



Afghanistan: Economic Transition and Transformation

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Outline

- Key messages
- Achievements, 2002–13
- Outlook and risks
- Policies to manage the transition and transformation successfully



I. Key Messages



Key messages

- Afghanistan has made enormous progress in reconstruction, development and lifting per capita income
- Assuming smooth political and security transitions, continued reform and donor financing, the outlook should be positive
- Macroeconomic stability, structural reforms, and political and security stability are needed to ensure inclusive growth
- The IMF will continue its close engagement



II. Achievements, 2002–13



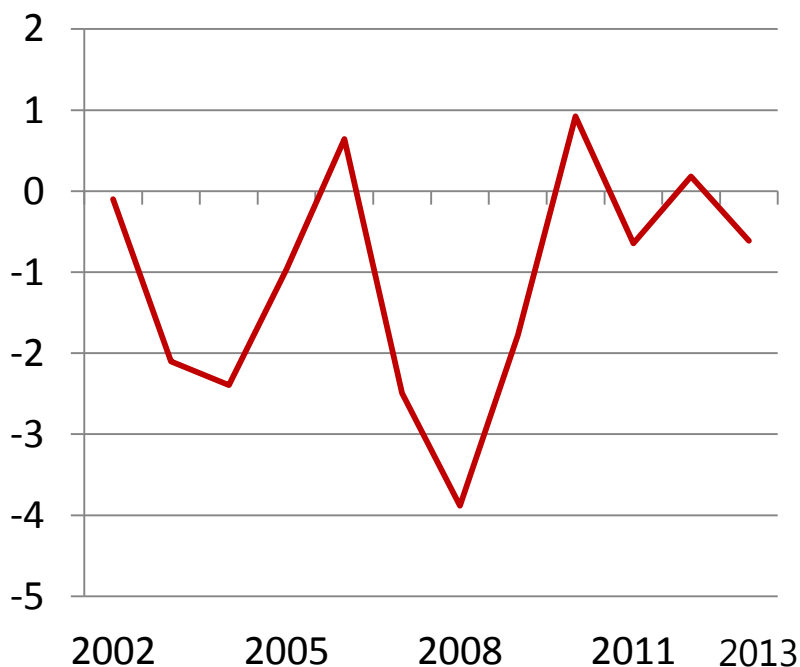
Achievements, 2002–13

- The Afghan authorities with significant donor support have established new economic institutions
- Afghanistan has established and maintained macroeconomic stability and built policy buffers
- Afghanistan's income per capita has almost doubled

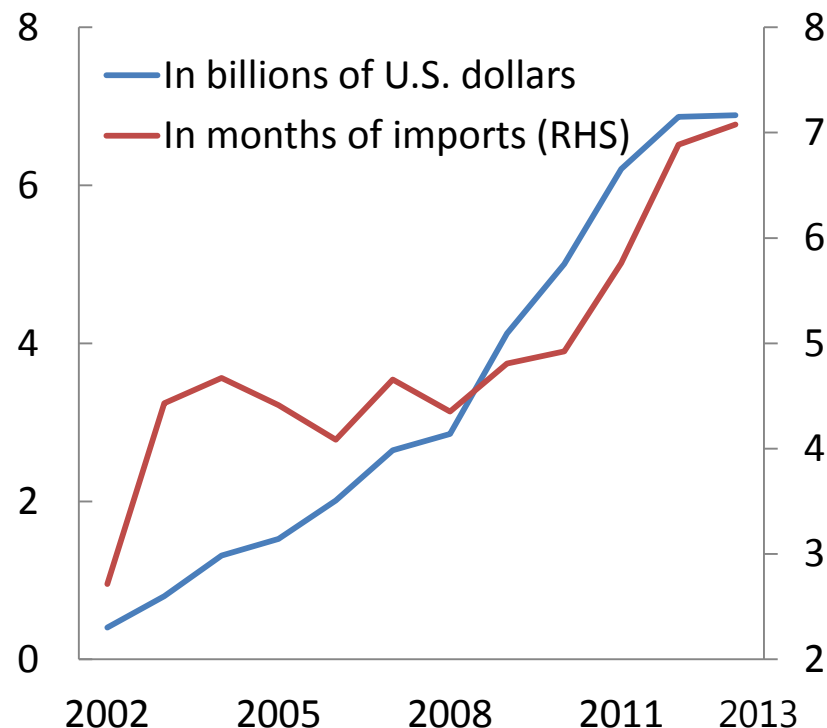
Achievements, 2002–13 (cont'd)

