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Islamic State of Afghanistan: Selected Issues and Statistical Appendix

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ISLAMIC STATE OF AFGHANISTAN

Selected Issues and Statistical Appendix

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Approved by the Middle East and Central Asia Department

January 4, 2005

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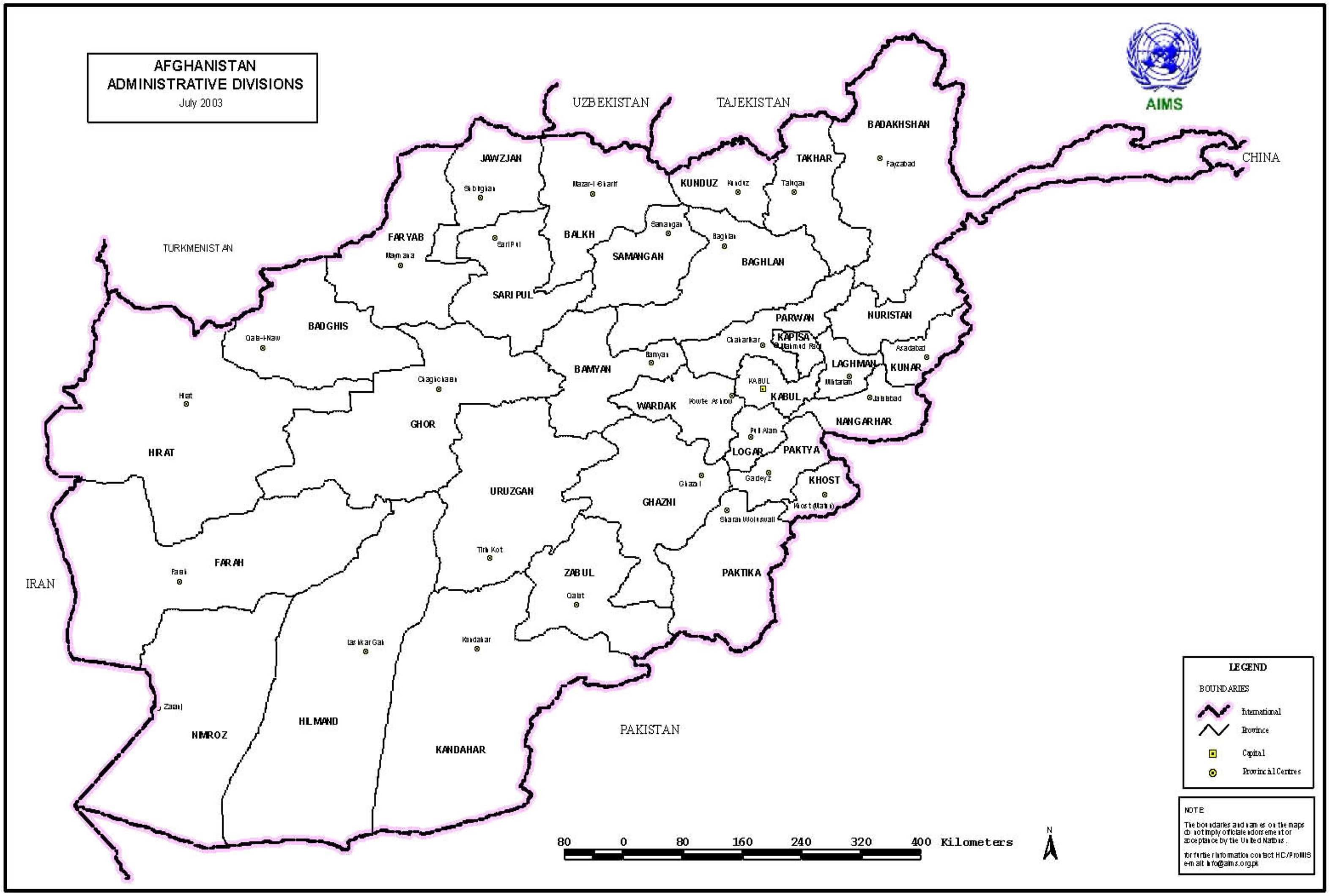

Source: United Nations: Afghanistan Information Management Service

I. Debt Sustainability Analysis[1]

A. Introduction and Summary

1. Undertaking a debt sustainability analysis (DSA) for Afghanistan presents unique challenges. The lack of complete debt information, the presence of disputed or unverified claims, and the almost total absence of historical data on key macroeconomic variables precludes use of the Fund's standard template for assessing external sustainability.[2] Even the more nuanced approach to debt sustainability for low income countries presents difficulties, given that standard assessments of institutional capacity (for example, through the World Bank's Country Policy and Institutional Assessments—CPIA) have yet to be completed for Afghanistan.

2. Data and other constraints notwithstanding, the need for an assessment of Afghanistan's debt sustainability over the medium- and long-term remains. Particularly in the post-election environment, as ministries and other government institutions come to grips with their respective portfolios, a quantitative assessment of how the debt burden might evolve under different scenarios could be an important input in developing a debt management strategy. In this context, the current DSA focuses less on issues pertaining to pre-existing debts and claims (a central concern of a previous DSA), and more on the impact of future borrowing and the behavior of key vulnerability indicators under different scenarios. It takes as a baseline assumption a complete write-off of all pre-existing bilateral claims.[3] In an effort to address some concerns specific to Afghanistan, the current exercise also departs slightly from the standard template by examining the impact of different borrowing strategies.

3. Five scenarios are examined in the current exercise: 1) a baseline scenario, drawing on the current macroeconomic framework and a nominal level of borrowing over the long term; 2) a more pessimistic scenario, with slower projected growth in GDP, exports, and government revenue; 3) the more pessimistic scenario with the addition of a sudden exchange rate depreciation; 4) the pessimistic scenario with a lower degree of concessionality in external loans; and 5) the preceding scenario under a more aggressive external borrowing strategy. Key vulnerability ratios are then assessed under each scenario and compared with sustainability thresholds under the HIPC Initiative (Table I.1 and Figures I.1–I.5).

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[1] Prepared by Todd Schneider.

[2] Stress tests under the standard templates, for example, are calculated on the basis of 10-year historical averages for such variables as GDP, exports, revenue, and the exchange rate. For some of these variables, no data is available, and for others the quality is poor.

[3] Previous DSA also took as a baseline assumption for most of its scenarios, the complete forgiveness of all existing bilateral debts. One additional scenario in the previous work demonstrated that, even with these claims taken through a Paris Club rescheduling on Naples terms, and assuming an optimistic set of macroeconomic outcomes, the NPV of debt to exports quickly exceeded the 150 percent threshold of the HIPC Initiative.

4. The results of the various scenarios indicate that, assuming a "clean slate" with regard to old bilateral claims, and reasonably strong economic and revenue performance, there is a comfortable margin with regard to key sustainability thresholds. Through the successive shocks outlined in Scenarios 1–5, however, this margin quickly diminishes, leading to situations where Afghanistan's debt and debt service burden would be deemed unsustainable. Throughout all the projections, however, it is critical to keep in mind that the projected sustainability margin may be substantially less than shown in the baseline, depending on how bilateral claims are resolved, and given the strong potential for domestic and external shocks.

B. Methodology

5. Data constraints present challenges to undertaking a meaningful debt sustainability analysis.[4] The destruction of debt records and documentation, for example, means that a substantial portion of Afghanistan's debt is yet to be verified and reconciled with creditors. While the Afghan authorities have made substantial progress in this area over the past year (aiming at a full reconciliation by end-March 2005), information is still lacking for a number of bilateral creditors. In addition, the status of certain claims—most notably those of Russia, which are disputed by Afghanistan—have yet to be settled. The weak statistical base underlying key macroeconomic variables, such as GDP and selected balance of payments indicators, is also a concern, given that current assessments of "sustainability" rely principally on ratios based on these figures. Finally, the large structural shifts that are emerging as Afghanistan moves ahead with macroeconomic stabilization and restructuring cast into doubt the reliability of virtually any set of projections, and certainly those stretching over 25 years.

6. While the constraints and limitations noted above call for some caution in interpreting results, a revised DSA for Afghanistan—building on the previous exercise completed in April 2003—is both timely and warranted. The current exercise is designed to be forward looking. The Afghan authorities, while relying primarily on grants to finance reconstruction and development, have nevertheless already begun to contract new program and project loans from multilateral and bilateral creditors. As development capacity increases, and in the face of daunting social and economic challenges, further recourse to external loans is likely. In this context, it is vital to highlight the potential vulnerabilities that could arise from undertaking such obligations, as an input to developing an explicit and prudent external debt management strategy that could guide the government in future years. Of particular concern is to avoid the same pitfall seen in many other low-income countries, where the rapid accumulation of external loans—even on concessional terms—led to an unsustainable debt burden, and subsequent recourse to rescheduling or other forms of debt relief.[5]

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[4] The almost total absence of usable historical data, for example, make it impossible to apply the standard DSA template for low-income countries. This exercise attempts to replicate many of the same general shocks as the standard template, but also focuses on issues of particular relevance to Afghanistan.

[5] See, for example, the recent Ex-Post Assessment for Kyrgyzstan.

7. The current debt sustainability analysis is based on a simple spreadsheet model that calculates indicators of sustainability in terms of ratios of the NPV of debt and debt service to relevant macroeconomic aggregates over the period 2005–30. The analysis is based on assumptions for (a) treatment of existing claims; (b) GDP growth, exports, and fiscal revenues; and (c) the level and terms of future loans from multilateral and bilateral creditors. The baseline scenario for the model is taken, to the extent possible, from the macroeconomic framework developed for the current staff-monitored program (SMP). A set of assumptions is then used for the behavior of key macroeconomic aggregates, to extend the exercise beyond the medium-term currently covered by the SMP framework.

Existing claims

8. A critical assumption in the exercise relates to the treatment of all bilateral claims. As noted earlier, the authorities are currently engaged in a comprehensive effort to identify, verify, and reconcile official claims vis-à-vis bilateral creditors. Staff estimate these claims (excluding Russia) to be in the range of $294 million, of which $124 million has been verified. The true value of the remainder has a considerable margin for error, given the lack of physical records and surrounding uncertainty regarding outstanding obligations and accumulated arrears. The current DSA exercise assumes that all bilateral debt will be forgiven, including the Soviet-era Russian claims on the order of $10.8 billion—equivalent to about 190 percent of 2004/05 estimated GDP.

9. Total forgiveness of these bilateral claims is a working assumption that simplifies the DSA exercise, allowing a focus on the implications of debt and debt service connected with recent and future borrowing. This assumption may be viewed as heroic, given recent information that some bilateral creditors may insist on some form of rescheduling rather than debt forgiveness, and while the position of a range of other bilateral creditors has not yet been determined. Consequently, when assessing the figures presented in this DSA, and evaluating Afghanistan’s external vulnerability under different scenarios, it is critical to remember the existence of these potential liabilities, and the downside risk that they represent.

Macroeconomic assumptions

10. A number of alternative scenarios are used to illustrate the implications of different macroeconomic outcomes for external sustainability. As noted above, the DSA draws on the current macroeconomic framework under the SMP to generate a baseline scenario. This baseline (Scenario 1) assumes: (a) average real GDP growth of 9.5 percent during the medium term (2005–2009), and annual growth of 5 percent thereafter; (b) growth in exports of 17 percent over the medium term, and 7 percent thereafter (roughly in line with nominal GDP); and (c) an annual increase in government revenue equivalent to 1 percent of GDP, to a

maximum level of 15.5 percent (achieved by 2016).[6, 7] Alternative scenarios include the following changes to key variables:

- ***Scenario 2 examines the impact of a substantial reduction in GDP and export growth, along with a slower growth rate for government revenue***. Under this scenario, real GDP is projected to grow by an average of 4.7 percent over the medium term, and 2.5 percent per year thereafter. Exports are subjected to a shock of similar magnitude, growing by an average 9 percent during 2005–09, and 4.8 percent thereafter. Government revenue, meanwhile, increases by only one-half percent of GDP per year, until reaching 12 percent in 2019.[8]

- ***Scenario 3 combines the more pessimistic outlook for macroeconomic and revenue figures with a one-time nominal depreciation of the Afghani***. Under this scenario, slower GDP, export, and revenue growth are accompanied by a 30 percent depreciation of the Afghani against major currencies. While this represents a substantial shift, it is not out of line with recent experience. Between March and August 2004, for example, the Afghani appreciated by 16 percent, driven in part to sizeable inflows of donor assistance. A temperance of these or other capital flows, or some sort of reversal could engender a substantial depreciation.

Level and terms of new debt

11. Scenarios 1–3 hold as a critical assumption that the government continues its prudent approach to external borrowing. Annual disbursements of external loans are moderate at about $170 million per year, and the terms of these loans are assumed to be highly concessional, with a grant element of at least 60 percent (in line with the performance criteria for contracting of external debt set out in the staff monitored program). The level of new loans, and the terms under which they are disbursed are a key element in assessing sustainability.[9] These assumptions center around continued strong donor support in the form

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[6] The expected high growth rate of exports over the medium-term reflects in part their current low level (projected at $542 million in 2004/05, excluding re-exports and drug-related exports, but including an estimate for other unrecorded exports).

[7] It should be kept in mind that these "baseline" outcomes hinge on an array of very difficult challenges, including an improvement in national security, full and effective implementation of a range of tax and customs measures, and successful eradication of the opium economy while simultaneously introducing alternative livelihoods.

[8] While this may seem a rather severe shock, it is within the realm of recent experience. Staff projections for real GDP growth in 2004/05, for example, have been reduced from 16 percent to 7.5 percent between March and October missions—reflecting unexpected declines in agricultural output.

[9] For purposes of the current exercise, the level of concessionality is held constant throughout the period. However, a more realistic assumption might be a gradually declining level of concessionality over time.

of grants, and a willingness to offer loans on terms that will help to ensure medium term external and fiscal sustainability. While such an outcome is not beyond possibility, it is far from guaranteed.

- ***Scenario 4 assesses the impact of a lower degree of concessionality in external borrowing***. The performance criteria contained in the SMP (a minimum grant element of 60 percent for all newly contracted external loans) represents a strict standard—considerably higher than the 35 percent level more often found in Fund programs—but one deemed appropriate for Afghanistan. Scenario 4 illustrates the consequences of new external borrowing at rates consistent with a 35 percent grant element, and under less optimistic macroeconomic outcomes (consistent with the conditions in Scenario 3).

- ***Scenario 5 builds on Scenario 4, by considering an alternate borrowing strategy***. Specifically, it is assumed that the authorities pursue a more aggressive borrowing strategy, based on a given path for GDP and other key variables consistent with Scenario 1, and with a view to allowing debt to accumulate at a rate consistent with a stock equivalent to 35 percent of GDP by 2015. The level of borrowing would then decrease, so as to allow the debt/GDP ratio to fall below 20 percent after 2030. Such a strategy would be consistent with a shortfall in grants, or a decision by the government to finance a range of additional investment projects through loans, with the notion that a 35 percent debt/GDP ratio is an acceptable and sustainable burden. Scenario 5 tests the impact of implementing such a borrowing strategy under the less favorable macroeconomic, revenue, and concessionality assumptions of Scenario 4.

C. Debt Sustainability

12. Five indicators are used to assess the sustainability of Afghanistan's external debt: (a) NPV of debt as a percentage of exports (NPV/X); (b) NPV of debt as a percentage of fiscal revenues (NPV/R); (c) NPV of debt as a percentage of GDP (NPV/GDP); (d) debt service as a percentage of exports (DS/X); and (e) debt service as a percentage of revenues (DS/R). Under the enhanced HIPC Initiative, a country's external debt is considered unsustainable if the NPV/X ratio exceeds 150 percent; in addition, the DS/X ratio should normally be within the range of 15–20 percent or less. For very open economies (with an exports-to-GDP ratio of at least 30 percent), which have a heavy fiscal debt burden despite strong efforts to generate revenue (with a fiscal revenue-to-GDP ratio of at least 15 percent), the debt sustainability threshold is a NPV of debt-to-revenue ratio of 250 percent.

13. These ratios provide useful benchmarks for assessing sustainability. However, in line with recent thinking on debt sustainability for low income countries,[10] Afghanistan's particular context should also be kept in mind. GDP, for example, depends to a large degree

[10] International Monetary Fund, *Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications*, (www.imf.org), February 3, 2004.

on agricultural output, which has already shown to be highly volatile. The exchange rate, while relatively stable since the introduction of the new Afghani, may also be subject to bouts of instability in the face of underlying shifts in demand, uneven donor flows, and the eradication of the opium economy. Further, institutional capacity is still weak, and the quality of policy-making (while strong thus far) is uncertain over the medium term.[11] These factors suggest that the sustainability thresholds, and consequently the margin of safety, might be considerably lower than shown here. Special attention should also be given to ratios of debt and debt service relative to government revenue. Given the very low level of government revenues—especially compared to expenditure needs—the proportion spent on debt service becomes a more critical concern.

14. **Under the first scenario (forgiveness of all existing bilateral debt, strong GDP and export growth, and limited borrowing on very concessional terms), Afghanistan's debt burden falls within a sustainable range throughout the projection period**. The NPV/X debt ratio rises close to 70 percent during 2015–17, but declines thereafter to 48 percent by 2030. Debt service would be limited to below 3 percent of exports for all of the projection period, while the ratio of debt service to government revenues remains in the 2.5 percent range in the short term before declining to below 2 percent for the remainder of the period.

15. **Scenario 2 highlights the importance of assumptions regarding Afghanistan's macroeconomic and fiscal outlook.** Under this second scenario (substantially weaker GDP and export growth, along with a more gradual path for revenue growth), Afghanistan's debt burden continues to fall within the sustainable range during the projection period, but comes substantially closer to sustainability thresholds. Debt relative to exports rises above 100 percent by 2015, peaking at around 110 percent by 2021 before falling to 102 percent by 2030. Debt service as a share of government revenue continues to remain modest, and well below the sustainability threshold throughout the period. However, the less robust growth of the economy equates to lower revenue earnings versus the baseline scenario. As a result, both DS/R and DS/X, after falling in the short run, rise steadily over the medium and long-term.

16. **In Scenario 3, the additional impact of an exchange rate shock illustrates another potential vulnerability**. For purposes of the simulation, exports are assumed to be priced in Afghani—allowing for a full pass-through of the appreciation on export values.[12] The relative fall in the value of exports is enough to push the NPV/X ratio to 143 percent by 2021, falling to 132 percent by 2030. Similar increases are apparent in debt service/exports and debt service/revenue ratios. However, reflecting the high level of concessionality in external borrowing, these ratios remain in the sustainable range throughout.

[11] The substantial progress made since the introduction of the transitional government notwithstanding, it must be recalled that the new government lacks both experience and depth. Continuity in policy is thus far from secure over the medium to long term.

[12] The current exercise considers only first round effects. Over time, the increased competitiveness of Afghanistan's export prices would presumably lead to some rise in export volumes.

17. **Scenario 4 evaluates the impact of borrowing on less concessional terms**. Specifically, external loans are assumed to have a grant element of only 35 percent—the minimum level for loans on "concessional" terms.[13] Applied to the less optimistic macroeconomic conditions outlined in Scenario 2, the NPV/X ratio breaches the 150 percent sustainability level by 2012, and rises as high as 187 percent by 2021. Debt and debt service relative to government revenue also raise some concerns. NPV of debt to revenue rises above 200 percent by 2009, and stays above this level until 2017, while debt service as a share of revenue also climbs considerably—with total debt service consuming 10–11 percent of government revenue after 2014. The latter represents a sizeable burden for a government faced with the daunting challenges of reconstruction and pressing social needs.

