



2 YEARS IN REVIEW



**Changes in Afghan Economy, Households
and Cross-Cutting Sectors
(August 2021 to August 2023)**

TWO YEARS IN REVIEW

Changes in Afghan Economy, Households and Cross-Cutting Sectors
(August 2021 to August 2023)

December 2023

ACKNOWLEDGEMENTS

This report is the second annual review after the regime change in Afghanistan, prepared by the United Nations Development Programme Country Office Team in Afghanistan under the overall direction and guidance of Mr. Stephen Rodriques, UNDP Resident Representative in Afghanistan.

Dr. Ali Cufadar (Macrofinancial Economist, UNDP Consultant), Dr. Violetta Dalla (Senior Econometrician, UNDP Consultant) and Muhammad Nassim Attahi (UNDP Economist, Task Manager) are the authors of the report.

Dr. Aslihan Albostan (UNDP Energy Specialist) has written the energy section and Dr. Fatma I Usheva (Social Affairs Officer, UNODC) has guided the section on the opium economy.

The report has benefited from substantive comments and suggestions by Dr. Silvia Redaelli (World Bank), Dr. Nazneen and Doina Munteanu (Policy Team RBAP Office, UNDP Headquarters, New York), Mizuho Okimoto-Kaewtathip, Devika Iyer, Sudyumna Dahal (Inclusive Growth Team of the Global Policy Network GPN, UNDP Regional Hub, Bangkok).

The report has also benefited from revisions and suggestions by anonymous Afghanistan international experts.

Mr. Sayed Eshaq Fahim Maqsodi, Programme Associate with UNDP Afghanistan, has provided overall coordination and data collection support.

Contents

Acknowledgements	2
List of Figures	5
Acronyms	7
Foreword	9
Key Findings and Messages of this Report	11
Executive Summary	13
Introduction	16
1. Macroeconomic Developments: The Great Contraction Followed by Stagnation	18
Gross Domestic Product (GDP)	18
Sectoral contributions	19
Monetary Policy and Exchange Rate	21
International Trade	23
Inflation	24
Banking Sector and Money Supply	24
Public Finance	26
Humanitarian Aid	27
Opium Economy	29
2. Households: The Real Victims of the Crises	30
Adverse Events	30
Cashflow in Crises	31
Employment	32
Living Conditions	32
Food Insecurity	33
Humanitarian Assistance Delivery	34
3. Gender Developments: Women Disproportionately Victimized by the Changes	34
Income Generation is Harder for Women	34
Drastic Decline in Female Employment	35
Disproportionate Food Consumption	36
Gender-Balanced Assistance	37
Access to Public Spaces and Education	38
4. Subsistence Insecurity Index: An Innovative Approach to Analyze Extent and Intensity of Destitution	40
Introduction	40
The Extent of Subsistence Insecurity	40
The Intensity of Subsistence Insecurity	41
5. Cross-sectoral Developments:	44

Population Movements.....	44
Public Employment and Institutional Developments	45
Micro-finance Sector	46
Energy Sector	47
Real Estate Prices	48
Conclusion	49
References	52
Annexes	53

List of Figures

Figure 1: Growth rate of real GDP (in percent)	18
Figure 2: GDP and per capita income	18
Figure 3: Sectoral growth rates (in percent)	20
Figure 4: Share of sectors (in percent)	21
Figure 5: Average exchange rate (AFN/ US\$).....	22
Figure 6: Foreign trade (in billions of US\$)	23
Figure 7: Exports of goods (in millions of US\$)	23
Figure 8: Imports of goods (in millions of US\$)	23
Figure 9: Inflation rate (y/y percentage change)	24
Figure 10: Money supply (y/y percentage change)	25
Figure 11: Banking data (y/y percentage change)	26
Figure 12: Budget realizations (in billions of AFN)	27
Figure 13: Disbursed UN Aid by thematic area, million USD, (2022 – Jan to Jun 2023) ..	28
Figure 14: Required vs Available UN Aid by thematic area (USD, 2023)	29
Figure 15: Major adverse events impacting HHs	31
Figure 16: HH cashflow (in AFN)	32
Figure 17: HH cashflow	32
Figure 18: HH employment of adults & children	32
Figure 19: Shelter and utilities for HHs	33
Figure 20: Top 3 needs of HHs	33
Figure 21: Afghans in Emergency or Worse Food Insecurity Status (IPC Phase3/Emergency or Famine)	33
Figure 22: Humanitarian assistance received by HHs	34
Figure 23: Cashflow of male- & female-headed HH (in AFN)	35
Figure 24: Per capita cashflow of male- & female-headed HH (in AFN)	35
Figure 25: HH employment of men & women	36
Figure 26: Employment of adults & children in male- & female-headed HHs	36
Figure 27: Women’s type of employment	36
Figure 28: Acceptable food consumption of male- & female-headed HHs	37
Figure 29: Humanitarian assistance for male- & female-headed HHs	37

Figure 30: Changes in access for humanitarian assistance for male- & female-headed HHs....	38
Figure 31: Reasons of decrease in humanitarian assistance for male- & female-headed HHs ..	38
Figure 32: Unaccompanied access to public spaces for female members of male-headed HHs	39
Figure 33: Education attendance	39
Figure 34: Subsistence-Insecurity, By Location, Gender and Total (% of total pop. 2022-2023)	40
Figure 35: Subsistence-insecurity, Intensities	41
Figure 36: Subsistence-insecurity, indices	41
Figure 37: Subsistence-insecurity by region, headcount ratios	42
Figure 38: Subsistence-insecurity by region, intensities	42
Figure 39: Subsistence-insecurity by indicator, headcount ratios	43
Figure 40: Contribution of each indicator to (SII)	43
Figure 41: Population movement trends (2012/18 to 2022)	44
Figure 42: Monthly inflow and outflow (Thousand individuals)	44
Figure 43: Total Inflow & Outflow (Million individuals, Jan-Aug 2023)	44
Figure 44: Public employment, (in thousand)	45
Figure 45: NTA staff changes, Economic Sector de facto Ministries	45
Figure 46: NTA staff changes, Social Sector Ministries	46
Figure 47: NTA staff changes, Security Sector Ministries – excluding de facto security forces	46
Figure 48: Indicators of microfinance sector.	46
Figure 49: Women’s share of clients and the number of branches	47
Figure 50: Active borrowers and active savers	47
Figure 51: Total Electricity Supply by source (KWh)	47
Figure 52: Domestic Electricity Source	48
Figure 53: Electricity Consumption by user type (percent)	48
Figure 54: Real Estate Prices in Commercial Districts of Kabul city (USD, 2021-2023)....	48

Acronyms

ABADEI	Area Based Approach for Development Emergency Initiatives
AFN	Afghani (national currency)
AMA	Afghanistan Microfinance Association
ASYCUDA	UNCTAD Automated System for Customs Data
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
DAB	Da Afghanistan Bank (Central Bank)
DABS	Da Afghanistan Breshna Sherkat (electricity company)
DFA	De Facto Authorities
FCS	Food Consumption Score
GDP	Gross Domestic Product
HH	Household
IDPs	Internally Displaced Persons
DTM	Displacement Tracking Matrix
IPC	Integrated Food Security Phased Classification
LCS	Livelihood Coping Strategy
MAIL	Ministry of Agriculture, Irrigation and Livestock
MFI	Microfinance Institutions
MPI	Multidimensional Poverty Index
MoEW	Ministry of Energy and Water
MoF	Ministry of Finance
MoIC	Ministry of Industry and Commerce
MSME	Micro, Small and Medium Enterprises
.	Non-food Items
NFIs	Non-governmental Organization
NGO	National Statistic and Information Authority (Afghanistan)
NSIA	National Technical Advisors
NTA	United Nations Office for the Coordination of Humanitarian Affairs
OCHA	Sustainable Development Goals
SDGs	Subsistence Insecurity Index
SII	Small and Medium Enterprises
SME	United Nations
UN	UN Assistance Mission in Afghanistan
UNAMA	United Nations Development Programme
UNDP	United Nations International Children's Emergency Fund
UNICEF	World Food Programme
WFP	World Health Organization
WHO	Multi-Sectoral Needs Assessment
MSNA	

Page left blank intentionally

Foreword

Two years following the power shift in August 2021, Afghanistan is at a delicate crossroad. On the one hand, there appears to have been progress in maintaining stability, improving security, anti-corruption efforts, and combating opium production and illicit trade. On the other hand, it continues to experience a multi-faceted crisis where the economy is bottoming out of a cumulative 27 percent contraction since 2020, and nearly 7 out of 10 Afghans lack access to the most basic items, opportunities and services needed for subsistence-level living conditions.



The international assistance being provided is proving vital in saving millions of Afghans from starvation and thousands of livelihoods and microenterprises from disappearing. Further, the international support has so far helped to prevent a situation of universal deprivation and economic collapse.

Now, more than ever, economic growth is needed to complement the ongoing humanitarian response. This is the only sustainable way to reduce dependency on humanitarian assistance, and meet the burgeoning needs of the population, an overwhelming majority of which is already struggling for relief from extreme levels of subsistence insecurity. To recover from the prolonged crises of the past decades and severe shocks of the past two years, the country's productive sectors must have access to a functional and affordable financial system, supporting institutional and regulative frameworks, and market opportunities. Investments in human capital formation must be scaled-up significantly, and women must have equal opportunities to access paid work and education. Recovery must be private-sector led, inclusive, climate-resilient, and focused on key economic sectors, such as agriculture and mining.

International assistance has so far largely focused on humanitarian support to the neediest sections of the population, namely women, girls, and rural communities with limited access to markets and opportunities. While this assistance continues to help save lives and prevent economic collapse, complementary investments are needed to stimulate the economy, bolster private sector growth, and enhance community economic resilience. Specific measures include addressing the challenges in the banking sector, restoring functional capacities in key economic sector institutions, bolstering export competitiveness, and facilitating investment and overall business activity.

As seen in the data in this report, public sector institutions under the de facto administration, and particularly those in the economic sector, continue to lose critical technical expertise, making them increasingly incapable of designing, planning, and executing an inclusive and broad-based economic development agenda. Further, public spending on capital projects that could fuel economic revitalization has dramatically diminished. The severe curtailment of women's rights to employment, secondary and tertiary education and overall participation in public life jeopardizes Afghanistan's overall socio-economic recovery. These restrictions have already inflicted considerable output loss to the economy, undermined delivery of assistance to women and girls, and are reversing the human development gains achieved in the past two decades.

Among other things, this report suggests that targeted technical engagement with the de facto economic sector entities can be crucial to making headways in reducing the humanitarian crisis and poverty and, consequently, mitigating the risks of displacement, migration, and violent extremism. In the absence of a realistic policy and engagement framework, that is grounded in the political realities of Afghanistan, the humanitarian response and its outcomes will remain extraordinarily fragile.

This report introduces a Subsistence Insecurity Index (SII) as a complementary tool to analyse the level of deprivation of the Afghan people from multiple angles while offering useful insights into the extent and gravity of non-monetary poverty across the 34 provinces.

The UNDP is pleased to publish this Two Years in Review report, which builds on the series of annual reviews and takes stock of the major developments in the Afghan economy, households, and cross-cutting sectors. The report marshals data collected from a range of sources such as UN Agencies, the National Statistics Institute of Afghanistan, international organizations, and others. The intention of the report is to document key changes and developments in the country and to inform policy discussions and decisions, as well as the design of policies and programmes that can improve the lives of the Afghan people.



Stephen Rodrigues
Resident Representative
UNDP Afghanistan

Key Findings And Messages Of This Report

1. Following a period of significant contraction since 2020, Afghanistan's economy appears to be bottoming out, but may be mired in a period of low growth unless critical barriers to the recovery of the productive sectors are addressed and resolved. These barriers include the severely restricted operations of the banking sector (including microfinance institutions), trade disruptions, and institutional issues hindering service delivery, including to the private sector.
2. International assistance since the regime change in August 2021 has saved millions of people from starvation and helped prevent a total economic collapse. This assistance must increasingly be complemented by investments in robust, private-sector led economic growth that supports livelihoods, creates jobs, and raises household incomes. This is the only path to sustainable recovery, poverty reduction, and community resilience.
3. Although total public employment has not declined significantly, the de facto public institutions, particularly those in the economic sector, continue losing vital technical expertise they need to formulate policy and regulation, create an enabling environment for growth, and deliver essential services and support to key sectors such as agriculture, industry, finance and commerce.
4. The microfinance sector – a major source of financing for start-ups and micro, small, and medium enterprises including women-led businesses – remains crisis-hit, with no immediate signs of recovery. This sector, which is heavily reliant on donor grants, has contracted by over 60 percent in terms of its loan portfolio. The number of branches and share of female clients have also declined significantly. The sector is likely to further atrophy unless swift remedial steps are taken.
5. Two years following the change in regime, seven out of ten Afghans are subsistence insecure—that is, they don't have access to the most basic items such as utilities, cooking items, winter clothing, basic healthcare and coping strategies needed for mere subsistence. In addition to this, for two successive years, four out of five households were impacted by drought and/or economic shocks.
6. The proportion of the population without access to basic necessities needed for subsistence-level living conditions reduced from 85 percent in 2022 to 69 percent in 2023, based on the Subsistence Insecurity Index (SII) which is introduced by this report.
7. Women are disproportionately affected by the socio-economic crises, in that their share of employment has nearly halved, decreasing from 11 percent in 2022 to 6 percent this year.

On the opposite side, men's share of employment increased 11 percent, suggesting a gender-based labour substitution. Compared to male-headed households, female-headed households consume a lower quantity of food and put in extra work for income similar to that earned by male-headed households.

8. Overall, household living conditions have slightly improved in 2023, due largely to international assistance, as they report accessing better shelter, heating devices, and increased access to electricity provided by the national grid, mainly produced by hydropower. Despite a 76 percent increase in household monthly average real income compared to 2022, more than half of households still have subsistence needs greater than their income.
9. The proportion of households that received humanitarian assistance nearly halved in 2023, although more than nine out of ten Afghans identified their highest priorities as food, livelihoods or healthcare. In the face of stagnating or declining humanitarian aid, economic recovery is even more vital to address the priority needs of the Afghan population.
10. Despite stability in economic activity at low levels and some improvements in humanitarian conditions in 2023, strong international aid will remain crucial in maintaining stability and achieving sustainable improvements in economic revitalization and people's living situations. The assistance and efforts require complementary investment to stimulate the recovery of the private sector, financial system, and overall production capacity of the economy.

Executive Summary

Two years following the power shift in August 2021, there are some positive – mixed with lingering negative signs – in Afghanistan’s society and economy. The country appears to have made good progress in maintaining stability and security - which is vital for the resumption of economic activity and pursuit of development. Similarly, the efforts to curb corruption and combat opium production and illicit narcotics trade have yielded fruit, creating an opportunity for joint national and international efforts to secure gains and build on the momentum.

On the flip side, the Afghan economy has not recovered from the significant output contraction experienced since 2020. This is largely due to restricted banking services and finance sector operations, disruptions in trade and commerce, weakened and isolated economic institutions, and almost no foreign direct investment or donor support for the **productive sectors**. The cumulative decrease in real GDP over the past three years, which includes the 2.1 percent decline in 2020 due to the COVID-19 pandemic, reached 27.2 percent. In 2023, however, the economy may bottom out to a period of insufficient growth. This could lead to a state of equilibrium characterized by low aggregate demand, high unemployment, and a substantial trade deficit. During the past few years, the population has consistently outgrown the economy. Unless the economic output recovers from contraction through agriculture and the wider private sector, the humanitarian and livelihood conditions of the population are unlikely to ameliorate.

The continuing UN cash shipments, rebounding growth in exports, and the appreciation of the Afghani currency, along with some infrastructure and maintenance spending by the de facto authorities (DFAs), are among the factors contributing to economic stabilization, albeit at modest levels. Falling international prices coupled with appreciating Afghani currency have brought about deflation since April 2023. This is directly benefiting the purchasing power of consumers. However, its continuation over an extended period could pose challenges for producers and exporters. There are some signs of restoration of trust in the banking sector, as the number of new depositors and the value of new deposits have shown slow recovery in 2023. Based on anecdotal evidence, the domestic revenue performance has kept its momentum from 2022 and is set to reach about AFN 200 billion in 2023, although capital expenditure remains at a fraction of the pre-August 2021 level and the trade deficit continues to widen, due to rising imports.

Public institutions, particularly in the economic sector, continued to lose the technical expertise that is required to design and implement the policies, programmes and services that fuel private sector activity. The de facto ministries of agriculture, rural development, public works, commerce, and others are losing considerable numbers of national technical

advisors (NTAs), including female staffs, who were instrumental in the effective running of the sectoral ministries that facilitated and fueled economic activity. In 2022, de facto ministries of agriculture, public works and mines and petroleum lost 590, 208 and 154 NTAs respectively. De facto ministries in the social sector (such as of higher education) and the de facto ministry of defense have also lost a considerable number of NTAs in 2022.

International assistance helped save millions of Afghans from starvation, sustained delivery of essential social services and ensured continuation of hundreds of thousands of livelihoods. There is a decrease in the number of people who are categorized as severely food insecure from 19.7 million in Mar-Apr 2022, to an estimated 15.2 million in August 2023. Households are reporting improvements in their housing conditions, electricity access and heating in 2023, compared to 2021-2022. Household incomes and expenditures grew significantly in 2023. Nonetheless, over 50 percent of households spend more than 100 percent of their incomes just to meet subsistence needs resulting in rising household debt.

Almost two-thirds of Afghan households continue to grapple with extremely high levels of deprivation, two years following the regime change. Using data from nationally representative household surveys, this report constructs a welfare index - the Subsistence Insecurity Index (SII) - which examines different dimensions of household subsistence while identifying the proportion of households that are subsistence insecure. In 2023, 69 percent of Afghan people are subsistence insecure, in that they lack access to the healthcare, essential items, suitable living conditions, and employment opportunities that are necessary for basic subsistence-level living. This shows a 19 percent improvement compared to 85 percent in 2022.

Humanitarian assistance is declining at a time when an overwhelming majority of the Afghan population remain highly vulnerable, and subsistence insecurities remain high. The proportion of Afghan households that received humanitarian assistance as cash or in-kind nearly halved in 2023 (17 percent) compared to 2022 (30 percent). 89 percent of households identify food as their primary need in 2023, marginally down from 91 percent a year before. The small improvements in humanitarian conditions over the past two years are very likely to reverse quickly if international assistance for humanitarian response continues to diminish and if local economic stabilization is not met.

Women are much more severely impacted by the socio-economic crises compared to men. The share of employment for working female household members dropped by nearly half in 2023, across all types of employment, whereas the share of employment for male working members of the household increased by 11 percent during the same period. The overall employment share has increased during this period. The drastic drop in female employment and rise in male employment indicate a possible gender-based labor substitution.

