



AFGHANISTAN SOCIO-ECONOMIC OUTLOOK

2023



Executive Summary



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1. Executive Summary

August 15, 2021 was a seminal point in Afghanistan's long history: a takeover of the state that unleashed overnight an economic and social catastrophe. In the upheaval, girls and women – half of the country's 40 million people – have been dispossessed of basic rights and freedoms, stifling their agency and participation in public life. The massive collapse of the economy immediately after the takeover, combined with the adverse effects of an unusually severe drought, have accelerated Afghanistan's decade-long slide into poverty, and turned it into one of the poorest two or three countries in the world. The events of mid-2021 and the ensuing shocks and economic downfall continued to severe the social conditions of Afghan households through end of 2022 which this report reviews while also offering an outlook for 2023.

The vast majority of ordinary Afghans, with few coping mechanisms at their disposal, have been plunged into crisis. Beyond the headlines, poor Afghans are being forced to cut back on consumption (including for food), borrow heavily, beg and resort to desperate measures to survive. Some sell their homes, land, or income-generating assets; others end up commodifying their own family members, turning children into laborers and young daughters into brides.

After the takeover, Afghanistan's real GDP immediately contracted by 20.7 percent. Since that time, there have been some signs of hope. Corruption has reportedly fallen, the exchange rate stabilized, and inflation muted. Though with large amounts of UN and international aid, the economy stabilized somewhat, GDP is estimated to have contracted by 3.6 percent in 2022. When coupled with a population increase of more than 2 percent, average real per capita income of ordinary Afghans by the end of 2022 was estimated to have declined by 28 percent from the 2020 level. The restrictions and bans on women's employment and presence in public life are making the situation worse, and depriving girls from secondary schools and universities is limiting the prospects for recovery for generations to come. The need for humanitarian assistance and livelihood support remains urgent.

This report traces the social and economic developments in Afghanistan from August 15, 2021, through December 2022. It analyses the repercussions of the policy and financing realities of that period on the outlook for the socio-economic progress of Afghanistan in 2023; and proposes policy directions for economic stabilization and recovery, as well as for addressing the country's immediate humanitarian crisis. It provides evidence for the urgent and continued need for critical humanitarian assistance and livelihood support. And it demonstrates that without the full scope and continuity for girls' education and women's ability to pursue work and learning across all disciplines and sectors, the country's progress will remain severely muted.

The Macroeconomy since August 2021

The August 2021 transition in authority fundamentally altered the politics and economics of Afghanistan. The international community has not recognized the Taliban as the government of Afghanistan, viewing them instead as the de facto authorities (DFA). There has also been a restructuring of the economy toward agriculture at the expense of manufacturing and services, the latter in large part had catered to the foreign presence since 2001. The country has entered a period of profound uncertainty about the social and economic role of women.

Today Afghanistan faces a fiscal crisis. The cutoff in foreign assistance that previously accounted for almost 70 percent of the government budget, has resulted in a sizable squeeze of public finances. The DFA, deprived of its foreign receipts and reserves, has lost much fiscal space to alleviate economic conditions. For 2022 the budget deficit is estimated to have been 28 percent larger than in 2020. Development spending dropped by 80 percent in the 2022 budget compared with 2020.

The central bank (DAB) has lost most of its instruments to affect economic events. It has been unable to supply adequate liquidity to banks because of the inability to print money and the freeze on its foreign assets held abroad. However, DAB's capital controls and deposit withdrawal limits have prevented the complete collapse of the banking system. The overall inflation rose considerably after August 2021 reflecting in good part the depreciation of the exchange rate and then the increase in global food and fuel prices due to the war in Ukraine.

The banking system fell into a severe liquidity crisis because of the cutbacks in foreign aid, DAB's inability to provide liquidity, heavy deposit withdrawals, and concerns about anti-money laundering and combating financing of terrorism issues (AML/CFT). Bank transfers have become harder and more expensive, hindering not only private sector activity but also humanitarian support activities. The microfinance sector, previously dependent on donor grants, shrunk by about half between August 2021 and the end of 2022, harming prospects for micro enterprises and the poor.

The economy remains vulnerable to several important risks, including imported inflation, especially for food and fuel; economic difficulties in neighboring countries, which could spill over to Afghanistan; and a deepening of the banking crisis, which could spill over to the foreign currency market.

The Economic Outlook

There have been several improvements recently. Security conditions have improved, and corruption has reportedly fallen. Domestic revenues, historically small, are projected to increase due to better collections at customs and some extension of domestic taxes to businesses such as small vendors. Inflation slowed from 18.3 percent in July 2022 to 5.2 percent in December 2022.

The earlier limits on bank deposits have been relaxed somewhat, though not all banks allow withdrawals in line with those limits. Some banks have recently improved their liquidity position due to collection efforts and by not lending. The hawala system has proven resilient and transactions have risen, facilitating remittances, import financing, NGO transactions, but perhaps also capital flight. The U.S. has released \$3.5 billion of Afghanistan's official reserves to a new vehicle, the Afghan Fund, to allow targeted

disbursements to help stabilize the Afghan economy. The Fund may be used to make disbursements including for critical imports, such as electricity, payment of arrears to international financial institutions, and as well as for essential banking services such as SWIFT payments.

