INTERNATIONAL MONETARY FUND

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ISLAMIC REPUBLIC OF AFGHANISTAN

June 2017

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 4, 2017, 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 8, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

  Letter of Intent sent to the IMF by the authorities of the Islamic Republic of Afghanistan*
  Memorandum of Economic and Financial Policies by the authorities of the Islamic Republic of Afghanistan*
  Technical Memorandum of Understanding*
  *Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/192
FOR IMMEDIATE RELEASE
May 24, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the ECF for the Islamic Republic of Afghanistan and Approves US$6.2 Million Disbursement

- A pickup of growth to 3 percent in 2017 is projected but is contingent on an improvement in confidence, implementation of reforms, and continued strong donor support.
- Continued strong program ownership by the government remains vital to the success of the program.
- Reforms in the financial sector, corruption and economic governance, and revenue mobilization combined with improved public financial management will all be critical.

On May 24, 2017, the Executive Board of the International Monetary Fund (IMF) completed the first review of the arrangement under the Extended Credit Facility (ECF)[1] for Afghanistan. The completion enables the release of SDR 4.5 million (about US$6.2 million), bringing total disbursements under the arrangement to SDR 9 million (about US$12.4 million). The Executive Board's decision was taken on a lapse-of-time basis.[2] The ECF arrangement for SDR 32.38 million was approved on July 20, 2016 (see Press Release No. 16/348).

In completing the review, the Executive Board also approved the authorities' request for modification of two sets of performance criteria: first, the exclusion from the zero ceiling on non-concessional borrowing of two loans from the Islamic Development Bank to finance an important infrastructure project; and second, modification of three performance criteria, approved by the Executive Board in July 2016, reflecting updates to the macroeconomic framework and methodological changes affecting the monetary variables.

Program implementation through end-December 2016 has been satisfactory, despite the challenging security situation. All quantitative performance criteria and indicative targets

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

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

were met. On structural reforms, three out of five benchmarks were met, and all requirements for one of the remaining two benchmarks were implemented with a delay.

Afghanistan's security situation remains challenging, undermining confidence and growth. In 2016, real GDP is estimated to have risen by 2 percent, up slightly from 2015 reflecting improved agricultural output. But this is still far below the rate of growth needed to create sufficient jobs to absorb labor market entrants and raise living standards. In 2017, a pickup to 3 percent growth is projected. However, this is contingent on improvement in confidence, implementation of reforms, and continued strong donor support. Consumer price inflation remains moderate.

Continued strong program ownership by the government remains vital to the success of the program. Reforms in the financial sector (turning the page on the Kabul Bank crisis), corruption and economic governance, and revenue mobilization combined with improved public financial management will all be critical. However, sustained reform implementation will be difficult in the context of fragile security and political uncertainty. In this challenging environment, the backing of donors remains key to success, together with the determination and commitment of the authorities. The IMF remains committed to playing its role in the collective international effort to help Afghanistan.

Islamic Republic of Afghanistan: Selected Economic Indicators, 2014–18

(Quota: SDR 323.8 million)

(Population: approx. 33.4 million)

(Per capita GDP: approx. US$615; 2015)

(Poverty rate: 35.8 percent; 2011)

(Main exports: opium, US$2.7 billion; carpets, US$83.4 million; 2014)

	2014	2015	2016	2017	2018
			Est.	Proj.	
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	1.3	0.8	2.0	3.0	3.5
Nominal GDP (in billions of Afghanis)	1,168	1,204	1,282	1,399	1,535
Nominal GDP (in billions of U.S. dollars)	20.4	19.7	18.9	20.6	21.8
Consumer prices (period average)	4.7	-1.5	4.4	6.0	6.0
Public finances (central government)					
Domestic revenues and grants	24.0	25.0	26.9	26.3	26.9
Domestic revenues	8.6	10.2	11.0	10.9	11.3
Grants	15.4	14.9	15.9	15.4	15.7
Expenditures	25.7	26.4	26.7	25.8	26.8
Operating 2/	19.5	19.6	19.4	18.1	18.8
Development	6.2	6.9	7.3	7.7	8.0
Operating balance (excluding grants) 3/	-10.9	-9.4	-8.4	-7.2	-7.5
Overall balance (including grants)	-1.7	-1.4	0.1	0.5	0.1
Public debt 4,5/	8.8	9.3	8.3	7.8	6.9
Monetary sector	(Annual percentage change, e.o.p. unless otherwise indicated)				
Reserve money	36.5	2.3	11.8	10.5	9.1
Broad money	8.6	3.2	9.6	8.2	8.5
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in millions of U.S. dollars)	643	580	618	708	822
Exports of goods (annual percentage change)	26.8	-9.8	6.6	14.6	16.1
Imports of goods (in millions of U.S. dollars)	6,497	7,034	6,151	6,510	6,681
Imports of goods (annual percentage change)	-19.4	8.3	-12.5	5.8	2.6
Current account balance					
Excluding official transfers	-32.2	-35.3	-32.2	-30.8	-29.7
Including official transfers	5.8	2.9	7.1	4.8	2.7
Foreign direct investment	0.2	0.9	0.4	1.1	0.5
Total external debt 4/	6.5	7.0	6.5	6.7	6.4
Gross international reserves (in millions of U.S. dollars)	7,311	6,808	7,351	7,541	7,544
Import coverage of reserves 6/	10.2	11.0	11.1	11.0	10.5
Exchange rate (average, Afghanis per U.S. dollar)	57.4	61.1	67.9	…	…

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

1/ Excluding the narcotics economy.

2/ Comprising mainly current spending.

3/ Defined as domestic revenues minus operating expenditures.

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

5/ Public debt was revised to include promissory note issued by MoF to settle DAB's Kabul Bank exposure.

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 8, 2017

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

KEY ISSUES

Background. The three-year arrangement under the Extended Credit Facility was approved on July 20, 2016 in an amount of SDR 32.38 million (US$44.9 million, or 10 percent of quota). The arrangement supports the government's reform agenda to lay the foundations for higher growth and job creation, and aims to catalyze continued support from donors.

Context. Security conditions remain very challenging, undermining confidence and growth. A large influx of returning refugees from neighboring countries is compounding these challenges. Combating corruption and strengthening institutions are key goals of the National Unity Government, but much remains to be done. International partners continue to strongly support Afghanistan, as demonstrated by their security and development assistance pledges at two international meetings in 2016.

Program performance. Program implementation has been satisfactory. All quantitative performance criteria and indicative targets were met. The authorities are planning to contract a limited amount of non-concessional debt to finance an important infrastructure project and are seeking approval of a modification of the relevant performance criterion. They also request the modification of three performance criteria for June 2017 which were revised due to updates of the macroeconomic framework and changes in methodology affecting monetary variables. Three out of five first review structural benchmarks were met, and all requirements for one of the remaining two benchmarks are now implemented.

Staff supports completion of the first review under the Extended Credit Facility arrangement and the authorities' request for a modification of performance criteria.

Approved By
Daniela Gressani and Bob Traa

Discussions were held in Dubai during February 23–March 4, 2017. The staff team comprised Christoph Duenwald (head), Farid Talishli, Robert Tchaidze (all MCD), Philip Barrett (FAD), Richard Berkhout (LEG), Patrick Gitton (SPR), Oleksandr Pysaruk (MCM), and Murtaza Muzaffari (local economist).
Daniela Gressani (MCD) and Jafar Mojarrad (OED) joined the final days of the mission. The team met with Finance Minister Hakimi, Governor Sediq, and other senior officials. Erik Roos (MCD) provided research assistance and Hanan Altimimi Bane (MCD) document management.

CONTENTS

FIGURES

TABLES

APPENDIX

Glossary

ACD	Afghanistan Customs Department
Af	Afghani, the local currency
ANPDF	Afghanistan National Peace and Development Framework
AFMIS	Afghanistan Financial Management Information System
ARD	Afghanistan Revenue Department
ASYCUDA	Automated system for customs data
BOP	Balance of payments
CAR	Capital adequacy ratio
CPI	Consumer price index
CSO	Central Statistics Office
DAB	Da Afghanistan Bank, the central bank of Afghanistan
ECF	Extended Credit Facility
EDD	Economic Development Document
EITI	Extractive Industries Transparency Initiative
FATF	Financial Action Task Force
FIU	Financial intelligence unit
FSC	Financial Stability Council
FX	Foreign exchange
GDP	Gross domestic product
HIPC	Heavily indebted poor country
ID	Islamic Dinar
IDP	Internally Displaced People
LTO	Large Taxpayers' Office
LOI	Letter of Intent
LoLR	Lender of last resort
MEFP	Memorandum of Economic and Financial Policies
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoMP	Ministry of Mines and Petroleum
NKB	New Kabul Bank
NPL	Non-performing loan
NUG	National Unity Government
PC	Performance criteria
SB	Structural benchmark
SIGTAS	Standard Integrated Government Tax Administration System
SMP	Staff monitored program
SOCB	State-owned commercial bank
SOE	State-owned enterprise
TA	Technical assistance
TMU	Technical Memorandum of Understanding
UNCAC	United Nations Convention against Corruption
UNHCR	United Nations High Commissioner for Refugees
UNOCHA	United Nations Office for the Humanitarian Affairs
U.S.	United States, the
VAT	Value added tax
WTO	World Trade Organization
Y-o-y	Year-on-year

CONTEXT

Box 1. Objectives and Modalities of the ECF Arrangement[1]

The ECF-supported program seeks to consolidate progress on the macroeconomic and structural fronts and catalyze continued support from donors, helping to raise growth.

The program rests on two pillars:

- Structural reforms that focus on institution building, fiscal and financial reforms, and measures to combat corruption for scaled up private sector development.
- Prudent macro-financial policies to preserve macro-financial stability.

The first review assesses implementation of five Structural Benchmarks and eight Performance Criteria:

- SBs on reforms to fight corruption and strengthen revenue administration; a sound budget; and measures to help complete the resolution of the 2010 Kabul Bank crisis.
- PCs on government revenues, foreign exchange reserves, reserve money, net credit to central government from the central bank, and public debt.

[1] http://www.imf.org/external/pubs/cat/longres.aspx?sk=44130.0

1. **The security and political landscape remains challenging.**

- 2016–17 saw several high profile insurgent attacks, with civilian casualties reaching record levels last year. Prospects for peace talks with insurgent groups are limited despite recent successes.
- The relationship with Pakistan deteriorated because of security concerns, leading to trade disruptions and accelerated relocation of Afghan refugees (Box 2).
- The political situation remains fragile, although cohesion within the NUG has improved; parliamentary elections are expected toward end-2017 and presidential elections in 2019. Ministers dismissed by parliament last November for budget under-execution remain in place pending a Supreme Court ruling.

2. **Donor support is strong.** As demonstrated at the successful Warsaw and Brussels meetings last year, the international community continues to support Afghanistan. At the Brussels conference in October, donors pledged $15.2 billion in development assistance, surpassing analysts' expectations. The new U.S. administration's approach to Afghanistan has not yet been articulated; however, President Trump and Vice President Pence spoke with President Ghani and expressed their support for Afghanistan.

Box 2. Returning Afghan Refugees: Facts and Implications

Afghanistan is experiencing a large influx of returning refugees from Pakistan, Iran, and, to a lesser extent, Europe. UNHCR estimates that around one million returned in 2016 (620,000 from Pakistan) and projects up to one million more in 2017.

Prospects for returnees—many living abroad for decades—are difficult. Most are vulnerable and need shelter, food, jobs, education and health services. With more than one million Internally Displaced Persons and many people in poverty, the country's capacity to cope is severely stretched.

Higher demand for food, goods, health services, and housing brought about by the returnees can put upward pressure on prices and rents, while increased supply of labor raises the already high unemployment rate. There could also be longer-term effects on economic and social development: if basic services, such as education and health, cannot keep up with increased demand, some human capital could be lost.

Increased spending by the returning refugees could, however, contribute positively to economic activity. The government is developing a strategy for reintegrating the returnees and managing the IDPs, focusing on the provision of basic services, cash transfers, documentation, land allocation, assistance with job and housing search, all with a focus on urban areas—the location of choice for many returnees.

In 2016 UNHCR provided around US$145 million in assistance (cash allowance of US$400 to returnees with proper documentation; US$200 in 2017). For 2017, UNOCHA appealed for further humanitarian assistance of US$550 million, (20.4 percent is raised so far), of which US$240 million will be allocated to assist returning refugees. The authorities' own budget for returnees' assistance is about US$4 million in both 2016 and 2017.

ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

3. **Constrained by weak confidence, growth remains feeble, and inflation has moderated.**

- Staff estimates 2016 growth at 2 percent. The pickup from 0.8 percent growth in 2015 likely reflected improved agricultural output, although the lack of high frequency indicators severely constrains the analysis.

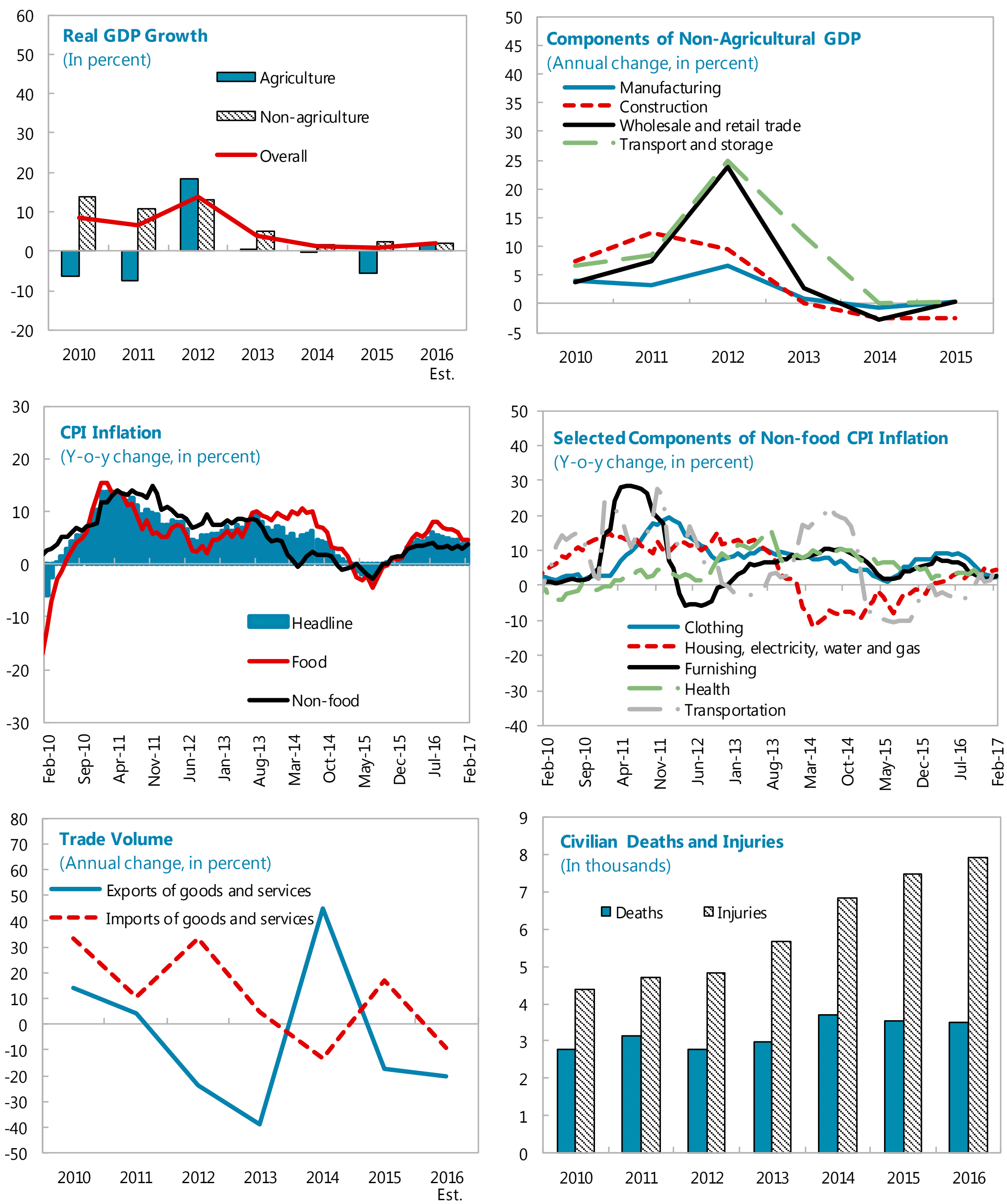
- Inflation moderated[1] in 2016H2 before picking up to 4.1 percent in February, mostly driven by movements in global food prices.

- Trade performance remained weak. Temporary border closing and some import substitution contributed to lower imports and thereby trade balance improvement. The pick-up in exports of goods, due to a favorable harvest and improved shipment capacity, was more than offset by a fall in exports of services.

- Credit to the economy declined by 3.8 percent y-o-y in December, reflecting lower demand for trade credit and a DAB-mandated write-off of NPLs.

[1] The moderation in part reflects methodological changes, with revised May–October 2016 inflation 1.4 percentage points lower on average.

Figure 1. Islamic Republic of Afghanistan: Real Sector



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

4. **The Afghani appreciated in 2016H2 and international reserves increased.** The currency remained broadly stable against the US$ in 2016H1 before appreciating slightly, helped by the influx

of returnees and an administrative ban on the use of the Pakistani rupee in border provinces. Lower imports, together with substantially lower FX sales by DAB, contributed to above-program target reserve accumulation.[2] Trade and current account deficits (before grants) remain large, but FX reserves cover 11 months of imports.

5. **A small overall fiscal surplus (including grants) of 0.1 percent GDP was recorded in 2016.** The improvement (from a 1.4 percent deficit in 2015) was mainly on the operating budget, with security grants and domestic revenues increasing in broadly equal amounts. The operating deficit excluding grants narrowed by one percentage point of GDP to 8.4 percent. Domestic revenues were up 15.4 percent, reaching Af141.1 billion, well above the ECF target (Af132.6 billion), with around half of the over-performance attributable to policy measures introduced in 2015. A slightly lower rate of execution for development spending largely offset improved operating execution. The end-2016 discretionary cash balances of Af11.8 billion remained above the indicative target. Revenue growth continued to decelerate in 2017Q1 as the impact of the 2015 revenue measures continued to fade

Decomposition of Revenue

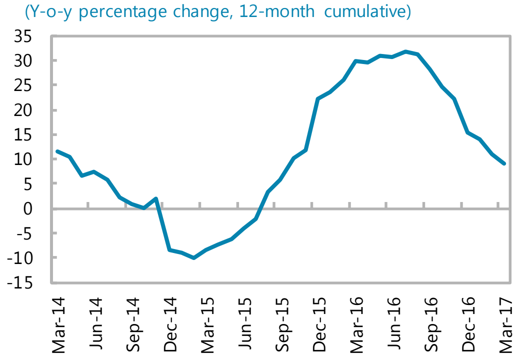
	2015	2016	Contribution to growth, percent
Total revenue (Af billion)	**122.3**	**141.1**	**15.4**
One-offs 1/	8.8	2.1	-5.5
2015 measures	5.2	17.1	9.8
Inflation and depreciation	--	8.7	7.2
Underlying	108.3	113.1	3.9

Sources: Afghan authorities and IMF staff calculations.

1/ One-offs are revenue sources that are not expected to be repeated.

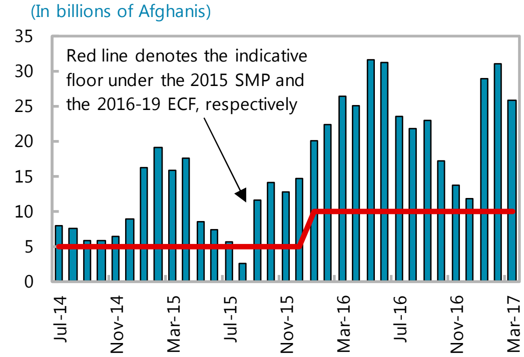
Domestic Revenues Growth

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



Total Treasury Discretionary Cash Balances

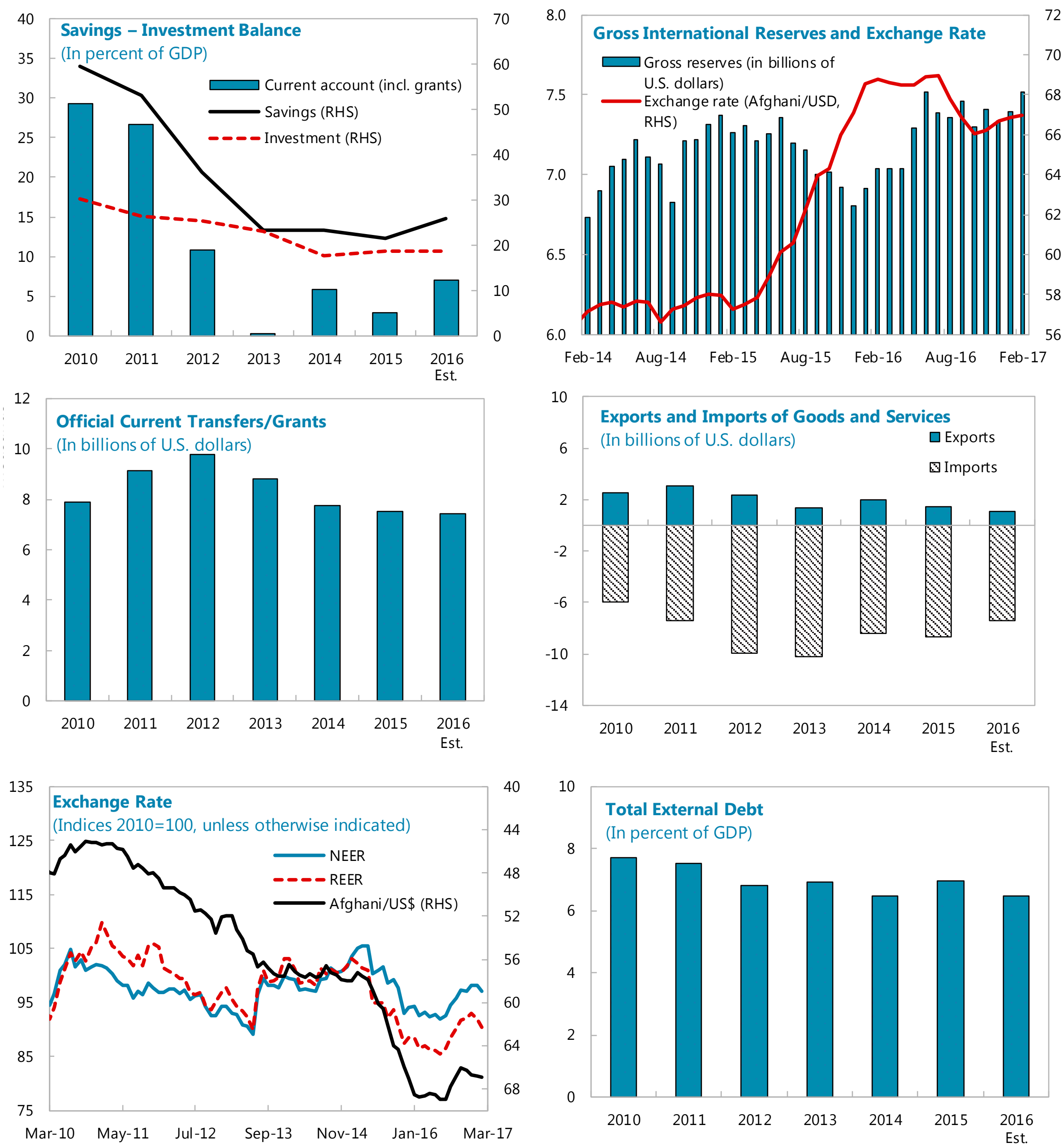
(In billions of Afghanis)



Sources: Afghan authorities and IMF staff calculations.

