BOXES

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CONTEXT

1. **Over the past decade, Afghanistan has made enormous progress in reconstruction and development, more than doubling its income per capita levels**. Important steps have been taken to lay the foundation for macroeconomic stability and growth, reduce poverty, and raise living standards, despite difficult security conditions and the challenges of rebuilding institutions. With significant reform efforts and donor support, Afghanistan has maintained macroeconomic stability, implemented important structural reforms, and built policy buffers: a comfortable international reserves position, low debt and inflation, and balanced budget and external current account positions, after grants. Progress has also been made toward achieving social and development objectives, including the Millennium Development Goals (MDGs)—Afghanistan is one of 20 fragile and conflict-affected states that have already met one or more MDG targets.

2. **Despite this progress, Afghanistan remains one of the poorest countries in the world**. Security conditions, political uncertainty, and weak institutions have limited growth and weighed on social outcomes. The national poverty rate was 36 percent in 2008 and the country ranked at the bottom 7 percent of countries in the 2012 UN Human Development Index. Poor governance and corruption remain endemic, and a sizable illicit narcotics sector further distorts incentives.

3. **In 2014, Afghanistan faces challenges related to uncertainties about the security and political transitions, which are slowing economic activity**. The international military presence is being drawn down and the government is gradually taking over the management of spending previously managed by donors; these outlays will be financed by donors. The outcomes of presidential and provincial elections in April are not clear and a source of uncertainty. Parliamentary elections are scheduled in 2015.

4. **The international community has delivered substantial financial support and pledged to continue it over the medium term**. At the May 2012 NATO summit in Chicago, Afghanistan's international partners provided assurances to finance security spending, estimated at $4 billion annually over the following decade, towards which the government is expected to make gradually increasing contributions. At the July 2012 conference in Tokyo, donors agreed to continue their support, pledging $16 billion to finance development through 2015, and to sustain aid at similar levels through 2017. Donors and the government adopted the Tokyo Mutual Accountability Framework (TMAF)—a set of principles, objectives, and reform commitments to promote aid effectiveness, reform, good governance, and inclusive, sustained growth. Donors indicated that their support would depend on Afghanistan meeting its TMAF commitments. The July 2013 Senior Officials meetings in Kabul reconfirmed donor support as did the Joint Coordination and Monitoring Board Meeting held in January 2014.

5. **The IMF has been supporting Afghanistan through technical assistance and a three-year, SDR 85 million (52.5 percent of quota) Extended Credit Facility (ECF) arrangement, approved in November 2011**. The authorities' economic reform program focuses on:

(i) maintaining macroeconomic stability; (ii) strengthening the financial sector; (iii) improving economic governance; and (iv) moving toward fiscal sustainability. The authorities' policies have broadly maintained macroeconomic stability. However, after the first program review in June 2012, subsequent reviews were delayed due to missed quantitative targets and slow implementation of structural reforms. The shortfall in budget revenue and delays in structural reform, as well as the limited expected term of the government means a review cannot be completed currently. The ECF arrangement is scheduled to end in November 2014 (Box 1). Staff and the authorities nevertheless maintained a close dialogue on economic policy and structural reform.

RECENT DEVELOPMENTS

6. **Confronted with the economic consequences of international troops withdrawal and rising political and security uncertainties, the authorities maintained macroeconomic stability and continued to implement structural reforms in 2013**. While growth slowed significantly, inflation remained in single digits, the overall budget deficit (including grants) was close to balance, and reserves remained above 7 months of imports. At the same time, structural reforms continued, even if the pace was slower than planned. Donor grants continued to finance the external and budget deficits (Figures 1–4).

7. **The drawdown of international troops continued, but post-2014 security arrangements have not been finalized**. Of about 142,500 foreign troops in mid-2011, about 57,000 remained as of early January 2014. The post-2014 security agreement with the U.S. has not been finalized. Insurgents continued to launch attacks aimed at the government and foreign interests, and attempts to hold discussions with the Taliban have not yielded results.

8. **The presidential and provincial elections were held in April 2014**. Provincial elections and the first round of the presidential election took place on April 5. The partial official results (from 49.7 percent of legible votes counted, released on April 20) indicate that none of the candidates secured 50 percent of the vote, which is needed to win outright. If the final results of the first round (scheduled for May 14) confirm that none of the candidates secured 50 percent or more of the vote, a second round of the presidential election will take place, with a runoff between the two candidates who secure the most votes in the first round.[1] A new government will be formed after the presidential election is completed. The run-up to the elections has coincided with a slowing of economic reform.

9. **Political and security uncertainties and the drawdown of international troops are weighing on economic activity.** These uncertainties reduced confidence, discouraged private investment, and held back economic activity. Growth slowed from 14 percent in 2012 (boosted by a bumper harvest) to an estimated 3.6 percent in 2013, resulting in lower import and limited budget revenue growth. Non-agricultural growth in particular, which averaged 11 percent in 2007–11 and

[1] See http://www.iec.org.af/results/en/elections.

helped generate rising government revenue, slowed to a little over 3 percent in 2013. Uncertainties also led to intermittent pressure on the exchange rate (especially in late 2012 and early 2013) and prompted a switch out of local currency-denominated assets. The central bank managed the exchange rate flexibly (through sales of foreign exchange in the twice-weekly auctions); it depreciated by 7.5 percent against the U.S. dollar in 2013, while international reserves remained at a comfortable level of $6.9 billion (7.1 months of imports). Inflation remained in single digits (5.3 percent year-on-year in February 2014) due to a good harvest and relatively benign international commodity prices.

Box 1. The Authorities' Response to Past Fund Advice

Past Fund advice has focused on the overall macroeconomic policy mix, tax policy and tax administration reform, strengthening the central bank and the financial sector, and economic governance. The authorities have been responsive to Fund advice, but in some cases with delayed or incomplete implementation.

The authorities have largely sought to follow the recommended macroeconomic policy mix and have maintained macroeconomic stability, but revenue performance has fallen short of budgetary needs. The authorities have managed the exchange rate flexibly, broadly maintained disciplined fiscal policies, and strengthened monetary policy operations. They also sought to build buffers through reserve accumulation.

The authorities initially improved revenue collections but later encountered some setbacks and delays. Budget revenue increased from 7 to 11 percent of GDP over 2006–11, but fell back to 9.5–10 percent of GDP in 2012–13 because of the negative impact of the international troops withdrawal and the decline in confidence linked to uncertainty about the security and political transitions, as well as lower compliance. On tax reform, the authorities have prepared a VAT law and submitted it to parliament, but implementation has been delayed relative to initial plans.

The authorities have worked to strengthen the central bank and the financial sector. A new banking law was submitted to parliament in February 2013 that would strengthen banking supervision, corporate governance, prudential requirements, enforcement, and bank resolution. Supervision efforts have been strengthened. The ten weakest commercial banks have been audited and are being monitored by the central bank. Further, the staffing of the supervision department has been increased and recruitment to fill the new positions is under way. A five-year strategic plan was adopted to further strengthen financial sector supervision. The authorities are working to amend the central bank law to strengthen its governance and are ensuring that it remains adequately capitalized. In contrast, progress in moving the government salary payments from New Kabul Bank (NKB) to other banks has proceeded more slowly than planned because of delays in developing a real-time gross settlement system.

Several initiatives have strengthened economic governance. The public inquiry into the Kabul Bank crisis was published, and the authorities have responded to its recommendations. To support economic governance efforts, the Economic Crimes Task Force (ECTF) has been established, although it now needs to be operationalized. Furthermore, criminal cases related to Kabul Bank have been heard and verdicts reached, although appeals are pending, while recent Kabul Bank asset recoveries have been limited and efforts to privatize NKB have progressed slower than planned initially. The authorities have moved ahead with drafting Financial Action Task Force (FATF)-consistent anti-money laundering/combating financing of terrorism (AML/CFT) legislation, but there have been significant delays.

10. **Revenue performance deteriorated significantly despite additional measures, requiring spending cuts during 2013**. Domestic revenue dropped to 9.5 percent of GDP in 2013 from 10.1 percent the previous year, far short of the initial program target of 11.3 percent. Revenue collection was affected by lower economic activity, slower dutiable import growth, a continued shift away from high-tariff imports, as well as lower compliance despite the authorities' efforts.[2] The authorities replaced personnel in the revenue and customs departments and increased effective tariffs and fees. Nevertheless, the revenue shortfall resulted in a tight cash position for the treasury, and required limiting non-priority discretionary expenditures. As a result—and also due to capacity constraints—expenditure as a share of GDP declined by 0.7 percentage points in 2013, despite the transfer of externally managed security spending to the budget and an increase in development spending, while wages remained under control. The operating deficit (before grants) was limited to 7.8 percent of GDP.

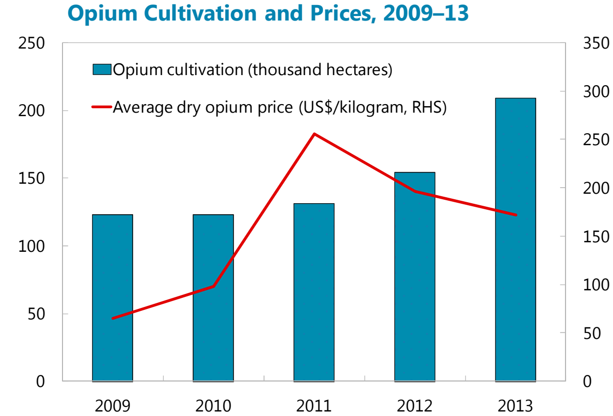
11. **Agricultural output, including opium production, was at historically high levels in 2012–13 due to good weather that affected virtually all crops**. According to the UN Office on Drugs and Crime, the opium poppy cultivation area increased raising the total farm-gate value of opium production from \$0.7 billion to \$0.95 billion (about 4 percent of GDP) (Box 2).

Box 2. The Drug Industry and its Impact on Economic Stability and Development

Drug production and trafficking are macro-relevant in Afghanistan. Production includes opium, heroin, morphine, and cannabis. In 2013, the farm-gate value of potential opium production was estimated at 4 percent of GDP. The potential net value of opiates and the value of opiates potentially available for export were estimated at 15 percent and 14 percent of GDP, respectively.[1] The combination of high opium prices and Afghanistan's significant involvement in its cultivation exposes the country to risks of economic instability, as a number of factors could trigger a shock to production and prices which would transmit to the formal economy, including through farmers' incomes. These include climate and water supply, eradication campaigns, external demand, change in policies (e.g., Taliban's ban in 2000), border controls, and conflicts in neighboring countries.

There could be significant distorting effect of the drug industry on the formal economy.[2] Resources devoted to drug cultivation and trafficking are diverted from other productive opportunities, decreasing activity in others sectors of the economy. It is also possible that spillovers from the drug sector may increase activity in other sectors.

Opium Cultivation and Prices, 2009–13



Source: United Nations Office on Drugs and Crime, Afghanistan Opium Surveys.

[2] For example, imports of vehicles—a high-tariff item—declined by 45 percent in 2013.

Box 2. The Drug Industry and its Impact on Economic Stability and Development (Concluded)

Strengthening Afghanistan's statistical and analytical apparatus could enhance the understanding and forecasting of the economic impact of the drug industry. The ability to analyze available information on opium production with formal economic indicators at the regional level (e.g., agriculture, trade, employment, and finance) would assist in better understanding the impact of the drug industry on the economy, on the one hand, and mitigating potential shocks on the other. For example, this type of regional level information is available in Peru and Columbia. Detailed information on opium cultivation and prices is available but information on other economic linkages of the drug industry (e.g., trade and financial flows) remains scarce, in light of the post-conflict and development status of Afghanistan. At present, economic statistics do not currently cover regional employment rates, agricultural production, building permits, or car registrations, in part due to security issues. As a result, assessing the economic impact and linkages of the drug industry in the Afghan economy remains a challenge.

[1] United Nations Office on Drugs and Crimes (UNODC), www.unodc.org/documents/crop-monitoring/Afghanistan/Afghan_Opium_survey_2013_web_small.pdf. "Potential production" is estimated from the cultivated surface and the yield of primary plant material. "Potential net value" is estimated from income generated in the country after opium leaves the farm. The "value of opiates potentially available for export" estimates the trade across Afghanistan's borders, without further income from onward trafficking.

[2] See Pedroni and Verdugo (2011), "The Relationship Between Illicit Coca Production and Formal Economic Activity in Peru," IMF Working Paper No. 11/182; Buddenberg and Byrd (2006), Afghanistan's Drug Industry, UNODC and World Bank.

OUTLOOK AND RISKS

12. **The outlook will be determined by the success of managing the economic transition from aid dependency toward a more self-sustaining economy over the "transformation decade 2015–24."** At the July 2012 Tokyo conference, Afghanistan and the international community shared a vision to further consolidate their partnership in the areas of governance, security, peace process, economic and social development, and regional cooperation to help Afghanistan move from transition to attain sustainable economic growth and development and fiscal self-reliance through the transformation decade of 2015–24.[3] The TMAF, which is focused on the priorities of the Afghan Government as contained in its strategy paper *Towards Self-Reliance*, was established at that time to underpin the partnership of Afghanistan with its development partners for the Transformation Decade. Several factors will play a role. Initially, the drawdown of international troops has and will reduce aggregate demand while raising domestic spending needs for security. The resulting impact on growth has already been felt over the past two years. Security and political conditions will be important factors, as will maintaining macroeconomic stability, progressing structural reform, assuring continued donor support, and realizing improvements in

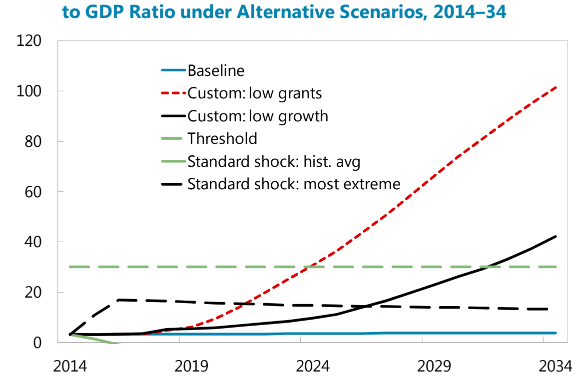
[3] See The Tokyo Declaration, http://www.mofa.go.jp/region/middle_e/afghanistan/tokyo_conference_2012/tokyo_declaration_en1.html.

governance that create a better business and investment environment. These factors will be important in determining growth and future living standards over the medium and long terms. Significant improvements in security could even generate a "peace dividend" for economic activity through higher activity across sectors, foreign direct investment, better regional transportation links, and the return of expatriates.

13. **The medium-term framework assumes a modest pick-up of growth during the transformation decade led by increased private sector activity and the development of the agriculture and natural resource sectors**. Although GDP growth is projected to slow to just over 3 percent in 2014 due to the impact of the international troop drawdown and political uncertainty in the first half of the year, it is expected to pick up thereafter, as activity and investment rebound. Continued reform efforts under the TMAF and donor support will ensure that fiscal and external gaps are covered. With stable international prices and prudent monetary policy, inflation should remain in single digits. In the longer term, an improved business environment and better economic governance are expected to facilitate private sector-led growth and the development of the natural resource sector (copper, iron ore, and oil). Accordingly, growth could accelerate to 6 percent as mining production comes on-stream, and converge thereafter to about 4 percent.

14. **Debt is modest, but large expenditure needs and limited domestic revenue capacity mean a high dependence on donor financing**. Following extensive debt relief starting in 2006, and ending in 2010 Afghanistan's debt burden was alleviated significantly—external public and publicly guaranteed debt amounted to $1.3 billion, or 6.1 percent of GDP, at end-2013, most of which owed to multilateral creditors. Under the baseline scenario and in light of donor pledges, debt is sustainable. However, there are significant vulnerabilities; should growth slow, reform stall, security deteriorate, or grant financing (43.4 percent of GDP in 2013) fall short of the projected levels, there will be a need for a large fiscal adjustment (higher revenues and cuts in expenditure that would negatively affect security, development, and growth) or, if debt finance replaced grants, debt could quickly move onto an unsustainable trajectory and debt sustainability would be jeopardized (see accompanying Debt Sustainability Analysis).[4]

Islamic Republic of Afghanistan: Present Value of Debt to GDP Ratio under Alternative Scenarios, 2014–34



Sources: Afghan authorities; and IMF staff calculations.

[4] The accompanying Debt Sustainability Analysis also presents the standard shocks generated by the Debt Sustainability Framework, which result in benign debt dynamics. However, these results using the standard shocks may not be representative as they are mostly driven by the past ten years, when Afghanistan averaged real GDP growth of 9.3 percent per year and received official transfers averaging 50.6 percent of GDP to support needed post-conflict rehabilitation and reconstruction.

