

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

MASTER FILES

ROOM C-120

01

SM/83/115

f corr. 1 & corr. 2

CONTAINS CONFIDENTIAL
INFORMATION

June 7, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Afghanistan - Recent Economic Developments

This paper provides background information to the staff report for the 1983 Article IV consultation discussions with Afghanistan, which was circulated as SM/83/109 on May 31, 1983.

If Executive Directors have technical or factual questions relating to the paper prior to the Board discussion, they should contact Mr. Drees (ext. 76122) or Mr. Borpujari (ext. 57142).

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

AFGHANISTAN

Recent Economic Developments

Prepared by a staff mission consisting of Messrs. F. Drees (Head),
J.G. Borpujari, J. Rose, and L.A. Wolfe, all of MED

Approved by the Middle Eastern Department
and the Exchange and Trade Relations Department

June 2, 1983

<u>Contents</u>	<u>Page</u>
Basic Data	iii
I. The Real Economy	1
1. Background	1
2. Agriculture and animal husbandry	2
a. Introduction	2
b. Output trends	3
c. Policy measures	4
3. Industry and mining	4
4. Prices, wages, and manpower	5
II. Financial Sector	9
1. Public finance	9
a. Background	9
b. Budgetary developments	10
2. Money and credit	16
a. The banking system	16
b. Recent monetary developments	17
c. Specialized banks	19
III. The External Sector	21
1. Balance of payments	21
a. Introduction	21
b. Overall balance of payments developments	21
c. Exports	25
d. Imports	27
e. Direction of trade	28
f. Foreign aid and external public debt	28
g. International reserves	30
2. Exchange and trade system	32
a. Exchange system	32
b. Bilateral arrangements	34

	<u>Contents</u>	<u>Page</u>
3.	Exchange and trade controls	36
a.	Administration of control	36
b.	Prescription of currency	36
c.	Imports and import payments	36
d.	Payments for invisibles	36
e.	Exports and export proceeds	37
f.	Proceeds from invisibles	37
g.	Capital	37
h.	Gold	38
i.	Changes in exchange and trade system since 1978	38

Text Tables

1.	Estimated Production of Principal Crops, 1977/78-1982/83	3
2.	Estimated Industrial and Mining Production, 1977/78-1982/83	6
3.	Kabul Price Index, 1977/78-1982/83	8
4.	Summary Statement of Government Finances, 1977/78-1982/83	11
5.	Central Government Revenue, 1978/79-1982/83	12
6.	Central Government Ordinary Expenditures, 1978/79-1982/83	15
7.	Factors Affecting Changes in Domestic Liquidity, 1977/78-1982/83	18
8.	Balance Sheet of the Agricultural Development Bank, 1977/78-1981/82	20
9.	Balance of Payments Estimates, 1977/78-1982/83	22
10.	Balance of Payments Summary, 1977/78-1982/83	23
11.	Indexes of Exports, 1977/78-1981/82	26
12.	Direction of Trade, 1977/78-1982/83	29
13.	Official Aid and Debt Servicing, 1977/78-1982/83	30
14.	International Reserves and Related Items, 1977-82	31
15.	The Structure of Exchange Rates as of December 31, 1978	33
16.	The Structure of Exchange Rates since January 26, 1982	35

Appendix Tables

17.	Monetary Survey, 1976/77-1982/83	40
18.	Interest Rates on Bank Deposits and Loans, 1977/78-1982	41
19.	Balance of Payments Estimates, 1977/78-1982/83	42
20.	Commodity Composition of Exports, 1977/78-1982/83	43
21.	Commodity Composition of Imports, 1977/78-1982/83	44
22.	Service Payments on External Public and Publicly Guaranteed Debt, 1977/78-1981/82	45
23.	Net Balances in Bilateral Accounts, 1978-82	46
24.	Annual and Monthly Average Convertible Exchange Rates, 1975/76-1982/83	47

Chart

1.	Annual and Monthly Average Exchange Rates, 1972/73-1983	32a
----	---	-----

- iii -

Afghanistan - Basic Data

Population	16.36 million (estimate for mid-1981)				
Afghan year ended March 20	1978/79	1979/80	1980/81	1981/82	1982/83
Production					
Foodgrains (in thousand tons)	4,346	4,180	4,329	4,453	4,462 ^{1/}
Raw cotton (in thousand tons)	132	105	65	60	55 ^{1/}
Natural gas (million cubic meters)	2,461	2,327	2,790	2,675	2,545 ^{2/}
Cotton textiles (million square meters)	77	65	43	27	24 ^{2/}

(In millions of Afghans)

					Rev. Est.
Government finances					
Revenue, of which:	15,838	15,737	26,139	29,811	31,226
Sales proceeds from natural gas	(2,637)	(3,873)	(11,509) ^{3/}	(13,556)	(13,914)
Expenditure	19,085	21,894	31,040	33,518	35,214
Ordinary expenditure	(10,575)	(14,744)	(18,883)	(22,669)	(23,964)
Development expenditure	(8,510)	(7,150)	(12,157)	(10,849)	(11,250)
Overall deficit ^{4/}	-3,247	-6,157	-4,901	-3,707	-3,988
External financing	(553)	(741)	(6,037)	(3,046)	(4,621)
Domestic financing	(2,447)	(8,529)	(-2,034)	(1,736)	(-633)

(In millions of U.S. dollars)

					Proj. 5/
Balance of payments					
Trade balance	-293	-183	-113	-165	-209
Exports, f.o.b., of which:	(337)	(481)	(714)	(713)	(673)
Natural gas	[53]	[103]	[233]	[273]	[...]
Imports, c.i.f.	(-630)	(-664)	(-827)	(-878)	(-881)
Services (net)	45	52	84	56	47
Unrequited transfers (net)	23	-4	-3	--	11
Current account surplus or deficit (-)	-225	-135	-32	-110	-151
Multilateral	(-94)	(6)	(17)	(30)	(6)
Bilateral	(-131)	(-142)	(-49)	(-140)	(-157)
Nonmonetary capital (net)	192	260	300	164	99
Multilateral ^{6/}	(74)	(195)	(286)	(146)	(76)
Bilateral	(118)	(65)	(14)	(19)	(23)
Errors and omissions	131	-65	-73	-80	-48
Overall surplus or deficit (-)	98	59	195	-25	-99
Multilateral ^{6/}	(155)	(-2)	(-69)	(-54)	(-32)
Bilateral	(-57)	(61)	(264)	(29)	(-67)

^{1/} Excludes relatively small amounts harvested in the winter months January-March.

^{2/} Projection.

^{3/} Not fully explained by the price and volume increases for gas exports during 1980/81.

^{4/} Overall deficits differ from total financing due to data discrepancies and adjustment to cash basis.

^{5/} Based on actual data for the first nine months.

^{6/} Includes all transactions other than those channeled through bilateral payments accounts.

- iv -

Afghanistan - Basic Data (concluded)

Afghan year ended March 20	1978/79	1979/80	1980/81	1981/82	1982/83
(In millions of Afghanis)					
					First 9 Months
Monetary changes					
Money and quasi-money	4,382	7,489	8,073	8,581	10,301
Net foreign assets ^{1/}	3,556	2,196 ^{2/}	12,197	1,763	-4,307
Net domestic assets, of which:	826	5,293 ^{2/}	-4,124	6,818	14,608
Claims on public sector (net)	(2,731)	(7,692) ^{2/}	(-1,127)	(5,811)	(3,023)
Net unclassified assets	(-4,516)	(-2,015)	(-8,474)	(4,161)	(10,693)
(In millions of U.S. dollars)					
Gross official reserves					
(end of period) ^{3/}					
Convertible assets	420	409	341	281	258 ^{4/}
Bilateral assets	—	17	281	310	225 ^{4/}
1982/83					
External public debt					
Amount disbursed (end of period)	1,367	1,627	1,927	2,091	2,190 ^{5/}
Debt service in per cent of exports of goods and services	14.4	14.4	6.5	14.9	20.8 ^{5/}
(In Afghanis per U.S. dollar)					
Exchange rate					
Average midpoint of bazaar rate	38.84	42.93	46.13	56.62	74.15 ^{6/}
(In per cent)					
Changes in key economic indicators					
Consumer prices	5.2	9.9	12.6	21.5	20.0 ^{7/}
Money and quasi-money	15.7	23.2	20.3	18.0	18.3 ^{8/}
Net domestic assets	7.3	-43.8	-60.7	255.1	153.9
Imports	20.3	5.5	24.4	6.2	0.4
Exports	3.1	42.9	48.3	-0.1	-5.7
Gas export prices	50.0	91.9	95.8	25.3	13.2 ^{8/}

^{1/} Differs from the data on net foreign reserve movements mainly because of the use in the banking statistics of a fixed exchange rate for the national currency valuation of gold holdings.

^{2/} Adjusted for gold revaluation profit of Af 10,579 million.

^{3/} Of Da Afghanistan Bank; excludes gold.

^{4/} As of December 20.

^{5/} Projection.

^{6/} First ten months; the rate was Af 93.79 per U.S. dollar on March 24, 1983.

^{7/} Staff estimate.

^{8/} First nine months.

I. The Real Economy

1. Background

Afghanistan has few natural resources and its per capita income is among the world's lowest. Agriculture and livestock breeding--mostly the raising of goats and sheep--sustain over 75 per cent of the country's population, which was estimated at about 16 million in 1981. Both agriculture and livestock farming are constrained by the scarcity of surface water and the unreliability of the spring floods which depend on an erratic precipitation and the melting of snow. Nevertheless, Afghanistan has achieved a considerable economic transformation in recent decades, marked especially by an expansion of settled agriculture and a corresponding decline of the proportion of nomads in the total population from about one third in the late 1950s to some 15 per cent in the late 1970s. In addition, there was a buildup of the country's infrastructure, including particularly the construction of a number of all-weather roads linking the major urban centers. The development effort received a major boost following the discovery in 1967 of large natural gas deposits which have since become the country's main source of foreign exchange. As a result, despite fluctuations in agricultural output, reflecting mainly the vagaries of weather, Afghanistan experienced a moderate economic expansion in real terms, possibly of the order of 3 per cent for the five years ended 1977/78 (Afghan year 1356 ended March 20).

Indications are that the growth of real output picked up in 1978/79, mainly because of a recovery of agricultural production which was unusually low in the preceding year due to drought conditions. Since 1978/79, however, the economy has suffered considerable setbacks following damage to infrastructural and production facilities resulting from insurgent activities and difficulties encountered in using traditional transit routes. The economy has also faced an intensification of chronic shortages of skilled labor in the wake of a sizable migration into neighboring countries as well as increased manpower demands of the security forces. Furthermore, government development spending has in recent years been lower in real terms than during 1976/77-1977/78, reflecting partly the sharp decline in external assistance from Western countries and some international organizations. Moreover, there have been interruptions in electric power supplies, especially during 1982/83. These factors had an adverse impact on production, in particular of cash crops and of the textile industry, which is the country's largest manufacturing activity. The structure of domestic output has, however, remained largely unchanged with agriculture, livestock, and forestry accounting for about two thirds of the total, followed by handicrafts, industry, mines, and energy, which together provided another one fifth.

Afghanistan has had development plans since the mid-1950s. The impact of the development effort has been limited by many factors, including a weak public administration with corresponding deficiencies in planning and implementation procedures. Nonetheless, as already noted, Afghanistan's first three development plans were successful in expanding the transportation

network so that all major cities were linked by all-weather roads. In addition, a number of industrial projects, mostly publicly but also some privately owned, were established as were various large-scale agricultural projects. Following the completion of a number of major transportation projects early in the Third Five-Year Plan period (1966/67-1971/72), there was a shift in priority from infrastructural to agricultural and industrial projects. A draft Fourth Plan was drawn up but was never officially adopted and in the years up to 1976/77 the development program continued within the context of annual plans. In 1976/77 a Seven-Year Plan was launched in which the bias toward productive investment was to be continued. There were, however, delays in project preparation and it was anticipated that a new plan would be initiated in 1979. In the event, there was a reversion to annual plans (called "Socio-Economic Development Plans"). Studies are now under way to prepare a new Five-Year Plan.

2. Agriculture and animal husbandry

a. Introduction

Of an estimated total area of 65.2 million hectares, less than 6 per cent was cultivated in 1981/82, with another 3 per cent under forests, 46 per cent covered by meadows, and the rest consisting of mountainous terrain. With the gradual expansion of settled cultivation, crop production now contributes a greater share of the national output than cattle breeding. While most of the agricultural output is for subsistence, production for the market has also risen in importance for exports as well as domestic consumption. About two thirds of the cropped land is irrigated and most of the irrigated area is sown with wheat, which is by far the most important cereal, followed by corn, rice, and barley. The rest of the cultivated land is mostly under fruits, vegetables, cotton, and other cash crops. Agricultural productivity is relatively low, inasmuch as the expansion in settled cultivation has come mostly from the use of less fertile land. The total output has fluctuated markedly because of repeated cycles of unfavorable weather. Besides, few modern inputs are utilized by the farmers, many of whom used to be landless laborers working for large landowners (see subsection 1.c below for land reform measures).

Livestock farming in Afghanistan consists almost entirely of the extensive pastoral management of sheep and goats, with cattle reared mainly in the areas under irrigation as draft animals and for milk and meat. The virtually total dependence on rainfed pastures and the limited availability of veterinary care have contributed to a relatively high annual mortality rate of the livestock, with losses reaching high proportions of the total in years of unfavorable weather conditions. Nevertheless, the demand abroad for wool, carpets, and karakul and the domestic market for meat have made the livestock sector an important source of Afghanistan's total marketed output. While precise statistics are not available, the present livestock population is believed to consist of about 28 million head, of which nearly 80 per cent comprises goats and sheep with another 14 per cent consisting of cattle.

b. Output trends

Production of foodgrains, fruits, and vegetables generally increased in 1978/79 following the decline in output in the preceding year because of widespread drought conditions (Table 1). The industrial crops such as cotton declined, however, as farmers switched to production of foodgrains, for which prices were more favorable. The foodgrain harvest has generally stagnated in the last four years; the total for cereals showed only a marginal rise in 1982/83 over the level for 1978/79. Production of fruits and vegetables registered some gains while, overall, the output of industrial crops declined, with the cotton crop for 1982/83 estimated to be only about 40 per cent of the level for 1978/79 and a similar fall indicated also for sugar beets. It appears that agriculture's performance was hampered by insurgent activities which also affected transportation. Another factor may have been the dislocations caused in the initial stages of implementing the land reforms. As a result, the domestic procurement target of some 120,000 tons of foodgrains could not be met in 1981/82 and local food supplies had to be supplemented by grain imports of about 100,000 tons with a similar purchase planned for 1982/83.

Table 1. Afghanistan: Estimated Production of
Principal Crops, 1977/78-1982/83

(In thousands of metric tons)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 ^{1/}
Foodgrains	4,112	4,346	4,180	4,329	4,453	4,462
Wheat	2,652	2,813	2,663	2,750	2,850	2,860
Barley	300	325	318	321	330	329
Corn	760	780	760	797	798	800
Rice	400	428	439	461	475	473
Fruits and vegetables						
Fruits	692	824	836	891	913	920
Vegetables	660	766	804	828	865	912
Industrial crops						
Cotton (unginned)	137	132	105	65	60	55
Sugar beets	97	73	70	35	20	29
Sugarcane	64	64	64	70	70	72
Oilseeds	36	35	42	43	44	45

Sources: Central Statistical Office and Ministry of Agriculture and Land Reform.