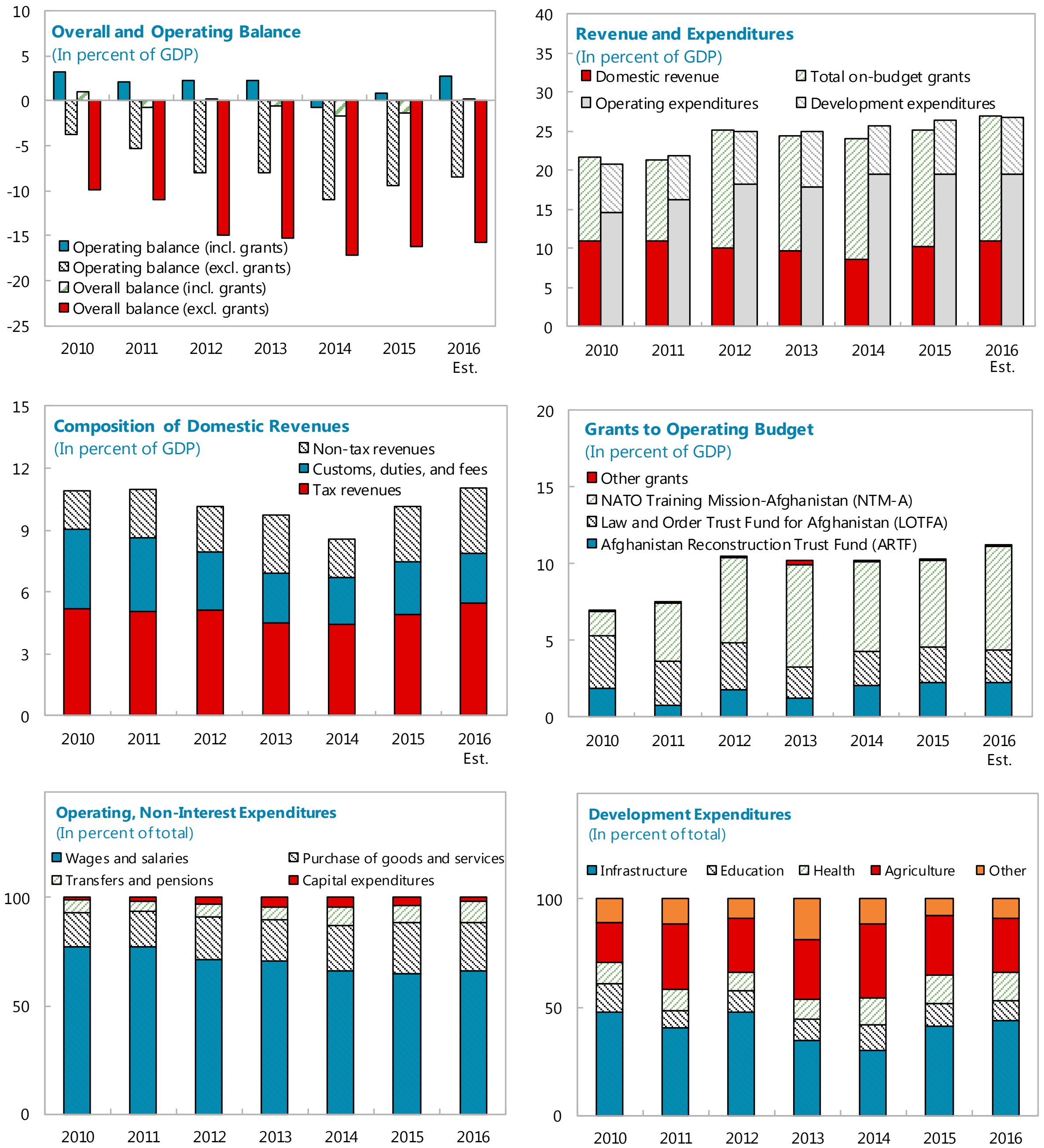
[2] Pakistan's share of trade with Afghanistan is about 40 percent.

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.

6. **Financial soundness indicators improved.** The NPL ratio declined to 10.8 percent in December 2016 (12.1 percent a year earlier), due to collateral repossessions and loan charge-offs in several private banks. Hence, CAR reached 28.3 percent (19.9 percent a year earlier). Asset quality remains a concern, as repossessed assets are often overvalued and illiquid. Profitability indicators also improved, while liquidity remains adequate.

B. Outlook and Risks

7. **Growth is expected to rise gradually over time.** Staff revised their projection for 2017 growth down to 3 percent, from 3.4 percent in the July 2016 staff report, and flattened the medium-term path to account for more persistent security challenges. The baseline scenario[3] envisages a gradual increase to growth potential of 6 percent[4] (predicated on improvements in security and political stability, implementation of reforms, and continued aid). Over time, extractive industries, agricultural development, and regional trade integration could support stronger growth and job creation. The influx of returning refugees could boost demand in the short run while a medium-term supply response is contingent on their absorption into the job market.

8. **The outlook is subject to significant risks** (Annex I)**.** If security conditions worsen, aid falls short, or reforms stall, growth would be lower with attendant effects on unemployment and poverty. Alternatively, lasting peace with insurgents would boost private sector confidence and facilitate a shift in public spending from security to development.

POLICY DISCUSSIONS

A. Fiscal Policies

9. **The 2017 budget is in line with the program.** Under prudent assumptions for revenue collection and expenditure execution, the operating deficit excluding grants is projected to decline to 7 percent of GDP, while the overall surplus including grants—the near-term fiscal anchor—rises to 0.5 percent GDP. Revenue projections are conservative, with a near flat revenue-to-GDP ratio (¶10). Operating expenditures are envisaged to fall to 18 percent GDP as donor-funded security spending on fuel is transferred off-budget. Total grants are expected to decrease slightly. Specific budget allocations for returning refugee-related spending are minimal, with donors providing off-budget support. Staff reiterated that the overarching fiscal policy goal should be to expand the tax base, while maintaining the overall balance including grants close to zero and keeping public debt low.

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[3] Given the inherent uncertainties going forward, staff relies on *scenarios* rather than *projections* to quantify the outlook.

[4] This assumption is based on growth accounting and is consistent with the industry-specific analysis by the World Bank, where reforms and investment in mining and agriculture financed through more aid lead to growth of around 6 percent http://www.worldbank.org/en/news/feature/2016/10/05/world-bank-agriculture-and-education-can-drive-afghanistans-development.

Key Fiscal Indicators
(Percent of GDP)

	2015 Act.	2016 Est.	2017 Proj.
(1) Domestic revenues	10.2	11.0	10.9
(2) Grants to operating budget	10.2	11.2	9.6
(3) Grants to development budget	4.7	4.7	5.8
(4) Operating expenditures	19.6	19.4	18.1
(5) Development expenditures	6.9	7.3	7.7
Operating balance, excluding grants (1) – (4)	-9.4	-8.4	-7.2
Overall balance, including grants (1,2,3) – (4,5)	-1.4	0.1	0.5

Sources: Afghan authorities and IMF staff calculations.

10. **Authorities and staff concurred that the main fiscal risk in 2017 relates to the revenue projection.** The authorities noted that the sustainability of the recent increase in domestic revenues is uncertain. They expressed particular concern about customs revenues: trade disruptions (due to closures of the Pakistan border) and WTO accession (with many tariffs reduced to zero) could adversely affect customs duties in the short run. Tensions with large taxpayers, who feel unfairly targeted by revenue collectors, are an additional concern. The authorities consider spending risks to be small, with donors expected to finance any unexpected refugee and security outlays. Staff encouraged the authorities to devise a contingency plan in case these fiscal risks materialize.

11. **Further revenue gains are likely to come mostly from economic growth and an expanded tax base.** A concurrent TA mission identified reforms that would help achieve this objective and promote a stable and attractive investment climate: strengthening anti-avoidance components of the corporate income tax (a minimum tax or higher border withholding), eliminating a proposed income tax exemption for manufacturing firms, streamlining the fragmented Large Taxpayers' Offices, and preparing for the introduction of VAT in 2019. The authorities agreed in principle with the recommendations, however, expressed concerns that some could not be implemented under current conditions (e.g., consolidating the LTOs given the difficulties posed by travel and communication within Afghanistan).

12. **Staff expressed concern about some elements of a new Income Tax Law that was approved by the Cabinet after the mission.** This harmonizes tax treatment of different business and asset classes, and includes a three-year tax holiday for manufacturing firms as a way of incentivizing private investment in a difficult business environment. Staff expressed concern about the tax holiday, reiterating the TA experts' views that such a measure is likely to be ineffective, open to abuse, and subject to fiscal risks. The authorities stressed that the incentives only apply to new firms, and that strict guidelines will be applied to prevent abuse

13. **The budget formulation process is unwieldy.** Large carry-overs, unrealistic expenditure estimates, imprecise costing, and premature inclusion of development projects contribute to an inflated expenditure envelope. Therefore, development expenditures suffer from low execution rates (54 percent in 2016) with political consequences (¶1). The authorities introduced a mid-year

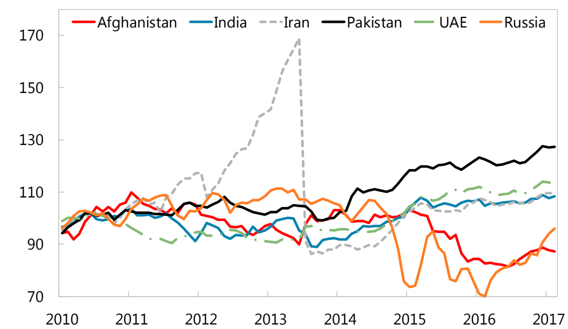
review to reallocate funds to better-performing projects and staff assumes an execution rate of 64 percent for 2017.

14. **The SOEs are not effectively monitored.** While SOEs do not receive explicit budgetary support, their revenues often rely on non-core operations, their financial position is uncertain, and their accounting not up to standard. The authorities concurred on the importance of closer monitoring and pointed to changes in legislation that strengthen oversight, e.g., by requiring proper audits of SOE operations.

B. Monetary and Financial Sector Policies

15. **The current monetary and exchange rate regime has served Afghanistan well.** Given weak monetary transmission and the high degree of dollarization, reserve money remains the nominal anchor with the objective of keeping inflation low. Staff called for continuing efforts to reduce dollarization and advocated applying reserve requirements on deposits in currencies of their denomination, rather than in domestic currency only. The authorities stressed that such a change should be implemented gradually. They concurred that the flexible exchange rate regime remains appropriate as a shock absorber.

Real Effective Exchange Rates
(Indices, 2010=100)



Sources: National authorities and IMF staff calculations.

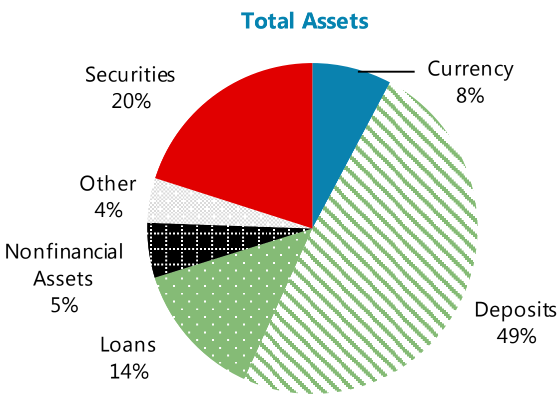
16. **External stability hinges on external aid disbursements.** The current account is dominated by imports and official transfers. Exchange rate developments primarily depend on the level of foreign aid disbursements and dollarization behavior, while FX auctions aim to limit short-term volatility against the U.S. dollar. The real effective depreciation observed from early 2015 until recently has been largely driven by emigrants leaving Afghanistan increasing demand for FX, and has not yet been reflected in an improvement in export performance because of non-price factors (investors' confidence, access to finance and energy, quality of infrastructure, and investment climate), calling for structural reforms to enhance the business environment and build competitiveness. Weak external sector statistics make the assessment of the exchange rate difficult.

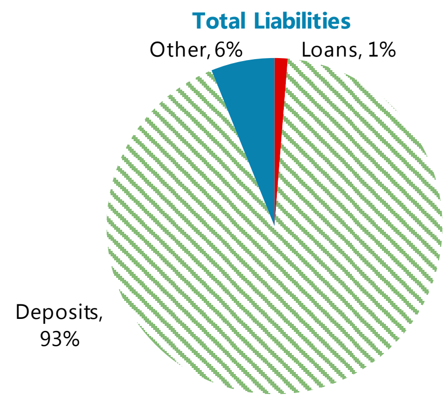
17. **Despite signs of improvement, the financial sector remains vulnerable** (Box 3)**.** Banking sector assets are concentrated and related-party lending in some banks exceeds prudential limits. Overall banking system liquidity is adequate, but high concentration in large demand deposits creates significant liquidity risks. Staff urged DAB to ensure that weak banks implement time-bound restructuring and recapitalization plans, and unwind excessive related-party exposures within one year. DAB on-site inspections identified a recapitalization need for several banks, as well as the need to increase loan-loss provisions, including for off-balance sheet exposure. The authorities agreed with staff's assessment and confirmed their commitment to implement DAB's recently approved "Program and Strategy Dealing with Weak Banks."

Box 3. The Afghan Banking Sector: An Overview

The banking sector is composed of three SOCBs (NKB, Pashtany, and Bank Millie), nine private banks, and three foreign commercial bank branches. The SOCBs have wide retail presence across the country, and private banks have presence in most of the provinces.

Financial intermediation remains limited, even for a low-income, fragile state. Total banking sector assets constitute 24.1 percent of GDP (against 18.6 percent in deposits) and bank lending is at 3.7 percent of GDP. Lending is almost entirely done by private banks since the SOCBs focus on governance and efficiency improvements. Financial inclusion is limited: only 10 percent of adults have accounts with formal financial institutions, ATM services are available in eight of 34 provinces, credit cards are issued in six.





Sources: Afghan authorities and IMF staff calculations.

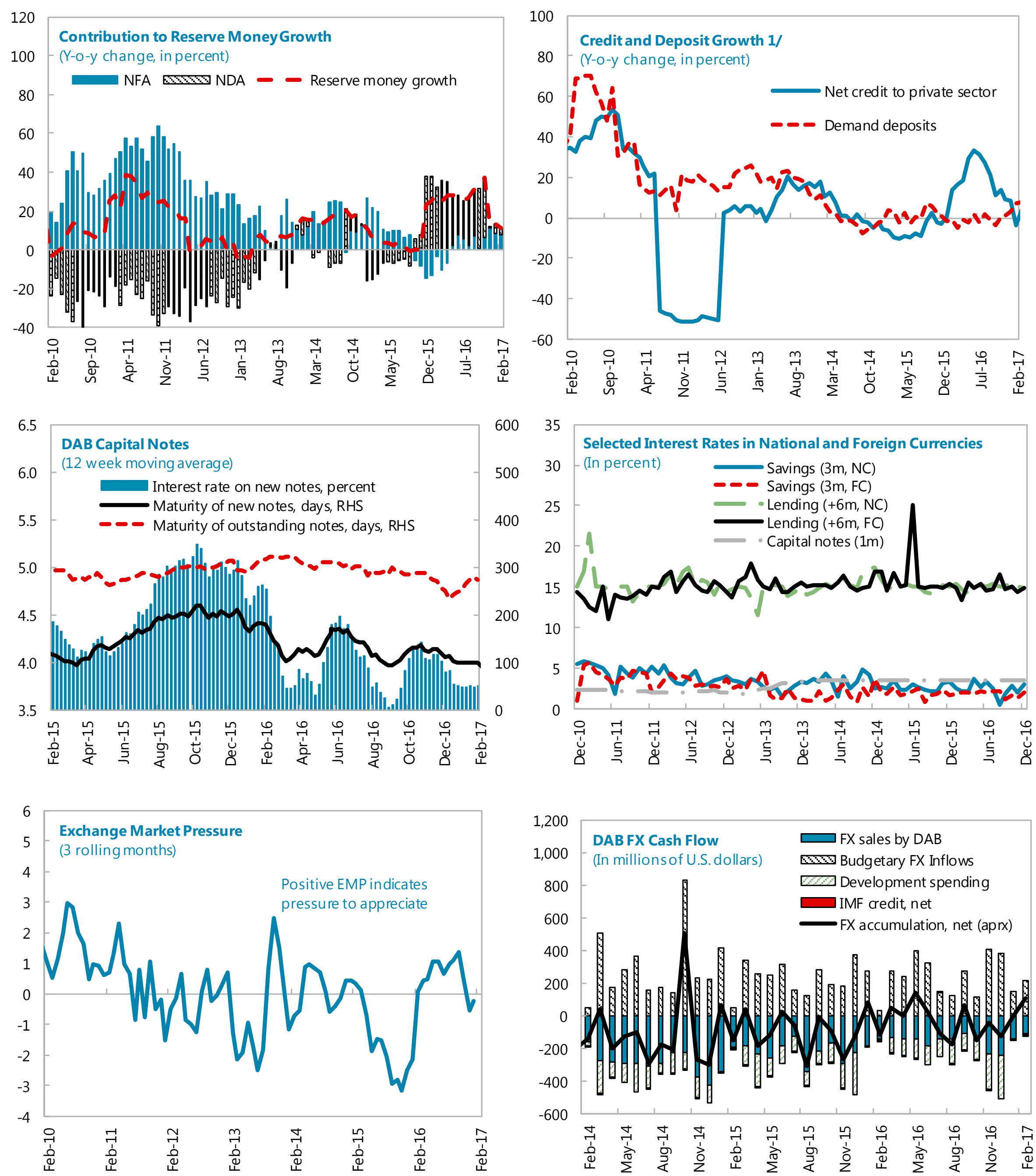
This level of financial intermediation can be largely explained by difficult economic and security conditions, resulting in a shortage of credit-worthy borrowers. The judicial system and legislative framework also contribute, as do banks' weak management, lack of professional capacity, poor governance and internal controls. Low financial literacy is a further impediment.

The banking sector is marginally profitable, with few banks having incurred losses in 2016. Profitability is supported by high net interest margins and significant investment income from DAB capital notes. System-wide CAR is at 28.3 percent, although several banks require capital injections. The banking system has adequate liquidity, although prevalence of overnight deposits and high concentration of large deposits create significant risks.

DAB performs the functions of supervisor and resolution authority. It has sufficient supervisory powers but faces significant capacity constraints. With banks' balance sheets highly dollarized and interbank activity very limited, monetary transmission is impaired.

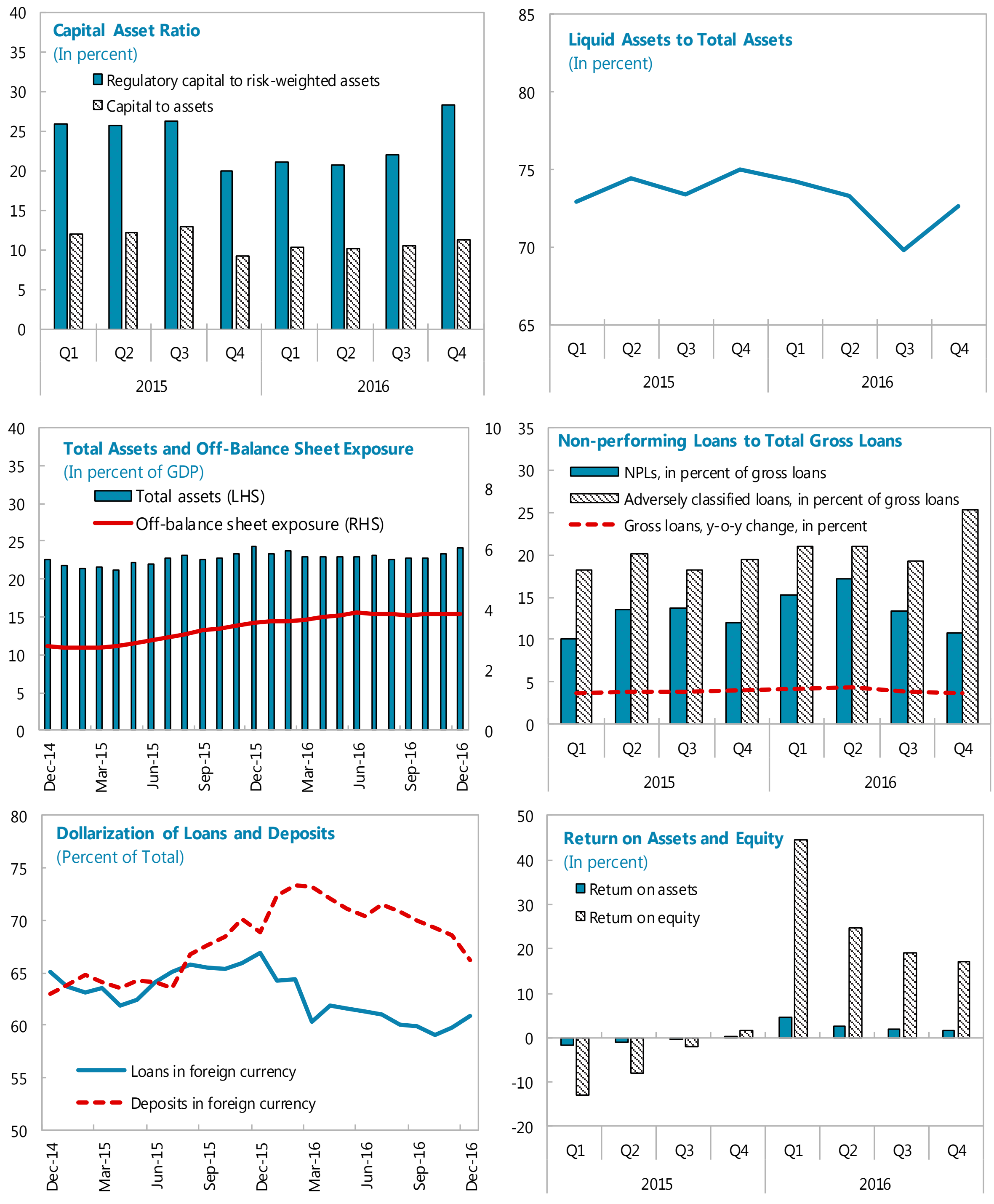
World Bank and IMF provide TA in modernizing SOCBs, implementing proper governance, dealing with weak banks, and strengthening DAB's supervision capacity.

Figure 4. Islamic Republic of Afghanistan: Monetary Sector



Sources: Afghan authorities and IMF staff calculations.
1/ The drop in credit to the private sector in 2011 reflects the write-off of Kabul Bank loans.

Figure 5. Islamic Republic of Afghanistan: Banking Sector



Sources: Afghan authorities and IMF staff calculations.

18. **The authorities concurred that the three SOCBs remain a key source of macro-financial vulnerability.** They are marginally profitable, but lack viable business models. The MoF, in coordination with DAB and with World Bank support, is working on a strategy for SOCBs, addressing their business model and governance structure. The authorities agreed that, until the strategy is developed and approved, NKB and Pashtany Bank will maintain their current "no-lending" policy; Bank Millie will refrain from issuing longer-term mortgages; and the privatization of NKB will be on hold. The authorities noted plans to develop appropriate financing instruments for agriculture and housing in the "National Financial Inclusion Strategy" before the end of 2017.

19. **Staff advocated the establishment of a Financial Stability Council as a crisis preparedness mechanism to facilitate operational coordination among the authorities.** The FSC mandate should be spelled out in a presidential decree and a Memorandum of Understanding between the MoF and DAB and include developing contingency plans and performing crisis simulations to test the capacity to respond to severe scenarios. The authorities agreed on the importance of establishing an FSC and plan to set it up promptly.

20. **Effective financial intermediation remains a challenge.** The mission and authorities discussed measures to encourage credit growth while maintaining effective prudential requirements, including by promoting a broader use of the public credit registry and collateral registry, implementing prudential measures to encourage term-lending instead of overdrafts, and allowing banks with CAMEL ratings of two or better to provide unsecured lending to good quality borrowers. DAB agreed to consider these measures as long as they do not affect negatively banks' financial position.

21. **The authorities have made progress in addressing the shortcomings identified by the FATF,** with TA in some areas by the Fund. Afghanistan has been subject to the FATF's monitoring since 2012 for its "strategic deficiencies" in the AML/CFT regime, and is scheduled to receive an on-site visit before June 2017, possibly leading thereafter to a delisting. Progress was also made in relation to financial supervision, most notably in implementation of fit-and-proper regulations and the supervision of money service businesses.

C. Governance Issues

22. **The authorities have made progress in anti-corruption reforms.** The new provisions as part of the consolidated penal code aiming to criminalize corruption in line with UNCAC have been drafted, but submission to parliament is still pending. Progress has also been made in relation to asset declarations. A draft law to require heads and deputies of law enforcement agencies, tax authorities and customs to submit annual asset declarations was submitted to parliament. If enacted, these declarations should be available to domestic law enforcement agencies and the FIU. The proposed requirement covers assets that are legally and beneficially owned, with sanctions for non-compliance for all officials subject to declaration requirements. In addition, the authorities are drafting a new anti-corruption bill and are working towards the designation of a special court for financial crimes.

23. **Nevertheless, important challenges remain.** Despite recent progress, Afghanistan ranks 169 out of 176 in Transparency International's Corruption Perceptions Index of 2016.[5] The pending criminalization of corruption needs to be enacted (SB end-November 2017). Likewise, the pending legislation in relation to asset declarations of heads and deputies of law enforcement agencies, customs and tax authorities needs to be enacted (SB end-December 2017) to allow timely implementation. Asset declarations of officials listed in the constitution need to be made available in English online soon (SB end-June 2017). Beyond the new legislation, the focus of reforms will need to shift towards effective implementation of the anti-corruption and anti-money laundering framework. This includes ensuring that relevant authorities, including the recently-established Anti-Corruption Justice Center, generate prosecutions and convictions of corruption and recover assets in line with Afghanistan's risk profile.

D. Other Issues

24. **The Afghanistan National Peace and Development Framework, issued in late 2016, lays out the government's development policy framework.**[6] As such, it serves as the authorities' Economic Development Document in line with the Fund's requirements on engagement with low-income countries.[7] Progress on the two pillars of the ECF-supported program—structural reforms for private sector growth (institution building, fiscal and financial reforms, and measures to combat corruption for scaled up private sector development) and policies for macro-financial stability—is critical for the success of the ANPDF.

- The document sets out structural reforms aimed at promoting private sector activity; developing agriculture, mineral and natural resource sectors, energy and infrastructure; advancing regional integration; increasing labor productivity and investing in human capital; and urban development. The overarching objective is to transform the import-dominated economy of small farmers into an export-oriented one of larger manufacturers.

- The ANPDF emphasizes poverty reduction and social inclusion through *The Citizens Charter*, a concentrated effort to include provinces and rural communities into the development strategy. The Charter aims at improving mechanisms for service delivery in such areas as education, health, agricultural services, and infrastructure through Community Development Councils that will channel resources, identify potential beneficiaries, and help with operation and maintenance. It explicitly incorporates women's empowerment and investment in youth opportunities.

25. **Data constraints continue to hamper analysis**. Staff noted that data on national accounts and the BOP suffer from weaknesses in coverage and consistency and stressed the need to develop high frequency real sector indicators. TA is being provided to strengthen statistical systems.