A key factor for the economic future of Afghanistan will be the role of the private sector. The compression in development spending, likely to be long-lasting, will limit the ability of the public sector to undertake infrastructure projects. Without investments in infrastructure, including for development of transit trade and mining (a promising sector), private sector development will be weak. The limited role of the banking system in providing credit will also hinder private sector development.

Overall, Afghanistan's economic outlook remains very difficult. This will be particularly so if the recent restrictions on women's employment in NGOs lead to a significant drop in international aid, exacerbating pressures on the exchange rate and inflation, especially of imported food items. The resulting drop in imports could also lower revenues from customs, a major source of budget revenue. The acquisition of raw materials for manufacturing will become more difficult. Bank liquidity will become more scarce and international transactions could become harder. Energy imports could also be hindered. In short, incomes will very likely fall, unemployment will increase, and poverty will deepen. This report traces the social and economic developments in Afghanistan from August 15, 2021, through December 2022. It analyses the repercussions of the policy and financing realities of that period on the outlook for the socio-economic progress of Afghanistan in 2023; and proposes policy directions for economic stabilization and recovery, as well as for addressing the country's immediate humanitarian crisis. It provides evidence for the urgent and continued need for critical humanitarian assistance and livelihood support. And it demonstrates that without the full scope and continuity for girls' education and women's ability to pursue work and learning across all disciplines and sectors, the country's progress will remain severely muted.

UNDP has projected real GDP growth by 1.3 percent in 2023 and 0.4 percent in 2024. Still, GDP per capita is expected to decline from \$359 in 2022 to \$345 in 2024, increasing the hardship Afghans face. Importantly, these projections assume that international support for Afghanistan will remain at the 2022 level of \$3.7 billion. In addition, this outlook is subject to important downside risks, especially because of the DFA's restrictive policies toward women, which may prompt a cut in international aid. This outlook is also subject to risks related to economic difficulties in neighboring countries, a deterioration in domestic security conditions, and weather conditions.

2022 Review and Economic Outlook 2023

Can households afford to buy food and what has happened to poverty?

Securing food has become the prime concern of households as poverty has increased significantly. The latest available poverty estimates before August 2021 were based on the Income, Expenditure and Labor Force Survey (IE&LFS2020) conducted by the national statistical authority (NSIA) between October 2019 and September 2020. That survey reported a poverty rate of 47.5 percent. Subsequent estimates, mainly aiming to assess the impact of the COVID-19 pandemic, raised the rate to around 70 percent. And a rapid assessment conducted by UNDP only three weeks after August

15, 2021 that took into account the adverse effect on poverty from the then expected drop in GDP, the sudden-stop in aid, the interruption to trade with Afghanistan's major partners, the lingering effects of the pandemic and the prolonged drought, simulated that the poverty rate might increase to 97 percent in the worst-case scenario.

This report uses the IE&LFS official poverty thresholds for overall poverty and for food poverty in 2020 to estimate how many households and Afghans are below those thresholds using the expenditures as of September 2022. The Assessment finds that the expenditures of around 85 percent of Afghans were below the poverty threshold of 2020. Specifically for food poverty, the respective ratio may have reached more than 90 percent.

What kind and how many shocks do households face?

The very high shares of those with expenditures today below the poverty thresholds adopted in 2020 resulted from a series of events ("shocks"). These events include the economic shock in the last couple of years, natural disasters such as droughts, floods, earthquakes, avalanches and heavy snowfall, as well as conflict and the lingering effects of the pandemic.

Only a few households (around 12 percent) reported that they had not been subjected to any of the above shocks since early 2022. Most households experienced more than one shock (averaging 1.6 of shocks per household). Natural disasters affected 4.1 million households, and the economic shock that ensued in combination with the massive reduction in GDP impacted 3.3 million households. For those affected, loss of income and access to food were the heaviest shocks. Around 4.8 million households reported lost income, and 3.4 million had to go into debt.

Can households cope on their own?

The crisis has left the vast majority of households with few coping mechanisms. Only 8 percent of households reported not needing to use any coping mechanism in 2022. Among the remaining 92 percent, many had no coping mechanisms at all, either because they had depleted them or because such mechanisms were not applicable to them. For example, 24 percent of households had no savings and another 12 percent had depleted them in the past. More than 30 percent had no property, house, land, income-generating equipment or other assets (such as means of transport) to sell, which itself would be a desperate act in the short term at the expense of longer-term income-generating prospects. Most households (91 percent) listed food as their top current priority. And 77 percent of households mentioned that food prices are too high, despite some reports, admittedly not nationally representative, suggesting that food availability stands at 98 percent. This suggests that household incomes are too low to afford available food items.

