



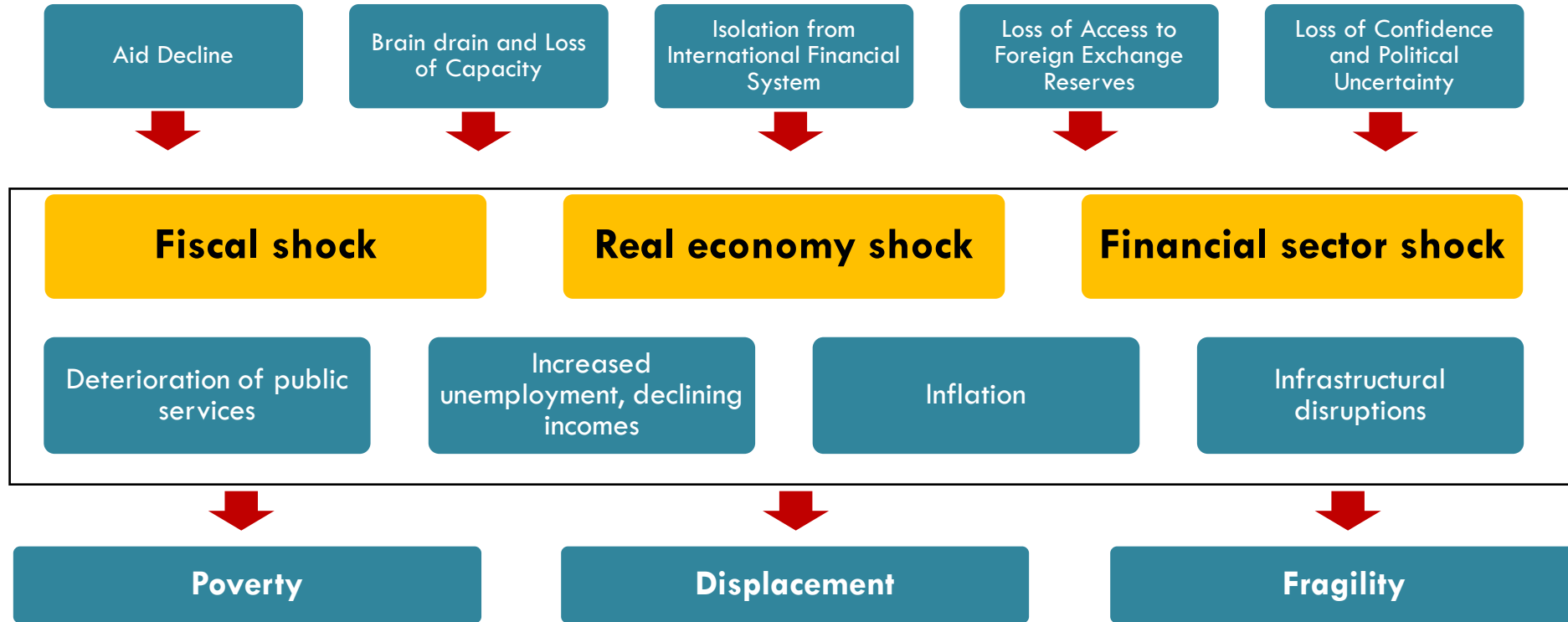
# AFGHANISTAN: Where does the economy stand one year after the transition?

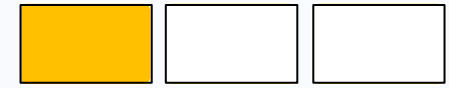
July 25, 2022



# THE DRIVERS OF THE ECONOMIC CRISIS

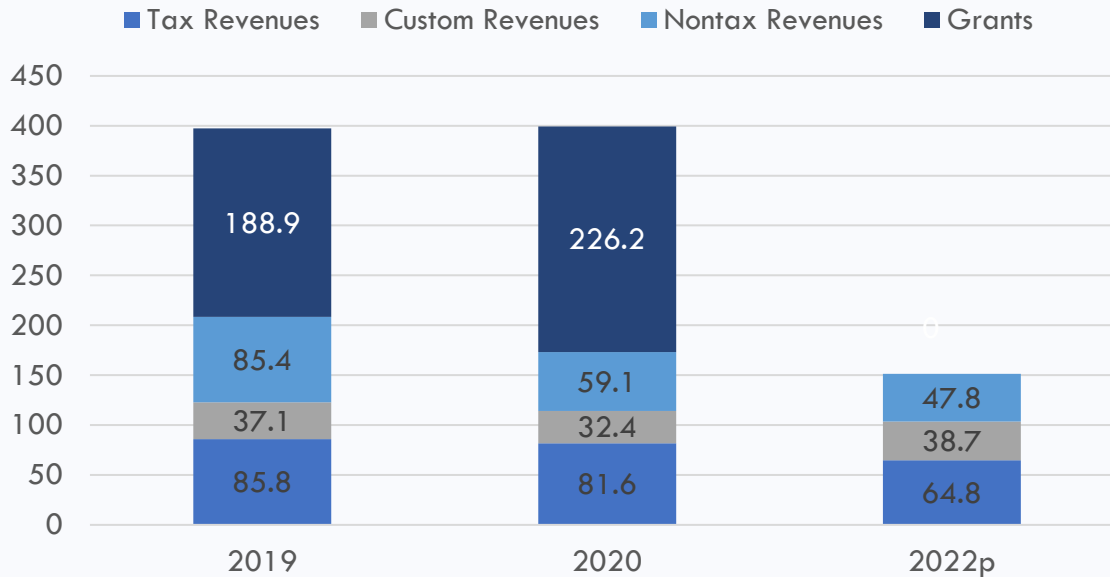
THE AFGHAN ECONOMY ABSORBED A SERIES OF SHOCKS SINCE AUGUST 15, 2021





## LACK OF INTERNATIONAL GRANT SUPPORT GENERATING A MAJOR SHORTFALL IN PUBLIC FINANCES

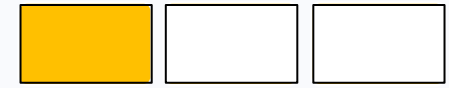
ON-BUDGET FLOWS (AFN billion) – ESTIMATED ADJUSTMENT



