AFGHANISTAN: Where does the economy stand one year after the transition?

July 25, 2022
The Afghan economy absorbed a series of shocks since August 15, 2021. The drivers of the economic crisis include:

- **Fiscal shock**
  - Deterioration of public services

- **Real economy shock**
  - Increased unemployment, declining incomes

- **Financial sector shock**
  - Inflation
  - Infrastructural disruptions

These shocks resulted in poverty, displacement, and fragility.
The ITA collected a total of AFN 75.6 billion (USD 0.84 billion) between December 22, 2021, and June 21, 2022, a large share of which (56 percent) by the Afghanistan Customs Department (ACD) at the border.

Domestic tax receipts have been cut by over half compared to the same period last year, reflecting a compressed economy.

Non-tax revenues include coal exports fees.
REVENUE PERFORMANCE – DRIVEN BY COLLECTION AT THE BORDERS

ITA REVENUE COLLECTION SIMILAR TO THE ONE OF THE REPUBLIC GOVERNMENT IN 2020 - RELIANCE ON CUSTOMS AND NON-TAX SOURCES INCREASED

* Includes customs and BRT collected at borders
Source: Official data, Bank staff calculations

Budget and expenditure data remain unavailable
INFLATION – AFFECTING IN PARTICULAR BASIC GOODS (AND THE POOR)

INCREASED FOOD AND FUEL PRICES DRIVE HEADLINE AND BASIC HOUSEHOLD GOODS INFLATION.

COUNTRYWIDE BASIC HOUSEHOLD GOODS Y-O-Y INFLATION

HEADLINE INFLATION (Y-O-Y)

Source: Data collected by WFP, Bank staff calculations

Source: Official data, NSIA
DEMAND REMAINS DEPRESSED

Job losses and declining purchasing power have significantly decreased consumer demand…

... which comes on top of reported household incomes declines in Q4 2021

How has household income changed compared to May 2021 (% of households):

<table>
<thead>
<tr>
<th>National</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declined a lot: 71%</td>
<td>Declined a little: 16%</td>
<td>No changes: 11%</td>
</tr>
<tr>
<td>Declined a lot: 70%</td>
<td>Declined a little: 17%</td>
<td>No changes: 10%</td>
</tr>
<tr>
<td>Declined a lot: 75%</td>
<td>Declined a little: 13%</td>
<td>No changes: 11%</td>
</tr>
</tbody>
</table>

Source: Afghanistan Welfare Monitoring Survey, October-December 2021

HIGHERLY MOST ITEMS REMAIN AVAILABLE.

REPORTED FOOD ITEMS AVAILABILITY

Source: Survey data collected by the World Bank’s Third-Party Monitoring Agent

REPORTED NON-FOOD ITEMS AVAILABILITY

Source: World Bank’s Third-Party Monitoring Agent

Clean chicken
Vegetable oil
Wheat flour
Low quality rice
Onion
Potato
White sugar
Diesel
Fabric for women
Firewood
Laundry detergent
Men’s shoes
Paracetamol
Petrol

How has household income changed compared to May 2021 (% of households):

- Increased a little
- Increased a lot
- Declined a lot
- Declined a little
- No changes

Source: Private Sector Rapid Survey, Round 1, October 2022
LABOUR MARKET REMAIN TIGHT, BUT WITH SOME SIGNS OF REBOUND

DEMAND FOR LABOR HAS SLIGHTLY IMPROVED, BUT EMPLOYMENT IS MOSTLY SEASONAL AND LARGE-SCALE UNDEREMPLOYMENT PERSISTS. NOMINAL WAGES ARE RECOVERING GRADUALLY, BUT REAL WAGES HAVE DECLINED

SELF-EMPLOYMENT BECAME EVEN MORE PREVALENT AFTER AUGUST 2021

NOMINAL AND REAL WAGES (IN AFN)

Source: Data from WFP and World Bank Staff elaboration; Real wages are calculated using price data from the NSIA.
Note: Real wages to January 2022 are calculated based on CPI inflation reported by NSIA. Real wages for February and March are calculated based on CPI estimates prepared by the World Bank.
MAJOR ADJUSTMENT IN TRADE BALANCE

EXPORTS IN THE FIRST QUARTER OF 2022 WERE DOUBLE THOSE IN THE FIRST QUARTER OF 2021 DUE TO INCREASED EXPORTS OF COAL AND FRUITS TO PAKISTAN. IMPORTS SLOWLY DECLINING.

