INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/120

ISLAMIC REPUBLIC OF AFGHANISTAN

SECOND REVIEW OF THE STAFF-MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

May 2016

In the context of the Second Review Under the Staff-Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by IMF staff for the Executive Board's information following discussions that ended on March 4, 2016, with the officials of Islamic Republic of Afghanistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 13, 2016.
- An **Informational Annex** prepared by IMF staff.

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May 13, 2016

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Islamic Republic of Afghanistan—IMF Management Completes Second Review of Staff-Monitored Program

On April 13, 2016, the Management of the International Monetary Fund (IMF) completed the second and final review under the Staff-Monitored Program (SMP)[1] with Afghanistan. The focus of the nine-month SMP was on addressing fiscal and banking vulnerabilities, preserving macroeconomic stability, improving prospects for inclusive growth, and building a track record for a possible future IMF financial arrangement. Despite difficult circumstances, the authorities implemented the program successfully and hence IMF management completed the SMP on schedule.

Notwithstanding this progress, Afghanistan's economic situation remains very difficult. Security and political uncertainties and the drawdown of international troops, together with weak governance and institutions, have held back growth and employment, and recently contributed to increased emigration. The outlook is challenging, with real GDP growth projected at 2 percent in 2016, only marginally higher than in 2015. A further deterioration in security conditions and shortfalls in donor aid pose important downside risks, while the banking system continues to face several challenges despite key reforms and measures taken by the central bank to address the vulnerabilities in the financial sector.

To help address these difficult issues, the Afghan authorities recently requested a Fund financial arrangement (Extended Credit Facility—ECF). The ECF would help tackle some of the challenges and thus assist in improving the conditions for sustainable growth and in catalyzing support from donors. IMF management welcomes this request, and discussions on the new arrangement are slated to begin in May 2016.

[1] An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

Islamic Republic of Afghanistan: Selected Economic Indicators, 2013–16

(Quota: SDR 323.8 million)
(Population: 30.6 million)
(Per capita GDP: US$654; 2014)
(Poverty rate: 35.8 percent; 2011)
(Main exports: opium, US$2.7 billion; carpets, US$83.4 million; 2014)

	2013	2014	2015	2016
	Act.	Act.	Est.	Proj.
Output and prices[1]	(Annual percentage change, unless otherwise indicated)			
Real GDP	3.9	1.3	1.5	2.0
Nominal GDP (in billions of Afghanis)	1,117	1,173	1,174	1,234
Nominal GDP (in billions of U.S. dollars)	20.2	20.4	19.2	…
Consumer prices (period average)[2]	7.4	4.7	-1.5	3.0
Public finances (central government)[3]	(In percent of GDP)			
Domestic revenues and grants	24.3	23.9	25.7	29.8
Domestic revenues	9.8	8.5	10.4	10.7
Grants	14.6	15.4	15.2	19.1
Expenditures	25.0	25.6	27.1	29.0
Operating[4]	17.8	19.4	20.0	21.0
Development	7.2	6.2	7.1	8.0
Operating balance (excluding grants)[5]	-8.0	-10.9	-9.6	-10.3
Overall balance (including grants)	-0.6	-1.7	-1.4	0.8
Public debt[6]	6.8	6.4	6.8	7.8
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)			
Reserve money	12.4	13.3	3.1	8.0
Broad money	9.4	8.3	3.3	9.7
External sector[1]	(In percent of GDP, unless otherwise indicated)			
Exports of goods (in U.S. dollars)	719	783	670	740
Exports of goods (annual percentage change)	18.0	9.0	-14.5	10.5
Imports of goods (in U.S. dollars)	9,168	8.711	8,063	8,350
Imports of goods (annual percentage change)	-9.3	-5.0	-7.4	3.6
Current account balance				
Excluding official transfers	-35.0	-35.5	-35.7	-41.2
Including official transfers	7.9	7.8	4.5	3.3
Foreign direct investment	0.5	0.6	0.7	1.0
Total external debt[6]	6.9	6.4	7.6	7.8
Gross international reserves (in millions of U.S. dollars)	6,886	7,248	6,786	6,786
Import coverage of reserves[7]	7.8	9.4	8.5	8.5
Exchange rate (average, Afghanis per U.S. dollar)	55.4	57.4	61.1	...

Sources: Afghan authorities; United Nations Office on Drugs and Crime; and Fund staff estimates and projections.
[1] Excluding the narcotics economy.
[2] Revised with improved coverage.
[3] Since 2013, the fiscal year runs December 22–December 21 (in most years), which is moved aligned with the Gregorian calendar year.
[4] Comprising mainly current spending.
[5] Defined as domestic revenues minus operating expenditures.
[6] Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
[7] In months of next year's import of goods and services.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

SECOND REVIEW OF THE STAFF-MONITORED PROGRAM

April 13, 2016

KEY ISSUES

Context. Afghanistan remains one of the poorest countries in the world, despite enormous progress over the past decade. Security and political uncertainties and the drawdown of international troops, together with weak governance and institutions, have held back growth and employment, and recently contributed to increased emigration. In May 2015, IMF management approved a nine-month Staff-Monitored Program (SMP), aimed at addressing fiscal and banking vulnerabilities, preserving macroeconomic stability, improving prospects for inclusive growth, and building a track record for a possible future IMF financial arrangement.

Outlook and risks. On account of the sustained headwinds the economy faces, projections for real GDP growth in 2016 and beyond have been scaled back compared to those in the November 2015 Article IV staff report. The outlook remains highly challenging given political and security uncertainties and the related risks to reform implementation. Shortfalls in donor aid and continued emigration also pose important downside risks, and the banking system remains a key source of vulnerability.

Program implementation. Performance under the SMP was satisfactory: all end-December quantitative targets and most structural benchmarks were met. Staff, therefore, recommends completion of the second review. The authorities have now expressed an interest in a Fund financial arrangement to help address the daunting challenges of low revenue, financial sector vulnerabilities, and governance gaps, and thus assist in improving the conditions for sustainable growth and in catalyzing support from donors.

Approved By
Adnan Mazarei and Bob Traa

Discussions were held in Istanbul during February 24–March 4, 2016. The staff team comprised Christoph Duenwald (head), Robert Tchaidze, Farid Talishli (MCD), Ke Chen (LEG), Ichiro Fukunaga (SPR), Charles Jenkins (METAC consultant), Carel Oosthuizen (MCM consultant), and Elif Ture (FAD). Adnan Mazarei (MCD) joined during February 25–27. The team met with Finance Minister Hakimi, Governor Sediq, and other senior officials. Yi Liu (MCD) provided research assistance and Norma Cayo (MCD) document management.

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CONTEXT

1. **The Afghan economy has faced strong headwinds in recent years.** Deepening uncertainty about the political transition following the 2014 presidential election, corruption and weak governance, and a weakening security environment, together with the continued drag from the drawdown of international troops, have complicated the implementation of reforms, undermined confidence and economic activity, and contributed to increased emigration.[1] The recently launched quadrilateral (Afghanistan, China, Pakistan, and the U.S.) peace talks hold promise but are yet to produce tangible results, and insurgent attacks have continued. The national unity government, formed to resolve the impasse following the 2014 presidential election, is determined to tackle the various challenges, and although its cohesion is continuously put to the test, there have been important successes. Parliamentary elections are scheduled for October, but some observers expect a delay given ongoing discussions about electoral reform. This year is marked by two major donor conferences: in July in Warsaw, on the sidelines of a NATO summit with a focus on security assistance, and in October in Brussels, with a focus on development assistance.

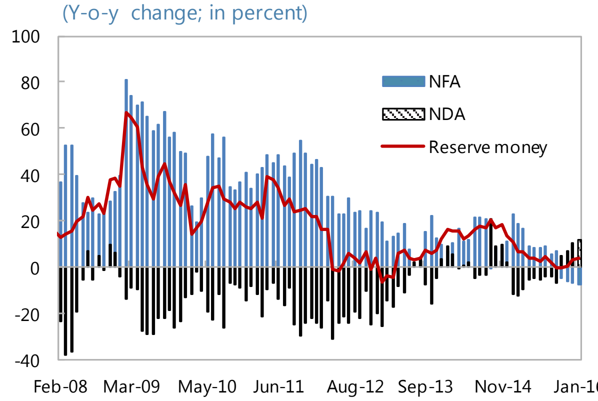
2. **In May 2015, IMF management approved an SMP.** The SMP aimed at addressing fiscal and banking vulnerabilities, preserving macroeconomic stability, improving prospects for inclusive growth, and building a track record for a future IMF financial arrangement. The first review was completed by IMF management in November and the authorities were urged to avoid delays in policy implementation.

ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

3. **Economic activity remains weak.** GDP growth in 2015 is estimated at about 1.5 percent given the deterioration in security conditions, which undermined private investment, delays in budget execution, and unfavorable weather lowering agricultural output. Inflation turned negative in March 2015 on account of low global food prices, subdued demand, and a depressed housing market, but has recently returned to positive territory mainly on account of the Afghani's earlier depreciation. Reflecting low growth

Composition of Reserve Money Growth
(Y-o-y change; in percent)



Sources: Afghan authorities; and IMF staff calculations.

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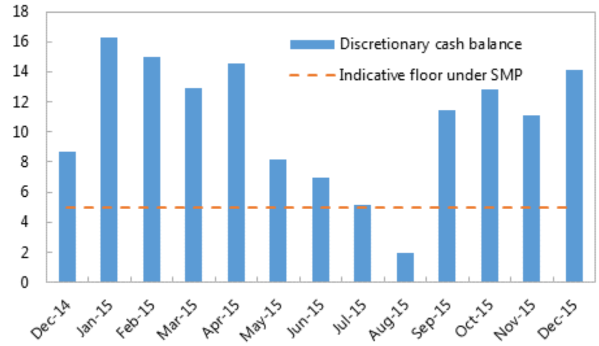
[1] Afghans, many of whom under the age of 30, are estimated to have accounted for 20 percent of the million-plus migrants to the EU in 2015, second only to Syrian migrants. The impact of accelerating emigration was discussed in Box 1 of the 2015 Article IV staff report.

and inflation, reserve and broad money grew by only 3 percent, while private sector credit growth remained negative through most of the year.

4. **The overall budget had a deficit in 2015 as a shortfall in grants more than offset higher-than-projected revenue and lower spending.** Domestic revenues rose and exceeded the target, on account of measures introduced earlier this year, repayments of tax and non-tax arrears, and, more importantly, increased collection efficiency. Operating budget execution fell short of projections owing to delays in budget approval and procurement. Delays in disbursement of security and development grants more than offset higher revenue and lower spending. Thus, while the operating deficit *before grants* was 2.3 percentage points below the target of 12 percent of GDP, the overall budget *including grants* was in deficit of 1.4 percent of GDP, rather than in balance as projected at the time of the first review. The deficit was financed through the drawdown of the Treasury's nondiscretionary cash balances.[2] Meanwhile, the year-end discretionary cash balances were well above the indicative floor of Af5 billion.

The Treasury's Discretionary Cash Balances 1/
(In billions of Afghanis)



Sources: Afghan Authorities.
1/ Total discretionary cash balances at the Treasury account in DAB, including balance in the main Treasury Single Account in Kabul, funds in provincial expenditure accounts (unexecuted allotments), and unrealized foreign exchange gain using the current exchange rate.

Domestic Budget Revenues, 2014–15
(Billions of Afghanis (top) and percent of GDP (bottom)

	2014 Outturn	2015 Target	2015 Outturn
Total Revenue	100.0	114.3	122.3
Base Revenue[1/]	100.0	107.3	108.3
2015 Revenue Measures	--	5.4	5.2
Tax and Nontax Arrears/One-offs	--	1.6	8.8
Total Revenue	8.5	9.7	10.4
Base Revenue[1/]	8.5	9.0	9.2
Tax Revenue[2/]	6.7	7.5	7.6

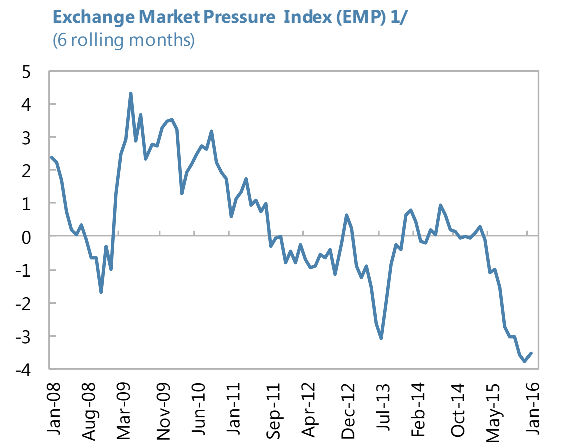
Source: Afghan authorities and IMF staff calculations.

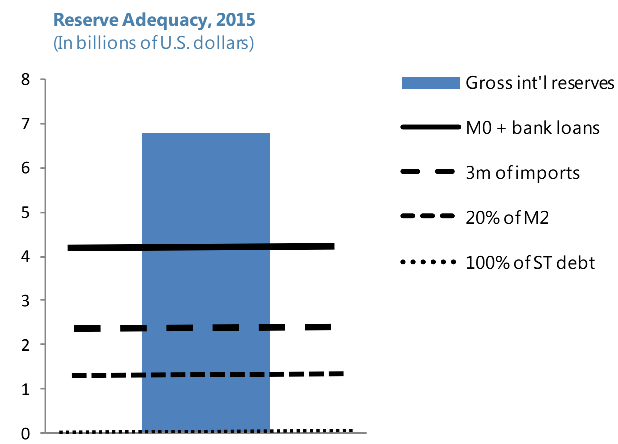
[1/] Base revenue is total tax and nontax revenue excluding those from 2015 measures, arrears, and one-offs.
[2/] In the November 2015 staff report the telecom fee was reported as a tax, and tax revenue target accordingly was Af 90.3 billion or 7.6 percent of GDP.

[2] Nondiscretionary cash balances consist of advance grant disbursements tied to specific security and development outlays that can be carried forward into the next fiscal year if unspent. Discretionary cash balances consist of unspent discretionary grants and domestic revenue. One of the goals of the SMP was to rebuild the discretionary cash balance.

