

An Assessment of the Economy of Afghanistan : Pre and Post-Taliban

Abdul Zohour Sohbaty* and Pushpinder Singh Gill**

** School of Management Studies, Punjabi University, Patiala*

*** School of Management Studies, Punjabi University, Patiala*

Abstract

A group of people named “Taliban” ruled Afghanistan from 1996 until the USA came to Afghanistan to fight terrorism and insurgency in the year 2001. Taliban defeated and a democratic government was formed. After 20 years on 15 August 2021 after the president of Afghanistan (Dr. Ashraf Ghani) and his council of ministers fled to foreign countries, the Taliban returned to power and took the administration in hand.

In this paper, we want to explain and compare the economy of Afghanistan pre and Post-Taliban take-over the government of Kabul. The economic growth, exports and imports, GDP per Capita, Inflation, Domestic Revenue, Labor Market Condition, People's and firms access to their bank accounts, and rate of Afghani vs USD and some other major currencies before and after Taliban return to power have been used. Results indicate that Afghanistan's economy could shrink by 30 per cent. In addition, the regression of Taliban could cause a 20-30 per cent output contraction, with falling imports, depreciating the rate of Afghani and accelerating inflation. Furthermore, the non-humanitarian aid has been stopped; foreign assets mostly frozen and Afghan banks are facing cash shortage. This could drop the living standard of people and could threat millions of people to poverty and can lead to humanitarian crisis.

Key Words

Afghanistan, Taliban, Economic Growth, Export and Import, GDP, Inflation.

INTRODUCTION

The economy of Afghanistan is fragile and mostly dependent on foreign

aids. As per the World Bank, 75 per cent of the public spending is funded by the grants. Furthermore, the \$9.5 Billion foreign exchange reserves held outside the country is frozen by the US government. In addition, the European governments have postponed their aids. International monetary fund has also cut off its special attention towards Afghanistan and suspended \$440 million aid to Afghanistan. Western governments, multilateral agencies and donors will strictly conditioned on the resumption of funding.

On the other hand export and import that is playing a crucial part in the economic development of a country is stopped with some of the neighbor countries, like India.

Furthermore, Based on the World Bank's report inflation is raising and by the end of December 2021 the rate of increase was more than 40 per cent.

Meanwhile, the international community does not recognize the government of Taliban (Islamic Emirate of Afghanistan) as a legitimate government, but an insurgent group. That is why most of the people of Afghanistan tried to leave the country and sought asylum to the neighbor as well as western countries. Due to this, a huge shortage of capital and foreign currencies especially USD created in the country and Afghani fell to its lowest rate in the history against US Dollar (\$1 = 110 Afghani).

Wages for skilled and unskilled workers decreased and around 700,000 of people lost their jobs.

This paper investigates the changing pattern of economy in Afghanistan after the Taliban returned to power and a comparison of the economy pre and post-Taliban. The paper particularly focuses upon the behavior of the economy after the Taliban captured Afghanistan and how was the economy damaged on their regression to power.

HISTORICAL BACKGROUND

Afghanistan is a country, which is located in the center of Asia. As per the recent census, it has 40 million populations. 34 million people inside the country and 6 million migrants all over the world. This population is comprised of four major ethnic groups named: Pashtuns, Tajiks, Uzbeks and Hazara.

Before 1996, Afghanistan was in the vortex of internal power politics, all the four tribes were fighting with each other for power and their ethnocentric believes. Therefore, Afghanistan was burning in fire of internal conflict until the Taliban came and took the power (1996). On 2001, after 9/11 incident in USA, US

forces came to Afghanistan and war in the name of eradication of terrorism and insurgency begun.

Taliban defeated and a new government was formed which was comprised of the leaders of all the four major and minor ethnic groups. Due to corrupted and disloyal politicians in the government, on 15 August 2021 Taliban were able to return to power and take the future of a big nation into their hands.

OBJECTIVE

The main objective of this paper is to understand, how the economy of Afghanistan is affected by the return of Taliban to power.

A NOTE ON DATA

The data was collected from the authentic and genuine secondary sources like: International Monetary Fund, BBC, World Bank reports, Atlantic Council, The Economic Times, National Statistics and Information Authority (NSIA), World Food Program (WFP), United Nations Development Program (UNDP), Trading economics, Da Afghanistan Bank, NDTV report.