EXPORTS (USD MILLIONS)  IMPORTS (USD MILLIONS)

Source: NSIA

Export – Import ratio:  
2020: 1 : 7.6  
2022E: 1 : 4
Despite the increasing supply of USD – UN shipped ~$ 1 billion since December, foreign currency shortages continue. ITA cracked down on illegal smuggling of USD and monitors MSP.

**Exchange Rate - Index July 2021 (Higher = Depreciation)**

Source: Data from The Afghanistan Bank, Bank Staff Calculations

**Availability of Foreign Exchange According to Money Service Providers**

Source: Survey data collected by the World Bank’s Third-Party Monitoring Agent. Note: Includes banks, hawala operators, and informal currency exchangers
FIRMS AND HOUSEHOLDS REPORT THE INABILITY TO WITHDRAW AFN AND USD FUNDS FROM BANK ACCOUNTS EVEN WITHIN THE REGULATED LIMITS

WEEKLY WITHDRAWAL - INDIVIDUALS

MONTHLY WITHDRAWAL - FIRMS

- Cross-border payments remain very problematic (correspondent banking relationships not normalized)
- Financial sector stability is a concern despite DAB forbearance measures

Source: Survey data collected by the World Bank’s Third-Party Monitoring Agent.
Note: Regulated limit as stipulated by Da Afghanistan Bank. Reported amount able to be withdrawn as reported by individual respondents to the Third-Party Monitoring Agent survey.
ECONOMY IS MOVING TOWARDS A LOWER EQUILIBRIUM – KEY MESSAGES

THE MASSIVE HOUSEHOLDS EARNINGS DECLINE TRANSLATED INTO DETERIORATION OF LIVING CONDITIONS

COLLAPSE IN PER CAPITA INCOME TO 2006-07 LEVELS

UP TO 70 PERCENT OF HOUSEHOLDS COULD NOT COVER BASIC EXPENSES IN 2021

Source: Official data, Bank staff projections
* Economic hardship not fully comparable to poverty data from previous years

Economy seems to be bottoming out – new (lower) equilibrium dependent also on aid - conservative estimates indicate aid disbursement of ~USD 2 billion from Aug 15, 2021 to date (of which USD 1 billion in cash)
| Fiscal       | • Strong revenue performance |
| Inflation   | • Inflation remains elevated and causing a dent in the welfare of the people |
| Labor       | • Labor market shows signs of rebound |
| Private sector | • Stability and low corruption appreciated by private sector |
| Trade       | • Trade balance improved thanks to increase of exports |
| Finance     | • Correspondent banking not normalized |
| Exchange rate | • Exchange rate stabilized, thanks to a large extent to UN cash shipments |

<table>
<thead>
<tr>
<th>... DOWNSIDE RISKS</th>
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<tr>
<td>• Lack of transparency on budget allocations and expenditure</td>
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<tr>
<td>• High inflation for an extended period may push more people into the humanitarian need</td>
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<td>• Rebound mostly seasonal</td>
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<tr>
<td>• Security environment could rapidly deteriorate</td>
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<td>• Law and order can have an impact on extractive industries</td>
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<tr>
<td>• Banking solvency could rapidly deteriorate</td>
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<td>• Cash shipments could be at risk (security and political) and local currency keeps deteriorating</td>
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WORLD BANK RESEARCH ON AFGHANISTAN


UPCOMING

Economic Recovery of Afghanistan: an analytical framework for planning, prioritizing, and coordinating international assistance to the Islamic Republic of Afghanistan – Upcoming

Monthly Afghanistan Economic Monitor -- Expected publication date (18-20 of each month)

Afghanistan Welfare Monitoring Survey (Round 2) -- Expected publication September 2022

Afghanistan Private Sector Rapid Survey (Round 2) -- Expected publication September 2022