Female-headed households care for a relatively greater number of children, generate less income for their work, and consume lower quantity food compared to male-headed

households. Hence, female-headed households have greater needs for humanitarian assistance and yet report more restrictions to accessing such assistance. Unaccompanied access by women to public places such as health facilities, water points and markets has declined in the past two years.

The microfinance sector – which has historically been effective in enabling the growth of micro- small, medium enterprises and income-generating opportunities for women – remains severely weakened. The sector’s gross loan portfolio, number of branches, and share of female clients all show considerable declines with no signs of recovery in the past two years. The difficulty for micro producers and enterprises to access financing to sustain their existence is a fundamental challenge to resuscitating the local market recovery.

Population movements between Afghanistan and neighbouring countries remain at higher levels compared to the pre-August 2021. Approximately 1.7 million and 2.9 million people left the country respectively in 2022, and in the first 8 months of 2023. These movements were from Afghanistan to Pakistan and Iran, through land border crossing points. The number of inflows of people to Afghanistan from these two neighbouring countries reached 0.8 million in 2022 and 3.2 million during the first 8 months of 2023.

Introduction

The date 15 August 2021 marked a pivotal moment in Afghanistan's history, as the Taliban took control of the country as the de facto authorities (DFAs). The sudden cessation of international aid and grants, which had accounted for 40 percent of the country's Gross Domestic Product (GDP), along with a freeze on international reserves amounting to about US\$9 billion and the imposition of international sanctions, triggered a severe balance of payments, banking and payment systems crisis. The inability of the de facto Central Bank of Afghanistan (DAB) to easily print banknotes and access US\$7 billion of foreign reserves continues to severely limit the execution of the central banking key functions.

Since the change in regime, the country has faced significant humanitarian, economic and financial crises which, together with droughts, have exerted extraordinary socio-economic pressures on households during the past two years. In early 2022, the exchange rate depreciated, and inflation increased significantly, while the GDP and per capita income declined substantially, causing Afghanistan to become one of the poorest nations of the world. The crises and their effects had disproportionate impacts on women, by restricting their employment space, and on girls who lost their access to secondary and tertiary education.

The humanitarian crisis demanded immediate attention and support from the international community, which quickly responded by providing decisive humanitarian aid in cash and in-kind, starting from December 2021. International aid played a pivotal role in preventing a total economic collapse and a near universal poverty scenario, which many feared would inevitably materialize. It supported essential services and facilitated the delivery of vital resources to the most vulnerable segments of the population, while also ratcheting economic activity and financial stability from worsening.

Despite the humanitarian crisis, there have been some positive developments in the last two years. Signs of economic stabilization were observed in 2022, albeit at a much more modest level than previous periods. The DFAs have established territorial control over the country and restored access to previously inaccessible regions. Exports nearly doubled in 2022 and have since remained resilient with some seasonality, given the agricultural nature of the export's basket. The exchange rate has significantly appreciated in the second half of 2023 following a notable depreciation in early 2022, contributing to a deflation scenario since April 2023.

On the other hand, despite the economic shrinkage and its significant impact on the population, survey results have indicated some improvements in the living conditions of households. The income of households increased markedly in 2023, after decreasing sharply between 2021 and 2022. Nonetheless, the income status of the majority of households is below the level required to sufficiently meet basic needs.

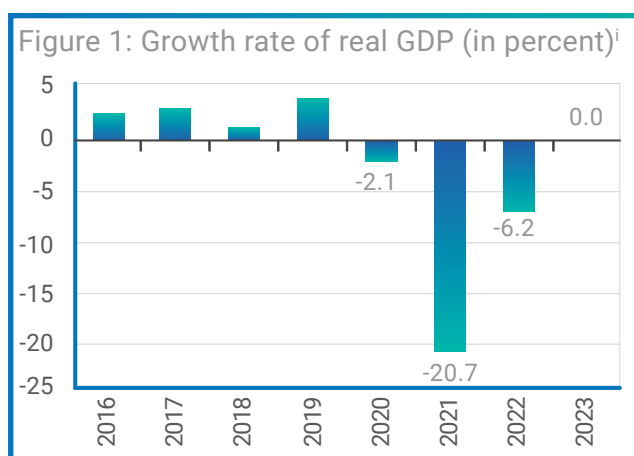
This report provides highlights—and updates where data is available—on the economic and social developments since August 2021. The macroeconomic analysis included primarily relied on data published by the de facto National Statistics and Information Authority (NSIA). However, the analysis of the socio-economic conditions of households was based on the UNOCHA-Coordinated Multi-Sectoral Needs Assessment (MSNA) surveys. In the report, the annual national accounts figures are for the fiscal year of Afghanistan, which covers April to March periods.

This report is divided into five sections. The first section provides updates on macroeconomic developments, while section two reviews the socio-economic changes in households. The third section introduces the Subsistence Insecurity Index (SII) and analyses the extent and the degree to which people in Afghanistan lack access to the most basic items, services and opportunities that are needed for subsistence-level living conditions. Section four focuses on gender issues including how employment of female adults have sharply decreased. Finally, the fifth section examines cross-sectoral developments during the first two years of DFA rule. The report concludes by summarizing the main messages.

1. Macroeconomic Developments: The Great Contraction Followed by Stagnation

Gross Domestic Product (GDP)

The Afghan economy did not have the means to prevent further contraction in 2022, as the GDP contracted by 25.7 percent during 2021–2022. The economy had a marginal decline even prior to the regime change, experiencing an average growth rate of just 1.6 percent between 2014 and 2020. Afghanistan faced a multitude of challenges, including prolonged conflict, institutional fragility, corruption, the COVID-19 pandemic, droughts in 2021 and 2022, and widespread poverty. Following the DFAs takeover in 2021, Afghanistan's GDP immediately declined by 20.7 percent. Although there were some indications of economic recovery in 2022, albeit at stagnating rates, according to estimates from the National Statistics and Information Authority (NSIA), the GDP further contracted by 6.2 percent in 2022 (Figure 1).

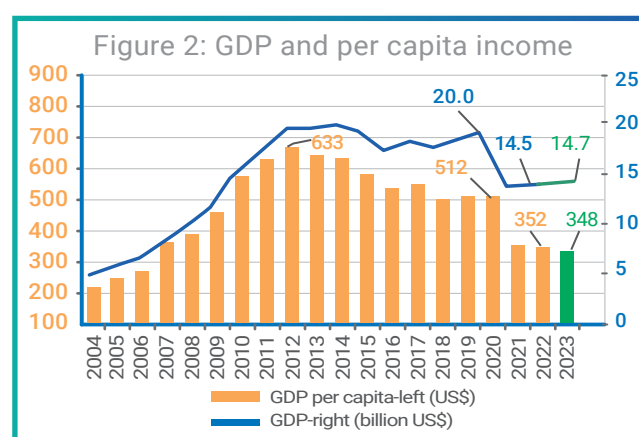


Sources: NSIA data and UNDP staff calculations

The cumulative decrease in real GDP over the past three years, which includes the 2.1 percent decline in 2020 due to the COVID-19 pandemic, reached 27.2 percent. The primary factors contributing to these

consecutive significant declines were reductions in international financial support, political uncertainty, a freeze on foreign reserves, and a banking crisis. Additionally, the drought experienced in 2021 and 2022 is likely leading to a drop in agricultural output even this year.

In the last two years, the decrease in GDP and per capita income has totaled 27.4 percent and 31.2 percent, respectively, in current US dollars. The GDP declined to US\$14.5 billion in 2022 from US\$20 billion in 2020, while per capita income decreased to US\$352 in 2022 from US\$663 in 2012 and US\$512 in 2020 (Figure 2). Without a swift and sustained economic recovery which is based on agricultural production and driven by private sector, it will likely take many years for the Afghan economy to return to its pre-August 2021 levels of GDP and per capita income.



Sources: NSIA data and UNDP staff calculations

The growth rate of real GDP should surpass 2.5 percent in the coming years to generate an increase in real per capita income. Given the population's annual 2.1 percent growth

¹In this figure and report, all years after 2018 show fiscal years which cover April to March periods.

rate, any real GDP growth rate below 2.1 percent will result in a further decline in per capita income. Growth will not materialize unless challenges and disruptions in the financial sector are resolved enabling investments in productive sectors such as agriculture, services extractives, and manufacturing. The current baseline projections suggest nearly zero real GDP growth rate in 2023, with considerable uncertainty and downside risks of diminishing international assistance, attenuating institutional capacities and

protracted droughts particularly constraining agricultural output. Under this baseline scenario, the GDP is expected to see a slight increase to US\$14.7 billion in 2023, while per capita income is projected to decrease to US\$348 in current prices. Moreover, the expected real GDP growth rate in the upcoming years is likely to fall below the population growth rate of 2.1 percent, indicating the potential for even lower per capita income in the years ahead. This underscores the pressing need for a significant transformation in Afghanistan's production capacity.

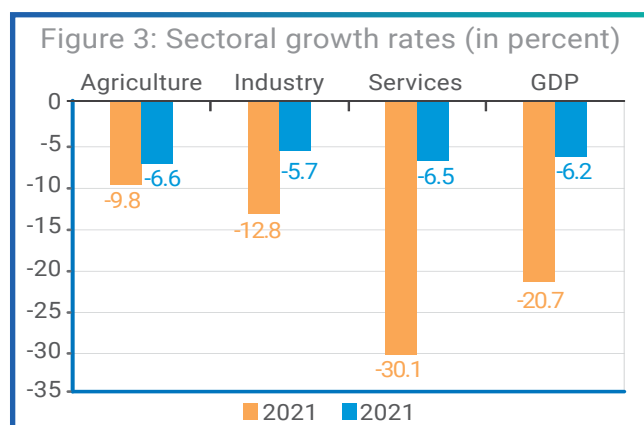


Sectoral Contributions

All sectors, including agriculture, have experienced significant contractions since 2021. The most severely impacted sector was the services sector, which had benefited more from international aid before August 2021. The services sector contracted by 34.6 percent in the last two years (Figure 3). When considering the

impact of COVID-19 in 2020, the total decline in the services sector had reached 37.6 percent in the last three years. This significant decline in the services sector has contributed to increased poverty and unemployment, particularly in urban areas. Any recovery strategy that does not support micro and Micro, Small and Medium enterprises (MSMEs), including in these

sectors, would probably be incomplete and its outcomes unsustainable.



Sources: NSIA data and UNDP staff calculations.

The macrofinancial crisis has inflicted significant damage to Afghanistan's productive capacity. Industrial production experienced a notable decline of 17.8 percent during the 2021-2022 period, with a cumulative drop of 22.4 percent over the last three years, primarily attributable to contractions in the construction and non-food manufacturing sectors which suffered substantial reductions of 35.9 percent and 37.2 percent, respectively, in the last two years. Although the construction sector stabilized at low levels in 2022, the non-food manufacturing sector continued to contract, declining by 11.1 percent in 2022. When considering the impact of COVID-19 in 2020, the total contraction in the non-food manufacturing sector reached 49.3 percent over the last three years. The relatively better performance of the food manufacturing sector mitigated the overall decline in the manufacturing sector, which decreased by 10.3 percent in 2021, 10 percent in 2022, and 19.3 percent over the last two years.

However, the mining sector exhibited growth, expanding by 1.7 percent in 2021 and 4.1 percent in 2022, driven in large part by coal

exports to Pakistan. Based on anecdotal evidence, the DFAs have been issuing multi-year contracts to foreign firms that specialize in renewable energy, petroleum extraction and others that would likely maintain the growth in the sector. Nonetheless, the country's electricity production experienced a decline of 8.6 percent over the last two years.

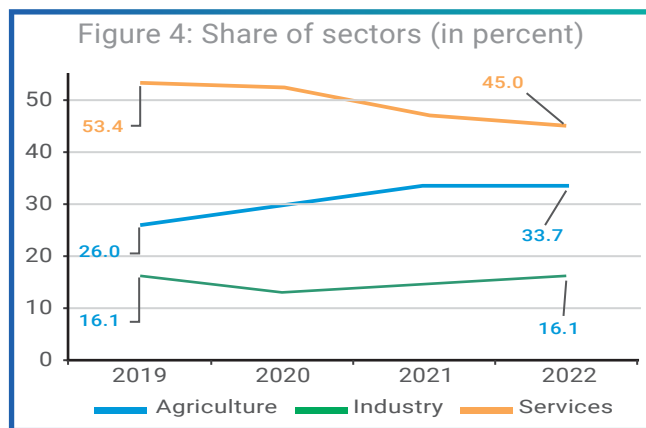
The underperformance of the agriculture sector, primarily attributed to drought, has adversely impacted livelihoods, particularly in rural areas. The performance of the agricultural sector, which heavily relies on weather conditions, is pivotal for the Afghan economy and its people. Afghanistan experienced severe droughts and adverse climate events in 2021 and 2022, resulting in a 9.8 percent reduction in agricultural output in 2021 and an additional 6.6 percent decrease in 2022. Over the last two years, the total decline in agricultural production amounted to 15.7 percent.

Afghanistan's agrarian output is prone to the impacts of climate change, as shown notably through recent occurrences of droughts and floods. In a country where nearly 80 percent of the population depends on agriculture, the severe impacts of climate change and water scarcity are placing substantial hardships on people's livelihoods. These challenges have considerably exacerbated subsistence conditions for more than half of the population reflecting the need for climate resilience and sustainable recovery stakeholders — particularly those from the international community — to consider interventions in the country.

On the other hand, the DFAs instituted a ban on poppy cultivation in April 2022 which has been

effective in significantly curbing poppy cultivation. While this decision is advantageous from a global perspective, it also poses substantial challenges to the livelihoods of numerous Afghan farmers. It is therefore of paramount importance to introduce and promote alternative livelihoods to poppy cultivation and processing, within and outside the agriculture sector, to prevent the subsistence situation from deteriorating further.

The Afghan economy has become increasingly reliant on agriculture. Despite significant contractions in all major sectors over the past two years, the agriculture sector's share of total production has surged—largely because of contraction in non-agriculture sectors—reaching 34 percent in 2022, up from 26 percent in 2019 (Figure 4). Consequently, the Afghan economy and its people have become more vulnerable to adverse climate events.



Source: NSIA, Statistical Yearbook 2022-2023

Due to its weakened and damaged production capacity, any increase in domestic demand in Afghanistan stimulates imports, rather than domestic production. Although production experienced a further decline in 2022 following a sharp drop in 2021, domestic demand

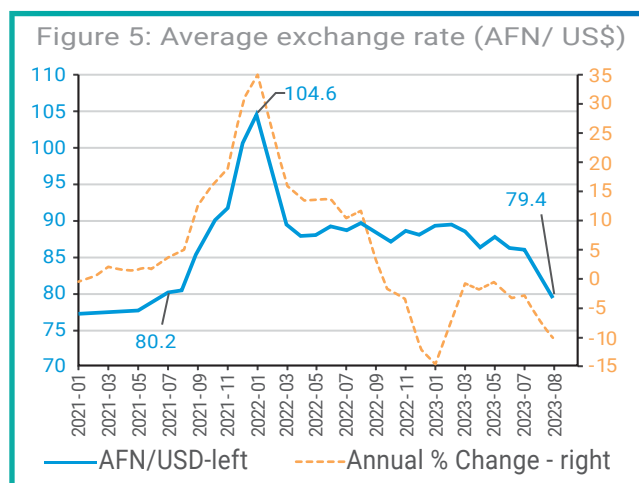
showed signs of recovery, growing by 3.6 percent in 2022 after a steep 23.7 percent decline in 2021. While total consumption, including government spending, only increased by 0.3 percent in 2022, private-led investment saw significant growth, reaching 29.2 percent. However, this modest increase in domestic demand led to a surge in imports rather than boosting domestic production. Although exports increased by 18.6 percent, imports surged by 36.7 percent, resulting in a 50.2 percent decline in net exports in 2022.

Monetary Policy and Exchange Rate

The frozen foreign currency reserves and the inability to easily print banknotes have severely limited the monetary policy options available to the de facto Central Bank of Afghanistan (DAB). Before August 2021, the de facto DAB pursued a monetary policy focused on achieving low inflation. Yet the impact of this policy on macroeconomic conditions was limited, due to the country's underdeveloped financial markets. However, following the change in regime, the primary functions of the de facto DAB, particularly its ability to inject liquidity into the system and print banknotes, have been rendered ineffective. The inability to print AFN banknotes significantly constrained crisis management and liquidity control, which had a profound impact on economic activity and exchange rates. However, with support from the international community on humanitarian grounds, the de facto DAB was able to access new AFN banknotes that were already printed and portions of these were distributed to the market in 2023.

The political change initially led to a significant depreciation of the AFN. In the first

four months after 15 August 2021, the AFN depreciated by 54 percent due to the cessation of international budget support and development aid, the freezing of the de facto DAB's foreign reserves by the US, capital flight and the collapse of the Afghan financial system (Figure 5). However, it subsequently stabilized and remained mostly steady from February 2022 to March 2023. Since then, it has started to appreciate.



Sources: De facto DAB data, UNDP calculations



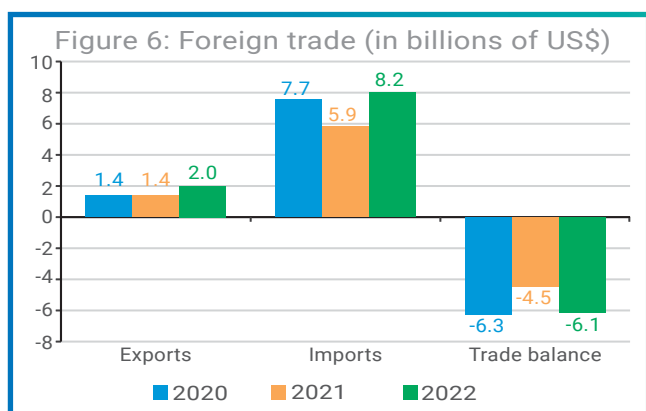
The notable appreciation of the AFN against the US dollar in recent months is helping consumer purchasing power at the expense of domestic industries and exports. The dramatic increase in the value of the AFN against the US dollar can be attributed to control measures implemented by the de facto DAB, including limits on deposit withdrawals, capital outflows, banning use of non-AFN currencies in local transactions,

strong UN aid and a recovery in exports, among others. However, a stronger AFN against the currencies of its main trading partners, such as Pakistan and Iran, is expected to have significant adverse effects on Afghanistan's exports competitiveness in the export markets and negatively impact domestic production by raising inputs costs.

