April 2010

Afghanistan Economic Update

Policy and Poverty Team
South Asia Region

The World Bank

Photo: © Michael Foley, World Bank

Summary

- It is impossible to discuss the economy of Afghanistan without giving equal considering to the perilous security and political situation that overshadows all activity in the country. A protracted presidential electoral process culminated in the inauguration of President Karzai on December 19, 2009. The parliament has rejected many of the President's cabinet nominees, leaving 11 posts still vacant at the time of this writing. Given the short lead time and outstanding issues about the process of validation of election results, parliamentary elections scheduled for May 2010 have been postponed to September. Instead, an important Grand Peace *Jirga* (conference) is slated for May to formalize a reconciliation effort to bring all Afghans, including the insurgent groups, into a dialogue for peace and cooperation. A conference in Kabul is planned for the week of July 19 to begin implementation of the aims of the January London conference.

- The security situation deteriorated in 2009, making it the most difficult year since the fall of the Taliban in 2001. A surge in troop deployments announced by U.S. President in December 2009, and the Afghan-led plan for reintegration of former insurgents, outlined at the London conference in January 2010, have the potential to improve security in the coming year.

- In spite of the difficulties, Afghanistan has enjoyed mostly favorable macroeconomic conditions, with a historically high GDP growth (22.5 percent) and declining prices in 2009/10. The external debt burden fell to 10 percent of GDP upon securing debt relief under the Heavily-Indebted Poor Country and Multi-lateral Debt Reduction initiatives. Official exports collapsed in 2009/10 but were more than offset by overwhelming donor inflows. Preliminary results for the fiscal year that has just ended (2009/10) show a performance better than expected in the core budget: a10-percent containment of operational expenditure and a 16-percent surge in revenue. However, low execution of the development budget[2] gives cause for concern, as it continues to slide, reaching only 38 percent of the budget in 2009/10. The banking sector needs to be closely monitored, as two of the seventeen banks were found to have breached prudential norms. GDP growth is expected to reach 8.6 percent in 2010/11, inflation is low, at about 2 percent.

- There is growing concern about deteriorating governance. Afghanistan now has the second-worst corruption rating among the 180 countries surveyed in Transparency International's Corruption Perception Index, after falling in rank for the second successive year. There has been progress in improving governance measures, but the pace of reform is slow. Notable achievements include the declaration of assets by new cabinet ministers, the enactment of new Mining and Hydrocarbon laws and tightening of public financial management and public expenditure policies.

[1] Prepared by Thirumalai G. Srinivasan with inputs from country team.

[2] Afghanistan operates with two budgets: a core budget, which is government-administered, and a development budget, which is donor-administered and outside of government control. The development budget accounts for 75 percent of public expenditures. Most of the core budget is externally financed and, with funds channeled through the development budget, external resources represent 90 percent of total (core and development) national expenditures. The World Bank and other key development agencies are encouraging the donor community to shift more resources to the core budget.

Recent Political and Security Developments

The process of forming the new government has been slow and incomplete. After being inaugurated as President, on December 19, 2009, President Karzai proposed 24 ministers to the new *Wolesi Jirga* (parliament). On January 2, 2010, after listening to the plans and programs of each minister-designate for two weeks, the *Jirga* confirmed only seven of the candidates. A week later, President Karzai nominated 17 new candidates, but only seven of those nominees (including one woman) won *Jirga* approval. That still leaves 11 ministerial posts, including that of commerce, for the President (and *Jirga*) to fill.

Parliamentary elections have been postponed. The Afghan parliamentary elections, constitutionally required every four years, were to take place in May, but have been postponed to September 18. The Independent Election Commission (IEC) announced it had made the decision because of funding constraints and security concerns.

Changes to the composition of the Electoral Complaints Commission (ECC) may undermine the credibility of the electoral process. Changes to the procedure for appointing members of the ECC, issued by Presidential decree on February 17, have met with public skepticism. The decree removed international observers from the appointment process, leaving the oversight to parliament.

The London conference recommitted Afghanistan and donors to secure, stabilize and develop Afghanistan. The international conference on Afghanistan was held in London in late-January 2010. It was the sixth in a series of such meetings since 2001. Over 70 representatives from countries and international organizations attended the meeting and endorsed measures to improve security, development, governance, and regional cooperation. In a decisive step, the conference agreed to progressively hand over more administrative and leadership functions to Afghans to secure their country's future (see Box 1). The World Bank and IMF announced US$1.6 billion in debt relief for Afghanistan through the Heavily Indebted Poor Countries (HIPC) initiative, and a range of donors have pledged US$140 million for the Reintegration Trust Fund.

