INTERNATIONAL MONETARY FUND

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ISLAMIC REPUBLIC OF AFGHANISTAN

May 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the Third Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 16, 2018, with the officials of the Islamic Republic of Afghanistan on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 9, 2018.
- An **Informational Annex** prepared by the IMF staff.

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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May 25, 2018

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IMF Executive Board Completes Third Review Under the ECF Arrangement for the Islamic Republic of Afghanistan and Approves US$6.4 Million Disbursement

On May 24, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of the arrangement under the Extended Credit Facility (ECF)[1] for Afghanistan. The completion enables the release of SDR 4.5 million (about US$6.4 million), bringing total disbursements under the arrangement to SDR 18 million (about US$25.5 million). The Executive Board's decision was taken on a lapse-of-time basis.[2] The ECF arrangement for SDR 32.38 million was approved on July 20, 2016 (see Press Release No. 16/348).

In completing the review, the Executive Board also approved the authorities' request for modification of three performance criteria: on domestic revenues, net international reserves, and net credit to government reflecting updates to the macroeconomic framework.

Program implementation through end-December 2017 was satisfactory, despite the challenging security situation and mounting political risks. All quantitative performance criteria and eight of the nine structural benchmarks were met. The end-April 2018 benchmark related to asset declarations by public officials was implemented with a short delay.

Violence remains significant in Afghanistan and political uncertainty has risen with coming parliamentary (October 2018) and presidential (April 2019) elections, thus undermining confidence and growth. In 2017, real GDP growth is estimated at 2.5 percent, roughly unchanged from 2016. For 2018, GDP growth is projected at 2.5 percent owing to the continued difficult security environment affecting private sector confidence and a relatively dry winter which mars agricultural prospects. Inflation is forecast at 5 percent on average in 2018, the same as in 2017.

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[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. Details on Islamic Republic of Afghanistan's arrangement are available at www.imf.org/external/country/AFG.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The authorities' strong ownership remains critical to the success of the program, especially in the context of continued security challenges and political uncertainty. Reforms in support of fiscal sustainability, institution building, anti-corruption efforts, and financial stability should continue. In this challenging environment, the sustained backing of donors, together with the reform commitment of the authorities, remains vital. The IMF is committed to helping the government as it builds a more vibrant and inclusive economy for all Afghans.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2015–19

(Quota: SDR 323.8 million)
(Population: approx. 34.7 million)
(Per capita GDP: approx. US$561; 2016)
(Main exports: opium, US$2.0 billion; carpets, US$92.8 million; 2015)

	2015	2016	2017	2018	2019
			Est.	Proj.	
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	1.3	2.4	2.5	2.5	3.0
Nominal GDP (in billions of Afghanis)	1,228	1,320	1,422	1,532	1,657
Nominal GDP (in billions of U.S. dollars)	20.1	19.5	20.9	21.7	22.9
Consumer prices (period average) 2/	-0.7	4.4	5.0	5.0	5.0
Public finances (central government)	(In percent of GDP)				
Domestic revenues and grants	24.5	26.1	24.5	23.1	25.0
Domestic revenues	10.0	10.7	11.8	11.2	11.4
On-budget grants (excl. donors' direct spending outside the budget)	14.6	15.4	12.6	11.9	13.6
Expenditures	25.9	26.0	25.1	23.6	24.5
Operating 3/	19.2	18.9	17.8	16.8	17.5
Development	6.8	7.1	7.3	6.8	7.0
Operating balance (excluding grants) 4/	-9.2	-8.2	-6.0	-5.5	-6.1
Overall balance (including grants)	-1.4	0.1	-0.6	-0.4	0.6
Public debt 4/ 5/	9.1	8.0	7.3	6.8	6.3
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	2.3	11.8	10.2	10.7	7.2
Broad money	3.1	9.7	4.1	10.7	9.0
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	580	619	665	748	842
Exports of goods (annual percentage change)	-9.8	6.8	7.4	12.6	12.5
Imports of goods (in millions of U.S. dollars)	7,666	6,160	7,180	7,443	7,941
Imports of goods (annual percentage change)	17.4	-19.6	16.5	3.7	6.7
Current account balance					
Excluding official transfers	-30.1	-31.2	-35.3	-34.9	-35.3
Including official transfers	7.5	7.1	1.6	0.6	-0.2
Foreign direct investment	0.8	0.5	0.4	0.5	0.5
Total external debt 5/	6.8	6.3	6.3	6.3	6.3
Gross international reserves (in millions of U.S. dollars)	6,808	7,357	8,139	8,280	8,279
Import coverage of reserves 6/	10.9	10.2	10.8	10.2	9.8
Exchange rate (average, Afghanis per U.S. dollar)	61.2	67.9	68.1	…	…

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.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 9, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Background. The three-year arrangement under the Extended Credit Facility (ECF) was approved on July 20, 2016 in an amount of SDR 32.38 million (US$44.9 million, or 10 percent of quota). The first and second reviews under the ECF were completed in May and December 2017, respectively. The arrangement supports the government's reform agenda—as outlined in the Afghanistan National Peace and Development Framework (ANPDF)—to lay the foundations for higher growth and job creation, and aims to catalyze continued support from donors.

Context: Violence remains significant, and the government's peace talks offer including recognition of the Taliban as a political party was recently rejected. At the same time, political uncertainty is rising with coming parliamentary (October 2018) and presidential (April 2019) elections. These factors undermine confidence and growth, and present risks to program implementation. Donors reaffirmed their continued support during the January 2018 visit of the UN Security Council in Kabul. A ministerial-level donor conference is planned for November 27–28, 2018 in Geneva.

Program performance: Program implementation has been satisfactory. All quantitative performance criteria and eight of the nine structural benchmarks were met. The benchmark related to asset declarations by public officials was not met as the authorities needed more time and implemented it on May 8, 2018. The authorities request the modification of June 2018 performance criteria on domestic revenues, net international reserves, and net credit to government which were revised due to updates of the macroeconomic framework, including a modest loosening of this year's fiscal balance target.

Staff supports the completion of the third review under the ECF arrangement and the authorities' request for a modification of three performance criteria for June 2018.

Approved By
Juha Kähkönen and Martin Sommer

Discussions took place in Baku during March 8-16, 2018. The staff team comprised Christoph Duenwald (head), Mariusz Sumliński, Farid Talishli (all MCD), Philip Barrett, Daisuke Ishikawa (both FAD), Ke Chen (LEG), Keiichi Nakatani (SPR), and Murtaza Muzaffari (local economist). Olivier Frécaut (MCM consultant) supported the mission from headquarters. The team met Finance Minister Hakimi, Governor Sediq, and other senior officials. Tetyana Sydorenko (MCD) provided research assistance and Maria Orihuela-Quintanilla (MCD) document management.

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CONTEXT

Objectives and Modalities of the 2016 ECF Arrangement for Afghanistan

The ECF supports macroeconomic and structural reforms, catalyzes donor support, and rests on:

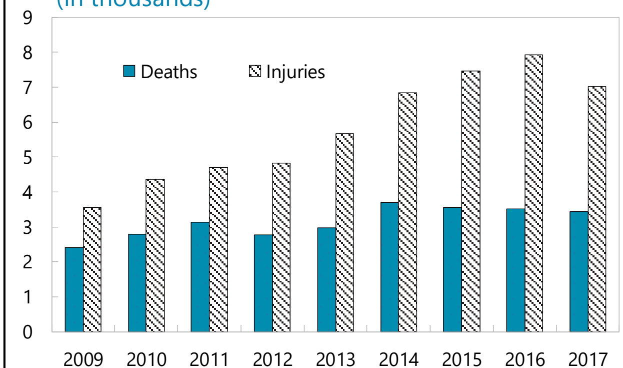
- Structural reforms for institution building, fiscal and financial reforms, and measures to combat corruption for scaled-up private sector development;
- Policies to preserve macro-financial stability.

The third review covers nine structural benchmarks (SBs) and eight performance criteria (PCs):

- SBs on: fighting corruption and strengthening revenue administration, including through a VAT implementation plan; adopting a sound budget, including transfers to reduce the central bank's lender of last resort exposure to Kabul bank; reforming state-owned banks; and strengthening the central bank's mandate.
- PCs for end-December 2017 on: government revenues, net credit to central government from the central bank, reserve money, FX reserves, borrowing, and lending.

1. **Violence remains significant, and political uncertainty has risen with coming parliamentary (October 2018) and presidential (April 2019) elections**. In 2017, civilian deaths and casualties declined from the record 2016 levels, but several high-profile attacks, which continued in early 2018, deepened concerns that the counter-insurgency effort was losing ground. Against this background, and with the support of international partners, peace efforts have been revived. During a January visit to Kabul, members of the UN Security Council confirmed their support and called for a renewed focus on Afghan-led peace negotiations, and at the February Kabul Process peace talks the National Unity Government (NUG) offered the Taliban direct talks without preconditions and recognition as a political party. On March 28, another international meeting in support of the peace process was held in Tashkent. In late April, the Taliban rejected the peace offer as it announced its spring military offensive.

Civilian Deaths and Injuries
(In thousands)



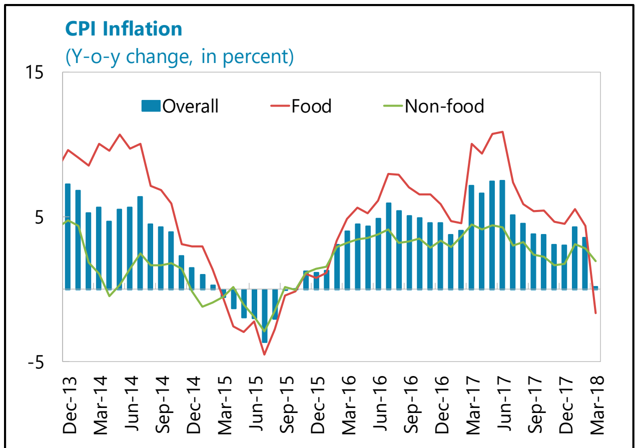
Source: United Nations Assistance Mission in Afghanistan.

2. **The prospect of a large influx of Afghan migrants from neighboring countries and increasing internal displacement raises risks of a humanitarian crisis**. In 2016–17, returning refugees (including 0.8 million from Pakistan) added nearly 4 percent to Afghanistan's population. The capacity to absorb refugees is hampered by stretched public services providing for an equivalent share of the population internally displaced by the conflict. In 2018, the country's population could again swell by nearly 4 percent if Pakistan does not extend the refugees' residency permits beyond June.

3. **Encouraged by the NUG's continued reform efforts, donor support remains strong**. By and large, disbursements of aid have been in line with the pledges from the Warsaw and Brussels meetings in 2016, though the timing of disbursements has been somewhat unpredictable. The U.S. renewed a long-term commitment to military assistance last summer, and committed an additional 1,000 troops in April. A ministerial-level donor conference to review reform progress is scheduled for November 27–28, 2018 in Geneva.

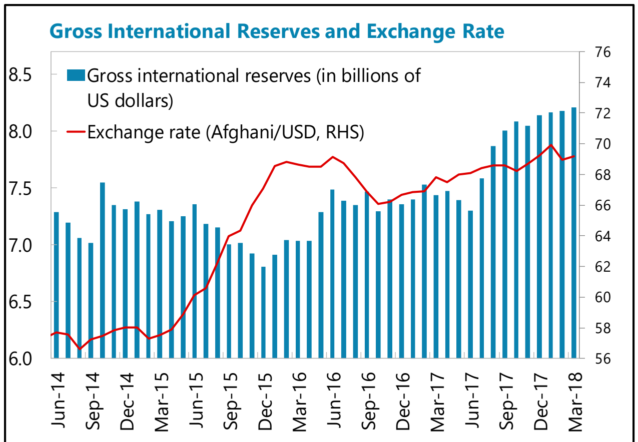
RECENT DEVELOPMENTS

4. **Constrained by weak confidence, growth remains feeble, while inflation has eased**.[1] In 2017, real GDP growth, estimated at 2.5 percent[2] and roughly unchanged from 2016, was too low to reduce unemployment and poverty, which stood at 55 percent in 2016–17.[3] Inflation moderated from a mid-2017 high of 7.5 percent y/y to 3 percent at end-2017 and further to 0.2 percent at end-March, reflecting declining imported food prices.



Source: Afghanistan authorities.

5. **In 2017, the Afghani depreciated by about four percent against the US dollar (end-period) while international reserves rose**. In early 2018, Da Afghanistan Bank (central bank; DAB) upped sales of U.S. dollars to counter increased exchange rate volatility that reflected political tensions. The rate has remained broadly stable since then at about Af 69 per U.S. dollar. The trade and current account deficits (before grants) remain very large despite some import substitution for agricultural products, food processing, and capital goods. At end-2017, gross international reserves covered nearly 11 months of imports, while net international



Source: Afghanistan authorities.

[1] The GDP figures exclude the narcotics economy. UN Office on Drugs and Crime estimates that drug production (not included in GDP) nearly doubled in 2017, while the farm-gate value of opium increased by 55 percent.

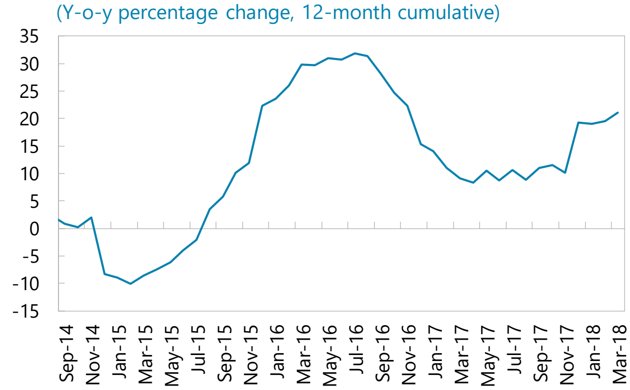
[2] The 2017 national accounts are due to be released in May 2018.

[3] The poverty line represents the national norm for the cost of covering basic needs including a set of food items that deliver 2,100 kilocalories per person per day as well as necessary non-food expenditures on housing, clothing, education and transportation. In 2016–17, the poverty line was 2,064 Afghanis per person per month, around $1 a day in current exchange rate terms. Between 2011–12 and 2016–17, the national poverty rate increased from 38.3 to 54.5 percent.

reserves (NIR) significantly exceeded the program target. This mainly reflected lower-than-planned foreign exchange intervention by DAB. Gross reserves have increased further to $8.2 billion at end-March.

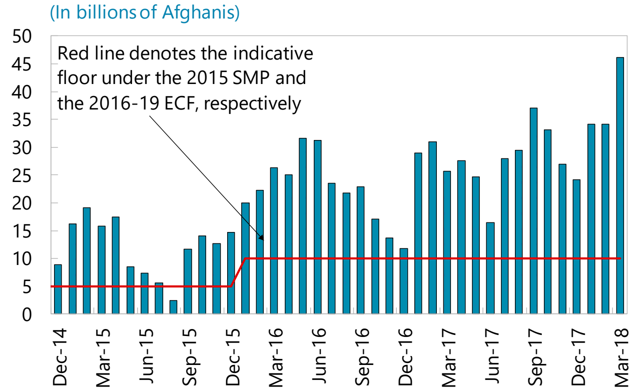
6. **The overall fiscal balance including grants moved from zero in 2016 to a deficit of 0.6 percent GDP in 2017**. This was due to a decline in operating grants, which fell by 2.5 percentage points of GDP.[4] Some offset was provided by higher revenues and lower operating expenditures. In 2017, domestic revenues grew by nearly 20 percent, exceeding the ECF's target by Af 15 billion. Of this overperformance, around Af 7 billion was due to one-off gains, another Af 1 billion to arrears collection, and the remainder to improvements in revenue collection efficiency. The treasury's discretionary cash balance stood at Af 24.2 billion at end-2017, well above the program's Af 10 billion floor. In the first three months of 2018, domestic revenues increased by 12 percent over the same period in 2017, supported by continued efforts to improve tax administration. Expenditure declined by 10 percent (partly owing to execution delays), and as a result, discretionary cash balances have remained well above the program floor.

Domestic Revenues Growth
(Y-o-y percentage change, 12-month cumulative)



Sources: Afghan authorities and IMF staff calculations.

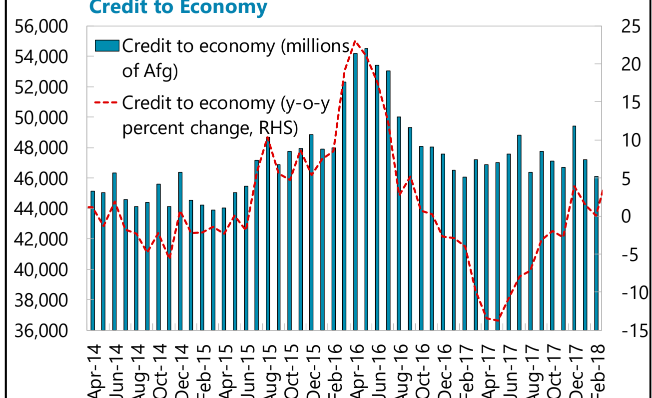
Total Treasury Discretionary Cash Balances
(In billions of Afghanis)



Sources: Afghan authorities and IMF staff calculations.

7. **Financial soundness indicators continue to paint a picture of a struggling banking sector**. Nonperforming loans (NPLs) remain high at 12 percent of total loans at end-March 2018, and profitability is weak given limited lending reflected in high liquidity ratios. The rebound in growth of credit to the economy, since mid-2017, is encouraging, but credit remains below 4 percent of GDP given the dearth of bankable projects in a high-risk environment.

Credit to Economy

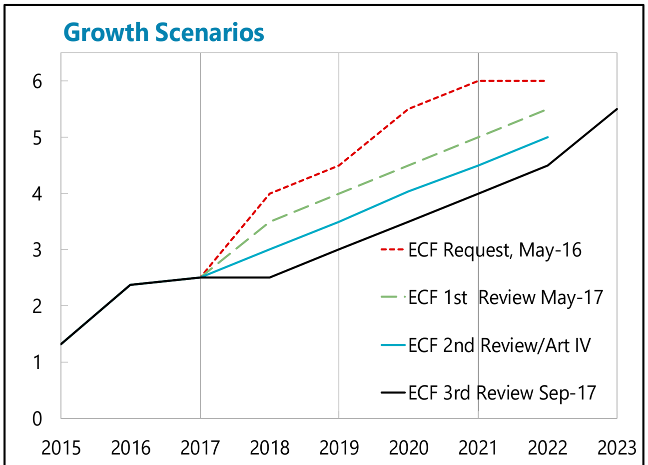


Source: Afghanistan authorities.

[4] This reflected lower grants through the Combined Security Transition Command-Afghanistan (CSTC-A) account. The disbursements were slowed to match the expenditure schedule of the budget.

OUTLOOK AND RISKS

8. **The outlook for growth remains subdued**. Owing to the difficult security environment affecting private sector confidence, and a relatively dry winter which likely will constrain agriculture (one of the few sources of economic growth), the 2018 growth projection has been revised down by ½ percentage point to 2.5 percent relative to the forecast made at the time of the second ECF review. The returning refugees could boost demand in the short run but the related medium-term supply response depends on the pace of job creation. The baseline scenario envisages a lower growth trajectory compared to the second review, and assumes a gradual increase in growth to 5 percent by 2023 predicated on no significant deterioration in security, continued reforms, and no adverse shocks to aid flows. Over time, extractive industries and regional trade integration could support growth and job creation. Average inflation for 2018–19 is revised down to 5 percent in line with the recent dynamics. The external position is expected to remain comfortable, assuming continued inflows of aid.



Source: IMF staff calculations.

9. **Risks are mostly tilted to the downside**. If security worsens, growth would be further undermined by lower confidence, leading to higher unemployment and poverty. In addition, a premature withdrawal of aid would threaten fiscal sustainability, necessitating growth-reducing cuts in expenditure. Indeed, as shown in the most recent DSA which uses bound tests to illustrate stability risks,[5] a decline in aid compensated by a partial shift towards concessional lending would lead to a deterioration in debt dynamics and put Afghanistan at a risk of high debt distress, with consequences for growth and stability. In turn, lower growth would weaken the fiscal position and job creation, and push up poverty. Moreover, in view of the coming electoral cycle, the risk of political instability is elevated, which could also undermine private sector confidence. On the other hand, lasting peace, boosting private sector confidence and investment, and enabling a reallocation of spending to productive infrastructure investments and critical social transfers would improve prospects fundamentally.

[5] IMF Country Report No. 17/377

POLICY DISCUSSIONS

A. Fiscal Policy

10. **Staff and the authorities discussed ways of bringing the budgeted fiscal balance for 2018 in line with the program**. The budget originally submitted to parliament targeted an overall balance including grants of zero, consistent with the end-November structural benchmark (SB) set as part of the third review. However, the final budget approved by parliament in January 2018 envisages an overall deficit including grants of about one percent of GDP. In view of the mounting fiscal risks, balanced by growth considerations, staff and the authorities agreed on a revised deficit target of 0.4 percent of GDP. To this end, the authorities agreed to raise this year's revenue target to Af 172 billion (compared to Af 169.5 billion agreed in the second review). The remainder of the adjustment will come from reduced expenditure including through expenditure rationalization related to identifying and eliminating "ghost workers", review of the operating budgets, and improvements in the management of development projects. However, the authorities cautioned that this could be difficult in an election year and emphasized that, as a contingency, higher-than-expected grants from the World Bank might support achieving the agreed deficit target, should the spending cuts prove impossible to implement.[6] The authorities noted that the mid-year budget review would be used to make these adjustments, and agreed to a structural benchmark in this area (MEFP ¶19). The benchmark requires that a supplementary budget be approved by the Cabinet and submitted to Parliament by end-September 2018 in line with the Parliamentary schedule and in the meantime, the authorities intend to implement the current budget cautiously with a view of achieving the revised deficit target.

11. **Both sides noted fiscal risks in 2018**. While agreeing to a slightly higher revenue target, the authorities emphasized the downside risks to revenue given uncertainty surrounding growth and security conditions.[7] They pointed to the experience of the last election year (2014) when revenue declined sharply. The authorities and staff agreed that expenditure risks during the election year were largely contained, but staff emphasized the need to ensure that the slightly lower deficit target in the program is met. Staff urged the authorities to resist politically motivated spending pressures, and to closely monitor revenue collections, especially in provinces experiencing violence.

12. **On structural fiscal issues, the authorities and staff discussed the need to**:

- ***Better monitor state-owned corporations and enterprises (SOCs and SOEs), which remain outside the fiscal perimeter monitored by staff***. There are 36 state-owned enterprises (SOEs), 16 state-owned corporations (SOCs), and three state-owned commercial banks (SOCBs). SOEs and SOCs operate in the security, construction, transport, agriculture, and extractive industries, and their combined revenue is estimated at about 4.5 percent of GDP and less than 10 percent

[6] Donors have pledged to finance the lion's share of the cost of conducting the election and outlays related to returning refugees.

[7] See: Islamic Republic of Afghanistan: Selected Issues: Measuring the Fiscal Revenue Cost of Conflict in Afghanistan.

of government revenue. They do not receive explicit budgetary support, relying on non-core operations to finance core public functions, and their financial position and accounting systems remain weak. Following staff's advice, the authorities are strengthening the institutional/legal framework for monitoring the state-owned entities, upgrading the relevant department in the Ministry of Finance to a General Directorate, and improving their capacity to monitor such entities, including collecting data on their operations to quantify the size of possible contingent liabilities. As a first step to enhance monitoring, the authorities are amending the corporate governance framework under the laws on SOEs and SOCs, and the related templates of articles of organization (fourth review SB). To assist the authorities, IMF staff is reviewing the laws and regulations governing the SOEs/SOCs, and other relevant PFM legislation, from a fiscal risk perspective, and World Bank staff are helping to improve corporate governance in state-owned entities (MEFP ¶21, 28). The reform of SOCBs is most advanced, and is being implemented with the World Bank staff's assistance (see ¶16).

- ***Prepare for the introduction of a VAT in January 2021, which will boost revenue collection capacity***. A plan to implement a VAT was adopted as a third review SB. To help implement this plan, the authorities intend to appoint a VAT team spanning the revenue and customs departments with legal, audit, risk management, and communication expertise relevant for implementation and collection of the VAT (fifth review SB). In addition, the introduction of the VAT will require a reform of the Large Taxpayers Office (fourth review SB). The VAT will eventually replace the business receipts tax. The authorities are planning these reforms in consultation with Fund staff (MEFP ¶23).

- ***Improve budget execution and transparency, and public investment management***. Afghanistan has recently made some progress in budget transparency, and the 2018 budget moves further down this path. This progress has been recognized by the International Budget Partnership which rated the 2017 budget's transparency above the global average.[8] Further progress has been made with the 2018 budget, including: more realistic expenditure projections—previous budgets overstated development expenditures resulting in low execution rates; more information, including three-year projections with detail at the level of ministry, project and province, and a discussion of fiscal risks; actual spending by ministries; no carryovers of unspent funds to the next year; and a reduction in unallocated contingency budgets. The mission welcomed the improvements made to budget transparency, and encouraged further efforts to make the budget an effective policy tool, including through improved budget execution supported by realistic multi-year development programming. In this context, strengthening public investment management, including effective project appraisal, selection, and implementation procedures, is an important element in further improving the budget

[8] International Budget Partnership collaborates with civil society around the world to analyze and influence public budgets. Its measure of budget transparency is a score on a 100-point scale using a subset of questions that assess the amount and timeliness of budget information that governments make publicly available in eight key budget documents in accordance with international good practice standards.

process. These efforts will become especially important as the government plans to increase its reliance on public private partnerships (PPP) to strengthen Afghanistan's infrastructure (see table below). Staff emphasized that a careful assessment of the possible contingent liabilities emanating from these PPP supported projects will be crucial for proper evaluation of the public sector's exposure and risk management. The authorities have been receiving assistance from the World Bank staff in this area since 2015, and are committed to continued progress including under the ECF arrangement. To this end, they requested a review of their PPP laws and regulations by the IMF staff and will review and adopt the revised relevant laws in line with the IMF staff's recommendations as a fourth review SB (MEFP ¶21, 27).

Text Table 1. Public Private Partnerships (Power Plants) in Final Stage of Negotiations 1/

Project	Output (Megawatts)	Term (Years)	Cost (USD millions)	Debt/Equity (Percent)	Budget Investment (USD millions)
Kajaki Hydro	150	23	209	70/30	0
Mazar Independent	52	20	75	60/40	0
Bayat Independent	52	5	60	0/100	0
Kandahar Solar	30	20	72	TBD	27

Source: 2018 National Budget Document.

1/ The government guarantees purchase of energy from these projects and provides a sovereign guarantee backed by the World Bank with IDA funding to Mazar and Kajaki projects. Budget resources are allocated for only one of the above four projects. Projects not listed above are in very early stages of development and estimates of the required financing are not available.