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[5] https://www.transparency.org/country/AFG.

[6] http://policymof.gov.af/afghanistan-national-development-framework/

[7] http://www.imf.org/external/np/sec/pr/2015/pr15371.htm

PROGRAM PERFORMANCE AND MODALITIES

A. Performance Under the First Review

26. **Program performance has been satisfactory.** All December 2016 PCs and indicative targets were met, with a sizeable over-performance on FX reserves and revenue (¶4 and ¶5).

Quantitative Performance Criteria (PC) Under the ECF, December 2015–December 2016

	2015	2016			
	Dec 21	Dec 20			
	Beginning stocks	Target	Adjusted	Actual	Status
Revenues of the central government (floor, mn Afs)	...	132.6	132.6	141.1	**Met**
Net credit to the central government from DAB (ceiling, mn Afs)	-35.8	-2.9	19.7	-18.5	**Met**
Reserve money (ceiling, mn Afs)	232.3	23.2	23.2	19.7	**Met**
Net international reserves of DAB (floor, mn USD)	6,367	50.0	-329.0	337.8	**Met**
Non-concessional external debt, new (ceiling)	0.0	0.0	0.0	0.0	**Met**
Short-term external debt, new (ceiling)	0.0	0.0	0.0	0.0	**Met**
External payments arrears, new (ceiling)	...	0.0	0.0	0.0	**Met**
	0.0	0.0	0.0	0.0	**Met**

Sources: Afghan Authorities and IMF staff calculations.

27. **Three out of five SBs were met, and all requirements for one of the remaining two SBs are now implemented.**

- **Anti-corruption (end-October 2016):** One element of the SB—the submission to parliament of the draft amendment to the Law on Supervision and Implementation of an Anti-Corruption Strategy, requiring senior officials to declare their assets with proportionate and dissuasive sanctions for non-compliance—was completed on November 13, 2016. The other—the criminalization of acts of corruption— became part of a draft consolidated penal code, still to be enacted.

- **2017 budget (end-November 2016):** The budget is in line with the program, expected to deliver a small surplus after grants. It reflects a capital transfer to reduce DAB's lender of last resort exposure (Af7.7 billion, plus interest payment to be agreed between the MoF and DAB) and including a payment to the Kabul Bank Receivership, to be subsequently transferred to DAB. While total transfers identified in the budget were appropriate in magnitude, the Receivership portion was lower than stipulated by the SB. The amended budget corrected this and was submitted to parliament for approval.

- **Transfers to DAB and NKB (end-December 2016):** As stipulated in the SBs, Ministry of Finance transferred US$106 million to recapitalize NKB and Af6 billion to reduce DAB's LoLR exposure.

- **Afghanistan Customs Department to review and update its risk management policy (end-December 2016):** The policy has been revised and assessed positively by IMF and World Bank experts.

Islamic Republic of Afghanistan: First Review Structural Benchmarks			
Measure	**Date**	**Rationale**	**Status**
Submit draft amendments to related legislation to Parliament aiming to: (i) criminalize acts of corruption in line with the UNCAC; and (ii) ensure that annual asset declaration requirements cover heads and deputies of law enforcement agencies, customs and tax administrations, in addition to officials mentioned in Article 154 of the Constitution, covering both assets legally owned and beneficially owned, with proportionate and dissuasive sanctions for non-compliance, for officials not covered by the Constitution, declarations will be available on a timely basis upon request to, at a minimum, domestic law enforcement agencies and the financial intelligence unit.	End-October 2016	Improve governance and fight corruption	**Not met.** Part (ii) was completed on Nov. 13, 2016.
Council of Ministers to approve and submit to Parliament a 2017 draft budget in line with the macroeconomic framework agreed under the ECF arrangement. The budget will transparently reflect a capital transfer to further reduce DAB's lender of last resort exposure to Kabul Bank, consistent with repaying the remaining balance in full by end-2019. Budget to include an explicit allocation for the settlement of a Ministry of Finance obligation to the Kabul Bank Receivership amounting to $50 million.	End- November 2016	Preserve macroeconomic stability	**Not met.** The requirements were completed in March 2017.
Reduction in DAB's lender of last resort exposure to Kabul Bank ($415 million as of December 2015) through payments totaling $84 million.	End- December 2016	Preserve financial stability	**Met.**
Recapitalization of New Kabul Bank by $106 million (a capital cushion of $15 million and compensation for accumulated losses of $91 million, as of December 2015) to be completed.	End- December 2016	Preserve financial stability	**Met.**
Afghanistan Customs Department (ACD) to review and update by end-December 2016 its risk management policy to implement multi-criteria risk profiles in all border crossing points and inland custom depots to effectively identify and prioritize high-risk traders/shipments for physical examination and post-release verification.	End- December 2016	Improve trader compliance and reduce corruption.	**Met.**

B. Program Modalities

28. **The program is monitored closely through quantitative targets and structural benchmarks.** PCs and SBs proposed for end-June 2017 and end-December 2017 are outlined in Annex II. The authorities request the modification of three end-June 2017 PCs (central government revenues, net credit to the central government from DAB, and reserve money), which were approved by the Board in July 2016, owing to an update of the macroeconomic framework and some methodological changes affecting the monetary variables.

The authorities request the exclusion from the zero ceiling on non-concessional borrowing of two loans from the Islamic Development Bank totaling ID53.2 million (US$72 million, 0.4 percent of GDP). These loans have grant elements of 49.6 and 55.6 percent and do not meet the concessionality criterion of 60 percent stipulated by the TMU. The loans finance part of the construction of the Kabul City Ring Road, a critical infrastructure project integral to the authorities' development program, and the improvement of local link roads and social infrastructure. These loans do not modify the conclusions of the last DSA. Given a high risk of debt distress, the authorities agree that non-concessional borrowing should remain exceptional, and reaffirm their commitment to aim for the program's concessionality threshold (currently 60 percent).

Summary Table on External Borrowing Program

PPG external debt contracted or guaranteed	Volume of new debt, US$ million 1/	Present value of new debt, US$ million 1/
Sources of debt financing		
Non-concessional debt 2/	**72**	**32**
Uses of debt financing		
Infrastructure	**72**	**32**
Budget financing	**0**	**0**

Sources: Afghan Authorities and IMF staff calculations.

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is 60 percent for Afghanistan.

29. **Proposed SBs support reforms in the following areas** (MEFP Tables 2 and 3)**:**

- **Governance:** improving governance and fighting corruption; enhancing transparency in the mining sector in line with the EITI Standard.
- **Fiscal:** strengthening budgetary processes, cash planning, and commitment control; improving revenue collection efficiency and reducing leakages; preparing for implementation of a VAT.
- **Financial sector:** strengthening independence of DAB; developing a strategy for SOCBs; overcoming the legacy of the Kabul Bank collapse. For the latter, agreed SBs stipulate that the payment to Kabul Bank Receivership ($50 million) and the capital transfer to DAB will be executed this year, as specified in the FY 2017 budget, and that such transfers will be identified transparently in the FY 2018 budget.

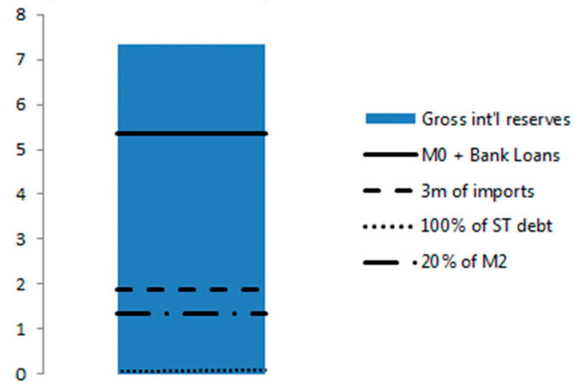
30. **Safeguards assessment.** The January 2017 update assessment found that DAB continues to face significant capacity constraints and operational risks considering the difficult security situation. Governance and external audit arrangements are nonetheless broadly sound, and work on draft amendments to the DAB Law has been initiated, with emphasis on provisions on DAB's mandate, institutional and personal autonomy, rules of profit distribution, recapitalization, and foreign reserve management. However, progress has been slow in the work on the draft amendments, and in some other key areas such as the resolution of the Kabul Bank exposure and strengthening the internal audit function. The assessment recommended that full resolution of DAB's exposure to Kabul Bank be anchored by a signed agreement between the MoF and DAB with explicit repayment commitments in the period 2017−19. While an agreement has not yet been signed, the authorities remain committed to resolving this by 2019. The assessment also recommended that draft amendments to the DAB Law be submitted to Cabinet and that controls over the compilation of program monetary data be strengthened.

31. **The calibration of the program and the capacity to repay the Fund remain adequate.**

- There is no immediate residual BOP need, however, there are protracted BOP pressures over the medium term reflecting underlying current account imbalances.[8]

- High aid dependence and associated risks call for a significant level of foreign reserves. The current and projected level of reserves remains adequate, supporting investors' and donors' confidence in the economy's ability to address unexpected shocks.

Reserve Adequacy, 2016
(In billions of U.S. dollars)



Sources: Afghan authorities and IMF staff calculations.

- Afghanistan's public debt remains modest at just above 8 percent of GDP. The authorities have made progress in obtaining pledged debt relief delivery from one Paris Club creditor.[9]

- Upon completion of the first review, a disbursement of SDR 4.5 million would be made.

32. **Risks to the program remain high.** They include security conditions, the strength of aid flows, and the management of the returning refugee influx. Maintaining domestic revenue collection in line with program targets will be key to sustain donors' confidence in the country's ability to move towards self-reliance.

[8] The projected cumulative current account deficit excluding grants in 2017–19 amounts to US$19 billion.

[9] 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.

STAFF APPRAISAL

33. **Despite progress in improving socio-economic conditions over the past 15 years, Afghanistan remains poor, fragile, and heavily aid-dependent.** Security and political uncertainties, the drawdown of international troops, and weak institutions adversely affect economic performance and social outcomes. The National Unity Government, which started work in late 2014, is committed to economic transformation to ensure higher inclusive growth and self-reliance over the medium term. External stability hinges on external aid disbursements, and structural reforms will be essential to diversify the economy and build competitiveness.

34. **The authorities' commitment to the program's objectives has been commendable.** With strong financial and technical support from the donor community, they are undertaking wide-ranging reforms, including those in the context of the ECF-supported program, to achieve higher inclusive growth. They have demonstrated their commitment to this process, but continued progress is contingent on sustained donor support and an eventual improvement in security conditions.

35. **A modest pickup in growth is expected in 2017 and, conditional on continued donor support, steadfast reforms and improvements in security, over the medium term.** This outlook is subject to significant risks. If security conditions worsen, aid falls short, or reforms stall, growth would be lower with attendant effects on unemployment and poverty. An additional risk is the large returning refugee influx. On the upside, a lasting improvement in security conditions would provide a game-changing boost to confidence and the economy.

36. **The program's policy mix aims at preserving macro-financial stability and fostering higher medium-term growth.** The overall fiscal balance after grants is targeted to remain close to zero, preventing a build-up in public debt, while monetary policy is programmed to deliver moderate inflation, fostering confidence in the domestic currency and a comfortable international reserves buffer. The flexible exchange rate regime has served Afghanistan well and should remain in place.

37. **A continued strong fiscal reform effort is essential.** These should focus on broadening the tax base and raising the revenue intake in a fair and sustainable manner. Several specific policies could contribute to meeting these objectives: capacity should be improved, especially in the revenue and customs departments; the fragmented LTOs should be streamlined; and policies to reduce corporate income tax evasion should be introduced. The authorities' intention to prepare a VAT implementation plan is particularly welcome. Determined efforts are also needed to improve formulation, execution and reporting of the budget; to ensure a pro-growth composition of expenditures; and to strengthen commitment control and cash management. Establishing a strong fiscal anchor and expanding the fiscal perimeter are other important objectives. The inclusion of a three-year tax holiday for manufacturing firms in the new income tax law is unlikely to be effective in boosting investment, and strict guidelines will need to be developed to prevent abuse. Further tax concessions or tax expenditures should be avoided.

38. **Financial sector reforms are critical to banking system stability and economic development.** Following recent progress in this area, it is important to continue strengthening DAB's regulatory and supervisory frameworks (including in the areas of risk-based supervision, implementation of AML/CFT and fit-and-proper measures, and consolidated supervision). The authorities should closely monitor financial risks given poor asset quality, connected lending, capital shortfalls, weak profitability, and management deficiencies in several banks. A key priority remains overcoming the Kabul Bank crisis legacy and restoring DAB's balance sheet. The authorities are encouraged to pursue the remaining asset recoveries related to this crisis. Staff welcomes the authorities' plans to prepare, with World Bank support, a strategy for state-owned commercial banks, addressing their business model and governance deficiencies, and minimizing their operational risk.

39. **Strong anti-corruption measures are critical to boost stakeholders' confidence, and reforms in this area should be accelerated.** As a priority, the authorities need to strengthen the legal and institutional framework for anti-corruption by ensuring that acts of corruption are criminalized in line with the UNCAC. The regime for asset declaration by public officials and publication of declarations is a critical tool in improving transparency and accountability of the public sector and should be enacted, supported by strong implementation and enforcement. Following the enactment of these two pieces of legislation, the authorities should focus on implementation measures and enhancing the overall effectiveness of the anti-corruption regime, including in relation of enforcement. They should also continue improving implementation of the anti-money laundering measures to protect financial stability and enable effective detection and deterrence of illegal proceeds from corruption and other macro-critical economic crimes such as illicit drug production and trafficking.

40. **The quality and timeliness of economic data is a major impediment to proper analysis.** Reliable statistics, particularly for real sector activity, are critical for sound economic policy-making. Offsite TA from the Fund is available to support this effort.

41. **Continued strong program ownership is critical to the success of the program.** The fragile security situation and political uncertainty could undermine reform implementation and derail the program, as could governance gaps and a lack of transparency. As the program proceeds toward more complex reforms, the likelihood of setbacks will rise. Together with the determination and commitment of the authorities, the support of donors is key to success.

42. **Staff supports completion of the first review in light of satisfactory performance.** Staff supports the authorities' request to modify the performance criterion on non-concessional borrowing to enable two loans from the Islamic Development Bank to fund a key development project in line with the Fund's debt limit policy. Finally, staff also supports the authorities' request for a modification of three June 2017 quantitative performance criteria, reflecting updates of the macroeconomic framework and changes in methodology.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2014–17

(Quota: SDR 323.8 million)
(Population: approx. 33.4 million)
(Per capita GDP: approx. US$615; 2015)
(Poverty rate: 35.8 percent; 2011)
(Main exports: opium, US$2.7 billion; carpets, US$83.4 million;2014)

	2014	2015	2016		2017	
			Prog.	Est.	Prog.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)					
Real GDP	1.3	0.8	2.0	2.0	3.4	3.0
Nominal GDP (in billions of Afghanis)	1,168	1,204	1,283	1,282	1,406	1,399
Nominal GDP (in billions of U.S. dollars)	20.4	19.7	18.4	18.9	19.3	20.6
Consumer prices (period average)	4.7	-1.5	4.5	4.4	6.0	6.0
Food	7.7	-1.9	...	5.7	...	...
Non-food	1.4	-1.2	...	3.2	...	...
Consumer prices (end of period)	1.5	1.1	4.7	4.6	7.2	7.2
Investment and savings	(In percent of GDP)					
Gross domestic investment	17.6	18.6	19.0	18.7	18.7	18.5
Of which: Private	5.9	5.8	5.3	5.4	6.5	6.4
Gross national savings	23.4	21.5	23.4	25.8	19.7	23.3
Of which: Private	13.4	10.1	9.7	12.4	7.5	10.7
Public finances (central government)						
Domestic revenues and grants	24.0	25.0	27.8	26.9	28.1	26.3
Domestic revenues	8.6	10.2	10.3	11.0	10.7	10.9
On-budget grants (excl. donors' direct spending outside the budget)	15.4	14.9	17.5	15.9	17.4	15.4
Expenditures	25.7	26.4	27.6	26.7	28.2	25.8
Operating 2/	19.5	19.6	20.1	19.4	20.5	18.1
Development	6.2	6.9	7.5	7.3	7.7	7.7
Operating balance (excluding grants) 3/	-10.9	-9.4	-9.8	-8.4	-9.7	-7.2
Overall balance (including grants)	-1.7	-1.4	0.1	0.1	0.0	0.5
Public debt 4/ 5/	8.8	9.3	8.7	8.3	7.0	7.8
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)					
Reserve money	36.5	2.3	10.0	11.8	10.0	10.5
Reserve money in domestic currency	n.a.	1.4	10.0	7.5	...	12.0
Currency in circulation	16.7	2.6	10.5	10.6	10.5	10.5
Broad money	8.6	3.2	7.5	9.6	7.7	8.2
Interest rate, 28-day capital note (in percent)	3.6	3.5	...	3.0	...	...
External sector 1/	(In percent of GDP, unless otherwise indicated)					
Exports of goods (in millions of U.S. dollars)	643	580	687	618	769	708
Exports of goods (annual percentage change)	26.8	-9.8	3.0	6.6	12.0	14.6
Imports of goods (in millions of U.S. dollars)	6,497	7,034	7,985	6,151	8,261	6,510
Imports of goods (annual percentage change)	-19.4	8.3	1.5	-12.5	3.5	5.8
Merchandise trade balance	-28.8	-32.8	-39.7	-29.3	-38.8	-28.2
Current account balance						
Excluding official transfers	-32.2	-35.3	-36.6	-32.2	-35.8	-30.8
Including official transfers	5.8	2.9	4.5	7.1	1.1	4.8
Foreign direct investment	0.2	0.9	0.3	0.4	1.1	1.1
Total external debt 4/	6.5	7.0	6.9	6.5	7.0	6.7
Gross international reserves (in millions of U.S. dollars)	7,311	6,808	6,900	7,351	6,900	7,541
Import coverage of reserves 6/	10.2	11.0	8.8	11.1	8.4	11.0
Exchange rate (average, Afghanis per U.S. dollar)	57.4	61.1	...	67.9	...	...
Real exchange rate (average, percentage change) 7/	-0.6	-7.7	...	-7.1	...	...

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

1/ Excluding the narcotics economy.
2/ Comprising mainly current spending.
3/ Defined as domestic revenues minus operating expenditures.
4/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
5/ Public debt (including 2016 program number) was revised to include promissory note issued by MoF to settle DAB's Kabul Bank exposure.
6/ In months of next year's import of goods and services.
7/ CPI-based, vis-a-vis the U.S. dollar.

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.	Est./Prel.			Proj.			
Output and prices 1/			(Annual percentage change, unless otherwise indicated)					
Real GDP	0.8	2.0	3.0	3.5	4.0	4.5	5.0	5.5
Nominal GDP (in billions of U.S. dollars)	19.7	18.9	20.5	21.7	23.2	25.0	27.0	29.2
Consumer prices (period average)	-1.5	4.4	6.0	6.0	6.0	6.0	6.0	6.0
Investment and savings			(In percent of GDP, unless otherwise indicated)					
Gross domestic investment	18.6	18.7	18.5	18.0	18.3	18.6	18.5	18.2
Of which: Private	5.8	5.4	6.4	6.8	7.1	7.4	7.6	7.6
Gross national savings	21.5	25.8	23.3	20.7	20.9	20.4	19.5	17.8
Of which: Private	10.1	12.4	10.7	9.3	9.6	9.7	9.3	8.4
Public finances (central government)								
Domestic revenues and grants	25.0	26.9	26.3	26.9	27.6	27.7	28.6	28.1
Domestic revenues	10.2	11.0	10.9	11.3	11.4	11.8	11.8	12.1
On-budget grants (excl. donors' direct spending outside the budget)	14.9	15.9	15.4	15.7	16.1	16.0	16.8	16.1
Expenditures	26.4	26.7	25.8	26.8	27.5	28.2	29.3	29.4
Operating 2/	19.6	19.4	18.1	18.8	19.2	19.5	20.3	20.4
Development	6.9	7.3	7.7	8.0	8.3	8.7	9.0	9.0
Operating balance (excluding grants) 3/	-9.4	-8.4	-7.2	-7.5	-7.8	-7.8	-8.5	-8.3
Overall budget balance (including grants)	-1.4	0.1	0.5	0.1	0.0	-0.5	-0.7	-1.3
External sector 1/								
Merchandise trade balance	-32.8	-29.3	-28.3	-27.0	-25.3	-23.9	-22.4	-21.4
Current account balance, excluding official grants	-35.3	-32.2	-30.8	-29.8	-28.2	-26.7	-25.3	-24.5
Current account balance, including official grants	2.9	7.1	4.8	2.7	2.6	1.8	1.0	-0.5
Gross reserves (in millions of U.S. dollars)	6,808	7,351	7,541	7,544	7,541	7,538	7,536	7,533
Import coverage of reserves 4/	11.0	11.1	11.0	10.5	10.0	9.5	8.8	8.4
Memorandum items:								
Total public debt 5/	9.3	8.3	7.8	6.9	6.1	6.3	6.9	8.0
Of which: External debt	7.0	6.5	6.7	6.4	6.1	5.9	5.6	5.4
Domestic debt	2.4	1.8	1.1	0.5	0.0	0.4	1.3	2.6
Sukuk	0.0	0.0	0.0	0.0	0.0	0.4	1.3	2.6
Promissory note	2.4	1.8	1.1	0.5	0.0	0.0	0.0	0.0
GDP per capita (in U.S. dollars) 6/	615	565	558	589	629	675	719	769
Donors' direct spending outside the budget	23.3	23.4	20.3	16.8	14.6	12.5	9.5	8.0

Sources: Afghan authorities and Fund staff estimates and projections.

1/ Excluding the narcotics economy.
2/ Comprising mainly current spending. It is assumed that donors' recurrent expenditure off-budget, mostly in the security sector, is being moved onto the budget by 2031.
3/ Defined as domestic revenues minus operating expenditures.
4/ In months of next year's import of goods and services.
5/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
6/ Incorporates the 2012 revision to the UN World Population Prospects.

Table 3a. Islamic Republic of Afghanistan: Central Government Budget, 2014–22

(In billions of Afghanis)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
	FY	FY	FY		FY		FY				
			Prog.	Est.	Prog.	Proj.	Proj.				
Revenues and grants	280.2	301.4	356.6	344.3	395.7	368.1	413.7	466.7	520.4	597.5	656.5
Domestic revenues	100.0	122.3	132.6	141.1	150.6	153.0	172.9	193.6	220.5	247.2	282.0
Tax revenues	78.1	89.7	100.0	101.2	114.8	108.4	123.7	139.1	156.9	176.4	202.8
Income, profits, and capital gains	29.5	32.3	34.5	36.4	…	…	…	…	…	…	…
International trade and transactions	26.0	30.4	32.5	31.1	…	…	…	…	…	…	…
Goods and services	16.6	21.1	26.8	27.9	…	…	…	…	…	…	…
Other	5.9	5.9	6.3	5.8	…	…	…	…	…	…	…
Nontax revenues	22.0	32.6	44.0	39.9	35.7	44.6	49.2	54.5	63.5	70.8	79.2
Grants to operating budget 1/	119.1	122.8	150.9	143.1	160.7	134.3	145.0	158.9	170.0	196.4	206.7
ARTF	24.2	27.4	37.7	28.9	…	…	…	…	…	…	…
LOTFA	25.9	27.5	24.5	27.4	…	…	…	…	…	…	…
CSTC-A	68.4	67.8	88.6	86.8	…	…	…	…	…	…	…
Other grants	0.6	0.2	0.0	0.1	…	…	…	…	…	…	…
Grants to development budget	61.1	56.2	60.0	60.1	84.5	80.8	95.8	114.2	130.0	153.9	167.8
Total expenditures	300.5	318.3	354.7	342.8	395.9	361.2	411.4	466.3	529.0	611.7	686.2
Operating expenditures	227.9	235.3	258.5	248.9	287.6	253.5	288.5	325.3	366.5	424.0	476.4
Of which: Security	138.1	145.1	159.7	149.9	172.5	141.5	167.5	188.1	210.2	247.5	270.3
Wages and salaries	150.2	152.3	168.7	164.5	…	…	…	…	…	…	…
Purchases of goods and services 2/	48.2	55.8	62.4	55.0	…	…	…	…	…	…	…
Transfers, subsidies, and other	0.7	1.3	1.8	2.2	…	…	…	…	…	…	…
Pensions	18.9	17.6	18.9	21.5	…	…	…	…	…	…	…
Capital expenditures	9.4	7.8	5.8	4.9	…	…	…	…	…	…	…
Interest	0.4	0.6	0.9	0.8	0.8	0.3	0.4	0.4	0.4	0.7	1.7
Development expenditures:	72.6	82.9	94.5	93.9	108.3	107.8	122.8	141.0	162.5	187.7	209.8
o/w discretionary 3/	9.9	18.0	36.6	4.4	23.8	26.9	…	…	…	…	…
Infrastructure and natural resources	21.8	33.9	10.2	40.8	…	…	…	…	…	…	…
Education	8.5	8.7	13.0	8.7	…	…	…	…	…	…	…
Health	9.1	11.2	26.3	12.4	…	…	…	…	…	…	…
Agriculture and rural development	24.9	22.7	23.1	23.4	…	…	…	…	…	…	…
Other	8.4	6.4	…	8.6	…	…	…	…	…	…	…
Operating balance excluding grants	-127.9	-113.0	-125.9	-107.8	-137.1	-100.5	-115.6	-131.7	-146.0	-176.8	-194.5
Overall budget balance including grants	-20.3	-16.9	1.8	1.6	-0.2	6.8	2.4	0.4	-8.5	-14.2	-29.7
Float and discrepancy 4/	-0.1	12.1	-4.1	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	18.4	4.8	-2.9	-9.7	-7.1	-6.8	-2.4	-0.4	8.5	14.2	29.7
Sale of nonfinancial assets	0.0	0.0	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	1.3	0.6	-0.3	-0.3	6.8	6.3	1.5	2.2	3.0	3.9	5.5
Domestic (net)	17.1	4.2	-4.6	-11.5	-13.8	-13.2	-3.9	-2.7	5.5	10.3	24.2
Central bank, change in	17.1	4.2	-4.6	-11.5	-13.8	-13.2	-3.9	-2.7	-1.6	-9.6	-8.7
Government deposits	20.3	2.7	-10.4	-4.5	-6.8	-5.7	4.0	4.7	-1.1	-9.1	-8.3
Claims on government	-3.3	1.5	-4.9	-7.0	-7.0	-7.5	-7.9	-7.4	-0.5	-0.5	-0.4
Credit from DAB (IMF accounts)	-1.7	0.9	-1.7	-1.7	0.2	0.2	-0.2	0.3	-0.5	-0.5	-0.4
Promissory note (- = repayment)	-1.6	0.6	-5.7	-5.3	-7.3	-7.7	-7.6	-7.6	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.2	19.9	32.9
Memorandum items:											
Promissory note (end-of-period stock)	27.7	28.3	22.9	23.0	16.0	15.3	7.6	0.0	0.0	0.0	0.0
Pro-poor spending 5/	36.6	32.9	36.6	38.6	42.1	42.1	…	…	…	…	…

Sources: Afghan authorities and Fund staff estimates and projections.

