February 2010
IMF Country Report No. 10/40

Afghanistan: HIPC Initiative Paper

This HIPC Initiative paper on Afghanistan was prepared by a staff team of the International Monetary Fund and the World Bank as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on January 15, 2010. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Afghanistan or the Executive Board of the IMF.

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ISLAMIC REPUBLIC OF AFGHANISTAN

Enhanced Heavily-Indebted Poor Countries (HIPC) Initiative - Completion Point Document and Multilateral Debt Relief Initiative (MDRI)

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January 15, 2010

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Executive Summary

In July 2007, the Boards of Executive Directors of the International Development Association (IDA) and the International Monetary Fund (IMF) agreed that the Islamic Republic of Afghanistan had met the requirements for reaching the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The amount of debt relief determined at the decision point was US$571.4 million in March 20, 2006 net present value (NPV) terms, calculated to reduce the NPV of eligible external debt to 150 percent of exports at March 20, 2006. This relief implied a common reduction factor of 51.0 percent.

Afghanistan has successfully implemented key reforms under the HIPC Initiative, despite experiencing exceptional challenges since the decision point, including a deteriorating security situation. IDA and IMF staffs are of the view that Afghanistan has made satisfactory progress in meeting the requirements to reach the completion point. Nine out of eleven completion point triggers have been fully implemented. The first poverty reduction strategy paper (PRSP) was adopted in April 2008. Its implementation has been satisfactory, as acknowledged by the Joint Staff Advisory Note (JSAN) on the first Annual Progress Report (APR) of the Afghanistan National Development Strategy (ANDS). The Sixth Review under the Poverty Reduction and Growth Facility (PRGF) arrangement was completed on January 13, 2010.[1] In addition, the authorities have fully implemented the triggers in the areas of external debt management, public financial management and transparency, mining sector reforms, and accountability in service provision in the health and education sectors. However, the triggers on pension reforms and on the restructuring of key service delivery ministries have not been fully implemented.

The authorities are requesting waivers for two triggers not fully implemented, but for which substantial progress has been made. The authorities are committed to further progress in the coming months. Under the pension reform trigger, the government enacted separate pension regulations for non-uniformed civil servants and uniformed civil servants and initiated the implementation of a pension administration reform program. A strategy note on reforms of the benefit scheme for the families of martyrs and disabled was approved by the government, but still needs to be reconciled through amendments to the Laws for Martyrs and Disabled, currently awaiting discussion by the Supreme Court. Under the trigger on the restructuring of key service delivery ministries, unified Personnel Affairs Regulations were adopted by Cabinet in July 2009. The quality of the merit-based recruitment process was reviewed at least every 18 months since 2006 by a third party (with IDA support) and

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[1] With the effectiveness of the Poverty Reduction and Growth Trust on January 7, 2010, the PRGF program has been renamed the Extended Credit Facility (ECF).

progress on an action plan was assessed as satisfactory. The restructuring and the position grading and appointment process in the four ministries is not fully completed yet, but the government is committed to finalize the implementation of public administration reform in the ministries in 2010. In light of the progress achieved so far and the commitments made by the government to complete the trigger requirements, staffs recommend that waivers be granted for the nonobservance of the two completion point conditions.

As a result of the debt reconciliation exercise for the completion point, the NPV of eligible external debt at March 20, 2006 after traditional debt relief has been revised upward by US$11.1 million to US$1,131.1 million. Therefore, the required HIPC assistance in March 20, 2006 NPV terms has been revised upward from US$571.4 million at the decision point to US$582.4 million. The HIPC assistance in nominal terms is estimated at US$1.3 billion, of which US$225.3 million would be delivered by multilateral creditors and the remainder by bilateral and commercial creditors. The common reduction factor has increased from 51.0 percent to 51.5 percent.

Creditors accounting for 97.7 percent of total HIPC eligible debt have given satisfactory assurances of their participation in the enhanced HIPC Initiative. All multilateral and Paris Club creditors, as well as some other official creditors have agreed to participate. The authorities are working toward securing the participation of the remaining creditors.

Afghanistan does not qualify for topping-up under the enhanced HIPC Initiative. The NPV of debt-to-exports ratio after enhanced HIPC assistance at March 20, 2009 was 88.3 percent, substantially lower than anticipated at the decision point. This decrease is the result of revisions in HIPC relief by bilateral creditors. The NPV of debt-to-exports ratio at March 20, 2009 and after the full delivery of additional bilateral debt relief beyond the HIPC Initiative is estimated to be 68.5 percent, well below the 150 percent threshold for topping-up consideration under the enhanced HIPC Initiative.

Upon reaching the completion point under the enhanced HIPC Initiative, Afghanistan will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). Debt relief under the MDRI from IDA would reduce nominal debt service by US$38.4 million over a period of 33 years.

Full delivery of HIPC debt relief, additional bilateral assistance beyond HIPC, and MDRI debt relief at the completion point would reduce Afghanistan's external debt burden significantly. The NPV of debt-to-exports ratio would drop from 189.4 percent before reaching the completion point to 89.3 percent at end 2009/10 and continue to decline until reaching 83.8 percent in 2016/17. Subsequently, it would increase to 99.0 percent in 2028/29. However, the future evolution of these indicators is highly uncertain and will depend on several factors, particularly economic growth and the availability and terms of new external financing. For instance, under the financing assumptions of the LIC DSA, Afghanistan is deemed to have a high risk of debt distress.

The staffs recommend that the Executive Directors of IDA and the IMF approve the completion point for Afghanistan under the enhanced HIPC Initiative.

I. Introduction

1. **This paper discusses the progress made by Afghanistan under the enhanced HIPC initiative**. It recommends that the Executive Directors of the IMF and IDA agree that Afghanistan has achieved completion point under the enhanced HIPC initiative. In the view of staffs, Afghanistan has made sufficient progress in meeting the completion point triggers, despite a challenging environment during the HIPC interim period, marked by increasing insecurity in parts of the country and the global fuel and food crisis. In particular, it has fully implemented the triggers on preparing and implementing a PRSP, maintaining a stable macroeconomic environment, improving debt management and public financial and expenditure management, and improving the business environment. Two of the eleven triggers have been not fully implemented, specifically, the trigger on designing a pension reform for public employees and the military and the trigger on restructuring of four key service delivery ministries. The authorities are requesting waivers for these two triggers based on the progress made so far.

2. **In July 2007, the Boards of Executive Directors of the IMF and IDA agreed that Afghanistan had met the requirements for reaching the decision point under the enhanced HIPC initiative**. The amount of debt relief determined at the decision point was US$571.4 million in March 20, 2006[2] NPV terms, calculated to reduce the NPV of eligible external debt to 150 percent of exports at March 20, 2006. This relief represented an overall reduction of 51.0 percent in the NPV of all public and publicly guaranteed external debt as of March 20, 2006, after the application of traditional debt relief mechanisms. At the same time, the Executive Directors of IDA agreed to provide Afghanistan with interim relief until the country reached the completion point. Interim assistance was also granted by the Asian Development Bank (AsDB) and the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development (OFID). Paris Club creditors provided debt relief through flow rescheduling on Cologne terms. The Executive Directors of the IMF and IDA decided that the floating completion point would be reached when the triggers in Box 4 of the decision point document had been met.[3]

3. **Staffs recognize the extraordinarily difficult situation of Afghanistan and the commendable efforts by the authorities in implementing complex reforms**. Since the HIPC decision point, the security environment deteriorated markedly, and the country faced a period of political uncertainty in the run-up and during the second Presidential elections of

[2] Afghanistan's fiscal year follows the solar year calendar, which usually ends on March 20.

[3] The IMF did not commit assistance under the enhanced HIPC initiative since there was no debt outstanding to the IMF at the decision point.

August 2009. Yet the authorities kept their reform efforts focused on implementing key reform measures as required under the HIPC floating completion point triggers. The success achieved in most reform areas is noteworthy under these circumstances.

4. **This document is organized as follows**: Section II provides an assessment of achievements in meeting the requirements for the completion point for Afghanistan; Section III discusses the amount of debt and debt relief expected, as well as the debt sustainability outlook after the provision of relief; Section IV summarizes the main conclusions; and Section V puts forward the issues for discussion by the Boards of the IMF and IDA.

II. Assessment of Requirements for Reaching the Completion Point

5. **Afghanistan has made sufficient progress in meeting the triggers for reaching the completion point**. The conditions for reaching the floating completion point are set out in Box 4 of the decision point document and the progress in reaching them is assessed in Box 1 below.

Box 1. Status of Floating Completion Point Triggers

Triggers	Progress
1. Prepare a full PRSP—the ANDS—through a participatory process and satisfactorily implement its actions for at least one year, as evidenced by an ANDS Annual Progress Report submitted by the government to the satisfaction of IDA and the IMF.	**Implemented.** A full PRSP was prepared in a participatory process and was published in April 2008. It was discussed by the IDA and IMF Boards in June 2008. The first Annual Progress Report was prepared under the guidance of the Government Coordination Committee and sent to the IDA and IMF in September 2009. The JSAN of the Annual Progress Report is being presented to IDA and the IMF Boards together with this document.
2. Maintain macroeconomic stability as evidenced by satisfactory performance under the IMF PRGF-supported program.	**Implemented.** Performance under the PRGF-supported program improved since early 2009, and has remained on track. The Sixth Review under the PRGF was completed on January 13, 2010.
3. Put in place and make operational a database system on external public and publicly-guaranteed debt; and publish at least three consecutive quarterly external debt reports in a timely manner (including data on the debt stock, and actual and projected debt service and disbursements).	**Implemented.** A database system of the authorities' choice was installed in January–February 2009 and is fully operational with all the necessary training and technical assistance provided to the Ministry of Finance staff. Quarterly external debt reports have been generated from the database and include all agreed information by creditor (on the latest debt stocks, disbursements and debt service payments for the preceding quarter, and projected disbursements and debt service for the next three quarters). Since the decision point, four external debt reports have been made publicly available in a timely manner, three of them using the database. Due to the installation of the new database, the second report (for Q4 2008/09) was

	generated within three months. The third report (for Q1 2009/10) was published in July 2009, and the fourth report (for Q2 2009/10) was published in October 2009, within 30-45 days of the end of the quarter.
4. Align public spending priorities with the priorities in the I-ANDS and, when completed, the ANDS. The matrix approach currently used to map the development budget against Compact benchmarks will be extended to all core development and operating budget expenditures in the year preceding the completion point.	**Implemented**. The public spending priorities, reflected in the budget, have been aligned with the I-ANDS and subsequently with the ANDS, which is reflected in the APR. The APR contains a discussion of planned versus executed expenditures in the 1387 budget, along with a discussion of planned expenditures in the 1388 budget. The alignment is also reflected in the Annex to the SY1388 budget documents and the Medium Term Fiscal Framework (MTFF) sent to Parliament last year.
5. Design pension reform for public employees and military, reflecting the principles of fiscal sustainability, equity, and coordinated with overall public sector reform. Initiate implementation of a government-endorsed pension strategy with new pension regulations and reform of the Pension Department, including modernizing the system of processing and paying pensions	**Substantially implemented**. Full compliance has not been achieved because two laws for regulating the benefits for the disabled and for the martyrs and survivors still need to be amended. The design of the pension reform for public employees (including military) was finalized and implementation of a government-endorsed pension strategy was initiated with new pension regulations for non-uniformed civil servants enacted by Cabinet in July 2009 and for uniformed civil servants on January 11, 2010. The government has committed to amend the two laws on the disabled and the survivors of the martyrs, pending Supreme Court discussion. A comprehensive reform was initiated (with IDA support) at the Pension Department to improve the administration of the public pension system over the next years, including modernizing the system of processing and paying pensioners.
6. Restructure four core service delivery ministries (Agriculture, Education, Public Health, and Rural Development), reflecting common core functions and service delivery mechanisms. Progress in position grading—including competitive selection of civil servants with appointments and dismissals in full compliance with legal and due process requirements—as assessed by a third party.	**Substantially implemented**. Full compliance was not achieved since the restructuring of the four core services delivery ministries to strengthen common core functions was not completed yet. However, the key restructuring component of establishing fully staffed and operational Human Resource departments and Reform Implementation Management Units is expected to be finalized by end 2009/10. The asymmetrical Priority Restructuring Reform process—referred to in the original trigger as 'position grading' was replaced by a comprehensive Public Administration Reform with a Pay & Grading component at its center. The implementation of the Pay & Grading reform started in 2008 and the first phase of re-grading has been finalized in these four ministries with the second phase of reappointments expected to be completed in 2010. The merit-based recruitment process of senior civil servants by the Independent Appointment Board (grade 1 and 2) on the new pay scale was reviewed regularly by a third party, which evaluated the progress in the implementation of key recommendations of satisfactory

	quality. Previously separate key personnel regulations were summarized under the unified Personal Affairs Regulations and enacted by Cabinet in July 2009.
7. Produce a MTFF (consistent with the PRGF and ANDS priorities), in the year preceding the completion point, that includes: (i) an explicit target for the operating deficit (excluding grants) and a policy on non-grant financing; and (ii) a description of government policies and future policy options to support the projections, including basic tax policy analysis.	**Implemented**. The MTFF for the 2009/10 budget and the revised MTFF for the Mid-Year review are consistent with the macroeconomic framework agreed with IMF staff in the context of the PRGF arrangement. The MTFF has become a more credible fiscal planning instrument with concise descriptions of policy actions to support the projections. It sets out the government's macroeconomic strategy with a target for reducing the operating deficit excluding grants and it has begun incorporating basic tax policy analysis and future policy options in cooperation with the Revenue Department of the Ministry of Finance. It has also established medium term envelopes (operating and development) for key government cross-cutting fiscal issues (e.g., Pay & Grading and pensions).
8. Track poverty-related spending over a period of at least six months preceding completion point, by reporting on government budget execution using a functional expenditure classification (at a more disaggregated level than currently used), supplemented with simple program classification and reporting in key ministries.	**Implemented**. A section in the APR of the ANDS discusses poverty-related budget spending according to available budget classification codes. Currently, the tracking of poverty-related budget expenditure is sufficient, but remains limited due to classification and reporting issues There are plans to further improve the budget code classification to allow for better tracking of poverty-related expenditure.
9. Submit to Parliament, for the year immediately preceding completion point: (i) the annual state (core) budget financial statements, prepared in line with the PFEM Law and audited according to international standards; and (ii) an annual report on the resolution of important findings identified by the external auditor.	**Implemented**. The core budget's financial statements (Qatia) were audited annually by the Control and Audit Office (CAO) and the audit report was submitted to the Parliament within six months from the end of the fiscal year, consistent with the Public Finance and Expenditure Management law. Semi-annual reports on audit compliance are regularly produced by the CAO and submitted to the President and Parliament. The latest report from July 2009 contains a chapter and an attachment on the status of actions taken in response to important findings identified in the program of entity audits and the annual audit of government accounts.
10. Develop and adopt regulations and guidelines for mining exploration licenses, quarry authorizations, exploitation licenses, and hydrocarbon exploration or service and development contracts. Establish a fully operational Hydrocarbon/Mining Cadastre to implement these regulations and guidelines.	**Implemented.** The Mineral Law and the Hydrocarbon Law were gazetted in February 2009. The hydrocarbon and mining regulations were finalized and enacted by Cabinet in October and December 2009, respectively, and their implementation by the Ministry of Mines (MOM) can commence. At the MOM a cadastre was established (with IDA support); the MOM is responsible for implementing regulations and guidelines for exploration licenses, quarry authorizations, exploitation licenses, and hydrocarbon licensing rounds.
11. Improve transparency and accountability for service	**Implemented**. An annual report on the implementation

provision through publishing annually government and third-party data on the quantity and quality of services delivered in the health and education sectors.	of the strategy of the Ministry of Public Health (MOPH) was published in June 2009. The MOPH web page has the annual health report and other health-related data and reports posted, including data on health expenditure and third-party performance and quality assessment. The Ministry of Education (MOE) publishes regularly monthly and quarterly progress reports on the national education program on its web page. In March 2009, a first-phase (2004–08) comprehensive report included an assessment of school grants usage, confirming that school grant usage information is publicly posted by local entities to enhance community awareness and accountability. The MOE also published in July 2009 a comprehensive report based on data from the latest school survey for the Education Management Information System.

A. PRSP Implementation

6. **Afghanistan's first full PRSP was approved by President Karzai in April 2008**. After adopting an interim PSRP in 2007, the Afghanistan National Development Strategy (ANDS) was finalized in April 2008. The ANDS was prepared after extensive consultations with over 17,000 participants representing all 34 provinces despite severe logistical challenges. The participants included representatives from government, civil society, the private sector, and general public at all levels, and nearly half those consulted were women.

7. **The ANDS was discussed by the IDA and IMF Boards in June 2008**. The JSAN[4] noted that the ANDS provided a reasonable basis for Afghanistan to move forward in addressing the difficult development challenges it faces. At the same time, the JSAN highlighted the need for improvements in prioritization across sectors, and stepped up reforms in Public Financial Management (PFM), Public Administration reform (PAR) and the fight against corruption, in order for the strategy to have good prospects for success. The JSAN underscored the importance of moving to the implementation stage, anchored in the existing institutions of the government, and encouraged the authorities to streamline and focus the Monitoring and Evaluation (M&E) framework. Besides continuing concern about the aid effectiveness agenda, the JSAN also noted that the planned large increase in expenditure implied that fiscal sustainability (defined as revenues covering operating spending) would be further jeopardized.

8. **The government is working toward further improvements in the M&E process, as well as integrating ANDS priorities into the budget process.** The government has

[4] Islamic Republic of Afghanistan: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper, IDA and the IMF, May 15, 2008 (Report No. 43431-AF). IMF Country Report 08/193.

made important efforts in establishing the ANDS coordinating mechanism and is in the process of establishing a Results Based Management approach as the base for a meaningful M&E Framework. There are ongoing efforts by the government to finalize with donor assistance the analysis of the National Risk and Vulnerability Analysis (NRVA) 2008 household survey. These results will enable the authorities to refine development priorities and link poverty reduction objectives more clearly with policy recommendations for sector strategies. However, an updated poverty diagnostic, based on the NRVA 2008, is not available yet.

9. **The staffs of the IMF and IDA conclude that the trigger on preparation and satisfactory implementation of the PRSP in 2008/09 has been met.** The government's APR for 2008/09 and the accompanying JSAN have been submitted to the IDA and IMF Boards jointly with this document. The APR reflects on a year of government efforts in an extremely challenging environment characterized by a fragile security situation. While progress was made in macroeconomic management and on health and education sector policies—reflected in some Millennium Development Goals (MDGs)—achievements in other sectors were modest. A deteriorating security situation, continuing capacity constraints, and severe governance limitations have hampered the government's ability to implement much needed reforms and embark on sustained economic development and poverty reduction.

B. Macroeconomic Performance

10. **Macroeconomic policies since the decision point in June 2007 have been guided by the PRGF-supported arrangement.** The arrangement was originally set for June 2006 to June 2009, but is expected to be extended until June 2010. Performance under the PRGF arrangement has been broadly satisfactory despite minor delays in completing some reviews, and the Sixth Review was completed on January 13, 2010.

11. **Economic growth has been high but volatile, and inflation has been appropriately managed**. Growth averaged 8 percent during 2006/07–2008/09, mainly driven by agriculture (which accounts for 25 percent of GDP) and donor inflows. During 2006/07 and 2008/09, drought hampered growth, but economic activity recovered in the year afterward, as weather conditions improved. Growth is projected to be 15 percent in 2009/10. Sustaining growth over the medium term depends on reforms to improve governance, increase transparency, and improve the business environment. Inflation has generally remained below 10 percent, except for a surge in 2007/08, due to a drought and higher global prices for food and fuel. Inflation is projected to be 6 percent or less by end-March 2010. The exchange rate has experienced a slight nominal appreciation since March 2009, but remains close to its five-year average in real effective terms.

12. **Fiscal sustainability has been a continuing concern.** Revenue performance was weak during 2006/07-2008/09, averaging 7.1 percent of GDP, but has since picked up, and is projected to exceed 8 percent of GDP in 2009/10. However, the tax-to-GDP ratio remains low by international standards, and future increases will depend on sustained reforms in tax policy and administration. At the same time, the budget has been subject to substantial spending pressures, both on security and non-security outlays, which have led to a worsening of the fiscal balance excluding grants. During 2009/10, the fiscal balance excluding grants is projected to deteriorate, mainly due to security needs. However, the authorities have so far managed to tightly constrain non-security operating expenditures. Nevertheless, spending pressures will remain high over the medium term, underscoring the need for careful prioritization of spending, revenue mobilization, and continued high levels of donor support.

13. **Large fiscal and balance of payments deficits have been financed by official transfers**. Grants have amounted to at least 50 percent of GDP every year since the decision point, and have served to cover the budget and external current account deficits, while allowing for a buildup of foreign exchange reserves. Since the decision point, the external current account deficit excluding official transfers has averaged about 60 percent of GDP. Including transfers, the current account deficit has averaged about 2 percent of GDP. Gross international reserves have almost doubled since 2005/06 and cover 13 months of imports.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2005/06–2009/10

	2005/06	2006/07	2007/08	2008/09	2009/10 Proj.
	(Annual percentage change)				
Output and prices					
Real GDP	16.1	8.2	12.1	3.4	15.1
Consumer prices (end of period)	9.4	4.8	20.7	3.2	6.0
	(In percent of GDP)				
Public finances					
Domestic revenue	6.4	7.5	6.9	6.9	8.1
Grants	11.2	9.3	11.1	8.8	11.8
Operating expenditures	10.0	11.3	10.5	11.7	14.4
Development expenditures	6.5	8.4	9.4	7.7	7.6
Operating balance					
Including grants	1.6	1.2	1.2	0.2	-0.1
Excluding grants	-3.6	-3.8	-3.6	-4.7	-6.3
External sector					
Exports of goods	22.2	2.9	11.0	13.5	3.9
Imports of goods	25.5	12.5	20.6	10.4	5.3
Current account balance					
Excluding official transfers	-75.2	-70.0	-62.0	-54.5	-53.7
Including official transfers	-2.8	-4.9	0.9	-1.6	-3.6
Gross reserves (in millions of U.S. dollars)	1,662	2,040	2,784	3,462	3,781
Import coverage	7.7	9.6	12.8	13.0	13.2

Sources: Afghan authorities and Fund staff estimates and projections.

14. **The IMF and IDA staffs consider that Afghanistan has implemented the trigger on the maintenance of macroeconomic stability.** As noted above, and despite sluggish revenue collection in earlier years and delays in implementing structural measures, performance under the PRGF-supported program has been satisfactory.

C. Debt Management

15. **Afghanistan has greatly improved debt management capacity.** The government has managed to address significant technical and human resource constraints in debt management. The authorities have acquired new computers, a computerized Debt Management and Financial Analysis System (DMFAS) is operational, and the capacity of the debt department has been reinforced through the recruitment of new staff and on-going training. As a result, the authorities have been publishing quarterly debt reports in a timely manner that include information by creditor on debt stocks, disbursements and debt service payments for the preceding quarter, and projected disbursements and debt service for the next three quarters.