- ***Strengthen debt management***. It is important to strengthen public debt monitoring and management, and planning for development projects. Afghanistan's public debt is low and only a limited amount of concessional borrowing is planned. Thus, the country's debt outlook appears benign. However, given large underlying fiscal and external current account deficits, even a modest shift to loan financing would quickly lead to an unsustainable debt burden and require significant fiscal adjustment. Afghanistan's debt sustainability hinges on continued ample grant inflows, combined with sound policies and reforms, and improving security. Staff suggested enhancing the capacity to evaluate prospective financing and to monitor and analyze debt and fiscal risks to properly identify and mitigate risks to debt sustainability (MEFP ¶29).[9]

[9] Staff gave a seminar on the new Low-Income Country Debt Sustainability Framework.

B. Monetary and Financial Sector Policies

13. **Staff encouraged DAB to remain committed to exchange rate flexibility while continuing to target a moderate inflation rate**. With weak monetary transmission channels, reserve money should remain the nominal anchor for monetary policy to keep inflation low. The high degree of dollarization (around two-thirds of loans and deposits) limits monetary policy transmission to the economy. Staff emphasized that, in the current environment, the main objective of monetary policy should be low and stable inflation with a flexible exchange rate and adequate reserves. This will help reduce dollarization over time. In that context, staff noted the importance of allowing the exchange rate to clear the market, with interventions only when the exchange rate fluctuations seem excessive. If used to de-facto peg the exchange rate, foreign exchange intervention could encourage speculation, deepen volatility, and delay de-dollarization. The authorities confirmed their commitment to a market-based exchange rate, while being mindful of excessive volatility which could undermine confidence (MEFP ¶20). Staff also encouraged DAB to continue developing the transparency of its operations by publicizing its strategy through various media.

14. **The financial sector remains vulnerable, and staff welcomed DAB's efforts to contain risks in the weak banks**. Staff recommended that DAB and MOF coordinate to resolve the delays in payments to government contractors that cause NPLs,[10] and urged DAB to continue vigilant supervision as the sector faces risky prospects and feeble growth. DAB should accelerate the financial sector clean-up process (MEFP ¶9, 34, 35). Though the New Kabul Bank (NKB) has been recapitalized and the gradual repayment of DAB's lender of last resort support to the failed Kabul Bank is on track, recovery of the latter's assets has stalled (MEFP ¶11, 32).

15. **The crisis prevention framework needs strengthening**. To this end, DAB is upgrading its regulatory framework and its supervisory capabilities. Improvements in the legal framework to support its activities are also being considered. A Financial Stability Committee (FSC) will be established by end-2018 (fifth review SB) with the Ministry of Finance chairing and DAB providing the secretariat, and both sharing responsibility for crisis preparedness and management. Staff reiterated the importance of retaining DAB's de jure and de facto independence as an important signal of commitment to building strong institutions (MEFP ¶36).

16. **The three SOCBs remain a potential source of macro-financial instability**. The SOCB reform strategy was approved by the High Economic Council in line with the World Bank's recommendations (third review SB), and an implementation plan is being prepared with World Bank support. Staff urged the authorities to implement the strategy speedily, especially the improvements of SOCBs' corporate governance, staffing, and operational capacity—the pre-conditions for their consolidation and eventual privatization. Staff reiterated the importance of adhering to the adopted strategy, including by prohibiting sector-targeted lending (MEFP ¶37).

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[10] The delayed payments to contractors account for approximately US$6 million (less than 10 percent of the NPLs).

17. **The authorities are seeking ways to increase the flow of bank credit to the private sector, and hence boost demand and growth**. DAB is encouraging banks, using light touch moral suasion, to switch to term loans from the widely favored short-term overdrafts. The overdrafts are favored as they produce sure short-term income and the risky environment discourages term lending. In addition, to incentivize credit growth, DAB reduced the interest rate on its capital notes—interest on which has constituted the lion's share of banks' income—to almost zero. Also, DAB wants to increase demand for financial services by lowering their costs through modernization of the payments system. Staff advised that measures to encourage credit growth should be implemented without loosening prudential requirements while continuing to pay close attention to the associated contingent fiscal risks. Staff encouraged implementation of a National Financial Inclusion Strategy (NFIS) with the World Bank's support. The implementation has been delayed until mid-2019 from the original mid-2018 deadline (MEFP ¶39, 40).

18. **The authorities intend to develop Sharia-compliant banking to expand the market for credit and banking services**. The first Islamic bank received its license on April 9, 2018, and was inaugurated two weeks later. Staff acknowledged the benefits of offering banking services to those who do not participate in the interest-based financial sector, and encouraged the authorities to build on DAB's existing supervisory capacity in this area to recognize and contain potential risks as Sharia-compliant banking grows.

19. **Revival of correspondent relationships with global banks remains a challenge for some Afghan banks**. Afghanistan exited the Financial Action Task Force (FATF)'s monitoring in June 2017. However, this has not revived correspondent banking relationships, with global banks shying away from correspondent relationships reportedly owing to low profitability of transactions and reputational risks. DAB has been monitoring the situation and actively engaging donors for assistance. Staff encouraged the authorities to continue engaging international banks and foreign supervisors to understand their specific concerns and seek to address them, including by strengthening the AML/CFT measures and supervision. Regarding the latter, with World Bank assistance, the authorities have launched a national money laundering and financing of terrorism risk assessment, and aim to conclude it by end-2019. Moreover, DAB has taken steps to improve its risk-based AML/CFT supervision of banks, conduct thematic inspections focused on politically exposed persons, verify the fitness and propriety of beneficial owners of banks, and strengthen regulation and supervision of money service providers.

C. Governance

20. **The authorities remain committed to addressing corruption including through continued implementation of the National Strategy for Combatting Corruption adopted in October 2017**. Continued anti-corruption activities stressing enforcement of the new penal code, especially through the Anti-Corruption Justice Center (ACJC), remain high on the authorities' agenda. The new penal code, which criminalizes corruption in line with the United Nations Convention against Corruption (UNCAC), came into force in February 2018. A new position of Deputy Attorney General for Anti-corruption was created to oversee prosecution (including through

the ACJC) of corruption. The United Nations Office on Drugs and Crime provides training to prosecutors and judges working in the ACJC (MEFP ¶44). The authorities plan to disseminate results of ACJC's activities, including prosecutions and convictions of major corruption cases that fall under its jurisdiction by end-January 2019 (fifth review SB).

21. **Substantial progress has been made in strengthening the framework for asset declaration by public officials**. Now, the focus needs to switch to its implementation and enforcement. In September 2017, a law prescribing annual asset declaration requirements by senior officials besides those mentioned in Article 154 of the Constitution, covering assets legally and beneficially owned, with sanctions for noncompliance (third review SB), was enacted by Presidential decree. The law mandates submitting the declarations by the end of January 2018. The timely compliance has been impeded by obstacles posed by poor security, inadequate infrastructure, and recent transfer of responsibilities for administering the assets declaration framework to the Administrative Office of the President.

THIRD REVIEW

22. **Program performance has been satisfactory**. All end-December 2017 quantitative performance criteria (PCs) have been met (Text Table 2), with sizeable over-performance on the domestic revenue and net international reserves (NIR) targets.[11] The indicative target on social and other priority spending was missed by a small amount. The authorities spent in line with their budget target, marginally below the program target.

Text Table 2. Quantitative Performance Criteria, December 21, 2017

	Target	Adjusted	Actual	Status
Revenues of the central government (floor, bn Afs)	153.0	153.0	168.3	**Met**
Net credit to the central government from DAB (ceiling, bn Afs)	-1.3	23.6	-12.8	**Met**
Reserve money (ceiling, bn Afs)	31.5	31.5	27.2	**Met**
Net international reserves of DAB (floor, mn USD)	100.0	-363.0	567.5	**Met**
Non-concessional external debt, new (ceiling)	0.0	0.0	0.0	**Met**
Short-term external debt, new (ceiling)	0.0	0.0	0.0	**Met**
External payments arrears, new (ceiling)	0.0	0.0	0.0	**Met**
Borrowing by public enterprises in need of restructuring - from DAB or state-owned banks, or government-guaranteed, new (ceiling)	0.0	0.0	0.0	**Met**

Sources: Afghan Authorities and IMF staff calculations.

[11] See paragraph 5.

23. **Eight out of nine third review SBs were met** (Table 12). In line with the program's commitments, the MoF made payments to reduce DAB's lender of last resort (LoLR) exposure to Kabul Bank, and the 2018 budget submitted to Parliament includes further payments to reduce DAB's LOLR exposure consistent with repaying the remaining balance in full by end-2019. The SBs on strengthening of DAB's independence, adoption of a strategy to reform SOCBs, VAT implementation plan, and cash planning, commitment control and prevention of arrears in the budget were met. Two anti-corruption SBs (due in November and December 2017) were also met. The end-April 2018 SB on asset declarations was not met, but the requirements of this measure were implemented with a few days' delay. The latter calls for the publication of names and positions of heads and deputies of law enforcement agencies, customs, and tax administration, and of mechanisms to access their declarations. Such information was published on May 8, 2018 on a dedicated website.

24. **The program's calibration and the capacity to repay the Fund remain adequate**. The program is fully financed in the next 12 months, with firm financing assurances from donors in place. The current and projected level of reserves remains adequate, and the public debt outlook is sustainable, contingent on donor support. Upon completion of the third review, a fourth disbursement of SDR 4.5 million would be made.

25. **Risks to the program remain high**. They include security and political as well as social instability undermining reform implementation, and potentially lower domestic revenues and aid, which would precipitate spending cuts adversely impacting growth.

FUTURE REVIEWS

26. **Fourth review**: Owing to the revision of the macroeconomic framework, the authorities requested—and staff supports their request—modification of performance criteria for June 2018 on domestic revenues, net international reserves, and net credit to government. As mentioned above, staff and the authorities agreed on a new structural benchmark requiring cabinet approval and submission to parliament by end-September of a supplementary budget targeting a deficit of 0.4 percent of GDP, following the mid-year budget review, consistent with the revised fiscal balance target agreed with staff (Table 13).

27. **Fifth review**: The mission agreed on preliminary end-December 2018 PCs and SBs. The SBs will be discussed with authorities and donors to ensure consistency with the ANPDF and donors' initiatives and conditionality and therefore are not proposed for Board approval at this time. Preliminary agreement—to be finalized at the time of the next review—was reached on the following SBs: (i) Cabinet to submit to parliament a draft 2019 budget in line with the macro framework agreed under the ECF arrangement, including further reducing DAB's lender of last resort exposure to Kabul Bank; (ii) the Anti-Corruption Justice Center to publish data on prosecutions and convictions of corruption offenses; (iii) appointment of a VAT implementation team; (iv) establishment of a corporate governance framework for the SOCBs; (v) establishment of a Financial Stability Committee in line with the technical assistance recommendations provided by IMF

staff; and (vi) reform of PFM legislation based on LEG's technical assistance to strengthen fiscal risk oversight, by providing the legal basis for a fiscal oversight mandate of the MoF (Table 14). There was also agreement in principle to include as SBs measures: (i) to strengthen the governance of public assets and fiscal management based on the public-private partnerships (PPPs) legislation review by IMF staff; and (ii) to strengthen customs administration; but these measures are not yet defined.

OTHER ISSUES

28. **Safeguards**. The authorities amended the DAB Law per safeguards assessment recommendations to strengthen institutional and personal autonomy, rules for profit distribution, recapitalization, and foreign reserves management.

29. **Data provision has significant shortcomings, hampering evidence-based policy decisions**. The national accounts, the BOP, CPI, and inter-sectoral consistency are areas of concern. The Central Statistics Office is working with IMF and World Bank staff to improve data sources and compilation of the national accounts. Staff reiterated the need to strengthen the quality and timeliness of economic data.

30. **Public debt recording and monitoring needs strengthening**. While public debt is currently low, adequate capacity will be even more critical going forward given the existing and planned PPPs with sovereign guarantees. Debt monitoring and recording should aim to account for existing and contingent liabilities related to operations of SOEs, SOCs, future PPPs, and other factors such as unforeseen security expenditures and natural disasters.

31. **The authorities informed the staff that they are studying the pros and cons of adopting Article VIII**. The adoption of Article VIII, Sections 2(a), 3 and 4, initiated by the authorities last October, will take time.

STAFF APPRAISAL

32. **Afghanistan continues to face deep-seated challenges in its transition to self-reliance**. The unrelenting insurgency has led to sustained violence, hurting confidence and investment, and ultimately the development of a thriving private sector. In turn, this has undermined job creation and led to rising poverty. Compounding these problems is a large and growing internally displaced population and significant numbers of returning migrants. The financial support of the international community will therefore remain vital in the foreseeable future.

33. **This situation puts a premium on sound policies**. Economic, security, and political risks remain very high, especially in the context of approaching elections. Therefore, continued macroeconomic policy discipline and decisive actions to strengthen governance and implement structural reforms will be essential to assure the program's success.

34. **The authorities' commitment to macro-financial stability and economic reform is commendable**. Guided by the ANPDF and with the strong financial and technical support of the international community, they are undertaking wide-ranging reforms, including those in the context of the ECF-supported program, to achieve higher inclusive growth. There remains scope to better align international assistance with Afghanistan's development agenda.

35. **The economic outlook is for modest growth in the near term, with downside risks**. In 2018, staff's baseline scenario envisages real GDP to grow by 2.5 percent, with modest inflation. If security conditions worsen, aid falls short, or reforms stall, growth would be lower with attendant effects on unemployment and poverty. The prospect of a large influx of Afghan migrants from Pakistan adds to the uncertainties. On the other hand, a lasting improvement in security conditions would provide a game-changing boost to confidence and the economy.

36. **The macroeconomic policy mix focused on preserving fiscal and external stability with low inflation and a flexible exchange rate has served Afghanistan well and remains appropriate going forward**. The authorities should support growth by strengthening anti-corruption measures, building physical and human capital, safeguarding the financial sector while boosting financial inclusion, and improving the business climate.

37. **Fiscal policy should remain focused on sustainability in light of substantial fiscal risks**. The authorities should continue broadening the tax base and raising revenue intake in a fair and sustainable manner to boost prospects for eventual self-reliance. Regarding the fiscal stance in 2018, the program envisages a narrowing of the overall deficit including grants to 0.4 percent of GDP, from a budgeted deficit of about 1 percent, helped by an upward revision in the revenue target and possible expenditure cuts. Given the significant fiscal risks, and at current expected grant levels, staff believes there is very limited fiscal space in coming years for government investment programs to stimulate aggregate demand and growth; any scaling up of the public investment program should therefore be gradual.

38. **The reforms in support of fiscal sustainability and institutions should continue**. They include boosting revenue with the introduction of VAT, establishing the institutional and legal framework to effectively monitor state–owned entities and strengthen fiscal risk oversight, and improving debt management practices. The ECF's structural conditionality supports these reforms. Moreover, strengthening public investment management, including effective project appraisal, selection, and implementation procedures, is needed to further improve the budget process, an area in which the authorities have recently made significant progress. Capacity also needs to be built up in managing PPPs, especially in a high-corruption environment with PFM systems that still need strengthening.

39. **Efforts to contain risks in the banks are critical to financial stability and economic development**. Further progress in the ongoing clean-up of the weak banks, and in strengthening the framework for crisis prevention and resolution, is essential. MoF and DAB should improve coordination, including through the establishment of the Financial Stability Committee. The implementation of the SOCB strategy, especially improving corporate governance, staffing, and

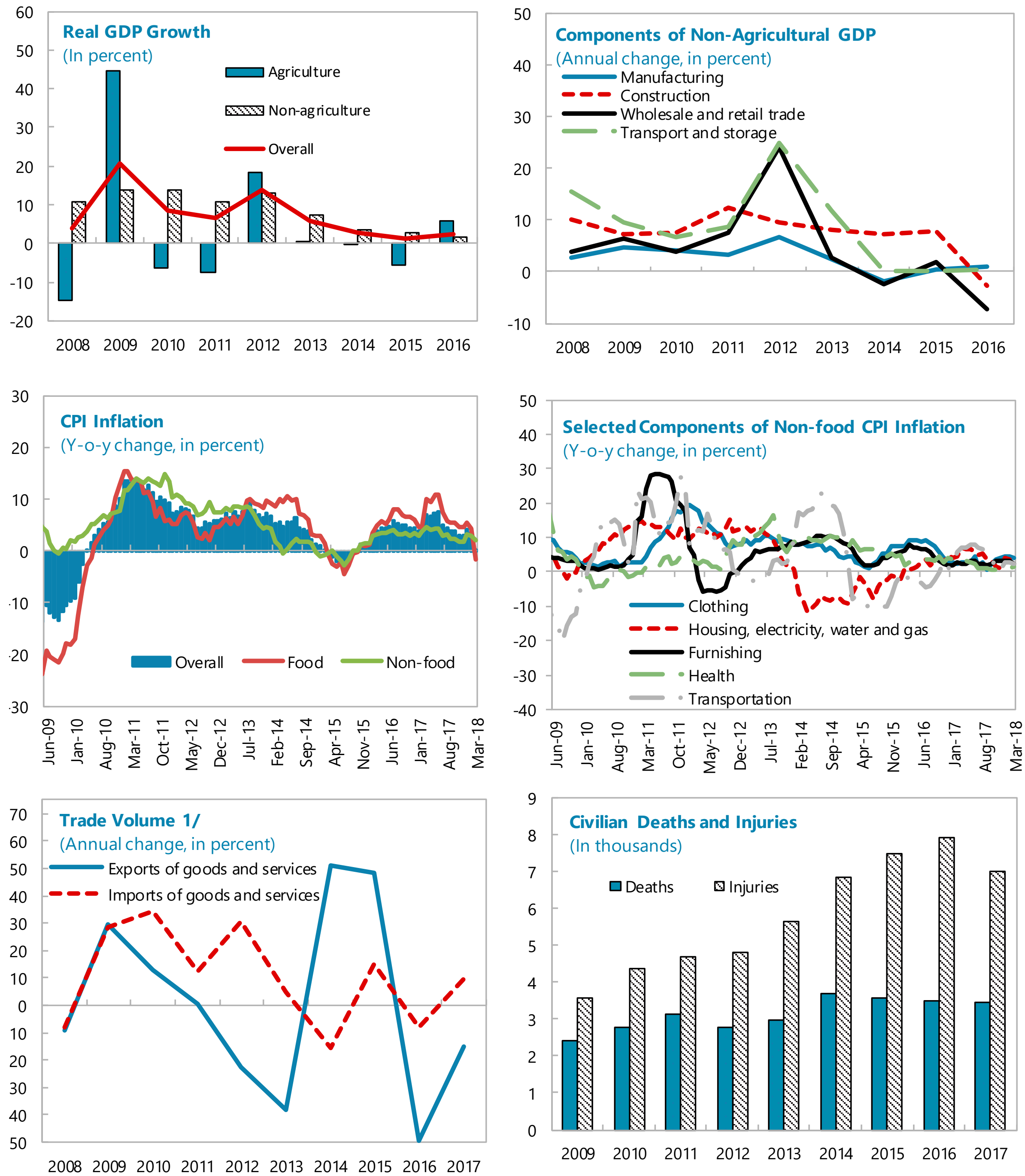
operational capacity, is an important pre-condition for the consolidation and eventual privatization of these institutions. Employing the SOCBs to achieve government objectives through sectoral or specialized lending should be avoided. Much progress has been made to overcome the Kabul Bank crisis legacy and restoring DAB's balance sheet, and efforts at asset recovery should be revived. The authorities should continue with the implementation of the National Financial Inclusion Strategy in cooperation with the World Bank. The authorities should also continue strengthening AML/CFT measures and supervision, including to help revive correspondent banking relationships.

40. **Anti-corruption reforms should continue**. Strengthening the legal frameworks for criminalization of corruption and asset declaration are steps in the right direction. Going forward, implementation and enforcement should be the key priority.

41. **The quality and timeliness of economic data needs on-going improvement**. The national accounts, the BOP, CPI, and inter-sectoral consistency are key areas of concern. There is also a need to improve debt recording and monitoring, especially as the PPP projects get underway. The Fund's TA remains available in these and other areas.

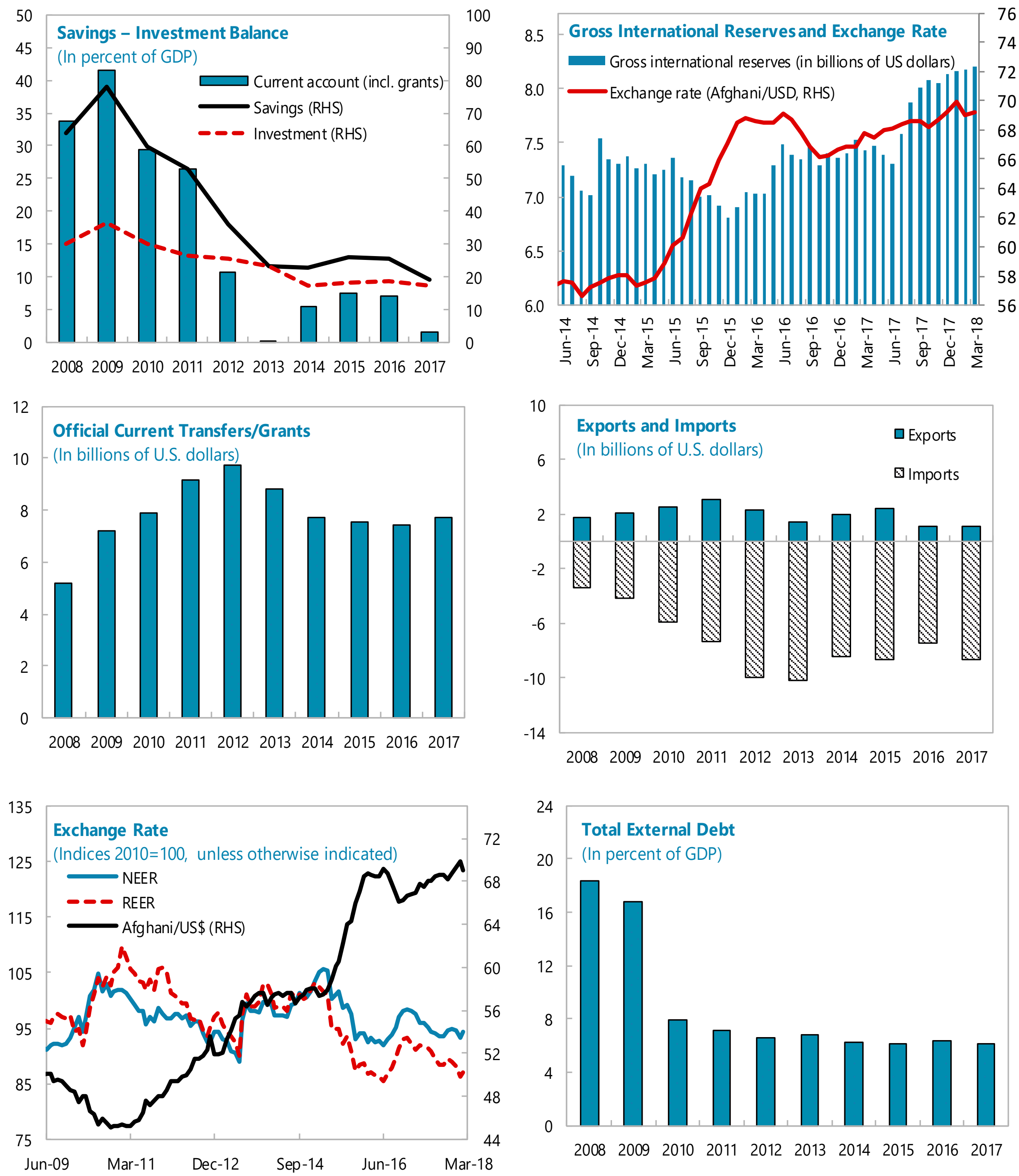
42. **Considering the satisfactory performance, staff supports the completion of the third review under the Extended Credit Facility arrangement and the authorities' request for a modification of three June 2018 performance criteria on domestic revenues, net international reserves, and net credit to government**.

Figure 1. Islamic Republic of Afghanistan: Real Sector



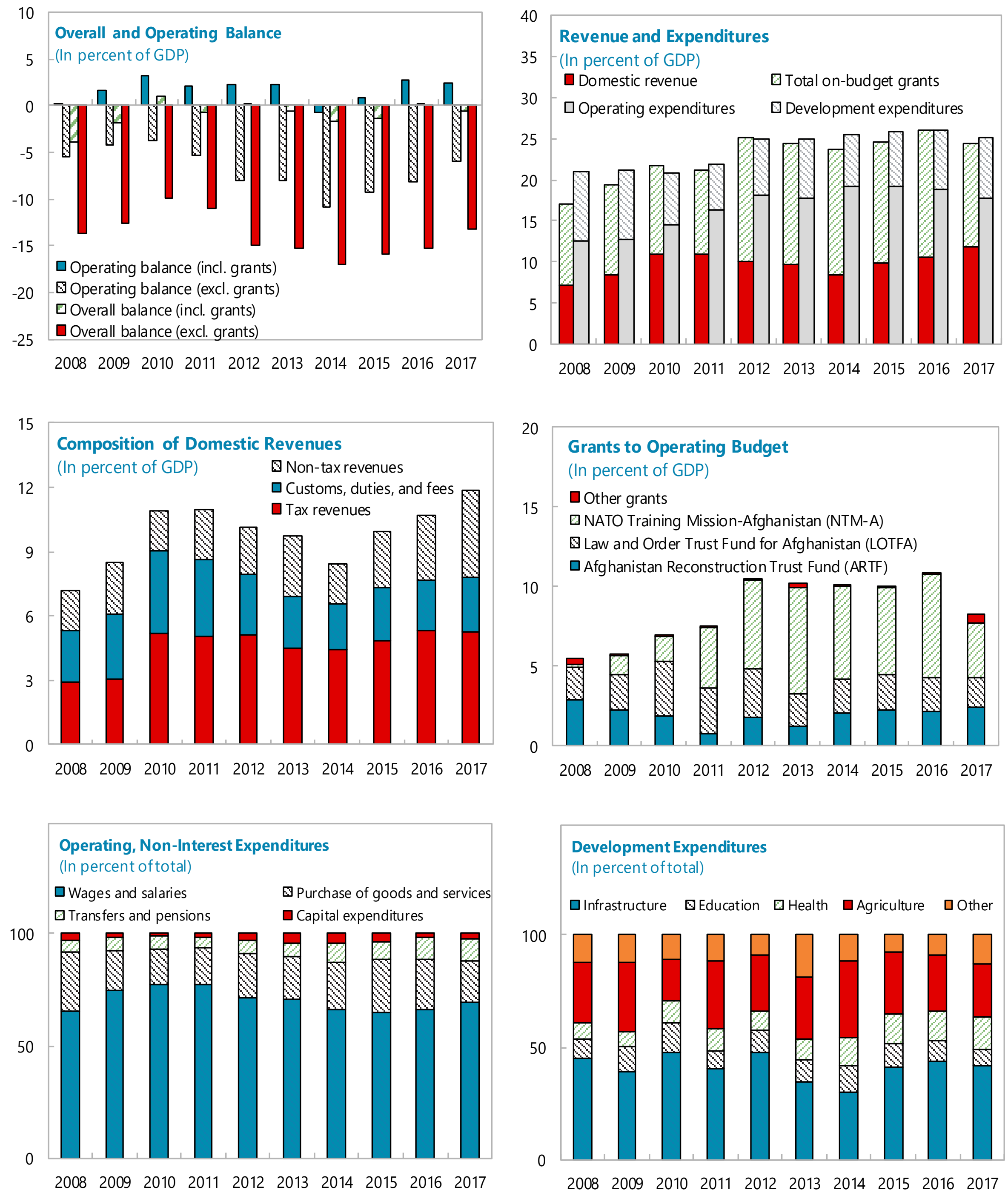
Sources: Afghan authorities, United Nations Assistance Mission in Afghanistan, and IMF staff calculations.
1/ In 2016, the decline in exports volumes reflects a fall in growth of services exports for two reasons: the fall in imports growth (insurance and freight are recorded as service exports) and in service exports to foreigners (transport, communication, financial services, issuance of visas, other) due to the security situation.