^{1/} Excludes relatively small amounts harvested during the winter months of January-March.

c. Policy measures

The Government's efforts to develop agriculture and animal husbandry are focused on improving productivity through agrarian reforms, providing adequate price incentives, increased provision of improved inputs, introduction of better livestock strains, expansion of veterinary care, and the extension of bank credit at favorable terms. While a land reform law was passed in 1975, it remained largely unimplemented by the time a new regime assumed power in April 1978. Since then, agrarian reform policies, which in principle limit land holdings to 30 jereeb ^{1/} of first-grade land (and larger acreages of less fertile land), have been pursued vigorously. The central concern of the reform is to grant the peasants proprietary rights to the land they till and to gradually introduce a cooperative approach to rural life on a voluntary basis. The land redistribution has moved in step with a reallocation of water rights; so far, about 3.3 million jereeb--about 27 per cent of the total cultivable land--have been given to some 296,000 farmers and their families, with a minimum of 5 jereeb of first-grade land to the previously landless. The number of cooperatives has also been increased; by 1980 there were 1,210 cooperatives to serve about 191,000 farmers. In addition, to stem the switch from cash crops to foodgrains, the authorities increased the procurement prices for cotton and sugar beets by 20 per cent and 40 per cent, respectively, in 1980/81. Further increases in prices of 60 per cent for cotton and 40 per cent for sugar beets were announced in early 1983. Other measures introduced by the authorities include additions to the number of purchasing centers and the adoption of plans to extend more concessionary credit to farmers in the future. Furthermore, there has been an increase in the provision of improved seeds, fertilizers, extension services, training, and agricultural machinery, especially in the areas where land reform measures have already been implemented.

3. Industry and mining

Manufacturing industries, minerals, and handicrafts together account for about one fifth of Afghanistan's gross value of production. The manufacturing industries depend mostly on local agricultural and livestock products such as cotton, wool, cotton seed, sugar beets, and wheat. Industries other than those using agricultural raw materials include a urea fertilizer plant, cement manufacturing, coal and salt mining, natural gas production, and the generation of electricity. While Afghanistan is known to possess deposits of a number of minerals in significant quantities, large-scale exploitation has begun so far mainly for gas (reserves of 100-200 billion cubic meters) and, to a lesser extent, of coal, talc, and barite. Mining is a monopoly of the public sector which also owns almost all of the manufacturing industries. Most enterprises were set up by the Government. A number of textile and ginning companies were nationalized in the mid-1970s. Furthermore, with the nationalization of the commercial banks in 1976/77, the Government gained effective control over a number of industrial enterprises through the acquisition of majority ownership.

^{1/} One jereeb equals about one fifth of one hectare.

The handicraft sector accounts for about 9 per cent of production and employs about 300,000 persons, substantially more than the work force in industry and mining combined. Most of the handicraft workers are women and the products include carpets and rugs, embroidered textiles, leather goods, wood and stone carvings, ceramics, and jewelry.

Industrial and mineral production has generally declined in recent years, in some cases sharply (e.g., textiles, coal, sugar, and vegetable oil) (Table 2). While detailed statistics are not available, indications are that the output of such handicrafts as carpet weaving has also fallen in the past two years. Gas output increased significantly to 2.8 billion cubic meters in 1980/81 when a new gas field at Jerq-u-doq came on stream; about 95 per cent of the gas is exported to the U.S.S.R. and the remainder consumed locally. Gas production declined by 4 per cent in 1981/82 and by another 9 per cent (on an annual basis) in the first nine months of 1982/83 due in part to technical difficulties. The general decline in manufacturing output reflects, to some extent, the fall in the output of industrial crops. Moreover, industry in general has suffered from the impact of insurgent activities in some parts of the country. Besides, the increased mobilization of manpower for defense and security purposes as well as a movement of population into neighboring countries have aggravated the chronic problem of skilled labor shortages. Industrial activity has suffered from difficulties experienced in using traditional transit routes. These latter developments contributed toward a marked increase in the traffic northward, which also benefited from the construction of a bridge spanning the Oxus (Amu Darya) River.

Several developments and policies are expected to improve the prospects for industry. In particular, the outlook has improved for gas production following the completion of a sulfur isolation plant with an annual capacity of 2 billion cubic meters at Jerq-u-doq. Moreover, construction work is well under way for installing a second gas pipeline between Afghanistan and the U.S.S.R. In addition, a number of other projects are under construction. These include a 114,000 ton a year copper mining complex at Mis-i-Ainak; a 300,000 ton a year coal mine at Sabzak; a 210,000 ton cement factory and a cotton textile plant at Herat; a 27,000 ton sugar factory in Baghlan; and a cotton textile plant in Kandahar. The authorities also expect an easing of the skilled labor bottleneck following a shift in the country's educational policy toward a greater emphasis on vocational training.

4. Prices, wages, and manpower

The main published measures of inflation are provided by the consumer price indices for Kabul and the country as a whole. These indices used to have 1968/69 as the reference base and covered 24 items drawn from a low income household budget survey conducted in 1960. In 1978/79 the indices were revised, with that year as the reference base, to cover 50 commodities, while maintaining the use of weights derived from the 1960 survey. The indices are published monthly based on prices collected weekly for flour, wheat, meat, and ghee (clarified butter) and monthly for the other 46 items.

Table 2. Afghanistan: Estimated Industrial and Mining Production, 1977/78-1982/83

Year Ended March 20	Units	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 <u>1/</u>
Mining and quarrying							
Natural gas	Million cubic meters	2,583.6	2,461.0	2,327.0	2,790.3	2,674.6	1,818.0
Coal	Thousand tons	171.9	218.2	131.9	118.7	125.0	104.7
Salt	Thousand tons	77.6	81.1	67.6	37.1	30.4	41.8
Marble	Thousand cubic meters	6.4	3.6	13.7	9.2	5.2	2.8
Food processing							
Wheat flour	Thousand tons	59.9	97.0	122.6	113.1	122.9	94.0
Bakery products	Thousand tons	20.7	20.4	21.9	20.0	20.1	19.0
Sugar	Thousand tons	11.2	9.2	8.7	2.7	1.8	--
Vegetable oil	Thousand tons	13.0	10.4	9.5	6.5	4.5	2.0
Textile and leather products							
Ginned cotton	Thousand tons	42.1	45.3	29.4	23.0	14.0	7.1
Cotton textiles	Million square meters	77.0	77.0	64.6	43.3	26.5	18.8
Rayon textiles	Million square meters	29.7	23.1	21.3	14.8	9.6	12.8
Woolen textiles	Million square meters	0.2	0.3	0.4	0.4	0.2	0.1
Shoes	Thousand pairs	298.6	304.9	309.0	264.5	226.0	175.1
Chemical products							
Soap	Million cakes	5.8	2.8	2.2	0.9	0.8	0.7
Chemical fertilizers	Thousand tons	99.6	105.7	106.2	106.3	107.8	83.8
Other							
Cement	Thousand tons	150.1	125.6	99.3	87.2	77.1	75.5
Electricity	Million kilowatts	763.8	857.4	907.8	965.2	1,018.3	726.6

Sources: Central Statistical Office and Ministry of Mines and Industries.

1/ Preliminary estimates for the first nine months.

However, the existing indices can be taken only as broad indicators of overall price movements as a large number of goods including wheat, edible oil, sugar, and petroleum products, which account for a substantial part of the items covered, are subject to subsidization. Additionally, a number of consumer goods are subject to price controls. A new expenditure survey that is to be used to revise the existing consumer price indices is scheduled for 1983/84.

Following a year of relatively slow rise in 1978/79, the consumer price index for Kabul registered an acceleration in the pace of price increases which averaged 22 per cent in 1981/82 compared with 13 per cent in 1980/81 and 10 per cent in 1979/80 (Table 3); prices have continued to rise rapidly during the first nine months of 1982/83. The rise in prices, as measured by the Kabul index, was especially pronounced for foodstuffs, such as meat and vegetables and nonfood items like kerosene and footwear. It is likely that this index understates the price increases that have occurred because it is, as noted above, heavily weighted with subsidized items which are changed infrequently. One factor for the price increases is that domestic liquidity has risen in recent years at an annual rate of nearly 20 per cent at a time when production was depressed, and the velocity of money is likely to have increased given that the exchange rate for the Afghani has declined, making it a less attractive store of value than during the period of appreciation, 1971-78 (see Chart 1). In addition, the acceleration in the rate of increase in prices was caused to a considerable extent by the generally downward movement in the domestic production of both agricultural and industrial goods. Furthermore, the flow into the urban areas of the available marketable output from the countryside has been affected by the security situation which has also increased the costs of transportation. Moreover, the depreciation of the Afghani has exerted an upward pressure on prices by raising the local currency cost of affected imports. The pressure on consumer prices was moderated, to some extent, through a large-scale importation of foodgrains from the U.S.S.R. (see also subsection 2.b above). In addition, there apparently was a marked rise in the payment of subsidies; comprehensive data on the cost of subsidies are not available.

Estimates for 1980/81 indicate that nearly 14 million, or about 84 per cent, of Afghanistan's population was settled and the rest were nomads. While more than 80 per cent of the settled population lives in villages, urbanization is proceeding rapidly. The country's manpower problem consists mainly of a chronic shortage of skilled labor reflecting the low level of literacy. As already noted, these shortages have worsened in recent years as a result of the difficult internal security situation which has led to the mobilization of manpower for the armed forces. There has also been a sizable population movement from Afghanistan to neighboring countries, especially Pakistan. To ease the resulting skilled labor bottleneck, the authorities have taken steps to reorient the educational system toward a greater emphasis on the acquisition of vocational skills.

Table 3. Afghanistan: Kabul Price Index, 1977/78-1982/83 ^{1/}
(1978/79 = 100)

Year Ended March 20	Total Index	Cereals	Meat	Fruits and Nuts	Vegetables	Other Food Items	Nonfood Items
(Index Numbers)							
1977/78	95.1	91.0	106.3	93.7	96.3	100.1	102.6
1978/79	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979/80	109.9	117.8	102.1	106.6	110.1	100.0	111.8
1980/81	123.8	119.8	121.3	103.9	107.7	100.7	139.2
1981/82	150.4	133.9	171.6	123.5	169.2	108.0	161.5
(Percentage Changes Over Corresponding Period of Preceding Year)							
1978/79	5.2	9.1	-5.9	6.7	3.8	-0.1	-2.6
1979/80	9.9	17.8	2.1	6.6	10.1	--	11.8
1980/81	12.6	1.7	18.8	-2.5	2.2	0.7	24.5
1981/82	21.5	11.8	41.5	18.9	57.1	7.2	16.0
1981/82 I	13.9	11.8	29.7	15.7	-1.4	8.5	16.0
II	21.1	9.7	35.7	19.8	39.1	6.5	22.3
III	21.7	14.9	43.8	24.3	54.0	8.3	13.8
IV	34.6	12.2	49.1	30.0	171.8	5.4	15.3
1982/83 I	23.6	10.4	48.1	30.4	78.7	1.5	12.1
II	17.7	16.3	38.6	35.1	41.6	4.7	6.8
III	17.9	20.8	36.8	25.6	32.2	7.8	8.6

Source: Central Statistical Office.

^{1/} Includes a total of 50 items from 1978/79. The original index covered 24 items with a reference base of 1968/69. The old and new indexes were linked in 1978/79.

Little information is available on the structure and trends in the level of wages and salaries in Afghanistan. Salaries in the public sector remained unchanged for several years following a 20 per cent raise (tapered from 36 per cent for the lowest ranks to 5 per cent for the highest) in 1976/77. The next general rise in public sector salaries was in 1981/82 when there was an average increase of nearly 27 per cent within a range of 3-50 per cent, with the higher end of the range benefiting workers in the lower-income categories. At the same time, the monthly allowance of subsidized wheat was doubled for low-income government employees to the level of 50 kilograms which applied earlier only to employees in higher income categories. There was also a rise in the lunch allowances for government employees.

II. Financial Sector

1. Public finance

a. Background

The public sector in Afghanistan consists of the Central Government, the municipalities, a number of banks, and about 60 enterprises engaged in commercial, agricultural, and industrial activities. A few of the enterprises, viz., the Food Department and the Sugar, Petroleum, and certain other Monopolies, are closely controlled by the Central Government but have independent accounting outside the central government budget. As information on the financial operations of the municipalities and the public enterprises is not available, the discussion in this section is focused on the budgetary operations of the Central Government.

All central government transactions are included in one budget covering revenues as well as ordinary and development expenditures. Both expenditure categories have separate sub-budgets which are formulated and implemented by two different ministries. The Ministry of Finance administers the ordinary budget, which covers recurrent items of expenditures, and allocates, on a quarterly basis, financial resources to spending ministries and agencies or to local administrations according to the budget appropriations. Ordinary expenditure operations are indirectly controlled through the submission of quarterly reports on actual spending from operating ministries and agencies to the Ministry of Finance. The State Planning Committee administers the development budget and, with the consent of the Ministry of Finance, allocates and controls the use of financial resources in an approximately similar manner to that used for the ordinary budget. The General Audit Department in the Prime Minister's office is involved in auditing government expenditures.

In Afghanistan budgetary and monetary accounts are difficult to reconcile due in part to timing differences. Another reason for the difference between the two sets of data is that the budgetary accounts include changes in the currency holdings of local treasuries.

- 10 -

The timing differences can be traced to the practice of keeping the budgetary accounts open on the receipts side for a complementary period of two to three weeks after the end of the fiscal year. 1/ During the complementary period, revenue transactions relating to the budget of the year just ended are recorded in a suspense account. However, as information on these transactions is not reported, it is not possible to adjust the fiscal accounts to a cash basis compatible with the monetary data. 2/

b. Budgetary developments

(1) Overall budgetary results

The years immediately preceding 1977/78 were ones in which the rate of increase in total expenditures far outpaced the rate of increase in revenues so that the overall budgetary deficit rose from Af 700 million in 1974/75 to Af 7.6 billion in 1976/77, equal to more than one third of total expenditures. Whereas in the earlier years foreign financing (foreign aid less foreign debt amortization) more than financed the overall deficit, in 1976/77 this financing remained at the level of the previous year with a resultant reliance on central bank financing of the enlarged deficit to the extent of Af 4.6 billion, nearly 20 per cent of the money stock (money and quasi-money) at the beginning of the period. In 1977/78 expenditures stabilized, there was a large increase in project aid (from Af 2.9 billion to Af 7.3 billion), and budgetary reliance on the central bank fell to Af 510 million.

In the four years ended 1981/82 revenues increased at an average annual rate of 19 per cent, with the increase overwhelmingly due to higher proceeds from the export of gas (Tables 4 and 5). Total and ordinary expenditures rose at average annual rates of 11 per cent and 21 per cent, respectively. Development expenditures fell at the beginning of the period and recovered in 1980/81; for the period as a whole they fell slightly. The fall reflected mainly the cutback in foreign aid from Western sources and, in 1981/82, the completion of some projects financed over previous years. Presumably, the security situation also was a factor. The overall deficit declined from Af 6.8 billion (31 per cent of total expenditures) in 1977/78 to Af 3.7 billion (11 per cent of total expenditures) in 1981/82 but, with lower levels of foreign financing, in most years there was much heavier reliance on central bank financing of the deficit than was the case in 1977/78. In 1981/82 this reliance amounted to Af 1.7 billion (3.6 per cent of the money stock at the beginning of the period).

1/ The fiscal year ends on March 20.

2/ It should be noted that the discrepancy between the accounting of the overall deficit in the budget and the accounting of its financing has widened markedly in recent years. For example, in 1981/82 Table 4 indicates bank financing of less than one half the level recorded in the monetary statistics. For 1982/83 the revised budget estimates show that the projected deficit is to be financed without reliance on the domestic banking system, while monetary statistics show an increase in net claims on Government of Af 2.1 billion for the first nine months of the year.