The surge in security forces is endorsed. A 30 percent spike in security incidents over the previous year, recording 960 incidents per month, was the worst since the fall of the Taliban in 2001, The U.S. administration announced in December 2009 that it will deploy 30,000 additional troops to Afghanistan and begin withdrawing forces in July 2011 as a successful transfer of control to Afghans. Of these new troops, 5,000 would be dedicated to training Afghan security forces. In parallel, donors have committed to help substantially increase the numbers of Afghan security forces in order to facilitate the transfer of full responsibility to Afghans in five years. The government plans to increase army personnel from a current force level of 104,300 to 171,000 by October 2011. The Afghan national police force is also set to expand from 96,800 to 134,000 in the same time frame.

A concurrent reconciliation process is under way. The Afghan government is preparing to hold a Peace *Jirga* (conference) from May 2-4 in Kabul. The *Jirga* is expected to attract around 13,500 Afghans, from a wide range of interests, and 200 observers from the international community. Taliban and other insurgents, if they wish, will be welcome to attend, according to Afghan officials. The *Jirga* is part of President Karzai's stated effort to include the Taliban and other antigovernment elements in attempts to end a war that has intensified in recent years. The Afghan delegates will be divided into 13 categories, including lawmakers, clerics, governors, district officials, civil society, refugees, women's groups and private-sector representatives. The *Jirga* is portrayed as a precursor to a follow-up conference in Kabul, now scheduled for the week of July 19. The goal of this conference would be to recommit and implement the aims of the London Conference demonstrate that Afghans are ready to decide and manage their own future.

Box 1: Outcomes of the London Conference on Afghanistan, January,2010[3]

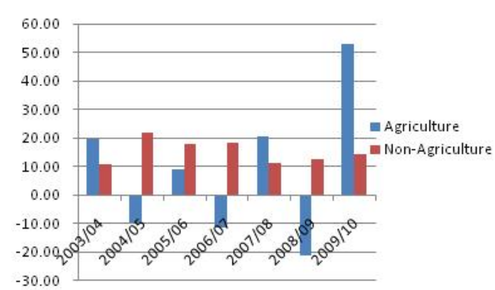
The Government of Afghanistan and donors agreed:

1) To develop a plan for a phased transition to Afghan security leadership, province by province, subject to conditions, beginning in late-2010/early 2011;
2) Targets for significant increases in the domestic Afghan army and police force, supported by the international community are: 171,000 army and 134,000 police by the end of 2011, which would take total security force numbers to over 300,000;
3) International forces to support the training of Afghan forces would be significantly increased. The U.S. will increase its levels by 30,000 and the rest of the international community by 9,000, including the German contribution, taking total force levels to around 135,000;
4) Measures would be instituted to tackle corruption, including the establishment of an independent Office of High Oversight and an independent Monitoring and Evaluation Mission;
5) Development assistance would be better coordinated and increasingly channeled through the Afghanistan government, supported by reforms to structures and budgets, reaching 50 percent in the next two years;
6) A civilian "surge", to match the military surge, would include new civilian leadership of the international community's programs; the appointment of Mark Sedwill, former British Ambassador to Afghanistan, as NATO's Senior Civilian Representative, and a new UN representative, with more civilians posted to support governance and economic development; To strengthen a sub-national government infrastructure to improve delivery of basic services to all Afghans;
7) To support the government's national Peace and Reintegration Program, including financial support for a Peace and Reintegration Trust Fund, to offer economic alternatives to those who renounce violence, cut links to terrorism and agree to work within the democratic process, and
8) To support increased regional co-operation to combat terrorism, violent extremism and the drugs trade, increase trade and cultural exchanges and to create conducive conditions for the return of Afghan refugees.

Recent Economic Developments

GDP growth in fiscal 2009/10 is estimated to have reached 22.5 percent, a record since 2003[4]. A strong rebound in the agriculture sector (53 %), helped mainly by ample and well-distributed rainfall is behind the surge in growth (Figure 1). Wheat production nearly doubled to 5 million tonnes compared to a preceding five year average of 3.4 million tonnes. Services continued to grow in double digits, led by government services, financial sector and transport services. The industrial growth continues to be pulled down by modest manufacturing and construction sector growth rates; much lower than the early years of reconstruction. Mining, though, is booming with near 30 percent growth in the last two years.

