INTERNATIONAL MONETARY FUND

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ISLAMIC REPUBLIC OF AFGHANISTAN

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ISLAMIC REPUBLIC OF AFGHANISTAN

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 29, 2020, following discussions that ended on April 14, 2020, with the officials of the Islamic Republic of Afghanistan on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 21, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Islamic Republic of Afghanistan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves a US$220 Million Disbursement to the Islamic Republic of Afghanistan to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved Afghanistan's request for emergency assistance in the amount of SDR 161.9 million (approximately US$220 million) under the Rapid Credit Facility.
- The pandemic is inflicting heavy damage on Afghanistan's economy, which is expected to contract sharply in 2020, imperiling the livelihood of a significant segment of the population.
- The authorities are taking emergency measures to contain the pandemic and its immediate social and economic impact.

Washington, DC – April 29, 2020. The Executive Board of the International Monetary Fund (IMF) today approved a disbursement in the amount of SDR 161.9 million (about US$220 million; 50 percent of quota) for Afghanistan under the Rapid Credit Facility (RCF). The disbursement will help meet the urgent fiscal and balance of payments needs stemming from the COVID-19 pandemic, catalyze donor support, and shore up confidence.

The COVID-19 pandemic is inflicting heavy damage on Afghanistan's economy and has opened a projected US$857 million (4.5 percent of GDP) balance of payments deficit in 2020. The authorities are appropriately boosting critical health spending and rolling out social assistance to households hit hard by the crisis. They have committed to exercise full transparency and good governance in executing pandemic-related spending and to conduct its audit.

The IMF stands ready to provide policy advice and further support to Afghanistan as it battles the pandemic.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

"The COVID-19 pandemic has hit hard Afghanistan's economy. Trade has been disrupted and domestic activity has slowed sharply as measures have been taken to contain the virus. As a result, the economy is set to contract in 2020, leading to a rise in unemployment and poverty.

"The authorities are taking emergency measures to mitigate the economic and human impact of the pandemic. They are ramping up health and social spending with the support of donors and by allowing the fiscal deficit to rise. They are also taking steps to limit fiscal pressures, including nontax measures and curtailing of non-essential outlays and, once the crisis abates, intend to reverse the fiscal deterioration. The authorities have committed to execute pandemic-related spending transparently and with good governance.

“Beyond the immediate response, the authorities are committed to safeguarding macroeconomic stability and promoting inclusive growth. The central bank continues to focus on price stability. The IMF stands ready to assist Afghanistan as it battles the pandemic and to support its economic reforms going forward.

“The shock has generated a large balance of payments need. Emergency financing from the IMF under the Rapid Credit Facility would help meet this urgent need and create room for pandemic-related spending, including by catalyzing donor financing.”

More information:
IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

April 21, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic and measures to contain it have worsened the outlook for Afghanistan's economy—already burdened by fragility, the ongoing conflict, and political uncertainty—and opened an urgent balance of payments gap in 2020, estimated at $857 million (4.5 percent of GDP). To help cover the gap, in the attached Letter of Intent (LOI), the authorities are requesting a disbursement of SDR 161.9 million, 50 percent of quota or about $220 million equivalent, under the Fund's Rapid Credit Facility's (RCF) "exogeneous shocks" window. The RCF disbursement will also open fiscal space for essential pandemic-related spending for health and social mitigation. In parallel, the authorities are seeking financing from other sources.

Impact. The pandemic is inflicting severe economic and social damage, with its depth and duration subject to great uncertainty. Assuming it abates by the third quarter, the economy would contract by 3 percent in 2020 compared to a 3.5 percent expansion projected previously. Urgent spending to mitigate the impact of the pandemic and revenue losses are expected to push the fiscal deficit after grants to about 3.5 percent of GDP. The current account deficit excluding grants would sharply widen and, combined with the worsening financial account and limited scope to draw down reserves, would create a large balance of payments deficit. Substantial donor financing is urgently needed to help Afghanistan cover these fiscal and external financing needs which could increase further if the pandemic and its economic impact intensify.

Policy recommendations. The authorities agreed that the fast-moving and uncertain nature of the pandemic puts a premium on an agile and fast policy response. They shared staff's main policy recommendations, namely: (i) accommodate emergency health spending and social relief to affected households by allowing a higher fiscal deficit and mobilizing donor grants; (ii) cut non-essential spending and, where possible, take revenue measures to contain the fiscal deficit at 3.5 percent of GDP; (iii) continue focusing on price stability and allow the exchange rate to adjust to balance of payments developments, intervening only to limit excessive exchange rate volatility; (iv) intensify the monitoring of banks, including their funding needs and profitability, and of non-bank financial service providers; and (v) ensure adequate systemwide liquidity, support temporary forbearance by banks with respect to viable borrowers in need of debt restructuring, and let bank capital buffers absorb credit losses.

Approved By
Subir Lall (MCD) and Gavin Gray (SPR)

Discussions with the authorities—Minister of Finance Arghandiwal, Governor of the Da Afghanistan Bank Nosher, and other senior officials—were held remotely. The staff team comprised Azim Sadikov (head), Mariusz Sumliński, Boaz Nandwa (all MCD), Daisuke Ishikawa (FAD), Sandesh Dhungana (SPR), Kathleen Kao (LEG), Gayon Hosin (MCM), and Ahmad Hoshang Naser (local office manager). Tetyana Sydorenko (MCD) provided research assistance and Laila Azoor (MCD) managed document production.

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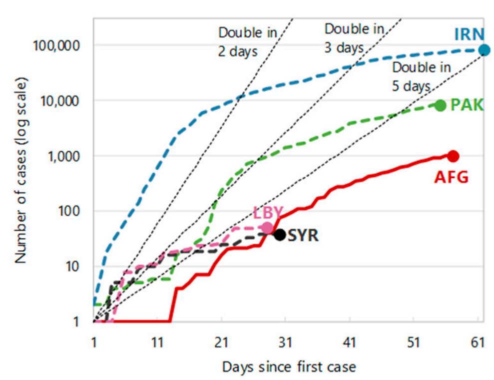
CONTEXT

1. The post-election political impasse poses a risk to policymaking and peace efforts. President Ghani was declared the winner of the elections held last September, but former Chief Executive Abdullah has rejected the results and declared himself the winner. International efforts to end the impasse continue. The impasse has complicated intra-Afghan peace talks which were initiated following the U.S.-Taliban agreement in late February. The U.S. agreed to withdraw its troops in 14 months, starting with a 4,000-troop reduction within 135 days, in exchange for the Taliban's commitment to reduce violence and negotiate an end to the conflict.

2. Macroeconomic performance was broadly satisfactory in 2019 despite the strained security situation. Buoyed by the recovery of agriculture from a drought in 2018, growth rebounded to an estimated 3 percent in 2019. Inflation rose to 2.3 percent in 2019, in part reflecting the earlier depreciation of the Afghani. Although tax revenue faltered due to election-related uncertainty, the operating balance excluding grants improved thanks to a large transfer of Da Afghanistan Bank's (DAB) profits in December.[1] However, declining grants and rising development spending shifted the overall balance to a 1 percent of GDP deficit from a 1.5 percent of GDP surplus in 2018. While the external current account surplus fell to 8.6 percent of GDP due to lower grants and exports, a large improvement in the financial account (including errors and omissions) led to a strengthening of the overall balance of payments in 2019.

3. Weak capacity, limited resources, and the armed conflict make Afghanistan highly vulnerable to COVID-19. With daily migrant returns from neighboring countries, at their peak, close to 10,000—well in excess of the authorities' testing capacity—controlling the pandemic has been difficult. To slow the spread of the virus, the authorities initially imposed screening at ports of entry, strict quarantine for those tested positive, social distancing, and closure of public places for gathering. As confirmed cases continue to grow at an alarming speed, the authorities have tightened containment measures hoping to flatten the curve ahead of its peak. In late March, they placed Kabul and subsequently other major urban centers under lockdown, which remains in place, and restricted movements to those deemed essential.

COVID-19 Confirmed Cases



Source: Johns Hopkins CSSE (April 20, 2020) and IMF staff calculations.

IMPACT OF THE SHOCK

4. The COVID-19 pandemic is inflicting severe economic damage. The pandemic and the efforts to contain it are already inhibiting domestic activity—most visibly in cities under the

[1] The transfers of DAB profits to the budget amounted to 1.6 percent of GDP in 2019.

lockdown. Transport and trade have been disrupted by the intermittent border closures, and workers' remittances are set for a sharp decline. Investor confidence, already depressed by the armed conflict and political uncertainty, is likely to wane.

5. Output will contract this year, and a mid-year inflation spike is likely (see the panel below). The economy has likely entered a recession. Assuming that the pandemic starts retreating by late July and activity returns to pre-shock levels by the fourth quarter, GDP is forecast to contract by 3 percent this year. The lockdowns, social distancing, and border closures have reduced domestic and export markets for services. Industry is suffering from weak domestic demand and import disruption—roughly 60 percent of imports were for industrial purposes in 2019.[2] Agriculture, having already lost access to key export markets, could take another hit if the planting is hamstrung by shortages of labor or inputs, some imported. Food shortages due to border closures led to a temporary price spike,[3] and staff now expects end-June inflation to rise above 5 percent. As unemployment rises, remittances fall, and household budgets are stretched by higher health spending, social indicators are likely to deteriorate and poverty to increase.

6. The fiscal position is set to worsen. The fiscal balance excluding new grants for fighting the pandemic is expected to widen to a 5.0 percent of GDP deficit as the economic contraction hits revenue and the budget takes on pandemic-related spending. Revenues fell by 10 percent in the first quarter compared to last year, and the government has already allocated Af 8 billion (0.5 percent of GDP) for emergency pandemic response.

7. An estimated $857 million balance of payments deficit has opened up. Border closures and disruptions, including of air corridors, have hit exports, which will decline further as the economies of India and Pakistan slow. Remittance inflows could fall by as much as 50 percent due to the return of Afghan workers from host countries, many of which are oil exporters whose economic prospects have worsened due to the pandemic and the sharp drop in oil prices.[4] Despite the downturn, imports are projected to hold up, reflecting increased demand for medicines, new consumption due to the returnees, and the economy's high dependence on foreign supplies. The financial account is likely to deteriorate, with larger portfolio outflows and sharply lower FDI.

8. The economic impact of the pandemic remains subject to a high degree of uncertainty. Risks to the outlook are high and to the downside. If the impact of the pandemic lasts through the end of the year, Afghanistan would suffer a deeper than currently projected output loss and face a much larger fiscal deficit. Dissatisfaction with the policy response to the pandemic and its economic fallout, including shortages of essentials and higher unemployment and poverty, could inflame social discontent and instability. If pandemic-prompted export controls in the region remain in place and deteriorating economic conditions reignite broader protectionist measures, the post-pandemic recovery could be tepid. The outlook is also clouded by significant uncertainty about the prospects

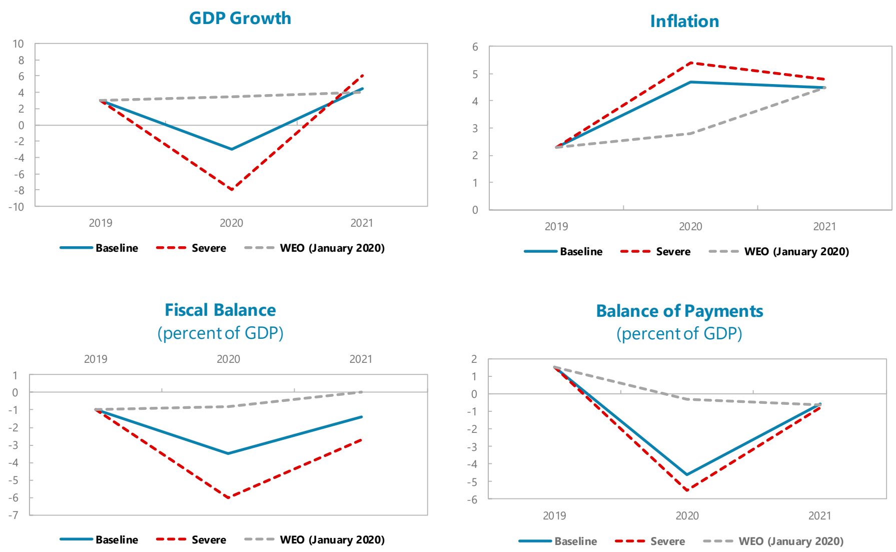
[2] Source: DAB and The Observatory of Economic Complexity.

[3] According to Reuters, prices of selected foodstuffs doubled in Kabul at the beginning of April.

[4] Only part of remittances is recorded as transfers. Inflows through "hawalas" are not recorded and are ultimately reflected in errors and omissions. Both recorded and unrecorded remittances are expected to drop in 2020.

for peace talks; the political dispute regarding the election outcome; and regional tensions and security risks. Uncontained, these risks would cause socio-economic and political disruption, disorderly migration, confidence shock, and harm development prospects.

Islamic Republic of Afghanistan: Economic Outcomes Under Baseline and Severe Scenarios



POLICY DISCUSSIONS

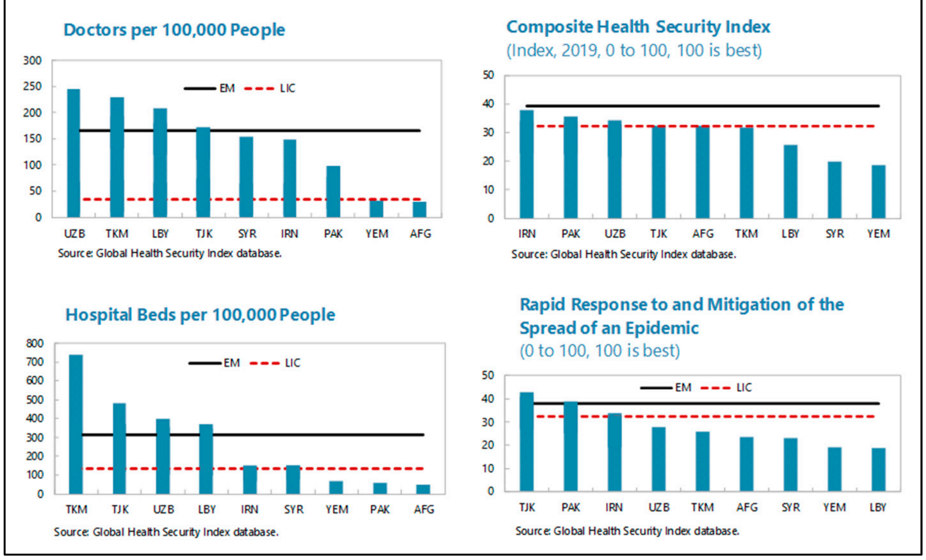
The authorities are ramping up pandemic-related spending and accommodating tax revenue shortfalls by boosting nontax revenue, curtailing non-essential spending, and allowing the fiscal deficit to widen. Monetary policy will remain focused on price stability, while financial sector policies will aim to preserve the stability and resiliency of the financial sector. Looking beyond the pandemic, the authorities are committed to reversing the fiscal loosening and increasing self-reliance to prepare for the projected decline in aid. They have reaffirmed their commitments to reforms of state-owned commercial banks and corporations, public financial management, and governance.

A. Fiscal Policy

9. Staff supports boosting spending to contain the pandemic and its social impact. Even though Afghanistan fares somewhat better on health security and preparedness than its fragile peers, its health infrastructure lags that of its neighbors and comparators. The authorities plan to spend about 2 percent of GDP for critical pandemic-related spending during the year, with about one third directed to health. In addition, with the support of the World Bank, other development partners and humanitarian agencies, they are developing a relief package, in cash or in kind, to support food security among vulnerable households. The package could be delivered through community-based development institutions of the Citizens' Charter National Priority Program, local municipalities, and, in remote areas, the village councils. With 54 percent of the population below the national poverty line there is a pressing need for wide coverage. Preliminary estimates put the cost of such a nationwide scheme for two months at $300 million (1.5 percent of GDP), potentially up to $400 million with greater coverage and size of assistance. Total pandemic-related spending therefore would conservatively amount to 3.5 percent of GDP in 2020, of which nearly half is expected to be funded by donors.