Risk Assessment Matrix

Nature/Source of Risk	Likelihood[1]	Expected Economic Impact if Realized	Possible Mitigating Measures
Near-term risks			
Deteriorating political and security situation (regional and/or domestic). Disputed election results and/or the withdrawal of international troops lead to greater violence.	**High**	**High** - Political uncertainty is accompanied by higher violence levels leading to lower confidence and investment in the economy. - Worsening security results in lower growth and imports. - As imports account for half of government revenues, lower imports and growth lead to lower revenue and a higher fiscal deficit.	Continue to implement policies to maintain macroeconomic stability. If there is fiscal space, consider countercyclical policy.
Inadequate policy implementation, particularly in the fiscal and monetary sectors, and inconsistent exchange rate policy.	**High**	**Medium** - Slow growth or a decline in revenue leads to spending cuts and possible wage arrears and stagnating living standards. - Inconsistent monetary policy and/or intervention in foreign exchange market (i.e., an inappropriate mix of intervention and sterilization) results in exchange rate volatility and depreciation, capital flight, loss of reserves, and higher inflation.	Improve policy implementation through greater revenue mobilization, expenditure restraint, tighter monetary policy, and possibly more exchange rate flexibility.
Medium-term risks			
Inadequate policy implementation, deterioration in governance and in the investment and business climates lead to low growth.	**Medium**	**High** - Lower investment and slow growth or a decline in revenue leads to spending cuts and possible wage arrears. - Possible exchange rate volatility and depreciation, capital flight, loss of reserves, and higher inflation. - Low access to finance, ineffective resource allocation and intermediation by financial sector, and constrained access to global financial system, because of inadequate bank governance, legislative, institutional, and regulatory frameworks, and law enforcement to prevent and address economic crime.	Strengthen policy implementation to maintain macro stability and improve economic governance and the investment and business climates, including stronger legislative, institutional, and regulatory frameworks, and law enforcement.
Lower donor inflows to the budget and to finance development projects.	**Medium**	**High** - Lack of progress in implementing the Tokyo Mutual Accountability Framework or donors fatigue results in lower donor inflows, especially to the budget. - The decline in inflows leads to lower employment, public investment, confidence, and growth, stagnant living standards, and/or exchange rate pressures.	Take measures to mobilize additional revenue and reprioritize and reduce expenditure.
Deteriorating banking system soundness, associated with the stalling of banking supervision reforms.	**Medium**	**Medium** - Slower growth of financial sector, less access to finance, or decline in banking services (payments and lending). - Worse allocation of resources via banking sector, greater risk of inadequate governance, vulnerability to fraud and money laundering, and bank failure(s) and consequent need for government funds to cover bank losses. - Negative impact on economic development and growth and possible fiscal liability.	Recruit more supervisors, step-up training of existing supervisors, and ensure prudential regulations and enforcement actions are implemented promptly. Central bank to communicate its determination to strengthen banking supervision and publicize the measures taken.
Delays in developing natural resources and export capacity.	**Medium**	**Medium** - Lack of progress in developing natural resources results in lower fiscal revenue. - Fiscal pressure may ensue if these delays stymie revenue growth and the government does not cut spending. - Fiscal pressures may lead to exchange rate depreciation and higher inflation. - Lack of progress in developing natural resources could result in higher narcotics production.	Strengthen policy implementation to maintain macro stability and improve business climate, including a sound fiscal regime for natural resources.
Smooth security and political transitions.	**Low**	**High** - Smooth transitions result in higher confidence, investment, and growth.	Adjust the policy mix to take into account likely higher budget revenue, foreign exchange inflows, and investment by allowing for higher spending and possible exchange rate appreciation.

[1] Staff assessment of the likelihood of realization in the next three years.

15. **The outlook is subject to a wide range of risks; many on the downside** (see Risk Assessment Matrix). Afghanistan's links to the rest of the world are mainly linked to donor financing; private financial flows and licit trade are limited. On the upside, smooth security and political transitions could result in larger capital inflows and higher confidence, investment, and economic activity. On the downside in the near term, the principal risks are related to a potential deterioration in either domestic or regional security conditions, political instability during or following the elections, and inadequate implementation of economic policies. In the medium term, risks stem from insufficient progress in economic reforms including those in the TMAF, or donor fatigue, which would reduce inflows; a weakening of banking supervision that would fail to manage banking sector risks; or delays in developing natural resources. The large foreign exchange reserves provide a sizable buffer, at least in the short term.

16. **Potential economic spillovers to and from the rest of the world are limited**. The outlook depends heavily on inflows linked to donor assistance. The sizeable donor commitments should insulate the Afghan economy from the key sources of global risks, given the limited (non-donor) linkages and exposure to the global economy and financial markets. Regional developments affecting security and trade may impact the Afghan economy, in particular an economic slowdown in India or Pakistan, with which trade has intensified. Outward spillovers from Afghanistan depend on domestic political and security conditions; a deterioration could lead to displaced population, internally and to neighboring countries, with attendant lower trade and possible costs for countries receiving Afghan refugees.

POLICY DISCUSSIONS: MANAGING THE TRANSITION, REDUCING VULNERABILITIES, AND PROMOTING INCLUSIVE GROWTH

17. **Discussions focused on policies to maintain macroeconomic stability, reduce vulnerabilities, and promote inclusive, private-sector-led growth through the transformation decade and in the long term**. The authorities and staff discussed the short-term macroeconomic implications of the troop withdrawal, economic risks associated with political and security uncertainty, policies to navigate successfully through these events, and how the international community can best support Afghanistan. For the medium term, the discussion revolved around policies to reduce aid dependence and foster self-sustained, private-sector-led economic growth that is inclusive and equitable, while ensuring debt sustainability.

18. **There was broad agreement that the authorities' strategy remains appropriate to address the economic challenges and reduce vulnerabilities**. The main objectives include:

- *Maintaining macroeconomic stability*, which, along with security and an enabling political environment, is a precondition for growth and poverty reduction;

- *Moving toward fiscal sustainability* aimed at achieving self-reliance in the long run and addressing a potential decline in donor grants, to be achieved by redoubling revenue mobilization efforts through new taxes and measures to improve tax administration and improving expenditure management and service delivery;

- *Pursuing financial sector stability and development*, through banking sector reform and strengthened supervision (including AML/CFT supervision) to prevent banking sector troubles emerging and evolving into a macroeconomic crisis, while expanding credit for private sector development; and

- *Improving economic governance and the business environment* to foster private sector-led growth and investment by reducing corruption, rent-seeking, and skewed economic incentives.

A. Maintaining Macroeconomic Stability

19. **The macroeconomic policy mix remains appropriate, with fiscal policy supporting demand (financed by grants) and monetary policy focusing on inflation**. This is predicated on donor flows continuing to finance the fiscal and external deficits:

- *The authorities and staff agreed that fiscal policy should continue to aim at revenue mobilization and further improving budget implementation capacity*. The broadly balanced budget (including grants) and tight controls on non-priority expenditures ensure the continuation of government functions and preserve fiscal space for development spending. The operating balance excluding grants, which supports demand, remains the fiscal anchor.

- *There was agreement that monetary policy should continue to focus on maintaining low inflation.* The monetary base remains the nominal anchor and the exchange rate should be managed flexibly. The sizable international reserves (over 7 months of imports) provide the needed buffer in times of temporary volatility (Box 3).

20. **The authorities recognized that while buffers allowed accommodating macroeconomic shocks to some extent, policies needed to be proactive and flexible**. International reserves—deemed adequate by all measures used by the Fund—are large enough to accommodate even sizeable capital outflows. Nevertheless, in the case of more permanent pressures, the exchange rate would be managed flexibly to accommodate shocks, deliver the necessary adjustment, and protect reserves and need to be complemented by competitiveness gains from a strengthened business environment. Further control of non-priority expenditures, while protecting social and poverty-reduction spending, and greater revenue-raising efforts would be needed in case of a decline in grants to the budget. Policy implementation capacity, needed to mitigate risks and respond to shocks, would continue to be improved.

21. **The authorities called on donors to do their part in honoring their aid commitments**. They noted that fiscal space could be increased if donors intensified their efforts to further align their assistance with Afghan priorities, signed multi-year financing agreements, and channeled more funds through the budget, so they are spent more efficiently.

Box 3. External Stability and Exchange Rate Assessment

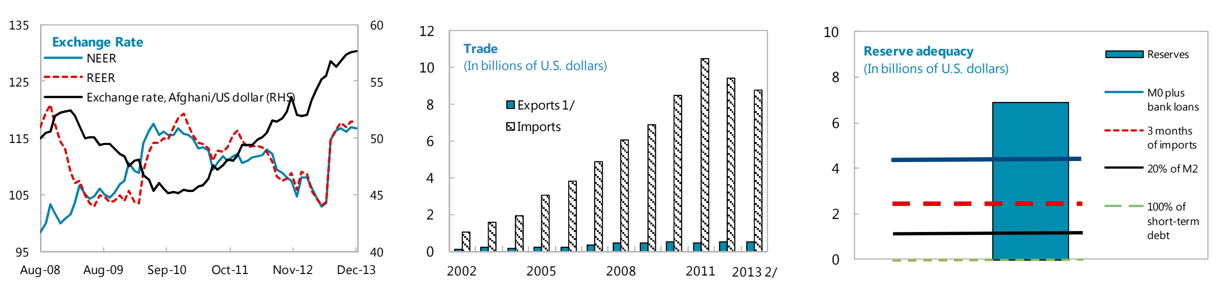
The current account is dominated by imports and official transfers, while licit exports are low. Excluding grants, the current account deficit was estimated at 41 percent of GDP in 2013. Official transfers more than financed this deficit, as they are generally spent on imports. Exports (excluding opium and internal sales to non-residents), after a catch up in the first half of the 2000s, stagnated at around $500 million, or a mere 2.5 percent of GDP. However, external accounts exclude the illicit economy, which is significant.

Afghanistan maintains a managed floating exchange rate regime. Monetary policy is anchored by targets on reserve money. The main instruments to implement the policy are sales of foreign exchange (previously purchased from the government, donors or other official entities) and sales of central bank marketable notes. Subject to meeting these targets, the central bank also seeks to minimize exchange rate volatility. Afghanistan has no access to international capital markets and relies on donors' inflows to cover the current account deficit. A flexible and floating exchange rate regime, combined with a relatively prudent fiscal policy, has been serving the country well, *inter alia* by contributing to a stable price environment while at the same time helping to absorb external and domestic shocks.

The exchange rate appears to be broadly in line with medium-term fundamentals, and foreign reserves—at 7 months of imports—comfortably exceed all traditional reserve adequacy metrics. Reserves help maintain exchange rate stability and provide much-needed buffers in case of external shocks. Several factors make it difficult to assess quantitatively the long-run alignment of the exchange rate, namely (i) years of civil conflict; (ii) large aid flows (official transfers and grants ranging from 30 to 70 percent of GDP over the past decade); (iii) high dollarization; and (iv) concerns over the coverage and reliability of balance of payments data. However, both a simple measure of the CPI-based real effective exchange rate (REER) as well as the REER calculated by the IMF's Institute for Capacity Development suggests that the rate is close to its medium-term average.

Structural impediments are more binding for Afghanistan's external competitiveness than the level of the exchange rate. Obstacles to improving competitiveness include deficiencies in the business environment, lack of investment and capacity in the tradables sectors, political and economic uncertainty, and corruption.

External Stability and Exchange Rate Assessment



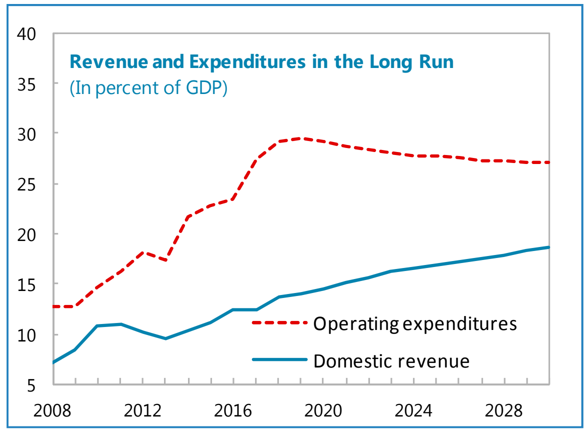
Sources: Afghan authorities; IMF Direction of Trade Database; and IMF staff calculations.

1/ Exports exclude sales of goods to international military forces in Afghanistan.

2/ Value expected.

B. Moving Toward Fiscal Sustainability

22. **Afghanistan needs to move toward fiscal sustainability to reduce its dependence on donor support**. This will entail revenue mobilization, and better expenditure management including better prioritization and service delivery to assure security and development. Domestic revenues have stagnated due to the economic slowdown, faltering efforts, and leakages, and are expected to rise only slowly, while operating budget expenditures, which were at 15 percent of GDP in 2010 are projected to increase to over 29 percent of GDP by 2018 as part of the security transition. The combination of these factors generates large fiscal vulnerabilities.



23. **To generate needed fiscal space, staff pressed for moving decisively to improve compliance, for pushing ahead with VAT introduction, and considering new tax revenue sources—excises in particular**. Afghanistan has one of the lowest domestic revenue collections in the world, with an average of about 9 percent of GDP in 2006–13 compared to about 21 percent in low-income countries. Factors behind this poor performance include a very low starting point, low compliance, opposition to new taxes, and a limited set of taxes. Afghanistan relies heavily on trade-related taxes, which represented 45 percent of total tax revenues in 2006–13. VAT, which is being discussed in parliament, and excise taxes in the medium term would broaden the tax base and rebalance the composition of revenues. The authorities agreed with the need to increase revenue and noted political and institutional challenges in raising compliance and implementing new taxes. Staff also cautioned against providing tax exemptions, because of the resulting distortions and fiscal costs. The authorities explained that consideration of incentives, which had not been enacted in tax laws, was designed to stimulate investment in 2014–15 to promote a smooth transition.

24. **Staff stressed the importance of establishing a fiscal regime for mining revenues that maximizes the share of economic rents for the government while preserving investment incentives**. Mining projects have been delayed and the ongoing oil project is unable to export due to the lack of a transit agreement with a neighboring country. The authorities are working to progress these projects and remove export hurdles, and noted that a legislative framework has been prepared for with IMF technical assistance to establish an effective and transparent fiscal regime for natural resources in full compliance with the Extractive Industries Transparency Initiative. They also requested follow-up technical assistance.

25. **Large spending needs (both development and security) are projected to continue**. Development outlays are needed to continue reconstruction and improve public services in order to progress towards MDGs. At the same time, high security spending (about 11 percent of GDP in

2013) accounts for just under half of budget expenditure and will rise sharply as off-budget expenditure managed by donors is transferred on-budget. Consequently, operating budget expenditures are projected to increase to over 29 percent of GDP by 2018.

26. **Security outlays are major and continued donor financing is critical**. The authorities welcomed the international community's commitment made in Chicago in 2012 to continue financing Afghanistan's security, estimated at $4.1 billion annually. The indicative target of government contribution to security outlays discussed in Chicago is set at $500 million for 2015—already $382 million is planned in the 2014 budget. The authorities indicated that if post-2014 international troop presence were to be lower than projected in 2012, it may not be possible to reduce the size of security forces from 352,000 currently as envisaged earlier. Staff noted this issue and pointed to the possibility that a higher donor envelope may not be forthcoming and that greater efficiency of security expenditures may be needed to prevent a crowding out of development spending.

27. **Non-security and development needs are expected to increase significantly**. The government plans to hire a large number of teachers and health workers to improve public service delivery—with a view to improving human development indicators in the medium term—and to continue expanding the currently scarce infrastructure. Moreover, donors plan to gradually transfer their off-budget recurrent expenditures onto the budget, to the extent that the budget can absorb them. These expenditures relate to the operation and maintenance costs of the large capital stock financed and built by donors since 2002 (and still being built), estimated at about $1 billion annually for the development sector and as high as $2 billion for the security sector—altogether close to 15 percent of GDP. The government noted its plans to improve expenditure management capacity in line ministries (with World Bank support) to improve expenditure execution and effectiveness.

28. **The key risks to the fiscal outlook are inadequate revenue mobilization, ineffective expenditure management, and donors' disengagement**. The possible responses to a shrinking resource envelope include expenditure restraint, additional tax policy and administration measures, and debt financing (see accompanying Selected Issues Paper). All these options are difficult to implement. While expenditure restraint may be easier to implement, cutting capital expenditure—in particular infrastructure investment—would negatively affect economic growth. Increases in tax rates or the broadening of tax bases could affect compliance and may be politically challenging to implement. Debt financing may jeopardize debt sustainability and may not be feasible as long as domestic capital markets remain dormant or small or if concessional external borrowing is not forthcoming.

C. Policies to Strengthen the Banking Sector and Promote Credit Provision and Access to Finance

29. **Strengthening the banking sector is needed to support growth**. A stronger banking sector is needed to promote credit provision, better access to finance, economic growth and

development. The legacy of the Kabul Bank crisis and governance framework weigh on the system, stymie credit provision and access to finance, and affect public confidence in banks.

- *Vulnerabilities are related to weak governance and institutional challenges—mainly supervision and the regulatory and legislative framework.* The absence of a comprehensive legal infrastructure, limited institutional capacity in the banking and legal systems, and inadequate corporate governance constrain financial sector development. It also leaves space for interest groups to lobby for regulatory forbearance (e.g., delaying examination reports and enforcement of supervisory actions) with attendant financial stability risks.

- *The banking system remains barely profitable and some banks show poor or negative capital ratios.*[5] In 2013, banks turned an aggregate profit of about $31 million for the first time in years despite large provision expenses and continued losses in state-owned banks. Despite the corrective measures the central bank has been taking with respect to weak banks, there were still seven weak banks (i.e., with a CAMEL rating of 4 or worse) out of the total of 12 banks. The assets of those weak banks represent around 51 percent of the total banking sector's assets. The main issues that these banks face are: (i) low or negative capital;[6] (ii) high credit risk; and (iii) inadequate management. While some of the banks have plans to increase capital and manage other financial issues, addressing management issues remains an important challenge, particularly for state-owned banks.

- *The banking system is highly liquid because of low lending.* From a financial stability perspective, the system's ample liquidity (liquid assets reached 62 percent of total at end 2013) and small loan portfolio (about $824 million or 19 percent of the total assets) provides some comfort. Moreover, international reserves are almost double total deposits.

30. **The authorities' strategy is to strengthen the banking sector's contribution to economic development**. This requires developing the financial infrastructure, improving banking and AML/CFT supervision and its enforcement. In addition, the authorities are planning to develop the interbank market by preparing for trading of financial products, risk management tools, and investment vehicles to strengthen financial transmission channels and help attract investment in financial instruments. The authorities should continue developing financial system infrastructure and services to allow further financial inclusion over the medium term by adopting policies that: (i) promote further use of mobile banking services and microfinance lending; (ii) encourage bank penetration in rural areas; (iii) increase financial literacy among the public; and (iv) assure adequate financial consumer protection. In addition, addressing the factors that may be restraining bank lending would enhance financial inclusion, which is discussed below.

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[5] As of end 2013, the banking system—comprising twelve fully licensed commercial banks and four branches of foreign banks with about 390 bank branches throughout the country—had assets of $4.3 billion total, deposits of $3.7 billion and an average loan-to-deposit ratio of 22.6 percent.

