

INTRODUCTION

Reviving the Afghan economy is an effective way to sustainably address many of the Afghan population's most pressing humanitarian needs, particularly food. Improving economic growth and the functioning of the private sector can create jobs and reduce food insecurity. The Afghan economy has avoided contraction since the last update in 2023, leading to marginal but important improvements in the livelihoods of the Afghan people.

This report is an update on the forward-looking snapshot of the Afghan economy published in January 2023 and aims to provide humanitarian responders with an understanding of Afghanistan's key economic constraints (ACAPS 05/01/2023). This report considers how the economic constraints identified in 2022 have changed, identifies newly emerged constraints, explains which of the three scenarios envisioned in January 2023 has unfolded, and provides an outlook on the Afghan economy for 2025–2026.

Methodology

This report draws on a rapid review of recently published reports on the Afghan economy by leading organisations, including the World Bank, UNDP, and the Afghanistan National Statistics and Information Authority. Four experts on the Afghan economy were identified for key information interviews, which focused on economic outlook scenarios and key economic constraints. Experts were identified through their involvement in economic institutions, such as the Afghan Fund, or their active work on the Afghan economy, either inside or outside Afghanistan. This report is a collaboration between ACAPS and an economist specialising on Afghanistan.

Limitations

There is insufficient up-to-date, robust data on key economic indicators in Afghanistan. This report sourced secondary data collected from the private sector, household surveys, and rapid assessments carried out by UN organisations and the World Bank. This secondary evidence was triangulated by multiple sources to ensure accuracy and reliability. The expert interviews were a crucial source of sense-checking trends in key indicators and the status of the overall economy.

EXECUTIVE SUMMARY

At the end of 2021, ACAPS developed some simple scenarios outlining how the Afghan economy might develop over the coming two years. This report showed that, of these scenarios, the most pessimistic – that of low/stagnant economic growth – was closest to actual events. The last four months of 2021 had seen the economy freefall as international development and much business investment ceased, as restrictions on the Interim Taliban Authority (ITA) and central bank (Da Afghanistan Bank) caused a liquidity crisis. GDP plummeted by 20% for the year and uncertainty around the ITA's capacity to govern, introduce legislation restricting rights (especially for women and girls), and conduct international relations did not bode well, and the economic situation for Afghan households – and with it, their food security and health – was set to deteriorate further.

During 2023, the economy showed tentative signs of recovery, with GDP growth 'improving' to 0% from –6% in 2022, despite policy decisions affecting the economy – including restrictions on women's employment, the closure of certain types of businesses, and a severe crackdown on opium poppy cultivation. This improvement would not have been possible without UN cash shipments – instrumental to stabilising the currency – and continued humanitarian assistance, which have contributed to a slight improvement in food security since 2022. The improvement is also a result of ITA actions, particularly: its maintenance of security; its focus on maintaining a strong Afghani; its promotion of employment for men; its clampdown on corruption, which led to an increase in domestic revenue; and its efforts to promote economic investment. Afghanistan has been highly dependent on aid for decades, however, and will continue to require significant assistance in the future. Poverty remains rife, with more than three-quarters of the population dependent on debt to meet basic needs – even though the level of household debt appears to have fallen for two consecutive years.

Despite these signs of recovery, the economy remains weak. International sanctions are preventing development assistance, and only some neighbouring countries make significant economic investment in Afghanistan. International banks are reluctant to provide correspondent banking services to Afghan banks. The ban on opium poppy farming has reduced income for many rural Afghans tenfold. In 2024, like 2022 and 2023, 90% of households were hit by some kind of economic shock (drought, flood, earthquake, ban on poppy farming, prohibition of business, etc.).

Of the three possible economic scenarios for 2025–2026 – moderate acceleration of growth, continuation of low growth, and economic contraction – the second is considered the most probable. Without significant change in ITA policies toward women, international economic engagement is expected to remain minimal: some humanitarian assistance, much international development assistance and investment, and access to international banking mechanisms will remain elusive. Even if the ITA maintains good fiscal management, low growth is the best that can be expected. Widespread drought, severe flooding, or a return to wider insecurity would push the economy towards scenario three (economic contraction). The outlook for 2025–2026 is one of continued high levels of food insecurity and debt dependence. Even as the economic situation improves, to a certain degree, for some households (the national picture shows reducing food insecurity and poverty), others will continue to face having to send their children to work and family members going hungry while debt levels rise.