10. Staff urged the authorities to ensure full transparency and good governance in managing pandemic-related spending. Staff cautioned about corruption risks associated with a rapid execution of unplanned spending and encouraged the authorities to put in place robust measures to ensure transparency and suppress corruption opportunities. To that end, the authorities have committed to publish quarterly reports on pandemic-related spending, including information on beneficial ownership of companies awarded procurement contracts. In addition, the Supreme Audit Office will undertake audits of selected spending and publish reports by end-December. The authorities indicated that close involvement and oversight of donors provides additional comfort about the quality of spending.

Islamic Republic of Afghanistan: Health Infrastructure and Preparedness



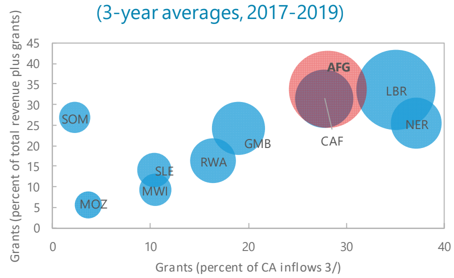
11. The fiscal deficit is expected to widen to accommodate pandemic-related spending and revenue shortfalls. The authorities intend to limit the fiscal deficit after grants for fighting the pandemic to about 3.5 percent of GDP. To that end, they transferred to the budget DAB's profits amounting to 0.8 percent of GDP, based on its 2019 audited financial report, and are curtailing security and nonpriority spending, especially the discretionary component of the development budget. If the fiscal cost of the pandemic turns out to be larger than expected and additional donor financing is not forthcoming, further cuts in non-essential spending may be needed.

Text Table 1: Central Government Revenues and Expenditures

	2019	2020		2021
	Dec-19	Pre-COVID Budget	Proj.	Proj.
	(In percent of GDP)			
Total Revenue	26.1	25.8	25.5	25.9
Domestic revenues	13.6	13.0	10.2	12.6
Tax revenues	7.7	9.2	5.5	7.5
Nontax revenues	5.9	3.8	4.6	5.1
Grants	12.5	12.8	15.3	13.3
of which: for COVID-19	...	...	1.6	...
Total expenditure	27.1	26.6	28.9	27.3
Operating expenditures	17.9	17.9	21.8	18.6
of which: for COVID-19	...	...	3.5	...
Development expenditures	9.1	8.6	7.1	8.7
Overall balance before COVID-19 grants	-1.0	-0.8	-5.0	-1.4
Overall balance including grants	**-1.0**	**-0.8**	**-3.5**	**-1.4**

12. The authorities are committed to reverse the fiscal deterioration after the crisis. As the pandemic abates and the economy recovers, tax revenue should rebound and pandemic-related spending will phase out, improving the fiscal balance. The authorities aim to bring the fiscal deficit down to about 1 percent by 2022, aided by VAT introduction planned for 2021. Given the expected decline in aid over the medium term, they plan to gradually reduce the operating deficit before grants to increase self-reliance.

Aid Dependence 1/ 2/
(3-year averages, 2017-2019)



Source: WEO and IMF staff calculations.
1/ Grants include all noncompulsory current or capital transfers to the country.
2/ Size of the bubbles shows aid in percent of GDP.
3/ CA inflows include exports of goods and services and inflows of current transfers.

13. Afghanistan's risk of debt distress is expected to remain "high" (see Debt Sustainability Analysis). Even with additional borrowing due to the pandemic, public debt is expected to remain low, rising to 9 percent of GDP by end-2020. Given the projected improvement in the fiscal balance and the authorities' commitment to borrow only on highly concessional terms, public debt is expected to stay below 25 percent of GDP in the long term. The high risk of debt distress stems from the vulnerability of public debt to switching from grant- to loan-based financing. A sustained and faster-than-expected replacement of grants with loans would lead to a breach of the debt service-to-exports threshold.

B. Monetary and Exchange Rate Policy

14. The DAB faces the challenge of delivering price stability in a highly unsettled environment. This puts the onus on flexibly using policy instruments at its disposal, including capital notes and foreign exchange auctions, to respond to developments. While supply disruptions or panic-buying could cause prices of individual goods to spike, core inflation is likely to be kept in check as demand wanes and global inflation stays low. Given the large share of imports in the consumption basket, domestic prices could rise if the Afghani depreciates. The DAB should accommodate a temporary increase in inflation owing to a weaker exchange rate and stand ready to tighten its stance to ward off sustained broad-based price increases above its target range. The DAB and staff agreed on the importance of transparent communication and continued efforts to strengthen monetary policy transmission and develop debt markets.

15. The DAB reiterated its commitment to exchange rate flexibility. It plans to let the Afghani depreciate in response to balance of payments pressures and limit foreign exchange interventions to addressing disorderly market conditions.

C. Financial Sector Policy

16. Financial stability risks have risen. The underdeveloped banking sector has a small loan portfolio and should be able to use its ample capital and liquidity buffers to absorb expected losses. The DAB informed staff that its stress tests showed that bank capital and liquidity would remain above regulatory requirements under plausible scenarios. The pandemic could however cause strains—as borrowers' incomes are squeezed and they struggle to service debt—in unregulated financial institutions, mainly hawalas, where 90 percent of financial transactions takes place.

17. The DAB and staff agreed on the need to intensify financial sector monitoring. Staff supported the initial steps taken by the DAB, including increasing the frequency of Financial Stability Committee meetings, proactively anticipating early signs of liquidity stress, and scrutinizing banks' daily liquidity reports and business continuity plans. The DAB's decision to suspend administrative penalties and fees and postpone the IFRS-9 implementation to June 2021 will ease the costs of adjustment, while freezing loan classifications at the pre-pandemic cutoff of end-February for viable borrowers will support their restructuring, where needed, and limit the burden of provisioning. Banks will report to the DAB granular information on restructured loans subject to the credit classification freeze. Staff encouraged the DAB to calibrate its stress tests to ongoing developments, further enhance its surveillance of money service providers and hawalas, and continue efforts to bring them into the formal sector.

MODALITIES, ACCESS, CAPACITY TO REPAY, AND SAFEGUARDS

18. The authorities plan to cover the balance of payments deficit with a combination of reserve drawdown and external financing. Reserves are currently broadly adequate given a host of idiosyncratic downside risks facing Afghanistan, including a faster-than-expected drop in aid,[5] instability and violence, and political uncertainty.[6] Using only reserves to cover the deficit could

[5] The U.S. has recently stated that it would withdraw $1 billion of aid in 2020 unless the political rivals (see ¶1) reconcile.

[6] Staff considers that traditional reserve adequacy metrics are ill-suited for Afghanistan. An adjusted metric—comprising 100 percent of currency in circulation, all foreign currency deposits, and 3 months of imports—could better capture Afghanistan's severe fragilities and large downside risks. At $8,573 million by end-2019, gross international reserves would amount to about 115 percent of the adjusted metric.

amplify these risks, lead to a further loss of confidence, and trigger a destabilizing shift to safe assets with attendant implications for the exchange rate and macro-financial stability. To ensure a balanced financing mix, the authorities are mobilizing assistance from the World Bank, other IFIs, and bilateral donors. They expect to receive about $315 million this year, including a $100 million grant for emergency pandemic response disbursed by the World Bank in April. In addition, the U.S. and EU have allocated new grants.

19. The authorities have requested a disbursement under the RCF to help close the external financing gap and to catalyze donor financing. The $220 million RCF disbursement would be channeled directly to the budget to help cover the fiscal financing gap and create room for pandemic-related spending. There is limited scope for using government's deposits at the DAB since a significant portion is encumbered and prudent treasury management in the high-risk environment of Afghanistan demands holding adequate cash buffers. There is virtually no scope for domestic financing—the government has not borrowed domestically for years and the local debt market remains undeveloped.

20. Capacity to repay remains adequate. Debt service obligations to the Fund, including the proposed disbursement, remain low, while the authorities' track record of servicing liabilities to the Fund is strong. The authorities have reiterated their interest in an Extended Credit Facility, which they and donors would like to have in place before the next pledging conference currently scheduled for November.

21. A safeguards assessment has been initiated. The DAB has authorized its external auditors to hold discussions with staff and will provide to the Fund its most recent external audit reports once finalized. With the proposed disbursement channeled to the budget, the DAB and the Ministry of Finance authorities plan to sign a Memorandum of Understanding to clarify responsibilities for holding funds and repaying Fund resources.

STAFF APPRAISAL

22. The pandemic is taking a heavy toll on Afghanistan's fragile economy. A weak health system, the domestic conflict, and a large influx of returning Afghan migrants make the country vulnerable. Intermittent border closures have led to a significant drop in exports and disrupted imports, and inflows of remittances are dropping as migrants return from host countries, all affected by the pandemic. As the authorities implemented needed measures to control the virus, domestic activity has slowed sharply, putting at risk livelihoods of thousands of Afghan families. As a result, the economy is expected to contract by 3 percent this year.

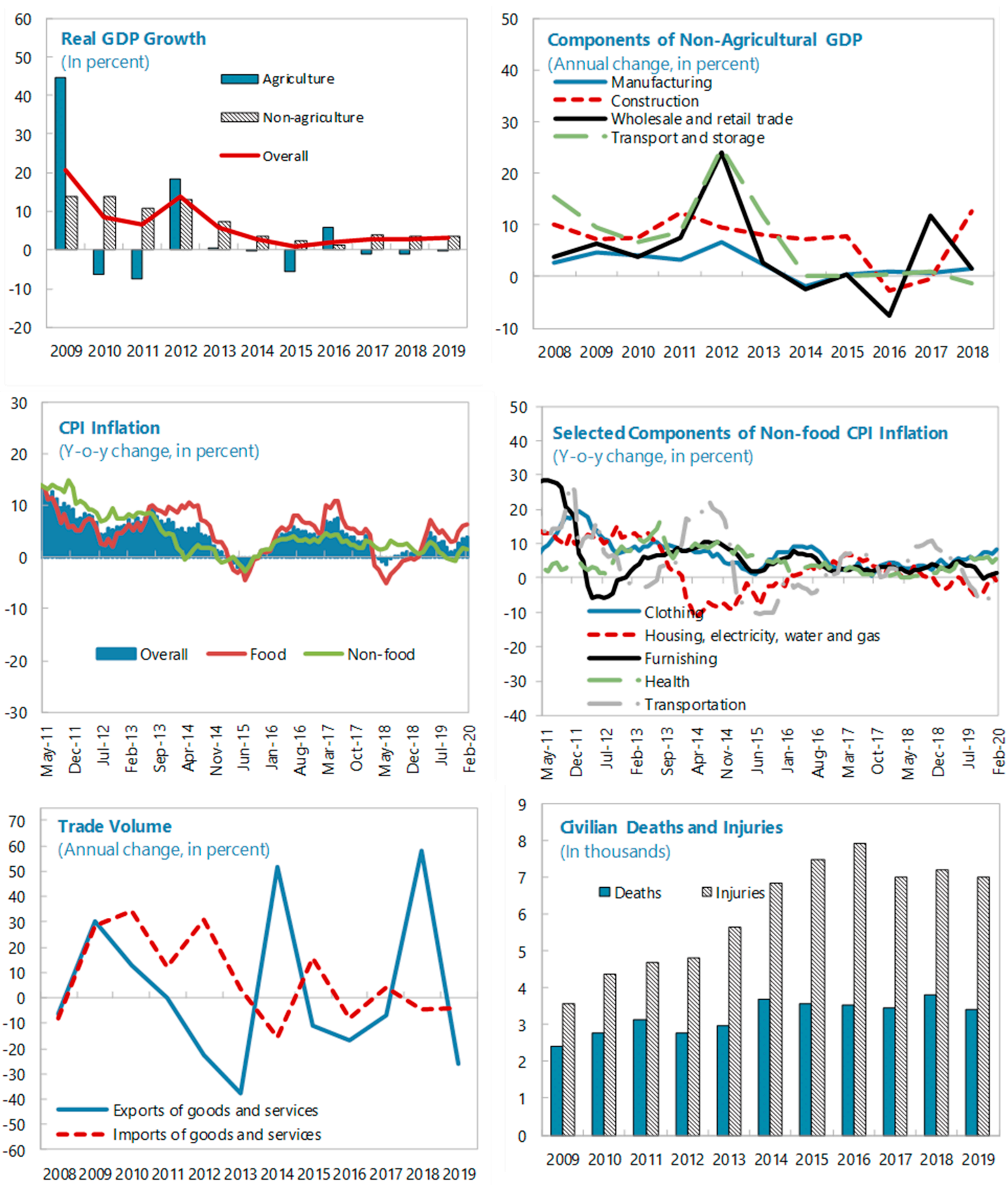
23. Afghanistan is facing urgent external and fiscal financing needs. The fiscal position is set to worsen as domestic revenue plummets while the budget takes on urgent pandemic-related expenditure, currently estimated at about 3.5 percent of GDP. The shock has also opened a large balance of payments deficit amounting to about $857 million. Should the pandemic have a more severe and protracted impact than currently assumed, Afghanistan's need for financing, and therefore donor support, would increase.

24. The authorities' immediate priorities are appropriately focused on mitigating the social and economic fallout of the pandemic. A temporary fiscal loosening and substantial donor support are needed to fund critical health and social mitigation spending and accommodate a revenue shortfall. Limiting the widening of the fiscal deficit to 3.5 percent of GDP by taking one-off revenue measures and cutting non-essential outlays will also help contain the deterioration of the balance of payments. The authorities have committed to full transparency and good governance in executing pandemic-related spending and to commission its independent audit. The DAB remains appropriately focused on its goal of price stability, with a flexible exchange rate, and preserving the resiliency of the financial sector. Beyond the immediate response, the authorities remain committed to safeguarding macroeconomic stability, advancing governance and structural reforms, and promoting inclusive growth.

25. Staff supports the authorities' request for a disbursement under the RCF in the amount of SDR 161.9 million (50 percent of quota). The authorities are facing an urgent balance of payments need arising from a sudden exogenous shock. While their existing and prospective policies aim to tackle its implications, including resolving the balance of payments difficulties, an upper-credit tranche quality program cannot be put in place owing to the urgency of the need against the backdrop of the evolving pandemic and the baseline fragilities. The RCF disbursement is expected to catalyze financing from development partners. Afghanistan will receive debt service relief under the Catastrophe Containment and Relief Trust, and the authorities also plan to seek relief under the recent G20 debt service moratorium initiative. The capacity to repay the Fund is adequate, and debt is sustainable albeit with a high risk of debt distress due to the vulnerability of public debt to the switching from grant- to loan-based financing.