Table 4. Afghanistan: Summary Statement of Government Finances, 1977/78-1982/83

(In millions of Afghanis)

Year Ended March 20	Actual					Budget	Revised
	1977/78	1978/79	1979/80	1980/81	1981/82	Estimate	Budget Estimate 1982/83
A. Total revenue	14,849	15,838	15,737	26,139	29,811	31,407	31,226
Tax revenue	9,270	8,852	7,146	7,352	8,844	9,414	8,920
Nontax revenue	5,396	6,508	7,833	17,711	18,003	20,582	18,556
Capital revenue	183	478	758	1,076	2,964	1,411	3,750
B. Ordinary expenditure	10,432	10,575	14,744	18,883	22,669	24,828	23,964
C. Development expenditure	11,215	8,510	7,150	12,157	10,849	12,302	11,250
Budgetary	5,201	6,845	5,374	6,800	5,791	5,300	5,300
Project aid	6,014	1,450	1,693	5,357	5,058	7,002	5,950
Extrabudgetary	--	215	83	--	--	--	--
D. Total expenditure	21,647	19,085	21,894	31,040	33,518	37,130	35,214
E. Overall deficit (A-D)	-6,798	-3,247	-6,157	-4,901	-3,707	-5,723	-3,988
F. Financing	6,798	3,247	6,157	4,901	3,707	5,723	3,988
1. Foreign <u>1/</u>	7,012	553	741	6,037	3,046	5,723	4,621
Project aid	(7,274) ^{2/}	(1,450)	(1,693)	(5,357)	(5,058)	(7,002)	(5,950)
Commodity aid	(1,228)	(912)	(1,086)	(1,371)	(2,150)	(5,281)	(5,231)
Amortization	(-1,490)	(-1,809)	(-2,038)	(-691)	(-4,162)	(-6,560)	(-6,560)
2. Domestic banks <u>3/</u>	510	2,447	8,529	-2,034	1,736	--	-633
3. Reconciliation adjustment (1-2-3) <u>4/</u>	-724	247	-3,113	898	-1,075	--	--

Sources: Data provided by the Ministry of Finance and Research Department, Da Afghanistan Bank.

1/ Includes foreign grants. In addition to cash grants, commodity aid includes the proceeds in local currency of sales of commodities received on loan terms or as grants.

2/ Includes project aid equivalent to Af 1,260 million from Islamic Republic of Iran carried over from 1976/77.

3/ See Table 7.

4/ Reflects data discrepancies and adjustment to cash basis.

Table 5. Afghanistan: Central Government Revenue, 1978/79-1982/83

(In millions of Afghanis)

Year Ended March 20	Actual				Budget	Revised
	1978/79	1979/80	1980/81	1981/82	Estimate	Budget Estimate
					1982/83	
Tax revenue	<u>8,852</u>	<u>7,146</u>	<u>7,352</u>	<u>8,844</u>	<u>9,414</u>	<u>8,920</u>
Taxes on net income and profits	1,419	1,446	999	1,085	1,510	1,390
Corporate income taxes	(597)	(625)	(334)	(336)	(500)	(390)
Individual income taxes	(822)	(821)	(665)	(749)	(1,010)	(1,000)
Taxes on property	280	67	35	16	100	100
Taxes on goods and services	789	658	640	538	916	850
General sales tax	(154)	(160)	(170)	(104)	(330)	(310)
Licenses <u>1/</u>	(635)	(498)	(470)	(434)	(586)	(540)
Taxes on international trade and trans- actions	4,819	3,257	3,855	4,348	4,635	4,450
Import duties <u>2/</u>	(4,473)	(2,912)	(3,558)	(4,011)	(4,280)	(4,100)
Export duties <u>2/</u>	(346)	(345)	(297)	(337)	(355)	(350)
Other taxes <u>3/</u>	1,545	1,718	1,823	2,857	2,253	2,130
Nontax revenue	<u>6,508</u>	<u>7,833</u>	<u>17,711</u>	<u>18,003</u>	<u>20,582</u>	<u>18,556</u>
Property income	<u>3,829</u>	<u>5,279</u>	<u>13,438</u>	<u>15,982</u>	<u>16,386</u>	<u>15,114</u>
From public enter- prises	(1,192)	(1,406)	(1,929)	(2,426)	(1,100)	(1,200)
Sales of natural gas (gross)	(2,637)	(3,873)	(11,509)	(13,556)	(15,286)	(13,914)
Administrative fees and charges	596	107	2,574	196	895	2,392
Other	2,083	2,447	1,699	1,825	3,301	1,050
Capital revenue	<u>478</u>	<u>758</u>	<u>1,076</u>	<u>2,964</u>	<u>1,411</u>	<u>3,750</u>
Total revenue	<u>15,838</u>	<u>15,737</u>	<u>26,139</u>	<u>29,811</u>	<u>31,407</u>	<u>31,226</u>

Sources: Data provided by the Ministry of Finance and Research Department, Da Afghanistan Bank.

1/ Includes motor vehicle registration fees.

2/ Includes revenue from fixed import and export taxes.

3/ Includes stamp taxes.

On the basis of revised estimates, in 1982/83 revenues and total expenditures were each expected to have risen by 5 per cent, with ordinary expenditures rising at a somewhat faster rate than development expenditures. The overall deficit was expected to be about Af 4.0 billion, 8 per cent higher than in 1981/82, with the deficit fully covered by foreign financing. ^{1/}

(2) Government revenue ^{2/}

The main sources of government revenue are sales of natural gas, income from public enterprises, and import duties. The most dynamic revenue source has been sales of gas which increased from Af 2.6 billion (or 17 per cent of total revenues) in 1978/79 to Af 13.6 billion (or 45 per cent of total revenues) in 1981/82 (Table 5). Total revenues less sales of gas rose from Af 13.2 billion in 1978/79 to Af 16.3 billion in 1981/82, with all of the growth apparently being attributable to increased collections from public enterprises. There have been no changes in tax rates or customs tariffs since 1978/79, and tax revenues in 1981/82 at Af 8.8 billion were at the same level as in 1978/79, falling over the period from 56 per cent of total revenues to 30 per cent.

Public sector enterprises contribute to the budget in the form of corporate income taxes, profit transfers, fees and charges, ^{3/} and capital revenues. While the revenue from income tax has declined, total payments to the budget appear to have increased significantly during 1978/79-1981/82, although an exact quantification is not possible. This increase, which occurred despite production declines, is attributed to improvements in management.

Import duties declined sharply in 1979/80 to Af 2.9 billion from Af 4.5 billion in the previous year and only partially recovered thereafter despite an increase in imports. This experience is attributable to two main factors. First, a new Government Trading Company (CART) was established to import and distribute consumer and other goods; it has not yet paid customs duties due on imports. Second, there was a much higher proportion of government duty-free imports in commercial imports.

Revised revenue estimates for 1982/83 indicate a growth in total revenues of 5 per cent with sales of gas increasing by only 3 per cent. Total tax revenues were expected to be virtually unchanged compared with 1981/82, with some increases in taxes on income, property, and goods and services being offset by a fall in the residual "other taxes" which had been unusually high in 1981/82. Nontax revenues were expected to rise by 3 per cent with declines in property income from public enterprises and in the residual "other nontax revenues" being largely compensated for by revenues from administrative fees and charges.

^{1/} See, however, footnote 2 on p. 10.

^{2/} The classification of revenues and expenditures by heads differs since 1978/79 from that of the preceding period.

^{3/} In 1980/81 these included the transfer to the budget of foreign exchange deposits held by certain enterprises with domestic banks.

The decline in property income from public enterprises which were expected to fall by 50 per cent is attributable to the fact that 1982/83 was the first full year that a new law was in effect providing for a possible 50 per cent retention of profits by enterprises. ^{1/} The expected decline also reflected the fact that collections of overdue taxes and profit transfers had inflated the 1981/82 revenues from this source. Capital revenues (paid mostly by enterprises) were expected to rise by 27 per cent.

(3) Government expenditures

Ordinary expenditures grew from Af 10.6 billion in 1978/79 to Af 22.7 billion in 1981/82 (Table 6). The largest absolute increase over the period was in outlays for general administrative and public order which rose from Af 1.4 billion (13 per cent of ordinary expenditures) to Af 4.3 billion (19 per cent). This was the result of the establishment of new administrative bodies, increased salaries, and larger appropriations for the police. There were also increased expenditures for the Ministry of Nationality and Tribes in order to strengthen national unity. Defense expenditures rose from Af 3.0 billion in 1978/79 to Af 5.3 billion in 1981/82, although as a percentage of ordinary expenditures they fell from 28 per cent to 23 per cent. Education expenditures rose from Af 2.3 billion in 1978/79 to Af 3.0 billion in 1980/81 but then fell to Af 2.8 billion in 1981/82: the establishment of new curricula and literacy programs temporarily boosted expenditures in 1979/80 and 1980/81; the fall in 1981/82 was also attributable to the switch of some expenditures to the development budget. Expenditures for other community and social services rose from Af 166 million in 1978/79 to Af 1.3 billion in 1979/80 on account of larger expenditures for information and culture, particularly for the extension of television facilities and the establishment of new cultural and news programs. Public debt interest payments were all on foreign debt--the Government does not pay interest on its debt to Da Afghanistan Bank--and those interest payments fell sharply in 1980/81 as a result of a one-year grace period for interest on loans from the U.S.S.R. The expenditure category "subsidies, grants, and pensions" includes one consumption subsidy--for petroleum products--and subsidies for the domestic airline and bus companies; grants to a number of social institutions; and support of the Government Pension Fund. The increase in these expenditures is largely attributable to the petroleum subsidy which rose from Af 450 million in 1979/80 to Af 2.5 billion in 1981/82, despite the fact that in 1981/82 there was a reclassification of some subsidies as general administrative expenditures. ^{2/} The other major expenditures in this category were in support of cooperatives (Af 564 million in 1981/82) and support of the Government Pension Fund (Af 420 million in 1981/82).

^{1/} The law provides that, if enterprises make at least 20 per cent profit and implement their annual plan, 20 per cent of profits go to workers' incentive funds and 30 per cent to the expansion of the enterprise.

^{2/} Subsidies for wheat and some other food items are not accounted for in this category. The cost of such subsidies is not known.

Table 6. Afghanistan: Central Government
Ordinary Expenditure, 1978/79-1982/83

(In millions of Afghanis)

Year Ended March 20	Actual				Budget	Revised
	1978/79	1979/80	1980/81	1981/82	Estimate	Budget Estimate
					1982/83	
Functional classification 1/	<u>10,575</u>	<u>14,744</u>	<u>18,883</u>	<u>22,669</u>	<u>24,828</u>	<u>23,964</u>
General administration and public order	1,410	1,796	2,835	4,320	5,200	4,900
Defense	3,000	3,575	4,325	5,250	5,200	5,200
Education	2,257	2,849	3,050	2,756	2,800	2,795
Health	550	795	1,010	1,327	1,400	1,363
Other community and social services	166	1,340	835	1,929	2,039	1,975
Economic services	1,074	1,885	1,813	2,050	2,600	2,142
Public debt (interest)	684	1,022	337	1,017	1,189	1,189
Subsidies, grants, and pensions	1,434	1,482	4,678	4,020	4,400	4,400
Economic classification	<u>10,575</u>	<u>14,744</u>	<u>18,883</u>	<u>22,669</u>	<u>24,828</u>	<u>23,964</u>
Wages and salaries	4,233	5,794	7,424	11,010	12,133	11,756
Materials and supplies	2,898	4,675	4,746	5,332	5,406	5,020
Subsidies, grants, and pensions	1,434	1,482	4,678	4,020	4,400	4,400
Public debt (interest)	684	1,022	337	1,017	1,189	1,189
Other	1,326	1,771	1,698	1,290	1,700	1,599

Sources: Data provided by the Ministry of Finance and Research Department, Da Afghanistan Bank.

1/ The functional classification is based on the institutional classification used in the budget accounts.

In expenditures by economic classification, wages and salaries rose at an average annual rate of 38 per cent between 1978/79 and 1981/82, accounting for 40 per cent of ordinary expenditures at the beginning of the period and 49 per cent at the end; this rise reflects, in part, a pay increase averaging 27 per cent that was granted in 1981/82. Materials and supplies rose at an average annual rate of 23 per cent over the period, accounting for 27 per cent of expenditures at the beginning of the period and 24 per cent at the end. Subsidies, grants, and pensions accounted for 14 per cent and 18 per cent, respectively, at the beginning and end of the period.

In revised budget estimates for 1982/83, expenditures were expected to have increased by 6 per cent over 1981/82, expenditures for general administrative and public order rising by 13 per cent; subsidies, grants, and pensions by 9 per cent; and public debt interest payments by 17 per cent. Expenditures under other heads were expected to have remained at or about their 1981/82 level. Development expenditures fluctuated substantially during recent years, apparently partly in response to a varying level of external aid available for budgetary financing. On average, such spending was lower in the five years ended 1982/83 than in 1977/78.

2. Money and credit

a. The banking system ^{1/}

Afghanistan's organized banking sector comprises Da Afghanistan Bank (DAB), which operates as a commercial bank besides performing central banking functions, three other commercial banks, and three specialized banks. Established in 1939 as a wholly government-owned institution, DAB has the sole right of currency issue and acts as banker to the Government, the municipalities, various government enterprises, and official entities. ^{2/} It is now the country's largest bank, accounting for over 60 per cent of total nonbank (nongovernment) deposits at the end of 1982. In March 1982 DAB was made independent of the Ministry of Finance and its Governor was designated as the General President with the rank of a cabinet minister. Further, DAB's Supreme Council was reorganized under the Deputy Prime Minister, who is also in charge of the State Planning Committee, with the General President of DAB and the Ministers of Finance, Agriculture, and Commerce and Industry as the other members.

The largest of the other banks, Bank Mellie (National Bank), started operations in 1932; established as a private bank, it was nationalized in 1976. The National Bank's loans consist mostly of credits to a few relatively large enterprises in which it has a participation interest and short-term advances for financing foreign trade.

^{1/} For further details, see SM/79/21, pp. 21-23.

^{2/} The major official entities are the Food Department, the Petroleum Monopoly, and the Sugar Monopoly.

The other two commercial banks, the Pashtany Tejaraty Bank and the Export Promotion Bank, were established by the Government in 1954 and 1976, respectively. The operations of these two banks cover mostly the financing of foreign trade and closely related activities. Commercial banking operations are limited largely to the urban areas and the growth of bank deposits has not kept pace with the expansion of money; the share of demand deposits in the money supply (narrowly defined, i.e., cash outside banks plus demand deposits), which was about 22 per cent at the end of 1976/77, declined steadily to about 11 per cent at the end of 1982 (Appendix Table 17). The level of time and savings deposits fluctuated narrowly around 18 per cent of total domestic liquidity over the same period.

In addition to the organized banking system, Afghanistan has a money bazaar which traditionally has played a substantial role in the financing of trade and other activities, both domestic and external. Represented mostly in the urban areas, the money merchants provide rapid clearing facilities through correspondent banks abroad. Although little information is available in precise terms about the market's activities, it is known to provide a considerable volume of loans at interest rates substantially higher than those charged by the banks. The authorities have generally followed a policy of noninterference in the activities of the money bazaar.

