IMF Country Report No. 18/359

ISLAMIC REPUBLIC OF AFGHANISTAN

December 2018

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2018, following discussions that ended on October 2, 2018, with the officials of 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 November 20, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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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December 7, 2018

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IMF Executive Board Completes Fourth Review and Approves Extension of the Extended Credit Facility Arrangement for the Islamic Republic of Afghanistan

- Executive Board approves the authorities' request to extend the ECF arrangement until end-December 2019.
- The government's economic program ensures continued policy discipline and decisive reforms that lay the foundation for self-reliance and sustained inclusive growth.
- Continued strong program ownership by the government remains vital to its success.

On December 7, 2018, the Executive Board of the International Monetary Fund (IMF) completed the Fourth Review of Afghanistan's economic program supported by an arrangement under the Extended Credit Facility (ECF).[1] The Board's decision makes available to Afghanistan a disbursement amount equivalent to SDR 4.5 million (about US$6.2 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 22.5 million (about US$31.2 million). The three-year ECF arrangement for SDR 32.38 million (or 10 percent of Afghanistan's quota at the time of approval of the arrangement) was approved on July 20, 2016 (see Press Release No. 16/348).

The Executive Board also approved the authorities' request to extend the arrangement to end-December 2019 and their request for modification of performance criteria on net international reserves and net credit to government, reflecting updates to the macroeconomic framework. The extension ensures uninterrupted engagement with the Fund through the election year and provides time for the completion of the sixth review and implementation of additional reforms.

The poor security situation, election-related political uncertainty, and a severe drought are undermining confidence and growth. However, program implementation was satisfactory, despite the challenging environment. The authorities' strong ownership and the sustained backing of donors are critical to the success of the program, especially in the context of continued challenges. Reforms in support of fiscal sustainability, institution building, anti-corruption efforts, and financial stability should continue.

[1] Details on Islamic Republic of Afghanistan's arrangement are available at www.imf.org/external/country/AFG.

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

"The Government of Afghanistan, guided by the Afghanistan National Peace and Development Framework and supported by the IMF Extended Credit Facility arrangement, remains committed to implementing policies ensuring macroeconomic stability and socially-balanced structural reforms in pursuit of self-reliance, inclusive growth, and poverty reduction.

"The insurgency, regional risks, and uncertainty during the electoral cycle compounded by a devastating drought are clouding the outlook.

"The authorities' macroeconomic policy mix maintaining fiscal and external stability with low inflation and a flexible exchange rate is appropriate going forward in view of the many challenges facing the country.

"Fiscal policy should focus on sustainability considering risks to revenues and grants and limited financing options. Fair and sustainable domestic revenue mobilization for development needs while protecting pro-poor and pro-growth spending remains a priority. Public financial and investment management should benefit from the newly adopted supportive laws. Policy initiatives should consider good global practices in consultation with the IMF and the international partners.

"Continued financial sector reforms are critical for banking sector stability. Strengthened crisis preparedness, strict monitoring of weak private banks, and state-owned commercial banks' reform are priorities. The restoration of the central bank's balance sheet is on track and should continue, while the recovery of stolen Kabul Bank assets should be reignited.

"The anti-corruption agenda, including criminalizing corruption and adopting a law on asset declarations by public officials, has advanced, and needs rigorous enforcement to build confidence.

"Strong program implementation demonstrated by completion of this fourth review remains vital to the success of the reforms fostering inclusive growth in a difficult political and security environment. Continued support of the donor community is critical for Afghanistan's successful transition to self-reliance. The IMF stands ready to continue to assist Afghanistan through policy advice and capacity development."

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

(Quota: SDR 323.8 million)
(Population: approx. 34.7 million)
(Per capita GDP: approx. US$570; 2017)
(Main exports: fruits and vegetables, US$216.2 million; carpets, US$39.0 million; 2016)

	2015	2016	2017	2018	2019
				Proj.	
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	1.0	2.2	2.7	2.3	3.0
Nominal GDP (in billions of Afghanis)	1,227	1,318	1,378	1,452	1,555
Nominal GDP (in billions of U.S. dollars)	20.1	19.4	20.2	20.1	19.7
Consumer prices (period average) 2/	-0.7	4.4	5.0	3.0	4.0
Public finances (central government)	(In percent of GDP)				
Domestic revenues and grants	24.6	26.1	25.3	26.4	23.1
Domestic revenues	10.0	10.7	12.2	11.8	11.7
On-budget grants (excl. donors' direct spending outside the budget)	14.6	15.4	13.0	14.5	11.4
Expenditures	25.9	26.0	25.9	26.8	23.9
Operating 3/	19.2	18.9	18.4	19.4	18.4
Development	6.8	7.1	7.5	7.4	5.5
Operating balance (excluding grants) 4/	-9.2	-8.2	-6.2	-7.5	-6.7
Overall balance (including grants)	-1.4	0.1	-0.6	-0.4	-0.8
Public debt 4/ 5/	9.1	7.8	7.0	7.2	6.9
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	2.3	11.8	10.2	9.7	10.8
Broad money	3.1	9.7	4.1	9.0	9.0
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	580	619	796	891	956
Exports of goods (annual percentage change)	-9.9	6.7	28.6	11.8	7.3
Imports of goods (in millions of U.S. dollars)	7,616	6,590	7,103	7,408	7,562
Imports of goods (annual percentage change)	8.2	-13.5	7.8	4.3	2.1
Current account balance					
Excluding official transfers	-34.8	-31.0	-33.0	-34.5	-35.9
Including official transfers	2.9	7.3	5.0	5.3	-1.1
Foreign direct investment	0.8	0.6	0.3	0.5	0.5
Total external debt 5/	6.8	6.1	5.9	6.7	6.9
Gross international reserves (in millions of U.S. dollars)	6,808	7,357	8,139	8,251	8,249
Import coverage of reserves 6/	10.9	10.8	11.4	11.2	10.9
Exchange rate (average, Afghanis per U.S. dollar)	61.2	67.9	68.1	…	…

Sources: Afghan authorities 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

November 20, 2018

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT

KEY ISSUES

Background: The three-year arrangement under the Extended Credit Facility (ECF) for SDR 32.38 million (US$44.9 million, or 10 percent of quota) was approved on July 20, 2016. The first three reviews under the ECF were completed in May 2017, December 2017, and May 2018. The arrangement supports the government's reform agenda—as outlined in the Afghanistan National Peace and Development Framework (ANPDF)—to lay the foundation for higher growth and job creation and aims to catalyze continued support from donors.

Context: Violence swelled ahead of and during the October 20 parliamentary elections, but voter turnout was relatively strong despite severe operational challenges. Peace efforts have intensified, with the participation of the United States and regional powers. The poor security situation and electoral year uncertainties are undermining confidence and growth, and present risks to program implementation. A key focal point for this year is the Geneva Ministerial Conference on Afghanistan taking place on November 27–28, 2018. The conference aims to review reform progress, showcase the National Unity Government's achievements, and secure continued donor support.

Program performance: Program implementation has been satisfactory. All quantitative performance criteria and six of the seven structural benchmarks were met. The structural benchmark on asset declaration was implemented with delay. The authorities request the modification of December 2018 performance criteria on net international reserves and net credit to government, which were revised due to updates of the macroeconomic framework, and a re-phasing and extension of the arrangement to end-December 2019.

Staff supports the completion of the fourth review under the ECF arrangement, and the authorities' requests for (i) a modification of two performance criteria for end-December 2018 and (ii) a re-phasing and extension of the arrangement to end-December 2019.

Approved By
Taline Koranchelian and Martin Sommer

Discussions took place in Tashkent during September 25-October 2, 2018. The staff team comprised Christoph Duenwald (head), Mariusz Sumliński, Farid Talishli (all MCD), Daisuke Ishikawa (FAD), Ke Chen (LEG), Keiichi Nakatani (SPR), Olivier Frécaut (MCM consultant), and Murtaza Muzaffari (local economist). The team met Governor Sediq, Deputy Minister of Finance Payenda, 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 2016–19 ECF Arrangement

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 fourth review covers seven structural benchmarks (SBs) and eight performance criteria (PCs):

- SBs on: fiscal risks reduction via approval of a supplementary budget in line with the ECF's macroeconomic framework; fighting corruption and strengthening revenue administration, including through establishment of a national LTO; reducing the central bank's lender of last resort exposure to Kabul Bank; and improving fiscal risk oversight and corporate governance through adoption of PPP and state-owned entities' legislation conforming with good international practice.
- PCs for end-June 2018 on: government revenues, net credit to central government from the central bank, reserve money, FX reserves, and government's borrowing and lending.

1. **The first parliamentary elections since 2010 took place in October amid violence and severe operational challenges**. Voter turnout estimated at 45 percent was high considering the violence, with especially strong participation by women. Final election results will be available in December 2018, after which the focus will shift to the presidential election scheduled for April 2019.

Civilian Deaths and Injuries

(Thousands, January to September 2009 - 2018)

Source: United Nations Assistance Mission in Afghanistan.

2. **The armed conflict rages on, but there is a new impetus for peace**. Civilian casualties remain near record levels, most recently related to the election, including targeting of candidates. Increased attacks by Islamic State militants have added another dimension to the violence. Nevertheless, peace efforts continue through multiple channels involving global and regional powers. A prominent U.S. envoy was appointed as a special adviser to Afghanistan tasked with bringing the Afghan government and the Taliban to the negotiating table.

3. **A severe drought risks setting off a major humanitarian crisis, possibly compounded by returning Afghan migrants**. Afghanistan's worst drought in decades is leading to a collapse in agriculture in northern and western Afghanistan, with two-thirds of the country affected. A humanitarian crisis is unfolding, with increasing numbers of Afghans displaced from rural areas to cities. In addition, the slowdown in economic activity in Iran in the context of the re-imposition of U.S. sanctions is driving Afghan migrants back with nearly 600,000 returnees as of late September.[1] Meanwhile, some 1.4 million Afghan refugees in Pakistan have had their residency permits extended until end-June 2019.

4. **The upcoming Geneva donor conference will once again put the international spotlight on Afghanistan**. The goal of the November 27–28, 2018 conference is to confirm the international community's support of Afghanistan and for the Afghan government to showcase the progress it has made over the past several years, while renewing its commitment to development and reform. The conference will also be an opportunity to measure results against the $15.2 billion of grants committed in 2016 by the international community for Afghanistan. The Geneva conference is held between two pledging conferences, Brussels 2016, and the next pledging conference expected to be held in 2020.

RECENT DEVELOPMENTS

5. **In 2017, growth picked up marginally, but remained slow given weak confidence and political uncertainty, while inflation was low**. Real GDP growth at 2.7 percent, 0.5 percentage point above 2016 growth, reflected stronger services and agriculture.[2] In the first half of 2018, prices declined mostly due to lower food prices, as imports have substituted for domestic food shortages, and the demand effect of lower rural incomes owing to the drought. Starting in August, and partly reflecting the Afghani's depreciation, inflation returned to positive territory, picking up to 0.2 percent y/y in September (2.3 percent excluding food).

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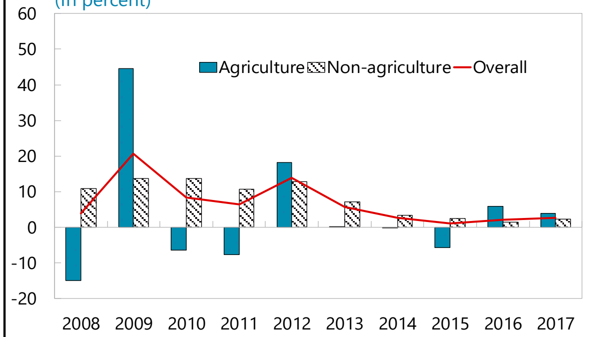
[1] See: UN International Organization for Migration, Afghanistan.

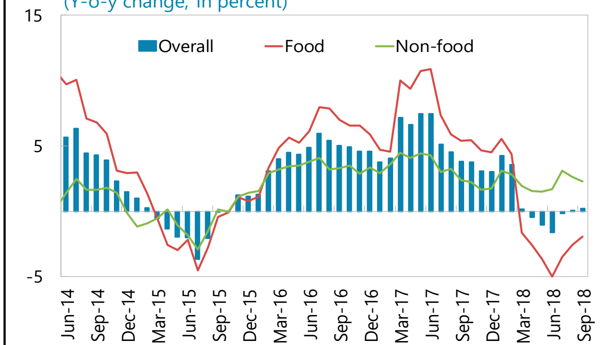
[2] Opium production is not included in GDP. The UN Office on Drugs and Crime estimates that it nearly doubled in 2017, with the farm-gate value of opium increasing by 55 percent.

Real GDP Growth
(In percent)



Source: Afghanistan authorities.

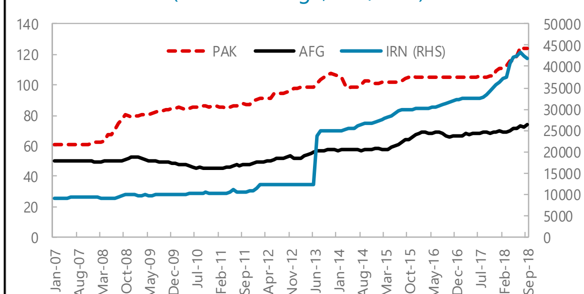
CPI Inflation
(Y-o-y change, in percent)



Source: Afghanistan authorities.

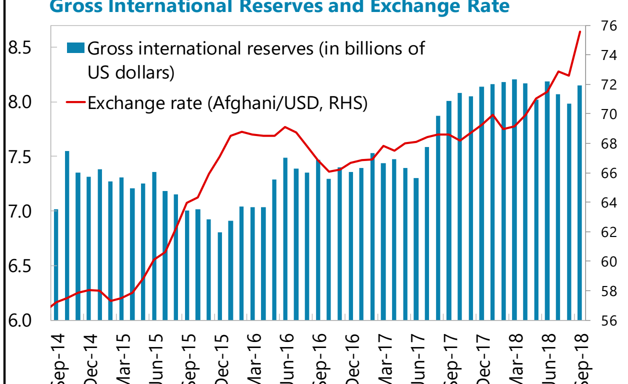
6. **The Afghani has depreciated against the U.S. dollar in 2018 amid regional currency pressures**. Depreciation peaked at over 9 percent in early October versus end-2017, with the Afghani reaching a record low against the U.S. dollar. On a nominal trade-weighted basis, the Afghani appreciated modestly reflecting the sizeable currency depreciations in Iran and Pakistan. To counter increased exchange rate volatility, Da Afghanistan Bank (DAB) raised sales of U.S. dollars by some 30 percent over the corresponding 2017 volumes. The pressure on the exchange rate partly reflects dollar outflows to Iran. The trade and current account deficits (before grants) remain very large despite efforts to increase exports via diversification of export destinations. Reflecting the latter, exports have risen by 30 percent in the first half of 2018, albeit from a low base.

Nominal Exchange Rate
(Period average, LCU/USD)



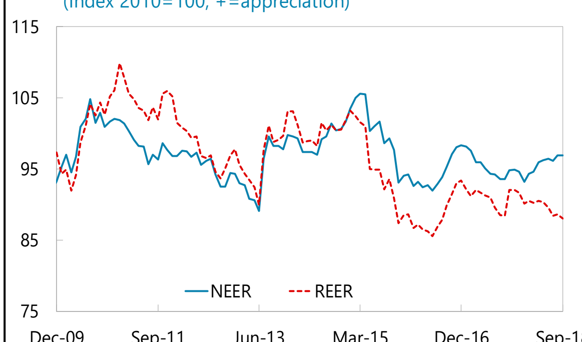
Source: Haver, Afghanistan authorities.

Gross International Reserves and Exchange Rate



Source: Afghanistan authorities.

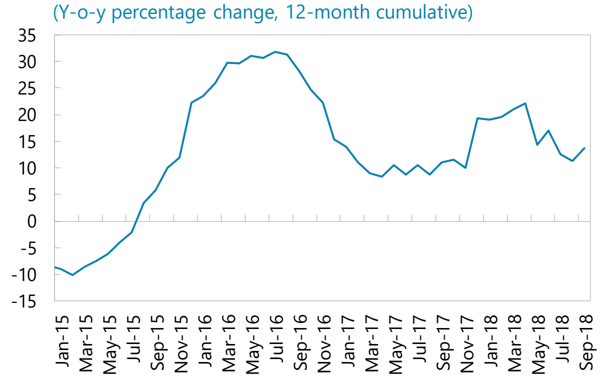
Exchange Rate
(Index 2010=100; +=appreciation)



Sources: Afghan authorities and IMF staff calculations.

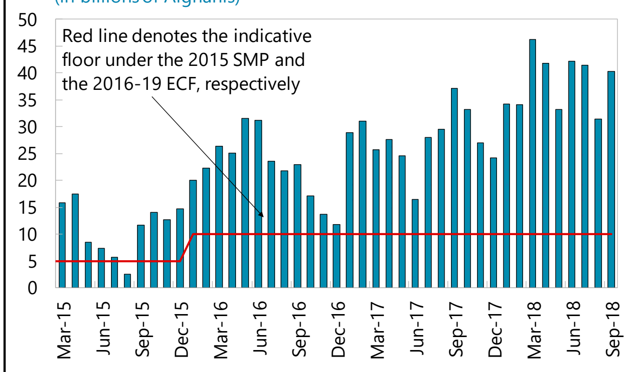
7. **Fiscal performance has generally been good**. As expected, revenue growth has moderated in 2018, as the impact of stronger revenue administration waned. Nevertheless, the June program revenue target was met and in September revenues grew by nearly nine percent over the last year. At end-June, operating grants exceeded the program forecast due to a large disbursement by the donor fund administered by the World Bank. Consequently, the treasury's cash balance was Af 42 billion, well above the program floor of Af 10 billion and remained above Af 40 billion in September. The operating deficit (excluding grants) at end-June exceeded the program's indicative target by Af 3 billion primarily due to increased spending, including traditional bonus payments to civil servants before Eid. In September, the deficit was below the indicative target by nearly Af 10 billion.

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



Sources: Afghan authorities and IMF staff calculations.

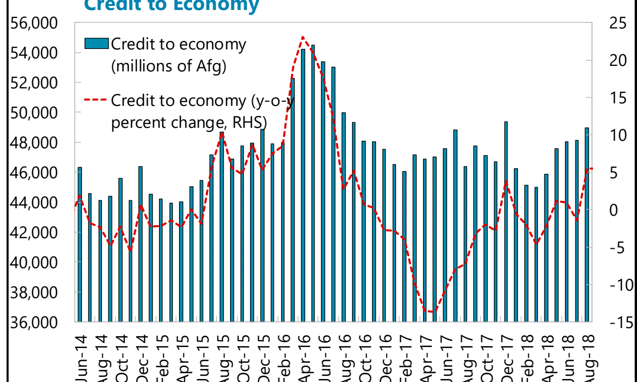
Total Treasury Discretionary Cash Balances
(In billions of Afghanis)



Sources: Afghan authorities and IMF staff calculations.

8. **Monetary aggregates have grown in line with the program**. Reserve money in local currency at end-June was below the program's ceiling (and below the indicative target at end-September), mainly because of larger-than-expected dollar sales by DAB. Credit to the economy has grown by 3.5 percent over the last year, albeit in part due to depreciation of the Afghani. As of end-August, the loan-to-deposit ratio was low at 16 percent. To incentivize credit growth, DAB reduced its interest rate on capital notes—which has constituted the lion's share of banks' income—to almost zero.

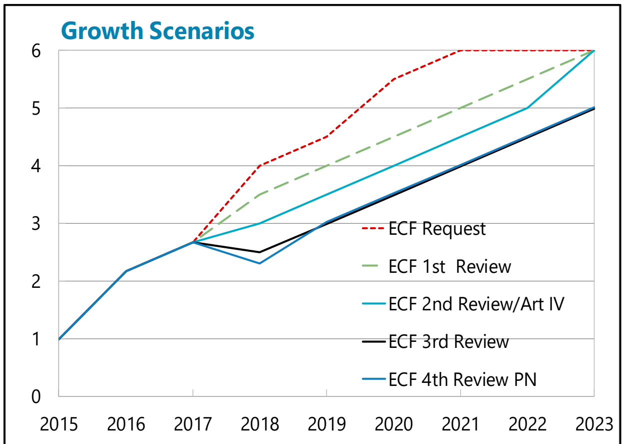
Credit to Economy



Source: Afghanistan authorities.

9. **Most financial soundness indicators are broadly stable but there are concerns about the health of a few private banks**. Nonperforming loans declined in 2018Q2 compared to a year earlier and profitability improved relative to Q1. A small number of private banks are assessed by DAB as facing serious problems, but DAB's supervisors are closely monitoring the implementation of corrective action plans.

OUTLOOK AND RISKS



Source: IMF staff calculations.

10. **The near-term growth outlook has weakened**. Reflecting the impact of the drought on agricultural output, the 2018 real GDP growth forecast was lowered to 2.3 percent from 2.5 percent previously. In 2019, agricultural output is expected to recover from the drought and with political uncertainty gradually declining following the presidential election the baseline scenario envisages a modest growth rebound to 3 percent. It assumes growth reaching 5 percent in 2023 conditional on no significant deterioration in security, continued reforms, and aid inflows. Over time, extractive industries[3] and regional trade integration could support growth and job creation. Still, under current projections, Afghanistan would not make much progress in reducing poverty (MEFP ¶13). Given developments so far and favorable regional food prices, the 2018 inflation forecast was reduced to 3 percent (compared to 5 percent in third review), and to 4.5 percent on average during 2019–20. The external position should remain comfortable with international reserves covering about 10 months of imports as aid inflows continue (albeit at reduced levels).

