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AFGHANISTAN DEVELOPMENT UPDATE

SUSTAINING RETURNS: CHALLENGES AND OPPORTUNITIES

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PREFACE

The Afghanistan Development Update provides a comprehensive report on the state of the Afghan economy. It covers recent economic developments and the medium-term outlook for Afghanistan. Each edition includes Special Focus sections that provide in-depth analysis of specific topics. The Afghanistan Development Update is intended for a wide audience, including policymakers, the donor community, the private sector, and analysts and professionals engaged in Afghanistan's economy.

This report was prepared by World Bank teams working on Afghanistan. The special chapter reflects close collaboration with the International Organization for Migration (IOM) and the United Nations High Commissioner for Refugees (UNHCR), whose data and guidance were essential to the analysis. The team also acknowledges the valuable contribution of the Food and Agriculture Organization (FAO) in providing expertise and data on the irrigated wheat harvest.

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LIST OF ABBREVIATIONS

ACC	Afghan Citizenship Card	MENAAP	Middle East, North Africa, Afghanistan, and Pakistan
ADB	Asian Development Bank	MOCI	Ministry of Commerce and Industry
AFN	Afghani (currency)	MOF	Ministry of Finance
APS	Afghanistan Payment System	MT	Metric Ton
Amayesh	Amayesh cardholder (Iranian refugee registration card)	NEER	Nominal Effective Exchange Rate
CAR	Capital Adequacy Ratio	NPL	Non-Performing Loan
CBR	Correspondent Banking Relationship	NSIA	National Statistics and Information Authority
DAB	Da Afghanistan Bank (Central Bank)	OCHA	United Nations Office for the Coordination of Humanitarian Affairs
DOEs	Developing Oil Exporters	POS	Point of Sale
DOIs	Developing Oil Importers	PoR	Proof of Residency
ECRMN	Communications Unit	REER	Real Effective Exchange Rate
EFSP	Emergency Food Security Project	ROA	Return on Assets
EMAE2	Afghanistan and Pakistan Country Management Unit	RQA	Return of Qualified Afghans (IOM program)
EMAPP	Macro and Poverty Practice	SMAEO	Social Development Practice
EMDEs	Emerging and Developing Economies	SMAPA	Agriculture Practice
FAO	Food and Agriculture Organization	SoVI	Socio-Economic Vulnerability Index
FFS	Forced Displacement Survey	TOKTEN	Transfer of Knowledge Through Expatriate Nationals Program (UNDP)
FX	Foreign Exchange	UN	United Nations
GCC	Gulf Cooperation Council	UNDESA	United Nations Department of Economic and Social Affairs
GRADE	Global Rapid Post-Disaster Damage Estimation	UNHCR	United Nations High Commissioner for Refugees
HDP	Humanitarian-Development-Peace (nexus)	USD	United States Dollar
IFRP	Illegal Foreigners Repatriation Plan	WASH	Water, Sanitation, and Hygiene
IOM	International Organization for Migration	WB	World Bank
IPC	Integrated Food Security Phase Classification	WBG	World Bank Group
ITA	Interim Taliban Administration	WDI	World Development Indicators
LCU	Local Currency Unit	WoA	Whole of Afghanistan Survey
MAPKB	Afghanistan Country Office		

EXECUTIVE SUMMARY

Recent Economic Developments and Outlook

Afghanistan's economy is expanding modestly, supported by low inflation and stronger revenues. However, rapid population growth—driven by returnees from Iran and Pakistan—and weak investment continue to weigh on average income growth. Macroeconomic stability is holding, but rising external pressures, fiscal rigidities, and limited external financing pose growing risks. Poverty and fragility remain widespread, and growth is expected to moderate.

Recent Economic Performance

Afghanistan's economy remains under strain from multiple simultaneous shocks. The country has been hit by a series of adverse events in a short period of time—including the mass return of migrants and refugees, severe drought, earthquakes in eastern provinces, the temporary shutdown of internet and telecommunication services[1], and a shift in regional priorities—each compounding existing fragilities. Despite these challenges, the economy is projected to grow by 4.3 percent in FY2025, largely driven by returnee demand for goods and services, particularly in services and industry. However, rapid population growth (8.6 percent), fueled by more than two million returnees, is expected to lead to a 4.0 percent decline in GDP *per capita*. Rapid labor force expansion amid low investment is diluting capital and productivity, reinforcing a low-growth, low-productivity equilibrium.

Inflation remains subdued, supported by stable food prices and exchange rate stability. Despite stronger domestic demand from returnees, Afghanistan is projected to record one of the lowest inflation rates in the region in FY2025. Year-on-year inflation has edged up slightly to 3.1 percent in August but remains moderate compared to neighboring economies, many of which continue to experience double-digit price growth. Lower global commodity prices, improved domestic supply conditions, and a stable currency have helped anchor inflation expectations.

Poverty and Food Insecurity

Food security has shown fragile gains but remains vulnerable to climatic and demographic shocks. Afghanistan's food security outlook for 2025 reflects gradual improvement at national level but persistent fragility in drought-prone and returnee-hosting provinces. While some provinces report better harvest outcomes, others face mounting pressure on food availability, labor markets, and basic services.

Fiscal Challenges

Fiscal conditions are improving on the revenue side but remain structurally constrained. Domestic tax revenues are projected to rise to 17.1 percent of GDP in FY2025, reflecting stronger enforcement and enhanced compliance measures. However, declining external grants are shrinking the overall fiscal envelope, leaving Afghanistan heavily dependent on donor support and trade-related taxation. With virtually no borrowing capacity, the Interim Taliban Administration (ITA) faces mounting challenges in financing capital expenditure and maintaining essential public services. Sustaining fiscal stability will depend on continued revenue gains and expenditure prioritization.

Trade, Currency, and Financial Sector Stability

External imbalances are deepening as trade

[1] UNAMA reports that the 48-hour nationwide internet shutdown in Afghanistan on September 29- October 1, 2025, severely disrupted daily life, access to essential services, and economic activity.

and remittance flows adjust to returnee pressures. The balance of payments outlook signals rising vulnerability, with the current account deficit projected to widen to nearly one-third of GDP in FY2025. Higher import demand from returnees, declining remittance inflows, and reduced aid are weighing on external accounts. Without greater export diversification and stable external financing, these factors could undermine foreign exchange reserves and exchange rate stability.

Monetary conditions are dominated by a surge in cash liquidity and limited financial intermediation. Broad money growth has accelerated, driven by higher foreign currency holdings and a surge in the demand for cash linked to returnees. While liquidity has improved, much of it circulates outside the formal banking system, reflecting limited trust and weak financial intermediation. The returnee influx and the shutdown of internet and telecommunication services have reinforced the cash-based nature of the economy, highlighting the need to strengthen financial sector depth and inclusion, and policy predictability.

Economic Outlook and Risks

The medium-term outlook points to slower growth and persistent welfare challenges. Afghanistan's economy is expected to expand modestly by 3.8 percent in FY2026 and 3.5 percent in FY2027, led mainly by private consumption and services. However, rapid population growth, stagnant investment, and declining aid and remittances will constrain per capita income gains, keeping poverty high and vulnerabilities elevated. Sustained recovery will require measures that boost private investment, deepen financial intermediation, diversify exports, and channel returnee-driven demand into productive employment opportunities.

Sustaining Returns - Challenges and Opportunities.

Afghanistan is currently navigating one of the most significant waves of returns in its recent history, presenting a complex mix of urgent humanitarian challenges and significant medium to long-term opportunities, if harnessed. Driven primarily by policy changes in neighboring countries, an estimated 4 to 4.7 million individuals returned to Afghanistan between September 2023 and July 2025. This influx, including as many as 2.1 million in the first seven months of 2025 alone, is occurring in a more challenging context than previous return episodes, marked by a contracting economy and reduced international aid.

Profile of the Afghans in Iran and Pakistan

The socio-economic profile of the returning population is evolving and highly varied, with critical differences between those who resided in Iran and Pakistan. Afghans who were in Iran have a lower dependency rate, with only 62 dependents per 100 working-age adults, compared to 130 for Afghans in Pakistan and 104 within Afghanistan itself. This group also shows significantly higher educational attainment, with a third of those over 15 years old having completed secondary or tertiary education. Their labor market outcomes were also stronger, with higher participation rates and a greater concentration of men in skilled, non-agricultural jobs.

Profile of Returns

Despite the potential return of skilled individuals and financial assets, the current situation poses severe risks to Afghanistan's economic stability. First, the sheer scale of the influx challenges the absorption capacity of local labor markets and public services, particularly in most vulnerable areas. Returns so far have a particularly vulnerable profile, with a high proportion of male returnees without formal education, compared to the general Afghan populations in host countries.

Transforming Crisis into a Strategic Opportunity

Successfully transforming this crisis into a strategic opportunity requires a coordinated response that bridges immediate humanitarian needs with medium to long-term development and peace objectives. Policies in Afghanistan, Iran, and Pakistan can fundamentally shape the profile and success of returns. A forward-looking strategy must recognize returnees not merely as aid beneficiaries but as active agents of economic recovery. Key actions should include establishing mechanisms for capital portability and the accreditation of foreign-acquired skills and qualifications. Furthermore, improving access to finance through micro-credit and business incubation programs can empower skilled individuals to launch enterprises and create jobs. By proactively engaging the diaspora and investing in the capabilities of its returning population, Afghanistan can leverage this challenge to foster national renewal.

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Table 1. Afghanistan Selected Economic and Financial Indicators, 2020-2027

Fiscal Year	2,020	2,021	2,022	2,023 Act.	2,024 Est.	2,025 Proj.	2,026 Proj.	2,027 Proj.
				Change in %				
Supply								
Agriculture	5.9	-9.8	-6.6	2.2	6.0	-0.5	3.2	3.2
Industry	-4.6	-12.8	-5.7	1.8	2.1	4.5	3.0	2.5
Services	-5.9	-30.1	-6.5	1.5	-0.3	8.5	4.5	4.2
Real GDP	-2.4	-20.7	-6.2	2.3	2.5	4.3	3.8	3.5
Domestic prices								
Consumer prices (annual average)	5.6	7.8	10.6	-7.7	-4.3	2.0	3.0	4.0
Exchange Rate (annual average)	76.9	87.7	88.5	77.3	70.3	71.0		
				In % of nominal GDP				
Fiscal								
Revenue and Grants	49.4	36.5	40.6	33.9	30.7	29.1	29.0	28.7
Domestic Revenue	11.3	11.1	15.1	15.6	16.7	17.1	18.0	18.5
External Grants	38.1	25.4	25.5	18.3	14.0	11.9	11.0	10.2
Total Expenditures	51.7	36.0	41.6	35.1	31.1	29.1	28.9	28.6
Current Expenditures	17.8	13.4	15.3	15.5	15.4	15.5	16.1	16.3
Capital Expenditures Domestically Financed	10.4	4.1	0.8	1.3	1.6	1.7	1.8	2.1
Externally Financed Expenditure	23.5	18.4	25.5	18.3	14.0	11.9	11.0	10.2
ITA Fiscal Balance	-2.3	0.5	-1.0	-1.2	-0.4	0.0	0.1	0.1
General Fiscal Balance (incl. off-budget)	-2.3	0.5	-1.0	-1.2	-0.4	0.0	0.1	0.1
Balance of Payments								
Current Account Balance	-21.6	-15.8	-18.8	-17.6	-24.6	-24.1	-25.4	-25.3
Trade Balance (Goods and Services)	-39.1	-34.8	-45.0	-44.3	-45.8	-48.8	-51.0	-52.9
Primary and Secondary Incomes	17.5	19.0	26.2	26.8	21.2	16.9	16.2	16.8
Memorandum items								
Real GDP (constant 2015 USD)	20,622	16,345	15,325	15,673	16,061	16,745	17,374	17,989
Nominal GDP (USD million)	19,956	14,266	14,502	17,476	20,655	21,633	22,560	23,353
Population (million)	39.1	40.0	40.6	41.5	42.6	46.3	47.9	49.1
GDP per capita (real 2015 USD)	527.8	408.6	377.7	378.1	376.6	361.5	362.4	366.1

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

CHAPTER 1.
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK IN AFGHANISTAN

RECENT GLOBAL AND REGIONAL ECONOMIC CONTEXT

The global economy shows signs of recovery, though uncertainty and trade tensions continue to cloud the outlook. The global growth outlook for 2025 has improved modestly in recent months, reversing part of the sharp downturn in projections observed following the surge in trade policy uncertainty earlier in the year. After a 0.3 percentage-point (pp) drop between April and May, consensus forecasts for global real GDP growth have been revised upward by about 0.2 pp as of September. Similar upward revisions are evident across major economies, with forecasts for China, the Euro Area, and the United States up by 0.4 pp, 0.2 pp, and 0.2 pp, respectively.

This modest global rebound is driven by stronger trade, fiscal support, and looser financial conditions. The partial recovery in the global outlook reflects stronger-than-expected trade activity in early 2025—driven in part by front-loaded shipments ahead of anticipated tariff increases—alongside smaller-than-expected tariff hikes, looser global financial conditions, and renewed fiscal stimulus in some advanced economies. Nevertheless, the modest recovery in forecasts has not restored growth expectations to pre-April levels, as persistent policy uncertainty and trade tensions continue to weigh on confidence and investment. Although the estimated effective U.S. tariff rate fell from 24 percent in April to 18 percent in August, it remains significantly above the 2.5 percent level recorded in January, underscoring the fragility of global trade prospects.

Commodity markets have softened as weaker demand and geopolitical risks reshape supply dynamics. Brent crude oil prices are projected to average around US$69 per barrel in 2025—well below the US$80 average for 2024. Oil prices plunged in April 2025 amid the escalation of trade tensions and OPEC+'s announcement to unwind production cuts, before briefly spiking in June during the conflict between Iran and Israel. Although shipping traffic through the Strait of Hormuz proved resilient, it declined by about 10 percent year-on-year in July and 8 percent in August 2025, reflecting ongoing supply-chain risks. Looking ahead, oil futures point to relative stability, with December 2027 contracts trading near US$65.8 per barrel, underpinned by robust supply growth and subdued demand.

Lower energy prices and easing supply constraints have contributed to the gradual moderation of global inflation. Energy price declines have supported a steady moderation of global inflation from its 2022 peak. The near-term inflation outlook remains mixed: higher tariffs could raise import costs, while soft demand and improved supply chains exert disinflationary pressures. In the United States (US), inflation expectations rose briefly after April tariff announcements before easing again by August, mirroring global patterns of uncertainty.

Global financial conditions have eased significantly, supporting emerging markets' resilience. Financial conditions have loosened since April, with a weakening U.S. dollar facilitating renewed capital inflows to emerging and developing economies (EMDEs). The softer dollar also supports external competitiveness and alleviates fiscal pressures for EMDEs with significant foreign-currency liabilities. This easing cycle has improved liquidity and restored limited policy space for developing economies to support growth amid lingering external headwinds.

Regional growth prospects have improved slightly but remain uneven and below pre-crisis expectations. Growth prospects in the MENAAP region have strengthened modestly alongside the global recovery but remain below earlier expectations. The regional growth rate for 2025 is projected to be about 0.6 pp higher than in 2024, though still below the January forecast. This regional average masks significant heterogeneity across subregions.

Oil-rich Gulf economies are driving the regional rebound, supported by supply adjustments and non-oil recovery. The Gulf Cooperation Council (GCC) economies—which represent over 40 percent of regional GDP—continue to underpin the regional recovery. The growth forecast for 2025 stands at 3.5 percent, 0.3 pp above April projections, supported by faster-than-expected unwinding of OPEC+ production cuts and stronger non-oil activity. While below the 4.2 percent-forecast of October 2024, this marks a substantial pick up from 2.2 percent in 2024.

In contrast, developing oil exporters face contraction due to conflict disruptions and policy tightening. Developing oil exporters (DOEs), including Iran and Iraq, are expected to record a sharp slowdown, with average growth of just 0.3 percent in 2025, 0.5 pp below April forecasts. In Iran, GDP is projected to contract by 2.3 percent on average over FY2025/26–FY2026/27 due to tighter U.S. sanctions and infrastructure damage following the June conflict. In Iraq, output is expected to shrink by 1.0 percent in 2025 as oil production is curtailed to meet OPEC+ quotas, although faster unwinding of production limits could boost growth to over 5 percent in 2026–27.

Developing oil importers (DOIs) have seen modest improvements, though climate and fiscal risks persist. DOIs, including Pakistan, have seen upward revisions to their growth outlooks. Pakistan's growth is expected at 2.7 percent in FY2024/25 and to accelerate to 3.6 percent by FY2026/27, supported by improved agricultural output, easing inflation, and recovering private demand. However, climate-related shocks, including catastrophic floods, pose major downside risks, with early estimates suggesting a 10 percent decline in Punjab's crop output.

Regional inflation has broadly stabilized, though vulnerabilities remain in some economies. Inflation across the region continues to moderate, supported by declining food and energy prices. The regional median inflation rate is expected to hover around 2.3 percent in 2025–26, broadly unchanged from 2024. Inflation has receded notably in previously high-inflation economies—such as Egypt (14.9 percent in June 2025) and Pakistan (single-digit in FY2024/25)—though supply disruptions may trigger temporary rebounds. Conversely, Iran is experiencing renewed inflationary pressures from currency depreciation and fiscal monetization.

The MENAAP region remains vulnerable to downside risks linked to trade disruptions, oil market volatility, and geopolitical tensions. A further escalation of tariffs or a sharper slowdown in global demand could weigh on both export and fiscal revenues for oil exporters, while sustaining external vulnerabilities for oil importers.

REAL SECTOR DEVELOPMENTS: RETURNEE INFLOWS BOOST OUTPUT BUT WEIGH ON PER CAPITA INCOMES

Afghanistan's economy is projected to grow by 4.3 percent in FY2025, driven by services (8.5 percent) and industry (4.5 percent). However, population growth of 8.6 percent—fueled by the large-scale return of more than two million migrants and refugees—will result in a 4.0 percent decline in GDP per capita. Across all sectors, rapid labor force expansion amid limited investment is causing capital dilution, constraining productivity and further locking the economy into a low-productivity equilibrium unless investment in physical and human capital increases significantly.

Afghanistan's economy is facing heightened vulnerability in 2025, driven by a combination of external shocks and domestic pressures. The sharp decline in foreign aid, escalating regional geopolitical tensions, and a succession of natural disasters — including drought and earthquakes—have compounded existing structural fragilities. At the same time, the country has experienced one of the largest population movements in recent years, with nearly two million Afghans returning from Iran and Pakistan during the first five months of the Afghan fiscal year (March–August 2025). Returns peaked in July, when approximately 800,000 individuals—primarily from Iran—crossed back into Afghanistan (see the Special Focus section for a detailed exposition of the profile of returnees). These developments are placing mounting pressure on domestic demand, public services, and labor markets, while amplifying fiscal and external sector risks. The full economic impact of these shocks remains unclear, but early indicators point to rising social and economic strain across both urban and rural areas.

These shocks and demographic pressures are reshaping Afghanistan's short-term growth outlook, with rapid population expansion outpacing gains in aggregate output. On an annual basis, the population is projected to grow by 8.6 percent in FY2025, with migration contributing 6.1 pp. Aggregate output, however, is expected to rise by only 4.3 percent (Figure 1, Box 1)—driven largely by consumption—resulting in a 4.0 percent decline in GDP per capita. This outcome reflects falling capital per worker and the mismatch between economic growth and population expansion, a classic case of capital dilution as described in the Solow growth model.

The services sector is expected to remain the primary driver of growth, though gains will come at the cost of declining productivity [2]. The sector is projected to expand by 8.5 percent in FY2025 as returnees increase demand for housing, retail trade, transport, health, education, and other labor-intensive activities. However, the large influx of low-skilled workers relative to limited investment is likely to depress labor

[2] Using a back-of-the-envelope approach, the nationwide internet disruption in late September 2025 is estimated to have reduced output by US$2 million per 24 hours (AFN 144 million), with a reasonable range of US$1.5–2.6 million/day depending on assumptions. For a 36–48 hour - blackout, losses are US$3–4 million (AFN 217–288 million). These figures likely understate total welfare costs because they exclude foregone public services, learning losses, and emergency-response frictions.

productivity, constraining wage growth and the quality of employment.

Agriculture, while resilient in wheat production, faces mounting risks from drought and chronic underinvestment. Overall agricultural output is projected to contract by 0.5 percent in 2025, following a strong 6 percent rebound in 2024. The winter wheat harvest finalized in June was below average due to weak precipitation and elevated temperatures, though total wheat output is estimated at 4.8–5.0 million metric tons—supported by irrigated yields and expanded access to certified seeds, irrigation pumps, and fertilizers provided by FAO[3]. Yet here too, the rapid expansion of the rural labor force amid limited capital deepening (e.g., irrigation infrastructure, mechanization) is lowering capital per worker, reducing productivity gains outside wheat.

