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ISLAMIC REPUBLIC OF AFGHANISTAN

June 2021

FIRST 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 First Review Under the 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 Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2021, following discussions that ended in early April, 2021, 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 20, 2021.
- A **Debt Sustainability Analysis Update** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by staff of the IMF.
- 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

PR/21/334

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

FOR IMMEDIATE RELEASE

- Afghanistan is facing formidable challenges. The precarious security situation and rising uncertainty are hurting confidence, investment, and growth, while the Covid-19 pandemic has imposed a heavy socioeconomic toll, with higher poverty and unemployment.
- Through the Extended Credit Facility (ECF) arrangement, the IMF is aiding Afghanistan's recovery from the Covid-19 pandemic, providing financing to cushion its impact, and supporting reforms to promote inclusive growth and advance toward self-reliance.
- Despite these challenges, the authorities remain strongly committed to the objectives of their IMF-supported economic program.

Washington, DC – June 7, 2021. The Executive Board of the International Monetary Fund (IMF) today completed the first review of Afghanistan's economic reform program supported by the Extended Credit Facility (ECF)[1] arrangement. The completion of this review makes SDR 103.6 million (about US$149.4 million) available immediately for disbursement.

Afghanistan's 42-month ECF arrangement of SDR 259 million (about US$370 million) was approved by the Executive Board on November 6, 2020 (see press release No. 20/334). It aims to support Afghanistan's recovery from the COVID-19 pandemic, anchor economic reforms, and catalyze donor financing. Since the onset of the pandemic, Afghanistan also benefitted from the IMF's disbursement of SDR 161.9 million (about US$220 million) under the Rapid Credit Facility and a debt service relief of SDR 7.2 million (about US$10 million) under the Catastrophe Containment and Relief Trust.

The COVID-19 pandemic and rising security challenges have buffeted Afghanistan. While the government's determined response, supported by donors, helped mitigate the pandemic's impact, including by containing the economic contraction, poverty worsened and the fiscal deficit widened. Security has deteriorated and uncertainty has risen as the peace talks between the government and Taliban stalled, with the US and NATO troops set to withdraw by September.

Despite facing these strong headwinds, the authorities have kept the program broadly on track. All end-December program performance criteria (PCs) and all but two end-December indicative targets (ITs) were met. The IT on revenue and the IT on social and other priority spending were not observed, the former due to a shortfall in nontax revenue and the latter for classification reasons. In completing the review, the Executive Board approved the authorities'

[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 .

request to modify all non-continuous PCs and all ITs, other than the IT on the Treasury cash balance, through end-2021, aligning them with the revised macroeconomic framework, and to update structural benchmarks.

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

“Afghanistan is confronting the fallout of the COVID-19 pandemic amid rising insecurity and uncertainty. Aided by donor support, the authorities boosted health and social spending to cushion the impact on the vulnerable. Nevertheless, the pandemic caused an output loss, worsened poverty and set back self-reliance efforts.

Growth is expected to resume this year, but the outlook is subject to considerable downside risks, including from adverse security developments, drought and the pandemic. Should they materialize, it will be essential to boost spending for healthcare, support to the vulnerable, and food security, using fiscal space created by spending reprioritization and grants.

Modest fiscal loosening in 2021 is appropriate to support the recovery and mitigate scarring from the pandemic. As the economy strengthens in 2022, fiscal policy should shift gears to advance toward self-reliance to protect priority spending as grants decline. This hinges on the implementation of the VAT in 2022, tax administration gains, spending optimization and strengthening fiscal risk management.

Monetary policy should remain geared toward price stability, with the exchange rate allowed to adjust in response to shocks. Given rising strains, it is important to sustain intensified bank oversight and strengthen regulatory and supervisory frameworks, including for bank resolution and AML/CFT. Reforms of state-owned commercial banks should be reinvigorated.

Progress in improving public spending transparency, including in procurement, is commendable. The audit of pandemic spending will help reassure the public and donors about the government accountability. Further strengthening the asset declaration regime and anti-corruption institutions would help deter and fight corruption.

Despite facing formidable challenges, the authorities continued to demonstrate strong program ownership. Going forward, macroeconomic stability, reforms supported by donor grants and capacity development, and accelerating vaccinations will be key to addressing the pandemic’s legacies.”

ISLAMIC REPUBLIC OF AFGHANISTAN

May 20, 2021

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

EXECUTIVE SUMMARY

Context. Afghanistan is confronting the Covid-19 pandemic and its socioeconomic fallout amid rising insecurity. Supported by donors, the authorities boosted health and social spending to cushion the pandemic's impact on the vulnerable. Policy measures kept the output contraction to 2 percent in 2020, but poverty rose and the fiscal deficit widened. Political uncertainty has risen as the peace talks between the government and Taliban stalled and the U.S., NATO, and allies announced the withdrawal of their troops by September. In a strong sign of support for Afghanistan's development and reforms, donors pledged some US$12 billion civilian grants over 2021–24 at the Geneva conference in November 2020.

Program performance. All end-December 2020 performance criteria (PCs) and indicative targets (ITs) were met, except for the IT on revenue and IT on social and other priority spending. Progress toward structural benchmarks (SBs) was mixed. Two SBs under this review were met, but two—signing of advisory support for the merger of two state-owned banks (SOCBs) and enacting Da Afghanistan Bank (DAB) amendments—were missed due to capacity constraints and a challenging relationship between the government and parliament.

Program policies. Macroeconomic stability, reform progress, and accelerating vaccinations will be key to sustain the post-Covid recovery. Modest fiscal loosening in 2021 is appropriate to protect priority spending, including for pandemic mitigation. As the crisis abates, the government aims to reduce the fiscal deficit in 2022 and advance to self-reliance. To that end, it should step up preparations for the VAT adoption in 2022 and boost tax compliance. DAB should allow greater exchange rate flexibility and continue intensified bank oversight. Commitments to strengthen fiscal risk management and steps to enhance public spending transparency and digitalize asset declarations are welcome.

Staff views. Staff supports completion of the first review under the Extended Credit Facility (ECF) arrangement. Despite formidable challenges, the authorities have kept the program broadly on track and remain committed to its objectives as spelled out in their Letter of Intent and Memorandum of Economic and Financial Policies (MEFP). The program continues to face substantial risks, which have risen since its approval mainly due to growing political and security uncertainty. Near-term prospects are also weighed by the drought and pandemic. Were these risks to materialize, they would hurt growth, increase financing needs, and hamper program implementation, already challenged by multi-faceted fragilities. Careful reform prioritization is key to ensure steady implementation supported by strong ownership, sustained aid, and capacity development.

Approved By
Zeine Zeidane (MCD) and Gavin Gray (SPR)

Discussions were held remotely from Washington, DC in March–April 2021. The staff team comprised Azim Sadikov (head), Mariusz Sumliński, Boaz Nandwa, Jesus Sanchez (all MCD), Sandesh Dhungana (SPR), Gayon Hosin (MCM), Qianqian Zhang (FAD), Kathleen Kao (LEG), and Abdul Rahman Rahimi (local economist). World Bank staff participated as observers. Messrs. Hosseini and Sassanpour (both OEDMD) joined opening and concluding meetings. The team met with Finance Minister Payenda, Governor Ahmady, Deputy Finance Minister Zadran, and other officials. Jesus Sanchez provided research assistance, and Laila Azoor and Esther George (all MCD) managed document production.

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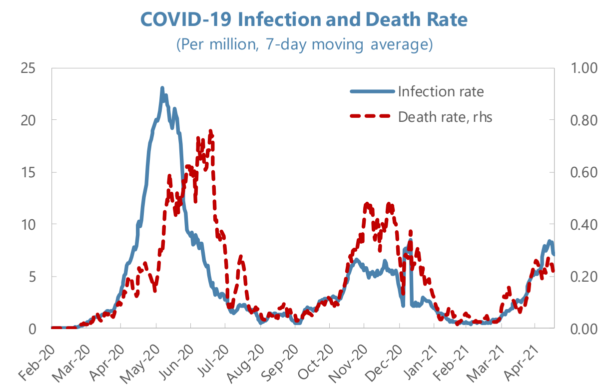
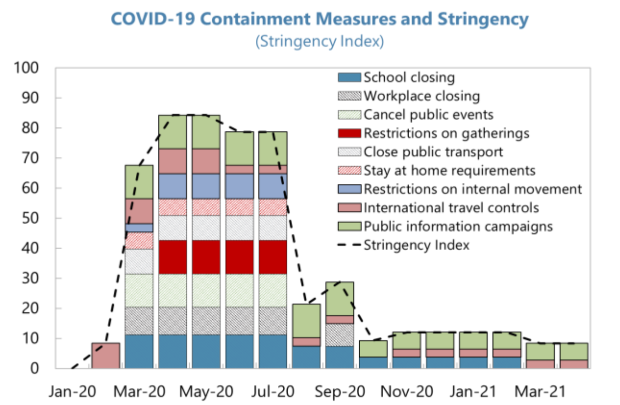
CONTEXT

1. **Afghanistan continues to be affected by the Covid-19 pandemic and its fallout.** Stringent containment measures were removed by late 2020, and only a few restrictions remain in place. That said, Afghanistan appears to be facing a third wave of infections.[1] The pandemic has imposed a heavy socioeconomic toll—it forced thousands into poverty,[2] set back progress toward self-reliance, and caused a permanent output loss.



Sources: Johns Hopkins CSSE (May 16, 2021) and IMF staff calculations.



Source: Oxford COVID-19 Government Response Tracker

2. **The government responded with wide ranging measures to protect people, livelihoods, and the economy.** Supported by substantial donor financing, including the Rapid Credit Facility and first ECF disbursements, the government spent Af 32 billion (2.1 percent of GDP) on pandemic mitigation in 2020. Most of it was for health, food security, and social needs, including 0.8 percent of GDP via the World Bank-funded Relief Effort for Afghan Communities and Households (REACH) program targeting households with incomes of $2 per day or less, twice the national poverty line. To alleviate liquidity pressures among taxpayers, the government extended the business receipt tax (BRT) filing and payment deadlines. DAB stepped in to ensure continued bank operations, froze loan classifications, suspended the enforcement of selected prudential requirements, and promoted digital finance. Most anti-crisis measures were phased out last year.

[1] Given a fragile healthcare system and widespread poverty, illnesses likely go underreported.

[2] The World Bank estimates that poverty rose to 61–72 percent in 2020 from 55 percent in 2017.

COVID-19-related Expenditure, 2020

	In billions of Afs	Percent of GDP
COVID-19-related expenditure	32.1	2.1
of which for health	10.9	0.7
Construction of hospitals and provincial clinics	2.6	0.2
World Bank Funded Covid19 Emergency Response Project	3.3	0.2
ADB Funded Emergency Assistance for Covid19 Pandemic Response	1.1	0.1
Transfers to provinces to fight COVID-19	1.3	0.1
other health outlays	2.6	0.2
of which for social	14.7	1.0
Bread distribution	2.0	0.1
World Bank- supported social distribution program (REACH)	12.7	0.8
of which for others	6.5	0.4
Short-term employment program	1.0	0.1
Measures to expedite the supply of agricultural commodities	5.2	0.3
Afghanistan Emergency Agriculture and Food Supply Project (EATS)	0.0	0.0
Other outlays	0.4	0.0

Source: Afghan authorities.

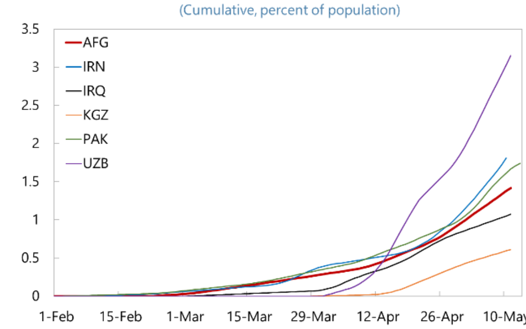
COVID-19-related Financing, 2020

	In millions of USD	Percent of GDP
Total Financing	864	4.4
Grants	521	2.6
World Bank	407	2.1
Asian Development Bank	114	0.6
Loans	343	1.7
IMF (Rapid Credit Facility)	222	1.1
IMF (Extended Credit Facility)	117	0.6
G20 DSSI 1/	4	0.0

Source: Afghan authorities.
1/ DSSI provides rescheduling of debt servce payments due in 2020.

3. The government aims to vaccinate 60 percent of the population. Inoculations began in February, with the COVAX facility and donors expected to finance vaccines for 48 percent of the population. The government hopes to identify additional grants and donations (about $60 million) to cover the remaining target population. Vaccine availability remains the main constraint, but the inoculation campaign is also facing administrative challenges and vaccine hesitancy among the public.

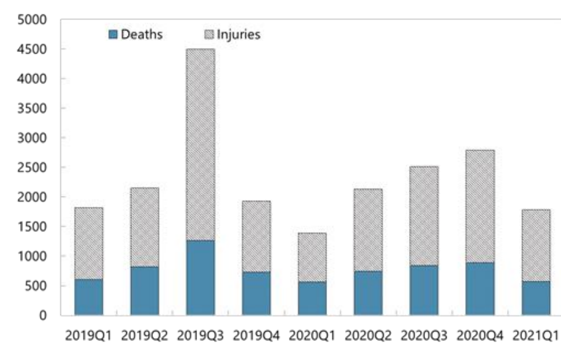
COVID-19 Vaccinations
(Cumulative, percent of population)



Sources: Oxford University based on national authorities' data and IMF staff calculations

4. Rising insecurity and uncertainty have eroded confidence and policymaking. A wave of targeted attacks on public figures and civil servants, including DAB employees, has shaken confidence in a peaceful settlement of the armed conflict and overshadowed concerns about the pandemic. Tensions between the government and parliament delayed the approval of the 2021 budget, which was rejected twice, to late February and thwarted consideration of DAB law amendments.

Civilian Deaths and Injuries

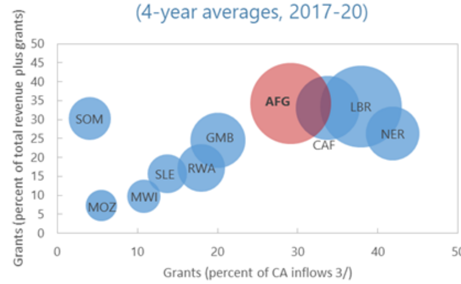


Source: United Nations Assistance Mission to Afghanistan

5. The peace talks have stalled, and foreign troops have started to depart. The talks between the government and Taliban hit an impasse in early January over a future governance system and transitional arrangements. While President Ghani signaled openness to the previously rejected idea of an interim power-sharing government, a peace conference planned in Istanbul was postponed after the Taliban declined to attend. The U.S., NATO, and allies are withdrawing their troops, to be completed by September, while affirming continued assistance to Afghanistan.

6. **Donor support remains critical.** Following the approval of the ECF arrangement, donors committed some $12 billion civilian aid for 2021–24 at the Geneva conference last November. The amount is about 20 percent lower than pledged at the 2016 conference, underscoring the need to advance toward self-sufficiency.

Aid Dependence 1/ 2/
(4-year averages, 2017-20)



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

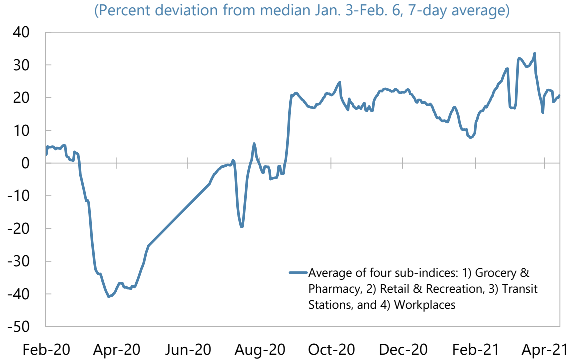
RECENT ECONOMIC DEVELOPMENTS

7. **The economy has continued to recover from the pandemic.**

- GDP contracted by 2 percent in 2020, less than the 5 percent contraction projected at the program approval. Activity rebounded strongly in the second half of the year, and favorable weather boosted agriculture which grew by 5 percent, partially offsetting the decline in industry and services. Working hours, mobility, and cross-border traffic are broadly back to pre-crisis levels, and most flights, including for exports via air corridors, have resumed.

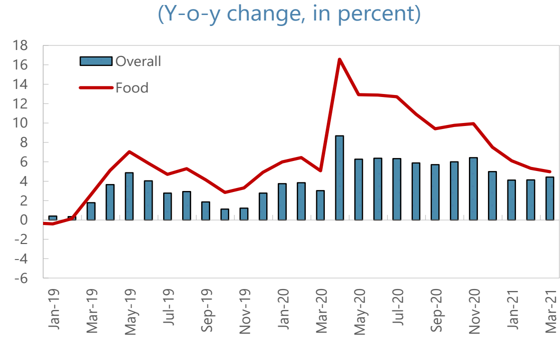
- Annual inflation was 4.4 percent in March. After peaking at 17 percent in April 2020 due to border closures and panic buying, food inflation moderated thanks to a trade resumption and good fall harvest. Nonfood inflation remained low throughout given weak demand and Afghani's appreciation.

Google Mobility Index
(Percent deviation from median Jan. 3-Feb. 6, 7-day average)



Sources: Google Mobility Reports; and IMF staff calculations

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



Source: Afghan authorities.

Selected Economic Indicators, 2019–22

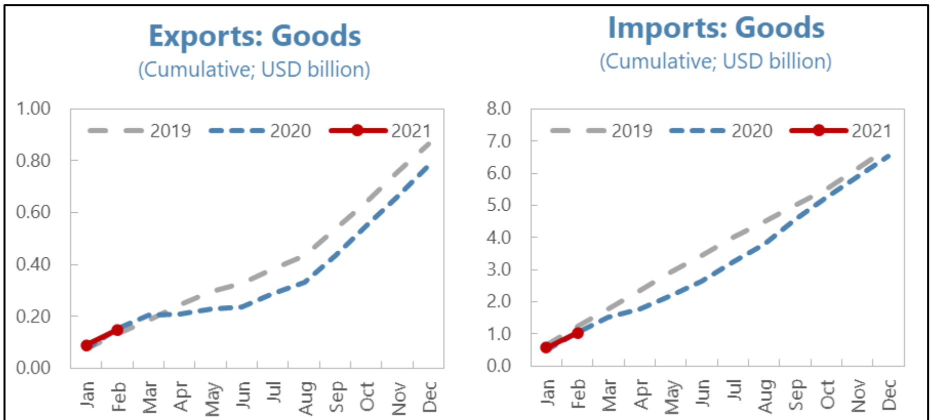
	2019	2020		2021		2022	
		ECF Request	Prel.	ECF Request	Proj.	ECF Request	Proj.
Output and prices 1/							
Real GDP growth (percent)	3.9	-5.0	-1.9	4.0	2.7	4.5	4.5
Nominal GDP (in billions of Afghanis)	1,470	1,466	1,520	1,598	1,630	1,742	1,781
Consumer prices (p.a., percent change)	2.3	5.4	5.6	4.8	4.9	4.3	4.5
	(In percent of GDP, unless otherwise indicated)						
Public finances (central government)							
Overall balance (including grants)	-1.1	-3.0	-2.3	-2.2	-2.5	-1.2	-1.2
Public debt	6.1	7.7	7.5	9.0	8.6	9.6	9.0
External sector 1/							
Current account balance	11.7	12.1	14.2	8.0	10.6	8.0	8.9
Gross international reserves (in billions of U.S. dollars)	8.6	8.9	9.8	8.8	9.5	8.7	9.4

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

1/ Excluding the narcotics economy.

8. The external position strengthened in 2020 thanks to grants, subdued imports, and resilient exports and remittances.

- The current account deficit before grants improved to 24.3 percent of GDP. It narrowed sharply during the lockdown as imports, which at five times exports dominate the current account, fell. This was reversed when imports rebounded as the economy reopened in the third quarter. In 2020 as a whole, exports fell by 2 percent and imports by 5 percent. Formal remittances rose as migrants, unable to travel, used wire services, and more money dealers registered with DAB, increasing the coverage. After large grants, the current account surplus reached 14.2 percent of GDP.

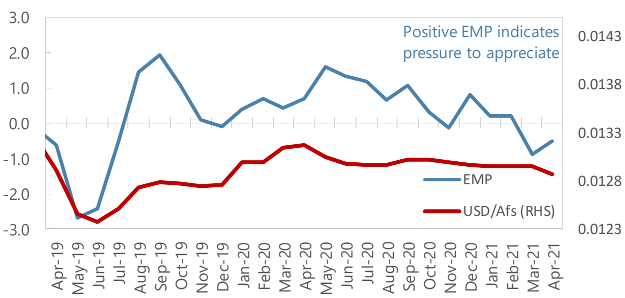


Source: Afghan authorities.

Source: Afghan authorities.

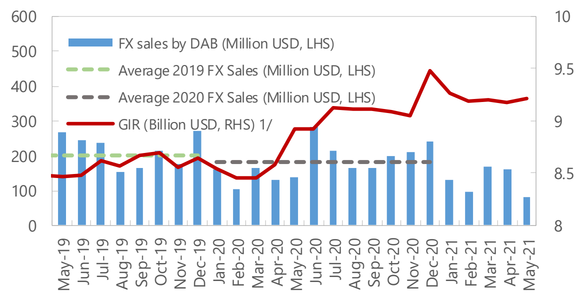
- As a result, the Afghani appreciated even as DAB reduced its foreign exchange sales. The latter, coupled with official inflows, including IMF disbursements, and valuation gains boosted gross international reserves (GIR). By end-April 2021, GIR stood at $9.4 billion, 123 percent of the reserve adequacy metric comprising 100 percent of currency in circulation, all foreign currency deposits, and three months of imports.

Exchange Market Pressure and the US$/Afs Exchange Rate



Source: IMF staff calculations.

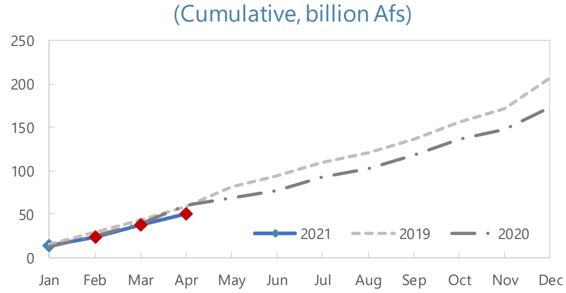
FX Sales and Gross International Reserves



Source: Afghan authorities.
1/ At program exchange rates.

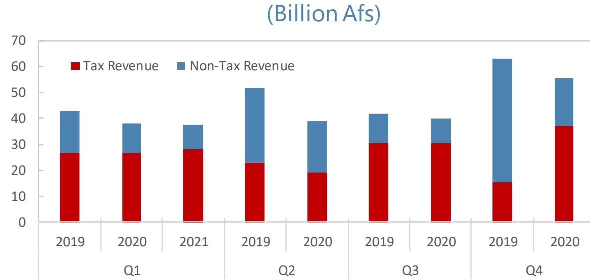
9. **Revenue shortfalls and pandemic spending widened the fiscal deficit to 2.3 percent of GDP in 2020.** Domestic revenue fell by 16 percent compared to 2019—tax revenue by 7 percent—reflecting the economic downturn and weaker collection. Spending rose by Af 21 billion, to 28½ percent of GDP, to accommodate Covid-19 outlays financed by new and reallocated grants. However, spending undershot the program level thanks to savings in the wage bill and purchases of goods and services and slower execution of donor-financed development projects, the latter in large part due to the pandemic. As a result, the 2020 fiscal deficit came in 0.7 percentage points of GDP below programmed, and the treasury cash balance closed the year at Af 32 billion—three times the program's floor.

Domestic Revenue
(Cumulative, billion Afs)



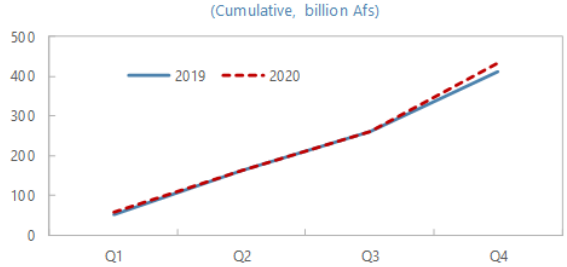
Source: Afghan authorities.

Domestic Revenues
(Billion Afs)



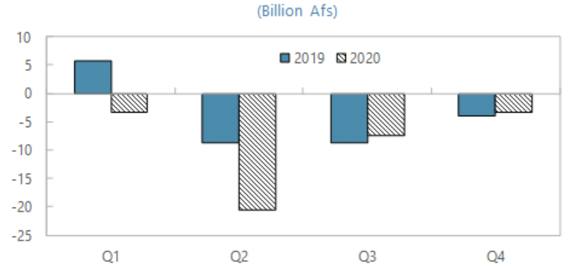
Source: Afghan authorities.

Expenditure
(Cumulative, billion Afs)



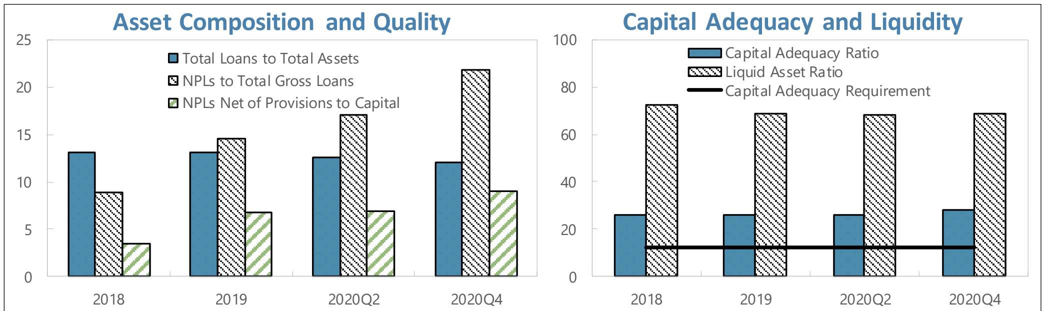
Source: Afghan authorities.

Overall Balance
(Billion Afs)



Source: Afghan authorities.

10. The pandemic is straining the banking sector, eroding the asset quality and profits. Although the pandemic's full impact on borrowers' ability to service debt is yet to be realized, the small loan portfolio (12 percent of bank assets) limits potential losses. After DAB ended the freeze on loan classification and resumed the enforcement of prudential requirements in July, nonperforming loans (NPLs) rose to reach 22 percent of total loans by end-2020. The ensuing increase in provisioning and a drop in returns on overseas assets, which comprise one-third of sector assets, weighed on profits.

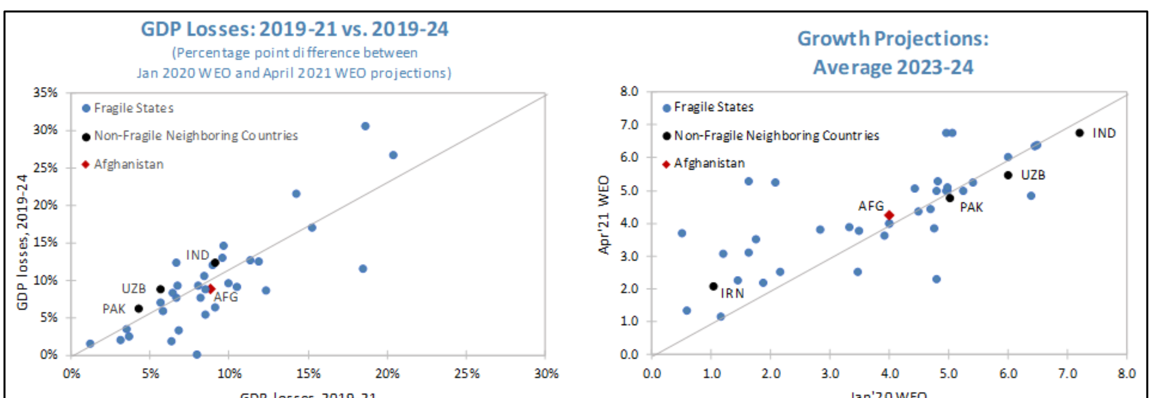


Source: Afghan authorities.
Source: Afghan authorities.

OUTLOOK AND RISKS

11. Assuming broadly unchanged security conditions, the outlook envisages a recovery, with near-term growth weighed by the pandemic and an incipient drought.

- *Growth* for 2021 has been revised down to 2.7 percent from 4 percent during the ECF approval after factoring in a weaker base effect and the drought's expected impact on the harvest. Supported by structural reforms and regional integration, growth is expected to settle at 4–4½ percent over the medium term, at about staff's pre-Covid estimate of potential growth. This implies a 9 percent permanent output loss due to the pandemic.



Note: 45° line marks a return to pre-Covid medium term growth path; countries below it recoup some of the projected growth loss due to COVID.
Sources: IMF World Economic Outlook, and IMF staff estimates.
Sources: IMF World Economic Outlook, and IMF staff estimates.

- *Inflation* is projected to rise to 5.8 percent by end-2021 (see ¶24).
- *External sector*. The current account is expected to deteriorate in 2021 as imports continue to rebound and Covid-19 grants taper off. The current account deficit before grants is projected to improve over the medium term thanks to exports growth and as aid and related imports decline.

12. Considerable downside risks weigh on the outlook (Annex I). Large uncertainty surrounds the implications of the troops withdrawal as well as what comes next in the peace talks and their outcome. While a sustained peace would lift development prospects, failure of the talks could inflame the violence, which could lead to a loss of life, destruction, and potentially a refugee crisis, hamper the authorities' ability to undertake reforms underpinning the outlook, and fuel capital outflows. Drought has emerged as a near-term risk, while shortfalls in aid, policy slippages, and adverse security developments could also harm the recovery and fiscal position. While the pandemic continues to weigh on health and social outcomes, the direct risk it poses to economic activity has moderated as the authorities are unlikely to impose blanket restrictions in response to an infection spike.

13. The authorities are developing contingencies should the drought intensify, or infections flare up again. They plan to boost health and social spending and food security measures by deploying contingency budgetary funds and reprioritizing the budget. If needed, they would introduce one-off revenue measures and seek additional grants, including through frontloading.

PROGRAM PERFORMANCE

14. Program implementation remains satisfactory overall. Despite pandemic and security challenges, the authorities have continued to demonstrate their commitment to the program.

- All end-December PCs and all but two end-December ITs were met (MEFP, Table 3). The IT on revenue and the IT on social and other priority spending were not observed, the former due to a shortfall in nontax revenue and the latter for classification reasons. Social and other priority spending amounted to Af 78½ billion in 2020, slightly above the Af 78 billion target, but spending under some social programs, e.g. REACH, was classified as development expenditure, outside the program's definition covering operating expenditure only. The definition has now been modified to include all social and other priority spending regardless of whether such spending is classified as operating or development expenditure.
- Based on preliminary data available for selected end-March ITs, two end-March 2021 ITs were not observed. The IT on revenue was missed due to a fire at the second largest customs office in February. The IT on net international reserves was missed as the late-2020 surge in government spending necessitated higher than programmed foreign exchange sales in January-March, partly unwinding the earlier overperformance.