5. **The trade deficit remained large, but substantial inflows of foreign aid kept the current account in surplus.** Data discrepancies complicate the analysis of the external sector, but trading partners' data suggest a reduction in imports on account of declining presence of foreign troops and donor activity as well as weak domestic demand.[3] Exports of goods (excluding opium and internal sales to nonresidents), consisting mainly of agricultural products, declined. Overall, the trade deficit shrank slightly, but remained nearly 40 percent of GDP. This deficit was financed by official grants, resulting in a current account surplus of 4.5 percent of GDP.[4]

6. **The acceleration of emigration, and the related capital outflows, has put pressure on the foreign exchange market,** leading to a year-on-year depreciation of the Afghani by 17 percent in December 2015. Da Afghanistan Bank (DAB) supplied foreign exchange to mitigate pressures, yet maintained a comfortable reserve buffer of more than 8 months of imports.





Sources: Afghan authorities; and IMF staff calculations.
1/ Positive EMP denotes pressure to appreciate.

7. **The financial sector remains fragile and plays a limited intermediation role.** Asset quality remains a concern, with nonperforming loans increasing from 7.8 percent of gross loans in December 2014 to 12.3 percent in December 2015, although shrinking loan books contributed somewhat. Profitability is under pressure, as evidenced by negative returns on assets and equity during most of 2015. Given the volatile operating environment, banks have tended to be very liquid, with liquid assets constituting 71 percent of total assets, and highly capitalized, with a regulatory capital to risk-weighted assets ratio of 28 percent, compared to 13 percent in India and 17 percent in Pakistan. However, the strong liquidity and capital indicators reflect subdued lending to the private sector.

[3] In contrast, official data suggest an increase in imports, probably reflecting improvements in data recording.

[4] Official statistics report a current account deficit as some of official grants are recorded in the capital account.

Financial Soundness Indicators

(In percent)

	2012	2013	2014	2015			
				Q1	Q2	Q3	Q4
Capital adequacy							
Regulatory Capital to Risk-Weighted Assets	21.8	26.2	26.5	25.8	25.6	26.3	28.3
Capital to Assets	7.6	11.6	11.9	12.0	12.2	12.9	13.5
Asset quality							
Non-performing Loans to Total Gross Loans	5.0	4.9	7.8	10.1	13.5	13.7	12.3
Non-performing Loans Net of Provisions to Capital	6.6	2.5	3.4	4.0	6.8	6.3	5.7
Earnings and profitability							
Return on Assets	-0.4	0.6	0.9	-1.5	-1.0	-0.2	0.4
Return on Equity	-5.5	7.1	7.2	-12.9	-8.0	-2.0	3.5
Liquidity							
Liquid Assets to Total Assets	65.7	62.1	73.2	72.9	74.4	73.4	71.4
Liquid Assets to Short-Term Liabilities	79.7	77.0	89.0	90.5	93.1	92.6	90.4

Source: Da Afghanistan Bank.

8. **Efforts at regional and international integration are intensifying, but the benefits will likely come with a long lag.**

- Afghanistan's application to the WTO was approved in December, and the country could accede this summer. Over time, WTO accession could act as a catalyst for domestic reform.
- Construction of the Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline (TAPI) began in December. It is expected to become operational in 2019, resulting in some US$400 million of annual transit fees for Afghanistan, but its financing package is incomplete.
- Bilateral and multilateral agreements are being finalized for the Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000), which will enable sustainable electricity trade between the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan by 2020. The World Bank is the lead financier of the project, covering 100 percent of Afghanistan's financing needs (US$316 million) via a grant.

B. Outlook and Risks

9. **The outlook for 2016 and beyond remains very difficult.** The perilous security situation and political uncertainties persist as the key constraints to improved economic outcomes, crowding out development spending, undermining private investment, and complicating the implementation of reforms. In addition, endemic corruption reduces economic efficiency, undermines institutions, and fosters inequality. Hence, sustainable growth will depend on improvements in these areas. Compared to the scenario sketched in the November 2015 Article IV staff report, the near- and medium-term baseline outlook is weaker:

- With the continued deterioration in the security situation and persistent drag from the drawdown in coalition forces, the growth projection for 2016 has been revised down to 2 percent. Over the medium term, given the protracted headwinds, we project growth to rise to 4 percent by 2019.

- Inflation is to pick up to 3 percent on average in 2016 and then to 6 percent over the medium term, reflecting a modest recovery in growth.

- Grant projections for 2016 have been revised up partly reflecting delayed disbursements from last year. Over time, as official transfers decline and growth picks up, the current account will turn into deficit, though international reserves will remain at comfortable levels.

10. **The medium-term revenue and expenditure paths were revised down relative to projections in the 2015 Article IV report.**

- The revised, more cautious baseline no longer assumes increases in tax revenues driven by the introduction of a VAT (capacity constraints) or development of the natural resource sector over the medium term (potential remains but investment climate will take time to improve). Revenue improvements stem only from strengthened enforcement and compliance, driven by already initiated reforms at the revenue and customs administration, as well as CASA transit fees from 2018 onwards.

- On the expenditure side, staff assumes an increase of almost 1 percent of GDP in development spending in 2016 and no further pick-up afterward, as well as a slower-than-previously-projected pick-up in operating expenditures due to a more gradual transfer to the budget of donor-funded off-budget security spending.[5]

- Total on- and off-budget donor aid is assumed to remain broadly unchanged in percent of GDP over the medium term, pending the Warsaw and Brussels conferences later this year.

11. **The risks to the baseline are tilted to the downside.** If security conditions continue to worsen, aid falls short, or migrant outflows accelerate, exchange rate pressures could re-emerge, and growth would decelerate further with attendant effects on unemployment. On the other hand, a lasting political agreement with insurgents and increased regional integration will provide upsides to the current medium-term trajectory.

12. **The most recent safeguards assessment of DAB was finalized in 2011 against the background of the Kabul Bank fraud, which had impacted DAB's financial position.** The recommendation related to the recapitalization of DAB through a government promissory note has been implemented. DAB continues to publish on its website the Kabul Bank's annual financial

[5] The transfer of donor-funded off-budget recurrent spending (security and civilian) to on-budget spending is assumed to be completed by 2024 (2020 for security and 2030 for civilian spending at the time of the November 2015 Staff Report). The government is assumed to fund 3 percent of GDP of its security spending and fully fund its civilian operating spending by 2024.

statements audited by an international audit firm. Controls in some safeguards areas have also improved, but capacity constraints remain an issue. Amending the DAB law has proven a challenge, and the recommendation concerning the DAB's legal structure remains outstanding.

PROGRAM PERFORMANCE

13. **Program performance has been satisfactory.** Overall performance under the SMP is deemed satisfactory taking into account the authorities' efforts to undertake reforms in challenging circumstances. All end-December *quantitative targets* have been met after adjusting targets for net credit to the government (upward) and net international reserves (downward) in light of lower external funding and higher development spending (Table 7). In the first SMP review, four structural benchmarks were either not met or were in progress. With regard to the two benchmarks that were not met (*currency reporting* and *asset classification and provisioning*), staff now considers the requirements under those benchmarks to have been completed (Text Table and Attachment I). The remaining two structural benchmarks (*risk-based audits* and *related party lending*) have now been met.

Structural Benchmarks Under the 2015 SMP

Measure	Due Date	Status
1. The other vulnerable (non-systemic) bank will hire an independent external party to *audit bad debt recoveries*.	End-June	Met (1st Review)
2. Promulgate the *banking law*.	End-June	Met (1st Review)
3. Implement *revenue measures* proposed in the 2015 budget that require parliamentary approval.	End-June	Met (1st Review)
4. The Council of Ministers will issue a revised Regulation under Article 7 of the Anti-Money Laundering (AML) Law on *currency reporting* at the border.	End-June	Not Met (1st Review), but requirements under the benchmark completed later
5. Revise the banking regulation on *asset classification and provisioning*.	End-September	Not Met (1st Review), but requirements under the benchmark completed later
6. Implement reform plan and re-start *sale of NKB*.	End-September	Met (1st Review)
7. Afghanistan Revenue Department to implement a *data-driven risk-based audit* case selection process.	End-October	Met (2nd Review)
8. Revise the banking regulation on *related party lending*.	End-December	Met (2nd Review)

14. **The end-June 2015 structural benchmark to issue a revised regulation on currency reporting at the borders, pursuant to the AML Law in line with Recommendation 32 of the Financial Action Task Force (FATF), was not met, but the requirements under the benchmark were completed by end-December.**[6] The priority going forward is effective implementation including enforcement actions on violations.

15. **The end-October structural benchmark on implementing a data-driven risk-based audit case selection process was met.** The Afghanistan Revenue Department established Risk Analysis Committees in large, medium, and small tax-payer offices in the second half of 2015, each tasked with defining risk criteria relevant to their market segments, helping select audit cases, and allocating resources. These committees have been put in place as an interim measure, pending the establishment of a centralized Risk Based Compliance Analysis Unit approved in September 2015 and expected to be functional by May 2016. Key performance indicators were developed for continuous assessment of risk-based audits and the Tax Audit Manual, which will serve as a tool to further support risk based audits, was updated in December 2015. The audit performance indicators show an appreciable improvement in 2015 compared to 2014.

16. **Progress was made on the outstanding structural benchmarks for the financial sector.** The end-September structural benchmark on updating and aligning the asset classification and provisioning regulation with international standards was assessed as not met in the first review, but the requirements under this benchmark were completed by end-December. The end-December structural benchmark on updating and aligning the related party lending regulation with international standards was met. The respective regulations were approved by the DAB Supreme Council on December 28 to come into full effect on October 1, 2016 and January 1, 2017, respectively. With the benefit of hindsight, the part of the second benchmark specifying a related party aggregate exposure limit was misspecified, in that it contradicts the banking law, and should therefore not be pursued. As the other two parts of the structural benchmark were met, the structural benchmark itself is considered to have been met.

17. **The authorities have taken steps to strengthen the anti-corruption legal framework.** A draft Appendix No. 4 to the Criminal Law, containing provisions related to bribery of foreign public officials, trading in influence, illicit enrichment, bribery, and embezzlement of property in the private sector, has been prepared and submitted to the National Council. The draft needs further improvements to criminalize the aforementioned offences in line with the United Nations Convention against Corruption. A draft Law on Combating Administrative Corruption requiring the "supreme entity for combating administrative corruption" to register, review, and publish assets owned by senior public officials in line with both Article 154 of the Constitution and the authorities'

[6] The revised Regulation Governing the Reporting and Control of Physical Transfers of Currency, Bearer Negotiable Instruments, Gold, Other Precious Metals or Precious Stones through the Borders was approved by the cabinet on December 30, 2015 and was published in the official gazette on February 14, 2016. The revised regulation is broadly in line with the FATF Recommendation 32 and provides a framework to monitor cross-border transportation of cash and other items covered with a view to detecting potential money laundering, financing of terrorism, or other crimes.

commitment has been prepared, but the draft needs further improvements to establish a robust and effective asset declaration framework.

POLICY DISCUSSIONS AND NEXT STEPS

A. Policy Discussions

Policy discussions focused on: (i) fiscal policy; (ii) scope for a public investment program; (iii) financial sector reforms; and (iv) reforms to boost growth.

18. **The 2016 budget is broadly sound.** Staff noted that under plausible assumptions on revenue collection and expenditure execution, it is likely to deliver a small surplus after grants, while allowing for an increase in development and pro-poor spending. Domestic revenues are budgeted at Af 131 billion, slightly below staff's projections, with all the revenue measures introduced last year remaining in force. Budget grants are projected to increase on account of a re-phasing from 2015. The development budget has increased by 10 percent (to 13.7 percent of GDP) with the bulk of it financed through nondiscretionary donor funds. The authorities target a sharp increase in the spending execution rates, while staff sees these targets as too ambitious and assumes a more moderate increase in line with the past performance.

19. **Revenue mobilization, expenditure rationalization, and improving budget execution remain vital for fiscal sustainability.**

- **Revenue mobilization.** Staff concurred with the authorities that the introduction of a VAT is not a viable option in the foreseeable future, pending significant capacity improvement in revenue administration. However, strong efforts to reform revenue and customs administrations should continue to improve enforcement and compliance, allowing for the eventual introduction of a VAT. Staff underscored that developing the natural resource sector and reforming the fiscal regime for extractive industries are essential to strengthen domestic revenue mobilization over time. While the development of extractive industries has been hampered by ongoing security problems, inadequate infrastructure, and declining international commodity prices, the authorities are working on amending the mining law, and developing an Extractive Industries Transparency Initiative compliant, effective, and transparent fiscal regime for natural resources. They expect the mining law to be submitted to parliament and the mineral fiscal regime to be fully developed by the end of 2016.

- **Expenditure execution and rationalization.** Staff welcomed the authorities' objective of raising the budget execution rate, especially for donor-funded development spending, while noting that reaching the 80 percent target would be difficult for 2016. The authorities indicated that they are working on improving spending efficiency and transparency through strengthening the electronic payment systems and the procurement processes. However, they noted their limited discretion over spending as a large part of donor-financed outlays was directed to specific purposes, constraining their ability to implement spending that generates growth, employment, and poverty reduction. They also noted that there may be pressures to adjust public sector wages that have been frozen for several years, with staff cautioning against excessive increases.

20. **The authorities sought staff's views on a fiscal stimulus program.** They viewed the drawdown of coalition forces and the associated decline in expenditures as key factors behind the slowdown in growth from 14 percent in 2012 and argued that an ambitious infrastructure investment program financed by long-term concessional external debt, as well as domestic borrowing, could help jump-start the economy. In general, there may be room for a modest, highly concessional external borrowing plan that is consistent with macroeconomic stability, especially from a medium-term perspective. However, given the high risk of external debt distress[7] and history of corruption, such a plan would need to be accompanied by front-loaded efforts to mobilize revenue, strengthen debt management and debt service capacity, improve governance, and strengthen the anti-corruption and AML frameworks with the borrowing scaled up only gradually. Staff also emphasized that robust procedures would have to be established for project selection and oversight with the assistance of the World Bank and Asian Development Bank, and noted the risk that grants would be replaced by loans.

21. **Staff welcomed the authorities' recently launched public financial management roadmap with reform targets outlined for the next five years.** The government established a new macro-fiscal policy department reporting directly to the Minister of Finance, tasked with preparing a pre-budget fiscal strategy paper and making credible rolling forward estimates and fiscal space analysis to guide the preparation of the annual consolidated budget in line with national priorities. The authorities reported that they are working on improving the medium-term fiscal framework, strengthening commitment controls and contract and procurement management under the Treasury, and reforming the allotment process. They also promoted the department of state-owned corporations and enterprises to a general directorate to improve their financial performance and oversight. Staff encouraged the authorities to implement their five-year strategic plan decisively, facilitated by strong and timely support of international partners.

