AFGHANISTAN ECONOMIC MONITOR

THE WORLD BANK   November 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

Afghanistan's headline inflation remains negative, indicating sustained economic weakness and depressed aggregate demand. Poverty remains a challenge, affecting every other Afghan citizen.

In October 2023, Afghanistan's headline inflation remained negative at -8.1 percent, driven by a 12.1 percent deflation in food items and 3.5 percent in non-food items. Core inflation, excluding food and energy prices, decreased to 4.9 percent. Persistent factors such as depleted household savings, reduced public spending, shocks to farmers' income, and the recent earthquake continued to depress overall prices. Additionally, the currency appreciation in October contributed to deflation by lowering import prices. The Afghanistan Welfare Monitoring Survey indicates that half the population lives in poverty, with 15 million facing food insecurity. Economic challenges have prompted households to expand their workforce, particularly engaging marginalized individuals like youth and women. However, this has led to increased unemployment due to insufficient job opportunities. The involuntary repatriation of Afghans from Pakistan has exacerbated economic difficulties by straining employment opportunities and resources, further escalating the unemployment rate.

The declining trend in exports observed during the first half of 2023 has reversed since August, driven by food exports.

Unofficial customs data for January to October 2023 indicates Afghanistan's total exports reached US$1.5 billion, a slight 2 percent decrease from the same period in 2022, primarily due to a 43 percent drop in coal exports. However, food exports increased by 13 percent, and textile exports saw a 31 percent rise. Pakistan remains the largest export market (54 percent), followed by India (30 percent). Notably, 73 percent of exports to Pakistan include food and coal, which declined by 14 percent, resulting in a 19 percent drop in exports. Conversely, food exports to India, comprising 46 percent of total food exports, increased by 49 percent, contributing to an overall rise in food exports. Despite negative export growth in the first ten months of 2023, the trend has recently reversed. After a consistent decline from February to July 2023, exports saw a significant 49 percent growth from August to October 2023. This surge was mainly propelled by a 51 percent growth in food exports, comprising 80 percent of total exports during this period, with vegetable exports to India and Pakistan surging by 36 percent and 58 percent, respectively. Notably, fruits and nuts played a significant role in the growth of vegetable exports.

From January to October 2023, Afghanistan experienced faster growth in merchandise imports than exports, leading to an increased trade deficit compared to the same period in 2022.

From January to October 2023, Afghanistan's imports totaled US$6.3 billion, marking a significant 25 percent growth from the same period in 2022. Noticeable import growth across all categories, including food, textiles, and minerals, collectively contributed to over half of total imports, with growth rates of 9 percent, 18 percent, and 20 percent, respectively. Despite increased demand for imports in chemicals, machinery, and transportation groups, this surge contradicted the country's depressed economic conditions, as outlined in the Afghanistan Development Update, which suggested that some increased imports in specific categories may have been intended for the Pakistani market. Following a 12 percent decline in September 2023, imports rebounded by 11 percent in October 2023, potentially due to temporary border closures. Iran remains the most significant import source (21 percent), followed by Pakistan (18 percent), China (17 percent), and the United Arab Emirates (14 percent). In October 2023, imports from Pakistan, Iran, and the United Arab Emirates grew by 28 percent, 22 percent, and 16 percent, respectively, significantly contributing to overall import growth. For Jan-Oct 2023, the trade deficit expanded to $4.8 billion, up from $3.5 billion in the same period in 2022.

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Despite the growing merchandise trade deficit, the Afghani showed substantial appreciation against major currencies between January and November 2023.

Despite the expanding trade deficit, the Afghani currency continues to appreciate. From January 1 to November 27, the AFN showed a 27.8 percent rise against the US dollar, 22.4 percent against the Euro, 23.8 percent against the Chinese Yuan, 71.4 percent against the Iranian Toman, 44.5 percent against the Pakistani rupee, and 28.9 percent against the Indian rupee. On November 27, 2023, the AFN traded at 69.7 against the US dollar, marking a 23.5 percent appreciation since August 15, 2021. However, after considering parts of imports for the Pakistani market, the forex market seems in surplus due to ongoing cash shipments for humanitarian and basic service aid and remittances, influencing a higher supply of US$ than the local currency. The central bank's policy of maintaining a strong AFN through occasional US$ auctions favors imports but impacts domestic producers.