Afghanistan has established and maintained macroeconomic stability and built policy buffers

Central government overall balance
(Incl. grants; in percent of GDP)



International reserves

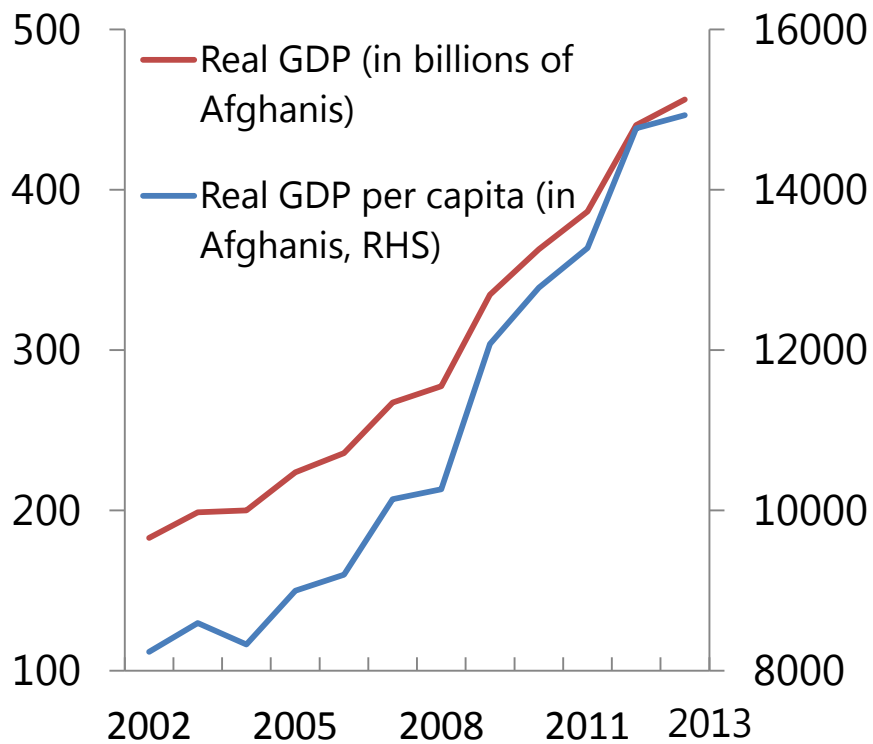


Sources: Afghan authorities; and IMF staff calculations.

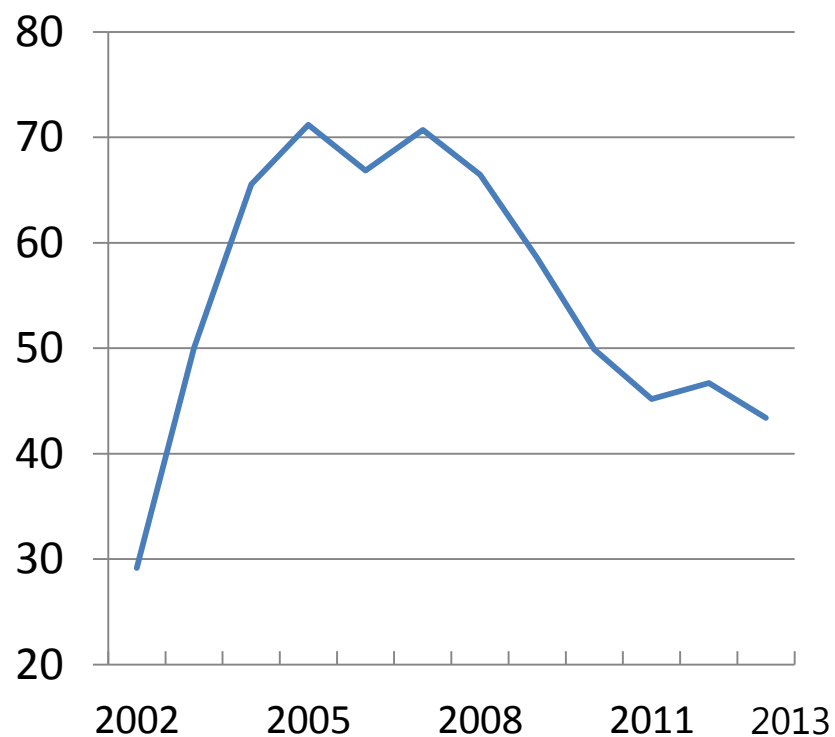


Achievements, 2002–13 (cont'd)

Afghanistan has almost doubled income per capita



Donor flows (In percent of GDP)



Sources: Afghan authorities; and IMF staff calculations.