22. **DAB representatives reiterated their commitment to exchange rate flexibility to facilitate adjustment to external shocks and protect the international reserves position, while remaining conscious of the impact of flexibility on price movements.** Staff acknowledged DAB's difficult operating environment, with high dollarization, recurrent exchange rate pressures, and decreasing demand for DAB's Capital Notes limiting effectiveness of its actions. Staff therefore advised that monetary policy needs to continue fostering confidence in the currency by maintaining low inflation and ensuring orderly conditions in the FX market to enhance monetary control and transmission, which would also be helped by further development of domestic-currency denominated instruments. Going forward, DAB needs to remain vigilant in managing the exchange rate and liquidity in light of potential shocks, while maintaining a comfortable reserve level given the

[7] Together with the World Bank staff, the team organized a roundtable on the debt sustainability framework for low-income countries, IMF's debt limits policy, and World Bank's policy on non-concessional borrowing.

highly uncertain economic environment and heavy dependence on donor inflows. Staff reiterated earlier advice on strengthening DAB's communication strategy to clarify the monetary policy framework and to foster public understanding of and confidence in DAB's actions.

23. **The mission pressed for reforms of the state-owned banks.** These banks appear to operate largely in a public policy vacuum contributing to significant fiscal risk, and remain strategically and operationally deficient because of shortcomings in shareholder oversight, governance, and absence of sustainable business models. While acknowledging the recent progress in improving the financial position of these banks (one remained profitable; another is projected to at least break even for 2016; and the third bank will likely continue to incur losses), staff outlined fundamental problems that need to be tackled with some urgency. In particular, staff emphasized the need for a public policy framework to deal with the state banks, with the authorities welcoming the idea and requesting technical assistance taking into account both international experience and local circumstances, such as capacity challenges. Efforts to privatize New Kabul Bank (NKB) are ongoing, with a few expressions of interest having been received by the March 7 deadline. The authorities are now considering the viability of these bids, as well as alternative options should the latest privatization attempt fail. Staff stressed that NKB's capital deficiency would need to be transparently reflected and dealt with in the budget.

24. **DAB representatives noted that the Financial Supervision Department is scheduled to review the condition of the weak banks, with the results expected in the last quarter of 2016.** The financial position, performance, and prudential compliance of the systemically important vulnerable bank have improved significantly, but concerns remain with regards to related party exposures and credit risk management. The financial position and results of the other vulnerable bank have stabilized, though it still has vacancies in key positions, no audit committee, a supervisory board which is not in full compliance with banking legislation, and weak internal controls. The Bad Debt Commission, established to assist state-owned banks with recovering delinquent amounts, is reportedly making progress, meeting regularly and having issued operational procedures; its success contingent on involvement of high-level officials.

25. **The authorities stressed that the most pressing economic problem the country faces is weak growth.** They noted that this puts upward pressure on unemployment and increases poverty, contributing to alienation of the poorer segments of population, hence fueling insurgencies and undermining efforts to secure peace. The National Development Strategy, to be finalized later this year, along with analytical work undertaken by development partners, will help identify ways to tackle fundamental constraints on growth and sectors that could serve as growth engines in the long term. One important element to strengthen policy making is improving the statistical data base, particularly in the areas of national accounts and balance of payments. The mission noted that IMF technical assistance is available to help with these efforts, although for Afghanistan it is currently delivered offsite for security reasons.

B. Next Steps

26. **As the Afghan authorities implement their "transformation decade" plan,[8] they need the support of the international community.** The country remains a poor fragile state where donor aid flows have been critical in supporting reconstruction and growth for more than a decade. This support has allowed the country to make important strides in building its economy, infrastructure, and institutions. While security challenges make it difficult to ignite private sector-led and inclusive growth to its full potential, striving toward it should remain a target and guide for the Afghan government. To that end, the government should aim at eliminating regulatory and administrative barriers for businesses, improving infrastructure, and providing key business services, while simultaneously strengthening macroeconomic management, financial sector, and economic governance structures.

27. **The authorities are interested in a Fund financial arrangement.** They reiterated their interest in a financial arrangement (Extended Credit Facility—ECF) and stressed that a Fund-supported program would boost confidence and catalyze continued reforms supported by donor grants. They called for such a program to be focused and tailored to the local context; to be linked to their upcoming National Development Strategy; to focus on the conditions for durable growth and poverty reduction; and to help secure continued foreign aid.

28. **In turn, donors would welcome the Fund's continuing engagement through a financial arrangement.** They see the Fund as successful in pushing the reform agenda and, in the absence of any Fund arrangement, some may choose to exit. While fatigue has been setting in, aid flows in the next few years are likely to be maintained at or near the current levels, albeit with a shift toward on-budget financing and with strengthened conditionality to ensure results. Donors see a Fund financial arrangement as important in building confidence and support ahead of the Brussels conference.

29. **A possible new financial arrangement would need to be informed by lessons from the past.** Afghanistan has gone through two Fund-supported programs that aimed at establishing macroeconomic stability and laying foundations for structural reforms. While macroeconomic stability was maintained and some of the key reforms were advanced, both programs fell short of their goals. The recently published Ex Post Assessment[9] stressed that the potential gains from a new Fund arrangement will need to be assessed in the context of rising civil insecurity, weak governance, and political instability.

[8] http://mfa.gov.af/en/page/6547/transformation-decade2015-2024.

[9] http://www.imf.org/external/pubs/cat/longres.aspx?sk=43638.0.

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30. **The Afghan authorities are making strong efforts to manage the economy in difficult circumstances.** Political uncertainties and insecurity, fewer international troops, and weak institutional capacity have held back growth and weighed on social outcomes. The national unity government, which started work in late 2014, is seeking economic transformation to achieve durable and inclusive growth over the medium term, but the economic outlook for 2016 and beyond continues to depend on political and security stability, steadfast economic reform, and donor support.

31. **The baseline economic outlook remains subject to significant downside risks.** A further deterioration in security conditions, perhaps due to a stalemate in peace talks with the Taliban or spillovers from the dislocation in the Middle East, a shortfall in donor aid, or acceleration in emigration would weaken growth further. In addition, the still fragile banking system is an important vulnerability. Thus, maintaining the appropriate macroeconomic policy mix and strengthening confidence in economic management are both paramount.

32. **Mobilizing domestic revenues and prioritizing expenditure remain key goals.** The 2016 budget is sound and is expected to generate a small surplus after grants, while allowing for an increase in development and pro-poor spending. Going forward, higher revenue is essential to finance needed development and security outlays and reduce reliance on donor funding. This calls for strengthening revenue administration to improve enforcement and compliance, reducing exemptions, preparing for the eventual introduction of a VAT, and developing a fiscal regime for natural resource taxation. At the same time, prioritizing growing spending needs and making sure that scarce resources are spent efficiently are crucial tasks for the authorities.

33. **Monetary policy needs to remain flexible and adjust to changing conditions while fostering confidence in the domestic currency.** Maintaining low inflation remains an appropriate policy objective for DAB. DAB needs to continue the flexible exchange rate regime while maintaining orderly market conditions. Further development of domestic-currency denominated instruments will be helpful in facilitating monetary policy implementation. Strengthening communication channels with banks and the general public is also important.

34. **Financial sector reforms will remain critical both to overall stability and to economic development.** While there has been progress in bank supervision, regulation, and legislation, financial stability and DAB's regulatory and supervisory frameworks require further bolstering to address the remaining issues (including risk-based supervision, implementation of anti-money laundering and combating the financing of terrorism (AML/CFT) measures, and consolidated supervision). The authorities also need to push ahead with the planned strengthening of vulnerable and weak banks and reforming the state-owned banks, including the privatization of (or pursuit of other viable options regarding) the NKB.

35. **Sustained progress in strengthening anti-corruption measures and effectively implementing AML/CFT frameworks remains critical to improve the business environment**

and build trust and accountability. This includes strengthening anti-corruption legal and institutional frameworks and enforcement, including in relation to asset declaration by senior officials, and mobilization of the AML/CFT framework to tackle macro-critical economic crimes. The progress made on AML/CFT is welcome, but further efforts are needed to exit the FATF monitoring process, help ensure that the banking sector maintains its international correspondent relationships, and allow the detection of illicit flows.

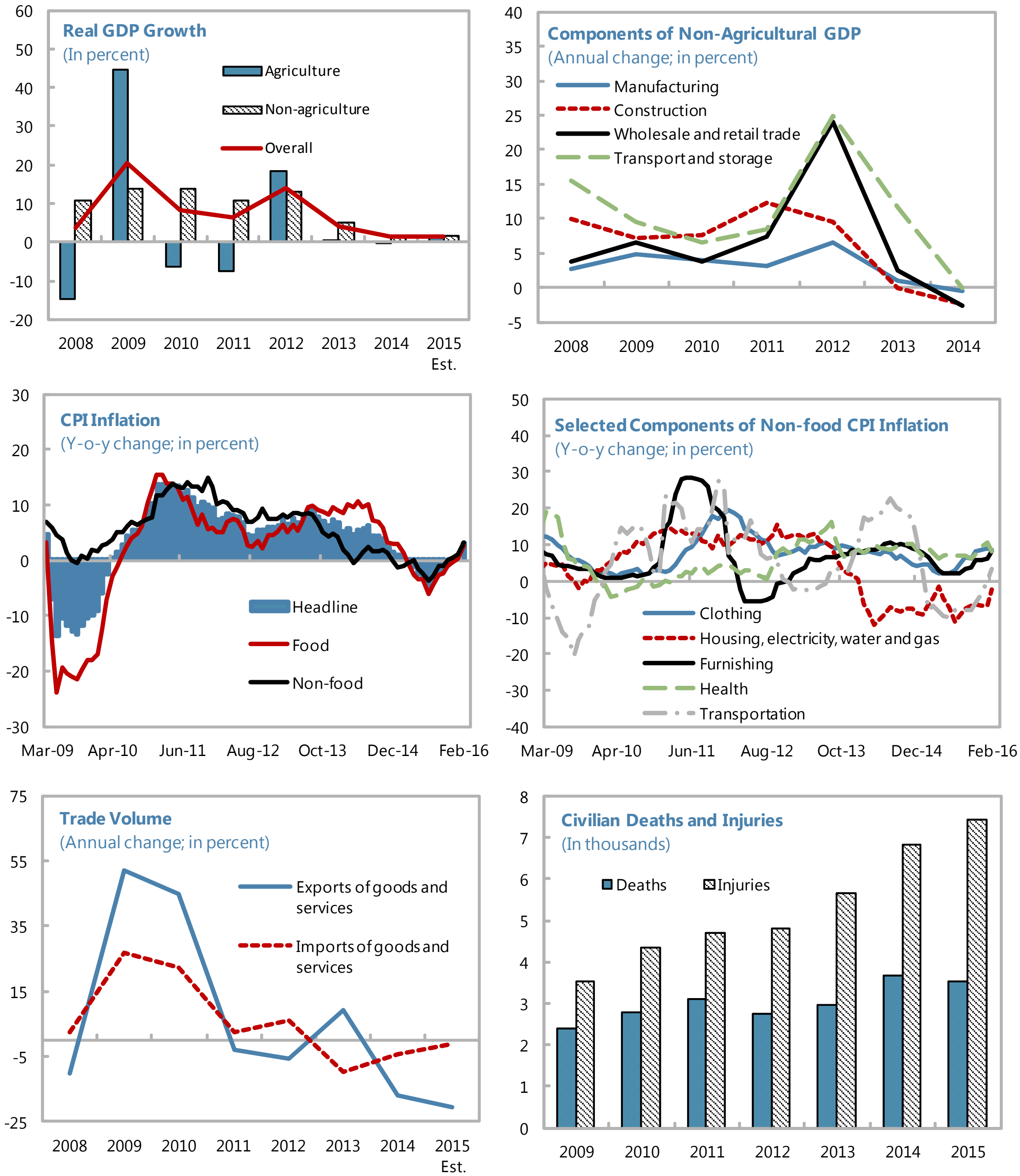
36. **With limited macro-policy space to get the economy moving, structural reform is critical.** While low growth is the central economic problem, a large debt-financed increase in infrastructure spending would not be advisable at present. Instead, concessional borrowing in small amounts, subject to debt sustainability considerations, sound governance, and project appraisal by the World Bank and Asian Development Bank, would be a good start and can be expanded over time. However, a sustainable private sector-led development model would envisage mostly a facilitative role for the public sector, especially with regard to strengthening the business climate, legal and regulatory framework, and access to finance. The authorities' forthcoming National Development Strategy promises to offer a road map for reforms that can unlock Afghanistan's potential. Finally, there is an urgent need to improve Afghanistan's statistical database to strengthen economic monitoring and policy making.

37. **Staff has continued its close engagement with the Afghan authorities through policy advice and technical assistance, including in the context of the nine-month SMP.** The purpose of the SMP was to address fiscal and banking vulnerabilities; preserve macroeconomic stability, while laying the ground for sustainable inclusive growth; and to build a track record in support of a possible subsequent financial arrangement.

38. **Performance under the SMP was satisfactory and therefore staff recommends completion of the second review.** All end-December quantitative targets and most structural benchmarks were met. The requirements of the unmet benchmarks were completed by the end of the SMP through approval of related regulations. From a broader perspective, staff is of the view that the SMP has delivered on its main objectives, and we commend the authorities for ably implementing the program under challenging circumstances.

