After some growth in the first half of 2022—aided by humanitarian assistance, better security, and reduced corruption—a harsh winter, a de facto government ban on higher education for girls, and restrictions on women working for nongovernment organizations seriously undermined economic activity and the delivery of humanitarian aid. These developments and continuing repercussions from the 2021 political transition may bring further economic contraction in the near term. Addressing food insecurity is a major policy challenge.

**Economic Performance**

*The economy remains in deep recession, buffeted by economic consequences from the August 2021 change in government.* Key consequences are political isolation from the international community, the suspension of international development assistance, the freezing of Afghanistan’s international reserves held abroad, a plethora of international sanctions, brain drain, and severe disruption to the formal financial sector and international remittances. Services, the largest sector of the economy, contracted markedly, especially logistics, housing, banking, insurance, and hotels and restaurants, which had largely catered to foreigners. Mining has increased, offsetting a sharp decline in construction and manufacturing to leave the share of industry in the economy unchanged. With the country facing drought, there is a distinct shift toward subsistence agriculture. Precipitation below average from December 2021 to April 2022 diminished the formation of snowpacks during the winter months and consequently the availability of water for irrigation during spring and summer, affecting livestock health and the livelihoods of subsistence farmers.

**Banks face a deep liquidity crisis owing to pervasive uncertainty, capital flight, and loss of technical staff.** They also face challenges from the continuing effects of sanctions and from international banking restrictions to counter money laundering and the financing of terrorism. From August 2021 to December 2022, domestic deposits in local currency dropped by 15.7% and in foreign currency by 13.4% (Figure 2.14.1). Domestic currency loans fell by 38.5% and foreign currency loans by 18.6% (Figure 2.14.2). Microfinance, which depends largely on grants from development partners, has shrunk by more than half since August 2021 to AF4.4 billion, undermining the viability of micro-enterprises and people’s livelihoods. According to the United Nations Development Programme, the number of microfinance institutions declined from 10 to 6.

**Figure 2.14.1 Bank Deposits**

*Deposits have dropped, reflecting a lack of confidence in banks.*

Source: Official statistics from international sources.

Despite the economic slowdown, domestic revenue collection in 2022 was little changed from $2 billion in 2020. Customs and other border revenue were the primary sources (Figure 2.14.5). Royalties and fees from mining increased significantly. However, the suspension of on-budget development assistance has slashed development spending by 80% since 2020.

Recession has created a widespread humanitarian crisis and rapid fall in living standards as GDP per capita plunged to $368.80 in 2021. However, humanitarian assistance in 2022, including direct cash payments of $2.0 billion, eased some of the crisis by supporting the delivery of essential services, injecting market liquidity, and reducing exchange rate volatility in the absence of regular US dollar auctions by the central bank (Figure 2.14.3). Transparency International found lower perception of corruption in 2022, and there were fewer security incidents. These developments slightly improved business profits and employment in the first half of 2022 over the last quarter of 2021, but indicators started to worsen again in November 2022 with the onset of winter. Economic activity declined further with the slowing of international aid following a ban on girls’ higher education and restrictions on women working in nongovernment organizations in December 2022.

Headline inflation, as measured by the consumer price index, jumped from an annual average of 5.2% in 2021 to 13.8% in 2022. Inflation year on year peaked at 18.3% in July 2022 (Figure 2.14.4). Food inflation averaged 19.1% in 2022, up from 5.7% in 2021. Higher global food and energy prices, supply shocks emanating from disrupted domestic and international supply chains, and drought were the major causes of inflation. However, in the third quarter of 2022, global food and energy prices began to decline and supply-side bottlenecks eased, reducing food and other prices. Inflation slowed to 5.2% year on year in December 2022, with food prices up by 5.2% and other prices by 5.3%.

Despite the economic slowdown, domestic revenue collection in 2022 was little changed from $2 billion in 2020. Customs and other border revenue were the primary sources (Figure 2.14.5). Royalties and fees from mining increased significantly. However, the suspension of on-budget development assistance has slashed development spending by 80% since 2020.
Merchandise exports increased in 2022 (Figure 2.14.6). Afghanistan exported $1.2 billion in goods in the first 3 quarters of 2022, up from $0.9 billion in 2021. Vegetables, minerals, and textiles constituted more than 90% of exports. India, Pakistan, and the People’s Republic of China remained the top export destinations. Meanwhile, imports in the first 3 quarters of 2022 were $4.5 billion, almost $800 million higher than in the first 9 months of 2021. They came mainly from Iran, Pakistan, and the People’s Republic of China.