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;
CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)
2/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.
3/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.
4/ Positive number indicates that expenditures have been recorded, but not yet executed.
5/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2014–22

(In percent of GDP)

	2014	2015	2016		2017		2018	2019	2020	2021	2022
	FY	FY	FY		FY				FY		
			Prog.	Est.	Prog.	Proj.			Proj.		
Revenues and grants	24.0	25.0	27.8	26.9	28.1	26.3	26.9	27.6	27.8	28.7	28.2
Domestic revenues	8.6	10.2	10.3	11.0	10.7	10.9	11.3	11.4	11.8	11.9	12.1
Tax revenues	6.7	7.5	7.8	7.9	8.2	7.7	8.1	8.2	8.4	8.5	8.7
Income, profits, and capital gains	2.5	2.7	2.7	2.8	…	…	…	…	…	…	…
International trade and transactions	2.2	2.5	2.5	2.4	…	…	…	…	…	…	…
Goods and services	1.4	1.8	2.1	2.2	…	…	…	…	…	…	…
Other	0.5	0.5	0.5	0.5	…	…	…	…	…	…	…
Nontax revenues	1.9	2.7	2.5	3.1	2.5	3.2	3.2	3.2	3.4	3.4	3.4
Grants to operating budget 1/	10.2	10.2	11.8	11.2	11.4	9.6	9.4	9.4	9.1	9.4	8.9
ARTF	2.1	2.3	2.9	2.3	…	…	…	…	…	…	…
LOTFA	2.2	2.3	1.9	2.1	…	…	…	…	…	…	…
CSTC-A	5.9	5.6	6.9	6.8	…	…	…	…	…	…	…
Other grants	0.0	0.0	0.0	0.0	…	…	…	…	…	…	…
Grants to development budget	5.2	4.7	5.7	4.7	6.0	5.8	6.2	6.7	6.9	7.4	7.2
Total expenditures	25.7	26.4	27.6	26.7	28.2	25.8	26.8	27.6	28.2	29.3	29.4
Operating expenditures	19.5	19.6	20.1	19.4	20.5	18.1	18.8	19.2	19.6	20.3	20.4
Of which: Security	11.8	12.1	12.4	11.7	12.3	10.1	10.9	11.1	11.2	11.9	11.6
Wages and salaries	12.9	12.7	13.1	12.8	…	…	…	…	…	…	…
Purchases of goods and services 2/	4.1	4.6	4.9	4.3	…	…	…	…	…	…	…
Transfers, subsidies, and other	0.1	0.1	0.1	0.2	…	…	…	…	…	…	…
Pensions	1.6	1.5	1.5	1.7	…	…	…	…	…	…	…
Capital expenditures	0.8	0.6	0.5	0.4	…	…	…	…	…	…	…
Interest	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Development expenditures:	6.2	6.9	7.5	7.3	7.7	7.7	8.0	8.3	8.7	9.0	9.0
o/w discretionary 3/	0.8	1.5	1.8	0.3	…	1.9					
Infrastructure and natural resources	1.9	2.8	2.9	3.2	…	…	…	…	…	…	…
Education	0.7	0.7	0.8	0.7	…	…	…	…	…	…	…
Health	0.8	0.9	1.0	1.0	…	…	…	…	…	…	…
Agriculture and rural development	2.1	1.9	2.1	1.8	…	…	…	…	…	…	…
Other	0.7	0.5	…	0.7	…	…	…	…	…	…	…
Operating balance excluding grants	-10.9	-9.4	-9.8	-8.4	-9.7	-7.2	-7.5	-7.8	-7.8	-8.5	-8.3
Overall budget balance including grants	-1.7	-1.4	0.1	0.1	0.0	0.5	0.2	0.0	-0.5	-0.7	-1.3
Float and discrepancy 4/	0.0	1.0	-0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1.6	0.4	-0.2	-0.8	-0.5	-0.5	-0.2	0.0	0.5	0.7	1.3
Sale of nonfinancial assets	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.1	0.0	0.1	0.0	0.5	0.5	0.1	0.1	0.2	0.2	0.2
Domestic (net)	1.5	0.3	-0.4	-0.9	-1.0	-0.9	-0.3	-0.2	0.3	0.5	1.0
Central bank, change in	1.5	0.3	-0.4	-0.9	-1.0	-0.9	-0.3	-0.2	-0.1	-0.5	-0.4
Government deposits	1.7	0.2	0.0	-0.4	-0.5	-0.4	0.3	0.3	-0.1	-0.4	-0.4
Claims on government	-0.3	0.1	-0.4	-0.5	-0.5	-0.5	-0.5	-0.4	0.0	0.0	0.0
Credit from DAB (IMF accounts)	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Promissory note (- = repayment)	-0.1	0.0	-0.4	-0.4	-0.5	-0.6	-0.5	-0.5	0.0	0.0	0.0
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.0	1.4
Memorandum items:											
Promissory note (end-of-period stock)	2.4	2.4	1.8	1.8	1.1	1.1	0.5	0.0	0.0	0.0	0.0
Pro-poor spending 5/	3.1	2.7	2.9	3.0	3.0	3.0	…	…	…	…	…

Sources: Afghan authorities and Fund staff estimates and projections.

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;
CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)
2/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.
3/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.
4/ Positive number indicates that expenditures have been recorded, but not yet executed.
5/ Pro-poor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2014–22

(In billions of Afghanis, at current exchange rates, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Dec. 21	Dec. 21	Dec. 20	Dec. 21	Dec. 21	Dec. 21	Dec. 20	Dec. 21	Dec. 21
				Proj.					
Net foreign assets	409.5	447.5	478.1	511.0	531.8	553.5	576.0	599.4	623.8
Net international reserves	387.4	423.8	438.9	471.0	489.9	509.5	529.8	551.0	573.1
Gross international reserves	424.5	463.3	491.3	525.5	546.7	568.4	590.9	614.3	638.7
Foreign liabilities	37.2	39.5	52.5	54.4	56.9	58.9	61.1	63.3	65.6
IMF accounts (loans and SDR allocation)	6.4	5.8	4.2	4.9	5.3	5.3	5.3	5.3	5.3
Foreign currency reserves of commercial banks	30.8	33.7	48.3	49.5	51.5	53.6	55.7	57.9	60.3
Other foreign assets	-8.6	-9.9	-9.0	-9.6	-9.6	-9.6	-9.6	-9.6	-9.6
Net domestic assets	-138.1	-169.8	-167.5	-167.6	-157.1	-150.8	-143.3	-134.3	-123.8
Domestic assets	-75.7	-65.8	-88.2	-98.7	-102.5	-105.1	-106.4	-115.5	-123.8
Net claims on government	-42.6	-38.1	-48.1	-61.0	-64.8	-67.4	-68.7	-77.8	-86.1
Gross claims on government	38.3	40.2	34.7	27.3	19.4	12.0	12.0	12.0	12.0
MoF promissory note 1/	27.7	28.3	23.0	15.3	7.6	0.0	0.0	0.0	0.0
IMF accounts 2/	10.6	11.9	11.7	12.0	11.8	12.0	12.0	12.0	12.0
Liabilities to government	81.0	78.2	82.8	88.3	84.2	79.4	80.7	89.8	98.1
Domestic currency deposits	20.4	10.9	14.2	23.3	22.2	21.0	21.3	23.7	25.9
Foreign currency deposits	60.6	67.3	68.5	65.0	62.0	58.4	59.4	66.1	72.2
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-35.5	-30.1	-41.5	-39.1	-39.1	-39.1	-39.1	-39.1	-39.1
DAB's capital notes	-35.9	-30.9	-41.9	-39.5	-39.5	-39.5	-39.5	-39.5	-39.5
Net credit to public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.5	2.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other items net	62.5	104.0	79.3	68.9	54.6	45.7	36.9	18.8	0.0
DAB's capital	74.8	116.7	93.6	104.1	104.1	104.1	104.1	104.1	104.1
Reserve money	271.4	277.7	310.6	343.3	374.7	402.6	432.7	465.1	500.0
Reserve money in domestic currency	240.6	244.0	262.3	293.8	323.2	349.1	377.0	407.1	439.7
Currency in circulation	197.0	202.2	223.6	247.1	270.6	292.2	315.6	337.7	361.3
Bank deposits in domestic currency	33.5	33.4	32.2	42.2	48.1	52.3	56.9	64.9	73.9
Bank deposits in foreign currency	30.8	33.7	48.3	49.5	51.5	53.6	55.7	57.9	60.3
Other deposits	10.1	8.4	6.5	4.5	4.5	4.5	4.5	4.5	4.5
Memorandum items:									
International reserves, in millions of U.S. dollars									
Net	6,670	6,227	6,566	6,759	6,759	6,759	6,759	6,759	6,759
Gross	7,311	6,808	7,351	7,541	7,544	7,541	7,538	7,536	7,533
Interest rate, 28-day capital notes (percent)	3.6	3.5	3.0	...	...	...	...	...	...
Exchange rate (eop, Afghanis per U.S. dollar)	58.1	68.1	66.8	...	...	...	...	...	...

Sources: Afghan authorities and Fund staff estimates and projections.

Note: Monetary indicators are calculated based on modified methodology and, thus, differ from the numbers reported in the previous staff reports.
1/ A nonmarketable security issued to DAB by the Ministry of Finance for the cost of a lender of last resort assistance to Kabul Bank.
2/ Includes Afghanistan's SDR holdings (MoF is the fiscal agent for the IMF).

Table 4b. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2014–17

(At program exchange rates)

	2014	2015	2016	2017			
	Dec. 21	Dec. 21	Dec. 20	March 20	June 21	Sep. 22	Dec. 21
						Proj.	
	(In billions of Afghanis, unless otherwise indicated)						
Net foreign assets	481.0	459.9	506.1	507.3	503.7	503.7	503.7
Net international reserves	455.1	435.8	464.4	468.6	464.4	464.4	464.4
Gross international reserves	498.6	476.0	520.6	521.7	517.8	517.8	518.1
Foreign liabilities	43.5	40.2	56.1	53.1	53.4	53.3	53.7
IMF accounts (loans and SDR allocation)	7.3	5.9	4.5	4.3	4.5	4.5	4.8
Foreign currency reserves of commercial banks	36.2	34.3	51.6	48.8	48.8	48.8	48.8
Other foreign assets	-10.3	-10.2	-9.9	-10.1	-9.6	-9.6	-9.6
Assets in nonconvertible currencies	4.7	4.9	5.2	5.0	4.8	4.8	4.8
Other foreign liabilities	15.0	15.1	15.2	15.1	14.4	14.4	14.4
Net domestic assets	-204.2	-181.6	-193.4	-214.5	-177.2	-169.3	-161.1
Domestic assets	-85.0	-66.2	-89.3	-110.1	-97.9	-100.3	-98.0
Net claims on government	-52.0	-38.5	-49.1	-72.4	-60.2	-62.6	-60.3
Gross claims on government	39.9	40.5	35.7	35.6	35.3	31.4	27.1
MoF promissory note 2/	27.7	28.3	23.0	23.0	23.0	19.6	15.3
IMF accounts 3/	12.1	12.2	12.7	12.6	12.3	11.8	11.9
Liabilities to government	91.9	79.0	84.8	108.0	95.5	94.0	87.4
Domestic currency deposits	20.4	10.9	14.2	28.2	25.1	24.9	23.3
Foreign currency deposits	71.5	68.1	70.5	79.8	70.4	69.1	64.1
Net credit to state and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit on financial corporations	-35.5	-30.1	-41.5	-39.1	-39.1	-39.1	-39.1
DAB's capital notes	-35.9	-30.9	-41.9	-39.5	-39.5	-39.5	-39.5
Net credit to public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.5	2.3	1.4	1.4	1.4	1.4	1.4
Other items net	-119.2	-115.4	-104.1	-104.3	-79.4	-68.9	-63.1
DAB's capital	74.8	116.7	93.6	104.1	104.1	104.1	104.1
Reserve money	276.7	278.3	312.7	292.9	326.5	334.4	342.7
Reserve money in domestic currency	240.6	244.0	262.3	245.3	277.6	285.6	293.8
Currency in circulation	197.0	202.2	223.6	210.1	235.1	241.0	247.1
Bank deposits in domestic currency	33.5	33.4	32.2	30.7	38.0	40.1	42.2
Bank deposits in domestic currency	17.6	16.6	13.8	11.9	19.2	21.2	23.3
Reserve requirements in domestic currency	15.9	16.9	18.4	18.8	18.8	18.8	18.8
Bank deposits in foreign currency	36.2	34.2	50.3	47.6	48.8	48.8	48.8
Bank deposits in foreign currency	36.2	34.2	50.3	47.6	48.8	48.8	48.8
Reserve requirements in foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits							
Memorandum items:							
Net international reserves	6,623	6,343	6,759	6,820	6,759	6,759	6,759

Sources: Afghan authorities and Fund staff estimates and projections.

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

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

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

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

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2014–22 1/

(At current exchange rates)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
						Proj.			
				(In billions of Afghanis)					
Net foreign assets	488.5	532.9	571.2	610.9	635.7	661.6	688.4	716.3	745.4
Foreign assets	516.1	564.2	600.4	641.9	667.6	693.9	721.2	749.7	779.2
Foreign liabilities	-27.7	-31.3	-29.3	-30.9	-31.8	-32.3	-32.8	-33.3	-33.9
Central bank	-19.5	-20.5	-18.2	-19.3	-19.7	-19.7	-19.7	-19.7	-19.7
Commercial banks	-8.2	-10.7	-11.1	-11.6	-12.1	-12.6	-13.1	-13.6	-14.1
Net domestic assets	-86.0	-117.5	-115.9	-118.4	-101.3	-81.7	-59.3	-33.7	-4.7
Net domestic credit	1.2	4.9	-6.4	-13.3	-15.1	-15.6	-14.8	-21.6	-27.5
Nonfinancial public sector	-43.7	-42.5	-52.1	-60.9	-64.7	-67.3	-68.6	-77.7	-86.0
Net credit to central government	-43.6	-42.6	-52.2	-61.0	-64.8	-67.4	-68.7	-77.8	-86.1
Net credit to public nonfinancial corporations	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net credit to private sector	46.4	49.0	47.1	49.0	51.1	53.2	55.4	57.8	60.2
Net credit to other financial corporations	-1.5	-1.6	-1.4	-1.4	-1.5	-1.5	-1.6	-1.7	-1.7
Other items net	-87.2	-122.4	-109.5	-105.1	-86.2	-66.1	-44.5	-12.1	22.8
Broad money M2	402.5	415.4	455.2	492.5	534.4	579.8	629.1	682.6	740.6
Broad money M2 in domestic currency	267.7	264.5	297.0	330.4	365.8	404.5	446.8	492.9	543.4
Narrow money M1	384.8	390.0	423.3	455.6	495.7	539.3	586.6	638.1	693.9
Currency outside banks	188.5	196.1	216.3	238.0	261.4	283.1	306.5	328.6	352.2
Currency in circulation	197.0	202.2	223.6	247.1	270.6	292.2	315.6	337.7	361.3
Currency held by banks	8.5	6.0	7.3	9.1	9.1	9.1	9.1	9.1	9.1
Demand deposits	196.3	193.9	207.0	217.7	234.3	256.2	280.2	309.5	341.8
Other deposits	17.7	25.4	31.9	36.9	38.7	40.5	42.5	44.5	46.7
				(12-month percentage change)					
M2	8.6	3.2	9.6	8.2	8.5	8.5	8.5	8.5	8.5
M1	9.7	1.4	8.5	7.6	8.8	8.8	8.8	8.8	8.8
Currency outside banks	16.4	4.1	10.3	10.0	9.9	8.3	8.3	7.2	7.2
Net credit to private sector	0.7	5.6	-3.8	4.0	4.2	4.2	4.2	4.2	4.2
				(In percent of GDP)					
M2	34.5	34.5	35.5	35.2	34.8	34.3	37.2	40.3	43.8
M1	32.9	32.4	33.0	32.6	32.3	31.9	34.7	37.7	41.0
Net credit to the private sector	4.0	4.1	3.7	3.5	3.3	3.1	3.0	2.8	2.6
Memorandum items:									
M2 velocity	2.9	2.9	2.8	2.8	2.9	2.9	3.0	3.1	3.1
Reserve money multiplier	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Banking sector									
Loan dollarization (percent)	67.4	67.0	61.0	60.2	59.4	59.0	58.8	58.5	58.5
Deposit dollarization (percent)	65.8	68.8	66.2	63.7	61.8	59.1	56.5	53.6	50.8
Currency-to-deposit ratio (percent)	92.0	92.2	93.6	97.1	99.1	98.5	97.8	95.4	93.0
Loans-to-deposit ratio (percent)	21.7	22.3	19.7	19.2	18.7	17.9	17.2	16.3	15.5

Sources: Afghan authorities and Fund staff estimates and projections.

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

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

Table 6. Islamic Republic of Afghanistan: Balance of Payments, 2014–22 1/

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.			Proj.			
Current account	1,178	564	1,337	982	579	596	453	268	-132
Excluding official grants	-6,550	-6,950	-6,084	-6,332	-6,463	-6,542	-6,656	-6,824	-7,170
Trade balance	-5,854	-6,454	-5,533	-5,801	-5,856	-5,876	-5,958	-6,044	-6,257
Export of goods and services	1,979	1,447	1,096	1,217	1,353	1,633	1,909	2,191	2,525
Goods	643	580	618	708	822	1,057	1,252	1,485	1,766
Services	1,335	867	477	509	531	576	657	706	758
Import of goods and services	8,398	8,634	7,447	7,919	8,222	8,614	9,042	9,534	10,260
Goods	6,497	7,034	6,151	6,509	6,678	6,933	7,210	7,529	8,023
Services	1,901	1,600	1,295	1,410	1,544	1,681	1,832	2,005	2,236
Income, net	-2	180	45	119	122	123	124	125	125
Of which: Interest on official loans	5	6	5	5	5	5	6	6	7
Current transfers, net	7,600	7,571	7,644	7,564	7,325	7,454	7,463	7,487	7,478
Of which: Official /2	7,729	7,514	7,421	7,314	7,042	7,138	7,109	7,092	7,039
Capital account	0	0	0	0	0	0	0	0	0
Financial account, net	-54	59.2	-562	-731	-575	-600	-446	-262	137
Foreign direct investment	43	169	82	223	109	116	125	135	292
Portfolio investment	-149	-82	-95	-87	-92	-97	-102	-107	-112
Official loans 3/	-79	-8	25	93	21	30	40	50	69
Disbursement	26	10	43	111	41	51	61	71	91
Amortization	54	18	18	18	20	20	21	21	22
Debt relief ('-' = forgiveness)	50	0	0	0	0	0	0	0	0
Other investment	131	-21	-575	-961	-613	-650	-509	-340	-114
Errors and omissions	-696	-890	0	0	0	0	0	0	0
Overall balance	429	-267	775	250	3	-4	7	6	5
Financing	-429	267	-775	-250	-3	4	-7	-6	-5
Central bank's gross reserves ('-' = accumulation)	-459	288	-761	-242	0	0	0	0	0
Use of Fund resources, net	-20	-20	-14	-8	-3	4	-7	-6	-5
Disbursements 4/	0	0	6	12	12	13	0	0	0
Repayments	20	20	21	20	16	10	7	6	5
Debt relief ('-' = forgiveness)	50	0	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves, central bank	7,311	6,808	7,351	7,541	7,544	7,541	7,538	7,536	7,533
Import coverage of reserves 5/	10.2	11.0	11.1	11.0	10.5	10.0	9.5	8.8	8.4
External debt stock, official 6/	1,299	1,230	1,239	1,355	1,373	1,407	1,439	1,483	1,547
in percent of GDP	6.5	7.0	6.5	6.7	6.4	6.1	5.9	5.6	5.4
Current account, in percent of GDP	5.8	2.9	7.1	4.8	2.7	2.6	1.8	1.0	-0.5
Trade balance, in percent of GDP	-28.8	-32.8	-29.3	-28.3	-27.0	-25.3	-23.9	-22.4	-21.4
Export of goods and services, in percent of GDP	9.7	7.4	5.8	5.9	6.2	7.0	7.6	8.1	8.6
Import of goods and services, in percent of GDP	41.3	43.9	39.4	38.6	37.9	37.1	36.2	35.4	35.1
Official grants, in percent of GDP	38.0	38.2	39.3	35.6	32.4	30.7	28.5	26.3	24.1

Sources: Afghan authorities and Fund staff estimates and projections.

1/ BoP data exclude the narcotics economy.
2/ Capital transfers are difficult to identify and are thus included in current transfers.
3/ Excluding IMF.
4/ Disbursements in 2017-19 are conditional on the board approval of ECF reviews.
5/ In months of next year's import of goods and services.
6/ Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.

Table 7. Islamic Republic of Afghanistan: Financial Soundness Indicators, 2013–16
(In percent)

	2013	2014	2015	2016			
				Q1	Q2	Q3	Q4
Capital adequacy							
Regulatory Capital to Risk-weighted Assets	26.2	26.5	19.9	21.1	20.6	22.0	28.3
Capital to Assets	11.6	11.9	9.2	10.3	10.1	10.5	11.3
Asset quality							
Non-performing Loans to Total Gross Loans	4.9	7.8	12.1	15.2	17.1	13.4	10.8
Non-performing Loans Net of Provisions to Capital	2.5	3.4	8.3	11.5	15.4	9.9	2.2
Earnings and profitability							
Return on Assets	0.6	0.9	0.2	4.4	2.5	1.9	1.7
Return on Equity	7.1	7.2	1.7	44.5	24.7	19.1	17.1
Liquidity							
Liquid Assets to Total Assets (Liquid Asset Ratio)	62.1	73.2	75.0	74.3	73.3	69.8	72.6
Liquid Assets to Short-term Liabilities	77.0	89.0	90.4	91.9	90.6	87.1	93.5

Source: Afghan authorities.

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

	Amount of Disbursements		
Availability date	Millions of SDRs	Percent of Quota	Conditions
July 20, 2016	4.50	1.4	Approval of arrangement
April 21, 2017	4.50	1.4	First review and December 20, 2016 performance criteria
October 23, 2017	4.50	1.4	Second review and June 21, 2017 performance criteria
April 23, 2018	4.50	1.4	Third review and December 21, 2017 performance criteria
October 22, 2018	4.50	1.4	Fourth review and June 21, 2018 performance criteria
April 22, 2019	4.50	1.4	Fifth review and December 21, 2018 performance criteria
July 15, 2019	5.38	1.7	Sixth review and March 20, 2019 performance criteria
Total	32.38	10.0	

Source: International Monetary Fund.