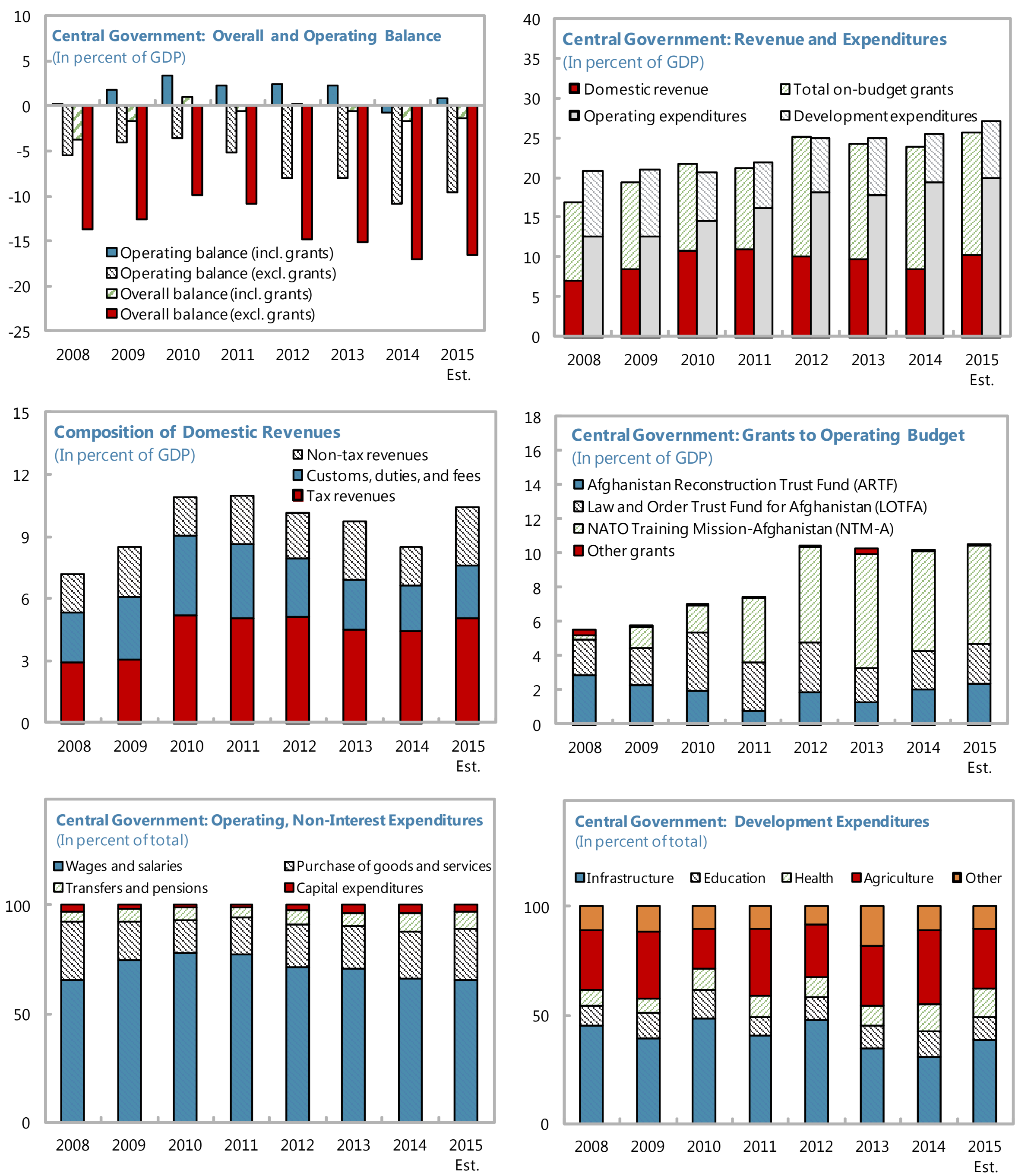
39. **With the completion of the review, the authorities have expressed interest in a new Fund financial arrangement in the form of an ECF.** Successful performance under the SMP would support such a request. By providing an anchor and a time bound roadmap for reform, a new multi-year financial arrangement could help address Afghanistan's daunting challenges, which include inadequate growth to improve standards of living and reduce poverty; low revenue relative to comparator countries and the country's spending needs; large gaps in governance; and significant financial sector vulnerabilities.

Figure 1. Islamic Republic of Afghanistan: Real Sector



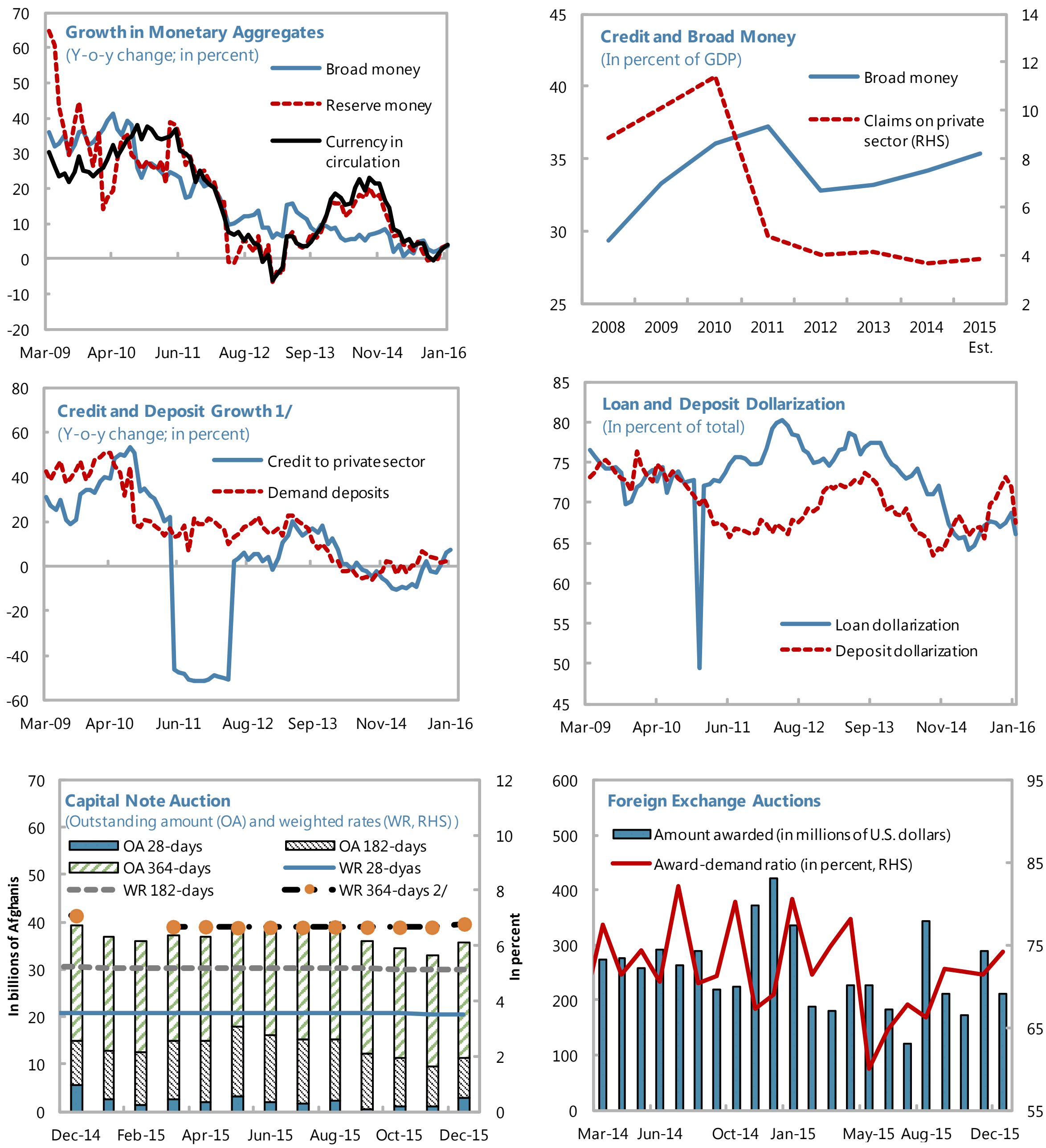
Sources: Afghan authorities; United Nations Assistance Mission in Afghanistan; and IMF staff calculations.

Figure 2. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities; and IMF staff calculations.

Figure 3. Islamic Republic of Afghanistan: Monetary Sector

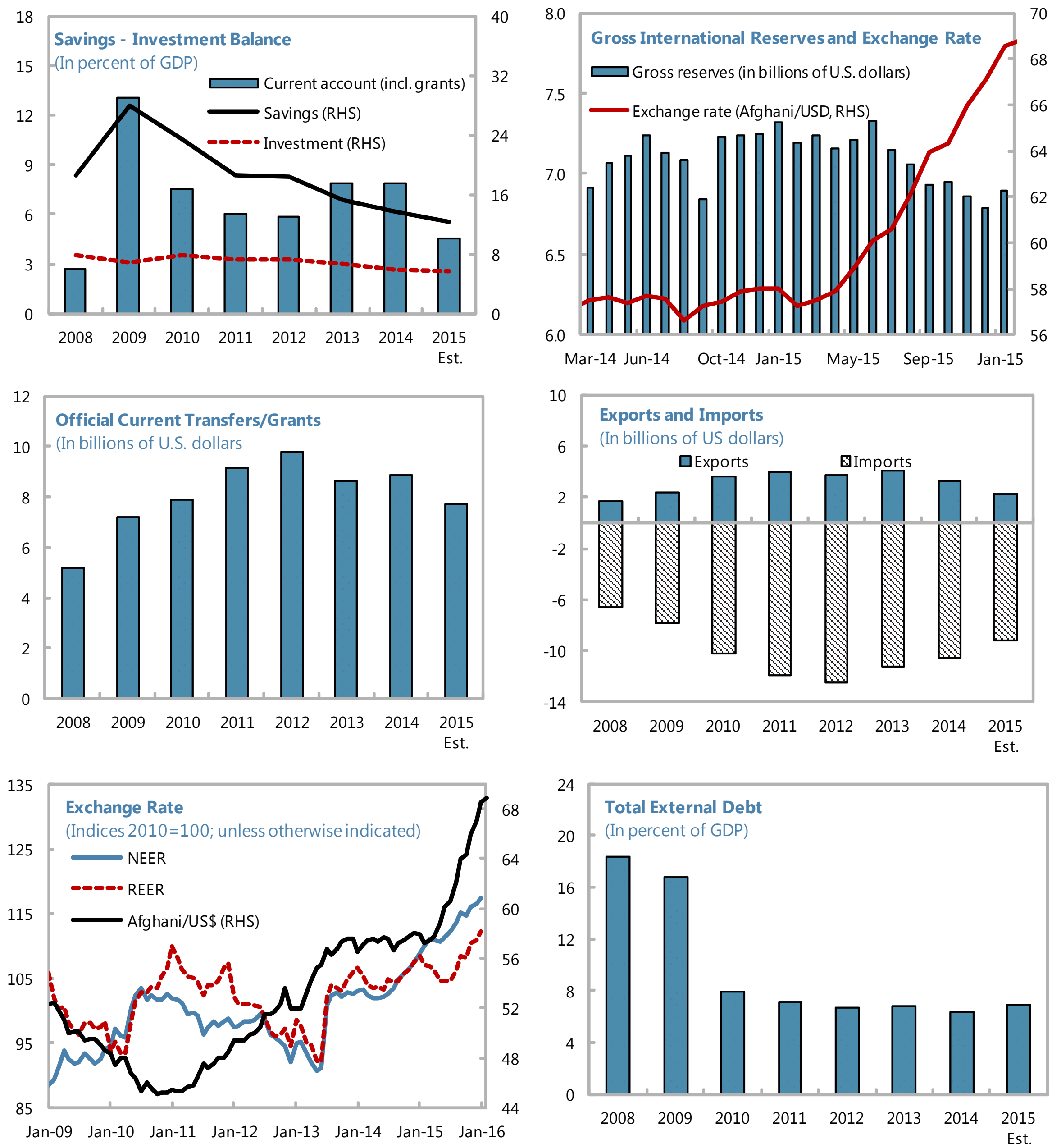


Sources: Afghan authorities; and IMF staff calculations.

1/ The drop in credit to the private sector in 2011 reflects the write-off of Kabul Bank loans.

2/ Bids were rejected for Jan-15 and Feb-15.

Figure 4. Islamic Republic of Afghanistan: External Sector



Sources: Afghan authorities; and IMF staff calculations.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2012–16

(Quota: SDR 323.8 million)
(Population: approx. 30.6 million)
(Per capita GDP: approx. US$654; 2014)
(Poverty rate: 35.8 percent; 2011)
(Main exports: opium, US$2.7 billion; carpets, US$83.4 million; 2014)

	2012	2013	2014	2015	2016
				Est.	Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)				
Real GDP	14.0	3.9	1.3	1.5	2.0
Nominal GDP (in billions of Afghanis)	1,034	1,117	1,173	1,174	1,234
Nominal GDP (in billions of U.S. dollars)	20.3	20.2	20.4	19.2	17.3
Consumer prices (period average) 2/	6.4	7.4	4.7	-1.5	3.0
Food	4.7	7.6	7.7	-1.9	...
Non-food	8.7	7.2	1.4	-1.2	...
Consumer prices (end of period) 2/	5.9	7.2	1.5	0.1	2.9
Investment and savings 2/	(In percent of GDP)				
Gross domestic investment	25.3	22.6	21.3	19.4	20.4
Of which: Private	7.2	6.6	5.9	5.7	6.0
Gross national savings	31.2	30.4	29.2	23.9	23.8
Of which: Private	12.9	15.2	15.5	11.7	8.6
Public finances (central government) 3/					
Domestic revenues and grants	25.2	24.3	23.9	25.7	29.8
Domestic revenues	10.1	9.8	8.5	10.4	10.7
Grants	15.1	14.6	15.4	15.2	19.1
Expenditures	25.0	25.0	25.6	27.1	29.0
Operating 4/	18.2	17.8	19.4	20.0	21.0
Development	6.8	7.2	6.2	7.1	8.0
Operating balance (excluding grants) 5/	-8.1	-8.0	-10.9	-9.6	-10.3
Overall balance (including grants)	0.2	-0.6	-1.7	-1.4	0.8
Public debt 6/	6.6	6.8	6.4	6.8	7.8
Monetary sector	(Annual percentage change, end of period, unless otherwise indicated)				
Reserve money	3.9	12.4	13.3	3.1	8.0
Currency in circulation	1.1	12.5	16.7	2.6	8.5
Broad money	8.8	9.4	8.3	3.3	9.7
Interest rate, 28-day capital note (in percent)	2.0	3.4	3.6	3.5	...
External sector 1/	(In percent of GDP, unless otherwise indicated)				
Exports of goods (in U.S. dollars)	609	719	783	670	740
Exports of goods (annual percentage change)	20.5	18.0	9.0	-14.5	10.5
Imports of goods (in U.S. dollars)	10,108	9,168	8,711	8,063	8,350
Imports of goods (annual percentage change)	-1.1	-9.3	-5.0	-7.4	3.6
Merchandise trade balance	-46.8	-41.9	-38.8	-38.5	-44.0
Current account balance					
Excluding official transfers	-42.2	-35.0	-35.5	-35.7	-41.2
Including official transfers	5.9	7.9	7.8	4.5	3.3
Foreign direct investment	0.9	0.5	0.6	0.7	1.0
Total external debt 6/	6.8	6.9	6.4	7.6	7.8
Gross international reserves (in millions of U.S. dollars)	6,867	6,886	7,248	6,786	6,786
Import coverage of reserves 7/	7.3	7.8	9.4	8.5	8.5
Exchange rate (average, Afghanis per U.S. dollar)	50.9	55.4	57.4	61.1	...
Real exchange rate (average, percentage change) 8/	-4.3	-2.7	-0.6	-7.7	...