11. **The baseline scenario faces considerable downside risks**. In the near term, increased political instability due to the electoral cycle and violence raises uncertainty and may dampen economic activity.[4] The authorities emphasized that the uncertain impact and duration of the ongoing drought presents another risk. The domestic risks are compounded by mounting external risks. The re-imposition of U.S. sanctions on Iran[5] and economic difficulties in Pakistan may have adverse trade and financial spillovers, including via lower remittances and exports. On the upside, a durable peace agreement, boosting private sector confidence and investment and allowing re-composition of spending towards pro-growth investments in human and physical capital, would improve growth prospects significantly.

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[3] The development and growth potential of extractive industries should be supported by implementation of Extractive Industries Transparency Initiative standards. Implementation of these standards has been uneven recently, but the authorities remain committed to making progress.

[4] The previous election year, 2014, was marked by a sharp decline in growth and fiscal revenues, but the NATO troop withdrawal also played a significant role alongside stalled reforms and political uncertainty.

[5] On November 7, 2018, the U.S. State Department announced an exemption from sanctions of Iran's big port project in Chabahar in recognition of its importance to landlocked Afghanistan. The exemption applies to the development of Chabahar along with an attached railway project and Iranian petroleum shipments to Afghanistan.

POLICY DISCUSSIONS

A. Fiscal Issues

12. **The implementation of the 2018 supplementary budget approved by parliament in July (fourth review benchmark) is on track**. Staff and the authorities agreed an end-year deficit target (including grants) of 0.4 percent of GDP in line with the program. It was agreed that any deviations from the deficit target should be small and occur only in case of emergency expenditure needs that cannot immediately be grant-financed.

- Revenues and grants: Despite increased economic risks, the supplementary budget raised the forecast for domestic revenues relative to the initial budget. Staff favors the more conservative program target given the weaker outlook for growth and significant downside risks (see paragraph 13). On grants, the budget envisages increased operating and development grants, mostly from the World Bank and EU. These projections appear consistent with donor intentions, provided reforms continue.

- Expenditures: The revised projection envisages increased operating and development spending explained by higher security as well as higher pensions and civil service wage spending. Election-related spending is mostly off-budget and financed by grants. The increase in development spending, much of it new nondiscretionary projects commitments by donors, is for schools, hospitals, health care facilities, and other infrastructure projects including Af 0.3 billion for drought relief. Much of the drought relief is financed by donors. Recently, the EU and the UN's Central Emergency Response Fund announced respective allocations of US$23 million and US$35 million.

13. **In 2018, the main fiscal risks relate to the revenue projection**. The authorities emphasized downside risks to this year's revenue collections because of the elections and related political tensions, as well as disruptions caused by increased violence. They saw less potential for expenditure slippages, since risks due to drought or unexpected refugee and security outlays appeared contained as donors are financing these. The authorities noted that, in the event revenue risks materialize, they would be prepared to quickly rationalize discretionary spending as part of the budget implementation mandate. They agreed that any expenditure cuts should be undertaken while preserving priority social spending.

14. **The authorities emphasized that 2019 will be a very challenging year for the country's public finances**.[6] They noted that revenue collections will come under pressure from the uncertainties caused by the presidential elections, while grants are expected to be lower in 2019 because some of the donor programs that ended in 2018 have not yet been replaced with new commitments. Given these factors, revenue is conservatively projected to grow in line with nominal

[6] Since the 2019 budget was still under preparation at the time of the mission, the discussion focused on broad parameters.

GDP, and grants are assumed to decline by 3.3 percentage points of GDP relative to 2018. Reflecting these constraints, and with expenditures 2.9 percentage points of GDP lower than the projected 2018 outcome, staff and authorities agreed a revised overall deficit (including grants) target of 0.8 percent of GDP. While this implies a fiscal loosening compared to the deficit expected for 2018, the operating deficit excluding grants remains at 6.7 percent, a substantial tightening relative to the 2018 projected deficit of 7.5 percent. To counter any unfavorable revenue or grants developments next year, the authorities are prepared as part of a contingency plan to implement additional spending cuts of about 0.5 percent of GDP (from lower bonuses and cuts in operation and maintenance expenditures), while preserving priority social spending (MEFP ¶15).

15. **Staff and the authorities discussed progress on structural fiscal reforms**.

- Adoption of the value-added tax (VAT): The VAT is to be adopted at end-2020. The authorities have advanced towards this goal and will establish the VAT Steering Committee and the VAT Implementation Team before end-2018 (fifth review benchmark). The Committee is responsible for the strategic issues of the VAT implementation, and the VAT Team will manage VAT implementation and operation (MEFP ¶15, 19).

- Reforms of large taxpayers' office (LTO): The authorities have prepared a strategic implementation plan to establish a single national LTO (fourth review benchmark). In accordance with this plan, the authorities will establish a fully functional Single LTO and transfer cases from the existing provincial LTOs by end-October 2019 (sixth review benchmark, MEFP ¶19).

- Improvement in budget execution and management: Staff welcomed the higher execution rate of the development budget of 49 percent (32 percent a year ago) at end-September. The authorities agreed to continue efforts to make the budget an effective policy tool, including through improved execution, supported by realistic multi-year development programming. Staff welcomed the authorities' intention to strengthen public investment management, including implementation of forward baseline estimates along with effective project appraisal and selection (MEFP ¶22).

- Improvement of the legal framework for the state-owned corporations (SoE/Cs): Staff welcomed adoption of a new SoC law (fourth review benchmark). The new law provides the Ministry of Finance (MoF) with a clear mandate to monitor and oversee potential fiscal risks emanating from the SoCs. Staff encouraged further progress building on the revised legislation and the recommendations of Fund TA. The September 2018 FAD TA mission proposed *inter alia*: including fiscal risk statements in the Fiscal Strategy paper; constituting a new SoC Oversight Board; establishing a system for managing contingent liabilities; and amending the Public Financial Management (PFM) act to adequately manage issuance of guarantees (MEFP ¶17).

- **Development of a Public Private Partnership (PPP) framework**: The government plans to increase its reliance on PPPs to improve infrastructure financing and delivery. The PPP legislation was brought in line with good international practices (fourth review benchmark). The new law will be helpful for recognizing financial implications including contingent liabilities of the PPPs. In this context, staff advocated strengthening PFM including effective project appraisal, selection, and implementation.[7] The September 2018 FAD TA mission proposed *inter alia*: preparing pre-feasibility studies for projects in energy, agri-business, and public works; completing the portfolio review for all major capital projects; and setting up a technical committee to evaluate all large and major projects before any funding is allocated to them (fifth review benchmark; MEFP ¶15, 17, 22, 23).

Text Table 1. Public Private Partnerships Signed Projects (Power Plants) 1/

Project	Output *(Megawatts)*	Term *(Years)*	Cost (USD millions)	Debt/Equity (Percent)	Budget Investment (USD millions)
Kajaki Hydro	100	23	175	70/30	0
Mazar Independent	50	20	75	60/40	0
Bayat Independent	40	5	39	0/100	0
Kandahar Solar	30	20	39	40/24	14

Source: 2018 National Budget Document and the authorities' revisions in October 2018.

1/ The government guarantees purchase of energy from these projects and provides a partial risk guarantee backed by the World Bank with IDA funding (pending World Bank Executive Board's approval) to Mazar/Bayat IPP and provides a sovereign guarantee to Kajaki project. Budget investment, from the Viability Gap Fund, covers 36 percent of costs of Kandahar Solar. Projects not listed above are in very early stages of development and estimates of the required financing are not available.

- **Strengthen debt management**: Staff urged development of procedures for collecting and disseminating external borrowing plans as soon as they materialize. In that context, it is important to strengthen public debt monitoring and management, and planning for development projects to establish a project financing/borrowing program which includes possible public guarantees. When borrowing externally, the authorities should remain committed to seeking the concessional terms as agreed under the program after a careful assessment of their implications for debt sustainability (MEFP ¶23).

[7] These efforts are benefitting from World Bank assistance as well. The World Bank's PPP and Public Investment Advisory Project is providing US$40 million via an Infrastructure Project Preparation Facility (IPPF) to fund pre-feasibility and feasibility studies for public and PPP projects, and transaction advisory for PPP projects.

B. Monetary and Financial Sector Policies

16. **Staff encouraged DAB to remain committed to exchange rate flexibility**. The authorities explained that both domestic (political uncertainty, drought) and external (general U.S. dollar strength, developments in neighboring countries) factors had complicated monetary and exchange rate policy making over the past few months. They noted that they had sought to dampen excessive exchange rate volatility by increasing foreign exchange sales, while eschewing administrative measures, in the broader context of letting the Afghani move with market trends. Staff acknowledged the need to dampen excessive volatility, while allowing the exchange rate to act as shock absorber, especially given low inflation (MEFP ¶12, 16).

17. **Considering the financial sector's vulnerability, staff welcomed DAB's continued efforts to address shortcomings among the weak private banks**. The authorities noted that they have been strictly enforcing the corrective action plans agreed with the weak banks, and that the implementation rate of these plans is 70 percent on average. The weaknesses among private and publicly-owned banks generate some contingent fiscal liabilities, albeit limited due to the low level of financial intermediation. These risks should remain contained provided that close supervision continues. On August 1, 2018, Afghanistan Commercial Bank was placed under liquidation and its license was cancelled. DAB stressed that there had not been any contagion from this closure to other banks, that depositors had been repaid, and that asset recovery was proceeding. Going forward, staff encouraged continued efforts to strengthen the crisis prevention framework, with the authorities requesting the Fund's assistance on crisis management legislation. In this context, the forthcoming Financial Stability Committee (FSC) will provide a vehicle for DAB and MoF to cooperate on crisis preparedness and management. The authorities confirmed that the establishment of the FSC by end-2018 (fifth review benchmark; MEFP ¶33) is on track.

18. **Staff encouraged further progress in improving the performance of the state owned commercial banks (SOCBs) through a new corporate governance framework and individualized operational reform plans**. Progress had slowed temporarily in 2018Q3 owing to capacity constraints but is now regaining momentum. The World Bank is providing continued support in line with a strategy agreed with the authorities. Staff stressed the importance of adhering to the agreed strategy. A sound corporate governance framework for the SOCBs is to be established by end-2018 (fifth review benchmark; MEFP ¶28).

19. **The authorities noted that the recovery of Kabul Bank's stolen assets should be revived**. To this end, a structural benchmark for the sixth review was agreed that supports an accelerated process of asset recovery with the help of an internationally reputable forensic auditor. Progress with recovery of Kabul Bank's assets would help offset the fiscal cost of repayment of the lender of last resort exposure incurred by DAB, while signaling the authorities' commitment to fight corruption and strengthen credit discipline.

20. **Implementation of the "National Financial Inclusion Strategy," with World Bank support, due in May 2019, is on track**. The authorities confirmed their commitment to further promote financial inclusion and improve financial intermediation and the quality of financial services. They plan to introduce mobile money taking advantage of the high rate of ownership of mobile phones. Staff welcomed DAB's intention to increase demand for financial services by lowering their cost through the ongoing modernization of the payment systems and supported on-going efforts to prepare a legislative and institutional framework for issuance of sukuk. (MEFP ¶34, 35, 36).

21. **Revival of system-wide correspondent relationships with global banks remains a challenge**. Afghanistan exited the Financial Action Task Force's monitoring in June 2017. However, this was not followed by a system-wide revival of correspondent banking relationships as global banks remain concerned about low profitability of transactions and regional cross-border risks. These concerns, according to the authorities, make Afghan banks reluctant to serve certain customers, and could drive those transactions into the informal sector. Staff encouraged the authorities to monitor the situation, engage with foreign regulators, and ensure effective application of risk-based AML/CFT measures (MEFP ¶30).

C. Anti-Corruption Reforms

22. **The ECF arrangement supports the authorities' anti-corruption efforts, in particular criminalizing corruption and strengthening asset declaration requirements for public officials**. The legal frameworks have been upgraded with the new penal code criminalizing corruption, entering into force in February 2018, and the Law on Declaration and Registration of Assets of Officials and Government Employees, enacted and entering into force in September 2017. The high-ranking officials who have not declared their assets for 2018 have been reported and sanctioned as required by the law (MEFP ¶39). The authorities will advance implementation of these frameworks. They plan to publish the results of the Anti-Corruption Justice Center (ACJC)'s activities, including prosecutions and convictions of major corruption cases that fall under its jurisdiction by end-January 2019 (fifth review benchmark; MEFP ¶40). They also plan to publish information on the implementation of the enhanced asset declaration framework among senior officials by end-October 2019 (sixth review benchmark). In addition, DAB continues its efforts to promote effective implementation of risk-based AML/CFT measures to detect potential proceeds of corruption. A draft anti-corruption law[8] has been approved by cabinet and the authorities are working towards its enactment. During the mission, staff made a presentation on the Fund's new governance framework and discussed its potential implications for Afghanistan.

[8] Staff has not had an opportunity to review the draft law or discuss it with the authorities.

D. Debt Sustainability Analysis

23. **Afghanistan's risk of debt distress remains high**. Public external debt is expected to remain low in the medium term given continued substantial grants from donors. In the long term, as loans replace grants, sustainability indicators would breach the relevant thresholds. The authorities agreed with the DSA analysis and requested TA on debt management and the new debt sustainability framework for low income countries.

FOURTH REVIEW

24. **All end-June 2018 PCs were met** (Table 11), with some over-performance on domestic revenue and net international reserves (NIR).[9]

25. **Regarding the SBs** (Table 12):

- All end-June and end-September SBs were met.
- The asset declaration benchmark due at end-August was not met. It was implemented with delay on November 13, 2018.[10] The benchmark calls for publication of sanctions imposed against officials who did not comply with the requirements of the law on asset declaration.

26. **The program's calibration and the capacity to repay the Fund remain adequate**. The current and projected reserves are adequate, and public debt is expected to be sustainable, given continued donor support. Upon completion of the fourth review, a fifth disbursement of SDR 4.5 million would be made.

27. **Risks to the program remain high**. They include regional and weather-related risks, security, political and social instability, and potentially lower domestic revenues and aid precipitating spending cuts which would adversely impact growth.

[9] As noted in paragraph 7, the indicative target on the operating balance excluding grants was missed.

[10] The information on sanctions imposed against officials who have not declared their assets for 2018 is published in Dari and in English at: http://www.aop.gov.af/?page_id=3632

FUTURE REVIEWS

28. **Fifth review**: Owing to the revision of the macroeconomic framework, the authorities requested modification of performance criteria for December 2018 on net international reserves and net credit to government.[11] Staff supports this request. As mentioned above, staff and the authorities agreed on a new structural benchmark for the fifth review to set up a technical committee that will evaluate all large and major projects before any funding is allocated to them, due end-March 2019, based on TA provided by the September 2018 FAD TA mission (Table 13).

29. **Sixth review**: The mission agreed end-June 2019 PCs, and preliminary SBs covered by the sixth review. The SBs will be discussed with stakeholders to ensure consistency with the ANPDF and donors' initiatives and conditionality, and therefore they are not proposed for IMF Executive 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 2020 budget in line with the macroeconomic framework agreed under the ECF arrangement; (ii) implementation of the requirements on asset declaration; (iii) continued reduction of DAB's lender of last resort exposure due to Kabul Bank; (iv) action to revive Kabul Bank assets collection; (v) establishment of a single LTO; (vi) strengthen the governance of the mining industry; and (vii) provide a legal basis for the fiscal oversight mandate of the MoF by amending the Public Finance and Expenditure Management Law.

30. **Extension of the arrangement**: The authorities requested a re-phasing and extension of the ECF until end-December 2019. The extension would provide enough time for the completion of the sixth review, enable the implementation of additional reforms, and provide uninterrupted engagement with the Fund through the election year.

OTHER ISSUES

31. **Data quality has shortcomings, hampering evidence-based policy making**. The national accounts (coverage, frequency, reliability), BOP data (financial account data, large errors and omissions, timeliness), and inter-sectoral consistency need strengthening. Staff discussed the related TA and encouraged timely implementation of the experts' recommendations.

32. **The authorities are considering adopting Article VIII**. The adoption of Article VIII, Sections 2(a), 3 and 4 initiated in October 2017 will take time.

[11] The PC on NIR was revised upwards by US$100 million as grant inflows exceeded the projections. Net credit to government was revised downward by Af 5.5 billion (US$70 million) due to higher government spending.

STAFF APPRAISAL

33. **Afghanistan's policymakers have continued to make progress implementing reforms in a highly challenging environment**. At the upcoming Geneva Ministerial Conference on Afghanistan, the authorities will have the opportunity to showcase these achievements, for which they deserve the international community's sustained support. Guided by the Afghanistan National Peace and Development Framework, and with the assistance of international partners, they have implemented important reforms in the fiscal, financial, and governance areas, including strengthening the resilience of the country's institutions. In particular, the authorities have diligently implemented their reform program supported by the ECF. They have done so in the face of violence and an armed struggle with insurgents that shows no signs of easing.

34. **A severe drought, violence, and political uncertainty are undermining economic activity, and muddying the outlook**. The unrelenting insurgency, compounded by a devastating drought and political uncertainty during the electoral cycle, is hurting confidence, investment, private sector development, and job creation. With real GDP growing at about the same rate as the population, little progress is being made in reducing poverty and improving the living standards of Afghans. A slowdown in economic activity and market volatility in neighboring countries—Afghanistan's main sources of remittances and imports—add to the uncertainty. Reflecting the drought, growth in 2018 is likely to dip to 2.3 percent before rising to 3 percent in 2019 as agricultural output recovers. Contingent on no further worsening in violence, continued reforms, and sustained aid inflows, growth could accelerate to 5 percent by 2023. However, this scenario is subject to downside risks if violence intensifies, aid flows falls short, or reforms falter. On the other hand, Afghanistan stands to benefit from a tangible peace dividend—increased confidence, investment, and growth—if a durable agreement were to be reached.

35. **These circumstances put a premium on sound macroeconomic policies**. While lasting peace would be the single biggest contributor to stronger growth prospects, continued macroeconomic policy discipline and decisive reforms would help lay the foundations for stronger private sector activity. In particular, actions to boost the growth impact of public spending, to forcefully fight corruption, and to shore up the financial sector and foster financial inclusion would put Afghanistan on a higher growth trajectory.

36. **Fiscal policy should focus on sustainability considering risks to revenues and grants, and limited financing options**. While a modest loosening of the fiscal stance in 2019 relative to 2018 is warranted given the challenging outlook for revenues and grants, the 2019 budget should include contingency plans in case downside risks materialize. Beyond 2019, an important fiscal policy goal is to bring the overall fiscal position including grants back to balance while continuing to reduce the operating deficit excluding grants. In addition, any scaling up of the public investment program should be gradual in light of limited capacity to manage debt, significant macroeconomic risks, and limited fiscal space. Fiscal reforms should focus on raising revenue by broadening the tax base and upgrading public financial and investment management. Reforms introduced in the 2018 budget, including the elimination of automatic carryovers, are producing welcome improvements in

budget execution, and the introduction in the budget of a medium-term framework at the project/program level should help strengthen the consistency between macroeconomic and fiscal projections.

37. **The authorities have made notable progress in strengthening their ability to control fiscal risks**. The new SOC and PPP laws are in line with good international practices and will support sustainable public finances and control of fiscal risks. More generally, going forward, there is a need to ensure that any policy initiatives do not undermine the authorities' fiscal objectives, and that they are considered in consultation with the Fund.

38. **DAB should remain committed to exchange rate flexibility while targeting a moderate inflation rate**. When faced with exchange rate pressures, DAB should seek to dampen excessive volatility while allowing the exchange rate to act as a shock absorber and continuing to avoid resorting to administrative measures.