Figure 1: 2009/10 GDP growth strongest in six years



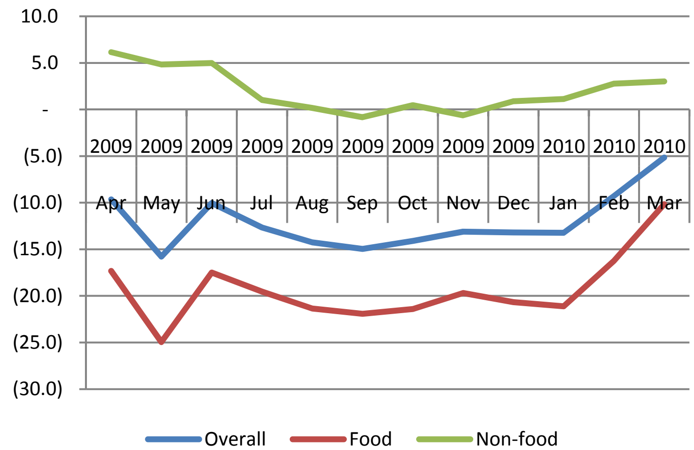
Source: IMF estimates.

[3] Based on http://afghanistan.hmg.gov.uk/en/conference/outcomes/

[4] The GDP growth rate follows the IMF presentation, excluding the opium-crop sector. If the opium crop is counted, the growth rate is marginally less.

Disinflation seems to have ended in December 2009. FY2009/10 looks likely to end with a negative inflation of 12 percent, due mainly to a fall in cereal prices, which account for 28 percent of the consumer basket. Small nominal appreciation of the *afghani* (Afs) against the US dollar (3 percent over the year) and regional partners' currencies may have also played a role in keeping prices low. The average price of wheat flour in March, for instance, was 14 Afs/kg, a third lower than the same month last year following a bountiful harvest. Non-food prices have edged up slowly since December 2009, led by housing costs. The disinflation in food prices also ended in January and prices are recovering rapidly.

Figure 2: Inflation continues to be negative



Source: Staff Estimates based on Kabul Consumer Price Index

Monetary control targets were missed recently with no significant adverse consequence. The central bank, *Da Afghanistan Bank*, allowed money circulation growth to creep to 29 percent in 2009/10, above the IMF program target of 22 percent. However the prevailing disinflationary trend implies that the consequences of the miss are not significant. Similarly, the reserve-accumulation target has been exceeded, as coalition forces brought in US$1.6 billion in January, 2010. However, Da Afghanistan Bank intends to preserve its flexibility in deploying tools of monetary control through timely use of capital notes and exchange-rate interventions.

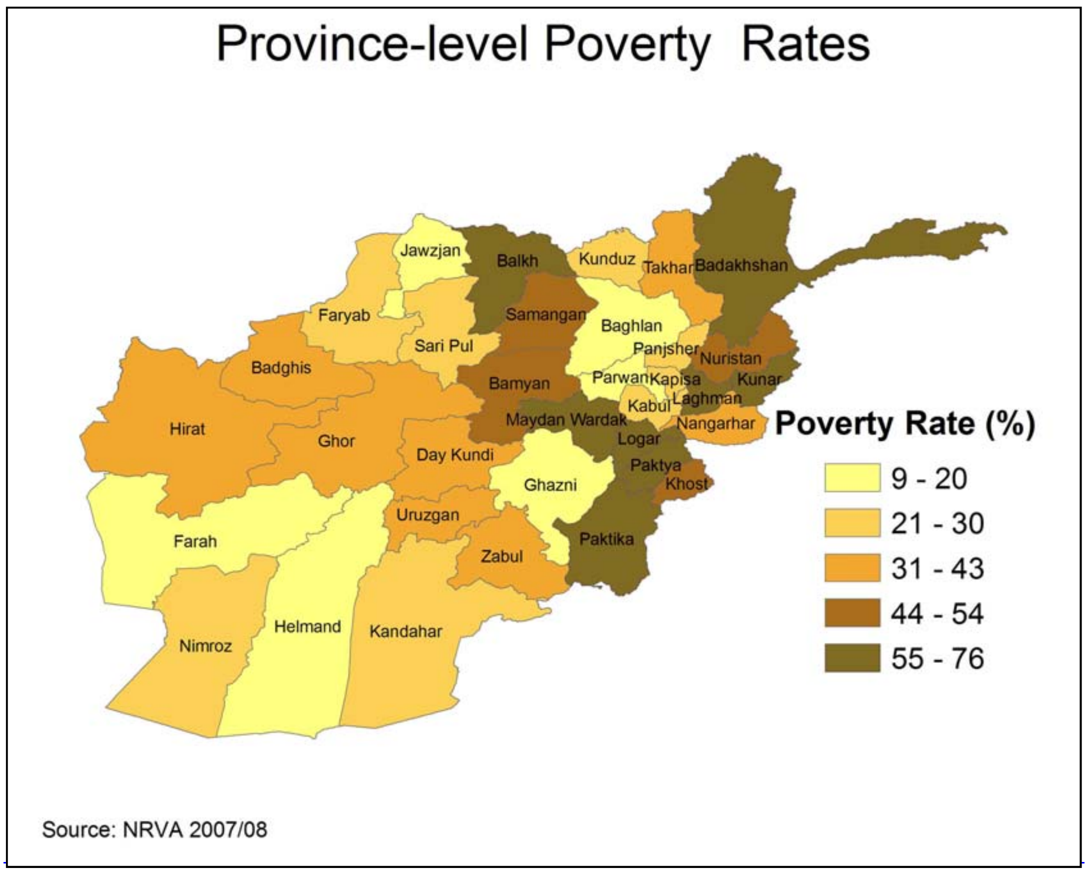
Robust growth and low inflation augur well for reducing poverty in Afghanistan. Though the poverty-headcount-ratio was estimated at 36 percent in 2007/08[5], nearly half the Afghan population lives on less than 120 percent of the poverty line. Outside of harvest seasons, more people drift into poverty and parts of the population (Kuchi) and those living in harsh, inaccessible areas tend to be poorer than average (see Box 2, pg. 7).