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

1/ Excluding the narcotics economy.
2/ Revised with improved coverage.
3/ For comparison, 2012 is recalculated from data reported on the solar fiscal year basis (March 21–March 20). Since 2013, the fiscal year runs December 22–December 21 (in most years), which is more aligned with the Gregorian calendar year.
4/ Comprising mainly current spending.
5/ Defined as domestic revenues minus operating expenditures.
6/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
7/ In months of next year's import of goods and services.
8/ CPI-based, vis-a-vis the U.S. dollar.

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2013–21

	2013 Act.	2014 Act.	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Output and prices 1/	(Annual percentage change, unless otherwise indicated)								
Real GDP	3.9	1.3	1.5	2.0	3.0	3.5	4.0	4.0	4.0
Nominal GDP (in billions of U.S. dollars)	20.2	20.4	19.2	17.3	17.4	18.5	19.6	20.9	22.2
Consumer prices (period average) 2/	7.4	4.7	-1.5	3.0	4.5	6.0	6.0	6.0	6.0
Investment and savings 2/	(In percent of GDP, unless otherwise indicated)								
Gross domestic investment	22.6	21.3	19.4	20.4	19.0	17.9	17.8	17.7	17.2
Of which: Private	6.6	5.9	5.7	6.0	6.2	6.4	6.4	6.4	6.4
Gross national savings	30.4	29.2	23.9	23.8	19.2	17.1	16.0	15.3	14.3
Of which: Private	15.2	15.5	11.7	8.6	6.2	5.8	5.8	5.7	5.7
Public finances (central government) 3/									
Domestic revenues and grants	24.3	23.9	25.7	29.8	30.2	30.7	31.1	31.4	31.8
Domestic revenues	9.8	8.5	10.4	10.7	11.1	11.5	11.8	12.2	12.5
Grants	14.6	15.4	15.2	19.1	19.1	19.2	19.3	19.3	19.3
Expenditures	25.0	25.6	27.1	29.0	30.0	30.9	32.3	33.1	34.1
Operating 4/	17.8	19.4	20.0	21.0	22.0	22.9	24.3	25.1	26.1
Development	7.2	6.2	7.1	8.0	8.0	8.0	8.0	8.0	8.0
Operating balance (excluding grants) 5/	-8.0	-10.9	-9.6	-10.3	-10.9	-11.3	-12.5	-12.9	-13.6
Overall budget balance (including grants)	-0.6	-1.7	-1.4	0.8	0.2	-0.2	-1.2	-1.6	-2.3
External sector 1/									
Merchandise trade balance	-41.9	-38.8	-38.5	-44.0	-42.9	-40.1	-38.4	-36.8	-34.8
Current account balance, excluding official grants	-35.0	-35.5	-35.7	-41.2	-40.1	-37.3	-35.5	-33.9	-31.9
Current account balance, including official grants	7.9	7.8	4.5	3.3	0.2	-0.8	-1.8	-2.3	-3.0
Gross reserves (in millions of U.S. dollars)	6,886	7,248	6,786	6,786	6,786	6,786	6,786	6,786	6,786
Import coverage of reserves 6/	7.8	9.4	8.5	8.5	8.3	8.0	7.6	7.3	7.0
Memorandum items:									
Total public debt 7/	6.9	6.4	7.6	8.2	8.1	7.9	8.5	10.1	12.3
Of which: External debt	6.9	6.4	7.6	8.2	8.1	7.9	7.7	7.5	7.3
Domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.9	2.6	4.9
GDP per capita (in U.S. dollars) 8/	660	654	600	528	521	540	562	586	610

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

1/ Excluding the narcotics economy.
2/ Revised with improved coverage.
3/ For comparison, 2012 is recalculated from data reported on the solar fiscal year basis.
4/ Comprising mainly current spending. It is assumed that donors' recurrent expenditure off-budget, mostly in the security sector, is being moved onto the budget by 2021.
5/ Defined as domestic revenues minus operating expenditures.
6/ In months of next year's import of goods and services.
7/ Public sector only. Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
8/ Incorporates the 2012 revision to the UN World Population Prospects.

Table 3a. Islamic Republic of Afghanistan: Central Government Budget, 2013–16

(In billions of Afghanis)

	2013	2014	2015								2016	
	FY	FY	Q1	Q2	Q3	Q4		FY			FY	
	Act.	Act.	Est.	Est.	Est.	SMP 1/	Est.	Budget	SMP 1/	Est.	Budget 2/	Proj. 3/
Revenues and grants	271.9	280.2	70.5	76.8	64.5	125.3	89.6	424.9	337.1	301.4	432.1	368.0
Domestic revenues	109.0	100.0	24.1	28.2	28.8	33.2	41.2	125.0	114.3	122.3	131.0	132.6
Tax revenues	77.4	78.1	14.2	22.7	21.1	32.3	31.7	…	90.3	89.7	…	100.5
Income, profits, and capital gains	27.4	29.5	4.6	8.4	8.0	11.8	11.3	…	32.8	32.3	…	34.1
International trade and transactions	27.3	26.0	5.6	8.0	7.5	8.0	9.3	…	29.1	30.4	…	33.2
Goods and services	17.3	16.6	3.3	4.7	4.6	9.8	8.5	…	22.4	21.1	…	27.0
Other	5.4	5.9	0.7	1.6	1.1	2.7	2.5	…	6.1	5.9	…	6.2
Nontax revenues	31.6	22.0	9.8	5.6	7.7	0.9	9.5	…	23.9	32.6	…	32.0
Grants to operating budget 4/	114.7	119.1	38.7	35.2	24.6	57.5	24.2	161.8	156.1	122.8	150.8	156.4
ARTF	14.2	24.2	2.0	5.7	11.4	14.7	8.3	6.2	33.8	27.4	17.0	38.6
LOTFA	22.4	25.9	7.1	7.2	6.4	6.0	6.7	29.0	26.7	27.5	27.9	24.5
CSTC-A	74.5	68.4	29.5	22.3	6.8	36.8	9.2	121.1	95.4	67.8	105.9	93.3
Other grants	3.6	0.6	0.1	0.0	0.0	0.0	0.0	5.4	0.2	0.2	0.0	0.0
Grants to development budget	48.2	61.1	7.7	13.3	11.1	34.6	24.1	141.0	66.7	56.2	150.3	79.0
Total expenditures	278.9	300.5	44.3	82.2	82.5	127.9	109.3	432.5	336.8	318.3	444.6	358.3
Operating expenditures	198.6	227.9	37.0	57.2	66.6	93.3	74.6	283.5	254.0	235.3	276.1	259.5
Of which: Security	128.7	138.1	…	…	…	…	…	191.1	160.9	145.1	175.6	159.0
Wages and salaries	139.5	150.2	31.4	37.3	40.8	50.5	42.8	157.5	160.0	152.3	167.1	168.7
Purchases of goods and services 5/	38.2	48.2	4.7	10.7	17.5	30.8	22.8	84.3	63.7	55.8	67.9	61.8
Transfers, subsidies, and other	0.0	0.7	0.3	0.3	0.3	1.2	0.4	10.8	2.1	1.3	15.1	3.5
Pensions	11.5	18.9	0.2	7.6	5.1	4.6	4.7	17.5	17.5	17.6	18.9	18.9
Capital expenditures	8.4	9.4	0.3	0.9	2.8	6.2	3.8	11.9	10.2	7.8	6.2	5.8
Interest	1.0	0.4	0.1	0.3	0.1	0.0	0.2	1.5	0.4	0.6	0.9	0.9
Development expenditures:	80.4	72.6	7.3	25.0	15.9	34.6	34.7	152.7	82.9	82.9	168.6	98.7
Infrastructure and natural resources	27.6	21.8	…	…	…	…	…	45.8	24.9	31.6	84.5	37.6
Education	8.5	8.7	…	…	…	…	…	18.3	9.9	8.7	21.1	10.4
Health	7.2	9.1	…	…	…	…	…	19.1	10.3	11.2	18.3	13.3
Agriculture and rural development	22.4	24.9	…	…	…	…	…	52.4	28.5	22.7	27.1	27.0
Discretionary 6/	…	9.9	…	…	…	…	…	28.5	16.2	18.0	48.1	19.7
Operating balance excluding grants	-89.5	-127.9	-12.9	-29.0	-37.7	-60.1	-33.4	-158.5	-139.7	-113.0	-145.1	-127.0
Overall budget balance including grants	-7.0	-20.3	26.2	-5.4	-18.0	-2.6	-19.7	-7.6	0.2	-16.9	-12.5	9.7
less: Kabul Bank bailout cost	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall budget balance	-7.0	-18.4	26.2	-5.4	-18.0	-2.6	-19.7	-7.6	0.2	-16.9	-12.5	9.7
Float and discrepancy 7/	3.8	-3.6	-5.1	7.2	-6.9	1.6	4.6	0.0	4.4	-0.3	0.0	-0.5
Financing	3.3	22.0	-21.1	-1.8	24.9	1.0	15.1	7.6	-4.6	17.2	12.5	-9.2
Sale of nonfinancial assets 8/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	1.4	1.8	0.2	0.2	0.0	0.8	0.7	7.4	1.2	1.1	3.0	1.8
Domestic (net)	1.8	20.1	-21.3	-2.0	24.9	0.2	14.4	0.2	-5.8	16.0	9.5	-11.0
Central bank, change in	1.8	20.1	-21.3	-2.0	24.9	0.2	14.4	0.2	-5.8	16.0	9.5	-11.0
Government deposits	2.1	21.8	-19.8	-3.2	24.5	0.5	13.6	3.0	-6.5	15.1	6.7	-13.7
Claims on government	-0.3	-1.7	-1.5	1.2	0.4	-0.3	0.8	-2.8	0.6	0.9	2.7	2.7
Memorandum items:												
Promissory note (end-of-period stock)	29.1	27.7	27.8	27.9	28.1	28.3	28.2	19.8	28.3	28.2	28.0	28.0
Propoor spending 9/	25.1	36.6	6.5	7.3	8.8	10.0	10.3	39.8	32.4	32.9	36.6	36.6

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

1/ Figures as of updated in the first review of the SMP and published in the November 2015 Staff Report.

2/ Details of financing to be firmed with the Treasury.

3/ (Proj) Adjusted to include assessment of revenue, operating budget execution rates, restraint of discretionary development spending, and expected donor disbursements.

4/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;
CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)

5/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.

6/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.

7/ Positive number indicates that expenditures have been recorded, but not yet executed.

8/ Includes signature bonus payments for the Aynak copper mine.

9/ Propoor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2013–16

(In percent of GDP)

	2013	2014	2015								2016	
	FY	FY	Q1	Q2	Q3	Q4		FY			FY	
	Act.	Act.	Est.	Est.	Est.	SMP 1/	Est.	Budget	SMP 1/	Est.	Budget 2/	Proj. 3/
Revenues and grants	24.3	23.9	6.0	6.5	5.5	10.7	7.6	36.2	28.7	25.7	35.0	29.8
Domestic revenues	9.8	8.5	2.0	2.4	2.5	2.8	3.5	10.6	9.7	10.4	10.6	10.7
Tax revenues	6.9	6.7	1.2	1.9	1.8	2.8	2.7	...	7.7	7.6	...	8.1
Income, profits, and capital gains	2.5	2.5	0.4	0.7	0.7	1.0	1.0	...	2.8	2.8	...	2.8
International trade and transactions	2.4	2.2	0.5	0.7	0.6	0.7	0.8	...	2.5	2.6	...	2.7
Goods and services	1.5	1.4	0.3	0.4	0.4	0.8	0.7	...	1.9	1.8	...	2.2
Other	0.5	0.5	0.1	0.1	0.1	0.2	0.2	...	0.5	0.5	...	0.5
Nontax revenues	2.8	1.9	0.8	0.5	0.7	0.1	0.8	...	2.0	2.8	...	2.6
Grants to operating budget 4/	10.3	10.2	3.3	3.0	2.1	4.9	2.1	13.8	13.3	10.5	12.2	12.7
ARTF	1.3	2.1	0.2	0.5	1.0	1.3	0.7	0.5	2.9	2.3	1.4	3.1
LOTFA	2.0	2.2	0.6	0.6	0.5	0.5	0.6	2.5	2.3	2.3	2.3	2.0
CSTC-A	6.7	5.8	2.5	1.9	0.6	3.1	0.8	10.3	8.1	5.8	8.6	7.6
Other grants	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Grants to development budget	4.3	5.2	0.7	1.1	0.9	2.9	2.1	12.0	5.7	4.8	12.2	6.4
Total expenditures	25.0	25.6	3.8	7.0	7.0	10.9	9.3	36.8	28.7	27.1	36.0	29.0
Operating expenditures	17.8	19.4	3.1	4.9	5.7	7.9	6.4	24.1	21.6	20.0	22.4	21.0
Of which: Security	11.5	11.8	...	...	...	...	...	16.3	13.7	12.4	14.2	12.9
Wages and salaries	12.5	12.8	2.7	3.2	3.5	4.3	3.6	13.4	13.6	13.0	13.5	13.7
Purchases of goods and services 5/	3.4	4.1	0.4	0.9	1.5	2.6	1.9	7.2	5.4	4.7	5.5	5.0
Transfers, subsidies, and other	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.9	0.2	0.1	1.2	0.3
Pensions	1.0	1.6	0.0	0.6	0.4	0.4	0.4	1.5	1.5	1.5	1.5	1.5
Capital expenditures	0.7	0.8	0.0	0.1	0.2	0.5	0.3	1.0	0.9	0.7	0.5	0.5
Interest	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Development expenditures:	7.2	6.2	0.6	2.1	1.4	2.9	3.0	13.0	7.1	7.1	13.7	8.0
Infrastructure and natural resources	2.5	1.9	...	...	...	...	...	3.9	2.1	2.7	6.8	3.0
Education	0.8	0.7	...	...	...	...	...	1.6	0.8	0.7	1.7	0.8
Health	0.6	0.8	...	...	...	...	...	1.6	0.9	1.0	1.5	1.1
Agriculture and rural development	2.0	2.1	...	...	...	...	...	4.5	2.4	1.9	2.2	2.2
Discretionary 6/	...	0.8	...	...	...	...	...	2.4	1.4	1.5	3.9	1.6
Operating balance excluding grants	-8.0	-10.9	-1.1	-2.5	-3.2	-5.1	-2.8	-13.5	-11.9	-9.6	-11.8	-10.3
Overall budget balance including grants	-0.6	-1.7	2.2	-0.5	-1.5	-0.2	-1.7	-0.6	0.0	-1.4	-1.0	0.8
less: Kabul Bank bailout cost	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall budget balance	-0.6	-1.6	2.2	-0.5	-1.5	-0.2	-1.7	-0.6	0.0	-1.4	-1.0	0.8
Float and discrepancy 7/	0.3	-0.3	-0.4	0.6	-0.6	0.1	0.4	0.0	0.4	0.0	0.0	0.0
Financing	0.3	1.9	-1.8	-0.2	2.1	0.1	1.3	0.6	-0.4	1.5	1.0	-0.7
Sale of nonfinancial assets 8/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External loans (net)	0.1	0.2	0.0	0.0	0.0	0.1	0.1	0.6	0.1	0.1	0.2	0.1
Domestic (net)	0.2	1.7	-1.8	-0.2	2.1	0.0	1.2	0.0	-0.5	1.4	0.8	-0.9
Central bank, change in	0.2	1.7	-1.8	-0.2	2.1	0.0	1.2	0.0	-0.5	1.4	0.8	-0.9
Government deposits	0.2	1.9	-1.7	-0.3	2.1	0.0	1.2	0.3	-0.6	1.3	0.5	-1.1
Claims on government	0.0	-0.1	-0.1	0.1	0.0	0.0	0.1	-0.2	0.1	0.1	0.2	0.2
Memorandum items:												
Promissory note (end-of-period stock)	2.6	2.4	2.4	2.4	2.4	2.4	2.4	1.7	2.4	2.4	2.3	2.3
Propoor spending 9/	2.2	3.1	0.6	0.6	0.8	0.8	0.9	3.4	2.8	2.8	3.0	3.0