15. Progress with SBs was mixed. Two out of four first review SBs were met (MEFP, Table 1). The authorities submitted the 2021 draft budget with a 2.2 percent of GDP deficit to parliament (November SB) and adopted targeted and graduated measures to increase tax filling and compliance among large taxpayers (December SB). Regarding the remaining two SBs which were not met:

- The authorities encountered significant delay in contracting advisory support for the merger of two SOCBs due to capacity constraints and procurement complexities (April SB). They have now reset the timeline and intend to sign the contract by November (proposed reset date, second review SB).
- The authorities were unable to bring the DAB law amendments aimed at strengthening DAB's autonomy and governance structure for parliament's consideration (March SB). They affirmed their commitment to DAB's independence and to continue working with parliament toward enacting the amendments.

POLICY DISCUSSIONS

A. Fiscal Policy

16. A looser fiscal stance in 2021 aims to sustain the recovery and protect social spending. The authorities intend to target a 2.5 percent of GDP deficit this year, 0.3 percent of GDP higher than envisaged during the ECF request. A slightly higher deficit is justified by the need to continue pandemic spending and support the recovery and can be financed given higher than projected treasury cash balances. To protect the socially vulnerable and enhance their access to basic services, the authorities plan to spend Af 91 billion (5.6 percent of GDP) on social and other needs (IT), covering education, healthcare, food and nutrition to the needy, pensions for martyrs and disabled, refugees and repatriates, women empowerment, and natural disaster relief. This amount includes most of the planned 0.9 percent of GDP pandemic spending, two-thirds accounted for by the remainder of the REACH program. It can form the basis for a future social safety net, and staff encouraged the authorities to engage the World Bank and other donors for related technical assistance and financing.

17. The authorities have aligned their 2021 spending with a realistic revenue projection. Hitting the 2021 budget's ambitious revenue target became challenging after January–March revenue disappointed due to the customs fire. While the authorities hope to make up the lost ground thanks to renewed revenue efforts, they agreed to a lower revenue target under the program (8 percent below the 2021 budget's). To align spending with the reduced revenue envelope, the authorities are putting on hold slower-performing and lower priority administrative and infrastructure projects while protecting social and other priority spending. Should revenue overperform, the authorities intend to revive and execute these projects.

2021 Budget and Program Parameters

	2021 Budget		Program Projections	
	In billions of Afs	In percent of GDP	In billions of Afs	In percent of GDP
Revenues and grants	435	25.5	419	25.7
Domestic revenues	217	12.7	200	12.3
Tax revenues	157	9.2	140	8.6
Nontax revenues	60	3.5	60	3.7
Total Grants	219	12.8	219	13.4
o/w Covid-related grants	14	0.8	14	0.8
Total expenditures	473	27.7	459	28.2
o/w security expenditures	148	8.6	149	9.1
o/w Covid-related expenditures	15	0.9	15	0.9
Operating expenditures	311	18.2	308	18.9
Development expenditures	162	9.5	151	9.3
Overall budget balance excluding Covid-related grants	-51	-3.0	-54	-3.3
Overall budget balance including grants	-38	-2.2	-40	-2.5

Sources: Afghan authorities and IMF staff calculations.

18. **Medium-term fiscal policy remains anchored on advancing toward self-reliance.** The authorities intend to reverse the 2020–21 fiscal loosening in 2022 supported by improved tax collection and the value-added tax (VAT) adoption, and as pandemic spending phases out. Progress toward self-reliance requires improving the operating balance excluding grants and reducing the overall deficit to under 1 percent of GDP over the medium term to contain public debt and rebuild government deposits. To achieve this while protecting priority spending as grants decline, the authorities plan to mobilize revenue and optimize spending.

19. **The revenue strategy is underpinned by the VAT adoption in 2022 and revenue administration gains.**

- ***VAT (Annex II),*** which would replace the BRT, could yield 1.2 percent of GDP net revenue while eliminating the BRT's distortions. Staff called on the authorities to step up lagging preparations for the reform, which is supported by the EU, IMF, and World Bank. The authorities are on track to submit to parliament by June legal amendments to eliminate the BRT under the VAT threshold (second review SB), which would allow Afghanistan Revenue Department (ARD) to concentrate on VAT payers. The authorities are designing a simple tax scheme for taxpayers below the threshold to keep them under the tax net.

- ***Restoring tax compliance.*** The ARD intends to introduce by September the risk differentiation framework, with risk profiles for all large taxpayers (second review SB). Further, by end-December, it will formulate a compliance improvement plan for the Single Large Taxpayers

Office (SLTO) containing a treatment strategy for each identified priority risk in registration, filing, payment, and reporting, and implement it in 2022 (Table 11). The authorities are also taking steps to bolster a compliance culture.

- ***Reducing leakages in customs.*** To reduce non-compliance, the authorities are improving targeting by enhancing multi-criteria risk profiles, equipping mobile verification teams which spot check shipments after customs release, and installing digital scanners. These efforts will be supported by increased automation, including electronic declarations and e-payments, as well as improved integrity among customs officials.

- ***Mining revenue.*** While investment in extractive industries, which hold large revenue potential, has been hampered by ongoing insecurity, the authorities are moving toward effective and transparent fiscal regime for natural resources. Afghanistan's January 2019 suspension from the Extractive Industries Transparency Initiative (EITI) was lifted last October in recognition of progress in implementing the EITI Standard.

20. The tight fiscal environment calls for strategic allocation and efficient use of public resources. Staff welcomed the launch of a public expenditure review (PER) of operation and maintenance, discretionary development spending, and the wage bill. Conducted with the World Bank's assistance, the review will identify scope to better align spending with priorities and generate savings over time. Same considerations are motivating authorities' new civil service pay policy to incentivize professionalization of civil service cadres. The policy, which links compensation with competencies, will be piloted in the Ministry of Finance (MoF) later this year.

21. The authorities should continue reforming Public Financial Management (PFM):

- ***Public investment management (PIM).*** The recent adoption of new PIM regulations has formalized the rules-based process for selection, appraisal, and approval of public investment projects. This should strengthen project implementation and reduce opportunities for political interference and corruption.

- ***Public private partnerships (PPP).*** The recent transfer of the PPP unit to the Investment Facilitation Unit at the Administrative Office of President has undermined the institutional arrangement for managing fiscal risks and the unified process for project appraisal and selection. The authorities agreed with staff that the MoF should play a strong gatekeeper role in managing fiscal risks stemming from PPPs. To that end, they decided to amend the PPP law to return to the MoF full control over the management of fiscal risks from PPPs throughout the project cycle and place the section of the PPP unit responsible for fiscal risks back in the Ministry (second review SB).

- **State-owned enterprise/corporations (SOE/SOCs).** To enhance SOE/SOC oversight, the authorities have started collecting full financial information for the five largest nonbank SOE/SOCs (*Da Afghanistan Breshna Sherkat, Afghan Telecom, Ariana Airlines, Afghanistan Urban Water Supply, and Afghan National Insurance Company*) and will prepare a comprehensive report on their financial performance. They also plan to have their 2020 financial statements externally audited and published by end-December (Table 11).

- **Fiscal risk disclosure.** Staff welcomed the authorities' plan to develop an integrated public projects database, which for PPPs will contain information on service payments and public commitments over the project's life. The authorities are building technical capacity to assess SOE/SOC- and PPP-related fiscal risks and, assisted by IMF TA, plan to produce initial analysis included in the FY2022 Fiscal Strategy Paper and budget document.

22. Afghanistan's risk of debt distress remains high, unchanged from the assessment during the ECF request (Debt Sustainability Analysis Update). Public debt, currently low, is projected to rise gradually over the medium term underpinned by fiscal deficits averaging less than 1 percent of GDP and the authorities' commitment to borrow strictly on concessional terms. The high risk of debt distress arises because of the shift in the financing mix, from grants to debt, over the long term when the present value of debt to exports repeatedly breaches its threshold under the baseline. Revenue mobilization, continued aid, and structural reforms remain key to maintain debt sustainability. To help the authorities build debt management capacity, the World Bank is conducting a Debt Management Performance Assessment, and the ADB and IMF plan to provide related TA.

23. The inaugural Sukuk issuance is now expected in early 2022. The authorities have drafted a Sukuk law, which they plan to submit to parliament in September, and related regulations. Sukuk issuance would allow the government to tap large domestic savings and over time catalyze debt market development.

B. Monetary and Financial Sector Policies

24. Monetary policy remains geared to low and stable inflation. While inflation is currently subdued, demand recovery, weak harvest, and higher global food prices will likely put upward pressure on prices. This should be accommodated given the transitory nature of drivers and the still weak economy, but DAB should be prepared to tighten if rising inflation threaten to become embedded in expectations. Consistent with DAB's inflation objective (2–8 percent), domestic currency reserve money growth for 2021 was set at 12 percent, to achieve which DAB will use capital notes and foreign exchange auctions, its primary monetary policy tools. With inflation low and the recent increase in the overnight deposit rate expected to strengthen the Afghani's attractiveness, staff encouraged DAB to let the exchange rate adjust in response to shocks and intervene outside of regular foreign exchange auctions only to prevent disorderly market conditions. This will help preserve reserves and competitiveness.

25. Given rising strains, banks should remain under close monitoring, with DAB ready to intervene. DAB's stress tests show that the banking sector should be able to absorb pandemic-related losses. However, rising NPLs and narrowing collateral markets and values portend a challenging period ahead. This underscores the need for DAB to closely monitor capital buffers, conduct regular scenario-based stress tests, and review its crisis preparedness to ensure that systemic risks can be effectively contained. Loan quality should continue to be assessed based on applicable accounting and prudential standards, with losses recognized and provisioned timely and adequately. Staff advised establishing a policy for targeted leniency to allow temporary pandemic-related breaches of regulatory requirements provided the concerned bank develops and implements a credible, time-bound corrective action plan. Given the need for capital conservation, staff supported DAB's policy that banks seek its approval for any dividend distribution. Staff underscored the need to strengthen the bank resolution and safety net framework. Specifically, priority should be given to establishing, through primary legislation, a legal framework for deposit insurance and clear objectives and scope of the resolution regime with robust resolution authority powers.

26. DAB has stepped up the implementation of its post-pandemic plan for high-risk banks entailing asset recovery, capital augmentation, and corporate governance reforms. High-risk banks, which are not allowed to lend, increased paid-in capital by Af 718 million and loan-loss reserves to about 80 percent of NPLs in 2020. They remain under DAB's intensified oversight in line with its expedited supervisory roadmap, with on-site examiners deployed full-time, frequent cash counts, and asset verification exercises. While the recently introduced reserve requirements—with higher requirements on banks with adverse CAMEL ratings—will incentivize better liquidity management and other improvements, staff encouraged direct measures to tackle underlying weaknesses and risks.

Required Reserve Ratios Per CAMEL Rating 1/

CAMEL RATING	1	2	3	4	5
RR for FX liabilities	8%	9%	10%	12%	14%
RR for AF liabilities	6%	7%	8%	10%	12%

1/ Previously, all banks were to hold 8 and 10 percent of their Afghani and foreign currency deposits in reserves with DAB. CAMEL 4- and 5-rated banks account for almost 30 percent of systems' assets.
Sources: Afghan authorities and IMF staff calculations.

27. Staff urged steadfast implementation of the SOCB reform. The authorities regretted the delay and reiterated their commitment to completing the merger of Bank-e-Millie Afghan (BMA) and New Kabul Bank (NKB). With the World Bank's assistance, they have recently advertised the terms of reference for advisory services to support the merger and plan to sign advisors by November (second review SB). To ensure steady progress, the MoF will prepare a time-bound action plan to be endorsed by DAB and subsequently approved by the Cabinet by March 2022 (Table 11).

28. DAB is taking steps to increase access to finance, develop digital payments, and reduce informality. It is enhancing credit and collateral registries, asked banks to set up dedicated micro, small, and medium enterprise (MSME) lending units, and reduced prudential requirements (risk weighting, collateral, and provisioning) for the portion of MSME loans that are backed by highly-rated guarantors. Staff supported efforts to promote MSME lending, noting that they should be accompanied with strengthening banks' credit risk management and designed to avoid giving rise to a potential conflict of interest with the DAB's financial stability mandate. DAB's decision to allow only corporatized money service providers (MSPs) and foreign exchange dealers (FXDs) to participate in its foreign exchange auctions and to stop issuing licenses to individuals should spur their corporatization.

29. DAB is implementing the 2020 safeguards assessment recommendations. It has established a new procurement policy, risk management framework, whistle-blowing policy, and Code of Conduct for its staff. DAB has also expanded the Audit Committee's mandate, constituted the executive risk management committee, and adopted a new investment policy, in line with which it reduced its placements at foreign banks. With security considerations complicating the search for a reputable international firm, DAB turned to the Supreme Audit Office (SAO) to review its internal controls. The authorities intend to work with parliament to advance the enactment of the DAB law amendments strengthening, among other things, DAB's autonomy, immunities of decision-makers and supervisors, and rules of profit distribution and recapitalization.

30. The AML/CFT regime needs strengthening to better protect the economy from illicit flows. Authorities' efforts are guided by the first national risk assessment (NRA), which identified significant financial integrity risks, including those emanating from corruption and organized crime and the MSP/FXD sector. Despite the pandemic, DAB sustained its AML/CFT supervisory activities in 2020—all 12 banks and 2817 nonbanks (MSPs/FXDs) were examined. Staff advised the authorities to conduct ML/TF investigations in parallel with investigation into corruption offences, better leverage AML/CFT to aid the recovery of corruption proceeds, and build capacity to use financial intelligence more effectively.

C. Governance and Anti-Corruption

31. The institutional framework for anti-corruption continues to evolve, but shortcomings remain. The first National Strategy for Combating Corruption (NSCC) expired in 2020; an interim strategy is in place while the authorities develop the second NSCC to be finalized for Cabinet's approval in February 2022 (Table 11). Staff welcomed the operationalization of the Anti-Corruption Commission (ACC) and the authorities' plan to bolster its autonomy by developing regulations governing its finances and the selection of future commissioners. Recently approved regulations requiring the submission of beneficial ownership information by entities applying for business licenses in Afghanistan are intended to boost transparency and aid anti-corruption efforts. Effective implementation will hinge on overcoming capacity and enforcement challenges (e.g., verification).

32. The asset declaration regime would benefit from more effective enforcement. With the Asset Registration and Verification Agency's (ARVA) transfer to the ACC, the ACC has taken over the management of asset declarations. Staff commended the authorities for publishing 2020 asset declarations of all officials whose declarations must be made public by law. ARVA is on track to convert by October all declarations received for 2021 into a machine-readable format (second review SB), which will facilitate their scrutiny and analysis. Observing that many declarations are submitted past the January deadline, staff advised more effective sanctioning of non- and late-filers.

33. The authorities have made headway in strengthening public spending accountability (Annex III). The SAO has commenced the audit of pandemic spending to be published by July 2021 (second review SB). Staff encouraged placing a greater focus on domestically-financed programs as donor-financed ones will undergo a third-party audit at donors' request.

PROGRAM MODALITIES

34. Staff reached understandings with the authorities on updated conditionality. The authorities requested modifications to all non-continuous PCs and all ITs (other than the IT on the Treasury cash balance) through end-2021 to align them with the updated macroeconomic framework. ITs for March 21, 2022 and PCs for June 21, 2022 were also set (MEFP, Table 3). Second review SBs have been established based on measures presented to the IMF Board at the ECF approval, with minor changes (MEFP, Table 2). Enhancing multi-criteria risk profiles in customs remains a commitment under the program but was not elevated to a SB to maintain parsimony, and the deadlines for conducting the audit of pandemic spending and digitalization of asset declarations were extended by a month to allow more time for their completion. Staff and the authorities discussed measures that could be considered for third review SBs (Table 11). Following the earlier approach, they are not proposed for IMF Board approval at this time in recognition of continued uncertainty. SBs focus on program objectives and have been selected parsimoniously recognizing Afghanistan's implementation capacity constrained by the pandemic and a complicated political and security environment. Finally, considering sizeable grant financing for the Herat Wind Power Generation project and its economic importance, amounts drawn under a stand-by letter of credit (up to $3 million) for the purpose of guaranteeing Da Afghanistan Breshna Sherkat's payment obligations under the related power purchase agreement will be excluded from the zero non-concessional external debt and short-term external debt limits under the program (TMU ¶14, 15).

35. Financing assurances and access. The program is fully financed, with firm commitments for the next 12 months and good prospects for the remainder of the program. An SDR 103.616 million tranche associated with the first review will be disbursed to the budget to cover fiscal and external financing needs.

36. Capacity to repay the Fund remains adequate. It is supported by sustainable debt, though with a high risk of debt distress, and the authorities' strong track record of servicing IMF debt. The IMF credit outstanding is projected to peak at 6.9 percent of GIR in 2024, with repayments peaking at 0.5 percent of GDP in 2027 (Table 10).

37. Risks to the program are high and have risen since its approval. This is due to a growing uncertainty around the political and security outlook (¶12). Adverse political and security developments could hamper program implementation which faces substantial challenges from Afghanistan's longstanding fragilities. These considerations are mitigated by the authorities' strong ownership of the program, its catalytic role with donors, and extensive TA.

38. Debt Service Relief. Afghanistan received SDR 4.8 million debt service relief from the IMF's Catastrophe Containment and Relief Trust in 2020 and is scheduled to receive SDR 2.4 million relief for debt service due from April 14 to October 15, 2021. The authorities benefitted from the Debt

Service Suspension Initiative in 2020 (0.02 percent of GDP) and requested an extension through June 2021.

STAFF APPRAISAL

39. Afghanistan is grappling with insecurity, costly pandemic, and faltering peace talks. Security deterioration and political tensions have shaken confidence and complicated policymaking in the context of weak institutions and overall fragility. Uncertainty looms large over the implications of the foreign troops withdrawal and the outcome of peace talks. While the government's determined response helped mitigate the pandemic's fallout, the economy experienced a permanent output loss, poverty worsened, and self-reliance efforts suffered a setback. Despite these formidable challenges, the authorities have kept the program broadly on track and remain committed to its objectives.

40. Macroeconomic stability, reform progress, donor aid, and accelerating vaccinations will be key to sustain the post-Covid recovery. Growth of 2.7 percent projected for 2021 is subject to large downside risks, including from an intensification of drought and the pandemic. Should these risks materialize, it will be essential to boost spending for healthcare, support to the vulnerable, and food security, using fiscal space created by spending reprioritization and grants.

41. Staff supports modest fiscal loosening in 2021 to limit scarring and support the economy. A slightly higher-than-programmed deficit of 2.5 percent of GDP is fiscally sustainable and consistent with available financing. It accommodates higher social and other priority spending, including for pandemic mitigation. Recognizing that hitting the 2021 budget's revenue target became challenging, the government has appropriately scaled down its spending to align it with realistic revenue estimates while protecting priority outlays. With the recovery projected to strengthen, the government should reduce the fiscal deficit in 2022 and advance toward fiscal self-reliance.

42. The medium-term fiscal path hinges on the critical VAT adoption, tax administration gains, and spending optimization. While recent efforts are commendable, staff calls on the authorities to step up preparations for the VAT adoption, focusing on critical components, namely registration, filing, and payment processes, staff training, and taxpayer outreach. Revenue and customs administration reforms should continue to boost compliance and reduce leakages through better risk targeting and fraud detection. With the pandemic reinforcing the need for stronger social protection, staff encourages the authorities to work toward establishing a social safety net in step with gaining ground on self-reliance. Staff welcomes the recently launched PER and the authorities' commitments to strengthen SOE/SOC oversight, return to the MoF the management of fiscal risks from PPPs, and enhance fiscal risk analysis and disclosure.

43. The monetary policy stance is broadly appropriate. Monetary policy remains geared toward price stability, with DAB using capital notes and foreign exchange sales to achieve its reserve money target. DAB should allow greater exchange rate flexibility to help absorb shocks, preserve competitiveness, and protect reserves. While the existing legal framework is broadly adequate to implement monetary and financial sector policies under the program, the authorities should continue their efforts to secure the passage of the DAB law amendments which are essential for strengthening DAB's autonomy and governance.

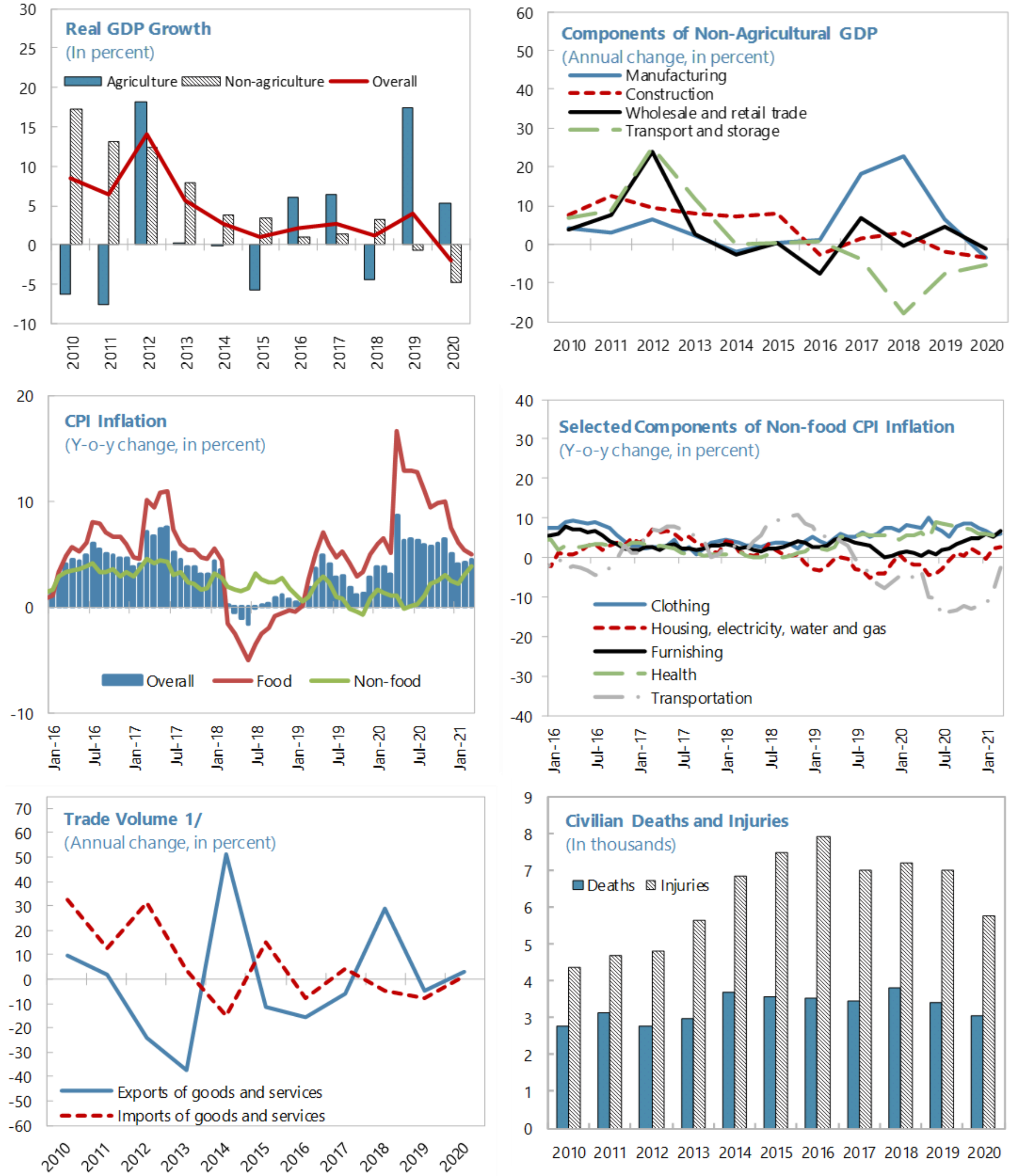
44. DAB should sustain its intensified bank oversight and stand ready to intervene. While the banking sector should be able to absorb losses from its small loan portfolio, rising NPLs and a drop in profits portend potential challenges ahead. This calls for continued bank monitoring for early detection of stress, reviewing crisis preparedness, and strengthening the bank resolution and safety net legal framework. DAB's measures to address high-risk banks are yielding initial results and should continue as should its close oversight, including AML/CFT, of nonbanks. Staff urges steadfast progress toward the BMA and NKB merger.

45. Progress with anti-corruption hinges on effective reform implementation. The authorities' plan to bolster the ACC's autonomy should be complemented by strengthening the effectiveness of prosecution of corruption offences, including through greater use of the asset declaration regime, AML/CFT, and the new beneficial ownership regulations. Staff commends the authorities for transitioning to e-procurement and publishing procurement contracts with self-reported beneficial ownership of contracting entities. SAO's audit of 2020 pandemic spending will help reassure the public and donor community about the government's accountability for public spending.

46. Private sector-led growth remains critical to absorb the rapidly growing labor force. While better security is key to unlocking private investment, recent measures to facilitate license renewal and boost MSME access to finance are a welcome step to improve the business climate.

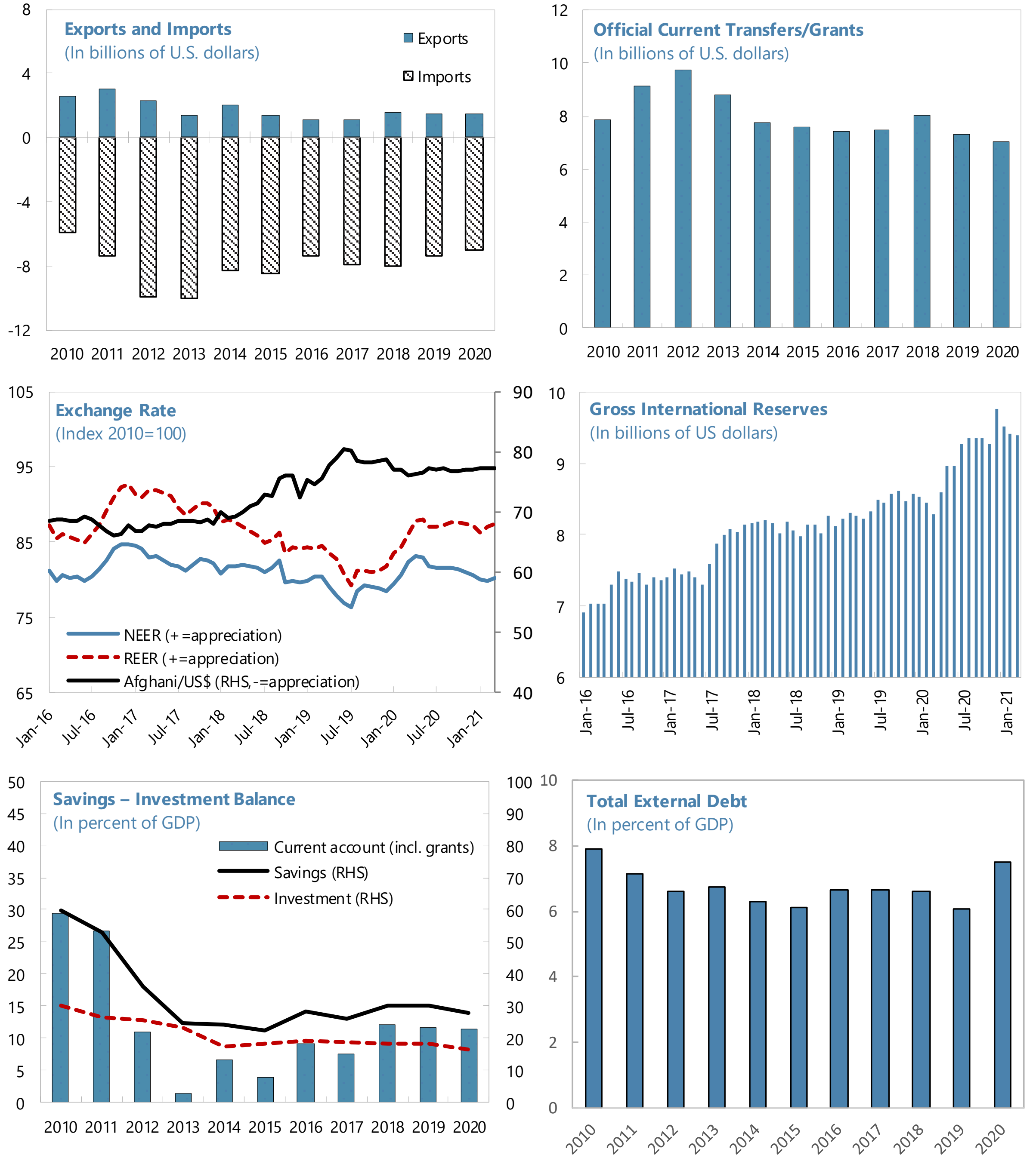
47. Staff supports authorities' request for completion of the review and modification of the PCs.

Figure 1. Islamic Republic of Afghanistan: Real Sector



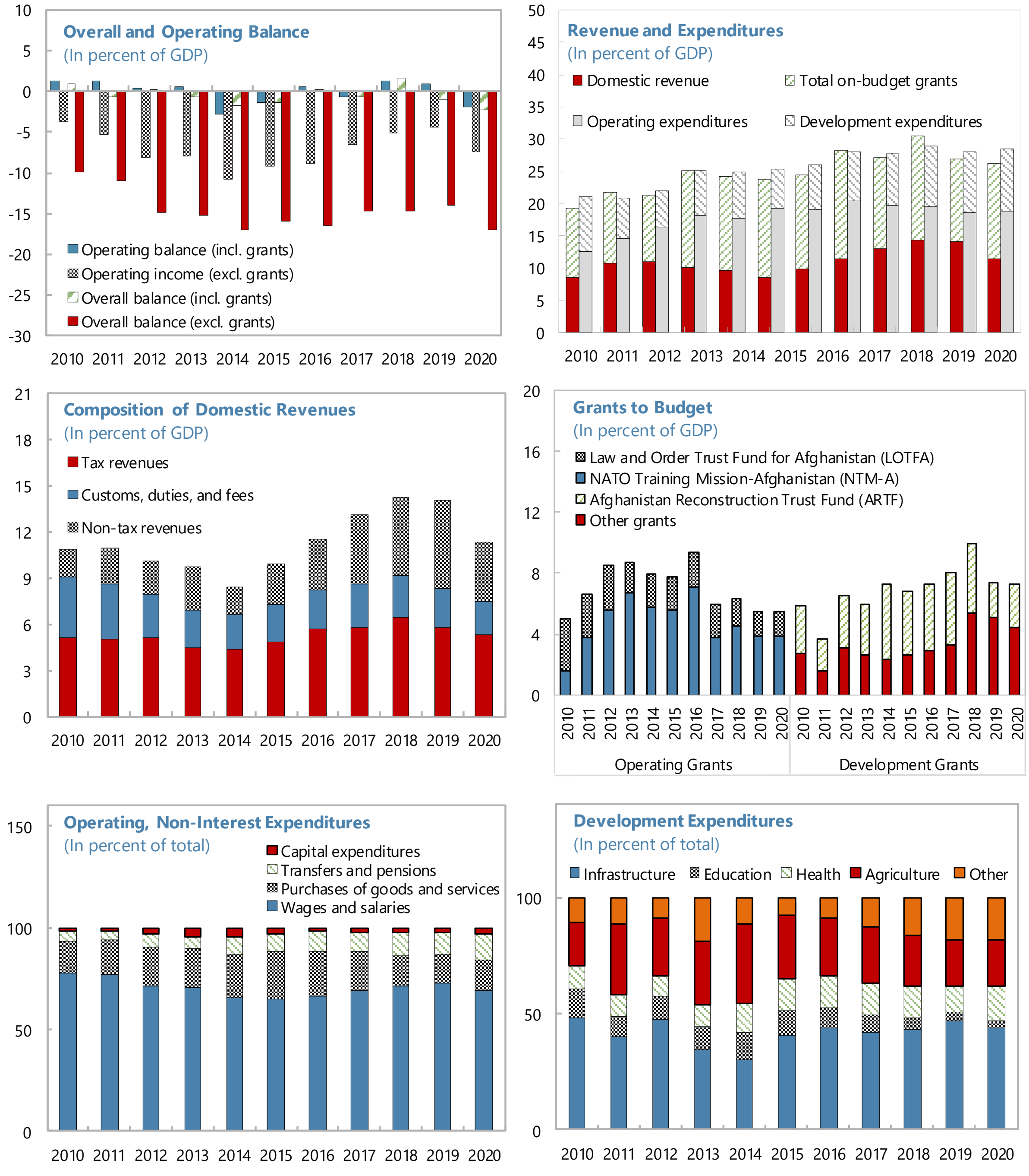
Sources: Afghan authorities, United Nations Assistance Mission in Afghanistan, and IMF staff calculations.