[6] One state-owned bank has negative capital, which is being addressed.

31. **The authorities are determined to strengthen the central bank's financial supervision department (FSD)**. The central bank adopted a five-year strategic plan and a new organizational structure for FSD. FSD has increased its staffing significantly and is now in the process of filling the remaining vacancies, streamlining internal procedures, enhancing on-site and off-site supervision (including AML/CFT supervision), and improving information exchange with the financial intelligence unit, Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), to support improved economic governance. The central bank has also prepared policies and procedures to enhance its staff's legal protection against liability. Staff welcomed these developments and stressed the importance of protecting FSD staff performing their duties in good faith, transparent and merit-based recruitment, training, and implementation of the five-year strategic plan. Staff also noted that there remained scope to follow up more consistently on enforcement letters and monitor progress. The authorities concurred, while noting political pressures on central bank management to hire unqualified staff and stressing the need for continued technical assistance.

32. **The authorities expressed concern about banks' reluctance to lend**. Although credit to the private sector increased in 2013 for the first time since the Kabul Bank crisis, part of the increase reflected valuation changes on foreign exchange denominated loans and credit growth over the past few years has been low. Staff noted that the low level of private credit—equivalent to only 4 percent of GDP—reflected the scarcity of profitable lending opportunities, given limited information available on potential borrowers and the difficulty in realizing collateral or collecting loans from delinquent borrowers, rather than low supply of funds. Therefore, staff recommended that policies to promote credit should address structural issues that inhibit lending rather than forcing banks to lend (see Selected Issues Paper). Moving from traditional relationship-based lending to larger scale, market-oriented lending would require: (i) strengthening the legal infrastructure and contract enforcement;[7] (ii) enforcing prudential regulations to protect depositors' funds from excessive risk taking and conflicts of interest by banks; (iii) promoting transparent financial reporting by banks; (iv) instituting comprehensive and efficient credit information agencies; and (v) banks establishing sound lending practices that include a robust credit assessment of borrowers. It will also support improved access to finance, connect more people to the modern economy, and help spread the benefits of growth.[8] The central bank agreed with using market-based measures to promote efficient credit allocation and improve access to finance.

33. **The authorities wish to implement a deposit insurance program, but staff warned about risks of moral hazard given current weakness in banks and banking supervision**. Staff noted that deposit insurance would only improve confidence in the banking sector if accompanied

[7] Priority areas include registration of titles to immovable property, improving security interests in collateral, securing priority interests in insolvency, and training the judiciary in banking issues.

[8] Bank penetration is low with less than 10 percent of the adult population holding an account at, or taking loans from, a formal institution. Furthermore, there were only 1.8 bank branches per 100,000 adults in Afghanistan in 2011, compared to 8.5 in Pakistan and 29.1 in Iran.

by robust banking supervision that ensured consistent adherence to prudential requirements and stronger corporate governance in the banking sector.

34. **The authorities were concerned about international correspondent banking relationships**. Some Afghan banks were encountering difficulties in establishing or maintaining international correspondent relationships, especially U.S. dollar accounts. Staff noted that passage of FATF-compliant AML/CFT legislation and stronger financial sector governance would help Afghan banks to maintain and establish correspondent relationships.

D. Business Environment

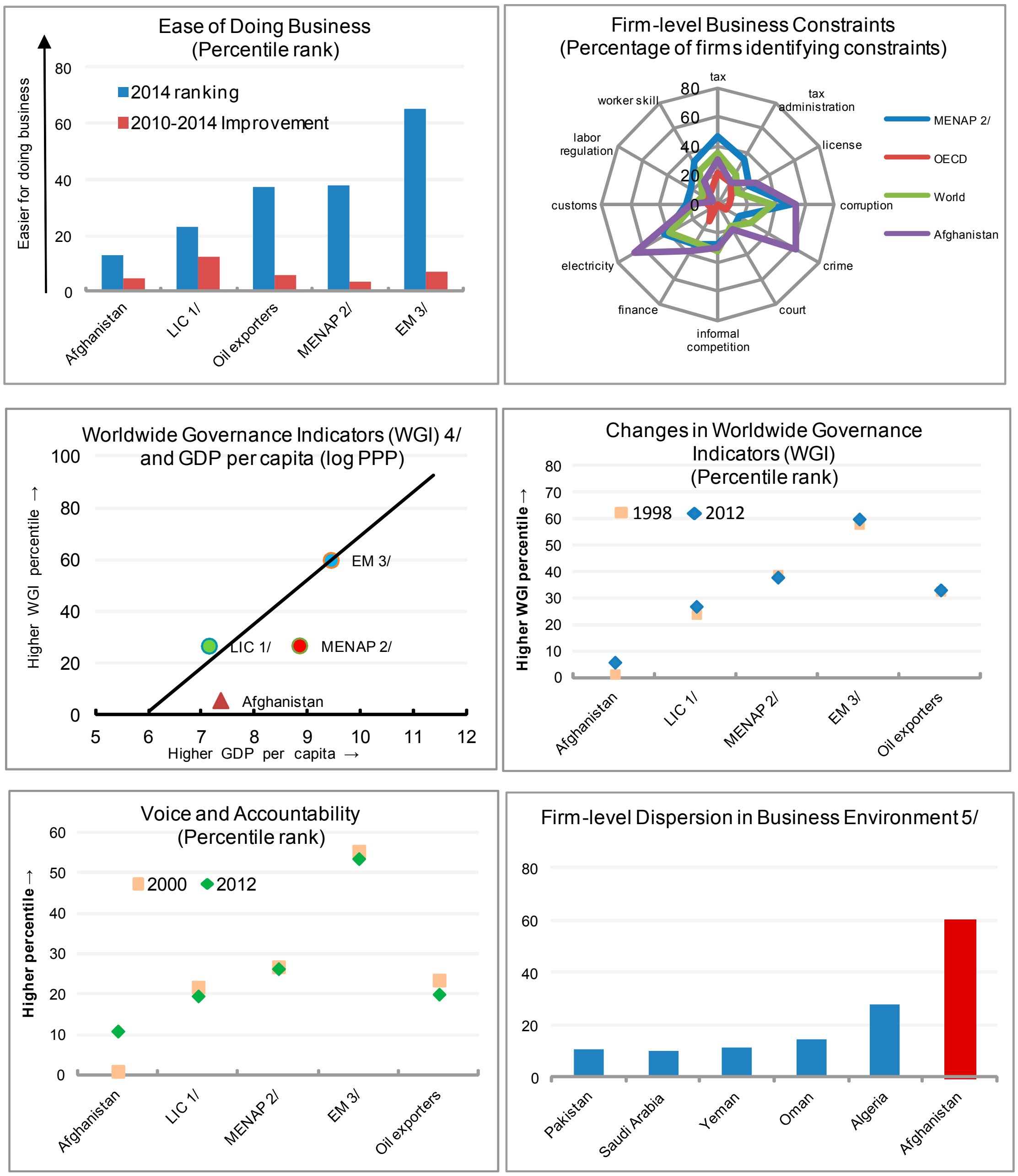
35. **The business environment remains challenging despite recent improvements, due to deficiencies in economic governance**. Afghanistan improved its World Bank Doing Business 2014 ranking to 164 (out of 189 economies), from an adjusted rank of 170 the previous year, by facilitating business licensing and improving access to credit thanks to a unified collateral registry. Significant challenges remain, though, across many dimensions such as protecting investors, trading across borders, registering property, enforcing contracts, and dealing with construction permits.[9] Corruption is reportedly high, with a rank of 175 out of 177 countries in Transparency International's Corruption Perceptions Index in 2013. Afghanistan scored only 2.7 on the World Bank's 2012 *Country Performance Ratings*—a scorecard assessing the policy and institutional development among IDA-eligible countries—about 1.5 standard deviations below the mean of 3.2. Hence, strengthening economic governance has been an important pillar of the Fund's engagement.

36. **Staff and the authorities saw improved governance as critical to raising growth and creating jobs**. A business environment conducive to private sector-led growth, a more efficient judicial system, and decisive steps to counter economic crimes would facilitate the entry of new businesses, improve access to finance, bolster investment and construction, help enforce contracts, and ease international trade. Over time, such an environment would reduce the economy's dependence on donor support and promote regional integration.

37. **Measures to improve governance have focused on establishing and enhancing institutions, legal reform, improving transparency and accountability, and capacity building, but progress has been slow**. The authorities see improved governance as critical to reduce the economy's dependence on donor support and to promote regional integration. An economic crimes road map setting out Afghanistan's economic governance framework was endorsed by cabinet in February 2013. Several laws seeking to improve economic governance—such as the banking, AML/CFT laws, and provisions on governance of state-owned enterprises—are advanced in the legislative process. Staff emphasized that concerted efforts to ensure effective and swift implementation of these laws, as well the economic crimes road map and other governance and transparency recommendations, including those set out in the Independent Monitoring and

[9] These indicators should be interpreted with caution due to a limited number of respondents, limited geographical coverage, and standardized assumptions on business constraints and information availability.

Islamic Republic of Afghanistan: Business Environment and Governance



Sources: World Bank Doing Business Report (2014); World Bank Worldwide Governance Indicators; World Bank Business Environment and Enterprise Performance Survey; and IMF staff calculations.

1/ Low income countries;

2/ Middle East, North Africa, and Pakistan;

3/ Emerging market economies;

4/ Worldwide Governance Indicators include government effectiveness, regulatory quality, rule of law, and control of corruption; trend line is based on cross-country regression.

5/ For each country, the number of days required to obtain an operating licence, the distances to the 80th and 20th percentile are calculated, and each bar shows the spread of these differences.

Evaluation Commission's (IMEC) report on the Kabul Bank crisis, is of paramount importance. Improved governance, along with macroeconomic stability and a better business environment, would open opportunities for all to take part in economic growth, leading to higher living standards, lower poverty, and improved social outcomes.

E. Promoting Inclusive Growth and Protecting the Poor

38. **As a resource-scarce economy, Afghanistan has relied so far on public sector spending and donor inflows to promote growth and development**. The strategy has consisted in investing in public goods to enable economic activity and in human capital to boost productivity. Large investments have been made in infrastructure; roads now connect major markets, and access to electricity, water, and communication has improved dramatically. Access to and use of education has expanded participation in a modernizing economy. While public infrastructure and social services have increased physical and human capital, there are limits to this public sector-led growth model.

39. **Sustained and inclusive growth will require continued progress on a broad structural reform agenda to foster private sector activity**. The authorities were confident that promising drivers of growth included agriculture and rural development, public infrastructure and services, extractive industries, and the energy sectors. They were keen to promote private sector growth and employment outside the security sector and government through further reforms focused on revenue generation, financial sector development, and the business environment.

40. **Several MDGs were met since 2010 while others are on track for 2015**. Along with increased spending on health, education, and irrigation, noteworthy progress was made to increase school enrollment for children, raise the ratio of girls to boys in secondary education, reduce infant and child mortality rates, increase the immunization rate against measles, and lower the rate of tuberculosis.

41. **Pro-poor spending has been rising, and the authorities remain committed to protecting such spending even as they weigh priorities within a limited resource envelope**. The ECF arrangement included a floor on pro-poor spending, which currently stands at about 2 percent of GDP. The authorities noted that the definition of pro-poor spending in the budget was rather narrow, since it comprised only the ministries of education, health, and social affairs (about 40 percent of non-security/non-development outlays), and indicated that in reality, almost all government spending favored the poor. The new law on martyrs and disabled will further increase pro-poor spending by 0.7 percent of GDP per year starting in 2014.

Pro Poor Spending

	FY2011/12	FY 2012	FY 2013
Pro poor spending (Af billion)	12.7	18.3	25.3
% GDP	1.5	1.8	2.2
% non-security operating spending	22.8	37.1	44.1

Sources: Afghan authorities; and staff estimates and projections.

F. Statistical Issues

42. **Data provision has shortcomings but is broadly adequate for surveillance**. The quality and timeliness of monetary, fiscal, and price data are broadly adequate, although coverage could be improved. Fiscal accounts cover only the central government. Limited data on the public enterprises are available, but qualitative information suggests that some of the largest enterprises are operating at a loss and represent a potential fiscal risk. Data on national accounts, balance of payments, and social indicators also suffer from weaknesses in coverage and consistency. Fund technical assistance, including from the IMF's Middle East Regional Technical Assistance Center, is being provided to strengthen statistical data systems. Recent improvements include a launch of a new, updated CPI (Box 4) and publication in the IMF Balance of Payments Statistics yearbook 2013 of Afghanistan's official balance of payments compiled by the central bank.

POLICIES FOR 2014

43. **In 2014, the authorities intend to continue to maintain macroeconomic stability, bolster domestic revenues, safeguard the financial system, and enhance economic governance**. On the macroeconomic front, they plan to increase fiscal space, manage reserve money growth, maintain international reserves, and keep inflation in single digits. Fiscal reforms will focus on improving revenue administration and preparing for successful VAT implementation. Financial sector reforms will focus on strengthening bank supervision and promoting financial development, while governance reform will strengthen the AML/CFT regime and the legislative and institutional framework to combat economic crime.

A. Macroeconomic Policy Mix

44. **The adopted 2014 budget incorporates a sharp increase in operating expenditure, as donors transfer spending on budget as part of the security transition**. The increase (4.4 percentage points of GDP) will be largely financed by grants, as well as by higher expected domestic revenue (by 0.8 percent of GDP) on account of past tax policy measures, better administration, and revenue measures being introduced in 2014; nonetheless, revenue collection is expected to continue to be affected by low activity and investment, and a shift away from high tariff imports and additional revenue measures will likely be needed to achieve the 2014 revenue target, which are under consideration by the authorities. Pro-poor spending is projected to increase as a

share of GDP, as the new law on pensions for martyrs and the disabled is implemented. Management of spending brought on-budget (previously externally managed) will be improved by implementing IMF technical assistance recommendations on public financial management.

Islamic Republic of Afghanistan: Public Finances (Central Government), 2013–14

	2013	2014				
	Jan–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Dec
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In billions of Afghanis)					
Domestic revenue and grants	271.9	35.4	95.9	99.2	122.1	352.7
Domestic revenues	109.0	27.2	31.8	33.8	36.0	128.8
Grants	162.9	8.2	64.1	65.4	86.2	223.8
Expenditures	278.9	70.0	65.7	103.2	118.9	357.7
Operating balance (excluding grants)[1]	-89.5	-25.6	-23.4	-42.9	-50.9	-142.7
Overall balance (including grants)	-7.0	-34.6	30.2	-4.0	3.3	-5.0

Sources: Afghan authorities; and IMF staff calculations.

[1] Defined as domestic revenues minus operating expenditures.

45. **The authorities plan to manage money growth, safeguard international reserves, and continue with exchange rate flexibility**. A modest pick-up in money demand is anticipated after the April 2014 elections. Reserve money growth of 12.7 percent is projected, above the projected growth of nominal GDP, with a commensurate increase in NIR as credit growth is projected to be low. Reserve cover will remain above seven months of imports. The exchange rate will be allowed to move along with market trends, with interventions limited to avoiding excessive volatility.

Islamic Republic of Afghanistan: Central Bank Monetary Indicators, 2013–14

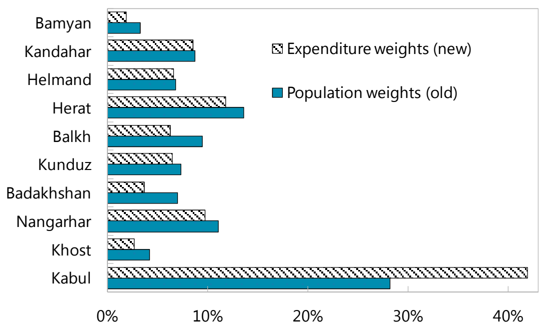
	2013	2014			
		Q1	Q2	Q3	Q4
	Est.	Proj.			
	(In billions of Afghanis, end of period)				
Net Foreign Assets	382.5	382.5	389.6	397.5	408.3
Net Domestic Assets	-183.8	-183.7	-189.6	-189.3	-184.3
Reserve Money	198.8	198.8	200.0	208.2	224.0
Net International Reserves (US$, millions)	6381.7	6407.5	6482.7	6557.9	6633.1

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

Box 4. Islamic Republic of Afghanistan's New Consumer Price Index

The introduction of a new Consumer Price Index (CPI) in 2012 was a major achievement. Along with the exchange rate, the CPI is a highly visible economic indicator. Overcoming many obstacles, the Central Statistical Organization (CSO) has been compiling and publishing price indices for the Kabul (since 2002), and five other major cities (since 2004). A national CPI was compiled by aggregating the city level indices. While broadly adequate for economic surveillance, this CPI suffered from numerous shortcomings. Because it was the most timely and reliable, the Kabul-city CPI was used to monitor the IMF-supported economic program.

Provincial Weights Under New and Old[1/] Method



Sources: Afghan authorities; and IMF staff calculations.
[1/] Implied weights.

Over the past few years, the CSO strengthened price statistics and launched a new CPI in June 2012. With IMF technical assistance, the CSO has improved the index through a broader geographical coverage, updated weights, an enlarged consumer basket, and an updated compilation methodology. More specifically:

- ***Data collection has been extended to four additional provinces***—prices are now collected in 10 provinces. The CSO overcame numerous logistical challenges related to the identification and selection of outlets, training of data collectors, and establishment of communication channels.

- ***The weight structure has been updated***. The old index was based on a 1992 Kabul expenditure survey. This expenditure pattern was used in all provinces and the national index was constructed based on population weights. Taking advantage of detailed household expenditure data from the 2008 National Risk and Vulnerability Assessment (NRVA), the CSO updated and differentiated the weights, basing them on provincial-level household expenditure patterns. In compliance with international good practice, expenditure weights are now used to compile the national CPI.