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

1/ Figures as of updated in the first review of the SMP and published in the November 2015 Staff Report.

2/ Details of financing to be firmed with the Treasury.

3/ (Proj) Adjusted to include assessment of revenue, operating budget execution rates, restraint of discretionary development spending, and expected donor disbursements.

4/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan;
CSTC-A: Combined Security Transition Command - Afghanistan (now NTM-A: NATO Training Mission - Afghanistan)

5/ 2015 figure includes about Af 2.85 billion arrears, which are repaid.

6/ 2015 figure includes about Af 7 billion discretionary development arrears, which are repaid.

7/ Positive number indicates that expenditures have been recorded, but not yet executed.

8/ Includes signature bonus payments for the Aynak copper mine.

9/ Propoor spending covers ministries of education, labor and social affairs, martyrs and disabled, public health.

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2013–16

(At current exchange rates)

	2013	2014	2015					2016
	Dec. 21	Dec. 21	March 19	June 21	Sep. 21	Dec. 21	Dec. 21	Dec. 21
	Act.	Act.	Act.	Act.	Act.	SMP	Act.	Proj.
	(In billions of Afghanis, unless otherwise indicated)							
Net foreign assets	382.5	409.4	408.0	433.1	432.6	418.3	449.6	493.7
Foreign assets	403.8	429.0	426.0	452.4	452.3	436.6	470.1	517.1
Foreign exchange reserves	390.0	420.9	418.3	444.7	443.7	428.4	461.8	507.6
Other foreign assets	13.8	8.1	7.8	7.7	8.6	8.3	8.3	9.4
Foreign liabilities	-21.2	-19.5	-18.1	-19.3	-19.7	-18.3	-20.5	-23.4
Net domestic assets	-183.8	-184.2	-200.8	-224.7	-213.3	-168.3	-217.5	-243.0
Domestic assets	-110.9	-105.6	-122.9	-132.1	-105.6	-100.6	-99.2	-118.8
Net claims on government	-58.9	-41.7	-61.7	-68.0	-47.0	-42.1	-37.3	-40.2
Gross claims on government	50.3	47.2	45.8	47.2	47.7	46.6	48.6	51.4
Of which: MoF promissory note 1/	29.1	27.7	27.8	27.9	28.1	28.3	28.2	28.0
Domestic currency deposits	-18.3	-20.0	-21.3	-27.1	-16.8	-19.9	-10.6	-11.0
Foreign currency deposits 2/	-90.9	-68.9	-86.3	-88.1	-77.8	-68.8	-75.3	-80.5
Other claims	-52.0	-63.9	-61.1	-64.1	-58.7	-58.5	-62.0	-78.7
Other items net	-72.9	-78.6	-77.9	-92.5	-107.6	-67.7	-118.3	-124.1
Reserve money	198.8	225.2	207.2	208.5	219.4	250.0	232.1	250.7
Currency in circulation	168.8	197.0	182.4	187.4	195.9	218.6	202.2	219.4
Bank deposits (Afghani denominated)	30.0	28.2	24.8	21.1	23.5	31.3	30.0	31.4
Memorandum items:								
International reserves, in millions of U.S. dollars								
Net	6,382	6,694	6,706	6,816	6,494	6,844	6,273	6,287
Gross	6,886	7,248	7,238	7,324	6,931	7,377	6,786	6,786
Interest rate, 28-day capital notes (percent)	3.4	3.6	3.6	3.6	3.5	...	3.5	...
Exchange rate (Afghanis per U.S. dollar)	56.6	58.1	57.8	60.7	63.9	...	68.1	...

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

1/ A nonmarketable security issued to DAB by the ministry of finance for the cost of a lender of last resort assistance to Kabul Bank.
2/ Includes Afghanistan's SDR holdings (MoF is the fiscal agent for the IMF).

Table 4b. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2013–16

(At program exchange rates)[1/]

	2013	2014	2015					2016
	Dec. 20	Dec. 21	March 19	June 21	Sep. 21	Dec. 21		Dec. 21
	Act.	Act.	Act.	Act.	Act.	SMP	Prel.	Proj.
	(In billions of Afghanis, unless otherwise indicated)							
Net foreign assets	387.6	409.4	415.1	415.0	398.4	418.3	393.3	407.2
Foreign assets	408.2	429.0	434.3	434.0	416.9	436.6	411.6	426.3
Foreign exchange reserves	394.1	420.9	426.5	426.6	409.1	428.4	404.5	418.9
Other foreign assets	14.0	8.1	7.8	7.4	7.9	8.3	7.1	7.4
Foreign liabilities	-20.6	-19.5	-19.1	-19.0	-18.5	-18.3	-18.3	-19.1
Net domestic assets	-188.8	-184.2	-208.0	-206.6	-179.0	-168.3	-161.2	-156.5
Domestic assets	-113.4	-105.6	-123.4	-128.1	-98.5	-100.6	-86.9	-103.2
Net claims on government	-61.0	-41.7	-61.8	-64.9	-41.5	-42.1	-28.9	-27.0
Gross claims on government	49.6	47.2	46.9	46.9	46.6	46.6	46.5	47.1
Of which: MoF promissory note 2/	29.1	27.7	27.8	27.9	28.1	28.3	28.2	28.0
Domestic currency deposits	-18.3	-20.0	-21.3	-27.1	-16.8	-19.9	-10.6	-11.0
Foreign currency deposits 3/	-92.3	-68.9	-87.5	-84.7	-71.3	-68.8	-64.8	-63.1
Other claims	-52.3	-63.9	-61.6	-63.2	-56.9	-58.5	-58.0	-76.2
Other items net	-75.5	-78.6	-84.5	-78.4	-80.6	-67.7	-74.2	-53.3
Reserve money	198.8	225.2	207.2	208.5	219.4	250.0	232.1	250.7
Currency in circulation	168.8	197.0	182.4	187.4	195.9	218.6	202.2	219.4
Bank deposits (Afghani denominated)	30.0	28.2	24.8	21.1	23.5	31.3	30.0	31.4
Memorandum items:								
Net international reserves								
(At program rates, in millions of U.S. dollars)	6,293	6,694	6,800	6,831	6,600	6,844	6,443	6,637
Money growth (year-on-year, in percent)								
Reserve money	12.4	13.3	6.7	2.4	-0.1	11.0	3.1	8.0
Currency in circulation	12.5	16.7	7.8	3.7	-1.4	11.0	2.6	8.5

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

1/ Program exchange rates as of Dec. 21, 2014 are applied to value foreign currency-denominated components.

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

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

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2013–16[1/]

	2013	2014	2015					2016
	Dec. 21	Dec. 21	Mar. 19	June 21	Sep. 22	Dec. 21		Dec. 21
	Act.	Act.	Act.	Act.	Act.	SMP	Act.	Proj.
			(In billions of Afghanis)					
Net foreign assets	465.9	488.4	484.2	511.3	516.6	498.4	535.0	589.4
Foreign assets	495.6	516.1	510.3	539.0	545.8	525.3	566.2	624.9
Central bank	403.8	429.0	426.0	452.4	451.1	436.6	470.1	517.1
Commercial banks	91.9	87.1	84.3	86.6	94.7	88.7	96.1	107.8
Foreign liabilities	-29.7	-27.7	-26.1	-27.8	-29.2	-27.0	-31.2	-35.5
Central bank	-21.2	-19.5	-18.1	-19.3	-19.7	-18.3	-20.5	-23.4
Commercial banks	-8.5	-8.2	-8.1	-8.5	-9.5	-8.6	-10.7	-12.1
Net domestic assets	-95.3	-86.8	-110.4	-130.2	-120.5	-74.9	-120.2	-134.2
Net domestic credit	-13.9	0.5	-22.1	-26.8	-4.4	4.5	3.9	5.9
Nonfinancial public sector	-59.9	-42.6	-62.6	-68.8	-47.7	-43.0	-41.7	-44.9
Central bank	-58.9	-41.7	-61.7	-68.0	-47.0	-42.1	-37.3	-40.2
Commercial banks	-1.0	-0.9	-0.8	-0.8	-0.8	-0.9	-4.4	-4.7
Private sector	46.1	43.0	40.5	42.0	43.3	47.5	45.6	50.8
Other items net	-81.4	-87.2	-88.3	-103.4	-116.1	-79.4	-124.0	-140.2
Broad money M2	370.7	401.6	373.8	381.1	396.1	423.4	414.8	455.2
Narrow money M1	350.7	384.2	354.0	358.2	373.1	403.2	389.9	427.5
Currency outside banks	161.9	188.5	174.2	177.7	190.2	210.9	196.1	212.7
Currency in circulation	168.8	197.0	182.4	187.4	195.9	218.6	202.2	219.4
Currency held by banks	6.9	8.5	8.2	9.6	5.7	7.8	6.0	6.7
Demand deposits	188.8	195.7	179.8	180.5	182.9	192.3	193.8	214.9
Other deposits	20.0	17.4	19.8	22.8	22.9	20.2	24.9	27.6
			(12-month percentage change)					
M2	9.4	8.3	3.8	1.4	2.9	10.0	3.3	9.7
M1	9.9	9.5	4.4	1.0	1.9	10.1	1.5	9.6
Currency outside banks	13.4	16.4	7.3	2.8	1.6	11.1	4.1	8.4
Net credit to the private sector	10.1	-6.6	-9.1	-9.3	-2.5	7.0	5.9	5.0
			(In percent of GDP)					
M2	33.2	34.2	31.8	32.5	33.7	33.9	35.3	36.9
M1	31.4	32.7	30.1	30.5	31.8	32.3	33.2	34.6
Memorandum items:								
M2 velocity	3.0	2.9	3.1	3.1	3.0	3.0	2.8	2.7
Reserve money multiplier	1.9	1.8	1.8	1.8	1.8	1.7	1.8	1.8
Banking sector								
Loan dollarization (percent)	75.9	67.4	65.7	66.3	67.5	71.1	68.8	68.8
Deposit dollarization (percent)	69.0	65.8	67.1	66.9	70.5	63.4	72.0	72.0
Currency-to-deposit ratio (percent)	80.9	92.4	91.4	92.2	95.2	102.9	92.4	90.5
Loans-to-deposit ratio (percent)	22.1	20.2	20.3	20.7	21.0	22.3	20.8	21.0

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

[1/] End of period. Data underlying the survey are not fully consistent because the central bank and the public banks use the solar calendar, while commercial banks use the Gregorian calendar.

[2/] At program rates, (i.e., excluding valuation changes of the foreign exchange component). The decline in 2011 reflects a write-down of bad loans at Kabul Bank.