Industry is projected to increase in 2025, supported by returning labor and mining expansion but constrained by capital dilution. The secondary sector is expected to grow by 4.5 percent, compared to 2.1 percent in FY2024. The return of migrants and refugees has boosted labor supply, stimulating activity particularly in construction and light manufacturing. Mining and quarrying are also expected to grow, with the ITA awarding 183 mining contracts [4] —including 13 major projects—to domestic and foreign companies, although many projects remain in early stages. Nevertheless, productivity in industry is expected to decline in the short run due to capital dilution, as the surge in unskilled workers outpaces growth in private investment and physical capital accumulation, limiting efficiency improvements.

Overall, Afghanistan's economy is at risk of remaining stuck in a low-productivity equilibrium in the absence of a decisive step-up in investment. While output is projected to rise in FY2025, the lack of commensurate investment in physical and human capital risks further entrenching a situation where growth is insufficient to improve living standards in per capita terms.

[3] Food and Agriculture Organization of the United Nations. (2025, July 30). *Country brief: Afghanistan*. FAO GIEWS. https://www.fao.org/giews/countrybrief/country.jsp?code=AFG&lang=es

4 Source: Amu TV. "Article on Amu TV website." Available at: https://amu.tv/125122/

Box: 1 Economic Impact of Returnees on Afghanistan in 2025

The return of refugees and migrants represents both an opportunity and a risk for Afghanistan's economy. Without adequate policy support, much of the returnee-driven demand may leak into imports rather than building productive domestic capacity. Conversely, targeted interventions in employment creation, small enterprise, and basic service provision could transform this demographic shock into a long-term growth opportunity.

This Box outlines short-term, for FY2025, economic impacts of returnees on Afghanistan economy, based on simulations using the UNHCR Post return monitoring survey report[5], the preliminary findings of the Whole of Afghanistan Assessment (WoAA), and WB macroeconomic and fiscal model (MFMod).

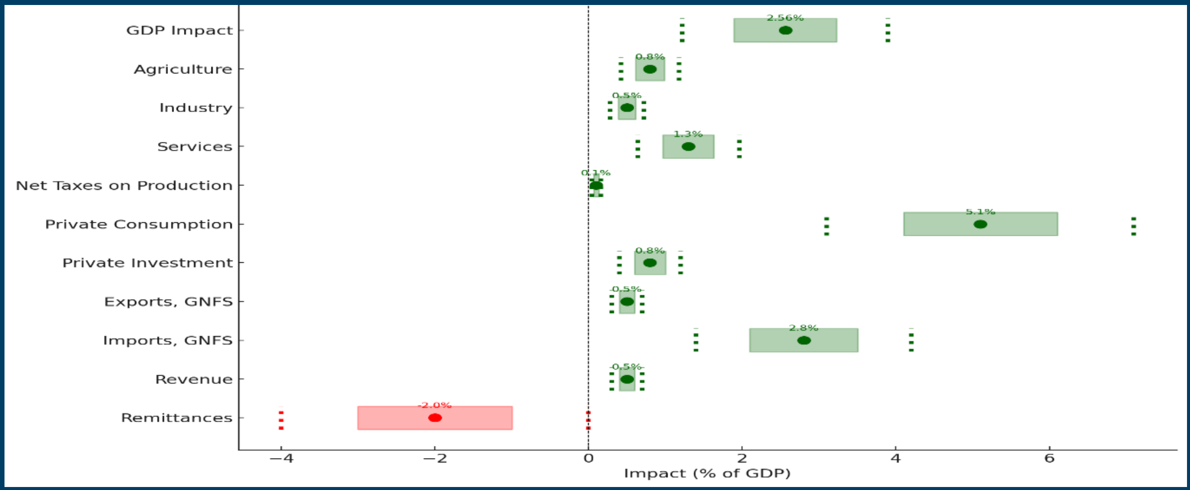
Real Sector: Supply

Returnees are providing a boost to Afghanistan's real economy, with the largest gains accruing to services. They are estimated to contribute 2.6 pp of GDP growth in FY2025 (standard deviation: 0.67 pp). Services capture the largest gains, averaging 1.3 pp (±0.33 pp), consistent with the sector's role in absorbing returnees into informal urban and peri-urban activities. Agriculture and industry benefit more modestly, at 0.8 pp and 0.5 pp, respectively, while net taxes on production add 0.1 pp with relatively low volatility. These results highlight that the returnee inflow stimulates broad-based sectoral growth, with services emerging as the primary channel.

Real Sector: Demand

The demand-side effects of returnees are most visible through a surge in private consumption, but they also exacerbate external imbalances. On the expenditure side, private consumption expands sharply—5.1 pp on average (±1.0 pp)—as returnees immediately boost household spending. Imports rise in parallel, by 2.8 pp (±0.7 pp), absorbing much of this demand and widening the trade deficit. Private investment increases moderately at 0.8 pp (±0.2 pp), suggesting that some returnees bring capital or engage in small-scale enterprise formation. Exports add a smaller contribution (0.5 pp), underscoring the asymmetric effect relative to imports. The trajectory of ITA consumption and public investment will hinge on the ITA's fiscal stance—whether it mobilizes resources for reintegration and service delivery or maintains restraint, leaving gaps in humanitarian and medium to longer-term needs.

Impact of the Mass Returnees from Iran and Pakistan on Selected Economic Indicators



Source: World Bank Staff
Note: The bold dots indicate the mean impact, the shaded box represents the ±1 standard deviation confidence interval, and the thick dotted lines denote the ±2 standard deviation confidence range.

Fiscal Effects

Fiscal impacts are modest on the revenue side but could become substantial on the expenditure side, depending on ITA's response. Revenues are projected to increase by 0.5 percent of GDP (±0.1 percent), largely through higher indirect taxation as consumption grows. Expenditure impacts remain policy-dependent: expanding health, education, and housing services would significantly increase spending pressures, while limited ITA's response would mute fiscal outlays but risk leaving reintegration needs unmet. The balance between revenue gains and spending pressures will determine whether the fiscal position strengthens or weakens.

Balance of Payments

The external sector remains the most vulnerable channel, with remittances declining sharply as returnees settle back in Afghanistan. Remittance inflows are projected to fall by about 2 percent of GDP (±1 percent) as returnees are no longer sending money from abroad. This reduction partially offsets the positive GDP and revenue effects and reinforces Afghanistan's structural reliance on external financing. Coupled with rising imports, it underscores the need for stronger export promotion and external resource mobilization to preserve balance of payments stability.

On the demand side, private consumption is the overwhelming engine of growth in FY2025. It is expected to contribute 7.0 pp to real GDP, reflecting heightened demand pressures following the return of over two million migrants and refugees. The surge has significantly boosted household spending on food, housing, and basic services. While this provides a temporary lift to activity, it is largely driven by demographic shocks and raises concerns about sustainability without corresponding productivity gains.

ITA consumption provides a modest but steady boost to growth. It is projected to contribute 1.1 pp in FY2025, primarily reflecting continued spending on wages and essential services. However, limited fiscal space constrains the ITA's ability to invest in basic services.

Investment remains the weakest component of aggregate demand, highlighting Afghanistan's structural growth constraint. Public investment is projected to add only 0.5 pp to GDP growth in FY2025, while private investment contributes just 0.3 pp. These negligible contributions underscore the lack of capital accumulation, leaving the economy ill-equipped to absorb a rapidly expanding labor force and reinforcing the challenge of capital dilution. Nevertheless, micro-level evidence points to some entrepreneurial activity among returnees: according to the Whole of Afghanistan (WoA) Survey, about 12 percent of returnees from Iran and 18 percent of those from Pakistan established their own businesses to generate income. While small in scale, these efforts suggest that inward migration may open opportunities for household-level investment even in a constrained macroeconomic environment.

Figure 1: Contribution to Real GDP Growth (%)

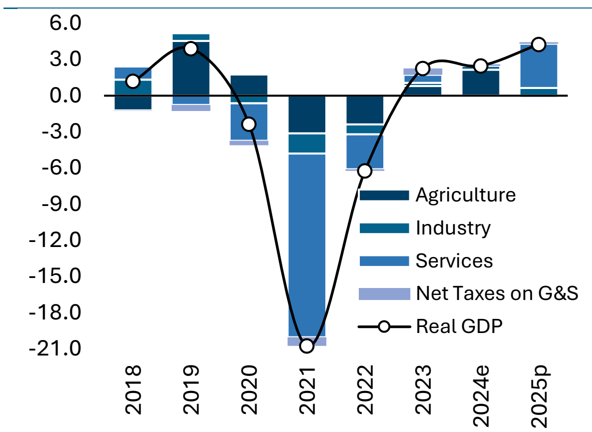
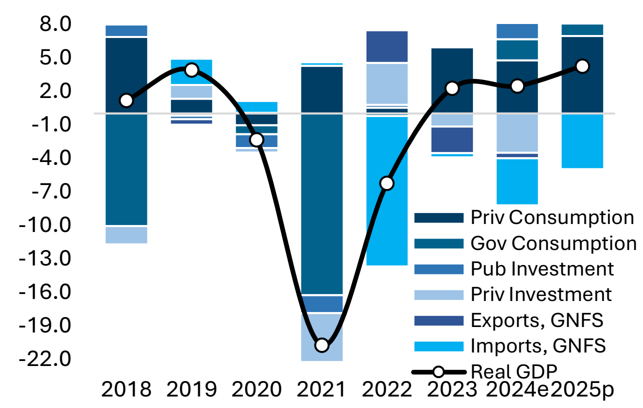


Figure 2: Contribution to Growth by demand (%)



Source: National Statistics and Information Authority (NSIA) up to 2023 and World Bank estimates for 2024 and projections for 2025.

5 UNHCR (2024). "Afghanistan Situation: Returns from Iran and Pakistan - Update as of 31 July 2025." Available at: https://data.unhcr.org/en/documents/details/115827

Box 2: Record Irrigated Wheat Harvest in 2025: Drivers and Distributional Patterns

Afghanistan is set to achieve a record irrigated wheat harvest in 2025, despite severe drought conditions. Total production is estimated at 4.9 million metric tons (MT), the highest on record. This outcome reflects a combination of large-scale farmer support programs, improved seed quality, and resilient irrigated cultivation.

Farmer support programs have been the cornerstone of this performance. Through the FAO's Emergency Food Security Project (EFSP++), supported by the World Bank, ADB, and other donors, 2.3 million smallholder farming households received wheat cultivation packages (certified seed, fertilizer, and training) during 2021–24. As a result, all assisted farmers planted certified seeds in the 2024/25 season, producing an estimated 3.5 million MT of wheat in 2025—equal to 71 percent of total domestic production, of which 42 percent is directly attributable to EFSP-supported farmers.

Non-assisted irrigated farmers also made a sizable contribution. Based on official statistics, non-assisted irrigated production is estimated at 1.36 million MT, bringing total irrigated output in 2025 to 4.83 million MT. By contrast, rainfed wheat was severely affected by drought across 19 provinces. While projections indicated a potential 706,000 MT, actual production is expected at only 85,000 MT, or about 12 percent of potential. Even with this shortfall, aggregate production remains above last year's levels.

The expansion of certified seed production has underpinned these productivity gains. In the 2024 autumn planting season, Afghanistan's 131 private seed enterprises produced nearly 51,000 MT of certified wheat seed, the highest on record. FAO and partners procured more than 105,000 MT of seed between 2022–24, with 70,500 MT distributed under EFSP, ensuring widespread access to improved inputs and strengthening local seed markets.

Provincial-level outcomes show both surpluses and deficits. Out of 34 provinces, 10 are projected to be net wheat-surplus in 2025. Helmand alone is expected to generate a net surplus of 430,000 MT, followed by Kunduz, Takhar, Farah, Nangarhar, and Kandahar. In contrast, Kabul faces a large deficit of about 915,000 MT due to its high population, with Nimruz, Balkh, Panjshir, and Uruzgan also in deficit.

The 2025 harvest marks a milestone for Afghanistan's food security, but vulnerabilities persist. While record irrigated wheat production provides a temporary buffer, the sharp decline in rainfed output underscores the risks posed by climate shocks. Sustaining gains will require maintaining seed systems, strengthening irrigation infrastructure, and addressing provincial disparities in wheat availability.

Source: World Bank and FAO.
Note: This box was prepared in collaboration with FAO colleagues, including Kaustubh Devale, Ahmad Zia Aria, Mahboobullah Nang, Sylvie Montembault, and Ashraf Alhawamdeh.

External trade continues to drag on growth. Exports of goods and services contribute a marginal 0.4 pp, while imports subtract a substantial negative 5.0 pp from GDP growth. Strong import demand from returnees and limited domestic supply capacity are contributing to the widening of the trade deficit, amplifying Afghanistan's external vulnerabilities.

Evidence from nighttime luminosity confirms the expansion of aggregate output. Satellite-based light emissions rose by 14 percent in the first quarter of FY2025 (Y-o-Y), up from about 8 percent in the same quarter of FY2024 (Figure 3). However, the geographic distribution of activity has shifted markedly since the takeover in August 2021: while the Central and Kabul regions have just returned to pre-2021 levels, the South and West now exceed that luminosity level by more than 40 percent, while the North, Northeast, Southwest, East, and West-Central regions also show substantial gains of 15–40 percent (Figure 4). The expansion of light intensity outside Kabul suggests that much of this returnee-driven activity has been geographically dispersed, in regions that historically played a smaller role in the national economy.

Figure 3: Quarterly Nighttime Lights Growth (y-o-y)

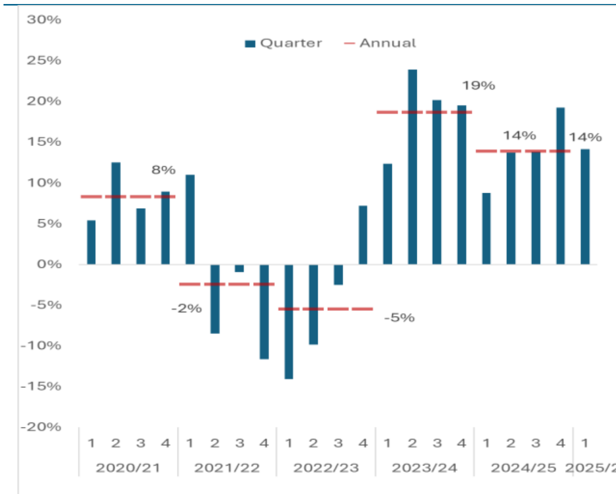
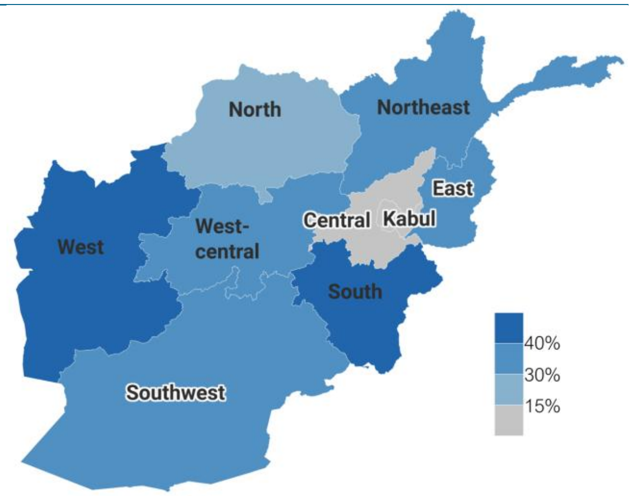


Figure 4: Regional growth in nighttime lights (y-o-y):



Source: WB Staff calculations based on VIIRS.
Notes: Regions are defined as Central (Kapisa, Logar, Maydanwardag, Panjsher, Parwan); East (Kunarha, Laghman, Nangarhar, Noristan); Kabul (Kabul), North (Balkh, Faryab, Jawzjan, Samangan, Sar-e-Pul); Northeast (Badakhshan, Baghlan, Kunduz, Takhar); South (Ghazni, Khost, Pakteka, Paktya); Southwest (Hilmand, Kandahar, Nemroz, Uruzgan, Zabul); West (Badghes, Farah, Hirat); West-central (Bamyan, Daykundi, Ghor).

Afghanistan's projected economic growth for FY2025 is broadly in line with that of South Asian and Central Asian peers. However, its exceptional population surge means that GDP per capita is set to decline, in sharp contrast to regional peers with more moderate demographic pressures—such as Pakistan, Bangladesh, Uzbekistan, and Tajikistan—where solid per capita gains are expected. This divergence underscores how Afghanistan's demographic shock is eroding welfare even in the context of positive aggregate growth.

In comparison with South Asia, Afghanistan stands out for its demographic pressures rather than its growth rate. Its projected economic growth of 4.3 percent in FY2025 is comparable to Bangladesh (4.0 percent), Nepal (4.6 percent), and Pakistan (4.8 percent)[6]. Yet, while its peers face population growth below 2 percent—or even contraction in Nepal and China—Afghanistan's population is expected to surge by 8.6 percent. As a result, its GDP per capita is projected to fall by 4 percent, while neighboring economies achieve per capita gains of between 2.8 and 4.7 percent.

Among MENA countries, Afghanistan combines stronger growth with sharper per capita losses. Aggregate GDP growth places Afghanistan ahead of fragile economies such as Iraq (-1.0 percent), Iran (-1.7 percent), Syria (1.0 percent), and Yemen (-2.5 percent). However, its population growth far exceeds the region's norm of 0.7–3.8 percent. This demographic imbalance translates into a steep per capita decline, rivaling only Yemen (-5.4 percent), and more severe than Iran (-2.4

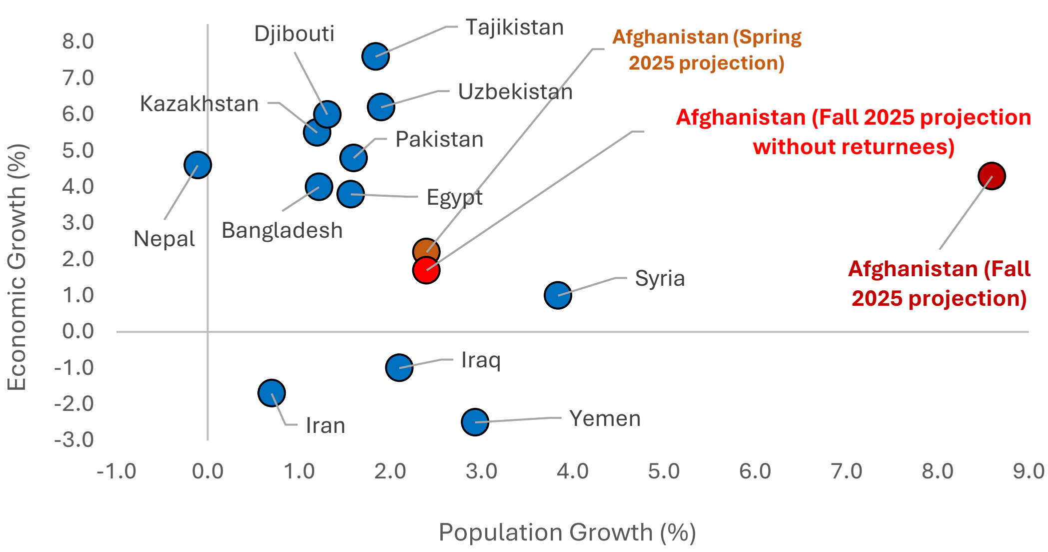
[6] World Bank (2025). Afghanistan Macro Poverty Outlook (MPO-AM25). Available at: https://thedocs.worldbank.org/en/doc/77351105a334213c64122e44c2efe523-0500072021/related/mpo-am25.pdf

percent), Syria (-2.8 percent), or Iraq (-3.1 percent).

In comparison with Central Asia, Afghanistan diverges sharply from peers that transform strong growth into rising living standards. Uzbekistan (6.2 percent growth, 1.9 percent population), Kazakhstan (5.5 percent, 1.2 percent), and Tajikistan (7.6 percent, 1.8 percent) all achieve per capita income gains of 4–6 percent, reflecting robust output alongside manageable demographic pressures. Afghanistan, by contrast, records similar GDP growth but a population expansion nearly five times higher, driven by the influx of returnees, leaving per capita incomes in decline.

Taken together, these comparisons highlight Afghanistan's extraordinary demographic pressures. The returnee-driven population surge is amplifying capital dilution, straining labor markets and public services, and undermining per capita welfare gains. Without a decisive scaling-up of investment in infrastructure, job creation, and human capital, Afghanistan risks becoming trapped in a low-productivity equilibrium where output expands but living standards continue to deteriorate relative to regional peers.

Figure 5: Real GDP growth in Afghanistan and regional peers (FY2025p)



Source: World Bank Macro-Poverty Outlook, UN Population Prospects

PRICE TREND: STABLE HEADLINE INFLATION DESPITE RETURNEE-DRIVEN PRICE PRESSURES

Despite immense demographic pressures, Afghanistan is projected to record one of the lowest inflation rates in the region in FY2025. Year-on-year inflation has edged up slightly but remains subdued compared to neighboring South Asian, Central Asian, and MENA economies, many of which are struggling with double-digit price growth.