Figure 2. Islamic Republic of Afghanistan: External Sector



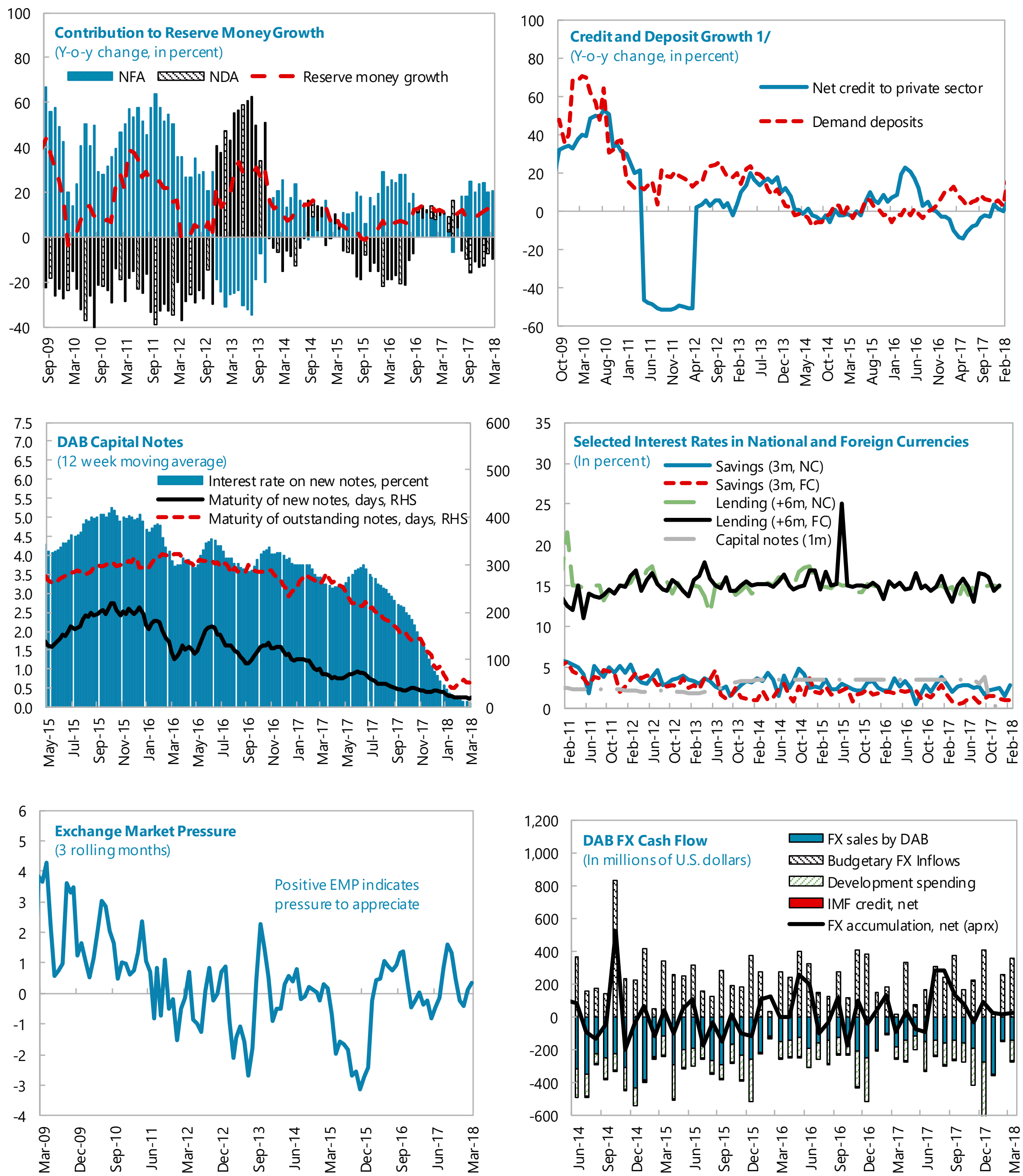
Sources: Afghan authorities and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities and IMF staff calculations.

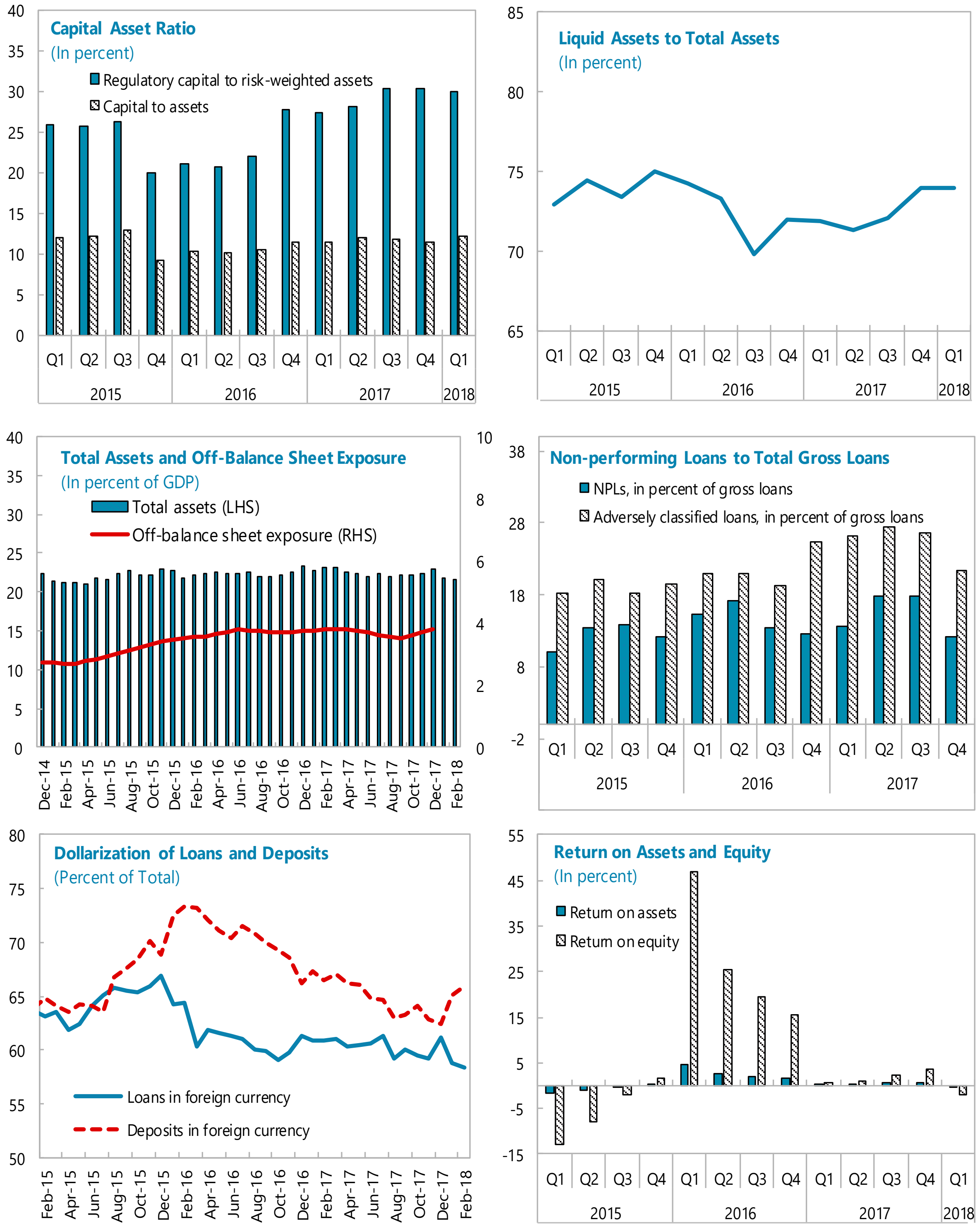
Figure 4. Islamic Republic of Afghanistan: Monetary Sector



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.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2016–19

(Quota: SDR 323.8 million)
(Population: approx. 34.7 million; 2016)
(Per capita GDP: approx. US$561; 2016)
(Poverty rate: 54.5 percent; 2016–17)
(Main exports: opium, US$2.0 billion; carpets, US$92.8 million; 2015)

	2016	2017		2018		2019
	Act.	ECF Second review	Est.	ECF Second review	Proj.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)					
Real GDP	2.4	2.5	2.5	3.0	2.5	3.0
Nominal GDP (in billions of Afghanis)	1,320	1,429	1,422	1,561	1,532	1,657
Nominal GDP (in billions of U.S. dollars)	19.5	21.0	20.9	22.5	21.7	22.9
Consumer prices (period average)	4.4	5.5	5.0	6.0	5.0	5.0
Food	5.7	…	6.9	…	…	…
Non-food	3.2	…	3.2	…	…	…
Consumer prices (end of period)	4.6	6.2	3.0	6.0	5.0	5.0
Investment and savings	(In percent of GDP)					
Gross domestic investment	18.5	18.5	17.4	18.5	17.0	17.0
Of which: Private	5.5	8.0	5.9	7.7	6.1	6.1
Gross national savings	25.5	23.0	19.0	21.9	17.6	16.8
Of which: Private	12.4	12.4	8.1	11.0	7.1	5.4
Public finances (central government)						
Domestic revenues and grants	26.1	24.0	24.5	25.4	23.1	25.0
Domestic revenues	10.7	10.7	11.8	10.9	11.2	11.4
On-budget grants (excl. donors' direct spending outside the budget)	15.4	13.3	12.6	14.6	11.9	13.6
Expenditures	26.0	23.9	25.1	25.4	23.6	24.5
Operating 2/	18.9	17.7	17.8	18.6	16.8	17.5
Development	7.1	6.2	7.3	6.8	6.8	7.0
Operating balance (excluding grants) 3/	-8.2	-7.0	-6.0	-7.8	-5.5	-6.1
Overall balance (including grants)	0.1	0.1	-0.6	0.0	-0.4	0.6
Public debt 4/ 5/	8.0	7.2	7.3	6.6	6.8	6.3
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)					
Reserve money	11.8	9.7	10.2	10.8	10.7	7.2
Currency in circulation	10.6	10.5	2.2	10.0	10.0	8.0
Broad money	9.7	7.8	4.1	8.1	10.7	9.0
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)	619	723	665	847	748	842
Exports of goods (annual percentage change)	6.8	16.7	7.4	17.2	12.6	12.5
Imports of goods (in millions of U.S. dollars)	6,160	7,065	7,180	7,139	7,443	7,941
Imports of goods (annual percentage change)	-19.6	14.7	16.5	1.1	3.7	6.7
Merchandise trade balance	-28.5	-30.2	-31.2	-39.7	-39.7	-36.8
Current account balance						
Excluding official transfers	-31.2	-30.8	-35.3	-30.2	-34.9	-35.3
Including official transfers	7.1	4.5	1.6	3.3	0.6	-0.2
Foreign direct investment	0.5	0.5	0.4	0.5	0.5	0.5
Total external debt 4/	6.3	6.1	6.3	6.1	6.3	6.3
Gross international reserves (in millions of U.S. dollars)	7,357	7,627	8,139	7,725	8,280	8,279
Import coverage of reserves 6/	10.2	10.5	10.8	10.0	10.2	9.8
Exchange rate (average, Afghanis per U.S. dollar)	67.9	…	68.1	…	…	…
Real exchange rate (average, percentage change) 7/	-7.1	…	2.5	…	…	…

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, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
Output and prices 1/	(Annual percentage change, unless otherwise indicated)								
Real GDP	1.3	2.4	2.5	2.5	3.0	3.5	4.0	4.5	5.0
Nominal GDP (in billions of U.S. dollars)	20.1	19.5	20.9	21.7	22.9	24.2	25.9	27.8	30.0
Consumer prices (period average)	-0.7	4.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Investment and savings	(In percent of GDP, unless otherwise indicated)								
Gross domestic investment	18.4	18.5	17.4	17.0	17.0	18.0	19.0	19.2	19.8
Of which: Private	5.8	5.5	5.9	6.1	6.1	6.9	8.1	8.9	9.8
Gross national savings	25.9	25.5	19.0	17.6	16.8	17.3	17.2	16.5	18.0
Of which: Private	14.6	12.4	8.1	7.1	5.4	6.5	6.8	6.5	8.0
Public finances (central government)									
Domestic revenues and grants	24.5	26.1	24.5	23.1	25.0	26.4	27.8	28.9	29.8
Domestic revenues	10.0	10.7	11.8	11.2	11.4	11.5	12.5	13.6	14.8
On-budget grants (excl. donors' direct spending outside the budget)	14.6	15.4	12.6	11.9	13.6	14.8	15.3	15.3	15.0
Expenditures	25.9	26.0	25.1	23.6	24.5	26.6	28.2	29.2	29.8
Operating 2/	19.2	18.9	17.8	16.8	17.5	18.8	19.5	20.5	21.1
Development	6.8	7.1	7.3	6.8	7.0	7.9	8.7	8.7	8.7
Operating balance (excluding grants) 3/	-9.2	-8.2	-6.0	-5.5	-6.1	-7.2	-7.0	-6.9	-6.4
Overall budget balance (including grants)	-1.4	0.1	-0.6	-0.4	0.6	-0.2	-0.4	-0.3	-0.1
External sector 1/									
Merchandise trade balance	-35.3	-28.5	-31.2	-30.9	-31.0	-29.8	-28.7	-25.6	-23.1
Current account balance, excluding official grants	-30.1	-31.2	-33.2	-32.8	-33.1	-31.5	-29.8	-28.2	-25.0
Current account balance, including official grants	7.5	7.1	1.6	0.6	-0.2	-0.7	-1.7	-2.7	-1.9
Gross reserves (in millions of U.S. dollars)	6,808	7,357	8,139	8,280	8,279	8,277	8,276	8,275	8,274
Import coverage of reserves 4/	10.9	10.2	10.8	10.2	9.8	9.3	9.4	9.4	8.9
Memorandum items:									
Total public debt 5/	9.1	8.0	7.3	6.8	6.3	6.6	6.9	7.2	7.1
Of which: External debt	6.8	6.3	6.3	6.3	6.3	6.3	6.2	6.2	6.1
Domestic debt	2.3	1.7	1.1	0.5	0.0	0.3	0.7	1.0	1.0
Sukuk	0.0	0.0	0.0	0.0	0.0	0.3	0.7	1.0	1.0
Promissory note	2.3	1.7	1.1	0.5	0.0	0.0	0.0	0.0	0.0
GDP per capita (in U.S. dollars) 6/	627	561	588	601	628	655	689	731	778
Donors' direct spending outside the budget	23.0	22.8	22.1	21.5	19.3	16.0	12.7	10.1	8.1

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, 2015–23

(In billions of Afghanis)

	2015	2016	2017		2018		2019	2020	2021	2022	2023
	FY	FY	FY		FY				FY		
			ECF 2nd review	Est.	Budget	Proj.			Proj.		
Revenues and grants	301.4	344.3	343.4	347.8	360.8	354.4	414.8	475.0	547.2	622.9	707.4
Domestic revenues	122.3	141.1	153.0	168.3	169.5	172.0	189.1	207.9	245.6	292.9	350.9
Tax revenues	89.7	101.2	109.0	110.5	121.9	114.5	126.9	140.2	168.8	208.9	234.8
Income, profits, and capital gains	32.3	36.4	…	38.7	27.7	…	…	…	…	…	…
International trade and transactions	30.4	31.1	…	35.7	50.6	…	…	…	…	…	…
Goods and services	21.1	27.9	…	32.8	33.6	…	…	…	…	…	…
Other	5.9	5.8	…	3.2	10.1	…	…	…	…	…	…
Nontax revenues	32.6	39.9	44.0	57.8	47.6	57.5	62.2	67.7	76.8	84.0	116.1
Grants to operating budget 1/	122.8	143.1	129.3	118.4	104.5	117.8	144.6	159.7	168.2	179.9	191.1
ARTF	27.4	28.9	…	34.2	5.0	…	…	…	…	…	…
LOTFA	27.5	27.4	…	27.2	29.4	…	…	…	…	…	…
CSTC-A	67.8	86.8	…	48.9	62.9	…	…	…	…	…	…
Other grants	0.2	0.1	…	8.1	7.3	…	…	…	…	…	…
Grants to development budget	56.2	60.1	61.1	61.1	86.8	64.6	81.2	107.4	133.4	150.1	165.4
Total expenditures	318.3	342.8	342.1	356.5	377.2	361.1	405.5	479.2	555.0	629.2	708.9
Operating expenditures	235.3	248.9	253.5	253.0	266.1	256.9	289.6	337.9	384.0	441.6	502.1
Of which: Security	145.1	153.0	141.5	138.9	140.2	…	…	…	…	…	…
Wages and salaries	152.3	164.5	…	174.2	174.4	…	…	…	…	…	…
Purchases of goods and services 2/	55.8	55.0	…	47.9	42.1	…	…	…	…	…	…
Transfers, subsidies, and other	1.3	2.2	…	2.7	13.2	…	…	…	…	…	…
Pensions	17.6	21.5	…	22.1	21.9	…	…	…	…	…	…
Capital expenditures	7.8	4.9	…	5.3	12.7	…	…	…	…	…	…
Interest	0.6	0.8	0.3	0.9	1.8	0.7	0.6	0.5	0.8	1.3	2.0
Development expenditures:	82.9	93.9	88.6	103.5	111.1	104.2	116.0	141.3	171.0	187.6	206.8
o/w discretionary 3/	18.0	29.6	27.5	42.4	52.1	…	…	…	…	…	…
Infrastructure and natural resources	33.9	40.8	…	43.4	42.0	…	…	…	…	…	…
Education	8.7	8.7	…	7.6	7.4	…	…	…	…	…	…
Health	11.2	12.4	…	14.5	11.1	…	…	…	…	…	…
Agriculture and rural development	22.7	23.4	…	24.7	29.5	…	…	…	…	…	…
Other	6.4	8.6	…	13.2	21.0	…	…	…	…	…	…
Operating balance excluding grants	-113.0	-107.8	-100.5	-84.7	-96.6	-84.9	-100.5	-130.0	-138.4	-148.7	-151.2
Overall budget balance including grants	-16.9	1.6	1.3	-8.7	-16.4	-6.7	9.3	-4.2	-7.8	-6.3	-1.5
less: Kabul Bank bailout cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall budget balance	-16.9	1.6	1.3	-8.7	-16.4	-6.7	9.3	-4.2	-7.8	-6.3	-1.5
Float and discrepancy 4/	11.2	8.2	0.0	22.6	…	0.0	0.0	0.0	0.0	0.0	0.0
Financing	5.7	-9.7	-1.3	-13.9	…	6.7	-9.3	4.2	7.8	6.3	1.5
Sale of nonfinancial assets	0.0	2.1	0.0	2.8	…	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.6	-0.3	1.7	-0.2	…	6.3	5.7	6.7	7.6	8.6	10.2
Domestic (net)	5.0	-11.6	-3.0	-16.5	…	0.3	-15.0	-2.5	0.2	-2.3	-8.7
Central bank, change in	5.0	-11.6	-3.0	-16.5	…	0.3	-15.0	-7.9	-7.7	-9.6	-10.1
Government deposits	2.7	-4.5	4.2	-8.9	…	8.4	-7.8	-7.3	-7.2	-9.2	-9.7
Claims on government	2.3	-7.1	-7.2	-7.7	…	-8.1	-7.2	-0.6	-0.5	-0.4	-0.3
Credit from DAB (IMF accounts)	1.7	-20.6	0.5	0.0	…	-0.3	0.3	-0.6	-0.5	-0.4	-0.3
Promissory note (- = repayment)	0.6	-5.3	-7.7	-7.7	…	-7.8	-7.5	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	…	0.0	0.0	5.4	7.9	7.3	1.4
Memorandum items:											
Promissory note (end-of-period stock)	28.3	23.0	15.3	15.3	7.9	7.5	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 5/	32.9	38.6	42.1	38.8	41.0	41.0	0.0	0.0	0.0	0.0	0.0

Source: Afghan authorities and Fund staff estimates and projections
Note: Government Finance Statistics Manual 1986 presentation
Overall budget balance including grants for 2018 approved budget excludes repayment to DAB and treasury cash balance.
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)
2/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.
3/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.
4/ Positive number indicates that expenditures have been recorded, but not yet executed.
5/ 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, 2015–23

(In percent of GDP)

	2015	2016	2017		2018		2019	2020	2021	2022	2023
	FY	FY	FY		FY				FY		
			ECF 2nd review	Est.	Budget	Proj.			Proj.		
Revenues and grants	24.5	26.1	24.0	24.5	23.6	23.1	25.0	26.4	27.8	28.9	29.8
Domestic revenues	10.0	10.7	10.7	11.8	11.1	11.2	11.4	11.5	12.5	13.6	14.8
Tax revenues	7.3	7.7	7.6	7.8	8.0	7.5	7.7	7.8	8.6	9.7	9.9
Income, profits, and capital gains	2.6	2.8	…	2.7	1.8	…	…	…	…	…	…
International trade and transactions	2.5	2.4	…	2.5	3.3	…	…	…	…	…	…
Goods and services	1.7	2.1	…	2.3	2.2	…	…	…	…	…	…
Other	0.5	0.4	…	0.2	0.7	…	…	…	…	…	…
Nontax revenues	2.7	3.0	3.1	4.1	3.1	3.8	3.8	3.8	3.9	3.9	4.9
Grants to operating budget 1/	10.0	10.8	9.0	8.3	6.8	7.7	8.7	8.9	8.6	8.3	8.0
ARTF	2.2	2.2	…	2.4	0.3	…	…	…	…	…	…
LOTFA	2.2	2.1	…	1.9	1.9	…	…	…	…	…	…
CSTC-A	5.5	6.6	…	3.4	4.1	…	…	…	…	…	…
Other grants	0.0	0.0	…	0.6	0.5	…	…	…	…	…	…
Grants to development budget	4.6	4.6	4.3	4.3	5.7	4.2	4.9	6.0	6.8	7.0	7.0
Total expenditures	25.9	26.0	23.9	25.1	24.6	23.6	24.5	26.6	28.2	29.2	29.8
Operating expenditures	19.2	18.9	17.7	17.8	17.4	16.8	17.5	18.8	19.5	20.5	21.1
Of which: Security	11.8	11.6	9.9	9.8	9.2	…	…	…	…	…	…
Wages and salaries	12.4	12.5	…	12.3	11.4	…	…	…	…	…	…
Purchases of goods and services 2/	4.5	4.2	…	3.4	2.7	…	…	…	…	…	…
Transfers, subsidies, and other	0.1	0.2	…	0.2	0.9	…	…	…	…	…	…
Pensions	1.4	1.6	…	1.6	1.4	…	…	…	…	…	…
Capital expenditures	0.6	0.4	…	0.4	0.8	…	…	…	…	…	…
Interest	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Development expenditures*:*	6.8	7.1	6.2	7.3	7.2	6.8	7.0	7.9	8.7	8.7	8.7
o/w discretionary 3/	1.5	2.2	1.9	3.0	3.4	…					
Infrastructure and natural resources	2.8	3.1	…	3.1	2.7	…	…	…	…	…	…
Education	0.7	0.7	…	0.5	0.5	…	…	…	…	…	…
Health	0.9	0.9	…	1.0	0.7	…	…	…	…	…	…
Agriculture and rural development	1.8	1.8	…	1.7	1.9	…	…	…	…	…	…
Other	0.5	0.7	…	0.9	1.4	…	…	…	…	…	…
Operating balance excluding grants	-9.2	-8.2	-7.0	-6.0	-6.3	-5.5	-6.1	-7.2	-7.0	-6.9	-6.4
Overall budget balance including grants	-1.4	0.1	0.1	-0.6	-1.1	-0.4	0.6	-0.2	-0.4	-0.3	-0.1
less: Kabul Bank bailout cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and discrepancy 4/	0.9	2.0	0.0	1.6	…	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.5	-2.2	-0.1	-1.0	…	0.4	-0.6	0.2	0.4	0.3	0.1
Sale of nonfinancial assets	0.0	0.2	0.0	0.2	…	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.0	0.0	0.1	0.0	…	0.4	0.3	0.4	0.4	0.4	0.4
Domestic (net)	0.4	-2.3	-0.2	-1.2	…	0.0	-0.9	-0.1	0.0	-0.1	-0.4
Central bank, change in	0.4	-2.3	-0.2	-1.2	…	0.0	-0.9	-0.4	-0.4	-0.4	-0.4
Government deposits	0.2	-0.3	0.3	-0.6	…	0.6	-0.5	-0.4	-0.4	-0.4	-0.4
Claims on government	0.2	-2.0	-0.5	-0.5	…	-0.5	-0.4	0.0	0.0	0.0	0.0
Credit from DAB (IMF accounts)	0.1	-1.6	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Promissory note (- = repayment)	0.0	-0.4	-0.5	-0.5	…	-0.5	-0.5	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	…	0.0	0.0	0.3	0.4	0.3	0.1
Memorandum items:											
Promissory note (end-of-period stock)	2.3	1.7	1.1	1.1	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 5/	2.7	2.9	2.9	2.7	2.7	…	…	…	…	…	…

Source: Afghan authorities and Fund staff estimates and projections

Note: Government Finance Statistics Manual 1986 presentation

Overall budget balance including grants for 2018 approved budget excludes repayment to DAB and treasury cash balance.

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)

2/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.

3/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.