International Trade

Despite the significant economic contraction,

the import of goods and services increased markedly. Imports diminished in 2021 but made a rebound quickly in 2022, surpassing pre-crisis levels (Figure 6). Imports of goods and services had sharply declined from US\$7.7 billion (38.5 percent of GDP) in 2020 to US\$5.9 billion in 2021. However, in 2022, imports swiftly recovered to US\$8.2 billion (56.3 percent of GDP). This rapid rebound in imports, despite weak domestic demand, can largely be attributed to Afghanistan’s weak production capacity and the real appreciation of the AFN against the currencies of its major trading partners, allowing for greater import purchasing power.



Sources: NSIA and ASYCUDA.

Exports of goods and services exhibited a modest increase in 2021 and a substantial surge in 2022. Exports value rose from US\$1.4 billion in 2020 (7 percent of the then US\$ 20 billion GDP) to US\$2.0 billion (14.1 percent of GDP) in 2022. While the exports of coal to Pakistan played a significant role in this increase, agricultural produce exports also saw an uplift. However, the waning momentum in exports in 2023 may signal a loss of competitiveness, likely stemming from currency appreciation against major trading partners or capped demand for Afghan imports.

Preliminary customs data for 2023 indicates that exports have remained largely resilient at 2022 levels, while imports have continued to rise. Exports have seen only a modest 4

percent increase, while imports have surged by a significant 24 percent (Figure 7 and Figure 8). On the exports side, despite the decrease in coal exports to Pakistan, most other exports remained strong, averting an overall decline in the export of goods in 2023. However, the increase in imports has continued in each quarter of 2023, despite the weak aggregate demand in the economy. Based on anecdotal evidence, portions of imported goods may not be consumed in Afghanistan and are instead re-exported to neighboring countries. Any other factors driving the surge in imports, given the weak domestic demand and overall economic contraction, remains mysterious.



Sources: NSIA and ASYCUDA.



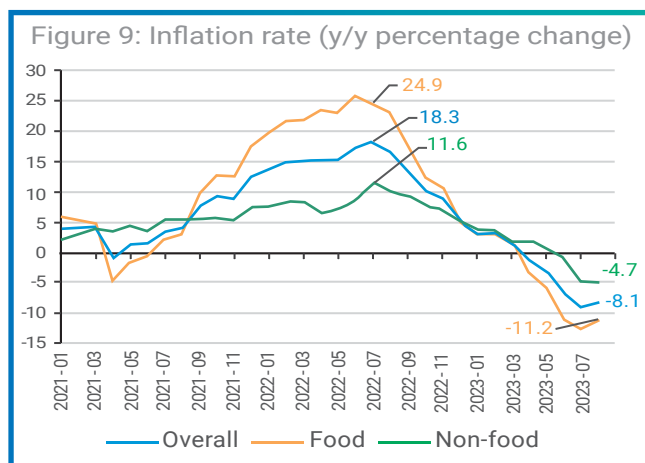
Sources: NSIA and ASYCUDA.

The UN cash shipments, amounting to approximately US\$2 billion, served as a crucial source of financing for household consumption and thereby the trade deficit.

However, it's challenging to pinpoint the exact origins of this deficit financing with the available data. The substantial trade deficit, which amounted to US\$6.1 billion in 2022, is primarily covered by illicit revenues and remittances, in addition to robust international aid. It is crucial to exercise caution when interpreting available trade data. Importantly, the increase in imports may, in part, be attributed to reduced corruption and enhanced border control following the regime change, potentially resulting in more accurate import data. Furthermore, unrecorded (re)exports or transportation of certain imported goods to Pakistan may have contributed to the reported increase in import statistics.

Inflation

Inflation is predominantly influenced by factors such as the exchange rate, international energy and food prices, and domestic demand dynamics. Notably, headline inflation experienced a significant surge following the events of August 2021, driven primarily by the sharp depreciation of the exchange rate, the loss of output and productive capacity, and the global increase in food and fuel prices, largely attributed to the conflict in Ukraine. Consequently, the overall inflation rate climbed to 18.3 percent, while food inflation reached as high as 24.9 percent in July 2022 (Figure 9).



Sources: NSIA data and UNDP staff calculations.

The overall price level and headline inflation rate have displayed a downward trend between July 2022 and August 2023. This decline can be attributed to several factors, including a sharp drop in international food and fuel prices, appreciation of the AFN and weak domestic demand. As of August 2023, the headline inflation rate has turned negative, standing at -8.1 percent. Food and non-food inflation rates have also seen decreases, reaching -11.2 percent and -4.7 percent respectively, during the same period. Notably, according to data from the World Bank, energy prices witnessed a substantial decline of 24.6 percent, while food prices decreased by 5.4 percent in the international markets during this period.

The stability in the exchange rate and the appreciation of the AFN have played a crucial role in keeping inflation in check, preventing a more severe descent into poverty in the short term. However, deflation and the ongoing real appreciation of the AFN, particularly in recent months, pose significant challenges for the competitiveness of local businesses and the overall economic recovery. An overvalued AFN and deflation are likely to impede recovery due to reduced competitiveness and constraints on nominal wage adjustments. These factors will require careful consideration in the efforts being made to reinvigorate the Afghan economy.

Banking Sector and Money Supply

Prior to the crisis, Afghanistan's financial system was characterized by its underdevelopment and heavy dollarization. In 2020, the country had a financial landscape where foreign currency deposits constituted approximately 60 percent of total deposits. Loans made up about 16 percent of deposits, and total deposits were equivalent to nearly 19

percent of the GDP. The primary actors within the formal financial system were the twelve banks that operated in Afghanistan, whose fiduciary services primarily focused on safeguarding funds and facilitating payment transfers. However, it’s worth noting that money exchangers—operating through the hawala system—and the microfinance sector also played crucial roles in the financial system, with money exchangers facilitating money transfers, and microfinance institutions providing micro-loans and financial services to individuals and small businesses.

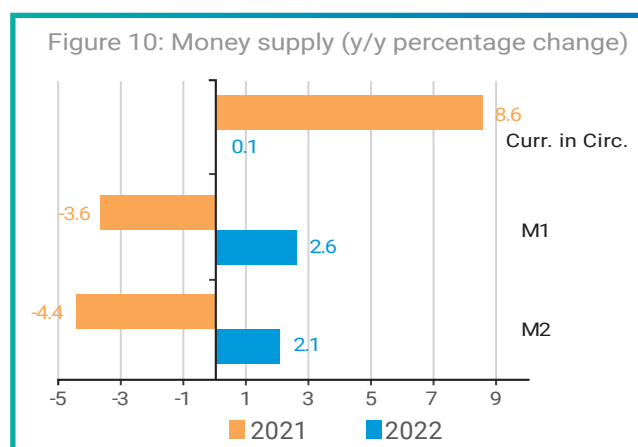
Before the regime change, Afghanistan’s banking system primarily focused on three key functions: facilitating money transfers, collecting deposits and investing funds with the de facto DAB. Additionally, banks played a crucial role in international trade, serving as pivotal institutions in the country’s trade activities. However, the banking system had a limited direct role in credit markets, with only about 3 percent of the credit-to-GDP ratio.

Following the regime change, the banking system in Afghanistan experienced a significant deterioration, primarily attributed to bank runs and a loss of public confidence. This crisis resulted in substantial withdrawals of deposits from banks, causing a sharp decline in both total deposits and outstanding loans. The abrupt halt in international aid, coupled with shrinking bank balance sheets, had a direct impact on the money supply, leading to a substantial reduction in real terms.

The de facto DAB’s inability to produce AFN banknotes, along with the freezing of foreign currency reserves, aggravated both domestic and foreign currency liquidity shortages within the economy, further exacerbating the decline in economic activity. Over the past two years, both the narrow money supply (M1) and the broad money supply (M2) have shrunk by

2.4 percent and 1.1 percent respectively (Figure 10). However, the total increase in currency in circulation expanded by only 8.7 percent, while a significant portion of currency likely being intentionally retained by households and businesses, as suggested by anecdotal evidence.

A significant challenge for the de facto DAB has been the widespread use of worn-out banknotes. Despite a modest 8.7 percent increase in currency in circulation over the past two years, the limited capacity of the de facto DAB to print new banknotes has left most of the circulating currency in poor condition, rendering it ineffective for transactions. It’s important to note that currency in circulation has accounted for more than 60 percent of the money supply in the last two years. However, since October 2022, the de facto DAB has initiated the transfer of new banknotes from abroad to replace the deteriorated ones, on a one-to-one basis. Yet, to bolster AFN liquidity and support economic activity, there’s a pressing need for a net injection of new banknotes, to ensure that the currency in circulation aligns with the economy’s requirements.

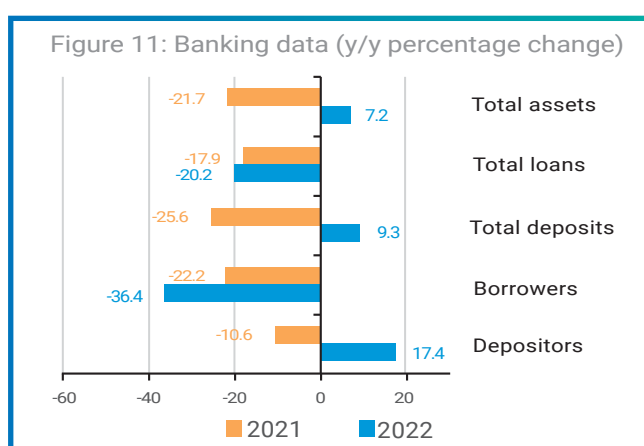


Sources: NSIA data and UNDP staff calculations.

The de facto DAB’s primary crisis management strategy within the banking

system has been to impose restrictions on deposit withdrawals and international transfers. While these limits on withdrawals for deposits made before August have prevented a total breakdown of the banking system, they have had the unintended consequence of further undermining trust in the banking sector. The banking system's crisis has had a ripple effect on informal credit markets, impacting overall liquidity conditions and economic activity through both liquidity and expectation channels.

Following the Taliban's assumption of power, the metrics of the banking system notably deteriorated, particularly up until the first quarter of 2022. There was a significant 25.6 percent drop in deposits in 2021. Nevertheless, due to a slight restoration of trust in the banking system, deposits have been slightly increasing since the latter half of 2022. However, despite the improvements in total deposits and banking system assets, new loans are not being extended. Total loans have seen a sharp decline of 34.5 percent, and the number of borrowers has plummeted by 50.5 percent over the past two years (Figure 11).



Sources: NSIA data and UNDP staff calculations.

While there are indications of a modest increase in banking system deposits, challenges related to asset quality, liquidity,

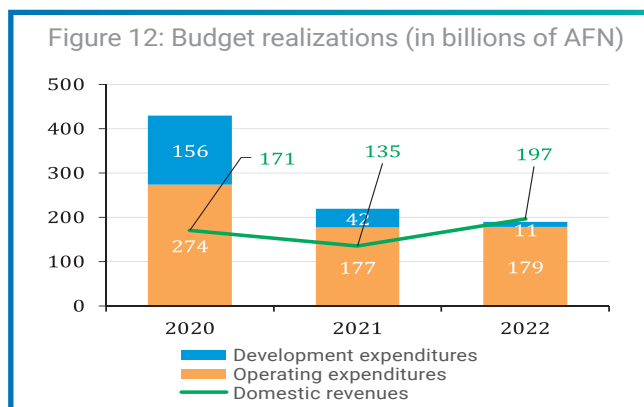
profitability, and confidence continue to linger. In response to these signs of deposit improvement and confidence, the de facto DAB raised the deposit withdrawal limits by approximately 60 percent in May 2023. The restoration of the banking system hinges on a swift economic recovery, enhancement in asset quality, and the generation of revenue. However, the rapid shift from conventional to Islamic banking, along with the prohibition of conventional banking, introduces a potential risk to revenue generation.

Banking system issues are widely recognized as significant barriers and challenges to conducting business in Afghanistan. According to surveys conducted by the UNDP and the World Bank, the most frequently cited challenges reported by businesses are the lack of domestic demand and banking system barriers. Therefore, addressing banking system barriers should be the primary focus for achieving sustainable economic recovery. Tackling the banking system barriers is paramount to boosting economic activity and instilling confidence in the economy.

Public Finance

Since 15 August 2021, Afghanistan has been facing a fiscal crisis. Afghanistan's finances were heavily reliant on international aid, making the nation vulnerable when foreign assistance ceased after the change in regime. The DFA was compelled to make drastic reductions in its expenditures, as a result (Figure 12). Total expenditure saw a significant decline, plummeting by 49 percent in 2021 and 56 percent in 2022, in comparison to 2020. The operating budget was not spared from these reductions, experiencing a 35 percent cut in both 2021 and 2022, when compared to 2020. However, it was the development budget that bore the most

substantial impact, with a 73 percent and 93 percent reduction respectively in 2021 and 2022. While the expenditures to GDP ratio was 28 percent in 2020, this ratio declined to 14.8 percent in 2022. These reductions effectively wiped-out public-sector investments, posing significant challenges to the nation’s economic development and recovery.



Sources: NSIA data and UNDP staff calculations.

Despite the collapse of economic activity, the DFA has managed to improve domestic revenue. Budget revenues did decline by 21 percent in 2021 compared to the 2020 level; however, they rebounded swiftly, surpassing the 2020 level by 15 percent. While the domestic revenue to GDP ratio was 11.1 percent in 2020, this ratio increased to 15.3 percent in 2022. This revenue improvement was driven by enhanced collection efforts, including the decline in corruption, the introduction of new fees and taxes, and a surge in imports, leading to higher customs income. Non-tax revenues also experienced substantial growth. However, it’s important to note that increased taxes can place a heavier burden on the private sector.

The DFA has raised both fiscal revenue and expenditure targets for the fiscal year 2023. As per anecdotal evidence and news

sources, the DFA has set a fiscal revenue target of AFN 210 billion for 2023, representing an approximately 7 percent increase from the actual revenue of AFN 197 billion in 2022.ⁱⁱ In contrast, the expenditure target for 2023 is set at AFN 295 billion, significantly higher than the actual expenditures in 2022. However, it’s important to note that the DFA’s expenditure capacity is constrained by its fiscal revenues. Afghanistan lacks a domestic debt market and external borrowing opportunities, limiting its ability to finance expenditures. Without access to external resources, it is likely that actual expenditures in 2023 will be close to actual revenues. While there isn’t specific data available on the expenditure side, the World Bank’s report indicates that revenue performance is slightly lower than the target during the first five months of the 2023 fiscal year. This suggests ongoing fiscal challenges for Afghanistan.ⁱⁱⁱ

Humanitarian Aid

The humanitarian response played a vital role in preventing a complete collapse of macrofinancial system and a universal poverty scenario. The international community represented by the UN and the international/non-governmental organizations (I/NGOs) quickly responded to the humanitarian crisis that ensued the collapse of the republic government, through cash injections into the paralyzed financial and banking system, and in-kind assistance starting from December 2021.

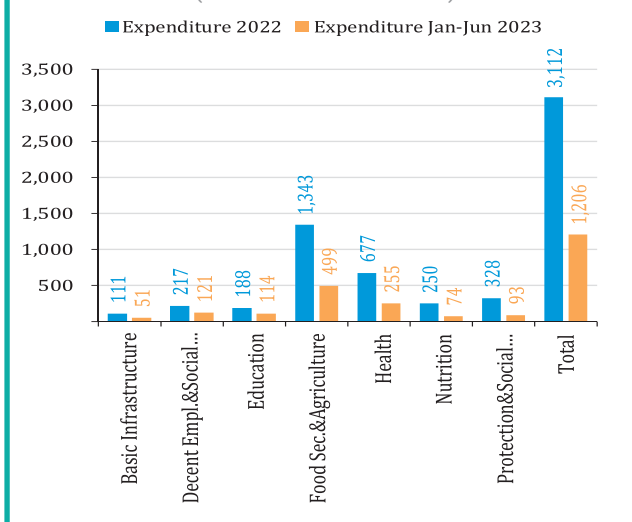
Total UN and NGO aid reached about US\$3.6 billion (25.1 percent of GDP) of

ii_Afghanistan Development Update, October 2023, The World Bank.

iii_Afghanistan Development Update, October 2023, The World Bank

which US\$3.1 billion (21.6 percent of GDP) was delivered by UN Agencies, including about US\$2 billion (13.9 percent of GDP) in cash flow in to support the UN and INGO operations and programmes during 2022. The humanitarian assistance was strongly targeted at basic needs, such as healthcare, food, nutrition and protection of those most deprived. The figure that follows shows actual disbursements of UN aid for 2022 and the first half of 2023. The estimated disbursements for the second half of 2023 are considerably lower, compared to 2022 (Figure 13).

Figure 13: Disbursed UN Aid by thematic area, million USD, (2022 – Jan to Jun 2023)

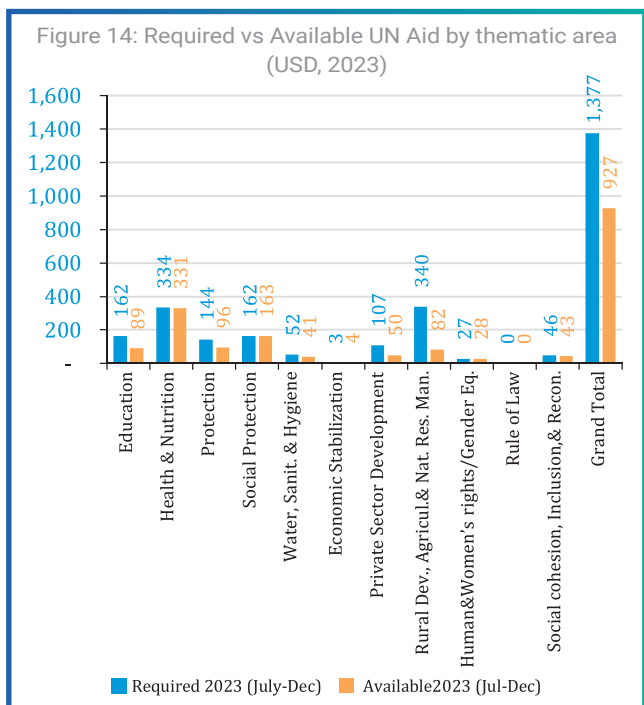


Source: UN Info Database



However, due to the draconian policies introduced by the DFA which severely restrict women's and girls' rights to secondary and tertiary education, employment and general

participation in the public life, the international assistance is declining rather considerably in 2023 (Figure 14).



Opium Economy

The production and export of opiates (opium, morphine, and heroin) have arguably been Afghanistan’s largest illegal economic activity.^{iv} For decades it has provided a sizable share of income for rural populations.

In 2022, 6,200 tons of opium were harvested, marking the sixth consecutive year with more than 6,000 tons of opium production.^v While the ban did not impact production, it triggered a surge in prices, nearly doubling the per-kilogram prices from USD 116 in March 2022 to USD 203 after the announcement.

The high prices during the 2022 harvest tripled the income made by farmers from opium sales, from USD 425 million in

2021 to USD 1.4 billion in 2022. The income from just opium poppy cultivation in 2022 was equivalent to 29% of the value of the country’s entire agricultural sector.