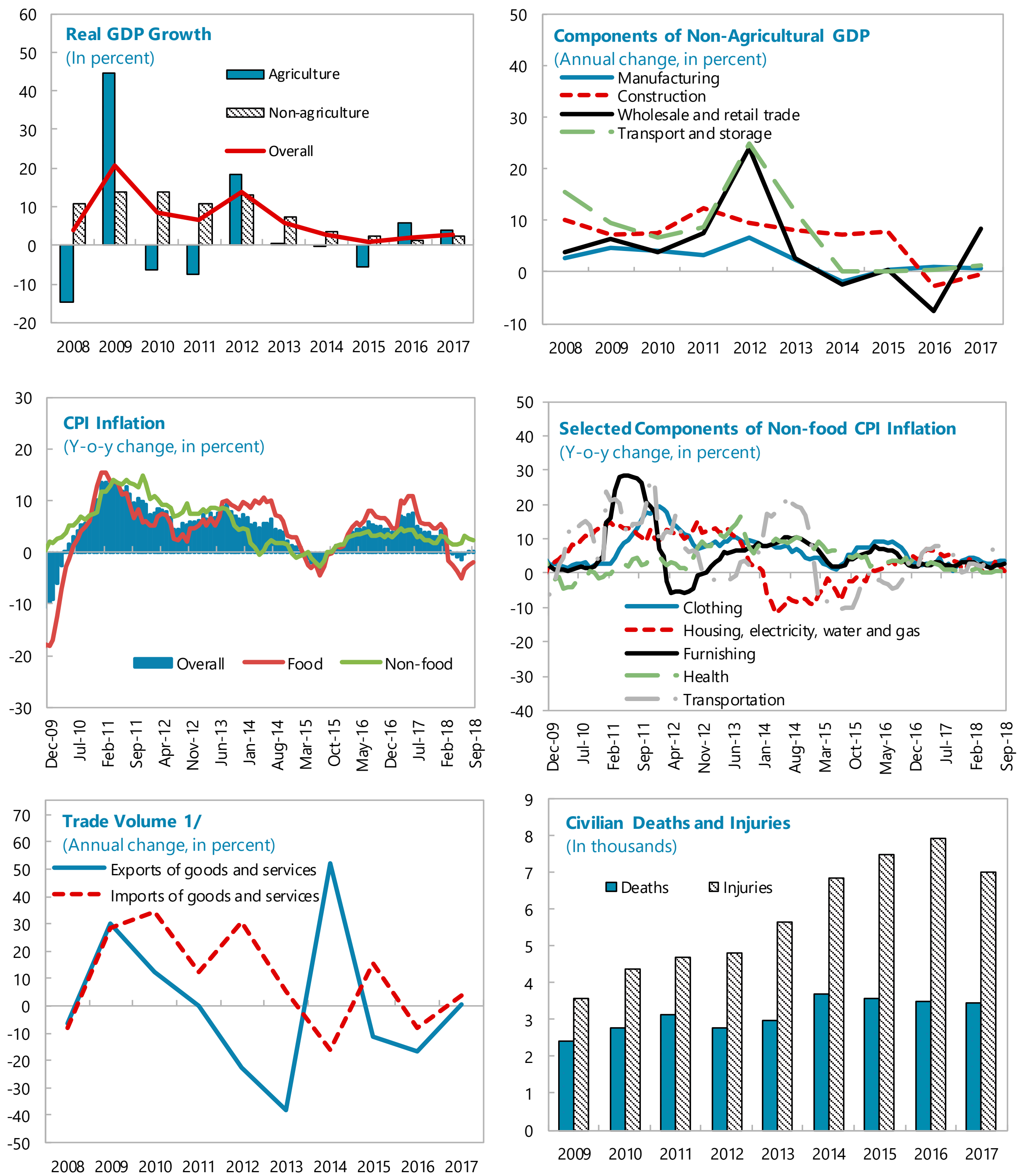
39. **Safeguarding financial stability remains a key policy priority**. DAB should continue to address the shortcomings among the weak private banks and promote effective AML/CFT measures. Further progress is needed to improve the performance of the SOCBs through both a new corporate governance framework and individualized operational reform plans. The authorities' intention to foster financial intermediation through payment systems improvements and mobile banking is welcome. The reduction in DAB's lender of last resort exposure to Kabul Bank should continue, and asset recovery efforts should be revived.

40. **The strengthening of the legal framework for fighting corruption, including by criminalizing corruption and adopting a law on asset declarations by public officials, is commendable**. A key priority going forward is to ensure implementation and enforcement of these frameworks. Other anti-corruption efforts, including under the National Strategy for Combating Corruption, should be pursued.

41. **The authorities should continue to improve the quality and timeliness of economic data in support of evidence-based policy making**. Real and external sector statistics, as well as inter-sectoral data consistency, need improvement.

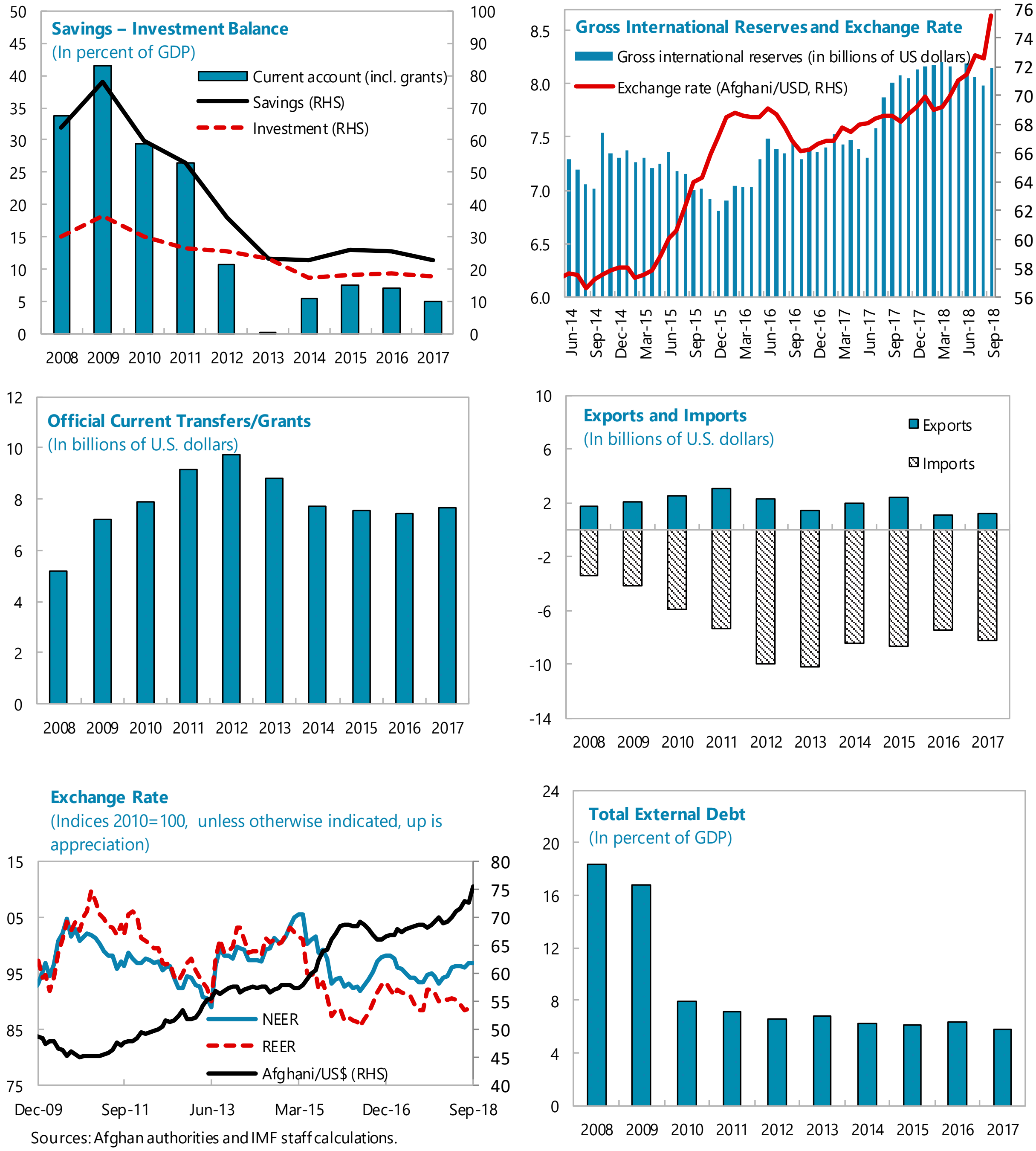
42. **Considering the satisfactory performance, staff supports the completion of the fourth review under the Extended Credit Facility arrangement and the authorities' requests for modification of two December 2018 performance criteria on net international reserves and net credit to government, and for a re-phasing and extension of the arrangement to end-December 2019**.

Figure 1. Islamic Republic of Afghanistan: Real Sector



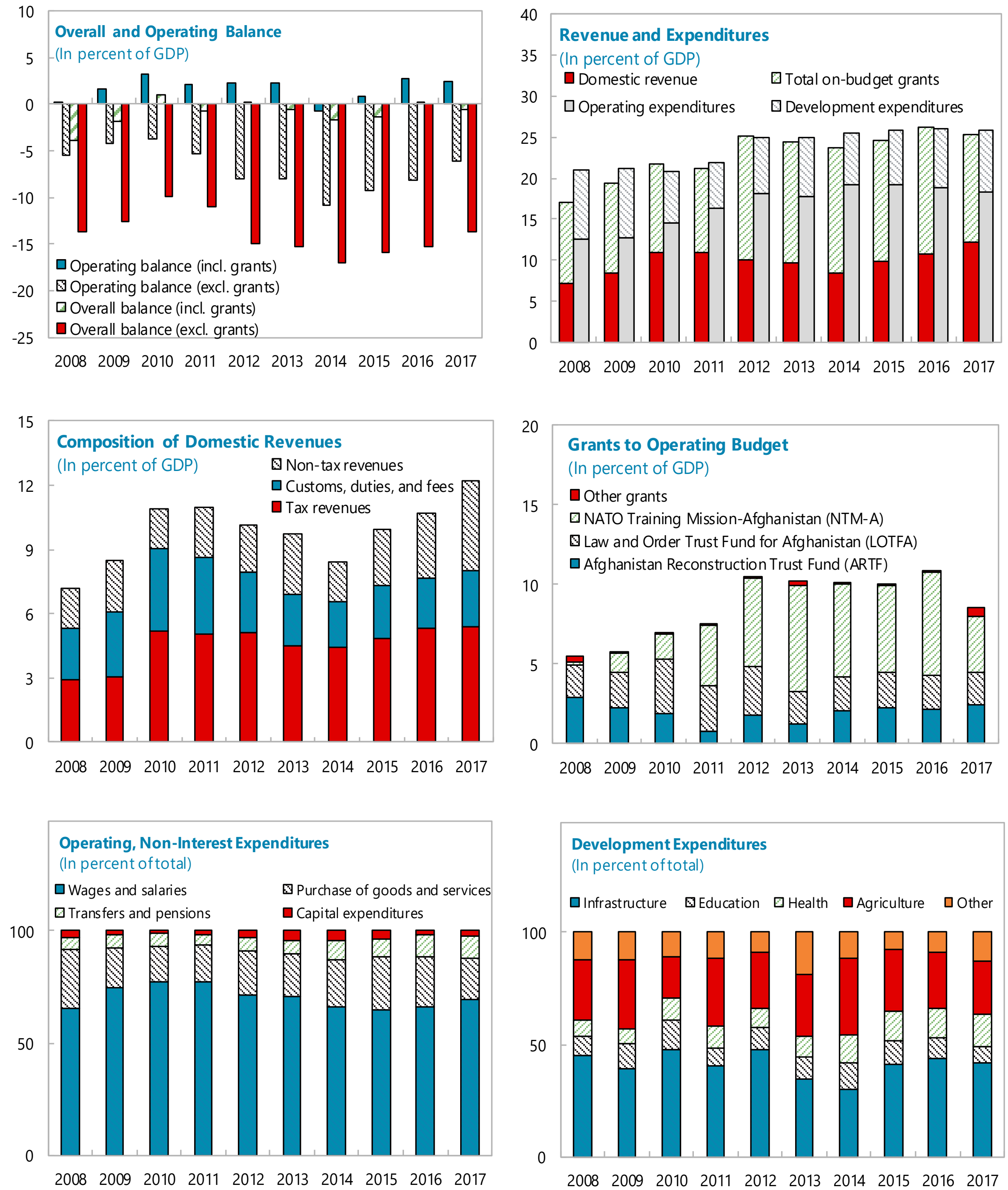
Sources: Afghan authorities, United Nations Assistance Mission in Afghanistan, and IMF staff calculations.
1/ In 2016, the decline in exports volumes reflects a fall in growth of services exports for two reasons: the fall in imports growth (insurance and freight are recorded as service exports) and in 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



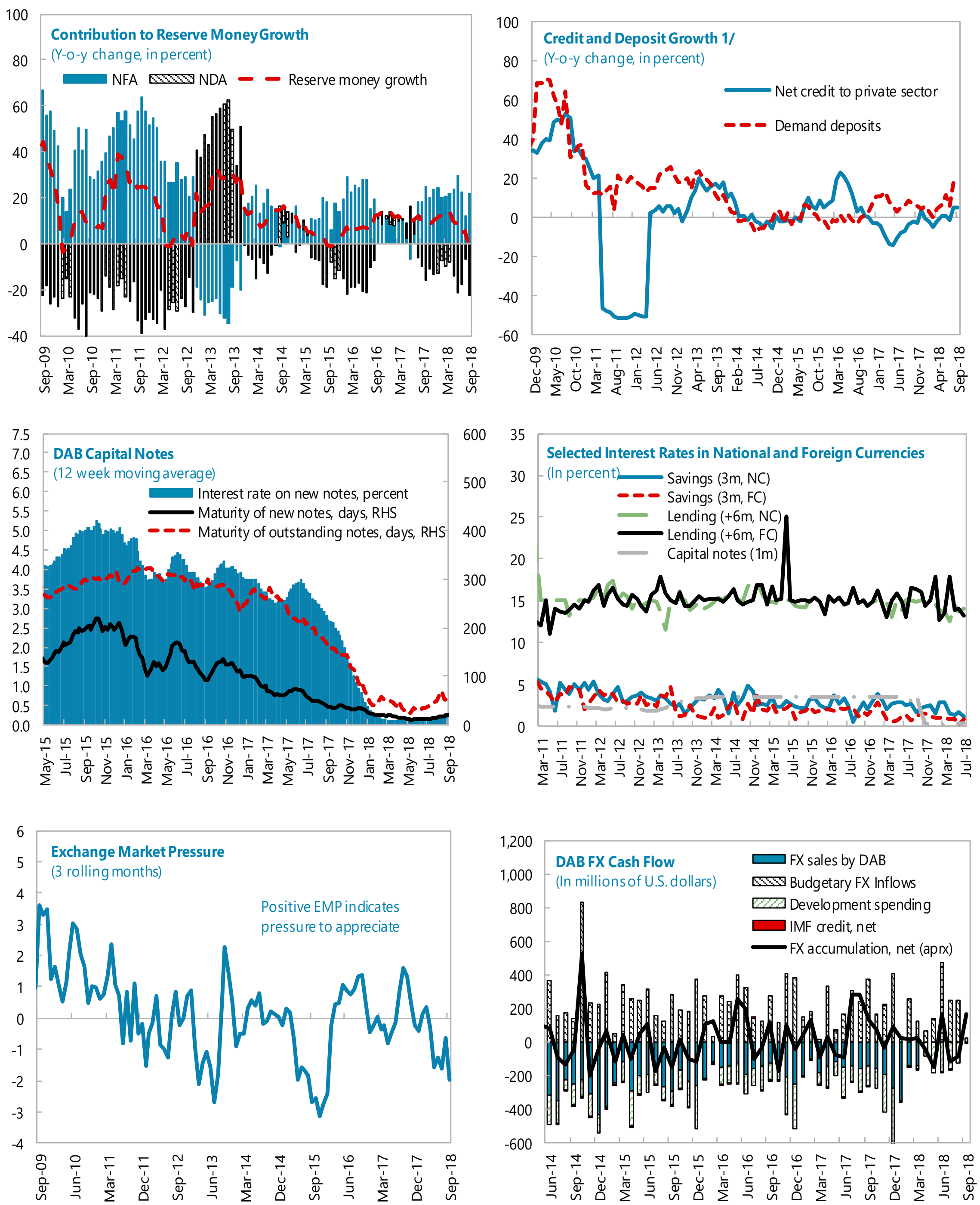
Sources: Afghan authorities and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities and IMF staff calculations.

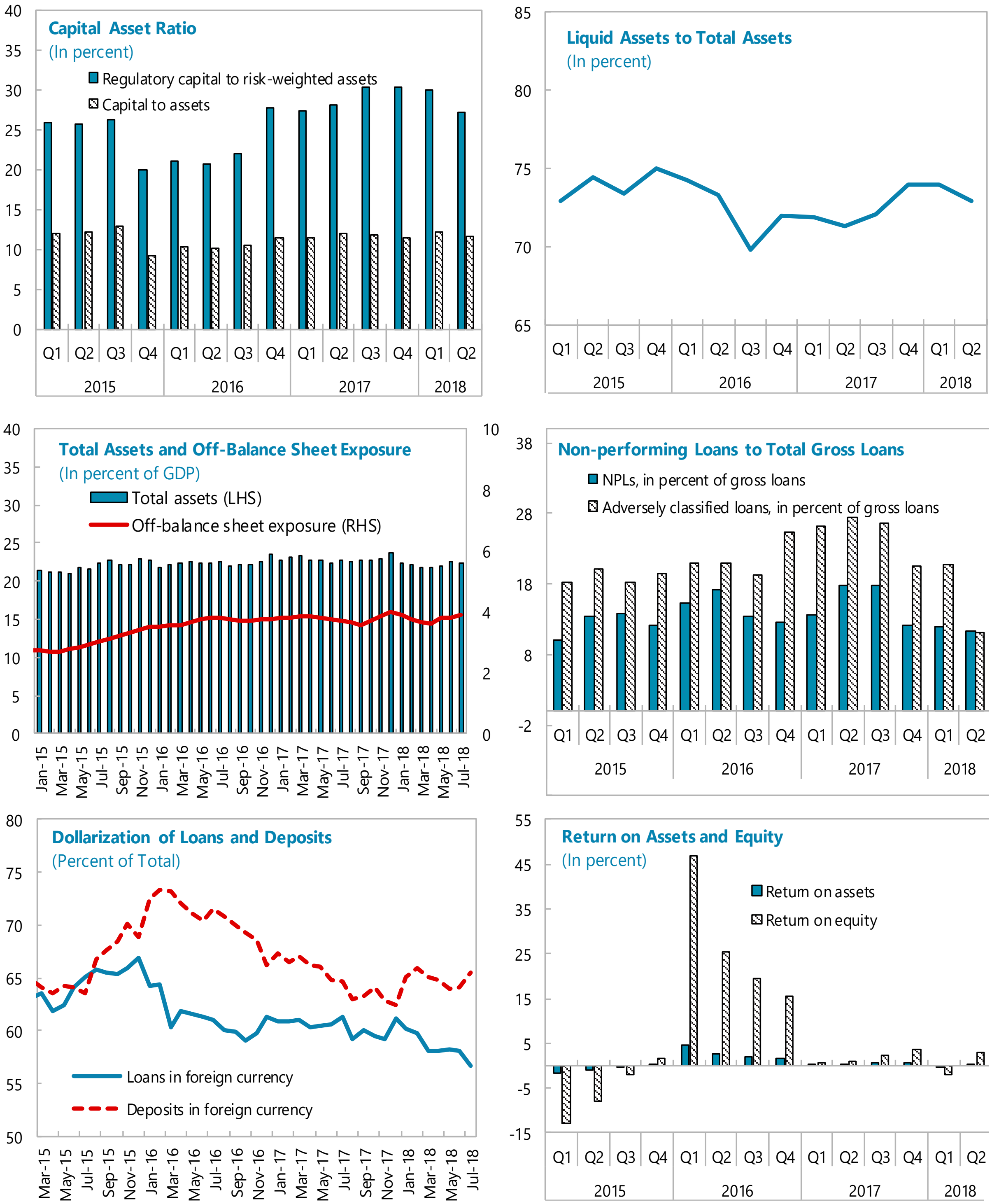
Figure 4. Islamic Republic of Afghanistan: Monetary Sector



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$570; 2017)
(Poverty rate: 54.5 percent; 2016-2017)
(Main exports: fruits and vegetables, US$ 216.2 million; carpets, US$ 39.0 million, 2016)