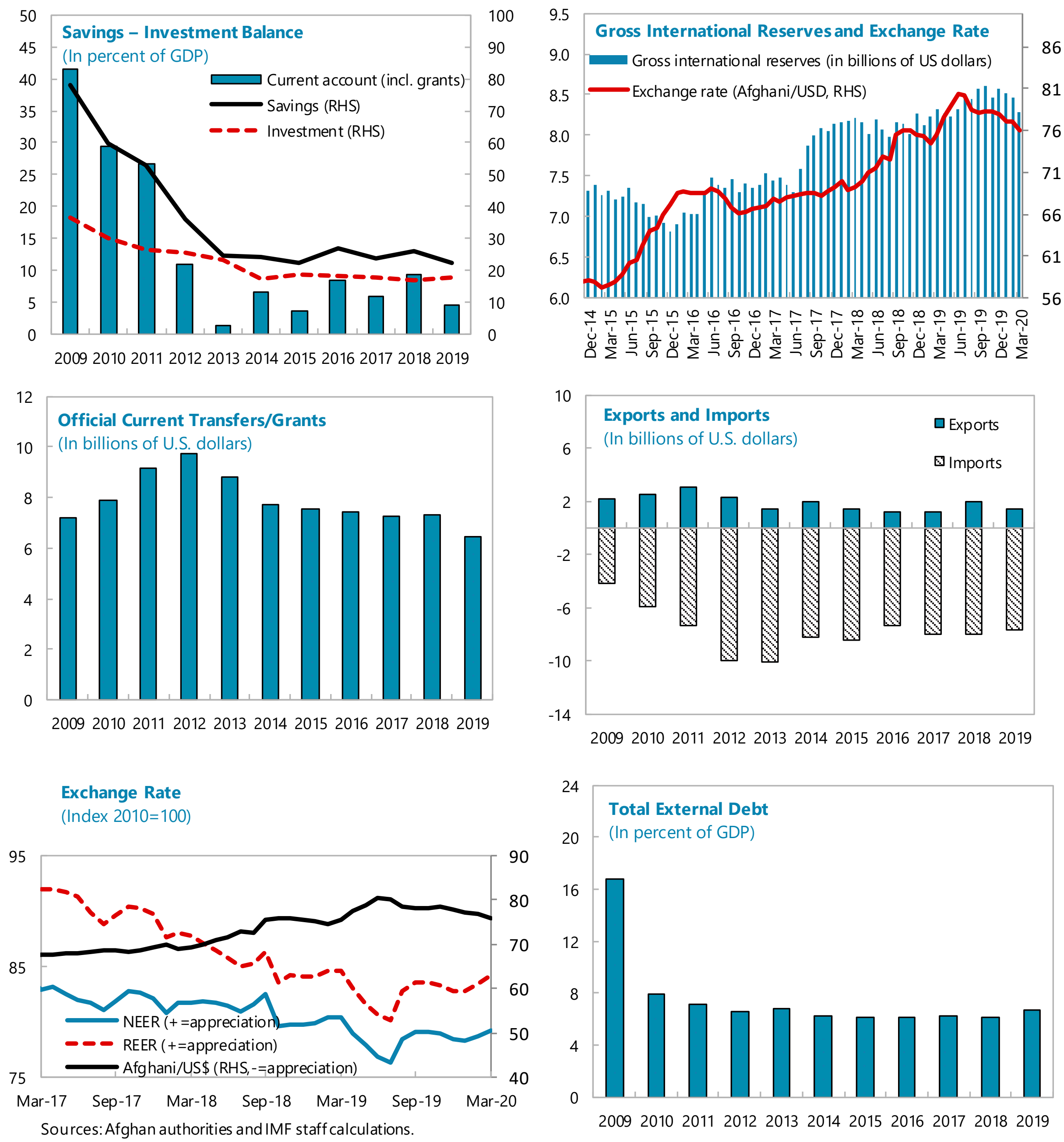
26. Discussions on a new arrangement could start soon subject to how the pandemic evolves. The authorities have reiterated their request for a new IMF arrangement to support their economic reforms. They informed staff that should the pandemic's shock prove worse than expected, they will seek additional resources from development partners and also from the Fund in the context of a prospective program or through a request for another RCF disbursement.

Figure 1. Islamic Republic of Afghanistan: Real Sector



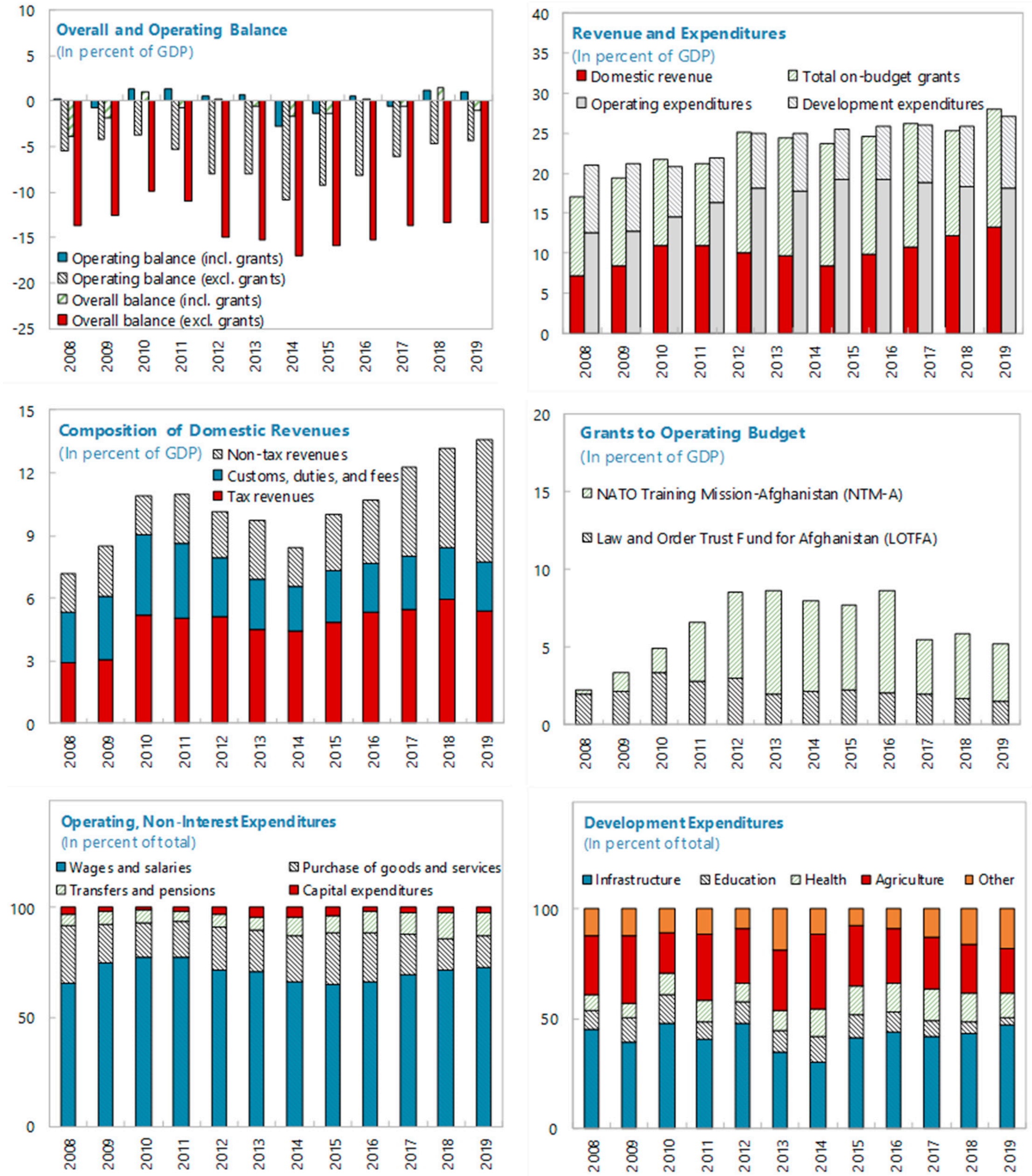
Sources: Afghan authorities, United Nations Assistance Mission in Afghanistan, and IMF staff calculations.

Figure 2. Islamic Republic of Afghanistan: External Sector



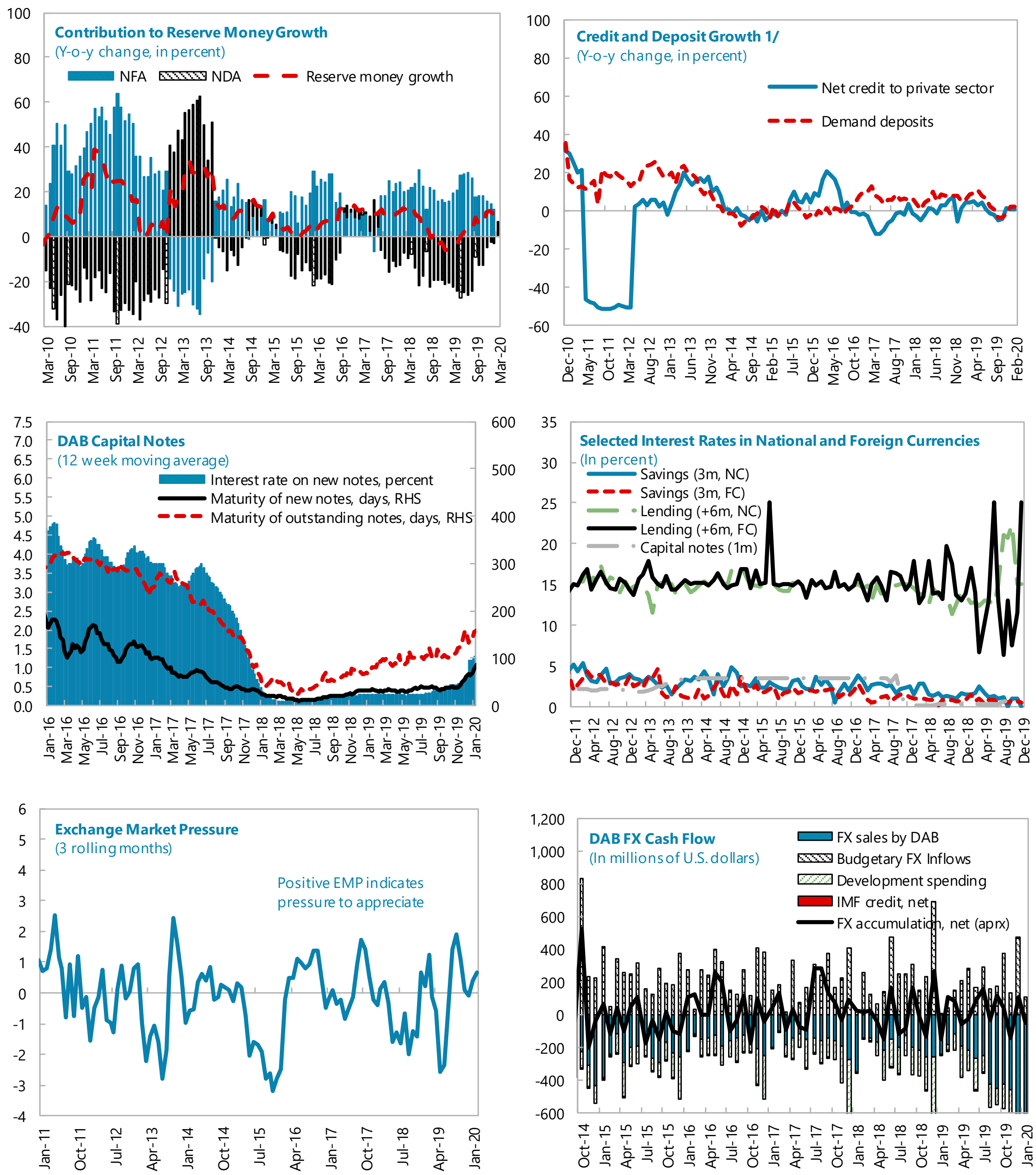
Sources: Afghan authorities and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities and IMF staff calculations.

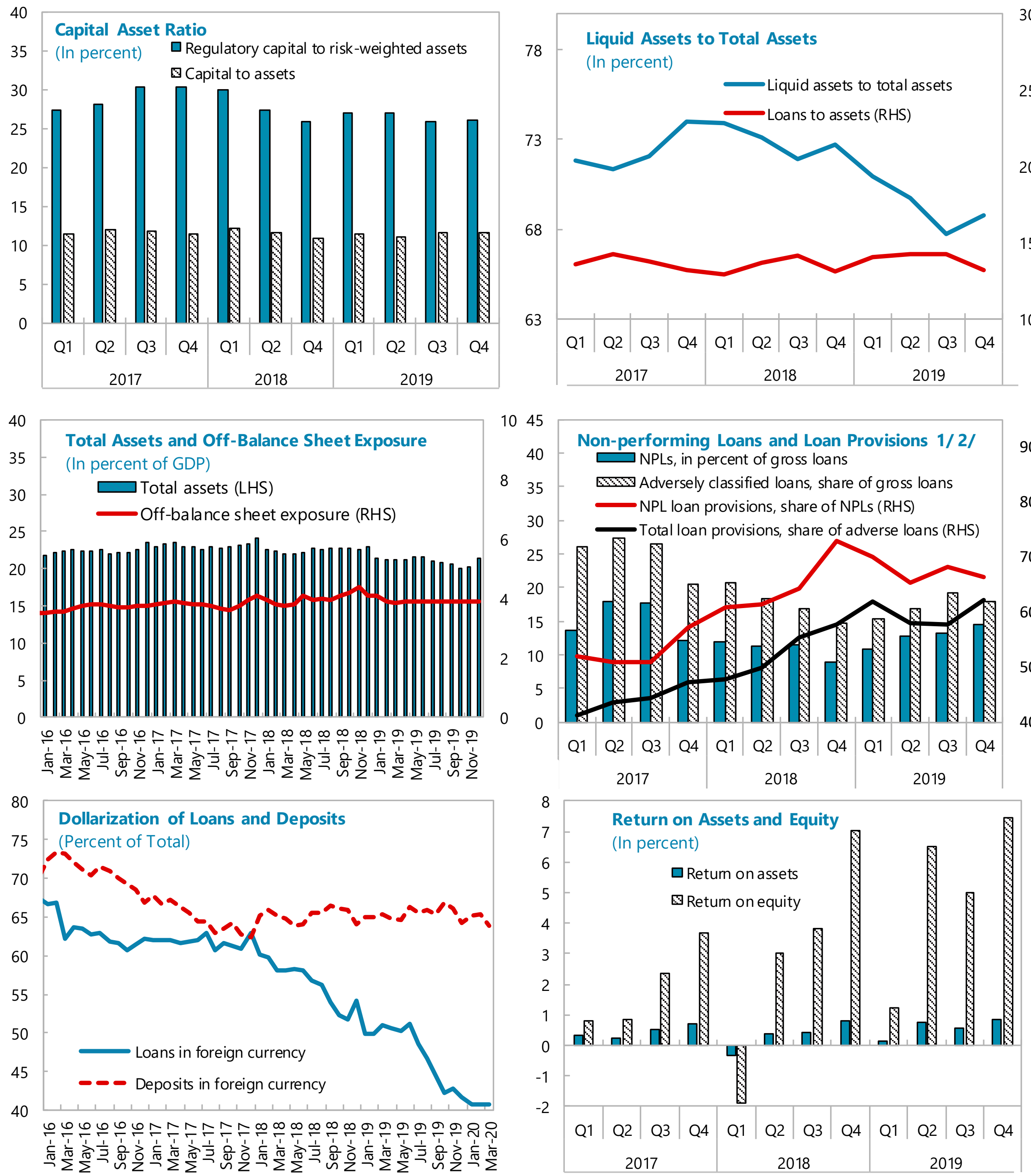
Figure 4. Islamic Republic of Afghanistan: Monetary Sector



Sources: Afghan authorities and IMF staff calculations.

1/ The drop in credit to the private sector in 2011 reflects the write-off of Kabul Bank loans.

Figure 5. Islamic Republic of Afghanistan: Banking Sector



Sources: Afghan authorities and IMF staff calculations.

1/ NPL's include loans 121 to 481 days or more past due for payment of principal and/or interest. This differs from the IMF's FSI Guide which recognizes loans 90 days or more past due payment of interest or principal as NPLs.
2/ Adversely classified loans include loans classified as substandard, doubtful and loss - 60 to 481 days or more past due for payment of principal and/or interest.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2017–21

(Quota: SDR 323.8 million)
(Population: approx. 34.7 million; 2016)
(Per capita GDP: approx. US$554; 2018)
(Poverty rate: 54.5 percent; 2016-2017)
(Main exports: dried and fresh fruits and vegetables, medical seeds, 2018)

	2017	2018	2019	2020	2021
			Est.	Proj.	
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	2.9	2.7	3.0	-3.0	4.5
Nominal GDP (in billions of Afghanis)	1,374	1,444	1,523	1,548	1,690
Nominal GDP (in billions of U.S. dollars)	20.2	19.9	19.6	18.9	19.9
Consumer prices (period average)	5.0	0.6	2.3	4.7	4.5
Food	6.9	-1.1	3.8	...	...
Non-food	3.2	2.3	0.9	...	...
Consumer prices (end of period)	3.0	0.8	2.8	4.5	5.0
Investment and savings	(In percent of GDP)				
Gross domestic investment	17.6	16.7	17.7	16.5	17.5
Of which: Private	5.7	5.4	6.5	6.0	7.1
Gross national savings	24.7	29.7	26.3	21.4	23.3
Of which: Private	13.5	16.9	16.1	14.4	14.3
Public finances (central government)					
Domestic revenues and grants	25.3	28.1	26.1	25.5	25.9
Domestic revenues	12.2	13.1	13.6	10.2	12.6
On-budget grants (excl. donors' direct spending outside the budget)	13.1	15.0	12.5	15.3	13.3
Expenditures	25.9	26.6	27.1	28.9	27.3
Operating 2/	18.4	17.9	17.9	21.8	18.6
Development	7.5	8.7	9.1	7.1	8.7
Operating balance (excluding grants) 3/	-6.2	-4.7	-4.3	-11.7	-6.0
Overall balance (including grants)	-0.6	1.5	-1.0	-3.5	-1.4
Public debt 4/ 5/	7.5	6.8	6.3	8.7	8.9
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	10.2	-2.7	10.6	8.6	9.2
Currency in circulation	2.2	-0.2	13.6	6.5	10.0
Broad money	5.9	2.6	5.7	4.1	5.3
Interest rate, 28-day capital note (in percent)	3.0	3.0	...	...	...
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	784	875	853	641	831
Exports of goods (annual percentage change)	27.6	11.6	-2.6	-24.8	29.5
Imports of goods (in millions of U.S. dollars)	6,737	6,596	6,381	6,408	6,507
Imports of goods (annual percentage change)	7.6	-2.1	-3.3	0.4	1.5
Merchandise trade balance	-29.5	-28.7	-28.3	-30.6	-28.6
Current account balance					
Excluding official transfers	-29.9	-27.1	-28.8	-33.4	-30.2
Including official transfers	7.1	13.0	8.6	4.9	5.8
Foreign direct investment	0.2	0.4	0.5	0.0	0.5
Total external debt 4/	6.4	6.3	6.3	8.5	8.6
Gross international reserves (in millions of U.S. dollars)	8,139	8,273	8,573	8,249	8,149
Import coverage of reserves 6/	12.2	12.8	13.2	12.5	11.9
Exchange rate (average, Afghanis per U.S. dollar)	68.1	72.4	77.9	...	...
Real exchange rate (average, percentage change) 7/	6.4	6.3	6.8	...	...

