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GRAY/21/1497

June 3, 2021

Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Ondo Bile on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
June 7, 2021

We thank staff for the comprehensive reports, and Mr. Hosseini and Mr. Sassanpour for their insightful Buff statement.

We commend the Afghan authorities for their effective policy response—underpinned by donors' support—to contain the spread of the coronavirus and cushion the pandemic's impact on the economy. The authorities' swift action helped limit the GDP contraction in 2020. However, this could not preclude a deterioration in the fiscal position and a worsening of poverty amid rising political uncertainty. Notwithstanding these setbacks, the authorities managed to keep the program on track and broadly meet its objectives.

Against this backdrop and given the authorities' continued commitment to sound macroeconomic policies, we support the completion of the First Review under the Extended Credit Facility (ECF) and the Request for Modification of Performance Criteria. We note the increased and substantial risks to the program since its inception, notably stemming from the announced withdrawal of allies' troops and from the peace talk uncertainties. Additionally, the growth outlook for 2021 has been revised down to 2.7 percent from 4 percent at the approval of the program, owing notably to a lower-than-anticipated base effect and the expected impact of drought on harvest. Therefore, we welcome the authorities' development of a revenue contingency plan to meet health, social and food security needs in case the drought come to amplify. Fund's continued financial assistance to Afghanistan also remains critical and should help catalyze additional financing to support the authorities' recovery efforts.

We encourage the authorities to pursue steadfastly a gradual fiscal consolidation when the recovery takes solid roots, with a view to create the fiscal space needed for priority spending while gradually reducing reliance on external support. The authorities' higher deficit target in 2021 to provision for continued pandemic-related spending (healthcare, food security, social safety nets and education notably) as well as support the recovery is warranted. However, we see merit in implementing fiscal adjustment measures as early as 2022 to revert debt dynamics, provided that growth picks up. While those efforts should primarily focus on improving domestic revenue mobilization—notably through enforced tax and customs compliance, enhanced revenue collection and operationalization of the value-added tax (VAT)—attention should also be paid to rationalizing expenditures, including the phasing-out of pandemic spending. The attainment of a close-to-balance fiscal position over the medium term would help achieve self-reliance, contain public debt and rebuild buffers.

Advancing key structural reforms remains critical to achieving efficient debt management. Given the predicted high risk of debt distress, we concur with the need to advance structural reforms towards building debt management capacity. *In this regard, can staff elaborate on the status of the World Bank's Debt Management Performance Assessment and on technical assistance provided respectively by the Fund and the Asian Development Bank in this area*? We welcome the expected issuance of the Sukuk legal framework in 2022, which would allow the authorities to tap large domestic savings and promote debt market development over time.

Strengthening the governance of the central bank and enhancing the financial supervision framework are needed to preserve financial stability. Monetary and financial policies should remain accommodative to mitigate the impact of the crisis on banks while targeting vulnerabilities to avoid spillovers to the broader economy. We welcome the Da Afghanistan Bank's stepped-up implementation of its post-pandemic strategy for high-risk banks, which led to higher capital contributions and loan-loss reserves of about 80 percent of NPLs last year. Steps to increase access to finance, develop digital payments, and reduce informality are also commendable as they will buttress a steady recovery. Nonetheless, we encourage additional efforts to strengthen the AML/CFT framework in line with the first national risk assessment (NRA) to curb illicit flows. The identified financial integrity risks should be properly addressed. *Regarding plans to build financial intelligence capacity and recover corruption proceeds, we wonder whether Fund technical assistance has been offered to conduct a parallel AML/CFT investigation into corruption offences. Staff's elaboration will be appreciated.*

Finally, the authorities should put premium on reforms to boost the country's potential growth. To this end, efforts should include improving the governance of SOEs and public

entities, making the business environment more conducive for investments, and investing in human capital. We also hope that the peace talks will result in positive outcomes.

With these remarks, we wish the authorities and people of Afghanistan success in these challenging times.