18. **Scenario 5 illustrates the potential risks associated with a less cautious approach to external borrowing**. While such an approach might be sustainable under the favorable conditions outlined in Scenario 1 (the NPV/X ratio quickly breaches the sustainability threshold, but debt service as a share of exports remains below 12 percent throughout the period), a less optimistic macroeconomic picture raises serious concerns. Under the assumptions presented in Scenario 4, the NPV/X ratio reaches a level more than double that considered sustainable by 2012, and climbs as high as 423 percent by 2021, while debt service relative to exports hits 15 percent by 2014 and rises above 20 percent by 2018—staying above this level for the remainder of the period. Further, debt service as a share of government revenue quickly rises to substantial levels, moving beyond 20 percent by 2013 and peaking at 28 percent by 2026.

D. Policy Implications

19. The scenarios described above highlight a number of important considerations for Afghanistan with respect to external debt. The following are among the most critical points for consideration by the government and bilateral creditors/donors.

20. ***Relief for existing, pre-war claims is essential***. As highlighted in the DSA conducted in 2003, debt sustainability would be difficult to attain without the forgiveness of most existing bilateral debt. Indeed, the current analysis takes this scenario as a given that these claims are not restructured, but written off in their entirety. Failure to achieve this "clean slate" would imply a higher base for debt and debt service for all scenarios, which could make external and fiscal sustainability difficult even under the most optimistic scenario, depending on the terms.[14]

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[13] For purposes of the exercise, the reduction in grant element is achieved through manipulation of the applied interest rate. A similar reduction could also result of a combination of shorter maturity with higher interest rates.

[14] Previous DSA worked through the impact of debt restructuring scenarios for bilateral claims in detail. Informal staff calculations based on current estimates of these claims confirm that anything short of a near-total write off would result in an immediate breach of the NPV of debt to exports threshold.

21. ***The terms and conditions surrounding new borrowing must remain highly concessional***. Scenario 4 highlights the potential fragility of external and fiscal sustainability should Afghanistan undertake external borrowing on less generous terms. This will be a key concern for the government moving forward, given the potential for donor support (in the form of grants) to fall off over time, and the pressures to find alternative financing for key development projects. The temptation to accept loans offered by bilateral or even multilateral institutions with less than the most generous level of concessionality should be avoided, where possible.

22. ***The underlying premises behind a national debt strategy*** should take into account the low level of foreign exchange receipts derived from the current account, as well as the extremely low starting point of government revenue.[15] Borrowing strategies that focus on different aggregates, such as debt to GDP, while ignoring key solvency ratios could potentially put Afghanistan's fiscal and external vulnerability at risk–and quite rapidly depending on macroeconomic outcomes. This is a risk highlighted by the experience of a number of transition economies, where borrowing strategies based on projected macroeconomic outcomes led to sustainability problems when growth and export opportunities did not measure up to expectations.

23. Layered upon these fundamental policy principles must be the knowledge that Afghanistan faces a daunting array of challenges. An unstable security situation, the presence of a large and illicit opium economy, the reemergence of drought, and government institutions which are largely still in the making imply the potential for considerable volatility in coming years. Indeed, shocks of one sort or another seem almost inevitable given the many downside risks. Continued mobilization of grant financing, caution with regard to taking on new external liabilities, and ensuring that they are tied to only the most pressing social or development needs will be crucial.

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[15] At an estimated 4.7 percent of GDP, Afghanistan's revenue collection is among the lowest in the world.

Table I.1. Islamic State of Afghanistan: Debt Sustainability Analysis, 2005–30 1/

(In percent; unless otherwise indicated)

	Projections									
	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030
Scenario 1	**Low borrowing, high growth, highly concessional terms**									
Real GDP growth	11.3	10.0	9.6	8.3	8.0	5.0	5.0	5.0	5.0	5.0
NPV of debt to exports ratio 2/	49.0	48.9	50.5	54.5	58.4	61.8	68.4	66.0	58.5	48.4
NPV of debt to revenue ratio 3/	105.9	100.3	94.0	87.4	81.2	77.4	57.4	53.3	47.2	39.0
NPV of debt to GDP ratio	5.2	5.9	6.5	6.9	7.2	7.7	8.6	8.3	7.3	6.0
Debt service to exports ratio 2/	0.9	0.9	1.0	1.0	1.1	1.1	2.0	2.1	2.1	2.2
Debt service to revenue ratio 3/	2.6	2.3	2.0	1.8	1.6	1.5	1.8	1.8	1.8	1.9
Memorandum items (in millions of U.S. dollars):										
NPV of debt	317.7	406.4	497.7	585.8	676.3	769.3	1,221.6	1,677.3	2,117.0	2,489.1
Debt service	7.9	9.2	10.6	11.9	13.2	14.5	37.7	57.7	81.4	120.0
Nominal growth of exports	38.2	16.7	8.0	10.6	10.3	7.3	7.3	7.3	7.3	7.3
Government Revenue	300.0	405.1	529.5	670.2	832.6	993.5	2,127.7	3,149.4	4,481.5	6,377.1
GDP in nominal terms	6,121	6,865	7,672	8,483	9,354	10,034	14,279	20,318	28,913	41,143
Debt to GDP ratio	10.2	11.5	12.5	13.2	13.8	14.5	15.7	14.7	12.5	10.0
Scenario 2	**Low borrowing, low growth, low exports, low revenue, highly concessional terms**									
Real GDP growth	5.6	5.0	4.8	4.2	4.0	2.5	2.5	2.5	2.5	2.5
NPV of debt to exports ratio 2/	52.4	56.3	62.2	68.3	74.3	79.9	100.2	109.1	109.1	101.7
NPV of debt to revenue ratio 3/	105.9	113.7	119.9	122.9	124.4	126.4	120.3	111.4	111.4	103.8
NPV of debt to GDP ratio	5.5	6.5	7.5	8.3	9.0	9.8	12.3	13.4	13.4	12.5
Debt service to exports ratio 2/	1.1	1.1	1.2	1.3	1.4	1.4	3.0	3.6	4.0	4.7
Debt service to revenue ratio 3/	2.6	2.6	2.5	2.5	2.4	2.4	3.7	3.8	4.3	5.0
Memorandum items (in millions of U.S. dollars):										
NPV of debt	317.7	406.4	497.7	585.8	676.3	769.3	1,221.6	1,677.3	2,117.0	2,489.1
Debt service	7.9	9.2	10.6	11.9	13.2	14.5	37.7	57.7	81.4	120.0
Nominal growth of exports	18.2	9.4	6.1	6.3	6.2	4.7	4.8	4.8	4.8	4.8
Government Revenue	300.0	357.5	415.2	476.8	543.8	608.7	1,015.6	1,506.2	1,900.0	2,396.8
GDP in nominal terms	5,811	6,220	6,646	7,065	7,503	7,857	9,911	12,502	15,771	19,894
Debt to GDP ratio	11.6	13.6	15.4	16.9	18.2	19.4	23.8	25.0	24.0	21.7
Scenario 3	**Combined Shocks (Scenario 2) and currency depreciation**									
Real GDP growth	5.6	5.0	4.8	4.2	4.0	2.5	2.5	2.5	2.5	2.5
NPV of debt to exports ratio 2/	68.1	73.1	80.9	88.8	96.6	103.9	130.3	141.8	141.9	132.2
NPV of debt to revenue ratio 3/	137.7	147.8	155.8	159.7	161.7	164.3	156.4	144.8	144.9	135.0
NPV of debt to GDP ratio	7.1	8.5	9.7	10.8	11.7	12.7	16.0	17.4	17.5	16.3
Debt service to exports ratio 2/	1.7	1.7	1.7	1.8	1.9	2.0	4.0	4.9	5.5	6.4
Debt service to revenue ratio 3/	3.4	3.4	3.3	3.2	3.1	3.1	4.8	5.0	5.6	6.5
Memorandum items (in millions of U.S. dollars):										
NPV of debt	317.7	406.4	497.7	585.8	676.3	769.3	1,221.6	1,677.3	2,117.0	2,489.1
Debt service	7.9	9.2	10.6	11.9	13.2	14.5	37.7	57.7	81.4	120.0
Nominal growth of exports	18.2	9.4	6.1	6.3	6.2	4.7	4.8	4.8	4.8	4.8
Government Revenue	230.7	275.0	319.4	366.7	418.2	468.2	781.2	1,158.5	1,461.4	1,843.5
GDP in nominal terms	4,469	4,784	5,112	5,434	5,771	6,043	7,623	9,616	12,130	15,301
Debt to GDP ratio	15.0	17.7	20.0	21.9	23.7	25.2	30.9	32.5	31.2	28.3
Scenario 4	**Combined shocks with borrowing on less concessional terms (35 percent grant element)**									
Real GDP growth	5.6	5.0	4.8	4.2	4.0	2.5	2.5	2.5	2.5	2.5
NPV of debt to exports ratio 2/	67.7	81.6	96.2	110.1	122.9	134.4	173.6	186.4	181.6	164.9
NPV of debt to revenue ratio 3/	136.8	165.0	185.4	198.1	205.8	212.6	208.3	190.3	185.4	168.4
NPV of debt to GDP ratio	7.1	9.5	11.6	13.4	14.9	16.5	21.4	22.9	22.3	20.3
Debt service to exports ratio 2/	1.9	2.7	3.4	4.0	4.5	5.1	8.2	9.6	10.0	10.3
Debt service to revenue ratio 3/	4.7	6.0	7.0	7.6	8.0	8.4	10.3	10.2	10.7	11.0
Memorandum items (in millions of U.S. dollars):										
NPV of debt	410.4	589.9	769.8	944.4	1,119.1	1,293.9	2,116.1	2,867.0	3,523.6	4,036.5
Debt service	14.0	21.5	28.9	36.3	43.7	51.2	105.0	154.4	204.0	264.1
Nominal growth of exports	18.2	9.4	6.1	6.3	6.2	4.7	4.8	4.8	4.8	4.8
Government Revenue	300.0	357.5	415.2	476.8	543.8	608.7	1,015.6	1,506.2	1,900.0	2,396.8
GDP in nominal terms	5,811	6,220	6,646	7,065	7,503	7,857	9,911	12,502	15,771	19,894
Debt to GDP ratio	10.7	12.7	14.4	15.9	17.2	18.5	22.7	23.8	22.9	20.8
Scenario 5	**Combined shocks with alternate borrowing strategy and less concessional terms**									
Real GDP growth	5.6	5.0	4.8	4.2	4.0	2.5	2.5	2.5	2.5	2.5
NPV of debt to exports ratio 2/	94.8	127.2	158.1	187.1	223.4	256.0	389.8	423.0	404.0	353.7
NPV of debt to revenue ratio 3/	191.6	257.1	304.5	336.6	374.1	404.9	468.0	431.9	412.5	361.1
NPV of debt to GDP ratio	9.9	14.8	19.0	22.7	27.1	31.4	48.0	52.0	49.7	43.5
Debt service to exports ratio 2/	2.9	4.5	5.9	7.2	8.7	10.2	17.3	22.5	25.4	25.7
Debt service to revenue ratio 3/	7.1	10.1	12.2	13.7	15.5	16.9	21.7	24.1	27.2	27.4
Memorandum items (in millions of U.S. dollars):										
NPV of debt	574.9	919.2	1,264.5	1,604.7	2,034.2	2,464.6	4,753.1	6,505.2	7,837.9	8,655.9
Debt service	21.3	36.0	50.8	65.5	84.1	102.7	220.5	363.0	516.7	657.7
Nominal growth of exports	18.2	9.4	6.1	6.3	6.2	4.7	4.8	4.8	4.8	4.8
Government Revenue	300.0	357.5	415.2	476.8	543.8	608.7	1,015.6	1,506.2	1,900.0	2,396.8
GDP in nominal terms	5,811	6,220	6,646	7,065	7,503	7,857	9,911	12,502	15,771	19,894
Nominal debt to GDP ratio	13.7	18.3	22.2	25.7	30.0	34.1	50.4	54.3	51.8	45.5

1/ All debt indicators refer to public and publicly guaranteed debt. The NPV of debt is calculated using DSA discount rates based on January-June 2004 SDR Commercial Interest Reference Rates (CIRRs).

2/ The NPV of debt ratio is based on a 3-year average of exports of goods and services; the debt-service ratio is based on current year figures.

3/ Revenues are defined as general government revenues, excluding grants.