	2016	2017	2018		2019
			ECF Third review	Proj.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	2.2	2.7	2.5	2.3	3.0
Nominal GDP (in billions of Afghanis)	1,318	1,378	1,532	1,452	1,555
Nominal GDP (in billions of U.S. dollars)	19.4	20.2	21.7	20.1	19.7
Consumer prices (period average)	4.4	5.0	5.0	3.0	4.0
Food	5.7	6.9	…	…	…
Non-food	3.2	3.2	…	…	…
Consumer prices (end of period)	4.6	3.0	5.0	3.0	4.0
Investment and savings	(In percent of GDP)				
Gross domestic investment	18.5	17.7	17.0	17.1	15.5
Of which: Private	5.6	5.9	6.1	5.5	6.5
Gross national savings	25.8	22.7	17.6	22.4	14.4
Of which: Private	12.7	11.4	7.1	11.1	6.2
Public finances (central government)					
Domestic revenues and grants	26.1	25.3	23.1	26.4	23.1
Domestic revenues	10.7	12.2	11.2	11.8	11.7
On-budget grants (excl. donors' direct spending outside the budget)	15.4	13.0	11.9	14.5	11.4
Expenditures	26.0	25.9	23.6	26.8	23.9
Operating 2/	18.9	18.4	16.8	19.4	18.4
Development	7.1	7.5	6.8	7.4	5.5
Operating balance (excluding grants) 3/	-8.2	-6.2	-5.5	-7.5	-6.7
Overall balance (including grants)	0.1	-0.6	-0.4	-0.4	-0.8
Public debt 4/ 5/	7.8	7.0	6.8	7.2	6.9
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	11.8	10.2	10.7	9.7	10.8
Currency in circulation	10.6	2.2	10.0	10.0	8.0
Broad money	9.7	4.1	10.7	9.0	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	796	748	891	956
Exports of goods (annual percentage change)	6.7	28.6	12.6	11.8	7.3
Imports of goods (in millions of U.S. dollars)	6,590	7,103	7,443	7,408	7,562
Imports of goods (annual percentage change)	-13.5	7.8	3.7	4.3	2.1
Merchandise trade balance	-30.7	-31.2	-39.7	-39.7	-36.8
Current account balance					
Excluding official transfers	-31.0	-33.0	-34.9	-34.5	-35.9
Including official transfers	7.3	5.0	0.6	5.3	-1.1
Foreign direct investment	0.6	0.3	0.5	0.5	0.5
Total external debt 4/	6.1	5.9	6.3	6.7	6.9
Gross international reserves (in millions of U.S. dollars)	7,357	8,139	8,280	8,251	8,249
Import coverage of reserves 6/	10.8	11.4	10.2	11.2	10.9
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. Opium exports in 2015 amounted US$ 2.0 billion.
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
						Proj.			
Output and prices 1/				(Annual percentage change, unless otherwise indicated)					
Real GDP	1.0	2.2	2.7	2.3	3.0	3.5	4.0	4.5	5.0
Nominal GDP (in billions of U.S. dollars)	20.1	19.4	20.2	20.1	19.7	20.6	21.9	23.4	25.3
Consumer prices (period average)	-0.7	4.4	5.0	3.0	4.0	5.0	5.0	5.0	5.0
Investment and savings				(In percent of GDP, unless otherwise indicated)					
Gross domestic investment	18.5	18.5	17.7	17.1	15.5	16.3	17.3	20.3	21.0
Of which: Private	5.8	5.6	5.9	5.5	6.5	7.0	7.1	8.9	9.8
Gross national savings	21.4	25.8	22.7	22.4	14.4	15.9	16.8	18.0	17.9
Of which: Private	10.0	12.7	11.4	11.1	6.2	6.6	6.6	6.6	6.6
Public finances (central government)									
Domestic revenues and grants	24.6	26.1	25.3	26.4	23.1	27.2	29.0	30.1	31.2
Domestic revenues	10.0	10.7	12.2	11.8	11.7	11.8	12.8	14.0	15.4
On-budget grants (excl. donors' direct spending outside the budget)	14.6	15.4	13.0	14.5	11.4	15.4	16.2	16.1	15.8
Expenditures	25.9	26.0	25.9	26.8	23.9	27.2	28.9	30.1	31.2
Operating 2/	19.2	18.9	18.4	19.4	18.4	19.7	20.2	21.4	22.5
Development	6.8	7.1	7.5	7.4	5.5	7.5	8.7	8.7	8.7
Operating balance (excluding grants) 3/	-9.2	-8.2	-6.2	-7.5	-6.7	-7.9	-7.4	-7.4	-7.1
Overall budget balance (including grants)	-1.4	0.1	-0.6	-0.4	-0.8	0.0	0.1	0.0	0.0
External sector 1/									
Merchandise trade balance	-35.1	-30.7	-31.2	-32.4	-33.5	-32.5	-31.0	-29.8	-28.0
Current account balance, excluding official grants	-34.8	-31.0	-30.9	-32.3	-33.7	-32.8	-31.2	-32.3	-30.4
Current account balance, including official grants	2.9	7.3	5.0	5.3	-1.1	-0.4	-0.5	-2.3	-3.1
Gross reserves (in millions of U.S. dollars)	6,808	7,357	8,139	8,251	8,249	8,248	8,246	8,245	8,244
Import coverage of reserves 4/	10.9	10.8	11.4	11.2	10.9	10.5	10.0	9.7	9.7
Memorandum items:									
Total public debt 5/	9.1	7.8	7.0	7.2	6.9	7.1	7.3	7.5	7.8
Of which: External debt	6.8	6.1	5.9	6.7	6.9	6.9	6.9	6.9	6.9
Domestic debt	2.3	1.7	1.1	0.5	0.0	0.1	0.3	0.6	0.9
Sukuk	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.6	0.9
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/	595	561	570	558	539	556	583	616	656
Donors' direct spending outside the budget	23.0	22.8	22.8	23.0	21.2	17.0	14.6	13.9	11.5

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
				Initial Budget	Revised Budget	ECF 3rd Review	Proj.			Proj.		
Revenues and grants	301.4	344.3	347.8	360.8	399.1	354.4	382.6	359.2	460.6	534.8	610.6	697.7
Domestic revenues	122.3	141.1	168.3	169.5	173.5	172.0	172.0	182.0	199.9	236.4	284.0	345.1
Tax revenues	89.7	101.2	110.5	121.9	119.9	114.5	115.2	121.7	134.5	161.8	202.5	229.1
Income, profits, and capital gains	32.3	36.4	38.7	27.7	41.8	…	…	…	…	…	…	…
International trade and transactions	30.4	31.1	35.7	50.6	39.1	…	…	…	…	…	…	…
Goods and services	21.1	27.9	32.8	33.6	36.0	…	…	…	…	…	…	…
Other	5.9	5.8	3.2	10.1	2.9	…	…	…	…	…	…	…
Nontax revenues	32.6	39.9	57.8	47.6	53.6	57.5	56.8	60.3	65.4	74.6	81.5	116.0
Grants to operating budget 1/	122.8	143.1	118.4	104.5	118.7	117.8	117.7	98.6	164.3	173.1	185.6	197.1
ARTF	27.4	28.9	34.2	5.0	8.5	…	…	…	…	…	…	…
LOTFA	27.5	27.4	27.2	29.4	29.4	…	…	…	…	…	…	…
CSTC-A	67.8	86.8	48.9	62.9	71.7	…	…	…	…	…	…	…
Other grants	0.2	0.1	8.1	7.3	9.2	…	…	…	…	…	…	…
Grants to development budget 2/	56.2	60.1	61.1	86.8	106.8	64.6	92.9	78.6	96.4	125.3	141.0	155.5
Total expenditures	318.3	342.8	356.5	377.2	407.3	361.1	388.5	371.7	460.6	533.6	610.4	697.5
Operating expenditures	235.3	248.9	253.0	266.1	284.3	256.9	281.5	286.4	333.8	372.9	434.1	503.2
Of which: Security	145.1	153.0	138.9	140.2	…	…	…	…	…	…	…	…
Wages and salaries	152.3	164.5	174.2	174.4	176.7	…	…	…	…	…	…	…
Purchases of goods and services 3/	55.8	55.0	47.9	42.1	47.7	…	…	…	…	…	…	…
Transfers, subsidies, and other	1.3	2.2	2.7	15.0	21.2	…	…	…	…	…	…	…
Pensions	17.6	21.5	22.1	21.9	25.9	…	…	…	…	…	…	…
Capital expenditures	7.8	4.9	5.3	12.7	12.9	…	…	…	…	…	…	…
Interest	0.6	0.8	0.9	…	…	0.7	0.6	0.6	0.5	0.7	1.1	1.7
Development expenditures:	82.9	93.9	103.5	111.1	122.9	104.2	107.0	85.3	126.8	160.7	176.3	194.3
o/w discretionary 4/	18.0	29.6	42.4	52.1	57.7	…	…	…	…	…	…	…
Infrastructure and natural resources	33.9	40.8	43.4	42.0	49.2	…	…	…	…	…	…	…
Education	8.7	8.7	7.6	7.4	7.9	…	…	…	…	…	…	…
Health	11.2	12.4	14.5	11.1	12.3	…	…	…	…	…	…	…
Agriculture and rural development	22.7	23.4	24.7	29.5	30.0	…	…	…	…	…	…	…
Other	6.4	8.6	13.2	21.0	23.6	…	…	…	…	…	…	…
Operating balance excluding grants	-113.0	-107.8	-84.7	-96.6	-110.8	-84.9	-109.5	-104.4	-133.9	-136.5	-150.2	-158.1
Overall budget balance including grants	-16.9	1.6	-8.7	-16.4	-8.2	-6.7	-5.9	-12.5	0.0	1.2	0.2	0.1
Float and discrepancy 5/	11.2	8.2	22.6	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	5.7	-28.6	-13.9	…	…	6.7	5.9	12.5	0.0	-1.2	-0.2	-0.1
Sale of nonfinancial assets	0.0	2.1	2.8	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.6	-0.3	-0.2	…	…	6.3	5.7	6.3	7.4	8.5	9.6	11.4
Domestic (net)	5.0	-30.4	-16.5	…	…	0.3	0.2	6.2	-7.4	-9.7	-9.8	-11.5
Central bank, change in	5.0	-30.4	-16.5	…	…	0.3	0.2	6.2	-9.4	-13.9	-16.3	-18.3
Government deposits	2.7	-4.5	-8.9	…	…	8.4	8.3	13.4	-8.8	-13.3	-15.8	-17.9
Claims on government	2.3	-25.9	-7.7	…	…	-8.1	-8.1	-7.2	-0.6	-0.6	-0.5	-0.4
Credit from DAB (IMF accounts)	1.7	-20.6	0.0	…	…	-0.3	-0.3	0.3	-0.6	-0.6	-0.5	-0.4
Promissory note (- = repayment)	0.6	-5.3	-7.7	…	…	-7.8	-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	2.1	4.2	6.5	6.8
Promissory note (end-of-period stock)	28.3	23.0	15.3	7.5	7.5	7.5	7.5	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 6/	32.9	38.6	38.8	41.0	40.6	41.0	40.6	43.9	…	…	…	…

Source: Afghan authorities and Fund staff estimates and projections
Note: Government Finance Statistics Manual 1986 presentation
Overall budget balance including grants for 2018 revised 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/ Some of the grants to development budget can finance operating expenditures.
3/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.
4/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.
5/ Positive number indicates that expenditures have been recorded, but not yet executed.
6/ 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
				Initial Budget	Revised Budget	ECF 3rd Review	Proj.			Proj.		
Revenues and grants	24.6	26.1	25.3	23.6	27.5	23.1	26.4	23.1	27.2	29.0	30.1	31.2
Domestic revenues	10.0	10.7	12.2	11.1	12.0	11.2	11.8	11.7	11.8	12.8	14.0	15.4
Tax revenues	7.3	7.7	8.0	8.0	8.3	7.5	7.9	7.8	8.0	8.8	10.0	10.3
Income, profits, and capital gains	2.6	2.8	2.8	1.8	2.9	…	…	…	…	…	…	…
International trade and transactions	2.5	2.4	2.6	3.3	2.7	…	…	…	…	…	…	…
Goods and services	1.7	2.1	2.4	2.2	2.5	…	…	…	…	…	…	…
Other	0.5	0.4	0.2	0.7	0.2	…	…	…	…	…	…	…
Nontax revenues	2.7	3.0	4.2	3.1	3.7	3.8	3.9	3.9	3.9	4.0	4.0	5.2
Grants to operating budget 1/	10.0	10.9	8.6	6.8	8.2	7.7	8.1	6.3	9.7	9.4	9.2	8.8
ARTF	2.2	2.2	2.5	0.3	0.6	…	…	…	…	…	…	…
LOTFA	2.2	2.1	2.0	1.9	2.0	…	…	…	…	…	…	…
CSTC-A	5.5	6.6	3.5	4.1	4.9	…	…	…	…	…	…	…
Other grants	0.0	0.0	0.6	0.5	0.6	…	…	…	…	…	…	…
Grants to development budget 2/	4.6	4.6	4.4	5.7	7.4	4.2	6.4	5.1	5.7	6.8	7.0	7.0
Total expenditures	25.9	26.0	25.9	24.6	28.1	23.6	26.8	23.9	27.2	28.9	30.1	31.2
Operating expenditures	19.2	18.9	18.4	17.4	19.6	16.8	19.4	18.4	19.7	20.2	21.4	22.5
Of which: Security	11.8	11.6	10.1	9.2	…	…	…	…	…	…	…	…
Wages and salaries	12.4	12.5	12.6	11.4	12.2	…	…	…	…	…	…	…
Purchases of goods and services 3/	4.5	4.2	3.5	2.7	3.3	…	…	…	…	…	…	…
Transfers, subsidies, and other	0.1	0.2	0.2	1.1	1.5	…	…	…	…	…	…	…
Pensions	1.4	1.6	1.6	1.4	1.8	…	…	…	…	…	…	…
Capital expenditures	0.6	0.4	0.4	0.8	0.9	…	…	…	…	…	…	…
Interest	0.1	0.1	0.1	…	…	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Development expenditures:	6.8	7.1	7.5	7.2	8.5	6.8	7.4	5.5	7.5	8.7	8.7	8.7
o/w discretionary 4/	1.5	2.2	3.1	3.4	4.0	…	…	…	…	…	…	…
Infrastructure and natural resources	2.8	3.1	3.2	2.7	3.4	…	…	…	…	…	…	…
Education	0.7	0.7	0.6	0.5	0.5	…	…	…	…	…	…	…
Health	0.9	0.9	1.1	0.7	0.8	…	…	…	…	…	…	…
Agriculture and rural development	1.9	1.8	1.8	1.9	2.1	…	…	…	…	…	…	…
Other	0.5	0.7	1.0	1.4	1.6	…	…	…	…	…	…	…
Operating balance excluding grants	-9.2	-8.2	-6.2	-6.3	-7.6	-5.5	-7.5	-6.7	-7.9	-7.4	-7.4	-7.1
Overall budget balance including grants	-1.4	0.1	-0.6	-1.1	-0.6	-0.4	-0.4	-0.8	0.0	0.1	0.0	0.0
Float and discrepancy 5/	0.9	2.0	1.6	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.5	-2.2	-1.0	…	…	0.4	0.4	0.8	0.0	-0.1	0.0	0.0
Sale of nonfinancial assets	0.0	0.2	0.2	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.0	0.0	0.0	…	…	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Domestic (net)	0.4	-2.3	-1.2	…	…	0.0	0.0	0.4	-0.4	-0.5	-0.5	-0.5
Central bank, change in	0.4	-2.3	-1.2	…	…	0.0	0.0	0.4	-0.6	-0.8	-0.8	-0.8
Government deposits	0.2	-0.3	-0.6	…	…	0.6	0.6	0.9	-0.5	-0.7	-0.8	-0.8
Claims on government	0.2	-2.0	-0.6	…	…	-0.5	-0.6	-0.5	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	-0.6	…	…	-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	0.1	0.2	0.3	0.3
Promissory note (end-of-period stock)	2.3	1.7	1.1	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 6/	2.7	2.9	2.8	2.7	2.8	2.8	2.8	2.8	…	…	…	…

Source: Afghan authorities and Fund staff estimates and projections
Note: Government Finance Statistics Manual 1986 presentation
Overall budget balance including grants for 2018 revised 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/ Some of the grants to development budget can finance operating expenditures.
3/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.
4/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.
5/ Positive number indicates that expenditures have been recorded, but not yet executed.
6/ 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	2022	2023
						Proj.			
Net foreign assets	447.5	478.1	551.0	634.7	654.0	673.9	689.3	703.6	718.7
Net international reserves	423.8	438.9	508.3	592.9	610.6	628.9	643.1	656.3	670.2
Gross international reserves	463.3	491.7	565.6	648.3	667.5	687.4	702.8	717.2	732.3
Foreign liabilities	39.5	52.9	57.3	55.4	56.9	58.5	59.8	60.9	62.1
IMF accounts (loans and SDR allocation)	5.8	4.6	4.4	4.2	4.2	4.2	4.2	4.2	4.2
Foreign currency reserves of commercial banks	33.7	48.3	52.8	51.2	52.7	54.3	55.5	56.6	57.9
Other foreign assets	-9.9	-9.0	-10.1	-9.3	-9.3	-9.3	-9.3	-9.3	-9.3
Assets in nonconvertible currencies	4.8	5.0	5.3	7.2	7.2	7.2	7.2	7.2	7.2
Other foreign liabilities	14.7	14.0	15.4	16.6	16.6	16.6	16.6	16.6	16.6
Net domestic assets	-169.8	-167.5	-208.7	-259.3	-238.1	-216.5	-190.3	-168.1	-143.7
Domestic assets	-65.8	-88.2	-99.1	-98.6	-92.6	-101.4	-114.7	-130.5	-148.4
Net claims on government	-38.1	-48.1	-62.5	-60.5	-54.6	-63.3	-76.7	-92.5	-110.3
Gross claims on government	40.2	34.7	29.2	22.9	15.4	15.4	15.4	15.4	15.4
MOF promissory note 1/	28.3	23.0	15.3	7.5	0.0	0.0	0.0	0.0	0.0
IMF accounts 2/	11.9	11.7	13.8	15.4	15.4	15.4	15.4	15.4	15.4
Liabilities to government	78.2	82.8	91.6	83.4	69.9	78.7	92.1	107.9	125.7
Domestic currency deposits	10.9	14.2	31.2	24.7	20.7	23.3	27.2	31.9	37.2
Foreign currency deposits	67.3	68.5	60.4	58.7	49.3	55.5	64.8	76.0	88.6
Net credit to state and local government	0.0	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	-39.1	-39.1	-39.1	-39.1	-39.1	-39.1
DAB's capital notes	-30.9	-41.9	-38.7	-39.5	-39.5	-39.5	-39.5	-39.5	-39.5
Net credit to public nonfinancial corporations	0.0	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	1.0	1.0	1.0	1.0	1.0	1.0
Other items net	-104.0	-79.3	-109.5	-160.7	-145.5	-115.0	-75.6	-37.5	4.7
DAB's capital	116.7	93.6	120.2	156.1	156.1	156.1	156.1	156.1	156.1
Reserve money	277.7	310.6	342.3	375.4	415.9	457.4	498.9	535.5	575.0
Reserve money in domestic currency	244.0	262.3	289.5	324.2	363.2	403.1	443.4	478.9	517.2
Currency in circulation	202.2	223.6	228.6	251.5	271.6	293.3	313.9	335.9	359.4
Bank deposits in domestic currency	33.4	32.2	53.0	62.5	81.2	99.5	119.2	132.7	147.5
Bank deposits in foreign currency	33.7	48.3	52.8	51.2	52.7	54.3	55.5	56.6	57.9
Bank deposits in foreign currency	33.7	48.3	36.5	32.2	33.7	35.3	36.5	37.7	38.9
Reserve requirements in foreign currency	0.0	0.0	16.4	19.0	19.0	19.0	19.0	19.0	19.0
Other deposits	8.4	6.5	7.9	10.3	10.3	10.3	10.3	10.3	10.3
Other deposits in domestic currency	8.4	6.5	7.9	10.3	10.3	10.3	10.3	10.3	10.3
Other deposits in foreign currency	0.0	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	7,545	7,545	7,545	7,545	7,545	7,545
Gross	6,808	7,357	8,139	8,251	8,249	8,248	8,246	8,245	8,244
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, 2015–19 1/
(At program exchange rates)

	2015	2016	2017	2018				2019			
	Dec.21	Dec.20	Dec.21	March.20	June 21	Sep.22	Dec.21	March.20	June 21	Sep.22	Dec.21
							Proj.		Proj.		
Net foreign assets	459.9	506.2	546.4	544.3	550.8	553.4	553.9	553.9	553.9	553.9	553.9
Net international reserves	435.9	465.7	504.7	505.1	514.8	517.7	518.4	518.4	518.4	518.4	518.4
Gross international reserves	476.0	521.0	560.6	558.7	565.3	566.3	566.9	566.9	566.9	566.9	566.8
Foreign liabilities	40.2	55.3	55.9	53.6	50.6	48.6	48.5	48.4	48.5	48.4	48.4
IMF accounts (loans and SDR allocation)	5.9	4.9	4.3	3.9	4.1	3.9	3.7	3.7	3.7	3.7	3.6
Foreign currency reserves of commercial banks	34.2	50.4	51.6	49.7	46.4	44.8	44.8	44.8	44.8	44.8	44.8
Other foreign assets	-10.2	-9.9	-9.9	-10.5	-10.4	-9.1	-9.3	-9.3	-9.3	-9.3	-9.3
Net domestic assets	-181.6	-193.5	-205.0	-220.6	-235.0	-246.8	-184.9	-208.0	-165.4	-155.6	-146.0
Domestic assets	-66.2	-89.3	-98.6	-115.2	-129.6	-141.2	-93.1	-105.7	-107.8	-96.0	-87.5
Net claims on government	-38.5	-49.1	-61.9	-98.0	-93.0	-103.2	-55.0	-67.6	-69.7	-57.9	-49.4
Gross claims on government	40.5	35.7	28.9	28.7	29.0	24.9	20.9	20.8	17.3	17.1	13.1
MoF promissory note 2/	28.3	23.0	15.3	15.2	15.0	10.9	7.5	7.5	3.7	3.7	0.0
IMF accounts 3/	12.2	12.7	13.6	13.5	14.0	14.0	13.5	13.3	13.6	13.4	13.1
Liabilities to government	79.0	84.8	90.8	126.7	122.0	128.1	76.0	88.4	87.0	75.0	62.5
Domestic currency deposits	10.9	14.2	31.2	49.2	34.7	40.5	24.7	28.8	28.1	24.4	20.7
Foreign currency deposits	68.1	70.5	59.6	77.5	87.4	87.6	51.3	59.6	58.9	50.6	41.8
Net credit to state and local government	0.0	0.0	0.0	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	-19.0	-37.5	-39.1	-39.1	-39.1	-39.1	-39.1	-39.1
DAB's capital notes	-30.9	-41.9	-38.7	-19.4	-37.9	-39.5	-39.5	-39.5	-39.5	-39.5	-39.5
Net credit to public nonfinancial corporations	0.0	0.0	0.0	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	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other items net	-115.4	-104.2	-106.5	-105.4	-105.5	-105.5	-91.8	-102.4	-57.6	-59.6	-58.5
DAB's capital	116.7	93.6	120.2	123.4	133.5	156.1	156.1	156.1	156.1	156.1	156.1
Reserve money	278.3	312.7	341.4	323.7	315.7	306.6	369.0	345.8	388.4	398.3	407.9
Reserve money in domestic currency	244.0	262.3	289.5	273.7	268.6	260.1	324.2	301.1	343.7	353.6	363.2
Currency in circulation	202.2	223.6	228.6	215.7	226.6	225.3	251.5	237.3	266.6	271.8	271.6
Bank deposits in domestic currency	33.4	32.2	53.0	49.9	32.6	24.5	62.5	53.5	66.8	71.5	81.2
Bank deposits in foreign currency	34.2	50.3	51.9	49.9	47.1	46.5	44.8	44.8	44.8	44.8	44.8
Other deposits	8.4	6.5	7.9	8.1	9.4	10.3	10.3	10.3	10.3	10.3	10.3
Memorandum items:											
Net international reserves (mn. USD) 4/	6,343	6,778	7,345	7,351	7,492	7,534	7,545	7,545	7,545	7,545	7,545

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 components.