Sources: Afghan authorities, United Nations Office on Drugs and Crime, WITS database, and IMF staff estimates and projections.

1/ Excluding the narcotics economy.
2/ Comprising mainly current spending.
3/ Defined as domestic revenues minus operating expenditures.
4/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
5/ Public debt includes promissory note issued by MoF to settle DAB's Kabul Bank exposure.
6/ In months of next year's import of goods and services
7/ CPI-based, vis-a-vis the U.S. dollar. Positive - real appreciation of the Afghani.

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
Output and prices 1/			(Annual percentage change, unless otherwise indicated)						
Real GDP	2.9	2.7	3.0	-3.0	4.5	4.5	4.0	4.0	4.0
Nominal GDP (in billions of U.S. dollars)	20.2	19.9	19.6	18.9	19.9	21.8	24.1	26.5	28.5
Consumer prices (period average)	5.0	0.6	2.3	4.7	4.5	5.0	5.0	5.0	5.0
Investment and savings			(In percent of GDP, unless otherwise indicated)						
Gross domestic investment	17.6	16.7	17.7	16.5	17.5	19.0	19.5	19.9	20.2
Of which: Private	5.7	5.4	6.5	6.0	7.1	8.1	8.3	8.6	8.8
Gross national savings	24.7	29.7	26.3	21.4	23.3	23.1	22.8	22.4	22.3
Of which: Private	13.5	16.9	16.1	14.4	14.3	13.3	12.0	11.5	11.3
Public finances (central government)									
Domestic revenues and grants	25.3	28.1	26.1	25.5	25.9	26.5	27.3	26.7	26.4
Domestic revenues	12.2	13.1	13.6	10.2	12.6	14.0	15.5	15.6	15.9
On-budget grants (excl. donors' direct spending outside the budget)	13.1	15.0	12.5	15.3	13.3	12.5	11.7	11.0	10.5
Expenditures	25.9	26.6	27.1	28.9	27.3	27.5	27.7	27.1	26.8
Operating 2/	18.4	17.9	17.9	21.8	18.6	18.5	18.3	17.4	16.7
Development	7.5	8.7	9.1	7.1	8.7	9.0	9.4	9.7	10.1
Operating balance (excluding grants) 3/	-6.2	-4.7	-4.3	-11.7	-6.0	-4.5	-2.7	-1.7	-0.8
Overall budget balance (including grants)	-0.6	1.5	-1.0	-3.5	-1.4	-1.0	-0.4	-0.4	-0.4
External sector 1/									
Merchandise trade balance	-29.5	-28.7	-28.3	-30.6	-28.6	-26.4	-24.2	-22.4	-21.0
Current account balance, excluding official grants	-29.9	-27.1	-28.8	-35.0	-30.2	-28.0	-25.9	-24.0	-22.5
Current account balance, including official grants	7.1	13.0	8.6	4.9	5.8	4.2	3.3	2.5	2.1
Gross reserves (in millions of U.S. dollars)	8,139	8,273	8,573	8,249	8,149	8,049	7,949	7,849	7,748
Import coverage of reserves 4/	12.2	12.8	13.2	12.5	11.9	11.4	10.9	10.5	9.9
Memorandum items:									
Total public debt 5/	7.5	6.8	6.3	8.7	8.9	9.2	8.8	8.4	8.1
Of which: External debt	6.4	6.3	6.3	8.5	8.6	8.8	8.4	8.0	7.8
Domestic debt	1.1	0.5	0.0	0.1	0.2	0.3	0.4	0.5	0.5
Sukuk	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.5
Promissory note	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP per capita (in U.S. dollars) 6/	568	554	536	510	529	574	625	678	720
Donors' direct spending outside the budget	23.9	25.2	25.0	24.6	22.7	19.7	17.4	15.5	14.1

Sources: Afghan authorities and Fund staff estimates and projections.

1/ Excluding the narcotics economy.

2/ Comprising mainly current spending. It is assumed that donors' recurrent expenditure off-budget, mostly in the security sector, is being moved onto the budget by 2031.

3/ Defined as domestic revenues minus operating expenditures.

4/ In months of next year's import of goods and services.

5/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.

6/ Incorporates the 2012 revision to the UN World Population Prospects.

Table 3a. Islamic Republic of Afghanistan: Central Government Budget, 2017–25
(In billions of Afghanis)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Proj.					
Revenues and grants	347.8	405.9	397.1	394.5	438.0	493.4	559.9	607.0	655.7
Domestic revenues	168.3	189.9	207.1	157.2	212.8	260.9	319.1	355.8	395.6
Tax revenues	110.5	121.8	117.7	85.6	126.0	163.2	186.3	214.6	245.1
Income, profits, and capital gains	38.7	48.4	44.5	...	...	...	...	...	...
International trade and transactions	35.7	36.3	35.0	...	...	...	...	...	...
Goods and services	32.8	34.2	34.1	...	...	...	...	...	...
Other	3.2	2.9	4.0	...	...	...	...	...	...
Nontax revenues	57.8	68.0	89.5	71.6	86.7	97.7	132.8	141.2	150.5
Grants to operating budget 1/	76.1	84.6	80.0	94.1	98.3	96.5	96.4	97.2	95.5
ARTF	0.0	0.0	0.0	...	...	...	...	...	...
LOTFA	27.2	25.0	23.5	...	...	...	...	...	...
CSTC-A	48.9	59.6	56.6	...	...	...	...	...	...
Other grants	0.0	0.0	0.0	...	...	...	...	...	...
Grants to development budget 2/	103.5	131.4	109.9	143.2	126.9	136.0	144.4	154.0	164.7
Of which: for Covid-19	0.0	0.0	0.0	24.6	0.0	0.0	0.0	0.0	0.0
Total expenditures	356.5	384.2	412.0	448.0	461.6	512.0	568.1	616.1	665.7
Operating expenditures	253.0	258.1	272.9	337.8	314.1	344.0	375.5	395.3	415.1
Of which: Security	138.9	136.5	153.4	...	...	...	...	...	...
Wages and salaries	174.2	183.6	197.8	...	...	...	...	...	...
Purchases of goods and services	47.9	37.6	40.1	...	...	...	...	...	...
Transfers, subsidies, and other	2.7	2.6	2.2	...	...	...	...	...	...
Pensions	22.1	27.4	26.4	...	...	...	...	...	...
Capital expenditures	5.3	6.2	5.8	...	...	...	...	...	...
Interest	0.9	0.8	0.6	0.6	1.0	1.4	2.0	2.4	3.0
Development expenditures:	103.5	126.1	139.2	110.2	147.5	168.0	192.6	220.8	250.6
Of which: Discretionary	42.4	52.9	61.1	...	...	...	...	...	...
Infrastructure and natural resources	43.4	54.6	65.3	...	...	...	...	...	...
Education	7.6	6.0	4.9	...	...	...	...	...	...
Health	14.5	17.1	15.8	...	...	...	...	...	...
Agriculture and rural development	24.7	27.9	28.3	...	...	...	...	...	...
Other	13.2	20.4	24.8	...	...	...	...	...	...
Operating balance excluding grants	-84.7	-68.2	-65.7	-180.6	-101.3	-83.2	-56.4	-39.5	-19.5
Overall budget balance including grants	-8.7	21.7	-15.0	-53.5	-23.6	-18.6	-8.3	-9.2	-10.0
Float and discrepancy 3/	22.6	16.5	14.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-13.9	-38.2	0.3	53.5	23.6	18.6	8.3	9.2	10.0
Sale of nonfinancial assets	2.8	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	-0.2	-0.4	0.8	25.6	12.1	16.4	8.7	8.6	8.2
o/w IMF's Rapid Credit Facility	0.0	0.0	0.0	18.1	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-16.5	-37.8	-0.8	19.5	3.6	2.3	-0.5	0.5	1.8
Central bank, change in	-16.5	-37.8	-0.8	17.6	1.4	-0.1	-2.6	-1.9	-0.8
Government deposits	-8.9	-29.3	5.9	18.4	2.0	0.4	-2.3	-1.3	1.9
Claims on government	-7.7	-8.4	-6.7	-0.8	-0.6	-0.5	-0.4	-0.6	-2.7
o/w Promissory note (- = repayment)	-7.7	-8.2	-7.0	-0.2	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	1.9	2.1	2.3	2.2	2.4	2.6
Unidentified financing	0.0	0.0	0.0	8.3	7.9	0.0	0.0	0.0	0.0
Promissory note (end-of-period stock)	15.3	7.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 4/	38.8	41.8	54.2	...					

Source: Afghan authorities and Fund staff estimates and projections

Note: Government Finance Statistics Manual 1986 presentation

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;
CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)
ARTF and other grants are reclassified into the grants to development budget.

2/ Some of the grants to development budget can finance operating expenditures.

3/ Positive number indicates that expenditures have been recorded, but not yet executed.

4/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2017–25
(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Proj.			
Revenues and grants	25.3	28.1	26.1	25.5	25.9	26.5	27.3	26.7	26.4
Domestic revenues	12.2	13.1	13.6	10.2	12.6	14.0	15.5	15.6	15.9
Tax revenues	8.0	8.4	7.7	5.5	7.5	8.8	9.1	9.4	9.9
Income, profits, and capital gains	2.8	3.4	2.9	…	…	…	…	…	…
International trade and transactions	2.6	2.5	2.3	…	…	…	…	…	…
Goods and services	2.4	2.4	2.2	…	…	…	…	…	…
Other	0.2	0.2	0.3	…	…	…	…	…	…
Nontax revenues	4.2	4.7	5.9	4.6	5.1	5.2	6.5	6.2	6.1
Grants to operating budget 1/	5.5	5.9	5.3	6.1	5.8	5.2	4.7	4.3	3.8
ARTF	0.0	0.0	0.0	…	…	…	…	…	…
LOTFA	2.0	1.7	1.5	…	…	…	…	…	…
CSTC-A	3.6	4.1	3.7	…	…	…	…	…	…
Other grants	0.0	0.0	0.0	…	…	…	…	…	…
Grants to development budget 2/	7.5	9.1	7.2	9.2	7.5	7.3	7.0	6.8	6.6
Of which: for Covid-19	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
Total expenditures	25.9	26.6	27.1	28.9	27.3	27.5	27.7	27.1	26.8
Operating expenditures	18.4	17.9	17.9	21.8	18.6	18.5	18.3	17.4	16.7
Of which: Security	10.1	9.5	10.1	…	…	…	…	…	…
Wages and salaries	12.7	12.7	13.0	…	…	…	…	…	…
Purchases of goods and services	3.5	2.6	2.6	…	…	…	…	…	…
Transfers, subsidies, and other	0.2	0.2	0.1	…	…	…	…	…	…
Pensions	1.6	1.9	1.7	…	…	…	…	…	…
Capital expenditures	0.4	0.4	0.4	…	…	…	…	…	…
Interest	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Development expenditures:	7.5	8.7	9.1	7.1	8.7	9.0	9.4	9.7	10.1
o/w discretionary	3.1	3.7	4.0	…	…	…	…	…	…
Infrastructure and natural resources	3.2	3.8	4.3	…	…	…	…	…	…
Education	0.6	0.4	0.3	…	…	…	…	…	…
Health	1.1	1.2	1.0	…	…	…	…	…	…
Agriculture and rural development	1.8	1.9	1.9	…	…	…	…	…	…
Other	1.0	1.4	1.6	…	…	…	…	…	…
Operating balance excluding grants	-6.2	-4.7	-4.3	-11.7	-6.0	-4.5	-2.7	-1.7	-0.8
Overall budget balance including grants	-0.6	1.5	-1.0	-3.5	-1.4	-1.0	-0.4	-0.4	-0.4
Float and discrepancy 3/	1.6	1.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-1.0	-2.6	0.0	3.5	1.4	1.0	0.4	0.4	0.4
Sale of nonfinancial assets	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.0	0.0	0.1	1.7	0.7	0.9	0.4	0.4	0.3
o/w IMF's Rapid Credit Facility	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-1.2	-2.6	-0.1	1.3	0.2	0.1	0.0	0.0	0.1
Central bank, change in	-1.2	-2.6	-0.1	1.1	0.1	0.0	-0.1	-0.1	0.0
Government deposits	-0.6	-2.0	0.4	1.2	0.1	0.0	-0.1	-0.1	0.1
Claims on government	-0.6	-0.6	-0.4	-0.1	0.0	0.0	0.0	0.0	-0.1
o/w Promissory note (- = repayment)	-0.6	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Unidentified financing	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0
Promissory note (end-of-period stock)	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 4/	2.8	2.9	3.6	…	…	…	…	…	…

Source: Afghan authorities and Fund staff estimates and projections

Note: Government Finance Statistics Manual 1986 presentation

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;

CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)

ARTF and other grants are reclassified into the grants to development budget.

2/ Some of the grants to development budget can finance operating expenditures.

3/ Positive number indicates that expenditures have been recorded, but not yet executed.

4/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 4. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2017–21

(In billions of Afghanis, unless otherwise indicated)

	2017	2018	2019	2020	2021
				Proj.	
Net foreign assets	551.0	608.2	655.1	699.2	701.2
Net international reserves	508.3	570.7	616.3	642.0	640.8
Gross international reserves	565.6	620.1	667.5	711.9	713.9
Foreign liabilities	57.3	49.4	51.2	69.9	73.1
Foreign currency reserves of commercial banks	52.8	45.0	46.9	65.5	68.6
Other foreign assets	-10.1	-7.5	-8.1	-8.3	-8.3
Assets in nonconvertible currencies	5.3	8.7	8.8	7.7	7.7
Other foreign liabilities	15.4	16.2	16.8	16.0	16.0
Net domestic assets	-208.8	-275.0	-291.3	-291.5	-256.2
Domestic assets	-99.1	-130.6	-121.5	-108.3	-106.3
Net claims on government	-62.5	-98.2	-98.1	-80.2	-78.2
Gross claims on government	29.2	22.7	16.9	16.5	16.5
MOF promissory note 1/	15.3	7.2	0.2	0.0	0.0
IMF accounts 2/	13.8	15.6	16.8	16.5	16.5
Liabilities to government	91.6	121.0	115.1	96.7	94.7
Domestic currency deposits	31.2	24.3	29.6	13.8	11.8
Foreign currency deposits	60.4	96.7	85.4	82.9	82.9
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-38.3	-33.3	-24.3	-29.7	-29.7
DAB's capital notes	-38.7	-33.7	-24.7	-30.2	-30.2
Net credit to public nonfinancial corporations	0.0	0.0	0.1	0.1	0.1
Credit to private sector	1.7	0.9	0.8	1.4	1.4
Other items net	-109.6	-144.4	-169.8	-183.2	-149.8
Reserve money	342.2	333.2	368.6	407.6	445.0
Reserve money in domestic currency	289.4	288.2	321.6	342.2	376.4
Currency in circulation	228.6	228.2	259.3	276.2	303.8
Bank deposits in domestic currency	53.0	44.8	49.9	54.9	61.5
Bank deposits in domestic currency	45.6	39.1	44.2	50.0	56.6
Reserve requirements in domestic currency	7.4	5.7	5.7	4.9	4.9
Bank deposits in foreign currency	52.8	45.0	46.9	65.5	68.6
Other deposits	7.8	15.2	12.4	11.1	11.1
Memorandum items:					
International reserves, in millions of U.S. dollars					
Gross	8,139	8,273	8,573	8,249	8,149
Interest rate, 28-day capital notes (percent)	3.0	3.0	3.0	...	...
Exchange rate (eop, Afghanis per U.S. dollar)	69.5	75.0	78.4	...	...