The interest rates payable by banks on time and savings deposits have remained unchanged in recent years at 9 per cent for savings deposits and 4-10 per cent for time deposits of various maturities (Appendix Table 18). In recent years, these rates have been below the prevailing rates of inflation so that the realized real rates of interest have been negative. As for the lending rates, which range from 3 per cent to 12 per cent, the lower limits on the rates that the banks are allowed to charge have been reduced from time to time so as to encourage imports of essential commodities that are in short supply. Moreover, the rates charged by DAB on loans to the specialized banks have been kept at a low level so as to enable these institutions to provide credit at preferential rates.

b. Recent monetary developments

Domestic liquidity (money plus quasi-money) expanded by an annual average rate of about 19 per cent a year during the four years ended 1980/81, reflecting mostly an increase in banks' net foreign assets (Table 7). The increase was by 20 per cent in 1980/81 when the balance of payments registered a record overall surplus following a sharp upward adjustment in the price of gas exports to the U.S.S.R. The contribution of net domestic assets was contractionary in both 1977/78 and 1980/81 but sharply expansionary in 1979/80, due to large bank financing of the Government; for the four-year period as a whole, the impact was largely neutral. A meaningful allocation of the changes in net domestic assets to its various components is not possible because the reasons for the large contractionary impact of net unclassified items during 1978/79-1980/81 are not known, although an increase in the minimum import deposit requirement from 20 per cent to 40 per cent was a contributing factor in 1980/81.

Table 7. Afghanistan: Factors Affecting Changes in Domestic Liquidity, 1977/78-1982/83

(Changes during period)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	First Nine Months	
						1981/82	1982/83 <u>1/</u>
(In millions of Afghanis)							
Domestic liquidity	4,076.9	4,381.8	7,488.5	8,072.9	8,581.3	5,766.0	10,301.3
Money	3,420.9	4,295.5	6,968.8	5,431.5	7,577.0	5,013.6	7,933.2
Quasi-money	656.0	86.3	519.7	2,641.4	1,004.3	752.4	2,368.1
Net foreign assets <u>2/</u>	6,113.7	3,556.0	2,196.0 <u>3/</u>	12,197.4	1,763.3	-1,687.4	-4,307.1
Net domestic assets	-2,036.8	825.8	5,292.5 <u>3/</u>	-4,124.5	6,818.0	7,453.4	14,608.4
Public sector (net)	-732.5	2,731.3	7,692.2 <u>3/</u>	-1,127.4	5,811.1	5,856.1	3,022.7
National							
Government (net)	(510.4)	(2,447.4)	(8,528.9) <u>3/</u>	(-2,034.4)	(1,736.3)	(3,860.9)	(2,080.6)
Official entities (net)	(-1,242.9)	(283.9)	(-836.7)	(907.0)	(4,074.8)	(1,995.2)	(942.1)
Enterprises <u>4/</u>	-1,392.9	2,610.3	-384.3	5,476.5	-3,154.4	-1,670.0	893.0
Other items (net)	88.6	-4,515.8	-2,015.4	-8,473.6	4,161.3	3,267.3	10,692.7
(Changes in per cent)							
Domestic liquidity	17.1	15.7	23.2	20.3	18.0	12.1	18.3
Claims on enterprises	-20.8	49.1	-4.8	72.6	-24.2	-12.8	9.1

Source: Appendix Table 17.

^{1/} Provisional.^{2/} Differs from the data on net foreign reserve movements (see Table 14), mainly because of the use of a fixed exchange rate for the national currency valuation of gold holdings.^{3/} Adjusted for gold revaluation profit of Af 10,579 million.^{4/} Comprises public, mixed, and private enterprises.

Keeping these data limitations in mind, it can be tentatively concluded that, with the exception of 1979/80, the budgetary recourse to domestic bank financing was generally limited, reflecting mainly growing earnings from gas exports. Moreover, receipts of commodity aid reduced the credit needs of the Government's Food Department and the Sugar and Petroleum Monopolies. On the other hand, advances to enterprises rose substantially in 1978/79 and expanded at a record rate in 1980/81, reflecting apparently a surge in private sector imports in these years.

In 1981/82 the rate of monetary expansion slowed to 18 per cent, compared with 20 per cent in the preceding year. At the same time, the source of the increase in domestic liquidity shifted from net foreign assets to net domestic assets, which rose at a record pace. As was the case in the preceding years, the factors underlying the rise in domestic credit cannot be analyzed adequately because of limitations of the statistics; the increase in net unclassified items was Af 4.2 billion out of a total net domestic asset increase of Af 6.8 billion. However, indications are that the expansion was mainly due to a record rise in credits to the official entities. The latter reflected in part increases in expenditures on the construction and rehabilitation of storage facilities, additions to inventories, and a rise in working capital. Advances to enterprises, on the other hand, registered a decline, reflecting a subdued demand for credit following the buildup of inventories of imported goods in the preceding year. The expansion of credit to these enterprises was restrained also because of stricter implementation of credit controls by DAB's introduction of annual ceilings for each bank's lending to the nongovernment sector.

Data for the first nine months of 1982/83 indicate that the expansion of net domestic assets that began in 1981/82 continued and that there was a marked acceleration of monetary expansion compared with the same period a year earlier, despite a sharp decline in net foreign assets. Over 70 per cent of the total increase in net domestic assets is attributed in the statistics to net unclassified items, with the Government's recourse to domestic bank financing being the other main expansionary factor; net claims on official entities also increased. However, the data for the first nine months may not have reflected the Government's financing requirements in 1982/83 as a whole, because sizable receipts for gas exports to the U.S.S.R. were to be received in the last quarter.

c. Specialized banks

The largest specialized bank is the Agricultural Development Bank (ADB) which was established by the Government in 1965. The ADB charges interest rates on loans in the range 6-10 per cent. There was a marked rise in the ADB's loans following the 1978 revolution (Table 8). After 1979/80, however, outstanding loans declined as, in the wake of loan defaults, greater attention was paid to the creditworthiness of borrowers. The ADB's operations are now being concentrated in areas where land reform measures have been implemented.

Table 8. Afghanistan: Balance Sheet of the Agricultural Development Bank, 1977/78-1981/82

(In millions of Afghanis)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82
Cash and bank deposits	714.2	1,224.1	1,086.1	1,258.8	1,567.5
Loans and advances	1,615.1	1,767.2	2,187.0	1,948.8	1,937.1
Inventories and goods in transit	141.0	328.9	212.0	188.5	171.8
Participations	58.9	--	--	--	--
Other assets	22.8	24.2	33.6	193.4	184.3
Assets = Liabilities	<u>2,552.0</u>	<u>3,344.4</u>	<u>3,518.7</u>	<u>3,589.5</u>	<u>3,860.7</u>
Demand deposits	507.2	896.5	442.2	505.4	663.1
Time and savings deposits	358.0	365.2	763.1	472.4	556.6
Suppliers' credit	19.1	58.5	42.9	62.5	94.2
Government credit <u>1/</u>	710.8	993.0	1,140.6	1,403.6	1,275.7
Other credits <u>2/</u>	61.4	62.3	78.5	66.1	158.0
Capital and reserves	801.5	857.5	936.1	997.5	1,014.3
Other liabilities	94.0	111.4	115.3	82.0	98.8

Source: Da Afghanistan Bank.

1/ Mostly IDA credits.

2/ Includes deferrals of tax liabilities.

The remaining two specialized banks--the Industrial Development Bank (IDB) and the Mortgage Construction Bank (MCB)--are relatively small. Established in 1973 as a privately owned institution with foreign equity participation, the IDB was nationalized in 1976. Besides lending to and participating in the equity of the larger enterprises, the IDB also makes advances to smaller industries through the Development Assistance Fund which was set up in 1977. While detailed statistics are not available, the IDB's total loan commitments reached Af 639 million at the end of 1980/81, increasing by 11 per cent in that year compared with 13 per cent in 1979/80. The MCB remained mostly inactive in the mid-1970s following the accumulation of bad debts. More recently, however, activity has picked up, and outstanding loans rose to about Af 104 million in 1980/81 compared with Af 88 million in 1979/80 and Af 18 million in 1978/79.

III. The External Sector

1. Balance of payments

a. Introduction

For many years Afghanistan's balance of payments statistics were based mainly on staff estimates and provided, at best, an overall indication of the changes in the external situation. During the last few years, the Research Department of Da Afghanistan Bank has compiled annual balance of payments statements of a more detailed nature, with separate data being compiled for multilateral and bilateral transactions. ^{1/}

When interpreting the balance of payments estimates, it should be kept in mind that a small percentage of foreign trade is believed to be unrecorded in the customs records. The data for private transfers and services to and from abroad shown in the accounts cover only those recorded by the banks and thus exclude the large volume of transactions that are financed through the money bazaar. Finally, the large and widely fluctuating "errors and omissions" item limits the usefulness of the balance of payments estimates.

b. Overall balance of payments developments

During the early and, in particular, the mid-1970s, Afghanistan recorded substantial overall balance of payments surpluses. Although there were large merchandise trade deficits, the inflows of remittances from Afghans working abroad, the revenue from an expanding tourist industry, and substantial nonmonetary capital inflows were more than sufficient to create sizable overall surpluses. In 1977/78 the surplus reached a record US\$155 million, more than twice that of the previous year (Table 9). The strong external position was entirely due to multilateral transactions, which recorded an overall surplus of US\$160 million, compared with the deficit on bilateral account of US\$5 million (Table 10 and Appendix Table 19).

^{1/} The term "multilateral transactions" is used to denote all transactions other than those channeled through the bilateral payments accounts.

Table 9. Afghanistan: Balance of Payments Estimates, 1977/78-1982/83

(In millions of U.S. dollars)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 <u>1/</u>
Trade balance <u>2/</u>	-196.3	-292.9	-183.1	-113.2	-165.1	-208.8
Exports, f.o.b.	326.7	336.7	481.2	713.5	712.8	672.5
Imports, c.i.f.	-523.0	-629.6	-664.3	-826.7	-877.9	-881.3
Commercial imports <u>3/</u>	(-361.1)	(-453.2)	(-424.3)	(-535.2)	(-639.7)	(-653.0)
Project aid imports <u>4/</u>	(-141.6)	(-145.5)	(-187.4)	(-171.6)	(-155.4)	(-139.7)
Commodity aid imports	(-20.3)	(-30.9)	(-52.6)	(-119.9)	(-82.8)	(-88.6)
Services	47.1	44.5	52.0	83.5	55.8	47.3
Embassies' expenditure (net)	3.6	4.0	13.5	29.4	20.3	25.0
Travel (net)	38.0	28.0	7.0	--	1.5	2.0
Investment income (net) <u>5/</u>	-6.5	5.7	23.2	45.0	23.5	11.4
Other (net)	12.0	6.8	8.3	9.1	10.5	8.9
Unrequited transfers	20.4	23.3	-4.3	-2.7	-0.2	11.0
Credit	40.6	40.5	39.8	12.3	41.8	25.0
Debit	-20.2	-17.2	-44.1	-15.0	-42.0	-14.0
Current account balance	-128.8	-225.1	-135.4	-32.4	-109.5	-150.5
Nonmonetary capital	181.1	192.4	259.6	299.8	164.4	99.0
Credit	218.4	235.2	317.1	345.6	262.2	231.3
Loans and grants	(218.4)	(235.2)	(317.1)	(345.6)	(262.2)	(231.3)
Public loans	[177.6]	[144.8]	[176.9]	[156.5]	[166.1]	[106.9]
Commercial loans	[--]	[7.4]	[57.9]	[48.5]	[16.7]	[7.0]
Grants	[40.8]	[83.0]	[82.3]	[140.6]	[79.4]	[117.4]
Debit: repayment of external debt <u>6/</u>	-37.3	-42.8	-57.5	-45.8	-97.8	-132.3
Errors and omissions	103.1	130.9	-64.9	-72.9	-80.0	-47.5
Overall surplus or deficit (-)	155.4	98.2	59.3	194.5	-25.1	-99.0
Multilateral <u>7/</u>	160.3	155.0	-2.0	-69.4	-54.2	-32.4
Bilateral	-4.9	-56.8	61.3	263.9	29.1	-66.6

Sources: Da Afghanistan Bank. See Appendix Table 18 for detailed breakdown between bilateral and multilateral transactions.

1/ Projected in February 1983.

2/ Exports and commercial imports reflect customs data adjusted by Da Afghanistan Bank on the basis of exchange control records.

3/ Includes imports financed by commercial loans.

4/ Project aid imports are calculated as a ratio of project aid using a percentage which varies from year to year.

5/ Includes interest on external debt.

6/ Foreign debt principal repayments.

7/ Includes all transactions other than those channeled through the four bilateral payments accounts.

- 23 -

Table 10. Afghanistan: Balance of Payments
Summary, 1977/78-1982/83

(In millions of U.S. dollars)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 ^{1/}
Trade balance	-196.3	-292.9	-183.1	-113.2	-165.1	-208.8
Bilateral	-63.6	-125.5	-135.0	-96.7	-140.2	-187.6
Multilateral ^{2/}	-132.7	-167.4	-48.1	-16.5	-24.9	-21.2
Services (net)	47.1	44.5	52.0	83.5	55.8	47.3
Bilateral	-6.5	-6.3	-2.6	34.9	19.3	15.7
Multilateral ^{2/}	53.6	50.8	54.6	48.6	36.5	31.6
Unrequited transfers	20.4	23.3	-4.3	-2.7	-0.2	11.0
Bilateral	-0.7	0.4	-4.1	12.3	-18.9	15.0
Multilateral ^{2/}	21.1	22.9	-0.2	-15.0	18.7	-4.0
Current account deficit (-)	-128.8	-225.1	-135.4	-32.4	-109.5	-150.5
Bilateral	-58.0	-131.4	-141.7	-49.5	-139.8	-156.9
Multilateral ^{2/}	-70.8	-93.7	6.3	17.1	30.3	6.4
Nonmonetary capital	181.1	192.4	259.6	299.8	164.4	99.0
Bilateral	66.7	74.3	195.0	286.1	145.8	75.9
Multilateral ^{2/}	114.4	118.1	64.6	13.7	18.6	23.1
Errors and omissions	103.1	130.9	-64.9	-72.9	-80.0	-47.5
Overall surplus or deficit (-)	155.4	98.2	59.3	194.5	-25.1	-99.0
Bilateral	-4.9	-56.8	61.3	263.9	29.1	-66.6
Multilateral ^{2/}	160.3	155.0	-2.0	-69.4	-54.2	-32.4

Sources: Da Afghanistan Bank; see Appendix Table 19 for detailed breakdown.

^{1/} Projected in May 1983.

^{2/} Include all transactions other than those channeled through the four bilateral payments agreements.

- 24 -

In 1978/79 the overall surplus was reduced to US\$98 million due to an increase in the merchandise trade deficit of US\$97 million as exports increased by US\$10 million, while imports rose by US\$107 million. In 1979/80 the surplus fell to US\$59 million reflecting the impact of several major developments. An increase of 43 per cent in the value of exports, due to a near doubling of natural gas prices and buoyant exports of dried fruits, reduced the current account deficit by US\$90 million, and the net nonmonetary capital inflow rose by US\$67 million; but errors and omissions showed a move of US\$196 million from a positive to a negative item. Bilateral nonmonetary capital inflows of US\$242 million, a figure substantially greater than the cumulative inflows of the previous two years, more than offset the fall of US\$51 million in multilateral capital inflows. As a consequence of this inflow, the overall bilateral position in 1979/80 strengthened from a US\$57 million deficit in the previous year to a surplus of US\$61 million. This contrasted sharply with the 1979/80 multilateral deficit of US\$2 million following a surplus of US\$155 million in the previous year.