In the initial eight months of FY2023, revenue did not meet the projected target, primarily due to underperformance in both inland revenue and border taxes.

Revenue collection for the initial eight months of FY2023 reached AFN 131.2 billion, a 3.1 percent increase from the same period in the previous fiscal year. Border taxes, comprising 55 percent of total revenue, grew by 4 percent, and inland revenue showed a modest 2 percent cumulative growth, credited to the Small Taxpayer Office (STO) and Mostafiat exceeding targets. Despite this, the overall revenue fell short by AFN 8 billion, with ACD and ARD performing 2 percent and 10 percent below targets, respectively. If this trend persists amid sluggish economic activity due to depressed aggregate demand, achieving the fiscal year 2023-24 revenue target appears unlikely.

The Health Emergency Response Project, financed by the Afghanistan Reconstruction Trust Fund, continues to provide critical health services for mothers and children.

According to data from the Health Management Information System (HMIS), between January 2022 and September 2023, around 6.2 million women received antenatal care (ANC) at 2,300 facilities supported by the Health Emergency Response (HER) Project. Over the same period, the HER Project saw a six percent increase in ANC visits, with an additional eight percent increase since January 2023. In total, HER-supported facilities have assisted with around 1.3 million births since January 2022.
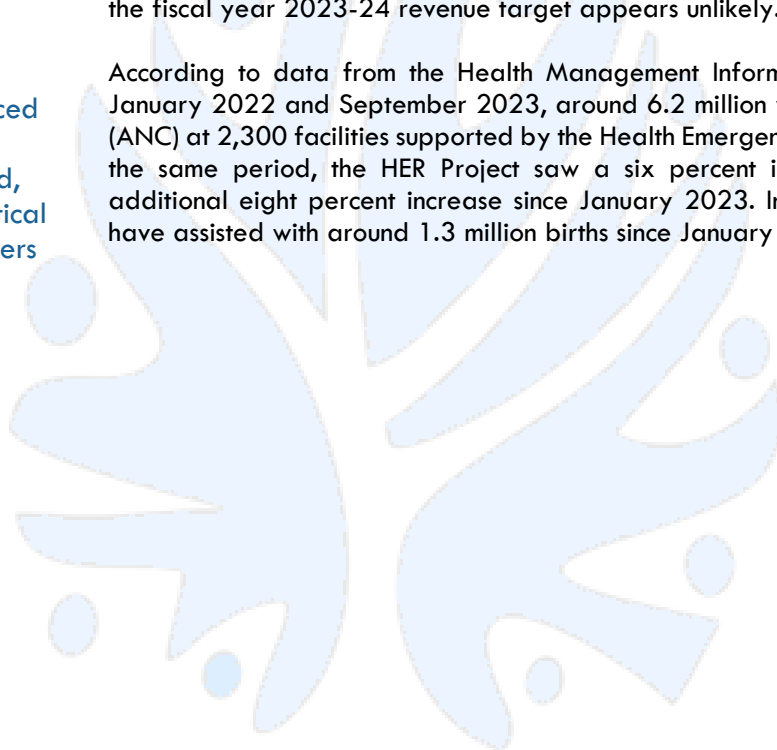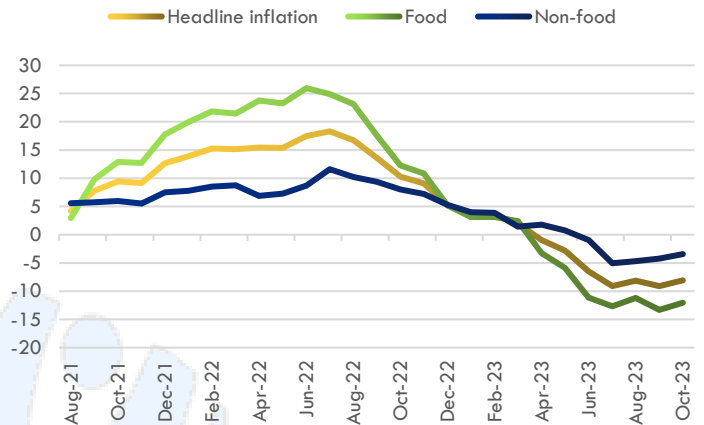
1. PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

The headline inflation fell to a negative 8.1 percent year-on-year in October 2023 due to a drop in food inflation to negative 12.1 percent and non-food inflation to negative 3.5, indicating an overall decline in demand.

