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GRAY/20/3247

November 4, 2020

**Statement by Mr. Huh, Ms. Johnson, and Mr. Yoo on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
November 6, 2020**

We thank staff for the well-written report and Mr. Hosseini and Mr. Sassanpour for their helpful Buff statement. The Covid-19 pandemic has taken a heavy social and economic toll on Afghanistan on top of the continued armed conflict and fragility. The lockdowns and social distancing have sharply contracted economic activities and new external and fiscal financing needs have emerged since the approval of the Rapid Credit Facility disbursement in April. While the Afghan economy appears to be recovering with lower COVID-19 infections and the removal of restrictions, the outlook hinges on the evolution of the pandemic, political situation and reform progress.

We support Afghanistan's request for a 42-month arrangement under the Extended Credit Facility (ECF) in the amount of SDR 259.04 million (80 percent of quota). We are reassured by staff's assessment that donors are supportive of the development agenda and reforms, and that Fund financing through the ECF would provide policy assurances to catalyze much needed additional donor financing.

We support the program design which balances the immediate need to focus on macroeconomic stabilization with the desire to pursue structural reforms where possible. We welcome the shift toward a UCT-quality arrangement with appropriate conditionality. The first phase of the program rightly focuses on the need to restore macroeconomic stability to navigate the shock from the pandemic and create conditions and a pathway for recovery. We also support, where possible, resuming efforts and progress made under the previous ECF program to progress structural reforms to drive sustainable and inclusive growth. Given the significant fragilities, staff should continue to maintain close engagement with the authorities for program continuity and implementation, and to ensure the program remains on track.

The modality and conditionality of the program will need to be sufficiently flexible and adequately adjusted to ensure program success during the pandemic. We agree that frontloaded access is necessary but risky and welcome the use of streamlined conditionality relative to the previous ECF arrangement considering the nature of BoP needs and uncertainty brought about by the pandemic. We support the realistic program design which enables the Afghan authorities to continuously adapt their policy priorities to respond to the shocks arising from the pandemic; this will ultimately help to build traction with the public for reform priorities increasing the likeliness of program success. The technical assistance needs of Afghanistan are significant given ongoing capacity constraints; continued Fund support will be an important element to assist the authorities to meet the program requirements and capacity development should continue to be integrated with the program. *Can staff comment on what challenges have arisen in designing this program in the context of Covid-19? Are there any insights for ongoing discussions about the Fund's lending toolkit modifications?*

While we support the authorities' temporary fiscal loosening to maintain pandemic spending and accommodate revenue shortfalls, fiscal structural reforms should remain a priority in the medium- to long-term. We welcome the authorities' commitment to gradually bring down the fiscal deficit and rebuild government deposits as the pandemic abates. While public debt remains low, we continue to encourage the authorities to manage debt prudently and implement sound fiscal policies and reforms. With the projected gradual decline in grants, the authorities should step up their efforts to facilitate the domestic revenue mobilization including VAT introduction in 2022 and administrative reforms for revenue and customs. This would also assist to reduce the high risk of debt distress.

The pandemic is intensifying existing weaknesses in the banking system. We urge the authorities to address weak banks including state-owned commercial banks in a timely manner. We also encourage staff to provide technical assistance as requested to upgrade the framework for crisis management and resolution and to collaborate with the World Bank to improve the financial system.

Strengthening governance and fighting corruption remains a priority. We welcome the authorities' prior action on procurement which signals their commitment to accountability and transparency of public spending. However, corruption remains widespread and the implementation of reforms have been delayed despite legal and institutional development in this area. We urge the authorities to operationalize anti-corruption institutions, boost the effectiveness of the asset declaration regime, and strengthen accountability and transparency of public spending. *Can staff confirm the publication of the first quarterly report on pandemic spending due by end-October and the implementation of amended public procurement procedure to be effective in November?*