Many farmers shifted to cultivating wheat instead of poppy, which can improve food security, but it did not completely replace the income lost from poppy cultivation and opium harvesting. In 2022, a hectare of opium yielded some USD 6,800 in 2022, an order of magnitude the income from wheat.

The drastic reduction of income for farming households will put pressure on many rural Afghans to meet basic needs in the short term, particularly if viable alternative livelihoods are not available – further driving up rural poverty. The loss of income could also affect the livelihoods of other rural households not directly involved in the opium economy through ripple effects. The sale of stockpiled opium at elevated prices might partially mitigate some adverse economic effects, as opiate exports may continue after a lost harvest.

On the positive side, a sharp reduction in opium cultivation in Afghanistan opens a window of opportunity to support rural communities and channel any factors of opium production toward diversifying Afghanistan’s other economic sectors to bolster sustainable economic recovery.

^{iv} The expansion of methamphetamine manufacture in recent years has added another layer of complexity to the illicit drug economy of Afghanistan. “Understanding Illegal Methamphetamine Manufacture

in Afghanistan”, UNODC, 2023

^v Opium Cultivation in Afghanistan. Latest findings and emerging threats, UNODC, November 2022



2. Households: The Real Victims of the Crises

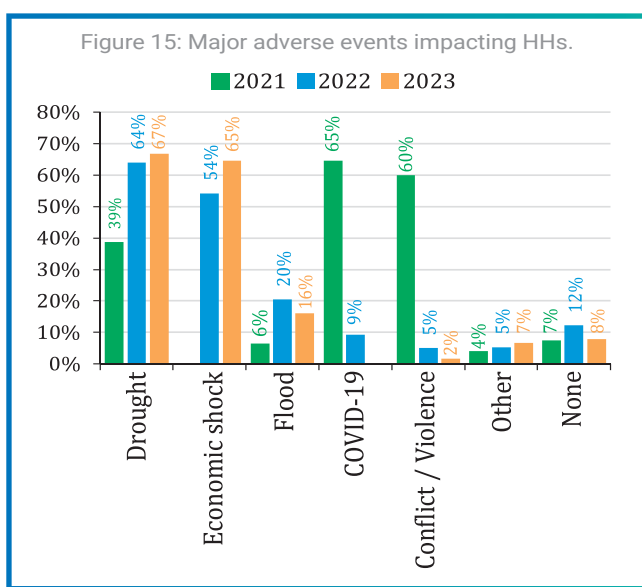
The households (HHs) in Afghanistan have been subjected to major socio-economic transformations between 2021 and 2023. This period has witnessed a confluence of political, economic, social, and environmental factors that have had a significant negative impact on the lives of Afghan families. Because of the international assistance that has been pouring in since late 2021, the households report some improvements in their income and expenditure and overall living conditions in 2023 compared to 2022 although these improvements remain very fragile as international assistance declines.

Adverse Events

Households have been affected substantially by major adverse events. According to the results reported in MSNA, households experienced major adverse events in the six-to-twelve months prior to each survey (**Figure 15**).^{vi} In 2021, COVID-19, active conflict and violence, and drought were the three main events impacting households (65 percent, 60 percent, and 39 percent, respectively, noting that economic shock was not included as a possible answer). In 2022-2023, the effects of active conflict and COVID-19 subsided. In

vi _ Other also includes earthquake and avalanche/heavy snowfall.

2022, drought was the major event affecting households (64 percent), followed by economic shock (54 percent) and flood (20 percent), with these events remaining in that order as the top three adverse events in 2023 (67 percent, 65 percent, and 16 percent, respectively). Only 7 percent of the households in 2021, 12 percent of the households in 2022 and 8 percent of the households in 2023 responded that they had not been affected by any major adverse event.



Sources: MSNA2021–2023

Cashflow in Crises

Households’ incomes were so trivial in 2021–2022 that even a 76 percent rise in their real incomes in 2023 did not make their incomes sufficient to meet basic needs. The 2021–2023 period saw a sharp contraction of the Afghan economy, when the GDP shrank by nearly 26 percent. During the same period, households were bearing debts primarily to cover costs for basic needs such as food, particularly in 2022

(Figure 16 and Figure 17). The MSNA reported a drop in income from 2021–2022 and then an increase between 2022–2023 because of, among others, relatively higher employment for adult members of households, home production and cash transfers. Households’ monetary income for the 30 days prior to the surveys were on average AFN 7,796 (US\$88.90) in 2021, AFN 6,489 (US\$73.30) in 2022 and AFN 10,671 (US\$128.50) in 2023. This corresponds to a nominal decrease of around 17 percent (29 percent in real terms) between 2021–2022 and a nominal increase of approximately 64 percent in 2022–2023 (76 percent in real terms).^{vii}

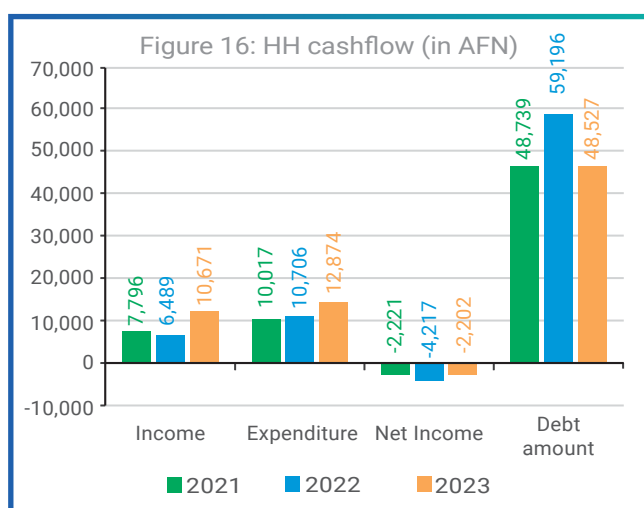
For MSNA2023, questions on remittances were included in the survey and it was found that for the 30 days prior to the survey, 5 percent of households relied on remittances that accounted for 43 percent of their total monetary income. Moreover, in 2023, twice as many households engaged in home-based income generating activities as compared to 2022 (in the 30 days prior to the survey, 10 percent in 2022 and 21 percent in 2023 of households stated that they had been engaged in home-based income generating activities), and this may have contributed to the significant increase in income. Despite these activities, households’ expenditures exceeded incomes even in 2023, resulting in a substantial number of households accruing debt.

Households’ monetary expenditure for the 30 days prior to the surveys were on average AFN 10,017 (US\$113) in 2021, AFN 10,706 (US\$121) in 2022 and AFN 12,874 (US\$155)

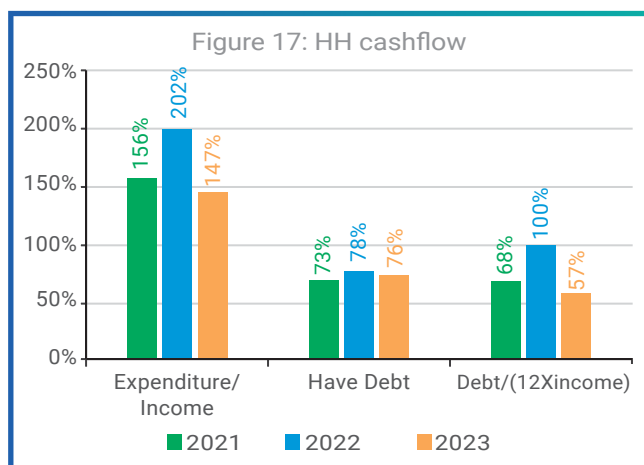
vii_ The real growth rate of income was evaluated using CPI data for August 2021, August 2022, and June 2023.

in 2023, resulting in negative net income for all years (on average AFN -2,221 in 2021, AFN -4,217 in 2022 and AFN -2,202 in 2023), and to around 73–78 percent of households being in debt, typically having borrowed from friends (65 percent in 2023 only).^{viii}

For the households that are indebted, food was the main reason behind taking on debt (48 percent in 2021; this increased to 57 percent in 2022 and remained at a similar level of 56 percent in 2023).



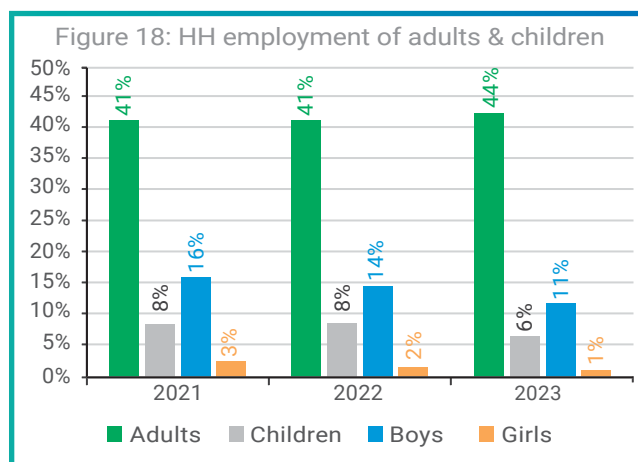
Sources: MSNA2021–2023



Sources: MSNA2021–2023

Employment

Households' adult employment has risen marginally, and child labour has dropped slightly. The share of adult working members of the household remained at a similar level of 41 percent in 2021 and 2022 (Figure 18). In 2023, household employment rose to 44 percent. Child labour slightly decreased in 2023 compared to 2021–2022 (from around 8 percent in 2021–2022 to 6 percent in 2023), however it remained above 10 percent for boys (16 percent in 2021, 14 percent in 2022 and 11 percent in 2023).^{ix}



Sources: MSNA2021-2023

Living Conditions

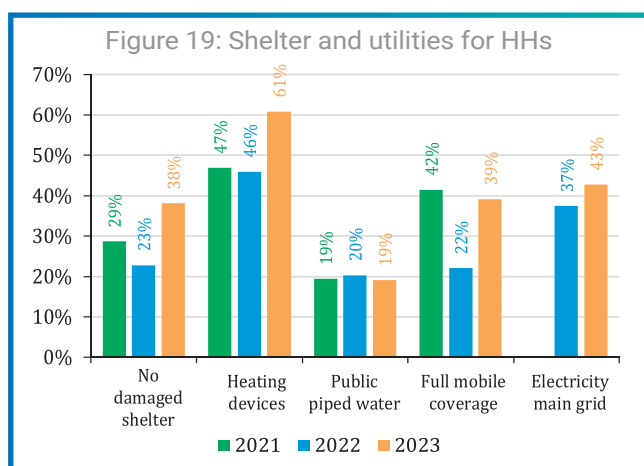
There are some improvements in the living conditions of households this year. Overall, living conditions seem to have improved in 2023 compared to 2021 and 2022 (Figure 19). During the same period, significant amounts of humanitarian assistance was provided. More households live in better shelters (38 percent in 2023, compared to 29 percent in 2021 and 23 percent in 2022)

viii_ In 2021, total expenditures did not include expenditure on frequent and infrequent non-food items (NFIs). In 2021–2023, total expenditures did not include expenditure on durables.

ix_ Households' adult employment was evaluated as the number of adults working outside of the household in the 30 days prior to the survey divided by the number of adults in the household. Households'

children/boys/girls employment was evaluated as the number of children/boys/girls working outside of the household in the 30 days prior to the survey, divided by the number of children/boys/girls in the household aged 6–17. In 2021 the age range for asking about child labour was 11–17 years old, while in 2022-2023 it changes to below 18 years old.

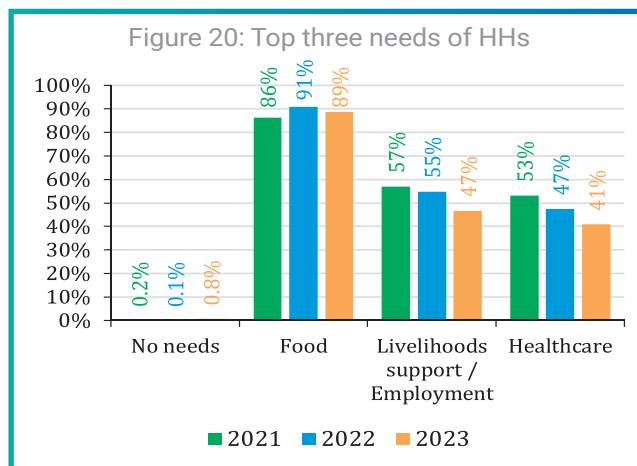
and have access to heating devices (61 percent in 2023, as opposed to 46–47 percent in 2021–2022). Access to public piped water has remained flat over the years (around 19–20 percent), while electricity from the main grid has become more available (43 percent in 2023, compared to 37 percent in 2022). Full mobile coverage (voice, SMS, internet) availability saw a deterioration in 2022 (22 percent in 2022, as opposed to 42 percent in 2021) but recovered in 2023 (39 percent).



Sources: MSNA2021–2023

Food remains the greatest need of households despite increases in incomes and expenditures, and improved living conditions. Despite the improvements in income and the sharp drop in prices in 2023, households still cite food as their highest need (Figure 20). In the MSNA2021–2023 surveys, households were asked to report their top three needs from a long list of options. In all three years, food ranked first (86 percent in 2021, 91 percent in 2022 and 89 percent in 2023), followed by livelihoods support/employment (57 percent in 2021, 55 percent in 2022 and 47 percent in 2023) and with healthcare ranked third (53 percent in 2021, 47 percent in 2022 and 41 percent in 2023). Less than 1 percent of the households cited that they did not have any

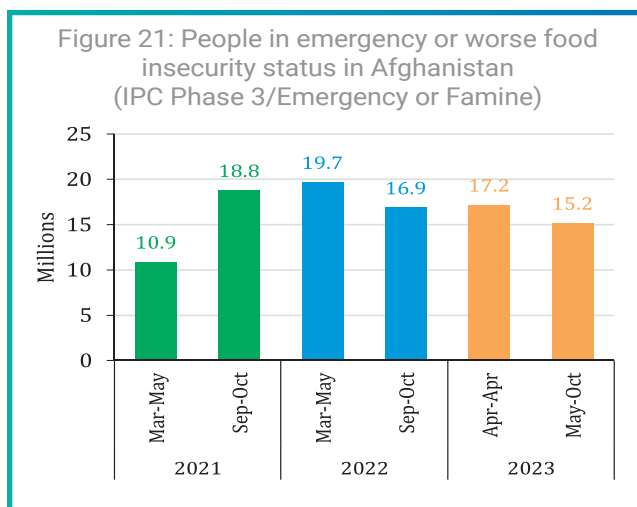
needs, reflecting the extent and gravity of the subsistence conditions across essentially the entire population.



Sources: MSNA2021–2023

Food Insecurity

In food insecurity terms, a smaller number of Afghans (15.2 million) are currently in food insecurity emergency or worse categories compared to last year (19.7 million), based on Integrated Food Security Phased Classification (IPC) categorization (Figure 21). Food security has improved, due largely to the ongoing humanitarian response. However, the gains in food security remain very fragile and could reverse quickly if humanitarian assistance continues to decline.

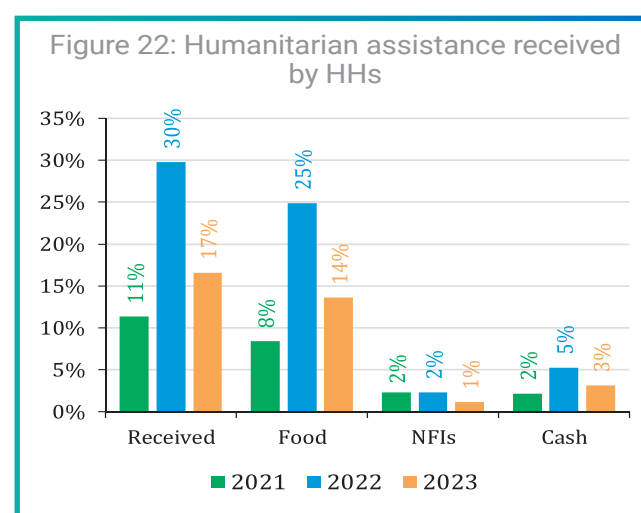


Source: Integrated Food Security Phase Classification

Humanitarian Assistance Delivery

Humanitarian assistance is dropping sharply, at a time when more than 99 percent of households identify food, livelihoods or healthcare as their biggest need for the second year, following the regime change in August 2021. The proportion of households that are humanitarian assistance recipients (in the 30 days prior to survey interview) has nearly halved in 2023, compared to 2022 (Figure 22). In 2023, there was a drop in the number of households receiving humanitarian assistance (17 percent) with most assistance relating to food (14 percent). Since the beginning of 2023, 65 percent of households report that their access to humanitarian assistance has decreased, 1 percent state that access has increased, while a further 26 percent report that they have never accessed humanitarian assistance. Households cite the main reasons for this decrease as: a reduction of assistance in the area for all community members (86 percent), followed by reduction in the number of female aid workers delivering assistance to women (39

percent) and finally the lack of information on how and where to get assistance from (15 percent). In 2021–2023, when asked what type of information the household would like to receive from aid providers, information on food assistance was listed first (78 percent in 2021, 83 percent in 2022 and 73 percent in 2023). Only 2–4 percent of the households replied that they do not want to receive any information from aid providers. Moreover, less than 1 percent answered that they have no need, nor wanted to receive humanitarian assistance in the future.