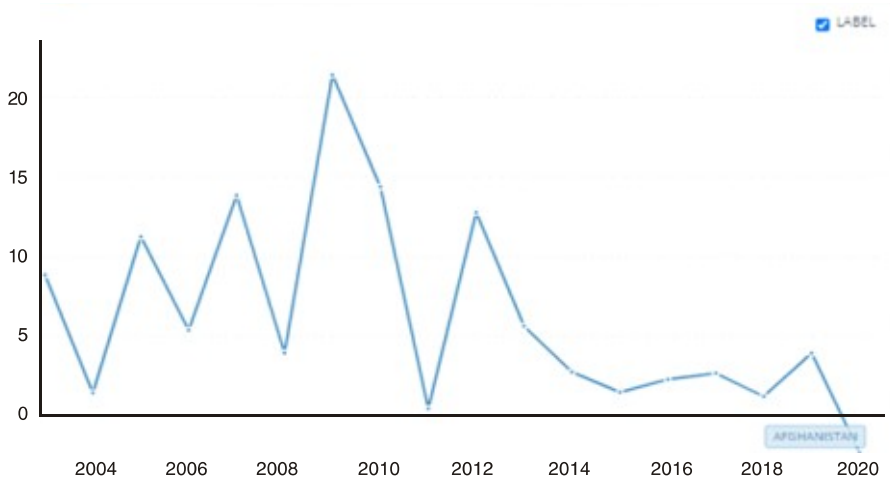
ECONOMIC GROWTH

The recent political changes pushed Afghanistan into an economic crisis. 15th August 2021 Taliban resumed power in Afghanistan, and their regime has another serious foe : economic crisis. In response to the regression of Taliban, government of Washington has frozen \$9.5 Billion in foreign reserve, Germany suspended \$300 Million aid, and IMF postponed \$440 Million in special drawing rights (SDR) allocation. The sum of this foreign aid is making up 40 per cent of Afghanistan Gross Domestic Product (GDP). Suspension of foreign aids have resulted the gradually raise of inflation, energy prices raised by 12 per cent, Prices for basic household goods, including food and fuel, increased substantially.

A news reporter of New York Times, Christina Goldbaum said that “three months into the Taliban's rule, Afghanistan's economy has all but collapsed, plunging the country into one of the world's worst humanitarian crises.”

According to the World Health organization, After the Taliban return to power, around 3.2 Million are likely to be under the threat of malnutrition and by the end of the year more than one million of them will be at the risk of dying as the temperature drops.

Annual GDP Growth of Afghanistan



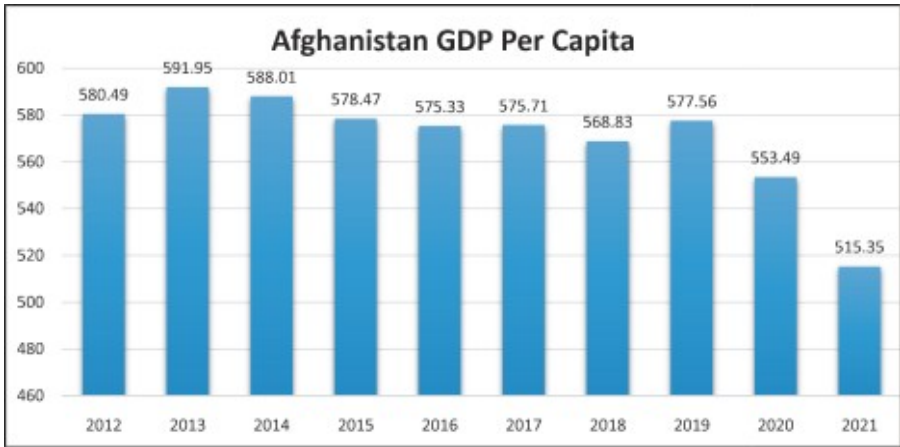
Source : The World Bank

According to the United Nation Development Program (UNDP) by the middle of the next year, almost 97 per cent of the Afghan population could sink below the poverty line.

In 2019, Afghanistan GDP growth rate was 3.91 per cent per year. The total investment rate was 18.19 per cent Afghanistan's economy has transformed from \$4 Billion to \$19.8 billion by 2020. However, after the return of the new regime there is slope down of more than 30 percent in GDP.

GDP PER CAPITA

As it is shown in the chart, the GDP per capita is declining from 2019 onwards. If we compare GDP per capita of Afghanistan in the year, 2019 and 2021 there is a drop of 11 per cent. In addition, according to the prevailing situation in Afghanistan it has fallen more in the year 2022.



Source : Trading Economics

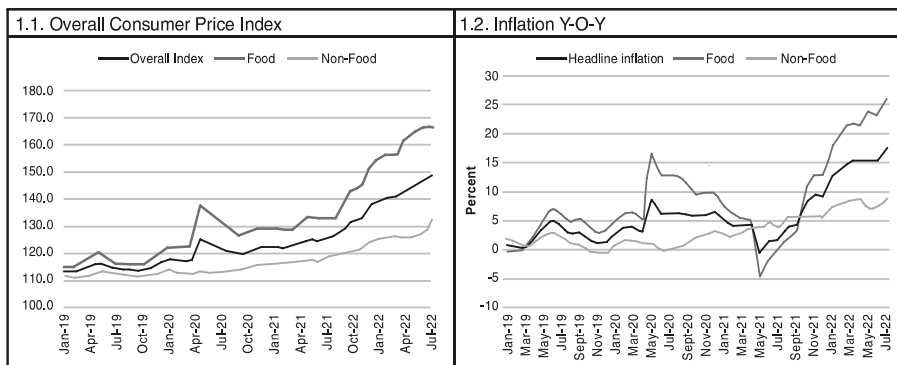
INFLATION

Gradual deterioration of economics during the governance of Taliban is inevitable and it already started. Inflation occurs by increasing the prices for basic household goods, reflecting depressed demand for non-essential items. Wages and demand for labor is declining.