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REVIEW OF JANUARY 2023 SCENARIOS

The January 2023 snapshot of the Afghan economy developed the following three scenarios, including estimates of the likelihood of each occurring:

- the high-growth scenario (seen as a low probability in January 2023)
- the medium-growth scenario (high probability)
- the low/stagnant-growth scenario (high probability).

This current report shows that the low/stagnant growth scenario played out in 2023–2024, with the economy avoiding further contraction but also seeing no growth. The Afghan economy had contracted by a cumulative 29% in 2021–2022, with GDP standing at USD 16 billion – approximately four billion below its 2020 level. Per capita GDP also saw a 31% decline for the same period. In 2023, however, the World Bank and UNDP estimated growth in GDP to have been between 0–1.6%, while the ITA reported 2.7% growth (NSIA accessed 06/12/2024). Improvements in security, the inflow of humanitarian aid, public sector revenue and stability in expenditure, and efforts to promote business have resulted in stabilisation of the economy. While the economy remains weak, it is no longer on the verge of collapse.

Economic stagnation is evident in reporting on humanitarian needs, as around 33% or 14.2 million people are facing acute food insecurity (IPC 27/05/2024). Humanitarian needs were reported at 15.1 million in 2023 and 18.3 million in 2022, decreasing by 23% in 2024 from 2022. Importantly, in 2023, 30.4 million people in Afghanistan (68% of the population) were experiencing some level of food insecurity and in need of humanitarian assistance (IPC 27/05/2024). Afghan households continue to experience significant economic challenges. Over the past two years, drought (67%), economic shocks (65%), and flooding (16%) were the three key shocks affecting households (UNDP 18/01/2024). The proportion of households with insufficient income to cover food declined from 64% in August 2022 to 62% in June 2023 (WB 10/2023).. Three in four (76%) households borrowed money in 2023 to support their livelihoods (56% to buy food). Household employment increased to 44% in 2023 from 41% in 2021 and 2022.

WHAT CHANGED IN THE LAST TWO YEARS (2023–2024)

Table 1. Main constraints on the Afghan economy in 2022 and 2024

CONSTRAINTS ON THE ECONOMY 2022	CONSTRAINTS ON THE ECONOMY 2024	WHAT CHANGED?
Political uncertainty and sanctions	Isolation and sanctions	Afghanistan remains isolated and under sanctions, but several important informal diplomatic relations have been established.
	Domestic policy	Much of the uncertainty around policy positions affecting the economy is now clear, although there remains some disagreement within the ITA and varied implementation across the country.
Lingering effects of aid dependency	Continued absence of development aid and reduction in humanitarian assistance	Aid dependency remains a constraint on economic recovery.
Decline in public employment and fiscal spending		Public finances and employment have stabilised at a lower level.
Liquidity and banking crisis	Lack of access to international financial markets	Bank liquidity has been restored and bank function improved, but international banking remains an issue.
Climate change and natural hazards	Climate change and natural hazards	Natural hazards continue to be a constraint, particularly drought and flooding.
	Deflation	Deflation emerged as new challenge, driven by the appreciation of the Afghan currency, a reduction in purchasing power, and a reduction in demand for goods and services.
	Restrictions on women's economic participation (public and private sector)	Women's employment in the public and private sectors have declined significantly in the last two years. The ban on girls' higher education will be a constraint on long-term growth.

At the end of 2022, just over a year after the fall of the Islamic Republic of Afghanistan and the creation of the ITA, there remained much political uncertainty. The ITA was issuing new decrees that severely restricted the lives of ordinary Afghans, especially women and girls, with alarming frequency, further alienating the country from the rest of the world (ACAPS 25/07/2024). A severe reduction (29%) in aid and bilateral development assistance, alongside

exclusion from international banking mechanisms, caused the economy to collapse. Two years on, the ITA is still politically isolated, but the liquidity crisis is past and the political situation is more stable. Efforts to stabilise the economy are underway, although hampered by restrictions on women's employment. The main constraints on the Afghan economy, at the end of both 2022 and 2024, are summarised in Table 1 and further analysed below.

Sanctions and isolation limit access to international financial markets and flows of credit and investment, as well as create challenges printing Afghan banknotes, which are critical to monetary policy and price stability. The US had issued licenses allowing the transfer of humanitarian aid and limited transfers such as remittances (OFAC 22/12/2021). The US Treasury also allowed several transactions, such as the purchase of Afghan banknotes printed in Poland and payment of Afghanistan's debt to the World Bank (Reuters 09/11/2022; VOA 12/10/2022). According to experts interviewed for this report, Afghanistan is in the process of procuring a vendor to print more Afghan banknotes to address the issue of deflation. This will once again require the US Treasury to provide a comfort letter – indicating the US Government's lack of objection – to enable this procurement and related financial transactions.