Inflationary trends in Afghanistan remain modest, reflecting both improved import

conditions and relative exchange rate stability. Year-on-year inflation rose to 3.1 percent in August 2025, up from negative 6.7 percent in August 2024. The increase was driven by higher non-food prices (3.9 percent) and recovering domestic demand, with returnee inflows boosting demand for housing and services. At the same time, food prices increased only by 0.5 percent, supported by good wheat harvest, lower global food prices, stable imports, and a resilient afghani, which helped contain pressures on essential goods. For the full fiscal year, inflation is projected to average 2.0 percent, underpinned by continued supply of food through imports amid declining global food and energy prices.

When benchmarked against regional peers, Afghanistan's price stability stands out. Inflation in Pakistan and Nepal is projected at 4–5 percent, in Uzbekistan, Kazakhstan, and Bangladesh at around 10 percent. In MENA countries, price pressures are more severe, reaching 20.9 percent in Egypt, 33 percent in Yemen, and 49 percent in Iran. Afghanistan's comparatively low inflation provides short-term relief for households, but it points also to heavy dependence on imports. This fragile equilibrium leaves the country highly vulnerable to external shocks—such as disruptions in trade routes—that could quickly translate into renewed price volatility.

Figure 6: Headline and Core inflation (%)

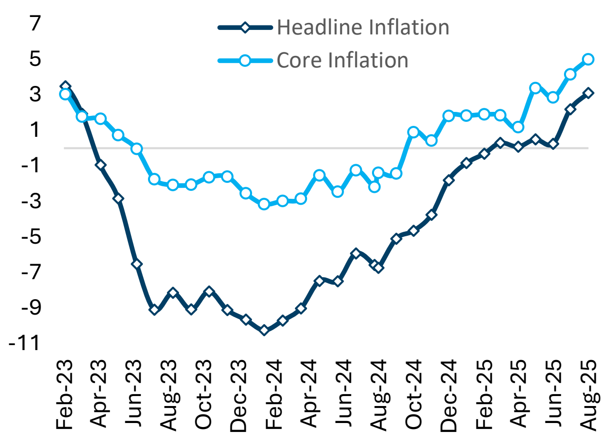
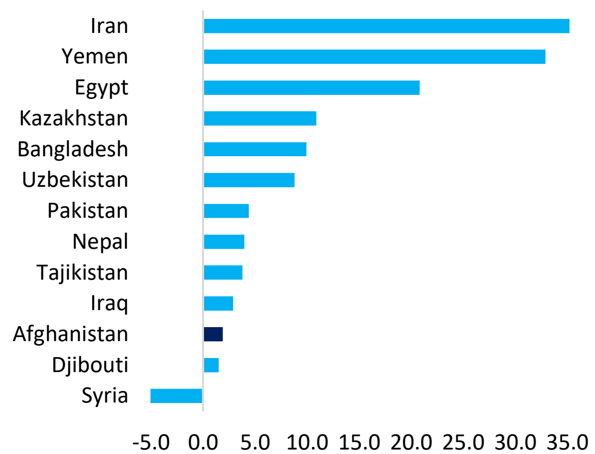


Figure 7: Inflation in Afghanistan and peers (%, 2025)



Source: National Statistics and Information Authority (NSIA) and World Bank Macro-Poverty Outlook (October 2025).

HOUSEHOLD WELFARE AND FOOD SECURITY: MODEST IMPROVEMENTS THREATENED BY RETURNEES AND DROUGHT

Afghanistan's food security outlook for 2025 reflects both fragile gains and emerging risks. National figures suggest improvement, but subnational disparities reveal that the drought and returnee inflows have compounded vulnerabilities in certain provinces.

Afghanistan is experiencing an overall easing of food insecurity, even as demographic pressures intensify. In Spring 2025, about 12.6 million people were acutely food insecure[7], an 11 percent decline from the same period in 2024. Projections for Fall 2025 suggest a further fall to 9.5 million, a 23 percent reduction year-on-year. These improvements are particularly notable given the drought in several provinces and mass influx of returnees from Iran and Pakistan, which has raised demand for food, housing, and services across many parts of the country.

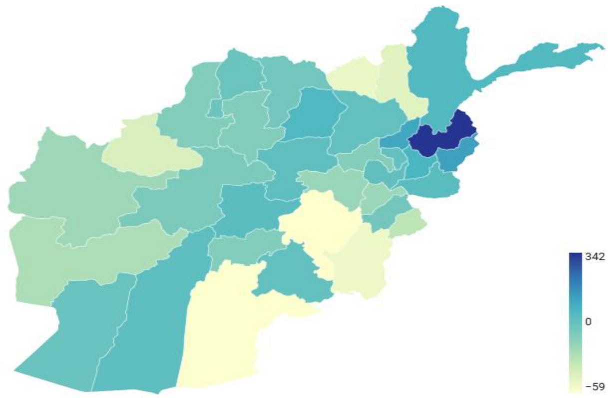
The national improvements mask widening provincial disparities, underscoring both resilience and vulnerability across Afghanistan's food security landscape. While some regions are adapting to demographic shocks and stabilizing food access, others—particularly in the east and northeast—are sliding deeper into crisis. This divergence highlights the importance of geographically targeted interventions that link returnee reintegration with food security programming, to prevent localized crises from undermining national progress.

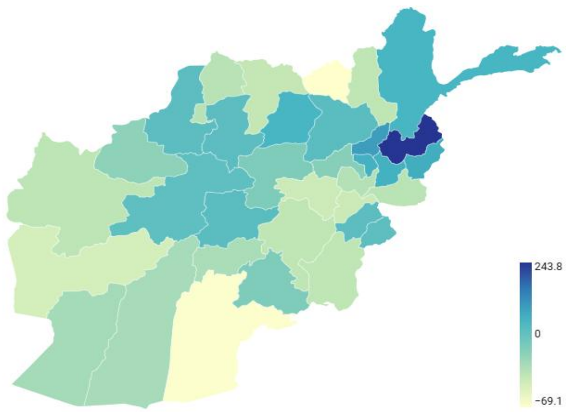
Several eastern and northeastern provinces have witnessed sharp deterioration in food insecurity, driven in part by returnee inflows and fragile local conditions. Nuristan saw a dramatic fourfold increase in acute food insecurity, while Kunar (+120 percent), Panjshir (+104 percent), and Laghman (+63 percent) also recorded major rises. Badakhshan, Samangan, Daikundi, Kabul, and Nangarhar similarly showed significant increases. These provinces overlap with key entry corridors for returnees, where sudden population pressures may have strained food markets and overwhelmed limited services.

In contrast, southern, western, and some northern provinces have recorded strong improvements despite hosting large numbers of returnees. Kandahar and Kunduz reported nearly 60 percent reductions in the spring and are projected to see declines approaching 70 percent in the Fall. Ghazni, Paktika, Takhar, Hirat, Farah, Logar, Wardak, Badghis, and Uruzgan also registered major reductions. These improvements point to the resilience of local food systems, possibly supported by good harvests, functioning trade networks, and targeted humanitarian assistance.

[7] Food deprivation that threatens lives or livelihoods, regardless of the causes, context or duration. It corresponds to the levels of acute food insecurity classified in IPC Phase 3 and above (Crisis or worse) and in urgent need of humanitarian food assistance. https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdf

Figure 8: Change in Food Insecurity in Spring 2025[8] (Actual – Y-o-Y)	Figure 9: Change in Food Insecurity in Fall 2025 (Projections – Y-o-Y)





Source: Afghanistan: Acute Food Insecurity Situation for September – April 2025 and Projection for October 2025; Integrated Food Security Phase Classification (IPC)

FISCAL DEVELOPMENTS: IMPROVEMENT IN DOMESTIC REVENUES NOT ENOUGH TO COMPENSATE FOR THE DECLINE IN AID

Afghanistan's fiscal outlook for FY2025 reflects both progress and vulnerability: while domestic tax revenue is projected to rise, the overall envelope of resources will shrink due to declining external grants, leaving the country heavily dependent on donor support and trade-related taxation. With borrowing capacity severely constrained, the ITA faces significant challenges in responding to shocks and financing long-term growth initiatives, making it increasingly reliant on improved revenue collection to maintain fiscal stability.

FISCAL REVENUES AND GRANTS

Afghanistan's overall revenue and grants are expected to decline in FY2025, reflecting reduced donor inflows. Total resources are projected to fall from 30.7 percent of GDP in 2024 to 29.1 percent in 2025. This drop is largely driven by a reduction in external aid, which are expected to fall from 14.0 percent to 11.9 percent of GDP. The downward trend underscores Afghanistan's persistent vulnerability to shifts in donor financing, which continues to underpin over 40 percent of public revenues.

Domestic revenue is projected to increase, signaling a gradual shift toward self-reliance. Collections are expected to rise from 16.7 percent of GDP in 2024 to 17.1 percent in 2025, driven by strong tax revenue growth—from 9.3 percent to 10.6 percent of GDP—while non-tax and other revenues are projected to reach about 6.6 percent of GDP. This trend reflects a gradual rebalancing of fiscal resources toward more sustainable

[8] **IPC. (2025).** *Acute Food Insecurity Situation for March – April 2025*. Integrated Food Security Phase Classification (IPC). Retrieved from https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1159622/?iso3=AFG.

taxation and away from volatile non-tax revenue streams.

Gains in tax revenue are expected across both direct and indirect categories, with trade-related taxation driving most of the increase. Direct taxes are projected to rise from 1.7 percent to 1.9 percent of GDP, with corporate income tax climbing from 0.4 to 0.6 percent and personal income tax from 0.7 to 0.8 percent. Indirect taxes will play a larger role: taxes on goods and services are set to rise from 2.8 to 3.0 percent of GDP, while international trade taxes are expected to increase sharply from 3.6 to 4.4 percent, driven by strong imports fueled by mass returnees. Customs and import duties (3.3 to 3.8 percent) and export taxes (0.2 to 0.4 percent) account for most of this improvement, highlighting the critical importance of border collections for fiscal performance.

Non-tax revenue is projected to contract in FY2025, signaling the limits of this source as a sustainable contributor to fiscal resources. Non-tax revenue is expected to fall by 0.6 pp to 6.6 percent of GDP in FY2025. These revenues, typically derived from state-owned enterprises, administrative fees, natural resource rents, and various service charges, are often volatile and less predictable than tax receipts. The decline highlights the structural challenge of relying on non-tax revenue, which is vulnerable to fluctuations in state-owned enterprise performance, governance constraints, and limited diversification of the Afghan economy. Strengthening transparency and efficiency in this area could help stabilize collections, but long-term fiscal consolidation will depend more heavily on expanding the formal tax base, unless a breakthrough in the mining sector significantly boosts revenue.

Despite some progress in domestic revenue mobilization, external grants remain the cornerstone of Afghanistan's public finances. Even with the projected decline, grants are expected to account for nearly 12 percent of GDP in 2025, equivalent to more than 40 percent of total resources. This dependence exposes the fiscal framework to heightened risks of volatility should donor support continue to contract and underscores the urgent need to consolidate and diversify domestic revenue sources. Since the ITA's takeover, donors have recalibrated their assistance strategies, discontinuing most development projects and technical support while providing humanitarian aid and funding for basic services. Although humanitarian needs remain substantial, they have eased moderately, while basic human needs programs face longer implementation timelines. However, restrictive policies affecting women and girls have constrained external assistance.

So far, the ITA has recorded a strong revenue performance and remains on track to meet its annual target for FY2025. Domestic revenues reached AFN 130.2 billion (about US$1.9 billion or 8.5 percent of GDP) in the first half of the fiscal year, a 16.7 percent year-on-year increase compared to AFN 111.5 billion during the same period in FY2024. Growth has been broad-based across both tax and non-tax categories, although "other revenues" declined slightly, underscoring the continued marginal role of this source.

Domestic taxes registered robust gains. Collections rose to AFN 51.7 billion in the first half of FY2025, up 19.2 percent from AFN 43.4 billion in the same period of FY2024. This improvement reflects stronger enforcement of compliance measures, particularly in corporate and income tax collection, as well as increased domestic business activity. Part of this upturn may be linked to the influx of returnees, which has boosted labor force participation and small-scale enterprise activity, broadening the taxable base.

Taxes on international trade also strengthened. Receipts increased by 20.2

percent, from AFN 28.7 billion in the first half of FY2024 to AFN 34.5 billion in the same period of FY2025. Growth was driven by higher import volumes, particularly food, fuel, and consumer goods, as strong domestic demand coincided with the return of more than two million Afghans in early 2025. While this has buoyed collections in the short term, it highlights the extent to which trade taxes are tied to consumption and migration-related shocks.

Non-tax revenues posted moderate growth. At AFN 43.8 billion in the first half of FY2025, non-tax receipts rose 12.2 percent compared to AFN 39 billion in FY2024. Key drivers included mining royalties, administrative charges, and fees collected by ITA entities. However, growth in this category was more subdued than in tax revenues, reflecting the limited scale of extractive and non-fiscal revenue streams to date.

Other revenues declined but remain marginal. Collections fell from AFN 0.4 billion in FY2024 to AFN 0.3 billion in FY2025. Given the small base, however, this drop has minimal impact on aggregate revenue performance.

Overall, Afghanistan's revenue performance has been strong in the first half of the fiscal year, supported by both improved tax collection and surging import demand linked to mass return migration. Yet the revenue structure remains heavily reliant on trade taxes and consumption trends, leaving the fiscal position vulnerable to external shocks, border disruptions, and shifts in import demand. Sustaining fiscal gains will require broadening the domestic tax base, enhancing compliance, and diversifying non-tax sources—particularly in mining and state-owned enterprise sectors—so that revenue mobilization becomes more resilient as aid and remittance inflows continue to decline.

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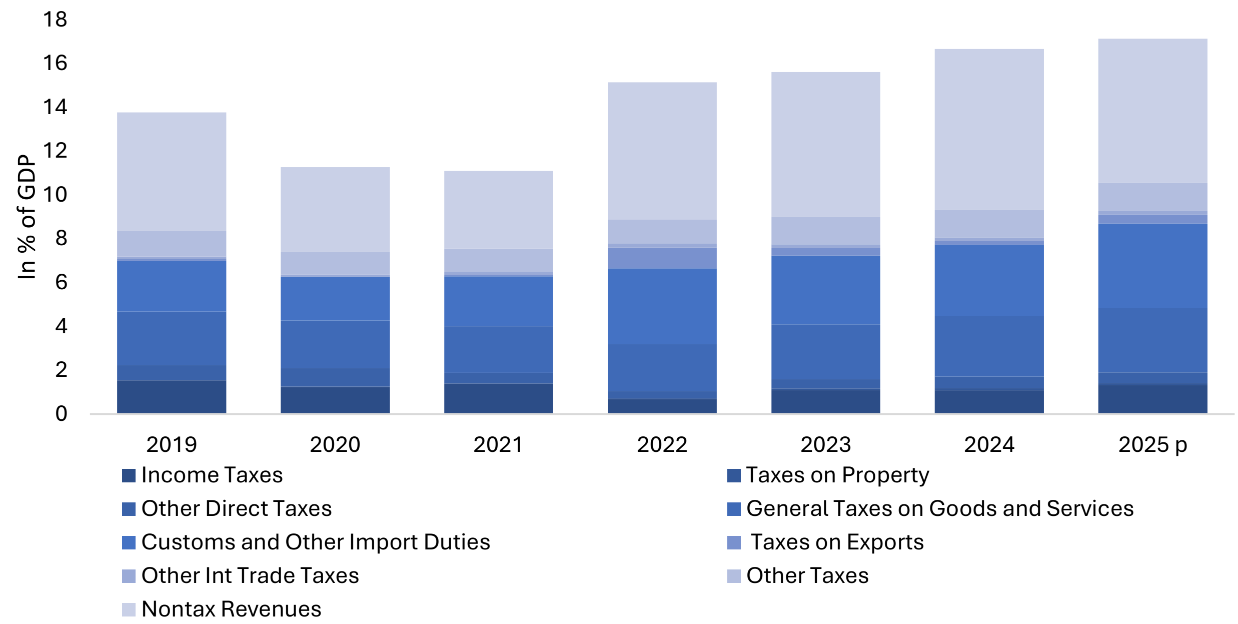
Figure 10: Domestic Revenue by Component (Percent of GDP)



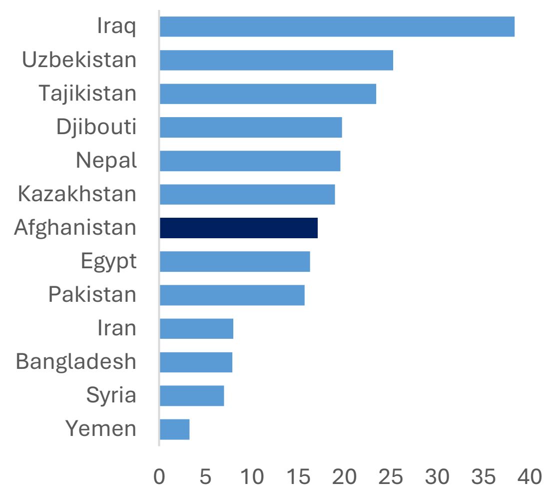
Source: Ministry of Finance, UN, and World Bank estimates for 2024 and projections for 2025.
Note: The Afghan fiscal calendar month, Hamal, runs from March 22–April 21.

Afghanistan's domestic revenue performance places it above several fragile and regional peers but still below global benchmarks. With domestic revenues (tax and nontax) projected at 17.1 percent of GDP in 2025, Afghanistan outperforms countries such as Yemen (3.3 percent), Syria (7.0 percent), Bangladesh (7.9 percent), and Iran (8.0 percent), all of which mobilize less than 10 percent of GDP. It also collects a higher share of GDP than Pakistan (15.7 percent) and Egypt (16.3 percent), signaling comparatively stronger fiscal effort despite its fragile political and economic environment. This performance reflects improvements in customs collections, enforcement at borders, and a relatively disciplined approach to tax administration under difficult conditions.

At the same time, Afghanistan continues to lag stronger revenue performers in Central Asia and the broader region. Countries such as Kazakhstan (19.0 percent) and Nepal (19.6 percent) are already mobilizing close to 20 percent of GDP, while Tajikistan (23.4 percent) and Uzbekistan (25.3 percent) achieve even higher ratios. Iraq stands out with 38.4 percent of GDP, largely due to hydrocarbon revenues. These comparisons highlight Afghanistan's dual position: stronger than most fragile states but still falling short of the fiscal capacity needed to finance sustained investment and service delivery.

Bridging this gap will require comprehensive reforms that not only broaden the tax base and strengthen compliance but also expand underutilized revenue sources such as direct taxes. Efforts to reduce overreliance on trade-related taxation should be complemented by measures to enhance personal and corporate income tax collection, introduce more effective property taxation, and formalize segments of the economy currently outside the tax net. Building administrative capacity, improving taxpayer services, and leveraging digital tools for registration and enforcement will be essential to raise revenue in a way that is both sustainable and equitable.

Figure 11: Domestic Revenue (Percent of GDP)



Source: World Bank Macro-Poverty Outlook (October 2025).

FISCAL EXPENDITURES:

Afghanistan's fiscal expenditure profile for 2025 highlights the rigidity of recurrent spending. While the introduction of social assistance is a notable shift in spending priorities, overall capital outlays remain minimal, limiting the state's capacity to invest in growth-enhancing infrastructure and services.

Total public spending is projected to moderate in FY2025, reflecting tighter external financing and a sustained commitment to fiscal discipline. Expenditures are expected to decline from 31.1 percent of GDP in 2024 to 29.1 percent in 2025, driven mainly by reduced externally financed, off-budget spending as the ITA maintains its balanced on-budget stance.

Core recurrent spending is projected to remain broadly stable, with only marginal shifts across categories. Current expenditures are estimated at 15.4 percent of GDP in 2024 and are projected to edge up slightly to 15.5 percent in 2025. Wages and compensation, the single largest spending item, are expected to remain flat at 10.1 percent of GDP, underscoring the heavy weight of the public wage bill despite the announced hiring controls and efforts to reduce the size of the public sector. Spending on goods and services is projected to rise modestly from 4.0 to 4.2 percent of GDP, partly to respond to large influx of returnees and to provide relief to victims of the recent earthquakes in Kunar, Nangarhar, and Laghman provinces.

Within transfers, pensions are declining, but social assistance is emerging as a new spending line. Current transfers are expected to decline marginally from 0.9 percent to 0.8 percent of GDP. Pension expenditures are projected to contract to 0.2 percent of GDP, while a new allocation for social assistance equivalent to 0.6 percent of GDP is introduced, including to support Afghan returnees and those affected by the earthquake. Subsidies to businesses, recorded at 0.1 percent in 2024, are projected to disappear by 2025, and other current transfers remain negligible.