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
						Proj.			
				(In billions of Afghanis)					
Net foreign assets	534.2	571.0	637.4	744.1	766.6	789.9	807.9	824.7	842.4
Foreign assets	564.2	600.7	674.3	780.6	803.6	827.3	845.7	862.8	880.9
Foreign liabilities	-30.0	-29.7	-36.9	-36.5	-37.0	-37.4	-37.8	-38.2	-38.5
Central bank	-20.5	-18.6	-19.9	-20.8	-20.8	-20.8	-20.8	-20.8	-20.8
Commercial banks	-9.5	-11.1	-17.1	-15.7	-16.2	-16.6	-17.0	-17.4	-17.7
Net domestic assets	-119.2	-115.8	-163.4	-227.5	-203.5	-176.1	-138.9	-90.1	-35.8
Net domestic credit	4.8	-5.9	-22.2	-9.8	1.3	-1.9	-8.9	-17.9	-28.2
Nonfinancial public sector	-42.5	-52.1	-70.2	-60.4	-54.5	-63.2	-76.6	-92.4	-110.2
Net credit to central government	-42.6	-52.2	-70.3	-60.5	-54.6	-63.3	-76.7	-92.5	-110.3
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	57.0	62.7	69.0	75.9	83.5
Net credit to other financial corporations	-1.6	-1.3	-1.4	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4
Other items net	-124.0	-109.9	-141.2	-217.7	-204.8	-174.2	-130.0	-72.2	-7.6
Broad money M2	415.0	455.2	474.0	516.6	563.1	613.8	669.0	734.6	806.6
Broad money M2 in domestic currency	264.3	297.0	315.8	339.7	380.9	423.0	468.6	518.6	572.7
Narrow money M1	389.6	423.3	436.8	477.5	522.4	568.3	616.6	669.0	725.6
Currency outside banks	196.1	216.3	220.5	243.2	263.4	285.1	305.6	327.6	351.1
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	8.3	8.3	8.3	8.3	8.3	8.3
Demand deposits	193.5	207.0	216.3	234.2	259.0	283.2	310.9	341.4	374.5
Other deposits	25.4	31.9	37.1	39.1	40.7	45.5	52.5	65.6	80.9
				(12-month percentage change)					
M2	3.1	9.7	4.1	9.0	9.0	9.0	9.0	9.8	9.8
M1	1.2	8.6	3.2	9.3	9.4	8.8	8.5	8.5	8.5
Currency outside banks	4.1	10.3	1.9	10.3	8.3	8.3	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	34.4	35.6	36.2	39.5	43.0	47.2	51.9
M1	31.8	32.1	31.7	32.9	33.6	36.5	39.6	43.0	46.7
Net credit to the private sector	4.0	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7
Memorandum items:									
M2 velocity	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8
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	62.0	62.9	59.4	59.0	58.8	58.5	58.5	58.5
Deposit dollarization (percent)	68.8	66.2	62.4	64.7	60.8	58.0	55.2	53.1	51.3
Currency-to-deposit ratio (percent)	92.4	93.6	90.2	92.0	90.6	89.2	86.4	82.5	78.9
Loans-to-deposit ratio (percent)	22.3	19.9	19.5	19.0	19.0	19.1	19.0	18.7	18.3

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	576	1,409	1,005	1,055	-216	-81	-99	-535	-797
Excluding official grants	-6,971	-6,024	-6,683	-6,921	-7,079	-7,188	-7,266	-7,568	-7,700
Trade balance of goods	-7,036	-5,970	-6,307	-6,517	-6,606	-6,686	-6,766	-6,997	-7,081
Exports of goods and services	1,417	1,135	1,220	1,346	1,384	1,514	1,690	1,835	1,999
Goods	580	619	796	891	956	1,048	1,150	1,265	1,394
Services	836	516	423	455	428	466	540	570	604
Imports of goods and services	8,625	7,476	8,192	8,598	8,836	9,100	9,384	9,866	10,201
Goods	7,616	6,590	7,103	7,408	7,562	7,734	7,916	8,262	8,475
Services	1,009	886	1,089	1,190	1,274	1,367	1,467	1,605	1,726
Income, net	180	95	96	127	139	138	139	140	142
Of which: Interest on official loans	6	5	5	5	5	6	7	8	9
Current transfers, net	7,604	7,655	7,881	8,179	7,097	7,367	7,457	7,356	7,264
Of which: Official /2	7,547	7,433	7,688	7,976	6,863	7,107	7,167	7,032	6,903
Capital account	0	0	0	0	0	0	0	0	0
Financial account, net	60.1	61	-214	-939	210	87	104	540	800
Foreign direct investment	170	108	64	96	95	99	105	113	121
Portfolio investment	-82	-91	12	-10	-15	-20	-25	-30	-35
Official loans 3/	-8	-4	-5	80	80	90	100	111	129
Disbursement	10	8	20	105	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	-285	-1,106	50	-82	-76	345	584
Errors and omissions	-1,118	-906	0	0	0	0	0	0	0
Overall balance	-482	563	790	116	-6	6	6	4	3
Financing	482	-563	-790	-116	6	-6	-6	-4	-3
Central bank's gross reserves ('-' = accumulation)	503	-549	-782	-112	2	2	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	8,251	8,249	8,248	8,246	8,245	8,244
Import coverage of reserves 5/	10.9	10.8	11.4	11.2	10.9	10.5	10.0	9.7	9.7
External debt stock, official 6/	1,231	1,199	1,168	1,244	1,327	1,409	1,503	1,609	1,731
in percent of GDP	6.8	6.1	5.9	6.7	6.9	6.9	6.9	6.9	6.9
Current account, in percent of GDP	2.9	7.3	5.0	5.3	-1.1	-0.4	-0.5	-2.3	-3.1
Trade balance, in percent of GDP	-35.1	-30.7	-31.2	-32.4	-33.5	-32.5	-31.0	-29.8	-28.0
Export of goods and services, in percent of GDP	7.1	5.8	6.0	6.7	7.0	7.4	7.7	7.8	7.9
Import of goods and services, in percent of GDP	43.0	38.5	40.5	42.8	44.9	44.2	42.9	42.1	40.3
Official grants, in percent of GDP	37.6	38.3	38.0	39.7	34.9	34.5	32.8	30.0	27.3

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

(In percent)

	2015	2016	2017				2018	
			Q1	Q2	Q3	Q4	Q1	Q2
Capital adequacy								
Regulatory Capital to Risk-weighted Assets	19.9	27.7	27.4	28.0	30.4	30.3	29.8	27.1
Capital to Assets	9.2	11.3	11.4	11.9	11.8	11.3	12.1	11.6
Asset quality								
Non-performing Loans to Total Gross Loans	12.1	12.7	13.6	17.9	17.7	12.2	12.0	11.3
Non-performing Loans Net of Provisions to Capital	8.3	10.6	8.8	12.1	12.0	8.8	7.8	5.9
Earnings and profitability								
Return on Assets	0.2	1.6	0.3	0.2	0.5	0.7	-0.3	0.4
Return on Equity	1.7	15.4	0.8	0.8	2.4	3.7	-1.9	3.0
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	75.0	72.0	71.8	71.3	72.1	74.0	73.9	72.9
Liquid Assets to Short-term Liabilities	90.4	89.2	90.2	91.7	92.1	92.6	93.7	94.9

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
November 22, 2019	5.38	1.7	Sixth review and June 21, 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	6,612	7,512	7,075	7,113	7,220
Current account balance (excluding grants)	-6,024	-6,683	-6,921	-7,079	-7,188
Amortization	40	46	42	36	33
Of which: IMF	21	21	16	10	8
Change in reserves (increase = +)	549	782	112	-2	-2
Reduction in arrears	0	0	0	0	0
Available financing	6,606	7,499	7,063	7,099	7,220
Official transfers (grants)	7,433	7,688	7,976	6,863	7,107
Foreign direct investment	108	64	96	95	99
Official medium- and long-term loans (net)	11	3	83	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	-946	-256	-1,093	66	-83
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	2.3	7.1	5.4	4.8	3.8	3.2	3.6	3.6	3.6	2.3	0.5	0.0	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR net charges	0.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total obligations	2.6	8.1	6.4	5.8	4.8	4.2	4.6	4.6	4.6	3.3	1.5	1.0	1.0	1.0	1.0
(percent of quota)	0.8	2.5	2.0	1.8	1.5	1.3	1.4	1.4	1.4	1.0	0.5	0.3	0.3	0.3	0.3
Obligations from prospective drawings 2/															
1. Principal															
PRGT repayments	0.0	0.0	0.0	0.0	0.0	0.0	1.4	2.9	2.9	2.9	2.9	1.5	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations	0.0	0.0	0.0	0.0	0.0	0.0	1.4	2.9	2.9	2.9	2.9	1.5	0.0	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.9	0.9	0.9	0.9	0.5	0.0	0.0	0.0
Cumulative obligations (existing and prospective) 2/															
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	2.3	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 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessment and net charges	0.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total obligations	2.6	8.1	6.4	5.8	4.8	4.2	6.0	7.5	7.5	6.2	4.4	2.6	1.0	1.0	1.0
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 3/	4.4	4.6	3.7	2.9	2.4	1.9	1.5	1.0	0.6	0.3	0.1	0.0	0.0	0.0	0.0
External public debt	4.8	4.8	4.0	3.3	2.7	2.2	1.7	0.8	0.4	0.1	0.0	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	0.3	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 3/	0.3	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
External public debt	0.3	0.9	0.6	0.5	0.4	0.3	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Gross official reserves	0.0	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	0.0	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
Quota	0.8	2.5	2.0	1.8	1.5	1.3	1.8	2.3	2.3	1.9	1.3	0.8	0.3	0.0	0.0
Quota	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8

Source: Fund staff estimates and projections.

1/ Projections are based on current interest rates for PRGT loans.

2/ Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.

3/ Excluding reexports.

Table 11. Islamic Republic of Afghanistan: Quantitative Performance Criteria, June 21, 2018 1/

(In Af billions, unless otherwise indicated)

	Target	Adjusted	Actual	Status
Revenues of- the central government (floor)	77.0	77.0	79.9	**Met**
Net credit to the central government from DAB (ceiling) 2/	-9.9	-24.9	-31.1	**Met**
Reserve money (ceiling) 2/	0.0	0.0	-20.9	**Met**
Net international reserves of DAB (floor; in millions of U.S. dollars) 2/	-100.0	119.0	146.4	**Met**
Non-concessional external debt, new (ceiling) 3, 4/	0.0	0.0	0.0	**Met**
Short-term external debt, new (ceiling) 3/	0.0	0.0	0.0	**Met**
External payments arrears, new (ceiling) 3/, 5/	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) 3/	0.0	0.0	0.0	**Met**

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.

Table 12. 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	**Met**
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	**Met**
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af 3.994 billion	End-June 2018	Preserve financial stability	**Met**
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	**Not met**. Implemented on November 13, 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-September 2018	Improve governance and reduce corruption	**Met**

Table 12. Islamic Republic of Afghanistan: Fourth Review Structural Benchmarks (concluded)

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	**Met**
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	**Met**

Table 13. Islamic Republic of Afghanistan: Fifth Review Structural Benchmarks		
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, if any.	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 3.906 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
Create a unified process for project appraisal and screening by setting up a technical committee comprising, at a minimum, the representatives at the level of Director General from Ministry of Finance and Ministry of Economy, that will evaluate all large and major projects, regardless of source of funding or procurement route before funding is allocated.	End-March 2019	Improve governance of public assets

Table 14. Islamic Republic of Afghanistan: Sixth Review Structural Benchmarks

(Preliminary; not proposed for IMF Executive Board approval)

Measure	Date	Rationale
Cabinet to approve and submit to Parliament 2020 draft budget in line with the macroeconomic framework agreed under the ECF arrangement.	Mid-November 2019	Preserve macroeconomic stability
Publish on the dedicated official website, in Dari and in English, qualitative and quantitative information (using the templates defined in the TMU) on the implementation of the Law on Declaration and Registration of Assets of Officials and Government Employees and Article 154 of the Constitution, including enforcement and other procedural measures that have been applied to the officials mentioned in Art. 154 of the Constitution and those covered by the 3rd review benchmark.	End-October 2019	Improve governance and fight corruption
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af [7.0] billion.	End-September 2019	Preserve financial stability
Hire an internationally reputable forensic accounting firm to review the Kabul Bank's assets recovery process, identify impediments, and propose practical ways to improve recoveries of the remaining assets. Implement the recommended actions.	End-July 2019	Strengthen financial stability
Complete transfer of all large taxpayers to the Single Large Taxpayer Office (SLTO).	End-October 2019	Improve revenue collection
Strengthen the governance of the mining industry through publication of company-level tax and customs revenue data for extractive firms	End-October 2019	Improve governance and fight corruption
Submit to Parliament amendments to the Public Finance and Expenditure Management Law in line with IMF staff advice, including (i) to introduce adequate procedural rules for the issuance of guarantees and (ii) to strengthen fiscal risk oversight over SOCs, in order to strengthen the legal basis for the fiscal oversight mandate of the Ministry of Finance.	End-June 2019	Improve fiscal risk oversight and corporate governance of SOEs/SOCs

Appendix I. Letter of Intent

Kabul, November 19, 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. With the ECF arrangement we are 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 fourth review and the disbursement of an amount equivalent to SDR 4.50 million under the ECF arrangement. In completing the fourth review we request an extension of the ECF until

December 31, 2019 and re-phasing of its final review test date to end-June 2019. The extension would provide enough time for the completion of the sixth review, enable the implementation of additional reforms, and provide uninterrupted engagement with the Fund through the-end of the election year of 2019.

The government also requests modification of December 2018 performance criteria on net international reserves, and net credit to government necessitated by an update of the macroeconomic framework.

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/
Dr. Mohd Humayon Qayoumi
Minister of Finance (Acting)
Government of Afghanistan

/s/
Khalil Sediq
Governor
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 2018-19, supported by an 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**.

- GDP growth picked up to 2.7 percent in 2017 mostly due to services and agriculture. For 2018, we expect growth below the 2017 outcome—at about 2.3 percent—with a widespread drought affecting agricultural output, and confidence negatively impacted by a deterioration in security and rising political uncertainty.

- Afghanistan experienced deflation in the second quarter of 2018 due to declining food prices. We expect inflation to pick up in the remainder of the year, mainly reflecting lagged effects of the Afghani's depreciation, and to reach 3 percent by the end of the year.

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

- The exchange rate has been volatile in 2018, with depreciation peaking at 9.4 percent against the U.S. dollar in mid-September versus end-2017. The exchange rate has been under strain because of speculative pressures as well as regional and domestic risks and uncertainties.

- On the fiscal side, revenue growth has moderated compared to 2017, as economic growth and the returns to stronger revenue administration slowed. Nevertheless, we met the June performance and September indicative program revenue targets. Large disbursements of operating and development grants by the donor fund administered by the World Bank and the European Commission resulted in the treasury's cash balance exceeding Af 40 billion at end-June and end-September, well above the program floor of Af 10 billion. Development spending has increased with an improved execution rate.

5. **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.

6. **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-five 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 additional five 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).

7. **Despite improvements in the financial sector, it remains vulnerable to adverse shocks**. Profitability is weak and asset quality remains a concern even as nonperforming loans decreased slightly in 2018. 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", DAB conducts repeat examinations of each of them, issues numerous corrective orders and injunctions, and monitors implementation of comprehensive corrective plans for each of the weak banks.

8. **We have made progress in improving the financial position of the state-owned commercial banks (SOCBs)**. They have remained profitable at end-June 2018 and their capital

adequacy exceeds DAB minimum requirements. Since end-November 2017, we have been implementing a strategy to reform the SOCBs prepared in cooperation with the World Bank.

9. **We are taking a new initiative to restart recoveries of the assets remaining after the Kabul Bank liquidation**. The asset recoveries and settlements stalled in 2017. That was due to the lengthy legal processes that needed to be followed to assure irreversibility of judgements and settlements, the uncooperative beneficial owners of hidden assets, and the intransigence of the parties under arrest and investigation. We will hire a reputable forensic accounting firm to help us identify practical ways to reactivate the recovery process and implement those recommendations by end-July 2019 (sixth review benchmark).

10. **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 off aid dependency. However, this goal needs to be reached in a measured and well thought out way to avoid disruptions and risks to sustainability. 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 utilize our capacity to its full potential and to avoid costly recalibration and backtracking on our development plans.

11. **At a Senior Officials Meeting in October 2017, 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 in 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 August 2018.

C. Economic Program for 2018–19

12. **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 and reallocating funds to the most productive expenditures. 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.

13. **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. The Center for Statistics Office is collaborating with FlowMinder and other international statistical specialists to improve the quality of government poverty statistics and analysis. 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. 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. This leaves US$270 million still unsecured.

Macroeconomic Policies

14. **Our macroeconomic policy framework is designed to preserve macroeconomic stability and promote growth**. It targets a 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.

15. **We expect a small overall budget deficit after grants in 2018 and will continue maintaining a prudent fiscal position in 2019 and beyond.** The revised 2018 budget approved by parliament implies a deficit of about 0.6 percent of GDP, close to the program target of 0.4 percent of GDP. In 2019, we will implement the budget in line with the ECF arrangement and are prepared to implement additional spending cuts, while preserving priority social spending, of about 0.5 percent of GDP as part of budget implementation mandate (from lower bonuses and cuts in operation and maintenance expenditures), to counter any unfavorable revenue or grants developments. The strengthening of PFM will be pursued in line with the Fiscal Performance Improvement Plan. We began with the adoption of a commitment control system and continued 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 (fourth review benchmark). Further fiscal reforms (including those required to meet the structural benchmarks) are expected to yield higher revenues in coming years. We expect to maintain the treasury's discretionary cash balance at or 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 pursue our plan to implement a value-added tax (VAT) before January 2021 in line with our WTO commitment. We will only borrow on a concessional basis (60 percent of grant element; see paragraph 23) 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.

16. **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 in the medium term. 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$200 million in 2018, resulting in international reserves covering more than nine months of imports during the term of the arrangement. 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 securities issued by the Treasury) market. We will continue our efforts to reduce dollarization. In 2018, we will finalize the development of an international reserves cash flow table to strengthen our NIR projections and foreign exchange liquidity management.

Structural Reforms

17. **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. With the assistance of the IMF staff we have reviewed the PPP law and related regulations to bring them in line with good international practice (fourth review benchmark). This work builds on the PPP support program implemented with the help of the World Bank since 2015. We have also reviewed the legislation governing our SOEs and SOCs with the IMF and the World Bank staff's advice, to strengthen monitoring and corporate governance of public corporations (fourth review benchmark). To strengthen the legal basis for a fiscal oversight mandate of the MoF we will prepare amendment to PFM legislation in line with IMF staff advice, and submit the amendment to Parliament for approval (sixth review benchmark).

18. **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 to create a level playing field for private and state enterprises.

Fiscal Reforms

19. **The focus of our fiscal reform agenda will be the complementary VAT and LTO reforms**. Our revenue improvement efforts are directed towards a major reform of the existing provincial LTOs and to the introduction of a VAT which will be fully functioning by 2019 and 2021, respectively. We adopted the LTO implementation plan in line with the advice of the IMF's TA (fourth review benchmark) by consolidating all large taxpayers. To complete the consolidation phase, we will follow that with establishment of a fully functional single LTO by end-October 2019 (sixth 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. We aim to introduce a VAT before January 2021. We will appoint a VAT implementation team and establish a VAT steering committee to carry out the plan (fifth review benchmark). To simplify the tax structure, the VAT, which will eventually replace the BRT[1] on firms that are registered for the VAT, will have the same threshold as the LTO.

[1] The VAT should replace the BRT 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.

20. **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 a 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. The ACD five-year strategic plan is prepared with the support of WCO with six strategic goals that will transform ACD into a model institution. The goals are targeting institutional and processes efficiency, combating corruption, enhancing revenue collection, enhancing and strengthening automation, and strengthening compliance. The plan was finalized in July 2018 and presented to H.E. the President and H.E. the Minister of Finance for their review and approval. In 2018, we rolled out implementation of the multi-criteria risk profiles in Herat, Nangarhar, and Nimroz (fourth review benchmark). This resulted in improved clearance time and detection of fraud. We have also developed a two-year integrity plan (2018-2019), with support of WCO and Commercial Law Development Program (CLDP) of the United States Department of Treasury. We will 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.

21. **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. The revised mining law was approved by Cabinet, promulgated through Presidential Decree and submitted to parliament for approval. To demonstrate our commitment to transparency in the extractive industries, we have appointed the Acting 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 will guide our future reforms and we will work with the IMF and the World Bank staffs to fully develop the mineral fiscal regime. In 2019, we will strengthen the governance of the mining industry through publication of company-level tax and customs revenue data (sixth review benchmark).

22. **As outlined in the five-year rolling fiscal performance improvement plans, public financial management is being strengthened along several lines**. The objective is to improve

budget preparation process (e.g., software solution, reviewing of project data), create fiscal space for high priority national programs, better manage public investments (e.g., higher execution rate, maintaining a development project database), 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 robust 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 review 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 donor and government financed project data so that estimates of fiscal space, utilized for better investment in high priority national programs, become more accurate. We will begin this process, during preparation of 2020 budget, by separating the allocation of budgetary resources for direct obligations from an unallocated contingency funds and issue a Budget Circular with only one ceiling per budget unit consisting of recurrent and development spending, ongoing and new, with full reconciliation of the ceilings with the baseline.