Table 9. Islamic Republic of Afghanistan: External Financing Requirements and Sources, 2014–19

(In millions of U.S. dollars)

	2016	2017	2018	2019
	Est.	Proj.		
Gross financing requirement	6,883	6,613	6,499	6,572
Current account balance (excluding grants)	-6,084	-6,332	-6,463	-6,542
Amortization	38	39	35	30
Of which: IMF	21	20	16	10
Change in reserves (increase = +)	761	242	0	0
Reduction in arrears	0	0	0	0
Available financing	6,877	6,601	6,486	6,559
Official transfers (grants)	7,421	7,314	7,042	7,138
Foreign direct investment	82	223	109	116
Official medium- and long-term loans (net)	25	93	21	30
Accumulation of arrears	0	0	0	0
Debt forgiveness	0	0	0	0
Debt rescheduling	0	0	0	0
Other flows	-652	-1,029	-685	-726
Financing gap	6	12	12	13
Identified financing (provisional)	6	12	12	13
Of which: IMF 1/	6	12	12	13
Remaining gap	0	0	0	0

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

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

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

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Obligations from existing drawings															
1. Principal															
GRA repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT repayments	9.8	11.6	7.1	5.4	4.8	3.3	0.9	0.9	0.9	0.9	0.0	0.0	0.0	0.0	0.0
2. Charges and interest 2/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR net charges	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations	9.9	11.8	7.3	5.6	5.1	3.6	1.2	1.2	1.2	1.2	0.3	0.3	0.3	0.3	0.3
(percent of quota)	3.1	3.7	2.3	1.7	1.6	1.1	0.4	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1
Obligations from prospective drawings 3/															
1. Principal															
PRGT repayments	0.0	0.0	0.0	0.0	0.0	0.5	2.3	4.1	5.6	5.6	5.1	3.3	1.5	0.0	0.0
2. Charges and interest 2/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations	0.0	0.0	0.0	0.0	0.0	0.5	2.3	4.1	5.6	5.6	5.2	3.3	1.5	0.0	0.0
(percent of quota)	0.0	0.0	0.0	0.0	0.0	0.1	0.7	1.3	1.7	1.7	1.6	1.0	0.5	0.0	0.0
Cumulative obligations															
(existing and prospective) 3/															
1. Principal															
GRA repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT repayments	9.8	11.6	7.1	5.4	4.8	3.8	3.2	5.0	6.5	6.5	5.1	3.3	1.5	0.0	0.0
2. Charges and interest 2/															
PRGT interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessment and net charges	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations	10.0	11.8	7.3	5.6	5.1	4.0	3.4	5.2	6.7	6.7	5.4	3.6	1.8	0.3	0.3
Outstanding Fund credit, end of period	44.7	42.1	45.0	39.6	34.8	31.0	27.9	22.9	16.5	10.0	4.9	1.5	0.0	0.0	0.0
Memorandum items:															
Outstanding Fund credit, in percent of															
Exports of goods and services 4/	5.0	4.2	3.7	2.8	2.1	1.7	1.3	0.9	0.6	0.4	0.2	0.0	0.0	0.0	0.0
External public debt	4.5	4.2	4.3	3.7	3.2	2.7	2.3	1.8	1.2	0.7	0.3	0.1	0.0	0.0	0.0
Gross official reserves	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0
GDP	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Quota	13.8	13.0	13.9	12.2	10.7	9.6	8.6	7.1	5.1	3.1	1.5	0.5	0.0	0.0	0.0
Total Obligations, in percent of															
Exports of goods and services 4/	1.1	1.2	0.6	0.4	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.0	0.0
External public debt	1.0	1.2	0.7	0.5	0.5	0.4	0.3	0.4	0.5	0.5	0.3	0.2	0.1	0.0	0.0
Gross official reserves	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
GDP	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quota	3.1	3.7	2.3	1.7	1.6	1.2	1.1	1.6	2.1	2.1	1.7	1.1	0.6	0.1	0.0
Quota	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8	323.8

Source: Fund staff estimates and projections.

1/ As of December 31, 2016. Years refer to Gregorian calendar years (January 1 to December 31).
2/ Projections are based on current interest rates for PRGT loans.
3/ Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board.
4/ Excluding reexports.

Table 11. Islamic Republic of Afghanistan: Risk Assessment Matrix (RAM)

Nature/Source of Risk	Likelihood[1]	Impact if Realized	Possible Mitigating Measures
		Near-Term Risks	
Deteriorating security situation.	**High**	**High** • Increasing security concerns sap donor, investor and consumer confidence with lower growth, slower reforms and higher volatility of the exchange rate. Lower growth results in a decline in domestic revenue, higher fiscal deficit and adverse effects on unemployment and poverty. • High volatility of the exchange rate leads to further dollarization, capital flight and inflationary pressure.	Strengthen fiscal and monetary policies to maintain macroeconomic stability.
Weak fiscal policy implementation, particularly setbacks in revenue mobilization efforts and weaknesses in expenditure and cash management	**High**	**High** • Lower than expected yield from revenue mobilization efforts leads to spending cuts. • Pressing spending needs result in depletion of the treasury cash balances and unfunded allotments lead to arrears.	Improve tax compliance, revenue mobilization, spending prioritization, and coordination between the treasury and budget departments.
Acceleration in inflows of refugees.	**Medium**	**Medium** • Pressure on budget expenditure.	Mobilize donor financing.
Intensification of the risks of fragmentation/security dislocation in part of the Middle East having negative spillovers in Afghanistan, aggravating security	**High**	**Medium** • Deteriorating security reduces confidence and results in lower growth and excessive volatility of the exchange rate. • Lower growth results in a decline in domestic revenue and a higher fiscal deficit and adverse effects on unemployment and poverty. • Excessive volatility of the exchange rate leads to further dollarization, capital flight and inflation.	Strengthen fiscal and monetary policies to maintain macroeconomic stability.

Table 11. Islamic Republic of Afghanistan: Risk Assessment Matrix (RAM) (concluded)

Nature/Source of Risk	Likelihood[1]	Expected Economic Impact if Realized	Possible Mitigating Measures
		Medium-Term Risks	
Decline in donor inflows to the budget and to finance development projects.	**Medium**	**High** • The decline in inflows leads to lower public spending, lower growth, increased unemployment, and/or exchange rate pressures.	Strengthen policy implementation to maintain macro stability, speed up structural reform, and improve economic governance, including stronger legislative, institutional, and regulatory frameworks, and law enforcement.
Structurally weak growth in emerging market economies, particularly in China and India, which are key stakeholders in development of Afghanistan's natural resources.	**Medium**	**Medium** • Delays in investments to develop extractive industries postpone the projected pick-up in growth and result in lower exports. • Lower than expected revenues from natural resources could lead to increasing budget deficits as spending envelope continues to increase. • Fiscal deficits and lower export receipts may lead to exchange rate depreciation and higher inflation. • Lack of progress in developing natural resources could result in higher narcotics production.	Maintain macro stability and improve business climate, including a sound fiscal regime for natural resources.
Lack of progress in banking sector and strengthening anti-money laundering and combating the financing of terrorism (AML/CFT) reforms, compromising financial sector's soundness.	**Medium**	**Medium** • Banking sector constrained in fulfilling its intermediation role results in less credit to the economy, inefficient allocation, lower access to finance, and slower growth. • Confidence in banking sector could dissipate, leading to banking sector liquidity challenges. • Lax or ineffective enforcement could undermine financial discipline, bank governance, risk management, financial controls and money laundering controls and result in bank failure(s) and need for bailouts. • Access by Afghan banks to global financial system is impeded.	Ensure that prudential and AML/CFT preventive (including fit and proper) standards are strictly observed and supervision enforcement actions are implemented promptly.

[1] Staff assessment of the likelihood of realization in the next three years.

Appendix I. Letter of Intent

Kabul, May 4, 2017

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

Dear Ms. Lagarde:

Much progress has been made by the Afghan government and its people with strong support from the international community, yet we continue to face difficult security, economic, and political challenges that threaten to undermine our achievements. Nevertheless, our government is determined to press ahead with reforms needed to address the difficult challenges Afghanistan faces and build prosperity for current and future generations of Afghans.

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

The Government of Afghanistan believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures and in advance of any revision 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.

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

The government requests that the IMF Executive Board approve the exclusion from the zero ceiling on non-concessional borrowing of two loans totaling ID53.2 million (US$72 million, 0.4 percent of GDP) from the Islamic Development Bank. This is to provide for part of the financing of the construction of the Kabul City Ring Road, a critical infrastructure project integral to our development program and the improvement of local link roads and social infrastructure, in line with the IMF's debt limit policy.

The government also requests modification of three June 2017 performance criteria, necessitated by an update of the macroeconomic framework and changes in methodology affecting the monetary variables.

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

Sincerely yours,

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

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies for 2017–19

A. Introduction

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

2. **We, the government of Afghanistan and its central bank, are committed to reinvigorate economic reform and address structural weaknesses in the economy.** We have started to address economic vulnerabilities and are pressing ahead with the reform program through a series of policy and legislative actions. These actions signal our commitment to reform, building economic confidence, and raising economic growth.

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

B. Recent Economic Developments

4. **Economic activity continues to be weak, although we see some signs of nascent recovery.**

- Following the withdrawal of the international troops, uncertainties related to security and political transition sapped private sector confidence and reduced domestic demand. We see growth rate as having bottomed out in 2015 and slowly picking up.

- Inflation increased but remains low. In 2016, inflation averaged 4.4 percent, up from -1.5 percent in 2015, reflecting the lagged effects of the Afghani's depreciation and a pickup in food prices late in the year.

- International reserves remained comfortable and since early 2016 the exchange rate has been broadly stable. The large trade and external current account deficits continue to be financed by donor grants.

5. **On the fiscal side, strong revenue growth continued in 2016, exceeding the program target.** Domestic revenues increased by over 15 percent (0.8 percentage points of GDP), following growth of 22 percent in the preceding year. Revenue growth after accounting for one-offs was even stronger, at 22 percent. Around half of this increase was due to new measures introduced in 2015,

with the remaining increases due to inflation, exchange rate depreciation, and efficiency gains in roughly equal measure.

6. **Contrary to expectations, development spending execution did not improve in 2016,** resulting in a lower-than-targeted operating deficit before grants. A shortfall in grants meant that the overall balance including grants was zero. Treasury cash balances remained above their program floor of Afs10 billion.

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

8. **While the inaugural five-year plans have set out a vision for future, many reforms are already under way.** We implemented substantial reforms in tax and customs administrations to improve enforcement and compliance, and to reduce leakages with the help of World Bank technical assistance. We dismissed forty corrupt or inefficient senior staff in the revenue (ARD) and customs (ACD) departments. We transferred the customs police from the Ministry of Interior to the MOF to improve customs enforcement, and approved a human resource reform policy, including establishment of a customs and tax academy, to improve staff professionalism. We upgraded our Automated Systems for Customs Data (ASYCUDA) and made greater use of its functionality, and adopted several technological processes. We operationalized large and medium taxpayer offices, and rolled out our Standardized Integrated Tax Administration System (SIGTAS) in five large provinces. We also introduced risk-based compliance audits in all taxpayer offices in Kabul.

9. **Despite improvements in the financial sector, it remains vulnerable to adverse shocks.** While nonperforming loans decreased in the second half of 2016, asset quality remains a concern. Bank capital adequacy and profitability are under pressure. We have put fragile banks under a watchful monitoring regime and Da Afghanistan Bank (DAB) Financial Supervision Department (FSD) continues to monitor closely the weaker banks. As part of a special review program, DAB conducted in-depth examinations of each of them, issuing numerous corrective orders and injunctions, and produced a comprehensive plan on dealing with weak banks, specifying necessary actions to be taken as needed.

10. **We have made progress in improving the financial position of the state-owned commercial banks (SOCBs).** All of them became profitable in 2016. The capital adequacy of all of them exceeds DAB minimum requirements. In December 2016, we recapitalized the New Kabul Bank (NKB) by US$106 million (a capital cushion of US$15 million and compensation for accumulated

losses of US$91 million, as of December 2015), thus meeting the end-December structural benchmark. Its privatization did not materialize due to the absence of fit and proper investors. Pashtany Bank achieved first recoveries from three bad loans at the end of 2016. We have continued our efforts to advance the Kabul Bank liquidation, however, asset recoveries and settlements stalled. We are taking additional steps to reactivate the recovery process and improve its transparency.

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

C. Economic Program for 2017–19

12. **Our program seeks to create conditions for higher, more inclusive, growth through structural reforms, while maintaining macro-financial stability.** The macroeconomic policy mix will maintain policy buffers, low inflation and public debt, and protect competitiveness. Fiscal policy will support growth by mobilizing domestic revenue and catalyzing continued donor support to finance projected higher security and development expenditure, settle arrears, maintain the treasury's cash balance, while avoiding debt accumulation. Monetary policy will aim to preserve low inflation and we will continue with the flexible exchange rate regime to protect the international reserves position and competitiveness. The structural reform agenda will focus on: (i) fiscal reforms to boost revenue and the quality of spending; (ii) strengthening the financial sector and its contribution to growth; and (iii) fighting corruption. In addition, we will pursue reforms that strengthen the business climate in collaboration with our international partners, especially the World Bank.

13. **We are cautiously optimistic about 2017, but there are downside risks.** Growth is expected to continue recovering as political transition uncertainties subside, reforms advance, and confidence recovers. With sustained reform and donor support, growth is projected to increase further in 2017 and beyond, and inflation to remain in single digits. However, while we continue to invest heavily in the peace process, continued uncertainty about the security situation will keep on restraining private demand and is a significant source of downside risk.

14. **Poverty reduction remains an important priority.** Our policies are guided by the ANPDF as well as the paper we prepared for the London Conference on Afghanistan Realizing Self-Reliance. They focus on low inflation, pro-poor budgeting, and inclusive economic growth propelled by investment in agriculture, more regional economic integration, the fight against corruption, and greater gender equality. Although security outlays will increase, we will allocate adequate resources to increase opportunities for the poor. A Jobs for Peace program has already been rolled out and is showing results. The first phase of the Jobs for Peace Program has created over 2.6 million labor days above and beyond already planned program activities, providing over half a million families living in rural areas with crucial cash inputs over the late winter months, when food insecurity is at its most severe. The second phase of the program is currently being launched. It includes both a scale-up of the rural program to cover the remaining provinces and the introduction of a labor based clean-up program in Afghanistan's five largest cities, with an initial target of 10,000 new jobs. On March 8, a national program for women's economic empowerment was also launched that will similarly provide labor-intensive jobs for women in female friendly occupations. Finally, both a policy framework and an action matrix for returnees were passed by Cabinet in February, 2017, whose purpose is to absorb the nearly one million new migrants and IDPs. The component programs for that framework mostly fall under the Jobs for Peace umbrella. Final budgets and financing are being developed now, but approximately $150–200 million will be channeled through the Citizen's Charter umbrella, which provides labor intensive works and basic development services targeted to poor communities in both urban and rural areas. To monitor results, we will continue to improve the collection and analysis of poverty indicators. Pro-poor operating spending in 2017 is programmed to be Af42.1 billion (about 3 percent of GDP).

Macroeconomic Policies

15. **Our macroeconomic policy framework is designed to preserve macroeconomic stability and promote growth.** It will target a pick-up in GDP growth to about 4 percent over the next three years and inflation in single digits. It will also maintain buffers of low debt (less than 10 percent of GDP) and a comfortable international reserves position (above 9 months of import cover). It will protect competitiveness, with the current account in surplus or modest deficit after grants. We will target overall budget balance after grants, but over time the operating balance excluding grants will become the fiscal anchor. Reserve money remains the monetary anchor, with a view to maintaining moderate inflation. We will remain dependent on donor support to meet our fiscal and external financing needs, which is expected to decline in percent of GDP.

16. **We expect a balanced overall budget in 2017 after grants, and will maintain a prudent fiscal position in 2018 and beyond.** Domestic revenues as a share of GDP are projected to fall slightly relative to 2016, to 10.9 percent. No major revenue measures are planned for 2017, as substantial further revenue measures risk jeopardizing an already fragile business environment. Border closures and increased security challenges also pose risks to customs collection. Budgetary reforms which will reallocate spending to well-performing projects should increase execution rates, boosting development and raising realized expenditure. We will complete training and staffing of the risk management unit of ACD (end-June structural benchmark) and will continue to fight fraud in

Customs declarations. Further fiscal policy changes (including those required to meet the structural benchmarks) are expected to yield higher revenues in future years, although they will come too late to improve collections in 2017. We expect the treasury's discretionary cash balance to remain well above the indicative target in the program (Af10 billion). Over the medium term, we will continue to target a gradual decline in the operating deficit excluding grants and a zero-overall balance including grants. Our program aims to mobilize additional revenue for growth-enhancing development spending and to continue the long process of reducing aid dependence. We will only borrow on a highly concessional basis for specific projects in consultation with international partners. We will set aside any revenues earned from extraordinary currency exchange gains for building the government's cash reserves and will not allocate these gains in the budget for spending by budgetary units.

17. **We plan to carefully manage money growth, continue exchange rate flexibility, and safeguard international reserves.** Reserve money will continue to be the operational target for monetary policy, with the objective of containing inflation to 4–8 percent. Reserve money growth of 12 percent is projected for 2017 but we stand ready to tighten money growth in case inflation exceeds projected levels. Our program envisages maintaining net international reserves at the current level (at the program exchange rate), resulting in international reserve covering more than 8 months of imports during the term of the arrangement. We will let the Afghani move with market trends and only intervene to avoid excessive exchange rate volatility. We remain committed to an independent central bank that sets monetary policy with a view to maintaining moderate inflation and managing prudently shocks or persistent changes in foreign exchange flows. We will improve coordination between DAB and the MOF to strengthen the conduct of monetary policy, facilitate fiscal cash management, and promote market development by finalizing legislation to set up a sukuk (Sharia compliant treasury bill) market with a view to submit the bill for parliamentary approval within six months after completion of the necessary technical assistance work by the IMF or the World Bank. We will continue our efforts to reduce dollarization. We are also planning to review our current reserve requirements framework for commercial banks to assess the merits of moving to a new regime in which reserve requirements for deposits will be held in the currency of denomination (domestic and foreign), unlike existing practice where reserve requirements for all deposits denominated in domestic and foreign currencies are maintained in domestic currency.

Structural Reforms

18. **We will reinvigorate structural reforms.** Fiscal reforms have been set out in detail in the government's five-year rolling Fiscal Performance Improvement Plan and will focus on improving the performance of teams delivering core budget functions. Flagship reforms include strengthening priority setting by Cabinet through improved forecasts, establishment of rolling forward estimates with robust costing of existing policy, streamlined budget management with improved program and project preparation to reduce over-budgeting and carryovers, improved cash management and accounting and increased accountability through improved annual reporting and audit. The reforms will also gradually be extended to key line ministries over the course of the next few years focusing on improved budget credibility, better budget execution and annual reports comparing outcomes to

budgets. We will further approve regulations that will lay the basis for public private partnerships to finance key projects and initiatives that will create jobs and contribute to economic growth. The financial statements will be annually audited and published by the Supreme Audit Office no later than twelve months after the end of a fiscal year.

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

Fiscal Reforms

20. **We expect the pace of revenue growth to moderate in 2017.** Many of the largest gains from simple measures and improved revenue administration have already been achieved and the government will turn its attention to longer-run reforms. The only changes to tax policy in 2017 we envisage are a small increase in some fees (Af2 billion, less than 0.2 percent of GDP) and to consider a revenue-neutral expansion of the corporate income tax base. Instead, our revenue improvement efforts will be directed towards a major reform of the large taxpayers' office (LTO) and to an introduction of a Value-Added Tax (VAT), both of which will be fully functioning by 2019. The LTO reform will follow the suggestions of the IMF's recent tax policy TA mission. In Afghanistan, the LTO produced only 14 percent of 2016 revenues. We aim to increase this to 45 percent of total collections by the end of 2018. In 2017, we will establish a unique threshold for LTO firms, independent of sector and produce a detailed implementation action plan to establish a single national LTO in Kabul by end 2018. In 2018, we will implement this plan and the national LTO will be operating by end-December, 2018. We aim to introduce a VAT by the end of 2019. To simplify the tax structure, the threshold for VAT payment will be the same as the one for LTO.

21. **The Legislative Committee of the Council of Ministers has approved a new income tax law.** This includes: removing differences between the tax treatment of hotels and restaurants and other businesses; expanding the coverage of the fixed tax to more small businesses to reduce compliance costs; and introducing a three-year tax holiday for new manufacturing firms to encourage investment. The tax losses from this latter are expected to be small as only a few firms will be eligible for this exemption.

22. **We will continue to improve administration in ACD.** The interface between the customs and revenue databases is in place and data from ACD is available to ARD staff. We will add functionality for ACD staff to access ARD information (end-June structural benchmark). ACD will complete staffing and training of its specialized risk management unit in Customs headquarters by June-2017 (structural benchmark), which will be responsible for preparing and testing comprehensive risk profiles by end-2017 through (i) the analysis of past transactions and detection,

and the identification of salient risk elements; (ii) simulations based on past detection; (iii) testing of pilot profiles; (iv) statistical review of detection with a view to identify and peg optimal levels of physical and post-release verifications; (v) frequent changes in risk profiles based on feedback; and (vi) close interaction with post-release verification and compliance units. Selection of declarations to inspect or review under risk management will also include a random selection through ASYCUDA. The risk management unit, which will be insulated from outside interference, will report to senior management, provide a monthly report of results, direct risk management activities in field units and liaise with field units to obtain feedback, and will have the power to update risk profiles in real time. The unit will also maintain contacts with other agencies, particularly the Tax Administration. Its activities will come under a global compliance policy involving (i) physical inspection and reporting guidelines; (ii) post-release verification and audit; (iii) inter-agency cooperation; and (iv) an annual plan of control prepared by ACD. We will also link Afghanistan Central Business Registry (ACBR) and Afghanistan Payments System (APS) interfaces over the next three years to facilitate automated information sharing on taxpayers and taxpayer transactions, which will help improve revenue collection efficiency and reduce leakages. In addition, we will introduce an identity verification program to combat fraud and misreporting of customs declarations by customs brokers or their subordinates. To do this, we will introduce fingerprint scanners to the computer terminals in customs houses which are used to submit declarations. This will restrict submission of customs declarations to trained and licensed agents, deterring fraud and misreporting.

23. **The development of the natural resource sector and reform of the fiscal regime for extractive industries remain essential for domestic revenue mobilization over the medium term.** While the development of extractive industries has been hampered by ongoing security problems, inadequate infrastructure, and declining international commodity prices, we are amending the mining law, and developing an Extractive Industries Transparency Initiative (EITI) compliant, effective, and transparent fiscal regime for natural resources. To this end, we will follow up on recommendations of the EITI report set out in the relevant benchmark in Table 2 (end-June 2017 benchmark). We will submit the revised mining law to parliament, and work together with the IMF and the World Bank to fully develop the mineral fiscal regime by the end of 2018. To demonstrate our commitment to transparency in the extractive industries, we will appoint an EITI "Champion", who will lead our efforts in this area. On July 1, Afghanistan will undergo a validation that tests our compliance against each of the requirements in the EITI standard that will guide our future reforms.

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

- The government has adopted a policy of working towards a consolidated national budget. The split between the operational budget and the development budget results in budget fragmentation and a proliferation of projects in the development budget. In addition, the development budget is in multiple currencies, subject to multiple donor conditionality.

We believe that the low execution rate of the development budget is mainly due to unrealistic estimates of expenditure. Other factors include poor project preparation, imprecise project costing, premature inclusion of projects in the budget, ambitious multi-year spending plans (with large carry-overs of unspent allocations from previous years), incentives for the donors and line ministries to "front-load" the budget, capacity constraints with procurement planning and execution, slow approval (bureaucracy) and centralized procurement processes, poor contract management, earmarked donor funding that cannot be reallocated, worsening security situation preventing the execution of projects in some regions, capacity constraints at line ministries, and lack of commitment towards budget execution.

- We plan to address these issues through reforms outlined in the Public Financial Management Road Map II. As noted, MOF is engaging with line ministries to be part of the 5-year planning process to enhance their budget execution capacity and we will continue to engage with donors to increase flexibility of funding per their bilateral and multilateral commitments.

- The lack of consistent information on the total cost, year-wise phasing, contractual commitments, and expenditure incurred on various development projects also hampers the monitoring of performance of the development budget. Unspent budgeted amounts are routinely carried over into the next year with little or no opportunity for the government to discuss with donors the possibility of shifting resources from low performing or low priority investment/development projects to high performing or high priority ones.

- While the government recognizes that the shift to a consolidated national budget will take some time, the foundations need to be laid now. With improved budget costing under robust forward estimates and some flexibility, execution of the development budget should aim at 67 percent in 2017 and rise to close to 100 percent over the next five years.

- We will strengthen development budget management by continuing to maintain a development projects database for the 50 largest (in terms of value) projects. This database would be maintained by the MOF's Budget Department and would contain specific information. This development projects database would help inform the MTFF and the framework of rolling forward estimates to protect the allocations needed in future years (as per project phasing) to complete the ongoing projects, identify the remaining fiscal space for new projects, and systematically take account of required recurrent allocations (in future year budgets/forward estimates framework) for operation and maintenance of capital assets created. By tracking the key milestones of large projects, it would also help us to prepare more realistic development budget estimates.

- We will strengthen commitment control and cash management by tracking commitments during budget execution and requiring financial plans from ministries/agencies as a basis for issuance of in-year allotments (structural benchmark). We will track contractual commitments (including forward year commitments under multi-year contracts) by ministries/agencies through the AFMIS (purchasing module) starting with transactions valued above Af1,000,000. The Budget Department of the MOF in consultation with line ministries/agencies will issue phased allotments and financial plans in AFMIS (i.e. annual allocations at budget minor head level divided into quarterly tranches based on financial plans submitted by a ministry/agency) to ministries/agencies based on procurement plans and financial plans submitted by them. The financial plans of individual ministries/agencies, backed by allotments by the Budget Department, would be uploaded into the AFMIS and linked to the consolidated cash plan of the Treasury. The Treasury will control payments by the ministries/agencies during budget execution against their respective authorized financial plans. Any in-year revisions to the ministries/agencies' financial plans would be subject to review and approval by the Budget Department and Treasury.

- We are implementing a new budget process based on rolling forward year estimates of the costs of existing policy and any policy changes and identification of fiscal space for new policies and programs/projects. This will guide the development and issuance of ceilings by the MOF to ministries/agencies. The ministries/agencies are also initiating plans to establish systems for preparing medium-term costed development strategies with a portfolio of costed development projects with an output orientation and forward estimates (these will be called Portfolio Budget Statements). These medium-term development strategies of ministries/agencies will be clearly linked to the medium-term ceilings issued to them by the MOF. These will be prepared starting with key priority sectors (such as infrastructure, energy, and agriculture) and all ministries will be covered by 2020. The sequencing plan for ministries to undertake costing reviews of existing policies will be developed this year. Portfolio Budget Statements will be developed to ensure comparability with the Portfolio Annual Reports of financial and non-financial performance.

