

AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK

August 31, 2023



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

HIGHLIGHTS

After peaking in Mid-2022, inflation turned into deflation since April 2023, driven by the easing of supply constraints and wider availability of goods in markets. About two-thirds of Afghan households face challenges in maintaining livelihoods and consumption.

Despite the widening merchandise trade deficit, the Afghani has appreciated against major currencies from January to August 2023.

Improved bank deposits may have resulted in better access to their pre-August 2021 deposits for both firms and individuals.

Telephonic interviews indicate that public servants continue to receive their salaries.

The availability of work for skilled and unskilled laborers has improved since March 2023.

There is a shortfall in revenue compared to the targets due to the underperformance of inland revenue collection.

The latest official statistics show that year-on-year headline inflation hit -9.1 percent in July 2023, driven by -12.6 percent deflation in food and -5.0 percent in non-food segments. Core inflation also fell to -2.8 percent in June 2023. As the economy settles toward a structurally lower aggregate demand, easing global supply challenges associated with high international prices might be responsible for recent price dynamics, which are also supported by exchange rate appreciation. Although we don't have enough data to make a definitive statement, the possibility of a further decline in overall demand cannot be ignored. A recent survey by the Bank reveals that surveyed companies report a continued drop in demand compared to the summer of 2022. The Bank's Third-Party Monitoring Agent (TPMA) survey reveals that major markets nationwide continue to have sufficient essential food and non-food commodities. The preliminary results from the recently conducted 3rd round of the Afghanistan Welfare Monitoring Survey (AWMS) are concerning. About two-thirds of Afghan families face significant challenges in maintaining their livelihoods. Households have responded to the economic downturn by increasing the participation of household members typically on the margins of the labor market, such as youth and women.

Between the start of CY2023 and August 24, 2023, the Afghani (AFN) appreciated against major trading currencies. It rose by 41.2 percent against the Iranian toman, 29.3 percent against the Pakistani rupee, 7.3 percent against the US dollar, 6.0 percent against the Chinese yuan, and 4.9 percent against the Euro. It remained stable against the Indian rupee. By August 24, 2023, the AFN-to-USD rate was 83.1, marking a 3.7 percent increase since August 15, 2021. The AFN's gains stem from the ban on foreign currencies for domestic transactions, limited domestic money supply, higher remittances, and UN dollar shipments. In 2023, UN inflows were around US\$1.12 billion, complementing the US\$1.8 billion received in 2022. The forex market appears balanced without signs of a parallel exchange market, implying possible unidentified external financing sources to address the trade deficit's forex gap.

Starting in May 2023, the central bank raised the weekly withdrawal cap for individuals with pre-August 2021 deposits to AFN 50,000 from AFN 30,000, although actual withdrawals remain below the legal limit. Likewise, from May 2023, companies can now withdraw up to AFN 4.0M per month from AFN 2.5M. Recent TPMA data indicates better deposit access for firms since June 2023. Although data is limited, anecdotes suggest that the increase in bank deposits since Q1-2023 may have contributed to this improvement.

Around 1,200 male and 340 female public employees were interviewed by phone. Almost all civil servants got paid in July 2023. About 90 percent received salaries via bank accounts, but 44 percent faced withdrawal challenges, although this improved compared to June—complaints centered on crowded bank branches, poor-quality banknotes, and limited availability of funds.

Starting in March 2023, job opportunities surged for skilled and unskilled workers, following a seasonal drop during the winter. Favorable 2023 weather boosted harvests, income, and labor demand in agriculture and non-agricultural sectors, especially for unskilled labor. Nominal and real wages rose slightly due to increased demand. Afghan households responded to economic hardship by involving more women and youth in work.

In the first five months of FY2023, revenue totaled AFN 76 billion, up 8 percent compared to the same period in 2022. However, it fell short by 7.0 billion from the target. Customs Duties and Business Receipt taxes drove this growth, rising 13 percent from FY2022's initial five months. Increased merchandise imports were key contributors. Notably, the Afghanistan Customs Department (ACD) accounted for about 60 percent of total revenues, mainly from crossings with Iran and Pakistan. Conversely, Inland Revenue collection saw a mere 0.9 percent uptick year-on-year. The underperformance of non-tax revenues (NTR) was the primary reason, dropping 34 percent below the target, mainly due to weak collection by the Ministry of Mines and Petroleum, a significant NTR contributor.

During Jan-Jul 2023, merchandise exports showed moderate growth over the same period in 2022. The monthly export data indicates a decline in trend since February 2023.

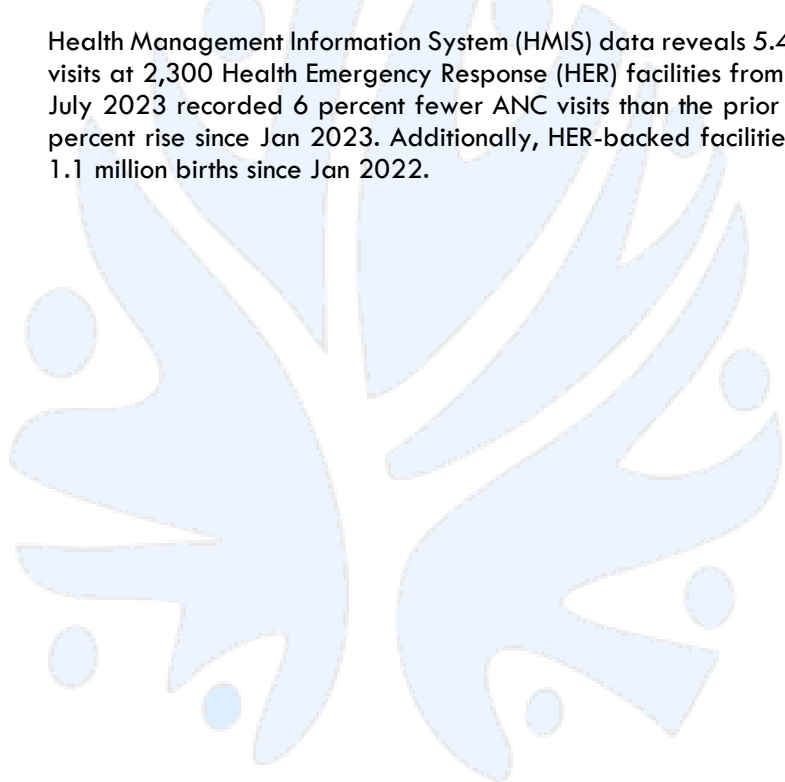
From Jan-Jul 2023, Afghanistan's import growth exceeded exports, leading to a wider trade deficit than in Jan-Jul 2022.

The Afghanistan Reconstruction Trust Fund-backed Health Emergency Response Project continues to provide critical health services for mothers and children.