- 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

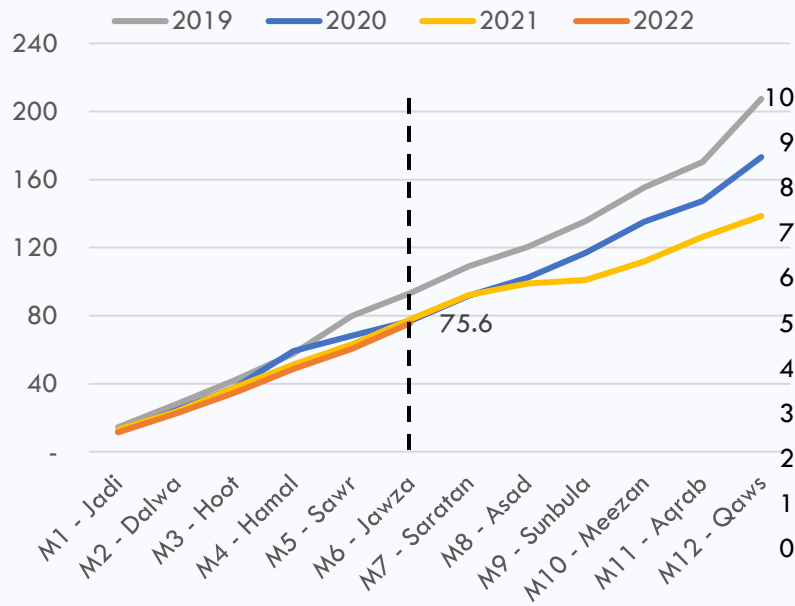
Source: Official data, Bank staff projections

# REVENUE PERFORMANCE – DRIVEN BY COLLECTION AT THE BORDERS

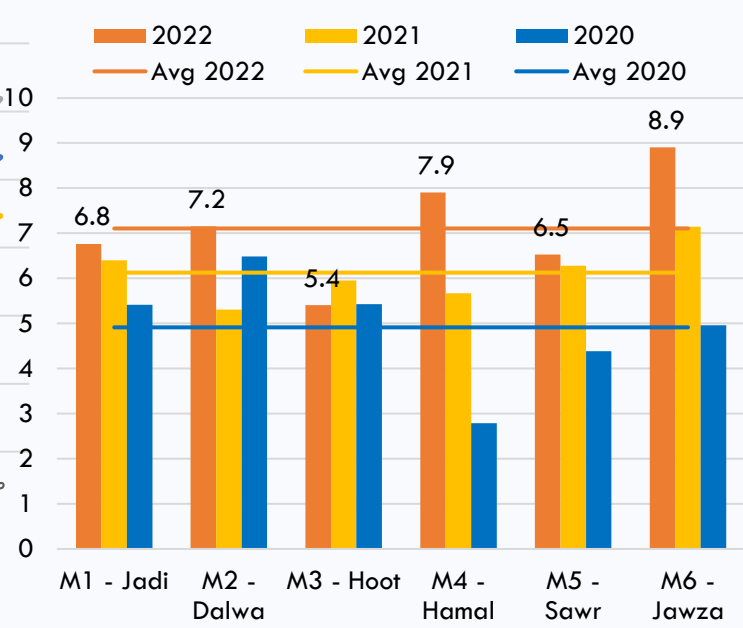


ITA REVENUE COLLECTION SIMILAR TO THE ONE OF THE REPUBLIC GOVERNMENT IN 2020 - RELIANCE ON CUSTOMS AND NON-TAX SOURCES INCREASED

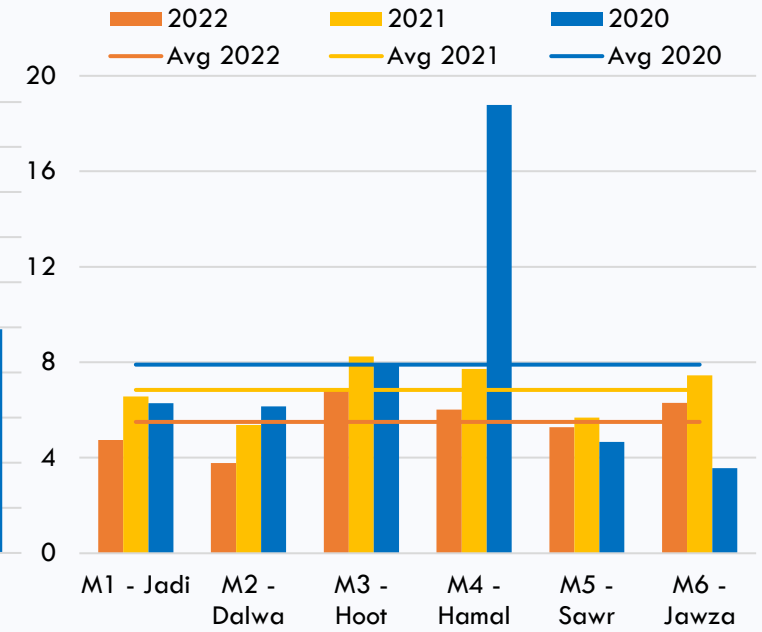
OVERALL REVENUE  
(AFN BILLIONS)



BORDER REVENUE\* (M1-M6)  
(AFN BILLIONS)



INLAND REVENUE (M1-M6)  
(AFN BILLIONS)