III. Outlook and Risks



Outlook and risks

- Donor support pledged in 2012
 - Chicago
 - Tokyo and Tokyo Mutual Accountability Framework (TMAF)

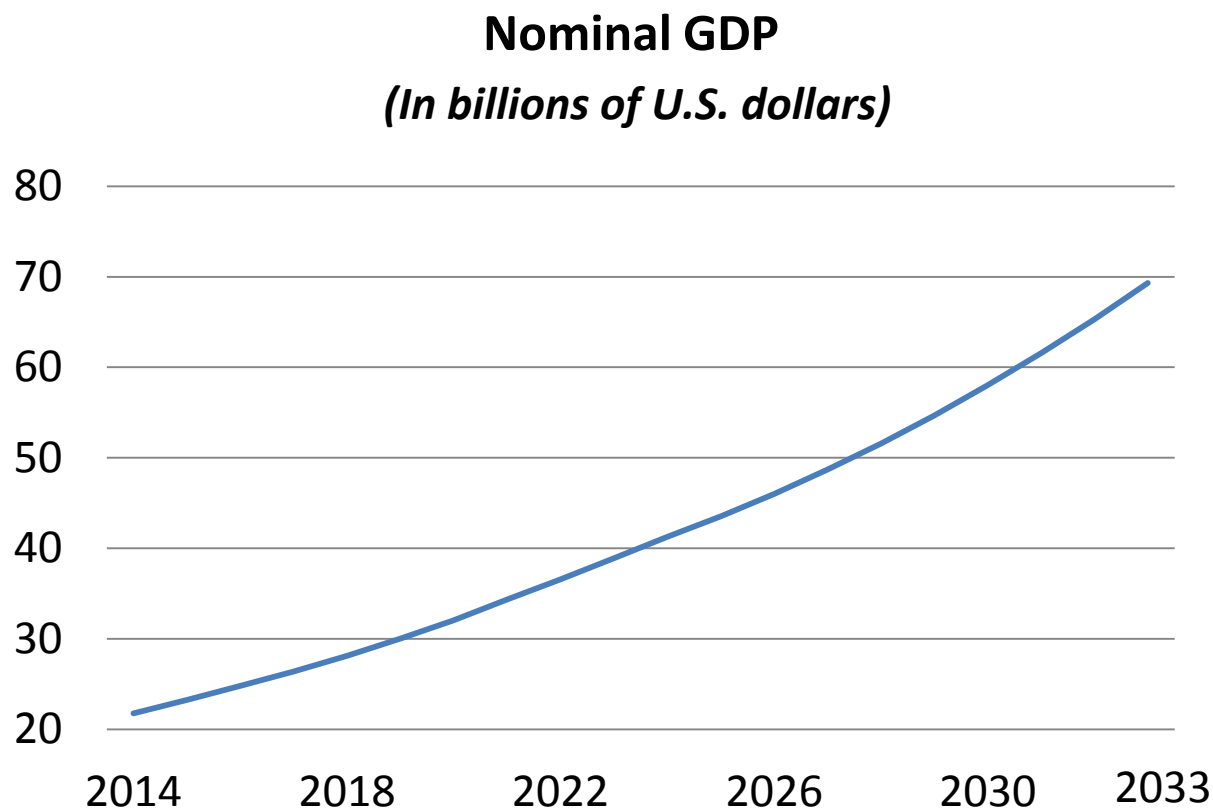


Outlook and risks (cont'd)

- Medium term outlook
 - Dependency on donor financing
 - Growth
 - Inflation

Outlook and risks (cont'd)

Medium-term Macroeconomic Outlook



Sources: Afghan authorities; and IMF staff calculations.