Unofficial customs data for Jan-Jul 2023 reveals exports reached US\$ 0.91 billion, a three percent rise from the same period in 2022. Key growth factors include a 49 percent surge in textile exports (16 percent share) and a two percent increase in food exports (56 percent share). Conversely, coal exports (22 percent share) declined 12 percent during this period. Export trends have consistently declined since February 2023, with a notable 82 percent drop in coal exports' value in June 2023 versus May 2023. Afghanistan's prime export market is Pakistan (59 percent of total exports), followed by India (24 percent). Exports to Pakistan, mainly food and coal, dropped by 3 percent due to substantial declines in food and coal exports (19 percent and 12 percent, respectively). Conversely, food exports to India (contributing 42 percent) increased by 17 percent, lifting overall food exports.

From Jan to July 2023, imports reached US\$ 4.4 billion, marking a 32 percent increase compared to 2022. All import groups saw growth. Leading the way, the food, minerals, and textile imports—constituting over half of the total imports—rose by 4 percent, 31 percent, and 35 percent, respectively. Chemicals, machinery, and transportation imports also surged. Primary import sources include Iran (21 percent), China (18 percent), Pakistan (17 percent), and the United Arab Emirates (14 percent). This period saw the trade deficit widen to 3.5 billion from US\$2.4 billion in Jan-Jul 2022.

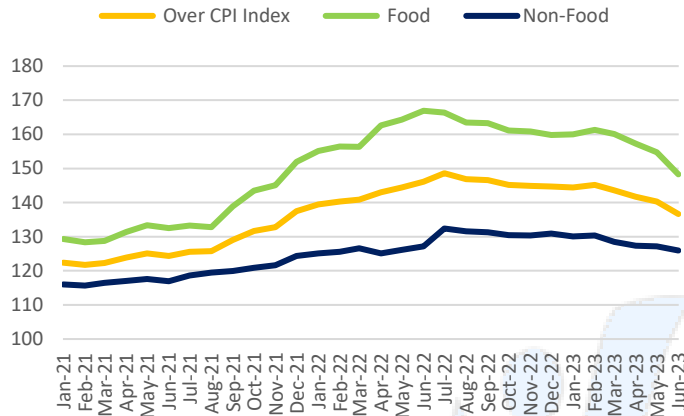
Health Management Information System (HMIS) data reveals 5.4 million antenatal care (ANC) visits at 2,300 Health Emergency Response (HER) facilities from Jan 2022 to July 2023. Yet, July 2023 recorded 6 percent fewer ANC visits than the prior month, although there's a 16 percent rise since Jan 2023. Additionally, HER-backed facilities have aided approximately 1.1 million births since Jan 2022.



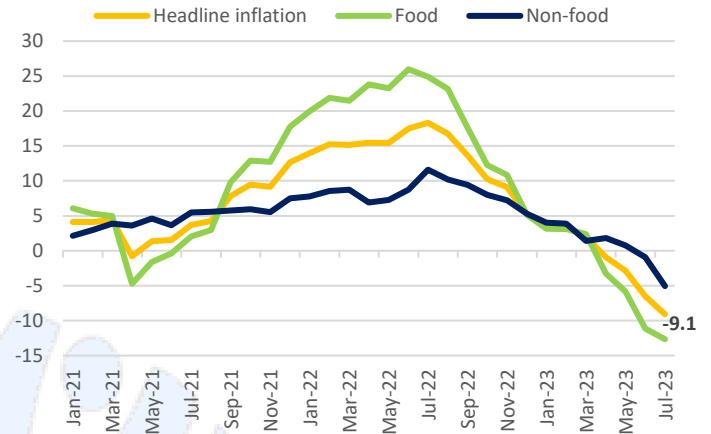
1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

The y-o-y food and non-food inflation dropped to a negative 12.6 and 5.0 percent in July 2023, resulting in headline inflation falling to a negative 9.1 percent – indicating an overall decline in aggregate demand.

1.1. HEADLINE PRICE INDEX



1.2. HEADLINE INFLATION (Y-O-Y)



Source: National Statistics and Information Authority (NSIA).

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

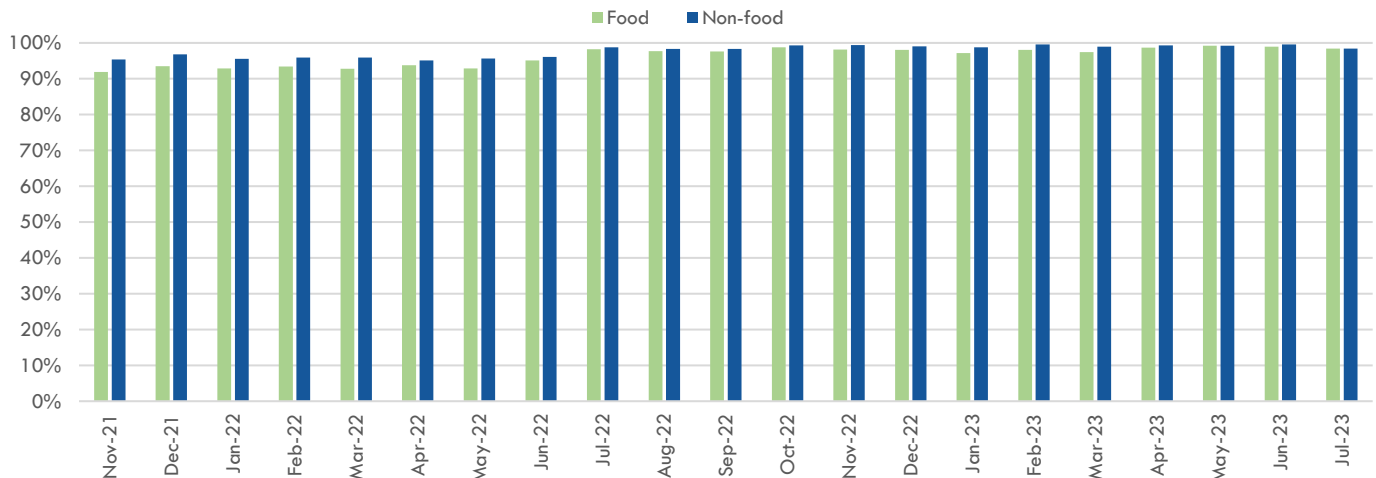
	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Bread	23.3	21.6	19.1	18.1	16.6	15.2	14.2	13.5	10.7	7.7	0.7	-2.7
Fuel (diesel)	54.5	87.4	49.1	34.1	26.3	22.3	14.8	-5.4	-2.2	-11.1	-32.7	-46.8
Oil (cooking)	16.1	0.8	-13.3	-12.2	-14.4	-21.7	-17.0	-21.3	-26.3	-38.3	-43.0	-39.6
Pulses	17.7	16.1	11.6	10.6	10.6	-2.4	0.0	1.7	0.3	-2.3	-3.1	-1.2
Rice (high quality)	32.9	32.0	28.9	27.2	26.4	19.8	17.9	19.1	16.7	9.1	-1.3	-5.0
Rice (low quality)	10.9	14.1	12.5	18.5	21.9	18.9	28.3	27.9	26.3	24.7	19.5	19.7
Salt	18.0	16.0	17.8	10.8	20.0	2.5	-0.1	4.0	8.2	2.9	4.1	4.4
Sugar	30.9	20.5	8.7	3.9	1.2	-7.5	-3.5	0.1	2.3	16.6	13.0	5.9
Wheat	43.5	37.9	19.1	16.8	11.8	-2.7	5.3	0.0	-10.5	-19.5	-33.2	-32.6
Wheat flour (high quality)	41.7	31.9	12.3	12.1	5.8	-6.3	-0.6	-7.9	-18.7	-26.3	-37.4	-37.0
Wheat flour (low quality)	41.5	36.0	14.3	13.4	6.5	-6.6	-1.4	-6.3	-16.0	-25.0	-37.8	-37.1
Basic Household Goods Price Inflation	31.5	26.4	11.1	9.9	6.1	-3.3	0.7	-4.1	-9.8	-16.8	-26.2	-27.1