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

**Budget and expenditure data remain unavailable**

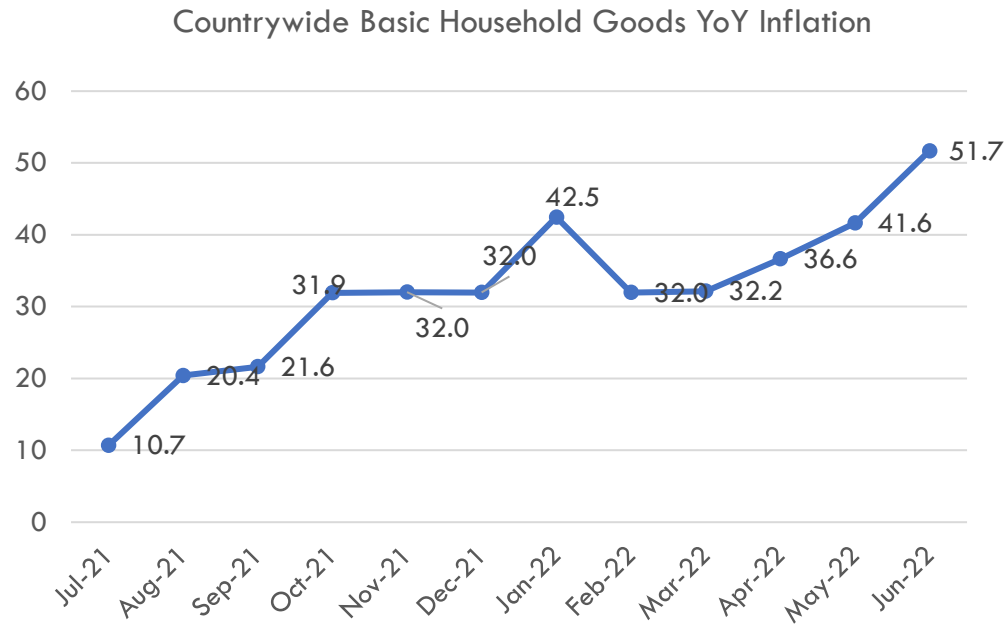


# INFLATION – AFFECTING IN PARTICULAR BASIC GOODS (AND THE POOR)



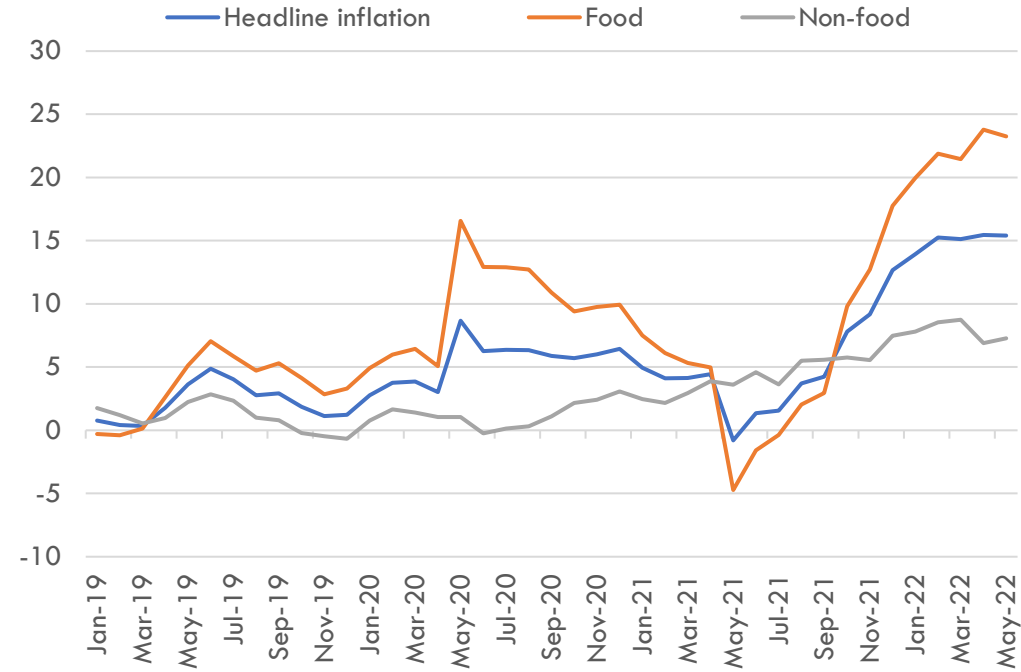
INCREASED FOOD AND FUEL PRICES DRIVE HEADLINE AND BASIC HOUSEHOLD GOODS INFLATION.