16. **The IMF and IDA staffs conclude that the trigger on improving debt management capacity has been implemented.** To consolidate recent gains, the immediate priorities should be maintaining the debt database including through better tracking of disbursements and increasing the number of skilled staff. In the medium term, the debt unit should build capacity to undertake analytical work.

D. Public Expenditure Policy

Budget Alignment with the PRSP

17. **The government budget reflects the public spending priorities and has been aligned with the I-ANDS and, subsequently, ANDS priorities.** The ANDS was developed to set the national priorities that would help coordinate, and ultimately integrate the government budget and other public sector expenditures financed outside the budget. Budget documents explicitly discuss the alignment, and the Medium-Term Fiscal Framework (MTFF) attached to the budget provides a medium-term projection of expenditure alignment with ANDS priorities. While the staffs regard the current alignment as sufficient, budget fragmentation and large donor disbursements outside the government budget, loosely coordinated with the Ministry of Finance (MoF), hamper the capacity of the government budget to be an effective strategic tool to implement the ANDS. The JSAN therefore recommends a better prioritization in many sectors to improve the effectiveness of the ANDS to guide the strategic allocation of resources. The Aid Coordination Unit at the MoF has created a unified reporting framework, which has not yet been fully utilized by donors.

18. **The IMF and IDA staffs conclude that the trigger on alignment of public spending priorities with the ANDS has been implemented.** The simplified program-oriented budgeting model being introduced will, eventually, unify budget presentation and improve expenditure allocation and management. The key objective of the Program Budgeting reform is to improve the efficiency and effectiveness of public expenditure by linking the funding of public entities with the results they deliver. This reform will help to

channel resources through the government budget rather than externally. Strong political leadership is needed to implement this major reform.

Pension Reforms

19. **Some aspects of the pension reform still need to be addressed, but important progress has been made towards the design of a fiscally sustainable pension system for public employees and the military.** The pension regulations for non-uniformed civil servants were finalized (with input from IDA staff) and approved by Cabinet in July 2009. The effort shifted then to the drafting of the corresponding regulation for the uniformed civil servants, which required amendments to the country's military code (i.e. the Afghanistan National Army Law). The Cabinet approved in October 2009 the amendments to the military code. The pension regulations for uniformed civil servants were approved by Cabinet in January 11, 2010 and reflect principles outlined by IDA technical assistance. Also with input from IDA staff, a strategy note on reforms of the benefit scheme for the families of martyrs and disabled (with IDA input) was approved by the government, but still needs to be reconciled through amendments with the Laws on Martyrs and Disabled. Once these reforms are finalized, the full fiscal impact can be calculated, although representatives from the Ministry of Finance have been participating in the pension and benefit design meetings. In parallel, the implementation on a pension administration reform program in the Ministry of Labor and Social Affairs, Martyrs and Disabled (MOLSAMD) was initiated with IDA support. The objective of this program is to modernize processes of pension claims and payments in the Pension Department and implement the new pension regulations.

20. **Staffs of IDA and IMF conclude that the trigger on pension design for public employees and the military has been substantially implemented, and support the waiver request on the basis of commitments going forward**. Full compliance with the trigger is taking longer than expected because the two laws for regulating the benefits for the disabled and for the martyrs and survivors are still in need of amendments. While the government has adopted a strategy of reform for the benefit scheme of martyr families and disabled, but the current laws approved by Parliament do not reflect the fiscal sustainability principles outlined in the strategy. For that reason, the government rejected the laws and referred them for further deliberation to the Supreme Court. In that process, it will suggest amendments to the laws, based on the agreed parameters in the government's strategy note. It is expected that amendments to the laws will be approved by an inter-ministerial working group by March 2010 and subsequently discussed by the Supreme Court. In view of the considerable progress, the authorities request that a waiver be granted for this trigger.] The implementation of the new pension regulation and benefit schemes will be a key next step for the authorities. The government is also committed to further progress in the area of pensions by: (i) strengthening links between PAR and retirement policy, in particular, in the implementation of the new pension system and the modernization of claims processing and benefit delivery; (ii) establishing capacity, e.g. on actuarial analysis, to be able to calibrate the parameters of

the pension program to facilitating sustainable budgeting; and (iii) developing affordable mechanisms for the liquidation of pension liabilities under the legacy pension scheme.

Restructuring Core Service Delivery Ministries

21. **The legal framework for civil service management was strengthened with the adoption of the unified Personal Affairs Regulations by Cabinet in July 2009.** Together with the Civil Servant Law and Pay & Grading (P&G) scale of June 2008 the regulations set out the main provisions for the overall PAR implementation.[5] Restructuring in four key service delivery ministries, Ministry of Public Health (MOPH), Ministry of Education (MOE), Ministry of Agriculture, Irrigation and Livestock (MAIL) and the Ministry of Rural Rehabilitation and Development (MRRD) has started. A crucial step to facilitate a successful PAR implementation is the establishment of Reform Implementation Management Units (RIMUs) and Human Resource (HR) departments in these ministries, but this has not been achieved yet. The first phase of the P&G process, the re-grading of positions has been completed in all four ministries. The second phase of the re-appointment process of qualified civil servants to these new positions is advanced in MAIL and MRRD and still in initial stages at MOPH and MOE. The quality of the merit-based recruitment process for the top-grade positions of the new P&G scale, under oversight of the Independent Appointment Board (IAB), was reviewed regularly by a third party (with IDA support). Progress in the implementation of key recommendations from previous evaluation rounds with the goal to increase the quality of the process is deemed satisfactory, although there remains room for further improvements.

22. **Staffs of IDA and the IMF conclude that the trigger on the restructuring of key government ministries has been substantially implemented, and support the waiver request on the basis of commitments going forward.** Full compliance with the trigger is taking longer because of the more extensive nature of the public administration reform process chosen by the authorities (not envisaged by the completion point trigger). It is expected that the RIMUs and HR departments at the MOPH, MOE, MAIL and MRRD will be fully staffed by the end of 2009/10. The re-appointment process is anticipated to be completed in all four ministries in 2010. The recent third-party review of the merit-based recruitment system in Afghanistan points out a number of challenges and proposes strategies to improve the oversight function of the IAB. It is expected that the report will form the base for future dialogue with the authorities on further reforms in this area. The authorities request

[5] Originally, the authorities followed an asymmetrical reform approach in public administration, the Priority Restructuring and Reform (PRR) process. Since 2007, the PRR process was replaced by a comprehensive PAR strategy with the new P&G system at its center. Implementation of the P&G system started at the end of 2008. An important component of the P&G process is to ensure that staff placement on the new pay scale is based on merit-based criteria, with candidates for top-grade positions being vetted by an Independent Appointment Board.

that a waiver be granted on the basis of progress to date and their continued commitment to advance reforms under this trigger. For the coming years, the government is committed to widen and deepen the PAR implementation by: (i) completing the P&G process within a reasonable timeframe; (ii) extending PAR to the sub-national levels; and (iii) ensuring the roll-out of civil service training nation-wide. The adoption of an agreed government-wide approach to capacity development and technical assistance could help build a civil service that is motivated and recruited on meritocratic principles.

E. Public Financial Management

Medium-Term Fiscal Framework

23. **The three-year MTFF is consistent with macroeconomic goals and the ANDS priorities and is regularly updated**. The MTFF covers the budget and key government cross-cutting fiscal issues, including the costing of fiscal policies that have long-term fiscal implications (e.g., civil service reform, the expansion of the army and security spending, subsidy to the public electricity company, and pension reform). Until recently, there was no capacity to make independent revenue forecasts but over the last few months, the revenue department has been developing a revenue-forecasting model. The Fiscal Policy Unit, responsible for the MTFF, has also improved its analytical capacity, although it still needs to play a strategic role in setting fiscal priorities.

24. **The IMF and IDA staffs conclude that the trigger on the production of a MTFF consistent with the PRGF and ANDS priorities has been implemented.** The MTFF should be strengthened by finalizing the revenue forecasting model incorporating tax policy analysis, and discussing alternative policy options. It should also provide the authorities with strategic advice when key policy initiatives with medium-term implications are being discussed. The MTFF should focus on discussing changes in macro-fiscal trends and discuss why deviations from previous projections occur. Risks to the macroeconomic framework, such as overspending or revenue shortfalls, should be identified, as well as potential corrective actions.

Tracking Poverty-related Expenditure

25. **The key objective of the ANDS is poverty reduction, and effective targeting of resources depends on the ability to track poverty-related expenditure.** Since the development of the Afghanistan Financial Management Information System (AFMIS), administrative, functional and economic classifications are already in place and provide a reasonable basis for tracking expenditures, including those deemed to be poverty related. The functional classification of expenditures is reported at a disaggregated level, which allows a more detailed tracking of pro-poor spending on government budget execution data.

26. **The IMF and IDA staffs conclude that the trigger on the tracking of poverty-related spending has been implemented.** While the system of tracking poverty-related expenditure is adequate, available execution data will have to be complemented with a simple program classification that would provide additional information for more detailed policy analysis. This will allow for the consolidation of the operating and development budgets according to a simple program structure. Pilot programs were started in fiscal year 2008/09 in some key ministries (MOPH, MOE, and MRRD), extended to 16 ministries in 2009/10, and should cover 20 ministries by 2010/11. An improved program classification will also allow for an agreed-upon definition of poverty-related spending at a detailed level and better targeting of expenditures. In particular, given the role of education in poverty reduction, primary and secondary education expenditures will need to be tracked separately.

Improving Budget Audits

27. **The audit system was considerably strengthened through the addition of semi-annual audit reports with follow-up results to previous recommendations**. First, the independent review by the Auditor General of the budget's financial statements (Qatia) was presented to Parliament within six months following year-end; this is the fourth consecutive year, including for the most recent year 2008/09. Second, improvements in audit follow-up are reflected in the most recent semi-annual Central Audit Office (CAO) report on audit results, submitted to the President in July 2009 (and subsequently forwarded to Parliament). It contains a chapter and attachment on the status of actions taken in response to important findings identified in the Qatia audit. The report also contains an itemized status report on major recommendations from the previous year and a summary with the percentage of recommendations from the previous year which where fulfilled for each audit. It is expected that this type of follow-up reporting on audit findings will become a regular part of the semi-annual audit process. Additionally, the Auditor General initiated in October 2009 the formation of a Commission on Qatia Audit with the goal to improve the Qatia audits as well as review with the MOF the format and content of the Qatia.

28. **The IMF and IDA staffs conclude that the trigger on the submission of budget audits to Parliament has been implemented.** It is expected that the legal framework for a modern audit function will soon be finalized, with Parliament approval of the Audit Law by end-2009/10. Beyond that, the authorities are committed to further improving the audit system by focusing on: (i) improving CAO's relationship and communication with Parliament and other stakeholders; and (ii) raising the capacity of the CAO to work independently and to a high standard. The second goal is supported by the CAO's Development Strategy whose vision is to attain credibility and capacity at par with other supreme audit institutions. The CAO has committed to raise the capacity of its staff through a comprehensive training program involving compulsory training and other formal training qualifications.

F. Business Environment and Economic Development

Mining Sector Reforms

29. **The authorities established the basis for a modern mining cadastre and enacted a sound legal framework for the mining sector.** With IDA support, the mining and hydrocarbon cadastre became fully operational in 2009. Key components of the legal framework for the mining sector were completed. After a lengthy legal process, the revised Hydrocarbon Law and the Mineral Law were gazetted in February 2009. Due to this longer than expected process the finalization and implementation of the related hydrocarbon and the mining regulations were initially delayed. However, both regulations were finalized, enacted by Cabinet in late 2009, and are ready for implementation. The hydrocarbon regulations were approved by Cabinet in October 2009, and were subsequently revised to become consistent with the government's procurement rules. The mining regulations were approved by Cabinet in December 2009. The mining regulations are generally in accordance with international practice and provide a reasonable basis for attracting investment to the mining sector and for the sustainable development of mining operations. They are consistent with the Minerals Law and the government is committed to develop in 2010 separate mining guidelines, including operational and administrative procedures. Additionally, in March 2009, the government publicly committed to the implementation of the Extractive Industries Transparency Initiative (EITI). As part of this commitment, the government started to fulfill key requirements to become an EITI candidate country.

30. **The IMF and IDA staffs conclude that the trigger on the adoption of mining sector reforms has been implemented.** The authorities have made satisfactory progress on the establishment of the mining and hydrocarbon cadastre, and the regulatory framework for the mining sector was finalized. Future mining sector reforms will need to be accompanied by institutional and human capacity building (with IDA support) for monitoring and employment related to mining.[6] Since one of the potential sources of future growth and fiscal revenue for Afghanistan is its natural resources, increased transparency and good governance in the mining sector, including through the implementation of the EITI in Afghanistan, will be crucial.

Transparency and Accountability in Service Provision

31. **Transparency and accountability for service delivery in the education and health sectors was improved through regular annual reporting and third-party assessments.** The MOPH reports regularly on health sector results through its web-page using data from

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[6] In particular, a plan for environmental and social safeguards for the Aynak mine and associated developments needs to be designed and then put in place before construction on the mine begins.

several sources, including the Health Management Information System, several rounds of Afghanistan household surveys (i.e., the NRVA), and the Health Service Performance Assessment -a health facility surveys conducted by Johns Hopkins University. The MOPH also produced an annual report for 2008/09 (posted on the internet) that analyzes available data on service provision, health care financing, and progress toward key strategic outputs and outcomes. It is linked to the health sector strategy and it identifies challenges and provides policy recommendations. The MOE published a comprehensive report in July 2009 based on data from the latest school survey for the Education Management Information System with student enrollment and attendance data, data on teachers and school facilities, and exam results. In addition, the national education program is producing regular monthly and quarterly progress reports (posted on the internet), and in March 2009, a first phase (2004–08) progress report was published including an assessment of school grants usage. Lastly, school grant usage information is publicly posted locally to enhance community awareness and accountability.

32. **The IMF and IDA staffs conclude that the trigger on publication of government and third-party data on health and education services has been implemented.** It is expected that good transparency and accountability for service delivery in education and health will continue to facilitate progress toward the MDGs. One of the three pillars of the ANDS is economic and social development, including improving human development indicators and making significant progress towards the MDGs. As part of the health sector strategy, the government aims to expand coverage of the Basic Package of Health Services (BPHS) to at least 90 percent of the population by 2010. It also seeks to supplement the BPHS with investment in the hospital sector. Through the expansion of the BPHS and the Essential Package of Hospital Services, the government is targeting a reduction in the under-5 mortality rate and the maternal mortality rate by 50 percent within the period 2003–2013. In education, the government intends by 2010 to attain the following goals: (i) increase net enrolment in primary schools for girls and boys to at least at 60 and 75 percent, respectively; (ii) develop a new curriculum and operationalize it in all secondary schools; (iii) increase the number of female teachers by 50 percent; (iv) ensure that a competency test is passed by 70 percent of teachers; and (v) put in place a system for assessing learning achievement.

III. Updated Debt Relief and Debt Sustainability Analysis

A. Data Reconciliation

33. **The stock of HIPC-eligible external debt in NPV terms at March 20, 2006 increased slightly following the debt reconciliation exercise**. The staffs of IDA and the IMF, together with the Afghan authorities, reviewed the March 20, 2006 stock of debt data that was presented in the decision point document against recent creditor statements. As a result, the nominal stock of debt has been augmented by US$22.6 million to US$11,962.1

million and the NPV of debt after traditional debt relief has been revised upward by US$11.1 million to US$1,131.1 million (Table 3).

- **Multilateral creditors**. The debt owed to multilateral creditors as of March 20, 2006 remains at US$557.3 million in nominal terms, which corresponds to US$264.7 million in March 20, 2006 NPV terms.

- **Paris Club creditors**. The nominal stock of debt owed to Paris Club creditors at March 20, 2006 has been revised downward from US$11,283.5 million to US$11,266.1 million. The difference of US$17.5 million is attributable to the updated information received from creditors.

- **Other official bilateral creditors**. The nominal stock of debt owed to other official bilateral creditors has been revised upward by about US$39.5 million, equivalent to US$13.1 million in NPV terms. This amount includes debts owed to the Slovak Republic and the Islamic Republic of Iran amounting to US$30 million and US$10 million, respectively. The debt owed to the Slovak Republic was cancelled in October 2005. However, this amount was reinstated into the decision point database to take better account of creditors' debt relief efforts made before the decision point in the form of outright debt cancellations.[7] Iran's old sovereign claims were identified after the decision point.

- **Commercial creditors**. A nominal amount of US$0.6 million owed to Bulgarian commercial creditors has been added to the March 20, 2006 debt stock. At the time of the decision point, this debt was not included in the stock of HIPC-eligible debt pending verification of status. In NPV terms, after traditional debt relief this debt amounted to US$0.2 million.

34. **Exports of goods and services remain unchanged.** The estimates of the 2003/04-2005/06 average of exports of goods and services used to evaluate HIPC assistance at the decision point remain at US$365.7 million.[8]

[7] As in the cases of Liberia and Cote d'Ivoire, this approach follows the general principle of the HIPC Initiative to take account of debt relief efforts made before the decision point, if provided after end-December 2004 ring-fencing exercise, and aiming at the objectives similar to those under the HIPC Initiative.

[8] At the Decision Point, data on services exports were not available, and an estimate based on comparable countries was constructed (see box 2 in the decision point document). Although the balance of payments data have been improved significantly since then, surveys to capture services exports only began during 2008/09, and are not complete enough to be used as a reliable basis. In accordance with the "Information Reporting in the Context of HIPC Initiative Assistance", approved by the members of the Executive Board of the IMF HIPC relief cannot be revised after completion point, even if in the case of Afghanistan HIPC relief is based on estimates of exports of services and more reliable data may become available as statistical capacity improves in the country.

B. Revision of HIPC Assistance and Status of Creditor Participation

35. **HIPC assistance in NPV terms has been revised upward from US$571.4 million estimated at the decision point to US$582.4 million**. The common reduction factor has marginally increased from 51.0 percent to 51.5 percent (Table 4).[9] The revised HIPC assistance in nominal terms is estimated at US$1.3 billion.

36. **Afghanistan has received financing assurances by creditors for participation in the enhanced HIPC Initiative accounting for 97.7 percent of the NPV of HIPC assistance estimated at the decision point (Table 11).** All multilateral (23.4 percent of total HIPC assistance) and all Paris Club creditors (72.5 percent) have confirmed their participation. Some of non-Paris Club creditors have already provided debt relief in the form of outright cancellation of all their claims. The authorities are working toward reaching agreements on provision of debt relief at completion point with all remaining creditors.

Multilateral creditors

37. **The revised amount of HIPC assistance from multilateral creditors is US$136.3 million in end-March 2006 NPV terms.** IDA and the AsDB have provided interim assistance through debt service reduction.[10] OFID has also provided part of its share of HIPC debt relief through concessional rescheduling of arrears that were outstanding at the decision point during the interim period.

- **IDA**: Debt relief from IDA amounts to US$75.9 million in NPV terms at the decision point. Of this amount, IDA has delivered US$8.6 million in NPV terms (US$9.2 million in nominal terms) through a 74.8 percent reduction in debt service falling due during the interim period. Upon reaching the completion point, the remaining assistance from IDA, amounting to US$67.4 million in NPV terms (US$116.7 million in nominal terms), would be provided in the form of a 75.6 percent reduction of Afghanistan's debt service to IDA through June 2027 (Table 12).

- **AsDB**: Debt relief from AsDB amounts to US$59.4 million in NPV terms at the decision point. Of this amount, AsDB has delivered US$1.5 million in NPV terms (US$2.1 million in nominal terms) through a 74.8 percent reduction in debt service

[9] In accordance with the "Information Reporting in the Context of HIPC Initiative Assistance", the assistance for Afghanistan will be revised upward. The revision amounts to 2 percent of the target NPV of debt after full delivery of HIPC relief and therefore exceeds the 1 percent threshold set as minimum condition for the modification of HIPC relief. The revision is due mainly to the increase in bilateral and commercial debt stock data.

[10] Since there was no debt outstanding to the IMF at the decision point, the IMF did not commit assistance under the enhanced HIPC Initiative.

falling due during the interim period. Upon reaching the completion point, the remaining assistance from AsDB, amounting to US$57.4 million in NPV terms (US$104.0million in nominal terms), would be provided in the form of a 75.6 percent reduction of Afghanistan's debt service to AsDB through February 2028.

- **OFID**: Debt relief from OFID amounts to US$981,000 in NPV terms at the decision point. OFID has delivered US$578,000 in NPV terms through a concessional rescheduling of accrued arrears and maturities.

Bilateral and commercial creditors

38. **Paris Club creditors have agreed in principle to provide their share of enhanced HIPC assistance.** The assistance is estimated at US$422.5 million in end-March 2006 NPV terms, in accordance with the revised assistance (Table 4). Interim assistance, estimated at US$16.4 million in end-March 2006 NPV terms, has been provided through a flow treatment on Cologne terms, agreed in July 2007. Paris Club creditors declared their readiness in principle to provide their full share of assistance at the completion point. The full share of assistance at the completion point is expected to be provided through a stock-of-debt reduction. Paris Club creditors have also indicated that they would provide additional assistance beyond HIPC relief through 100 percent stock-of-debt cancellation, estimated at about US$135.4 million in end-March, 2009 NPV terms (Table 14).

39. **Non-Paris Club bilateral creditors are assumed to provide relief on HIPC-eligible debt on terms comparable to those of the Paris Club**. The NPV of HIPC relief at end-March 2006 is estimated to be US$23.5 million, after application of hypothetical traditional debt relief mechanism. Several creditors (representing 1.8 percent of total HIPC-eligible debt) have already provided outright cancellation of all their claims.[11] Other official creditors, such as Bulgaria (1.4 percent of total HIPC-eligible debt), and Kuwait (0.6 percent) have agreed in principle to provide debt relief at the completion point.

40. **Expected relief of commercial loans totals US$0.5 million in end-March 2006 NPV terms, representing an 84 percent debt reduction (equivalent to 51.5 percent of common reduction factor).** Negotiations with the Bulgarian authorities on possible debt relief at completion point include commercial claims of US$0.6 million.

[11] Croatia, Iraq, Saudi Arabia, and the Slovak Republic cancelled 100 percent of their old claims during 2005–08.

C. Considerations for Exceptional Topping-Up Assistance

41. **The Debt Relief Analysis (DRA) has been updated jointly by the authorities and the IMF and IDA staffs** on the basis of loan-by-loan debt data, and exchange rates and interest rates as of March 20, 2009 (Table 5).[12] As of March 20, 2009, the nominal stock of Afghanistan's external debt amounted to US$2.1 billion (Table 8). Multilateral creditors accounted for 47.6 percent of total debt, of which AsDB and IDA accounted for 22.7 and 20.6 percent, respectively. Paris Club creditors accounted for 46.4 percent. Russia remained Afghanistan's largest creditor accounting for 40.4 percent of total outstanding nominal debt at March 20, 2009. Non-Paris Club creditors accounted for 6.0 percent of total debt, of which the largest creditors were Bulgaria (2.3 percent), Saudi Arabia (2.2 percent)[13], and Kuwait (1 percent).