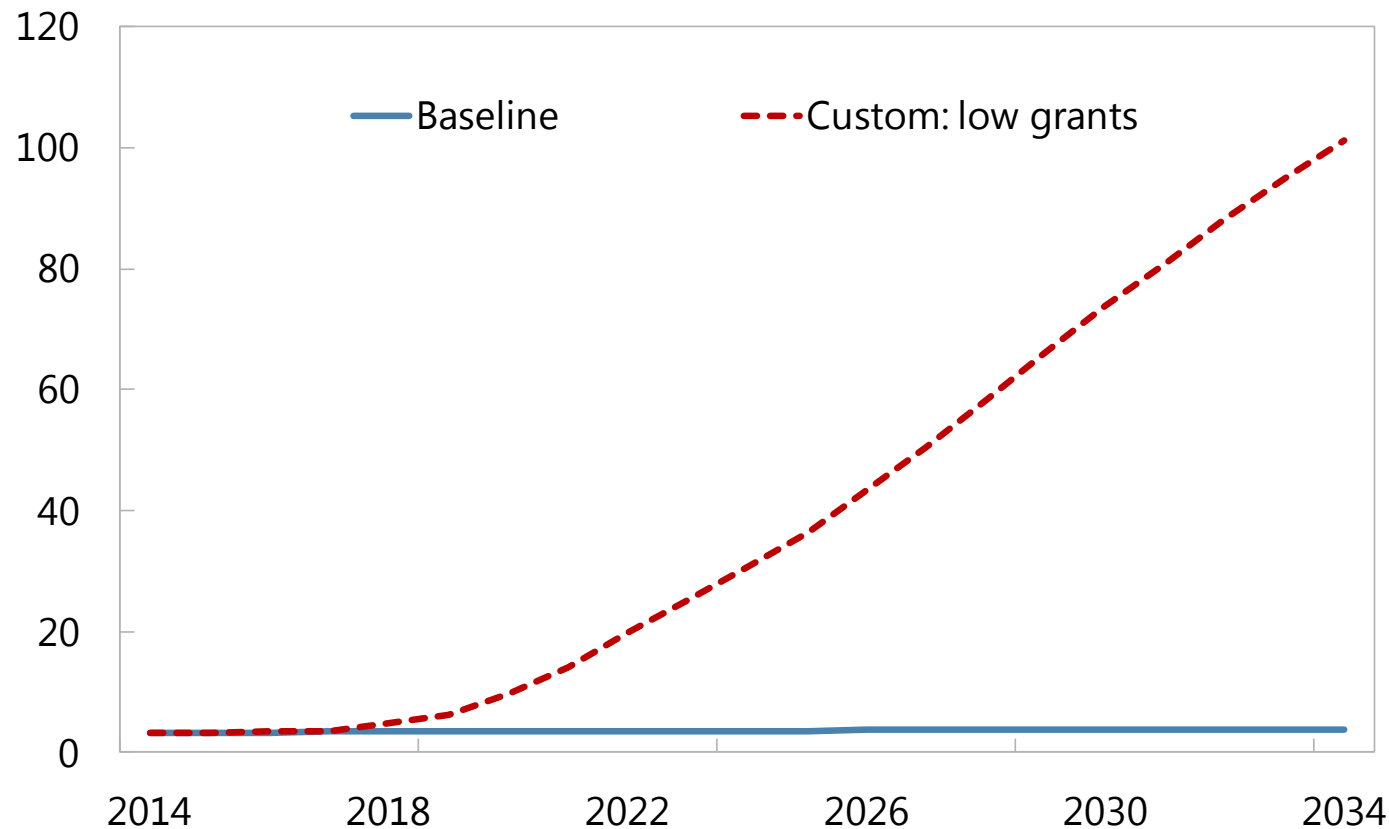


Outlook and risks (cont'd)

- Risks
 - Upside
 - Downside
 - Near term (security and political conditions and inadequate implementation of economic policies)
 - Medium term (insufficient progress in economic reforms, or donor fatigue)

Outlook and risks (cont'd)

Present Value of Debt to GDP Ratio under Alternative Scenarios, 2014–34



Sources: Afghan authorities; and IMF staff calculations.



IV. Policies to Manage the Transition and Transformation Successfully



Policies

Afghanistan's economic strategy comprises

- Maintaining macroeconomic stability
- Moving toward fiscal sustainability
- Promoting financial sector stability and development
- Improving economic governance and the business environment