- We will improve development projects management by taking concrete measures, both in the near- and medium term, to strengthen development project planning and preparation and streamline the process of project implementation. In the near term, the measures will include (i) developing and enforcing a procedure that no project will be funded in the budget unless all preparatory steps—e.g., project feasibility study, technical design of the project, project costing and appraisal, environmental and social impact assessment, etc.—have been completed establishing its readiness for implementation after funding; and (ii) issuing a decree/instruction requiring ministries/agencies to ensure that clearances/approvals at various stages of project implementation don't pass through more than two levels in the administrative hierarchy. Over the medium term, we would also develop and approve by Cabinet an action plan to address identified gaps/weaknesses based on a comprehensive assessment of the public investment management cycle and associated institutional framework. This assessment could be based on the IMF's Public Investment Management Assessment (PIMA) framework or a similar assessment.

- In 2013, we proposed amendments to the laws governing public enterprises (Tassady Law) and corporations (Corporations and Limited Liability Companies Law) to bring such entities under the ownership and effective oversight of the MOF. We will work with the Parliament to pass these amendments promptly. We will review the capacity of the department of state owned corporations and enterprises (SOCEs) to assess needed staffing, and seek technical assistance to improve staff's capacity for operational and financial oversight of the SOCEs. The department will then start collecting information on financial flows between the government and the SOCEs, and prepare annual analytical reports on their financial performance.

25. **We will improve monitoring and management of state owned enterprises (SOEs).** To that end, we are adopting a new law on SOEs and engaging with the World Bank in a project that will allow us to properly evaluate their financial position and scope of their activities. Having done so, we will work on a strategy to modernize SOEs and improve their efficiency with an aim to eventually corporatize many of them.

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

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

- Non-concessional borrowing will remain the exception. The government will continue to prioritize grants and concessional financing (60 percent of grant element under the current conditionality of the program) to finance high-yield and properly evaluated development projects.

- We nonetheless request to exclude from the program's zero ceiling on non-concessional borrowing two loans from the Islamic Development Bank of ID53.2 million (approximately US$72 million). This is to provide for part of the financing of the construction of the Kabul City Ring Road, a critical infrastructure project integral to our development program and the improvement of local link roads and social infrastructure. We have sought donor co-financing to bring the grant element of the loans to the 60 percent program threshold but it has not proved feasible currently.

- Adequate capacity to monitor and manage public debt will be increasingly critical as grant financing will become more uncertain and as the country may need to borrow externally. The government will also implement public-private partnerships (PPP) projects in infrastructure which require some sovereign guarantees. Building on the ongoing technical assistance from the World Bank, the government aims at strengthening its debt management framework.

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

- The government will consult with IMF staff on the terms and concessionality of any proposed new debt in advance of contracting. This will ensure that the performance criterion on non-concessional borrowing is applied on a continuous basis.

- The government will prepare an investment strategy with a list of investment projects; the sources of financing; the use of financing; and a debt management strategy, taking into account fiscal and external sustainability.

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

Financial Sector Reform

27. **Our financial sector strategy is two-pronged.** Our first priority is to further consolidate financial stability, by addressing the remaining weaknesses in the banking system, to strengthen public confidence and prevent contingent fiscal liabilities to materialize again. This will provide the sound foundation required for our second priority, the deployment of a range of growth-friendly initiatives in the financial sector.

Consolidating Financial Stability

28. **We are entering the final phase of the resolution of the 2011 Kabul Bank collapse.** Recoveries and settlements have reached a respectable US$448 million by April 2016, including US$256 million in cash, but they are now stalled. Nevertheless, our recovery efforts for the remaining US$594 million of claims will nevertheless continue unabated, in particular, against the two former shareholders who still owe US$512 million.

29. **We are taking steps to relieve both DAB and NKB from any further exposure to the results of the liquidation of Kabul Bank, with a view to improve the transparency and the quality of their balance sheets and transition NKB towards becoming a sound financial institution.** DAB's lender-of-last-resort (LoLR) exposure to Kabul Bank of US$825 million was underwritten in 2012 by a Promissory Note from the MOF that also included a repayment schedule. However, since 2014 the schedule has not been adhered to, and, with interest accruing, the balance started to rise again, reaching US$415 million by end-2015. However, last year we made progress on this front, and by end-December 2016 (structural benchmark) had reduced the LoLR exposure of DAB by Af6 billion.

30. **We recognize the need to move forward with the settlement of this incident and to improve the quality of DAB's balance sheet.** It is our intention to reduce the LoLR balance by Af7.7 billion in 2017. To this end, we are including in the midyear revision of the FY2017 budget, which is subject to approval by Parliament (end-July 2017 structural benchmark), an explicit allocation for the transfer to the Kabul Bank Receivership of US$50 million that the MOF owes for Kabul Bank assets taken over by government entities. This amount, which is part of the Af7.7 billion allocated in the 2017 budget, will be applied to the further reduction of the LoLR balance by end-

August 2017 (structural benchmark). The remaining part of the Af7.7 billion will be transferred to DAB by end-November 2017 (structural benchmark) to further reduce DAB's lender of last resort exposure. Such transfers will continue through the term of the ECF, reflected transparently in the budget, until, by end-2019, the remaining LoLR balance will be fully eliminated.

31. **New Kabul Bank has transitioned from a temporary bridge bank without capital to a depositor-oriented, adequately capitalized institution in terms of regulatory capital ratios.** When NKB was established in 2011, it was granted regulatory forbearance to act as a bridge bank for up to 18 months without any capital and assume the remaining liabilities of Kabul Bank, while refraining from any lending activity. The balancing items included tangible assets, but also commitments to receive the proceeds of recoveries from the failed bank that did not materialize in full, a shortage valued at US$41 million at end-2015. By that time, it had also accumulated US$50 million in current losses, because of its role as the safe haven successor to Kabul Bank, but it has gradually improved its performance and is now profitable. To turn the page of the negative legacy of the Kabul Bank incident, we completed the recapitalization of NKB by end-December 2016 (structural benchmark) for an amount of US$91 million plus a US$15 million capital cushion. We will inject any additional amount of capital if required. We will continue to consider the future of NKB, taking into account the main recommendations of the World Bank technical assistance project (see below).

32. **We are establishing a new unit to monitor and report on the fiscal risk posed by state-owned commercial banks (SOCBs).** This will involve setting up additional reporting requirements in accordance with good international practice for accounting and disclosures. Annual fiscal risk reports will be produced and narratives included in the annual budget papers.

33. **The three SOCBs will continue to give priority to prudent management while their remaining issues are being addressed.** These include serious governance shortcomings being identified by DAB and will be addressed by Banks and their shareholder. We requested World Bank technical assistance to develop a SOCBs strategy and align corporate governance with global best practices. During a transitory period, while all its identified weaknesses are addressed, NKB will not change its current lending policy. Pashtany Bank, which has only recently recognized in its books the large losses on its loan portfolio accumulated over the years, will continue focusing on improving its governance, including installing fit and proper managers, and on demonstrating its financial viability before considering a resumption of its lending activities. In the meantime, the Bad Debt Commission will pursue its mission. We will also seek the World Bank's support to enhance SOCBs' efficiency through automation of major banking functions and modernization of payment systems to minimize operational risks. The SOCBs business model will thus temporarily consist in focusing on safety, governance and efficiency.

34. **Our capacity building efforts in the field of prudential regulation and supervision are progressing.** The 2014–2018 Strategic Action Plan (SAP) developed with the Middle East Technical Assistance Center (METAC) continues to be implemented, with the assistance of a range of donors, and will be further supported by a new World Bank project under preparation and soon to be finalized. An update of the SAP will take place by mid-2017, including an extension to incorporate

a bank resolution framework. IMF targeted technical assistance, in support of the SAP implementation, has been requested in the area of stress-testing.

35. **We will establish Financial Stability Council (FSC) as a crisis preparedness mechanism to facilitate the operational coordination among the authorities.** The FSC mandate will be spelled out in a presidential decree and a Memorandum of Understanding between the MoF and DAB. The FSC will develop contingency plans and perform crisis simulations to test the capacity of the authorities to respond to severe scenarios.

Toward a More Growth-Friendly Financial Sector

36. **We are in the process of requesting the World Bank to provide support to develop a "National Financial Inclusion Strategy."** We expect to start this effort at the national level by the third quarter of 2016 and finalize the strategy towards the end of 2017 under the leadership of DAB. The strategy will include a comprehensive "access to finance" agenda, including for agriculture where the diverse grass root initiatives will be coordinated with the action of the Agriculture Development Fund to leverage their impact. The strategy will target an improvement in the financial sector infrastructure, introduce a wider range of financial instruments, facilitate financial intermediation and support innovative financing for the private sector. Key components of the strategy will also consider strengthening consumer protection, improving financial literacy, and building capacity for the commercial banks' staff.

37. **We are also coordinating with the banking profession to prudently foster intermediation.** The banking system's particularly low loan-to-deposit ratio of 16 percent is an impediment to growth in the private sector. While the SOCBs focus on the resolution of their pending issues, the most robust of the private banks have room to prudently and gradually expand their loan portfolios and the range of funding techniques that they offer to their customers. DAB will adjust its communication with them and review regulations that might be overly demanding, discouraging intermediation even by the strongest banks. We will promote broader use of the public credit registry and collateral registry by banks and we will take measures to encourage term lending instead of bank overdrafts.

Safeguards Assessment

38. **We are committed to meeting all the requirements of the Fund's Safeguards Assessments Policy.** We have provided Fund staff with all requested information and documentation, and have held discussions with Fund staff concerning the results of the most recent external audits of DAB. We will submit amended DAB Law to Parliament in line with recommendations of IMF's 2017 safeguard assessment mission which will include provisions on DAB's mandate, institutional and personal autonomy, rules of profit distribution, recapitalization, and foreign reserve management. We are also committed to implementing any other safeguards related recommendation, including in the legal area, under the deadlines agreed with Fund staff.

Economic Governance

39. **Our government puts anti-corruption efforts high on its agenda and has taken steps to improve the legal framework, strengthen the institutional framework.** A High Council for Good Governance, Justice, and Anti-Corruption has been established and chaired by the President to coordinate the development of a national strategy on anti-corruption, facilitate inter-agency collaboration, and consolidate anti-corruption enforcement efforts. We have taken steps to strengthen the legal framework notably by preparing draft provisions aiming to criminalize corruption in line with UNCAC. We are also preparing a draft new law on anti-corruption. In the judicial system, we are working with the Supreme Court, in line with the legislation, towards the designation of a special court for financial crimes, with a jurisdiction for, inter alia, tax and customs crimes and the laundering of their proceeds. In addition, we have published asset declarations of top-rank officials (ministers and above) in Dari on http://anti-corruption.gov.af/en, while English versions will be available by end June 2017. We have also submitted legislation to parliament and will pursue its enactment by end-December 2017 (structural benchmark) to implement annual asset declaration requirements that cover heads and deputies of law enforcement agencies, customs and tax directorates, in addition to officials mentioned in Article 154 of the Constitution, covering both assets legally owned and beneficially owned, with proportionate and dissuasive sanctions for non- compliance. Once the legislation is enacted, the declarations of officials not listed in Article 154 of the Constitution will be available in a timely manner upon request to, at a minimum, domestic law enforcement agencies and the Financial Intelligence Unit. Information in Dari and in English on the name and functions of such other senior officials who have declared their assets for the previous year, will be made available by end-March 2018 (structural benchmark) on http://anti-corruption.gov.af/en, updated on an annual basis, and on the mechanisms to access their declarations.

40. **We have also completed the action plan agreed with the Financial Action Task Force (FATF) with a view to exiting FATF's monitoring process, pending the outcomes of an on-site visit by the FATF scheduled before June 2017.** Furthermore, we are implementing the revised regulation on currency reporting to allow detection and deterrence of physical cross-border movement of illegal proceeds. We have adopted a revised declaration form template and working procedures and are publishing implementation statistics starting from January 2017 on the FinTRACA website. Building on the progress made in establishing the AML/CFT legal framework, we will focus on stepping up the implementation. In particular, we will continue to implement the fit and proper regulation. The regulation is currently being applied to assess applications for transfer of shares in financial institutions, and new appointments of key positions in banks. We are also in the process of collecting relevant information from all banks to test the fit and proper requirements existing directors, beneficial owners and senior management of banks. Nine banks have already submitted all required information, which we are currently reviewing, and we are aiming to finalize this process for all banks by June 2017. In addition, we are executing a pilot with two banks to introduce risk-based AML/CFT supervision of banks, with a view to applying the new risk-based AML/CFT off-site analysis and on-site inspections tools to the whole banking sector by January 2018. We will continue to regularly monitor money service providers (MSPs) to ensure adequate

implementation of AML/CFT measures by these entities. With respect to these MSPs, in addition to working on effective implementation of the recently amended money service providers' regulation that requires identification of customers, record keeping, and reporting transactions to FINTRACA, we have held workshops for MSP managers based in Kabul on their AML/CFT responsibilities in 2016, and we will continue to do so in 2017 (in Kabul and in the respective provinces).

41. **We will work to improve the timeliness and quality of our statistics.** We recognize the importance of reliable statistics for sound policy making. There are several deficiencies we plan to correct, particularly in the area of national accounts and balance of payments data. To help us with this effort, we plan to request technical assistance and training from our international partners, including the IMF. To improve the predictability of data provision to the public, we will introduce an advance data release calendar by June 2017.

D. Program Modalities

42. **We will closely monitor the implementation of the three-year ECF arrangement through July 19, 2019 with the help of quantitative targets and structural benchmarks.** The proposed performance criteria, indicative targets and structural benchmarks are attached to the memorandum of economic and financial policies in Tables 1 and 2. The ECF arrangement is monitored based on performance through the following test dates: December 20, 2016; June 21, 2017; December 21, 2017; June 21, 2018; December 21, 2018; and March 20, 2019. The second and third reviews of the program are scheduled to be completed on October 23, 2017 and April 23, 2018, respectively. The performance criteria, indicative targets, and the benchmarks are defined in the Technical Memorandum of Understanding.

43. **Commitments under Article VIII.** During the program period, we will not impose or intensify import 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 restrictions for balance of payments purposes.

44. **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. We also look forward to our continued engagement with the Fund and to an eventual resumption of Fund missions to Afghanistan.

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

(Cumulative, unless otherwise indicated 2016-December 2017) 1/

	2016	2017					2017
	Dec. 20	Mar.20	Jun.21		Sep.22	Dec.21	
	Beginning stocks	Est.	Performance criteria Original	Performance criteria Revised 2/	Indicative targets	Performance criteria	Year-end stocks
	(In billions of Afghanis, unless otherwise indicated)						
Performance criteria:							
Revenues of the central government (floor)	...	33.8	68.9	61.2	105.6	153.0	...
Net credit to the central government from DAB (ceiling) 3, 4/	-49.1	-23.3	-1.9	-11.1	-13.5	-11.1	-60.3
Reserve money (ceiling) 3, 4/	262.3	-17.0	12.5	15.3	23.3	31.5	293.8
Net international reserves of DAB (floor; in millions of U.S. dollars) 3, 4/	6,759	60.6	0.0	0.0	0.0	0.0	6,759
Non-concessional external debt, new 5, 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt, new (ceiling) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payments arrears, new (ceiling) 6, 7/	...	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) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets:							
Operating budget deficit, excluding grants (ceiling)	...	8.4	48.6	44.4	69.0	100.5	...
Treasury cash balance, discretionary (floor)	...	10.0	10.0	10.0	10.0	10.0	...
Currency in circulation (ceiling) 3, 4/	223.6	-13.6	11.4	11.4	17.4	23.5	247.1
Social and other priority spending (floor)	...	7.7	18.4	17.1	30.9	42.1	...
Memorandum items:							
Nominal external concessional borrowing (ceiling, in millions of U.S. dollars) 6/	...	0.0	0.0	0.0	0.0	0.0	...
Reference values for the adjustors:							
Core budget development spending	...	4.9	31.1	27.3	57.3	107.8	...
External financing of the core budget and sale of non-financial assets 8/	...	23.7	101.0	84.0	141.5	221.4	...

Source: Afghan authorities and IMF staff estimates/projections.

1/ The quantitative targets, indicative targets, their adjustors, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).
2/ Performance criteria and indicative targets were revised based on an updated macroframework.
3/ Cumulative from the beginning of the year.
4/ Monetary indicators are calculated based on modified methodology and, thus, differ from the numbers reported in the previous staff reports.
5/ Excludes IsDB loan (53.2 million Islamic Dinars) to be disbursed in 2017/Q2.
6/ These quantitative targets were applied on a continuous basis.
7/ 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.
8/ Includes operating and development donor assistance, external loans, and sale of non-financial assets.

Table 2. Islamic Republic of Afghanistan: Second Review Structural Benchmarks

Measure	Date	Rationale
Declarations of officials listed in Article 154 of the Constitution for 2016 will be published freely available and easily searchable on an official website in Dari and in English.	End-June 2017	Improve governance and fight corruption
Submit draft legislation to Parliament aiming to criminalize acts of corruption in line with the UNCAC.	End-June 2017	Improve governance and fight corruption
ARD and ACD to operationalize an automated interface for information sharing between the SIGTAS and ASYCUDA systems by June 2017, after developing the content (e.g. business receipt taxes collected at customs) and format of information to be shared through the interface.	End-June 2017	Improve revenue collection efficiency and reduce leakages
Demonstrate progress in implementing the EITI Standard. In particular, 1. Appoint a senior individual who has the confidence of all stakeholders, the authority and freedom to coordinate action across relevant ministries and agencies, and can mobilize resources for EITI implementation. 2. Give LTO responsibility for all major corporate mining and oil and gas taxpayers. 3. LTO and MoMP to prepare and maintain a list of all major corporate mining and oil and gas companies. 4. MoMP with assistance of MoF will submit to MoJ legislation requiring all major extractive companies to produce annually accounts audited by a certified public or independent chartered accountant.	End-June 2017	Improve transparency in the mineral sector of the economy
ACD to complete staffing and training of its specialized risk management unit in Customs headquarters, which will be responsible for preparing, testing, and updating comprehensive risk profiles to effectively identify and prioritize high-risk traders/shipments for physical examination and post release verification in all border crossing points and inland customs depots.	End-June 2017	Improve trader compliance and reduce corruption
Approval by parliament of the revised 2017 budget that: (i) includes a transfer to DAB of Af7.7 billion, plus interest to be agreed between the MoF and DAB, to further reduce DAB's lender of last resort exposure to Kabul Bank, and (ii) specifically provides for the allocation of $50 million from this amount payable first to the Kabul Bank Receivership before being transferred to DAB.	End-July 2017	Preserve financial stability
Ministry of Finance to pay the Kabul Bank Receivership the $50 million mentioned in the end-July 2017 structural benchmark, and the full amount of which is in turn transferred to DAB.	End-August 2017	Preserve financial stability

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

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

Attachment II. Technical Memorandum of Understanding

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

A. Program Exchange Rates and Gold Valuation

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

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

B. Quantitative Performance and Indicative Targets

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

- Floors on revenue of the central government and net international reserves (NIR); and

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

3. **The above variables also constitute indicative targets for March and September 2017.** In addition, the program includes the following indicative targets for the four above-mentioned dates:

- Ceiling on the operating budget deficit of the central government excluding grants; and

- Floor on treasury discretionary cash balance and social and other priority spending.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Under the definition of debt set out in paragraph 11 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

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

- The definition of "government" includes the budgetary central government, extra-budgetary central government, local government (including government departments), as well as official agencies that do not seek profit and whose budgets are issued independent of the annual operational or development budgets. The public sector comprises the government as defined above, the DAB, and nonfinancial public enterprises. Public enterprises are defined below in paragraph 15.[2]

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

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

11. The zero ceiling on **short-term external debt** applies on a continuous basis to the contracting or guaranteeing of new external debt by the public sector (as defined in paragraph 12 of this memorandum) with nonresidents, with an original maturity of up to and including one year.

- It applies to debt as defined in paragraph 11 of this memorandum.

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

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

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

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

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

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

- For the purposes of this performance criterion (i) "state-owned banks" refers to those banks that are wholly or majority owned by the government (as defined in paragraph 12 of this memorandum), including Bank Millie, Bank Pashtany and New Kabul Bank; (ii) "public enterprises in need of restructuring" refers to enterprises that meet either of the following: (a) public enterprises that have not had an audited balance sheet in the past two fiscal years; (b) public enterprises that have been identified by the Ministry of Finance for liquidation, or (c) public enterprises subject to restructuring plans that do not have cabinet-approved restructuring plans; and (iii) "public enterprises" refers to enterprises wholly or majority owned by the government, including state-owned enterprises covered by the State-Owned Enterprise (Tassady) Law, state-owned corporations covered by the Corporations and Limited Liability Companies Law, and other government entities (e.g., Microfinance Investment Support Facility for Afghanistan) and government agencies (e.g., Afghanistan Investment Support Agency) engaged in commercial activities but not covered by the Tassady Law.

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

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

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

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

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

C. Adjustors

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

Date	Accumulative over the Respective Year (Billion Afghani)
June 21, 2017	27.3
December 21, 2017	107.8

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

19. The NIR floor and NCG ceiling are defined consistent with the assumption that the **external financing of the core budget and receipts from the sale of non-financial 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, 2017	84.0
December 21, 2017	221.4

Should external financing of the core budget (including that associated with off-budgetary spending coming on budget) and the receipts from the sale of nonfinancial assets collectively exceed (fall short of) these projections, the NIR floor will be adjusted upward (downward) and the NCG ceiling will be adjusted downward (upward) by the difference between their actual level and the projected level. The downward adjustment to the NIR floor for these projections will be capped at US$600 million and the upward adjustment to the NCG ceiling for these projections will be capped at Af29 billion.

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

21. Should some **expenditure currently financed directly by donors outside the budget** be moved on to the operating budget, the NIR floor will be adjusted downward, and the NCG ceiling

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

D. Provision of Information to the Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

May 8, 2017

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, the World Bank, and the Asian Development Bank)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2017)

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	68.98	44.42

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF Arrangements	44.32	13.69

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	July 20, 2016	July 19, 2019	32.38	4.50
ECF	November 14, 2011	November 13, 2014	85.00	24.00
ECF[1/]	June 26, 2006	September 25, 2010	81.00	75.35
Stand-By	July 16, 1975	July 15, 1976	8.50	8.50

[1/] Formerly PRGF.

Projected Payments to Fund[1/]

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

	Forthcoming				
	2017	**2018**	**2019**	**2020**	**2021**
Principal	8.62	11.58	7.06	5.37	4.80
Charges/Interest	0.26	0.36	0.36	0.36	0.36
Total	**8.87**	**11.94**	**7.42**	**5.72**	**5.16**

Implementation of HIPC Initiative:

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

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

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

Implementation of MDRI Assistance: Not Applicable

Implementation of PCDR: Not Applicable

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

Nonfinancial Relations:

Exchange Arrangement

Afghanistan is an Article XIV member country. Afghanistan maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. The authorities confirmed their interest to move to Article VIII status. The *de jure* exchange rate regime is classified as managed floating, although the authorities have been implementing a *de facto* float system with no predetermined path for the exchange rate. On March 20, 2017, the average of the buying and selling exchange rates in cash transactions on the Kabul money exchange market was 67.87 Afghanis per U.S. dollar.

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

Article IV Consultation

The last Article IV consultation with Afghanistan was discussed by the Executive Board on November 18, 2015. Article IV consultations with Afghanistan are held in accordance with Decision No. 14747–(10/96) on consultation cycles adopted on September 28, 2010, as amended.

Safeguards Assessment

An update safeguards assessment of the DAB was completed in January 2017. The assessment found that the DAB continues to face significant capacity constraints and operational risks in light of the difficult security situation. Governance and external audit arrangements are nonetheless broadly sound, and work on draft amendments to the DAB Law had been initiated, with particular emphasis on provisions on DAB’s mandate, institutional and personal autonomy, rules of profit distribution, recapitalization, and foreign reserve management. However, progress has been slow in the work on the draft amendments, and in some other key areas such as the resolution of the Kabul Bank exposure and strengthening the internal audit function. The assessment recommended that full resolution of the DAB’s exposure to Kabul Bank be anchored by a signed agreement between the MOF and DAB with explicit repayment commitments in the period 2017–19. It also recommended that draft amendments to the DAB Law be submitted to Cabinet, and that controls over the compilation of program monetary data be strengthened.