According to the Chart below, the price of food items have been increased from 9.2 per cent in November 2021 to 12.7 per cent in December 2021. Pricing of non-food items shows an increase of 2 per cent between November and December 2021.

PRICE CHANGES AND AVAILABILITY OF BASIC HOUSEHOLD GOODS

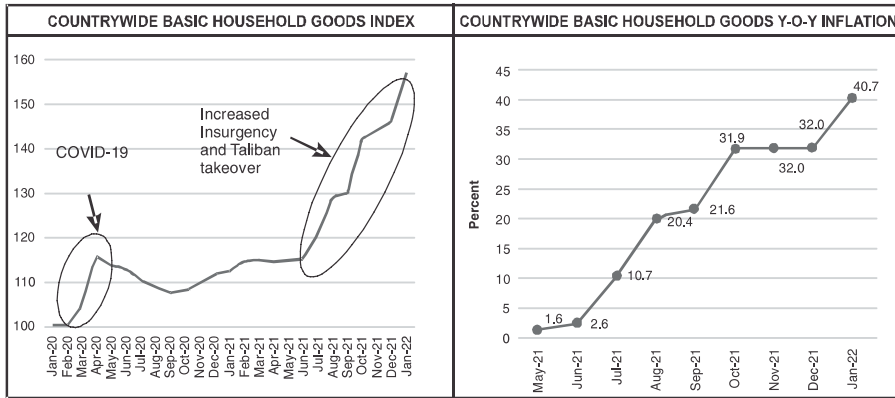
Increased food and fuel prices drive headline and basic household goods inflation.



Source : NSIA in collaboration with World Bank

According to the World Bank, the price for household goods continues to increase and may reach to 40.7 per cent by December 2021. The inflation rate

in the year 19 was 2.30



Source : WFP

Table below shows the inflation of basic household goods from September 2021 to August 2022.

Basic Household Goods Y-O-Y Inflation

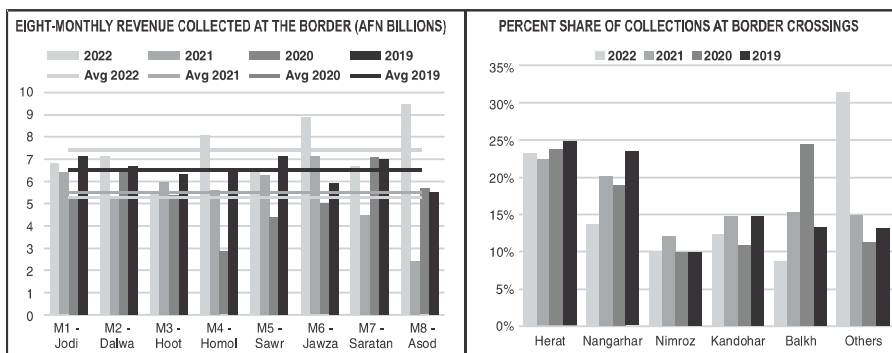
	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021	Jan. 2022	Feb. 2022	Mar. 2022	Apr. 2022	May. 2022	Jun. 2022	Jul. 2022	Aug. 2022
Bread	6.2	7.8	8.6	8.7	10.2	11.6	12.0	14.9	18.1	22.0	23.2	23.3
Fuel (Diesel)	48.8	79.4	94.2	97.9	95.1	68.8	73.2	57.3	66.3	95.3	112.5	54.5
Oil (Cooking)	58.5	70.1	64.5	55.5	62.3	47.3	43.9	46.4	50.3	51.3	32.3	16.1
Pulses	3.8	9.4	13.3	14.8	28.7	27.4	24.1	23.8	22.9	23.7	23.3	17.7
Rice (High Quality)	83	6.6	7.6	9.1	18.8	21.9	19.8	19.3	24.0	34.2	37.8	32.9
Rice (Low Quality)	9.5	5.8	4.13	&I	14.3	10.1	9.6	7.9	9.4	14.4	13.1	10.9
Salt	12.2	8.4	13.1	14.1	30.2	25.2	23.4	18.9	21.3	22.9	19.0	18.0
Sugar	123	21.2	24.2	25.1	35.3	27.1	24.7	24.4	26.0	33.9	37.0	30.9
Wheat	14.2	26.4	27.3	26.7	40.2	31.0	27.8	35.5	40.3	58.1	49.8	43.5
Wheat Flour (High Quality)	15.6	28.3	26.7	27.7	42.2	27.6	31.6	44.0	50.5	65.1	49.4	41.7
Wheat Flour (Low Quality)	14.4	30.2	29.0	29.6	45.1	32.3	32.1	44.7	52.7	68.2	50.8	41.5
Basic Household Goods Price Inflation	21.6	31.9	32.0	32.0	42.5	32.0	32.2	36.6	41.6	51.7	43.4	31.5

Source : Price data from WFP Weekly report; index constructed by World Bank Staff.