Most households used one or more mechanisms to cope with their current conditions, which in many cases amounted to mortgaging their future. The most common way to cope was to borrow (nearly 80 percent of affected households), followed by decreased expenditures on less pressing priorities than food, such as health and education (45 percent). As many as 40 percent drew upon whatever savings they had available, 34 percent sold household assets, and many others sold productive assets such as their last female animals (27 percent) and other income-generating assets (16 percent), with almost 10 percent selling land or a house at distressed prices. Nearly

470,000 households engaged in begging or relied on charity, more than 850,000 sent their children to work outside the home, and almost 80,000 reported marrying their daughters earlier than intended.

What has the role of humanitarian assistance been?

Had it not been for the continuing international humanitarian assistance since 2021, the economy would have gone into a faster and deeper dive and humanitarian conditions would have been worse. Humanitarian assistance has been widespread, reaching around 60 percent of all households and around 80 percent of female-headed households over 2022, according to UN estimates.

The assistance has been well targeted: those who received assistance in 2022 and were below the poverty threshold of 2020 had average incomes lower than those of their counterparts who did not receive assistance. The assistance was also effective: those who received assistance did not need to deploy coping strategies as often, and were better able to address their hunger than those who did not receive assistance.

The Social Outlook and Poverty Gap

The economic and social conditions in Afghanistan offer little optimism for substantial and swift improvements. Even if the economy does not decline further, the population keeps increasing annually at 2 percent or more, thereby reducing the per capita GDP on average by the same amount.

In addition to the dim prospects for rising real incomes, the massive adverse effects from natural disasters persist. An estimated 4.1 million households (around 27 million Afghans) were affected in 2022 by natural disasters that resulted in lost incomes, reduced food security, and greater need to borrow at the detriment of their future economic prospects.

Being deprived of coping strategies, households have little ability to increase income through employment. The average household has 6.6 members of whom 1.6 work, mainly men (1.19), the others working family members include adult women (0.15) and children (practically boys: 0.23 compared to only 0.03 girls). Among households with male workers, 32 percent reported minimum or no profit from their day-to-day activities, and 16 percent do not receive their salaries or payments on time. Only 10 percent of households have home-based income-generating activities. Worth noting is the fact that households have on average more boy workers than women workers. This is not unexpected given that women's employment faces many restrictions fueled by strong views regarding gender roles in society, exacerbated by the recent bans. More than 70 percent of female-headed households cited social and cultural restrictions as the main barrier to women's employment, as well as the bans introduced since August 2021.

Whether the social conditions will deteriorate further in the immediate future would depend on the amount and delivery modalities of humanitarian assistance. Humanitarian aid since 2021 has helped avert an even deeper economic collapse and further deterioration in social conditions. Much of the humanitarian assistance has been delivered through NGOs. The recently introduced ban on women working for NGOs not only risks a reduction in the amount of aid that can keep the economy from contracting further, but also will deprive Afghan women in need of critical interaction

with women workers. As many as 94 per cent of 127 national organizations surveyed either fully or partially ceased operations immediately after the ban was imposed in December 2022, and 150 NGOs and aid agencies have suspended all or part of their work. If the outreach of humanitarian assistance from national organizations is reduced, it will adversely affect millions of Afghans in need.

Given the difficulties households face, humanitarian assistance will remain critical to prevent them from falling further behind. Based on 2020 data, the UNDP estimated that the number of Afghans below the poverty line was 19 million, the poverty gap \$900 million (5 percent of GDP), and the number of people in need of food assistance a possible record high of nearly 23 million. A similar exercise today suggests that the number of Afghans in need may have reached 34 million (an increase of 15 million) and the poverty gap US\$ 5.3 billion (nearly 35 percent of the current GDP). Even if the UN aid appeal for international assistance to reach \$4.6 billion in 2023 succeeds, it may fall short of what is needed to improve conditions for millions of Afghans.

Policy Directions

Afghanistan needs massive infrastructure development to reduce the direct impact of natural disasters and to provide social protection to those affected. This will depend on growing the private sector, attracting foreign investors through deep institutional reforms that improve governance, and encouraging the international community to remain engaged by demonstrating respect for human rights, especially for girls and women.

To this end, in the immediate short term, the DFA should pursue policies that would enable it to attract international humanitarian assistance and the removal of sanctions. The Afghan economy overwhelmingly depends on international support. Over the next year or two, the livelihoods of ordinary Afghans will depend on the amount and effective outreach of humanitarian assistance. International assistance can help create temporary jobs that, according to UNDP estimates, could benefit up to one million Afghans. It can also contribute to the implementation of assistance in the form of temporary universal basic income (UBI), the option preferred by Afghans in need. In parallel, the DFA can initiate policies in areas such as the macroeconomy, private sector development, banking and finance, and energy.

If aid is reduced, the already grave conditions facing ordinary Afghan citizens, especially women and girls will deteriorate further. UNDP intends to continue its cooperation with Afghanistan's international partners, both old and new. It proposes several policies and programs (see Chapter 6) including a selective and focused area-based approach (Area-Based Approach to Development Emergency Initiatives: ABADEI) to both support and complement the work of other UN agencies aiming to relieve poverty and to provide job opportunities.