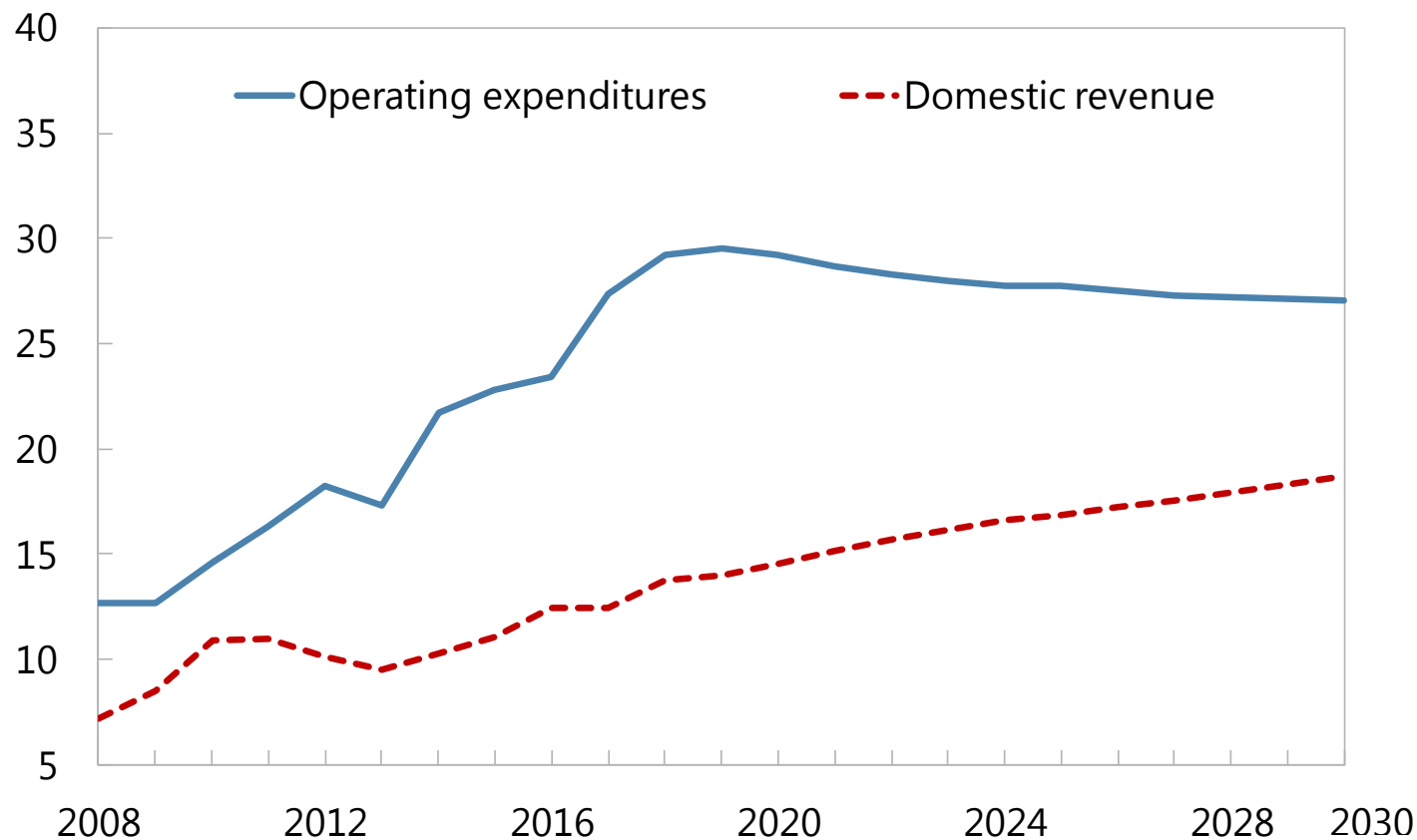


Macroeconomic policies

- Fiscal policy
- Monetary policy
- Structural reform
 - Banking sector
 - Business environment
 - Inclusive growth

Fiscal Policy--Moving toward fiscal sustainability

Revenue and Expenditures in the Long Run (In percent of GDP)



Sources: Afghan authorities; and IMF staff calculations.