Note : This Index uses WFP price data for 10 critical household goods from all provinces. It applies consumption and population weights from NSIA to provide an aggregate snapshot of basic household inflation trends.

EXPORT AND IMPORT

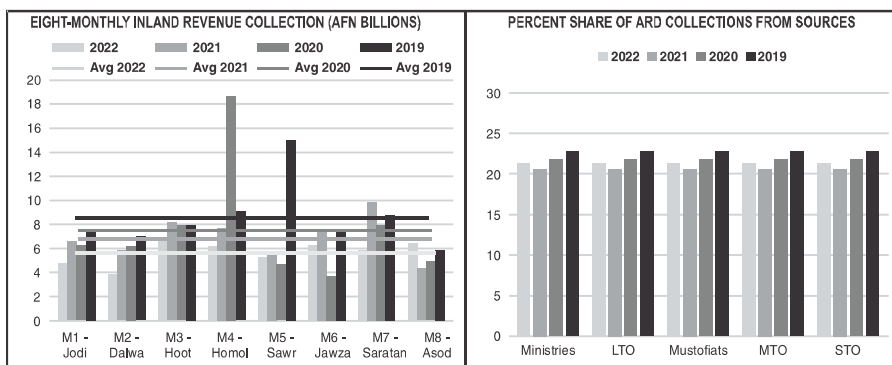
As mentioned above, the economy of Afghanistan is fragile and dependent on foreign aid. Furthermore, Afghanistan's economy is dependent on imports mostly from neighboring countries like India, Pakistan, Iran, China, Uzbekistan, and other countries like the United States of America, Turkey and the United Arab Emirates. As per the World Bank's report, in 2019 Afghanistan exported \$1.5 billion and imported \$7.2 billion, resulting in a negative trade balance of -\$5.8 billion. In addition, foreign direct investment was \$23.4 million or 0.12 per cent of total GDP.



Source : Ministry of Finance

Source : Ministry of Finance

Based on the report of the ministry of finance Afghanistan, The monthly in land revenue collection showing a decrease after Taliban returned to power. The highest revenue was collected in 2020.



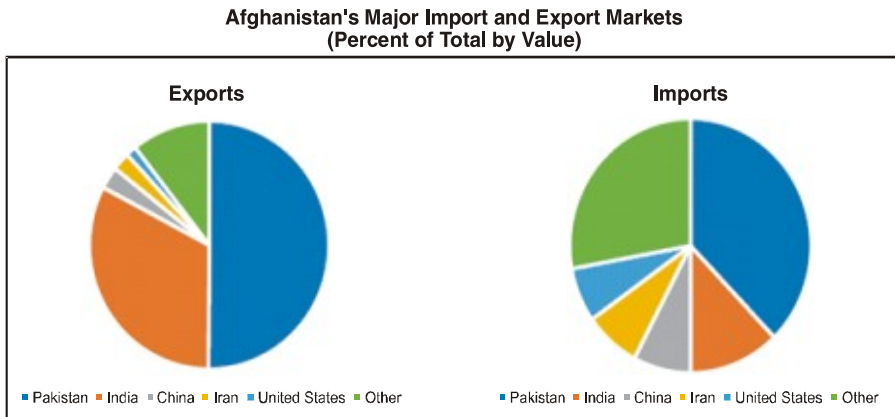
Source : Ministry of Finance

Source : Ministry of Finance

Afghanistan top 5 Export and Import partners in 2019

Top five countries to which Afghanistan Exported in 2019 along with the percent of total exports that went to that country are below :

1. Afghanistan Exports to India worth US\$ 410 million, with partner share of 47.12 per cent.
2. Afghanistan exports to Pakistan worth US\$ 299 million, with a partner share of 34.31 per cent.
3. Afghanistan exports to China worth US\$ 31 million, with a partner share of 3.56 per cent.
4. Afghanistan exports to Turkey worth US\$ 25 million, with a partner share of 2.89 per cent.
5. Afghanistan exports to United Arab Emirates worth US\$ 25 million, with a partner share of 2.87 per cent.



Source : World Bank Afghanistan

However, after the return of Taliban to power exports and imports have badly affected. As there is no trade between India and Afghanistan so far, which both the countries once were best partners in trade. Similarly, Afghanistan does not have trade relationship with United States of America (USA) after the Taliban regression. In the same way, Turkey and United Arab Emirates have also stopped their bilateral trading with Afghanistan since the change of political situation.