There was a substantial improvement in Afghanistan's external position in 1980/81 because of a reduction in the merchandise trade deficit and a higher inflow of capital from bilateral countries. Although the bilateral surplus of US\$264 million was partially offset by a multilateral deficit of US\$69 million, the resulting overall surplus of US\$195 million substantially exceeded the previous record surplus of 1977/78. The value of imports rose by 24 per cent, but another near doubling of the natural gas price and increased sales of rugs and carpets increased the value of exports by 48 per cent. Consequently, the trade deficit was reduced by US\$70 million to the smallest level in four years. Rising interest rates and increasing levels of foreign reserves over the previous three years combined to increase investment income to US\$52 million in 1980/81. At the same time, interest paid on foreign debt fell following a one-year relief with respect to interest payments on loans from the U.S.S.R., so that net investment income almost doubled from the level of the previous year.

In 1981/82 the overall balance of payments position weakened substantially and, following the record US\$195 million surplus of the previous year, there was a deficit of US\$25 million. Export receipts, which had expanded strongly in the previous year, remained unchanged in 1981/82 despite a US\$40 million increase in natural gas exports to the U.S.S.R. (prices were increased by 25 per cent). The volume of cotton exports fell in reflection of lower production, and the exports of carpets and karakul skins declined, apparently reflecting domestic supply constraints and a weakening of demand from industrial countries. Imports increased by a modest 6 per cent and the trade deficit increased by US\$52 million. There was also a reduction in net service receipts, partly reflecting the resumption of interest payments on debt to the U.S.S.R. However, the most significant factor for the turnaround in the balance of payments position was the large decrease in net capital inflow. This fell to the lowest level in more than four years as Soviet aid declined and debt service amortization payments rose sharply, the consequence of the expiration of debt relief granted by the U.S.S.R. in the mid-1970s.

The weakening of Afghanistan's external position is estimated to have continued during 1982/83 and the overall deficit for the year is estimated at US\$99 million, two thirds of which pertains to bilateral transactions. The value of exports is estimated to have declined by nearly US\$40 million, apparently due to lower supplies and international prices for some exports and temporary disruptions especially of natural gas shipments. The value of imports remained unchanged from the level of the previous year. There was also a further sizable decline in net capital inflow as aid receipts fell and debt service payments continued to increase rapidly. Amortization payments are estimated to have been US\$132 million, nearly three times those of two years earlier. As a consequence, at US\$99 million, net capital inflow in 1982/83 is estimated to have been only one third of the amount in 1980/81.

c. Exports

The sevenfold increase in the export price of natural gas was the major reason for the annual increase of 22 per cent in the value of exports over the four years to 1981/82. ^{1/} During this period the value of total exports increased by US\$380 million, of which 60 per cent was due to increased gas exports. As a result, the contribution of gas exports to total exports rose from 12 per cent in 1977/78 to 39 per cent in 1981/82. The relative shares of most other exports have decreased and in 1981/82 were: dried fruits (25 per cent), carpets and rugs (10 per cent), fresh fruits (7 per cent), and wool, cotton, and karakul skins (each 3 per cent).

The more than doubling of export receipts from 1977/78 to 1981/82 was entirely due to price rises. As shown in Table 11, the aggregate export unit value index rose over the same period by 133 per cent, and the volume of exports fell by 5 per cent. If the exports of natural gas are excluded from the calculation, the value of nongas exports increased 53 per cent during the four years to 1981/82, with unit values increasing 52 per cent and volumes rising by 1 per cent. The lack of growth in export volume during the past few years seems related to the production and transportation difficulties that have occurred and has been compounded in the last two years by the weak international demand for Afghan exports.

Although export receipts grew at a brisk annual rate over the period 1977/78 through 1981/82, individual year-to-year changes varied considerably. The weak agricultural performance in 1977/78 was the major reason for the marginal increase of export receipts in 1978/79. Cotton was particularly affected and the reduced quantity exported in association with lower world prices reduced cotton export value by 33 per cent. Improved weather conditions in 1978/79 sharply increased total export volumes in 1979/80 by 21 per cent, a near doubling of the natural gas price and sharply higher prices for fresh fruits, cotton, and wool resulted in a rise of 53 per cent in the value of exports.

^{1/} Unless otherwise noted, references in this and the following subsection refer to customs data (see Appendix Table 20), which differ somewhat from those used in the balance of payments.

Table 11. Afghanistan: Indexes of Exports, 1977/78-1981/82

(1980/81 = 100)

Commodities	Weights	1977/78	1978/79	1979/80	1980/81	1981/82
Unit value indexes						
Natural gas	37.0	17.7	26.6	51.0	100.0	125.3
Dried fruits	26.8	55.5	90.6	98.5	100.0	90.8
Fresh fruits	6.3	52.3	64.7	86.0	100.0	115.9
Cotton	6.3	98.2	82.7	110.4	100.0	110.5
Wool	1.9	71.8	71.6	111.6	100.0	117.5
Carpets and rugs	16.4	46.8	75.9	82.4	100.0	85.0
Karakul skins	5.3	92.3	89.0	95.2	100.0	63.2
Total	100.0	44.8	61.9	78.3	100.0	104.5
Excluding natural gas		60.8	82.7	94.4	100.0	92.3
Volume indexes						
Total		99.6	73.7	89.4	100.0	94.3
Excluding natural gas		95.9	68.8	87.7	100.0	96.7

Source: Fund staff estimates.

Export receipts increased by US\$211 million in 1980/81, reflecting an increase of 12 per cent in export volume and a 28 per cent increase in export unit value. Increases were recorded in the quantities exported of fresh fruits, carpets and rugs, cotton, wool, and karakul skins, while the 16 per cent increase in the volume of natural gas raised the quantity exported to the highest level since 1974/75. Impressive rises in commodity unit values also occurred in 1980/81, with natural gas, fresh fruits, and carpets and rugs all recording substantial gains.

The value of exports contracted in 1981/82, reflecting lower levels of shipments and reduced prices for exports of karakul skins, dried fruits, and carpets. A further substantial increase in the export price of natural gas lifted the value of gas exports, while an increase in the unit value of fresh fruits, coupled with increased quantities available for export of both fresh and dried fruits, raised the value of these exports. According to balance of payments data, exports in 1982/83 are estimated to have declined by 6 per cent. Reflecting technical and security problems, gas shipments declined. The value of gas exports, however, appears to have remained approximately unchanged due to a further price increase. Thus, the value of nongas exports apparently declined further.

- 27 -

d. Imports

The value of commercial imports increased during the four years to 1981/82 at an average annual rate of 17 per cent (Appendix Table 21). 1/ This growth was shared by almost all import categories, with food, petroleum products, and machinery and transport equipment registering the greatest rises. In 1977/78 these three categories made up 37 per cent of total imports; four years later their share had increased to 56 per cent, reflecting increases in both prices and quantities. Manufactured goods, which accounted for more than 28 per cent of total imports in 1977/78, accounted for 16 per cent in 1981/82, with the value of these imports remaining more or less unchanged over the four-year period.

In 1978/79 commercial imports increased by 24 per cent, with the growth rate slowing down to 4 per cent the following year. In 1980/81 the rate reached 30 per cent in response to a doubling in the value of imports of petroleum, higher food imports (in particular sugar), and a surge in the purchase of imports by private traders following the change of Government in December 1979. The buildup in inventories which followed these increased purchases reduced the need for private sector imports in 1981/82. Additionally, there was a decline in government development expenditure from the level of the previous year which limited the increase in total commercial imports to US\$71 million or 13 per cent, despite sizable increases in the value of imports of wheat, sugar, edible oils, and machinery and transport equipment. Most of this increase was due to higher import volumes as export prices in U.S. dollar terms of Afghanistan's multilateral trading partners remained at levels of a year earlier (reportedly, trade with bilateral partners is generally effected at world market prices). 2/

The slowdown in the purchase of commercial imports that began in 1981/82 continued in the following year as private sector imports were increasingly subject to the impact of the rapid depreciation of the Afghani in the bazaar exchange market (Appendix Table 24). Preliminary statistics for the first nine months of 1982/83 show an increase of 12 per cent in the value of imports over the same period of the previous year, but difficulties in using the traditional transit routes are likely to reduce imports in the remaining three months so that the value of imports for 1982/83 as a whole is estimated to have been unchanged from the level of 1981/82.

As mentioned earlier, Afghanistan receives a substantial amount of aid-financed imports. Over the four years to 1981/82, these imports have risen at a slower rate than commercial imports. In 1981/82 project and commodity aid imports accounted for 27 per cent of total merchandise compared with 31 per cent in 1977/78.

1/ The discussion in this subsection is confined to commercial (customs) imports as a comparable classification of aid-financed imports is not available. The value of these latter imports in 1980/81 totaled nearly US\$292 million, of which project aid imports amounted to US\$172 million and commodity aid imports (mainly foodstuffs) to US\$120 million.

2/ Given the substantial increases in the export unit value index, there appears to have been an improvement in Afghanistan's terms of trade during the four years ended 1981/82.

e. Direction of trade

During the last few years, there has been a significant change in the direction of Afghanistan's external trade (Table 12). The U.S.S.R., Czechoslovakia, Hungary, and the People's Republic of China conduct trade with Afghanistan under bilateral trade and payments agreements. ^{1/} In 1978/79 bilateral transactions with these countries accounted for 38 per cent of exports and 34 per cent of imports. However, following the revolution in April 1978, these percentages have increased to 62 per cent for exports and 68 per cent for imports in 1981/82 as Afghanistan has increasingly relied on bilateral trade. Sharply higher prices for natural gas, the exports of which are entirely to the U.S.S.R., and improved transit facilities to the north, as well as difficulties encountered on the traditional transit routes, are factors contributing to the increasing bilateral trade. In addition, increases in petroleum, food, and capital goods imports from the U.S.S.R. have contributed to the rise in the share of the bilateral area. Another important factor was the sharp decline in aid from multilateral sources and the rise in loans and grants from bilateral sources.

India and Pakistan continue to be important trading partners, supplying about 4 per cent of imports and purchasing 15 per cent of exports. Of the remaining multilateral trade countries, the United Kingdom, the Federal Republic of Germany, and Japan are the most important, with the latter providing about 10 per cent of total commercial imports.

f. Foreign aid and external public debt

During the 1970s Afghanistan received substantial external financing assistance from both multilateral and bilateral sources, usually on concessional terms. In March 1978 outstanding external public debt was US\$1.8 billion, of which US\$1.0 billion had been disbursed. By March 1982 outstanding debt had increased by 93 per cent to US\$3.5 billion, with US\$2.1 billion disbursed (Appendix Table 22); of the latter amount, 73 per cent was owed to the U.S.S.R. Until 1978/79 sizable aid was also provided by the United States and the Federal Republic of Germany; aid from Western sources declined sharply thereafter. Nevertheless, official aid increased through 1980/81 reflecting larger loans and grants from the U.S.S.R. In that year the inflow of US\$346 million was 58 per cent higher than the 1977/78 inflow (Table 13). However, inflows are estimated to have declined by 33 per cent over the following two years.

Although the mid-1970s debt rescheduling agreement with the U.S.S.R. limited the total 1978/79 debt service payments to levels only slightly higher than those of 1977/78, sizable increases occurred in 1979/80. Debt service payments fell the following year when the U.S.S.R. granted a one-year relief with respect to interest payments but more than doubled in 1981/82 to reach US\$118 million as the grace period negotiated in the debt rescheduling agreement ended.

^{1/} In the case of Hungary, only specified commodities are covered by the payments agreement.

Table 12. Afghanistan: Direction of Trade, 1977/78-1982/83

(In per cent of total value)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	First 9 Months 1982/83
Exports 1/						
Bilateral countries	41.2	38.2	54.9	61.9	61.9	59.4
U.S.S.R.	36.9	35.1	51.7	59.2	59.4	57.6
Czechoslovakia	1.7	1.5	1.2	2.1	1.7	1.0
Other	2.6	1.6	2.0	0.6	0.8	0.8
Multilateral countries	58.8	61.8	45.1	38.1	38.1	40.6
United States	4.7	3.5	0.8	0.6	1.4	1.5
United Kingdom	11.8	9.4	6.6	7.4	5.2	6.0
Germany, Federal Republic of	5.5	6.9	6.6	7.3	6.1	6.9
India	7.6	11.7	8.5	7.8	6.2	6.4
Pakistan	11.7	12.8	10.7	7.4	8.8	9.2
Other	17.5	17.5	11.9	7.6	10.4	10.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Imports 2/						
Bilateral countries	28.0	33.9	61.0	70.5	67.6	n.a.
U.S.S.R.	23.0	28.0	57.5	67.2	64.5	n.a.
Czechoslovakia	2.8	2.1	1.3	1.9	2.5	n.a.
Other	2.2	3.8	2.2	1.4	0.6	n.a.
Multilateral countries	72.0	66.1	39.0	29.5	32.4	n.a.
United States	3.0	4.7	2.8	1.5	0.8	n.a.
United Kingdom	3.9	3.5	1.5	1.1	1.5	n.a.
Germany, Federal Republic of	6.9	4.1	2.9	1.8	1.9	n.a.
Japan	18.5	16.3	10.9	10.5	8.8	n.a.
India	4.5	5.8	3.0	2.2	1.9	n.a.
Pakistan	1.9	2.6	1.8	1.6	1.3	n.a.
Other	33.3	29.1	16.1	10.8	16.2	n.a.
Total	100.0	100.0	100.0	100.0	100.0	

Sources: Central Statistical Office and Da Afghanistan Bank.

1/ Reported by Customs.

2/ Includes both commercial imports reported by Customs and project and commodity imports financed by loans and grants.

Table 13. Afghanistan: Official Aid and
Debt Servicing, 1977/78-1982/83

(In millions of U.S. dollars)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 <u>1/</u>
1. Official aid <u>2/</u>	218.4	235.2	317.1	345.6	262.2	231.3
2. Principal payments	37.3	42.8	57.5	45.8	97.8	132.3
3. Net capital inflow (1-2)	181.1	192.4	259.6	299.8	164.4	99.0
4. Interest paid on external debt	13.5	15.2	23.5	6.9	20.1	23.5
5. Total debt service (2+4)	50.8	58.0	81.0	52.7	117.9	155.8
6. Debt service ratio (per cent) <u>3/</u>	(13.0)	(14.4)	(14.4)	(6.5)	(14.9)	(20.8)

Source: Table 9.

1/ Projected in February 1983.

2/ Includes receipts of official loans and grants.

3/ Ratio of debt service payments to the sum of exports plus gross service receipts.

Debt service payments are estimated to have increased in 1982/83 by US\$38 million, which raises the debt service payments as a percentage of exports of goods and services to nearly 21 per cent; with the exception of 1980/81, the debt service ratio during the five years to 1981/82 was in the 13-15 per cent range.

g. International reserves

Up to and including 1978/79, Afghanistan's recurring balance of payments surpluses were reflected in increased holdings of convertible foreign exchange (Table 14). The situation changed over the next three years as convertible reserves declined substantially and net credit balances under bilateral payments agreements rose rapidly to reach US\$310 million in March 1982 (Appendix Table 23).