- ***The consumer basket has been expanded and the Classification of Individual Consumption according to Purpose (COICOP) consistently applied***. 92 additional items were included in the basket, bringing the total to 290, and effort was made to clarify the specification of individual items and control for quality variations. The final index is now disseminated in the internationally-used COICOP classification. Detailed correspondence matrices had to be prepared from NRVA items to real-world basket item to COICOP categories.

- ***There is no break in the series linking the old and new CPIs***. The base of new CPI is March 2011 and April 2012 is the first month based on the new methodology. Between March 2011 and March 2012 the new index is chain-linked and scaled to make it comparable to the old one.

The CSO plans to continue to improve the index. It plans to expand its coverage, upgrade the IT system and communication channels with remote provinces, strengthen quality control, improve field supervision over price collectors and regional data validation, and hire and train more staff. In recognition of the quality of the new CPI, the Afghan government and the IMF started using it for ECF program monitoring.

B. Fiscal Reforms

46. **Fiscal reform in 2014 will be focused on preparing the VAT introduction by mitigating implementation risks and preparing the private sector**. By December 2014, the authorities plan to have advanced all mitigation activities to address the 20 risks rated "high" or above in the December 2011 VAT Implementation Risk Management Plan, and conducted all communication and training activities to publicize the VAT's introduction and operation, prepare taxpayers and other stakeholders, and obtain their buy-in in line with the March 2013 VAT Stakeholder Management Plan. They also plan to execute the pre-implementation compliance program, as laid out in the May 2013 VAT Compliance Strategy Action Plan. The authorities also will continue to move ahead in implementing a fiscal regime for the natural resources sector.

47. **The authorities will continue to strengthen customs administration**. They plan to improve the import valuation system and preserve its integrity by: (i) implementing the Tariff and Valuation Management Tool (TARVAL), including the identified vehicle value approach, with a view to covering 85 percent of imports; and (ii) linking it to the valuation module of ASYCUDA World to minimize interference with the valuation parameters. The valuation database has been updated successfully including the identified vehicle value approach. This has been transferred to TARVAL and the top 200 commodities that cover almost 85 percent of customs revenue. It is currently being implemented at Kabul customs and will be rolled out to all customs units in the coming weeks. To complement these changes, the authorities intend to centralize the jurisdiction over valuation issues in an appropriately resourced and trained unit. The customs department has recently recruited four local valuation specialists through a World Bank funded project to further improve the performance of the valuation unit.

48. **Several reforms are planned in budget management**. These include: (i) requiring line ministries to prepare and submit financial plans to the finance ministry (a process which started in December 2013 has been completed) and linking budget allotments to these plans; (ii) rolling out, by March 2014, a Purchasing Module to 11 additional ministries to enhance the capability to manage contracts and associated budgets, following a pilot in two large ministries in 2013; and (iii) using electronic transfers for salaries and contractual payments, for which preparations are well advanced.

C. Financial Sector Reforms

49. **The central bank intends to continue to strengthen the FSD**. The FSD's five-year strategic plan was approved in June 2013 and FSD management is establishing institutional arrangements to start the plan implementation. In line with the plan, increasing supervisory resources will continue with the aim of filling at least 95 percent of the 145 authorized staff positions in the department in full compliance with its human resources policies. Also, steps will be taken to strengthen off-site surveillance (including automation of supervisory reporting) and to enhance the on-site examination process. The Supervisory Enforcement Committee will continue its regular reviews of banks' compliance with FSD's supervisory orders, and performance indicators developed

for the central bank's operations report to parliament will help management monitor progress. Finally, in line with Afghanistan's laws, the central bank will strengthen its policies to protect central bank staff from civil damages and indemnification of legal costs when conducting their duties in good faith.

50. **The authorities will promote financial market development**. The draft sukuk law, currently reviewed by the ministry of justice, is expected to be submitted to parliament later in 2014. In the meantime, a sukuk implementation plan is to be developed, including identification of assets to back sukuks and preparation of the necessary legislation and regulations on capital market and securities issuance in line with international standards for Islamic finance. The central bank intends to promote secondary trading with existing instruments, starting with capital notes; in this regard, it plans to work with the Afghan Bankers Association to guide discussions with dealers on the protocol for agreeing and executing trades—a "code of conduct"—to be adopted by end-2014.

51. **Central bank operations will be strengthened**. With the recent revaluation gains, the central bank is no longer undercapitalized and the new capitalization framework (part of the amendments to the central bank law) is being reviewed and will be submitted to parliament to ensure it remains so, thereby preventing monetary policy from being affected by capital or income considerations. Proposed amendments to the central bank law will also enhance legal underpinnings of central bank operations. Separately, consistent with its by-laws, the Financial Disputes Resolution Commission is planning to publish the findings of financial disputes on its website to increase financial sector transparency. The central bank is developing its operations report to parliament (to become part of its annual report), which will enable legislators to evaluate and monitor progress, inter alia, in hiring, promoting, training, and remunerating staff in accordance with its human resources policies and deploying them efficiently.

52. **The authorities will continue efforts to resolve Kabul Bank cases and recover related assets**. Appeals against sentences against the two main persons indicted in the bank's collapse, as well as applications for additional and longer sentences and related confiscation orders, are being pursued. The appeals, if successful, will assist in asset recovery efforts. The authorities will also pursue resolution of the existing and new mutual legal assistance requests. After the authorities approve the successful bidder for NKB, the central bank will undertake fit and proper checks on the successful bidder and proceed with the privatization. Staff urged the authorities to step up Kabul Bank asset recovery efforts and privatize New Kabul Bank expeditiously or, if it cannot be sold, it should be liquidated, providing that government salary payments remain unaffected.

D. Economic Governance

53. **The authorities plan to take several economic governance measures**. The ECTF will coordinate and implement economic governance measures set out in the economic crimes roadmap. The authorities intend to enact FATF-consistent AML/CFT legislation and adopt a national strategy that will include money laundering and terrorist financing risk assessments; measures to investigate and confiscate the proceeds of crime; measures to enhance the transparency of legal persons and non-profit organizations; and implementation of a risk-based AML/CFT supervisory

regime. The authorities also plan to implement a regime for the declaration of cross-border transportation of currency, negotiable bearer instruments, and gold with the necessary enforcement mechanisms.

PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM[10]

54. **This section discusses program developments since the first review of the ECF arrangement was completed in June 2012**. Performance was not in line with the targets set at the first review, due to unanticipated shocks that hit the economy, an inadequate policy response, and delays in structural reform implementation caused by opposition to some reforms and capacity constraints. This delayed completion of program reviews. Discussions on the second review of the program were not concluded because key quantitative targets were missed, implementation of some structural benchmarks was delayed, and revenue targets for 2013 were not agreed. A January 2013 mission reached agreement on a path to complete the second and third ECF arrangement reviews. However, performance in early 2013 was significantly weaker than planned and not all prior actions were implemented, so completion of the reviews could not be recommended.

55. **Weaker economic conditions necessitated a revision of the policy framework in May 2013**. The revised informal framework recognized the larger economic shock resulting from the withdrawal of international troops and greater transition uncertainties. Accordingly, it envisaged a more gradual adjustment with lower revenue, expenditure, net international reserves (NIR), and money growth targets to help preserve macro-stability, while providing a framework to build a track record toward a possible review.

56. **Despite corrective measures taken by the authorities in the second half of the year, important targets under the revised informal framework were missed in 2013**. This performance, especially the shortfall in budget revenue and delays in structural reform, as well as the limited expected term of the government means a review cannot be completed currently and the ECF arrangement is scheduled to end in November 2014. Budget revenue was Af 5.1 billion (0.4 percent of GDP) below the target set in May. The end-year reserve money target was missed by 3 percent, although the excess corresponded to larger-than-programmed accumulation of NIR ($885 million above the adjusted target) and did not result in higher inflation.

57. **Progress was made in structural reform efforts, but implementation was slower than planned**. In particular, capacity constraints and opposition from groups that believed the reforms would hurt their interests continued to be an obstacle. Nevertheless, 20 of 25 structural

[10] The IMF Executive Board was informed about developments under the program in an Informal Country Matters meeting held on July 26, 2013 and through assessment letters circulated in June 2013 and January 2014.

benchmarks planned between June 2012 and December 2013 were completed, some with delays.[11] Noteworthy accomplishments included: publishing the inquiry into the Kabul Bank crisis; submitting the new banking, VAT, and tax administration laws to parliament; advancing preparations for implementation of the VAT; strengthening border control management; submitting a new sukuk debt instruments law to the ministry of justice for review; and adopting a strategic plan for financial supervision. The five outstanding benchmarks are: (i) submitting to parliament the laws on AML/CFT; (ii) submitting to parliament amendments to central bank legislation aligning provisions on the calculation and allocation of net income with international good practice; (iii) completing the transfer of taxpayers from the medium and small taxpayer offices to the large taxpayer office; (iv) strengthening the policies to inform central bank supervisory staff about their duties, functions, and protections from liability available; and (v) amending the Economic Crimes Task Force's advice to the Criminal Law Review Working Group on categories of economic offences to be included in the new consolidated penal code to include additional offenses.

58. **Preparations for the VAT are progressing more slowly than planned**. The draft law on the VAT, consistent with Fund advice, was submitted to parliament with a delay (in May 2013) but passage has been delayed and parliament is discussing possible changes to the draft law. These delays reflect opposition from within the government and parliament. As a result, the timing of introduction of the new tax remains uncertain and one year will be needed to prepare the VAT's introduction after parliament's approval of the law. In the meantime, the VAT implementation plan has been started, and the draft law on tax administration, which is necessary to administer the VAT, has been submitted to parliament.[12] Prospective taxpayers have been identified and moved to the large taxpayer office.

59. **In the financial sector, the authorities worked on privatization of New Kabul Bank (NKB), the new banking law, and strengthening financial supervision**. The new banking law was submitted to parliament in February 2013, but needs some amendments which it is hoped will be incorporated while the law is discussed by parliament. The law will help enhance supervisory oversight over the financial sector by strengthening corporate governance, prudential requirements, enforcement measures, and bank resolution. The higher minimum paid-in capital requirement for banks has been enforced. The DAB approved a five-year strategic plan to strengthen banking supervision in June 2013 and a new organizational structure is being implemented. The first attempt to privatize NKB was not successful and the one bid received did not meet the tender requirements. A second tender was conducted in late-2013 and two bids that met the tender requirements were received, and a recommendation for sale to the winning bid (which expires in mid-April) was

[11] In two cases, the authorities have indicated that the benchmark has been met and staff has requested information to confirm their implementation (completing the transfer of taxpayers from the medium and small taxpayer offices to the large taxpayer office and the Economic Crimes Task Force's advice to the Criminal Law Review Working Group on categories of economic offences to be included in the new consolidated penal code).

[12] The plan includes key tasks and milestone dates for system, procedural and personnel development, a governance structure, a change management strategy, a stakeholder management strategy, including taxpayer preparation, and an initial compliance strategy.

submitted to the cabinet. However, so far the sale has not been approved, because cabinet regarded the price offered as low and the political circumstances (elections) were not viewed as conducive to privatization.

60. **The program of asset recovery and resolution of Kabul Bank continued, but at a slow pace**.[13] The government reported that between June 30, 2013 and February 28, 2014, cash recoveries amounted to $6.6 million, which together with other and earlier recoveries increased total recoveries to $175 million—leaving $738.7 million in outstanding claims. Difficulties in finding buyers for domestic assets, ascertaining legal documentation of property ownership, appeals of the verdicts in criminal cases, and slow progress in recovering assets held overseas continued to impede asset recovery. Requests for mutual legal assistance were sent to six countries, with four more requests being planned (Box 5). In March 2013, the Special Tribunal of the Supreme Court established by the president convicted all 21 indicted individuals, including for misuse of property, abuse of authority, or failure to report irregularities. The government appealed to seek longer sentences and additional convictions and related confiscation orders to assist with the recovery of assets overseas. The Special Tribunal identified 29 additional suspects, not yet indicted, for investigation.

61. **Several measures were taken to improve economic governance**. The authorities prepared amendments to the company law to strengthen oversight by the finance ministry over state-owned corporations. The inquiry report of the IMEC into the Kabul Bank crisis was published. Revised AML/CFT legislation, designed to comply with the FATF standard, is being discussed by the cabinet, but has been delayed by the need for detailed discussion of the content of the laws. The authorities are considering approaching the international community to request time for this discussion to be completed. The capacity of FinTRACA was strengthened; registration and reporting by money service providers is being enforced; and inter-agency coordination through memoranda of understanding on information sharing between AML/CFT stakeholders was improved. An economic crimes roadmap setting out a comprehensive economic governance framework was endorsed by the cabinet in February 2013, and an ECTF under the chairmanship of the economy minister was established to oversee its implementation. The ECTF has advised on economic crimes to be included in the draft consolidated penal code, consistent with the FATF standard and the roadmap.

62. **Despite delays in program reviews, staff and the authorities agreed on a set of informal quantitative targets and policy actions for 2014 to facilitate close engagement and provide a policy framework during the election period**. Staff noted that adherence to the agreed framework would send a positive signal to domestic and international stakeholders and build a track record of implementing economic policies.

[13] Following the request made by Executive Directors at the time of the first ECF review, quarterly reports on Kabul Bank recovery have been prepared and published by the authorities and have been circulated to the IMF Board for its information. The most recent update was part of the assessment letter circulated to the Board in January 2014.

Box 5. Kabul Bank Asset Recovery and Resolution

This box reviews developments since June 2012 in asset recovery and resolution of Kabul Bank.

A public inquiry into the Kabul Bank crisis was published by the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (IMEC) on November 15, 2012, see www.mec.af/files/knpir-final.pdf. The IMEC report made 48 recommendations to improve governance, the regulatory environment, supervision and enforcement, investigation and law enforcement, judicial proceedings, recoveries, the sale of New Kabul Bank, and on the monitoring and reporting requirements relating to the recommendations made by IMEC.

The government and the central bank have responded to the inquiry's recommendations. Recommendations directed to the central bank are almost fully reflected in the central bank FSD's Strategic Plan. Of the 18 recommendations that apply specifically to central bank, 14 have been implemented or largely implemented, 3 have been partially implement and fuller implementation is underway, and one was rejected as inappropriate (limiting shareholdings of a bank to no more than 10 percent). The preparation of new laws on anti-money laundering and countering the financing of terrorism (currently being considered by Cabinet) were designed to overcome some of the reporting and compliance issued identified by the report. The government's response included the creation of the Economic Crimes Task Force to implement the national strategy to combat economic crime, plans to sell New Kabul Bank and to consider other recommendations, where possible although some recommendations could not be commented on because there were pending or possible court cases.

Asset recovery has proceeded. Cash recoveries amounted to $46.7 million between June 4, 2012 and February 28, 2014. The bulk of these recoveries were the proceeds from the sale of villas in Dubai that were taken over by the Kabul Bank receivership. The Kabul Bank receivership had $1,011 million in potentially recoverable assets on August 31, 2010, of which $175 million had been recovered in cash or equivalent as of February 28, 2014.[1] In addition, assets with a book value of $59.6 million had been recovered and were available for sale and approved reduction amounted to $97.4 million. Starting in September 2012, the ministry of finance and central bank have published quarterly updates on asset recoveries and Kabul Bank resolution issues (see www.centralbank.gov.af and www.mof.gov.af).

The criminal trials related to Kabul Bank began in November 2012 and verdicts were issued in March 2013, which are being appealed. The Special Tribunal of the Supreme Court, established by President Karzai, began its deliberations at public hearings and issued verdicts in March 2013 convicting all 21 people charged with criminal offences. Two of the convicted received jail sentences of five years each and fines of about $800 million. The Government, unsatisfied with the sentences, is seeking lengthier sentences for two of those convicted and stronger confiscation orders to assist with the recovery of overseas assets and has filed an appeal. The other defendants charged with criminal offences were also convicted and received jail sentences of six months to four years. Further, the Special Tribunal noted there are 29 individuals identified (but not yet indicted) for investigation for suspected involvement in Kabul Bank crimes. Requests for mutual legal assistance were sent to six countries (France, India, Switzerland, United Arab Emirates, United Kingdom, and the United States), with four more requests planned.

Box 5. Kabul Bank Asset Recovery and Resolution (Concluded)

Efforts have been made to privatize New Kabul Bank (NKB), but progress has been limited. Kabul Bank and its successor NKB make the bulk of government salary payments and it has been essential to preserve this capacity until other banks are able to take them over, which is linked to strengthening the payments system. The first effort to sell NKB in early 2013 was not successful because the only bid received did not meet the technical requirements of the tender. A second tender was held in the autumn of 2013 and two bidders submitted bids that met the tender's technical requirements. So far cabinet has not approved the sale to the winning bid, which expires in mid-April. The sale of NKB to a fit and proper buyer would make an important contribution to strengthening Afghanistan's banking sector.

The experience with Kabul Bank resolution has been mixed. The Kabul Bank crisis underscored the need to reform financial sector governance and for the public to be convinced that the rule of law prevails in the financial sector to rebuild public confidence in the sector. Since 2011, the authorities' IMF-supported program has contained a wide set of measures to strengthen the financial sector, and institutional capacity to deal with economic crime, including improved or new legislation, strengthening the central bank's supervision capacity, and measures to increase transparency, reform institutions and improve accountability. The results have been mixed. There have been positive milestones, including strengthened supervision, a commitment to transparently communicating with the public, and an improvement in the institutional infrastructure to deal with economic crime. However, asset recovery, the sale of New Kabul Bank, and new legislation (banking, AML/CFT laws) have progressed more slowly than hoped earlier and some of the verdicts in the criminal cases were viewed by the government as inadequate.

[1] This includes cash recoveries ($157.1 million), collections (transfers scheduled but not made) during the conservatorship and a court ordered deposit offset and a rent payment offsetting part of a loan ($17.9 million).

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63. **Over the past decade, Afghanistan has made enormous progress in reconstruction and development, but remains one of the poorest countries in the world**. War, security concerns, political uncertainty, and weak institutions have limited growth and weighed on social outcomes. 2014 is a critical year in the political and security transitions, with presidential elections and completion of the drawdown of international troops.