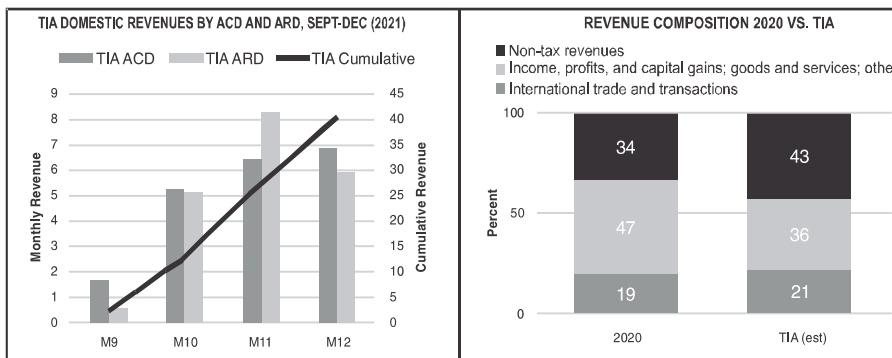
Unfortunately, during the regime of Taliban about the countries, which Afghanistan has trade with; we do not have authentic documents or information to be mentioned.

DOMESTIC REVENUE COLLECTION

End-Year data show significant change in revenue composition under the Taliban interim administration. Collections over September-December 2021 reached just half of the last four years average over the same period. Revenue collection has shifted towards collection from border and non-tax revenues and away from inland tax collections. This indicates both increased efficiency and reduced leakage at custom and difficult economic condition depressing inland tax collection.

REVENUES :

The Taliban Interim Administration is heavily reliant on non-tax revenues and revenues collected at the border.



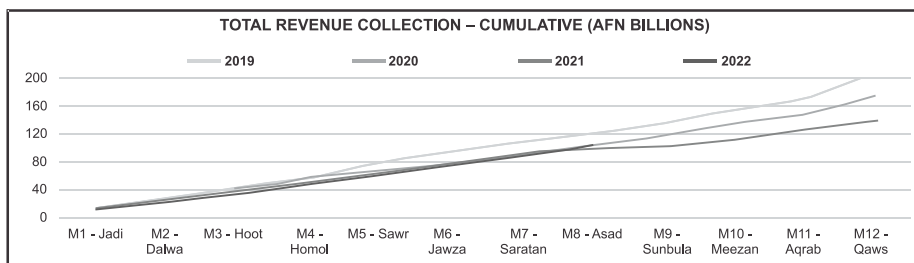
Source : World Bank staff estimates

Source : World Bank staff estimates

As the chart indicates, there is an increase in Non-tax revenue and in international trade and transactions and a decrease in income, profits, capital gains, goods and services.

REVENUES :

The ITA collected AFN104 billion in the first eight months of 2022. Overall revenue collection slightly exceeded last year's collections, with a higher concentration on trade and non-tax sources.



Source : Ministry of Finance

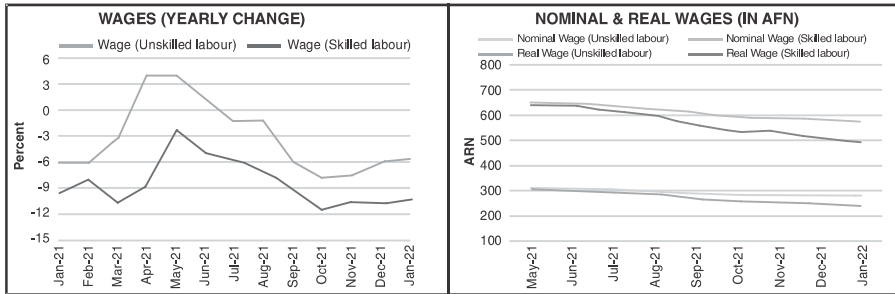
Note : The Afghan solar calendar Month, Jadi, runs from December 21 - January 20.

LABOR MARKET CONDITION

After the new regime took over the administration of Afghanistan, wages for skilled and unskilled labor continue to fall. The wages for skilled and unskilled labor fell by 17 per cent since August.

LABOUR MARKET CONDITIONS :

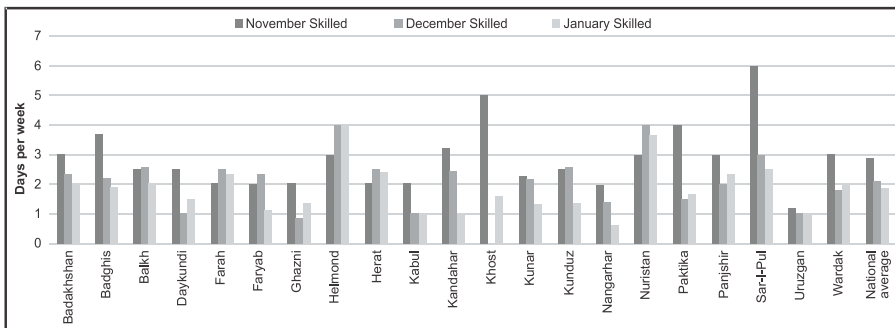
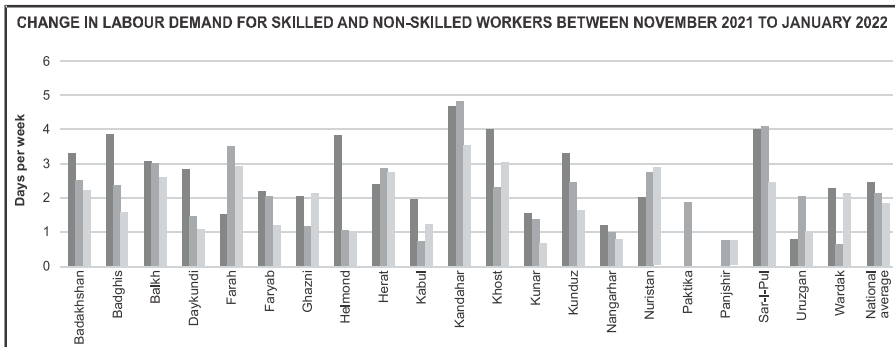
Nominal wages continue to fall. Real wages are sinking faster due to high inflation.