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.

Most of the basic food and non-food items remained available.

1.4. REPORTED AVAILABILITY OF FOOD & NON-FOOD ITEMS

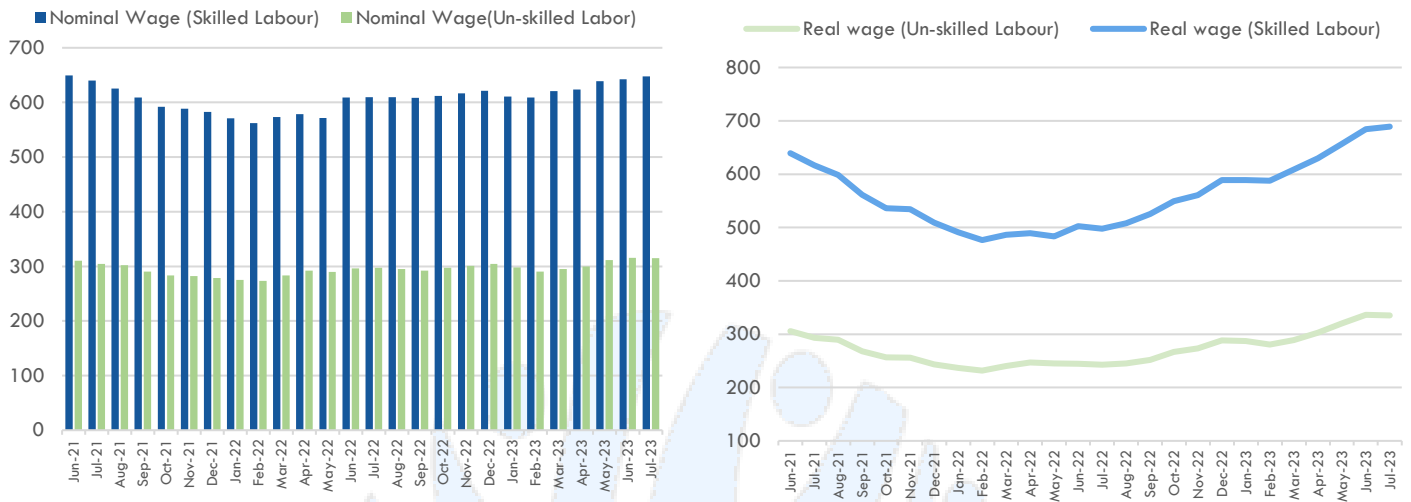


Source: Data collected by the World Bank's TPMA, based on a survey of 48 markets across 21 provinces.

2. LABOR MARKET CONDITIONS

A significant decline in the general price level has resulted in an improvement in real wages recently.

2.1. NOMINAL AND REAL WAGES (AFN) FOR SKILLED AND UNSKILLED WORKERS

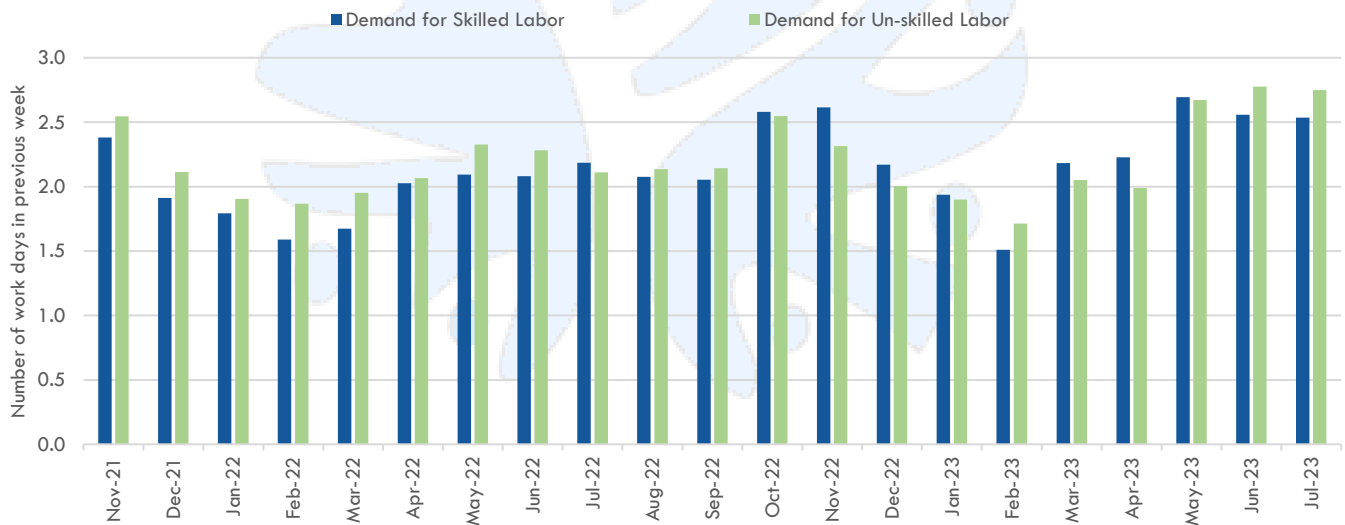


Source: Wage data from WFP, World Bank staff elaboration.

Note: Real wages to January 2022 are calculated based on consumer price inflation as reported by NSIA.