KEY FINDINGS AND MESSAGES OF THIS REPORT



- **The economic situation continues to spiral.** GDP is estimated to have further declined by 3.6 percent in 2022 after the 20.7 contraction in 2021. With a population estimated by the UN at about 40 million and GDP of \$14.3 billion in 2021, Afghanistan is among the countries with the lowest per capita income in the world.



- **There are signs of recovery:** a rise in exports; an expected increase in domestic fiscal revenue by 8 percent; stabilization of the exchange rate; and a reduction in inflation – all undergirded by substantial international assistance of \$3.7 billion in 2022, of which \$3.2 billion was provided by the UN.



- However, **recovery is weak and in the long term insufficient.** In a baseline scenario developed by UNDP, GDP is projected to increase by 1.3 percent in 2023, and 0.4 percent in 2024. Both are well below the population growth rate that exceeds 2 percent, implying that per capita incomes will keep declining.



- There are considerable headwinds arising from adverse geopolitical factors and economic difficulties in the neighboring countries, which could spill over to Afghanistan in the form of repatriating nationals, imported inflation for staples such as food and fuel, and heightened security risks.



- UNDP simulations suggest that **if aid were to drop by 30 percent**, GDP could contract by 0.4 percent in 2023 and inflation rate might reach about 10 percent in 2024. By that time, per capita incomes could decline to a projected \$306 compared to \$512 in 2020 – a drop of 40 percent.



- The level of **foreign aid provided in 2023 will be a key determinant** of Afghanistan's economic outlook and the scale of response to its humanitarian crisis. 2022 survey results suggest that the per capita expenditures of around 85 percent of the population are below the 2020 poverty line.



- At face value, this suggests that **the number of poor has increased to 34 million in 2022** (from 19 million, using 2020 data) while the funding requirements for Afghans today to maintain their expenditures at the 2020 level may have reached \$5.3 billion (nearly 35 percent of the current GDP) from \$900 million (5 percent of the GDP) two years ago). The UN aid appeal for international assistance to reach \$4.6 billion in 2023 is therefore the minimum required to help Afghans in need.



- Any reduction in international aid will worsen the economic prospects of Afghanistan and extreme poverty will perpetuate for decades. **But the economy cannot be reignited if women cannot work**, while future economic growth is constrained by underinvestment in girls' and women's education.

Figure 1: Real GDP level (2019=100)

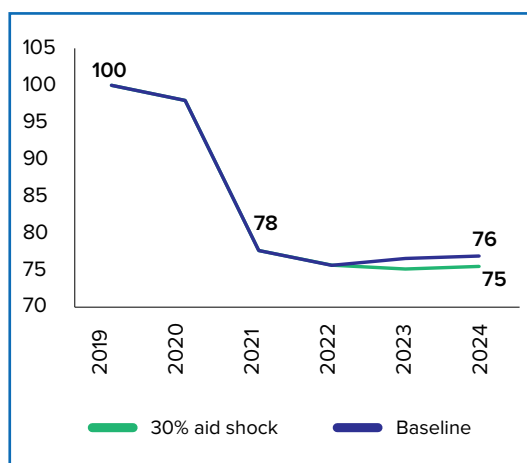
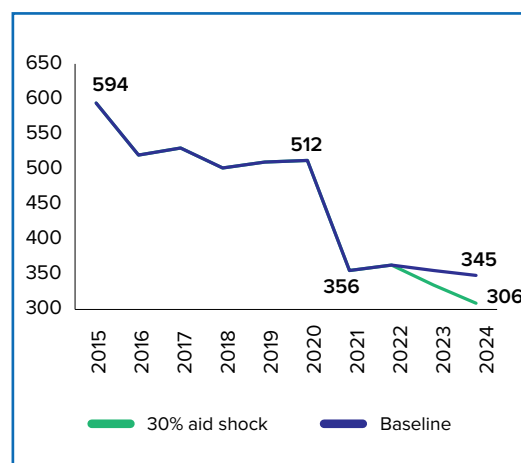