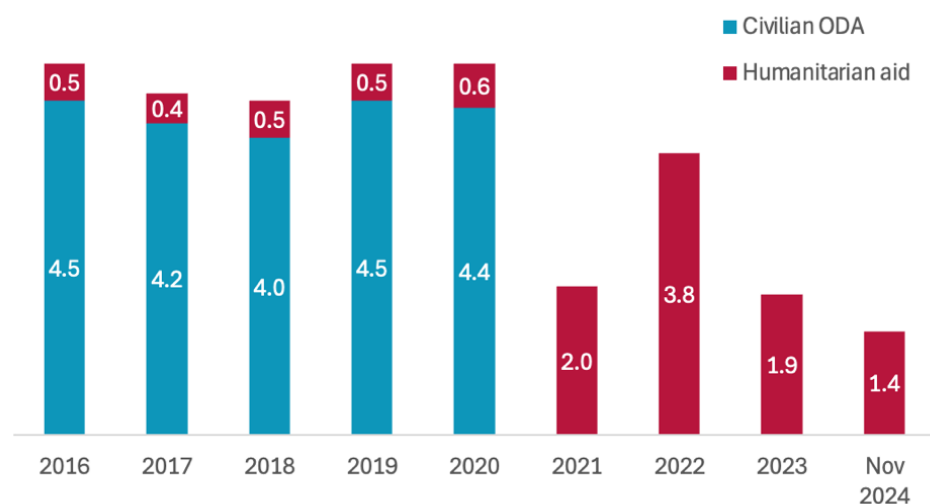
The ITA has established several informal diplomatic channels with countries in the region, such as China, Russia, Uzbekistan, and others, and was invited to a UN conference on climate change. While the establishment of these diplomatic channels eases the effects of global isolation and lack of recognition, this alone is insufficient, as the Afghan economy and private sector still need access to international markets to enable broad-based economic recovery and growth.

Relations between Afghanistan and Pakistan have deteriorated, as the Pakistani authorities accuse Afghanistan of permitting Tehrik-e Taliban Pakistan to operate from Afghan soil, causing skirmishes on both sides of the border (VOA 07/09/2024). The deteriorated relationship is reflected in reduced trade between the two countries and tariff increases, new regulations, and border closures by Pakistan (TOLOnews 01/12/2024). While the deterioration with Pakistan does not have immediate effect on the macroeconomy, as Afghanistan has established alternatives with Iran and Central Asia, Pakistan is the most important export destination for many Afghan goods, including agricultural and industrial products, such as handwoven Afghan carpets. Reduced trade with Pakistan will affect these sectors.

Humanitarian aid decreased from USD 3.8 billion in 2022 to around USD 1.4 billion by December 2024, a decline of 76%. The aid received in 2022 provided the financial support needed to restore economic activity, liquidity to banks, and provide foreign exchange in order to continue the import of goods. That said, the reduction in humanitarian assistance in 2022 also led to a decline in assistance for people in need. The Afghanistan Welfare Monitoring Survey showed that over two-thirds of respondents (65%) reported a reduction

in humanitarian assistance (WB 01/10/2023). The main reasons for this reduced assistance, as reported by households, included aid availability (as reported by 86%), reduced number of female aid delivery workers (39%), and a lack of information on where and how to access support (15%) (UNDP 18/01/2024). The absence of development aid, which can bring in complementary private sector investment to stimulate a more sustained recovery, will hinder economic recovery. On average, Afghanistan received up to USD 4.9 billion per year in civilian development aid and humanitarian assistance between 2015–2020. This number reduced by over 71% in 2024 (see Figure 1).

Figure 1. Aid flow to Afghanistan 2016–2024 in USD billions/year



Afghanistan is one of the countries most vulnerable to the effects of climate change (UNEP 08/11/2020). According to the Afghanistan Drought Severity Index, nearly half of the country's districts are classified as 'very high risk' or 'high risk' (IWMI 08/12/2023). In recent years, prolonged drought has led to the drying of surface water sources, such as springs, and a significant drop in groundwater levels. As a result, the proportion of households experiencing problems accessing water rose from 48% in 2021 to 60% in 2022 (OCHA 23/01/2023). Drought in different parts of the country also caused a 15.7% decrease in agricultural outputs in 2021 and 2022 (UNDP 18/01/2024). Afghanistan has also seen catastrophic flooding in recent years, causing damage to property and displacing tens of thousands of people (ACAPS 21/05/2024).