The availability of work for skilled and unskilled labor is recovering following a seasonal decline during the winter season.

2.2. EMPLOYMENT FOR SKILLED AND UNSKILLED WORKERS BETWEEN NOVEMBER 2021 AND JULY 2023



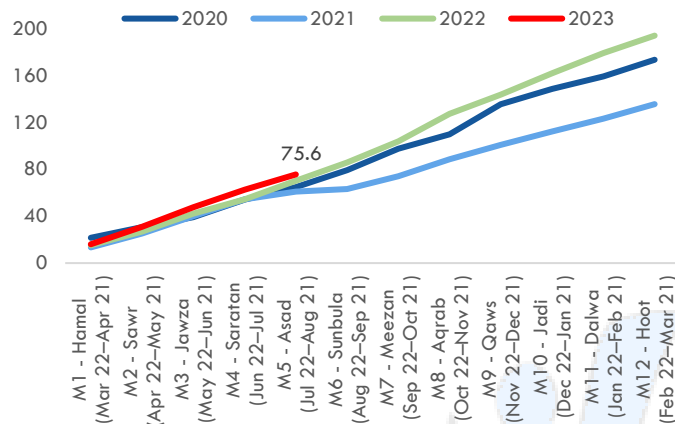
Source: Survey data collected by the World Bank's TPMA.

Note: Data reflect the number of available workdays reported by skilled and unskilled casual workers seeking work. Skilled workers include (i) carpenters, (ii) electricians, (iii) masons, (iv) painters, (v) plumbers, and (vi) tile workers.

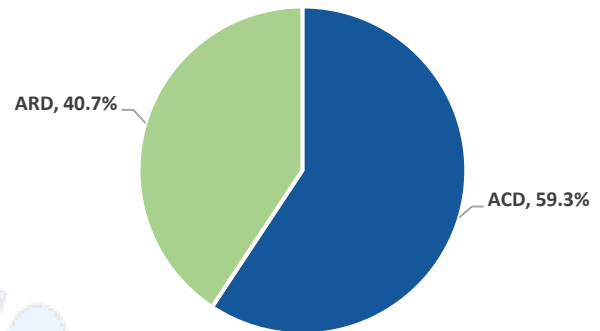
3. REVENUES

The revenue collection during the first five months of the fiscal year 2023 reached AFN 76 billion. The revenue collection remained heavily dependent on the taxes collected at the border.

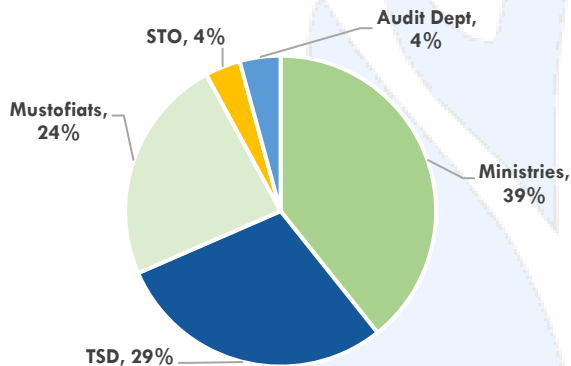
3.1. TOTAL REVENUE COLLECTION – CUMULATIVE (AFN BILLIONS)



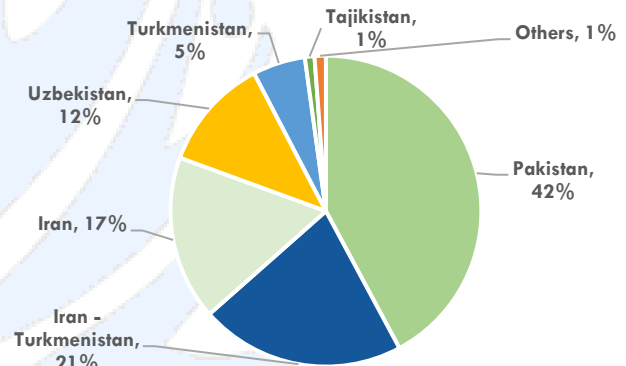
3.2. SHARE OF INLAND (ARD) AND CUSTOMS (ACD) REVENUES IN TOTAL COLLECTIONS (March 22 – July 21, FY2023)



3.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (March 22 – August 21, FY2023)



3.4. PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS (March 22 – August 21, FY2023)



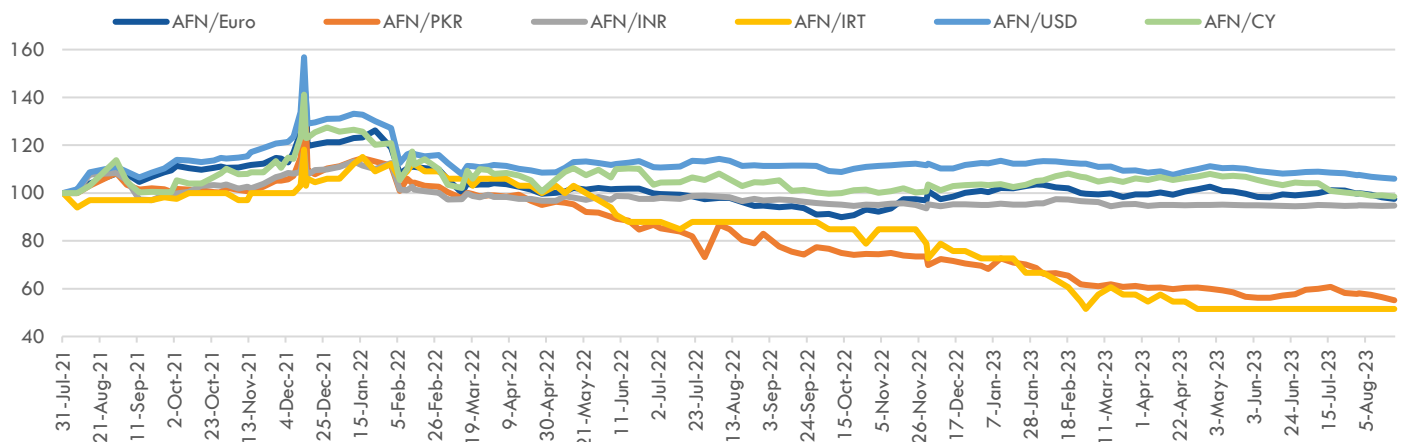
Source: Ministry of Finance.

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

4. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS

Tighter controls by the ITA of the MSP sector and constrained domestic money supply coupled with the continued UN cash shipment (total US\$ 1.12 billion shipped during Jan – August 2023) have strengthened Afghani.