42. **The enhanced HIPC Initiative framework allows for the provision, on an exceptional basis, of additional debt relief (or "topping-up") at the completion point.** Additional debt relief is provided if a country's actual debt burden indicators have deteriorated compared to the decision point projection and this deterioration is primarily attributable to a fundamental change in a country's economic circumstances due to exogenous factors.[14] Additional debt relief may in this case be provided to bring the NPV of debt-to-exports ratio down to the 150 percent threshold at the completion point.[15]

43. **Afghanistan does not qualify for topping-up**. The NPV of debt-to-exports ratio at the March 20, 2009—after full delivery of the assistance committed at the decision point—is now estimated at 88.3 percent, 11.4 percentage points below the projection at the time of the decision point. At that time, the NPV of debt-to-exports ratio at March 20, 2009 was projected to be 99.7 percent. The NPV of debt-to-exports ratio—after the full delivery of the additional bilateral debt relief beyond the HIPC initiative at March 20, 2009—is even lower at 68.5 percent, below the 150 percent threshold for consideration of topping-up assistance defined under the enhanced HIPC Initiative (Table 2).[16] However, given the risks to the

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[12] This section updates the debt sustainability analysis using the HIPC DSA methodology, while Appendix II provides a forward-looking update using the Low-Income Countries Debt Sustainability Framework (LIC DSA) methodology.

[13] During the interim period, Saudi Fund for Development signed with Afghanistan two new concessional loan agreements. New disbursements under these loans at March 20, 2009 amounted to US$47 million.

[14] "The Enhanced HIPC Initiative – Completion Point Considerations."

[15] To date, six countries have received topping-up assistance under the enhanced HIPC Initiative: Burkina Faso, Ethiopia, Rwanda, Malawi, Niger and Sao Tome and Principe.

[16] The debt stock after the additional Paris Club creditors' delivery of debt relief under Bilateral Initiatives beyond the HIPC Initiative is used as a base for topping up consideration. See "The Enhanced HIPC Initiative - Completion Point Considerations."

outlook and weak institutional capacity, the staffs conclude that Afghanistan will remain at high risk of debt distress even after the full delivery of debt relief under the HIPC Initiative and MDRI (see Appendix II).

44. **Substantially higher delivery of HIPC relief by bilateral creditors explains** the lower **than projected NPV of debt-to-exports ratio after HIPC assistance.** Several factors would have contributed to an increase in the NPV of debt-to-exports ratio compared to the projections at decision point. Lower than expected exports led to a higher NPV of debt-to-exports ratio of 7.4 percentage points. Changes in the discount rates used to calculate the NPV of debt and lower than anticipated concessionality of new borrowing increased the NPV of debt-to-exports ratio at March 20, 2009 terms with respect to the decision point projection and the completion point estimate by 8.8 and 9.1 percentage points, respectively. However, substantially higher than expected delivery of HIPC relief, especially by bilateral creditors led to a 38.1 percentage point reduction of the NPV of debt-to-exports ratio compared to the assumptions at decision point, which more than compensated for the other factors and resulted in a net decrease of 11.4 percentage points in the NPV of debt-to-exports ratio compared to the projections at the decision point.

Table 2. Islamic Republic of Afghanistan: Breakdown of the Decrease of NPV of Debt-to-Export Ratio as of March 20, 2009 1/

	Percentage Points	Percent of Total Increase
NPV of debt-to-export ratio (as projected at Decision Point)	**99.7**	
NPV of debt-to-export ratio (actual)	**88.3**	
Unanticipated changes in the ratio	**-11.4**	**100%**
1. Due to changes in the parameters	**9.3**	**-82%**
o/w due to changes in the discount rates	8.8	-78%
o/w due to changes in the exchange rates	0.5	-4%
2. Due to unanticipated new borrowing	**10.0**	**-88%**
o/w due to higher than expected disbursements	0.9	-8%
o/w due to lower concessionality of the loans	9.1	-80%
3. Due to changes in export	**7.4**	**-65%**
4. Due to changes in HIPC relief and other factors	**-38.1**	**335%**
Bilateral debt relief beyond HIPC	**-19.7**	
NPV of debt-to-export ratio after full delivery of HIPC assistance and bilateral debt relief beyond HIPC (actual)	**68.5**	

Sources: World Bank and IMF staff estimates and projections.

1/ NPV of debt-to-export ratio after full delivery of enhanced HIPC assistance and bilateral debt relief beyond the HIPC Initiative.

D. Creditor Participation in the Multilateral Debt Relief Initiative

45. **Upon reaching the completion point, Afghanistan will qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI) from IDA.** Afghanistan does not have MDRI-eligible debt outstanding to the IMF. Contingent upon agreement by the

Boards of IDA and the IMF that the completion point under the enhanced HIPC Initiative has been reached, IDA will provide MDRI debt relief through a debt stock cancellation of debt disbursed before end-2003 and still outstanding on March 31, 2010.[17] At the completion point, debt owed to IDA will be reduced by US$35.3 million due to MDRI relief (Table 12). MDRI debt cancellation from IDA would save Afghanistan average annual debt service payments (net of HIPC assistance) of US$1.1 million between 2010/11 and 2043/44. Total debt service savings from MDRI relief would amount to US$38.4 million (SDR 25.2 million).

E. Debt Sustainability Outlook for 2009-2029

46. **The macroeconomic framework underlying the medium- to long-term debt sustainability analysis takes into account recent economic developments and progress in structural reforms.** The projections are consistent with the medium-term macroeconomic framework under the PRGF arrangement. Box 2 summarizes the main macroeconomic assumptions for the full projection period 2009–29.

47. **The macroeconomic framework assumes a gradual improvement in security and economic conditions, as well as additional reforms.** Stabilization and strong policy reforms allow infrastructure and mining projects to proceed in the medium-term, leading to higher growth. Regional stability and a recovery of global growth allow for increasing trade flows over time. In addition, the baseline scenario assumes improvements in governance over the near term, important reforms in customs and tax administration, strict control of non-priority domestic expenditures, and that domestic revenues would rise. The scenario indicates that fiscal sustainability (defined as operating expenditures equaling domestic revenues) would be reached in 2023.

48. **The HIPC DSA assumes a greater share of grants than the LIC DSA, although they are bound by the same underlying macroeconomic framework**. Under the methodology of the LIC DSA, the macroeconomic framework assumes IDA financing in the form of loans beyond the grants currently committed. The finding of high risk of debt distress in the LIC DSA points towards the need for continued donor involvement over an extended time period. The assumption of grant financing in the HIPC DSA is consistent with the results of the LIC DSA (Appendix II).

49. **The focus of fiscal policy is to maintain macroeconomic stability and move toward fiscal sustainability guided by the ANDS.** For the near term, security spending will substantially increase. Much of the increase, however, will be financed by external grants,

[17] See International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November 18, 2005, http://siteresources.worldbank.org/IDA/Resources/MDRI.pdf.

keeping debt accumulation under control. For the medium term, revenues are projected to increase from about 8 percent of GDP in 2009/10 to about 13 percent by 2029.

50. **Growth is projected to rise gradually in the medium term.** After a strong recovery in 2009/10, growth is projected to moderate to about 7 percent during 2010–15. During 2015–20, the baseline scenario assumes a gradual improvement in security, policy reforms to improve the business and investment climate, infrastructure upgrading, and improved service delivery by the government. Under this scenario, growth steadily increases, driven by the mining sector, industry, and commerce, and peaking at 8 percent by 2018.

51. **At the completion point, after full delivery of HIPC debt relief, additional bilateral assistance beyond HIPC, and MDRI, Afghanistan's external public debt would be considerably reduced, and external debt indicators would be expected to remain comfortably below the HIPC threshold over time**. The NPV of debt-to-exports ratio would fall from 189.4 percent before the completion point in 2008/09 to 89.3 percent after full delivery of HIPC, beyond HIPC and MDRI assistance in 2009/10. Because of the high volume of new borrowing assumed in the outer years of the projection period, this ratio would decrease over time to 83.8 percent in 2016/17 and subsequently increase to 99.0 percent in 2028/29 (Table 9). The NPV of debt-to-revenue and NPV of debt-to-GDP ratios would also drop between 2008/09 to 2009/10, and start increasing again until reaching 59.4 percent and 7.6 percent, respectively.

52. **Afghanistan's debt service ratios are projected to fall in the short term, but then to increase over the long term.** After reaching the completion point, the debt service to exports ratio is projected to decline from 1.4 percent to 0.6 percent. Due to the start of the repayment period of existing debt to multilateral creditors and growing debt service on new disbursements, the ratio is projected to increase quickly and reach 3.8 percent by 2028/29. Even though debt service is projected to increase rapidly, debt service decreases considerably as a result of the full delivery of HIPC relief, and bilateral relief beyond HIPC and MDRI. Compared to the situation after traditional debt relief, average debt service-to-exports ratio would halve over the period 2008/09–2018/19 and would remain about one third lower over the period 2019/20–2028/29. The projection for the debt service-to-revenue ratio is also expected to increase steadily over time after an initial drop at the completion point.

F. Sensitivity Analysis

53. **The macroeconomic outlook depends strongly on improved security and a consistent reform effort.** Other important risks include weak policy implementation by the government, and volatility of aid inflows. Should security not improve markedly over the next few years, an opportunity to channel large donor inflows to needed investments will be lost. Improving revenues while keeping expenditures contained and appropriately targeted will also require political will. State-owned companies such as the electricity provider and the

state airline could also lead to large contingent liabilities materializing and poor services if reforms are not undertaken to strengthen their management and operations. Governance reforms to fight corruption and to allow for effective state mechanisms will be crucial. Finally, external shocks such as another spike in food prices, or internal shocks such as another drought, could also delay progress.

54. **This section tests the sensitivity of the macroeconomic outlook to various shocks.** The section analyzes the impact on debt dynamics of three alternative scenarios (Table 10 and Figure 4). The scenarios analyze the consequences of key risks to Afghanistan, including lower economic growth, an export shock and a lower concessionality of new financing.

Box 2. Islamic Republic of Afghanistan: Baseline Macroeconomic Assumptions 2009-2029

For the short term, the baseline scenario assumes that real GDP will grow by about 15 percent in 2009/10, due to a faster-than-expected recovery of agricultural output and the impact of increased security spending. Headline inflation is projected to be about 6 percent (year-on-year) by March 2010 and to average -9 percent for the fiscal year. **For the medium term**, the baseline scenario assumes: (i) continuing macroeconomic stability and liberal policies toward international trade and foreign investment; (ii) completion of an ambitious restructuring and privatization program by 2012; (iii) stabilization of the security situation by about 2015; and (iv) further structural reforms to governance, the judiciary, and the business environment.

Real growth of non-opium GDP in the baseline scenario is projected to average 7 percent in 2010–2015 and to increase to 7.5 percent by 2020 as security and the business environment improve. The higher growth during this period would be driven by foreign direct investment (FDI) inflows to mining and hydropower projects, earnings from minerals exports, a gradual conversion of opium-growing areas to legal crops, and increased industrial and service activity. By 2029, growth is projected to settle at about 4.5 percent, the same as in the HIPC Decision Point document.

Inflation, after jumping in 2008/09 and falling to about 6 percent by March 2010, is projected to settle to about 4 percent during 2012–2029. The baseline assumes a slight real appreciation of the Afghani over the long term, consistent with productivity growth.

External grants, channeled through and outside the budget, are expected to remain substantial in absolute amounts throughout the period, albeit declining as a percentage of GDP. They are projected to move from US$6.5 billion (50 percent of GDP) in 2009/10 to about US$3.7 billion (5 percent of GDP) by 2029. Operating expenditure grants are projected to be eventually phased out, while grants executed outside the budget are steadily redirected to budgetary development expenditures.

As external grants decrease, the role of **external loans** will grow. From about US$100 million in 2009/10, gross foreign borrowing is projected to increase to about US$1.4 billion by 2029 (2 percent of GDP). This borrowing will remain on concessional terms.

Investment is expected to be exceptionally high until about 2020. With the help of external financing for core development expenditures, public investment is projected to average 14 percent of GDP through 2020, and to settle at about 7 percent of GDP by 2029. Meanwhile, FDI inflows to the mining and hydropower sectors and, later, to domestic industries and services, are envisaged to push up private investment to a peak of 13.5 percent of GDP by 2023/24.

The **external current account** is projected to steadily improve. Excluding official transfers, the current account deficit is projected to fall from about 55 percent of GDP in 2009/10 to close to 10 percent by 2029. Although capital goods purchases related to investments in mining and hydropower will increase imports during the first half of the projection period, this effect will be more than offset by the decline in donor-driven imports and the increase in mineral exports.

Fiscal accounts: Relatively strong growth, combined with continued improvements in tax and customs administration would raise domestic revenues to about 13 percent of GDP by 2029. Operating expenditures are projected to increase to around 15 percent of GDP during 2009–2015 due to the security buildup, and to settle at about 11 percent of GDP through 2029. The scenario assumes marginal privatization proceeds and small domestic public borrowing, and that the **real interest rate on domestic currency debt** would be about 3 percent.

Alternative Scenario 1: Lower Growth

55. **A lack of security could trap Afghanistan in a low growth-low investment equilibrium.** This scenario assumes no security improvement over the medium term, preventing infrastructure investments and delaying large-scale projects such as the Aynak copper mine. At the same time, needed improvements in revenue administration, state-owned companies, and other structural reforms are delayed, while governance remains a problem. Real GDP growth averages only 3.7 percent over 2015–2029, two percentage points lower than in the baseline. Revenues as a percent of GDP rise to only 11 percent by 2029, two percentage points lower than in the baseline, with adverse consequences for fiscal sustainability, despite expenditures being adjusted to take into account lower revenues. Nominal GDP rises to only half the level of the baseline by 2029 leaving much of the population mired in poverty. Exports remain at around 7 percent of GDP, two percentage points lower than in the baseline scenario. Under this scenario, the NPV of debt-to-export ratio would increase substantially above the HIPC threshold, reaching levels that are more than double those under the baseline by 2028/29. The debt service-to-export ratio would increase to 17.2 percent by 2028/29, which is more than four times the ratio under the baseline scenario.

Scenario 2: Terms of Trade Shock

56. **Debt ratios would also be affected by export shocks.** This scenario assumes a permanent 15 percent drop in the value of exports which might occur if copper prices fall, the exchange rate were revalued, or because of a drop in the trade volume due to instability in trading partners such as Pakistan. Further deterioration in internal security in Afghanistan would also affect trade. This scenario has limited effects because it considers the isolated effect of lower exports, assuming that GDP growth and revenues are the same as in the baseline. As a result, only the NPV of debt-to-exports and the debt service-to-exports would be affected. Both ratios worsen compared to the baseline scenario, but the change would not be pronounced, as the shock is minor and is not assumed to affect other macro variables except GDP. The NPV of debt-to-exports ratio would reach 118.7 percent in 2028/29, which is still well below the HIPC threshold.

Scenario 3: Lower Grants

57. **Even if the security situation improves and the favorable macroeconomic baseline materializes, Afghanistan's debt sustainability outlook will depend strongly on the availability of grants.** This scenario, which is a fully-fledged set of alternative macroeconomic projections, illustrates the need for continuing donor support through grants by assuming multilateral partners only offer loans on IDA terms instead of grants. Potential GDP growth rises as in the baseline due to investments and better security, but debt service costs rise. The replacement of grants through concessional loans leads to a serious

deterioration of all debt ratios, especially for the second half of the projection period. The ratio of NPV of debt-to-exports is almost double the one in the baseline scenario in 2028/29. Similarly, compared to the baseline scenario, debt service indicators are in average around one sixth higher during 2008/09–2018/19 and almost double during 2019/20–2028/29.

58. **These scenarios underscore the need for strong continued support by donors and the strong efforts by the authorities.** Absent progress in security, continuing governance problems, or a lack of commitment to serious economic reforms could hamper growth and poverty reduction progress and would result in a substantial deterioration of debt indicators. The analysis also underscores the dependence of Afghanistan's debt outlook on the availability of external finance at highly concessional terms and the need for improved debt management functions with the capacity to assess carefully the long-term effects of new borrowings. These results demonstrate that access to concessional financing and the goal of debt sustainability could become more difficult to achieve for Afghanistan if donors do not renew their long-term aid commitment or if there is less reform progress (including a protracted conflict situation) in the near future.

IV. Conclusions

59. **In the opinion of the IMF and IDA staffs, Afghanistan has met the requirements established in July 2007 for reaching the completion point under the enhanced HIPC Initiative, subject to the provision of the waivers referred to in the following paragraph.**

60. **In the opinion of the IMF and IDA staffs, Afghanistan has made satisfactory progress in implementing the reforms specified for the completion point, but will require waivers for two remaining triggers.** It has fully implemented nine out of the eleven triggers. Substantial progress was made in implementing the two other triggers on restructuring of key service delivery ministries and on civil service and military pensions. The government has indicated that they will be pursuing continuing reforms to complete these two triggers in the near future, and thus staffs support the waiver requests.

61. **The stock of HIPC-eligible external debt in NPV terms at March 20, 2006 increased slightly following the debt reconciliation exercise**. The staffs of IDA and the IMF, together with the Afghan authorities, reviewed the March 20, 2006 stock of debt data that was presented in the decision point document against recent creditor statements. As a result, the nominal stock of debt has been augmented by US$22.6 million to US$11,962.1 million and the NPV of debt after traditional debt relief has been revised upward by US$11.1 to US$1,131.1 million (Table 3). While multilateral creditor amounts remained the same, Paris Club debt was revised downward. This was offset by increased other bilateral and commercial debts.

62. **Full delivery of HIPC debt relief, additional bilateral assistance beyond HIPC and MDRI would considerably reduce Afghanistan's external public debt.** However, given continued dependence on donor flows and the significant risks to the security and economic outlook, Afghanistan will remain highly vulnerable to shocks.

63. **In light of the progress described above, staffs recommend that the Executive Directors determine that Afghanistan has reached the completion point under the enhanced HIPC initiative.**

V. Issues for Discussion

64. Executive Directors may wish to consider the following questions.

- **Completion point:** Do Directors agree that Afghanistan has reached the completion point under the enhanced HIPC initiative?
- **Amount of assistance:** Do Directors agree that the amount of assistance by all creditors under the enhanced HIPC initiative should be US$582.4 million in NPV terms?
- **Topping-up:** Do Directors agree that Afghanistan does not meet the requirements for exceptional topping-up at the completion point?
- **Creditor participation:** Do Directors agree that Afghanistan's creditors have given sufficient assurances to irrevocably commit enhanced HIPC initiative assistance to Afghanistan?

Figure 1. Islamic Republic of Afghanistan: Composition of Stock of External Debt as of March 20, 2006 by Creditor Group

(Nominal stock: $11.96 billion)

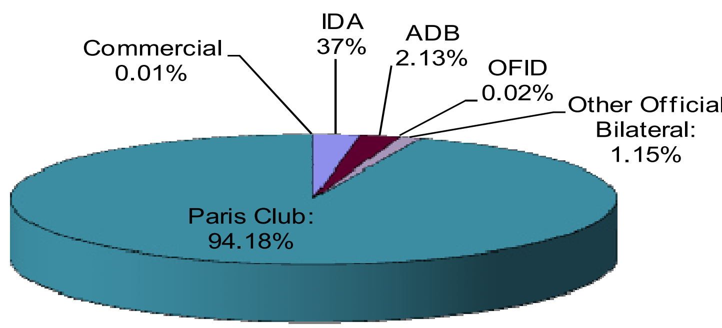
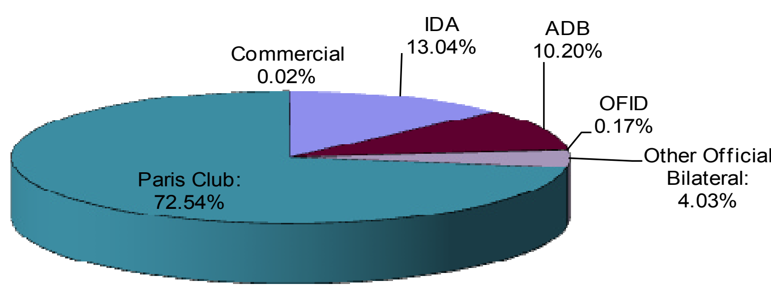


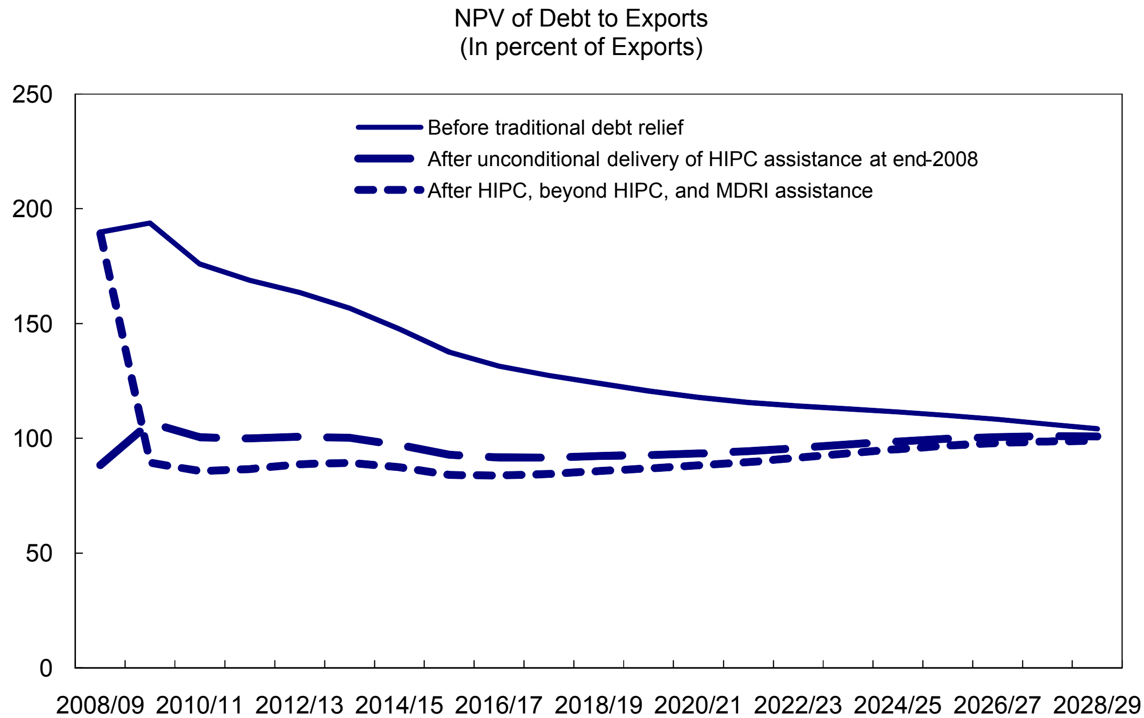
Figure 2. Islamic Republic of Afghanistan: Potential Costs of the HIPC Initiative as of March 20, 2006 by Creditor Group