Sources: MSNA2021-2023

3. Gender Developments: Women Disproportionately Victimized by the Changes

Since August 2021, different decrees have been put in place reducing the access of women and girls to education, employment and daily public services. This has effectively reversed two decades of hard-won gains in gender equality. An indicative timeline of the additional measures is presented in the annex. The economic loss caused by these restrictions

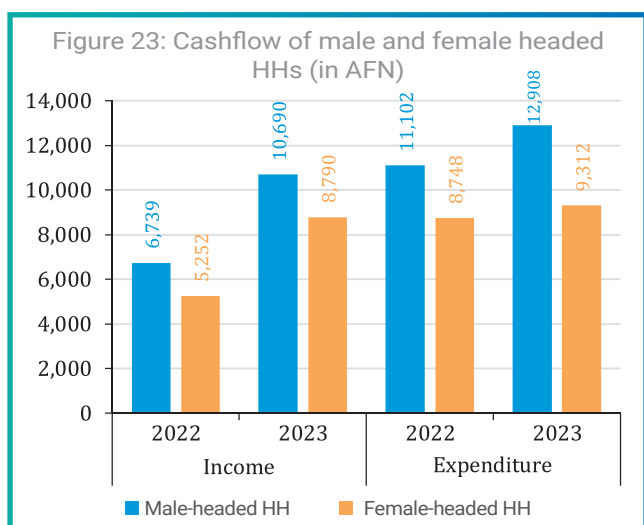
on female workforce was estimated to reach up to US\$ 1 billion by end of 2022.^x

Income Generation is Harder for Women

Households' per capita incomes of female-headed households are almost the same as male-headed households; however, female-headed households put in extra efforts to achieve this per capita

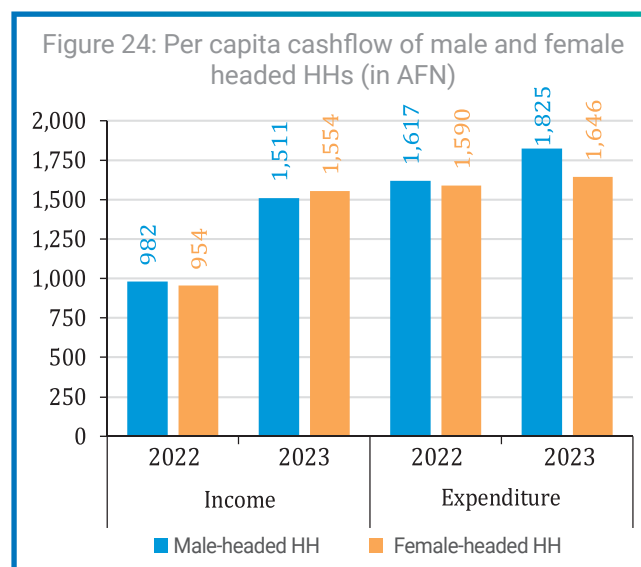
X_ Afghanistan Socio-Economic Outlook 2023

income similarity to male-headed households. The average monetary income 30 days prior to MSNA interviews is higher for male-headed households—AFN 6,739 (US\$76.10) in 2022 and AFN 10,690 (US\$128.80) in 2023—compared to female-headed households, which was AFN 5,252 (US\$59.30) in 2022 and AFN 8,790 (US\$105.90) in 2023 (Figure 23). Similarly, for average monetary expenditure 30 days prior to interviews, male-headed households spent more—AFN 11,102 (US\$125.40) in 2022 and AFN 12,908 (US\$155.50) in 2023—than female-headed households, the expenditure of which was AFN 8,748 (US\$98.80) in 2022 and AFN 9,312 (US\$112.20) in 2023. Female-headed households tend to have fewer members, typically one adult less. As such, when evaluating per capita values, incomes for male- and female-headed households are similar—AFN 982 (US\$11.10) versus AFN 954 (US\$10.80) in 2022 and AFN 1,511 (US\$18.20) versus AFN 1,554 (US\$18.70) in 2023—and per capita expenditures are marginally higher for male-headed households—AFN 1,617 (US\$18.30) versus AFN 1,590 (US\$18.00) in 2022 and AFN 1,825 (US\$22.00) versus AFN 1,646 (US\$19.80) in 2023.



Sources: MSNA2022–2023

Female-headed households have proportionally more members working to achieve a similar level of per capita income to male-headed households. Moreover, female-headed households are more involved in home-production. In 2022 and 2023, 6 percent and 20 percent respectively of male-headed households were engaged in home-production, while those percentages for female-headed households were 29 percent and 45 percent respectively. Therefore, female-headed households require more effort to achieve per capita income similar to their male counterparts (Figure 24).

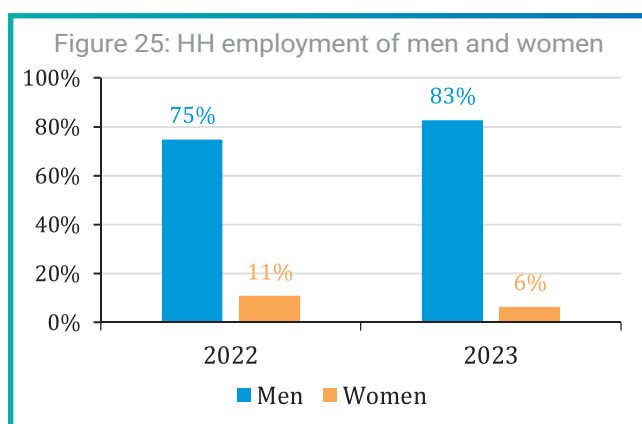


Sources: MSNA2022–2023

Drastic Decline in Female Employment

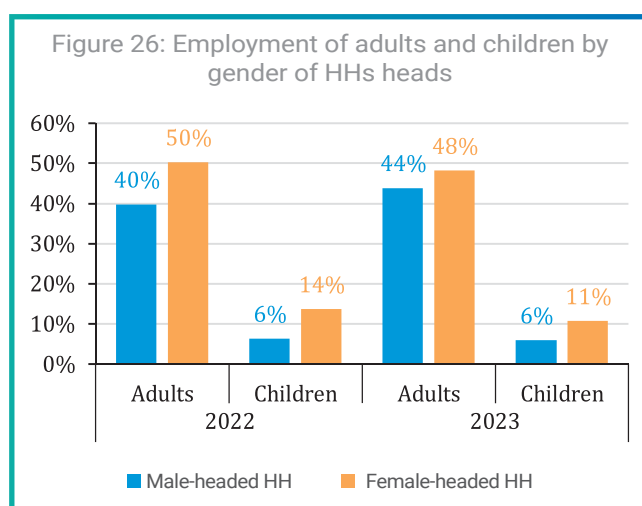
Women’s employment decreased nearly by half while men’s employment increased by 11 percent in 2023 reflecting the effects of the de facto authorities bans on women’s activities. Overall household employment has risen from 41 percent in 2022 to 44 percent in 2023 (Figure 26). However, the proportions of employed men and women

diverge. There was an increase in the share of male working members of the households from 75 percent in 2022 to 83 percent in 2023. On the other hand, for women, the share has nearly halved in the same period, from 11 percent in 2022 to just 6 percent in 2023 (Figure 25).^{xi}



Sources: MSNA2022–2023

When looking at the employment of adults and children in male- and female-headed households, around 4–10 percent more adults are employed in female-headed households and almost double the proportion of children (Figure 26).^{xii}

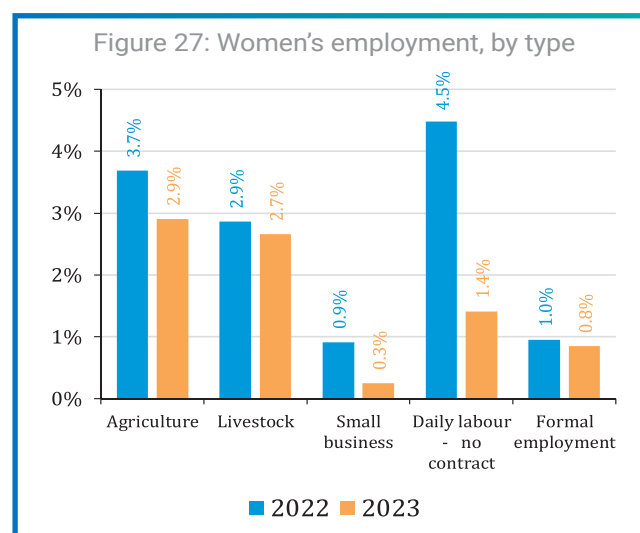


Sources: MSNA2022–2023

xi_Households' men/women employment was evaluated as the number of adult working outside of the household in the 30 days prior to the survey divided by the number of men/women in the household.

xii_Households' adult employment was evaluated as the number of adults working outside of the household in the 30 days prior to the

Employment taken up by women has seen a reduction across all areas, with a notable relative reduction occurring in daily labour and small businesses (Figure 27). This deterioration in women's employment was anticipated, given the restrictions and bans imposed on women since August 2021.



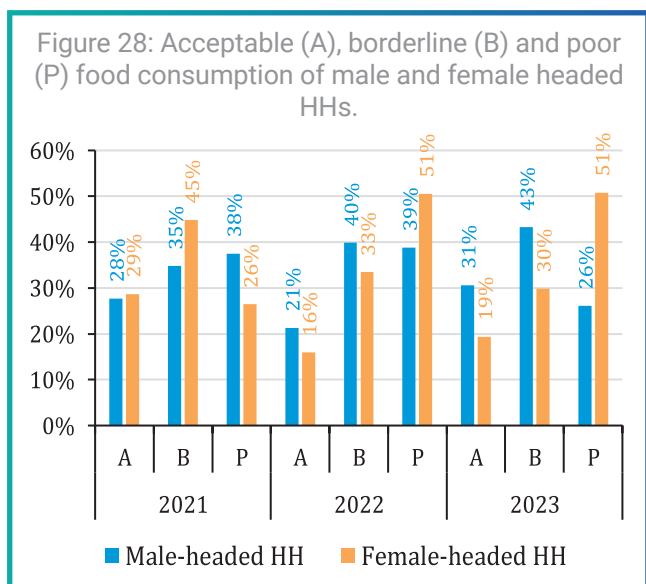
Sources: MSNA2022–2023

Disproportionate Food Consumption

Food consumption in female-headed households is smaller in quantity compared to that in male-headed households. The MSNA surveys report on the food consumption of households for one week and evaluate the food consumption score (FCS) that accordingly classifies the households as having poor, borderline or acceptable food consumption (Figure 28). Acceptable food consumption was at similar levels for male- and female-headed households in 2021 (28

survey divided by the number of adults in the household. Households' children employment was evaluated as the number of children working outside of the household in the 30 days prior to the survey divided by the number of children in the household aged 6–17.

percent and 29 percent respectively). While it dropped for both male- and female-headed households in 2022, the fall was sharper for female-headed households (21 percent for male-headed households and 16 percent for female-headed households). In 2023, the situation improved substantially by 10 percent for male-headed households (31 percent from 21 percent), but only by a marginal 3 percent for female-headed households (19 percent from 16 percent). Moreover, in 2022–2023 there is a notable improvement for male-headed households in the poor food consumption level (39 percent in 2022 and 26 percent in 2023). However, during this period, around half of female-headed households had poor food consumption level.

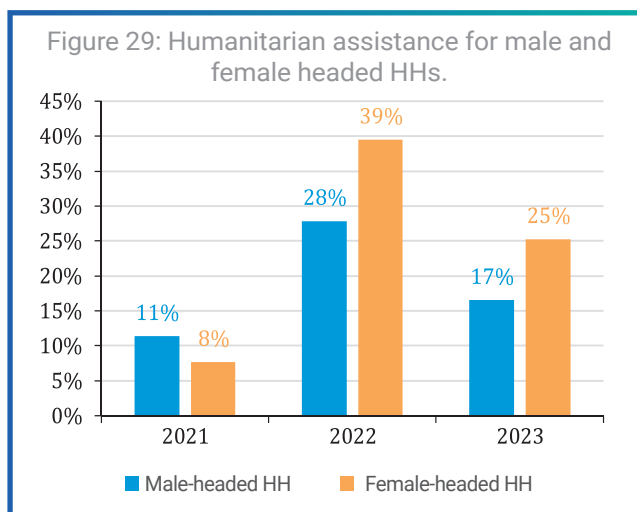


Sources: MSNA2021–2023

Gender-Balanced Assistance

Female-headed households have a greater need for humanitarian assistance but face

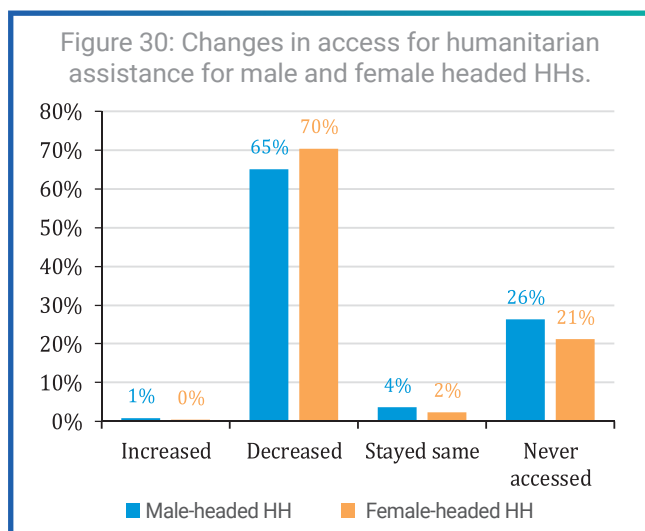
more barriers in accessing it. In 2021, slightly more male-headed households received humanitarian assistance (in 30 days prior to interview) compared to female-headed households—11 percent as opposed to 8 percent (Figure 29). This reversed in 2022, when more male- and female-headed households were recipients of humanitarian assistance, but female-headed households significantly exceeded male-headed households (28 percent for male- and 39 percent for female-headed households). In 2023, there was a reduction in humanitarian assistance for both male- and female-headed households, again with female-headed households surpassing male-headed households (17 percent for male- and 25 percent for female-headed households).



Sources: MSNA2021–2023

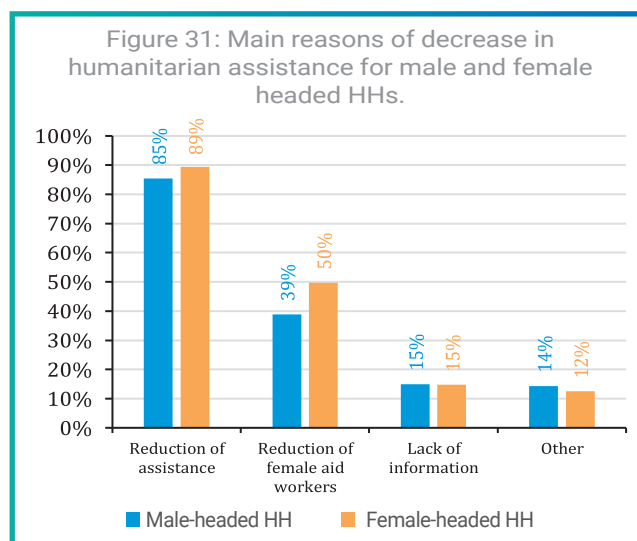
The reduction in humanitarian assistance in 2023 was confirmed when households reported on changes in access since the beginning of the year (Figure 30). In 2023, more female-headed households (70 percent) than male-headed households (65

percent) stated that their access to humanitarian assistance had decreased. Moreover, less female-headed households (21 percent) than male-headed households (26 percent) reported that they have never accessed humanitarian assistance.



Source: MSNA2023

The reasons behind the reduction in humanitarian assistance are similar for male- and female-headed households (**Figure 31**) with one exception – the reduction of female aid workers delivering assistance to women. Half of female-headed households cite the reduction of female aid workers as one of the reasons behind the decline in access, as opposed to 39 percent of male-headed households, albeit at remarkably high percentages for both types of households. Overall, female-headed households are more in need of assistance, and banning women’s employment at NGOs had a detrimental effect in delivering aid for both male- and female-headed households.



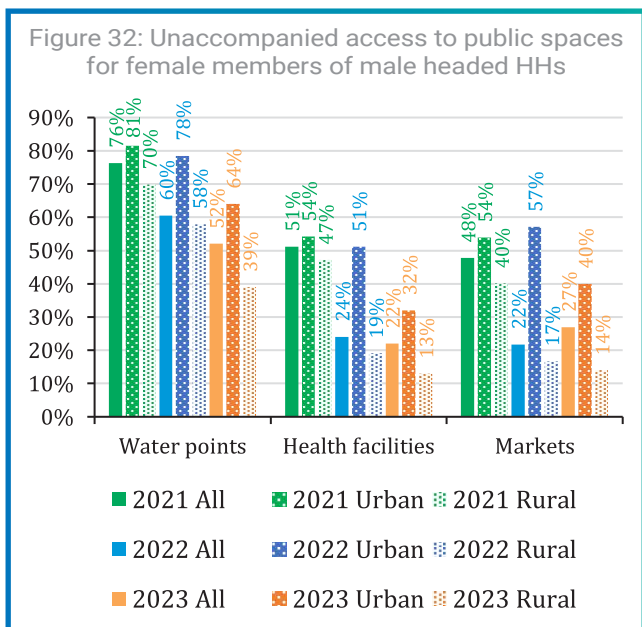
Source: MSNA2023

Access to Public Spaces and Education

Access to public spaces has been severely restricted for women. In the MSNA surveys, female members of male-headed households were asked about their access to public spaces, like water points, health facilities and markets (**Figure 32**).^{xiii} In 2021, 76 percent could access water points alone, 51 percent could go to health facilities by themselves, and 48 percent could visit markets unaccompanied. However, in 2022–2023 the restrictions imposed on women resulted in sharp declines of these percentages. In 2023, only 52 percent could go to water points alone, only 22 percent could visit health facilities alone, and just 27 percent could go to markets unaccompanied. As a consequence, accompanied access has increased in 2022–2023 compared to 2021. Accompanied access to water points has increased from 18 percent in 2021 to 31–34 percent in 2022–2023, to health facilities

xiii. The potential answers included 1. Access alone 2. Access only if accompanied and 3. Cannot access.

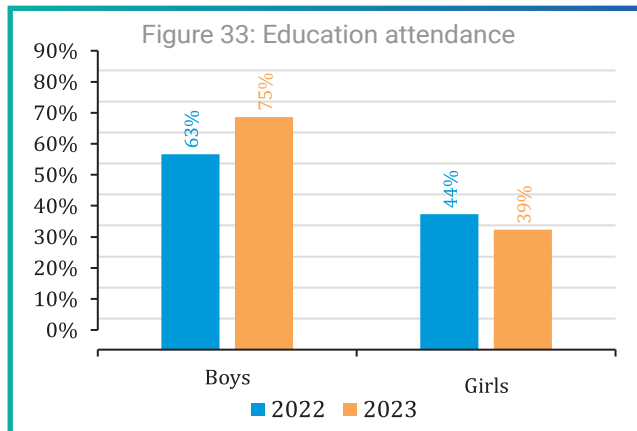
from 45 percent in 2021 to 71–72 percent in 2022–2023, and to markets from 35 percent in 2021 to 59 percent in 2022–2023. Women’s unaccompanied access to public places in rural areas has consistently had greater decline compared to urban areas during 2021–2023.



Sources: MSNA2021–2023

Educational attendance has increased for boys but has deteriorated for girls. The

proportion of boys attending school has increased from 63 percent in 2022 to 75 percent in 2023 (Figure 33).^{xiv} However, while education attendance for primary school-aged girls made some gains over the last year, the rate dropped for all school-aged girls from an already low level in 2022 at 44 percent to 39 percent in 2023, considerably driven by the bans on secondary girls’ education. The bans on girls’ education have had a detrimental effect and their impact will be seen soon, with almost half of the population having low education.



Sources: MSNA2022–2023



xiv. In MSNA2022, school attendance is for the past 6 months prior to interviews. In MSNA2023, school attendance is for the school year 2022–2023.

