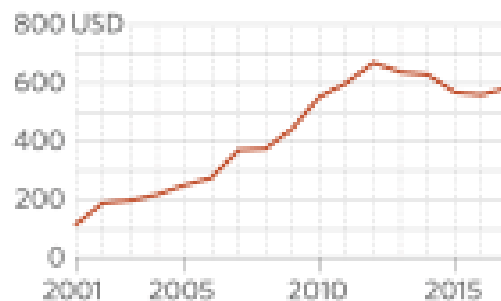


Economy of Afghanistan

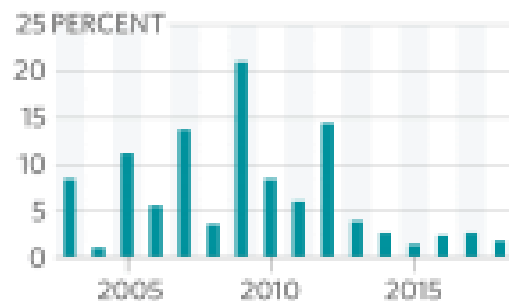
Afghanistan's Economy

Gross domestic product per capita



Source: World Bank

GDP Growth in Afghanistan since 2003



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Economy of Afghanistan

In Afghanistan output growth has slowed to an estimated 1.0 percent in 2018, down from 2.7 percent in the previous year. The decline was because of: a severe drought that affected wheat production and livestock pasture and, heightened political uncertainty and election-related violence, which dampened business confidence. Despite the lower agriculture output, inflation remained moderate at 0.6 percent on average in 2018, due to lower regional food prices and appreciation of exchange rate against major trading partners.

Poverty is estimated to have increased and deepened. The severe drought resulted in lower income for rural households and large internal displacement in the country. The rate of economic growth lagging population growth, leading to declining per capita incomes. The drought negatively impacted livelihoods of many of the 82 percent of the poor living in rural areas, including those reliant on poppy cultivation (poppy production declined by 30 percent). Reflecting widespread hardship, drought-induced displacement reached record levels of 298,000 individuals.

Weaker exports and a moderate increase in imports have widened the trade deficit to around 35.9 percent of GDP in 2018. Nominal exports, after strong growth of 28 percent in 2017, declined by four percent in 2018, potentially reflecting a strengthening of the Afghani against trade partner currencies and economic disruption in important neighboring economies. Imports increased by 0.7 percent, led by a strong increase in vegetable imports. The current account narrowed, reflecting the widening trade deficit and declining grants. Aid flows almost entirely financed the trade deficit.

Fiscal management remained strong. An overall fiscal surplus of around 0.7 percent of GDP was achieved in 2018. Despite slow growth, domestic revenues reached a record high of Afs 189.7 billion, an increase of 12 percent from 2017 levels. Strong revenue growth was supported by improved tax administration, with estimated arrears collection of Afs 10.5 billion and a surge in non-tax revenues. Budget execution increased from 83 percent in 2017 to 92 percent in 2018, with the development budget execution rate reaching 93 percent.

Reflecting high levels of uncertainty, credit-to-the-private sector declined by four percent in 2018 and is now equal to just three percent of GDP. The credit intermediation function of the banking system has remained extremely weak, with private sector credit equal to just 12.8 percent of bank assets in 2018. Excess liquidity of banks reached 63 percent of total bank assets. The central bank has recently taken action to facilitate access to credit, including expanding the list of eligible collateral and the coverage of the Public Credit Registry.

Few Afghans have access to productive or remunerative employment. A quarter of the labor force is unemployed, and 80 percent of employment is vulnerable and insecure, comprising self- or own account employment, day labor, or unpaid work. Almost three-quarters of the population are below the age of 30, and roughly 25 percent are between the ages of 15 and 30. This large youth cohort of approximately 8 million is entering the labor market with little education and few employment opportunities. A natural consequence of the poor security situation and limited development resources, job creation has been unable to keep up with population growth, and good jobs are few and far between.

Though increasing over time, just over half (54 percent) of young Afghans are literate. Labor force participation rates of young Afghan women are particularly low due to higher rates of inactivity and unemployment. Young Afghans (age 15–24) have a high unemployment rate of 31 percent, while 42 percent are neither in employment, education, or training. Progress with education is threatened by the security situation. The net attendance rate in secondary education fell from 37 percent to 35 percent between 2013 and 2016, driven by declining attendance among girls.

Economic Outlook

Image

Growth in 2019 is expected to remain sluggish but slightly recover, largely due to improved weather conditions. Growth in the industry and service sectors will remain subdued amidst continued political uncertainty surrounding the upcoming presidential elections, discussions over continued international security support, and a potential peace agreement with the Taliban. Over the medium-term, growth is projected to gradually accelerate to around 3 percent by 2021, assuming a stable political transition following the presidential election and subsequent improvement in investor confidence.

A slight fiscal deficit is expected in 2019. Revenue mobilization is expected to stall, reflecting: i) exhaustion of revenue potential from measures implemented in 2018, including amnesty programs; and ii) weakening customs revenues in the context of political instability and weakened governance.

The current account is expected to gradually deteriorate over the medium-term, because of declining international grants. A substantial deficit in the range of 4-6 percent of GDP is expected by 2021-22. International reserves are expected to remain at comfortable levels (from the current level of over one year's import cover down to less than 10 months' import cover by 2021).

The short-term growth outlook is subject to significant downside risks. Continued violence and political instability could further dampen investment and growth. Election-related disruptions to revenue collection and expenditure discipline could undermine fiscal management and confidence. Any rapid decline in international aid flows would drive difficult fiscal and external adjustments and undermine the capacity of government to maintain basic services. On the other hand, ongoing peace talks may unlock substantial investment and growth if they lead to a comprehensive and sustained improvement in security.

Without accelerated reform and an improved security situation, growth is likely to remain slow with limited progress in reducing poverty from current very high levels. Reforms are required immediately to both improve general investment confidence and mobilize existing economic potential, especially in agriculture and extractives. Continued international assistance in security and development is critical to preserve development gains achieved over the last seventeen years. Clear commitment to sustained support from international partners would help to reduce current levels of uncertainty, supporting increased confidence and investment.

Source: <https://www.worldbank.org>