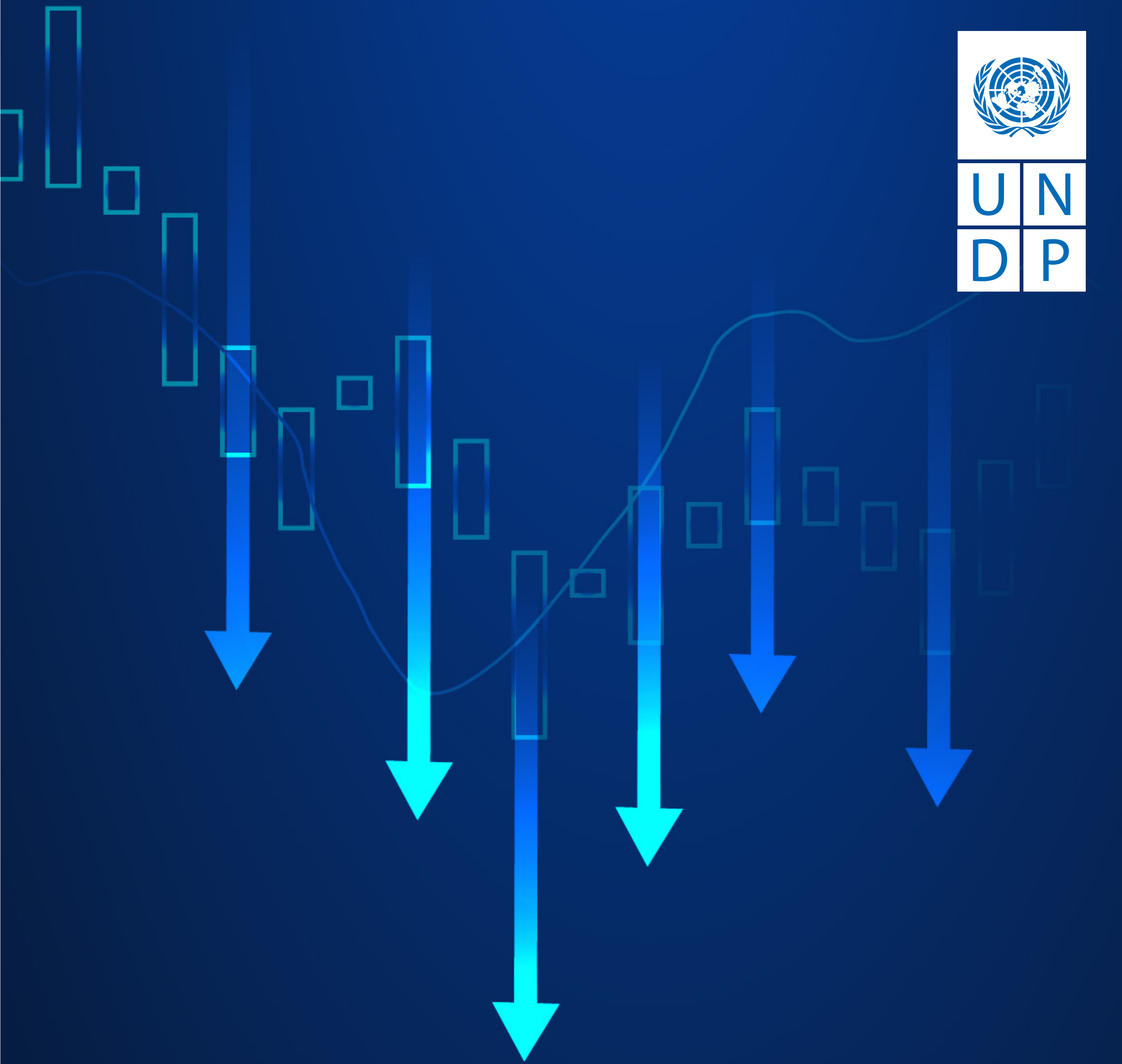

Economic Instability and Uncertainty in Afghanistan after August 15

A Rapid Appraisal

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UNDP AFGHANISTAN

A UNDP Rapid Appraisal of Projected Outcomes

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Abbreviations

A-GTAP	Afghanistan Global Trade Analysis Project
CGE	Computable General Equilibrium
COVID-19	Corona Virus Disease 2019
DAB	Afghanistan Central Bank
GDP	Gross Domestic Product
HAG	Humanitarian Access Group
HCT	Humanitarian Country Team
HDI	Human Development Index
HRP	Humanitarian Response Plan
IDP	Internally Displaced Person
IMF	International Monetary Fund
LTA	Long Term Agreement
LVG	Low value Direct Grant
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
TBI	Temporary Basic Income
UNDP	United Nations Development Programme
WASH	Water, sanitation, hygiene

Executive summary

The current political uncertainty clouds the future macroeconomic pathways for Afghanistan. With limited data and the national economic policy in a state of flux, it is a challenge to provide full scale economic modeling and projections. Some assumptions are clear – such as the freeze on Afghanistan's foreign reserves held in Western countries; a burgeoning trade imbalance; stagnant private economic initiatives; and a debt overhang that cannot be serviced.