64. **The authorities maintained macroeconomic stability and continued to implement structural reforms in 2013 despite the economic shock caused by security and political uncertainties**. Inflation remained in single digits, the overall budget deficit (including grants) was close to balance, reserves remained above 7 months of imports, and debt at a modest level. At the same time, structural reforms continued, even if the pace was slower than planned. Donor grants continued to finance the external and budget deficits.

65. **The economic outlook for 2014 and the transformation decade will depend on political and security stability, continued economic reform, and donor support**. The authorities need to continue efforts to deliver on their reform commitments both to promote inclusive and

sustained growth and assure continued donor flows. Continued substantial support from the international community will be needed to help maintain macroeconomic stability, support economic reforms, and finance security and development needs. While existing international reserves are sufficient to manage short-term pressures, in the long run, only continued prudent macroeconomic policies, sustained reform efforts, and political and security stability will ensure inclusive development.

66. **Despite the achievements made, vulnerabilities are high and the outlook is subject to significant risks, mostly on the downside**. Dependence on donor financing, large expenditure needs, and a limited domestic revenue capacity, and a fragile banking system are important vulnerabilities. Downside risks are related to adverse domestic or regional security developments, political instability, inadequate implementation of economic policies, and donor fatigue. On the upside, if uncertainties recede more swiftly than anticipated, growth would be higher and development more rapid.

67. **The authorities' economic strategy remains broadly appropriate and needs strengthened implementation**. Prudent macroeconomic policies and wide-ranging structural reforms are needed to realize Afghanistan's economic potential and to support successful political and security transitions, as well as assure continued donor support. Further they will support inclusive growth and mitigate risks by building buffers. The authorities' economic strategy would benefit from strengthened implementation.

68. **Sustained and inclusive growth is needed to provide job opportunities and reduce poverty**. Growth prospects hinge on implementing a prudent policy mix, enhancing service delivery, building infrastructure—particularly roads and power—and strengthening the business environment. This will require a radical and sustained improvement in governance. Boosting private sector activity is key, as the public sector-based employment model will soon reach its limits given fiscal constraints and dependence on donor financing.

69. **The macroeconomic policy mix remains appropriate, with fiscal policy (financed by grants) supporting demand and monetary policy focused on inflation**. The fiscal balance including grants should continue to remain broadly balanced to ensure sustainability while efforts should be stepped up to mobilize domestic revenue and further improve budget management to ensure pro-poor and development expenditure are increased to help achieve the MDGs. To maintain low inflation, monetary policy should continue to limit money supply growth and limit foreign exchange interventions to mitigating temporary volatility, while continuing to maintain the international reserves buffer.

70. **Raising domestic revenue is a priority for fiscal sustainability**. In addition to continued efforts to strengthen revenue and customs administration and increase compliance, swift passage of the VAT and tax administration laws is required to pave the way for the introduction of the VAT. Moreover, a fiscal regime for the natural resources sector should be promptly finalized to ensure the government's share of future economic rents and to attract investors into this sector. The authorities should refrain from granting investment incentives and tax exemptions. Higher revenue

is essential to finance needed development and security outlays and reduce reliance on donor funding.

71. **The banking system should be strengthened to ensure its soundness and enhance its contribution to economic development, and NKB should be sold as planned**. The banking system is vulnerable to adverse shocks, and bank credit remains low. The central bank should monitor the banking system closely and enforce robustly prudential standards and enforcement actions, especially for banks that are loss-making or have weak financial positions. While the regulatory framework and the central bank's supervision capacity have been strengthened, determined efforts continue to be needed to assure effective banking supervision (including AML/CFT supervision). In this regard, vigorous efforts are needed to pass and implement the new banking law and to ensure adequate protection of central bank supervisory staff performing their duties in good faith. Further, efforts to recover Kabul Bank assets continue to be needed to reduce the cost of the crisis to the population, to signal determination to improve governance, and to assure continued donor financing. Selling NKB to the highest bidder—after due diligence is completed—remains the best solution to ensure the bank's healthy future and to strengthen this sector.

72. **Economic governance reforms should continue to focus on improving the business environment and strengthening the AML/CFT regime**. These reforms will be critical to supporting private sector-led growth. In particular, the AML/CFT legislation should promptly be submitted to parliament and enacted to help combat economic crime and ensure that the banking sector maintains its international correspondent relationships.

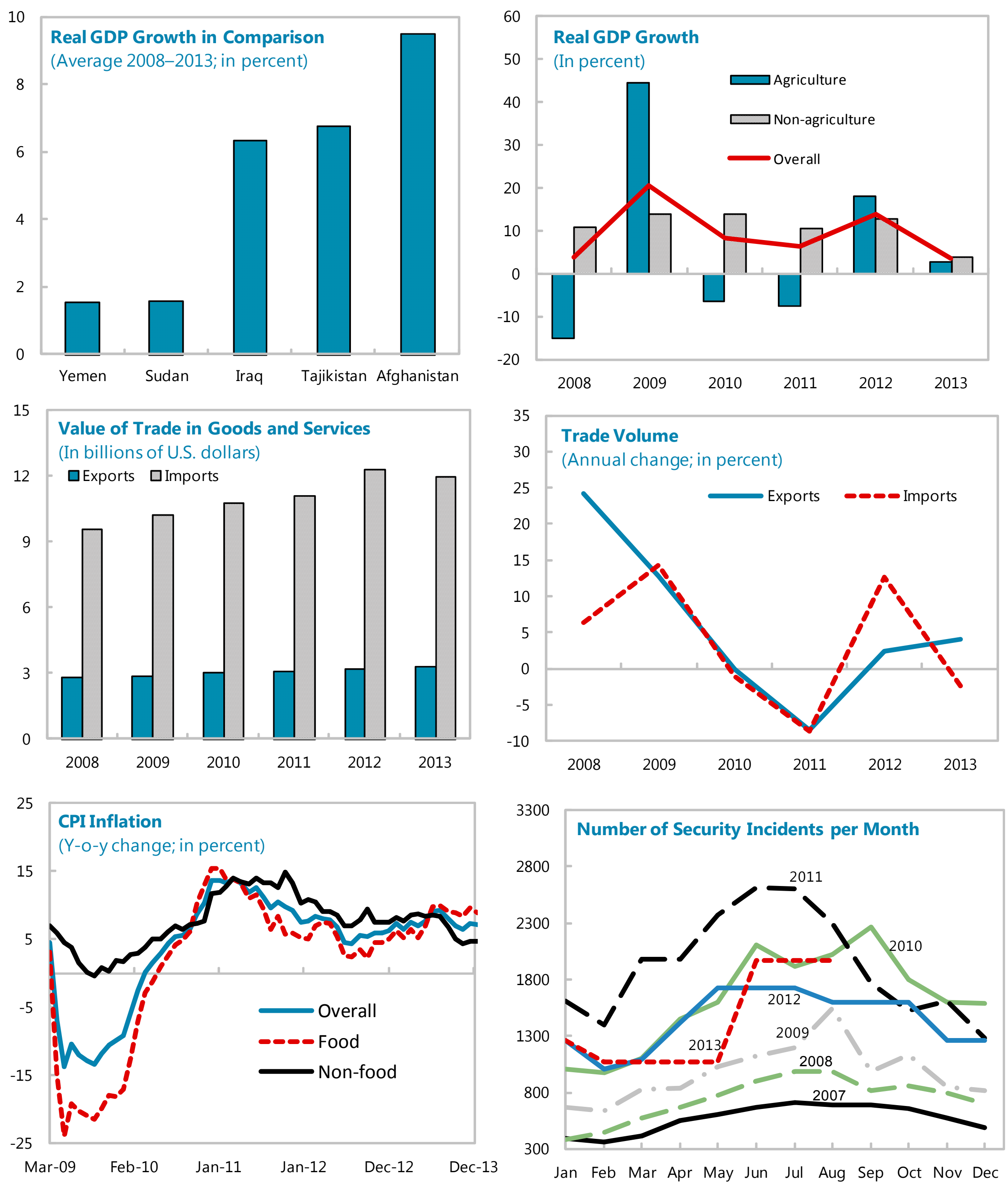
73. **Staff agreed with the authorities on an informal short-term policy framework for 2014**. The policy framework provides for continued macroeconomic stability, with monetary policy aimed at maintaining low inflation; fiscal policy focused on revenue mobilization; a flexible exchange rate policy; and measures to safeguard the financial sector and strengthen economic governance. Reaching the 2014 domestic revenue target, however, will be a challenge and will require renewed efforts and additional revenue measures. Adherence to the agreed framework would send a positive signal to all stakeholders.

74. **Staff intends to continue its close engagement through policy advice and technical assistance, including within the framework provided by the ECF arrangement**. The IMF has been supporting Afghanistan through technical assistance and a three-year ECF arrangement approved in November 2011. Although reviews were not completed since June 2012 because of an inadequate policy response and delays in structural reform, staff has maintained—and intends to maintain—a close dialogue with the authorities on economic policy and institution building.

75. **Afghanistan needs continued support from the international community to maintain macroeconomic stability and support its economic reforms**. The authorities need to continue their efforts to deliver on their reform commitments under the TMAF to maintain economic stability, lift growth, and facilitate donor flows to finance fiscal and external current account needs.

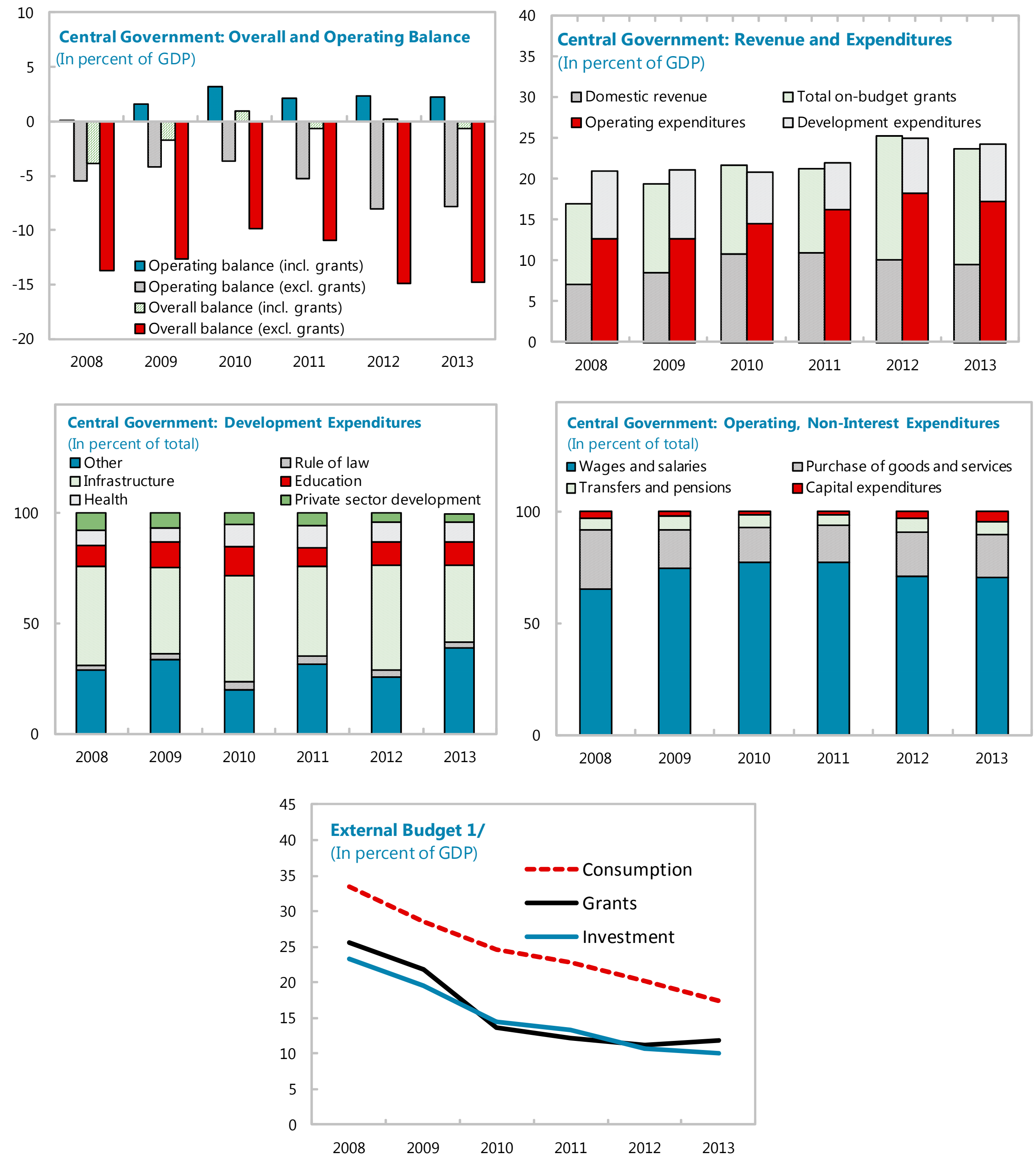
76. **It is proposed to hold the next Article IV consultation in accordance with the relevant decision** on the consultation cycle for members with a Fund arrangement.

Figure 1. Islamic Republic of Afghanistan: Real Sector



Sources: Afghan authorities; IMF WEO; United Nations Department of Safety and Security; and IMF staff calculations.

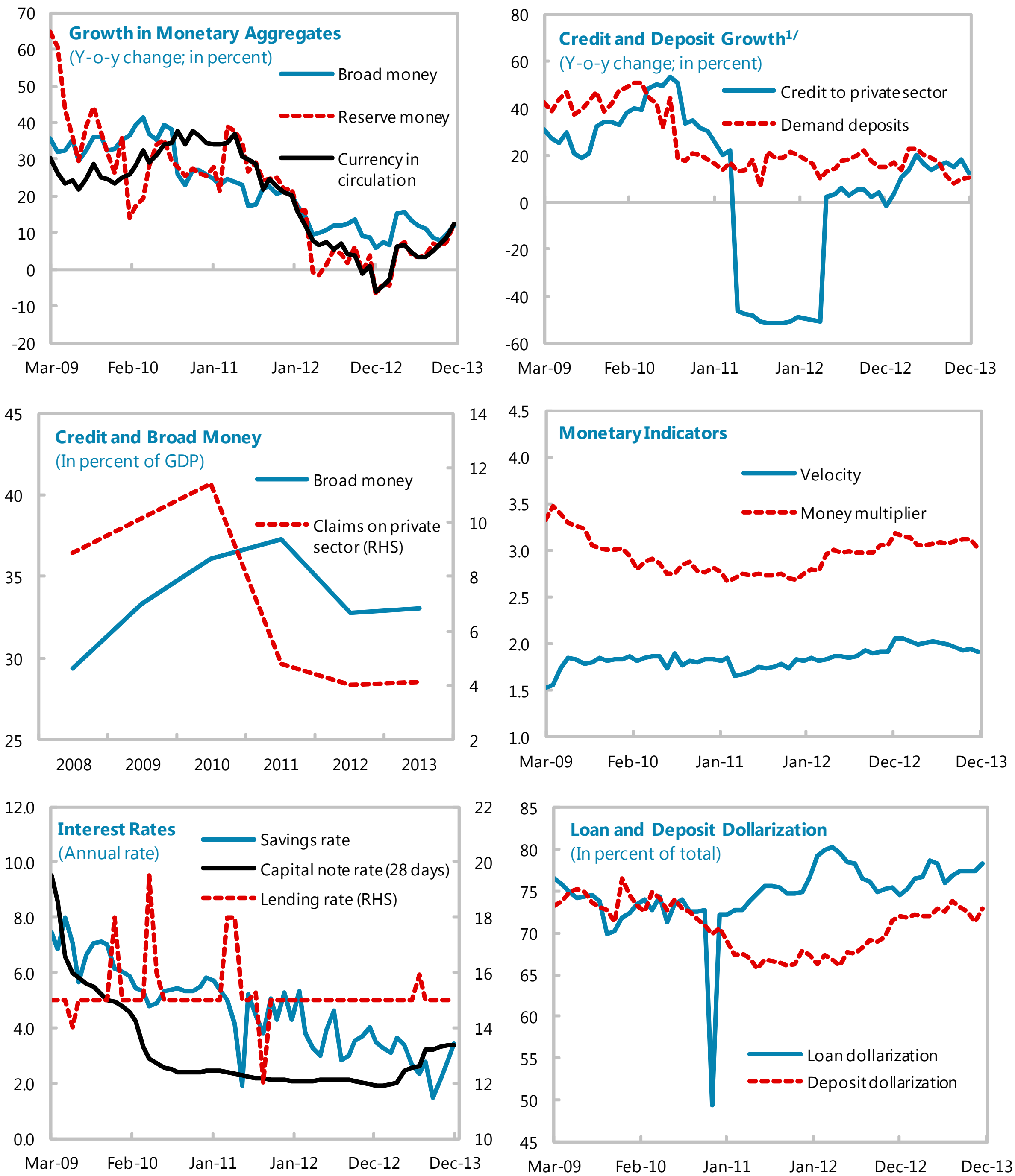
Figure 2. Islamic Republic of Afghanistan: Fiscal Sector



Sources: Afghan authorities; and IMF staff calculations.

1/ Estimated activity off-budget by international community.