Capital spending is expected to rise slightly in FY2025 from a very low level. Capital expenditures are projected to increase marginally from 1.6 percent of GDP in 2024 to 1.7 percent in 2025. Despite this small uptick, capital spending remains significantly constrained and far below pre-2021 levels, reflecting limited fiscal space and the heavy concentration of expenditures on recurrent obligations.

Externally financed, exclusively off-budget expenditures remain critical for sustaining service delivery, even as they continue to decline. These donor-funded flows—largely directed toward humanitarian and basic needs projects—are projected to fall from 14.0 percent of GDP in 2024 to 11.9 percent in 2025. This contraction poses a significant risk to the continuity of essential programs, particularly those delivered through the UN. Given the ITA's limited fiscal capacity, the reduction in off-budget support cannot be fully offset domestically. As a result, vital sectors such as healthcare, education, and social protection, which have long depended on international aid, face the prospect of severe disruptions. The impact will be felt most acutely by marginalized groups, including women, children, and displaced populations. At the same time, shrinking aid flows could weaken Afghanistan's ability to respond to emergencies, placing additional strain on public services and undermining the pace of economic recovery.

Box 3: Socio-Economic Impact of the August 2025 Earthquake[9]

A major earthquake struck eastern Afghanistan on August 31, 2025, causing widespread destruction and loss of life. The magnitude 6.0 earthquake affected between 500,000 and 1.3 million people and resulted in nearly 2,000 fatalities—the highest death toll from an earthquake in Afghanistan since 1998. The disaster occurred in a context localized insecurity and limited institutional capacity for disaster risk management.

Rapid damage assessment reveals significant economic losses across key sectors. Using the Global Rapid Post-Disaster Damage Estimation (GRADE) methodology, direct economic damage is estimated at US$183 million, equivalent to 0.8 percent of GDP. Residential buildings accounted for 35 percent of the damage, followed by non-residential buildings (25 percent), infrastructure (18 percent), and agriculture (22 percent). The provinces of Kunarha and Nangarhar were the most severely affected, representing 97 percent of total damage.

Estimated damage by sector and by administrative division (in US$ million).

Province	Residential Damage (US$ mn)	Non-Residential Damage (US$ mn)	Infrastructure Damage (US$ mn)	Agriculture Damage (US$ mn)	Total Damage (US$ mn)
Kunarha	46.8	36.3	25.7	25.9	134.7
Nangarhar	14.5	8.6	6.2	13.4	42.6
Laghman	2.3	0.4	0.8	0.8	4.3
Noristan	0.5	0.3	0.1	0.2	1.1
Total	64.1	45.5	32.7	40.3	182.7

Source: Global Rapid Post-Disaster Damage Estimation (GRADE) Report (Upcoming)

The earthquake disrupted essential services and exposed structural vulnerabilities. Damage to health and education facilities, water supply systems, and agricultural assets—including grain storage and livestock shelters—has disrupted essential services and livelihoods. Vulnerable construction typologies (e.g., mud and stone masonry) exacerbated the destruction.

Pre-existing socio-economic fragilities are likely to slow recovery. A Socio-Economic Vulnerability Index (SoVI) highlights uneven vulnerability across affected areas, with poor healthcare, gender disparities, and weak WASH systems compounding the earthquake's impact.

Recovery needs will exceed direct damage and require targeted, context-sensitive strategies. Reconstruction efforts must address humanitarian needs, fragility, and socio-economic disruptions, with careful attention to conflict dynamics and gender considerations.

Source: World Bank. (2025). Global Rapid Post-Disaster Damage Estimation (GRADE) report – Eastern Afghanistan Earthquake August 31, 2025 (data as of September 23, 2025). Washington, D.C.: The World Bank. https://documents1.worldbank.org/curated/en/099102325085586385/pdf/P513643-1aca7a6c-d164-4a9d-82d3-05b6d14269be.pdf

The execution of the 2025 budget remains broadly on track with the ITA projections. In the first half of FY2025, Afghanistan's fiscal expenditure totaled AFN 119 billion (7.8 percent of GDP), increasing by only 1.3 percent from AFN 117.8 billion in the same period of FY2024. However, the composition of spending shifted: wages and salaries declined, while allocations to goods and services, social benefits, and asset acquisition all increased, reflecting humanitarian and basic human needs' pressures from mass return migration.

Wages and salaries remained dominant but fell in relative terms. In the first six months of FY2025, wage spending totaled AFN 76.7 billion (64.5 percent of total spending), down from AFN 82.4 billion (69.9 percent) in the same period of FY2024. While still the largest component of expenditure, this decline reflects tighter fiscal space and a shift toward

9 https://www.worldbank.org/en/news/press-release/2025/10/24/damage-from-earthquake-in-afghanistan-estimated-at-183-million

more diversified spending, especially to accommodate rising social needs.

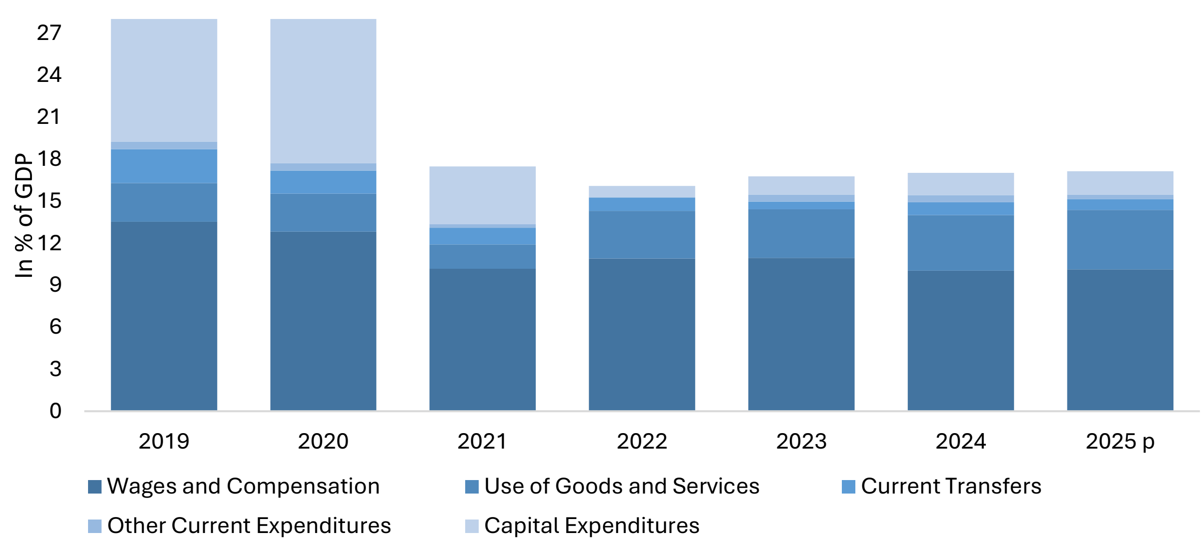
Operational spending on goods and services increased moderately. Allocations rose to AFN 24 billion in the first half of FY2025, compared to AFN 22.3 billion in FY2024. This rise likely reflects higher procurement costs, expanded administrative demands, and pressures on service delivery linked to returnee inflows. As a result, the category's share of spending increased by one pp to 20 percent, underscoring continued prioritization of operational costs.

Social benefits and grants rose sharply in response to humanitarian pressures. Spending climbed to AFN 11.2 billion in the first half of FY2025, up from AFN 8.2 billion in FY2024, an increase of more than one-third. This expansion reflects the budget's growing role in financing social transfers and supporting vulnerable populations amid the return of more than two million Afghans in early 2025 and the earthquake that affected an estimated 500,000 to 1.3 million people (Box 3).

Capital spending increased significantly, but from a low base. Asset acquisition reached AFN 7.3 billion in the first half of FY2025, compared to AFN 4.6 billion in the same period of FY2024. While this increase is encouraging, capital expenditure remains just 6 percent of total spending, highlighting the limited fiscal room available for growth-enhancing investment.

Overall, the comparison of the first half months of FY2024 and FY2025 highlights a shift in Afghanistan's fiscal structure. Although total spending increased slightly, the budget has become more responsive to shocks and humanitarian needs, with greater allocations to social benefits and modest increases in capital investment. At the same time, wages and security-related spending remain dominant, crowding out space for basic human needs spending. Going forward, Afghanistan's fiscal stance will need to balance urgent short-term social demands with the need for longer-term investment to strengthen resilience and productivity.

Figure 12: Fiscal Expenditure by Component (Percent of GDP)[10]



Source: Ministry of Finance for data up to 2024 and World Bank projections for 2025.

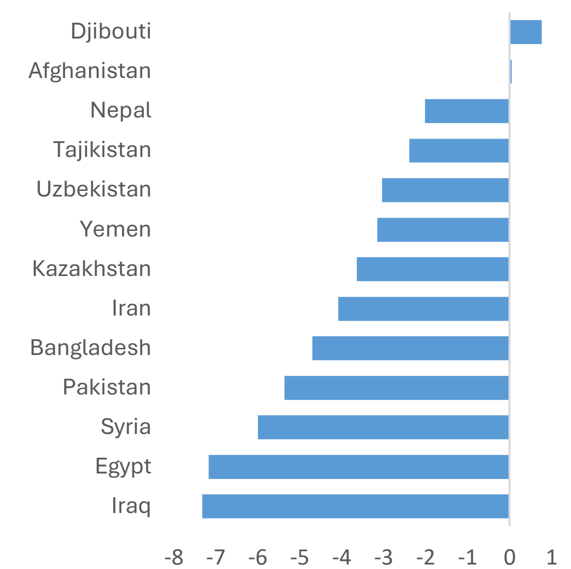
[10] Fiscal expenditure includes both ITA expenditure and donors' funded projects, classified as other expenditure.

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

Afghanistan stands out in the region for maintaining a balanced fiscal position, in sharp contrast to widespread deficits elsewhere. In 2025, its fiscal balance is projected at 0.0 percent of GDP, second only to Djibouti's small surplus of 0.8 percent. This outcome reflects the ITA's strict adherence to a "cash-based, no-deficit" budget execution framework, where expenditures are tightly aligned with available revenues. While this approach prevents domestic debt accumulation and supported short-term stability, it has also constrained social and basic human needs spending, given Afghanistan's narrow revenue base and declining donor support. Unlike its regional peers, Afghanistan lacks access to international capital markets and has a very limited domestic market for borrowing, leaving little scope to use debt financing as a buffer against fiscal shocks.

Most regional peers continue to run sizable fiscal deficits. Pakistan (-5.4 percent), Bangladesh (-4.7 percent), Iran (-4.1 percent), and Kazakhstan (-3.6 percent) all face persistent deficits in the range of 3–5 percent of GDP. More severe imbalances are observed in Syria (-6.0 percent), Egypt (-7.2 percent), and Iraq (-7.3 percent). Even relatively better performers such as Nepal (-2.0 percent), Tajikistan (-2.4 percent), Uzbekistan (-3.0 percent), and Yemen (-3.1 percent) continue to operate below balance. Compared with these economies, Afghanistan's balanced budget is exceptional, but the result is driven more by expenditure compression than by strong domestic resource mobilization, limiting fiscal space for public investment and service delivery.

Figure 13: Fiscal Deficit (Percent of GDP)



Source: World Bank Macro-Poverty Outlook (October 2025).

EXTERNAL SECTOR: VULNERABILITIES DEEPEN AMID MASS RETURNEE INFLOWS.

Afghanistan's balance of payments outlook signals mounting vulnerabilities in 2025. The combination of a widening trade deficit, rising import demand from returnees, shrinking remittances, and reduced aid inflows is pushing the current account deficit toward one-third of GDP. Without a decisive strategy to diversify exports and attract stable external financing, Afghanistan risks intensifying external imbalances that could compromise the currency stability and undermine broader macroeconomic stability.

Afghanistan's current account deficit is widening sharply, underscoring growing external fragility. The deficit is projected to increase from 24.6 percent of GDP in 2024 to 31.9 percent in 2025, driven by a worsening trade balance and weakening income inflows. This trend highlights the country's heavy reliance on external financing to sustain imports in the context of declining aid and limited domestic production capacity.

The trade balance remains the principal source of external pressure. The deficit is projected to widen from 45.8 percent of GDP in 2024 to 48.8 percent in 2025, driven by stagnant exports and rising imports. Exports of goods and services remain stuck at around 11 percent of GDP, with merchandise exports flat at 10 percent and service exports minimal at 0.9 percent—despite a temporary uptick in overflight fees following the diversion of commercial flights around Iranian airspace during its conflict with Israel in June. Imports, by contrast, are projected to increase to 59.7 percent of GDP, with merchandise imports climbing to 53.5 percent and service imports rising to 6.2 percent. The surge in import demand is being fueled by the return of two million Afghans, while weak productive capacity continues to constrain export performance.

Declining remittances and external transfers are further undermining the balance of payments. Primary and secondary income inflows are projected to fall from 21.2 percent of GDP in 2024 to 16.9 percent in 2025, driven largely by a drop in remittances from 15.5 to 12.9 percent of GDP. The reduction reflects mass return migration from Iran and Pakistan, which has decreased the number of Afghans sending money back home. Other transfers also decline from 5.8 to 4.1 percent of GDP, reflecting weaker external support, while outflows remain negligible. These developments underscore Afghanistan's vulnerability to external financing shocks at a time of falling humanitarian aid.

Afghanistan's external sector remains among the weakest globally.. These imbalances are far larger than in most regional peers, reflecting structural dependence on imports, weak exports, declining aid, and falling remittances due to mass return migration.

Afghanistan's trade deficit, at 48.8 percent of GDP, far exceeds those of neighboring countries, trailing only Yemen (–69.7 percent) in severity. By comparison, Tajikistan (–33.6 percent), Syria (–30.2 percent), and Nepal (–25.3 percent) maintain large but relatively smaller deficits, while Pakistan (–7.2 percent) and Bangladesh (–5.4 percent) operate at much lower levels of external imbalance. Commodity exporters such as Iraq (–1.5 percent) and Kazakhstan (+4.8 percent) fare far better, while Djibouti posts a surplus of +11.7 percent, reflecting its re-export hub role. Afghanistan's persistent trade imbalance highlights its overreliance on imports for food, fuel, and consumer goods, with exports unable to provide meaningful offset.

The current account deficit, at 31.9 percent of GDP, further underscores Afghanistan's structural vulnerabilities. Afghanistan's external gap is one of the deepest among its peers, larger than Yemen (–25.7 percent) and far worse than countries such as Uzbekistan (–4.9 percent) or Egypt (–4.4 percent). By contrast, several regional comparators maintain near-balance or surpluses: Pakistan (+0.5 percent), Nepal (+6.7 percent), Tajikistan (+3.8 percent), and Djibouti (+12.7 percent). These countries benefit from diversified exports, strong remittance inflows, or favorable external financing. Afghanistan, in contrast, faces falling remittances as large numbers of Afghans return from Iran and Pakistan, while declining aid inflows have reduced external buffers.

Demographic pressures and declining inflows are amplifying external imbalances. The return of two million Afghans in 2025 has sharply boosted demand for imported goods—particularly food, fuel, and consumer items—while simultaneously reducing remittance inflows from host countries. Combined with shrinking humanitarian aid, these developments have deepened trade and current account deficits, leaving the country more dependent on volatile humanitarian inflows to maintain external stability.

Taken together, Afghanistan's external sector indicators highlight extreme fragility. With one of the world's largest trade and current account deficits, declining remittances, and aid dependency, the country's external position is unsustainable without continued aid. Unlike regional peers that have either diversified exports, leveraged remittance surpluses, or built re-export hubs, Afghanistan remains stuck in a cycle of import dependence and external financing gaps. Unless export competitiveness improves and regional integration expands, Afghanistan's external vulnerabilities will persist, heightening exposure to shocks and reinforcing dependence on aid.

Figure 14: Monthly Merchandize Trade Deficit ($Million)

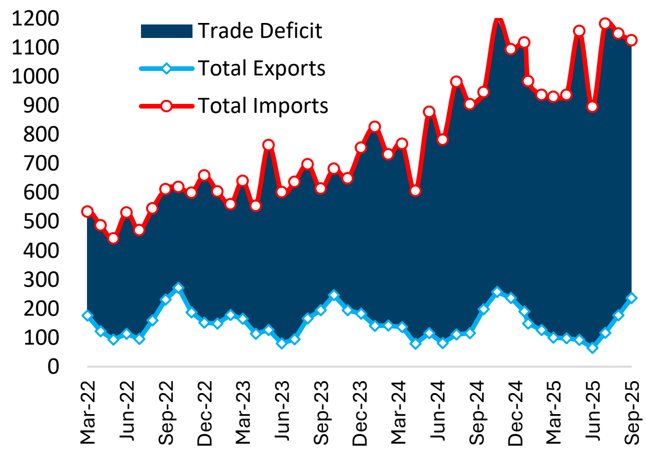
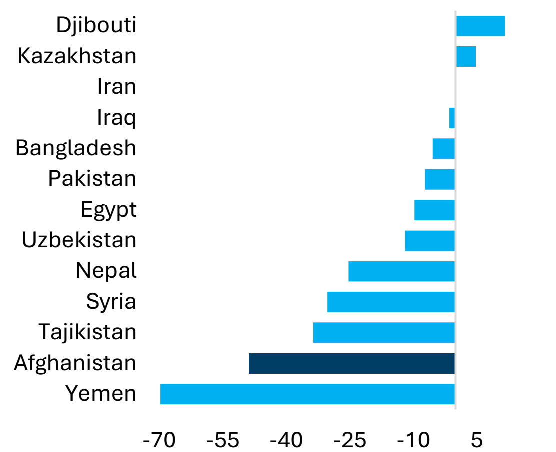


Figure 15: Trade Balance by country (% of GDP)



Source: WB Staff calculations based on Automated System for Customs Data (ASYCUDA) and World Bank Macro-Poverty Outlook (October 2025).

Exports:

Afghanistan's export performance strengthened in the first half of FY2025, reversing the softness observed last year. Total exports reached USD 885 million in the first six months of FY2025, up from USD 699 million over the same period in FY2024—an increase of 26.6 percent. Growth was driven primarily by food-related exports, which expanded by 42 percent, supported by favorable harvest outcomes and strong demand in regional markets. Coal exports also rose by 29 percent, reflecting continued cross-border trade with Pakistan. In contrast, textiles declined by 29 percent, and other manufactured exports fell by 12 percent, indicating ongoing weakness in non-agricultural export capacity and limited diversification into higher value-added sectors.

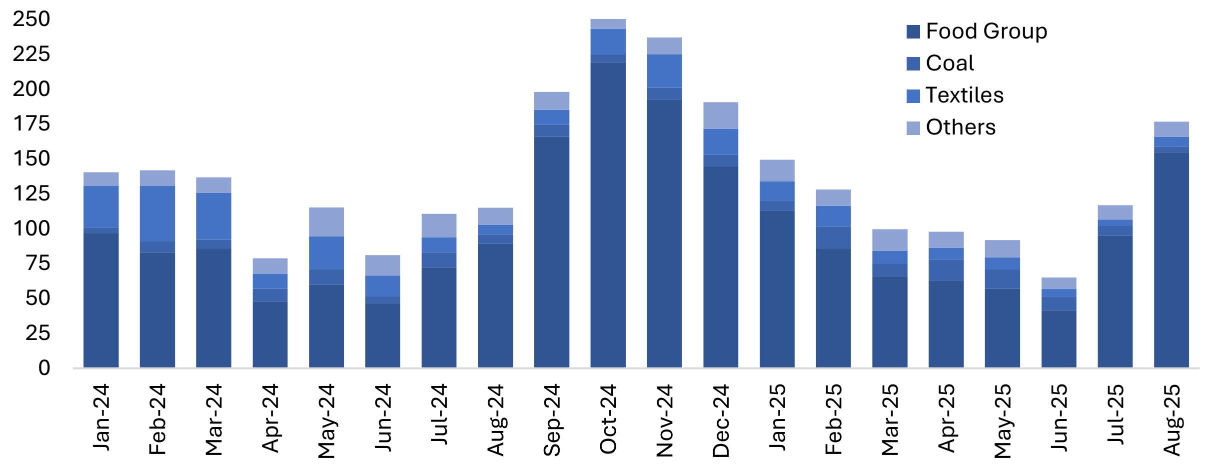
Despite the recovery in aggregate exports, Afghanistan's export structure remains narrowly concentrated. Food and coal together account for the majority of export earnings, underscoring the economy's reliance on primary commodities with limited processing. While strong agricultural performance supported growth in early FY2025, this composition heightens exposure to seasonal and climate variability, as well as logistics and pricing volatility along key trade routes. The contraction in textiles points to persistent constraints in industrial inputs, finance, and production capacity, limiting the role of light manufacturing in export diversification.

Export destinations also remain highly concentrated, though some rebalancing has occurred among major markets. Pakistan and India together absorbed approximately 75 percent of exports in the first half of FY2025. Pakistan's share declined from 45.2 to 40.6 percent, while India's increased from 30.7 to 34.3 percent, reflecting a shift in market demand and shipping dynamics. Shares to the UAE and Kazakhstan remained broadly stable, whereas Türkiye's share nearly doubled from a small base. By contrast, the share of exports routed through Iran fell sharply—from 3.5 to 1.7 percent—consistent with mid-year transit disruptions along the Iran corridor. While the share of "other markets" increased from 6.5 to 8.1 percent, the scale remains insufficient to meaningfully reduce destination concentration risks.

