INTERNATIONAL MONETARY FUND

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ISLAMIC REPUBLIC OF AFGHANISTAN

June 2019

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ISLAMIC REPUBLIC OF AFGHANISTAN

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

- A **Press Release** 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 June 3, 2019, following discussions that ended on March 20, 2019, with the officials of the Islamic Republic of Afghanistan on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 15, 2019.
- A **Statement by the Executive Director** for the Islamic Republic of Afghanistan.

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

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Press Release No. 19/193
FOR IMMEDIATE RELEASE
June 3, 2019

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Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review of the Extended Credit Facility Arrangement for the Islamic Republic of Afghanistan

- In the face of many headwinds, Afghanistan's government continues to demonstrate strong ownership of the program supported by the Extended Credit Facility arrangement.
- The economic outlook is clouded by numerous uncertainties, but ongoing peace negotiations offer hope for a much-needed improvement in the security situation.
- Continued reforms remain key to achieving higher and more inclusive growth.

On June 3, 2019, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review of Afghanistan's economic program supported by an arrangement under the Extended Credit Facility (ECF).[1] The completion enables the release of SDR 4.5 million (about US$6.2 million), bringing total disbursements under the arrangement to SDR 27 million (about US$37.3 million). The ECF arrangement for SDR 32.38 million was approved on July 20, 2016 (see Press Release No. 16/348).

Program implementation has been satisfactory, despite the challenging security and political environment, which continues to undermine economic activity. Nevertheless, with an expected recovery in agriculture following last year's drought, the outlook is for a pickup in GDP growth to 3 percent in 2019. This is subject to downside risks, including potential election-related disruptions, increased violence, uncertainties surrounding the peace negotiations, and the strength of recovery from last year's drought. On the upside, a durable peace, boosting private sector confidence and pro-growth investment, supported by repatriation of overseas capital, would improve economic prospects significantly.

Continued strong program ownership by the government remains vital to its success. Reforms in support of fiscal sustainability, institution building, anti-corruption efforts, and financial stability should continue.

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

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

“The Afghan government, guided by its National Peace and Development Framework and the program supported by the Extended Credit Facility arrangement, remains committed to policies pursuing macroeconomic stability, self-reliance, and inclusive growth.

“These policies have delivered rapidly rising revenues allowing timely payment of wages, social assistance, and investment in infrastructure, and provided low inflation and a functioning banking system. The outlook envisages a modest recovery in 2019 with low inflation, and growth rising to five percent by 2023 assuming continued reforms, sustained aid, and no significant security deterioration.

“While ongoing peace talks provide hope for a political settlement, the sustained insurgency and political uncertainty before the September presidential election cloud the outlook.

“Continued cautious fiscal policy remains critical considering risks to revenues and grants and limited financing options. Sustainable revenue mobilization for security, pro-poor and development spending remains a priority. Institutions should be further strengthened, and policies promising short-lived quick wins at the expense of macroeconomic stability or debt sustainability avoided.

“External financing should continue to rely on grants and concessional funding. Any scaling up of externally financed public investment should be gradual and preceded by an assessment of macro-fiscal implications and strengthened debt management.

“Safeguarding financial stability while boosting financial inclusion is another key priority. Addressing the weak private banks’ shortcomings and reforming state-owned commercial banks are key challenges. The central bank’s remaining lender-of-last resort exposure due to Kabul Bank’s closure should be eliminated this year, and recovery of stolen Kabul Bank assets revived.

“Continued anti-corruption reforms are needed to boost transparency, accountability, and confidence, building on measures that criminalized corruption and strengthened the asset declaration framework for public officials.

“Completion of this review demonstrates continued strong program ownership. The IMF and international partners continue to assist Afghanistan in support of its objectives, including with capacity development.”

Islamic Republic of Afghanistan: Selected Economic Indicators, 2016–20
(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)

	2016	2017	2018	2019	2020
			Est.	Proj.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	2.2	2.7	2.7	3.0	3.5
Nominal GDP (in billions of Afghanis)	1,318	1,378	1,421	1,491	1,597
Nominal GDP (in billions of U.S. dollars)	19.4	20.2	19.6	20.0	20.7
Consumer prices (period average)	4.4	5.0	0.6	1.8	3.5
Public finances (central government)	(In percent of GDP)				
Domestic revenues and grants	26.1	25.3	28.6	26.0	29.2
Domestic revenues	10.7	12.2	13.4	12.6	12.9
On-budget grants (excl. donors' direct spending outside the budget)	15.4	13.0	15.2	13.4	16.4
Expenditures	26.0	25.9	27.0	26.8	29.2
Operating 2/	18.9	18.4	18.2	18.3	19.7
Development	7.1	7.5	8.9	8.4	9.5
Operating balance (excluding grants) 3/	-8.2	-6.2	-4.8	-5.7	-6.8
Overall balance (including grants)	0.1	-0.6	1.5	-0.8	0.0
Public debt 4/ 5/	7.8	7.5	6.9	6.8	7.1
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	11.8	10.2	-2.7	10.5	9.9
Broad money	5.6	5.9	2.6	9.0	9.0
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	614	784	875	946	1023
Exports of goods (annual percentage change)	6.3	27.6	11.6	8.1	8.1
Imports of goods (in millions of U.S. dollars)	6,536	7,024	6,900	7,103	7,323
Imports of goods (annual percentage change)	-13.7	7.5	-1.8	3.0	3.1
Current account balance					
Excluding official transfers	-30.6	-32.4	-30.2	-31.3	-31.2
Including official transfers	7.6	3.4	6.9	2.1	1.4
Foreign direct investment	0.6	0.3	0.7	0.5	0.5
Total external debt 4/	6.1	6.3	6.4	6.8	7.0
Gross international reserves (in millions of U.S. dollars)	7,357	8,139	8,273	8,349	8,348
Import coverage of reserves 6/	10.9	12.1	11.9	11.6	11.3
Exchange rate (average, Afghanis per U.S. dollar)	67.9	68.1	72.4	…	…

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 15, 2019

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

KEY ISSUES

Background: The three-year arrangement under the Extended Credit Facility (ECF) for SDR 32.38 million (US$44.9 million, or 10 percent of quota) was approved on July 20, 2016 and extended to end-2019 on December 7, 2018. The first four reviews under the ECF were completed on time. 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 catalyzes donor funding.

Context: The security situation remains difficult alongside the ongoing U.S.-Taliban peace talks, which have improved prospects for a long-awaited political settlement. So far, the talks have focused on an eventual withdrawal of U.S. troops from Afghanistan and Taliban guarantees that Afghanistan will not be used as a base for terrorists. While the talks have so far excluded the Afghan government, the U.S. has insisted that any final deal would require "intra-Afghan" consultations and the Afghan government sign-off. Presidential elections have been postponed a second time, to September 28, 2019, partly to allow for electoral system reform. The November 2018 Geneva donor conference launched a World Bank-led effort to support the authorities in formulating a post-peace settlement economic development plan.

Program performance: Program implementation has been satisfactory. All end-December 2018 quantitative performance criteria (PCs) were met. Of the seven structural benchmarks (SBs), five were met, one was implemented with a short delay, and the anti-corruption related SB was implemented on April 8 after resolution of technical impediments. The authorities request modification of June 2019 PCs on revenue, reserve money, and net credit to the government due to the updated macroeconomic framework.

Staff supports the completion of the fifth review under the ECF arrangement and the authorities' request for modification of three PCs for end-June 2019.

Approved By
Taline Koranchelian and Martin Sommer

Discussions took place in Dubai during March 13-20, 2019. The staff team comprised Christoph Duenwald (head), Mariusz Sumliński, Majdi Debbich, Mohammed Anter (special appointee) (all MCD), Daisuke Ishikawa (FAD), Ke Chen (LEG), Keiichi Nakatani (SPR), Olivier Frécaut (MCM consultant), and Murtaza Muzaffari (local economist). Cyrus Sassanpour (OED) participated in the meetings. The team met Finance Minister Qayoumi, Governor Sediq, and other senior officials. Tetyana Sydorenko (MCD) provided research assistance and Maria Orihuela-Quintanilla (MCD) document management.

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CONTEXT

Objectives and Modalities of the 2016–19 ECF Arrangement

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

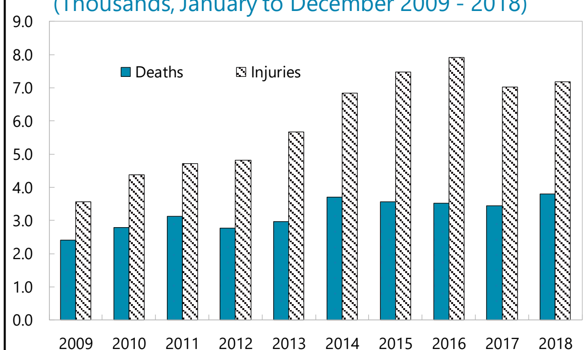
- Structural reforms for institution building, fiscal and financial reforms, and measures to combat corruption for scaled-up private sector development;
- Policies supporting macro-financial stability.

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

- SBs on: preserving macroeconomic stability via approval of the 2019 budget in line with the ECF's macroeconomic framework; strengthening revenue collection and administration through advancing towards VAT introduction; reducing the central bank's lender-of-last- resort exposure to Kabul bank; preserving financial stability by establishing the Financial Stability Committee; advancing anticorruption agenda through publishing activities of Anti-Corruption Justice Center; and improving governance of public assets by setting up a committee to review publicly funded projects.
- PCs for end-December 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 security situation remains strained, but the US-Taliban peace negotiations have improved prospects for a political settlement**. In 2018, civilian deaths reached a new record while total civilian casualties exceeded 2017 levels. Violence has continued, with recent insurgent attacks on military targets. The peace talks have so far excluded the Afghan government, but the U.S. insists that any final deal would require "intra-Afghan" consultations and the Afghan government's consent. Presidential elections have been postponed a second time, to September 28, 2019. Political uncertainty will remain elevated as the elections draws near.

Civilian Deaths and Injuries
(Thousands, January to December 2009 - 2018)



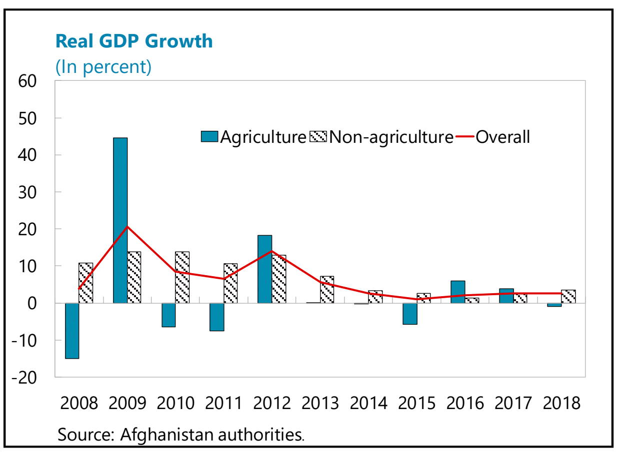
Source: United Nations Assistance Mission in Afghanistan.

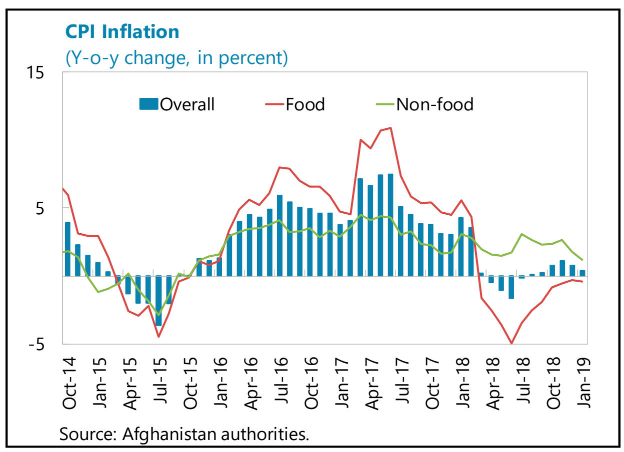
2. **Domestic and regional shocks affected the population**. A severe drought forced major internal displacements in 2018. The humanitarian agencies helped nearly 4 million people in 22 provinces with food assistance. In addition, the slowdown in Iran due to re-imposition of U.S. sanctions resulted in about 0.8 million Afghans returning, straining government services. Some 1.4 million Afghan refugees in Pakistan had their residency permits extended until end-June 2019.

3. Sustained reform implementation elicited strong donor support during the November 2018 Geneva donor conference. At the conference, most donors confirmed 2016 pledges from Brussels and a few pledged additional resources to alleviate the drought impact. The government and donors adopted deliverables for 2019–20 including a commitment by the government to agree a successor ECF arrangement by mid-2020. Donors tasked the World Bank to work with government and the international community on a post-peace settlement economic development plan. The plan aims to utilize the existing frameworks to support broad-based economic initiatives to encourage a post-peace return of Afghan capital, foreign investment, and enhanced regional economic integration. In parallel, the authorities have prepared an ambitious investment package totaling about 40 percent of current GDP over nine years, hoping to strengthen inclusive growth. It comprises projects in housing, energy, and agriculture with feasibility and financing details yet to be worked out.

RECENT DEVELOPMENTS

4. 2018 real GDP growth is estimated to have been higher than expected as strong industrial performance more than offset the drag from drought-affected agriculture.[1, 2] Industrial growth was driven by construction, supported by expanding domestic production of cement and steel. Still, the precarious security situation and political uncertainty continued to weigh on growth in 2018, which, at 2.7 percent, remains too low to make inroads into high poverty and unemployment.[3] Food prices have been declining, resulting in low headline inflation of 0.8 percent y/y at end-2018. Prices declined owing to increased vegetable production, lower priced imports compensating domestic food shortages, and the demand effect of lower rural incomes owing to the drought. Excluding food, inflation was 1.8 percent, and has remained low in the first quarter of 2019.



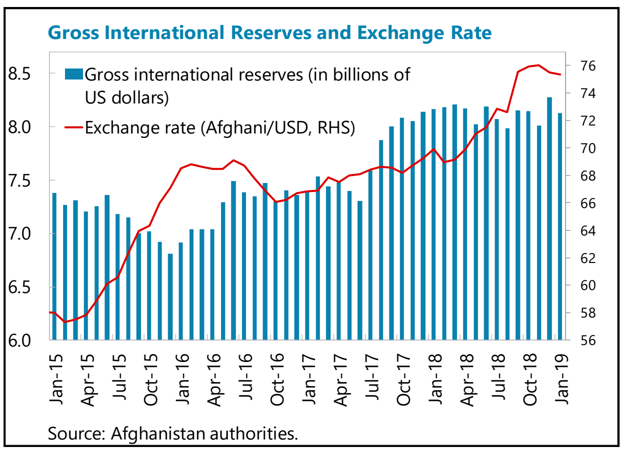


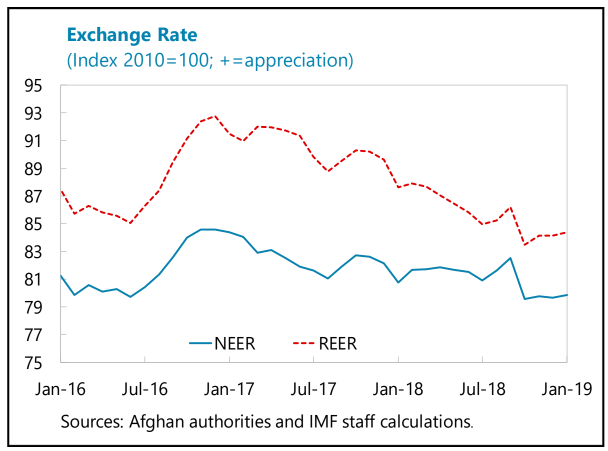
[1] The Afghanistan National Statistics and Information Authority is revising the methodology for the national accounts compilation, which may result in revisions for 2018 and prior years.

[2] Opium production is not included in GDP. The UN Office on Drugs and Crime estimates it declined by a third due to drought, with the farm-gate value of opium down 56 percent.

[3] Per Afghanistan Living Conditions Survey of 2016/17, 54.5 percent of Afghans live below the poverty line.