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

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

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2015–23

(In billions of Afghanis, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2023
	Dec. 21	Dec. 20	Dec. 21	Dec. 21	Dec. 21	Dec. 20	Dec. 21	Dec. 21
						Proj.		
Net foreign assets	447.5	478.1	551.0	570.4	585.5	600.0	613.3	638.5
Net international reserves	423.8	438.9	508.3	526.5	540.2	553.2	565.3	588.1
Gross international reserves	463.3	491.7	565.6	585.5	600.6	615.0	628.4	653.6
Foreign liabilities	39.5	52.9	57.3	59.0	60.5	61.8	63.1	65.5
IMF accounts (loans and SDR allocation)	5.8	4.6	4.4	4.2	4.2	4.2	4.2	4.2
Foreign currency reserves of commercial banks	33.7	48.3	52.8	54.8	56.3	57.6	58.9	61.3
Other foreign assets	-9.9	-9.0	-10.1	-10.9	-10.9	-10.9	-10.9	-10.9
Net domestic assets	-169.8	-167.5	-208.7	-191.3	-179.1	-164.1	-145.9	-100.8
Domestic assets	-65.8	-88.2	-99.1	-89.8	-105.1	-112.6	-119.7	-138.7
Net claims on government	-38.1	-48.1	-62.5	-61.7	-76.9	-84.4	-91.6	-110.5
Gross claims on government	40.2	34.7	29.2	21.5	14.0	14.0	14.0	14.0
MOF promissory note 1/	28.3	23.0	15.3	7.5	0.0	0.0	0.0	0.0
IMF accounts 2/	11.9	11.7	13.8	14.0	14.0	14.0	14.0	14.0
Liabilities to government	78.2	82.8	91.6	83.1	90.9	98.4	105.6	124.5
Domestic currency deposits	10.9	14.2	31.2	38.7	42.3	45.8	49.2	58.0
Foreign currency deposits	67.3	68.5	60.4	44.4	48.6	52.6	56.4	66.5
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-30.1	-41.5	-38.3	-30.1	-30.1	-30.1	-30.1	-30.1
DAB's capital notes	-30.9	-41.9	-38.7	-30.4	-30.4	-30.4	-30.4	-30.4
Net credit to public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.3	1.4	1.7	1.9	1.9	1.9	1.9	1.9
Other items net	-104.0	-79.3	-109.5	-101.5	-74.0	-51.6	-26.2	37.9
DAB's capital	116.7	93.6	120.2	126.0	126.0	126.0	126.0	126.0
Reserve money	277.7	310.6	342.3	379.1	406.5	435.8	467.3	537.7
Reserve money in domestic currency	244.0	262.3	289.5	324.2	350.2	378.2	408.5	476.4
Currency in circulation	202.2	223.6	228.6	251.5	271.6	293.3	313.9	359.4
Bank deposits in domestic currency	33.4	32.2	53.0	64.4	70.2	76.5	86.2	108.7
Bank deposits in foreign currency	33.7	48.3	52.8	54.8	56.3	57.6	58.9	61.3
Bank deposits in foreign currency	33.7	48.3	36.5	37.9	39.3	40.7	41.9	44.3
Reserve requirements in foreign currency	0.0	0.0	16.4	17.0	17.0	17.0	17.0	17.0
Other deposits	8.4	6.5	7.9	8.3	8.3	8.3	8.3	8.3
Other deposits in domestic currency	8.4	6.5	7.9	8.3	8.3	8.3	8.3	8.3
Other deposits in foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
International reserves, in millions of U.S. dollars 3/								
Net	6,227	6,566	7,314	7,445	7,445	7,445	7,445	7,445
Gross	6,808	7,357	8,139	8,280	8,279	8,277	8,276	8,274
Interest rate, 28-day capital notes (percent)	3.5	3.0	3.0	…	…	…	…	…
Exchange rate (eop, Afghanis per U.S. dollar)	68.1	66.8	69.5	…	…	…	…	…

Sources: Afghan authorities and Fund staff estimates and projections.

Note: Monetary indicators are calculated based on modified methodology and, thus, differ from the numbers reported in the previous staff reports.

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).

3/ International reserves for Dec 2016 were revised relative to June 2017 report.

Table 4b. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2014–18

(At program exchange rates) 1/

	2014	2015	2016	2017	2018			
	Dec. 21	Dec. 21	Dec. 20	Dec. 21	March 20	June 21	Sep. 22	Dec. 21
							Proj.	
Net foreign assets	481.5	459.9	506.2	546.4	544.3	536.4	536.4	550.2
Net international reserves	455.1	435.9	465.7	504.7	505.1	497.8	497.8	511.6
Gross international reserves	498.6	476.0	521.0	560.6	558.7	551.4	551.5	565.2
Foreign liabilities	43.5	40.2	55.3	55.9	53.6	53.6	53.7	53.7
IMF accounts (loans and SDR allocation)	7.3	5.9	4.9	4.3	3.9	3.9	4.0	4.0
Foreign currency reserves of commercial banks	36.2	34.2	50.4	51.6	49.7	49.7	49.7	49.7
Other foreign assets	-9.8	-10.2	-9.9	-9.9	-10.5	-11.1	-11.1	-11.1
Net domestic assets	-204.8	-181.6	-193.5	-205.0	-220.6	-197.2	-183.2	-176.3
Domestic assets	-85.0	-66.2	-89.3	-98.6	-115.2	-89.0	-91.4	-77.7
Net claims on government	-52.0	-38.5	-49.1	-61.9	-98.0	-71.8	-74.2	-60.5
Gross claims on government	39.9	40.5	35.7	28.9	28.7	24.8	25.1	21.2
MoF promissory note 2/	27.7	28.3	23.0	15.3	15.2	11.4	11.4	7.5
IMF accounts 3/	12.1	12.2	12.7	13.6	13.5	13.4	13.7	13.7
Liabilities to government	91.9	79.0	84.8	90.8	126.7	96.7	99.4	81.7
Domestic currency deposits	20.4	10.9	14.2	31.2	49.2	38.4	38.9	32.1
Foreign currency deposits	71.5	68.1	70.5	59.6	77.5	58.3	60.4	49.6
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-35.5	-30.1	-41.5	-38.3	-19.0	-19.0	-19.0	-19.0
DAB's capital notes	-35.9	-30.9	-41.9	-38.7	-19.4	-19.4	-19.4	-19.4
Net credit to public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.5	2.3	1.4	1.7	1.9	1.9	1.9	1.9
Other items net	-119.7	-115.4	-104.2	-106.5	-105.4	-108.2	-91.8	-98.5
DAB's capital	74.8	116.7	93.6	120.2	123.4	123.4	123.4	123.4
Reserve money	276.7	278.3	312.7	341.4	323.7	339.2	353.2	373.9
Reserve money in domestic currency	240.6	244.0	262.3	289.5	273.7	289.5	303.5	324.2
Currency in circulation	197.0	202.2	223.6	228.6	215.7	229.5	242.6	251.5
Bank deposits in domestic currency	33.5	33.4	32.2	53.0	49.9	52.0	52.8	64.7
Bank deposits in foreign currency	36.2	34.2	50.3	51.9	49.9	49.7	49.7	49.7
Other deposits	10.1	8.4	6.5	7.9	8.1	8.1	8.1	8.1
Memorandum items:								
Net international reserves (mn. USD) 4/	6,624	6,343	6,778	7,345	7,351	7,245	7,245	7,445

Sources: Afghan authorities and Fund staff estimates and projections.

Note: Monetary indicators are calculated based on modified methodology and, thus, differ from the numbers reported in the previous staff reports.

1/ Program exchange rates as of May. 21, 2016 are applied to value foreign currency-denominated

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

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

4/ International reserves for Dec 2016 were revised relative to June 2017 report.

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2015–23 1/

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.			Proj.			
				(In billions of Afghanis)					
Net foreign assets	534.2	571.0	637.5	658.4	675.8	692.4	707.8	722.0	736.8
Foreign assets	564.2	600.7	674.5	695.6	713.4	730.5	746.2	760.8	776.0
Foreign liabilities	-30.0	-29.7	-36.9	-37.2	-37.6	-38.0	-38.4	-38.8	-39.2
Central bank	-20.5	-18.6	-19.9	-19.8	-19.8	-19.8	-19.8	-19.8	-19.8
Commercial banks	-9.5	-11.1	-17.1	-17.4	-17.8	-18.3	-18.7	-19.0	-19.4
Net domestic assets	-119.2	-115.8	-163.7	-134.0	-104.3	-69.4	-28.7	23.7	81.9
Net domestic credit	4.8	-5.9	-22.2	-11.1	-21.2	-23.0	-23.9	-26.2	-28.4
Nonfinancial public sector	-42.5	-52.1	-70.2	-61.6	-76.8	-84.3	-91.5	-100.7	-110.4
Net credit to central government	-42.6	-52.2	-70.3	-61.7	-76.9	-84.4	-91.6	-100.8	-110.5
Net credit to public nonfinancial corporations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net credit to private sector	48.9	47.6	49.4	51.9	57.1	62.8	69.0	75.9	83.5
Net credit to other financial corporations	-1.6	-1.3	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5
Other items net	-124.0	-109.9	-141.5	-123.0	-83.1	-46.4	-4.8	49.9	110.3
Broad money M2	415.0	455.2	473.9	524.4	571.6	623.0	679.1	745.6	818.7
Broad money M2 in domestic currency	264.3	297.0	315.8	363.5	400.2	444.3	482.3	525.4	574.0
Narrow money M1	389.6	423.3	436.7	486.0	525.3	572.0	612.1	657.1	707.7
Currency outside banks	196.1	216.3	220.5	243.4	263.5	285.2	305.8	327.7	351.2
Currency in circulation	202.2	223.6	228.6	251.5	271.6	293.3	313.9	335.9	359.4
Currency held by banks	6.0	7.3	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Demand deposits	193.5	207.0	216.2	242.6	261.9	286.7	306.4	329.4	356.4
Other deposits	25.4	31.9	37.1	38.4	46.2	51.1	67.0	88.5	111.0
				(12-month percentage change)					
M2	3.1	9.7	4.1	10.7	9.0	9.0	9.0	9.8	9.8
M1	1.2	8.6	3.2	11.3	8.1	8.9	7.0	7.4	7.7
Currency outside banks	4.1	10.3	1.9	10.4	8.3	8.2	7.2	7.2	7.2
Net credit to private sector	5.3	-2.7	3.9	5.0	10.0	10.0	10.0	10.0	10.0
				(In percent of GDP)					
M2	33.8	34.5	33.3	34.2	34.5	37.6	41.0	45.0	49.4
M1	31.7	32.1	30.7	31.7	31.7	34.5	37.0	39.7	42.7
Net credit to the private sector	4.0	3.6	3.5	3.4	3.4	3.5	3.5	3.5	3.5
Memorandum items:									
M2 velocity	3.0	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Reserve money multiplier	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Banking sector									
Loan dollarization (percent)	66.9	61.3	61.2	59.4	59.0	58.8	58.5	58.5	58.5
Deposit dollarization (percent)	68.8	66.2	62.4	57.2	55.6	52.9	52.7	52.7	52.3
Currency-to-deposit ratio (percent)	92.4	93.6	90.2	89.5	88.2	86.8	84.1	80.4	76.9
Loans-to-deposit ratio (percent)	22.3	19.9	19.5	18.5	18.5	18.6	18.5	18.2	17.9

Sources: Afghan authorities and Fund staff estimates and projections.

Note: Monetary indicators are calculated based on modified methodology and, thus, differ from the numbers reported in the previous staff reports.

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, 2015–23 1/

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.			Proj.			
Current account	1,503	1,372	328	127	-35	-160	-447	-757	-559
Excluding official grants	-6,046	-6,061	-7,382	-7,567	-8,089	-8,240	-8,383	-7,823	-7,504
Trade balance of goods	-7,086	-5,541	-6,515	-6,694	-7,099	-7,230	-7,414	-7,100	-6,924
Exports of goods and services	2,351	1,135	1,034	1,179	1,327	1,532	1,836	2,241	2,615
Goods	580	619	665	748	842	950	1,072	1,213	1,376
Services	1,771	516	370	430	484	582	764	1,027	1,239
Imports of goods and services	8,634	7,471	8,685	9,078	9,768	10,152	10,632	10,523	10,616
Goods	7,666	6,160	7,180	7,443	7,941	8,179	8,487	8,314	8,300
Services	968	1,311	1,505	1,636	1,827	1,973	2,146	2,209	2,316
Income, net	180	52	76	128	126	126	128	135	136
Of which: Interest on official loans	6	5	5	5	6	7	8	9	10
Current transfers, net	7,606	7,656	7,903	7,898	8,281	8,335	8,222	7,390	7,306
Of which: Official /2	7,549	7,433	7,711	7,694	8,054	8,080	7,936	7,066	6,945
Capital account	0	0	0	0	0	0	0	0	0
Financial account, net	52.7	52	462	18	29	166	452	761	562
Foreign direct investment	163	100	76	104	110	116	124	133	144
Portfolio investment	-82	-91	12	-10	-15	-20	-25	-30	-35
Official loans 3/	-8	-4	25	90	80	90	100	111	129
Disbursement	10	8	50	115	105	116	126	146	166
Amortization	18	12	25	26	26	26	26	35	37
Debt relief ('-' = forgiveness)	0	0	0	0	0	0	0	0	0
Other investment	-21	47	350	-166	-146	-21	252	546	324
Errors and omissions	-2,038	-861	0	0	0	0	0	0	0
Overall balance	-482	563	790	145	-5	6	6	4	3
Financing	482	-563	-790	-145	5	-6	-6	-4	-3
Central bank's gross reserves ('-' = accumulation)	503	-549	-782	-142	2	1	1	1	1
Use of Fund resources, net	-20	-15	-8	-4	4	-8	-7	-5	-4
Disbursements 4/	0	6	13	13	14	0	0	0	0
Repayments	20	21	21	16	10	8	7	5	4
Debt relief ('-' = forgiveness)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves, central bank	6,808	7,357	8,139	8,280	8,279	8,277	8,276	8,275	8,274
Import coverage of reserves 5/	10.9	10.2	10.8	10.2	9.8	9.3	9.4	9.4	8.9
External debt stock, official 6/	1,231	1,242	1,283	1,359	1,442	1,524	1,618	1,723	1,846
in percent of GDP	6.8	6.3	6.3	6.3	6.3	6.3	6.2	6.2	6.1
Current account, in percent of GDP	7.5	7.1	1.6	0.6	-0.2	-0.7	-1.7	-2.7	-1.9
Trade balance, in percent of GDP	-35.3	-28.5	-31.2	-30.9	-31.0	-29.8	-28.7	-25.6	-23.1
Export of goods and services, in percent of GDP	11.7	5.8	5.0	5.4	5.8	6.3	7.1	8.1	8.7
Import of goods and services, in percent of GDP	43.0	38.4	41.6	41.9	42.6	41.9	41.1	37.9	35.4
Official grants, in percent of GDP	37.6	38.2	36.9	35.5	35.1	33.3	30.7	25.4	23.1

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/ Disbursements in 2017-19 are conditional on the board approval of ECF reviews.
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

	2015	2016	2017				2018
			Q1	Q2	Q3	Q4	Q1
Capital adequacy							
Regulatory Capital to Risk-weighted Assets	19.9	27.7	27.4	28.0	30.4	30.3	29.8
Capital to Assets	9.2	11.3	11.4	11.9	11.8	11.3	12.1
Asset quality							
Non-performing Loans to Total Gross Loans	12.1	12.7	13.6	17.9	17.7	12.2	12.0
Non-performing Loans Net of Provisions to Capital	8.3	10.6	8.8	12.1	12.0	8.8	7.8
Earnings and profitability							
Return on Assets	0.2	1.6	0.3	0.2	0.5	0.7	-0.3
Return on Equity	1.7	15.4	0.8	0.8	2.4	3.7	-1.9
Liquidity							
Liquid Assets to Total Assets (Liquid Asset Ratio)	75.0	72.0	71.8	71.3	72.1	74.0	73.9
Liquid Assets to Short-term Liabilities	90.4	89.2	90.2	91.7	92.1	92.6	93.7

Source: Afghan authorities.

Table 8. Islamic Republic of Afghanistan: Proposed Schedule of Reviews and Disbursements Under the ECF Arrangement

	Amount of Disbursements		
Availability date	Millions of SDRs	Percent of Quota	Conditions
July 20, 2016	4.50	1.4	Approval of arrangement
April 21, 2017	4.50	1.4	First review and December 20, 2016 performance criteria
October 23, 2017	4.50	1.4	Second review and June 21, 2017 performance criteria
April 23, 2018	4.50	1.4	Third review and December 21, 2017 performance criteria
October 22, 2018	4.50	1.4	Fourth review and June 21, 2018 performance criteria
April 22, 2019	4.50	1.4	Fifth review and December 21, 2018 performance criteria
July 3, 2019	5.38	1.7	Sixth review and March 20, 2019 performance criteria
Total	32.38	10.0	

Source: International Monetary Fund.

Table 9. Islamic Republic of Afghanistan: External Financing Requirement and Sources, 2016–20

(In millions of U.S. dollars)

	2016	2017	2018	2019	2020
			Proj.		
Gross financing requirement	6,650	8,210	7,751	8,123	8,272
Current account balance (excluding grants)	-6,061	-7,382	-7,567	-8,089	-8,240
Amortization	40	46	42	36	33
Of which: IMF	21	21	16	10	8
Change in reserves (increase = +)	549	782	142	-2	-1
Reduction in arrears	0	0	0	0	0
Available financing	6,643	8,198	7,738	8,109	8,272
Official transfers (grants)	7,433	7,711	7,694	8,054	8,080
Foreign direct investment	100	76	104	110	116
Official medium- and long-term loans (net)	11	33	93	76	97
Accumulation of arrears	0	0	0	0	0
Debt forgiveness	0	0	0	0	0
Debt rescheduling	0	0	0	0	0
Other flows	-900	379	-153	-131	-22
Financing gap	6	13	13	14	0
Identified financing (provisional)	6	13	13	14	0
Of which: IMF 1/	6	13	13	14	0
Remaining gap	0	0	0	0	0

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

1/ Disbursements in 2017-19 are conditional on the board approval of ECF reviews.

Table 10. Islamic Republic of Afghanistan: Projected Payments and Indicators of Capacity to Repay the Fund 1/

(In millions of SDRs)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Obligations from existing drawings															
1. Principal															
GRA repurchases	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	1.0
PRGT repayments	8.7	7.1	5.4	4.8	3.8	2.7	2.7	2.7	2.7	1.4	0.0	0.0	0.0	0.0	0.0
2. Charges and interest 2/															
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	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total obligations	9.4	7.8	6.1	5.6	4.5	3.5	3.5	3.5	3.5	2.1	0.8	0.8	0.8	0.8	0.8
(percent of quota)	2.9	2.4	1.9	1.7	1.4	1.1	1.1	1.1	1.1	0.6	0.2	0.2	0.2	0.2	0.2
Obligations from prospective drawings 3/															
1. Principal															
PRGT repayments	0.0	0.0	0.0	0.0	0.0	0.5	2.3	3.8	3.8	3.8	3.3	1.5	0.0	0.0	0.0
2. Charges and interest 2/															
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	0.5	2.3	3.8	3.8	3.8	3.3	1.5	0.0	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	0.1	0.7	1.2	1.2	1.2	1.0	0.5	0.0	0.0	0.0
Cumulative obligations (existing and prospective) 3/															
1. Principal															
GRA repurchases	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	1.0
PRGT repayments	8.7	7.1	5.4	4.8	3.8	3.2	5.0	6.5	6.5	5.1	3.3	1.5	0.0	0.0	0.0
2. Charges and interest 2/															
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	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total obligations	9.4	7.8	6.1	5.6	4.5	3.9	5.7	7.2	7.2	5.9	4.1	2.3	0.8	0.8	0.8
Outstanding Fund credit, end of period	42.1	45.0	39.6	34.8	31.0	27.9	22.9	16.5	10.0	4.9	1.5	0.0	0.0	0.0	0.0
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services 4/	5.1	4.8	3.7	2.7	2.0	1.4	1.1	0.7	0.4	0.2	0.0	0.0	0.0	0.0	0.0
External public debt	4.4	4.4	3.7	3.0	2.5	2.0	1.6	1.0	0.6	0.3	0.1	0.0	0.0	0.0	0.0
Gross official reserves	0.7	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
GDP	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	13.0	13.9	12.2	10.7	9.6	8.6	7.1	5.1	3.1	1.5	0.5	0.0	0.0	0.0	0.0
Total Obligations, in percent of															
Exports of goods and services 4/	1.1	0.8	0.6	0.4	0.3	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0
External public debt	1.0	0.8	0.6	0.5	0.4	0.3	0.4	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Gross official reserves	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
GDP	0.1	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
Quota	2.9	2.4	1.9	1.7	1.4	1.2	1.8	2.2	2.2	1.8	1.3	0.7	0.2	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/ As of December 31, 2016. Years refer to Gregorian calendar years (January 1 to December 31).
2/ Projections are based on current interest rates for PRGT loans.
3/ Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.
4/ Excluding reexports.

Table 11. Islamic Republic of Afghanistan: Millennium Development Goals 1/

	Baseline value	Latest available	Target 2/ 2015	Target 2/ 2020
	(In percent, unless otherwise indicated)			
Goal 1: Eradicate extreme poverty and hunger				
Population below US$1 (PPP) a day	...	...	...	...
Population below national poverty line 3/ 4/ 5/	33.0	36.5	24.0	21.0
Prevalence of underweight children under 5 years of age	41.0	25.0	15.0	...
Population below minimum level of dietary energy consumption 5/ 6/	30.0	30.1	11.0	9.0
Goal 2: Achieve universal primary education				
School enrolment rate (age 7-12) 5/	37.0	54.4	...	100
Literacy rate of 15- to 24-year-olds	34.0	47.0	50.0	100
Goal 3: Promote gender equality and empower women				
Ratio of girls to boys in primary education	60.0	67.0	83	100.0
Ratio of girls to boys in secondary education	33.0	54.0	70	100.0
Proportion of seats held by women in national, provincial and district representative bodies	25.0	27.0	25.0	30.0
Goal 4: Reduce child mortality				
Under 5 mortality rate (per 1000 live births)	257	102.0	85	65
Infant mortality rate (per 1000 live births)	165	74.0	60	45
Immunization, measles, children under 12 months	35.0	59.0	70.0	90
Goal 5: Improve maternal health				
Maternal mortality ratio (per 100,000 births)	1600	327	270	200
Proportion of births attended by skilled personnel	14.0	47.0	50.0	75.0
Fertility rate (live births per woman) 4/ 7/	6.3	5.1	4.7	3.1
Goal 6: Combat HIV/AIDS, malaria, TB and other diseases				
Contraceptive prevalence rate, national	10.3	13.8	40.0	60.0
Incidence rates associated with malaria	1.5	1.1	0.7	0.2
Prevalence rates associated with tuberculosis (per 100,000 population)	671	340	224	143
Goal 7: Ensure environmental sustainability				
Population with access to safe drinking water	23.0	67.3	...	61.5
Population with access to improved sanitation	12.0	14.9	...	66.0
Goal 8: Develop a Global Partnership for Development				
ODA received as a proportion of GDP	49.0	18.0	...	...
Export to countries having a preferential trade agreement with Afghanistan	11.8	41.5	...	100
Goal 9: Enhance security 7/				
Professional training of the ANA (% of personnel having undergone a full training)	42.0	90.0	100	100
Afghans directly affected by emplaced antipersonnel mines (in millions)	4.2	1.6	1.7	0.2
Afghans dependent on opium for their livelihoods (in millions)	1.70	1.25	0.60	0.20

Source: UNDP *Millennium Development Goals, Islamic Republic of Afghanistan, 10 years Report 2005-2015*

1/ Only selected indicators within selected targets have been reported.

2/ Recognizing the capacity constraints, and acknowledging that for Afghanistan the 1990s was a “lost decade” for development, the Technical Working Groups recommended that the Government extend the time period for meeting the MDG targets from 2015 to 2020 so as to have a realistic chance of meeting the targets.

3/ National poverty line calculated with Cost of Basic Needs method.

4/ Figures may not be directly comparable.

5/ Data is from World Bank (2014) *Poverty in Afghanistan assessment*, rather than the UNDP MDG *Progress Report*.

6/ Minimum level of dietary energy consumption at 2100 Cal./day.

7/ Afghanistan-specific, additional goal/indicator.

Table 12. Islamic Republic of Afghanistan: Third Review Structural Benchmarks

Measure	Date	Rationale	Status
Cabinet to approve and submit to Parliament a 2018 draft budget in line with the macroeconomic framework agreed under the ECF arrangement. The budget will include a transfer to further reduce DAB's lender of last resort exposure to Kabul Bank, consistent with repaying the remaining balance in full by end-2019. The budget will include an appendix that lists carried-over expenditures per each ministry.	End-November 2017	Preserve macroeconomic stability	Met
Reduction in DAB's lender of last resort exposure to Kabul Bank ($343 million as of December 2016,) in line with the amount stipulated in the revised 2017 budget.	End-November 2017	Preserve financial stability	Met
Amendments to DAB law submitted to Parliament in line with the recommendations of the IMF's 2017 Safeguards assessment, especially with regards to DAB mandate, institutional and personal autonomy, as well as the rules of profit distribution, recapitalization and foreign reserves management.	End-November 2017	Strengthen independence of DAB	Met
MoF, in coordination with DAB and with World Bank support, will prepare a strategy for state-owned commercial banks, addressing their business model and governance deficiencies, and minimizing their operational risk. The strategy will be finalized by High Economic Council.	End-November 2017	Preserve financial stability	Met
Enact legislation to criminalize acts of corruption in line with UNCAC.	End-November 2017	Improve governance and fight corruption	Met
MoF to prepare and publish a plan to implement a VAT, including a VAT-specific excess credit reimbursement system, unique positive rate, unique threshold, and limited exemptions, in replacement of the Business Receipt Tax, and prepare its implementation through a transition and communication plan to be made publicly available and posted on the MoF website.	End-December 2017	Preserve macroeconomic stability by improving revenue collection	Met
Budget Department in consultation with line ministries/agencies to submit allotment and annual financial plans in AFMIS. The Treasury Department to (i) register their contractual commitments against allotment in the AFMIS; (ii) control payments against the respective pre- registered commitments and authorized financial plans in the system/AFMIS starting in FY 2018; and (iii) produce quarterly commitment reports for each ministry/agency starting in FY 2018.	End-February 2018	Strengthen cash planning and commitment control and prevent emergence of arrears	Met
Enact legislation on asset declaration in line with the specifications of the end-October 2016 structural benchmark.	End-December 2017	Improve governance and fight corruption	Met
Publish in Dari and English on the dedicated website for asset declaration: names and positions of heads and deputies of law enforcement agencies, customs, and tax administration who have declared their assets as of 2017 in line with Law on Registration of Assets of Officials and Government Employees, and mechanisms to access their declarations.	End-April 2018	Improve governance and fight corruption	Not met; implemented May 8, 2018

Table 13. Islamic Republic of Afghanistan: Fourth Review Structural Benchmarks			
Measure	**Date**	**Rationale**	**Status**
Roll out implementation of the multi-criteria risk profiles for customs control to at least Herat, Nangarhar and Nimroz, with improvements in clearance times and in detection of fraud (both in number and value of cases)	End-June 2018	Improve trader compliance and reduce corruption	On track
Preparation of a strategic implementation plan for the establishment of a single national LTO with a unique revenue threshold for firms, equal to the VAT threshold, and high enough that the LTO covers around 500 firms (excluding the mining firms)	End-June 2018	Improve revenue collection	On track
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af 3.994 billion	End-June 2018	Preserve financial stability	On track
Publish on the dedicated official website for asset declaration, in Dari and in English: sanctions imposed against high-ranking officials and officials covered in the third review benchmark who did not comply with the requirements on asset declarations in the past 12 months in accordance with the Law on Declaration and Registration of Assets of Officials and Government Employees or Article 154 of the Constitution	End-June 2018	Improve governance and fight corruption	It is proposed to push the timing for completion of this measure to August 2018
PPP Law and Regulations to be reviewed against international best practice by the IMF staff. Submit to parliament proposed amendments to the PPP Law and submit to Cabinet Regulations that address the shortcomings identified by the review.	End-July 2018	Improve governance and reduce corruption	On track; it is proposed to push the timing for completion of this measure to September 2018
SOE & SOC laws, with related templates of articles of organization, and other relevant PFM legislation (e.g. the Public Finance and Expenditure Management Law) to be reviewed against international best practice by the IMF staff, with the support of the World Bank staff, to strengthen fiscal risk oversight over SOEs/SOCs, by providing the legal basis for a fiscal oversight mandate of the MoF, and strengthen corporate governance of public corporations. Submit to parliament proposed amendments to the SOE and SOC laws and to Cabinet their templates of articles of organization, that address the shortcomings identified by the review.	End-September 2018	Improve fiscal risk oversight and corporate governance of SOEs/SOCs	On track
Cabinet approval and submission to parliament of a supplementary budget, following the mid-year review, consistent with the 2018 target for the overall balance including grants set in the ECF arrangement.	End-September 2018	Reduce fiscal risks	New benchmark

Table 14. Islamic Republic of Afghanistan: Fifth Review Structural Benchmarks
(Preliminary; not proposed for IMF Executive Board approval)

Measure	Date	Rationale
Cabinet to approve and submit to Parliament 2019 draft budget in line with the macroeconomic framework agreed under the ECF arrangement. The budget will include a transfer to further reduce DAB's lender of last resort exposure to Kabul Bank, consistent with repaying the remaining balance in full by end-2019. The budget will include an appendix that lists carried-over expenditures per each ministry.	End-November 2018	Preserve macroeconomic stability
Appoint VAT implementation team of 10 members spanning revenue and customs departments with legal, audit, risk management, communications and liaison expertise. Develop job descriptions and work performance objectives and measurements for team. Establish a VAT steering committee.	End-December 2018	Improve revenue collection
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af [3.994] billion	End-November 2018	Preserve financial stability
Establish Financial Stability Committee chaired by the Minister of Finance and DAB providing the Secretariat, in line with the technical assistance recommendations provided by the IMF staff.	End-December 2018	Preserve financial stability
Establish, with support of the World Bank staff, a transparent and well defined corporate governance framework for SOCBs including (i) a sound ownership policy, (ii) adequately staffed ownership unit and (iii) a transparent operational framework for SOCBs' supervisory boards that is in line with international good practices and DAB's relevant regulations. Promulgate through the issuance of a Presidential order.	End-December 2018	Improve governance of public assets
Publish ACJC's activities on an official website: (i) quarterly statistics (in English and Dari) on prosecutions and convictions of corruption offences covered in UNCAC in the templates specified in the TMU within thirty days after each quarter; and (ii) court decisions on corruption cases on an ongoing basis. The first publication will cover annual statistics and court decisions since ACJC's formation in 2016 to December 31, 2018.	End-January 2019	Improve governance and fight corruption
Submit to Parliament proposed amendments to PFM legislation (e.g., Public Finance and Expenditure Management Law) to strengthen fiscal risk oversight over SOEs/SOCs, by providing the legal basis for a fiscal oversight mandate of the MoF.	End-February 2019	Improve fiscal risk oversight and corporate governance of SOEs/SOCs

Appendix I. Letter of Intent

Kabul, May 9, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

Much progress has been made by the Afghan government and its people with strong support from the international community, even in circumstances of continued difficulties on the security, economic, and political fronts. Our government continues to press ahead with reforms needed to address the current difficulties and build the foundation for sustainable and inclusive growth.