## COUNTRYWIDE BASIC HOUSEHOLD GOODS Y-O-Y INFLATION



Source: Data collected by WFP, Bank staff calculations

## HEADLINE INFLATION (Y-O-Y)



Source: Official data, NSIA

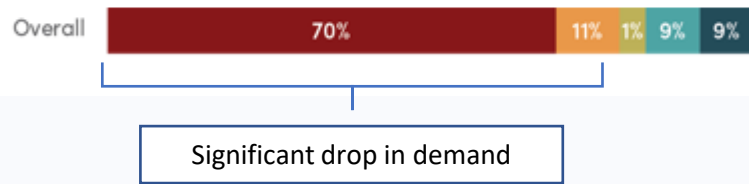


# REAL ECONOMY AFFECTED BY DEPRESSED DEMAND

## DEMAND REMAINS DEPRESSED

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

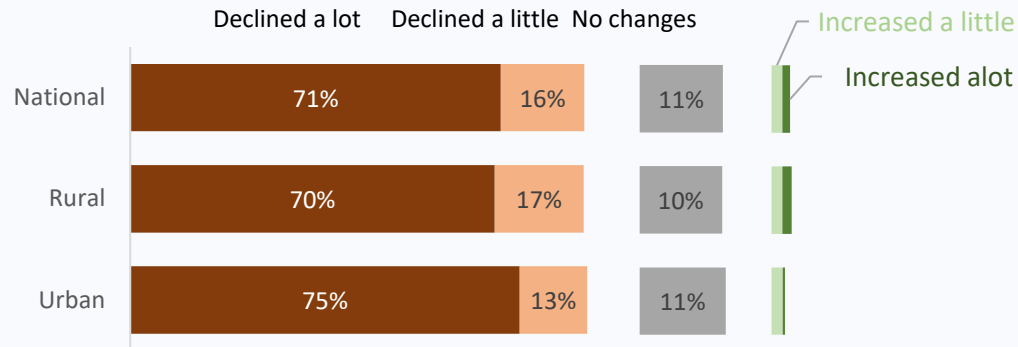
### Consumer demand, by sector of activity (% of respondents)