5. The exchange rate depreciated in 2018 reflecting growing uncertainty, and regional factors. The depreciation—which peaked at 9.5 percent in November relative to end-2017—was partly due to dollar outflows to Iran in response to shortages there after re-imposition of sanctions by the U.S. To counter excessive exchange rate volatility, Da Afghanistan Bank (DAB) increased its U.S. dollar sales to $2.4 billion in 2018, 23 percent more than in 2017. During the first four months of 2019, the exchange rate depreciated by about 4 percent with intervention below last year's amounts. On a nominal trade-weighted basis, the Afghani was broadly stable given appreciation against regional currencies. The external current account deficit (before grants) remained very large in 2018 despite import substitution of some consumption goods and strong export growth partly reflecting the establishment of subsidized "air corridors." Nonetheless, gross international reserves covered nearly 12 months of imports at end-2018, while net international reserves (NIR) exceeded the program target by a significant margin, reflecting, relative to earlier projections, a smaller current account deficit (excluding grants) and lower capital outflows.[4]



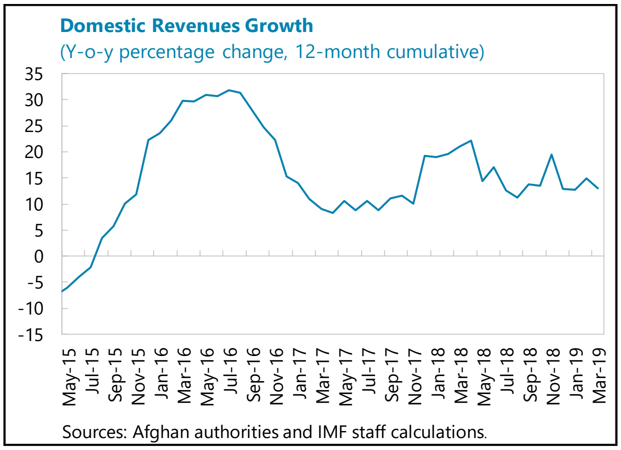


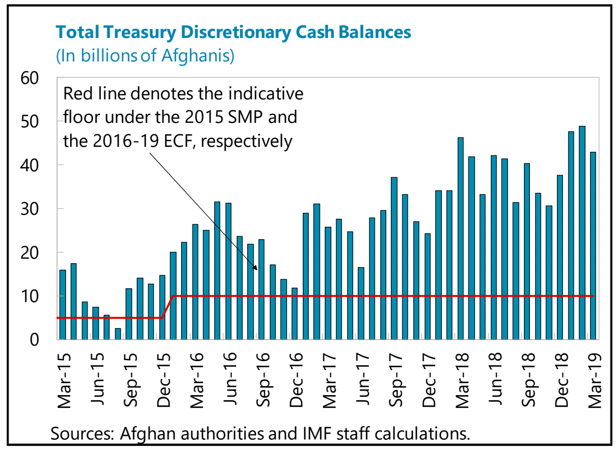
6. Fiscal performance in 2018 was strong. The overall budget surplus (including grants) was 1.5 percent GDP. The operating deficit excluding grants was 4.8 percent of GDP, down from 6.2 percent in 2017. Domestic revenues grew 13 percent, above the ECF arrangement target.[5] Of the nearly Af 18 billion total overperformance, Af 13.6 billion were one-off gains, mostly due to a tax amnesty scheme, which forgave 95 percent of accumulated penalties provided a delinquent taxpayer paid off the principal due. The remainder, Af 4.4 billion, was due to efficiency improvements and dividend payments from some state-owned entities. Reflecting improvements in budgetary processes, total expenditure execution climbed to 92 percent, with development expenditure execution up to about the same level. Operating grants at Af 127.9 billion exceeded expectations, reflecting higher discretionary grants disbursements. The treasury's discretionary cash balance was Af 37.6 billion, well above the program's Af 10 billion floor, reflecting increased aid inflows and prudent management of budget resources. Social and other priority spending was Af 41.8 billion, above the Af 40.6 billion target. In the first three months of 2019, good fiscal

[4] The large errors and omissions in 2018 make the data difficult to interpret.

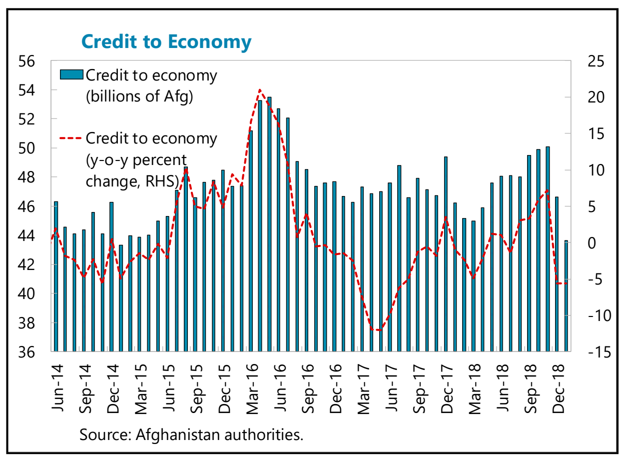
[5] The annex (p.40) discusses government's efforts to boost revenues since 2014.

performance continued with revenues rising y/y, March indicative targets met, and cash balances reaching nearly Af 43 billion. However, the pro-poor spending indicative target was missed owing to a technical problem with the payments system. The Ministry of Finance (MoF) will execute the delayed payments in the coming quarter.





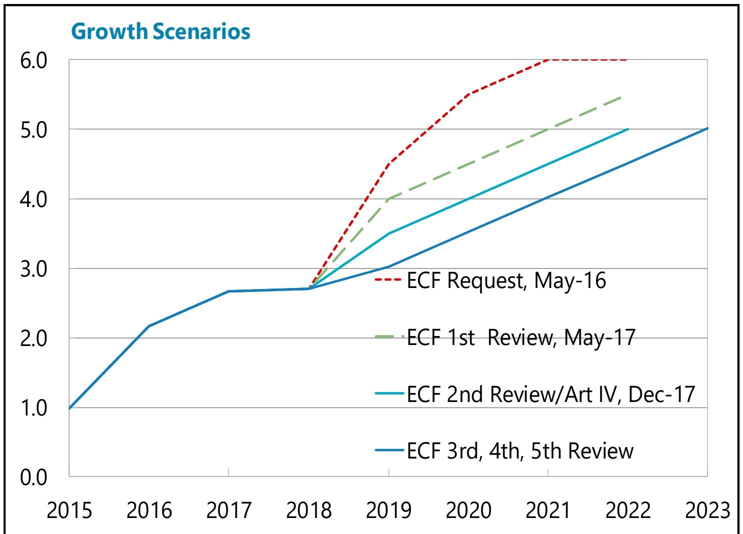
7. Growth in monetary aggregates moderated and credit to the economy fell last year. Reserve money was below the program target, partly due to increased intervention by DAB. Credit to the economy declined by nearly 6 percent y/y likely reflecting loan write-offs against the background of heightened political and security uncertainty. The credit-to-GDP ratio was 3.3 percent and the credit-to-deposit ratio 16 percent, much lower than in comparable countries.



8. Financial soundness indicators improved in 2018 but the sector remains vulnerable. Nonperforming loans declined from 12.2 percent of total loans at end-2017 to 8.9 percent at end-2018. Sector-wide profitability, although still low, improved, liquidity remained ample, and capital adequacy was satisfactory except for one bank.

OUTLOOK AND RISKS

9. The near-term outlook envisages a modest recovery with low inflation. In 2019, the baseline scenario assumes an uptick to 3 percent growth as agriculture recovers from the drought, but political uncertainty and security risks limit the recovery. Growth may reach 5 percent by 2023 assuming no significant deterioration in security, continued reforms, and sustained aid inflows. Over time, extractive industries and regional trade integration could support growth and job creation. Inflation, forecast at 3 percent in 2019, rises modestly thereafter as domestic demand picks up. The external position should remain comfortable with international reserves covering about 10–11 months of imports as aid inflows continue.



Source: IMF staff calculations.

10. There are significant downside risks to the baseline growth scenario. The short-term downside risks include potential election-related disruptions (fiscal, lapses in reforms);[6] increased violence; uncertainties regarding the peace negotiations and the strength of the recovery from drought; shortfalls in donor aid; and regional developments, especially the continuing fallout from the re-imposition of U.S. sanctions on Iran impacting remittances and migrant movements. On the upside, a durable peace, boosting private sector confidence and pro-growth investment, supported by repatriation of overseas capital, would improve economic prospects significantly. Moreover, the authorities' multi-year investment package that is under consideration could potentially raise growth in the medium term.

POLICY DISCUSSIONS

The discussions focused on fiscal risks in 2019, the need to redouble efforts on state-owned commercial bank reform, the anti-corruption structural benchmarks, and the need to rely on concessional funding when considering potential government investment projects combined with boosting debt management capacity.

[6] The previous election year, 2014, experienced a sharp decline in growth and fiscal revenues with the NATO troop withdrawal playing a significant role alongside stalled reforms and political uncertainty.

A. Fiscal Issues

11. The 2019 budget envisages an overall deficit of 0.8 percent of GDP, as in the program. Fiscal policy settings for 2019 appear prudent based on revenue and grants of 26 percent of GDP and expenditure of 26.8 percent. The budget targets revenue of Af 188 billion, consistent with the program. The revenue target considers the large one-off collections in 2018 reflecting the amnesty scheme. While the amnesty continues in 2019H1 (at reduced rates of forgiveness) and may bring in some additional revenue this year, the authorities thought that the bulk of overdue taxes was collected last year. The budget also includes continued revenue collections from state-owned entities, given the government's increased scrutiny of them. The budget envisages overall grant inflows marginally below 2018 inflows and nearly evenly split between operational and development grants. These projections appear consistent with donor intentions, provided reforms continue.

12. The authorities reiterated their commitment to prudent spending policies, including contingency plans in case revenue collections disappoint. The budget envisages total expenditures relative to GDP at about the 2018 level, with a small cut in development spending in line with lower grants. Operating expenditures are set at the 2018 level, with election-related spending mostly off-budget and financed by grants. The authorities assured staff that they would resist unfunded on-budget election-related spending pressures and that, should revenue intake disappoint, they would be prepared for spending cuts of up to 0.5 percent of GDP in operational expenditures (excluding wages, salaries, and pensions). They agreed that such cuts, which may need to be larger than 0.5 percent of GDP depending on the size of any revenue shortfalls, should be undertaken while preserving priority social spending. Over the medium term, the authorities remain committed to reduce operating budget expenditures by freezing employment (except security services), to create fiscal space for development expenditures.

13. The authorities and staff agreed that the main fiscal risks this year relate to possible revenue shortfalls. The authorities noted that the elections and related political tensions could result in below-target collections. They are closely monitoring revenue collections and treasury cash balances for signs of underperformance. This is supported by a policy action agreed with the World Bank requiring higher frequency data sharing. The authorities saw less potential for expenditure slippages, since outlays related to unexpected refugee returns, natural disasters, and security appeared contained with donors financing them.

14. 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 as planned. The authorities have progressed towards this goal and established the VAT Steering Committee and the VAT Implementation Team at end-2018 as per the fifth review benchmark. The Committee is responsible for the strategic issues of VAT implementation, while VAT team will manage VAT implementation (MEFP ¶19). Next, they will issue the VAT regulations, including procedures for exemptions and refunds. The regulations will be reviewed by development partners.

- **Reform of large taxpayers office (LTO)**: After preparation of a strategic implementation plan to establish a single national LTO, the authorities are proceeding with the transfer of cases from the existing provincial LTOs to a fully functional Single LTO. They expect to complete it by end-October 2019 (sixth review SB, MEFP ¶19).

- **Improvement in budget execution and management**: Staff welcomed the much-improved execution rate of the development budget of about 93 percent at end-2018. The authorities are making the budget an effective policy tool, including through improved execution, supported by realistic multi-year development programming. The 2019 budget introduced greater scrutiny and verification of spending.[7] The mid-year review may result in increased development spending if additional grants and local implementation capacity are identified. 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 state-owned corporations (SOCs) oversight**: With adoption of a new SOCs law last year, MoF has a clear mandate to monitor and oversee potential fiscal risks from SOCs. In total, there are 54 SOCs including three state-owned banks. Ten of those are reportedly generating profits. The authorities expect to develop an effective oversight and reporting system in the medium term. Staff encouraged further progress, building on the revised legislation and the recommendations of Fund TA (MEFP ¶15, 22).

- **Development of a Public Private Partnership (PPP) framework**: The government plans to increase its reliance on PPPs to improve infrastructure financing and delivery. Last year, the PPP legislation was brought in line with good international practices. Then, the authorities further strengthened PFM including through effective project appraisal, selection, and implementation by setting up a technical committee to evaluate and prioritize all large and major projects before any funding is allocated to them (fifth review SB). The pre-investment process has been finalized and the evaluation process going forward should be supported by adoption of a software system.

- **Strengthen debt management**: Staff and the authorities agreed a benchmark for the sixth review to strengthen debt management capacity. Staff reiterated that the authorities need to develop procedures for collecting and disseminating external borrowing plans as soon as they materialize. The authorities confirmed that, when borrowing externally, they remain committed to seeking concessional terms as agreed under the program after a careful assessment of the implications for debt sustainability (MEFP ¶23).

[7] For example, spending for pensions and martyr and disability was cut following the ongoing biometric verification of beneficiaries.

Text Table. Islamic Republic of Afghanistan: Public Private Partnerships Signed Projects (Power Plants)

Project	*Output (Megawatts)*	*Term (Years)*	Cost (US$ millions)	Debt/Equity (Percent)	Budget Investment (US$ millions)	Contingent guarantees
Kajaki Hydro	100	23	175	70/30	0	force majeure events
Mazar Independent	50	20	75	60/40	0	force majeure events
Sheberghan Independent	40	5	39	0/100	0	force majeure events
Kandahar Solar	30	20	39	40/24	14	force majeure events

Source: Afghan authorities and 2019 National Budget Document.

1/ The government guarantees purchase of energy from these projects and provides partial risk guarantee backed by the World Bank with IDA funding (pending World Bank Executive Board's approval) to Mazar/Kajaki and provides sovereign guarantee to Kajaki project. The IDA guarantees for Mazar, Sheberghan, and Kajaki cover payment risk and termination risk. Budget investment, from the Viability Gap Fund, covers 36 percent of costs of Kandahar Solar. Other projects are in early stages of development and estimates of the needed financing are not available.

B. Monetary and Financial Sector Policies

15. Staff and authorities agreed on the need to allow the exchange rate to act as a shock absorber while intervening to dampen excessive volatility (MEFP ¶16). The authorities noted that last year they allowed the Afghani to move with market trends while successfully countering excessive exchange rate volatility by increasing foreign exchange sales. Staff urged the authorities to allow the exchange rate to be market determined and limit intervention to episodes of excessive volatility, while continuing to eschew administrative measures. On monetary policy, with weak monetary transmission channels, reserve money remains DAB's operational target to keep inflation low. High dollarization—around two-thirds of loans and deposits are in U.S. dollars—limits the monetary policy transmission effectiveness.

16. Despite recent improvements the financial sector remains vulnerable. Financial intermediation remains weak, with the loan-to-deposit ratio at 16 percent. This partly reflects the ongoing clean-up of the system. The liquidation of a small bank, closed in August 2018, is progressing well, with no loss expected for any creditor, and no noticeable impact on public confidence. Two banking licenses were withdrawn in March 2019 from banks that did not perform any significant intermediation role, with third parties expected to be repaid in full. DAB continues to strictly enforce the corrective action plans agreed with weak banks. The Financial Stability Committee (FSC) was formed (fifth review SB) and held its first session in early March 2019, and the

Memorandum of Understanding setting the details of its functioning, incorporating Fund staff suggestions, was adopted in April 2019 (MEFP ¶32).

17. The implementation of the reform strategy for the state-owned commercial banks (SOCBs) remains sluggish. The three SOCBs face major challenges, including elevated operational risks from their precarious and obsolete information technology systems. As part of the reform strategy adopted by the authorities in November 2017 and implemented with World Bank support, the banks somewhat improved their corporate governance framework as per the fifth review SB implemented in December 2018. These reforms need to continue, and staff agreed a new SB for the sixth review to support them. Under the benchmark, two of the SOCBs with an outdated operational infrastructure will finalize procurement of critical information technology equipment and software, test it, and make it operational to minimize the risk of collapse of their operational systems that could have systemic spillovers. In addition, the authorities committed to accelerated implementation of all key pending components of the reform strategy that they adopted in November 2017 (MEFP ¶28).

18. The authorities are revitalizing the recovery of Kabul Bank's stolen assets. As agreed under the related sixth review SB, the authorities are hiring an internationally reputable forensic auditor who will evaluate the progress of recoveries and propose future actions. The recoveries could offset the fiscal cost of repayment of the lender-of-last-resort exposure incurred by DAB when rescuing Kabul Bank. They would also signal the authorities' commitment to fight corruption and strengthen credit discipline (MEFP ¶25, 26).

19. Implementation of the "National Financial Inclusion Strategy," due mid-2019, is on track. To advance financial inclusion and given the high rates of ownership of mobile phones, the authorities plan to introduce mobile banking. They are also modernizing the payment systems to lower the cost of financial services. A workshop (see Box 1), organized jointly by the Fund and the World Bank in January 2019 with participation of the authorities and representatives of the Afghan private banks and business community, explored the reasons for the low level of bank lending and limited access to financial services. The participants agreed to work together to implement some of the ideas from the workshop such as strengthening financial literacy and inclusion (MEFP ¶33).

20. Revival of system-wide correspondent relationships with global banks remains a challenge. The global banks remain concerned about low profitability of transactions and regional cross-border risks. As Afghan banks rely on processing of cross-border wire transfers to retain clients these concerns filter through the system and lead to exclusion of certain customers perceived as intolerably high-risk. Over time this could drive transactions into the informal sector and undermine financial inclusion. The prospects for revival of correspondent relationships became more complicated after the EU's inclusion of Afghanistan among the high-risk third countries with strategic anti-money laundering/combating the financing of terrorism (AML/CFT) deficiencies.[8]

[8] The list was adopted by the European Commission on February 13, 2019 but rejected by the EU Council of Ministers on March 5, 2019. As a result, the Commission will have to propose a new draft list that will address member states' concerns. See: https://data.consilium.europa.eu/doc/document/ST-6964-2019-REV-1/en/pdf

Staff encouraged the authorities to monitor the situation, engage with foreign regulators, and ensure effective implementation of risk-based AML/CFT measures (MEFP ¶29).