Sources: Afghan authorities and Fund staff estimates and projections.

1/ A nonmarketable security issued to DAB by the Ministry of Finance for the cost of a lender of last resort assistance to Kabul Bank.

2/ Includes Afghanistan's SDR holdings (MoF is the fiscal agent for the IMF).

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2017–21 1/

	2017	2018	2019	2020	2021
				Proj.	
Net foreign assets	637.4	722.3	773.6	831.2	835.2
Foreign assets	674.3	756.1	805.0	862.6	866.8
Central bank	570.9	628.8	676.2	719.6	721.6
Commercial banks	103.4	127.3	124.1	143.1	145.2
Foreign liabilities	-36.9	-33.8	-31.4	-31.4	-31.6
Central bank	-19.9	-20.6	-21.1	-20.4	-20.4
Commercial banks	-17.1	-13.2	-10.3	-11.0	-11.2
Net domestic assets	-163.5	-236.3	-259.9	-296.2	-272.1
Net domestic credit	-22.2	-60.7	-57.9	-32.0	-27.6
Nonfinancial public sector	-70.2	-106.3	-104.9	-79.5	-118.9
Net credit to central government	-70.3	-106.4	-105.5	-80.2	-119.0
Central bank	-62.5	-98.2	-98.1	-80.2	-78.2
Commercial banks	-7.8	-8.2	-7.4	0.0	0.0
Net credit to public nonfinancial corporations	0.1	0.1	0.6	0.7	0.7
Net credit to private sector	49.4	46.6	47.5	48.0	50.4
in national currency	18.3	21.4	26.1	24.0	22.7
in foreign currency	31.0	25.2	21.3	24.0	27.7
Net credit to other financial corporations	-1.4	-1.0	-0.5	-0.5	-0.5
Other items net	-141.4	-175.5	-202.0	-264.2	-244.5
Broad money M2	473.8	486.0	513.8	535.0	563.1
Broad money M2 in domestic currency	315.7	315.5	344.4	347.6	418.0
Narrow money M1	436.7	453.5	479.9	497.8	520.0
Narrow money M1 in domestic currency	302.9	305.7	337.1	340.1	409.9
Currency outside banks	220.5	219.9	249.9	268.9	294.5
Currency in circulation	228.6	228.2	259.3	276.2	303.8
Currency held by banks	8.1	8.3	9.4	7.3	9.2
Demand deposits	216.2	233.6	230.0	228.9	225.5
in national currency	82.4	85.8	87.1	71.2	115.4
in foreign currency	133.8	147.8	142.8	157.7	160.1
Other deposits	37.1	32.6	33.9	37.2	43.1
in national currency	12.8	9.8	7.3	7.6	8.0
in foreign currency	24.3	22.8	26.6	29.6	35.1
	(12-month percentage change)				
M2	5.9	2.6	5.7	4.1	5.3
M1	5.1	3.8	5.8	3.7	4.5
Currency outside banks	4.5	-0.3	13.7	7.6	9.5
Net credit to private sector	3.5	-5.6	1.8	1.2	5.0
	(In percent of GDP)				
M2	34.5	33.7	33.7	34.6	37.0
M1	31.8	31.4	31.5	32.7	34.1
Net credit to the private sector	3.6	3.2	3.1	3.0	3.2
Memorandum items:					
M2 velocity	2.9	3.0	3.0	2.9	3.0
Reserve money multiplier	1.4	1.5	1.4	1.5	1.5
Banking sector					
Loan dollarization (percent)	62.9	54.1	45.0	50.0	55.0
Deposit dollarization (percent)	62.4	64.1	64.2	65.4	72.7
Currency-to-deposit ratio (percent)	90.3	85.8	98.3	103.8	113.1
Loans-to-deposit ratio (percent)	19.5	17.5	18.0	18.1	17.5

Sources: Afghan authorities and Fund staff estimates and projections.

1/ End of period (Dec.21). Data underlying the survey are not fully consistent because DAB and the public banks use the solar calendar, while commercial banks use the Gregorian calendar.

Table 6. Islamic Republic of Afghanistan: Balance of Payments, 2017–25 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
Current account	1,430	2,590	1,682	932	1,153	908	795	669	612
Excluding official grants	-6,038	-5,413	-5,642	-6,290	-5,993	-6,110	-6,223	-6,348	-6,401
Trade balance of goods	-5,953	-5,721	-5,528	-5,767	-5,676	-5,751	-5,830	-5,916	-5,979
Exports of goods and services	1,156	1,974	1,442	1,039	1,353	1,465	1,577	1,705	1,835
Goods	784	875	853	641	831	940	1,039	1,156	1,273
Services	372	1,099	589	398	523	526	537	550	561
Imports of goods and services	7,960	7,985	7,766	7,785	7,934	8,188	8,435	8,716	8,938
Goods	6,737	6,596	6,381	6,408	6,507	6,691	6,869	7,072	7,252
Services	1,222	1,389	1,385	1,377	1,428	1,497	1,566	1,644	1,686
Income, net	254	212	270	250	255	259	263	269	266
Of which: Interest on official loans	5	5	7	8	10	14	18	22	26
Current transfers, net	7,980	8,388	7,736	7,428	7,479	7,371	7,390	7,410	7,450
Of which: Official 2/	7,468	8,003	7,324	7,222	7,146	7,019	7,018	7,017	7,013
Capital account	0	0	0	0	0	0	0	0	0
Financial account, net	166	-389	-1,386	-1,789	-1,264	-1,006	-891	-761	-682
Foreign direct investment	41	79	94	3	98	106	115	125	135
Portfolio investment	29	-141	-146	-201	-124	-114	-104	-94	-84
Official loans 3/	-5	-20	10	92	143	192	102	100	94
Disbursement	20	2	30	120	171	220	144	146	142
Amortization	25	22	21	28	28	28	42	46	48
Other investment	101	-307	-1,343	-1,683	-1,381	-1,190	-1,004	-892	-827
Errors and omissions	-806	-2,063	0	0	0	0	0	0	0
Overall balance	790	138	296	-857	-111	-97	-96	-93	-70
Financing	-790	-138	-296	857	111	97	96	93	70
Central bank's gross reserves ('-' = accumulation)	-782	-134	-300	324	111	100	100	100	101
Use of Fund resources, net	-8	-4	4	213	-7	-5	-4	-7	-31
Disbursements	13	13	14	220	0	0	0	0	0
Repayments	21	16	10	8	7	5	4	7	31
Exceptional Financing (grants)	0	0	0	315	0	0	0	0	0
World Bank	0	0	0	200	0	0	0	0	0
ADB and other IFIs	0	0	0	45	0	0	0	0	0
Bilateral Support	0	0	0	70	0	0	0	0	0
Grant for debt relief under CCRT 4/	0	0	0	5	7	2	0	0	0
Memorandum items:									
Gross international reserves, central bank	8,139	8,273	8,573	8,249	8,149	8,049	7,949	7,849	7,748
Import coverage of reserves 5/	12.2	12.8	13.2	12.5	11.9	11.4	10.9	10.5	9.9
External debt stock, official 6/	1,258	1,213	1,225	1,530	1,666.0	1,853	1,939	2,033	2,096
in percent of GDP	6.4	6.3	6.3	8.5	8.6	8.8	8.3	8.0	7.7
Current account, in percent of GDP	7.1	13.0	8.6	4.9	5.8	4.2	3.3	2.5	2.1
Trade balance, in percent of GDP	-29.5	-28.7	-28.3	-30.6	-28.6	-26.4	-24.2	-22.4	-21.0
Export of goods and services, in percent of GDP	5.7	9.9	7.4	5.5	6.8	6.7	6.5	6.4	6.4
Import of goods and services, in percent of GDP	39.4	40.0	39.7	41.3	40.0	37.5	35.0	32.9	31.4
Official grants, in percent of GDP	37.0	40.1	37.4	38.3	36.0	32.2	29.2	26.5	24.6

Sources: Afghan authorities and Fund staff estimates and projections.

1/ BoP data exclude the narcotics economy.

2/ As the breakdown between capital grants and current grants is difficult to identify, all grants are included in current transfers.

3/ Excluding IMF.

4/ The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the

5/ In months of next year's import of goods and services.

6/ Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.

Table 7. Islamic Republic of Afghanistan: Financial Soundness Indicators 1/

	2017	2018	2019			
			Q1	Q2	Q3	Q4
Capital adequacy						
Regulatory Capital to Risk-weighted Assets (capital adequacy ratio – "CAR")	30.3	25.8	27.0	27.0	25.8	26.1
Total Capital to Total Assets	11.3	10.9	11.5	11.0	11.6	11.6
Asset composition and quality						
Total Loans to Total Assets	13.2	13.1	14.0	14.2	14.2	13.2
Non-performing Loans to Total Gross Loans	12.2	8.9	10.9	12.8	13.2	14.5
Non-performing Loans Net of Provisions to Capital	8.8	3.4	4.5	6.3	5.9	6.7
Earnings and profitability						
Return on Assets	0.4	0.3	0.1	0.7	0.6	0.9
Return on Equity	1.9	3.0	1.2	6.5	5.0	7.4
Liquidity						
Liquid Assets to Total Assets (Liquid Asset Ratio)	74.0	72.7	70.9	69.7	67.7	68.7
Liquid Assets to Short-term Liabilities	92.6	90.6	89.9	89.1	86.6	87.3
Sensitivity to Market Risk						
Net open position in foreign exchange to capital 2/	24.0	30.8	27.6	37.6	37.4	30.3
Foreign currency denominated liabilities to total liabilities	64.3	68.6	69.3	70.8	68.0	66.5
Foreign currency denominated loans to total loans	67.4	58.1	54.5	54.0	51.8	49.2

Source: Afghan authorities.

1/ NPLs include loans 121 to 481 days or more past due for payment of principal and/or interest. This differs from the IMF's FSI Compilation Guide which advises recognition of loans 90 days or more past due payment of interest or principal as NPLs.

2/ Net open positions are due to high and persistent dollarization.

Table 8. Islamic Republic of Afghanistan: External Financing Requirement and Sources, 2020–21

(In millions of U.S. dollars)

	2020	2021
	Proj.	
Gross financing requirement	6,326	6,028
Current account Deficit (excluding grants)	6,290	5,993
Amortization	36	35
Of which: IMF	8	7
Available financing	5,785	6,021
Drawdown in Reserves	324	111
Official transfers (grants)	7,222	7,146
Foreign direct investment	3	98
Official medium- and long-term loans	120	171
Other flows	-1,884	-1,505
Financing gap	541	7
Identified financing (provisional)	541	7
Of which: IMF RCF	220	0
Other IFIs and bilateral donors	315	0
Grant for debt relief under CCRT	5	7
Remaining gap	0	0

Sources: Afghan authorities; and Fund staff estimates and projections.

Table 9. Islamic Republic of Afghanistan: Projected Payments and Indicators of Capacity to Repay the Fund 1/

(In millions of SDRs)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Obligations from existing drawings															
1. Principal															
PRGT repayments	3.6	4.8	3.8	3.2	5.0	6.5	6.5	5.1	3.3	1.5	0.0	0.0	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR net charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations	3.7	4.9	3.8	3.2	5.0	6.5	6.5	5.2	3.4	1.6	0.1	0.1	0.1	0.1	0.1
(percent of quota)	1.2	1.5	1.2	1.0	1.5	2.0	2.0	1.6	1.0	0.5	0.0	0.0	0.0	0.0	0.0
Obligations from prospective drawings 2/															
1. Principal															
PRGT repayments	0.0	0.0	0.0	0.0	0.0	16.2	32.4	32.4	32.4	32.4	16.2	0.0	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations	0.0	0.0	0.0	0.0	0.0	16.2	32.4	32.4	32.4	32.4	16.2	0.0	0.0	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	5.0	10.0	10.0	10.0	10.0	5.0	0.0	0.0	0.0	0.0
Cumulative obligations (existing and prospective) 2/															
1. Principal															
PRGT repayments	3.6	4.8	3.8	3.2	5.0	22.7	38.9	37.5	35.7	33.9	16.2	0.0	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessment and net charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations	3.7	4.9	3.8	3.2	5.0	22.7	38.9	37.6	35.8	34.0	16.3	0.1	0.1	0.1	0.1
Outstanding Fund credit, end of period	201.5	196.7	192.9	189.8	184.8	162.2	123.3	85.8	50.1	16.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services 3/	27.4	20.5	18.6	16.3	14.7	12.0	8.5	5.5	3.0	0.9	0.0	0.0	0.0	0.0	…
External public debt	16.5	14.9	13.7	12.4	11.5	9.8	5.4	3.0	1.4	0.4	0.0	0.0	0.0	0.0	…
Gross official reserves	3.5	3.5	3.4	3.3	3.2	3.0	2.2	1.5	0.9	0.3	0.0	0.0	0.0	0.0	…
GDP	1.5	1.4	1.2	1.1	0.9	0.8	0.5	0.4	0.2	0.1	0.0	0.0	0.0	0.0	…
Quota	62.2	60.7	59.6	58.6	57.1	50.1	38.1	26.5	15.5	5.0	0.0	0.0	0.0	0.0	…
Total Obligations, in percent of															
Exports of goods and services 3/	0.5	0.5	0.4	0.3	0.4	1.7	2.7	2.4	2.2	1.9	0.9	0.0	0.0	0.0	…
External public debt	0.3	0.4	0.3	0.2	0.3	1.4	1.7	1.3	1.0	0.8	0.3	0.0	0.0	0.0	…
Gross official reserves	0.1	0.1	0.1	0.1	0.1	0.4	0.7	0.7	0.6	0.6	0.3	0.0	0.0	0.0	…
GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	…
Quota	1.2	1.5	1.2	1.0	1.5	7.0	12.0	11.6	11.0	10.5	5.0	0.0	0.0	0.0	…
Quota	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8

Source: Fund staff estimates and projections.

1/ Projections are based on current interest rates for PRGT loans.
2/ Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.
3/ Excluding reexports.

Appendix I. Letter of Intent

Kabul, April 20, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

1. The COVID-19 pandemic is inflicting heavy damage to the health of our people and to our economy. So far, we have identified 1026 infection cases, with 131 deaths and 33 recoveries but given the limited testing capacity of our health system, the number of infected people is likely higher and is set to grow. Our ability to manage the pandemic and its socioeconomic fallout is severely tested given our weak capacity in the context of fragility, the ongoing conflict, and the large number of Afghan returnees from neighboring countries, with 250,000 from Iran alone in recent months.

2. Despite these formidable challenges, we are battling the pandemic head-on to protect our people and our economy. We have taken resolute measures to slow the epidemic by mobilizing our emergency health services, banning social gatherings, and enforcing a strict quarantine of infected persons. In late March, we ordered a three-week lockdown in Kabul and subsequently in other cities, which we recently extended by two weeks.

3. We are seeking the support of the international community in this battle. We request emergency financing from the IMF amounting to 50 percent of Afghanistan's quota (SDR 161.9 million, $220 million) under the "exogenous shocks window" of the Rapid Credit Facility (RCF). We request that the full amount be disbursed to the account of the Ministry of Finance at the Da Afghanistan Bank (central bank; DAB). The disbursement will help cover an urgent balance of payment gap of about $857 million (4.5 percent of GDP) that has emerged due to the pandemic and will open fiscal space for urgent pandemic-related expenditures, first and foremost for health and social relief to affected households. The RCF will also help to catalyze financing from other development partners. We thank the IMF for debt service relief under the Catastrophe Containment Relief Trust and plan to request forbearance under the recent G20 debt suspension initiative, which we welcome wholeheartedly.