We would like to thank the International Monetary Fund (IMF) for its support in recent years, including in the context of the Extended Credit Facility (ECF) arrangement, approved by the Executive Board in July 2016. Having addressed the immediate fiscal and banking vulnerabilities with the help of the 2015 staff-monitored program (SMP), we are now building on these achievements and laying the foundations for a vibrant economy through macroeconomic stability and structural reforms. We plan for a future where we will have put behind us dependence on donor aid, even if this new reality will take decades to arrive at, and we see the ECF arrangement as playing a critical catalytic role in this process.

The Government of Afghanistan believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) represent an ambitious set of reforms and will support achieving the objectives of its program. The government will take any further measures that may become appropriate for achieving these objectives. We will continue to consult with the IMF as we implement the program and in advance of any revision of the policies contained in this MEFP, in accordance with the Fund's policies on such consultation. We will provide in a timely fashion any information necessary for monitoring economic developments and implementation of policies under the ECF-supported program.

The government requests that the IMF Executive Board approves the completion of the third review and the disbursement of an amount equivalent to SDR 4.50 million under the ECF arrangement.

The government also requests modification of three June 2018 performance criteria (on domestic revenues, net international reserves, and net credit to government), necessitated by an update of the macroeconomic framework including a modest loosening of this year's fiscal balance target.

In line with our commitment to transparency, we hereby request that the staff report, this Letter of Intent (LOI), and the attached MEFP and Technical Memorandum of Understanding (TMU), including all annexes and attachments be published on the IMF website.

Sincerely yours,

/s/	/s/
Eklil Hakimi	Khalil Sediq
Minister of Finance	Governor
Government of Afghanistan	Da Afghanistan Bank

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies for 2018–19

A. Introduction

1. **This memorandum reviews recent economic developments and lays out our economic objectives and policy framework for the period through July 19, 2019, supported by a three-year Extended Credit Facility (ECF) arrangement with the IMF**.

2. **We, the government of Afghanistan and its central bank, are committed to on-going implementation of economic reform and addressing structural weaknesses in the economy**. We are addressing economic vulnerabilities and pressing ahead with the reform program through a series of policy and legislative actions.

3. **The ECF arrangement supports our macroeconomic policy and reform agenda through 2019**. It helps the government address economic vulnerabilities and facilitates our engagement with the international community to sustain donor support and helps us make progress on the deliverables under the Self-Reliance Mutual Accountability Framework (SMAF). The ECF arrangement assists us in preserving macroeconomic stability, improving economic governance, and laying the basis for stronger private sector activity.

B. Recent Economic Developments

4. **Economic activity continues to be weak, with confidence negatively impacted by the recent deterioration in security, but there are signs of nascent recovery**.

- Following the withdrawal of the international troops, uncertainties related to security and political transition sapped private sector confidence and reduced domestic demand. The growth rate bottomed out in 2015 and has only been slowly picking up, with favorable weather and limited solar powered irrigation supporting agriculture, industry, and services in 2016–17.

- Average consumer price inflation picked up modestly in 2017 compared to 2016. In 2018, we expect inflation to remain broadly as in 2017 at 5 percent on average, reflecting cautious monetary and fiscal policies and a benign outlook for international food prices.

- International reserves remain comfortable, while the large trade and current account deficits continue to be financed by donor grants.

- Exchange rate developments continue to primarily depend on the foreign aid disbursements and the extent of dollarization. The Afghani depreciated by about four percent vis-à-vis the U.S. dollar during 2017 and has remained broadly stable in 2018, so far.

5. **On the fiscal side, revenues increased strongly in 2017, and exceeded the end-year program target**. Domestic revenues increased by 20 percent, following growth of 15 percent in the

preceding year. The revenue-to-GDP ratio reached 11.8 percent, up from a low of 8.5 percent in 2014.

6. **In line with expectations, development spending increased in 2017 and operating grants declined, resulting in a small deficit for the year**. Treasury cash balances remained well above their program floor of Af 10 billion.

7. **The President has tasked the Ministry of Finance to facilitate a 5-year Fiscal Performance Improvement Plan (FPIP) of reforms to public financial management with an emphasis on improving performance by teams moving towards the goal of self-reliance**. The first rolling 5-year plan for the 2015–19 period (Implementation of the Public Financial Management (PFM) Roadmap II) sets out detailed major actions for each team within the Ministry of Finance (MOF) and within other technical agencies related to the PFM reform agenda including the National Procurement Authority and the Afghanistan Extractive Industries Transparency Initiative (AEITI) Secretariat to be implemented under a performance management system. The goal is more effective and efficient investment of public money through a budget that is more responsive to the priorities of the government and more accountable to the Afghan public and the donors.

8. **While the inaugural 5-year plans have set out a vision for the future, many reforms are already under way**. We have implemented substantial reforms in tax and customs administrations to improve enforcement and compliance, and to reduce leakages with the help of World Bank technical assistance. The Government dismissed forty senior staff in the revenue (ARD) and customs (ACD) departments as part of a drive to reduce corruption and improve efficiency. We transferred the customs police from the Ministry of Interior to the MOF in 2015 to improve customs enforcement, and subsequently approved and implemented a human resource reform policy, including establishment of a customs and tax academy, to improve staff professionalism. We upgraded our Automated Systems for Customs Data (ASYCUDA) to improve oversight of import taxes. We operationalized the large and medium taxpayer offices, and rolled out our Standardized Integrated Tax Administration System (SIGTAS) in five large provinces. We also introduced risk-based compliance audits in all taxpayer offices in Kabul. In addition, we established a call center with modern call automation answering capabilities for taxpayers, and upgraded our website to help taxpayers access information and file their complaints. We also introduced fast track tax filing system for the large tax-payer office (LTO) clients, simplified processes for filing returns from five steps to three steps in Kabul LTO, medium-tax payer office (MTO), and small tax-payer office (STO).

9. **Despite improvements in the financial sector, it remains vulnerable to adverse shocks**. Asset quality remains a concern even as the nonperforming loans decreased slightly in 2017. We have put fragile banks under a watchful monitoring regime and Da Afghanistan Bank's (DAB; central bank) Financial Supervision Department (FSD) continues to monitor closely the weaker banks. As part of the "Program and Strategy of DAB Regarding Weak Banks" (Program), DAB conducted in-depth examinations of each of them, issued numerous corrective orders and injunctions, and produced comprehensive plans for dealing with each of the weak banks, specifying necessary actions to be taken under tight deadlines. DAB is now launching a new round of on-site

examinations to assess the implementation of the Program and will decide on the appropriate next steps for each bank by November 2018.

10. **We have made progress in improving the financial position of the state-owned commercial banks (SOCBs)**. They have remained profitable in 2017 and their capital adequacy exceeds DAB minimum requirements. At end-November 2017, we adopted a strategy to reform the SOCBs prepared in cooperation with the World Bank (third review structural benchmark).

11. **We are continuing our efforts to advance the Kabul Bank liquidation**. However, asset recoveries and settlements stalled. That is due to the lengthy legal process that needs to be followed to assure irreversibility of judgements and settlements. Most of the cases are awaiting the Court's clearance and decision which takes time. In addition, an investigative work to identify the beneficial owners of hidden assets have become more difficult owing to interference from people under the investigation and their use of off-shore location to hide their assets. The continued prosecutorial efforts are thwarted by the intransigence of the parties under arrest and investigation. We remain undeterred and are taking additional steps to reactivate the recovery process and improve its transparency.

12. **Support from our international partners remains vital as aid flows help meet immediate financing requirements and reduce fiscal vulnerability**. The Brussels Conference in October 2016 reconfirmed our international partners' commitment to finance our development needs, with pledges of US$15.2 billion over 2017–20 surpassing best-case scenarios. In addition, at the earlier Warsaw NATO summit in July 2016, US$5.1 billion in annual military assistance was pledged. Afghanistan's National Peace and Development Framework (ANPDF) makes explicit the government's goals of weaning the country away from aid dependency. Achieving this goal requires a collective effort to overcome fragmentation, defeat corruption, and introduce proper policies for sustainable growth. However, we also draw attention to the risks attendant in overly rapid or not well thought through reductions in support for the reform agenda. We believe that the sequencing described in this framework will succeed in achieving its objectives, but a pre-condition for its success is sustaining the partnerships that are still needed to embed the reforms and follow them through. In that context, we are looking towards our international partners to help us synchronize the temporal dimension of our expenditure and development plans with their assistance and disbursements schedules. The close coordination will help us to utilize our capacity to its full potential and to avoid costly recalibration and backtracking on our development plans.

13. **At the Senior Officials Meeting (SOM) in Kabul October 4–5, 2017, we outlined the progress made under the ANPDF**. This includes holding free and fair parliamentary and district council elections in 2018, ensuring the human rights of all citizens including women, fostering the equal participation of women, and creating an enabling environment for the private sector to thrive. Since its launch in May 2017, the Women's Economic Empowerment Plan (WEEP) has supported 67,000 women in agriculture activities and another 35,000 in the livestock sector. The WEEP is recruiting 3,000 female teachers and training 900 community midwives and nurses, the majority of which have returned to serve their own communities in 2018 so far. The nationwide Citizen's Charter Program, which builds on the 2002–15 National Solidarity Community

Development Program is now working in 78 districts and four cities in 32 provinces. It has sent 2,400 teachers to schools across Afghanistan. By the end of 2017 the program reached 2,500 communities.

14. **Also at the SOM, the Government launched the National Strategy for Combatting Corruption, which is a key step in establishing the rule of law and ending corruption**. The fight against corruption is one of our top priorities, with some 1,100 cases of corruption tried by the Attorney General's office leading to 468 people sentenced to prison and more than US$14 million of fines. National Procurement Authority's (NPA) compliance with the publication of high-value/above-threshold contract has increased to 77.5 percent by the end of 2017. Work on consolidating the national budget is proceeding one year ahead of schedule. In the 2018 budget, for the first time, we have shown a complete and coherent picture of how our national resources are invested for 2018 and for three years thereafter including the forward estimates and costings of new policies. In this sense, we have enhanced, credibility and transparency of the budget, which will help to match new commitments against available resources. Over the past three years, our revenues have gone from strength to strength and currently stand at Af 168.3 billion.

C. Economic Program for 2018–19

15. **Our program seeks to create conditions for sustainable, inclusive growth through structural reforms, while maintaining macro-financial stability**. The macroeconomic policy mix will maintain policy buffers, low inflation and public debt, and protect competitiveness. Fiscal policy will support growth by mobilizing domestic revenue and catalyzing continued donor support to finance projected higher security and development expenditure, maintain the treasury's cash balance, while avoiding debt accumulation. The budget reform will complement this effort by improving budget execution to finance the development agenda of the Government, identifying most productive spending, and reallocating funds into these areas. This prioritization will boost household income and consumption in the short run, raise economic capacity to full potential in the long run and support inclusive growth. Monetary policy will aim to preserve low inflation and the flexible exchange rate regime to protect the international reserves position and competitiveness. The structural reform agenda will focus on: (i) fiscal reforms to boost revenue and the quality of spending; (ii) strengthening the financial sector and its contribution to growth; and (iii) fighting corruption. In addition, we will pursue reforms that strengthen the business climate in collaboration with our international partners, especially the World Bank.

16. **We are cautiously optimistic about growth, but there are downside risks**. With sustained reform and donor support, growth is projected to remain steady at about 2.5 percent in 2018 and gradually pick up thereafter, and inflation to remain in single digits. However, while we continue to invest heavily in the peace process, uncertainty about the security situation will continue to restrain private demand and is a significant source of downside risk.

17. **Poverty reduction is a top priority**. Our policies are guided by Realizing Self-Reliance (2014) and the ANPDF (2016). They focus on low inflation, pro-poor budgeting, and inclusive economic growth propelled by investment in agriculture, more regional economic integration, the

fight against corruption, and greater gender equality. Although security outlays will increase, we will ensure that we allocate adequate resources to increase opportunities for the poor. To provide sufficient political impetus for a strategic approach to poverty reduction, in August 2017, the President formed a High Council for Poverty Reduction, whose purpose is to oversee and accelerate pro-poor budgeting, policy reform, and investment. The second phase of the Jobs for Peace Program was launched in November 12, 2015. The above mentioned nationwide "Citizen's Charter" Program is active in 3,000 rural and urban communities, which is 500 more communities than originally scheduled. Covering basic health, education, and rural development service delivery, the program is expected to reach 14,000 communities (approximately 35 percent of the national total), but if funds become available, its scale-up can be accelerated. On March 8, 2017, a national program for women's economic empowerment was also launched that provides labor-intensive jobs for women in female friendly occupations. Over 75,000 women have already received training in horticultural and small livestock production. Both a policy framework and an action matrix for returnees were passed by Cabinet in February 2017 to assist with absorption of returning migrants and internally displaced people (IDPs). On- and off-budget short- and medium-term financing to absorb this potentially destabilizing and impoverished population is expected to total approximately US$500 million, of which 55 percent has been secured from the budget and donor sources, including US$35 million for emergency winterization. This leaves US$270 million still unsecured. A medium- to long-term growth and jobs focused program to absorb these returnees without disrupting their host communities is currently being developed in conjunction with the Afghanistan Reconstruction Trust Fund (ARTF) for a mid-2018 appraisal but some off-budget fund raising will still be needed to cover their needs. The Central Statistics Office is collaborating with FlowMinder and other international statistical specialists to improve the quality of government poverty statistics and analysis.

Macroeconomic Policies

18. **Our macroeconomic policy framework is designed to preserve macroeconomic stability and promote growth**. It will target a further gradual pick-up in GDP growth and a single-digit inflation. It will also maintain buffers of low debt (less than 10 percent of GDP) and a comfortable international reserves position (above nine months of import cover). It will protect competitiveness, with the current account in surplus or modest deficit after grants. We will target overall budget balance after grants and over time the operating balance excluding grants will become the fiscal anchor. Reserve money remains the monetary anchor, with a view to maintaining moderate inflation. We will remain dependent on donor support, which is expected to decline in percent of GDP, to meet our fiscal and external financing needs.

19. **We expect a small deficit in the 2018 overall budget balance after grants, and will maintain a prudent fiscal position in 2019 and beyond**. The 2018 budget approved by parliament implies a deficit of about 1 percent of GDP (with the DAB repayment recognized as a financing item i.e., a repayment of obligation), somewhat higher than the target agreed under the second review of the ECF arrangement. However, we plan to take measures to reduce this deficit to the level currently targeted in the program (0.4 percent of GDP), including by targeting a slightly higher level

of revenues (Af 172 billion) than in the budget based on the strong 2017 outcome (fourth review structural benchmark), and by improving the quality of the forward estimates, reducing over-budgeting and creating needed fiscal space for better investment in high priority national programs by redirecting spending away from poor performing projects. As a contingency, we also expect higher-than-budgeted World Bank grants. We will submit to parliament a revised budget in line with this program target (a deficit of 0.4 percent of GDP including grants) as set out in the fourth review structural benchmark. We will pursue our plan to implement a value-added tax (VAT) before January 2021 in line with our WTO commitment. The strengthening of public financial management will be pursued in line with the Fiscal Performance Improvement Plan. We began with the adoption of a commitment control system (third review benchmark) and will continue with a review of the Public-Private Partnership (PPP) law and regulations, and a clarification of the governance framework for state-owned enterprises and corporations (SOE/SOCs) to eliminate conflict of interest in line with our fight against corruption. Further fiscal reforms (including those required to meet the structural benchmarks) are expected to yield higher revenues in coming years. We expect the treasury's discretionary cash balance to remain well above the indicative floor in the program (Af 10 billion). Over the medium term, we will continue to target a zero-overall fiscal balance including grants and a gradual decline in the operating deficit excluding grants. Our program aims to mobilize additional revenue for growth-enhancing development spending and to reduce aid dependence. We will only borrow on a highly concessional basis for specific projects in consultation with international partners. We will set aside any revenues earned from extraordinary currency exchange gains for building the government's cash reserves and will allocate these gains in the budget for spending by budgetary units when needed.

20. **We plan to carefully manage money growth, continue exchange rate flexibility, and safeguard international reserves**. Reserve money will continue to be the operational target for monetary policy, with the objective of containing inflation to 5 percent on average. The growth of reserve money in local currency for 2018 is projected at 12 percent but we stand ready to tighten money growth in case inflation exceeds desirable levels on a sustained basis. Our program envisages increasing net international reserves (at the program exchange rate) by US$100 million, resulting in international reserves covering more than nine months of imports during the term of the arrangement. Going forward, we will develop a cash flow table for international reserves to improve our liquidity projection and management. We will let the Afghani move with market trends and will only intervene to avoid excessive exchange rate volatility. We remain committed to an independent central bank that sets monetary policy with a view to maintaining moderate inflation and managing prudently shocks including persistent changes in foreign exchange flows. We will improve coordination between DAB and the MOF to strengthen the conduct of monetary policy, facilitate fiscal cash management, and promote market development by finalizing the institutional framework and supportive legislation to set up a sukuk (Sharia compliant treasury bill) market. We will continue our efforts to reduce dollarization. In 2017, we adopted a new reserve requirements framework for commercial banks in which reserve requirements for deposits are held in their currency of denomination, unlike the previous framework where reserve requirements were maintained in domestic currency. As part of our efforts to encourage lending to the private sector in national currency we lowered the interest rate paid on DAB's capital notes.

Structural Reforms

21. **We continue to implement structural reforms**. Fiscal reforms have been set out in detail in the government's five-year rolling Fiscal Performance Improvement Plan and focus on improving the performance of teams delivering core budget functions. Flagship reforms include strengthening priority setting by Cabinet through improved forecasts, establishment of rolling forward estimates with robust costing of existing policy, streamlined budget management with improved program and project preparation to reduce over-budgeting and carryovers, improved budget execution and streamlining project spending, improved cash management and accounting and increased accountability through improved annual reporting and audit. The reforms will also gradually be extended to key line ministries over the course of the next few years focusing on improved budget credibility, better budget execution and annual reports comparing outcomes to budgets. We are working with the IMF staff to improve the PPP law and related regulations (fourth review structural benchmark) that will lay the basis for PPPs to finance key projects and initiatives that will create jobs and contribute to economic growth while safeguarding government finances. The legislation governing our SOEs and SOCs amended with the IMF staff's advice, in cooperation with World Bank staff, to strengthen monitoring and corporate governance of public corporations, will ensure that they will operate under clear governance and management frameworks in line with international best practice (fourth review structural benchmark). To strengthen fiscal risk oversight, we will revise PFM legislation in line with IMF staff advice, providing the legal basis for a fiscal oversight mandate of the MoF (fifth review structural benchmark).

22. **Financial sector reforms are turning the page on the Kabul Bank collapse and its legacies, dealing with weak banks, reinforcing our crisis prevention framework, and fostering growth-friendly financial policies**. Regarding economic governance, our reforms focus on strengthening the legal and institutional framework to combat corruption and enhancing implementation of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. In addition, as outlined in the ANPDF, we will focus on supporting a business enabling environment by improving access to credit, reducing red tape, improving infrastructure and trade logistics, and implementing regulatory reforms (for example, creating a level playing field for private and state enterprises).

Fiscal Reforms

23. **The focus of our fiscal reform agenda will be the complementary VAT and LTO reforms**. In 2018, the only change to tax policy that we envisage is a small increase in some fees totaling around Af 800 million. Our revenue improvement efforts are directed towards a major reform of the LTO and to the introduction of a VAT, both of which will be fully functioning by 2020 and 2021 respectively. The LTO reform will follow the advice of the IMF's recent tax policy TA (fourth review benchmark). In Afghanistan, the LTO collected only about 27 percent of 2017 domestic tax revenues (or about 13 percent of domestic revenues including customs). We aim to increase this figure to 45 percent of domestic tax revenues by the end of 2021. In 2017, we established a unique threshold for LTO firms, independent of their sectors, and are producing a detailed implementation action plan to establish a single national LTO in Kabul by end-2018. In 2019 and in 2020, we will

start to implement this plan and the national LTO will be operating and fully functional by end-December 2020. We anticipate that the LTO will include around 500 firms (excluding the mining companies). We aim to introduce a VAT before January 2021. To simplify the tax structure, the VAT, which will replace the BRT[1] on firms that are registered for the VAT, will have the same threshold as the LTO.

24. **In 2017, the Legislative Committee of the cabinet has approved a new income tax law**. It includes a three-year tax holiday for new manufacturing firms to encourage investment. The tax losses from the perceived holidays are expected to be small as only a few firms will be eligible for this exemption.

25. **We continue to improve administration in ACD**. We are committed to comply with the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) and the World Customs Organization's (WCO's) requirements to meet international obligation to facilitate trade. We have introduced new 5-year Strategic Plan (2018-2022) which reflects strategic priorities of the ACD and draws on international best practices guided by the TFA requirements and the WCO guidelines. We will also roll out implementation of the multi-criteria risk profiles to at least Herat, Nangarhar, and Nimroz by June 2018 (fourth review benchmark), which we expect will improve clearance times and detection of fraud (both in number and value of cases). We will also link Afghanistan Central Business Registry (ACBR) and Afghanistan Payments System (APS) interfaces over the next three years to facilitate automated information sharing on taxpayers and taxpayer transactions, which will help improve revenue collection efficiency and reduce leakages. In addition, we will introduce an identity verification program to combat fraud and misreporting of customs declarations by customs brokers or their subordinates. To do this, we will add fingerprint scanners to the computer terminals in customs houses which are used to submit declarations. This will restrict submission of customs declarations to trained and licensed agents, deterring fraud and misreporting. Further, we will publicize, via electronic and print media, information and procedures required for declaring imports of goods and services as well as duties, obligations, and procedures that traders and customs officers are required to follow. We will establish procedures assuring that this information remains up to date.

26. **The development of the natural resource sector and reform of the fiscal regime for extractive industries remain essential for domestic revenue mobilization over the medium term**. While the development of extractive industries has been hampered by ongoing security problems, inadequate infrastructure, and declining international commodity prices, we are amending the mining law, and developing an Extractive Industries Transparency Initiative (EITI) compliant, effective, and transparent fiscal regime for natural resources. We will submit the revised mining law to parliament, and work together with the IMF and the World Bank staff to fully develop

[1] When VAT is introduced, the BRT should be replaced, except possibly for taxpayers not registered for VAT that have business receipts above the threshold for BRT (in line with previous IMF TA recommendations). The case for retaining BRT for medium-sized taxpayers that are not voluntarily registered for VAT may be that the large taxpayers required to register and charge VAT will argue that smaller taxpayers should also be subject to VAT or at least something that brings them into the tax net. Retaining BRT for medium-sized taxpayers would not likely be a major revenue producer.

the mineral fiscal regime over the next two years. To demonstrate our commitment to transparency in the extractive industries, we have appointed the Minister for Mines and Petroleum as an EITI "Champion" who will lead our efforts in this area. In January 2018, Afghanistan underwent a validation of EITI compliance. The results of this validation, expected before mid-2018, will guide our future reforms.

27. **As outlined in the five-year rolling fiscal performance improvement plans, public financial management will be strengthened along several lines**. The overall objective is to improve the quality of spending, make better use of donor resources, better manage public investments, strengthen treasury's cash planning, and enhance fiscal reporting and transparency:

- We are moving to a stable software solution for budget preparation. In the short term, we will focus on adapting existing budget software or the Afghanistan Financial Management Information System (AFMIS) budget module. In the medium term, we will move to a bigger e-Governance solution, the specification of which would need to be settled in the context of better coordination among the government agencies (MoF, line ministries, and local governments etc.).