Figure 2. Islamic Republic of Afghanistan: External Sector



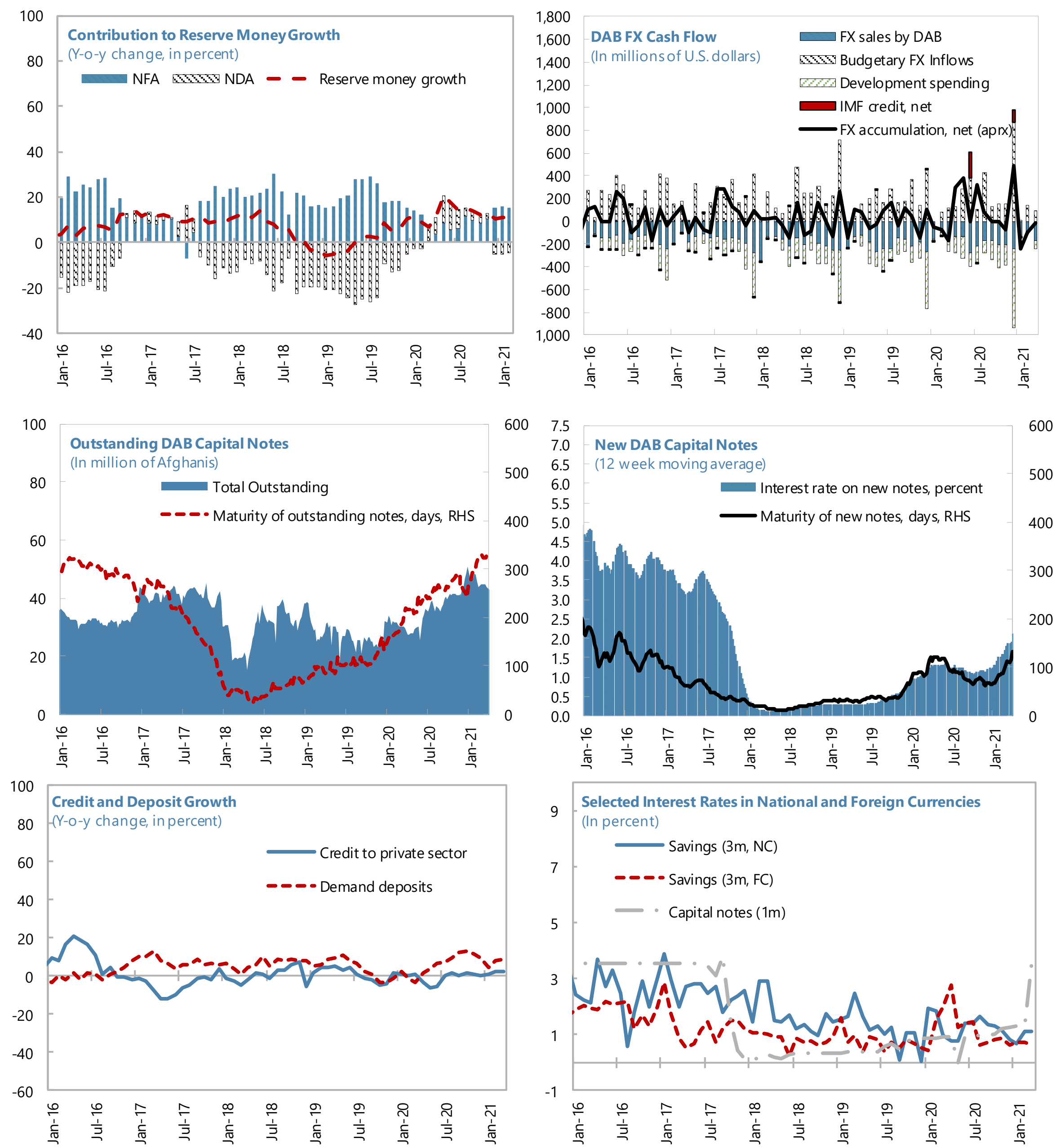
Sources: Afghan authorities and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Fiscal Sector



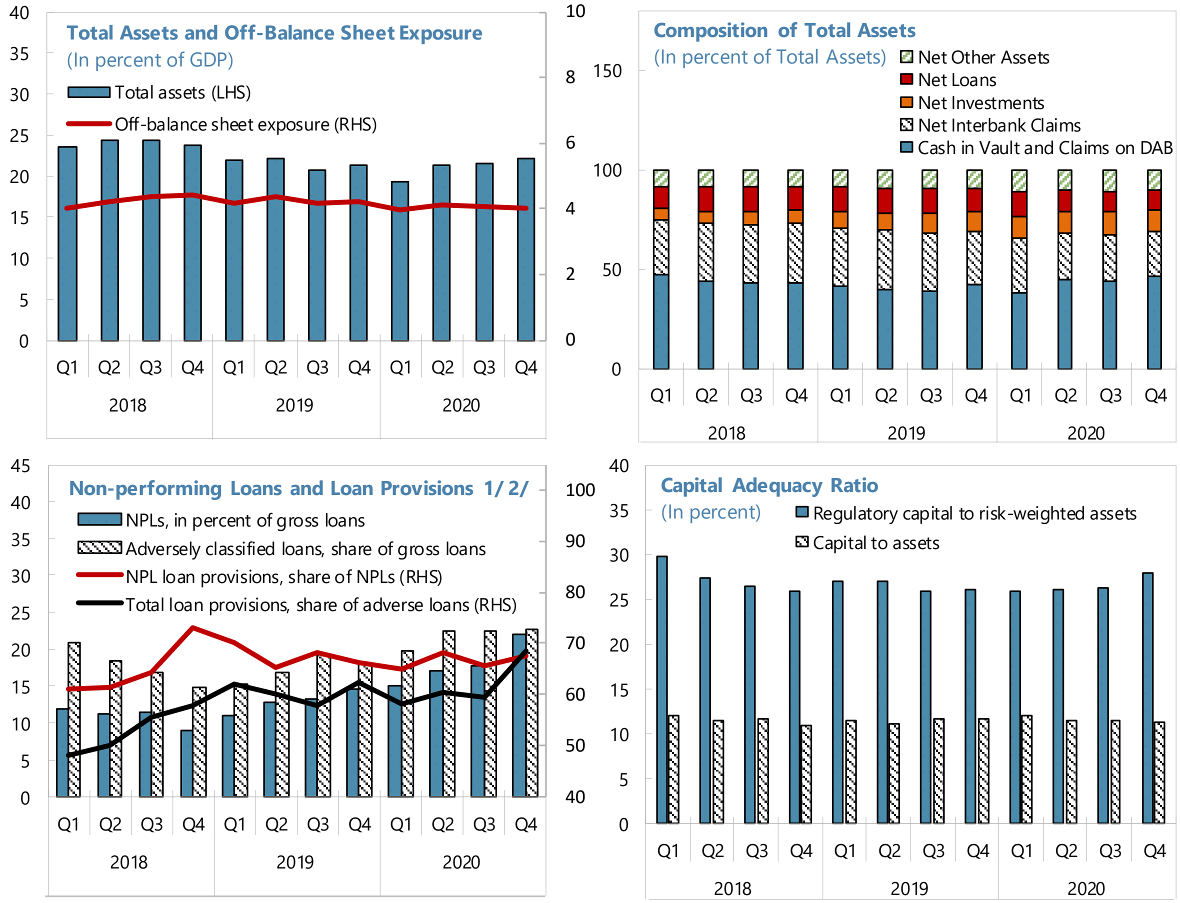
Sources: Afghan authorities and IMF staff calculations.

Figure 4. Islamic Republic of Afghanistan: Monetary Sector



Sources: Afghan authorities and IMF staff calculations.

Figure 5. Islamic Republic of Afghanistan: Banking Sector



Sources: Afghan authorities and IMF staff calculations.

1/ NPLs are loans more than 120 days past due for payment of principal and/or interest. This differs from the IMF's FSI Guide which recognizes loans 90 days or more past due payment of interest or principal as NPLs.
2/ Adversely classified loans are more than 60 days past due for payment of principal and/or interest.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2018–22

(Quota: SDR 323.8 million)
(Population: approx. 32.9 million; 2020)
(Per capita GDP: approx. US$601; 2020)
(Poverty rate: 54.5 percent; 2016-2017)
(Main exports: dried and fresh fruits and vegetables, medical seeds, 2020)

	2018	2019	2020		2021		2022
			ECF Request	Est.	ECF Request	Proj.	Proj.
Output and prices 1/			(Annual percentage change, unless otherwise indicated)				
Real GDP	1.2	3.9	-5.0	-1.9	4.0	2.7	4.5
Nominal GDP (in billions of Afghanis)	1,328	1,470	1,466	1,520	1,598	1,630	1,781
Nominal GDP (in billions of U.S. dollars)	18.4	18.9	19.0	19.8	20.0	20.1	21.1
Consumer prices (period average)	0.6	2.3	5.4	5.6	4.8	4.9	4.5
Food	-1.1	3.8	…	10.0	…	…	…
Non-food	2.3	0.9	…	1.4	…	…	…
Consumer prices (end of period)	0.8	2.8	5.0	5.0	4.5	5.8	4.8
Investment and savings			(In percent of GDP)				
Gross domestic investment	18.0	18.2	17.9	16.6	18.1	18.1	18.4
Of which: Private	5.4	6.0	5.0	5.3	6.0	5.8	6.3
Gross national savings	30.2	29.9	27.2	27.9	26.1	28.7	27.3
Of which: Private	16.0	18.7	17.4	18.9	16.2	18.9	16.4
Public finances (central government)							
Domestic revenues and grants	30.6	26.9	30.3	26.2	26.0	25.7	25.9
Domestic revenues	14.3	14.1	12.1	11.4	12.0	12.3	13.4
On-budget grants (excl. donors' direct spending outside the budget)	16.3	12.9	18.2	14.8	14.0	13.4	12.5
Expenditures	28.9	28.0	33.3	28.4	28.2	28.2	27.1
Operating 2/	19.4	18.5	21.8	18.8	19.3	18.9	18.2
Development	9.5	9.5	11.6	9.7	8.9	9.3	8.9
Operating balance (excluding grants) 3/	-5.1	-4.5	-9.6	-7.4	-7.3	-6.6	-4.8
Overall balance (including grants)	1.6	-1.1	-3.0	-2.3	-2.2	-2.5	-1.2
Public debt	7.4	6.1	7.7	7.5	9.0	8.6	9.0
Monetary sector			(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	-2.7	10.6	12.4	10.3	10.9	11.3	10.9
Currency in circulation	-0.2	13.6	14.7	13.1	10.0	11.6	11.0
Broad money	2.6	5.7	10.0	12.1	10.8	11.0	11.6
Interest rate, 28-day capital note (in percent)	3.0	3.0	….	1.3	…	…	…
External sector 1/			(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	875	864	558	777	747	864	953
Exports of goods (annual percentage change)	11.6	-1.3	-35.4	-10.1	33.8	11.3	10.3
Imports of goods (in millions of U.S. dollars)	6,596	6,158	6,009	5,880	6,285	6,215	6,357
Imports of goods (annual percentage change)	-2.1	-6.6	-2.4	-4.5	4.6	5.7	2.3
Merchandise trade balance	-31.1	-28.0	-28.6	-25.8	-27.7	-26.6	-25.7
Current account balance 4/							
Excluding official transfers	-31.4	-27.0	-30.6	-24.3	-28.5	-25.2	-24.0
Including official transfers	12.2	11.7	12.1	14.2	8.0	10.6	8.9
Foreign direct investment	0.4	0.0	0.0	-0.1	0.5	0.2	0.5
Total external debt	6.8	6.1	7.7	7.5	8.7	8.6	8.7
Gross international reserves (in millions of U.S. dollars)	8,273	8,573	8,896	9,763	8,788	9,470	9,370
Import coverage of reserves 5/	13.5	14.7	14.3	15.9	13.9	15.0	14.5
Exchange rate (eop, Afghanis per U.S. dollar)	75.0	78.4	78.0	77.1	…	…	…
Exchange rate (p.a., Afghanis per U.S. dollar)	72.2	77.9	77.0	76.8	…	…	…
Real effective exchange rate 6/	85.9	82.1	…	86.7	…	…	…

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/ Current account ratios include COVID emergency financing grants.
5/ In months of next year's import of goods and services.
6/ Index annual average, 2010=100

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
Output and prices 1/			(Annual percentage change, unless otherwise indicated)						
Real GDP	1.2	3.9	-1.9	2.7	4.5	4.5	4.0	4.0	4.0
Nominal GDP (in billions of U.S. dollars)	18.4	18.9	19.8	20.1	21.1	22.0	22.5	23.6	24.5
Consumer prices (period average)	0.6	2.3	5.6	4.9	4.5	4.0	4.0	4.0	4.0
GDP Deflator	2.1	6.5	5.5	4.4	4.5	4.0	4.0	4.0	4.0
Investment, savings and consumption			(In percent of GDP, unless otherwise indicated)						
Gross domestic investment	18.0	18.2	16.6	18.1	18.4	17.8	19.3	19.0	19.4
Of which: Private	5.4	6.0	5.3	5.8	6.3	6.6	7.0	7.2	7.6
Gross national savings	30.2	29.9	27.9	28.7	27.3	26.2	27.2	25.1	23.9
Of which: Private	16.0	18.7	18.9	18.9	16.4	15.7	15.7	14.2	13.0
			Public finances (central government)						
Domestic revenues and grants	30.6	26.9	26.2	25.7	25.9	26.1	27.0	25.2	25.0
Domestic revenues	14.3	14.1	11.4	12.3	13.4	14.2	15.7	16.0	16.1
On-budget grants (excl. donors' direct spending outside the budget)	16.3	12.9	14.8	13.4	12.5	11.9	11.3	9.2	8.8
Expenditures	28.9	28.0	28.4	28.2	27.1	26.8	27.7	26.0	25.9
Operating 2/	19.4	18.5	18.8	18.9	18.2	17.8	17.8	17.1	16.9
Development	9.5	9.5	9.7	9.3	8.9	8.9	9.9	9.0	9.0
Operating balance (excluding grants) 3/	-5.1	-4.5	-7.4	-6.6	-4.8	-3.6	-2.1	-1.1	-0.8
Overall budget balance (including grants)	1.6	-1.1	-2.3	-2.5	-1.2	-0.7	-0.7	-0.9	-1.0
External sector 1/									
Merchandise trade balance	-31.1	-28.0	-25.8	-26.6	-25.7	-24.7	-24.1	-22.9	-22.0
Current account balance, excluding official grants	-31.4	-27.0	-24.3	-25.2	-24.0	-22.6	-21.5	-20.1	-18.9
Current account balance, including official grants 4/	12.2	11.7	14.2	10.6	8.9	8.4	8.0	6.1	4.4
Gross reserves (in millions of U.S. dollars)	8,273	8,573	9,763	9,470	9,370	9,270	9,170	9,070	8,970
Import coverage of reserves 5/	13.5	14.7	15.9	15.0	14.5	14.0	13.6	13.1	13.0
Memorandum items:									
Total public debt	7.4	6.1	7.5	8.6	9.0	9.6	10.5	11.2	12.2
Of which: External debt	6.8	6.1	7.5	8.6	8.7	9.1	9.5	10.0	10.8
Domestic debt	0.5	0.0	0.0	0.0	0.3	0.6	1.0	1.2	1.5
Sukuk	0.0	0.0	0.0	0.0	0.3	0.6	1.0	1.2	1.5
Promissory note	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP per capita (in U.S. dollars)	582	586	601	597	611	622	624	640	649

Sources: Afghan authorities and IMF 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/ Current account ratios include COVID emergency financing grants.

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

Table 3a. Islamic Republic of Afghanistan: Central Government Budget, 2018–26
(In billions of Afghanis)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			ECF Request	Actual	ECF Request	Proj.			Proj.		
Revenues and grants	405.9	395.9	444.1	397.8	415.5	418.7	461.7	504.3	564.9	570.5	611.5
Domestic revenues	189.9	207.0	177.8	173.3	191.8	199.8	239.3	274.7	328.6	361.7	394.8
Tax revenues	121.8	122.9	104.6	114.7	127.9	140.3	174.1	204.6	226.7	254.0	280.8
Income, profits, and capital gains	48.4	46.0	40.7	44.7	49.0	54.6	59.0	65.8	73.3	84.5	92.8
International trade and transactions	36.3	37.1	30.5	33.0	38.4	41.4	47.8	52.7	58.4	63.9	70.7
Goods and services	34.2	35.7	30.6	33.6	37.2	40.0	61.4	79.8	88.1	98.1	109.1
Of which: net increase from VAT introduction	0.0	0.0	0.0	0.0	0.0	0.0	10.7	23.2	25.1	27.2	29.4
Other	2.9	4.0	2.8	3.5	3.4	4.3	5.9	6.4	6.9	7.5	8.2
Nontax revenues	68.0	84.2	73.2	58.6	63.9	59.5	65.2	70.1	101.9	107.7	114.0
Grants to operating budget 1/	84.6	80.0	104.2	82.7	95.0	107.1	99.9	102.0	103.8	105.6	109.6
LOTFA	25.0	23.5	26.4	24.5	…	…	…	…	…	…	…
CSTC-A	59.6	56.6	77.7	58.2	…	…	…	…	…	…	…
Grants to development budget 2/	131.4	108.8	162.1	141.8	128.7	111.8	122.5	127.6	132.5	103.2	107.1
Of which: for Covid-19	0.0	0.0	42.9	40.2	19.2	13.8	0.0	0.0	0.0	0.0	0.0
Total expenditures	384.2	411.5	488.6	432.3	450.7	458.9	482.6	517.9	579.5	589.9	635.0
Of which: for Covid-19	0.0	0.0	42.6	32.5	32.3	14.6	0.0	0.0	0.0	0.0	0.0
Operating expenditures	258.1	272.5	319.2	285.4	309.0	308.1	324.1	345.0	372.4	386.3	414.8
Of which: Security	136.5	153.1	…	149.3	…	…	…	…	…	…	…
Wages and salaries	183.6	197.5	204.5	197.1	209.6	201.4	219.7	230.8	250.0	263.0	278.2
Purchases of goods and services	37.6	40.0	64.8	41.8	56.7	62.2	58.1	59.9	60.1	58.5	64.6
Transfers, subsidies, and other	2.6	2.2	17.4	16.4	12.2	12.3	12.7	17.6	23.3	23.8	26.1
Pensions	27.4	26.4	20.5	21.5	23.6	19.6	21.2	23.0	24.9	27.0	29.2
Capital expenditures	6.2	5.8	11.6	8.0	6.3	11.9	11.6	12.3	12.1	10.9	12.5
Interest	0.8	0.6	0.6	0.6	0.6	0.7	0.7	1.3	2.1	3.2	4.3
Development expenditures:	126.1	139.0	169.4	146.9	141.7	150.8	158.5	172.9	207.1	203.6	220.2
Of which: Discretionary	52.9	60.9	…	78.4	…	…	…	…	…	…	…
Infrastructure and natural resources	54.6	65.3	…	64.6	…	…	…	…	…	…	…
Education	6.0	4.8	…	4.7	…	…	…	…	…	…	…
Health	17.1	15.8	…	21.3	…	…	…	…	…	…	…
Agriculture and rural development	27.9	28.1	…	29.4	…	…	…	…	…	…	…
Other	20.4	25.0	…	26.9	…	…	…	…	…	…	…
Operating balance excluding grants	-68.2	-65.4	-141.4	-112.0	-117.2	-108.2	-84.7	-70.3	-43.8	-24.6	-20.0
Overall budget balance excluding grants	-194.3	-204.4	-310.8	-258.9	-258.9	-259.1	-243.3	-243.2	-250.9	-228.3	-240.2
Overall budget balance excluding Covid-19 grants	21.7	-15.5	-87.5	-74.6	-54.4	-54.0	-20.8	-13.6	-14.6	-19.4	-23.5
Overall budget balance including grants	21.7	-15.5	-44.6	-34.5	-35.2	-40.2	-20.8	-13.6	-14.6	-19.4	-23.5
Float and discrepancy 3/	17.4	16.2	0.0	16.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-39.1	-0.7	44.6	18.1	35.2	40.2	20.8	13.6	14.6	19.4	23.5
Sale of nonfinancial assets	0.0	0.2	0.0	0.1	4.8	2.0	4.9	0.0	0.0	0.0	0.0
External loans (net)	-1.6	0.2	23.6	25.2	20.7	18.4	5.4	12.0	17.2	19.3	22.5
o/w IMF's Rapid Credit Facility	0.0	0.0	17.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF's Extended Credit Facility	0.0	0.0	9.0	9.1	17.4	17.7	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-37.5	-1.1	21.0	-7.3	9.7	19.7	10.5	1.6	-2.6	0.2	1.0
Central bank, change in	-37.5	-1.1	21.0	-7.3	4.4	19.7	5.6	-4.2	-12.0	-7.6	-6.9
Government deposits	-29.3	5.9	21.2	-7.3	4.4	19.9	5.6	-4.2	-12.0	-7.6	-6.9
Claims on government	-8.2	-7.0	-0.2	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
o/w Promissory note (- = repayment)	-8.2	-7.0	-0.2	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	5.3	0.0	5.0	5.8	9.4	7.8	7.9
Promissory note (end-of-period stock)	7.2	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and other priority spending 4/	41.8	54.2	78.2	44.5	75.1	91.2	…	…	…	…	…

Sources: Afghan authorities and IMF staff estimates and projections

1/ 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/ Social and other priority spending would amount to Afs 78.5 billion in 2020 if spending under REACH and Citizen Charter social programs were included. The definition has been expanded starting 2021 to cover social spending benefiting the poor and vulnerable populations in areas of education, healthcare, food and nutrition security, social safety net, pensions for martyrs and disabled, refugees and repatriates, skills development, women empowerment, and pandemic and natural disaster relief, within the central government's operating and development budget.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2018–26
(In percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			ECF Request	Actual	ECF Request	Proj.			Proj.		
Revenues and grants	30.6	26.9	30.3	26.2	26.0	25.7	25.9	26.1	27.0	25.2	25.0
Domestic revenues	14.3	14.1	12.1	11.4	12.0	12.3	13.4	14.2	15.7	16.0	16.1
Tax revenues	9.2	8.4	7.1	7.5	8.0	8.6	9.8	10.6	10.8	11.2	11.5
Income, profits, and capital gains	3.6	3.1	2.8	2.9	3.1	3.4	3.3	3.4	3.5	3.7	3.8
International trade and transactions	2.7	2.5	2.1	2.2	2.4	2.5	2.7	2.7	2.8	2.8	2.9
Goods and services	2.6	2.4	2.1	2.2	2.3	2.5	3.4	4.1	4.2	4.3	4.5
Of which: net increase from VAT introduction	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.2	1.2	1.2	1.2
Other	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenues	5.1	5.7	5.0	3.9	4.0	3.7	3.7	3.6	4.9	4.8	4.7
Grants to operating budget 1/	6.4	5.4	7.1	5.4	5.9	6.6	5.6	5.3	5.0	4.7	4.5
LOTFA	1.9	1.6	1.8	1.6	...	...	...	...	...	...	...
CSTC-A	4.5	3.8	5.3	3.8	...	...	...	...	...	...	...
Grants to development budget 2/	9.9	7.4	11.1	9.3	8.1	6.9	6.9	6.6	6.3	4.6	4.4
Of which: for Covid-19	0.0	0.0	2.9	2.6	1.2	0.8	0.0	0.0	0.0	0.0	0.0
Total expenditures	28.9	28.0	33.3	28.4	28.2	28.2	27.1	26.8	27.7	26.0	25.9
Of which: for Covid-19	0.0	0.0	2.9	2.1	2.0	0.9	0.0	0.0	0.0	0.0	0.0
Operating expenditures	19.4	18.5	21.8	18.8	19.3	18.9	18.2	17.8	17.8	17.1	16.9
Of which: Security	10.3	10.4	...	9.8	...	...	...	...	...	...	...
Wages and salaries	13.8	13.4	13.9	13.0	13.1	12.4	12.3	11.9	11.9	11.6	11.4
Purchases of goods and services	2.8	2.7	4.4	2.8	3.6	3.8	3.3	3.1	2.9	2.6	2.6
Transfers, subsidies, and other	0.2	0.1	1.2	1.1	0.8	0.8	0.7	0.9	1.1	1.0	1.1
Pensions	2.1	1.8	1.4	1.4	1.5	1.2	1.2	1.2	1.2	1.2	1.2
Capital expenditures	0.5	0.4	0.8	0.5	0.4	0.7	0.6	0.6	0.6	0.5	0.5
Interest	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Development expenditures:	9.5	9.5	11.6	9.7	8.9	9.3	8.9	8.9	9.9	9.0	9.0
Of which: Discretionary	4.0	4.1	...	5.2	...	...	...	...	...	...	...
Infrastructure and natural resources	4.1	4.4	...	4.2	...	...	...	...	...	...	...
Education	0.4	0.3	...	0.3	...	...	...	...	...	...	...
Health	1.3	1.1	...	1.4	...	...	...	...	...	...	...
Agriculture and rural development	2.1	1.9	...	1.9	...	...	...	...	...	...	...
Other	1.5	1.7	...	1.8	...	...	...	...	...	...	...
Operating balance excluding grants	-5.1	-4.5	-9.6	-7.4	-7.3	-6.6	-4.8	-3.6	-2.1	-1.1	-0.8
Overall budget balance excluding grants	-14.6	-13.9	-21.2	-17.0	-16.2	-15.9	-13.7	-12.6	-12.0	-10.1	-9.8
Overall budget balance excluding Covid-19 grants	1.6	-1.1	-6.0	-4.9	-3.4	-3.3	-1.2	-0.7	-0.7	-0.9	-1.0
Overall budget balance including grants	1.6	-1.1	-3.0	-2.3	-2.2	-2.5	-1.2	-0.7	-0.7	-0.9	-1.0
Float and discrepancy 3/	1.3	1.1	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-2.9	0.0	3.0	1.2	2.2	2.5	1.2	0.7	0.7	0.9	1.0
Sale of nonfinancial assets	0.0	0.0	0.0	0.0	0.3	0.1	0.3	0.0	0.0	0.0	0.0
External loans (net)	-0.1	0.0	1.6	1.7	1.3	1.1	0.3	0.6	0.8	0.9	0.9
o/w IMF's Rapid Credit Facility	0.0	0.0	1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF's Extended Credit Facility	0.0	0.0	0.6	0.6	1.1	1.1	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-2.8	-0.1	1.4	-0.5	0.6	1.2	0.6	0.1	-0.1	0.0	0.0
Central bank, change in	-2.8	-0.1	1.4	-0.5	0.3	1.2	0.3	-0.2	-0.6	-0.3	-0.3
Government deposits	-2.2	0.4	1.4	-0.5	0.3	1.2	0.3	-0.2	-0.6	-0.3	-0.3
Claims on government	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Promissory note (- = repayment)	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	0.3	0.0	0.3	0.3	0.5	0.3	0.3
Promissory note (end-of-period stock)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social and other priority spending 4/	3.1	3.7	5.3	2.9	4.7	5.6	...	...	...	...	...

Source: Afghan authorities and IMF staff estimates and projections.

1/ 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/ Social and other priority spending would amount to Afs 78.5 billion in 2020 if spending under REACH and Citizen Charter social programs were included. The definition has been expanded starting 2021 to cover social spending benefiting the poor and vulnerable populations in areas of education, healthcare, food and nutrition security, social safety net, pensions for martyrs and disabled, refugees and repatriates, skills development, women empowerment, and pandemic and natural disaster relief, within the central government's operating and development budget.