4. The pandemic is exacting a heavy toll on our economy. Borders with our neighbors—including with Pakistan, our second largest export market—have been intermittently closed, and air and land transport have been disrupted. This has led to a sharp drop in our exports and disrupted imports, causing temporary shortages of essential goods. While necessary, our drastic actions to contain the disease have virtually brought to a halt domestic activity in locked-down cities, putting

at risk livelihoods of thousands of families, especially those who depend on a daily stream of income for survival.

5. As a result, we estimate that the economy has entered a recession and will contract by 3 percent in 2020—a drastic reversal from the 3.5 percent expansion we projected only a few months ago. Services and industry are expected to experience steep declines due to falling domestic and external demand as well as supply disruptions. This estimate assumes that pandemic containment measures will wind down by mid-summer with activity returning to the pre-shock level late in the third quarter. Should the impact of the pandemic last through the end of the year, GDP could suffer a decline of 7–8 percent. We expect inflation to rise as panic buying and food shortages due to border closures and export restrictions by our trading partners are leading to price spikes. We are particularly concerned that poverty will rise and social indicators deteriorate as jobs are lost and people's incomes are stretched by higher food prices and health spending.

6. A large balance of payment gap has opened up. Our exports have been hit as economies of our trading partners have slowed and shipments ceased due to border closures and transport disruptions. Remittances, which at about 6 percent of GDP are a sizeable source of foreign exchange, could halve this year given the mass return of Afghan migrants from host countries of which many are oil exporters hit by COVID-19 and the sharp drop in oil prices.

7. We are bracing ourselves for a large revenue shortfall this year. Already in the first three months, revenue dropped some 16 percent below our target. As businesses reduce operations in response to social distancing measures, revenue will decline further. In addition, to provide relief to taxpayers, we have extended the deadline for tax filings. We have also temporarily reduced import tariffs on basic food items and medicines to ease shortages and inflationary pressures. Without offsetting measures, we expect domestic revenue in 2020 to fall short of budget by some Af 64 billion (4.2 percent of GDP).

8. At the same time, our budget must meet urgent spending needs:

- We cautiously estimate that COVID-related outlays to cover the cost of health, containment, and basic mitigation will amount to Af 30.8 billion (2 percent of GDP), of which we expect to spend about Af 9.6 billion on social mitigation. We have already allocated Af 1.9 billion for emergency health spending, which is funding key actions underway, such as (i) establishing testing labs; and (ii) setting up dedicated hospital wards; and iii) procuring the critical medical supplies. But more is needed. Initial estimates by the WHO put the required number of beds at 23,400; masks at almost seven million just for healthcare workers; and 52,000 healthcare professionals. To meet those needs, over the course of 2020, health expenditure will grow by some 0.6 percent of GDP or 57 percent relative to the budget.

- With the support of the World Bank, other development partners, and humanitarian agencies, we are developing a social relief package to be provided to the needy via the most effective means—including through cash transfers, initially to the most vulnerable households. The size of the package will be calibrated to assure food security. Where cash transfer is not practical, a basic foodstuffs package, comprising flour, cooking oil, rice, soap, and sugar, may be used instead. Depending on the coverage and its size, such a package delivered nationwide could cost about $300–400 million (1.5–2 percent of GDP).

9. We intend to meet pandemic-related spending needs while keeping the overall fiscal deficit under 3.5 percent of GDP in 2020. This will help contain our balance of payment gap at its estimated level. To this end, the DAB transferred Af 12.7 billion of its 2019 profits to the budget in line with the existing framework, and we are considering further one-time revenue measures. We have also identified savings of about 1.3 percent of GDP in security-related and non-priority spending. Our mid-year budget revision will fully reflect the updated revenue projections, priority health and social outlays, and the required expenditure revisions. We thank our developments partners who plan to allocate $300 million in grants to help us tackle the pandemic. The RCF disbursement to the budget would finance our budget deficit, with the remainder covered from the treasury's balances where we must maintain an adequate cash buffer given virtually no scope for domestic financing. Should the fiscal cost of the pandemic be larger than anticipated currently, we will seek more financing from donors and cut low-priority spending. We will also ensure that current extraordinary measures will not become permanent by reviewing them monthly and phasing them out as soon as possible.

10. We will do our utmost to ensure effectiveness and strong governance in implementing crisis-mitigation measures. To ensure full transparency, we commit to publishing quarterly reports on pandemic-related spending, including procurement contracts and the beneficial ownership of companies awarded those contracts. We will undertake audits of selected spending, to be performed by the Supreme Audit Office in line with our legislative framework, and publish the audit reports by end-December. In addition, as per standard practice, select donor-financed programs and projects will be audited by external auditors approved by donors.

11. We commit to bring our fiscal deficit to within 1 percent of GDP by 2022. As the pandemic wanes, with pandemic-related spending phasing out and tax revenues recovering, the fiscal position should improve. Over the medium term, we will keep the operating deficit excluding grants on a declining path to reduce aid dependence. To meet these fiscal objectives, we aim to mobilize domestic revenue and further optimize our spending, while preserving priority social outlays. We continue our preparatory work to introduce a value-added tax (VAT) in January 2021, but may have to reassess our plans, in consultation with IMF staff and other stakeholders, if the pandemic lasts longer than currently expected.

12. The DAB remains focused on price stability while allowing the Afghani to move in line with market fundamentals. Reserve money will continue to be the operational target for monetary policy. The DAB will accommodate a temporary increase in headline inflation owing to supply disruptions or a weaker exchange rate, closely monitor second-order effects for evidence of sustained inflationary pressures and tighten its stance as necessary with the objective of containing inflation in its target range. To preserve our international reserves, it will limit interventions to addressing disorderly market conditions. It will consult with IMF staff in the event of sustained foreign exchange pressures.

13. The DAB will support the stability and resiliency of the financial sector. The Financial Stability Committee is meeting more frequently, and the DAB intensified its monitoring of banks, including by asking them to update business continuity plans and provide daily liquidity reports. We expect that banks' capital and liquidity buffers will absorb temporary credit losses and a liquidity squeeze, and the DAB stands ready to provide liquidity in line with its LOLR role. The DAB has suspended certain administrative fees and penalties, extended the IFRS-9 implementation date to June 2021,

and temporarily froze loan classifications as of end-February for loans to viable borrowers to support debt restructuring.

14. As soon as conditions allow, we intend, in line with our commitment to donors, to negotiate a new ECF arrangement that can support our ongoing reforms to maintain macroeconomic stability and promote strong and durable growth and poverty reduction. In the meantime, we reiterate our commitment to the policies contained in the Memorandum of Economic and Financial Policies accompanying the final review under the ECF arrangement concluded in December 2019, including, among others, reforms of state-owned commercial banks and corporations, PFM, and governance.

15. We will consult with the IMF staff as we resolve our balance of payment difficulties and will avoid measures or policies that would exacerbate these difficulties, or impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

16. Our capacity to repay the IMF is and will remain adequate. In line with IMF's safeguards policy, a safeguards assessment has been initiated and will be completed before the approval of a new arrangement by the IMF Executive Board. As in previous instances, the DAB has authorized external auditors to hold discussions with staff and will provide IMF staff with access to its most recently completed audit reports. Since the RCF disbursement will finance the budget, the DAB and the Ministry of Finance will sign by May 7 a Memorandum of Understanding that (i) commits the government to receive the disbursement in a specific government account at the DAB; (ii) requires the government to hold foreign exchange balances only with the DAB; and (iii) clarifies the responsibilities for servicing the related financial obligations to the IMF.

17. In line with our commitment to transparency, we hereby request that this Letter of Intent, the staff report, all annexes and attachments, be published on the IMF website.

Sincerely yours,

/s/	/s/
Abdul Hadi Arghandiwal Minister of Finance	Wahidullah Nosher Governor of Da Afghanistan Bank

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

April 21, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Subir Lall and Gavin Gray (IMF), and Marcello Estevão (IDA)

Prepared by International Monetary Fund
International Development Association

This debt sustainability analysis (DSA) assesses Afghanistan's external and overall risk of debt distress as high.[1] *Afghanistan's debt sustainability depends on donor grants inflows (currently around 38 percent of GDP) to finance underlying fiscal and external deficits. Both external and public debt will remain low and mechanical signals over the 10-year horizon suggest moderate risk of debt distress. However, as grants are expected to decline over the medium and long term and be replaced by debt financing, the mechanical risk ratings based on extended 20-year periods are used. One of these—the ratio of present value of debt to exports—breaches the threshold under the baseline scenario, suggesting the high-risk rating. Political uncertainty, threat of violence, deeper than expected drop in aid, and weather shocks all provide significant downside risks. The authorities should continue improving revenue mobilization and strengthen debt management capacity, including effective monitoring of state-owned corporations (SOC) and public private partnerships (PPPs). In addition, Afghanistan should continue improving its debt carrying capacity through diversification of exports and strengthening debt management, including through local debt market development.*

[1] This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 2020 request for emergency financing from the Fund, RCF. The macro framework underlying this DSA is the same as that included in the staff report of the 2020 RCF request which reflects recent global and domestic developments. The current macroeconomic framework reflects currently available information. However, updates with respect to economic impact and policy response to the COVID-19 crisis are rapidly evolving and risks are heavily tilted to the downside.

Islamic Republic of Afghanistan Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress:	High[2]
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	Yes: The projection period of informing mechanical risk signals is extended to 20 years.
Macroeconomic projections	In the near and medium term, real GDP growth will be slower compared to the last DSA due to COVID-19 impact (average of 3.0 percent in 2020–25 compared to 3.7 in 2019–24 from the last DSA), and primary deficits will be larger (average of 1.1 percent compared to 0 in the above-mentioned periods). Revenue loss is the key driver of the higher deficits. In the long run, there will be slower real GDP growth (4.0 percent compared to 4.5 percent); lower grants (4.2 percent compared to 6.7 percent of GDP) and expenditure (23.6 percent compared to 26 percent of GDP) than in the previous DSA.[3] Debt relief under the Catastrophe Containment and Relief Trust (CCRT) is reflected in the exceptional financing line in Table 1 and in the debt relief (HIPC and other) line in Table 2.
Financing strategy	In the near term, larger deficits will be financed partially by official support plus the government using its deposits at the central bank. In the medium and long term, declining grants will be replaced by external concessional loans with 35 percent grant element.
Realism tools flagged	
Mechanical risk rating under the external DSA	Moderate
Mechanical risk rating under the public DSA	Moderate

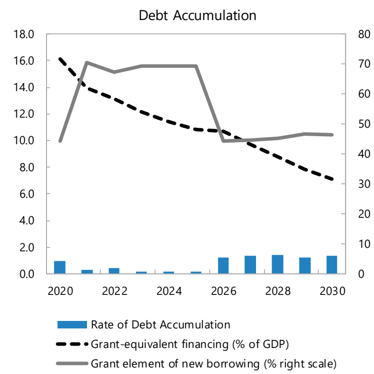
[1] Debt coverage is the same as in the previous DSA which includes central government and central bank borrowing on behalf of the government.
[2] Afghanistan's Composite Indicator score is 2.61 and its debt-carrying capacity is assessed to be weak based on the October 2019 WEO and CPIA 2019.
[3] Metrics used for the long term are averages over the 2025-39 period for the previous DSA and the 2026–40 period for this DSA.

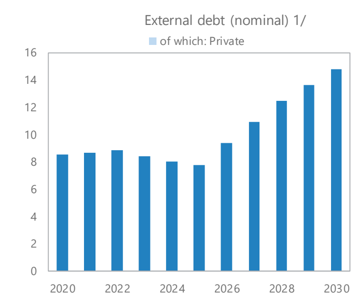
Table 1. Islamic Republic of Afghanistan: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	**6.4**	**6.3**	**6.3**	**8.5**	**8.6**	**8.8**	**8.4**	**8.0**	**7.8**	**14.8**	**14.6**	**6.7**	**10.1**
of which: public and publicly guaranteed (PPG)	**6.4**	**6.3**	**6.3**	**8.5**	**8.6**	**8.8**	**8.4**	**8.0**	**7.8**	**14.8**	**14.6**	**6.7**	**10.1**
Change in external debt	0.3	-0.1	0.0	2.2	0.1	0.2	-0.5	-0.4	-0.2	1.2	-0.4		
Identified net debt-creating flows	**-7.5**	**-13.3**	**-9.0**	**-4.8**	**-6.7**	**-5.0**	**-4.1**	**-3.3**	**-2.9**	**6.9**	**7.6**	**-12.5**	**-0.8**
Non-interest current account deficit	**-7.1**	**-13.0**	**-8.6**	**-5.0**	**-5.9**	**-4.2**	**-3.3**	**-2.6**	**-2.2**	**9.4**	**14.1**	**-11.5**	**0.3**
Deficit in balance of goods and services	33.7	30.1	32.3	35.8	33.1	30.8	28.5	26.5	24.9	22.9	16.7	**32.3**	**27.3**
Exports	5.7	9.9	7.4	5.5	6.8	6.7	6.5	6.4	6.4	6.4	5.5		
Imports	39.4	40.0	39.7	41.3	40.0	37.5	35.0	32.9	31.4	29.3	22.2		
Net current transfers (negative = inflow)	-39.5	-42.1	-39.6	-39.4	-37.7	-33.8	-30.7	-28.0	-26.2	-12.8	-2.3	**-43.2**	**-25.9**
of which: official	-37.0	-40.1	-37.4	-38.3	-36.0	-32.2	-29.2	-26.5	-24.6	-10.9	0.0		
Other current account flows (negative = net inflow)	-1.3	-1.1	-1.4	-1.4	-1.3	-1.2	-1.1	-1.1	-1.0	-0.7	-0.3	**-0.6**	**-1.0**
Net FDI (negative = inflow)	**-0.2**	**-0.4**	**-0.5**	**0.0**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-2.1**	**-6.1**	**-0.6**	**-0.9**
Endogenous debt dynamics 2/	**-0.2**	**0.1**	**0.2**	**0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.4**	**-0.4**		
Contribution from nominal interest rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1		
Contribution from real GDP growth	-0.2	-0.2	-0.2	0.2	-0.4	-0.4	-0.3	-0.3	-0.3	-0.5	-0.6		
Contribution from price and exchange rate changes	-0.1	0.2	0.3	...	...	...	...	...	...	...	...		
Residual 3/	**7.8**	**13.2**	**9.0**	**7.0**	**6.8**	**5.2**	**3.6**	**3.0**	**2.7**	**-5.7**	**-8.0**	**11.5**	**1.6**
of which: exceptional financing	0.0	0.0	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
CCRT Debt Relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**3.8**	**4.9**	**4.9**	**4.8**	**4.5**	**4.3**	**4.1**	**8.3**	**8.6**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**51.2**	**88.6**	**71.9**	**71.8**	**69.4**	**66.3**	**63.5**	**130.1**	**156.9**		
PPG debt service-to-exports ratio	**4.4**	**2.2**	**2.6**	**4.2**	**3.2**	**2.9**	**3.5**	**3.7**	**3.6**	**5.8**	**9.4**		
PPG debt service-to-revenue ratio	**2.1**	**1.7**	**1.4**	**2.3**	**1.7**	**1.4**	**1.5**	**1.5**	**1.4**	**2.1**	**2.8**		
Gross external financing need (Million of U.S. dollars)	-1425.0	-2630.7	-1745.1	-899.1	-1216.0	-981.1	-864.2	-740.6	-691.6	2988.7	7451.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.9	2.7	3.0	-3.0	4.5	4.5	4.0	4.0	4.0	4.0	4.0	**4.9**	**3.4**
GDP deflator in US dollar terms (change in percent)	1.0	-3.8	-4.8	-0.6	0.8	5.2	6.1	5.7	3.5	3.1	1.2	**0.0**	**3.0**
Effective interest rate (percent) 4/	0.4	0.4	0.5	0.6	0.5	0.5	0.5	0.5	0.5	1.0	1.0	**0.3**	**0.7**
Growth of exports of G&S (US dollar terms, in percent)	1.4	70.7	-27.0	-27.9	30.2	8.3	7.6	8.2	7.6	6.3	5.7	**1.5**	**6.0**
Growth of imports of G&S (US dollar terms, in percent)	8.6	0.3	-2.7	0.2	1.9	3.2	3.0	3.3	2.5	5.1	5.6	**8.0**	**3.6**
Grant element of new public sector borrowing (in percent)	...	...	...	44.4	70.5	67.1	69.3	69.3	69.3	46.5	65.9	**...**	**56.1**
Government revenues (excluding grants, in percent of GDP)	12.2	13.1	13.6	10.2	12.6	14.0	15.5	15.6	15.9	17.3	18.7	**11.0**	**15.4**
Aid flows (in Million of US dollars) 5/	2670.0	2997.8	2483.3	2976.9	2758.0	2823.5	2905.2	3005.5	3069.7	3101.5	232.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	16.1	13.9	13.2	12.1	11.4	10.8	7.1	0.4	**...**	**11.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	94.1	98.2	97.5	98.5	98.5	98.6	85.0	65.9	**...**	**92.7**
Nominal GDP (Million of US dollars)	20,187	19,943	19,560	18,853	19,856	21,817	24,072	26,470	28,488	38,931	87,176		
Nominal dollar GDP growth	3.9	-1.2	-1.9	-3.6	5.3	9.9	10.3	10.0	7.6	7.2	5.2	**5.0**	**6.5**
Memorandum items:													
PV of external debt 7/	...	...	3.8	4.9	4.9	4.8	4.5	4.3	4.1	8.3	8.6		
In percent of exports	...	...	51.2	88.6	71.9	71.8	69.4	66.3	63.5	130.1	156.9		
Total external debt service-to-exports ratio	4.4	2.2	2.6	4.2	3.2	2.9	3.5	3.7	3.6	5.8	9.4		
PV of PPG external debt (in Million of US dollars)			738.2	920.7	973.6	1052.2	1093.4	1130.4	1164.8	3244.0	7528.0		
(PVt-PVt-1)/GDPt-1 (in percent)				0.9	0.3	0.4	0.2	0.2	0.1	1.3	0.1		
Non-interest current account deficit that stabilizes debt ratio	-7.4	-12.9	-8.6	-7.2	-6.0	-4.4	-2.9	-2.2	-1.9	8.2	14.5		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