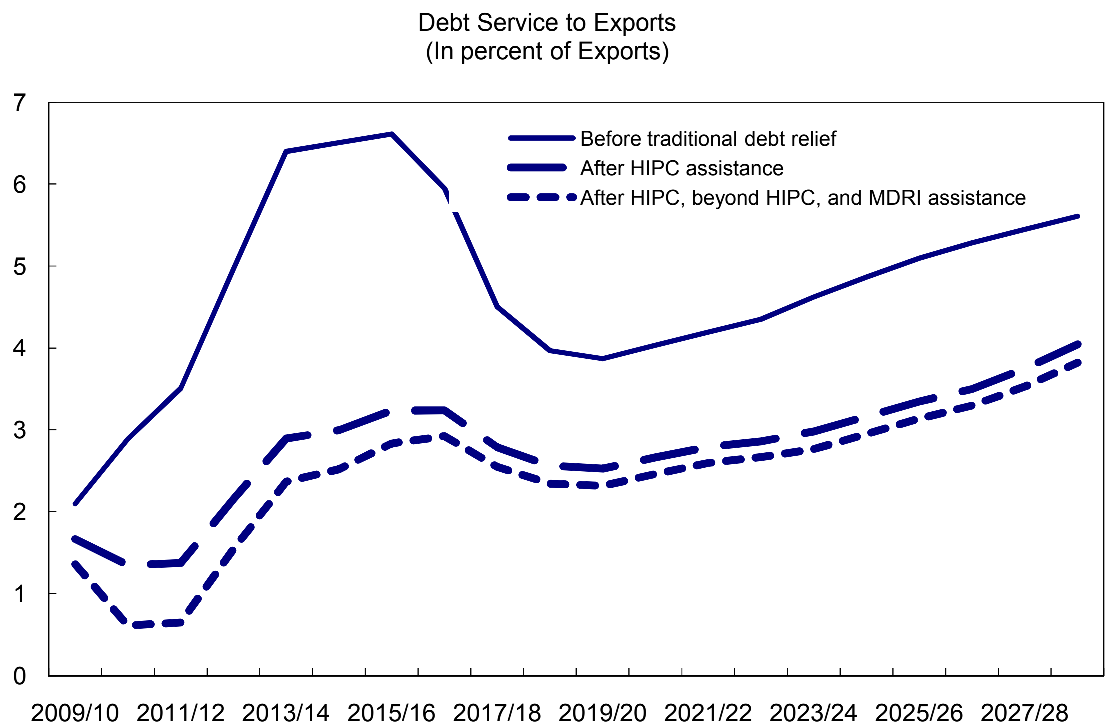
(Total Estimated HIPC Enhanced Assistance: $582.4 million, end-March 2006 NPV terms)



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

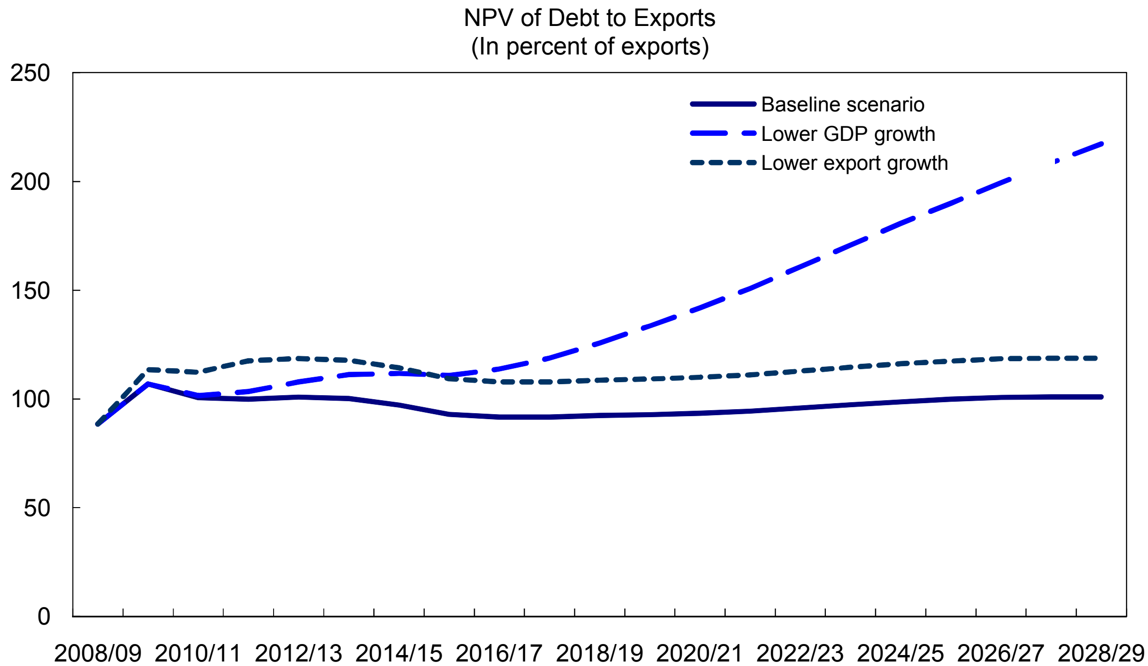
Figure 3. Islamic Republic of Afghanistan: External Debt Burden Indicators, 2008–29

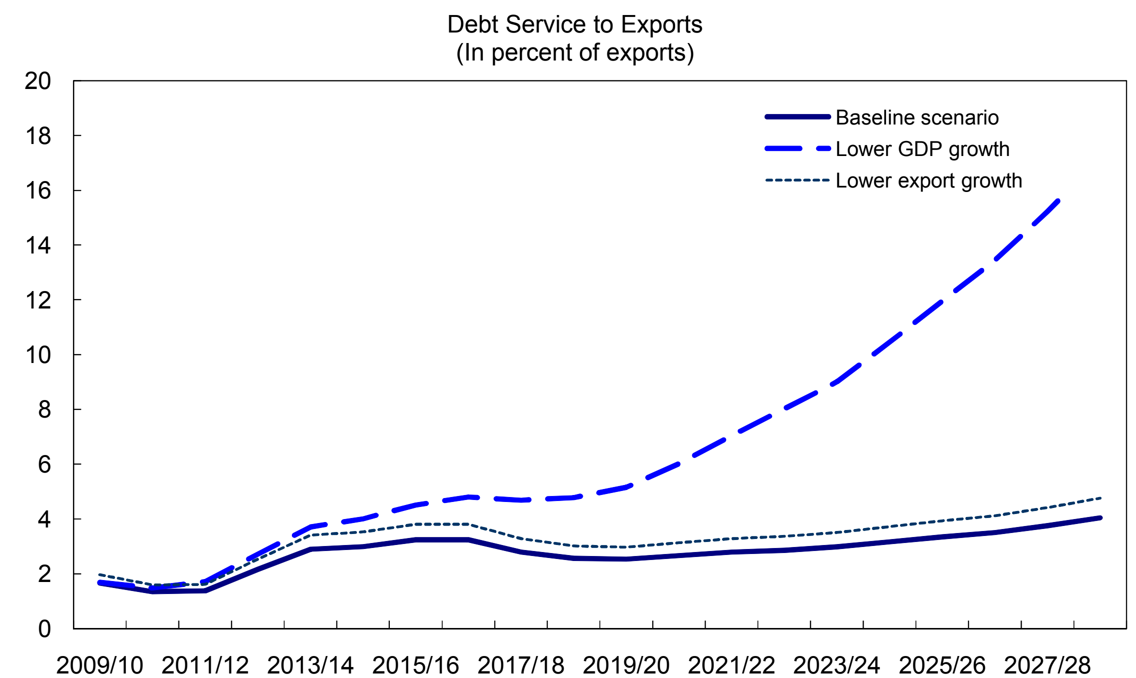




Sources: Afghan authorities; and IMF and World Bank staff estimates and projections.

Figure 4. Islamic Republic of Afghanistan: Sensitivity Analysis, 2008–29





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

Table 3. Islamic Republic of Afghanistan: Nominal Stock and Net Present Value of Debt as of March 20, 2006, by Creditor Groups

	Nominal Debt Stock 1/				NPV of Debt Before Rescheduling 1/				NPV of Debt After Arrears Clearance and Traditional Debt Relief 2/ 3/				
	At decision point		Revised at completion point		At decision point		Revised at completion point		At decision point		Revised at completion point		
	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total	US$ million	Percent of total	
Total	11939.4	100.0	11962.1	100.0	11612.1	100.0	11632.8	100.0	1120.0	100.0	1131.1	100.0	
Multilateral	557.3	4.7	557.3	4.7	264.7	2.3	264.7	2.3	264.7	23.6	264.7	23.4	
IDA	300.8	2.5	300.8	2.5	147.5	1.3	147.5	28.8	147.5	13.2	147.5	13.0	
ADB	254.6	2.1	254.6	2.1	115.4	1.0	115.4	14.9	115.4	10.3	115.4	10.2	
OFID	1.9	0.0	1.9	0.0	1.9	0.0	1.9	1.1	1.9	0.2	1.9	0.2	
Bilateral and Commercial	11382.1	95.3	11404.8	95.3	11347.4	97.7	11368.1	97.7	855.3	76.4	866.3	76.6	2/
Bilateral	11382.1	95.3	11404.2	95.3	11347.4	97.7	11367.5	97.7	855.3	76.4	866.1	76.6	
Paris Club:	11283.5	94.5	11266.1	94.2	11248.8	96.9	11229.4	96.5	822.7	73.5	820.5	72.5	
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pre-cutoff date	11283.5	94.5	11266.1	94.2	11248.8	96.9	11229.4	96.5	822.7	73.5	820.5	72.5	
ODA	111.7	0.9	109.9	0.9	109.5	0.9	107.8	0.9	71.8	6.4	70.7	6.2	
Non-ODA	11171.8	93.6	11156.1	93.3	11139.3	95.9	11121.6	95.6	750.9	67.0	749.8	66.3	
Russia	11127.9	93.2	11112.3	92.9	11095.4	95.6	11077.7	95.2	737.2	65.8	736.2	65.1	3/
Germany	43.9	0.4	43.9	0.4	43.9	0.4	43.9	0.4	13.6	1.2	13.6	1.2	
United States	111.7	0.9	109.9	0.9	109.5	0.9	107.8	0.9	71.8	6.4	70.7	6.2	
Other Official Bilateral:	98.6	0.8	138.1	1.2	98.6	0.8	138.1	1.2	32.6	2.9	45.6	4.0	
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pre-cutoff date	98.6	0.8	138.1	1.2	98.6	0.8	138.1	1.2	32.6	2.9	45.6	4.0	
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-ODA	98.6	0.8	138.1	1.2	98.6	0.8	138.1	1.2	32.6	2.9	45.6	4.0	
Bulgaria	47.6	0.4	47.6	0.4	47.6	0.4	47.6	0.4	15.7	1.4	15.7	1.4	
Iraq	9.1	0.1	9.1	0.1	9.1	0.1	9.1	0.1	3.0	0.3	3.0	0.3	
Kuwait	19.3	0.2	19.3	0.2	19.3	0.2	19.3	0.2	6.4	0.6	6.4	0.6	
Saudi Arabia	22.2	0.2	22.2	0.2	22.2	0.2	22.2	0.2	7.3	0.7	7.3	0.6	
Slovak Republic	0.0	0.0	29.3	0.2	0.0	0.0	29.3	0.3	0.0	0.0	9.7	0.9	
Croatia	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.1	0.0	0.1	0.0	
Iran, Islamic Republic of	0.0	0.0	10.1	0.1	0.0	0.0	10.1	0.1	0.0	0.0	3.4	0.3	
Commercial	0.0	0.0	0.6	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.2	0.0	
Bulgaria	0.0	0.0	0.6	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.2	0.0	

Sources: Afghan authorities; and IMF and World Bank staff estimates.

1/ Includes arrears.

2/ Includes a hypothetical stock-of-debt operation on Naples terms at March 20, 2006 (fiscal year ends March 20) and at least comparable action by other official bilateral and commercial creditors on eligible debt (pre-cutoff and non-ODA).

3/ Includes an up-front 80 percent discount on Russian debt disbursed before 1992.

Table 4. Islamic Republic of Afghanistan: HIPC Initiative Assistance Under a Proportional Burden-Sharing Approach 1/ 2/
(In millions of U.S. dollars, unless otherwise indicated)

	Debt Outstanding in NPV terms, March 20, 2006 (A)		Debt Outstanding in NPV terms, post-HIPC (B)		Reduction of the NPV of debt due to HIPC (A-B) 3/	
	At decision point	Revised at completion point	At decision point	Revised at completion point	At decision point	Revised at completion point
Total	1120.0	1131.1	548.6	548.6	571.4	582.4
(as percent of exports of goods and non-factor services)	306.2	309.2	150.0	150.0	156.2	159.2
of which:						
Multilateral	264.7	264.7	129.7	128.4	135.1	136.3
Bilateral	855.3	866.1	418.9	420.1	436.3	446.0
Paris Club: 3/	822.7	820.5	403.0	398.0	419.7	422.5
Other Official Bilateral:	32.6	45.6	16.0	22.1	16.6	23.5
Commercial	0.0	0.2	0.0	0.1	0.0	0.1
Memorandum Items:						
Common reduction factor (percent) 4/	51.0	51.5				
Exports of goods and non-factor services 5/	365.7	365.7				

Sources: C.A.R. authorities; and IMF and World Bank staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).
2/ Includes a hypothetical stock-of-debt operation on Naples terms, March 20, 2006 (fiscal year ends March 20), and comparable treatment by other official bilateral credit
3/ Includes an up-front 80 percent discount on Russian debt disbursed before 1992.
4/ Each creditor's NPV reduction in percent of its exposure at the reference date, March 20 2006, calculated as (A-B)/A.
The common reduction factor is applied to debt remaining after traditional mechanisms. For non-concessional bilateral or commercial debt this would imply a total reduction of 84 percent.
5/ Based on the three-year backward-looking average (2003/04-2005/06).

Table 5. Islamic Republic of Afghanistan: Discount Rates and Exchange Rates

Currency Name	Discount rates 1/		Exchange rates 2/	
	end-March 2006	end-March 2009	end-March 2006	end-March 2009
Special Drawing Rights	4.54	4.03	0.69	0.67
Domestic Currency: Afghani	4.54	4.03	49.96	52.36
Kuwait Dinar	5.32	4.03	0.29	0.29
Soviet Union Ruble	4.54	4.03	0.60	0.60
UK Pound Sterling	5.20	5.00	0.58	0.70
United States Dollar	5.32	3.77	1.00	1.00
Euro	4.10	4.80	0.83	0.75
Japanese Yen	2.11	2.02	117.40	98.10
Korean Won	6.09	6.05	971.60	1383.50
Norwegian Krone	4.42	4.77	6.58	6.68
Swedish Krona	4.08	4.34	7.79	8.22
Swiss Franc	2.90	3.19	1.31	1.14
Memorandum item:				
Paris Club cutoff date	June 20, 1999			

Sources: OECD; and IMF, *International Financial Statistics*.

1/ The discount rates used are the average commercial interest reference rates over the six-month period prior to the reference date, which is the end of the period for which actual debt and export data are available.
2/ The exchange rates are expressed as currency per U.S. dollar at the end of the reference date.

Table 6. Islamic Republic of Afghanistan: Net Present Value of External Debt, 2008–29
(in millions of U.S. dollars, unless otherwise indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2018/19	2023/24	2028/29	Averages 2008/09-2018/19	Averages 2019/20-2028/29
Before traditional debt-relief 1/											
NPV of total debt	1,302.1	1,593.2	1,687.4	1,772.3	1,879.5	1,977.2	2,587.7	3,897.0	5,619.1	1,961.2	4,116.9
NPV of outstanding debt	1,302.1	1,331.5	1,352.9	1,366.0	1,368.1	1,352.3	1,254.2	1,129.5	689.8	1,317.1	1,045.5
Official bilateral and commercial	721.5	735.9	741.6	738.6	735.6	730.4	712.2	621.3	284.3	725.0	558.4
Paris Club	617.7	631.1	635.8	631.8	628.5	623.8	608.4	520.8	187.9	619.6	458.4
Other official bilateral	103.2	104.2	105.2	106.2	106.5	106.0	103.2	99.9	95.8	104.8	99.4
Commercial	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Multilateral	580.6	595.6	611.2	627.4	632.5	621.9	541.9	508.2	405.5	592.0	487.1
World Bank	243.4	247.4	251.5	255.9	260.5	262.4	248.7	232.4	185.4	254.1	222.3
Asian Development Bank	265.5	274.0	282.9	292.3	299.4	300.4	293.0	275.6	220.1	290.9	264.7
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.9	2.0	2.0	2.0	1.7	1.5	0.3	0.2	0.0	1.3	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4
After traditional debt relief 1/ 2/											
NPV of total debt	1,247.1	1,540.6	1,637.3	1,724.3	1,833.1	1,931.8	2,542.8	3,847.9	5,559.4	1,914.0	4,066.0
NPV of outstanding debt	1,247.1	1,279.0	1,302.8	1,318.0	1,321.7	1,307.0	1,209.3	1,080.4	630.0	1,269.8	994.6
Official bilateral and commercial	666.4	683.4	691.6	690.6	689.2	685.0	667.4	572.2	224.5	677.8	507.5
Paris Club	616.3	632.3	639.5	637.6	635.9	632.2	618.3	530.9	197.6	626.3	468.4
Other official bilateral	49.9	50.9	51.8	52.9	53.1	52.6	48.9	41.2	26.8	51.3	38.9
Commercial	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1
Multilateral	580.6	595.6	611.2	627.4	632.5	621.9	541.9	508.2	405.5	592.0	487.1
World Bank	243.4	247.4	251.5	255.9	260.5	262.4	248.7	232.4	185.4	254.1	222.3
Asian Development Bank	265.5	274.0	282.9	292.3	299.4	300.4	293.0	275.6	220.1	290.9	264.7
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.9	2.0	2.0	2.0	1.7	1.5	0.3	0.2	0.0	1.3	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4
After conditional delivery of enhanced HIPC assistance 3/											
NPV of total debt	1,298.3	877.8	964.1	1,049.1	1,158.0	1,264.0	1,925.5	3,362.6	5,443.2	1,325.4	3,648.8
NPV of outstanding debt	1,298.3	616.2	629.6	642.8	646.7	639.2	592.0	595.1	513.9	681.2	577.4
Official bilateral and commercial	721.5	169.0	167.9	166.2	164.4	162.1	156.3	145.6	108.4	212.7	138.6
Paris Club	617.7	131.3	129.3	126.6	124.4	122.7	119.9	114.3	85.6	168.3	108.5
Other official bilateral	103.2	37.6	38.6	39.6	39.9	39.4	36.3	31.2	22.7	44.2	30.0
Commercial	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Multilateral	576.8	447.2	461.6	476.6	482.3	477.1	435.6	449.6	405.5	468.5	438.9
World Bank	240.3	167.9	172.5	177.2	182.2	186.4	194.9	205.0	185.4	189.6	199.6
Asian Development Bank	264.7	205.5	212.9	220.5	227.8	231.8	240.4	244.5	220.1	232.2	239.1
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.9	1.5	1.6	1.5	1.4	1.2	0.3	0.2	0.0	1.1	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4
After unconditional delivery of enhanced HIPC assistance 4/											
NPV of total debt	605.3	877.8	964.1	1,049.1	1,158.0	1,264.0	1,925.5	3,362.6	5,443.2	1,262.4	3,648.8
NPV of outstanding debt	605.3	616.2	629.6	642.8	646.7	639.2	592.0	595.1	513.9	618.2	577.4
Official bilateral and commercial	171.6	169.0	167.9	166.2	164.4	162.1	156.3	145.6	108.4	162.7	138.6
Paris Club	135.4	131.3	129.3	126.6	124.4	122.7	119.9	114.3	85.6	124.4	108.5
Other official bilateral	36.1	37.6	38.6	39.6	39.9	39.4	36.3	31.2	22.7	38.1	30.0
Commercial	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Multilateral	433.7	447.2	461.6	476.6	482.3	477.1	435.6	449.6	405.5	455.5	438.9
World Bank	163.6	167.9	172.5	177.2	182.2	186.4	194.9	205.0	185.4	182.6	199.6
Asian Development Bank	198.8	205.5	212.9	220.5	227.8	231.8	240.4	244.5	220.1	226.2	239.1
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.5	1.5	1.6	1.5	1.4	1.2	0.3	0.2	0.0	1.1	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4
After beyond HIPC assistance 5/											
NPV of total debt	1,155.2	746.5	834.8	922.5	1,033.6	1,141.4	1,805.5	3,248.4	5,357.7	1,200.2	3,540.3
NPV of outstanding debt	1155.2	484.9	500.3	516.2	522.2	516.5	472.0	480.9	428.3	556.0	468.9
Official bilateral and commercial	721.5	37.7	38.7	39.7	40.0	39.5	36.4	31.3	22.8	100.5	30.0
Paris Club	617.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	56.2	0.0
Other official bilateral	103.2	37.6	38.6	39.6	39.9	39.4	36.3	31.2	22.7	44.2	30.0
Commercial	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Multilateral	433.7	447.2	461.6	476.6	482.3	477.1	435.6	449.6	405.5	455.5	438.9
World Bank	163.6	167.9	172.5	177.2	182.2	186.4	194.9	205.0	185.4	182.6	199.6
Asian Development Bank	198.8	205.5	212.9	220.5	227.8	231.8	240.4	244.5	220.1	226.2	239.1
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.5	1.5	1.6	1.5	1.4	1.2	0.3	0.2	0.0	1.1	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4
After conditional delivery of enhanced HIPC, beyond HIPC, and MDRI assistance 3/ 5/ 6/											
NPV of total debt	1,298.3	734.2	822.1	909.3	1,020.0	1,127.5	1,790.0	3,231.0	5,341.2	1,200.5	3,523.3
NPV of outstanding debt	1,298.3	472.6	487.6	503.1	508.6	502.6	456.5	463.6	411.9	556.3	451.9
Official bilateral and commercial	721.5	37.7	38.7	39.7	40.0	39.5	36.4	31.3	22.8	100.5	30.0
Paris Club	617.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	56.2	0.0
Other official bilateral	103.2	37.6	38.6	39.6	39.9	39.4	36.3	31.2	22.7	44.2	30.0
Commercial	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Multilateral	576.8	434.9	448.9	463.4	468.7	463.1	420.1	432.3	389.1	455.8	421.8
World Bank	240.3	155.6	159.8	164.1	168.6	172.5	179.4	187.6	169.0	176.9	182.6
Asian Development Bank	264.7	205.5	212.9	220.5	227.8	231.8	240.4	244.5	220.1	232.2	239.1
IMF	69.9	72.2	74.7	77.3	71.0	57.7	0.0	0.0	0.0		
Others	1.9	1.5	1.6	1.5	1.4	1.2	0.3	0.2	0.0	1.1	0.1
NPV of new borrowing	0.0	261.6	334.5	406.3	511.4	624.9	1333.5	2767.5	4929.3	644.2	3,071.4

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

1/ The NPV of debt to the World Bank, the Asian Development Bank and BADEA includes the grant element of the arrears clearance operations as well as any payments made under these operations.
2/ Shows the external debt situation after the full use of traditional debt-relief mechanisms, and assuming at least comparable treatment from official bilateral creditors.
3/ Assumes the delivery of HIPC assistance at completion point (end-November 2009).
4/ Assumes full delivery of estimated HIPC initiative debt relief as March 20, 2009.
5/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework as specified on Table 15.
6/ MDRI assistance applies to the World Bank and starts after the completion point (November 2009).