Figure I.1. Islamic State of Afghanistan: NPV of Debt to Exports, 2004–30

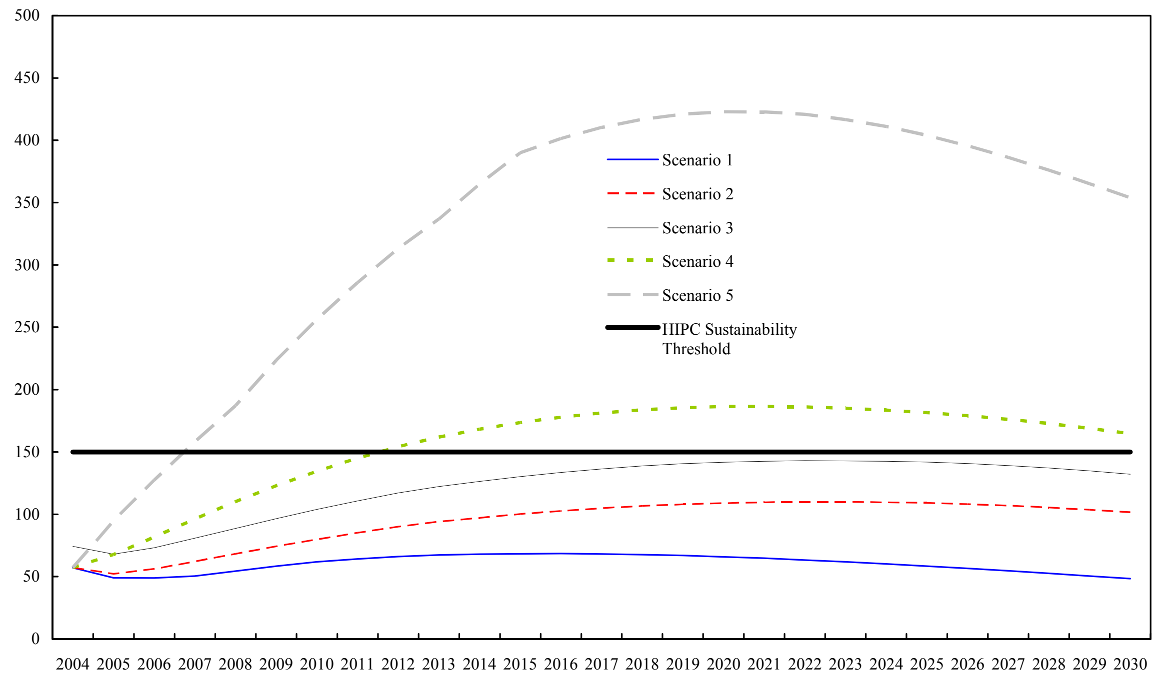


Figure I.2. Islamic State of Afghanistan: NPV of Debt to Revenue, 2004–30

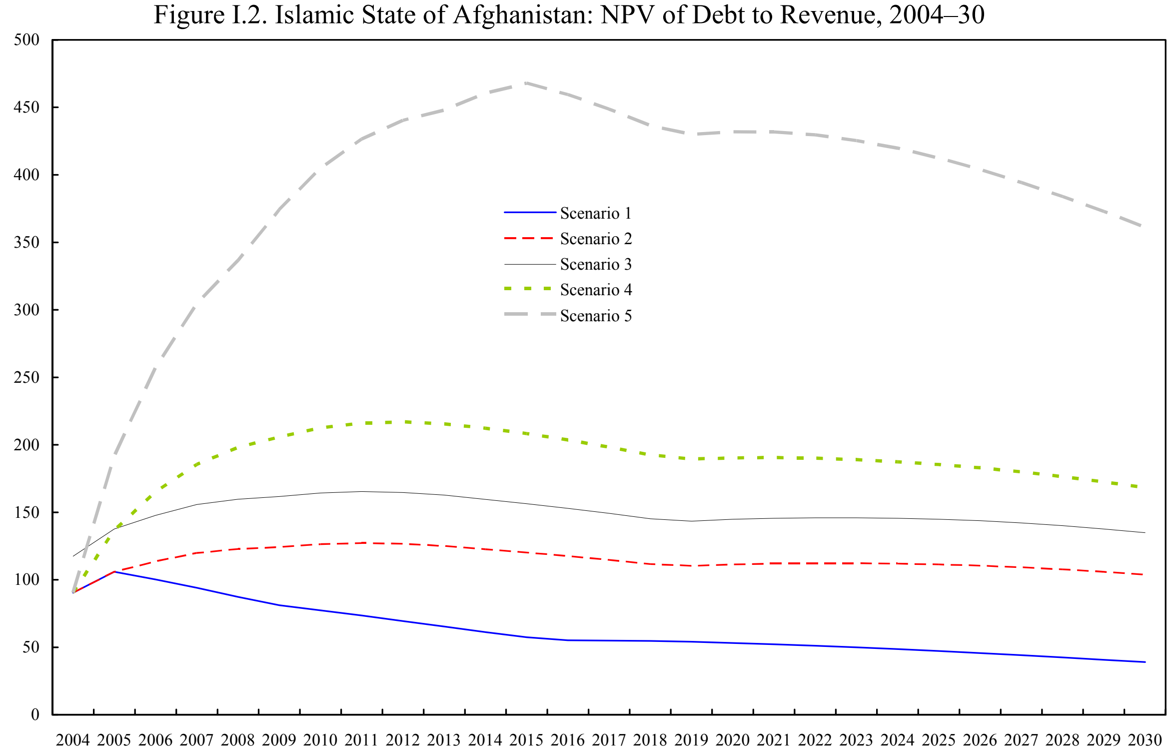


Figure I.3. Islamic State of Afghanistan: NPV of Debt to GDP, 2004–30

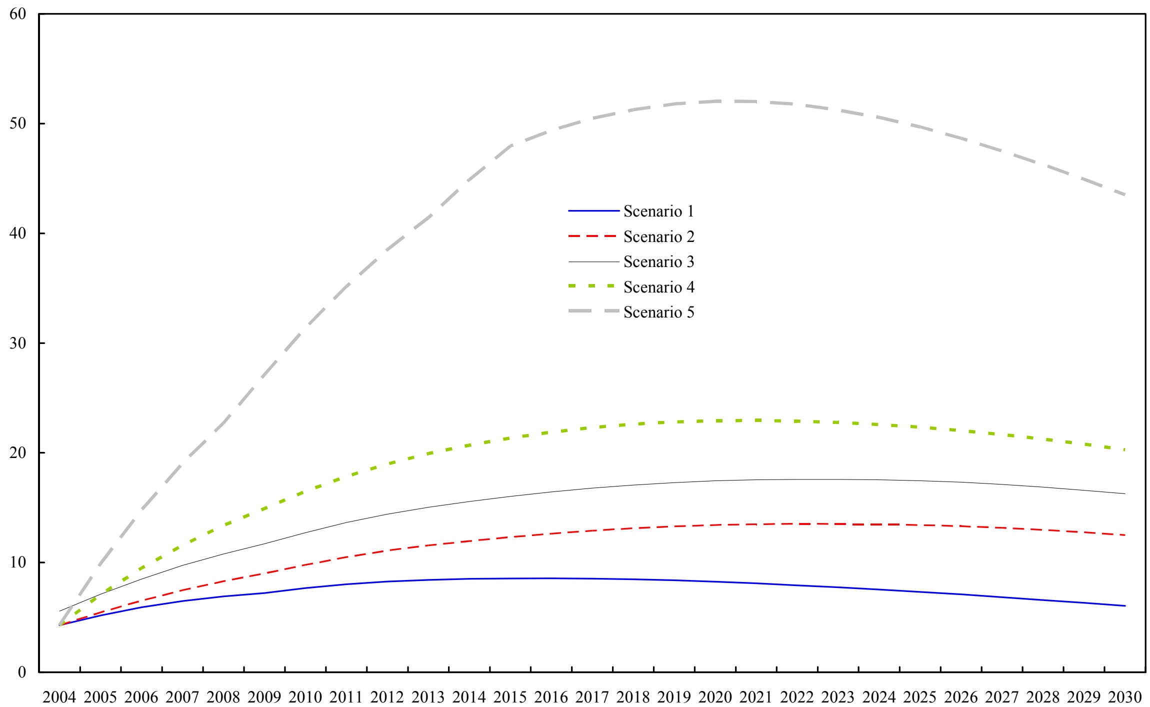


Figure I.4. Islamic State of Afghanistan: Debt Service to Exports, 2004–30

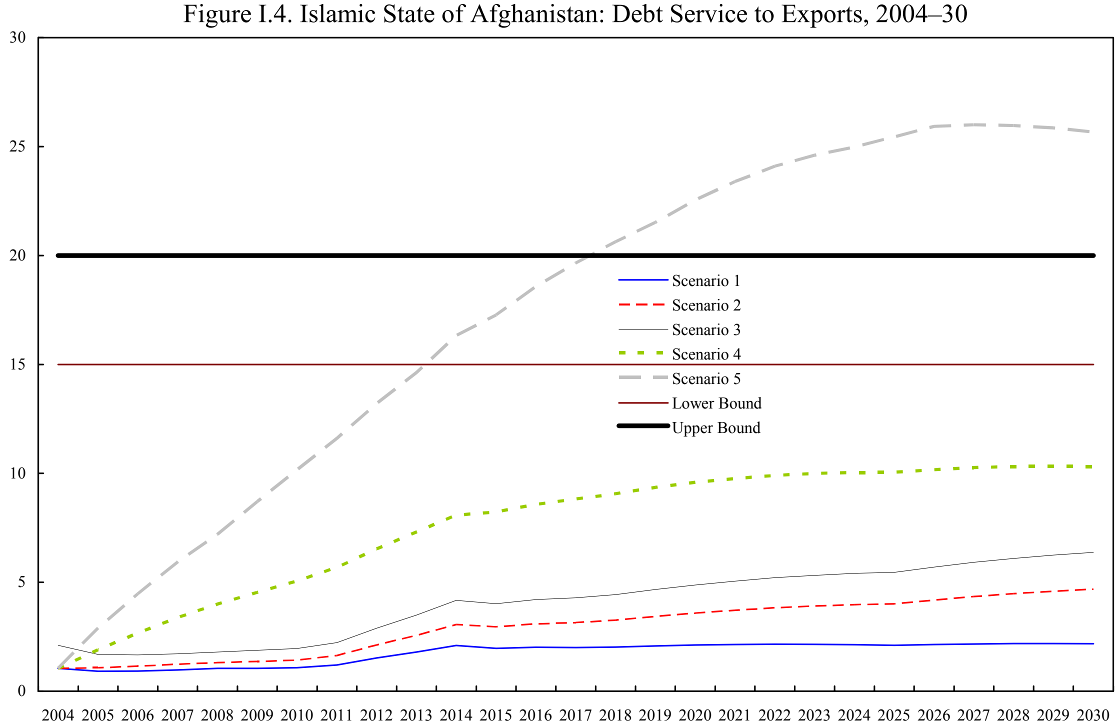
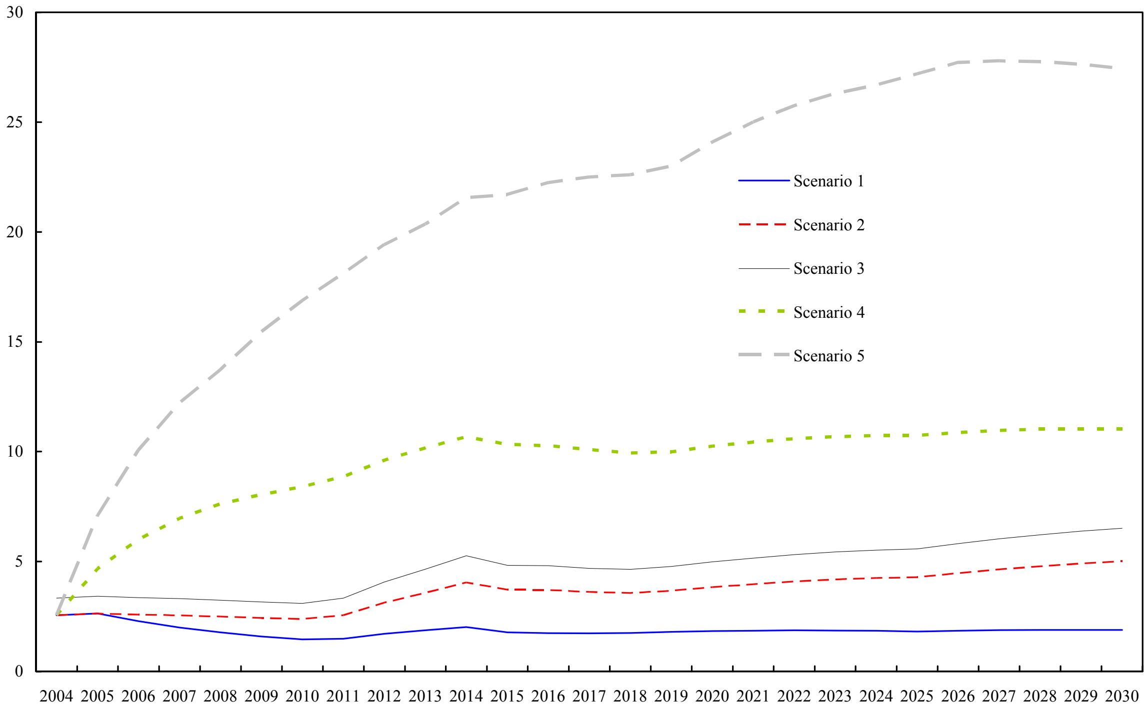


Figure I.5. Islamic State of Afghanistan: Debt Service to Revenue, 2004–30



II. Medium-Term Structural Fiscal Reforms[16]

A. Introduction

24. This note describes the medium-term agenda for fiscal structural reforms in Afghanistan. The task of rebuilding this fragmented nation and responding to the extremely high social needs is complicated by the ongoing high level of insecurity, the significant opium production, the dependency on donor financing and weak institutions. In order to promote fiscal sustainability, the reform agenda should be anchored around three key themes, namely:

- **Continuing to consolidate fiscal management** by further incorporating the fiscal operations in the provinces and by integrating the considerable donor assistance into the budget. The 34 'provinces' referred to in this note are not a separate sub-national tier of government but constitute a deconcentrated level of the central government, although in the recent past many have exercised significant independence;
- **Rebuilding and broadening the domestic tax base** so as to be able within nine years to fund operating expenditures entirely by domestic revenue; and
- **Developing effective public administration and public expenditure management (PEM) systems** with the capacity to plan and implement a more comprehensive national budget.

25. **This agenda encompasses an extremely broad range of measures, with many, on the revenue side, in public administration and in PEM, already underway**. These measures partly build on the work of several FAD technical assistance missions, whose strategies and work plans were largely endorsed by the authorities and donor community. They are consistent with the three-step process commonly applied in post-conflict countries, which aims to rebuild fiscal institutions by: (a) creating a legal and/or regulatory framework for fiscal management; (b) establishing and/or strengthening the fiscal authority; and (c) designing appropriate revenue and expenditure policies while simultaneously strengthening revenue administration and PEM.[17] Fundamental expenditure policy reforms are likely to take longer to develop, and implementation will rely on the efficacy of the underlying expenditure management systems and the capacity of the public administration.

26. Section B of this note outlines the steps being taken to consolidate the fiscal framework. Section C briefly discusses the medium-term macro-fiscal outlook. Sections C and D describe the steps being taken to rebuild and broaden the domestic tax base and to improve public expenditure policy and management.

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[16] Prepared by Theo Thomas.

[17] IMF Board Paper, Rebuilding Fiscal Institutions in Post-Conflict Countries, December 2004, (www.imf.org).

B. Consolidating the Fiscal Framework

27. **More than 20 years of war and internal conflicts massively eroded the central government's control over fiscal operations.** Although many administrative institutions remained formally in place, along with some well-established laws (e.g., budget, tax, and audit) and procedures (e.g. a public accounting manual), most had ceased to function due to a lack of resources and qualified staff. While the PEM system is de jure highly centralized, central government control over provincial fiscal operations was very weak, resulting in the only partial transfer of revenues to the center and the lack of coordination of expenditures. The task of consolidating fiscal operations was daunting as the basic PEM and tax systems were not operational in practice and needed to be updated and improved. The revenue situation was exacerbated by the proliferation of levies and taxes (many with no legal basis) imposed by different government agencies and local authorities that resulted in a complex tax system, and the absence of a functioning payments system to facilitate tax payments.

28. **The process of developing a comprehensive budget that incorporates the provinces and donors, can be divided into the following three stages**: the first stage, which has largely been completed, is the reestablishment of basic control over domestic revenues and those expenditures managed by the central government, in addition to providing a framework for coordinating the relatively massive amount of donor assistance. The second stage, which reflects the government's current status, is the gradual deepening of the reforms to consolidate the management of domestic and donor funded fiscal operations. The final stage entails a single, comprehensive, transparent and sustainable budget, where spending patterns reflect government priorities. The broad elements of the three stages are outlined below.

Stage one: controlling domestic operations and coordinating donor spending

- **The government progressively reestablished control over the *Operating Budget*,** which comprises domestic revenues, salaries and wages of civil servants at the center and in the provinces and a small amount of maintenance and capital expenditure. This involved an extensive effort to build the basic fiscal institutions, including establishing the physical infrastructures and developing administrative capacity (see section below).
- **The coordination of sizeable donor-funded projects was important to ensure that spending patterns reflected government priorities.** In April 2002, the government adopted the National Development Framework (NDF), which sets out a domestically owned development strategy, under which donors could implement projects. The NDF has three core pillars: (a) sustainable human capital—humanitarian assistance and social policy; (b) physical infrastructure and natural resources –laying the basis for a private sector-led growth strategy; and (c) the creation of sustainable growth through the private sector. The NDF outlined 16 national programs (NPs) across these pillars, providing a framework for the establishment of a national development budget

(NDB).[18] The government also developed a Consultative Group mechanism, whereby lead ministries and donors manage the NPs.

- **An explicit mechanism to record and monitor donor assistance was also established at an early stage.** The Ministry of Finance (MoF) developed a Donor Assistance Database (DAD) to record information about donor pledges, commitments and disbursements.[19]

- **The operating budget is funded by domestic revenues and multi-donor grants.** The latter are channeled though the multi-donor-administered Afghanistan Reconstruction Trust Fund (ARTF) and the smaller UN-administered Law and Order Trust Fund of Afghanistan (LOTFA).[20] While contributing substantially to the financing of the budget, ***the ARTF also provides an important mechanism for improving compliance with basic fiduciary standards and promoting the transparency and accountability of reconstruction assistance***. The ARTF is a unique external funding mechanism that supports the development and use of the government's own PEM systems, and avoids creating parallel systems within government that could divert limited capacity. The government initially spends money through its own PEM systems and an independent monitoring agent reimburses funds after checking that the expenditures are eligible (i.e. not for security) and have been made in compliance with basic financial management procedures. The monitoring agent provides an important fiduciary safeguard, both for donors and for the government as the domestic internal and external audit functions are still in the process of being established.[21]

Stage two (current): consolidating the management of domestic and donor spending

- The ***Core Budget*** concept was introduced in June 2004 (for fiscal year 2004/05) to combine the ***operating budget*** with ***development expenditures*** that are channeled through the treasury's accounts. The Core Budget is considered to be the portion of the National Budget that is controlled by the Government and for which it is accountable. However, many donors still earmark their funds for particular development projects and require separate government bank accounts (controlled by the Treasury, but separate from the treasury single account, TSA, in 2004), limiting

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[18] For more information on the NDF, see the government policy document, *Securing Afghanistan's Future,* March 2004: http://www.af/index.html

[19] For more information on the DAD, see the government website: http://www.af/index.html

[20] LOTFA provides assistance to the security sector. Both funds also provide resources for development programs approved by government not included in the operating budget.

[21] For more detailed information regarding the operation and performance of the ARTF see: http://www.worldbank.org.af. The Trust Fund is jointly managed by the World Bank, the United Nations Development Program, the Asian Development Bank, and the Islamic Development Bank.

thereby the extent to which resources may be transferred within the core budget (Box 1).

- The government also collects and disseminates information on the development expenditures that donor agencies plan to implement directly. This ***External Budget*** is monitored by the MoF and reported in the DAD (commitments, rather than pledges, were reported in the 2004/05 budget). Table II.1 reports the relative shares of operating expenditures, core budget development expenditures and committed external budget expenditures for 2001/02 to 2004/05.

Figure II.1. Budget Spending, 2004/05
(in percent of GDP)

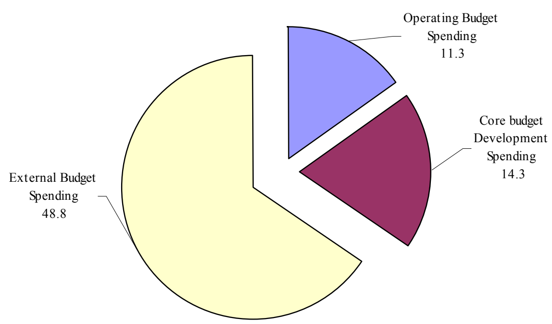


Table II.1. Budget, 2001/02–2004/05

(In millions of U.S. dollars)

	FY 2001/02 to FY 2003/04 Est.	FY2004/05 Budget	FY2004/05 H1 est.
Domestic revenue	338	309	119
Operating expenditures	798	609	241
Core development budget expenditures 1/	187	770	72
External development expenditures 2/	3,488	2,575	103

Source: Ministry of Finance. October 2004 Financial Report.

1/ Core Development Budget expenditure is disbursed through the government's treasury Accounts.
2/ Reflects commitments by donors for specific projects undertaken directly by donors but reported to MOF. (the budget documents showed a higher figure due to some partially unfunded programs)

- **The NDF continues to be refined to provide the framework for coordinating donor spending.** For the 2004/05 budget, all spending under the NDF was subdivided into *NPs* and, a new category, *National Priority Programs (NPPs)*. These programs are designed to coordinate donors around government policies and larger, sometimes sector-based, programs. In theses initial stages of development, these programs largely remain a collection of donor-funded projects, which can present a complex and confusing management task. By having the overall coordination framework of the NDF, it is hoped that implementation will be more effective as competition and duplication are reduced. These programs also introduce the concept of a budget constraint (and expenditure choices), which is initially driven by the availability of donor financing and an assessment of absorptive capacity.

- **The core budget aims to gradually link operating and development expenditures.** Starting with the formulation of the FY 2003/04 core budget, the operating budget was expected to include operating and maintenance expenditures for completed development projects and sufficient resources to support the implementation of ongoing and new development projects.

- As Figure II.1 and Table II.1 indicate, a substantial amount of donor spending remains outside the core budget. While this spending is included in budget documents, it is essentially 'off-budget' for accounting purposes. This may undermine the coherence of the government's policy framework, where the proliferation of projects may be driven by bilateral interests, and lead to duplication and other forms of waste. The high share of direct donor spending in the overall fiscal operations also creates a significant 'parallel' public service, whereby some basic services are predominantly delivered by donor projects and NGOs.

Stage three: Expanding the Core Budget and simplifying budget management

- The existence of multiple donor budgets and earmarked sources of funds considerably complicates fiscal management (see also Box 1). The earmarking of funds for specific expenditures reduces the flexibility of the budget to respond to changes in the macroeconomic environment or policy shifts, and may inadvertently skew allocations towards lower priority areas. Over the long term the development budget should be transformed from an aggregation of donor-funded projects into a comprehensive government-led demand-driven expenditure program. The distinction between operating and development expenditures should also disappear.[22]

- As the government's financial management capabilities and planning capacity improve, donor development assistance is expected to be increasingly channeled through the Core Budget. However, in order to achieve this, the authorities recognize the need to demonstrate their ability to manage resources in an efficient, accountable and transparent manner to give donors the requisite fiduciary assurances. Commensurately, donors must also be willing to progressively support the development of government PEM systems by channeling their funds through the budget.[23]

- More fundamental sector-based financial planning within a medium-term budget framework must be pursued to develop a politically viable, stable, efficient, and responsive center-provincial fiscal system. The authorities must also develop strategies to better integrate some of the expenditures currently being implemented directly by donors. Donor programs have created a significant 'parallel' public service that currently delivers a substantial amount of critical services to the population. For example, in the health sector the government has largely adopted a purchaser-provider model, where implementation is largely carried out by NGOs or other donor assisted programs. The central government is focusing on its stewardship role, which involves developing and enforcing a regulator framework, setting standards etc. as well as some limited direct provision. Eventually, the majority of donor support might be provided to the general budget, without being earmarked for specific programs, and capacity would have to be established for the authorities to manage the purchaser role.

[22] For a fuller discussion of this issue see: Carnahan (chapter 1) in Carnahan, Manning, Bontjer and Guimbert (eds), Reforming Fiscal and Economic Management in Afghanistan, World Bank, 2004.

[23] This was one of the lessons derived from Fund experience in post conflict countries and described in the IMF Board Paper, Rebuilding Fiscal Institutions in Post-Conflict Countries, December 2004, (www.imf.org).

C. Medium-Term Fiscal Framework

29. **The authorities will remain highly dependant of foreign assistance over the medium-term.** To secure ongoing donor support for their development strategy, the government, in collaboration with some of the main donors, has conducted a medium-term needs assessment and defined a broad strategy aimed at attaining the Millennium Development Goals (MDGs) for economic growth and poverty reduction. This strategy, presented in the document ***Securing Afghanistan's Future*** **(SAF*)***, was endorsed by donors at a conference held in Berlin in March 2004. Operating expenditure needs are estimated at $7.2 billion over the next seven years, of which $4.3 billion would be financed by domestic revenue and $2.9 billion from external resources (Table II.2). The development program, which is wholly donor-financed, is estimated to cost $24.6 billion over seven years. Table II.2 sets out the aggregate medium-term fiscal projections set out in the SAF report.[24]

30. **Donor pledges are substantial but focus on the next three years.** During the Berlin donor conference, donors pledged to provide $4.5 billion to Afghanistan for 2004/05, slightly exceeding the amount requested by the government.[25] Donors also pledged to provide an additional $8.2 billion for the three-year period covering 2005/06–2007/08, compared with the government's estimated requirement of $11.9 billion. Donors indicated that additional pledges would be made at a later date, as countries budgetary procedures often prevented them from making firm multi-year commitments.

