetables, and fruits. Minerals made up 20 percent of total imports and saw a 27 percent increase year-on-year to \$160 million. Textile imports, though only 9 percent of the total, edged up by 2 percent year-on-year to \$61 million. Notably, machinery, transportation, and chemical products imports maintained their strong growth from 2023, with YoY increases of 111 percent, 106 percent, and 59 percent, respectively, in January 2024. Iran was the primary source of imports, accounting for 32 percent, followed by the UAE with 27 percent, Pakistan with 14 percent, and China with 5 percent. The merchandise trade deficit expanded by 51 percent in January 2024 to \$700 million from \$460 million in January 2023. However, it's estimated that about a quarter of the 2023 imports were for Pakistan, financed through the UAE by Pakistani importers. Adjusting for these figures, Afghanistan's actual imports would be around \$5.5 billion, resulting in a de facto trade deficit of approximately \$3.5 billion.

The Afghani lost value against major currencies in January 2024 after a significant past 18-month gain.

In 2023, the Afghani (AFN) saw a significant 27 percent appreciation against the US dollar, buoyed by the influx of around \$1.8 billion in UN cash shipments and an estimated \$2 billion in remittances. These inflows more than compensated for the approximate \$3.5 billion trade deficit, leading to a surplus in the local forex market and, consequently, the strengthening of the AFN. This appreciation, however, contributed to deflation, making imports relatively cheaper and suppressing demand for domestically produced goods. As 2024 began, the tide turned for the AFN, which depreciated against all major currencies. By the end of February, it had fallen by 5.4 percent against the US dollar, 5.0 percent against the Euro, 13 percent against the Chinese Yuan, 5.2 percent against the Indian rupee, and 6.3 percent against the Pakistani rupee. Despite this depreciation, the exchange rate of 72.88 AFN to the US dollar as of February 28, 2024, still indicated an 18.2 percent appreciation from August 15, 2021.

Revenues have been below ITA's target during the first eleven months of FY2024, with border taxes underperforming despite a surge in imports.

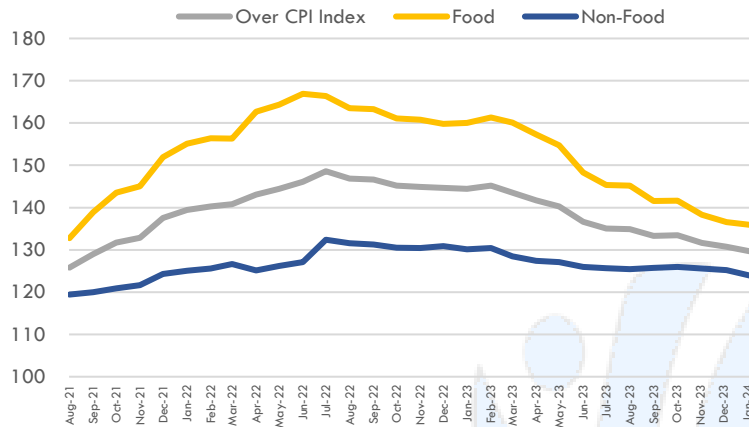
Over the eleven-month span of FY2024, from March 22, 2023, to February 21, 2024, Afghanistan's revenue collection reached AFN 189 billion, narrowly missing the target by 2 percent but marking a 5.6 percent increase from the previous fiscal year. The shortfall is largely due to border taxes, which saw a mere one percent rise despite a 22 percent surge in imports. The Afghani's appreciation, reduced tariffs on some food items, and lower taxes on manufacturing inputs have contributed to this modest increase. Additionally, border closures and diminished coal export duties have impacted ACD collections. Conversely, inland revenue saw an 11.8 percent uptick, with commendable performances by provincial collections, the Small Taxpayer Office, and the audit department. However, non-tax revenue, particularly from the Ministry of Mines and Petroleum, remained subdued, affecting about a quarter of the total non-tax revenue.



