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SM/83/109
Correction 2

CONTAINS CONFIDENTIAL
INFORMATION

August 3, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Afghanistan - Staff Report for the 1983 Article IV
Consultation

The following corrections have been made in SM/83/109 (5/31/83):

Page 3, column 1980/81, line 8: for "25" read "24"

column 1982/83, line 8: for "-0.3 2/" read "-- 2/"

Page 14, figures in millions of U.S.
dollars, columns 1980/81 and 1981/82: revised

Page 15, figures in millions of
Afghanis, column 1979/80, line 4: for "(7,692)" read "(7,692) 2/"

figures in per cent, column 1979/80, line 3: for "43.8" read "-43.8"

column 1980/81, line 4: for "25.3" read "24.4"

column 1982/83, line 4: for "-0.3" read "0.4"

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

- 3 -

Table 1. Afghanistan: Selected Economic Indicators, 1978/79-1982/83

Year Ended March 30	1978/79	1979/80	1980/81	1981/82	1982/83
(Percentage changes)					
Domestic production of:					
Food grains	6	-4	4	3	-- 1/
Raw cotton	-4	-20	-38	-8	-8 1/
Natural gas	-5	-5	20	-4	-5 2/
Cotton textiles	--	-16	-34	-37	-11 2/
Consumer prices	5	10	13	22	20 3/
Money and quasi-money	16	23	20	18	18 4/
Exports	3	43	48	--	-6 2/
Imports	20	6	24	6	-- 2/
(In millions of Afghanis)					
Changes in:					
Money and quasi-money	4,382	7,489	8,073	8,581	10,301 4/
Net foreign assets	3,556	2,196 5/	12,197	1,763	-4,307 4/
Net domestic assets	826	5,293 5/	-4,124	6,818	14,608 4/
Of which: net unclassified items	(-4,516)	(-2,015) 5/	(-8,474)	(4,161)	(10,693) 4/
(In millions of U.S. dollars)					
Current external payments balance	-225	-135	-38	-116	-151 2/
Overall external payments balance	98	59	195	-25	-99 2/
Of which: bilateral	(-57)	(61)	(264)	(29)	(-67) 2/
Gross official reserves (end of period)					
Convertible	420	409	341	281	258 6/
Bilateral	--	17	281	310	225 6/

Sources: Da Afghanistan Bank, Central Statistics Office, Ministry of Agriculture and Land Reform, and Ministry of Mines and Industries.

1/ Excludes relatively small amounts harvested in the winter months, January-March.

2/ Projection.

3/ Staff estimate.

4/ First nine months.

5/ Adjusted for gold revaluation profit of Af 10,579 million.

6/ As of December 20, 1982.

Historically, Afghanistan has maintained a complex multiple exchange rate system, with different rates quoted by Da Afghanistan Bank, the commercial banks, and the dealers in the bazaar market. The latter rates, which applied basically to convertible exchange transactions for nontraditional exports and private imports, appreciated from about Af 90 per U.S. dollar in the early 1970s to about Af 36 per U.S. dollar in the fall of 1978. This appreciation reflected, in large part, the increasing inflow of workers' remittances and occurred despite central bank intervention aimed at safeguarding the country's export competitiveness. On May 21, 1979 a substantial move was made toward a unitary exchange rate system, when the banks' exchange rates were unified at Af 43.00 (buying) and Af 44.00 (selling) per U.S. dollar. These official rates initially applied to all transactions of the Government as well as those of the public sector enterprises and the private sector; however, in July 1979 a special rate was introduced for the exports of karakul. The bazaar exchange market has continued to operate freely, with rates, until late 1981, fairly close to the official rate. At the present time, in addition to the official (buying) rate of Af 50, there is an operational rate of Af 55, while the bazaar rate is about Af 94 per U.S. dollar (see Section III.4). Afghanistan has four bilateral payments agreements, two of which are with Fund members, China and Hungary. The external trade and exchange system is generally free from quantitative restrictions; the travel allowance, which had been reduced to US\$200 in May 1978, was raised to US\$2,000 per trip in December 1979.

The multiple exchange rates and the bilateral payments agreements with Fund members require approval under Article VIII.

III. Recent Developments, Prospects, and Policies

1. Production and planning

The seven-year plan launched in 1976/77 has since become inoperative and was replaced by annual Socio-Economic Development Plans. The plan for 1981/82 projected a reversal of the downward trend in economic activity experienced in the preceding two years. In the event, the factors referred to above led to substantial shortfalls from plan targets, especially those relating to cash crops, industrial production, and the output of natural gas. Overall, indications are that there was little, if any, economic growth in 1981/82. This situation appears to have continued in 1982/83, when economic activity was also affected by an intensification of labor shortages because of the increased mobilization of manpower resources for security purposes, as well as by electric power disruptions. The authorities are implementing a number of measures to stimulate economic activity. In the industrial field, these include increased vocational training as well as measures to insure an adequate power supply. Agricultural output is expected to benefit from the gradual implementation of the land reform program (so far about one quarter of the cultivable land has been redistributed), which is the major policy measure in the economic field introduced in the past five

Last Article IV consultation: April 8-12 and November 9-15, 1978. The Staff Report (SM/79/8) was discussed by the Executive Board on January 31, 1979.

The Executive Board decision (Decision No. 6041-(79/17)), adopted January 31, 1979, was as follows:

1. This decision is taken by the Executive Directors in concluding the 1978 consultation with Afghanistan pursuant to Article XIV, Section 3.
2. Multiple currency practices are maintained by Afghanistan as described in Recent Economic Developments (SM/79/21, 1/16/79). The Fund welcomes the intention of the authorities to simplify the exchange rate system. In the meantime, the Fund grants approval for the maintenance of these practices until February 29, 1980.

Afghanistan - Basic Data

Population	16.36 million (estimate for mid-1981)				
Afghan year ended March 20	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>
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 Afghanis)				
					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.

Afghanistan - Basic Data (concluded)

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

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.