Table II.2. Islamic State of Afghanistan: Projected Medium-Term Fiscal Framework, 2004/05–2010/11

(In millions of U.S. dollars)

	FY2004/05	FY2005/06	FY2006/07	FY2007/08 to FY2008/09	FY2009/10 to FY2010/11	FY2004/5 to FY2010/11
Expenditures						
Recurrent expenditures (operating budget)	601	733	925	2,273	2,673	7,205
Of which:						
Salaries and wages	325	401	545	1,363	1,612	4,245
Development spending (core and external budgets)	4,068	3,351	3,378	6,885	6,995	24,678
Total expenditures	4,669	4,084	4,303	9,158	9,668	31,883
Funding						
Domestic revenues (core budget)	300	400	500	1,298	1,779	4,278
External financing	4,369	3,684	3,803	7,860	7,889	27,605
Core budget	701	783	925	1,975	1,894	6,277
External budget	3,668	2,901	2,878	5,885	5,995	21,328
Total financing	4,669	4,084	4,303	9,159	9,668	31,882

Source: Government of Afghanistan, *Securing Afghanistan's Future* , March 2004.
Notes: the figures for FY2004/05 differ slightly to those presented in the approved Core Budget.

[24] Given the paucity of data these forecasts are subject to a high degree of uncertainty and should be treated with caution.

[25] Pledges reflect the aggregate resources that donors indicate they intend to spend on Afghanistan. These are transformed into commitments when they are allocated to specific funds, projects or programs. The MoF records donor pledges, commitments and reported disbursements when the monies are spent.

31. **The composition of expenditures over the medium-term will be largely determined by the availability and nature of external resources**. As noted above, a considerable amount of the funding within the core and external budgets is not fungible. In determining the fiscal envelope the MoF must consider a number of constraints (see also Box 1), including the following:

- The annual budget appropriation law and Central Bank law include a "no-overdraft" financing rule, forbidding the government to borrow by running an overdraft with the Da Afghanistan Bank (DAB). In addition, the government has made a policy commitment to use concessional loans only for development spending;
- The absence of domestic debt instruments, such as Treasury bills or bonds, which would enable the government to raise additional domestic resources;
- Many of the donor resources are earmarked: (a) LOTFA funds are earmarked to security-related expenditures, with the priority given to wage costs within the operating part of the core budget; (b) ARTF, International Development Association (IDA) and Asian Development Bank (AsDB) funds may not be used to finance security-related expenses; and (c) the majority of core and external budget funds are provided for specific projects.[26]

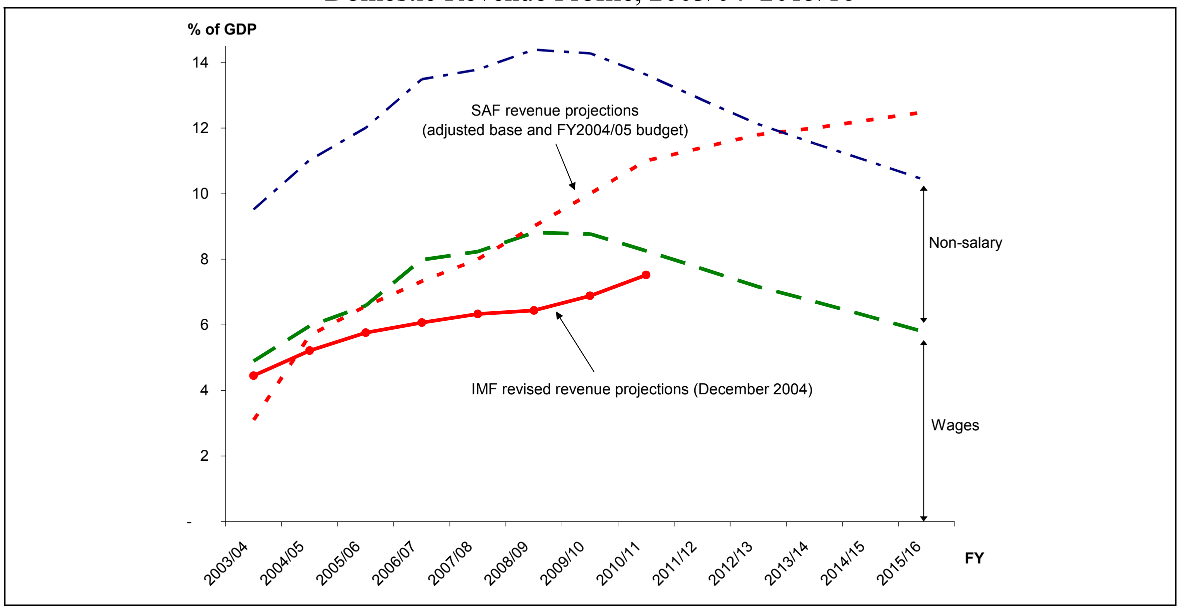
32. **The priority for the government is to fund the operating budget.** The fiscal policy commitments for the operating budget, outlined in Box 1, are designed to provide aggregate fiscal discipline, as expenditures are constrained by availability of domestic revenues and external (grant) resources. Given the large weight of salaries and wages in total operating expenditures, the funding requirements are largely driven by the ambitious public administration reform program (see section below). Domestic revenue mobilization, which is developing from a very a narrow base, is not expected to keep pace with the costs of the proposed public administration reforms over the near term, let alone to absorb the maintenance costs associated with the externally funded development programs. Figure II.2 outlines the expected profile, presented in SAF, for wages, overall operating expenditures and domestic revenue for the next ten years.

33. **Under the government's scenario, domestic revenue should be able to finance the wage bill within five years and total recurrent spending within nine years**. In the interim, the government would be highly dependant on donor funding, but anticipates that the operating budget financing needs will be fully met though donor grants. The highly concessional loans provided by the international community have been earmarked in the 2004/05 budget to development programs and projects. Over the next seven years,

[26] Both IDA and the ADB have provided highly concessional loans directly to the core budget, which the government may allocate to development programs. The government's own policy commitment is to avoid using these funds to finance the operating budget (except on a temporary basis). The ARTF has both a recurrent and investment window.

development spending, which is not shown on the figure, would be entirely funded by external assistance.

Figure II.2. Islamic State of Afghanistan: Operating Budget Expenditure and Domestic Revenue Profile, 2003/04–2015/16



Sources: *Securing Afghanistan's Future;* and Fund staff estimates.

34. **On the revenue side, the fiscal revenue projections might be overly optimistic.** Projecting revenue is particularly difficult in Afghanistan, where issues such as security, control over provincial transfers, the impact of opium production and eradication on the economy, as well as legal imports and significant tax policy reforms, obscure the outlook. Furthermore, the lack of reliable historical information also affects the quality of the estimates.

35. **Reaching the ambitious revenue targets included in SAF will require robust economic growth and the continued strong implementation of a number of policy and administrative reforms**. The IMF projections presented in Figure II.2 are based on the latest information available for 2004/05 and the five year reform programs that have been approved by the customs and tax administrations (see section below). The projections were based on updated macro economic information and follow broadly the same methodology as the authorities' estimates (differing mainly on the expected effectiveness of implementation). The projections are driven by four elements:

- **Economic growth and inflation:** The tax base is expected to grow in line with nominal GDP growth, or for import duties, in line with the growth in dutiable imports. These variables are particularly susceptible to the effects of the prolonged drought and also could be negatively effected in the short term by an opium eradication campaign;

- **Customs and tax policy reforms:** The government enacted a sweeping reform of trade taxes towards the end of 2003/04 and implemented a wide range of tax reforms aimed at mobilizing revenue (outlined below);
- **Customs administration reforms:** Customs duties are currently the predominant form of revenue in Afghanistan (Table II.3). Measures to improve customs administration will focus on improving enforcement and compliance. Progress encompasses implementation of international standards for classification of goods, progressive recovery of customs functions from other agencies (e.g., valuation of goods), and replacement of multiple customs declaration forms with a single form for all types of imported goods; and
- **Tax administration reforms:** Measures to improve tax administration will also focus on enforcement and compliance. Also important, however, are such developments as the establishment of a Large Taxpayer Unit (LTU) within the MoF and improved provincial transfers.

36. **The dependence of external funding and uncertain domestic revenue presents considerable risks to fiscal sustainability.** Revisions to the macroeconomic assumptions and the rates of compliance, combined with delays to the implementation of some key tax reforms, may reduce the anticipated tax revenues as shown in Figure II.2. Unless remedial measures are taken to increase domestic revenue mobilization, by speeding up the reforms, additional external funding would be required to cover the operating budget over a more prolonged period or else the authorities would have to curtail some expenditures including those related to the current public administration reforms.[27]

37. **In order to ensure that the budget remains fully funded over the medium term the authorities need to maintain donor commitments to fund the operating budget**. In order to demonstrate the credibility of the budget and the reform program to donors, the authorities need to execute the budget as planned in addition to giving donors sufficient fiduciary assurances that their money would be spent in line with their objectives. The authorities will also have to negotiate with donors with regard to any shortfalls in domestic revenue within each year—to determine whether expenditures would be curtailed or additional external assistance provided. It should be noted that reducing aggregate spending may require ad hoc cuts in activities that may be inconsistent with broader policy objectives. Such negotiations with donors will determine whether the critical budget constraint should be the expenditure ceilings, as outlined in the SAF, or the operating budget deficit.

[27] An additional option would be to relax the policy constraint of not funding the operating budget with concessional loan resources. This option would threaten fiscal sustainability and would probably only be advisable over the short-term, to fill particular one-off funding gaps.

D. Rebuilding and Broadening the Domestic Tax Base

38. **Revenue mobilization is critical to achieving fiscal consolidation.** Domestic revenues have significantly increased over the last two years. In 2002/03, they reached $131 million, equivalent to 3.2 percent of GDP. In 2003/04, revenue collection reached $208 million, equivalent to 4 percent of GDP and outperformed Fund staff expectations. The budget target for 2004/05 has been set at $309 million, equivalent to around 5.5 percent of expected GDP.[28] The customs and tax authorities have both adopted five-year reform plans, through 2007 and 2008 respectively, with the short-term focus on extending coverage in the provinces and enhancing tax compliance.

39. **The domestic revenue base is concentrated in a relatively small number of taxes and is derived from a few locations** (Table II.3). Import duties are the main source of domestic revenue, comprising over 50 percent of the total. More than 93 percent of total revenue is collected by central ministries and just five of the 34 provinces (i.e. Herat, Nangarhar, Kandahar, Balkh, and Kabul). The majority of revenues attributed to the central ministries are in the form of sales of goods and services and fees and charges (e.g. sale of telephone services, registration of motor vehicles, the sale of passports and over flight charges). Afghanistan's fiscal system is very centralized and the provincial level of government refers to a deconcentrated level of central government, rather than to a subnational level of government. With the creation of the TSA, provincial administrations can no longer spend money directly from the revenues they collect as these are automatically swept into the TSA and then transfers are made to fund expenditures in accordance with the government's budget. This has considerably improved the reporting and transfer of revenues collected in the provinces to the central government, a critical component of the move towards fiscal consolidation (see Statistical Appendix Table 31)

Table II.3. Islamic State of Afghanistan: Domestic Revenue Collection, 2003/04 and 2004/05

	2002/03 Est.	2003/04 Est.	2004/05 H1 Est.	2004/05 IMF Rev. Proj.1/
Domestic Revenue (percentage GDP)	3.2	4.0		5.21
Domestic Revenue (Afs)	5,865	10,168	5,910	14,015
Domestic Revenue ($)	131	207	119	281
Domestic Revenue (percentage shares)	na	**100**	**100**	**100**
Tax Revenues	na	62	76	71
Taxes on income, profits and capital gains	na	4	9	10
Domestic taxes on goods and services	na	3	10	11
Taxes on international trade and transactions	na	53	55	49
of which: Import duties	na	52	52	47
Non Tax Revenues	na	38	24	29
Admin. fees & charges, non-industrial sales	na	35	20	25
Central Ministries (percentage shares)	na	**29**	**19**	
Provinces		**71**	**81**	
of which (in percent of total revenue),	na			
Herat	na	41	34	
Kandahar	na	7	13	
Nangarhar	na	7	12	
Kabul	na	5	6	
Balkh	na	3	7	

Source: MOF, Fund staff estimates.
1/ See section 2 for revised projections

[28] The SMP revenue target (floor) for 2004/05 is Af 12.8 billion ($257 million). The differences between the budget and the SMP reflect the assumed pace of the revenue reform measures and efficiency improvements.

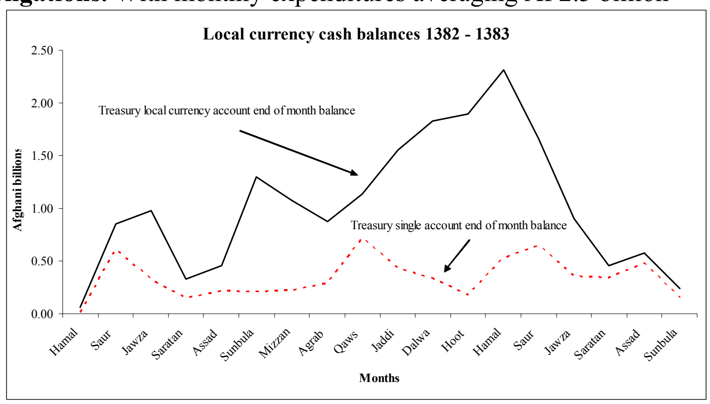
Box 1. Cash Management in Afghanistan

Government cash management may be broadly defined as the cost-effective management of the government's short-term cash flows and cash balances to ensure the smooth government payments.

The options for cash management in Afghanistan are severely limited. Key constraints include:

- The government's commitment to a strict "no-overdraft" financing rule, which forbids the government to finance its operations through running an overdraft with DAB is embodied in the annual Budget Decree. The new central bank law further codifies this policy;
- The absence of any domestic government debt market that could be used to borrow or place liquidity;
- The government policy to fund, to the extent possible, the operating budget exclusively through domestic revenue and external grants, and to use concessional borrowing only for development spending.[1/]

The overriding requirement of cash management is to ensure that the government has, at all times, a sufficient cash buffer to meet its obligations. With monthly expenditures averaging Af 2.3 billion during the second quarter of 2004/05 domestic government cash balances peaked at Af 2.3 billion at the start of the current fiscal year but rapidly declined thereafter (see Figure). This decline was mainly attributed to the slow rate of disbursement from ARTF and LOTFA. As a result of the cash shortfall, general program loan accounts have served as a temporary buffer for bridging cash shortages in the operating budget to avoid disruptive cash rationing. To avoid a repeat of this in the future, the authorities must maintain a prudential cash reserve, which should be available to compensate for any unexpected shortfall in other sources of funding.



Continuing to improve cash planning and forecasting is a high priority for the implementation of both fiscal and monetary policies. There are commonly three stages in the development of a basic cash management system (with Afghanistan currently at stage 1), these are**:**

Stage 1: Improving the control over cash flows. The recently developed Treasury Single Account (TSA) helps to integrate government accounts, with balances regularly swept into a single account held by the MoF. Other measures being developed to control cash flows include: modern payment procedures (e.g. Electronic Funds Transfer) to suppliers and direct employee salary payments (currently the plans are only for Kabul). Commitment controls should also be introduced to facilitate expenditure management and help coordinate the timing of payments;

Stage 2: Developing a system of cash plans and targeting of the amount of cash reserve to be available for the government payments. The should allow timely action to anticipate possible cash shortfalls in the future and assist with the coordination of fiscal and monetary policy. The main constraint is the capacity in the MoF to develop this capability; and

Stage 3: Development of short term instruments to manage liquidity (including Treasury bills) designed to offset temporary cash imbalances because of timing of cash flows in and out of government. The MoF has, so far, been reluctant to consider the creation of domestic debt.

1/ It should be noted that an initial advance from the ARTF, of $50 million, provided the liquidity for cash advances to provinces and expenditures in the center.

40. **The remaining provinces and ministries either have much lower revenue capacity or suffer from poorer collection rates.** Many ministries and provinces collect a minimal amount of revenue and, with around 90 different active taxes, it is highly likely that the administrative costs of some taxes outweigh their revenue gains. This suggests some scope for rationalizing the number of taxes collected, which should be helped by the ongoing work to strengthen the classification of revenue into more internationally recognized categories.

41. **Customs administration reform** will continue to dominate the revenue mobilization effort over the medium-term. In 2004 the customs administration implemented measures to: (a) improve compliance to ensure that all provincial customs revenues are transferred to the TSA; and (b) simplify the tariff system, including the use of market exchange rates for import valuation, a streamlined tariff structure (moving from 25 tariff rates to six), a reduction in tariff dispersion (with rates ranging from 2.5–16 percent , compared with 0-150 percent previously), and a more effective broker process was established. Ongoing customs reforms include: (a) improving customs infrastructure through major building projects supported by USAID and the World Bank; (b) introducing of a computer system, ASYCUDA; (c) re-organizing and re-building the capacity of central and regional customs offices through an extensive DFID training program; and (d) establishing effective enforcement mechanisms and reducing illegal charges.

42. **Tax administration reform:** the tax base is likely to remain relatively narrow over the medium-term and reforms being implemented will focus on large taxpayers. The current set of reforms include: (a) the adoption of tax reform package for 2004/05; (b) the creation of a Large Taxpayer Office; (c) the nationwide roll out of the new Taxpayer Identification Number (TIN) to the major provincial centers; and (d) the consolidation of recent tax legislation amendments to address the excessive use of tax holidays, exemptions and 'special agreements that were in danger of eroding the tax base.[29] Provisions for income tax, capital gains, and company tax will be introduced under a new tax law and the government must also ensure that new laws being drafted for the mining, oil and gas sectors are consistent with the tax code.

43. **Moving to a broad-based consumption tax:** The current indirect tax system contains serious deficiencies, including: (a) a narrow tax base leading to low revenue yield; (b) serious potential cascading (albeit generally at a low rate); and (c) disincentives to export. The phased extension of the recently introduced taxes on selected services should pave the way to a broader-based consumption tax but it is unlikely that the government will have the administrative capacity to implement this for at least five years.

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[29] The tax reform package for 2004/05 includes a wage withholding tax, a fixed tax on selected services, a reduction in the corporate tax rate to 20% all businesses and a rent tax.

E. Public Expenditure Policy and Management

44. **Further improvements to the legislative framework and PEM systems are needed to remove the main impediments to budget consolidation**. Most of these improvements have already taken place at the central MoF, with improvements in line ministries and in the provinces being much slower: a TSA has been established, consolidating all government accounts; a computerized management information system has been set up in the ministry of finance and will be gradually rolled out to other parts of the government; donor-funded capital spending is increasingly being channeled through the treasury; and a public financial management law has been prepared and is expected to be approved shortly.

45. **The government urgently needs to publish in the official gazette recent amendments to the tax laws**, including the tax reform package and the amendments to ensure that the revenue legislation is the only source of concessions or exemptions, **and adopt a new organic budget law** with strengthened rules for budget coverage, preparation, execution and reporting. High priority also needs to be given to a new customs code, internal audit and procurement legislation that should help to improve compliance rates.

46. **The lack of capacity to execute spending plans, combined with problems caused by ongoing insecurity, are severely hampering the ability of the government and donors to implement development programs**. This is particularly the case for reconstruction projects for which implementation capacity is very low. Considerable amount of technical assistance is being provided to line ministries, designed to improve planning, financial management, procurement and audit capacity, but the experience of other post-conflict countries suggests that this problem will persist over the medium-term.[30] The rate of spending is also likely to be negatively effected if the security situation deteriorates. It is therefore important that the government manages public expectations and produces realistic budgets that reflect the limited absorptive capacity, as opposed to 'wish lists'.