Looking ahead, sustaining export growth will require expanding value-addition and strengthening alternative trade corridors. The headline improvement in exports masks structural vulnerabilities linked to product concentration and reliance on a limited number of regional transit routes. Strengthening resilience will require investment in agro-processing and storage, targeted support to light manufacturing, and improved regional trade facilitation, particularly to diversify away from a small set of corridors and trading partners. Without such measures, Afghanistan's export performance is likely to remain volatile and highly sensitive to external shocks, limiting its contribution to overall growth and external stability.

Looking ahead, sustaining export growth will require structural reforms and market diversification. Despite the headline increase, the export base remains narrow and vulnerable to both regional political dynamics and changes in agricultural output. Strengthening resilience will require expanding value-addition in agriculture, supporting small and medium agro-processing, and developing alternative trade routes to reduce dependence on a small number of corridors and buyers.

Figure 16: Merchandize Exports Trend ($million)



Source: Automated System for Customs Data (ASYCUDA)

Imports:

Afghanistan's imports rose sharply in the first half of FY2025, driven by strong domestic demand and higher prices. Total imports reached USD 7.4 billion in the first six months of the year, which is about 45 percent higher than the same period in FY2024. The biggest increases came from food imports, mineral products, textiles, and machinery and equipment, reflecting continued reliance on imported goods for both consumption and production. Imports of transport-related goods, including vehicles and spare parts, also grew strongly, supporting trade and logistics activity. The only major category that did not grow was chemicals, which remained broadly unchanged.

The large rise in food and fuel imports highlights Afghanistan's dependence on essential goods from abroad. Food imports increased by 46 percent, as domestic supply remained insufficient to meet household needs, especially with the large influx of returnees from Iran and Pakistan. Mineral products, including fuel, rose by a similar margin. This dependence means that even small changes in regional trade conditions, border policies, or global commodity prices can affect the availability and cost of basic goods inside the country.

Higher imports of machinery, vehicles, and industrial inputs suggest some recovery in market activity. Imports of machinery, equipment, and plastic/rubber products grew by over 50 percent, while imports of transport-related goods increased by 44 percent. These items are typically linked to business activity, construction, logistics, and small-scale manufacturing. Their growth indicates that parts of the private sector are still active, despite tight financial conditions and limited access to formal credit.

However, the growth in imports also increases pressure on Afghanistan's external balance. Because Afghanistan imports far more goods than it exports, a sharp rise in imports can widen the trade deficit, increasing reliance on cash inflows, remittances, or external support to maintain stability in the market. This leaves the economy vulnerable to external shocks, especially those affecting cross-border trade with Pakistan and Iran or global price movements.

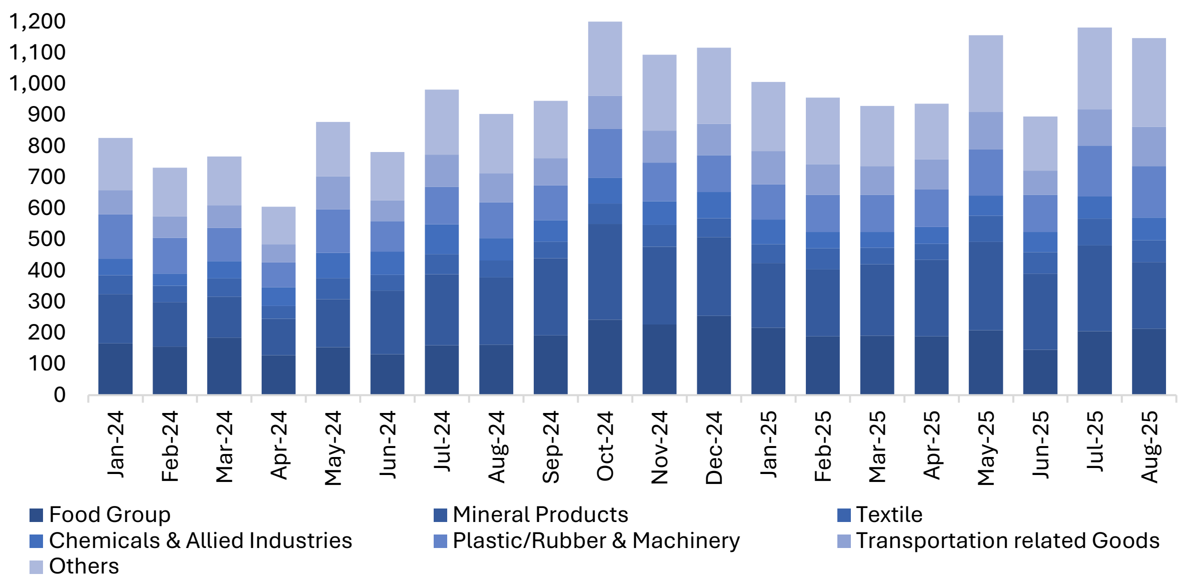
Going forward, reducing import dependence will require strengthening domestic production. Encouraging investment in agriculture, food processing, small industries, and renewable and small-scale energy can gradually reduce the need for imported goods. However, such changes take time. In the near term, maintaining stable trade corridors, predictable border arrangements, and smooth customs processes will be critical to avoid shortages and price spikes.

Afghanistan continues to rely on a small number of neighboring countries for most of its imports. Iran remains the largest source of imports, accounting for around 29 percent of total imports in the first half of FY2025, mainly due to its role as the primary route for fuel and basic goods. The United Arab Emirates is the second-largest supplier with 19 percent, reflecting its role as a regional re-export and trading hub. Imports from Pakistan made up 13 percent, slightly lower than last year, while imports from China stayed stable at around 8 percent.

There has been a gradual shift toward more diversified sourcing, but the change remains modest. Imports from Uzbekistan and the Russian Federation increased slightly, and the share of imports categorized under "other countries" rose from 3 percent to 11 percent, suggesting that traders are exploring new suppliers and routes. However, the dominant role of a few neighboring economies and regional transit corridors continues to shape Afghanistan's trade patterns.

This concentration means the availability and price of imported goods depend heavily on regional political and border conditions. Any disruptions in trade with Iran, Pakistan, or the UAE can quickly affect fuel supply, food availability, and transportation costs inside Afghanistan. Maintaining stable and predictable cross-border trade arrangements will therefore remain critical for market stability.

Figure 17: Merchandize Imports Trend (US$ million)



Source: Automated System for Customs Data (ASYCUDA)

Exchange rate:

The Afghani remained stable and modestly appreciated in early FY2025 despite high import demand and a widening trade deficit linked to the returnee influx. A stronger nominal effective exchange rate (NEER) and lower real effective exchange rate (REER) improved external purchasing power and price competitiveness, although sustaining these gains will require stable foreign exchange (FX) inflows and continued control of domestic inflation.

The Afghani remained broadly stable and slightly appreciated in early FY2025. During the first six months of FY2025 (April–September 2025), the average market exchange rate strengthened modestly, appreciating by roughly 2–3 percent YoY. The AFN moved from about 71–72 AFN/USD in the same period of FY2024 to around 68–71 AFN/USD in FY2025. This stability occurred despite a widening trade deficit and elevated import demand associated with the large influx of returnees, which increased domestic consumption needs. The currency's resilience reflects continued foreign exchange inflows—supported by humanitarian disbursements, remittance inflows, and strong supervision of FX markets—as well as continued central bank interventions to manage liquidity.

External purchasing power increased as major regional currencies weakened. The NEER rose by around 3 percent year-on-year during the first five months of FY2025 (April–August 2025). This was primarily driven by depreciation of several key trading partner currencies, particularly in Pakistan and Iran, which reduced the relative cost of Afghanistan's imports. As a result, Afghanistan's external purchasing power improved even as import volumes rose to meet higher domestic demand.

Price competitiveness improved as domestic inflation remained subdued. The REER declined by about 3 percent YoY over the same period, reflecting lower domestic inflation compared to trading partners. This improved Afghanistan's price competitiveness in tradable sectors, including agriculture and light manufacturing. However, the decline in the REER narrowed toward August 2025, as seasonal food price increases and supply pressures began to lift domestic prices. Sustaining competitiveness will depend on maintaining stable supply chains and avoiding renewed border disruptions.

Figure 18: Nominal and Real Effective Exchange Rate – Index (July 2021 = 100)

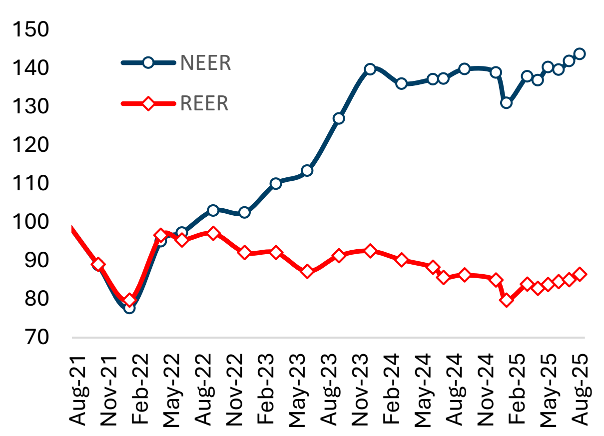
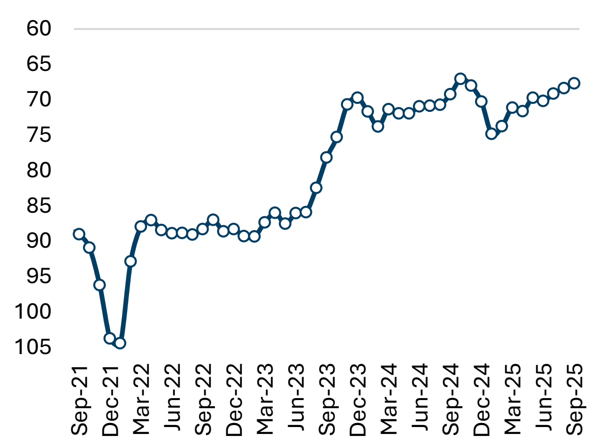


Figure 19: Average Monthly AFN/$Exchange Rate



Source: Da Bank of Afghanistan (DAB) and World Bank Staff calculations.

MONETARY POLICY AND FINANCIAL SECTOR: CASH DOMINANCE DEEPENS AS FINANCIAL INTERMEDIATION WEAKENS

Afghanistan's monetary conditions in 2025 are being shaped by both stronger foreign currency holdings and a surge in cash liquidity driven by returnees. Broad money growth has resumed, supported by an accumulation of foreign assets and heightened cash demand, but financial intermediation remains shallow. The mass return of Afghans from Iran and Pakistan has amplified these trends, reinforcing reliance on informal channels and cash-based transactions.

Liquidity and Monetary Sector Developments

Broad money (M2) growth in 2025 has been fueled primarily by higher cash demand associated with mass returnees. M2 rose to AFN 575 billion in June 2025 (8.2 percent Y-o-Y), while narrow money (M1) grew by 9.5 percent, led by an 11.3 percent increase in currency in circulation. Returnee households, reliant on cash to meet immediate needs, have accelerated the shift toward a cash-based economy. As a result, liquidity growth is concentrated outside the banking system, raising the cash-to-GDP ratio and eroding financial intermediation.

Despite rising liquidity, Afghanistan's domestic credit conditions remain highly constrained. Net domestic assets fell further into negative territory (negative AFN 302 billion in June 2025, versus negative AFN 245 billion in June 2024), reflecting large ITA's deposits at the Afghanistan Central Bank (DAB). Private credit is stagnant at AFN 31 billion (1.8 percent of GDP), underscoring the inability of the banking sector to channel liquidity into productive lending. Instead, informal finance through hawala networks continues to dominate.

Afghanistan's external position improved in early 2025, with reserves rising significantly compared to a year earlier. Net foreign assets reached AFN 846 billion in March 2025 and AFN 882 billion in June 2025, about 13 percent higher than the same months of 2024. Gross reserves, which include the frozen assets, increased to AFN 802 billion, providing a very modest buffer against external shocks. However, reserve accumulation remains dependent on cash shipments while the return of migrants could weaken remittance inflows and add uncertainty to the outlook.

Afghanistan's liquidity expansion in 2025 reflects both financial and demographic shocks. While reserve accumulation has contributed to the currency's stability, the mass return of Afghans has driven broad money growth in cash form, bypassing the formal banking system. Without reforms to channel this liquidity into deposits and credit, Afghanistan risks entrenching a low-intermediation, cash-driven equilibrium that sustains consumption but undermines investment and long-term growth.

Figure 20: Change in Broad Money (M2), Narrow Money and Currency in Circulation (%, Y-o-Y)

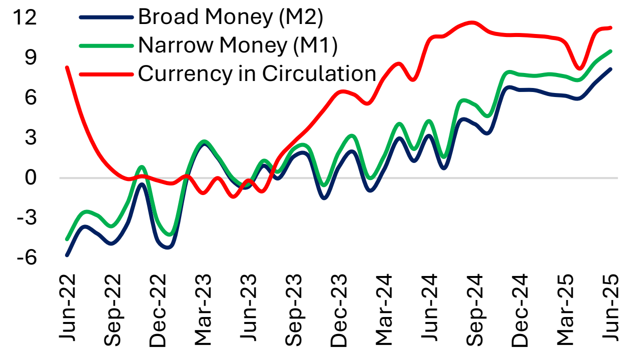
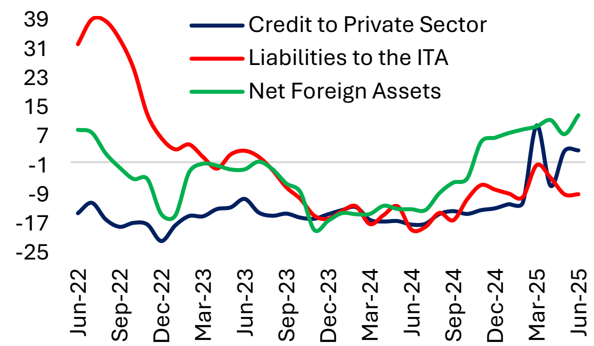


Figure 21: Change in Net Foreign Assets, Credit to Private Sector and Liabilities to the ITA (%, Y-o-Y)



Source: Da Bank of Afghanistan (DAB) and World Bank staff estimates.

Banking Sector Indicators

The banking sector continues to show headline resilience, with a reported CAR of 35 percent as of June 2025, but underlying vulnerabilities remain significant. The gradual phase-out of regulatory forbearance has begun to expose hidden fragilities: banks have resumed provisioning for post-2021 loans, reducing capital ratios and sharply depressing profitability, with return on assets (ROA) dropping by over 90 percent between March and June 2025. Given very limited new lending, current provisioning captures only a fraction of potential losses, and capital buffers are likely to weaken further once legacy non-performing loans (NPLs) are fully recognized. These risks are compounded by the absence of an effective credit recovery framework and delays in resolving issues related to the treatment of interest-bearing legacy [11] loans under the Islamic finance regime.

Confidence in the banking sector shows tentative improvement, with aggregate rising deposits and account numbers between June 2024 and June 2025[12]. Broad liquidity also expanded by 4.5 percent, largely driven by local currency deposits, reflecting the gradual integration of newly issued Afghan banknotes. Despite these gains, the deposit base remains well below pre-2021 levels and continues to fluctuate with seasonal pressures. The sector appears to have settled at a lower equilibrium, shaped by depleted household savings. Strengthening access for recent returnees, many of whom lack official IDs needed to open bank accounts, will be essential to broaden financial inclusion and sustain deposit growth.

Bank assets grew by 9 percent year-on-year as of June 2025, largely reflecting higher cash holdings rather than increased intermediation. Commercia banks' lending activity continues to contract, with gross loans declining by 8.8 percent[13], underscoring

[11] According to DAB, the issue of interest-bearing legacy loans has been addressed in letters from various IEA institutions (including the Supreme Court), stating that the issuance of interest-bearing loans must cease.
[12] According to DAB, total deposits increased by 8 percent as of June 2025 compared to June 2024, while the number of accounts grew by approximately 400,000.
[13] Overall credit to the private sector increased by 3.2 percent in June 2025 (Y-o-Y) because of a one-time loan extended by the central Bank.

the severe constraints on financial intermediation under the Islamic finance framework. Interest income fell by 19 percent, while non-interest income rose by 16 percent, driven mainly by fees and commissions from payment and cash distribution linked to humanitarian operations. Banks have significantly reduced costs, with expenses declining by 21.5 percent year-on-year, partly due to greater reliance on digital solutions for last-mile payments.

International Payments, Financial Connectivity, Digital Payments Infrastructure

Afghanistan's international payments capacity remains severely constrained. Formal banking channels account for only a fraction of cross-border flows, with hawala networks dominating an estimated 60–90 percent of transactions. Since 2021, over US$5 billion in humanitarian aid has entered the country through UN cash shipments, while formal banking channels process an estimated US$2.3 billion annually—three-quarters of which are denominated in U.S. dollars. Correspondent banking relationships (CBRs) remain limited, with more than half of Afghan CBR accounts inactive and no direct access to U.S.-based accounts. Instead, Afghanistan relies on a single U.S. dollar clearing pathway via Citibank, intermediated through Crown Agents Bank and Afghanistan International Bank (AIB), creating a single point of failure that could disrupt formal flows and further entrench reliance on hawala.

Hawala networks remain widely used due to their speed, reliability, and affordability, but they operate largely outside the regulatory perimeter, posing risks related to money laundering, terrorist financing, and consumer protection. DAB has taken steps to formalize this sector, including new regulations for foreign exchange dealers and money service providers introduced in 2024, though meaningful integration remains a long-term challenge. Meanwhile, Afghanistan's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework faces major strains. Lack of recognition, weakened institutions, and limited international engagement have hindered effective implementation. While DAB, Afghanistan's Financial Intelligence Unit (FinTRACA), and law enforcement agencies remain the designated authorities, technical support is minimal, and the effectiveness of AML/CFT enforcement is difficult to assess.

Access to the formal financial system is gradually expanding, though progress remains uneven across delivery channels. The branch network has continued to grow, with the number of operational bank branches rising by 12 percent year-on-year to reach 464 as of June 2025. ATM coverage has recovered strongly, increasing by 29 percent to 331 machines—up from fewer than 100 in 2022—reflecting efforts to restore basic banking infrastructure after years of contraction. The national switch, the Afghanistan Payment System (APS), is now operational, managing the AfPay domestic card scheme and supporting ATM withdrawals. However, interoperability[14] across banks has yet to be fully restored, in part due to concerns over counterparty risk and liquidity management.

Digital channels show a mixed picture. Mobile money services, licensed as Electronic Money Institutions (EMIs), remain functional and continue to play a critical role in facilitating large-scale humanitarian disbursements. Nevertheless, their reach is still limited, with few offerings beyond cash distribution, leaving gaps in broader retail financial services. Meanwhile, point-of-sale (POS) machine coverage contracted by 12

[14] According to DAB, all licensed banks are now connected to the APS and are fully interoperable.

percent over the past year, underscoring the challenges of sustaining investment in merchant payment infrastructure amid weak demand, limited connectivity, and security concerns. Together, these trends highlight both the resilience and the fragility of Afghanistan's payment landscape—progress is visible in rebuilding access, but significant barriers remain to achieving broader financial inclusion and digital adoption.

Islamic Finance and Microfinance Sector Developments

The transition to Islamic finance is fundamentally reshaping the structure and operations of Afghanistan's banking sector. Da Afghanistan Bank (DAB) has approved three Islamic products—Murabaha, Musharakah, and Wakala—which are now offered through two fully Islamic banks and six banks with Islamic windows. While these instruments provide a basic foundation for Sharia-compliant banking, product diversity remains limited, constraining the sector's ability to meet the financing needs of households and firms. The gradual rollout of Islamic banking is critical for maintaining financial sector functionality following the prohibition of interest-based lending, but the lack of long-term instruments such as Sukuk or leasing products restricts the scope of financial intermediation. Moreover, capacity gaps in Sharia governance, risk management, and staff training pose challenges for banks seeking to scale Islamic finance operations. For customers, the transition has created greater clarity on product compliance but has yet to fully restore trust in the banking system, which remains fragile after years of instability. Going forward, expanding the range of Islamic products, strengthening regulatory oversight, and building market awareness will be key to ensuring that the transition supports financial inclusion and contributes to broader economic recovery.

