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November 4, 2020

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
November 6, 2020**

We thank staff for the comprehensive report and Mr. Hosseini and Mr. Sassanpour for their insightful Buff statement. Afghanistan established a good track record by successfully completing the 2016-19 Extended Credit Facility (ECF) program. In the previous meeting on Afghanistan, we supported the authorities' strategy to use the RCF to help contain the pandemic and its social impact in the short-term, and to latter request an Extended Credit Facility to support their medium-term economic strategy. In this regard, we believe the authorities' request for a new ECF arrangement equivalent to 80 percent of quota is timely and consistent with that strategy, thus, we support it. This program will be instrumental to catalyze donor support, and to set the basis for economic recovery and implementation of a structural reform agenda to tackle long-standing fragilities. We broadly share the staff's assessment and want to focus our remarks on the following points:

We note that the fiscal accounts have deteriorated given the economic effects of the pandemic and the necessary response by the authorities to tackle the emergency, We welcome that the program accommodates the required spending to mitigate the pandemic and its socioeconomic impact, a necessary condition for program success. Also, we concur with staff that strong ownership, sustained donor aid and a continued prioritization will be critical for program success as well. The authorities should persevere in setting in place a stronger social safety net and we fully support their efforts to increase social spending. *In this regard, can staff comment on the situation that migrants returning home to Afghanistan are facing? How significant is the flow of returning migrant workers?*

Monetary policy should continue to remain focused on price stability, and the exchange rate should continue to play its role as effective shock absorber. We commend the authorities for their commitment to further strengthen the monetary policy transmission mechanism, enhance its toolkit and improve market communication, as expressed in the Buff. To this end, we encourage the enactment of the amendments to the DAB law to enhance its governance and autonomy. In the context of increasing challenges to financial stability, the central bank should continue to address weak banks in a timely manner.

It is of utmost importance that AML/CFT monitoring continues to be guided by the 2019 National Risk Assessment that informs a national action plan through 2023. *We would welcome an update by staff on the goal that all banks should undergo AML/CFT assessments by end-2020.* Lastly, we note the authorities' resolve to make the necessary legal and institutional changes to ensure that identification and registration of beneficial ownerships are in line with the FATF requirements.

We welcome the comprehensive Country Engagement Strategy outlined in Annex III and look forward to seeing similar exercises in other program requests. We are pleased with the broad overview of past Fund engagement, lessons learned and the roadmap to enhance future Fund support including under Capacity Development and Technical Assistance. Finally, we concur with Mr. Buisse, Mr. Rozan, and Mr. Roman in highlighting the importance of tailoring the program to the needs and capacities of a fragile country given the high uncertainty.

With these remarks, we wish the Afghan authorities success in their policy endeavors.