Table 7. Islamic Republic of Afghanistan: External Debt Service, 2009–29 1/

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

	2009/10 2010	2010/11 2011	2011/12 2012	2012/13 2013	2013/14 2014	2014/15 2015	2015/16 2016	2016/17 2017	2017/18 2018	2018/19 2019	2023/24 2024	2028/29 2029	Averages 2008/09-2018/19 2009-2018	Averages 2019/20-2028/29 2019-2028
Before traditional debt relief														
Total	20.1	30.3	40.3	62.2	88.6	99.4	111.3	110.9	93.5	91.9	174.0	330.0	74.8	198.5
Existing debt 2/	17.6	26.9	35.9	56.5	81.3	90.5	96.3	89.9	65.0	55.1	89.1	145.8	61.5	96.0
Multilateral	7.8	7.8	7.9	28.7	51.4	58.6	62.4	62.8	44.2	30.4	33.9	39.3	36.2	33.6
World Bank Group	5.7	5.7	5.7	5.7	8.5	11.9	13.5	13.4	13.3	13.3	14.7	17.7	9.7	15.5
Asian Development Bank	1.6	1.6	1.6	4.2	10.6	11.1	13.5	14.0	13.7	13.6	19.1	21.6	8.6	18.0
IMF 3/	0.4	0.4	0.4	9.4	16.2	17.8	17.7	17.6	8.5	1.7	0.0	0.0	9.0	0.0
Others	0.0	0.0	0.1	9.3	16.1	17.7	17.7	17.7	8.7	1.8	0.0	0.0	8.9	0.0
Official bilateral	9.8	19.1	28.0	27.8	30.0	31.9	33.9	27.1	20.8	24.7	55.2	106.5	25.3	62.5
Paris Club	9.8	19.1	28.0	27.1	28.4	30.4	32.4	25.6	19.2	23.1	53.7	104.9	24.3	60.9
Non Paris Club	0.0	0.0	0.0	0.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.0	1.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt 3/	2.5	3.4	4.3	5.7	7.2	8.9	15.0	21.0	28.5	36.8	84.9	184.2	13.3	102.4
Debt service to exports ratio	2.1	2.9	3.5	5.0	6.4	6.5	6.6	5.9	4.5	4.0	4.6	5.6	4.7	4.7
Debt service to revenue ratio	1.9	2.4	2.7	3.5	4.4	4.3	4.2	3.7	2.7	2.4	2.8	3.7	3.2	2.9
After traditional debt relief 4/														
Total	18.5	28.9	39.3	61.8	88.8	99.9	112.5	112.3	95.1	93.6	176.5	333.7	75.1	201.1
Existing debt 2/	16.0	25.5	35.0	56.2	81.6	91.0	97.5	91.3	66.6	56.8	91.5	149.5	61.7	98.7
Multilateral	7.8	7.8	7.9	28.7	51.4	58.6	62.4	62.8	44.2	30.4	33.9	39.3	36.2	33.6
World Bank Group	5.7	5.7	5.7	5.7	8.5	11.9	13.5	13.4	13.3	13.3	14.7	17.7	9.7	15.5
Asian Development Bank	1.6	1.6	1.6	4.2	10.6	11.1	13.5	14.0	13.7	13.6	19.1	21.6	8.6	18.0
IMF 3/	0.4	0.4	0.4	9.4	16.2	17.8	17.7	17.6	8.5	1.7	0.0	0.0	9.0	0.0
Others	0.0	0.0	0.1	9.3	16.1	17.7	17.7	17.7	8.7	1.8	0.0	0.0	8.9	0.0
Official bilateral	8.2	17.7	27.0	27.5	30.2	32.4	35.1	28.5	22.3	26.4	57.7	110.2	25.5	65.1
Paris Club	7.2	16.6	26.0	25.7	27.6	29.8	32.4	25.7	19.5	23.5	54.0	105.4	23.4	61.3
Non Paris Club	1.0	1.0	1.0	1.8	2.6	2.6	2.7	2.8	2.9	3.0	3.7	4.8	2.1	3.8
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt 3/	2.5	3.4	4.3	5.7	7.2	8.9	15.0	21.0	28.5	36.8	84.9	184.2	13.3	102.4
Debt service to exports ratio	1.9	2.8	3.4	4.9	6.4	6.5	6.7	6.0	4.6	4.0	4.7	5.7	4.7	4.8
Debt service to revenue ratio	1.8	2.2	2.6	3.5	4.4	4.3	4.2	3.7	2.7	2.4	2.9	3.7	3.2	3.0
After HIPC assistance 5/														
Total	15.1	14.1	15.7	27.0	40.1	45.8	54.5	60.4	57.8	59.4	112.3	238.1	39.0	133.3
Existing debt 2/	12.7	10.7	11.4	21.3	32.8	36.9	39.5	39.3	29.3	22.6	27.3	53.9	25.7	30.9
Multilateral	3.5	3.2	3.3	13.1	24.3	28.4	31.6	32.3	23.2	16.2	17.4	39.3	17.9	20.6
World Bank Group	2.2	2.2	2.2	2.2	3.1	5.2	6.2	6.1	6.1	6.1	6.6	17.7	4.2	9.0
Asian Development Bank	0.9	0.6	0.6	1.3	4.9	5.2	7.5	8.3	8.3	8.3	10.8	21.6	4.6	11.5
IMF 3/	0.4	0.4	0.4	9.4	16.2	17.8	17.7	17.6	8.5	1.7	0.0	0.0	9.0	0.0
Others	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.2	0.0
Official bilateral	9.2	7.5	8.1	8.2	8.5	8.4	8.0	7.0	6.2	6.4	9.9	14.6	7.8	10.3
Paris Club	9.2	7.0	7.6	6.9	6.4	6.3	5.9	4.9	4.0	4.2	7.4	11.5	6.2	7.7
Non Paris Club	0.0	0.5	0.5	1.3	2.1	2.1	2.1	2.1	2.2	2.2	2.5	3.0	1.5	2.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt 3/	2.5	3.4	4.3	5.7	7.2	8.9	15.0	21.0	28.5	36.8	84.9	184.2	13.3	102.4
Debt service to exports ratio after HIPC assistance	1.6	1.3	1.4	2.2	2.9	3.0	3.2	3.2	2.8	2.6	3.0	4.0	2.4	3.2
Debt service to revenue ratio after HIPC assistance	1.4	1.1	1.0	1.5	2.0	2.0	2.1	2.0	1.7	1.5	1.8	2.6	1.6	2.0
Reduction in debt service as a result of														
Traditional debt relief mechanisms 6/	1.5	1.4	1.0	0.3	-0.2	-0.5	-1.2	-1.4	-1.6	-1.7	-2.4	-3.7	-0.2	-2.7
HIPC Initiative assistance 6/	...	14.8	23.5	34.8	48.7	54.2	58.0	51.9	37.2	34.2	64.2	95.6	39.7	67.8
After beyond HIPC assistance 7/														
Total	12.9	7.1	8.2	20.1	33.7	39.4	48.6	55.5	53.8	55.2	104.9	226.6	33.4	125.7
Existing debt 2/	10.5	3.7	3.8	14.4	26.4	30.5	33.6	34.4	25.3	18.4	20.0	42.4	20.1	23.2
Multilateral	3.5	3.2	3.3	13.1	24.3	28.4	31.6	32.3	23.2	16.2	17.4	39.3	17.9	20.6
World Bank Group	2.2	2.2	2.2	2.2	3.1	5.2	6.2	6.1	6.1	6.1	6.6	17.7	4.2	9.0
Asian Development Bank	0.9	0.6	0.6	1.3	4.9	5.2	7.5	8.3	8.3	8.3	10.8	21.6	4.6	11.5
IMF 3/	0.4	0.4	0.4	9.4	16.2	17.8	17.7	17.6	8.5	1.7	0.0	0.0	9.0	0.0
Others	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.2	0.0
Official bilateral	7.0	0.5	0.5	1.3	2.1	2.1	2.1	2.1	2.2	2.2	2.5	3.0	2.2	2.6
Paris Club	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Non Paris Club	0.0	0.5	0.5	1.3	2.1	2.1	2.1	2.1	2.2	2.2	2.5	3.0	1.5	2.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt 3/	2.5	3.4	4.3	5.7	7.2	8.9	15.0	21.0	28.5	36.8	84.9	184.2	13.3	102.4
Debt service to exports ratio after HIPC assistance	1.4	0.7	0.7	1.6	2.4	2.6	2.9	3.0	2.6	2.4	2.8	3.8	2.0	3.0
Debt service to revenue ratio after HIPC assistance	1.2	0.6	0.5	1.1	1.7	1.7	1.8	1.8	1.5	1.4	1.7	2.5	1.3	1.8
Reduction in debt service as a result of														
Traditional debt relief mechanisms 6/	5.6	5.6	5.7	26.5	48.3	53.4	56.2	56.6	38.1	24.3	27.3	21.6	32.0	24.5
Beyond HIPC Initiative assistance	...	7.0	7.6	6.9	6.4	6.3	5.9	4.9	4.0	4.2	7.4	11.5	5.9	7.7
After HIPC, beyond HIPC, and MDRI assistance 8/														
Total	13.3	6.4	7.4	19.3	32.7	38.5	47.7	54.5	52.9	54.3	104.1	224.9	32.7	124.8
Existing debt 2/	10.8	3.0	3.1	13.7	25.5	29.6	32.7	33.5	24.4	17.5	19.2	40.7	19.4	22.3
Multilateral	3.8	2.5	2.6	12.4	23.4	27.5	30.6	31.4	22.3	15.3	16.6	37.7	17.2	19.7
World Bank Group	2.6	1.4	1.4	1.4	2.2	4.3	5.3	5.2	5.2	5.2	5.8	16.1	3.4	8.2
Asian Development Bank	0.9	0.6	0.6	1.3	4.9	5.2	7.5	8.3	8.3	8.3	10.8	21.6	4.6	11.5
IMF 3/	0.4	0.4	0.4	9.4	16.2	17.8	17.7	17.6	8.5	1.7	0.0	0.0	9.0	0.0
Others	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.2	0.0
Official bilateral	7.0	0.5	0.5	1.3	2.1	2.1	2.1	2.1	2.2	2.2	2.5	3.0	2.2	2.6
Paris Club	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Non Paris Club	0.0	0.5	0.5	1.3	2.1	2.1	2.1	2.1	2.2	2.2	2.5	3.0	1.5	2.6
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt 3/	2.5	3.4	4.3	5.7	7.2	8.9	15.0	21.0	28.5	36.8	84.9	184.2	13.3	102.4
Debt service to exports ratio after HIPC and MDRI assistance	1.4	0.6	0.6	1.5	2.4	2.5	2.8	2.9	2.5	2.3	2.8	3.8	2.0	3.0
Debt service to revenue ratio after HIPC and MDRI assistance	1.3	0.5	0.5	1.1	1.6	1.6	1.8	1.8	1.5	1.4	1.7	2.5	1.3	1.8
Reduction in debt service as a result of														
MDRI assistance	…	0.7	0.7	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.8	1.6	0.9	0.9
Memorandum items:														
Exports of goods and nonfactor services 9/	955.7	1,046.5	1,147.7	1,253.8	1,384.3	1,527.7	1,684.3	1,865.7	2,075.9	2,317.3	3,766.9	5,886.4	1,525.9	4,062.4
Government revenues 10/	1,053.0	1,285.2	1,506.9	1,754.2	2,025.2	2,335.1	2,658.3	3,035.1	3,481.0	3,902.8	6,158.8	8,988.4	2,303.7	6,524.4

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

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated. Fiscal year ends on March 20.
2/ Includes only principal and interest due on debt outstanding as of the reference date (March 20, 2009) and does not include projected penalty interest on arrears.
3/ Reflects debt service on the projected borrowing needed to close the current account gap.
4/ Assumes a hypothetical stock of debt operation on Naples terms and comparable treatment from other bilateral creditors.
5/ Bilateral and commercial creditors are assumed to provide a Cologne flow rescheduling on eligible debt during the interim period and a Cologne stock of debt operation at the completion point. Multilateral creditors are assumed to provide HIPC debt relief as of the decision point, except for IFAD, which is assumed to provide relief at the completion point.
6/ The reduction is measured as the difference between the projected debt service after full use of traditional debt relief and debt service after the application of HIPC relief.
7/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework as specified on Table 15.
8/ MDRI assistance applies to the World Bank and starts the first quarter after the assumed completion point.
9/ As defined in IMF, Balance of Payments Manual, 5th edition, 1993. Refers to current year exports.
10/ Revenues are defined as central government revenues, excluding grants.

Table 8. Islamic Republic of Afghanistan: Nominal and Net Present Value of External Debt outstanding at March 20, 2009 1/

(In millions of US$, unless otherwise indicated)

	Legal Situation 2/				Net Present Value of Debt 3/ 4/		
	Nominal Debt	Percent of total	NPV of debt	Percent of total	After enhanced HIPC relief	After additional bilateral relief	After additional bilateral relief (In percent of total)
Total	2103.9	100.0	1302.1	100.0	605.3	469.9	100.0
Multilateral	1,000.5	47.6	580.6	44.6	433.7	433.7	92.3
IDA	433.3	20.6	243.4	18.7	163.6	163.6	34.8
Asian Development Bank	477.6	22.7	265.5	20.4	198.8	198.8	42.3
IMF	87.3	4.2	69.9	5.4	69.9	69.9	14.9
IsDB	0.5	0.0	0.3	0.0	1.2	1.2	0.2
OFID	1.8	0.1	1.6	0.1	0.3	0.3	0.1
Bilateral and Commercial	1103.4	52.4	721.5	55.4	171.6	36.2	7.7
Bilateral	1102.7	52.4	720.9	55.4	171.5	36.1	7.7
Paris Club:	975.9	46.4	617.7	47.4	135.4	0.0	0.0
Post-cutoff date	0.0	0.0	0.0	0.0	…	…	…
ODA	0.0	0.0	0.0	0.0	…	…	…
Non-ODA	0.0	0.0	0.0	0.0	…	…	…
Pre-cutoff date	975.9	46.4	617.7	47.4	…	…	…
ODA	108.3	5.1	94.3	7.2	…	…	…
Non-ODA	867.6	41.2	523.4	40.2	…	…	…
Russia	850.8	40.4	504.9	38.8	…	…	…
Germany	16.8	0.8	18.5	1.4	…	…	…
United States	108.3	5.1	94.3	7.2	…	…	…
Other Official Bilateral:	126.8	6.0	103.2	7.9	36.1	36.1	7.7
Post-cutoff date	47.1	2.2	23.6	1.8	23.6	23.6	5.0
ODA	47.1	2.2	23.6	1.8	23.6	23.6	5.0
Non-ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	79.7	3.8	79.7	6.1	12.6	12.6	2.7
ODA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-ODA	79.7	3.8	79.7	6.1	12.6	12.6	2.7
Bulgaria	48.9	2.3	48.9	3.8	7.4	7.4	1.6
Iraq	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait	20.7	1.0	20.7	1.6	3.9	3.9	0.8
Saudi Arabia	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Fund for Development	47.1	2.2	23.6	1.8	23.6	23.6	5.0
Slovak Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iran, Islamic Republic of	10.1	0.5	10.1	0.8	1.3	1.3	0.3
Commercial	0.6	0.0	0.6	0.0	0.1	0.1	0.0
Bulgaria	0.6	0.0	0.6	0.0	0.1	0.1	0.0

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

1/ Figures are based on data as of March 20, 2009.
2/ Includes 2006 Naples flows and June 2007 Cologne flow and debt relief from non-Paris Club creditors.
3/ Assumes full delivery of HIPC assistance as of March 20, 2009.
4/ Paris Club creditors deliver their share of assistance as a group. Actual delivery modalities are defined on a case-by-case basis.

Table 9. Islamic Republic of Afghanistan: External Debt Indicators, 2008/09–28/29 1/

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Averages 2008-2018	Averages 2019-2028
Before traditional debt relief 1/																							
NPV of debt-to-GDP ratio	11.1	12.3	11.4	10.8	10.4	9.9	9.3	8.7	8.3	8.1	7.9	7.8	7.8	7.9	8.0	8.1	8.2	8.3	8.4	8.4	8.4	9.8	8.1
NPV of debt-to-exports ratio 2/ 3/	189.9	193.9	175.9	168.8	163.5	156.7	147.7	137.6	131.6	127.4	124.0	120.7	117.8	115.6	114.1	112.8	111.5	109.9	108.2	106.3	104.1	156.1	112.1
NPV of debt-to-revenue ratio 4/	160.2	151.3	131.3	117.6	107.1	97.6	87.8	79.3	73.4	68.6	66.3	64.4	63.4	63.2	63.2	63.3	63.2	63.1	62.9	62.7	62.5	103.7	63.2
Debt service-to-exports ratio	...	2.1	2.9	3.5	5.0	6.4	6.5	6.6	5.9	4.5	4.0	3.9	4.0	4.2	4.3	4.6	4.9	5.1	5.3	5.4	5.6	4.7	4.7
Debt service-to-revenue ratio 4/	...	1.9	2.4	2.7	3.5	4.4	4.3	4.2	3.7	2.7	2.4	2.3	2.4	2.5	2.6	2.8	3.0	3.2	3.3	3.5	3.7	3.2	2.9
After traditional debt relief 5/																							
NPV of debt-to-GDP ratio	10.7	11.9	11.0	10.5	10.1	9.7	9.1	8.5	8.2	7.9	7.8	7.7	7.7	7.8	7.9	8.0	8.1	8.2	8.3	8.3	8.4	9.6	8.0
NPV of debt-to-exports ratio 2/ 3/	181.9	187.5	170.7	164.2	159.5	153.1	144.5	134.7	129.0	125.0	121.9	118.7	116.1	114.0	112.6	111.4	110.1	108.7	107.0	105.1	103.0	152.0	110.7
NPV of debt-to-revenue ratio 4/	153.4	146.3	127.4	114.4	104.5	95.4	85.9	77.6	71.9	67.3	65.2	63.4	62.4	62.3	62.4	62.5	62.5	62.4	62.2	62.0	61.9	100.9	62.4
Debt service-to-exports ratio	...	1.9	2.8	3.4	4.9	6.4	6.5	6.7	6.0	4.6	4.0	3.9	4.1	4.3	4.4	4.7	4.9	5.2	5.3	5.5	5.7	4.7	4.8
Debt service-to-revenue ratio 4/	...	1.8	2.2	2.6	3.5	4.4	4.3	4.2	3.7	2.7	2.4	2.3	2.4	2.6	2.7	2.9	3.0	3.2	3.4	3.5	3.7	3.2	3.0
After conditional delivery of enhanced HIPC assistance																							
NPV of debt-to-GDP ratio	11.1	6.8	6.5	6.4	6.4	6.3	6.1	5.9	5.8	5.8	5.9	6.0	6.2	6.5	6.7	7.0	7.3	7.5	7.8	8.0	8.2	6.6	7.1
NPV of debt-to-exports ratio 2/ 3/	189.4	106.8	100.5	99.9	100.8	100.2	97.2	92.9	91.7	91.6	92.3	92.8	93.4	94.4	95.8	97.3	98.7	99.8	100.6	101.0	100.9	105.7	97.5
NPV of debt-to-exports ratio (existing debt only)	189.4	75.0	65.6	61.2	56.3	50.6	45.2	40.0	35.3	31.5	28.4	25.5	23.0	20.8	19.0	17.2	15.6	14.0	12.5	11.1	9.5	61.7	16.8
NPV of debt-to-revenue ratio 4/	159.7	83.4	75.0	69.6	66.0	62.4	57.8	53.5	51.1	49.4	49.3	49.5	50.2	51.6	53.1	54.6	56.0	57.3	58.5	59.6	60.6	70.7	55.1
Debt service-to-exports ratio	...	1.6	1.3	1.4	2.2	2.9	3.0	3.2	3.2	2.8	2.6	2.5	2.7	2.8	2.9	3.0	3.2	3.3	3.5	3.7	4.0	2.4	3.2
Debt service-to-revenue ratio 4/	...	1.4	1.1	1.0	1.5	2.0	2.0	2.1	2.0	1.7	1.5	1.5	1.6	1.7	1.7	1.8	2.0	2.1	2.2	2.4	2.6	1.6	2.0
After unconditional delivery of enhanced HIPC assistance 6/																							
NPV of debt-to-GDP ratio	5.2	6.8	6.5	6.4	6.4	6.3	6.1	5.9	5.8	5.8	5.9	6.0	6.2	6.5	6.7	7.0	7.3	7.5	7.8	8.0	8.2	6.1	7.1
NPV of debt-to-exports ratio 2/ 3/	88.3	106.8	100.5	99.9	100.8	100.2	97.2	92.9	91.7	91.6	92.3	92.8	93.4	94.4	95.8	97.3	98.7	99.8	100.6	101.0	100.9	96.6	97.5
NPV of debt-to-exports ratio (existing debt only)	88.3	75.0	65.6	61.2	56.3	50.6	45.2	40.0	35.3	31.5	28.4	25.5	23.0	20.8	19.0	17.2	15.6	14.0	12.5	11.1	9.5	52.5	16.8
NPV of debt-to-revenue ratio 4/	74.5	83.4	75.0	69.6	66.0	62.4	57.8	53.5	51.1	49.4	49.3	49.5	50.2	51.6	53.1	54.6	56.0	57.3	58.5	59.6	60.6	62.9	55.1
Debt service-to-exports ratio	...	1.6	1.3	1.4	2.2	2.9	3.0	3.2	3.2	2.8	2.6	2.5	2.7	2.8	2.9	3.0	3.2	3.3	3.5	3.7	4.0	2.4	3.2
Debt service-to-revenue ratio 4/	...	1.4	1.1	1.0	1.5	2.0	2.0	2.1	2.0	1.7	1.5	1.5	1.6	1.7	1.7	1.8	2.0	2.1	2.2	2.4	2.6	1.6	2.0
After beyond HIPC assistance 7/																							
NPV of debt-to-GDP ratio	9.9	5.8	5.6	5.6	5.7	5.7	5.6	5.4	5.4	5.4	5.5	5.7	5.9	6.2	6.5	6.8	7.1	7.3	7.6	7.8	8.0	6.0	6.9
NPV of debt-to-exports ratio 2/ 3/	168.5	90.8	87.0	87.9	89.9	90.4	88.5	85.1	84.6	85.2	86.5	87.6	88.8	90.3	92.1	94.0	95.8	97.3	98.4	99.1	99.3	95.0	94.3
NPV of debt-to-exports ratio (existing debt only)	168.5	59.0	52.2	49.2	45.4	40.9	36.5	32.2	28.2	25.2	22.6	20.4	18.4	16.7	15.3	13.9	12.6	11.4	10.3	9.2	7.9	50.9	13.6
NPV of debt-to-revenue ratio 4/	142.1	70.9	65.0	61.2	58.9	56.4	52.6	49.0	47.2	45.9	46.3	46.8	47.8	49.3	51.0	52.7	54.3	55.8	57.2	58.5	59.6	63.2	53.3
Debt service-to-exports ratio	...	1.4	0.7	0.7	1.6	2.4	2.6	2.9	3.0	2.6	2.4	2.4	2.5	2.6	2.7	2.8	3.0	3.2	3.3	3.6	3.8	2.0	3.0
Debt service-to-revenue ratio 4/	...	1.2	0.6	0.5	1.1	1.7	1.7	1.8	1.8	1.5	1.4	1.4	1.5	1.6	1.6	1.7	1.8	2.0	2.1	2.3	2.5	1.3	1.8
After conditional delivery of enhanced HIPC, beyond HIPC, and MDRI assistance 7/ 8/																							
NPV of debt-to-GDP ratio	11.1	5.7	5.5	5.5	5.6	5.7	5.5	5.3	5.3	5.4	5.5	5.6	5.9	6.1	6.4	6.7	7.0	7.3	7.6	7.8	8.0	6.0	6.9
NPV of debt-to-exports ratio 2/ 3/	189.4	89.3	85.7	86.6	88.7	89.3	87.4	84.1	83.8	84.4	85.8	87.0	88.2	89.7	91.6	93.5	95.3	96.8	98.0	98.7	99.0	95.9	93.8
NPV of debt-to-exports ratio (existing debt only)	189.4	57.5	50.8	47.9	44.3	39.8	35.4	31.2	27.4	24.3	21.9	19.7	17.8	16.1	14.7	13.4	12.2	11.0	9.9	8.8	7.6	51.8	13.1
NPV of debt-to-revenue ratio 4/	159.7	69.7	64.0	60.3	58.1	55.7	52.0	48.5	46.7	45.5	45.9	46.4	47.4	49.0	50.7	52.5	54.1	55.6	57.0	58.3	59.4	64.2	53.0
Debt service-to-exports ratio	...	1.4	0.6	0.6	1.5	2.4	2.5	2.8	2.9	2.5	2.3	2.3	2.5	2.6	2.7	2.8	2.9	3.1	3.3	3.5	3.8	2.0	3.0
Debt service-to-revenue ratio 4/	...	1.3	0.5	0.5	1.1	1.6	1.6	1.8	1.8	1.5	1.4	1.4	1.5	1.6	1.6	1.7	1.8	2.0	2.1	2.3	2.5	1.3	1.8

Sources: Afghan authorities; and IMF and World Bank staff estimates and projections.
1/ All debt indicators refer to public and publicly guaranteed (PPG) debt at March 20, 2009.
2/ Exports are defined as in IMF, *Balance of Payments Manual* , 5th edition, 1993.
3/ Based on a three-year average of exports on the previous year (e.g., export average over 2006–08 for NPV of debt-to-exports ratio in 2008).
4/ Revenue is defined as central government revenue, excluding grants.
5/ Assumes a hypothetical stock of debt operation on Naples terms and comparable treatment from other bilateral creditors.
6/ Assumes full delivery of estimated HIPC initiative debt relief at March 20, 2009.
7/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework as specified on Table 15.
8/ Assumes MDRI assistance from the World Bank after the completion point (November 2009). Also assumes that MDRI has no impact on Afghanistan's new borrowing over the projection period.