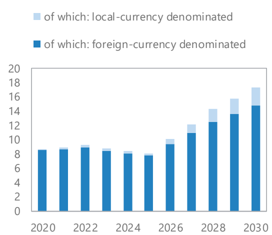
Table 2. Islamic Republic of Afghanistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**7.5**	**6.8**	**6.3**	**8.7**	**8.9**	**9.2**	**8.8**	**8.4**	**8.1**	**17.3**	**20.1**	**7.5**	**11.1**
of which: external debt	**6.4**	**6.3**	**6.3**	**8.5**	**8.6**	**8.8**	**8.4**	**8.0**	**7.8**	**14.8**	**14.6**	**6.7**	**10.1**
Change in public sector debt	-0.4	-0.7	-0.5	2.3	0.3	0.3	-0.4	-0.4	-0.3	1.5	-0.2		
Identified debt-creating flows	**0.0**	**-1.3**	**0.9**	**4.0**	**0.8**	**0.3**	**-0.5**	**-0.4**	**-0.3**	**0.7**	**1.8**	**-0.9**	**0.5**
Primary deficit	**0.6**	**-1.6**	**0.9**	**3.4**	**1.3**	**0.9**	**0.3**	**0.3**	**0.3**	**1.6**	**2.5**	**0.3**	**1.0**
Revenue and grants	25.3	28.1	26.1	25.5	25.9	26.5	27.3	26.7	26.4	23.4	18.7	**24.6**	**25.7**
of which: grants	13.1	15.0	12.5	15.3	13.3	12.5	11.7	11.0	10.5	6.0	0.0		
Primary (noninterest) expenditure	25.9	26.5	27.0	28.9	27.3	27.4	27.6	27.0	26.7	24.9	21.2	**24.9**	**26.7**
Automatic debt dynamics	**-0.4**	**0.3**	**0.0**	**0.6**	**-0.6**	**-0.7**	**-0.8**	**-0.7**	**-0.5**	**-0.8**	**-0.7**		
Contribution from interest rate/growth differential	-0.4	-0.3	-0.3	0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.7	-0.8		
of which: contribution from average real interest rate	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0		
of which: contribution from real GDP growth	-0.2	-0.2	-0.2	0.2	-0.4	-0.4	-0.4	-0.3	-0.3	-0.6	-0.8		
Contribution from real exchange rate depreciation	0.0	0.5	0.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.7**	**0.0**
Privatization receipts (negative)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**-0.4**	**0.6**	**-1.4**	**-1.2**	**-0.6**	**-0.1**	**-0.3**	**-0.2**	**-0.2**	**0.6**	**-1.9**	**-0.1**	**0.4**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**3.8**	**5.3**	**5.3**	**5.4**	**5.1**	**4.9**	**4.6**	**10.8**	**14.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**14.6**	**20.7**	**20.6**	**20.5**	**18.8**	**18.2**	**17.3**	**46.4**	**76.3**		
Debt service-to-revenue and grants ratio 3/	**3.2**	**2.9**	**2.5**	**1.0**	**0.9**	**0.8**	**1.3**	**1.5**	**1.3**	**4.6**	**11.8**		
Gross financing need 4/	1.4	-0.8	1.6	3.6	1.6	1.1	0.7	0.7	0.6	2.6	4.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.9	2.7	3.0	-3.0	4.5	4.5	4.0	4.0	4.0	4.0	4.0	**4.9**	**3.4**
Average nominal interest rate on external debt (in percent)	0.4	0.4	0.6	0.6	0.6	0.5	0.5	0.5	0.5	1.0	1.0	**0.3**	**0.7**
Average real interest rate on domestic debt (in percent)	-5.0	0.8	-0.2	-4.6	2.4	1.4	0.9	0.4	2.1	2.1	2.1	**-3.0**	**1.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.8	8.7	4.2	...	...	...	...	...	...	...	...	**2.7**	**...**
Inflation rate (GDP deflator, in percent)	5.2	1.2	2.4	4.8	4.5	5.6	6.0	6.5	4.8	4.8	4.8	**4.1**	**5.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.2	6.6	4.8	3.7	-1.4	5.0	4.6	1.7	3.0	2.3	4.0	**8.3**	**2.7**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.9	-0.9	1.4	1.1	1.1	0.6	0.7	0.7	0.6	0.0	2.7	**0.5**	**0.0**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-30

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	4.9	4.9	4.8	4.5	4.3	4.1	5.1	6.0	6.9	7.6	8.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	4.9	1.3	-3.2	-8.4	-14.1	-20.1	-26.6	-34.4	-43.5	-53.7	-64.7
B. Bound Tests											
B1. Real GDP growth	4.9	5.2	5.5	5.1	4.8	4.6	5.8	6.8	7.8	8.6	9.4
B2. Primary balance	4.9	5.3	5.6	5.3	5.1	5.0	6.1	7.0	7.9	8.6	9.3
B3. Exports	4.9	7.2	10.0	9.5	8.9	8.6	9.7	10.5	11.3	11.9	12.5
B4. Other flows 2/	4.9	8.6	12.0	11.4	10.7	10.3	11.5	12.2	12.9	13.4	14.0
B6. One-time 30 percent nominal depreciation	4.9	6.2	-0.6	-0.6	-0.6	-0.7	0.6	1.9	3.2	4.2	5.3
B6. Combination of B1-B5	4.9	10.4	11.6	10.9	10.3	9.9	11.1	12.0	12.8	13.4	14.1
C. Tailored Tests											
C1. Combined contingent liabilities	4.9	7.8	7.6	7.2	7.6	7.3	8.5	9.5	10.3	10.9	11.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	88.6	71.9	71.8	69.4	66.3	63.5	77.9	92.0	106.5	117.7	130.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	88.6	19.2	-47.7	-128.6	-219.6	-311.9	-403.7	-523.8	-667.3	-831.2	-1010.6
B. Bound Tests											
B1. Real GDP growth	88.6	71.9	71.8	69.4	66.3	63.5	77.9	92.0	106.5	117.7	130.1
B2. Primary balance	88.6	78.0	83.8	81.2	79.7	78.3	92.7	106.9	121.7	132.7	**144.9**
B3. Exports	88.6	**205.7**	**480.8**	**464.9**	**446.0**	**429.6**	**473.9**	**514.6**	**558.1**	**591.2**	**627.9**
B4. Other flows 2/	88.6	126.3	**179.3**	**173.4**	**166.5**	**160.6**	**173.6**	**185.2**	**197.8**	**207.3**	**218.0**
B6. One-time 30 percent nominal depreciation	88.6	71.9	-7.4	-7.3	-7.5	-8.0	7.5	23.3	39.2	51.7	65.4
B6. Combination of B1-B5	88.6	**222.5**	**156.5**	**306.2**	**293.9**	**283.2**	**310.1**	**334.7**	**361.1**	**381.0**	**403.3**
C. Tailored Tests											
C1. Combined contingent liabilities	88.6	113.8	112.9	110.0	117.9	114.0	128.1	**144.4**	**158.1**	**168.6**	**181.0**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	4.2	3.2	2.9	3.5	3.7	3.6	6.0	5.9	5.9	5.9	5.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	4.2	3.2	1.8	1.1	-0.4	-2.2	-1.2	-3.6	-6.4	-9.7	-13.3
B. Bound Tests											
B1. Real GDP growth	4.2	3.2	2.9	3.5	3.7	3.6	6.0	5.9	5.9	5.9	5.8
B2. Primary balance	4.2	3.2	3.0	3.8	3.9	3.9	6.3	6.2	6.2	6.2	6.1
B3. Exports	4.2	6.4	11.8	16.9	17.1	16.5	24.2	23.8	23.6	23.2	22.8
B4. Other flows 2/	4.2	3.2	4.1	5.9	5.9	5.7	8.0	7.8	7.7	7.6	7.4
B6. One-time 30 percent nominal depreciation	4.2	3.2	2.9	1.8	2.0	2.0	4.5	4.5	4.6	4.6	4.6
B6. Combination of B1-B5	4.2	5.0	9.0	10.8	10.9	10.5	15.2	15.0	14.8	14.6	14.3
C. Tailored Tests											
C1. Combined contingent liabilities	4.2	3.2	3.8	4.4	4.5	4.7	7.0	6.9	6.9	6.9	6.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	2.3	1.7	1.4	1.5	1.5	1.4	2.4	2.3	2.2	2.2	2.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	2.3	1.8	0.9	0.5	-0.1	-0.9	-0.5	-1.4	-2.4	-3.6	-4.9
B. Bound Tests											
B1. Real GDP growth	2.3	1.9	1.6	1.7	1.7	1.6	2.7	2.6	2.5	2.5	2.4
B2. Primary balance	2.3	1.7	1.5	1.6	1.6	1.6	2.5	2.4	2.4	2.3	2.2
B3. Exports	2.3	1.8	1.8	2.2	2.2	2.1	3.0	2.9	2.8	2.7	2.6
B4. Other flows 2/	2.3	1.7	2.0	2.5	2.4	2.3	3.1	3.0	2.9	2.8	2.7
B6. One-time 30 percent nominal depreciation	2.3	2.2	1.8	0.9	1.1	1.0	2.2	2.2	2.2	2.2	2.1
B6. Combination of B1-B5	2.3	1.9	2.3	2.5	2.4	2.3	3.3	3.1	3.1	3.0	2.9
C. Tailored Tests											
C1. Combined contingent liabilities	2.3	1.7	1.8	1.9	1.9	1.9	2.8	2.7	2.6	2.6	2.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public Debt, 2020-30

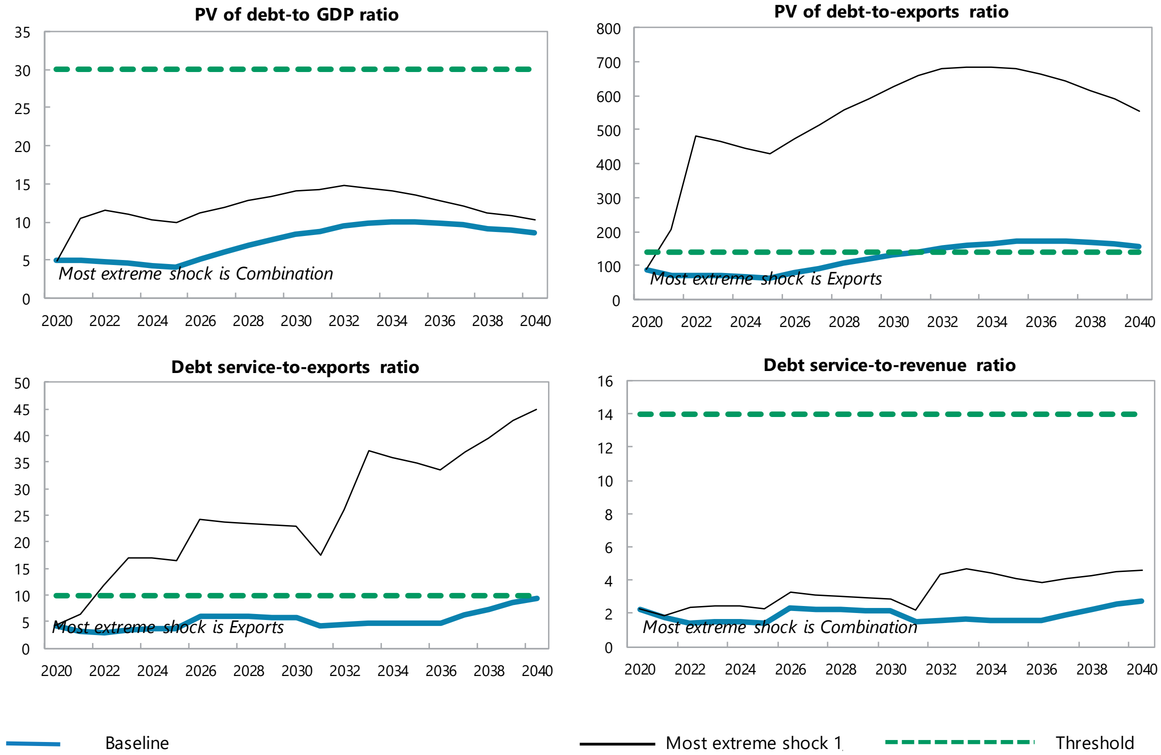
	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	5.3	5.3	5.4	5.1	4.9	4.6	5.9	7.3	8.8	9.8	10.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	5	5	4	4	4	4	5	6	7	7	7
B. Bound Tests											
B1. Real GDP growth	5	6	8	9	10	11	14	17	20	22	25
B2. Primary balance	5	6	7	7	6	6	7	8	10	11	12
B3. Exports	5	8	11	10	9	9	10	12	13	14	15
B4. Other flows 2/	5	9	13	12	12	11	12	13	15	16	16
B6. One-time 30 percent nominal depreciation	5	6	5	4	3	2	2	3	3	3	3
B6. Combination of B1-B5	5	6	6	5	5	4	6	7	9	10	11
C. Tailored Tests											
C1. Combined contingent liabilities	5	11	11	10	9	9	10	11	12	13	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	20.7	20.6	20.5	18.8	18.2	17.3	22.3	28.5	35.3	40.6	46.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	20.7	17.5	15.8	14.4	14.2	13.5	18.2	23.3	28.0	30.2	31.9
B. Bound Tests											
B1. Real GDP growth	20.7	23.5	28.8	31.9	36.3	40.2	50.7	63.3	76.8	89.1	101.9
B2. Primary balance	20.7	23.5	26.1	24.0	23.0	21.8	26.6	32.8	39.5	44.9	50.6
B3. Exports	20.7	29.1	40.1	36.6	35.6	34.3	38.8	45.1	51.9	57.3	63.0
B4. Other flows 2/	20.7	35.3	48.9	44.6	43.4	41.9	46.2	52.5	59.3	64.7	70.5
B6. One-time 30 percent nominal depreciation	20.7	24.5	20.0	15.4	11.9	8.7	9.1	10.4	12.1	12.5	13.1
B6. Combination of B1-B5	20.7	22.5	22.3	18.4	17.8	16.9	21.9	28.1	34.8	40.1	45.8
C. Tailored Tests											
C1. Combined contingent liabilities	20.7	41.0	39.7	36.5	33.9	32.6	37.2	42.9	49.7	55.1	60.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	1.0	0.9	0.8	1.3	1.5	1.3	2.0	2.2	2.0	3.8	4.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	1.0	0.9	0.7	1.1	0.2	0.5	1.8	1.7	1.6	3.4	3.6
B. Bound Tests											
B1. Real GDP growth	1.0	0.9	1.0	1.7	2.9	3.9	5.1	5.8	6.2	8.7	10.1
B2. Primary balance	1.0	0.9	0.9	1.6	2.7	2.6	2.2	2.7	2.4	4.0	4.8
B3. Exports	1.0	0.9	1.0	1.7	1.8	1.7	2.4	2.5	2.3	4.1	4.9
B4. Other flows 2/	1.0	0.9	1.1	1.9	2.0	1.8	2.5	2.7	2.4	4.3	5.0
B6. One-time 30 percent nominal depreciation	1.0	1.0	1.0	1.4	1.5	0.2	2.1	2.2	1.9	3.5	4.2
B6. Combination of B1-B5	1.0	0.9	0.8	1.3	1.5	1.3	2.0	2.2	2.0	3.8	4.6
C. Tailored Tests											
C1. Combined contingent liabilities	1.0	0.9	1.7	2.1	9.2	2.0	2.7	4.8	2.5	4.4	5.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Figure 1. Islamic Republic of Afghanistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2020-40