[5] The national average poverty line used for this estimate is AFA 1255 per person per month. This represents the typical cost of attaining 2100 calories per person per day and of meeting some basic nonfood needs, in terms of fall 2007 prices from urban areas of central Afghanistan. The poverty line reflects regional differences in the cost of living, and also accounts for inflation over the time of the survey.

Box 2: High Vulnerability to Poverty in Afghanistan

	Poverty rate (%)	[95% C.I.]	
Urban	29	26.8	31.4
Rural	36	35.1	37.7
Kuchi	54	48.3	60.3

Afghans are highly vulnerable to poverty. In 2007/08, 36 percent of the population lived under the poverty line of Afs 1,255 (about US$25) per person per month. That may seem low percentage for a country so long in conflict, but it may be attributable to the massive reconstruction efforts and well-functioning National Solidarity Program. The estimate can also be understood in the context of high vulnerability to poverty: 36 percent reflects the share of the population that cannot meet its basic consumption needs; many more people, however, are susceptible to becoming poor. Nearly half the population lives on less than 120 percent of the poverty line. The poverty rate is seasonal: it climbs steadily through a 12-month cycle, beginning with fall—harvest time—when it lowest; gradually rising through winter and spring to summer, when it is highest. For 2007/08, the fall poverty rate was 23 percent, 32 percent in winter and around 44-46 percent in spring and summer. Provincial-level poverty estimates show that more than half the population is poor in 8 of the 34 provinces, some of which are located in mountainous regions of the country, home to one-fifth of Afghanistan's population.

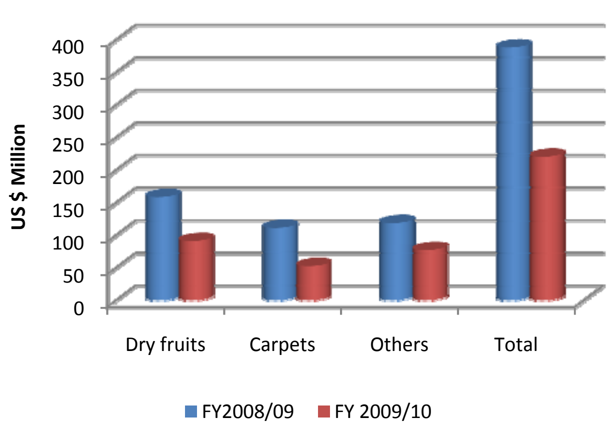


Fiscal performance improved in 2009/10 with a dramatic surge in revenue collection and strong containment of operational expenditures. Afghanistan achieved a remarkable surge in domestic revenues during 2009/10, collecting 53 percent more than the previous year and 16 percent more than budgeted. Improved tax administration underpins much of the revenue increase. Domestic revenue collection was higher by 68 percent and custom duties surged by 48 percent. Levying of a 2.5 percent ad valorem presumptive tax on all imports and strict enforcement of duty collection on fuel imports resulted in soaring custom collections. Despite this surge, however, Afghanistan remains among the lowest of low-income countries, with revenue equal to just 9 percent of GDP. Even as the revenues surged, operational expenditures were contained by about 10 percent less than budgeted. As a result, fiscal sustainability—indicated as a percentage of operational expenditure covered by domestic revenues—improved to 70 percent, from 60 percent in 2008/09. The execution of the development budget continued to give cause for concern, as the government managed to spend only 38 percent of budgeted expenditures. The low execution rate stems from several factors, such as the weak capacity of the government to formulate and execute investment projects, and the misalignment of donor priorities and funding cycles with those of local government. The commitment at the London conference to raise the level of donor spending through the core budget to 50 percent within two years is laudable, but will be difficult to achieve.