However, working with what we have, a rapid economic appraisal has been captured in this analysis. Depending on how the conflict evolves, the country could add economic losses of up to 13 percent to its unfolding tragedy by the middle of 2022. That percentage may seem modest given the scale of the country's crisis, but not when it translates into real poverty.[2] A 10-13 percent reduction in GDP could, in the worst-case scenario, bring Afghanistan to the precipice of near universal poverty – a 97 percent poverty rate by mid-2022 – despite the difficult but real progress achieved over the last 20 years.

With skyrocketing food prices and an interruption in economic activities and essential services, food insecurity is rising precipitously. The health status of much of the population, already compounded by COVID-19, is also of immediate concern. These 'life shocks' are felt hardest in poor urban and rural communities, where the most vulnerable are facing the unenviable choice of either finding a way to sustain their livelihoods while remaining in place or joining the large numbers already displaced. It is estimated that half a million people have already been displaced in the months leading up to the Aug 15th take over.

The development investments made in the country show that Afghanistan has made considerable progress in the last 20 years. Per capita incomes have more than doubled since the early 2000s. Life expectancy at birth has been extended by nine years. Years of schooling have increased from six to 10. As the number of students has increased from 800,000 to over 8 million, more than 3 million girls have entered the education system.

This rapid appraisal points to local livelihoods and small businesses, climate-resilient infrastructure, social protection and essential services as the backbone of local economies, keeping communities alive and resilient. A national economic implosion must be averted at all costs. Through responsible monetary and fiscal policy, we can prevent the imminent freefall of the most vulnerable households into near universal poverty. This appraisal advocates an approach embedded in and specific to each local geographic, social and economic reality, one in which the UN development system works together with local stakeholders and international partners to avert such a development emergency.

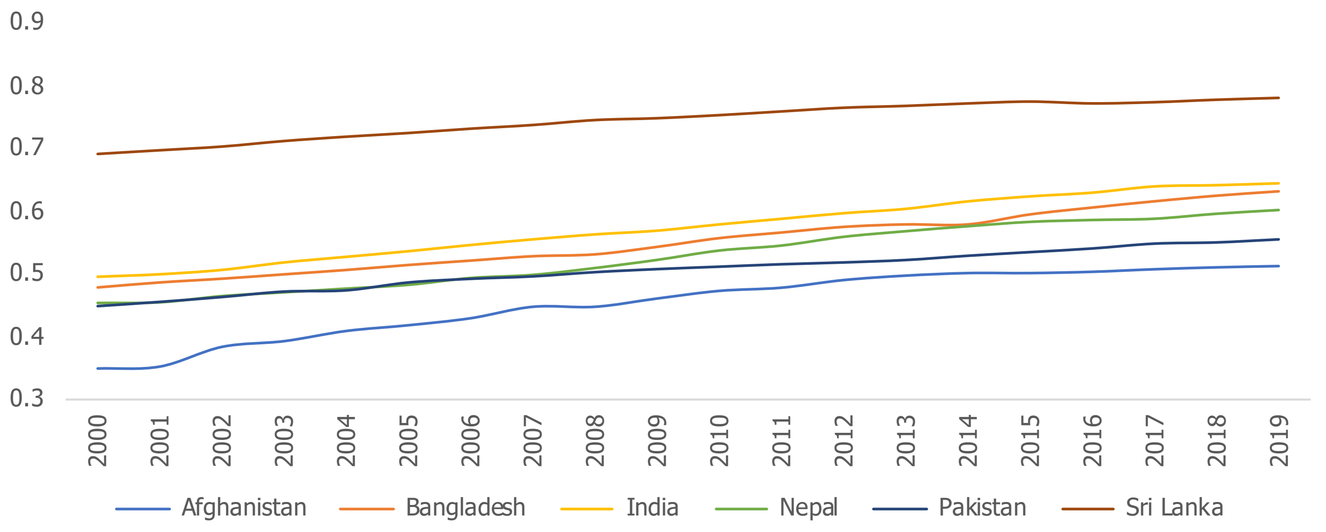
2. National Poverty Line (AFN 2064 as per ALCS 2016-17).