Table 14. Afghanistan: International Reserves and Related Items, 1977-82

(In millions of U.S. dollars)

	March 20						December 20	
	1977	1978	1979	1980	1981	1982	1981	1982
Foreign assets	212.3	367.1	510.2	772.4	969.5	945.8	913.6	836.7
Da Afghanistan Bank	197.5	335.3	469.5	718.5	911.6	880.6	831.3	772.5
Foreign exchange	(136.5)	(263.7)	(400.7)	(377.8)	(302.4)	(246.4)	(238.2)	(224.3)
Convertible	[128.5]	[258.8]	[393.8]	[374.6]	[301.7]	[246.0]	[237.8]	[223.9]
Nonconvertible	[8.0]	[4.9]	[6.9]	[3.2]	[0.7]	[0.4]	[0.4]	[0.4]
Reserve position in the Fund	(--)	(11.4)	(11.5)	(11.8)	(18.5)	(16.8)	(17.6)	(16.7)
SDRs	(5.7)	(7.0)	(14.2)	(22.7)	(20.5)	(18.1)	(19.0)	(17.1)
Gold 1/	(38.1)	(40.9)	(43.1)	(289.4)	(289.5)	(289.5)	(289.5)	(289.5)
Bilateral accounts 2/	(17.2)	(12.3)	(--)	(16.8)	(280.7)	(309.8)	(267.0)	(224.9)
Commercial banks	14.8	31.8	40.7	53.9	57.9	65.2	82.3	64.2
Foreign exchange	(14.8)	(31.8)	(40.7)	(53.9)	(57.9)	(65.2)	(82.3)	(64.2)
Convertible	[11.7]	[28.1]	[35.8]	[45.8]	[53.3]	[58.2]	[70.0]	[56.6]
Nonconvertible	[3.1]	[3.7]	[4.9]	[8.1]	[4.6]	[7.0]	[12.3]	[7.6]
Foreign liabilities	3.4	2.8	47.7	4.3	6.8	8.2	6.8	8.2
Da Afghanistan Bank	3.4	2.8	47.7	4.3	6.8	8.2	6.8	8.2
Bilateral accounts 2/	(--)	(--)	(44.5)	(--)	(--)	(--)	(--)	(--)
Other	(3.4)	(2.8)	(3.2)	(4.3)	(6.8)	(8.2)	(6.8)	(8.2)
Net foreign assets	208.9	364.3	462.5	768.1	962.7	937.6	906.8	828.5
Gross reserves of DAB minus gold	159.4	294.4	426.4	429.1	622.1	591.1	541.8	483.0
Gross convertible reserves of DAB minus gold	134.2	277.2	419.5	409.1	340.7	280.9	274.4	257.7

Source: Research Department, Da Afghanistan Bank.

1/ Valued at US\$42.22 per ounce through March 20, 1979 and at US\$300.00 per ounce thereafter.

2/ Net balances in bilateral payments agreements accounts.

During the first nine months of 1982/83, Afghanistan's gross official holdings of convertible reserves continued to decline although at a more moderate rate than in the previous year, reaching US\$258 million by end-1982. With the bilateral trade deficit rising and net aid declining, bilateral net credit balances fell to US\$225 million in December 1982. At that time, convertible reserves and bilateral balances together were equivalent to about seven months of total imports and nine months of commercial imports in 1982/83.

2. Exchange and trade system

a. Exchange system

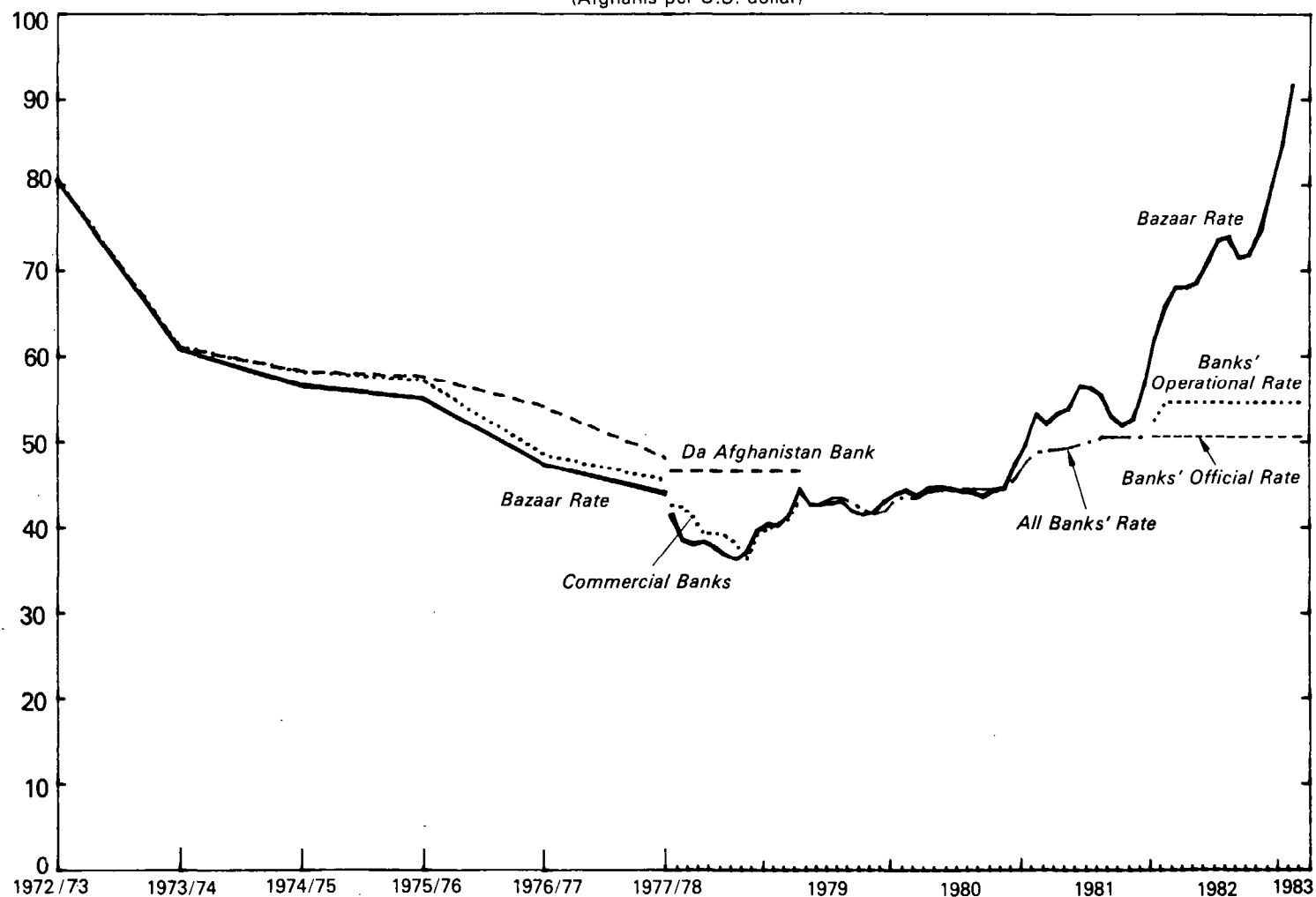
The exchange market is composed of Da Afghanistan Bank, the commercial banks, and dealers in a free bazaar market. Historically, a complex multiple exchange rate system has operated involving, at varying times, different exchange rates between Da Afghanistan Bank, the commercial banks, and the bazaar market; different exchange rates for convertible exchange and bilateral accounting units (in U.S. dollars and sterling); and different exchange rates for different transactions. A particular feature of the system over time was the application of an appreciated exchange rate for the receipts from traditional exports--karakul, cotton, and wool--as an indirect taxation of these exports, ^{1/} and for sales of exchange to Government. With the bazaar market as the uncontrolled market for convertible exchange operations which are not required to be conducted with the banks, the rate in that market best reflects the freely determined value of the Afghani: this rate, in varying degrees over time, has influenced the determination of exchange rates for transactions with the banking system. The free bazaar rate depreciated from a level of about Af 50 per U.S. dollar ^{2/} in 1963/64 to a low point of Af 80 in 1966/67 and thereafter fluctuated between that point and Af 70 through to 1970/71. In that year, under the impact of adverse weather conditions affecting agricultural production, the rate depreciated beyond the previous low point of Af 80 to reach Af 90 in 1971/72. Thereafter, there was a recovery from this depreciation and, with the migration of Afghan workers to the oil producing countries, the remittances by these workers provided a substantial inflow of exchange to the market causing the rate to appreciate to Af 36 in 1978/79 (Appendix Table 24 and Chart 1).

The structure of exchange rates operating at the end of 1978 is shown in Table 15. In May 1979 the banks' exchange rates were unified by Da Afghanistan Bank at Af 43.50 per U.S. dollar, the then current level of the rate in the bazaar market. This official rate applied to all bank transactions of the Government as well as public sector enterprises and the private sector.

^{1/} For a period in the late 1970s when the Afghani was very strong, export incentive was maintained by extending to certain commodities a depreciated exchange rate, i.e., an effective subsidy (Table 15).

^{2/} Rates cited throughout the subsection are midpoint between quoted buying and selling rates.

CHART 1
AFGHANISTAN
ANNUAL AND MONTHLY AVERAGE EXCHANGE RATES, 1972/73 - 1983¹
(Afghanis per U.S. dollar)



Source: Appendix Table 24.

¹Da Afghanistan Bank and commercial banks' rates were unified in May 1979; in January 1982 a dual bank exchange rate system was introduced with the establishment of official and operational rates.

Table 15. Afghanistan: The Structure of Exchange Rates as of December 31, 1978

Buying		Selling	
Convertible Currencies (In Afghanis per U.S. dollar)			
Bank rates		Bank rates	
		Af 45.30 <u>1/</u>	Sales of exchange to Central Government to cover debt service payments, contributions to international organizations, salaries of foreign experts, and foreign exchange needs of Afghan embassies and missions abroad (official rate)
Af 46.00	Purchases of export proceeds of selected commodities by Da Afghanistan Bank (operational rate)	Af 47.00	Sales of exchange by Da Afghanistan Bank to Central Government and public sector entities for transactions not eligible for official rate (operational rate)
Af 39.00	Bank transactions not subject to other rates (commercial bank rate)	Af 40.00	Bank transactions not subject to other rates (commercial bank rate)
Bazaar rate Af 39.61	Transactions outside the banks	Bazaar rate Af 39.80	Transactions outside the banks
Bilateral Accounting Units (In Afghanis per accounting dollar) <u>2/</u>			
Bank rates		Bank rates	
Af 44.70 <u>1/</u>	Purchases of exchange for maintenance in Afghanistan of embassies, missions, etc. 40 per cent of bilateral accounting salaries of foreign employees of Afghan Government and private sector (official rate)	Af 45.30 <u>1/</u>	Sales of exchange to Central Government to cover debt service payments, salaries of foreign experts, foreign exchange needs of Afghan embassies and missions abroad, and specified government imports (official rate)
Af 46.00	Purchases of export proceeds of selected commodities by Da Afghanistan Bank (operational rate)	Af 47.00	Transactions not subject to official rate (operational rate)
AF 39.00	Transactions not subject to other rates (commercial bank rate)		

Source: Da Afghanistan Bank.

^{1/} Da Afghanistan Bank applied charges of Af 0.30 per US\$1 as commission to the official rate of Af 45.00 per US\$1.

^{2/} Applicable to bilateral accounting transactions with the U.S.S.R., Czechoslovakia, and the People's Republic of China.

The rate was depreciated only moderately through October 1980 to Af 44.50, following closely the rate in the bazaar market. However, international reserves came under pressure in maintaining the relationship, and in that month the banks stopped financing private sector imports against convertible currencies leaving provision of exchange to this sector to the bazaar market. At the same time, an export proceeds retention scheme was introduced: while, in principal, all export proceeds in convertible exchange were subject to surrender, exporters of commodities other than karakul, cotton, and wool were permitted to retain the receipts for payment for imports of tea, matches, soap, textiles, edible oil, and lubrication oil. A market in such retained exchange developed at rates believed to be close to the bazaar exchange rate.

In order to encourage exporters to sell in convertible exchange markets and to restrain convertible exchange imports, in January 1981 a surcharge of 3 per cent was imposed on all sales and a subsidy of 3 per cent was given to all purchases of convertible exchange by banks. In 1981 the rate in the bazaar market started to depreciate more rapidly and in June, with the bazaar rate at Af 55 per U.S. dollar and the bank rate at Af 49, the surcharge/subsidy on bank transactions was increased to 5 per cent. In August 1981, with the bazaar rate at Af 53, the banks' rate was moved to Af 50.60 and was held at that level despite the depreciation of the bazaar rate to a level of Af 59 by the end of the year. In January 1982 the authorities felt that, while the rate of Af 50.60 was appropriate to the traditional exports, a preferential rate should be given to other exports and import demand should be constrained by application of a more depreciated rate for public sector imports not financed from the government budget. The 5 per cent surcharge/subsidy was eliminated and an "operational" rate of Af 55.625 was established, leading to the exchange system summarized in Table 16. The bank exchange rates have not been changed since then. In the bazaar exchange market, however, without official intervention, the pace of the depreciation of the Afghani quickened, reaching Af 84 by the end of 1982 and Af 94 by March 24, 1983.

b. Bilateral arrangements

Afghanistan maintains bilateral payments agreements with the People's Republic of China, Czechoslovakia, the U.S.S.R. and, for certain commodities, Hungary. As regards the agreements with Fund members, the agreement with the People's Republic of China, which was entered into after Afghanistan joined the Fund, has been in effect for many years; the agreement with Hungary came into effect after the last consultation discussions in November 1978.

All the agreements involve payments in bilateral payments accounting dollars, and exchange of the accounting dollars is effected by Da Afghanistan Bank at the official bank rates. Da Afghanistan Bank buys up to 50 per cent of bilateral export proceeds received by individual exporters and up to 70 per cent received by commercial institutions. Exporters use the remainder as payment for imports from the respective bilateral partner country.

Table 16. Afghanistan: The Structure of Exchange Rates
since January 26, 1982

(In Afghanis per U.S. dollar)

Buying		Selling	
Bank rates <u>1/</u>		Bank rates <u>1/</u>	
Af 50.00	All purchases of bilateral payments accounting dollars <u>2/</u> and purchases of convertible exchange proceeds from export of karakul, cotton, and wool and 40 per cent of the foreign currency salaries of foreign employees (official rate)	Af 51.20	All sales of bilateral accounting dollars <u>2/</u> and sales of convertible exchange to Central Government for payments with Treasury authority in cover, inter alia, of imports, debt service payments, contributions to international organizations, salaries of foreign experts, and foreign exchange needs of Afghan embassies and missions abroad (official rate)
Af 55.00	Purchases of convertible exchange proceeds from export of commodities other than karakul, cotton, and wool and all other purchases of convertible exchange (operational rate) <u>3/</u>	Af 56.25	Sales of convertible exchange to public sector entities for transactions not eligible for official rate (operational rate) <u>4/</u>
Bazaar rate		Bazaar rate	
Af 93.63 <u>5/</u>	Purchases from the private sector of convertible exchange other than from the proceeds of exports	Af 93.93 <u>5/</u>	Sales to the private sector of convertible exchange for imports and all other purposes

Source: Da Afghanistan Bank.

1/ Da Afghanistan Bank charges commissions on exchange transactions ranging from 0.10 per cent to 0.375 per cent.

2/ Applicable to bilateral accounting transactions with the People's Republic of China, Czechoslovakia, Hungary, and the U.S.S.R.

3/ Export proceeds eligible for the operational rate may be retained and used for settlement for specified imports.

4/ For applicability to private invisible transactions see Section III.3.g.

5/ As of March 24, 1983.

3. Exchange and trade controls

a. Administration of control

Foreign exchange transactions are controlled by the Government through Da Afghanistan Bank. The control is facilitated by the existence of relatively large companies specializing in the export of such commodities as karakul, cotton, wool, and carpets. However, these companies do not exercise a monopoly over the export of such commodities, with the exception that the export of cotton is reserved for four authorized companies.

b. Prescription of currency

Settlements with countries with which Afghanistan has bilateral payments agreements must be made in bilateral accounting dollars in accordance with the terms of those agreements. The proceeds from exports of wool and cotton to other countries and of karakul to all countries must be obtained in convertible currencies. There are no other prescription of currency requirements.

c. Imports and import payments

Imports are not subject to license, but import transactions must be registered before orders are placed abroad. Imports of a few items (e.g., some drugs, liquor, arms, and ammunition) are prohibited on grounds of public policy or for security reasons; in some instances, however, special permission to import these goods may be granted. The importation of certain other goods (e.g., a few textiles and selected nonessential consumer goods) is also prohibited. There are no quantitative restrictions on other imports. Most bilateral agreements, however, specify quantities (and sometimes prices) for commodities to be traded.