Table 6. Islamic Republic of Afghanistan: Balance of Payments, 2012–16 1/

	2012	2013	2014	2015		2016
	Act.	Act.	Act.	SMP 7/	Est.	Proj.
	(In millions of U.S. dollars, unless otherwise indicated)					
Current account	1,191	1,589	1,604	660	872	578
Excluding official grants	-8,571	-7,069	-7,247	-8,579	-6,855	-7,125
Trade balance	-9,499	-8,450	-7,928	-8,429	-7,394	-7,610
Export of goods and services	3,745	4,018	3,233	2,749	2,279	2,288
Goods	609	719	783	949	670	740
Services	3,136	3,300	2,450	1,800	1,609	1,547
Import of goods and services	12,527	11,256	10,532	11,375	9,233	9,543
Goods	10,108	9,168	8,711	9,377	8,063	8,350
Services	2,418	2,088	1,821	1,998	1,169	1,193
Income, net	312	297	147	179	147	171
Of which: Interest on official loans	2	5	5	5	5	5
Current transfers, net	9,661	8,530	8,723	9,108	7,678	7,663
Of which: Official /2	9,762	8,658	8,851	9,239	7,727	7,703
Financial account, net	-199	-14	123	-508	-1,139	-591
Foreign direct investment	181	108	123	123	142	172
Portfolio investment	-19	-67	-52	-57	-59	-64
Official loans 3/	56	17	-79	21	43	25
Other investment	-306	-72	131	-595	-1,265	-724
Errors and omissions	-402	-1,246	-1,298	0	0	0
Overall balance	590	328	429	150	-267	-13
Financing	-590	-328	-429	-150	267	13
Central bank's gross reserves ('-' = accumulation)	-605	-316	-459	-129	288	0
Use of Fund resources, net	14	-13	-20	-21	-20	12
Disbursements 4/	18	0	0	0	0	33
Repayments	4	13	20	21	20	21
Debt relief ('-' = forgiveness)	0	0	50	0	0	0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Gross international reserves, central bank	6,867	6,886	7,248	7,377	6,786	6,786
Import coverage of reserves 5/	7.3	7.8	9.4	7.5	8.5	8.5
External debt stock, official 6/	1,345	1,362	1,299	1,350	1,313	1,350
in percent of GDP	6.6	6.9	6.4	6.3	7.4	7.8
Current account, in percent of GDP	5.9	7.9	7.8	3.1	4.5	3.3
Trade balance, in percent of GDP	-46.8	-41.9	-38.8	-39.2	-38.5	-44.0
Export of goods and services, in percent of GDP	18.5	19.9	15.8	14.3	11.9	13.2
Import of goods and services, in percent of GDP	61.7	55.8	51.5	59.2	48.1	55.2
Official grants, in percent of GDP	48.1	42.9	43.3	48.1	40.2	44.6

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

1/ BoP data exclude the narcotics economy.
2/ Capital transfers are difficult to identify and are thus included in current transfers.
3/ Excluding IMF.
4/ Disbursements in 2016-18 are conditional on the board approval for a Fund financial arrangement following a succsessful SMP.
5/ In months of next year's import of goods and services.
6/ Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
7/ Figures as of updated in the first review of the SMP and published in the November 2015 Staff Report.

Table 7. Islamic Republic of Afghanistan: Quantitative Targets, 2015[1/]

		SMP 3/							
	Dec. 21, 2014	Sep. 22, 2015				Dec. 21, 2015			
	Beginning stocks	Indicative targets				Quantitative targets			
		Prog.	Adj.	Act.		Prog.	Adj.	Prel.	
	(In billions of Afghanis, unless otherwise indicated)								
Revenues (floor)	…	81.6	...	81.1	×	114.4		122.3	✓
Operating budget deficit, excluding grants (indicative target: ceiling)	…	89.0	...	79.6	✓	139.6		113.0	✓
Treasury cash balance (indicative target: floor)	…	5.0	...	11.5	✓	5.0		12.0	✓
Net credit to government from DAB (ceiling)	-41.7	-6.2	7.5	0.2	✓	-1.2	31.0	-12.8	✓
Reserve money (ceiling)	225.2	20.1	...	-5.8	✓	15.8		6.9	✓
Currency in circulation (indicative target: ceiling)	197.0	19.6	...	-1.1	✓	13.8		5.2	✓
Social and other priority spending (indicative target: floor)	…	24.3	...	22.6	×	32.4		32.9	✓
International reserves of DAB (floor; in millions of U.S. dollars)	6,694	112.5	-123	-94	✓	0	-533	-250	✓
Nonconcessional external debt, new (ceiling) 2/	…	0.0	...	0.0		0.0		0.0	
Short-term external debt (ceiling) 2/	…	0.0	...	0.0		0.0		0.0	
External payments arrears, new (ceiling) 2/	…	0.0	...	0.0		0.0		0.0	
Borrowing by public enterprises in need of restructuring—from DAB or state-owned banks, or government-guaranteed (ceiling) 2/	…	0.0	...	0.0		0.0		0.0	
Memorandum items:									
Nominal external concessional borrowing (volume of new debt in 2015, USD million) 2/	…	…	…	…				35.0	
Reference values for the adjustors									
Core budget development spending	…	49.7	-1.5	48.2		83.0	-0.1	82.9	
External financing of the core budget and sale of nonfinancial assets 4/	…	144.8	-13.7	131.1		224.1	-43.9	180.2	

Source: Afghan authorities.

1/ The quantitative targets, indicative targets, their adjustors, and program exchange rates will be defined in the Technical Memorandum of Understanding (TMU). Program exchange rates as of December 21, 2014 are used.

2/ These quantitative targets apply on a continuous basis. Concessional borrowing of $33.1 million is projected in 2015 and, currently, borrowing is not planned in 2016-2017.

3/ Program performance will be monitored based on the quantitative targets for the test dates in June 21, 2015, and December 21, 2015.

4/ Includes operating and development donor assistance, external loans, and sale of non-financial assets.

Attachment I. Structural Benchmarks

Measure	Date	Status as of December 31, 2015	Rationale
The other vulnerable (non-systemic) bank will hire an independent external party by end-June 2015 to audit bad debt recoveries in respect of delinquent amounts that exceed the equivalent of $0.5 million.	End-June 2015	**Met.** Independent external party was hired on September 12, 2015.	Address banking vulnerability.
Promulgate the banking law	End-June 2015	**Met.** Implemented by Presidential decree on August 19, 2015.	Strengthen financial sector and legal framework for dealing with weak banks.
Implement revenue measures proposed in the 2015 budget that require parliamentary approval to yield Af8.9 billion in 2015.	End-June 2015	**Met.** Implemented by Presidential decree on August 17, 2015; one measure was modified keeping its revenue base unchanged. Implementation started immediately, except for the telecommunications fee, which was implemented on September 23, 2015. The parliament approved the measures on January 13, 2016.	Mobilize budget revenue.
The Council of Ministers will issue a revised Regulation under Article 7 of the AML Law on currency reporting at the border, in line with FATF recommendation 32, to strengthen the regulatory regime to monitor the cross border transportation of currency and bearer negotiable instruments and to enable electronic transmission of information from the Customs Department to FinTRACA.	End-June 2015	**Not Met.** However, requirements under this benchmark were later completed. On December 30, 2015 the Cabinet of the Islamic Republic of Afghanistan approved the revised regulation on currency reporting at the borders.	Strengthen measures to detect and combat economic crime.

Structural Benchmarks (continued)			
Measure	**Date**	**Status as of December 31, 2015**	**Rationale**
Revise the banking regulations on asset classification and provisioning. The revisions to the asset classification and provisioning should include: (i) clear and objective definition for the different classification categories of loans in line with international standards and best practices; (ii) minimum general provision to be established on performing loans including standard loans; (iii) changes in the treatment of collateral so that it can be considered in computing the adjusted loan exposures rather than warranting an upgrade in the loan classification if the loan is classified as doubtful or better; however, if the loan is classified as loss, collateral cannot affect classification; (iv) detailed rules and criteria for writing-off loans; and (v) strict measures to be enforced against non-complying banks.	End-September 2015	**Not Met.** However, requirements under this benchmark were later completed. The regulation was approved by the DAB Supreme Council on December 28, 2015 and will come into full effect on October 1, 2016.	Align key regulations with international standards and best practices.
Implement reform plan and re-start sale of NKB. NKB should be offered for sale either through a public announcement of a new tender or by a written letter inviting the bidders that made approved bids in early 2014, requesting them to indicate whether they remain interested in purchasing the bank and to respond by November 15, 2015.	End-September 2015	**Met.** NKB offered for sale on October 28, 2015.	Address banking vulnerability.

Structural Benchmarks (concluded)			
Measure	**Date**	**Status as of December 31, 2015**	**Rationale**
Afghanistan Revenue Department to implement a data-driven risk-based audit case selection process. Develop and implement a data driven process to effectively identify and prioritize high-risk areas. Based upon high-risk areas identified, implement ARD audit plan to effectively allocate available resources to accelerate revenue collections. Establish key performance indicators to continuously assess performance of the risk-based audits. Based upon performance results, update existing audit policies, procedures and guidelines.	End-October 2015	**Met.** Developed a risk-based compliance model and established cross-functional compliance committees in large, medium, and small tax-payers offices (LTO, MTO, and STO) to identify and prioritize high-risk areas, implement and assess risk-based audits, and enhance risk criteria. The establishment of a centralized Risk Analysis and Case Selection Unit was approved in early September 2015 and it is expected to be functional by May 2016. Implementation of risk based audits started in MTO, LTO, and STO. Key performance indicators were developed and the Tax Audit Manual was updated in December 2015. The audit performance indicators show an appreciable improvement in 2015 compared to 2014.	Improve the effectiveness of revenue collection.
Revise the banking regulation on related party lending. The revisions to the regulation on related party lending limits should include: (i) revising the definition of related parties according to international standards; (ii) confirming the limit on related party aggregate exposures to a maximum of 15 percent of the bank's unimpaired capital and reserves; and (iii) in case of any exposure over the limit prescribed in the regulation, deduct such exposure from capital when assessing capital adequacy, unless sufficiently and satisfactorily collateralized.	End-December 2015	**Met.** The regulation was approved by the DAB Supreme Council on December 28, 2015 and will come into full effect on January 1, 2017. The element of the second benchmark specifying a related party aggregate exposure limit was misspecified, in that it contradicts the banking law, and should therefore not be pursued.	Align key regulations with international standards and best practices.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF AFGHANISTAN

April 13, 2016

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In collaboration with other departments, the World Bank, and the Asian Development Bank)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2016)

Membership Status: Joined July 14, 1955; Article XIV.

General Resources Account

	SDR Million	Percent Quota
Quota	323.80	100.00
Fund holdings of currency (Exchange Rate)	323.61	99.94
Reserve Tranche Position	0.19	0.06

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	155.31	100.00
Holdings	84.14	54.18

Outstanding Purchases and Loans

	SDR Million	Percent Quota
ECF Arrangements	54.89	16.95

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov. 14, 2011	Nov. 13, 2014	85.00	24.00
ECF[1]	Jun 26, 2006	Sep 25, 2010	81.00	75.35
Stand-By	July 16, 1975	July 15, 1976	8.50	8.50

[1] Formerly PRGF.

Projected Payments to Fund[1]

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

	Forthcoming				
	2016	**2017**	**2018**	**2019**	**2020**
Principal	8.67	15.02	11.58	7.06	5.37
Charges/Interest	0.03	0.04	0.04	0.08	0.06
Total	**8.69**	**15.06**	**11.62**	**7.14**	**5.43**

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

Implementation of HIPC Initiative:

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

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

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

Implementation of MDRI Assistance: Not Applicable

Implementation of PCDR: Not Applicable

Nonfinancial Relations

Exchange Arrangement

Afghanistan is an Article XIV member country. Afghanistan maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. The authorities confirmed their interest to move to Article VIII status. The *de jure* exchange rate regime is classified as managed floating, although the authorities have been implementing a *de facto* float system with no predetermined path for the exchange rate. On March 22, 2016, the average of the buying and selling exchange rates in cash transactions on the Kabul money exchange market was 68.36 Afghanis per U.S. dollar.

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

Article IV Consultation

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

Safeguards Assessment

An updated safeguards assessment of Da Afghanistan Bank (DAB) was finalized in December 2011. It found that DAB had strengthened some elements of its safeguards framework since the previous assessment (2008), but an effective internal audit mechanism had not been established. The assessment made recommendations to address the risks emerging from the Kabul Bank fraud, including related to central bank autonomy and recapitalization. Since that time, some of the 2011 safeguards recommendations have been implemented, albeit with delay. Amending the law has been difficult, however, and the recommendation concerning the DAB’s legal structure remains outstanding. DAB has continued to publish on its website DAB’s financial statements audited by an international audit firm.

Technical Assistance, 2011–16

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

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

[1] Afghanistan is a participant in the Middle East Technical Assistance Center.

Resident Representatives

Mr. de Schaetzen; August 2002–June 2005

Mr. Charap; June 2005–June 2008

Mr. Abdallah; June 2008–January 2014

RELATIONS WITH THE WORLD BANK

(As of March 2016)

1. The World Bank Group's program in Afghanistan is governed by the joint Interim Strategy Note (ISN) for FY 2012–FY 2014, which focuses on three themes: (i) building the legitimacy and capacity of institutions; (ii) equitable service delivery; and (iii) inclusive growth and jobs. The process for preparing the next country strategy—the Country Partnership Framework for Afghanistan—has been launched, and work on the Systematic Country Diagnostics (SCD) has been completed.

2. Since 2002, the International Development Association (IDA) has committed a total of US$3.6 billion in grants (86 percent) and credits (14 percent) in Afghanistan. Thirty seven development and emergency-reconstruction projects and four budget-support operations have been committed as of end-August 2015. In addition, the Afghanistan Reconstruction Trust Fund (ARTF) has generated US$8.94 billion from 34 donors, and committed US$3.93 billion for the government's recurrent costs and US$4.15 billion for government investment programs. At end of August 2015, the active IDA portfolio was worth US$725.98 million and the active ARTF investment portfolio was worth US$2.8 billion.

3. The Bank also administers the ARTF—the World Bank Group's largest single-country multi-donor trust fund. The ARTF provides grant support to Afghanistan based on a three-year rolling financing strategy. Together, the IDA and the ARTF provide close to US$1 billion per year in grant resources (about US$150 million from IDA and about US$800–US$900 million from the ARTF). The ARTF is a key vehicle for providing the Government with predictable and transparent on-budget financing and provides a platform for policy dialogue between Government and donors.

4. In FY 2016, the World Bank Board approved the Trans-Hindukush Road Connectivity Project in the amount of $250 million, as well as additional financing for an existing project—the Second Customs Reform and Trade Facilitation Project—in the amount of US$21.5 million. Under the ARTF, three new projects were approved including $83 million for Naghlu Hydropower Rehabilitation Project, $6 million for DABS TA, and $50 million for Higher Education Development Project. Additional financing for existing projects included $41 million for the Second Public Financial Management Project and $45 million for the On-farm Water Management Project. As of March 27, 2016, in FY2016 (July 1, 2015–March 27, 2016), US$368 million was disbursed under the Recurrent Cost Window.

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

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

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

7. The Multilateral Investment Guarantee Agency (MIGA) has US$154 million of gross exposure in Afghanistan, supporting telecoms and agribusiness projects. In 2013 MIGA launched its Conflict Affected and Fragile Economies Facility, which is supporting the agency's exposure in Afghanistan. MIGA is currently supporting three projects in Afghanistan, of which one is a joint effort with IFC in the telecoms sector (supporting telecom operator MTN). The other two operations are MIGA-only dairy and cashmere production projects.