An evolving socio-economic context

The post-August 15 power shift in Afghanistan has resulted in severe economic instability across multiple channels in a climate of heightened uncertainty. The rupture in connectivity with domestic and international markets has damaged productive activity, led to higher production costs and limited access to value chains at home and abroad. Overseas accounts of the Afghan government are blocked; foreign aid, trade and investment into the country have effectively ceased, portending a ruinous financial state in a country where external aid has accounted for 75 percent of public expenditures in recent years.[2]

Afghanistan accrued many human development gains over the past two decades, but they are now at risk of being reversed. Between 2000 and 2019, its HDI value increased by nearly 50 percent, from 0.350 to 0.511. In each of the HDI indicators, there was notable progress despite being a laggard in South Asia (Figure 1). Afghanistan's life expectancy at birth increased by 9 years, mean years of schooling increased by 1.7 years and expected years of schooling increased by 7.6 years over the past two decades. Afghanistan's GNI per capita (2017 PPP $) more than doubled between 2000 and 2019.[3] However, the pace of development did slow after 2012 because of increasing insecurity, instability, and declining international support: Average annual economic growth between 2002 and 2012 was 9 percent per year in contrast to 2 percent after 2014.[4] Afghanistan remains the poorest country in the Asia-Pacific region in terms of average income per capita.

Figure 1: Human Development Index, 2000-2019



Source: UNDP (2020)

Health remains a paramount concern in a country with one of the world's highest rates of acute malnutrition and stunting in children under five years of age.[5] UNICEF has announced that 10 million children across Afghanistan require humanitarian assistance to survive; one million children are projected to suffer from acute severe malnutrition; and 4.2 million children are out of school, with the majority (2.2 million) being girls. Since January 2021, the UN has documented over 2,000 grave violations of children's rights.[6]

3. Al Jazeera English: https://www.youtube.com/watch?v=eOBm8735bRE
4. UNDP (2020): http://hdr.undp.org/sites/default/files/Country-Profiles/AFG.pdf
5. World Bank (2020): https://thedocs.worldbank.org/en/doc/8033eefca38ca8af7b653869a3469087-0310012021/original/Policy-Notes-report-Jan-12-2021-Final-version-2.pdf
6. UNICEF. https://www.unicef.org/afghanistan/nutrition; One in three adolescent girls in Afghanistan suffer from anaemia; only half of Afghan babies are breastfed for six months, and only 12 percent of Afghan children aged 6-24 months receive the right variety and quantity of food as per their nutritional requirements
7. UNICEF. https://www.unicef.org/press-releases/statement-unicef-executive-director-henrietta-fore-children-afghanistan

Afghanistan remains one of the two countries in the world where wild polio virus transmission is increasing in intensity and geographical coverage. Even prior to the outbreak of the coronavirus, preventable diseases such as measles were on the rise. The likely stalling of vaccination efforts will be a grave setback. The UN has reported a massive drop in Covid-19 vaccinations, for example, after the Taliban takeover.[8]

A recent survey[9] supported by OCHA showed that around 10.9 million people (35 percent of the analyzed population) were estimated to be facing high levels of acute food insecurity as of May 2021. This includes around 7.8 million people experiencing food "crisis" and 3.2 million people in "emergency" need. The situation is now likely to worsen owing to declining food production and imports, as well as skyrocketing food prices if adequate and timely measures are not put into place. And the scope for a positive supply response to the higher food prices is constrained by the absence of imported inputs and fuel.

The position of Afghan women under the Taliban regime is precarious, with their political and financial freedoms increasingly at risk. Women have been ordered to stay home, with the Taliban spokesperson stating that their security forces are "not trained in how to deal with women."[10] Though their leadership have said that they respect women's rights under Islam,[11] and UN authorities have emphasized that the treatment of women is a "red line," there is little accountability on the ground, as recent developments suggest.[12] Eyewitness accounts report that women have been turned away from educational institutions, been ordered not to travel without a male chaperone, and been flogged for breaching Taliban-imposed rules. Other concerns on the horizon include forced marriages and targeted attacks against women.[13]

On the economic front, there has been a severe disruption in financial and banking services. The Biden administration has frozen the assets of Afghanistan's Central Bank (DAB)—including most of the central bank reserves of over US$9 billion—which are held in the US. The national currency, Afghani, fell as much as 6.6 percent to 86.14 per dollar on August 17th, remaining steady until end-August.