Source : Data from WFP and World Bank Staff elaboration, Real wages are calculated using price data from the NSIA.
 Note : Real wages to December are calculated on the basis of CPI inflation reported by NSIA. Real wages for January are calculated on the basis CPI estimates prepared by the World Bank.

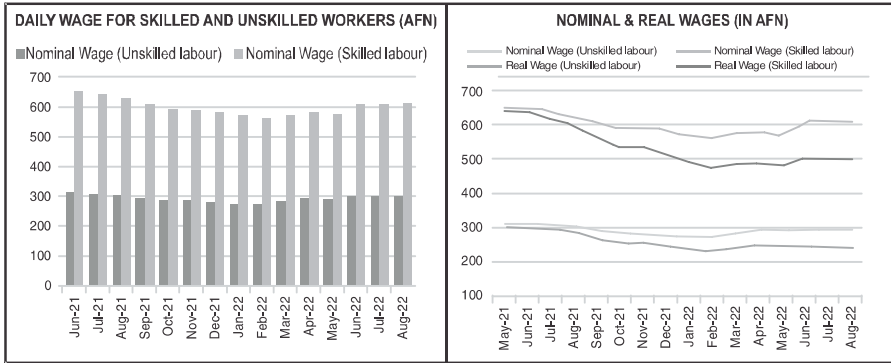
Demand for skilled and unskilled labor also gradually fell by 14 per cent.

Demand for skilled and unskilled work continue to work.



Source : Survey data collected by the World Bank's Third Party Monitoring Agent.
 Note : Kata reflects number of work days available reported by skilled and unskilled casual worker seeking work. Skilled workers are : (i) carpenters; (ii) electrician; (iii) mason; (iv) painter; (v) plumber; and (vi) tile worker.

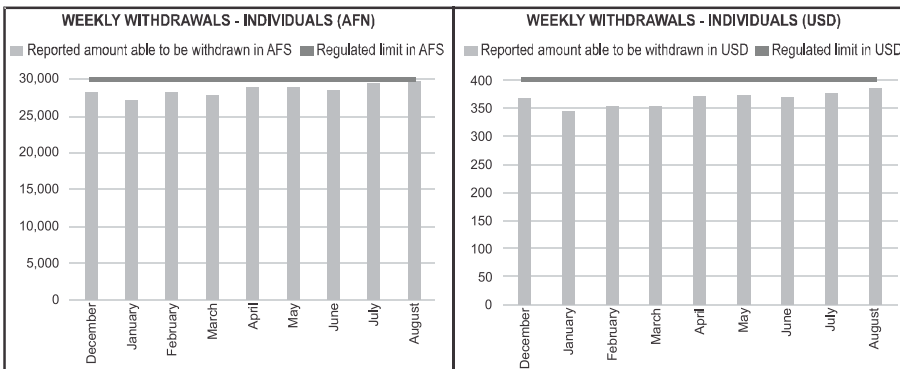
Recently wages are recovering, but it is still below pre-August 2021 levels. Real wages have declined due to the high inflation.



Source : Wage data from WFP, World Bank Staff elaboration. Real wages are calculated using price data from the NSIA. Inflation data for June is projected. Note : Real wages to January 2022 are calculated based on CPI inflation reported by NSIA.

ACCESSIBILITY OF FIRMS AND INDIVIDUALS TO THEIR BANK ACCOUNTS

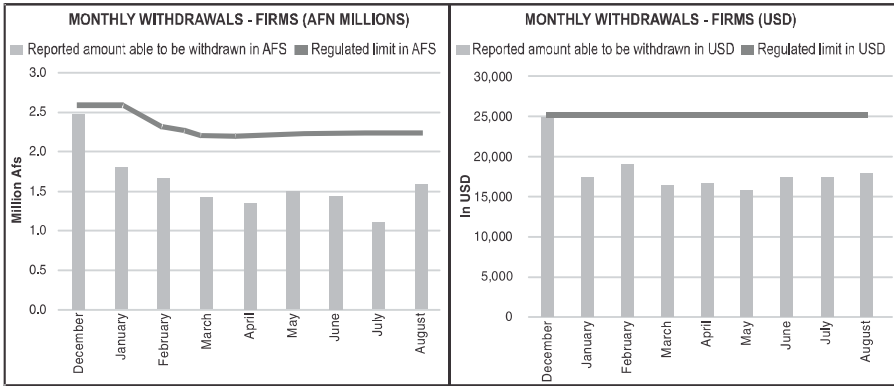
After the Taliban came to power, people lost their accessibility to their savings in the banks. People and firms are not able to withdraw the amount of money they need for their living and operations. Taliban has imposed restrictions on withdrawal from the banks. The maximum amount which an individual within a month can withdraw is 30,000 Afghani or equivalent of 400\$. But still the people are not able to withdraw the mentioned amount within a month.