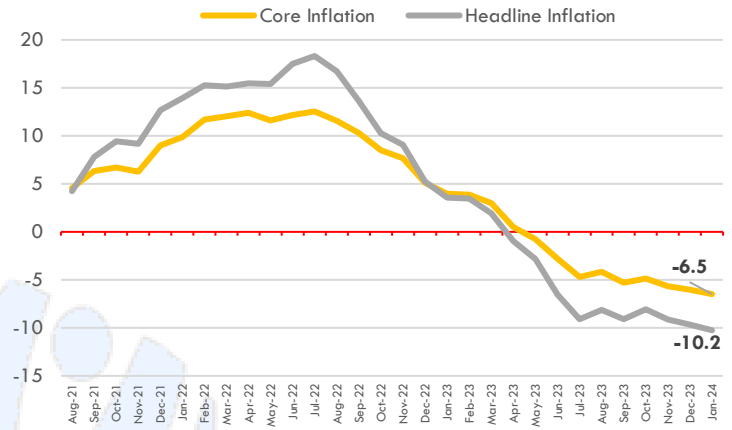
1. PRICE TRENDS

In January 2023, headline inflation fell to negative 10.2 percent YoY due to a drop in food inflation to negative 15.1 percent and non-food inflation to negative 4.8 percent, indicating persistent weak demand.

1.1. HEADLINE PRICE INDEX



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



Source: National Statistics and Information Authority (NSIA).

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

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Bread	14.2	13.5	10.7	7.7	0.7	-2.7	-6.1	-4.3	-3.0	-4.9	-5.3	-6.3
Fuel (diesel)	14.8	-5.4	-2.2	-11.1	-32.7	-46.8	-38.6	-32.5	-25.2	-29.8	-30.2	-33.1
Oil (cooking)	-17.0	-21.3	-26.3	-38.3	-43.0	-39.6	-36.2	-32.2	-31.0	-35.9	-36.4	-35.6
Pulses	0.0	1.7	0.3	-2.3	-3.1	-1.2	0.5	3.5	3.0	-3.6	-6.1	-5.1
Rice (high quality)	17.9	19.1	16.7	9.1	-1.3	-5.0	-5.0	-8.3	-7.8	-12.1	-14.8	-17.0
Rice (low quality)	28.3	27.9	26.3	24.7	19.5	19.7	19.9	16.3	16.1	6.0	-0.1	-1.8
Salt	-0.1	4.0	8.2	2.9	4.1	4.4	2.5	2.0	1.9	8.9	0.1	0.9
Sugar	-3.5	0.1	2.3	16.6	13.0	5.9	5.7	10.3	13.4	12.9	10.8	8.2
Wheat	5.3	0.0	-10.5	-19.5	-33.2	-32.6	-32.9	-32.4	-30.1	-32.1	-32.8	-32.4
Wheat flour (high quality)	-0.6	-7.9	-18.7	-26.3	-37.4	-37.0	-37.6	-35.3	-30.0	-32.8	-32.5	-32.4
Wheat flour (low quality)	-1.4	-6.3	-16.0	-25.0	-37.8	-37.1	-37.5	-36.1	-32.9	-35.4	-34.7	-35.2
Basic Household Goods Price Inflation	0.7	-4.1	-9.8	-16.8	-26.2	-27.1	-25.6	-22.9	-19.3	-23.4	-24.0	-24.4

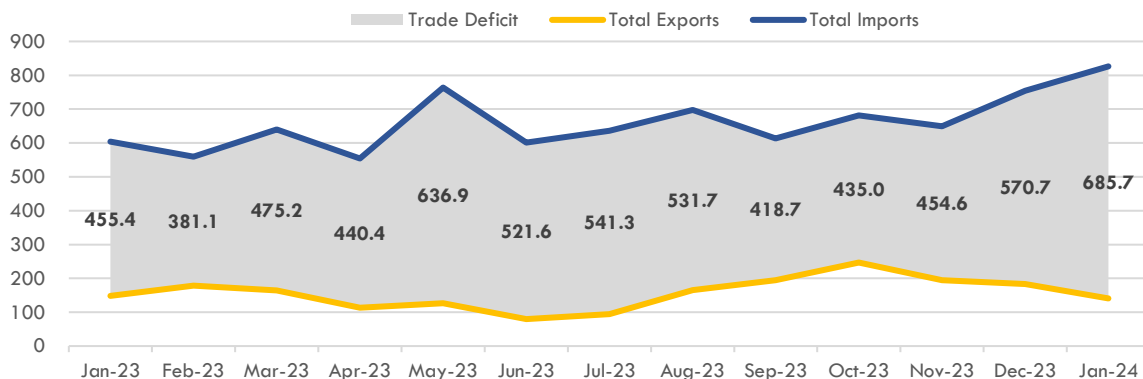
Source: Price data from WFP weekly report; index constructed by World Bank staff.