The microfinance sector has become an increasingly important channel for credit and financial inclusion in Afghanistan. Despite challenges—nine in ten Afghan adults remain excluded from the formal financial system due to low trust and limited access points, and women's account ownership has fallen from 7 percent in 2017 to 5 percent in 2021—microfinance continues to provide critical access. In 2020, microfinance loans accounted for 17 percent of total formal credit, with women making up 45 percent of borrowers. As of June 2025, the sector served 48,055 borrowers (43 percent women), far exceeding the 19,074 active borrowers of commercial banks. Recognizing its importance, DAB introduced new regulations in late 2024 to formalize the sector and encourage growth. Since then, five new microfinance institutions have been licensed, joining the two existing providers (Oxus and Mujtahid), thereby broadening outreach and strengthening the regulatory framework.

OUTLOOK AND MEDIUM-TERM PROSPECTS: TRANSITION TO A LOWER EQUILIBRIUM PATH

Afghanistan's economy is projected to expand modestly by 3.8 percent in FY2026 and 3.5 percent in FY2027, driven mainly by private consumption and services. However, rapid population growth, stagnant investment, and declining aid and remittance inflows will constrain per capita income gains, leaving poverty entrenched and vulnerabilities high.

Afghanistan's growth potential is undermined by weak structural foundations. The key drivers of long-term growth—investment in infrastructure, education and skills, and productivity—remain underdeveloped. Without significant reforms to improve the business climate and attract private capital, growth is likely to track population increases, delivering little improvement in living standards.

The economy remains fragile, showing only modest recovery after earlier shocks. The steep decline in foreign aid since the ITA takeover has weakened fiscal stability, while modest trade and agricultural recovery provide limited relief. Persistent unemployment, low household incomes, and the large influx of returnees from Iran and Pakistan continue to strain labor markets and public services, while the banking sector remains constrained by liquidity shortages, international restrictions, and the transition to Islamic finance.

Medium-term projections point to modest but fragile growth, driven largely by consumption. Afghanistan's economy is expected to grow by 3.8 percent in FY2026 and 3.5 percent in FY2027, with private consumption projected to expand by 5.0 and 4.0 percent, respectively, reflecting demand pressures from returnees and urban households. Government consumption will also remain strong, growing around 8 percent annually. By contrast, gross fixed investment will remain subdued, with modest contribution from private investment, highlighting persistent barriers to capital accumulation and weak investor confidence.

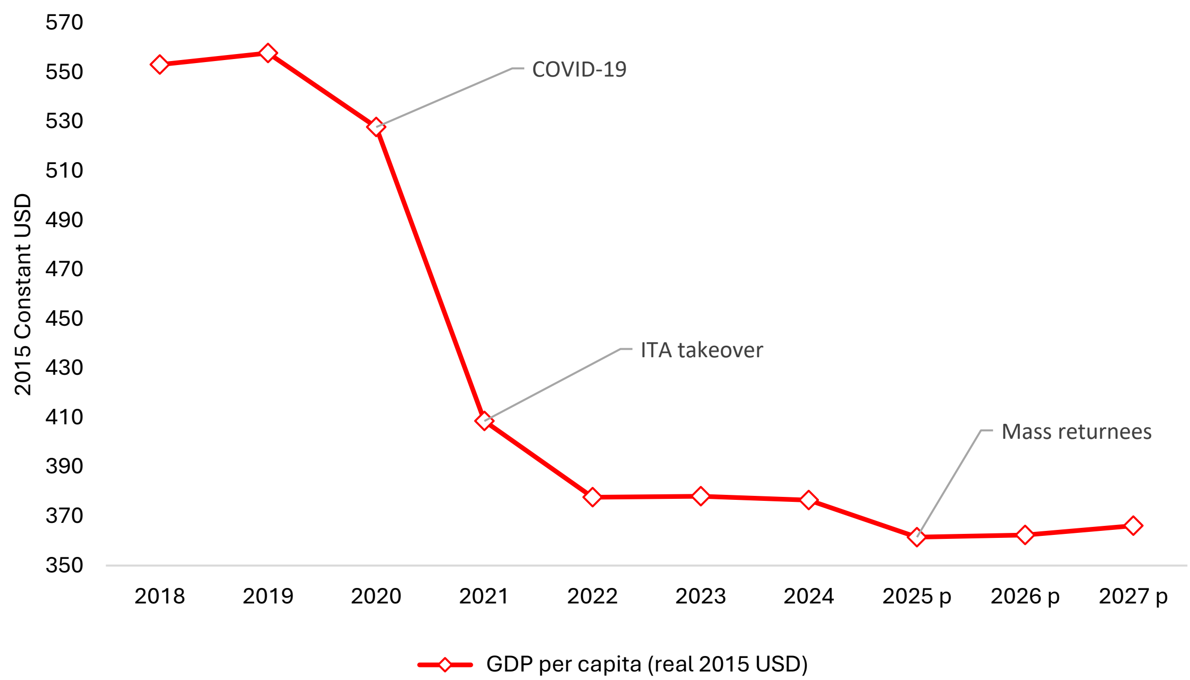
The services sector will remain the dominant contributor to growth, while agriculture and industry provide limited support. Services are projected to expand by 4.5 percent in FY2026 and 4.2 percent in FY2027, contributing about two percentage points to annual GDP growth. Agriculture is expected to grow by 3.2 percent annually, but climate risks will continue to weigh on performance. Industry is projected to expand more slowly, at 3.0 percent in FY2026 and 2.5 percent in FY2027, constrained by energy shortages, weak infrastructure, and low private sector investment.

External and fiscal accounts will remain under pressure, reflecting persistent imbalances. The current account deficit is projected to remain close to 34 percent of GDP in both 2026 and 2027, as import demand outpaces export growth amid declining aid and remittances. On the fiscal side, the ITA is expected to maintain a balanced budget, but fiscal space will remain constrained by limited borrowing options and continued exclusion from international financial markets.

Risks to the outlook are firmly tilted to the downside. Uncertainty surrounding refugee policies in Pakistan and Iran—particularly Pakistan's non-renewal of Proof of Residency (PoR) for hundreds of thousands of Afghan refugees—could trigger new inflows of returnees, further straining services and jobs. Climate and natural disaster shocks, including droughts, floods, and earthquakes pose recurrent threats to agricultural output and food security. A further decline in humanitarian aid could weaken domestic demand, deepen fiscal stress, and place additional strain on the external sector.

In sum, Afghanistan's medium-term outlook points to fragile and consumption-led growth that is unlikely to translate into significant welfare gains. With rapid population growth eroding per capita income, poverty will remain widespread. Unless structural reforms are implemented to strengthen governance, enable private sector development, diversify exports, and attract foreign investment, Afghanistan risks remaining stuck in a cycle of low growth, high vulnerability, and continued dependence on humanitarian assistance.

Figure 22: Real GDP per capita (Constant 2015 US$)

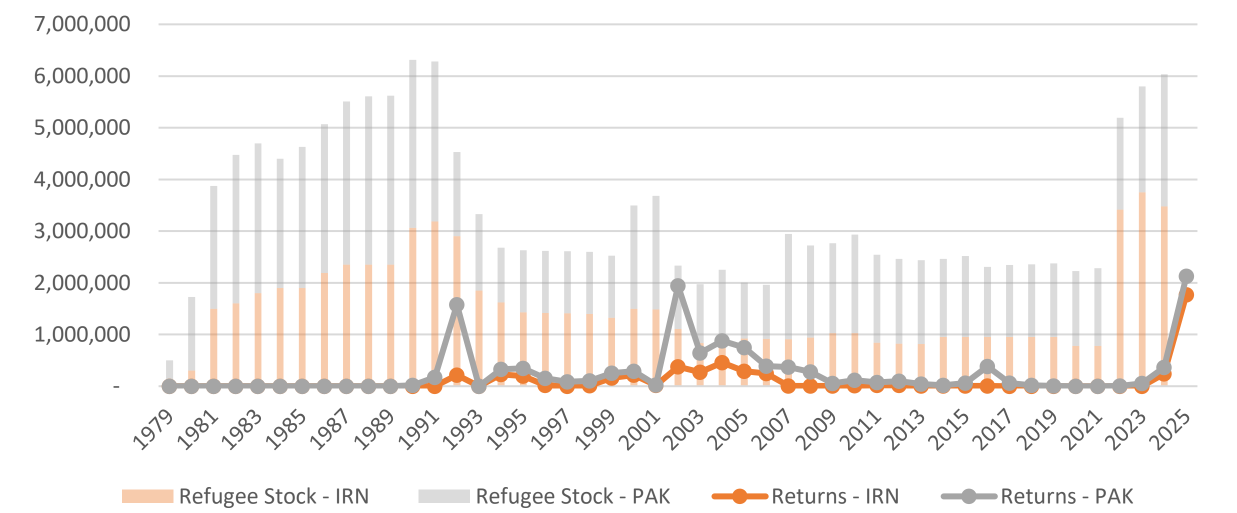


Source: World Bank Staff

CHAPTER 2.
SUSTAINING RETURNS: CHALLENGES AND OPPORTUNITIES

Historically, Afghanistan has grappled with large scale returns several times, yet their sustainability has remained so far elusive. Afghanistan has a long history of cross border movements, with recurring cycles of exile and returns sparked by conflict, disasters, economic changes, and shifting policies in Iran and Pakistan (Figure 23, Box 4). The recurrent nature of displacements and returns highlights the challenge of sustainably reintegrating returnees across the nexus. This challenge, while particularly acute, is not unique to Afghanistan. In nine of the ten largest refugee repatriation contexts since 1991, the cumulative number of returnees exceeds the peak refugee population by an average of 30 percent. For Afghanistan, the corresponding figure is 40 percent. In some cases, including in Afghanistan, large-scale returns have also been followed by an increase in social tensions or even by renewed fighting. [15] While conflict dynamics in Afghanistan are complex, past evidence indicates that returns concentrated in time and space, by challenging absorption capacity and heightening competition over scarce resources, might trigger or reinforce any pre-existing causes of conflict, especially in a weak institutional context (**Error! Reference source not found.**).[16]

Figure 23: Total Afghan refugees and returnees, by year and country of residence



Source: Authors calculations based on UNHCR data

Notes: Increase in the number of Afghan refugees in 2007 (Pakistan) and 2022 (Iran) were primarily due to registration efforts (see **Error! Reference source not found.**)

[15] World Bank (2018)

[16] In 2007, Afghan districts that had received the largest influx of returnees relative to the local population were more likely to suffer from higher insecurity (World Bank, UNHCR (2017))

Box 4: Afghanistan displacement crisis, facts and figures

The 1979 Soviet invasion marked the onset of Afghanistan's displacement crisis, one of the largest and most prolonged in modern history. By 1990, an estimated three million Afghans had fled westward to Iran and 3.3 million to Pakistan in the east. While some refugees returned in the early 1990s, a new exodus shortly ensued triggered by Afghanistan's civil war, the rise of the Taliban and a devastating drought that affected the country between 1999 and 2001. The initial years of the Republic coincided with a new and larger wave of returns. Between 2002 and 2005, as many as 4.8 million refugees repatriated with UNHCR assistance, while many more returns likely occurred outside of official statistics. With uptick in conflict within Afghanistan, voluntary returns subsided and, in the 2010s, outward movement resumed, driven by a combination of conflict and economic drivers.

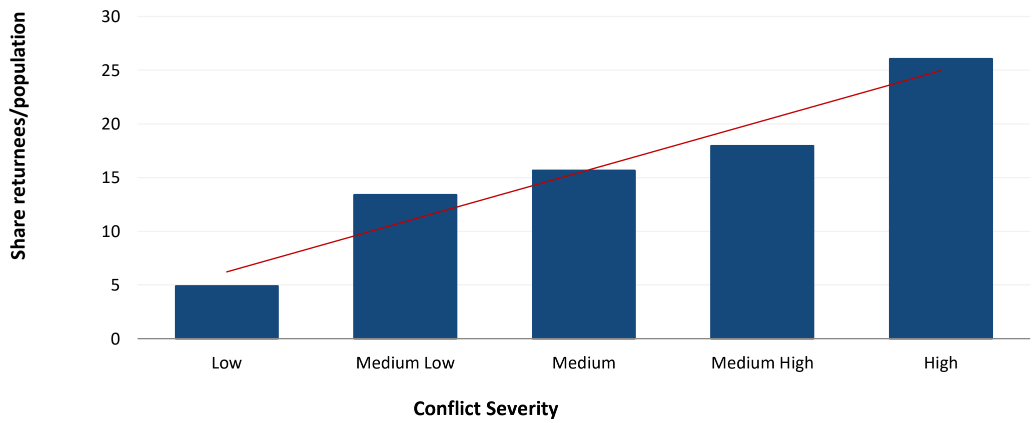
The exact quantification of the presence of undocumented Afghans in Iran and Pakistan is difficult, primarily due to the lack of credible population statistics in Afghanistan, gaps in the availability of population census data in Iran and Pakistan, and the inherent difficulty in appropriately accounting for permanent and temporary cross-border population movements. Afghanistan has not had a Population Census since a partial count exercise conducted in 1979, and the range of current population figures ranges from the 35 million reported by the National Statistics and Information Authority (NSIA), the 43 million reported in 2024 World Population Prospects (UNDESA) and the 48 million reported by OCHA. In Iran, the last Population Census conducted in 2016 indicates the presence of 1.6 million Afghans, close to three times as many as registered refugees (Amayesh card-holders). UNHCR statistics, based on Iranian government's data, indicated the presence of 0.5 million undocumented Afghans as of end December 2022, while based on same sources the count of undocumented as of August 2025, despite recent returns, would be as high as 1.4 million. On the Pakistan's side, the first and only "Census of Afghans living in Pakistan" conducted in 2005 identified a total population of 3,049,268 individuals, close to three times as many as the recorded refugee's presence at the time. In February 2017, with the adoption of the Comprehensive Policy on the Repatriation and Management of Afghans, the Government of Pakistan mandated for the first time the registration of undocumented Afghans. Afghans registered under this scheme receive Afghan Citizen Cards (ACC), providing them legal protection from arbitrary arrest, detention or deportation, and allowing them to stay in Pakistan until they can be issued documents, such as passports, by the Government of Afghanistan at the time. When the application process closed in February 2018, a total of 878,604 ACC applications had been received. As of March 2024, UNHCR statistics reported the presence of 1.35 million Proof of Registration (PoR) card holders, 803,200 Afghanistan Citizenship Card (ACC) holders and a similarly sized additional presence of undocumented Afghans. The overall count of Afghan nationals in the latest 2023 Population Census was of 1.66 million, considerably below administrative records possibly due to concerns in self-reporting of nationality.

T**he use of refugees' administrative records for analytical purposes presents its own set of challenges,** due to discontinuities not necessarily related to "new" waves of displacement (outflows or inflows), but rather to registration and periodic verification efforts as well as policy changes in host countries and/or changes in countries of origin's situation. Noteworthy examples of such discontinuities include the biometric registration of Afghan refugees and issuance of PoR cards conducted in Pakistan by the National Database and Registration Authority (NADRA) with UNHCR support in 2007 and, more recently, the recount of the previously "head-counted" Afghan population in refugee-like situation conducted by the Government of the Islamic Republic of Iran in 2022. This headcount extended to all undocumented Afghans residing in the country, including those who had arrived in the aftermath of the Taliban takeover in August 2021. It is reported that 2.6 million Afghans enrolled in this headcount exercise, receiving the estimates of post-takeover arrival are in the range of 0.5 to 1 million (UNHCR, reporting Government of Iran sources).

The assessment of the magnitude of returns is similarly challenging. On the one hand, there is an identification challenge due to the lack of a clear definition of who should be considered as a "returnee"– for example based on duration of stay in host country, intended stay in Afghanistan etc… - whenever returns do not involve individuals or families previously considered as refugees or in "refugee-like" situations in the host country. On the other, data collection constraints and differences data processing along the Pakistani and Iranian border are an additional challenge which further exacerbates whenever the scale of population movements heightens.

Over the last two years, Afghanistan has seen a significant surge in returns, with as many as 2.1 million returning during the first seven months of 2025 alone. A combination of policy changes and shifting public sentiment regarding Afghans in Iran and Pakistan has led to increased returns from both countries over the past two years (Box 5, Figure 24). From September 15, 2023 to July 31, 2025, an estimated 4 to 4.7 million individuals returned to Afghanistan, with the majority arriving from Iran. Return flows from Iran rose sharply in June and July 2025, following the expiration of the Headcount slip on March 20. This policy change, together with escalating regional tensions, contributed to the heightened rate of returns. In the first 7 months of 2025 (January to July), between 1.5 and 2.1 million Afghans – mostly undocumented from Iran – returned home.

Figure 24: Incidence of returns and severity of conflict in Afghanistan as of 2007, district level



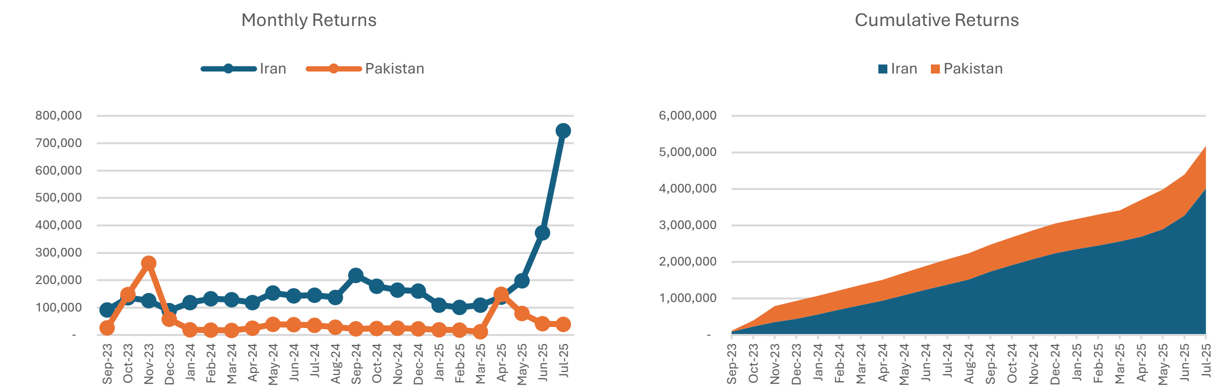
Source: World Bank, UNHCR (2016)

Although the scale of current returns to Afghanistan is comparable to those in the early 2000s, the present context is significantly more complex. The motives for returning and Afghanistan's context today differ significantly from earlier periods. Currently, most returns are driven by deportations, unlike the early 2000s when voluntary repatriation was stimulated by expectations of development and supportive policy measures, including efforts to directly incentivize the return of educated Afghans.[17] Adverse economic conditions and restrictive ITA policies—particularly regarding female education and more recently telecommunications and internet challenges —are likely to disincentivize the voluntary return of more affluent and educated Afghan nationals. While Afghan's economy was on fast paced growth path in the early 2000s, current conditions reflect the compounding impact of a series of economic shocks that

[17] The Afghan Expatriate Program (AEP) was established by presidential decree in 2004 to recruit highly qualified Afghans from abroad for senior-level government position, offering placement and competitive salaries. Other efforts included IOM's Return of Qualified Afghans (RQA) program, and UNDP's Transfer of Knowledge Through Expatriate Nationals Program (TOKTEN). See Kuschminder (2011).

shrunk per capita GDP to its level of 20 years ago. Economic contraction and decline in aid have affected the capacity of labor market and services to absorb Afghanistan's fast-growing population, an absorption capacity which is now further challenged by the scale of current return inflows.[18]

Figure 25: Returns to Afghanistan from Iran and Pakistan (September 1, 2023 - July 31, 2025)



Source: UNHCR ITA border headcount.

Box 5: Policy changes in Iran and Pakistan affecting Afghans' return since September 2023

Before the start of the current wave of returns, the Afghan population in Pakistan was composed of PoR cardholders (1.34 million), ACC holders (800 thousand) and undocumented Afghans (**Error! Reference source not found.**). On O ctober 3, 2023, Pakistan endorsed the Illegal Foreigners Repatriation Plan (IFRP) setting a deadline for all undocumented to leave voluntarily by the end of the month, else facing detention and deportation. A second phase of the IFRP was announced on March 7, 2025, targeting remaining undocumented Afghans and ACC holders, who were instructed to leave voluntarily by 31 March 2025, or face deportation as of 1 April 2025. On 31 July, the Government expanded the plan to include PoR card holders, with one month grace period ending on 31 August.

Similarly, the Afghan population in Iran was composed of three main groups; Amayesh cardholders (750,000), Headcount slip holders (2.6 million) and undocumented Afghans. Amayesh cardholders are registered Afghan refugees. Since 2003, the Government of Iran has provided annual renewal of Amayesh cards, which provide long-staying refugees conditional freedom of movement, access to basic services and eligibility for temporary work permits for limited job categories. The Headcount slip was introduced as part of a registration drive in 2022 to provide temporary protection from deportation to the population of unregistered Afghans in the aftermath of the ITA takeover.

On March 20, 2025, following the expiry of the Headcount slip the Government of Iran launched a regularization/return scheme affecting an estimated population of 2.6 million Afghans. While some are allowed to regularize their position (notably family members of Amayesh cardholders or family members of Iranian citizens, former Afghan government employees and military personnels, and vulnerable Afghans with serious medical conditions), the majority were expected to return to Afghanistan by the Government of Iran's set deadline of July 6, 2025 or face deportation.