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



Source: Da Afghanistan Bank

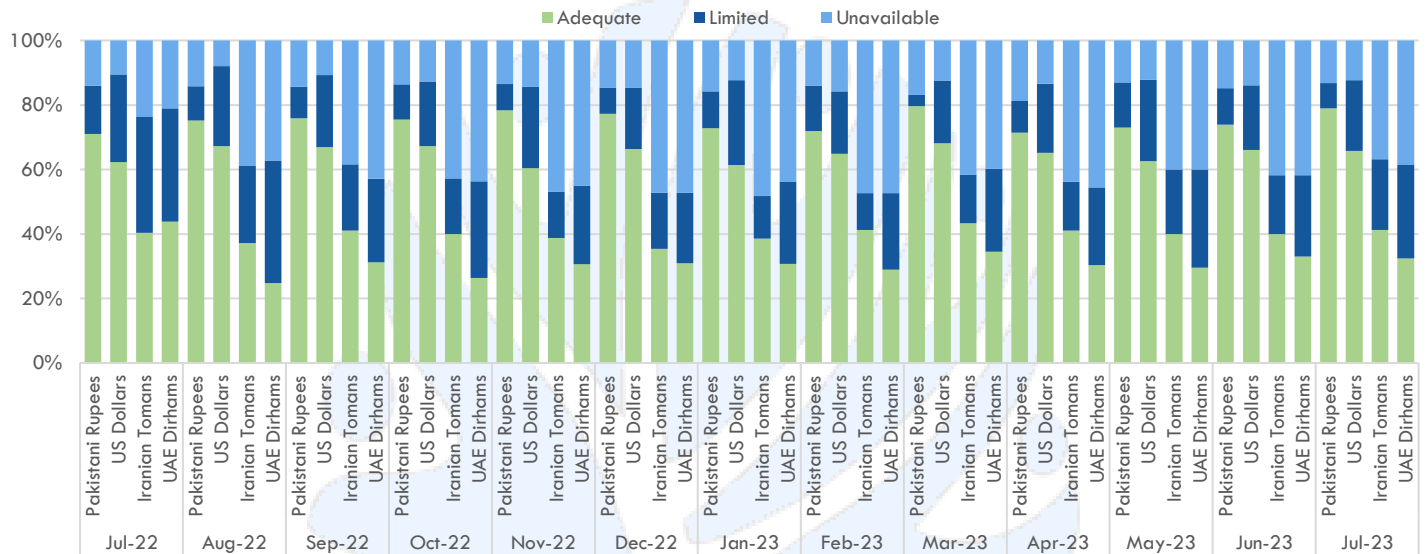
4.2. EXCHANGE RATE – APPRECIATION/DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

	29-Sep-22	27-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	28-Mar-23	25-Apr-23	29-May-23	26-Jun-23	24-Jul-23	24-Aug-23
AFN/Euro	14.13	11.61	7.22	2.95	0.28	4.28	4.56	3.30	4.20	4.99	2.81	8.01
AFN/PKR	33.15	38.25	40.19	48.18	50.19	67.42	68.53	70.85	82.02	78.76	77.02	91.54
AFN/INR	12.50	13.26	15.18	13.41	12.69	11.73	13.04	13.62	13.59	14.01	13.92	13.45
AFN/IRT	10.34	23.08	23.08	33.33	45.45	88.24	68.42	77.78	88.24	88.24	88.24	88.24
AFN/US\$D	-2.36	-2.03	-2.61	-3.37	-3.87	-3.14	-0.74	-0.22	-1.32	0.31	0.44	3.67
AFN/CY	2.80	1.65	2.40	-0.50	-1.90	-3.30	-2.86	-2.96	-3.48	-1.24	2.76	5.47

Source: Data from DAB, World Bank staff elaboration.

In July 2023, the availability of different foreign currencies slightly improved.

4.3. AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS

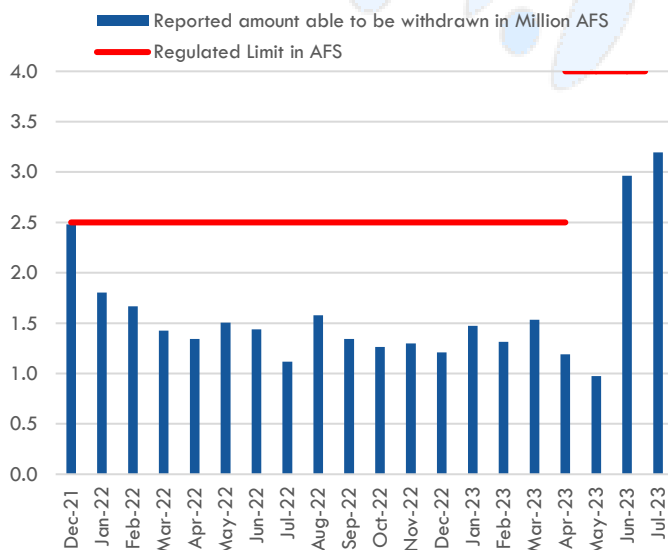


Source: Survey data collected by the World Bank's TPMA by visiting 144 money service providers in 48 markets in the country.

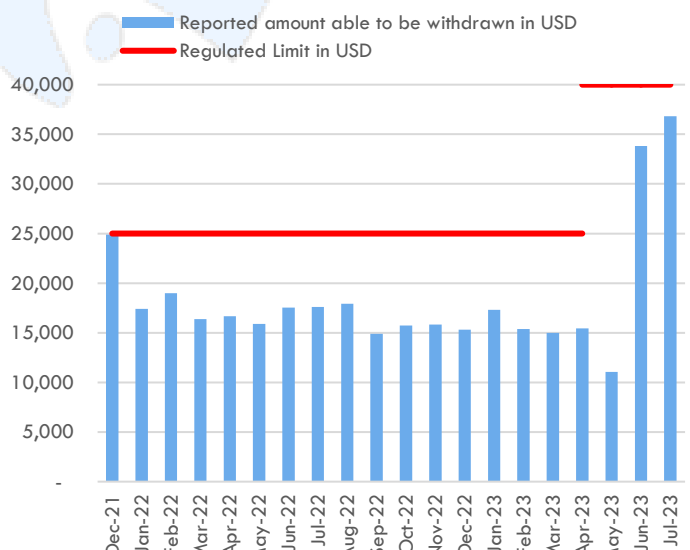
Note: Includes banks, Hawala operators, and informal currency exchangers.

Since June 2023, the firms reported an improvement in bank cash withdrawals.