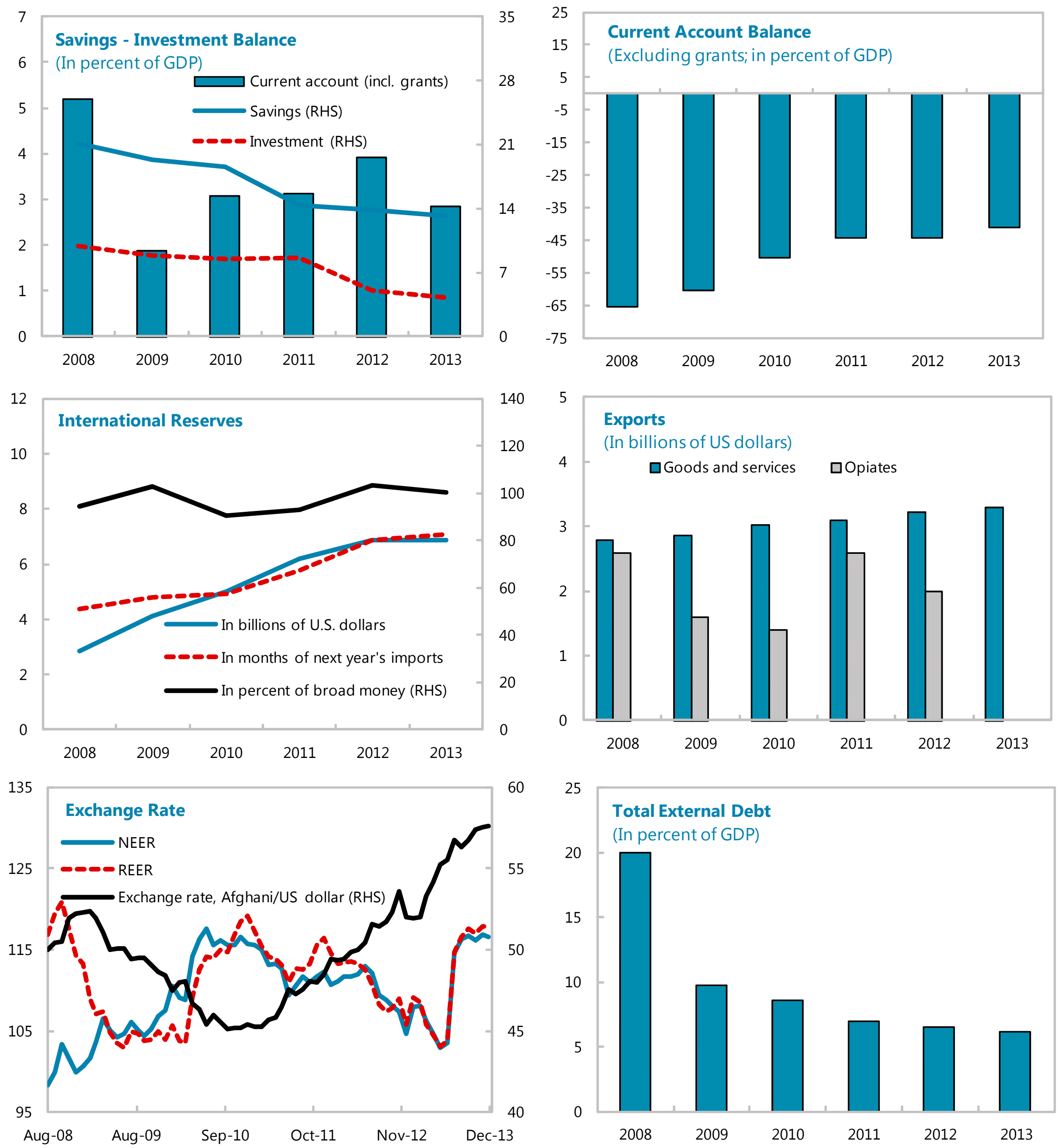
Figure 3. Islamic Republic of Afghanistan: Monetary Sector



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.

Figure 4. Islamic Republic of Afghanistan: External Sector



Sources: Afghan authorities; United Nations Office on Drugs and Crime; and IMF staff calculations.

Table 1. Islamic Republic of Afghanistan: Selected Economic Indicators, 2011–14

(Quota: SDR 161.9 million)
(Population: approx. 30 million)
(Per capita GDP: approx. US$680; 2012)
(Poverty rate: 36 percent; 2008)
(Main exports: opium, US$2.8 billion; carpets, US$155 million; 2010)

	2011	2012	2013			2014		
	Act.	Prel.	Prog. 10/	Prog.11/	Est.	Prog. 10/	Prog.11/	Proj.
	(Annual percentage change, unless otherwise indicated)							
Output and prices 1/								
Real GDP	6.5	14.0	6.5	1.5	3.6	5.9	3.2	3.2
Nominal GDP (in billions of Afghanis)	836	1,034	1,140	1,085	1,148	1,270	1,182	1,249
Nominal GDP (in billions of U.S. dollars)	17.9	20.3	22.0	19.9	20.7	23.7	20.7	21.7
Consumer prices (period average) 2/	11.8	6.4	6.7	6.2	7.4	5.0	5.8	6.1
Food	10.7	4.7	...	4.8	7.6	...	...	6.6
Non-food	13.2	8.7	...	7.2	7.2	...	...	5.1
Consumer prices (end of period) 2/	9.3	5.9	5.4	5.0	7.2	5.0	5.0	4.0
	(In percent of GDP)							
Investment and savings 2/								
Gross domestic investment	23.6	18.6	…	…	18.0	…	…	17.2
Of which: Private	8.6	5.0	…	…	4.2	…	…	4.2
Gross national savings	26.7	22.5	…	…	20.8	…	…	20.6
Of which: Private	12.3	8.8	…	…	7.7	…	…	7.9
Public finances (central government) 3/								
Domestic revenues and grants	21.3	25.2	23.4	27.5	23.7	25.4	…	28.2
Domestic revenues	11.0	10.1	11.3	10.5	9.5	13.4	…	10.3
Grants	10.3	15.1	12.1	16.9	14.2	12.0	…	17.9
Expenditures	21.9	25.0	24.1	28.7	24.3	25.2	…	28.6
Operating 4/	16.3	18.2	17.7	21.3	17.3	18.6	…	21.7
Development	5.6	6.8	6.4	7.3	7.0	6.6	…	6.9
Operating balance (excluding grants) 5/	-5.3	-8.1	-6.4	-10.8	-7.8	-5.2	…	-11.4
Overall balance (including grants)	-0.6	0.2	-0.8	-1.2	-0.6	0.2	…	-0.4
Public debt 6/	6.9	6.5	6.6	7.1	6.1	6.9	…	5.9
	(Annual percentage change, end of period, unless otherwise indicated)							
Monetary sector								
Reserve money	21.9	3.9	16.0	8.0	12.4	...	...	12.7
Currency in circulation	20.8	1.1	15.8	8.0	12.5	...	...	12.7
Broad money	21.3	8.8	15.4	9.3	11.9	...	...	12.4
Interest rate, 28-day capital note (in percent)	2.1	2.0	...	...	3.4	...	...	...
	(In percent of GDP, unless otherwise indicated)							
External sector 1/								
Exports of goods (in U.S. dollars, percentage change)	1.8	2.7	-3.8	-1.8	-5.2	7.2	…	-7.9
Imports of goods (in U.S. dollars, percentage change)	2.9	11.2	4.6	-1.3	-2.2	0.8	…	-2.1
Merchandise trade balance	-42.1	-42.4	-43.2	-42.4	-41.0	-39.6	…	-39.0
Current account balance							…	
Excluding official transfers	-42.1	-42.3	-43.0	-42.2	-40.6	-39.6	…	-38.1
Including official transfers	3.1	3.9	0.5	3.4	2.8	-0.8	…	3.3
Foreign direct investment	2.1	2.0	2.7	1.6	0.7	3.4	…	1.2
Total external debt 6/	6.9	6.5	6.6	7.1	6.1	6.7	…	5.9
Gross international reserves (in millions of U.S. dollars)	6,208	6,867	7,286	6,660	6,886	7,750	…	7,099
Import coverage of reserves 7/	6.0	6.9	7.3	7.5	7.1	7.7	…	7.2
Exchange rate (average, Afghanis per U.S. dollar)	46.7	50.9	…	…	55.4	…	…	…
Real exchange rate (average, percentage change) 8/	7.7	-4.3	...	...	-2.7	...	...	...
Memorandum items 9/	2011/12	2012/13			2013/14			2014/15
Nominal GDP, incl. opium (in billions of Afghanis)	896	1,086			...			...
Real GDP, incl. opium (annual percentage change)	8.7	10.9			...			...
Opium production (in tons)	5,800	3,700			5,500			...
Price (in U.S. dollars per kilogram)	180	163			143			...

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/ For comparison, 2011 and 2012 are recalculated from data reported on the solar fiscal years basis (March 21–March 20). Since 2013, the fiscal year runs December 22–December 21 (in most years), which is closer 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.
9/ Items presented on the Afghan solar year's basis.
10/ Projected at the first review of the ECF, in June 2012.
11/ Informal agreement of May 2013.

Table 2. Islamic Republic of Afghanistan: Medium-Term Macroeconomic Framework, 2012–18

	2012 Prel.	2013 Est.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Output and prices 1/							
Real GDP	14.0	3.6	3.2	4.5	5.0	5.1	5.3
Nominal GDP (in billions of U.S. dollars)	20.3	20.7	21.7	23.2	24.8	26.4	28.1
Consumer prices (period average) 2/	6.4	7.4	6.1	5.5	5.5	5.0	5.0
Investment and savings 2/							
Gross domestic investment	18.6	18.0	17.2	18.5	20.3	22.5	23.8
Of which: Private	5.0	4.2	4.2	6.2	8.7	11.6	13.3
Gross national savings	22.5	20.8	20.6	18.3	17.9	18.5	20.0
Of which: Private	8.8	7.7	7.9	6.8	6.2	8.4	10.4
Public finances (central government) 3/							
Domestic revenues and grants	25.2	23.7	28.2	28.9	30.6	33.9	35.8
Domestic revenues	10.1	9.5	10.3	11.1	12.5	12.5	13.8
Grants	15.1	14.2	17.9	17.8	18.1	21.5	22.0
Expenditures	25.0	24.3	28.6	29.7	30.6	34.7	36.7
Operating 4/	18.2	17.3	21.7	22.8	23.4	27.4	29.2
Development	6.8	7.0	6.9	6.9	7.1	7.3	7.6
Operating balance (excluding grants) 5/	-8.1	-7.8	-11.4	-11.7	-11.0	-14.9	-15.4
Overall budget balance (including grants)	0.2	-0.6	-0.4	-0.8	0.0	-0.8	-1.0
External sector 1/							
Merchandise trade balance	-42.4	-41.0	-39.0	-37.8	-36.3	-34.6	-31.8
Current account balance, excluding official grants	-42.3	-40.6	-38.1	-36.7	-34.8	-32.5	-29.9
Gross reserves (in millions of U.S. dollars)	6,867	6,886	7,099	7,395	7,300	7,400	7,500
Import coverage of reserves 6/	6.9	7.1	7.2	7.3	7.2	7.1	6.8
Memorandum items:							
Total public debt 7/	6.5	6.1	5.9	6.6	7.8	9.9	9.8
Of which: External debt	6.5	6.1	5.9	5.8	5.8	5.7	5.6
GDP per capita (in U.S. dollars) 8/	680	679	695	726	757	788	822

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

1/ Excluding the narcotics economy.

2/ Revised with improved coverage.

3/ For comparison, 2011 and 2012 are recalculated from data reported on the solar fiscal years basis.

4/ Comprising mainly current spending. It is assumed that donors' recurrent expenditure off-budget is moved onto the budget by 2020. The actual rate of transfer on-budget is uncertain.

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, 2011–14

(In billions of Afghanis)

	2011	2012	2013				2013	2014				2014	2014
	Year 5/	Year 5/	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Budget
	Act.	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	
Revenues and grants	177.8	260.6	30.4	60.1	94.1	87.3	271.9	57.1	87.6	87.2	120.8	352.7	355.9
Domestic revenues	91.9	104.7	22.3	25.5	27.8	33.4	109.0	26.1	30.4	29.2	43.2	128.8	128.8
Tax revenues	72.4	82.2	11.1	22.8	21.8	21.7	77.4	19.7	23.3	23.1	33.0	99.0	99.0
Income, profits, and capital gains	21.5	28.8	3.7	8.2	8.6	6.9	27.4	7.1	8.6	8.4	14.3	38.4	38.4
International trade and transactior	29.9	29.4	4.1	8.3	7.2	7.8	27.3	7.2	8.4	8.2	9.4	33.1	33.1
Goods and services	17.5	20.9	2.6	5.0	4.4	5.3	17.3	4.7	5.5	5.8	8.1	24.2	24.2
Other	3.5	3.2	0.7	1.3	1.6	1.7	5.4	0.7	0.7	0.7	1.2	3.3	3.3
Nontax revenues	19.6	22.4	11.2	2.7	6.0	11.7	31.6	6.4	7.1	6.1	10.2	29.8	29.8
Grants to operating budget 1/	62.0	107.5	1.6	27.1	52.0	33.9	114.7	24.9	41.8	44.4	56.8	167.9	171.1
ARTF	6.7	19.1	1.2	7.3	3.2	2.5	14.2	3.3	8.4	5.4	11.6	28.7	28.7
LOTFA	23.6	30.8	0.0	9.7	7.0	5.8	22.4	5.0	12.9	12.6	21.4	51.9	52.7
NTM-A	31.7	57.5	0.0	10.1	41.7	22.6	74.5	16.4	20.1	24.6	22.6	83.7	86.1
Other grants	0.1	0.1	0.4	0.0	0.1	3.0	3.6	0.3	0.4	1.7	1.2	3.6	3.6
Grants to development budget	23.8	48.4	6.5	7.5	14.2	20.0	48.2	6.1	15.4	13.6	20.9	56.0	56.0
Total expenditures	183.2	258.7	41.2	64.0	75.0	98.8	278.9	52.0	89.3	90.7	125.7	357.7	361.2
Operating expenditures	136.1	188.2	34.0	48.0	53.6	62.9	198.6	45.0	67.4	67.6	91.5	271.6	275.1
Of which: Security	…	…	…	…	…	…	128.7	…	…	…	…	177.1	180.6
Wages and salaries	104.7	133.6	28.9	34.2	37.4	39.0	139.5	27.9	39.4	37.8	48.5	153.6	153.6
Purchases of goods and services	22.6	36.6	3.2	8.0	10.7	16.3	38.2	10.8	20.5	22.5	32.5	86.3	89.5
Transfers, subsidies, and other	1.9	0.6	0.0	0.0	0.0	0.0	0.0	0.3	0.4	0.7	1.0	2.4	2.4
Pensions	4.2	11.3	1.8	3.9	3.0	2.8	11.5	4.3	5.7	5.1	4.7	19.7	19.7
Capital expenditures	2.1	5.4	0.1	1.8	2.4	4.0	8.4	1.6	1.2	1.2	4.7	8.7	9.1
Interest	0.6	0.8	0.1	0.0	0.1	0.8	1.0	0.2	0.2	0.2	0.2	0.8	0.8
Development expenditures	47.1	70.5	7.1	15.9	21.4	36.0	80.4	6.9	21.8	23.1	34.2	86.1	86.1
Operating balance excluding grants	-44.2	-83.6	-11.7	-22.5	-25.8	-29.5	-89.5	-18.9	-37.1	-38.4	-48.3	-142.7	-146.3
Overall budget balance including grant	-5.4	1.9	-10.7	-3.9	19.1	-11.5	-7.0	5.1	-1.7	-3.6	-4.9	-5.0	-5.3
less: Kabul Bank bailout cost	36.6	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall budget balance	-42.0	3.9	-10.7	-3.9	19.1	-11.5	-7.0	5.1	-1.7	-3.6	-4.9	-5.0	-5.3
Float and discrepancy 2/	9.7	13.3	-6.7	3.6	-3.7	4.6	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing	32.3	-17.2	17.4	0.3	-15.4	6.9	9.3	-5.1	1.7	3.6	4.9	5.0	5.3
Sale of nonfinancial assets 3/	0.6	6.6	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)	1.8	3.4	0.3	0.1	0.5	0.5	1.4	0.2	0.5	0.9	0.7	2.3	2.1
Domestic (net)	29.9	-27.2	17.1	0.2	-15.9	6.4	7.8	-5.3	1.2	2.7	4.2	2.7	3.3
Central bank, change in	29.9	-27.2	17.1	0.2	-15.9	6.4	7.8	-5.3	1.2	2.7	4.2	2.7	3.3
Government deposits	-5.7	-23.5	17.1	0.2	-15.7	9.8	11.4	-4.1	2.1	3.9	5.2	7.1	7.7
Claims on government	35.5	-3.7	0.0	0.1	-0.2	-3.4	-3.6	-1.2	-0.9	-1.2	-1.0	-4.4	-4.4
Credit from DAB (IMF accounts)	0.9	0.7	-0.2	-0.1	-0.3	-0.1	-0.7	-0.4	-0.1	-0.4	-0.2	-1.1	-1.1
Promissory note (- = repaymer	34.6	-4.4	0.2	0.2	0.2	-3.3	-2.9	-0.8	-0.8	-0.8	-0.8	-3.3	-3.3
Domestic debt (sukuk)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													0.0
Promissory note (end-of-period stock	34.6	30.2	30.4	30.5	30.7	27.3	27.3	26.5	25.7	24.9	24.0	24.0	24.0
Propoor spending 4/	18.3	18.3	5.5	6.4	6.7	6.7	25.2	6.0	7.1	7.3	7.3	27.8	27.8

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

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan; NTM-A: NATO Training Mission - Afghanistan

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

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

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

5/ For comparison, 2011 and 2012 are recalculated from data reported on the solar fiscal years basis (March 21–March 20). Since 2013, the fiscal year runs December 22–December 21 (in most years), which is closer aligned with the Gregorian calendar year.