Afghanistan reaches an important milestone in debt relief. After completing a series of prescribed reforms under the most challenging circumstances, Afghanistan has qualified for permanent debt relief under the Highly-Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief initiative. The relief takes the form of debt-service savings nominally valued at US$1.6 billion. The initiative revalues external debt to a modest 10 percent of GDP—half that of the previous year. The improvements in the external account notwithstanding, Afghanistan has a high risk of debt distress because of the likelihood of shocks from uncertain GDP growth or grant element in borrowing.

A sharp decline in official exports is likely to be more than offset by other exports. Results available for the first three quarters of 2009/10 show a collapse in nominal value of exports by about 40 percent. The decline is widespread, afflicting mainly the top two exports, dry fruits and carpets (Figure 3). For the year as a whole, however, the decline could moderate with a pick-up in the last quarter. But official exports are only about a quarter of total exports, which include smuggling and transit trade.

Figure 3: Collapse of official exports in 2009/10



(first three quarters)

Source: Central Statistics Office, Kabul.

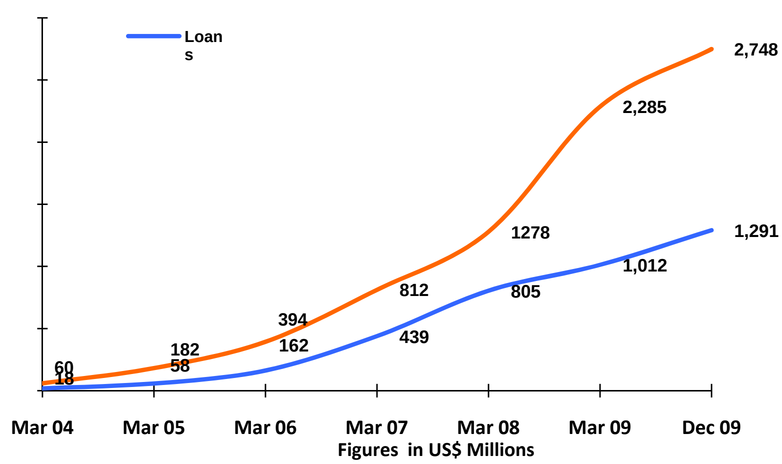
External imbalances are large, but are financed by non-debt-creating inflows. Imports are largely governed by donor and military spending. A bumper food crop helped lower the food import bill in 2009/10. The large current account deficit (45 % of GDP) continues to be supported by grants and non-debt creating inflows. The nominal exchange rate against the U.S. dollar showed an appreciating tendency through much of 2009, except during the run up to the Presidential election between late-August, 2009 and February, 2010. The afghani has also appreciated against the currencies of other major trading partners. According to the IMF, the exchange rate appears to be fairly valued, with the real exchange rate below its 5-year average. The international reserves remain high, at levels to meet more than one year's import needs, excluding imports for re-exports and duty-free imports by donors.

Figure 4: Nominal exchange rate under pressure to appreciate

Source: Da Afghanistan Bank

The banking sector continues to grow vigorously. Deposit growth continues to outpace loan growth (see Figure 5), indicating the difficulty of lending in a constrained private-sector environment. Bank assets as a share of GDP have risen to an all-time high 23 percent by the end of 2009. But the loan-to-deposit ratio has fallen below 50 percent. Microfinance has also started to slow, since mid-2009. With the *Da Afghanistan Bank's* support for the afghani, dollarization slightly decelerated, with deposits held in foreign currency declining slightly to 69 percent between July 2009 and January 2010.