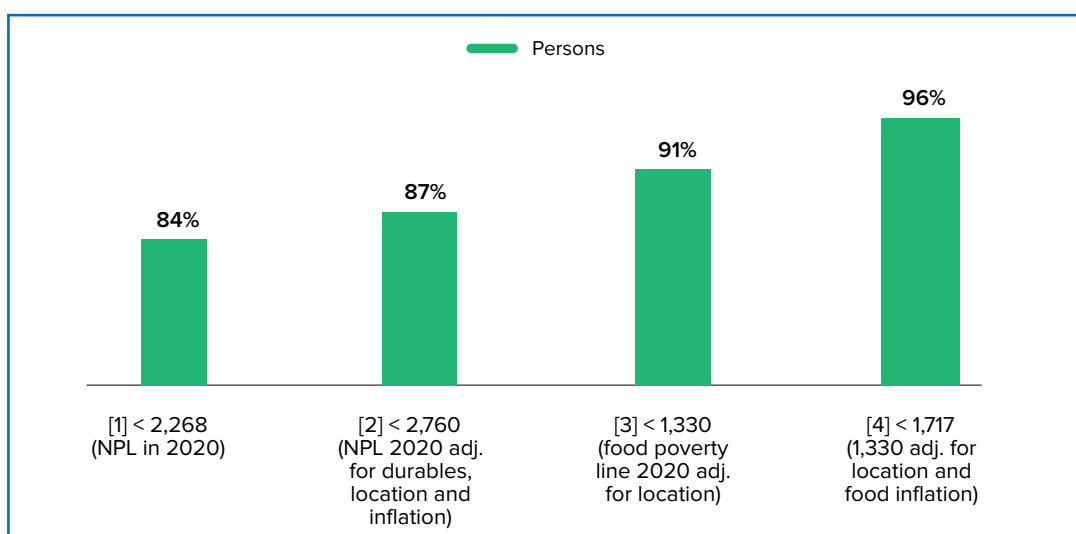
Figure 2: Per capita income (in current US\$)



Sources: GDP data is from NSIA, Population data from the UN and UNDP staff projections

1. If the 2022 aid level is cut by 30 per cent in 2023 and onwards largely due to restrictions on women's rights, the real GDP level will be 25 percent less than its 2019 level and nominal per capita income will decrease from \$ 512 in 2020 to an estimated \$ 332 in 2023. (figures 1&2)

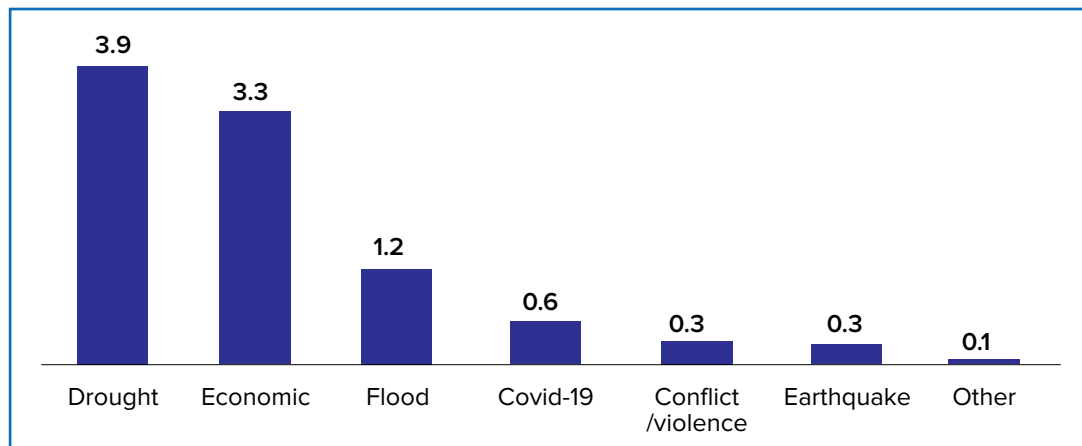
Figure 3: % of persons below selected levels of monthly per capita expenditure, September 2022 (in Afghanis)*



2. 89 percent of households and 91 percent of Afghans had food expenditure lower than the nominal food poverty line of 2020 (AFN 1,330). The share of Afghans below AFN 1,717 (the food poverty line in 2020 adjusted for food inflation) was 96 percent.

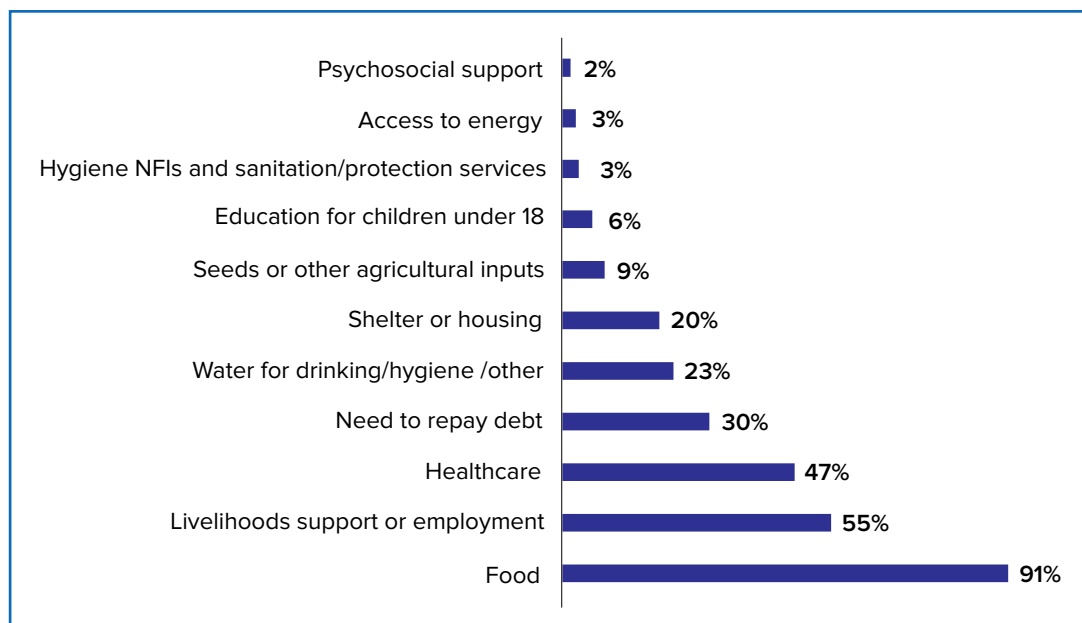
Sources: The thresholds were selected from IE&LFS2020.