Source: Private Sector Rapid Survey, Round 1, October 2022

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

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

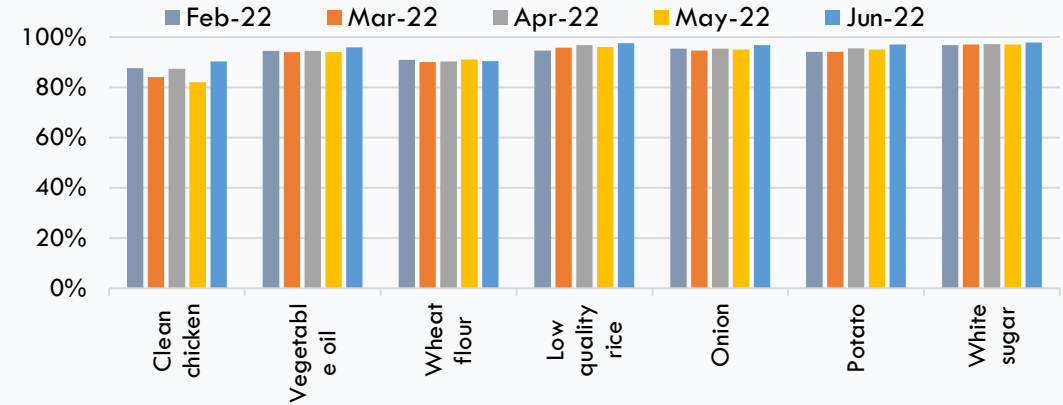


Source: Afghanistan Welfare Monitoring Survey , October-December 2021

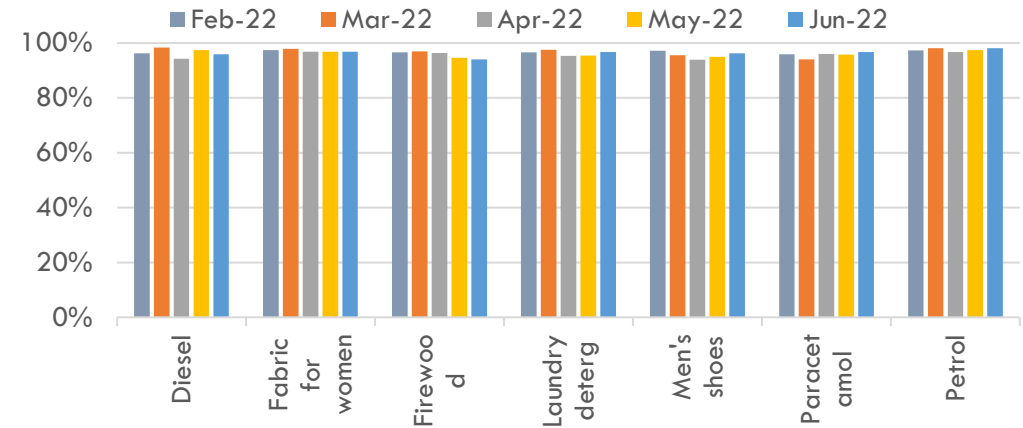


## HOWEVER MOST ITEMS REMAIN AVAILABLE.

### REPORTED FOOD ITEMS AVAILABILITY



### REPORTED NON-FOOD ITEMS AVAILABILITY



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



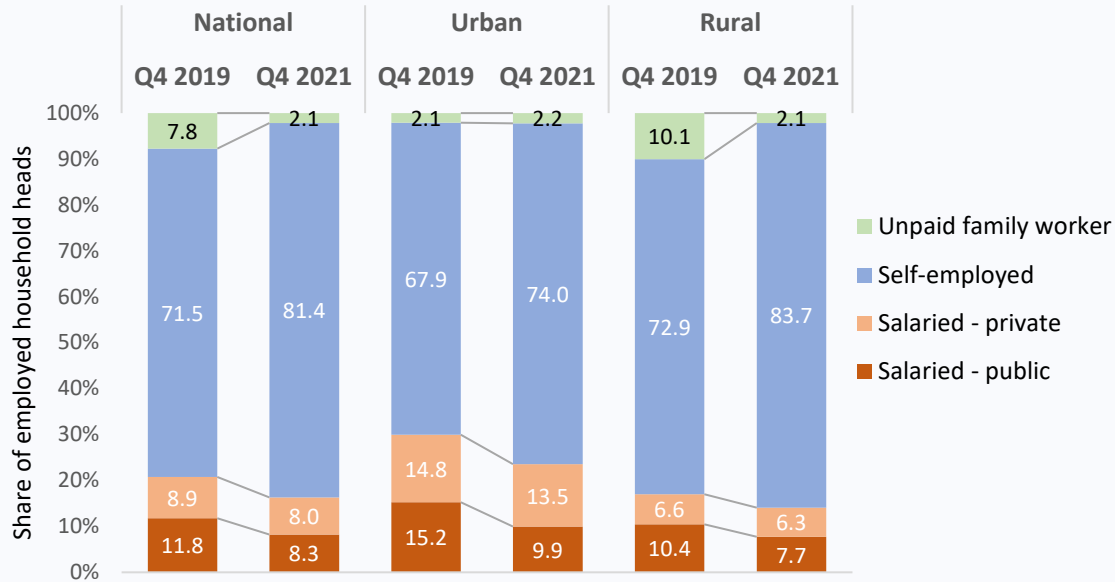


# LABOUR MARKET REMAIN TIGHT, BUT WITH SOME SIGNS OF REBOUND

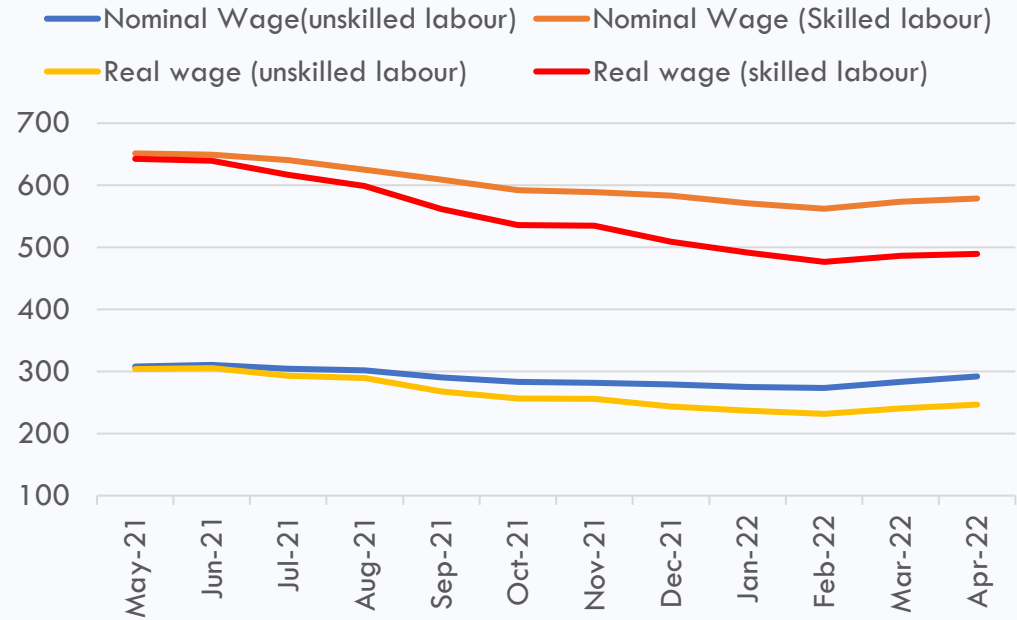


DEMAND FOR LABOR HAS SLIGHTLY IMPROVED, BUT EMPLOYMENT IS MOSTLY SEASONAL AND LARGE-SCALE UNDEREMPLOYMENT PERSISTS. NOMINAL WAGES ARE RECOVERING GRADUALLY, BUT REAL WAGES HAVE DECLINED