Box 1. Financial Sector Workshop Dubai, January 28, 2019

During the workshop, organized jointly by the IMF and the World Bank, representatives from commercial banks, businesses, and DAB identified key impediments to access to financial services in Afghanistan and considered options for addressing them.

Impediment	Bankers	Businesses	Central Bank
Security	X	X	X
Financial literacy	X	X	
High risk projects/borrowers	X		X
Collateral requirements/valuations	X	X	
Weak and underdeveloped legal system	X		
Weak insurance infrastructure	X		
Hawalas' unregulated competition	X		
Preference for Sharia compliant banking	X		
High interest rate/short maturities		X	
Low financial inclusion	X	X	X
Know your customer restrictions		X	
Way forward			
Improve security	X	X	X
Predictable regulation	X		X
Improve legal environment	X		X
Financial literacy	X	X	X
Adjust collateral requirements		X	X
Reduce interest rates, loosen prudential rules		X	
Develop Sharia compliant banking	X		X
Advance financial inclusion	X	X	X

The workshop provided an opportunity to clarify the role of the central bank as assuring price and financial stability. In addition, DAB showed that the regulation levels and interest rates do not diverge from regional comparators. Participants agreed on follow-up meetings in Kabul.

C. Anti-Corruption Reforms

21. The authorities are making progress with their anticorruption efforts under the ECF arrangement, specifically with criminalizing corruption, strengthening asset declaration requirements for public officials and their implementation and enforcement. Implementation and enforcement of the penal code with respect to corruption is spearheaded by the Anti-Corruption Justice Center (ACJC), which became operational in June 2016. Statistics on prosecutions and convictions for corruption[9] and compiled court decisions on corruption cases from June 2016 to end-2018 were published on the Attorney General's Office's website[10] on April 8, 2019 (fifth review SB, MEFP ¶38). The authorities intend to make such publications on a quarterly basis. They are also considering amending the Penal Code to provide for mandatory publication of reasoned court judgements (*faisala*) on individual corruption cases. As for asset declarations, the Administrative Office of the President initiated implementation and enforcement of the Law on Declaration and Registration of Assets of Officials and Government Employees in 2018. This year, the authorities aim to fully implement and enforce the Law among senior officials and will publish such information by end-October 2019 (sixth review SB, MEFP ¶39). An anti-corruption law was enacted in September 2018 providing for an Anti-Corruption Commission (ACC) to coordinate and monitor anti-corruption activities. The ACC is also to administer the asset declaration framework. As of March 2019, no member has been appointed to the Commission.

D. Debt Sustainability Analysis

22. The high risk of debt distress, confirmed by the recent DSA, requires that external financing focuses on concessional sources. Still, given large infrastructure gaps, the authorities are considering the eventual use of non-concessional borrowing (NCB) for development projects including for their ambitious investment package (see ¶3). More information on the nature of the projects and their funding sources is needed to assess the macro-fiscal implications of the package. Staff is of the view that NCB may be considered only after a thorough assessment and prioritization of prospective projects and once an adequate debt management capacity is in place. The authorities should also consult donors before any borrowing decisions to minimize the risk of donors scaling back grants in response to increased external borrowing. The authorities agreed with the need to take a holistic approach to public investment, including prioritization of projects slated for external financing, and to rely only on concessional financing at this stage (MEFP ¶23).

FIFTH REVIEW

23. All end-December 2018 PCs were met (Table 11), with sizable over-performance on domestic revenue and NIR.

24. Regarding the SBs, five were met and two were implemented with a delay (Table 12). Of the two, the transfer to DAB was implemented with a few days' delay. The benchmark on publication by end-January 2019 of the activities of the Anti-Corruption Justice Center was implemented on April 8, 2019.

[9] These include the number of persons charged for corruption, the number of persons convicted for corruption by primary courts, appellate courts and the Supreme Court respectively. See: https://ago.gov.af/en/statistics-prosecutions-and-convictions-corruption-cases.

[10] See: https://ago.gov.af/en/primary-appellate-and-supreme-court-decisions

25. 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. The program is fully financed. Upon completion of the fifth review, a sixth disbursement of SDR 4.5 million would be made.

26. Risks to the program remain high. These 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 macro-stability.

FUTURE REVIEW

27. Sixth review: Owing to the revision of the macroeconomic framework, the authorities requested modification of performance criteria for June 2019 on revenue, reserve money, and net credit to the government.[11] Staff supports this request. Relative to the list of SBs presented to the Board for information in December 2018, staff and the authorities agreed, subject to Board approval, a new SB on strengthening debt management capacity given the authorities' intention to eventually increase external borrowing. They also agreed, subject to Board approval, a new SB to reinvigorate the reform of SOCBs. The resulting nine SBs were pared back to seven, at the request of the authorities, considering the stretched capacity ahead of the elections and to strive for parsimonious structural conditionality. The two eliminated preliminary SBs—publication of data on the mining companies and amendment of the public finance management law—became policy commitments in the MEFP (MEFP ¶21 and ¶15, respectively). In addition, the deadline for the SB related to Kabul Bank asset recoveries was extended to end-September given the complexities involved and the SB on asset declaration was slightly revised (Table 13).

28. The authorities reiterated their intention to request a successor arrangement after the current one expires at end-2019. They view the Fund-supported program as a critical driver of reform, and their intention is consistent with their commitment to donors at the Geneva conference to have a new arrangement in place by mid-2020. Staff noted that this is a decision for the Fund's management and Executive Board and advised the authorities to continue their strong implementation of the current program, and to maintain sound policies in the months between the end of the current and the start of the potential new arrangements.

OTHER ISSUES

29. Staff and authorities also discussed:

- **Fiscal institutions**. In light of some consideration being given to move the macro-fiscal unit outside of the MoF, staff cautioned against changes weakening performing institutions or effectiveness of their operations and going against good international practice of insulating

[11] The PC on revenue was revised upwards reflecting overperformance in 2018; net credit to government was revised upwards due to higher government spending; reserve money was revised downwards because of these changes.

economic analysis from political interference. The MoF interlocutors concurred and promised to strongly resist such moves.

- **Special economic zones (SEZs)**. The mission expressed strong concerns about governance and revenue risks posed by proposed SEZs and advocated broader business climate reforms instead. Staff, in coordination with the World Bank and other international partners, has commented extensively on the proposed law and discussions continue.

- **Data weaknesses**. Staff emphasized the need to remedy data quality shortcomings to support 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 through timely implementation of TA recommendations.

30. 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.

STAFF APPRAISAL

31. The government of Afghanistan has diligently implemented its reform program supported by the ECF arrangement, in the face of persistent headwinds. Security conditions remain strained as the insurgency continues despite ongoing U.S.-Taliban peace talks which have raised prospects for a political settlement. Despite this difficult environment, guided by the Afghanistan National Peace and Development Framework and with the assistance of international partners, the authorities have implemented important fiscal, financial, and governance reforms on the path towards self-reliance. At the November 2018 Geneva Ministerial Conference, they outlined these accomplishments and challenges. Together with donors, they adopted a set of deliverables for 2019–20 and committed to a successor ECF arrangement by mid-2020. Also, the conference initiated an effort to formulate a post-peace settlement economic development plan to help ensure that the economic dividends of a possible peace are realized.

32. The baseline scenario envisages gradually rising real GDP growth, subject to downside risks. Real GDP growth in 2018 is estimated at 2.7 percent, with the economy overcoming the drought-related drag on agriculture. Assuming no further worsening of violence, continued reforms, and sustained aid inflows, growth could pick up to 3 percent in 2019 and accelerate gradually to 5 percent by 2023. The short-term outlook is subject to downside risks as continued violence and political instability and a slowdown in reforms or shortfall in aid could lead to significantly weaker growth outcomes. Volatility in neighboring countries—Afghanistan's main sources of remittances and key trading partners—adds to the uncertainty. On the other hand, a robust peace agreement could result in increased confidence, investment, and growth, thereby mobilizing Afghanistan's significant economic potential.

33. In this uncertain environment, there is a premium on sound macroeconomic policies and reforms, supported by continued aid. Such policies are essential to cement the reform progress and future development prospects, while countering short-term uncertainty. Building physical and human capital, safeguarding the financial sector while boosting financial inclusion, improving the business climate, and strengthening anti-corruption measures will support growth. At the same time, institutions need to be protected and further strengthened, while policies that promise quick wins at the expense of macroeconomic stability and debt sustainability should be avoided.

34. Fiscal plans for 2019 should consider the significant risks to revenues in the election year. The closer monitoring of revenue collections is a step in the right direction, and the authorities should stand ready to implement 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 and to reduce the operating deficit excluding grants.

35. External financing should continue to rely on grants and concessional funding. While external public debt is currently low, a quick ramping up of non-concessional borrowing could render it unsustainable, as the recent DSA shows. Any scaling up of the public investment program financed by external borrowing should be preceded by a full assessment of the macro-fiscal implications and a strengthening of debt management capacity. Projects should be selected based on feasibility studies and proper sectoral prioritization, in consultation with development partners including the World Bank.

36. The reforms in support of fiscal sustainability and effective institutions should continue. The authorities should use the SOCs and PPP laws adopted last year to manage their assets and commitments while controlling fiscal risks. More generally, going forward, there is a need to ensure that any policy initiatives do not undermine the authorities' fiscal objectives.

37. DAB's policy commitment to low inflation and a flexible exchange rate has served Afghanistan well and remains appropriate going forward. 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 eschewing administrative measures.

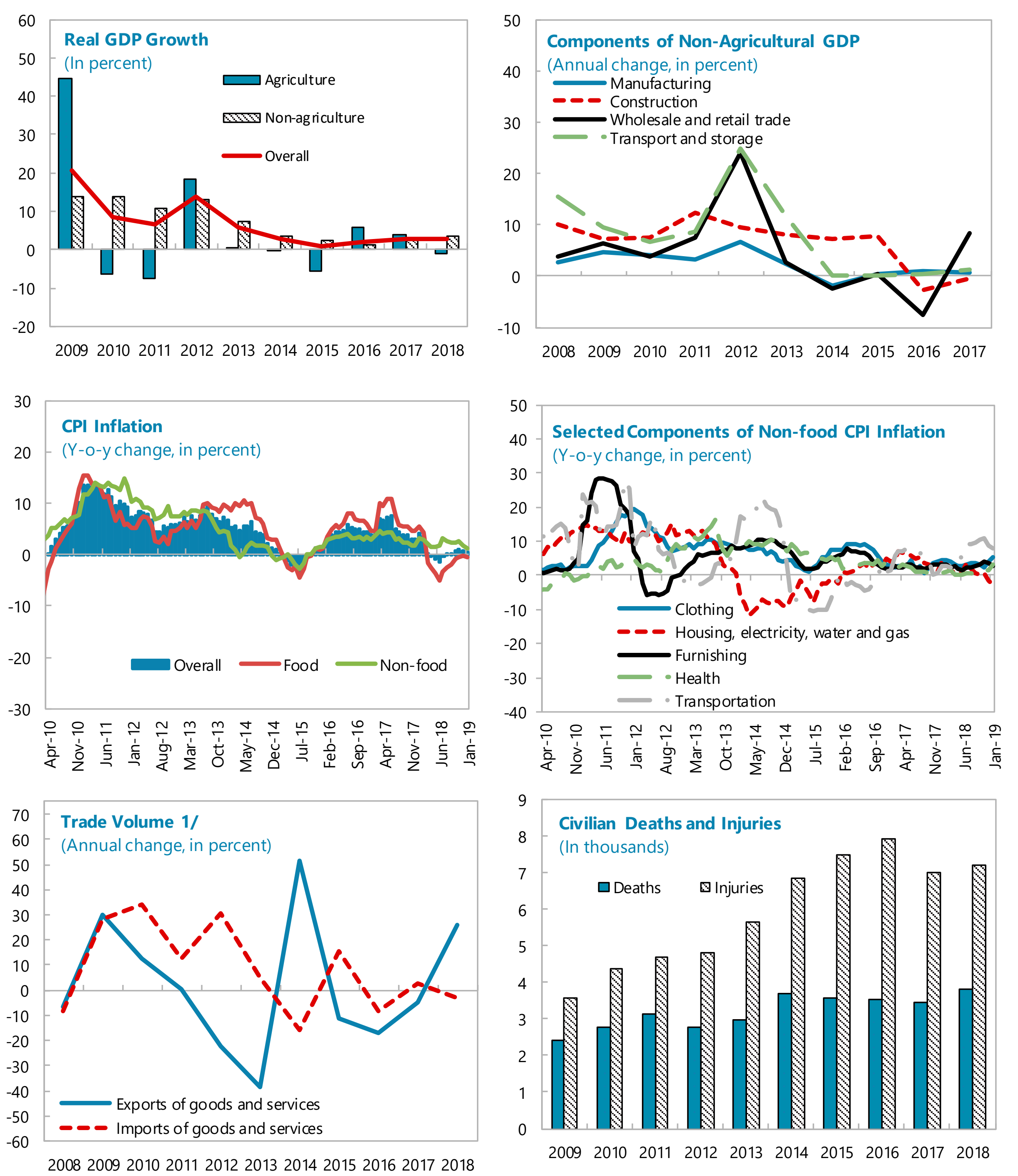
38. Safeguarding financial stability remains a key policy priority. DAB should continue to address the shortcomings among the weak private banks and promote effective AML/CFT measures. Further progress is needed to improve the performance of the SOCBs through both the new corporate governance framework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

39. Fighting corruption should remain at the center of the authorities' reform efforts. Enactment of the Anti-Corruption Law is a welcome step, while effective implementation and enforcement of the asset declaration requirements by senior officials and prosecuting and convicting corrupt senior officials remain a top priority. Publication of information on these measures promotes transparency and accountability and should continue. The authorities should pursue amending the penal code to provide for mandatory publication of reasoned court judgements (*faisala*) of individual corruption cases.

40. 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, in particular, need improvement.

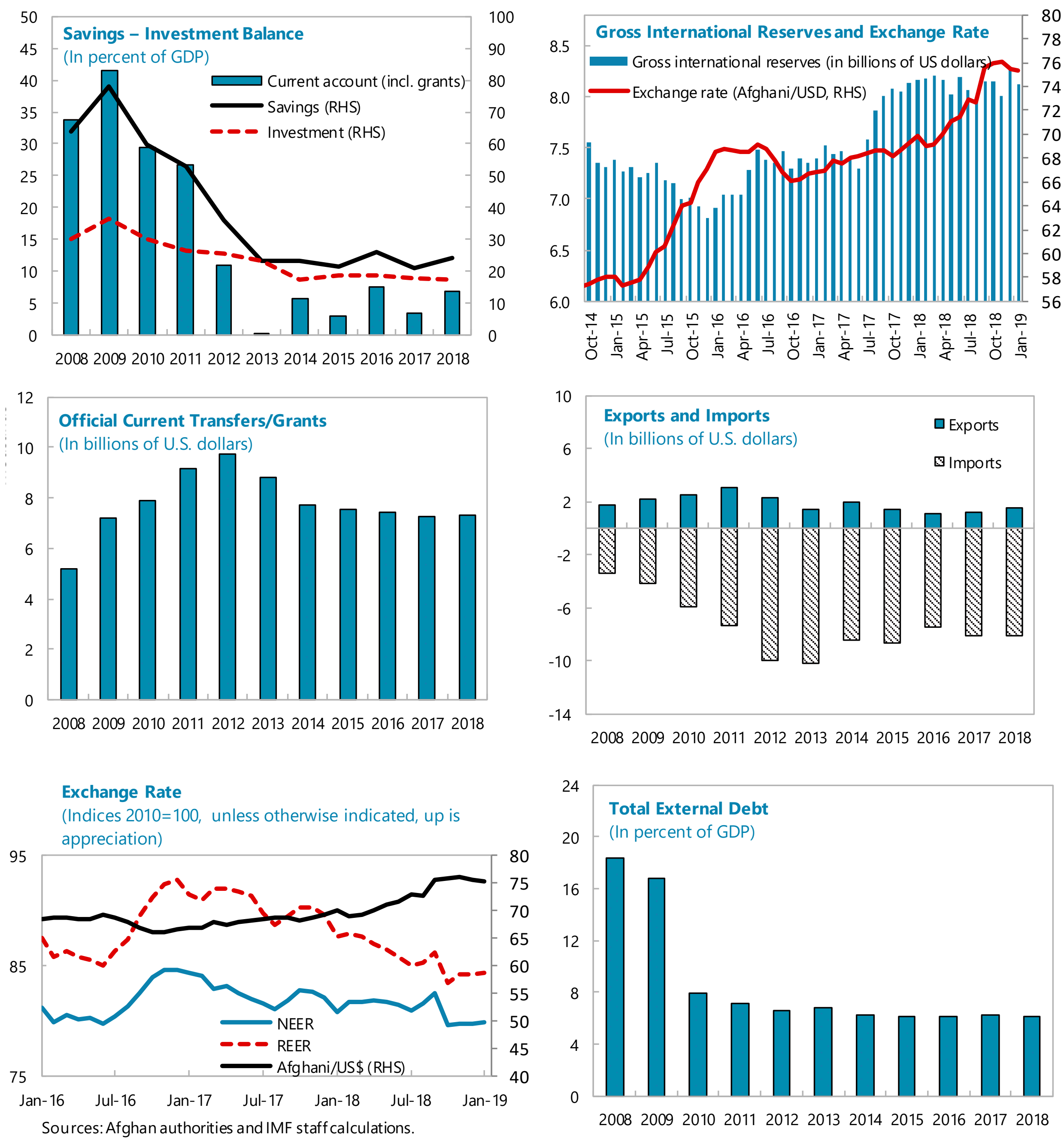
41. Considering the satisfactory performance, staff supports the completion of the fifth review under the ECF arrangement and the authorities' request for modification of the June 2019 performance criteria on revenue, reserve money, and net credit to the government.