Figure 4: Households affected by major adverse event in the first 7 months of 2022 (in millions)



3. Drought, economic shocks, and flood were the events with greatest impacts on Afghan households in 2022. Respectively, they impacted 3.9 million, 3.3 million and 1.2 million households.

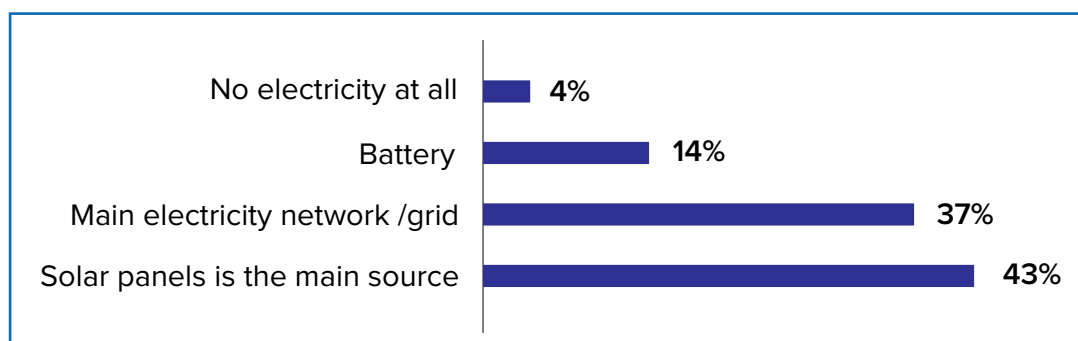
Figure 5: Listed priorities by households (% of households)



4. Of more than 17,000 households surveyed, 91 percent identified food as the top priority, 55 percent identified livelihoods and employment support as the top priority and 47 percent identified healthcare as the top priority – making food the biggest priority for Afghan households followed by livelihoods and employment support and healthcare as the second and third biggest priorities during first 7 months of 2022.

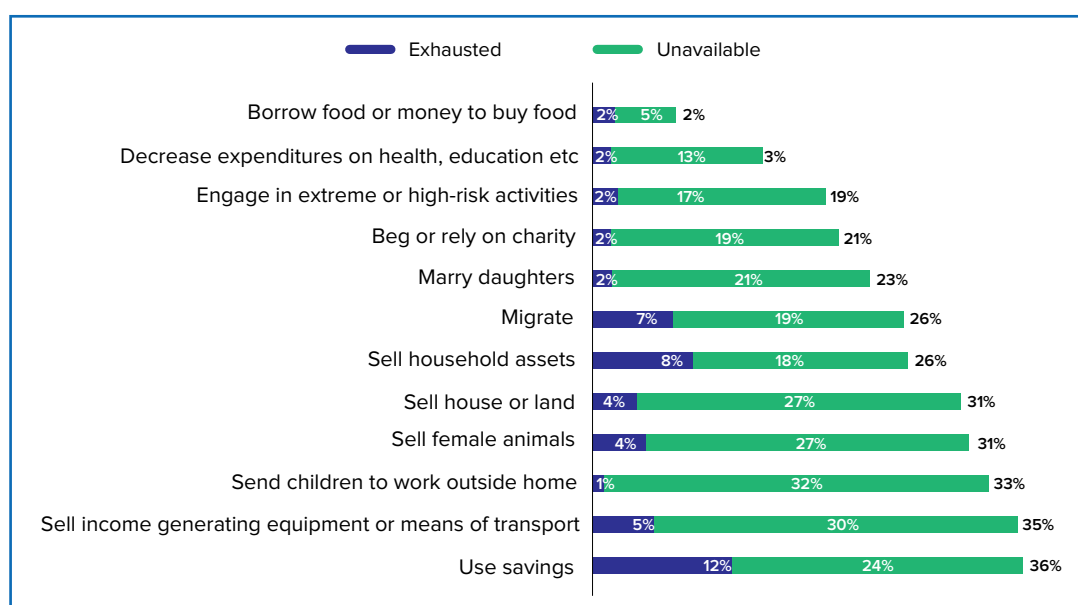
A most telling finding is that more than 4.3 million households (out of 5.1 million total households in the country) have borrowed simply for securing food.