Table 10. Islamic Republic of Afghanistan: Sensitivity Analysis, 2008/09–28/29 1/

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Averages 2008-2018	Averages 2019-2028
	(In percent, unless otherwise indicated)																						
I. Baseline scenario 2/																							
NPV of debt-to-GDP ratio	5.2	6.8	6.5	6.4	6.4	6.3	6.1	5.9	5.8	5.8	5.9	6.0	6.2	6.5	6.7	7.0	7.3	7.5	7.8	8.0	8.2	6.1	7.1
NPV of debt-to-exports ratio 3/ 4/	88.3	106.8	100.5	99.9	100.8	100.2	97.2	92.9	91.7	91.6	92.3	92.8	93.4	94.4	95.8	97.3	98.7	99.8	100.6	101.0	100.9	96.6	97.5
NPV of debt-to-revenue ratio 5/	74.5	83.4	75.0	69.6	66.0	62.4	57.8	53.5	51.1	49.4	49.3	49.5	50.2	51.6	53.1	54.6	56.0	57.3	58.5	59.6	60.6	62.9	55.1
Debt service-to-exports ratio	...	1.6	1.3	1.4	2.2	2.9	3.0	3.2	3.2	2.8	2.6	2.5	2.7	2.8	2.9	3.0	3.2	3.3	3.5	3.7	4.0	2.4	3.2
Debt service-to-revenue ratio	...	1.4	1.1	1.0	1.5	2.0	2.0	2.1	2.0	1.7	1.5	1.5	1.6	1.7	1.7	1.8	2.0	2.1	2.2	2.4	2.6	1.6	2.0
II. Sensitivity analysis																							
II.(a) Lower GDP growth 6/																							
NPV of debt-to-GDP ratio	5.2	6.8	6.7	6.9	7.2	7.4	7.5	7.4	7.7	8.1	8.6	9.1	9.7	10.3	10.9	11.6	12.3	13.0	13.7	14.5	15.2	7.2	12.0
NPV of debt-to-exports ratio 3/ 4/	88.3	106.8	101.5	103.4	107.8	111.1	111.7	110.7	113.7	118.8	125.7	133.5	141.9	150.8	160.7	170.7	180.7	189.9	199.4	208.6	217.3	109.0	175.4
NPV of debt-to-revenue ratio 5/	74.5	83.4	78.2	77.1	77.6	78.0	75.8	73.8	74.3	75.8	80.0	84.6	89.5	95.0	101.3	107.1	113.2	119.4	126.1	132.9	139.2	77.1	110.8
Debt service-to-exports ratio	...	1.6	1.5	1.7	2.7	3.7	4.0	4.5	4.8	4.7	4.8	5.2	6.0	7.1	8.0	9.0	10.5	12.0	13.4	15.2	17.2	3.4	10.4
Debt service-to-revenue ratio	...	1.5	1.2	1.3	2.1	2.8	2.9	3.2	3.3	3.2	3.2	3.4	4.0	4.7	5.3	5.9	6.9	7.9	8.9	10.2	11.5	2.5	6.9
II.(b) Lower exports 7/																							
NPV of debt-to-GDP ratio	5.2	6.8	6.6	6.5	6.5	6.4	6.2	5.9	5.9	5.9	6.0	6.1	6.3	6.5	6.8	7.1	7.4	7.6	7.9	8.1	8.3	6.2	7.2
NPV of debt-to-exports ratio 3/ 4/	88.3	113.4	112.2	117.5	118.5	117.8	114.3	109.3	107.9	107.8	108.6	109.2	109.9	111.1	112.7	114.5	116.1	117.4	118.4	118.8	118.7	110.5	114.7
NPV of debt-to-revenue ratio 5/	74.5	83.4	75.0	69.6	66.0	62.4	57.8	53.5	51.1	49.4	49.3	49.5	50.2	51.6	53.1	54.6	56.0	57.3	58.5	59.6	60.6	62.9	55.1
Debt service-to-exports ratio	...	1.9	1.6	1.6	2.5	3.4	3.5	3.8	3.8	3.3	3.0	3.0	3.1	3.3	3.4	3.5	3.7	3.9	4.1	4.4	4.8	2.8	3.7
Debt service-to-revenue ratio	...	1.4	1.1	1.0	1.5	2.0	2.0	2.1	2.0	1.7	1.5	1.5	1.6	1.7	1.7	1.8	2.0	2.1	2.2	2.4	2.6	1.6	2.0
II.(c) Lower transfers/grants 8/																							
NPV of debt-to-GDP ratio	5.2	6.9	6.8	6.8	7.2	7.5	7.4	7.3	7.7	8.3	8.9	9.6	10.3	11.1	11.9	12.7	13.4	14.1	14.7	15.2	15.7	7.3	12.9
NPV of debt-to-exports ratio 3/ 4/	88.3	109.2	104.8	106.1	113.4	118.9	117.6	115.1	122.1	130.5	139.3	147.3	154.6	161.7	169.0	176.1	182.0	186.8	190.3	192.6	193.8	115.0	175.4
NPV of debt-to-revenue ratio 5/	74.5	85.2	78.5	74.2	74.8	74.5	70.5	66.9	68.7	71.0	75.2	79.1	83.6	88.8	94.0	99.2	103.8	107.7	111.3	114.4	117.1	74.0	99.9
Debt service-to-exports ratio	...	1.6	1.4	1.6	2.5	3.3	3.5	3.8	3.9	3.7	3.6	3.7	4.2	4.8	5.1	5.5	6.1	6.6	7.1	7.7	8.2	2.9	5.9
Debt service-to-revenue ratio	...	1.5	1.2	1.2	1.8	2.3	2.3	2.4	2.4	2.2	2.1	2.2	2.5	2.9	3.1	3.4	3.8	4.2	4.5	5.0	5.4	1.9	3.7

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

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after HIPC debt relief assumed delivered unconditionally at March 20, 2009.

2/ The baseline scenario is described in Section III.

3/ As defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.

4/ Based on a three-year average of exports on the previous year (e.g., export average over 2006–08 for NPV of debt-to-exports ratio in 2008).

5/ Revenue is defined as central government revenue, excluding grants.

6/ Assumes lower GDP growth: real GDP growth is 1.5 percentage points lower each year than in the baseline scenario, starting 1388 (2009/10).

7/ Assumes lower exports: export prices are 15 percent lower than in the baseline starting in 1388 (2009/10).

8/ Assumes lower transfers/grants: grants are 1pp of GDP lower each year starting in 1388 (2009/10).

Table 11. Islamic Republic of Afghanistan: Status of Creditor Participation under the Enhanced HIPC Initiative 1/

	Debt relief in NPV terms (US$ millions)	Percentage of total assistance	Modalities to deliver debt relief
IDA	76	13.0	Debt relief delivered through debt service reduction during the interim period amounts to US$8.6 million in NPV terms. IDA is assumed to deliver the remaining share of HIPC debt relief by a 75.6 percent reduction to the debt service falling due from March 2010 until June 2027.
Asian Development Bank	59	10.2	Debt relief delivered through debt service reduction during the interim period amounts to US$2.0 million in NPV terms. ADB is assumed to deliver the remaining share of HIPC debt relief by a 76 percent reduction to the debt service falling due until February 2028.
OPEC Fund	1	0.2	Debt relief provided through a concessional rescheduling of accrued arrears and maturities during the interim period amounts to US$453,000 in NPV terms. OFID is assumed to deliver the remining HIPC assistance through debt service reduction or a new concessional rescheduling at the completion point.
Total multilateral	**136**	**23.4**	
Paris Club Creditors	423	72.5	Interim assistance has been delivered through a Cologne flow during the interim period.
Non-Paris Club Creditors	23	4.0	
Bulgaria	8	1.4	
Iraq	2	0.3	Creditor provided outright cancelation of its HIPC-eligible claims.
Kuwait	3	0.6	
Saudi Arabia	4	0.6	Creditor provided outright cancelation of its HIPC-eligible claims.
Slovak Republic	5	0.9	Creditor provided outright cancelation of its HIPC-eligible claims.
Croatia	0	0.0	Creditor provided outright cancelation of its HIPC-eligible claims.
Iran, Islamic Republic of	2	0.3	
Commercial creditors	0	0.0	
Total bilateral and commercial	**446**	**76.6**	
TOTAL	**582**	**100.0**	

Sources: Afghan authorities; and IMF and World Bank staff estimates.
1/ The data are in March 20, 2006 NPV terms as revised at completion point.

Table 12. Islamic Republic of Afghanistan.: Delivery of IDA Assistance Under the Enhanced HIPC Initiative and the MDRI, 2006/07-2043/44 1/

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

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2029/30	2043/44	Cumulative 2006/07-2019/20	Cumulative 2020/21-2043/44
I. Relief under the Enhanced HIPC Initiative																	
Debt service before HIPC assistance 1/	4.8	4.7	4.7	5.7	5.7	5.7	5.7	8.5	11.9	13.5	13.4	13.3	13.3	17.6	10.2	114.6	512.1
of which principal	2.5	2.5	2.5	2.5	2.5	2.5	2.5	5.4	8.8	10.4	10.4	10.4	10.4	15.9	10.2	63.1	437.6
of which interest	2.2	2.2	2.2	3.2	3.2	3.2	3.2	3.2	3.1	3.0	3.0	2.9	2.8	1.7	0.1	35.8	74.5
Debt service after HIPC assistance 1/	4.8	2.6	1.2	2.2	2.2	2.2	2.2	3.1	5.2	6.2	6.1	6.1	6.1	17.6	10.2	48.8	386.3
of which principal	2.5	1.6	0.6	0.6	0.6	0.6	0.6	1.8	3.7	4.7	4.7	4.7	4.7	15.9	10.2	31.9	340.5
of which interest	2.2	1.1	0.6	1.6	1.6	1.6	1.6	1.3	1.5	1.5	1.5	1.4	1.4	1.7	0.1	16.9	45.8
Savings on debt service to IDA 2/	0.0	2.1	3.5	3.5	3.5	3.5	3.5	5.4	6.7	7.3	7.3	7.2	7.2	0.0	0.0	65.8	125.8
of which principal	0.0	1.0	1.9	1.9	1.9	1.9	1.9	3.8	5.1	5.8	5.8	5.8	5.8	0.0	0.0	47.2	97.6
of which interest	0.0	1.1	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.4	1.4	0.0	0.0	18.6	28.2
II. Relief under the MDRI 3/																	
Projected stock of IDA credits outstanding at implementation date 4/			430.8														
Remaining IDA credits after MDRI			359.4														
Debt stock reduction on eligible credits 3/ 5/			71.3														
Due to HIPC relief 6/			35.6														
Due to MDRI			35.7														
Debt service due after HIPC relief and the MDRI					1.4	1.4	1.4	2.2	4.3	5.3	5.2	5.2	5.2	16.0	10.0	41.9	336.7
Memorandum item:																	
Debt service to IDA covered by HIPC assistance (in percent) 7/		44.5	74.8	74.9	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	0.0	0.0	57.4	24.6
Debt service to IDA covered by HIPC assistance and MDRI (in percent) 8/			100.0	100.0	74.9	74.8	74.7	74.6	64.1	61.0	61.0	61.0	61.0	9.3	2.1	63.5	34.3
IDA debt service relief under the MDRI (in SDR) 9/			0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	1.1	0.0	6.6	25.5

Source: IDA staff estimates.

1/ Debt service till end fiscal year 2008/09 is estimated on debt outstanding as of March 20, 2006. From March 21 2009 onwards, principal and interest due to IDA correspond to prorated projections on disbursed and outstanding debt as of end fiscal year 2008/09, converted to U.S. dollar.
2/ Enhanced HIPC assistance till January 2010 as approved by the Board of IDA in June 2007 (IDA/R2007-0239). After Januar 2010, HIPC assistance based on revised schedule.
3/ Stock of debt and debt service denominated in SDRs are converted into U.S. dollar by applying the March 2009 exchange rate.
4/ Stock of debt outstanding on March 31st, 2010.
5/ Debt disbursed as of December, 31 2003 and still outstanding at the end-March 2010.
6/ HIPC relief is assumed to proportionally reduce repayments of principal and charges on IDA credits disbursed as of end-December 2003 and still outstanding as of March, 31 2009.
7/ Based on debt disbursed and outstanding as of March 20 2006.
8/ Based on debt disbursed and outstanding as of March 2009.
9/ For SDR denominated credits, debt relief under the MDRI is estimated as debt service on SDR denominated credits minus USD-based HIPC debt relief on these credits. HIPC debt relief is converted into SDR equivalent amounts, from July 2009 onwards, by applying the IDA15 foreign exchange reference rate of 1.524480 U.S. dollars per SDR. For USD denominated credits, debt relief under the MDRI is estimated as debt service on USD denominated credits minus USD-based HIPC debt relief on these credits. The resulting MDRI debt relief amounts are converted into SDR equivalent amounts by applying the IDA15 foreign exchange reference rate.

Table 13. HIPC Initiative: Status of Country Cases Considered Under the Initiative, June 30, 2009

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral and commercial	Multilateral Total	Multilateral IMF	Multilateral World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework (26)											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
topping-up	*…*	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Burundi	Aug. 05	Jan. 09	150		833	127	706	28	425	92	1,366
Cameroon	Oct. 00	Apr. 06	*150*		1,267	879	322	37	176	27	4,917
Central African Rep.	Sept. 07	Jun. 09	150		578	186	362	27	207	68	804
Ethiopia					1,982	637	1,315	60	832		3,275
enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Gambia, The	Dec. 00	Dec. 07	150		67	17	49	2	22	27	112
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
enhanced framework	*Nov. 00*	*Dec. 03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Haiti	Nov. 06	Jun. 09	150		140	20	120	3	53	15	213
Honduras	Jul. 00	Mar. 05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	*Oct. 04*	150		836	474	362	19	252	40	1,900
Malawi					1,057	171	886	45	622		1,628
enhanced framework	*Dec. 00*	*Aug. 06*	*150*		*646*	*164*	*482*	*30*	*333*	*44*	*1,025*
topping-up	*…*	*Aug. 06*	*150*		*411*	*7*	*404*	*15*	*289*	*35*	*603*
Mali					539	169	370	59	185		895
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
enhanced framework	*Dec. 00*	*Apr. 04*	*150*		*521*	*211*	*309*	*28*	*170*	*53*	*944*
topping-up	*…*	*Apr. 04*	*150*		*143*	*23*	*119*	*14*	*70*	*25*	*246*
Rwanda					696	65	631	63	383		1,316
enhanced framework	*Dec. 00*	*Apr. 05*	*150*		*452*	*56*	*397*	*44*	*228*	*71*	*839*
topping-up	*…*	*Apr. 05*	*150*		*243*	*9*	*235*	*20*	*154*	*53*	*477*
São Tomé and Príncipe					124	31	93	1	47	128	263
enhanced framework	*Dec. 00*	*Mar. 07*	*150*		*99*	*29*	*70*	*-*	*24*	*83*	*215*
topping-up	*…*	*Mar. 07*	*150*		*25*	*2*	*23*	*1*	*23*	*45*	*49*
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Sierra Leone	Mar. 02	Dec. 06	150		675	335	340	125	123	81	994
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Zambia	Dec. 00	Apr. 05	150		2,499	1,168	1,331	602	493	63	3,900
Decision point reached under enhanced framework (9)											
Afghanistan	Jul. 07	Floating	150		571	436	135	-	75	51	1,272
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Cote d'Ivoire	Mar. 09	Floating	250	250	3,005	2,311	694	38	402	24	3,129
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Congo Rep. of	Mar. 06	Floating		250	1,679	1,561	118	8	49	32	2,881
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Liberia	Mar. 08	Floating	150		2,846	1,420	1,426	732	375	91	4,008
Togo	Nov. 08	Floating		250	270	120	150	0.3	98	19	360
Total assistance provided/committed					**42,690**	**21,876**	**20,686**	**3,407**	**9,729**		**71,664**

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations

1/ Assistance levels are at countries' respective decision or completion points, as applicable

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

Table 14. Paris Club Creditors' Delivery of Debt Relief under Bilateral Initiatives Beyond the HIPC Initiative 1/

	Countries covered	ODA (in percent)		Non-ODA (in percent)		Provision of relief	
		Pre-cutoff date debt	Post-cutoff date debt	Pre-cutoff date debt	Post-cutoff date debt	Decision point (In percent)	Completion point
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Australia	HIPCs	100	100	100	100		
Austria	HIPCs	100	-	100	-	Case-by-case, flow	Stock
Belgium	HIPCs	100	100	100	-	100 flow	Stock
Canada	HIPCs 2/	- 3/	- 3/	100	100	100 flow	Stock
Denmark	HIPCs	100	100 4/	100	100 4/	100 flow	Stock
France	HIPCs	100	100	100	-	100 flow 5/	Stock
Finland	HIPCs	100	- 6/	100	- 6/	-	-
Germany	HIPCs	100	100	100	100	100 flow	Stock
Ireland	-	-	-	-	-	-	-
Italy	HIPCs	100	100 7/	100	100 7/	100 flow	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands, the	HIPCs	100 8/	100	100	-	90-100 flow 8/	Stock 8/
Norway	HIPCs	9/	9/	10/	10/	-	-
Russia	HIPCS	- 11/	- 11/	100	100	-	Stock
Spain	HIPCs	100	Case-by-case	100	Case-by-case	-	Stock
Sweden	HIPCs	-	- 12/	100	-	-	Stock
Switzerland	HIPCs	- 13/	- 13/	90-100 14/	-	90-100 flow	Stock
United Kingdom	HIPCs	100	100	100	100 15/	100 flow 15/	Stock
United States	HIPCs	100	100	100	100 16/	100 flow	Stock

Source: Paris Club Secretariat.

1/ Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table indicates that the debt relief provided under the enhanced HIPC Initiative framework will be topped up to 100 percent through a bilateral initiative.

2/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100% cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania.

3/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

4/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

5/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

6/ Finland: no post-COD claims

7/ Italy: cancellation of 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

8/ The Netherlands: 100 percent ODA (pre- and post-cutoff date debt will be cancelled at decision point); for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 per cent cancellation of the remaining stock of the pre-cutoff date debt.

9/ Norway has cancelled all ODA claims.

10/ Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100% debt reduction until after the completion point.

11/ Russia has no ODA claims

12/ Sweden has no ODA claims.

13/ Switzerland has cancelled all ODA claims.

14/ In some particular cases (Central African Republic, Liberia, Republic of Congo, Sierra Leone, Togo), Switzerland will write off 100 percent of the remaining debt stock at completion point; all other HIPCs will receive debt relief according to Paris Club terms.

15/ United Kingdom: "beyond 100 percent" full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

16/ United States: 100 percent post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

Appendix I—Debt Management Capacity

1. The Debt Management Unit (DMU) of the Ministry of Finance (MoF) is the main unit responsible for debt management in Afghanistan.[1] The work of the DMU is mostly in the area of a back-office, responsible for monitoring and reporting of the external debt stock, disbursements, and debt service and is responsible for initiating debt service payments. Analysis and risk management functions remain weak. Since the decision point, the government has achieved significant progress in improving debt management processes:

(i) The DMU has managed to address significant technical and human resource constraints. The authorities acquired new computers and use specialized debt management software, CS-DRMS. The database is currently complete and up-to-date as became evident during the reconciliation processes for the completion point of the Enhanced HIPC Initiative.

(ii) The number of staff has increased from 2 to 5 but retention of qualified staff has proven difficult. Skill level of staff varies considerably at the moment, but the DMU addresses this problem through on-going training. In addition, a U.S. Treasury advisor provides significant support to the DMU. As a result, the DMU has currently a sufficient number of staff with adequate training for the tasks that the DMU performs. However, business continuity is always at risk due to the small number of staff and the limited ability to retain key staff. In addition, better training would be necessary to perform more analytical tasks, like a debt sustainability analysis

(iii) The DMU publishes quarterly debt reports that include information by creditor on debt stocks, disbursements and debt service payments for the preceding quarter, and projected disbursements and debt service for the next three quarters.

2. In other areas, there remains room for improvement in order to effectively perform debt management functions.

(i) Debt management is not guided by a formal debt management strategy even though the DMU provides information on the existing debt stock, disbursements expected during the coming year, as well as limits on total guarantees and debt for submission with the Budget. Similarly, the authorities have never undertaken a debt sustainability analysis.