## 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.

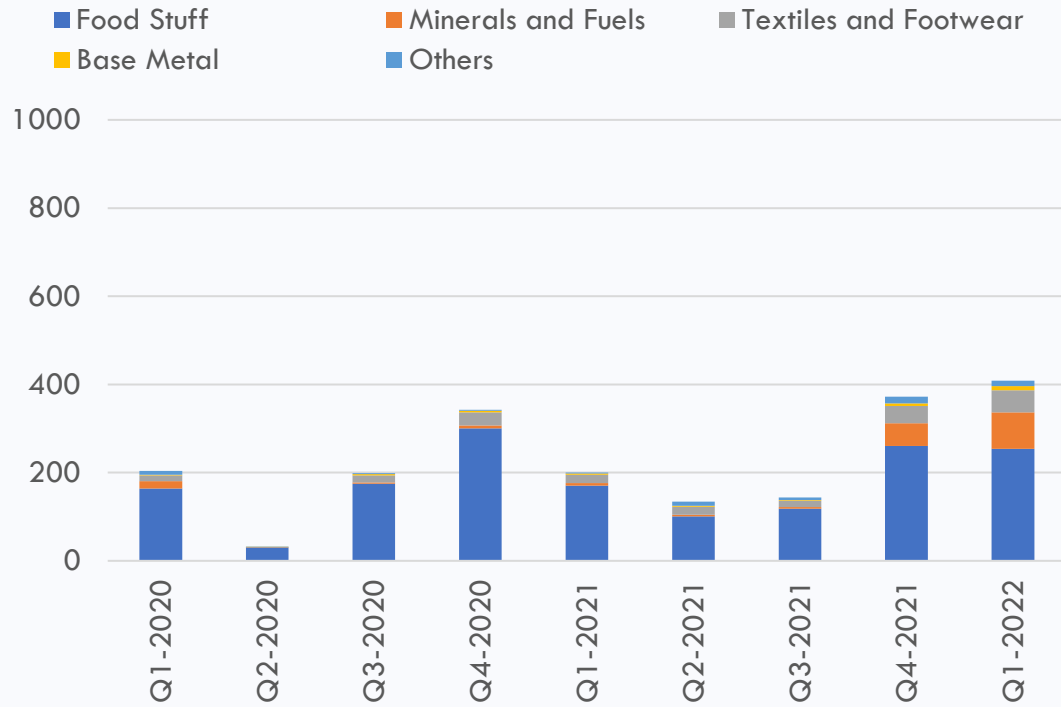


# MAJOR ADJUSTMENT IN TRADE BALANCE



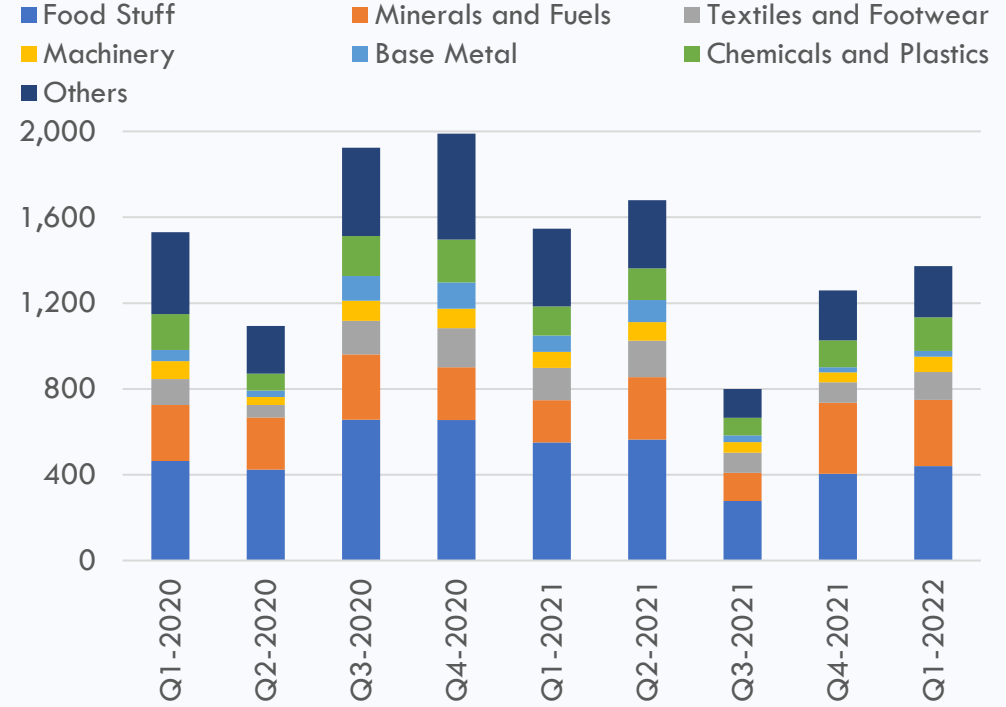
EXPORTS IN THE FIRST QUARTER OF 2022 WERE DOUBLE THOSE IN THE FIRST QUARTER OF 2021 DUE TO INCREASED EXPORTS OF COAL AND FRUITS TO PAKISTAN. IMPORTS SLOWLY DECLINING.

## EXPORTS (USD MILLIONS)



Source: NSIA

## IMPORTS (USD MILLIONS)

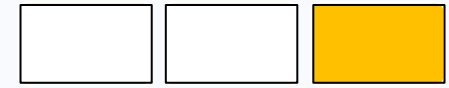


<b>Export – Import ratio:</b>	<b>2020</b>	<b>1 : 7.6</b>
	<b>2022E:</b>	<b>1 : 4</b>