Figure 6: Access to electricity (% of households)



5. 43 percent of households surveyed, listed solar panels, 37 percent listed national grid and 14 percent listed battery as their main source of electricity. While 4 percent of the households had no access to electricity.

Figure 7: % of households who cannot use a specific coping strategy for securing food (Strategy used and exhausted previously, or unavailable to the household)

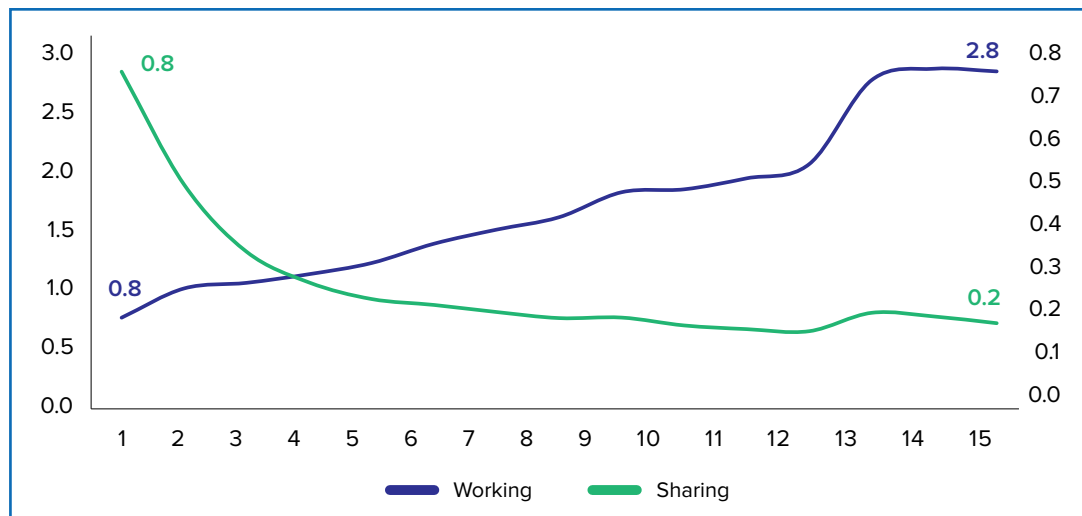


6. 36 percent of households surveyed tended to use their savings to secure food. However, of this 36 percent, 12 percent could still hardly use this strategy while 24 percent did not have this strategy available because their savings had finished.

7. Of the 35 percent of households that secured food by selling productive assets only 5 percent could still hardly do so while 30 percent had finished off this this option.

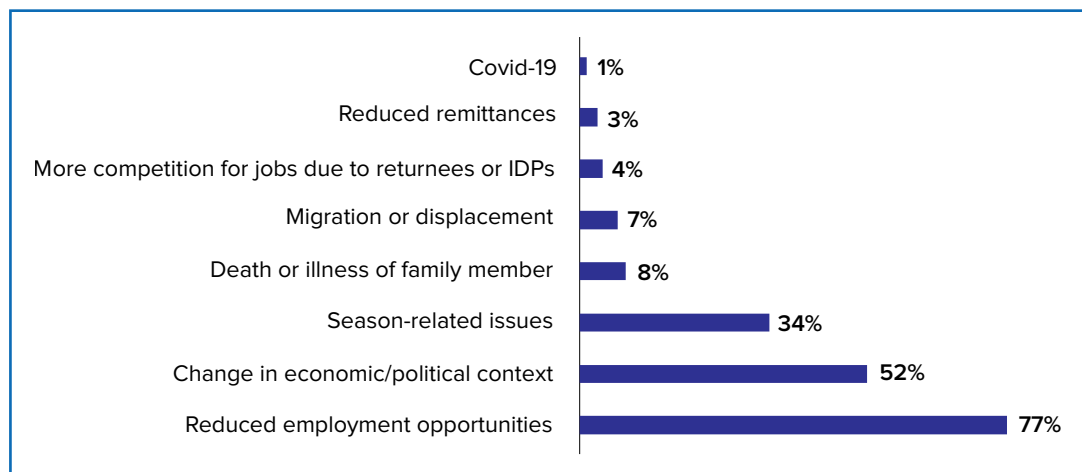
8. Of the 19 percent of households that secured food by doing dangerous activities, only 2 percent could still use this option while 17 percent had run out of even this option of securing food.