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

(March 31, 2016)

1. Joint Management Action Plan (JMAP). The Afghanistan country teams of the World Bank (led by Mr. Saum, country director) and the IMF (led by Mr. Ross until November 2015, and Mr. Duenwald subsequently) held several consultations in 2015 and 2016. The teams regularly exchanged views on the recent economic developments and outlook, identified the macroeconomic priorities and challenges facing Afghanistan, and discussed ways to coordinate their respective work programs.

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

3. The Fund's work program focused on close engagement through the Staff-Monitored Program (SMP) approved in May 2015 and completed in December 2015. It concentrated on the following areas: sustaining macroeconomic stability; advancing fiscal sustainability and strengthening efforts to mobilize domestic revenues; safeguarding the financial sector and improving banking supervision; strengthening economic governance and fight with corruption; improving absorption capacity and government effectiveness. The SMP included a set of quantitative targets, which were met, as well as structural benchmarks which were met, albeit some with delay. As part of the cooperation effort, the World Bank team participated in SMP missions as observer.

4. The Fund focuses its efforts on helping the authorities maintain economic stability, manage the economic transition, and advance important pieces of legislation, including the new banking law, the central bank law, and AML and CFT laws. The Fund has also provided advice on monetary policy, banking supervision, and customs reform. Technical assistance has been provided to the central bank on problem bank management and external sector statistics. The Fund is helping the authorities build on these achievements, including through strengthening economic governance,

advancing structural reforms, central bank capitalization framework, developing a fiscal regime for natural resources, revenue mobilization, further strengthening banking supervision, and improving macroeconomic statistics. The Fund will continue its close engagement with Afghanistan to ensure macroeconomic stability.

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

	Products	Preparations/Mission Timing[1]	Delivery[1]
Fund	ECF program	2011–14	November 2011
	Staff Monitored Program (SMP, new agreement)	February 2015	May 2015
	Article IV Consultation and First Review under the SMP	September 2015	November 2015
	Second and last review under the SMP	February-March, 2016	April 2016
	Areas of Technical Assistance: Bank restructuring, financial sector supervision, revenue administration, customs and border management, tax policy, public financial management, foreign exchange regulation, AML/CFT, banking law, treasury securities, statistics (national accounts, prices, government finance, monetary, balance of payments, GDDS)		
Bank	Financial Sector Rapid Response Project, Supervision	November 2011–November 2016	October 2013
	ARTF IP Program (2015–2017), Preparation of MoU	April–August 2015	September 2015
	Study: Revenue Review	April 2015–May 2016	May 2015
	Economic Monitoring	Continuous	
	Study: Financial Sector Review	May 2016–May 2017	May 2017
	TA to Fiscal Policy Unit	January 2016–June 2018	continuous
	Debt Management Assistance	February 2016–June 2018	continuous
	Growth and Fragility Report	January 2016–December 2016	December 2016
	Sukuk Market and Pension Reform TA	May 2016–June 2018	
	Fiscal Sustainability Analysis (long-term)	January 2016–September 2016	September 2016
Joint	AML/CFT follow-up	Continuous	
	Dialogue on revenue mobilization	Continuous	
	Dialogue on macro-fiscal stability	Continuous	
	Strengthening of the banking sector	Continuous	
	Debt management	Continuous	

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(April 1, 2016)

1. Afghanistan is a founding member of the Asian Development Bank (ADB), established in 1966. Resuming its partnership with Afghanistan, after a hiatus from 1980 to 2001, ADB supports the country's National Development Strategies (NDS) and National Priority Programs (NPPs) as the agreed foundations of the partnership. ADB has demonstrated strong commitment to Afghanistan's development priorities in the London and Kabul conferences in January and July 2010, respectively, and then at the 2012 Chicago and Tokyo conferences, reaffirming its medium to long term partnership at the 2014 London conferences and subsequent meetings of senior officials in 2015.

2. Current ADB operations in Afghanistan are based on the Country Operations Business Plan (COBP) 2015–2017 and the Interim Country Partnership Strategy (CPS) 2014–2015. A new COBP will be prepared, which will be aligned with the Interim CPS (extended to cover 2016) and a new CPS that will be prepared for the period 2017-2020. The COBP is fully aligned with NPPs and the government's priorities in the infrastructure sector—the backbone of economic and social development—with ADB's investments contributing to Afghanistan's socio-economic development in the transformation period. The COBP continues ADB's focus on Afghanistan's energy, transport, and agriculture and natural resources sectors and will promote inclusive economic growth, regional integration, governance, and capacity development. The Interim CPS is also aligned with NPPs and the government's development strategy—Towards Self Reliance—a Strategic Vision Beyond 2025.

3. ADB is one of the largest donors to the government of Afghanistan. By end-December 2015, ADB's total assistance comprising grants, loans, and technical assistance (TA) reached US$4.3 billion. Since 2007, ADB has provided all of its public sector assistance on a 100 percent grant basis. Grants make up around 74 percent of ADB's overall assistance to Afghanistan. In the July 2012 Tokyo Conference, ADB committed another US$1.2 billion to support Afghanistan through 2016.

4. ADB supports co-financing of its projects to increase synergies by combining the strengths of development partners, governments, multilateral financing institutions, commercial organizations, and ADB itself. As of December 31, 2015, the cumulative direct value-added official co-financing amounted to US$605.6 million for 24 investment projects and US$23.7 million for 16 TA projects. ADB manages the Afghanistan Infrastructure Trust Fund (AITF)—a financing modality for development partners and private sector who are interested in pooling resources to finance infrastructure projects in Afghanistan. AITF allows development partners to meet the pledge of 50 percent on-budget and 80 percent alignment with NPPs as agreed in the 2010 Kabul Conference. As of 15 March 2016, the total amount received in AITF was US$395.15 million, with total commitments of US$526.90 million, including funds from Japan (Embassy of Japan, US$127.5 million), United States (USAID, US$113.0 million), United Kingdom (DFID, US$119.6 million out of a total commitment of US$251.4 million), and NATO Trust Fund (US$35 million).

5. ADB is the largest on-budget donor in the transport sector. As of December 31, 2015, ADB has provided US$2.2 billion to construct or upgrade over 1,700 km of regional and national roads across Afghanistan. This includes US$808 million for the Transport Network Development Investment Program, which has more than halved travel times on 570 km of regional and national roads. ADB has also helped rehabilitate four regional airports, increasing passenger volumes now more than double the pre-upgrade levels. ADB funded Afghanistan's first railway line between Mazar-e-Sharif and the border of Uzbekistan, which became fully operational in 2012. To date, about 10 million tons of goods have been transported. ADB supported the establishment of the Afghanistan Railway Authority to regulate and ensure the sustainability of the railway sector.

6. As the largest on-budget donor for Afghanistan's energy sector, ADB has helped deliver electricity to more than 5 million people. To date, ADB has provided nearly US$1.2 billion to support energy infrastructure in Afghanistan. These projects include construction of 1460 km of power transmission lines, 16 substations, 143,000 new power distribution connections to electricity grid and system. The technical assistance projects provide policy and analytical support through the Inter-ministerial Commission (IEC), Renewable Energy, Gas Sector Development Master Plan, and Energy Sector Master Plans. ADB is also contributing to policy dialogue and donor coordination in the sector, including the financing of master plans for the power and gas subsectors. Key regional projects for Afghanistan are being supported under the Central Asia-South Asia Regional Electricity Markets including the Turkmenistan, Afghanistan, Pakistan, and India (TAPI) gas pipeline project as well as the Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, and Pakistan (TUTAP) electricity project.

7. The natural resources sector is another government priority sector assisted by ADB. As of December 31, 2015, total investment reached US$502 million to rehabilitate and establish new irrigation and agricultural infrastructure, and strengthen the institutional environment to facilitate economic growth and improve water resources management. Around 160,000 hectares of irrigated land have been rehabilitated and upgraded, with work continuing on an additional 260,000 hectares. The investments have led to a more efficient use of water resources, a rise in agricultural productivity, and improved farm livelihoods. Over the coming three years, ADB planned to provide about US$400 million for improved water resources management and infrastructure construction that will led to water use efficiency and better agriculture productivity.

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

9. ADB's private sector operations in Afghanistan began in 2004. As of December 31, 2015, cumulative approvals in six projects have amounted to US$198.1 million. Total outstanding balances and undisbursed commitments to private sector projects amounted to US$3.5 million. One of the major private sector projects is the lending to Roshan Cellular Telecommunications Project. ADB provided financial assistance in the form of direct loans totaling US$70 million for Phases 1 and 2 of the project, as well as B loans and a political risk guarantee. In 2008, ADB approved a direct loan of US$60 million to finance Roshan's Phase 3 expansion. In 2012, this project received an award for

Excellence in Fragile States Engagement from the U.S. Treasury. In the financial sector, ADB invested US$2.6 million in Afghanistan International Bank (AIB), thus establishing the first private commercial bank in the post-Taliban regime. Awarded by The Banker Magazine of Financial Times Newspaper as the best bank in Afghanistan for four straight years (2012, 2013, 2014, and 2015), it is the largest and most profitable bank in Afghanistan with a balance sheet just short of US$1 billion. In January 2016, ADB divested its last shares of AIB but had received US$11.2 million from dividends and put options.

10. ADB is an active member of the Joint Coordination and Monitoring Board (JCMB) and the Afghanistan Reconstruction Trust Fund Management Committee. ADB plays an active part in other donor coordination activities, including the JCMB Social and Economic Development Standing Committee, the Ministry of Finance's High Level Committee on Aid Effectiveness, and the Inter-Ministerial Committee on Energy. ADB strongly supports all international policy dialogues on Afghanistan. Furthermore, it takes the lead in the infrastructure sector and regional cooperation-related policy dialogues. ADB is a member of the core donor group to ensure coordination and harmonization among donors and the government over policy reforms and development programs. ADB consults continuously with civil society and non-governmental organizations with regard to project design and implementation.

ISLAMIC REPUBLIC OF AFGHANISTAN: STATISTICAL ISSUES

(As of March 25, 2016)
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The key data shortcomings are in national accounts and in the external sector mainly due to organizational weaknesses and difficult security situation.
National Accounts: The compilation broadly follows the *System of National Accounts 1993 (1993 SNA)*. GDP is compiled by the production and expenditure approaches. Key expenditure aggregates (household consumption, gross fixed capital formation, imports and exports) are available, while changes in inventories are derived residually. Coverage of economic activities is limited due to data gaps which are severe for some provinces and some activities. Foreign trade data should be improved in terms of coverage, concepts, and timeliness. The 2002–2003 base year is more than 10 years old and needs to be updated.
Price Statistics: The CSO compiles and publishes monthly consumer price based on data collected from 10 cities/provinces and the capital city Kabul. Overcoming severe security and resource constraints, CSO has recently undertaken a major overhaul of the CPI, including (i) implementation of full, five-digit Classification of Individual Consumption by Purpose (COICOP); (ii) update of consumer basket weights using data from the 2011/2012 household survey (previous weights dated back to 1987); and (iii) expansion of coverage from six to ten cities/provinces (out of 34). While concepts and compilation practices attempt to follow good practices, there is a scope for additional improvement including further expanding coverage, upgrading the IT system and communication channels with remote provinces, strengthening quality control and field supervision of price collectors, as well as hiring and training more staff.
Government Finance Statistics: Fiscal data are compiled for the central and general government on cash basis based on the Government Finance Statistics Manual 2001 (GFSM 2001). The timeliness and quality of the central and general government core budget data have been improving, particularly after completion of the roll out and connectivity of the Afghanistan Financial Management Information System (AFMIS) to all central government line ministries and agencies in Kabul and all provincial offices. With IMF support, the Ministry of Finance is implementing GFSM 2001, with annual data for both above and below the line transactions being reported. The authorities are reporting monthly GFS data to the IMF for the central government core budget and the ministry is also working on expanding the coverage of monthly and quarterly GFS data to general government.
Monetary and Financial Statistics: Da Afghanistan Bank (DAB) reports the Standardized Report Forms (SRFs) 1SR for DAB, 2SR for the other depository corporations (ODCs), and 5SR for monetary aggregates for publication in the IMF's *International Financial Statistics (IFS)* on a monthly basis with a lag of two months. However, there are data reporting issues arising from the restructuring of the Kabul Bank.

Financial sector surveillance: Afghanistan reports 11 of the 12 core financial soundness indicators (FSIs) and 10 of the 13 encouraged FSIs for deposit takers, and 2 FSIs for real estate markets on a quarterly basis for posting on the IMF's FSI website with one quarter lag.

External sector statistics: Balance of payments and international investment position (IIP) statistics have been compiled according to the fifth edition of the *Balance of Payments Manual*. Recently, the DAB has sent the data converted into the sixth edition of Balance of Payments and International Investment Position Manual format to the STA and now the data is under STA's review. Several TA missions provided by METAC have assisted the DAB in improving international accounts compilation in the past years up to September 2015. Although net errors and omissions remain considerable, data coverage has improved and net errors and omissions have decreased. A direct investment survey is needed and consistently revised historical data should be compiled.

II. Data Standards and Quality	
Afghanistan, which has been a GDDS participant since June 2006, is currently in its successor data dissemination initiative, e-GDDS.	No data ROSC has been done.

Appendix I. Afghanistan: Table of Common Indicators Required for Surveillance

(As of March 25, 2016)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	October 2015	12/7/2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	December 2015	2/13/2016	M	M	M
Reserve/Base Money	December 2015	2/13/2016	M	M	M
Broad Money	December 2015	2/13/2016	M	M	M
Central Bank Balance Sheet	December 2015	2/13/2015	M	M	M
Consolidated Balance Sheet of the Banking System	December 2015	2/13/2016	M	M	M
Interest Rates[2]	December 2015	2/13/2016	D	M	M
Consumer Price Index	December 2015	2/13/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	--	--	--	--	--
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	July. 2015	08/03/15	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2015Q2	08/02/2015	Q	Q	Q
External Current Account Balance	2015Q3	1/11/2016	Q	Q	Q
Exports and Imports of Goods and Services	2015Q1	08/02/15	Q	Q	Q
GDP/GNP	2014/15	06/15/15	A	A	A
Gross External Debt	2015Q1	02/17/2015	Q	Q	Q
International Investment Position[6]	2015Q2	07/27/15	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).