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November 4, 2020

**Statement by Mr. Bhalla and Mr. Natarajan on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
November 6, 2020**

1. We thank the staff for the informative report and Mr. Hosseini and Mr. Sassanpour for the useful Buff. The pandemic has amplified existing economic fragilities. To support the financing needs, the Fund had provided support under Rapid Credit Facility (RCF). The authorities have approached the Fund for Extended Credit Facility (ECF).
2. The economy is on the path to recovery after virus containment measures were progressively eased. In 2020, the economy is expected to contract by 5 percent compared to the growth of 3.9 percent in 2019. Barring agriculture, all other sectors have been severely affected. Fiscal situation has worsened; the deficit is expected to be higher at 33.3 percent in 2020 compared to 28.9 percent of GDP in 2019. We recognize the need to bolster support to provide a sound macroeconomic framework to navigate the crisis and create conditions conducive for recovery. We support the program objectives to restore macro-financial stability for sustained growth and poverty reduction.
3. Monetary policy interventions of Da Afghanistan Bank (DAB) have been aimed at price stability and broader financial stability. After rising to about 8 percent in April '20, inflation has moderated to 5.9 percent in August. Food inflation remains in double digit levels perhaps due to restrictions in movement of goods. *Can the staff provide an assessment of measures taken to contain inflation, particularly food inflation?*
4. External sector has deteriorated due to fall in exports and remittances. Current account deficit is expected to widen from 27 percent in 2019 to 33 percent in 2020. Banking sector is expected to face a fall in asset quality due to the pandemic and is likely to require measures to boost capital and enforcement of prudential norms. Though Public debt is low at about 10 percent of GDP, replacement of grants by loans is expected to increase debt level in the medium-term.

5. The program modalities of the proposed ECF are expected to improve governance and business environment and support private-sector investment. Given the need for financial support and commitment of authorities, we support the Extended Credit Facility proposal and wish the authorities the best.