Table 3b. Islamic Republic of Afghanistan: Central Government Budget, 2011–14

	2011 Year 5/ Act.	2012 Year 5/ Act.	2013 Q1 Act.	2013 Q2 Act.	2013 Q3 Act.	2013 Q4 Prel.	2013 FY Prel.	2014 Q1 Proj.	2014 Q2 Proj.	2014 Q3 Proj.	2014 Q4 Proj.	2014 FY Proj.	2014 Budget
Revenues and grants	21.3	25.2	2.7	5.2	8.2	7.6	23.7	4.6	7.0	7.0	9.7	28.2	28.5
Domestic revenues	11.0	10.1	1.9	2.2	2.4	2.9	9.5	2.1	2.4	2.3	3.5	10.3	10.3
Tax revenues	8.7	8.0	1.0	2.0	1.9	1.9	6.7	1.6	1.9	1.8	2.6	7.9	7.9
Income, profits, and capital gains	2.6	2.8	0.3	0.7	0.7	0.6	2.4	0.6	0.7	0.7	1.1	3.1	3.1
International trade and transaction	3.6	2.8	0.4	0.7	0.6	0.7	2.4	0.6	0.7	0.7	0.8	2.7	2.7
Goods and services	2.1	2.0	0.2	0.4	0.4	0.5	1.5	0.4	0.4	0.5	0.6	1.9	1.9
Other	0.4	0.3	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.3	0.3
Nontax revenues	2.3	2.2	1.0	0.2	0.5	1.0	2.8	0.5	0.6	0.5	0.8	2.4	2.4
Grants to operating budget 1/	7.4	10.4	0.1	2.4	4.5	3.0	10.0	2.0	3.3	3.6	4.5	13.4	13.7
ARTF	0.8	1.8	0.1	0.6	0.3	0.2	1.2	0.3	0.7	0.4	0.9	2.3	2.3
LOTFA	2.8	3.0	0.0	0.8	0.6	0.5	2.0	0.4	1.0	1.0	1.7	4.2	4.2
NTM-A	3.8	5.6	0.0	0.9	3.6	2.0	6.5	1.3	1.6	2.0	1.8	6.7	6.9
Other grants	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.1	0.1	0.3	0.3
Grants to development budget	2.9	4.7	0.6	0.7	1.2	1.7	4.2	0.5	1.2	1.1	1.7	4.5	4.5
Total expenditures	21.9	25.0	3.6	5.6	6.5	8.6	24.3	4.2	7.1	7.3	10.1	28.6	28.9
Operating expenditures	16.3	18.2	3.0	4.2	4.7	5.5	17.3	3.6	5.4	5.4	7.3	21.7	22.0
Of which: Security	…	…	…	…	…	…	11.2	…	…	…	…	14.2	14.5
Wages and salaries	12.5	12.9	2.5	3.0	3.3	3.4	12.1	2.2	3.2	3.0	3.9	12.3	12.3
Purchases of goods and services	2.7	3.5	0.3	0.7	0.9	1.4	3.3	0.9	1.6	1.8	2.6	6.9	7.2
Transfers, subsidies, and other	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Pensions	0.5	1.1	0.2	0.3	0.3	0.2	1.0	0.3	0.5	0.4	0.4	1.6	1.6
Capital expenditures	0.3	0.5	0.0	0.2	0.2	0.4	0.7	0.1	0.1	0.1	0.4	0.7	0.7
Interest	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Development expenditures	5.6	6.8	0.6	1.4	1.9	3.1	7.0	0.6	1.7	1.9	2.7	6.9	6.9
Operating balance excluding grants	-5.3	-8.1	-1.0	-2.0	-2.2	-2.6	-7.8	-1.5	-3.0	-3.1	-3.9	-11.4	-11.7
Overall budget balance including grants	-0.6	0.2	-0.9	-0.3	1.7	-1.0	-0.6	0.4	-0.1	-0.3	-0.4	-0.4	-0.4
less: Kabul Bank bailout cost	4.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall budget balance	-5.0	0.4	-0.9	-0.3	1.7	-1.0	-0.6	0.4	-0.1	-0.3	-0.4	-0.4	-0.4
Float and discrepancy 2/	1.2	1.3	-0.6	0.3	-0.3	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing	3.9	-1.7	1.5	0.0	-1.3	0.6	0.8	-0.4	0.1	0.3	0.4	0.4	0.4
Sale of nonfinancial assets 3/	0.1	0.6	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)	0.2	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.2	0.2
Domestic (net)	3.6	-2.6	1.5	0.0	-1.4	0.6	0.7	-0.4	0.1	0.2	0.3	0.2	0.3
Central bank, change in	3.6	-2.6	1.5	0.0	-1.4	0.6	0.7	-0.4	0.1	0.2	0.3	0.2	0.3
Government deposits	-0.7	-2.3	1.5	0.0	-1.4	0.9	1.0	-0.3	0.2	0.3	0.4	0.6	0.6
Claims on government	4.2	-0.4	0.0	0.0	0.0	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4
Credit from DAB (IMF accounts)	0.1	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1
Promissory note (- = repaymen	4.1	-0.4	0.0	0.0	0.0	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3
Domestic debt (sukuk)	…	…	…	…	…	…	…	…	…	…	…	…	…
Memorandum items:													0.0
Promissory note (end-of-period stock	4.1	2.9	2.6	2.7	2.7	2.4	2.4	2.1	2.1	2.0	1.9	1.9	1.9
Propoor spending 4/	2.2	1.8	0.5	0.6	0.6	0.6	2.2	0.5	0.6	0.6	0.6	pending	pending

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

1/ ARTF: Afghanistan Reconstruction Trust Fund; LOTFA: Law and Order Trust Fund for Afghanistan; NTM-A: NATO Training Mission - Afghanistan

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

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

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

5/ For comparison, 2011 and 2012 are recalculated from data reported on the solar fiscal years basis (March 21–March 20). Since 2013, the fiscal year runs December 22–December 21 (in most years), which is closer aligned with the Gregorian calendar year.

Table 4a. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2011–14

(At current exchange rates)

	2011	2012	2013				2014			
	Dec. 21	Dec. 20	Mar. 20	June 21	Sep. 22	Dec. 21	Mar. 20	June 21	Sep. 22	Dec. 21
	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(In billions of Afghanis, unless otherwise indicated)									
Net foreign assets	296.2	352.7	342.3	353.4	388.7	382.5	382.5	389.6	397.5	408.3
Foreign assets	314.6	373.1	362.4	374.6	410.3	403.8	403.5	410.6	418.2	428.9
Foreign exchange reserves 1/	305.1	358.0	347.0	360.4	396.0	390.0	388.7	395.6	402.9	413.2
Other foreign assets	9.5	15.0	15.4	14.2	14.2	13.8	14.7	15.0	15.3	15.8
Foreign liabilities	-18.4	-20.4	-20.1	-21.1	-21.6	-21.2	-21.0	-21.0	-20.7	-20.7
Net domestic assets	-126.0	-175.9	-174.3	-178.0	-205.1	-183.8	-183.7	-189.6	-189.3	-184.3
Domestic assets	-64.0	-103.0	-91.6	-92.5	-105.9	-103.5	-83.1	-86.5	-83.6	-76.0
Net claims on government	-23.4	-53.9	-38.9	-41.3	-58.5	-51.5	-56.7	-55.4	-52.6	-48.3
Gross claims on government	53.1	50.5	50.4	51.6	52.2	48.5	47.4	46.7	45.6	44.7
Of which: MoF promissory note 2/	34.6	30.2	30.4	30.5	30.7	27.3	26.5	25.7	24.9	24.0
Domestic currency deposits	-8.7	-17.3	-6.9	-15.7	-21.1	-18.0	-5.0	-5.2	-6.0	-7.5
Foreign currency deposits 1/	-67.8	-87.1	-82.4	-77.2	-89.6	-82.0	-99.1	-96.8	-92.2	-85.5
Other claims	-40.5	-49.0	-52.7	-51.2	-47.4	-52.0	-26.4	-31.1	-31.0	-27.7
Other items net	-62.0	-72.9	-82.7	-85.5	-99.1	-80.3	-100.6	-103.2	-105.7	-108.2
Reserve money	170.1	176.8	168.0	175.5	183.7	198.8	198.8	200.0	208.2	224.0
Currency in circulation	148.4	150.0	144.2	150.3	158.1	168.8	168.8	169.9	176.8	190.2
Bank deposits (Afghani denominated)	21.8	26.8	23.8	25.1	25.5	30.0	30.0	30.2	31.4	33.8
Memorandum items:										
International reserves, in millions of U.S. dollars										
Net	5,858	6,472	5,992	5,936	6,470	6,382	6,408	6,483	6,558	6,633
Gross	6,208	6,867	6,483	6,430	6,908	6,886	6,817	6,890	6,970	7,099
Interest rate, 28-day capital notes (percent)	2.1	2.0	2.0	2.5	3.2	3.4	...	...	...	...
Exchange rate (Afghanis per U.S. dollar)	49.2	52.1	53.5	56.0	57.3	56.6	...	...	...	...

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

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

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.

Table 4b. Islamic Republic of Afghanistan: Central Bank Balance Sheet, 2011–14

(At program exchange rates)[1/]

	2011	2012	2013					2014			
	Dec. 21	Dec. 20	Mar. 20	June 21	Sep. 22	Dec. 21		Mar. 20	June 21	Sep. 22	Dec. 21
	Act.	Act.	Act.	Act.	Act.	Prog. 2/	Act.	Proj.	Proj.	Proj.	Proj.
	(In billions of Afghanis, unless otherwise indicated)										
Net foreign assets	317.3	352.7	338.2	343.9	365.5	351.5	367.5	365.0	369.1	373.8	381.0
Foreign assets	336.9	373.1	358.4	363.9	385.2	374.0	387.2	384.3	388.3	392.6	399.6
Foreign exchange reserves 3/	326.9	358.0	343.3	350.7	372.3	359.5	374.5	370.9	374.7	378.8	385.5
Other foreign assets	10.0	15.0	15.0	13.2	12.9	14.6	12.7	13.4	13.6	13.8	14.1
Foreign liabilities	-19.6	-20.4	-20.1	-20.1	-19.8	-22.6	-19.7	-19.3	-19.2	-18.8	-18.7
Net domestic assets	-147.2	-175.9	-170.2	-168.4	-181.8	-160.2	-168.8	-166.2	-169.1	-165.6	-157.0
Domestic assets	-67.7	-103.0	-89.4	-87.0	-98.0	-71.9	-96.8	-82.5	-85.9	-82.9	-74.9
Net claims on government	-26.5	-53.9	-37.0	-37.2	-52.2	-45.8	-46.5	-57.6	-56.3	-53.6	-49.3
Gross claims on government	54.2	50.5	50.5	50.5	50.4	47.9	47.0	45.8	44.9	43.7	42.7
Of which: MoF promissory note 4/	34.6	30.2	30.4	30.5	30.7	25.4	27.3	26.5	25.7	24.9	24.0
Domestic currency deposits	-8.7	-17.3	-6.9	-15.7	-21.1	-14.6	-18.0	-5.0	-5.2	-6.0	-7.5
Foreign currency deposits 3/	-72.0	-87.1	-80.6	-72.1	-81.5	-79.1	-75.5	-98.3	-96.0	-91.2	-84.5
Other claims	-41.2	-49.0	-52.3	-49.8	-45.8	-26.1	-50.3	-25.0	-29.6	-29.3	-25.6
Other items net	-79.5	-72.9	-80.8	-81.4	-83.8	-88.4	-71.9	-83.7	-83.2	-82.7	-82.1
Reserve money	170.1	176.8	168.0	175.5	183.7	191.2	198.8	198.8	200.0	208.2	224.0
Currency in circulation	148.4	150.0	144.2	150.3	158.1	162.3	168.8	168.8	169.9	176.8	190.2
Bank deposits (Afghani denominated)	21.8	26.8	23.8	25.1	25.5	28.9	30.0	30.0	30.2	31.4	33.8
Memorandum items:											
Net international reserves											
(At program rates, in millions of U.S. dollar	5,919	6,472	6,089	6,229	6,702	6,272	6,679	6,704	6,779	6,854	6,929
Money growth (year-on-year, in percent)											
Reserve money	21.9	3.9	-4.2	4.0	7.1	8.0	12.4	18.3	14.0	13.4	12.7
Currency in circulation	20.8	1.1	-2.7	4.5	4.9	8.0	12.5	17.0	13.0	11.8	12.7

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

1/ Program exchange rates as of Dec. 20, 2012 applied to evaluate foreign currency-denominated components. The Afghani per U.S. dollar rate used is 52.1390.

2/ Under the May 2013 agreement. Program figures are unadjusted (see Table 7b for the adjusted targets).

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

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

Table 5. Islamic Republic of Afghanistan: Monetary Survey, 2008–14[1/]

	2008 Act.	2009 Act.	2010 Act.	2011 Act.	2012 Act.	2013 Proj.	2014 Proj.
	(In billions of Afghanis)						
Net foreign assets	168.5	217.5	254.4	348.9	425.7	466.3	502.9
Foreign assets	188.3	250.2	285.3	381.7	456.1	498.5	536.0
Central bank	157.4	207.8	233.1	314.6	373.1	403.8	428.9
Commercial banks	30.8	42.4	52.3	67.1	83.0	94.7	107.0
Foreign liabilities	-19.8	-32.6	-30.9	-32.8	-30.3	-32.2	-33.1
Central bank	-6.9	-17.2	-16.0	-18.4	-20.4	-21.2	-20.7
Commercial banks	-12.9	-15.4	-14.9	-14.4	-10.0	-11.0	-12.4
Net domestic assets	-16.5	-15.3	2.3	-37.5	-86.9	-87.1	-76.7
Net domestic credit	22.1	22.1	30.0	15.3	-13.2	-5.5	1.1
Nonfinancial public sector	-23.7	-39.5	-51.0	-24.8	-55.1	-52.7	-49.5
Central bank	-25.1	-37.2	-49.0	-23.5	-53.9	-51.5	-48.3
Commercial banks	1.4	-2.2	-2.0	-1.4	-1.1	-1.2	-1.2
Private sector	45.8	61.5	81.0	40.1	41.8	47.2	50.6
Other items net	-38.6	-37.4	-27.7	-52.7	-73.7	-81.5	-77.8
Broad money M2	152.0	202.2	256.7	311.4	338.8	379.2	426.2
Narrow money M1	147.4	192.2	240.3	290.7	319.2	355.0	399.1
Currency outside banks	70.1	85.9	116.9	141.2	142.8	162.2	182.8
Currency in circulation	72.8	89.8	122.8	148.4	150.0	168.8	190.2
Currency held by banks	2.7	3.9	5.9	7.1	7.2	6.6	7.4
Demand deposits	77.3	106.3	123.4	149.5	176.4	192.8	216.3
Other deposits	4.6	10.1	16.5	20.7	19.7	24.2	27.1
	(12-month percentage change)						
M2	31.4	33.0	26.9	21.3	8.8	11.9	12.4
M1	31.9	30.3	25.0	21.0	9.8	11.2	12.4
Currency outside banks	22.6	22.5	36.0	20.8	1.1	13.6	12.7
Net credit to the private sector 2/	37.9	41.1	34.9	-51.9	-0.2	3.0	5.0
	(In percent of GDP)						
M2	29.4	33.3	36.1	37.2	32.8	33.0	34.1
M1	28.5	31.6	33.8	34.8	30.9	30.9	32.0
Memorandum items:							
M2 velocity	3.4	3.0	2.8	2.7	3.1	3.0	2.9
Reserve money multiplier	1.7	1.8	1.8	1.8	1.9	1.9	1.9
Banking sector							
Loan dollarization (percent)	75.1	71.9	49.4	74.9	75.4	78.2	78.2
Deposit dollarization (percent)	78.6	76.4	69.8	67.9	71.4	72.8	72.8
Currency-to-deposit ratio (percer	89.0	77.2	87.8	87.2	76.5	77.8	78.2
Loans-to-deposit ratio (percent)	55.9	52.9	58.0	23.6	21.3	21.7	20.8

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, w hile 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 w rite-dow n of bad loans at Kabul Bank.

Table 6. Islamic Republic of Afghanistan: Balance of Payments, 2011–14[1/]

	2011 Est.	2012 Est.	2013 Est.	2014 Proj.
	(In millions of U.S. dollars, unless otherwise indicated)			
Export of goods and services	3,090	3,223	3,288	3,112
Goods	2,684	2,757	2,614	2,408
Services	405	465	674	704
Import of goods and services	11,092	12,315	11,970	11,688
Goods	10,220	11,366	11,117	10,884
Services	873	949	853	804
Income, net	83	101	141	151
Of which: Interest on official loans	12	7	4	5
Current transfers, net	8,482	9,789	9,132	9,149
Of which: Official	8,097	9,378	9,008	9,012
Current account	562	798	591	725
Excluding official grants	-7,535	-8,580	-8,417	-8,287
Financial account, net	236	-320	-119	-492
Foreign direct investment	369	409	142	260
Portfolio investment	0	0	0	0
Official loans 2/	27	59	67	20
Other investment	-160	-789	-328	-772
Errors and omissions	219	116	-144	0
Overall balance	1,017	590	328	232
Financing	-1,017	-590	-328	-232
Central bank's gross reserves ('-' = accumulation)	-1,036	-605	-316	-213
Use of Fund resources, net	19	14	-13	-20
Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
Gross international reserves, central bank	6,208	6,867	6,886	7,099
Import coverage of reserves 4/	6.0	6.9	7.1	7.2
External debt stock, official 3/	1,242	1,317	1,268	1,287
in percent of GDP	6.9	6.5	6.1	5.9
Trade balance	-7,535	-8,609	-8,503	-8,476
in percent of GDP	-42.1	-42.4	-41.0	-39.0
Current account, in percent of GDP	3.1	3.9	2.8	3.3

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

1/ Excluding the narcotics economy.
2/ Excluding IMF.
3/ Incorporates committed but not yet delivered debt relief. Debt relief recorded fully at time of commitment.
4/ In months of next year's import of goods and services.