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2018–23
(In billions of Afghanis, unless otherwise indicated)

	2018	2019	2020 ECF Request	2020 Actual	2021 ECF Request	2021 Proj.	2022 Proj.	2023 Proj.
Net foreign assets	608.2	659.8	654.3	716.1	661.7	723.0	755.1	773.9
Net international reserves	554.5	604.1	593.2	649.8	597.5	655.4	682.8	698.1
Foreign assets	628.8	680.9	701.4	764.8	728.5	792.1	829.4	852.4
Gross international reserves	620.1	672.2	693.9	752.7	720.6	782.2	818.9	841.5
Assets in nonconvertible currencies	8.7	8.8	7.6	12.1	7.9	9.9	10.4	10.8
Foreign liabilities	20.6	21.1	47.1	48.7	66.8	69.1	74.3	78.4
IMF accounts (loans)	4.4	4.3	30.5	31.3	49.3	50.7	54.8	58.2
IMF SDR allocation	16.2	16.8	16.6	17.4	17.5	18.4	19.4	20.2
Foreign currency reserves of commercial banks	45.0	46.9	53.5	54.2	56.2	57.7	61.8	65.0
Net domestic assets	-275.0	-291.3	-239.9	-309.7	-202.0	-270.7	-253.4	-220.7
Domestic assets	-130.6	-121.5	-88.5	-121.1	-69.2	-86.9	-72.1	-73.0
Net claims on government	-98.2	-98.1	-51.9	-77.7	-32.4	-45.5	-39.5	-42.5
Gross claims on government	22.7	16.9	43.0	44.6	62.5	62.7	67.7	72.0
MOF promissory note 1/	7.2	0.2	0.0	0.2	0.0	0.0	0.0	0.0
IMF accounts 2/	15.6	16.8	43.0	44.4	62.5	62.7	67.7	72.0
Liabilities to government	121.0	115.1	94.9	122.3	94.9	108.3	107.2	114.5
Domestic currency deposits	24.3	29.6	12.9	46.9	9.6	32.0	27.8	31.0
Foreign currency deposits	96.7	85.4	82.0	75.4	85.3	76.3	79.4	83.5
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-33.3	-24.3	-38.4	-45.0	-38.4	-42.8	-34.0	-32.0
Net credit to public nonfinancial corporations	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Credit to private sector	0.9	0.8	1.7	1.6	1.4	1.4	1.4	1.4
Other items net	-144.4	-169.8	-151.4	-188.6	-132.8	-183.8	-181.3	-147.7
DAB's capital	155.5	177.8	204.6	189.3	225.0	183.1	201.4	221.5
Reserve money	333.2	368.6	414.4	406.5	459.7	452.2	501.7	553.3
Reserve money in domestic currency	288.2	321.6	360.9	352.3	403.5	394.5	439.9	488.3
Currency in circulation	228.2	259.3	297.5	293.3	327.2	327.4	363.4	402.6
Bank deposits in domestic currency	44.8	49.9	51.3	45.5	64.1	55.5	64.9	74.0
Bank deposits in domestic currency	39.1	44.2	41.7	38.2	52.1	32.8	38.4	43.8
Reserve requirements in domestic currency	5.7	5.7	9.6	7.3	12.0	22.7	26.5	30.3
Bank deposits in foreign currency	45.0	46.9	53.5	54.2	56.2	57.7	61.8	65.0
Bank deposits in foreign currency	26.7	29.7	35.0	36.9	36.8	39.0	42.0	44.4
Reserve requirements in foreign currency	18.3	17.2	18.5	17.4	19.5	18.7	19.8	20.6
Other deposits	15.2	12.4	12.1	13.4	12.1	11.6	11.6	11.6
Other deposits in domestic currency	15.2	12.4	12.1	13.4	12.1	11.6	11.6	11.6
Other deposits in foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
International reserves, in millions of U.S. dollars								
Net	7,398	7,705	7,606	8,428	7,287	7,935	7,813	7,690
Gross	8,273	8,573	8,896	9,763	8,788	9,470	9,370	9,270
Interest rate, 28-day capital notes (percent)	3.0	3.0	…	1.3	…	…	…	…
Exchange rate (eop, Afghanis per U.S. dollar)	75.0	78.4	…	77.1	…	…	…	…

Sources: Afghan authorities and IMF staff estimates and projections.

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

2/ The sum of Afghanistan's outstanding credit to the IMF and SDR allocation minus the sum of SDR holdings, reserve tranche position and the outstanding credit under the 2016-19 ECF arrangement (see ¶ 20, TMU).

Table 4b. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2019–21
(At program exchange rates) 1/

	2019	2020	2021							
	Dec. 21	Dec. 20	ECF Request	Mar. 20	ECF Request	June 20	ECF Request	Sep. 20	ECF Request	Dec. 21
							Proj.			
Net foreign assets	649.3	691.0	647.2	669.2	639.7	660.5	632.4	654.8	619.0	651.4
Net international reserves	596.8	627.8	587.2	608.5	579.6	599.3	572.4	592.8	558.9	588.7
Foreign assets	669.8	737.0	693.4	715.1	697.1	717.7	695.0	711.9	681.5	713.7
Gross international reserves	663.3	727.0	686.0	706.0	689.7	708.6	687.6	702.7	674.0	704.6
Assets in nonconvertible currencies	6.5	10.0	7.4	9.2	7.4	9.2	7.4	9.2	7.4	9.2
Foreign liabilities	20.6	46.0	46.2	46.0	57.4	57.2	62.6	57.1	62.5	62.3
IMF accounts (loans)	4.2	29.6	29.9	29.6	41.1	40.8	46.3	40.7	46.1	45.9
IMF SDR allocation	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4	16.4
Foreign currency reserves of commercial banks	45.9	53.2	52.6	51.5	52.6	52.0	52.6	52.8	52.6	53.6
Net domestic assets	-281.3	-285.3	-223.5	-301.2	-205.5	-253.9	-187.5	-238.2	-162.9	-203.3
Domestic assets	-120.1	-122.9	-97.5	-139.8	-83.3	-116.8	-76.9	-102.8	-67.8	-86.0
Net claims on government	-96.7	-79.6	-60.6	-98.6	-46.5	-75.6	-40.1	-61.7	-30.9	-44.6
Gross claims on government	16.5	42.1	42.2	42.1	53.4	53.4	58.6	53.2	58.5	58.3
MOF promissory note 1/	0.2	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.0
IMF accounts 2/	16.3	42.0	42.2	41.9	53.4	53.2	58.6	53.1	58.5	58.3
Liabilities to government	113.2	121.7	102.8	140.7	99.8	129.0	98.7	114.9	89.4	102.8
Domestic currency deposits	29.6	46.9	19.8	59.0	17.6	50.9	16.7	40.9	9.6	32.0
Foreign currency deposits	83.6	74.8	83.0	81.7	82.3	78.1	82.0	74.0	79.8	70.9
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
Net credit on financial corporations	-24.3	-45.0	-38.4	-42.8	-38.4	-42.8	-38.4	-42.8	-38.4	-42.8
Net credit to public nonfinancial corporations	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Credit to private sector	0.8	1.6	1.4	1.6	1.4	1.6	1.4	1.6	1.4	1.4
Other items net	-161.2	-162.4	-126.0	-161.4	-122.2	-137.1	-110.5	-135.4	-95.1	-117.3
DAB's capital	177.8	189.3	225.0	183.1	225.0	183.1	225.0	183.1	225.0	183.1
Reserve money	367.9	405.6	423.7	368.0	434.2	406.6	445.0	416.6	456.1	448.1
Reserve money in domestic currency	321.6	352.3	371.1	316.3	381.6	354.6	392.4	363.8	403.5	394.5
Currency in circulation	259.3	293.3	304.6	285.0	312.0	298.3	319.5	311.4	327.2	327.4
Bank deposits in domestic currency	49.9	45.5	54.3	19.7	57.5	44.7	60.8	40.7	64.1	55.5
Bank deposits in domestic currency	44.2	38.2	44.2	11.7	46.7	26.4	49.4	24.1	52.1	32.8
Reserve requirements in domestic currency	5.7	7.3	10.2	8.1	10.8	18.3	11.4	16.7	12.0	22.7
Bank deposits in foreign currency	46.3	53.4	52.6	51.7	52.6	52.0	52.6	52.8	52.6	53.6
Bank deposits in foreign currency	29.1	36.0	34.4	34.2	34.4	34.6	34.4	35.4	34.4	36.2
Reserve requirements in foreign currency	17.2	17.4	18.2	17.5	18.2	17.4	18.2	17.4	18.2	17.4
Other deposits	12.4	13.4	12.1	11.6	12.1	11.6	12.1	11.6	12.1	11.6
Other deposits in domestic currency	12.4	13.4	12.1	11.6	12.1	11.6	12.1	11.6	12.1	11.6
Other deposits in foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
International reserves, in millions of U.S. dollars										
Net	7,781	8,185	7,655	7,934	7,557	7,814	7,463	7,729	7,287	7,675
Gross	8,648	9,478	8,944	9,204	8,992	9,238	8,965	9,162	8,788	9,186
Exchange rate (eop, Afghanis per U.S. dollar)	76.7	76.7	…		…		…		…	…

Sources: Afghan authorities and IMF staff estimates and projections.

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

2/ The sum of Afghanistan's outstanding credit to the IMF and SDR allocation minus the sum of SDR holdings, reserve tranche position and the outstanding credit under the 2016-19 ECF arrangement (see ¶ 20, TMU).

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2018–23 1/
(In billions of Afghanis)

	2018	2019	2020 ECF Request	2020 Actual	2021 ECF Request	2021 Proj.	2022 Proj.	2023 Proj.
Net foreign assets	722.3	773.8	765.2	827.2	778.3	839.3	878.2	901.8
Foreign assets	756.1	805.2	821.9	885.3	855.1	918.3	963.0	991.1
Central bank	628.8	680.9	701.4	764.8	728.5	792.1	829.4	852.4
Commercial banks	127.3	124.3	120.5	120.5	126.6	126.3	133.6	138.8
Foreign liabilities	-33.8	-31.4	-56.7	-58.1	-76.8	-79.0	-84.7	-89.3
Central bank	-20.6	-21.1	-47.1	-48.7	-66.8	-69.1	-74.3	-78.4
Commercial banks	-13.2	-10.3	-9.5	-9.4	-10.0	-9.9	-10.5	-10.9
Net domestic assets	-236.3	-260.1	-200.1	-251.5	-152.2	-200.5	-165.3	-110.5
Net domestic credit	-60.7	-57.9	-7.5	-35.8	-61.2	-2.5	9.9	19.1
Nonfinancial public sector	-106.3	-104.9	-55.1	-83.0	-113.6	-50.9	-42.4	-39.9
Net credit to central government	-106.4	-105.5	-55.3	-83.3	-113.8	-51.1	-42.6	-40.1
Central bank	-98.2	-98.1	-49.7	-77.7	-110.9	-45.5	-39.5	-42.5
Commercial banks	-8.2	-7.4	-5.6	-5.5	-3.0	-5.5	-3.0	2.4
Net credit to public nonfinancial corporations	0.1	0.6	0.3	0.2	0.3	0.2	0.2	0.2
Net credit to private sector	46.6	47.5	47.9	47.5	52.7	48.7	52.6	59.4
in national currency	21.4	26.1	24.9	27.3	28.5	27.9	30.4	34.4
in foreign currency	25.2	21.3	23.0	20.2	24.3	20.8	22.2	24.9
Net credit to other financial corporations	-1.0	-0.5	-0.4	-0.3	-0.4	-0.3	-0.3	-0.3
Other items net	-175.5	-202.2	-192.6	-215.7	-90.9	-198.1	-175.3	-129.6
Broad money M2	486.0	513.7	565.1	575.7	626.1	638.8	712.9	791.3
Broad money M2 in domestic currency	315.5	344.4	396.9	399.6	439.6	448.5	496.5	561.6
Narrow money M1	453.5	479.9	532.1	535.4	580.0	583.9	638.4	706.9
Narrow money M1 in domestic currency	305.7	337.1	387.6	390.4	428.2	437.8	483.8	546.3
Currency outside banks	219.9	249.9	288.2	283.1	317.2	318.0	351.4	387.6
Currency in circulation	228.2	259.3	297.5	293.3	327.2	327.4	363.4	402.6
Currency held by banks	8.3	9.4	9.3	10.2	10.0	9.3	12.0	15.0
Demand deposits	233.6	229.9	243.9	252.2	262.8	265.9	287.0	319.3
in national currency	85.8	87.1	99.5	107.2	110.9	119.8	132.4	158.7
in foreign currency	147.8	142.8	144.4	145.0	151.8	146.1	154.6	160.6
Other deposits	32.6	33.9	33.0	40.4	46.1	54.9	74.5	84.4
in national currency	9.8	7.3	9.2	9.2	11.4	10.7	12.8	15.2
in foreign currency	22.8	26.6	23.8	31.2	34.7	44.2	61.8	69.1
			(12-month percentage change)					
M2	2.6	5.7	10.0	12.1	10.8	11.0	11.6	11.0
M1	3.8	5.8	10.9	11.6	9.0	9.1	9.3	10.7
Currency outside banks	-0.3	13.7	15.3	13.3	10.1	12.3	10.5	10.3
Net credit to private sector	-5.6	1.8	1.0	0.1	10.0	2.5	8.0	12.8
			(In percent of GDP)					
M2	36.6	35.0	38.5	37.9	39.2	39.2	40.0	40.9
M1	34.2	32.7	36.3	35.2	36.3	35.8	35.9	36.5
Net credit to the private sector	3.5	3.2	3.3	3.1	3.3	3.0	3.0	3.1
Memorandum items:								
M2 velocity	2.7	2.9	2.6	2.6	2.6	2.6	2.5	2.4
Reserve money multiplier	1.5	1.4	1.5	1.4	1.5	1.5	1.5	1.5
Banking sector								
Currency-to-deposit ratio (percent)	85.8	98.3	107.4	100.3	105.9	102.1	100.5	99.7
Loans-to-deposit ratio (percent)	17.5	18.0	17.3	16.2	17.1	15.2	14.6	14.7
Ratio of banks FX deposits at DAB to banks' FX deposits (percent)	26.4	27.7	31.8	30.8	30.1	30.3	28.6	28.3

Sources: Afghan authorities and IMF staff estimates and projections.

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

Table 6. Islamic Republic of Afghanistan: Balance of Payments, 2018–26 1/

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			ECF Request	Est.	ECF Request	Proj.	Proj.		Proj.		
Current account 2/	2,237	2,209	1,773	2,246	1,607	2,136	1,871	1,843	1,790	1,445	1,082
Excluding official grants	-5,776	-5,102	-5,817	-4,809	-5,688	-5,064	-5,055	-4,957	-4,846	-4,758	-4,637
Trade balance of goods	-5,721	-5,294	-5,451	-5,103	-5,538	-5,351	-5,404	-5,423	-5,417	-5,418	-5,404
Exports of goods and services	1,609	1,509	890	1,476	1,231	1,587	1,701	1,851	2,041	2,217	2,415
Goods	875	864	558	777	747	864	953	1,059	1,178	1,307	1,455
Services	734	645	332	700	484	722	747	791	863	909	960
Imports of goods and services	7,984	7,371	7,107	6,983	7,478	7,388	7,594	7,776	7,932	8,116	8,304
Goods	6,596	6,158	6,009	5,880	6,285	6,215	6,357	6,482	6,595	6,726	6,858
Services	1,388	1,213	1,098	1,103	1,193	1,173	1,237	1,294	1,337	1,390	1,446
Income, net	212	307	201	189	232	172	196	254	267	276	291
Of which: Interest on official loans	5	7	8	8	9	9	10	12	16	20	25
Current transfers, net	8,399	7,764	7,789	7,564	7,622	7,766	7,569	7,515	7,414	7,069	6,680
Of which: Official 3/	8,013	7,311	7,590	7,055	7,295	7,201	6,926	6,800	6,636	6,204	5,718
Capital account	0	0	0	0	0	0	0	0	0	0	0
Financial account, net	-393	139	-2,346	-2,314	-1,932	-2,651	-1,986	-1,957	-1,883	-1,513	-1,087
Foreign direct investment	79	-3	3	-24	98	48	105	121	139	159	181
Portfolio investment	-141	15	-40	-70	37	43	45	47	49	52	55
Official loans 4/	-20	10	-29	-9	42	9	66	137	185	225	310
Disbursement	2	30	0	11	71	38	95	173	226	269	359
Amortization	22	21	29	20	29	29	29	36	42	44	48
Other investment	-311	118	-2,279	-2,210	-2,108	-2,751	-2,203	-2,262	-2,255	-1,948	-1,634
Errors and omissions	-1,676	-2,248	0	0	0	0	0	0	0	0	0
Overall balance	168	100	-573	-68	-325	-515	-115	-114	-93	-67	-5
Financing	-168	-100	573	68	325	515	115	114	93	67	5
Central bank's gross reserves ('-' = accumulation)	-164	-104	-323	-830	108	293	100	100	100	100	100
Use of Fund resources, net	-4	4	330	332	210	211	13	14	-7	-33	-95
Disbursements	13	14	338	339	217	218	19	19	0	0	0
RCF Disbursement	0	0	223	223	0	0	0	0	0	0	0
ECF Disbursement	13	14	115	117	217	218	19	19	0	0	0
Repayments	16	10	7	8	7	7	5	5	7	33	95
Exceptional Financing (grants)	0	0	557	557	0	0	0	0	0	0	0
World Bank	0	0	380	380	0	0	0	0	0	0	0
ADB and other IFIs	0	0	118	118	0	0	0	0	0	0	0
Bilateral Support	0	0	59	59	0	0	0	0	0	0	0
Grant for debt relief under CCRT 5/	0	0	5	5	7	7	2	0	0	0	0
Debt Service Suspension Initiative (DSSI)	0	0	4	4	0	4	0	0	0	0	0
Memorandum items:											
Gross international reserves, central bank	8,273	8,573	8,896	9,763	8,788	9,470	9,370	9,270	9,170	9,070	8,970
Import coverage of reserves 6/	13.5	14.7	14.3	15.9	13.9	15.0	14.5	14.0	13.6	13.1	12.2
External debt stock, official	1,212	1,147	1,457	1,482	1,714	1,699	1,781	1,935	2,113	2,307	2,523
in percent of GDP	6.8	6.1	7.7	7.5	8.7	8.6	8.7	9.1	9.5	10.0	10.8
Current account, in percent of GDP 2/	12.2	11.7	12.1	14.2	8.0	10.6	8.9	8.4	8.0	6.1	4.4
Trade balance, in percent of GDP	-31.1	-28.0	-28.6	-25.8	-27.7	-26.6	-25.7	-24.7	-24.1	-22.9	-22.0
Export of goods and services, in percent of GDP	8.7	8.0	4.7	7.5	6.2	7.9	8.1	8.4	9.1	9.4	9.9
Import of goods and services, in percent of GDP	43.4	39.0	37.4	35.3	37.4	36.7	36.1	35.4	35.2	34.4	33.9
Official grants, in percent of GDP	43.5	38.7	42.8	38.5	36.5	35.8	32.9	31.0	29.5	26.3	23.3

Sources: Afghan authorities and IMF staff estimates and projections.

1/ BoP data exclude the narcotics economy.

2/ Current account to GDP ratios include COVID emergency financing grants, but the current account balance in dollars does not include these grants, as these are presented as part of exceptional financing.

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

4/ Excluding IMF.

5/ The grant for the debt service falling due in the 6 months from October 15, 2021 is subject to the availability of resources under the CCRT.

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

Table 7. Islamic Republic of Afghanistan: External Financing Requirement and Sources, 2018–26
(In millions of U.S. dollars)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			ECF Request	Est.	ECF Request	Proj.	Proj.	Proj.		Proj.	
Gross financing requirement	5,978	5,236	5,853	4,836	5,724	5,100	5,089	4,998	4,895	4,835	4,780
Current account Deficit (excluding grants)	5,776	5,102	5,817	4,809	5,688	5,064	5,055	4,957	4,846	4,758	4,637
Amortization	38	30	37	28	36	36	34	41	49	77	143
Of which: IMF	16	10	7	8	7	7	5	5	7	33	95
Available financing	5,966	5,223	4,950	3,931	5,500	4,871	5,069	4,979	4,895	4,835	4,780
Drawdown in Reserves			-323	-830	108	293	100	100	100	100	100
Official transfers (grants)	8,013	7,311	7,590	7,055	7,295	7,201	6,926	6,800	6,636	6,204	5,718
Foreign direct investment	79	-3	3	-24	98	48	105	121	139	159	181
Official medium- and long-term loans	-16	6	0	11	71	38	53	122	192	257	405
Other flows	-2,111	-2,091	-2,320	-2,280	-2,072	-2,708	-2,116	-2,165	-2,172	-1,884	-1,625
Financing gap	13	14	903	905	224	229	21	19	0	0	0
Identified financing (provisional)	13	14	903	905	224	229	21	19	0	0	0
Of which: IMF RCF and ECF	13	14	338	339	217	218	19	19	0	0	0
Other IFIs and bilateral donors	0	0	557	557	0	0	0	0	0	0	0
Grant for debt relief under CCRT			5	5	7	7	2	0	0	0	0
Debt Service Suspension Initiative (DSSI)			4	4	0	4	0	0	0	0	0
Remaining gap	0	0	0	0	0	0	0	0	0	0	0

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

Table 8. Islamic Republic of Afghanistan: Financial Soundness Indicators 1/

	2018	2019	2020	2021 Q1
Capital adequacy				
Regulatory Capital to Risk-weighted Assets (capital adequacy ratio – "CAR")	25.8	26.1	27.9	27.1
Total Capital to Total Assets	10.9	11.6	11.2	11.9
Asset composition and quality				
Total Loans to Total Assets	13.1	13.2	12.1	13.4
Non-performing Loans to Total Gross Loans	8.9	14.5	21.9	21.6
Non-performing Loans Net of Provisions to Capital	3.4	6.7	9.0	5.3
Earnings and profitability				
Return on Assets	0.8	0.5	0.5	0.0
Return on Equity	6.7	4.4	4.5	-0.3
Liquidity				
Liquid Assets to Total Assets (Liquid Asset Ratio)	72.7	68.7	69.0	66.6
Liquid Assets to Short-term Liabilities	90.6	87.3	86.5	84.9
Sensitivity to Market Risk				
Net open position in foreign exchange to capital 2/	30.8	30.3	42.3	35.3
Foreign currency denominated liabilities to total liabilities	68.6	66.5	60.3	64.3
Foreign currency denominated loans to total loans	58.1	49.2	48.4	48.8

Source: Afghan authorities.

1/ NPLs are loans more than 120 days past due for payment of principal or interest. This differs from the IMF's FSI Guide which recognizes loans 90 days or more past due payment of interest or principal as NPLs.

2/ While the ratio of foreign currency-denominated liabilities to total liabilities fell somewhat in 2020, net open positions have widened due mainly to faster decline in banks' placements overseas.

Table 9. 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
November 6, 2020	80.950	25.0	Approval of arrangement
April 21, 2021	103.616	32.0	First review and continuous and December 21, 2020 performance criteria
October 20, 2021	48.570	15.0	Second review and continuous and June 21, 2021 performance criteria
April 20, 2022	6.476	2.0	Third review and continuous and December 21, 2021 performance criteria
October 20, 2022	6.476	2.0	Fourth review and continuous and June 21, 2022 performance criteria
April 21, 2023	6.476	2.0	Fifth review and continuous and December 21, 2022 performance criteria
October 21, 2023	6.476	2.0	Sixth review and continuous and June 21, 2023 performance criteria
Total	259.040	80.00	

Source: IMF staff.

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

(In millions of SDRs)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Obligations from existing drawings															
1. Principal															
PRGT repayments	1.2	3.8	3.2	5.0	22.7	55.1	53.7	51.9	50.1	32.4	0.0	0.0	0.0	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR net charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations	1.3	3.8	3.2	5.0	22.7	55.1	53.8	52.0	50.2	32.4	0.1	0.1	0.1	0.1	0.1
(percent of quota)	0.4	1.2	1.0	1.5	7.0	17.0	16.6	16.0	15.5	10.0	0.0	0.0	0.0	0.0	0.0
Obligations from prospective drawings 2/															
1. Principal															
PRGT repayments	0.0	0.0	0.0	0.0	0.0	10.4	31.1	33.7	35.6	35.6	25.3	4.5	1.9	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations	0.0	0.0	0.0	0.0	0.0	10.4	31.1	33.7	35.6	35.6	25.3	4.5	1.9	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	3.2	9.6	10.4	11.0	11.0	7.8	1.4	0.6	0.0	0.0
Cumulative obligations (existing and prospective) 2/															
1. Principal															
PRGT repayments	1.2	3.8	3.2	5.0	22.7	65.4	84.8	85.6	85.7	68.0	25.3	4.5	1.9	0.0	0.0
2. Charges and interest 1/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessment and net charges	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations	1.3	3.8	3.2	5.0	22.7	65.5	84.8	85.6	85.8	68.1	25.3	4.6	2.0	0.1	0.1
Outstanding Fund credit, end of period	429.8	439.0	448.8	443.9	421.2	355.8	271.0	185.4	99.7	31.7	6.5	1.9	0.0	0.0	0.0
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services 3/	40.6	39.7	37.8	34.5	29.8	23.2	16.3	10.4	5.3	1.6	0.3	0.1	0.0	0.0	...
External public debt	40.4	37.0	36.1	33.0	28.8	22.3	15.6	8.4	3.6	1.0	0.2	0.0	0.0	0.0	...
Gross official reserves	6.1	6.6	6.9	6.9	6.6	5.7	4.4	3.0	1.6	0.5	0.1	0.0	0.0	0.0	...
GDP	3.0	3.1	3.1	2.9	2.7	2.2	1.6	1.0	0.5	0.2	0.0	0.0	0.0	0.0	...
Quota	132.7	135.6	138.6	137.1	130.1	109.9	83.7	57.3	30.8	9.8	2.0	0.6	0.0	0.0	...
Total Obligations, in percent of															
Exports of goods and services 3/	0.1	0.3	0.3	0.4	1.6	4.3	5.1	4.8	4.5	3.4	1.2	0.2	0.1	0.0	...
External public debt	0.1	0.3	0.3	0.4	1.6	4.1	4.9	3.9	3.1	2.1	0.6	0.1	0.0	0.0	...
Gross official reserves	0.0	0.1	0.0	0.1	0.4	1.0	1.4	1.4	1.4	1.1	0.4	0.1	0.0	0.0	...
GDP	0.0	0.0	0.0	0.0	0.1	0.4	0.5	0.5	0.4	0.3	0.1	0.0	0.0	0.0	...
Quota	0.4	1.2	1.0	1.5	7.0	20.2	26.2	26.4	26.5	21.0	7.8	1.4	0.6	0.0	...
Quota	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8

Source: IMF 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: Policy Measures Discussed with the Authorities that Could Be Proposed as Structural Benchmarks at the Second Review			
Measure	**Area**	**Date**	**Rationale**
Ministry of Finance to publish externally audited 2020 financial statements of SOCs: Da Afghanistan Breshna Sherkat, Afghan Telecom, Ariana Airlines, Afghanistan Urban Water Supply, and Afghan National Insurance Company. MEFP ¶35(d).	Fiscal	End-December 2021	Improve oversight and corporate governance of SOCs
Afghanistan Revenue Department to formulate a compliance improvement plan for the single large taxpayers office covering the period through end-2022. The plan should provide for compliance treatment strategy for each identified priority risk in the areas of registration, filing, payment and accurate reporting. MEFP ¶27.	Fiscal	End-December 2021	Improve revenue collection efficiency and reduce leakages
The Anti-Corruption Commission to prepare, in consultation with IMF staff, the National Strategy for Combating Corruption and submit to the Cabinet for approval. MEFP¶46.	Governance	End-February 2022	Strengthen accountability and governance and reduce corruption
Cabinet to approve a time-bound action plan—prepared by the Ministry of Finance and endorsed by DAB—to implement the SOCB reform strategy, including the merger of Bank Millie Afghanistan and New Kabul Bank. MEFP¶39.	Financial	End-March 2022	Strengthen financial stability and management of state assets

Annex I. Risk Assessment Matrix

Global Risk Assessment Matrix (January 11, 2021)[1]

Risks	Likelihood	Expected Economic Impact if Realized	Possible Mitigating Measures
Conjunctural Shocks and Scenario			
Unexpected shift in the Covid-19 pandemic. • **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults). • **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient. • **Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of	**Medium (all)**	**Low** Impact is muted. The authorities are unlikely to introduce blanket measures in response to another pandemic. Afghanistan's growth prospects are more closely tied to security developments than the evolution of the pandemic. **Medium** Shallower recovery in 2021 with persisting job losses and rising poverty. Higher pandemic spending and revenue losses leading to the worsening of the fiscal position, translating into higher fiscal and external financing gaps. Possible return of refugees and migrant workers putting pressure on the labor market and social services. Escalating social pressures undermining support for reforms and prudent policies. **Medium** Stronger recovery in 2021 boosting employment and income, supporting higher revenue and an improvement	Maintain macroeconomic stability; prioritize policies to minimize long-term scarring; and ensure that critical health and social needs are adequately resourced until the pandemic abates. Finance pandemic mitigation by mobilizing grants and creating fiscal space through curtailing nonessential spending. Accommodate higher spending and lower revenue to the extent that highly concessional financing is available. Step up structural reform to lift medium-term growth. Reverse the fiscal loosening due to the pandemic and accelerate progress toward self-reliance while

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. Please consult the G-RAM operational guidance on the SPR Risk Unit website.

Risks	Likelihood	Expected Economic Impact if Realized	Possible Mitigating Measures
vaccines, boosting confidence and economic activity.		in fiscal accounts. Medium-term growth outlook is likely to remain similar to the one under the baseline.	strengthening social protection. Step up structural reforms to lift medium-term growth.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities), or due to unequal access to vaccines. Growing political polarization and instability weaken policymaking and confidence.	**High**	**High** Weak and prolonged post-Covid recovery leading to higher unemployment, poverty, and revenue losses. Lower investor confidence and exports putting downward pressure on reserves and the exchange rate. Growing political polarization and instability further hampering policymaking already challenged by longstanding fragilities.	Safeguard macroeconomic stability, curtail nonessential spending to create room for social protection, including a targeted social safety net, allow the exchange rate to depreciate. Accelerate governance and anti-corruption reforms to build public trust. Strengthen communication.
Intensified geopolitical tensions and security risks (Geo)political tensions in selected countries/regions (e.g., Middle East) cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence.	**High**	**See below under country-specific Risks**	**See below under country-specific Risks**
Structural Risks			
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	**Medium/ Low**	**Medium** Weaker and more volatile growth, challenging the environment for macroeconomic policy making, pressure on fiscal resources, ambiguous inflation impact, higher poverty, especially among subsistence farmers, internal displacements.	Safeguard macroeconomic stability; create fiscal space for climate change mitigation and adaptation policies (e.g. investment in drought-resistant crops, irrigation, storage); seek donor aid for climate adaptation; screen investment projects for climate adaptation.
Country-Specific Risks			
Nature/Source of Risk	**Likelihood[1]**	**Expected Economic Impact if Realized**	**Possible Mitigating Measures**
Escalation of the armed conflict following a failure of the peace process	**Medium**	**High** Intensified warfare leading to a loss of life, destruction, and large refugee flows. Capital	Maintain macroeconomic stability; support well-balanced

Risks	Likelihood	Expected Economic Impact if Realized	Possible Mitigating Measures
		flight with large sustained pressure on the exchange rate and reserves. Stagnant or falling output with higher poverty and unemployment. Sharply lower tax and customs revenue complicating the government's ability to pay salaries and provide services.	expenditure to finance security and well-targeted relief to the neediest; allow the exchange rate to depreciate while intervening to prevent disorderly market conditions; foster resilience of domestic institutions.
Intensification of drought leading to poor harvest	**Medium**	**High** Food shortages possibly leading to hunger. Spike in food prices increasing urban poverty. Facing lost income, subsistence farmers forced to migrant to cities or neighboring countries.	Maintain macroeconomic stability. Boost spending to support the vulnerable, shore up food security, provide targeted assistance to affected farmers. Create fiscal space by curtailing lower priority projects and seeking donor grants.
Retreat from sustainable macroeconomic policies weakening domestic revenue mobilization, reserve buffers, and central bank independence	**Medium**	**High** Sustained drawdown of government deposits leading to their depletion and pressure on the central bank to finance the government; loss of reserves and confidence in the Afghani; rising inflation and risks to growth.	Solidify commitment to prudent policies; entrench macroeconomic stability, including through prudent budgeting, and the institutional setup to underpin it.
Lower-than-expected aid inflows	**Medium/ Low**	**High** Financing shortfalls pressuring the government's ability to meets it financial obligations, including paying wages and funding priority spending. Reduced public services and erosion of state institutions, leading to social tensions and amplifying fragilities.	Mobilize domestic revenue, reprioritize spending and improve its effectiveness. Accelerate growth-enhancing and anti-corruption reforms.

