



ISLAMIC REPUBLIC OF AFGHANISTAN

December 2018

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND REQUEST FOR EXTENSION AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the Fourth Review Under the Extended Credit Facility Arrangement, Request for Modification of Performance Criteria, and Request for Extension and Rephasing of the Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2018, following discussions that ended on October 2, 2018, with the officials of Islamic Republic of Afghanistan on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 20, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

**International Monetary Fund
Washington, D.C.**



INTERNATIONAL MONETARY FUND



Press Release No. 18/461
FOR IMMEDIATE RELEASE
December 7, 2018

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fourth Review and Approves Extension
of the Extended Credit Facility Arrangement for the Islamic Republic of Afghanistan**

- Executive Board approves the authorities' request to extend the ECF arrangement until end-December 2019.
- The government's economic program ensures continued policy discipline and decisive reforms that lay the foundation for self-reliance and sustained inclusive growth.
- Continued strong program ownership by the government remains vital to its success.

On December 7, 2018, the Executive Board of the International Monetary Fund (IMF) completed the Fourth Review of Afghanistan's economic program supported by an arrangement under the Extended Credit Facility (ECF).¹ The Board's decision makes available to Afghanistan a disbursement amount equivalent to SDR 4.5 million (about US\$6.2 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 22.5 million (about US\$31.2 million). The three-year ECF arrangement for SDR 32.38 million (or 10 percent of Afghanistan's quota at the time of approval of the arrangement) was approved on July 20, 2016 (see Press Release No. 16/348).

The Executive Board also approved the authorities' request to extend the arrangement to end-December 2019 and their request for modification of performance criteria on net international reserves and net credit to government, reflecting updates to the macroeconomic framework. The extension ensures uninterrupted engagement with the Fund through the election year and provides time for the completion of the sixth review and implementation of additional reforms.

The poor security situation, election-related political uncertainty, and a severe drought are undermining confidence and growth. However, program implementation was satisfactory, despite the challenging environment. The authorities' strong ownership and the sustained backing of donors are critical to the success of the program, especially in the context of continued challenges. Reforms in support of fiscal sustainability, institution building, anti-corruption efforts, and financial stability should continue.

¹ Details on Islamic Republic of Afghanistan's arrangement are available at www.imf.org/external/country/AFG.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“The Government of Afghanistan, guided by the Afghanistan National Peace and Development Framework and supported by the IMF Extended Credit Facility arrangement, remains committed to implementing policies ensuring macroeconomic stability and socially-balanced structural reforms in pursuit of self-reliance, inclusive growth, and poverty reduction.

“The insurgency, regional risks, and uncertainty during the electoral cycle compounded by a devastating drought are clouding the outlook.

“The authorities’ macroeconomic policy mix maintaining fiscal and external stability with low inflation and a flexible exchange rate is appropriate going forward in view of the many challenges facing the country.

“Fiscal policy should focus on sustainability considering risks to revenues and grants and limited financing options. Fair and sustainable domestic revenue mobilization for development needs while protecting pro-poor and pro-growth spending remains a priority. Public financial and investment management should benefit from the newly adopted supportive laws. Policy initiatives should consider good global practices in consultation with the IMF and the international partners.

“Continued financial sector reforms are critical for banking sector stability. Strengthened crisis preparedness, strict monitoring of weak private banks, and state-owned commercial banks’ reform are priorities. The restoration of the central bank’s balance sheet is on track and should continue, while the recovery of stolen Kabul Bank assets should be reignited.

“The anti-corruption agenda, including criminalizing corruption and adopting a law on asset declarations by public officials, has advanced, and needs rigorous enforcement to build confidence.

“Strong program implementation demonstrated by completion of this fourth review remains vital to the success of the reforms fostering inclusive growth in a difficult political and security environment. Continued support of the donor community is critical for Afghanistan’s successful transition to self-reliance. The IMF stands ready to continue to assist Afghanistan through policy advice and capacity development.”