Source: UNHCR

[18] World Bank (2023)

PROFILE OF AFGHANS IN IRAN AND PAKISTAN

Understanding the socio-economic profile of Afghans in Iran and Pakistan and of the current wave of returns is crucial to assess challenges and opportunities. International literature indicates that returnees can be agent of change, bring back skills and financial capital. However, the extent to which this potential is realized depends heavily on the profile of returns, the status of the local labor market, as well as the enabling environment for investment and entrepreneurship. Crucially, the profile of returning population also determined the distributional consequences of the influx, with costs disproportionately borne by the resident population with similar skill and socio-economic profiles. This group faces the most direct competition for jobs, which can lead to downward pressure on wages, upward pressure on local prices, and increased strain on public services.

Afghans in Iran tend to be on average less vulnerable in terms of demographic and education profiles. Afghans in Iran and PoR cardholders in Pakistan have a distinctive demographic profile, with the population of Afghans in Iran primarily composed of working aged individuals, resulting in a considerably lower dependency rate and potential vulnerability (Figure 26). For every 100 Afghans of working-age in Iran, the number of dependents (either children under 15 or adults over 65) is only 62, against as many as 130 in Pakistan and 104 in Afghanistan. An economically favorable demographic profile of Afghans in Iran is reinforced when looking at their literacy and education profile (Figure 27). In Iran, Afghan men and women have achieved significantly higher educational attainment, with a third of the population above 15 years completing secondary and tertiary education. While there is a gender gap across Afghans in all three countries at lower levels of education, Afghan women and men in Iran are equally likely to complete secondary or tertiary education. This stands in sharp contrast to Afghanistan and Pakistan, where large segments of the population—including men—have no formal education.

Figure 26: Dependency rate, by country of residence

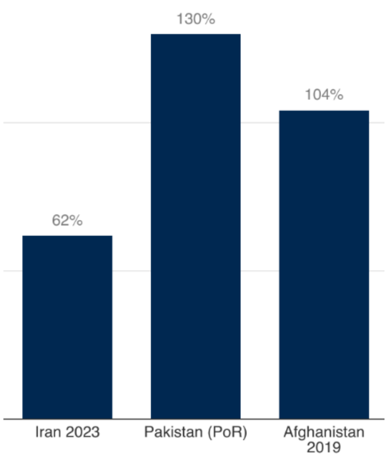
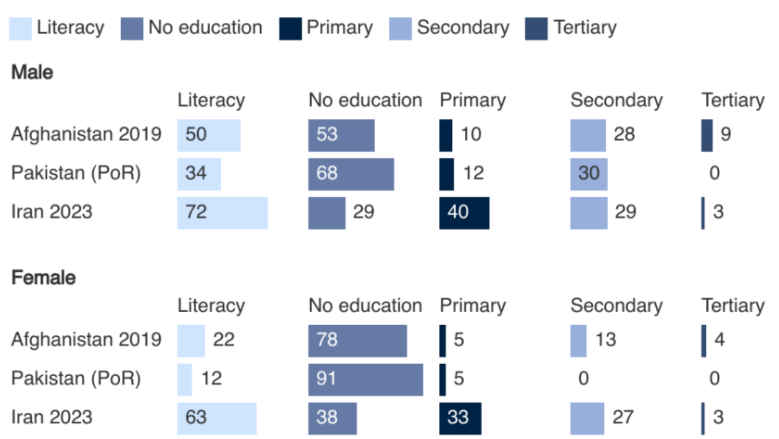


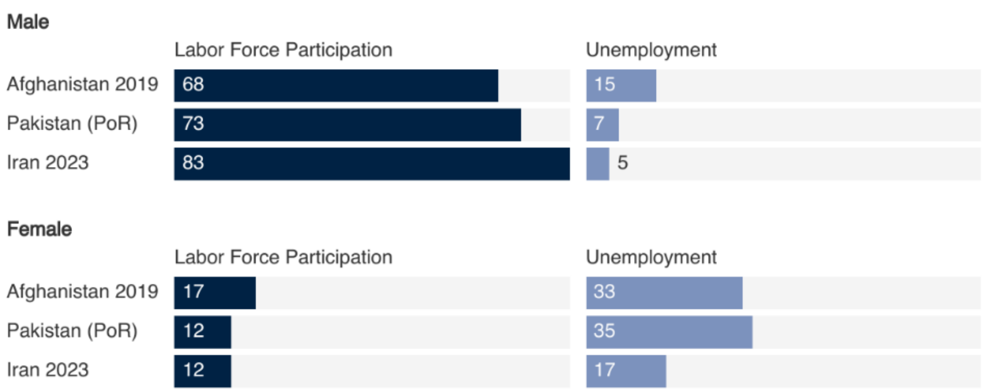
Figure 27: Literacy and education profile, by gender and country of residence



Source: Authors calculations based on Iran – Labor Force Survey (2023); Pakistan – UNHCR Forced Displacement Survey (2025) and Afghanistan Income and Expenditure Survey (2019).

Similarly, Afghans residing in Iran have better labor market outcomes than those in Pakistan or Afghanistan (Figure 28). Among Afghans in Iran age 15 and above, 83 percent are either working or actively looking for jobs (labor force participation rate), against 73 percent and 68 percent in Pakistan and Afghanistan, respectively. This high level of economic activity, even compared to Iranian and Pakistani hosts, not only shows greater labor market engagement, but it could also reflect constraints in access to tertiary education and/or safety nets (formal and informal). Similarly, among Afghan men who participate in the labor market, the unemployment rate is significantly lower in Iran and Pakistan compared to Afghanistan.[19] Economic inclusion remains a significant challenge for Afghan women, regardless of their country of residence.[20] Labor force participation is lower for Afghan women abroad, however Afghan women in Iran face a significantly lower risk of unemployment once active, reflecting better economic opportunities in the host economy.

Figure 28: Labor market outcomes, by gender and country of residence



Source: Source: Authors calculations based on Iran – Labor Force Survey (2023); Pakistan – HNHCR Forced Displacement Survey (2025) and Afghanistan Income and Expenditure Survey (2019).

The employment profile of Afghans in Iran and Pakistan indicates both opportunities and challenges. In line with the higher levels of urbanization of the host countries, Afghans in Iran and Pakistan primarily reside in urban and peri-urban areas and are mainly employed outside of the agriculture sector (Figure 29). The employment of Afghan men in

[19] Overall, better labor market outcomes of Afghans in Iran compared to Pakistan reflect a higher incidence of Afghan economic migrants compared to conflict-induced displaced Afghans. As evidenced in the literature on economic migration, individuals who are more likely to move are the ones whose characteristics make them more likely to benefit from moving (positive self-selection). In the context of forced displacement, theoretical predictions about self-selection among refugees and individuals in refugee-like situations are ambiguous.

[20] Estimates based on the 2023 round of the FFS indicate that labor force participation among Iranian women is only marginally higher at 14 percent compared to that of Afghan women in Iran (12 percent). Estimates based on forthcoming UNHCR FDS indicate a rate of labor force participation among Pakistani women relatively higher at 26 percent. While more than twice as high as that of Afghan women in Pakistan, the gender gap within the two population subgroups is substantially aligned. Afghanistan, Pakistan and Iran are among the lowest ranking countries globally in terms of female labor force participation (WDI).

Iran is concentrated in the industrial sector (primarily construction) while service sector employment is predominant among Afghan PoR card holder men in Pakistan. In both Iran and Pakistan, the employment of Afghan women is primarily concentrated in the manufacturing sector. Afghans working outside agriculture in Iran and Pakistan show a more polarized skill distribution than those in Afghanistan (Figure 30). Elementary occupations make up 18 percent of male employment in Afghanistan but double that share for Afghan men in Iran and Pakistan. Meanwhile, 36 percent of Afghan men in Iran hold skilled jobs outside agriculture, slightly higher than in Afghanistan and nearly twice the rate of Afghan male PoR card holders in Pakistan.

Figure 29: Sectoral distribution of employment, by gender and country of residence

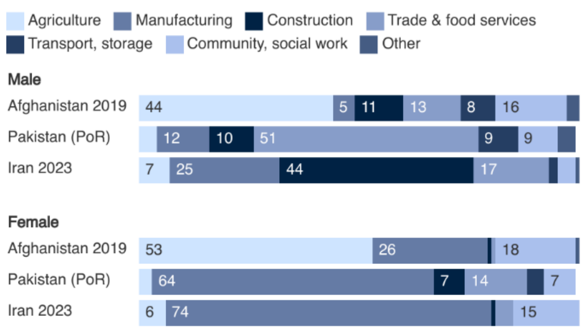
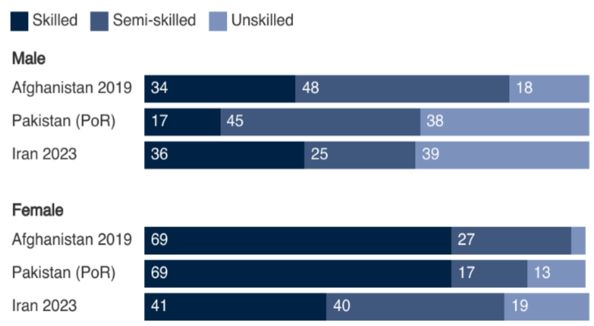


Figure 30: Skills distribution of employment, by gender and country of residence



Source: Authors calculations based on Iran – Labor Force Survey (2023); Pakistan – UNHCR Forced Displacement Survey (2025) and Afghanistan Income and Expenditure Survey (2019).

PROFILE OF RETURNS

The pattern of returns is changing over time, with more families and Afghans who have lived in Iran and Pakistan for extended periods now returning. Within a short span of less than two years, the composition of Afghan returnees has changed dramatically. In late 2023, returns from Iran were overwhelmingly male, consisting of individual workers who left Afghanistan for economic reasons. However, by mid-2025, the gender balance of returns had evened out, in line with an increasing share of returnees traveling back accompanied by their families (Figure 31). Returns from Pakistan, on the other hand, have been more stable over time, both in terms of gender composition and family versus individual returns. In late 2023 roughly half returnees from Pakistan were traveling with their families, a share increasing to three-quarters by mid-2025. Changes in the demography of returns were further associated with an increase in returns of Afghans with longer stays in Iran and Pakistan (Figure 32). In late 2023, 81 percent of returnees from Iran and 41 percent from Pakistan had spent less than a year abroad. By the first seven months of 2025, these figures dropped to 27 percent for Iran and 24 percent for Pakistan.

Figure 31: Returnees with family as percent of the total, by country of previous residence

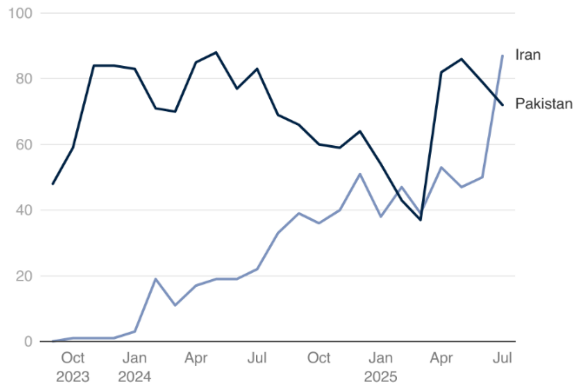
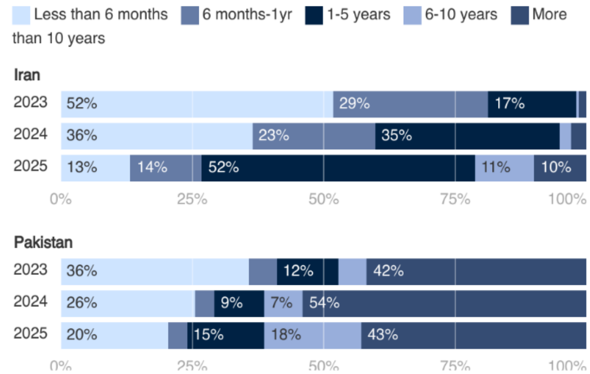


Figure 32: Duration of stay in Iran and Pakistan, by year of return



Source: Authors' calculations based on UNHCR's Border Monitoring Survey. Frequency weights used to scale up to returns' total by deportation status.

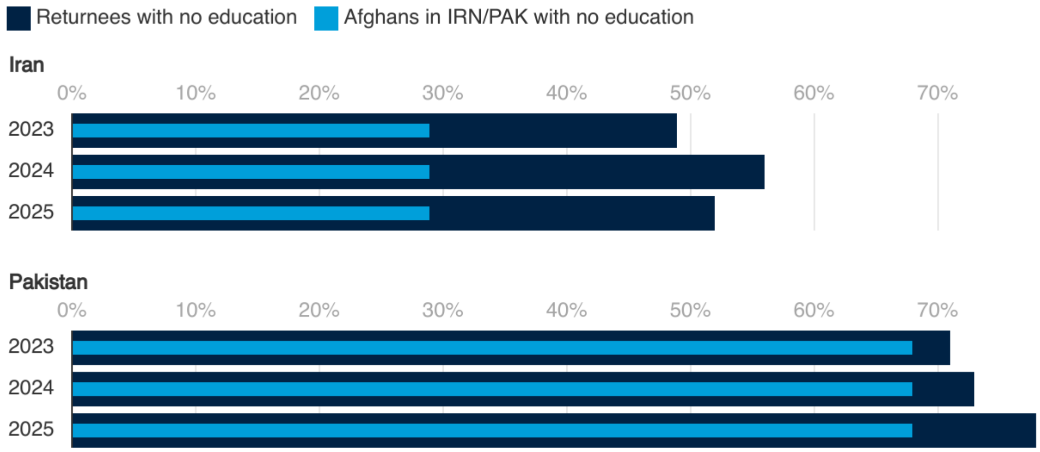
The evolution in the profile of returns is associated with both challenges and opportunities. The evolution of the demographic profile of returns is likely to have a more encompassing impact on the Afghan economy, with impact extending beyond the labor market. A larger percentage of dependents returning home will increase demand for services, notably health and education. Similarly, demand for rental services in major urban areas is likely to affect housing prices, as indeed observed in Kabul, Herat and Jalalabad.[21] The impact of an increase in household consumption, price and services' congestion at the national and local level are expected to have a distributional impact, positively affecting economic returns and opening economic opportunities for some (e.g. landlords, business owners…), while negatively impacting others (e.g. urban tenants and consumers…). At the same time, some of the returnees themselves, possibly those with longer stay in Iran or Pakistan, might contribute to creating economic opportunities, either contributing through the education and labor market skills acquired in the host country and/or through direct investments.

Nevertheless, most returns so far consist of vulnerable Afghans, likely intensifying the needs of Afghanistan's most at-risk population. The current returnees' influx is non-random, with a marked concentration of potentially vulnerable individuals. Returnees lacking formal education—a key vulnerability indicator—are statistically overrepresented compared to both Afghan cohorts residing in Iran and Afghan Proof of Registration (PoR) holders in Pakistan (Figure 33). In the first seven months of 2025, male returnees from Iran without education accounted for 52 percent of total returns, while Afghans without

[21] In several provinces, rental prices over the period April to August were significantly higher in 2025 compared to 2024. In Kabul, rents increased by 27 percent for concrete dwellings and 61.9 percent for non-concrete units, reflecting intense demand for accommodation. Takhar saw similar pressures, with rents up by 26.1 percent and 36.1 percent, respectively. Nangarhar recorded notable increases of 15.6 percent for concrete and 10 percent for non-concrete dwellings, while Herat also saw rents rise by 6.7 percent and 1.4 percent, respectively. These widespread increases suggest that the returnee inflows have fueled housing demand and pushed up costs across both major urban and secondary centers.

education in Iran comprised 29 percent of the total in 2023. Similar patterns are observed in returns from Iran in 2023 and 2024, as well as returns from Pakistan. Overall, the incidence of Afghans without education among returns from Iran is very similar to what observed within Afghanistan resident population, whereas returns from Pakistan remain substantially more vulnerable.

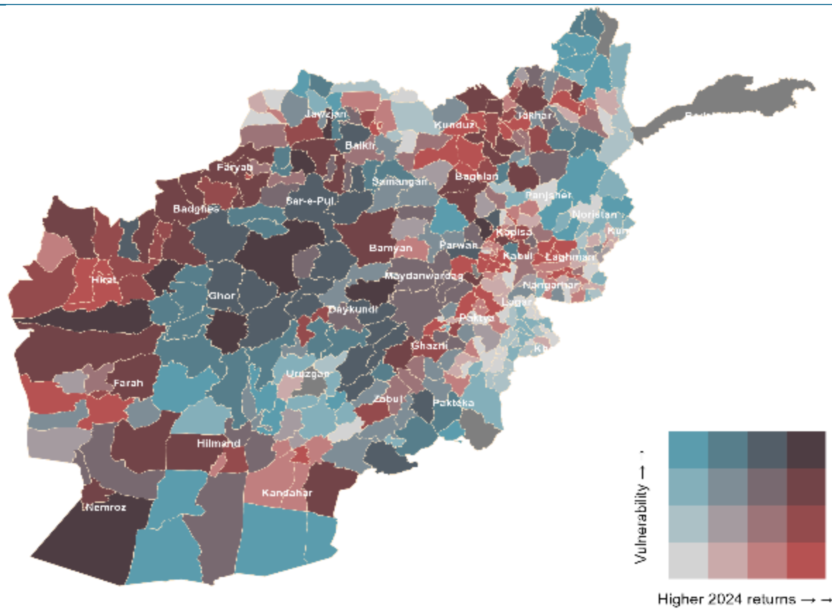
Figure 33: "Self-selection" of returns from Iran and Pakistan, by year of return



Source: Authors calculations based on Iran Labor Force Survey (2023); Pakistan HNHCR Forced Displacement Survey (2025) and UNHCR's Border Monitoring Survey (weighted).

Vulnerable areas within Afghanistan are likely to be affected the most. Similar to what observed in previous large-scale return episodes, returns flows are concentrated in specific areas of Afghanistan, often overwhelming the most vulnerable communities. The majority for returnees, when interviewed at the border, state the intention of going back to their communities of origin. Looking at returns from both Iran and Pakistan between September 2023 and July 2025, the main receiving provinces include Herat, Kabul, Kunduz, Takhar, Kandahar and Farah. Significantly, provinces like Herat, Farah, and Kabul are also the source of major population outflows, illustrating the interconnected cycle of displacement and return. This issue is particularly severe in many border districts. These areas are not only highly vulnerable due to limited access to services and jobs but are now also facing the strain of absorbing large numbers of returnees (Figure 34).

Figure 34: Returns and vulnerability, by district



Source: Authors calculation using UNHCR Border Monitoring Survey and IOM Afghanistan Climate Vulnerability Assessment (round 2, March-April 2025)
Note: Based on the Alkire-Foster methodology, the index assesses districts' vulnerability along three equally weighted dimensions, notably living conditions, access to services and connectivity.

TRANSFORMING CRISIS INTO A STRATEGIC OPPORTUNITY

While current returns present a significant challenge, policies in Afghanistan, Iran and Pakistan can tilt the balance toward maximizing opportunities. The profile of returns is neither static nor pre-determined. Policies in both destination and host can affect the profile of returns, their successful integration, as well as the profile of those who leave again. International experiences indicate that voluntary and managed cross-border population movements are more likely to be successful. In this sense, efforts to integrate repatriation within a broader policy framework encompassing regularization and temporary migration policies could maximize aggregate benefits across all countries involved. To this end, ensuring accessibility of documentation, including for Afghan women, is of paramount importance. Similarly, a positive and proactive engagement of the Afghan diaspora, including addressing political challenges, is critical. Concrete actions to facilitate this could include creating diaspora-investment funds that offer matching grants for businesses started in Afghanistan or establishing networks that connect skilled Afghans abroad with specific reconstruction and private sector needs at home, transforming potential "brain drain" into "brain gain."

Achieving sustainable returns requires coordinated actions that bridge short-term needs with long-term opportunities for all Afghans. Ending the displacement cycle and supporting sustainable return in the current socio-economic context involves integrated efforts across the Humanitarian-Development-Peace (HDP) nexus to meet basic needs and promote a private sector-driven employment agenda. International experiences indicate that humanitarian assistance, when required, should be accessible to vulnerable Afghans regardless of their displacement or documentation status, thus reducing the risk of negative impacts on social cohesion or unintended incentives. Additionally, supporting employment opportunities for Afghans should balance attention between areas with high rates of return and those with significant economic and development prospects to sustain job creation and mitigate existing outward migratory pressure.