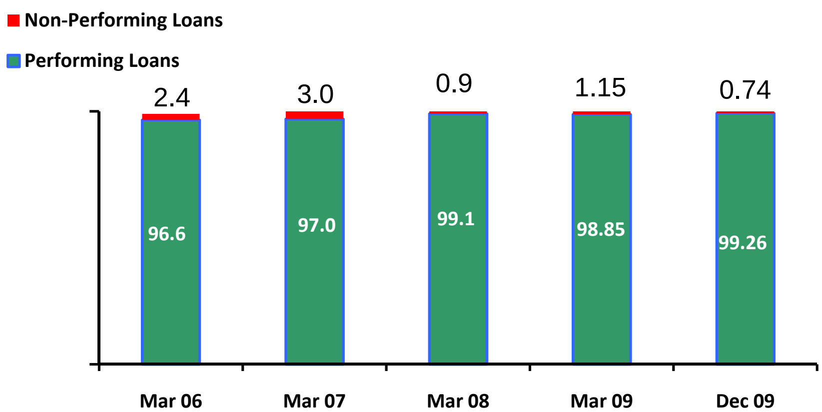
Figure 5: Rapid growth in deposits outpaces loans



Source: Da Afghanistan Bank

Official statistics indicate the banking sector continues to show few signs of vulnerability[6]. Non-performing loans (NPLs) continued to decline (see Figure 6), and are now at the lowest level recorded by Da Afghanistan Bank (DAB). However, there are concerns about official loan-classification standards and supervisory capacity, and therefore some caution is warranted in evaluating these figures.

Figure :6 Non-Performing Loans as Percentage of Gross Loans



According to DAB, the capital ratio of most banking institutions is above the minimum regulatory threshold (12 percent of risk-weighted assets), except for two banks where the minimum regulatory capital ratios were slightly below the minimum threshold. But, it says these improved after capital injections by the respective banks. The ADB says three banks have less than the minimum financial capital requirement—set at AFN 500 million (roughly US$10 million)—but, again, no information about these banks is available.

Structural and Institutional Reforms

Afghanistan has remained on track in meeting structural reform benchmarks under the IMF's Poverty Reduction Growth Fund obligations. For the current review (December 2009-March 2010), the IMF expects two to three months' delay in completion of some of the reforms. The slowest component is the review of the financial health of public sector enterprises in relation to the budget.

In complying with the HIPC completion point triggers (referred to on page 8), the government progressed with several important reforms in the last six months. It has substantially implemented a design for the civil service pension reforms. It began tracking poverty-related budget expenditure, and published such spending in the annual progress report of the Afghanistan National Development Strategy. The Minerals Law and Hydrocarbon Law were issued in February, governing the development of important drivers of growth in Afghanistan. A cadastre was established with Ministry of Mines in the process.

[6] There are rumors that the commercial banking sector has suffered heavy losses from investments in Dubai. However, official statistics available from the central bank do not bear this out, and the reported assets of the commercial banking sector continued to grow through the end of 2009 and first month of 2010, up US$600 million since end of the first quarter of 2009.

Implementing regulations for the secured-transaction and mortgage laws (passed in mid-2009) have been drafted and are expected to be finalized by the Supreme Council of DAB by mid-2010. Additionally, DAB is currently undertaking a review of both the Banking Law (2004) and the Law of Da Afghanistan Bank (2004). It is also likely that the reforms will, in general, increase DAB's powers of supervision and enforcement with respect to the financial sector.

The Cabinet approved a National Action Plan on Private Sector Development in December 2009, which was announced by the Ministry of Commerce & Industry during the World Bank's Kabul workshop on the Afghanistan Investment Climate report, in January 2010. However, full implementation of the plan is being withheld, pending appointment of a new Minister of Commerce & Industry.

To strengthen anti-corruption efforts, the government issued a decree, in line with its London conference commitment to increase the powers of the High Office of Oversight (HOO). The decree, issued in March 2010, empowers the HOO to investigate allegations of corruption and forward cases for prosecution. It also creates a Monitoring and Evaluation Committee which will report on the government's fight against corruption. An anti-corruption unit has been established in the Office of the Attorney General and the Supreme Court has appointed judges to the anti-corruption tribunal. Corruption remains a big drain on the economy, as identified in a recent United Nations Office on Drugs and Crime (UNODC) report (Box 3)[7].

Box 3: Startling Findings in a UNODC Survey of Corruption in Afghanistan

The UNODC conducted a survey of 7,600 individuals in Afghanistan from August-October, 2009. Although the methodology left out grand corruption by highly placed officials, the findings show that corruption is widespread and a big burden on individual citizens. Some key findings:

- One in two Afghans over 20 years of age paid bribes in the preceding 12 months;
- The average amount paid was about US$160, with rural residents paying 20 percent more than the urban;
- People perceive corruption has increased in the past five years, more so in rural areas;
- Estimated total bribes in the retail sector alone amounted to US$2.5 billion—close to a quarter of official GDP;
- The police, courts and customs demand most bribes;, and
- Over half of Afghans (54%) believe that international organizations and NGOs, the transmission belts of foreign assistance, "are corrupt and are in the country just to get rich".