47. **Building an effective and affordable public administration will be a major challenge.** The authorities' policy, as set out in the 2004 policy document *Securing Afghanistan's Future*, is to broadly maintain the size of the civil service but to invest heavily to build its capacity.[31] These proposals entail significant additional recurrent and investment costs over the medium-term. The wage bill will therefore constitute a growing proportion of the operating budget in the short term, growing faster than the projected increases in GDP, and remain significant over the medium term (Figure II.2).

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[30] See IMF Board Paper, Rebuilding Fiscal Institutions in Post-Conflict Countries, December 2004, (www.imf.org).

[31] The SAF policy document was endorsed by donors at the March 2004 Berlin conference. The budget ceiling for civil servants is around 340,000, but there are a considerable amount of unfilled posts, particularly in the education sector, which the authorities are trying to address. The armed forces account for about an additional 55,000 employees.

48. **The authorities consider the move to a small, but in the medium term a relatively high-cost, public service as unavoidable if capacity is to be restored**. According to World Bank estimates, the average pay for civil servants is likely to reach a multiple of almost five times per capita income within five years, significantly above the average for Asia (Table II.4), leveling off thereafter. However, in weak economies with very low capacity, relatively higher salaries are commonly paid in order to retain well qualified staff (Table II.4).

Table II.4. Public Sector Wages

Region	Central Government Wages and Salaries as Percent of GDP	Average Central Government Wage to Per capita GDP 1/
Afghanistan (av. 2004/05–2010/11)	7.8	4.2
Sub-Saharan Africa	8.4	5.7
Asia	5.3	3.0
Eastern Europe and Central Asia	3.9	1.3
Latin America and the Caribbean	5.6	2.5
Middle East and North Africa	9.1	3.4
OECD 2/	4.5	1.6

Sources: Government Financial Statistics database (IMF); International Financial Statistics database (IMF); World Economic Outlook database (IMF); IMF Staff; the online World Bank Cross-National Data on Government Employment & Wages; and Schiavo-Campo, Salvatore, Giulio de Tommaso and Amitabha Mukherjee (1997), An International Statistical Survey of Government Employment and Wages, Policy Research Working Paper 1806 (Washington: The World Bank).
1/ Data refer to 1996–2000 average.
2/ Data refers to the 1996–2000 average.

49. **Over the longer term, the ratio between average civil service pay and per capita GDP can return to levels more in line with regional averages**. The government has already started a comprehensive pay and grading review across the civil service that will provide an alternative to the necessarily fragmented schemes that comprise the current capacity building framework and will consider questions of long-term sustainability.

50. **The current approach entails significant fiscal risks.** Despite the anticipated growth in domestic revenues, donors will be required to continue to finance a large share of salaries and wages over the medium-term. The authorities must ensure that the proposed salary costs (as set out in SAF) can be funded by available domestic and external financing over the medium-term. This will likely be a complex task as the authorities may need to respond to shortfalls in domestic revenue or fluctuations in donor funding, which is traditionally volatile. To retain external support the government must also demonstrate that this approach is leading to commensurate improvements in government capacity and continue to resist the significant pressures for general or sector pay increases—these pressures may be exacerbated by the number of donor-financed projects used to fund staff at

greatly varying pay rates. For example, the average civil servant is paid around \$50 per month, while the main capacity building program (the Priority Reform and Restructuring, PRR) pays up to \$300 in additional allowances per month, and programs to attract well-qualified managers may pay substantially more. The pay rates for the new Afghan National Army are also significantly above those of the rest of the civil service.

51. **Significant technical assistance (TA), including by FAD, has established the framework for consolidating budget management systems**. The framework includes: establishing the TSA; introducing a basic computerized management information system (AFMIS, currently only operational in the MoF in Kabul, but there are plans gradually extended computerization to the provinces); reforming payment systems; developing accounting and auditing standards and capacity. While significant progress has been made, these reforms will be slow to implement and most public financial management practices outside the MoF remain rudimentary and paper-based.

52. Afghanistan is receiving a considerable amount of TA in the areas of PEM, tax policy and revenue administration from a wide range of donors. Several FAD technical assistance missions have assisted in the reform process with the focus of advice in the following areas: (a) recommending reform strategies and specific short- and medium-term priority measures; (b) helping to design programs of technical assistance to ensure successful; and (c) monitoring and evaluating the implementation of reforms and to suggest improvements. Some lessons from this TA include: (a) the pace of reforms has been slowed by the poor security situation. For example, it was a daunting task to reestablish the central government's authority over the provinces; (b) the inclusion of TA recommendations as conditionality in Fund-supported programs helped with implementation; (c) flexibility in the overall strategy is important to respond to changing circumstances on the ground; and (d) good donor coordination is critical for success, especially when a large number of donors is involved.[32]

[32] For further details see: IMF Board Paper, Background Paper for Rebuilding Fiscal Institutions in Post-Conflict Countries, December 2004, (www.imf.org), Supplement 1.

Table 1. Islamic State of Afghanistan: Key Economic Indicators, 2001/02–2004/05

(In units as indicated)

	2001/02	2002/03	2003/04	Proj. 2004/05
Production				
GDP (in millions of U.S. dollars, excluding opium production)	2,463	4,084	4,585	5,392
GDP (in millions of new Afghani)	133,987	182,862	225,108	268,738
Real GDP growth rate (in percent)	...	29.0	16.0	7.5
GDP per capita (in U.S. dollars)	123	182	199	228
Opium production (metric tons)	200	3,400	3,600	4,200
Opium value (in millions of U.S. dollars)	...	2,540	2,300	2,800
Consumer prices				
CPI (Kabul, year-on-year change; in percent)	-43	52	10	10
CPI (Kabul, average change; in percent)	...	5	24	12
	(In millions of U.S. dollars; unless otherwise specified)			
General government recurrent budget				
Revenues	...	132	207	256
Expenditures	...	349	451	609
Donor grants and loans	...	209	205	300
Revenues (in percent of non-opium GDP)	...	3.3	4.5	4.8
Expenditures (in percent of non-opium GDP)	...	8.6	9.8	11.3
Monetary indicators				
Domestic currency in circulation (annual percentage change)	...	20	41	38
Gross foreign exchange reserves (in millions of U.S. dollars)	...	426	816	1,105
	(In millions of U.S. dollars; unless otherwise specified)			
External sector				
Exports of goods (including reexports)	709	1,248	1,820	2,031
Exports of goods (annual change; in percent)		76	46	12
Imports of goods	1,645	2,408	3,415	3,426
Imports of goods (annual change; in percent)		46	42	0
Imports of oil	...	...	...	...
Current account deficit (excluding grants)	...	-1,306	-1,945	-1,721
Current account deficit (including grants; in percent of GDP)	...	-2.1	-1.8	-3.4
Afghani/U.S. dollar (average during fiscal year)	54	45	49	...
Afghani/U.S. dollar (end-fiscal year)	31	53	50	...
	(In percent of GDP)			
Investment and savings				
Gross investment	...	28.3	27.2	21.9
Domestic savings	...	-3.7	-15.2	-10.1

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 2. Islamic State of Afghanistan: Gross Domestic Product at Current Prices, 2001/02–2004/05

(In millions of new Afghanis)

	2001/02	2002/03	2003/04	Proj. 2004/05
Agriculture	...	89,834	106,891	103,207
Cereals	...	73,751	85,515	78,674
Other crops and nonfoods	...	4,652	4,266	4,661
Livestock	...	11,431	17,110	19,873
Industry	...	36,179	46,944	63,182
Mining	...	261	469	612
Manufacturing	...	27,151	33,330	40,706
Construction	...	8,700	12,205	20,212
Electricity and power	...	67	939	1,652
Services	...	54,278	66,559	93,539
Trade	...	18,167	20,386	25,319
Transport and telecommunications	...	17,343	24,856	38,589
Public administration	...	8,500	10,428	13,383
Other services	...	10,267	10,889	16,248
GDP at factor cost	...	180,292	220,393	259,929
Indirect taxes less subsidies	...	2,570	4,715	8,809
GDP at market prices (excluding opium)	...	182,862	225,108	268,738
GDP at market prices (excluding opium, annual change; in percent)	...	...	23.0	19.4

Sources: Data provided by the Afghan authorities; and Fund staff estimates and projections.

Table 3. Islamic State of Afghanistan: Gross Domestic Product at Constant Prices, 2001/02–2004/05

(In millions of new Afghanis at 2002/03 prices)

	2001/02	2002/03	2003/04	Proj. 2004/05
Agriculture	...	89,834	101,819	84,719
Cereals	...	73,751	84,690	67,752
Other crops and nonfoods	...	4,652	5,552	5,274
Livestock	...	11,431	11,577	11,693
Industry	...	36,179	40,495	52,480
Mining	...	261	250	315
Manufacturing	...	27,151	29,148	34,395
Construction	...	8,700	10,941	17,506
Electricity and power	...	67	156	265
Services	...	54,278	64,753	82,609
Trade	...	18,167	20,164	22,382
Transport and telecommunications	...	17,343	24,463	36,695
Public administration	...	8,500	9,704	12,033
Other services	...	10,267	10,422	11,499
GDP at factor cost	...	180,292	207,067	219,808
Indirect taxes less subsidies	...	2570	4,452	7,542
GDP at constant prices (excluding opium)	...	182,862	211,519	227,412
GDP at constant prices (excluding opium, annual change; in percent)	...	28.6	15.7	7.5

Sources: Data provided by the Afghan authorities; and Fund staff estimates and projections.

Table 4. Islamic State of Afghanistan: Gross Domestic Product at Constant Prices, 2001/02–2004/05

(Annual percentage change)

	2001/02	2002/03	2003/04	Proj. 2004/05
Agriculture	...	...	13	-17
Cereals	...	...	15	-20
Other crops and nonfoods	...	...	19	-5
Livestock	...	...	1	1
Industry	...	...	12	30
Mining	...	...	-4	26
Manufacturing	...	...	7	18
Construction	...	...	26	60
Electricity and power	...	...	133	70
Services	...	...	19	28
Trade	...	...	11	11
Transport and telecommunication	...	...	41	50
Public administration	...	...	14	24
Other services	...	...	2	44
GDP at factor cost	...	...	14	6
Indirect taxes less subsidies	...	...	73	69
GDP at constant prices	...	28.6	16	8

Sources: Data provided by the Afghan authorities; and Fund staff estimates and projections.

Table 5. Islamic State of Afghanistan: Sectoral Shares of Gross Domestic Product, 2001/02–2004/05

(In percent of GDP at market prices)

	2001/02	2002/03	2003/04	Proj. 2004/05
Agriculture	...	49	47	38
Industry	...	20	21	24
Services	...	30	29	22
GDP at factor cost	...	99	97	97
Indirect taxes less subsidies	...	1	3	3
GDP at market prices (excluding opium)	...	100	100	100

Sources: Data provided by the Afghan authorities; and Fund staff estimates and projections.

Table 6. Islamic State of Afghanistan: Savings-Investment Balances at Current Prices, 2001/02–2004/05

	2001/02	2002/03	2003/04	Proj. 2004/05
		(In millions of U.S. dollars)		
Domestic expenditures	...	5,498	6,529	7,113
Consumption	...	4,344	5,282	5,934
Public 1/	...	318	407	512
Private 2/	...	4,026	4,875	5,422
Gross fixed capital formation	...	1,154	1,248	1,179
Public	...	1,104	1,190	1,029
Private 3/	...	50	58	150
Net exports of goods and services 4/	...	-1,414	-1,945	-1,721
Exports of goods and services (excluding reexports)	...	328	459	624
Imports of goods and services (excluding reexports)	...	-1,742	-2,404	-2,345
Domestic savings	...	-151	-697	-542
Public savings	...	-187	-200	-255
Private savings	...	36	-498	-287
GDP at market prices	...	4,084	4,585	5,392
		(In percent of GDP)		
Domestic expenditures	...	134.6	142.4	131.9
Consumption	...	106.4	115.2	110.1
Public	...	7.8	8.9	9.5
Private	...	98.6	106.3	100.6
Gross fixed capital formation	...	28.3	27.2	21.9
Public	...	27.0	25.9	19.1
Private	...	1.2	1.3	2.8
Net exports of goods and services	...	-34.6	-42.4	-31.9
Exports of goods and services (excluding reexports)	...	8.0	10.0	11.6
Imports of goods and services (excluding reexports)	...	-42.6	-52.4	-43.5
Domestic savings	...	-3.7	-15.2	-10.1
Public savings	...	-4.6	-4.4	-4.7
Private savings	...	0.9	-10.9	-5.3
Memorandum items:				
Real GDP growth (annual change; in percent)	...	28.6	15.7	7.5
Nominal GDP growth (annual change; in percent)	...	33.8	23.1	19.4
Sectoral shares of GDP (in percent)				
Agriculture	...	49.8	48.5	39.7
Industry	...	20.1	21.3	24.3
Services	...	30.1	30.2	36.0
GDP per capita (in U.S. dollars)	...	182.4	199.4	228.3
Domestic government revenue (in percent of GDP)	...	3.2	4.5	4.8

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

1/ Data originating from the fiscal accounts.
2/ Determined as a residual.
3/ Equivalent to foreign direct investment reported in the balance of payments, and some new private investment.
4/ Equivalent to the current account deficit, excluding grants.

Table 7. Islamic State of Afghanistan: Opium Production and Prices, 1994–2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Area under production (hectares)	71,000	54,000	57,000	58,000	64,000	91,000	82,000	8,000	74,000	80,000	131,000
Hilmand	...	...	...	...	...	...	...	...	29,950	15,371	29,353
Nangarhar	...	...	...	...	...	...	...	...	19,780	18,904	28,213
Badakhshan	...	...	...	...	...	...	...	...	8,250	12,756	15,607
Uruzgan	...	...	...	...	...	...	...	...	5,100	7,143	11,080
Ghor	...	...	...	...	...	...	...	...	2,200	3,782	4,983
Kandahar	...	...	...	...	...	...	...	...	3,970	3,055	4,959
Rest of the country	...	...	...	...	...	...	...	...	4,796	19,472	36,441
Proportion of poppy cultivated on rain-fed (in percent)	...	...	...	...	...	...	...	...	...	...	8
Proportion of wheat cultivated on rain-fed (in percent)											45
Proportion of poppy cultivated on irrigated land (in percent)	...	...	...	...	...	...	...	...	...	...	92
Proportion of poppy cultivated on irrigated land (in percent)											55
Percentage of World (in percent)	26	22	22	23	27	42	37	6	41	47	67
Potential opium production	3,400	2,300	2,200	2,800	2,700	4,600	3,300	200	3,400	3,600	4,200
Percentage of World (in percent)	60	52	50	58	62	80	70	13	76	75	87
Number of provinces where opium is produced (out of 32)	...	...	...	...	...	16	23	10	24	28	30
Area under cultivation for cereals	...	...	...	...	...	...	...	...	...	2,819	2,221
Gross income of poppy cultivation (U.S. dollar/hectare)	...	1,000	...	...	...	...	1,100	7,400	16,200	12,700	4,600
Gross income of wheat cultivation (U.S. dollar/hectare)	...	...	...	...	...	...	...	...	...	470	390
Potential income from opium production (in billions of U.S. dollars)	...	...	...	...	...	...	0.9	...	2.5	2.3	2.8
Farm-gate prices	30	23	24	34	33	40	28	300	350	283	92
Estimate value of opium at farmgate level (in millions of U.S. dollars)	102	54	54	95	88	183	91	56	1200	1020	600

Sources: United Nations Office on Drugs and Crime, *Afghanistan Opium Survey for 2004* , November 2004; and FAO/WFP, Crop and Food Supply Assessment Mission to Afghanistan.

Table 8. Islamic State of Afghanistan: Agricultural Crop Production, 2000/01–2004/05

(In tons)

	2000/01	2001/02	2002/03	2003/04	2004/05
Cereals	2,607,000	2,108,000	3,737,000	4,207,000	...
Wheat	1,469,000	1,597,000	2,686,000	3,480,000	...
Rice, paddy	260,000	242,000	388,000	260,000	...
Barley	741,000	87,000	345,000	240,000	...
Maize	115,000	160,000	298,000	210,000	...
Millet	22,000	22,000	20,000	17,000	...
Corn					
Potatoes and beets	274,000	274,000	269,000	434,000	...
Potatoes and beets	235,000	235,000	230,000	350,000	...
Sugar cane	38,000	38,000	38,000	83,000	...
Sugar beets	1,000	1,000	1,000	1,000	...
Nuts and Olives	68,700	68,700	68,900	58,400	...
Pulses nes	50,000	50,000	50,000	42,100	...
Almonds	9,000	9,000	9,000	7,000	...
Walnuts	5,000	5,000	5,000	3,900	...
Pistachios	2,800	2,800	2,800	2,200	...
Nuts nes	1,000	1,000	1,000	800	...
Olives	900	900	1,100	2,400	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 9. Islamic State of Afghanistan: Land Use, 2001/02–2004/05

(In thousands of hectares)

	2001/02	2002/03	2003/04	2004/05
Total land area	65,223	65,223	65,223	...
Permanent crops	70	75	138	...
Permanent pasture	30,000	30,000	30,000	...
Forests and woodland	1,700	1,700	1,700	...
All other land	25,770	25,770	25,613	...
Non-arable	54,470	54,470	55,613	...
Agricultural area	10,753	10,753	9,160	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 10. Islamic State of Afghanistan: Cultivated Land Area for Fruits and Vegetables, 2001/02–2004/05

(In hectares)

	2001/02	2002/03	2003/04	2004/05
Total fruits	101,960	101,960	142,706	...
Oranges	1,500	1,500	1,860	...
Citrus fruit nes	770	770	1,009	...
Apples	2,350	2,350	3,935	...
Pears	320	320	435	...
Apricots	5,100	5,100	7,007	...
Peaches and nectarines	1,920	1,920	2,611	...
Plums	4,500	4,500	6,119	...
Stone fruit nes (fresh)	3,000	3,000	5,579	...
Berries nes	6,600	6,600	8,975	...
Grapes	52,000	52,000	66,460	...
Watermelons	7,800	7,800	11,200	...
Cantaloupes and other melons	2,100	2,100	8,960	...
Figs	3,300	3,300	4,006	...
Fruit fresh nes	10,700	10,700	14,550	...
Oil seed				
Sunflower seed	11,500	11,500	15,750	...
Sesame seed	35,000	35,000	18,900	...
Seed cotton	60,000	60,000	30,000	...
Linseed	39,000	39,000	18,900	...
Vegetables fresh nes	57,000	57,000	22,949	...
Anise, Badian, Fennel	4,500	4,500	4,500	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 11. Islamic State of Afghanistan: Cultivated Land Area for Cereals and Others, 2001/02–2004/05

(In hectares)

	2001/02	2002/03	2003/04	2004/05
Cereals	2,094,000	2,238,000	3,054,700	...
Wheat	1,779,000	1,742,000	2,320,000	...
Rice, paddy	121,000	135,000	195,000	...
Barley	87,000	236,000	270,000	...
Maize	80,000	100,000	250,000	...
Millet	27,000	25,000	19,700	...
Potatoes and beets	16,070	16,070	23,370	...
Potatoes and beets	14,000	14,000	21,000	...
Sugar cane	2,000	2,000	2,300	...
Sugar beets	70	70	70	...
Nuts and olives	49,500	49,500	54,600	...
Pulses nes	37,000	37,000	39,300	...
Almonds	5,500	5,500	5,700	...
Walnuts	2,300	2,300	3,100	...
Pistachios	2,700	2,700	3,200	...
Nuts nes	700	700	900	...
Olives	1,300	1,300	2,400	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 12. Islamic State of Afghanistan: Crop Yields, 2000/01–2004/05