- We envisage measurable improvement in execution of the development budget over the next three years, with improved budget costing under robust forward estimates. Accordingly, the government recognizes the importance of a consolidated national budget and started the consolidation with the 2018 national budget and its mid-year revision. This will continue in the 2019 budget and beyond.

- We will strengthen development budget management by maintaining a development project database for the 50 largest (in terms of value) projects. The Budget Department of the MOF will maintain the database and utilize it for investment decision making process. 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 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 when ready, and thereafter on a regular basis. In addition, to strengthen governance of the SOCs, by end-July 2019, we will prepare income statements and balance sheets of the five largest state-owned corporations as identified by the MoF. We will ensure that MoF has timely access to audited financial statements of all major SOCs, especially where they already exist. Going forward, we will continue with preparation of the statements and balance sheets of the SoCs until all the corporations are audited. We will share that information with the IMF beginning with the five largest state-owned corporations.

- 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.

- 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. To strengthen the budget preparation, we will develop forward baseline estimation (FBE) methodology, run a pilot and prepare the related documentation by end-2018. By end-March 2019, we will prepare and carry out a FBE exercise for the top 15 budget units. The forward estimates form the baseline cost of existing policy and allow to track changes due to 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 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 term, 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 drafted PPP regulation to supplement our new PPP law and had it reviewed by the IMF staff. Based on this review we revised the law and the regulation and submitted them to, respectively, Parliament and to Cabinet by end-September 2018 (fourth review benchmark).

- 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.

23. **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 loans. The government will consult with the IMF staff on the terms and concessionality of any proposed new external debt in advance of contracting it. The government will continue to use 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. The government is currently considering contracting concessional external loans of some US$ 250 million in in the medium term.

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

- 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 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

24. **Our financial sector strategy remains three-pronged**. We are continuing to address the remaining weaknesses in the financial sector, while 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 is providing the sound foundation required for our third and most strategic priority, the deployment of a range of growth-friendly initiatives in the financial sector.

Addressing Remaining Financial Sector Weaknesses

25. **The weaker private banks continue to be tightly monitored and their corrective Action Plans decisively enforced**. They are all under individual Corrective Action Plans agreed upon with DAB, with specific targets and deadlines. Afghanistan Commercial Bank failed to comply satisfactorily and was eventually put under receivership on August 1st, after having already repaid most of its liabilities under DAB's watchful eye. Remaining creditors are expected to be repaid in full. Other weak banks continue to improve, including through more of the requested capital injections, with DAB assessing progress through regular rounds 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.

26. **We are proceeding with an initiative to jumpstart the stalled asset recovery from the 2011 Kabul Bank collapse**. Recoveries and settlements have reached US$ 451 million by September 2018, but this includes only US$257 million in cash, and there remains US$591 million of pending claims. With recoveries having stalled for the last two years, while the burden of repaying DAB's lender-of-last-resort (LOLR) support continues to weigh on public finances, we will hire, by end-January 2019, a reputable forensic accounting firm to review the assets recovery process, identify impediments, and propose practical ways to improve recoveries on the remaining assets. The selected firm will be tasked with providing an interim report on its first findings by end-March 2019, and a first set of proposals to enhance recoveries by end-April. We will finalize the proposals by end-May and implement the agreed upon actions by end-July 2019 (sixth review benchmark).

27. **We remain 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 since 2016 and by end-November 2018, upon completion of a second payment for the year (fifth review benchmark), the LoLR exposure of DAB will be reduced to Af 7.5 billion. We will fully eliminate the LoLR balance by end-2019 (sixth review benchmark).

28. **Addressing the weaknesses of the three state-owned commercial banks (SOCBs) is starting with improvements in their corporate governance framework**. We are determined to proceed with the strategy prepared with the support of the World Bank and approved in November 2017. We are taking the necessary measures to overcome the logistical obstacles that have slowed down the implementation of the strategy during the summer of 2018. We remain committed to meeting in full the December 2018 structural benchmark on SOCB corporate governance reform as a pre-requisite for their successful and much needed operational reform.

29. **Operational reform of the SOCBs is entering an active phase, based on an ambitious program under development**. Operational risks remain elevated among the SOCBs and they still represent significant contingent fiscal liabilities. Operational reform plans, individualized to fit the specific circumstances of each of the three SOCBs will be finalized by June 2019 with support from the World Bank. They will take into account the findings of the ongoing onsite reviews by DAB, with compliance with the latter's Action Plan for each bank being a core component of its broader operational reform plan. In the meantime, each of the three SOCBs will continue to adhere to their current restricted business model, refraining from loan distribution for the weakest two of the three state banks.

30. **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, the national ML/TF risk assessment is progressing 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, strengthening the imposition of know-your-customer (KYC) rules, and imposing proportionate and dissuasive sanctions for non-compliance, and providing training and guidance. These measures will help facilitate Afghan banks' access to foreign correspondent banking services and reduce the risks of driving transactions into the informal remittance system. We made good progress on risk-based AML/CFT supervision of banks. We developed a supervisory strategy and risk profile for each bank informed by the off-site risk assessment completed in June 2018. To help detect potential proceeds of corruption, thematic inspections on domestic politically exposed persons have been conducted in six banks and this aspect will be covered in full-scope inspections of other banks by end of 2018. Another series of thematic inspections on wire transfer is planned for 2019. We have also been active in inspecting money service providers (MSP) covering 27 out of 34 provinces. DAB employed a range of enforcement actions including corrective actions, warning letters, and monetary penalties, to promote effective AML/CFT controls in banks and MSPs. 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. We also continue to strengthen the structure of FSD and its resources for AML/CFT supervision. A unit responsible for supervision of MSPs became fully operational in June 2018. A full team of 47 AML/CFT examiners (covering banks and MSPs) will be in place by end of 2019.

Reinforcing the Crisis Prevention Framework

31. **DAB is proceeding with its capacity building efforts in prudential regulation and supervision**. As part of technical assistance provided by the World Bank staff that started 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. In this context, DAB's supervisory remit was expanded to include microfinance institutions.

32. **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, and the World Bank staff is in discussion with DAB to provide further support in this area.

33. **We progressed towards establishment of a Financial Stability Council (FSC)**. FSC will facilitate the operational coordination among the relevant authorities. The FSC, which we plan to establish by end-December 2018 (fifth review 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 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 stress testing of the capacity to respond to crisis scenarios.

Toward a More Inclusive and Growth-Friendly Financial Sector

34. **We are making progress in developing a comprehensive National Financial Inclusion Strategy with the technical support of the World Bank staff**. This effort is led by a dedicated Department at DAB established in 2016. We progressed well with 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 the remote areas of country. It will also target underserved parts of the populations. 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.

35. **We are proceeding with our efforts to develop digital finance**. Our strategic vision is to leverage the high penetration of mobile devices and to make available to the public a wide range of efficient and safe core financial services and gradually move toward a cashless economy. Our earlier initiatives in this field, centered on mobile money payment of some public-sector salaries. Despite that these efforts have met limited success so far, but it has yielded valuable lessons on how to proceed with a more comprehensive approach. By February 2019, under the auspices of the Ministry of Finance, the cross government working group in charge of public sector salaries payments through mobile money will have assessed the obstacles met so far and develop a more comprehensive digital payments road map to overcome them with the support of the World Bank. In the meantime, DAB continues with its efforts to expand and modernize the retail payment infrastructure.

36. **We are also coordinating with the banking profession to prudently foster intermediation and expand the range of financial instruments and techniques**. The banking system's particularly low loan-to-deposit ratio of 16 percent as of August 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 they offer to their customers. DAB will review regulations that appear to be discouraging intermediation. We will support prudent financial innovation aiming to deepen financial intermediation. We will promote broader use of the publicly accessible credit and collateral registries by banks as well as encourage risk sharing and partial credit guarantee schemes. We will build on these measures to encourage term lending instead of bank overdrafts. We are also preparing a legislative and institutional framework for issuance of government "Sukuk."

Safeguards Assessment

37. **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 discussed with the IMF staff the most recent external audits of DAB. 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

38. **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.

39. **We took steps in implementing and enforcing the enhanced framework for asset declaration by public officials**. In September 2017, we enacted the Law on Declaration and Registration of Assets of Officials and Government Employees that prescribes: (i) publication of asset declarations made by high-ranking officials before and after term of service; (ii) annual asset declaration by high-ranking and other officials; (iii) declaration of assets legally owned or beneficially owned; and (iv) sanctions for non-compliance. The declarations not published shall 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 year 2018 and on the mechanisms to access their declarations were made available on May 8, 2018 online.[2] This information will be updated annually. As of August 31, 2018, 686 high-ranking officials have not declared their assets for year 2018 as required by the Law. In accordance with the Law, their salaries have been suspended since October 10, 2018 and will remain so until they declare their assets. This information was published on November 13, 2018[3] (fourth review benchmark). The Administrative Office of the President will update the template of declaration form which will include completion instructions. We aim to fully implement and enforce the Law and Article 154 of the Constitution among senior officials in 2019 and will publish on the dedicated official website qualitative and quantitative information (using the templates defined in the TMU), in Dari and in English, on implementation of the Law among high-ranking officials and the officials covered by the 3rd review benchmark, including enforcement and other procedural measures that have been applied by end-October 2019 (sixth review benchmark). We are also committed to updating such information on the website annually.

40. **Investigation, prosecution and conviction of corruption to enforce the new penal code, especially through the Anti-Corruption Justice Center (ACJC), is of high priority.** 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

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

[3] See: http://www.aop.gov.af/?page_id=3632. The lists are updated continually—i.e., the names of non-compliants are removed from the lists when they declare their assets. Since October 10, 169 non-compliants declared their assets and were removed from the lists.

decisions during the period of 2016–18 (fifth review benchmark). In addition, we prepared a new Anti-Corruption Law and are working towards its enactment.

41. **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 continued technical assistance and training from our international partners, including the IMF.

D. Program Modalities

42. **We request the extension and re-phasing of the ECF arrangement to December 31, 2019 and the re-phasing of its final review test date to end-June 2019.** The extension would provide enough time for the completion of the sixth review, enable the implementation of additional reforms, and provide uninterrupted engagement with the Fund through the-end of the election year of 2019.

43. **Based on the extension and re-phasing we will closely monitor the implementation of the ECF arrangement through December 31, 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, 2, and 3. 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 June 21, 2019. The fifth and sixth reviews of the program are scheduled to be completed after April 22, 2019 and, based on the re-phasing, November 22, 2019, respectively. The performance criteria, indicative targets, and the benchmarks are defined in the Technical Memorandum of Understanding. We understand that the sixth 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.

44. **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 began the process leading to its adoption. We will collaborate closely with the IMF staff in this process.

45. **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–September 2019 1/

(Cumulative, unless otherwise indicated)

	2017				2018										2019			
	Dec.21				Mar.20		Jun.21			Sep.22		Dec.21			Mar.20	Jun.21		Sep.22
	Target	Adjusted target	Actual	Year-end stocks	Indicative target 2nd review	Actual	Target	Adjusted target	Actual	Indicative target	Actual	Target	Adjusted target	Year-end stocks	Indicative target	Performance criteria	End-period stocks	Indicative target
Performance criteria:																		
Revenues of the central government (floor)	153.0	153.0	168.3	...	37.8	37.9	77.0	77.0	79.9	122.2	126.2	172.0	172.0	...	41.6	76.4	...	118.3
Net credit to the central government from DAB (ceiling) 2/	-1.3	23.6	-12.8	-61.9	-13.2	-36.1	-9.9	-24.9	-31.1	-12.3	-41.2	1.4	6.9	-55.0	-12.5	-14.7	-69.7	-2.8
Reserve money (ceiling) 2/	31.5	31.5	27.2	289.5	0.0	-15.8	0.0	0.0	-20.9	14.0	-29.4	34.7	34.7	324.2	-23.2	19.5	343.7	29.3
Net international reserves of DAB (floor; in U.S. dollars million) 2/	100.0	-363.0	567.5	7,345	0.0	5.6	-100.0	119.0	146.4	-100.0	189.1	100.0	200.0	7545.4	0.0	0.0	7545.4	0.0
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	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	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	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	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	26.2	26.2	29.1	52.5	42.7	84.9	109.5	...	13.2	37.4	...	70.4
Treasury cash balance, discretionary (floor)	10.0	10.0	24.2	...	10.0	46.2	10.0	10.0	42.2	10.0	40.3	10.0	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	0.8	0.8	-2.0	14.0	-3.4	22.9	22.9	251.5	-14.2	15.1	266.6	20.3
Social and other priority spending (floor)	42.1	42.1	38.8	...	8.7	7.3	18.0	18.0	18.1	28.0	28.5	41.0	40.6	...	9.0	18.6	...	30.0
Memorandum items:																		
Nominal external concessional borrowing (in U.S. dollars million) 2, 6/	0.0	0.0	23.8	...	0.0	0.0	0.0	132.0	16.0	132.0	16.0	132.0	132.0	...	205.0	205.0	...	205.0
Reference values for the adjustors:																		
Core budget development spending	88.6	88.6	103.5	...	9.4	1.5	23.9	23.9	32.7	53.8	65.7	104.2	107.0	...	8.4	31.8	...	51.5
External financing of the core budget and sale of non-financial assets 7/	192.1	192.1	182.1	...	33.8	27.5	52.0	52.0	75.8	114.5	135.7	189.1	216.3	...	35.8	84.6	...	123.1

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: Fifth Review Structural Benchmarks

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, if any.	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 3.906 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
Create a unified process for project appraisal and screening by setting up a technical committee comprising, at a minimum, the representatives at the level of Director General from Ministry of Finance and Ministry of Economy, that will evaluate all large and major projects, regardless of source of funding or procurement route before funding is allocated.	End-March 2019	Improve governance of public assets

Table 3. Islamic Republic of Afghanistan: Sixth Review Structural Benchmarks

(Preliminary; not proposed for IMF Executive Board approval)

Measure	Date	Rationale
Cabinet to approve and submit to Parliament 2020 draft budget in line with the macroeconomic framework agreed under the ECF arrangement.	Mid-November 2019	Preserve macroeconomic stability
Publish on the dedicated official website, in Dari and in English, qualitative and quantitative information (using the templates defined in the TMU) on the implementation of the Law on Declaration and Registration of Assets of Officials and Government Employees and Article 154 of the Constitution, including enforcement and other procedural measures that have been applied to the officials mentioned in Art. 154 of the Constitution and those covered by the 3rd review benchmark.	End-October 2019	Improve governance and fight corruption
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af [7.0] billion.	End-September 2019	Preserve financial stability
Hire an internationally reputable forensic accounting firm to review the Kabul Bank's assets recovery process, identify impediments, and propose practical ways to improve recoveries of the remaining assets. Implement the recommended actions by end-July 2019.	End-July 2019	Strengthen financial stability
Complete transfer of all large taxpayers to the Single Large Taxpayer Office (SLTO).	End-October 2019	Improve revenue collection
Strengthen the governance of the mining industry through publication of company-level tax and customs revenue data for extractive firms.	End-October 2019	Improve governance and fight corruption
Submit to Parliament amendments to the Public Finance and Expenditure Management Law in line with IMF staff advice, including (i) to introduce adequate procedural rules for the issuance of guarantees and (ii) to strengthen fiscal risk oversight over SOCs, in order to strengthen the legal basis for the fiscal oversight mandate of the Ministry of Finance.	End-June 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 performance criteria**. 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 2018 and June 2019, 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 2019 and September 2019**. 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. 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.

- For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.26 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is –250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is –300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is –200 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is –300 basis points.[4] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

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.

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[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.

[4] The program reference rate and spreads are based on the “average projected rate” for the six-month USD LIBOR over the following 10 years from the Fall 2018 World Economic Outlook (WEO).

- 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.

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)
December 21, 2018	107.0
June 21, 2019	31.8

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)
December 21, 2018	216.3
June 21, 2019	84.6

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:[5]

(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 2016-2018. Subsequent publications of (i) will be on a quarterly basis while those of (ii) will be on an ongoing basis.

[5] 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 _________ 2016–18

	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 2016–18

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 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.

F. Publication of Information on Implementation of Asset Declaration Requirements

Starting from end of October 2019, the government of Afghanistan will publish on the official website dedicated for asset declaration information in the following format on implementation and enforcement of the Law on Declaration and Registration of Assets of Officials and Government Employees and Article 154 of the Constitution among senior officials. Such information will be published on an annual basis.

Declaration Prior To and At the End of Service Period by Officials Mentioned in Art. 154 of the Constitution1/

Name and position of officials that assumed office between [September 5, 2017 and August 31, 2019][2]	**Date of assuming office**	**Date of publication of asset declaration (if declaration has not been made, indicate so)**	**Whether the declaration has been verified (Y/N)**	**Brief description of verification and its findings**	**Actions triggered in accordance with Art. 11 of the Law on Declaration and Registration of Assets of Officials and Government Employees, if any**
…					
Name and position of officials whose service terminated between September 5, 2017 and August 31, 2019	**Date of leaving office**	**Date of publication of asset declaration (if declaration has not been made, indicate so)**	**Whether the declaration has been verified (Y/N)**	**Brief description of verification and its findings**	**Actions triggered in accordance with Art. 11 of the Law on Declaration and Registration of Assets of Officials and Government Employees, if any**
…					

[1] In accordance to Art. 154 of the Constitution and Art. 6 of the Law on Declaration and Registration of Assets of Officials and Government Employees.

[2] The dates will be updated annually. Same below.

Annual Declaration by Certain Senior Officials 1/

	Officials mentioned in Art. 154 of the Constitution	Heads and deputies of law enforcement agencies, customs, and tax administration
Number of officials subject to the requirements as of January 31, 2019		
Number of officials who submitted their declarations before or on January 31, 2019		
Number of officials who submitted their declarations after January 31, 2019		
Number of officials subject to actions triggered in accordance to Art. 11(1)		
Number of declarations that went through preliminary review		
Number of declarations that went through thorough review		
Number of officials subject to actions triggered in accordance to Art. 11(2)		
Number of officials subject to actions triggered in accordance to Art. 11(3)-1		
Number of officials subject to actions triggered in accordance to Art. 11(3)-2		
Number of officials subject to actions triggered in accordance to Art. 11(5)		

[1] In accordance to Art. 8 of the Law on Declaration and Registration of Assets of Officials and Government Employees.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

November 20, 2018

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Taline Koranchelian and Martin Sommer (IMF), John Panzer (IDA)

International Monetary Fund
International Development Association

Afghanistan Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	Yes: The projection period informing mechanical risk signals is extended to 20 years.

This debt sustainability analysis (DSA) concludes that Afghanistan's external and overall risk of debt distress continues to be assessed as high.[1] *Afghanistan's debt sustainability hinges on continued donor grants inflows (currently around 40 percent of GDP) against substantial fiscal and external deficits and downside risks to the economic outlook. A gradual replacement of grants by debt financing leads to high risk of debt distress in the long run and is captured by mechanical risk ratings based on an extended 20-year period rather than the standard 10-year period. Significant downside risks include the fragile security situation, political uncertainty, domestic revenue shortfalls, weather related risks, and regional economic instability. The authorities should continue their efforts to mobilize revenue and implement reforms, while donors should continue to provide financing in the form of grants. Debt management capacity, including the monitoring of contingent liabilities emanating from state-owned entities and public-private partnerships (PPPs), should be strengthened.*

[1] This DSA was jointly prepared by IMF and World Bank staff under the new debt sustainability framework (DSF) for low-income countries (LICs), implemented since July 2018. The debt-carrying capacity is classified using the country-specific composite indicator (CI) composed of three macroeconomic indicators and the World Bank's Country Policy and Institutional Assessment (CPIA). Afghanistan's capacity is assessed as "weak" using the CI based on the October 2018 WEO and the 2017 CPIA.

BACKGROUND

Public Debt Coverage

1. **The external DSA focuses on the central government's debt and Da Afghanistan Bank's (DAB, the central bank) debt owed to the IMF.**[2] The authorities have directly contracted external loans for financing macro-critical infrastructure projects, but the central government has not issued guarantees for other public entities' external borrowing, including by state /local governments and state-owned enterprises. State and local governments do not borrow on their own. External and domestic debt is classified based on its currency denomination.[3]

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

2. **The government owes a small domestic debt to DAB of ¾ percent of GDP as of end-June 2018**. This debt is due to the lender-of-last-resort exposure incurred by DAB during the resolution of Kabul Bank and is to be repaid by end-2019. The potential government exposure to the state-owned entities has not been systematically quantified and the government is working on collecting the necessary data.[4] The authorities have been considering issuing sukuk, and the legal and operational framework is under preparation with the help of the Islamic Development Bank (IsDB).

3. **The capacity to record and monitor public debt and contingent liabilities needs to be strengthened**.[5] The government's intention to accelerate infrastructure projects, including through PPPs, will likely lead to more sovereign involvement, particularly in the power generation sector. So far, the government approved four PPPs with total project cost of about US$0.3 billion. The contingent liabilities due to the approved projects have not been quantified in the 2018 budget. An improvement of debt management including monitoring of contingent liabilities requires technical assistance (TA) from international partners. Some TA has been provided by the World Bank assisting with the development of a Medium-Term Debt Strategy (MTDS) for 2017–19. The World Bank is also assisting with an assessment of SOEs' financial position. The magnitude of a shock used for the contingent liability stress test reflects the coverage of public debt and other vulnerabilities in the public sector.

[2] The separation is required to account for the government's debt owed to the central bank.

[3] Since there is no domestic debt market in Afghanistan this classification overlaps with the residency-based classification.

[4] There are 36 state-owned enterprises (SOEs) and 16 state-owned corporations (SOCs).