Annex II. VAT Implementation in Afghanistan

Afghanistan intends to implement a 10 percent VAT in 2022. Originally part of its 2016 WTO accession commitment and scheduled for 2021, the reform was postponed by a year due to the pandemic.

The VAT has many features of a standard VAT but with a high turnover threshold. The latter has been set at annual Af 150 million ($1.9 million), matching the threshold of the restructured SLTO which will administer the tax. This leaves about a thousand taxpayers who will be subject to the VAT once below-threshold businesses are removed. Exports, basic food, and some household necessities will be zero-rated, while education and healthcare as well as insurance and financial services will be exempt. Input VAT would be fully deductible, except for automobiles and entertainment.

The VAT will replace the BRT, a domestic turnover tax with a 4/5/10 percent rate based on activity. The VAT has a number of advantages over the BRT. The VAT avoids the BRT's cascading effect, thus promoting the value chain development. It is neutral to imports versus domestic production and, because exports are zero-rated, it boosts competitiveness. It promotes formalization by incentivizing registration and contributes to more informed policymaking through better understanding of the economy's input-output. Its multi-stage collection system helps the government to reduce fraud. Thanks to the high threshold in Afghanistan, the VAT is also expected to improve tax administration by freeing up resources to focus on large taxpayers. The VAT is not without challenges though. Exemptions will introduce large tax expenditures while excess credits and refund requests can cause administrative burden.

VAT will boost revenue and is expected to have a limited impact on low-income households. Net gains from the reform could amount to 1.2 percent of GDP. With large imports, most of the VAT will be collected at the border. Given the zero-rating of food and necessities, which account for a large share of low-income households' consumption, a World Bank analysis points to a modest adverse impact on the poor, with their purchasing power declining slightly. It also suggests that the reform will slightly reduce inequality because exemptions will benefit lower-income households disproportionally. To offset the impact on the poor, the government plans to also boost direct social assistance.

The authorities are striving to regain the momentum lost due to Covid-19. They resumed regular meetings of the VAT Steering Committee chaired by the Finance Minister and more recently appointed a project director to coordinate the reform. A detailed implementation plan and operational arrangements have been put in place with support from international stakeholders. Key next steps include upgrading the IT and business processes to start taxpayer registration and test filing and payment; reviewing and adjusting the VAT regulations as needed, extending staff training, and strengthening the outreach.

Annex III. Public Spending Accountability and Transparency

Public procurement. To improve PFM and in line with e-government initiatives, Afghanistan is transitioning to e-procurement. This includes the development of an online portal on the National Procurement Agency's (NPA) website, which publishes information about procurement contracts (e.g., contract type, procurement entity, contractor name, contract price, signing date, and delivery date). Information about 5,118 awarded contracts is available here; and full documents for contracts in progress are published here.

Beneficial ownership. The authorities met their ECF commitment to disclose beneficial ownership in public spending. As prior action for the ECF, NPA revised the procurement regulations to require the collection and online publication of beneficial ownership information of all entities contracting with the government within 30 days of contract signing. The amended rule and required bidding form follow the definition of "beneficial owner" per the AML/CFT Law. Failure to submit the beneficial ownership form or knowing supply of inaccurate information is grounds for bid's rejection. Since the rule was introduced, 334 beneficial ownership forms with self-declared beneficial ownership information have been submitted by bidders, and 94 beneficial ownership forms have been annexed to awarded contracts.

Reporting. The MoF published the first quarterly report on pandemic spending in October 2020 and, with the World Bank's assistance, the second report in April 2021.

Audit of Covid-19 spending. The SAO has commenced the audit of FY2020 pandemic spending, including health spending, the bread distribution and wheat purchase programs, package to support agriculture, and transfers to provinces.

Appendix I. Letter of Intent

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

Kabul, May 19, 2021

Dear Ms. Georgieva:

1. Despite facing growing political and security challenges, we remain determined to realize the decades-long hopes of all Afghans for a peaceful and prosperous Afghanistan. To that end, we are exploring, with domestic and international stakeholders, avenues to revive the peace process which we see as the only way to secure a lasting peace for the benefit of our people and regional and global stability. We are also committed to pressing ahead with reforms to develop a self-reliant and inclusive economy and build on socioeconomic gains of the past decade.

2. We are sparing no effort in support of the recovery from the Covid-19 pandemic which has inflicted lasting damage to the wellbeing of our people and to our economy. In 2020, we took swift measures to slow the epidemic and, with the help of our development partners, mobilized resources to meet immediate needs of our people. Now, we are concentrating our efforts on vaccinating a significant share of population as quickly as possible and on laying the ground for a robust economic recovery.

3. In November 2020, we held a successful aid pledging conference to secure funds for our second Afghanistan National Peace and Development Framework (ANPDF II) for 2021–25. The ANPDF II focuses on three broad objectives: peacebuilding, state-building, and market building, and outlines our vision to improve the welfare of all Afghans and reduce our dependence on aid. The ANPDF II is guiding our policies to support the economy as it regains its footing in 2021 and to generate sustained growth with job creation and poverty reduction over the medium term.

4. We would like to thank the IMF for the RCF disbursement in June 2020 as well as the approval of the three-and-half-year ECF arrangement on November 6, 2020 and reiterate our strong commitment to policies and reforms supported by the arrangement. It is helping us fight Covid-19 and address our protracted balance of payments needs and was instrumental in catalyzing development assistance committed at the November 2020 conference. The arrangement also provides a sound macroeconomic framework for our reforms aimed at economic resilience, good governance, and inclusive growth.

5. We believe that the economic and financial policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of our economic program and commit to take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of such measures and in advance of any

revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF-supported program. We request modification of all non-continuous program performance criteria (PCs) and all indicative targets (ITs), other than the IT on the Treasury cash balance, through end-2021 to align them with the updated macroeconomic framework. We request completion of the first review and that an SDR 103.616 million tranche associated with the review be disbursed to the budget to close Afghanistan's fiscal and external financing gaps.

6. In line with our commitment to transparency, we hereby request that this letter of intent, the attached MEFP and TMU, including all annexes, and the accompanying ECF staff report with all related documents, be published on the IMF website.

Sincerely yours,

Khalid Payenda /s/ Minister of Finance (Acting) Government of Afghanistan	Ajmal Ahmady /s/ Governor (Acting) Da Afghanistan Bank

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. This memorandum reviews recent economic developments and lays out our economic and financial policies for the period through May 2024, supported under a three-and-a-half-year Extended Credit Facility (ECF) arrangement with the IMF.

2. The ECF arrangement is supporting our recovery from the pandemic and reforms to address structural weaknesses in the economy. Building on the 2016–19 ECF arrangement, the current program aims to address structural fragilities that hamper sustainable and inclusive growth and equitable social outcomes by improving fiscal governance, bolstering the financial sector, and supporting efforts to combat corruption and strengthen social protection.

3. The pandemic inflicted severe economic damage on Afghanistan, interrupting development and reforms. So far, we have recorded about 63,600 infections, but, given the limited testing capacity of our health system, the number of infections has likely been higher. The pandemic and containment measures, including border closures and the lockdown of major cities, led to a sharp contraction in economic activity. The resulting losses of jobs and income, in the formal and informal sectors, pushed thousands of Afghan families into poverty and threaten to reverse social development gains of the past decade.

4. Our challenges have been compounded by the recent intensification of violence. In addition to a tragedy of lives lost, the armed conflict diverts our limited resources away from the development causes, impedes provision of basic public services across the country, and stifles private investment and development. Despite these challenges, we remain resolute in our efforts to seek a lasting peace which is a foremost demand of all Afghans.

5. Support from our international partners remains vital. We are grateful for their generous support during the pandemic and the commitment to continued aid provision demonstrated by renewed pledges at the November 2020 donor conference. Realizing Afghanistan's vision for self-reliance remains our long-term goal despite new challenges posed by the pandemic and ongoing insecurity. While the policy framework outlined in this MEFP helps us advance toward self-reliance, its success hinges on sustained international financial and technical support.

ECONOMIC AND DEVELOPMENT PROGRAM FOR 2021–24

Our economic program aims, in the near-term, to sustain a post-pandemic recovery and protect lives and livelihoods, and, over the medium-term, advance toward self-reliance and promote job-creating growth and poverty reduction.

6. Recovery from the pandemic is our most urgent priority. None of our other objectives can be achieved without it. In 2020, we cancelled some lower-performing projects, including those financed by donors, to create fiscal space for spending to mitigate the health and social impact of Covid-19 and limit scarring. We distributed about 0.8 percent of GDP social assistance under the World Bank-funded REACH program in 2020, with the remaining 0.5 percent of GDP continuing in

2021. The program targets Afghan households with incomes of $2 per day or lower (twice the national poverty line), with households in rural areas receiving an equivalent of $50 in essential food staples and hygiene products, while those in urban areas a combination of cash and in-kind equivalent to $100, in two tranches. The project has four components based on the geographic coverage of implementing agencies that are managing various programs to deliver social services. This component structure facilitates easy absorption of REACH into existing units within implementing agencies.

i. REACH Rural: Household support in rural and peri-urban areas (Af 10.6 billion);

ii. REACH Urban: Household support in provincial capital cities (Af 4.3 billion);

iii. REACH Kabul: Household support in Kabul (Af 6.2 billion);

iv. Project management, communication, and monitoring (Af 0.6 billion).

7. **We plan to vaccinate 60 percent of the population despite facing administrative and security challenges.** Essential workers and groups prioritized by the National Technical Committee based on their vulnerability to Covid-19 will be vaccinated first. Inoculations using 500,000 doses of the AstraZeneca vaccine donated by India started in February. The COVAX facility is providing vaccines covering 20 percent of the population, with the first shipments delivered in early March. Vaccination of another 28 percent of population will be funded by World Bank and ADB grants. We are now seeking additional grants or vaccine donations to cover the remaining 12 percent of our target population.

8. **Our policies aim to develop a self-reliant, well-governed, and inclusive economy.** Absorbing nearly 500,000 Afghan youth entering the labor market annually requires strong private sector-led growth. To create conditions for such growth, we must strengthen the rule of law, eliminate corruption, invest in health and education, and address the infrastructure deficit in transit, energy, and digital connectivity. Our medium-term growth priorities center around agriculture, extractive industries, and services. We are accelerating the modernization of agriculture and agribusiness, which employ the bulk of our population, by increasing investment in irrigation, crop and land management, processing and storage capacity. This will increase domestic food production, strengthen food security, reduce rural poverty, and boost the sector's resilience to climate change.

9. **Poverty reduction and social inclusion are at the top of our agenda.** The harmful social impact of Covid-19 has reinforced the need for a holistic approach to poverty reduction and social protection policies. We will continue to expand access to basic services, targeting disadvantaged groups, invest in education to advance gender equity, and encourage more women to work in the education, health care, and other sectors where they are underrepresented. We will seek technical and financing support from the World Bank and other development partners to help us put in place over the medium term a targeted social safety net which could be designed after the REACH program.

10. **The objectives of the ECF-supported program remain unchanged.** Our fiscal strategy aims to preserve fiscal sustainability and protect priority spending by boosting domestic revenue to

offset the decline in grants. Our monetary policy continues to be geared to maintaining low and stable inflation and allowing exchange rate flexibility to protect international reserves and competitiveness. Structural reforms focus on: (i) improving fiscal governance, including the management of public investment and fiscal risks; (ii) bolstering the financial sector and its capacity to contribute to growth; and (iii) strengthening the anti-corruption regime and transparency.

RECENT ECONOMIC DEVELOPMENTS

11. We estimate that our economy contracted by 2 percent in 2020. Activity, especially services and industry, collapsed in April–May 2020 due to the lockdown and supply disruptions. It rebounded in the second half of the year with the gradual easing of containment measures starting in June. The favorable weather boosted our agricultural output by more than 5 percent in 2020. Working hours and cross-border traffic are now nearly back to pre-crisis levels, and many domestic and international flights, including for exports via air corridors, have resumed. While the infection rates rose somewhat in late 2020, they remain well below their mid-2020 peak.

12. Inflation has moderated since the easing of restrictions and the resumption of trade. Annual inflation jumped to 8.7 percent in April 2020 as border closures and panic buying led to sharply higher prices for food and other necessities, disproportionately hurting the poor. As borders reopened and a good harvest boosted food supply, prices declined. Da Afghanistan Bank (DAB) prudently managed monetary aggregates within its quantitative targets. As a result, annual inflation was down to 4.4 percent in March, well within DAB's inflation target range, with food inflation at 5 percent.

13. The balance-of-payments swung during 2020 but ended broadly unchanged from 2019. Border closures disrupted our exports and imports resulting in improved current account in the first half of 2020. That was reversed in the second half of the year as the economy reopened and imports rose. So did private transfers as remittances held up better than expected and travel restrictions compelled migrants to transmit funds through money transfer institutions. All in all, demand for foreign exchange held low in 2020, resulting in a slight real appreciation of the Afghani. With reduced foreign exchange sales by DAB and boosted by large official inflows, reserves reached about $9.8 billion by end-2020, which we consider broadly adequate to risks facing Afghanistan.

14. We allowed the fiscal deficit to widen to 2.3 percent of GDP in 2020 to accommodate revenue shortfalls and pandemic-related spending. Revenue fell by 16 percent compared to 2019 mainly due to the economic downturn. Spending rose by 1.5 percent of GDP as the budget took on Covid-related outlays, boosted by substantial support from donors who provided new and reallocated existing grants amounting to 2.6 percent of GDP. In particular, Coid-19 related spending in 2020 comprised of:

- Health package amounting to Af 10.9 billion, including for building hospitals;
- Social package, including a bread distribution program of Af 2 billion and Af 12.7 billion social assistance under the REACH program;

- Transfers to provinces to finance Covid-19 response (Af 1.3 billion); and
- Packages to support agriculture (Af 5.2 billion) and short-term jobs (Af 1 billion).

15. The pandemic has heightened strains in the banking sector, weighing on asset quality and profits. Emergency measures introduced at the start of the pandemic were unwound in July, including ending the freeze on loan classification and resuming the enforcement of prudential requirements. Subsequently, as banks started to recognize the loan quality deterioration, the nonperforming loans (NPL) ratio rose to 22 percent by end-2020. NPL coverage remained broadly unchanged though, at 67 percent, as banks increased their loan-loss reserves. Realizable values for NPLs have declined with the pandemic slowing collateral execution and narrowing collateral markets. Activities of money service providers (MSPs) and foreign exchange dealers (FXDs) slowed during the pandemic, but the utilization of mobile banking services and digital payments through electronic money institutions (EMIs) increased.

MACROECONOMIC POLICIES

16. We see a stable macroeconomic environment as a foundation for sustained growth and development. To that end, we will continue to maintain low debt, a prudent treasury discretionary cash balance, and an adequate level of international reserves. We expect growth to resume in 2021, with the economy expanding by close to 3 percent given a mild drought forecast due to a disappointing winter precipitation. As the economy continues to recover from Covid-19, growth should accelerate to 4½ percent in 2022–23, before stabilizing at 4 percent over the long term.

17. The 2020 fiscal position turned out better than programmed under the ECF. Savings in the wage bill and purchases of goods and services, in part thanks to our efforts to rationalize operational expenditures, and slower execution of donor-financed development projects due to the pandemic meant that, at Af 35 billion, the 2020 deficit came below the programmed Af 45 billion. As a result, the treasury discretionary cash balance closed FY2020 at above Af 30 billion, three times the program's floor.[1] Current spending was executed at 89 percent of the budgeted, while the execution of development (discretionary/non-discretionary) spending reached only 82 (89/76) percent.

18. We will target 2.5 percent of GDP fiscal deficit this year. This level of deficit is needed to sustain the recovery and limit scarring and can be accommodated given the available financing, including treasury cash balances higher than projected at the time of the ECF request. The deficit will also be financed by $218 million prospective disbursements under the ECF. Within this deficit target, we will continue to adequately fund our social and development priorities, including for healthcare needs arising from Covid-19 and transfers targeting the vulnerable. Altogether, we are aiming to spend not less than Af 91 billion on social and other priority needs this year. Since our 2020 and 2021 development budgets contain social and other priority spending in response to Covid-19 (e.g., under the REACH program), we have modified the program definition of social and other priority spending to include all such outlays, regardless of whether they are executed through the operating or development budget.

[1] See TMU paragraph 15 for a definition of cash balance for program purposes.

19. We have reduced our 2021 spending plans to align them with prudent revenue projections. The approved 2021 budget is built on revenue rebounding by 25 percent over the 2020 outcome. Hitting this ambitious target became more challenging after January–March revenue disappointed due to a disastrous fire at the second largest customs office in February and the two-month delay in budget approval slowing spending. To make up the lost ground, the Ministry of Finance (MoF) is strengthening its revenue collection capacity. To that end, we have filled all key vacancies in ARD and ACD, established an independent audit department for MTO/STO to speed up the processing of pending tax files, and restarted weekly cash management meetings chaired by the Minister. These efforts are supported by a government committee chaired by the President which facilitates inter-agency coordination and ensures follow through. That said, to avoid the risk of drastic spending cuts later in the year should revenue fall short of the budgeted, we have reduced our 2021 spending plans to about Af 459 billion to align them with more prudent revenue estimates (about Af 200 billion) while protecting priority outlays. We have identified cost saving in the ten largest spending ministries and are putting on hold a cross-section of slower-performing and lower priority administrative and infrastructure projects.

20. We will reverse pandemic-induced fiscal loosening and start moving toward fiscal self-reliance in 2022. We plan to fully phase out pandemic-related spending in 2022 and expect revenue to rebound supported by the post-pandemic recovery in tax collection and the VAT introduction. We intend to keep the overall budget deficit below 1 percent of GDP over the medium term which will help contain our public debt while rebuilding government deposits and preparing for potential realization of contingent liabilities. Preserving and increasing development spending within this fiscal envelope—in part to bring off-budget programs on budget as grants decline—will require continued domestic revenue mobilization.

21. We remain committed to a prudent debt policy. While Afghanistan's public debt is low, our debt sustainability is at high risk of debt distress given the expected gradual shift in the financing mix from grants to borrowing. The government will therefore continue to rely on grants and concessional debt financing with minimum 35 percent grant element. We will not contract any non-concessional external loans and consult with the IMF staff on the terms of any new external debt in advance of contracting it. The World Bank is conducting a debt management performance assessment, and we look forward to receiving technical assistance from the ADB and IMF.

22. DAB is taking steps to revamp monetary policy which is geared to low and stable inflation. We expect stronger domestic demand and higher global good prices in 2021 to push up prices. DAB will accommodate this given the transitory nature of drivers and the still weak economy. DAB aims to keep headline inflation in the range of 2–8 percent and, consistent with that, will target reserve money growth of 12 percent in 2021 using DAB capital notes and foreign exchange auctions. To support the economy, strengthen the interest rate transmission channel, and increase the attractiveness of Afghani-denominated deposits, we raised in March the overnight deposit rate from 0.5 percent to 3.0 percent, which we expect will push up the yield on capital notes. We have also started remunerating banks' required reserves on Afghani and foreign currency liabilities, at 1.0 percent and 0.25 percent respectively. DAB and the MoF are regularly exchanging information on cash flow projections which has enhanced liquidity forecasting and management.

23. We remain committed to a flexible exchange rate. Demand for foreign exchange should rebound in 2021 in line with the recovering economy, and DAB will let the Afghani move with market trends, continuing its policy of intervening only to avoid disorderly market conditions.

24. DAB has enhanced its bank monitoring for early detection of stress. DAB is enforcing all prudential requirements but, mindful of the pandemic context, is prepared to exercise flexibility as necessary to allow temporary breaches of minimum regulatory requirements provided the concerned bank has a credible corrective action plan. To that end, DAB is ensuring that banks recognize loan losses timely and provision adequately and is encouraging prudent restructuring. With more borrowers struggling to meet the requirement to regularly clear their overdrafts, the most prevalent type of lending in Afghanistan, banks have started converting them to term loans, also spurred by DAB's circular to gradually replace overdrafts with standard loans. Our stress tests show that most banks should be able to absorb losses under plausible scenarios given their small loan portfolio, capital in excess of the regulatory ratio, and generally adequate provisioning. Our analysis of the IFRS 9 implementation by a bank in June revealed material deficiencies, and, in response, DAB ordered the bank to reverse it and suspended the transition sector wide until June 2022. We subsequently requested IMF technical assistance to support our preparations for the IFRS 9 implementation.

25. DAB has stepped up the implementation of its post-pandemic plan for high-risk banks. This one-year plan includes asset recovery, capital augmentation, and reforms to strengthen corporate governance and risk management, as well as graduated supervisory and enforcement actions for violating corrective action plans. In line with its intensified oversight under the recently introduced expedited supervisory roadmap, DAB is closely monitoring performance of high-risk banks through off- and on-site examinations, with on-site teams deployed full time. High-risk banks are subject to monthly cash counts, and DAB is undertaking comprehensive reviews of their loan books, with large loans looked at an individual loan level, enforceability of the collateral, and its valuation. Their findings will inform bank-specific plans. DAB is implementing risk-based approaches, including a new differentiated reserve requirement introduced in February, which imposes higher requirements for higher risk banks to encourage better cash handling and optimization, and precluding high-risk banks from DAB's initiatives to promote micro, small, and medium enterprise (MSME) lending. These actions have yielded concrete results, including capital injections by shareholders, improvements in asset classification and provisioning, and compliance with other corrective action plan requirements. In particular, high-risk banks increased paid-in capital by Af 718 million and boosted loan-loss reserves to maintain coverage of NPLs at about 80 percent, thus strengthening their resilience.

26. We need to be prepared for another pandemic flare up and intensification of the drought. The pandemic appears to have bottomed locally, but were it to return, we will likely opt for targeted containment measures with a less stifling impact on the economy than the lockdown imposed at the pandemic's peak in 2020. Still, another wave of the infections could weigh on the recovery, strain our health and social system, and worsen fiscal accounts. Then, we would shift expenditure, including donor-financed projects, to where it would be most needed and introduce one-off revenue measures, as we did in 2020. A major drought would likely have a more devastating impact given our large population dependent on subsistence farming. It could cause a refugee crisis and fuel political and social instability. In addition to deploying contingency budgetary funds, we would turn to donors to request increased grants or the frontloading of grants pledged in November 2020.

STRUCTURAL REFORMS

A. Fiscal Reforms

27. Our priority is to restore compliance and tax revenue to its pre-pandemic trend. To improve the reliability of large taxpayers' revenue stream which accounts for the majority of tax revenue, we adopted in December 2020 targeted and graduated methodologies aimed at increasing filing and payment compliance (first review structural benchmark (SB)). Further, we have drafted the risk differentiation framework and are creating risk profiles for all large taxpayers to better detect non-compliance. The framework will be introduced by end-September 2021 (second review SB). By end-December 2021, we will formulate a compliance improvement plan for the single large taxpayers office, which will include compliance treatment strategy for each identified priority risk in the areas of registration, filing, payment and reporting. We will implement the plan in 2022 and prepare quarterly reports documenting the impact of adopted actions. Our efforts to strengthen compliance culture also include implementing electronic filing, conducting public awareness campaigns, and engaging directly with the private sector. To automate the sharing of information on taxpayers and their tax transactions, in 2020, we integrated the Afghanistan Payments System (APS) with SIGTAS, the Afghanistan Revenue Department's IT system, and linked SIGTAS with the Afghanistan Central Business Registry (ACBR).

28. We are mobilizing all our resources to implement the VAT in 2022. Last year, we established a VAT adoption steering committee chaired by the Finance Minister, assembled a VAT implementation team, and, more recently, appointed a VAT project director to coordinate the task. To ease the administration burden, by end-June 2021, the government will submit to parliament legal amendments to eliminate the Business Receipt Tax (BRT) under the VAT threshold (second review SB) and to introduce a tax scheme for taxpayers below the VAT threshold following a thorough analysis and in consultation with the IMF staff. In line with recommendations of TA provided by the EU, World Bank, and the IMF, we are concentrating our immediate efforts on:

a. Close collaboration between the ARD and ACD, including procedural changes, staff training, data exchange, and legal issues, particularly on zero-rating and exemption definitions.

b. Issuing a circular mandating VAT registration for eligible firms and establishing a registration process, preferably based on the use of digital national IDs.

c. Building up manual VAT registration process as a backup to SIGTAS reconfiguration designed for e-business processes for registration, filing, and payment.

d. Conducting active business outreach and VAT awareness programs to ensure acceptance and compliance.

29. We are taking measures to reduce revenue leakages in our customs. To increase detection of non-compliance through better selectivity and targeting, we will further enhance multi-criteria risk profiles (MCRPs) in ASYCUDA. We will expand the number of risk criteria (while being mindful that an excessive number of controls may be detrimental to our goal) and implement them initially at Nimroz, Mazar, and Kandahar customs offices by June 2021, before extending them to all customs offices by end-2021. In 2020, we launched mobile verification teams which spot check compliance after imports are released from the customs. We aim to equip the teams with the technology allowing them to access ASYCUDA in real time to speed up the verification process. We will prepare quarterly reports on their operations starting with Q4 2021 to benefit from the lessons learnt. Relatedly, we intend to require installation of a transit vehicle tracking system to prevent transit system abuse.

30. We continue to invest in automation and digitalization in customs. We have linked our MoF's ASYCUDA and SIGTAS systems to the DAB core banking system. Next, we will adopt electronic declarations to automate payment of duties, link warehouse digital inventory records to ASYCUDA to improve cargo control, introduce an automatic vehicle registration at the border (and its automatic renewal). We have already equipped our Torkham, Islam Qala, Torghundi, Aqina, Hairatan, and Kunduz customs offices with weight scales which we plan to install also at Spinboldak, Sherkhan Bandar, Farah, Nimrooz, and Dand Patan offices in 2021. We are exploring connecting weight scales to ASYCUDA to verify declared volumes of cargo and discharge international transit only upon confirmation of reception by neighboring customs through ASYCUDA. Further, we will install digital scanners which are currently under procurement.

31. We are working to improve integrity and combat corruption among the customs employees. In 2021, we will adopt a merit-based recruitment process, including higher pay, to discourage petty corruption. The candidates will have to pass exams to confirm that they possess the required ethical and professional qualifications. These reforms are supported by the World Bank's IP DPG.

32. We are advancing toward compliant, effective, and transparent fiscal regime for natural resources. Following Afghanistan's suspension from the EITI in January 2019, we took the remedial steps toward compliance with EITI standards. Most notably, we established a transparency portal with data on issued mineral rights, exploration, mining, dealers and exporters licenses, as well as the related payments, and documented other actions in the "AEITI Quarter 1 Activity Report 2020" available online. In recognition of our progress in implementing the 2019 EITI Standard, the EITI Board lifted Afghanistan's EITI suspension last October. Now, we are progressing with five corrective actions as described in the EITI Board Decision ahead of our third Validation under the EITI Standard, scheduled to commence in April 2022.

33. We have recently launched a public expenditure review with World Bank's assistance. Looking at major cost drivers and potential misalignments between expenditure and development priorities, the review will identify options for expenditure rationalization and revenue mobilization. It will produce policy notes in four areas: operations and maintenance expenditure, discretionary development expenditure, the wage bill, and medium-term revenue strategy.

34. We are developing a new civil service pay policy to incentivize professionalization of civil service cadres by linking compensation with verified competencies. The draft policy, developed with the World Bank's assistance, is under review. We plan to roll it out in the MoF by September 2021, before expanding it to other government agencies. With support of the World

Bank TAGHIR project, by end-June, we will develop an automated payroll system and link it to Afghanistan Financial Management Information System (AFMIS) by end-September—to generate payroll based on the data from the national civil servant system (HRMIS). Since the HRMIS has full records of civil servants, the AFMIS-HRMIS link will allow to verify the payroll rank and eliminate any discrepancies.

35. We continue to build a better functioning and more credible public financial management system. Our reforms focus on strengthening the budget process, better managing public investments, enhancing the management of fiscal risks emanating from PPPs, SOCs, and guarantees, and improving fiscal reporting and transparency.

a. To strengthen budget preparation, we introduced in 2018–19 a forward baseline estimation (FBE) methodology which enables tracking multi-year spending commitments to estimate space available for new programs. The ministries/agencies are now establishing systems for preparing medium-term costed development strategies. These will be aligned with the MoF-issued forward estimates which will be first prepared for priority sectors, such as infrastructure, energy, and agriculture. We are piloting the methodology with Ministries of Public Health and Education producing a Portfolio Budget Statement and preparing an annual report with financial statements by mid-2021. Further, we adopted last year new public investment management regulations that formalize the formulation, selection, appraisal, and approval of public investment projects.

b. We recognize fiscal risks arising from placing the PPP unit in the Investment Facilitation Unit (AIFU) at the Administrative Office of President . In consultation with the IMF and WB, we decided, as a matter of priority, to return to the MoF full control over the management of fiscal risks stemming from PPPs throughout the project cycle, including approving the concept note and the feasibility study, assessing and managing fiscal risks, and allocating public funds and guarantees for PPP projects. To that end, we will adopt, by end-September, related amendments to the PPP law (second review SB), which will also return the section of the PPP unit responsible for fiscal risks back to the MoF. The AIFU has recently proposed a memorandum of understanding (MoU) outlining a possible division of responsibilities between itself and the MoF. We are consulting with the IMF and World Bank on the content of the MoU, which will serve as a temporary solution until the above-mentioned amendments are enacted into the PPP law.

c. We will also work to improve the subsection of the Fiscal Strategy Paper (FSP) on PPP risks. Starting with the FY2022 budget, we will expand the information about PPPs that we disclose in the FSP and budget document in line with IMF recommendations. We are working on an integrated database of public projects, which, for PPP projects, will include information on service payments over the project's life as well as guarantees or contingent commitments attached to it. We plan to complete the database by end-2021.

d. We are building the capacity of the department of state-owned enterprise/corporations (SOE/SOCs) by hiring staff and improving its technical expertise. The department has started collecting full financial information for the five largest nonbank SOE/SOCs and will submit by end-2021 a comprehensive report on their financial performance to the Oversight Board. We intend to have the 2020 financial statements of the five largest nonbank SOE/SOCs (*Da*

Afghanistan Breshna Sherkat, Afghan Telecom, Ariana Airlines, Afghanistan Urban Water Supply, and Afghan National Insurance Company) externally audited and published by end-December 2021. We look forward to the IMF's technical support and training to develop capacity to quantify fiscal risks with a view to producing initial analysis for the FY2022 FSP and budget document.

e. To improve the allocation and use of contingent funds, including transparency of related spending, the government has adopted regulations on contingency budget management. The regulations establish contingency reserves management committee; eligible purposes for the use of contingency reserves; provisions for pre-emptive responses to disasters; and reporting requirements, including publication of utilization of contingency reserves by expenditure category.

f. We strengthened the operational independence and capacity of the Supreme Audit Office (SAO). In 2020, the President issued a decree approving a SAO law revised in line with international good practice and consistent with relevant provisions of the Constitution and the PFEM Law.