(In kilograms per hectare)

	2000/01	2001/02	2002/03	2003/04	2004/05
Cereals	1,084	1,007	1,670	1,377	...
Wheat	724	898	1,542	1,500	...
Rice, paddy	2,000	2,000	2,874	1,333	...
Barley	5,976	1,000	1,462	889	...
Maize	1,198	2,000	2,980	840	...
Millet	815	815	800	858	...
Potatoes and beets	17,050	17,050	16,739	17,809	...
Potatoes and beets	16,786	16,786	16,429	16,667	...
Sugar cane	19,000	19,000	19,000	25,000	...
Sugar beets	14,286	14,286	14,286	14,286	...
Nuts and Olives	1,388	1,388	1,392	1,070	...
Pulses nes	1,351	1,351	1,351	1,071	...
Almonds	1,636	1,636	1,636	1,228	...
Walnuts	2,174	2,174	2,174	1,258	...
Pistachios	1,037	1,037	1,037	688	...
Nuts nes	1,429	1,429	1,429	889	...
Olives	692	692	846	1,000	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 13. Islamic State of Afghanistan: Cereal Balance Sheet, 2000/01–2004/05

(In thousands of tons)

	2000/01	2001/02	2002/03	2003/04	2004/05
Domestic availability	...	...	2,685	4,190	...
Stock draw-down	...	...	0	0	...
Domestic production	...	...	2,685	4,190	...
Total utilization	...	...	4,018	5,053	...
Food use	...	...	3,467	3,952	...
Animal feed	...	...		397	...
Seed provision	...	...	282	210	...
Losses	...	...	269	266	...
Import requirements	...	...	1,333	491	...
Commercial import capacity	...	...	865	911	...
Food aid currently in stock and pipeline (World Food Program)	...	...	219	219	...
Uncovered Deficit	...	...	249	249	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 14. Islamic State of Afghanistan: Livestock, 2001/02–2004/05

(In thousands of heads)

	2001/02	2002/03	2003/04	2004/05
Cattle	2,249	3,715	3,829	...
Sheep	13,955	8,773	9,074	...
Goats	5,003	7,281	7,425	...
Chickens	6,844	12,156	12,402	...
Horses	162	141	144	...
Asses	682	1,588	1,598	...
Mules	25	25	25	...
Camels	224	175	181	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 15. Islamic State of Afghanistan: Agricultural Cooperatives, 2001/02–2004/05

(In units as stated)

	2001/02	2002/03	2003/04	2004/05
Number of agricultural cooperatives	744	52	243	...
Number of the member in active cooperatives	113	7	30	...
Total of share fees	240	0.6	6	...
Total area which is under control of cooperatives	171	13	77	...
Selling of products in foreign markets	...	7	36	...
Selling of Qaraqul skin in foreign markets	...	...	0.2	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 16. Islamic State of Afghanistan: Production and Consumption of Electricity, 2001/02–2004/05

(In units as stated)

	2001/02	2002/03	2003/04	2004/05
	(In millions of kilowatt-hour)			
Production of electricity	489.72	557.30	827.13	...
Hydro	488.22	556.15	631.70	...
Diesel	1.50	1.15	1.41	...
	(In millions of new Afghanis)			
Consumption of electricity	264.35	301.32	741.22	...
Hydro	263.55	300.70	558.41	...
Diesel	0.80	0.62	1.03	...
	(In new Afghanis/kilowatt-hour)			
Price	0.54	0.54	0.54	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 17. Islamic State of Afghanistan: Production and Imports of Cement, 2000/01–2004/05

(In units as stated)

	2000/01	2001/02	2002/03	2003/04	2004/05
Total					
Quantities (thousand tons)	...	43.5	89.1	378.5	...
Value (billions of old Afghanis)	...	184.7	622.0	1441.6	...
Unit price (thousands of old Afghanis/ton)	...	24,137.5	6,980.6	3,809.3	...
Domestic Production					
Quantities (thousands of tons)	...	16.2	26.8	24.0	...
Value (millions of old Afghanis)	...	61,422.4	26,551.7	62.3	...
Unit price (thousands of old Afghanis/ton)	...	7,599.9	992.4	2.6	...
Of which: Gory Factory (Baglan)	...	...	...	...	...
Quantities (thousands of tons)	...	61,422.4	24.5	22.8	...
Value (millions of old Afghanis)	...	0.0	23,809.5	59.2	...
Unit price (thousands old Afghanis/ton)	...	0.0	670.1	2.6	...
Jabusarg factory (Parwan)	...	...	68.6	...	...
Quantities (thousands of tons)	...	0.0	2.2	1.2	...
Value (millions of old Afghanis)	...	0.0	2,742.2	3.1	...
Unit price (thousands old Afghanis/ton)	...	0.0	1,240.2	2.6	...
Imports					
Quantities (thousands of tons)	...	27.3	62.4	354.5	...
Value (thousands of U.S. dollars)	...	2,015.0	7,733.3	29,449.5	...
Unit price (U.S. dollar per ton)	...	296.6	124.0	83.1	...
Exchange rate: Afghanis per U.S. dollar	...	56,166.0	43,863.5	49.0	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 18. Islamic State of Afghanistan: Private Industrial Production, 2001/02–2004/05

(In units as stated)

	Units	2001/02	2002/03	2003/04	Prov. 2004/05
Shoes and plastic sandals	Million pairs	1	1	1	3
Plastic dishes	Ton	...	11,284	15,293	60,960
Other plastic things	Ton	...	...	6,400	73,500
Musaic and taraso	Cubic meter	...	...	...	14
Batteries	Unit	...	...	...	85,000
Metal	Ton	28,484	9,008	418	740
Profeel metal	Ton	28,484	9,008	418	740
Carton	2000	...	...	...	198
Medicines	Million Afghanis	...	...	...	30
Wood production	Million Afghanis	...	...	8	22
Flax production	Million Afghanis	...	...	...	3
Wool production	Million meters	...	...	14	35
Rugs	Thousand meters	...	...	12	16
Socks	Thousand pairs	18	23	...	...
Vegetable oil	Ton	...	19	7,464	200
Sweet	Ton	10	2	...	168
Raisins processing	Thousands of tons		2	1	2
Ice	Thousands of tons	0	2	9	30
Non-alcoholic beverages	Millions of letters	0	0	1	1
Batteries	Ton	...	...	279	...
Chalk	Carton	...	...	1,149	4,596
Print industry	Thousand sheets	...	...	4	18
Metal production	Thousands of meters	...	...	80,000	240

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 19. Islamic State of Afghanistan: Main Industrial Organizations, 2001/02–2004/05

	2001/02	2002/03	2003/04	Prov. 2004/05
Electricity	16	16	17	...
Charcoal	3	2	6	...
Gas and oil	1	1	2	...
Chemical sector	56	69	52	...
Construction material	4	5	48	...
Machinery and metal	17	32	58	...
Pharmacy	2	5	6	...
Publishing	12	33	34	...
Carpentry and paper	2	14	10	...
Light industries	6	11	22	...
Food industries	33	57	68	...
Other industries	1	6	14	...
Total	153	251	337	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 20. Islamic State of Afghanistan: Land Transportation, 2001/02–2004/05

(In units as stated)

	Units	2001/02	2002/03	2003/04	Prov. 2004/05
Total	Number	97,731	175,355	339,601	...
Government sector	Number	21,791	22,459	22,969	...
Private sector	Number	75,940	152,896	313,362	...
Lorries	Number	29,535	51,527	76,236	...
Government sector	Number	10,200	10,913	11,151	...
Private sector	Number	19,335	40,614	65,085	...
Lorries' capacity	Thousand tons	164	577	754	...
Government sector	Thousand tons	61	100	103	...
Private sector	Thousand tons	103	477	651	...
Buses	Number	15,389	29,098	40,042	...
Government sector	Number	1,731	2,741	2,947	...
Of which: Milli Bus Enterprise	Number	75	230	336	...
Private sector	Number	13,658	26,357	37,095	...
Buses capacity	Thousand tons	443	960	1,667	...
Government sector	Thousand tons	61	96	123	...
Of which: Milli Bus Enterprise	Thousand tons	4	10	14	...
Private sector	Thousand tons	382	864	1,554	...
Passenger cars	Number	49,114	71,222	176,723	...
Government sector	Number	9,276	8,162	8,228	...
Private sector	Number	39,838	63,060	168,495	...
Of which: Taxis	Number	19,209	33,057	52,392	...
Motorcycle	Number	3,693	13,189	33,098	...
Government sector	Number	584	643	643	...
Private sector	Number	3,109	12,546	32,455	...
Rickshaws	Number	...	419	3,044	...
Foreign vehicles	Number	...	9,900	10,458	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 21. Islamic State of Afghanistan: Air Transportation, 2001/02–2004/05

(In units as stated)

	Units	2001/02	2002/03	2003/04	Prov. 2004/05
Air plane	Number	8	6	7	...
Total capacity	Seats	610	1,128	1,192	...
Total flights	Hours	552	1,563	4,054	...
Total length of flights	Thousand kilometers	1,821	2,986	9,714	...
Goods	Ton	63	4,042	16,545	...
Of which: international airlines	Ton	47	3,972	16,590	...
Circulation of goods	Thousand tons per kilometer	18	6,214	23,496	...
Of which: international airlines	Thousand tons per kilometer	11	6,166	18,545	...
Passengers	Thousand passengers	100	161	296	...
Of which: international airlines	Thousand passengers	29	127	185	...
Circulation of passengers	Million per kilometer	122	325	552	...
Of which: international airlines	Million per kilometer	92	305	495	...
Total number of staff	Number	1,360	1,455	1,599	...
Pilots	Number	60	65	140	...
Engineers and mechanics	Number	260	327	356	...
Flight engineers	Number	145	145	69	...
Flight attendants	Number	97	82	93	...
Administrative staff	Number	482	537	632	...
Others	Number	316	299	309	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 22. Islamic State of Afghanistan: Number of Post Offices, 2001/02–2004/05

	2001/02	2002/03	2003/04	Prov. 2004/05
Total	301	373	373	...
Kabul	28	40	40	...
Parwan	15	13	13	...
Kapisa	5	6	6	...
Logar	4	7	7	...
Wardak	9	8	8	...
Ghazni	21	16	16	...
Paktya	23	14	14	...
Pakuka	15	15	15	...
Khost	6	12	12	...
Nangarhar	20	24	24	...
Kunarha	6	9	9	...
Nooristan	4	6	6	...
Laghman	4	5	5	...
Badakhshan	13	22	22	...
Takhar	10	17	17	...
Kunduz	9	7	7	...
Baghlan	11	13	13	...
Samangan	6	5	5	...
Balkh	10	17	17	...
Sar-e-Pul	2	5	5	...
Juzjan	8	8	8	...
Faryab	7	13	13	...
Badghis	5	7	7	...
Farah	9	11	11	...
Nimroz	4	5	5	...
Helmand	2	13	13	...
Kandahar	12	21	21	...
Zubul	9	10	10	...
Urizan	9	9	9	...
Ghor	7	8	8	...
Bamyan	8	7	7	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 23. Islamic State of Afghanistan: Telephone Services, 2001/02–2004/05

	2001/02	2002/03	2003/04	2004/05
	(Number of lines)			
Total fixed line telephones	35,200	154,700	141,328	...
Private	25,477	85,214	77,936	...
Official	9,723	69,486	63,392	...
	(In thousands of Afghanis)			
Revenue of telephone services 1/	28,837	53,904	77,224	...
Private	7,896	18,937	50,528	...
Official	20,941	34,967	26,696	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ Including wireless.

Table 24. Islamic State of Afghanistan: Sectoral Distribution of Active Population, 2001/02–2004/05

(In thousands)

	2001/02	2002/03	2003/04	Proj. 2004/05
Population (excluding nomads)	19,911	20,298	...	...
Number of workers	7,588	7,736	...	...
Agriculture, forest, livestock	5,083	5,181	...	...
Government sector	28	28	...	...
Industries including mining	355	362	...	...
Constructions sector	97	99	...	...
Of which : governmental projects	78	80	...	...
Transport and communications	166	170	...	...
Of which : public enterprises	54	55	...	...
Commerce	500	510	...	...
Of which : public enterprises	61	62	...	...
Other services	1,105	1,127	...	...
Education	75	76	...	...
Public health	21	22	...	...
Information and culture	10	10	...	...
Governmental institutions	154	157	...	...
Public services	204	208	...	...
Other fields	641	654	...	...
Undistributed employees	255	260	...	...

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 25. Islamic State of Afghanistan: Consumer Price Index for Kabul, March 2001–November 2004

	Indices (Dec 2002=100)			Monthly Percentage Changes			12-month Percentage Changes
	General	Food	Nonfood	General	Food	Nonfood	General
2001							
March-01	111.4	118.1	99.5	...	...	...	...
April-01	106.0	110.3	98.5	-4.8	-6.6	-1.1	...
May-01	99.3	101.4	95.7	-6.3	-8.0	-2.8	...
June-01	99.0	100.9	95.7	-0.3	-0.5	0.0	...
July-01	97.7	99.9	93.8	-1.3	-1.0	-1.9	...
August-01	98.3	101.0	93.6	0.6	1.1	-0.2	...
September-01	79.8	78.3	82.4	-18.9	-22.5	-12.0	...
October-01	77.4	75.8	80.1	-3.0	-3.1	-2.7	...
November-01	45.3	47.3	41.7	-41.5	-37.7	-47.9	...
December-01	50.4	53.7	44.5	11.3	13.7	6.6	...
2002							
January-02	57.7	62.6	49.0	14.5	16.5	10.2	...
February-02	59.6	65.4	49.2	3.3	4.5	0.5	...
March-02	63.1	65.4	58.9	5.9	0.0	19.7	-43.4
April-02	63.5	66.1	59.0	0.7	1.0	0.3	-40.1
May-02	66.4	69.6	60.9	4.6	5.3	3.2	-33.1
June-02	64.1	66.5	59.8	-3.6	-4.5	-1.8	-35.3
July-02	69.4	74.0	61.2	8.3	11.3	2.3	-29.0
August-02	65.3	67.1	62.3	-5.8	-9.3	1.7	-33.6
September-02	75.8	78.5	71.0	16.0	17.1	14.0	-4.9
October-02	85.2	85.9	84.1	12.4	9.4	18.4	10.2
November-02	104.6	108.7	97.4	22.7	26.5	15.9	131.1
December-02	100.0	100.0	100.0	-4.4	-8.0	2.7	**98.5**
2003							
January-03	96.5	95.3	98.2	-3.5	-4.7	-1.8	67.2
February-03	93.9	92.3	96.3	-2.6	-3.2	-1.9	57.6
March-03	96.0	95.9	96.3	2.3	3.9	-0.1	52.3
April-03	97.8	97.7	97.8	1.8	1.9	1.6	53.9
May-03	97.0	96.2	98.3	-0.7	-1.5	0.5	46.1
June-03	97.9	97.1	99.3	0.9	0.8	1.0	52.9
July-03	98.3	97.1	100.1	0.4	0.0	0.9	41.7
August-03	98.7	97.0	101.4	0.4	-0.1	1.2	51.0
September-03	100.5	97.5	105.1	1.8	0.6	3.7	32.5
October-03	101.0	98.6	104.6	0.5	1.1	-0.4	18.5
November-03	103.8	102.1	106.5	2.8	3.5	1.8	-0.8
December-03	106.5	106.1	107.2	2.6	3.9	0.7	**6.5**
2004							
January-04	105.7	105.8	105.4	-0.8	-0.3	-1.6	9.5
February-04	105.5	107.1	103.2	-0.1	1.2	-2.1	12.4
March-04	105.9	107.3	103.8	0.3	0.2	0.6	10.3
Apr-04	108.5	109.8	106.6	2.5	2.3	2.6	11.0
May-04	110.3	110.9	109.4	1.6	1.0	2.7	13.6
Jun-04	113.1	111.4	115.9	2.6	0.5	5.9	15.5
Jul-04	113.7	110.8	118.3	0.5	-0.5	2.1	15.7
Aug-04	114.7	108.7	123.8	0.8	-1.8	4.6	16.2
Sep-04	114.7	106.9	126.5	0.0	-1.6	2.2	14.1
Oct-04	115.7	109.1	125.7	0.9	2.0	-0.6	14.6
Nov-04	116.9	110.8	126.3	1.1	1.5	0.4	**12.6**

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

Table 26. Islamic State of Afghanistan: National Consumer Price Index, March–November 2004
(March 2004 = 100)

	Weight	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Overall Index	**100.0**	**100.0**	**101.1**	**101.5**	**102.9**	**103.4**	**104.7**	**104.9**	**106.3**	**106.8**
Food	**60.6**	**100.0**	**101.4**	**101.4**	**101.5**	**100.8**	**101.0**	**100.4**	**102.2**	**102.6**
Breads and cereals	25.2	100.0	101.7	102.0	102.2	101.1	101.3	100.8	102.7	103.7
Meat	5.1	100.0	101.4	101.6	101.1	99.5	99.4	99.9	100.8	101.3
Milk, cheese and eggs	5.4	100.0	101.0	100.6	102.4	102.6	102.3	102.2	103.4	102.4
Oils and fats	5.9	100.0	101.9	99.2	98.6	97.0	96.8	96.1	95.4	94.5
Fresh and dried fruits	5.6	100.0	100.7	101.5	102.0	103.9	105.2	104.2	109.5	108.8
Vegetables, Including tubers	6.6	100.0	102.5	103.4	103.3	101.6	102.1	100.2	103.4	105.5
Sugar and sweet	1.8	100.0	99.7	99.3	97.2	98.6	99.7	98.0	99.7	102.1
Spices	1.2	100.0	99.9	100.6	100.4	100.2	100.7	99.3	99.5	99.7
Nonalcoholic beverages	2.0	100.0	99.2	98.7	99.8	101.2	100.0	100.2	100.3	100.2
Cigarettes and tobaccos	1.8	100.0	99.9	100.6	98.9	97.1	97.4	96.3	95.9	94.9
Non-Food	**39.4**	**100.0**	**100.6**	**101.7**	**105.0**	**107.5**	**110.4**	**111.8**	**112.6**	**113.1**
Clothing	9.1	100.0	99.6	100.3	100.9	101.7	102.0	101.9	102.5	101.1
Housing	16.5	100.0	100.5	102.5	108.3	113.9	120.3	122.9	124.1	126.1
Of which: Rents	6.8	100.0	102.9	109.7	119.0	127.0	138.7	142.6	146.2	149.2
Maintenance	3.0	100.0	104.3	106.7	107.3	107.9	108.2	107.9	107.7	106.7
Electricity and fuels	6.6	100.0	96.3	93.1	97.7	103.1	106.8	109.3	108.7	111.1
Household goods	7.2	100.0	100.2	100.6	101.2	101.1	101.0	100.8	101.3	100.8
Health	1.7	100.0	103.2	104.1	104.2	104.9	105.7	105.0	108.2	107.6
Transportation	2.1	100.0	104.7	105.7	115.1	115.0	117.6	126.5	125.2	127.5
Communication	1.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.4	100.8
Education	1.3	100.0	101.0	101.1	102.2	100.4	100.7	99.6	99.2	97.5
Miscellaneous	0.6	100.0	100.3	100.2	100.6	100.8	100.8	100.5	100.6	101.9

Source: Data provided by the Afghan authorities.