(ii) The Public Finance and Expenditure Management (PFEM) Law, which provides the legal framework for debt management, lacks comprehensiveness and clarity with regard to segregation of duties of the different entities involved in debt management.

[1] Prior to 2003, the central bank, Da Afghanistan Bank, had responsibility for debt management and records.

(iv) A Special Disbursement Unit, which is responsible for monitoring disbursements and facilitates information sharing, informs the DMU about disbursements from certain creditors. However, disbursements from other creditors are not reported to the DMU in a systematic manner.

(ii) The institutional setting should facilitate coordination between debt management and macroeconomic policies. Currently, coordination and information sharing remain ad hoc.

(iii) The DMU compares payments notices with its own records but still relies heavily on creditor information. Also, procedures for only authorizing debt service payments in local currency create a risk against potential exchange rate movements at the time payments are executed. The most important challenge going forward is to consolidate the gains achieved so far in debt management. The DMU should focus on: (i) maintaining their database including better tracking of disbursements; (ii) increase the number of skilled staff, and provide training to existing staff to ensure a sufficient skill level of all staff; and (iii) building capacity to undertake analytical work.

Appendix II—Afghanistan: Debt Sustainability Analysis Using the Debt Sustainability Framework

According to this analysis based on the joint IMF-World Bank debt sustainability framework for low-income countries,[1 2] Afghanistan has a high risk of debt distress. After debt relief under the enhanced HIPC initiative and MDRI, Afghanistan's external and public debt burden indicators improve significantly in the short to medium term. However, the debt sustainability analysis shows that the substantial financing needs would lead to a rapid deterioration of debt burden indicators if met with loans, even if concessional. Stress testing and a country-specific alternative scenario illustrate the vulnerability to macroeconomic shocks, especially on the terms of trade for exports and lack of security impacting investment and growth.

1. **This debt sustainability analysis (LIC DSA) for Afghanistan assesses its public and external debt dynamics using the forward-looking debt sustainability framework (DSF) for low-income countries.** The LIC DSA uses the reconciled debt database prepared for the completion point HIPC DSA, and incorporates the impact of HIPC, additional bilateral assistance beyond HIPC, and MDRI relief in the baseline scenario. The LIC DSA and the HIPC DSA share the same macroeconomic assumptions in the baseline and alternative scenarios, but differ in four key areas: (i) the discount rate in the LIC DSA is fixed at 4 percent, compared to the currency-specific 6-month averages of commercial interest reference rates (CIRR) used in the HIPC DSA; (ii) WEO exchange rate assumptions are used for calculating the present value of debt in the LIC DSA, while actual exchange rates at end-2008 are used in the HIPC DSA; (iii) the exports denominator in the LIC DSA is based on the current level of exports of goods and services, rather than the three-year backward-looking average in the HIPC DSA; and (iv) the baseline in the LIC DSA assumes that IDA assistance is delivered in the form of concessional loans, rather than mainly grants as in the HIPC DSA.

2. **Despite HIPC and MDRI debt relief, Afghanistan will remain at a high risk of debt distress.** This reflects the very low level of economic and institutional development in the country and substantial new projected borrowing for both development spending and

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[1] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm)

[2] The LIC DSA compares the evolution over the projection period of debt-burden indicators against policy-dependent indicative thresholds, using the three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA). With an average CPIA of 2.6, Afghanistan is classified as a "weak performer" according to the DSF.

security expenses. Since 2002, progress has been made in developing institutions and maintaining macroeconomic stability, but the government remains heavily dependent on aid flows for reconstruction needs and on foreign security forces to maintain stability. Should the security situation or governance not improve in the medium-term, investments and growth could be even lower than projected in the baseline.

3. **There are several differences in this LIC DSA compared to previous one.**[3] First, debt relief is incorporated into the baseline, rather than underpinning an alternative scenario. Second, there is slightly lower inflation and a small real exchange rate appreciation. Third, due to the security situation and drought, the economy is in a worse position than where it had been projected to be at the last DSA. .

A. Recent Developments

4. **Afghanistan's external public and publicly guaranteed (PPG) debt burden decreased slightly in 2008/09.** Despite some disbursements from multilateral loans signed before Afghanistan became a grant-only country for IDA and the AsDB, GDP growth ensured the nominal increase in debt was offset, leading to a lower debt-to-GDP ratio. The bulk of the PPG debt, which totaled 19 percent of GDP in 2008/09, is owed to Paris Club and multilateral creditors. Payments on Paris Club debts continue to be capitalized into the stock, while the grace periods for multilateral debts are still in effect.

[3] Published as IDA report No. 45215 in August 2008 and as a staff supplement to the IMF Country Report 08/229.

Islamic Republic of Afghanistan: PPG External Debt, 2008/09–2013/14

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		Projected				
	(In millions of U.S. dollars)					
Total government external debt	2,103.9	1,449.6	1,737.7	2,304.1	2,922.1	3,564.0
Bilateral creditors	1,102.7	13.6	13.6	13.2	12.7	12.2
Of which: Paris Club creditors	975.9	0.0	0.0	0.0	0.0	0.0
Multilateral creditors	1,000.5	1,436.0	1,724.1	2,290.8	2,909.4	3,551.8
Of which: use of Fund resources	87.3	114.8	122.7	122.7	115.6	103.2
Service on government external debt 4/	14.8	14.8	16.9	20.3	34.9	53.9
Of which: to the Fund	1.8	2.0	2.3	2.3	9.7	14.8
Amortization paid	4.0	3.7	3.4	3.5	12.8	25.8
Of which: to the Fund	0.0	0.0	0.0	0.0	7.4	12.6
Interest paid	10.7	11.1	13.5	16.8	22.1	28.2
Of which: to the Fund	1.8	2.0	2.3	2.3	2.2	2.2
	(In percent of GDP)					
Total government external debt	18.0	11.2	11.7	14.0	16.1	17.8
Bilateral creditors	9.4	0.1	0.1	0.1	0.1	0.1
Of which: Paris Club creditors	8.3	0.0	0.0	0.0	0.0	0.0
Multilateral creditors	8.5	11.1	11.6	13.9	16.0	17.8
Of which: use of Fund resources	0.7	0.9	0.8	0.7	0.6	0.5
Service on government debt	0.1	0.1	0.1	0.1	0.2	0.3
Amortization	0.0	0.0	0.0	0.0	0.1	0.1
Interest	0.0	0.0	0.0	0.0	0.0	0.0

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

B. Key Assumptions

5. **The baseline macroeconomic outlook reflects recent developments.** After the food and fuel price shocks, as well as the drought in 2008, inflation has subsided and real growth has rebounded. In the medium term, real GDP growth is expected to average 7 percent. The baseline scenario assumes economic stability, a gradual improvement in security over the next five years, improvements in tax and customs administration, and public enterprise reform. It also assumes that investments in large-scale mining projects, such as the Aynak copper mine, materialize in the medium term, while improvements in governance and increased efficiency of development spending raise growth. However, the government remains heavily dependent on grants to finance both development and operating expenditures, and these are expected to continue to remain large in nominal terms, albeit as a decreasing share of GDP. All this depends on governance improving over the near term. Finally, it is assumed that regional stability and higher global growth would allow for increasing trade flows over time.

Box 1. Islamic Republic of Afghanistan: Baseline Macroeconomic Assumptions

For the short term, the baseline scenario assumes that real GDP will grow by about 15 percent in 2009/10, due to a faster-than-expected recovery of agricultural output and the impact of increased security spending. Headline inflation is projected to be about 6 percent (year-on-year) by March 2010 and to average -9 percent for the fiscal year. **For the medium term**, the baseline scenario assumes: (i) continuing macroeconomic stability and liberal policies toward international trade and foreign investment; (ii) completion of an ambitious restructuring and privatization program by 2012; (iii) stabilization of the security situation by about 2015; and (iv) further structural reforms to governance, the judiciary, and the business environment.

Real growth of non-opium GDP in the baseline scenario is projected to average 7 percent in 2010-2015 and to increase to 7.5 percent by 2020 as security and the business environment improve. The higher growth during this period would be driven by FDI inflows to mining and hydropower projects, earnings from minerals exports, a gradual conversion of opium-growing areas to legal crops, and increased industrial and service activity. By 2029, growth is projected to settle at about 4.5 percent, the same as in the HIPC Decision Point document. As a result, growth is projected to average 5.7 percent over the period 2015–29.

Inflation, after jumping in 2008/09 and falling to about 6 percent by March 2010, is projected to settle to about 4 percent during 2012–2029. The baseline assumes a slight real appreciation of the Afghani over the long term, consistent with productivity growth.

External grants, channeled through and outside the budget, are expected to remain substantial in absolute amounts throughout the period, albeit declining as a percentage of GDP. Total external grants, comprising grants to the core budget and to the external budget, are projected to fall from US$6.5 billion (50 percent of GDP) in 2009/10 to about US$3.7 billion (5 percent of GDP) by 2029. Operating expenditure grants are projected to be eventually phased out, while grants executed outside the budget are steadily redirected to budgetary development expenditures.

As external grants decrease, the role of **external loans** will grow. From about US$100 million in 2009/10, gross foreign borrowing is projected to increase to about US$2.1 billion by 2029. This borrowing is assumed to remain on concessional terms, with IDA credits disbursed in the form of loans.

Investment is expected to be exceptionally high until about 2020. With the help of external financing for core development expenditures, public investment is projected to average 14 percent of GDP through 2020, and to settle at about 6 percent of GDP by 2029. Meanwhile, FDI inflows to the mining and hydropower sectors and, later, to domestic industries and services, are envisaged to push up private investment to above 13 percent of GDP by 2029.

The **external current account** is projected to steadily improve. Excluding official transfers, the current account deficit is projected to fall from about 55 percent of GDP in 2009/10 to 10 percent by 2029. Although capital goods purchases related to investments in mining and hydropower will increase imports during the first half of the projection period, this effect will be more than offset by the decline in donor-driven imports and the increase in mineral exports.

Fiscal accounts: Relatively strong growth, combined with continued improvements in tax and customs administration would raise domestic revenues to about 13.5 percent of GDP by 2029. Operating expenditures are projected to increase to around 15 percent of GDP during 2009–2015 due to the security buildup, and to settle at about 11 percent of GDP through 2029. The scenario assumes marginal privatization proceeds and small domestic public borrowing. The **real interest rate on domestic currency debt** would be about 3 percent.

6. **Risks to the outlook are tilted toward the downside and are linked to security and the strength of future reforms.** Should security remain fragile or worsen, the forecasted rebound in GDP will not materialize. The low growth alternative scenario reflects a fully-fledged macroeconomic forecast should security or governance not improve and investments in large-scale infrastructure and mining projects be delayed. Real GDP growth falls from around 7 percent of GDP in the medium to an average of 3.7 percent over 2015–2029, which yields half the GDP level in US$ terms by 2029 compared with the baseline. The scenario also reflects a lack of reform, such as with respect to public enterprises and the business environment, which would discourage both investment and external support, leading to lower exports of two percentage points as a share of GDP compared with the baseline. In a low-growth scenario, the medium-term prospects remain muted, and per capita GDP is markedly lower at the end of the forecast period; this could occur either as a result of internal security problems or problems in neighboring states. Stress tests on lower transfers also reveal the extreme dependence on donor flows.

C. External Debt Sustainability Analysis

7. **Under the baseline, only the NPV of debt-to-exports ratio breaches the threshold (figures 1 and 2).** [4] This is consistent with the fact that the most extreme shock stress test is a terms of trade shock, which implies breaches of the thresholds for all indicators except the debt service-to-revenue ratio. The fact that the export-related ratios are worrisome reflects the weakness in the export base when estimates of transit trade are excluded. However, Afghanistan has great potential for transit trade between the Middle East and Central Asia. Although complete estimates are not available for transit trade, staff estimates that this could raise exports of goods by a few percent of GDP.

8. **Alternative scenarios and stress testing emphasize the continuing risks to the baseline forecasts.** An alternative low growth scenario, displayed in figures 3 and 4, that looks at continuing security and governance problems in particular is worrisome. Nominal GDP and exports are much lower by the end, reflecting low growth, while imports continue to be driven by donor flows rather than FDI. The fact that fixing relevant ratios at their historical averages leads to very low to no debt underscores the strength of the current position and the advantages Afghanistan has received from strong donor support over the last few years. The low growth scenario implies all the ratios except debt service-to-revenue breach the relevant thresholds. The export-related ratios reach very high levels. Stress testing also reveals weaknesses in exports, which again emphasizes the need to improve the business environment to provide a more sustainable base.

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[4] To stabilize debt ratios after 2024/25, nominal GDP growth in US$ terms would have to be above about 6.5 percent.

9. **The risk of debt distress will remain high after the HIPC completion point.** Afghanistan faces a number of serious risks that have significant probabilities of materializing. Two key risks are that security fails to improve or that economic and governance reforms are delayed, thus delaying investments and lowering potential GDP. These risks are related, and could potentially lead to economic instability and continued poverty.

D. Fiscal Debt Sustainability

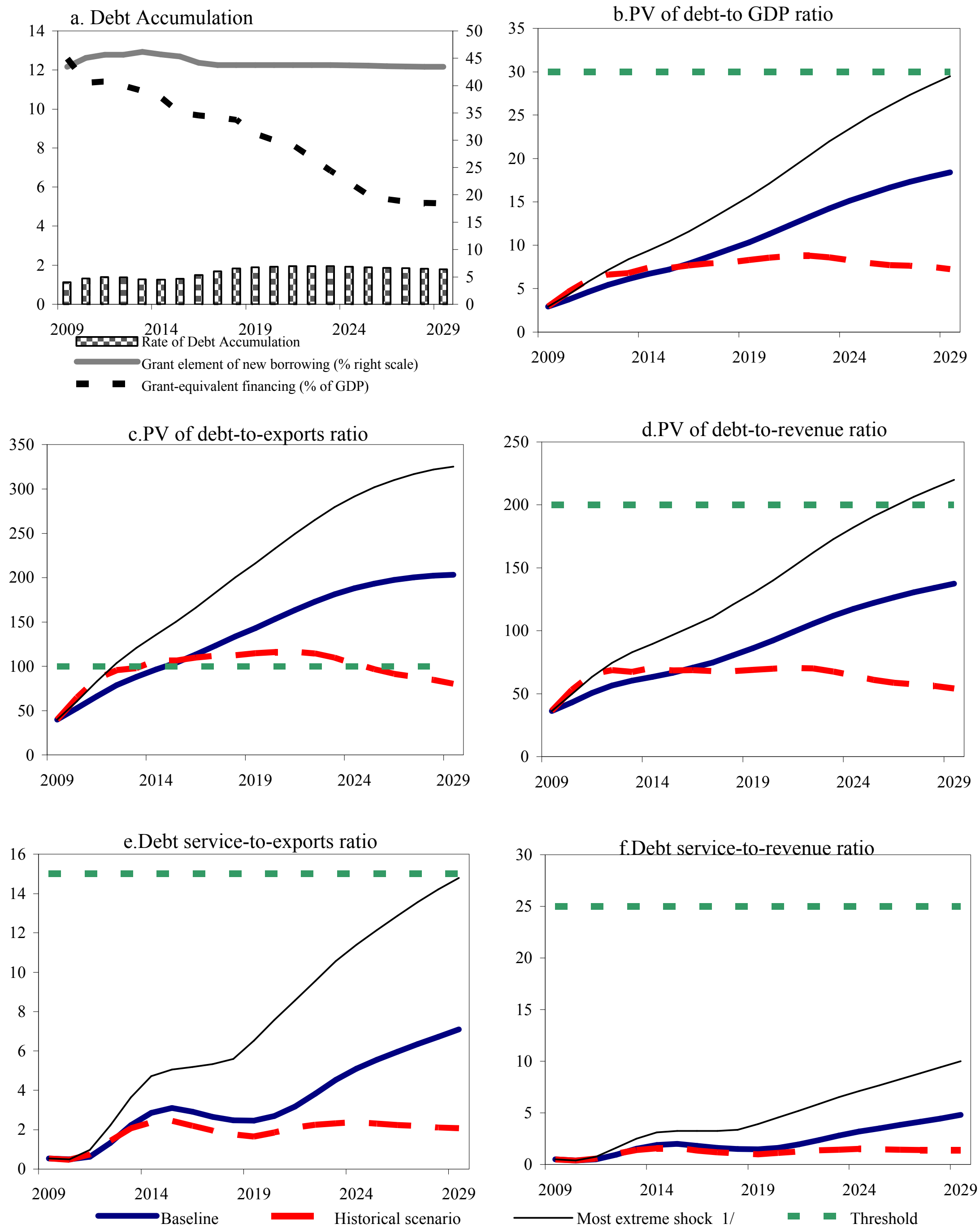
10. **Public debt indicators also grow markedly under the baseline.** Financing of the army and police will continue to occupy a large share of the operating expenditures. While development spending is forecast to increase and raise potential GDP, investments depend on a reform efforts and a stable security environment. Given all the expenditure pressures on the budget, the fact that debt service grows to occupy over 10 percent of fiscal revenues by the end of the forecast period is worrisome.

11. **Alternative scenarios and stress testing again emphasize the fragility of Afghanistan's situation.** Under the low growth alternative scenario, debt service requires almost 20 percent of revenues by the end of the forecast period, leaving little fiscal space for investments or social spending. If the primary balance were fixed at the current level, debt becomes zero within the projection period. This also underscores the relative strength of the current position, and the need for caution going forward.

E. Conclusion

12. **Afghanistan will remain at a high risk of debt distress after the HIPC completion point and delivery of debt relief following the MDRI.** Despite the large amount forgiven under HIPC and MDRI, continuing risks to the outlook and large financing needs underscore the importance of substantial and long-term grant financing. In addition, continuing economic reforms and strong progress on improving security and governance will also be required. Should donors curtail aid too quickly, security fail to stabilize, or structural reforms lag, Afghanistan's debt burdens will likely become unsustainable.

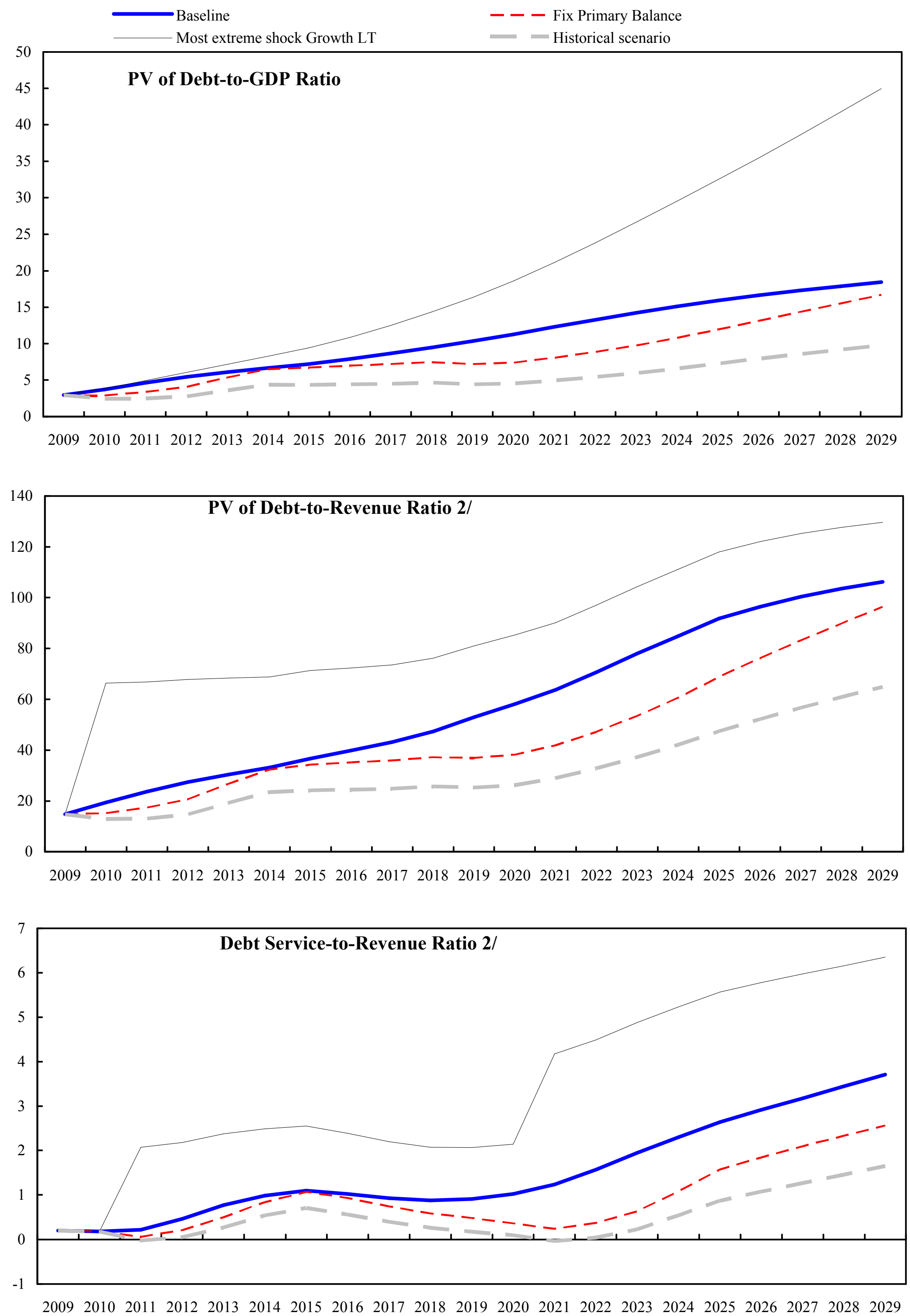
Figure 1. Afghanistan: Indicators of Public and Publicly Guaranteed External Debt under Baseline Scenario, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b-f it corresponds to a Terms of trade shock.