- We plan to improve reviewing of project data. We will address reform on tracking of lapsing projects, which requires at a minimum every project to be recorded and confirmed on the system, as well as their start and end dates, and all amendments. This is crucial for estimating forward year costs of existing policies and calculation of fiscal space. Every project, be it donor or government financed—will need to be recorded in this fashion.

- We will develop new systems for fiscal space creation in key areas (e.g., revenue, expenditure, and aid). We aim to update and enhance both of donor and government financed project data so that estimates of fiscal space, utilized for better investment in high priority national programs, become more accurate.

- The government recognizes the importance of a consolidated national budget and started the consolidation with the 2018 national budget. With improved budget costing under robust forward estimates and some flexibility, execution of the development budget should improve noticeably over the next two to three years.

- We will strengthen development budget management by maintaining a development projects database for the 50 largest (in terms of value) projects. The database will become a source of accurate and timely information about the projects. The data will feed into the investment decision making process. In addition, it will be used in regular progress reports prepared and published to inform about developments and challenges in the implementation of major projects in the budget. This database will be maintained by the MOF's Budget Department and will contain specific information. This development projects database will help inform the medium-term fiscal framework and the framework of forward rolling estimates to protect the allocations needed in future years (as per project phasing) to complete the ongoing projects, identify the remaining fiscal space for new projects, and systematically take account of required recurrent allocations (in future year budgets/forward estimates framework) for operation and maintenance of capital assets created. By tracking the key milestones of large projects, it will also help us to prepare more realistic development budget estimates. The database will be shared with the IMF on a regular basis.

- We strengthened commitment control and cash management by tracking commitments during budget execution and requiring financial plans from ministries/agencies as a basis for cash management. We began tracking contractual commitments (including forward year commitments under multi-year contracts) by ministries/agencies through AFMIS (purchasing module) starting with transactions valued above Af 500,000. The Budget Department of the MOF in consultation with line ministries/agencies are issuing phased allotments and financial plans in AFMIS (i.e., annual allocations at budget minor head level divided into quarterly tranches based on financial plans submitted by a ministry/agency) to ministries/agencies based on procurement plans and financial plans submitted by them. The financial plans of individual ministries/agencies, backed by allotments by the Budget Department, are uploaded into the AFMIS and linked to the consolidated cash plan of the Treasury. Line ministries will enter their payment requests directly into AFMIS without additional approval from the Budget Directorate unless they are above their financial plans. The Treasury will control payments by the ministries/agencies during budget execution against their respective authorized financial plans and cash availability. Any in-year revisions to the ministries/agencies' financial plans would be subject to review and approval by the Budget and Treasury Departments of MoF. In addition, to control operating costs we plan in 2018 to examine staffing numbers in the top ten ministries and agencies with a view of identifying and eliminating "ghost" workers. This will take place alongside the review of operating budgets aiming to realize cost saving efficiencies.

- We are implementing a new budget process based on forward rolling year estimates of the costs of existing policy and any policy changes and identification of fiscal space for new policies and programs/projects. The forward estimates form the baseline cost of existing policy and then we track changes from economic parameters and program variations. Policy decisions by the Government form new policy that is added to the baseline forward estimates. The ministries/agencies are also initiating plans to establish systems for preparing medium-term costed development strategies with a portfolio of costed development projects with an output orientation and forward estimates (these will be called Portfolio Budget Statements). These medium-term development strategies of ministries/agencies will be clearly linked to the forward estimates issued by the MOF. These will be prepared starting with key priority sectors (such as infrastructure, energy, and agriculture) and will be sequentially rolled out to all ministries. We plan to initiate this process with one ministry producing a Portfolio Budget Statement with budget statement and preparing an annual report with financial statements by the end of 2019. Based on this experience we will adopt these procedures in other ministries.

- We will improve development projects management by taking concrete measures, both in the near- and medium terms, to strengthen development project planning and preparation and streamline the process of project implementation. In the near term, the measures will include:

(i) developing and enforcing a procedure that no project will be funded in the budget unless all preparatory steps—e.g., project feasibility study, technical design of the project, project costing and appraisal, environmental and social impact assessment, etc.—have been completed establishing its readiness for implementation after funding; and (ii) issuing a decree/instruction requiring ministries/agencies to ensure that clearances/approvals at various stages of project implementation are vetted by no more than two levels in the administrative hierarchy. Our efforts were supported by a World Bank public investment management mission in late 2017. Over the medium term, we would also develop and approve by Cabinet an action plan to address identified gaps/weaknesses based on a comprehensive assessment of the public investment management cycle and associated institutional framework. We also have been drafting PPP regulation to supplement our new PPP law. This work builds on the PPP support program implemented with the help of the World Bank since 2015. To ensure that the PPP legal framework is consistent with international best practice and that approved PPP projects do not create undue fiscal risks, the proposed regulation is under review by the IMF staff. Based on this review we will revise the law and the regulation with a view of submitting them to, respectively, Parliament and to Cabinet by end-September 2018 (fourth review benchmark).

- In 2013, we proposed amendments to the laws governing public enterprises (Tassady Law). We are working with the Parliament to pass these amendments. We will review the capacity of the department of state owned corporations and enterprises to assess needed staffing, and seek technical assistance to improve staff's capacity for operational and financial oversight of the SOCEs. The department will then start collecting information on financial flows between the government and the SOCEs, and prepare annual analytical reports on their financial performance which will be annexed to the budget starting in FY 2019.

28. **We will improve fiscal risk oversight and management of SOEs and SOCs**. To this end, we are amending the current law on SOEs and adopting a new law on SOCs and engaging with the IMF and World Bank staff in a project that will allow us to properly evaluate their financial position and scope of their activities, and strengthen the legal framework for fiscal risk oversight. Having done so, we will work on a strategy to modernize SOEs and improve their efficiency with an aim to eventually corporatize many of them. The IMF staff, in cooperation with the World Bank staff, reviewed the legal framework of public corporations and based on this review we are (i) revising the laws and templates of articles of organization of SOEs and SOCs with a view of submitting them to Parliament and Cabinet, respectively, by end-September 2018 (fourth review benchmark); and (ii) revising relevant PFM legislation, as necessary to strengthen MoF fiscal risk oversight in early 2019 in line with IMF staff recommendations (fifth review benchmark).

29. **We will strengthen public debt monitoring and management to implement critical investment projects while preserving fiscal and external sustainability in the medium term**.

- Criteria used to determine the criticality and yield of any such future projects financed by external borrowing will be robust with respect to the macroeconomic and political risks facing Afghanistan as well as to the project specific risks.

- We will not contract non-concessional borrowing. The government will continue to prioritize grants and concessional financing (60 percent of grant element under the current conditionality of the program) to finance high-yield and properly evaluated development projects.

- As approved by the IMF Executive Board at the first review of the ECF arrangement concluded in May 2017, we have nonetheless excluded from the program's zero ceiling on non-concessional borrowing two loans from the Islamic Development Bank of ID53.2 million (approximately US$75 million). This is to provide for part of the financing of the construction of the Kabul City Ring Road, a critical infrastructure project integral to our development program and the improvement of local link roads and social infrastructure. We had sought donor co-financing to bring the grant element of the loans to the 60 percent program threshold but it had not proved feasible.

- Adequate capacity to monitor and manage public debt will be increasingly important as grant financing will becomes more uncertain and as the country may need to borrow externally. The government will also implement PPP projects in infrastructure which require some sovereign guarantees. Building on the ongoing technical assistance from the World Bank, the government aims at strengthening its debt management framework, measuring and properly monitoring and recording contingent liabilities of the PPP projects.

- Debt recording and monitoring needs to be enhanced. This includes an active approach to preparing, verifying and authorizing borrowing, ensuring the accuracy and timeliness of the recording of all debt transactions, and projecting debt service. The Ministry of Finance will also monitor and record contingent liabilities stemming from PPP agreements. We will seek appropriate technical assistance in these areas. The authorities provide the IMF staff with detailed quarterly reports on external debt, in accordance with paragraph 23 of the TMU.

- The government will consult with the IMF staff on the terms and concessionality of any proposed new external debt in advance of contracting. This will ensure that the performance criterion on non-concessional borrowing, which is set at zero, is monitored on a continuous basis. The government is currently considering concessional external loans of up to about US$132 million which could be contracted in the future.

- The government will prepare an investment strategy with a list of investment projects; the sources of financing; the use of financing; and a debt management strategy, considering fiscal and external sustainability. The list of projects with the sources and use of financing will be shared with the IMF staff on a semi-annual basis, or upon request.

- In parallel, the government will continue to negotiate with its bilateral creditors to expedite the delivery of remaining debt relief.

Financial Sector Policies

30. **Our financial sector strategy is three-pronged**. We are addressing the remaining weaknesses in the financial sector, and at the same time reinforcing our crisis prevention framework, to further consolidate financial stability, strengthen public confidence and prevent contingent fiscal liabilities to materialize again. This will provide the sound foundation required for our third priority, the deployment of a range of growth-friendly initiatives in the financial sector.

Addressing Remaining Financial Sector Weaknesses

31. **The weaker banks will continue to be tightly monitored**. They have each been put under a Corrective Actions Plan agreed upon with DAB and strictly enforced, with specific targets and deadlines imposed to improve their CAMEL ratings. Some of the requested capital injections have already taken place, and progress in their non-performing loans recovery programs are monitored by DAB with a watchful eye. DAB will assess progress through a new round of in-depth on-site examinations, followed by an assessment report and recommendations to the Supreme Council, and decisions on the next steps for each of these banks. We expect to complete this process by November 2018.

32. **We are entering the final phase of the resolution of the 2011 Kabul Bank collapse**. Recoveries and settlements have reached a respectable US$448 million by end-2017, including US$257 million in cash, but have now stalled (see paragraph 11). Nevertheless, our recovery efforts for the remaining US$594 million of claims will continue unabated, in particular, against the two former shareholders who still owe US$460 million.

33. **We are on track to fully relieve DAB from the impact of the liquidation of Kabul Bank, with a view to improve the transparency and the quality of its balance sheet**. DAB's lender-of-last-resort (LoLR) exposure to Kabul Bank of US$825 million was underwritten in 2012 by a Promissory Note from the MOF with a repayment schedule that had not been adhered to. We have made progress on this front in 2016–17, and by end-October 2017 we had reduced the LoLR exposure of DAB to Af 15.3 billion. We will fully eliminate the LoLR balance by end-2019 through four equal biannual payments in 2018–19.

Reinforcing the Crisis Prevention Framework

34. **DAB is intensifying its capacity building efforts in the field of prudential regulation and supervision**. As part of a project supported by the World Bank that was finalized in November 2017, DAB is benefitting from the assistance of a UK-based consultancy firm with extensive international experience, which is now providing on-site capacity building assistance on a wide range of regulatory and supervisory topics. DAB's supervisory remit will be expanded to include coverage of microfinance institutions.

35. **We are also upgrading our crisis preparedness and response capacity**. We plan to introduce changes to our banking law to upgrade our resolution framework in line with international

best practices. Those changes will include: (i) clear objectives and scope of the resolution regime; (ii) distinction between early intervention and resolution; (iii) revision of grounds for appointing a conservator and petitioning for receivership; (iv) strengthening DAB's and conservator's powers in resolution; and (v) introduction of recovery and resolution planning. In addition, we are developing a roadmap to strengthen the deposit insurance system and reviewing the current framework of DAB's emergency liquidity assistance (ELA). The IMF staff provided targeted technical assistance in crisis preparedness and management, as well as ELA, and facilitated DAB capacity building in stress-testing.

36. **We are planning to establish a Financial Stability Council (FSC) to facilitate the operational coordination among the relevant authorities**. The FSC, which we plan to establish by end-December 2018 (fifth review structural benchmark), will be chaired by the Ministry of Finance with DAB providing the Secretariat. Its mandate will be spelled out in a presidential decree and a Memorandum of Understanding currently being discussed between the MoF and DAB. In line with the technical assistance recommendations provided by IMF staff, the MOU will stipulate that: (i) MoF and DAB share responsibility for crisis preparedness and management through the FSC, with each relying on their existing legal powers; (ii) DAB should have the primary operational responsibility for mitigating and managing risks to financial stability; (iii) planning for the potential use of public funds falls within the MoF's remit where the use of public funds will be in line with the applicable legislation. We will ask IMF staff to review the content of the MoU for establishing the FSC before it is finalized, to ensure that the MoU maintains the balance between providing the MoF with a say on those matters which potentially have heavy fiscal implications, without putting in jeopardy DAB's independence. The FSC will develop contingency plans and perform crisis simulations to test the capacity of the authorities to respond to severe scenarios.

37. **The three SOCBs will continue to give priority to prudent management to contain fiscal risks while their remaining issues are being addressed**. These include serious governance shortcomings identified by DAB. In November 2017, we adopted the strategy prepared with the support of the World Bank (third review benchmark) to align corporate governance of the SOCBs with global best practices. During a transition period, while all its identified weaknesses are addressed, the NKB will not change its current lending policy. Pashtany Bank, which has been making progress in recovering its assets, will continue focusing on improving its governance, including installing fit and proper managers, ensuring sound internal policies and controls are well developed and demonstrating its financial viability before considering a resumption of its lending activities. Bank Mellie Afghan will continue to be selective in its lending initiatives and prudently assess the viability and feasibility of the projects that it is financing to enhance the quality of its risk assets. In the meantime, the Bad Debt Commission will pursue its mission. The improvement of SOCBs' corporate governance, staffing, and operational capacity, while the related fiscal risks remain tightly contained, are our immediate priorities. In addition, under the SOCBs strategy we will establish within the MoF a unit to monitor and report on the fiscal risks posed by SOCBs. The unit will be guided by the best international practices for accounting and disclosures. It will produce annual fiscal risk reports and narratives to be included in the annual budget papers starting in FY 2020.

Toward a More Growth-Friendly Financial Sector

38. **The reform strategy for the SOCBs also includes a strong growth-supporting component, to improve their capacity to support the real economy through sound and efficient intermediation**. Part of this strategy consists in enhancing the SOCBs' efficiency through automation of major banking functions, which will also lower the costs of transactions for users of these services. The SOCBs reform package also includes a range of modernization programs for payment systems that will benefit the whole banking system, while also minimizing operational risks.

39. **We are in the process of developing a comprehensive National Financial Inclusion Strategy with the technical support of the World Bank**. Although reflection on this topic started at the national level in 2016, the impetus was provided by the recent establishment of a dedicated Department at DAB to lead this effort. Progress is achieved on planning and resource allocation issues, including for the conduct of key surveys, and we expect to finalize the strategy by mid-2019. The strategy will encourage the promotion of formal channels and will include a comprehensive "financial inclusion" agenda, including for women, and remote areas of country. It will also target underserved parts of the populations like agricultural households through coordinated agri-finance initiatives with the action of the Agriculture Development Fund. The strategy will target an improvement in the financial sector infrastructure and credit information, introduce a wider range of financial instruments, facilitate financial intermediation and support innovative financing for the private sector. Key components of the strategy will also consider strengthening consumer protection and improving financial literacy.

40. **We are also coordinating with the banking profession to prudently foster intermediation and expand the range of widely used financial instruments and techniques**. The banking system's particularly low loan-to-deposit ratio of 19.6 percent as of January 2018, is an impediment to growth in the private sector. While the SOCBs focus on the resolution of their pending issues, the most robust of the private banks have room to prudently and gradually expand their loan portfolios and the range of funding techniques that they offer to their customers. DAB will adjust its communication with them and review regulations that might be overly demanding and discouraging intermediation even by the strongest banks. We will support financial innovation through risk sharing and credit guarantees to deepen financial intermediation. We will promote broader use of the public credit and collateral registries by banks and we will take measures to encourage term lending instead of bank overdrafts. We are working to expand and modernize the retail payment infrastructure. We are also preparing a legislative and institutional framework for Sharia-compliant financial products including for issuance of government "Sukuk."

Safeguards Assessment

41. **We are committed to meeting all the requirements of the IMF's Safeguards Assessments Policy**. We have provided the IMF staff with all requested information and documentation, and have held discussions with the IMF staff concerning the results of the most recent external audits of DAB. In November 2017, we submitted amended DAB Law to Parliament in line with recommendations of the IMF's 2017 safeguard assessment mission including provisions on

DAB's mandate, institutional and personal autonomy, rules of profit distribution, recapitalization, and foreign reserve management (third review structural benchmark). We are also committed to implementing any other safeguards related recommendations, including in the legal area, under the deadlines agreed with the IMF staff.

Economic Governance

42. **Our government remains committed to determined and robust anti-corruption efforts**. We adopted a National Strategy for Combating Corruption in October 2017, which includes five pillars: political leadership; ending corruption in the security sector; replacing patronage with merit; prosecuting the corrupt; and following the money. To implement it, priority ministries have prepared their ministry-level action plans. Measures regarding asset declaration and prosecution of corruption are discussed in greater detail below.

43. **We made good progress in strengthening the framework for asset declaration by public officials and are committed to its robust implementation and enforcement**. The functions of administrating the asset declaration regime, previously performed by the High Office of Overseeing the Implementation of Anti-Administrative Corruption Strategy, were recently taken over by the Administrative Office of the President. We have published asset declarations made by high-ranking officials,[2] when they assumed office, in Dari and English online.[3] In September 2017, we enacted a law prescribing annual asset declaration requirements that cover other senior officials, in addition to officials mentioned in Article 154 of the Constitution, covering both assets legally owned and beneficially owned, with sanctions for non-compliance (third review structural benchmark). The declarations of officials not listed in Article 154 of the Constitution will be available in a timely manner upon request to domestic law enforcement agencies and the Financial Intelligence Unit. Information in Dari and in English on the name and functions of heads and deputies of law enforcement agencies, customs and tax directorates who have declared their assets for 2017 and on the mechanisms to access their declarations were made available on May 8, 2018 (third review structural benchmark) online.[4] This information will be updated on an annual basis. We will also publish on the same website sanctions imposed on the high-ranking officials and officials covered by the third review benchmark who did not comply with the requirements on asset declarations for the year 2017 in accordance with Article 154 of the Constitution or the Law on Declaration and Registration of Assets of Officials and Government Employees by end-August 2018 (fourth review structural benchmark).

44. **Investigation, prosecution and conviction of corruption to enforce the new penal code, especially through the Anti-Corruption Justice Center (ACJC), is of high priority**. The Law on Structure and Authorities of Attorney General Office was amended through presidential decree on

[2] These include the ex-Minister of Defense, ex-Minister of Communication and IT, and ex-Ministers of Mines and Petroleum, who stepped down earlier in 2017.

[3] See: http://anti-corruption.gov.af/en/page/test/14010

[4] See: http://www.aop.gov.af/?page_id=2745

March 5, 2018 to create a new position of Deputy Attorney General for Anti-Corruption, who will be responsible for overseeing prosecution of corruption, including that carried out in the ACJC. With assistance from the UNODC, we are training prosecutors and judges in the ACJC on the new penal code and expect to finish the process by end-March. By end-January 2019, we will start publication of ACJC's activities on an official website: (i) quarterly statistics (in English and Dari) on prosecutions and convictions of corruption offences covered in UNCAC in the templates defined in the TMU within thirty days after each quarter; and (ii) court decisions on corruption cases on an ongoing basis. The first publication will cover annual statistics and court decisions during the period of 2016–18 (fifth review benchmark).

45. **We will continue to strengthen the AML/CFT framework including to ensure effective implementation of AML/CFT measures in the financial sector**. With assistance from the World Bank, we have launched the national AML/CFT risk assessment and expect to conclude the exercise by end of 2019. We will continue to ensure effective implementation of AML/CFT measures including by stepping up off-site and on-site supervision, imposing proportionate and dissuasive sanctions for non-compliance, and providing training and guidance. These measures, together with technical assistance provided by donors, will help facilitate Afghan banks' access to foreign correspondent banking services and reduce the risks of driving transfers into the informal hawala system. Building on the pilot exercise, we are making progress on risk-based AML/CFT supervision of banks. We expect to complete off-site risk assessment by end-May 2018. Results of this assessment will inform development of a supervisory strategy by mid-2018. Regarding the implementation of fit and proper regulation in the banking sector, DAB continues its efforts to identify and review the profiles of beneficial owners of shareholders. To help detect potential proceeds of corruption, we will strengthen supervision of measures related to domestic politically exposed persons. We conducted pilot thematic on-site inspections of five banks in early 2018 and will extend this exercise to other banks by late 2018. DAB has recently increased the resources for supervision of money service providers (MSP), including by setting up a specialized section composed of ten staff members at the national level (supported by twelve staff members at the local level) responsible for MSP supervision. The section will become fully operational by mid-2018. This will help ensure adequate market entry controls and support implementation of AML/CFT measures by MSPs. We are also upgrading the regulatory framework for MSPs with respect to governance and licensing procedures and issued the revised regulation in March 2018.

46. **We will work to improve the timeliness and quality of our statistics**. We recognize the importance of reliable statistics for sound policy making. There are several deficiencies we plan to correct, particularly in the area of national accounts and balance of payments data. To help us with this effort, we are requesting technical assistance and training from our international partners, including the IMF.

D. Program Modalities

47. **We will closely monitor the implementation of the three-year ECF arrangement through July 19, 2019 with the help of quantitative targets and structural benchmarks**.

The proposed performance criteria, indicative targets and structural benchmarks are attached to the memorandum of economic and financial policies in Tables 1 and 2. The ECF arrangement is monitored based on performance through the following test dates: December 20, 2016; June 21, 2017; December 21, 2017; June 21, 2018; December 21, 2018; and March 20, 2019. The fourth and fifth reviews of the program are scheduled to be completed on October 22, 2018 and April 22, 2019 respectively. The performance criteria, indicative targets, and the benchmarks are defined in the Technical Memorandum of Understanding. We understand that the fifth review SBs are agreed on a preliminary basis, will be subject to additional discussion with IMF staff, and therefore will not be proposed for the IMF Executive Board's approval now.

48. **Commitments regarding exchange and imports measures**. During the program period, we will not impose or intensify restrictions on the making of payments and transfers for current international transactions, or introduce or modify multiple currency practices, or conclude bilateral payments agreements inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments purposes. While the exchange rate regime is classified as managed float *de jure*, we do not have any predetermined path for the exchange rate. We are interested in completing necessary steps towards accepting the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement. In October 2017, we have begun the process leading to its adoption. We will collaborate closely with the IMF staff in this process.

49. **Engagement with the IMF**. We will work with our international partners, especially the IMF and the World Bank, to successfully implement the reforms outlined above. We also look forward to our continued engagement with the IMF and to an eventual resumption of the IMF missions to Afghanistan.

Table 1. Islamic Republic of Afghanistan: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2017–December 2018 1/

(Cumulative, unless otherwise indicated)

	2017				2018						
	Dec.21				Mar.20		Jun.21		Sep.22	Dec.21	
	Target	Adjusted target	Actual	Year-end stocks	Indicative target 2nd review	Indicative target Actual	Performance criteria 2nd review	Performance criteria Revised	Indicative target	Performance criteria	Year-end stocks
Performance criteria:											
Revenues of the central government (floor)	153.0	153.0	168.3	…	37.8	37.9	76.3	77.0	122.2	172.0	…
Net credit to the central government from DAB (ceiling) 2/	-1.3	23.6	-12.8	-61.9	-13.2	-36.1	-18.2	-9.9	-12.3	1.4	-60.5
Reserve money (ceiling) 2/	31.5	31.5	27.2	289.5	0.0	-15.8	0.0	0.0	14.0	34.7	324.2
Net international reserves of DAB (floor; in millions of U.S. dollars) 2/	100.0	-363.0	567.5	7,345	0.0	5.6	50.0	-100.0	-100.0	100.0	7,445
Non-concessional external debt, new (ceiling) 3, 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt, new (ceiling) 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payments arrears, new (ceiling) 3, 5/	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	…
Borrowing by public enterprises in need of restructuring—from DAB or state-owned banks, or government-guaranteed, new (ceiling) 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets:											
Operating budget deficit, excluding grants (ceiling)	100.5	100.5	84.7	…	10.1	-0.1	42.5	26.2	52.5	84.9	…
Treasury cash balance, discretionary (floor)	10.0	10.0	24.2	…	10.0	46.2	10.0	10.0	10.0	10.0	…
Currency in circulation (ceiling) 2/	23.5	23.5	5.0	228.6	6.0	-12.9	12.1	0.8	14.0	22.9	251.5
Social and other priority spending (floor)	42.1	42.1	38.8	…	8.7	7.3	21.3	18.0	28.0	41.0	…
Memorandum items:											
Nominal external concessional borrowing (in millions of U.S. dollars) 6/	0.0	0.0	23.8	…	0.0	0.0	0.0	132.0	132.0	132.0	…
Reference values for the adjustors:											
Core budget development spending	107.8	88.6	103.5	…	9.4	1.5	30.4	23.9	53.8	104.2	…
External financing of the core budget and sale of non-financial assets 7/	221.4	192.1	182.1	…	33.8	27.5	92.2	52.0	114.5	189.1	…

Source: Afghan authorities and IMF staff estimates/projections.

1/ The quantitative targets, indicative targets, their adjustors, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
2/ Cumulative from the beginning of the year.
3/ These quantitative targets are applied on a continuous basis.
4/ Excludes IsDB loan (53.2 million Islamic Dinars) contracted in 2017.
5/ Afghanistan owes a small amount (US$10 million) of pre-HIPC Initiative arrears to a non-Paris Club creditor, which continue to be deemed away under the revised arrears policy for official creditors.
6/ Prospective concessional borrowing.
7/ Includes operating and development donor assistance, external loans, and sale of non-financial assets.