Table 27. Islamic State of Afghanistan: List of Public Enterprises 1/

(As of November 2004)

Brischna Electricity Company	Agriculture Wheat Company
Press and Printing Company	Makroraian Maintenance Company
Marmar Or Rkham	Share Khan Bandar Company
Tahqhio Engineering	Kyber Restaurant
Kodr Barnk	Hotel Company
Mazar Fertilizers and Electricity	Masrlakh Company
Shaman Coal Enterprise	Afsotr Transportation Company
Afghan Gas Enterprise	Areana Airline Company
Kabul Silo Bread	National Insurance Company
Polakobi Silo Bread	Balkh Structure Company
Balkh Silo Bread	Helmand Construction Company
Spinzer Cotton and Oil Company	Afghani Construction Company
Motamama Technical Material	Banai Construction Company
Balkh Cotton and Vegetable Oil	Home Construction Company
Afghan Carpentry	Construction & Material Process Company
Coin Manufacture Company	Municipality Construction Company
Printing Company	Spengher Structure Company
Afghan Industry Enterprise	Afghan Cart Company
Jakala Mechanic Enterprise	Afghan Chicken Company
Pharmacy Company	Business and Donor Company
Steel Material Process Company	Herb Export Company
Kabul Wool Industry	Kandahar Fruit Process
Ghori Cement	Krepka Company
Jabulsarak Cement	Petroleum Company
Helmand Cotton and Vegetable Oil	Wool Export Company
Balkh Textiles Company	
Kandahar Wool Industry	
Baghlan Sugar Company	
Afghan Textile Company	
Bagrami Textile Company	
Afghan Handicraft Company	
Afghan Advertising Company	
Afghan Tourist Company	
Water Canalization	
Public Bus Company	
Kamas Transport No. 2 Company	
Kamas Transport No. 3 Company	
Kamas Transport No. 4 Company	
Kamas Transport No. 5 Company	
Kamas Transport No. 6 Company	
Kamas Transport No. 7 Company	
Kamas Transport No. 8 Company	
Kamas Transport No. 9 Company	
Public Food for Government Employees	

Sources: Data provided by the Afghan authorities.

1/ A comprehensive list of state-owned enterprises is being established currently by the authorities.

Table 28. Islamic State of Afghanistan: General Government Employment, 2001/02–2004/05
(Number of employees)

	2001/02	2002/03	2003/04	2004/05
Total (excluding defense and security)	...	239,081	260,539	...
Prime Minister	...	794	...	...
Administrative Affairs	...	944	1,716	...
Defense	...		1,041	...
Foreign Affairs	...	985	331	...
Interior	...	70,481	404	...
Justice	...	2,729	655	...
Finance	...	4,275	3,137	...
Education	...	72,000	152,432	...
Higher Education	...	5,090	4,405	...
Refugees Return	...	829	1,210	...
Hajj	...	8,000	3,014	...
Planning	...	424	500	...
Mines and Industries	...	291	8,962	...
Light Industries	...	272	4,932	...
Commerce	...	449	5,148	...
Communications	...	2,869	3,322	...
Reconstruction	...	416	367	...
Information and Culture	...	4,514	4,374	...
Public Health	...	23,540	18,280	...
Women's Affairs	...	1,341	1,250	...
High Court	...	3,224	2,727	...
Agriculture	...	11,309	2,646	...
Irrigation and Water Resources	...	2,167	3,499	...
Public Works	...	2,972	3,400	...
Rural Development	...	1,895	1,486	...
City Construction	...	...	397	...
Martyrs and Disabled	...	1,605	1,693	...
Transport	...	882	884	...
Borders	...	750	1,373	...
Labour and Social Affairs	...	5,761	1,432	...
Electricity	...	542	6,428	...
Civil Aviation	...	1,050	2,817	...
Geodesy and Cartography	...	660	701	...
Attorney General	...	4,540	3,306	...
Central Statistics Office	...	413	687	...
Da Afghanistan Bank	...	125	4,069	...
Science Academy	...	567	602	...
Sports (Olympic)	...	...	187	...
National Security	...	...	189	...
Cooperative Agriculture	...	376	98	...
Handicraft	...	...	...	...
Afghan Red Cross	...	...	...	...
Kabul Minicipality	...	...	4,470	...

Source: Data provided by the Afghan authorities.

Table 29. Islamic State of Afghanistan: Operating Budget, 2002/03–2004/05

(In millions of Afghanis)

	2002/03 Est.	2003/04 Prel.	2004/05 Q1 Prel.	2004/05 Q2 Prel.	2004/05 First half Prel.
Domestic revenue	5,864.5	10,167.9	2,670.1	3,235.5	5,905.6
Tax Revenues	---	6,262.1	1,987.6	2,485.4	4,472.9
Taxes on income, profits and capital gains	---	362.6	184.3	359.3	543.5
Taxes on international trade and transactions	---	5,368.6	1,594.4	1,644.2	3,238.6
Other taxes	---	530.9	209.0	481.8	690.8
Non Tax Revenues	---	3,905.8	682.5	750.1	1,432.6
Expenditure	15,514.0	22,151.4	5,223.0	6,776.5	11,999.5
Center-Provinces	---	22,151.4	5,223.0	6,776.5	11,999.5
Central Government	---	11,933.9	3,405.4	3,979.4	7,384.8
Of which : wages	---	7,460.3	1,334.6	1,740.9	3,075.4
others	---	4,473.5	2,070.8	2,238.5	4,309.4
Provinces	---	10,217.5	1,817.6	2,797.1	4,614.7
Of which: wages	---	7,199.7	1,292.7	1,988.1	3,280.8
others	---	3,017.9	524.9	809.0	1,334.0
Economic classification	---	22,151.4	5,223.0	6,776.5	11,999.5
Wages and salaries	---	14,660.0	3,409.0	4,827.1	8,236.1
Purchases of goods and services	---	4,653.4	1,051.7	1,019.8	2,071.6
Transfers and subsidies	---	652.3	141.1	154.9	296.0
Pensions	---	177.1	222.7	245.9	468.6
Capital expenditure	---	2,008.5	398.6	528.7	927.3
Functional Classification	---	22,151.4	5,223.0	6,776.5	11,999.5
General Public Services	---	2,032.9	471.0	585.8	1,056.7
Defense	---	6,004.3	1,288.5	1,520.3	2,808.8
Public Order and Safety	---	5,148.3	1,493.1	1,849.7	3,342.8
Education	---	3,789.4	874.6	1,435.4	2,310.0
Health	---	1,067.4	287.5	265.5	552.9
Social Protection	---	416.0	112.2	180.9	293.1
Housing and Communal Services	---	1,327.6	10.6	16.6	27.2
Recreation and Culture	---	482.6	99.8	150.6	250.4
Economic Affairs	---	1,882.9	585.8	771.7	1,357.5
Balance MOF	-9,649.5	-11,983.5	-2,552.9	-3,541.0	-6,094.0
Float and adjustment 1/	-657.3	1,692.8	223.8	-1.0	222.9
Donor Assistance Grants and Loans	9,430.4	10,469.7	2,137.4	1,638.5	3,775.9
ARTF	---	8,182.3	2,137.4	1,234.4	3,371.8
LOTFA and Army Trust Fund	---	1,891.6	0.0	404.1	404.1
Net transfers from foreign currency deposits 2/	---	395.8	-798.2	1,240.6	442.3
Domestic banking financing 3/	-502.2	-179.0	990.0	662.9	1,652.9
Other financing 4/	1,378.5	0.0	0.0	0.0	0.0

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ Variation between the fiscal position recorded at MOF and DAB. This discrepancy is due to the difference ("float") between checks issued and checks cashed and the fact that the provinces' accounts in DAB branches are not consolidated into the government's central accounts.
2/ Net transfers from foreign currency deposits. A positive sign means a decline in balances and a negative sign an increase in balances.
3/ A positive sign corresponds to a decline in balances and a negative sign to an increase in balances.
4/ In 2002/03, includes one-off transfers of overflight revenue and customs valuation fees accumulated over several years and the sale of telecommunication licenses.

Table 30. Islamic State of Afghanistan: Core Budget, 2002/03–2004/05

(In percent of GDP)

	2002/03 Est.	2003/04 Prel.	2004/05 Budget 1/	2004/05 Fist half Prel.
Domestic revenue	3.2	4.5	4.8	2.2
Tax Revenues	...	2.8	3.3	1.7
Of which :	...			0.0
Taxes on income, profits and capital gains	...	0.2	0.3	0.2
Taxes on international trade and transactions	...	2.4	2.7	1.2
Other taxes	...	0.2	0.3	0.3
Non Tax Revenues	...	1.7	1.5	0.5
Donor Assistance Grants (to operating budget)	5.2	4.7	5.6	1.4
ARTF	...	3.6	4.7	1.3
LOTFA	...	0.8	0.9	0.2
Operating Expenditure	8.5	9.8	11.3	4.5
Wages and Salaries	...	6.5	7.7	3.1
Purchase of goods and services	...	2.1	1.8	0.8
Transfers and Subsidies	...	0.3	0.5	0.1
Pensions	...	0.1	0.3	0.2
Capital expenditure	...	0.9	0.9	0.3
Operating budget (OB) balance (excluding grants)	-5.3	-5.3	-6.5	-2.3
Operating budget balance (including grants)	-0.1	-0.7	-1.0	-0.9
Core budget development spending	...	3.6	14.3	1.3
National programs	...	...	4.4	**1.2**
Livelihoods and social protection	...	...	0.4	0.1
Culture, Media, Sport	...	...	0.0	0.0
Transport	...	...	0.0	0.2
Energy, Mining, and Telecommunications	...	...	1.7	0.1
Natural Resources Management	...	...	0.4	0.7
Urban Management	...	...	0.4	0.0
Trade and Investment	...	...	0.5	0.0
Public Adminsitration Reform of Economic Management	...	...	0.6	0.0
Justice	...	...	0.0	0.0
National Police, Law Enforcement & Stabilisation	...	...	0.4	0.0
National priority Programs	...	...	9.9	**0.1**
Education and Vocational Training	...	...	0.4	0.0
Health & Nutrition	...	...	0.4	0.1
National Emergency Employment Program	...	...	0.8	0.0
National Solidarity Program	...	...	2.6	0.0
Afghanistan Stabilization Program	...	...	1.4	0.0
National Transportation Program	...	...	3.2	0.0
National Irrigation and Power program	...	...	0.5	0.0
National Feasibility Studies Program	...	...	0.6	0.0
Donor Assistance Grants (development budget)	...	2.0	7.3	1.3
Core budget balance	...	-2.2	-7.9	-0.9
Float and adjustment 2/	0.4	0.8	0.0	0.1
Financing	0.5	1.5	7.9	0.8
External (net)	...	1.5	7.0	1.5
Domestic (net)	0.5	0.0	1.0	-0.7
Of which :				0.0
Net transfers to OB from foreign currency deposits 3/	...	0.2	0.0	0.2
Domestic banking financing 4/	-0.3	-0.1	1.0	0.6
Other financing 5/	7.6	0.0	0.0	-1.5
Memorandum item:				
External budget	...	48.3	64.1	1.9

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ The revenue correspond to Fund staff projections. The budget adopted for the government projects revenue equivalent to 5.6 percent of GDP.
2/ Variation between the fiscal position recorded at MOF and DAB. This discrepancy is due to the difference ("float") between checks issued and checks cashed and the fact that the provinces' accounts in DAB branches are not consolidated into the government's central accounts.
3/ Net transfers from foreign currency deposits. A positive sign means a decline in balances and a negative sign an increase in balances.
4/ A positive sign corresponds to a decline in balances and a negative sign to an increase in balances.
5/ In 2002/03, includes one-off transfers of overflight revenue and customs valuation fees accumulated over several years and the sale of telecommunication licenses.

Table 31. Islamic State of Afghanistan: Revenue and Expenditures by Provinces and Central Ministries, 2003/04–2004/05 1/

(In Afghanis)

	2003/04				2004/05 (7 months)		
	Revenue Est.	Expenditure Est.	Balance Est.		Revenue Est.	Expenditure Est.	Balance Est.
Total	10,167,915,284	22,001,215,195	-11,833,299,910	Total	6,755,492,611	14,123,199,831	-7,367,707,220
Central Ministries	2,959,313,838	11,933,876,213	-8,974,562,374	Central Ministries	1,257,744,267	8,476,743,160	-7,218,998,893
1 Kabul	475,637,438	250,902,490	224,734,948	1 Kabul	401,023,990	129,383,068	271,640,922
2 Kapisa	2,802,030	172,089,146	-169,287,116	2 Parwan	14,325,968	449,783,596	-435,457,628
3 Parwan	8,941,678	619,021,308	-610,079,630	3 Wardak	1,851,040	107,073,222	-105,222,182
4 Wardak	1,938,344	137,086,310	-135,147,966	4 Logar	4,677,337	98,845,269	-94,167,932
5 Logar	3,953,715	105,730,748	-101,777,033	5 Ghazni	16,805,788	149,706,462	-132,900,674
6 Ghazni	17,734,670	193,040,645	-175,305,975	6 Paktiya	41,780,762	113,321,191	-71,540,429
7 Paktiya	23,800,377	167,374,086	-143,573,709	7 Paktika	35,380,090	90,151,421	-54,771,331
8 Nangarhar	686,441,649	740,929,182	-54,487,533	8 Khost	149,045,229	119,461,165	29,584,064
9 Laghman	5,680,396	136,995,601	-131,315,205	9 Samangan	3,945,547	62,966,162	-59,020,615
10 Kunar	258,661,638	161,707,499	96,954,139	10 Balkh	481,268,451	418,413,776	62,854,675
11 Badakhshan	6,366,145	285,630,755	-279,264,610	11 Jawzjan	124,595,225	252,831,003	-128,235,778
12 Takhar	22,514,002	215,102,937	-192,588,935	12 faryab	6,298,736	150,499,293	-144,200,557
13 Baghlan	18,567,220	278,334,561	-259,767,341	13 Bamayan	3,337,989	95,738,542	-92,400,553
14 Kunduz	41,348,952	487,261,847	-445,912,895	14 sar-e-pul	1,935,715	82,637,789	-80,702,074
15 Samangan	4,499,900	96,442,831	-91,942,931	15 Kapisa	3,634,239	138,018,596	-134,384,357
16 Balkh	319,557,706	721,555,727	-401,998,021	16 Nangahar	887,718,320	438,919,603	448,798,717
17 Jawzjan	74,517,228	429,760,032	-355,242,804	17 Laghman	6,448,721	118,370,616	-111,921,895
18 Faryab	8,308,258	173,896,497	-165,588,239	18 Kunar	18,620,282	122,330,584	-103,710,302
19 Badghis	2,874,334	95,795,384	-92,921,050	19 Nooristan	359,176	70,582,806	-70,223,630
20 Herat	4,191,807,245	2,215,230,623	1,976,576,622	20 Nimroz	58,815,816	45,365,147	13,450,669
21 Farah	43,803,594	133,193,902	-89,390,308	21 Helmand	15,354,753	133,312,695	-117,957,942
22 Nimroz	83,416,590	72,067,680	11,348,910	22 Kandahar	833,273,414	536,753,474	296,519,940
23 Helmand	13,562,055	191,138,359	-177,576,304	23 Zabul	2,274,773	49,852,527	-47,577,754
24 Kandahar	726,044,309	1,165,203,525	-439,159,216	24 Uruzgan	1,891,289	39,583,498	-37,692,209
25 Zabul	5,860,515	64,735,155	-58,874,640	25 Badakhshan	6,819,623	245,478,755	-238,659,132
26 Uruzgan	7,598,174	45,223,519	-37,625,345	26 Takhar	19,931,576	163,505,556	-143,573,980
27 Ghor	4,712,073	122,903,091	-118,191,018	27 Baghlan	15,771,296	279,351,067	-263,579,771
28 Bamyan	3,647,063	145,541,988	-141,894,925	28 Kunduz	28,671,842	309,694,385	-281,022,543
29 Paktika	32,254,547	104,479,675	-72,225,128	29 Badghis	3,684,280	73,817,445	-70,133,165
30 Nooristan	0	58,320,365	-58,320,365	30 Herat	2,275,003,789	371,693,416	1,903,310,373
31 Sar-e-Pul	1,779,518	102,307,823	-100,528,305	31 Farah	30,206,751	91,952,165	-61,745,414
32 Khost	109,970,083	178,335,691	-68,365,608	32 Ghor	2,996,537	97,062,377	-94,065,840
				33 Daikondi	0	55,210	-55,210

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ Provinces are part of a deconcentrated central government system and not a separate subnational tier of government.

Table 32. Islamic State of Afghanistan: Core Development Budget Expenditures
2001/02–2004/05 1/

(In millions of U.S. dollars) 2/

	2001/02–2003/04 Est.	2004/05 Budget	2004/05 First half Est.
National Programs	19.8	237.1	67.4
Refugee and Internally Displaced People Return	0	0	0.0
Livelihoods and Social Protection	0	19.4	3.7
Culture, Media, and Sport	0	0	0.0
Transport	0	1.5	13.6
Energy, Mining, and Telecommunications	9.2	91.5	5.3
Natural Resources Management	2.8	20.6	41.0
Urban Management	0	23	0.0
Trade and Investment	0	24.9	0.9
Public Administration Reform and Economic Management	7.8	32.2	0.9
Justice	0	0	1.7
National Police, Law Enforcement and Stabilization	0	24	0.3
Afghan National Army	0	0	0.0
Mine Action	0	0	0.0
Disarmament, Demobilization and Reintegration	0	0	0.0
National Priority Programs	167.4	532.9	5.3
Education and Vocational Training	5.7	23.8	1.0
Health and Nutrition	10.5	22.3	4.3
National Emergency Employment Program	46.8	42.2	0.0
National Solidarity Program	32.4	140.4	0.0
Afghanistan Stabilization Program	0	75.4	0.0
National Transportation Program	28	173.3	0.0
National Irrigation Program	39	25.5	0.0
National Feasibility Studies Program	5	30.0	0.0
Total	187.2	770.0	71.8

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ Core Development Budget expenditure is disbursed through the government's treasury accounts.
2/ Conversion from Afghani using the exchange rate of Af 49.84/$1.

Table 33. Islamic State of Afghanistan: External Development Budget Expenditures
2001/02 – 2004/05 1/

(In millions of U.S. dollars)

	2001/02–2003/04 Est.	2004/05 First half Est.
National Programs	3,082.3	80.0
Refugee and Internally Displaced People Return	157.7	23.0
Livelihoods and Social Protection	757.5	6.1
Culture, Media, Sport	27.4	1.4
Transport	522.1	6.6
Energy, Mining, and Telecommunications	73.6	6.7
Natural Resources Management	166.9	13.3
Urban Management	105.1	0.4
Trade and Investment	13.8	0.0
Public Administration Reform and Economic Management	178.5	19.4
Justice	15.8	1.8
National Police, Law Enforcement and Stabilization	77.1	1.3
Afghan National Army	771.6	0.0
Mine Action	161.7	0.0
Disarmament, Demobilization and Reintegration	53.5	0.0
National Priority Programs	405.9	23.0
Education and Vocational Training	136.7	16.7
Health and Nutrition	269.2	6.3
National Emergency Employment Program	0.0	0.0
National Solidarity Program	0.0	0.0
Afghanistan Stabilization Program	0.0	0.0
National Transportation Program	0.0	0.0
National Irrigation Program	0.0	0.0
National Feasibility Studies Program	0.0	0.0
Total	3,488.2	102.9

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ External Development Budget expenditures are funded directly by donors and reported to government.