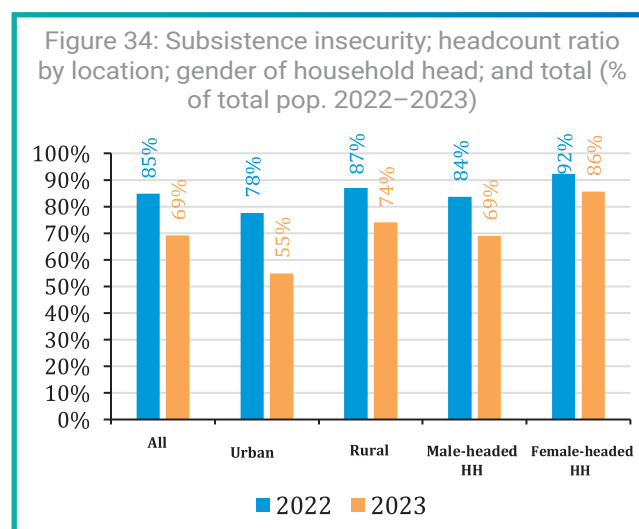
4. Subsistence Insecurity Index: An Innovative Approach to Analyse The Extent and Intensity of Destitution

Introduction

This study constructs an index called the Subsistence Insecurity Index (SII) to quantify the extent and degree of subsistence insecurity prevalent in Afghanistan, following the Alkire-Foster (AF) method for the multidimensional poverty index (MPI). Using the MSNA2022–2023 data, a set of 17 indicators are selected, based on relevance to subsistence, that cover the dimensions of health, living conditions and livelihoods in order to identify whether or not a household is subsistence insecure (Table 1, Annexes) meaning whether the households have access to most basic items, opportunities and services needed for mere subsistence-level living conditions. This yields a set of 17 binary variables for every household, each taking the value of 1 if the household is deprived and 0 otherwise. For each household, a subsistence insecurity score is constructed by taking the weighted sum of the 17 binary variables. The three dimensions, health, living conditions and livelihoods, are assigned an equal weight of one third and the indicators within their dimension are equally weighted. The subsistence insecurity score is compared to the cut-off value of 33 percent. Households and their members that have a subsistence insecurity score equal to or greater than this cut-off value are identified as subsistence insecure. In addition to evaluating the proportion of households and their members that are subsistence insecure (headcount ratio SSI [H]), the intensity of the subsistence insecurity is also computed as the average of the subsistence insecurity score of the subsistence insecure households and their members (intensity SII[A]). The product of the headcount ratio and the intensity ($H \times A$) provides the subsistence insecurity index (SII).

The Extent of Subsistence Insecurity

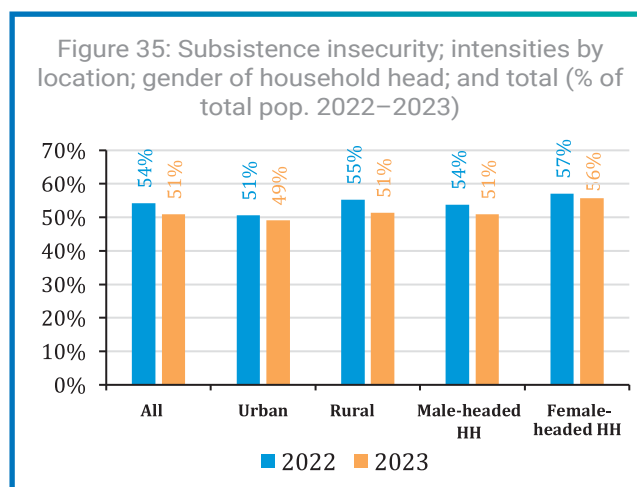
It was found that in 2022 and 2023, 85 percent and 69 percent, respectively, of Afghan people are subsistence insecure (Figure 34). The situation in rural areas is worse than urban areas, with 87 percent in 2022 and 74 percent in 2023 of people living in rural areas being subsistence insecure, while 78 percent in 2022 and 55 percent in 2023 of people residing in urban areas are classified as subsistence insecure. In 2022, for male- and female-headed households, the extent of subsistence insecurity is at extremely high levels, being worse for female-headed households (84 percent for male-headed households and 92 percent for female-headed households). In 2023, male-headed households experienced a significant improvement (from 84 percent in 2022 to 69 percent in 2023). However, in 2023, female-headed households improved marginally (from 92 percent in 2022 to 86 percent in 2023) and are currently on par with the level experienced by male-headed households— but in 2022.



Sources: MSNA2022–2023

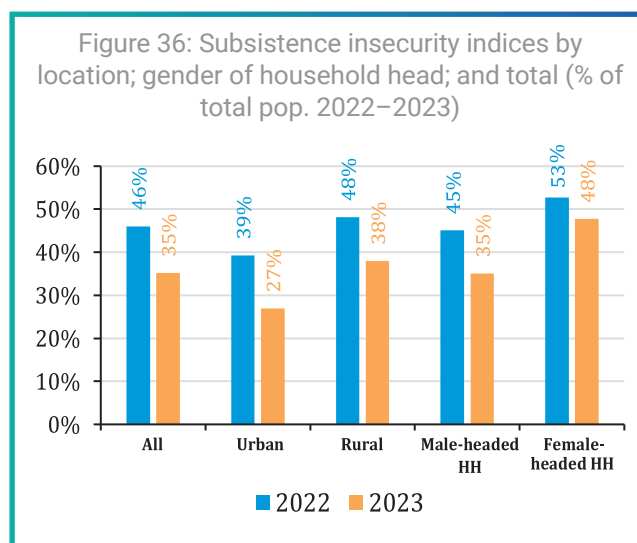
The Intensity of Subsistence Insecurity

While there are improvements in the proportions of people being subsistence insecure, the intensity of subsistence insecurity has not shown much change. At the national level, the subsistence insecure portion of the population were deprived in 54 percent and 51 percent of the 17 weighted indicators for subsistence insecurity in 2022 and 2023 respectively (Figure 35). The subsistence insecure population residing in urban areas, suffered insecurities in 51 percent and 49 percent of the 17 weighted indicators respectively in 2022 and 2023. A small reduction in intensity of subsistence insecurity is observed for rural population. These people experienced subsistence insecurity in 55 percent in 2022 and 51 percent in 2023 of the 17 weighted indicators for subsistence insecurity, a marginal improvement of 4 percentage points. At the national level, subsistence insecure male-headed households experienced subsistence insecurity in 54 percent in 2022 and 51 percent in 2023 of the 17 weighted indicators for subsistence insecurity, while the female-headed households were subsistence insecure in 57 and 56 percent of the 17 weighted indicators in 2022 and 2023 respectively. Overall, the intensity of subsistence insecurity is lower in urban areas compared to rural areas and is higher in female-headed households as opposed to male-headed households. Over the comparison years, the intensity of subsistence insecurity for Afghans has remained very similar, by and large.



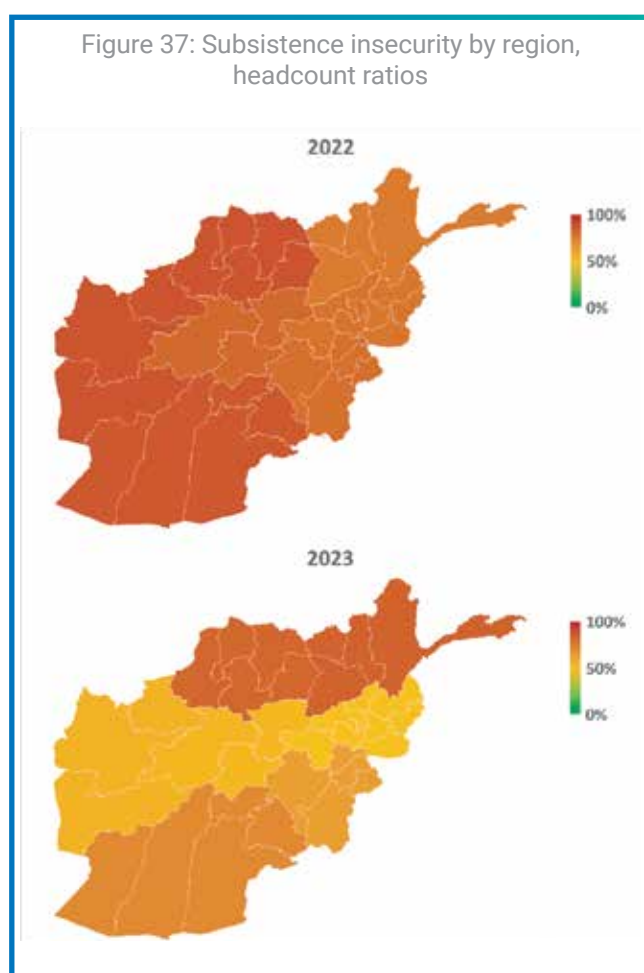
Sources: MSNA2022–2023

The subsistence insecurity index, evaluated as the product of the headcount ratio and the intensity, is 46 percent in 2022 and 35 percent in 2023 (Figure 36). Hence, subsistence insecure people in Afghanistan experience 46 percent in 2022 and 35 percent in 2023 of the insecurities that could be faced if the entire population were subsistence insecure. The improvement in the subsistence insecurity index in 2023 is mainly driven by the drop in the headcount ratio rather than the intensity. Similar conclusions arise when examining the male- and female-headed households as well as people living in urban and rural areas.



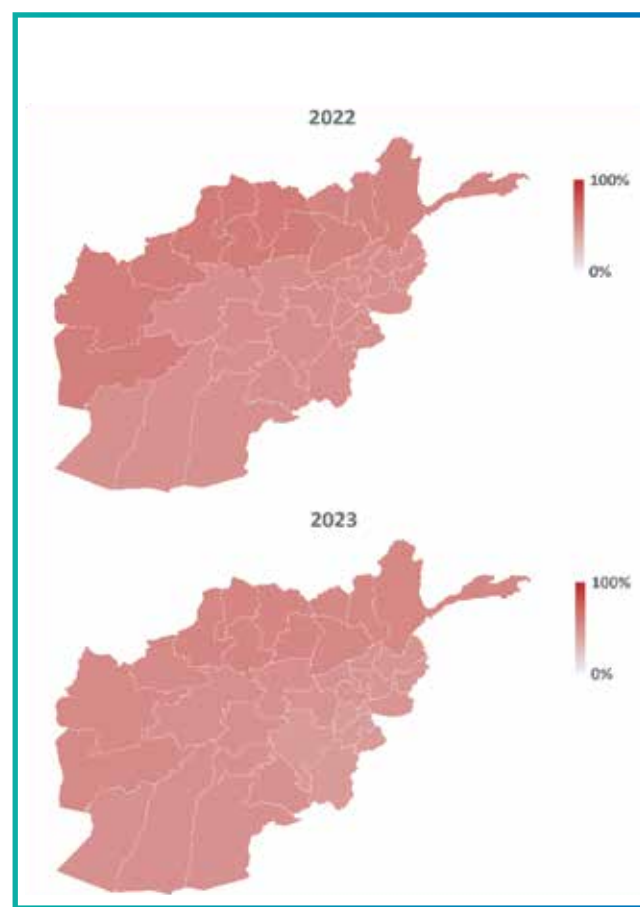
Sources: MSNA2022–2023

In 2022, all regions of Afghanistan had a high degree of subsistence insecurity, ranging from 80 percent in the north-eastern region to 91 percent in the northern region (Figure 37). In 2023, most regions showed improvements in subsistence security, where the values ranged from 55 percent in the central region to 87 percent in the north-eastern region. The greatest improvement was in the western region (89 percent in 2022 dropping to 63 percent in 2023) and the weakest performance was in the north-eastern region (80 percent in 2022 and 87 percent in 2023).



The intensity of subsistence insecurity improves in some regions but in others remains almost constant (Figure 38). In 2022, the intensity varied from 51 percent in the southern region to 60 percent in the northern region, while in 2023, it varied from 45 percent in the south-eastern region to 55 percent in the northern region. The intensity of subsistence insecurity improved the most in the western region (from 60 percent to 52 percent), while it remained almost unchanged in the north-eastern region (at 55 percent in 2022 and 54 percent in 2023).

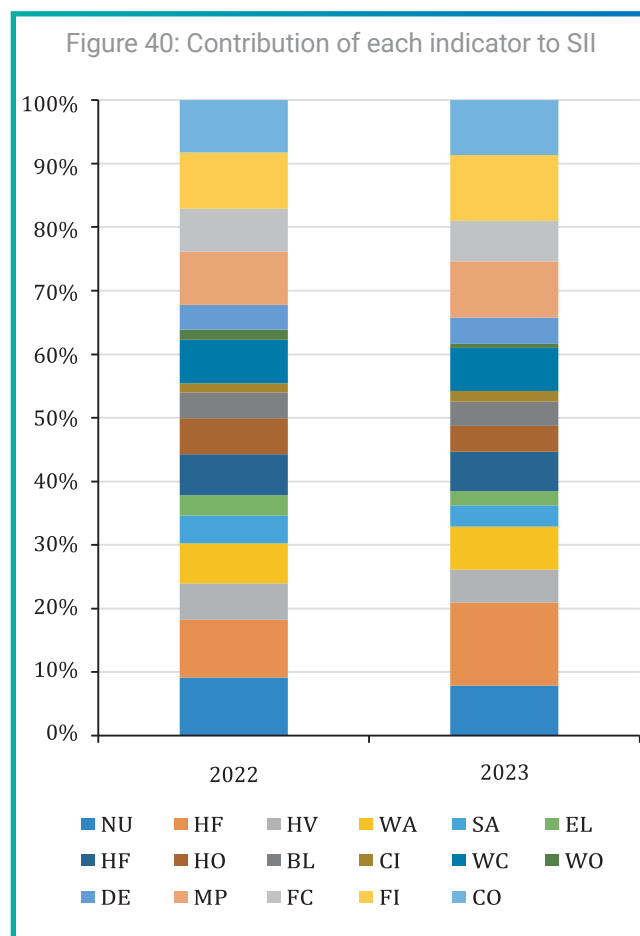
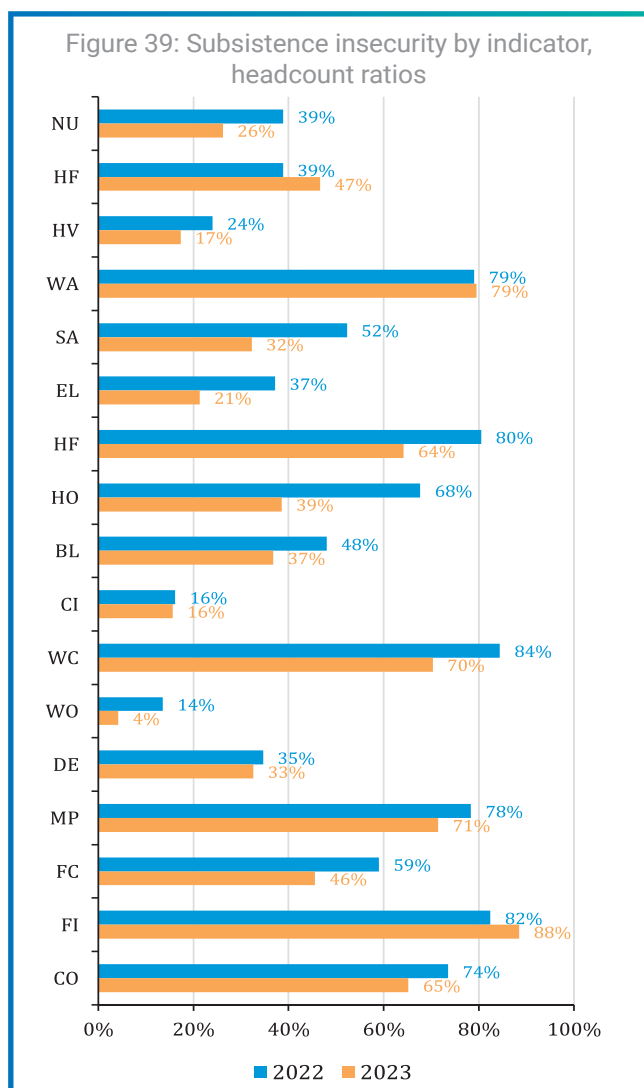
Figure 38: Subsistence insecurity by region, intensities



The proportions of the population that are deprived in the selected indicators provide

some insight to the sources of subsistence insecurity (Figure 39). All indicators show various degrees of improvement in 2023 compared to 2022, except those related to healthcare affordability, water and financial impact. In 2022, high deprivation of above 60 percent is found for the indicators about winter clothing (84 percent), financial impact (82 percent), heating fuel (80 percent), water (79 percent) market food prices (78 percent), coping (74 percent) and housing (68 percent). On the other hand, in 2023, the latter indicators remain approximately as the worst performing, albeit not in the same order and with housing showing substantial

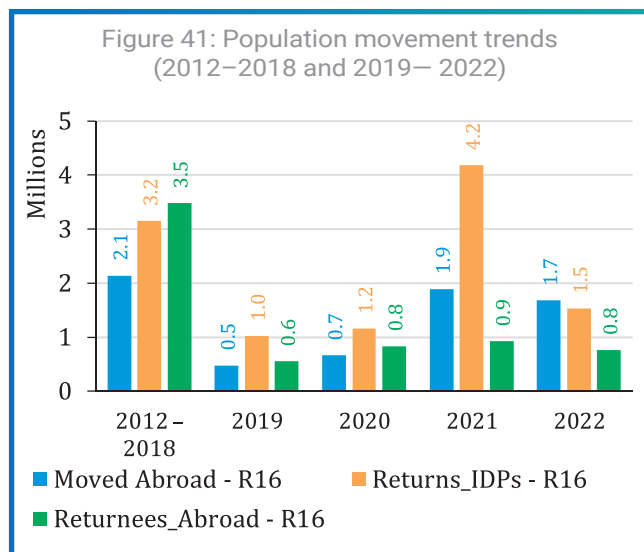
improvement. High deprivation of above 60 percent is observed for financial impact (88 percent), water (79 percent) market food prices (71 percent), winter clothing (70 percent), coping (65 percent) and heating fuel (64 percent). Focusing on the subsistence insecure population, the various indicators seem to have similar contributions to the subsistence insecurity index in 2022 and 2023 (Figure 40 and Table 1 in the Annexes) The top five contributing indicators are healthcare affordability, nutrition, financial impact, market food prices and coping (8–9 percent in 2022 and 8–13 percent in 2023).