Natural hazards have significant economic and livelihood impacts. For example, estimates show that losses from the Herat earthquake on 7 October 2023 amounted to 0.5–0.8 % of GDP (WB 04/2024). This worsened existing food insecurity and access to basic shelter.

The ITA's 2022 ban on opium cultivation reduced production by 93%, with significant implications for rural incomes (UNODC 27/11/2024). Continued enforcement of the ban is expected to further reduce farmer incomes (by up to USD 1.3 billion, 8% of GDP) and cause the loss of up to 450,000 jobs (WB 04/2024).

Public revenue reached AFN 210.7 billion (USD 2.6 billion) in 2023, up 9% from 2022 (WB 04/2024). This revenue enabled the ITA to maintain a sizable government administration, although salaries were reduced as a result of the reduced overall budget, as compared to before 2021 (USIP 02/02/2022). Private sector activities were recovering, reflecting a small but important resumption in economic activity: a private sector survey conducted by the World Bank showed that 57% of interviewed firms were fully open and operational in 2023, as compared to only 28% in 2022.

Remittances, which amount to nearly USD 1 billion annually, are important to economic growth and stability in Afghanistan (ACAPS 27/07/2023). The UNDP's 2023 assessment showed that up to 5% of households interviewed reported receiving remittances, averaging 43% of the household budget (UNDP 18/01/2024).

Since the ITA assumed power in 2021, mining and quarrying have emerged as an important economic sector, producing significant public revenues. The ITA has signed dozens of extraction contracts, including for oil and gas, with both foreign and domestic investors (VOA 31/09/2023). Although coal exports to Pakistan declined sharply in 2024, the sector's potential to bring in revenue from exports or substitute imports especially in the energy sector remains significant (WB 09/2024). Should the extraction of oil and gas accelerate and achieve sufficient scale, it could boost public revenue and economic activity in 2025–2026.

The effects of ITA decrees on Afghan women and girls

Since assuming control in August 2021, the ITA has announced several decrees, including a ban on girls' education beyond grade six and the "Promotion of Virtue and Prevention of Vice" law, which limits the rights of women and girls in particular (ACAPS 25/07/2024; OHCHR 27/08/2024). The proportion of women in employment decreased from 11% in 2022 to 6% in 2023 (nearly a 50% decline). During the same period, the proportion of men employed increased by 11% (UNDP 18/01/2024). The ITA also decreased the salaries of women public sector employees, working under the previous government, capping salaries at AFN 5,000 a month (AAN 29/07/2024).

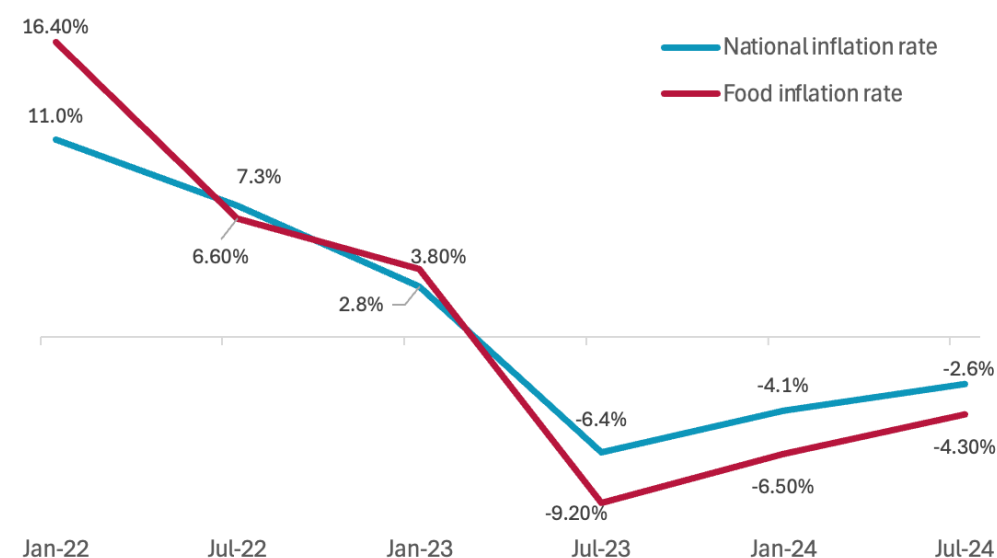
Surveys of the private sector showed that 29% of women-led business were either permanently or temporarily closed, compared to 8% of men-led businesses. That said, fully operational women-led business grew from 25% in June 2022 to 43% in April 2023, slightly lower than men-led businesses, which grew from 28–57% in the same period (WB 02/2024). 59% of Afghan businesswomen reported that a reduction in business costs as a result of donor support was the reason for this growth, 44% reported higher demand for goods and services, and 43% reported higher product quality (UNDP 16/04/2024). Around 30% of women-led businesses reported that restrictions on international payments and the closure of air corridors led to a reduction in exports such as carpets, honey, saffron, and dried fruits and nuts (UNDP 16/04/2024).