Technical Assistance, 2011–17

Department	Dates	Purpose
FAD	January 2–12, 2011	PFM Assessment
	January 22–February 4,2011	Customs Administration
	April 1–13, 2011	Customs Administration
	September 15–22, 2011	Program Budgeting Reform
	January 14–18, 2012	Visit to Support SIGTAS Preparations
	January 14–25, 2012	VAT Introduction
	January 14–28, 2012	Customs Administration
	April 4–14, 2012	Follow-up mission (different TA topics)
	April 6–14, 2012	Follow-up mission to review PFM Roadmap
	April 4–14, 2012	Advancing Public Financial Management Reforms
	April 13–May 1, 2013	Customs Administration
	April 29–May 6, 2013	Public Financial Management Reform
	April 29–May 8, 2013	Follow-up mission PFM
	September 26–October 4, 2013	Reform of the Fiscal Regimes for the Extractive Industries
	April 15–21, 2015	Tax Policy for Extractive industries
	May 18–26, 2016	Public Financial Management
	February 20–24, 2017	Tax policy: Developing options for revenue mobilization (jointly with METAC)
LEG	September 21–26, 2013	Diagnostic Review of AML/CFT regime
	February 5–6, 2014	Awareness raising workshop for Parliamentarians (Dubai)
	April 28–May 2, 2014	AML/CFT training for DAB and FinTRACA officials
	November 10–14, 2014	TA on AML/CFT issues
	February 9–13, 2015	AML/CFT training for DAB and FinTRACA officials
	September 6–10, 2015	AML/CFT training for DAB and FinTRACA officials
	August 14–19, 2016	AML/CFT training for Afghan officials at STI in Singapore
MCD	August 29, 2011–August 2013	Resident monetary policy and banking advisor
MCM	July 3–5, 2012	Sukuk TA mission
	August 27–29, 2012	Follow-up TA on Sukuk
	November 11–13, 2012	Sukuk TA mission
	February 11–13, 2013	Sukuk Issuance
	May 11–19, 2013	Strengthening the Central Bank's Operations
	September 7–22, 2013	Strengthening the Central Bank's Operations: Update on Monetary Policy Implementation
	December 7–11, 2013	Strengthening the Central Bank's Operations
	March 1–March20, 2015	Problem bank management
	September 8–21, 2015	Problem bank management

	December 4–18, 2015 February 24–March 6, 2016	Problem bank management Problem bank management
METAC[1]	January 2–11, 2011 January 10–14, 2011 April 7–12, 2012 May 22–26, 2011 October, 2011 December 10–19, 2011 January 14–18, 2012 February 11–14, 2012 April 7–12, 2012 April 15–26, 2012 June 16–27, 2012 June 24–27, 2012 September 17–20, 2012 November 3–12, 2012 November 4–14, 2012 January 15–22, 2013 February 16–20, 2013 March 30–April 8, 2013 November 2–20, 2013 January 5–16, 2014 November 3–7, 2014 September 8–12, 2014 February 2–25, 2015 September 7–11, 2015 May 8–12, 2016 Aug 29–Sep 1, 2016 Feb 12-21, 2017	Financial Planning, Budget Classification Tax Information Systems (workshop) Developing Regulations Sukuk Workshop and TA in Dubai General banking supervision issues Consumer price statistics Follow-up on tax administration reforms Sukuk TA Mission Developing regulations Consumer price statistics Enhancing the enforcement framework at DAB Balance of Payments and International Investment Position Statistics Study mission to Lebanon on VAT implementation Review of off-site function Cash Management / Financial Plans Follow-up on Enforcement Framework Balance of Payments and International Investment Position Statistics Action Plan for Strengthening Banking Supervision Customs Administration External Sector Statistics External Sector Statistics VAT implementation / study tour in Beirut Tax and Customs administration External Sector Statistics National Accounts Training on Dealing with Weak Banks External Sector Statistics
STA	October 24–November 3, 2011 February 6–17, 2012 April 29–May 12, 2012 January 25–February 5, 2014 February 8–12, 2016 July 31–August 11, 2016	Monetary and financial statistics National accounts statistics National accounts statistics Price Statistics Price Statistics Monetary and financial statistics
[1] Afghanistan is a participant in the Middle East Technical Assistance Cente		

Resident Representatives

Mr. de Schaetzen; August 2002–June 2005

Mr. Charap; June 2005–June 2008

Mr. Abdallah; June 2008–January 2014

RELATIONS WITH THE WORLD BANK

(As of March 2017)

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

2. Since 2002, the International Development Association (IDA) has committed a total of US$3.6 billion in grants (86 percent) and credits (14 percent) in Afghanistan. In addition, the Afghanistan Reconstruction Trust Fund (ARTF) has generated US$9.5 billion from 34 donors, and committed US$4.2 billion for the government's recurrent costs and US$4.5 billion for government investment programs. As of October 2016, there were thirty active investment projects in the portfolio in key sectors including agriculture and rural development, health, education, infrastructure, and public financial management.

3. The Bank also administers the ARTF—the World Bank Group's largest single-country multi-donor trust fund. The ARTF provides grant support to Afghanistan based on a three-year rolling financing strategy. Together, the IDA and the ARTF provide close to US$1 billion per year in grant resources (about US$200 million from IDA and about US$800–US$900 million from the ARTF). The ARTF is a key vehicle for providing the Government with predictable and transparent on-budget financing and provides a platform for policy dialogue between Government and donors.

4. In FY 2017, the World Bank Board approved the Citizen's Charter Afghanistan Project which aims to improve the delivery of core infrastructure and social services to participating communities through strengthened Community Development Councils. This project was financed from a combination of IDA resources (US$100 million) and ARTF funds (US$400 million). Under the ARTF, two new projects were approved including US$2.9 million for the Urban Development Support Program, US$4.95 million for the Support to the Afghanistan Independent Land Authority Program. Additional financing for existing projects included US$70 million for the Irrigation Restoration and Development Project, US$90 million for the National Horticulture and Livestock Project, and US$57.3 million for the Emergency National Solidarity Project.

5. The World Bank continues to engage in rigorous analytical work and places large emphasis on policy dialogue. These non-lending activities have been supportive of the Bank's lending program and have played a crucial role in informing government of its strategic choices and advancing dialogue between the Government of Afghanistan and its international development partners. The ARTF Research and Analysis Program (RAP) was recently established to support the government's policy reform agenda and decision-making. The program provides an opportunity to introduce innovative ways of working with the government, universities and local research

institutions to undertake analysis and generate knowledge. As part of the RAP, the Bank is currently engaged in a series of analytical work to enhance understanding of Afghanistan's growth and fragility challenges and to inform development response by Government and international development partners. The initial results of this work were presented at the 2016 Brussels Conference on Afghanistan.

6. IFC's committed Investment portfolio in Afghanistan has more than doubled between FY08 and FY14—from around US$58 million to about US$135 million in FY14. Currently, IFC's portfolio stands at about US$54 million and includes one investment in the telecommunication sector (Roshan), one investment in the hotel sector (TPS), and two operations in financial markets (First Microfinance Bank, Afghanistan International Bank—trade facility). IFC's investments have had a transformational impact (in terms of access to finance and outreach), particularly in the microfinance and telecommunication sectors. IFC's Advisory Services program has been supporting the Investment program in the areas of access to finance, Small and Medium Enterprises (SMEs) capacity development, horticulture/agribusiness, and investment climate. IFC will continue to seek new investment opportunities and engage with local players in order to support the development of Afghanistan's private sector, particularly in the areas of infrastructure, finance, manufacturing, agribusiness, and services.

7. The Multilateral Investment Guarantee Agency (MIGA) has US$117.5 million of gross exposure in Afghanistan, supporting telecoms and agribusiness projects. In 2013 MIGA launched its Conflict Affected and Fragile Economies Facility, which is supporting the agency's exposure in Afghanistan. MIGA is currently supporting three projects in Afghanistan, of which one is a joint effort with IFC in the telecoms sector (supporting telecom operator MTN). The other two operations are MIGA-only dairy and cashmere production projects.

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

(As of April 2017)

1. The Afghanistan country teams of the World Bank (led by Mr. Chaudhuri, country director) and the IMF (led by Mr. Duenwald) held several consultations in 2016 and 2017. The teams regularly exchanged views on the recent economic developments and outlook, identified the macroeconomic priorities and challenges facing Afghanistan, and discussed ways to coordinate their respective work programs.

2. As noted, the Bank's work program is guided by the Country Partnership Framework (CPF) for 2017-2020. The new CPF envisages that the Bank will continue to expand its support to expanding education and health services, energy, rural infrastructure, as well as institutions and processes associated with transparent economic and financial management. Regarding economic management, in 2016 and continuing into 2017, the Bank has supported the government with technical assistance in the areas of customs reforms, revenue administration, public financial management, debt management, public investment management, and economic statistics. The Bank will also continue to support the Government's efforts towards greater financial inclusion. Under the ARTF, the Incentive Program (IP) provides funds for achievements in revenue mobilization, strengthening PFM and revenue administration systems (including customs), improving tax policy, the investment climate, and land administration. Since January 2013, the IP has also supported the government's operation and maintenance expenditures. The IP provides a total financing envelope of US$900 million for 2015–2017. The Bank is also preparing a US$100 million Development Policy Grant supporting a range of policy and legislative reforms to expand opportunities for the vulnerable and enable private sector development.

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

4. To help the authorities build on past achievements, the Fund provides continuous advice on macro-financial policies, structural reforms in its areas of comparative, and delivers technical assistance and training. Technical assistance has been provided to the central bank on problem bank management, and monetary, financial and external sector statistics. It has also provided TA to the

Ministry of Finance, mainly in the areas of tax policy and administration, and public financial management. The Fund will continue its close engagement with Afghanistan.

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

	Products	Preparations/Mission Timing[1]	Delivery[1]
Fund	ECF Arrangement	2016–19	July 2016
	Article IV Consultation and Second Review under ECF	September 2017	November 2017
	Third Review under ECF	February/March 2018	May 2018
	Areas of Technical Assistance: Bank restructuring and problem bank management, financial sector supervision, revenue administration, customs and border management, tax policy, public financial management, foreign exchange regulation, AML/CFT, banking law, treasury securities, statistics (national accounts, prices, government finance, monetary, balance of payments, GDDS)		
Bank	Inclusive Growth Development Policy Grant	June 2016–June 2017	June 2017
	Support to Fiscal Performance Improvement Plan implementation	January 2017–December 2020	continuous
	ARTF IP Program (2018–2020), Preparation of MoU	April–August 2017	September 2017
	Study: Revenue Review	April 2015–May 2017	May 2017
	Economic Monitoring	Continuous	
	Debt Management Assistance	February 2016–June 2018	continuous
	Growth and Fragility Report	January 2016–December 2017	December 2017
	Sukuk Market and Pension Reform TA	May 2016–June 2018	
	Fiscal Sustainability Analysis (long-term)	January 2016–September 2016	September 2016
Joint	AML/CFT follow-up	Continuous	
	Dialogue on revenue mobilization	Continuous	
	Dialogue on macro-fiscal stability	Continuous	
	Strengthening of the banking sector	Continuous	
	Debt management	Continuous	

[1] Timing is tentative

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of December 2016)

1. Afghanistan is a founding member of the Asian Development Bank (ADB), established in 1966. Resuming its partnership with Afghanistan, after a hiatus from 1980 to 2001, ADB supports the country's Afghanistan National Peace and Development Framework (ANPDF) which was presented by the Government of Afghanistan at the Brussels Conference on Afghanistan in October 2016 as country's new development strategy document. ADB has demonstrated strong commitment to Afghanistan's development priorities through participation in the London, Kabul, Chicago and Tokyo conferences and reaffirmed its medium- to long-term partnership at the 2014 London conferences, subsequent meetings of senior officials in 2015 and the 2016 Brussels Conference on Afghanistan.

2. Current ADB operations in Afghanistan are based on the Country Operations Business Plan (COBP) 2017–2019 that extends the priorities under the Interim Country Partnership Strategy (CPS) 2014–2015. The COBP is aligned with the Interim CPS (extended to cover 2016) and a new CPS that will be prepared for the period 2017–2021. The new CPS will be based on the ANPDF, National Infrastructure Plan (NIP) and other relevant National Priority Programs (NPPs). The current COBP is fully aligned with ANPDF, NIP and relevant NPPs—the backbone documents for economic and social development—with ADB's investments contributing to Afghanistan's socio-economic development. The COBP continues ADB's focus on Afghanistan's energy, transport, and agriculture and natural resources sectors and will promote inclusive economic growth, regional integration, governance, and capacity development.

3. ADB is one of the largest donors to the government of Afghanistan. By end-December 2016, ADB's total assistance comprising grants, loans, and technical assistance (TA) reached US$4.9 billion. Since 2007, ADB has provided all of its public sector assistance on a 100 percent grant basis. Grants make up around 74 percent of ADB's overall assistance to Afghanistan. In 2017, ADB plans to approve $294.8 million in funding for Afghanistan, including $219.8 million from the Asian Development Fund (ADF) and $75 million in co-financing.

4. ADB supports co-financing of its projects to increase synergies by combining the strengths of development partners, governments, multilateral financing institutions, commercial organizations, and ADB itself. As of December 31, 2016, the cumulative direct value-added official co-financing amounted to US$903.1 million for 27 investment projects and US$26.4 million for 17 TA projects. ADB manages the Afghanistan Infrastructure Trust Fund (AITF)—a financing modality for development partners and private sector who are interested in pooling resources to finance infrastructure projects in Afghanistan. AITF allows development partners to meet the pledge of 50 percent on-budget and 80 percent alignment with NPPs as agreed in the 2010 Kabul Conference. As of 31 December 2016, the total amount pledged by AITF donors was $789 million, total amount committed was $648 million and the total amount received was $466.2 million from the governments of Japan ($127.5 million), United States ($113.0 million and another $40 million has been committed past the reporting period), United Kingdom ($85.7 million out of total commitment

of $228 million) and the NATO Trust Fund (comprising five governments; $140 million out of a total pledged of $200 million). Kreditanstalt fuer Wiederaufbau (KfW) has also pledged €75 million ($81 million).

5. ADB is the largest on-budget donor in the transport sector. As of December 31, 2016, ADB has provided US$2.55 billion to construct or upgrade over 1,700 km of regional and national roads across Afghanistan. This includes US$808 million for the Transport Network Development Investment Program, which has more than halved travel times on 570 km of regional and national roads. ADB is also financing the rehabilitation of 232 km of the ring road, as well as supporting a feasibility study and engineering design for the Salang Tunnel, as part of the Central Asia Regional Economic Cooperation (CAREC) Corridors 5 and 6. ADB has also helped rehabilitate four regional airports, increasing passenger volumes now more than double the pre-upgrade levels. ADB funded Afghanistan's first railway line between Mazar-e-Sharif and the border of Uzbekistan, which became fully operational in 2012.The line carries around 3 million tons of freight per year. ADB supported the establishment of the Afghanistan Railway Authority to regulate and ensure the sustainability of the railway sector.

6. As the largest on-budget donor for Afghanistan's energy sector, ADB has helped deliver electricity to more than 5 million people. To date, ADB has provided nearly US$1.43 billion to support energy infrastructure in Afghanistan. An additional $1 billion is planned for 2016–24, to support energy infrastructure in Afghanistan. These projects include construction of 1,500 km of power transmission lines, 16 substations, 143,000 new power distribution connections to electricity grid and system and 8 gas wells, to strengthen country's energy supply chain. The technical assistance projects provide policy and analytical support through the Inter-Ministerial Commission (IMC), Renewable Energy, Gas Sector Development Master Plan, and Energy Sector Master Plans. ADB is also contributing to policy dialogue and donor coordination in the sector, including the financing of master plans for the power and gas subsectors. Key regional projects for Afghanistan are being supported under the Central Asia-South Asia Regional Electricity Markets including the Turkmenistan, Afghanistan, Pakistan, and India (TAPI) gas pipeline project and the Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, and Pakistan (TUTAP) electricity project.

7. The natural resources sector is another government priority sector assisted by ADB. As of December 31, 2016, total investment reached US$584 million to rehabilitate and establish new irrigation and agricultural infrastructure, and strengthen the institutional environment to facilitate economic growth and improve water resources management. Around 160,000 hectares of irrigated land have been rehabilitated and upgraded, with work continuing on an additional 260,000 hectares. The investments have led to a more efficient use of water resources, a rise in agricultural productivity, and improved farm livelihoods.

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

9. ADB's private sector operations in Afghanistan began in 2004. As of December 31, 2016, cumulative approvals in six projects have amounted to US$198.1 million. Total outstanding balances and undisbursed commitments to private sector projects amounted to US$3.5 million. One of the major private sector projects is the lending to Roshan Cellular Telecommunications Project. ADB provided financial assistance in the form of direct loans totaling US$70 million for Phases 1 and 2 of the project, as well as B loans and a political risk guarantee. In 2008, ADB approved a direct loan of US$60 million to finance Roshan's Phase 3 expansion. In 2012, this project received an award for Excellence in Fragile States Engagement from the U.S. Treasury. In the financial sector, ADB invested US$2.6 million in Afghanistan International Bank (AIB), thus establishing the first private commercial bank in the post-Taliban regime. Awarded by The Banker Magazine of Financial Times Newspaper as the best bank in Afghanistan for four straight years (2012, 2013, 2014, and 2015), it is the largest and most profitable bank in Afghanistan with a balance sheet just short of US$1 billion. In January 2016, ADB divested its last shares of AIB but had received US$11.2 million from dividends and put options.

10. ADB is an active member of the Joint Coordination and Monitoring Board (JCMB) and the Afghanistan Reconstruction Trust Fund Management Committee. Furthermore, ADB takes the lead in the infrastructure sector and regional cooperation-related policy dialogues. The ADB supported the preparation of NIP and regional side event at the 2016 Brussels Conference. ADB is a member of the 5+3+3 donor group to ensure coordination and harmonization among donors and the government over policy reforms and development programs. ADB consults continuously with civil society and non-governmental organizations with regard to project design and implementation.

STATISTICAL ISSUES

(As of March 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The key data shortcomings are in national accounts and in the external sector mainly due to organizational weaknesses and difficult security situation.
National Accounts: The compilation broadly follows the *System of National Accounts 1993 (1993 SNA)*. GDP is compiled on an annual basis by the production and expenditure approaches (the latter in current prices only). GDP follow-up series rely mostly on indicator's extrapolation. The reliability of the indicator series is uncertain since the coverage for various economic activities is limited. Data gaps are severe for some provinces and some activities. Informal activities are only partially measured. Foreign trade data should be improved in terms of coverage, concepts, and timeliness. The 2002–2003 base year is more than 10 years old and needs to be updated.
Price Statistics: The CSO compiles and publishes monthly consumer price based on data collected from 20 cities/provinces and the capital city Kabul. Data from the 2013/2014 Afghan Living Condition Survey was used to update the index weights and to expand its coverage. Base year was changed from March 2011 to April 2015. Significant improvements are required to align the CPI to international standards and best practices: improving the index calculation, treatment of missing prices, data collection methods, and quality adjustment methods. The CSO faces resource and capacity constraints, and data collection issues tend to results in significant delays. There is currently no PPI for Afghanistan, but there are plans to develop one (dependent on staff and budgetary resources).
Government Finance Statistics: Fiscal data are compiled for the central and general government on cash basis based on the Government Finance Statistics Manual 2001 (GFSM 2001). The timeliness and quality of the central and general government core budget data have been improving, particularly after completion of the roll out and connectivity of the Afghanistan Financial Management Information System (AFMIS) to all central government line ministries and agencies in Kabul and all provincial offices. With IMF support, the Ministry of Finance is implementing GFSM 2001, with annual data for both above and below the line transactions being reported. The authorities are reporting monthly GFS data to the IMF for the central government core budget and the ministry is also working on expanding the coverage of monthly and quarterly GFS data to general government.
Monetary and Financial Statistics: Da Afghanistan Bank (DAB) reports 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 two months. However, the SRF 1SR was compiled manually and there were data reporting issues arising from the restructuring of the Kabul Bank. A mission on monetary and financial statistics was conducted in August 2016 and assisted the DAB in developing a classification scheme to automatically generate the SRF 1SR for the central bank and addressing data reporting issues, including those arising from the restructuring of the Kabul Bank.

Financial sector surveillance: Afghanistan reports 11 of the 12 core financial soundness indicators (FSIs) and 9 of the 13 encouraged FSIs for deposit takers, and 2 FSIs for real estate markets on a quarterly basis for posting on the IMF's FSI website with one quarter lag.	
External sector statistics: Balance of payments and international investment position (IIP) statistics have been compiled according to the sixth edition of Balance of Payments and International Investment Position Manual since 2016. Several TA missions provided by METAC have assisted the DAB in improving international accounts compilation in the past years up to February2017. Although net errors and omissions remain considerable, data coverage has improved and net errors and omissions have decreased. A direct investment survey is needed and consistently revised historical data should be compiled.	
II. Data Standards and Quality	
Afghanistan, which has been a GDDS participant since June 2006, is currently in its successor data dissemination initiative, e-GDDS.	No data ROSC has been done.

Table of Common Indicators Required for Surveillance

(As of March 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	March/2017	3/31/2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March/2017	4/4/2017	M	M	M
Reserve/Base Money	March/2017	4/4/2017	M	M	M
Broad Money	Feb/2017	4/4/2017	M	M	M
Central Bank Balance Sheet	March/2017	4/4/2017	M	M	M
Consolidated Balance Sheet of the Banking System	Feb/2017	3/4/2017	M	M	M
Interest Rates[2]	Dec/2016	2/06/2017	D	M	M
Consumer Price Index	March/2017	4/4/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	--	--	--	--	--
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec/2016	1/15/2017	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2016Q4	02/02/2017	Q	Q	Q
External Current Account Balance	2016Q4	1/20/2017	Q	Q	Q
Exports and Imports of Goods and Services	2016Q4	1/20/2017	Q	Q	Q
GDP/GNP	2015	1/6/2016	A	A	A
Gross External Debt	...	...	...	...	...
International Investment Position[6]	2015Q2	07/27/2015	A	A	A

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

ISLAMIC REPUBLIC OF AFGHANISTAN

May 8, 2017

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

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The conclusions of the last debt sustainability analysis for Afghanistan remain valid. The country continues to be assessed at high risk of external debt distress. Although public debt remains modest at slightly below 8½ percent of GDP, Afghanistan's debt sustainability will hinge critically on continued donor grant inflows (estimated at 39 percent of GDP in 2016, including both on and off-budget grants) under substantial fiscal and external deficits and downside risks to the economic outlook. The planned contracting of non-concessional loans from the Islamic Development Bank (US$72 million[2] does not noticeably impact the debt sustainability profile.

Changes in the structure of donor financing with a gradual shift to loan financing (a customized illustrative scenario) would quickly lead to an unsustainable debt burden. Other significant downside risks include the fragile security situation, political uncertainty, domestic revenue shortfalls and the potential for more rapid exchange rate depreciation.

Accordingly, the authorities should continue their efforts to mobilize revenue and press ahead with their reform efforts, while donors should continue to provide financing in the form of grants.

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[1] This DSA was prepared by IMF and World Bank staff, using the standard debt sustainability framework for low-income countries (LIC-DSA); see "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries." http://www.imf.org/external/np/pp/eng/2013/110513.pdf. The LIC-DSA compares the evolution over the projection period of debt-burden indicators against policy-dependent indicative thresholds, using the three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA). With an average 2013-15 CPIA of 2.7, Afghanistan is classified as having "weak performance" under the LIC-DSF.

[2] The two loans of about US$4.5 million and US$67.5 million have grant elements of 49.6 and 55.6 percent respectively, below the 60 percent threshold required for Afghanistan per the Technical Memorandum of Understanding

BACKGROUND

1. **This joint International Monetary Fund (IMF) and World Bank (WB) DSA updates the DSA conducted in July 2016 for the request for a three-year Extended Credit Facility (ECF) arrangement**. The DSA is based on end-2016 data and the baseline scenario of the first review of the arrangement under the ECF. Public debt recording and monitoring needs to be strengthened: the latest IMF assessment of public debt recording and monitoring capacity, made in consultation with the World Bank (November 2016), pointed to the need to build stronger capacity in this area.

UNDERLYING DSA ASSUMPTIONS

The DSA's baseline macroeconomic scenario assumes some long-run improvements in security and political stability with implementation of reform and a decline in aid dependence. Compared with the July 2016 DSA, prospects for growth have weakened somewhat over the near- and medium term. This reflects continued uncertainties about security conditions which heavily influence economic confidence and the pace of reforms. In the medium- and long term, the baseline scenario assumes political stability with regular election cycles and economic reform with the government delivering on Afghanistan's development goals and priorities that improve the business environment and governance to support private-sector-led inclusive growth. As in the previous DSA, the scenario incorporates a gradual decline in donor aid disbursements with an increasing share being disbursed through the budget and provided to the civilian sector. Grants and exports are somewhat lower in the revised long-term scenario.

Macroeconomic Assumptions Comparison Table

	DSA July 2016		DSA update April 2017		Current vs. previous	
	2015-19	Long term 1/	2015-19	Long term 1/	2015-19	Long term
Real growth (%)	3.1	5.0	2.7	5.0	-0.5	0.0
Inflation (GDP, deflator, %)	5.3	5.1	4.9	4.7	-0.4	-0.4
Nominal GDP (Billions of Afghanis)	1446	4467	1423	4081	-23.1	-386
Revenue and grants (% GDP)	27.6	28.2	26.5	27.6	-1.1	-0.6
Grants (% GDP)	16.9	12.8	15.6	12.4	-1.3	-0.5
Primary expenditure (% GDP)	27.8	28.8	26.6	28.9	-1.1	0.1
Primary balance (% GDP)	-0.1	-0.6	0.1	1.3	0.2	1.9
Exports of G&S (% GDP)	11.7	16.9	6.5	9.6	-5.2	-7.2
Noninterest current account balance (%GDP)	1.4	-4.3	4.0	-2.6	2.6	1.7

1/ Last 15 years of the projection period.