Figure 1. Islamic Republic of Afghanistan: Real Sector



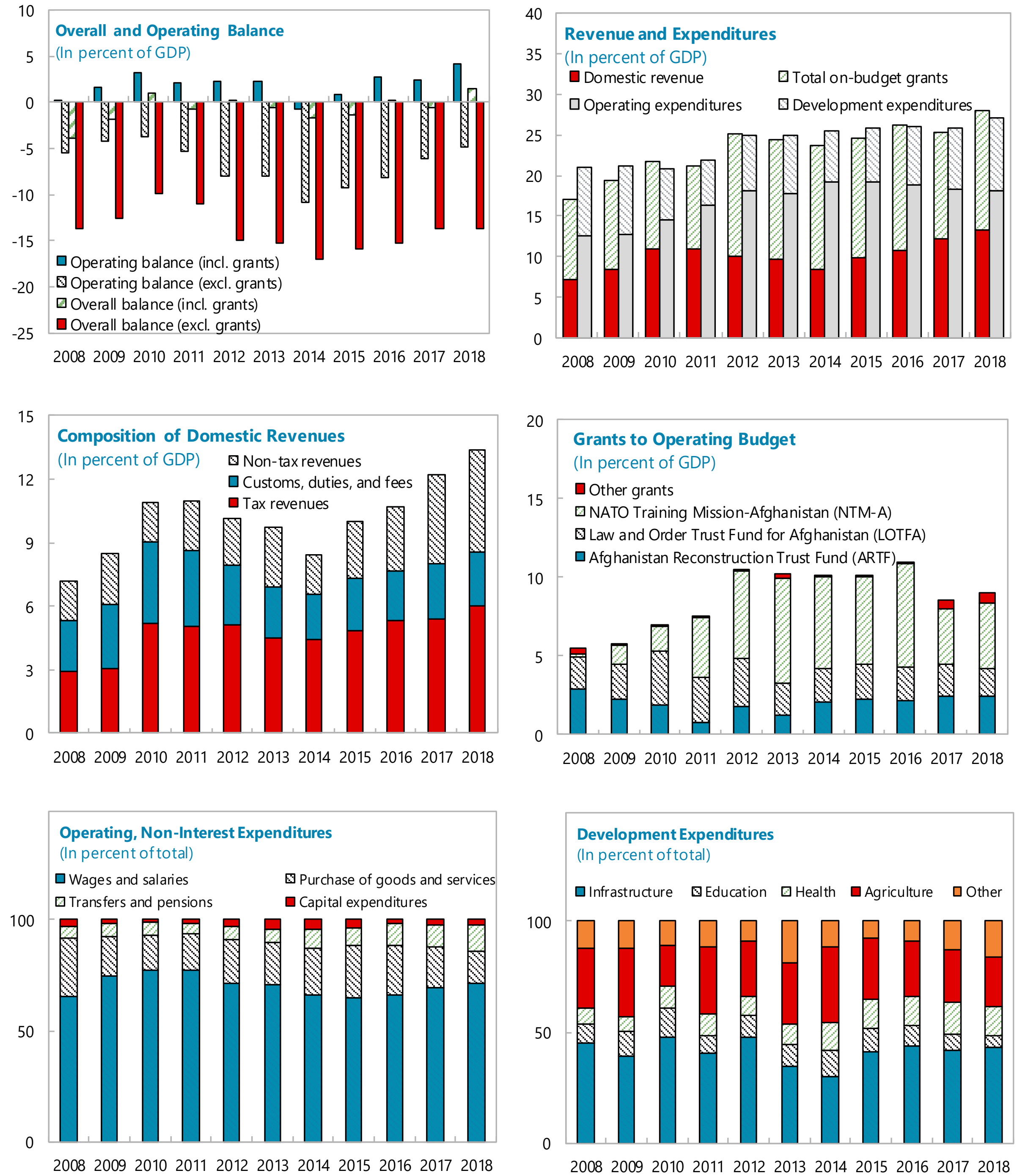
Sources: Afghan authorities, United Nations Assistance Mission in Afghanistan, and IMF staff calculations.
1/ In 2016, the decline in exports volumes reflects a fall in growth of services exports for two reasons: the fall in imports growth (insurance and freight are recorded as service exports) and in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

Figure 2. Islamic Republic of Afghanistan: External Sector



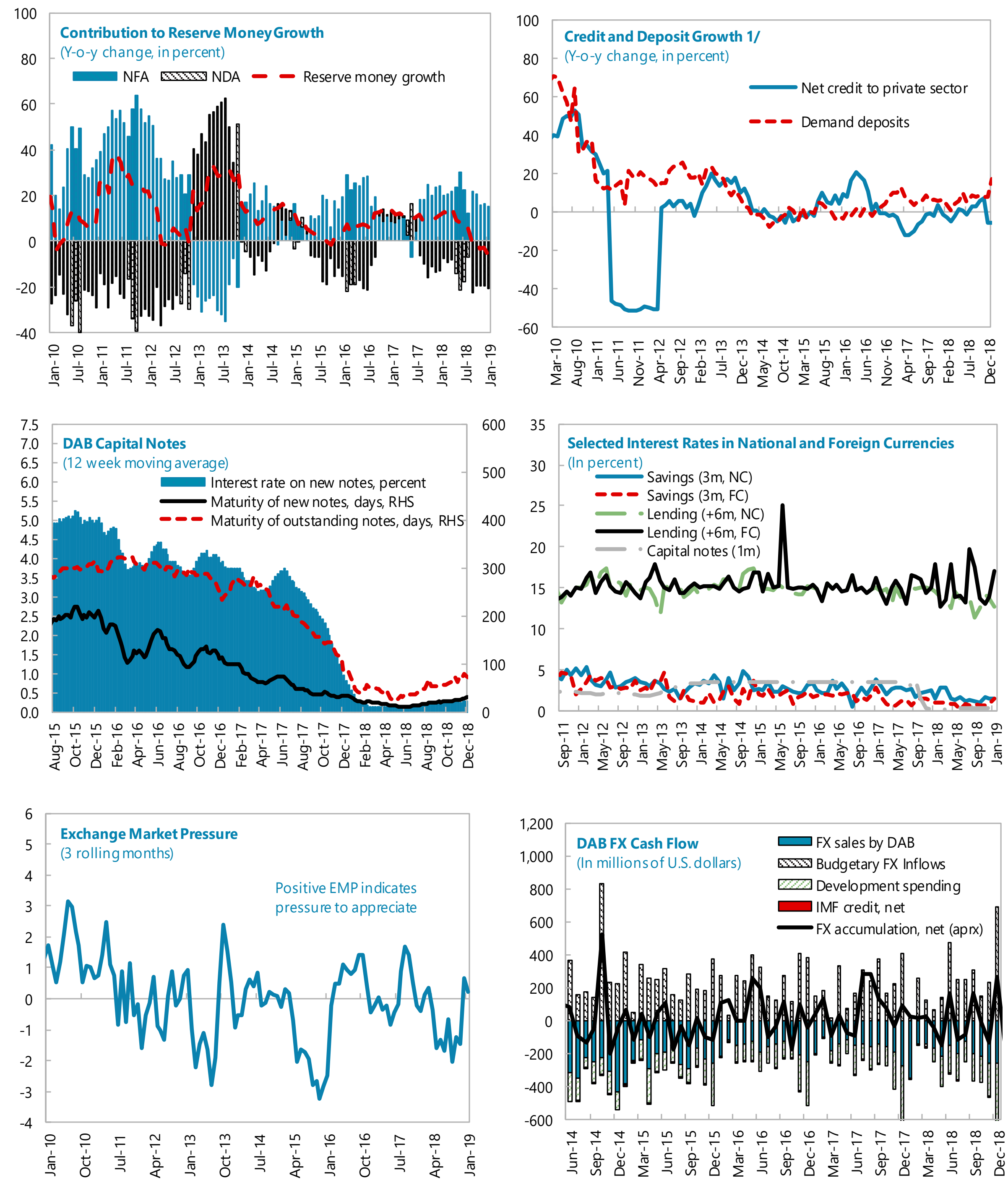
Sources: Afghan authorities and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities and IMF staff calculations.

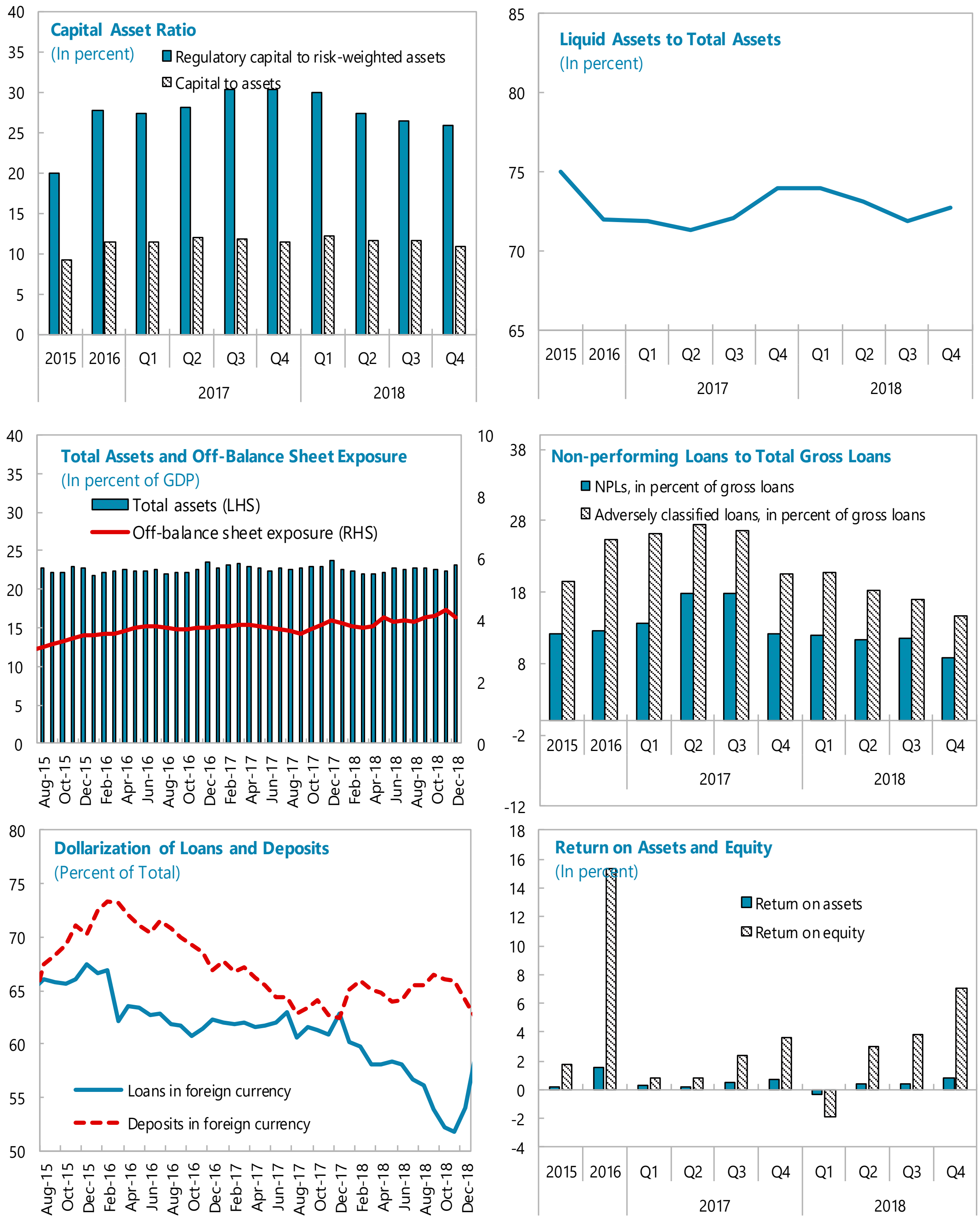
Figure 4. Islamic Republic of Afghanistan: Monetary Sector



Sources: Afghan authorities and IMF staff calculations.

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

Figure 5. Islamic Republic of Afghanistan: Banking Sector



Sources: Afghan authorities and IMF staff calculations.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2017–20

(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)

	2017	2018	2019		2020
		Est.	ECF Fourth review	Proj.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	2.7	2.7	3.0	3.0	3.5
Nominal GDP (in billions of Afghanis)	1,378	1,421	1,555	1,491	1,597
Nominal GDP (in billions of U.S. dollars)	20.2	19.6	19.7	20.0	20.7
Consumer prices (period average)	5.0	0.6	4.0	1.8	3.5
Food	6.9	-0.3	…	…	…
Non-food	3.2	1.8	…	…	…
Consumer prices (end of period)	3.0	0.8	4.0	3.0	4.0
Investment and savings	(In percent of GDP)				
Gross domestic investment	17.7	17.3	15.5	17.2	18.7
Of which: Private	5.8	5.7	6.5	6.5	7.0
Gross national savings	21.1	24.2	14.4	19.3	20.1
Of which: Private	9.9	11.1	6.2	9.4	8.4
Public finances (central government)					
Domestic revenues and grants	25.3	28.6	23.1	26.0	29.2
Domestic revenues	12.2	13.4	11.7	12.6	12.9
On-budget grants (excl. donors' direct spending outside the budget)	13.0	15.2	11.4	13.4	16.4
Expenditures	25.9	27.0	23.9	26.8	29.2
Operating 2/	18.4	18.2	18.4	18.3	19.7
Development	7.5	8.9	5.5	8.4	9.5
Operating balance (excluding grants) 3/	-6.2	-4.8	-6.7	-5.7	-6.8
Overall balance (including grants)	-0.6	1.5	-0.8	-0.8	0.0
Public debt 4/ 5/	7.5	6.9	6.9	6.8	7.1
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	10.2	-2.7	10.8	10.5	9.9
Currency in circulation	2.2	-0.2	8.0	8.0	8.0
Broad money	5.9	2.6	9.0	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)	784	875	956	946	1023
Exports of goods (annual percentage change)	27.6	11.6	7.3	8.1	8.1
Imports of goods (in millions of U.S. dollars)	7,024	6,900	7,562	7,103	7,323
Imports of goods (annual percentage change)	7.5	-1.8	2.1	3.0	3.1
Merchandise trade balance	-30.8	-30.7	-36.8	-30.8	-35.0
Current account balance					
Excluding official transfers	-32.4	-30.2	-35.9	-31.3	-31.2
Including official transfers	3.4	6.9	-1.1	2.1	1.4
Foreign direct investment	0.3	0.7	0.5	0.5	0.5
Total external debt 4/	6.3	6.4	6.9	6.8	7.0
Gross international reserves (in millions of U.S. dollars)	8,139	8,273	8,249	8,349	8,348
Import coverage of reserves 6/	12.1	11.9	10.9	11.6	11.3
Exchange rate (average, Afghanis per U.S. dollar)	68.1	72.4	…	…	…
Real exchange rate (average, percentage change) 7/	2.5	-8.2	…	…	…