[5] The latest IMF assessment of public debt recording and monitoring capacity, made in consultation with the World Bank (November 2016), pointed to the need to build up capacity in this area.

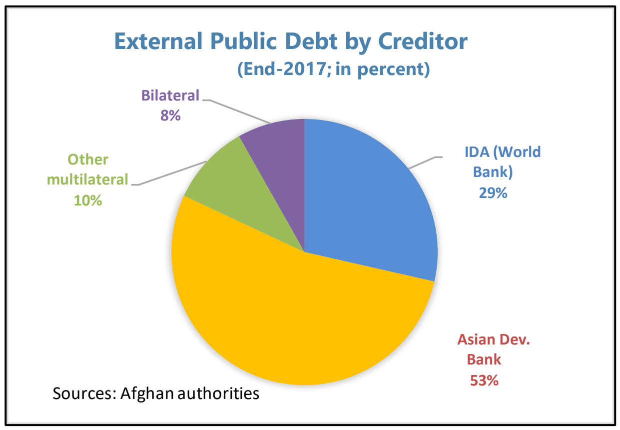
Coverage of Public Debt and the Magnitude of Contingent Liability Shock

1 The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt			
	Default		Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4 PPP	35	percent of PPP stock	0.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Background on Debt

4. **Afghanistan has relied mainly on grant financing and highly concessional external borrowing to finance its development needs**. As of end-2017, Afghanistan's total public external debt stood at US$1,168 million or 5.9 percent of GDP. The low level of debt reflects past debt relief under the Enhanced HIPC Initiative, and limited borrowing since then. The borrowing comes mostly from multilateral and bilateral lenders on highly concessional terms. Main multilateral creditors are the Asian Development Bank (ADB), the International Development Agency (IDA), the International Monetary Fund (IMF), and the IsDB. Among bilateral creditors, the Saudi Fund was the main creditor (5 percent of total debt outstanding) followed by the Kuwait Fund (2 percent).



5. **Exchange rate stabilization is important as the public debt is mostly denominated in foreign currencies**. Given Afghanistan's high level of dependence on grants and limited capacity to procure foreign exchange (outside grants), depreciation would increase the debt service burden substantially. However, that risk is somewhat mitigated by the low level of public debt, the long average loan maturity (14 years), and the evenly spread redemptions going forward. The annual interest payments are very low at 0.1 percent of GDP, and no external loans carry variable interest rates. Further, foreign reserves are high at US$8.1 billion, fully covering external debt service coming due over the next decade.

6. **The authorities remain committed to contracting external loans on highly concessional terms**. Under the ECF, concessional loans are those with a grant element of 60 percent or higher. From the beginning of 2018, the government has contracted around US$16 million external loan. It

considers taking on concessional loans equivalent to some US$250 million in a few years. These loans are used to finance key infrastructure and social sector projects.

UNDERLYING ASSUMPTIONS AND COUNTRY CLASSIFICATION

Background on Macro Forecasts

7. **The updated long-term macroeconomic framework assumes a slightly lower short-to medium-term growth trajectory compared to the November 2017 DSA** reflecting increased risks owing to the economy's performance, and adverse security, political, and regional conditions (see Box below).

Macroeconomic Assumptions Comparison Table

	DSA November 2017		Current DSA	
	2017-22	2023-37	2018-23	2024-38
Real GDP (%)	3.9	6.0	3.7	6.0
Inflation (GDP, deflator, %)	6.0	4.5	4.5	4.9
Nominal GDP (Billions of Afghanis)	25.0	57.1	21.8	49.6
Revenue and grants (% of GDP)	27.5	26.4	27.8	25.9
Grants (% GDP)	15.6	10.2	14.9	9.0
Primary expenditure (% GDP)	27.4	26.7	27.9	27.1
Primary deficit (% GDP)	-0.1	0.4	0.1	1.2
Exports of G&S (% change)	18.5	9.0	8.6	6.9
Noninterest current account deficit (% GDP)	-1.8	7.7	0.3	9.5

Sources: Afghan authorities and IMF staff estimates and projections

8. **The realism tools show that projections are in line with historical and peers' experiences**.

- **Forecast errors**. In the past, given low levels of public debt, changes in both PPG external debt and public debt were small with small negative forecast errors. At the same time factors contributing to historical debt dynamics varied widely, with a current account surplus acting to restrain external debt/GDP, and primary deficit driving total public debt. Going forward, both PPG external debt and public debt are expected to stay low in the medium term, and real GDP growth will continue to contribute as a debt reducing factor (Figure 3).

Box 1. Baseline Macroeconomic Assumptions

- Staff projects medium-term growth lower than the 2017 DSA, owing to downward revisions in 2018–19 reflecting short- and medium-term political/security concerns, regional uncertainties, and the ongoing drought. The growth potential of 6 percent is projected to be reached from 2025 onwards.[1]
- Over time, stronger growth and job creation are assumed to be supported by agricultural development, public investment in education and health, and regional trade integration. In addition, the extractive industry could deliver positive impacts on the economy, though these are currently not incorporated in economic growth or exports projections due to uncertainty over the timing of material production.
- That said, if security conditions worsen, aid falls short, or reforms stall, growth would be lower with attendant effects on unemployment and poverty. Conversely, lasting peace with insurgents would boost private sector confidence and facilitate a shift in public spending from security to development, leading to higher and more inclusive growth.
- In line with the new guidance on grants,[2] the baseline scenario assumes a gradual decline in donor aid beyond the period over which the international community has firmly pledged its financial assistance. Along with higher GDP growth, the grants-to-GDP ratio is assumed to decline by around 1 ppt of GDP per year. The remaining financing needs are assumed to be financed mainly by external concessional loans but with a grant element of around 35 percent.[3]
- Export growth is lower in the revised long-term scenario, reflecting the on-going drought and uncertainty over the regional economies. The authorities should continue to diversify export destinations and complete the ongoing regional infrastructure / trade projects that may increase exports in the long run. The long-term agenda aiming at diversifying the economy as well as progress with regional integration should result in attracting FDIs into tradable sectors. Growing FDI (mining, services, transport infrastructure, banking, communication, distribution) will contribute to covering the widening current account deficit stemming from declining grants.
- The terms for new external borrowing are assumed to be concessional. This DSA assumes that the authorities issue a three-year sukuk in the middle of the 2020s with an interest rate of 7 percent.

[1] The potential growth rate assumption is based on growth accounting analysis by the World Bank.
[2] See ¶37 of "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries."
[3] Typically, the 35 percent grant element is used by the IMF to define a loan as concessional.

- **Fiscal adjustment**. The size of projected fiscal adjustment is moderate at 0.2 ppt of GDP for the first year of projections. Growth projections are roughly in line with the growth path suggested by a fiscal multiplier of 0.4 (LICs' average), while the projection for 2018 is more conservative reflecting political/security concerns and ongoing drought (Figure 4).

- **Investment-growth**.[6] The contribution of government capital stock to growth is similar to that observed in the previous DSA. Staff is of the view that relatively high levels of its contribution will gradually come down as infrastructure gaps are closed and private-sector activities, including in the mining sector, would be more vitalized.

Country Classification and Determination of Scenario Stress Tests

9. **Afghanistan is assessed to have a weak debt carrying capacity**. Based on the October 2018 WEO macroeconomic framework, and update to the World bank's CPIA measures to 2017 values, Afghanistan's composite indicator score[7] lies below the lower cut-off value of 2.69 to confirm the assessment of weak debt carrying capacity used in the November 2017 DSA. The thresholds for a weak performer are used below to assess the external debt risk rating. Given Afghanistan's economic characteristics, tailored stress tests (natural disasters, commodity prices, and market financing stress tests) are not applicable.

EXTERNAL DSA

10. **The risk of external debt distress for Afghanistan is high**. Given the very high concessionality of external debt (with a long grace period) and the persistence of Afghanistan's economic and social challenges, 20-year projection period is used for mechanical risk rating. While external debt-to-GDP is projected to remain low in the medium-term, when grants are gradually replaced by loans, one of the debt sustainability indicators—the ratio of present value (PV) of debt to exports — breaches the threshold under the baseline .[8] On the other hand, liquidity indicators remain at low levels under the baseline provided the concessional loans continue in the long-run (Figure 1).

11. **External debt sustainability is vulnerable to shocks to non-debt flows and exports**. The most extreme shocks are the exports shock for the ratio of PV of debt to exports and the ratio of debt service-to-exports, and the non-debt flow shock (FDI and transfers) for the ratio of PV of debt to GDP (Table 3). These results illustrate the importance of sustained donor support. At the same time, it is important that Afghanistan continues its efforts to diversify exports and mobilize domestic revenue.

[6] Due to lack of government capital stock data, staffs applied the average share of government investment in total investment over the past 5 years (69 percent) to the historical total capital stock estimates prepared by the World Bank (78 percent of GDP as of end-2017).

[7] See footnote 1 for definition.

[8] See ¶87 of "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries."

OVERALL RISK OF PUBLIC DEBT DISTRESS

12. **Total public debt remains low**. Given the financing mix of large grants and highly concessional external loans, the PV of total public debt-to-GDP ratio is projected to stay below the benchmark with a wide margin both under the baseline and stress tests. The public DSA suggests that all three relevant debt indicators–PV-to-GDP ratio, PV-to-revenue ratio, and debt service-to-revenue ratio–are most vulnerable to the growth shock (Figure 2). Going forward, it is important to maintain primary surpluses and strengthen the capacity to manage debt and liquidity to assure prudent issuance of domestic sukuk while deepening the domestic debt market.

13. **Afghanistan's overall risk of public debt distress is assessed to be high**. Though both PPG external debt and total public debt are projected to remain low and mechanical signals over the first 10-year period suggest moderate risk of debt distress, staff is of the view that Afghanistan's overall risk of debt distress should be "high" consistent with 20-year mechanical signals because its debt sustainability largely hinges on significant and continued donor support which is uncertain in the long term and significant social, economic, and the related risks and challenges will persist into the longer term.

CONCLUSIONS

14. **Afghanistan remains at a high risk of external/overall debt distress as debt sustainability hinges upon continued donor grant inflows**. Sound macroeconomic management, including proper use of public resources, would be key to keeping international development partners on board. The authorities should strictly prioritize projects to be financed by external borrowing and seek as concessional terms as possible. While a continued favorable financing mix of grants and highly concessional loans would be critical for debt sustainability, the authorities should continue its efforts to gradually reduce its reliance on grants. It is important to reduce external vulnerabilities through diversifying exports and maintaining sufficient foreign reserves, as well as increasing revenue by broadening the tax base and further strengthening revenue collection. Also, debt management capacity, including the monitoring of contingent liabilities emanating from state-owned entities and PPPs, needs to be strengthened. Domestic borrowing through sukuk should be implemented cautiously after an adequate institutional framework and capacity is in place.

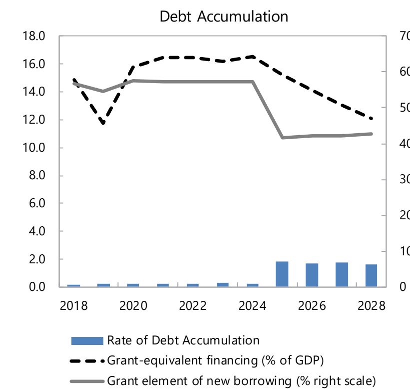
15. **The authorities concurred with the conclusions of the DSA**. They would remain committed to ensuring debt sustainability by seeking grants and limited concessional borrowing to the maximum extent possible, while noting that country's large developmental needs. The authorities were cognizant of needs to record and monitor public debt and fiscal risks associated with PPPs, and build up sufficient institutional capacity to properly manage domestic debt through sukuk issuance. They would welcome targeted TAs in these areas. In the long-run, they agreed that they should gradually reduce reliance on grants by strengthening public resources management and resilience to external vulnerabilities.

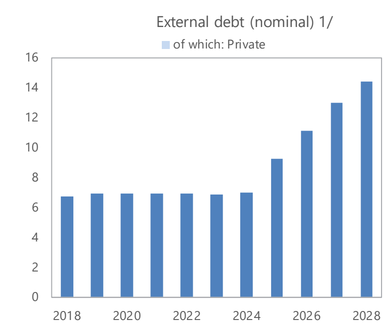
Table 1. Islamic Republic of Afghanistan: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	6.8	6.1	5.9	6.7	6.9	6.9	6.9	6.9	6.9	14.4	17.2	8.9	8.7
of which: public and publicly guaranteed (PPG)	6.8	6.1	5.9	6.7	6.9	6.9	6.9	6.9	6.9	14.4	17.2	8.9	8.7
Change in external debt	0.5	-0.7	-0.2	0.8	0.2	0.0	0.0	0.0	0.0	1.4	-0.8		
Identified net debt-creating flows	-3.5	-7.6	-5.5	-5.9	0.4	-0.3	-0.3	1.5	2.4	4.4	4.0	-18.2	1.1
Non-interest current account deficit	-2.9	-7.3	-5.0	-5.3	1.1	0.4	0.4	2.2	3.1	8.0	11.6	-16.4	2.8
Deficit in balance of goods and services	35.9	32.6	34.5	36.1	37.8	36.9	35.2	34.3	32.4	26.1	18.3	29.5	32.0
Exports	7.1	5.8	6.0	6.7	7.0	7.4	7.7	7.8	7.9	7.3	6.7		
Imports	43.0	38.5	40.5	42.8	44.9	44.2	42.9	42.1	40.3	33.4	25.0		
Net current transfers (negative = inflow)	-37.9	-39.4	-38.9	-40.7	-36.0	-35.8	-34.1	-31.4	-28.7	-17.7	-6.4	-45.6	-28.6
of which: official	-37.6	-38.3	-38.0	-39.7	-34.9	-34.5	-32.8	-30.0	-27.3	-16.0	-5.0		
Other current account flows (negative = net inflow)	-0.9	-0.5	-0.5	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.4	-0.2	-0.2	-0.6
Net FDI (negative = inflow)	-0.8	-0.6	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-3.0	-6.8	-0.7	-1.4
Endogenous debt dynamics 2/	0.2	0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.6	-0.8		
Contribution from nominal interest rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2		
Contribution from real GDP growth	-0.1	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.7	-1.0		
Contribution from price and exchange rate changes	0.2	0.4	-0.1	...	...	...	...	...	...	...	...		
Residual 3/	4.0	6.8	5.3	6.7	-0.2	0.4	0.3	-1.5	-2.4	-3.0	-4.8	16.8	-0.4
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	3.3	3.6	3.9	3.9	4.0	3.9	3.9	8.5	11.3		
PV of PPG external debt-to-exports ratio	...	...	55.5	53.1	55.2	53.6	51.2	50.3	49.5	116.5	169.4		
PPG debt service-to-exports ratio	3.1	3.9	4.2	3.5	3.0	2.6	2.4	2.6	2.5	3.7	8.5		
PPG debt service-to-revenue ratio	2.2	2.1	2.1	2.0	1.8	1.6	1.4	1.5	1.3	1.6	3.3		
Gross external financing need (Million of U.S. dollars)	-707.8	-1477.8	-1022.6	-1109.4	157.0	15.7	26.3	462.8	716.3	1957.9	4342.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.0	2.2	2.7	2.3	3.0	3.5	4.0	4.5	5.0	6.1	6.1	6.8	4.7
GDP deflator in US dollar terms (change in percent)	-3.7	-5.2	1.5	-3.0	-4.8	1.0	2.1	2.7	2.8	2.0	2.0	2.6	0.9
Effective interest rate (percent) 4/	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	1.2	1.3	0.3	0.7
Growth of exports of G&S (US dollar terms, in percent)	-28.9	-19.9	7.5	10.4	2.8	9.4	11.6	8.6	8.9	6.7	7.8	0.5	7.6
Growth of imports of G&S (US dollar terms, in percent)	2.7	-13.3	9.6	5.0	2.8	3.0	3.1	5.1	3.4	5.0	5.0	11.1	3.8
Grant element of new public sector borrowing (in percent)	...	...	...	56.7	54.6	57.5	57.3	57.2	57.2	42.6	49.1	...	51.5
Government revenues (excluding grants, in percent of GDP)	10.0	10.7	12.2	11.8	11.7	11.8	12.8	14.0	15.4	17.0	17.3	9.9	14.5
Aid flows (in Million of US dollars) 5/	2937.6	3043.8	2670.2	2943.7	2272.9	3211.9	3581.1	3838.5	4062.4	4856.6	3755.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	14.8	11.7	15.7	16.5	16.5	16.2	12.1	4.5	...	14.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	98.3	97.7	98.5	98.5	98.4	98.3	89.3	90.3	...	95.1
Nominal GDP (Million of US dollars)	20,057	19,428	20,235	20,085	19,692	20,577	21,853	23,442	25,294	37,036	81,107		
Nominal dollar GDP growth	-2.7	-3.1	4.2	-0.7	-2.0	4.5	6.2	7.3	7.9	8.2	8.2	9.5	5.7
Memorandum items:													
PV of external debt 7/	...	...	3.3	3.6	3.9	3.9	4.0	3.9	3.9	8.5	11.3		
In percent of exports	...	...	55.5	53.1	55.2	53.6	51.2	50.3	49.5	116.5	169.4		
Total external debt service-to-exports ratio	3.1	3.9	4.2	3.5	3.0	2.6	2.4	2.6	2.5	3.7	8.5		
PV of PPG external debt (in Million of US dollars)			676.8	714.9	763.7	811.3	865.7	923.1	989.9	3160.1	9193.5		
(PVt-PVt-1)/GDPt-1 (in percent)				0.2	0.2	0.2	0.3	0.3	0.3	1.6	0.5		
Non-interest current account deficit that stabilizes debt ratio	-3.4	-6.5	-4.8	-6.1	0.9	0.3	0.4	2.3	3.1	6.6	12.4		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

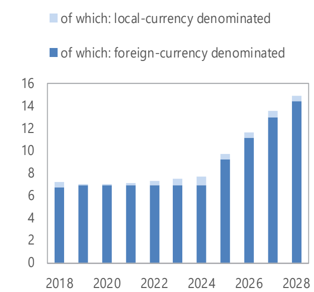
Table 2. Islamic Republic of Afghanistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	9.1	7.8	7.0	7.2	6.9	7.0	7.1	7.3	7.5	14.9	21.1	**9.7**	**9.1**
of which: external debt	6.8	6.1	5.9	6.7	6.9	6.9	6.9	6.9	6.9	14.4	17.2	**8.9**	**8.7**
Change in public sector debt	0.4	-1.3	-0.8	0.2	-0.3	0.1	0.1	0.2	0.2	1.3	0.4		
Identified debt-creating flows	2.1	-1.1	0.3	0.8	0.5	-0.4	-0.6	-0.6	-0.6	0.2	0.1	**-1.2**	**0.1**
Primary deficit	1.3	-0.2	0.6	0.4	0.8	-0.1	-0.2	-0.1	-0.1	1.0	1.3	**0.9**	**0.5**
Revenue and grants	24.6	26.1	25.3	26.4	23.1	27.2	29.0	30.1	31.2	28.0	21.3	**22.9**	**28.6**
of which: grants	14.6	15.4	13.0	14.5	11.4	15.4	16.2	16.1	15.8	11.0	4.0		
Primary (noninterest) expenditure	25.9	25.9	25.8	26.7	23.9	27.2	28.8	30.0	31.1	29.0	22.6	**23.8**	**29.1**
Automatic debt dynamics	0.8	-0.7	-0.1	0.4	-0.3	-0.3	-0.4	-0.4	-0.5	-0.9	-1.2		
Contribution from interest rate/growth differential	-0.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.9	-1.2		
of which: contribution from average real interest rate	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
of which: contribution from real GDP growth	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.8	-1.2		
Contribution from real exchange rate depreciation	0.9	-0.3	0.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**-1.0**	**0.0**
Privatization receipts (negative)	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.7	-0.2	-1.1	0.1	-0.8	0.5	0.6	0.7	0.7	1.1	0.3	**-0.1**	**0.7**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	**4.5**	**4.4**	**4.0**	**4.0**	**4.2**	**4.4**	**4.5**	**9.1**	**15.4**		
PV of public debt-to-revenue and grants ratio	...	...	**17.9**	**16.6**	**17.2**	**14.8**	**14.4**	**14.5**	**14.4**	**32.7**	**72.4**		
Debt service-to-revenue and grants ratio 3/	**0.9**	**8.4**	**3.2**	**3.1**	**2.9**	**0.8**	**0.8**	**0.8**	**1.0**	**1.3**	**3.4**		
Gross financing need 4/	1.5	2.0	1.4	1.2	1.4	0.2	0.1	0.1	0.2	1.4	2.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.0	2.2	2.7	2.3	3.0	3.5	4.0	4.5	5.0	6.1	6.1	**6.8**	**4.7**
Average nominal interest rate on external debt (in percent)	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	1.2	1.3	**0.3**	**0.7**
Average real interest rate on domestic debt (in percent)	-2.6	-5.0	-1.7	-1.0	-1.8	-4.3	7.1	4.1	3.2	3.5	2.1	**-4.6**	**2.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	14.3	-4.8	4.2	...	...	...	...	...	...	...	...	**0.0**	**...**
Inflation rate (GDP deflator, in percent)	2.7	5.2	1.8	3.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	**5.6**	**4.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	3.1	2.3	2.2	5.9	-8.0	17.8	10.3	8.9	8.7	3.4	3.8	**9.0**	**6.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.9	1.1	1.4	0.1	1.1	-0.2	-0.3	-0.3	-0.3	-0.3	0.9	**1.1**	**-0.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