Table 2. Islamic Republic of Afghanistan: Fourth Review Structural Benchmarks		
Measure	**Date**	**Rationale**
Roll out implementation of the multi-criteria risk profiles for customs control to at least Herat, Nangarhar and Nimroz, with improvements in clearance times and in detection of fraud (both in number and value of cases)	End-June 2018	Improve trader compliance and reduce corruption
Preparation of a strategic implementation plan for the establishment of a single national LTO with a unique revenue threshold for firms, equal to the VAT threshold, and high enough that the LTO covers around 500 firms (excluding the mining firms)	End-June 2018	Improve revenue collection
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af 3.994 billion	End-June 2018	Preserve financial stability
Publish on the dedicated official website for asset declaration, in Dari and in English: sanctions imposed against high-ranking officials and officials covered in the third review benchmark who did not comply with the requirements on asset declarations in the past 12 months in accordance with the Law on Declaration and Registration of Assets of Officials and Government Employees or Article 154 of the Constitution	End-August 2018	Improve governance and fight corruption
PPP Law and Regulations to be reviewed against international best practice by the IMF staff. Submit to parliament proposed amendments to the PPP Law and submit to Cabinet Regulations that address the shortcomings identified by the review.	End-September 2018	Improve governance and reduce corruption
SOE & SOC laws, with related templates of articles of organization, and other relevant PFM legislation (e.g. the Public Finance and Expenditure Management Law) to be reviewed against international best practice by the IMF staff, with the support of the World Bank staff, to strengthen fiscal risk oversight over SOEs/SOCs, by providing the legal basis for a fiscal oversight mandate of the MoF, and strengthen corporate governance of public corporations. Submit to parliament proposed amendments to the SOE and SOC laws and to Cabinet their templates of articles of organization, that address the shortcomings identified by the review.	End-September 2018	Improve fiscal risk oversight and corporate governance of SOEs/SOCs
Cabinet approval and submission to parliament of a supplementary budget, following the mid-year review, consistent with the 2018 target for the overall balance including grants set in the ECF arrangement.	End-September 2018	Reduce fiscal risks

Table 3. Islamic Republic of Afghanistan: Fifth Review Structural Benchmarks
(Preliminary; not proposed for the IMF Board approval)

Measure	Date	Rationale
Cabinet to approve and submit to Parliament 2019 draft budget in line with the macroeconomic framework agreed under the ECF arrangement. The budget will include a transfer to further reduce DAB's lender of last resort exposure to Kabul Bank, consistent with repaying the remaining balance in full by end-2019. The budget will include an appendix that lists carried-over expenditures by each ministry.	End-November 2018	Preserve macroeconomic stability
Appoint VAT implementation team of 10 members spanning revenue and customs departments with legal, audit, risk management, communications and liaison expertise. Develop job descriptions and work performance objectives and measurements for team. Establish a VAT steering committee.	End-December 2018	Improve revenue collection
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af 3.994 billion	End-November 2018	Preserve financial stability
Establish Financial Stability Committee chaired by the Minister of Finance and DAB providing the Secretariat, in line with the technical assistance recommendations provided by the IMF staff.	End-December 2018	Preserve financial stability
Establish, with support of the World Bank staff, a transparent and well defined corporate governance framework for SoCBs, including (i) a sound ownership policy, (ii) adequately staffed ownership unit and (iii) a transparent operational framework for SoCBs' supervisory boards that is in line with international good practices and DAB's relevant regulations. Promulgate through the issuance of a Presidential order.	End-December 2018	Improve governance of public assets
Publish ACJC's activities on an official website: (i) quarterly statistics (in English and Dari) on prosecutions and convictions of corruption offences covered in UNCAC in the templates specified in the TMU within thirty days after each quarter; and (ii) court decisions on corruption cases on an ongoing basis. The first publication will cover annual statistics and court decisions since ACJC's formation in 2016 to December 31, 2018.	End-January 2019	Improve governance and fight corruption
Submit to Parliament proposed amendments to PFM legislation (e.g. Public Finance and Expenditure Management Law) to strengthen fiscal risk oversight over SOEs/SOCs, by providing the legal basis for a fiscal oversight mandate of the MoF.	End-February 2019	Improve fiscal risk oversight and corporate governance of SOEs/SOCs

Attachment II. Technical Memorandum of Understanding

This memorandum reflects understandings between the Afghan authorities and the IMF staff in relation to the Extended Credit Facility (ECF) during July 2016–July 2019. It specifies valuation for monitoring quantitative targets under the program (Section A), quantitative targets and indicative targets (Section B), adjustors (Section C), and data reporting (Section D).

A. Program Exchange Rates and Gold Valuation

1. **Program exchange rates are used for formulating and monitoring quantitative targets**. All foreign assets and liabilities denominated in U.S. dollars will be converted into Afghanis at a program exchange rate of 68.711 Afghanis per U.S. dollar, which corresponds to the cash rate of May 21, 2016. Gold holdings will be valued at US$1252.15 per troy ounce, the price as of May 21, 2016. Assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar will be converted into U.S. dollars at their respective exchange rates of May 21, 2016, as reported in the following table.

Exchange Rate	Program Rate
U.S. dollars / Euro	1.1224
U.S. dollars / Swiss Franc	1.0098
U.S. dollars / Pounds Sterling	1.4502
U.S. dollars / SDR	1.4058
U.S. dollars / Canadian Dollar	0.7626
U.S. dollars / U.A.E. Dirham	0.2723
U.S. dollars / Indian Rupee	0.0148
U.S. dollars / Pakistani Rupee	0.0095
U.S. dollars / Egyptian Pound	0.1127
U.S. dollars / Hong Kong Dollar	0.1288
U.S. dollars / Russian Ruble	0.0150
U.S. dollars / Iranian Real	0.00003
U.S. dollars / Saudi Arabian Riyal	0.2665
U.S. dollars / China Yuan Renminbi	0.1527

B. Quantitative Performance and Indicative Targets

2. **The quantitative targets for December 2017 and June 2018, specified in Table 1 of the Memorandum of Economic and Financial Policies, are**:[1]

- Floors on revenue of the central government and net international reserves (NIR); and
- Ceilings on reserve money; net central bank credit to the central government (NCG); contracting and/or guaranteeing new medium- and long-term non-concessional external debt by the public sector, (continuous); contracting and/or guaranteeing new short-term external debt by the public sector (continuous); accumulation of external payment arrears, excluding interest on preexisting arrears (continuous); lending from state-owned banks or the central bank to, or government guaranteed borrowing by, public enterprises in need of restructuring (continuous).

3. **The above variables also constitute indicative targets for March 2018**. In addition, the program includes the following indicative targets for the four above-mentioned dates:

- Ceiling on the operating budget deficit of the central government excluding grants; and
- Floor on treasury discretionary cash balance and social and other priority spending.

4. **Revenues** of the central government are defined in line with the Government Finance Statistics Manual (*GFSM 2001*) but on a cash accounting basis, excluding grants. Revenue is an increase in net worth of the central government (including its units in the provinces and agencies) resulting from a transaction.

- Revenues of the central government include taxes and other compulsory transfers imposed by central government units, property income derived from the ownership of assets, sales of goods and services, social contributions, interest, fines, penalties and forfeits and voluntary transfers received from nongovernment other than grants. The definition for program monitoring excludes grants and other noncompulsory contributions received from foreign governments and international organizations; such transfers between central government units would be eliminated in the consolidation of the fiscal reports and not recorded as revenue. Receipts collected by central government on behalf of non-central government units should not be counted as revenue (e.g., Red Crescent fees). Receipts from the sale of nonfinancial assets (e.g., privatization and signature bonuses from natural resource contracts), and transactions in financial assets and liabilities, such as borrowing but excepting interest payments, are also excluded from the definition of revenue. Transfer of profits from the Central Bank to the Treasury is also excluded from the definition of revenue.

[1] Definitions of indicators mentioned in paragraphs 2 and 3 are provided in paragraphs 4–17.

- Revenues should be recognized on a cash basis and flows should be recorded when cash is received. The official Afghanistan Government Financial Management Information System (AFMIS) reports will be used as the basis for program monitoring; in particular, the monthly financial statements prepared by the Treasury department based on AFMIS data. Exceptional advanced payments will be treated as if received on the normal due date.

5. **The central government** consists of the Office of the President, the ministries and other state administrations and governmental agencies, including the attorney general's office; the National Assembly; and the judiciary, including the Supreme Court.

6. **Net international reserves** are defined as reserve assets minus reserve related liabilities of the DAB, both of which are expressed in U.S. dollars.

- Reserve assets of the DAB, as defined in the sixth edition of the Balance of Payments Manual (BPM6), are claims on nonresidents denominated in foreign convertible currencies controlled by DAB, and are readily and unconditionally available for DAB to meet balance of payments financing needs, intervention in exchange markets, and other purposes. They include DAB holdings of monetary gold, SDRs, Afghanistan's reserve position in the IMF, foreign currency cash (including foreign exchange banknotes in the vaults of the DAB, and deposits abroad (including balances on accounts maintained with overseas correspondent banks). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

- Reserve related liabilities are defined as short-term (original maturity) foreign exchange liabilities of DAB to nonresidents; all credit outstanding from the IMF; foreign currency reserves of commercial banks held at DAB; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies.

7. **Reserve money in domestic currency** is defined as currency in circulation plus Afghani-denominated commercial bank deposits at the central bank including balances maintained by the commercial banks in the DAB's overnight facility. Reserve money also includes Afghani-denominated deposits of other institutional units at the central bank in line with recommendations of *Monetary and Financial Statistics Manual and Compilation Guide*.

8. **Net central bank credit to the central government** is defined as the difference between the central bank's claims on the central government and the central government deposits at the DAB. Claims include the so-called "promissory note," in the amount outstanding (at face value) of DAB's claim on a bank in liquidation that has been guaranteed by the Ministry of Finance though issuance of a promissory note, and up to the amount specified therein.

9. For program purposes, the definition of **external debt** is set out in the "Guidelines on Public Debt Conditionality in Fund Arrangements" as set forth in the Attachment to the IMF Executive Board Decision No. 15688–(14/107), adopted December 5, 2014.

a. The term "debt" will be understood to mean a current (i.e., not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms, the primary ones being as follows:

i) loans (i.e., advances of money) to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans buyers' credits, and credits extended by the IMF) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii) suppliers' credits (i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided); and

iii) leases (i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property), while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b. Under the definition of debt set out in paragraph 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

10. **Long-term and medium-term external debt**. A zero ceiling applies, on a continuous basis, to the nominal value of new non-concessional borrowing debt contracted or guaranteed by the public sector with nonresidents with original maturities of one year or more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from the limits are refinancing credits, rescheduling operations, credits extended by the IMF, and credits on concessional terms as defined below, and ID53.2 million in non-concessional borrowing from the Islamic Development Bank to

finance the construction of the Kabul City Ring Road and the improvement of local link roads and social infrastructure. Consistent with the Public Finance and Expenditure Management (PFEM) Law, the MOF should have sole responsibility for the contracting and guaranteeing of external debt on behalf of the government.

- The definition of "government" includes the budgetary central government, extra-budgetary central government, local government (including government departments), as well as official agencies that do not seek profit and whose budgets are issued independent of the annual operational or development budgets. The public sector comprises the government as defined above, the DAB, and nonfinancial public enterprises. Public enterprises are defined below in paragraph 13.[2]

- For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any a shortfall incurred by the debtor.

- For program purposes, a debt is concessional if it includes a grant element of at least 60 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[3] The discount rates used is 5.0 percent.

11. The zero ceiling on **short-term external debt** applies on a continuous basis to the contracting or guaranteeing of new external debt by the public sector (as defined in paragraph 10 of this memorandum) with nonresidents, with an original maturity of up to and including one year.

- It applies to debt as defined in paragraph 9 of this memorandum.

- Excluded from the limit are rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits.

- Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee becomes effective.

[2] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[3] The calculation of concessionally will consider all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

12. A continuous performance criterion applies to the **non-accumulation of new external payments arrears** on external debt contracted or guaranteed by the central government or the DAB. External payment arrears consist of external debt service obligations (principal and interest) falling due after July 1, 2016 and that have not been paid at the time they are due, as specified in the contractual agreements. Excluded from the prohibition on the accumulation of new arrears are (i) arrears arising from interest on the stock of arrears outstanding as of July 1, 2016; and (ii) external arrears that are subject to debt rescheduling agreements or negotiations.

13. **Lending to, or guaranteeing borrowing by, public enterprises**. The zero ceiling on new lending from state-owned banks or the central bank to, or government guaranteed domestic and external borrowing by, public enterprises in need of restructuring applies on a continuous basis.

- For the purposes of this performance criterion: (i) "state-owned banks" refers to those banks that are wholly or majority owned by the government (as defined in paragraph 10 of this memorandum), including Bank-e-Millie Afghan, Pashtany Bank, and New Kabul Bank; (ii) "public enterprises in need of restructuring" refers to enterprises that meet either of the following: (a) public enterprises that have not had an audited balance sheet in the past two fiscal years; (b) public enterprises that have been identified by the Ministry of Finance for liquidation, or (c) public enterprises subject to restructuring plans that do not have cabinet-approved restructuring plans; and (iii) "public enterprises" refers to enterprises wholly or majority owned by the government, including state-owned enterprises covered by the State-Owned Enterprise (Tassady) Law, state-owned corporations covered by the Corporations and Limited Liability Companies Law, and other government entities (e.g., Microfinance Investment Support Facility for Afghanistan) and government agencies (e.g., Afghanistan Investment Support Agency) engaged in commercial activities but not covered by the Tassady Law.

- It applies to any new loans (or financial contributions) extended directly from the central bank or state-owned banks to public enterprises in need of restructuring, and to any explicit government guarantees for borrowing undertaken by these public enterprises (including loan agreements and guarantees for which value has not been received).

14. **Operating budget deficit of the central government** excluding grants is defined as revenues of the central government minus operating budget expenditure recorded in AFMIS and reported in monthly financial statements.

15. **Treasury's discretionary cash balance** is defined as the total discretionary cash balance at the treasury single account in DAB, including balance in the main TSA account in Kabul and unspent funds in provincial expenditure accounts, plus the funds in the discretionary development budget account.

16. **Rerouting of treasury's IMF accounts to central bank's balance sheet**. For program purposes, the government's financial positions arising from dealing with the IMF is treated as if these functions were performed by DAB on behalf of the treasury that is as if DAB have assumed these positions and have established corresponding counter positions vis-à-vis the treasury.

17. **Social and other priority spending** is defined as the sum of pro-poor spending identified in accordance with the ANDS poverty profile by the Ministry of Education, Ministry of Public Health, and Ministry of Labor, Social Affairs, Martyrs, and Disabled within the central government's operating budget for a particular fiscal year.

C. Adjustors

18. The floor on NIR and the ceiling on the NCG are consistent with the assumption **that core budget development spending** will amount, on a cumulative basis from the beginning of the respective fiscal year, to:

Date	Accumulative over the Respective Year (Billion Afghani)
June 21, 2018	23.9
December 21, 2018	104.2

Should core budget development spending exceed these projections, the NIR floor will be adjusted downward and the NCG ceiling will be adjusted upward by the difference between the actual level (up to the appropriated amount) and the projected level of development spending.

19. The NIR floor and NCG ceiling are defined consistent with the assumption that the **external financing of the core budget and receipts from the sale of nonfinancial assets** will amount, on a cumulative basis from the beginning of the respective fiscal year, to:

Date	Accumulative over the Respective Year (Billion Afghani)
June 21, 2018	52.0
December 21, 2018	189.1

Should external financing of the core budget (including that associated with off-budgetary spending coming on budget) and the receipts from the sale of nonfinancial assets collectively exceed (fall short of) these projections, the NIR floor will be adjusted upward (downward) and the NCG ceiling will be adjusted downward (upward) by the difference between their actual level and the projected level. The downward adjustment to the NIR floor for these projections will be capped at US$600 million and the upward adjustment to the NCG ceiling for these projections will be capped at Af 41.2 billion.

20. Should Afghanistan receive an **SDR allocation** the NIR floor will be adjusted upwards by the amount of this allocation.

21. Should some **expenditure currently financed directly by donors outside the budget** be moved on to the operating budget, the NIR floor will be adjusted downward, and the NCG ceiling and the indicative targets (ceilings) for the operating budget deficits of the central government,

excluding grants, will be adjusted upward, by the actual amount of these expenditures on the conditions that (i) the moving on budget of these expenditures is justified by a statement from donors indicating their decision to stop financing them outside the budget; and (ii) they are subject to a supplementary appropriation approved by parliament. The downward adjustment to the NIR floors for these conditions will be capped at US$300 million.

D. Provision of Information to the IMF

22. To facilitate monitoring of program implementation, the government of Afghanistan will provide the IMF the information specified below and summarized in the list of reporting tables provided to the Technical Coordination Committee.

23. Actual outcomes will be provided with the frequencies and lags indicated below, provided that any data and information indicating the non-observance of the continuous performance criteria will be provided immediately.

- DAB net international reserves: weekly, no later than one week after the end of each week.

- Monetary statistics, including exchange rates, government accounts with the DAB, currency in circulation, reserve money, and a monetary survey: biweekly and no later than 10 days after the end of the two-week period (four weeks in the case of the monetary survey). The monetary survey will include the balance sheet of the DAB and a consolidated balance sheet of the commercial banking sector.

- Detailed cash flow on gross and net international reserves biweekly and no later than 10 days after the end of the two-week period.

- Core budget operations and their financing: monthly and no later than four weeks after the end of the month. The official reports for program monitoring will be the monthly financial statements from the Afghanistan Financial Management Information System. The structure of financing (grants and loans should be separately identified) and expenditure data should be on a consistent cash basis, with separate identification of direct payments by donors that are included in budget development spending, with a counterpart grant figure. Core operating expenditures should be reported monthly using the budget appropriation economic and administrative classification in addition to the program and functional classification as reported in the budget documents. Core development expenditures should also be reported separately monthly using the budget program classification in addition to the economic, administrative and functional classification consistent with the operating budget. All the data should also compare outturns against the approved budget. Core operating and development revenues and expenditures should also be reported by province, separately on the same monthly basis.

- External budget operations and their financing (i.e., donor funded spending outside the core budget treasury systems): semiannually (more frequently if possible) and no later than eight weeks after the end of the period. External development expenditures should be reported on a disbursement basis (as currently defined in budget documents) using the budget program classification (and an administrative, functional and provincial classification where possible).

- External debt data: quarterly and no later than six weeks after the end of the quarter. These will include with respect to bilateral and multilateral creditors: (i) details of new loans contracted or guaranteed during the quarter, including the terms of each new loan; (ii) the stock of debt at the end the quarter, including short-term debt, and medium- and long-term debt; (iii) loan disbursements and debt service payments (interest and amortization) during the quarter; (iv) the stock of committed but undelivered debt relief at the end of the quarter and debt relief received during the quarter; (v) information on all overdue payments on short-term debt, and on medium- and long-term debt, including new external arrears (if any); and (vi) total outstanding amount of arrears.

- National accounts data: annually and no later than three months after the end of the year. Merchandise trade data should be reported quarterly and no later than eight weeks after the end of the quarter.

- Monthly consumer price indexes (CPIs) for Kabul and other major cities ("national" CPI) with a lag of four weeks after the end of each month.

- Four-monthly and with a three-month lag, financial flows and other key variables of the state electricity company (DABS), aggregated as well as disaggregated by regional hubs, for the preceding 12 months and (in the last four-monthly period of the year) a forecast for the following fiscal year. The report will use the template agreed with the IMF staff, with all lines filled in, but excluding the disaggregation of losses into technical and nontechnical for regions outside Kabul.

- Financial Stability Indicators for each commercial bank: monthly and with a one-month lag after the end of each month. These indicators will include banks' prudential ratios, capital adequacy ratio, liquidity ratio, portfolio quality indicators (e.g., nonperforming loans, provisions as percentage of classified loans), concentration ratio, related loan ratio, information on open foreign exchange positions, large loan and deposits statistics, income and expense information such as net income to total assets ratio (ROA), rate of return on capital, and net interest margin, and other relevant information. Monthly, balance sheet and income statement for each bank compiled from supervisory submissions, as well as the Summary Analysis of Condition and Performance of the Banking System.

- Lending to public enterprises from each commercial bank: monthly with a one-month lag after the end of each quarter share a report on the following balance sheet items and operations for each bank: (i) aggregate value of outstanding loans to all public enterprises; (ii) disaggregated value of outstanding loans by public enterprise for each bank's top 10 borrowers; and (iii) indicators of the quality of these loans. For this reporting requirement, public enterprises refer to those defined in point (iv) in the first bullet of paragraph 17.

- Monthly activity and cost reports from the Kabul Bank receiver, including the status and financial details of asset recovery.

- Monthly detailed balance sheet and income statement for New Kabul Bank (with a two weeks' lag) as well as monthly reports on bank's progress against its business and financial plans (staffing, branches, etc.)

- Monthly, transactions on the Kabul Bank loan account, Kabul Bank receivership accounts and any other accounts related to the bank or asset recovery from the bank.

- Copies of documents related to asset recovery, such as mutual legal assistance requests (evidence and banking and property information redacted) to foreign jurisdictions, copies of MOUs which cover international cooperation with said jurisdictions.

- Monthly details of the discretionary cash balances held in the Ministry's AFS and U.S. dollar-denominated TSA accounts, and the discretionary development 27232 account. In addition, an update of the monthly summary report of financial flows under operating budget and development budget (discretionary and nondiscretionary), and the updated monthly cash projections for the next 12-months, annual cash projections for the current and following fiscal year.

- Treasury cash balance: weekly report on the treasury (discretionary and nondiscretionary) cash balance.

- Banking sector: Monthly CAMEL rating for all the banks, monthly income statements and balance sheets for all the banks, consolidated IS and BS for all the banks.

- Copies of documents related to the progress on structural benchmarks under the program, such as draft legislation, memoranda of understanding, strategies, implementation plans, transmittal letters, etc.

24. The Ministry of Finance and the Da Afghanistan Bank will send to the IMF reports by the end of each quarter documenting progress in implementing structural benchmarks under the program. These reports will include appropriate documentation and explain any deviations relative to the initial reform timetable, specifying expected revised completion date. Other details on major economic and social measures taken by the government that are expected to have an impact on program sequencing (such as changes in legislation, regulations, or any other pertinent).

E. Publication of ACJC's Activities

25. Starting from end-January 2019, the government of Afghanistan will publish on an official website the Anti-Corruption Justice Center (ACJC)'s activities: [4]

(i) Quarterly statistics (in English and Dari) as follows on corruption offences covered in UNCAC within thirty days after each quarter:
   A. Number of persons prosecuted (template: table 1)
   B. Number of persons convicted – Primary Court (template: table 1)
   C. Number of persons convicted – Appellate Court (template: table 1)
   D. Number of persons convicted – Supreme Court (template: table 1)
   E. Aggregated punishments – All Final Decisions (template: table 2)

(ii) Court decisions on corruption cases on an ongoing basis.

The first publication will cover annual statistics and court decisions during the period of 2016–18.

[4] It should be noted that only major corruption cases are handled in the ACJC and that its jurisdiction does not extend to the President, Ministers, and judges, who are subject to special investigative and prosecutorial procedures according to the Constitution and the Law on Organization and Jurisdiction of Judiciary Branch.

Table 1. Number of Persons ________ [Period from to]

	High-ranking officials (Art. 3 of the Law Governing the Salaries of High-Ranking Officials) incumbent and former	Senior officials (Art. 2 of Law Governing the Salaries of Government Officials)	Members of National Assembly (except those categorized as high ranking officials)	Generals or persons who carry out the functions of a General [1]	Prosecutors [2]	Directors and senior managers [3]of state-owned companies (including banks	Other public officials (including employees of state owned companies)	Private citizens
Penal Code 1976								
Art. 254, 258, 259, 261 (receiving/requesting bribes)								
Art. 254 and 260 (bribe-giving)								
Art. 268-274 (embezzlement)								
Penal Code 2017								
Art. 371 (bribe-taking)								
Art. 372 (bribe-giving)								
Art. 375 (judicial perpetrators)		N/A	N/A			N/A	N/A	N/A
Art. 379 (perpetrators that are members of elected bodies)		N/A		N/A	N/A	N/A	N/A	N/A
Art. 391(embezzlement by a public official)								N/A
Art. 394 (gaining unlawful benefits)								
Art. 395 (gaining benefits from government revenue by a public official)								N/A
Art. 396 (illegal ownership of money by a public official)								N/A
Art. 399 (abuse of influence)								
Art. 403 (abuse of function by a public official)								N/A
Art. 419 (illicit enrichment)								N/A
Art. 421 (false declaration of assets)								N/A
Total [4]								

1/ According to Law on Personal Affairs of Officers, Lieutenant and Sergeants, a person whose rank ranges from Second Lieutenant to General Officer (of the Afghan National Army under the Ministry of Defense) or Second Lieutenant to General Officer (of the Afghan National Police under the Ministry of Interior) as acquired in accordance with the law is a General.
2/ Figure reflects only cases that fall under the ACJC's jurisdiction.
3/ These include individuals that hold positions such as chief executive officer, chief financial officer, chief operating officer, and alike.
4/ This figure may be smaller than sum of the column as there may be cases that involve multiple offences.

Table 2. Aggregated Punishments—All Final Decisions [Period from to]

Fines=total value in AFG, jail=total months of imprisonment.
For cases involving multiple offences, the punishments are only reflected under the most significant offence.

	High-ranking officials (Art. 3 of the Law Governing the Salaries of High-Ranking Officials) incumbent and former		Senior officials (Art. 2 of Law Governing the Salaries of Government Officials)		Members of National Assembly (except those categorized as high-ranking officials)		Generals or persons who carry out the functions of a General [1]		Prosecutors [2]		Directors and senior managers [3]of state-owned companies (including banks[2]		Other public officials (including employees of state-owned companies)[2]		Private citizens [2]	
Penal Code 1976																
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 254, 258, 259, 261 (receiving/requesting bribes)																
Art. 254 and 260 (bribe-giving)																
Art. 268-274 (embezzlement)																
Penal Code 2017																
Art. 371 (bribe-taking)																
Art. 372 (bribe-giving)																
Art. 375 (judicial perpetrators)			N/A	N/A	N/A	N/A					N/A	N/A	N/A	N/A	N/A	N/A
Art. 379 (perpetrators that are members of elected bodies)			N/A	N/A			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Art. 391(embezzlement by a public official)															N/A	N/A
Art. 394 (gaining unlawful benefits)																
Art. 395 (gaining benefits from government revenue by a public official)															N/A	N/A
Art. 396 (illegal ownership of money by a public official)															N/A	N/A
Art. 399 (abuse of influence)																
Art. 403 (abuse of function by a public official)															N/A	N/A
Art. 419 (illicit enrichment)															N/A	N/A
Art. 421 (false declaration of assets)															N/A	N/A
Total																

1/ According to Law on Personal Affairs of Officers, Lieutenant and Sergeants, a person whose rank ranges from Second Lieutenant to General Officer (of the Afghan National Army under the Ministry of Defense) or Second Lieutenant to General Officer (of the Afghan National Police under the Ministry of Interior) as acquired in accordance with the law is a General.
2/ Figure reflects only cases that fall under the ACJC's jurisdiction.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 9, 2018

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In collaboration with other departments, the World Bank, and the Asian Development Bank)

CONTENTS

RELATIONS WITH THE FUND

(As of March 30, 2018)

Membership Status: Joined July 14, 1955; Article XIV.

General Resources Account

	SDR Million	Percent Quota
Quota	323.80	100.00
Fund holdings of currency (Exchange Rate)	323.61	99.94
Reserve Tranche Position	0.19	0.06

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	155.31	100.00
Holdings	55.82	35.94

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF Arrangements	40.68	12.56

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	July 20, 2016	July 19, 2019	32.38	13.50
ECF	November 14, 2011	November 13, 2014	85.00	24.00
ECF[1/]	June 26, 2006	September 25, 2010	81.00	75.35
Stand-By	July 16, 1975	July 15, 1976	8.50	8.50

[1/] Formerly PRGF.