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	37	20
Avg. grace period	9	10

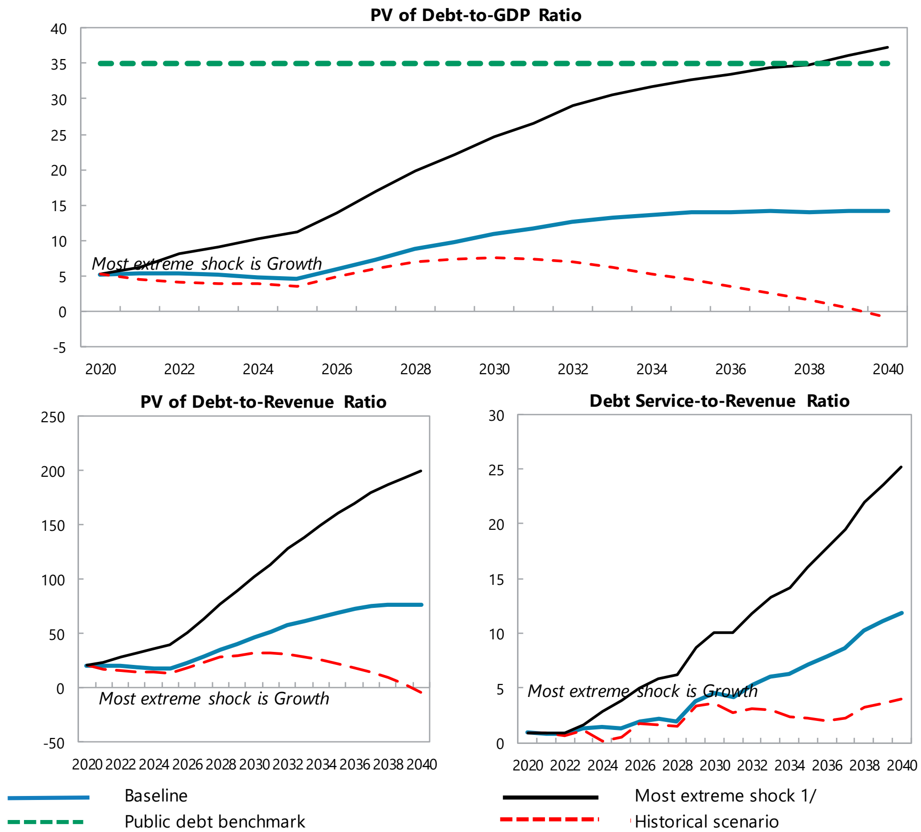
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Islamic Republic of Afghanistan: Indicators of Public Debt Under Alternatives Scenarios, 2020-40



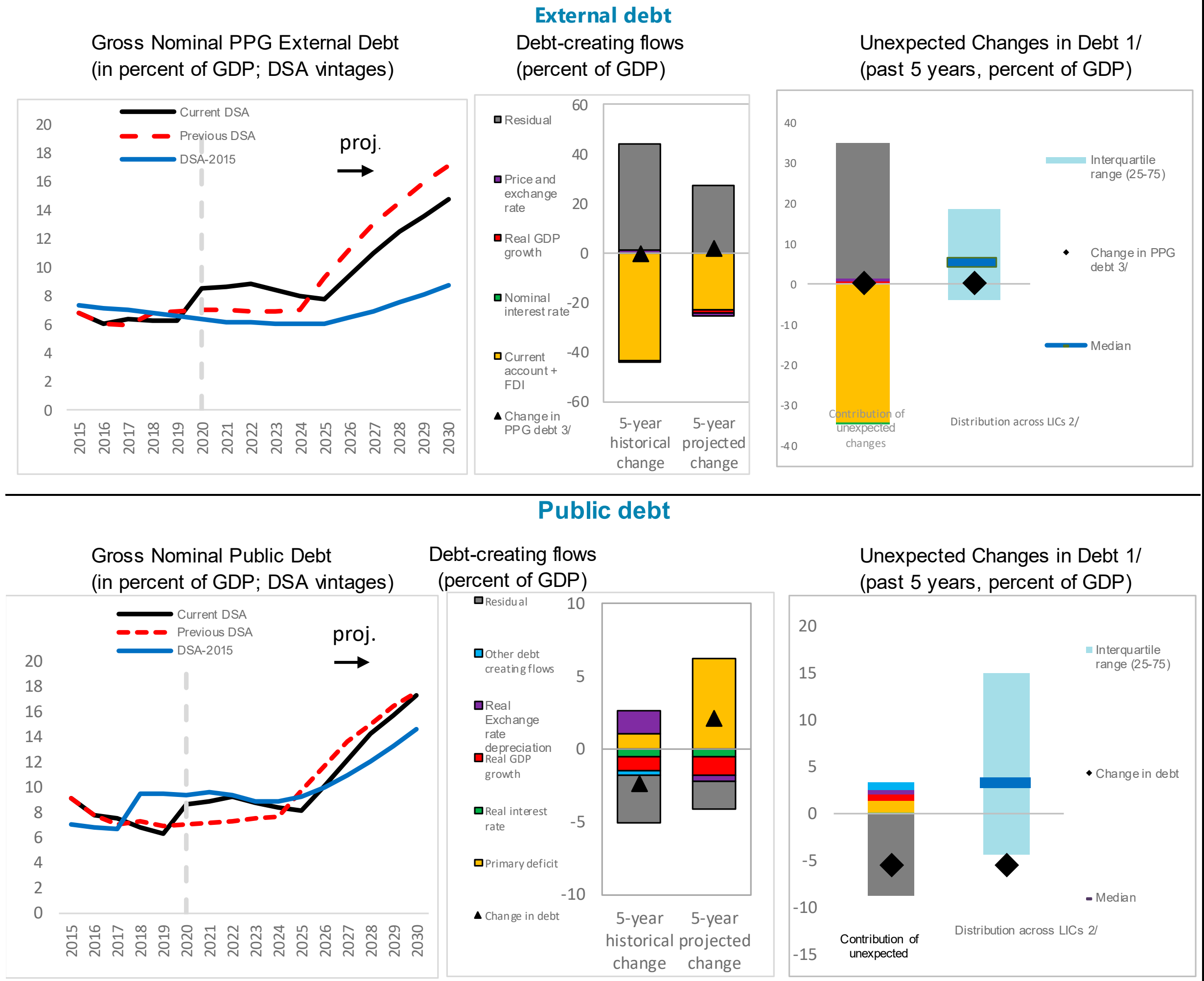
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	65%	65%
Domestic medium and long-term	35%	35%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	1.5%
Avg. maturity (incl. grace period)	37	20
Avg. grace period	9	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.9%	1.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	0%	0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

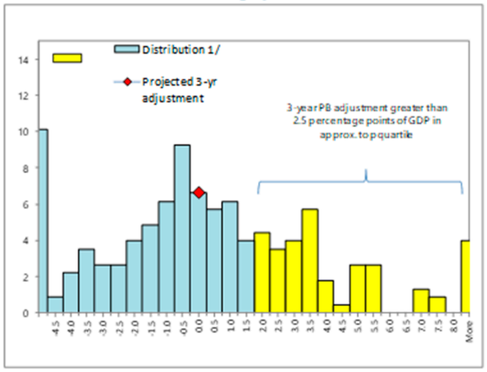
Figure 3. Islamic Republic of Afghanistan: Drivers of Debt Dynamics—Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.

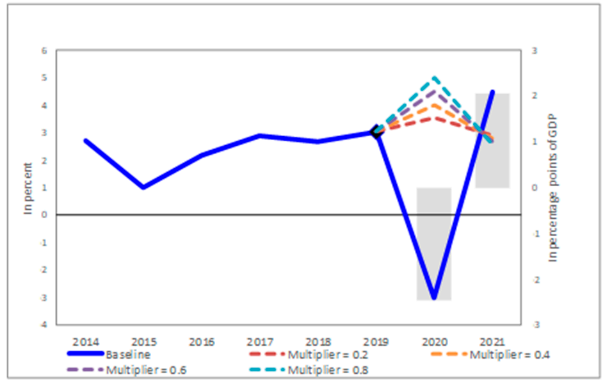
Figure 4. Islamic Republic of Afghanistan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



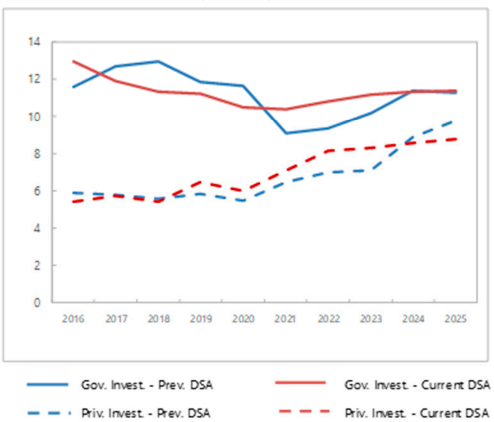
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

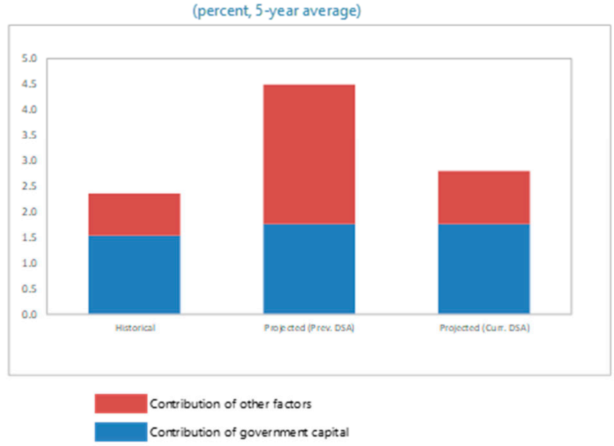


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates 1/
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



1/ Historical private and public investment rates are different from previous DSA due to data revisions.

Statement by Jafar Mojarrad, Executive Director for Islamic Republic of Afghanistan and Syed Ishaq Alavi, Government Provided Advisor to Executive Director
April 29, 2020

The economic cost and the human toll of the pandemic have been significant and wide-ranging. To help address the fallout, our Afghan authorities are requesting a disbursement of SDR 161.9 million (50 percent of quota) under the Rapid Credit Facility (RCF) and additional support from donors and development partners. Afghanistan has also benefitted from debt relief under the Catastrophe Containment and Relief Trust.

Overview

As of April 27, there were 1,700 officially confirmed positive cases and more than 57 fatalities, but the actual number of cases is believed to be far higher because of limited testing capacity, particularly in remote and rural areas. The Covid-19 shock is inflicting a significant damage to the Afghan economy, compounding already difficult and fragile security and social conditions and jeopardizing the hard-earned macroeconomic stability achieved under the recently completed ECF arrangement. In response to the pandemic, the authorities have taken a series of containment and mitigation measures, including strengthening public health preparedness, imposing an extended period of lock-down for major urban areas, and restricting non-essential travel among provinces.

The widespread economic disruption is significantly impacting macroeconomic outcomes. The economy is projected to contract by 3 percent (a turnaround of 6 ½ percentage points) in 2020 with high near-term downside risks. Fiscal position (including grants) is expected to deteriorate to a deficit of 3.5 percent of GDP, mainly due to a sharp fall in domestic revenues and increased budgetary outlays to fight the pandemic. With the fall of exports and remittances, a large balance of payments gap amounting to US$857 million (4.5 percent of GDP) has emerged.

Continued conflict and insecurity, and a large influx of migrants returning from neighboring countries—also heavily impacted by the pandemic--are adding to the country's economic difficulties.

A significant segment of the population is facing a prospect of food insecurity following the loss of income as remittances dry up and thousands of daily wage earners lose employment opportunities.

Government's Policy Response to Covid-19 Pandemic

Fiscal Policy

The authorities' immediate efforts are focused on preventing a human tragedy by mobilizing resources to cope with the health crises, ensuring food security for the most vulnerable, and minimizing the economic consequences of the shock. Supported by the World Bank and other development partners, the authorities are developing a social relief package (currently estimated at 1.5-2.0 percent of GDP) to support the most vulnerable papulation. To meet pandemic-related spending needs—conservatively estimated at 3.5 percent of GDP—the government is mobilizing domestic revenue and external financial assistance, and reprioritizing spending. Domestic resources include a transfer of Af 12.7 billion (0.8 percent of GDP) of central bank profit to the budget and savings of 1.3 percent of GDP in non-priority spending cuts. Other one-off revenue measures are also under consideration. External resources include US$315 million in grants from international partners and donors which together with US$225 million assistance from the IMF (RCF and debt relief under CCRT) would fill a sizeable part of the estimated financing gap. Should the crisis prove to be deeper and longer, and fiscal costs higher than currently projected, the authorities will further curtail low-priority spending, seek more donor support, and request additional IMF assistance including under the RCF.

Looking ahead, as the pandemic subsides and the economy recovers, the authorities are committed to bring the fiscal deficit back to 1 percent of GDP by 2022 and plan to keep the ratio of operating deficit (excluding grants) to GDP on a declining path over the medium term. Strengthened efforts to mobilize domestic revenue will include the introduction of the VAT, and on the expenditure side, further optimization of spending while preserving social and priority spending. To ensure accountability and transparency of managing Covid-19 related spending, the authorities will publish quarterly reports and undertake ex-post audits that will also be published.

Monetary, Exchange Rate and Financial Policies

Da Afghanistan Bank (the central bank) will remain focused on maintaining price stability. It will tolerate a temporary increase in headline inflation driven by supply disruptions but will react firmly if underlying inflationary pressures emerge. DAB will maintain its standing policy of flexible exchange rate to absorb external shocks and will limit its foreign exchange interventions to addressing excessive market volatility. DAB will continue to support the banking system stability and its resiliency including by ensuring adequate liquidity of banks. DAB has intensified its monitoring of banks during this period and has advised banks to update their business continuity plans and provide daily liquidity updates. It also stands ready to act as a lender of last resort should needs arise. The Financial Stability Committee will continue frequently reviewing the potential risks to the overall stability of the banking system.

Conclusion

The Fund assistance under RCF will help to meet Afghanistan's urgent financing needs to fight the pandemic and will help catalyze donor support. Looking ahead, the authorities wish to reiterate their commitment to solidify the hard-earned gains achieved under the recently completed ECF. Their plan to begin discussions on a follow-up ECF in early 2020 was derailed by the crisis. The authorities are looking forward to start discussions, when conditions permit, on a new ECF arrangement, with macroeconomic stability, good governance, and high and sustainable growth and poverty alleviation as its primary objectives.