An IMF allocation of SDRs equivalent to about US$450 million is out of reach since the US Federal Reserve has shut access to dollar liquidity for the Central Bank of Afghanistan. The World Bank has also suspended financial support and financial aid pledged earlier by most donors is being reconsidered. Since external aid accounts for three-quarters of the government's budget, these developments are likely to result in a severe squeeze on financial liquidity—and if sustained, on solvency—for Afghanistan.[14]

Agriculture is the main source of income for most Afghans and the country's main export. There is a large structural trade deficit with a heavy reliance on imports of oil, food and machinery. Due to the suspension of access to the Central Bank's assets, accessible foreign reserves now cover just one week of imports compared with 18 months earlier.

A fall in domestic production and rising prices are being reported in the media due to compromised supply chains for raw materials and intermediate outputs. Constraints on firms' access to external suppliers have reduced intra-country and external trade. The Taliban reportedly had not issued orders to reopen government offices, and ever since their seizure of power, banks, passport offices, schools and universities have largely

8. https://www.reuters.com/world/asia-pacific/un-sees-massive-drop-covid-vaccinations-afghanistan-after-taliban-takeover-2021-08-25/
9. IPC Acute Food Security Analysis (2021) conducted under the patronage of the former Ministry of Agriculture, Irrigation and Livestock (MAIL) and Food Security and Agriculture Cluster (FASC) Afghanistan with technical and financial support of OCHA Afghanistan (www.ipcinfo.org).
10. https://www.bbc.com/news/world-asia-58315413
11. https://www.theguardian.com/world/2020/sep/10/afghan-government-to-start-peace-talks-with-taliban
12. https://www.aljazeera.com/news/2021/8/24/taliban-treatment-of-women-will-mark-red-line-un-rights-chief
13. Brechenmacher, S. (2021). What will happen to women and girls in Afghanistan? Carnegie Endowment for International Peace.
14. Some of these steps have a parallel with recent events in Myanmar. On February 11, 2021, the United States declared sanctions against the military leaders of Myanmar, freezing US$1 billion of Myanmar government funds held in the United States. Limitations on cash dispensed by banks resulted in increased demand for black-market operations. Electricity and internet outages made online transactions difficult. In April 2021, UNDP predicted a potential economic collapse due to the combined effect of the new coronavirus and the coup, which in the worst-case scenario could put nearly half the country's 54 million people into poverty, compared to about a quarter in 2017.

remained closed. There is uncertainty about whether employees, civil or otherwise, will be able to resume their positions and make a sustained living. [15]

Recent power disruptions have adversely affected the 33.5 percent of households connected to the national grid and raised questions about the financial viability of DABS, the national electric supply utility. Access to electricity for hospitals or other essential services is at risk. Afghanistan's per capita electricity consumption of 100 kWh is less than a tenth of the levels in neighboring countries. While solar panels have provided an opportunity for off-grid access to electricity for close to 60 percent of households, the country generates just around 600 megawatt (MW) locally, and over 80 percent is imported from neighboring countries. [16]

There is a considerable share of the population, most notably in rural areas, that welcomes the observed cessation of hostilities. But large problems remain since socio-demographically and economically, Afghanistan has changed. The hollowing out of public institutions, depletion of human capital, stagnant economy and the 'sudden stop'[17] of inward cross-border flows present a unique set of governance challenges for the new administration. In the interest of the millions of vulnerable Afghans and regional stability, it is incumbent upon the international community to help it adhere to a course of peace and shared prosperity based on universally agreed principles of human rights and good governance.

Forecasting the potential impacts on growth and income: CGE model assessment

This section presents simulation results from a Computable General Equilibrium (CGE) model developed by the UNDP Afghanistan Country Office (Afghanistan Global Trade Analysis Project). The analysis is based on historical data using an economy-wide model for Afghanistan and its main trading partners. The reference point is growth and poverty levels in recent years. GDP grew by 3.9 percent in 2019, declined by 1.9 percent in 2020, and the Government had forecast 4 percent growth for 2021, assuming the security situation remained unchanged.

Four scenarios were simulated using the A-GTAP CGE model. Below are preliminary estimates[18] on the change in GDP from the baseline growth projection of 4 percent, and on poverty levels, which stood at 72 percent of the population in 2020 according to the World Bank, for the next fiscal year (June 2021-June 2022).

Scenario 1. Low-intensity crisis (non-fragmented economy; interruption to trade with Pakistan): Assuming trade with Pakistan is interrupted for 2 to 4 months, capital spending efficiency declines by 2% while connectivity within Afghanistan is secured: **3.6% to 8% decrease in Real GDP**. Poverty impact: around 7 to 15 percentage point increase from 2020.

Scenario 2. High-intensity crisis (non-fragmented economy; interruption to international trade with all