Under the baseline scenario, GDP contracts further in the newly introduced fiscal year 2023 (FY2023, ending 20 March 2024). Population growth drives down income per capita more sharply. A lack of liquidity in the formal banking sector and concerns over money laundering and the financing of terrorism would constrain business transactions and international payments. Lower aid in US dollars, which is inflow of secondary income in the balance of payments, would likely trigger 10%–15% afghani depreciation. This could reverse the recent decline in prices for essential foodstuffs, exacerbating food insecurity because Afghanistan is a net food importer. The drop in imports, economic contraction, and currency depreciation could lower customs revenue, underfunding the budget. Obtaining raw materials for manufacturing would become harder, and energy imports would be hindered. In the absence of technical level engagement with the international community, the capacity of public institutions is likely to weaken further. In addition, low investment in infrastructure and other public goods would worsen the current shortfall in provision of infrastructure and public services. Incomes would likely decline, unemployment increase, and poverty worsen. These developments would exacerbate already dismal social and political conditions, spurring more internal displacement and civil conflict. Moreover, Afghanistan would fall further behind in reaching its Sustainable Development Goals.
In the alternate scenario, the government shows a strong commitment to basic human rights and removes the restrictions on girls’ education and female employment. International support would then go beyond basic humanitarian assistance, allowing education and health care to strengthen. The political and investment climate would improve, and financial sector constraints would ease. The value of the afghani would remain broadly stable, taming inflation and improving food security and real household income. Productivity and the human capital index would be higher than in the baseline scenario because higher female labor force participation would add to factor accumulation. Domestic revenue collection would increase, facilitating expenditure on government services. These changes, along with improvements in trade and mining revenues, could raise GDP modestly in FY2023.

**Policy Challenge—Addressing Food Insecurity**

The political crisis has further exacerbated food insecurity in many regions of Afghanistan. After decades of adversity and institutional uncertainty, Afghanistan entered a period of acute humanitarian crisis after regime change in August 2021, with food insecurity reaching crisis levels in many parts of the country. According to the United Nations Office for the Coordination of International Affairs, after the 2022 harvest, an estimated 20 million people, or more than half of the population, experienced food insecurity classified as crisis (Phase 3) or emergency (Phase 4) under the Integrated Food Security Phase Classification system. The international community currently provides food to 38% of the population. During the winter, smallholder farmers have been particularly hurt by drought. High food and energy prices and disrupted international supply chains have aggravated an already dire situation.

**With a large share of the population in rural areas, Afghanistan has agricultural potential** (Figure 2.14.7). Arable land per capita is three times that of the People’s Republic of China and seven times that of Japan and the Republic of Korea, three of Asia’s leading food export destinations. However, current agricultural productivity is critically low, with average cereal yield only about 2 tons per hectare, or a third of that in the People’s Republic of China. Smallholder farmers face three critical challenges: (i) disintegrated market access and supply chain disruption, (ii)

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**Figure 2.14.7** Rural Population, Arable Land, and Average Cereal Yield Compared

Afghanistan has a high rural population share and significant arable land per capita.

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CAREC = Central Asia Regional Economic Cooperation Program, PRC = People’s Republic of China.
Source: Official statistics from international sources.
information asymmetry, and (iii) low productivity. Addressing these challenges with the help of the international community could significantly improve agricultural productivity.

**Sustained and inclusive economic growth, education, and infrastructure investment can significantly enhance food security and agricultural development.** Inclusive economic growth is essential for improving food security. This requires the government to pursue policies that address the devastating collapse of external assistance and disruption to the labor market, trade, and private enterprise. Education and vocational training can provide globally competitive skills to most of the working population. In addition to restoring female labor force participation, policies to accelerate skill development are essential to improve productivity in agriculture. Further, investment in irrigation and other infrastructure, including roads and information technology, could dramatically improve market access, producer bargaining power, and supply chain efficiency.

**Trade and foreign direct investment are imperative to modernize and expand agriculture.** Afghanistan has always been a trade crossroads. Its engagement with the global economy presents a significant opportunity to leverage external demand and import technology to enable growth. International partnerships for inbound investment can accelerate growth, modernize agriculture, and enhance food security. Moreover, foreign direct investment can facilitate market access for exports and technology transfer.