The present customs tariff structure was promulgated in June 1974 and actual tariff rates, ad valorem and specific, vary considerably. Ad valorem duties usually range between 20 per cent and 35 per cent.

Payments for imports through the banking system to payments agreement countries may usually be made only under letters of credit. Payments to other countries may be made under letters of credit, against bills for collection, or against an undertaking by the importer to import goods at least equivalent to the payment made through the banking system. Except for imports by public sector units under the government budget, all importers are required to make minimum import deposits of 40 per cent of the amount of letters of credit established with banks.

d. Payments for invisibles

There is an exchange allocation from the banks for tourist travel abroad equivalent to US\$2,000 a trip. In addition, tourists are permitted to purchase their tickets locally. On application, foreign exchange is also allocated for business travel as well as for medical treatment abroad, the amounts being determined by the appropriate authorities.

Exchange for private travel has to be acquired in the bazaar market. The fee for a passport valid for one year is Af 20,000 for tourist travel and Af 1,000-2,500 for other types of travel. Export by travelers of foreign currency notes up to US\$2,000 or its equivalent is permitted; Da Afghanistan Bank levies a charge of Af 0.50 per U.S. dollar for permits approving the export of convertible currency by authorized travelers.

e. Exports and export proceeds

Exports (other than gold) are not subject to license, but export transactions must be registered. Exports of a few commodities (e.g., opium and museum pieces) are prohibited. Otherwise, control is exercised only over exports to bilateral payments agreement countries. Proceeds from exports of karakul to all countries, including payments agreement countries, are received in convertible currencies. Receipts from exports are, in principle, subject to surrender requirements but proceeds from exports other than gas, karakul, cotton, and wool may be retained and used for payment for specified imports. An export tax of Af 50 a ton is levied on exports of raisins to the People's Republic of China and Czechoslovakia and, with specified exceptions, an exchange tax of 7 per cent is levied on proceeds of raisin exports to the U.S.S.R. which are sold to Da Afghanistan Bank.

f. Proceeds from invisibles

Forty per cent of the foreign currency salaries of foreign employees working in the Afghan public and private sectors must be converted into Afghanis at the official rate. Travelers entering Afghanistan may bring in any amount in Afghan banknotes. They may also bring in any amount in foreign currency but must declare it when entering the country if they intend to take out any residue when leaving the country.

g. Capital

Foreign investment in Afghanistan requires prior approval and is administered by the Investment Committee. The Foreign and Domestic Private Investment Law of 1353 (issued on July 4, 1974) provides for a number of benefits, which include (1) income tax exemption for four years (six years outside Kabul province), beginning from the date of the first sales of products resulting from the new investment; (2) exemption from import duties on essential imports (mainly of capital goods); (3) exemption from taxes on dividends for four years after the first distribution of dividends but not more than seven years after the approval of the investment; (4) exemption from personal income tax and corporate tax on interest on foreign loans which constitute part of an approved investment; (5) exemption from export duties, provided that the products are permitted to be exported; and (6) mandatory purchases by government agencies and departments of their requirements from enterprises established under the law where prices of such products are not more than 15 per cent higher than prices of foreign supplies.

The law provides that foreign investment in Afghanistan can only take place through joint ventures, with foreign participation not exceeding 49 per cent. It also establishes that an investment approved by the Investment Committee shall require no further license in order to operate in Afghanistan.

Payments of principal and interest on loans from abroad may be remitted at the operational bank rate to the extent of the legal obligation involved. Profits may be repatriated at the operational rate, and capital may be repatriated after five years at an annual rate not exceeding 20 per cent of the total registered capital.

h. Gold

Residents may freely purchase, hold, and sell domestically gold in any form. Imports of gold are restricted. Exports of gold and silver in any form other than jewelry require licenses issued by the Council of Ministers; such licenses are not normally granted except for exports by or on behalf of the monetary authorities and industrial users. Commercial exports of gold and silver jewelry and of other articles containing minor quantities of gold or silver do not require a license and may be made freely. Customs duties are payable on imports and exports of silver in any form unless the import or export is made by or on behalf of the monetary authorities.

i. Changes in exchange and trade system since 1978

1979

May 21. The bank exchange rate system was unified at rates set by Da Afghanistan Bank at Af 43 buying and Af 44 selling per US\$1.

July 28. The proceeds from exports of karakul were subsidized to the extent of the difference between the prevailing unified exchange rate and a rate of Af 45 per US\$1.

September 23. It was announced that a deduction of US\$50 a ton would be made from the proceeds of exports of raisins in order to build up a price stabilization fund.

December 1. The foreign exchange allocation for tourist travel by Afghan nationals was raised from US\$200 to US\$2,000 a person a trip.

1980

October 10. (i) Payments for all private sector imports were to be made with exchange from the bazaar market; and (ii) exporters of commodities other than karakul, cotton, and wool were permitted to retain their convertible exchange proceeds for payment for imports of tea, matches, soap, textiles, edible oil, and lubrication oil.

1981

January 12. A 3 per cent surcharge for bank sales of convertible exchange and a 3 per cent subsidy for bank purchases of convertible exchange were established.

March 24. With specified exceptions, an exchange tax of 7 per cent was levied on proceeds of raisin exports to the U.S.S.R. which were sold to Da Afghanistan Bank.

June 8. The surcharge/subsidy on convertible exchange sales/purchases by the banks was raised from 3 per cent to 5 per cent.

1982

January 1. The surcharge/subsidy on convertible exchange sales/purchases by the banks of 5 per cent was eliminated.

January 26. An operational exchange rate was introduced establishing a dual rate system for banks' specified convertible exchange transactions.

Table 17. Afghanistan: Monetary Survey, 1976/77-1982/83 ^{1/}

(In millions of Afghanis)

Year Ended March 20	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	First Nine Months	
							1981/82	1982/83 ^{2/}
Domestic liquidity	23,783.9	27,860.8	32,242.6	39,731.1	47,804.0	56,385.3	53,570.0	66,686.6
Money	19,478.9	22,899.8	27,195.3	34,164.1	39,595.6	47,172.6	44,609.2	55,105.8
Currency in circulation	(15,232.5)	(17,967.6)	(22,048.0)	(28,626.0)	(33,510.5)	(40,883.9)	(38,752.2)	(48,807.2)
Demand deposits	(4,246.4)	(4,932.2)	(5,147.3)	(5,538.1)	(6,085.1)	(6,288.7)	(5,857.0)	(6,298.6)
Quasi-money	4,305.0	4,961.0	5,047.3	5,567.0	8,208.4	9,212.7	8,960.8	11,580.8
Assets = Liabilities	23,783.9	27,860.8	32,242.6	39,731.1	47,804.0	56,385.3	53,570.0	66,686.6
Net foreign assets ^{3/}	10,489.4	16,603.1	20,159.1	32,934.1 ^{4/}	45,131.5	46,894.8	43,444.1	42,587.7
Net domestic assets	13,294.5	11,257.7	12,083.5	6,797.0 ^{4/}	2,672.5	9,490.5	10,125.9	24,098.9
Claims on public sector (net)	13,769.7	13,037.2	15,768.5	12,881.7 ^{4/}	11,754.3	17,565.4	17,610.4	20,588.1
National Government (net)	(14,192.2)	(14,702.6)	(17,150.0)	(15,099.9) ^{4/}	(13,065.5)	(14,801.8)	(16,926.4)	(16,882.4)
Official entities (net)	(-422.5)	(-1,665.4)	(-1,381.5)	(-2,218.2)	(-1,311.2)	(2,763.6)	(684.0)	(3,705.7)
Claims on enterprises ^{5/}	6,712.1	5,319.2	7,929.5	7,545.2	13,021.7	9,867.3	11,351.7	10,760.3
Other items (net)	-7,187.3	-7,098.7	-11,614.5	-13,629.9	-22,103.5	-17,942.2	-18,836.2	-7,249.5

Source: Data supplied by Da Afghanistan Bank.

^{1/} Stocks at end of period.^{2/} Provisional.^{3/} Differs from the data on foreign reserves (see Table 14), mainly because of the use of a fixed exchange rate for the national currency valuation of gold holdings in the monetary statistics.^{4/} Unadjusted for gold revaluation profit of Af 10,579 million.^{5/} Comprises public, mixed, and private enterprises.

Table 18. Afghanistan: Interest Rates on Bank Deposits
and Loans, 1977/78-1982

(In per cent)

Year ended March 20	1978/79	1979/80	1980/81	1981/82	Dec. 1982
Da Afghanistan Bank					
Savings deposits	9	9	9	9	9
Loans to banks	2-9	5-12	8-9	9	2-12
Other loans	3-12	5-12	3-12	6-12	3-12
Commercial banks					
Savings deposits	9	9	9	9	9
Loans to customers	3-12	5-12	3-12	6-12	3-12
Da Afghanistan Bank and commercial banks					
Time deposits -					
3 months	4	4	4	4	4
6 months	9	9	9	9	9
12 months	10	10	10	10	10

Source: Da Afghanistan Bank.

Table 19. Afghanistan: Balance of Payments Estimates, 1977/78-1982/83 1/

(In millions of U.S. dollars)

Year Ended March 20	1977/78			1978/79			1979/80			1980/81			1981/82			1982/83		
	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total
Trade 2/	-63.6	-132.7	-196.3	-125.5	-167.4	-292.9	-135.0	-48.1	-183.1	-96.7	-16.5	-113.2	-140.2	-24.9	-165.1	-187.6	-21.2	-208.8
Exports, f.o.b.	122.8	203.9	326.7	130.7	206.0	336.7	259.0	222.2	481.2	447.9	265.6	713.5	454.5	258.3	712.8	431.9	240.6	672.5
Imports, c.i.f.	-186.4	-336.6	-523.0	-256.2	-373.4	-629.6	-394.0	-270.3	-664.3	-544.6	-282.1	-826.7	-594.7	-283.2	-877.9	-619.5	-261.8	-881.3
Commercial imports 3/	(-91.9)	(-269.2)	(-361.1)	(-154.4)	(-298.8)	(-453.2)	(-210.3)	(-214.0)	(-424.3)	(-274.9)	(-260.3)	(-535.2)	(-384.7)	(-255.0)	(-639.7)	(-434.0)	(-219.0)	(-653.0)
Project aid imports 4/	(-85.0)	(-56.6)	(-141.6)	(-94.1)	(-91.4)	(-145.5)	(-142.6)	(-44.8)	(-187.4)	(-150.9)	(-20.7)	(-171.6)	(-128.3)	(-27.1)	(-155.4)	(-98.9)	(-40.8)	(-139.7)
Commodity aid imports	(-9.5)	(-10.8)	(-20.3)	(-7.7)	(-23.2)	(-30.9)	(-41.1)	(-11.5)	(-52.6)	(-118.8)	(-1.1)	(-119.9)	(-81.7)	(-1.1)	(-82.8)	(-86.6)	(-2.0)	(-88.6)
Services	-6.5	53.6	47.1	-6.3	50.8	44.5	-2.6	54.6	52.0	34.9	48.6	83.5	19.3	36.5	55.8	15.7	31.6	47.3
Credits	3.6	61.0	64.6	2.5	64.7	67.2	15.6	66.4	82.0	34.9	58.7	93.6	31.1	48.3	79.4	31.5	44.3	75.8
Embassies' expenditure in Afghanistan	(3.6)	(4.0)	(7.6)	(2.5)	(6.0)	(8.5)	(13.1)	(5.2)	(18.3)	(27.1)	(5.5)	(32.6)	(20.3)	(3.5)	(23.8)	(25.0)	(5.0)	(30.0)
Travel	(--)	(38.0)	(38.0)	(--)	(28.0)	(28.0)	(0.5)	(6.5)	(7.0)	(--)	(--)	(--)	(--)	(1.5)	(1.5)	(1.0)	(1.0)	(2.0)
Investment income	(--)	(7.0)	(7.0)	(--)	(20.9)	(20.9)	(--)	(46.7)	(46.7)	(1.9)	(50.0)	(51.9)	(4.7)	(38.9)	(43.6)	(2.9)	(32.0)	(34.9)
Other	(--)	(12.0)	(12.0)	(--)	(9.8)	(9.8)	(2.0)	(8.0)	(10.0)	(5.9)	(3.2)	(9.1)	(6.1)	(4.4)	(10.5)	(2.6)	(6.3)	(8.9)
Debits	-10.1	-7.4	-17.5	-8.8	-13.9	-22.7	-18.2	-11.8	-30.0	--	-10.1	-10.1	-11.8	-11.8	-23.6	-15.8	-12.7	-28.5
Embassies' expenditures abroad	(-1.0)	(-3.0)	(-4.0)	(-0.2)	(-4.3)	(-4.5)	(--)	(-4.8)	(-4.8)	(--)	(-3.2)	(-3.2)	(--)	(-3.5)	(-3.5)	(--)	(-5.0)	(-5.0)
Travel	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Investment income 5/	(-9.1)	(-4.4)	(-13.5)	(-8.6)	(-6.6)	(-15.2)	(-16.5)	(-7.0)	(-23.5)	(--)	(-6.9)	(-6.9)	(-11.8)	(-8.3)	(-20.1)	(-15.8)	(-7.7)	(-23.5)
Other	(--)	(--)	(--)	(--)	(-3.0)	(-3.0)	(-1.7)	(--)	(-1.7)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Unrequited transfers	-0.7	21.1	20.4	0.4	22.9	23.3	-4.1	-0.2	-4.3	12.3	-15.0	-2.7	-18.9	18.7	-0.2	15.0	-4.0	11.0
Credit	0.6	40.0	40.6	0.5	40.0	40.5	--	39.8	39.8	12.3	--	12.3	4.2	37.6	41.8	15.0	10.0	25.0
Debit	-1.3	-18.9	-20.2	-0.1	-17.1	-17.2	-4.1	-40.0	-44.1	--	-15.0	-15.0	-23.1	-18.9	-42.0	--	-14.0	-14.0
Current account balance	-70.8	-58.0	-128.8	-131.4	-93.7	-225.1	-141.7	6.3	-135.4	-49.5	17.1	-32.4	-139.8	30.3	-109.5	-156.9	6.4	-150.5
Nonmonetary capital	66.7	114.4	181.1	74.3	118.1	192.4	195.0	64.6	259.6	286.1	13.7	299.8	145.8	18.6	164.4	75.9	23.1	99.0
Credit	94.5	123.9	218.4	109.2	126.0	235.2	241.6	75.5	317.1	318.2	27.4	345.6	226.7	35.5	262.2	189.9	41.4	231.3
Loans and grants	(94.5)	(123.9)	(218.4)	(109.2)	(126.0)	(235.2)	(241.6)	(75.5)	(317.1)	(318.2)	(27.4)	(345.6)	(226.7)	(35.5)	(262.2)	(189.9)	(41.4)	(231.3)
Public loans	[91.0]	[86.6]	[177.6]	[97.7]	[47.1]	[144.8]	[145.5]	[31.4]	[176.9]	[140.7]	[15.8]	[156.5]	[137.8]	[28.3]	[166.1]	[79.6]	[27.3]	[106.9]
Commercial loans	[--]	[--]	[--]	[7.4]	[--]	[7.4]	[57.9]	[--]	[57.9]	[48.5]	[--]	[48.5]	[16.7]	[--]	[16.7]	[7.0]	[--]	[7.0]
Grants	[13.5]	[137.3]	[140.8]	[4.1]	[78.9]	[183.0]	[38.2]	[44.1]	[82.3]	[129.0]	[11.6]	[140.6]	[72.2]	[17.2]	[79.4]	[103.3]	[14.1]	[117.4]
Debit	-27.8	-9.5	-37.3	-34.9	-7.9	-42.8	-46.6	-10.9	-57.5	-32.1	-13.7	-45.8	-80.9	-16.9	-97.8	-114.0	-18.3	-132.3
Repayment of external debt 6/	(-27.8)	(-9.5)	(-37.3)	(-34.9)	(-7.9)	(-42.8)	(-46.6)	(-10.9)	(-57.5)	(-32.1)	(-13.7)	(-45.8)	(-80.9)	(-16.9)	(-97.8)	(-114.0)	(-18.3)	(-132.3)
Errors and omissions	-0.8	103.9	103.1	0.3	130.6	130.9	8.0	-72.9	-64.9	27.3	-100.2	-72.9	23.1	-103.1	-80.0	14.4	-61.9	-47.5
Overall surplus or deficit	-4.9	160.3	155.4	-56.8	155.0	98.2	61.3	-2.0	59.3	263.9	-69.4	194.5	29.1	-54.2	-25.1	-66.6	-32.4	-99.0
Monetary movements 7/	4.9	-160.3	-155.4	56.8	-155.0	-98.2	-61.3	2.0	-59.3	-263.9	69.4	-194.5	-29.1	54.2	25.1	66.6	32.4	99.0
(Increase in assets-)	(4.9)	(-143.3)	(-138.4)	(56.8)	(-146.1)	(-89.3)	(-61.3)	(15.2)	(-46.1)	(-263.9)	(73.4)	(-190.5)	(-29.1)	(61.5)	(32.4)	(66.6)	(37.4)	(104.0)
Da Afghanistan Bank	(--)	(-17.0)	(-17.0)	(--)	(-8.9)	(-8.9)	(--)	(-13.2)	(-13.2)	(--)	(-4.0)	(-4.0)	(--)	(-7.3)	(-7.3)	(--)	(-5.0)	(-5.0)
Commercial banks	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)

Source: Da Afghanistan Bank.