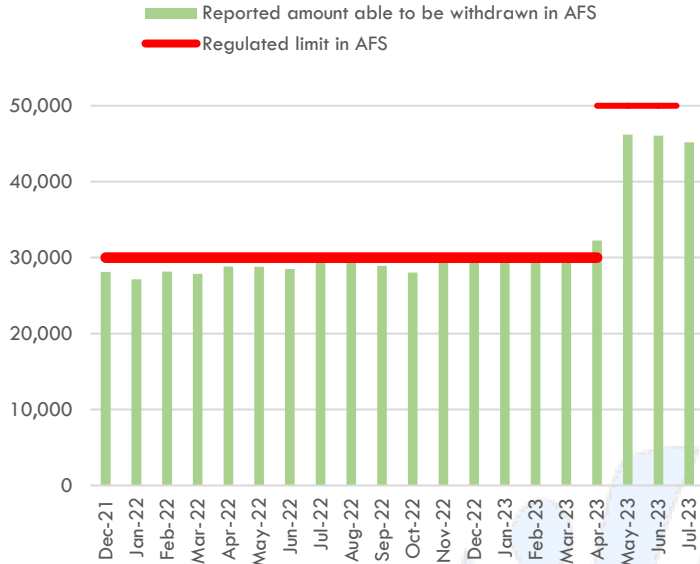
4.4. MONTHLY WITHDRAWALS – FIRMS (AFN MILLIONS)



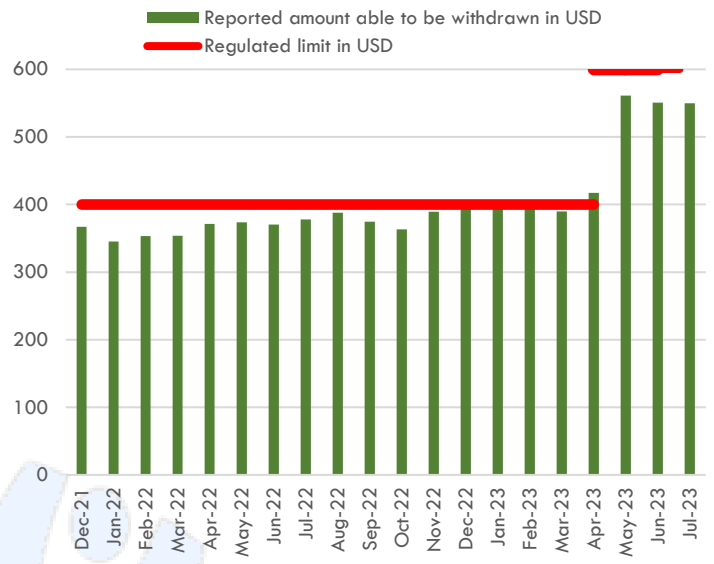
4.5. MONTHLY WITHDRAWALS – FIRMS (US\$)



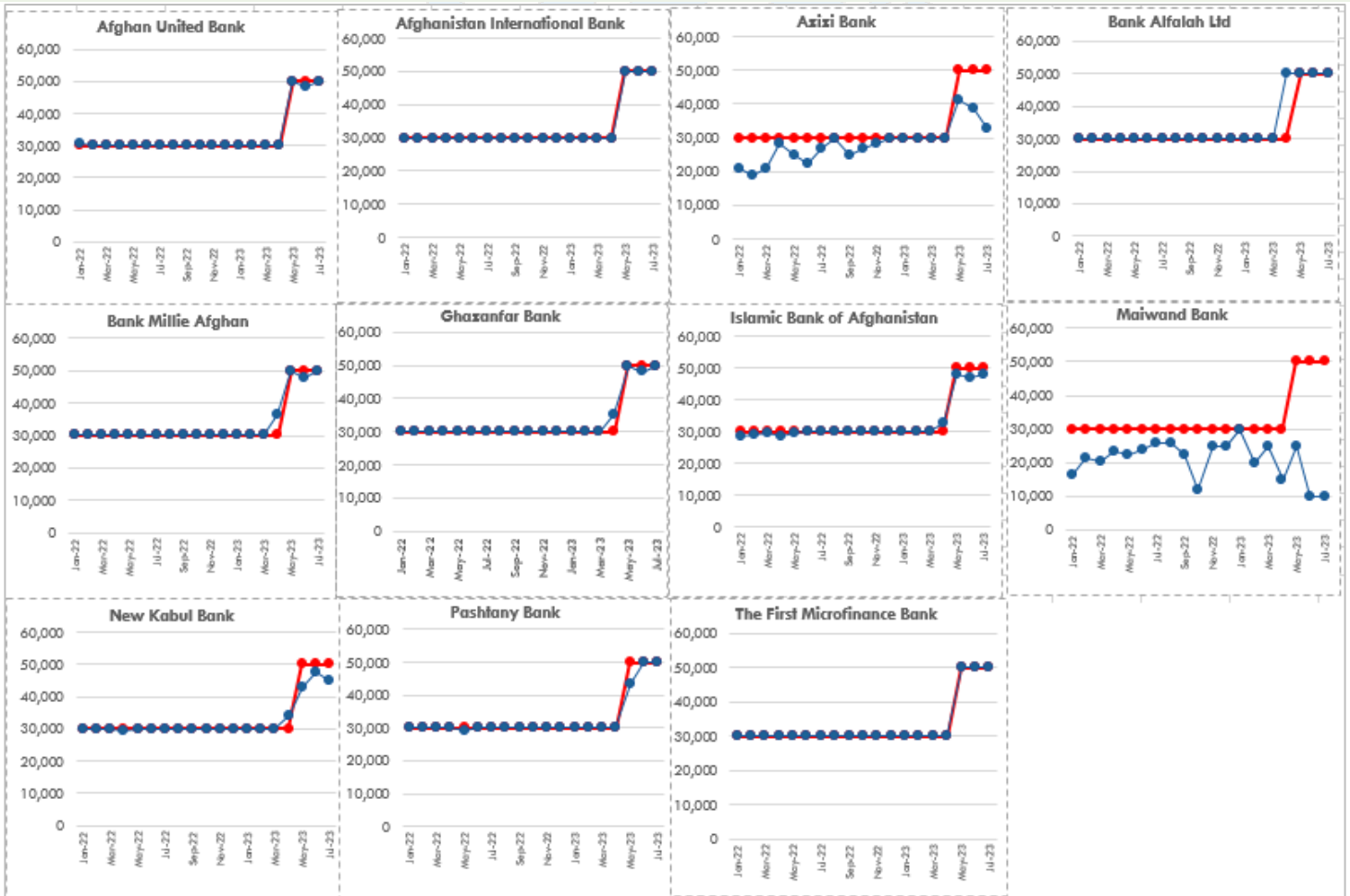
4.6. WEEKLY WITHDRAWALS – INDIVIDUALS (AFN)