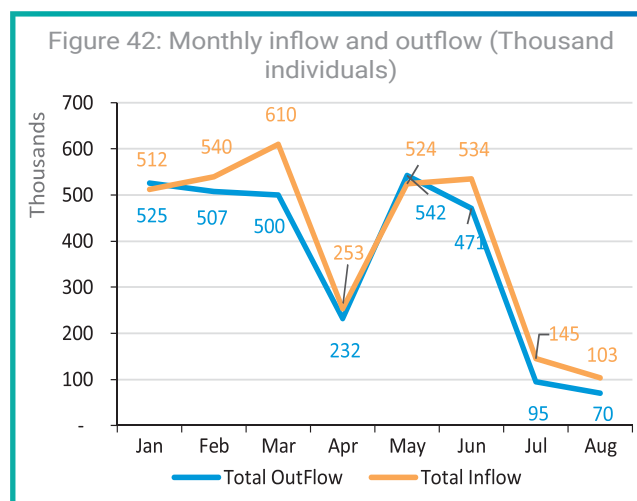
5. Cross-sectoral Developments:

Population Movements

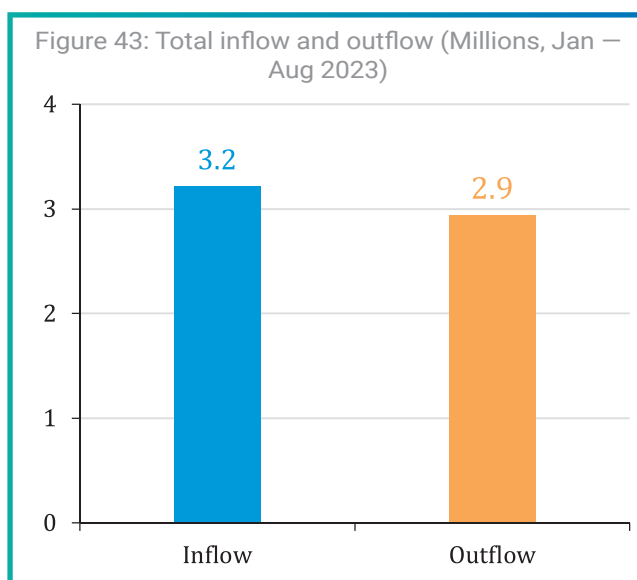
As was the case in 2021, about 2 million people moved out of Afghanistan in 2022, keeping the level of population moving abroad very high compared to the 2020 figure of 0.7 million people. On the other hand, 0.8 million people returned from abroad in 2022, which is similar to the number of returnees in 2021 (Figure 41). As for the first half of 2023, the numbers of people leaving (2,9 million) and entering (3,2 million) the country are close – suggesting significantly more people are moving in and out of the country compared to before 2021 (Figure 42).^{xv} (Figure 43). However, the number of IDPs in 2022 (4.2 million) has decreased significantly compared to a year before (1.5 million) – a decrease of 64.2 percent.



Source: International Organization for Migration’s Displacement Tracker Matrix (IOM DTM) database



Source: International Organization for Migration’s Displacement Tracker Matrix (IOM DTM) database



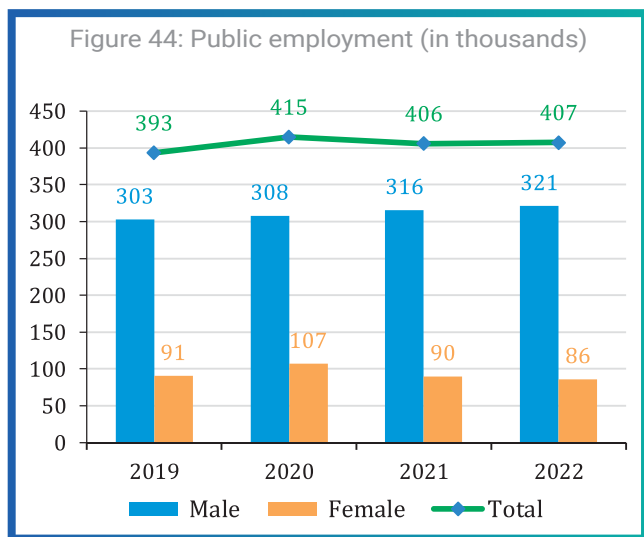
Source: International Organization for Migration’s Displacement Tracker Matrix (IOM DTM) database

Note: IOM DTM Flow Monitoring activities have been suspended since July 2023 for the Torkham, Spin Boldak and Zaranj borders. Data for August only represents movements through Islam Qala border.

XV_ The population movement data collection for 2023 was disrupted after the month of June due to border tensions and closures involving Pakistan.

Public Employment and Institutional Developments

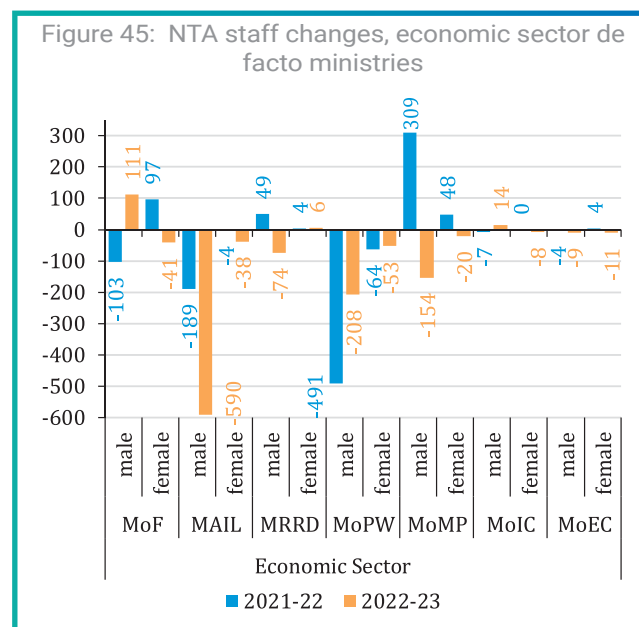
Regime change and fiscal crises have not caused a significant decline in total public employment (Tashkeel) in the last two years (Figure 44). Total public employment declined to 407,000 in 2022 from 415,000 in 2020. However, the number of female employees declined by 20,500 to 86,000 in 2022, from 107,000 in 2020, reflecting the restrictions on female employment in public jobs.



Source: NSIA, Statistical Yearbook 2022-2023

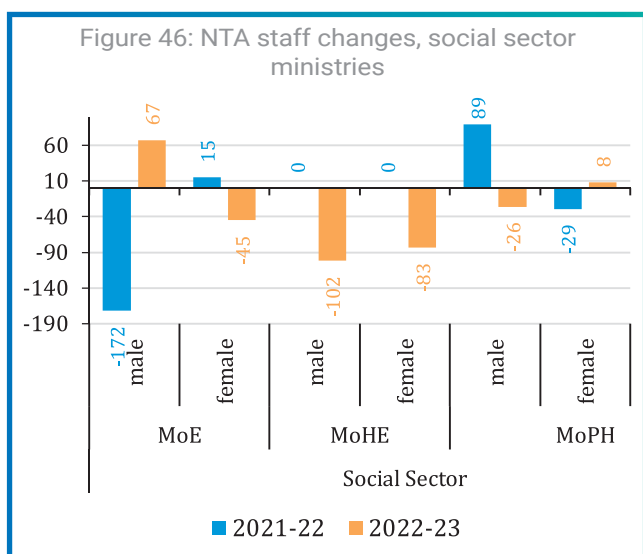
De facto ministries in the economic sector are losing technical expertise, as shown by a reduction in the number of national technical advisor (NTA) experts compared to previous years, suggesting attenuating institutional capacity. Of the new NTA additions (111 in the Ministry of Finance) in 2023, none are female NTA experts, while no other economic sector ministry added new NTA expert positions in 2023 (Figure 45). In 2023, the Ministry of Agriculture, Irrigation and Livestock saw the biggest NTA reduction (-590), followed respectively by Ministry of Public Works (-208) and Ministry

of Mines and Petroleum (-154).



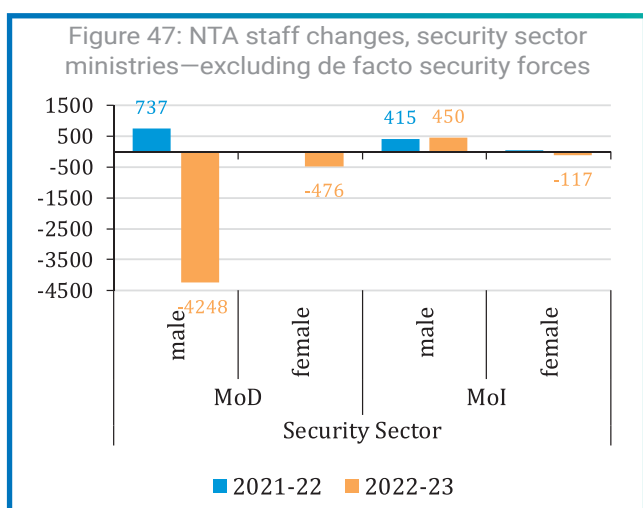
Source: NSIA, Statistical Yearbook 2022-2023

NTA experts in social sector de facto ministries are also declining but not at a similar scale as economic sector ministries. The de facto Ministry of Education has added 67 male NTA experts but cut 45 female NTA experts this year, while the de facto Ministry of Higher Education has reduced both male (-102) and female (-83) NTA experts compared to last year, reflecting the ban on secondary and tertiary education for girls and women (Figure 46). Unlike the de facto Ministry of Education, de facto Ministry of Public Health is cutting down male NTA experts (-26) while adding just a few new female NTA experts (8). The total reduction in NTA cadres suggests that social sector ministries are losing the essential technical capacities required to execute their mandate and deliver essential services to the increasingly vulnerable population.



Source: NSIA, Statistical Yearbook 2022-2023

Security sector de facto ministries are also cutting down the number of NTA experts, suggesting significant structural changes in the de facto security institutions. Specifically, the de facto Ministry of Defense cut male NTA expert positions by 4,248 and female NTA expert positions by 476, while the de facto Ministry of Interior added 450 male NTA experts and cut 117 female NTA expert positions, compared to 2022 (Figure 47). The significant reduction in NTA expertise at de facto security ministries suggests a major restructuring of the institutions, to align with the DFA's security priorities and agenda.

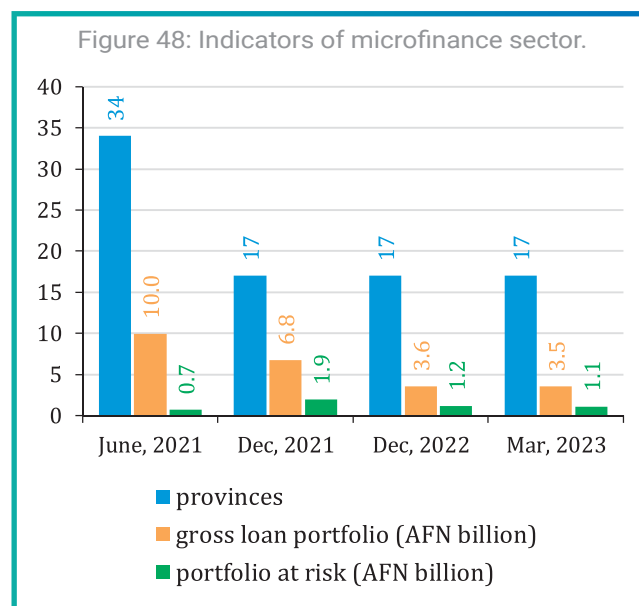


Source: NSIA, Statistical Yearbook 2022-2023

Micro-finance Sector

Heavily reliant on donor grants, the microfinance sector has contracted since August 2021 by over 60 percent, in terms of its loan portfolio. This has had adverse effects on the outlook for microenterprises. As of March 2023, the loan portfolio of the microfinance sector had shrunk from AFN 10 billion to AFN 3.5 billion (Figure 48). Notably, the portfolio at risk rate of loans has surged from 7.1 percent to 36 percent. Additionally, the microfinance sector has reduced their provincial coverage by half.

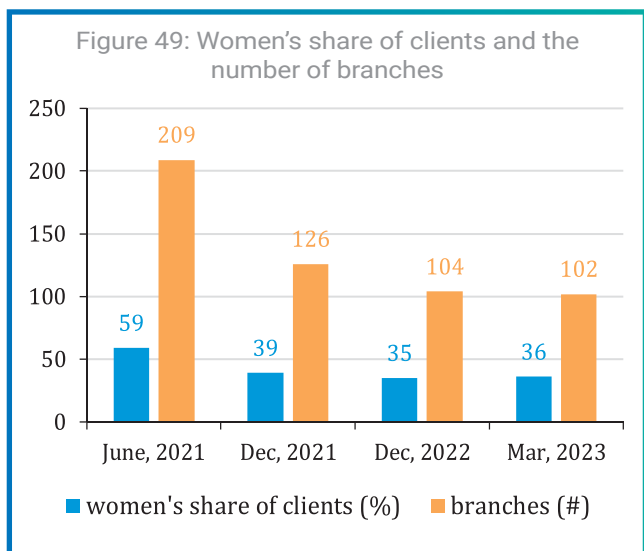
Unless immediate remedial steps are taken, the microfinance industry—a crucial enabler in the poverty reduction efforts—will increasingly diminish in operations and coverage reversing hard-earned progress by poor households.



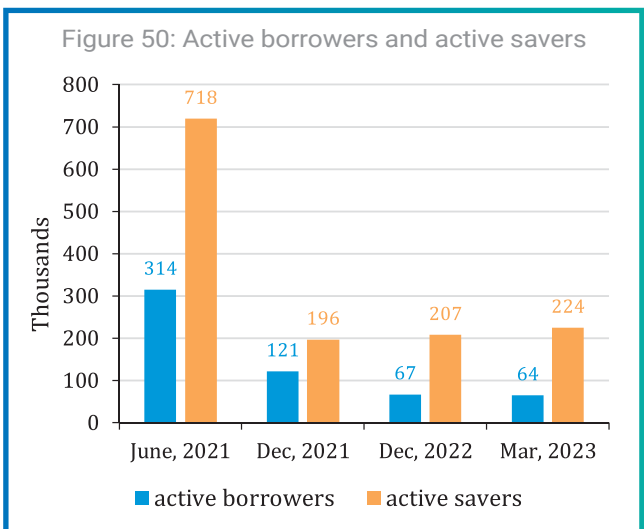
Source: Afghanistan Microfinance Association Database

The numbers of active savers and borrowers declined significantly. The women's share of microfinance clients declined to 36 percent in March 2023 from 59 percent in June 2021, highlighting the

challenge of enabling enterprises and households to recover their production in the absence of financial support for women producers (Figure 49 and Figure 50).



Source: Afghanistan Microfinance Association Database

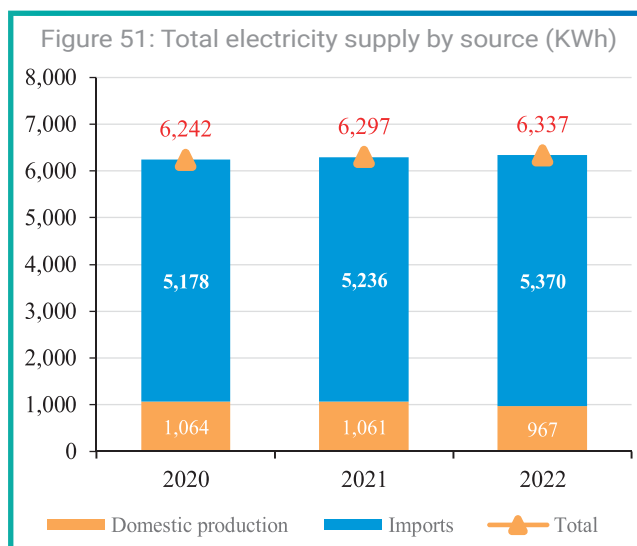
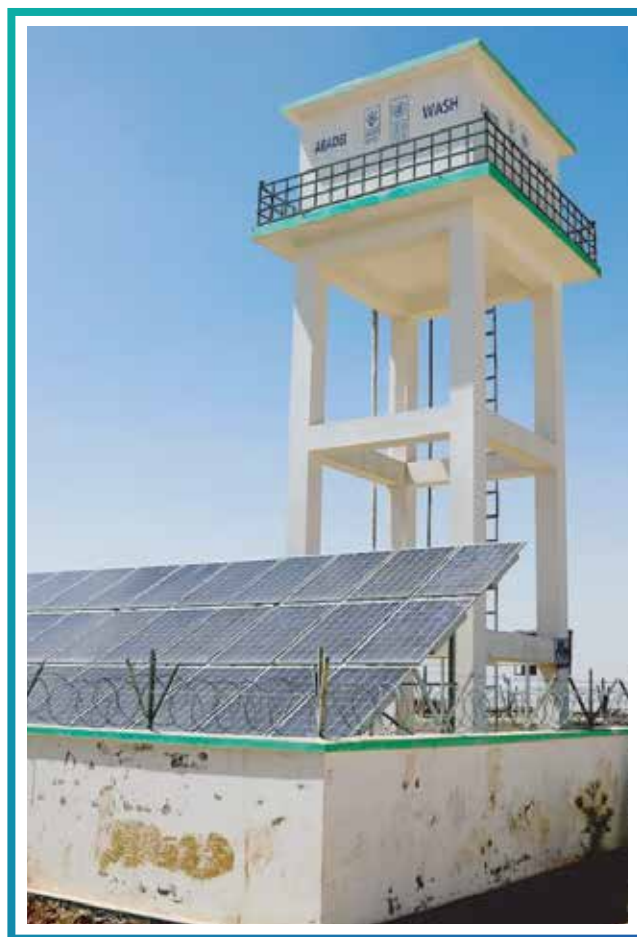


Source: Afghanistan Microfinance Association Database

Energy Sector

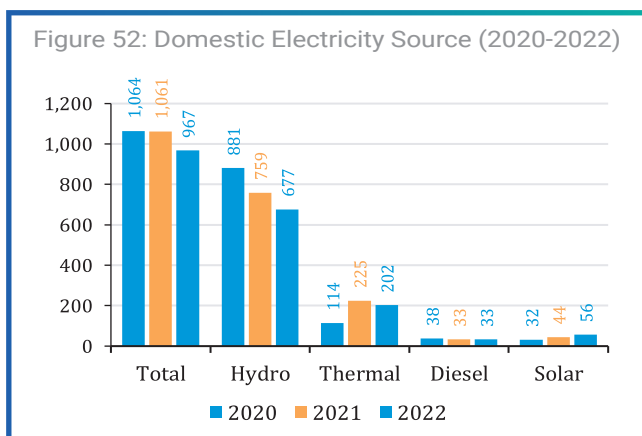
The electricity supply remains relatively resilient, though insufficient, in the face of the multifaceted shocks and economic contraction two years following the change in regime. Total domestic production, imports and installed capacities are largely unchanged (Figure 51). However, the

production of solar electricity is starting to slightly increase since last year. This reflects the increased investment in the sector, particularly by rural communities, and agricultural producers and processors.