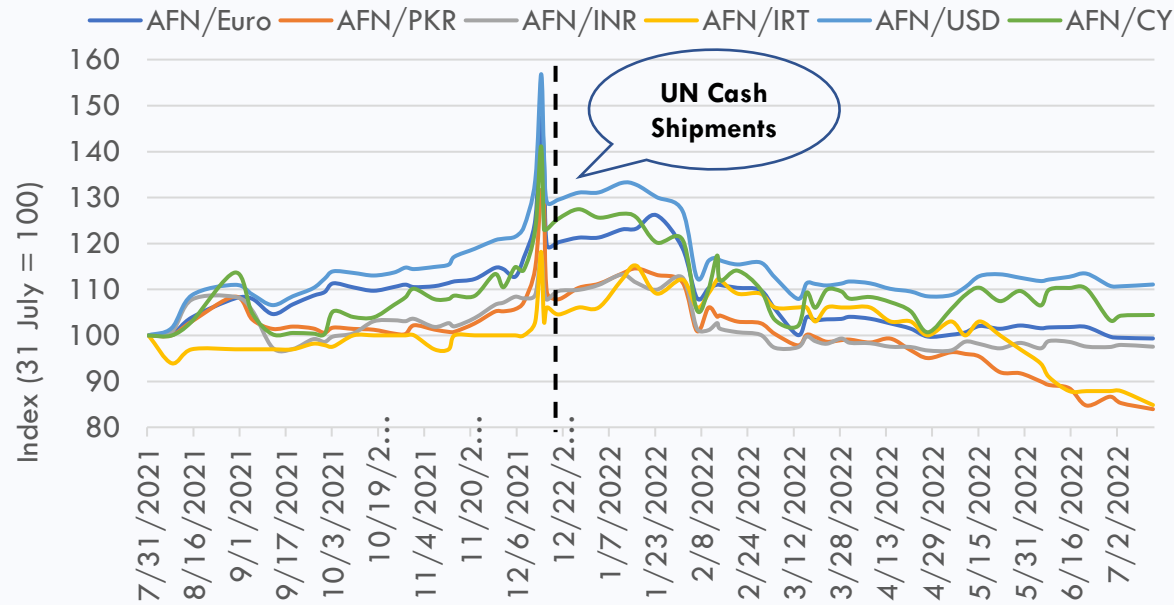


# FOREIGN EXCHANGE STABILIZED



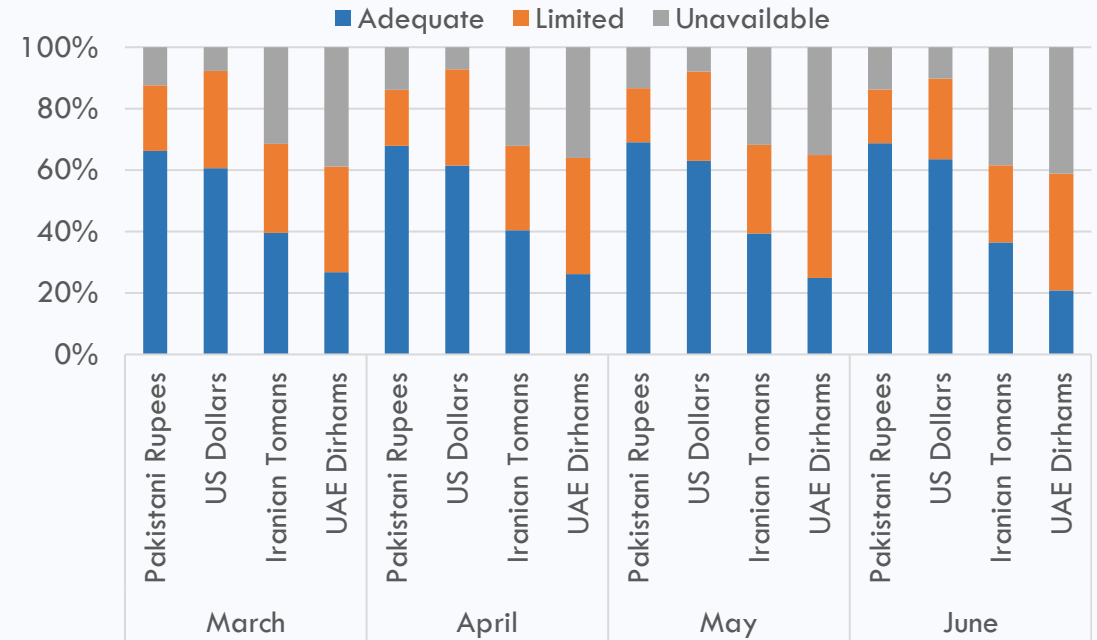
DESPITE THE INCREASING SUPPLY OF USD – UN SHIPPED ~\$ 1 BILLION SINCE DECEMBER- FOREIGN CURRENCY SHORTAGES CONTINUE. ITA CRACKED DOWN ON ILLEGAL SMUGGLING OF USD AND MONITORS MSP.

## EXCHANGE RATE - INDEX JULY 2021 (HIGHER = DEPRECIATION)



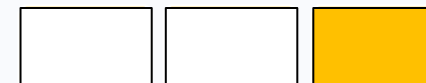
Source: Data from The Afghanistan Bank, Bank Staff Calculations

## AVAILABILITY OF FOREIGN EXCHANGE ACCORDING TO MONEY SERVICE PROVIDERS



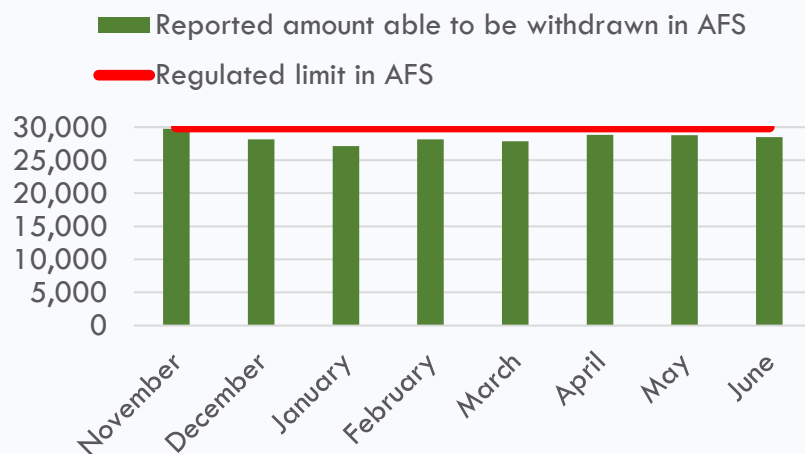
Source: Survey data collected by the World Bank's Third-Party Monitoring Agent. Note: Includes banks, hawala operators, and informal currency exchangers

# FINANCIAL SECTOR REMAINS A CONSTRAINT

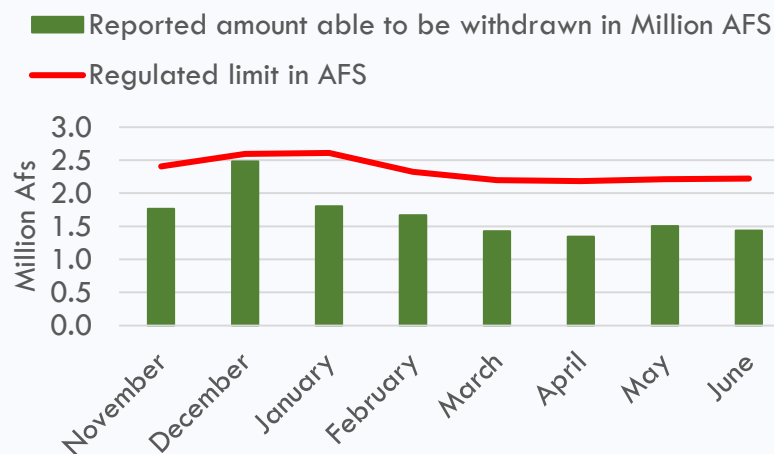


## FIRMS AND HOUSEHOLDS REPORT THE INABILITY TO WITHDRAW AFS AND USD FUNDS FROM BANK ACCOUNTS EVEN WITHIN THE REGULATED LIMITS