4.7. WEEKLY WITHDRAWALS – INDIVIDUALS (US\$)



4.8. AVERAGE MONTHLY WITHDRAWAL – INDIVIDUAL (AFN)



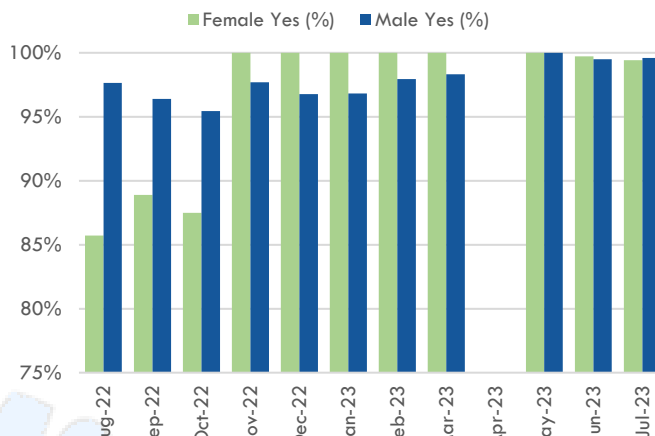
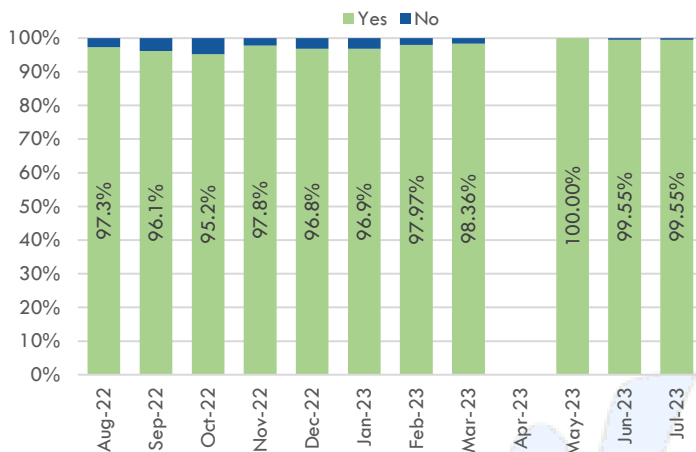
Source: Survey data collected by the World Bank's TPMA.

Note: Regulated limit as stipulated by DAB, and amounts depositors could withdraw as reported by individual respondents to the TPMA survey.

Over the past few months, civil servants have regularly received salaries.

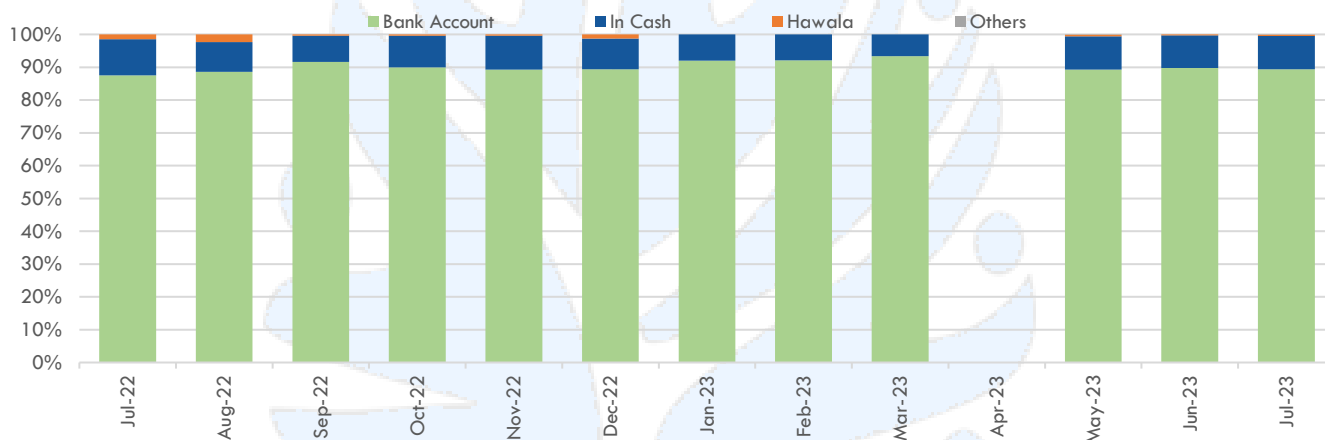
4.9. CIVIL SERVANTS RECEIVED SALARIES DURING THE LAST THREE MONTHS

4.10. MALE VS. FEMALE RESPONDENTS RECEIVING SALARIES IN THE LAST THREE MONTHS



Cash and bank accounts are consistently reported to be the two most common means of receiving salaries.

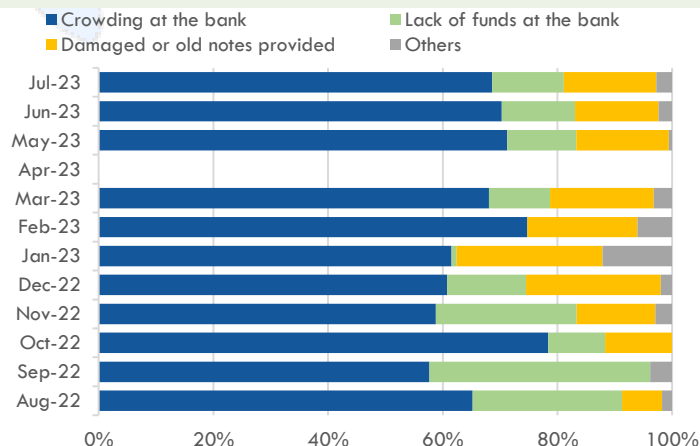
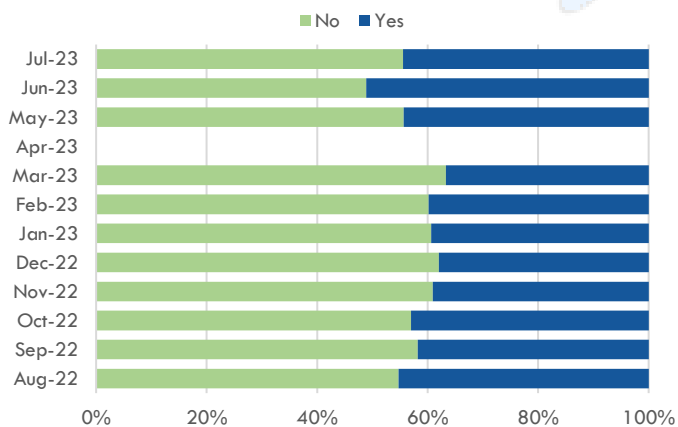
4.11. MODE OF SALARY PAYMENT (FOR THOSE WHO HAVE RECEIVED SALARIES DURING THE LAST THREE MONTHS)



Crowding in bank branches and damaged currency notes are consistently the main problems faced in withdrawing salaries.