Gender disparities, particularly those related to economic participation (employment and women-led businesses), have affected household incomes, demand for goods and services, and economic growth. Female-headed households earn lower incomes for more effort as compared to male-headed households, and more women reduced their food portions than male relatives (6% for women and 3% men) (CARE 12/09/2023). According to the 2023 UNDP survey, 70% of female-headed households reported a reduction in humanitarian assistance compared to 65% for male-headed household (UNDP 12/2023). ITA policies regarding women could further reduce prospects of better international engagement and relief from sanctions

Deflation

In 2022, the national inflation rate was 18% and food inflation stood at 23%, a significant challenge for both the humanitarian response and Afghan authorities. Price rises were driven by a disruption in trade and the depreciation of the Afghan currency. One year on, Afghanistan was experiencing price deflation for goods and services, including food, which decreased by 13% between July 2022 and July 2023 (WB 31/08/2024). Prices had decreased a further 7% by July 2024. While this decline is welcome, deflation, especially if continuing for the next one–two years, could create a negative economic cycle, as people and businesses postpone consumption and investment in anticipation of lower prices in the future, leading to further decline in GDP growth and employment. In the context of the population's low purchasing power and no possibility of fiscal expansion, deflation could erode the economic gains made over the last two years.

Figure 2. Inflation rate in Afghanistan, July 2022 to July 2024



Source: NSIA last accessed 23/12/2024

SCENARIOS FOR 2025–2026

The following section presents three potential scenarios for the Afghan economy, ranging from the best case (a return to medium economic growth following stability) to the worst (no economic growth or further contraction). The purpose of these scenarios is to highlight how humanitarian needs and the wellbeing of the Afghan people could change with economic shifts.

Moderate acceleration of growth (low probability)

Building on the recovery started in 2023, economic growth and GDP increases from 1–5% driven mainly by gradual economic stabilisation efforts – such as stability in public expenditure and the exchange rate as well as recovery in private sector activity and employment – could result in a slow but sustained decrease in humanitarian needs. Favourable weather conditions, e.g. timely and sufficient precipitation, would also stimulate higher agricultural yields and reduce rural households' exposure to shocks. In such a scenario, international investment could slowly increase, contributing to job creation, with international aid also targeting livelihoods and business development.

Banks achieving liquidity and stability could benefit from the provision of international correspondence banking services, enabling them to drive financial flows between Afghanistan and the world.

In this scenario, the Afghan currency and prices would remain relatively stable, which, together with a small increase in government revenue, would enable the ITA to increase public spending. Increasing growth and agricultural productivity would also improve job opportunities, although many rural communities would continue to suffer from the forced switch from poppy farming to less valuable crops. Household financial security could improve for many families, but, while humanitarian needs decline, many Afghans would continue to rely on humanitarian assistance.

This scenario is deemed less probable, as it is largely predicated on a notable change in ITA policies limiting women's rights. Improved engagement with the international community and the resumption of development aid is dependent on such a change.

Triggers and assumptions

An improvement in ITA-international community relations, which could lead to small but notable changes in engagement and sanctions, is the primary trigger for this scenario. Such an improvement would likely require the ITA to adopt policies that expand the rights of

women and girls – including the resumption of education for girls of all ages – and reverse limitations on women's economic participation, improving women's employment to at least 2021 levels.

Slight improvements in enabling conditions, such as the resumption of donor interventions in the development sector, the easing of sanctions, and the restoration of correspondence banking to allow international financial flows through formal channels, would contribute to economic growth, as would an increase in regional investment and trade, especially with China, Pakistan, and Uzbekistan. The current level of humanitarian aid would also need to be sustained.