1.1. HEADLINE PRICE INDEX
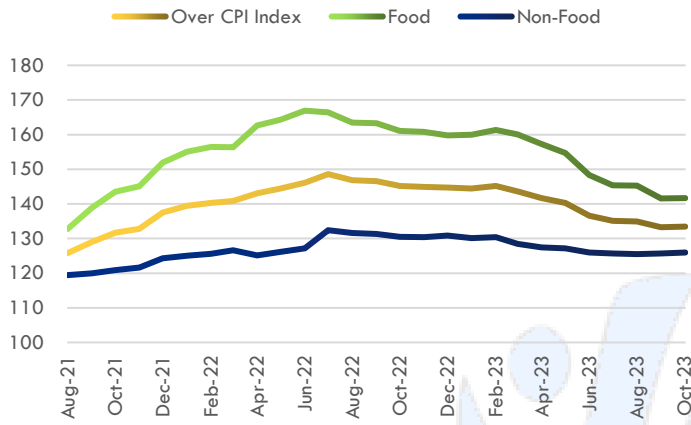
1.2. HEADLINE INFLATION (Y-O-Y)

Source: National Statistics and Information Authority (NSIA).

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

|	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Bread	18.1	16.6	15.2	14.2	13.5	10.7	7.7	0.7	-2.7	-6.1	-4.3	3.0
Fuel (diesel)	34.1	26.3	22.3	14.8	-5.4	-2.2	-11.1	-32.7	-46.8	-38.6	-32.5	-25.2
Oil (cooking)	-12.2	-14.4	-21.7	-17.0	-21.3	-26.3	-38.3	-43.0	-39.6	-36.2	-32.2	-31.0
Pulses	10.6	10.6	-2.4	0.0	1.7	0.3	-2.3	-3.1	-1.2	0.5	3.5	3.0
Rice (high quality)	27.2	26.4	19.8	17.9	19.1	16.7	9.1	-1.3	-5.0	-5.0	-8.3	-7.8
Rice (low quality)	18.5	21.9	18.9	28.3	27.9	26.3	24.7	19.5	19.7	19.9	16.3	16.1
Salt	10.8	20.0	2.5	-0.1	4.0	8.2	2.9	4.1	4.4	2.5	2.0	1.9
Sugar	3.9	1.2	-7.5	-3.5	0.1	2.3	16.6	13.0	5.9	5.7	10.3	13.4
Wheat	16.8	11.8	-2.7	5.3	0.0	-10.5	-19.5	-33.2	-32.6	-32.9	-32.4	-30.1
Wheat flour (high quality)	12.1	5.8	-6.3	-0.6	-7.9	-18.7	-26.3	-37.4	-37.0	-37.6	-35.3	-30.0
Wheat flour (low quality)	13.4	6.5	-6.6	-1.4	-6.3	-16.0	-25.0	-37.8	-37.1	-37.5	-36.1	-32.9
Basic Household Goods Price Inflation	**9.9**	**6.1**	**-3.3**	**0.7**	**-4.1**	**-9.8**	**-16.8**	**-26.2**	**-27.1**	**-25.6**	**-22.9**	**-19.3**

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.
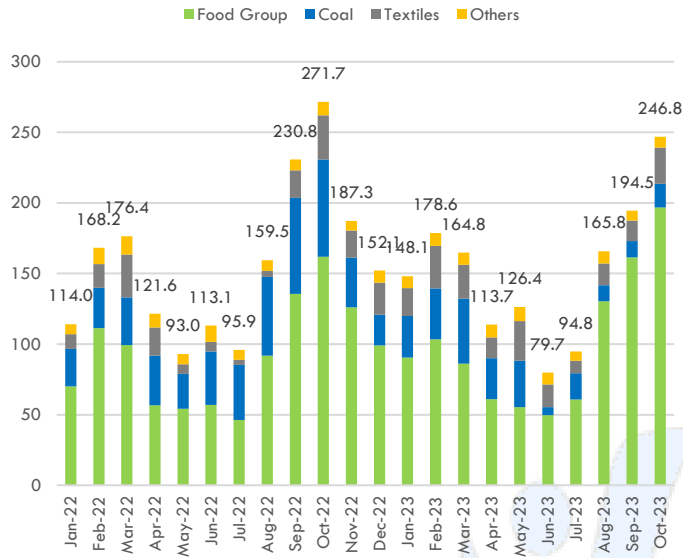
2. TRADE DEVELOPMENTS

Merchandise imports in the first ten months of 2023 are substantial. Exports declined marginally during this period due to lower food and coal exports to Pakistan. The trade deficit has widened.