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

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

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Output and prices 1/	(Annual percentage change, unless otherwise indicated)								
Real GDP	2.2	2.7	2.7	3.0	3.5	4.0	4.5	5.0	5.5
Nominal GDP (in billions of U.S. dollars)	19.4	20.2	19.6	20.0	20.7	22.0	23.6	25.5	27.7
Consumer prices (period average)	4.4	5.0	0.6	1.8	3.5	4.5	5.0	5.0	5.0
Investment and savings	(In percent of GDP, unless otherwise indicated)								
Gross domestic investment	18.5	17.7	17.3	17.2	18.7	18.8	21.1	22.1	22.6
Of which: Private	5.6	5.8	5.7	6.5	7.0	7.1	8.9	9.8	10.5
Gross national savings	26.1	21.1	24.2	19.3	20.1	19.9	21.6	21.8	21.8
Of which: Private	13.0	9.9	11.1	9.4	8.4	8.2	9.5	9.4	9.7
Public finances (central government)									
Domestic revenues and grants	26.1	25.3	28.6	26.0	29.2	30.3	31.7	33.1	33.4
Domestic revenues	10.7	12.2	13.4	12.6	12.9	13.9	15.2	16.7	17.1
On-budget grants (excl. donors' direct spending outside the budget)	15.4	13.0	15.2	13.4	16.4	16.4	16.4	16.4	16.3
Expenditures	26.0	25.9	27.0	26.8	29.2	30.3	31.7	33.1	33.4
Operating 2/	18.9	18.4	18.2	18.3	19.7	20.5	21.6	22.9	22.8
Development	7.1	7.5	8.9	8.4	9.5	9.9	10.0	10.2	10.6
Operating balance (excluding grants) 3/	-8.2	-6.2	-4.8	-5.7	-6.8	-6.6	-6.4	-6.2	-5.7
Overall budget balance (including grants)	0.1	-0.6	1.5	-0.8	0.0	0.0	0.0	0.0	0.0
External sector 1/									
Merchandise trade balance	-30.5	-30.8	-30.7	-30.8	-30.4	-28.8	-28.7	-27.1	-25.4
Current account balance, excluding official grants	-30.6	-32.4	-30.2	-31.3	-31.2	-29.5	-29.8	-28.4	-26.8
Current account balance, including official grants	7.6	3.4	6.9	2.1	1.4	1.1	0.5	-0.4	-0.8
Gross reserves (in millions of U.S. dollars)	7,357	8,139	8,273	8,349	8,348	8,347	8,346	8,345	8,343
Import coverage of reserves 4/	10.9	12.1	11.9	11.6	11.3	10.4	10.1	9.7	9.3
Memorandum items:									
Total public debt 5/	7.8	7.5	6.9	6.8	7.1	7.4	7.9	8.2	8.7
Of which: External debt	6.1	6.3	6.4	6.8	7.0	7.1	7.2	7.3	7.5
Domestic debt	1.7	1.1	0.5	0.0	0.1	0.3	0.6	0.9	1.2
Sukuk	0.0	0.0	0.0	0.0	0.1	0.3	0.6	0.9	1.2
Promissory note	1.7	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP per capita (in U.S. dollars) 6/	561	570	545	548	560	586	621	662	709
Donors' direct spending outside the budget	22.8	22.8	21.9	20.0	16.2	14.1	14.0	11.7	9.7

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, 2016–24

(In billions of Afghanis)

	2016	2017	2018		2019		2020	2021	2022	2023	2024
			ECF 4th Review	Est.	Initial Budget	Proj.			Proj.		
Revenues and grants	344.3	347.8	382.6	405.9	387.0	387.7	467.0	526.5	603.1	695.0	776.6
Domestic revenues	141.1	168.3	172.0	189.9	188.0	188.0	205.7	241.0	290.5	350.6	397.8
Tax revenues	101.2	110.5	115.2	121.8	127.1	118.7	131.6	157.5	199.4	225.9	262.1
Income, profits, and capital gains	36.4	38.7	…	48.4	45.7	…	…	…	…	…	…
International trade and transactions	31.1	35.7	…	36.3	40.8	…	…	…	…	…	…
Goods and services	27.9	32.8	…	34.2	37.4	…	…	…	…	…	…
Other	5.8	3.2	…	2.9	3.3	…	…	…	…	…	…
Nontax revenues	39.9	57.8	56.8	68.0	60.9	69.3	74.1	83.4	91.1	124.7	135.7
Grants to operating budget 1/	143.1	118.4	117.7	127.9	98.8	98.8	159.1	167.6	179.9	198.2	216.8
ARTF	28.9	34.2	…	35.0	0.0	…	…	…	…	…	…
LOTFA	27.4	27.2	…	25.0	28.0	…	…	…	…	…	…
CSTC-A	86.8	48.9	…	59.6	70.8	…	…	…	…	…	…
Other grants	0.1	8.1	…	8.3	0.0	…	…	…	…	…	…
Grants to development budget 2/	60.1	61.1	92.9	88.1	100.2	100.8	102.2	117.8	132.6	146.2	162.0
Total expenditures	342.8	356.5	388.5	384.2	399.4	399.4	467.0	526.5	603.1	695.0	776.6
Operating expenditures	248.9	253.0	281.5	258.1	275.2	273.5	314.7	355.2	411.9	480.7	530.4
Of which: Security	153.0	138.9	…	139.6	159.5	…	…	…	…	…	…
Wages and salaries	164.5	174.2	…	183.6	195.6	…	…	…	…	…	…
Purchases of goods and services	55.0	47.9	…	37.6	53.6	…	…	…	…	…	…
Transfers, subsidies, and other	2.2	2.7	…	2.6	0.0	…	…	…	…	…	…
Pensions	21.5	22.1	…	27.4	17.4	…	…	…	…	…	…
Capital expenditures	4.9	5.3	…	6.2	6.3	…	…	…	…	…	…
Interest	0.8	0.9	0.6	0.8	2.3	0.7	0.6	0.8	1.3	2.0	2.9
Development expenditures:	93.9	103.5	107.0	126.1	124.2	126.0	152.3	171.2	191.2	214.3	246.2
o/w discretionary	29.6	42.4	…	52.9	61.2	…	…	…	…	…	…
Infrastructure and natural resources	40.8	43.4	…	54.6	52.8	…	…	…	…	…	…
Education	8.7	7.6	…	6.0	6.8	…	…	…	…	…	…
Health	12.4	14.5	…	17.1	12.9	…	…	…	…	…	…
Agriculture and rural development	23.4	24.7	…	27.9	28.1	…	…	…	…	…	…
Other	8.6	13.2	…	20.4	23.6	…	…	…	…	…	…
Operating balance excluding grants	-107.8	-84.7	-109.5	-68.2	-87.2	-85.5	-109.1	-114.2	-121.3	-130.1	-132.6
Overall budget balance including grants	1.6	-8.7	-5.9	21.7	-12.4	-11.7	0.0	0.0	0.0	0.0	0.0
Float and discrepancy 3/	8.2	22.6	0.0	16.5	…	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-28.6	-13.9	5.9	-38.2	…	11.7	0.0	0.0	0.0	0.0	0.0
Sale of nonfinancial assets	2.1	2.8	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	-0.3	-0.2	5.7	-0.4	…	7.8	8.5	9.3	11.8	12.9	16.2
Domestic (net)	-30.4	-16.5	0.2	-37.8	…	3.9	-8.5	-9.3	-11.8	-12.9	-16.2
Central bank, change in	-30.4	-16.5	0.2	-37.8	…	3.9	-10.4	-13.2	-18.4	-20.3	-25.2
Government deposits	-4.5	-8.9	8.3	-29.3	…	10.8	-9.8	-12.6	-17.9	-20.0	-24.7
Claims on government	-25.9	-7.7	-8.1	-8.4	…	-6.9	-0.6	-0.5	-0.4	-0.4	-0.6
Credit from DAB (IMF accounts)	-20.6	0.0	-0.3	-0.3	…	0.3	-0.6	-0.5	-0.4	-0.4	-0.6
Promissory note (- = repayment)	-5.3	-7.7	-7.8	-8.2	…	-7.2	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	…	0.0	1.9	3.9	6.6	7.4	9.0
Promissory note (end-of-period stock)	23.0	15.3	7.2	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 4/	38.6	38.8	40.6	41.8	50.5	50.5	…	…	…	…	…

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/ Positive number indicates that expenditures have been recorded, but not yet executed.
4/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2016–24

(In percent of GDP)

	2016	2017	2018		2019		2020	2021	2022	2023	2024
			ECF 4th Review	Est.	Initial Budget	Proj.			Proj.		
Revenues and grants	26.1	25.3	26.4	28.6	26.0	26.0	29.2	30.3	31.7	33.1	33.4
Domestic revenues	10.7	12.2	11.8	13.4	12.6	12.6	12.9	13.9	15.2	16.7	17.1
Tax revenues	7.7	8.0	7.9	8.6	8.5	8.0	8.2	9.1	10.5	10.8	11.3
Income, profits, and capital gains	2.8	2.8	...	3.4	3.1	...	...	...	...	...	...
International trade and transactions	2.4	2.6	...	2.6	2.7	...	...	...	...	...	...
Goods and services	2.1	2.4	...	2.4	2.5	...	...	...	...	...	...
Other	0.4	0.2	...	0.2	0.2	...	...	...	...	...	...
Nontax revenues	3.0	4.2	3.9	4.8	4.1	4.6	4.6	4.8	4.8	5.9	5.8
Grants to operating budget 1/	10.9	8.6	8.1	9.0	6.6	6.6	10.0	9.7	9.4	9.4	9.3
ARTF	2.2	2.5	...	2.5	0.0	...	...	...	...	...	...
LOTFA	2.1	2.0	...	1.8	1.9	...	...	...	...	...	...
CSTC-A	6.6	3.5	...	4.2	4.7	...	...	...	...	...	...
Other grants	0.0	0.6	...	0.6	0.0	...	...	...	...	...	...
Grants to development budget 2/	4.6	4.4	6.4	6.2	6.7	6.8	6.4	6.8	7.0	7.0	7.0
Total expenditures	26.0	25.9	26.8	27.0	26.8	26.8	29.2	30.3	31.7	33.1	33.4
Operating expenditures	18.9	18.4	19.4	18.2	18.5	18.3	19.7	20.5	21.6	22.9	22.8
Of which: Security	11.6	10.1	...	9.8	10.7	...	...	...	...	...	...
Wages and salaries	12.5	12.6	...	12.9	13.1	...	...	...	...	...	...
Purchases of goods and services	4.2	3.5	...	2.6	3.6	...	...	...	...	...	...
Transfers, subsidies, and other	0.2	0.2	...	0.2	0.0	...	...	...	...	...	...
Pensions	1.6	1.6	...	1.9	1.2	...	...	...	...	...	...
Capital expenditures	0.4	0.4	...	0.4	0.4	...	...	...	...	...	...
Interest	0.1	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.1	0.1	0.1
Development expenditures:	7.1	7.5	7.4	8.9	8.3	8.4	9.5	9.9	10.0	10.2	10.6
o/w discretionary	2.2	3.1	...	3.7	4.1	...	...	...	...	...	...
Infrastructure and natural resources	3.1	3.2	...	3.8	3.5	...	...	...	...	...	...
Education	0.7	0.6	...	0.4	0.5	...	...	...	...	...	...
Health	0.9	1.1	...	1.2	0.9	...	...	...	...	...	...
Agriculture and rural development	1.8	1.8	...	2.0	1.9	...	...	...	...	...	...
Other	0.7	1.0	...	1.4	1.6	...	...	...	...	...	...
Operating balance excluding grants	-8.2	-6.2	-7.5	-4.8	-5.8	-5.7	-6.8	-6.6	-6.4	-6.2	-5.7
Overall budget balance including grants	0.1	-0.6	-0.4	1.5	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0
Float and discrepancy 3/	2.0	1.6	0.0	1.2	...	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-2.2	-1.0	0.4	-2.7	...	0.8	0.0	0.0	0.0	0.0	0.0
Sale of nonfinancial assets	0.2	0.2	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.0	0.0	0.4	0.0	...	0.5	0.5	0.5	0.6	0.6	0.7
Domestic (net)	-2.3	-1.2	0.0	-2.7	...	0.3	-0.5	-0.5	-0.6	-0.6	-0.7
Central bank, change in	-2.3	-1.2	0.0	-2.7	...	0.3	-0.6	-0.8	-1.0	-1.0	-1.1
Government deposits	-0.3	-0.6	0.6	-2.1	...	0.7	-0.6	-0.7	-0.9	-1.0	-1.1
Claims on government	-2.0	-0.6	-0.6	-0.6	...	-0.5	0.0	0.0	0.0	0.0	0.0
Credit from DAB (IMF accounts)	-1.6	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Promissory note (- = repayment)	-0.4	-0.6	-0.5	-0.6	...	-0.5	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	...	0.0	0.1	0.2	0.3	0.4	0.4
Promissory note (end-of-period stock)	1.7	1.1	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro-poor spending 4/	2.9	2.8	2.8	2.9	3.4	3.4	...	...	...	...	...

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/ Positive number indicates that expenditures have been recorded, but not yet executed.
4/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2016–24

(In billions of Afghanis, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Proj.			
Net foreign assets	478.1	551.0	608.2	632.5	645.4	660.0	673.4	687.6	708.0
Net international reserves	438.9	508.3	570.7	595.0	607.0	620.5	633.0	646.1	665.1
Gross international reserves	491.7	565.6	620.1	644.7	657.7	672.2	685.7	699.8	720.3
Foreign liabilities	52.9	57.3	49.4	49.7	50.7	51.7	52.7	53.7	55.1
IMF accounts (loans and SDR allocation)	4.6	4.4	4.4	4.2	4.2	4.2	4.2	4.2	4.2
Foreign currency reserves of commercial banks	48.3	52.8	45.0	45.5	46.4	47.5	48.4	49.4	50.9
Other foreign assets	-9.0	-10.1	-7.5	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Net domestic assets	-167.5	-208.8	-275.0	-264.2	-240.7	-218.4	-199.3	-178.4	-160.7
Domestic assets	-88.2	-99.1	-130.6	-129.7	-139.5	-152.1	-170.0	-190.0	-214.7
Net claims on government	-48.1	-62.5	-98.2	-94.5	-104.3	-116.9	-134.8	-154.8	-179.5
Gross claims on government	34.7	29.2	22.7	15.7	15.7	15.7	15.7	15.7	15.7
MOF promissory note 1/	23.0	15.3	7.2	0.0	0.0	0.0	0.0	0.0	0.0
IMF accounts 2/	11.7	13.8	15.6	15.7	15.7	15.7	15.7	15.7	15.7
Liabilities to government	82.8	91.6	121.0	110.2	120.0	132.6	150.5	170.5	195.2
Domestic currency deposits	14.2	31.2	24.3	29.9	32.5	35.9	40.8	46.2	52.9
Foreign currency deposits	68.5	60.4	96.7	80.3	87.4	96.6	109.7	124.3	142.3
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	-41.5	-38.3	-33.3	-36.2	-36.2	-36.2	-36.2	-36.2	-36.2
DAB's capital notes	-41.9	-38.7	-33.7	-36.6	-36.6	-36.6	-36.6	-36.6	-36.6
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	1.4	1.7	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Other items net	-79.3	-109.6	-144.4	-134.5	-101.3	-66.3	-29.3	11.6	54.0
DAB's capital	93.6	120.2	155.5	161.0	161.0	161.0	161.0	161.0	161.0
Reserve money	310.6	342.2	333.2	368.3	404.7	441.6	474.1	509.1	547.4
Reserve money in domestic currency	262.3	289.4	288.2	322.8	358.3	394.1	425.6	459.7	496.5
Currency in circulation	223.6	228.6	228.2	246.5	266.2	284.8	304.7	326.1	348.9
Bank deposits in domestic currency	32.2	53.0	44.8	61.8	77.6	94.8	106.4	119.1	133.1
Bank deposits in domestic currency	13.8	45.6	39.1	55.5	71.3	88.5	100.0	112.8	126.7
Reserve requirements in domestic currency	18.4	7.4	5.7	6.4	6.4	6.4	6.4	6.4	6.4
Bank deposits in foreign currency	48.3	52.8	45.0	45.5	46.4	47.5	48.4	49.4	50.9
Other deposits	6.5	7.8	15.2	14.5	14.5	14.5	14.5	14.5	14.5
Memorandum items:									
International reserves, in millions of U.S. dollars 3/									
Net	6,566	7,314	7,614	7,705	7,705	7,705	7,705	7,705	7,705
Gross	7,357	8,139	8,273	8,349	8,348	8,347	8,346	8,345	8,343
Interest rate, 28-day capital notes (percent)	3.0	3.0	3.0	...	...	...	...	...	...
Exchange rate (eop, Afghanis per U.S. dollar)	66.8	69.5	75.0	...	...	...	...	...	...