36. We are preparing for Sukuk issuance in early 2022, somewhat behind our original late-2021 target date. The Ministry of Justice is reviewing a draft Sukuk law which we plan to submit to parliament before end-September 2021, by when we also plan to finalize draft regulations.

B. Financial Sector Policies

37. DAB continues to strengthen its financial sector supervision framework and capacity. Recent steps included establishing regulations governing banks' external auditors and AML/CFT responsibilities and preventative measures, an expedited supervisory roadmap which structures supervisory activities based on banks' ratings, and an asset assessment unit. Reforms going forward will focus on developing a risk-based supervision framework, enhancing internal capacity to supervise banks' implementation of IFRS 9, and automating off-site supervisory data collection and analyses.

38. We have begun to put in place a more robust bank resolution framework. As part of this effort, DAB has recently approved guidelines for emergency liquidity assistance and domestic systemically important banks and developed an early warning system. DAB has also developed deposit insurance procedures and intends to establish the supporting legal framework, strengthen the operations, and recapitalize the Afghanistan Deposit Protection Fund (ADPF) with the technical and funding support of the World Bank. We are also working to build APDF's capability to electronically fund accounts to quickly deploy funds, if required.

39. We commit to reinvigorate the reforms of state-owned commercial banks (SOCBs). In early 2020, the President signed a decree to authorize the merger of Bank-e-Millie Afghan and New Kabul Bank in accordance with the reform strategy developed with the World Bank. We had planned to sign a contract with advisors to support the merger by mid-April 2021 (first review structural benchmark), but the complexities of the process, including in procurement, caused a delay. We remain committed to completing the merger and implementing our SOCB reform strategy. With the

World Bank's assistance, we have recently finalized and advertised the terms of reference for advisory services which we will contract by end-November 2021 (proposed reset date, second review SB). The scope of advisory support will cover financial and operational due diligence, integration of technology and business processes, and other issues as relevant. To assure timely progress going forward, by end-March 2022, the Cabinet will approve a time-bound action plan—prepared by the MoF and endorsed by DAB—to implement the SOCB reforms. We will continue to ensure close coordination between the MoF team leading the project and DAB supervisors in charge of the prudential monitoring of SOCBs. DAB is working with SOCBs to ensure that they have board members with appropriate professional qualifications and are developing robust internal controls.

40. We took important steps to improve recovery of Kabul Bank Receivership (KBR) assets. In 2020, we started implementing the recommendations of the 2019 KBR asset recovery diagnostic to advance the recovery of assets outside Afghanistan, compile receivership's financial statements, and begin an audit of the receivership's activities to date. More recent steps to facilitate the recovery include establishing a Receivership Directorate in DAB, relocating the KBR to DAB premises for better security and oversight, initiating a search for an international legal firm to support asset recovery in foreign jurisdictions, and developing a landholdings database that should support increased land sales in 2021.

41. DAB is advancing reforms to formalize unregulated financial services and implement an oversight framework for nonbank financial institutions. Corporatization of MSPs and FXDs, phased over three years, commenced in 2019, consistent with U.S. Treasury TA. The branchless banking regulation issued in late 2019 included a framework for the authorization of qualifying agents of banks, including MSPs and FXDs. One application has been submitted to DAB so far, and its processing is well advanced. With our recent efforts, the number of licensed corporate money services has reached 138. In early 2021, DAB mandated that only corporate nonbank financial institutions could participate in its foreign exchange auctions and stopped the issuance of licenses to individuals. Despite initial resistance from MSPs and FXDs, we were able to successfully implement these reforms which will further incentivize their corporatization. Established in 2020, DAB's nonbank financial supervision department (NBFSD) currently conducts the oversight of over 3,174 MSPs and FXDs, corporate money services businesses, four EMIs and, more recently three payment system institutions. The department is implementing the supervisory and AML/CFT oversight and regulatory frameworks, enforcing against unlicensed financial operations, building capacity, and developing the regulatory framework for other nonbank financial operations.

42. We are advancing reforms to deepen financial intermediation and inclusion. Our vision is to leverage the high penetration of mobile devices and make available a wide range of core financial services, thereby moving toward an economy less dependent on cash. We are expanding branchless, electronic, and mobile banking, including to cover utility payments, and enhancing our credit and collateral registries to encourage credit growth. After almost ten years of efforts, DAB connected the APS with all banks, payment institutions, and EMIs. We seek to connect all ministerial payment systems to the APS before end-2021. As a result, we saw a sharp growth in retail electronic transactions in 2020 and expect this trend to continue over the coming period. Furthermore, our wholesale payments system, ATS, became fully operational in December 2020. It is now connected with all banks and the MoF's ASYCUDA, SIGTAS, and AFMIS systems, allowing for interbank transfers between customers, tax and customs payments to be made through any bank branch, and soon via mobile web applications. Government salary and contractor payments can now be made electronically and settled in real-time using our Real Time Gross Settlement system. Initial data indicates that payments through the ATS can grow from essentially zero in 2020 to more than 20 percent of GDP by end-2021, increasing the transparency of financial flows which were previously cash based. As digital banking and payments grow, we expect that cyberattacks will become an increasing threat to our financial system and stability. To strengthen our cybersecurity resilience, we intend to request TA.

43. We will strengthen the AML/CFT regime to promote the integrity of our financial system in line with findings of the 2019 National Risk Assessment (NRA). The NRA, first for Afghanistan, was approved in 2019 and published in March 2021 and provides the basis for our national action plan through 2023. Notably, we are now advancing with amending the AML-CFT Responsibilities and Preventative Measure Regulation; signing a MoU between the Ministry of Economy and FinTraca to facilitate the information exchange; and conducting public awareness programs on cross-border physical movement of cash, gold, and precious stones and workshops to law enforcement on the freezing, seizing, and forfeiture of funds and assets. Despite challenges posed by the pandemic, DAB continued to enhance its AML/CFT supervisory capacity, including through reviews of relevant regulations and internal procedures (e.g., the AML/CFT responsibilities and preventative measures) in line with findings of the NRA. The banking supervision department conducted AML/CFT examinations of all 12 banks in 2020 and plans to do the same in 2021. The NBFSD completed AML/CFT inspections of 2817 MSPs and FXDs in 2020 and imposed sanctions for noncompliance, including suspension and revocation of 77 licenses. An interagency Oversight Committee formed in 2020 is coordinating our preparations for the mutual evaluation by the Asia Pacific Group on Money Laundering (APG) in 2023. We have held initial discussions with the APG, UNODC, and other partners and expect to be fully prepared for the mutual evaluation.

C. Business Environment and Corruption

44. We continue improving our business climate to promote private sector-led growth. The recent linking of SIGTAS with the ACBR has eased the issuance of digital Tax Clearance Certificates, facilitating business license renewals. Going forward, we are focusing on reforms to improve the timeliness and quality of judicial proceedings in commercial cases (e.g., case management) and further strengthen contract enforcement and property protection. Further, we will strive to improve the quality of education and training programs to nurture entrepreneurship and equip our people with marketable skills.

45. We are taking targeted measures to enhance MSME access to finance, and thereby unlock one of the key impediments to doing business in Afghanistan. We have mandated our banks to establish dedicated MSME lending units and relaxed prudential requirements (risk weighting, collateral requirements, and provisioning) on the portion of MSME loans backed by highly-rated guarantors (e.g., IFC). With the World Bank funding, we are strengthening the capacity of the Afghanistan Credit Guarantee Fund to provide partial credit guarantees and will consider allocating additional funds from our budget.

46. We are implementing an ambitious reform agenda to root out corruption which continues to plague our country. We are now preparing our second National Strategy for

Combating Corruption for 2022 onwards, which we aim to finalize and submit for Cabinet's approval in February 2022. The Anti-Corruption Commission (ACC) is now in full operation based on the legal framework established under the 2018 Anti-Corruption Law. Its current organization includes the Special Anti-Corruption Secretariat (SACS), the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC), the Ombudsperson Office, and the Asset Registration and Verification Agency (ARVA). The ACC has developed its workplan for 2021 and internal procedures, such as those on ACC's duties, powers, and relating to whistleblower reports. Next steps include preparation of regulations governing the preparation of its budget to assure operational independence. The ACC will also prepare additional procedures and amendments to the Anti-Corruption Law, as needed, to ensure an accountable and transparent selection process of Commission members.

47. Important progress has been made to modernize the asset declaration system, including toward digitalization and risk-based verification. With the transfer of the ARVA to the ACC, the ACC has taken over the management of asset declarations. To avoid legal ambiguities, by March 2022, the government plans to submit to parliament amendments to the Asset Declaration Law designating the ACC as the body responsible for overseeing the asset declaration regime. In parallel, the ARVA will build its capacity and strengthen coordination with relevant agencies to improve the utility of the asset declaration regime, in particular, to advance cases against illicit enrichment and conflict of interest. 29,848 asset declarations were filed in Hijri year 1399, and all asset declarations that are required to be made public per the Law on Declaration and Registration of Assets of Officials and Government Employees have been published. We are now working to convert declarations into a machine-readable format which will facilitate their scrutiny and enhance the overall transparency of the asset declaration regime. By end-October 2021, we will systematically digitalize all asset declarations received for Hijri year 1400 (second review SB). We will also continue to publish online declarations of government officials as defined in the abovementioned law.

48. We remain committed to fighting impunity, vested interests, and high-level corruption. To strengthen our criminal justice system, we have clarified bail procedures and those relating to the publication of reasoned court decisions (faisala) in the Penal Code and continue to assess our legal framework for remaining gaps. We will continue to upgrade our institutional framework and the capacity of our law enforcement agencies to pursue corruption cases. In particular, we believe that the AML/CFT framework can be better leveraged in our anti-corruption efforts and will routinely investigate money laundering in parallel with investigations into corruption offences. To further increase transparency of corporate ownership, in October 2020, we passed the Beneficial Ownership Regulation requiring the submission of beneficial ownership information by entities registering or applying for business licenses in Afghanistan. Effective implementation of this Regulation, along with provisions of the AML/CFT law, will improve the quality of beneficial ownership information in the jurisdiction and facilitate the application of AML/CFT tools (e.g., customer due diligence measures and identification of politically exposed persons) to help us combat corruption.

49. We are making our best efforts to ensure transparency and accountability in public spending. In line with broader efforts to improve the management of public finances, we are transitioning to e-procurement, including the development of an online portal on the National Procurement Agency's (NPA) website. The website has so far published information on 5,118 awarded contracts, including contract type, procuring entity, contractor name, contract price, contract signing and completion dates (https://ageops.net/en/procurement-procedure/contract/progress). As a prior action for the ECF arrangement, the NPA revised the procurement regulations to require in all public procurements, starting November 1, 2020, collection of beneficial ownership information in bidding documents and online publication of beneficial ownership information of entities contracting with the government within 30 days of contract signing. Since then, 334 such forms with self-declared beneficial ownership information have been submitted by bidders, and ninety-four beneficial ownership forms have been annexed to awarded contracts. The MoF published the first Covid-19 Quarterly Spending Report last October and, with the World Bank's assistance, the second report in April 2021. Further, as directed by the President and in line with our commitments at the time of the RCF disbursement, the SAO has commenced the audit of Covid-19 spending in FY2020. Among other things, the audit will cover health spending, including for building hospitals; the bread distribution and wheat purchase programs; package to support agriculture; transfers to provinces for Covid-19 response. Audit reports will be published by end-July 2021 (second review SB).

D. Safeguards Assessment

50. We made good progress in implementing recommendations of the IMF's 2020 safeguards assessment. To improve DAB's internal control environment, we adopted a Code Conduct for staff and approved a procurement policy. We are also modernizing our investment management practices. To this end, we adopted a new investment policy statement, in line with which we shifted more than $3.0 billion of international reserves from term and other bank deposits to liquid U.S. Treasury holdings and upgraded the reserve management team's analytical capacity. We also strengthened our Lender of Last Resort function by adopting an ELA framework and operationalized the executive Risk Management Committee. With the support of the World Bank, we will purchase this year an IT solution that will support our internal audit department's move to a risk-based framework. The current security environment precludes engaging an international reputable audit firm to review DAB's internal control systems. Therefore, we have asked the SAO to conduct the review. Regretfully, we were unable to secure the passage of the DAB law amendments aimed at strengthening DAB's autonomy and governance structure (first review structural benchmark). We remain committed to enacting them into law and will make every effort to work with parliament to that end.

E. Data

51. We continue to improve the timeliness and quality of our statistics. There are several deficiencies we plan to correct in national accounts and balance of payments (in particular, remittances), with technical assistance and training from our international partners, including the IMF.

PROGRAM MODALITIES

52. We will closely monitor the implementation of the ECF arrangement through quantitative targets and structural benchmarks (SBs). Proposed second review SBs are listed in Table 2, and PCs and ITs, including newly set ITs for March 21, 2022 and PCs for June 21, 2022, appear in Table 3 of this MEFP. The ECF arrangement will be monitored based on performance through the following test dates: June 21, 2021; December 21, 2021; and June 21, 2022. The second, third, and fourth reviews of the program are scheduled to be completed on or after October 20, 2021, April 20, 2022, and October 20, 2022. The PCs, ITs, and SBs are defined in the Technical Memorandum of Understanding.

53. Further commitments under the arrangement. 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.

54. Engagement with the Fund. We will work with our international partners, especially the IMF and the World Bank, to successfully implement the reforms outlined above.

Table 1. Islamic Republic of Afghanistan: First Review Structural Benchmarks

Measure	Area	Date	Rationale	Status
The Ministry of Finance to sign a contract with advisors to support the merger of Bank-e-Millie Afghan and New Kabul Bank. The scope of advisory support will cover financial and operational due diligence, integration of technology and business processes, and other issues as relevant.	Financial	April 15, 2021	Strengthen financial stability and management of state assets.	Not met; reset as second review structural benchmark.
The government to submit to parliament the draft 2021 budget that contains the deficit to 2.2 percent of GDP and is broadly in line with the macroeconomic framework agreed under the ECF.	Fiscal	November 15, 2020	Preserve macroeconomic stability.	Met; budget submitted on November 9, 2020.
Afghanistan Revenue Department to adopt targeted and graduated methodologies to increase timely filing and payment compliance rates for the large taxpayers, with a view to increasing the reliability of the large taxpayer revenue stream.	Fiscal	End-December 2020	Improve revenue collection efficiency and reduce leakages.	Met; a number of measures adopted to increase filing and payment compliance in line with IMF TA.
Enact amendments to the Da Afghanistan Bank law submitted to parliament in 2017 (and drafted in consultation with the IMF staff).	Monetary, financial	End-March 2021	Strengthen DAB autonomy and governance structure.	Not met.

Table 2. Islamic Republic of Afghanistan: Second Review Structural Benchmarks			
Measure	**Area**	**Date**	**Rationale**
The government to submit to parliament legal amendments to eliminate the Business Receipt Tax (BRT), including under the VAT threshold, in consultation with the IMF staff.	Fiscal	End-June 2021	Simplify tax regulation and allow tax administration to focus on the VAT
The Supreme Audit Office to undertake audits of Covid-19 spending in FY2020 (as outlined in ¶49 of the MEFP) and publish its audit reports.	Governance, anti-corruption	End-July 2021	Strengthen accountability and governance
Adopt amendments to the PPP law mandating the return to the Ministry of Finance of (i) control over the management of fiscal risks stemming from PPPs; and (ii) the section of the PPP unit responsible for fiscal risks.	Fiscal	End-September 2021	Strengthen fiscal sustainability and control of fiscal risks
Afghanistan Revenue Department to introduce the risk differentiation framework and create risk profiles for all large taxpayers to better detect non-compliance.	Fiscal	End-September 2021	Improve revenue collection efficiency and reduce leakages
The Anti-Corruption Commission to complete systematic digitalization of all asset declarations received for Hijri year 1400 in machine-readable format.	Governance, anti-corruption	End-October 2021	Strengthen accountability and governance and reduce corruption
The Ministry of Finance to sign a contract with advisors to support the merger of Bank-e-Millie Afghan and New Kabul Bank. The scope of advisory support will cover financial and operational due diligence, integration of technology and business processes, and other issues as relevant.	Financial	End-November 2021	Strengthen financial stability and management of state assets

Table 3. Islamic Republic of Afghanistan: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility Arrangement, December 2020–June 2022 1/

(Cumulative in Af billion unless otherwise indicated)

	2019	2020				2021									2022	
	December	December				March		June		September		December			March	June
	Beginning stocks	Performance criteria	Adjusted target	Actual	Year-end stocks	ECF Request	Estimated Outcome	ECF Request	Performance criteria	ECF Request	Indicative target	ECF Request	Performance criteria	Year-end stocks	Indicative target	Performance criteria
Performance criteria:																
Net credit to the central government from DAB (ceiling) 2/	-97	45	59	17	-80	-9	-19	5	4	11	18	20	35	-45	-11	0
Reserve money in domestic currency (ceiling) 2/	322	39	…	31	352	10	-36	21	2	31	11	43	42	395	-29	-9
Net international reserves of DAB (floor; in U.S. dollars million) 2/	7781	-175	-300	404	8185	50	-251	-48	-371	-143	-456	-318	-510	7675	-71	-95
Non-concessional external debt, new (ceiling) 3/	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
External payments arrears, new (ceiling) 3, 4/	…	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
Indicative targets:																
Revenues of the central government (floor) 5/	…	165	…	161	…	41	38	85	84	131	134	192	200	…	45	102
Operating budget deficit, excluding grants (ceiling) 5/	…	154	…	125	…	9	-4	48	49	81	77	117	108	…	7	38
Treasury cash balance, discretionary (floor)	…	10	…	32	…	10	46	10	10	10	10	10	10	…	10	10
Social and other priority spending (floor) 6/	…	78	…	45	…	23	…	45	35	60	62	75	91	…	13	38
Memorandum items:																
Nominal external concessional borrowing (in U.S. dollars million) 2, 7/	…	0	…	11	…	46	46	46	46	46	46	46	46	…	95	95
Reference values for the adjustors:																
Core budget development spending	…	169	…	147	…	6	7	43	46	75	80	142	151	…	7	49
External financing of the core budget and sale of non-financial assets 8/	…	290	…	250	…	23	23	95	93	157	147	249	239	…	23	84

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). End month follows the Solar year.
2/ Cumulative from the beginning of the year.
3/ These quantitative targets are applied on a continuous basis.
4/ 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.
5/ In line with the TMU, profits transfer from DAB of Afs12.8 billion in 2020 is excluded.
6/ Social and other priority spending would amount to Afs 78.5 billion in 2020 if spending under REACH and Citizen Charter social programs were included. The definition has been expanded starting 2021 to cover social spending benefiting the poor and vulnerable populations in areas of education, healthcare, food and nutrition security, social safety net, pensions for martyrs and disabled, refugees and repatriates, skills development, women empowerment, and pandemic and natural disaster relief, within the central government's operating and development budget.
7/ Prospective concessional borrowing.
8/ Includes operating and development donor assistance, net external loans, and sale of non-financial assets.

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) arrangement during November 6, 2020–May 5, 2024. It specifies valuation for monitoring quantitative targets under the program (Section A), quantitative targets and indicative targets (Section B), adjustors (Section C), and data reporting (Section D).

A. PROGRAM EXCHANGE RATES AND GOLD VALUATION

1. Program exchange rates are used for formulating and monitoring quantitative targets. All assets and liabilities denominated in U.S. dollars will be converted into Afghanis at a program exchange rate of 76.7 Afghanis per one U.S. dollar, which corresponds to the cash rate as of June 1, 2020. Gold holdings will be valued at $1,629.80 per troy ounce, the average price during January–May, 2020 sourced from the IMF website on primary commodity prices. Assets and liabilities denominated in SDRs and in foreign currencies other than the U.S. dollar will be converted into U.S. dollars at the exchange rates as of June 1, 2020, reported in the below table:

Exchange Rate	Program Rate
U.S. dollars / Euro	1.1116
U.S. dollars / Swiss Franc	1.0397
U.S. dollars / Pounds Sterling	1.2381
U.S. dollars / SDR	1.3713
U.S. dollars / Canadian Dollar	0.7337
U.S. dollars / U.A.E. Dirham	0.2723
U.S. dollars / Indian Rupee	0.0132
U.S. dollars / Pakistani Rupee	0.0061
U.S. dollars / Egyptian Pound	0.063
U.S. dollars / Hong Kong Dollar	0.129
U.S. dollars / Russian Ruble	0.0143
U.S. dollars / Iranian Rial	0.00002
U.S. dollars / Saudi Arabian Riyal	0.2667
U.S. dollars / China Yuan Renminbi	0.1405

Source: IMF staff calculations.

B. QUANTITATIVE PERFORMANCE AND INDICATIVE TARGETS

2. The quantitative performance criteria for June 21, 2021, December 21, 2021, and June 21, 2022 specified in Table 3 of the Memorandum of Economic and Financial Policies, are:[1]

- Floor on net international reserves (NIR) of Da Afghanistan Bank (DAB); and
- Ceilings on reserve money in domestic currency; DAB's net credit to the central government

[1] Definitions of indicators mentioned in paragraphs 2 and 3 are provided in paragraphs 8–21.

(NCG); contracting and/or guaranteeing new medium- and long-term nonconcessional 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 DAB to, or government guaranteed borrowing by, public enterprises in need of restructuring (continuous).

3. The above performance criteria also constitute indicative targets for September 21, 2021 and March 21, 2022. In addition, the program includes the following indicative targets for June 2021, September 2021, December 2021, March 2022, June 2022:

- Ceiling on the operating budget deficit of the central government excluding grants; and
- Floors on revenue of the central government; Treasury discretionary cash balance, and social and other priority spending.

4. 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.

5. 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.

6. The public sector comprises the government as defined above, pension administration, DAB, and nonfinancial public enterprises.

7. Public enterprises or corporations refer 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.[2]

8. For program purposes, the definition of **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

[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.

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 8 (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.

9. **External debt** is defined as debt owed to a non-resident.

10. **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 (excluding pensions contributions received by the central government), 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 DAB to the Treasury is also excluded from the definition of revenue.

- 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.

11. Net international reserves are defined as reserve assets minus reserve related liabilities of DAB expressed in U.S. dollars.

- Reserve assets of 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 to DAB for meeting 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 DAB), and readily available deposits abroad (including balances on accounts maintained with overseas correspondent banks). Reserve assets must be readily available in the most unconditional form. A reserve asset is liquid in that the asset can be bought, sold, and liquidated for foreign currency (cash) with minimum cost and time, and without unduly affecting the value of the asset. No time limit is provided, but to qualify as reserves, an asset should be available in a very short period of time.[3] 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 the sum of foreign exchange liabilities of DAB to nonresidents; Afghanistan's outstanding credit to the IMF; SDR allocation; 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.

12. 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*.

13. DAB's net credit to the central government is defined as the difference between DAB's claims on the central government and the central government deposits at 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 (MoF) through issuance of a

[3] Balance of Payments and International Investment Position Manual, Sixth Edition, International Monetary Fund, 2009, page 112.

promissory note, and up to the amount specified therein. In line with the DAB law, DAB will not extend credit to the government or purchase government securities in the secondary market other than for the purpose of conducting monetary operations.

14. New non-concessional external debt (ceiling). A zero ceiling applies, on a continuous basis, to the nominal value of new nonconcessional external debt contracted or guaranteed by the public sector 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. Excluded from the limit are refinancing credits, rescheduling operations, credits extended by the IMF, any amounts drawn under a standby letter of credit issued for the purposes of guaranteeing Da Afghanistan Breshna Sherkat's payment obligations for the purchase of energy under the Power Purchase Agreement relating to the Herat Wind Power Generation Facility, 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.

- 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 35 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.[4] The discount rate 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 2.42 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 -250 basis points. The spread of six-month GBP LIBOR over six- month USD LIBOR is -150 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is 150 basis points.[5] 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.

15. 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 6 of this memorandum) with nonresidents, with an original maturity of less than one year.

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

[5] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following ten years from the October 2019 World Economic Outlook (WEO).

- It applies to debt as defined in paragraph 8 of this memorandum.
- Excluded from the limit are rescheduling operations (including the deferral of interest on commercial debt), normal import-related credits, and any amounts drawn under a standby letter of credit issued for the purposes of guaranteeing Da Afghanistan Breshna Sherkat's payment obligations for the purchase of energy under the Power Purchase Agreement relating to the Herat Wind Power Generation Facility.
- Debt to which this ceiling is applicable shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract or guarantee becomes effective.

16. 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 DAB. External payment arrears consist of external debt service obligations (principal and interest) falling due after approval of this arrangement and that have not been paid at the time they are due, as specified in the contractual agreements (including any contractual grace period). Excluded from the prohibition on the accumulation of new arrears are: (i) arrears arising from interest on the stock of arrears outstanding as of the approval of this arrangement; and (ii) external arrears that are subject to debt rescheduling agreements or negotiations.

17. **Borrowing by public enterprises in need of restructuring**. The zero ceiling on new lending from state-owned banks or DAB 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 5 of this memorandum);[6] and (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 MoF for liquidation; or (c) public enterprises subject to restructuring plans that do not have cabinet-approved restructuring plans.
- It applies to any new loans (or financial contributions) extended directly from DAB 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).

18. **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.

19. **Treasury's discretionary cash balance** is defined as the total discretionary cash balance at the Treasury single account in DAB, including unrestricted funds in TSA, discretionary development

[6] As of July 31, 2020, state-owned banks comprise of Bank-e-Millie Afghan, Pashtany Bank, and New Kabul Bank.

fund (code 20,000), balance in provinces (unspent funds), cash reserve/realized exchange gain account, and floor limit (minimum threshold of Treasury funds).

20. Rerouting of Treasury's IMF accounts to DAB's balance sheet. The Afghan authorities have designated MoF as the fiscal agent and DAB as the depository. For program purposes, the government's financial positions arising from dealing with the IMF are treated as if these functions were performed by DAB on behalf of the Treasury that is as if DAB has assumed these positions and established corresponding counter position vis-à-vis the Treasury calculated as the sum of Afghanistan's outstanding credit to the IMF and SDR allocation minus the sum of SDR holdings, reserve tranche position, and the outstanding credit under the 2016–19 Extended Credit Facility arrangement.

21. Social and other priority spending is defined as the sum of social spending identified in accordance with the ANPDF-II, by the central government, aiming at benefiting the poor and vulnerable populations in areas of education, healthcare, food and nutrition security, social safety net, pensions for martyrs and disabled, refugees and repatriates, skills development, women empowerment, and pandemic and natural disaster relief, within the central government's operating and development budget during a fiscal year.

C. ADJUSTORS

22. The floor on NIR and the ceiling on the NCG are consistent with the assumption **that core budget development spending,** defined as on-budget development expenditure, 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, 2021	46
December 21, 2021	151
June 21, 2022	49

23. 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.

24. 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, 2021	93
December 21, 2021	239
June 21, 2022	84

External financing of the core budget is defined as a sum of on-budget operating and development grants and net external loans (disbursement of external loans to the MoF minus repayments of external loans by the MoF).

25. Should external financing of the core 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 $400 million and the upward adjustment to the NCG ceiling for these projections will be capped at Af 30.7 billion.

26. 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 condition 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 $300 million.

27. Should **the MoF recapitalize (receive dividend from) DAB**, the NCG ceiling will be adjusted upward (downward) by the amount of this recapitalization (dividend).

D. PROVISION OF INFORMATION TO THE IMF

28. To facilitate monitoring of program implementation, the MoF and DAB will provide the IMF with the information specified below.

29. 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. Net international reserves will be provided at actual and program exchange rates and gold price.

- Monetary statistics, including exchange rates, government accounts with DAB, currency in circulation, reserve money, and a monetary survey: biweekly and no later than ten 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 DAB and a consolidated balance sheet of the commercial banking sector. The balance sheet of DAB will be provided at actual and program exchange rates and gold price.

- Detailed cash flow on gross and net international reserves biweekly and no later than ten 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 AFMIS. 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 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 paragraph 7.

- Quarterly activity and cost reports from the Kabul Bank receiver, including the status and financial details of asset recovery, progress updates pursuant to implementation of recommendations of the Kabul Bank asset recovery diagnostic, and disbursements of net proceeds.

- 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 MoF's Afghani- and U.S. dollar-denominated TSA accounts, and the discretionary development 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 income statement and balance sheet for all 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.

30. The MoF and DAB will send to the IMF reports by the end of each quarter documenting progress with implementing structural benchmarks under the program. These reports will include the relevant documentation and explain any deviations from the initial reform timetable, specifying expected revised completion date and will include 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).

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 20, 2021

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By
Zeine Zeidane and Gavin Gray (IMF), Marcello Estevão and Zoubida Allaoua (IDA)

International Monetary Fund
International Development Association

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

This debt sustainability analysis (DSA) update confirms Afghanistan's risk of external and overall debt distress as high—unchanged from the previous DSA conducted in the context of the Extended Credit Facility (ECF) arrangement's approval in November 2020.[1] *The macroeconomic framework underlying the update applies minor adjustments to the long-term growth, inflation, fiscal, and external paths of the November 2020 DSA. Mechanical signals in the first decade of projections suggest a moderate risk of debt distress, but the extended 20-year period is used given the projected shift in the financing mix from grants towards debt. During this extended period, the ratio of present value of debt-to-exports repeatedly breaches its threshold under the baseline, justifying the high-risk rating. Maintaining Afghanistan's debt sustainability in the face of substantial downside risks from elevated political uncertainty, faster-than-expected-drop in aid, contingent liabilities, and weather shocks will require sound fiscal policy with prudent deficit levels, revenue mobilization and improved public spending effectiveness, and enhanced debt management. The authorities should also strengthen fiscal risk management capacity to mitigate risks from state-owned corporations (SOCs) and public private partnerships (PPPs).*

[1] This DSA was jointly prepared by IMF and World Bank staff.

BASELINE SCENARIO

1. **Macroeconomic assumptions underlying this DSA update are broadly in line with those in the previous DSA.** GDP growth and inflation are expected to average 4.0 percent and 4.3 percent over the long term. Projections for grants over the long run are slightly lower, by an average of 2 percentage points of GDP, than in the previous DSA, with a commensurately lower primary expenditure, leaving fiscal deficit projections broadly unchanged. Exports and noninterest current account deficits are also projected close to the November 2020 DSA. Afghanistan received SDR 4.8 million debt service relief from the IMF's Catastrophe Containment and Relief Trust (CCRT) in 2020 and is scheduled to receive SDR 2.4 million CCRT relief for debt service due from April 14, 2021 to October 15, 2021. It benefitted from the Debt Service Suspension Initiative in 2020 (0.02 percent of GDP), the authorities requested an extension through June 2021 and are planning to request a further extension for the second half of 2021.