Monetary Policy to maintain low inflation

- Manage reserve money
- Flexible exchange rate policy
- Maintain reserve buffer

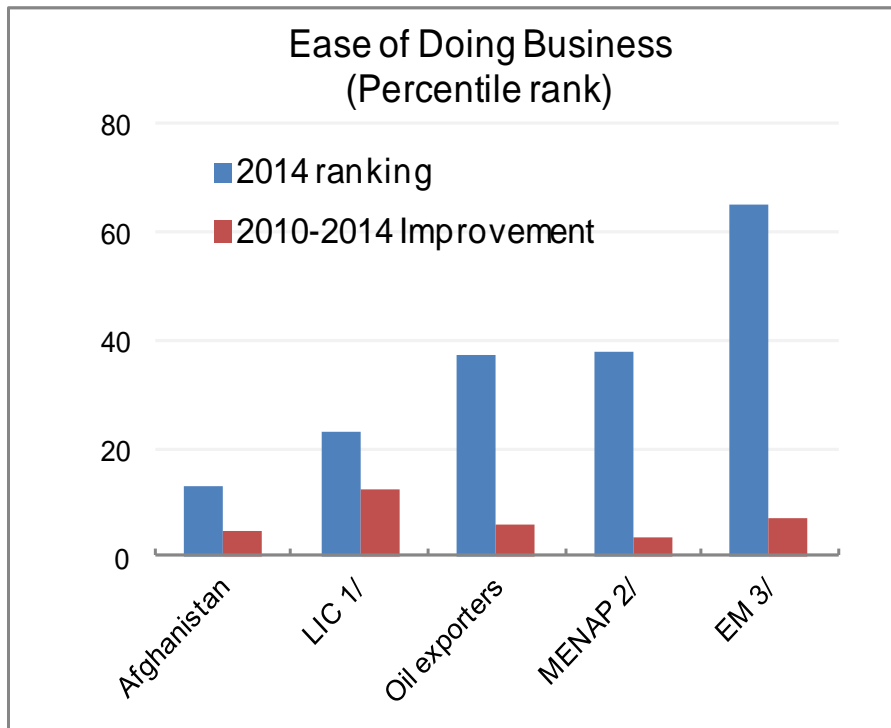


Reforms to strengthen the banking sector and promote lending

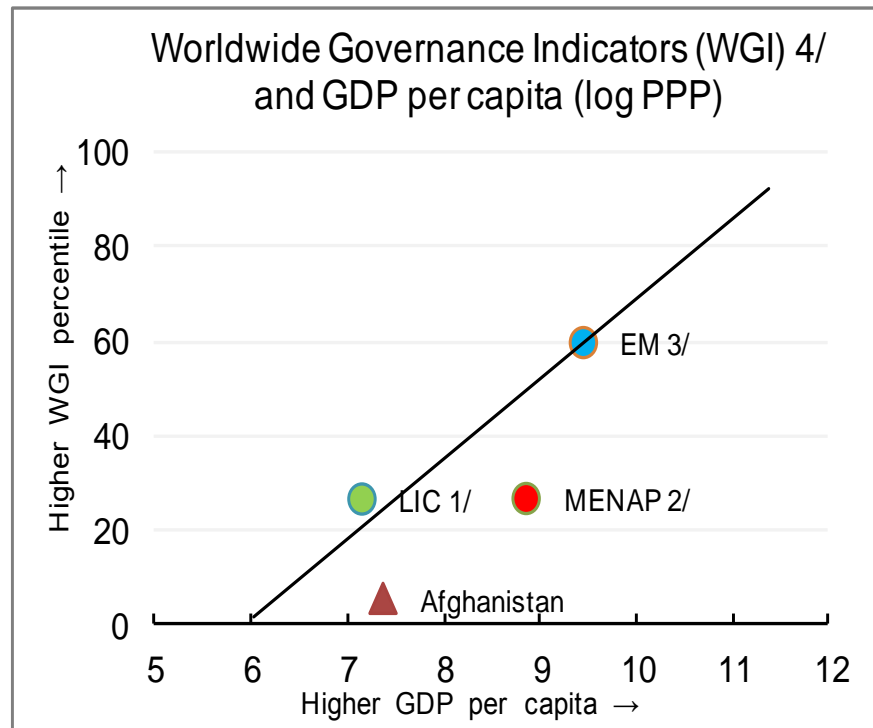
- Higher Capital requirements
- Developing domestic financial markets
- New banking law
- Strategic plan for bank supervision
- New laws on anti-money laundering and countering financing of terrorism

Business Environment

Doing business ranking



Governance performance



Sources: World Bank database; and IMF staff calculations.

1/ Low income countries;

2/ Middle East, North Africa, and Pakistan;

3/ Emerging market economies;

4/ Trend line is based on cross-country regression.





Promoting inclusive growth

- Structural reforms
- MDGs
- Female inclusion
- Pro-poor spending



Key messages

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- The IMF will continue its close engagement

Thank you

- For more information, please see <http://www.imf.org/external/pubs/cat/longres.aspx?sk=41571.0>