Note: This Index uses WFP price data for 11 critical household goods from all provinces. It applies consumption and population weights from NSIA to provide an aggregate snapshot of basic household inflation trends.

2. TRADE DEVELOPMENTS

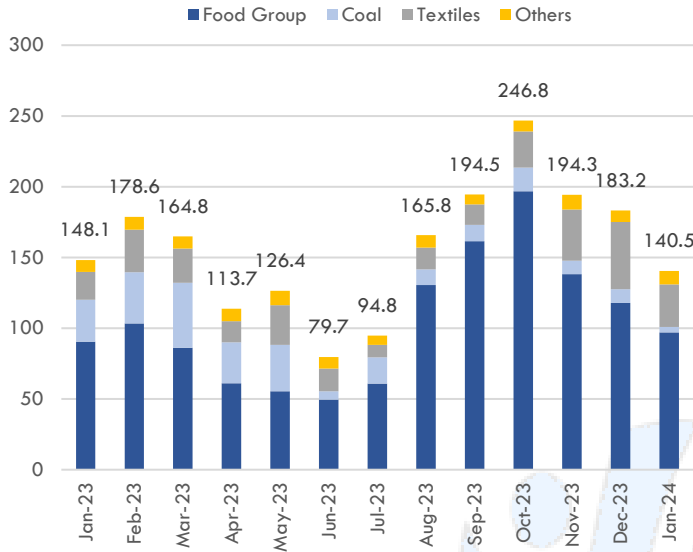
Imports sustained their upward trajectory from 2023 and outpaced the export growth, leading to a wider trade deficit in January 2024 compared to the same period last year.