Text Table 1: Macroeconomic Assumptions Comparison Table

	DSA Nov 2020		**Current DSA**	
	2020-25	2026-40	2021-26	2027-41
Real GDP (%)	2.7	4.0	4.0	4.0
Inflation (GDP, deflator, %)	4.3	4.3	4.1	4.3
Revenue and grants (% of GDP)	27.9	24.6	25.8	23.3
Grants (% GDP)	13.3	6.4	11.2	4.7
Primary expenditure (% GDP)	29.3	26.4	26.9	25.2
Primary deficit (% GDP)	1.3	1.9	1.0	1.9
Exports of G&S (% change)	11.4	6.6	8.6	6.2
Noninterest current account deficit (% GDP)	-7.9	9.1	-7.8	9.0

Sources: Afghan authorities and IMF staff estimates and projections

2. **Afghanistan continues to be assessed as having weak debt-carrying capacity.** Based on the October 2020 WEO macroeconomic indicators and World Bank's 2019 CPIA (Country Policy and Institutional Assessment), Afghanistan's composite indicator (CI) score is 2.54, below the lower cut-off value of 2.69, indicating a weak debt-carrying capacity rating. The composite score has declined since October 2020 mostly due to the change in global growth assumptions.

3. **Public debt used in this DSA does not cover liabilities from SOCs and PPPs**. The authorities are developing capacity to systematically collect and record data on financial liabilities of SOCs and under PPPs, including related contingent liabilities. Until such data becomes available, DSAs will continue to use default values for contingent liability shocks. Public debt coverage remains the same as in the November 2020 DSA.

RISK RATING AND VULNERABILITIES

4. **Afghanistan's risk of external debt distress remains high**. This DSA continues to use a 20-year projection period for the mechanical risk rating considering the significant, if gradual, shift in the financing mix over the long term. A replacement of grants by debt leads to sustained debt accumulation and to large, persistent breaches of the relevant threshold by the PV of external debt-to-exports ratio under the baseline starting 2033 and through the rest of the projection period.[2] Among the liquidity indicators, debt service-to-exports ratio also breaches its threshold in the early 2040s, but the debt service-to-revenue ratio remains low (Figure 1).

5. **External debt sustainability is most vulnerable to the export shock,** which is the most extreme shock for the PV of debt-to-exports and debt service-to-exports ratios (Table 3). The combination shock—a combination of the growth, primary balance, exports, other flows and depreciation shocks in half their magnitudes—is the most extreme shock for the PV of debt-to-GDP and debt service-to-revenue ratios. These results reflect Afghanistan's high dependence on grants and underscore the need to mobilize domestic revenue and boost exports.

6. **Public debt levels are projected to remain low**. The PV of total public debt-to-GDP ratio is projected to stay well below the benchmark under the baseline. However, this indicator would breach the threshold under the stress scenario with a growth shock starting 2031. The PV of total public debt-to-revenue ratio and the debt service-to-revenue ratio are most sensitive to the growth shock as well (Figure 2).

7. **Afghanistan's overall risk of public debt distress is high.** This assessment is based on the application of mechanical signals over the extended period which is necessary given the projected decline in grants and change in the financing mix. Based on these signals over the 20-year horizon, staff assesses the overall risk of debt distress as high.

CONCLUSIONS

8. **Sound fiscal policy with prudent deficit levels, revenue mobilization, and improved debt and fiscal risk management are key to safeguarding Afghanistan's debt sustainability.** As the economy recovers from the pandemic, the authorities should reverse the 2020-21 fiscal loosening due to the pandemic and step up domestic revenue mobilization. They should rely on highly concessional financing consistent with the ECF-supported program and further strengthen public investment management to finance priority projects with high growth and social returns. Contingent liability risks should be monitored carefully in light of the banking sector vulnerabilities and recent changes to the institutional framework for PPPs. The authorities could continue developing debt management and fiscal risk management capacities with technical assistance from the IMF, World Bank and other partners.

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

AUTHORITIES' VIEWS

9. **The authorities agreed with the conclusions of the DSA update.** They remain committed to fiscal prudence and plan to rely on donor grants and concessional borrowing to ensure debt sustainability, while working to increase revenue and support growth-enhancing investments. Authorities are interested in TA on debt management, including for Sukuk issuance, and are planning to collect information on financial performance on SOCs and build data on public projects, including those executed through PPPs.

Text Table 2: Coverage of Public Debt and Design of Contingent Liability Test

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

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

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

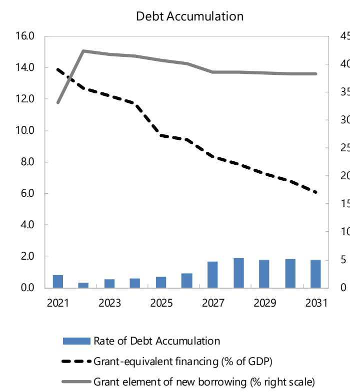
Text Table 3 : Calculation of the CI Index

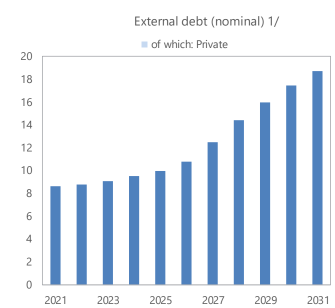
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.6933	1.04	41%
Real growth rate (in percent)	2.719	2.2932	0.06	2%
Import coverage of reserves (in percent)	4.052	57.9628	2.35	92%
Import coverage of reserves^2 (in percent)	-3.990	33.5968	-1.34	-53%
Remittances (in percent)	2.022	1.9716	0.04	2%
World economic growth (in percent)	13.520	2.9280	0.40	16%
CI Score			2.54	100%
CI rating			Weak	

Table 1. Islamic Republic of Afghanistan: External Debt Sustainability Framework, Baseline Scenario, 2020–41
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	**7.5**	**8.6**	**8.7**	**9.1**	**9.5**	**10.0**	**10.8**	**18.7**	**17.5**	**6.8**	**12.3**
of which: public and publicly guaranteed (PPG)	**7.5**	**8.6**	**8.7**	**9.1**	**9.5**	**10.0**	**10.8**	**18.7**	**17.5**	**6.8**	**12.3**
Change in external debt	1.4	1.1	0.1	0.3	0.4	0.5	0.8	1.3	-1.5		
Identified net debt-creating flows	**-11.5**	**-11.1**	**-9.8**	**-9.3**	**-8.9**	**-7.2**	**-5.5**	**5.6**	**6.7**	**-10.7**	**-3.9**
Non-interest current account deficit	**-11.4**	**-10.7**	**-8.9**	**-8.4**	**-8.0**	**-6.1**	**-4.4**	**8.1**	**11.0**	**-10.1**	**-2.4**
Deficit in balance of goods and services	27.8	28.8	28.0	27.0	26.2	25.0	24.0	23.1	21.7	**33.4**	**25.1**
Exports	7.5	7.9	8.1	8.4	9.1	9.4	9.9	9.7	9.6		
Imports	35.3	36.7	36.1	35.4	35.2	34.4	33.9	32.8	31.3		
Net current transfers (negative = inflow)	-38.2	-38.6	-35.9	-34.2	-32.9	-29.9	-27.2	-14.3	-10.4	**-42.8**	**-26.6**
of which: official	-35.7	-35.8	-32.9	-31.0	-29.5	-26.3	-23.3	-9.5	-3.5		
Other current account flows (negative = net inflow)	-1.0	-0.9	-1.0	-1.2	-1.2	-1.2	-1.2	-0.7	-0.4	**-0.8**	**-1.0**
Net FDI (negative = inflow)	**0.1**	**-0.2**	**-0.5**	**-0.6**	**-0.6**	**-0.7**	**-0.7**	**-2.0**	**-3.8**	**-0.4**	**-1.0**
Endogenous debt dynamics 2/	**-0.2**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.4**	**-0.4**	**-0.5**	**-0.5**		
Contribution from nominal interest rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2		
Contribution from real GDP growth	0.1	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.7	-0.7		
Contribution from price and exchange rate changes	-0.4	...	...	...	...	...	...	...	...		
Residual 3/	**12.9**	**12.2**	**9.9**	**9.6**	**9.4**	**7.6**	**6.3**	**-4.3**	**-8.2**	**10.6**	**4.9**
of which: exceptional financing	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
CCRT Debt Relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**3.5**	**4.3**	**4.4**	**4.7**	**5.2**	**5.6**	**6.2**	**11.9**	**13.0**		
PV of PPG external debt-to-exports ratio	**47.4**	**54.3**	**54.6**	**56.0**	**56.9**	**59.3**	**63.2**	**122.8**	**135.5**		
PPG debt service-to-exports ratio	**2.4**	**2.7**	**2.5**	**2.7**	**2.9**	**2.9**	**2.9**	**4.9**	**10.6**		
PPG debt service-to-revenue ratio	**1.6**	**1.8**	**1.5**	**1.6**	**1.7**	**1.7**	**1.8**	**2.6**	**5.1**		
Gross external financing need (Million of U.S. dollars)	-2194.2	-2148.6	-1942.2	-1923.8	-1880.0	-1535.4	-1192.6	2223.5	5097.4		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-1.9	2.7	4.5	4.5	4.0	4.0	4.0	4.0	4.0	**3.8**	**4.0**
GDP deflator in US dollar terms (change in percent)	6.9	-1.0	0.1	-0.3	-1.4	0.9	-0.2	3.2	2.1	**-0.9**	**0.9**
Effective interest rate (percent) 4/	0.7	0.5	0.5	0.5	0.5	-0.2	0.0	0.8	1.3	**0.4**	**0.4**
Growth of exports of G&S (US dollar terms, in percent)	-2.2	7.5	7.2	8.8	10.3	8.6	8.9	6.3	5.5	**-1.8**	**7.5**
Growth of imports of G&S (US dollar terms, in percent)	-5.3	5.8	2.8	2.4	2.0	2.3	2.3	5.9	5.5	**2.8**	**4.3**
Grant element of new public sector borrowing (in percent)	...	33.2	42.3	41.7	41.5	40.6	40.1	38.3	42.1	**...**	**39.2**
Government revenues (excluding grants, in percent of GDP)	11.4	12.3	13.4	14.2	15.7	16.0	16.1	18.0	19.7	**11.4**	**16.0**
Aid flows (in Million of US dollars) 5/	3271.2	2734.6	2703.3	2713.9	2704.6	2387.5	2448.2	2447.1	2288.8		
Grant-equivalent financing (in percent of GDP) 6/	...	13.9	12.7	12.2	11.7	9.7	9.4	6.1	3.7	**...**	**9.6**
Grant-equivalent financing (in percent of external financing) 6/	...	94.2	97.6	96.0	95.2	93.5	91.5	78.9	94.2	**...**	**88.3**
Nominal GDP (Million of US dollars)	19,786	20,116	21,056	21,952	22,505	23,622	24,516	33,666	62,197		
Nominal dollar GDP growth	4.8	1.7	4.7	4.3	2.5	5.0	3.8	7.3	6.2	**2.9**	**5.0**
Memorandum items:											
PV of external debt 7/	3.5	4.3	4.4	4.7	5.2	5.6	6.2	11.9	13.0		
In percent of exports	47.4	54.3	54.6	56.0	56.9	59.3	63.2	122.8	135.5		
Total external debt service-to-exports ratio	2.4	2.7	2.5	2.7	2.9	2.9	2.9	4.9	10.6		
PV of PPG external debt (in Million of US dollars)	699.5	861.9	928.0	1036.4	1161.6	1314.5	1525.5	4014.5	8080.5		
(PVt-PVt-1)/GDPt-1 (in percent)		0.8	0.3	0.5	0.6	0.7	0.9	1.8	-0.1		
Non-interest current account deficit that stabilizes debt ratio	-12.8	-11.8	-9.0	-8.8	-8.4	-6.6	-5.2	6.9	12.4		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

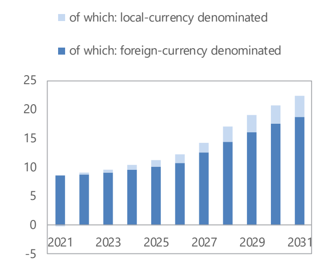
Table 2. Islamic Republic of Afghanistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–41

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	7.5	8.6	9.0	9.6	10.5	11.2	12.2	22.3	22.5	7.6	14.0
of which: external debt	7.5	8.6	8.7	9.1	9.5	10.0	10.8	18.7	17.5	6.8	12.3
Change in public sector debt	1.4	1.1	0.4	0.6	0.8	0.8	1.0	1.7	-1.7		
Identified debt-creating flows	2.2	2.3	0.6	0.3	0.3	0.3	0.4	1.0	0.4	0.3	0.8
Primary deficit	2.2	2.4	1.1	0.6	0.6	0.7	0.8	2.0	1.3	0.6	1.4
Revenue and grants	26.1	25.7	25.9	26.1	27.0	25.2	25.0	23.1	23.2	25.8	25.0
of which: grants	14.8	13.4	12.5	11.9	11.3	9.2	8.8	5.1	3.5		
Primary (noninterest) expenditure	28.4	28.1	27.1	26.7	27.6	25.9	25.7	25.1	24.5	26.4	26.4
Automatic debt dynamics	-0.1	0.0	-0.2	-0.4	-0.3	-0.4	-0.4	-1.0	-0.9		
Contribution from interest rate/growth differential	0.0	-0.3	-0.5	-0.5	-0.5	-0.6	-0.6	-0.9	-0.9		
of which: contribution from average real interest rate	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	0.0		
of which: contribution from real GDP growth	0.1	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.8	-0.9		
Contribution from real exchange rate depreciation	-0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Privatization receipts (negative)	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.8	-0.9	0.0	0.4	0.7	0.6	0.8	0.6	-2.1	-0.3	0.6
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	3.6	4.4	4.8	5.4	6.2	6.9	7.8	15.7	18.2		
PV of public debt-to-revenue and grants ratio	13.6	17.0	18.7	20.8	22.9	27.5	31.1	68.1	78.3		
Debt service-to-revenue and grants ratio 3/	0.7	0.9	0.8	0.9	1.1	2.2	2.4	8.0	12.3		
Gross financing need 4/	2.4	2.5	1.1	0.9	0.9	1.3	1.4	3.9	4.2		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-1.9	2.7	4.5	4.5	4.0	4.0	4.0	4.0	4.0	3.8	4.0
Average nominal interest rate on external debt (in percent)	0.7	0.5	0.5	0.5	0.5	-0.2	0.0	0.8	1.3	0.4	0.4
Average real interest rate on domestic debt (in percent)	-2.3	-4.2	2.4	2.9	2.9	2.9	2.9	2.5	2.9	-3.4	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.0	...	...	...	...	...	...	...	...	3.4	...
Inflation rate (GDP deflator, in percent)	2.4	4.4	4.5	4.0	4.0	4.0	4.0	4.4	4.0	4.1	4.3
Growth of real primary spending (deflated by GDP deflator, in percent)	2.6	1.7	0.6	3.1	7.5	-2.3	3.4	3.9	3.6	7.5	2.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.8	1.3	0.7	0.1	-0.2	0.0	-0.2	0.3	3.0	0.7	0.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

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

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

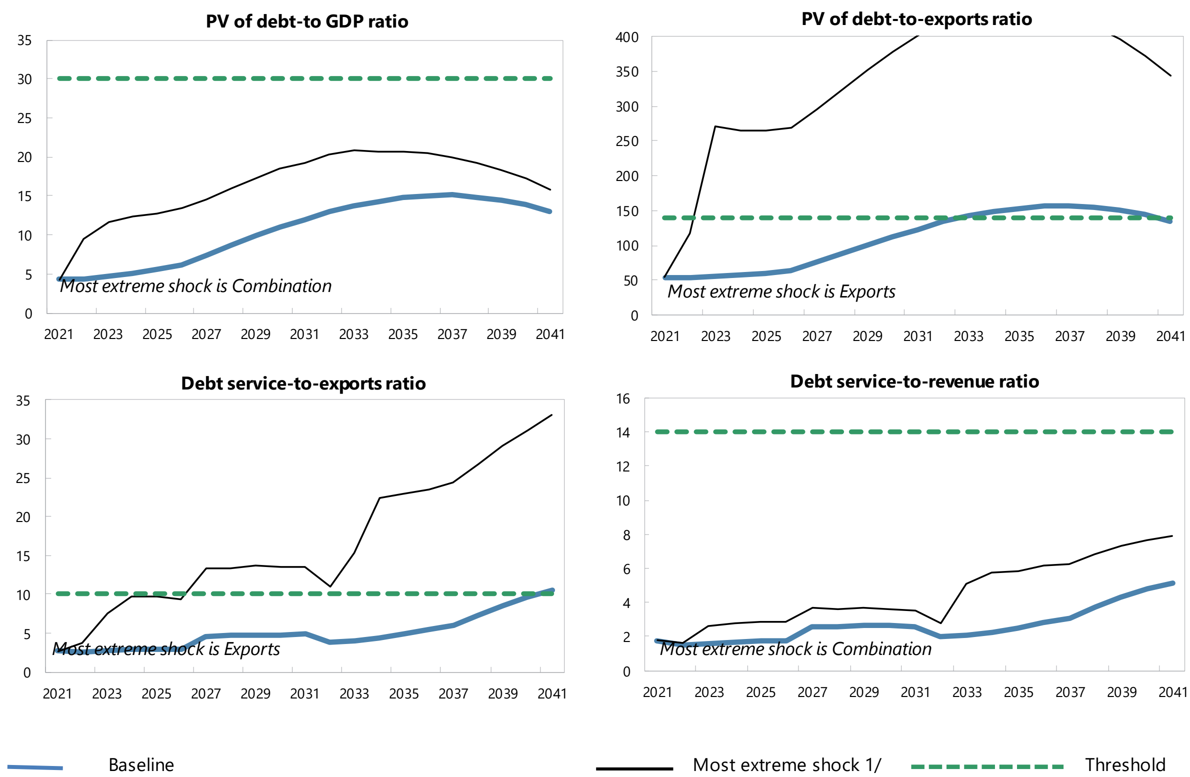
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

Figure 1. Islamic Republic of Afghanistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021–41



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

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

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	19	20
Avg. grace period	9	10

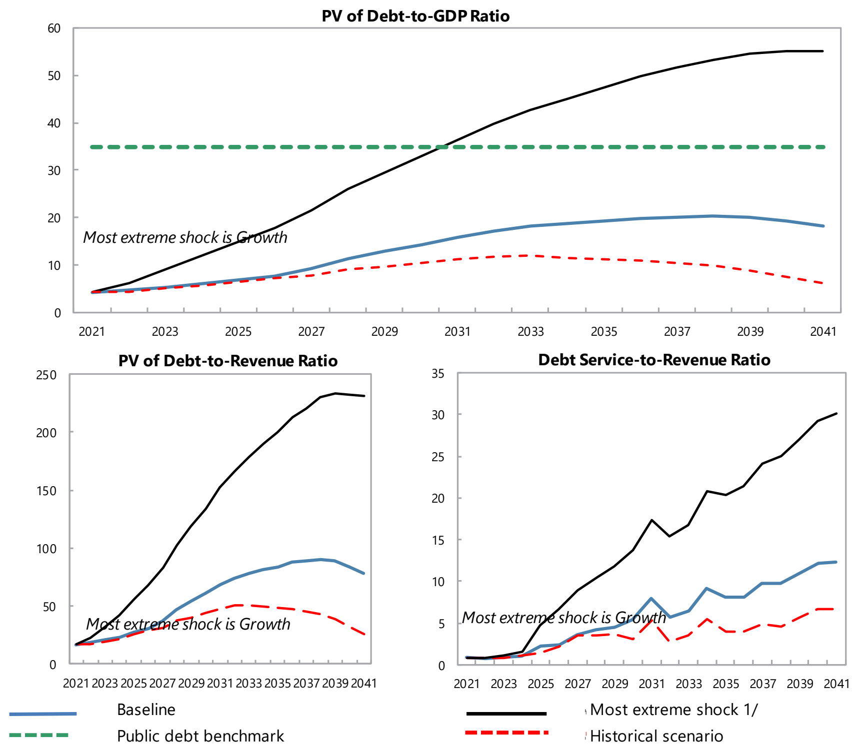
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Islamic Republic of Afghanistan: Indicators of Public Debt Under Alternative Scenarios, 2021–41



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	59%	59%
Domestic medium and long-term	41%	41%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.5%
Avg. maturity (incl. grace period)	19	20
Avg. grace period	9	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.7%	2.7%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	0%	0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31

(In percent)

	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	4.3	4.4	4.7	5.2	5.6	6.2	7.4	8.7	9.9	11.0	11.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	4.3	3.8	3.2	2.4	0.5	-2.2	-6.4	-12.0	-19.0	-27.4	-37.1
B. Bound Tests											
B1. Real GDP growth	4.3	4.8	5.5	6.1	6.5	7.3	8.6	10.2	11.6	12.9	14.0
B2. Primary balance	4.3	4.8	5.6	6.0	6.6	7.4	8.5	9.9	11.1	12.2	13.1
B3. Exports	4.3	6.3	9.9	10.4	10.8	11.5	12.5	13.8	15.0	16.0	16.8
B4. Other flows 2/	4.3	7.6	11.1	11.7	12.0	12.7	13.7	14.9	16.0	17.0	17.7
B6. One-time 30 percent nominal depreciation	4.3	5.6	-0.1	0.3	0.9	1.7	3.3	5.1	6.7	8.2	9.5
B6. Combination of B1-B5	4.3	9.5	11.7	12.3	12.7	13.5	14.6	16.0	17.3	18.4	19.3
C. Tailored Tests											
C1. Combined contingent liabilities	4.3	7.0	7.4	7.9	9.2	9.9	11.0	12.5	13.7	14.8	15.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	54.3	54.6	56.0	56.9	59.3	63.2	75.0	88.5	100.7	112.4	122.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	54.3	47.0	37.9	26.5	5.4	-22.7	-65.4	-122.6	-193.1	-280.1	-382.4
B. Bound Tests											
B1. Real GDP growth	54.3	54.6	56.0	56.9	59.3	63.2	75.0	88.5	100.7	112.4	122.8
B2. Primary balance	54.3	59.8	66.0	66.6	70.1	75.0	86.8	100.6	113.1	124.6	135.0
B3. Exports	54.3	117.1	**270.3**	**264.8**	**265.2**	**269.0**	**294.7**	**324.5**	**351.6**	**377.5**	**400.2**
B4. Other flows 2/	54.3	94.1	132.0	128.7	128.2	129.0	139.4	**151.7**	**162.8**	**173.4**	**182.7**
B6. One-time 30 percent nominal depreciation	54.3	54.6	-1.4	2.7	7.4	13.5	26.5	40.9	53.8	66.3	77.7
B6. Combination of B1-B5	54.3	138.4	122.7	**197.7**	**197.4**	**199.4**	**216.9**	**237.3**	**255.9**	**273.6**	**289.1**
C. Tailored Tests											
C1. Combined contingent liabilities	54.3	87.1	87.7	87.4	97.9	100.5	111.9	127.7	139.4	**150.7**	**161.4**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	2.7	2.5	2.7	2.9	2.9	2.9	4.6	4.7	4.8	4.8	4.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	2.7	2.5	2.6	2.5	2.4	1.8	3.0	2.0	0.7	-1.1	-3.0
B. Bound Tests											
B1. Real GDP growth	2.7	2.5	2.7	2.9	2.9	2.9	4.6	4.7	4.8	4.8	4.9
B2. Primary balance	2.7	2.5	2.8	3.1	3.1	3.1	4.8	4.9	5.0	5.0	5.1
B3. Exports	2.7	3.8	7.5	9.8	9.7	9.4	13.3	13.4	13.7	13.6	13.6
B4. Other flows 2/	2.7	2.5	3.5	4.5	4.4	4.3	5.9	5.9	6.0	6.0	6.0
B6. One-time 30 percent nominal depreciation	2.7	2.5	2.7	1.7	1.8	1.8	3.6	3.7	3.9	3.9	4.0
B6. Combination of B1-B5	2.7	3.2	6.4	7.1	7.0	6.8	9.5	9.5	9.7	9.6	9.6
C. Tailored Tests											
C1. Combined contingent liabilities	2.7	2.5	3.4	3.6	3.6	3.7	5.4	5.4	5.6	5.6	5.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	1.8	1.5	1.6	1.7	1.7	1.8	2.6	2.6	2.7	2.6	2.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	1.8	1.5	1.5	1.5	1.4	1.1	1.7	1.1	0.4	-0.6	-1.6
B. Bound Tests											
B1. Real GDP growth	1.8	1.6	1.9	2.0	2.0	2.1	3.0	3.0	3.1	3.1	3.1
B2. Primary balance	1.8	1.5	1.7	1.8	1.8	1.9	2.7	2.7	2.8	2.8	2.7
B3. Exports	1.8	1.5	1.9	2.5	2.5	2.5	3.3	3.2	3.3	3.2	3.2
B4. Other flows 2/	1.8	1.5	2.1	2.6	2.6	2.6	3.3	3.3	3.4	3.3	3.2
B6. One-time 30 percent nominal depreciation	1.8	1.9	2.0	1.2	1.3	1.4	2.5	2.6	2.7	2.7	2.7
B6. Combination of B1-B5	1.8	1.6	2.6	2.8	2.8	2.8	3.7	3.6	3.7	3.6	3.6
C. Tailored Tests											
C1. Combined contingent liabilities	1.8	1.5	2.0	2.1	2.1	2.2	3.0	3.0	3.1	3.0	3.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

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

2/ Includes official and private transfers and FDI.

Table 4. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

(In percent)

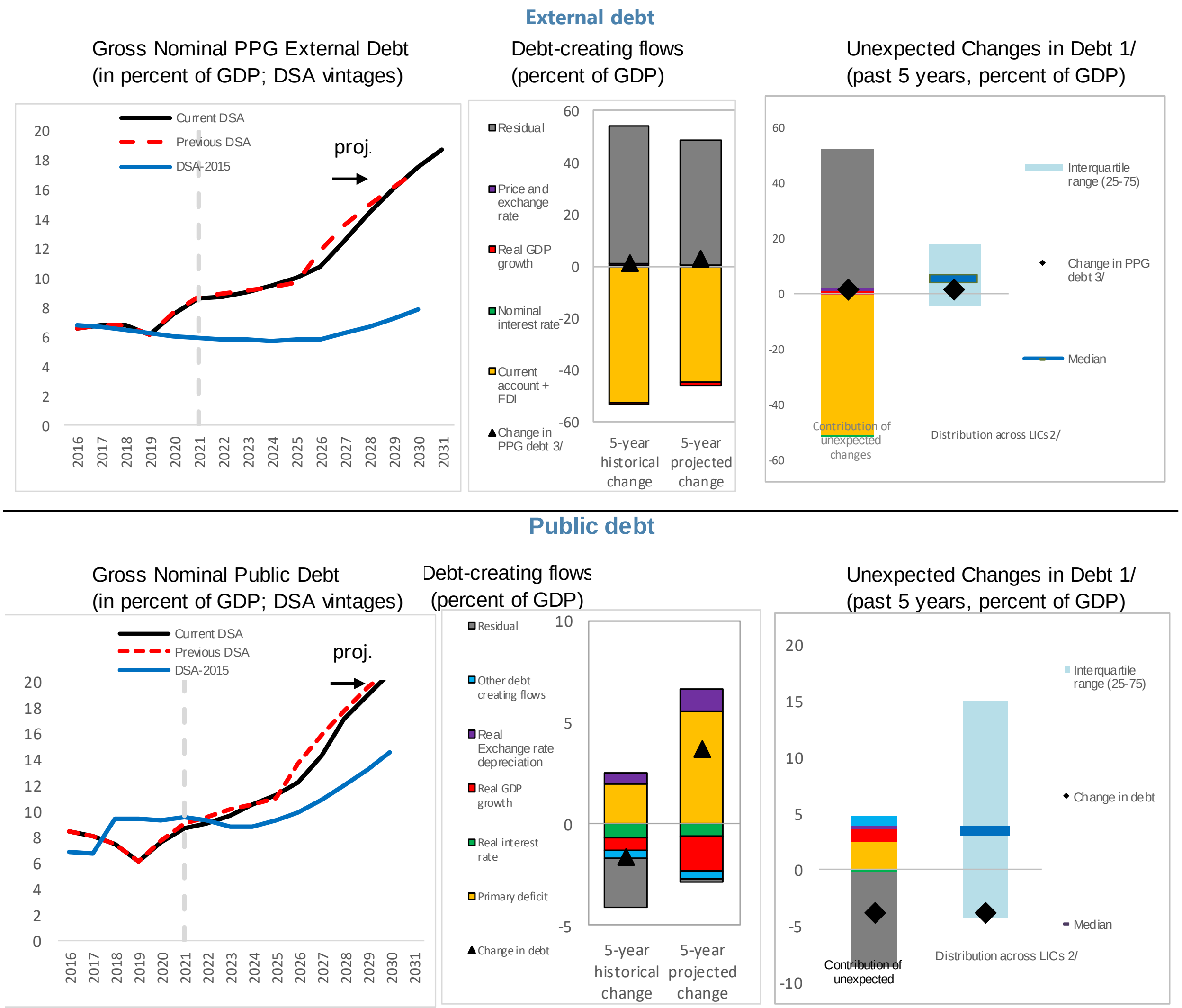
	Projections										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	4.4	4.8	5.4	6.2	6.9	7.8	9.3	11.5	13.0	14.3	15.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	4	4	5	6	6	7	8	9	10	11	11
B. Bound Tests											
B1. Real GDP growth	4	6	9	12	15	18	22	26	30	33	**36**
B2. Primary balance	4	6	7	8	9	9	11	13	14	16	17
B3. Exports	4	7	10	11	12	13	14	16	18	19	20
B4. Other flows 2/	4	8	12	13	14	14	16	18	19	20	22
B6. One-time 30 percent nominal depreciation	4	5	5	5	5	5	5	6	6	7	7
B6. Combination of B1-B5	4	5	6	6	7	8	10	12	14	15	17
C. Tailored Tests											
C1. Combined contingent liabilities	4	10	11	11	12	12	14	16	17	18	20
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
PV of Debt-to-Revenue Ratio											
Baseline	17.0	18.7	20.8	22.9	27.5	31.1	37.6	47.2	54.3	60.5	68.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	17.0	17.1	19.2	21.4	25.6	28.7	31.4	37.2	40.1	44.1	47.6
B. Bound Tests											
B1. Real GDP growth	17.0	22.6	32.6	41.9	55.9	67.5	83.1	102.1	118.8	133.9	151.9
B2. Primary balance	17.0	22.0	27.4	29.2	33.8	37.2	43.5	53.0	60.0	66.1	73.7
B3. Exports	17.0	25.7	40.0	41.5	47.3	51.1	57.3	66.8	73.9	79.9	87.5
B4. Other flows 2/	17.0	31.4	46.1	47.4	53.6	57.5	63.7	73.0	80.2	86.1	93.7
B6. One-time 30 percent nominal depreciation	17.0	21.2	19.4	18.5	19.1	19.7	21.2	25.6	27.7	29.4	32.0
B6. Combination of B1-B5	17.0	20.8	23.0	23.8	28.8	32.9	39.9	49.8	57.3	63.7	71.6
C. Tailored Tests											
C1. Combined contingent liabilities	17.0	39.6	41.3	42.5	46.2	50.0	56.2	64.9	72.1	78.0	85.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	0.9	0.8	0.9	1.1	2.2	2.4	3.6	4.2	4.4	5.4	8.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 1/	0.9	0.8	0.9	1.0	1.5	2.2	3.5	3.5	3.7	3.1	5.4
B. Bound Tests											
B1. Real GDP growth	0.9	0.8	1.2	1.6	4.7	6.7	8.9	10.5	11.8	13.7	17.4
B2. Primary balance	0.9	0.8	1.1	1.4	3.9	4.1	3.9	4.9	5.2	5.6	8.3
B3. Exports	0.9	0.8	1.1	1.5	2.7	2.8	4.0	4.6	4.8	5.7	8.3
B4. Other flows 2/	0.9	0.8	1.2	1.6	2.8	2.9	4.2	4.7	5.0	5.9	8.4
B6. One-time 30 percent nominal depreciation	0.9	0.9	1.1	1.1	2.2	0.8	3.6	4.1	4.2	5.0	7.4
B6. Combination of B1-B5	0.9	0.8	0.9	1.1	2.3	2.4	4.0	4.6	4.9	6.0	8.6
C. Tailored Tests											
C1. Combined contingent liabilities	0.9	0.8	1.8	2.0	12.0	3.3	4.5	8.0	5.2	6.1	9.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

2/ Includes official and private transfers and FDI.