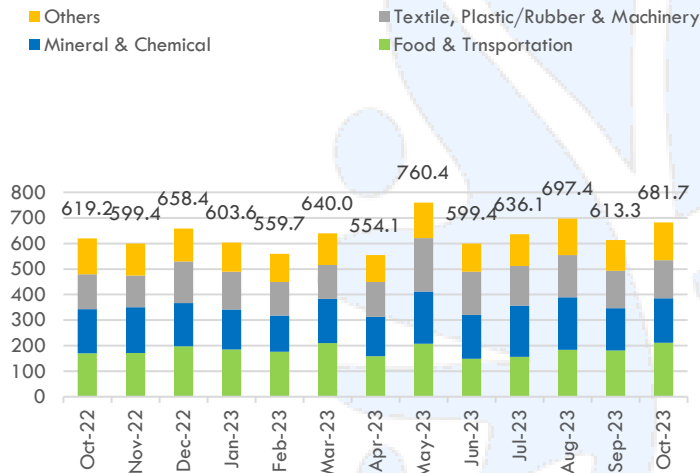### 2.1. AFGHANISTAN TRADE DEFICIT (US$ MILLIONS), 2022 – 2023
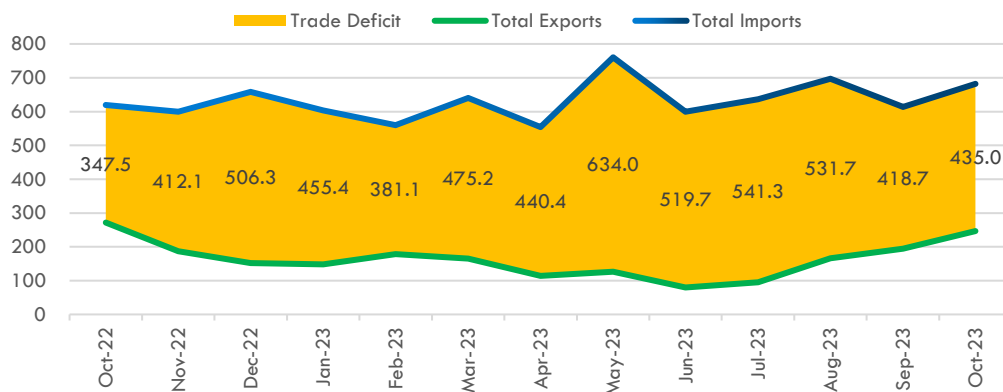
Source: ASYCUDA

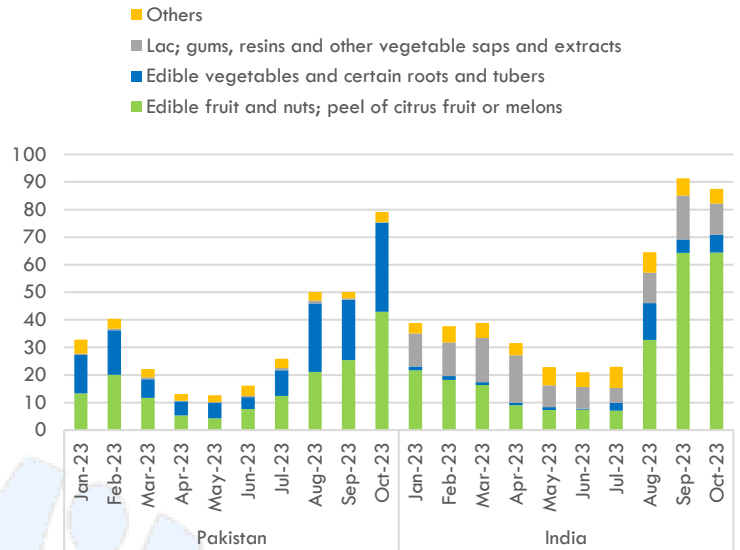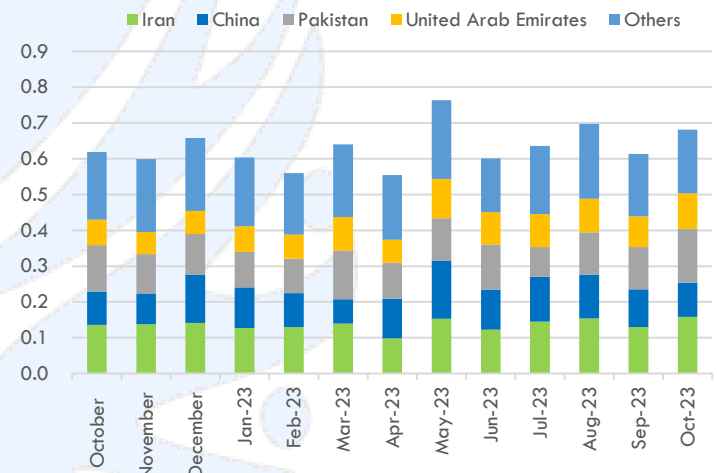## 2.2 AFGHANISTAN'S EXPORTS (US$ MILLIONS): 2022 – 2023