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

(At program exchange rates) 1/

	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.		
Net foreign assets	459.9	506.2	546.4	544.3	550.8	553.4	563.0	561.9	561.9	561.9	561.9
Net international reserves	435.9	465.7	504.7	505.1	514.8	517.7	529.4	529.4	529.4	529.4	529.4
Gross international reserves	476.0	521.0	560.6	558.7	565.3	566.3	574.6	573.8	573.9	573.9	573.7
Foreign liabilities	40.2	55.3	55.9	53.6	50.6	48.6	45.2	44.4	44.5	44.4	44.3
IMF accounts (loans and SDR allocation)	5.9	4.9	4.3	3.9	4.1	3.9	4.1	3.9	4.0	3.9	3.8
Foreign currency reserves of commercial banks	34.2	50.4	51.6	49.7	46.4	44.8	41.1	40.5	40.5	40.5	40.5
Other foreign assets	-10.2	-9.9	-9.9	-10.5	-10.4	-9.1	-7.5	-8.0	-8.0	-8.0	-8.0
Net domestic assets	-181.6	-193.5	-205.1	-220.7	-235.1	-246.8	-232.2	-220.4	-215.9	-207.1	-198.6
Domestic assets	-66.2	-89.3	-98.6	-115.2	-129.6	-141.2	-123.6	-144.1	-131.9	-127.6	-122.6
Net claims on government	-38.5	-49.1	-61.9	-98.0	-93.0	-103.2	-91.3	-108.9	-96.7	-92.4	-87.3
Gross claims on government	40.5	35.7	28.9	28.7	29.0	24.9	21.6	22.0	18.4	18.4	14.0
MoF promissory note 2/	28.3	23.0	15.3	15.2	15.0	10.9	7.2	7.5	3.7	3.7	0.0
IMF accounts 3/	12.2	12.7	13.6	13.5	14.0	14.0	14.5	14.5	14.7	14.6	14.0
Liabilities to government	79.0	84.8	90.8	126.7	122.0	128.1	112.9	130.9	115.1	110.8	101.3
Domestic currency deposits	10.9	14.2	31.2	49.2	34.7	40.5	24.3	37.6	32.8	31.6	29.9
Foreign currency deposits	68.1	70.5	59.6	77.5	87.4	87.6	88.6	93.3	82.3	79.2	71.5
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	-33.3	-36.2	-36.2	-36.2	-36.2
DAB's capital notes	-30.9	-41.9	-38.7	-19.4	-37.9	-39.5	-33.7	-36.6	-36.6	-36.6	-36.6
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	0.9	1.0	1.0	1.0	1.0
Other items net	-115.4	-104.2	-106.6	-105.5	-105.5	-105.5	-108.5	-76.3	-84.0	-79.5	-76.1
DAB's capital	116.7	93.6	120.2	123.4	133.5	156.1	155.5	161.0	161.0	161.0	161.0
Reserve money	278.3	312.7	341.3	323.6	315.7	306.6	330.8	341.5	346.0	354.8	363.3
Reserve money in domestic currency	244.0	262.3	289.4	273.6	268.5	260.1	288.2	301.0	305.5	314.3	322.8
Currency in circulation	202.2	223.6	228.6	215.7	226.6	225.3	228.2	237.3	241.9	246.6	246.5
Bank deposits in domestic currency	33.4	32.2	53.0	49.9	32.6	24.5	44.8	49.2	49.1	53.2	61.8
Bank deposits in foreign currency	34.2	50.3	51.9	49.9	47.1	46.5	42.6	40.5	40.5	40.5	40.5
Other deposits	8.4	6.5	7.8	8.0	9.3	10.3	15.2	14.5	14.5	14.5	14.5
Memorandum items:											
Net international reserves (mn. USD) 4/	6,343	6,778	7,345	7,351	7,492	7,534	7,705	7,705	7,705	7,705	7,705

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, 2016–24 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Proj.			
				(In billions of Afghanis)					
Net foreign assets	576.9	637.4	722.3	750.0	765.4	782.6	798.5	815.2	839.4
Foreign assets	607.2	674.3	756.1	784.2	799.9	817.3	833.5	850.6	875.2
Foreign liabilities	-30.3	-36.9	-33.8	-34.2	-34.5	-34.8	-35.1	-35.4	-35.8
Central bank	-18.6	-19.9	-20.6	-20.6	-20.6	-20.6	-20.6	-20.6	-20.6
Commercial banks	-11.1	-17.1	-13.2	-13.6	-13.9	-14.2	-14.5	-14.8	-15.2
Net domestic assets	-129.6	-163.5	-236.3	-220.3	-187.9	-153.1	-107.4	-56.4	-6.2
Net domestic credit	-5.7	-22.2	-60.7	-44.1	-48.8	-55.8	-67.5	-80.7	-97.9
Nonfinancial public sector	-52.1	-70.2	-106.3	-94.4	-104.2	-116.8	-134.7	-154.7	-179.4
Net credit to central government	-52.2	-70.3	-106.4	-94.5	-104.3	-116.9	-134.8	-154.8	-179.5
Net credit to public nonfinancial corporations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net credit to private sector	47.7	49.4	46.6	51.3	56.4	62.1	68.3	75.1	82.6
Net credit to other financial corporations	-1.3	-1.4	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.2
Other items net	-123.9	-141.4	-175.5	-176.1	-139.1	-97.3	-39.8	24.3	91.7
Broad money M2	447.3	473.8	486.0	529.8	577.5	629.4	691.1	758.8	833.2
Broad money M2 in domestic currency	289.1	315.7	315.5	354.1	395.0	437.6	484.0	533.6	601.4
Narrow money M1	415.4	436.7	453.5	495.9	539.3	584.7	633.5	685.8	757.6
Currency outside banks	210.9	220.5	219.9	238.2	257.9	276.5	296.5	317.8	340.6
Currency in circulation	223.6	228.6	228.2	246.5	266.2	284.8	304.7	326.1	348.9
Currency held by banks	12.7	8.1	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Demand deposits	204.4	216.2	233.6	257.8	281.5	308.2	337.1	368.0	417.0
Other deposits	31.9	37.1	32.6	33.8	38.1	44.7	57.6	73.1	75.6
				(12-month percentage change)					
M2	5.6	5.9	2.6	9.0	9.0	9.0	9.8	9.8	9.8
M1	4.3	5.1	3.8	9.4	8.8	8.4	8.4	8.2	10.5
Currency outside banks	0.9	4.5	-0.3	8.3	8.3	7.2	7.2	7.2	7.2
Net credit to private sector	-1.6	3.5	-5.6	10.0	10.0	10.0	10.0	10.0	10.0
				(In percent of GDP)					
M2	33.9	34.4	34.2	35.5	38.7	42.2	46.3	50.9	55.9
M1	31.5	31.7	31.9	33.3	36.2	39.2	42.5	46.0	50.8
Net credit to the private sector	3.6	3.6	3.3	3.4	3.5	3.6	3.6	3.6	3.5
Memorandum items:									
M2 velocity	2.9	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Reserve money multiplier	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Banking sector									
Loan dollarization (percent)	62.2	62.9	54.1	59.0	58.8	58.5	58.5	58.5	58.5
Deposit dollarization (percent)	66.9	62.4	64.1	60.3	57.1	54.4	52.5	51.1	51.1
Currency-to-deposit ratio (percent)	94.6	90.3	85.8	84.5	83.3	80.7	77.2	73.9	70.8
Loans-to-deposit ratio (percent)	20.2	19.5	17.5	17.6	17.7	17.6	17.3	17.0	16.8

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, 2016–24 1/

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Proj.			
Current account	1,478	693	1,352	416	282	232	129	-92	-226
Excluding official grants	-5,955	-6,555	-5,937	-6,272	-6,463	-6,478	-7,047	-7,251	-7,410
Trade balance of goods	-5,922	-6,240	-6,025	-6,157	-6,301	-6,318	-6,793	-6,925	-7,017
Exports of goods and services	1,123	1,148	1,560	1,526	1,608	1,739	1,892	2,019	2,166
Goods	614	784	875	946	1,023	1,118	1,230	1,356	1,499
Services	509	364	685	579	585	622	662	663	668
Imports of goods and services	7,469	8,125	8,100	8,375	8,673	8,846	9,587	9,943	10,274
Goods	6,536	7,024	6,900	7,103	7,323	7,436	8,023	8,281	8,516
Services	933	1,101	1,200	1,272	1,349	1,411	1,564	1,662	1,759
Income, net	169	153	222	170	172	174	171	170	167
Of which: Interest on official loans	5	5	5	8	8	9	11	14	18
Current transfers, net	7,655	7,516	7,670	7,095	7,175	7,165	7,652	7,662	7,715
Of which: Official /2	7,433	7,247	7,289	6,687	6,745	6,710	7,176	7,159	7,185
Capital account	0	0	0	0	0	0	0	0	0
Financial account, net	52	187	-211	-343	-275	-226	-124	95	231
Foreign direct investment	108	62	139	100	104	110	118	128	138
Portfolio investment	-99	29	-24	-29	-34	-39	-44	-49	-54
Official loans 3/	-4	-5	-20	105	110	117	146	157	193
Disbursement	8	20	2	132	138	146	175	198	238
Amortization	12	25	22	27	28	28	28	42	46
Debt relief ('-' = forgiveness)	0	0	0	0	0	0	0	0	0
Other investment	46	101	-307	-520	-455	-415	-345	-140	-47
Errors and omissions	-967	-89	-1,003	0	0	0	0	0	0
Overall balance	563	790	138	72	6	6	4	3	5
Financing	-563	-790	-138	-72	-6	-6	-4	-3	-5
Central bank's gross reserves ('-' = accumulation)	-549	-782	-134	-76	1	1	1	1	1
Use of Fund resources, net	-15	-8	-4	4	-8	-7	-5	-4	-7
Disbursements 4/	6	13	13	14	0	0	0	0	0
Repayments	21	21	16	10	8	7	5	4	7
Debt relief ('-' = forgiveness)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves, central bank	7,357	8,139	8,273	8,349	8,348	8,347	8,346	8,345	8,343
Import coverage of reserves 5/	10.9	12.1	11.9	11.6	11.3	10.4	10.1	9.7	9.3
External debt stock, official 6/	1,199	1,257	1,212	1,319	1,421	1,532	1,673	1,824	2,009
in percent of GDP	6.1	6.3	6.4	6.8	7.0	7.1	7.2	7.3	7.5
Current account, in percent of GDP	7.6	3.4	6.9	2.1	1.4	1.1	0.5	-0.4	-0.8
Trade balance, in percent of GDP	-30.5	-30.8	-30.7	-30.8	-30.4	-28.8	-28.7	-27.1	-25.4
Export of goods and services, in percent of GDP	5.8	5.7	7.9	7.6	7.8	7.9	8.0	7.9	7.8
Import of goods and services, in percent of GDP	38.4	40.2	41.3	41.8	41.9	40.3	40.6	39.0	37.1
Official grants, in percent of GDP	38.3	35.8	37.1	33.4	32.5	30.5	30.4	28.1	26.0

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)

	2016	2017	2018			
			Q1	Q2	Q3	Q4
Capital adequacy						
Regulatory Capital to Risk-weighted Assets	27.7	30.3	29.8	27.4	26.4	25.8
Capital to Assets	11.3	11.3	12.1	11.5	11.6	10.9
Asset quality						
Non-performing Loans to Total Gross Loans	12.7	12.2	12.0	11.3	11.5	8.9
Non-performing Loans Net of Provisions to Capital	10.6	8.8	7.8	5.9	5.7	3.4
Earnings and profitability						
Return on Assets	1.6	0.7	-0.3	0.4	0.5	0.8
Return on Equity	15.4	3.7	-1.9	3.0	3.8	7.1
Liquidity						
Liquid Assets to Total Assets (Liquid Asset Ratio)	72.0	74.0	73.9	73.1	71.9	72.7
Liquid Assets to Short-term Liabilities	89.2	92.6	93.7	94.9	92.0	90.6

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	6,543	7,383	6,109	6,385	6,498
Current account balance (excluding grants)	-5,955	-6,555	-5,937	-6,272	-6,463
Amortization	40	46	38	37	36
Of which: IMF	21	21	16	10	8
Change in reserves (increase = +)	549	782	134	76	-1
Reduction in arrears	0	0	0	0	0
Available financing	6,537	7,370	6,097	6,371	6,498
Official transfers (grants)	7,433	7,247	7,289	6,687	6,745
Foreign direct investment	108	62	139	100	104
Official medium- and long-term loans (net)	11	3	-16	101	118
Accumulation of arrears	0	0	0	0	0
Debt forgiveness	0	0	0	0	0
Debt rescheduling	0	0	0	0	0
Other flows	-1,015	58	-1,315	-517	-468
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)

	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
PRGT repayments	5.3	5.4	4.8	3.8	3.2	4.5	4.5	4.5	3.2	1.4	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
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
SDR net charges	0.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total obligations	6.2	6.6	6.1	5.0	4.4	5.8	5.8	5.8	4.4	2.6	1.3	1.3	1.3	1.3
(percent of quota)	1.9	2.1	1.9	1.6	1.4	1.8	1.8	1.8	1.4	0.8	0.4	0.4	0.4	0.4
Obligations from prospective drawings 2/														
1. Principal														
PRGT repayments	0.0	0.0	0.0	0.0	0.0	0.5	2.0	2.0	2.0	2.0	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
Total obligations	0.0	0.0	0.0	0.0	0.0	0.5	2.0	2.0	2.0	2.0	1.5	0.0	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	0.1	0.6	0.6	0.6	0.6	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
PRGT repayments	5.3	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
SDR assessment and net charges	0.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total obligations	6.2	6.6	6.1	5.0	4.4	6.2	7.7	7.7	6.4	4.6	2.8	1.3	1.3	1.3
Outstanding Fund credit, end of period	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/	4.2	3.5	2.8	2.3	1.9	1.4	1.0	0.6	0.3	0.1	0.0	0.0	0.0	0.0
External public debt	4.8	3.9	3.2	2.6	2.1	1.5	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Gross official reserves	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
GDP	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	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/	0.6	0.6	0.5	0.4	0.3	0.4	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0
External public debt	0.7	0.7	0.6	0.4	0.3	0.4	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Gross official reserves	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	0.0	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	1.9	2.0	1.9	1.5	1.4	1.9	2.4	2.4	2.0	1.4	0.9	0.4	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

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, December 21, 2018 1/

(In Af billion, unless otherwise indicated)

	Target	Adjusted	Actual	Status
Revenues of the central government (floor)	172.0	…	189.9	**Met**
Net credit to the central government from DAB (ceiling) 2/	6.9	35.6	–29.3	**Met**
Reserve money (ceiling) 2/	34.7	…	–1.2	**Met**
Net international reserves of DAB (floor; in millions of U.S. dollars) 2/	200.0	–217.7	359.6	**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: Fifth Review Structural Benchmarks

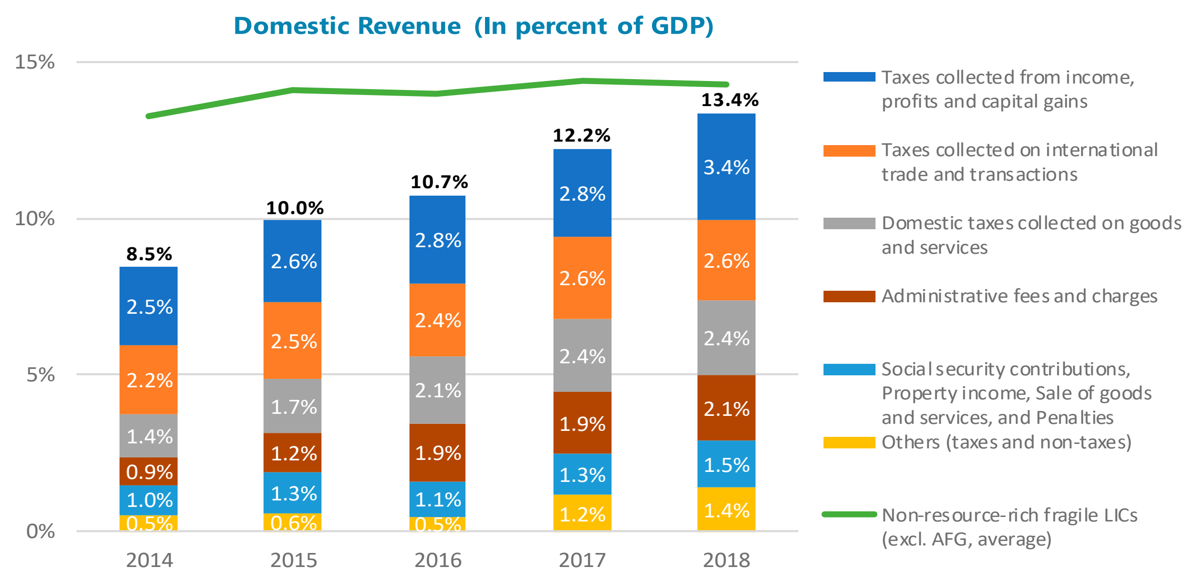
Measure	Date	Rationale	Status
Cabinet to approve and submit to Parliament 2019 draft budget in line with the macroeconomic framework agreed under the ECF arrangement. The budget will include a transfer to further reduce DAB's lender of last resort exposure to Kabul Bank, consistent with repaying the 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	**Met**
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	**Met**
Reduction in DAB's lender of last resort exposure to Kabul Bank by Af 3.906 billion	End-November 2018	Preserve financial stability	**Not met; implemented on Dec. 5, 2018.**
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	**Met**
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	**Met**
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	**Not met; implemented on April 8, 2019.**
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	**Met**

Table 13. Islamic Republic of Afghanistan: Sixth Review Structural Benchmarks

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 other senior officials who, pursuant to the Anti-Corruption law, may be prosecuted for "major crimes of corruption".	End-October 2019	Improve governance and fight corruption
Elimination of DAB's lender of last resort exposure to Kabul Bank by Af 7.1 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-September 2019	Strengthen financial stability
Complete transfer of all large taxpayers to the Single Large Taxpayer Office (SLTO).	End-October 2019	Improve revenue collection
Prepare, with support of the IMF staff, an internal technical guidance note for Debt Management Unit (DMU) staff on how to: a. Use the Commonwealth Secretariat Debt Recording and Management System including preparing inputs for the Medium-Term Debt Strategy and Debt Sustainability Analysis; b. Record, monitor, and report on debt related matters in accordance with the Public Finance Management law and other relevant laws and regulations.	End- October 2019	Strengthen the capacity of debt management unit to record and monitor public debt.
Purchase for: New Kabul Bank: (i) licenses for upgraded core banking systems; (ii) software and hardware supporting the core banking systems, including database server and data storage; and Pashtany Bank: (i) up-to-date licenses for the Relational Database Management System software required by core banking systems; (ii) database server hardware, and (iii) data storage hardware. Provide dated and signed contracts/invoices verifying the above purchases. Install the purchased IT equipment and software, test it, and make it operational.	Mid-November 2019	Eliminate risk of collapse of operational systems that may threaten system-wide spillovers

Annex I. Government Revenue Mobilization Since 2014

1. **Despite weak economic conditions and a deteriorating security situation, domestic revenue in Afghanistan has steadily increased since 2014 as the authorities advance towards the goal of self-reliance**. In 2018, at close to 13.5 percent of GDP, domestic revenue was nearly 5 percentage points of GDP higher than in 2014[1] and nearly equal to the average for LIC comparators. Out of thirteen comparators, only one recorded better revenue gains than Afghanistan since 2014. This is even more remarkable given Afghanistan's intensifying conflict during these years.[2] The authorities' resolute efforts to mobilize revenue have been supported by the country's international partners' policy advice and technical assistance, including under 2015 Staff Monitored Program and 2016–19 ECF, the World Bank's Incentive Program, and the EU's State Building Contract.[3]



Sources: Afghan authorities and staff calculations, WEO.