Figure 2.Afghanistan: Indicators of Public Debt Under Baseline Scenario, 2009-2029 1/

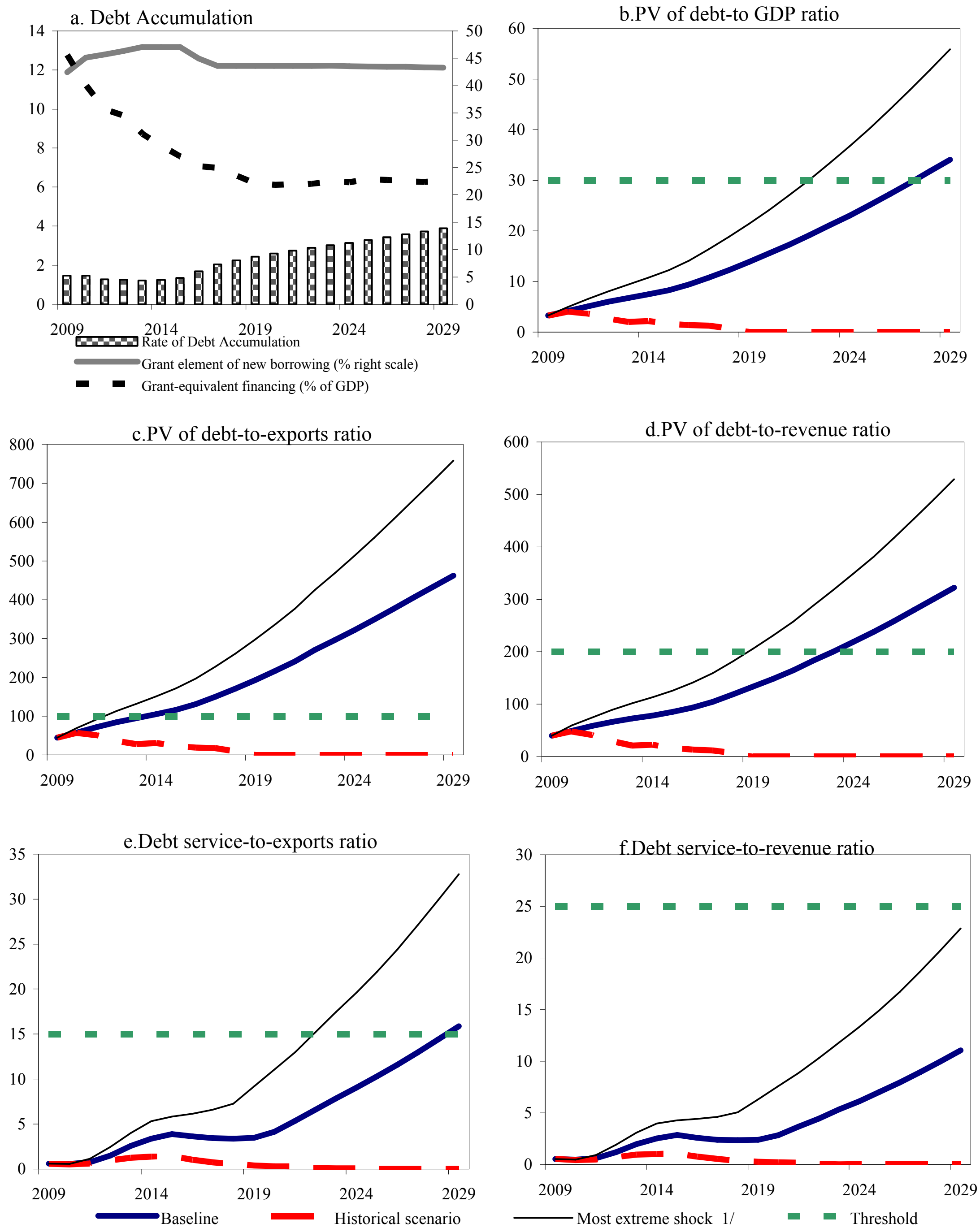


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

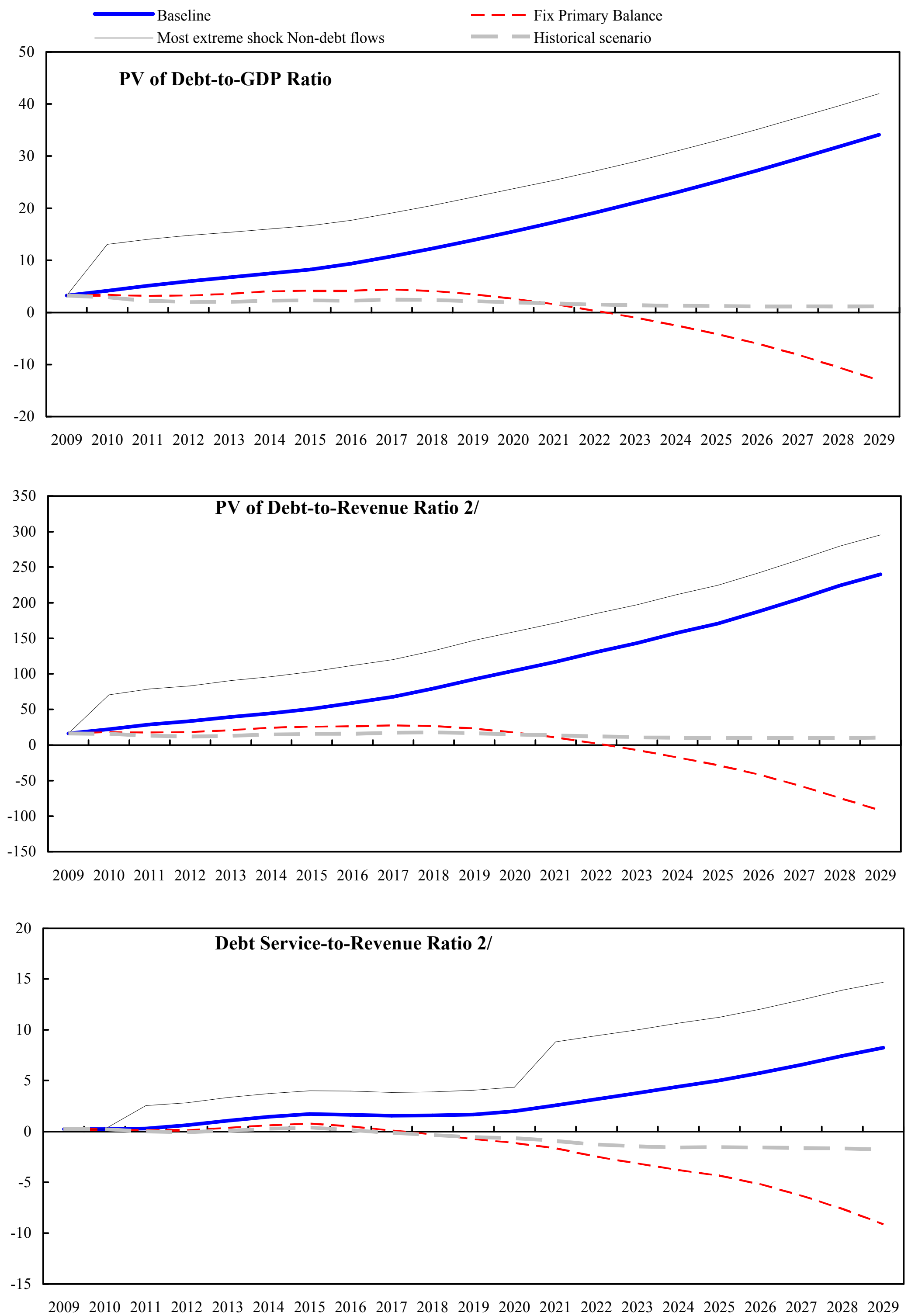
Figure 3. Afghanistan: Indicators of Public and Publicly Guaranteed External Debt under Low Growth Scenario, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b-e it corresponds to a Terms of trade shock; and in figure f. to a One-time depreciation shock

Figure 4.Afghanistan: Indicators of Public Debt Under Low Growth Scenario, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 0	Standard Deviation 0	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**154.5**	**21.0**	**18.0**			**10.8**	**11.3**	**12.4**	**13.3**	**14.2**	**14.8**		**18.6**	**27.0**	
o/w public and publicly guaranteed (PPG)	154.5	21.0	18.0			10.8	11.3	12.4	13.3	14.2	14.8		18.6	27.0	
Change in external debt	-28.5	-133.5	-2.9			-8.3	0.6	1.1	1.0	0.8	0.7		0.9	0.4	
Identified net debt-creating flows	-27.4	-34.3	-4.6			-0.5	-0.3	-0.1	0.9	1.3	0.4		1.1	1.9	
Non-interest current account deficit	**4.8**	**-0.9**	**1.6**	**4.7**	**5.7**	**3.5**	**1.7**	**2.0**	**3.7**	**4.8**	**4.1**		**4.5**	**4.4**	4.7
Deficit in balance of goods and services	88.6	80.8	73.1			68.0	59.5	56.7	53.7	49.7	45.0		33.5	23.0	
Exports	7.1	6.6	7.5			7.4	7.0	7.0	6.9	6.9	6.9		7.2	9.1	
Imports	95.7	87.4	80.5			75.4	66.5	63.7	60.6	56.7	52.0		40.7	32.1	
Net current transfers (negative = inflow)	-65.1	-67.4	-57.3	-58.6	14.4	-52.7	-45.4	-42.1	-37.7	-33.0	-28.8		-15.7	-6.9	-13.1
o/w official	-59.9	-62.8	-53.1			-50.4	-43.6	-40.4	-35.9	-31.1	-26.9		-14.4	-6.0	
Other current account flows (negative = net inflow)	-18.7	-14.3	-14.2			-11.8	-12.3	-12.6	-12.3	-12.0	-12.2		-13.3	-11.7	
Net FDI (negative = inflow)	**-3.1**	**-2.5**	**-2.6**	**-2.6**	**1.1**	**-1.4**	**-1.3**	**-1.5**	**-2.2**	**-2.9**	**-3.0**		**-2.4**	**-1.8**	-2.3
Endogenous debt dynamics 2/	**-29.1**	**-30.9**	**-3.6**			**-2.6**	**-0.7**	**-0.6**	**-0.7**	**-0.6**	**-0.7**		**-0.9**	**-0.7**	
Contribution from nominal interest rate	0.1	0.0	0.0			0.0	0.0	0.1	0.1	0.2	0.2		0.2	0.4	
Contribution from real GDP growth	-12.6	-14.9	-0.6			-2.6	-0.7	-0.7	-0.8	-0.8	-0.9		-1.2	-1.1	
Contribution from price and exchange rate changes	-16.7	-16.0	-3.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-1.1**	**-99.2**	**2.7**			**-7.8**	**0.8**	**1.2**	**0.1**	**-0.5**	**0.2**		**-0.3**	**-1.5**	
o/w exceptional financing	-0.2	-0.4	-0.4			-8.4	-7.3	0.0	0.0	0.0	-0.1		0.0	0.0	
PV of external debt 4/	...	...	2.1			3.2	4.2	5.4	6.4	7.3	8.1		12.1	19.2	
In percent of exports	...	...	28.0			42.9	59.4	76.9	93.1	105.6	116.8		166.9	211.7	
PV of PPG external debt	**...**	**...**	**2.1**			**3.2**	**4.2**	**5.4**	**6.4**	**7.3**	**8.1**		**12.1**	**19.2**	
In percent of exports	**...**	**...**	**28.0**			**42.9**	**59.4**	**76.9**	**93.1**	**105.6**	**116.8**		**166.9**	**211.7**	
In percent of government revenues	**...**	**...**	**30.7**			**39.0**	**48.7**	**58.8**	**66.9**	**72.6**	**77.0**		**100.4**	**143.1**	
Debt service-to-exports ratio (in percent)	**2.0**	**0.9**	**0.8**			**0.7**	**0.7**	**1.0**	**2.0**	**3.1**	**3.9**		**6.9**	**13.1**	
PPG debt service-to-exports ratio (in percent)	**2.0**	**0.9**	**0.8**			**0.7**	**0.7**	**1.0**	**2.0**	**3.1**	**3.9**		**6.9**	**13.1**	
PPG debt service-to-revenue ratio (in percent)	**1.9**	**0.8**	**0.9**			**0.7**	**0.5**	**0.8**	**1.4**	**2.1**	**2.6**		**4.2**	**8.8**	
Total gross financing need (Millions of U.S. dollars)	145.4	-324.3	-107.0			280.3	67.7	95.9	299.6	425.6	308.4		930.2	2739.0	
Non-interest current account deficit that stabilizes debt ratio	33.3	132.6	3.5			11.8	1.2	1.0	2.7	4.0	3.4		3.7	4.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.2	12.1	3.4	10.6	4.8	15.1	7.6	6.8	6.9	6.5	6.9	8.3	7.4	4.5	5.7
GDP deflator in US dollar terms (change in percent)	10.0	11.6	17.2	8.4	7.4	-3.7	6.6	3.6	3.2	3.3	3.4	2.7	2.5	2.2	2.3
Effective interest rate (percent) 5/	0.1	0.0	0.3	0.4	0.3	0.1	0.3	0.5	1.0	1.2	1.6	0.8	1.5	1.7	1.6
Growth of exports of G&S (US dollar terms, in percent)	7.9	15.9	38.1	40.1	42.0	9.2	9.9	9.7	9.2	10.4	10.4	9.8	11.8	9.4	10.1
Growth of imports of G&S (US dollar terms, in percent)	8.9	14.2	11.7	25.3	28.1	3.8	1.3	5.9	5.1	2.7	1.4	3.4	5.9	5.2	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.7	30.1	30.3	30.3	30.2	29.2	30.1	29.3	29.0	29.1
Government revenues (excluding grants, in percent of GDP)	7.4	7.0	6.8			8.1	8.6	9.1	9.6	10.1	10.5		12.0	13.4	12.4
Aid flows (in Millions of US dollars) 7/	879.4	1209.2	1131.3			1622.6	1676.0	1861.8	2013.7	2169.8	2324.7		3126.1	3663.3	
o/w Grants	715.6	1079.2	1009.3			1535.2	1560.1	1716.9	1853.3	1992.8	2130.1		2707.0	2801.3	
o/w Concessional loans	163.8	130.0	122.0			87.3	116.0	144.9	160.4	177.0	194.6		419.0	862.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			12.4	11.1	11.1	10.8	10.6	10.2		8.3	4.8	7.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			91.2	89.0	88.0	87.8	87.9	87.4		81.1	69.8	77.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	7723.0	9658.8	11708.6			12982.0	14897.3	16482.9	18187.9	20002.4	22111.3		36012.8	71384.6	
Nominal dollar GDP growth	19.0	25.1	21.2			10.9	14.8	10.6	10.3	10.0	10.5	**11.2**	10.0	6.8	8.1
PV of PPG external debt (in Millions of US dollars)		...	249.4			410.4	624.1	885.5	1170.9	1466.2	1790.3		4365.7	13766.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.4	1.6	1.8	1.7	1.6	1.6	1.6	2.0	1.7	1.9

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2.Afghanistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2006	2007	2008	Average	Standard Deviation	2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	154.5	21.0	18.0			10.8	11.3	12.4	13.3	14.2	14.8		18.6	27.0	
o/w foreign-currency denominated	154.5	21.0	18.0			10.8	11.3	12.4	13.3	14.2	14.8		18.6	27.0	
Change in public sector debt	-28.5	-133.5	-2.9			-8.3	0.6	1.1	1.0	0.8	0.7		0.9	0.4	
Identified debt-creating flows	-27.0	-134.8	-2.0			-8.2	0.6	1.6	0.2	-0.1	-0.2		1.9	0.0	
Primary deficit	2.8	1.8	3.6	1.6	1.7	2.1	3.0	2.6	2.3	1.5	1.4	2.2	3.3	1.3	2.2
Revenue and grants	16.7	18.2	15.4			19.9	19.1	19.5	19.8	20.1	20.1		19.5	17.3	
of which: grants	9.3	11.2	8.6			11.8	10.5	10.4	10.2	10.0	9.6		7.5	3.9	
Primary (noninterest) expenditure	19.5	20.0	19.0			22.0	22.1	22.2	22.1	21.5	21.6		22.8	18.6	
Automatic debt dynamics	-28.8	-29.8	-4.0			-1.6	-1.4	-1.0	-1.1	-1.1	-1.1		-1.4	-1.3	
Contribution from interest rate/growth differential	-29.9	-30.7	-4.0			-2.1	-1.4	-1.0	-1.1	-1.1	-1.1		-1.6	-1.6	
of which: contribution from average real interest rate	-16.1	-14.0	-3.3			0.4	-0.6	-0.3	-0.3	-0.3	-0.2		-0.4	-0.4	
of which: contribution from real GDP growth	-13.8	-16.7	-0.7			-2.5	-0.8	-0.7	-0.8	-0.8	-0.9		-1.2	-1.1	
Contribution from real exchange rate depreciation	1.1	0.9	0.0			0.6	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	-1.0	-106.9	-1.6			-8.7	-1.1	0.0	-1.1	-0.5	-0.5		0.0	0.0	
Privatization receipts (negative)	-0.6	0.0	-0.7			-0.3	-1.0	0.0	-1.1	-0.5	-0.4		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.4	-106.9	-0.9			-8.4	0.0	0.0	0.0	-0.1	-0.1		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.4	1.3	0.1			-0.1	0.0	-0.5	0.8	0.9	0.9		-1.0	0.4	
Other Sustainability Indicators															
PV of public sector debt	0.0	0.0	2.1			3.2	4.2	5.4	6.4	7.3	8.1		12.1	19.2	
o/w foreign-currency denominated	0.0	0.0	2.1			3.2	4.2	5.4	6.4	7.3	8.1		12.1	19.2	
o/w external	...	...	2.1			3.2	4.2	5.4	6.4	7.3	8.1		12.1	19.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.9	1.9	3.7			2.2	3.0	2.7	2.4	1.7	1.7		3.8	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	0.0	13.6			15.9	22.0	27.5	32.5	36.5	40.2		61.7	110.7	
PV of public sector debt-to-revenue ratio (in percent)	0.0	0.0	30.7			39.0	48.7	58.8	66.9	72.6	77.0		100.4	143.1	
o/w external 3/	…	…	30.7			39.0	48.7	58.8	66.9	72.6	77.0		100.4	143.1	
Debt service-to-revenue and grants ratio (in percent) 4/	0.9	0.3	0.4			0.3	0.2	0.4	0.7	1.1	1.3		2.6	6.8	
Debt service-to-revenue ratio (in percent) 4/	1.9	0.8	0.9			0.7	0.5	0.8	1.4	2.1	2.6		4.2	8.8	
Primary deficit that stabilizes the debt-to-GDP ratio	31.2	135.3	6.5			10.4	2.4	1.6	1.3	0.6	0.8		2.5	0.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.2	12.1	3.4	10.6	4.8	15.1	7.6	6.8	6.9	6.5	6.9	8.3	7.4	4.5	5.7
Average nominal interest rate on forex debt (in percent)	0.1	0.0	0.3	0.4	0.3	0.1	0.3	0.5	1.0	1.2	1.6	0.8	1.5	1.7	1.6
Average real interest rate on domestic debt (in percent)	...	...	...	…	…	...	...	...	...	...	...	…	...	...	…
Real exchange rate depreciation (in percent, + indicates depreciation)	0.7	0.7	-0.1	5.0	10.1	3.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	10.3	10.3	22.5	8.3	9.8	-3.7	6.6	3.6	3.2	3.3	3.4	2.7	3.7	3.4	3.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.1	0.0	-101.3	248.4	0.3	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	30.7	30.1	30.3	30.3	30.2	29.2	30.1	29.3	29.0	...

Sources: Country authorities; and staff estimates and projections.
1/ Central government debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3a.Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	3	4	5	6	7	8	**12**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	3	5	7	8	8	9	**10**	8
A2. New public sector loans on less favorable terms in 2009-2029 2	3	5	6	8	9	11	**17**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	3	4	6	7	8	8	**12**	20
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	3	5	7	8	9	9	**13**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	3	4	6	7	8	9	**13**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	3	5	4	6	7	7	**12**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	3	0	0	0	0	0	5	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	3	6	7	9	10	11	**17**	27
PV of debt-to-exports ratio								
Baseline	43	59	77	93	106	117	**167**	212
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	43	76	104	117	122	134	**140**	84
A2. New public sector loans on less favorable terms in 2009-2029 2	43	66	92	116	136	153	**237**	333
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	43	59	77	93	106	117	**168**	213
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	43	75	124	143	157	169	**225**	271
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	43	59	77	93	106	117	**168**	213
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	43	70	64	80	94	106	**160**	211
B5. Combination of B1-B4 using one-half standard deviation shocks	43	0	0	0	0	0	55	158
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	43	59	77	93	106	117	**168**	213
PV of debt-to-revenue ratio								
Baseline	39	49	59	67	73	77	**100**	143
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	39	62	79	84	84	88	**84**	57
A2. New public sector loans on less favorable terms in 2009-2029 2	39	54	70	83	93	101	**142**	225
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	39	49	60	69	74	79	**104**	148
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	39	55	76	82	86	89	**108**	146
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	39	51	64	72	79	83	**109**	156
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	39	57	49	58	64	70	**96**	143
B5. Combination of B1-B4 using one-half standard deviation shocks	39	0	0	0	0	0	39	124
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	39	68	82	93	101	107	**141**	200

Table 3b.Afghanistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio								
Baseline	1	1	1	2	3	4	**7**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	1	1	1	2	3	4	**5**	4
A2. New public sector loans on less favorable terms in 2009-2029 2	1	1	1	3	4	6	**10**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	1	1	1	2	3	4	**7**	13
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	1	1	2	3	4	5	**10**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	1	1	1	2	3	4	**7**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	1	1	1	2	3	4	**6**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	0	0	0	0	0	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	1	1	1	2	3	4	**7**	13
Debt service-to-revenue ratio								
Baseline	1	1	1	1	2	3	**4**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	1	1	1	2	2	2	**3**	3
A2. New public sector loans on less favorable terms in 2009-2029 2	1	1	1	2	3	4	**6**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	1	1	1	1	2	3	**4**	9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	1	1	1	2	2	3	**5**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	1	1	1	2	2	3	**5**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	1	1	1	1	2	2	**4**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	0	0	0	0	0	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	1	1	1	2	3	4	**6**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4.Afghanistan: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	3	4	5	5	6	7	10	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	2	2	3	4	4	4	10
A2. Primary balance is unchanged from 2009	3	3	3	4	5	7	7	17
A3. Permanently lower GDP growth 1/	3	4	5	6	7	8	16	45
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	3	4	5	6	7	8	13	23
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	3	4	5	6	7	7	11	19
B3. Combination of B1-B2 using one half standard deviation shocks	3	3	4	5	5	6	9	15
B4. One-time 30 percent real depreciation in 2010	3	4	5	5	6	6	9	16
B5. 10 percent of GDP increase in other debt-creating flows in 2010	3	13	13	13	14	14	16	22
PV of Debt-to-Revenue Ratio 2/								
Baseline	15	19	24	27	30	33	53	106
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	13	13	15	19	23	25	65
A2. Primary balance is unchanged from 2009	15	15	17	21	27	32	37	96
A3. Permanently lower GDP growth 1/	15	20	25	30	35	40	80	247
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	15	20	26	31	35	38	64	133
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	15	21	28	31	34	37	56	109
B3. Combination of B1-B2 using one half standard deviation shocks	15	17	20	24	26	28	44	87
B4. One-time 30 percent real depreciation in 2010	15	23	25	27	29	30	45	94
B5. 10 percent of GDP increase in other debt-creating flows in 2010	15	66	67	68	68	69	81	130
Debt Service-to-Revenue Ratio 2/								
Baseline	0	0	0	0	1	1	1	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	0	0	0	0	0	1	0	2
A2. Primary balance is unchanged from 2009	0	0	0	0	0	1	0	3
A3. Permanently lower GDP growth 1/	0	0	0	1	1	1	2	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	0	0	0	1	1	1	1	5
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	0	0	0	1	1	1	1	4
B3. Combination of B1-B2 using one half standard deviation shocks	0	0	0	0	1	1	1	3
B4. One-time 30 percent real depreciation in 2010	0	0	0	1	1	1	1	6
B5. 10 percent of GDP increase in other debt-creating flows in 2010	0	0	2	2	2	2	2	6

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.