Source: ASYCUDA

2.3 AFGHANISTAN'S VEGETABLE EXPORTS (US$ MILLIONS): 2023

Source: ASYCUDA

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

Source: ASYCUDA

## 2.5 AFGHANISTAN'S IMPORTS BY DESTINATION (US$ MILLIONS): 2023

Source: ASYCUDA

3. FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS

Tighter domestic money supply, continued humanitarian cash shipments and central bank's US$ auctions are causing appreciation of Afghani against major trading currencies.

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

Legend: AFN/Euro, AFN/PKR, AFN/INR, AFN/IRT, AFN/USD, AFN/CY
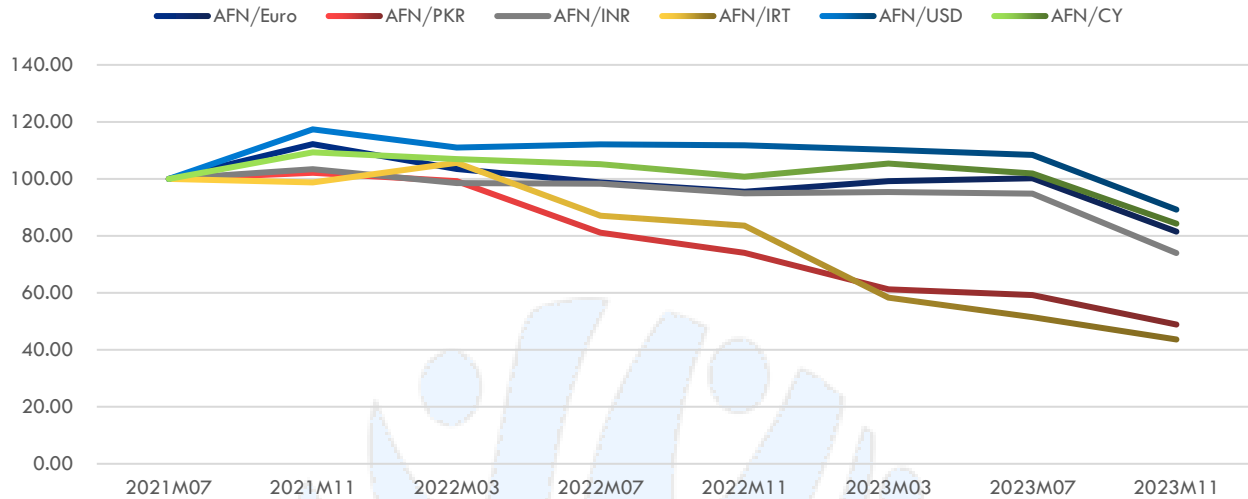
3.2. EXCHANGE RATE – APPRECIATION/DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

	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	25-Sep-23	25-Oct-23	27-Nov-23
AFN/Euro	2.95	0.28	4.28	4.56	3.30	4.20	4.99	2.81	8.01	16.69	23.37	26.05
AFN/PKR	48.18	50.19	67.42	68.53	70.85	82.02	78.76	77.02	91.54	98.25	98.71	114.17
AFN/INR	13.41	12.69	11.73	13.04	13.62	13.59	14.01	13.92	13.45	25.45	32.02	46.21
AFN/IRT	33.33	45.45	88.24	68.42	77.78	88.24	88.24	88.24	88.24	88.24	113.33	128.57
AFN/US$D	-3.37	-3.87	-3.14	-0.74	-0.22	-1.32	0.31	0.44	3.67	10.10	16.17	23.51
AFN/CY	-0.50	-1.90	-3.30	-2.86	-2.96	-3.48	-1.24	2.76	5.47	12.64	17.81	23.14

*Source:* Data from DAB, World Bank staff elaboration.