[1] In 2014, economic growth and revenue collapsed under the weight of the troop withdrawal and political uncertainty related to the presidential election.

[2] Large scale conflicts have dramatic impacts on revenue. In Afghanistan, for example, the cumulative loss in revenue over 2005-16 is estimated at 140 percent of GDP. See P. Barrett, "The Fiscal Cost of Conflict: Evidence from Afghanistan 2005-2016", IMF Working Paper 18/204.

[3] See "Does conditionality in IMF-supported programs promote revenue reform? (IMF, 2014)" for related evidence.

2. Improved revenue administration combined with one-off factors explains three-quarters of the cumulative increase in revenue since 2014. Improved administration,[4] one-off factors, tax and non-tax policy changes, and macroeconomic factors (i.e., cyclical factors and currency depreciation) accounted for 46, 30, 15, and 9 percent, respectively, of the cumulative revenue increase since 2014.

Contribution to Increase in Revenue

(In percent)	2015	2016	2017	2018	Cumulative (2015–18)
Improved administration	12	67	69	30	46
One-off factors	39	8	27	46	30
Tax and non-tax policy changes	23	40	0	1	15
Macroeconmic factors 1/	25	–15	3	23	9

1/ Macroeconomic factors include contribution from inflation, real growth, and curency depreciation.

3. In terms of the major revenue components:

- ***Taxes collected from income, profits and capital gains*** increased from 2.5 percent of GDP in 2014 to 3.4 percent in 2018. In 2018, the increase was mostly due to a one-off revenue from tax amnesty.

- ***Taxes collected on international trade and transactions*** have been almost flat in terms of GDP as average tariff rate and composition of imports have been relatively stable since 2014.[5] This performance could have also been attributable to weak controls and administration in provinces. Under the ECF, the authorities have bolstered customs administration in regional offices, including through a strengthened anti-corruption framework. The customs offices use ASYCUDA—a state-of-the-art computerized customs management system and most recently, under ECF conditionality, adopted risk-based customs clearance procedures in Herat, Nangarhar and Nimroz to shorten clearance times and improve detection of fraud. As a result, the average clearance time fell by about 3 hours, and the pre-screening rate of high-risk traders increased by 3 percent. Also, in 2018, the authorities have begun to implement the Five-Year Strategic Plan to meet the World Customs Organization standards for improved customs administration.

- ***Domestic taxes collected on goods and services*** increased from 1.4 percent of GDP in 2014 to 2.4 percent in 2018 mainly due to Business Receipt Tax (BRT) rate doubling from 2 to 4 percent in mid-2015 and strengthened collection procedures of BRT levied on imports. The latter

[4] Calculated as residual.

[5] The nominal level increased by about Af 10 billion during the same period. This increment contributes to around 12 percent of cumulative increase in level since 2014.

benefitted from better information sharing between Revenue and Customs Departments, since 2017.

- ***Non-tax revenues*** in 2015 benefitted from one-off receipts of SOE-related rents and sales of goods and services by Ministry of Agriculture and railways, the adoption of a telecommunications fee (a 10 percent mobile top-up fee), as well as increased overflight and fuel fees. In 2017, receipts from a one-time repeal of tax exemptions on foreign entities, and in 2018, dividend transfers from State-Owned Corporations, boosted non-tax revenues.

4. Going forward, it is likely that the rise in revenue collections will become more gradual. In part, this reflects the likely disappearance of one-off revenues. Hence, the authorities will increasingly rely on **base**-broadening tax policies and structural reforms to advance the self-reliance agenda. To that end and incentivized by the WTO membership, at end-2020, Afghanistan plans to adopt a 10 percent value added tax (VAT) widely considered as an efficient and growth-friendly tax.[6] It may bring up to 2 percent of GDP additional revenue, even with the elimination of the BRT which it replaces. In addition, the authorities are rationalizing the tax collection system, including by modernizing procedures to collect tax from the largest taxpayers accounting for about ¾ of tax collections. In line with ECF conditionality, they consolidated tax collection for these taxpayers in a single office (SLTO) located in Kabul that will become operational in October of 2019. The SLTO will collect VAT due from the large taxpayers. The VAT will be primarily collected at import, so the continuing efforts of further strengthening customs administration in provinces are critical, supported by the country's international partners (e.g. the World Customs Organization). The on-going revenue collection efforts must also be mindful of the burden that taxes impose on taxpayers. A system perceived as overly rapacious may hurt compliance, stifle new investment, and spur informality. Moreover, strengthening the delivery of public services needs to go hand-in-hand with these efforts to make the domestic revenue mobilization effort sustainable.

[6] For example, the VAT eliminates tax cascading and helps competitiveness by freeing exports from it and levying VAT on imports. See Cevik *et. al.*, "Structural Transformation and Tax Efficiency", IMF Working Paper 19/30.

Appendix I. Letter of Intent

Kabul, May 13, 2019

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 fifth review and the disbursement of an amount equivalent to SDR 4.50 million under the ECF arrangement.

The government also requests modification of June 2019 performance criteria on revenues, reserve money, 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/	/s/
Dr. Mohd Humayon Qayoumi	Khalil Sediq
Minister of Finance (Acting)	Governor
Government of Afghanistan	Da Afghanistan Bank

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies for 2019

A. Introduction

1. This memorandum reviews recent economic developments and lays out our economic objectives and policy framework for 2019, 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.

- In 2018, the economy grew at 2.7 percent owing to industry and services overcoming the decline in agriculture due to a devastating drought.

- Food prices have been declining, resulting in low inflation of 0.8 percent at end-2018. Food prices declined due to lower priced imports filling in domestic food shortages and the demand effect of lower rural incomes owing to the drought. Inflation has been low in the first quarter of 2019.

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

- In 2018, the exchange rate has been under strain because of speculative pressures as well as regional and domestic risks and uncertainties and it depreciated by about 10 percent. So far, in 2019, the exchange rate has depreciated by about four percent.

- On the fiscal side, in 2018 revenue grew by 13 percent, above the ECF target. Of the nearly Af 18 billion over performance, around Af 2.6 billion was due to one-off payment of license fees, Af 11 billion was arrears collection including tax amnesty repayments, and the remainder efficiency improvements. The treasury's cash balance was Af 37.6 billion at end-2018 well above the program floor of Af 10 billion. Development spending benefitted from an execution rate improved to about 93 percent. The good fiscal performance has continued in 2019, so far.

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 (Implementation of the Public Financial Management (PFM) Roadmap II) set 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 underway**. 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. 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 prepared a comprehensive five-year strategic plan for the Customs Department. The five-year Strategic Plan is prepared with the support of World Customs Organization with six strategic goals that will transform the Customs Department into a model institution in Afghanistan. The goals are based on five crucial areas of institutional and processes efficiency, combating corruption, enhancing revenue collection, and strengthening automation and strengthening compliance. The Strategic Plan was finalized in July 2018 and approved by senior leadership including the President of Afghanistan. These plans offer practical steps to combat corruption, enhance compliance, and implement public awareness programs for the trader's community. 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 in 2018. The weak banks remain under a watchful monitoring regime of Da Afghanistan Bank's (DAB; central bank) Financial Supervision Department (FSD). 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 were profitable at end-2018 and their capital adequacy exceeds DAB minimum requirements. Since end-November 2017, we have been implementing a strategy agreed with the World Bank to reform the SOCBs.

9. **We have taken 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 are in the process of engaging a reputable forensic accounting firm to help us identify practical ways to reactivate the recovery process and implement those recommendations by end-September 2019 (sixth review benchmark).

10. **Support from our international partners remains vital as aid flows help meet immediate financing requirements and reduce fiscal vulnerability**. During the November 2018 Geneva conference, donors pledged sustained financial assistance in exchange for continued reforms. Most donors confirmed pledges made in 2016 in Brussels and a few (including Norway and Sweden) pledged additional resources for the drought. The government and donors adopted deliverables for 2019-20 including a commitment by the government to agree a successor ECF by mid-2020. Donors tasked the World Bank to work with the government and the international community to formulate a post-peace settlement development plan.

11. **The fight against corruption is one of our top priorities, with some 1,635 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. These gains followed launching of the National Strategy for Combatting Corruption—a key step in establishing the rule of law and ending corruption—at a Senior Officials Meeting in October 2017.

C. Economic Program for 2019

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 our 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 as conflict persists, we will ensure that we allocate adequate resources to increase opportunities for the poor. The National Statistics and Information Authority has collaborated 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. A Gender Responsive Budgeting Policy was prepared to reiterate Afghan Government's firm commitment to employ budget as a tool to advance gender equality, promote women development related programs, and more importantly to protect women's rights as outlined in the ANPDF. 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). The Displacement and Returnees Executive Committee (DiREC) was established to implement the Matrix and EZ-KAR project that provides job opportunities for repatriates in 13 provinces. In addition, the President issued a decree on distributing residential land to returnees to integrate them in the economy.

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 single-digit inflation. It will also maintain buffers of low debt (less than 10 percent of GDP) and a comfortable international reserves position. 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 2019 and will continue maintaining a prudent fiscal position afterwards. The 2019 budget approved by parliament implies a deficit of about 0.8 percent of GDP, in line with the program. We will implement the budget in line with the ECF arrangement and are prepared to implement additional spending cuts, while preserving priority social spending, as part of budget implementation mandate (particularly from lower bonuses and cuts in operation and maintenance expenditures), to counter any unfavorable revenues 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. We will work on amending the public finance management (PFM) law to introduce adequate procedural rules for the issuance of guarantees, to strengthen fiscal risk oversight over SOCs, and to strengthen the legal basis for the fiscal oversight mandate of the Ministry of Finance. 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 2019 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 zero accumulation of net international reserves (at the program exchange rate) in 2019, given the already high level of international reserves covering more than eleven months of imports in 2019. 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 cash management, and promote market development by finalizing the institutional framework and supportive legislation to set up primary and secondary markets for Sharia compliant securities issued by the Ministry of Finance (Sukuk). We will continue our efforts to reduce dollarization. In 2019, 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, and building on the support of the World Bank since 2015, last year we reviewed the PPP law and related regulations to bring them in line with good international practice. 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. To strengthen the legal basis for a fiscal oversight mandate of the MoF we will prepare an amendment to PFM legislation to introduce adequate procedural rules for the issuance of guarantees and to strengthen fiscal risk oversight over SOCs, in order to improve the legal basis for the fiscal oversight mandate of the Ministry of Finance in line with IMF staff advice and submit the amendment to Parliament for approval before end-2019.

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, eliminating 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 by consolidating all large taxpayers and 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 28 percent of 2018 domestic tax revenues (or about 16 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 appointed a VAT implementation team and established 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.

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 obligations to facilitate trade. We have introduced a new five-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 the senior leadership including the President for their review and approval. In 2018, we rolled out implementation of the multi-criteria risk profiles in Herat, Nangarhar, and Nimroz. 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 and promulgated through Presidential Decree. 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,

[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.

Afghanistan underwent a validation of EITI compliance. The validation found that Afghanistan has made “inadequate progress” overall in implementing the EITI Standard. In January 2019, the EITI Board temporarily suspended Afghanistan until it demonstrates meaningful progress to be assessed by a new validation assessment. We have since made good progress to implement the standards especially by launching the transparency portal where mining contracts are published. The results of the validation are guiding 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.

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 and budget management. In the interim, we will enhance existing budget software with an improved budget builder or procure the budget module associated with Afghanistan Financial Management Information System (AFMIS). 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 will improve review of proposed projects with support of the technical committee established under the fifth review benchmark. We endorsed the Terms of Reference (TOR) for this committee under the signature of the competent authority and prepared a comprehensive set of guidelines that includes financial and economic appraisal, assisted by the World Bank in April 2019. We will improve 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 continue to improve execution of the development budget and achieved 93 percent execution rate in 2018 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 has continued with the 2019 budget and will continue going forward.

- 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 and will share them with IMF staff. 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 strengthened commitment control and cash management by tracking commitments during budget execution and requiring financial plans from ministries/agencies as a basis for allotment control and 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. Budget Department of the MOF in consultation with line ministries/agencies are approving financial plans, that are captured in the system as corresponding monthly allotments to ministries/agencies based on procurement plans and financial plans submitted by them. The approved financial plans serve as the basis for monthly budget allotments that are only made available to line ministries at the beginning of relevant month for which they have been approved in the financial plan. The financial plans of individual ministries/agencies, backed by allotments by the Budget Department, are uploaded into the AFMIS and used by the treasury for cash planning. Line ministries enter their payment requests directly into AFMIS without additional approval from the Budget Directorate unless they are above their financial plans. The Treasury controls 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 budget preparation, we developed forward baseline estimation (FBE) methodology, run a pilot and prepared the related documentation by end-2018. By end-March 2019, we prepared and carried out an 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 (so 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 have improved development projects management, starting with mid-2018 budget review and in line with the fifth review benchmark on improved governance of public assets, by strengthening development project planning and preparation and streamlining the process of project implementation. The measures include: (i) developing and enforcing a procedure that no discretionary 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. We have also separated the project cycle from the budget cycle to improve the efficiency of project management. We plan to disseminate quarterly PIM circulars that will invite project proposals throughout the year. 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 will review the capacity of the department of state-owned corporations to assess needed staffing and seek technical assistance to improve staff's capacity for operational and financial oversight of the SOCs. The department will then start collecting information on financial flows between the government and the SOCs and prepare annual analytical reports on their financial performance which will be annexed to the budget starting in FY 2020.

23. We will strengthen the capacity of public debt recording/monitoring and management of implementing critical investment projects while preserving fiscal and external sustainability in the medium term.

- 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. We will provide the IMF staff with detailed quarterly reports on external debt, in accordance with paragraph 23 of the TMU.

- Debt recording, and monitoring needs to be enhanced. Given an expected gradual decline in grant inflows and large development needs, this is becoming of crucial importance. This includes capacity building in planning, verifying and authorizing borrowing, ensuring the accuracy and timeliness of the recording of all debt transactions, and projecting debt service. To that end we will offer quarterly courses on aspects of debt management (with the first one offered at end-June 2019) to the DMU technical staff including a primer on debt and basic Excel skills and will encourage the employees to complete either the internally offered courses or the equivalent ones offered by the IMF on-line. The syllabus for the course shall be prepared in consultation with the IMF staff.

- To accelerate the enhancement of debt recording capacity, the debt management unit will prepare by end October 2019 an internal guidance note for the DMU staff on how to a) use the Commonwealth Secretariat-Debt Recording and Management System including preparing inputs for the Medium-Term Debt Strategy and Debt Sustainability Analysis, and b) record, monitor, and report on debt related matters in accordance with the PFM law and other relevant laws and regulations (sixth review benchmark).

- 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 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 recording and monitoring contingent liabilities of the PPP projects and state-owned entities.

- We are preparing a new government investment package in consultation with development partners and the IMF. 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. We are making further progress on each of the three pillars of our financial sector strategy. The remaining weaknesses in the financial sector are gradually reduced, while at the same time our crisis prevention framework continues to be strengthened, to further consolidate financial stability, restore 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, including termination when warranted. They are all under individual Corrective Action Plans agreed upon with DAB, with specific targets and deadlines. Afghanistan Commercial Bank failed to comply and was eventually put under receivership on August 1st, 2018. The receivership is expected to be able to repay all liabilities through the already well-advanced liquidation of real estate collateral. Two other weak banks had their licenses withdrawn in March 2019 and will be liquidated in an orderly way, with anticipated full repayment of all creditors. Most other weak banks continue to improve, including through more of the requested capital injections, with DAB closely assessing progress, including through regular rounds of in-depth on-site examinations.

26. We have taken a new initiative to jumpstart the stalled asset recovery from the 2011 Kabul Bank collapse. Recoveries and settlements have reached US$402 million by February 2019, but this includes only US$266 million in cash, and there remains US$591 million of pending claims. Since recoveries had mostly stalled since 2016, while the burden of repaying DAB's lender-of-last-resort (LOLR) support continues to weigh on public finances, we are engaging a reputable international forensic accounting firm to review the assets recovery process, identify impediments, and propose practical ways to improve recoveries on the remaining assets. We will implement the agreed upon actions by end-September 2019 (sixth review benchmark).

27. We remain on track to fully relieve DAB from the impact of the 2011 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 regular progress on this front since 2016 and by end-September 2019, upon completion of a second payment for the year (sixth review benchmark), the LoLR exposure of DAB will be fully eliminated.

