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The Chairman's Summing Up at the Conclusion of
the 1984 Article IV Consultation with Afghanistan
Executive Board Meeting 84/143 - September 14, 1984

In their discussion of the staff report for the 1984 Article IV consultation with Afghanistan, Directors generally endorsed the views expressed in the staff appraisal. It was noted that in the past several years the performance of the Afghan economy had been severely affected by adverse security conditions and external developments. As a result, production had been depressed, the fiscal position had weakened, and pressures on domestic prices and the balance of payments had intensified. It was also noted that the Afghan authorities had taken a number of steps to encourage production and alleviate imbalances, including welcome substantial increases in petroleum prices. While agricultural output had been reasonably encouraging, economic prospects in general were difficult, given the reduced level of foreign reserves and the constraints which the present security situation placed on economic policy formulation and implementation and also on the efficacy of important policy instruments.

The authorities' intention to maintain agricultural producer prices at remunerative levels was welcomed. In order to reduce pressures on prices and the balance of payments, the main effort needed to be made in the fiscal field, and should include measures to increase revenues through, for example, increases in import duty rates and tighter spending discipline.

With respect to public enterprises, the importance of flexible pricing policies and proper costing procedures was stressed. Support in the public finance area was needed from more active credit and monetary policy geared to achieving a reduction of pressures on prices and the balance of payments. In this regard, the remarkable degree of efficiency of the free bazaar money and exchange markets was noted.

Balance of payments pressures were likely to remain strong in the near future, and the debt burden would have to be managed cautiously to prevent an increase in debt service. Directors emphasized the importance of simplifying the exchange rate system and noted the widening discrepancy between the official and the bazaar exchange rates.

Directors welcomed the steps taken to improve monetary statistics but felt that further efforts needed to be made to strengthen the statistical data base in other areas, in particular, public finance and balance of payments.

It is expected that the next Article IV consultation with Afghanistan will be held on the standard 12-month cycle.

