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SM/83/115
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

June 15, 1983

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

The following corrections have been made in SM/83/115 (6/7/83):

Page 19, 1st full para., lines 10-12: for "official entities including...
respectively."
read "official entities."

2nd full para., line 8: for "entities declined."
read "entities also increased."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

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	2,552.0	3,344.4	3,518.7	3,589.5	3,860.7
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.