28. The implementation of the SOCBs reform strategy is proceeding apace with World Bank support. Building on the progress achieved over the last few months in improving their corporate governance framework, we are in the process of catching up on all pending components of the April 2018 World Bank project "Modernizing Afghan State-Owned Banks", to secure the full benefits of this ambitious project. We intend to comply with all legal covenants and deliver on all the actions required under the first disbursement condition of the World Bank project. We will also foster a closer coordination between the team in charge of the project and the DAB supervisors in charge of the prudential monitoring of the SOCBs. To demonstrate our commitment to this project we agreed a new structural benchmark for the sixth review. Under the benchmark, by mid-November 2019, two of the SOCBs with an outdated operational infrastructure will finalize procurement of critical information technology equipment and software, test it, and make it operational to minimize a risk of collapse of their operational systems that could threaten system-wide spillovers.

29. We will continue to strengthen the AML/CFT framework including to ensure effective implementation of AML/CFT measures in the financial sector. The national ML/TF risk assessment is progressing and will be concluded by mid-2019. DAB Governor became the chair of the High-Level Coordination Commission for AML/CFT in early 2019 and is committed to promoting inter-agency coordination. We continued to strengthen risk-based AML/CFT supervision of banks. Based on banks' risk profiles, we conducted 12 full scope on-site inspections in 2018. We also conducted thematic inspections on domestic politically exposed persons (PEPs) in six banks to help detect potential proceeds of corruption. Main weaknesses identified are with regard to identification of PEPs, application of due diligence commensurate with the risks, transaction monitoring, etc. Two banks' licenses were revoked due to, inter alia, unsatisfactory AML/CFT controls. Other enforcement actions taken include financial penalties, removal of directors or senior managers, and warnings. DAB plans to further strengthen its AML/CFT supervision of banks in 2019 including through more on-site inspections and thematic inspections on wire transfers. DAB has also been active in promoting effective AML/CFT controls in money service providers (MSP) through inspections, enforcement actions (including revocation of licenses) and guidance. In particular, we have started development of a methodology for basic ML/TF risk assessment and risk profiling of MSPs. We expect to develop a strategic plan on MSPs by end of 2020 to guide regulatory reforms. We also continue to improve the resources for AML/CFT supervision. A full team of 43 AML/CFT examiners (covering banks and MSPs) will be in place by end of 2019.

Reinforcing the Crisis Prevention Framework

30. 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.

31. We are also upgrading our crisis preparedness and response capacity. Our plan to introduce changes to our banking law to upgrade our resolution framework in line with international best practices is progressing. 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.

32. We established a Financial Stability Committee (FSC). The FSC is chaired by the Ministry of Finance with DAB providing the Secretariat. Its mandate was spelled out in a presidential decree and a related Memorandum of Understanding between the MoF and DAB signed in April 2019, upon incorporation of Fund's technical advice. The FSC has already held a productive first meeting demonstrating its usefulness in fostering coordination among the relevant authorities and developed a work plan that includes simulations of crisis scenarios.

Toward a More Inclusive and Growth-Friendly Financial Sector

33. The development of a comprehensive National Financial Inclusion Strategy with the technical support of the World Bank staff is on track. This effort is led by a dedicated department at DAB established in 2016. Most of the diagnostic work and the surveys have been completed, and we will 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.

34. 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 core financial services that are efficient and safe, thereby gradually moving towards an economy, not dependent on cash alone. Our earlier initiatives in this field centered on mobile money payment of some public-sector salaries. These efforts have met limited success so far, but it has yielded valuable lessons on how to proceed with a more comprehensive approach. In 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 assessed the obstacles met so far and developed a more comprehensive digital payments road map to overcome them. With the support of the World Bank, we will be implementing the PAISA Project that is aimed at developing structures and mechanisms for digital salaries payment. In the meantime, DAB continues with its efforts to expand and modernize the retail payment infrastructure.

35. 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 16.5 percent as of February 2019 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 options they offer to their customers. A workshop was held in Dubai in January 2019 with participation of the Fund and the World Bank, to foster exchanges of views on this topic, and led to a range of suggestions that are being reviewed by DAB. DAB will further 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 regulatory and institutional framework for issuance of government Sukuk that will enable the mobilization of private funds for large scale infrastructure projects.

Safeguards Assessment

36. 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

37. Our government remains committed to determined and robust anti-corruption efforts. We updated the National Strategy for Combating Corruption in November 2018 which includes benchmarks with specified timelines. The Anti-Corruption Law was enacted in September 2018, to which we are working on an amendment.

38. We have made progress in enforcing the Penal Code with respect to corruption offences, in particular through the Anti-Corruption Justice Center's operations. Its activities since it became operational in June 2016 till end 2018 were published on the Attorney General's Office's website on April 8, which include the number of persons charged for corruption, the number of persons convicted for corruption by primary courts, appellate courts and the Supreme Court, the aggregated number of penalties imposed, and compiled decisions on corruption cases of primary courts, appellate courts and the Supreme Court respectively[2] (fifth review benchmark). This practice will continue on a quarterly basis and the data for the 1st quarter of 2019 will be published by end of April 2019. Furthermore, we are considering amending the Penal Code to provide for mandatory publication of reasoned court judgements on individual corruption cases.

39. The Administrative Office of the President (AOP) took preliminary steps in 2018 to implement and enforce the Law on Declaration and Registration of Assets of Officials and Government Employees enacted in September 2017. As of August 31, 2018, 686 high-ranking officials had 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 as required by the fourth review benchmark. We aim to fully implement and enforce the requirements on asset declaration in 2019. Due to technical issues, the deadline for submitting 2019 declarations has been extended to end May. We will publish by end October 2019 on the AOP's official website qualitative and quantitative information (using the templates defined in the TMU), in Dari and in English, on implementation of the Law among officials mentioned in Article 154 of the Constitution and other senior officials (sixth review benchmark). We are committed to updating such information on the website annually.

40. 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.

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[2] See: https://ago.gov.af/en/statistics-prosecutions-and-convictions-corruption-cases and https://ago.gov.af/en/primary-appellate-and-supreme-court-decisions

D. Program Modalities

41. 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 and 2. The ECF arrangement is monitored based on performance through the following test dates: December 20, 2016; June 21, 2017; December 21, 2017; June 21, 2018; December 21, 2018; and June 21, 2019. The sixth review of the program is scheduled to be completed after November 22, 2019. The performance criteria, indicative targets, and the benchmarks are defined in the Technical Memorandum of Understanding.

42. 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.

43. 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	Actual	Year-end stocks	Indicative target 4th review	Actual	Target 4th review	Target Revised	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	189.9	...	41.6	42.9	76.4	77.1	...	122.2
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	6.9	35.6	-29.3	-91.3	-12.5	-17.6	-14.7	-5.4	-96.7	-1.2
Reserve money (ceiling) 2/	31.5	31.5	27.1	289.4	0.0	-15.8	0.0	0.0	-20.9	14.0	-29.3	34.7	34.7	-1.2	288.2	-23.2	12.8	19.5	17.3	305.5	26.1
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	200.0	-217.7	359.6	7705.0	0.0	0.0	0.0	0.0	7705.0	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	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	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	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	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	109.5	109.5	68.2	...	13.2	-0.8	37.4	40.0	...	59.8
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	37.6	...	10.0	42.9	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	-0.4	228.2	-14.2	9.1	15.1	13.7	241.9	18.4
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	40.6	40.6	41.8	...	9.0	6.3	18.6	18.2	...	32.3
Memorandum items:																					
Nominal external concessional borrowing (in U.S. dollars million) 2, 6/	0.0	0.0	119.6	...	0.0	0.0	0.0	132.0	0.0	132.0	0.0	132.0	132.0	0.0	...	205.0	73.0	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	107.0	107.0	126.1	...	8.4	9.7	31.8	47.8	...	76.5
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	216.3	216.3	215.6	...	35.8	14.4	84.6	85.1	...	132.6

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: Sixth Review Structural Benchmarks

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 other senior officials who, pursuant to the Anti-Corruption law, may be prosecuted for "major crimes of corruption".	End-October 2019	Improve governance and fight corruption
Elimination of DAB's lender of last resort exposure to Kabul Bank by Af 7.1 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-September 2019	Strengthen financial stability
Complete transfer of all large taxpayers to the Single Large Taxpayer Office (SLTO).	End-October 2019	Improve revenue collection
Prepare, with support of the IMF staff, an internal technical guidance note for Debt Management Unit (DMU) staff on how to: a. Use the Commonwealth Secretariat Debt Recording and Management System including preparing inputs for the Medium-Term Debt Strategy and Debt Sustainability Analysis; b. Record, monitor, and report on debt related matters in accordance with the Public Finance Management law and other relevant laws and regulations.	End-October 2019	Strengthen the capacity of debt management unit to record and monitor public debt.
Purchase for: New Kabul Bank: (i) licenses for upgraded core banking systems; (ii) software and hardware supporting the core banking systems, including database server and data storage; and Pashtany Bank: (i) up-to-date licenses for the Relational Database Management System software required by core banking systems; (ii) database server hardware, and (iii) data storage hardware. Provide dated and signed contracts/invoices verifying the above purchases. Install the purchased IT equipment and software, test it, and make it operational.	Mid-November 2019	Eliminate risk of collapse of operational systems that may threaten system-wide spillovers

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 PFM 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 3.31 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 –150 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.

[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 Spring 2019 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)
June 21, 2019	47.8

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)
June 21, 2019	85.1

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

US$600 million and the upward adjustment to the NCG ceiling for these projections will be capped at Af 41.2 billion.

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

21. Should some **expenditure currently financed directly by donors outside the budget** be moved on to the operating budget, the NIR floor will be adjusted downward, and the NCG ceiling and the indicative targets (ceilings) for the operating budget deficits of the central government, excluding grants, will be adjusted upward, by the actual amount of these expenditures on the conditions that (i) the moving on budget of these expenditures is justified by a statement from donors indicating their decision to stop financing them; 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 2016–18. 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. Islamic Republic of Afghanistan: 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. Islamic Republic of Afghanistan: 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

26. Starting at 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.

Table 3. Islamic Republic of Afghanistan: 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 September 31, 2019[2]	**Date of assuming office**	**Date of publication of asset declaration (if declaration has not been made, indicate so)**	**Whether the verification has been completed (Y/N)**		
…					
Name and position of officials whose service terminated between September 5, 2017 and September 31, 2019	**Date of leaving office**	**Date of publication of asset declaration (if declaration has not been made, indicate so)**	**Whether the verification has been completed (Y/N)**		
…					

[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 for the row on officials whose services were terminated.

Table 4. Islamic Republic of Afghanistan: Statistics on Senior Officials' Implementation of Asset Declaration Requirements 1/

[Insert Year]

	Officials mentioned in Art. 154 of the Constitution	**Other senior officials who, pursuant to the Anti-Corruption law, may be prosecuted for "major crimes of corruption" 2/**
Number of officials subject to the requirements as of May 31, 2019 3/		
Number of officials who submitted their declarations before or on May 31, 2019		
Number of officials who submitted their declarations after May 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 verification		
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 (4)		
Number of officials subject to actions triggered in accordance to Art. 11(6)		

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

[2] These include: High-ranking officials as defined in Article 3 of Law for Regulating Salaries of the Government High Ranking Officials, government officials as defined in Article 2 of the Law Governing the Salaries of Government Officials, and military generals or officers functioning in the capacity of military generals ranked OF-6 or above with the Ministry of Defense and Ministry of Interior. Generals of National Security Directorate General and Office of National Security Council, who are also subject to asset declaration requirements, will not be included in the statistics for reasons related to national security.

[3] Due to technical issues, the deadline for 2019 declaration has been extended to end of May. Starting at 2020 the dates will be replaced by January 31 in line with the Law. Same for the 2nd and 3rd rows below.

Statement by Jafar Mojarrad, Executive Director for the Islamic Republic of Afghanistan, Cyrus Sassanpour, Senior Advisor to Executive Director, Syed Ishaq Alavi, Government Provided Advisor
June 3, 2019

Our Afghan authorities are very appreciative of the continuous support of the IMF Management and the Executive Board, as well as staff's candid and constructive policy advice and technical support.

Program Implementation

Afghanistan has maintained its strong track record of program ownership and implementation under the Extended Credit Facility (ECF). All end-December 2018 quantitative performance criteria (PCs) were met as were all structural benchmarks, albeit two implemented with minor delays. In view of their solid program performance and commitment to program objectives, the authorities request completion of the fifth review and modification of three end-June 2019 PCs due to the updated macroeconomic framework.

Overview of Recent Political and Economic Developments

Afghanistan has preserved macroeconomic stability and reasonable growth, despite difficult security and political conditions, a devastating drought in 2018 followed by flash floods in 2019 that affected a large part of the population, and return of close to one million Afghan refugees from neighboring countries. Notwithstanding continued hostilities, the government is committed to a dignified and just peace, and the ongoing initiatives have raised, for the first time, the prospects of a lasting peace after four decades of conflict and violence. A consultative Peace Loya Jirga (grand assembly), drawing 3,200 representatives from across the country, met in early May and outlined the roadmap for an inclusive All-Afghan peace. The government is also firmly committed to the democratic processes that were set in motion two decades ago: a newly elected parliament was inaugurated on April 26 and the presidential election is on track for September 28.

Economic activity is expected to pick up in 2019, following the recovery from the drought, and inflation to remain muted. Amid sharp depreciation of regional currencies in 2018 and in the first months of 2019, the *Afghani* came under speculative pressure, prompting Da Afghanistan Bank (central bank) to increase its market sales of foreign exchange, but reserves have remained very comfortable. Exports in 2018 were boosted by the government's export promotion initiatives—including air corridors to main markets—and the large current account deficit was financed by donor grants. Fiscal performance was strong. Revenue and the treasury cash buffers exceeded the program targets, and expenditure execution rate, including the development budget, surged above

90 percent reflecting improvement in budgetary processes. Social and other priority spending also exceeded the program target. In the first three months of 2019, the strong budget performance continued, indicative targets were met and treasury balances climbed to more than four times the program floor. The government will resist spending pressures in the run-up to the September presidential election and is committed to take additional measures in case of revenue shortfall to meet the budget targets.

Macroeconomic Policies and Reforms

Going forward, policies will continue to focus on strengthening macro-financial stability, promoting high inclusive growth, protecting the vulnerable and supporting competitiveness. Fiscal policy will be set and executed with prudence, targeting (from 2020) an overall balanced position (including grants). Fiscal reforms will focus on strengthening PFM, making efficient use of grants and improving the quality of spending (MEFP ¶15, 22). The reforms will also aim at improving budget preparation and execution; enhancing budget transparency and accountability; and reducing the fiscal drag of state-owned enterprises (MEFP ¶22). Moreover, with debt sustainability in mind, the authorities are accelerating their efforts to improve debt management and debt monitoring capacity (MEFP ¶23). Monetary policy will continue to focus on moderate inflation, preserving exchange rate flexibility as a first line of defense against external shocks, and maintaining a high foreign reserve buffer. Financial soundness indicators have improved noticeably, and significant progress is being made on the three pillars of financial sector strategy to improve the stability and integrity of the financial sector, address the lingering legacy issues, and enhance financial inclusiveness (MEFP ¶25-35).

Poverty Reduction and Business-Friendly Growth Policies

Afghanistan's medium-term development agenda is guided by the Afghanistan Self-Reliance Strategy, and the Afghanistan National Peace and Development Framework. Going forward, policies will have a strong pro-growth orientation based on the principle of inclusiveness across gender and urban-rural divides. The private sector is expected to take the lead, supported by stronger government institutions and pro-business policies. Structural reforms to improve the business and investment climate are already bearing fruit and are in turn reflected in important gains in the World Bank's Doing Business rankings. Guided by a comprehensive National Strategy for Combating Corruption, a robust anti-corruption framework has been established and dedicated institutions are tasked to accelerate the reforms on strengthening governance and fighting corruption (MEFP ¶37-39). With 55 percent of Afghans below the poverty line and women excluded from many facets of economic activity, fighting poverty and addressing gender inequality are, and will remain, top government priorities; important inroads have already been made on these fronts. Mindful of the criticality and urgency of tackling high unemployment and widespread poverty and their implications for peace and social stability, the authorities are planning to embark on a multi-year program to scale up high-quality, high-return, and transparent public investment—mainly in energy, housing and agriculture and rural development, financed largely by private capital—in close consultation with the IMF and other development partners. Preserving debt sustainability will remain an overriding priority.

Way Forward

Authorities fully recognize that sustaining their steady progress in institution building, women empowerment and economic reforms are central to laying a solid foundation for a vibrant economy and an equitable society. There are two key elements to the success of this strategy: a large peace dividend that government hopes to harness, and donor support. The achievements so far would not have been possible without the generous support of bilateral donors and other international development partners. The authorities are hopeful that the high-level engagement and partnership will continue as Afghanistan pushes forward and makes steady progress towards self-reliance. In the November 2018 Geneva Conference, the donors reaffirmed (and in some cases increased) their 2016 pledges and agreed with the Afghan authorities on a set of deliverables for 2019-2020 (MEFP ¶10), notable among them a successor IMF program by mid-2020 which will continue to anchor Afghanistan's efforts to fully reap the expected peace dividends.