4.12. CIVIL SERVANTS FACE CHALLENGES WHEN WITHDRAWING SALARIES THROUGH BANKS

4.13. CHALLENGES FACED BY CIVIL SERVANTS WHEN WITHDRAWING SALARIES THROUGH BANKS



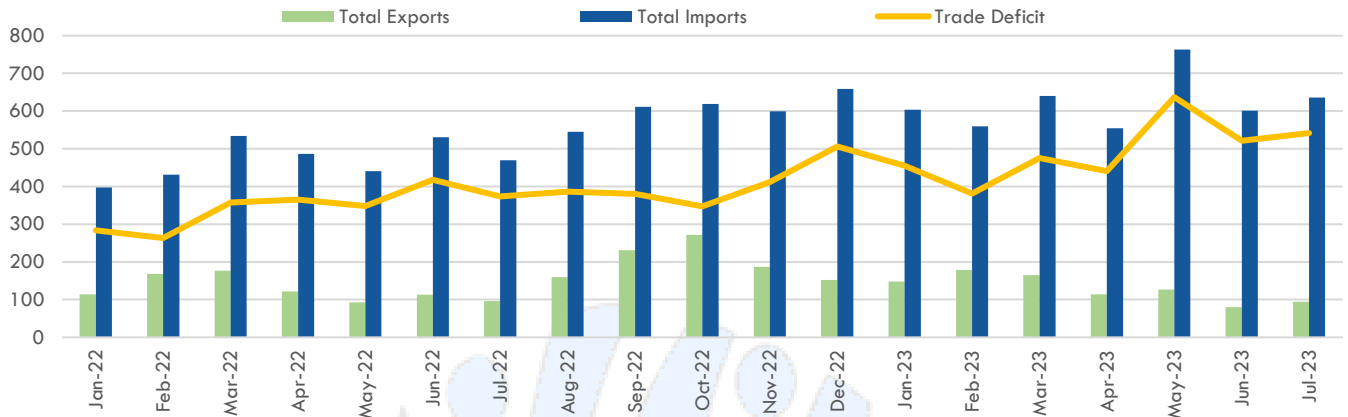
Source: Survey data collected by the World Bank's TPM from 1552 civil servants (Males 1214, Female 338)

Note: Data for civil servants for April 2023 are not available.

5. TRADE DEVELOPMENTS

Merchandise imports in the first seven months of 2023 are substantial. Exports grew moderately during the period under review, mainly due to lower food and coal exports to Pakistan. The trade deficit has widened.

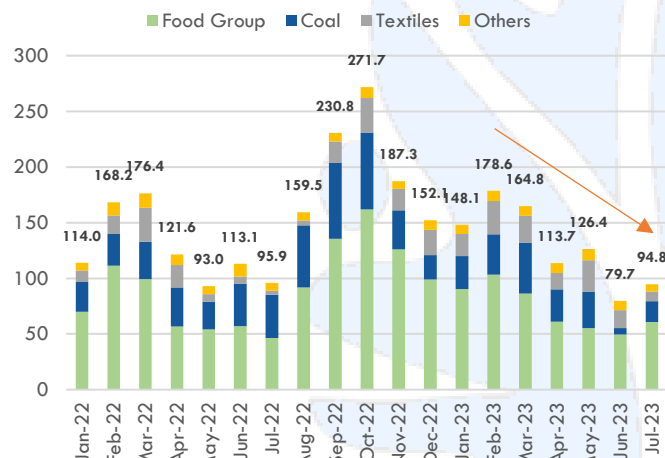
5.1. AFGHANISTAN TRADE (US\$ MILLIONS), JAN 2022 – MAY 2023



Source: ASYCUDA

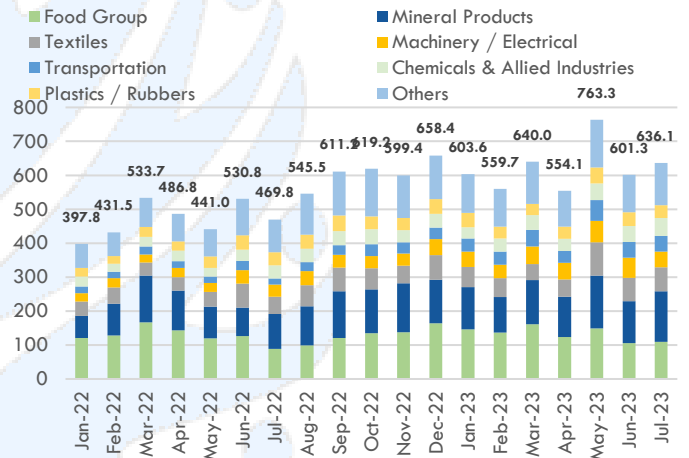
Source: ASYCUDA

5.2 AFGHANISTAN'S EXPORTS (US\$ MILLIONS): 2022 – 2023



Source: ASYCUDA

5.3 AFGHANISTAN'S IMPORTS (US\$ MILLIONS): 2022 – 2023

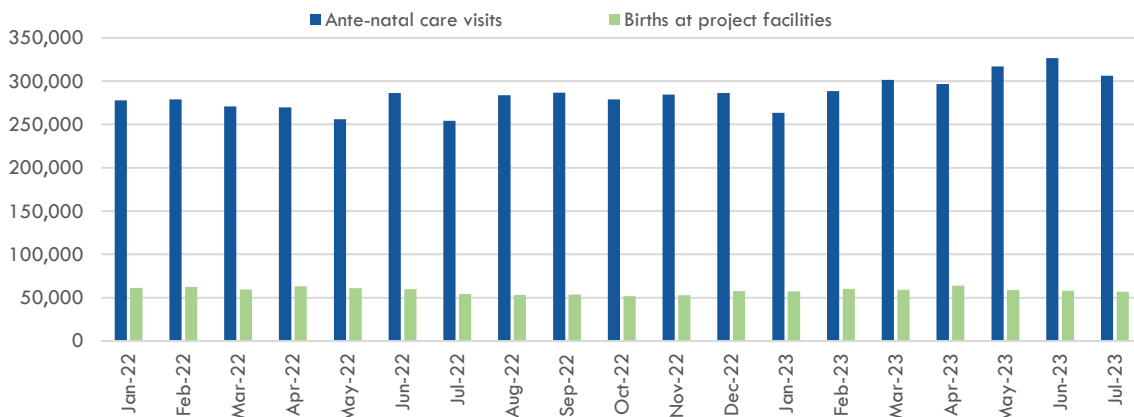


Source: ASYCUDA

6. PROVISION OF HEALTH SERVICES

ANC visits to facilities under the Health Emergency Response (HER) Project have slightly declined in July 2023.

6.1. 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 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.