Figure 8: Workers by size of households with at least one man/woman working in last 30 days (number - left axis, and as share of total HH members - right axis)

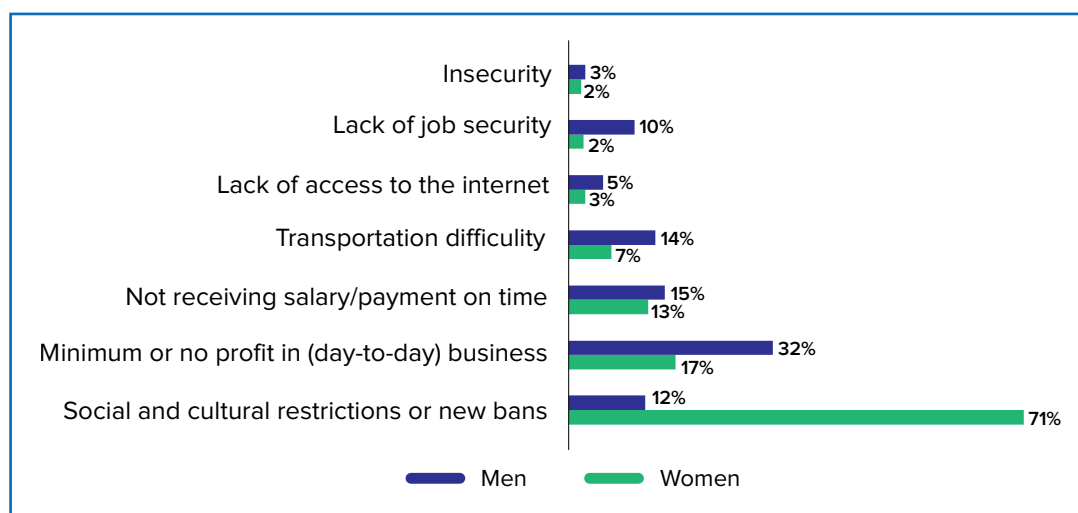


9. Among households with two members, one member works, but this number rises to only 2.8 members in households with 15 members. Bigger size households did not necessarily have more employment opportunities or more productivity.

Figure 9: Reasons for lower incomes in the past 30 days compared to usual income (% of households with at least one man/woman working in last 30 days)

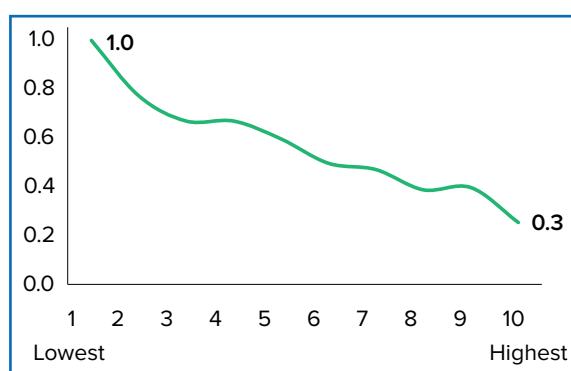


10. Of the surveyed households, 77 percent had lower incomes due to reduced employment opportunities and 52 percent due to change in economic and political contexts while only 1 percent had lower incomes due to Covid-19 related reasons.

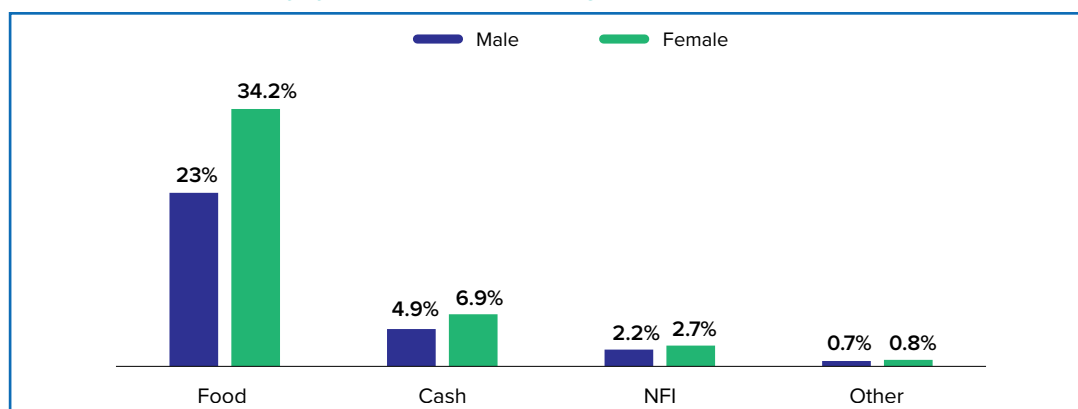
Figure 10: Problems women and men face at work

Note: As reported for men by male heads of households and for women by female heads of households.

11. Social and cultural restrictions was the biggest problem women faced at work as reported by 77 percent of households while reduced profits was the biggest problem faced by working men. Also, another important problem faced by both working men and women was delayed or unpaid salaries

Figure 11: Ratio of debt to expenditures of indebted households, by decile



12. Of the indebted households, the poorest 10 percent of the households borrow all the money they pay for food while the richest 10 percent of the indebted households borrow 30 percent of the money they pay for food. The poorer the indebted households, the more they take on debt to buy food and vice versa.

Figure 12: % of households that received humanitarian assistance during first 7 months of 2022 by type of assistance and gender of household head

Note: "Other" includes vouchers, services, and cash via cards, banks or mobile money.



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