Table 7. Islamic Republic of Afghanistan: External Financing Requirement and Sources, 2010–14

	2011 Est.	2012 Est.	2013 Est.	2014 Proj.
	(In millions of U.S. dollars)			
Gross financing requirement	8,572	9,194	8,764	8,549
Current account balance (excluding grants)	-7,535	-8,580	-8,417	-8,287
Amortization	2	6	19	29
Of which: IMF	0	4	13	20
Prepayment of debt	0	0	0	0
Change in reserves (increase = +)	1,036	605	316	213
Reduction in arrears	0	0	0	0
Available financing	8,572	9,194	8,764	8,549
Official transfers (grants)	8,097	9,378	9,008	9,012
Foreign direct investment	369	409	142	260
Short-term private financing flows				
Official medium- and long-term loans	29	61	86	50
Accumulation of arrears	0	0	0	0
IMF disbursements	19	18	0	0
Other flows	59	-673	-471	-772
Financing gap	0	0	0	0

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

Table 8a. Islamic Republic of Afghanistan: Quantitative Targets, 2012–13[1/]

		Fiscal Year 2012 (interim, 9-months fiscal year)													Fiscal Year 2013							
	Mar. 19, 2012	June 20, 2012				Sep. 21, 2012				Dec. 20, 2012				Dec. 20	Mar. 20, 2013				June 21, 2013			
	Stocks	Indicative targets				Performance criteria				Performance criteria				2012	Indicative targets				Performance criteria			
		Prog.	Adj.	Act.		Prog.	Adj.	Act.		Prog.	Adj.	Act.		Stocks	Prog.	Adj.	Act.		Prog.	Adj.	Act.	
										(In billions of Afghanis, unless otherwise indicated)												
Revenues (floor)	...	23.8	...	22.9	×	50.4	...	48.6	×	85.1	...	76.4	×	...	28.2	...	22.3	×	59.7	...	47.9	×
Operating budget deficit, excluding grants (indicative target: ceiling)	...	10.1	10.1	8.0	✓	29.2	29.7	26.8	✓	45.3	46.3	60.1	×	...	16.0	16.0	11.7	✓	33.9	33.9	34.2	×
Net credit to government from DAB (ceiling)	-21.2	-9.5	-16.1	-5.3	×	-7.7	-17.7	-11.8	×	-4.8	-37.4	-24.0	×	-45.1	-2.2	23.4	16.1	✓	-1.3	24.8	14.8	✓
Reserve money (ceiling)	175.3	-4.0	...	-6.5	✓	9.8	...	-3.9	✓	26.7	...	1.5	✓	176.8	0.0	...	-8.8	✓	8.9	...	-1.3	✓
Currency in circulation (indicative target: ceiling)	148.2	1.5	...	-4.3	✓	18.6	...	2.5	✓	28.0	...	1.8	✓	150.0	3.5	...	-5.8	✓	13.9	...	0.3	✓
Social and other priority spending (indicative target: floor)	...	4.8	...	4.0	×	12.2	...	11.8	×	18.3	...	18.3	✓	...	6.0	...	5.5	×	12.0	...	11.9	×
International reserves of DAB (floor; in millions of U.S. dollars)	5,764	117	262	272	✓	434	654	379	×	550	1,268	576	×	6,340	137	-377	-382	×	275	-254	-241	✓
Nonconcessional external debt, new (ceiling) 2/	...	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓	...	0.0	...	0.0	✓	0.0	...	0.0	✓
Short-term external debt (ceiling) 2/	...	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓	...	0.0	...	0.0	✓	0.0	...	0.0	✓
External payments arrears, new (ceiling) 2/	...	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓	...	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	✓	0.0	...	0.0	✓	...	0.0	...	0.0	✓	0.0	...	0.0	✓
Reference values for the adjustors			Diff.				Diff.				Diff.					Diff.				Diff.		
Core budget development spending	...	4.2	3.4	7.6		23.9	3.0	26.9		49.7	3.7	53.4		...	15.9	-8.8	7.1		33.7	-10.7	23.0	
External financing of the core budget and sale of nonfinancial assets	...	22.8	10.9	33.7		58.7	16.0	74.8		96.2	39.0	135.3		...	33.8	-25.4	8.4		67.8	-24.7	43.0	
Externally financed expenditures transferred to the core operating budge	...	0.0	0.0	0.0		0.0	0.5	0.5		0.0	1.0	1.0		...	0.0	0.0	0.0		0.0	0.0	0.0	
Asset recovery from banking sector institutions in liquidation	...	0.9	-0.9	0.0		2.5	-2.5	0.0		3.8	-1.8	2.0		...	0.6	-0.6	0.0		1.3	-1.3	0.0	
Recapitalization, net of dividend, and revaluation of MoF's promissory no	...	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0		...	0.0	0.0	0.0		0.0	0.0	0.0	

Source: Afghan authorities.

1/ The performance criteria, indicative targets, their adjustors, and program exchange rates were set at the first review of the ECF supported program in June 2012 and are defined in the Technical Memorandum of Understanding (TMU) of June 18, 2012. (see IMF Country Report No. 12/245). Per the TMU, program exchange rates of March 20, 2011 are used.

2/ These performance criteria apply on a continuous basis.

Table 8b. Islamic Republic of Afghanistan: Quantitative Targets, 2013[1/]

	Dec. 20, 2012	Fiscal Year 2013											
		June 21, 2013				Sep. 22, 2013				Dec. 21, 2013			
	Stocks	Informal targets 1/			Status	Informal targets 1/			Status	Informal targets 1/			Status
		Prog.	Adj.	Act.		Prog.	Adj.	Act.		Prog.	Adj.	Act.	
	(In billions of Afghanis, unless otherwise indicated)												
Revenues (floor)	...	50.6	...	47.9	×	80.9	...	75.6	×	114.1	...	109.0	×
Operating budget deficit, excluding grants (indicative target: ceiling)	...	41.0	41.0	34.2	✓	67.9	67.9	60.0	✓	117.3	117.3	89.5	✓
Net credit to government from DAB (ceiling)	-53.9	9.8	25.0	16.8	✓	9.1	6.5	1.7	✓	8.2	33.1	7.4	✓
Reserve money (ceiling)	176.8	4.1	...	-1.3	✓	8.6	...	6.9	✓	14.2	...	22.0	×
Currency in circulation (indicative target: ceiling)	150.0	3.4	...	0.3	✓	9.0	...	8.1	✓	12.0	...	18.8	×
Social and other priority spending (indicative target: floor)	...	12.6	...	11.9	×	18.9	...	18.6	×	25.2	...	25.2	✓
International reserves of DAB (floor; in millions of U.S. dollars)	6,472	-149	-442	-242	✓	-174	-124	230	✓	-200	-678	207	✓
Nonconcessional external debt, new (ceiling) 2/	...	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓
Short-term external debt (ceiling) 2/	...	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓
External payments arrears, new (ceiling) 2/	...	0.0	...	0.0	✓	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	✓	0.0	...	0.0	✓
Reference values for the adjustors			Diff.				Diff.				Diff.		
Core budget development spending	...	27.3	-4.3	23.0		48.7	-4.3	44.4		79.7	0.7	80.4	
External financing of the core budget and sale of nonfinancial assets	...	57.7	-14.7	43.0		105.9	3.9	109.8		186.6	-22.3	164.3	
Externally financed expenditures transferred to the core operating budge	...	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	
Asset recovery from banking sector institutions in liquidation		0.6	-0.6	0.0		1.3	-1.3	0.0		1.9	-1.9	0.0	
Recapitalization, net of dividend, and revaluation of MoF's promissory note		0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0	

Source: Afghan authorities.

1/ These targets are part of the informal track record agreed during a staff visit in May 2013 and have not been set by the IMF Executive Board.
2/ These targets apply on a continuous basis.

Table 9. Islamic Republic of Afghanistan: Status of Agreed Structural Benchmarks

Measure	Date	Status as of March 30, 2014
The economic committee of the cabinet will approve the privatization plan for New Kabul Bank prepared by the privatization advisor in consultation with Fund staff. The plan includes clear criteria for bidders, precise determination of what is being sold, the procedures for sale, and public communication strategy.	End-August 2012	Completed in August 2012.
The bridge bank (New Kabul Bank) will be offered for sale in a transparent way, involving a pre-qualification process to ensure that controlling shareholders, beneficial owners, directors and management of intending bidders are fit and proper (which implies, inter alia, that an intending bidder is subject to a high standard of corporate governance, including risk management and internal controls, and that an intending bidder is in a sound financial and risk management state), and that the intending bidder controls adequate resources and has the necessary capacity and capability to ensure the ongoing provision of the relevant salary payments services. There will be a request for expressions of interest locally and internationally for the sale of the bridge bank. Interested parties will be given four weeks to respond with intention to participate in the bid. Once the central bank has vetted potential buyers, the ministry of finance will give them a deadline for sealed bids.	End-September 2012	Completed in September 2012.
The independent Monitoring and Evaluation Commission will conduct an ***in-depth public inquiry*** to examine the events leading to the Kabul Bank crisis, starting with the inception of the bank, and look into the operations of the bank, activities of its shareholders, the role of supervisory and auditing bodies, and the subsequent effectiveness of the government and the criminal justice system in dealing with any crimes committed.	End-September 2012	Completed in November 2012.
Submit to parliament the ***amended or new banking law***, prepared in consultation with the Fund that will strengthen provisions on corporate governance, capital, large exposures, related parties, consolidated supervision, early intervention, enforcement, and bank resolution, where appropriate in line with the Basel Core Principles. Specifically, the law should enable us to enforce upon a bank—going concern—all necessary resolution measures and strengthen corporate governance requirements for banks (including fit and proper requirements as set by the Financial Action Task Force standards).	End-September 2012	Completed in February 2013.

Table 9. Islamic Republic of Afghanistan: Status of Agreed Structural Benchmarks (Continued)

Measure	Date	Status as of March 30, 2014
Strengthen our AML/CFT regime by implementing an action plan based on the recommendations of the February 2011 assessment by: (i) submitting amendments to the AML/CFT law to parliament as necessary; (ii) increasing the capacity of FinTRACA, including by hiring additional staff as needed; (iii) expanding MSP registration and implementation of reporting to MSPs in areas currently inaccessible for security reasons if and when the security situation allows; and (iv) enforcing MSP reporting by dedicated software in all reporting areas where it is technically and logistically feasible.	End-September 2012	Partially met. Item (i) to be completed and items (ii)–(iv) completed.
Submit legislation to the ministry of justice ("Taqnin") for review with a view to submitting it to parliament by end-March 2013 ***for the introduction of marketable debt instruments*** by the ministry of finance.	End-September 2012	Completed in September 2012.
The Supreme Council of Da Afghanistan Bank to approve ***strategies for banks that fall short of the minimum paid-up capital*** to be merged or closed, with the process starting no later than December 2012.	End-September 2012	Completed in March 2013.
Following the approval by the cabinet ***submit draft law on VAT to the parliament***. The draft legislation will be prepared in consultation with Fund staff, limit exemptions, and require that new exemptions be introduced only through parliamentary approval in the VAT law.	End-December 2012	Completed in May 2013.
The Afghanistan Revenue Department within the ministry of finance to ***identify taxpayers*** in the medium taxpayer office and the small taxpayer office whose turnover exceeds the large taxpayer office threshold and revisit the thresholds for the large taxpayer office and the medium taxpayer office with a view to having an efficient allocation of taxpayers across the three offices. The findings and actions to be summarized in a report.	End-December 2012	Completed in January 2013.
Submit to the ministry of justice ("Taqnin") legislation bringing ***state-owned corporations*** under effective monitoring and oversight of the ministry of finance, including financial reporting to the ministry of finance and ministry of finance approving financial plans on an annual basis. The draft legislation will be prepared in consultation with Fund staff.	End-December 2012	Completed in January 2013.
Approval by the Supreme Council of Da Afghanistan Bank of the ***new organizational structure of the Financial Supervision Department*** developed in consultation with Fund staff.	End-December 2012	Completed in November 2012.

Table 9. Islamic Republic of Afghanistan: Status of Agreed Structural Benchmarks (Continued)

Measure	Date	Status as of March 30, 2014
Revise central bank regulations as well as prepare and issue informational circulars to ensure consistency with the revised banking law.	End-December 2012	Completed in December 2012.
Establish a senior official-led interagency steering committee (***Economic Crimes Task Force***) to oversee the passage and implementation of the new banking law, the anti-money laundering and terrorist financing laws and their provisions, and to function as a coordinating body for the implementation of the Economic Crimes Strategy and its action items.	End-March 2013	Completed in February 2013.
Submit to the ministry of justice ("Taqnin") amendments to the income tax law, minerals law, oil and gas (hydrocarbons) law and customs code—developed in consultation with Fund staff—related to the development of a sound and robust ***natural resources fiscal regime*** to attract investment and ensure the government has a reasonable share of the economic rent.	End-June 2013	2013 FAD TA concluded the regime is reasonably comprehensive and recommended a few changes.
Sign a ***memorandum of understanding between Financial Transactions and Reports Analysis Center of Afghanistan, the Financial Supervision Department of DAB, and competent law enforcement authorities*** on information sharing as described in the June 2012 MEFP.	End-June 2013	Completed in January 2014.
In the context of DAB's Financial Supervision Department's (FSD) new organizational structure, approved in November 2011, DAB's supreme council approves ***FSD's five-year strategic plan for the development and strengthening of the financial sector***, prepared in consultation with Fund staff.	End-June 2013[1]	Completed on July 2, 2013.
The Ministry of Finance will finalize a fully developed plan for the implementation of the VAT, based on the IMF FAD technical assistance report of January 2012. This plan will include comprehensive details on the following elements: (a) key tasks and milestone dates for system and procedural development, staff recruitment (if any) and training; (b) an implementation governance structure, including steering committee responsibilities; (c) a change management strategy including specific change management plans for the key elements of implementation; (d) a stakeholder management strategy, including taxpayer preparation; (e) an initial compliance strategy to address the implementation risks identified for the first 12 months of operation of the new tax; (f) resources for the implementation of a public campaign of information targeting private sector and cabinet officials, as well as Wolesi Jirga's budget and economic committees; and (g) any additional resourcing requirements for the VAT implementation including additional implementation budget for the VAT.	End-June 2013[1]	Completed in June 2013.

Table 9. Islamic Republic of Afghanistan: Status of Agreed Structural Benchmarks (Continued)

Measure	Date	Status as of March 30, 2014
Rationalization of border control agencies. ***Border Management Model (BMM) roll out to three of the four suggested additional Border Crossing Points (Aquina, Torkham, Weesh, Zaranj)***, the BMM, which has been already implemented at Hairatan, Islam Q'ala and Sher Khan Bandar Border Crossing Points. The Government of Afghanistan will: (i) extend the border management model (BMM) to three of the four following additional border points (Torkham, Aquina, Zaranj, Weesh) the BMM is based on a "two-agency" approach that ensures that all border control responsibilities are restricted to the Afghan Border Police (ABP) and the Afghan Customs Department (ACD). Under this model, the ABP will continue to fulfill immigration and security responsibilities, with ACD fulfilling all other commercial and trade-related duties; and (ii) the pilot border management model at Hairatan will be applied fully to the Hairatan railway border crossing. The ABP and the ACD will take full control of all railway border crossings and the ministry of commerce and industry will only provide logistical services at their facilities (Bandarwali).	End-June 2013[1]	Completed. The BMM roll-out to Aquina, Torkham and Weesh was completed in August 2013; and an agreement was signed between the ministries of finance and commerce and industry to apply the BMM model to railway border crossings.
Submit draft law on Tax Administration to the parliament. The draft legislation will contain administrative provisions (rights and obligations of taxpayers, filing tax returns, taxation decisions, appeals procedures, and penalties) and be prepared in consultation with Fund staff.	End-September 2013[1]	Submitted to parliament in December 2013.
Submit to parliament amendments to the central bank legislation—drafted in consultation with Fund staff—implementing the memorandum of understanding on the central bank's capitalization, that aligns the provisions on the netting and allocation of net income with international good practice.	End-December 2013[1]	Not met. Draft legislation is being reviewed by the ministry of justice.
Improve the collection, processing, and dissemination of valuation information based on the recommendations from the December 2012 FAD technical assistance mission, international valuation standards and best practices. (i) staff the HQ valuation unit adequately with trained and dedicated managers and officers; (ii) eliminate malpractices in the valuation process before, at and after the submission of customs declaration forms; (iii) ensure the upgraded valuation database will easily plug into and support the current and future customs declaration processing and risk management systems; (iv) ensure the integrity of the valuation system and processes; (v) start with the motors vehicle and the top 200 other goods categories that give about 85 percent of all imports into Afghanistan.	End-December 2013[1]	Completed.

Table 9. Islamic Republic of Afghanistan: Status of Agreed Structural Benchmarks (Concluded)

Measure	Date	Status as of March 30, 2014
The Economic Crimes Task Force advises the Criminal Law Review Working Group (CLRWG) of categories of ***economic offences to be included in the new consolidated penal code***. Categories of economic offences shall include those designated categories of offenses as set out in the revised Financial Action Task Force's 40 Recommendation and all other complex economic crimes as defined in the "Road-Map to Combat Economic Crime in Afghanistan" (National Priority Program 5, "And Justice for All," Sub-program 4) of the Afghan National Development Strategy.	End-December 2013[1]	The authorities have indicated the benchmark was met and staff has requested information to confirm.
Supreme council of DAB to approve and promulgate ***policies, guidelines and procedures reflecting provisions under the DAB and banking laws to inform DAB supervisory staff about their duties, functions, and protections from liability available under the DAB and banking laws and the duties of DAB management to protect them***. The policies, guidelines and procedures should also refer to the provisions in law reflecting the independence of the DAB.	End-December 2013[1]	Partially met. Policy approved in December 2013, but it needs some strengthening and to be made consistent with Afghan laws. A revised policy is scheduled to be submitted to the DAB Supreme Council in June 2014.
Complete ***transfer of taxpayers from the medium and small taxpayer offices to the large taxpayer office for taxpayers whose turnover exceeds the threshold for the large taxpayer office***. The findings and actions to be summarized in a report.	End-December 2013[1]	The authorities have indicated the benchmark was met and staff has requested information to confirm.
Line ministries to submit their financial plans for 2014 to the ministry of finance.	End-December 2013[1]	Completed in March 2014.

[1] These benchmark are targets are part of the informal track record agreed during a staff visit in May 2013 and have not been set by the IMF Executive Board. The other benchmarks have been set by the IMF Executive Board at the first review of the ECF in June 2012.