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



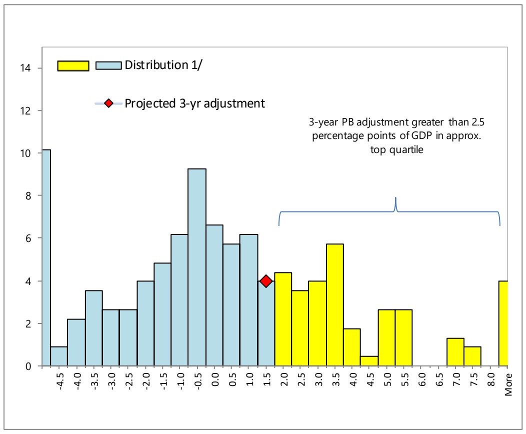
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

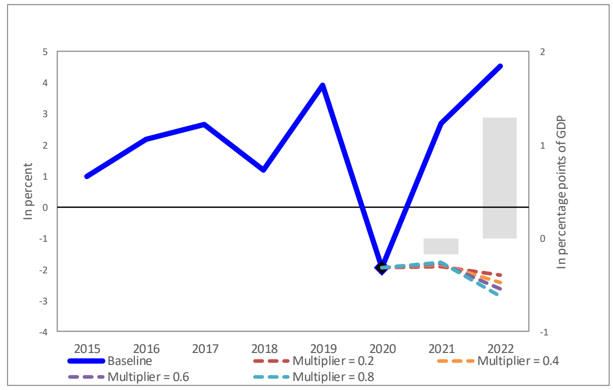
Figure 4. Islamic Republic of Afghanistan: Realism Tools

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



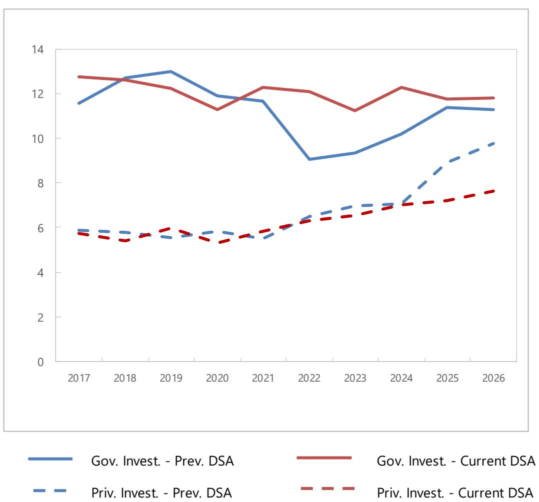
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



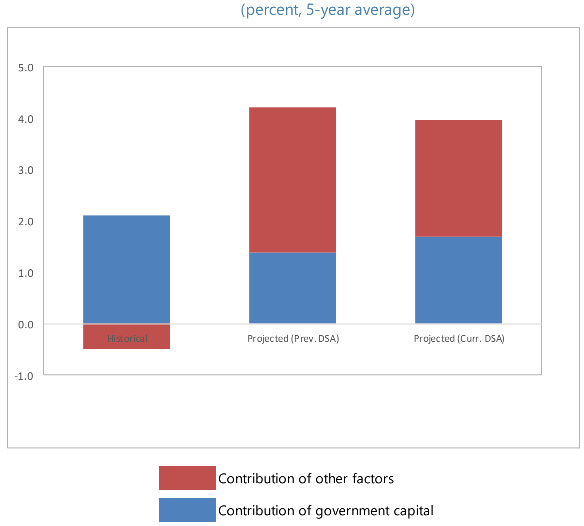
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

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



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

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



INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 20, 2021

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

Prepared By | The Middle East and Central Asia Department (In collaboration with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2021)

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

General Resources Account

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

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	155.31	100.00
Holdings	37.18	23.94

Outstanding Purchases and Loans

	SDR Million	Percent Quota
RCF Loan	161.90	50.00
ECF Arrangements	116.93	36.11

Latest Financial Commitments:

Arrangements :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	November 06, 2020	May 05, 2024	259.04	80.95
ECF	July 20, 2016	December 31, 2019	32.38	32.38
ECF	November 14, 2011	November 13, 2014	85.00	24.00

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	April 29, 2020	June 23, 2020	161.90	161.90

Overdue Obligations and Projected Payments to Fund[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal	1.20	3.75	3.15	4.95	22.67
Charges/Interest	0.05	0.06	0.06	0.06	0.06
Total	**1.25**	**3.81**	**3.21**	**5.01**	**22.73**

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI) Assistance: Not Applicable.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR Million)	Amount Disbursed (SDR Million)
N/A	April 13, 2020	2.40	2.40
N/A	October 02, 2020	2.40	2.40
N/A	April 01, 2021	2.40	2.40

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief Trust (CCRT).

Nonfinancial Relations:

Safeguard Assessment

An update safeguards assessment of Da Afghanistan Bank (DAB) was concluded in October 2020. It found that the safeguards framework continues to be challenged by capacity constraints. The assessment recommended, among other things, (i) enacting the 2017 DAB Law amendments aimed at strengthening DAB's autonomy and governance, (ii) engaging a reputable international firm to review internal controls and propose remedial measures to address identified weaknesses; and (iii) updating DAB's Code of Conduct and establishing a whistleblowing policy. It found that financial reporting practices and the external audit mechanism are aligned with international standards, but concerted efforts are needed to modernize the internal audit function. Other recommendations included strengthening transparency and collegiality of executive decision-making and aligning foreign reserves portfolio with leading international practices. The implementation of recommendations is underway.

Exchange Arrangement

Afghanistan is an Article XIV-member country. Afghanistan maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. Following the authorities' request, the IMF staff has initiated a general review of Afghanistan's exchange system to prepare for the authorities' acceptance of obligations under Article VIII Sections 2(a), 3, and 4 of the IMF's Articles of Agreements. However, owing to the Covid-19 pandemic and capacity constraints, the authorities need more time to prepare for the acceptance of Article VIII obligations.

The currency of Afghanistan is the Afghani. The *de jure* exchange rate regime is classified as "managed floating". However, the *de facto* exchange rate arrangement is classified as "crawl-like".

On May 6, 2021, the average of the buying and selling exchange rates in cash transactions on the Kabul money exchange market was 77.47 Afghanis per U.S. dollar.

Last Article IV Consultation

The last Article IV consultation with Afghanistan was discussed by the Executive Board on December 19, 2019. Next Article IV consultation is proposed to be on a 24-month consultation cycle in accordance with Decision No. 14747 and as per the Executive Board decisions on the extension of the Article IV consultation cycles due to the COVID-19 crisis.

IMF Technical Assistance: Delivered and Planned 2011–21

Policy Area	Lead Provider	Timeline
Tax Policy and Revenue Administration		
Preparation for the value-added tax (VAT) implementation (tax administration).	METAC[1]	2021
Support implementation of VAT (tax policy): Update VAT yield estimates; advise on a tax scheme below the VAT threshold	FAD	April 2021
VAT implementation in the Revenue Department	METAC	March 2021
Preparing for VAT in the Customs Department	FAD	February 2021
Improving compliance risk management in customs administration	METAC	July 2020
Review of VAT implementation and the proposed refund system	FAD	January 2020
Development of compliance improvement plan in the Single Large Taxpayer Office	METAC	July 2019
Revenue impact of replacing the Business Receipt Tax with the VAT	FAD	March 2019
Strengthening customs administrations, including compliance risk management	METAC	2019, August 2020
Developing options for revenue mobilization	FAD; METAC	February 2017
Tax policy for extractive industries	FAD	April 2015
Tax and customs administration	METAC	February 2015
VAT implementation/study tour in Beirut	METAC	September 2014
Customs administration	METAC	November 2013
Reforms of the fiscal regimes for the extractive industries	FAD	September 2013
Customs administration	FAD	April 2013; January 2012; April 2011; January 2011
Follow-up on enforcement framework	METAC	January 2013
Study mission to Lebanon on VAT implementation	METAC	September 2012
VAT introduction	FAD	January 2012
Follow-up on tax administration reforms	METAC	January 2012

Policy Area	Lead Provider	Timeline
Visit to support SIGTAS preparations	FAD	January 2012
Tax information systems (workshop)	METAC	January 2011
Public Financial Management		
Assessing risks and contingent liabilities from PPP	FAD	2021
Application of the State-owned Enterprise Health Check Tool	METAC	April - May 2021
Follow-up support on PPP and fiscal risks	METAC	November 2020
Strengthening oversight over State-Owned Corporations, Public-Private Partnerships (PPPs), and fiscal risks	LEG; FAD	July 2020
Cash planning and forecasting	METAC	September 2019
Public Financial Management Reforms	FAD	September 2018; September 2017; May 2016; April 2013
Fiscal Risk Oversight of Public Corporations	LEG	August 2018
Public Investment Reforms	FAD	September 2017
Follow-up mission to review PFM roadmap	FAD	April 2012
Advancing PFM reforms	FAD	April 2012
Program budgeting reform	FAD	September 2011
PFM assessment	FAD	January 2011
Financial planning and budget classification	METAC	January 2011
Financial Sector Stability		
Implement a risk-based supervision system and upgrade other supervisory processes	MCM/METAC	2021
Implementation of IFRS 9	MCM/METAC	2021
Bank restructuring	MCM	March 2018
Stress testing	MCM	April 2019
Framework for Dealing with Weak Banks	MCM; METAC	July 2017
Crisis preparedness and management workshop	MCM	January 2018
Framework for dealing with weak banks	METAC	July 2017
Training on dealing with weak banks	METAC	August 2016
Stress testing	METAC	April 2016
Problem banks and resolution	MCM	March 2016
Problem bank management	MCM	February 2016; December 2015
Action plan for strengthening banking supervision	METAC	March 2013
Cash management/financial plans	METAC	November 2012
Review of off-site functions	METAC	November 2012
Enhancing enforcement framework at DAB	METAC	June 2012
Developing financial regulations	METAC	April 2012
General banking supervision issues	METAC	October 2011

Policy Area	Lead Provider	Timeline
Monetary Policy and Central Bank Governance		
Macroeconomic forecasting and policy analysis	ICD	2021
Strengthening the monetary policy framework	MCM	2021
Forex reserves management	MCM	November 2017
Monetary policy implementation and operations	MCM	August 2017
Strengthening the central bank's operations	MCM	May & December 2013
Strengthening the central bank's operations: update on monetary policy implementation	MCM	September 2013
Sukuk issuance	MCM	February 2013
Sukuk TA mission	MCM	July & November 2012
Follow-up TA on sukuk	MCM	August 2012
Sukuk TA mission	METAC	February 2012
Sukuk workshop and TA in Dubai	METAC	May 2011
Governance		
Review of the AML/CFT legal framework and capacity of relevant agencies in advance of the Asia Pacific Group assessment	LEG	2021
AML/CFT training for Afghan officials at STI in Singapore	LEG	August, 2016
AML/CFT training for DAB and FinTRACA officials	LEG	September 2015; February 2015; April 2014
TA on AML/CFT issues	LEG	November 2014
Awareness raising workshop for parliamentarians (Dubai)	LEG	February 2014
Diagnostic review of AML/CFT regime	LEG	September 2013
Economic Statistics		
Balance of payments statistics	STA; METAC	December 2020; March 2018; April 2019, 2020
Redevelopment of a quarterly national accounts compilation system	METAC	October 2020
External statistics: unrecorded exports, imports, and remittances	STA	2020; February 2017
Re-development of quarterly national accounts compilation	METAC	October 2020
Price Statistics	STA; METAC	April 2019; October 2018; February 2016; January 2014
Government finance statistics	STA	October 2018
National accounts	METAC	July 2017; May 2016

Policy Area	Lead Provider	Timeline
External sector statistics	METC	February 2017; September 2015; January & November 2014
Monetary and financial statistics	STA	October 2016; October 2011
Balance of payments and International Investment Position statistics	METAC	February 2013; June 2012
National accounts statistics	STA	April & February 2012

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

Resident Representatives

Mr. de Schaetzen; August 2002–June 2005

Mr. Charap; June 2005–June 2008

Mr. Abdallah; June 2008–January 2014

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank work program on Afghanistan can be found on the following website:

https://www.worldbank.org/en/country/afghanistan

The Asia Development Bank work program on Afghanistan can be found on the following website:

https://www.adb.org/countries/afghanistan/main

STATISTICAL ISSUES

(As of May 12, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. The key data shortcomings are in national accounts and in the external sector, mainly due to organizational weaknesses and difficult security situation.
National Accounts: The compilation broadly follows the System of National Accounts 2008 (2008 SNA). GDP was revised in 2019 with technical assistance from the World Bank and is compiled on an annual basis using a supply-use framework. GDP estimates by the production and expenditure approaches are published in current and constant prices, with a fixed base year of 2016 for the constant price estimates. The revised annual time series extend back to 2016 only as back-casted estimates have not yet been compiled. Although quarterly GDP is also published, the quality of the quarterly indicators could be improved.
Price Statistics: The National Statistic and Information Authority (NSIA) compiles and publishes monthly consumer price based on data collected from 20 cities/provinces, including the capital city Kabul (covering 80 percent of population). The base year (CPI=100) is April 2015. The CPI weights are derived from the 2011/12 Afghan Living Condition Survey. Significant improvements are required to align the CPI to international standards and best practices: improving the index calculation, treatment of missing prices, data collection methods, and quality adjustment methods. The NSIA faces resource and capacity constraints, and data collection issues at times result in delays. There is currently no PPI for Afghanistan, but there are plans to develop one conditional on staff and budgetary resource availability.
Government Finance Statistics: Fiscal data are compiled annually for the central and general government on cash basis, based on the Government Finance Statistics Manual 2001 (GFSM 2001). The timeliness and quality of the central and general government core budget data has been improving, particularly after completion of the roll out and connectivity of the Afghanistan Financial Management Information System (AFMIS) to all central government line ministries and agencies in Kabul and all provincial offices. The authorities are reporting monthly GFS data to the IMF for the central government core budget, and the Finance Ministry is also working on expanding the coverage of monthly and quarterly GFS data to general government, with some data posted online.

Monetary and Financial Statistics: Da Afghanistan Bank (DAB) reports the Standardized Report Forms (SRFs) 1SR for DAB, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's *International Financial Statistics (IFS)* on a monthly basis with a lag of one month.	
Financial Soundness Indicators: Afghanistan reports 11 of the 12 core financial soundness indicators (FSIs), eight of the 13 encouraged FSIs for deposit takers, and two FSIs for real estate markets—on a quarterly basis—for posting on the IMF's FSI website with a 3-4 month lag. **Financial Access Survey**: Afghanistan reports data on several series and indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
External Sector Statistics: Balance of payments and international investment position (IIP) statistics have been compiled according to the *sixth edition of the Balance of Payments and International Investment Position Manual* since 2016 and has been revised back to 2008. Several TA missions provided by METAC, as well as Financial Sector Stability Fund (FSSF) and Data for Decisions (D4D) funded missions, assisted DAB in improving external accounts compilation in the past years. Despite the progress achieved, Afghanistan's balance of payments data has considerable discrepancies in the coverage of the current and financial accounts. The major data gaps are related to unrecorded direct investment, personal remittances, military aid, and illegal trade (exports and imports). While DAB has made some improvements in expanding remittances coverage by incorporating more money transfer services – including *hawalas* - into the formal sector, problems in estimating the amount of military aid and illegal trade remain.	
II. Data Standards and Quality	
Afghanistan, which has been a GDDS participant since June 22, 2006, is currently in its successor data dissemination initiative, e-GDDS.	No data ROSC has been conducted.

Table of Common Indicators Required for Surveillance

(As of May 12, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Apr/2021	4/15/2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April/2021	4/12/2021	M	M	M
Reserve/Base Money	April/2021	4/12/2021	M	M	M
Broad Money	April/2021	4/12/2021	M	M	M
Central Bank Balance Sheet	April/2021	4/12/2021	M	M	M
Consolidated Balance Sheet of the Banking System	April/2021	4/12/2021	M	M	M
Interest Rates[2]	April/2021	4/12/2021	M	M	M
Consumer Price Index	Mar/2021	4/22/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	--	--	--	--	--
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar/2021	4/28/2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2021Q1	4/12/2021	Q	Q	Q
External Current Account Balance	2020Q4	3/10/2021	Q	Q	Q
Exports and Imports of Goods and Services	2020Q4	3/10/2021	Q	Q	Q
GDP/GNP	2020	03/20/2021	A	A	A
Gross External Debt	...	...	...	...	...
International Investment Position[6]	2020Q4	3/10/2021	Q	Q	Q

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

Statement by Mr. Hosseini and Mr. Sassanpour on Islamic Republic of Afghanistan
Executive Board Meeting
June 7, 2021

On behalf of our Afghan authorities, we thank Mr. Sadikov and his team for dedicated work, frank discussions and sound policy advice, and the Executive Board and management for their continuous support. The Fund has been Afghanistan's key trusted advisor and the Fund's financial support through the RCF and the ECF disbursements provided a critical lifeline for the country during the COVID-19 crisis. The Fund support was also instrumental in catalyzing donor commitments at the November 2020 Geneva pledging conference to mobilize funding for the 2nd Afghanistan National Peace and Development Framework for 2021-25.

Program Context

Economic and financial policies and reforms in Afghanistan have always been implemented under very difficult circumstances and serious internal security challenges. Even against these heavy odds, underpinned by generous financial and technical support from Afghanistan's international partners, successful implementation of a chain of reforms over the years helped to stabilize the economy, improve living standards, build modern institutions, and empower women and ethnic minorities, within a burgeoning democracy. Afghanistan is at a critical juncture now and its hard-earned gains are at serious risk, as the country is facing probably its most serious challenge of the past two decades. The diminishing prospects of an early All-Afghan peace and resurgence of violence targeting civilians, at a time when the US and allies' forces are withdrawing from the country in a matter of few short months—events not unrelated—have seriously elevated concerns about the country's political stability and its internal security, with palpable regional and global repercussions. Nothing is more fundamental to Afghanistan's economic stability and prosperity than an enduring peace—something that has eluded Afghans for decades. The road ahead is likely to be much more difficult than before, and this is one road that Afghanistan cannot travel alone.

Program Implementation

Program implementation under the ECF has been generally satisfactory, although some program ITs and SBs were not met for various reasons, including: the difficult pandemic-affected environment in general; capacity constraints; parliamentary resistance to legislative amendments; technical definitional changes; and unforeseen events. Most of these were beyond the government's control. Together with the completion of the first review, the authorities are requesting modifications to all non-continuous PCs and all ITs (with one exception) through end-2021 to align them with the updated macroeconomic framework warranted by the unprecedented developments of 2020 and so far in 2021. The revised program targets are predicated on the assumption of broadly unchanged security and political conditions in the country. Anything different would have important implications, in either direction, for the outlook and policies. The Afghan authorities reiterate their strong commitment to program targets and objectives that seek to maintain macroeconomic stability and establish an enabling environment for sustained and inclusive growth, consistent with their ultimate objective of economic independence and self-reliance.

Human and Social Dimensions of the COVID-19 Pandemic

The pandemic hit the economy hard with tragic loss of lives and livelihoods. The infection and mortality rates, as high as they are, are most likely underestimated for a number of reasons: security conditions that make monitoring difficult; poor health infrastructure; low vaccination rate, vaccine hesitancy and inadequate supplies of vaccines—a collection of factors that are more visible outside the urban areas where most of the population lives. The COVAX facility is covering vaccination for 20 percent of the population with funding for another 28 percent of the population provided by grants from the World Bank and the ADB. Thankful for vaccine donations from India and China, the Afghan authorities are openly appealing to the international community for grants and vaccine donations to enable them to reach their 60 percent of population vaccination target.

The recent surge in infection cases and the spread of new and faster transmitting strains in neighboring countries is ground for concern in the fight against the pandemic. Since the onset of the pandemic, the Afghan authorities have sought to soften its impact on people's health and livelihoods through higher health outlays, including on construction of hospitals and provincial clinics; free bread distribution; short-term employment programs; and rural support programs to ease food supply constraints. The World Bank-funded Relief Effort for Afghan Communities and Households program accounted for the bulk of government spending on pandemic mitigation in 2020. Still, the pandemic pushed a large number of Afghans into absolute poverty, adding to those already there: as many as 70 percent of Afghans are now believed to be at or below the national poverty line of US$ 1 per day.

Recent Economic Developments

Government's spending and liquidity support programs, helped by a favorable agricultural season in 2020, softened the impact of the pandemic on overall activity. The 2 percent real GDP contraction in 2020 was in fact substantially lower than the 5 percent contraction projected on program approval. A modest rebound in activity is expected in 2021, but still a 10 percent permanent loss of output is projected due to the pandemic. There is no reliable information on unemployment or underemployment rates that are believed to be high. Afghan youth, in particular, is always at the risk of marginalization in view of limited opportunities for gainful employment in a country where military service and armed insurgency seem to be the main employment outlet for young males. Employment opportunities for young women are even more limited. Afghanistan needs high and sustained rates of growth to successfully absorb about half a million young Afghans entering the labor market each year, in addition to returning migrants. Inflation moderated to an annual rate of 4.4 by March 2021 as food price pressures subsided following an initial sharp spike at the onset of the pandemic due to border closure, disruptions in the supply chain, and panic buying. The high food prices in the early months of the pandemic further aggravated the loss of income for poor households, many reliant on daily wage earners. Because of insufficient spring rainfall, a drought is expected in the 2021 growing season following a favorable 2020 crop. Even before the COVID-19 crisis, sustained food security had at times been an issue in the agriculture-rich, but highly weather-dependent Afghanistan, due to frequent flood-drought cycles brought about by climate change.

Fiscal Policy and Reforms

COVID-19-related spending and a sharp revenue shortfall increased the fiscal deficit to 2.3 percent of GDP in 2020, twice the level in 2019, but smaller than the 3 percent of GDP projected on program approval, due to savings on current spending and slower execution of donor-financed development projects. The smaller deficit allowed a significant buildup of discretionary treasury balances at the central bank—to three times the program's floor—that could be used for financing the larger deficit in 2021. COVID-19-related financing in 2020 amounted to 4.4 percent of GDP, of which 1.7 percent of GDP was provided by the Fund.

The 2021 deficit is projected at 2.5 percent of GDP, slightly higher than the deficit on budget approval, as pandemic-related spending is continuing into the current year and revenues are recovering slowly. The 2021 deficit will be financed by prospective disbursements under the ECF. Social protection and poverty reduction remain paramount, as the authorities plan to spend 5.6 percent of GDP on social needs, including education, healthcare, food and nutrition, refugees and repatriates, women empowerment and natural disaster relief. While protecting social expenditure, spending on lower priority administrative and infrastructure projects will be curtailed. The lower spending will be better aligned with a 0.4 percent of GDP scale-back of 2021 budget revenue projections, consistent with a disappointing revenue outturn in the early months of the year. Starting in 2022, and supported by anticipated post-pandemic revenue rebound, the authorities plan to start moving towards fiscal self-reliance over the medium term by keeping the budget deficit below 1 percent of GDP. Afghanistan's public debt is currently low, but is expected to rise as the financing mix gradually shifts from grants to loans. The authorities are, however, committed to a prudent debt management policy and will continue to rely on grants and highly concessional borrowing.

Consistent with their commitment to the transparency of government spending in general, and pandemic-related spending in particular, the Ministry of Finance published the first COVID-19 Quarterly Report in October 2020 and the second report in April 2021. The Supreme Audit Office has commenced the audit of all COVID-19-related spending for FY2020 (December 22, 2019 to December 21, 2020), to be completed and published by end-July 2021.

The authorities have a deep medium-term structural fiscal reform agenda to expand the government revenue base and to enforce tax compliance and reduce tax leakages. A number of major initiatives are in train in the customs—a key source of tax revenue—that has been traditionally leaky and prone to corruption (¶29-30, MEFP). Preparations are also underway to introduce the VAT in 2022 as the progress has been slow because of the pandemic (¶28, MEFP). Additionally, the authorities have recently launched a public finance review with World Bank's assistance to identify options for expenditure rationalization and revenue mobilization going forward.

Monetary, Exchange Rate and Financial Policies and Reforms

Da Afghanistan Bank (DAB) is committed to exchange rate flexibility and to policies geared towards stable and low inflation, despite its limited toolkit (DAB capital notes and foreign exchange auctions) and an inefficient monetary transmission mechanism. The combination of larger inflows of grants and loans for budget support, including Fund disbursements, as well as higher remittances and weaker demand for foreign exchange due to compressed imports, allowed DAB to build up its foreign reserves in 2020. Despite some decline in early 2021, the level of reserves amounted to 123 percent of the reserve adequacy metric by end-April 2021, a level deemed adequate considering the country's high and complicated risk profile. REER has been broadly stable during the crisis, while the *Afghani*/US$ exchange rate appreciated modestly. To strengthen the interest rate transmission channel and to enhance the attractiveness of *Afghani* deposits, DAB raised the interest rate on capital notes from 0.5 percent to 3.0 percent. A draft *sukuk* law will be submitted to parliament by end-September 2021, establishing the legal framework for *sukuk* issuance in early 2022, thus providing a potentially important outlet for private savings.

The pandemic eroded banks' asset quality and profits, but the impact was fairly subdued compared to peer countries in view of the financial sector's shallow penetration in Afghanistan and its weak links with the real economy. There are, however, pockets of fragility (e.g., NPLs) that warrant close monitoring. DAB is implementing a comprehensive financial sector reform plan that seeks to strengthen supervision framework and capacity; develop a robust bank resolution framework; reform state-owned commercial banks; formalize unregulated financial services; and implement an oversight framework for nonbank financial institutions (¶37-42, MEFP). Weaker banks were requested to raise capital and intensified efforts are expected to recover as much as Af 2-3 billion of Kabul Bank Receivership assets overseas. The planned merger of Bank-e-Millie Afghan and the New Kabul Bank, however, had to be postponed (from April to end-November 2021) because of delays in contracting reputable merger advisors due to contract complexities, including in procurement. The passage of amendments to the DAB law granting the central bank more independence, greater operational autonomy, and stronger governance have met parliamentary resistance, but the authorities are redoubling their efforts to secure passage.

Strengthening AML/CFT Framework and Fighting Corruption

The authorities are fully aware of donors' legitimate concerns about Afghanistan's deep-seated and pervasive corruption problem and weaknesses in its AML/CFT framework, and are determined to address them resolutely. Many of AML/CFT and corruption issues are related. The 2019 National Risk Assessment (NRA), published in March 2021, continues to provide the basis for strengthening the AML/CFT framework through 2023. DAB continues to exercise its AML/CFT supervisory authority in line with NRA guidelines. In 2020, DAB completed AML/CFT inspections of all banks (to be repeated in 2021) and examined the activities of around 90 percent of money service providers and foreign exchange dealers for AML/CFT violations, and enforced penalties for non-compliance. Moreover, an oversight committee was formed in 2020 to prepare for the mutual evaluation of the AML/CFT framework by the Asia Pacific Group on Money Laundering in 2023.

The authorities are determined to step up their efforts to root out corruption that continues to plague the country, undermining business confidence and investment. The 2^{nd} National Strategy for Corruption for 2022 and beyond is expected to be submitted for Cabinet approval in February 2022. The Anti-Corruption Commission (ACC)—based on the legal framework established under the 2018 Anti-Corruption Law (ACL)—is now fully operational and has developed its work plan for this year. Amendments to the ACL are under preparation to grant ACC operational autonomy and full transparency in the selection of Commission members. Recognizing the inter-linkages, the authorities intend to leverage the AML/CFT framework in their anti-corruption drive by routinely investigating money laundering in parallel with corruption investigations. The implementation of the Beneficial Ownership Regulation, passed in October 2020, together with provisions of the AML/CFT Law, will improve transparency of beneficial ownership and facilitate the application of AML/CFT tools.

Concluding Remarks

The optimism that prevailed on program approval about the cessation of hostilities and an early peace agreement, after decades of conflict and destruction, is diminishing. With legitimate concerns about Afghanistan's political stability and internal security, and protection of hard-earned gains in women and minorities' rights, the implementation environment to continue major reforms has never been as unfavorable as it is today. Most of the impediments and constraints in program implementation are beyond the control of the authorities. But for Afghans there is no option but to move forward. So much in blood and money has already been invested in the future of Afghanistan—there is no turning back. Continued Fund support, including through the current ECF, and high levels of donor assistance are critical to Afghanistan's macroeconomic stability that is ultimately underpinned by the authorities' commitment to the successful completion of the program. Until Afghanistan weans itself off donor support, the criticality of foreign aid should not be underestimated. Foreign partners and allies have footed Afghanistan's massive security and defense bill for two decades and their continued support is needed as ever. Afghans hope that their international partners will continue to stand by them as they pursue, under very difficult conditions, their dream of a stable and prosperous Afghanistan, grounded in democracy, social equity and justice.