Impact

Even a small recovery in off-budget development aid – i.e. donor funding of development projects undertaken by NGOs – would have a positive multiplier effect, improving the demand for labour, increasing household incomes, and reducing dependency on humanitarian support. Household debt would reduce for many as income levels rise slightly and remittance flows remain high. Poverty would still remain widespread, however, and the high need for humanitarian assistance would continue, requiring substantial international funding. Development activity would remain limited, and ITA finances would remain stable at, or just above, the current level, enabling an increase in public sector expenditure.

Continuation of low growth (high probability)

In this scenario, Afghanistan's economy fluctuates between small contraction and growth. Efforts to improve economic output could be undermined by harvest failures in parts of the country affected by drought or flooding, a failure to secure significant international investment, and no improvement in cross-border trade (ACAPS 31/07/2024). As the ITA continues to enforce restrictive policies, particularly around women rights and economic participation, development aid would remain elusive. Despite these constraints, fiscal and revenue collection stability would still maintain a reasonable level of state function. Salary payments to public sector employees could be maintained, and both currency and prices could remain stable, supported by continuing humanitarian cash shipments. Some decline in the level of food insecurity and humanitarian needs is possible as the number of small-scale businesses increases. This scenario is most likely for the next few years, given restrictive ITA policies around rights, particularly those of women.

Triggers and assumptions

This scenario is predicated on the continued restriction of the rights of the Afghan people, particularly women and girls, which limits economic participation and further reduces international economic engagement. In this scenario, humanitarian aid would further decrease, development aid would remain absent, and sanctions would continue or even expand, producing negative economic consequences. A further deterioration in trade relations with Pakistan – with a potential increase in tariffs and regulatory barriers for Afghan exports – and no significant increase in trade with other neighbours would prevent any improvement in overall exports. Although the banking sector could remain stable, the lack of international correspondence banking would force many international transactions via the informal financial system. Further years of below-average agricultural yields would also contribute to economic stagnation.

Impact

A stagnation or small contraction would leave the Afghan economy highly vulnerable to shocks, including natural hazards.

Despite small improvements in household food security, humanitarian needs would remain high, widespread, and largely unmet. Deflation could remain a chronic problem, as increases in household income and purchasing power could remain small. Despite some increase in small-scale businesses, unemployment would remain high and women's employment in the public sector could further reduce. Household debt levels would not reduce significantly.

Economic contraction (medium probability)

In this scenario, unfavourable weather conditions – such as countrywide drought – would lead to a significant reduction in agricultural outputs, damage to business enterprises, and an increase in basic needs. A reduction in humanitarian aid and further deterioration of relations with the international community would send the Afghan economy into a downward spiral. Sanctions and international isolation would continue as ITA policies continue to restrict human rights. Despite ITA efforts, both the currency and prices would become unstable, accompanied by a decline in public sector revenue, contraction in fiscal expenditure, and a slump in private sector activities. Despite increasing humanitarian needs, there would be no increase in humanitarian assistance and the minor improvement in food security gained over the past two years would be reversed. Poverty, malnutrition, morbidity, and mortality would all increase. This scenario has low–medium likelihood.

Triggers and assumptions

This scenario sees climate hazards such as widespread drought or seasonal flooding affect large parts of the population, reducing agricultural output. Strict enforcement of the poppy cultivation ban would continue to restrict livelihood opportunities for many rural households. Reduced private sector activity and trade would lead to a decrease in ITA revenue, driving inflation, while the banking sector becomes less stable with reduced deposits. The ITA continues to announce more restrictive policies (such as the recent ban on medical training for Afghan women), driving the international community to rethink its engagement, reduce humanitarian aid, and invoke additional sanctions, which further restrict trade, alienate ITA officials, and restrict international engagement (HRW 03/12/2024). Continued border disputes would lead to a deterioration in relations and trade with neighbouring countries, especially Pakistan. Changes in the international geopolitical environment, as a new US administration assumes power, would result in unfavourable policies towards Afghanistan.

Impact

Even a small degree of economic contraction would erode recent improvements in food security and drive an increase in humanitarian needs. The most significant impact would be on banking and financial stability, especially if the sanctions regime is broadened. A decline in demand for goods and services in the private sector would lead to reduced investment and employment. Despite improved revenue collection, this scenario would see a reduction in ITA revenue as economic activity declines, reducing the ITA's budget and ability to pay public servants. Women public sector employees, who are currently not permitted to work, would likely lose their minimal salaries. The most economically vulnerable groups – children, women, and female-headed households – could fall into extreme poverty and see a rise in malnutrition. Increasing financial insecurity compounded by the oppressive regulations governing people's personal lives and restricting personal freedoms can be expected to give rise to an increase in mental health and psychosocial issues.

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