### 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.

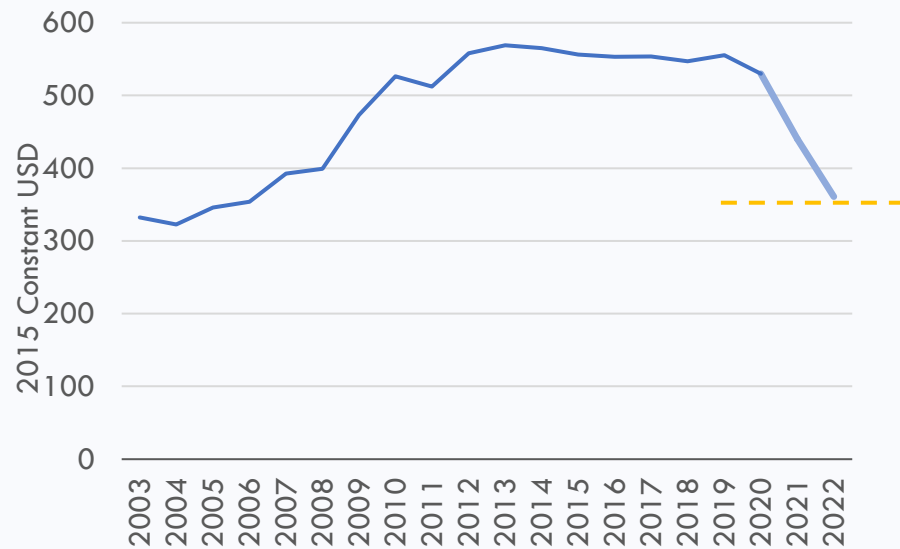
Note: Regulated limit as stipulated by Da Afghanistan Bank. Reported amount able to be withdrawn as reported by individual respondents to the Third-Party Monitoring Agent survey



# ECONOMY IS MOVING TOWARDS A LOWER EQUILIBRIUM – KEY MESSAGES

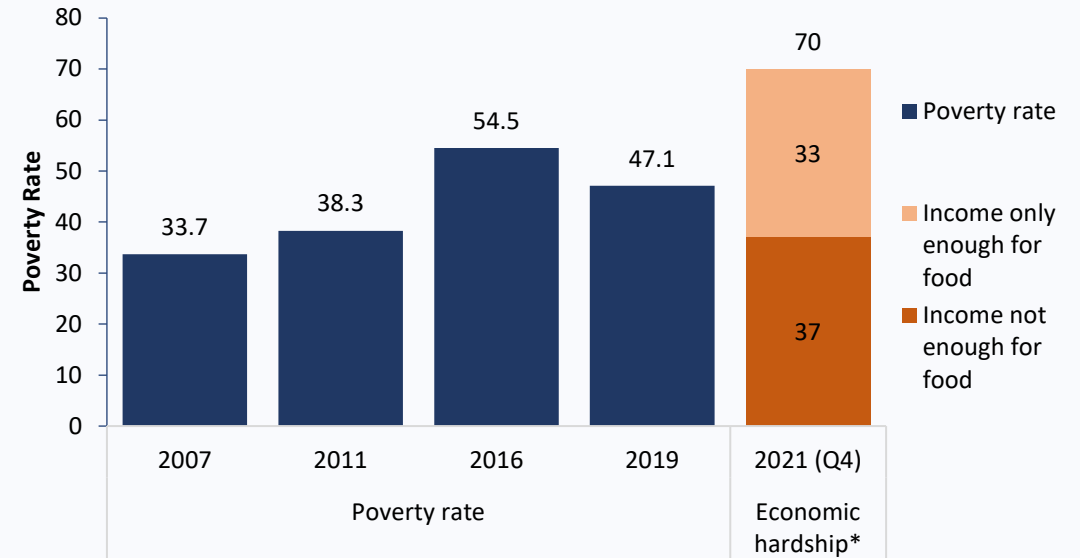
## THE MASSIVE HOUSEHOLDS EARNINGS DECLINE TRANSLATED INTO DETERIORATION OF LIVING CONDITIONS

### COLLAPSE IN PER CAPITA INCOME TO 2006-07 LEVELS



Source: Official data, Bank staff projections

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



Source: NSIA for poverty 2007-2019. World Bank's AWMS for Economic hardship in 2021  
\* 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)**



# THE NEW LOW EQUILIBRIUM RESTS UPON A FRAGILE BASIS

## DEVELOPMENTS ...

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## ... DOWNSIDE RISKS

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Fiscal

- Strong revenue performance

- Lack of transparency on budget allocations and expenditure

Inflation

- Inflation remains elevated and causing a dent in the welfare of the people

- High inflation for an extended period may push more people into the humanitarian need

Labor

- Labor market shows signs of rebound

- Rebound mostly seasonal

Private sector

- Stability and low corruption appreciated by private sector

- Security environment could rapidly deteriorate

Trade

- Trade balance improved thanks to increase of exports

- Law and order can have an impact on extractive industries

Finance

- Correspondent banking not normalized
- Liquidity remains scarce

- Banking solvency could rapidly deteriorate

Exchange rate

- Exchange rate stabilized, thanks to a large extent to UN cash shipments

- Cash shipments could be at risk (security and political) and local currency keeps deteriorating



# WORLD BANK RESEARCH ON AFGHANISTAN

Bi-Annual Afghanistan Development Update <https://thedocs.worldbank.org/en/doc/5f01165822f3639224e0d483ba1861fc-0310062022/original/ADU-2022-FINAL-CLEARED.pdf>

Monthly Afghanistan Economic Monitor <https://www.worldbank.org/en/country/afghanistan/publication/afghanistan-economic-monitors>

Afghanistan Private Sector Rapid Survey (Round 1) <https://thedocs.worldbank.org/en/doc/ced9ff1a094dd92886271f532f3c9754-0310062022/original/AFG-Private-Sector-Rapid-Survey-Report-Apr-2022-Final.pdf>

Afghanistan Welfare Monitoring Survey (Round 1) <https://thedocs.worldbank.org/en/doc/138d0857c9a66e7e2a963a1a6137860e-0310062022/original/Afghanistan-Welfare-Monitoring-Survey.pdf>

## 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