Outlook

The outlook for the current fiscal year, 2010/11, is favorable, with GDP growth slightly higher than 8 percent and mild inflation, under 5 percent. As agriculture falls back to normal growth, service sectors will once again provide much of the growth in the coming year, benefiting from government- and donor-spending. The mining sector will continue to grow vigorously, as the construction phase of the Aynak copper mine intensifies. It is likely that the growth outlook might be revised up if development spending picks up after the Kabul conference, scheduled for July 2010. At that conference the government will be announcing implementation plans for the London Agenda. On the inflation front, there appears to be little cause for worry, though disinflation appears to have ended. The prospects for cereal production are good, with winter and spring crops developing under generally favorable conditions, according to FAO assessments. Some susceptibility to imported prices remains, as even in a good year about one-sixth of cereals are imported. Non-food prices are rising, but at a modest pace, below 5 percent.

[7] http://www.unodc.org/documents/data-and-analysis/Afghanistan/Afghanistan-corruption-survey2010-Eng.pdf

World Bank Assistance to Afghanistan

Overview: World Bank assistance comprises a portfolio of International Development Association (IDA) grants and credits as well as the projects it supervises on behalf of the Afghanistan Reconstruction Trust Fund (ARTF). Since 2002, IDA has committed a total of US$1.9 billion in grants (77 percent) and credits (23 percent) in Afghanistan. Thirty-one development and emergency reconstruction projects as well as four budget-support operations have been committed to date. In addition, the ARTF has committed US$1.9 billion for recurrent costs of government and US$1.3 billion in ARTF investments in national government programs. Currently (as of end March) the active IDA portfolio is worth US$991 million.

Approvals and Exits in FYs 2009 & 2010: Measures implemented under the World Bank's modernization and simplification of the investment-lending agenda has enabled a strong portfolio of additional financing operations for both IDA and the ARTF. In FY2009, IDA approved seven grants totaling US$198.3 million, comprising two grants for new projects (Strengthening Health Activities for Rural Poor and Financial Sector Strengthening), one development policy grant, and four additional financing grants. The ARTF allocated US$316 million for the Recurrent Cost Window, US$259.6 million for additional financing (NSPII, Microfinance, EQUIP II, Higher Education, Skills Development, and Rural Water Supply), and US$86.3 million for four new projects (Power System Development, Kabul Urban Roads, Water Resources Development TA, and Judicial Reform). Four projects (Public Administration Capacity Building, Health Sector Rehabilitation, NEEP, and Improving power Supply to Kabul) and two IDA grants (NSPII and EQUIP) totaling US$351.8 million closed in FY2009.

Thus far in FY2010, IDA has approved two new grants worth US$37.5 million: US$7.5 million for the Pension Reform Project and US$30 million for the Afghanistan Rural Enterprise Development Program. In addition, the ARTF has approved US$290 million in recurrent-cost financing (of which US$40 million was based on meeting the benchmarks of the ARTF Incentive Program) and US$135 million for investments, including US$100 million for NSP II, US$5 million for the Management Capacity Program and US$30 million for the National Emergency Rural Access Project.

In FY2010, five operations worth just under US$100 million closed, including the Communications Project, the Food Crisis Response project and the Development Policy Grant under IDA, and the Civil Service Capacity Building project and the Technical Assistance & Feasibility Studies Project under the ARTF.

Disbursements: The overall performance of the IDA and ARTF portfolios has been satisfactory. Over the last four years, disbursement ratios have been approximately 20-30 percent, higher than other South Asian portfolios in the Bank. So far this FY the IDA portfolio has disbursed US$218m on a net active portfolio of 22 investment operations totaling US$991. Thanks to the ownership, commitment and leadership of a majority of line ministries, and the intensive supervision efforts of World Bank staff, the results of the portfolio indicate a solid performance, with major deficiencies limited to seven problem projects, despite the severe capacity constraints and deteriorating security.

Pipeline: The US$17 million FY2010-11 pipeline includes 12 projects and 1 development policy grant. The investment pipeline includes the third phase of the National Solidarity Program, a new investment in rural solar lighting, irrigation, customs, mining technical assistance, and private sector development. The pipeline includes the allocation of US$69 million in FY2010 out of the Crisis Response Window, which will be divided between additional financing for the health and higher education programs.