4. REVENUES

The ITA collected AFN 131.2 billion in revenue during the first eight months of the fiscal year 2023-24, with a heavy reliance on border taxes.

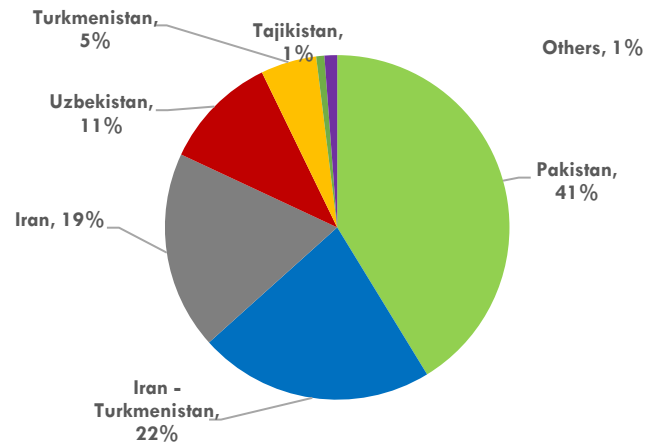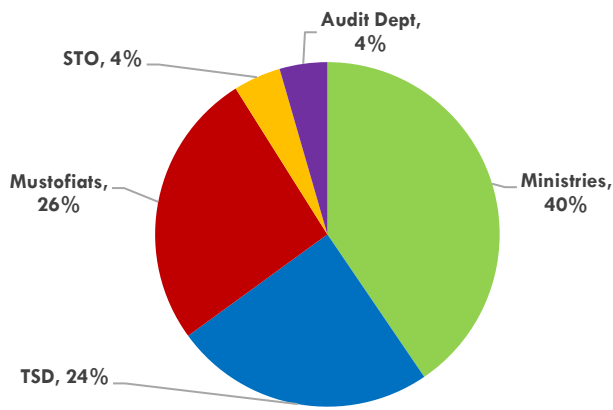### 4.1. TOTAL REVENUE COLLECTION – CUMULATIVE (AFN BILLIONS)

Legend: 2020, 2021, 2022, 2023
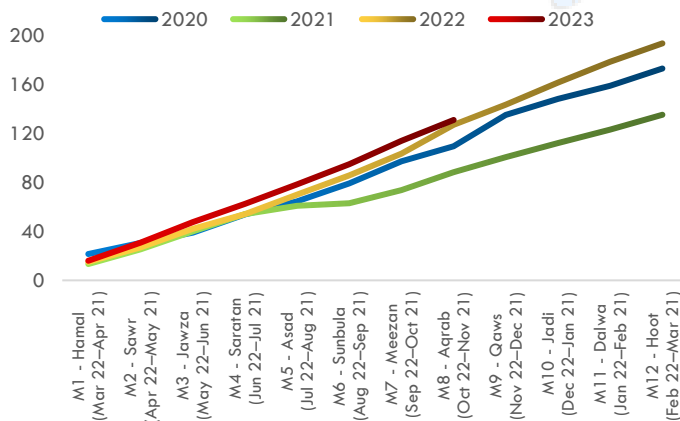
4.2. SHARE OF INLAND (ARD) AND CUSTOMS (ACD) REVENUES IN TOTAL COLLECTIONS (MARCH 22 – NOVEMBER 21, FY2023)

ARD, 44.6%
ACD, 55.4%
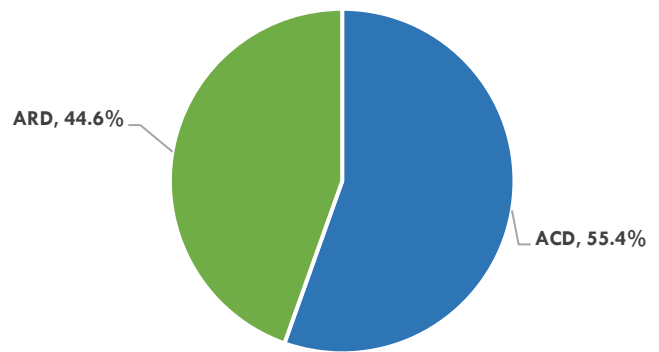
4.3. PERCENT SHARE OF INLAND COLLECTIONS BY SOURCE (March 22 – October, FY2023)