2.1. AFGHANISTAN TRADE DEFICIT (\$ MILLIONS)



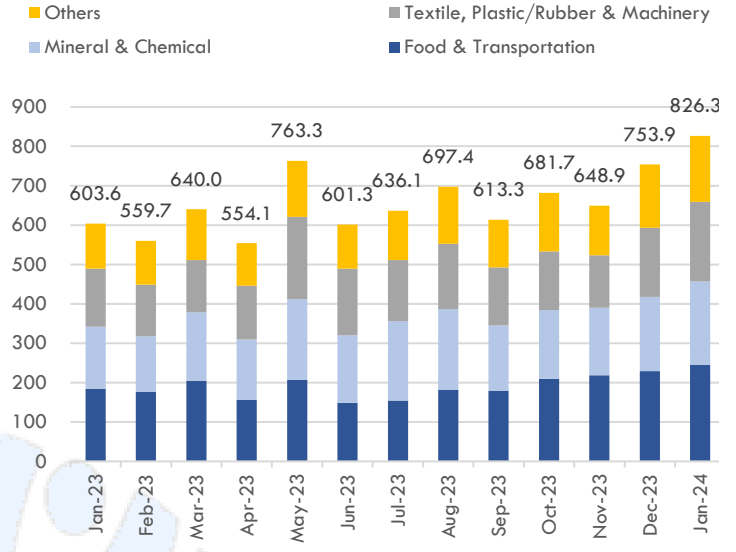
Source: ASYCUDA

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



Source: ASYCUDA

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

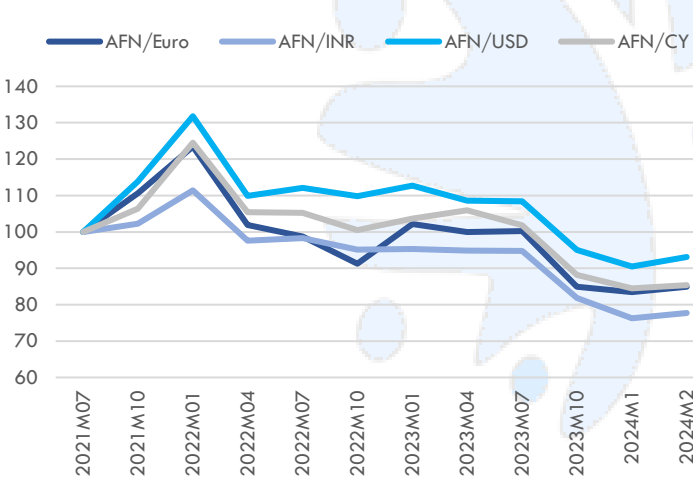


Source: ASYCUDA

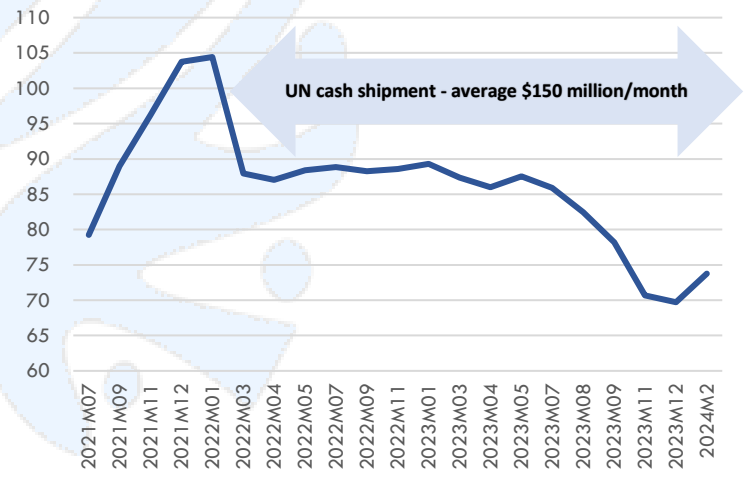
3. FOREIGN EXCHANGE

The Afghani strengthened against major currencies in 2023, but reversed course in early 2024, indicating potential depreciation due to trade imbalances and foreign exchange constraints.

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



3.2. AVERAGE MONTHLY AFN/\$ EXCHANGE RATE



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

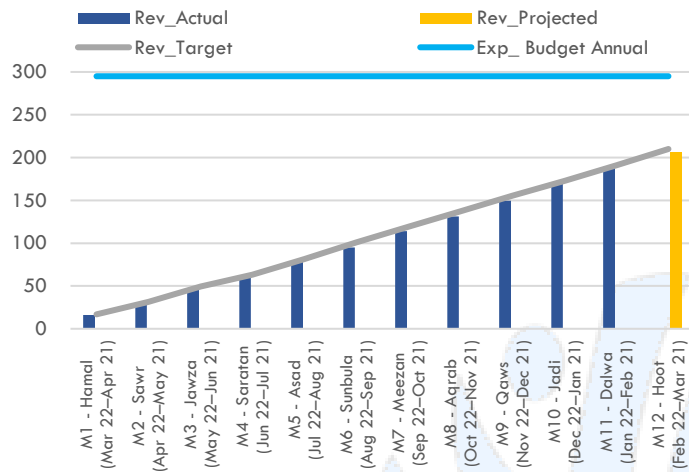
	28-Mar-23	25-Apr-23	29-May-23	26-Jun-23	24-Jul-23	24-Aug-23	25-Sep-23	25-Oct-23	27-Nov-23	26-Dec-23	25-Jan-24	28-Feb-24
AFN/Euro	4.56	3.30	4.20	4.99	2.81	8.01	16.69	23.37	26.05	27.02	22.38	23.66
AFN/PKR	68.53	70.85	82.02	78.76	77.02	91.54	98.25	98.71	114.17	110.54	99.73	101.15
AFN/INR	13.04	13.62	13.59	14.01	13.92	13.45	25.45	32.02	46.21	42.57	39.62	41.05
AFN/IRT	68.42	77.78	88.24	88.24	88.24	88.24	88.24	113.33	128.57	113.33	113.33	146.15
AFN/\$D	-0.74	-0.22	-1.32	0.31	0.44	3.67	10.10	16.17	23.51	22.82	17.34	18.20
AFN/CY	-2.86	-2.96	-3.48	-1.24	2.76	5.47	12.64	17.81	23.14	22.36	20.36	21.64

Source: Data from DAB, World Bank staff elaboration.