Source: NSIA, Statistical Yearbook 2022-2023

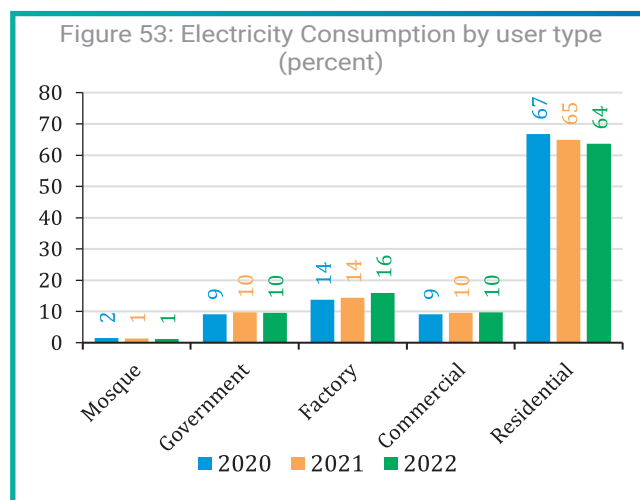
Hydropower remains the lead contributor to domestic electricity production, followed by thermal and other sources of electricity (Figure 52). There is an increase in the amount of solar electricity produced in 2022 (56 million KWh) which is 27.2 percent more than the amount produced the previous year, despite a 9 percent decrease in total production. This suggests that solar power is probably cheaper, more sustainable and therefore preferable for consumers, particularly in the rural communities.



Source: NSIA, Statistical Yearbook 2022-2023

Electricity consumption continues to be dominated by non-productive users. Two-thirds of total supply goes to residential users, while about 30 percent is consumed

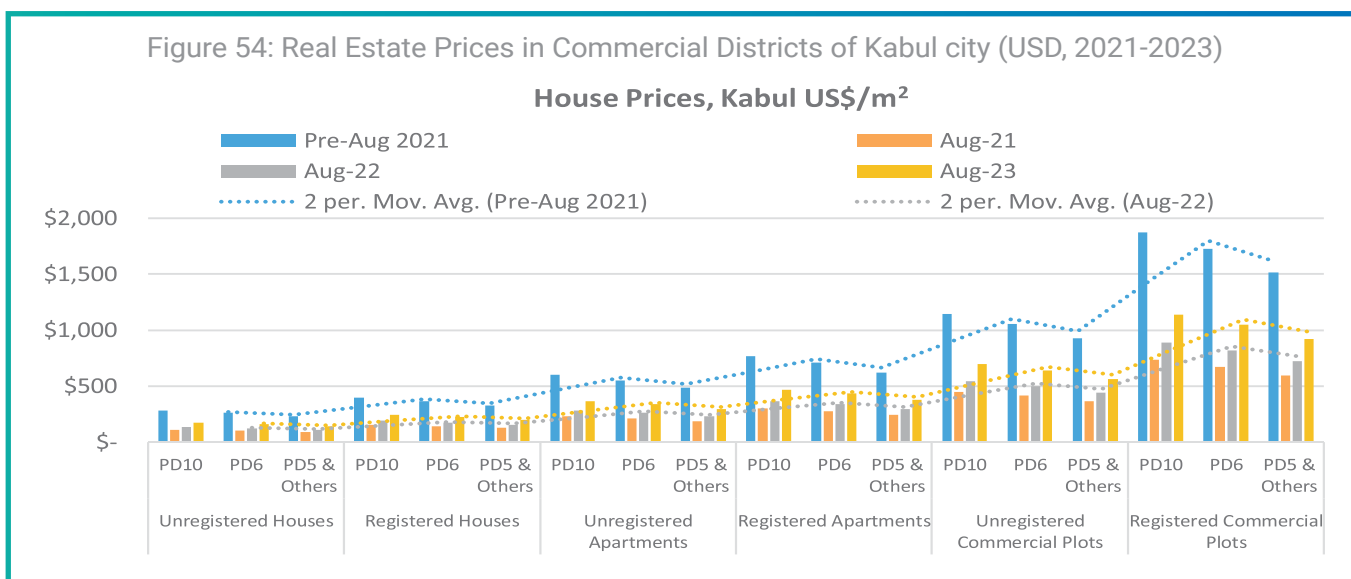
by commercial, factory and government sectors (Figure 53).



Source: NSIA, Statistical Yearbook 2022-2023

Real Estate Prices

The prices of different categories of real estate in Kabul city, where property has the highest value compared to other provinces, remains low compared to pre-August 2021. The fall in real estate prices reflects overall business confidence due to uncertainty surrounding investment, national development priorities and economic activity. However, the prices are starting to slowly recover in 2023, compared to one and two years prior (Figure 54).



Source: Data collected through a survey of real estate Agents in different commercial districts of Kabul city.



Conclusion

Productive sectors that fuel overall economic activity—such as agriculture and private enterprises—are not recovering, unless supported, at a pace needed to improve the socio-economic conditions of the population. Afghanistan’s GDP experienced a 27 percent cumulative decline, with non-agriculture sectors accounting for greater shares of the shrinkage, while per capita income dropped from US\$512 in 2020 to US\$352 in 2022—a 31.2 percent decline in current US dollar terms. The severe drought and adverse climate events also contributed to the worsening of the overall economic situation.

According to the UNDP baseline scenario, unless there is a resilient improvement in agricultural output following the drought, the GDP growth rate is projected to be nearly zero in 2023 and much less than the population growth rate in 2024. Achieving sustained improvement in humanitarian conditions and avoiding the poverty trap in Afghanistan requires a GDP growth rate that surpasses the population growth rate, which is 2.1 percent per year. However, significant challenges hinder the attainment of higher sustained growth, including the fragility of the banking system, the loss of institutional capacity due to diminishing technical expertise in key public institutions, restrictions on women’s participation in labour markets, limitations on girls’ education and weak private sector confidence.

The public institutions, specifically those in the economic and social sectors, play a

non-substitutable role in spurring the economic revitalization that the people of Afghanistan need. These institutions have been losing technical expertise that is vital for the country's economic planning and management at times of socio-economic hardships. While a full-fledged and policy level institutional engagement with the DFAs remains elusive given the political environment, technical engagement with the de facto economic institutions may be necessary for sustainable and inclusive economic recovery. Technical expertise in the form of national technical advisors (NTAs) remains critical to the effectiveness of the institutions responsible for public finance management and delivering services to the private sector. Without operational economic sector public institutions, the private sector and overall business confidence may not recover quickly.

Unless international assistance and the efforts of domestic stakeholders, including the DFAs, start stimulating economic output, there will not be a sustainable improvement in humanitarian conditions of more than two-thirds of the population who are subsistence insecure. Despite the ongoing but decreasing humanitarian assistance that has literally saved millions of Afghans from starvation and prevented a total economic collapse scenario, the data suggests that humanitarian assistance alone cannot provide the solution to the Afghan crises. The productive sectors of the economy, particularly agriculture and the wider private sector, need to be supported and barriers in the financial system addressed, in order for the country to recover from the deplorable humanitarian conditions.

Against the economic contraction and hardships that the country is grappling with, the export sector is proving very resilient after a sharp increase in 2022. Despite the regime change that was followed by multifaceted shocks and the humanitarian crisis, Afghan exports recovered rather quickly and notably by nearly doubling in value in 2022, compared to 2021. While the increase in exports was largely due to exports of coal to Pakistan, the overall export confidence and performance in 2023 has remained at a 2022 level, indicating its resilience. Efforts aimed at strengthening export competitiveness, improved market access and smooth financial transactions for trade activities will directly support livelihoods, incomes and jobs, and thereby sustainably ameliorate humanitarian conditions.

After the heavy deposit withdrawals and liquidity problems in the banking system in 2021, there are some signs of improvement in confidence, such as an increase in deposits, improvements in liquidity conditions and increased international money transfers. However, the banking system remains fragile and requires further progress. On the other hand, the microfinance sector, critical for the poorest part of society and a crucial enabler in poverty reduction efforts, will remain on the verge of collapse unless immediate support is provided.

Improvements in some indicators of household living conditions are notable but will remain fragile, unless the humanitarian assistance is complemented with increased opportunities for livelihoods, income generating and business initiatives for households and MSMEs. Household incomes and expenditures grew significantly, compared to a sharp decrease in 2022. Nonetheless, over 50 percent of households still spend more than their incomes. The

increases in household cash flow were in line with a decrease in the number of people categorized as severely food insecure. Moreover, households reported improvements in housing conditions and access to utilities. The overall subsistence conditions of households and their members were summarized and quantified through the Subsistence Insecurity Index (SII) constructed for this study. The SII indicates that more than two out of three Afghans were subsistence insecure for 2023. Although this suggests that a significant proportion of people are still deprived, there has been an improvement in welfare, given that more than four out of five Afghans were subsistence insecure in 2022. Although the improvement of household conditions is a commendable result of the humanitarian response, it will not last unless households have the means to earn their own living.

However, Afghanistan must take bold steps to achieve a sustained recovery, and to avoid the poverty trap and long-term reliance on international aid. This involves solving banking system barriers, fostering the private sector through a conducive policy and legal framework backed by capable institutions, investing in human capital and productivity, and attracting foreign direct investments. All these prerequisites for sustained recovery are heavily dependent on improvements in women's rights and girls' education.

Women and girls are bearing the brunt of the economic and humanitarian crises where female-headed households work more for the same household per capita income, consume a lower quantity of food, and women constantly lose their share of employment compared to men, while girls' education attendance is at alarmingly low levels. The subsistence conditions of female-headed households in 2023 were at par with levels observed in male-headed households in 2022. Although female-headed households reported similar gains in household income in 2023 compared to male-headed households, more effort was required, given that relatively more members were working, with a non-negligible proportion of them being children. In addition, women's employment and girls' education opportunities worsened. Women's employment halved from 2022 to 2023, and in 2023, it was relatively less compared to boys' employment. Women's access to public spaces was also restricted in 2022, and even more so in 2023, while girls' education reached very low levels in 2023. Overall, the development opportunities for women and girls have been curtailed, and unless improved, this will have negative impacts on the future growth of Afghanistan.

International aid has played a crucial role in preventing further deterioration in humanitarian and macrofinancial conditions over the last two years. However, in-kind aid has not effectively supported domestic production. Despite stability in economic activity at low levels and some improvements in humanitarian conditions in 2023, given the significant decline in production and the fragile macrofinancial conditions, strong international aid will remain crucial in maintaining the current conditions and achieving sustainable improvements in people's living conditions and economic revitalization.

References

- NSIA (2019). National Statistics and Information Authority Afghanistan Multidimensional Poverty Index 2016–2017.
- NSIA (2021). Income and Expenditure & Labor Force Surveys Report 2020. Kabul.
- United Nations Office of Coordinating of Humanitarian Affairs UNOCHA, 2023. <https://humanitarianaction.info/plan/1185>
- UNDP (2021). Afghanistan: Socio-Economic Outlook 2021-2022, Averting a Basic Needs Crisis.
- UNDP (2022). One Year in Review: Afghanistan since August 2021, a Socio- Economic Snapshot. <https://www.undp.org/afghanistan/publications/one-year-review-afghanistan-august-2021>
- UNDP (2023). Afghanistan Socio-Economic Outlook, 2023. <https://www.undp.org/afghanistan/publications/afghanistan-socio-economic-outlook-2023>
- World Bank (2023). Afghanistan Development Update, Uncertainty After Fleeting Stability.
- UNODC (2022). Opium Cultivation in Afghanistan. Latest findings and emerging threats.
- UNODC (2023). Understanding Illegal Methamphetamine Manufacture in Afghanistan.
- IPC (2022). Afghanistan: Acute Food Insecurity Situation for Apr 2023 and projection for May – October 2023. <https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1156351/?iso3=AFG>
- UN (2023a). Afghanistan still a grave humanitarian crisis. February 28. <https://news.un.org/en/story/2023/02/1134002>
- UN (2023b). Afghan girls and women made focus of International Education Day: UNESCO. January 19. <https://news.un.org/en/story/2023/01/1132637>

Annexes

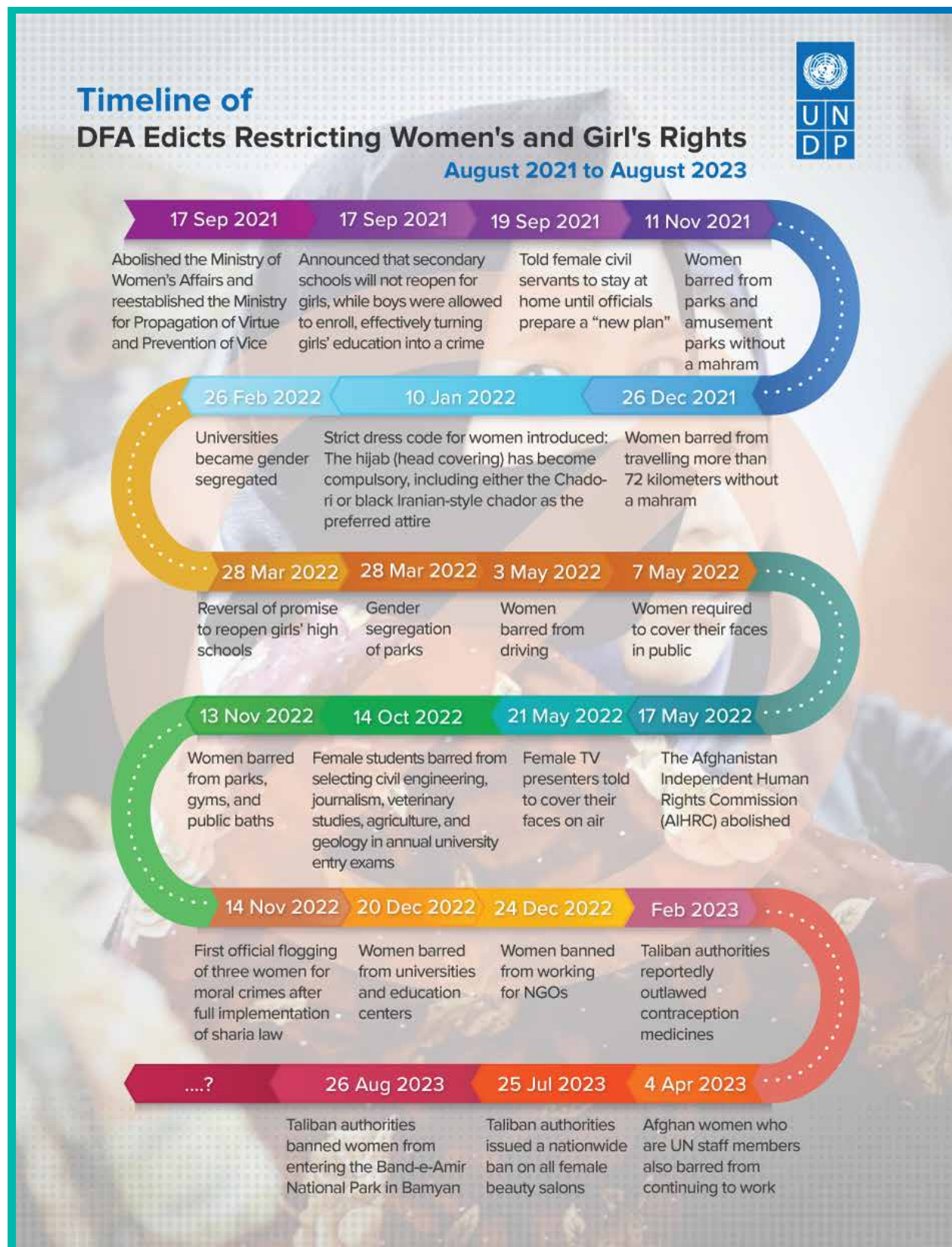
Table 1: The three equally weighted dimensions and seventeen equally weighted indicators captured in the Subsistence Insecurity Index.

Dimension	Indicator	HH is (or people are) subsistence insecure if	Weight
Health	Nutrition (NU)	Food consumption score (FCS) is poor.	1/9
	Healthcare affordability (HF)	Specific medicine, treatment or services are too expensive.	1/9
	Healthcare availability (HV)	The nearest healthcare center is more than an hour away.	1/9
Living conditions	Water (WA)	Insufficient water availability.	1/24
	Sanitation (SA)	There are no adequate sanitation facilities.	1/24
	Electricity (EL)	Less than 5 hours of electricity per day.	1/24
	Heating fuel (HF)	There are no adequate heating fuel sources.	1/24
	Housing (HO)	Shelter has significant damage or is fully destroyed.	1/24
	Blankets (BL)	Less than one blanket per member.	1/24
	Cooking items (CI)	No daily access or no ownership of cooking items.	1/24
	Winter clothing (WC)	No daily access or no ownership of winter clothing for all members.	1/24
Livelihood	Work (WO)	All male members 18+ are not working or no male member 18+.	1/18
	Dependency (DE)	There is less than one member who works for every 6 members.	1/18
	Market food prices (MP)	Prices are too high to afford food items at the market.	1/18
	Food consumption (FC)	Reduced coping strategy index (rCSI) is high.	1/18
	Financial impact (FI)	Financially impacted by at least one adverse event.	1/18
	Coping (CO)	Affected by at least two livelihood coping strategies (LCS) used or exhausted.	1/18

Notes:

- 1) HHs that didn't answer or replied "other" or replied "don't know" to at least one of the above questions were removed from the sample.
- 2) For the evaluation of the SII of 2022, 99 percent of HHs answered all the above questions. For the evaluation of the SII of 2023, 98 percent of HHs answered all the above questions.
- 3) FCS is based on food consumption over the 7 days prior to interview.
- 4) Time distance to closest healthcare center is by interviewee's habitual mode of transport.
- 5) Water insufficiency relates to insufficiency of water for either cooking or drinking or personal hygiene or other domestic purposes in the last 4 weeks prior to interview.
- 6) Adequate sanitation facilities are as those described by WHO, <https://www.who.int/data/nutrition/nlis/info/improved-sanitation-facilities-and-drinking-water-sources>.
- 7) Adequate heating fuel sources include electricity, LPG (liquid petroleum gas), coal/charcoal, archa-wood. Inadequate heating fuel sources include animal dung, bush, wastepaper, carton and plastics.
- 8) rCSI is based on food consumption reduction strategies over the 7 days prior to interview.
- 9) Adverse events are avalanche/heavy snowfall, drought, earthquake, flood, economic shock, active conflict/violence and are for the 6 months or a year prior to interview.
- 10) The list of LCS is that in MSNA2022, where the LCS in MSNA2023 were selected according to those in MSNA2022. LCS are over the 30 days prior to interview.

Timeline of DFAs edicts banning women's and girls' rights since they took charge of the country on 15 August 2021





 undp.org/Afghanistan

 [UNDPAf](#)

 [UNDPinAfghanistan](#)

 [UNDPAfghanistan](#)

 [UNDPinAfghanistan](#)

 [UNDPAfghanistan](#)