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

EXTERNAL DSA

2. **Assuming continued donor support in the form of grants, Afghanistan's debt outlook is benign.** Afghanistan's public debt remains modest. The country passed the HIPC completion point and received debt relief in 2006. External public and publicly guaranteed debt, mostly to multilateral creditors, amounted to 6½ percent of GDP in 2016.[3, 4] A limited amount of concessional borrowing and the planned contracting of non-concessional loans from the Islamic Development Bank (US$72 million), linked to large infrastructure projects with potentially high rates of economic and social returns, are embedded in the medium-term baseline scenario.

3. **Risks of a fall in grant financing put Afghanistan at a high risk of external debt distress.** A customized illustrative scenario assumes a change in the structure of financing with a shift of 15 percent of grants towards concessional lending from 2020 onward. Under such a scenario, one external debt burden indicator threshold is breached (the present value of debt to exports ratio), and it is noted that dynamics for all solvency and liquidity indicators deteriorate over the period.[5]

PUBLIC DSA

4. **The baseline scenario assumes that the government will start issuing domestic public debt in 2020.** The only domestic component of public debt (1.8 percent of GDP in 2016) is currently a promissory note issued by the Ministry of Finance in 2012 to underwrite DAB's lender-of-last-resort exposure to Kabul Bank; consistent with the conditionality of the ECF, it is expected to be fully repaid through capital transfers to DAB by end-2019. Starting in 2020, the country is assumed to start issuing domestic public debt (sukuk) which is assumed to become a significant source of finance by the end of the forecast period. Support for capacity building is being provided by the World Bank, to strengthen institutional arrangements for debt recording and management.

CONCLUSIONS

5. **Afghanistan's debt sustainability hinges on continued donor grant inflows**. The debt outlook under the baseline scenario is benign. However, a change in the structure of donor financing with a shift to loans (a customized illustrative scenario) would quickly lead to an unsustainable debt burden. Afghanistan remains at a high risk of external debt distress.

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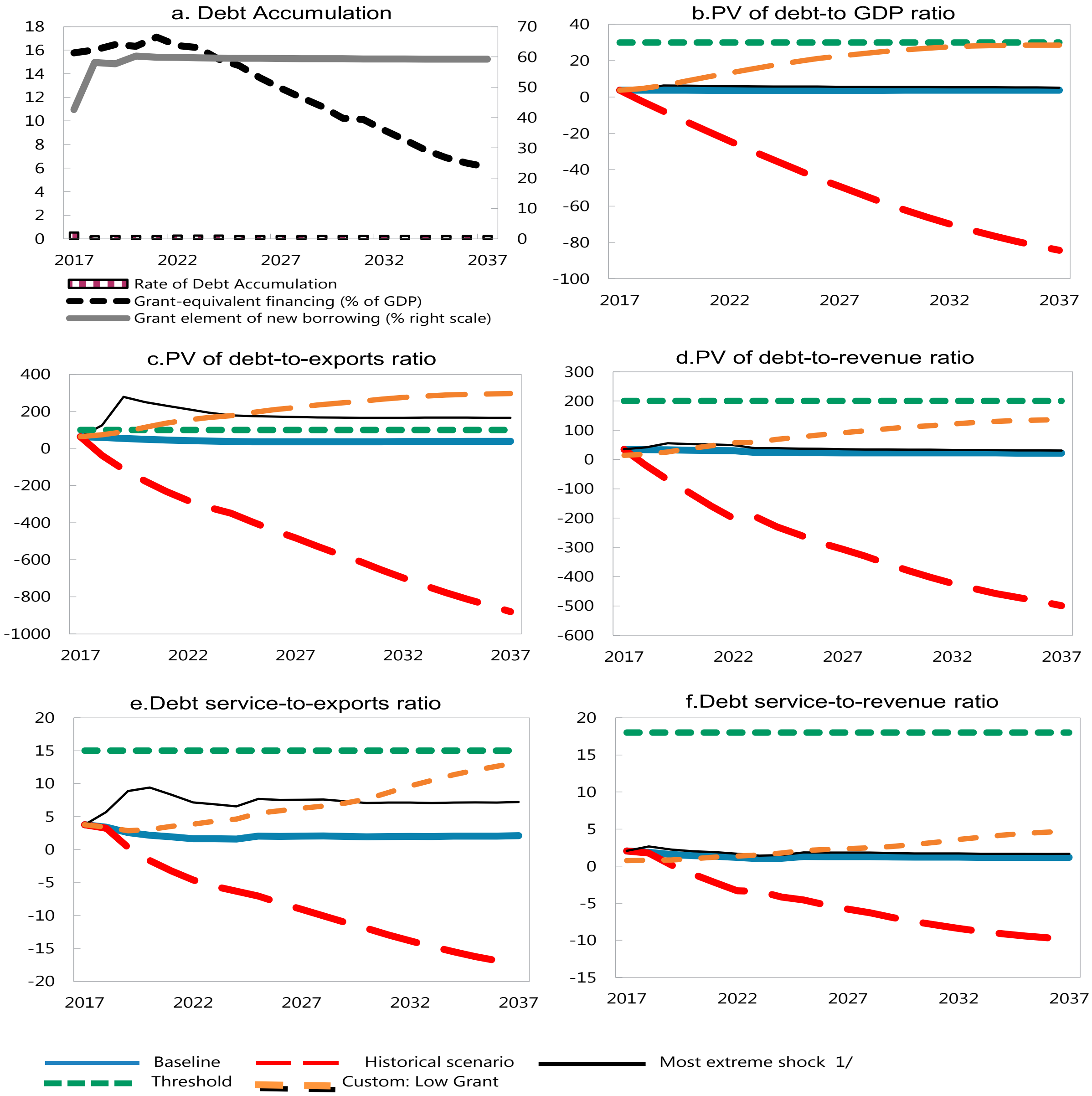
[3] This debt stock is after delivery of the already-pledged debt relief commitments. Afghanistan is still following up with one Paris Club creditor on its debt relief commitments, as well as with non-Paris Club creditors on debt relief on comparable terms. In terms of debt structure and composition, most of the external debt is owed to multilateral institutions, mainly regional and international financial institutions.

[4] Afghanistan owes a small amount (US$10 million) of pre-HIPC Initiative arrears to a non-Paris Club creditor, which continues to be not included in PPG external debt under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities have made best efforts to resolve the arrears.

[5] The scenario is subject to high uncertainties regarding the sources and uses of grants and concessional borrowing.

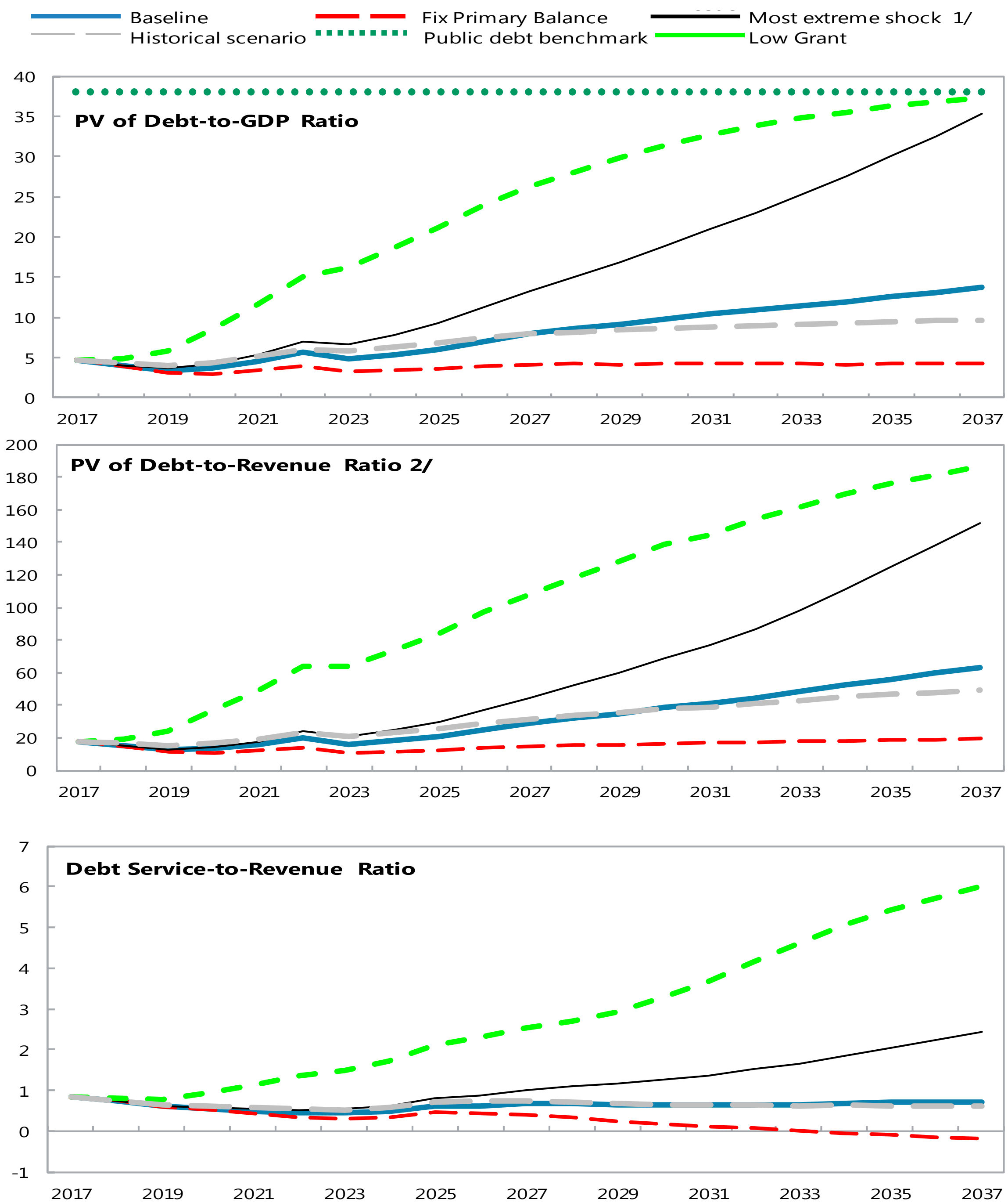
Figure 1. Islamic Republic of Afghanistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37 1/



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

1/ The most extreme stress test (under the standardized stress tests) is the test that yields the highest ratio on or before 2026 among the six bound tests in Table 1b.

Figure 2. Islamic Republic of Afghanistan: Indicators of Public Debt Under Alternative Scenarios, 2017–37 1/



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1a. Islamic Republic of Afghanistan: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**6.5**	**7.0**	**6.5**			**6.6**	**6.3**	**6.0**	**5.7**	**5.5**	**5.3**		**5.0**	**5.6**	
of which: public and publicly guaranteed (PPG)	6.5	7.0	6.5			6.6	6.3	6.0	5.7	5.5	5.3		5.0	5.6	
Change in external debt	-0.5	0.5	-0.5			0.1	-0.3	-0.3	-0.3	-0.3	-0.2		0.0	0.0	
Identified net debt-creating flows	-6.1	-3.5	-7.2			-6.0	-3.4	-3.3	-2.6	-1.8	-0.8		2.4	2.4	
Non-interest current account deficit	**-5.8**	**-2.9**	**-7.1**	**-17.7**	**17.9**	**-4.8**	**-2.7**	**-2.6**	**-1.9**	**-1.1**	**0.4**		**3.6**	**3.6**	3.5
Deficit in balance of goods and services	31.5	36.5	33.6			32.6	31.6	30.0	28.5	27.2	26.4		20.3	10.4	
Exports	9.7	7.4	5.8			5.9	6.2	7.0	7.6	8.1	8.6		10.1	9.5	
Imports	41.3	43.9	39.4			38.5	37.8	37.0	36.1	35.3	35.0		30.4	19.9	
Net current transfers (negative = inflow)	-37.3	-38.5	-40.5	-50.1	13.0	-36.8	-33.7	-32.1	-29.9	-27.7	-25.6		-16.3	-6.6	-13.6
of which: official	-38.0	-38.2	-39.3			-35.6	-32.4	-30.7	-28.4	-26.3	-24.1		-14.5	-5.3	
Other current account flows (negative = net inflow)	0.0	-0.9	-0.3			-0.6	-0.6	-0.6	-0.5	-0.5	-0.5		-0.4	-0.2	
Net FDI (negative = inflow)	**-0.2**	**-0.9**	**-0.4**	**-0.9**	**0.6**	**-1.1**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-1.0**		**-1.0**	**-1.0**	-1.0
Endogenous debt dynamics 2/	**0.0**	**0.2**	**0.3**			**-0.1**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**		**-0.2**	**-0.2**	
Contribution from nominal interest rate	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Contribution from real GDP growth	-0.1	-0.1	-0.1			-0.2	-0.2	-0.2	-0.3	-0.3	-0.3		-0.2	-0.2	
Contribution from price and exchange rate changes	0.0	0.3	0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**5.6**	**4.0**	**6.7**			**6.2**	**3.1**	**3.1**	**2.3**	**1.5**	**0.7**		**-2.5**	**-2.4**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	3.4			3.6	3.5	3.4	3.2	3.1	3.0		2.8	2.9	
In percent of exports	...	...	58.7			60.9	55.8	48.0	42.4	38.4	35.1		27.8	30.1	
PV of PPG external debt	**...**	**...**	**3.4**			**3.6**	**3.5**	**3.4**	**3.2**	**3.1**	**3.0**		**2.8**	**2.9**	
In percent of exports	**...**	**...**	**58.7**			**60.9**	**55.8**	**48.0**	**42.4**	**38.4**	**35.1**		**27.8**	**30.1**	
In percent of government revenues	**...**	**...**	**30.9**			**33.0**	**30.8**	**29.5**	**27.5**	**26.3**	**25.0**		**17.8**	**17.5**	
Debt service-to-exports ratio (in percent)	**4.0**	**3.1**	**3.9**			**3.7**	**3.3**	**2.4**	**2.0**	**1.8**	**1.5**		**1.8**	**1.7**	
PPG debt service-to-exports ratio (in percent)	**4.0**	**3.1**	**3.9**			**3.7**	**3.3**	**2.4**	**2.0**	**1.8**	**1.5**		**1.8**	**1.7**	
PPG debt service-to-revenue ratio (in percent)	**4.5**	**2.2**	**2.1**			**2.0**	**1.8**	**1.5**	**1.3**	**1.2**	**1.0**		**1.2**	**1.0**	
Total gross financing need (Billions of U.S. dollars)	-1.1	-0.7	-1.4			-1.2	-0.7	-0.7	-0.6	-0.4	-0.1		1.2	2.2	
Non-interest current account deficit that stabilizes debt ratio	-5.4	-3.4	-6.6			-4.9	-2.4	-2.4	-1.6	-0.8	0.6		3.7	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.3	0.8	2.0	7.5	6.6	3.0	3.5	4.0	4.5	5.0	5.5	4.2	4.8	4.8	5.0
GDP deflator in US dollar terms (change in percent)	-0.4	-4.0	-6.0	3.4	8.7	5.6	2.3	2.9	2.9	2.8	2.8	3.2	1.4	1.8	1.6
Effective interest rate (percent) 5/	0.4	0.5	0.4	0.3	0.1	0.6	0.7	0.7	0.7	0.8	0.8	0.7	0.6	0.9	0.7
Growth of exports of G&S (US dollar terms, in percent)	42.7	-26.8	-24.3	-1.8	32.0	11.1	11.2	20.7	16.9	14.8	15.2	15.0	7.1	5.6	7.5
Growth of imports of G&S (US dollar terms, in percent)	-17.9	2.8	-13.8	8.6	25.7	6.4	3.9	4.8	5.0	5.5	7.6	5.5	3.6	0.0	2.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.0	52.5	52.6	57.8	57.5	57.8	51.5	58.4	58.7	58.5
Government revenues (excluding grants, in percent of GDP)	8.6	10.2	11.0			10.9	11.3	11.4	11.8	11.8	12.1		15.8	16.3	15.9
Aid flows (in Billions of US dollars) 7/	3.2	2.9	3.0			3.2	3.4	3.8	4.0	4.6	4.7		5.0	4.3	
of which: Grants	3.1	2.9	3.0			3.2	3.4	3.8	4.0	4.5	4.7		4.9	4.1	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.6	15.8	16.3	16.1	16.9	16.2		12.3	5.6	10.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			97.4	99.3	99.2	99.4	99.3	99.2		98.4	96.4	97.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	20.4	19.7	18.9			20.6	21.8	23.3	25.0	27.0	29.3		40.6	77.5	
Nominal dollar GDP growth	0.9	-3.3	-4.1			8.8	5.9	7.0	7.5	8.0	8.5	7.6	6.2	6.7	6.7
PV of PPG external debt (in Billions of US dollars)			0.7			0.7	0.7	0.8	0.8	0.8	0.9		1.1	2.2	
(PVt-PVt-1)/GDPt-1 (in percent)						0.4	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Gross workers' remittances (Billions of US dollars)	0.1	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	3.4			3.6	3.5	3.4	3.2	3.1	3.0		2.8	2.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	54.2			56.6	52.1	45.2	40.3	36.7	33.6		26.9	29.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.6			3.5	3.1	2.3	1.9	1.7	1.4		1.8	1.6	

Sources: Afghan authorities; and IMF 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; errors and omissions; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 1b. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of debt-to GDP ratio								
Baseline	4	4	4	4	4	4	4	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	4	-2	-8	-13	-19	-24	-49	-84
A2. New public sector loans on less favorable terms in 2017-2037 2/	4	4	4	4	4	4	5	7
Customized 1: Lower Grants	4	5	6	9	11	13	23	28
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	4	5	6	6	6	6	6	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	4	3	1	1	1	1	1	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	1	-1	-1	-1	-1	0	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	4	5	5	5	5	5	5	5
PV of debt-to-exports ratio								
Baseline	64	60	54	49	45	42	36	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	64	-36	-112	-175	-232	-281	-483	-881
A2. New public sector loans on less favorable terms in 2017-2037 2/	64	62	58	55	53	51	52	70
Customized 1: Lower Grants	64	74	89	113	136	154	221	297
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	64	60	53	48	45	42	36	38
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	64	125	279	250	230	211	170	166
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	64	60	53	48	45	42	36	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	64	41	12	12	12	12	14	21
B5. Combination of B1-B4 using one-half standard deviation shocks	64	22	-26	-21	-16	-11	3	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	64	60	53	48	45	42	36	38
PV of debt-to-revenue ratio								
Baseline	35	33	33	32	31	30	23	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	35	-20	-69	-114	-159	-201	-307	-499
A2. New public sector loans on less favorable terms in 2017-2037 2/	35	35	35	36	36	36	33	39
Customized 1: Lower Grants	14	18	26	38	47	57	91	136
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	35	34	34	33	32	31	24	23
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	35	41	56	53	51	49	35	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	35	36	38	37	36	35	27	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	35	23	7	8	8	9	9	12
B5. Combination of B1-B4 using one-half standard deviation shocks	35	9	-9	-7	-6	-4	1	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	35	47	46	44	43	42	32	31

Table 2a. Islamic Republic of Afghanistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	6.5	9.3	8.3			7.9	7.4	7.0	6.9	6.9	8.0		11.2	21.6	
of which: foreign-currency denominated	6.5	7.0	6.5			6.9	6.9	7.0	6.9	6.8	6.8		7.0	7.5	
Change in public sector debt	-0.5	2.8	-1.0			-0.3	-0.5	-0.5	-0.1	0.0	1.1		1.3	1.1	
Identified debt-creating flows	1.4	2.3	-1.0			-0.9	-0.7	-0.5	0.0	0.2	0.7		1.1	1.1	
Primary deficit	1.7	1.4	-0.1	1.1	1.4	-0.5	-0.2	-0.1	0.4	0.6	1.2	0.2	1.7	2.6	1.6
Revenue and grants	24.0	25.0	26.9			26.3	26.9	27.6	27.8	28.6	28.1		28.4	22.6	26.6
of which: grants	15.4	14.9	15.9			15.4	15.7	16.1	16.0	16.8	16.1		12.4	5.7	10.3
Primary (noninterest) expenditure	25.7	26.4	26.7			25.8	26.7	27.5	28.2	29.3	29.4		30.1	25.2	
Automatic debt dynamics	-0.1	0.9	-0.6			-0.4	-0.5	-0.4	-0.4	-0.5	-0.5		-0.7	-1.5	
Contribution from interest rate/growth differential	-0.2	0.0	-0.4			-0.4	-0.4	-0.4	-0.4	-0.4	-0.4		-0.6	-1.5	
of which: contribution from average real interest rate	-0.1	0.0	-0.2			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		-0.2	-0.6	
of which: contribution from real GDP growth	-0.1	0.0	-0.2			-0.2	-0.3	-0.3	-0.3	-0.3	-0.4		-0.4	-0.9	
Contribution from real exchange rate depreciation	0.1	0.9	-0.3			0.0	-0.1	-0.1	-0.1	-0.1	-0.1		...	...	
Other identified debt-creating flows	-0.2	0.0	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.8	0.6	-0.1			0.6	0.1	0.0	-0.1	-0.2	0.4		0.3	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	5.2			4.8	4.2	3.8	3.7	3.8	4.9		7.8	17.8	
of which: foreign-currency denominated	...	...	3.5			3.8	3.8	3.8	3.7	3.7	3.6		3.7	3.7	
of which: external	...	...	3.5			3.8	3.8	3.8	3.7	3.7	3.6		3.7	3.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.1	1.6	0.1			-0.3	0.0	0.1	0.6	0.8	1.3		1.9	2.8	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	19.5			18.2	15.8	13.7	13.4	13.2	17.3		27.6	78.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	47.6			43.7	37.7	33.0	31.7	31.9	40.4		49.0	105.2	
of which: external 3/	...	...	31.4			34.7	33.5	33.0	31.7	31.1	30.2		22.9	21.9	
Debt service-to-revenue and grants ratio (in percent) 4/	1.6	0.9	0.8			0.8	0.8	0.7	0.6	0.5	0.5		0.7	0.9	
Debt service-to-revenue ratio (in percent) 4/	4.5	2.2	2.1			2.0	1.9	1.6	1.4	1.3	1.2		1.3	1.2	
Primary deficit that stabilizes the debt-to-GDP ratio	2.2	-1.5	0.9			-0.2	0.3	0.4	0.5	0.6	0.1		0.4	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.3	0.8	2.0	7.5	6.6	3.0	3.5	4.0	4.5	5.0	5.5	4.2	4.8	4.8	5.0
Average nominal interest rate on forex debt (in percent)	0.4	0.5	0.4	0.3	0.1	0.6	0.8	0.8	0.8	0.9	0.9	0.8	0.7	0.9	0.8
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...		...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation	0.9	14.7	-3.8	-1.0	7.6	0.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.3	2.3	4.4	6.4	5.3	6.0	6.0	6.0	6.0	6.0	5.9	6.0	4.5	4.0	4.7
Growth of real primary spending (deflated by GDP deflator, in percer	4.3	3.5	3.2	1.2	1.7	-0.6	7.4	6.9	7.0	9.1	5.8	5.9	3.4	4.0	3.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	42.6	58.2	57.7	60.3	59.9	59.8	56.4	59.5	59.2	...

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

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b. Islamic Republic of Afghanistan: Sensitivity Analysis for Key Indicators of Public Debt 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	5	4	4	4	4	5	8	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	5	4	4	5	5	8	11
A2. Primary balance is unchanged from 2017	5	4	3	3	3	3	4	7
A3. Permanently lower GDP growth 1/	5	4	4	4	5	6	13	40
A4. Alternative Scenario : Low Grant	5	5	6	9	11	14	26	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	5	4	4	5	5	6	11	24
B2. Primary balance is at historical average minus one standard deviations in 2018-201	5	5	6	6	6	7	9	19
B3. Combination of B1-B2 using one half standard deviation shocks	5	5	5	5	5	6	9	18
B4. One-time 30 percent real depreciation in 2018	5	6	5	5	5	6	8	17
B5. 10 percent of GDP increase in other debt-creating flows in 2018	5	8	7	7	7	8	11	20
PV of Debt-to-Revenue Ratio 2/								
Baseline	18	16	14	13	13	17	28	79
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	18	17	17	17	17	21	30	54
A2. Primary balance is unchanged from 2017	18	15	13	11	10	12	15	30
A3. Permanently lower GDP growth 1/	18	16	14	15	15	21	43	166
A4. Alternative Scenario : Low Grant	18	20	25	37	47	61	106	202
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	18	16	15	16	16	21	37	103
B2. Primary balance is at historical average minus one standard deviations in 2018-201	18	19	21	20	19	23	33	83
B3. Combination of B1-B2 using one half standard deviation shocks	18	18	19	18	17	21	30	79
B4. One-time 30 percent real depreciation in 2018	18	21	18	17	16	20	28	76
B5. 10 percent of GDP increase in other debt-creating flows in 2018	18	29	26	26	24	28	37	88
Debt Service-to-Revenue Ratio 2/								
Baseline	1	1	1	1	1	1	1	1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	1	1	1	1	1	1	1
A2. Primary balance is unchanged from 2017	1	1	1	1	0	0	0	0
A3. Permanently lower GDP growth 1/	1	1	1	1	1	1	1	3
A4. Alternative Scenario : Low Grant	1	1	1	1	1	1	3	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	1	1	1	1	1	1	1	1
B2. Primary balance is at historical average minus one standard deviations in 2018-201	1	1	1	1	1	1	1	1
B3. Combination of B1-B2 using one half standard deviation shocks	1	1	1	1	1	1	1	1
B4. One-time 30 percent real depreciation in 2018	1	1	1	1	1	1	1	1
B5. 10 percent of GDP increase in other debt-creating flows in 2018	1	1	1	1	1	1	1	1

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.