Table 34. Islamic State of Afghanistan: Monetary Program (Da Afghanistan Bank), 2002/03–2004/05

	2002/03 Est. Mar. 20	2003/04 Est. Mar. 19	2004/05 Proj. Mar. 20
	(In millions of Afghanis)		
Net foreign assets	19,602	41,147	55,888
Foreign assets	19,602	41,147	55,888
Foreign exchange reserves	19,602	40,644	55,088
Gold	9,030	14,015	14,015
Other	10,572	26,628	41,073
Other foreign assets	0	503	800
Foreign liabilities	0	0	0
Net domestic assets	1,074	-10,023	-15,133
Domestic assets	14,361	6,796	3,951
Net claims on general government	14,361	6,796	3,951
Net claims on government before 2002/03	14,951	14,951	14,951
Net claims on government in 2002/3–2004/05	-590	-8,155	-11,000
Domestic currency deposits 1/	-344	-1,984	-1,000
Foreign currency deposits 1/	-245	-6,171	-10,000
Other claims	0	0	0
Other items net	-13,287	-16,818	-19,084
Reserve money	20,676	31,124	40,755
Currency in circulation	20,676	28,801	39,755 4/
Banknotes and coins issued	21,302	29,726	41,105
less cash holdings	626	925	1,350
Bank deposits with DAB and capital note holdings	0	2,323	1,000
Memorandum items:			
Currency in circulation (year-on-year change; in percent)	20.1	40.9	38.0
Gross international reserves (end-of-period level; in millions of U.S. dollars)	426.1	815.5	1,105.3

Sources: Data provided by the Afghan authorities; and Fund staff estimates.

1/ In 2003/04, includes only Ministry of Finance deposits.

Table 35. Islamic State of Afghanistan: Number of Banks

(As of December 2004)

Name of Institution	Share of Shareholders In percent	Type of License	Date of License
State-owned banks			
Bank Millie Afghan		Relicensed	Jun. 26, 2004
Pashtany Tejaraty Bank		Relicensed	Jun. 26, 2004
Export Promotion Bank		Relicensed	Sep. 25, 2004
Foreign-owned banks incorporated in Afghanistan			
Afghanistan International Bank (AIB)		Licensed	Mar. 22, 2004
Asian Development Bank	25.0		
ARC Companies	25.0		
Constellation	16.7		
Marco Polo	16.7		
Rahmat Group	16.7		
First Micro Finance Bank (FMFB)		Licensed	Mar. 18, 2004
Agha Khan Fund for Economic Development	52.0		
KFW	31.0		
IFC	17.0		
Kabul Bank (KB)		Licensed	Jun. 26, 2004
Sherkhan Farnood	57.0		
Haji Obaidullah	26.0		
Sherin Khan	10.0		
Ahmad Jawid	5.0		
Fridoon Noorzad	2.0		
Arian Bank		Preliminary approval	Jul. 26, 2004
Bank Melli Iran	50.0		
Bank Saderat Iran	50.0		
Branches of foreign banks			
Standard Chartered Bank		Permitted	Sep. 18, 2003
National Bank of Pakistan		Permitted	Oct. 01, 2003
Habib Bank Ltd.		Permitted	Feb. 18, 2004
Punjab National Bank of India		Permitted	May 11, 2004

Source: Data provided by the Afghan authorities.

Table 36. Islamic State of Afghanistan: Balance Sheet of the Commercial Banks

(As of August 31, 2004)

	Total Private banks	Total licensed state-owned banks	Total licensed banks
		(In thousands of Afghanis)	
Assets	4,471,117	9,767,860	14,238,977
Cash in vaults and current accounts with DAB	1,185,518	1,232,121	2,417,639
Due from Head office and other related parties	1,947,465	0	1,947,465
Deposits	614,554	4,063,104	4,677,658
Afghani	8,460	10,189	18,649
U.S. dollar	561,658	3,304,512	3,866,170
Other currencies	44,436	748,403	792,839
Loans	484,893	757,818	1,242,711
Afghani	0	406,301	406,301
U.S. dollar	484,893	351,517	836,410
Premises and other fixed assets	89,642	1,212,192	1,301,834
Intangible assets	28,618	0	28,618
Other assets	117,161	1,788,529	1,905,690
Interest receivable	3,266	0	3,266
Available for sale investments	0	714,096	714,096
Investments in unconsolidated subsidiaries	0	0	0
Liabilities	3,798,033	2,499,707	6,297,740
Deposits	2,978,759	1,960,844	4,939,603
Afghanis	106,644	1,357,700	1,464,344
U.S. dollar	2,732,230	522,307	3,254,537
Other currencies	139,885	80,837	220,722
Borrowings	227,937	77,238	305,175
Due to head office and related parties	223,740	0	223,740
Other liabilities	367,597	461,625	829,222
Afghanis	29,709	116,475	146,184
U.S. dollar	77,410	320,423	397,833
Other currencies	30,334	15,529	45,863
Interest payables	230,144	9,198	239,342
Capital	416,410	7,268,153	7,684,563

Sources: Da Afghanistan Bank; and Fund staff estimates.

Table 37. Islamic State of Afghanistan: Short-term Capital Note Auctions, 2004

Overnight Capital Note Auctions

Date	Auction Amount (in Afghanis)	Bids Received (in Afghanis)	High Bid (in percent)	Low Bid (in percent)	Weighted Average (in percent)
September 2004					
9/19/2004	50,000,000	124,000,000	7.50	3.50	3.50
9/20/2004	50,000,000	110,000,000	7.00	3.50	3.50
9/21/2004	50,000,000	100,000,000	7.00	3.30	3.30
9/22/2004	50,000,000	100,000,000	3.40	3.10	3.10
9/26/2004	50,000,000	155,000,000	7.00	2.60	2.60
9/27/2004	50,000,000	155,000,000	7.00	2.40	2.40
9/28/2004	50,000,000	155,000,000	7.00	1.90	1.90
9/29/2004	50,000,000	95,000,000	2.00	1.50	1.50
9/30/2004	50,000,000	99,500,000	7.00	1.60	1.62
Óctober 2004					
10/2/2004	50,000,000	58,000,000	7.00	1.50	1.50
10/3/2004	50,000,000	48,000,000	1.50	1.50	1.50
10/4/2004	50,000,000	96,000,000	1.50	1.20	1.20
10/5/2004	50,000,000	58,000,000	1.50	1.20	1.20
10/6/2004	50,000,000	62,000,000	1.50	1.20	1.23
10/7/2004	50,000,000	57,000,000	1.50	1.40	1.42
10/10/2004	50,000,000	65,000,000	1.50	1.30	1.32
10/11/2004	50,000,000	115,000,000	1.50	1.10	1.10
10/12/2004	50,000,000	113,000,000	1.40	1.00	1.00
10/13/2004	50,000,000	23,000,000	1.20	1.20	1.20
10/14/2004	50,000,000	66,000,000	1.30	1.20	1.22
10/16/2004	50,000,000	65,000,000	1.30	1.20	1.22
10/17/2004	50,000,000	67,000,000	1.40	1.20	1.29
10/18/2004	50,000,000	48,000,000	1.50	1.20	1.32
10/19/2004	50,000,000	49,000,000	1.40	1.20	1.29
10/20/2004	50,000,000	30,000,000	1.20	1.20	1.20
10/21/2004	50,000,000	31,000,000	1.20	1.20	1.20
10/23/2004	50,000,000	76,000,000	1.90	1.50	1.66
10/24/2004	50,000,000	77,000,000	2.00	1.40	1.62
10/25/2004	50,000,000	77,000,000	1.50	1.50	1.50
10/26/2004	50,000,000	76,000,000	1.40	1.40	1.40
10/27/2004	50,000,000	76,000,000	1.40	1.30	1.34
10/28/2004	50,000,000	76,000,000	1.40	1.25	1.31
10/30/2004	50,000,000	95,000,000	1.10	1.50	1.12
10/31/2004	50,000,000	70,000,000	1.25	1.60	1.25
November 2004					
11/1/2004	50,000,000	95,000,000	1.20	1.30	1.21
11/2/2004	50,000,000	95,000,000	1.30	1.30	1.30
11/3/2004	50,000,000	63,000,000	1.40	1.20	1.22
11/4/2004	50,000,000	63,000,000	1.30	1.25	1.28
11/6/2004	50,000,000	63,000,000	1.30	1.30	1.30
11/7/2004	50,000,000	63,000,000	1.30	1.20	1.21
11/8/2004	50,000,000	63,000,000	1.19	2.00	1.60
11/9/2004	50,000,000	70,000,000	1.20	2.00	1.60
11/10/2004	50,000,000	73,000,000	1.19	1.50	1.35
11/11/2004	50,000,000	82,000,000	1.20	1.25	1.23
11/17/2004	50,000,000	67,000,000	1.15	1.80	1.48
11/18/2004	50,000,000	65,000,000	1.90	1.20	1.55
11/20/2004	50,000,000	82,000,000	1.20	1.25	1.23
11/21/2004	50,000,000	84,000,000	1.20	2.00	1.60
11/22/2004	50,000,000	88,000,000	1.19	1.25	1.22
11/23/2004	50,000,000	90,000,000	1.15	1.20	1.18
11/24/2004	50,000,000	96,000,000	1.20	1.00	1.10
11/25/2004	50,000,000	97,000,000	1.25	1.00	1.13
11/27/2004	50,000,000	46,000,000	1.20	1.20	1.20
11/28/2004	50,000,000	100,000,000	1.20	1.00	1.00
11/29/2004	50,000,000	99,000,000	1.15	1.05	1.05
11/30/2004	50,000,000	100,000,000	1.10	1.00	1.00
December 2004					
12/1/2004	50,000,000	100,000,000	1.00	1.00	1.00
12/2/2004	50,000,000	100,000,000	1.20	1.00	1.00
12/4/2004	50,000,000	100,000,000	1.05	1.00	1.00
12/5/2004	50,000,000	100,000,000	1.20	1.00	1.00
12/6/2004	50,000,000	100,000,000	1.00	0.99	0.99
12/8/2004	50,000,000	20,000,000	1.00	1.00	1.00
12/9/2004	50,000,000	77,000,000	1.00	1.50	1.00
12/11/2004	50,000,000	22,000,000	1.00	1.00	1.00
Total	**3,550,000,000**	**5,130,500,000**			**1.44**

Table 37. Islamic State of Afghanistan: Short-term Capital Note Auctions, 2004 (concluded)

30-Day Capital Note Auctions

Date	Auction Amount (in Afghanis)	Bids Received (in Afghanis)	High Bid (in percent)	Low Bid (in percent)	Weighted Average (in percent)
9/19/2004	50,000,000	105,000,000	10.00	3.60	3.60
9/29/2004	125,000,000	100,000,000	3.00	3.00	3.00
10/6/2004	125,000,000	0			
10/13/2004	125,000,000	0			
10/20/2004	125,000,000	50,000,000	3.50	3.50	3.50
10/27/2004	125,000,000	0			
11/3/2004	125,000,000	0			
11/10/2004	125,000,000	0			
11/17/2004	125,000,000	0			
11/24/2004	125,000,000	60,000,000	3.50	3.50	3.50
12/1/2004	125,000,000	0			
12/8/2004	125,000,000	100,000,000	3.80	3.80	3.80
	125,000,000				
Totals	1,550,000,000	415,000,000			3.48

Source: Data provided by the Afghan authorities.

Table 38. Islamic State of Afghanistan: Da Afghanistan Bank Foreign Currency Auctions, 2003/04–2004/05

Date	Average Auction Rate (In Afghanis per dollar)	Amounts Auctioned (In millions of dollars)	Amounts Received (In millions of Afghanis)
2003			
March	51.3	28.0	1,436.1
April	49.5	39.0	1,930.1
May	na	0.0	0.0
June	48.9	3.0	146.6
July	na	0.0	0.0
August	48.4	5.0	242.0
September	49.3	10.0	492.6
October	48.8	10.0	488.3
November	48.7	8.3	401.7
December	48.3	10.8	520.8
2004			
January	49.0	30.9	1,510.4
February	49.7	18.9	936.8
March	49.9	57.2	2,853.0
April	50.3	21.2	1,063.0
May	50.0	24.8	1,239.3
June	48.6	36.5	1,773.6
July	46.8	34.4	1,611.7
August	44.9	13.3	595.3
September	45.2	24.9	1,125.1
October	45.7	16.9	769.3
November	46.5	20.3	943.7

Source: Data provided by the Afghan authorities.

Table 39. Islamic State of Afghanistan: Balance of Payments, 2001/02–2004/05 1/

	2001/02	2002/03 Est.	2003/04 Est.	2004/05 Proj.
	(In millions of U.S. dollars)			
Trade balance	-936.1	-1,159.3	-1,594.5	-1,395.0
Exports of goods 1/	708.9	1,248.3	1,820.0	2,030.9
Domestic exports	85.2	276.8	376.8	541.8
Re-exports	623.7	971.5	1,443.2	1,489.1
Imports of goods	1,645.0	2,407.6	3,414.5	3,425.9
Recorded imports	1,696.0	1,089.4	1,596.2	1,871.9
Commodity food aid	71.1	94.0	40.9	23.6
Unrecorded	764.0	1,224.2	1,777.4	1,530.4
Services	...	-145.1	-346.9	-329.3
Receipts	...	50.8	82.4	81.8
Donor-related	...	45.9	71.1	67.3
Other	...	4.9	11.3	14.6
Payments	...	195.9	429.3	411.1
Donor related	...	195.9	429.3	411.1
Wages of expatriates	...	131.3	355.4	336.3
Other	...	64.6	73.9	74.8
Income (Net)		-1.1	-3.4	2.9
Receipts		0.0	4.9	12.6
Payments (Interest) 2/		1.1	8.3	9.7
Current transfers	...	1,221.7	1,863.8	1,536.5
Public	...	1,170.1	1,808.8	1,434.0
Commodity food aid	71.1	94.0	40.9	23.6
Other	...	1,076.2	1,767.9	1,410.4
Private	...	51.6	55.0	102.5
Other	...	0.0	0.0	0.0
Current account balance (including grants)	...	-83.8	-81.0	-184.8
(before grants)	...	-1,305.5	-1,944.8	-1,721.3
Capital financial account	...	144.0	147.7	241.7
Public loans	...	94.0	89.9	141.4
Disbursements	...	100.2	96.1	147.6
Amortization paid 2/	...	6.2	6.2	6.2
Direct investment	...	50.0	57.8	100.3
Other capital flows		0.0	0.0	0.0
Net errors and ommisions	...	95.1	312.2	222.3
Overall balance	...	155.3	379.0	279.2
Financing	...	-155.3	-379.0	-279.2
Change in net foreign assets of DAB	...	-101.0	-389.4	-289.8
Fund credit (net)		0.0	0.0	0.0
Purchases		0.0	0.0	0.0
Repurchases		0.0	0.0	0.0
Exceptional financing		-54.3	10.4	10.6
Arrears	...	-54.3	10.4	10.6
Debt rescheduling		0.0	0.0	0.0
Debt forgiveness		0.0	0.0	0.0
Financing gap		0.0	0.0	0.0
Memorandum items:				
Official foreign exchange reserves				
In millions of U.S. dollars		426	816	1,105
In months of prospective imports 3/		2.1	4.2	4.2
Current account balance (In percent of GDP)				
Including grants		-2.1	-1.8	-3.4
Excluding grants		-32.0	-42.4	-31.9
GDP (In millions of U.S. dollars)		4,084	4,585	5,392

Source: Fund staff estimates and projections.

1/ Excludes opium exports and, because information is unavailable, flows associated with U.S. Army and most ISAF activities.

2/ Debt service projections are based on recognized obligations, reconciled with creditors. Arrears shown here represent an estimate by IMF staff, on the basis of loans which have been verified with creditors, but are not being serviced.

3/ In months of prospective imports of goods and services, excluding imports for re-export.

Table 40. Islamic State of Afghanistan: Direction of Trade, 2001/02–2003/04

(In millions of U.S. dollars)

	2001/02	2002/03	2003/04
Exports, f.o.b.	68	100	144
Pakistan	26	26	99
India	10	27	11
Belgium	4	3	0
United States	1	4	0
France	0	0	0
Germany	7	6	2
Finland	6	9	1
Russia	3	3	8
United Kingdom	1	0	3
United Arab Emirates	5	5	0
Other	6	16	20
Imports, c.i.f.	1,696	2,452	2,101
Pakistan	157	207	181
Japan	594	999	299
Korea	105	113	22
Kenya	52	57	55
Turkmenistan	46	50	14
Singapore	3	1	1
India	25	37	122
China, PRC	35	20	382
Kazakhstan	20	22	7
Germany	16	49	84
Other	644	898	934

Source: Data provided by the Afghan authorities.

Table 41. Islamic State of Afghanistan: Direction of Trade, 2001/02–2003/04

(In percent of total)

	2001/02	2002/03	2003/04
Exports, f.o.b.	100	100	100
Pakistan	39	26	69
India	15	27	8
Belgium	7	3	0
United States	1	4	0
France	0	0	0
Germany	10	6	1
Finland	9	9	1
Russia	4	3	6
United Kingdom	1	0	2
United Arab Emirates	7	5	0
Other	8	16	14
Imports, c.i.f.	100	100	100
Pakistan	9	8	9
Japan	35	41	14
Korea	6	5	1
Kenya	3	2	3
Turkmenistan	3	2	1
Singapore	0	0	0
India	1	1	6
China, PRC	2	1	18
Kazakhstan	1	1	0
Germany	1	2	4
Other	38	37	44

Source: Data provided by the Afghan authorities.

Table 42. Islamic State of Afghanistan: Composition of Trade, 2001/02–2003/04

	2001/02	2002/03	2003/04
		(in millions of U.S. dollars)	
Exports	68	100	144
Fresh fruits	4	9	8
Dried fruits	23	57	59
Medicinal plants	2	5	9
Spices	1	1	3
Seeds	0	1	6
Skins	14	9	29
Wool	3	4	7
Sausages and chemicals	0	0	0
Carpets and handicrafts	21	14	21
Other	0	0	2
Imports	1,696	2,452	2,101
Machinery and equipment	509	856	478
Petroleum and petroleum products	12	14	41
Metals	4	16	86
Chemicals	40	173	220
Construction materials	4	54	45
Paper	0	0	0
Clothing materials (textiles)	22	14	18
Food	214	222	309
Cigarettes and drinks	23	52	40
Fabrics, clothing, footwear	473	344	340
Household items and medicine	144	501	189
Other	251	206	334

Source: Data provided by the Afghan authorities.

Table 43. Islamic State of Afghanistan: External Public and Publicly Guaranteed Debt, 2002/03–2003/04

	2002/03	2003/04
	(In millions of U.S. dollars)	
Total external debt	533	617
Multilateral debt	226	323
Contracted by current government	168	264
World Bank	52	92
Asian Development Bank	116	172
Contracted by previous government	58	59
World Bank	48	50
Asian Development Bank	9	9
Fund credit outstanding	0	0
Bilateral debt	307	294
Verified claims	150	137
Unverified claims	157	157
Commercial debt	...	...
Short-term debt	0	0
Memorandum item:		
Total external debt/GDP (percent)	13	13

Source: Data provided by Afghan authorities.