Source : Survey data collected by the World Bank's Third Party Monitoring Agent.

Note : Agent survey.

Similarly, the Taliban has limited the withdrawal of cash by firms. Firms are allowed to withdraw only 3 millions of Afghani in a month or equivalent of 30,000\$. According to the data, they are not able to that also.

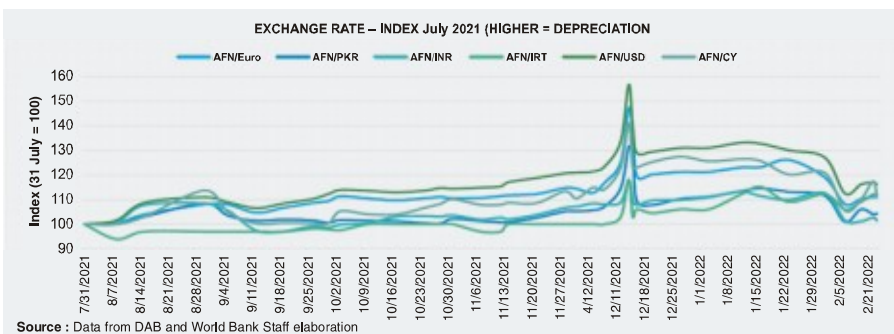


RATE OF AFGHANI VS OTHER CURRENCIES (ESPECIALLY DOLLAR)

With the return of Taliban to power, the international community suspended their relation and aid with Afghanistan as mentioned earlier. Similarly, USA also froze 9.5 billion dollar, which was foreign reserved. From the other hand, due to people's panic from the new rulers, they tried to escape and seek shelter to the foreign countries specially neighbors. Therefore, large amount of capital escaped from the country, also dollar was not distributed in the market by the government, causing shortage of dollar and high demand for it in the market. This caused that the value of Afghani decrease to its lowest rate ever in the history (USD1 = 110 Afghani). Pre Taliban the rate of Afghani against Dollar was maximum USD1 = 80 Afghani.

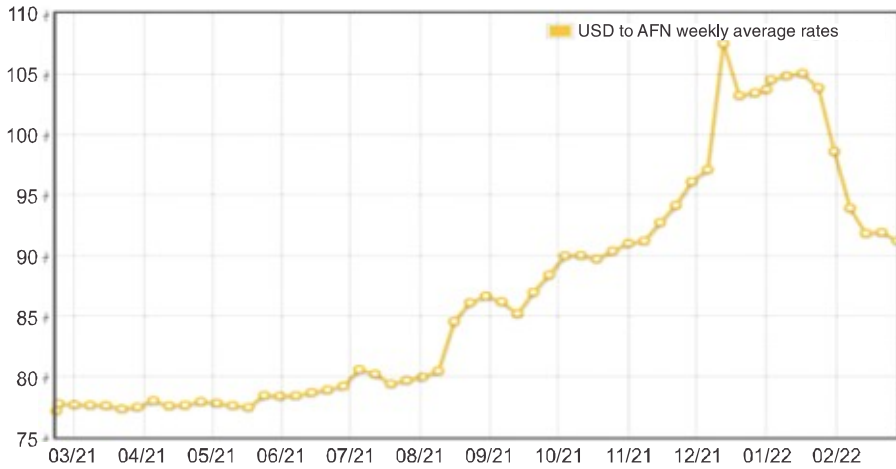
FOREIGN EXCHANGE AND FINANCIAL MARKET OPERATIONS :

The increased supply of USD through humanitarian channels led to a strengthening of the Afghani during the first week of February



However, in the first week of February due to supply of dollar in the market the value of Afghani was appreciated against Dollar and other major currencies (13 percent against USD, 14.6 per cent against Chinese Yuan, 10 per cent against Euro and 10 per cent against Pakistani Rupee).

US Dollar Vs. Afghani



Source : Sarai Shahzada (The currency exchange market in Kabul)

Table below shows the currency depreciation since August 15 2021 to 8 September 2022.