Table 1: Islamic Republic of Afghanistan: Selected Economic Indicators, 2006/07–2010/11

	2006/07	2007/08	2008/09	2009/10 Est.	2010/11 Proj.
(Annual percentage change, unless otherwise indicated)					
Output and prices 1/					
Real GDP	8.2	14.2	3.4	22.5	8.6
Nominal GDP (in billions of Afghanis)	385	485	600	715	793
Nominal GDP (in billions of US dollars)	7.7	9.7	11.8	14.5	17.0
Consumer prices (period average)	5.1	13.0	26.8	-12.0	2.3
Consumer prices (end of period)	4.8	20.7	3.2	-2.2	5.0
(Percent of GDP)					
Investment and savings					
Gross domestic investment	40.5	36.5	31.8	28.3	25.9
Of which: private	8.1	7.7	8.0	7.4	7.4
Gross domestic savings	35.6	37.3	30.2	29.0	24.1
Of which: private	11.0	15.1	14.9	13.8	12.9
Public finances					
Domestic revenues and grants	16.8	17.9	15.6	19.3	20.9
Domestic revenues	7.5	6.9	6.9	8.8	9.1
Grants	9.3	11.0	8.7	10.5	11.8
Expenditures	19.6	19.7	19.3	20.0	22.3
Operating 2/	11.3	10.5	11.6	12.6	14.5
Development	8.4	9.3	7.7	7.5	7.9
Overall balance (including grants)	-2.9	-1.8	-3.7	-0.7	-1.4
Operating balance					
Including grants 3/	1.2	1.2	0.2	1.3	0.6
Excluding grants 4/	-3.8	-3.6	-4.7	-3.8	-5.3
Government debt 5/	155.0	20.7	19.2	10.0	10.5
(Annual percentage change, unless otherwise indicated)					
Monetary sector					
Reserve money	22.3	14.4	64.9	14.1	23.8
Currency in circulation	13.3	17.0	30.4	28.6	23.0
Velocity of broad money	...	-4.0	-9.0	...	...
Interest rate, 28-day capital note (end-period, in percent) 6/	7.6	14.9	8.9	4.7	...
(Percent of GDP, unless otherwise indicated)					
External sector 7/					
Exports of goods 1/7/ (in US dollars, percentage change)	2.9	11.0	13.5	-16.3	9.9

Imports of goods (in US dollars, percentage change)	12.5	20.6	10.4	3.1	3.5
o/w Dutiable imports (in US dollars, percentage change)	11.1	3.7	12.3	15.8	9.7
Merchandise trade balance	-63.9	-61.7	-56.1	-43.5	-42.2
Current account balance					
Excluding official transfers	-64.8	-61.5	-54.1	-43.9	-42.4
Including official transfers	-4.9	0.9	-1.6	0.7	-1.7
Foreign direct investment	3.1	2.5	2.5	1.4	1.3
Total external debt 5/	155.0	20.7	19.2	10.0	10.5
Gross reserves (in millions of US dollars)	2,040	2,784	3,479	4,448	5,116
Import coverage 8/ Excluding imports for re-export	3.4	4.1	5.0	5.9	6.4
Excluding imports for re export and duty-free imports by donors	9.6	12.8	12.9	15.6	16.5
Relative to external debt service due	79.1	42.9	53.3	115.8	344.3
Afghanis per US dollar (period average) 9/	49.9	49.8	51.0	49.4	…
Real effective exchange rate (average, percentage change) 10/	-2.0	3.2	14.4	-17.7	...
Memorandum items:					
Opium production (wet opium)					
In tons	6,100	8,200	7,700	6,900	...
US dollars per kilogram	94.0	86.0	70.0	48.0	...
External budget grants (in percent of GDP) 11/	50.6	51.6	42.6	35.5	28.8
Unemployment rate (in percent)	...	...	...	...	...

Sources: Afghan authorities; United Nations Office on Drugs and Crime, and Fund staff estimates and projections.

1. Excluding the drug economy.
2. Excluding development spending and externally-financed development expenditures.
3. Defined as domestic revenues plus operating grants minus operating expenditures.
4. Defined as domestic revenues minus operating expenditures.
5. After HIPC and MDRI debt relief, and debt relief beyond HIPC relief, from Paris Club creditors. Also includes obligations to the IMF.
6. Weighted average of successful bid rates. The 2009/10 figure is for January 2010.
7. Includes official recorded exports, plus staff estimates of smuggling; excludes re-exports and sales to non-residents.
8. In months of next year's imports of goods and services.
9. The figure for 2009/10 covers the period March 2009-February 2010.
10. Period average; the figure for 2009/10 covers the period March 2009-January 2010.
11. Estimated direct expenditures by donors on public projects not included in the core budget.

(Quota: SDR 161.9 million)
(Population: 26 million; 2000/10)
(Per capita GDP:US$502; 2008/09)
(Poverty rate: 36 percent; 2007/08)
(Main export dried fruit, US$210 million; 2009/10)