Furthermore, harnessing the full potential of returnees requires recognizing them not just as beneficiaries of aid, but as active agents of socio-economic change. Many Afghans returning, particularly those with better educational profiles and professional skills acquired abroad, represent a significant reservoir of human capital that can be pivotal for Afghanistan's recovery. To unlock this potential, targeted policies must address key barriers to their economic integration and entrepreneurial endeavors. This includes establishing mechanisms for capital portability, such as creating clear frameworks for the recognition and accreditation of foreign qualifications and facilitating the mobilization and transfer of financial assets. Moreover, improving access to finance through micro-credit schemes, business incubation programs, and start-up grants can empower these skilled individuals to launch new enterprises, create jobs, and drive innovation from the ground up. The transformative impact of such support is powerfully illustrated by the experiences of returnees in other post-conflict settings; in Iraq, for instance, a returnee leveraged personal savings, incubator programs, and NGO support to build a solar energy company that now powers reconstruction and employs other returnees (Box 6). By investing in the capabilities of its returning population, Afghanistan can transform the challenge of reintegration into a strategic opportunity for national renewal and sustainable development.

Box 6: Voices from the ground: the story of Solar Mosul

When Mohamed Khalid Kattan returned to his native Mosul six months after its liberation, he found a city in ruins. Forced to flee years earlier under a death sentence from ISIS, he came back to shattered infrastructure and a community without power or water. "Faced with this devastation," he recalls, "I knew recovery had to begin with power. With Mosul's abundant sun, solar energy became both my mission and my path to rebuilding."

Despite a background in sports education, not engineering, Mohamed was determined. He invested in himself, taking technical courses while joining entrepreneurship programs run by organizations like FiveOne Labs, IOM, and UNDP, which became his "classroom and launchpad." Combining $15,000 in personal and family savings with a crucial $5,000 grant and further support, he formally established his company, Solar Mosul, in 2020. The impact was immediate and transformative. A contract with Mercy Corps to provide solar electricity for farmers in the Ninewa plains became a turning point, directly enabling the return of more than 1,800 displaced families. "People needed to see real change," Mohamed says, "and solar became proof that life could be rebuilt."

Today, Solar Mosul is a self-sustaining enterprise that employs eight people, including four fellow returnees. The company has since partnered with the Government of Iraq on the country's largest solar-powered housing project, set to provide 1,000 homes with clean energy. Mohamed's journey from a displaced person to a key agent of reconstruction demonstrates the profound multiplier effect of supporting returnee entrepreneurs. His message is a powerful testament to their potential:

"My journey shows that return is not only possible, itis powerful. I left because of war, but I came back to build. Iraq is our country, and even after everything, it is what we have. With creativity, resilience, and support, we can rebuild it together."

ANNEXES

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ANNEX TABLES

Table 2. Afghanistan Selected Economic and Financial Indicators, 2018-2027

Fiscal Year	2,018	2,019	2,020	2,021	2,022	2,023 Act.	2,024 Est.	2,025 Proj.	2,026 Proj.	2,027 Proj.
			Change in %							
Supply										
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	6.0	-0.5	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	2.1	4.5	3.0	2.5
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	-0.3	8.5	4.5	4.2
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	2.5	2.7	3.0	2.9
Real GDP	1.2	3.9	-2.4	-20.7	-6.2	2.3	2.5	4.3	3.8	3.5
Domestic prices										
Consumer prices (annual average)	0.6	2.3	5.6	7.8	10.6	-7.7	-4.3	2.0	3.0	4.0
Consumer prices (end of period)	1.8	3.0	4.4	15.1	1.9	-9.0	-0.3	4.3	1.7	6.3
Exchange Rate (annual average)	73.5	78.2	76.9	87.7	88.5	77.3	70.3	71.0	71.8	72.5
Exchange Rate (end of period)	75.5	76.1	77.2	87.7	87.1	71.4	70.6	71.5	72.0	72.9
			In % of nominal GDP							
Demand										
Private Consumption	89.2	83.7	88.9	100.5	106.5	107.9	106.2	109.4	111.1	112.8
Government Consumption	34.7	33.2	33.2	21.3	21.8	21.2	22.0	22.5	23.5	23.7
Public Investment	7.4	6.9	6.0	6.4	6.4	6.2	8.8	9.3	9.8	11.4
Private Investment	10.6	11.3	11.0	6.6	10.2	9.1	8.8	7.5	6.5	5.0
Exports, GNFS	9.1	8.2	7.0	10.4	14.6	12.0	11.0	10.9	10.9	11.0
Imports, GNFS	51.1	43.4	46.1	45.2	59.6	56.3	56.8	59.7	61.9	64.0
Fiscal										
Revenue and Grants	58.1	53.0	49.4	36.5	40.6	33.9	30.7	29.1	29.0	28.7
Domestic Revenue	14.0	14.2	11.3	11.1	15.1	15.6	16.7	17.1	18.0	18.5
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	9.3	10.6	11.2	11.7
Non-tax and other Revenues	4.7	5.4	3.9	3.5	6.3	6.6	7.3	6.6	6.9	6.8
External Grants	44.1	38.8	38.1	25.4	25.5	18.3	14.0	11.9	11.0	10.2
Total Expenditures	56.8	54.7	51.7	36.0	41.6	35.1	31.1	29.1	28.9	28.6
Current Expenditures	19.4	19.3	17.8	13.4	15.3	15.5	15.4	15.5	16.1	16.3
Capital Expenditures	9.5	9.5	10.4	4.1	0.8	1.3	1.6	1.7	1.8	2.1
Externally Financed Expenditure	27.8	26.0	23.5	18.4	25.5	18.3	14.0	11.9	11.0	10.2
General Fiscal Balance	1.3	-1.7	-2.3	0.5	-1.0	-1.2	-0.4	0.0	0.1	0.1
General Public Debt	5.8	7.1	8.2	12.7	13.9	13.6	12.8	12.1	10.4	8.4
Balance of Payments										
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-24.6	-24.1	-25.4	-25.3
Trade Balance (Goods and Services)	-41.9	-35.1	-39.1	-34.8	-45.0	-44.3	-45.8	-48.8	-51.0	-52.9
Primary and Secondary Incomes	20.1	16.5	17.5	19.0	26.2	26.8	21.2	16.9	16.2	16.8
Memorandum items										
Nominal GDP (AFN billion)	1,328	1,470	1,535	1,251	1,283	1,351	1,453	1,537	1,619	1,693
Nominal GDP (USD million)	18,053	18,799	19,956	14,266	14,502	17,476	20,655	21,633	22,560	23,353
Population (million)	36.7	37.9	39.1	40.0	40.6	41.5	42.6	46.3	47.9	49.1
GDP per capita (real LCU)	37,273	37,592	35,569	27,536	25,450	25,477	25,377	24,363	24,423	24,671
GDP per capita (real 2015 USD)	553	558	528	409	378	378	377	362	362	366
GDP at market prices (real 2015 USD)	20,323	21,118	20,622	16,345	15,325	15,673	16,061	16,745	17,374	17,989

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

Table 3. Afghanistan Real Sector, 2018-2027

Fiscal Year	2,018	2,019	2,020	2,021	2,022	2,023 Act.	2,024 Est.	2,025 Proj.	2,026 Proj.	2,027 Proj.
Change in %										
Agriculture	-4.4	17.5	5.9	-9.8	-6.6	2.2	6.0	3.2	3.2	3.2
Industry	11.1	4.8	-4.6	-12.8	-5.7	1.8	2.1	2.5	2.5	2.5
Services	1.9	-1.4	-5.9	-30.1	-6.5	1.5	-0.3	1.1	1.5	1.9
Net Taxes on Production	-0.1	-9.4	-7.8	-16.5	-3.0	11.4	2.6	2.8	3.1	3.1
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**2.5**	**2.2**	**2.4**	**2.5**
Contribution to GDP growth										
Supply										
Agriculture	-1.2	4.5	1.7	-3.1	-2.4	0.8	2.2	1.2	1.2	1.2
Industry	1.3	0.6	-0.6	-1.7	-0.8	0.3	0.3	0.4	0.4	0.4
Services	1.1	-0.8	-3.1	-15.2	-2.9	0.7	-0.1	0.5	0.6	0.8
Net Taxes on Production	0.0	-0.5	-0.4	-0.7	-0.1	0.5	0.1	0.1	0.2	0.2
Demand										
Private Consumption	6.9	1.3	-1.1	4.3	0.5	6.0	4.7	5.4	3.0	3.0
Government Consumption	-10.1	-0.2	-0.8	-16.3	-0.2	0.1	0.9	-0.4	0.2	0.2
Public Investment	1.1	-0.3	-1.2	-1.6	0.3	0.1	1.4	-1.4	0.0	0.0
Private Investment	-1.6	1.2	-0.4	-6.1	3.8	-1.2	0.2	0.3	0.4	0.4
Exports, GNFS	3.2	-0.5	0.1	-1.4	2.9	-2.4	-0.5	0.5	0.3	0.3
Imports, GNFS	1.8	2.4	1.1	0.3	-13.5	-0.4	-4.2	-2.2	-1.6	-1.4
Real GDP	**1.2**	**3.9**	**-2.4**	**-20.7**	**-6.2**	**2.3**	**2.5**	**2.2**	**2.4**	**2.5**
In % of nominal GDP										
Supply										
Agriculture	22.0	25.8	30.0	33.6	33.7	34.7	35.6	36.4	36.7	36.9
Industry	13.4	14.1	13.0	14.3	16.1	13.4	13.3	13.5	13.5	13.6
Services	59.5	55.5	52.6	47.2	45.0	46.4	45.7	44.5	44.2	43.9
Net Taxes on Production	5.1	4.7	4.5	5.0	5.2	5.4	5.4	5.5	5.6	5.6
Real GDP (Constant AFN billion)	**1,370**	**1,423**	**1,390**	**1,101**	**1,033**	**1,056**	**1,082**	**1,106**	**1,132**	**1,161**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,454**	**1,517**	**1,600**	**1,707**
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**20,664**	**20,436**	**20,730**	**21,475**
Population (million)	**37**	**38**	**39**	**40**	**41**	**41**	**42**	**43**	**45**	**46**
GDP per capita (real LCU)	**37,273**	**37,592**	**35,569**	**27,536**	**25,450**	**25,477**	**25,500**	**25,444**	**25,434**	**25,469**
GDP per capita (real 2015 USD)	**553**	**558**	**528**	**409**	**378**	**378**	**378**	**378**	**377**	**378**
GDP at market prices (real 2015 USD)	**20,323**	**21,118**	**20,622**	**16,345**	**15,325**	**15,673**	**16,063**	**16,413**	**16,801**	**17,227**

Sources: ITA (NSIA, MOCI); and WBG staff estimates and projections.

Table 4. Afghanistan Fiscal Table (2018-2027)

Fiscal Year	2018	2019	2020	2021	2022	2023 Act.	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.
			In percentage of GDP							
Revenue and Grants	**58.1**	**53.0**	**49.4**	**36.5**	**40.6**	**33.9**	**30.7**	**29.1**	**29.0**	**28.7**
Domestic Revenue	**14.0**	**14.2**	**11.3**	**11.1**	**15.1**	**15.6**	**16.7**	**17.1**	**18.0**	**18.5**
Tax Revenue	9.4	8.8	7.4	7.6	8.9	9.0	9.3	10.6	11.2	11.7
Direct Taxes	2.6	2.2	2.1	1.9	1.1	1.6	1.7	1.9	2.0	2.3
Income Taxes (Corporate and Personal)	1.7	1.5	1.2	1.4	0.7	1.1	1.1	1.3	1.4	1.6
Personal Income Tax	1.1	1.2	1.0	0.9	0.5	0.6	0.7	0.8	0.8	0.8
Corporate Income Tax	0.7	0.4	0.2	0.5	0.1	0.5	0.4	0.6	0.6	0.8
Taxes on Property	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other Direct Taxes	0.9	0.7	0.8	0.5	0.3	0.4	0.5	0.5	0.5	0.7
Taxes on Goods and Services	2.5	2.4	2.2	2.1	2.2	2.5	2.8	3.0	3.1	3.0
Taxes on Int Trade and Transactions	2.7	2.5	2.1	2.5	4.6	3.7	3.6	4.4	4.5	4.8
Customs and Other Import Duties	2.5	2.3	2.0	2.3	3.5	3.1	3.3	3.8	3.9	4.1
Taxes on Exports	0.1	0.1	0.0	0.1	0.9	0.4	0.2	0.4	0.4	0.5
Other Int Trade Taxes	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2
Other Taxes	1.1	1.2	1.0	1.1	1.1	1.2	1.3	1.3	1.6	1.5
Social Contributions	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax and other Revenue	4.7	5.4	3.9	3.5	6.3	6.6	7.3	6.6	6.9	6.8
External Grants	**44.1**	**38.8**	**38.1**	**25.4**	**25.5**	**18.3**	**14.0**	**11.9**	**11.0**	**10.2**
Total Expenditures	**56.8**	**54.7**	**51.7**	**36.0**	**41.6**	**35.1**	**31.1**	**29.1**	**28.9**	**28.6**
Current Expenditures	**19.4**	**19.3**	**17.8**	**13.4**	**15.3**	**15.5**	**15.4**	**15.5**	**16.1**	**16.3**
Wages and Compensation	13.8	13.5	12.8	10.2	10.9	11.0	10.1	10.1	10.7	10.8
Use of Goods and Services	2.8	2.8	2.7	1.7	3.4	3.5	4.0	4.2	4.4	4.4
Interest Payments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Transfers	2.3	2.4	1.6	1.2	1.0	0.6	0.9	0.8	0.8	0.9
O/w Pensions	1.2	0.9	0.9	0.9	0.8	0.6	0.9	0.2	0.2	0.3
Other Current Expenditures	0.5	0.5	0.5	0.3	0.0	0.5	0.5	0.3	0.3	0.3
Capital Expenditures	**9.5**	**9.5**	**10.4**	**4.1**	**0.8**	**1.3**	**1.6**	**1.7**	**1.8**	**2.1**
Externally Financed Expenditure	**27.8**	**26.0**	**23.5**	**18.4**	**25.5**	**18.3**	**14.0**	**11.9**	**11.0**	**10.2**
General Fiscal Balance (including grants)	**1.3**	**-1.7**	**-2.3**	**0.5**	**-1.0**	**-1.2**	**-0.4**	**0.0**	**0.1**	**0.1**
ITA General Fiscal Balance*	**-14.9**	**-14.6**	**-16.9**	**-6.4**	**-1.0**	**-1.2**	**-0.4**	**0.0**	**0.1**	**0.1**
General Public Debt	**5.8**	**7.1**	**8.2**	**12.7**	**13.9**	**13.6**	**12.8**	**12.1**	**10.4**	**8.4**
Nominal GDP (AFN billion)	**1,328**	**1,470**	**1,535**	**1,251**	**1,283**	**1,351**	**1,453**	**1,537**	**1,619**	**1,693**

Sources: ITA (MOF); and WBG staff estimates and projections.

Table 5. Afghanistan Balance of Payments, (2018- 2027)

Fiscal Year	2018	2019	2020	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.
In percentage of GDP, unless otherwise indicated										
Current Account Balance	-21.8	-18.7	-21.6	-15.8	-18.8	-17.6	-24.6	-31.9	-34.8	-36.1
Trade Balance	-41.9	-35.1	-39.1	-34.8	-45.0	-44.3	-45.8	-48.8	-51.0	-52.9
Exports, GNFS	9.1	8.2	7.0	10.4	14.6	12.0	11.0	10.9	10.9	11.0
Merchandise Exports	4.9	4.7	3.9	7.8	13.2	10.4	10.2	10.0	10.2	10.4
Service Exports	4.2	3.5	3.1	2.6	1.4	1.6	0.9	0.9	0.7	0.6
Imports, GNFS	51.1	43.4	46.1	45.2	59.6	56.3	56.8	59.7	61.9	64.0
Merchandise Imports	43.5	37.4	40.6	39.7	54.1	51.7	51.1	53.5	55.5	57.5
Service Imports	7.5	6.0	5.5	5.5	5.5	4.6	5.7	6.2	6.4	6.5
Primary and Secondary Incomes Balance	20.1	16.5	17.5	19.0	26.2	26.8	21.2	16.9	16.2	16.8
Credits	20.7	16.7	17.7	19.2	26.3	26.8	21.3	17.0	16.4	16.9
Remittance Inflows	4.0	3.9	3.6	9.1	14.5	17.7	15.5	12.9	13.3	13.7
Other Credits	16.7	12.8	14.1	10.1	11.8	9.1	5.8	4.1	3.1	3.2
Debits	0.6	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Remittance Outflows	0.3	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Other Debits	0.3	0.0	0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Nominal GDP (USD million)	**18,053**	**18,799**	**19,956**	**14,266**	**14,502**	**17,476**	**20,655**	**21,633**	**22,560**	**23,353**

Sources: ITA (NSIA, MOF, DAB, MOCI); and WBG staff estimates and projections.

Table 6: Afghanistan Monetary Statistics, June 2022 to June 2025

End of period	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24 Act.	Mar-25 Est.	Jun-25 Est.
In AFN billion													
Net Foreign Assets	**916**	**878**	**900**	**898**	**898**	**826**	**755**	**770**	**782**	**780**	**806**	**846**	**882**
Gross Reserves**	824	790	812	807	811	746	682	695	705	706	734	769	802
Other Foreign Assets	99	95	97	98	95	87	79	81	82	80	78	82	87
Foreign Liabilities	6	7	9	7	8	6	6	6	6	6	6	6	7
	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Domestic Assets	**-394**	**-362**	**-381**	**-369**	**-378**	**-301**	**-231**	**-238**	**-245**	**-233**	**-247**	**-280**	**-302**
Net Domestic Credit	-128	-125	-135	-121	-137	-118	-113	-100	-111	-98	-106	-96	-97
Net Credit to Nonfinancial Public Sector	-168	-164	-173	-158	-174	-152	-146	-131	-141	-128	-135	-130	-129
Net Credit to Central Government	-168	-164	-173	-158	-174	-153	-146	-131	-142	-128	-135	-130	-129
Credit to Central Government	0	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities to Central Government	169	164	173	158	174	153	146	131	142	128	135	130	129
Net Credit to State & Local Government	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Credit to Public Nonfinancial Corporations	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit to Private Sector	40	39	38	36	36	33	32	31	30	29	28	34	31
Net Credit to Other Financial Corporations	0	0	0	1	1	1	1	1	1	1	1	1	1
Capital Accounts	304	274	289	289	281	220	153	166	170	171	177	213	240
Other Items (net)	39	37	43	41	40	37	35	28	36	36	36	30	36
	0	0	0	0	0	0	0	0	0	0	0	0	0
Broad Money (M2)	**519**	**513**	**515**	**525**	**516**	**521**	**520**	**528**	**532**	**542**	**554**	**560**	**575**
Narrow Money (M1)	**486**	**480**	**482**	**492**	**483**	**490**	**491**	**500**	**504**	**517**	**529**	**538**	**552**
Currency in Circulation	307	306	307	308	306	314	326	331	338	351	361	364	376
Transferable Deposits	179	174	175	184	177	176	165	169	166	166	168	173	176
Other Deposits	33	33	33	33	32	31	28	28	28	25	24	23	23
Securities Other than Shares	0	0	0	0	0	0	0	0	0	0	0	0	0
Nonliquid Liabilities	**3**	**4**	**4**	**4**	**4**	**4**	**4**	**5**	**5**	**5**	**5**	**6**	**5**
Change in % y-o-y													
Broad Money (M2)	-5.8	-4.9	-4.7	2.5	-0.7	1.6	0.8	0.6	3.2	4.1	6.6	6.2	8.2
Narrow Money (M1)	-4.6	-3.6	-3.2	2.7	-0.5	2.2	1.9	1.6	4.3	5.5	7.7	7.6	9.5
Currency in Circulation	8.3	0.6	-0.2	-1.1	-0.2	2.7	6.4	7.5	10.3	11.6	10.7	10.1	11.3
Credit to Private Sector	-14.0	-17.8	-21.7	-14.9	-10.1	-14.2	-14.3	-15.9	-17.2	-13.5	-12.7	10.1	3.2
Liabilities to Central Government	32.4	33.8	6.6	1.4	3.1	-6.9	-15.6	-17.0	-18.6	-16.0	-7.5	-0.8	-8.8
Net Foreign Assets	8.9	-1.5	-14.3	-0.4	-2.0	-5.9	-16.1	-14.2	-12.9	-5.6	6.7	9.8	12.9
In % of GDP													
Broad Money (M2)	40.4	39.9	40.2	40.9	38.2	38.5	38.5	39.1	36.6	37.3	38.1	38.6	34.0
Narrow Money (M1)	37.8	37.4	37.6	38.3	35.8	36.3	36.4	37.0	34.7	35.6	36.4	37.0	32.6
Currency in Circulation	23.9	23.9	23.9	24.0	22.7	23.3	24.2	24.5	23.2	24.1	24.9	25.1	22.2
Credit to Private Sector	3.1	3.0	2.9	2.8	2.7	2.5	2.4	2.3	2.1	2.0	1.9	2.3	1.8
Liabilities to Central Government	13.1	12.8	13.5	12.3	12.9	11.3	10.8	9.7	9.7	8.8	9.3	9.0	7.6

** Include frozen assets

Source: Central Bank - Da Afghanistan Bank and WBG staff estimates