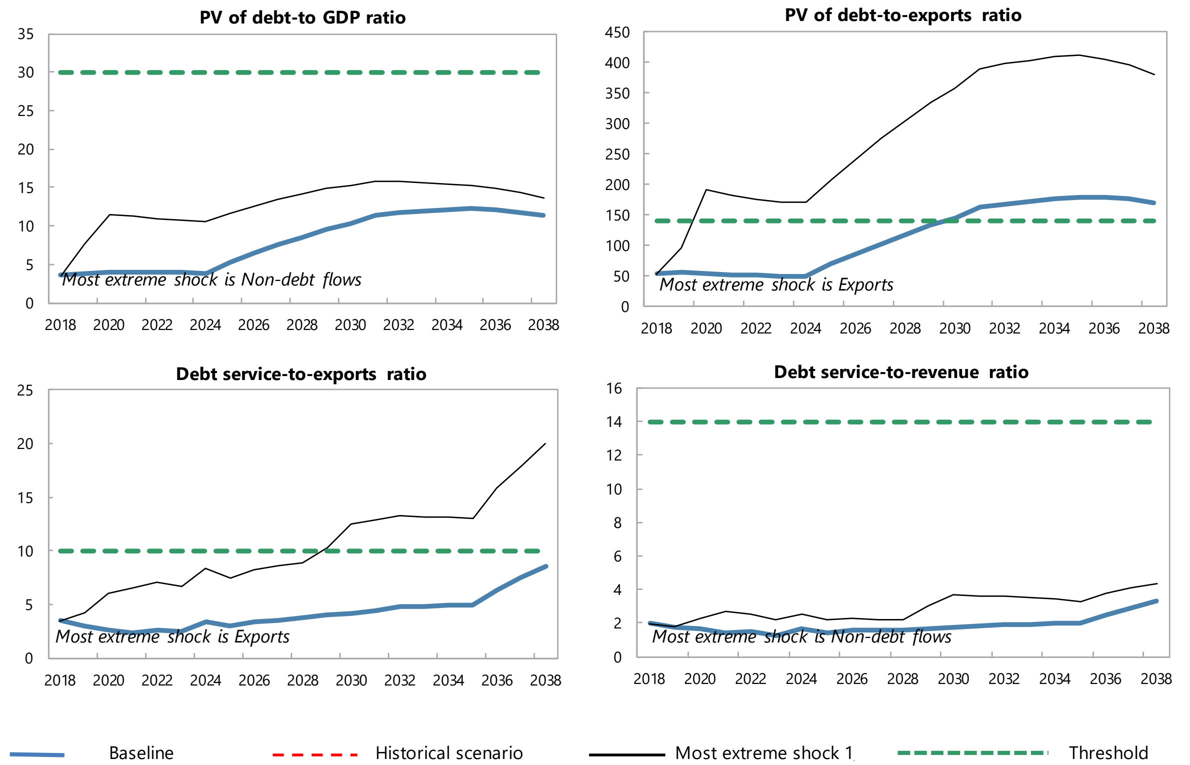
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Figure 1. Islamic Republic of Afghanistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018–28



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

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

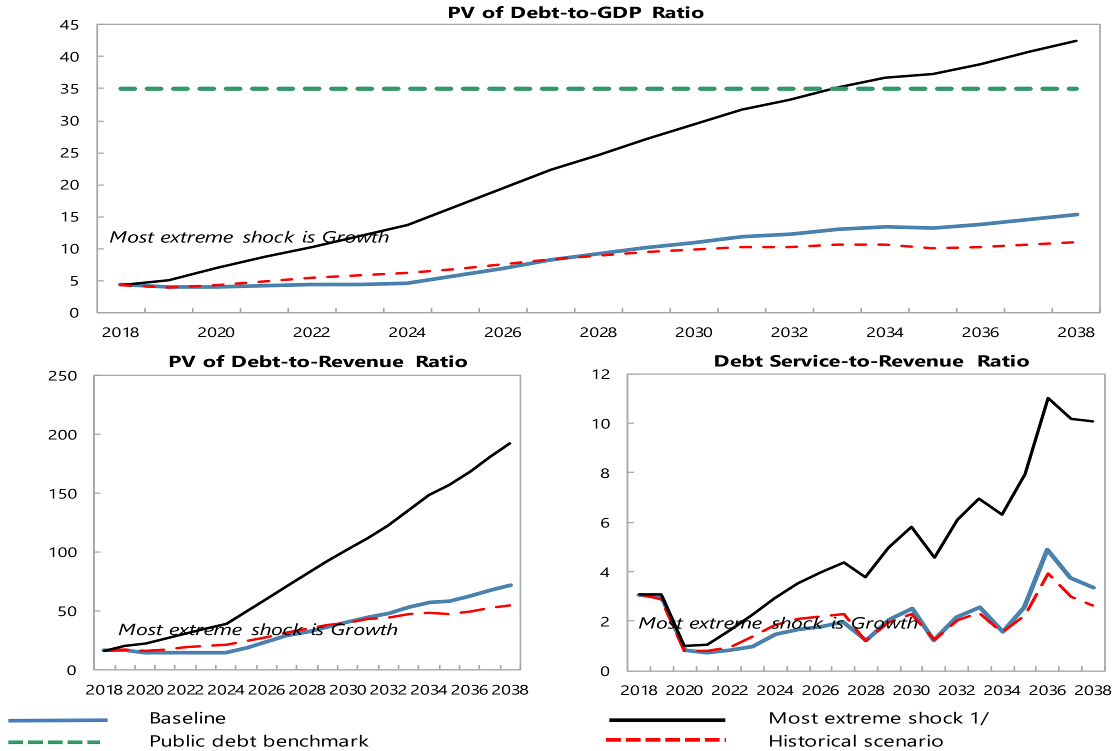
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	38	38
Avg. grace period	9	9

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Islamic Republic of Afghanistan: Indicators of Public Debt Under Alternative Scenarios, 2018–28



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	86%	86%
Domestic medium and long-term	14%	14%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	38	38
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.4%	2.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	0%	0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–28

(In percent)

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	**3.6**	**3.9**	**3.9**	**4.0**	**3.9**	**3.9**	**3.9**	**5.2**	**6.4**	**7.6**	**8.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	3.6	-5.1	-12.9	-20.4	-28.3	-36.2	-43.3	-49.1	-55.2	-61.4	-67.8
B. Bound Tests											
B1. Real GDP growth	3.6	4.3	4.8	4.8	4.8	4.8	4.7	6.4	7.8	9.3	10.4
B2. Primary balance	3.6	4.5	5.5	5.5	5.5	5.6	5.5	6.8	7.9	9.0	9.9
B3. Exports	3.6	4.9	6.9	6.9	6.8	6.6	6.5	7.8	8.9	10.0	10.9
B4. Other flows 2/	3.6	7.6	11.4	11.3	11.0	10.7	10.5	11.6	12.5	13.4	14.2
B6. One-time 30 percent nominal depreciation	3.6	5.0	-1.2	-1.1	-0.9	-0.7	-0.6	1.4	3.1	4.8	6.2
B6. Combination of B1-B5	3.6	7.9	9.5	9.4	9.2	9.0	8.8	10.2	11.3	12.5	13.4
C. Tailored Tests											
C1. Combined contingent liabilities	3.6	6.8	6.9	6.8	7.1	6.9	6.8	8.1	9.2	10.2	11.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	**53.1**	**55.2**	**53.6**	**51.2**	**50.3**	**49.5**	**49.4**	**68.3**	**84.9**	**102.1**	**116.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	53.1	-72.2	-175.5	-263.3	-361.7	-458.7	-552.6	-639.7	-731.4	-827.1	-925.5
B. Bound Tests											
B1. Real GDP growth	53.1	55.2	53.6	51.2	50.3	49.5	49.4	68.3	84.9	102.1	116.5
B2. Primary balance	53.1	64.0	75.2	71.5	70.7	70.3	69.8	88.4	104.8	121.5	135.5
B3. Exports	53.1	96.7	**192.0**	**181.5**	**176.3**	**171.4**	**169.6**	**207.8**	**241.2**	**275.6**	**304.2**
B4. Other flows 2/	53.1	108.5	**155.0**	**145.6**	**140.5**	135.6	133.6	**150.9**	**165.7**	**181.1**	**193.6**
B6. One-time 30 percent nominal depreciation	53.1	55.2	-13.2	-10.9	-9.1	-7.2	-6.1	13.9	31.7	50.1	65.8
B6. Combination of B1-B5	53.1	123.9	114.0	**159.9**	**154.9**	**150.1**	**148.3**	**175.0**	**198.1**	**222.1**	**241.9**
C. Tailored Tests											
C1. Combined contingent liabilities	53.1	96.8	93.3	88.5	90.2	87.6	86.7	105.4	121.2	137.6	**151.2**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**3.5**	**3.0**	**2.6**	**2.4**	**2.6**	**2.5**	**3.4**	**3.0**	**3.4**	**3.6**	**3.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	3.5	2.7	-0.2	-2.4	-4.0	-6.0	-7.4	-9.6	-11.2	-13.0	-14.7
B. Bound Tests											
B1. Real GDP growth	3.5	3.0	2.6	2.4	2.6	2.5	3.4	3.0	3.4	3.6	3.7
B2. Primary balance	3.5	3.0	2.8	2.8	3.0	2.9	3.8	3.4	3.7	3.9	4.1
B3. Exports	3.5	4.2	6.1	6.6	7.0	6.7	8.3	7.5	8.2	8.6	8.9
B4. Other flows 2/	3.5	3.0	3.7	4.4	4.6	4.3	5.0	4.6	4.9	5.0	5.1
B6. One-time 30 percent nominal depreciation	3.5	3.0	2.6	1.0	1.4	1.3	2.2	1.9	2.3	2.6	2.8
B6. Combination of B1-B5	3.5	3.5	5.4	5.3	5.6	5.3	6.5	5.9	6.3	6.6	6.8
C. Tailored Tests											
C1. Combined contingent liabilities	3.5	3.0	3.5	3.2	3.4	3.3	4.1	3.7	4.0	4.2	4.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	**2.0**	**1.8**	**1.6**	**1.4**	**1.5**	**1.3**	**1.7**	**1.4**	**1.5**	**1.6**	**1.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	2.0	1.6	-0.1	-1.5	-2.3	-3.1	-3.7	-4.6	-5.2	-5.8	-6.3
B. Bound Tests											
B1. Real GDP growth	2.0	2.0	2.0	1.7	1.8	1.6	2.1	1.7	1.9	1.9	2.0
B2. Primary balance	2.0	1.8	1.7	1.7	1.7	1.5	1.9	1.6	1.7	1.7	1.8
B3. Exports	2.0	1.8	1.9	1.9	1.9	1.7	2.1	1.8	1.9	1.9	1.9
B4. Other flows 2/	2.0	1.8	2.3	2.7	2.5	2.2	2.5	2.2	2.3	2.2	2.2
B6. One-time 30 percent nominal depreciation	2.0	2.3	2.1	0.8	1.0	0.9	1.4	1.2	1.4	1.5	1.6
B6. Combination of B1-B5	2.0	1.9	2.6	2.4	2.4	2.1	2.5	2.1	2.2	2.2	2.2
C. Tailored Tests											
C1. Combined contingent liabilities	2.0	1.8	2.2	1.9	1.9	1.7	2.1	1.8	1.9	1.9	1.9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

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

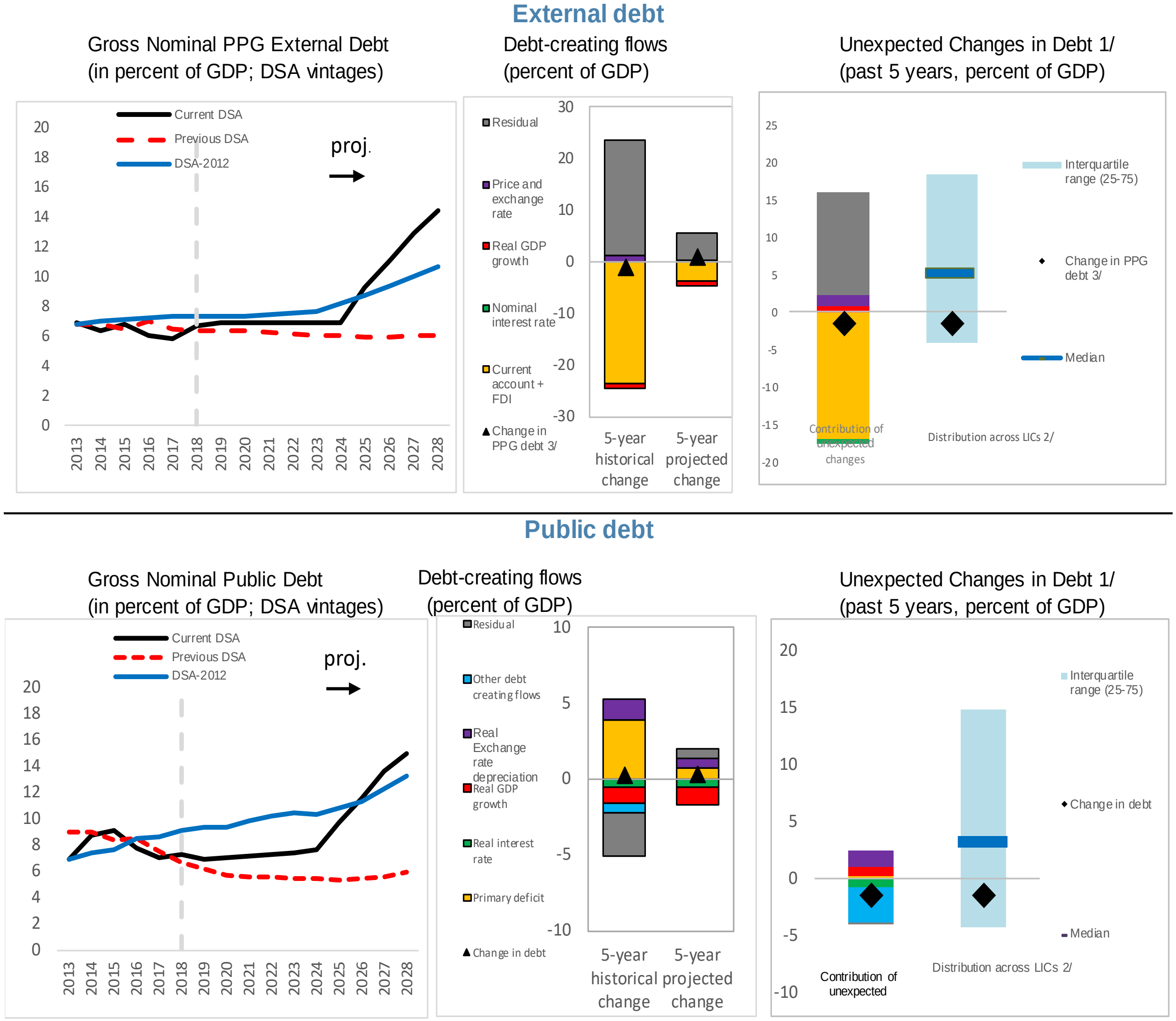
2/ Includes official and private transfers and FDI.

Table 4. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public Debt, 2018–28

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	**4.4**	**4.0**	**4.0**	**4.2**	**4.4**	**4.5**	**4.6**	**5.7**	**7.0**	**8.3**	**9.1**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	4	4	4	5	5	6	6	7	8	8	9
B. Bound Tests											
B1. Real GDP growth	4	5	7	9	10	12	14	17	19	22	25
B2. Primary balance	4	5	6	6	6	6	6	7	8	10	11
B3. Exports	4	5	7	7	7	7	7	8	9	11	11
B4. Other flows 2/	4	8	12	12	11	11	11	12	13	14	15
B6. One-time 30 percent nominal depreciation	4	5	4	4	4	3	3	3	3	4	4
B6. Combination of B1-B5	4	5	6	4	5	5	5	6	7	9	10
C. Tailored Tests											
C1. Combined contingent liabilities	4	8	8	8	8	8	8	9	10	11	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	**16.6**	**17.2**	**14.8**	**14.4**	**14.5**	**14.4**	**14.6**	**19.1**	**23.8**	**29.1**	**32.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	17	17	17	18	19	20	21	25	28	32	35
B. Bound Tests											
B1. Real GDP growth	17	21	23	27	31	35	39	50	60	72	81
B2. Primary balance	17	21	22	21	21	20	20	24	29	34	38
B3. Exports	17	22	25	24	23	23	23	27	32	37	40
B4. Other flows 2/	17	34	43	40	38	36	36	41	45	50	53
B6. One-time 30 percent nominal depreciation	17	21	16	14	12	11	9	10	12	14	15
B6. Combination of B1-B5	17	21	21	15	15	16	16	21	25	31	34
C. Tailored Tests											
C1. Combined contingent liabilities	17	34	29	27	25	24	24	29	33	38	42
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**3.1**	**2.9**	**0.8**	**0.8**	**0.8**	**1.0**	**1.5**	**1.7**	**1.8**	**2.0**	**1.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 1/	3	3	1	1	1	1	2	2	2	2	1
B. Bound Tests											
B1. Real GDP growth	3	3	1	1	2	2	3	4	4	4	4
B2. Primary balance	3	3	1	1	2	2	2	2	2	2	1
B3. Exports	3	3	1	1	1	1	2	2	2	2	1
B4. Other flows 2/	3	3	1	1	1	1	2	2	2	2	2
B6. One-time 30 percent nominal depreciation	3	3	1	1	1	1	1	2	2	2	1
B6. Combination of B1-B5	3	3	1	1	1	1	2	2	2	2	1
C. Tailored Tests											
C1. Combined contingent liabilities	3	3	1	1	4	1	2	2	2	2	1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
2/ Includes official and private transfers and FDI.

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

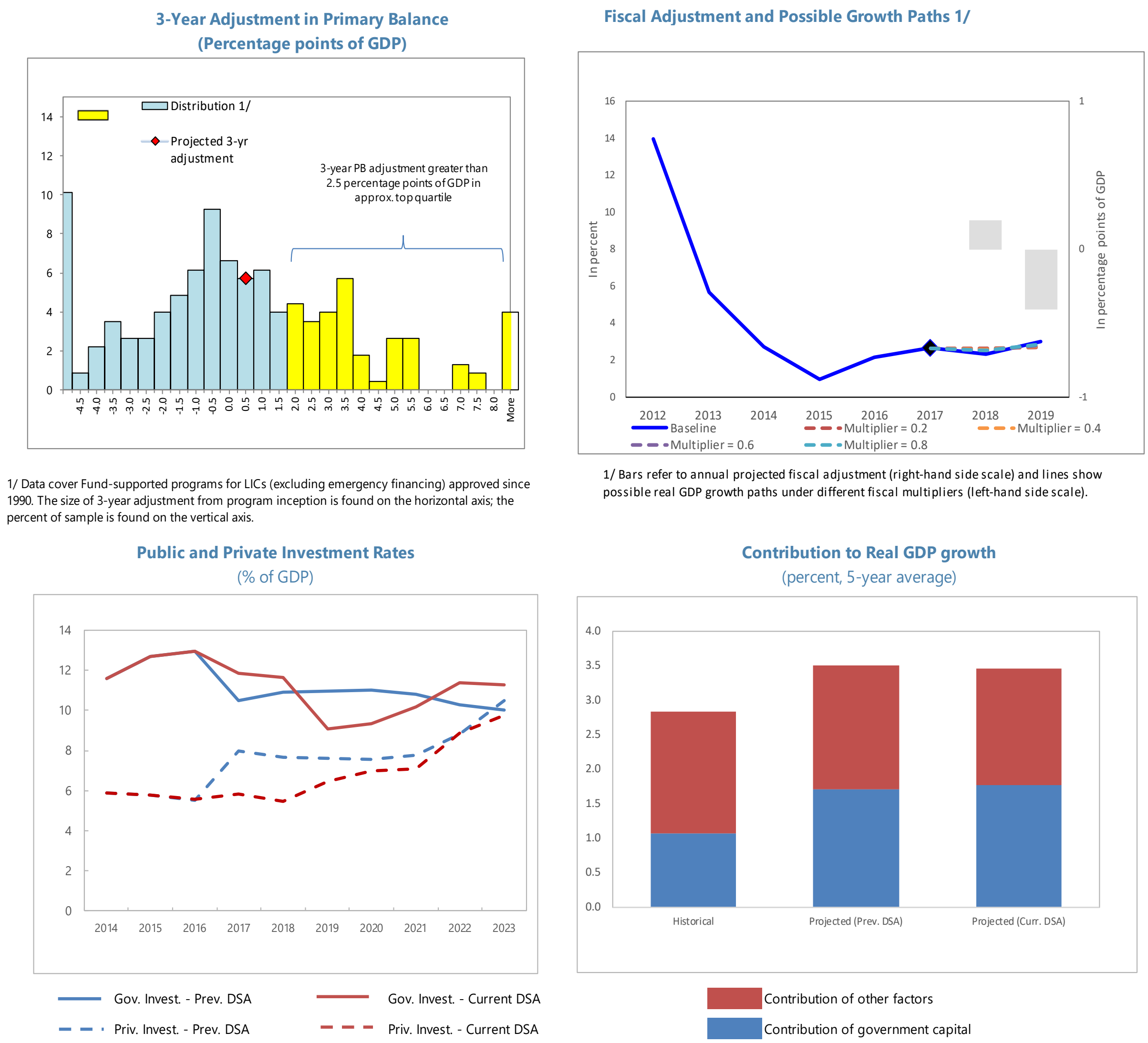


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Islamic Republic of Afghanistan: Realism Tools



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

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