EXCHANGE RATE - DEPRECIATION BY CURRENCY SINCE AUGUST 15, 2021

	30 Sept. 2021	28 Oct. 2021	28 Nov. 2021	27 Dec. 2021	1 Feb. 2022	28 Feb. 2022	31 Mar. 2022	27 Apr. 2022	29 May 2022	29 Jun. 2022	28 Jul. 2022	30 Aug. 2022	8 Sept. 2022
AFN/Euro	405	4.12	.9.39	.14.31	.1246	.5.41	414	417	171	416	645	942	10.54
AFN/PKR	24\$	272	104	462	.742	035	3.913	136	12.23	1480	4473	2425	3173
AFN/INR	9.31	435	1.07	.1.92	423	743	933	1141	955	1045	9.05	11.23	1077
AFN/IRT	493	403	.303	437	.1331	.11.11	437	-.3.03	000	1434	10.34	10.34	1031
AFN/USD	470	.5.25	.9.92	.1741	-1443	416	.2.68	022	-326	.117	.196	.2.35	.2.33
AFN/CU	270	.416	.9.10	.19.16	.1472	436	459	2.33	4.06	432	2.33	.1.22	.2.21

Money service providers continue to report foreign currency shortages, although the availability of US dollars and Pakistan rupees improved slightly in August 2022.

LIMITATION

The paper presented here is somewhat limited to dated secondary data and non-availability of authentic information about fiscal policy and monetary policy of Afghanistan after the regime change. The future paper must contain widespread data about the factors we mentioned in the paper and about the fiscal policy and monetary policy.

CONCLUSION AND RECOMMENDATIONS

This paper introduced that the economy of Afghanistan negatively reacted to the Taliban take over. The economy, people and the country were deeply harmed by this group of insurgents. The future of Afghanistan remains unclear, but one thing is certain: money matters. The Taliban act as if they know this truth. If their past is an indication of their future, the Taliban will find funds. However, their ability to manage monetary policy would be seen in the future. If the Taliban fail

to do so, they will surely lose the economic-war and the people of Afghanistan with it. Economy is the basis of society. When the economy is stable, society develops. The Taliban may have thought that they can run the government, but they did not know that running an insurgency group is different from running a country of having almost 35 million populations. In order for our country and economy to get on the right track again, we need a leader who understands how the real economy works and has the vision to fundamentally change Afghanistan. That is the reason that international community does not recognize their government and has suspended all their aids. Economy is the method by which we prepare today to afford the improvements of tomorrow. Therefore, in order to run the government affairs smoothly, the government of Taliban needs to recruit the cadet academies in the higher positions of government instead of their illiterate comrades, create a government of all the people from all the ethnic groups, and try to gain the trust of people of Afghanistan and the international community. Otherwise, their collapse will be no far.

References

Home Ministry of Finance (mof.gov.af)

Website : Bobby Ghosh (2021, August 26). With will the Taliban do with \$22 billion economy. <https://economictimes.indiatimes.com/news/international/business/view-what-will-the-taliban-do-with-a-22-billion-economy/articleshow/85483635.cms?from=mdr>

Website : British Broadcasting Corporation (2022, January 14). Foreign exchange and financial market operation. <https://thedocs.worldbank.org/en/doc/0fa267944e2b004e4dba35e9b014bd89-0310062021/related/Afghanistan-Economic-Monitor-14-January-2022.pdf>

Website : Consumer News and Business Channel (2021, October 19). Afghanistan economy could shrink by 30 percent. <https://www.cnbc.com/2021/10/19/afghanistan-economy-could-shrink-up-to-30percent-post-taliban-takeover-imf.html>

Website : InberPe'er (2021, September 9). Afghanistan Economy under the Taliban. <https://www.atlanticcouncil.org/blogs/afghanistans-economy-under-the-taliban-the-challenges-ahead/>

Website : National Statistics and Information Authority (NSIA) (2022, January 14). Prices and inflation. <https://thedocs.worldbank.org/en/doc/0fa267944e2b004e4dba35e9b014bd89-0310062021/related/Afghanistan-Economic-Monitor-14-January-2022.pdf>

Website : New Delhi Television (2021, November 28). Afghanistan economy crashed since Taliban takeover. <https://www.ndtv.com/world-news/afghanistans-economy-crashed-since-taliban-takeover-report-2628230>

Website : Paul Collier (1999 January 1). Oxford economic papers. On the economic consequences of civil war. <https://academic.oup.com/oep/article-abstract/51/1/168/2361710>.

Website : The Visual Journalism Team (2021, August 31). How Many Refugees are there and where will they go. <https://www.bbc.com/news/world-asia-58283177#:~:text=Even%20before%20the%20Taliban%20retook,internally%20displaced%20within%20the%20country.>

Website : Trading Economics (2021 November 15). Afghanistan GDP per capita. <https://tradingeconomics.com/afghanistan/gdp-per-capita>

Website : World Bank Afghanistan (2022, January 14). Afghanistan economic monitor. <https://thedocs.worldbank.org/en/doc/0fa267944e2b004e4dba35e9b014bd89-0310062021/related/Afghanistan-Economic-Monitor-14-January-2022.pdf>

Website : World Food Programme (2022, January 14). Labour Market condition. <https://thedocs.worldbank.org/en/doc/0fa267944e2b004e4dba35e9b014bd89-0310062021/related/Afghanistan-Economic-Monitor-14-January-2022.pdf>