4.4. PERCENT SHARE OF COLLECTIONS AT BORDER CROSSINGS (March 22 – October, FY2023)
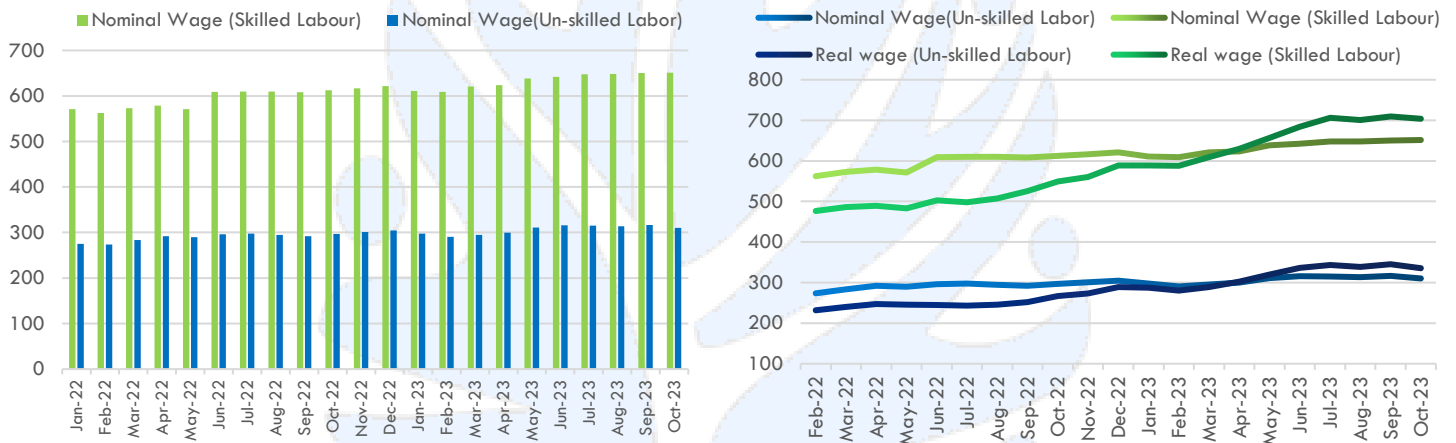
Source: Ministry of Finance.
Note: The Afghan fiscal calendar month, Hamal, runs from March 22–April 21.

5. LABOR MARKET CONDITIONS

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

### 5.1. 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.

6. PROVISION OF HEALTH SERVICES

ANC visits under the Health Emergency Response (HER) Project improved after slightly declining in July 2023.

6.1. SERVICES DELIVERED AT HER-FINANCED HEALTH FACILITIES
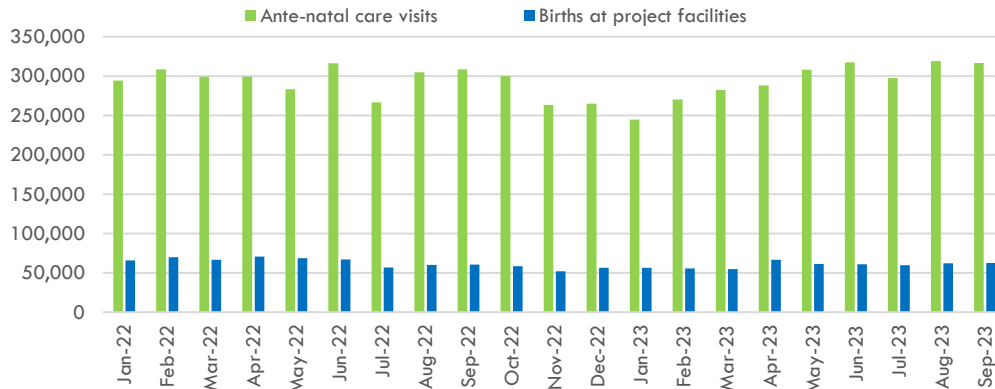
Source: Health Management Information System.

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