Projected Payments to Fund[1/]

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2018	**2019**	**2020**	**2021**	**2022**
Principal	7.56	7.06	5.37	4.80	3.75
Charges/Interest	0.63	0.85	0.85	0.85	0.85
Total	**8.19**	**7.91**	**6.22**	**5.65**	**6.60**

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	July 2007
Assistance committed by all creditors (US$ million, NPV) [1/]	582.40
Of which: IMF assistance (US$ million)	--
(SDR equivalent in millions)	--
Completion point date	January 2010
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	--
Interim assistance	--
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	--

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[2/] Under the enhanced framework, and additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of MDRI Assistance: Not Applicable

Implementation of PCDR: Not Applicable

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Nonfinancial Relations:

Exchange Arrangement

Afghanistan is an Article XIV-member country. Afghanistan maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. Following the authorities' request, the IMF staff has initiated a general review of Afghanistan's exchange system to prepare for the authorities' acceptance of obligations under Article VIII Sections 2(a), 3, and 4 of the IMF's Articles of Agreements. The authorities are committed to stand ready to collaborate closely with IMF staff during this process. The *de jure* exchange rate regime is classified as managed floating. On March 31, 2018, the average of the buying and selling exchange rates in cash transactions on the Kabul money exchange market was 69.2 Afghanis per U.S. dollar.

To conduct monetary policy, the authorities have used foreign exchange auctions since May 2002 and capital note auctions since September 2004. The foreign exchange auctions were initially open only to licensed money changers, but since June 2005, they are also open to commercial banks. The capital note auctions are open to commercial banks. Auctions are linked to the overall monetary program and are held on a regular basis.

Article IV Consultation

The last Article IV consultation with Afghanistan was discussed by the Executive Board on December 8, 2017. Article IV consultations with Afghanistan take place on a 24-month cycle in accordance with the provisions of Decision No. 14747, as amended.

Safeguards Assessment

An update safeguards assessment of DAB was completed in January 2017. The assessment found that the DAB continues to face significant capacity constraints and operational risks in light of the difficult security situation. Governance and external audit arrangements are nonetheless broadly sound. Weaknesses were noted in the legal provisions on the DAB's mandate, institutional and personal autonomy, rules of profit distribution, recapitalization, and foreign reserve management. In November 2017, the authorities amended the DAB Law per safeguards assessment recommendations strengthening the areas where weaknesses were noted. The authorities are making efforts to resolve the Kabul Bank exposure, and have made progress in strengthening the internal audit function.

Technical Assistance, 2011–18

Department	Dates	Purpose
FAD	January 2–12, 2011	PFM Assessment
	January 22–February 4,2011	Customs Administration
	April 1–13, 2011	Customs Administration
	September 15–22, 2011	Program Budgeting Reform
	January 14–18, 2012	Visit to Support SIGTAS Preparations
	January 14–25, 2012	VAT Introduction
	January 14–28, 2012	Customs Administration
	April 4–14, 2012	Follow-up mission (different TA topics)
	April 6–14, 2012	Follow-up mission to review PFM Roadmap
	April 4–14, 2012	Advancing Public Financial Management Reforms
	April 13–May 1, 2013	Customs Administration
	April 29–May 6, 2013	Public Financial Management Reform
	April 29–May 8, 2013	Follow-up mission PFM
	September 26–October 4, 2013	Reform of the Fiscal Regimes for the Extractive Industries
	April 15–21, 2015	Tax Policy for Extractive industries
	May 18–26, 2016	Public Financial Management
	February 20–24, 2017	Tax policy: Developing options for revenue mobilization (jointly with METAC)
	September 28–October 7, 2017	Public Financial Management
LEG	September 21–26, 2013	Diagnostic Review of AML/CFT regime
	February 5–6, 2014	Awareness raising workshop for Parliamentarians (Dubai)
	April 28–May 2, 2014	AML/CFT training for DAB and FinTRACA officials
	November 10–14, 2014	TA on AML/CFT issues
	February 9–13, 2015	AML/CFT training for DAB and FinTRACA officials
	September 6–10, 2015	AML/CFT training for DAB and FinTRACA officials
	August 14–19, 2016	AML/CFT training for Afghan officials at STI in Singapore
MCD	August 29, 2011–August 2013	Resident monetary policy and banking advisor
MCM	July 3–5, 2012	Sukuk TA mission
	August 27–29, 2012	Follow-up TA on Sukuk
	November 11–13, 2012	Sukuk TA mission
	February 11–13, 2013	Sukuk Issuance
	May 11–19, 2013	Strengthening the Central Bank's Operations
	September 7–22, 2013	Strengthening the Central Bank's Operations: Update on Monetary Policy Implementation
	December 7–11, 2013	Strengthening the Central Bank's Operations

	March 1–March 20, 2015	Problem bank management
	September 8–21, 2015	Problem bank management
	December 4–18, 2015	Problem bank management
	February 24–March 6, 2016	Problem bank management
	March 8–April 6, 2016	Problem banks and resolution
	August 1–12, 2017	Monetary policy implementation and operations
	November 1–12, 2017	FOREX Reserves Management
	January 14–18, 2018	Crisis Preparedness and Management Workshop
METAC[1]	January 2–11, 2011	Financial Planning, Budget Classification
	January 10–14, 2011	Tax Information Systems (workshop)
	April 7–12, 2012	Developing Regulations
	May 22–26, 2011	Sukuk Workshop and TA in Dubai
	October, 2011	General banking supervision issues
	December 10–19, 2011	Consumer price statistics
	January 14–18, 2012	Follow-up on tax administration reforms
	February 11–14, 2012	Sukuk TA Mission
	April 7–12, 2012	Developing regulations
	April 15–26, 2012	Consumer price statistics
	June 16–27, 2012	Enhancing the enforcement framework at DAB
	June 24–27, 2012	Balance of Payments and International Investment Position Statistics
	September 17–20, 2012	Study mission to Lebanon on VAT implementation
	November 3–12, 2012	Review of off-site function
	November 4–14, 2012	Cash Management / Financial Plans
	January 15–22, 2013	Follow-up on Enforcement Framework
	February 16–20, 2013	Balance of Payments and International Investment Position Statistics
	March 30–April 8, 2013	Action Plan for Strengthening Banking Supervision
	November 2–20, 2013	Customs Administration
	January 5–16, 2014	External Sector Statistics
	November 3–7, 2014	External Sector Statistics
	September 8–12, 2014	VAT implementation / study tour in Beirut
	February 2–25, 2015	Tax and Customs administration
	September 7–11, 2015	External Sector Statistics
	May 8–12, 2016	National Accounts
	Aug 29–Sep 1, 2016	Training on Dealing with Weak Banks
	Feb 12–21, 2017	External Sector Statistics
	April 16–20, 2016	Stress Testing
	July 9–13, 2017	Framework for Dealing with Weak Banks
	July 16–20, 2017	National Accounts
	March 5–8, 2018	National Accounts
	March 12–22, 2018	External Sector Statistics
	March 26–30	Budget Formulation, Budget Execution, And Public Investment Management
	March 26–30, 2018	Banking Supervision and Regulation

STA	October 24–November 3, 2011	Monetary and financial statistics
	February 6–17, 2012	National accounts statistics
	April 29–May 12, 2012	National accounts statistics
	January 25–February 5, 2014	Price Statistics
	February 8–12, 2016	Price Statistics
	July 31–August 11, 2016	Monetary and financial statistics
	November 12–17, 2017	Consumer and Producer Price Indexes

[1] Afghanistan is a participant in the Middle East Technical Assistance Center.

Resident Representatives

Mr. de Schaetzen; August 2002–June 2005

Mr. Charap; June 2005–June 2008

Mr. Abdallah; June 2008–January 2014

RELATIONS WITH THE WORLD BANK

(As of March 2018)

1. The World Bank Group's Program in Afghanistan is governed by Country Partnership Framework (CPF), for the four-year period from FY 2017 through FY 2020. Prior to the CPF the World Bank engagement was defined by Interim Strategy Notes. The CPF is aligned with country priorities as outlined in the Government's Afghanistan National Peace and Development Framework. The CPF also builds on the findings and recommendations of the Systematic Country Diagnostic (SCD), completed in February 2016.

2. Since 2002, the International Development Association (IDA) has committed a total of US$3.85 billion in grants (90 percent) and credits (10 percent) in Afghanistan. The Bank also administers the ARTF (Afghanistan Reconstruction Trust Fund)—the World Bank Group's largest single-country multi-donor trust fund which provides grant support to Afghanistan based on a three-year rolling financing strategy. The ARTF has generated over US$10 billion from 34 donors, making it the largest contributor to the Afghan budget, with disbursement of US$4.6 billion for the government's recurrent costs and US$4.9 billion for government investment programs. Together, the IDA and the ARTF provide close to US$1 billion per year in grant resources (about US$200 million from IDA and about US$800–US$900 million from the ARTF). The ARTF is a key vehicle for providing the Government with predictable and transparent on-budget financing and provides a platform for policy dialogue between Government and donors.

3. The World Bank continues to engage in rigorous analytical work and places large emphasis on policy dialogue. These non-lending activities have been supportive of the Bank's lending program and have played a crucial role in informing government of its strategic choices and advancing dialogue between the Government of Afghanistan and its international development partners. The ARTF Research and Analysis Program (RAP) was established to support the government's policy reform agenda and decision-making. The program provides an opportunity to introduce innovative ways of working with the government, universities and local research institutions to undertake analysis and generate knowledge. As part of the RAP, the Bank is currently engaged in a series of analytical work to enhance understanding of Afghanistan's growth and fragility challenges and to inform development response by Government and international development partners. The initial results of this work were presented at the 2016 Brussels Conference on Afghanistan. The Bank also launched a comprehensive and programmatic advisory and analytic program to support the full breadth of the Fiscal Performance Improvement Plan (FPIP)—Government's flagship fiscal and PFM reform program.

4. The International Finance Corporation (IFC), the World Bank Group's private sector development arm, continues to work with its investment and advisory service partners in Afghanistan. IFC's cumulative committed portfolio stood at $52 million as of end-FY 2017 and its advisory services portfolio stood at $8.8 million. IFC's Investment portfolio includes investments in the telecommunication sector and financial markets. The investment pipeline includes further

investments in the financial markets as well as investments in the power sector and agribusiness. IFC's Advisory Services program has been supporting the Investment program in access to finance, strengthening horticulture export, agri-businesses supply chain development, access to renewable energy, corporate governance structure enhancement, and investment climate reform interventions.

5. The Multilateral Investment Guarantee Agency (MIGA) has $116.1 million of gross exposure in three projects in Afghanistan. MTN is a joint project with IFC in the country's critical telecommunication sector. The other two projects support dairy and cashmere production. MIGA's global priorities for FY 2018–2020 are support for Foreign Direct Investment (FDI) projects in IDA countries, in fragile and conflict-affected states, as well as expanded commitment to climate change mitigation and adaptation. Afghanistan is an important country for MIGA in terms of delivering on these objectives. In 2013, MIGA launched its Conflict Affected and Fragile Economies Facility that uses donor partner contributions and guarantees, as well as MIGA guarantees, to provide an initial loss layer to insure investment projects in fragile and conflict contexts. This facility has been used to boost MIGA's exposure in Afghanistan. In FY 2018, the IDA 18 Private Sector Window (PSW) MIGA Guarantee Facility (MGF) (PSW MGF) was launched. PSW MGF provides another risk mitigation solution executed by MIGA to support cross-border private sector investments in eligible IDA countries including Afghanistan. The first PSW MGF project in the Afghan raisin processing sector received approval by the WBG's Board of Directors in March 2018.

IMPLEMENTATION OF THE JOINT MANAGEMENT ACTION PLAN ON BANK-FUND COLLABORATION

(As of March 2018)

1. The Afghanistan country teams of the World Bank (led by Mr. Chaudhuri, country director) and the IMF (led by Mr. Duenwald) held several consultations in 2017 and 2018. The teams regularly exchanged views on the recent economic developments and outlook, identified the macroeconomic priorities and challenges facing Afghanistan, and discussed ways to coordinate their respective work programs.

2. Since the adoption of the Afghanistan National Peace and Development Framework (ANPDF), the World Bank's engagement has become increasingly programmatic. Underpinned by advisory work, both policy and investment lending focus on the main engagement clusters: macro-fiscal management and institution building, stimulating private investments and growth to create jobs, governance and anti-corruption, human capital development and service delivery, citizen engagement and gender equality, as well as urbanization, infrastructure, and connectivity. Regarding economic management, since 2016, the Bank has supported the government with technical assistance in the areas of customs reforms, revenue administration, public financial management, debt management, public investment management, and economic statistics. The Bank will also continue to support the Government's efforts towards greater financial inclusion and stability. Under the ARTF, the Incentive Program (IP) provides funds for achievements in structural reform. Since January 2013, the IP has also supported the government's operation and maintenance expenditures. The IP provided a total financing envelope of US$900 million for 2015–17. The Bank also approved a US$100 million Development Policy Grant in May 2017 supporting a range of policy and legislative reforms to expand opportunities for the vulnerable and enable private sector development. The new Incentive Program for 2018-20 is currently under preparation.

3. The Fund's work program focused on close engagement through the Extended Credit Facility (ECF) arrangement approved in July 2016. The arrangement supports a program which sets out a structural reform agenda that focuses on institution building, fiscal and financial reforms, and measures to combat corruption to lay foundations for scaled up private sector development. The program aims to preserve macroeconomic and financial stability by implementing prudent fiscal, monetary, and financial policies, and by maintaining external buffers and a flexible exchange rate regime. The program's major elements are: fiscal reforms, including revenue mobilization and improved public financial management (PFM); anti-corruption measures; and safeguarding the financial sector. The ECF includes a set of performance criteria as well as structural benchmarks that are assessed semi-annually. As part of the cooperation effort, the World Bank team participates in ECF missions as observer.

4. To help the authorities build on past achievements, the Fund provides continuous advice on macro-financial policies, structural reforms in its areas of comparative, and delivers technical assistance and training. Technical assistance has been provided to the central bank on problem bank management, and monetary, financial, and external sector statistics. It has also provided TA to the Ministry of Finance, mainly in the areas of tax policy and administration, and public financial management. The Fund will continue its close engagement with Afghanistan.

Table 1. Islamic Republic of Afghanistan: Bank and Fund Planned Activities in Areas of Joint Interest

	Products	Preparations/Mission Timing [1]	Delivery [1]
Fund	ECF Arrangement	2016–19	July 2016
	Third Review under ECF	March 2018	May 2018
	Fourth Review under ECF	September 2018	December 2018
	Areas of Technical Assistance: Bank restructuring and problem bank management, financial sector supervision, revenue administration, customs and border management, tax policy, public financial management, foreign exchange regulation, AML/CFT, banking law, treasury securities, statistics (national accounts, prices, government finance, monetary, balance of payments, GDDS)		
Bank	Inclusive Growth Development Policy Grant	June 2016–June 2017	June 2017
	Support to Fiscal Performance Improvement Plan implementation	January 2017–December 2020	continuous
	ARTF IP Program (2018–2020), Preparation stage	April–June 2018	June 2018
	Support to PIM Reform	January 2017—continuous	Continuous
	Economic Monitoring	Continuous	Continuous
	Debt Management Assistance	February 2016–continuous	continuous
	Growth and Fragility Report	January 2016–June 2017	June 2017
	Sukuk Market and Pension Reform TA	May 2016–continuous	Continuous
Joint	AML/CFT follow-up	Continuous	
	Dialogue on revenue mobilization	Continuous	
	Dialogue on macro-fiscal stability	Continuous	
	Strengthening of the banking sector	Continuous	
	Debt management	Continuous	

[1] Timing is tentative

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 2018)

1. Asian Development Bank (ADB) is Afghanistan's leading partner in infrastructure and regional cooperation and brings in-depth experience delivering projects in fragile and conflict-affected situations. Afghanistan is a founding member of the ADB, which was established in 1966, and has since been supported by ADB over two periods. ADB resumed its partnership with Afghanistan after a hiatus from 1980 to 2001 and works with other development partners to support the country's national development strategies and its national priority programs to establish a stronger foundation for growth and poverty reduction. ADB provided over US$4.4 billion in assistance during 1967–2017. ADB directs most of its financial assistance to address Afghanistan's development needs for energy, transport, and agriculture and natural resources. ADB is also supporting inclusive economic growth, helping Afghanistan integrate better with its neighbors, and improving the efficiency and effectiveness of government. ADB's support to Afghanistan is closely aligned with the country's foremost development priorities, including the Afghanistan National Peace and Development Framework (ANPDF), the self-reliance and reform agendas, and National Priority Programs (NPPs).

2. Current ADB operations in Afghanistan are based on the Country Operations Business Plan (COBP) 2018–20 that operationalizes the priorities under the Country Partnership Strategy (CPS) 2017–21. The CPS, endorsed by ADB's Board of Directors in October 2017, aims to establish a stronger foundation for more inclusive and sustainable growth in Afghanistan and to prevent the poverty rate from worsening. The CPS and COBP are aligned with ANPDF, the National Infrastructure Plan (NIP), and NPPs. ADB is basing its operations on three strategic pillars: (i) expanded access for women and men to economic opportunities, markets, and services; (ii) stronger institutions and human capacities; and (iii) increased environmental sustainability, climate change resilience, and disaster resilience. Under the CPS and COBP, ADB is expected to provide Afghanistan around US$231 million in grants annually through 2021, including US$5 million for disaster risk reduction. ADB operations will continue to focus on three priority sectors—energy, transport, and agriculture and natural resources, with special attention to regional cooperation, governance, and capacity building. ADB supports co-financing of its projects to increase synergies by combining the strengths of development partners, governments, commercial organizations, and ADB itself. As of 31 December 2017, cumulative sovereign official co-financing commitments for Afghanistan amounted to US$1.01 billion. This figure comprises both contractual (including ADB-administered trust funds) and collaborative co-financing. Total cumulative contractual co-financing for the same period amounted to US$991.21 million, of which US$963.10 million is for 28 investment projects and US$28.11 million is for 18 technical assistance projects.

3. ADB and the government work together to promote and attract more donors to the Afghanistan Infrastructure Trust Fund (AITF) to finance and co-finance projects and provide a larger resource envelope for Afghanistan. AITF, administered by ADB, is the only dedicated trust fund for infrastructure development in Afghanistan. It provides an efficient mechanism for bilateral,

multilateral, and individual contributors in financing infrastructure investments and improve the livelihood of the Afghan people through infrastructure. AITF allows development partners to meet the pledge of 50 percent on-budget expenditure and 80 percent alignment with NPPs as agreed in the 2010 Kabul Conference. As of 31 December 2017, AITF donors committed US$808.93 million. The total amount received was US$566.86 million. In 2017, Afghanistan received US$60.00 million grant co-financing from AITF for the Energy Supply Improvement Investment Program—Tranche 4, and US$15.00 million loan co-financing from the Islamic Development Bank for the Energy Supply Improvement Investment Program—Tranche 3.

4. ADB is the largest on-budget donor in the transport sector. As of December 2017, ADB has provided US$2.418 billion in on-budget assistance for 17 key road projects to construct or upgrade over 1,700 kilometers of regional and national roads across Afghanistan. This includes US$808 million for the Transport Network Development Investment Program, which has more than halved travel times on 570 km of regional and national roads. ADB is also financing the rehabilitation of 232 km of the ring road. In addition, ADB is supporting a feasibility study and engineering design for the Salang Tunnel, as part of the Central Asia Regional Economic Cooperation (CAREC) Corridors 5 and 6. ADB has also helped rehabilitate four regional airports to increase passenger volumes, which are now more than double the pre-upgrade levels. ADB funded Afghanistan's first railway line between Mazar-e-Sharif and the border of Uzbekistan, which became fully operational in 2012. The line carried around 3.9 million tons of freight in 2017. ADB supported the establishment of the Afghanistan Railway Authority to regulate and ensure the sustainability of the railway sector.

5. In the energy sector, ADB has helped deliver electricity to more than 5 million people in Afghanistan who often used to receive 4 hours or less of power in the early 2000s. To date, ADB has provided nearly US$1.175 billion to support energy infrastructure in Afghanistan. An additional US$1 billion is planned for the energy sector during 2016–24. These projects include construction of: (i) 1,500 km of power transmission lines, (ii) 16 substations, (iii) 143,000 new power distribution connections to the electricity grid and system, and (iv) 10 gas wells, to strengthen the country's energy supply chain. ADB's technical assistance projects have provided policy and analytical support through the Inter-Ministerial Commission for Energy (ICE), Renewable Energy Roadmap, Gas Sector Development Master Plan, and Energy Sector Master Plan. ADB is also contributing to policy dialogue and donor coordination in the sector, including the financing of a master plan for the power and gas subsectors. Key regional projects for Afghanistan are being supported under the Central Asia-South Asia Regional Electricity Markets, including the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) electricity project, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project, and the Turkmenistan-Afghanistan-Pakistan (TAP) power interconnection project.

6. The natural resources sector is another government priority sector assisted by ADB. As of December 2017, total investment reached US$478 million to: (i) rehabilitate and establish new irrigation and agricultural infrastructure, (ii) strengthen the institutional environment to facilitate economic growth, and (iii) improve water resources management. Around 300,000 hectares of

irrigated land have been rehabilitated and upgraded, with work continuing on an additional 300,000 hectares. The investments have led to a more efficient use of water resources, a rise in agricultural productivity, and improved farm livelihoods.

7. ADB assistance has improved fiscal management through policy, institutional and capacity-building reforms covering expenditure and revenue management, civil service management, provincial administration, and transparency and accountability in the public sector.

8. ADB's private sector operations in Afghanistan began in 2004. As of 31 December 2017, cumulative approvals in six transactions in Afghanistan amounted to US$198.1 million. ADB provided financing to Telecom Development Company Afghanistan Limited (Roshan) with direct loans totaling US$130 million for Phase 1, Phase 2 and Phase 3 of the project, and B loans and a political risk guarantee. The project addressed unmet demand for affordable telecommunications service and expanded data networks, mobile money, e-commerce, and telemedicine. In 2012, this project received an award for Excellence in Fragile States Engagement from the US Treasury. Roshan Telecom became a multinational company in March 2014. In another private sector project, ADB invested US$2.6 million in Afghanistan International Bank (AIB), the first private commercial bank in the post-Taliban era. Through its investment, ADB was able to support tangible development in financing and supporting SMEs. Awarded by The Banker Magazine of Financial Times Newspaper as the best bank in Afghanistan for four straight years (2012, 2013, 2014, and 2015), it is the largest and most profitable bank in Afghanistan with a balance sheet just short of US$1 billion.

9. ADB is an active member of the Joint Coordination and Monitoring Board (JCMB) and the Afghanistan Reconstruction Trust Fund Management Committee. Furthermore, ADB takes the lead in the infrastructure sector and regional cooperation-related policy dialogues. ADB supported the preparation of the National Infrastructure Plan (NIP) and Senior Official Meeting (SOM) 2017 in Kabul. ADB is a member of the 5+3+3[1] donor group to ensure coordination and harmonization among donors and the government over policy reforms and development programs. ADB consults continuously with civil society and non-governmental organizations with regards to project design and implementation.

[1] 5+3+3 is a group of countries/organizations that support Afghanistan. The five countries are US, UK, Japan, Germany and the EU. Canada, Australia, Denmark are the first three and the last three are the UNAMA, World Bank, and ADB.

STATISTICAL ISSUES

(As of March 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The key data shortcomings are in national accounts and in the external sector mainly due to organizational weaknesses and difficult security situation.
National Accounts: The compilation broadly follows the *System of National Accounts 1993 (1993 SNA)*. GDP is compiled on an annual basis by the production and expenditure approaches (the latter in current prices only). The regular GDP estimates are derived as extrapolated volumes and values from the 2002/03 base year. GDP follow-up series rely mostly on indicator's extrapolation. The reliability of the indicator series is uncertain since the coverage for various economic activities is limited. Data gaps are severe for some provinces and some activities. Informal activities are only partially measured. Foreign trade data should be improved in terms of coverage, concepts, and timeliness. The 2002/03 base year is more than 10 years old and needs to be updated. The Central Statistics Office (CSO) of Afghanistan has already started work on the introduction of 2014/15 as a new base year, incorporating new sources, such as household surveys, business surveys, and administrative data. In rebasing the GDP, the CSO is supported by the IMF and the World Bank. The CSO staff aim to finish the initial version of the 2014/15 base year by April 2018 after which it will be ready for discussions and review.
Price Statistics: The CSO compiles and publishes monthly consumer price based on data collected from 20 cities/provinces, including the capital city Kabul (covering 80 percent of population). Data from the 2011/12 Afghan Living Condition Survey was used to update the index weights and to expand its coverage. Base year was changed from March 2011 to April 2015. Significant improvements are required to align the CPI to international standards and best practices: improving the index calculation, treatment of missing prices, data collection methods, and quality adjustment methods. The CSO faces resource and capacity constraints, and data collection issues tend to result in significant delays. There is currently no PPI for Afghanistan, but there are plans to develop one (dependent on staff and budgetary resources).
Government Finance Statistics: Fiscal data are compiled for the central and general government on cash basis, based on the Government Finance Statistics Manual 2001 (GFSM 2001). The timeliness and quality of the central and general government core budget data have been improving, particularly after completion of the roll out and connectivity of the Afghanistan Financial Management Information System to all central government line ministries and agencies in Kabul and all provincial offices. With IMF support, the Ministry of Finance is implementing GFSM 2001, with annual data for both above and below the line transactions being reported. The authorities are reporting monthly GFS data to the IMF for the central government core budget and the ministry is also working on expanding the coverage of monthly and quarterly GFS data to general government.

Monetary and Financial Statistics: Da Afghanistan Bank (DAB) reports on a timely basis the Standardized Report Forms (SRFs) 1SR for DAB, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's *International Financial Statistics (IFS)*.	
Financial Soundness Indicators: Afghanistan reports 11 of the 12 core financial soundness indicators (FSIs), 10 of the 13 encouraged FSIs for deposit takers, and 2 FSIs for real estate markets—on a quarterly basis—for posting on the IMF's FSI website with one quarter lag.	
External sector statistics: Balance of payments and international investment position (IIP) statistics have been compiled according to the sixth edition of the Balance of Payments and International Investment Position Manual since 2016, and are revised back to 2008. Several TA missions provided by METAC have assisted the DAB in improving external accounts compilation in the past years, the last one having been conducted in March 2018. Although net errors and omissions remain considerable in size, they have decreased over time and data coverage has improved. A direct investment survey is needed as well as a closer tracking of the informal channels for remittances.	
II. Data Standards and Quality	
Afghanistan, which has been a GDDS participant since June 2006, is currently in its successor data dissemination initiative, e-GDDS.	No data ROSC has been conducted.

Table of Common Indicators Required for Surveillance

(As of April 4, 2018)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Apr/2018	30/4/2018	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb/2018	4/2/2018	M	M	M
Reserve/Base Money	Feb/2018	4/1/2018	M	M	M
Broad Money	Feb/2018	4/1/2018	M	M	M
Central Bank Balance Sheet	Feb/2018	4/1/2018	M	M	M
Consolidated Balance Sheet of the Banking System	Feb/2018	4/1/2018	M	M	M
Interest Rates[2]	March 2018	3/20/2018	D	M	M
Consumer Price Index	March/2018	4/10/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	--	--	--	--	--
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb/2018	3/15/2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2017Q4	20/3/2018	Q	Q	Q
External Current Account Balance	2017Q3	3/14/2018	Q	Q	Q
Exports and Imports of Goods and Services	2017Q3	3/14/2018	Q	Q	Q
GDP/GNP	2016	9/16/2017	A	A	A
Gross External Debt	…	…	…	…	…
International Investment Position[6]	2017Q1	9/25/2017	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).