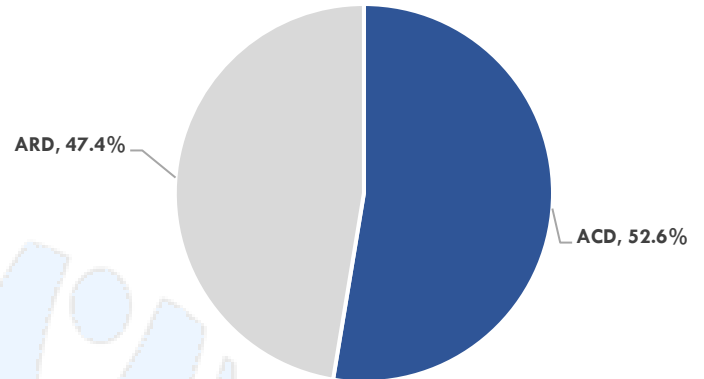
4. REVENUES

The ITA collected AFN 189.0 billion in revenue during the first eleven months of the fiscal year 2023-24, which fell short of the target primarily due to the underperformance of border taxes.

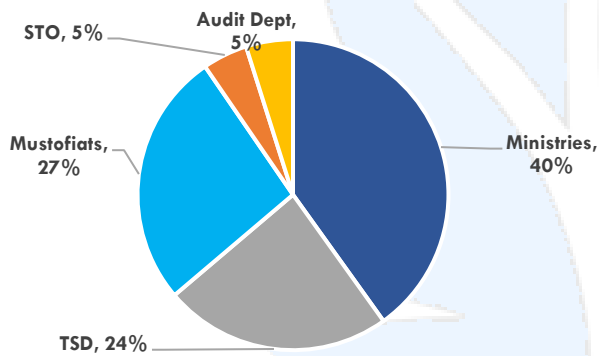
4.1. TOTAL REVENUE AND EXPENDITURE (AFN BILLIONS; FY 2023-24)



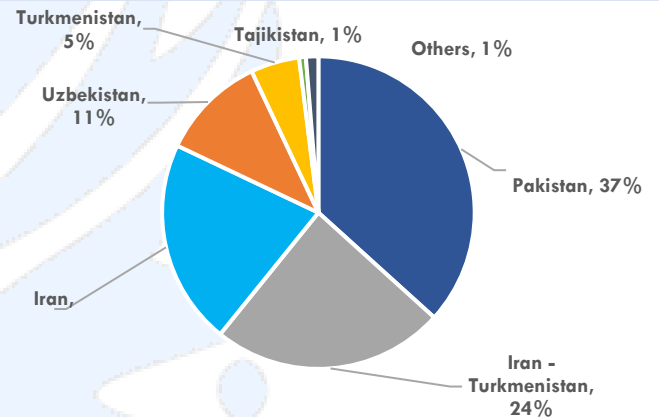
4.2. SHARE OF ARD AND ACD REVENUES IN TOTAL COLLECTIONS (MARCH 22 - FEBRUARY 21, FY2023-24)



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



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



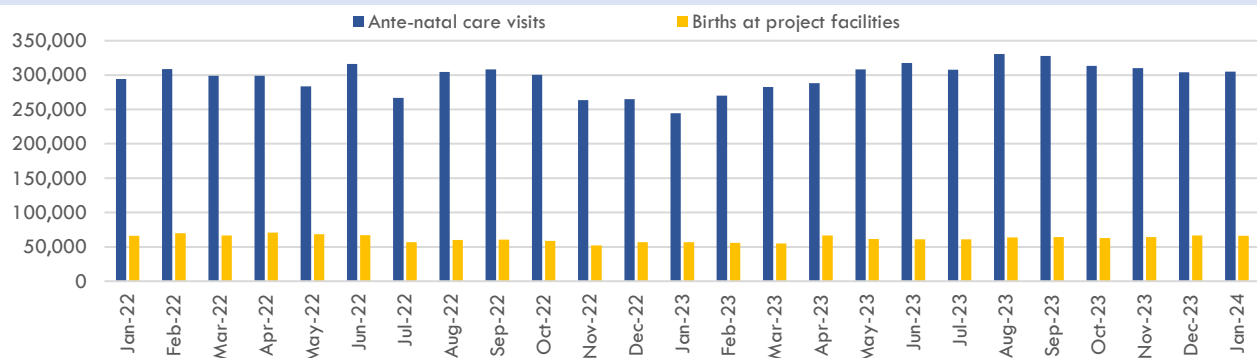
Source: Ministry of Finance.

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



Source: Health Management Information System.



For analytical products in Afghanistan, kindly visit <https://www.worldbank.org/en/country/afghanistan>.

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