1/ The 1982/83 data projected in February 1983.

2/ Exports and commercial imports reflect customs data adjusted by Da Afghanistan on the basis of exchange control records.

3/ Includes imports financed by commercial loans.

4/ Project aid imports are calculated as a ratio of project aid using a percentage which varies from year to year.

5/ Includes interest on external debt.

6/ Principal foreign debt repayments.

7/ Includes all transactions other than those channeled through the four bilateral payments accounts.

Table 20. Afghanistan: Commodity Composition
of Exports, 1977/78-1982/83 ^{1/}

(Values in millions of U.S. dollars)

	1977/78	1978/79	1979/80	1980/81	1981/82	First 9 Months	
						1981/82	1982/83 ^{2/}
Natural gas							
Value	39.3	53.0	102.9	233.1	272.6	197.0	195.9
Quantity (million cubic meters)	2,399	2,156	2,182	2,524	2,354	1,771	1,560
Unit price (US\$ per thousand cubic meters) ^{3/}	16.4	24.6	47.2	92.4	115.8	111.0	125.6
Dried fruits							
Value	84.2	100.3	175.4	169.5	174.9	123.5	102.7
Quantity (thousand tons)	79.7	58.2	93.6	89.1	101.2	68.4	75.0
Unit price (US\$ per ton)	1,057.0	1,724.3	1,873.4	1,902.6	1,728.4	1,804.6	1,370.0
Fresh fruits							
Value	21.4	26.2	31.2	39.8	50.5	47.9	51.7
Quantity (thousand tons)	90.0	88.9	79.6	87.3	95.8	91.2	68.3
Unit price (US\$ per ton)	238.2	294.8	391.4	455.3	527.5	525.2	757.8
Carpets and rugs							
Value	37.8	36.6	62.9	103.6	72.7	58.4	42.5
Quantity (million square meters)	0.9	0.5	0.8	1.1	0.9	0.7	0.8
Unit price (US\$ per square meter)	42.5	69.0	74.9	90.9	77.3	77.9	54.5
Cotton							
Value	53.2	35.8	36.8	39.7	22.6	5.6	11.0
Quantity (thousand tons)	34.1	27.3	21.0	25.0	12.9	2.9	7.4
Unit price (US\$ per ton)	1,556.4	1,310.5	1,750.1	1,585.4	1,752.3	1,958.0	1,483.9
Wool							
Value	5.2	6.1	11.8	12.3	23.4	17.1	15.5
Quantity (thousand tons)	3.5	3.9	4.8	5.6	9.0	6.7	6.7
Unit price (US\$ per ton)	1,584.7	1,578.8	2,461.5	2,206.1	2,592.7	2,565.9	2,319.9
Karakul skins							
Value	18.7	18.6	24.9	33.3	18.9	17.4	18.4
Quantity (million skins)	1.0	1.0	1.3	1.6	1.4	1.3	0.9
Unit price (US\$ per skin)	19.3	18.6	19.9	20.9	13.2	13.7	20.9
Other exports (value)	54.6	45.2	47.8	73.9	58.7	42.5	78.2
Total exports (value)	<u>314.4</u>	<u>321.8</u>	<u>493.7</u>	<u>705.2</u>	<u>694.3</u>	<u>509.4</u>	<u>515.9</u>

Sources: Central Statistical Office and Da Afghanistan Bank.

^{1/} Customs basis.

^{2/} Provisional. Balance of payments data for the year as a whole show a 6 per cent decline in exports.

^{3/} Commodity unit prices have been calculated from unrounded value and quantity data.

Table 21. Afghanistan: Commodity Composition of Imports, 1977/78-1982/83 ^{1/}

(In millions of U.S. dollars)

Year Ended March 20	1977/78	1978/79	1979/80	1980/81	1981/82	First 9 Months ^{2/}	
						1981/82	1982/83
Food	44.7	65.4	58.1	70.0	93.0	66.9	80.3
Wheat and flour	(--)	(7.0)	(14.5)	(0.8)	(18.1)	(12.3)	(15.4)
Sugar	(16.6)	(11.3)	(17.8)	(40.8)	(50.3)	(35.6)	(53.1)
Tea	(28.1)	(47.1)	(25.8)	(28.4)	(24.6)	(19.0)	(11.8)
Beverages and tobacco	3.6	4.4	5.1	5.1	7.2	4.7	7.1
Crude materials, inedible, except fuels	4.6	4.0	2.3	2.5	1.9	1.4	4.6
Mineral fuels, lubricants, and related materials	39.8	48.9	65.2	124.0	112.1	95.1	96.2
Animal and vegetable oils and fats	10.0	15.5	24.9	17.3	26.3	12.2	12.6
Chemicals	30.2	37.5	35.7	30.3	31.4	21.6	23.6
Fertilizers	(6.1)	(6.3)	(14.9)	(8.3)	(3.3)	(2.5)	(4.5)
Other	(24.1)	(31.2)	(20.8)	(22.0)	(28.1)	(19.1)	(19.1)
Manufactured goods	92.6	95.3	61.5	93.9	102.2	75.4	88.8
Textile, yarn, fabrics	(55.0)	(72.4)	(50.5)	(60.3)	(64.9)	(47.4)	(74.8)
Other	(37.6)	(22.9)	(11.0)	(33.6)	(37.3)	(28.0)	(14.0)
Machinery and transport equipment	36.4	72.6	90.8	98.8	145.9	4.4	14.0
Machinery	(17.5)	(47.1)	(49.0)	(7.7)	(4.3)	(1.0)	(10.0)
Motor vehicles	(13.0)	(22.6)	(36.4)	(84.6)	(141.6)	(3.4)	(3.7)
Other	(5.9)	(2.9)	(5.4)	(6.5)	(--)	(--)	(--)
Miscellaneous manufactured articles	4.2	6.2	4.9	3.2	10.0	7.8	3.7
Other imports	61.6	58.0	77.0	106.7	92.4	65.8	67.1
Total commercial imports	<u>327.7</u>	<u>407.8</u>	<u>425.5</u>	<u>551.8</u>	<u>622.4</u>	<u>355.3</u>	<u>398.0</u>

Sources: Central Statistical Office and Da Afghanistan Bank.

^{1/} Customs data.

^{2/} Preliminary.

Table 22. Afghanistan: Service Payments on External Public
and Publicly Guaranteed Debt, 1977/78-1981/82

(In millions of U.S. dollars)

	Debt Outstanding as of March 20, 1982		Debt Servicing				
	Disbursed	Undisbursed	1977/78	1978/79	1979/80	1980/81	1981/82
U.S.S.R.	1,536.3	1,022.1				29.5	86.2
Principal						29.5	76.3
Interest						--	9.9
Czechoslovakia	76.7	73.3				2.6	6.5
Principal						2.6	4.6
Interest						--	1.9
China, People's Republic of	8.8	1.2				--	--
Principal						--	--
Interest						--	--
United States	113.1	4.1				2.6	4.6
Principal						1.1	2.2
Interest						1.5	2.4
Germany, Federal Republic of	100.0	29.1				6.9	5.3
Principal						5.4	4.3
Interest						1.5	1.0
Saudi Arabia	10.2	4.8				--	--
Principal						--	--
Interest						--	--
Other	245.5	302.2				11.1	15.3
Principal						7.2	10.4
Interest						3.9	4.9
Total	2,090.6	1,436.8	50.8	58.0	81.0	52.7	117.9
Principal			37.3	42.8	57.5	45.8	97.8
Interest			13.5	15.2	23.5	6.9	20.1

Source: Da Afghanistan Bank.

Table 23. Afghanistan: Net Balances in Bilateral Accounts, 1978-82

(In millions of U.S. dollars)

	March 20					Dec. 20	
	1978	1979	1980	1981	1982	1981	1982
U.S.S.R.							
Credit	4.2	--	22.7	285.0	312.2	269.1	224.7
Debit	--	<u>46.2</u>	--	--	--	--	--
Net	4.2	-46.2	22.7	285.0	312.2	269.1	224.7
Czechoslovakia							
Credit	43.8	40.1	40.1	40.1	40.1	40.2	40.1
Debit	<u>39.9</u>	<u>41.6</u>	<u>49.2</u>	<u>42.5</u>	<u>40.4</u>	<u>40.0</u>	<u>40.5</u>
Net	3.9	-1.5	-9.1	-2.4	-0.3	0.2	-0.4
China, People's Republic of							
Credit	4.8	4.9	3.2	--	--	--	0.4
Debit	<u>0.6</u>	<u>1.7</u>	--	<u>1.9</u>	<u>2.1</u>	<u>2.3</u>	--
Net	4.2	3.2	3.2	-1.9	-2.1	-2.3	0.4
Hungary							
Credit	--	--	--	--	--	--	0.2
Debit	--	--	--	--	--	--	--
Net	--	--	--	--	--	--	0.2
Total							
Credit	52.8	45.0	66.0	325.1	352.3	309.3	265.4
Debit	<u>40.5</u>	<u>89.5</u>	<u>49.2</u>	<u>44.4</u>	<u>42.5</u>	<u>42.3</u>	<u>40.5</u>
Net	12.3	-44.5	16.8	280.7	309.8	267.0	224.9

Source: Da Afghanistan Bank.

Table 24. Afghanistan: Annual and Monthly Average Convertible Exchange Rates, 1975/76-1982/83 ^{1/}

(In Afghanis per U.S. dollar)

	<u>Bazaar</u>			<u>Da Afghanistan Bank</u>			<u>Commercial Banks</u>		
	Middle			Middle			Middle		
Annual averages									
1975/76		55.04			57.66			57.20	
1976/77		47.38			54.10			48.50	
1977/78		43.99			48.14			45.49	
1978/79		38.84			46.50			43.13	
1979/80		42.93			43.48			42.94	
1980/81 <u>2/</u>		46.13			45.38			45.38	
1981/82		56.62			50.20			50.94	
1982/83		76.75			50.60			55.62	
	<u>Bazaar</u>			<u>Da Afghanistan Bank</u>			<u>Commercial Banks</u>		
	Buying	Middle	Selling	Buying	Middle	Selling	Buying	Middle	Selling
1981/82 monthly averages <u>2/3/</u>									
March/April	52.53	52.60	52.67	48.46	49.02	49.58			
April/May	53.83	53.90	53.96	48.75	49.33	49.90			
May/June	55.27	55.34	55.40	48.78	49.36	49.93			
June/July	57.29	57.37	57.44	49.50	50.08	50.65			
July/August	55.30	55.39	55.48	49.77	50.36	50.95			
August/September	53.51	53.60	53.68	50.00	50.60	51.20			
September/October	51.94	52.01	52.08	50.00	50.60	51.20			
October/November	51.93	52.01	52.08	50.00	50.60	51.20			
November/December	55.42	55.51	55.59	50.00	50.60	51.20			
December/January	58.76	58.88	58.99	50.00	50.60	51.20			
				<u>Da Afghanistan Bank</u>			<u>Commercial Banks</u>		
	Buying	Middle	Selling	Buying	Middle	Selling	Buying	Middle	Selling
January/February <u>4/</u>	64.78	64.90	65.01	50.00	50.60	51.20	54.00	54.62	55.24
February/March	67.82	67.94	68.05	50.00	50.60	51.20	55.00	55.62	56.25
1982/83 monthly averages <u>2/</u>									
March/April	68.18	68.27	68.36	50.00	50.60	51.20	55.00	55.62	56.25
April/May	68.03	68.14	68.24	50.00	50.60	51.20	55.00	55.62	56.25
May/June	72.21	72.33	72.45	50.00	50.60	51.20	55.00	55.62	56.25
June/July	74.12	74.23	74.34	50.00	50.60	51.20	55.00	55.62	56.25
July/August	73.80	73.90	73.99	50.00	50.60	51.20	55.00	55.62	56.25
August/September	70.11	70.23	70.35	50.00	50.60	51.20	55.00	55.62	56.25
September/October	72.44	72.58	72.72	50.00	50.60	51.20	55.00	55.62	56.25
October/November	75.66	75.78	75.90	50.00	50.60	51.20	55.00	55.62	56.25
November/December	81.63	81.77	81.91	50.00	50.60	51.20	55.00	55.62	56.25
December/January	84.17	84.30	84.42	50.00	50.60	51.20	55.00	55.62	56.25
January/February	89.88	88.01	88.14	50.00	50.60	51.20	55.00	55.62	56.25
February/March	91.21	91.41	91.60	50.00	50.60	51.20	55.00	55.62	56.25

Source: Da Afghanistan Bank.

^{1/} Year ended March 20.

^{2/} Common rate for Da Afghanistan Bank and commercial banks through 1980/81 to December 1981/December 1982 reflects unification of banks' exchange rates in May 1979.

^{3/} Month ended on the 20th or 21st day.

^{4/} A dual "operational" rate introduced for bank exchange transactions on January 26, 1982 is applicable to some operations of Da Afghanistan Bank and all operations of the commercial banks: data for this and subsequent months show the official rate for Da Afghanistan Bank and operational rate for commercial banks.

BIBLIOGRAPHY

Published documents

Central Statistical Office:

Statistical Year Book, 1980/81.

International Monetary Fund:

International Financial Statistics, various issues.

State Planning Committee:

Socio-Economic Development Plan of the Democratic Republic of Afghanistan, 1981/82 and 1982/83.

Unpublished documents

Agricultural Development Bank of Afghanistan:

Progress Report, various issues.

International Monetary Fund:

Afghanistan - Staff Report for the 1978 Article IV Consultation (SM/79/8, January 3, 1979, and Cor. 1).

Afghanistan - Recent Economic Development (SM/79/21, January 16, 1979).

